Annual Report 1999

Shedding Light on a Global Strategy for Growth

KOITO

Profile

KOITO MANUFACTURING CO., LTD. has led to the way in optics since 1915, when it developed the fresnel lens for Japan's first railway signals.

Today, the Company's integrated optical and electronic technologies – as applied in its lighting equipment for automobiles, aircraft parts, and other products – continue a tradition of global innovation for safety.

Contents

Message From the President

Reinforcing Koito Group Power in a Severe Operating Climate

In fiscal 1999, the year ended March 31, 1999, Japan's economy remained mired in a severe recession with no signs of recovery. The pace of domestic automobile sales reflected this difficult climate. Although exports to the U.S. and Europe were higher, shipments to Asia declined as economic turmoil slowed demand. As a result, automobile production in Japan fell 7.5% from the previous fiscal year to 9.96 million units.

Despite these challenges, the Koito Group has been reinforcing its operating bases in all three major markets: the U.S., Europe and Asia. We are determined to position ourselves to succeed in the next century. During the past year, North American Lighting, Inc., THAI KOITO COMPANY LIMITED and Koito Europe Limited became subsidiaries. The Koito Group, including foreign subsidiaries, affiliates and overseas technical associates, has 18% of the global OEM market for automotive lighting equipment and 19% for signalling lamps.

Expanded Consolidation Creates Significant Sales Gains

In fiscal 1999, the Koito Group switched to the principle of actual control as the standard for consolidation. This expanded the scope of consolidation to include most Koito Group members, including the seven foreign subsidiaries. Largely because of this increase, consolidated sales rose ¥49,800 million from the previous year to ¥275,934 million. Regarding earnings, groupwide efforts were made to streamline operations and cut costs. However, profit margins fell as production volumes in the non-automotive electrical equipment divisions declined. Consequently net income fell ¥400 million from the previous fiscal year to ¥3,846 million.

Changes in Europe and Corporate Reform

Demand for automotive lighting equipment has matured in Japan. However the global market will continue to expand. To exploit this trend, we have adopted a strategy of converting foreign affiliates into subsidiaries. In Europe, Britax Vega Limited became a wholly owned subsidiary at the end of March 1999. Now renamed Koito Europe Limited, the company will become the cornerstone of our operations in this part of the world. Its product line, which was limited until recently to signalling lamps, has been expanded to include headlamps. In June, we were officially designated a member of Europe's Advanced Front Lighting Systems (AFS) project, demonstrating the excellent reputation of our technical expertise in Europe. We opened a Europe technical center in Belgium to assist European automobile manufacturers in product development. This should lead to higher level of orders in Europe. In Japan, Nissei Industries Co., Ltd. and Koa Electric Co., Ltd. were merged on April 1, 1999. These companies are specialized manufacturers of miniature bulbs and electrical equipment. The merger will bolster the Koito Group's stature in this field by eliminating overlapping R&D efforts and creating an organization that can better withstand competitive forces. In this manner, we are transforming the Koito Group into an entirely new entity as we approach the 21st century. We believe that even greater accomplishments lie ahead for the Koito Group and, on behalf of the management, I respectfully ask for your continued understanding and support.

Junsuke Kato

Junsuke Kato
President
September 1999

Overseas Network

The Koito Group's Global Strategy

Automobile output in Japan has fallen below the 10 million level and no substantial growth is likely in the future. On a global scale, however, the automobile industry will continue to expand. As this growth takes place, Koito is determined to raise its worldwide market share by upgrading R&D and manufacturing capabilities throughout the entire group.

Koito started establishing operations outside Japan in the 1980s. Presently, there are production facilities in seven major overseas markets: U.S., Thailand, U.K., China, Taiwan, South Korea and India. During fiscal 1999, which ended March 31, 1999, the joint-venture manufacturing companies in the U.S., Thailand and U.K. each became Koito subsidiaries. The seven overseas manufacturing companies, all of which had been equity-method affiliates in the prior fiscal year, became consolidated subsidiaries in fiscal 1999. These seven companies draw on Koito's expertise in automotive lighting to supply products that meet local requirements. They sell products to the U.S. Big Three and other leading automobile makers in all parts of the world.

Inhee Lighting Co., Ltd.

KOITO MANUFACTURING CO., LTD.

North American Lighting, Inc.

Ta Yih Industrial Co., Ltd.

THAI KOITO COMPANY LIMITED

The Koito Group

KOITO MANUFACTURING CO., LTD.

Founded:	April 1, 1915
Incorporated:	April 1, 1936
Head office:	Takanawa, Minato-ku, Tokyo, Japan
President:	Junsuke Kato
Business lines:	Automotive lighting equipment, aircraft parts, other products
Capital:	¥14,270 million (non-consolidated)
Sales:	¥143,215 million (non-consolidated) in year to March 1999
Employees:	4,601 (end of March 1999, non-consolidated)
Major customers:	TOYOTA MOTOR CORPORATION, NISSAN MOTOR CO., LTD., MITSUBISHI MOTORS CORPORATION, Mazda Motor Corporation, SUZUKI MOTOR CORPORATION, DAIHATSU MOTOR CO., LTD., Fuji Heavy Industries Ltd., HONDA MOTOR CO., LTD., ISUZU MOTORS LIMITED, HINO MOTORS, LTD., NISSAN DIESEL MOTOR CO., LTD., Yamaha Motor Co., Ltd.

Technical Center

KOITO MANUFACTURING CO., LTD. ("Koito") is Japan's largest manufacturer of automobile lighting equipment. As the nucleus of the entire Koito Group, this company is focusing on reinforcing the group's operating base. In the past year ended March 1999, three overseas joint ventures were converted into subsidiaries: North American Lighting, Inc. (U.S.A.), THAI KOITO COMPANY LIMITED (Thailand) and Britax Vega Limited (U.K.).

Outside Japan, products are fabricated at network of 20 overseas bases, including the operations of overseas business partners receiving technical assistance. The goal is to double their combined sales to ¥120 billion by increasing production volumes. In comparison, Koito alone generated sales of ¥143,215 million in fiscal 1999. Less than 10% of this was exports from Japan because most overseas demand is met through local production.

Much growth in future production will come from gas discharge headlamps (GDHL). Plans call for raising annual output to 450 thousand pairs by fiscal 2000, 2.5 times more than in fiscal 1998. GDHL use the electro-discharge phenomenon to produce light with a balanced composition that is close to natural daylight and provides better visibility. Twice the brightness of conventional halogen lamps can be obtained with much less power consumption. Demand for GDHL is growing. Although this technology still cost about 3 to 5 times more than halogen lamps, prices are expected to fall as production volumes climb.

In June 1999, Koito became the first non-European company to become an official member of the Advanced Front Lighting System (AFS) project. The original 16 AFS project members are automobile and automobile parts manufacturers from six European countries and Koito participates on behalf of Japan. The purpose of the AFS project is the development of a system to control front lighting system in response to changes in driving conditions such as weather, the presence of cars and the surrounding area, and drawing up legislation to make them mandatory.

Environmental protection receives top priority at Koito. One illustrating is research that will lead to a shift in reflector manufacturing from FRP to thermo resin materials. FRP is a thermoset resin that does not decompose even at high temperatures. Thermo resin can be easily converted into pellets for recycling. With most research complete, Koito is now finalizing plans to commercialize a reflector made from a thermo resin.

North American Lighting, Inc. (U.S.A.)

Founded:	April, 1983
Head office:	Flora, Illinois, U.S.A.
President:	Daniel Robusto
Business lines:	Manufacturing and marketing automotive lighting equipment
Capital:	$18.5 million (¥2,220 million)
Major shareholders:	Koito 90%, Ichikoh Industries, Ltd. 10%
Sales:	$304.3 million(¥36,521 million) in year to May 1999
Employees:	Approximately 2,120
Major customers:	General Motors, Ford Motor Company, Daimler Chrysler, Toyota Motor Manufacturing Kentucky Inc., New United Motor Manufacturing Inc., Nissan Motor Manufacturing Corp.U.S.A., Honda Of America Manufacturing Inc.

North American Lighting, Inc. (NAL) has been manufacturing automobile lighting products and marketing them to all automobile manufacturers in North America, including Japanese car makers' transplants since 1983. NAL has become the largest independent automobile lighting equipment manufacturer in North America. The company began as a joint venture with Hella North America Inc., a wholly owned subsidiary in the U.S. of Hella KG Hueck Co., a German firm. In October 1998, Koito purchased equity interest in NAL owned by Hella North America, increasing its stake in NAL from 40% to 90%. Koito plans to give NAL the support it needs to expand aggressively in North America. Growth will be driven chiefly by rising production and sales to Toyota and the Big Three U.S. automobile manufacturers.

Koito Europe Limited (U.K.)

Established:	January, 1969 Became wholly owned Koito subsidiary in April 1999 and was renamed Koito Europe Limited
Head office:	Droitwich, Worcestershire, U.K.
Managing Director:	Lewis Anthony Morgan
Business lines:	Manufacturing and marketing automotive lighting equipment
Capital:	£1.00 million (¥200 million)
Major shareholders:	Koito 100%
Sales:	£26.26 million(¥ 5,252 million) in year to December 1998
Employees:	Approximately 500
Major customers:	Rover Group Ltd. (U.K.), Audi A.G.(Germany), General Motor Europe (U.K., Germany), Mazda Motor Corporation (Japan), Honda of the U.K. Mfg. Ltd. (U.K.) , Industrie Pininfarina (Italy),

Koito acquired 50% of the outstanding shares of Britax Vega Limited (BVL), which is based in Worcestershire, U.K., in May 1996 to enter the European automobile lighting equipment market. Koito increased its stake in the company in July 1998, buying an additional 16.7% interest from the partner Britax International Plc.(BI). Since Koito's capital interest increased to 66.7%, BVL became a Koito subsidiary. At the end of March 1999, Koito acquired BI's remaining interest in BVL, turning it into a wholly owned subsidiary. The company was renamed Koito Europe Limited in April to reflect this change. With BVL firmly in the fold, Koito will upgrade its European business and step up marketing to both European automobile manufacturers and the European operations of Japanese firms. BVL's production was limited until recently to signalling lamps. A headlamp production facility was completed at the end of 1998 that reached full-scale production in May 1999. Annual production is slated to rise to 400,000 pairs in 2001.

The Koito Group

Shanghai Koito Automotive Lamp Co., Ltd. (China)

Established:	February, 1989 (operation began in July 1989)
Head office:	Shanghai, China
Director, General Manager:	Xiang Song Nian
Business lines:	Manufacturing and marketing automotive lighting equipment
Capital:	111.14 million Yuan (¥ 2,400 million)
Major shareholders:	Koito 45%, Shanghai Automotive Industry Corporation (Group) 50%, Toyota Tsusho Corporation 5%
Sales:	421.7 million Yuan (¥6,325 million) in year to December 1998
Employees:	Approximately 680
Major customers:	Shanghai Volkswagen Automotive Co., Ltd., Shanghai General Motors Co., Ltd., FAW-Volkswagen Automotive Co., Ltd., Chongqing Changan Suzuki Automobile Co., Ltd.

Koito entered the Chinese market in February 1982 through a technical licensing agreement for automobile lighting equipment. Koito's presence continued to increase as China's automobile industry developed, leading to the establishment of Shanghai Koito Automotive Lamp Co., Ltd. as a joint venture with Shanghai Automotive Industry Corporation (Group) in February 1989. Koito had a 45% equity interest. Koito was the first Japanese auto parts manufacturer to enter the Chinese market. Shanghai Koito Automotive Lamp has grown by

supplying major automobile manufacturers in China, including Shanghai Volkswagen and Tianjin Mini-Car Works. In 1996, the company added capacity by completing a new plant in Shanghai and started supplying automobile lighting equipment to Shanghai GM in April 1999. The company's immediate goals are improving quality, remaining price competitive and enhancing product development to exploit the rapidly expanding Chinese automobile market.

THAI KOITO COMPANY LIMITED (Thailand)

Established:	August, 1986
Head office:	Samutprankarn Province, Thailand
President:	Teruhisa Machida
Business lines:	Manufacturing and marketing automotive lighting equipment
Capital:	365.2 million baht (¥1,460 million)
Major shareholders:	Koito 61.75%, Manoj Leegomonchai 25.50%, BDI 12.75% (Koito subsidiary since 1998)
Sales:	504.7 million baht (¥2,018 million) in year to December 1998
Employees:	Approximately 230
Major customers:	Toyota Motor Thailand Co., Ltd., Isuzu Motors Co., (Thailand) Ltd., Siam Nissan Automobile Co., Ltd., Auto Alliance (Thailand) Co., Ltd., MMC Sittipol Co., Ltd., Toyota Motor Corporation Australia Limited

Thailand has become one of Southeast Asia's most important automobile manufacturing countries. Most of the world's major automobile companies are now active there. Thai Koito was established in August 1986 and began full-scale production in February 1990. When the Thai baht crashed in July 1997, Thai Koito faced a crisis of its own because of debt denominated in U.S. dollars and Japanese yen. To reduce this debt and stabilize its operations, the company doubled its capital. Koito underwrote 74.5% of the capital increase in July 1998. As this raised Koito's ownership to 61.75%, Thai Koito became a subsidiary.

Longer term plans envision in-house production of headlight molds. As the first step, Koito has transferred lighting mold manufacturing equipment from Japan to Thai Koito. Preparations are now under way for the local production of molds for signalling lamp lenses, including those for rear combination lamps. The local mold production is scheduled to start in 2000. Thai Koito will serve as Koito's base for the supply of molds to Koito's production facilities in Japan, India & etc. When mold production is fully integrated, Thai Koito will become the Koito Group's core facility in Southeast Asia.

Inhee Lighting Co., Ltd. (Korea)

Established:	October, 1993
Head office:	Kyungju, Korea
President:	Jong-Chan, Lee
Business lines:	Manufacturing and marketing automotive lighting equipment
Capital:	2,000 million won (¥200 million)
Major shareholders:	Koito 50%, Apollo Industrial Co., Ltd. 50%
Sales:	57,877 million won (¥5,787 million) in year to December 1998
Employees:	Approximately 300
Major customers:	Hyundai Motor Company

In June 1997 Koito acquired an equity interest in Inhee Industrial Co., Ltd., an Apollo Industrial Co., Ltd. subsidiary which supplied signalling lamps to Hyundai Motor Company. At that time the company was renamed Inhee Lighting. Thereafter, Koito provided technical assistance to set up production facilities for headlamps. The company started supplying headlamps to Hyundai's Verna model, thus establishing its position as an integrated manufacturer of automobile lighting equipment. The company has an annual production capacity of headlamps for 300,000 cars and signalling lamps for 1,000,000 cars. The company is expanding its market share by increasing supplies of lighting equipment to Hyundai.

Ta Yih Industrial Co., Ltd. (Taiwan)

Established:	November, 1964 (Koito acquired an equity interest in June 1988)
Head office:	Tainan, Taiwan
President:	Charles C. Lin
Business lines:	Manufacturing and marketing automotive lighting equipment
Capital:	NT$693 million (¥2,772 million)
Major shareholders:	Koito 32.5%, Wu family 39.7%, Listed on the Taiwan stock exchange in 1997.
Sales:	NT$2,090 million (¥8,360 million) in year to December 1998
Employees:	Approximately 650
Major customers:	Kuozui Motors, Ltd., Yulon Motor Co., Ltd., Ford Lio Ho Motor Co., Ltd.

In June 1988, Koito acquired an equity interest in Ta Yih Industrial, Taiwan's top automobile lighting equipment manufacturer. This company supplies automobile lighting equipment to all Taiwanese automobile manufacturers and has a dominant market position. Ta Yih Industrial makes 94% of headlamps and 85% of signalling lamps shipped in the country. Listed on Taiwan stock exchange in October 1997, the company is now recognized as one of Taiwan's leading companies. Since Taiwan's automobile market is mature, plans call for exporting lighting equipment, supplying components to the Koito Group, expanding sales of metal molds and increasing sales of lighting equipment for motorcycles.

The Koito Group

India Japan Lighting Ltd. (India)

Established:	December, 1996
Head office:	Tamilnadu, India
President:	Arockiasami Augustine
Business lines:	Manufacturing and marketing automotive lighting equipment
Capital:	Rs. 200 million (¥600 million)
Major shareholders:	Koito 50%, Lucas TVS 50%
Sales:	Rs. 137,480 million (¥412.45 million) in year to March 1999
Employees:	Approximately 80
Major customers:	Maruti, Tata Engineering & Locomotive Co. Ltd., Honda Siel Cars India Ltd.

In April 1997, Koito established a 50-50 joint venture with Lucas TVS Limited, the Indian subsidiary of a British multinational Lucas Varity. Automobile production in India is expected to rise from 690,000 units in 1998 to one million units in 2000. The company manufacturers automobile lighting equipment, including headlamps and signalling lamps. The company's largest customer is Maruti, a local manufacturer partnered with Japan's SUZUKI MOTOR CORPORATION. Order levels and market share are expected to rise as Toyota starts production in India at the end of 1999.

Overseas technical associates

- North American Lighting, Inc. (U. S. A.)
- Electro Optica, S.A. de C.V. (Mexico)
- Industrias Arteb S. A. (Brazil)
- Koito Europe Limited (U.K.)
- Senalizacion y Accesorios del Automovil Yorka, S. A. (Spain)
- Bayraktarlar Motorlu Vasitalar Ticaret Ve Sanayii A.S. (Turkey)
- Carello S.p.A. (Italy)
- Carello Lighting PLC (U.K.)
- Ta Yih Industrial Co., Ltd. (Taiwan)
- Shanghai Koito Automotive Lamp Co., Ltd. (China)
- THAI KOITO COMPANY LIMITED (Thailand)
- Inhee Lighting Co., Ltd. (Korea)
- India Japan Lighting Ltd. (India)
- Seogu Industry Co., Ltd. (Korea)
- Dae Ki Co., Ltd. (Korea)
- Bangkok Diecasting and Injection Co., Ltd. (Thailand)
- Hella Australia Pty Ltd (Australia)
- Hella-Phil., Inc. (Philippines)
- Hella (South Africa) (PTY.) Ltd. (South Africa)
- EP Polymers (M) Sdn. Bhd. (Malaysia)

Domestic Network

KOITO INDUSTRIES, LIMITED

Established:	September, 1947
Head office:	Yokohama, Kanagawa
President:	Toshihiko Ichihashi
Business lines:	Railroad car equipment, specialty sheet metals, lighting equipment, electrical machinery, traffic light maintenance equipment, water and sewage products, and environmental equipment
Capital:	¥9,214 million
Koito ownership:	50% (consolidated subsidiary)
Sales:	¥70,967 million in year to March 1999
Employees:	2,128
Major customers:	Ministry of Construction, Ministry of Transport, Japan Highway Public Corporation, Japan Airlines Co., Ltd., JR companies, Toto Ltd.

In September 1947, Koito established Naigai Shoji Co., Ltd. to reinforce sales channels. The company grew rapidly through production and sale of heating and air conditioning equipment. In May 1957, the corporate name was changed to KOITO INDUSTRIES, LIMITED. With the April 1967 transfer of Koito's Yokohama plant to this company, Koito Industries established three business divisions: Railroad, Electrical Machinery, and Environment Control. Steady growth has transformed Koito Industries into a specialist in the non-automotive lighting field. Products span a broad spectrum of industries: railroad car control equipment, traffic lights, traffic control systems, water and sewage products, and specialty sheet metal products used in aircraft and railroad cars. Koito Industries' products illuminate the Yokohama Bay Bridge, Tokyo Dome and other Japan area landmarks. 60% of the company's sales are to the public sector. The company is also deeply involved in the development of the Integrated Traffic System (ITS) that is expected to oversee vehicle movements on major highways in Japan in the future. Demand from the public sector is expected to grow steadily. Koito Industries is listed on the Second Section of the Tokyo Stock Exchange.

Minatsu, Ltd.

KOTIO INDUSTRIES, LIMITED established Minamoto Tsushin Service Co., Ltd. in August 1976 to provide maintenance and management services for traffic safety systems. In 1985, the company changed its name to Minatsu, Ltd. The company's main business lines are maintenance, operation, adjustment and on-site repair of traffic safety systems. Activities extend to traffic control systems and highway information systems. The company is working on expanding service areas in Tokyo and Kanagawa to increase sales. Minatsu is a wholly owned subsidiary of KOITO INDUSTRIES, LIMITED.

Head office:	Yokohama, Kanagawa
President:	Kenzo Mori
Koito Group ownership:	100% (consolidated subsidiary)
Business lines:	Signals and safety equipment maintenance
Sales:	¥2,680 million in year to March 1999

DOROKEISO CO., LTD.

Established in January 1977, the company provides installation and maintenance services for axle weight measuring systems. KOITO INDUSTRIES, LIMITED has a 34% equity interest in the company.

Head office:	Chofu, Tokyo
President:	Teraji Saito
Koito Group ownership:	34% (affiliate accounted by the equity method)
Business lines:	Installation and maintenance of axle weight measuring systems
Sales:	¥1,109 million in year to March 1999

The Koito Group

Koito Transport Co., Ltd.

Head office:	Shimizu, Shizuoka
President:	Mitsuhiro Uchiyama
Koito ownership:	100% (consolidated subsidiary)
Business lines:	Transportation services and logistics
Sales:	¥2,724 million in year to March 1999

Koito Transport was formed in December 1970 as a wholly owned subsidiary when Koito's logistics division was spun off. The move was intended to raise efficiency by centralizing all logistics operations. Following its formation, this company has added 11-ton trucks and other vehicles to its fleet to meet rising demand. Koito Transport now has a fleet of 47 trucks. The company also subcontracts cargo transportation to four trucking firms. Koito Transport is responsible for delivering products to 20 automobile manufacturing plants throughout Japan, 35% of which are carried by its own trucks. The remaining 65% is subcontracted. Koito Transport has been assigning employees to the parent company for several years to provide openings for younger employees, thus maintaining the optimum workforce composition.

Koito Enterprise Corporation

Head office:	Minato-ku, Tokyo
President:	Masahiro Ohtake
Koito Group ownership:	100% (consolidated subsidiary)
Business lines:	Financial services, insurance, leasing
Sales:	¥269 million in year to December 1998

Koito Enterprise was established in March 1986 to market insurance products to group companies and their employees. The primary objective is to improve the Koito Group's financial strength and facilitate the efficient management of financial resources. This company also promotes health and welfare services for the group employees.

Aoitec Co., Ltd.

Head office:	Hamamatsu, Shizuoka
President:	Masami Yamamoto
Koito ownership:	51% (consolidated subsidiary)
Business lines:	Manufacturing and marketing electronic components, electrical devices, telecommunications equipment and precision machinery
Sales:	¥3,634 million in year to November 1998

In September 1986, Koito acquired Nissei Denshi Co., Ltd. to strengthen its electronics components manufacturing capabilities. This company subsequently became Aoitec, which was established with a capital of ¥100 million. Koito holds 51% of the company's equity capital. Other major shareholders include Mitsui & Co., Ltd. (19%), Toppan Forms Co., Ltd. (15%) and Yazaki Corporation (13%). Aoitec manufactures electronic components and devices in clean room environments using the latest surface-mounting machines. The company's electronic components are found in automobiles, computers, medical equipment and game machines. Aoitec is adding capacity to meet the surging demand for its electronic components. A new plant with floor area of 4,854m^2 is under construction in Hamamatsu, Shizuoka and will be completed in July 2000.

Shizuokadenso Co., Ltd.

Head office:	Shimizu, Shizuoka
President:	Ryuji Narisawa
Koito Group ownership:	100% (consolidated subsidiary)
Business lines:	Manufacturing of automobile lighting equipment
Sales:	¥12,810 million in year to June 1999

In June 1976, Koito acquired a capital interest in Shimizu Press Co., Ltd., which was a supplier of molded metal resin parts. The investment was made at the request of Shimizu Press, which was in experiencing financial difficulties, and in consideration of its excellent future prospects. In January 1982, the company moved to a larger plant and diversified into assembly following the transfer of Koito's power window regulator assembly operations. Reflecting the diversifying nature of its operations, the company changed its name to Shizuokadenso in October 1982, and launched an aggressive expansion program. This included added capacity for existing products and assembly lines for new lighting equipment and specialty equipment. All of this company's output is sold to Koito. Shizuokadenso's main products are power window regulators, fog lamps, high-mount stop lamps, motorcycle headlamps and signalling lamps. The company has grown rapidly and its sales are now equivalent to about 10% of that of the parent.

Nissei Industries Co., Ltd.

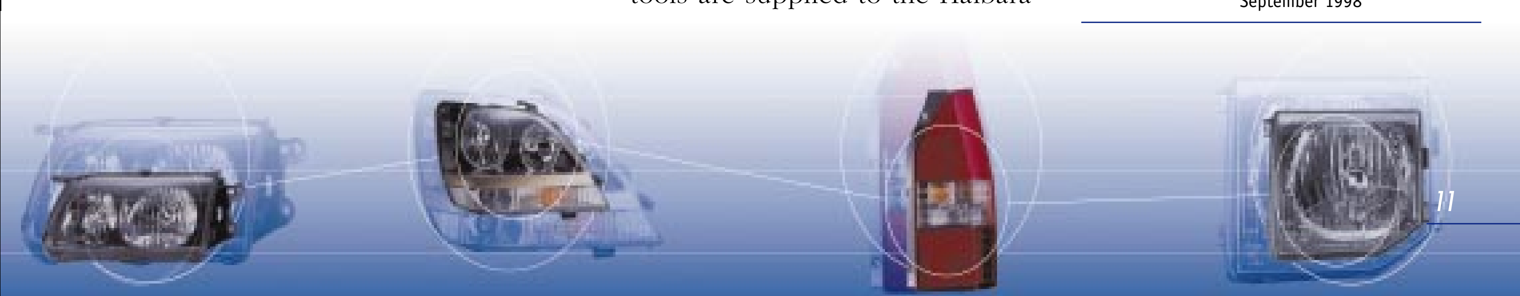
Head office:	Shimizu, Shizuoka
President:	Tamotsu Aoyama
Koito Group ownership:	Direct 49.2%, Indirect 17.5% (consolidated subsidiary)
Business lines:	Manufacturing and marketing miniature bulbs and automotive accessories
Sales:	¥5,450 million in year to August 1998

Koito acquired an equity interest in Nissei Industries to meet the need for in-house production of lamp bulbs for automotive use. Koito then transferred miniature bulb production for the OEM market to Nissei Industries. The company has been focusing marketing efforts on developing the replacement for accessories and has grown rapidly by developing and marketing its own brand products in addition to Koito products. In April 1999, Nissei Industries merged with another Koito Group member Koa Electric Co., Ltd., which was established in 1971 and also makes bulbs. This action was taken in response to changes in April in the automobile component industry and the need to eliminate overlapping business lines. The company manufactures a full range of lamp bulbs for automobiles and ships as well as products developed internally. The OEM and replacement markets each account for about half of its total sales.

Fujieda Auto Lighting Co., Ltd.

Koito established Fujieda Auto Lighting in November 1989 to assemble signalling lamps. The company complements production to Koito's Haibara plant. Fujieda Auto Lighting also designs and manufactures small assembly machines and original assembling tools. Assembly tools are supplied to the Haibara plant as well. Fujieda's main products are small signalling lamps and vanity mirrors.

Head office:	Fujieda, Shizuoka
President:	Hiroshi Kodama
Koito Group ownership:	100% (consolidated subsidiary)
Business lines:	Manufacturing automobile lighting equipment
Sales:	¥4,239 million in year to September 1998



Shizuoka Wire Harness Co., Ltd.

Head office:	Shimizu, Shizuoka
President:	Sasayuki Sato
Koito Group ownership:	100% (consolidated subsidiary)
Business lines:	Manufacturing automotive lighting equipment
Sales:	¥4,504 million in year to January 1999

The company joined the Koito Group in February 1992 when Koito acquired its predecessor Yamazaki Kogyo Co., Ltd. The company was then renamed Shizuoka Wire Harness. Having become a subsidiary, the company now ships 80% of its wire harnesses, an essential part of automotive lighting systems, to Koito. This represents about half of all wire harnesses that Koito purchases from external suppliers. The company completed a four-story head office and plant with 5,534m^2 of floor space in December 1995. By using the new facilities, the company is making progress in using new production processes to perform more steps internally. Shizuoka Wire Harness's main products include wire harnesses for office equipment and consumer electronic products, in addition to those for automobiles.

Kosmotec Co., Ltd.

Koito established Kosmotec in October 1992 to start in-house production of motors for power window regulators, headlamp cleaners and other automobile equipment. The company also manufactures illumination panels and high-mount stop lamps.

Head office:	Kakegawa, Shizuoka
President:	Tetsushi Usami
Koito Group Ownership:	100% (consolidated subsidiary)
Business lines:	Manufacturing automobile lighting equipment
Sales:	¥4,280 million in year to September 1998

Shimizu Plating Co., Ltd.

In September 1977 Koito purchased stock in Shimizu Plating, which had long been a supplier to Koito. Shimizu Plating was facing financial difficulties at the time. The decision to invest in Shimizu was made at Shimizu's request and in consideration of the company's importance to the Koito Group and the favorable outlook for the company. Demand for zinc plating declined after the acquisition and the company switched to electro-coating in 1984. Reflex Reflector (RR) electro-casting machinery was installed in 1993 to diversify its operations. Surface treatment of Koito's lighting products and RR electro-castings for resin metal molds are currently the main business lines.

Head Office:	Shimizu, Shizuoka
President:	Yotaro Kubota
Koito Group ownership:	100% (consolidated subsidiary)
Business lines:	Electroplating metals and metal products, surface treatment
Sales:	¥1,165 million in year to June 1999

Haibara Machine and Tools Co., Ltd.

Koito established Haibara Machine and Tools in January 1983 as a metal mold manufacturing subsidiary. The move reflected Koito's plans to bolster in-house metal mold manufacturing capabilities to meet demand for resin metal molds. With state-of-the-art equipment and CAD/CAM systems, the company is now a leader in mold manufacturing technology. Haibara Machine specializes in resin metal molds for headlamps, signalling lamp lenses and bodies.

Head office:	Haibara, Shizuoka
President:	Koichi Tamura
Koito Group ownership:	100% (consolidated subsidiary)
Business lines:	Manufacture of resin metal molds
Sales:	¥976 million in year to December 1998

Shizuoka Kanagata Co., Ltd.

Shizuoka Kanagata was established in December 1968 as a joint venture with Nagoya Kanagata Co., Ltd. The company specializes in the design and manufacture of resin metal molds. The company has been meeting the growing need for precision resin metal molds by integrating Koito and Nagoya Kanagata's know-how. Resin metal molds for headlamp and signalling lamp lenses and bodies are the company's main product lines.

Head office:	Fujieda, Shizuoka
President:	Shuzo Tatematsu
Koito ownership:	40% (consolidated subsidiary)
Business lines:	Manufacture of resin metal molds
Sales:	¥711 million in year to June 1999

Takeda Suntech Co., Ltd.

Koito acquired a 20% capital interest in Takeda Suntech, a company with much expertise in headlamp and signalling lamp production to strengthen our molds division. Takeda Suntech is an affiliate accounted by the equity method. Its main products are resin metal molds for headlamps and signalling lamp bodies and reflectors.

Head office:	Shimizu, Shizuoka
President:	Katsunori Takeda
Koito ownership:	20% (affiliate accounted by the equity method)
Business lines:	Manufacture of resin metal molds
Sales:	¥1,216 million in year to March 1999

Board of Directors

Iwao Okijima
Chairman

Junsuke Kato
President

Takashi Ohtake
Executive Vice President

Ryuzo Kojima
Executive Vice President

Akira Koito
Executive Vice President

Chairman
Iwao Okijima

President
Junsuke Kato

Executive Vice Presidents
Takashi Ohtake
Ryuzo Kojima
Akira Koito

Executive Senior Managing Directors
Genpachi Sanada
Masahiro Ohtake

Executive Managing Directors
Toyofumi Nakagawa
Shigeo Mine
Noriaki Yonezawa
Takao Sato
Shuichi Goto
Norio Saguchi
Yutaka Furuyama

Directors
Kazuhiro Mori
Shin Amano
Hiroaki Sakagawa
Koichi Katase
Keiji Kato
Mizuo Yamamuro
Isao Sano
Mitsuo Kikuchi

Standing Corporate Auditors
Akira Kamata
Toshio Yumoto

Corporate Auditors
Seiji Makita
Koichi Kusano

FINANCIAL SECTION

Six-Year Summary

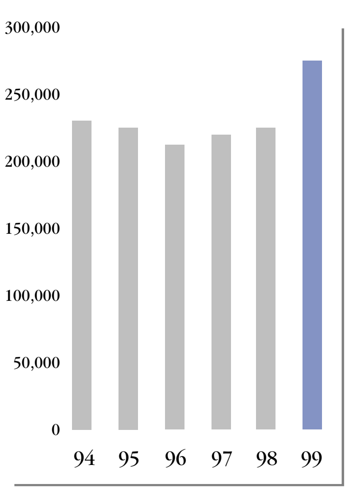
KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries
Years Ended March 31

	Millions of yen except per share amounts						Thousands of U.S. dollars except per share amounts
CONSOLIDATED	1994	1995	1996	1997	1998	**1999**	**1999**
FOR THE YEAR:							
Net Sales	¥232,094	225,120	212,357	220,045	226,134	**¥275,934**	**$2,288,958**
Operating Income	9,828	11,069	9,608	10,607	8,540	**10,201**	**84,620**
Income before Income Taxes	9,812	11,376	10,669	10,899	9,771	**8,451**	**70,103**
Income Taxes	5,895	6,994	6,427	6,310	5,836	**3,486**	**28,917**
Net Income	2,879	4,407	3,917	4,702	4,285	**3,846**	**31,903**
Amounts per share: (in yen and dollars)							
Net income	¥17.94	27.47	24.39	29.24	26.65	**¥23.92**	**$0.198**
Cash dividends	8.00	9.00	8.00	9.00	8.00	**8.00**	**0.066**
AT YEAR-END:							
Working Capital·	¥ 55,876	62,111	64,752	59,053	55,348	**¥ 40,393**	**$ 335,073**
Property, plant and equipment, less accumlated depreciation	49,419	46,574	49,297	54,742	46,174	**65,857**	**546,304**
Total assets	188,604	204,181	207,104	218,079	217,741	**267,783**	**2,221,343**
Shareholders' Equity	69,295	72,897	75,589	78,881	81,313	**90,291**	**748,992**

Note: Amounts in U.S. dollars are translated from yen, for convenience only, at the rate of ¥120.55=$1,the rate prevailing on March 31, 1999

Management's Discussion and Analysis of Operations

Net sales (Millions of yen)



The Koito Group includes 20 consolidated subsidiaries, two affiliates, and parent company KOITO MANUFACTURING CO., LTD. Accounting for the two Group affiliates is based on equity. Consolidated subsidiaries, KOITO INDUSTRIES, LIMITED, Koito Transport Co., Ltd., Minatsu, Ltd., and India Japan Lighting Ltd. end their fiscal years on March 31. The other 16 consolidated subsidiaries compute their financial statements by provisionally closing accounts on March 31. The Group's three major business activities are lighting equipment for automobiles, non-automotive electrical equipment and other products.

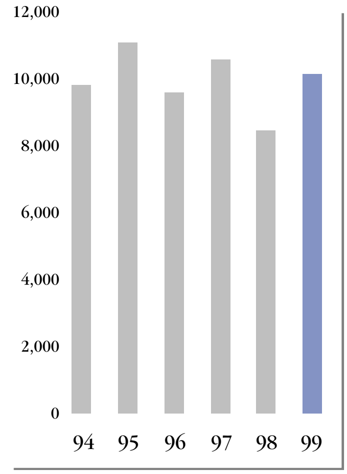
Operating Environment

Despite indications during the last year that Japan's recession had bottomed out, Japan's economic climate has remained severe as personal consumption slowed, private sector capital investment weakened and unemployment increased. The sluggish domestic economy reduced automobile sales. Although group exports to Europe and the U.S. increased, the Asian economic crisis reduced sales in that region. Domestic automobile production declined 7.5% from the previous fiscal year to 9.96 million units.

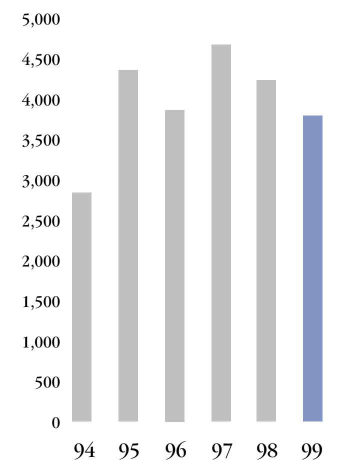
Net Sales and Segment Information

Consolidated net sales increased 22.0%, or ¥49,800 million, to ¥275,934 (US$2,288 million). Operating income rose 42%, or ¥3,019 million, to ¥10,201 million (US$84 million). The gains were partially due to the increased number of consolidated subsidiaries, which now stands at 20. All seven overseas sub-

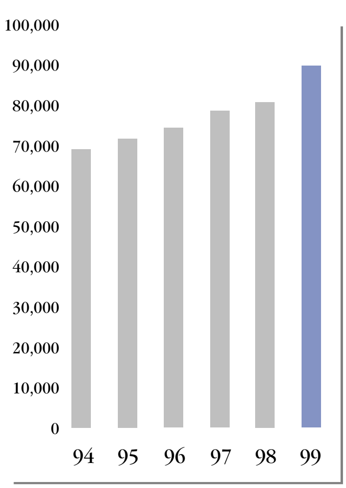
Operating Income (Millions of yen)



Net Income (Millions of yen)



Shareholders' Equity (Millions of yen)



sidiaries are now consolidated, up from five in the previous fiscal year. Reflecting this, the operating profit ratio rose 0.5 percentage points from the previous fiscal year to 3.7%. A review of business performance by division follows.

Lighting Equipment for Automobiles

The Koito Group supplies a full line of automobile lighting equipment including headlamps, gas discharge headlamps, all-glass sealed beam lamp units, tail lamps and signalling lamps, clearance lamps, high mount stop lamps, halogen lamp bulbs, other miniature bulbs, rear reflective marking plate and other lamp products. Divisional sales increased 37.6% from the previous fiscal year to ¥191,334 million (US$1,587 million), representing 69.3% of total sales. The larger number of consolidated subsidiaries combined with the growing demand for gas discharge headlamps (GDHL) and the timely introduction of new products contributed to the sales gain. Operating profit, prior to the deduction of non-allocable operating expenses rose 24.4% from the previous fiscal year to ¥8,854 million (US$73 million).

Non-Automotive Electrical Equipment

Principal electrical equipment, excluding lighting equipment for automobiles, includes controllers for railroad cars, traffic signals, traffic control systems and water and sewage system equipment. Divisional sales fell 9.9% from the previous fiscal year to ¥60,294 million (US$500 million). This was 21.8% of total sales. Demand for lighting equipment, traffic information systems and sanitary equipment was sluggish. A decline in production of the new Shinkansen coaches slowed demand for Shinkansen parts. Operating profit fell 73.0% from the previous fiscal year to ¥851 million (US$7 million).

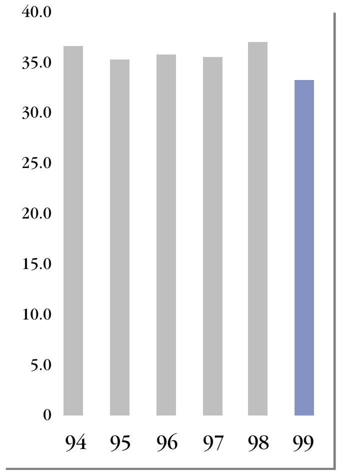
Other Products

Other products include aircraft parts, electronic components, specialty sheet metals, environment control equipment, financial services and insurance, and transportation. Divisional sales rose 20.1% from the previous fiscal year to ¥24,305 million (US$201 million), which was 8.8% of total sales. This performance was underpinned by higher sales of aircraft parts, electronic components and specialty sheet metals. Operating profit rose 71.8% to ¥2,116 million (US$17 million).

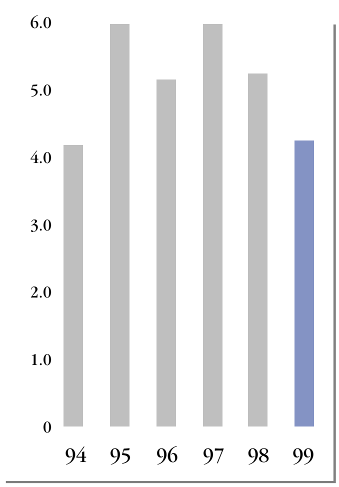
Other Income (Expenses) and Net Income

Interest and dividend income increased 33.3% from the previous fiscal year to ¥1,552 million (US$13 million). Interest expense was up 119.6% to ¥2,471 million (US$20 million). Although there was a gain on sales of fixed assets and investment securities to offset valuation losses on investment securities and loss on sale of fixed assets, Other Income-(Expenses) was a net expense of ¥110 million. Net income declined 10.2% from the previous fiscal year to ¥3,846 million (US$32 million). Earnings per share decreased ¥2.73 to ¥23.92 (US$0.198). Tax effective accounting was adopted during the fiscal year to

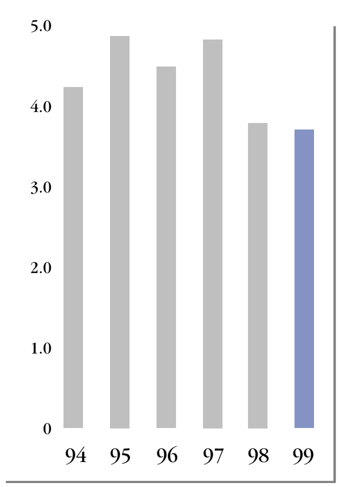
Shareholders' Equity Ratio (%)



Return on Equity (%)



Ratio of Operating Income to Sales (%)



reflect more accurately the relationship between income and taxes.

Financial Position

Total assets increased 22.9% from the previous fiscal year to ¥267,783 million (US$2,221 million). This was the result of the expanded scope of consolidation. Current assets rose 11.6% to ¥153,686 million (US$1,274 million). Fixed assets were up 43.9% to ¥81,433 million (US$675 million). Current liabilities increased 37.4% to ¥113,293 million (US$939 million). Interest-bearing debt was up 86.4% to ¥48,927 million (US$405 million). Shareholders' equity increased 11.0% to ¥90,291 million (US$748 million). The shareholders' equity ratio declined 3.6 percentage points to 33.7%. Equity per share increased ¥55.84 from the previous fiscal year to ¥561.55 (US$4.65).

Capital Expenditure

Capital expenditure in fiscal 1999 totaled ¥16,070 million (US$133 million). These expenditures centered on headlamp and signalling lamp manufacturing facilities. The focus was on production streamlining, renewal, quality improvement and cost reduction.

Cash Flows

Cash and cash equivalents increased ¥4,454 million, or 42.4%, to ¥14,951 million. Net cash provided by operating activities increased ¥5,256 million, or 24.0%, to ¥27,155 million. This was mainly the result of growth in depreciation, notes and accounts receivable-trade and inventories. Net cash used for investing activities increased ¥13,638 million, or 82.2%, to ¥30,231 million. This was primarily attributable to larger increases in investment in securities and other investments and other assets. Net cash provided by financing activities was ¥3,318 million; financing activities used net cash of ¥4,565 million. An increase in long-term bank loans was the main reason for this difference.

Y2K Issue

Koito recognizes the importance of the Y2K issue and its potential to affect customer service and interrupt business operations. The parent company and all domestic and overseas subsidiaries are addressing Y2K issues together. The project to make all systems Y2K compliant began in 1996. Most of the systems likely to be affected by the Y2K problem, including systems that could stop or malfunction, were made Y2K compliant by December 1998. A crisis control plan will be completed by August 1999. System tests will be performed in Japan and overseas to prepare for unforeseen circumstances.

Consolidated Balance Sheets

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries
March 31, 1998 and 1999

	Millions of yen		Thousands of U.S. dollars
At March 31	1998	**1999**	**1999**
ASSET			
Current assets:			
Cash and time deposits	¥ 10,497	**¥ 14,951**	**$ 124,023**
Notes and accounts receivables-trade (Note 3)	64,975	**72,179**	**598,747**
Less: Allowance for doubtful accounts	(617)	**(768)**	**(6,370)**
	64,358	**71,411**	**592,376**
Marketable securities	43,526	**37,307**	**309,473**
Inventories	15,210	**18,583**	**154,151**
Prepaid expenses and others (Note 3)	4,159	**11,434**	**94,848**
Total current assets	137,752	**153,686**	**1,274,873**
Investments:			
Investments in securities (Note 3)	17,434	**16,205**	**134,425**
Loans	2,630	**4,031**	**33,438**
Other investments	3,370	**10,405**	**86,312**
Less: Allowance for doubtful accounts	(20)	**(16)**	**(132)**
Total investments	23,414	**30,624**	**254,035**
Property, plant and equipment, at cost:			
Buildings and structures	52,790	**63,442**	**526,271**
Machinery, equipment and tools	86,497	**129,787**	**1,076,623**
Less: Accumulated depreciation	(93,113)	**(127,372)**	**(1,056,590)**
	46,174	**65,857**	**546,304**
Land	10,170	**12,739**	**105,673**
Construction in progress	227	**2,835**	**23,517**
Property, plant and equipment, net	56,573	**81,433**	**675,512**
Translation adjustments	–	**2,037**	**16,897**
Total assets	¥217,741	**¥267,783**	**$2,221,343**

At March 31	Millions of yen 1998	Millions of yen 1999	Thousands of U.S. dollars 1999
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Notes and account payable-trade (Note 3)	¥ 49,079	**¥ 55,258**	**$ 458,382**
Short-term loans (Note4)	5,272	**17,277**	**143,318**
Current maturities of bond (Note5)	–	**10,000**	**82,953**
Income taxes payable	3,445	**2,401**	**19,917**
Accrued expenses and other current liabilities	24,605	**28,353**	**235,197**
Total current liabilities	82,404	**113,293**	**939,800**
Non-current liabilities:			
Long-term debt (Note4)	2,915	**21,650**	**179,593**
Bond and convertible bond (Note5)	18,061	**–**	**–**
Accrued severance indemnities	13,553	**14,559**	**120,771**
Other long-term liabilities	489	**2,124**	**17,619**
Total non-current liabilities	35,019	**38,335**	**318,000**
Contingent liabilities (Note6)			
Minority interests	18,400	**25,863**	**214,541**
Shareholders' equity:			
Common stock	14,270	**14,270**	**118,374**
320,000,000 shares authorized and 160,789,436 shares of ¥50 par value issued at 31 March, 1998 and 1999			
Additional paid-in capital	17,107	**17,107**	**141,907**
Retained earnings	49,934	**58,912**	**488,693**
	81,313	**90,291**	**748,992**
Less			
Treasury common stock, at cost 109 shares in 1998 and 597 shares in 1999	(0)	**(0)**	**(0)**
Total shareholders' equity	81,313	**90,291**	**748,992**
Translation adjustments	602	**–**	**–**
Total liabilities and shareholders' equity	¥217,741	**¥267,783**	**$2,221,343**

Consolidated Statements of Income

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries
March 31, 1998 and 1999

	Millions of yen		Thousands of U.S. dollars
For the year ended March 31	1998	**1999**	**1999**
Net sales	¥226,134	**¥275,934**	**$2,288,958**
Cost of sales	192,167	**234,987**	**1,949,290**
Gross profit	33,967	**40,946**	**339,659**
Selling, general and administrative expenses	25,427	**30,745**	**255,039**
Operating income	8,540	**10,201**	**84,620**
Other income (expenses):			
Interest income	848	**953**	**7,905**
Interest expenses	(1,125)	**(2,471)**	**(20,497)**
Loss on sale or disposal of property and equipment	(342)	**(120)**	**(995)**
Others, net	1,854	**(110)**	**(912)**
Income before income taxes	9,771	**8,451**	**70,103**
Income taxes	5,836	**3,486**	**28,917**
Income before equity in earnings and minority interests	3,935	**4,965**	**41,186**
Equity in earning of affiliated companies	1,071	**–**	**–**
Minority interest in consolidated subsidiaries	(721)	**(1,118)**	**(9,274)**
Net income	¥ 4,285	**¥ 3,846**	**$ 31,903**

Per shares:			
Net income	¥26.65	**¥23.92**	**$0.198**
Cash dividends	8.00	**8.00**	**0.066**
Weighted average number of shares (in thousands)	160,789	**160,789**	**160,789**

Consolidated Statements of Shareholders' Equity

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries
March 31, 1998 and 1999

	Millions of yen		Thousands of U.S. dollars
For the year ended March 31	1998	**1999**	**1999**
Common stock:			
Beginning balance	¥14,270	**¥14,270**	**$118,374**
Ending balance	¥14,270	**¥14,270**	**$118,374**
Additional paid-in capital:			
Beginning balance	¥17,107	**¥17,107**	**$141,907**
Ending balance	¥17,107	**¥17,107**	**$141,907**
Retained earnings:			
Beginning balance	¥47,502	**¥49,934**	**$414,218**
Adjustment for adopting of tax-effect accounting	–	**4,552**	**37,760**
Adjustment for newly affiliated companies	(255)	**–**	**–**
Adjustment for newly consolidated subsidiaries	–	**2,012**	**16,690**
Beginning balance, as adjusted	47,247	**56,498**	**468,668**
Net income	4,285	**3,846**	**31,903**
Deduct:			
Cash dividends applicable to the year	(1,447)	**(1,286)**	**(10,667)**
Bonuses to directors and corporate auditors	(151)	**(146)**	**(1,211)**
Ending balance	¥49,934	**¥58,912**	**$488,693**

Consolidated Statements of Cash Flows

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries
March 31, 1998 and 1999

	Millions of yen		Thousands of U.S. dollars
For the year ended March 31	1998	**1999**	**1999**
Cash flows from operating activities:			
Net income	¥ 4,285	**¥ 3,846**	**$ 31,903**
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	12,640	**17,440**	**144,670**
Minority interests in consolidated subsidiaries	501	**1,218**	**10,103**
Retained earnings of newly consolidated subsidiaries	(256)	**–**	**–**
Provided for accrued severance indemnities	–	**300**	**2,488**
Reverse of accrued severance indemnities	(549)	**–**	**–**
Loss (profit) on sale or disposal of property and equipment	312	**(25)**	**(207)**
Change in operating assets and liabilities:			
Notes and accounts receivable-trade	366	**7,912**	**65,632**
Marketable securities	7,016	**7,032**	**58,332**
Inventories	(2,027)	**2,383**	**19,767**
Prepaid expenses and others	(630)	**386**	**3,201**
Notes and accounts payable-trade	1,753	**(7,969)**	**(66,105)**
Income taxes payable	(365)	**(813)**	**(6,744)**
Accrued expenses and other current liabilities	(1,449)	**(1,771)**	**(14,690)**
Other-net	302	**(2,784)**	**(23,094)**
Net cash provided by operating activities	21,899	**27,155**	**225,259**
Cash flows from investing activities:			
Acquisition of property and equipment	(14,783)	**(15,751)**	**(130,659)**
Proceeds from sales of property and equipment	–	**216**	**1,791**
Increase in investment in securities	(2,502)	**(7,980)**	**(66,196)**
Decrease (increase) in long-term loans	695	**(1,352)**	**(11,215)**
Increase in other investments and other assets	(3)	**(5,364)**	**(44,496)**
Net cash used in investment activities	(16,593)	**(30,231)**	**(250,775)**
Cash flows from financing activities:			
Increase in other long-term liabilities	135	**45**	**373**
Decrease in short-term bank loans	(223)	**(72)**	**(597)**
(Decrease) increase in long-term bank loans	(1,104)	**12,692**	**105,284**
Repayment of bond	(1,926)	**(8,061)**	**(66,868)**
Cash dividends	(1,447)	**(1,286)**	**(10,667)**
Net cash (used in) provided by financing activities	(4,565)	**3,318**	**27,523**
Change in cash and cash equivalents	741	**242**	**2,007**
Cash and cash equivalents at beginning of the year	9,756	**10,497**	**87,075**
Reconciliation for beginning balance of newly consolidated subsidiaries	–	**4,212**	**34,939**
Cash and cash equivalents at end of the year	¥10,497	**¥14,951**	**$124,023**

Notes to the Consolidated Financial Statements

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries

1. Basis of presentation

KOITO MANUFACTURING CO., LTD. (the “Company”) and its subsidiaries maintain their books account in conformity with the financial accounting standards of Japan , and its foreign subsidiaries maintain their books account in conformity with those of the countries of their domicile.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan and compiled from the consolidated financial statements filed with the Minister of Finance as required by the Securities and Exchange Law of Japan and include certain additional financial information for the convenience of readers outside these consolidated financial statements, although such statements are not required in Japan.

2. Summary of significant accounting policies

(1) The accompanying consolidated financial statements for the years ended March 31, 1998 and 1999 include the accounts for the Company and the 20 subsidiaries listed below.

Name of consolidated subsidiaries	Equity ownership percentage (b)
	%
KOITO INDUSTRIES, LIMITED	50
Koito Transport Co., Ltd.	100
Koito Enterprise Corporation	100
Aoitec Co., Ltd	51
Shizuokadenso Co., Ltd. (a)	100
Nissei Industries Co., Ltd. (a)	66
Fujieda Auto Lighting Co., Ltd. (a)	100
Shizuoka Wire Harness Co., Ltd. (a)	100
Kosmotec Co., Ltd. (a)	100
Shimizu Plating Co., Ltd. (a)	100
Haibara Machine and Tools Co., Ltd. (a)	100
Shizuoka Kanagata Co., Ltd. (a)	40
Minatsu, Ltd.	100
North American Lighting, Inc. (a)	90
THAI KOITO COMPANY LIMITED (a)	61
Ta Yih Industrial Co., Ltd. (a)	32
Shanghai Koito Automotive Lamp Co., Ltd. (a)	45
Koito Europe Limited (a)	100
India Japan Lighting Ltd. (a)	50
Inhee Lighting Co., Ltd. (a)	50

(a) Included in the consolidation effective from the year ended March 31,1999

(b) Represents ownership at March 31, 1999 and includes shares owned through a consolidated subsidiaries

(2) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the account of the Company and its significant subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The excess of the costs over the underlying net equity of investments in the consolidated subsidiaries is amortised over five years.

Investments in two affiliates (owned 20% to 50%) are stated at cost plus equity in their undistributed earnings. Consolidated net income or loss include the Company's equity in the current net income or loss of such companies, after the elimination of unrealized intercompany profits.

(3) Translation of Foreign Currency Financial Statement

The balance sheet accounts of the consolidated foreign subsidiaries are translated into yen at the rate of exchange in effect at the balance sheet date, except for the components of shareholders' equity which are translated at historical exchange rates. Revenue and expense accounts are translated at the average rate of exchange in effect during the year.

Translation differences are presented as "translation adjustments" in the accompanying consolidated financial statements.

(4) Inventories

Inventories are stated principally at the cost . The cost of finish products and work in process are determined primarily by the weighted-average method. Raw materials and supplies are determined by the moving-average method.

(5) Other Securities

Securities with market quotation held by the Companies are valued at the lower of cost or market. Other securities held by the Companies are valued at the cost. Cost is determined by the moving-average cost.

(6) Property, plant and equipment and depreciation

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is computed with the declining-balance method and straight-line method, at rates based on the estimated useful lives of the assets.

Machinery held by the Company is depreciated at useful lives estimated by the Company which are between 3 to 7 years. Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(7) Accrued Severance Indemnities and Pension Plan

Under the terms of the retirement plans of the Companies, substantially all employees are entitled to severance payments at the time of severance from the Companies. The amount of the payment is based on the length or service, salary at the time of severance, and the cause of the severance.

The company has a non-contributory funded pension plan which covers substantially full amount of the payment at the retirement age under the above retirement plan.

Accrued severance indemnities of the Company are recorded at the amount which would be required if all eligible employees retire involuntarily at the balance sheet date less amount funded under the above pension plan.

The consolidated subsidiaries recorded their accrued severance indemnities at 40 percent of the amount which would be required if eligible employees retire voluntarily at the balance sheet date.

In addition to the above accrued severance indemnities, the consolidated subsidiaries have pension plans which cover a portion of severance payments at the retirement ages.

The directors and corporate auditors of the Company are covered by a retirement benefit plan which the retiring directors or corporate auditors are entitled to receive lump-sum retirement benefits. The amount of such benefits is determined based on the length of service and the level of remuneration at the time of retirement. The liability for such benefits is recorded in the other long-term liabilities at the amount which would be required if all directors and corporate auditors retired at the balance sheet date.

(8) Income taxes

Effective April 1,1998, the Company changed its method of accounting for income taxes to adopting tax-effect accounting following the liability method for the Company and its subsidiaries. Until the year ended March 31, 1998, tax effect accounting was adopted only by certain foreign subsidiaries.

(9) Appropriation of Retained Earnings

Under the Commercial Code of Japan, proposals by the Board of Directors for the appropriation of retained earnings (principally the payment of annual cash dividends) should be approved by a shareholders' meeting which must be held within three months after the end of each financial year. In addition to such appropriation, the Code permits the Board of Directors to distribute cash to shareholders at an interim date (interim dividend). The appropriation of retained earnings reflected in the accompanying consolidated financial statements for each financial year represents the appropriation which was approved by the shareholders' meeting or by the Board of Directors and disposed of during that year.

The payment of bonuses to directors and corporate auditors is made out of retained earnings instead of being charged to income for the year and constitutes a part of the appropriations referred to above.

Due to a change effective the year ended March 31, 1999 in the regulations relating to the presentation of amortization of excess of over net assets acquired and equity in earnings of affiliated companies in the consolidated statement of income, as well as certain accounts including the legal reserve in the consolidated balance sheet and the consolidated statements of shareholders' equity, the corresponding amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation.

(10) Research and Development Costs

Research and development costs are charged to income as incurred.

(11) Net income and Dividend Per Share

Net income and dividend per share amounts are based upon the weighted average number of shares of common stock outstanding during each year.

Cash dividends per share represent dividends including "interim dividends" declared as applicable to the respective years.

(12) Cash Equivalents

All deposits at banks with an original maturity date of three months or less including time deposits are considered to be cash equivalents in the accompanying statements of cash flows.

(13) Consumption tax

Consumption tax is imposed at the flat rate of 5 percent on all domestic consumption of goods and services with certain exceptions. The consumption tax withheld upon sales and consumption tax paid by the Companies on the purchases of goods and services are not included in the amounts of respective revenues or costs and expenses in the accompanying consolidated statements of income, but is recorded as an asset or a liability, as the case may be, and the net balances is included in other current liabilities.

3. U.S. Dollar Amount

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥120.55=$1, the approximate rate of March 31,1999 has been used. The inclusion of such amounts is not to imply that yen amounts have been or could be readily converted, realized or settled in U.S. dollars at that or any other rate.

4. Accounts with Related Parties

Accounts with the non-consolidated subsidiaries and the affiliated companies were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	**1999**	**1999**
Notes and accounts receivable-trade	¥9,469	**–**	**–**
Prepaid expenses and others	612	**–**	**–**
Investments in securities	9,111	**–**	**–**
Notes and accounts payable-trade	4,501	**–**	**–**

5. Short-term loans and long-term debt

At March 31, 1998 and 1999, short-term loans consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	**1999**	**1999**
Loans, principally from banks			
The company	–	**–**	**–**
The consolidated subsidiaries	¥5,272	**¥17,277**	**$143,318**
Total	¥5,272	**¥17,277**	**$143,318**

At March 31, 1998 and 1999, long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	**1999**	**1999**
Loans, principally from banks			
The company	–	**–**	**–**
The consolidated subsidiaries	¥2,915	**¥21,650**	**$179,593**
Total	¥2,915	**¥21,650**	**$179,593**

6. Bond and convertible bond

At March 31, 1998 and 1999, bond and convertible bond consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	**1999**	**1999**
Bond and convertible bond			
The company	¥10,000	**¥10,000**	**$82,953**
The consolidated subsidiaries	8,061	**–**	**–**
Total	18,061	**10,000**	**82,953**
Less : Current maturities	–	**10,000**	**82,953**
Total	¥18,061	**–**	**–**

7. Contingent Liabilities

At March 31,1999, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
As the notes discounted with banks	**¥90**	**$746**
As guarantor employees' housing loans and other from banks and others	**257**	**2,131**

8. Segment information

INDUSTRY SEGMENT INFORMATION

The Companies operate principally in three industrial segments. Each segment has the following main products:

Lighting Equipment Division: Headlamps, miscellaneous car lamps, all-glass sealed beam lamp units, rear lamps, indicators, high-mount stop lamps and halogen bulbs

Other Electric Equipment Division: Road traffic signals, traffic control systems, sanitary equipment and control systems for rail transports.

Others: Aircraft lights, hydrodynamic machinery, environmental control systems, air conditioning equipment, various electric applications equipment, various special equipment, transportation, finance and insurance.

	Millions of yen				
	Lighting Equipment Division	Other Electric Equipment Division	Others	Elimination of Inter-segment Items	Consolidated Total
For the year ended at March 31, 1998					
Sales:					
Sales to outside customers	¥138,979	¥66,932	¥20,222	–	¥226,134
Inter-segment sales	2,454	2,417	2,971	¥(7,843)	–
Total	141,434	69,349	23,194	(7,843)	226,134
Operating expenses	134,317	66,194	21,962	(3,522)	218,952
Operating income	¥ 7,117	¥ 3,154	¥ 1,231	¥(4,321)	¥ 7,182
Identifiable assets at March 31, 1998	¥ 71,794	¥71,743	¥22,671	¥51,533	¥217,741
Depreciation	¥ 10,422	¥ 1,371	¥ 1,039	¥ 54	¥ 12,886
Capital expenditures	¥ 10,842	¥ 2,713	¥ 1,705	–	¥ 15,260

	Millions of yen				
	Lighting Equipment Division	Other Electric Equipment Division	Others	Elimination of Inter-segment Items	Consolidated Total
For the year ended at March 31, 1999					
Sales:					
Sales to outside customers	¥191,334	¥60,294	¥24,305	–	¥275,934
Inter-segment sales	42,444	–	2,741	(45,186)	–
Total	233,779	60,294	27,047	(45,186)	275,934
Operating expenses	224,924	59,443	24,931	(43,565)	265,733
Operating income	¥ 8,854	¥ 851	¥ 2,116	¥(1,620)	¥ 10,201
Identifiable assets at March 31, 1999	¥138,051	¥59,977	¥30,463	¥39,292	¥267,783
Depreciation	¥ 14,994	¥ 1,494	¥ 1,221	¥ 51	¥ 17,760
Capital expenditures	¥ 13,758	¥ 782	¥ 1,530	–	¥ 16,070

	Thousands of U.S. dollars				
	Lighting Equipment Division	Other Electric Equipment Division	Others	Elimination of Inter-segment Items	Consolidated Total
For the year ended at March 31, 1999					
Sales:					
Sales to outside customers	$1,587,175	$500,157	$201,617	–	$2,288,958
Inter-segment sales	352,086	–	22,737	$(374,832)	–
Total	1,939,270	500,157	224,363	(374,832)	$2,288,958
Operating expenses	1,865,815	493,098	206,810	(361,385)	2,204,338
Operating income	$ 73,446	$ 7,059	$ 17,552	$ (13,438)	$ 84,620
Identifiable assets at March 31, 1999	$1,145,176	$497,527	$252,700	$ 325,939	$2,221,343
Depreciation	$ 124,379	$ 12,393	$ 10,128	$ 423	$ 147,324
Capital expenditures	$ 114,126	$ 6,486	$ 12,691	–	$ 133,305

GEOGRAPHIC SEGMENT INFORMATION

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sales of products in the lighting equipment segment. These products, which are sold in Japan and overseas, principally North America, Asia and Europe.

The geographics segment information for the Company and its consolidated subsidiaries for the year ended March 31, 1999 is as follows:

	Millions of yen						
	Japan	North America	Asia	Europe	Total	Eliminations and other	Consolidated
For the year ended at March 31, 1999							
Sales:							
Sales to third parties	**¥203,675**	**¥47,165**	**¥22,249**	**¥2,844**	**¥275,934**	**–**	**¥275,934**
Interarea sales and transfers	**37,972**	**5,089**	**1,627**	**498**	**45,186**	**(45,186)**	**–**
Total sales	**241,647**	**52,254**	**23,876**	**3,342**	**321,121**	**(45,186)**	**275,934**
Operating expenses	**234,273**	**49,607**	**21,924**	**3,493**	**309,299**	**(43,565)**	**265,733**
Operating income (loss)	**¥ 7,373**	**¥ 2,646**	**¥ 1,951**	**¥ (150)**	**¥ 11,822**	**¥ (1,620)**	**¥ 10,201**
Total assets	**¥165,266**	**¥33,833**	**¥25,460**	**¥3,930**	**¥228,490**	**¥ 39,292**	**¥267,783**

	Thousands of U.S. dollars						
	Japan	North America	Asia	Europe	Total	Eliminations and other	Consolidated
For the year ended at March 31, 1999							
Sales:							
Sales to third parties	**$1,689,547**	**$391,248**	**$184,562**	**$23,591**	**$2,288,958**	**–**	**$2,288,958**
Interarea sales and transfers	**324,987**	**42,214**	**13,496**	**4,131**	**374,832**	**(374,832)**	**–**
Total sales	**2,004,537**	**433,463**	**198,058**	**27,722**	**2,663,799**	**(374,832)**	**2,288,958**
Operating expenses	**1,943,367**	**411,505**	**181,866**	**28,975**	**2,565,732**	**(361,385)**	**2,204,338**
Operating income (loss)	**$ 61,161**	**$ 21,949**	**$ 16,184**	**$ (1,244)**	**$ 98,067**	**$ (13,438)**	**$ 84,620**
Total assets	**$1,370,933**	**$280,655**	**$211,198**	**$32,600**	**$1,895,396**	**$325,939**	**$2,221,343**

As not required in Japan, the disclosure of this information for the year ended March 31, 1998 is omitted.

9. Subsequent Event

At the general shareholders' meeting by the Company held on June 29,1999, the appropriation of retained earnings was duly approved as follow:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥4 ($0.0331) per share	¥643	$5,333
Bonuses to directors and corporate auditors	110	912

Report of Certified Public Accountants on the Consolidated Financial Statement

The Board of Directors
KOITO MANUFACTURING CO., LTD.

We have examined the consolidated balance sheets of KOITO MANUFACTURING CO., LTD. and its subsidiaries at March 31, 1998 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended March 31, 1998 and 1999, all expressed in Japanese yen. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express our opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KOITO MANUFACTURING CO., LTD. and its subsidiaries at March 31, 1998 and 1999, and the consolidated results of their operations and their cash flows for the years then ended March 31, 1998 and 1999, in conformity with generally accepted accounting principles in Japan applied on a consistent basis.

T. Mizuno	K. Sakurai	T. Shiono
TACHIJI MIZUNO	**KINGO SAKURAI**	**TOMOYASU SHIONO**

Certified Public Accountants

June 29, 1999

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