ANNUAL REPORT 2000

KYOWA HAKKO KOGYO CO., LTD.

KYOWA

PROFILE

As a technology-oriented company with operations centering on fermentation technologies, Kyowa Hakko Kogyo Co., Ltd., strives to create new value in the life sciences field, including pharmaceuticals, to contribute to the health and happiness of people worldwide.

At the time of its establishment, Kyowa Hakko engaged in the mass production of streptomycin, contributing to the eradication of tuberculosis in Japan. Kyowa Hakko also developed Mytomycin-C, an anticancer agent, that today is sold worldwide as an essential cancer chemotherapy drug. Besides anticancer agents, Kyowa Hakko presently pursues the R&D, production, and sale of pharmaceuticals that address a wide variety of needs, including agents to treat hypertension, allergies, and neurological-related disorders, and the Company's Pharmaceuticals operations have become its core business.

Kyowa Hakko's Liquor & Alcohol business developed from its activities related to the production of raw material alcohol—the origin of its expertise in fermentation technologies. Kyowa Hakko has succeeded in the mass production of various types of amino and nucleic acids, including glutamic acid and lysine, and is using its technologies in these areas in its Food and Bio-Chemicals businesses, which also support the Company's operations.

In its Chemicals business, which originated from acetone and butyl alcohol fermentation, Kyowa Hakko has shifted from fermentation to synthesis and is one of the leading companies worldwide in the production of oxo alcohol. The Company's Chemicals business includes operations related to plasticizers, solvents, and functional products for environmental protection.

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Note:
The outlook contained in the *2000 Annual Report* for business results for fiscal 2001 represents a judgment based on currently available information. It should be noted that there is a possibility that actual results could differ significantly due to such factors as exchange rate fluctuations. The expected results are based on an assumed exchange rate of ¥100=US$1.

FINANCIAL HIGHLIGHTS

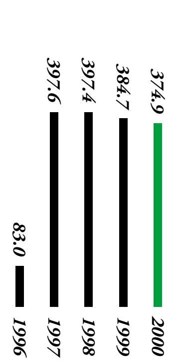
KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	**2000**
For the Year:			
Net sales	**¥374,910**	¥384,671	**$3,531,890**
Operating income	**21,656**	23,457	**204,012**
Net income	**11,274**	6,143	**106,207**
Capital expenditures	**21,053**	24,408	**198,335**
R&D expenses	**25,888**	24,083	**243,881**
Depreciation	**19,153**	17,673	**180,440**
At Year-End:			
Total shareholders' equity	**195,039**	185,766	**1,837,395**
Total assets	**433,958**	477,729	**4,088,158**
Number of employees	**7,866**	—	
	Yen		U.S. Dollars (Note 1)
Per Share Data:			
Net income—primary (Note 2)	**¥ 26.0**	¥ 13.9	**$0.245**
Cash dividends	**10.0**	7.5	**0.094**
Total shareholders' equity	**449.1**	427.8	**4.231**
Total assets	**999.3**	1,081.1	**9.414**
	%		
Ratios:			
Return on assets	**2.5**	1.3	
Return on equity	**5.9**	3.3	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥106.15=US$1, the exchange rate at March 31, 2000.
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.

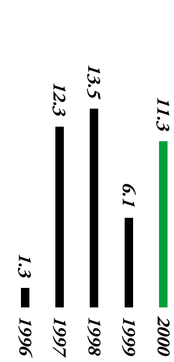
Net Sales*

Billion ¥



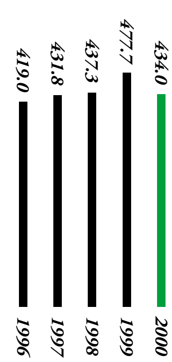
Net Income*

Billion ¥



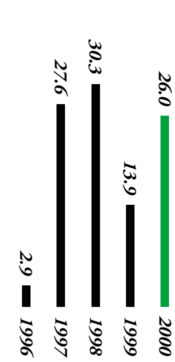
Total Assets*

Billion ¥



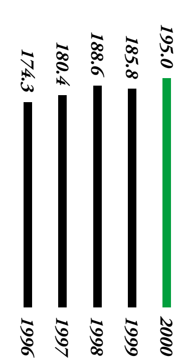
Net Income per Share*

¥



Total Shareholders' Equity*

Billion ¥



**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.*

Tadashi Hirata
President and Chief Executive Officer

Could you describe the operating environment and business results for Kyowa Hakko Kogyo Co., Ltd., in fiscal 2000, ended March 31, 2000?

Kyowa Hakko encountered challenging conditions in its principal businesses, due primarily to such factors as continued sluggishness in the Japanese economy, the effects of the sharp appreciation of the yen in overseas markets, and worsening market prices. Amid intensifying sales competition in its Pharmaceuticals business—the Company's main pillar of revenue—Kyowa Hakko was able to maintain sales at approximately the same level as in the previous fiscal year by expanding sales of existing products, such as our number-one selling Coniel®, an antihypertensive and angina treatment agent. On the other hand, our Bio-Chemicals business was adversely affected by the worsening profitability of exports due to the appreciation of the yen as well as sluggish market prices for feed-grade amino acids sold by overseas subsidiaries. As a result of these developments, Kyowa Hakko's consolidated net sales declined 2.5%, to ¥374.9 billion. However, net income surged 83.5%, to ¥11.3 billion, mainly owing to a significant improvement in profitability in our Chemicals and Liquor and Food businesses and because the Company posted a low level of net income in the previous fiscal year due to the disposition of investment losses on shares of overseas subsidiaries. Net income per share rose to ¥26.0, from ¥13.9 in the previous fiscal year. Kyowa Hakko increased its cash dividends per share to ¥10, which included a special ¥2.5 commemorative dividend.

Can you briefly outline as well as explain the state of progress of your seventh three-year medium-term management plan?

Under its seventh three-year medium-term management plan, which commenced in April 1999, Kyowa Hakko is implementing an extensive reform of its operations. This reform is aimed at improving Kyowa Hakko's revenue structure and enhancing the value of its businesses, thereby enabling the Company to earn acclaim from markets for its management. Our reform is centered on an In-House Company System introduced in June 1999. Under this In-House Company System, we have organized our operations into five independent companies—the Pharmaceuticals, Bio-Chemicals, Chemicals, Liquor & Alcohol, and Food companies—each of which engages in integrated operations ranging from R&D to marketing. In addition, the introduction of the In-House Company System allows Kyowa Hakko to allocate greater authority and responsibilities to each company, speed up decision making, and create a structure that enables prompt responses to market changes, thus enabling the companies to clarify responsibilities for business performance.

Despite such adverse factors in the operating environment as sluggishness in personal consumption and deteriorating market prices, the implementation of the In-House Company System has already yielded crucial improvements in the profitability of our Liquor & Alcohol, Food, and Chemicals companies. In the current fiscal year, we expect all five of our in-house companies to record profits.

Also under its seventh medium-term management plan, Kyowa Hakko started rebuilding its corporate divisions—administrative and other departments at headquarters that are not part of an in-house company. Concurrently, Kyowa Hakko strengthened its management's strategic planning capabilities through such measures as establishing a strategic management committee that incorporates the perspectives of external "business analysts" to facilitate vital reform of the Company's business structure to maximize corporate value.

Kyowa Hakko has also set several numerical targets under its seventh medium-term management plan. Placing top priority on raising the efficiency of asset management, we are aiming for consolidated ROA of 3.2% or higher by fiscal 2002. I am pleased to report that we are making important strides toward achieving this goal, as evidenced by a rise in ROA in fiscal 2000 to 2.5%, from 1.3% in the previous fiscal year.

Kyowa Hakko appears to be making steady progress in achieving profitability in its Chemicals and Liquor and Food businesses. Could you now describe the current status and future outlook for your core Pharmaceuticals business?

Pharmaceuticals represent our core business and will remain the pillar of our operations in the future. While concurrently serving as president of Kyowa Hakko, in July 2000 I became president of the Pharmaceuticals Company and intend to play the leading role in promoting the further development and growth of Kyowa Hakko's Pharmaceuticals business.

With the operating environment expected to become increasingly difficult owing to such factors as further reductions in National Health Insurance (NHI) drug reimbursement prices and intensifying competition with global pharmaceutical manufacturers, Kyowa Hakko's top objective in its Pharmaceuticals business is to strengthen its product pipeline. In pursuing this goal, the Company is working to speed up development and approval and to launch one new product each year. Besides its own independently developed products, Kyowa Hakko's policy will be to aggressively introduce pharmaceuticals from other companies. Noteworthy products that we have recently introduced include Navelbine®, an agent launched in May 1999 for treating non-small cell lung cancer. Navelbine® was introduced from Pierre Fabre, of France, and we filed the agent for the additional indication of breast cancer in June 2000.

Regarding our own in-house-developed drugs, we expect to receive approval at the beginning of 2001 for KW-4679, or Olopatadine, an antiallergic agent. Kyowa Hakko foresees Olopatadine becoming one of its big-selling drugs.

Another priority in our Pharmaceuticals business and in our quest to create innovative drugs that are accepted worldwide is to strengthen our overseas development capabilities. To achieve this objective, we are building a structure for clinical trials that centers on Kyowa Pharmaceutical, Inc., in the United States, and Kyowa Hakko U.K. Ltd., in the United Kingdom. We currently have three promising drugs undergoing clinical trials in Europe and the United States: KW-6002, an anti-Parkinson's disease agent now in Phase II trials as well as in Phase II trials for depression; KW-2170, an anticancer agent currently in Phase I; and KW-7158, an agent for treating urinary incontinence that is in Phase I.

In addition, we are focusing on leading-edge research fields, including genomics-based drug discovery and pharmacogenomics, which are areas of research with the potential to yield new drugs, particularly for the treatment for allergies, immunological diseases, and cancer. The FTM (fast-to-market) project to shorten the time from identification of clinical candidates to Phase I study is now in progress. Moreover, we are working to strengthen the foundations of our pharmaceutical research by forming alliances with pharmaceutical companies, bioventures, and research institutes from around the world as well as through participation in various national projects, including genome projects.

Could you please describe Kyowa Hakko's vision for the 21st century?

Having marked the 50th anniversary of its establishment in 1999, Kyowa Hakko continues to adhere to its corporate mission of contributing to the betterment of people's health worldwide through the creation of innovative drugs and other products. Since its establishment, Kyowa Hakko has carried out its operations as a technology-oriented company supported by outstanding R&D capabilities and has striven to create unique drugs and other products while continually working to ensure the highest levels of customer satisfaction. Looking to the future, Kyowa Hakko's vision is to be a major player in the life sciences, one of the most crucial fields in the 21st century, as it works to become a highly valued company worldwide. To ensure the creation of the highly original products and technologies that customers demand, we will pursue leading-edge technologies in the life sciences, including new biotechnologies.

In our core Pharmaceuticals business, we will focus on our target therapeutic domains of cancer, immunological disorders, neurological diseases, urological disorders, and diabetes. As we concentrate the allocation of our management resources in these fields, we will work to create new novel drugs as a highly valued pharmaceutical manufacturer that stands out even among the world's largest drugmakers. In other words, even though we are smaller than leading U.S. and European pharmaceutical manufacturers, we aim to play a significant role in world markets by developing pharmaceuticals needed in our principal fields of strength.

In our non-pharmaceuticals operations, we intend to cultivate new markets worldwide by drawing on the biotechnologies and other technologies we have accumulated since our founding. In 1999, we developed the world's first system for the large-scale production of sugar nucleotides and oligosaccharides—which are basic substances with a variety of biological activities for supporting life along with amino acids and nucleic acids—using biotechnologies and our highly efficient pregenerating system. This revolutionary new technology is expected to find applications in a wide range of uncovered fields.

Also, supported by the technology foundation of our Pharmaceuticals business, we will focus on various fields of functional foods that satisfy needs related to self-medication in the 21st century. A cholesterol-reducing peptide developed in our Food business is a health food ingredient with scientifically proven functions. We expect that markets for functional foods will expand steadily in the future.

What is the outlook for the current fiscal year?

The operating environment in fiscal 2001 is expected to become increasingly difficult due to such factors as government policies to restrain healthcare costs. Also, the transfer of our plasticizer operations to J-PLUS Co., Ltd., a joint venture with Mitsubishi Chemical Corporation, will have the effect of reducing net sales approximately ¥7 billion. In addition, a number of developments will conspire to squeeze profitability, including a reduction in NHI drug reimbursement prices averaging 7% that was implemented in April 2000, an increase in R&D expenses accompanying the expansion of our overseas drug development activities, a lagging recovery in market prices, and a decline in sales prices. Although we foresee difficult conditions in our mainstay Pharmaceuticals business, we expect to achieve higher sales and reduce unit costs in our Bio-Chemicals and Liquor and Food businesses, and anticipate a recovery in market prices in our Chemicals business. As a result, in fiscal 2001, ending March 31, 2001, Kyowa Hakko expects to record consolidated net sales of ¥375 billion and net income of ¥11 billion, approximately the same amounts as in fiscal 2000.

As it strives to attain strong growth in the 21st century, Kyowa Hakko will review and reform its business structure and make its utmost efforts to strengthen its profit structure and thereby maximize the market value of the Company. In closing, we ask our shareholders for their continued support and understanding.

June 2000

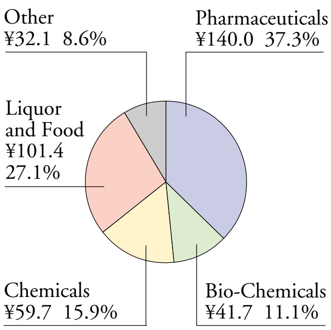
Tadashi Hirata

Tadashi Hirata
President and Chief Executive Officer

Fiscal 2000 Consolidated Segment Information

Net Sales by Industry Segment*

(Billions of Yen, %)



Sales to outside customers

Industry Segments and Business Groups

Kyowa Hakko reorganized its business divisions during the fiscal year along with the introduction of its In-House Company System.

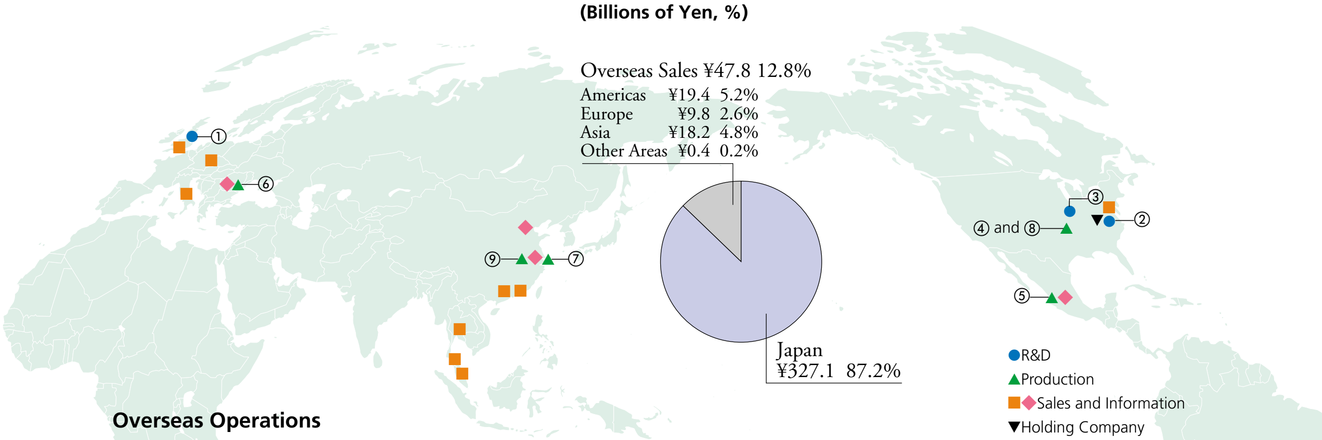
Pharmaceuticals: Ethical drugs; Diagnostic reagents
Bio-Chemicals: Fine chemicals (amino acids and nucleic acids for pharmaceuticals and industrial-use); Agrochemicals; Animal health products; Feed additives; Pet care products
Chemicals: Solvents; Plasticizers and their raw materials; Detergent raw materials; functional products

Liquor and Food:
Liquor and alcohol/Japanese traditional spirits: *Shochu;* Wine; Low-alcohol refreshers; Imported liquors; Raw material alcohol
Food/Seasonings: Baking ingredients and products; Health foods; Freeze-dried foods
Other: Transportation; Warehousing; Sale of apparatus for industry

Overseas Operations Information

Net Sales by Geographic Area

(Billions of Yen, %)



Overseas Operations

R&D: ① Kyowa Hakko U.K. Ltd. (P; Clinical development) ② Kyowa Pharmaceutical, Inc. (P; Clinical development) ③ Nutri-Quest, Inc. (B; Animal Health)
Production: ④ Biokyowa Inc. (B; Feed-grade amino acids) ⑤ Fermentaciones Mexicanas, S.A. de C.V. (B; Feed-grade amino acids) ⑥ Agroferm Hungarian-Japanese Fermentation Industry Ltd. (B; Feed-grade amino acids) ⑦ Shanghai Guan Sheng Yuan Kyowa Amino Acid Co., Ltd. (B; Amino acids for pharmaceutical use) ⑧ Kyowa Foods Inc. (F; Nucleotide seasonings), ⑨ Wuxi Xiehe Food Co., Ltd. (F; Natural seasonings)

P: Pharmaceuticals company
B: Bio-Chemicals company
F: Food company

Sales and Information:
Subsidiaries and affiliates: Kyowa Hakko U.S.A., Inc., Kyowa Hakko Europe GmbH, Kyowa Hakko U.K. Ltd., Kyowa Italiana Farmaceutici S.R.L., Kyowa Hakko Industry (Singapore) Pte Ltd., Kyowa Hakko (Thailand) Ltd., Kyowa Hakko (Malaysia) SDN BHD., Kyowa Hakko (H.K.) Co., Ltd., Kyowa Foods (H.K.) Co., Ltd.
Representative offices: Mexico, Hungary, Beijing, Shanghai
Holding company: Kyowa America, Inc.

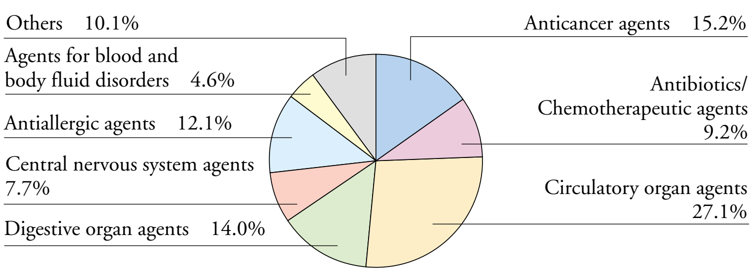
REVIEW OF OPERATIONS

(Sales in each business segment include inter-segment sales and transfers)

Pharmaceuticals

Computer-assisted drug design

Fiscal 2000 Non-Consolidated Sales Breakdown



In fiscal 2000, although there was no reduction in National Health Insurance (NHI) drug reimbursement prices—which had been cut in the three previous consecutive years since 1996—competition intensified due to further advances into the market by foreign-affiliated pharmaceutical companies. Against this backdrop, the Pharmaceuticals Company posted sales of ¥142.3 billion, down 0.6%, or ¥900 million, from the previous fiscal year. Its operating income declined 7.1%, or ¥1.8 billion, to ¥23.8 billion, due to such factors as an increase in R&D expenses.

Ethical Drugs

The Pharmaceuticals Company recorded steady growth in domestic sales of such drugs as Coniel®, an agent for treating hypertension and angina pectoris; Itrizole®, an oral antifungal agent; and Neu-up®, a human recombinant granulocyte-colony stimulating factor (G-CSF) derivative. Regarding new drugs, we commenced sales of Navelbine®, an anticancer agent, in May 1999 and Meditransnitro, a transdermal nitroglycerin compound for the treatment of angina, in July 1999. Also during the fiscal

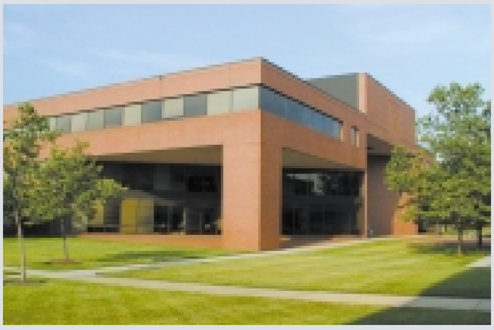
Company President:
Tadashi Hirata
President and
Chief Executive Officer

In accordance with Kyowa Hakko's seventh medium-term management plan, the Pharmaceuticals Company aims to fortify its profit structure and vigorously progress with the globalization of its operations. To this end, it is concentrating the allocation of its management resources on upgrading its product pipeline and bolstering its overseas pharmaceutical development structure.

The Pharmaceuticals Company expects an unavoidable decline in profit in fiscal 2001 because of the adverse effects of further reductions in NHI drug reimbursement prices in April 2000. However, by distributing mobile PCs among our medical representatives and upgrading our scientific support structure, we are strengthening our information presentation capabilities from both the software and hardware perspectives. At the same time, we are striving to minimize the reduction in revenue by stepping up efforts to expand sales of existing drugs, centering on such products as Coniel®, Itrizole®, and Navelbine®.

Regarding new drug development, the Pharmaceuticals Company is aiming to secure fast approval for Olopatadine, a new antiallergic agent, and Desmopressin for the additional indication of nocturnal enuresis. The Company is also working toward the quick filing of applications for five other drugs. Of these five drugs, Kyowa Hakko filed applications for KJK-4263 (Fentanyl), a transdermal analgesic for persistent cancer pain, and Navelbine® for the additional indication of breast cancer in June 2000. The Pharmaceuticals Company is focusing particularly on the overseas clinical development of KW-6002, an anti-Parkinson's disease agent; KW-2170, an anticancer agent; and KW-7158, an agent for treating urinary incontinence.

In our efforts to create novel pharmaceuticals, we are targeting therapeutics for the treatment of cancer, immunological disorders, neurological diseases, urological diseases, and diabetes. In these target fields, we aim to create two clinical candidates annually. We are also extending our focus to include such cutting-edge technologies as genomics-based drug discovery and pharmacogenomics.



Kyowa Pharmaceutical, Inc., in the United States

Kyowa Hakko U.K. Ltd., in the United Kingdom

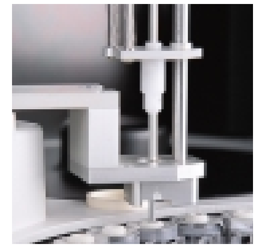
year, we launched Farmorubicin® RTU, an anticancer agent, in July 1999 and Desmopressin as a spray formulation for treating central diabetes insipidus in the following October. As a result, domestic sales of ethical pharmaceuticals remained at approximately the same level as that recorded in the previous fiscal year in spite of decreased sales of other products.

Although the export volume of ethical drugs remained level with that of the previous year, the value of exports declined because of the effects of the appreciation of the yen.

To further the globalization of its pharmaceutical operations, Kyowa Hakko is strengthening its overseas clinical development structure by increasing the number and upgrading the specialized capabilities of staff at Kyowa Pharmaceutical, Inc., in the United States, and Kyowa Hakko U.K. Ltd., in the United Kingdom. Also, in Japan during the year under review we bolstered our R&D structure with the addition of new facilities at our Pharmaceutical Research Institute in June 1999.

In line with efforts to diversify our business operations, both in Japan and overseas we are vigorously pursuing licensing activities, which include the out-licensing of pharmaceutical technologies as well as the in-licensing of pharmaceuticals from other companies. Kyowa Hakko is presently licensing Loracarbef, an antibiotic, to Eli Lilly and Company and Olopatadine to Alcon Laboratories, Inc., both of the United States, and revenues from these licensing agreements contributed to performance during the fiscal year under review.

Besides the out-licensing of pharmaceutical technologies, we are focusing on the out-licensing of drug formulation technologies that satisfy patients' needs. These technologies include SOLBLET (Intra-oral Rapid Disintegrating Tablet) for the production of easy-to-swallow tablets that dissolve rapidly within the body as well as EXLUB (External Lubrication Tabletting System), which enables the production of stable, high-quality, and quick-dissolving tablets through a process that involves coating the surface of tablets with lubricant rather than incorporating the lubricant with the active ingredients.



Diabetes mellitus test analyzer DM-JACK

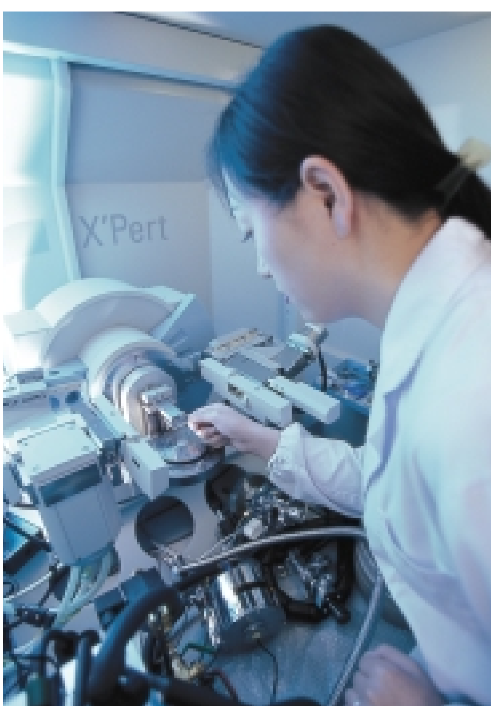
Diagnostic Reagents

The domestic market for diagnostic reagents shrank during the year under review due to the continued implementation of measures to reduce healthcare costs, a worsening of management conditions for medical institutions, rationalization at diagnostic testing divisions, and a trend toward implementing FMSs (Facility Management Systems) at large-scale testing centers as well as the market diffusion of minute amount devices. These factors, coupled with intensifying sales competition, led to a decrease in sales by Kyowa Medex Co., Ltd., which manufactures and sells diagnostic reagents. Under these conditions, Kyowa Medex rationalized its management, strengthened its R&D capabilities, and enhanced the efficiency of its operations while carrying out marketing and scientific activities and working to achieve the key objective of expanding exports.

By type of product, in clinical chemistry fields sales of Determiner® LDL-C for the direct automated measuring of low-density lipoprotein (LDL) cholesterol in serum without prior centrifugal separation rose only slightly because of restrictions on health insurance reimbursement, while domestic sales of the mainstay Determiner® HDL-C for measuring high-density lipoprotein (HDL) cholesterol declined from the previous fiscal year. As a result, sales of our Determiner® series were down from the previous fiscal year.

Regarding immunoassay reagents, sales of the Extel® series of latex immunoassay reagents declined. However, Kyowa Medex recorded a smooth expansion in sales of Determiner® HbA1c, a reagent for testing for diabetes, as well as of the Chemilumi® series of immunological chemoluminescent reagents.

The growing use of Kyowa Medex's DM-JACK, an automated device for investigating various types of diabetes that was launched in September 1998, is contributing to higher sales of Determiner® HbA1c, which is used with this device.

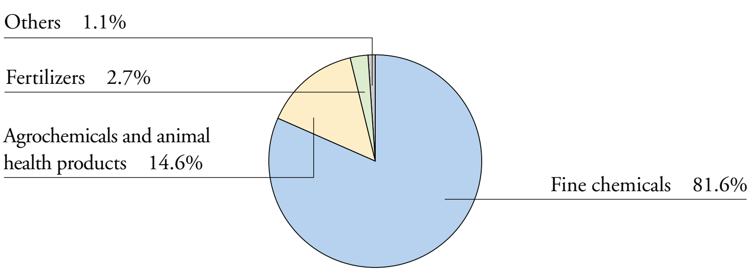


Powder X-ray diffractometer

Bio-Chemicals

The Bio-Chemicals Company's sales amounted to ¥47.7 billion during the year under review, an 11.1%, or ¥6.0 billion, decline from the previous fiscal year. The company posted an operating loss of ¥2.1 billion compared with operating income of ¥2.6 billion in the previous fiscal year. These results reflected the significant adverse effects of the appreciation of the yen, which averaged ¥112 = US$1 during the fiscal year compared with ¥128 = US$1 in the previous fiscal year, on exports by the Bio-Chemicals Company. Other factors underlying these declines included the ongoing slump in overseas market prices for feed-grade amino acids.

Fiscal 2000 Non-Consolidated Sales Breakdown



Fine Chemicals

Domestic sales of fine chemicals for pharmaceuticals and industrial use, centering on amino acids and nucleic acids, were maintained at the same level as in the previous fiscal year thanks to the expansion of the applications for our products and higher sales. We posted favorable bulk export volumes to Europe and the United States owing to brisk demand and recorded robust exports to Asian countries, where market prices are recovering. Nevertheless, the value of these shipments declined sharply due to the considerable adverse effects of the strong yen. In recent years, industrial-use amino acids have been attracting attention, and there has been growing demand for their use in such items as cosmetics and health foods. In 1999, Kyowa Hakko introduced a stable vitamin C derivative to the cosmetic materials market. In addition, a hair-growth accelerator Kyowa Hakko had developed jointly with FANCL Corp., was launched by that company. Moreover, in December 1999 Shanghai Guan Sheng Yuan Kyowa Amino Acid Co., Ltd., our first overseas production base for amino acids for pharmaceutical infusions, commenced operations in Shanghai, China.

A 30-liter fermenter for cultivating microorganisms

Regarding R&D, we established a new production system for sugar nucleotides and oligosaccharides that uses a novel biotechnology, thus

enabling the world's first commercial production of such substances. In the future, we will strive to further advance this technology and progress with the development of products in various fields.

Agochemicals, Animal Health Products, and Fertilizers

Sales of agrochemicals and livestock products decreased from the previous fiscal year amid an industry slump. Sales of organic compound fertilizers fell sharply due to shrinking production, which limited sales of raw materials to fertilizer producers. Among new products, in March 2000 we launched a new oral ecto-parasiticide with aquaculture applications jointly developed with Bayer AG. In September 1999, we also launched a new dietary supplement for pets.

Feed-Grade Amino Acids

We are upgrading the production capabilities of our overseas subsidiaries to meet the anticipated rise in overseas demand for feed-grade amino acids, primarily L-Lysine HCl, for which we have already shifted production to overseas locations. In addition, we increased production capacity at Mexico-based Fermentaciones Mexicanas, S.A. de C.V. (Fermex), in May 1999 and at Biokyowa Inc., in the United States, in April 2000. Both of these subsidiaries are presently enjoying smooth operations. Nevertheless, despite efforts to improve costs, their operating environments became increasingly severe during the fiscal year under review due to a continued fall in sales prices.

Company President:
Minoru Sakurai
Senior Executive Officer

The Bio-Chemicals Company will implement the following measures to counter the effects of increasingly severe international competition and fluctuating exchange rates. First, we will work to expand sales volume and profit by improving the quality and reducing the costs of our existing products. At the same time, the Bio-Chemicals Company will promote close ties between its sales and production divisions to facilitate faster and more accurate responses to customer needs and product-related complaints.

Moreover, drawing on Kyowa Hakko's fermentation technologies, the Bio-Chemicals Company will continue to promote the development of new products, including amino acids and nucleic acids for pharmaceuticals and industrial use.

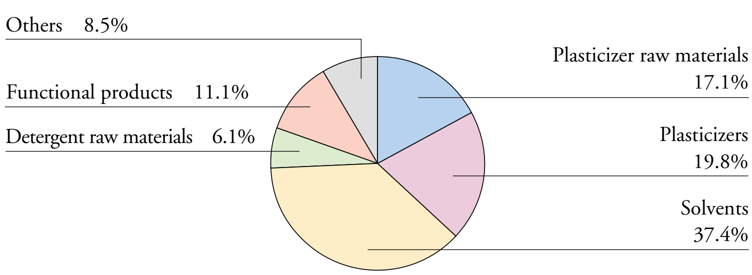
In its sales divisions, the company will work to further rationalize its marketing activities and to reduce costs. At the same time, in low-profit or mature businesses, we will move quickly and decisively to make unprecedented extensive revisions to our business structure where necessary. In our feed-grade amino acids business in particular, we will consider forming alliances in production and sales while reviewing and strengthening the manufacturing foundation.

A refuse landfill site that uses Kyowa Hakko's landfill liner with thermoplastic polyurethane

Chemicals

Domestic demand remained low due to the prolonged slump in the Japanese economy. Although signs of brightness began appearing for market conditions in Asia, the overall slump in Japan's petrochemical industry continued. Amid this environment, the Chemicals Company worked to rationalize its production plants and reduce various expenses. Although the Chemicals Company's sales declined 3.7%, or ¥2.5 billion, to ¥63.9 billion, the Chemicals Company reduced the size of its operating loss ¥3.2 billion, to ¥1.1 billion.

Fiscal 2000 Non-Consolidated Sales Breakdown



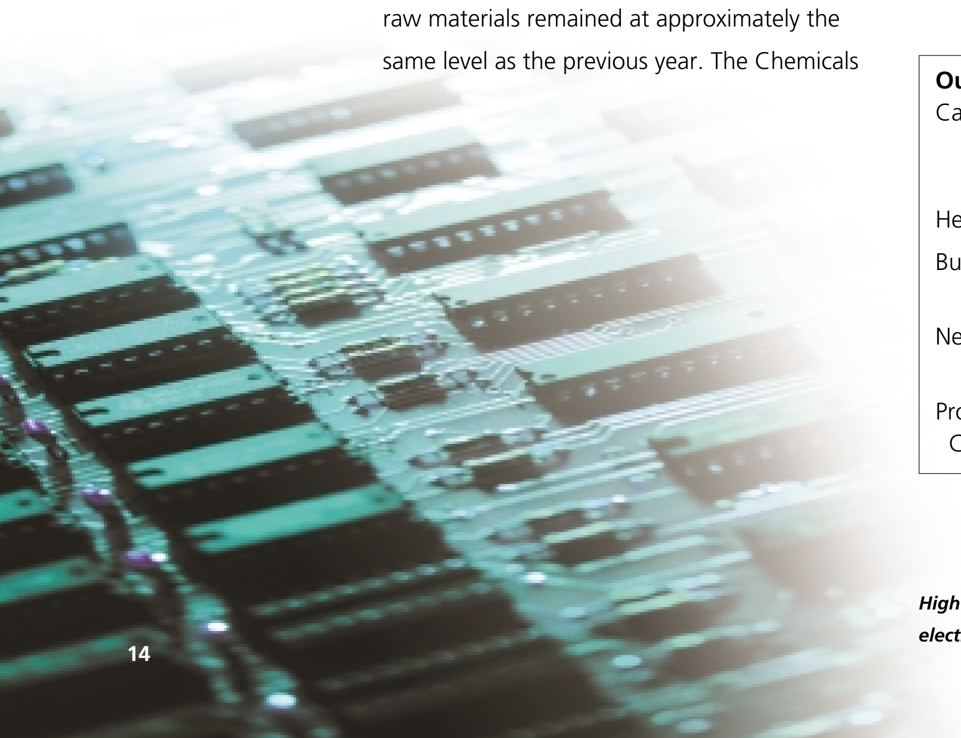
The volume of shipments of such principal chemicals as solvents and plasticizers and their raw materials remained at approximately the same level as the previous year. The Chemicals Company worked to improve prices for a portion of its products in response to soaring prices for raw materials, beginning with naphtha. As a result, although sales declined from the previous fiscal year due to such factors as a decrease in the sales volume for detergent raw materials, profitability improved sharply from the previous fiscal year.

The Chemicals Company worked to fortify the market position of its functional products, including new lubricant raw materials for refrigerants used as CFC substitutes that contribute to environmental protection. Thanks to such efforts, sales of functional products increased from the previous fiscal year.

To significantly raise efficiency and rationalize our plasticizer business, we established J-PLUS Co., Ltd., a joint venture with Mitsubishi

Outline of J-PLUS Co., Ltd.

Capital:	¥480 million (Kyowa Hakko 50%, Mitsubishi Chemical 50%)
Headquarters:	Tokyo
Business:	Manufacture and sale of various plasticizers
Net Sales:	¥22,000 million (FY 2001 projection)
Production Capacity:	242 thousand tons



High purity solvents are used in the production of such electronic materials as photo resists and liquid crystals.

Chemical Corporation for the production and sales of plasticizers. The joint venture commenced operations in April 2000.

Kyowa Yuka Co., Ltd., a subsidiary that handles the manufacture of chemicals, worked to carry out safe and stable operations during the fiscal year. Kyowa Yuka's Yokkaichi Plant extended its record for accident- and disaster-free operations to 18.3 million man-hours at the end of March 2000. The Yokkaichi Plant is working toward obtaining ISO 14001 certification for its environmental management system.

On the international front, to vigorously cultivate its chemicals operations 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 has also invested in an Indonesian company that produces solvents (butyl acetate). In addition, we are proceeding to develop our functional products business in world markets through efforts that include dispatching technicians to Europe and the United States.

Company President:
Ayao Kikuchi
Senior Managing Director

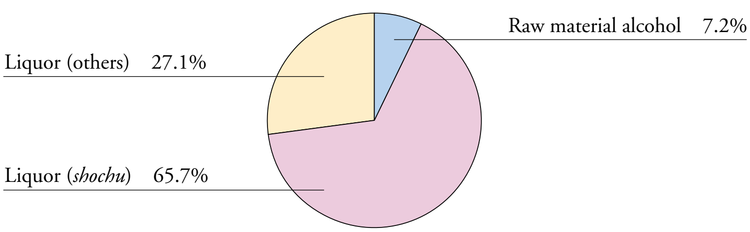
The Chemicals Company aims to further strengthen its core oxo business. In such basic chemicals as solvents and plasticizers, which form one pillar of our oxo business, we are focusing on strengthening our market position by fortifying cost-competitiveness and progressing with the formation of alliances. As part of these efforts, we established J-PLUS, a joint venture for the production and sales of plasticizers, with Mitsubishi Chemical. The Chemicals Company plans to further strengthen these operations.

In functional products, another pillar of the Chemicals Company's operations, we are raising the efficiency of and speeding up our R&D capabilities and aggressively introducing new products into the market, including new environment-friendly products, as part of efforts to carry out high-value-added operations. The Chemicals Company will also vigorously strive to improve the value of existing products through such activities as developing high-purity solvents while raising the proportion of sales accounted for by fine chemicals. In our production divisions as well, we will work to procure highly competitive raw materials and further reduce production costs.

Liquor and Food

Amid declining demand resulting from sluggishness in personal consumption and the trend toward lower prices, Kyowa Hakko aggressively expanded sales of new products and reduced unit costs. Despite these efforts, Liquor and Food sales declined 1.0%, or ¥1.1 billion, to ¥106.3 billion. Kyowa Hakko posted an operating loss of ¥1.1 billion in this sector, a ¥1.3 billion improvement compared with the previous fiscal year.

Fiscal 2000 Non-Consolidated Sales Breakdown



Liquor & Alcohol Company

Amid a severe operating environment characterized by extensive reforms in distribution, sluggish consumption, and a downtrend in prices, the Liquor & Alcohol Company made efforts to reduce costs, launch new products, and expand sales of its mainstay products. Although sales rose only slightly, these efforts enabled the Liquor & Alcohol Company to improve its operating loss.

In our liquor and alcohol operations, the performance of our mainstay Daigoro *shochu*, a Japanese traditional spirit that has enjoyed steady growth in sales volume during the past several years, was particularly affected by competitors' introductions of several low-priced products similar to *shochu,* and its sales suffered a slight decline. In contrast, we once again recorded sharp growth in sales of our increasingly popular Kanoka *shochu* thanks to such factors as an expansion in sales to the on-premises market. We also achieved large

Shitamachi Fumi *low-alcohol refreshers*

Daigoro *shochu and* Kanoka *shochu*

growth in the sales volume of our *Shitamachi Fumi* canned low-alcohol refresher, which was launched in July 1999, thanks to the launch of new products in this series as well as an aggressive sales-promotion campaign.

The market for domestic wines was adversely affected by an overstock of imported wine in the market. Nevertheless, we strove to restructure our wine business and strengthen our product lineup. Despite these efforts, sales of domestic wine were only slightly better than the industry average, while sales of imported wine were much better than the industry average.

Sales of raw material alcohol remained level with those recorded in the previous fiscal year amid a slump in the refined sake industry. We succeeded in carrying out the commissioned production of alcohol, the sale of which is controlled by the Ministry of International Trade and Industry, and maintained the profitability of the Alcohol Division.

Ste. Neige Wine Vin Organique *series*

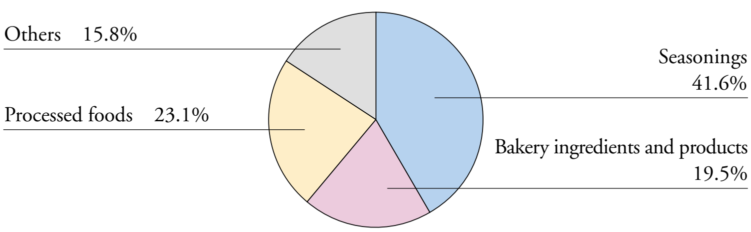
Company President:
Naoyuki Sorimachi
Senior Executive Officer

Under our seventh medium-term management plan, the Liquor & Alcohol Company aims to build a profitable business structure. During the first year of this medium-term management plan, the Liquor & Alcohol Company's results were below initial targets and the company was unable to attain profitability. In the current fiscal year, the Liquor & Alcohol Company will concentrate the allocation of its management resources on such mainstay products as *shochu,* low-alcohol refreshers, and wines as it strives to expand sales of these products. At the same time, we will proceed with efforts to reduce costs by procuring raw materials from a wide range of sources, including those in Japan and overseas, as well as by pruning our distribution costs.

To respond quickly to changes in the liquor and alcohol industry, we will further upgrade our organization to strengthen our marketing capabilities, develop new products that accurately meet market needs, and efficiently formulate sales promotion and other plans. Also, we will vigorously engage in activities aimed at improving customer satisfaction, including the upgrading of our customer service activities. In the current fiscal year, the Liquor & Alcohol Company will make its utmost efforts to achieve profitability, this company's most important objective.

PR activities for the Food business at the International Food Ingredients & Additives Exhibition and Conference

Fiscal 2000 Non-Consolidated Sales Breakdown



Food Company

Although the Food Company made efforts to expand sales of its mainstay products and launch new products, sales declined from the previous fiscal year. During the fiscal year under review, with the aim of improving our business structure, we eliminated unprofitable products and made efforts to lower costs, helping raise the profitability of our food business.

Sales of seasonings rose from the previous fiscal year as higher sales of natural seasonings compensated for a decline in those of *umami* seasonings. Although we recorded an increase in the volume of sales of *umami* seasonings, revenues were down slightly due to a fall in unit sales prices. An increase in sales of natural seasonings was supported by steady growth in sales of new products.

Despite an increase in sales of yeasts, those of bakery ingredients and products declined from the previous fiscal year, owing to a decrease in sales of premixes and other products.

Remake ***series of health foods***

Tamago Soup ***and other freeze-dried soups***

Sales of processed foods were lower despite stepped-up efforts to expand sales of new products as well as of such existing mainstay products as *Tamago Soup* instant egg-drop soup. In health foods, we added new foods containing collagen to our product lineup while working to expand sales.

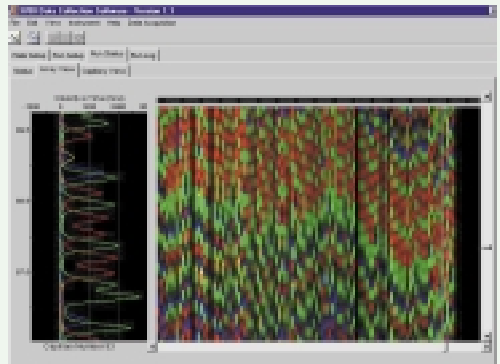
As we progress with the globalization of our seasonings business, construction of a new nucleotide seasoning production plant is progressing smoothly at Kyowa Foods Inc. in the U.S. state of Missouri and plans call for this plant to be completed in August 2000. Also, in October 1999, a plant for the production of natural seasonings was completed at Wuxi Xiehe Food Co., Ltd., in China, and operations at this plant are progressing smoothly. In April 2000, Kyowa Foods (H.K.) Co., Ltd., commenced operations and is currently engaged in marketing seasonings, mainly in China and Southeast Asia.

Company President:
Hiroshi Hosoda
Senior Managing Director

The Food Company is smoothly implementing Kyowa Hakko's medium-term management plan aimed at establishing a profitable business structure. In line with efforts to achieve this objective, we ceased sales of unprofitable and inefficient products, transferred various operations to affiliated companies, and significantly improved our overall profitability. In various food-related fields, we are developing and launching distinctive new products that reflect Kyowa Hakko's high-level capabilities in biotechnologies. We also plan to strengthen our technical support to raise customer satisfaction and will proceed with efforts to further cultivate markets. Looking ahead, we will focus our R&D, production, and sales activities on seasonings, baking ingredients, and health food materials. In fiscal 2001, we will commence with the production of nucleotide seasonings in the United States as we strive vigorously to develop our global seasonings business.

Kyowa Hakko's Genome Research

Genome analysis with a DNA sequencer



Kyowa Hakko has long been performing genome research based on recombinant DNA technologies and technologies for the production of recombinant interferon beta (IFN-ß) protein, which it began to develop in 1979. In 1983, Kyowa Hakko developed mass production technologies for IFN-ß and built production facilities for the recombinant protein at its Hofu Plant. These technologies led to the creation of Neu-up®, a human recombinant granulocyte-colony stimulating factor (G-CSF) derivative, as well as therapeutic antibodies currently in clinical trials while helping establish a foundation for developing basic technologies in genome research.

In 1994, Kyowa Hakko began pursuing its next research project, "Gene Hunting," at its Tokyo Research Laboratories, and decided to focus particularly on investigating human novel complementary DNA (cDNA). Although this research project, including collaborative research performed with academic institutions, was initiated by a small number of researchers, it now includes more than 50 people.

Subsequently, the Japanese government began to concentrate its efforts on genome research and established two genomics institutes, Helix Research Institute for performing human gene discovery and developing genomics technologies and Genox Research Inc. for performing allergy-related gene investigation. Kyowa Hakko is participating in genomics projects that these institutes have been promoting. In addition, Kyowa Hakko has sent a director to DNAVEC Research Inc. which was established for the development of new vectors for gene therapy in 1995.

More recently, Kyowa Hakko began participating in "Millennium Projects," on which the Japanese government is placing great emphasis and allocating funds from its budget. Among these projects, Kyowa Hakko is vigorously participating in a project focusing on human full-length and long cDNA sequences as well as a project for the development of a microbial genome information analysis system.

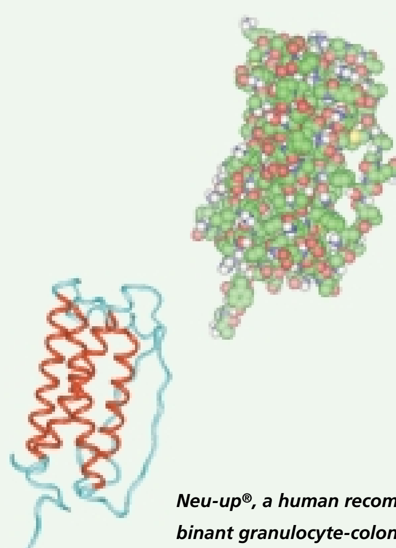
Kyowa Hakko has discovered novel drug targets from its genome research and has already found several promising candidate compounds using screening systems that employ these selected target genes. Furthermore, Kyowa Hakko's analyses of the functions of genes selected from the human genome have yielded a number of potential candidates for biopharmaceutical development. In addition, a recent single nucleotide polymorphism (SNP) analysis of the human *Klotho* gene (a gene related to aging) performed in collaboration with Gemini Genomics plc has revealed that some SNPs of the gene correlate with various metabolic disorders, including as arteriosclerosis, low bone density, and obesity.

Although the scale of Kyowa Hakko's genome research is small compared with that of U.S. or European companies, success in this field will depend on genomics-based drug concepts. In the field of full-length cDNA cloning technologies, Japan is believed to be a step ahead of Europe and the United States. Kyowa Hakko has technological know-how in this field and believes that it can compete strongly in this area by focusing on selected targets while making much use of R&D speed and patent strategy.

Kyowa Hakko intends to proceed with its activities in genomics-based drug discovery research and pharmacogenomics to develop high-quality pharmaceuticals that match the needs of the medical community.

In addition, Kyowa Hakko has met the challenge of analyzing the whole genome of *Corynebacterium glutamicum,* an amino acid producing strain of bacteria, successfully determining the whole genome sequence independently. Kyowa Hakko is the first private organization in Japan to determine the whole genome sequence of this microorganism and announced this achievement at an international scientific meeting in April 2000. Based on the results of the analyses of the genome sequence, we intend to concentrate on applied research for improving our amino and nucleic acid productivity.

Managing Director
Research Division:
Seiga Itoh



Neu-up®, a human recombinant granulocyte-colony stimulating factor (G-CSF) derivative

R&D ACTIVITIES

Animal cells in static culture

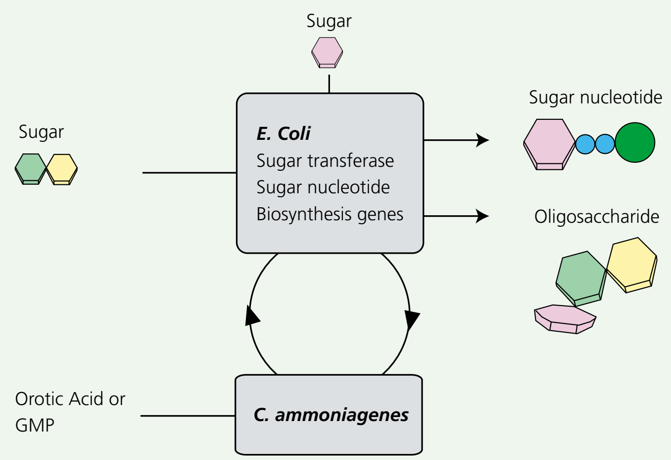
In the fiscal year ended March 31, 2000, consolidated R&D expenditures by Kyowa Hakko amounted to ¥25.9 billion, equivalent to 6.9% of consolidated net sales, and were allocated mainly for the development of new pharmaceuticals. Currently, Kyowa Hakko has nine research laboratories throughout Japan and a staff of about 1,400—or one-fourth of all employees—are engaged in R&D activities. The number of patents that Kyowa Hakko holds is approximately 460 in Japan and 1,980 overseas. These figures demonstrate that Kyowa Hakko is a truly technology-oriented company.

In the pharmaceutical field, with top priority placed on the creation of innovative new drugs Kyowa Hakko is targeting its R&D efforts on agents for the prevention and treatment of cancer, immunological diseases, urological diseases, neurological diseases, and diabetes.

In addition to in-house development activities, Kyowa Hakko vigorously promotes technological tie-ups and joint research with domestic and overseas companies and research institutes.

In non-pharmaceutical fields, Kyowa Hakko's biochemical R&D is focused on improving

Large-Scale Production System for Sugar Nucleotides & Oligosaccharides



amino acid producing strains and elucidating production mechanisms to increase the productivity of amino acids. The results of such efforts have yielded great benefits for actual production. Moreover, research based on new perspectives is ongoing and includes manufacturing methods for useful compounds that use biotechnologies—in fact, Kyowa Hakko was the world's first company to enable the commercial production of sugar nucleotides and oligosaccharides.

In the chemical field, Kyowa Hakko is progressing with themes that include the creation of highly functional products that can be used as alternatives to CFCs to facilitate environmental protection as well as the development of high-value-added fine chemicals with applications largely in oxo-related domains. The Company's R&D activities in the Liquor and Food business include the development of new types of seasonings, baker's yeast, materials for health foods, and superior yeasts for *shochu* and wines using fermentation and enzymatic technologies.

Pharmaceutical R&D

In domestic new drug development, applications have been filed for the approval of Olopatadine, an antiallergic agent, Desmopressin for the treatment of nocturnal enuresis, and an additional indication for Neu-up®, presently used for treating neutropenia, all of which are now under review by the regulatory authorities. Olopatadine, licensed out to Alcon Laboratories, Inc., of the United States, has already been launched in the United States and Canada as eyedrops for the treatment of allergic conjunctivitis, and its sales are rising steadily. In June

Characterization of cells using flow cytometry

2000, Kyowa Hakko filed applications for Fentanyl (KJK-4263), a transdermal analgesic for persistent cancer pain, and Navelbine® for the treatment of breast cancer as a line-extension. Main new chemical entities undergoing clinical trials include KW-6485, an antiepileptic agent, and KW-9100, a diagnostic agent for *H. Pylori.* Also, collaboration with Meiji Milk Products Co., Ltd., to develop an oral formulation of a gastrointestinal contrast medium for use in MRI has begun.

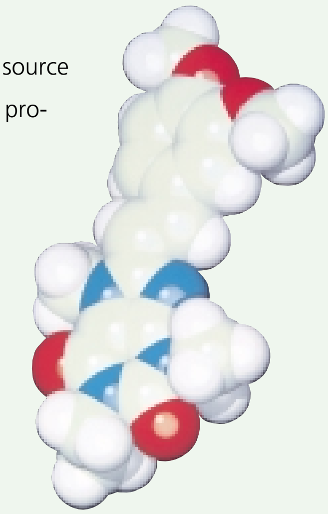
With Kyowa Pharmaceutical, Inc., in the United States, and Kyowa Hakko U.K. Ltd., in the United Kingdom, as operational bases, full-scale overseas clinical trials of remarkable original compounds are progressing. In the United States, KW-6002, a promising anti-Parkinson's disease agent, has been in Phase II trials since September 1999 and entered Phase II trials for depression in June 2000. KW-2170, an anticancer agent, entered Phase I studies in December 1999 in the United States. A Phase I study of KW-7158, a therapeutic agent for urinary incontinence, began in the United Kingdom in May 2000.

In addition to its R&D efforts in the area of ethical drugs, Kyowa Hakko is taking a vigorous approach to drug discovery, the improvement of manufacturing methods for existing drug substances, and the creation of diagnostic agents to successfully meet medical needs.

Furthermore, with the aim of quickly developing innovative and internationally accepted new chemical entities in its target domains, Kyowa Hakko is not only making the best use of its own abilities but also strategically and actively promoting R&D alliances with major pharmaceutical companies, venture companies, and research institutes. Collaborations with Geron Corporation on a telomerase inhibitor for use as an anticancer agent and with Millennium

Analysis of a protein using three-dimensional structure modeling

Pharmaceuticals, Inc., and Warner-Lambert Company on chemokine inhibitors for the treatment of immunological diseases and allergies are yielding promising results. Regarding KW-2401, a compound discovered by Kyowa Hakko, Phase I studies are being vigorously carried out at the National Cancer Institute in the United States. Several chemical entities derived from K-252a as a lead compound, discovered by Kyowa Hakko and licensed out to Cephalon, Inc., have entered clinical trials in Europe and the United States as therapeutic agents for cancer and neurodegenerative diseases. Through such alliances, Kyowa Hakko's source library, which boasts a great diversity, is producing very fruitful results.



Three-dimensional modeling of KW-6002, an anti-Parkinson's disease agent.

R&D Pipeline

Stage	Code Name	Generic Name (Product Name)	Category	Remarks
Filed	KW-2307	Vinorelbine (Navelbine®)	Anticancer (Indication: breast cancer)	Licensed from Pierre Fabre Launched in Japan for treating non-small cell lung cancer
	KW-8008	Desmopressin	Nocturnal enuresis	Licensed from Ferring A.B.
	KW-4679	Olopatadine (Allelock)	Antiallergic	Developed in-house, Licensed out to Alcon Laboratories for eyedrops
	KJK-4263	Fentanyl	Transdermal analgesic for persistent cancer pain	Licensed from Janssen
Phase II, III	KW-9100		Diagnostic agent for *H. Pylori*	Licensed from Diabact
	KW-6151	Mecasermin	Amyotrophic lateral sclerosis (ALS)	Licensed from Cephalon
	KW-6485	Topiramate	Antiepileptic	Licensed from Cilag
	KW-6002		Parkinson's disease	Developed in-house (Phase II in EU and U.S.)
	KW-6002		Antidepressant	Developed in-house (Phase II in U.S.)
	MM-Q01		Contrast medium for MRI	Licensed from Meiji Milk Products
Phase I	KW-2401 (UCN-01)		Anticancer	Developed in-house (Phase I in U.S.)
	KW-2170		Anticancer	Developed in-house (Phase I in U.S.)
Pre-Clinical	KW-7158		Urinary incontinence	Developed in-house (Phase I in U.K.)
	KW-2871		Anticancer monoclonal antibody (Melanoma)	Developed in-house (Phase I in Aus.)
	TSK-204		Antirheumatic	Jointly developed with Taisho Pharmaceutical
	KW-2345	(FOSCAN)	Photodynamic therapy agent for cancer	Licensed from Scotia
	KT5555		Anticancer (oral)	Developed by Cephalon (Phase II in U.S.)
	KT8391		Anticancer (injection)	Developed by Cephalon (Phase I in U.S.)
	KT7515		Parkinson's disease	Developed by Cephalon (Phase I in EU)

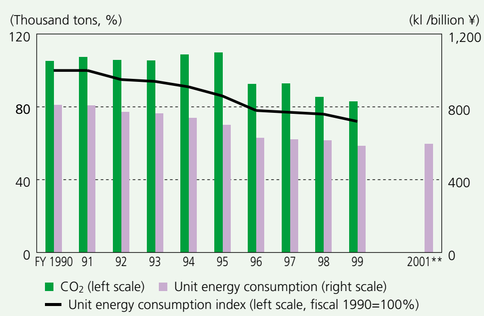
Health, Safety, the Environment, and Product Safety Management

In accordance with its corporate management philosophy, Kyowa Hakko has formulated Health, Safety, the Environment, and Product Safety Management Policies and designated them top management priorities. Covering all phases of product life cycles from R&D through the manufacture, sale, use, and disposal of products, the fundamental philosophy underlying these policies places top priority on ensuring consumer safety while enhancing product quality and safety to contribute to the betterment of society.

Guided by these policies, the Kyowa Hakko Group is working to protect the environment and maintain safety by carrying out responsible care activities based on such standards for environmental management systems as ISO 14001. Kyowa Hakko has already obtained ISO 14001 certification at four production plants and plans to secure this certification at all nine domestic production plants in 2000, including the subsidiaries Kyowa Yuka Co., Ltd., and Kyowa Medex Co., Ltd. Reflecting the high standards of safety maintained throughout the Kyowa Hakko Group, in fiscal 2000 Kyowa Yuka's Yokkaichi Plant achieved a category-five safety record of 18.3 million man-hours of accident- and disaster-free operation over the past 23 years, while Kyowa Hakko's Fuji Plant attained a category-one safety record for accident-free operations and the Ube Plant a category-two record. (Each category is based on the total number of man-hours of accident-free operations.)

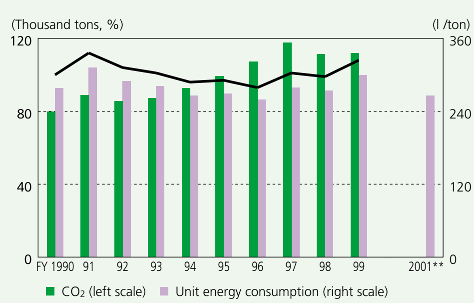
Also as part of its environment-related activities, in fiscal 1999 Kyowa Hakko commenced an

Yearly Changes in Unit Energy Consumption (Kyowa Hakko)*



***Forecasted*

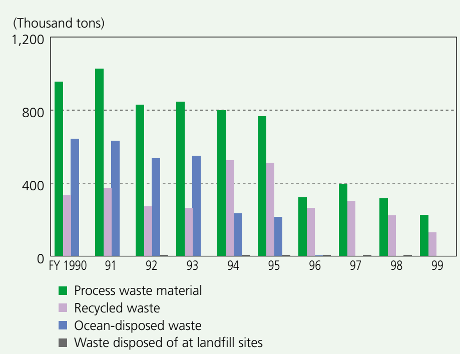
Yearly Changes in Unit Energy Consumption (Kyowa Yuka)*



**Energy consumption per unit of production is expressed on a crude-oil-conversion basis. It is not possible to make a uniform comparison of the amount of basic energy units used by Kyowa Hakko, which engages in the small-volume production of pharmaceuticals and other products, and Kyowa Yuka, which is involved in the production of chemical products. Therefore, the amounts of unit energy consumption by Kyowa Hakko and Kyowa Yuka are listed separately.*

***Forecasted*

Yearly Changes in the Volume of Industrial Waste



in-house Ecoproject under which it is striving to reduce unit energy consumption 3% below the fiscal 1998 level by the end of fiscal 2001 as well as to achieve a 50%, or 2,000 ton per year, reduction below the 1998 level in the volume of waste disposed of at landfill sites by the end of fiscal 2001. In addition, Kyowa Hakko is evaluating dioxin countermeasures for implementation at incineration and other facilities. Moreover, we are taking a vigorous approach to reducing emissions of various adverse chemical substances and implementing various safety measures.

On another front, Kyowa Hakko is steadily expanding its environment-related businesses, including developing materials for use as CFC alternatives and in liner sheets for refuse landfill sites. In the field of biochemical-related products for livestock, Kyowa Hakko received an award from the Japan Scientific Feeds Association for the development of feed additives that reduce the environmental burden.

Details on these activities are presented in the *Fiscal 1999 Environment and Safety Annual Report,* the Company's first environmental report. In the current fiscal year's report, the Company will work to ensure environmental accountability, which includes adopting environmental accounting.

Quality Assurance

Kyowa Hakko continues to strive to gain the trust of customers and maintain the highest levels of customer satisfaction as well as to provide products and services that are superior to those of its competitors in terms of quality and cost. In August 1998, Kyowa Hakko launched a Companywide CS (customer satisfaction) promoting project, committing itself to further elevating levels of customer satisfaction. In undertaking this project, Kyowa Hakko takes a customer-oriented approach to all aspects of its operations from R&D, purchasing, and production to distribution and sales. Through such efforts and with Companywide cooperation, Kyowa Hakko continues to work on improving the overall quality of its activities and maintain its competitiveness. To respond to customer requirements or complaints immediately, Kyowa Hakko takes quick action by distributing the information to relevant departments and divisions and achieving proper solutions through Companywide cooperation. Moreover, the Company strives to reply to customers sincerely.

To further enhance quality assurance for its products and services, Kyowa Hakko has reorganized and fortified the quality assurance structures at its manufacturing plants. Concurrently, as it works to improve production and quality control systems, Kyowa Hakko has introduced and is maintaining various globally recognized systems for quality assurance that conform to such international standards as cGMP, ISO 9002, and HACCP. (Kyowa Hakko's Hofu, Ube, and Moji plants and Kyowa Yuka's Chiba and Yokkaichi plants have received ISO 9002 certification.)

Tadashi Hirata
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

Board of Directors

President and Chief Executive Officer
Tadashi Hirata* **
Company President, Pharmaceuticals Company

Senior Managing Director and Chief Financial Officer
Arimasa Toi* **

Senior Managing Directors
Hiroshi Shigeta **

Ayao Kikuchi **
Company President, Chemicals Company

Hiroshi Hosoda **
Company President, Food Company

Managing Directors
Nobuyuki Matsui **

Kiyoji Hattori **

Seiga Itoh **

Director
Kannosuke Nakamura
Senior Advisor

Corporate Auditors
Takeshi Asaoka

Yoshio Ogura

Kozo Fukuya

*Representative Director
**Also serves as Executive Officer

Executive Officers

Senior Executive Officers
Toshio Komuro

Minoru Sakurai
Company President, Bio-Chemicals Company

Yoshito Imai

Naoyuki Sorimachi
Company President, Liquor & Alcohol Company

Toru Doiuchi

Executive Officers
Susumu Okusa

Toyokatsu Munakata

Kyozo Tsuchiya

Tadayasu Furukawa

Noriyuki Hina

Sadao Teshiba

Fumio Suzuki

Shinzo Ishii

Hiroyuki Kuniyasu

Tomonori Yuji

Yuzuru Matsuda

SELECTED FINANCIAL DATA

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries For the Years Ended March 31, 2000, 1999, 1998 and 1997 and the three-month period ended March 31, 1996

	Millions of Yen					Thousands of U.S. Dollars (Note 1)
Five-Year Summary	**2000**	1999	1998	1997	1996 (Note 3)	**2000**
For the Year:						
Net sales	**¥374,910**	¥384,671	¥397,361	¥397,629	¥ 82,990	**$3,531,890**
Net income	**11,274**	6,143	13,528	12,339	1,296	**106,207**
Capital expenditures	**21,053**	24,408	24,555	19,132	4,317	**198,335**
R&D expenses	**25,888**	24,083	25,358	22,882	5,026	**243,881**
At Year-End:						
Total assets	**433,958**	477,729	437,271	431,774	418,956	**4,088,158**
Property, plant and equipment	**374,878**	364,135	349,837	331,719	310,011	**3,531,586**
Interest-bearing debt	**103,677**	151,489	98,282	97,786	98,195	**976,706**
Total shareholders' equity	**195,039**	185,766	188,645	180,391	174,294	**1,837,395**
	Yen					U.S. Dollars (Note 1)
Per Share Data:						
Net income—primary (Note 2)	**¥26.0**	¥13.9	¥30.3	¥27.6	¥2.9	**$0.245**
Cash dividends	**10.0**	7.5	7.5	7.5	1.9	**0.094**

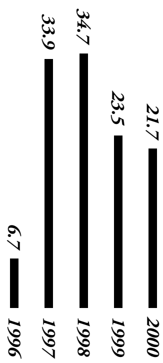
	Millions of Yen		Thousands of U.S. Dollars (Note 1)
Sales by Business Segment	**2000**	1999	**2000**
Pharmaceuticals	**¥139,994**	¥140,458	**$1,318,838**
Bio-Chemicals	**41,689**	47,971	**392,733**
Chemicals	**59,736**	61,915	**562,748**
Liquor and Food	**101,423**	103,049	**955,468**
Other	**32,068**	31,278	**302,103**
Total	**¥374,910**	¥384,671	**$3,531,890**

	Millions of Yen		
Sales by Business Segment (Note 4)	1998	1997	1996 (Note 3)
Pharmaceuticals and Bio-Products	¥210,186	¥207,310	¥40,965
Liquor and Food	104,277	109,364	22,999
Chemicals	75,334	71,908	16,926
Other	7,564	9,047	2,100
Total	¥397,361	¥397,629	¥82,990

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥106.15=US$1, the approximate exchange rate at March 31, 2000.
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.
4. Business segment information as of March 31, 1998, 1997, and 1996 classified under the previous accounting policy.

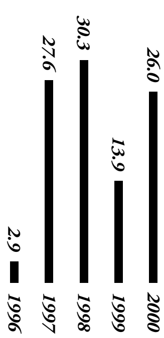
*Operating Income**

Billion ¥



*Net Income per Share**

¥



Net Sales

In fiscal 2000, ended March 31, 2000, Kyowa Hakko encountered challenging conditions in its main businesses, reflecting such factors as ongoing sluggishness in the Japanese economy, the effects of the sharp appreciation of the yen in overseas markets, and deteriorating market prices. Against this background, Kyowa Hakko's consolidated net sales declined 2.5%, to ¥374,910 million. By industry segment, sales in Pharmaceuticals—Kyowa Hakko's core business—amounted to ¥139,994 million, down 0.3% from the previous fiscal year. Kyowa Hakko posted brisk sales of Coniel®, an agent for treating hypertension and angina pectoris; Irtrizole®, an oral antifungal agent; and Neu-up®, a human recombinant granulocyte-colony stimulating factor (G-CSF) derivative. In Bio-Chemicals, we recorded sales of ¥41,689 million during the year under review, 13.1% less than in the previous fiscal year, due mainly to the significant adverse effects of the appreciation of the yen on exports as well as ongoing continued weakness in overseas market prices for feed-grade amino acids. Sales in our Chemicals business amounted to ¥59,736 billion, down 3.5%, owing to lackluster demand. Despite efforts to expand sales of new products, sales in our Liquor and Food business declined 1.6%, to ¥101,423 million, reflecting sluggishness in domestic personal consumption and the trend toward lower prices. The Other business sector, which includes royalties, rose 2.5%, to ¥32,068 million.

Overseas sales declined 6.2%, to ¥47,844 million, and accounted for 12.8% of net sales, down from 13.3% in the previous fiscal year.

Cost, Expenses, and Earnings

Cost of sales declined 3.4%, to ¥248,038 million. Because the decrease in cost of sales was larger than that in net sales, the cost of sales ratio slipped 0.6 percentage point, to 66.2%, from 66.8% in the previous fiscal year. Gross profit was down 0.8%, to ¥126,872 million.

Despite the implementation of measures to restrain expenses, selling, general and administrative (SG&A) expenses edged up 0.8%, to ¥105,216 million, and as a percentage of net sales rose 1.0 percentage point, to 28.1%, from 27.1% in the previous fiscal year. Due to these factors, operating income declined 7.7%, to ¥21,656 million. The ratio of operating income to net sales decreased 0.3 percentage point, to 5.8%, from 6.1% in the previous fiscal year.

Net other revenues (expenses) amounted to revenues of ¥920 million, compared with expenses of ¥3,846 million in the previous fiscal year. This primarily reflected a 10.5% decline in interest expenses, to ¥2,724 million; the absence of an exchange loss arising from investment in kind of securities, compared with a ¥3,782 million loss in the previous year; and a jump in revenue in the other, net, category to ¥985 million, from ¥44 million in the previous fiscal year. Amortization of difference between cost of investment and equity in net assets acquired and equity in earnings of affiliates, previously reported as separate accounts after income before income taxes, are included in other, net, from fiscal 1999.

Due to the previously mentioned factors, income before income taxes rose 15.1%, to ¥22,576 million. Income taxes amounted to ¥11,492 million, 14.7% less than in the previous fiscal year. As a result, net income jumped 83.5%, to ¥11,274 million. Net income per share was ¥26.0, compared with ¥13.9 per share in the previous fiscal year. Cash dividends per share were raised to ¥10.0, from ¥7.5 in the previous fiscal year.

Financial Position

Total assets declined 9.2% from the previous fiscal year-end, to ¥433,958 million. By type of asset, total current assets were down 17.4%, to ¥223,353 million. Within current assets, cash and time deposits jumped 52.1%, to ¥24,136 million. On the other hand, marketable securities fell sharply, to ¥4,560 million, and accounts and notes receivable were down 5.2%, to ¥128,908 million. Other current assets fell to ¥2,219 million, from ¥19,582 million at the previous fiscal year-end. Inventories declined 5.3%, to ¥60,408 million.

Investments and advances edged up 0.9%, to ¥57,181 million. Within this category, investments in and advances to unconsolidated subsidiaries and affiliates rose 22.8%, to ¥17,181 million. On the other hand, long-term loans and other investments declined 19.7%, to ¥8,559 million.

Net property, plant and equipment, at ¥139,425 million, was virtually at the same level as at the previous fiscal year-end.

On the liabilities side, total current liabilities declined 25.0%, to ¥158,542 million. Among liabilities, the current maturities of long-term debt declined to ¥2,740 million, from ¥34,212 million at the previous fiscal year-end. Long-term debt was up 0.4%, to ¥58,061 million.

Total shareholders' equity rose 5.0%, to ¥195,039 million, due to an increase in retained earnings.

The shareholders' equity ratio rose to 44.9%, from 38.9% at the previous fiscal year-end. The current ratio was to 1.41, up from 1.28 at the previous fiscal year-end.

Cash Flows

Net cash provided by operating activities amounted to ¥32,737 million, and consisted mainly of ¥22,576 million in income before income taxes and ¥19,376 million in depreciation and amortization.

Net cash provided by investing activities was ¥23,422 million, and consisted primarily of ¥42,480 million in proceeds from sales of marketable securities.

Net cash used by investing activities totaled ¥50,077 million, and consisted mainly of ¥33,895 million in cumulative repayment of long-term debt and payment for bond redemption.

As a result of the preceding activities, cash and cash equivalents at the end of the year amounted to ¥26,215 million.

Subsequent Event

On June 7, 2000, the European Commission imposed a fine of 13.2 million Euros (approximately ¥1,300 million), payable within three months, jointly on the Company and Kyowa Hakko Europe GmbH, following allegations that, prior to June 1995, a cartel had been formed together with other companies in respect of sales of amino acid lysine for animal feed within the EEA. For a discussion of this matter, please refer to note 10 (2) to the consolidated financial statements.

Outlook for Events in the Current Fiscal Year

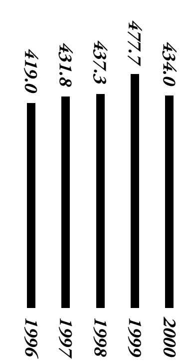
In fiscal 2001, along with a change in accounting standards, the Company will amortize on a lump-sum basis insufficient provisions for retirement payment obligations (¥25.4 billion on a consolidated basis) and record this as an extraordinary loss. Kyowa Hakko has established a retirement payment trust using Company-owned stock to cover the amortization and also plans to sell investment securities. These accounting procedures are expected to have a minimal impact on the Company's business results in the current fiscal year.

Note to the Financial Review

The outlook contained in the *2000 Annual Report* for business results for fiscal 2001 represents a judgment based on currently available information. It should be noted that there is a possibility that actual results could differ significantly due to such factors as exchange rate fluctuations. The expected results are based on an assumed exchange rate of ¥100=US$1.

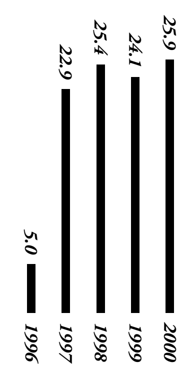
Total Assets*

Billion ¥



R&D Expenses*

Billion ¥



**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.*

CONSOLIDATED BALANCE SHEETS

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries As at March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
ASSETS	**2000**	1999	**2000**
Current Assets:			
Cash	**¥ 9,781**	¥ 11,880	**$ 92,146**
Time deposits	**14,355**	3,989	**135,236**
Marketable securities	**4,560**	31,969	**42,963**
Accounts and notes receivable:			
Trade	**122,776**	126,865	**1,156,626**
Unconsolidated subsidiaries and affiliates	**4,955**	4,097	**46,683**
Other	**1,897**	6,169	**17,864**
	129,628	137,131	**1,221,173**
Less: allowance for bad debts	**(720)**	(1,104)	**(6,782)**
	128,908	136,027	**1,214,391**
Inventories	**60,408**	63,759	**569,081**
Deferred tax assets	**3,122**	3,293	**29,412**
Other current assets	**2,219**	19,582	**20,901**
Total current assets	**223,353**	270,499	**2,104,130**
Investments and Advances:			
Investments in securities	**30,247**	30,477	**284,939**
Investments in and advances to unconsolidated subsidiaries and affiliates	**17,181**	13,996	**161,859**
Long-term loans to employees, mostly for housing	**1,194**	1,521	**11,250**
Long-term loans and other investments	**8,559**	10,665	**80,629**
	57,181	56,659	**538,677**
Property, Plant and Equipment:			
Buildings and structures	**130,582**	125,335	**1,230,162**
Machinery and equipment	**244,296**	238,800	**2,301,424**
	374,878	364,135	**3,531,586**
Less: accumulated depreciation	**(269,930)**	(259,461)	**(2,542,907)**
	104,948	104,674	**988,679**
Land	**22,792**	22,924	**214,711**
Construction in progress	**11,685**	12,110	**110,085**
	139,425	139,708	**1,313,475**
Deferred Tax Assets—Non-Current	**2,919**	2,429	**27,498**
Other Assets	**3,784**	3,485	**35,647**
Translation Adjustments from Foreign Currency Statements	**7,296**	4,949	**68,731**
	¥433,958	¥477,729	**$4,088,158**

The accompanying notes are an integral part of the statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2000	Millions of Yen 1999	Thousands of U.S. Dollars (Note 3) 2000
Current Liabilities:			
Short-term bank loans	**¥ 42,876**	¥ 43,441	**$ 403,919**
Commercial paper	**—**	16,000	**—**
Current maturities of long-term debt (Note 4)	**2,740**	34,212	**25,813**
Accounts and notes payable (Note 11):			
Trade	**41,453**	46,043	**390,513**
Unconsolidated subsidiaries and affiliates	**12,592**	12,283	**118,625**
Construction and acquisition of properties	**4,082**	5,337	**38,459**
Other	**21,051**	25,914	**198,310**
	79,178	89,577	**745,907**
Income taxes payable	**6,828**	4,450	**64,322**
Employees' savings deposits	**11,883**	13,212	**111,950**
Reserve for accrued sales returns	**197**	165	**1,860**
Reserve for accrued sales rebates	**902**	878	**8,499**
Reserve for accrued sales promotion expenses	**498**	648	**4,691**
Guarantee deposits from customers	**7,950**	7,790	**74,896**
Other current liabilities	**5,490**	1,003	**51,712**
Total current liabilities	**158,542**	211,376	**1,493,569**
Long-Term Debt (Note 4)	**58,061**	57,836	**546,974**
Accrued Retirement Benefits	**18,314**	18,362	**172,534**
Allowance for Loss on Guarantees	**—**	215	**—**
Minority Interests in Consolidated Subsidiaries	**4,002**	4,174	**37,686**
Shareholders' Equity:			
Common stock, par value ¥50 per share:			
Authorized: 987,900,000 shares at March 31, 2000 and 1999			
Issued: 434,243,555 shares at March 31, 2000 and 1999	**26,745**	26,745	**251,955**
Additional paid-in capital	**43,180**	43,180	**406,786**
Retained earnings (Notes 1 (2) and 10)	**125,114**	115,841	**1,178,654**
Total shareholders' equity	**195,039**	185,766	**1,837,395**
	¥433,958	¥477,729	**$4,088,158**

CONSOLIDATED STATEMENTS OF INCOME

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries For the years ended March 31, 2000, 1999 and 1998

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2000	1999	1998	**2000**
Net Sales (Notes 2 and 12)	**¥374,910**	¥384,671	¥397,361	**$3,531,890**
Cost of Sales (Notes 11 and 12)	**248,038**	256,807	253,170	**2,336,677**
Gross profit	**126,872**	127,864	144,191	**1,195,213**
Selling, General and Administrative Expenses (Notes 7 and 12)	**105,216**	104,407	109,448	**991,201**
Operating income	**21,656**	23,457	34,743	**204,012**
Other Revenue (Expenses):				
Interest and dividend income	**1,585**	1,630	1,516	**14,936**
Interest expenses	**(2,724)**	(3,045)	(2,725)	**(25,665)**
Write-down of marketable securities	**(186)**	(1,030)	(1,579)	**(1,755)**
Gain (loss) on sale of securities	**377**	(130)	(93)	**3,554**
Gain (loss) on sales of investment securities	**50**	306	(166)	**471**
Foreign exchange loss	**(944)**	(782)	(324)	**(8,898)**
Insurance premium received	**340**	280	400	**3,198**
Gain on sale of property, plant and equipment	**2,818**	3,747	8	**26,548**
Provision for allowance for loss on guarantees	**—**	(215)	—	**—**
Additional premium to welfare annuity fund	**(1,053)**	(1,389)	—	**(9,916)**
Exchange loss arising from investment in kind of subsidiaries	**—**	(3,782)	—	**—**
Gain on settlement of lawsuit	**—**	520	—	**—**
Write-down of golf club membership	**(328)**	—	—	**(3,090)**
Other, net (Note 1 (2))	**985**	44	(499)	**9,285**
	920	(3,846)	(3,462)	**8,668**
Income before income taxes	**22,576**	19,611	31,281	**212,680**
Income Taxes:				
Current	**11,894**	11,473	18,091	**112,047**
Deferred	**(402)**	1,995	(382)	**(3,784)**
	11,492	13,468	17,709	**108,263**
	11,084	6,143	13,572	**104,417**
Minority Interests in Earnings of Consolidated Subsidiaries	**190**	0	(611)	**1,790**
Amortization of Difference between Cost of Investment and Equity in Net Assets Acquired (Note 1 (2))	**—**	—	(28)	**—**
Equity in Earnings of Affiliates (Note 1 (2))	**—**	—	595	**—**
Net income	**¥ 11,274**	¥ 6,143	¥ 13,528	**$ 106,207**
	Yen			U.S. Dollars (Note 3)
Per Share Data:				
Net income—primary	**¥26.0**	¥13.9	¥30.3	**$0.245**
Net income—fully diluted (*)	**25.9**	—	29.6	**0.244**
Cash dividends	**10.0**	7.5	7.5	**0.094**
Weighted Average Number of Shares (thousands)	**434,244**	441,906	446,344	

**Fully diluted net income per share for fiscal 1999 is not disclosed, because there was 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 Consolidated Subsidiaries For the years ended March 31, 2000, 1999 and 1998

	Number of shares of common stock (thousands)	Millions of Yen				
		Common stock	Additional paid-in capital	Legal reserve	Special reserves	Retained earnings
Balance at March 31, 1997	446,344	¥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	446,344	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	434,244	26,745	43,180	—	—	115,841
Net income for the year ended March 31, 2000	**—**	**—**	**—**	**—**	**—**	**11,274**
Previous period tax effect adjustment	**—**	**—**	**—**	**—**	**—**	**84**
Cash dividends	**—**	**—**	**—**	**—**	**—**	**(1,628)**
Directors' and statutory auditors' bonuses	**—**	**—**	**—**	**—**	**—**	**(130)**
Interim cash dividends	**—**	**—**	**—**	**—**	**—**	**(1,628)**
Increase due to additional consolidation of subsidiaries	**—**	**—**	**—**	**—**	**—**	**453**
Increase due to additional application of equity method	**—**	**—**	**—**	**—**	**—**	**539**
Increase due to application of inflation accounting to the accounts of Mexican subsidiary	**—**	**—**	**—**	**—**	**—**	**309**
Balance at March 31, 2000	**434,244**	**¥26,745**	**¥43,180**	**¥ —**	**¥ —**	**¥125,114**

	Number of shares of common stock (thousands)	Thousands of U.S. Dollars (Note 3)				
		Common stock	Additional paid-in capital	Legal reserve	Special reserves	Retained earnings
Balance at March 31, 1999	434,244	$251,955	$406,786	$—	$—	$1,091,295
Net income for the year ended March 31, 2000	**—**	**—**	**—**	**—**	**—**	**106,207**
Previous period tax effect adjustment	**—**	**—**	**—**	**—**	**—**	**791**
Cash dividends	**—**	**—**	**—**	**—**	**—**	**(15,337)**
Directors' and statutory auditors' bonuses	**—**	**—**	**—**	**—**	**—**	**(1,225)**
Interim cash dividends	**—**	**—**	**—**	**—**	**—**	**(15,337)**
Increase due to additional consolidation of subsidiaries	**—**	**—**	**—**	**—**	**—**	**4,263**
Increase due to additional application of equity method	**—**	**—**	**—**	**—**	**—**	**5,079**
Increase due to application of inflation accounting to the accounts of Mexican subsidiary	**—**	**—**	**—**	**—**	**—**	**2,918**
Balance at March 31, 2000	**434,244**	**$251,955**	**$406,786**	**$—**	**$—**	**$1,178,654**

The accompanying notes are an integral part of the statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries For the year ended March 31, 2000

	Millions of Yen	Thousands of U.S. Dollars (Note 3)
	2000	2000
Cash flows from operating activities:		
Income before income taxes	¥22,576	$212,680
Adjustments to reconcile income before income taxes to net cash used by operating activities:		
Depreciation and amortization	19,376	182,533
Equity in earnings of affiliate	(1,137)	(10,713)
Write-down of marketable securities	186	1,755
Increase in retirement allowance	131	1,232
Decrease in allowance for retirement benefits to directors and corporate auditors	(178)	(1,674)
Decrease in bad debt allowance	(437)	(4,113)
Gain on sale of securities	(428)	(4,027)
Gain on sale of property, plant and equipment	(1,803)	(16,982)
Interest and dividend income	(1,593)	(15,004)
Interest expense	2,741	25,818
Decrease in trade receivables	2,738	25,791
Decrease in inventories	1,513	14,256
Decrease in trade payables	(2,858)	(26,923)
Payment of officers' bonuses	(138)	(1,303)
Decrease in consumption tax payables	(453)	(4,269)
Others	3,030	28,542
	43,266	407,599
Receipt of interest and dividend income	1,778	16,749
Payment of interest expenses	(2,763)	(26,031)
Payment of income taxes	(9,544)	(89,910)
Net cash provided by operating activities	32,737	308,407
Cash flows of investing activities:		
Increase in time deposits	(615)	(5,792)
Decrease in time deposits	2,903	27,349
Proceeds from sale of marketable securities	42,480	400,191
Payments for purchase of property, plant and equipment	(22,501)	(211,972)
Proceeds from sale of property, plant and equipment	2,145	20,210
Payments for purchase of investment securities	(505)	(4,755)
Proceeds from sale of investment securities	302	2,844
Net increase in short-term loans receivable	(164)	(1,549)
Increase in long-term loans receivable	(115)	(1,080)
Decrease in long-term loans receivable	787	7,418
Others	(1,295)	(12,212)
Net cash provided by investing activities	23,422	220,652
Cash flows of financing activities:		
Net proceeds from short-term debt	461	4,342
Net increase in commercial paper	(16,000)	(150,730)
Proceeds from long-term debt	2,630	24,773
Repayment of long-term debt	(4,047)	(38,121)
Payment for bond redemption	(29,848)	(281,187)
Dividends paid	(3,262)	(30,734)
Dividends paid to minority	(11)	(106)
Net cash used by investing activities	(50,077)	(471,763)
Effect of exchanges on cash and cash equivalents	(339)	(3,195)
Increase in cash and cash equivalents	5,743	54,101
Cash and cash equivalents at the beginning of the year	20,433	192,491
Increase in cash and cash equivalents resulting from consolidation of formerly unconsolidated subsidiaries	39	373
Cash and cash equivalents at the end of the year	¥26,215	$246,965

Relation between cash and cash equivalents at year-end and the account booked in the balance sheet.

	Millions of Yen	Thousands of U.S. Dollars (Note 3)
	2000	2000
Cash and time deposits	¥24,136	$227,382
Marketable securities with original maturities of three months or less	2,999	28,253
Time deposits whose maturity periods exceed three months	(920)	(8,670)
	¥26,215	$246,965

The accompanying notes are an integral part of the statements.

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries March 31, 2000, 1999 and 1998

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 their respective countries. Although certain differences exist in the accounting principles employed by the overseas subsidiaries, essentially no adjustments have been made to their accounts in order to conform to 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.

Consolidated statements of cash flows are required to be included in the consolidated financial statements with effect from fiscal 2000 due to the amendment of related regulations.

(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) "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 56 subsidiaries (majority-owned companies) as at March 31, 2000 (54 as at March 31, 1999). The consolidated financial statements include the accounts of the Company and major 28 subsidiaries for the year ended March 31, 2000 (27 and 24 for the years ended March 31, 1999 and 1998, respectively). As a result of an increase in its materiality to the consolidated accounts, Kyowa Medical Promotion Co., Ltd. has been accounted for as a consolidated subsidiary for the first time this year.

The major 28 subsidiaries are listed on the following page (the Company and these consolidated subsidiaries are together referred to as the "Companies").

The remaining 28 (27 for 1999) unconsolidated subsidiaries, whose combined total assets, net sales, net income and retained earnings are not significant in relation to those of the consolidated financial statements of the Companies, have been excluded from consolidation.

Domestic consolidated subsidiaries use a financial year ending on March 31 of each year, and overseas consolidated subsidiaries use it ending on December 31 of each year.

Significant transactions between January 1 and March 31 are reflected in the consolidated financial statements.

Name of company	Direct and indirect equity 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
Sainte Neige Wine Co., Ltd.	95.0	125
Kyowa F.D. Foods Co., Ltd.	100.0	100
Miyako Kagaku Co., Ltd.	52.9	111
Chiyoda Kaihatsu Co., Ltd.	100.0	113
Overseas subsidiaries:		
Biokyowa Inc. (U.S.A.)	100.0	$20
Fermentaciones Mexicanas, S.A. de C.V. (Mexico)	75.0	N.Peso31
Agroferm Hungarian-Japanese Fermentation Industry Ltd. (Hungary)	84.9	HuF3,506
Kyowa Hakko U.S.A., Inc. (U.S.A.)	100.0	$1
Kyowa Hakko Europe GmbH (Germany)	100.0	DM2
Kyowa America, Inc. (U.S.A.)	100.0	$48
Other 15 subsidiaries		

(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. Until 1999, any difference between the cost of investments in a subsidiary and the amount of underlying equity in net assets of the subsidiary, if any, was charged or credited to income, as the case may be, in the year in which it occurred. Since 2000, it is amortized using an appropriate method over a suitable period based on the specific circumstances of each consolidated subsidiary due to the amendment of related regulations.

Assets and liabilities in consolidated subsidiaries are revalued to fair market value when the majority interest in the subsidiaries is purchased.

(3) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

Although the Company had 28 (27 for 1999) unconsolidated subsidiaries and 29 (29 for 1999) affiliates, the equity method is applied to the investments in 5 (4 for 1999) 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. As a result of an increase in its materiality to the consolidated accounts, Kurogane Kasei Co., Ltd. has been accounted for using the equity method of accounting for the first time this year.

The 5 affiliates accounted for by the equity method are listed below:

Name of company	Equity ownership percentage	Capital stock (Millions of Yen)
Janssen-Kyowa Co., Ltd.	40.0%	¥1,000
Other 4 affiliates		

Differences, arising from the application of the equity method to non-consolidated subsidiaries and affiliates, between the cost of investments and the amount of underlying equity in net assets are fully amortized in the year incurred.

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 mainly by using the average cost method.

(5) Marketable Securities and Investments in 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 using mainly the declining-balance method at rates based on the estimated useful lives of assets which are prescribed by Japanese income tax laws.

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.

Also, the Companies adopted useful lives of the buildings (other than improvements) which are shorter than those used in previous years as of March 31, 1999, pursuant to the amendments to the Japanese income tax laws which reduced operating income, ordinary income and income before income taxes as of March 31, 1999 by ¥218 million as compared with the previous method.

(7) Reserve for Accrued Expenses
Allowance for Bad Debts
An allowance for bad debts is provided at the amount equivalent to the limit deductible for tax purposes as prescribed by the tax laws together with the amount of individual account balances deemed uncollectible.

Reserve for Accrued Sales Returns
A reserve for accrued sales returns is provided on the basis of the allowable deductions under the tax laws. The amount of the reserve is determined based on the past years' experience of the Companies.

Reserve for Accrued Sales Rebates
A reserve for accrued sales rebates is provided for at an amount determined by the balance of receivables from the sales agents and distributors at the 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
A reserve for accrued sales promotion expenses is provided for at the amount expected to be incurred in relation to inventories held by 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
An allowance for loss on guarantees is provided for at the amount expected to be incurred in relation to the debt guarantees.

(8) Foreign Currency Translation
Until the year ended March 31, 1998, short-term accounts receivable and payable denominated in foreign currencies had been 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. Under the new method, short-term accounts receivable and payable denominated in foreign currencies are translated at the current exchange rate prevailing at the year-end.

(9) 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 performed using the method of translation prescribed by the statements issued by the Business Accounting Council (BAC) of Japan.

(10) Income Taxes
In fiscal 2000, the Company and its subsidiaries adopted deferred tax accounting in accordance with the amended regulations for preparation of consolidated financial statements. Income taxes are determined using the asset and liability approach, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amount in the financial statements. The cumulative effect of adopting deferred tax accounting at the beginning of fiscal 2000 was charged to retained earnings.

By fiscal 1999, the tax effects of items that were included in the determination of consolidated net income for the year but were deductible or taxable in different years (timing differences) were reflected in the accompanying consolidated financial statements. The total tax effects of such timing differences aggregated from those recognized by each Company in the Group, elimination of inter-company profit as well as the elimination of allowances 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 charges and credits) in the accompanying consolidated balance sheets.

Deferred tax assets and liabilities as at March 31, 2000 consisted of the following elements:

	Millions of Yen	Thousands of U.S. Dollars
Deferred Tax Assets:		
Excess amount of tax deductible for bad debt allowance	¥ 360	$ 3,387
Excess amount of tax deductible for bonus allowance	506	4,763
Accrued enterprises tax, etc.	671	6,322
Allowance for sales discount	796	7,495
Excess amount of tax deductible for retirement allowance	1,304	12,287
Allowance for officers' retirement	408	3,841
Excess amount of tax deductible for deferred charges	1,068	10,062
Tax loss carryforward	978	9,215
Write-down of investment securities	889	8,379
Prepaid expense in tax accounting	666	6,271
Other items	2,341	22,057
	9,987	94,079
Valuation allowance	(1,761)	(16,585)
Total deferred tax assets	8,226	77,494
Deferred Tax Liabilities:		
Special tax-purpose reserve	(2,121)	(19,985)
Other items	(80)	(750)
Total deferred tax liabilities	(2,201)	(20,735)
Net deferred tax assets	¥6,025	$56,759

Reconciliation between statutory tax rate and effective tax rate as at March 31, 2000:

Statutory tax rate	41.69%
(Reconciliation)	
Non-deductive items (entertainment, etc.)	9.31
Non-taxable items (dividend income, etc.)	(3.07)
Non-collectable temporary difference, etc.	5.98
Equity in earnings of affiliates	(3.31)
Other	0.30
Effective tax rate	50.90%

(11) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits which are able to be withdrawn on demand and short-term investments which are readily convertible into cash, and fall due within three months of acquisition and thus are not exposed to significant market risk.

(12) Accrued Retirement Benefits

The Company records accrued retirement benefits payable to employees at an amount equivalent to 40 per cent. of the liabilities which 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 which covers employees who retire at or above the age of 50 with at least 10 years of service with the Company.

The Company also provides for accrued retirement benefits to directors and statutory auditors in 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 and the local public bodies subsequently. The consumption tax withheld upon sale and the consumption tax paid by the Companies on the purchase 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 ¥106.15=US$1, the approximate exchange rate at March 31, 2000, 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 ¥106.15=US$1 or at any other rate.

4. LONG-TERM DEBT

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

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	**2000**
Loans from banks, other financial institutions, etc., due from 2000 to 2013 with mortgage and collateral	**¥ 4,997**	¥ 6,552	**$ 47,075**
1.40 per cent. convertible bonds due 1999	**—**	29,848	**—**
1.50 per cent. convertible bonds due 2002	**9,997**	9,997	**94,178**
1.75 per cent. bonds due 2003	**12,000**	12,000	**113,048**
2.55 per cent. bonds due 2008	**15,000**	15,000	**141,309**
2.525 per cent. bonds due 2008	**15,000**	15,000	**141,309**
1.98 per cent. bonds due 2008	**3,000**	3,000	**28,262**
Deferred tax liabilities	**16**	—	**151**
Other long-term debt	**791**	651	**7,455**
	60,801	92,048	**572,787**
Less: portion due within one year	**(2,740)**	(34,212)	**(25,813)**
	¥58,061	¥ 57,836	**$546,974**

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. convertible bonds due June 30, 1999 are redeemed in fiscal 2000. The 1.50 per cent. ¥10,000 million convertible bonds due June 28, 2002 were issued in January 1990. These convertible bonds are convertible into shares of common stock at a current conversion price of ¥1,880 ($17.71) 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 5,318 thousand shares at March 31, 2000.

5. COLLATERAL AND SECURED DEBT

Collateral and secured debt as at March 31, 2000 were:

	Millions of Yen	Thousands of U.S. Dollars
Collateral:		
Machinery and equipment	¥166	$1,561
Investment in securities	97	919
Total	¥263	$2,480
Secured debt:		
Accounts and notes payable	¥247	$2,327
Short-term bank loan	18	168
Total	¥265	$2,495

6. CONTINGENT LIABILITIES

The Companies had contingent liabilities arising from notes discounted by banks in the amount of ¥874 million ($8,234 thousand) at March 31, 2000.

The Company was contingently liable for guarantees of loans borrowed by Sakura-Brewer Ltd., Issyou-Brewer Ltd., Sanbo-Brewer Ltd. and others in the amounts of ¥680 million ($6,406 thousand), ¥580 million ($5,464 thousand), ¥505 million ($4,757 thousand) and ¥614 million ($5,784 thousand), respectively, at March 31, 2000.

7. LEASE TRANSACTIONS

Acquisition cost, accumulated depreciation, net book value at March 31, 2000 and depreciation expense for the year then ended, which included the portion of interest thereon, of leased assets, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Acquisition cost	¥3,278	$30,884
Accumulated depreciation	1,955	18,418
Net book value	¥1,323	$12,466
Depreciation	¥706	$6,648

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

Lease rental expenses on finance lease contracts without ownership-transfer for the years ended March 31, 2000 and 1999 amounted to ¥706 million ($6,648 thousand) and ¥756 million, respectively.

	Millions of Yen	Thousands of U.S. Dollars
The scheduled maturities of future lease rental payments of finance leases as of March 31, 2000 were as follows:		
Due within one year	¥ 525	$ 4,950
Due over one year	798	7,516
	¥1,323	$12,466
The scheduled maturities of future lease rental payments of operating leases as of March 31, 2000 were as follows:		
Due within one year	¥2	$23
Due over one year	6	55
	¥8	$78

8. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

The cost, estimated market value and unrealized gain of the marketable securities (current assets) and investment securities (non-current assets) as of March 31, 2000 were as follows:

	Millions of Yen		
	Book value	Estimated market value	Unrealized gain, net
Marketable securities:			
Marketable equity securities	¥ 1,559	¥ 4,975	¥ 3,416
Bonds	—	—	—
Other securities	—	—	—
	1,559	4,975	3,416
Investment securities:			
Marketable equity securities	23,091	83,041	59,950
Bonds	—	—	—
Other securities	—	—	—
	23,091	83,041	59,950
Total	¥24,650	¥88,016	¥63,366

	Thousands of U.S. Dollars		
	Book value	Estimated market value	Unrealized gain, net
Marketable securities:			
Marketable equity securities	$ 14,687	$ 46,868	$ 32,181
Bonds	—	—	—
Other securities	—	—	—
	14,687	46,868	32,181
Investment securities:			
Marketable equity securities	217,522	782,289	564,767
Bonds	—	—	—
Other securities	—	—	—
	217,522	782,289	564,767
Total	$232,209	$829,157	$596,948

(1) Stock of market value

Listed securities..........Principally based on the last price on the Tokyo stock exchange

Over-the-counter securities..........Based on trading prices issued by the Japan Securities Industry Association, etc.

Foreign over-the-counter securities..........NASDAQ index, etc.

(2) The book value of major securities that are excluded from the above presentation as of March 31, 2000 is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Marketable securities:		
Commercial papers	¥ 1,999	$ 18,832
Unlisted foreign bonds	1,000	9,421
Investment securities:		
Unlisted securities (excluding over-the-counter securities)	21,645	203,906
Preferred equity investments	1,000	9,418

9. MARKET VALUE INFORMATION OF DERIVATIVE TRANSACTIONS

The contracted amounts of market values and valuation gains or losses for derivative transactions as of March 31, 2000 were as follows:

	Millions of Yen			
	Contract amount, etc.			
	Total	Over one year	Fair value	Valuation gain or loss
Interest rate option:				
Buying contract	¥ 8,000	¥ 3,000	¥ 1	¥ (50)
Call option (*)	(*)51	(*)26		
Interest rate swap:				
Receipt of fixed rate and payment of variable rate	21,000	18,000	193	193
Payment of fixed rate and receipt of fixed rate	13,000	13,000	570	570
Total	¥42,000	¥34,000	¥764	¥713
	(*)51	(*)26		

	Thousands of U.S. dollars			
	Contract amount, etc.			
	Total	Over one year	Fair value	Valuation gain or loss
Interest rate option:				
Buying contract	$ 75,365	$ 28,262	$ 9	$ (471)
Call option (*)	(*)480	(*)245		
Interest rate swap:				
Receipt of fixed rate and payment of variable rate	197,833	169,571	1,818	1,818
Payment of fixed rate and receipt of fixed rate	122,468	122,468	5,370	5,370
Total	$395,666	$320,301	$7,197	$6,717
	(*)480	(*)26		

Note: (1) Fair value was estimated based on quotes from banks and other financial institutions with which the Company does business.
(2) (*) Option premium booked on the consolidated balance sheets

Derivative transactions are used in order to manage exchange risks and risks of market rate fluctuations which occur in the normal course of business. Derivatives are not used for speculative purposes or for highly leveraged transactions.

10. SUBSEQUENT EVENT

(1) Subsequent to March 31, 2000, the Company's Board of Directors, with the subsequent approval of shareholders on June 29, 2000, declared a cash dividend of ¥2,713 million ($25,558 thousand), equal to ¥6.25 ($0.059) per share, which was applicable to earnings of the year ended March 31, 2000 and payable to shareholders on the register on March 31, 2000.

Cash dividends as of March 31, 2000 include the special dividend, at the rate of ¥2.5 ($0.024) per share, for the 50th anniversary of our foundation.

(2) On June 7, 2000, the European Commission imposed a fine of 13.2 million Euros (approximately ¥1,300 million), payable within three months, jointly on the Company and Kyowa Hakko Europe GmbH, following allegations that, prior to June 1995, a cartel had been formed together with other companies in respect of sales of amino acid lysine for animal feed within the EEA. An appeal can be lodged within a period of two months after the date of service upon the Company of the Commission's Decision if management of the Company wishes to dispute the findings of the Decision.

Management acknowledges that there may be some basis for the Commission's findings, but is currently reviewing the Decision in detail, before making a determination as to whether or not to lodge an appeal.

11. RELATED PARTY TRANSACTIONS

Material transactions of the Company with its related companies, representing more than 10 per cent. of the consolidated sales or the total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements, for the years ended March 31, 2000 and 1999 are disclosed by each item.

Also, the Company discloses material balances and transactions with related companies where such balances and transactions including the related amount in the footnote represent exceeding 1 per cent. of the consolidated total assets, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements, for the years ended March 31, 2000 and 1999.

Material transactions and balances of the Company with its related individuals including shareholders and directors representing more than ¥1 million shall be disclosed, but not applicable for the years ended March 31, 2000 and 1999.

				Millions of Yen						Thousands of U.S. Dollars	
				Transactions			Resulting account balances				
					Year ended March 31,						
Name of related company	Paid-in capital (Millions of yen)	Principal business	Direct equity ownership percentage by the Company	Description of transactions	**2000**	1999	Account	**At Mar. 31, 2000**	At Mar. 31, 1999	**Transactions initiated in the year ended Mar. 31, 2000**	**Resulting account balance at Mar. 31, 2000**
Janssen-Kyowa Co., Ltd.	¥1,000	Development, process, import and wholesale of pharmaceuticals	40%	Purchase of pharmaceuticals	**¥16,159**	¥15,359	Accounts and notes payable	**¥7,892**	¥8,048	**$152,228**	**$74,348**

12. SEGMENT INFORMATION

(1) Industry Segment Information

The Company and its subsidiaries operate principally in the following 5 industry segments:

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

(2) Change in the Segment Information

Effective April 1, 1999, the Company revised its presentation of industry segment information in order to better reflect the nature of its diversified business. Formerly the Company classified its business into four segments, by groupings of products and similar processes. Following a recent reorganization, the Company reclassified its business into five segments under the newly established divisionalized organization.

Accordingly the five business segments are as follows: Pharmaceuticals; Bio-Chemicals; Chemicals; Liquor and Food; and Other.

The segment information for the Company and its subsidiaries for the years ended March 31, 2000, 1999 and 1998, classified by industry segments is summarized as follows:

Year ended March 31, 2000	Millions of Yen							
	Industry segment						Elimination or unallocatable amounts	Consolidated total
	Pharmaceuticals	Bio-Chemicals	Chemicals	Liquor and Food	Other	Total		
I. Sales and Operating Income (Loss):								
Sales:								
Sales to outside customers	**¥139,994**	**¥41,689**	**¥59,736**	**¥101,423**	**¥32,068**	**¥374,910**	**¥ —**	**¥374,910**
Inter-segment sales/transfers	**2,344**	**5,968**	**4,157**	**4,897**	**23,098**	**40,464**	**(40,464)**	**—**
Total sales	**142,338**	**47,657**	**63,893**	**106,320**	**55,166**	**415,374**	**(40,464)**	**374,910**
Operating expenses	**118,539**	**49,753**	**64,957**	**107,430**	**53,776**	**394,455**	**(41,201)**	**353,254**
Operating income (loss)	**¥ 23,799**	**¥ (2,096)**	**¥ (1,064)**	**¥ (1,110)**	**¥ 1,390**	**¥ 20,919**	**¥ 737**	**¥ 21,656**
II. Assets, Depreciation and Capital Expenditures:								
Assets	**¥125,006**	**¥91,858**	**¥65,961**	**¥ 72,530**	**¥15,452**	**¥370,807**	**¥ 63,151**	**¥433,958**
Depreciation	**5,511**	**4,973**	**4,903**	**2,876**	**324**	**18,587**	**566**	**19,153**
Capital expenditures	**4,902**	**7,127**	**4,259**	**4,338**	**118**	**20,744**	**309**	**21,053**

Year ended March 31, 2000	Thousands of U.S. Dollars							
	Industry segment						Elimination or unallocatable amounts	Consolidated total
	Pharmaceuticals	Bio-Chemicals	Chemicals	Liquor and Food	Other	Total		
I. Sales and Operating Income (Loss):								
Sales:								
Sales to outside customers	**$1,318,838**	**$392,733**	**$562,748**	**$ 955,468**	**$302,103**	**$3,531,890**	**$ —**	**$3,531,890**
Inter-segment sales/transfers	**22,078**	**56,220**	**39,161**	**46,137**	**217,600**	**381,196**	**(381,196)**	**—**
Total sales	**1,340,916**	**448,953**	**601,909**	**1,001,605**	**519,703**	**3,913,086**	**(381,196)**	**3,531,890**
Operating expenses	**1,116,713**	**468,708**	**611,931**	**1,012,062**	**506,602**	**3,716,016**	**$(388,138)**	**3,327,878**
Operating income (loss)	**$ 224,203**	**$ (19,755)**	**$ (10,022)**	**$ (10,457)**	**$ 13,101**	**$ 197,070**	**$ 6,942**	**$ 204,012**
II. Assets, Depreciation and Capital Expenditures:								
Assets	**$1,177,632**	**$865,358**	**$621,395**	**$683,275**	**$145,580**	**$3,493,240**	**$594,918**	**$4,088,158**
Depreciation	**51,913**	**46,853**	**46,192**	**27,091**	**3,059**	**175,108**	**5,332**	**180,440**
Capital expenditures	**46,181**	**67,139**	**40,127**	**40,864**	**1,109**	**195,420**	**2,915**	**198,335**

Industry segment information as of March 31, 1999 reclassifed under new accounting policy is as follows:

Year ended March 31, 1999	Millions of Yen							
	Industry segment						Elimination or unallocatable amounts	Consolidated total
	Pharmaceuticals	Bio-Chemicals	Chemicals	Liquor and Food	Other	Total		
I. Sales and Operating Income (Loss):								
Sales:								
Sales to outside customers	¥140,458	¥47,971	¥61,915	¥103,049	¥31,278	¥384,671	¥ —	¥384,671
Inter-segment sales/transfers	2,758	5,646	4,444	4,379	23,052	40,279	(40,279)	—
Total sales	143,216	53,617	66,359	107,428	54,330	424,950	(40,279)	384,671
Operating expenses	117,598	50,982	70,623	109,858	52,611	401,672	(40,458)	361,214
Operating income (loss)	¥ 25,618	¥ 2,635	¥ (4,264)	¥ (2,430)	¥ 1,719	¥ 23,278	¥ 179	¥ 23,457
II. Assets, Depreciation and Capital Expenditures:								
Assets	¥126,639	¥90,425	¥68,748	¥ 73,821	¥18,310	¥377,943	¥ 99,786	¥477,729
Depreciation	4,357	4,217	4,741	3,497	347	17,159	514	17,673
Capital expenditures	4,755	10,237	5,056	3,512	138	23,698	710	24,408

Industry segment information as of March 31, 1999 and 1998 classified under the previous accounting policy is as follows:

Year ended March 31, 1999	Millions of Yen						
	Industry segment					Elimination or unallocatable amounts	Consolidated total
	Pharmaceuticals and Bio-Products	Liquor and Food	Chemicals	Other	Total		
I. Sales and Operating Income (Loss):							
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, 1998	Millions of Yen						
	Industry segment					Elimination or unallocatable amounts	Consolidated total
	Pharmaceuticals and Bio-Products	Liquor and Food	Chemicals	Other	Total		
I. Sales and Operating Income (Loss):							
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

Note: The amounts of the assets included in the column "Elimination or unallocatable amounts" are ¥64,592 million ($608,497 thousand) for the year ended March 31, 2000, ¥79,693 million 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.

(3) Geographic Segment Information

Geographic segment information is omitted because over 90 per cent. of total sales and total assets relate to only the domestic segment.

(4) Overseas Sales

The classification of overseas sales is as follows:

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

Year ended March 31, 2000	Millions of Yen				
	Americas	Europe	Asia	Other areas	Total
I. Overseas sales	**¥19,401**	**¥9,840**	**¥18,177**	**¥426**	**¥ 47,844**
II. Consolidated net sales					**374,910**
III. Ratio of overseas sales to the consolidated net sales	**5.2%**	**2.6%**	**4.8%**	**0.2%**	**12.8%**

Year ended March 31, 2000	Thousands of U.S. Dollars				
	Americas	Europe	Asia	Other areas	Total
I. Overseas sales	**$182,769**	**$92,698**	**$171,240**	**$4,011**	**$ 450,718**
II. Consolidated net sales					**3,531,890**
III. Ratio of overseas sales to the consolidated net sales	**5.2%**	**2.6%**	**4.8%**	**0.2%**	**12.8%**

Year ended March 31, 1999	Millions of Yen				
	Americas	Europe	Asia	Other areas	Total
I. Overseas sales	¥19,862	¥14,022	¥16,269	¥874	¥ 51,027
II. Consolidated net sales					384,671
III. Ratio of overseas sales to the consolidated net sales	5.2%	3.6%	4.2%	0.2%	13.3%

Year ended March 31, 1998	Millions of Yen				
	Americas	Europe	Asia	Other areas	Total
I. Overseas sales	¥20,466	¥20,001	¥19,565	¥442	¥ 60,474
II. Consolidated net sales					397,361
III. Ratio of overseas sales to the consolidated net sales	5.2%	5.0%	4.9%	0.1%	15.2%

Note: Overseas sales are sales by the Company and its subsidiaries to customers outside of Japan.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
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, 2000 and 1999, and the related consolidated statements of income and shareholders' equity for the years ended March 31, 2000, 1999 and 1998, and statement of cash flows for the year ended March 31, 2000, 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, 2000 and 1999, and the consolidated results of their operations for the years ended March 31, 2000, 1999 and 1998, and statement of cash flows for the year ended March 31, 2000, in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

As described in Note 2 (8) of the Consolidated Financial Statements, the Company changed the exchange method as of March 31, 1999 of short-term accounts receivable and payable denominated in foreign currencies to reflect the exchange gain and loss arising from the fluctuation of the exchange rate into current income. As a result, "Income before income taxes" for the year ended March 31, 1999 was increased by ¥107 million compared with the previous method.

As described in Note 12 to the Consolidated Financial Statements, effective April 1, 1999, the Company revised its presentation of industry segment information in order to better reflect the nature of its diversified business. Formerly, the Company classified its business into four segments, by groupings of products and similar processes. Following a recent reorganization, the Company reclassified its business into five segments under the newly established divisionalized organization.

Accordingly the five business segments are as follows: Pharmaceuticals; Bio-Chemicals; Chemicals; Liquor and Food; and Other.

Tokyo, Japan
June 29, 2000

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation

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 sale of chemicals
Kyowa Medex Co., Ltd.	100.0	750	Manufacture and sale of diagnostic reagents
Mohan Medicine Research Institute	83.0	223	Manufacture and sale of pharmaceuticals
Shinwa Pharmaceutical Co., Ltd.	100.0	95	Manufacture and marketing of herbal medicines
Kyowa Medical Promotion Co., Ltd.	100.0	50	Advertising and sales promotion of pharmaceuticals
Kyowa Nozai Co., Ltd.	100.0	40	Manufacture and marketing of fertilizers and agricultural materials as well as the landscaping and greenery businesses
Sainte Neige Wine Co., Ltd.	95.0	125	Manufacture of liquors
Toyama Co., Ltd.	98.1	50	Wholesale of liquors and foods
Riken Kagaku Co., Ltd.	100.0	30	Manufacture and sale of pharmaceuticals and chemicals
Kyowa F.D. Foods Co., Ltd.	100.0	100	Manufacture and sale of foods
Ohland Foods Co., Ltd.	100.0	50	Manufacture of foods
Kyowa Hifoods Co., Ltd.	100.0	60	Manufacture, importation, and marketing of foods and household goods
Asahi Foods Products Co., Ltd.	78.0	36	Manufacture and sale of foods
Kyushu Kyowa Shokuhin Hanbai Co., Ltd.	100.0	50	Wholesale of foods
Miyako Kagaku Co., Ltd.	52.9	111	Sale of pharmaceuticals, chemicals, and foods
Chiyoda Kaihatsu Co., Ltd.	100.0	113	Transportation and trading
Kyowa Engineering Co., Ltd.	100.0	70	Design and installation of equipment and facilities and sale of health foods
Kyowa Warehouse & Transportation Co., Ltd.	100.0	70	Warehousing and transportation
Seifu Co., Ltd.	100.0	40	Office building administration
Overseas Subsidiaries:			
Biokyowa Inc. (U.S.A.)	100.0	$20	Manufacture and sale of feed additives
Fermentaciones Mexicanas, S.A. de C.V. (Mexico)	75.0	N.Peso31	Manufacture and sale of feed additives
Agroferm Hungarian-Japanese Fermentation Industry Ltd. (Hungary)	84.9	HuF3,506	Manufacture and sale of feed additives
Kyowa Foods Inc. (U.S.A.)	100.0	$20	Manufacture and sale of nucleotide seasonings
Kyowa Hakko U.S.A., Inc. (U.S.A.)	100.0	$ 1	Sale of pharmaceuticals, food additives, and chemicals
Kyowa Hakko Europe GmbH (Germany)	100.0	DM2	Sale of pharmaceuticals, food additives, and chemicals
Kyowa Hakko (H.K.) Co., Ltd. (Hong Kong)	100.0	HK$1	Sale of pharmaceuticals, feed additives, and chemicals
Kyowa Italiana Farmaceutici S.R.L. (Italy)	100.0	LIT1,355	Sale of pharmaceuticals, feed additives, and chemicals
Kyowa America, Inc. (U.S.A.)	100.0	$48	Coordination and monitoring of subsidiaries in the United States
DOMESTIC AFFILIATES:			
Janssen-Kyowa Co., Ltd.	40.0	¥1,000	Development, manufacture, and sale of pharmaceuticals
Aji-Nihon Co., Ltd.	46.1	95	Manufacture of foods and seasonings
Japan Synthetic Alcohol Co., Ltd.	33.3	480	Manufacture and marketing of various types of alcohol
Musashino Chemical Laboratory, Ltd.	25.0	238	Manufacture and marketing of organic synthetic chemicals
Kurogane Kasei Co., Ltd.	40.0	90	Manufacture of chemicals

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104 Carnegie Center, Suite 301,
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FAX: 86-51-0510-9484

PHARMACEUTICALS

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®, EC-Doparl, Doparl, BENOZIL

CARDIOVASCULAR AGENTS
Meditransnitro, Inovan®, Apiracohl®,
Activacin®, Coniel®, Neucul, PRe Dopa

DIAGNOSTIC AGENT
(excluding 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, Cobamyde, Vitaroxin

OTHER METABOLIC AGENTS
Gludiase, ATP Kyowa, Atomolan®

AGENTS FOR BLOOD AND FLUID DISORDERS
Neu-up®, Emeradole

EPIDERMAL AGENTS
Propaderm®, Tolmicen®, Nizoral®

ANTHELMINTIC AGENT
Mebendazole

ANTIFUNGAL AGENT
Itrizole®

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)

BIOCHEMICALS

AGROCHEMICALS
Plant growth regulators
(Gibberellin, Fulmet®)

ANIMAL HEALTH PRODUCTS
Spiramix, Nanaomycin, Polyup®,
Esodarin®, Atomolate®, Spiramycin for pisciculture, Fantacin® for pisciculture, Ampicirin 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

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),
DIDP (Di-Isodecyl 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-Ethy-1,5 Pentanediol

DETERGENT RAW MATERIALS
Linear Alkyl Benzene (Nalken®)

LIQUOR AND FOOD

(Liquor)

ORIGINAL PRODUCTS
[*Shochu* (Japanese traditional spirits)]
Daigoro, Kanoka, Sun, Genkai, Buson
[St. Neige Wine]
Class d'Or, Grande, Vin Organique series, Sweepy, Budou-Batake series
[Low-alcohol refreshers]
Shitamachi Fumi, SunShower, Cocktail Partner
[Plum Liqueurs]
Umesh Kazoku, Kyowa Umesh

IMPORTS
[Scotch whisky]
Langs, Glengoyne
[Still wine]
Lionel J. Bruck, Paul Faugerois, Terra Mater, Kendermann, Renzo Masi, Arcadia
[Sparkling wine]
Canard-Duchêne (champagne), Dona, Lacrima Baccus (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

BAKERY INGREDIENTS AND PRODUCTS
Baker's yeast, Prepared mixes, Baking improvers, Activated gluten

HEALTH FOODS
Vitamins, Minerals, Carotenoids, Probiotics

FREEZE-DRIED FOODS
Instant egg-drop soup,
Various food materials

Various Activities Extending beyond Our Regular Business Operations

Since its establishment in 1949, Kyowa Hakko has been involved in a wide range of activities that extend beyond its day-to-day business operations. Kyowa Hakko commenced several activities in 1999 to mark the 50th anniversary of its establishment. For example, the Company held a national essay competition for junior high school and high school students based on the theme of "Science for a Happier 21st Century." Kyowa Hakko also supported science education for primary school students by furnishing equipment for experiments and dispatching researchers to provide instruction at classrooms. With young people in Japan becoming increasingly distanced from science, Kyowa Hakko, as a technology-oriented company, is providing opportunities for youngsters—who will play a key role in society in the 21st century—to think about and develop an interest in science.

The Kato Memorial Bioscience Foundation, established by Kyowa Hakko in recognition of the Company's founder, Dr. Benzaburo Kato, provides financial support to researchers for innovative research in the basic field of bioscience. In addition, the Foundation sponsors public symposia once a year based on bioscience-related themes. Also, each year since 1987, Kyowa Hakko has supported the Asahi Young Session, a special annual lecture series that provides a forum for leaders from various fields to deliver their messages to young people. The contents of these lectures are printed in booklets for distribution to anyone desiring a copy.

Dr. 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 denominations.

Kyowa Hakko Kogyo Co., Ltd.

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http://www.kyowa.co.jp.
Number of Employees: 7,866 [Parent Company: 4,926]
(At March 31, 2000)
Date of Foundation: July 1, 1949
Paid-in Capital: ¥26,745 million (At March 31, 2000)

Plants: [Domestic] Hofu, Ube, Sakai, Fuji, Tsuchiura, Moji, Kyowa Yuka (Yokkaichi, Chiba), Kyowa Medex (Fuji)
[Overseas] Biokyowa (U.S.A.), Fermex (Mexico), Agroferm (Hungary)

Laboratories:

Tokyo Research Laboratories
Pharmaceutical Research Institute
Technical Research Laboratories
Toxicological Research Laboratories
Sakai Research Laboratories
Foods & Liquors Research Laboratories
Tsukuba Research Laboratories
Kyowa Yuka Co., Ltd., Yokkaichi Research Laboratories
Kyowa Medex Co., Ltd., Research Laboratories

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