PEACE

HARMONY

JAPAN

ANNUAL REPORT 2000

HANWA CO., LTD.

For the year ended March 31, 2000

SUM

阪和興業株式会社

About the Cover

The Chinese character for the syllable *wa* of Hanwa's name has four meanings in Japanese: Japan, harmony, sum (as in addition) and peace.

These key words capture the essence of Hanwa's ideals: to trade products that meet the needs of customers through a business relationship with the countries of the world, incorporating new ideas into the products to bring peace and harmony to people's lives.

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Corporate Profile

Since its establishment in 1947, Hanwa has contributed to the development of the Japanese economy as a trading company handling industrial materials, such as steel — the company's leading product — and nonferrous metals, food products, lumber, machinery, petroleum, chemical products, and cement. Our steel division in particular is equipped with quay and warehouse transportation facilities as well as complete processing sites that enable us to both handle large quantities purchased from major steel manufacturers and to cater to the special needs of our customers. This is why we have long been known in Japan as a "steel trading company."

Recently, with the changes and diversification of the domestic market, we have demonstrated new capabilities as a trading company by handling seafood products, rides for amusement parks, and nonferrous metal recycling. We have created numerous businesses in these fields that command the top market share. The basic strategies underlying such success are internationalization, business diversification, and value enhancement.

Hanwa's ideal function as a trading company is to be more than just a distributor. Based on our insight of the international market and information-gathering capabilities, we aim to develop new products, as well as coordinate ventures among businesses. As a trading company with such operating skills at our disposal, we will continue to develop new unique businesses.

HANWA CO., LTD., AND CONSOLIDATED SUBSIDIARIES

Financial Highlights

For the years ended March 31

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	**2000**	1999
Net sales	**¥629,717**	¥598,568	**$5,932,332**	$5,638,888
Operating income	**8,727**	5,325	**82,214**	50,165
Net income (loss)	**595**	(435)	**5,605**	(4,098)

Note: The U.S. dollar amounts represent translations, for convenience only, of yen amounts at the rate of ¥106.15=$1.00.

President's Message

Japan's economy improved in some areas during the consolidated fiscal year, thanks to economic measures such as the fiscal and monetary policies, the favorable export record owing to the growth of the U.S. economy, and the recovery of the Asian economy. Yet, due to the continued difficulties regarding to employment and income levels, there was no significant improvement in personal consumption. Capital investment remained low in general, mirroring the harshness of the economic environment.

Accordingly, our Group companies (including consolidated subsidiaries) made aggressive strides in expanding a range of business activities. This was evident in our effort to strengthen client relationships and develop new and peripheral businesses. Moreover, we did this with total attention to credit control. Consequently, sales for the consolidated fiscal year amounted to ¥629,717 million, a 5.2% increase over the preceding term.

With regard to profit and loss, we reexamined our transactions and endeavored to maximize profit margins and cost reductions. As a result—thanks as well to an increase in the volume we handled—operating income rose to ¥8,727 million (an increase of 63.9% over the previous term). The following amounts were also added to the gain: ¥1,542 million as a profit on bad debt recovered due to a victory in a securities litigation, along with a portion of the retirement-allowance reserve for officers in the amount of ¥871 million when that amount for retiring directors was returned. However, the following amounts were accounted in loss: ¥1,748 million as the loss on write-down of securities, ¥2,632 million as a supplementary allowance with respect to long-term suspended claims for the transfer of bad-debt reserves, and ¥1,639 million as an appraisal loss from golf club memberships. Therefore, income before income tax was ¥1,383 million, and net income for the term was ¥595 million.

The following is the performance in each segment of our business.

The steel division's sales were ¥359,444 million, a drop of 5.5% from the previous term. In spite of the enforcement of emergency economic measures, public investments have been held in check, the domestic demand for electronics and cars has continued to be sluggish, and the market recovery has been less than vigorous.

In the non-ferrous division, thanks to the promotion of our recycling business for materials including aluminum cans, sales increased by 17.3% over the previous term to ¥51,616 million.

In the food division, although the handling volume increased, sales decreased 6.0% from the previous term to ¥104,229 million. This was influenced by decreased prices owing to weak consumption and appreciation of the yen.

Sales for other divisions was ¥114,428, a substantial 80.3% increase over the previous term. Higher oil prices, along with the development of relationships with new clients in the oil division, the increase of European lumber, and newly traded Indonesian plywood in the lumber division, contributed to increase.

Given the increasing trend toward a global and borderless economy, our Group companies wish to take action appropriate to our status as a major influence in the distribution sector. We are doing this, for example, by strengthening our force in offices as well as system of distribution and processing, and developing new and peripheral ventures.

To strengthen our competitiveness, we will accelerate the decision-making process and corporate activities, and will establish a corporate structure that makes use of "checks-and-balances." Moreover, we will operate the business with an emphasis on maximized profit, improving the return on equity.

At the same time, we are also determined to operate our business with respect for environmental preservation. In April 2000, we obtained certification under ISO 14001, the international standard for environmental management.

We will employ a unique system of electronic commerce known as "hanwa-steel.com." Within the next three years, we expect to transact 1.3 million tons per year, or ¥60,000 million, by means of the e-commerce system. In the future, we will employ this system in the food and lumber markets.

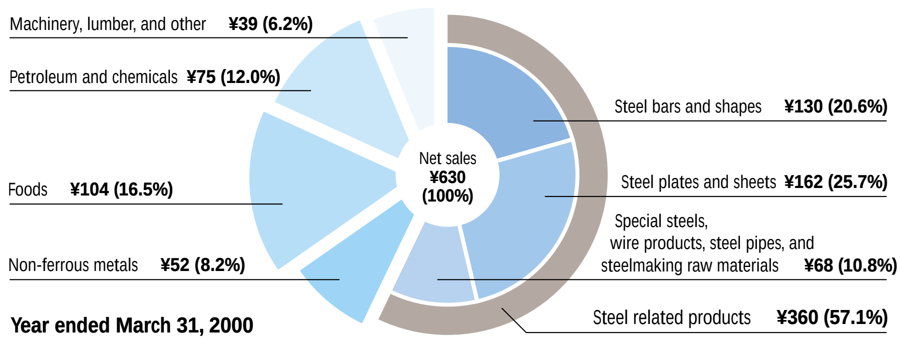
Japan's economy has at last begun to rebound from 'rock bottom' and is showing signs of a slow recovery, but personal consumption remains low. Furthermore, housing and public investments are slowing down, and the economic situation remains a difficult one.

Based on the aforementioned strategies, our Group companies will see us through this difficult time. We will continue our energetic promotion of rationalization and efficiency in overall business operations, and will pay the utmost attention to credit control. We will also strive to strengthen our client relationships, expand our customer base, and create new value-added products. Finally, we are determined to improve the company's financial strength in order to resume the payment of dividends in the near future and eliminate consolidated deficits.

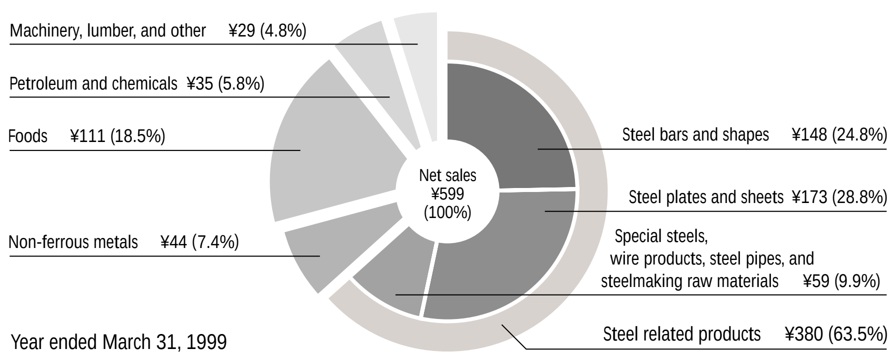
Shuji Kita
President & C.E.O.
Hanwa Co., Ltd.

Review of Operations

Net Sales by Product (Billions of Yen)



Year ended March 31, 2000



Year ended March 31, 1999

Steel (Domestic)

In fiscal 2000, the total quantity produced in Japan increased by approximately 2%, and our handling volume was 8% more than the previous year. However, our sales was less than the previous year due to a fall in unit prices.

Steel Bars and Shapes

Public works projects supported the market activities, but construction business in the private sector was inert because of poor capital investment. As a whole, we had a difficult time selling bar products.

Sheet Products and Special Steel

The automobile industry and electric appliance industry remained firm. Our sales to end users expanded, thanks to mutually profitable relationships.

Despite such severe economic conditions, we were able to achieve considerable results.

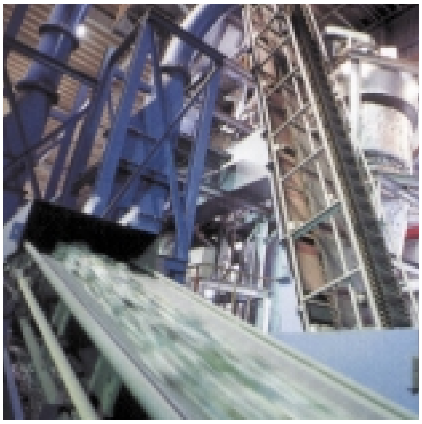
In fiscal 2001, we expect that sales to be slightly more than last year. Prices of steel bars will go up, but sheet products other than steel plates will see a decline of prices. Although it is still in a limited area, we can foresee capital investment. The automobile industry is doing fine. We hope the Japanese economy is on the way to recovery.

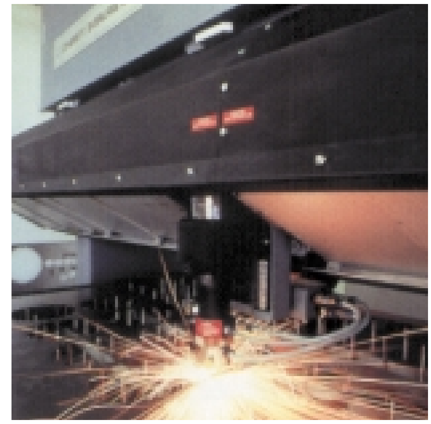
Logistics based on our distribution center network and processing capability are our stronghold. We must utilize them more efficiently. As a new scheme, we will start e-commerce, “hanwa-steel.com.” Maintaining mutually beneficial relationships with our customers and suppliers is our unchanged policy, together with aggressive pursuit of new items and new customers. Steel houses, steel pallets, leasing steel products, and cement are our targeted areas.

Steel (Overseas)

In fiscal 2000, we exported 764,000 tons (a 6% decrease), and sales was ¥48,900 million (a 5% decrease). During this year, export prices gradually improved, but both quantity and sales decreased.One major factor was that our sales of steel shapes to the U.S.A. dropped by more than 80% compared with the previous year due to the “anti-dumping” case. A strong yen (13% stronger than the previous year) was also against us. On the other hand, Asian markets recovered from recession, and exports of steel sheets and coils, and stainless steel products increased. In China, where huge potential demand for steel products is foreseen, we have opened new offices in Dalian, Qingdao, Fuzhou, and Zhongshan.

In fiscal 2001, we will focus on China and ASEAN countries. We will sell our customers products. Then, we will have a chance to supply them raw materials by utilizing our worldwide procurement networks including China, Taiwan, and Korea. Thus, we hope to expand our business opportunities. We will increase staff at our overseas offices in order to promote our sales. Our goal for the new fiscal year is 800,000 tons (a 5% increase) and ¥56,000 million (a 15% increase).





Non-ferrous Metals

In fiscal 2000, the non-ferrous metals market showed favorable trends throughout the year, backed up with firm demand in both the U.S.A. and Europe, as well as the rapid recovery of Asian economies.

As a result, we achieved 409,000 tons in handling volume (a 14% increase), and ¥51,615 million (a 17% increase). In particular, there was a remarkable increase in sales of aluminum scraps, thanks to our vigorous recycling of aluminum cans. Sales of copper scraps, stainless scraps, and nickel metals expanded.

For fiscal 2001, we are projecting total sales of ¥53,000 million, with particular emphasis on recycling businesses aiming for conservation of the environment and recycling of energy. Particularly, in the scrap business of aluminum, copper, nickel, and stainless steel, we will utilize our nationwide and worldwide collection networks thoroughly to maintion our position as a leader in the recycling industry. We are actively expanding our new business to salvage precious metals from industrial waste and also to handle silicon materials for solar battery industry.

Food Products

In fiscal 2000, because of a strong yen and economic crises in Russia and Asian countries, imports of seafood products to Japan increased to 3.42 million tons (a 10% increase), but the amount totaled ¥1,739.2 billion (a 0.1% decrease). Likewise, we sold 182,487 tons (a 11% increase) or ¥104 billion (a 6% decrease). Because of a drop in prices, the quantity was up, but the amount was down. Items of increased sales include horse mackerel, salmon, red fish, and other processed products, whereas sales of crab and *surimi* dwindled.

In fiscal 2001, personal consumption will remain depressed, and we cannot expect improvement of the market. As with salmon, prices of some items may go down due to excess supply caused by increase of culture. In addition to sales of raw materials to processors and wholesalers, we will try to expand business with retailers. Our processed products made in Thailand or China may be best suited for them. As a new type of business, we will start e-commerce in addition to mail order. We hope to maintain the same level of quantity and sales as the previous year.

Machinery

Sales of amusement rides showed a remarkable achievement of ¥2,500 million. This was due to Twin Mercury in Space World, Inc., and the export of thirty rides from a closed park. As a whole, the market was dull, because purse strings were still tightened and new competition from different types of leisure was still fierce.

Sales of industrial machines decreased to ¥1,700 million (a 15% decrease) due to postponement of capital investment by many industries. Major items sold were pipe cutting machines, forming lines, diesel marine engines, and steel processing equipment.

In the new fiscal year, we expect a new sale of our Ferriswheel to Space World, Inc., and will do our best to find new customers for amusement rides. Sales of industrial machines will be ¥1,800 million, consisting of a high-power CO_2 laser, pipe cutting machines, and others.

Petroleum and Chemicals

In this fiscal year, the price of crude oil rose to over U.S.$30 per barrel and prices of all oil products were continuously raised by producers, but there was a lot of resistance from users. Therefore, for us, it has been a very severe year for securing profit. Fortunately, we increased sales by 15% to 3,640,000 kl and sales income by 113.4% to ¥75,269 million, which constitutes the highest record in our history.

In the new fiscal year, we will strive to sell 4.2 million kl, with an income of ¥87,000 million. Our policy is "profitfirst" and "taking bold challenges."

Lumber

The total quantity sold during this fiscal year was 598,000 m^3, a significant 42% increase over the previous year, the income from which was ¥24,500 million (a 40% increase). Sales of U.S. lumber amounted to 219,000 m^3, (a 20% increase). Scandinavian lumber sales reached 182,000 m^3, (a major jump of 72%), and plywood and veneer sales rose to 197,000 m^3 (another increase of 50%).

The reasons for such a leap were:

A. Sales of Scandinavian lumber were accelerated because of our aggressive sales drive over recent years. Increased sales brought in good profit as well.

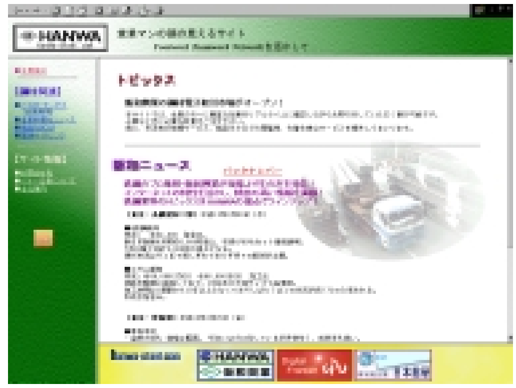
B. The Indonesian veneer business expanded in its second year faster than expectated.

C. Because of less competition in the market due to decreased sales forces in other trading firms, our sales of U.S. lumber and Scandinavian lumber increased by about 40%, although our selling unit prices were lowered by 10%.

D. Again, we were not subjected to any customer bankruptcies.

In fiscal 2001, housing starts will be 1.05 – 1.1 million, a 10 – 15% decrease. However, we aim to attain ¥30,000 million, a 22% increase of sales based on the aggressive purchase and sales policy thanks to our positive position as a survivor in the market.

Topics

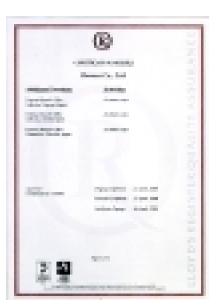
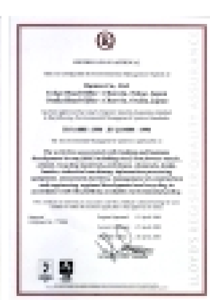


"hanwa-steel.com"

Beginning this August, we are employing a unique system of electronic commerce known as "hanwa-steel.com." This Internet website will handle every aspect of sales, from receipt of orders to distribution by means of e-commerce using our abundant inventory and superlative distribution system. The new website will offer such functions as one-stop shopping for steel materials, 24-hour order acceptance, and next-day delivery. We will also provide a variety of information services relating to steel and other related topics. Within the next three years, we expect to transact 1.3 million tons per year, or ¥60,000 million, by means of the e-commerce system. That amount will comprise 20% of our total steel sales. In the future, we will adopt this system in transactions of steel among corporations, as well as between corporations and individuals. Moreover, we will employ this system in the food and lumber markets.

ISO14001

In April, we achieved ISO14001 certificate. This certificate covers all five of our offices at Tokyo, Osaka, Nagoya, Kyushu, and Tohoku in Japan. We will encourage each one of employees to recognize the importance of environmental preservation and make an effort to continually improve the environmental management system.

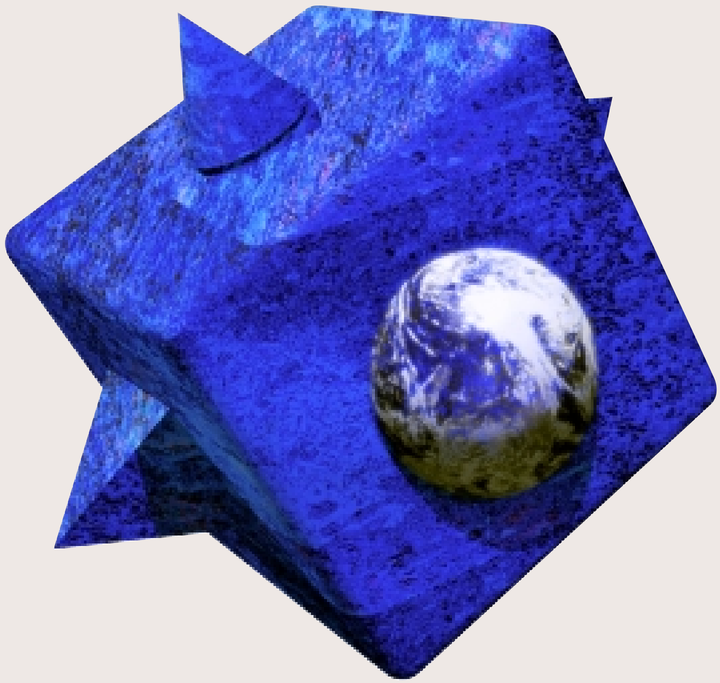



The Environmental Policy of Hanwa Co., Ltd.

Fundamental Concept

Hanwa Co., Ltd., as a socially recognized trading company, with the motto of "Footwork, Teamwork, and Network," will do its best to reduce adverse environmental stress and allow successive generations to inherit a rich global environment through its business activities.

Financial Section



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Consolidated Balance Sheets

March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 1)	
Assets	**2000**	1999	**2000**	1999
Current assets:				
Cash and cash equivalents	**¥ 34,435**	¥ 42,898	**$ 324,399**	$ 404,126
Marketable securities (Notes 4 and 6)	**41,350**	7,805	**389,543**	73,528
Receivables:				
Trade notes and accounts:				
Unconsolidated subsidiaries and affiliates	**1,715**	947	**16,156**	8,921
Other	**136,661**	129,378	**1,287,433**	1,218,823
Loans:				
Unconsolidated subsidiaries and affiliates	**1,950**	3,497	**18,370**	32,944
Other	**75**	146	**707**	1,376
Allowance for doubtful receivables	**(511)**	(484)	**(4,814)**	(4,560)
Inventories (Note 3)	**34,546**	31,427	**325,445**	296,062
Deferred income taxes (Note 8)	**37**	—	**349**	—
Other current assets (Note 6)	**17,162**	23,015	**161,677**	216,816
Total current assets	**267,420**	238,629	**2,519,265**	2,248,036
Investments and non-current receivables:				
Investment securities (Note 4):				
Unconsolidated subsidiaries and affiliates	**1,697**	809	**15,987**	7,621
Other	**10,922**	63,144	**102,892**	594,856
Loans receivable:				
Unconsolidated subsidiaries and affiliates	**866**	1,428	**8,158**	13,453
Other	**5,546**	7,359	**52,247**	69,326
Other investments and non-current receivables	**15,511**	17,799	**146,123**	167,678
Allowance for doubtful receivables	**(4,306)**	(1,511)	**(40,565)**	(14,234)
Total investments and non-current receivables	**30,236**	89,028	**284,842**	838,700
Property and equipment (Note 6):				
Land	**13,977**	13,186	**131,672**	124,220
Buildings and structures	**22,743**	22,351	**214,253**	210,561
Other	**8,502**	8,555	**80,094**	80,593
Accumulated depreciation	**(15,547)**	(14,348)	**(146,462)**	(135,167)
Total property and equipment	**29,675**	29,744	**279,557**	280,207
Deferred income taxes — noncurrent (Note 8)	**50**	—	**471**	—
Intangibles and other assets	**139**	107	**1,309**	1,008
Foreign exchange adjustments	**4,652**	3,036	**43,825**	28,601
Total	**¥332,172**	¥360,544	**$3,129,269**	$3,396,552

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Stockholders' Equity	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars (Note 1) 2000	Thousands of U.S. dollars (Note 1) 1999
Current liabilities:				
Bank loans (Note 7)	**¥120,749**	¥118,908	**$1,137,532**	$1,120,188
Long-term debt due within one year (Note 7)	**75,178**	2,472	**708,224**	23,288
Trade notes and accounts payable:				
Unconsolidated subsidiaries and affiliates	**221**	161	**2,082**	1,517
Other	**95,353**	102,882	**898,285**	969,213
Accrued bonuses to employees	**1,174**	1,097	**11,060**	10,335
Income taxes payable	**834**	—	**7,857**	—
Deferred income taxes (Note 8)	**28**	—	**264**	—
Other current liabilities	**6,677**	10,591	**62,901**	99,774
Total current liabilities	**300,214**	236,111	**2,828,205**	2,224,315
Non-current liabilities:				
Long-term debt due after one year (Note 7)	**3,792**	81,059	**35,723**	763,627
Retirement benefits	**276**	1,184	**2,600**	11,154
Other non-current liabilities	**799**	771	**7,527**	7,263
Total non-current liabilities	**4,867**	83,014	**45,850**	782,044
Minority interest	**55**	—	**518**	—
Contingent liabilities (Note 12)				
Stockholders' equity (Note 9):				
Common stock, par value ¥50 per share				
Authorized: 570,000,000 shares (650,000,000 in 1999)				
Issued: 211,663,200 shares (291,663,200 in 1999)	**82,646**	113,883	**778,578**	1,072,850
Additional paid-in capital	**19,227**	3,590	**181,130**	33,820
Undisposed deficit	**(74,837)**	(76,054)	**(705,012)**	(716,477)
Less treasury stock, at cost: 434 shares (1,941 in 1999)	**—**	—	**—**	—
Total stockholders' equity	**27,036**	41,419	**254,696**	390,193
Total	**¥332,172**	¥360,544	**$3,129,269**	$3,396,552

HANWA CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Operations

For the years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2000	1999	**2000**	1999
Net sales	**¥629,717**	¥598,568	**$5,932,332**	$5,638,888
Cost of sales	**601,590**	573,717	**5,667,358**	5,404,776
Gross profit	**28,127**	24,851	**264,974**	234,112
Selling, general and administrative expenses	**19,400**	19,526	**182,760**	183,947
Operating income	**8,727**	5,325	**82,214**	50,165
Other income (expenses):				
Interest and dividend income	**3,694**	8,662	**34,800**	81,602
Interest expense	**(6,948)**	(12,540)	**(65,455)**	(118,135)
Gain on sale of securities	**653**	828	**6,151**	7,800
Gain on sale of property and equipment	**—**	101	**—**	951
Reversal of allowance for doubtful receivables	**—**	246	**—**	2,317
Bad debts recovered	**1,542**	—	**14,527**	—
Reversal of allowance for retirement benefits	**871**	—	**8,205**	—
Loss on write-down of securities	**(1,748)**	(1,936)	**(16,467)**	(18,238)
Loss on discontinued operations of foreign subsidiary	**—**	(389)	**—**	(3,665)
Loss on write-down of golf club memberships	**(1,639)**	—	**(15,440)**	—
Loss on sale of investment securities	**(157)**	—	**(1,479)**	—
Provision for doubtful receivables	**(2,632)**	—	**(24,795)**	—
Other, net	**(980)**	(374)	**(9,232)**	(3,522)
Income (loss) before income taxes	**1,383**	(77)	**13,029**	(725)
Income taxes (Note 8)				
Current	**661**	358	**6,227**	3,373
Deferred	**139**	—	**1,310**	—
	800	358	**7,537**	3,373
Minority interest in loss of consolidated subsidiaries	**12**	—	**113**	—
Net income (loss)	**¥ 595**	¥ (435)	**$ 5,605**	$ (4,098)

	Yen		U.S. dollars (Note 1)	
	2000	1999	**2000**	1999
Net income (loss) per share	**¥ 2.48**	¥ (1.49)	**$ 0.023**	$ (0.014)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity

For the years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2000	1999	**2000**	1999
Common stock:				
Opening balance	**¥113,883**	¥113,883	**$1,072,850**	$1,072,850
Shares purchased and retired (Note 9)	**(31,237)**	—	**(294,272)**	—
Closing balance	**¥ 82,646**	¥113,883	**$ 778,578**	$1,072,850
Additional paid-in capital:				
Opening balance	**¥ 3,590**	¥ 9,571	**$ 33,820**	$ 90,165
Gain on shares purchased and retired (Note 9)	**15,637**	—	**147,310**	—
Transfer to undisposed deficit	**—**	(5,981)	**—**	(56,345)
Closing balance	**¥ 19,227**	¥ 3,590	**$ 181,130**	$ 33,820
Undisposed deficit:				
Opening balance	**¥ (76,054)**	¥ (81,600)	**$ (716,477)**	$ (768,724)
Cumulative effect of adopting deferred income tax accounting	**197**	—	**1,856**	—
Transfer from additional paid-in capital	**—**	5,981	**—**	56,345
Effect of subsidiaries newly consolidated	**425**	—	**4,004**	—
Net income (loss)	**595**	(435)	**5,605**	(4,098)
Closing balance	**¥ (74,837)**	¥ (76,054)	**$ (705,012)**	$ (716,477)
Number of shares of common stock issued (thousands):				
Opening balance	**291,663**	291,663		
Shares purchased and retired	**(80,000)**	—		
Closing balance	**211,663**	291,663		

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2000	1999	**2000**	1999
Cash flows from operating activities:				
Income (loss) before income taxes	**¥ 1,383**	¥ (77)	**$ 13,029**	$ (725)
Adjustments to reconcile income (loss) before income taxes to net cash provided by operating activities				
Depreciation	**1,514**	1,443	**14,263**	13,594
Increase (decrease) in allowance for doubtful receivables	**2,819**	(320)	**26,557**	(3,015)
Reversal of allowance for retirement benefits	**(871)**	—	**(8,205)**	—
Interest and dividend income	**(3,694)**	(8,662)	**(34,800)**	(81,602)
Interest expense	**6,948**	12,540	**65,455**	118,135
Loss on write-down of securities	**1,748**	1,936	**16,467**	18,238
Gain on sale of securities	**(653)**	(828)	**(6,151)**	(7,800)
Loss on sale of investment securities	**157**	—	**1,479**	—
Bad debts recovered	**(1,542)**	—	**(14,527)**	—
Loss on write-down of golf culb memberships	**1,639**	—	**15,440**	—
Gain on sale of property and equipment	**—**	(101)	**—**	(951)
Decrease (increase) in trade receivables	**(7,560)**	13,947	**(71,220)**	131,390
Decrease (increase) in inventories	**(3,052)**	5,370	**(28,752)**	50,589
Decrease in trade notes and accounts payable	**(7,751)**	(15,321)	**(73,019)**	(144,333)
Other, net	**2,377**	209	**22,392**	1,968
Sub total	**(6,538)**	10,136	**(61,592)**	95,488
Cash flows during the year for:				
Interest and dividend received	**4,069**	9,829	**38,333**	92,595
Interest paid	**(6,935)**	(12,682)	**(65,332)**	(119,472)
Income taxes refunded (paid)	**(311)**	691	**(2,930)**	6,509
Net cash provided (used in) by operating activities	**(9,715)**	7,974	**(91,521)**	75,120
Cash flows from investing activities:				
Additions to securities	**(1,023)**	(104)	**(9,637)**	(980)
Proceeds from sale of securities	**1,996**	5,844	**18,804**	55,054
Additions to property and equipment	**(747)**	(994)	**(7,037)**	(9,364)
Proceeds from sale of property and equipment	**606**	272	**5,709**	2,562
Additions to investment securities	**(1,016)**	(1,835)	**(9,571)**	(17,287)
Proceeds from sale of investment securities	**16,461**	16,877	**155,073**	158,992
Additions to loans receivable	**(637)**	(4,438)	**(6,001)**	(41,809)
Repayment of loans receivable	**4,633**	4,358	**43,646**	41,055
Other, net	**2,516**	1,026	**23,700**	9,667
Net cash provided by investing activities	**22,789**	21,006	**214,686**	197,890
Cash flows from financing activities:				
Increase (decrease) in bank loans, net	**385**	(10,881)	**3,627**	(102,506)
Proceeds from long-term debt	**598**	47,968	**5,634**	451,889
Repayments of long-term debt	**(5,765)**	(54,216)	**(54,310)**	(510,749)
Common stock purchased and retired	**(15,600)**	—	**(146,962)**	—
Net cash used in financing activities	**(20,382)**	(17,129)	**(192,011)**	(161,366)
Effect of foreign exchange adjustments	**(1,386)**	(1,305)	**(13,057)**	(12,294)
Net increase (decrease) in cash and cash equivalents	**(8,694)**	10,546	**(81,903)**	99,350
Cash and cash equivalents at beginning of year				
Cash and cash equivalents at beginning of year	**42,898**	32,352	**404,126**	304,776
Effect of subsidiaries newly consolidated	**231**	—	**2,176**	—
Cash and cash equivalents at beginning of year	**43,129**	32,352	**406,302**	304,776
Cash and cash equivalents at end of year	**¥ 34,435**	¥ 42,898	**$ 324,399**	$ 404,126

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Basis of financial statements

Hanwa Co., Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the Minister of Finance ("MOF") as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statemetns, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows for 1999 has been prepared for the purpose of inclusion in the consolidated financial statements, although such statement was not customarily prepared in Japan and not required to be filed with MOF prior to 2000.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers, using the prevailing exchange rate at March 31, 2000, which was ¥106.15 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

Consolidation — The Company prepared the consolidated financial statements for the year ended March 31, 2000 in accordance with the revised Accounting Principles for Consolidated Financial Statements effective from the year ended March 31, 2000. The consolidated financial statements include the accounts of the Company and its six (four in 1999) significant subsidiaries. The accounts of three foreign subsidiaries are included at their respective fiscal years ending the last day of February. Necessary adjustments for significant transactions occurring between the last day of February and March 31 have been made in the preparation of the consolidated financial statements.

Intercompany transactions and accounts have been eliminated. The Company doesn't apply the equity method, because non-consolidated subsidiaries and affiliated companies are immaterial.

Consolidated Statements of Cash Flows — In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents. In accordance with the "Standards of Preparation of Consolidated Cash Flow Statements, etc." (the "New Standards"), effective from the year ended March 31, 2000, the Company is required to prepare consolidated cash flow statements. The prior year's consolidated cash flow statement, which was prepared for readers outside Japan although such statement was not required, has been restated to conform to the 2000 presentation.

Allowance for doubtful receivables — The allowance for doubtful receivables of the Company and its domestic consolidated subsidiaries is provided in amounts sufficient to cover possible losses on collection by estimating individually uncollectible amounts and applying a percentage based on collection experience to the remaining accounts. The allowance for doubtful receivables of foreign consolidated subsidiaries is determined based upon estimates of management in amounts sufficient to cover possible collection losses.

Securities — Marketable equity securities in both current assets and investments are stated at the lower of moving average cost or market value. Recoveries of write-downs are recorded in subsequent periods. Cost and market value are compared on an item-by-item basis. Other securities, including investments in unconsolidated subsidiaries and affiliates, are stated at moving average cost. If the value of any such security declines below carrying value and the decline is judged to be material and other than temporary, the book value of such security is written down.

Dividend income is recognized when declared. Interest income is recognized on an accrual basis.

Property and equipment — Property and equipment are carried at cost. Depreciation is principally provided on the declining balance method over estimated useful lives. Major renewals and improvements are capitalized. Maintenance, repairs and minor renewals are expensed as incurred.

Software costs — In accordance with the provisional rule of the JICPA's Accounting Committee Report No.12 "Practical Guidance for Accounting for Research and Development Costs, etc." (the "Report"), the Company accounts for software which was included in other investments and non-current receivables in the same manner in 2000 as in 1999. Pursuant to the Report, however, the Company included software in intangible and other assets in 2000 and depreciated it using the straight-line method over the estimated useful lives (five years). The amount for 1999 has been reclassified to conform to the 2000 presentation.

Bonuses — The Company and its domestic consolidated subsidiaries follow the Japanese practice of paying bonuses to employees in June and December. As at the balance sheet date, the bonus liabilities are estimated and accounted for on an accrual basis.

Bonuses to directors and statutory auditors, which are subject to approval at the stockholders' meeting, are accounted for as an appropriation of retained earnings.

Income taxes — The Company and its subsidiaries provided income taxes at the amounts currently payable for the years ended March 31, 1999. Effective April 1, 1999, the Company and its subsidiaries adopted the new accounting standard, which recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1999, is reflected as an adjustment to the retained earnings brought forward from the previous year. Prior years' financial statemetns have not been restated.

The cumulative effect of adopting the new accounting standard is ¥197 million ($1,856 thousand), which is directly subtracted from the undisposed deficit brought forward from March 31, 1999. The effect for the year ended March 31, 2000, was to decrease net income by ¥139 million ($1,310 thousand).

Retirement benefits — Substantially all employees of the Company and its domestic consolidated subsidiaries are covered by qualified funded pension plans. The amount of the retirement benefit is, in general, based on length of service, base salary at the time of retirement, and cause of retirement. Annual contributions, which consist of normal cost and amortization of prior service cost are charged to income when paid.

Directors and statutory auditors are not covered by these plans. However, the liability for retirement benefits represents management's estimate of the amounts payable to them at the balance sheet date if they retired at that date. Amounts payable to directors and statutory auditors upon retirement are subject to the approval of stockholders.

Foreign consolidated subsidiaries of the Company have funded pension plans providing basically lump-sum payments.

Translation of foreign currencies — Cash and cash equivalents, current receivables, and current payables, denominated in foreign currencies, are translated at year-end rates except for those covered by forward exchange contracts and those for which the Company has a firm intention to continue to use to offset the effect of foreign currency fluctuations on non-current items.

If non-current receivables and payables denominated in foreign currencies had been translated at the current rate on March 31, 2000, a loss of ¥265 million ($2,496 thousand) would have been recognized.

Foreign currency financial statements are translated at year-end rates, except for certain intercompany accounts for which the rate used by the Company is applied. Resulting translation adjustments are reflected in the consolidated financial statements as "Foreign exchange adjustments."

Finance leases — Finance leases which do not transfer ownership and do not have bargain purchase provisions are accounted for in the same manner as operating leases in accordance with generally accepted accounting principles in Japan.

Net income (loss) per share — Computations of net income (loss) per share of common stock are based on the weighted average number of shares outstanding during each period.

3. Change in accounting policy

Inventories

Inventories are principally stated at the lower of cost or market value. Effective April 1, 1999, the Company changed the method of accounting for inventories from the last-in, first-out cost method to the moving average cost method or the specific identification cost method. This change was made to more appropriately state current costs of inventory of steel on the moving average cost method and foods, lumber and scrap, etc., on the identification cost method. The effect of this change was to increase inventories, operating income, and income before income taxes by ¥642 million ($6,048 thousand).

4. Marketable and investment securities

Marketable and investment securities at March 31, 2000, were as follows:

Marketable securities	Millions of yen 2000	Thousands of U.S. dollars 2000
Carrying value	¥41,350	$389,543
Aggregate market value	38,556	363,222
Net unrealized losses	¥ 2,794	$ 26,321

Investment securities	Millions of yen 2000	Thousands of U.S. dollars 2000
Carrying value	¥ 9,148	$ 86,180
Aggregate market value	8,032	75,667
Net unrealized losses	¥ 1,116	$ 10,513

The differences between the above costs and the amounts shown in the consolidated balance sheets represent non-marketable securities of ¥3,471 million ($32,699 thousand), for which there is readily available market from which to obtain or calculate the market values thereof.

5. Derivatives

The Company enters into foreign exchange forward contracts, in its normal business, to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Company enters into foreign exchange forward contracts, foreign currency swap agreements, and interest rate swap agreements as hedges against bonds and loans denominated in foreign currencies. And the Company enters into commodity futures contracts as a means of hedging risks associated with certain inventories and commitments.

It is the Company's policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities.

Derivatives are subject to market risk and credit risk. Since the purpose of using derivatives is to reduce market risks associated with assets and liabilities, market risks of the derivatives are effectively offset. And, as the counterparties to those derivatives are limited to major financial institutions, the Company does not anticipate any losses arising from credit risk.

Derivatives transactions entered into by the Company have been made in accordance with internal policies which regulate the authorization and credit limit amount. Each derivative transaction is periodically reported to the management, where evaluation and analysis of derivatives are made.

The contracts or notional amounts of derivatives which are shown in the following table do not represent the amounts exchanged by the parties and do not measure the Company's exposure to credit or market risks.

Fair value and net unrealized gains (losses) are required to be disclosed beginning in the fiscal year ended March 31, 2000, so such figures for the fiscal year ended March 31, 1999, are not disclosed.

The Company had the following derivative contracts outstanding at March 31, 2000.

Currency	Millions of yen			Thousands of U.S. dollars		
	Contract or notional amount	Fair value	Net unrealized gains (losses)	Contract or notional amount	Fair value	Net unrealized gains (losses)
Forward exchange contracts:						
Selling						
U.S. dollars	¥ 25,890	¥ 24,684	¥ 1,206	$ 243,900	$ 232,539	$ 11,361
Other currencies	13	14	(1)	122	131	(9)
Buying						
U.S. dollars	49,757	49,857	100	468,742	469,684	942
Other currencies	1,671	1,609	(62)	15,742	15,158	(584)
Currency swap agreements:						
Selling						
U.S. dollars	8,500	7,903	597	80,075	74,451	5,624
Total	—	—	¥ 1,840	—	—	$ 17,334

Foreign currency contracts which are used to hedge associated assets and liabilities and reflected on the balance sheet at year-end rates are not disclosed above.

Interest rate	Millions of yen			Thousands of U.S. dollars		
	Contract or notional amount	Fair value	Net unrealized gains (losses)	Contract or notional amount	Fair value	Net unrealized gains (losses)
Interest rate swaps:						
Floating rate received for floating rate	¥ 60,406	¥ (817)	¥ (817)	$ 569,063	$ (7,697)	$ (7,697)
Fixed rate received for floating rate	2,395	(296)	(296)	22,562	(2,788)	(2,788)
Floating rate received for fixed rate	9,300	(60)	(60)	87,612	(565)	(565)
Swaption:						
Buying						
Floating rate received for fixed rate	4,000			37,683		
Option premium	67	1	(66)	631	9	(622)
Total	—	—	¥ (1,239)	—	—	$ (11,672)

Commodity	Millions of yen			Thousands of U.S. dollars		
	Contract or notional amount	Fair value	Net unrealized gains (losses)	Contract or notional amount	Fair value	Net unrealized gains (losses)
Futures:						
Non-ferrous Metals						
Selling	¥ 4,157	¥ 4,271	¥ (114)	$ 39,162	$ 40,236	$ (1,074)
Buying	249	249	(0)	2,346	2,346	(0)
Petroleum						
Selling	33	33	(0)	311	311	(0)
Buying	408	422	14	3,844	3,976	132
Total	—	—	¥ (100)	—	—	$ (942)

6. Assets pledged as collateral

At March 31, 2000 and 1999, assets pledged as collateral for long-term bank loans of ¥38,637 million ($363,985 thousand) and ¥41,600 million ($391,898 thousand) respectively, and guarantees were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	**2000**	1999
Marketable securities	**¥ 4,818**	¥ 5,283	**$ 45,389**	$ 49,769
Other current assets	**10**	—	**94**	—
Property and equipment, net of accumulated depreciation	**13,196**	13,824	**124,314**	130,231
	¥ 18,024	¥ 19,107	**$ 169,797**	$ 180,000

7. Bank loans and long-term debt

Bank loans at March 31, 2000 and 1999, were represented principally by short-term notes bearing interest at rates from 0.64% to 6.94% and from 0.68% to 6.19%, respectively.

Long-term debt at March 31, 2000 and 1999, consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	**2000**	1999
SFr. floating rate bonds due 2000	**¥ 13,112**	¥ 12,806	**$ 123,523**	$ 120,641
Loans from banks and insurance companies, bearing interest, at March 31, 2000 and 1999, from 0.75% to 7.65% and from 0.80% to 7.65%, respectively, maturing serially through 2004	**65,858**	70,725	**620,424**	666,274
	78,970	83,531	**743,947**	786,915
Less amounts due within one year	**75,178**	2,472	**708,224**	23,288
	¥ 3,792	¥ 81,059	**$ 35,723**	$ 763,627

The SFr. floating rate bonds due 2000 bear interest at 1/8% over the six-month Swiss Franc LIBOR determined semi-annually and payable semi-annually in arrears. The rate of interest of the bonds at March 31, 2000, is 3% per annum. In no event shall the rate of interest be less than 3% or more than 8% per annum. The bonds are redeemable, commencing on September 12, 1990, at the option of the Company at prices ranging from 101% to 100% of the principal amount.

The annual maturities of long-term debt outstanding at March 31, 2000, were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2001	¥ 75,178	$ 708,224
2002	2,152	20,273
2003	1,120	10,551
2004	520	4,899
	¥ 78,970	$ 743,947

8. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 42.1% for the year ended March 31, 2000.

The following table summarizes the significant differences between the statutory tax rate and the Company's and its subsidiaries' effective tax rate for financial statement purposes for the year ended March 31, 2000:

	2000
Statutory tax rate	42.1%
Tax effect of permanent differences	12.5
Valuation allowance recognized for deferred tax assets	14.4
Tax effect of unrealized intercompany profit	(8.0)
Difference of tax rates for consolidated subsidiaries	(4.4)
Other	1.3
Effective tax rate	57.9%

Significant components of the Company's and its subsidiaries' deferred tax assets and liabilities as of March 31, 2000, are as follows:

	Millions of yen	Thousands of U.S. dollars
	2000	2000
Deferred tax assets:		
Net operating loss carryforwards	¥ 64,897	$ 611,371
Loss on loans receivable	8,769	82,609
Temporary differences pertaining to investments in consolidated companies	1,133	10,674
Loss on write-down of golf club memberships	691	6,510
Other	859	8,092
Total deferred tax assets	76,349	719,256
Valuation allowance	(76,212)	(717,965)
Net deferred tax assets	137	1,291
Deferred tax liabilities	78	735
Net deferred tax assets	¥ 59	$ 556

9. Stockholders' equity

Common stock — The Company reduced its capital by ¥31,237 million ($294,272 thousand) by purchasing and retiring 80 million shares of common stock of the Company on August 7, 1999 for ¥15,600 million ($146,962 thousand). The difference between the capital reduction amount and cost was credited to additional paid-in capital. The capital reduction was approved at an ordinary general meeting of shareholders of the Company held on June 29, 1999.

Additional paid-in capital — The Commercial Code of Japan provides that the entire issue price of shares must be credited to common stock, provided that, by resolution of the Board of Directors, up to one-half of such issue price may be credited to additional paid-in capital so long as the common stock is equal to at least the aggregate par value of the shares issued. The additional paid-in capital may be used to reduce a deficit by resolution of the stockholders or may be transferred to common stock by resolution of the Board of Directors, but is not available for distribution as dividends.

10. Leases

Finance leases

As lessee

Total lease payments, including financing charges, under finance leases that do not transfer ownership of the leased property to the Company for the years ended March 31, 2000 and 1999, were ¥666 million ($6,274 thousand) and ¥628 million ($5,916 thousand), respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the leasee on an "as if capitalized" basis for the year ended March 31, 2000, were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Other property and equipment	**¥ 3,173**	**¥ 1,764**	**¥ 1,409**	**$ 29,892**	**$ 16,618**	**$ 13,274**
Other investments	**96**	**42**	**54**	**904**	**396**	**508**
Total	**¥ 3,269**	**¥ 1,806**	**¥ 1,463**	**$ 30,796**	**$ 17,014**	**$ 13,782**

Depreciation expense, which is not reflected in the accompanying statements of operations, computed by the straight-line method was ¥575 million ($5,417 thousand) and ¥563 million ($5,304 thousand) for the years ended of March 31, 2000 and 1999, respectively.

Obligations, excluding financing charges, under such non-capitalized finance leases as of March 31, 2000 and 1999, were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	**2000**	1999
Due within one year	**¥ 530**	¥ 514	**$ 4,993**	$ 4,842
Due after one year	**1,004**	1,236	**9,458**	11,644
Total	**¥ 1,534**	¥ 1,750	**$ 14,451**	$ 16,486

As lessor

Lease payments, excluding financing charges, to be received under finance leases as of March 31, 2000 and 1999, were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	**2000**	1999
Due within one year	**¥ 39**	¥ 37	**$ 367**	$ 348
Due after one year	**120**	159	**1,131**	1,498
Total	**¥ 159**	¥ 196	**$ 1,498**	$ 1,846

Operating leases (As Lessee)

Obligations under operating leases as of March 31, 2000 and 1999, were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	**2000**	1999
Due within one year	**¥ 36**	¥ 35	**$ 339**	$ 330
Due after one year	**137**	188	**1,291**	1,771
Total	**¥ 173**	¥ 223	**$ 1,630**	$ 2,101

11. Segment information

Industry segment information

The Company's and its subsidiaries' operations are classified into five industry segments as follows:

Steel: Steel bars and shapes, steel plates and sheets, special steels, wire products, steel pipes, and steelmaking raw materials

Non-ferrous metals: Nickel, copper, aluminium, lead, zinc, tin, antimony, and other alloys

Foods: Frozen seafoods and meat products

Petroleum and chemicals: Petroleum products, chemical products, and other

Other business: Machinery, lumber, and other

Segment information by business category for the years ended March 31, 2000 and 1999, is as follows:

Year ended March 31, 2000

	Millions of yen							
	Steel	Non-ferrous metals	Foods	Petroleum and chemicals	Other business	Total	Corporate	Consolidated
Net sales	¥ 359,444	¥ 51,616	¥ 104,229	¥ 75,269	¥ 39,159	¥ 629,717	¥ —	¥ 629,717
Costs and expenses	353,573	50,137	102,253	74,651	36,563	617,177	3,813	620,990
Operating income	¥ 5,871	¥ 1,479	¥ 1,976	¥ 618	¥ 2,596	¥ 12,540	¥ (3,813)	¥ 8,727
Assets	¥ 139,746	¥ 16,005	¥ 26,804	¥ 13,773	¥ 13,931	¥ 210,259	¥ 121,913	¥ 332,172
Depreciation	1,115	71	34	20	199	1,439	75	1,514
Capital expenditure	219	50	13	5	472	759	41	800

Year ended March 31, 2000

	Thousands of U.S. dollars							
	Steel	Non-ferrous metals	Foods	Petroleum and chemicals	Other business	Total	Corporate	Consolidated
Net sales	$ 3,386,189	$ 486,255	$ 981,903	$ 709,082	$ 368,903	$ 5,932,332	$ —	$ 5,932,332
Costs and expenses	3,330,881	472,322	963,288	703,260	344,446	5,814,197	35,921	5,850,118
Operating income	$ 55,308	$ 13,933	$ 18,615	$ 5,822	$ 24,457	$ 118,135	$ (35,921)	$ 82,214
Assets	$ 1,316,496	$ 150,777	$ 252,511	$ 129,750	$ 131,238	$ 1,980,772	$ 1,148,497	$ 3,129,269
Depreciation	10,504	669	320	188	1,875	13,556	707	14,263
Capital expenditure	2,063	471	122	47	4,448	7,151	386	7,537

Year ended March 31, 1999

	Millions of yen							
	Steel	Non-ferrous metals	Foods	Petroleum and chemicals	Other business	Total	Corporate	Consolidated
Net sales	¥ 380,178	¥ 43,999	¥ 110,910	¥ 35,276	¥ 28,205	¥ 598,568	¥ —	¥ 598,568
Costs and expenses	374,316	43,145	109,819	34,827	27,062	589,169	4,074	593,243
Operating income	¥ 5,862	¥ 854	¥ 1,091	¥ 449	¥ 1,143	¥ 9,399	¥ (4,074)	¥ 5,325
Assets	¥ 142,815	¥ 10,661	¥ 29,782	¥ 5,324	¥ 11,414	¥ 199,996	¥ 160,548	¥ 360,544
Depreciation	1,217	46	37	16	29	1,345	98	1,443
Capital expenditure	847	44	32	16	23	962	82	1,044

Year ended March 31, 1999

	Thousands of U.S. dollars							
	Steel	Non-ferrous metals	Foods	Petroleum and chemicals	Other business	Total	Corporate	Consolidated
Net sales	$ 3,581,517	$ 414,498	$ 1,044,842	$ 332,322	$ 265,709	$ 5,638,888	$ —	$ 5,638,888
Costs and expenses	3,526,293	406,453	1,034,564	328,092	254,941	5,550,343	38,380	5,588,723
Operating income	$ 55,224	$ 8,045	$ 10,278	$ 4,230	$ 10,768	$ 88,545	$ (38,380)	$ 50,165
Assets	$ 1,345,408	$ 100,433	$ 280,565	$ 50,155	$ 107,528	$ 1,884,089	$ 1,512,463	$ 3,396,552
Depreciation	11,465	433	349	151	273	12,671	923	13,594
Capital expenditure	7,979	415	302	151	216	9,063	772	9,835

Corporate costs and expenses mainly consist of expenses of administrative departments.

Corporate assets mainly consist of marketable securities, investment securities and assets of administrative departments.

Overseas net sales

Overseas net sales include exports and offshore sales by the Company and its consolidated subsidiaries, excluding sales by foreign subsidiaries to Japan.

Overseas net sales of the Companies are as follows:

Year ended March 31, 2000

	Millions of yen			Thousands of U.S. dollars		
	Asia	Other areas	Total	Asia	Other areas	Total
Overseas net sales	**¥ 67,215**	**¥ 11,170**	**¥ 78,385**	**$ 633,208**	**$ 105,228**	**$ 738,436**
Percentage of consolidated net sales	**10.7%**	**1.8%**	**12.5%**			

"Asia" consists principally of sales to China, South Korea and Thailand.
"Other areas" consist principally of sales to U.S.A. and Saudi Arabia.

Year ended March 31, 1999

	Millions of yen			Thousands of U.S. dollars		
	Asia	Other areas	Total	Asia	Other areas	Total
Overseas net sales	¥ 49,874	¥ 36,487	¥ 86,361	$ 469,844	$ 343,731	$ 813,575
Percentage of consolidated net sales	8.3%	6.1%	14.4%			

"Asia" consists principally of sales to China and Thailand.
"Other areas" consist principally of sales to U.S.A. and Saudi Arabia.

12. Contingent liabilities

At March 31, 2000 and 1999, the Company and its consolidated subsidiaries were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	**2000**	1999
As endorsers of export letters of credit and notes discounted	**¥ 4,079**	¥ 2,710	**$ 38,427**	$ 25,530
As guarantors of indebtedness	**1,497**	4,081	**14,103**	38,446

Report of Independent Public Accountants

To the Stockholders and the Board of Directors of
Hanwa Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Hanwa Co., Ltd. (a Japanese corporation) and subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Hanwa Co., Ltd. and subsidiaries as of March 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except for the new accounting policies and change in accounting policy, with which we concur, in the following paragraph.

As explained in Notes 2, in the year ended March 31, 2000, Hanwa Co., Ltd., and subsidiaries prospectively adopted new Japanese accounting standards for consolidation and, income taxes and software costs. Also, Hanwa Co., Ltd. changed the method of accounting for inventories, effective April 1, 1999, as referred to in Note 3.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Osaka, Japan
June 29, 2000

Asahi & Co
(Member Firm of Andersen Worldwide SC)

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying consolidated financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

Network of Hanwa Co., Ltd.

Domestic Offices

OFFICE	ADDRESS	TELEPHONE	FAX
Osaka	Hanwa Bldg., 4-3-9 Fushimi-machi, Chuo-ku, Osaka 541-8585, Japan	06-6206-3270	06-6206-3371
Tokyo	New Hanwa Bldg., 1-13-10 Tsukiji, Chuo-ku, Tokyo 104-8429, Japan	03-3544-2171	03-3544-2351
Nagoya	Chunichi Bldg., 4-1-1 Sakae, Naka-ku, Nagoya 460-8441, Japan	052-262-2371	052-262-8819
Tohoku	Sendai Daiichi Seimei Tower Bldg., 4-6-1 Ichiban-cho, Aoba-ku, Sendai 980-0811, Japan	022-227-7981	022-227-7969
Kyushu	Nihon Seimei Hakataekimae 2nd Bldg., 4-1-1, Hakataekimae, Hakata-ku, Fukuoka 812-0011, Japan	092-471-7121	092-471-7060

Overseas Offices

OFFICE	ADDRESS	TELEPHONE	FAX
New York	Parker Plaza, 6th Floor, 400 Kelby Street, Fort Lee, New Jersey 07024, U.S.A.	1-201-363-4500	1-201-346-9890
Seattle	900 4th Avenue, Suite 1640, Seattle, Washington 98164, U.S.A.	1-206-622-2102	1-206-622-6464
Houston	Suite 515, 9800 Richmond Avenue, Houston, Texas 77042, U.S.A.	1-713-978-7904	1-713-978-7790
California	18300 Vonkarman, Suite 405, Irvine, California 92612, U.S.A.	1-949-955-2780/2781	1-949-955-2785
Vancouver	Suite 502, 1001 West Broadway Vancouver, British Columbia, V6H 4B1, Canada	1-604-876-1175	1-604-876-1085
Bogota	Carrera 11 No. 86-32, Oficina 604 Apartado Aereo No. 093260 Bogota, D.E. Colombia	57-1-218-3814/8406	57-1-256-0064
Seoul	Room 2501-1, Korea World Trade Center Bldg., 159-1, Samsung-Dong, Kangnam-ku, Seoul, 135-729, R.O.Korea	82-2-551-5387	82-2-551-5575
Beijing	Room 801, Beijing Fortune Building, 5 Dong San Huan Bei-lu, Chaoyang District, Beijing 100004, P.R.China	86-10-6590-8331~33	86-10-6590-8340
Qingdao	Room B309, Full Hope Plaza, 12 HongKong Central Road, Qingdao, Shangdon Province 266071, P.R.China	86-532-5026141~45	86-532-5026013
Dalian	Senmao Bldg., 13F, 147 Zhongshan Street, Dalian, Liaoning Province 116011, P.R.China	86-411-368-6954	86-411-368-6934
Shanghai	Room 905/906, Aetna Tower,No.107 Zhunyi Road, Shanghai 200335, P.R.China	86-21-6237-5260/5265~7	86-21-6237-5268/5269
Fuzhou	Room 2501, Lippo Tianma Plaza, No.1 Wu Yi Road, Fuzhou City, Fujian Province, P.R. China	86-591-3354165	86-591-3345202
Guangzhou	Unit 1207,12th Floor, Peace World Plaza, 362-366 Huan Shi Road East, Guangzhou,510060,P.R. China	86-20-8384-3885	86-20-8384-8875
Dongguan	Longxi Industrial Zone,Zhouxi Management Area,Huangcun District,Dongguan,Guangdong Province P.R.China 511715	86-769-240-6428	86-769-240-6448
Zhongshan	Unit 1909-1910, 19th Floor, Bank Of China Tower, 18 Zhongshan 3rd Road, Zhongshan, Guangdong Province P.R.China	86-760-332-0706	86-760-332-0696
Hong Kong	Unit 3201-3 32nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong	852-25450110	852-25422544
Taipei	Room 303 3rd Floor. No. 79, Chung Shan North Road Sec.2, Taipei Taiwan, R.O.C.	886-2-2560-2214~17	886-2-2571-0693
Kaohsiung	Room B, 15th Floor, No.7 Su-Wei 4th Road, Kaohsiung, Taiwan, R.O.C.	886-7-338-5508~10	886-7-338-5433
Bangkok	19th Floor, Vorawat Bldg., 849 Silom Road, Bangrak, Bangkok, 10500 Thailand	66-2-635-1230	66-2-635-1220/1221
Kuala Lumpur	Suite 8-12B-3, Level 14 (12B), Menara Olympia 8, Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia	60-3-238-2311	60-3-238-2380
Singapore	20 Cecil Street, #11-02 SINGAPORE EXCHANGE, Singapore, 049705	65-536-7822	65-536-7855
Tawau	P.O. Box 1231 91037 Tawau, Sabah, Malaysia	60-89-750016~7	60-89-750019
Jakarta	Menara Cakrawala 5th Floor Jalan M.H. Thamrin 9, Jakarta, 10340 Indonesia	62-21-3902293	62-21-3902294
Mumbai	c/o M.D. Jagat A/5 Kamdar Building, Gokhale Road South, Dadar, Mumbai 400 028, India	91-22-4305083	91-22-4308531
Tehran	6th Floor, Building, No.10 8th Street, Mirzaye-Shirazi Avenue, Tehran 15967, Iran	98-21-890-3537	98-21-890-4723
Kuwait	c/o Al-Sabih Engineering & Trading Co. P.O. Box No. 1366, Safat 13014, Kuwait Room 24, 6th Floor, Danat Trading Center, Abdullah Al-Ahmad Street, Sharq, Kuwait	965-243-7259	965-243-7263
Riyadh	P.O. Box 68974, Riyadh 11537, Saudi Arabia	966-1-478-3022	966-1-479-2459
Jeddah	c/o Office No. 219, Kaki Center P.O. Box 1224, Jeddah 21431, Saudi Arabia	966-2-661-0796	966-2-661-0796
Las Palmas	C/Luis Morote, NO.6-3F , Edf. Catalunia 35007-Las Palmas De Gran Canaria, Spain	34-928-270894	34-928-275735
London	5th Floor, Finland House, 56 Haymarket, London, SW1Y 4RN. U.K.	44-20-7839-4448	44-20-7839-3994

Directors and Statutory Auditors

President
Shuji Kita 北　修爾

Senior Managing Director
Hiroshi Shintani 新谷　洋

Managing Directors
Mitsuyuki Nakabayashi 中林　満之
Takayuki Kamoto 嘉本　隆行
Takashi Kyui 休井　匡
Shozaburo Bando 坂東祥三郎
Kunio Matsuda 松田　邦雄

Directors
Minoru Masuda 増田　実
Katsutoshi Kumagai 熊谷　勝年
Kazumichi Kaji 加地　一道
Kazuo Yokota 横田　和夫
Masaomi Amao 天尾　正臣
Tatsuyuki Yamasaki 山崎　達之
Hiroshi Omoto 大本　博
Noriyuki Hanafusa 花房　伯行
Hironari Furukawa 古川　弘成
Shinsuke Kitamura 北村　信輔

Statutory Auditors
Minoru Kifuku 喜福　稔
Tomotaro Kaneko 金子知太郎
Kazushi Higashida 東田　和四
Takao Ikematsu 池松　孝雄

Investor Information
(As of March 31, 2000)

Company Name
Hanwa Co., Ltd. 阪和興業株式会社

Date of Establishment
April 1947

Stated Capital
¥82,646 million ($778,578 thousand)

Number of Shares of Common Stock Issued
211,663,200 shares

Number of Shareholders
27,689

Stock Exchange Listings
The First Section of the Tokyo Stock Exchange
The First Section of the Osaka Stock Exchange

Transfer Agent
The Sumitomo Trust and Banking Co., Ltd.

Auditor
Asahi & Co.

Number of Employees
910

HANWA CO., LTD.
http://www.hanwa.co.jp

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