

ANNUAL REPORT 1999

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Forecasts and Future Outlook

This annual report includes forecasts and outlooks for the future plans, strategies and results of Hikari Tsushin. These descriptions do not represent historical facts, but are future forecasts based on assumptions and beliefs, which we have made using information currently available. These forecasts include factors such as known and unknown risks as well as uncertainties, which could cause the actual outcomes, results and performance of Hikari Tsushin to deviate significantly from the forecasts cited. These variable factors include such potential risks and uncertainties as the economic situations in Japan and abroad, trends in the telecommunications industry, trends in the Internet industry, changes in laws, regulations and policies, and yen exchange rates where they impact the development of our international business.

Financial Highlights

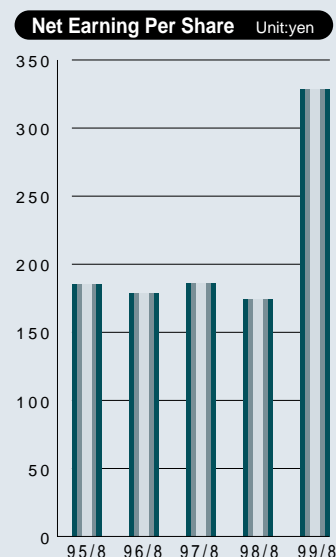
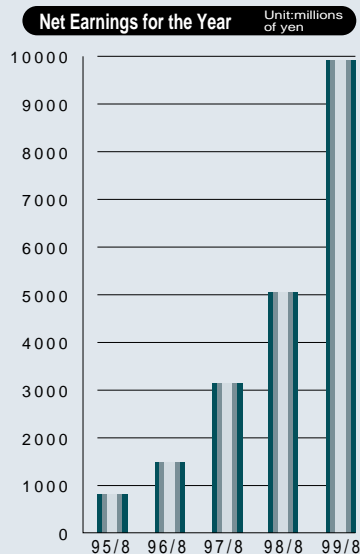
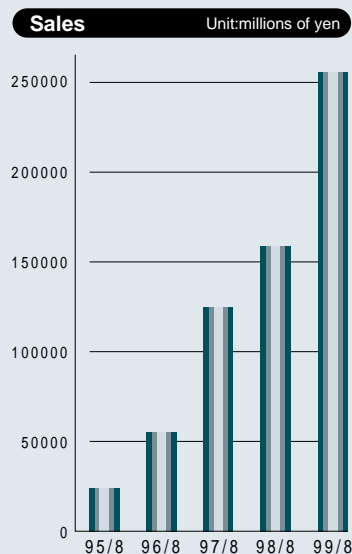
Hikari Tsushin, Inc.

For the years ended August 31, 1999 and 1998

	(Millions of yen)		(Thousands of U.S. dollars)
	August 1999 term	August 1998 term	August 1999 term
Sales	¥ 259,278	¥ 159,620	\$ 2,338,999
Operating Profit	5,509	7,787	49,698
Net Earnings for the Year	9,882	5,049	89,147
Shareholders' Equity	40,975	32,372	369,644
Total Assets	140,473	60,848	1,267,235

Per Share Data	(Yen)		(U.S. dollars)
	Net Earnings for the Year	¥ 334.32	¥ 171.10
Shareholders' Equity	1,382.14	1,097.10	12.47
Cash Dividends	100.00	60.00	0.90
ROE(%)	26.95	16.50	
ROA(%)	20.55	19.61	

Note:As the Company does not prepare consolidated statements, data from consolidated financial statements are not shown. US dollar amounts are translated from yen, for convenience only, at the rate of ¥110.85 to US\$1.





November, 1999
President, CEO
Yasumitsu Shigeta

Executive Interview

Seeking Maximum Corporate Value

Q • Please tell us your results for the fiscal period ending August 1999.

A • For the fiscal period ending August 1999, which ran from September 1, 1998 to August 31, 1999, Hikari Tsushin posted significantly higher sales and net profit compared to the previous year. This gave us our twelfth consecutive period of increased sales and profits since our incorporation.

Sales for the term were 259,278 million yen, a 62.4% increase from the previous fiscal year, while net profit was 9,882 million yen, up 95.7% from the previous year. At the same time, ROE was 26.95%, an increase of 10 points.

Q • How do you see the mobile communications market developing in the future?

A • After Nippon Telegraph and Telephone Public Corp. was privatized in 1985, the Japanese telecommunications industry witnessed a rapid process of deregulation. Hikari Tsushin was quick to recognize that the market was rapidly changing and expanding, and built a nationwide sales chain that could act as an agency for the New Common Carriers (NCC). The result is that we have a leading position in the industry.

As of August 1999, cumulative member numbers of cellular phones had reached 45.56 million, while PHS member numbers stood at 5.69 million. As a result, the use of cellular phones of the Japanese population topped 40% for the first time ever, reaching 40.5%. We expect that the introduction of the next-generation cellular phones, the IMT-2000 system, will accelerate data communications speed and support membership numbers, including demand for unit replacement.

The rapid pace of technological innovation, such as the advent of smaller and lighter handsets, greater data communications speed and improved Internet access technology, will move cellular phones beyond their current application as a communications tool toward multimedia terminals able to send and receive information in multifarious forms. With this market trend, ultimately in the future we expect one phone for every person in Japan.

Q • Please tell us about your motives and objectives in transferring the OA Equipment Business and Telemarketing Business, including your long-distance and international telephone business, to subsidiaries, as well as in incorporating a subsidiary to handle your accounting and information functions. (See subsequent events on Page 39.)

A • By turning business departments into subsidiaries, we can more clearly identify the operating results of each department, such as improvements in performance or reductions in cost. At the same time, each company can create its own business and investment strategies, enabling them to deliver more effective and flexible responses. Also, by splitting up business departments in this way, we can more fully disclose the business results of each. For example, even though our telemarketing and office automation (OA) equipment businesses were established and in fact competing for leading positions in their industry, people had not paid the

same kind of attention to them as they had to the mobile communications industry. We believe that by turning them into subsidiaries, each company can better stake out its position in its industry and improve its results, helping to increase the corporate value of the Hikari Tsushin Group. And while Hikari Tsushin continues to grow not as an independent unit but as a corporate group, we have spun off our Accounting and Administration and Information System Departments and turned them into subsidiaries. The result? They will be able to check each company from an objective perspective, maintain fair systems for our accounting processes and information management, and acquire an audit function.

Q • Please tell us about your new businesses.

A • While we retain our focus on the mobile communications industry, which will continue to enjoy impressive growth, we are developing new areas, including Internet-related businesses. Our new operations, such as Hitmail (a web-hosting service for business), Digital Club (which acquires subscription contracts for SkyPerfecTV!) and CLUB HIT (information delivery via mobile terminal) have not made a significant contribution to sales for this period, but they have shown steady growth. For these new sectors, we use business schemes founded on our basic profit structure, which consists of subscription commissions and stock commissions.

As a comprehensive distributor of telecommunications services, we continue to focus on developing our potential core businesses by adding products and services that have high growth potential. In particular, the Internet has shown dramatic growth. The use of the Internet among households is 12.89%, an increase of 179.4% from last year, and user numbers have reached 15.0846 million, meaning that 4.988 million new users started using the Internet in the last year. The Internet is expected to merge with mobile terminals following the technological innovation of cellular phones. We therefore believe that developing businesses in this field is an important challenge for us.

Q • What is the Hikari Tsushin philosophy?

A • Our basic philosophy is to maximize corporate value, in other words, to maximize value for shareholders. We believe that management of the Company should be based on the philosophy that shareholders own the Company and that we should be dedicated to improving corporate value. To achieve this goal, we manage our Company with a focus on cash flow. Our profit mainly consists of two types of commissions: subscription commissions and what we call “stock commissions.” Subscription commissions represent a fee that we receive from carriers just one time when we attain new contracts. Stock commissions are the monthly fees that we receive, in proportion to the payment of service charges paid by the user, over the long term. As stock commissions reflect past sales performance, no costs are generated and they are easy to forecast and form a stable profit source. By accumulating these stock commissions, we can maximize free cash flow in the future.

We see market changes as business opportunities, and have been quick to respond to changes and achieve growth. We expect that the telecommunications market will change significantly in the future. In the telecommunications industry, several NCCs have merged and regrouped as power centers. As a result, competition in the form of better services and lower fees will intensify. At the same time, the growth of the Internet will have an enormous impact, not only on the telecommunications industry, but on all industries. Hikari Tsushin will continue to emphasize speed in its management, so it is quick to respond to changes. Also, being quick to recognize next-generation trends, we focus on strategic investment in Japan and abroad, anticipating synergy in our future business development. Hikari Tsushin continues to see opportunities in the changing telecommunications industry and we will make every effort to maximize corporate value.

Rapid Change in the Telecommunications Field

April, 1985	With the passing of the Telecommunications Business Law, Nippon Telegraph and Telephone Public Corp. is privatized and becomes Nippon Telegraph and Telephone Corp.(NTT).
April, 1987	Three new long-distance common carriers, namely DDI Corp.(DDI), Japan Telecom Co., Ltd.(JT)and International Telecom Japan Inc.(ITJ)commence long-distance services.
December, 1988	Japan Idou Tsushin Corp.(IDO)launches mobile car phone and cellular phone business.
October, 1989	International Telecom Japan Inc.(ITJ)and International Digital Communications Inc.(IDC)begin international call services.
October, 1993	NTT Mobile Communications Network, Inc.(NTT DoCoMo)and affiliates abolish the ¥100,000 deposits for their mobile car phones and cellular phones.
April, 1994	Mobile phone market wholly deregulated.
July, 1995	NTT Personal Communications Network companies and DDI Pocket Telephone companies launch PHS(Personal Handy Phone System)business in Tokyo and some parts of Hokkaido.
April, 1996	NTT DoCoMo begins mobile satellite telecommunications business.
March, 1997	DDI Cellular Group and IDO announce the forming of a fullscale alliance.
June, 1997	Number of mobile phone subscriptions(for cellular phones and PHS)exceed a total of 30 million.
October, 1997	JT and ITJ merge, and commence provision of domestic and international services as Japan Telecom(JT).
January, 1998	Tokyo Telecommunication Network Co.,Inc.(TTNet)starts local telecommunications service. DDI enters into partnership with Teleglobe Inc. and commences international telephone service. Number of mobile phone subscriptions(for cellular phones and PHS)exceed a total of 40 million.
June, 1998	Cellular phone companies in Kansai, Kyushu and Okinawa start services for next-generation cellular phone,“ cdmaOne ”.
July, 1998	U.S. AT&T and BT of Britain announce an international business alliance KDD launches its domestic call service.
June, 1999	Cable and Wireless merges with IDC.
August, 1999	Nissan Motor Co., Ltd. sells its TU-KA stocks to DDI and Japan Telecom.
September, 1999	DDI and IDO announce a merger for next Spring.

History of Hikari Tsushin

February, 1988	Hikari Tsushin, Inc.(capital ¥1 million)was founded with the objective of selling and leasing OA equipment, telephones, and other items.
July, 1988	Launches agency services for handling subscription contracts to long-distance call services.
April, 1990	Commences sale of photocopying and facsimile machines.
November, 1991	Commences sale of computers and computer peripheral equipment.
December, 1992	Sets up International Business Division, and upgrades its international call service circuit business.
July, 1993	Establishes Mobile Communications Division, and enters mobile telephony market(cellular phones)fullscale by proceeding to build a branch outlet network.
April, 1994	Commences sales of cellular phone equipment as the ban on the outright sale rule for mobile phone equipment is lifted.
May, 1994	Opens the first outlet of its HIT SHOP chain in Shinjuku, Tokyo(under direct management).
September, 1995	With change in face value of shares, Hikari Tsushin, Inc. of Nerima-ku, Tokyo, is taken over by the current Hikari Tsushin, Inc. The two companies shared the same name, but were registered at different locations.
December, 1995	Moves to new head office building at 2-16-13 Ikebukuro, Toshima-ku, Tokyo.
February, 1996	Registers with Japan Securities Dealers Association.
May, 1996	Number of HIT SHOPS exceeds 100 nationwide.
February, 1997	Number of HIT SHOPS exceeds 300 nationwide.
September, 1997	Moves head office to 2-1-1 Otemachi, Chiyoda-ku, Tokyo.
February, 1998	Company marks tenth anniversary since its foundation.
August, 1998	Number of HIT SHOPS exceeds 500 nationwide.
May, 1998	Establishes Rental Server(RS)Sales Division and launches rental server business.
March, 1999	Launches Digital Club businesses.
April, 1999	Launches CLUB HIT businesses.
July, 1999	Establishes Jside.Com, an interactive web-site.
September, 1999	Launches e-Carrier business as joint venture with Softbank and two other companies.
September, 1999	Commences HIT-mail TV business.
September, 1999	On September 2, the company obtains a listing of its stock in the first section of the Tokyo Stock Exchange.

Summary of Operations

Mobile Communications Business

Our mainstay business consists of contracts concluded with a number of domestic New Common Carriers (NCC), for whom we act as a sales agent for cellular phone and PHS contracts. We generate growth through a number of sales channels, including our own HIT SHOP sales outlets, wholesale to major sales outlets and sales agents, and sales projects.

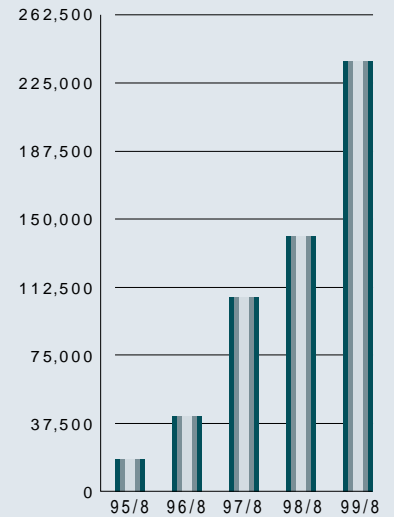
Hitmail Business

In May 1999, we launched Hitmail, a comprehensive Internet service that provides mail and web-hosting for businesses.

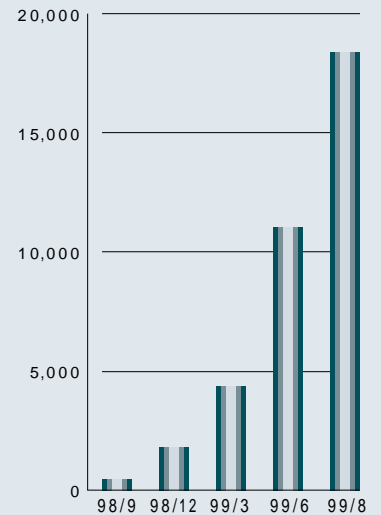
CLUB HIT Business

We launched the CLUB HIT member-based service in May 1999. CLUB HIT delivers an array of information to members via cellular phone and PHS terminal. We also offer a member's card that serves as a credit card with no joining or membership fee.

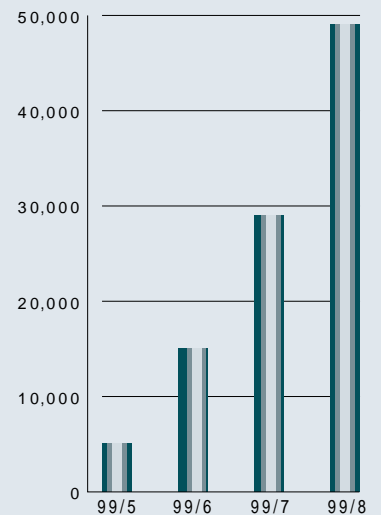
Sales Trends Millions of yen



Number of Users Held Unit: user

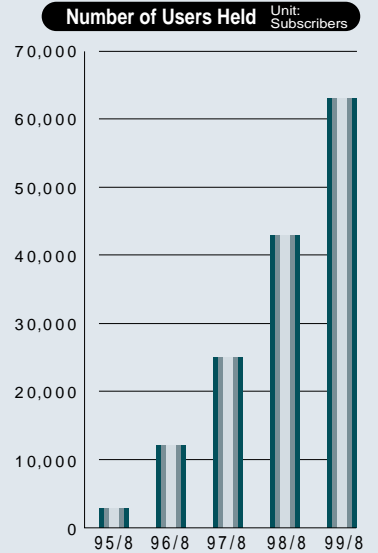


Cumulative member numbers Unit: person



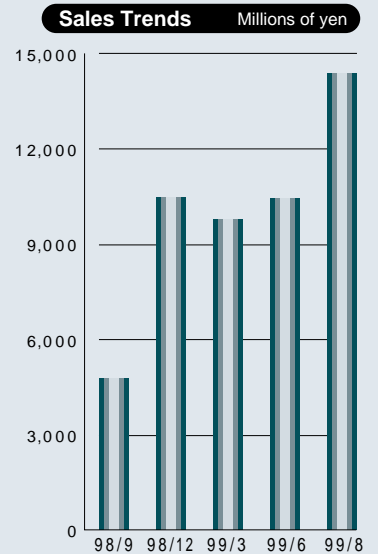
CS Digital Broadcasting

We offer subscription applications for Sky PerfectTV! through our Digital Club membership service. Members can subscribe to the service without having to pay for the rental of a decoder unit or antenna, or for the costs of installing the antenna.



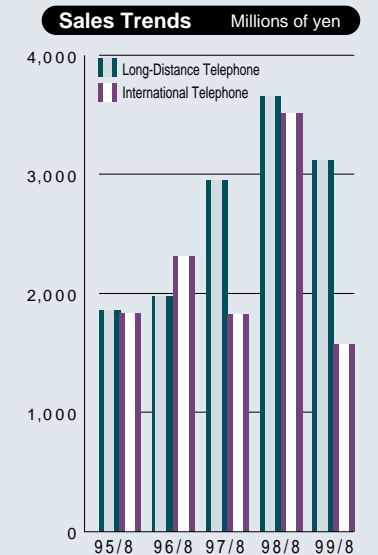
OA Equipment Business

We are involved in the sales of OA equipment, such as copiers, facsimiles and business telephones.



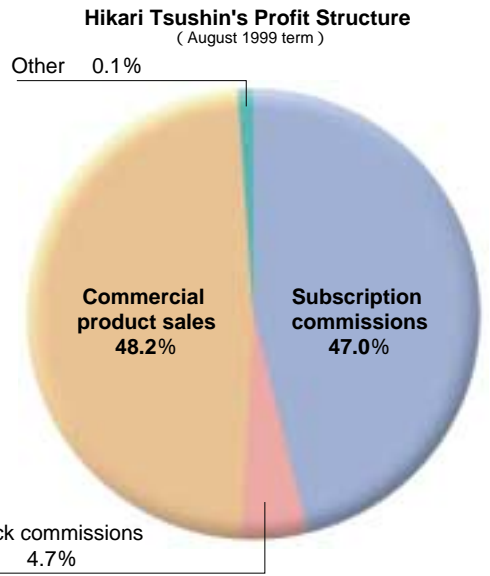
Long-Distance and International Telephone Business

We provide comprehensive support as an agent for DDI Corp. (DDI) for long-distance telephone service subscriptions, and for DDI/International Digital Communications Inc. (IDC) for international telephone service subscriptions. This support extends from installing an adapter to providing after-sales service.



Profit Structure of Hikari Tsushin

For the fiscal term ending August 1999, Hikari Tsushin posted sales of 259.2 billion yen, representing an increase of 62.4% from the previous year. Recurring profit was 20.6 billion yen, up 103.6% from the previous period. These results represent the twelfth consecutive period of rising sales and profits. As shown in the figure on the right, Hikari Tsushin's sales consist of subscription commissions, what we call stock commissions, commercial product sales and engineering work sales. Of these, the most unique is the stock commission, which is the source of the majority of our profits.

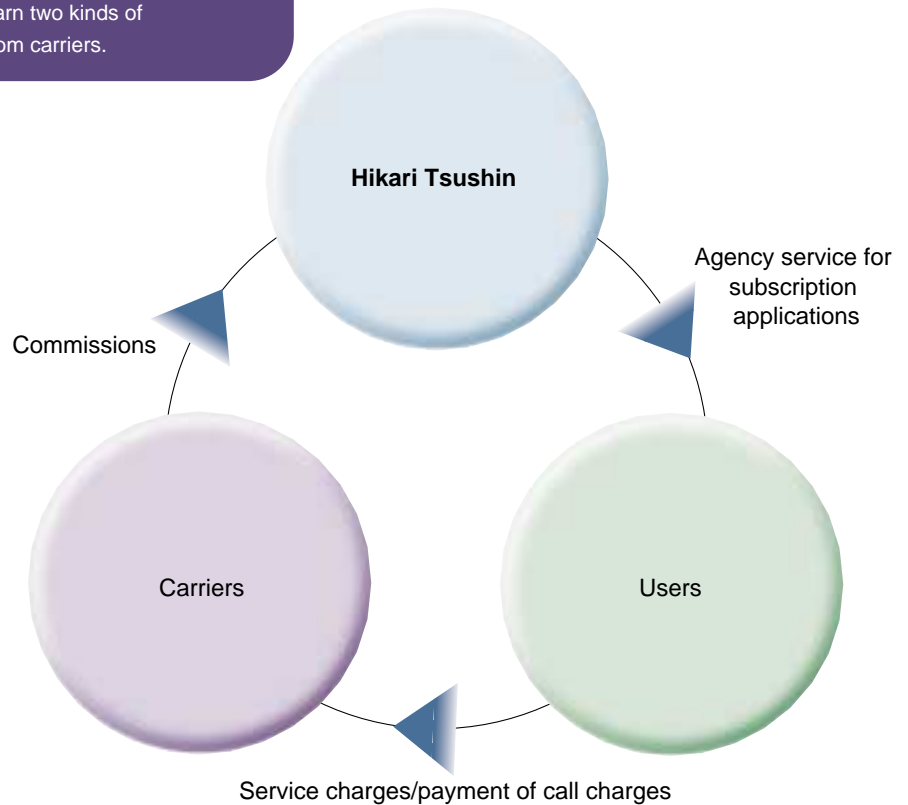


Department sales figures

(Millions of yen)

	August 1999 term	August 1998 term	August 1997 term
Subscription commissions	121,918	86,835	88,255
Stock commissions	12,085	10,391	6,432
Commercial product sales	124,891	61,019	26,368
Engineering work sales	299	1,301	1,004

What are "Commissions?"
 Hikari Tsushin acts on behalf of telecommunications carriers in providing a service to acquire subscription contracts. We therefore earn two kinds of commissions from carriers.



Subscription Commissions

Subscription commissions represent a one time fee that we receive from carriers when we attain a new contract. We make effective use of subscription commissions as an underlying asset for increasing our market share.

In the term ending August 1999, subscription commissions reached 121.9 billion yen, an increase of 40.4% from the previous period.

Stock Commissions

Stock commissions are the monthly fees that we receive from carriers over the long term. The commissions are calculated in proportion to the payment of basic charges and telephone service charges paid by the user. These stock commissions have become a key source of profit for Hikari Tsushin.

In the term ending August 1999, stock commissions reached 12 billion yen, up 16.3% from the previous period. Stock commissions show steady growth, reflecting past increases in total sales results. To expand our share in the future, we will do our best to further increase stock commissions.

Business Schemes

Hikari Tsushin is endeavoring to increase stock commissions and recurring profit to the same level. To raise stock commissions, we must increase the number of users and the user service charges. To increase the number of users, the Company plans to bolster our HIT SHOP and agency sales channels. And to achieve growth in the services charges attributable to each user, we strive to offer an array of options with each service and deliver outstanding content that responds to user needs.

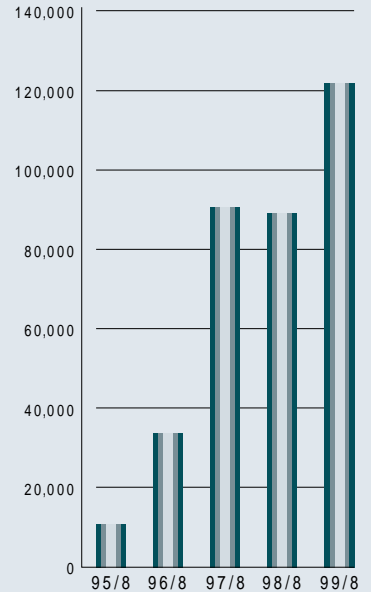
Beginning this year, the Company is developing new businesses that leads to stock commissions: Hitmail, a web hosting service for companies; Digital Club, a member subscription agency for Sky PerfectTV!; and CLUB Hit, an information delivery service. Launching businesses that lead to stock commissions is our top priority.

Features of Stock Commissions

1. No new charge arising after a sale
2. Continuous monthly profit over the medium and long terms
3. Acts as a stabilizing factor, attenuating fluctuations in business results

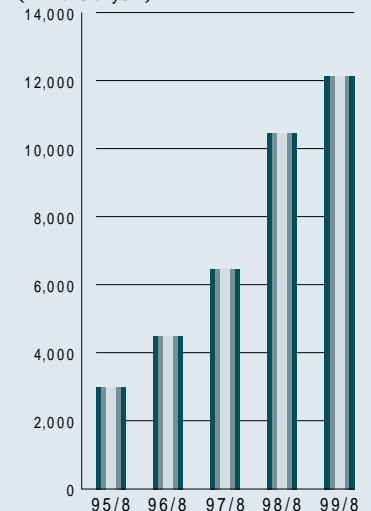
Subscription Commissions

(Millions of yen)



Stock Commissions

(Millions of yen)

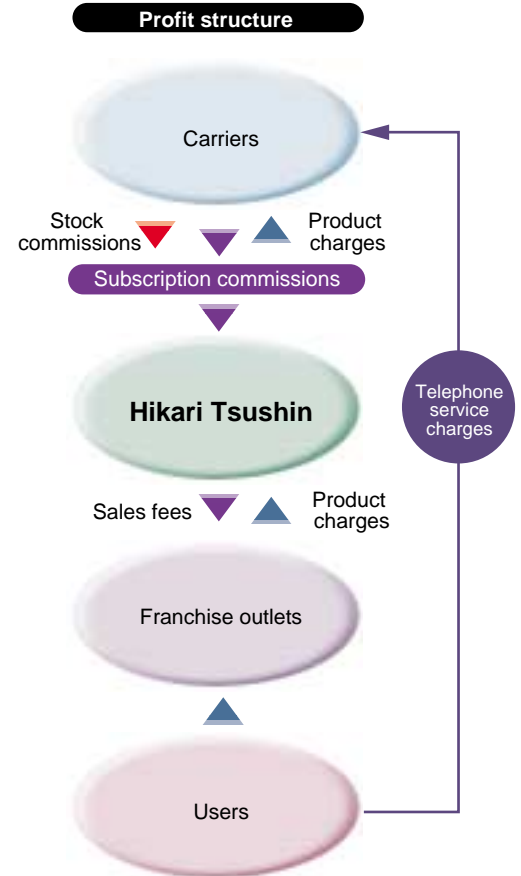


Mobile Communications Business

Our mainstay mobile communications business has been enjoying steady growth, with sales reaching 235.7 billion yen in the term ending August 1999. The total number of cellular phone units sold, reached 2.52 million during this term, so that a record 3.08 million units were in use.

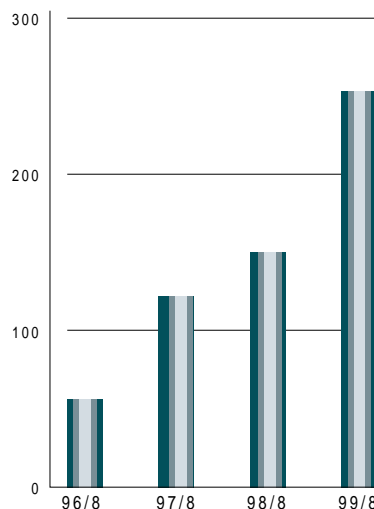
After Nippon Telegraph and Telephone Public Corp. was privatized in 1985, Japan witnessed a rapid process of deregulation in its telecommunications industry. Competition to obtain market share has intensified with the arrival of the so-called New Common Carriers (NCC). Each NCC has had to make an enormous investment in infrastructure and other facilities, meaning that the only viable route for them was to rely on outsourcing for sales and distribution. Hikari Tsushin was quick to recognize this trend, and built a nationwide sales chain that could act as an agency for these carriers. The result has been to give us a preeminent position in the industry.

In 1999, several NCCs have merged and they began to develop a national brand and service, regrouping the power centers in the telecommunications industry. Our share of the NCC market has remained over 35% in terms of sales and 16% in terms of the number of cellular phones held in August 1999, establishing us as the leading sales agent in the industry. For a company with such a dominant position among NCC sales agents, the industry regrouping will give us a further impetus, and should lead to a further increase in our market share in the future.

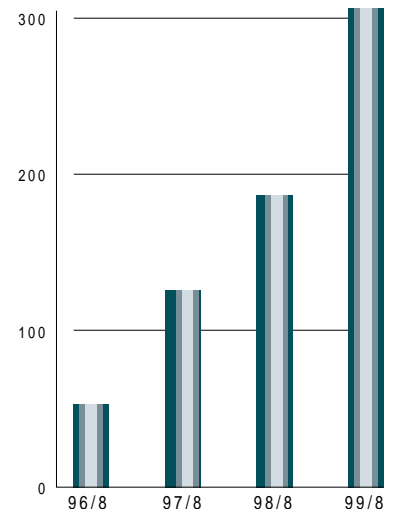


Profit structure: Looking at our profit structure, we receive an average of approximately 43,000 yen as a subscription commission from the carrier every time we conclude a new contract. Subscription commissions are paid as a selling and administration expense to Hikari Tsushin's sales agencies. Hikari Tsushin receives stock commissions of approximately 300 yen per month per user (based on the telephone service charges of the individual users) from the carriers for a duration of 5-10 years.

Cellular phone sales Unit: ten thousand



Cellular phones held (Hikari Tsushin) Unit: ten thousand



Mobile Multimedia

The rapid pace of technological innovation has been an engine for the growth of the mobile communications market. We believe that the arrival of the "cdmaOne" system (data communications speed of 64 kbps) and the adoption of the IMT-2000 system (a maximum data communications speed of 384 kbps), which should become the global standard for next-generation cellular phones, is transferring cellular phones from the current application as a communications tool, into a multimedia terminal able to send and receive information in multifarious forms.

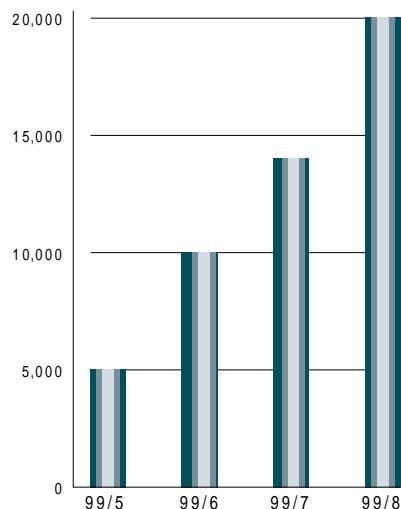
The introduction of next-generation cellular phones represents another business opportunity for Hikari Tsushin, as people replace their existing units with the new models. Hikari Tsushin is providing a diverse line-up of services based on the transformation of cellular phones into mobile multimedia units. One of these services, which we introduced in May 1999, is the CLUB HIT membership service. CLUB HIT offers news, entertainment, and lifestyle information to its members, delivered to their cellular phone. All users are also able to send and receive e-mail between all carriers. Members receive a member card which acts as a credit card, but with no joining fee or membership fee. The card can be used for direct debiting of telephone service charges. Membership has grown steadily since the service was introduced, with membership at



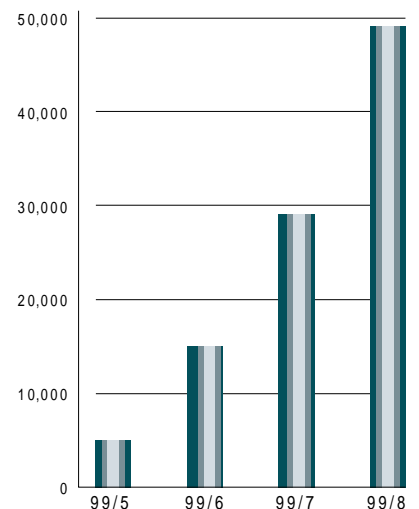
49,000 as of August 1999. To attract new members, we are planning to offer exclusive member products and provide substantial content. (The first product exclusively for members is called HIT-mail TV, which gives members access to the Internet through their television sets.)

Profit structure: we receive approximately 3,000 yen from the card company as a subscription commission every time we sign up a new member. We also receive 1% of the settlement amount for each member every month as a stock commission.

Number of new affiliates Unit: person



Cumulative number of affiliates Unit: person



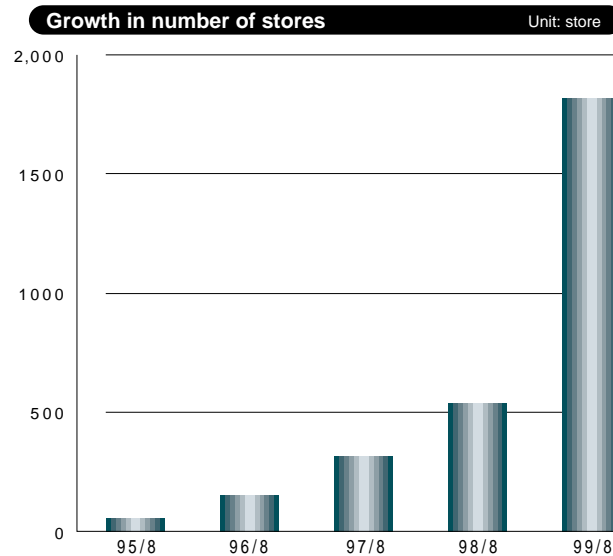
Nationwide HIT SHOP Development

The national HIT SHOP network

Our HIT SHOP specialty telecommunications outlets have major features such as a wide product range and affordable prices. We will continue to strive to offer a high level of accessibility to our customers and respond to their needs, further expanding the HIT SHOP network in the future.

Since May 1994, when the first HIT SHOP opened, the HIT SHOP network has grown rapidly. And our HIT SHOP outlets have contracts with virtually every carrier. In 1998, Hikari Tsushin has changed the management model from direct control to a franchise system, which is more cost effective and enables us to reach a larger

market. The HIT SHOP brand image includes the advantage of handling products of all NCC carriers. The Company assists in the costs involved in opening an outlet, and the advantages of our business scheme have brought new outlets under the HIT SHOP umbrella. In August 1999, there were 1,816 HIT SHOP outlets, extending throughout the nation from Hokkaido to Okinawa. The HIT SHOP network will continue to grow, finding new users in preparation for the day when everybody will have their own personal cellular phone.



The HIT SHOP Advantage

A substantial product lineup

By cooperating with virtually every carrier, Hikari Tsushin offers an impressive array of products and service that is unmatched. With new products appearing daily in the telecommunications industry, we will continue to respond to the needs of customers.

A store management emphasis on customer satisfaction

Customers are able to get advice from the sales clerk, who always has expert knowledge, enabling them to make satisfying purchases.

The advantage of being the market leader

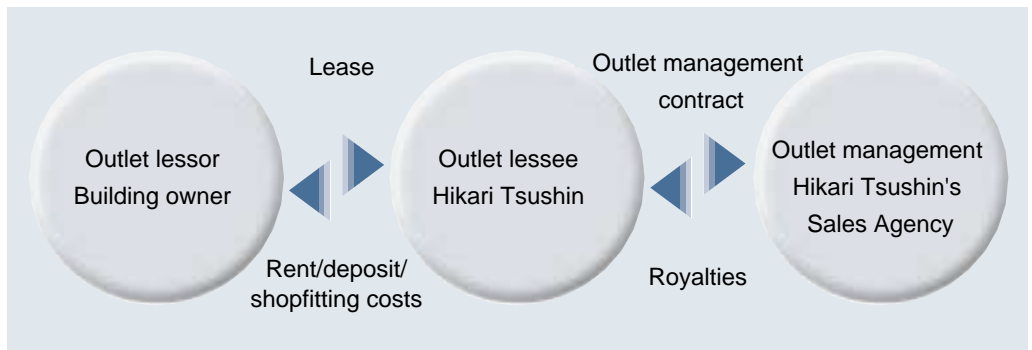
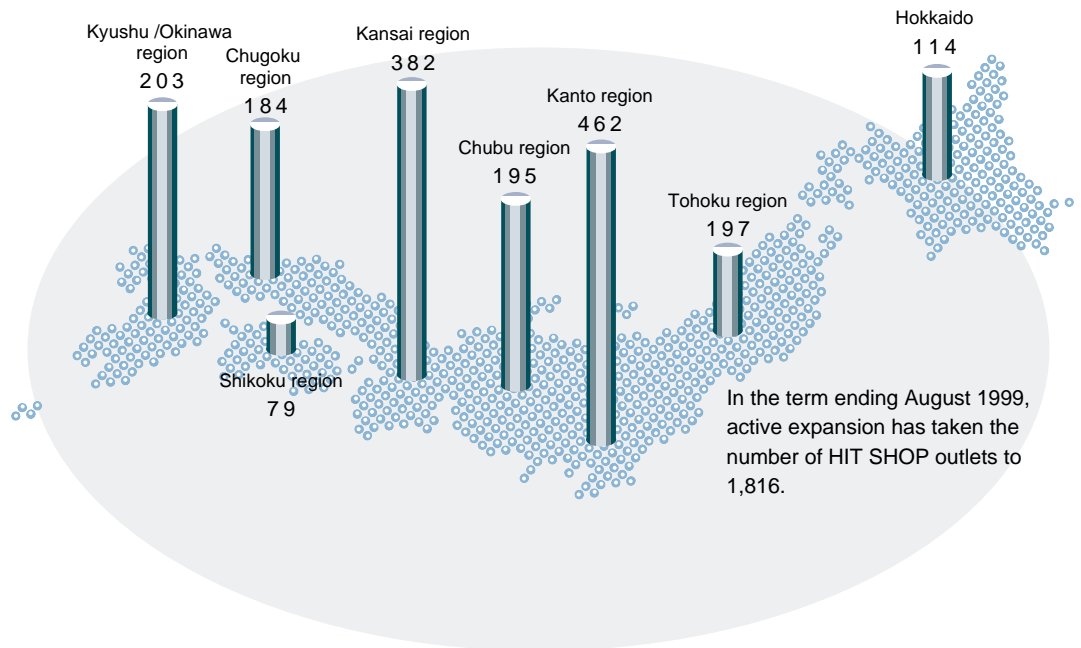
Taking advantage of our status as market leader, we are able to purchase commercial products in large volumes. This enables us to offer the products for low prices, and gives us the edge over our competitors.

Multimedia Convenience Stores

We believe that the telecommunications industry will grow at an accelerating pace, fueled by such factors as the advent of a true age of multimedia, the integration of telecommunications and broadcasting services, and the appearance of new infrastructure.

In this market, our HIT SHOP outlets, which began as cellular phones and PHS stores, are evolving as multimedia convenience stores that offer a broad array of telecommunications services. Right now, in addition to the conventional sales of mobile phone products, HIT SHOP outlets also offer: CLUB HIT, an infocommunications service; the Digital Club members' service for subscriptions to the Sky PerfecTV! digital CS broadcasting; and HIT-mail TV, which enables members to access the Internet via their television sets.

The HIT SHOP network (as of August , 1999)

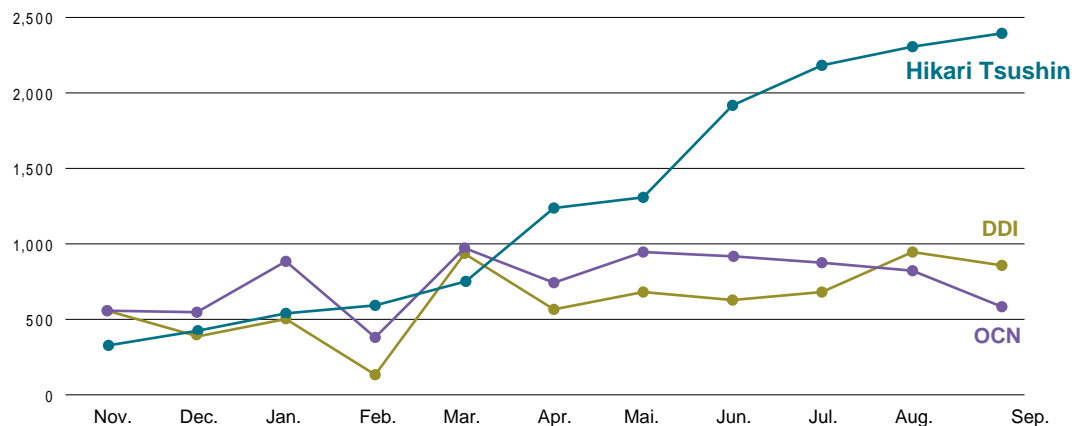


Hitmail Business

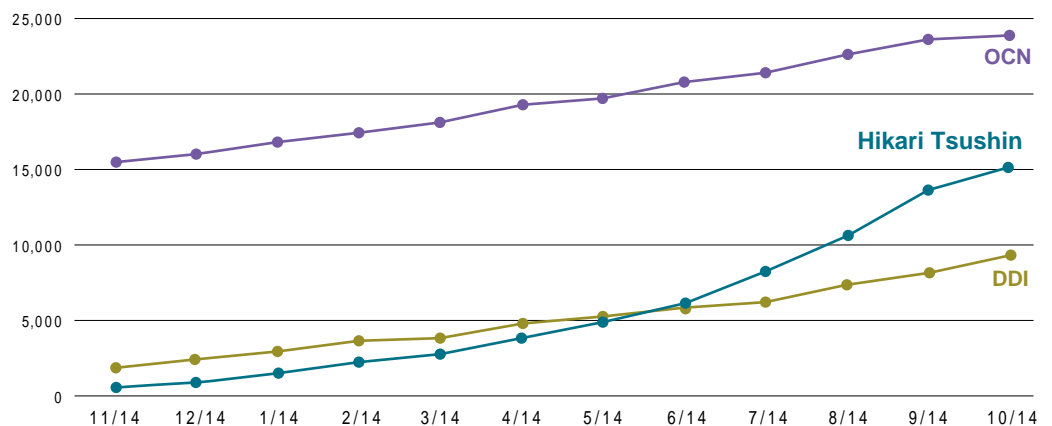
Although the Internet is acquiring increasing popularity and momentum in Japan, it has yet to achieve the penetration seen in the United States and Europe. The number of Internet users in Japan is second only to that of the United States (with 15.0846 million users), but the number of host computers per 10,000 population ranks only 22nd globally. If we look at current use in the corporate sector, while most major companies are set up for the Internet environment, the use of the Internet among the 90% of small or midsize Japanese companies is only just now starting to grow.

Starting in May 1998, Hikari Tsushin has been offering a Web hosting service called Hitmail, which provides a low-cost Internet environment to the relatively untapped market of small and midsize companies. From purchasing a computer, setting up, acquiring 50 e-mail addresses and a domain name to service support, we offer a comprehensive set of services that save the user many difficult hours of labor. Companies will be able to build and maintain an Internet environment with efficiency.

Number of acquisitions per month

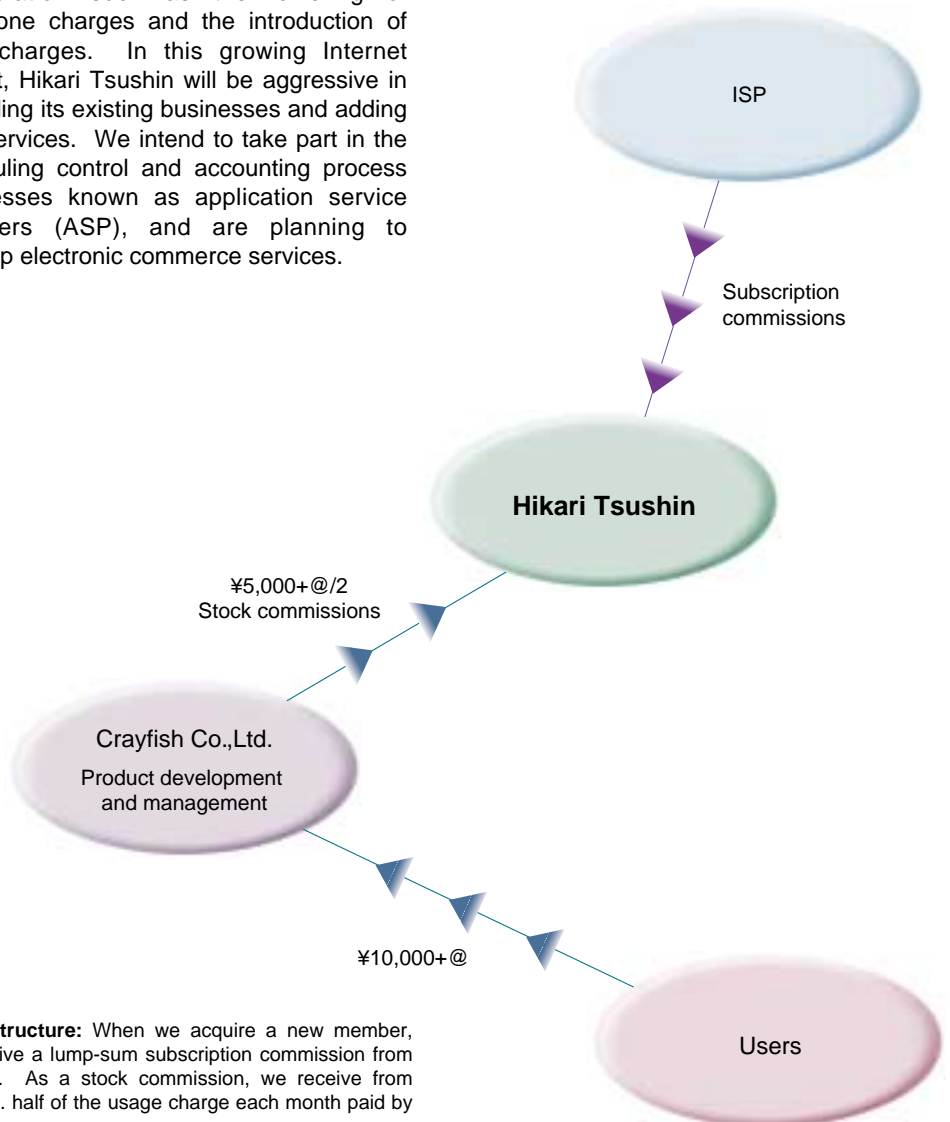


Cumulative number of jp domains held



Hikari Tsushin has been developing its business through telemarketing, based on sales agencies and our proprietary database, which boasted more than seven million entries. As of the end of August 1999, the Company had acquired 18,300 members, and we are clearly the industry leader in terms of the number of domain names registered each month. We are also number two in the industry in terms of the number of cumulative domain names held, and our growth is rapidly driving us towards the top position. Also, in terms of total numbers of domain holders, we are currently ranked second, and gaining on the leading company. We will add new services and options, such as "Idel Net," through which Hitmail users can purchase office supplies on-line, and "ePOST," an Internet-based document delivery service, to enhance the added value of our products.

The Internet is expected to achieve greater penetration in Japan, accompanying deregulation such as the lowering of telephone charges and the introduction of fixed charges. In this growing Internet market, Hikari Tsushin will be aggressive in extending its existing businesses and adding new services. We intend to take part in the scheduling control and accounting process businesses known as application service providers (ASP), and are planning to develop electronic commerce services.



Profit structure: When we acquire a new member, we receive a lump-sum subscription commission from the ISP. As a stock commission, we receive from Crayfish, half of the usage charge each month paid by users.

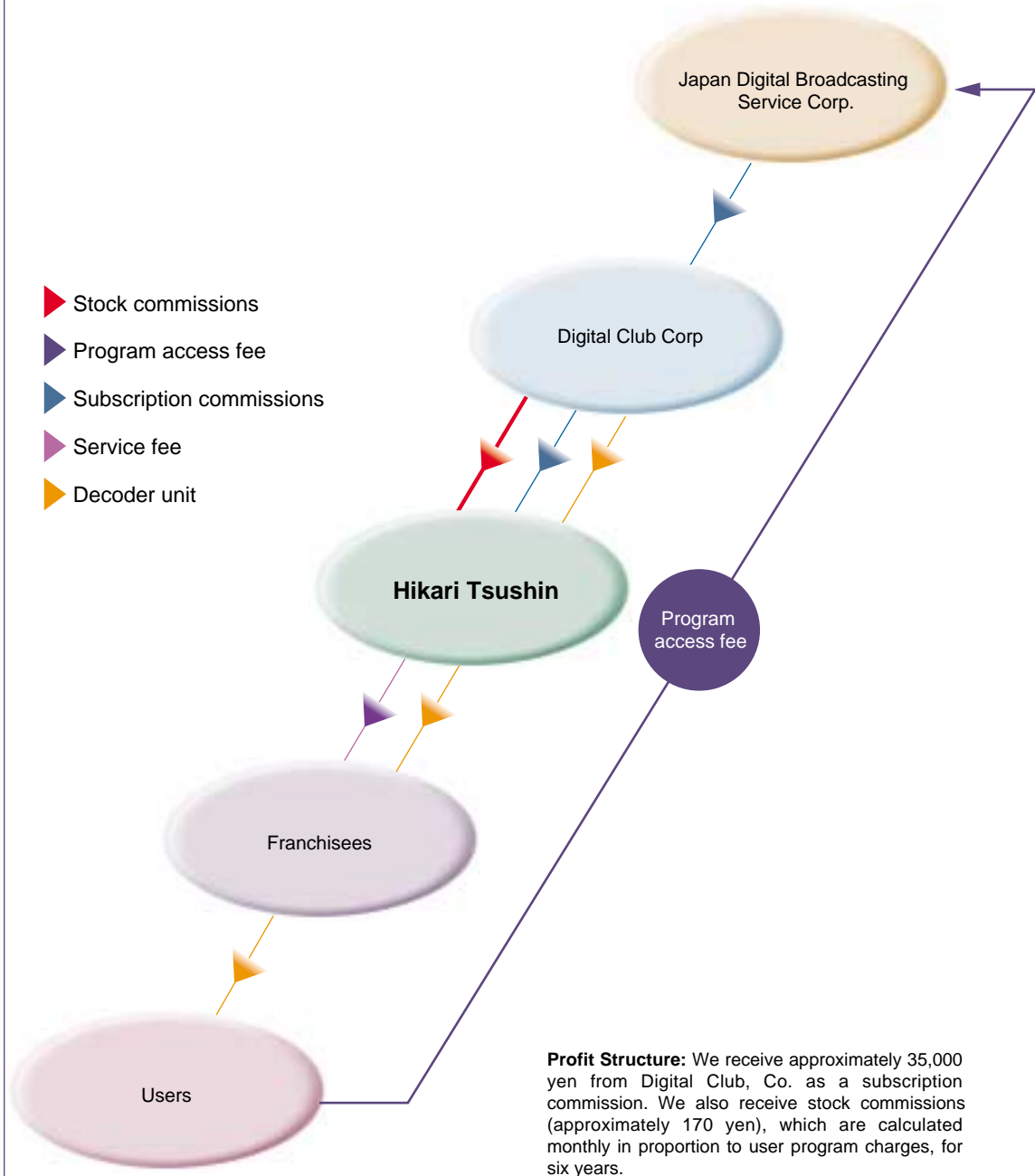
In March 1999, we launched Digital Club, to acquire contracts at HIT SHOP outlets nationwide for the Softbank Corp. subsidiary, Digital Club Corp. Digital Club members can subscribe to Sky PerfectTV! at a discount, as well as without having to pay for the rental of a decoder unit or antenna, or the costs of installing the antenna.

Sky PerfectTV! is the first multi-channel digital satellite broadcasting service in Japan, and the selling power of our HIT SHOP network has produced a smooth growth in business. We acquired more than 90% of

the membership rights to the digital club right after we introduced our service of acquiring business contracts. As of August 1999, we held approximately 30% of the sales share for Sky PerfectTV!. In that month, the number of monthly contracts acquired reached 20,000, with a cumulative 63,000 contracts.

Also in August, we acquired a 40% stake in Digital Club, formerly a 100% subsidiary of Softbank Corp. We will expand our business, aiming at promoting digital satellite broadcasting in Japan.

Sky PerfectTV! (new business) profit structure



OA Equipment Business

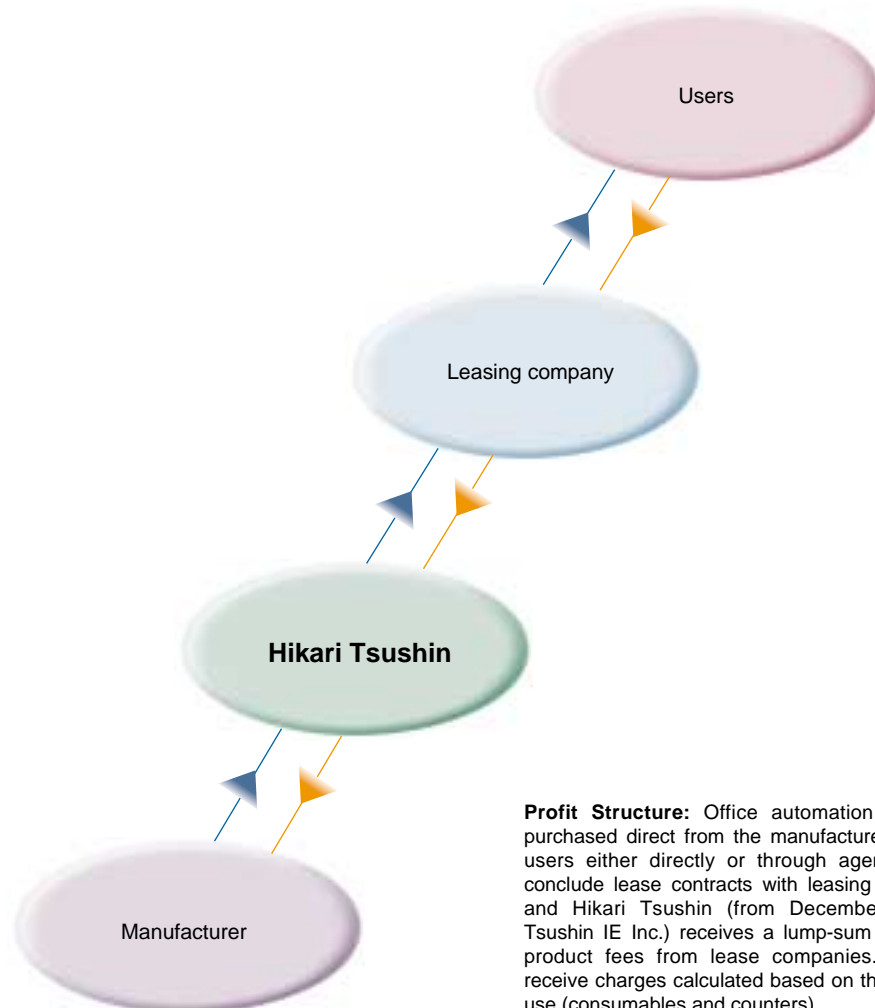
The Company began marketing office automation (OA) equipment in 1990. The OA equipment business has made a substantial contribution to our growth. Underlying the development of our OA equipment business is a unique market for copiers and business telephones which lacks a Gulliver, or major player. Taking copying machines as an example, it is said that there are between 1,000 and 2,000 companies in Japan selling machines. The nationwide average number of machines sold each month is about 50,000. Our average is between 1,400 and 1,500. In fact, the combined sales of the industry leaders account for less than 10% of total machines sold.

Under these circumstances, the key factor is for a company to differentiate its products or services from those of its rivals in the industry. For this, we have been seeking differentiation by: 1) Focusing on small and midsize companies; 2) Marketing at lower running costs through highly productive sales staff; and 3) Finding different marketing channels, such as direct sales

and sales through agents. The objective of our OA equipment business is to increase our market share and become a major player, thereby renewing the structure of the industry.

To add value to our business, we are trying to expand our operations based on our accumulated database of 7 million customers, taking the following steps: provide goods and services needed for corporate activities, other than OA equipment, and deliver OA equipment through company-to-company e-commerce transactions.

Note: A board meeting on October 21, 1999 decided to transfer our OA equipment business to Hikari Tsushin IE Inc., a subsidiary of the Company, on December 1 of the same year. We believe that dividing our business in this way will optimize the value of the Hikari Tsushin Group, producing better results by improving management efficiency, enhancing the sense of responsibility, improving our labor capability, and making it easier for the Company to pursue diverse corporate strategies.



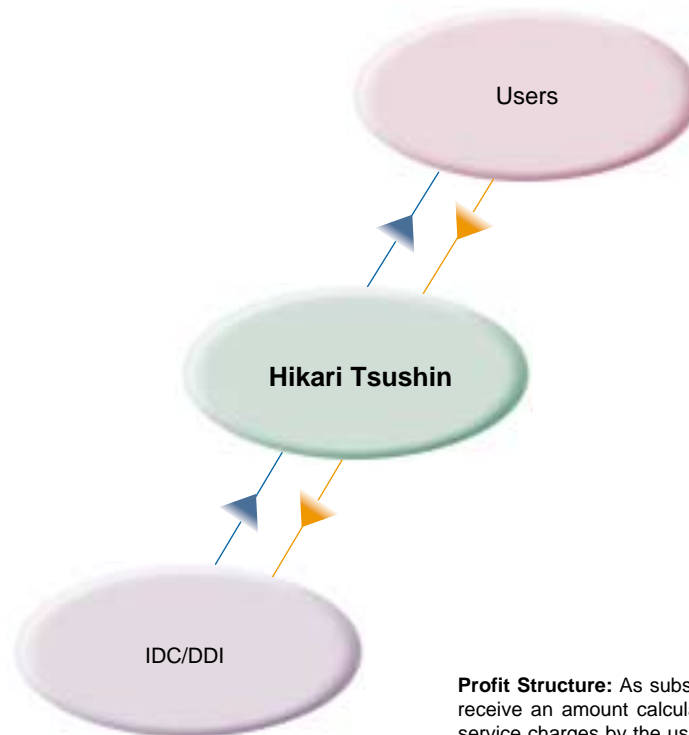
Profit Structure: Office automation equipment purchased direct from the manufacturer is sold to users either directly or through agents. Users conclude lease contracts with leasing companies, and Hikari Tsushin (from December 1, Hikari Tsushin IE Inc.) receives a lump-sum payment of product fees from lease companies. We also receive charges calculated based on the volume of use (consumables and counters).

Long-Distance and International Telephone Business

Since our foundation of 1988, one of the businesses that has fueled the dramatic growth of our Company has been our long-distance telephone subscription service. In 1992, we also launched a subscription service for international telephone calls. We act as an agency for DDI in the long-distance telephone market and for IDC and DDI in the international telephone market. Our business ranges from installing adapters to providing after-sales service, and we offer a comprehensive and consistent set of services. We rely primarily on the telemarketing sales method for both our long-distance telephone service and international telephone service. The foundation for this method is the customer database that we have already introduced, which consists of approximately 7 million customers. The figure, 7 million, means that our database covers virtually every company in Japan. We run a full-time sales operation employing about 1000 staff, and we contact

2 million customers each month. At this speed, our customer database turns over every three months. As a result, we have remained the leading agency for both DDI and IDC. Japan is notorious as a country for having communications charges that are among the world's highest. To be internationally competitive, competition to lower prices has intensified. Meanwhile, a prior registration system for telephone companies (priority connections) is scheduled to be introduced in 2001, as a means of enhancing the speed of the communications network and ensuring fair competition in the communications market. When this is introduced, we expect competition among carriers in the long-distance and international telephone markets to become even more severe, and we also anticipate growing demand for new connections. We see this as an opportunity for us to increase our share of the market.

NOTE:A board meeting on October 21, 1999 decided to transfer our Long-Distance and International Telephone Business to Call to Web, Inc. which is scheduled to become a subsidiary on December 1 of the same year. We believe that dividing our business in this way will optimize the value of the Hikari Tsushin Group, producing better results by improving management efficiency, enhancing the sense of responsibility, improving our labor capability, and making it easier for the Company to pursue diverse corporate strategies.



Profit Structure: As subscription commissions, we receive an amount calculated based on telephone service charges by the user for the month following the conclusion of the contract (approximately three to five times the service charges). As stock commissions, we receive an amount calculated based on the user's monthly telephone service charge (approximately 5 to 7 percent of the service charges). We also receive installation fees from carriers and users by installing a special adapter for long-distance calls.

Business Investment in Japan and Abroad

We invest in Japanese and overseas business, to further expand our core business and start new businesses in the future. We make our investment with three objectives, described below.

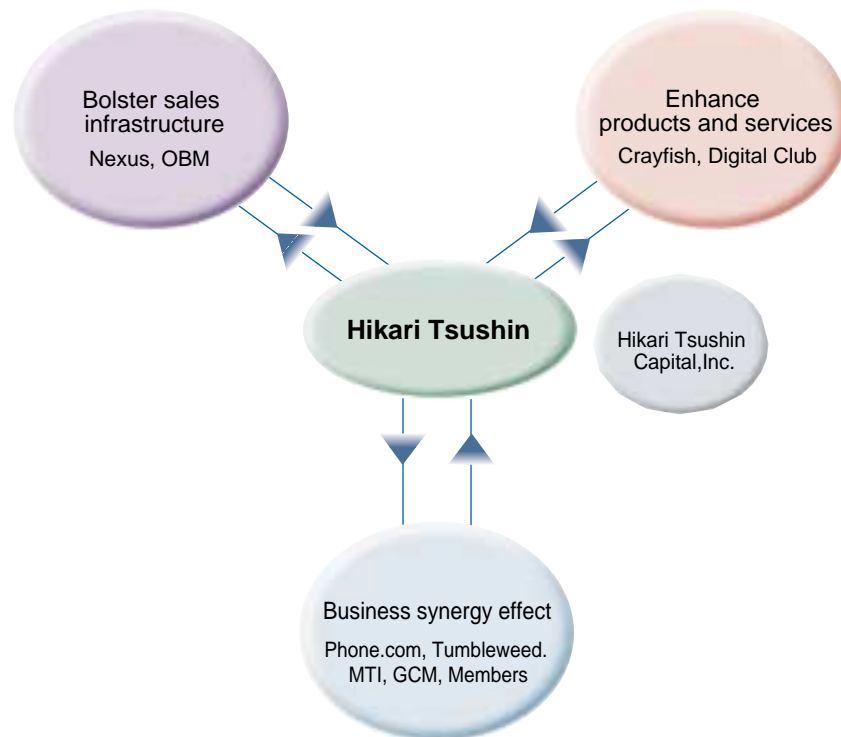
The first objective is to bolster the sales infrastructure of our Company. Our strong sales power, led by the HIT SHOP network, which consists of 1816 outlets nationwide (as of the end of August 1999), has provided comprehensive support for our business growth. To further build on this infrastructure, we continue to enter into business tie-ups by investing in Japanese as well as overseas distributors.

The second objective is business investment to enhance our products and services. By adding new options and services to existing product lines, we will add more value to our products, ultimately leading to an increase in the number of customers and the average customer purchase. For example, we have invested in Crayfish, Co.,Ltd. which is in charge of developing products for Hitmail. And taking advantage of the infrastructure of HIT SHOP, which has grown as a network of

cellular phone sales outlets, we will introduce new product lines to increase customer segments. One example is our investment in Digital Club, Co, which offers the "Digital Club" member services for SkyPerfectTV!

Our third objective is to invest in businesses that will have a synergy effect on our operations. In the constantly changing and advancing telecommunications industry, innovative technology and products will continually be developed. Right now, these technologies may not be directly related to our core business. But given the close links between the sectors of this industry, these technologies will have a major impact on future business development. We invest in these areas in anticipation of future synergy. In July 1999, we set up Hikari Tsushin Capital, Inc. as a wholly-owned subsidiary focusing on planning and management of venture capital funds. Its first fund, the HIT Fund, now totals 33 billion yen, making it the largest fund in Japan specializing in the telecommunications industry and Internet business.

Objects of corporate investment



Hikari Tsushin Capital

First issue of HIT Fund raised approximately 33 billion yen.

Number one in Japan in terms of venture capital in the IT industry.

The strength of Hikari Tsushin-our business system

business system

Special characteristics

(1) Youthfulness

As of December 1999, Hikari Tsushin employed 939 staff. The average age of our staff is 26. Furthermore, our youngest director is aged 26, and the average age of our directors is 32.6.

As these facts demonstrate, Hikari Tsushin does not support the concept of a seniority system or a system of regular promotion. Young staff are promoted based on their ability. People and the organization are always fully and vitally engaged in the company.

(2) Horizontal organizational structure

Hikari Tsushin has only four layers in its organization structure, namely president, directors, management and general staff. Because of this horizontal organizational structure, information is collected and conveyed, and decisions are made with speed and flexibility. This enables a rapid response to sudden and unpredictable changes in market trends.

(3) Speedy administration with rapid response to change

In addition to its horizontal organizational structure, Hikari Tsushin also empowers its staff with quite extensive decision-making authority. This enables us to retain a prompt decision-making system. Demand for speed in business administration is common throughout the world, but Hikari Tsushin's capacity for rapid response is quite outstanding.

Board of Directors and Auditors

(as of December 1, 1999)

President, CEO

Yasumitsu Shigeta

Executive Director

Shuichi Kukita

Managing Director

Takeshi Tamamura

Koh Gido

Masahide Saito

Director

Tomoko Miyashita

Hiroshi Nagayama

Ryoji Kabaya

Noriyuki Ymanouchi

Koji Yamamoto

Masanori Suzuki

Director (part-time)

Etsuo Uehara

Koki Sakurada

Statutory Auditor

Masaki Takizawa

Auditor

Akira Kojima

Takanobu Takehara

Kenichi Kanbe

Corporate Data

(as of August 31, 1999)

Corporate Name

Hikari Tsushin, Inc.

Date of Foundation

February 5, 1988

Authorized Number of Shares

29,647,052 shares

Paid-in Capital

¥7,695 million

Number of Shareholders

6,002

Transfer Agent

The Sumitomo Trust & Banking Co., Ltd., Tokyo Main Office

1-1-4 Marunouchi, Chiyoda-ku, Tokyo, 100-0005

Tel: (03)3286-1111

Accounts Closed

August 31

Head Office

Ohtemachi Nomura Bldg. 2-1-1 Ohtemachi, Chiyoda-ku,

Tokyo, 100-0004

Tel: (03)3510-2300

Fax: (03)3510-2321

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



1999 Financial Data

Six-year Financial Summary

Hikari Tsushin, Inc.

For the years ended August 31, 1994 through 1999

	(Millions of yen)						(Thousands of U.S. dollars)
	1994	1995	1996	1997	1998	1999	1999
Net sales	¥12,278	¥26,119	¥56,248	¥122,059	¥159,620	¥259,278	\$ 2,338,999
Sales commission	7,065	13,674	37,314	94,687	97,300	134,088	1,209,635
Sales of goods	3,610	11,872	18,395	26,368	61,019	124,891	1,126,667
Construction completed	1,603	573	539	1,004	1,301	299	2,697
Net income	333	706	1,485	3,198	5,049	9,882	89,147
Per share date	(Yen)						(U.S. dollars)
Net income	92.46	183.31	176.62	184.43	171.10	334.32	3.02
Cash dividends	10.00	10.00	15.00	50.00	60.00	100.00	0.90
Total assets	(Millions of yen)						(Thousands of U.S. dollars)
Shareholders' equity	9,084	11,258	25,652	42,799	60,848	140,473	1,267,235
Number of shares outstanding	1,448	2,304	15,900	28,812	32,372	40,975	369,644
Number of employees	3,820	3,885	9,020,000	19,671,600	29,507,400	29,647,052	
Number of outlets	420	489	910	1,224	911	2,120	
Directly operated	12	58	140	312	532	1,816	
Franchisees	12	30	108	281	59	21	
Supplied chain stores		28	32	31	31	40	
Return on equity (%)	15.94	20.47	61.98	67.32	53.20	29.17	
Return on assets (%)	31.77	37.65	16.32	14.31	16.50	26.95	
Shareholders' equity ratio (%)	12.99	14.14	17.86	18.56	19.61	20.55	
Assets turnover (times)	1.58	2.57	3.05	3.57	3.08	2.58	

Note : As the Company does not prepare a consolidated financial statement, it does not publish consolidated financial data. The Company split one ¥50,000 par value share into ¥50 par value shares on September 1, 1995, when it merged with Hikari Tsushin, Inc. of Nerima-ku. Per share data for fiscal year ended August 31, 1995 and prior fiscal years have been adjusted retrospectively, to reflect the split.

I. Business Summary

For the fiscal term ending August 1999, Hikari Tsushin aimed at expanding its business both by focusing on sales of cellular phones, which continue to experience robust growth, and by launching new businesses involving the Internet, which is also growing dramatically. While new product lines, such as Hitmail, CLUB HIT and Digital Club, remained minor contributors to sales in this term, they recorded steady growth. Further, to enhance and expand our sales channels, we have changed the management model for HIT SHOP from direct control to a franchise system, resulting in an increase in the number of outlets. As a result, Hikari Tsushin posted sales of 259,278 million yen, representing an increase of 62.4% from the previous term, and net profit of 9,882 million yen, an increase of 95.7%.

II. Operating Results

1. Mobile Telecommunications

To respond to the rapid growth of the market, and to enhance and expand our sales channels, we concentrated on opening new HIT SHOP outlets, bringing the total number to 1816 outlets, an increase of 1284 outlets from the previous year. Along with this achievement, profit from commissions (subscription commissions and stock commissions) for cellular phones and PHS was 126,728 million yen, an increase of 40.7% from the previous year, while royalties paid by agents (operational support charges) stood at 10,943 million yen, up 319.9% from last term. Turning to expenses, along with the greater number of new outlets, sales charges, which we pay to agents, were 119,728 million yen, an increase of more than 125.0% from the previous year, while rents were 6,696 million yen, up 87.8% from last year. We also undertook aggressive advertising and promotional activities, including television commercials. As a result, advertising and promotion fees stood at 2,811 million yen, an increase of 2,491 million yen.

2. New Business

Although new businesses such as Hitmail (our web-hosting service), CLUB HIT (our information delivery and card service) and Digital Club (our CS digital broadcasting service) continue to make a relatively minor contribution on our financial statements, they have experienced steady growth. Hitmail saw profits from commissions (subscription commissions and stock commissions) reach 267 million yen. Profits from commissions for CLUB HIT and Digital Club, which were launched during the term ended August 1999, were 149 million yen and 2179 million yen, respectively.

3. Other Businesses

Long-Distance and International Telephone

Reflecting a decrease in the size of the business, profits from commissions for long-distance telephone services were 3,106 million yen, down 15.1% from the previous year, while commissions for international telephone services generated profits of 1,575 million yen, a fall of 55.1%. A decline in the number of acquisitions of long-distance telephone lines, our installment contract business contracted, with sales from installments at 298 million yen, a drop of 1,002 million yen.

Office Automation Equipment

Sales were 14,336 million yen, representing an increase of 37.1% from the previous year.

III. Cash Flow

1. Cash Flow from Operations

The expansion of HIT SHOP outlets and increased sales of cellular phone terminals meant that, among increases or decreases in operating assets and liabilities, trade receivables posted an increase of 24,129 million yen, while inventory was up 5,158 million yen. As a result, funds (net) used for operating activities were 13,407 million yen, an increase of 14,377 million yen.

2. Cash Flows from Investment

Funds (net) used for investment were 50,249 million yen, up 40,754 million yen from the previous year. The main factor behind the rise was our aggressive strategic investment in negotiable and investment securities.

3. Cash Flow from Financing Activities

Reflecting enormous capital demands for working capital for business expansion and new business start ups, loans and bond payables increased this term. As a result, funds (net) from financing activities reached 57,530 million yen, an gain of 42,726 million yen from the previous year.

As a result of these activities, net cash deposits (net) as at the end of the fiscal year ending August 1999 showed a net decrease of 6,126 million yen.

IV. Share Capital and Returns to Shareholders

Given a surplus of 16,593 million yen, an increase of 84.6% from last year, share capital stood at 40,975 million yen, up 26.6% from the previous term.

Our share capital rate was 29.17%, a decrease of 24.03 points from the previous year. This reflected funds raised through loans and bond payables, taking advantage of the prevailing low interest rates.

Our first business priority is to maximize value for shareholders. We continue to make every effort to accumulate capital from a long-term cash flow perspective and deliver adequate returns to our shareholders.

	August 1999 term	August 1998 term
Shareholders' equity		
Return on equity (%)	26.95	16.50
Net income to net sales (%)	3.81	3.16
Total assets turnover (times)	2.58	3.08
Leverage (times)	2.74	1.69
Return on assets (%)	20.55	19.61
Shareholders' equity ratio (%)	29.17	53.20
Return to shareholders		
Dividend payout ratio (earning basis)	29.91	35.06
Cash dividends (yen)	100	60.00
Per share data		
Net income (yen)	334.32	171.10
BPS (yen)	1,382.14	1,097.10

*Net income per share is calculated based on the weighted average number of shares outstanding in the respective fiscal years. Shareholders' equity per share is calculated based on the number of shares outstanding at the end of the respective fiscal years.

Change in Profit Structure

	(Millions of yen)		% increase or decrease
	1999	1998	
Net sales			
Sales commission	134,088	97,300	37.8
Sales of goods	124,891	61,019	104.7
Construction completed	299	1,301	- 77.0
Total sales	259,278	159,620	62.4
Royalties	10,943	2,606	319.9
Total	270,221	162,226	66.6
Cost of sales			
Cost of sales of goods	97,887	73,960	32.4
Cost of construction completed	694	748	- 7.2
Total	98,581	74,708	32.0
Selling, general and administrative expenses			
Agents' sales commission	119,728	53,204	125.0
Personnel expense	9,762	9,440	3.4
Leasing expense	6,696	3,566	87.8
Others	19,002	10,915	74.1
Total	155,188	77,125	101.2

Sales by Segment

	(Millions of yen)		% increase or decrease
	1999	1998	
Sales Charges			
Cellular phones/PHS	126,728	90,055	40.7
CS broadcasting service	2,179		
Hitmail service	268	2	13300
Card service	149		
Long-distance telephone service	3,106	3,660	- 15.1
International telephone service	1,575	3,509	- 55.1
Others	83	74	12.2
Total	134,088	97,300	37.8
Product Sales			
Cellular phones/PHS	109,039	50,410	116.3
OA equipment	14,336	10,459	37.1
Other information equipment	1,516	150	910.7
Total	124,891	61,019	104.7
Construction completed	299	1,301	- 77.0
Total sales	259,278	159,620	62.4

Balance Sheets

Hikari Tsushin, Inc.
For the years ended August 31,
1999 and 1998

Assets	(Million of yen)		(Thousands of U.S. dollars)
	1999	1998	1999
Current assets:			
Cash and bank deposits (Note 9)	¥ 3,194	¥ 9,320	\$ 28,814
Marketable securities (Note 3)	12,696	6,969	114,533
Notes and accounts receivable - trade			
Affiliated companies	3,806	840	34,335
Other	45,378	18,121	409,364
Accounts receivable - other			
Affiliated companies	4,027		36,328
Other	1,111		10,023
Less: Allowance for doubtful accounts	(279)	(107)	(2,517)
	54,043	18,854	487,533
Inventories (Note 4)	3,390	1,443	30,582
Short-term loans receivable	5,816	1,319	52,467
Short-term loans receivable from affiliated companies	823	396	7,424
Prepaid expenses and other current assets	1,094	849	9,869
Total current assets	81,056	39,150	731,222
Property and equipment, at cost			
Land	2,154	2,154	19,432
Buildings and structures	7,510	2,127	67,749
Machinery and equipment	3,692	611	33,306
Construction in progress	0	142	0
	13,356	5,034	120,487
Less: Accumulated depreciation	(2,060)	(617)	(18,584)
Net property and equipment	11,296	4,417	101,903
Investments and other assets			
Investment securities (Note 3)	18,605	4,837	167,839
Investments in affiliated companies	10,516	1,544	94,867
Investments in capital	3,660	3,018	33,018
Lease deposits	11,231	5,430	101,317
Insurance premiums paid	685	679	6,179
Other assets	3,424	1,773	30,889
Total investments and other assets	48,121	17,281	434,109
Total assets	¥ 140,473	¥ 60,848	\$ 1,267,235

Liabilities and shareholders' equity	(Millions of yen)		(Thousands of U.S. dollars)
	1999	1998	1999
Current liabilities:			
Short-term loans (Note 5)	¥ 11,500	¥ 2,900	\$ 103,744
Current portion of long-term debt (Note 5)	7,634	2,952	68,868
Accounts payable - trade (Note 9)	6,412	4,994	57,844
Accounts payable - other			
Affiliated companies		187	
Other	6,903	1,323	62,273
Income taxes payable (Note 6)	7,715	3,914	69,599
Consumption tax payable	25	623	225
Other current liabilities	2,661	477	24,005
Total current liabilities	42,850	17,370	386,558
Long-term liabilities:			
Long-term debt (Note 5)	56,507	10,960	509,761
Retirement benefits for directors	90	75	812
Other long-term liabilities	51	71	460
Total long-term liabilities	56,648	11,106	511,033
Total liabilities	99,498	28,476	897,591
Contingent liabilities (Note 10)			
Shareholders' equity (Note 11):			
Common stock, ¥50 par value:			
Authorized-118,029,600 shares in 1999 and 1998			
Issued-			
29,647,052 shares in 1999 and			
29,507,400 shares in 1998	7,695	7,325	69,418
Additional paid-in capital	16,269	15,847	146,766
Legal reserve	418	211	3,771
Retained earnings	16,593	8,989	149,689
Total shareholders' equity	40,975	32,372	369,644
Total liabilities and shareholders' equity	¥ 140,473	¥ 60,848	\$ 1,267,235

Statements of Income

Hikari Tsushin, Inc.

For the years ended August 31, 1999 and 1998

	(Millions of yen)		(Thousands of U.S. dollars)
	1999	1998	1999
Net sales:			
Sales commission	¥ 134,088	¥ 97,300	\$ 1,209,635
Product sales	124,891	61,019	1,126,667
Construction sales	299	1,301	2,697
Total sales	259,278	159,620	2,338,999
Cost of sales:			
Cost of product sales	97,887	73,960	883,058
Cost of construction sales	694	748	6,261
Total cost of sales	98,581	74,708	889,319
Gross profit	160,697	84,912	1,449,680
Selling, general and administrative expenses	155,188	77,125	1,399,982
Operating profit	5,509	7,787	49,698
Other income:			
Interest and dividends income	682	232	6,152
Gain on sale of securities	4,931	242	44,484
Royalty income	10,943	2,606	98,719
Rebate	760	254	6,856
Other expenses:			
Interest expense and discounts on notes	(781)	(215)	(7,045)
Loss on sale of securities	(462)	(68)	(4,168)
Devaluation of securities	(45)	(607)	(406)
Other, net	(1,074)	237	(9,689)
Income before income taxes	20,463	10,468	184,601
Income taxes (Note 6)	10,581	5,419	95,453
Net income	¥ 9,882	¥ 5,049	\$ 89,147

See notes to financial statements.

Statements of Shareholders' Equity

Hikari Tsushin, Inc.
For the years ended August 31, 1999 and 1998

	(Millions of yen)				
	Number of shares of common stock	Common stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance at August 31, 1997	19,671,600	¥ 7,325	¥ 15,847	¥ 62	¥ 5,578
Net income					5,049
Cash dividends paid					(1,279)
Transfer to legal reserve				149	(149)
Bonuses to directors					(210)
1.5-for-1 stock split (Note 11)	9,835,800				
Balance at August 31, 1998	29,507,400	¥ 7,325	¥ 15,847	¥ 211	¥ 8,989
Net income					9,882
Cash dividends paid					(1,771)
Transfer to legal reserve				207	(207)
Bonuses to directors					(300)
Exercise of warrants	139,652	370	422		
Balance at August 31, 1999	<u>29,647,052</u>	<u>¥ 7,695</u>	<u>¥ 16,269</u>	<u>¥ 418</u>	<u>¥ 16,593</u>

	(Thousands of U.S. dollars)			
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance at August 31, 1998	\$ 66,080	\$ 142,959	\$ 1,904	\$ 81,092
Net income				89,147
Cash dividends paid				(15,968)
Transfer to legal reserve			1,867	(1,867)
Bonuses to directors				(2,706)
Exercise of warrants	3,338	3,807		
Balance at August 31, 1999	<u>\$ 69,418</u>	<u>\$ 146,766</u>	<u>\$ 3,771</u>	<u>\$ 149,698</u>

See notes to financial statements.

Statements of Cash Flows

Hikari Tsushin, Inc.

For the years ended August 31, 1999 and 1998

	(Millions of yen)		(Thousands of U.S. dollars)
	1999	1998	1999
Operating activities			
Net income	¥ 9,882	¥ 5,049	\$ 89,147
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	1,517	276	13,685
Provision for doubtful accounts	172	41	1,552
Loss on sale and disposal of property and equipment	154	51	1,389
Loss on sale and devaluation of investment securities	162	520	1,461
Other	60	12	541
Changes in operating assets and liabilities:			
Notes and accounts receivable	(30,223)	(6,094)	(272,647)
Accounts receivable - other	(5,138)		(46,351)
Inventories	(1,947)	3,211	(17,564)
Prepaid expenses and other current assets	(224)	(280)	(2,201)
Accounts payable - trade	1,418	(424)	12,792
Accounts payable - other	5,393	(2,507)	48,651
Income taxes payable	3,801	1,123	34,290
Other current liabilities	1,586	(8)	14,308
Net cash (used in) provided by operating activities	(13,407)	970	(120,947)
Investing activities			
Purchases of property and equipment	(8,550)	(1,735)	(77,131)
Increase in lease deposits	(5,801)	(1,608)	(52,332)
Increase in investment securities, investments in affiliates and investments in capital	(23,589)	(3,168)	(212,801)
Purchases of marketable securities, net	(5,727)	(1,204)	(51,665)
Increase in short-term loans receivable	(4,497)	(1,319)	(40,568)
Increase (decrease) in loans receivable from affiliates	(427)	54	(3,852)
Other	(1,658)	(515)	(14,957)
Net cash used in investing activities	(50,249)	(9,495)	(453,306)
Financing activities			
Increase in bank borrowings	8,600	2,900	77,582
Proceeds from long-term debt	55,000	14,024	496,166
Payment of long-term debt	(4,771)	(602)	(43,040)
Proceeds from issuance of common stock	792	0	7,145
Cash dividends paid	(1,770)	(1,279)	(15,968)
Other	(321)	(239)	(2,896)
Net cash provided by financing activities	57,530	14,804	518,989
Net (decrease) increase in cash	(6,126)	6,279	(55,264)
Cash at beginning of the year	9,320	3,041	84,078
Cash at end of the year	¥ 3,194	¥ 9,320	\$ 28,814
Cash paid during the year for:			
Interest	¥ 641	¥ 222	\$ 5,783
Income taxes	¥ 7,677	¥ 4,087	\$ 69,256

See notes to financial statements.

1. Summary of Significant Accounting Policies

(a) Basis of presentation

Hikari Tsushin, Inc. (the "Company") maintains its accounting records and prepares its financial statements in accordance with accounting principles and practices generally accepted in Japan. The accompanying financial statements have been prepared from the financial statements filed with the Ministry of Finance as required by the Securities and Exchange Law of Japan. Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. For the purposes of this document, certain reclassifications have been made to present the accompanying financial statements in a format which is familiar to readers outside Japan, and statements of cash flows have been presented although such statements are not customarily prepared in Japan.

(b) Translation of foreign currencies

Current monetary assets and liabilities denominated in foreign currencies are translated at the respective rates of exchange in effect at each balance sheet date.

Revenue and expense items denominated in foreign currencies are translated into yen at the rates of exchange prevailing when such transactions were made.

(c) Marketable securities and investment securities

Listed securities are stated at the lower of cost or market, cost being determined by the moving average method. Unlisted securities are stated at cost determined by the moving average method. Effective the year ended August 31, 1999, in accordance with a recent revision to the Corporation Tax Law of Japan, valuation has been changed from a method which realizes only downward changes in value to a method which realizes both upward and downward changes in value.

This change, however, had no effect on net income recorded in the financial statements for the year ended August 31, 1999.

(d) Inventories

Inventories are stated at cost determined by the average cost method.

(e) Property and equipment and depreciation

Depreciation of property and equipment is computed by the declining-balance method in conformity with the Corporation Tax Law of Japan.

Ordinary maintenance and repairs are charged to income as incurred. Major replacements and improvements are capitalized.

The Company has changed its method of depreciation of buildings, excluding structures, acquired on and after April 1, 1998, to the straight-line method from the declining-balance method in accordance with a recent revision to the Corporation Tax Law. The effect of this change was immaterial.

In addition, effective the current year, the Company, in accordance with a revision to the Corporation Tax Law, has reduced the estimated useful lives used in calculating depreciation of buildings. The effect of this change from the method applied in the previous year was immaterial. The Company has also changed its policy for tangible assets acquired as property and equipment from recording only those in excess of ¥200 thousand, to recording those in excess of ¥100 thousand in conformity with a revision to the Corporation Tax Law. Assets acquired after September 1, 1998 at an amount in excess of ¥100 thousand, but less than ¥200 thousand, are depreciated on a straight-line basis over a period of 3 years. This change increased income before income taxes by ¥997 million from the amount which would have been recorded under the method applied in the previous year.

(f) Deferred charges

Common stock issuance expenses, discounts on bonds and bond issuance expenses are charged to income when incurred.

(g) Leases

Noncancelable leases are accounted for as operating leases regardless of whether such leases are classified as operating or finance leases except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(h) Retirement benefits

Employees of the Company are covered by a noncontributory funded pension plan. The amount of retirement benefits payable under the plan is determined on the basis of an employee's length of service and level of remuneration at the time of termination of employment. It is the Company's policy to charge to income the annual payments made to the pension fund including the contributions for past service cost which is being amortized over a period of 5 years.

(i) Income taxes

The Company calculates and records income taxes currently payable based on taxable income. Deferred income taxes are not provided for timing differences between the recognition of income and expense items for financial and income tax purposes.

2. U.S. Dollar Amounts

For the convenience of the reader, the accompanying financial statements with respect to the year ended August 31, 1999 have been presented in U.S. dollars by translating all yen amounts at ¥110.85 = U.S.\$1.00, the exchange rate prevailing on August 31, 1999. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

3. Marketable Securities and Investment Securities

Marketable securities and investment securities at August 31, 1999 and 1998 consisted of the following:

	(Millions of yen)		(Thousands of U.S. dollars)
	1999	1998	1999
Current:			
Marketable equity securities	¥ 12,686	¥ 1,644	\$ 114,443
Bonds		20	
Investment trusts	10	5,305	90
	<u>¥ 12,696</u>	<u>¥ 6,969</u>	<u>\$ 114,533</u>
Noncurrent:			
Marketable equity securities	¥ 15,626	¥ 4,684	\$ 140,965
Other securities	2,979	153	26,874
	<u>¥ 18,605</u>	<u>¥ 4,837</u>	<u>\$ 167,839</u>

The book and related aggregate market values of current and noncurrent marketable securities included in marketable securities and investment securities, respectively, for which market prices are available, are summarized as follows:

	(Millions of yen)				(Thousands of U.S. dollars)	
	1999		1998		1999	
	Book value	Market value	Book value	Market value	Book value	Market value
Marketable equity securities included						
in marketable securities	<u>¥ 12,686</u>	<u>¥ 35,124</u>	<u>¥ 1,644</u>	<u>¥ 1,671</u>	<u>\$ 114,443</u>	<u>\$ 316,861</u>
Marketable equity securities included						
in investment securities	<u>¥ 4,106</u>	<u>¥ 40,018</u>	<u>¥ 955</u>	<u>¥ 650</u>	<u>\$ 37,041</u>	<u>\$ 361,010</u>

Securities at their book value which were excluded in the above table were summarized as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	1999	1998	1999
Current assets:			
Public bond investment trusts	¥ 10	¥ 5,305	\$ 90
Corporate bonds		20	
	<u>¥ 10</u>	<u>¥ 5,325</u>	<u>\$ 90</u>
Noncurrent assets:			
Unlisted stocks other than those on the over-the-counter market	¥ 9,821	¥ 4,956	\$ 88,597
(including affiliated companies)	(7,664)	(1,544)	(69,138)
Foreign securities whose market values are not available	8,855	317	79,883
Private offerings of bonds with warrants	2,937	20	26,495
Private offerings of convertible bonds	420	25	3,789
Other	130	108	1,173
	<u>¥ 22,163</u>	<u>¥ 5,426</u>	<u>\$ 199,937</u>

4. Inventories

Inventories at August 31, 1999 and 1998 consisted of the following:

	(Millions of yen)		(Thousands of U.S. dollars)
	1999	1998	1999
Cellular telephones	¥ 3,264	¥ 1,358	\$ 29,445
Office automation equipment	65	64	587
Other	61	21	550
	<u>¥ 3,390</u>	<u>¥ 1,443</u>	<u>\$ 30,582</u>

5. Short-Term Borrowings and Long-Term Debt

Short-term borrowings are generally unsecured borrowings from banks. The average interest rates for the years ended August 31, 1999 and 1998 1.102% to 1.186%, respectively.

	(Yen)		(U.S. dollars)
	1999	1998	1999
Unsecured loans from banks due through 2003 at rates up to 2.125%:	¥ 18,627	¥ 9,398	\$ 168,038
2.32% unsecured bonds due 2001	700	700	6,315
2.70% unsecured bonds due 2003	300	300	2,706
2.475% unsecured bonds due 2001	2,500		22,553
2.35% unsecured bonds due 2002	10,000		90,212
1.8% unsecured bonds due 2003	10,000		90,212
2.00% unsecured bonds with warrants due 2001	490	490	4,420
2.20% unsecured bonds with warrants due 2001	1,000	1,000	9,021
2.08% unsecured bonds with warrants due 2003	2,500		22,553
LIBOR + 0.45% secured bonds in Swiss francs due 2002	2,024	2,024	18,259
0.87% unsecured Euro yen bonds due 2003	5,000		45,106
1.84% unsecured Euro yen bonds due 2003	3,000		27,064
0.71% unsecured Euro yen bonds due 2003	8,000		72,170
Total	<u>64,141</u>	<u>13,912</u>	<u>578,629</u>
Less: current portion	<u>(7,634)</u>	<u>(2,952)</u>	<u>(68,868)</u>
	<u>¥ 56,507</u>	<u>¥ 10,960</u>	<u>\$ 509,761</u>

The Company issued 2.00%, 2.20% and 2.08% unsecured bonds with warrants due 2001, 2001 and 2002 in 1997, 1998 and 1999, respectively, to purchase a total of 384,219 shares of the Company's common stock. At August 31, 1999, such warrants, which will expire through July 19, 2001, to acquire 244,567 shares of the Company's common stock at a defined exercise price, remained outstanding.

Under the method of accounting for debt with detachable warrants to purchase stock, the portion of the proceeds of debt securities issued with detachable stock purchase warrants which is allocable to the warrants shall be accounted for as a current liability and shall be transferred to additional paid-in capital upon the exercise of the warrants. When the warrants expire, they are reversed and recognized as gain in the income statements. At August 31, 1999, the portions of the proceeds allocated to warrants and long-term debt, based on the relative fair values of these securities, were ¥322 million (\$2,905 thousand) and ¥3,990 million (\$35,995 thousand), respectively, excluding the discounts on the bonds.

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that collateral and guarantees (or additional collateral or guarantees, as appropriate) with respect to present and future indebtedness will be given at the request of a lending bank, and that the bank shall have the right, as the obligations become due, or in the event of default, to offset cash deposited against such obligations.

The aggregate annual maturities of long-term debt subsequent to August 31, 1999 are summarized as follows:

Year ending August 31,	(Millions of yen)	(Thousands of U.S. dollars)
2000	¥ 7,634	\$ 68,868
2001	9,302	83,915
2002	35,580	320,974
2003	1,324	11,944
2004 and thereafter	10,301	92,928
	<u>¥ 64,141</u>	<u>\$ 578,629</u>

6. Income Taxes

The aggregate statutory tax rates for corporate, inhabitants' and enterprise taxes were approximately 47% and 51% for fiscal years 1999 and 1998, respectively.

The effective tax rates in the accompanying statements of income differ from the statutory tax rates primarily because of the effect of timing differences in the recognition of certain revenues and expenses for tax and financial statement purposes and the effect of permanently nondeductible expenses.

7. Retirement Benefits

The net assets of the pension plan at August 31, 1999 and 1998 were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	1999	1998	1999
	¥ 38	¥ 36	\$ 343

8. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property as of August 31, 1999 and 1998, and the related depreciation expense and interest expense for the years ended August 31, 1999 and 1998 which would have been reflected in the balance sheets and the related statements of income if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

(Millions of yen)			
August 31, 1999	Machinery and equipment	Other	Total
Acquisition costs	¥ 245	¥ 90	¥ 335
Accumulated depreciation	202	81	283
Net book value	<u>¥ 43</u>	<u>¥ 9</u>	<u>¥ 52</u>

(Millions of yen)			
August 31, 1999	Machinery and equipment	Other	Total
Acquisition costs	¥ 479	¥ 90	¥ 569
Accumulated depreciation	369	61	430
Net book value	<u>¥ 110</u>	<u>¥ 29</u>	<u>¥ 139</u>

(Thousands of U.S. dollars)			
August 31, 1999	Machinery and equipment	Other	Total
Acquisition costs	\$ 2,210	\$ 812	\$ 3,022
Accumulated depreciation	1,822	731	2,553
Net book value	<u>\$ 388</u>	<u>\$ 81</u>	<u>\$ 469</u>

	(Millions of yen)		(Thousands of U.S. dollars)
Year ended August 31,	1999	1998	1998
Depreciation expense	<u>¥ 86</u>	<u>¥ 114</u>	<u>\$ 776</u>
Interest expense	<u>¥ 86</u>	<u>¥ 114</u>	<u>\$ 776</u>

Future minimum lease payments subsequent to August 31, 1999 and 1998 for finance leases accounted for as operating leases are summarized as follows:

Year ended August 31,	(Millions of yen)		(Thousands of U.S. dollars)
	1999	1998	1999
Due within one year	¥ 50	¥ 87	\$ 451
Due after one year	2	52	18
	<u>¥ 52</u>	<u>¥ 139</u>	<u>\$ 469</u>

9. Pledged Assets

The assets pledged as collateral for accounts payable - trade, which amounted to ¥2,508 million (\$22,625 thousand) at August 31, 1999, were as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Time deposits	¥ 640	\$ 5,774

10. Contingent Liabilities

The Company has contingent liabilities to guarantee certain obligations of its customers for leased office automation equipment to the leasing companies. Such obligations amounted to ¥1 million (\$9 thousand) at August 31, 1999.

11. Shareholders' Equity

In accordance with provisions of the Commercial Code of Japan, the Company has provided a legal reserve as an appropriation of retained earnings. The Code provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to stated capital (common stock) by resolution of the Board of Directors.

Under the Commercial Code of Japan, the Company may, at any time, split the number of shares in issue into a greater number of shares by resolution of the Board of Directors if the aggregate par value of the shares in issue after the stock split does not exceed the balance of the common stock account, and the net assets of the Company at the latest balance sheet date divided by the number of shares in issue after the stock split are at least ¥50 per share.

Effective October 17, 1997, the Company made a 1.5-for-1 stock split. The Company's stated capital was not affected by this stock split. The number of shares and the related per share amounts have not been restated retroactively to reflect the stock split.

12. Amounts per Share

Amounts per share of net income and net assets, as presented below, are based on the weighted average number of shares of common stock outstanding during each year and the number of shares outstanding at each balance sheet date, respectively.

	(Yen)		(U.S. dollars)
	1999	1998	1999
Net income:			
Basic	¥ 334.32	¥ 171.10	\$ 3.02
Diluted	333.29		3.01
Net assets	1,382.14	1,097.10	12.47

No per share amount assuming full dilution is provided as of August 31, 1998 because the effect of the common stock equivalents would have been antidilutive.

13. Derivative and Hedging Activities

With respect to the LIBOR + 0.45% secured bonds in Swiss francs due 2002, the Company has entered into currency swap contracts to reduce its exposure to adverse fluctuations in foreign exchange rates and interest rates and to fix the amounts of its obligation related to the redemption of the principal and the payment of the related interest. As a matter of policy, the Company does not speculate in derivative transactions.

The Company uses these contracts to manage its exposure to foreign exchange rate and interest rate risks. The Company is not significantly impacted by market risk related to the derivative transactions because they are used to manage risk and, therefore, their effects on income are inverse to the effects of the underlying hedged transactions. The Company does not anticipate nonperformance by any of the counterparties to the above transactions, all of whom are domestic financial institutions with high bond ratings.

In accordance with the Company's policy, derivative transactions are entered into by the Finance Department and are subsequently controlled by the Accounting Department. Each department's duties are segregated for internal control purposes and each department acts as an independent entity.

14. Litigation

The Company is acting as an agency for Daini Denden K.K. ("DDI") which provides services for long distance telephone calls and installation of the related adaptors ("DDI adaptors") for telephone lines. The Company has entrusted a portion of this business to its agents.

In connection with this entrusted business, the Company has been named as a defendant by two former agents who are claiming unpaid commission from the Company in the aggregate amount of ¥548 million (\$4,944 thousand) in a lawsuit filed with the Tokyo District Court. Under the agency contracts with the plaintiffs, commission should be valid when the users of DDI are available for DDI's services after the installation of the DDI adaptors by the plaintiffs. However, the Company paid commission to the plaintiffs when the users applied for DDI services in order to finance their business. As a result, since the Company kept the recourse rights to the commission paid when DDI's services were not available because of the cancellation of applications or the deinstallation of the DDI adaptors, any commission corresponding to such invalid applications was offset against the amount to be paid as the next commission installment.

The plaintiffs have asserted that this type of offset was invalid from the viewpoint of unfairness, misleading representation, etc. The Company intends to vigorously defend this claim because the assertion of the plaintiffs has no reasonable basis. The assertions of both the Company and the plaintiffs have been completed in this case; however, the ultimate outcome cannot presently be determined.

The Company has also been named as a defendant by the representative of one of its former agents (stated above) who is claiming damages amounting to ¥884 million (\$7,975 thousand) in a lawsuit filed with the Tokyo District Court. The plaintiff has asserted that, as a shareholder, he should have received new shares issued by the Company in February 1996; however, he claims to have incurred damages related to not having been allocated any new shares and is claiming that the Company had made a mistake in its legal procedures for the issuance of the new shares. The Company intends to vigorously defend this claim because (1) the plaintiff is considered to have confused the allocation of new shares to third parties with the issuance of new shares to shareholders, (2) the plaintiff has no reasonable evidence to support his assertion, and (3) the Company asserts that it made no mistakes in the legal process of issuing the new shares. Because this case is still in the preliminary stage, the ultimate outcome cannot presently be determined.

15. Subsequent Events

The following appropriations of retained earnings, which have not been reflected in the accompanying financial statements for the year ended August 31, 1999, were approved at a shareholders' meeting held on November 26, 1999:

	(Millions of yen)	(Thousands of U.S. dollars)
Cash dividends (¥90 = U.S.\$0.81 per share)	¥ 2,668	\$ 24,069
Transfer to legal reserve	297	2,679
Bonuses to directors	300	2,706

On September 1, 1999, the Company issued 1,25,000 shares in a public offering at the issuance price of ¥44,363 per share. The amount of ¥27,728 million of the aggregate issuance price of ¥55,454 million was accounted for as stated capital.

On October 8, 1999, the Board of Directors approved the issuance of ¥3 billion unsecured discounted bonds at ¥94.383 per ¥100 due 2003.

On October 8, 1999, the Board of Directors approved the issuance of ¥5 billion 0.26% secured Euro-yen bonds due 2002.

On November 12, 1999, the Company borrowed syndicated loans from banks in the aggregate amount of ¥24 billion with interest rate at TIBOR + 0.9%, payable semiannually through 2004.

On November 8, 1999, the Board of Directors approved the issuance of ¥10 billion 1.75% unsecured bonds due 2004.

On November 8, 1999, the Board of Directors approved the issuance of ¥10 billion 2.35% unsecured bonds due 2006.

On October 21, 1999, the Board of Directors approved the transfer of the following businesses to its subsidiaries as of December 1, 1999:

Business to be transferred

Office equipment sales business
Outbound telemarketing business

Subsidiaries

HIKARI TSUSHIN IE, INC.
Telemarketing Service Center, Inc.

In addition, the Board of Directors approved that BUSINESS PARTNER, INC. will be established as an outsourcing company to provide services relating to general affairs and accounting to the group companies of the Company and that HIKARI TSUSHIN Technology, Inc. will be established by separating off the Company's Department of Information Technologies.



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