

1999

KYOWA HAKKO KOGYO CO., LTD. ANNUAL REPORT



FINANCIAL HIGHLIGHTS

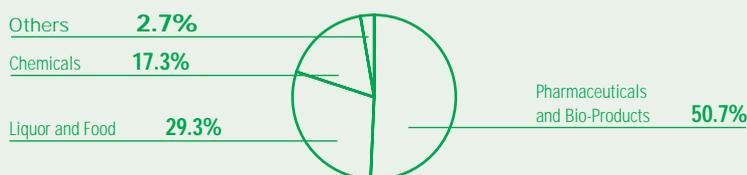
KYOWA HAKKO KOGYO CO., LTD. and Its Subsidiaries March 31, 1999 and 1998

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Net Sales	¥384,671	¥397,361	\$3,190,966
Net Income	6,143	13,528	50,959
Total Shareholders' Equity	185,766	188,645	1,540,989
Total Assets	477,729	437,271	3,962,914

Per Share Data:	Yen		U.S. Dollars
	Net income—primary	¥13.9	¥30.3
Cash dividends	7.5	7.5	0.062

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥120.55=US\$1.
 2. Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year, appropriately adjusted for subsequent free distributions of common stock.
 3. As a result of a change in the Company's fiscal year-end from December 31 to March 31, fiscal 1996 was the three-month period ended March 31, 1996.

Net Sales (%)



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PROFILE

Kyowa Hakko Kogyo Co., Ltd., has aggressively developed and diversified its business as a comprehensive chemicals company, with operations centered on its core fermentation technologies.

At the time of its establishment, Kyowa Hakko engaged in the mass production of streptomycin, which contributed to the eradication of tuberculosis in Japan. In the field of anticancer agents as well, Kyowa Hakko carried out the development, production, and sales of Mitomycin-C. Today, Mitomycin-C is being used worldwide as an essential drug in cancer chemotherapy.

Besides anticancer agents, Kyowa Hakko presently engages in the R&D and sales of pharmaceuticals in a wide range of domains, including antihypertension, antiallergic, and neurological-related agents, and the Company's pharmaceutical operations have grown into a core business.

In raw materials alcohol, which represents the origins of its fermentation technologies, Kyowa Hakko expanded its operations into the liquor business. Kyowa Hakko also succeeded in the mass production of various types of amino acids and nucleic acids, including glutamic acid and lysine, which support the Company's businesses.

In its chemicals business, which originated from acetone and butyl alcohol fermentation, Kyowa Hakko has shifted from fermentation methods to synthetic methods and is focusing mainly on the fields of plasticizers and solvents. Recently, Kyowa Hakko has been cultivating its business in fine chemicals that contribute to environmental protection.

MANAGEMENT PHILOSOPHY

Kyowa Hakko will strive for the advancement of life science and technology and create new value to contribute to the health and happiness of people worldwide.

In July 1999, on the occasion of the 50th anniversary of its establishment, Kyowa Hakko is perpetuating its founding spirit while formulating a new management philosophy befitting the 21st century. In life science—which is expected to be one of the fastest growing fields in the future—with the aim of attaining the highest level of customer satisfaction, Kyowa Hakko will carry out innovative and revolutionary research and enhance its technological capabilities, improve its profits and profitability through its global activities, and contribute to the betterment of lifestyles and people's health. Kyowa Hakko will also respect corporate ethics, place consideration on the environment and safety, and strive for management that is highly transparent and open to society.



Q: Could you describe the operating environment and business results for Kyowa Hakko in fiscal 1999, ended March 31, 1999?

Kyowa Hakko encountered difficult operating conditions in each of its principal businesses—Pharmaceuticals and Bio-Products, Liquor and Food, and Chemicals—due mainly to such factors as Japan's ongoing economic recession, intensifying competition, and downward pressure on market prices.

Amid this environment, in Pharmaceuticals and Bio-Products, the Company's principal business sector, Kyowa Hakko was able to minimize a decline in performance by expanding sales of mainstay pharmaceuticals and recording sharp increases in sales and profit in amino acids for pharmaceuticals. As a result, sales in Pharmaceuticals and Bio-Products amounted to ¥194.9 billion, and operating income totaled ¥28.6 billion.

Our Liquor & Alcohol and Food business faced a severe environment that resulted from sluggish consumption and falling market prices. Nevertheless, by introducing new products to the market, the Liquor & Alcohol and Food business made important strides in improving its business results and significantly reducing the size of its operating loss and is now positioned for a rapid return to profitability. Our Chemicals business declined because of the effects of sluggish economic conditions in Japan and overseas.

Q: Could you explain your seventh medium-term management plan?

In April 1999, Kyowa Hakko introduced a new medium-term management plan that will serve as a basic policy for guiding the Company's operations through the fiscal year ending March 31, 2002. Under this management plan, Kyowa Hakko introduced an In-House Company System and Executive Officers Committee with the aims of raising the efficiency and speed of its management. By more clearly defining responsibilities for performance to achieve independent management in each business while reforming the

operation of the Board of Directors, Kyowa Hakko seeks to enable the Pharmaceuticals and Bio-Products, Liquor and Food, and Chemicals businesses to prevail over competitors in their respective fields and carry out operations as individual profit centers.

The Pharmaceuticals Company, Kyowa Hakko's core business, will continue to create, develop, and introduce innovative new drugs while aggressively promoting the formation of strategic alliances as well as strengthen and upgrade its product pipeline. Regarding its overseas development structure, the Pharmaceuticals Company will expand and strengthen its overseas development bases for pharmaceuticals in the United States and the United Kingdom as it works for the rapid development of new pharmaceuticals.

During the year under review, Kyowa Hakko launched Navelbine, an agent that shows high efficacy in treating lung cancer, and sales of this drug have expanded smoothly. Kyowa Hakko plans to launch at least one new in-house-developed drug annually.

The Bio-Chemicals Company will develop and expand its business for amino acids for pharmaceuticals, pharmaceutical bulk, and feed additive amino acids by strengthening its marketing activities, which will include progressing with the localization of its overseas offices.

The Liquor & Alcohol and Food companies will each review their management and strive to restore profitability and competitiveness by giving priority to promising or profit-making products and reducing costs. In our foods business in particular, preparations are also proceeding smoothly for the full-scale start-up of the nucleic acid business in the United States.

The Chemicals Company will improve its competitiveness and achieve a rapid recovery in profitability by reducing costs and enhancing sales and production.

Through the implementation of the preceding measures, Kyowa Hakko aims to generate consolidated net sales of ¥440 billion, operating income of ¥34 billion, and net income of ¥16 billion for the fiscal year ending March 31, 2002. For the same fiscal period, Kyowa Hakko will strive to achieve consolidated ROE of 6.5% or higher and ROA of 3.2% or higher.

Q: Could you briefly describe the aim of your new corporate philosophy?

As it celebrates its 50th anniversary in 1999, Kyowa Hakko has formulated a new corporate philosophy with the aim of surviving as a global and excellent company in the rapidly approaching 21st century. To ensure that this management philosophy is concretely expressed in its management activities, Kyowa Hakko has formulated new management guidelines and established its ethical norm.

Kyowa Hakko intends to play a leading role in life science, which is expected to be one of the most rapid developing fields in the 21st century, while contributing to the health and well-being of people worldwide and achieving further growth as a highly competitive company.

Q: What is the core of Kyowa Hakko's operations?

The core of Kyowa Hakko's operations is a strong orientation toward R&D with an emphasis on customer satisfaction. In particular, Kyowa Hakko's biotechnologies, which are based on fermentation technologies, represent core technologies and a field in which the Company has been a front-runner since its establishment. Kyowa Hakko is creating new technologies that use fermentation technologies and is building a production



system for the manufacture of oligosaccharide and other pharmaceuticals and pharmaceutical raw materials that are difficult to manufacture using synthesis methods as part of vigorous efforts to create highly original and new products and technologies.

Q: Could you please briefly describe your management policies in your pharmaceuticals business?

The Pharmaceuticals Company represents Kyowa Hakko's core business. Our Pharmaceuticals Company is currently operating within a difficult and rapidly evolving environment due to such factors as revisions to the National Health Insurance (NHI) drug reimbursement and drug approval systems. To sustain growth amid this period of change, Kyowa Hakko will move ahead to seize new opportunities for growth.

In line with these efforts, in May 1999 Kyowa Hakko launched Navelbine, an agent for treating non-small-cell lung cancer, and sales of this drug have expanded smoothly. Kyowa Hakko plans to expand the indications of Navelbine to include breast cancer. In the near future, Kyowa Hakko intends to launch KW-4679, an antiallergic; KJK-4263, a transdermal analgesic for persistent cancer pain; and KW-9100, a diagnostic agent for *H. Pylori* infections.

Our efforts to develop new drugs are focused on our particular fields of strength, including anticancer, anti-inflammatory, and antiallergic agents, as well as agents for treating neurological disorders.

We are placing high priority on upgrading our overseas drug development structure that is centered on Kyowa Pharmaceutical, Inc. (KPI), in the United States, and Kyowa Hakko U.K. Ltd., in the United Kingdom. Kyowa Hakko is working toward the rapid development of its priority drugs, including KW-6002, an in-house-developed anti-Parkinson's disease agent, and KW-2170, an anticancer agent.

Kyowa Hakko is strategically upgrading all areas of its domestic and overseas operations—R&D, manufacturing, and marketing—and these efforts include introducing new drugs that draw on the Company's marketing strengths.

The External Lubrication Tableting System (EXLUB) is a revolutionary manufacturing system developed by Kyowa Hakko for the stable production of extremely high-quality tablets. In the future, Kyowa Hakko will vigorously progress with the licensing of this production system, including commissioned production and out-licensing.

Through a concentrated and efficient allocation of management resources, Kyowa Hakko will carry out the development and marketing of pharmaceuticals that meet the needs of patients.

Q: Would you explain Kyowa Hakko's approach toward environmental protection?

Kyowa Hakko works to implement closed systems and gives high consideration to environmental protection. These efforts include being an industry leader in the recycling of waste liquid from fermentation production into fertilizers. Kyowa Hakko formulated its "Declaration of Activities Related to the Environment, Safety, and Product Safety" and is building environmental and other related management systems that allow for the participation of all employees.

In 1999, Kyowa Hakko issued its *Environmental Report* and is taking an aggressive approach to developing environment-related products. In addition, Kyowa Hakko is making efforts to obtain ISO 14001 certification at all its domestic production facilities by 2001.

Q: What is the outlook for the current fiscal period?

During fiscal 2000, although intense market competition is expected to persist, Kyowa Hakko is confident that aggressive investments in R&D made to the present, the reduction of production and distribution costs, and the continued development of new products will enable an improvement in business results. Kyowa Hakko is also formulating strategies for aggressively dealing with the Year 2000 issue. Under its In-House Company System, Kyowa Hakko will make efforts to create new value in each business as it strives to achieve a high level of customer satisfaction. Kyowa Hakko also views fiscal 2000 as a year for entering a new phase of growth.

For the fiscal year ending March 31, 2000, Kyowa Hakko is striving to achieve net sales of ¥385 billion and a 60% increase in net income, to ¥10 billion.



June 1999

Tadashi Hirata

President and Chief Executive Officer

Since its establishment, Kyowa Hakko has vigorously developed and diversified its business activities, which have centered on the Company's fermentation technologies. Using these fermentation technologies, Kyowa Hakko has diversified into such fields as pharmaceuticals, petrochemicals, foods, such liquor businesses as *shochu* and refined liquor, as well as its biochemicals business. Kyowa Hakko's aggressive investments in its pharmaceutical business have made a particularly large contribution, and the Company has developed into a comprehensive chemicals company. Kyowa Hakko has aggressively invested in its Pharmaceuticals business, and high revenues generated from this business have supported the Company's operations.

However, Kyowa Hakko's Pharmaceuticals business is entering a period of significant change, as Japan's NHI drug reimbursement and medical services provision systems undergo extensive revisions. Along with these changes, Kyowa Hakko anticipates its Pharmaceuticals business will encounter a difficult profit situation over the next several years. Also, the Company's Chemicals business is facing a severe environment because of the slump in the Japanese economy, while the Liquor & Alcohol and Food business is operating amid a period of flux that includes a downtrend in prices and a change in the distribution environment. Against this background, Kyowa Hakko decided it must carry out a bold restructuring of its operations.

Amid the slowdown of the Japanese economy and the arrival of the age of intensifying megacompetition that transcends national borders, the different characteristics of each of Kyowa Hakko's businesses make it increasingly difficult to achieve mutual synergies from among each of the Company's individual businesses. In view of this situation, Kyowa Hakko introduced its In-House Company System to allow each business sector to continue growing amid a highly competitive environment, build each business into an independent profit center, and ensure the continued prosperity of the entire Kyowa Hakko Group.

Under the In-House Company System, effective June 29, 1999, Kyowa Hakko reorganized its operations into five new companies—the Pharmaceuticals, Chemicals, Food, Liquor & Alcohol, and Bio-Chemicals companies. Each company carries out integrated operations, from R&D to sales. The introduction of the In-House Company System is also aimed at speeding up decision-making processes and implementation in accordance with the characteristics of the businesses of each company. As part of the In-House Company System, significant authority for determining R&D expenditures and capital investment has also been transferred to each company. In addition, while strengthening its corporate management strategies, Kyowa Hakko is striving to reduce the size of its headquarters.

Besides its new In-House Company System, Kyowa Hakko introduced the Executive Officers Committee to separate management functions and the execution of business activities. With the introduction of the Executive Officers Committee, Kyowa Hakko will reduce the number of directors to less than 10 and will upgrade the Board of Directors and strengthen its management strategies. The introduction of the In-House Company System and Executive Officers Committee will allow Kyowa Hakko to selectively concentrate the allocation of its management resources and speed up management decision making as it strives to become an excellent company in the 21st century.

O V E R V I E W O F T H E C O M P A N I E S

Pharmaceuticals Company

President: Hideki Yasui
Senior Managing Director

The newly formed Pharmaceuticals Company begins its operations facing a difficult environment, characterized by sluggish demand in the domestic market and rapidly intensifying global competition. In carrying out our business, we will follow what we call our “3-S” spirit—speed, straight, and simple—without being bound to the way of doing business in the past. Top priorities in the Pharmaceuticals Company include rapidly creating new drugs that are accepted worldwide; globalizing its business, mainly its R&D activities; improving existing pharmaceuticals; and forming alliances with other companies.

Chemicals Company

President: Ayao Kikuchi
Senior Executive Officer

Amid extremely difficult conditions in the petrochemicals industry, the Chemicals Company is aiming to further strengthen its core oxo business. It will also fortify the price-competitiveness of its commodity products, such as solvents and plasticizers and their raw materials, and strengthen the market position of these products by forming alliances with other companies. In specialty chemicals, by maximizing the use of its R&D capabilities, the Chemicals Company will aggressively introduce new products, including environment-friendly products, to develop these operations as a high-value-added business.

Food Company

President: Hiroshi Hosoda
Senior Executive Officer

With the aim of establishing a structure for improving profitability, the Food Company will carry out an extensive review of its business structure and streamline or retreat from unprofitable and inefficient businesses. We also intend to continue focusing on seasonings, baking ingredients, and health food materials—where we offer an extensive lineup of products—and strengthen our R&D, production, and sales capabilities within these businesses as we work to survive amid a mature society based on the slogan “gourmet and health.”

Liquor & Alcohol Company

President: Naoyuki Sorimachi
Executive Officer

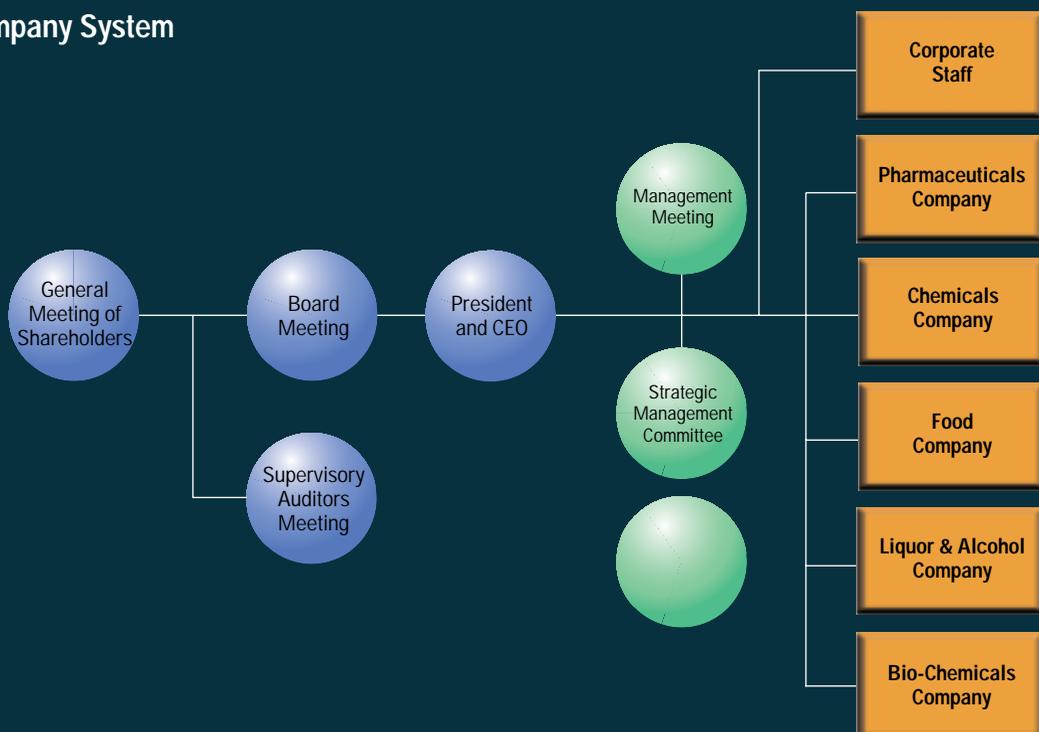
Against a background of revolutionary changes in distribution and growing consumer preference for low prices, the Liquor & Alcohol Company will revamp its organization and strengthen its marketing as it strives for the rapid achievement of a structure that is capable of continually generating profits. The Liquor & Alcohol Company will also concentrate the allocation of its resources on *shochu*, wine, and low-alcoholic refreshers while retreating from unprofitable businesses and further reducing distribution and other costs.

Bio-Chemicals Company

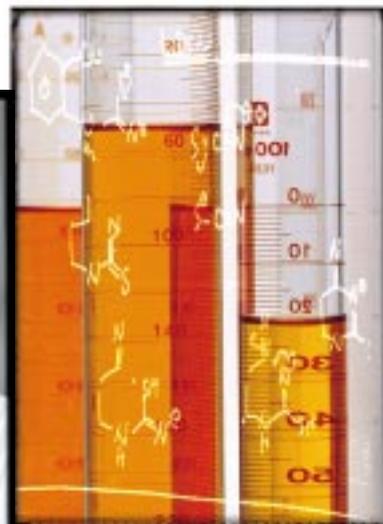
President: Minoru Sakurai
Senior Executive Officer

As it encounters an increasingly harsh environment that includes uncertainties about the future of the U.S. economy, exchange rate fluctuations, and technological advances in China, the Bio-Chemicals Company will use its fermentation-related technologies, which represent core technologies, to strengthen its existing lineup of products, including pharmaceuticals and industrial-use amino acids and nucleic acids, and launch new products. The Bio-Chemicals Company is also considering forming production and sales alliances in feed-grade amino acids.

In-House Company System



R Research & D Development



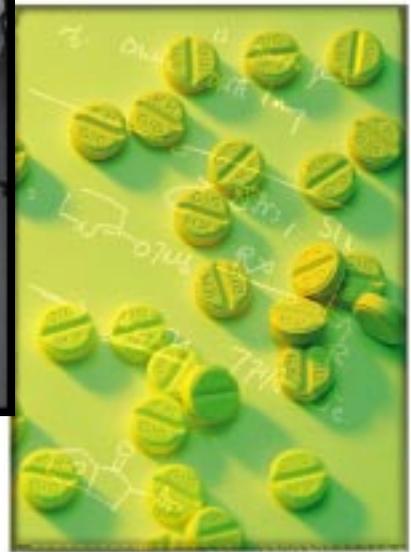
Guided by a new management philosophy, Kyowa Hakko is carrying out its R&D activities in a wide range of areas—including its principal field of pharmaceuticals—as well as in biochemicals, foods, liquors, chemicals, and diagnostic reagents. Kyowa Hakko is also concentrating on new biotechnology-related fields, as exemplified by its research in cDNA, as well as participating in various national projects. These include the undertaking of a project involving the genome analysis of *Corynebacterium glutamicum*, a typical amino acid producing bacteria.

Kyowa Hakko carries out its R&D through eight laboratories nationwide and in fiscal 1999 further strengthened its R&D functions, which included adding a new pharmaceutical research and development laboratory and a production facility that conforms with GLP.

At present, approximately 1,400 staff—or one in four employees—are engaged in R&D activities. As a truly R&D-oriented company, Kyowa Hakko holds about 450 patents in Japan and 1,850 patents overseas. In fiscal 1999, R&D expenditures by Kyowa Hakko amounted to approximately ¥24 billion (US\$200 million), or about 6.2% of consolidated net sales. These funds were allocated mainly for the development of new pharmaceuticals.

In pharmaceuticals, Kyowa Hakko's main field of business, the Company places top priority on the creation of innovative new drugs. With an emphasis on its theme "selectiveness and concentration" in allocating its management resources, Kyowa Hakko is targeting its drug development efforts on drugs for the prevention and treatment of cancer, allergy, inflammation, and neurological diseases. Kyowa Hakko also vigorously promotes technological tie-ups and joint research with domestic and overseas companies and research institutes.

In non-pharmaceutical fields, Kyowa Hakko's R&D in its liquor business includes developing superior yeasts for sake and wines. In foods, Kyowa Hakko is carrying out research in domains that include various types of seasonings, freeze-dried foods, and health foods. In chemicals, Kyowa Hakko's R&D themes include creating highly functional products that can be used as alternatives to chlorofluorocarbons (CFCs) for environmental protection as well as developing high-value-added functional fine chemicals. Regarding R&D in biochemicals, Kyowa Hakko is progressing with research focused on improving amino acid producing strains and uncovering new production mechanisms to raise the productivity of amino acids. Kyowa Hakko uses the results of this research



An Outline of Kyowa Hakko's R&D Structure

Tokyo Research Laboratories	Forms the nucleus of Kyowa Hakko's basic research
Pharmaceutical Research Institute	Engages primarily in the R&D of pharmaceuticals
Technical Research Laboratories	Develops new fermentation production systems
Toxicological Research Laboratories	Engages in activities ranging from research on drug safety to drug evaluation
Sakai Research Laboratories	Conducts research on the mass production of pharmaceuticals using synthesis technologies
Kyowa Yuka Co., Ltd., Yokkaichi Research Laboratories	Conducts research on the development of high-value-added chemical products
Foods & Liquors Research Laboratories	Performs research on the commercialization of foods and liquor products
Tsukuba Research Laboratories	Develops new technologies with applied biotechnologies



at its production plants. Moreover, Kyowa Hakko is progressing with research that is based on new perspectives, including the production of useful compounds using fermentation technologies. Kyowa Hakko developed a technology for the commercial production of L-Hydroxyproline and oligosaccharide.

Kyowa Hakko believes the key to progressing with efficient R&D that is accepted worldwide is its high degree of specialization and networking capabilities as well as the ability to secure highly creative human resources.

Pharmaceutical Research and Development

In pharmaceutical development, Neu-Up®, used for treating neutropenia, has received approval for additional indications. Also, Navelbine, an anticancer agent, has received approval for non-small-cell lung cancer. An application has been filed for Olopatadine, an antiallergic agent, for asthma, chronic urticaria, and allergic rhinitis, and this application is under review. Olopatadine as eyedrops has been licensed to Alcon Laboratories, Inc., of the United States, and has already been launched

in the United States and Canada for treating allergic conjunctivitis. In addition, Desmopressin, for treating central diabetic insipidus, has received approval as a new spray formulation.

Main new chemical entities undergoing clinical trials include KW-6485, an antiepileptic; KJK-4263, for persistent cancer pain; KW-9100, a diagnostic agent for *H. Pylori*; and KW-4800, an antiarthritic. Clinical trials of Navelbine are ongoing to obtain approvals for breast cancer. Phase II trials for KW-6002, an anti-Parkinson's disease agent, are being carried out in Europe and the United States. KW-2170, an anticancer agent, is under clinical development in Japan and an IND filing is expected in the United States. These pharmaceutical development activities are being carried out intensively in Japan as well as overseas.

To accelerate its R&D activities, Kyowa Hakko will continue to emphasize "selectiveness and concentration" in aiming for the fast development of resources. Kyowa Hakko is taking a vigorous approach to the overseas development of its own promising in-house-developed new chemical entities as it progresses with the globalization of its pharmaceutical business.



R&D Pipeline

Stage	Code Name	Generic Name (Product Name)	Category	Remarks
Filed	KW-2307	Vinorelbine (Navelbine)	Anticancer	Licensed from Pierre Fabre, Indication: breast cancer
	KW-8008	Desmopressin	Central diabetic insipidus	Licensed from Ferring A.B.
	KW-4679	Olopatadine (Allelock)	Antiallergic	Developed in-house, Indication: asthma, allergic rhinitis, chronic urticaria Licensed out to Alcon Laboratories, Inc., for eyedrops
Phase II, III	KW-9100		Diagnostic agent for <i>H. Pylori</i>	Licensed from Diabact
	KW-6151	Mecasermin	Amyotrophic lateral sclerosis (ALS)	Licensed from Cephalon Inc.
	KJK-4263	Fentanyl	Transdermal analgesic for persistent cancer pain	Licensed from Janssen
	KW-6485	Topiramate	Antiepileptic	Licensed from Cilag
	KW-3902		Renal protective agent with diuretic activity	Developed in-house (Phase II in U.K.)
	KW-4800	Diacerein	Antiarthritic	Licensed from L. Medidom
Phase I	KW-6002		Anti-Parkinson's disease	Developed in-house (Phase II in Europe and U.S.)
	KW-2401	(UCN-01)	Anticancer	Developed in-house (Phase I in U.S.)
	KW-2170		Anticancer	Developed in-house
	KW-2189		Anticancer	Developed in-house (Phase II in U.S.)
	KW-5092		Gastroprokinetic	Developed in-house
Pre-Clinical	KT8391		Anticancer	Collaboration with Cephalon Inc. (Phase I in U.S.)
	KT7515		Parkinson's disease and Alzheimer's disease	Collaboration with Cephalon Inc.
	TSK-204		Antirheumatic	Jointly developed with Taisho Pharmaceutical
	KW-2345	(FOSCAN)	Photodynamic therapy agent for cancer	Licensed from Scotia
	KW-7158		Urinary incontinence	Developed in-house

O verseas O perations



Kyowa Hakko's overseas operations comprise 27 bases in 12 countries. Through this network, Kyowa Hakko engages in the marketing of pharmaceuticals, chemicals, and foods as well as the manufacture and marketing of fermented bulk products. Taking a global perspective, Kyowa Hakko is vigorously carrying out the clinical development of its strategic pharmaceuticals in overseas countries. For the fiscal year ended March 31, 1999, consolidated overseas sales by Kyowa Hakko amounted to ¥51,027 million, making up 13.3% of the Company's consolidated sales.

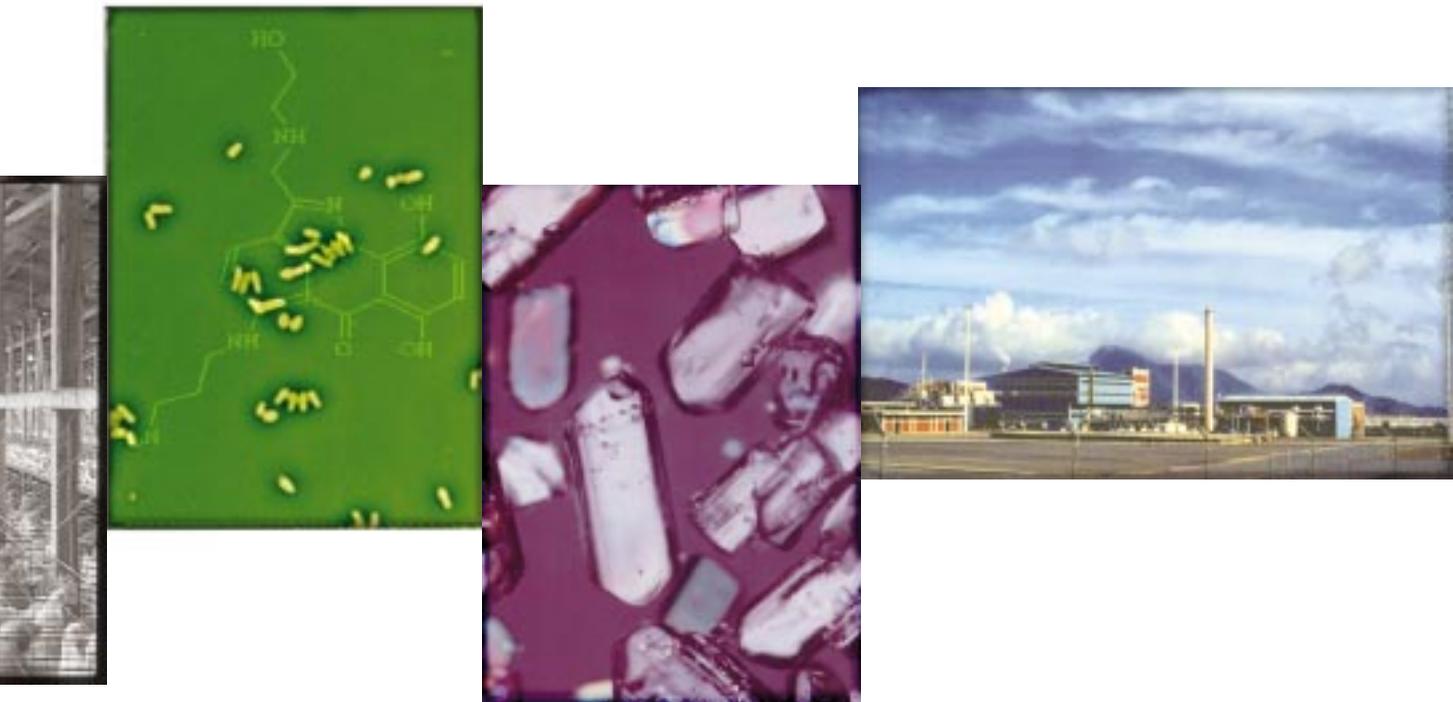
Progressing with Overseas Marketing and Development Activities

The European and U.S. pharmaceutical industries are experiencing mounting downward pressure on sales prices amid efforts to constrain healthcare costs. At the same time, there has been growing demand in these regions for pharmaceutical raw materials and health foods. Kyowa Hakko's Bio-Chemicals Company is focusing on new business opportunities in these two fields as it progresses with marketing and development activities. The Company anticipates significant growth in these fields and plans to aggressively cultivate such business through Kyowa Hakko U.S.A., Inc., and Kyowa Hakko Europe GmbH.

In addition, Kyowa Hakko U.K. Ltd., Kyowa Italiana Farmaceutici S.R.L., and Kyowa Hakko Industry (Singapore) Pte. Ltd. are concentrating on direct sales and promotions in overseas markets for ethical pharmaceuticals. As another vital overseas activity, Kyowa Hakko is licensing several pharmaceuticals—including Mitomycin-C, Loracarbef, and Olopatadine—to overseas pharmaceutical companies, and these pharmaceuticals are being sold through respective licensees in various countries.

To carry out its chemicals business in Asia, Kyowa Hakko has made equity investments in companies in Indonesia as well as in Fujian Province and Shanghai, in China.

Kyowa Hakko is expanding the scope of its overseas clinical development of strategic drugs, primarily through Kyowa Pharmaceutical, Inc., and Kyowa Hakko U.K. Ltd., which are expanding the size of their operations. Through these overseas clinical development activities, Kyowa Hakko has begun to solidify a new foundation for the globalization of its activities.



Upgrading Our Overseas Production Structure

Kyowa Hakko is shifting the production of feed additives, which are primarily such amino acid feed additives as L-Lysine, to overseas subsidiaries. To respond to steadily rising overseas demand for feed additives, Kyowa Hakko is expanding the types of products manufactured overseas and aggressively upgrading and expanding its production capabilities. Operations are progressing smoothly at Kyowa Hakko's three overseas feed additive production facilities—Biokyowa Inc., in the United States; Fermex, in Mexico; and Agroferm, in Hungary. Products manufactured by these subsidiaries are distributed in markets worldwide, where they have received high acclaim from customers.

In fiscal 2000, plans call for the start of production of amino acids for transfusions at joint venture Shanghai Guan Sheng Yuan Kyowa Amino Acid Co., Ltd.

As a new overseas business in our foods operations, in May 1998 we established Kyowa Foods Inc. in the United States to manufacture and market food additives. Construction of a production plant is progressing smoothly, and the plant is scheduled to commence commercial operations in 2000.

Establishing a Holding Company in the United States

Working with subsidiaries in several U.S. states, for many years Kyowa Hakko has carried out activities in the United States that include the manufacture and marketing of feed-grade amino acids, the sale of such products as pharmaceutical bulk and chemical products, and the clinical development and testing of ethical drugs.

Along with the establishment of a company in mid-1998 for the manufacturing and marketing of nucleic acids, Kyowa Hakko entered a new phase in its business in the United States by establishing a holding company. The new company, Kyowa America, Inc., was established in January 1999 to coordinate the operations of five subsidiaries in the United States with the aim of promoting the more efficient use of funds and personnel, which are vital management resources of these U.S. subsidiaries.

SH Health, Safety, and the Environment



Based on its corporate management philosophy, Kyowa Hakko formulated its Health, Safety, the Environment, and Product Safety Management Policies and designated these policies as top management priorities. Covering all phases of product life cycles—from R&D to manufacturing, sales, use, and disposal of products—the fundamental philosophy of these policies emphasizes making contributions to the betterment of society by conducting activities from a scientific perspective to protect the environment and the safety and health of employees as well as the citizens of local communities while placing top priority on consumer safety and enhancing product quality and safety.

In line with these policies, the Kyowa Hakko Group is helping protect the environment and maintaining safety by carrying out responsible care activities based on such standards for environmental assessment systems as ISO 14001. As testimony to the top-level standards of safety that are maintained throughout the

Kyowa Hakko Group, in fiscal 1998 the Company's Ube Plant won the Minister of Labor Award and Kyowa Yuka Co., Ltd.'s Yokkaichi Plant earned the Safety Award from the Japan Chemical Industry Association. As part of its ongoing commitment to environmental protection, Kyowa Hakko is promoting energy conservation—using containers and packages that consider the environment—and reducing environmental waste. The Company has reduced its industrial waste to 70% of the 1990 level. In addition, Kyowa Hakko is steadily expanding its environment-related businesses, including developing materials used as lubricant raw materials used in new CFC-substitute refrigerants and in liner sheets for final disposal sites for refuse. In the field of biochemical-related products, Kyowa Hakko received the Japan Scientific Feeds Association Technology Award for the development of a feed additive that reduces the environmental burden.

Quality Assurance



As it works to earn the trust of customers and maintain the highest levels of customer satisfaction (CS), Kyowa Hakko provides outstanding products and services, which are superior to the competitors' in terms of quality and cost-effectiveness.

In August 1998, Kyowa Hakko began a Companywide CS project in its quest to further raise these levels. In implementing this CS project, Kyowa Hakko takes a customer-oriented approach in all phases of its operations, including R&D, purchasing, production, distribution, and marketing. Through such efforts and with Companywide cooperation, Kyowa Hakko works to improve the quality of products and maintain its competitiveness. To respond more quickly to customer needs and complaints, information from customers is promptly communicated to all related sections and dealt with on a Companywide basis as a top priority.

For the further improvement of the levels of quality assurance of its products and services, Kyowa Hakko has reorganized and strengthened the quality assurance units at its plants. At the same time, Kyowa Hakko has introduced global systems for quality assurance, such as GMP, ISO 9002, and HACCP, to ensure its production and quality control systems. As prime examples of these efforts, Kyowa Hakko's Chiba, Yokkaichi, Hofu, and Ube plants have received ISO 9002 certification.

Pharmaceuticals and Bio-Products

Ethical Drug Sales in Japan

Sales and income in Kyowa Hakko's ethical drug business in Japan were seriously affected by a reduction in NHI drug reimbursement prices in April 1998—the third consecutive year such a reduction has been implemented—and a revision to the Health Insurance Law in September 1998, which raised the burden of payments on patients. By product, Kyowa Hakko posted increases in sales of Coniel, an agent for treating hypertension and angina; Depakene, an antiepileptic agent; and Imagenil, a non-ionic X-ray contrasting medium. On the other hand, severe competition resulted in lower sales of Itrazole, an oral antifungal agent; Acenalin, a gastroprokinetic; Nauzeline, a gastrointestinal agent, and Celect, an antiallergic agent.

Kyowa Hakko is vigorously globalizing its licensing business for pharmaceutical products to other companies. During fiscal 1999, revenues derived from the licensing of Loracarbef, an antibiotic, and Olopatadine, an antiallergic, contributed to Kyowa Hakko's performance. With an eye to the future, while continuing its activities to license its pharmaceutical products to other companies, Kyowa Hakko will focus on licensing various production technologies, including its EXLUB (External Lubrication Tableting System) and SOLBLET (Orally Rapid Disintegration Tablet). Although such licensing business for products and technologies represents one of Kyowa Hakko's crucial strategies, to become a truly globalized company, Kyowa Hakko must further expand, upgrade, and strengthen its overseas clinical trial infrastructure. With this in mind, Kyowa Hakko is working vigorously to build strong infrastructures in Europe and the United States for the overseas clinical trials of its own promising in-house-developed new chemical entities.

Regarding new drugs, in March 1999 Kyowa Hakko received approval for Navelbine, an anticancer agent, and the Company has a long history as a manufacturer of anticancer agents and boasts numerous achievements in this field. With the recent launch of Navelbine, Kyowa Hakko has further strengthened its position in this field. Desmopressin, an agent for treating central diabetic insipidus, has been approved as a new spray formulation, and a sales affiliation has been formed for Meditransnitro, a nitro compound for angina, and sales are expected to begin.



[billion ¥]	95	189.2
	96	41.0
	97	207.3
	98	210.2
	99	194.9



In response to mounting budgetary pressures, a declining birthrate, and the aging of society, the Japanese government is considering the political decision of implementing various reforms to Japan's healthcare system and establishing a new drug pricing system to be introduced by 2000. Against this background, the economic environment for pharmaceuticals is expected to become increasingly difficult, and the polarization of the industry—marked by a clear distinction between companies that prosper and those that lag—will continue.

Amid this environment, Kyowa Hakko will make optimal use of its finite resources and aggressively pursue joint research with companies and research institutes worldwide to efficiently develop new drugs. At the same time, Kyowa Hakko will take a vigorous approach to training its medical representatives (MRs) and raising the efficiency of its information systems.

Diagnostic Reagents

The domestic market for diagnostic reagents shrank during fiscal 1999, due to such factors as the ongoing implementation of measures to reduce overall healthcare costs, a rapidly deteriorating management environment for medical institutions, the rationalization at diagnostic testing divisions, and the trend toward FMS (Facility Management System) at large-scale testing centers as well as the diffusion of minute amount devices. These factors, coupled with intensifying sales competition, led to a decrease in sales of diagnostic reagents by Kyowa Medex Co., Ltd.

Under these conditions, Kyowa Medex rationalized its management, strengthened its R&D capabilities, and enhanced the efficiency of its operations while carrying out scientific-based marketing activities and working to expand exports. In addition, Kyowa Medex reached an amicable settlement of a patent dispute for high-density lipoprotein (HDL).

By type of product, in biochemical fields, sales of the newly introduced Determiner[®]-LDL-C contributed to Company revenues. Nevertheless, sales of the Determiner[®] Series declined, due to such factors as lower sales of the mainstay Determiner[®] HDL-C that resulted from the adverse effects of price pressure from generic products.

In immunoassay reagents, sales of the Extel® series fell sharply. However, Kyowa Medex achieved steady growth in sales of Determiner® HbA1c, a reagent for testing for diabetes; the Chemilumi® series of immunoassay agents; and AP960, a fully automated device for microplate enzymatic immunoassay.

The use of Kyowa Medex's DM-JACK, an automated device for investigating various categories of diabetes that was launched in September 1998, is steadily increasing, and this device is expected to make a significant contribution to sales in fiscal 2000.

Biochemicals

FINE CHEMICALS

Domestic sales of fine chemicals were maintained at the same level as in the previous fiscal year, as a decline in sales prices accompanying a reduction in NHI drug reimbursement prices in Japan was compensated for by higher sales of the Company's principal amino acids and nucleic acids as well as various types of vitamins.

Exports increased sharply, thanks to brisk shipments of amino acids and nucleic acids, mainly to Europe and the United States, as well as the supportive effects of the weakening of the yen in the first half of the fiscal year. Making particularly large contributions to this increase in exports were such nucleic acid related products as Citicholine, an agent for consciousness disturbance that has successfully secured new users; D-Proline, a new pharmaceutical raw material; and Olopatadine bulk for eyedrops.

Sales of fine chemicals for pharmaceuticals declined, due to intensifying price competition from generic products competing with Mitomycin-C, one of the Company's mainstay independently developed anticancer agents, as well as the effects of the Asian economic crisis.

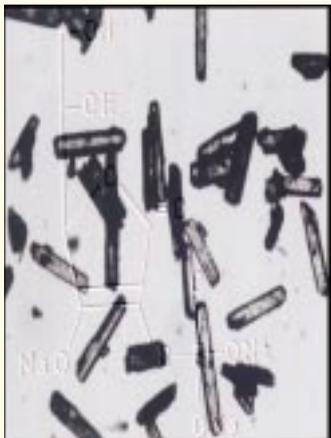
Argochemicals, Animal Health Products, and Feed Additives (domestic only)

Sales of livestock products declined from the previous fiscal year, due to falling sales prices for feed-grade additive amino acids. Despite a slump in the industry, sales of agrochemicals were maintained at the same level as recorded in the previous fiscal year. Sales of organic compound fertilizers continued to decline against a background of shrinking production. Sales of aquaculture products were lower because of such factors as sluggishness in the fish breeding industry.

Overseas subsidiaries producing feed-grade amino acids

Kyowa Hakko worked to improve cost-efficiency at overseas subsidiaries that manufacture and market feed-grade amino acids, including Biokyowa, in the United States; Fermex, in Mexico; and Agroferm, in Hungary. Nevertheless, the performance of these operations was severely affected by a steep fall in sales prices.

To meet the expected rise in overseas demand, Kyowa Hakko will expand and upgrade its production facilities for amino acids and work to raise the efficiency of its bio business.



Liquor and Food

A harsh operating environment persisted in Japan's liquor and food industries during the fiscal year, primarily reflecting weak consumption resulting from the sluggish domestic economy and a downtrend in prices. Amid this environment, in its Liquor and Food business Kyowa Hakko has launched new products and worked to expand sales of its mainstay products. Although these efforts yielded growth in sales from the previous year, Kyowa Hakko achieved only a slight improvement in profitability, due in part to the effects of an increase in taxes on liquor products.



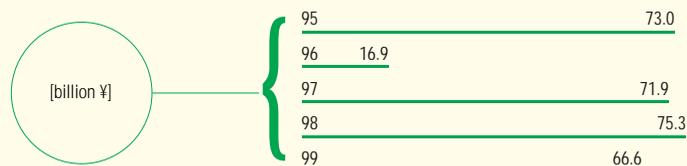
In Kyowa Hakko's Liquor & Alcohol business, sales of raw material alcohol declined for the second consecutive year, mirroring slumping demand in the sake industry. With dim prospects for a rapid recovery in the sake industry, to maintain profitability in its alcohol business, Kyowa Hakko must consider such measures as carrying out the commissioned production of so-called *tsusan* alcohol, which is under the control of the Ministry of International Trade and Industry, while alcohol for sake is controlled by the Ministry of Finance.



Despite the higher taxation on *shochu*, a Japanese traditional spirit, Kyowa Hakko maintained sales volume of *shochu* at virtually the same level as in the previous fiscal year. Overall sales of our mainstay "Daigoro" *shochu* were level with the previous year's sales, despite variations in sales of this *shochu* depending on the container size. We posted a smooth expansion in sales volume of our "Kanoka" *shochu* despite the increase in the *shochu* tax. Among new products, we recorded sharp growth in sales volume of our *Shitamachi Fumi* canned low-alcoholic refresher. Launched in 1998, *Shitamachi Fumi* has been favorably received by consumers as a product that matches contemporary tastes.



The domestic wine market has been expanding sharply for the past two years. Amid such a market, Kyowa Hakko recorded growth in wine sales at a rate consistent with the industry average due to the continued popularity of "Grande" wine and the timely introduction of such new products as "Classe d'Or" wine. Regarding imported bottled wines, although the Company worked to increase its product lineup, growth in sales of imported wines was slower than the industry average.



The liquor and alcoholic beverage industry is undergoing significant change because of the increase of the liquor tax. To successfully respond to an evolving environment, Kyowa Hakko must reorganize its liquor business and increase sales efficiency. Also, to prevail amid the current severe price competition, the Company will procure raw materials, taking a wide perspective that includes making procurements both in Japan and overseas.

Looking at Kyowa Hakko's food business, in the Company's principal seasonings business, sales of "Kokumi" seasonings, a new natural seasoning, expanded smoothly. However, sales of seasonings for brewing were sluggish, and Kyowa Hakko thus managed only a slight increase in total sales of natural seasonings. Sales of *Umami* seasonings were flat, despite efforts to expand sales in domestic and overseas markets. In confectionery and bread-baking ingredients, sales of processed dairy items and bread-baking materials advanced, but sales of yeast and premixes declined. As a result, total sales of confectionery and bread-baking ingredients declined from the previous fiscal year. In household foods, Kyowa Hakko introduced a renewed version of *Tamago Soup* instant egg-drop soup and recorded growth in sales of freeze-dried Onion Gratin Soup, which the Company introduced in the previous fiscal year. However, overall sales of household foods declined from the previous fiscal year. During the fiscal year, Kyowa Hakko introduced Multi-Vitamin & Mineral as a new health food, and sales of this product expanded steadily.

Looking ahead, in its foods business, Kyowa Hakko will focus on seasonings, bread ingredients, and health foods while working to reduce costs. The Company will also progress with the disposal of unprofitable products and make further efforts to improve profitability.

In line with its strategy for carrying out its foods business globally, Kyowa Hakko is constructing a nucleic acid production plant in the U.S. state of Missouri and plans to complete this facility in August 2000.

Chemicals



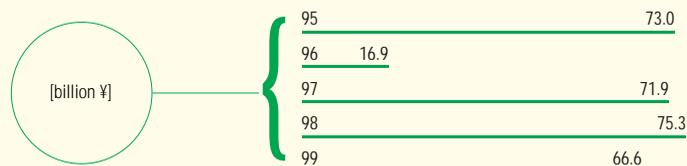
Amid turmoil and sluggishness in the Asian economy from mid-1997, demand from such industries as the automobile, housing, household electric appliance, and electronics industries fell sharply. Affected by these developments, demand for chemicals declined steeply and market prices softened significantly, creating extremely harsh conditions in domestic and overseas markets.

Against this background, Kyowa Hakko posted declines in the volume of domestic shipments of such principal chemicals as solvents and plasticizers and their raw materials. In contrast, Kyowa Hakko recorded an increase in exports of these products thanks to stepped-up sales efforts. As a result, total domestic and overseas shipments of plasticizers and their raw materials were maintained at the same level as in the previous fiscal year. Overall product sales prices in Kyowa Hakko's Chemicals business declined because of plunges in international prices and raw materials prices. Therefore, with the exception of detergent raw materials, the value of sales in Kyowa Hakko's Chemicals business declined sharply in fiscal 1999.

Despite the adverse influence of sluggish demand, Kyowa Hakko worked to strengthen the market positioning of its functional products, including new lubricant raw materials for refrigerants used as CFC substitutes that contribute to environmental protection. These efforts enabled Kyowa Hakko to maintain sales of functional products at the same level as in the previous fiscal year.

Kyowa Yuka Co., Ltd., a subsidiary that handles the manufacture of chemicals, carried out safe and stable operations during the fiscal year. In addition, Kyowa Yuka's Yokkaichi Plant extended its record for accident- and disaster-free operations to 17.5 million hours as of the end of March 1999. As another achievement, the Yokkaichi Plant obtained ISO 9002 certification—the international standard for quality assurance—and is presently making preparations for obtaining ISO 14001 certification for its environmental management systems.

In line with its strategy for vigorously developing its chemicals business in Asia, Kyowa Hakko is participating in a joint venture for the production of plasticizers in Shanghai, China, and has an equity investment in a sales and distribution company in Fujian Province, China. Kyowa Hakko also has an investment in an Indonesian company that produces solvents (butyl acetate). At present, these companies are facing difficult operating environments because of plummeting demand in Asia and weak market prices. However, over the medium-to-long term, demand in the region is expected to grow sharply, and Kyowa Hakko will continue to aggressively carry out its operations, including the procurement of competitively priced raw materials, in this region.



BOARD OF DIRECTORS



Tadashi Hirata
PRESIDENT AND
CHIEF EXECUTIVE OFFICER



Katsuji Kuwabara
EXECUTIVE VICE
PRESIDENT

**President and Chief
Executive Officer**

Tadashi Hirata*

**Executive
Vice President**

Katsuji Kuwabara*

**Senior Managing
Directors**

Hideki Yasui
Arimasa Toi

Managing Director

Hiroshi Shigeta

Directors

Nobuyuki Matsui
Kiyoji Hattori
Seiga Itoh

Kannosuke Nakamura
(Senior Advisor)

Statutory Auditors

Atsuo Suzuki
Tatsumi Uchida
Takeshi Asaoka
Yoshio Ogura
Kin-ichi Igarashi

* *Representative Director*

(As of June 29, 1999)

S E L E C T E D F I N A N C I A L D A T A

Five-Year Summary	Millions of Yen					Thousands of U.S. Dollars (Note 3)
	1999	1998	1997	1996 ^(a)	1995	1999
For the Year:						
Net sales	¥384,671	¥397,361	¥397,629	¥ 82,990	¥374,978	\$3,190,966
Net income.....	6,143	13,528	12,339	1,296	15,615	50,959
Capital expenditures	24,408	24,555	19,132	4,317	11,428 ^(b)	202,473
R&D expenses.....	24,083	25,358	22,882	5,026	20,658	199,776
At Year-End:						
Total assets.....	477,729	437,271	431,774	418,956	432,500	3,962,914
Property, plant and equipment.....	364,135	349,837	331,719	310,011	307,684	3,020,610
Interest-bearing debt	151,489	98,282	97,786	98,195	99,656	1,256,651
Total shareholders' equity	185,766	188,645	180,391	174,294	174,943	1,540,989
Per Share Data (yen and U.S. dollars):						
Net income—primary	¥13.9	¥30.3	¥27.6	¥2.9	¥35.0	\$0.115
Cash dividends	7.5	7.5	7.5	1.9	7.5	0.062

Sales by Business Segment	Millions of Yen					Thousands of U.S. Dollars (Note 3)
	1999	1998	1997	1996 ^(a)	1995	1999
For the Year:						
Pharmaceuticals and Bio-Products	¥194,889	¥210,186	¥207,310	¥40,965	¥189,202	\$1,616,669
Liquor and Food.....	112,720	104,277	109,364	22,999	101,791	935,046
Chemicals.....	66,568	75,334	71,908	16,926	73,014	522,200
Others.....	10,494	7,564	9,047	2,100	10,971	87,051
Total	¥384,671	¥397,361	¥397,629	¥82,990	¥374,978	\$3,190,966

(a) As a result of a change in the Company's fiscal year-end from December 31 to March 31, fiscal 1996 was the three-month period ended March 31, 1996.

(b) Non-consolidated

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Net Sales

In fiscal 1999, ended March 31, 1999, Kyowa Hakko operated within a difficult environment due mainly to such factors as Japan's prolonged economic recession, intensifying competition, and downward pressures on market prices. Amid this environment, Kyowa Hakko recorded consolidated net sales of ¥384,671 million, down 3.2% from the previous fiscal year.

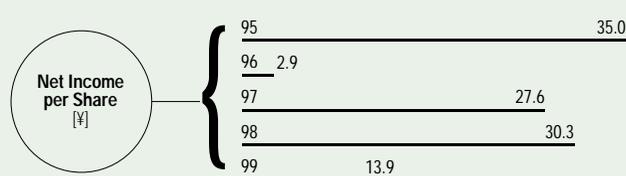
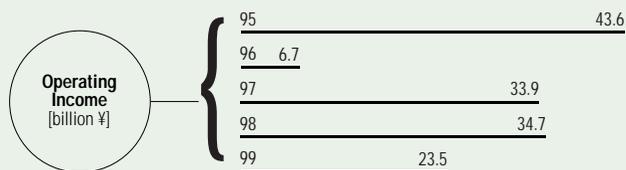
By industry segment, sales in Pharmaceuticals and Bio-Products declined 7.3%, to ¥194,889 million, reflecting the adverse influence of a reduction in NHI drug reimbursement prices for the third consecutive year as part of ongoing measures to reduce healthcare costs. The situation was further aggravated by declining market prices for L-lysine and other feed additive amino acids. Despite the effects of lackluster consumption, a downtrend in market prices, and an increase in the tax rate on sake, Kyowa Hakko recorded an 8.1% increase in sales in Liquor and Food, to ¥112,720 million. This gain is attributable to the launching of new products and efforts to expand sales of mainstay products. Sales in Chemicals declined 11.6%, to ¥66,568 million, mirroring a sharp decrease in demand due to sluggish economic conditions in Japan and other Asian countries

and a significant weakening of market prices. Sales in Kyowa Hakko's Others business sector, which includes royalties, rose 38.7%, to ¥10,494 million.

Overseas sales declined 15.6%, to ¥51,027 million. Therefore, overseas sales accounted for 13.3% of net sales, down from 15.2% of net sales in the previous fiscal year.

Cost, Expenses, and Earnings

Cost of sales edged up 1.4%, to ¥256,807 million. Because of the rise in cost of sales and the decrease in net sales, the cost of sales ratio rose 3.1 percentage points, to 66.8%, from 63.7% in the previous fiscal year. As a result, gross profit declined 11.3%, to ¥127,864 million. Selling, general and administrative (SG&A) expenses decreased 4.6%, to ¥104,407 million, due to the ongoing implementation of measures to restrain expenses. SG&A expenses as a percentage of net sales declined 0.4 percentage point, from 27.5% to 27.1%. Due to these factors, operating income was down 32.5%, to ¥23,457 million. The ratio of operating income to net sales decreased 2.6 percentage points, to 6.1%, from 8.7% in the previous fiscal year.



Other revenue (expenses)—net rose 11.1%, to ¥3,846 million. Despite a ¥3,747 million gain on sale of property, plant and equipment and a ¥549 million decrease in write-down of marketable securities, other revenue (expenses)—net increased mainly because of a ¥3,782 million loss on investment in kind of subsidiaries.

Due to the previous factors, income before income taxes declined 37.3%, to ¥19,611 million. Income taxes amounted to ¥13,468 million, 23.9% less than in the previous fiscal year. As a result, net income plunged 54.6%, to ¥6,143 million. Net income per share was ¥13.9, compared with ¥30.3 per share in the previous fiscal year. Cash dividends per share were maintained at ¥7.5.

Financial Position

Total assets increased 9.3% from the previous fiscal year-end, to ¥477,729 million. By type of asset, total current assets rose 14.8%, to ¥270,499 million. The current ratio decreased to 1.28, from 1.30 at the previous fiscal year-end. Within current assets, marketable securities jumped more than fivefold, to ¥31,969 million, and other current assets soared to ¥19,582 million, from ¥3,984 million at the previous

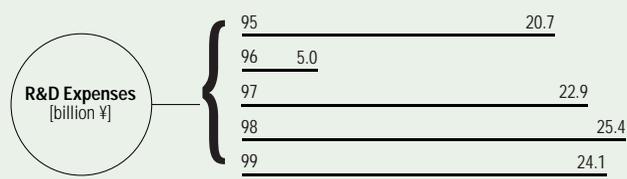
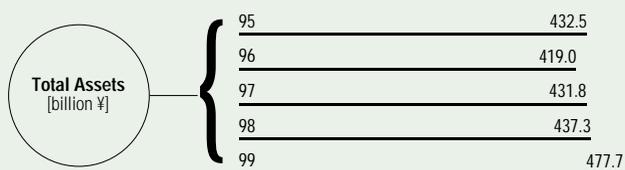
fiscal year-end. On the other hand, inventories declined 9.2%, to ¥63,759 million.

Investments and advances increased 3.2%, to ¥56,659 million. This increase reflected a 2.3% rise in investments in securities, to ¥30,477 million, and a 10.4% increase in long-term loans and other investments, to ¥10,665 million.

Net property, plant and equipment increased 3.7%, to ¥139,708 million, primarily reflecting a 4.1% rise in buildings and structures and a 4.1% increase in machinery and equipment.

On the liabilities side, total current liabilities jumped 16.4%, to ¥211,376 million. Long-term debt rose 29.9%, to ¥57,836 million.

Total shareholders' equity slipped 1.5%, to ¥185,766 million, mainly reflecting the absence of legal reserves. The shareholders' equity ratio declined to 38.9%, from 43.1% at the previous fiscal year-end.



C O N S O L I D A T E D B A L A N C E S H E E T S

KYOWA HAKKO KOGYO CO., LTD. and Its Subsidiaries March 31, 1999 and 1998

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	1999	1998	1999
Current Assets:			
Cash	¥ 11,880	¥ 12,501	\$ 98,551
Time deposits	3,989	1,698	33,087
Marketable securities	31,969	5,720	265,196
Accounts and notes receivable:			
Trade	126,865	127,501	1,052,389
Unconsolidated subsidiaries and affiliates	4,097	5,453	33,989
Other	6,169	5,277	51,166
	137,131	138,231	1,137,544
Less: allowance for bad debts	(1,104)	(1,227)	(9,158)
	136,027	137,004	1,128,386
Inventories	63,759	70,206	528,904
Deferred income taxes	3,293	4,584	27,316
Other current assets	19,582	3,984	162,432
Total current assets	270,499	235,697	2,243,872
Investments and Advances:			
Investments in securities	30,477	29,802	252,818
Investments in and advances to unconsolidated subsidiaries and affiliates	13,996	13,518	116,104
Long-term loans to employees, mostly for housing	1,521	1,902	12,619
Long-term loans and other investments	10,665	9,659	88,466
	56,659	54,881	470,007
Property, Plant and Equipment:			
Buildings and structures	125,335	120,366	1,039,691
Machinery and equipment	238,800	229,471	1,980,919
	364,135	349,837	3,020,610
Less: accumulated depreciation	(259,461)	(248,284)	(2,152,305)
	104,674	101,553	868,305
Land	22,924	22,766	190,158
Construction in progress	12,110	10,355	100,456
	139,708	134,674	1,158,919
Deferred Income Taxes—Non-Current	2,429	3,070	20,152
Other Assets	3,485	3,536	28,911
Adjustments on Foreign Currency Statement Translation	4,949	5,413	41,053
	¥ 477,729	¥437,271	\$ 3,962,914

The accompanying notes are an integral part of the statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	1999	1998	1999
Current Liabilities:			
Short-term bank loans	¥ 43,441	¥ 45,381	\$ 360,358
Commercial paper	16,000	5,000	132,725
Current maturities of long-term debt (Note 5)	34,212	3,391	283,800
Accounts and notes payable:			
Trade	46,043	42,361	381,937
Unconsolidated subsidiaries and affiliates	12,283	15,453	101,889
Construction and acquisition of properties	5,337	9,654	44,275
Other	25,914	25,199	214,967
	89,577	92,667	743,068
Income taxes payable	4,450	7,987	36,911
Employees' savings deposits (Note 4)	13,212	13,261	109,597
Reserve for accrued sales returns	165	173	1,369
Reserve for accrued sales rebates	878	959	7,283
Reserve for accrued sales promotion expenses	648	828	5,375
Guarantee deposits from customers and others	7,790	7,661	64,616
Other current liabilities	1,003	4,246	8,332
Total current liabilities	211,376	181,554	1,753,434
Long-Term Debt (Note 5)	57,836	44,511	479,768
Accrued Retirement Benefits	18,362	18,377	152,317
Allowance for Loss on Guarantees	215	—	1,783
Minority Interests in Consolidated Subsidiaries	4,174	4,184	34,623
Shareholders' Equity:			
Common stock, par value ¥50 per share:			
Authorized: 1,000,000,000 shares at March 31, 1999 and 1998			
Issued: 434,243,555 shares at March 31, 1999 and 446,343,555 shares at March 31, 1998	26,745	26,745	221,858
Additional paid-in capital	43,180	43,180	358,194
Legal reserve (Note 1 (2))	—	6,520	—
Special reserves (Note 1 (2))	—	1,766	—
Retained earnings (Notes 1 (2) and 8)	115,841	110,434	960,937
Total shareholders' equity	185,766	188,645	1,540,989
	¥477,729	¥437,271	\$3,962,914

C O N S O L I D A T E D S T A T E M E N T S O F I N C O M E

KYOWA HAKKO KOGYO CO., LTD. and Its Subsidiaries For the years ended March 31, 1999, 1998 and 1997

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	1999	1998	1997	1999
Net Sales (Notes 9 and 10).....	¥384,671	¥397,361	¥397,629	\$3,190,966
Cost of Sales (Note 9).....	256,807	253,170	253,381	2,130,295
Gross profit	127,864	144,191	144,248	1,060,671
Selling, General and Administrative Expenses	104,407	109,448	110,320	866,091
Operating income.....	23,457	34,743	33,928	194,580
Other Revenue (Expenses):				
Interest and dividend income	1,630	1,516	1,443	13,519
Interest expenses.....	(3,045)	(2,725)	(3,141)	(25,262)
Write-down of marketable securities.....	(1,030)	(1,579)	(285)	(8,543)
Gain (loss) on sale of securities.....	(130)	(93)	340	(1,081)
Gain (loss) on sales of investment securities.....	306	(166)	—	2,538
Foreign exchange gain (loss)	(782)	(324)	66	(6,490)
Insurance premium received.....	280	400	—	2,327
Gain on sale of property, plant and equipment.....	3,747	8	—	31,086
Provision for allowance for loss on guarantees	(215)	—	—	(1,783)
Additional premium to welfare annuity fund	(1,389)	—	—	(11,523)
Loss on investment in kind of subsidiaries.....	(3,782)	—	—	(31,376)
Gain on settlement of lawsuit	520	—	—	4,314
Other, net (Note 1 (2)).....	44	(499)	(1,714)	373
	(3,846)	(3,462)	(3,291)	(31,901)
Income before income taxes.....	19,611	31,281	30,637	162,679
Income Taxes:				
Current	11,473	18,091	19,571	95,172
Deferred	1,995	(382)	(482)	16,548
	13,468	17,709	19,089	111,720
	6,143	13,572	11,548	50,959
Minority Interests in Earnings of Consolidated Subsidiaries (Note 1 (2))	—	(611)	(487)	—
Amortization of Difference between Cost of Investment and Equity in Net Assets Acquired (Note 1 (2))	—	(28)	(50)	—
Equity in Earnings of Affiliates (Note 1 (2)).....	—	595	1,328	—
Net income	¥ 6,143	¥ 13,528	¥ 12,339	\$ 50,959

	Yen			U.S. Dollars (Note 3)
	1999	1998	1997	1999
Per Share Data:				
Net income—primary.....	¥13.9	¥30.3	¥27.6	\$0.115
Net income—fully diluted (*).....	—	29.6	27.0	—
Cash dividends.....	7.5	7.5	7.5	0.062
Weighted Average Number of Shares (thousands).....	441,906	446,343	446,343	

*Fully diluted net income per share for 1999 is not disclosed, because there is no dilutive effect.

The accompanying notes are an integral part of the statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

KYOWA HAKKO KOGYO CO., LTD. and Its Subsidiaries For the years ended March 31, 1999, 1998 and 1997

	Number of shares of common stock (thousands)	Millions of Yen					Retained earnings
		Common stock	Additional paid-in capital	Legal reserve	Special reserves		
Balance at March 31, 1996	446,343	¥26,745	¥43,180	¥ 5,917	¥ 1,132	¥97,320	
Net income for the year ended March 31, 1997	—	—	—	—	—	12,339	
Cash dividends	—	—	—	—	—	(848)	
Transfer to legal reserve	—	—	—	256	—	(256)	
Directors' and statutory auditors' bonuses	—	—	—	—	—	(42)	
Transfer to/from special reserves, net	—	—	—	—	(18)	18	
Interim cash dividends	—	—	—	—	—	(1,674)	
Decrease due to additional consolidation of subsidiaries	—	—	—	—	—	(2,870)	
Decrease resulting from application of inflation accounting to the accounts of Mexican subsidiary	—	—	—	—	—	(808)	
Balance at March 31, 1997	446,343	26,745	43,180	6,173	1,114	103,179	
Net income for the year ended March 31, 1998	—	—	—	—	—	13,528	
Cash dividends	—	—	—	—	—	(1,674)	
Transfer to legal reserve	—	—	—	347	—	(347)	
Directors' and statutory auditors' bonuses	—	—	—	—	—	(148)	
Transfer to/from special reserves, net	—	—	—	—	652	(652)	
Interim cash dividends	—	—	—	—	—	(1,674)	
Decrease due to additional consolidation of subsidiaries	—	—	—	—	—	(608)	
Decrease due to merger of a consolidated subsidiary with an unconsolidated subsidiary	—	—	—	—	—	(470)	
Decrease due to application of inflation accounting to the accounts of Mexican subsidiary	—	—	—	—	—	(700)	
Balance at March 31, 1998	446,343	26,745	43,180	6,520	1,766	110,434	
Net income for the year ended March 31, 1999	—	—	—	—	—	6,143	
Transfer to retained earnings	—	—	—	(6,520)	(1,766)	8,286	
Cash dividends	—	—	—	—	—	(1,674)	
Directors' and statutory auditors' bonuses	—	—	—	—	—	(148)	
Interim cash dividends	—	—	—	—	—	(1,659)	
Increase due to additional consolidation of subsidiaries	—	—	—	—	—	981	
Increase due to elimination of subsidiaries	—	—	—	—	—	22	
Increase due to application of inflation accounting to the accounts of Mexican subsidiary	—	—	—	—	—	544	
Retirement of shares of common stock	(12,100)	—	—	—	—	(7,089)	
Other	—	—	—	—	—	1	
Balance at March 31, 1999	434,243	¥26,745	¥43,180	¥ —	¥ —	¥115,841	

	Number of shares of common stock (thousands)	Thousands of U.S. Dollars (Note 3)					Retained earnings
		Common stock	Additional paid-in capital	Legal reserve	Special reserves		
Balance at March 31, 1998	446,343	\$221,858	\$358,194	\$54,085	\$14,650	\$916,084	
Net income for the year ended March 31, 1999	—	—	—	—	—	50,959	
Transfer to retained earnings	—	—	—	(54,085)	(14,650)	68,731	
Cash dividends	—	—	—	—	—	(13,884)	
Directors' and statutory auditors' bonuses	—	—	—	—	—	(1,229)	
Interim cash dividends	—	—	—	—	—	(13,760)	
Increase due to additional consolidation of subsidiaries	—	—	—	—	—	8,134	
Increase due to elimination of subsidiaries	—	—	—	—	—	179	
Increase due to application of inflation accounting to the accounts of Mexican subsidiary	—	—	—	—	—	4,510	
Retirement of shares of common stock	(12,100)	—	—	—	—	(58,805)	
Other	—	—	—	—	—	18	
Balance at March 31, 1999	434,243	\$221,858	\$358,194	\$ —	\$ —	\$960,937	

The accompanying notes are an integral part of the statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

KYOWA HAKKO KOGYO CO., LTD. and Its Subsidiaries

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

(1) Accounting Principles

The accompanying consolidated financial statements have been prepared from accounts and records maintained by KYOWA HAKKO KOGYO CO., LTD. (the "Company") and its subsidiaries. The Company and its domestic consolidated subsidiaries have maintained 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 generally accepted accounting principles and practices prevailing in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The accounts of 9 overseas consolidated subsidiaries, Biokyowa Inc., Kyowa Hakko U.S.A., Inc., Kyowa Foods Inc. and Kyowa America, Inc. (incorporated in the U.S.A.), Kyowa Hakko Europe GmbH (incorporated in Germany), Fermentaciones Mexicanas, S.A. de C.V. (incorporated in Mexico and referred to as "Fermex"), Agroferm Hungarian-Japanese Fermentation Industry Ltd. (incorporated in Hungary and referred to as "Agroferm"), Kyowa Hakko (H.K.) Co., Ltd. (incorporated in China), and Kyowa Italiana Farmaceutici S.R.L. (incorporated in Italy) are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in respective countries. Although certain differences exist in the accounting principles employed by the overseas subsidiaries, essentially no adjustments have been made to the accounts of overseas subsidiaries in order to conform to the Japanese accounting principles in the accompanying consolidated financial statements.

The accounts of Fermex are based on inflation accounting as generally accepted in Mexico. Such inflation accounting includes the revaluation of

fixed assets and the restatement of shareholders' equity adjusted by the National Consumer Price Index growth factor and the recognition of the effect of inflation on monetary assets and liabilities.

Certain items presented in the consolidated financial statements filed with the Ministry of Finance (the "MOF") in Japan have been reclassified for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

(2) Change in Presentation of Accounts

Due to the amendments of the Consolidated Financial Statements Regulation, the following presentations of the accounts in the consolidated financial statements have been changed for the fiscal year ended March 31, 1999.

1) "Legal reserve" and "Special reserves," which were previously reported as separate accounts within Shareholders' Equity, are included in "Retained earnings." Accordingly, the ending balance of the fiscal year of "Retained earnings" includes "Legal reserve" and "Special reserves."

2) "Minority Interests in Earnings of Consolidated Subsidiaries," "Amortization of Difference between Cost of Investment and Equity in Net Assets Acquired" and "Equity in Earnings of Affiliates," which were previously reported as separate accounts after "Income before income taxes," are included in "Other, net."

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Scope of Consolidation

The Company had 54 subsidiaries (majority-owned companies) as at March 31, 1999 (54 as at March 31, 1998). The consolidated financial statements include the accounts of the Company and 27 of its subsidiaries for the year ended March 31, 1999 (24 and 22 for the years ended March 31, 1998 and 1997, respectively).

Pursuant to the recent amendment to the Ministry of Finance Ordinance in respect of the materiality guideline for determination of scope of consolidation, all subsidiaries are essentially required to be consolidated under the guideline.

In line with this change in the regulation, the Company included in the consolidation the accounts of the 27 major subsidiaries listed below (the Company and these consolidated subsidiaries are together, referred to as the "Companies").

The above-shown consolidated subsidiaries use a financial year ending on March 31 of each year, which is the same as that of the Company, except for Biokyowa Inc., Kyowa Hakko U.S.A., Inc., Kyowa Hakko Europe GmbH, Fermex, Agroferm, Kyowa Hakko (H.K.) Co., Ltd., Kyowa Italiana Farmaceutici S.R.L., and Kyowa Foods Inc., which use the financial year ending on December 31.

Significant transactions between January 1 and March 31 are reflected in the consolidated financial statements. In the year ended March 31, 1997, Kyowa Hakko Europe GmbH changed its financial year-end from September 30 to December 31, and its accounts as at and for the 12-month period ended December 31, 1996 have been consolidated for the current consolidation period. In the year ended March 31, 1997, Riken Kagaku Co., Ltd. and Ohland Foods Co., Ltd. changed their financial year-end from December 31 to March 31 and their accounts as of March 31, 1997 and for the 12 months then ended have been consolidated for the current consolidation period. Asahi Foods Products Co., Ltd. changed its financial year-end from May 31 to March 31 in the year ended March 31, 1997. Accordingly, the accompanying consolidated financial statements include the accounts of Asahi Foods Products Co., Ltd. as of March 31, 1997 and for the 10-month period then ended.

The remaining 27 (30 for 1998) unconsolidated subsidiaries, whose combined assets, net sales and net income in the aggregate are not significant in relation to those of the consolidated financial statements of the Companies, have been excluded from consolidation.

	Direct and indirect ownership percentage	Capital stock (Millions)
Domestic subsidiaries:		
Kyowa Yuka Co., Ltd.	94.0%	¥5,300
Kyowa Medex Co., Ltd.	100.0	750
Mohan Medicine Research Institute	83.0	223
Shinwa Pharmaceutical Co., Ltd.	100.0	95
Kyowa Nozai Co., Ltd.	100.0	40
Sainte Neige Wine Co., Ltd.	95.0	125
Toyama Co., Ltd.	98.1	50
Riken Kagaku Co., Ltd.	100.0	30
Kyowa F.D. Foods Co., Ltd.	100.0	100
Ohland Foods Co., Ltd.	100.0	50
Kyowa Hifoods Co., Ltd.	100.0	60
Asahi Foods Products Co., Ltd.	78.0	36
Kyushu Kyowa Shokuhin Hanbai Co., Ltd.	100.0	50
Miyako Kagaku Co., Ltd.	52.9	111
Chiyoda Kaihatsu Co., Ltd.	100.0	113
Kyowa Engineering Co., Ltd. (*)	100.0	70
Kyowa Warehouse & Transportation Co., Ltd.	100.0	70
Seifu Co., Ltd.	100.0	40
Overseas subsidiaries:		
Biokyowa Inc. (U.S.A.)	100.0	\$20
Fermex (Mexico)	75.0	N.Peso31
Agroferm Hungarian-Japanese Fermentation Industry Ltd. (Hungary)	84.9	HuF3,506
Kyowa Foods Inc. (U.S.A.) (*1)	100.0	\$20
Kyowa Hakko U.S.A., Inc. (U.S.A.)	100.0	\$1
Kyowa Hakko Europe GmbH (Germany)	100.0	DM2
Kyowa Hakko (H.K.) Co., Ltd. (China)	100.0	HK\$1
Kyowa Italiana Farmaceutici S.R.L. (Italy)	100.0	LIT1,200
Kyowa America, Inc. (U.S.A.) (*1 and *2)	100.0	\$48

(*1) Newly consolidated with effect from the year ended March 31, 1999

(*2) Kyowa America, Inc. (U.S.A.) uses the three-month period ended March 31, 1999.

(2) Consolidation and Elimination

For the purposes of preparing the consolidated financial statements, all significant inter-company transactions, account balances and unrealized profits among the Companies have been eliminated, and the portion thereof attributable to minority interests is charged to minority interests.

Elimination of investments in shares of consolidated subsidiaries, together with the underlying equity in net assets of such subsidiaries, is made to include relevant equity in net income (loss) of subsidiaries subsequent to the date of acquisition in the consolidated statements of income. Any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary, if any, is charged or credited to income, as the case may be, in the year in which it occurs because, in general, such differences are not significant.

(3) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

Although the Company had 27 (30 for 1998) unconsolidated subsidiaries and 29 (27 for 1998) affiliates, the equity method is applied to the investments in 4 (4 for 1998) major domestic affiliates only, since the investments in the remaining unconsolidated subsidiaries and affiliates would not have had a material effect on the consolidated financial statements had they been accounted for by the equity method.

The 4 affiliates accounted for by the equity method are listed below:

Name of company	Equity ownership percentage	Capital stock (Millions of Yen)
Aji-Nihon Co., Ltd.	45.4%	¥ 95
Janssen-Kyowa Co., Ltd.	40.0	1,000
Japan Synthetic Alcohol Co., Ltd.	33.3	480
Musashino Chemical Laboratory, Ltd.	25.0	198

The investments in the remaining unconsolidated subsidiaries and affiliates are carried at cost or less.

(4) Inventories

Inventories are stated at cost, cost being determined by the methods according to each type of inventory as follows:

Work in process	First-in, first-out method
Supplies (except for fuel and experimental products)	Last purchase price method
Finished products, raw materials and all items other than above	Average cost method

When the net realizable value of certain items of inventories is substantially less than the carrying value (cost) and the decline of value is not expected to be recovered in the near future, appropriate write-downs are recorded on such items.

(5) Valuation of Securities

Securities with market quotations are valued at the lower of cost or market and securities without market quotations are valued at cost, cost being determined by the moving average method.

Appropriate write-downs are recorded for securities without market quotations in cases where their value has declined substantially and such impairments of the value are not deemed temporary.

(6) Property, Plant and Equipment

Depreciation is computed on the declining-balance method at rates based on the estimated useful lives of assets which are prescribed by Japanese income tax laws. The range of useful lives is principally from 3 to 50 years for buildings and structures and from 2 to 23 years for machinery and equipment.

The cost of property and equipment retired or otherwise disposed of and accumulated depreciation in respect thereof are eliminated from the related accounts, and the resulting gain or loss is reflected in income.

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

The Company computes depreciation expenses for buildings (other than improvements) acquired on and after April 1, 1998 by the straight-line method pursuant to the amendments to the Japanese income tax laws. However, the effect of this change is insignificant.

Also, the Companies adopted useful lives of the buildings (other than improvements) which are shorter than those used in previous years, pursuant to the amendments to the Japanese income tax laws which reduced the current year's operating profit, ordinary profit and profit before income taxes by ¥218 million as compared with the previous method.

(7) Amortization

Intangible assets and long-term prepaid expenses (included in the other assets account) are generally amortized by the straight-line method over a period from 1 to 30 years.

Research and development costs and bond issue expenses are charged to income as incurred.

(8) Reserve for Accrued Expenses and Unearned Income

Allowance for Bad Debts

The "Allowance for bad debts" account is provided in an amount equivalent to the limit deductible for tax purposes as prescribed by the tax laws and plus the amount of individual account balances deemed uncollectible.

Reserve for Accrued Sales Returns

The "Reserve for accrued sales returns" is provided on the basis of the tax laws for allowing deductions. The amount of the reserve is determined based on the past years' experience of the Companies.

Reserve for Accrued Sales Rebates

The "Reserve for accrued sales rebates" is provided for in an amount determined by the balance of receivables from the sales agents and distributors at year-end and the estimated rebate rates to be applied under the agreements.

The "Reserve for accrued sales rebates" is not deductible for tax purposes until the rebates are actually paid.

Reserve for Accrued Sales Promotion Expenses

The "Reserve for accrued sales promotion expenses" is provided for in an amount expected to be incurred in relation to the inventories held by the distributors. The amount of the reserve is determined based on the balance of the inventories and the Companies' past experience ratio for such expenses. The "Reserve for accrued sales promotion expenses" is not deductible for tax purposes until paid.

Allowance for Loss on Guarantees

The "Allowance for debt guarantee losses" is provided for in an amount expected to be incurred in relation to the debt guarantee.

(9) Foreign Currency Translation

Until the year ended March 31, 1998, short-term accounts receivable and payable denominated in foreign currencies are translated at historical exchange rates.

With effect from the year ended March 31, 1999, the Company changed the exchange method of short-term accounts receivable and payable denominated in foreign currencies.

Short-term accounts receivable and payable denominated in foreign currencies are translated at the current exchange rate prevailing at the year-end.

(10) Translation of Foreign Currency Financial Statements (Accounts of Overseas Subsidiaries)

The translation of foreign currency financial statements of overseas consolidated subsidiaries into Japanese yen is made by the method of translation prescribed by the statements issued by the Business Accounting Council (BAC) of Japan.

(11) Income Taxes

The tax effects of items that are included in the determination of consolidated net income for the year but are deductible or taxable in different years (timing differences) are reflected in the accompanying consolidated financial statements. The accumulated tax effects of such timing differences arise from those recognized by each member of the Companies, elimination of inter-company profit as well as elimination of allowance for bad debts recognized on the individual financial statements in connection with the inter-company receivable balances. The tax effects are presented as deferred income taxes (net of charge and credit) in the accompanying consolidated balance sheets.

(12) Accrued Retirement Benefits

Under the Company's retirement benefit plan, employees retiring at the mandatory retirement age of 60 or at the age of 50 or more on a voluntary basis or beneficiaries of the deceased employees are entitled to greater payment than in the case of ordinary retirement. The Company records accrued retirement benefits to employees in an amount equivalent to 40 per cent. of such liabilities the Company would have been required to pay if all eligible employees had retired voluntarily at the respective balance sheet dates.

In addition to the above, the Company has adopted a retirement pension plan under which the employees who retire at the age of 50 or older with at least 10 years of service with the Company are covered. The plan provides for retirement benefits to these employees (either in a form of annuity payments or a lump-sum payment at their option), which accounts for approximately 40 per cent. of the total retirement benefits the Company would be required to pay under the current rules of retirement. The unfunded past service liabilities arising from the adoption of the plan are amortized over a 10-year period on a straight-line basis.

The Company also provides for accrued retirement benefits to directors and statutory auditors in an amount equivalent to 100 per cent. of such

benefits payable to them upon retirement as determined by the Company's internal rules.

Most of the consolidated subsidiaries of the Company recognize the cost for employees' retirement benefits. These subsidiaries generally provided 40 per cent. of the liabilities the subsidiaries would have been required to pay if all eligible employees had voluntarily terminated employment at the balance sheet dates.

(13) Accounting for the Consumption Tax

In Japan, the consumption tax is imposed at the flat rate of 5 per cent. on all domestic consumption of goods and services (with certain exemptions). The consumption tax imposed on the Companies' domestic sales to customers is withheld by the Companies at the time of sale and is paid to the national government subsequently. The consumption tax withheld upon sale and the consumption tax paid by the Companies on the purchases of goods and services are not included in the related amounts in the accompanying consolidated statements of income.

(14) Accounting for Leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method similar to that applicable to ordinary operating leases.

(15) Net Income and Dividends per Share

Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year. Cash dividends per share represent dividends declared as applicable to the respective period.

3. UNITED STATES DOLLAR AMOUNTS

The consolidated financial statements are prepared in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥120.55=US\$1, the approximate exchange rate at March 31, 1999, which is the latest balance sheet date where the foreign exchange market was open.

The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts can be converted into dollars at ¥120.55=US\$1 or at any other rate.

4. EMPLOYEES' SAVINGS DEPOSITS

Employees' savings deposits have a system which permits withdrawing every month, bearing interest at the rate of 4.1 per cent. per annum, compounded semi-annually, for the year ended March 31, 1997, 3.0 per cent. per annum, compounded semi-annually, for the year ended March 31, 1998 and 1.8 per cent. per annum, compounded semi-annually, for the year ended March 31, 1999. The deposits are included in the current liabilities section in the

consolidated balance sheets. In order to secure repayment of the employees' savings deposits, the Company is required to maintain cash in banks, bonds (corporate, national and financial institutions) and corporate shares (not pledged as collateral for other debt) in the aggregate amount equivalent to the balance of these deposits or more.

5. LONG-TERM DEBT

Long-term debt as at March 31, 1999 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Loans from banks, other financial institutions, etc., due from 1998 to 2015 with mortgage and collateral	¥ 6,552	¥ 7,479	\$ 54,351
1.40 per cent. convertible bonds due 1999	29,848	29,848	247,599
1.50 per cent. convertible bonds due 2002	9,997	9,997	82,928
1.75 per cent. bonds due 2003	12,000	—	99,544
2.55 per cent. bonds due 2008	15,000	—	124,430
2.525 per cent. bonds due 2008	15,000	—	124,430
1.98 per cent. bonds due 2008	3,000	—	24,886
Other long-term debt	651	578	5,400
	92,048	47,902	763,568
Less: portion due within one year	(34,212)	(3,391)	(283,800)
	¥ 57,836	¥44,511	\$ 479,768

In accordance with customary business practices in Japan, the Companies maintain substantial deposit balances with institutions from which the Company has borrowings. Withdrawal of such deposits is not restricted legally or by contract.

The 1.40 per cent. ¥30,000 million convertible bonds due June 30, 1999 and 1.50 per cent. ¥10,000 million convertible bonds due June 28, 2002, were issued simultaneously in January 1990. These convertible bonds are

convertible into shares of common stock at a current conversion price of ¥1,880 per share. The conversion price is subject to adjustment under certain circumstances, including stock dividends and stock splits of common stock. The number of shares of common stock which would be issued upon full conversion of these bonds is approximately 21,194 thousand shares at March 31, 1999.

6. CONTINGENT LIABILITIES

The Companies had contingent liabilities arising from notes discounted by banks or endorsed to outsiders in the ordinary course of business in the amount of ¥1,090 million (\$9,041 thousand) at March 31, 1999.

The Company was contingently liable for guarantees of loans borrowed by

Sakura-Brewer Ltd., Sanbo-Brewer Ltd. and others in the amounts of ¥620 million (\$5,143 thousand), ¥611 million (\$5,068 thousand), ¥505 million (\$4,189 thousand) and ¥568 million (\$4,714 thousand), respectively, at March 31, 1999.

7. LEASE TRANSACTIONS

Acquisition cost, accumulated depreciation, net book value at March 31, 1999 and depreciation expense of the leased assets for the year then ended,

which included the portion of interest thereon, were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Acquisition cost	¥ 3,225	—	\$ 26,755
Accumulated depreciation	—	(1,903)	(15,790)
Net book value	¥ 1,322	—	\$ 10,965
Depreciation	¥ 756	—	\$ 6,273

Depreciation is based on the straight-line method over the lease term of the leased assets, and the residual values of which are zero.

Lease rental expenses on finance lease contracts without ownership-transfer for the years ended March 31, 1999 and 1998 amounted to ¥756 million (\$6,273 thousand) and ¥744 million.

	Millions of Yen	Thousands of U.S. Dollars
The scheduled maturities of future lease rental payments of finance leases as of March 31, 1999 were as follows:		
Due within one year	¥ 575	\$ 4,769
Due over one year	747	6,196
	¥1,322	\$10,965
The scheduled maturities of future lease rental payments of operating leases as of March 31, 1999 were as follows:		
Due within one year	¥ 1	\$ 8
Due over one year	2	16
	¥ 3	\$ 24

8. SUBSEQUENT EVENT

Subsequent to March 31, 1999, the Company's Board of Directors, with the subsequent approval of shareholders on June 29, 1999, declared a cash dividend of ¥1,628 million (\$13,508 thousand), equal to ¥3.75 (\$0.031)

per share, which was applicable to earnings of the year ended March 31, 1999 and payable to shareholders on the register on March 31, 1999.

9. RELATED PARTY TRANSACTIONS

Material transactions of the Company with its related companies and individuals, whose materiality is more than 0.5 per cent. of the sales or cost of sales of the Company, excluding transactions with consolidated subsidiaries which

are eliminated in the consolidated financial statements and except for those disclosed elsewhere in these financial statements for the years ended March 31, 1999 and 1998 were as follows:

Name of related company	Paid-in capital (Millions)	Principal business	Direct equity ownership percentage by the Company	Description of transactions	Millions of Yen		Thousands of U.S. Dollars		Transaction made in the year ended Mar. 31, 1999	Resulting account balances at Mar. 31, 1999	
					Transactions		Resulting account balances				
					1999	1998	Account	at Mar. 31, 1999			at Mar. 31, 1998
Affiliates:											
Janssen-Kyowa Co., Ltd.	¥1,000	Development process, import and wholesale of pharmaceuticals	40%	Purchase of pharmaceuticals	¥15,359	¥19,187	Accounts and notes payable	¥8,048	¥8,249	\$127,407	\$66,763
				Payment of license fees	2,367	2,758	Accounts and notes payable	805	861	19,638	6,676
Aji-Nihon Co., Ltd.	¥95	Process and wholesale of foods	45%	Purchase of foods	1,539	1,679	Accounts and notes payable	104	143	12,770	862
Homi Foods Co., Ltd.	¥90	Process and wholesale of foods	50%	Purchase of foods	1,719	1,715	Accounts and notes payable	445	372	14,262	3,695
San-ou Corporation	¥50	Wholesale of foods	40%	Sale of foods	1,822	1,742	Accounts and notes receivable	637	602	15,116	5,285
Kashiwagi Co., Ltd.	¥90	Wholesale of chemicals, foods and building materials	27%	Sale of chemicals and foods	3,422	3,811	Accounts and notes receivable	814	1,127	28,384	6,750
Kyowa-MGC Co., Ltd. (Note)	¥80	Wholesale of petrochemical products	50%	Sale of petrochemical products	1,853	2,574	Accounts and notes receivable	253	488	15,371	2,096

Note: During the year, intercompany transactions with Kyowa-MGC Co., Ltd., were included in the list above because the amount of transactions with them was material.

10. SEGMENT INFORMATION

(1) Industry Segment Information

The Company and its subsidiaries operate principally in the following four industry segments:

Industry segment:	Major products:
Pharmaceuticals and Bio-Products Division	Ethical drugs, biochemical diagnostic reagents, bulk pharmaceuticals, animal health products and agrochemicals and fertilizers
Liquor and Food Division	Alcoholic beverages, alcohol, seasonings, confectionery and baking ingredients and processed foods
Chemicals Division	Solvents, plasticizers and their raw materials, detergent raw materials and specialty chemicals
Other Division	Real estate, transportation, warehouse and sales of apparatus for industry

The segment information of the Company and its subsidiaries for the years ended March 31, 1999 and 1998 and for the three-month period ended March 31, 1997, classified by industry segments are summarized as follows:

Year ended March 31, 1999	Millions of Yen					Elimination or unallocatable amounts	Consolidated total
	Industry segment						
	Pharmaceuticals and Bio-Products	Liquor and Food	Chemicals	Others	Total		
I. Sales and Operating Income:							
Sales:							
Sales to outside customers	¥194,889	¥112,720	¥66,568	¥10,494	¥384,671	¥ —	¥384,671
Inter-segment sales/transfers	659	255	698	22,578	24,190	(24,190)	—
Total sales	195,548	112,975	67,266	33,072	408,861	(24,190)	384,671
Operating expenses	166,949	114,554	71,177	32,566	385,246	(24,032)	361,214
Operating income (loss)	¥ 28,599	¥ (1,579)	¥ (3,911)	¥ 506	¥ 23,615	¥ (158)	¥ 23,457

II. Assets, Depreciation and Capital Expenditures:

Assets	¥227,488	¥ 85,269	¥75,729	¥10,948	¥399,434	¥ 78,295	¥477,729
Depreciation	9,402	3,507	4,480	320	17,709	(36)	17,673
Capital expenditures	15,805	3,587	4,992	61	24,445	(37)	24,408

Year ended March 31, 1999

	Thousands of U.S. Dollars							
	Pharmaceuticals and Bio-Products	Industry segment				Total	Elimination or unallocatable amounts	Consolidated total
		Liquor and Food	Chemicals	Others				
I. Sales and Operating Income:								
Sales:								
Sales to outside customers.....	\$1,616,669	\$935,046	\$552,200	\$ 87,051	\$3,190,966	\$ —	\$3,190,966	
Inter-segment sales/transfers.....	5,468	2,111	5,788	187,293	200,660	(200,660)	—	
Total sales.....	1,622,137	937,157	557,988	274,344	3,391,626	(200,660)	3,190,966	
Operating expenses.....	1,384,901	950,258	590,431	270,150	3,195,740	(199,353)	2,996,387	
Operating income (loss).....	\$ 237,236	\$ (13,101)	\$ (32,443)	\$ 4,194	\$ 195,886	\$ (1,307)	\$ 194,580	
II. Assets, Depreciation and Capital Expenditures:								
Assets.....	\$1,887,089	\$707,336	\$628,199	\$ 90,809	\$3,313,433	\$ 649,481	\$3,962,914	
Depreciation.....	77,990	29,088	37,161	2,667	146,906	(302)	146,604	
Capital expenditures.....	131,107	29,755	41,406	510	202,778	(305)	202,473	

Year ended March 31, 1998

	Millions of Yen							
	Pharmaceuticals and Bio-Products	Industry segment				Total	Elimination or unallocatable amounts	Consolidated total
		Liquor and Food	Chemicals	Others				
I. Sales and Operating Income:								
Sales:								
Sales to outside customers.....	¥210,186	¥104,277	¥75,334	¥ 7,564	¥397,361	¥ —	¥397,361	
Inter-segment sales/transfers.....	1,044	1,043	1,123	14,554	17,764	(17,764)	—	
Total sales.....	211,230	105,320	76,457	22,118	415,125	(17,764)	397,361	
Operating expenses.....	175,277	108,133	75,455	21,473	380,338	(17,720)	362,618	
Operating income (loss).....	¥ 35,953	¥ (2,813)	¥ 1,002	¥ 645	¥ 34,787	¥ (44)	¥ 34,743	
II. Assets, Depreciation and Capital Expenditures:								
Assets.....	¥233,674	¥ 84,110	¥71,391	¥10,893	¥400,068	¥37,203	¥437,271	
Depreciation.....	9,248	3,313	4,370	210	17,141	(28)	17,113	
Capital expenditures.....	14,988	4,167	5,374	56	24,585	(30)	24,555	

Year ended March 31, 1997

	Millions of Yen							
	Pharmaceuticals and Bio-Products	Industry segment				Total	Elimination or unallocatable amounts	Consolidated total
		Liquor and Food	Chemicals	Others				
I. Sales and Operating Income:								
Sales:								
Sales to outside customers.....	¥207,310	¥109,364	¥71,908	¥ 9,047	¥397,629	¥ —	¥397,629	
Inter-segment sales/transfers.....	1,528	1,247	778	14,423	17,976	(17,976)	—	
Total sales.....	208,838	110,611	72,686	23,470	415,605	(17,976)	397,629	
Operating expenses.....	174,673	112,480	71,547	22,969	381,669	(17,968)	363,701	
Operating income (loss).....	¥ 34,165	¥ (1,869)	¥ 1,139	¥ 501	¥ 33,936	¥ (8)	¥ 33,928	
II. Assets, Depreciation and Capital Expenditures								
Assets.....	¥219,423	¥ 76,993	¥75,946	¥12,225	¥384,587	¥47,187	¥431,774	
Depreciation.....	8,587	3,341	4,498	313	16,739	(38)	16,701	
Capital expenditures.....	10,387	3,384	5,244	192	19,207	(75)	19,132	

Note: The amounts of the assets included in the column "Elimination or unallocatable amounts" are ¥79,693 million (\$661,078 thousand) for the year ended March 31, 1999 and ¥38,574 million for the year ended March 31, 1998, which include surplus funds (cash and securities), investment in securities and deferred income taxes.

(2) Overseas Sales

The classification of overseas sales is as follows:

Classification	Area
(1) America	North America, Latin America
(2) Europe	All of Europe
(3) Asia	All of Asia
(4) Other areas	Oceania, Africa

Year ended March 31, 1999

	Millions of Yen				
	America	Europe	Asia	Other areas	Total
I. Overseas sales (Note 1)	¥19,862	¥14,022	¥16,269	¥874	¥ 51,027
II. Consolidated net sales					384,671
III. Ratio of overseas sales against the consolidated net sales (Note 2)	5.2%	3.6%	4.2%	0.2%	13.3%

Year ended March 31, 1998

	Millions of Yen				
	America	Europe	Asia	Other areas	Total
I. Overseas sales (Note 1)	¥20,466	¥20,001	¥19,565	¥442	¥ 60,474
II. Consolidated net sales					397,361
III. Ratio of overseas sales against the consolidated net sales (Note 2)	5.2%	5.0%	4.9%	0.1%	15.2%

Year ended March 31, 1999

	Thousands of U.S. Dollars				
	America	Europe	Asia	Other areas	Total
I. Overseas sales (Note 1)	\$164,764	\$116,320	\$134,956	\$7,243	\$ 423,283
II. Consolidated net sales					3,190,966
III. Ratio of overseas sales against the consolidated net sales (Note 2)	5.2%	3.6%	4.2%	0.2%	13.3%

Notes: 1. Overseas sales are sales by the Company and its subsidiaries outside of Japan.

2. Overseas sales and the ratio of overseas sales against the consolidated net sales for the year ended March 31, 1997 were ¥50,866 million and 12.8 per cent., respectively.

**R E P O R T O F I N D E P E N D E N T C E R T I F I E D
P U B L I C A C C O U N T A N T S**

To the Board of Directors of KYOWA HAKKO KOGYO CO., LTD.:

We have audited the accompanying consolidated balance sheets of KYOWA HAKKO KOGYO CO., LTD. and its consolidated subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of income and shareholders' equity for the years ended March 31, 1999, 1998 and 1997, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied 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 KYOWA HAKKO KOGYO CO., LTD. and its consolidated subsidiaries as of March 31, 1999 and 1998, and the consolidated results of their operations for the years ended March 31, 1999, 1998 and 1997, in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

As described in Note 2 (9) of the Notes to the Consolidated Financial Statements, the Company changed the exchange method of short-term accounts receivable and payable denominated in foreign currencies to reflect the exchange gain and loss which occurred because of fluctuation of the exchange rate. As a result, "Income before income taxes" was increased by ¥107 million compared with the previous year.

Tokyo, Japan
June 29, 1999


CHUO AUDIT CORPORATION

P R I N C I P A L S U B S I D I A R I E S A N D A F F I L I A T E S

Name of Company	Percentage Owned Directly or Indirectly by the Company	Capital Stock (Millions)	Principal Business
SUBSIDIARIES:			
Domestic Subsidiaries:			
Kyowa Yuka Co., Ltd.	94.0%	¥5,300	Manufacture and sales of petrochemical products
Riken Kagaku Co., Ltd.	100.0	30	Manufacture and sales of pharmaceuticals and chemical products
Sainte Neige Wine Co., Ltd.	95.0	125	Manufacture of liquors
Miyako Kagaku Co., Ltd.	52.9	111	Sales of pharmaceuticals, chemicals, and foods
Chiyoda Kaihatsu Co., Ltd.	100.0	113	Transportation and trading
Kyowa F.D. Foods Co., Ltd.	100.0	100	Manufacture and sales of foods
Kyowa Warehouse & Transportation Co., Ltd.	100.0	70	Warehousing and transportation
Kyowa Medex Co., Ltd.	100.0	750	Manufacture and sales of diagnostic reagents
Seifu Co., Ltd.	100.0	40	Office building administration
Toyama Co., Ltd.	98.1	50	Wholesale of alcohol and food products
Shinwa Pharmaceutical Co., Ltd.	100.0	95	Manufacture and marketing of herbal medicines
Ohland Foods Co., Ltd.	100.0	50	Manufacture of food products
Kyowa Hifoods Co., Ltd.	100.0	60	Manufacture, importation, and marketing of food products and household goods
Kyowa Nozai Co., Ltd.	100.0	40	Manufacture and marketing of fertilizers and agricultural materials as well as the landscaping and greenery businesses
Mohan Medicine Research Institute	83.0	223	Manufacture and sales of pharmaceuticals
Asahi Foods Products Co., Ltd.	78.0	36	Manufacture and sales of food products
Kyushu Kyowa Shokuhin Hanbai Co., Ltd.	100.0	50	Wholesale of food products
Kyowa Engineering Co., Ltd.	100.0	70	Design and installation of equipment and facilities and sales of health foods
Overseas Subsidiaries:			
Kyowa Hakko U.S.A., Inc. (U.S.A.)	100.0	\$ 1	Sales of pharmaceuticals, food additives, and chemicals
Biokyowa Inc. (U.S.A.)	100.0	\$20	Manufacture and sales of feed additives
Fermentaciones Mexicanas, S.A. de C.V. (Mexico)	75.0	N.Peso31	Manufacture and sales of feed additives
Kyowa Hakko Europe GmbH (Germany)	100.0	DM2	Sales of pharmaceuticals, food additives, and chemicals
Agroferm Hungarian-Japanese Fermentation Industry Ltd. (Hungary)	84.9	HuF3,506	Manufacture and sales of feed additives
Kyowa Hakko (H.K.) Co., Ltd. (Hong Kong)	100.0	HK\$1	Sales of pharmaceuticals, feed additives, and chemicals
Kyowa Italiana Farmaceutici S.R.L. (Italy)	100.0	LIT1,200	Sales of pharmaceuticals, feed additives, and chemicals
Kyowa Foods Inc. (U.S.A.)	100.0	\$20	Manufacture and sales of nucleic acids for seasonings
Kyowa America, Inc. (U.S.A.)	100.0	\$48	Coordinate and monitor the subsidiaries in the United States
DOMESTIC AFFILIATES:			
Aji-Nihon Co., Ltd.	45.4	¥1095	Manufacture of foods and seasonings
Janssen-Kyowa Co., Ltd.	40.0	1,000	Development, manufacture, and sales of pharmaceuticals
Japan Synthetic Alcohol Co., Ltd.	33.3	480	Manufacture and marketing of various types of alcohol
Musashino Chemical Laboratory, Ltd.	25.0	198	Manufacture and marketing of organic synthetic chemical products

Kyowa America, Inc.

1013 Centre Road, Wilmington,
Delaware, U.S.A.

Biokyowa Inc.

Head Office & Plant

5469 Nash Road, P.O. Box 1550,
Cape Girardeau, MO 63702-1550, U.S.A.
TEL: 1-573-335-4849
FAX: 1-573-335-1466

St. Louis Office

1400 Elbridge Payne Road, Suite 110,
Chesterfield, MO 63017, U.S.A.
TEL: 1-314-532-4070
FAX: 1-314-532-1710

Kyowa Hakko U.S.A., Inc.

599 Lexington Avenue, Suite 4103,
New York, NY 10022, U.S.A.
TEL: 1-212-319-5353
FAX: 1-212-421-1283

West Coast Office

4695 MacArthur Court, Suite 1540,
Newport Beach, CA 92660, U.S.A.
TEL: 1-949-833-0141
FAX: 1-949-833-0462

Kyowa Foods Inc.

5469 Nash Road, P.O. Box 1460,
Cape Girardeau, MO 63702-1460, U.S.A.
TEL: 1-573-332-1095
FAX: 1-573-332-1092

Nutri-Quest, Inc.

1400 Elbridge Payne Road, Suite 110,
Chesterfield, MO 63017, U.S.A.
TEL: 1-636-537-4057
FAX: 1-636-532-1710

Kyowa Pharmaceutical, Inc.

104 Carnegie Center, Suite 301,
Princeton, NJ 08540, U.S.A.
TEL: 1-609-919-1100
FAX: 1-609-919-1111

**Fermentaciones Mexicanas,
S.A. de C.V. (Fermex)**

Head Office

Edificio Torre Diamante,
Insurgentes Sur #1685 Piso 14,
Guadalupe Inn 01020,
Mexico D.F., Mexico
TEL: 52-5-661-1410
FAX: 52-5-663-1695

Orizaba Plant

Domicilio Conocido, Potrerillo,
Ixtaczoquitlan 94453,
Veracruz, Mexico
TEL: 52-272-1-0554
FAX: 52-272-1-0090

Kyowa Hakko Kogyo Co., Ltd.

Oficina Informativa en Mexico

Edificio Torre Diamante,
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Mexico D.F., Mexico
TEL: 52-5-661-1410
FAX: 52-5-663-1695

Kyowa Hakko Europe GmbH

Immermannstrasse-3,
D-40210, Düsseldorf, Germany
TEL: 49-211-17-728-0
FAX: 49-211-17-728-41

Kyowa Hakko U.K. Ltd.

258 Bath Road, Slough, Berkshire SL1 4DX,
United Kingdom
TEL: 44-1753-566000
FAX: 44-1753-566010

Kyowa Italiana Farmaceutici S.R.L.

Viale Fulvio Testi 280,
20126, Milano, Italy
TEL: 39-02-644-704-1
FAX: 39-02-644-704-44

Kyowa Hakko Kogyo Co., Ltd.

Hungary Information Office

H-1022 Budapest II Bég utca. 3-5,
1st Floor, Hungary
TEL: 36-1-212-0645
FAX: 36-1-212-0644

**Agroferm Hungarian-Japanese
Fermentation Industry Ltd. (Agroferm)**

Budapest Office

H-1022 Budapest II Bég utca. 3-5,
1st Floor, Hungary
TEL: 36-1-212-0645
FAX: 36-1-212-0644

Kaba Plant

H-4183 Kaba, Nádudvari útfél, Hungary
TEL: 36-54-480-560
FAX: 36-54-480-528

**Kyowa Hakko Industry
(Singapore) Pte Ltd.**

300 Orchard Road, #06-02,
The Promenade, Singapore 238861
TEL: 65-733-4948
FAX: 65-733-0819

Kyowa Hakko (Thailand) Ltd.

101/11 Srinakarindra Road,
Suanluang Praves,
Bangkok 10250, Thailand
TEL: 66-2-321-9387
FAX: 66-2-321-9389

Kyowa Hakko (Malaysia) SDN BHD.

20, Jalan SS 19/5,
47500 Subang Jaya, Selangor,
Darul Ehsan, Malaysia
TEL: 60-3-7340669, 7340671
FAX: 60-3-7340990

Kyowa Hakko Kogyo Co., Ltd.

Beijing Representative Office

100004, Beijing Fortune Bldg., Room 1007,
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Chao Yang District,
Beijing, People's Republic of China
TEL: 86-10-6590-8515
FAX: 86-10-6590-8517

Kyowa Hakko Kogyo Co., Ltd.

Shanghai Representative Office

200040, 1376 Nanjing Road West, Room 704,
Shanghai, People's Republic of China
TEL: 86-21-6279-8310
FAX: 86-21-6279-8320

Kyowa Hakko (H.K.) Co., Ltd.

Room 2103, Hang Lung Centre,
2-20 Paterson Street,
Causeway Bay, Hong Kong
TEL: 852-2895-6795
FAX: 852-2576-6142, 2576-6191

Kyowa Hakko (H.K.) Co., Ltd.

Guangzhou Representative Office

Room 411, China Hotel Office Tower,
Liu Hua Road, Guangzhou,
510015, People's Republic of China
TEL: 86-20-8667-5381
FAX: 86-20-8667-5472

Shanghai Guan Sheng Yuan

Kyowa Amino Acid Co., Ltd.

621 Yun Ling Donglu, Shanghai
200062, People's Republic of China
TEL: 86-21-5280-1270
FAX: 86-21-5280-3162

MAIN PRODUCTS

PHARMACEUTICALS AND BIO-PRODUCTS

ANTIBIOTICS

Pasetocin[®], Acetylspiramycin, Fortimicin[®], Sagamicin[®], Minostacin

ANTICANCER AGENTS

Mitomycin, 5-FU, Leunase[®], Adriacin[®], Hysron[®] H-200, Dacarbazine, Farmorubicin[®], Platosin, Navelbine[®]

CENTRAL NERVOUS SYSTEM AGENTS

Depakene[®], Ketazone, EC-Doparl, Doparl BENOZIL

CARDIOVASCULAR AGENTS

Meditransnitro Inovon[®], Apiracohl[®], Activacin[®], Coniel[®], Neucul, PRe Dopa

DIAGNOSTIC AGENT

(except in vitro diagnostic medicines)
Imagenil[®]

GASTROINTESTINAL AGENTS

Nauzelin[®], Glumin[®], Glumal[®], Acenalin[®], Navoban[®]

ANTIALLERGIC AGENT

Celtect[®]

HORMONES

Desmopressin, Hysron[®]

IMMUNOSUPPRESSIVE AGENT

Orthoclone OKT[®] 3

VITAMINS

FAD, Cobamylde, Vitaroxin

OTHER METABOLIC AGENTS

Gludiasse, ATP Kyowa, Atomolan[®]

AGENTS FOR BLOOD AND FLUID DISORDERS

Neu-up[®], Emeradole

EPIDERMAL AGENTS

Propaderm[®], Tolmicen[®], Nizoral[®]

ANTHELMINTIC AGENT

Mebendazole

ANTIFUNGAL AGENT

Itrazole

DIAGNOSTIC REAGENTS

Enzymatic diagnostic reagents (Determiner[®] Series, Determiner[®] L Series), Immunoassay reagents (Extel[®] Series, Chemilumi[®] Series, IDEIA Chlamydia), Monoclonal antibodies for research use (MX Series, Biogenex Series), Quality control panel sera (BBI Series), Analytical instruments (EL-1060, EL-1200, AP960, HM-JACK, DM-JACK, WAAMS)

AGROCHEMICALS

Plant growth regulators (Gibberellin, Fulmet[®])

ANIMAL HEALTH PRODUCTS

Spiramix, Nanaomycin, Polyup[®], Esodarin[®], Atomolate[®], Spiramycin for pisciculture, Fantacin[®] for pisciculture, Ampicilin for pisciculture

FEED ADDITIVES

L-Lysine HCl, L-Tryptophan, L-Threonine, Driselase[®], Phytase

FEEDS FOR FISH AND ANIMALS

Evian[®] Kyowa, Fry Feed Kyowa, Aminoplus[®]

FINE CHEMICALS FOR PHARMACEUTICAL USE

Amino acids (L-Alanine, L-Arginine, L-Histidine, L-Isoleucine, L-Ornithine HCl, L-Ornithine, L-Aspartate, L-Proline, L-Serine, L-Threonine, L-Valine, etc.), Nucleic Acids (ATP, Orotic Acid, etc.), L-Malic Acid, Enzymes, Pharmaceutical intermediates, Sodium hyaluronate

BULK PHARMACEUTICALS

Citicoline, Dacarbazine, Minocycline HCl, Spiramycin, Ubidecarenone (CoQ10)

PET CARE PRODUCTS

Elendaite[®], E&D shampoo and rinse, Yesterday's News[®] Cat Litter, Green Mussel E, Agari Pet

LIQUOR AND FOOD

(Liquor)

ORIGINAL PRODUCTS

[*Shochu* (Japanese traditional spirits)]
Daigoro, Kanoka, Sun, Genkai, Buson [St. Neige Wine]
Class d'Or, Grande, Vin Organic series, Winery, Varietal Wine
[Low alcoholic refresher]
Shitamachi Fumi, SunShower
[Plum Liqueur]
Umesh Kazoku, Kyowa Umesh

IMPORTS

Scotch whisky:

Langs, Glengoyne

Still wine:

Lionel J. Bruck, Paul Faugerois, Kendermann

Sparkling wine:

Canard Duehene (champagne), Dona (cava)

(Food)

UMAMI SEASONINGS

MSG (Monosodium glutamate)
IMP (Sodium 5'-inosinate)
GMP (Sodium 5'-guanylate)

NATURAL SEASONINGS

Hydrolyzed vegetable and animal proteins; Animal, vegetable, fish, shellfish, and yeast extracts; Soup stocks

FOOD ADDITIVES

Glycine, Citric acid, dl-Malic acid

BAKERY INGREDIENTS AND PRODUCTS

Baker's yeast, Prepared mixes, Frozen doughs, Baking improvers, Activated gluten

HEALTH FOODS

Vitamins, Minerals, Carotenoids, Probiotics

FREEZE-DRIED FOODS

Instant egg-drop soup, Various food materials

CHEMICALS

SOLVENTS

Butyl Alcohol, Acetone, Butyl Glycol Ether, Ethyl Acetate, Butyl Acetate

PLASTICIZERS AND THEIR RAW MATERIALS

DOP (Di-2-Ethylhexyl Phthalate), DBP (Dibutyl Phthalate), DINP (Di-Isononyl Phthalate), 2-Ethylhexyl Alcohol, Oxocol[®]-900 (Isononyl Alcohol)

ORGANIC ACIDS

Acetic Acid, 2-Ethyl Hexanoic Acid, Isononanoic Acid

DIOLS

1-3 Butylene Glycol, 2,4-Di-Ethyl-1,5 Pentanediol

DETERGENT RAW MATERIALS

Linear Alkyl Benzene (Nalken)

C O R P O R A T E D A T A

Kyowa Hakko Kogyo Co., Ltd.

Head Office

1-6-1 Ohtemachi, Chiyoda-ku,

Tokyo 100-8185, Japan

TEL: 81-3-3282-0007

FAX: 81-3-3284-1968

Number of Employees: 5,044

Date of Foundation: July 1, 1949

Paid-in Capital: ¥26,745 million

Plants: Hofu, Ube, Sakai, Fuji, Tsuchiura, Moji, Kyowa Yuka (Yokkaichi, Chiba)

Laboratories:

Tokyo Research Laboratories

Pharmaceutical Research Institute

Technical Research Laboratories

Toxicological Research Laboratories

Sakai Research Laboratories

Kyowa Yuka Co., Ltd., Yokkaichi Research Laboratories

Foods & Liquors Research Laboratories

Tsukuba Research Laboratories

C O R P O R A T E C I T I Z E N S H I P

Kyowa Hakko is involved in various activities that extend beyond its regular business operations. The Kato Memorial Bioscience Foundation, established by Kyowa Hakko in recognition of the Company's founder, Dr. Benzaburo Kato, provides financial support for innovative research in the basic field of bioscience. In addition, the Foundation sponsors public symposia once a year based on bioscience-related themes. Moreover, every year from 1987, Kyowa Hakko has supported the Asahi Young Session, a special annual lecture series for young people that features prominent speakers from various fields. The contents of these lectures are printed in booklets for distribution to anyone desiring a copy.

Benzaburo Kato devoted much of his efforts to the Buddhist laity and founded the Buddhist Laity Organization to spread the teachings of Buddhism to people regardless of their religious denomination.

KYOWA HAKKO KOGYO CO., LTD.

1-6-1 Ohtemachi, Chiyoda-ku, Tokyo 100-8185, Japan

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