

Press Release



October 1, 2012

To our Shareholders

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Notice regarding e-machi town Co.,Ltd. becoming a Wholly-Owned Subsidiary of Hikari Tsushin, Inc. through a Share Exchange

We hereby give notice that Hikari Tsushin, Inc. (Hikari Tsushin) and e-machi town Co.,Ltd.(e-machi town) have decided to conduct a share exchange (the “Share Exchange”) in which Hikari Tsushin will become the sole parent company of e-machi town and e-machi town will become a wholly-owned subsidiary of Hikari Tsushin through the Share Exchange, and the parties have entered into a Share Exchange Agreement (the “Share Exchange Agreement”) with each other.

Hikari Tsushin plans on conducting the Share Exchange without obtaining approval by a resolution of its general meeting of shareholders through procedures for a simplified share exchange pursuant to provisions of Article 796, paragraph 3 of the Companies Act, while e-machi town plans on conducting the Share Exchange with obtaining approval by a resolution of its general meeting of shareholders scheduled to be held in November 30, 2012.

Further, prior to the effective date of the Share Exchange (January 1, 2013), it is expected that the common stock of e-machi town will be delisted from the Tokyo Stock Exchange, Inc. (the “Tokyo Stock Exchange”) on December 26, 2012 (with December 25, 2012 as the final trading date).

1. Purpose of making e-machi town a wholly –Owned Subsidiary of Hikari Tsushin through the Share Exchange

Hikari Tsushin established in 1988 has conducted its business under the concept of offering total support in the field of information and communication environment. Hikari Tsushin aiming at becoming a largest distributor in Japan has tried to offer products such as OA equipment, infrastructure, Internet services, mobiles and office supplies in fastest,

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cheapest, and most appropriate ways. In 1999, Hikari Tsushin went public on the first section of the Tokyo Stock Exchange, and since then, Hikari Tsushin has accumulated its own knowledge as a distributor and has promoted its business model with the expansion of its sales channels throughout Japan.

On the other hand, e-machi town established in 1995 under the name of Crayfish, Inc. has offered mail hosting services for SME in the concept of spreading Internet services among everyone. In 1999, e-machi town became a consolidated subsidiary of Hikari Tsushin, and the name of the company was changed into current “e-machi town” mainly for the purpose of spreading its own services (portal site named “e-machi town”). During that time, e-machi town changed its core business from mail hosting services to Internet media services specialized in sales and purchases of advertisement and an operation of own web site.

However, the surrounding business environment has been rapidly changed especially in the mobile market. For example, smartphones have been taken place by feature phones. As the appearance of highly functional devices represented by smartphones and other tablet devices, the boundary between Internet and mobile has become blur. In this situation, even though e-machi town has tried to find a way of expanding its business model, it has become difficult to avoid a decline of its revenue caused by some negative factors such as the shrink of existing mobile advertising market and so forth. In order to overcome these difficulties and adapt to a changeable and a competitive market, it is necessary for e-machi town to take some actions for reinforcing its business model. Under these conditions, e-machi town recognized the necessity of an enhancement of operational efficiency and reached a decision to pursue this by becoming a wholly-owned subsidiary of Hikari Tsushin through the Share Exchange.

For Hikari Tsushin as well, the Share Exchange with e-machi town is also beneficial. Considering the situation in which the demand of services in the mobile market has been rapidly increased, the integration with e-machi town who has mainly conducted its business in the mobile market enables Hikari Tsushin to increase in value of its own services. In order to offer a variety of services which satisfy the needs of customers in a changeable market, Hikari Tsushin regards the Share Exchange with e-machi as beneficial.

e-machi town predict that the Share Exchange with Hikari Tsushin may create synergy by sharing the size of Hikari Tsushin in terms of sales techniques, management works, product developments, and sales channels as well as funds, human resources and information networks. From now on, the collaboration with Hikari Tsushin will be expected such as selling products of Hikari Tsushin through the media of e-machi town. Moreover, becoming a wholly-owned subsidiary of Hikari Tsushin may minimize the potential conflict of interest transactions caused by the fact that Hikari Tsushin and e-machi town are both being listed

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on Tokyo Stock Exchange. From now on, e-machi town will try to pursue the increase of the profit and the value of the company as a member of Hikari Tsushin group.

2. Overview of the Share Exchange

(1) Timeline of the Share Exchange

Board of Directors Meeting for Resolution for the Share Exchange	October 1, 2012
Execution of the Share Exchange Agreement	October 1, 2012
Record Date of Shareholder's Meeting (e-machi town)	October 16, 2012 (tentative)
Date of Shareholder's Meeting (e-machi town)	November 30, 2012 (tentative)
Final Trading Date (e-machi town)	December 25, 2012 (tentative)
Delisting Date (e-machi town)	December 26, 2012 (tentative)
Scheduled Share Exchange Date	January 1, 2013 (tentative)

(2) Method of the Share Exchange

In the Share Exchange, Hikari Tsushin will become the sole parent company of e-machi town and e-machi town will become a wholly-owned subsidiary of Hikari Tsushin. Hikari Tsushin plans on conducting the Share Exchange without obtaining approval by a resolution of its general meeting of shareholders through procedures for a simplified share exchange pursuant to the provisions of Article 796, paragraph 3 of the Companies Act, while e-machi town plans on conducting the Share Exchange with obtaining approval by a resolution of its general meeting of shareholders scheduled in November 30, 2012.

(3) Details of Allocations pertaining to the Share Exchange

	Hikari Tsushin, Inc (Parent Company)	e-machi town Co.,Ltd. (Wholly- owned Subsidiary)
Exchange Rate	1	50.0

(Note 1) Exchange Rate

Hikari Tsushin plans on delivering, in accordance with the Share Exchange Agreement, funds to the shareholders of e-machi town (except for Hikari Tsushin) as of the day immediately preceding the effective date of the Share Exchange at the exchange rate shown above.

(Note 2) Shares issued for the Share Exchange

Hikari Tsushin will not issue new shares for the Share Exchange. Hikari Tsushin expects to use its treasury shares 353,100 shares (estimate) for the Share Exchange.

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Further, e-machi town plans on cancelling immediately before the Share Exchange takes effect all of its own shares that it hold at that time through a resolution of its board of directors held on or before the day immediately preceding the effective date. The number of shares issued for the Share Exchange may be changed if e-machi town purchases or cancel its own shares.

(Note 3) Exchange of shares less than one trading unit

e-machi town shareholders with Hikari Tsushin shares less than one trading unit of 100 shares after the Share Exchange will not be able to trade their shares on the stock exchange market. Such shareholders may, however, use the following dealing services.

a. Sale of shares of less than a trading unit of 100

Pursuant of Company Law of Japan Article 192 section 1, shareholders with shares of less than a trading unit of 100 shares can request Hikari Tsushin purchase such shares by delivering the shareholder a cash payment.

b. Additional of Hikari Tsushin shares to make a trading unit of 100 shares

At the effective date of the Share Exchange, there is no provision in the articles of incorporation with respect to the issue of share certificate representing shares less than one unit. However, Hikari Tsushin is going to submit a bill at the shareholders' meeting scheduled to be held in June, 2013 for amending the article of incorporation which enables the company to issue share certificate representing shares less than one unit. After the bill is approved at the shareholders' meeting, those who have less than one unit of its shares can demand the increase of its shares till one unit from Hikari Tsushin and exercise voting right at a shareholders' meeting as well as sell or buy its shares in stock markets.

(4) Handling of Share Options and Bonds with Share Options of the Wholly-Owned Subsidiary

About the share options issued by e-machi town, e-machi town will acquire all of the issued share options freely and cancel them subject to approval by the shareholder's meeting of e-machi town scheduled in November 30, 2012.

3. Details of Allocations pertaining to the Share Exchange

(1) Basis of Calculation

In order to ensure the fairness and appropriateness of the funds to be delivered upon the Share Exchange, Hikari Tsushin and e-machi town have each individually requested an appraisal of the share price of e-machi town by a third- party appraiser that is independent

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from Hikari Tsushin and e-machi town, and Hikari Tsushin has appointed American Appraisal Japan Co., Ltd. (“American Appraisal”) as its third-party appraiser and e-machi town has appointed AKJ partners Tax Corporation (“AKJ partners”) as its third-party appraiser.

American Appraisal has conducted its appraisal of the shares of both Hikari Tsushin and e-machi town using the average market share price method (in light of conditions, the closing share price on the First Section of the Tokyo Stock Exchange for Hikari Tsushin, and on the Mothers of the Tokyo Stock Exchange for e-machi town on September 28, 2012, which is the appraisal date, and the average closing share price for each trading day during the period of the most recent one month and the most recent three months) because both Hikari Tsushin and e-machi town is listed on a financial instruments exchange and a market share price exists with respect to the shares of Hikari Tsushin and e-machi town and the comparable company analysis method because there are multiple similar listed companies that can be compared with Hikari Tsushin and e-machi town and it is possible to analogize those share prices using the comparable company analysis method, and American appraisal has used the discount cash flow method (the “DCF Method”) in order to also reflect the future business activities of Hikari Tsushin and e-machi town.

The appraisal range of the share price per share of e-machi town is as follows.

Method	Share price appraisal range per share
Average market share price method	50.74–51.00
Comparable company analysis method	51.16–52.18
DCF method	35.04–37.76

American Appraisal’s evaluation are based on the assumption that information disclosed by the two companies and information in the public domain are accurate and complete, and that there is no information that the two companies have not provided and that may have an effect on such evaluations etc. American Appraisal did not conduct its own evaluation or assessment on each asset and liability of both companies. Also, American Appraisal referred to financial forecast of both companies for such calculation under assumption that Hikari Tsushin will experience an increase in performance while e-machi town will predict a decline in its earnings.

AKJ partners has conducted its appraisal of the shares of both Hikari Tsushin and e-machi town using the average market share price method (in light of conditions, the closing share price on the First Section of the Tokyo Stock Exchange for Hikari Tsushin, and on the Mothers of the Tokyo Stock Exchange for e-machi town on September 28, 2012, which is

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the appraisal date, and the average closing share price for each trading day during the period of the most recent one month and the most recent three months) because both Hikari Tsushin and e-machi town is listed on a financial instruments exchange and a market share price exists with respect to the shares of Hikari Tsushin and e-machi town and the comparable company analysis method because there are multiple similar listed companies that can be compared with Hikari Tsushin and e-machi town and it is possible to analogize those share prices using the comparable company analysis method, and AKJ partners has used the discount cash flow method (the “DCF Method”) in order to also reflect the future business activities of Hikari Tsushin and e-machi town.

The appraisal range of the share price per share of e-machi town is as follows.

Method	Share price appraisal range per share
Average market share price method	47.67 – 66.49
Comparable company analysis method	81.56 – 106.43
DCF method	42.04 – 51.00

AKJ partner’s evaluation are based on the assumption that information disclosed by the two companies and information in the public domain are accurate and complete, and that there is no information that the two companies have not provided and that may have an effect on such evaluations etc. AKJ partners did not conduct its own evaluation or assessment on each asset and liability of both companies. Also, American Appraisal referred to financial forecast of both companies for such calculation under assumption that Hikari Tsushin will experience an increase in performance while e-machi town will predict a decline in its earnings.

(2) Background of the Appraisals

Hikari Tsushin and e-machi town have conducted repeated negotiations and discussions with respect to the valuation of the shares of e-machi town in reference to the appraisal results of the share price submitted by the above third-party appraisers appointed by each party and in light of the conditions of financial conditions and current stock movement of both companies. Consequently, Hikari Tsushin and e-machi town decided to conduct the Share Exchange for the funds to be delivered under section 2(3) above (Details of Allocations pertaining to the Share Exchange) through the resolutions of the respective board of directors meetings of Hikari Tsushin and e-machi town held on October 1, 2012 and have executed a Share Exchange Agreement between the parties on the same date because Hikari Tsushin and e-machi town determined that the funds to be delivered upon

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the Share Exchange described in Section 2(3) above (Details of Allocations pertaining to the Share Exchange) are reasonable and the interests of the shareholders of each party will not be harmed by the Share Exchange.

(3) Relationships with the Appraisers

American Appraisal and AKJ partners, which are the third-party appraisers of Hikari Tsushin and e-machi town respectively, are independent from Hikari Tsushin and e-machi town, and neither American Appraisal nor AKJ partners constitutes a related party of or has an important relationship with Hikari Tsushin and e-machi town.

(4) Likelihood of the Delisting of the Share and the Reasons for that Delisting

As a result of the Share Exchange, on January 1, 2013, which is the effective date of the Share Exchange, e-machi town will become a wholly-owned subsidiary of Hikari Tsushin, and it is expected the common stock of e-machi town will be delisted on December 26, 2012 (with December 25, 2012, as the final trading date) through prescribed procedures in accordance with the delisting criteria of the Tokyo Stock Exchange. Trading of the common stock of e-machi town will become unavailable on the Tokyo Stock Exchange after the delisting.

(5) Measures to Ensure Fairness

In order to ensure the fairness and appropriateness of the funds to be delivered upon the Share Exchange as explained in Section (1) above (Basis of Calculation) because Hikari Tsushin holds 70.32% of the total issued shares of e-machi town, each party has requested a third-party appraiser that is independent from both parties to conduct an appraisal of the share price of e-machi town, and each party has obtained appraisal results from its respective appraiser. Both parties have conducted considerations, negotiations, and discussions with reference to those appraisal results, and both parties have decided to conduct the Share Exchange at the exchange price that has been agreed to as a result of those considerations, negotiations and discussions. Neither party has obtained from either third-party appraiser an opinion on the fairness of the exchange price (a so-called "fairness opinion"). Moreover, e-machi town obtained an opinion from Idesawa & Partners, its legal advisor, on matters such as the legality of the Share Exchange.

(6) Measures to Avoid Conflicts of Interests

As e-machi town is a consolidated subsidiary of Hikari Tsushin, procedures which are shown below was taken to avoid conflicts of interests.

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Within 6 directors of e-machi town, Mr. Koyama who is also a department manager of Hikari Tsushin did not attend any meetings of the board of directors of e-machi town nor the negotiations and discussion related to the Share Exchange with Hikari Tsushin. All directors other than Mr. Koyama were present at the meeting of the board of directors of e-machi town held on today and carefully considered the funds to be delivered upon the Share Exchange and other conditions. As a result, a resolution approving the Share Exchange was unanimously passed by the directors present at the meeting of the board of directors of e-machi town held on this day.

Within 3 auditors of e-machi town, Mr. Otsuka who is also an operating officer of Hikari Tsushin did not attend any meetings of the board of directors of e-machi town nor the negotiations and discussion related to the Share Exchange with Hikari Tsushin. All auditors other than Mr. Otsuka were present at the meeting of the board of directors of e-machi town held on today, and stated no objection for the Share Exchange.

4. Overview of the Companies conducting the Share Exchange

	Hikari Tsushin, Inc	e-machi town Co.,Ltd.
(1) Name	Hikari Tsushin, Inc	e-machi town Co.,Ltd.
(2) Location	1-4-10, Nishi-Ikebukuro, Toshima-ku, Tokyo	3-13-5, Minami-Ikebukuro, Toshima-ku, Tokyo
(3) Representative	Takeshi Tamamura, President and COO	Toshiaki, Sakari, President and COO
(4) Business	Sales of Office automation equipment, telecommunications line services	Media Advertising Business, Business solutions
(5) Stated Capital	54,259 million yen	1,410 million yen
(6) Date of Establishment	February 5, 1988	October 16, 1995
(7) Total Number of Issued shares	58,349,642shares	23,800shares
(8) Fiscal period	March 31	March 31
(9) Total Number of Employees	8,570 (consolidated)	332 (consolidated)

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(10)	Major Shareholders and shareholding ratios	Hikari power, Ltd	34.88%	Hikari Tsushin, Inc	70.32%	
		Yasumitsu Shigeta	13.39%	Mellon Bank, N.A. Treaty Client		
		Tetsu, Ltd	1.89%	Omnibus	2.52%	
		Masa, Ltd	1.89%			
		Mitsu, Ltd	1.89%			
(11) Relationship between the Companies						
	Capital Relationship	Hikari Tsushin holds 16,738 shares (70.32%) of the total number of issued shares of e-machi town				
	Personal Relationship	1 outside director and 1 auditor of e-machi town are employees in Hikari Tsushin				
	Business Relationship	There are no business relationships worth stating between Hikari Tsushin and e-machi town				
	Possibility of being regarded as a Related party	e-machi town is a consolidated subsidiary of Hikari Tsushin and constitute a related party.				
(12) Operation Results and Financial Status of the Latest 3 Years						
Fiscal Period (million yen)	Hikari Tsushin, Inc (consolidated)			e-machi town Co.,Ltd.(consolidated)		
	Period ending March 2010	Period ending March 2011	Period ending March 2012	Period ending March 2010	Period ending March 2011	Period ending March 2012
Consolidated net assets	114,046	109,411	106,167	7,727	7,880	6,805
Consolidated assets	217,552	228,885	231,097	9,045	10,349	8,661
Consolidated net assets per share (yen)	1,967.93	1,879.76	1,924.65	328,193.11	317,154.84	275,008.13
Consolidated net sales	349,097	449,050	499,305	3,528	10,140	13,278
Consolidated operating income	3,847	2,594	18,371	422	1,045	635
Consolidated ordinary income	2,817	1,159	17,627	433	776	138

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Consolidated current net income	755	(701)	7,828	66	34	(672)
Consolidated net income per share (yen)	13.51	(13.02)	149.58	2,960.09	1,516.10	(29,744.46)
Dividend per share (yen)	60	60	70	5,000	10,000	10,000

(Note 1) As of March 31, 2012

(Note 2) Fiscal period of e-machi town ending March 31, 2010 was for six month from October 1, 2009 to March 31, 2010 due to the change of its fiscal period.

5. Status after the Share Exchange

	Hikari Tsushin, Inc
(1) Name	Hikari Tsushin, Inc
(2) Location	1-4-10, Nishi-Ikebukuro, Toshima-ku, Tokyo
(3) Representative	Takeshi Tamamura, President and COO
(4) Business	Sales of Office automation equipment, telecommunications line services
(5) Stated capital	54,259 million yen
(6) Fiscal period	March 31
(7) Assets	Unable to confirm at present
(8) Net assets	Unable to confirm at present

6. Overview of Accounting Procedures

The Share Exchange is expected to constitute a transaction under common control that is a transaction with minority shareholders. It is expected negative goodwill will arise in connection with the transaction, but the amount of any negative goodwill to arise is presently unclear.

7. Future Outlook

e-machi town is already an consolidated subsidiary of Hikari Tsushin, so the impact of the Share Exchange on the performance of both Hikari Tsushin and e-machi town is examined to be a minor one.

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8. Matters concerning Transactions with the Controlling Shareholder

Hikari Tsushin holds 70.32% of the total number of issued shares of e-machi town, and for e-machi town the Share Exchange constitutes a transaction with its Controlling Shareholder. e-machi town has set out as its “Guidelines on Measures to Protect Minority Shareholder” in its corporate governance report published on June 29, 2012 guidelines that state even though there are transactions between a parent company and affiliate companies, business terms are determined on a same basis with other transactions, e-machi town maintains a system to protect its minority shareholders by ensuring that there is some independence from its parent company.

Moreover, e-machi town obtained from Mr. Ueda who is an outside auditor of e-machi town an opinion that e-machi town’s taking procedure to become a wholly owned subsidiary of Hikari Tsushin under the Share Exchange will be considered not against minority shareholder’s interest as the result of comprehensive review of such matters that the purpose of the Share Exchange is to enhance its management base, the procedures to ensure the fairness of the Share Exchange is taken properly as explained in Section 3 (5) above and Section (7) above. Therefore, it is believed that those acts will be in compliance with the above guidelines.

(Reference) Consolidated Performance Forecasts for the Current Term and Consolidated Performance for the Previous Term

Hikari Tsushin, Inc (Consolidated Performance Forecasts for the Current term released on August 10, 2012)

(million yen)	Consolidated net sales	Consolidated operating income	Consolidated ordinary income	Consolidated current net income
Consolidated Performance Forecasts for the year ending March 31, 2013	510,000	24,000	23,000	13,000
Consolidated Performance for the Previous Term (Fiscal year ended March 31, 2012)	499,305	18,371	17,627	7,828

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e-machi town Co.,Ltd. (Consolidated Performance Forecasts for the Current Term released on August 9, 2012)

(million yen)	Consolidated net sales	Consolidated operating income	Consolidated ordinary income	Consolidated current net income
Consolidated Performance Forecasts for the year ending March 31, 2013	11,000	750	650	50
Consolidated Performance for the Previous Term (Fiscal year ended March 31, 2012)	13,278	635	138	(672)

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