

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of Hikari Tsushin International Limited (the "Company"), I present to our shareholders the report and the audited results of the Company and its subsidiaries (collectively the "Group") for the sixteen-month period ended 31 July 2001.

The period under review witnessed the transformation of the Group's business following the completion of the subscription agreement undertaken by the new shareholders, Hikari Tsushin, Inc. and Pacific Century CyberWorks Limited in March 2000. Since then, the Group has been actively looking for investment opportunities in the information technology sector. The Group is principally engaged in investing in Internet, Internet-related, mobile phone and mobile phone-related activities, the manufacture and trading of batteries, silicone rubber products and electronic finished products as well as the trading of electronic parts and components.

RESULTS

The Group's overall turnover for the sixteen-month period ended 31 July 2001 amounted to HK\$766,117,000, compared with HK\$493,149,000 for the year ended 31 March 2000.

For the sixteen-month period ended 31 July 2001, the Group's loss attributable to shareholders was HK\$155,976,000, compared with the loss of HK\$114,381,000 for the year ended 31 March 2000. The loss per share for the period was HK3.3 cents (loss per share for the year ended 31 March 2000: HK9.0 cents). The loss for the period under review was mainly due to impairment loss on investments of HK\$150 million, and loss before tax incurred by the Manufacturing Business of approximately HK\$31 million.

In light of the Group's performance, the Board does not recommend the payment of any dividends for the period under review.

BUSINESS REVIEW

Investment Business

The results for the sixteen-month period under review witnessed the transformation of the Group. The Group established its Investment Business in March 2000 and primarily invested in technology and telecommunication related companies that create not only value, but also synergic enhancement among invested companies and the Group in the Asia-Pacific region excluding Japan. During the period under review, the Group has acquired a total of sixteen long-term investments at an aggregate sum of approximately HK\$462 million, and out of which, seven investments were acquired from the holding company, Hikari Tsushin, Inc. However, the capital market, especially the information technology sector, has been volatile. Some of the investments made by the Group have undergone business model restructurings to cope with the market changes, but a few of them have lost the competitiveness. To reflect the unpredictable market condition and after considering the fundamental of the invested companies, the Group has reduced the fair value of long-term investments by HK\$268 million, among which, HK\$150 million was charged to the profit and loss account as impairment loss on investments and the balance of HK\$118 million was debited to investments revaluation reserve account.

Since the current global economy and investment markets are unfavourable especially after the plunge of technology and telecommunication stocks, the Group has adopted a cautious investment approach and slowed down the investment activities so as to maintain its flexibility and capacity for investments when the investment sentiment improves in future. The Group has increased its involvement in the strategic operations of the invested companies by assisting them in developing new business models and/or helping them in consolidating through mergers and acquisitions whereby they could pass through the current difficulty in the sectors.

The following are brief description of those investments of which the Group has held minority stakes as of 31 July 2001:

8848.net, www.8848.net, is an e-Commerce company in China. It owns and operates the most versatile and powerful service support system in the nation. 8848 provides a full selection of e-Commerce services and solutions to a variety of expanding enterprises.

@Network, www.atnetworkinc.com, is an outsourced service provider of Internet infrastructure, managed services and enhanced network services to companies expanding to the rapidly growing marketplaces in the Asia-Pacific region. The company builds and operates a network of owned and leased Internet Data Centers in the region. Through these centres, it provides secure, reliable Internet infrastructure that enables its customers to deploy mission critical applications quickly and cost-effectively throughout the Asia-Pacific region.

antfactory, www.antfactory.com, is a global investment firm which operates a Corporate Investment Network that spans sixteen offices in Europe, Asia, and North and South America. antfactory's investment strategy is to invest in or with established businesses that have substantial growth opportunities through the use of new technologies.

Asia Online, www.asiaonline.net, provides a comprehensive suite of Internet-related services and end-to-end solutions, ranging from business grade connectivity, hosting and managed services to web and professional services, in Australia, China, Hong Kong, Malaysia, New Zealand and the Philippines.

Cyber Business Network, www.cbn.com.sg, is an Internet solutions provider. It establishes itself as a bilingual web publisher, especially in the development of bilingual portals, websites, e-Commerce infrastructure, multimedia production and system integration.

Chinaproducts.com, www.chinaproducts.com, is a Business to Business trade portal specialised in promoting international trade for manufacturers and trading companies from the Great China by means of its rich foreign trade experience and advanced Internet technology.

Commission Junction, www.cj.com, is the largest pay-for-performance advertising network, which allows online advertisers to acquire more customers and online publishers to earn the most revenue from their audience. By publishing payment and conversion statistics on advertisers, publishers, and advertisements within its network, Commission Junction offers the first open marketplace for online advertising. Commission Junction acts as a trusted third party managing the network, tracking and reporting on the advertisements in real time, and handling monthly commission payments to network members. The company serves more than 5 billion impressions per month, ranking it among the largest advertising networks in the world, and the only one operating entirely on a pay-for-performance basis.

HC International ("HC") (formerly known as: Wisenet), www.sinobnet.com, is a leading provider of business information services in China, covering a full range of value-added services along the information value chain, which includes self-owned media, advertisement wholesale, data and research and software and content solutions. Through industry-specific websites and printed trade periodicals, its customers can reach potential customers, suppliers and business partners. HC currently operates nineteen websites and distributes over 80 printed national and regional trade periodicals.

Intelligent (formerly known as: TOeCom), www.intelligent.com, is an enterprise-level business application solution provider. It provides enterprises, institutions and government organisations with consultancy and services in the areas of management and electronic and information construction, planning, development and implementation of application systems, improvement and scaling of application systems, and integration service of enterprise applications.

Internet Auction, www.auction.co.kr, operates a Korean website specialising in online auction businesses. As of 31 July 2001, it has accumulated 4 million registered users, 1,844 B2C vendors and 2,986 B2B member companies. It ranked first among online auction sites with a 79% brand recognition rate (source: KMA, April 2001). Internet Auction was listed on KOSDAQ on 15 June 2000 and eBay became the largest shareholder of the company on 15 February 2001.

MeetWorld Trade (formerly known as: MeetChina.com), www.meetworldtrade.com, is a leading business to business e-Commerce company focused on online cross-border trade between emerging and developed economies. Founded as MeetChina.com in 1998, the company's transition to MeetWorld Trade reflects its expansion into five new countries and its launch of updated sourcing services that combine online and offline resources, delivering value throughout the trade process.

Outblaze, www.outblaze.com, is in the business of development and provision of multilingual Internet community solutions ("portal solutions") suitable for organisations that wished to offer their own private label Web technologies and services without the hassle and cost of developing or purchasing expensive platforms. Outblaze develops, manages, and offers innovative Internet services and platforms, and also provides I.T. consulting services to clients of all natures and specialisations.

PAXNet, www.paxnet.co.kr, is Korea's largest financial portal, and operates an Internet site that handles news and information on financial markets and investment consulting. As the financial solution provider, PAXNet also offers an array of pay services including interactive Web broadcasting (Live PAX) and automated stock signal system (PAX Signal). Targeting the fast-growing Web-based financial service market in the Asia-Pacific region, PAXNet has established its branches in Japan, Taiwan and Hong Kong, which will all be incorporated into its planned Pacific Asian exchange.

Skylove, www.skylove.com, has its goal to be world-wide No.1 Commu-Tainment site with 7 million registered members and 20 million average daily pageview as of 31 July 2001. Sites that Skylove Co., Ltd. operates are Skylove.com (offering chatting, game, community, Mobile-Internet link, finding lost school friends and shopping mall services), Skyday.com (multi-contents mall providing movie, comics, education, animation, adults, and fortunes), SkyloveU.com (matching service including ideal type search, self-arranged blind meeting, propose, meeting hosting, characterisation, connecting the Mobile and the Web services) and E-mocon, a desk-top portal Internet integrated messenger. Skylove will continue to stand at the frontier while surmounting limits of media or regions e.g. wired to wireless, PC to Post-PC, internal to international and etc.

Sohu.com, www.sohu.com, is China's premier online brand and an indispensable part of the daily life of millions of Mainland Chinese who use the portal for their e-mail, home page, chat, messaging, news, search, browsing and shopping. The Sohu.com portal consistently tops the list of web properties in the surveys of Iamasia, the Internet measurement company for the Asia-Pacific region. The Company successfully completed an initial public offering on the NASDAQ national market in July 2000.

STAREASTnet.com, www.stareastnet.com, is one of the first Chinese-language Internet media companies to provide interactive multimedia entertainment and lifestyle information to the global Chinese community worldwide. STAREASTnet.com strives to become the pre-eminent vertically integrated Internet content provider, as well as a leading platform for exclusive and trend-setting entertainment content, products and services. It also licenses content, and provides I.T. and multimedia consulting services. STAREASTnet.com was listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 1 June 2000.

Manufacturing Business

The slow down of the world-wide economy has unfavourable impacts on Hong Kong manufacturers. The sluggish market condition has caused most of our battery competitors to cut their prices in order to compete for orders to maintain their production capacity utilisation. Our Battery Division has to adjust prices to maintain its market share and turnover, which led to its unsatisfactory performance. Nevertheless, our Silicone Rubber Products Division performed well for the period under review due to its focus on product quality which can satisfy sophisticated customers. However, the electronic market condition for the first seven months of 2001 was worse than we expected at the beginning of this year. In view of the price competition and the cautious customers' orders which led to the drop in orders and gross profit, our Electronic Finished Products Division has been transforming from the production of low-end products to high-end products. We are now serving several multinational toys corporations by offering them original design manufacturing (ODM) products with high level of interactive features. Due to the unforeseen delay in the launching of customers' new products, our electronic finished products could not generate sufficient turnover to cover the corresponding increased overhead cost.

As a result of the above factors, the Manufacturing Business recorded a loss of approximately HK\$31 million for the period under review.

PROSPECT

Global economic and investment environment has turned to be more difficult following the collapse of NASDAQ and the recent terrorist attack on the US. As it is expected that the investment climate will remain difficult in the near future, we believe that it is appropriate to adopt a more cautious investment strategy. Nevertheless, the focus is continuously put on the technology and telecommunication sectors that are believed to be the strongest growth sectors among all other industries in the long run.

The Group has great confidence in the Mainland China as China's WTO accession will cushion the Chinese economy from the slowdown of the OECD economies. The accession will continue to offer promising opportunities for investors in the technology and telecommunication sectors. Among the few countries, China will have substantial domestic demand in terms of new subscriptions of Internet and mobile phone related facilities. Therefore, the Group continues to focus on the technology and telecommunication sectors and to explore and identify investment targets with growth potential in China and the Asia-Pacific region excluding Japan.

On the manufacturing side, the weak global electronic consumer markets will continue to affect most of the manufacturers in Hong Kong. Our Electronic Finished Products Division will be cautious in this uncertain market condition. With this destabilised market condition, the Manufacturing Business has implemented cost cutting measures, including streamlining its structure, so as to strengthen its products' competitiveness. As it is foreseeable that some of our competitors will leave the market due to poor economic environment and insufficient capital, and taking into account of China's WTO accession as well as the Group's sufficient resources, there will be more opportunities for the Group to explore and expand its market share.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere appreciation for the valuable efforts of our Directors including those served the Board as Directors during the period under review, management and employees for their contributions to the Group. I also thank our business associates, investors and bankers for their continued support over the years.



Suzuki Masanori
Chairman

Hong Kong, 16 October 2001