KYOWA

KYOWA HAKKO

Annual Report 2002

Year ended March 31, 2002

Quest for...

Kyowa Hakko Kogyo Co., Ltd., a research-oriented company with special strengths in biotechnology, is dedicated to the creation of new value in the life sciences, centered on pharmaceuticals. In this way, the Company strives to contribute to the health and well-being of people around the world.

On its establishment in 1949, Kyowa Hakko engaged in the mass production of streptomycin, contributing to the eradication of tuberculosis in Japan. The Company has since developed numerous drugs, including anticancer agent Mytomycin C, which is now sold worldwide as a leading chemotherapy agent. In addition to anticancer agents, Kyowa Hakko is actively engaged in the R&D, production, and sale of pharmaceuticals that address a wide variety of other medical needs, including agents to treat hypertension, allergies, and neurological disorders. Kyowa Hakko's Pharmaceuticals operations are now the Company's core business field.

The Company has also worked to apply its advanced biotechnology capabilities to mass-produce various types of amino and nucleic acids, including glutamic acid and lysine. Kyowa Hakko applies these capabilities to other areas as well, with a focus on its Food and Bio-Chemicals operations. In the Company's Chemicals operations, which grew out of its original acetone and butyl alcohol fermentation operations, Kyowa Hakko has shifted the emphasis from fermentation to synthesis. A world leader in the production of oxo alcohol, Kyowa Hakko is also a manufacturer of raw materials for plasticizers, solvents, and specialty chemicals for environmental protection applications.

Contents

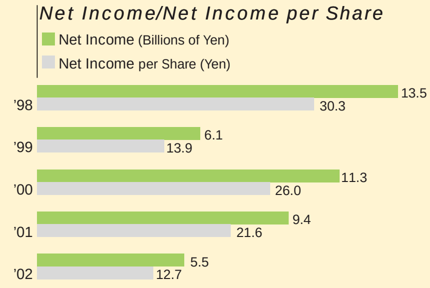
Quest for Growth Drivers

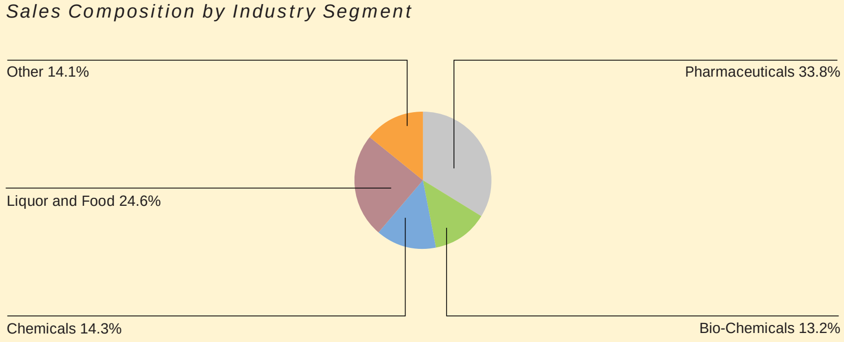
FINANCIAL HIGHLIGHTS

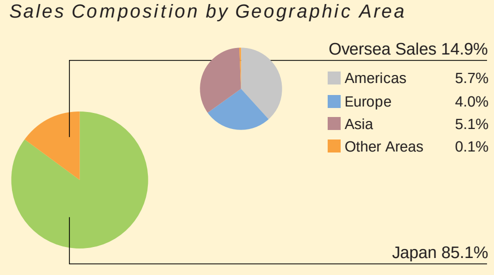
KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries
March 31, 2002, 2001 and 2000

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2002	2001	2000	**2002**
For the Year:				
Net sales	**¥378,668**	¥375,610	¥374,910	**$2,841,786**
Operating income	**20,357**	17,712	21,656	**152,773**
Net income	**5,535**	9,395	11,274	**41,538**
Capital expenditures	**11,454**	17,092	21,053	**85,959**
Depreciation and amortization	**17,819**	18,502	19,153	**133,726**
R&D expenses	**29,294**	28,921	25,888	**219,842**
At Year-End:				
Total assets	**430,113**	431,410	433,958	**3,227,865**
Interest-bearing debt	**74,354**	87,624	102,870	**558,004**
Total shareholders' equity	**211,652**	194,692	195,039	**1,588,383**
	Yen			U.S. Dollars (Note 1)
Per Share Data:				
Net income—basic (Note 2)	**¥ 12.7**	¥ 21.6	¥ 26.0	**$0.096**
Total shareholders' equity	**487.5**	448.3	449.1	**3.659**
Cash dividends	**7.5**	7.5	10.0	**0.056**
	%			
Ratios:				
Return on assets	**1.28**	2.17	2.47	
Return on equity	**2.72**	4.82	5.92	

Notes: 1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥133.25=US$1, the approximate exchange rate at March 31, 2002.
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.







Message to **Shareholders**

Operating Environment and Business Performance

—Double-digit growth in operating income on a small increase in revenues—

In fiscal 2002, ended March 31, 2002, Kyowa Hakko continued to face difficult operating conditions in all of its business segments. In our core Pharmaceuticals operations, the environment became even more challenging as foreign companies strengthened their positions in the domestic market for ethical drugs. In Bio-Chemicals, the depreciation of the yen had a positive influence on exports, but competition among companies in Japan and overseas increased. In our Chemicals operations, demand declined due to the sluggish domestic economy and the information technology (IT) slump. In Liquor and Food, weak consumer spending and a growing emphasis on low prices adversely affected our operations.

Tadashi Hirata,
President and Chief Executive Officer

In this challenging operating environment, the top management priorities of the Kyowa Hakko Group were to raise profitability and to reform its operational structure. We implemented aggressive marketing activities and worked on cutting costs and making progress in R&D.

Reflecting these efforts, consolidated net sales edged up 0.8% from the previous year, to ¥378.7 billion, and operating income rose 14.9%, to ¥20.4 billion. Net income declined 41.1%, to ¥5.5 billion, due primarily to a loss on restructuring of certain subsidiaries and affiliates of ¥21.1 billion, recorded as other expense. Net income per share was ¥12.7, compared with ¥21.6 in the previous year, and cash dividends per share were unchanged at ¥7.5.

Solid Progress under the Seventh Medium-Term Management Plan

When we marked the 50th anniversary of the Company's founding in July 1999, we established a corporate philosophy of "contributing to the health and well-being of people worldwide by creating new value with the pursuit of advancements of life science and technology." We also initiated our seventh medium-term management plan, Into the 21st Century, which guided our activities over the period from April 1999 to March 2002.

—Speeding up decision making and clarifying operational responsibility through management reforms—

In June 1999, we introduced an in-house company system and an executive officers committee to speed up the decision-making process and to clarify responsibility for business performance. In April 2000, Kyowa Hakko carried out a large-scale reorganization of its corporate divisions to bolster its strategic planning capabilities and improve its administrative efficiency. And in the year under review, the final period of our seventh medium-term management plan, we delegated additional authority to the in-house companies, instituted a performance- and responsibility-linked reward system for executives, and established a business performance evaluation system for the in-house companies. These measures have further clarified operational responsibility and strengthened the in-house company system.

—Applying "selection and concentration" and focusing on Pharmaceuticals operations—

As one facet of our application of selection and concentration, we took steps to restructure our overseas operations. In the United States, the business focus of our feed-grade amino acid and nucleotide-based seasoning operations, which had continued to record sluggish performances, was shifted to higher-value-added amino acids. In Mexico, measures were taken to enhance the profitability and competitiveness of our feed-grade amino acid operations. In our Pharmaceuticals operations, to concentrate management resources on the research and development of new drugs, in June 2001 we withdrew from the generic drug business when we transferred all of our shares in the Mohan Medicine Research Institute to Merck Hoei Ltd. In Chemicals operations, we integrated our plasticizers business with that of Mitsubishi Chemical Corporation in April 2000 to start joint venture J-PLUS Co., Ltd. In May 2002, we withdrew from the markets for alkyl benzene, a detergent raw material, in which our operations had been unprofitable. In addition, the decision to transfer our alcoholic beverage operations to Asahi Breweries, Ltd., in September 2002, was approved by the General Meeting of Shareholders on June 27, 2002. As we move forward, we will continue to apply selection and concentration; bolster our core operations, such as life-science-based pharmaceuticals and bio-products; and maximize our enterprise value.

—Realizing our medium-to-long-term vision for Pharmaceuticals operations, "Reform for Value Creation"—

In our core Pharmaceuticals operations, in April 2001 we formulated a medium-to-long-term vision, Reform for Value Creation, that covers the period from April 2001 through March 2011. Its major goals are twofold: to be a highly profitable, R&D-oriented company with pharmaceutical sales of ¥300.0 billion and to be a leader in biopharmaceuticals and the treatment of cancer and allergies. In the period covered by the seventh medium-term management plan, we launched several new drugs, such as Allelock®, an antiallergic agent, and Durotep® patch, an analgesic for persistent cancer pain. We also proceeded with overseas clinical trials for a number of promising new compounds, including KW-6002, a treatment for Parkinson's disease; KW-7158, a treatment for urinary incontinence; KW-4490, a treatment for asthma; KW-2170, an anticancer agent; and KW-2871, a therapeutic antibody for the treatment of melanoma. In addition, we have made strides in the biopharmaceutical business, establishing technology for the production of antibodies with potent ADCC and working with stem cell technology in the fields of cancer and allergies.

Initiation of the Eighth Medium-Term Management Plan, Kyowa Bio-Innovator

—Building the new Kyowa, Biotechnology Leader, around core strengths in Pharmaceuticals—

We have initiated our eighth medium-term management plan, Kyowa Bio-Innovator, which will cover the three-year period from April 2002 to March 2005. Under this plan, we will intensify the reforms that were introduced under the seventh medium-term management plan, such as "selection and concentration" and "restructuring," as we work to build the new Kyowa—Biotechnology Leader. We will strive to be an international company that utilizes progress in the field of life sciences to contribute to the health and well-being of people around the world.

We will position Pharmaceuticals as our core business field, focus our investment of management resources on those operations, and establish a stable base for the generation of revenues. Our bio-products business, which draws on life sciences and biotechnology, will also be positioned as a growth field in which we will work to expand revenues. In Chemicals and Food, meanwhile, we will work to secure stand-alone, independent sources of revenues.

—Using highly competitive strategic business units to complement core strengths in Pharmaceuticals—

Organizationally, we will thoroughly and clearly evaluate the performance of each strategic business unit, subsidiary, and affiliate, and we will take steps to restructure unprofitable operations, such as entering alliances and withdrawing from businesses. To make the best use of our organizational structure comprising highly competitive strategic business units complementing our core strengths in Pharmaceuticals, we will further enhance our management control system by April 2004.

In accordance with our strong management emphasis on customer satisfaction, we will institute CSMAX21, a Companywide customer satisfaction initiative, in all of our operational activities.

In the year ending March 2005, the final year of our eighth medium-term management plan, our quantitative objectives include net sales of ¥370.0

billion, operating income of ¥34.0 billion, and operating return on assets of 8.0%.

Divisional Strategies under the Eighth Medium-Term Plan

—Pharmaceuticals: Becoming a leader in biopharmaceuticals and the treatment of cancer and allergies—

Kyowa Hakko's Pharmaceuticals operations face business conditions that are heavily affected by healthcare system reforms and globalization. In addition, as genome analysis and other new technologies make continued progress, competition in new drug development is intensifying. Kyowa Hakko will work to realize the medium-to-long-term vision of its Pharmaceuticals operations that it initiated in April 2001, Reform for Value Creation, and strive to maximize its cash flow by bolstering its domestic marketing capabilities. At the same time, by focusing our research resources on the treatment of cancer and allergies and on core technologies in antibodies, we will build a position of leadership in those fields as a highly profitable, R&D-oriented company.

—Bio-Chemicals: Focusing on amino acids and other fermentation-related products—

In Bio-Chemicals, we will steadily rebuild our

Overview of Eighth Medium-Term Management Plan: Kyowa Bio-Innovator

The New Kyowa—Biotechnology Leader

Contributing to the health and well-being of people worldwide by creating new value with the pursuit of advancements of life science and technology

Performance Projections

	Sales		Operating Income		Operating Return on Assets[1]	
	Billions of Yen				%	
	FY2002	FY2005 (Projection)	FY2002	FY2005 (Projection)	FY2002	FY2005 (Projection)
Pharmaceuticals	¥142.3	¥160.0	¥19.0	¥20.0	—	—
Bio-Chemicals	55.5	59.0	1.3	6.0	—	—
Chemicals	60.4	65.0	(1.2)	3.0	—	—
Liquor and Food[2]	103.5	64.0	(0.4)	3.0	—	—
Other	59.8	69.0	1.7	2.0	—	—
Inter-Segment	(42.8)	(47.0)	—	—	—	—
Consolidated	¥378.7	¥370.0	¥20.4	¥34.0	4.7%	8.0%

Notes: 1. Operating Return on Assets = Operating income / Average total assets x 100
2. Net sales of Liquor and Food are expected to decline due to the planned sale of the Liquor Company to Asahi Breweries, Ltd., in September 2002.

Management Reforms

Basic Policies

1. Kyowa Hakko has identified Pharmaceuticals as its core business, in which management resources will be invested on a priority basis to secure stable income and expand the scale of operations.
2. Kyowa Hakko has identified bio-products as a growth business and will seek to expand income from this field through the use of life sciences and biotechnology.
3. In Chemicals and Food, Kyowa Hakko will strive to secure sources of income that will support self-sustainable, independent operations.

Reforming Our Operational Structure

1. We will aim to realize highly competitive Group management by April 2004, centered on Pharmaceuticals operations.
2. We will thoroughly evaluate the performance of each strategic business unit, subsidiary, and affiliate and will take steps to restructure unprofitable operations, including forging alliances and withdrawing from businesses.

Reforming Our Corporate Culture

1. Through the implementation of CSMAX21, a Companywide customer satisfaction initiative, we will further enhance our customer orientation.

overseas operations and establish a strong position in amino acids and other fermentation-related areas. We will also work to become a global leader in these bio-products fields by developing products with new functions and by entering new businesses.

—Food and Chemicals: Building a higher degree of independence—

In Food operations, competition continues to intensify as the emphasis on lower prices strengthens. Under the slogan "good food and health," we will provide products, centered on natural seasonings, that contribute to positive dietary habits and good health for customers, with a continuing emphasis on safety and security. We will also develop and market products with distinctive strengths, such as those that draw on fermentation as a key technology.

In Chemicals, the petrochemical industry is expected to undergo continued restructuring. In this setting, we will focus our efforts on structural reforms, including alliances. By bolstering our lineups of specialty chemicals and cutting costs, we will strive to ensure that our Chemicals operations can be successful on a stand-alone basis even in rapidly changing business conditions.

Policies and Action Plans by Segment

Pharmaceuticals Segment

Pharmaceuticals will be positioned as our core field of business in which we will invest management resources on a priority basis. We will work to achieve stable revenues and expand our operations.

1. We will maximize cash flow by bolstering the domestic marketing of key products, such as Coniel®, Allelock®, and Celtect®, and of agents for treating cancer.
2. We will establish overseas marketing operations in line with the launch of Coniel® in China and with progress in the development of KW-6002.
3. We will strategically promote the in-licensing of products and out-licensing of technologies.
4. We will take steps to bolster our overseas development capabilities, such as increasing the number of personnel, and maximize future assets in the form of development compounds.
5. We will selectively focus our research resources on cancer, allergies, and core technologies in antibodies, thereby creating future drug product assets* of ¥270 billion.

Bio-Chemicals Segment

The core operational field in this segment will be bio-products, such as amino acids for pharmaceutical and industrial use and nucleic acid related compounds. We will focus resources on this field and work aggressively to expand revenues with the goal of becoming a global leader.

1. We will work to expand sales of and develop applications for amino acids for pharmaceutical and industrial use, including health food products.
2. We will promote the development of products with new functions, such as oligosaccharides and peptides, and strive to create a new market.
3. We will expand our supply capacity and bolster our cost-competitiveness through the relocation of manufacturing from the Hofu and Ube plants in Japan to Biokyowa Inc., a subsidiary in the United States.
4. We will thoroughly reassess unprofitable operations.

Chemicals Segment

We will strive to enhance profitability in the Chemicals segment by implementing structural reforms in the basic chemicals business, including alliances with third parties; expanding the specialty chemicals business; and implementing thorough cost reduction measures.

Liquor and Food Segment

The core business in the Liquor and Food segment is natural seasonings, and the sub-core businesses are bakery products and ingredients and health food products. We will strive to raise profitability by increasing sales of existing products, developing and introducing unique new products, and cutting costs.

* Future drug product assets refers to the total expected present value (EPV) of the drug development pipeline. The EPV of a drug is the amount of estimated cash flow for 20 years after its launch at present value minus its estimated development cost at present value.

Corporate Governance

—Maximizing enterprise value with highly efficient, transparent management—

Kyowa Hakko has taken measures to achieve its goal of maximizing enterprise value, including shareholder value. These measures have included management reforms designed to speed up decision making, clarify responsibility, and enhance strategic capabilities, such as the institution of the in-house company system and the executive officers committee. In expanding our global operations as a research- and technology-based company, we are placing customer satisfaction first as we apply selection and concentration to our operations and implement structural reforms to boost profitability and efficiency.

At the same time, we are utilizing investor relations (IR) activities to implement an aggressive approach to disclosure and accountability and are moving forward with highly transparent management. We will continue to emphasize environmental protection, safety, and corporate citizenship to earn the trust of society.

Outlook for Fiscal 2003

—Targeting ¥10.0 billion in net income—

The future course of the U.S. economy is unclear, and the domestic economy is expected to continue to be restrained by sluggish consumer spending and capital investment. A full-fledged recovery in business conditions is unlikely in the short term.

In Pharmaceuticals, we anticipate an increase in sales but a decline in operating income due to the drug price revisions implemented in April 2002 and to higher R&D expenses stemming from overseas clinical trials. In Bio-Chemicals operations, we expect increases in sales and operating income as a result of growth in sales of pharmaceutical- and industrial-use amino acids in Japan and overseas and of improved profitability in feed-grade amino acid operations. In Chemicals operations, sales will decline due to our withdrawal from the alkyl benzene business, but we anticipate higher operating income due to our success in enhancing our lineups of specialty chemicals and reducing costs. In Liquor and Food, sales will decline substantially due to the transfer of our alcoholic beverage operations, but we expect an increase in operating income as a result of higher sales of natural seasonings and baking ingredients and products.

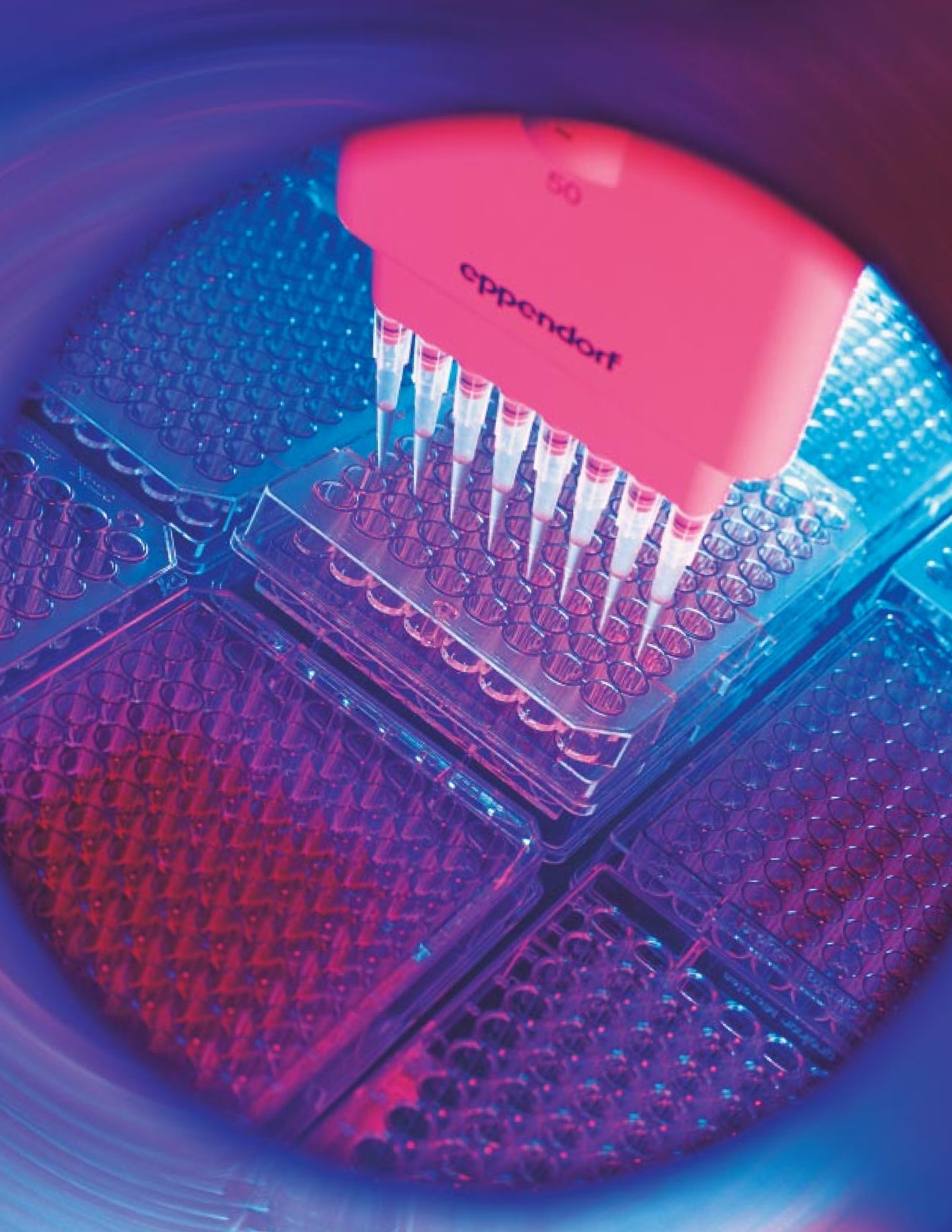
For fiscal 2003, we forecast consolidated net sales of ¥364.0 billion, a decline of 3.9%; and operating income of ¥20.0 billion, a 1.7% decrease. With other income from the transfer of alcoholic beverage operations, net income is expected to reach ¥10.0 billion, up 80.7%.

In closing, we would like to take this opportunity to thank our shareholders and other stakeholders for their support and ask for their continued understanding and trust in the years ahead.

July 2002

Tadashi Hirata
President and Chief Executive Officer

Quest for **Growth Drivers**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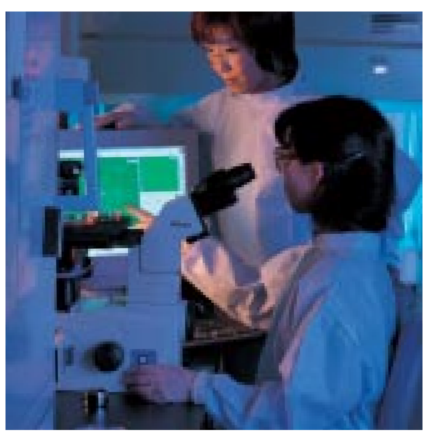
As outlined in its eighth medium-term management plan, Kyowa Hakko is working to increase its profitability by selectively allocating its management resources to key fields, with a special focus on its core business of Pharmaceuticals. In April 2001, we announced our medium-to-long-term vision for our Pharmaceuticals operations. The vision calls for the Pharmaceuticals Company to become a leader in biopharmaceuticals and in the treatment of cancer and allergies; have a strong R&D orientation; and reach global sales of ¥300 billion and operating income of ¥60 billion by fiscal 2011. We also outlined plans for our future growth, which will depend to a significant extent on the expansion of our Pharmaceuticals operations and the R&D that provides the foundation for those operations.

Kyowa Hakko's **Growth Drivers**

We have two major themes in our pharmaceutical R&D activities, and we believe that progress in these themes will facilitate substantial growth. The first is antibody drug technology, which has taken on growing prominence in the age of genome drug discovery. The second is overseas development activities and our position in global pharmaceutical markets.



This special section outlines the future of Kyowa Hakko and explains the two major themes of the Company's R&D activities, which will be the drivers of its growth in the years ahead.

Antibody Drug Value Chain

In conjunction with our efforts in biotechnology-based discovery research, we are also conducting fundamental research in antibody engineering. Using the genome research assets and research network that we have developed, we formulate superior antibodies for important therapeutic targets, such as cell surface proteins, and we are making progress with the development of antibody drugs in major fields, including cancer and allergies. In addition, we are striving to use biotechnology to create future assets by linking cutting-edge engineering technologies, such as highly active antibody technologies, and production process technologies.

Antibodies with Potent ADCC Activity

The immune system provides the human body with extraordinary defenses. When foreign bodies, such as pathogenic microorganisms, enter the body, antibodies are formed to provide protection against diseases. Biopharmaceuticals stimulate this fundamental human capacity. The mechanisms by which antibodies exhibit therapeutic effects include

- inhibition of growth signals in cancer cells,
- activation of apoptosis signals,
- activation of complement dependent cytotoxicity (CDC) mechanism, and
- activation of antibody dependent cell-mediated cytotoxicity (ADCC) mechanism.

Kyowa Hakko has developed technology for the commercial production of antibodies with potent ADCC, giving them superior antitumor effects. The features of this technology include the reduction of the volume of fucose, one of the sugar chains in the antibody, resulting in a significant increase in ADCC activity and the direction of extremely efficient cytotoxic effects to its target, such as cancer cells.

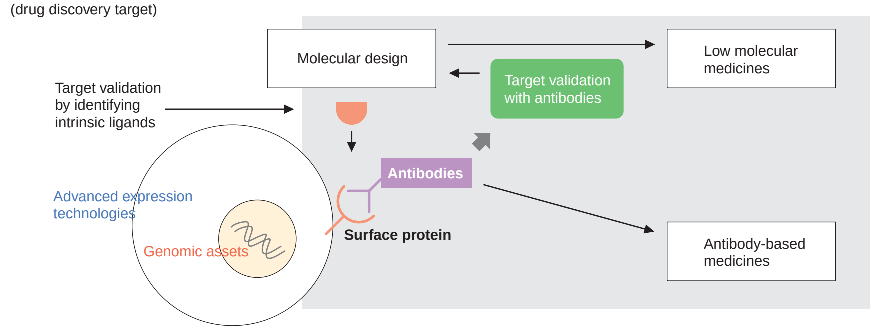
There have been reports of research focusing on sugar chains other than fucose and of R&D targeting heightened activation achieved through amino acid substitution, but neither of these approaches appears to have a significant effect. On the other hand, ADCC activation is an important antitumor mechanism in antibody drugs already on the market, such as Herceptin, a treatment for metastatic breast cancer, and Rituxan, a treatment for non-Hodgkin's lymphoma, and efforts to enhance this activation as a next-generation antibody technology are under way around the world. In addition, because the heightened efficacy enables treatment with low doses, this approach is expected to have significant merits, including lower costs and reduced side effects.

In animal trials, antibodies utilizing this technology have shown antitumor effects more than 100 times greater than ordinary antibodies. It has also been confirmed that this approach can contribute to the development of antibody drugs for allergies.

Kyowa Hakko will treat potent ADCC technology as a core asset and will use it in the development of its own antibody drugs. At the same time, ADCC technology will also play a role in the aggressive development of our Pharmaceuticals operations, including alliances.

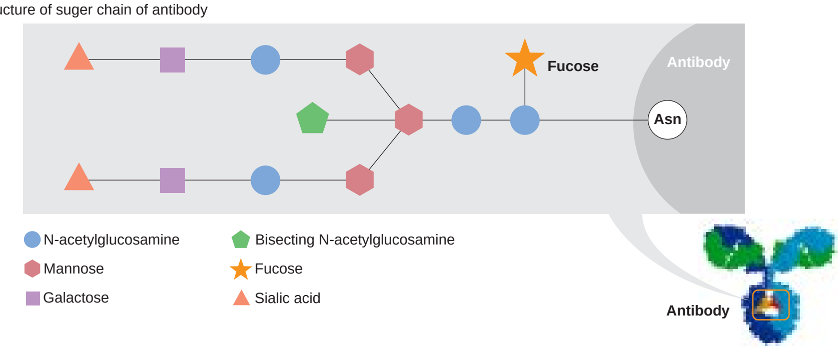
Creating Innovative New Drugs Based on Genome Technology

Based on antibody production for surface protein (drug discovery target)



Kyowa Hakko's Potent ADCC Technology

Structure of suger chain of antibody



Overseas R&D Activities

In line with its vision for its Pharmaceuticals operations, Kyowa Hakko is giving priority to the development in Europe and the United States of products in its pipeline of original drugs. In consideration of development schedules, we are rapidly building an overseas development system. Currently, we have 41 staff members in the United States and 11 in the United Kingdom, and we are in the process of increasing those numbers further. We are also moving ahead with work on our overseas development infrastructure.

Kyowa Pharmaceutical, Inc., our U.S. development company headquartered in New Jersey, has five compounds—KW-2170, KW-6002, KW-7158, KW-2401, and KW-2871—in development, principally in the United States. Kyowa Hakko U.K. Ltd. is currently overseeing the development of three compounds—KW-4490, KW-6002, and KW-7158.

Progress of Key Products in Development

KW-6002

KW-6002, the world's first selective adenosine A_{2A} antagonist, is under development as a treatment for Parkinson's disease. It has been shown to reduce complications, such as wearing-off, with existing treatments, such as L-Dopa. KW-6002 is currently in phase IIb trials in the United States and Canada and phase II trials in Europe.

KW-4490

KW-4490, a potential treatment for asthma, is a phosphodiesterase (PDE)-IV inhibitor with a higher anti-inflammatory activity than that of leukotrienes. In addition, its safety margin is expected to be broader than that of PDE-IV inhibitors now under development. It is in phase IIa trials in France and the United Kingdom.

KW-2170

KW-2170 is an anticancer agent with target indications of prostate, colon, ovarian, breast, and non-small-cell lung cancers. A DNA intercalator with topoisomerase II inhibitory activities, it is currently in phase II clinical trials in the United States, Costa Rica, Australia, Singapore, and Taiwan.

KW-2871

KW-2871 is a chimeric monoclonal antibody binding to GD3, a cell surface antigen expressed in about 90% of melanoma cells. It is expected to be an anticancer agent for malignant melanoma. Phase I trials have been completed in Australia, and phase I/IIa trials began in the United States in June 2002.

KW-7158

KW-7158 is a tricyclic compound with a non-cholingergic mechanism of action. Unlike existing anti-cholingergic agents, it works on sensory nerves in the bladder. Target indications include urinary frequency, urinary incontinence, and sense of urgency caused by overactive bladder. It is in phase IIa-2 trials in the United States and Europe.


No.5

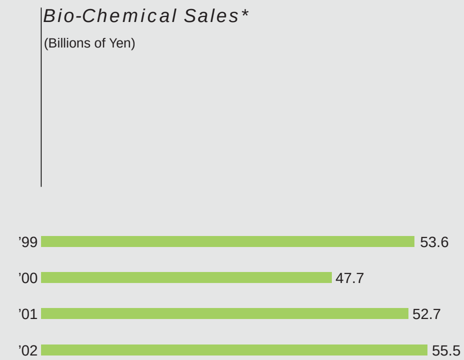
R&D Pipeline

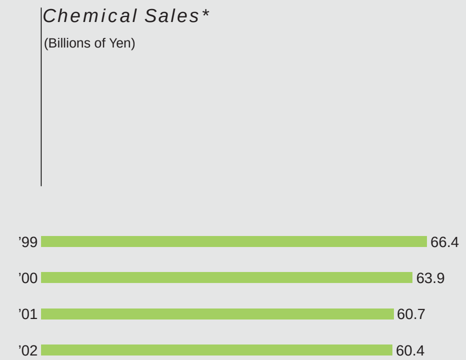
Category Code Name *Generic Name*	In-house/Licensed From *Indication*	Stage in Japan	Stage Overseas (Country)	Remarks
Anticancer				
KW-2307* *Vinorelbine*	Pierre Fabre *Breast cancer*	Filed		Product name: Navelbine® Original indication: Non-small-cell lung cancer
KW-2307*	Pierre Fabre *Multiple myeloma*	Phase II		Same as above
KW-2170	In-house *Malignant tumor*	Phase I (completed)	Phase II (U.S. and others)	
KW-2401 (UCN-01)	In-house *Malignant tumor*	Phase I	Phase I (U.S.)	
KW-2871	In-house *Malignant melanoma*		Phase I/IIa (U.S.)	Chimeric monoclonal antibody
KT5555	*Ancreatic cancer/* *Acute myeloid leukemia*		Phase II (U.S.)	Developed by Cephalon
Antiallergic				
KW-4490	In-house *Antiasthmatic*		Phase IIa (EU)	
Central Nervous System				
Depakene*	In-house *Antimaniac*	Filed		Original indication: Antiepileptic
KW-6485 *Topiramate*	Cilag *Antiepileptic*	Phase III		
KW-6002	In-house *Parkinson's disease*	Phase I	Phase IIb (U.S. and Canada) Phase II (EU)	Discontinued for antidepressant development
KT7515	*Parkinson's disease*		Phase II (EU)	Developed by Cephalon
Cardiovasuclar, Urology				
KW-8008* *Desmopressin*	Ferring A.B. *Nocturnal enuresis*	Filed		Original indication: Central diabetes inspidus
GMK-527*	Genentech *Acute ischemic stroke*	Phase III		Jointly developed with Mitsubishi Pharma Corporation Original indication: Acute myocardial infarction
KW-7158	In-house *Urinary incontinence*		Phase IIa-2 (EU and U.S.)	
Others				
KW-9100	Diabact *Diagnostic agent for* H. Pylori	Phase III (completed)		
MM-Q01	Meiji Milk Products *Contrast medium for MRI*	Phase III		Jointly developed with Meiji Milk Products

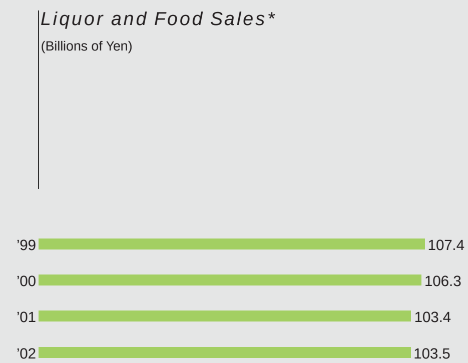
* For additional indications

Review of **Operations**

Contents







* Figures include inter-segment transactions.

Pharmaceuticals

In the fiscal year ending March 2003, the Pharmaceuticals Company will continue striving to realize the medium-to-long-term vision that it established in April 2001—Reform for Value Creation. To that end, we will work to bolster our domestic marketing capabilities by increasing the number of medical representatives (MRs) and by having more MRs specializing in anticancer agents. We will also enhance our future drug product assets by focusing our research resources on cancer, allergies, and core technologies in antibodies. In addition, to speed up development overseas, we will increase the number of overseas clinical development staff and take other steps to augment our international development capabilities.

Company President
Toru Doiuchi,
Senior Managing Director

Principal Drug Sales *(Nonconsolidated basis)*

	Billions of yen	
	2002	2001
Coniel	**¥29.9**	¥30.1
Itrizole	**22.0**	17.7
Celtect	**11.8**	15.6
Depakene	**9.6**	9.5
Allelock	**8.7**	1.7
Nauzelin	**8.2**	8.4
Adriacin + Farmorubicin	**7.1**	6.8
5-FU	**5.9**	7.1
Inovan + Pre Dopa	**5.6**	6.2
Neu-up	**5.2**	5.9
Acenalin	**–**	4.6

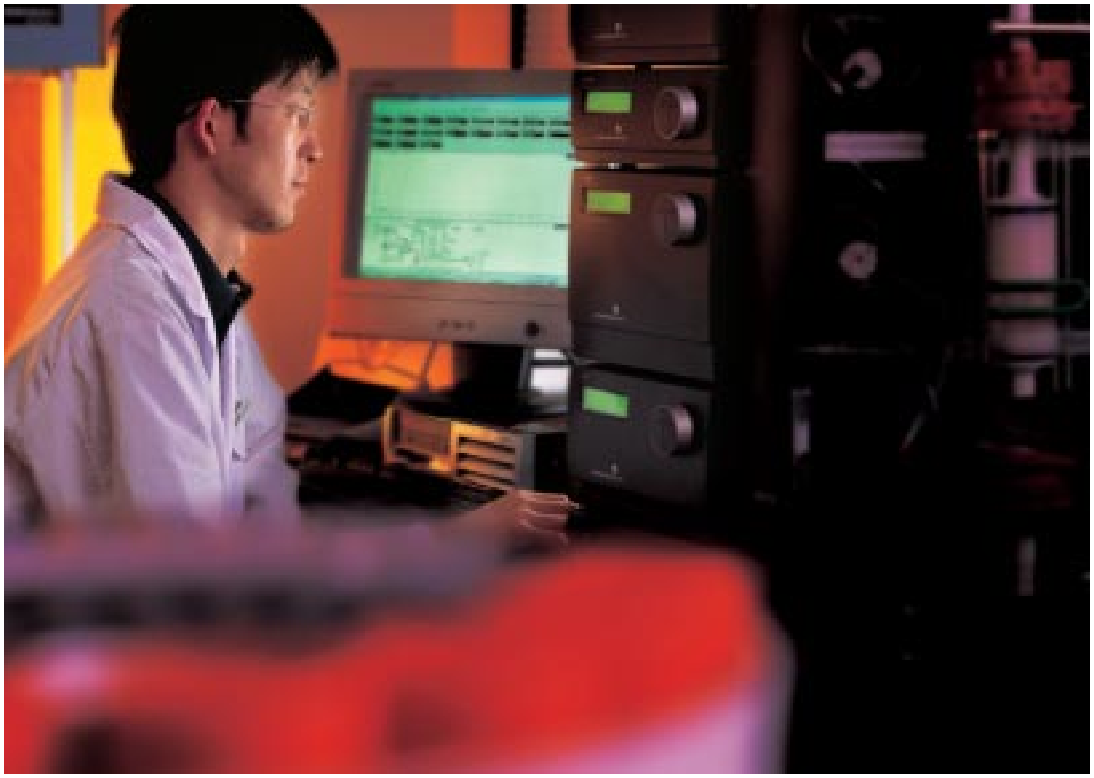
Overview

In fiscal 2002, the Pharmaceuticals Company's total sales (including inter-segment transactions) edged up 0.6%, or ¥0.8 billion, to ¥142.3 billion. Although we faced difficult conditions in the domestic market for our core ethical drugs, exports of these products increased. Revenues from licensing agreements also rose, as did sales of diagnostic reagents. Operating income declined 3.1%, or ¥0.6 billion, to ¥19.0 billion, due primarily to higher R&D expenses.

Operational Review

Ethical Drugs

In ethical drugs, strong sales were recorded by Allelock®, an antiallergic agent launched in March 2001. Existing products also recorded increased sales, including Itrizole®, an oral antimycological agent; Depakene®, an antiepileptic; and



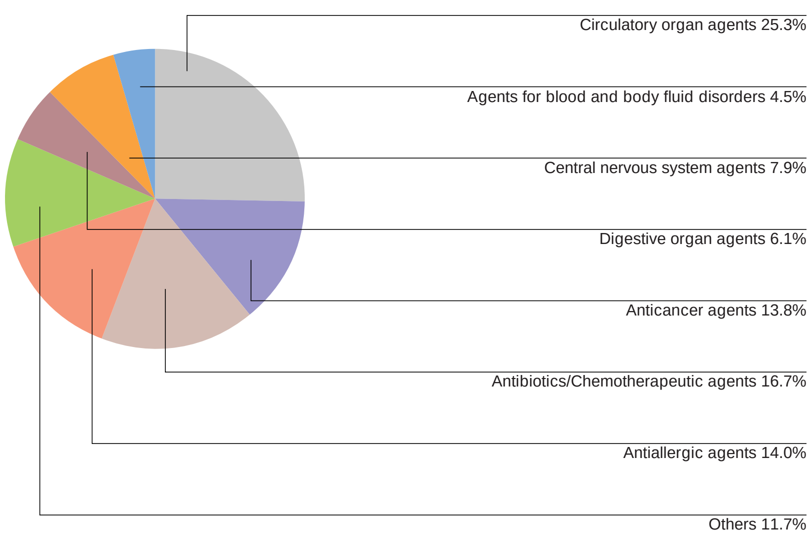
Leukoprol®, a treatment for leukopenia. Sales of Coniel®, an agent for treating hypertension and angina pectoris, were held about level with the previous fiscal year, while sales of antiallergic agent Celtect® and anticancer agent 5-FU declined. Meditrans® Tape, a transdermal cardiovascular agent, was launched in October 2001, and Durotep® Patch, a transdermal analgesic for persistent cancer pain, was launched in March 2002.

In exports, increased sales were recorded by anticancer agent Mytomycin C in Asia, by anticancer agent Leunase® in Eastern Europe, and by olopatadine hydrochloride, an antiallergic agent licensed out to Alcon Laboratories Inc., of the United States.

In domestic development of new drugs, anticancer agent Dacarbazine, for which we applied for an additional indication in May 2001, was approved for use in treating Hodgkin's disease (Hodgkin's lymphoma) in March 2002. We have filed applications for additional indications for central diabetes inspidus agent Desmopressin and for anticancer agent Navelbine®, and in August 2001 we filed an application for an additional indication for antiepileptic agent Depakene®. Also, clinical trials are under way for KW-6485, an antiepileptic, and for MM-Q01, a contrast medium for MRI.

Overseas, KW-6002, an agent for treating Parkinson's disease, is in clinical trials in the European Union and North America, and clinical trials are also under way for KW-2170, an anticancer agent; KW-7158, an agent for the treatment of urinary incontinence; and KW-4490, an

Fiscal 2002 Sales Composition
(Nonconsolidated basis)



antiasthmatic. KW-2871, an anticancer monoclonal antibody, is in clinical trials for the treatment of melanoma in the United States.

In December 2001, Kyowa Hakko sold all of its stock in Janssen-Kyowa Co., Ltd. (currently, Janssen Pharmaceutical K.K.), a joint venture between Kyowa Hakko and Johnson & Johnson, of the United States, and dissolved the joint venture. Kyowa Hakko maintains an amicable marketing relationship with Janssen Pharmaceutical.

Diagnostic Reagents

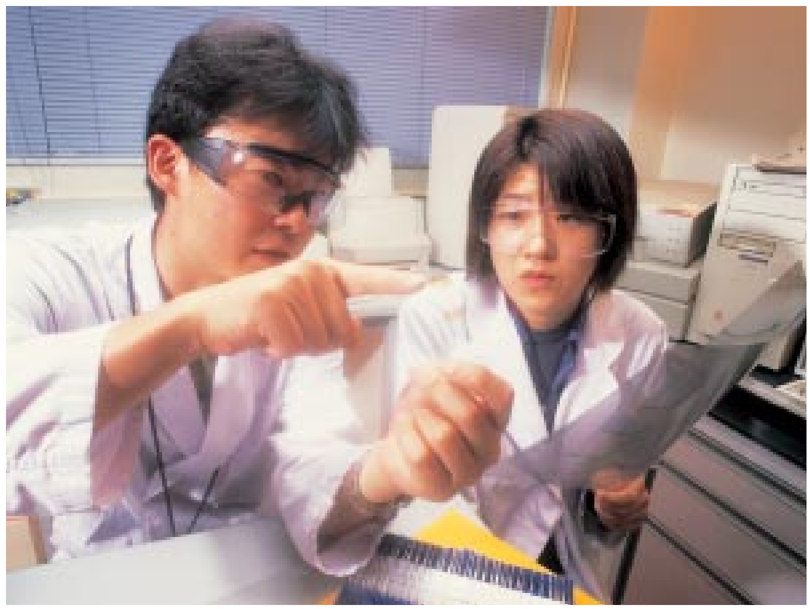
The healthcare industry continues striving to reduce the cost of providing medical care. The rationalization of diagnostic testing divisions at medical institutions has accelerated, while the implementation of Facility Management Systems (FMS) at large-scale testing centers and the growing use of minute-amount devices in testing processes have contributed to the ongoing contraction in the domestic market for diagnostic reagents. These developments, combined with intensifying competition, resulted in a particularly difficult operating environment in the year under review.

In this setting, Kyowa Medex Co., Ltd., instituted aggressive marketing activities, such as promoting the sale of licensed-in products, and worked to reduce management costs. As a result, sales increased from the previous year and net income was recorded, compared with a net loss in the previous year.

In clinical chemistry, sales of the company's mainstay product, Determiner® HDL-C for measuring high density lipoprotein (HDL) cholesterol, declined due to tougher sales competition in the domestic market. Exports of Determiner® HDL-C increased. In immunoassay, sales of Determiner® HbA1c, a diabetes reagent, were strong, but sales of the Chemilumi® series of immunological chemi-luminescent reagents and the Extel® series of latex immunoassay reagents were weak. Sales of the new Cell Free soluble IL-2R reagent were favorable.

Principal ethical drug products

Kyowa Pharmaceutical, Inc., in the United States



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

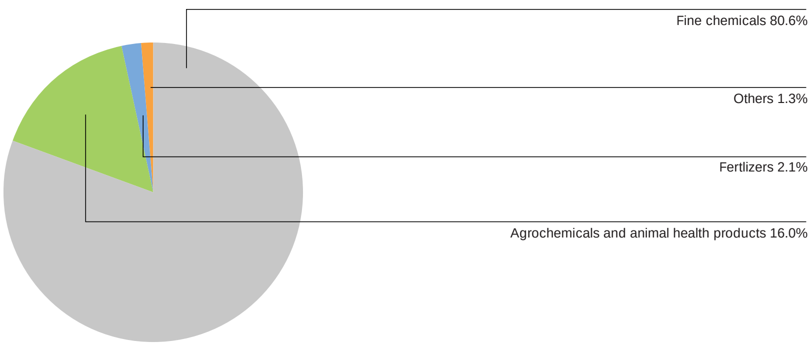
Full Auto Micro Plate EIA Analyzer AP-96

Bio-Chemicals

The Bio-Chemicals Company is working to increase revenues by focusing its management resources on the bio-products business, centered on fine chemicals, such as amino acids and nucleic acids for pharmaceuticals and industrial use. In addition, we will work to cultivate new markets by developing products with new functions and by developing applications for new products, such as oligosaccharide and peptide products.

Company President
Tomonori Yuji,
Managing Director

Fiscal 2002 Sales Composition
(Nonconsolidated basis)



Overview

In fiscal 2002, the Bio-Chemicals Company's total sales rose 5.3%, or ¥2.8 billion, to ¥55.5 billion, reflecting strong domestic sales of amino acids, especially those for use in beverages and health foods. As a result of higher export profitability due to the depreciation of the yen and of cost-cutting measures, the company's operating performance improved ¥2.5 billion, from an operating loss of ¥1.2 billion in the previous year to operating income of ¥1.3 billion in the year under review.

Operational Review

Bio-Products

During the year under review, the company worked to expand product applications and boost sales of fine chemicals for pharmaceuticals and industrial use, centered on amino and nucleic acids. As a result, we recorded a solid performance—with higher shipments of amino acids for use in health foods—and domestic sales increased. Although the weaker yen supported strong sales of core products to Europe, North America, and Asia, we took steps to eliminate unprofitable products, and export sales were down slightly from the previous year.

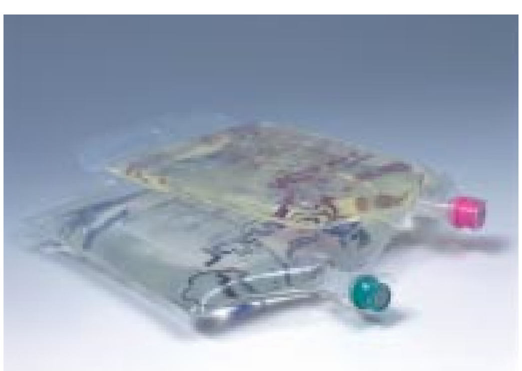
In R&D, the company reduced costs for existing products through process improvements, developed new applications for oligosaccharides and sugar nucleotides, and searched for ways to use amino and nucleic acids in health foods.

Agrochemicals, Animal Health Products, and Fertilizers

Sales of products for veterinary and pisciculture use declined amid sluggish market conditions. Sales of agrochemicals increased due to strong exports to Asia and to sales promotion efforts in the sluggish domestic market.

Feed-Grade Amino Acids

The Company's overseas feed-grade amino acid operations recorded higher sales, supported by a slight recovery in the lysine market and the yen's depreciation. Kyowa Hakko operates three overseas subsidiaries engaged in the production and sale of feed-grade amino acids. In fiscal 2002, Biokyowa Inc., of the United States, decided to halt its production of feed-grade lysine and switch to the production of high-value-added amino acids, and during the year the company made progress toward realizing those objectives. In Mexico, Fermex, which will cover the U.S. lysine market after Biokyowa's withdrawal, implemented measures targeting improved profitability, including the introduction of new technology, and, in Hungary, Agroferm recorded another solid performance.



Amino acid intravenous solution

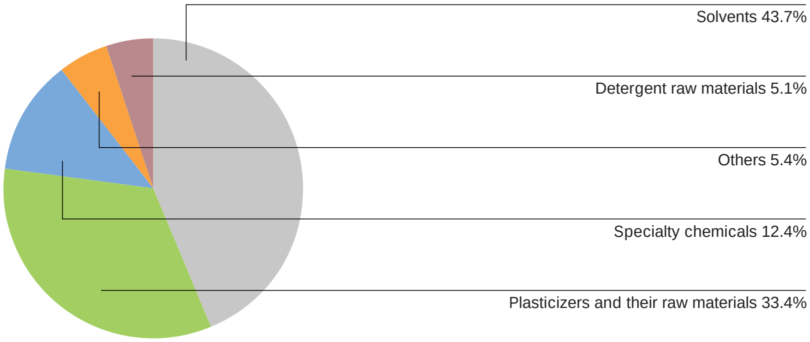
Fermentation tanks for amino acids at Hofu Plant

Chemicals

The Chemicals Company is working to further strengthen its domestic market presence and bolster its profitability in basic chemicals by aggressively seeking alliances, such as contract production, and by enhancing its cost-competitiveness. To further expand the field of high-value-added specialty chemicals, the company is developing new environmentally friendly products as well as products with enhanced functionality for the electronics industry.

Company President
Shoji Hari,
Executive Officer

Fiscal 2002 Sales Composition
(Nonconsolidated basis)



Overview

In the year under review, the Chemicals Company's operations were affected by the lengthening slump in the domestic economy, sluggish conditions in IT markets, and a weakening position in the market for alkyl benzene, a detergent raw material, due to the company's planned withdrawal in May 2002. An increase in exports was not enough to offset the challenging conditions in the domestic market, and the Chemicals Company recorded a 0.4%, or ¥0.2 billion, decline in total sales from the previous fiscal year, to ¥60.4 billion. Prices of raw materials, such as naphtha, began to decline in the second half of the fiscal year, but in comparison with product prices the scale of the decrease was small, and despite the decline prices remained high. In this setting, the company worked to rationalize distribution and production and to reduce marketing costs, such as overhead. As a result, the company's operating loss improved ¥1.5 billion from the previous year, to ¥1.2 billion.

Operational Review

Basic Chemicals

Based on its mainstay business of oxo alcohol production, Kyowa Hakko is one of Japan's leading companies in the manufacture of such basic chemicals as solvents and raw materials for plasticizers. Domestic shipments and sales of basic chemicals declined in the year under review. In export markets, conditions were weak, but the yen depreciated and we worked to increase sales. As a result, sales of basic chemicals increased in both volume and value. In May 2002, we withdrew from the alkyl benzene business.

Specialty Chemicals

Although production volumes declined slightly, sales of specialty chemicals were about the same as in the previous year. We worked to develop new specialty chemicals, centered on environmentally friendly products and products for the electronics industry. In the year under review, new product launches included squaric acid, a raw material for recording media, and lysine triisocyanate (LTI), a raw material for urethane resin.

In specialty chemicals, the company has a unique product lineup. Centered on aldehyde derivatives, our range of synthetic fatty acids and diols is one of the most extensive in the world. Our lineup also includes refrigeration lubricant raw materials used as CFC substitutes, such as 2-ethyl hexanoic acid, isononanoic acid, and polyvinyl ether, as well as polyurethane sheet for landfill sites and solvent raw materials that meet volatile organic compound (VOC) regulations.

Landfill liner for waste-disposal site

Kyowa Yuka's Yokkaichi Plant

Liquor and Food

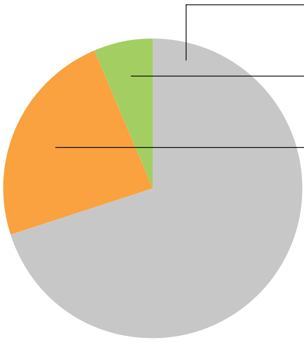
Liquor and Alcohol Company

Conditions in Kyowa Hakko's Liquor and Food operations were challenging in the year under review, which was marked by sluggish consumer spending, a growing focus on lower prices, and the BSE outbreak in Japan. The Liquor and Alcohol Company recorded increased sales, but the Food Company's sales declined. Overall, total sales in this segment edged up 0.2%, or ¥0.2 billion, to ¥103.5 billion. However, the profitability of U.S. food production subsidiary Kyowa Foods Inc. declined, and the segment recorded an operating loss of ¥0.4 billion, compared with operating income of ¥0.9 billion in the previous year.

Future conditions in liquor and alcohol markets are expected to become even more difficult, with consumers looking for lower prices, competition among liquor categories intensifying, and leading beer companies expanding their product lineups to include *shochu* and low-alcohol refreshers. We will not insist on a stand-alone presence in this sector. The decision to transfer our alcoholic beverage operations to Asahi Breweries, Ltd., in September 2002, was approved by the General Meeting of Shareholders on June 27, 2002. The transfer will include all of our alcoholic beverage operations, with the exception of *mirin* sweet sake seasoning; we will continue to operate our raw material alcohol business.

Company President
Naoyuki Sorimachi,
Senior Executive Officer

Fiscal 2002 Sales Composition
(Nonconsolidated basis)



Overview

Business conditions in the liquor and alcohol industry remained difficult in the year under review, with continued changes in consumer lifestyles. However, as a result of efforts to increase sales of core products, the Liquor and Alcohol Company recorded higher sales in fiscal 2002.

Operational Review

Shochu

In *shochu*, the company's mainstay product category, demand for Daigoro *shochu,* which had been adversely affected by lower-priced products, improved after the liquor tax was revised, and sales volume increased significantly. Demand for Kanoka *shochu* remained strong, with sales rising by a significant margin.

Low-Alcohol Refreshers

In low-alcohol canned refreshers, the Cocktail Partner series recorded a solid sales performance, but sales of the Shitamachi Fumi series declined significantly due to increasingly intense competition following the entry of beer companies into the low-alcohol refresher market. Overall, sales of low-alcohol refreshers declined slightly.

Wine

Although consumption of domestic wine was sluggish, sales of our St. Neige sulfite-free, organic wine remained strong, and sales increased overall.

Raw Material Alcohol

Sales of raw material alcohol for the refined sake industry declined; however, the commissioned production of industrial alcohol increased, and overall sales of raw material alcohol rose year on year.

St. Neige sulfite-free, organic wines

Shochu Japanese spirit products

Cocktail Partner low-alcohol refreshers

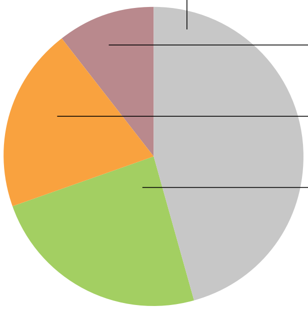
Liquor and Food

Food Company

In the field of natural seasonings and health food products, we have adopted the slogan "good food and health" and are developing new products that utilize fermentation as the core technology. At the same time, we are strengthening our capabilities as a manufacturing company by improving quality and reducing costs.

Company President
Tadayasu Furukawa,
Senior Executive Officer

Fiscal 2002 Sales Composition
(Nonconsolidated basis)



Overview

The Food Company worked to expand sales of mainstay products and launch new products during the year under review, but the BSE outbreak had a negative effect on overall sales, which declined from the previous year. We continued working to raise profitability by cutting costs throughout our operations. Nonetheless, the profitability of U.S. food manufacturing subsidiary Kyowa Foods Inc. worsened, and we recorded an operating loss for the year.

Operational Review

Seasonings

Sales of our mainstay natural seasonings were about the same as in the previous year, with sales of brewed seasonings increasing and sales of savory flavor premix products decreasing. Declining unit prices led to a sharp drop in sales of *umami* seasonings.

Bakery Products and Ingredients

Sales of bakery products and ingredients were down from the previous year. Although sales of bread improvers and flavor enhancers were strong, sales of yeast products and premixes declined.

Processed Foods

Sales of processed foods increased due to higher sales of freeze-dried soups.

Health Foods

In October 2001, we introduced Remake CSPHP Tablets, a dietary supplement to lower cholesterol. This introduction followed the February 2001 launch of Kyowa Hakko's first FOSHU (Food for Specified Health Use) beverage, Remake Choleste-block, which contains the novel CSPHP soy-peptide ingredient. Due to these product introductions and to marketing activities for existing Remake brands, such as Remake Multi-Vitamins and Minerals, sales in this category increased from the previous year.

Overseas Operations

During the year under review, the production of natural seasonings by Wuxi Xiehe Food Co., Ltd., of China, proceeded smoothly. Our Asian sales base, Kyowa Foods (H.K.) Co., Ltd., in Hong Kong, handled the sale of seasonings, principally in the Chinese and Southeast Asian markets. In February 2002, we made the decision to dissolve Kyowa Foods Inc., of the United States, and the liquidation process is now under way.

Remake CSPHP Tablets


Foods & Liquors Research Laboratories

Remake Choleste-block

Freeze-dried soup products

ENVIRONMENTAL ISSUES, QUALITY ASSURANCE, AND CORPORATE CITIZENSHIP

Environmental Issues

Based on its Environment and Safety Policy, the Company formulated its Declaration of Basic Policies for Health, Safety, the Environment, and Product Safety. In accordance with this declaration, throughout its daily business activities Kyowa Hakko works to implement responsible care (RC) practices, which encompass a wide range of health, environmental, and safety activities, and to ensure consumer safety by improving quality.

Our environment and safety management system includes an Occupational Safety and Health Management System (OSHMS) that was established to complement ISO 14001. This system provides the base from which we implement RC practices, which include the participation of management. Internally, we have implemented the Kyowa Eco Project, which is centered on energy-saving and recycling activities and is under way at all production facilities, and the Green Office plan, which has been instituted at our offices. Externally, we are moving forward with such programs as Green Procurement, which involves our suppliers. In addition to these activities, all workplaces have set their own targets for reducing the environmental burden of their operations, including reductions in chemical substances released to the environment. In the year under review, we further enhanced the quality of our environmental activities by adding such new methodologies as environmental accounting and life cycle assessment (LCA).

The following is an outline of our environmental and safety related activities at every stage of the Group's operations, from research, development, and production to distribution, use, and disposal.

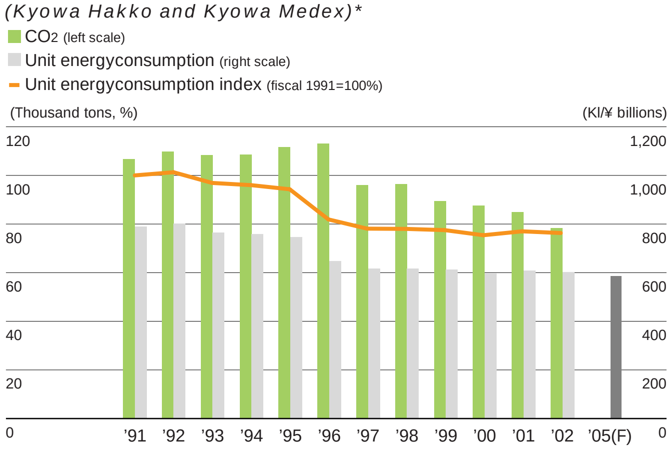
Management System

The environment, safety, and health are management priorities of the highest importance, and we are implementing large-scale activities in these areas under the direction of senior management. The scope of these activities is expanding each year from Kyowa Hakko Kogyo Co., Ltd., Kyowa Yuka Co., Ltd., and Kyowa Medex Co., Ltd., to major affiliates. A diverse range of activities is being implemented, from global environmental issues to daily office activities.

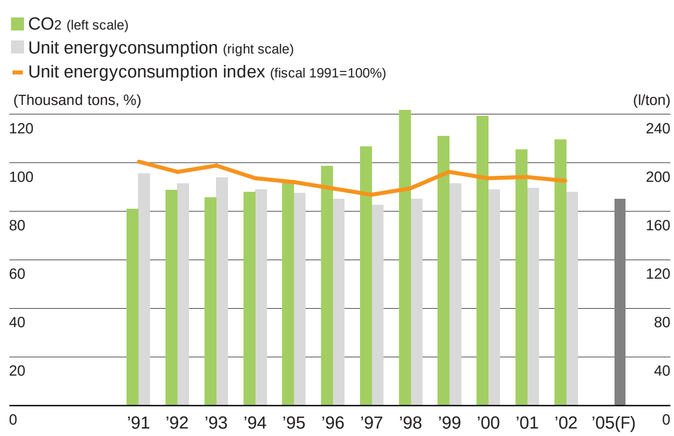
Compliance

In environmental and safety activities, we strictly follow all relevant standards, including not only those set by national and municipal governments and by industrial organizations but also our own stricter standards. We are aggressively implementing environmental and safety information activities, and our Internet web site includes our Health, Safety and the Environment Reports and information from our workplaces. We will work to further improve communication with stakeholders in the years ahead.

*Yearly Changes in Unit Energy Consumption (Kyowa Hakko and Kyowa Medex)**



*Yearly Changes in Unit Energy Consumption (Kyowa Yuka)**



Performance

In fiscal 2002, the volume of waste disposal at landfill sites was down 55.5% from fiscal 1999. We are working to make further progress in this area, with a goal of zero waste generation. In energy-saving activities, unit energy consumption in fiscal 2002 was down 2.9% from fiscal 1999. In a challenging management environment, we are strengthening our energy monitoring system and working to achieve our targets. In fiscal 2002, our emissions of 12 air pollutants identified as priorities by the Japan Chemical Industry Association were down 95.5% from fiscal 1999, a performance that exceeds industry objectives. We are also proceeding according to plan with the renovation of industrial waste incinerators. In fiscal 2002, there were no lost-time accidents at Kyowa Hakko, Kyowa Yuka, or Kyowa Medex. The Fuji Plant has recorded 10 million hours of accident-free operation, while Kyowa Yuka's Yokkaichi Plant has recorded 20 million hours of accident-free operation. We have maintained a level of safety performance that places us in the top rank in the industry, and we continue to maintain that performance. We also had no incidents of fires or leaks.

In fiscal 2002, we extended LCA to our mainstay *shochu* products and compared the hidden environmental impact of these products with their value. We also applied environmental accounting techniques to the material flows of all production processes and worked to evaluate efficiency for internal and external environmental protection costs and for the attributes of our business and workplaces.

* 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 and Kyowa Medex, 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 Medex and by Kyowa Yuka are presented separately.

Assessment

In new product and new technology development, we have revised our safety and environmental assessment system by taking such steps as enhancing our change management capabilities and forecasting and evaluation systems and bolstering self-initiated inspections based on new risk management.

R&D for Environmentally Friendly Products

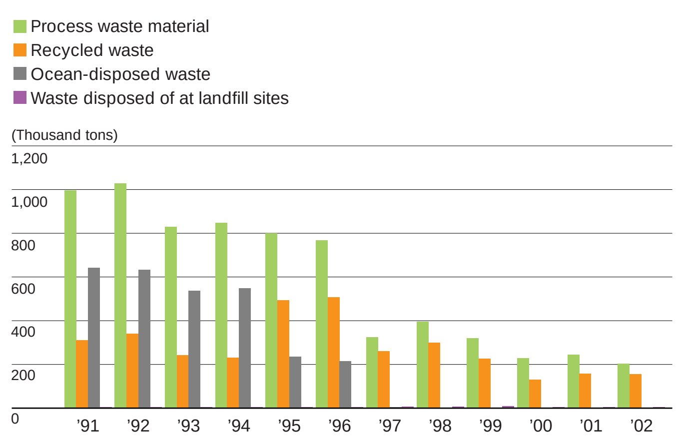
We are aggressively developing environmentally friendly products and technologies, including energy-saving technologies. Our environmental conservation initiatives include setting objectives for the elimination of chloride solvents. We are also implementing ISO 14001-based management in R&D divisions.

Product Efficacy and Safety

A basic tenet of our operations is that all of our products must be useful, and this applies to pharmaceuticals as well as to all of our other products. A good example is how we develop new applications for amino acids. The LCAs for our *shochu* products showcase our awareness of today's environmental problems.

Based on these types of activities, we are bolstering disclosure activities, including those of consolidated subsidiaries and affiliates. In the years ahead, we will continue working to improve the transparency of our environmental and safety activities by enhancing the quality of our information disclosure, including social accountability.

Yearly Changes in Volume of Industrial Waste



Quality Assurance

Kyowa Hakko aims not only to provide products and services with quality superior to those from other companies but also to earn the satisfaction and trust of its customers. To raise customer satisfaction, we are working to build a framework extending across all departments, from R&D to production, distribution, and sales, that will enable us to more accurately understand customer needs and problems, to share and utilize customer information with related divisions in the Company, and to engage the entire Company in providing a rapid response to customers.

To further enhance quality assurance in products and services, we will continue to improve our international standard quality assurance systems, such as GMP, ISO 9002, and HACCP, at all plants in accordance with product attributes. We will also continue striving to bolster production control and quality control systems. We have already received ISO 9002 certification at the Chiba, Yokkaichi, Hofu, Ube, and Moji plants, and we are making progress toward the acquisition of ISO 9001 certification (2000 version).

Corporate Citizenship

In recent years, young people in Japan have grown increasingly distanced from science, and as a result Kyowa Hakko, as a research-oriented company, has introduced two activities designed to encourage young people—who will play key roles in society in the 21st century—to think about and develop an interest in science. These activities, initiated in 1999 to mark the 50th anniversary of Kyowa Hakko's establishment, are a national essay competition for junior and senior high school students based on the theme of "Science for a Happier 21st Century" and the support of science education for primary school students through the provision of equipment for experiments and the dispatch of researchers to provide instruction at schools. Both of these activities are highly regarded and have earned praise from many people, including educators and the participants themselves.

In addition, every year since 1987, the Company has sponsored the Asahi Young Session, an annual lecture series that provides an opportunity 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.

The Kato Memorial Bioscience Foundation, established by Kyowa Hakko in honor of the Company's founder, Dr. Benzaburo Kato, provides financial support for researchers for innovative research in the field of bioscience. The foundation also sponsors an annual public symposium that focuses on bioscience-related themes.

Financial Section

Contents

SELECTED FINANCIAL DATA

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries
For the Years Ended March 31, 2002, 2001, 2000, 1999, 1998 and 1997

	Millions of Yen						Thousands of U.S. Dollars (Note 1)
	2002	2001	2000	1999	1998	1997	**2002**
For the Year:							
Net sales	**¥378,668**	¥375,610	¥374,910	¥384,671	¥397,361	¥397,629	**$2,841,786**
Operating income	**20,357**	17,712	21,656	23,457	34,743	33,928	**152,773**
Net income	**5,535**	9,395	11,274	6,143	13,528	12,339	**41,538**
Capital expenditures	**11,454**	17,092	21,053	24,408	24,555	19,132	**85,959**
Depreciation and amortization	**17,819**	18,502	19,153	17,673	17,113	16,701	**133,726**
R&D expenses	**29,294**	28,921	25,888	24,083	25,358	22,882	**219,842**
At Year-End:							
Total assets	**430,113**	431,410	433,958	477,729	437,271	431,774	**3,227,865**
Interest-bearing debt	**74,354**	87,624	102,870	151,489	98,282	97,786	**558,004**
Shareholders' equity	**211,652**	194,692	195,039	185,766	188,645	180,391	**1,588,383**

	Yen						U.S. Dollars (Note 1)
Per Share Data:							
Net income—basic (Note 2)	**¥ 12.7**	¥ 21.6	¥ 26.0	¥ 13.9	¥ 30.3	¥ 27.6	**$0.096**
Total shareholders' equity	**487.5**	448.3	449.1	427.8	422.6	404.2	**3.659**
Cash dividends	**7.5**	7.5	10.0	7.5	7.5	7.5	**0.056**

	%					
Financial Ratios:						
Return on assets	**1.28**	2.17	2.47	1.34	3.11	2.90
Return on equity	**2.72**	4.82	5.92	3.28	7.33	6.96
Equity ratio	**49.2**	45.1	44.9	38.9	43.1	41.8

	Millions of Yen						Thousands of U.S. Dollars (Note 1)
	2002	2001	2000	1999	1998	1997	**2002**
Sales by Industry Segment:							
Pharmaceuticals	**¥142,297**	¥141,450	¥142,338	¥143,216	N/A	N/A	**$1,067,896**
Bio-Chemicals	**55,496**	52,720	47,657	53,617	N/A	N/A	**416,480**
Chemicals	**60,410**	60,659	63,893	66,359	N/A	N/A	**453,358**
Liquor and Food	**103,531**	103,353	106,320	107,428	N/A	N/A	**776,968**
Other	**59,777**	57,627	55,166	54,330	N/A	N/A	**448,608**
Corporate, Elimination and Other	**(42,843)**	(40,199)	(40,464)	(40,279)	N/A	N/A	**(321,434)**
Total	**¥378,668**	¥375,610	¥374,910	¥384,671	¥397,361	¥397,629	**$2,841,786**
Operating Income (Loss) by Industry Segment:							
Pharmaceuticals	**¥18,959**	¥19,574	¥23,799	¥25,618	N/A	N/A	**$142,282**
Bio-Chemicals	**1,268**	(1,191)	(2,096)	2,635	N/A	N/A	**9,516**
Chemicals	**(1,174)**	(2,684)	(1,064)	(4,264)	N/A	N/A	**(8,811)**
Liquor and Food	**(440)**	919	(1,110)	(2,430)	N/A	N/A	**(3,302)**
Other	**1,756**	1,141	1,390	1,719	N/A	N/A	**13,178**
Corporate, Elimination and Other	**(12)**	(47)	737	179	N/A	N/A	**(90)**
Total	**¥20,357**	¥17,712	¥21,656	¥23,457	¥34,743	¥33,928	**$152,773**

Notes: 1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥133.25=US$1, the approximate exchange rate at March 31, 2002.
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. Due to a change in the Company's industry segments, figures for the current segments prior to fiscal 1999 are not available (N/A).

BUSINESS PERFORMANCE

In fiscal 2002, ended March 31, 2002, the Company's consolidated net sales increased 0.8%, to ¥378.7 billion. As a result of cost-cutting efforts, the cost of sales declined 0.7%, to ¥249.9 billion. Gross profit rose 3.9%, to ¥128.7 billion, and the gross profit margin was up 1.0 percentage points, to 34.0%.

Selling, general and administrative (SG&A) expenses rose 2.0%, to ¥108.4 billion, principally as a result of retirement benefits, R&D expenses, and sales promotion expenses stemming from aggressive marketing activities. SG&A expenses as a percentage of net sales rose 0.3 percentage points, to 28.6%.

Operating income increased 14.9%, to ¥20.4 billion. The operating income margin rose 0.7 percentage points, to 5.4%.

Net other expenses were ¥7.9 billion in fiscal 2002, compared with net other revenue in the previous year of ¥4.2 billion, due primarily to a ¥21.1 billion loss on restructuring of certain subsidiaries and affiliates.

Income before income taxes and minority interests declined 43.0%, to ¥12.5 billion, and net income fell 41.1%, to ¥5.5 billion. The net income margin decreased 1.0 percentage points, to 1.5%.

PERFORMANCE BY SEGMENT

Sales, operating expenses, and operating income (loss) for each Kyowa Hakko business segment are outlined below. The figures include inter-segment transactions.

Pharmaceuticals

Sales in the Pharmaceuticals segment, Kyowa Hakko's core line of business, edged up 0.6% from the previous year, to ¥142.3 billion, accounting for 33.8% of total sales (including inter-segment transactions). Operating expenses rose 1.2%, to ¥123.3 billion, and operating income declined 3.1%, to ¥19.0 billion.

Bio-Chemicals

Sales in the Bio-Chemicals segment increased 5.3% from the previous year, to ¥55.5 billion, accounting for 13.2% of total sales. Operating expenses edged up 0.6%, to ¥54.2 billion. Operating income was ¥1.3 billion, compared with an operating loss in the previous year of ¥1.2 billion.

Chemicals

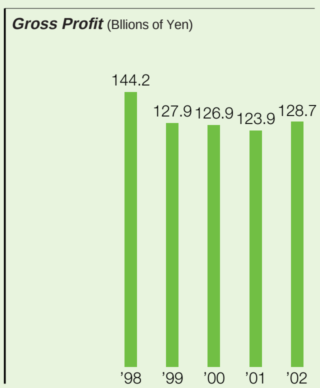
Sales in the Chemicals segment declined 0.4% from the previous year, to ¥60.4 billion, accounting for 14.3% of total sales. Operating expenses decreased 2.8%, to ¥61.6 billion, and the operating loss improved significantly, contracting 56.3%, to ¥1.2 billion.

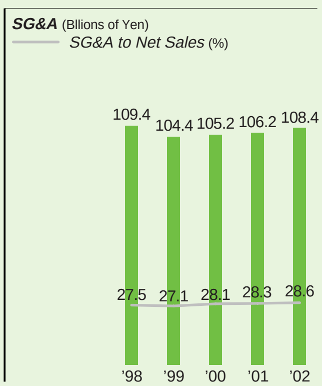
Liquor and Food

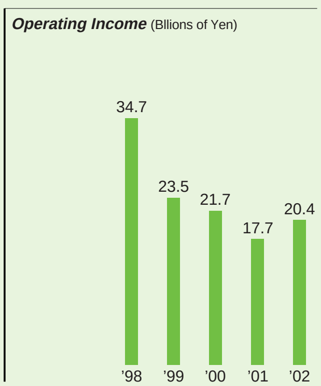
Sales in the Liquor and Food segment edged up 0.2%, to ¥103.5 billion, accounting for 24.6% of total sales. Operating expenses increased 1.5%, to ¥104.0 billion, resulting in an operating loss of ¥0.4 billion, compared with operating income of ¥0.9 billion in the previous year.

Other

Sales in the other segment rose 3.7%, to ¥59.8 billion, accounting for 14.2% of total sales. Operating expenses increased 2.7%, to ¥58.0 billion, and operating income rose 53.9%, to ¥1.8 billion. Kyowa Hakko's other businesses include the operations of subsidiaries engaged in transportation, warehousing, and sales of apparatus for industry.







OVERSEAS SALES

In fiscal 2002, the Kyowa Hakko Group's overseas net sales rose 7.3% from the previous fiscal year, to ¥56.4 billion. Net sales by region were as follows:

	Billions of Yen (percentage of net sales)					
	FY2002		FY2001		FY2000	
Americas	**¥21.6**	**(5.7%)**	¥22.1	(5.9%)	¥19.4	(5.2%)
Europe	**15.2**	**(4.0%)**	13.2	(3.5%)	9.8	(2.6%)
Asia	**19.4**	**(5.1%)**	16.5	(4.4%)	18.2	(4.8%)
Other Areas	**0.2**	**(0.1%)**	0.7	(0.2%)	0.4	(0.2%)
Total	**¥56.4**	**(14.9%)**	¥52.5	(14.0%)	¥47.8	(12.8%)

CASH FLOWS

Net cash provided by operating activities in fiscal 2002 amounted to ¥17.0 billion, a decrease of ¥11.8 billion from the previous fiscal year. This decline was primarily due to lower income before income taxes and minority interests and to increased working capital stemming from a decrease in trade receivables and an increase in inventories.

Net cash provided by investing activities was ¥8.4 billion. Acquisition of property, plant and equipment was ¥11.8 billion, and acquisition of investments in securities and additional investments in consolidated subsidiaries totaled ¥2.4 billion. Proceeds from sale of investments in securities were ¥18.8 billion, and proceeds from sale of property, plant and equipment were ¥2.8 billion. In comparison with the previous year, net cash flows from investing activities increased ¥10.4 billion, due primarily to declines in acquisition of property, plant and equipment and in short-term loans receivable.

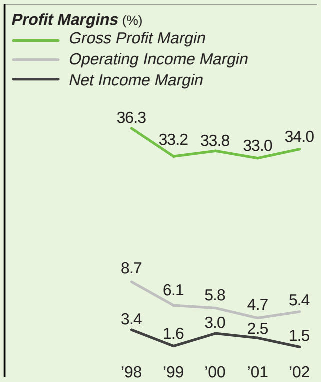
Net cash used in financing activities was ¥16.8 billion. Major items included a decline in net proceeds from short-term debt, to ¥13.1 billion, and dividends paid of ¥3.3 billion. The year-on-year decline of ¥4.0 billion in net cash used in financing activities was attributable to declines in redemption for bonds and in dividends paid, which offset an increase in repayment of long-term debt.

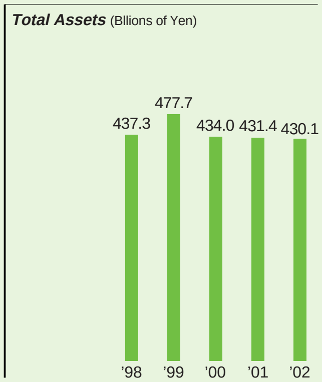
As a result of the preceding activities, cash and cash equivalents at fiscal year-end were up ¥9.3 billion, to ¥41.9 billion.

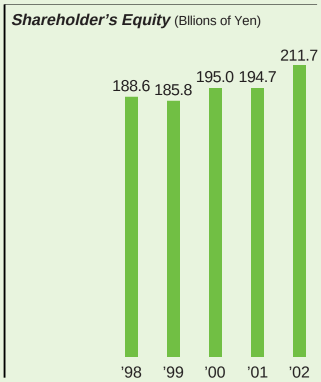
FINANCIAL POSITION

Assets

At the end of fiscal 2002, total current assets were ¥244.4 billion, an increase of 2.8% from the previous year-end. The Company recorded increases in cash of ¥20.9 billion, in inventories of ¥1.8 billion, in deferred tax assets of ¥1.0 billion, and in other current assets of ¥2.6 billion. Time deposits were down ¥13.1 billion; marketable securities decreased ¥2.0 billion, due to the redemption of held-to-maturity debt securities in the form of commercial paper; and accounts and notes receivable declined ¥4.7 billion. Due to these factors, total current assets increased ¥6.6 billion from the previous fiscal year-end.







At year-end, fixed assets were ¥185.7 billion, a decline of 4.1% from the end of the previous fiscal year. Investments and advances rose ¥19.8 billion, to ¥65.2 billion, due primarily to an increase of ¥24.5 billion in investments in securities. The year-end balance of investments and advances includes ¥25.7 billion in available-for-sale securities, net. Property, plant and equipment declined ¥26.2 billion, to ¥113.4 billion, due primarily to declines in buildings and structures and in machinery and equipment totaling ¥15.4 billion. Overall, fixed assets declined ¥7.9 billion.

As a result, total assets edged down 0.3% from the previous fiscal year-end, to ¥430.1 billion.

Liabilities

Total current liabilities declined 4.3%, or ¥7.3 billion, to ¥162.5 billion at fiscal year-end. Short-term borrowings declined ¥13.1 billion. Unsecured convertible bonds in the amount of ¥10.0 billion scheduled for redemption in June 2002 were transferred from long-term debt to current portion of long-term debt. Accounts and notes payable decreased ¥8.7 billion. The current ratio was 150.4%, up from 140.1% at the previous fiscal year-end, reflecting an improvement in stability.

At year-end, long-term debt, including corporate bonds, totaled ¥34.9 billion, a decrease of 22.5%, or ¥10.1 billion. The primary reason for this decline was the transfer of ¥10.0 billion in convertible bonds to current portion of long-term debt. As a result, interest-bearing debt fell 15.1% from the previous fiscal year-end, to ¥74.4 billion.

Shareholders' Equity

Total shareholders' equity increased 8.7% from the end of the previous fiscal year, to ¥211.7 billion. The equity ratio rose 4.1 percentage points, from 45.1% at the previous fiscal year-end to 49.2%. The debt/equity ratio[1] declined substantially, from 45.0% at the previous fiscal year-end to 35.1%.

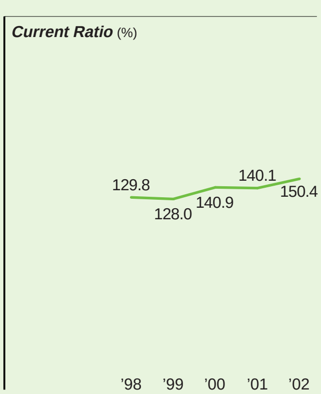
PER SHARE DATA

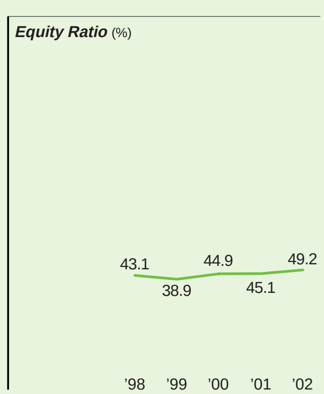
In the fiscal year under review, net income per share decreased to ¥12.7 from ¥21.6 in the previous year. Total shareholders' equity per share increased from ¥448.3 to ¥487.5. Cash dividends per share for fiscal 2002 were unchanged at ¥7.50, comprising interim and year-end per-share dividends of ¥3.75 each.

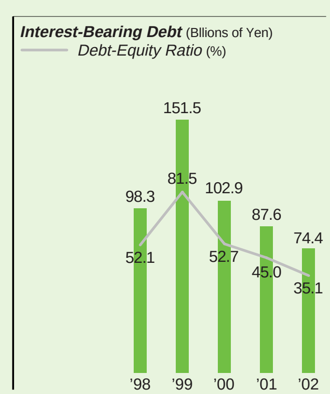
MANAGEMENT INDICES

Return on shareholders' equity (ROE) declined to 2.72%, from 4.82% in the previous fiscal year, and return on assets (ROA) decreased from 2.17% to 1.28%. The Company's seventh medium-term management plan set an ROA target of 3.2%. Although we implemented a number of measures to achieve this target, we did not attain that goal as a result of the significant decline in net income stemming from the extraordinary loss that accompanied the restructuring of overseas operations. However, operating return on assets was 4.73%, a significant improvement from 4.11% in the previous year. We are making steady progress with the implementation of a management structure that is focused on efficiency. Under our eighth medium-term management plan, we have set an operating return on assets target of 8.0%, and we will work to further streamline our balance sheet and establish a profit generating structure. EBITDA[2] for fiscal 2002 was ¥33.4 billion, down 23.2% from ¥43.5 billion in the previous year.

1 Debt/equity ratio = Interest-bearing debt (short-term borrowings + current portion of long-term debt + long-term debt) / shareholders' equity
2 EBITDA = Income before income taxes and minority interests + interest expenses + depreciation and amortization







CAPITAL EXPENDITURES

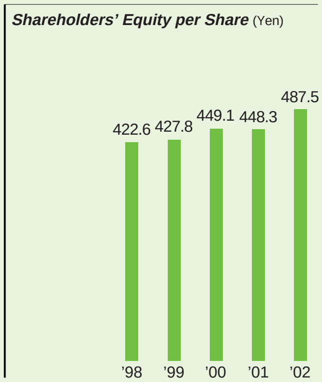
The Kyowa Hakko Group is investing continuously with the goals of enhancing and rationalizing production facilities and promoting R&D activities. Capital expenditures during fiscal 2002 declined 33.0% from the previous fiscal year, to ¥11.5 billion, and depreciation and amortization decreased 3.7%, to ¥17.8 billion. Accordingly, capital expenditures remained within the range of depreciation and amortization and we were able to fund those expenditures internally. A breakdown of capital expenditures and depreciation and amortization by business segment is as follows:

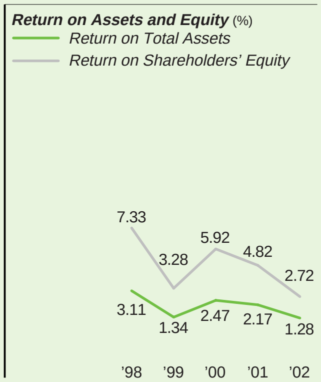
	Billions of Yen					
	Capital Expenditures			Depreciation and Amortization		
	FY2002	FY2001	FY2000	**FY2002**	FY2001	FY2000
Pharmaceuticals	**¥ 4.5**	¥ 4.4	¥ 4.9	**¥ 5.4**	¥ 5.3	¥ 5.5
Bio-Chemicals	**2.6**	4.1	7.1	**4.9**	4.9	5.0
Chemicals	**1.7**	4.2	4.3	**4.1**	4.8	4.9
Liquor and Food	**2.2**	3.8	4.3	**2.9**	2.6	2.9
Other	**0.2**	0.2	0.1	**0.1**	0.2	0.3
Corporate, elimination and other	**0.3**	0.4	0.4	**0.4**	0.7	0.6
Total	**¥11.5**	¥17.1	¥21.1	**¥17.8**	¥18.5	¥19.2

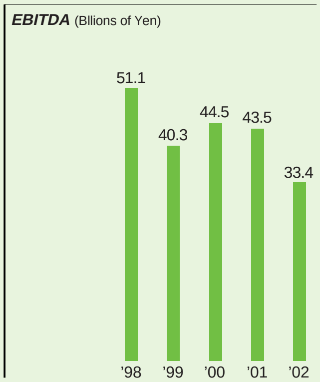
RETIREMENT BENEFITS ACCOUNTING STANDARD

From fiscal 2001, Kyowa Hakko adopted a new accounting standard for retirement benefits. At the end of the previous fiscal year, the Kyowa Hakko Group's pension benefit obligations amounted to ¥108.8 billion at a discount rate of 3.5%. On the other hand, the market value of pension fund assets was ¥73.5 billion, and the reserve for retirement benefits amounted to ¥17.2 billion, for a combined total of ¥90.7 billion. The unfunded pension liability, which is the unrecognized actuarial difference, was ¥18.1 billion. This amount will be amortized over a 10-year period starting with the year under review using the straight-line method.

At the end of the year under review, pension benefit obligations totaled ¥124.7 billion, reflecting a reduction in the discount rate to 2.5%. At the end of the year under review, the market value of pension fund assets was ¥62.2 billion and the reserve for retirement benefits amounted to ¥17.3 billion, for a combined total of ¥79.5 billion. The unfunded pension liability was ¥45.2 billion. The unrecognized actuarial difference of ¥47.3 billion plus the prior service cost of ¥2.1 billion that arose in the year under review will be amortized over a 10-year period starting with the current fiscal year using the straight-line method. The unrecognized prior service cost will be am-ortized over a 5-year period starting with the year under review using the straight-line method.







R&D EXPENSES

R&D expenses rose 1.3% from the previous fiscal year, to ¥29.3 billion, or 7.7% of consolidated net sales. R&D expenses in Pharmaceuticals amounted to ¥24.9 billion, accounting for 85.0% of total R&D expenses and 17.5% of Pharmaceuticals segment sales.

STATEMENT ON THE FINE IMPOSED BY THE EUROPEAN COMMISSION

On June 7, 2000, the Company and Kyowa Hakko Europe GmbH (“KHEG”) had a fine of 13,200 thousand Euro imposed on them by a Decision of the European Commission with allegations that the Company and KHEG had violated EU competition law due to their involvement in a cartel for the sale of amino acid lysine within the EEA (European Economic Area) prior to June, 1995. On August 25, 2000, the Company and KHEG lodged an appeal to the Court of First Instance of the European Communities with regard to the amount of fine. In the consolidated balance sheets, 1,120 thousand Euro (¥130 million) was recognized under “accounts payable” based on the calculation method of the fine which the European Commission had previously adopted.

RESTRUCTURING OF OVERSEAS OPERATIONS

The Company decided that it would be difficult under current conditions to achieve a recovery in profitability in its feed-grade amino acid operations and nucleotide-based seasoning operations in the United States, which had continued to record sluggish performances. Accordingly, the Company is restructuring these operations to focus on high-value-added amino acids. In Mexico, the production capabilities, profitability, and competitiveness of the Company’s feed-grade amino acid operations will be bolstered with the transfer of new technology. Accompanying these measures, a loss on restructuring of certain subsidiaries and affiliates of ¥21.1 billion was recorded as other expense in the fiscal year under review.

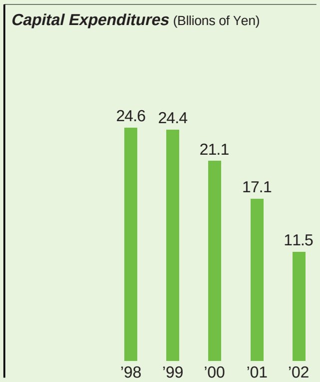
DISSOLUTION OF JOINT VENTURE WITH JOHNSON & JOHNSON, OF THE UNITED STATES

Janssen-Kyowa Co., Ltd., was formed in 1978 as a joint venture between Kyowa Hakko, which owned 40% of the company, and Johnson & Johnson, of the United States. In December 2001, Kyowa Hakko disposed of all of its holdings in Janssen-Kyowa following a request from Johnson & Johnson K.K., Johnson & Johnson’s subsidiary in Japan, in accordance with the terms of the joint venture contract. The profit on the sale of Janssen-Kyowa stock was recorded as a gain on sale of investment in securities. Kyowa Hakko maintains an amicable marketing relationship with the former Janssen-Kyowa (currently, Janssen Pharmaceutical K.K.).

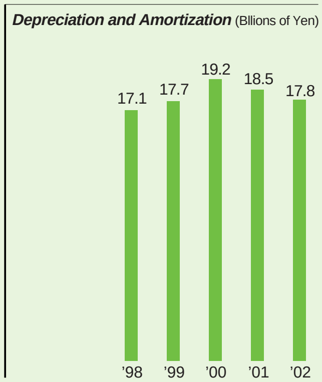
NOTE TO THE MANAGEMENT’S DISCUSSION AND ANALYSIS

Forecasts contained in the 2002 Annual Report represent judgments 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.

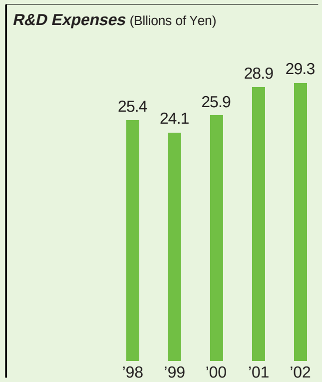
Capital Expenditures (Bllions of Yen)



Depreciation and Amortization (Bllions of Yen)



R&D Expenses (Bllions of Yen)



CONSOLIDATED BALANCE SHEETS

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries
As at March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
ASSETS	**2002**	2001	**2002**
Current Assets:			
Cash	**¥ 32,670**	¥ 11,724	**$ 245,178**
Time deposits	**6,233**	19,349	**46,777**
Marketable securities (Note 5)	**—**	1,999	**—**
Accounts and notes receivable:			
Trade	**124,871**	127,858	**937,118**
Unconsolidated subsidiaries and affiliates	**7,305**	9,875	**54,822**
Other	**2,782**	1,935	**20,878**
	134,958	139,668	**1,012,818**
Inventories	**59,336**	57,574	**445,298**
Deferred tax assets (Note 8)	**5,041**	3,996	**37,831**
Other current assets	**6,487**	3,921	**48,683**
Less: allowance for doubtful accounts	**(315)**	(380)	**(2,364)**
Total current assets	**244,410**	237,851	**1,834,221**
Investments and Advances:			
Investments in securities (Notes 2 and 5)	**43,976**	19,466	**330,026**
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 5)	**14,317**	18,633	**107,445**
Long-term loans to employees, mostly for housing	**106**	135	**795**
Long-term loans and other investments	**7,950**	8,012	**59,663**
Less: reserve for write-down of investments in securities	**(125)**	(87)	**(938)**
Less: allowance for doubtful accounts	**(978)**	(746)	**(7,340)**
	65,246	45,413	**489,651**
Property, Plant and Equipment:			
Buildings and structures	**131,436**	135,119	**986,386**
Machinery and equipment	**248,511**	260,276	**1,864,999**
	379,947	395,395	**2,851,385**
Less: accumulated depreciation	**(291,951)**	(281,502)	**(2,191,002)**
	87,996	113,893	**660,383**
Land	**23,092**	23,813	**173,298**
Construction in progress	**2,283**	1,861	**17,133**
	113,371	139,567	**850,814**
Deferred Tax Assets (Note 8)	**4,318**	5,085	**32,405**
Other Assets	**2,768**	3,494	**20,774**
	¥ 430,113	¥ 431,410	**$ 3,227,865**

The accompanying notes are an integral part of the statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2002	Millions of Yen 2001	Thousands of U.S. Dollars (Note 4) 2002
Current Liabilities:			
Short-term borrowings (Note 6)	**¥ 29,459**	¥ 42,600	**$ 221,081**
Current portion of long-term debt (Note 6)	**9,997**	—	**75,025**
Accounts and notes payable (Note 13):			
Trade (Note 5)	**49,890**	49,013	**374,409**
Unconsolidated subsidiaries and affiliates	**3,932**	13,481	**29,508**
Construction and acquisition of properties	**3,198**	3,574	**24,000**
Other	**23,659**	23,352	**177,554**
	80,679	89,420	**605,471**
Income taxes payable	**14,765**	10,484	**110,807**
Employees' savings deposits	**13,082**	12,989	**98,176**
Reserve for accrued sales returns	**187**	414	**1,403**
Reserve for accrued sales rebates	**1,118**	1,264	**8,390**
Reserve for accrued sales promotion expenses	**500**	608	**3,752**
Guarantee deposits from customers	**8,786**	8,474	**65,936**
Other current liabilities	**3,935**	3,568	**29,531**
Total current liabilities	**162,508**	169,821	**1,219,572**
Long-Term Debt (Note 6)	**34,898**	45,024	**261,898**
Deferred Tax Liabilities (Note 8)	**503**	550	**3,775**
Reserve for Retirement Benefits:			
Employees (Note 9)	**17,304**	17,249	**129,861**
Directors and corporate auditors	**790**	942	**5,929**
Other Non-Current Liabilities	**1,012**	766	**7,595**
Minority Interests in Consolidated Subsidiaries (Note 2)	**1,446**	2,366	**10,852**
Commitments and Contingent Liabilities (Note 12)			
Shareholders' Equity:			
Common stock, par value ¥50 per share:			
Authorized: 987,900,000 shares at March 31, 2002 and 2001			
Issued: 434,243,555 shares at March 31, 2002 and 2001	**26,745**	26,745	**200,713**
Additional paid-in capital	**43,180**	43,180	**324,053**
Retained earnings (Note 15)	**131,897**	129,694	**989,846**
	201,822	199,619	**1,514,612**
Unrealized gains on available-for-sale securities (Note 2)	**14,946**	—	**112,165**
Translation Adjustments	**(5,061)**	(4,926)	**(37,981)**
Treasury Stock, at Cost	**(55)**	(1)	**(413)**
Total shareholders' equity	**211,652**	194,692	**1,588,383**
	¥430,113	¥431,410	**$3,227,865**

CONSOLIDATED STATEMENTS OF INCOME

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2002, 2001 and 2000

	Millions of Yen			Thousands of U.S. Dollars (Note 4)
	2002	2001	2000	**2002**
Net Sales (Note 14)	**¥378,668**	¥375,610	¥374,910	**$ 2,841,786**
Cost of Sales (Note 13)	**249,924**	251,665	248,038	**1,875,602**
Gross profit	**128,744**	123,945	126,872	**966,184**
Selling, General and Administrative Expenses (Note 11)	**108,387**	106,233	105,216	**813,411**
Operating income (Note 14)	**20,357**	17,712	21,656	**152,773**
Other Revenue (Expenses):				
Interest and dividend income	**827**	1,208	1,585	**6,206**
Interest expenses	**(3,114)**	(3,134)	(2,724)	**(23,370)**
Write-down of marketable securities	**(119)**	(137)	(186)	**(893)**
Gain on sale of marketable securities	**—**	—	377	**—**
Gain on sale of investment in securities	**12,726**	12,201	50	**95,505**
Foreign exchange gain (loss)	**916**	588	(944)	**6,874**
Insurance premium received	**458**	432	340	**3,437**
Gain on sale of property, plant and equipment	**1,819**	92	2,818	**13,651**
Additional premium to welfare annuity fund	**—**	—	(1,053)	**—**
Loss from transition adjustment of pension accounting	**—**	(24,729)	—	**—**
Equity in earnings of affiliates	**1,223**	748	1,137	**9,178**
Gain from contribution of securities to pension fund	**—**	18,127	—	**—**
Loss on restructuring of certain subsidiaries and affiliates (Note 11)	**(21,081)**	—	—	**(158,206)**
Other, net	**(1,550)**	(1,237)	(480)	**(11,632)**
	(7,895)	4,159	920	**(59,250)**
Income before income taxes and minority interests	**12,462**	21,871	22,576	**93,523**
Income Taxes: (Note 8)				
Current	**16,514**	16,162	11,894	**123,932**
Deferred	**(9,525)**	(3,424)	(402)	**(71,482)**
	6,989	12,738	11,492	**52,450**
	5,473	9,133	11,084	**41,073**
Minority Interests in Earnings of Consolidated Subsidiaries	**62**	262	190	**465**
Net income	**¥ 5,535**	¥ 9,395	¥ 11,274	**$ 41,538**

	Yen			U.S. Dollars (Note 4)
Per Share Data:				
Net income—basic	**¥12.7**	¥21.6	¥26.0	**$0.096**
Net income—diluted (*)	**—**	21.6	25.9	**—**
Cash dividends	**7.5**	7.5	10.0	**0.056**
Weighted Average Number of Shares (Thousands of shares)	**434,244**	434,244	434,244	

** Diluted net income per share for fiscal 2002 is not disclosed because there were anti-dilutive effects.*
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, 2002, 2001 and 2000

	Number of shares of common stock (thousands)	Millions of Yen		
		Common stock	Additional paid-in capital	Retained earnings
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 corporate 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
Net income for the year ended March 31, 2001	—	—	—	9,395
Cash dividends	—	—	—	(2,714)
Directors' and corporate auditors' bonuses	—	—	—	(82)
Interim cash dividends	—	—	—	(1,628)
Increase due to additional application of equity method	—	—	—	42
Increase due to application of inflation accounting to the accounts of Mexican subsidiary	—	—	—	213
Decrease due to cumulative effect of deferred tax accounting adopted by Mexican subsidiary	—	—	—	(643)
Other	—	—	—	(3)
Balance at March 31, 2001	434,244	26,745	43,180	129,694
Net income for the year ended March 31, 2002	**—**	**—**	**—**	**5,535**
Cash dividends	**—**	**—**	**—**	**(1,628)**
Directors' and corporate auditors' bonuses	**—**	**—**	**—**	**(80)**
Interim cash dividends	**—**	**—**	**—**	**(1,628)**
Increase due to application of inflation accounting to the accounts of Mexican subsidiary	**—**	**—**	**—**	**6**
Other	**—**	**—**	**—**	**(2)**
Balance at March 31, 2002	**434,244**	**¥26,745**	**¥43,180**	**¥131,897**

	Number of shares of common stock (thousands)	Thousands of U.S. Dollars (Note 4)		
		Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 2001	**434,244**	**$200,713**	**$324,053**	**$ 973,313**
Net income for the year ended March 31, 2002	**—**	**—**	**—**	**41,538**
Cash dividends	**—**	**—**	**—**	**(12,218)**
Directors' and corporate auditors' bonuses	**—**	**—**	**—**	**(600)**
Interim cash dividends	**—**	**—**	**—**	**(12,218)**
Increase due to application of inflation accounting to the accounts of Mexican subsidiary	**—**	**—**	**—**	**45**
Other	**—**	**—**	**—**	**(14)**
Balance at March 31, 2002	**434,244**	**$200,713**	**$324,053**	**$989,846**

The accompanying notes are an integral part of the statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2002, 2001 and 2000

	Millions of Yen			Thousands of U.S. Dollars (Note 4)
	2002	2001	2000	**2002**
Cash flows from operating activities:				
Income before income taxes and minority interests	**¥ 12,462**	¥ 21,871	¥ 22,576	**$ 93,523**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	**17,819**	18,502	19,376	**133,726**
Equity in earnings of affiliates	**(1,223)**	(748)	(1,137)	**(9,178)**
Write-down of marketable securities	**119**	137	186	**893**
Increase in reserve for retirement benefits	**766**	25,329	131	**5,749**
Gain from contribution of securities to pension fund	**—**	(18,127)	—	**—**
Decrease in reserve for retirement benefits to directors and corporate auditors	**(152)**	(44)	(178)	**(1,141)**
Decrease (Increase) in allowance for doubtful accounts	**3**	(202)	(437)	**23**
Gain on sale of securities	**(12,726)**	(12,201)	(428)	**(95,505)**
(Gain) Loss on sale/disposal of property, plant and equipment	**(1,335)**	423	(1,803)	**(10,019)**
Loss on restructuring of certain subsidiaries and affiliates	**21,081**	—	—	**158,206**
Interest and dividend income	**(827)**	(1,208)	(1,593)	**(6,206)**
Interest expenses	**3,114**	3,134	2,741	**23,370**
Decrease (Increase) in trade receivables	**2,843**	(6,190)	2,738	**21,336**
(Increase) Decrease in inventories	**(477)**	3,061	1,513	**(3,580)**
(Decrease) Increase in trade payables	**(8,081)**	7,910	(2,858)	**(60,645)**
Payment of bonuses to directors and corporate auditors	**(86)**	(90)	(138)	**(645)**
Increase (Decrease) in consumption tax payables	**302**	134	(453)	**2,266**
Others	**(2,218)**	1,565	3,030	**(16,646)**
	31,384	43,256	43,266	**235,527**
Interest and dividend received	**1,058**	1,345	1,778	**7,940**
Interest expenses paid	**(3,241)**	(3,297)	(2,763)	**(24,323)**
Income taxes paid	**(12,246)**	(12,515)	(9,544)	**(91,902)**
Net cash provided by operating activities	**16,955**	28,789	32,737	**127,242**
Cash flows of investing activities:				
Increase in time deposits	**(434)**	(538)	(615)	**(3,257)**
Decrease in time deposits	**564**	989	2,903	**4,233**
Proceeds from sale of marketable securities	**—**	—	42,480	**—**
Acquisition of property, plant and equipment	**(11,831)**	(17,327)	(22,501)	**(88,788)**
Proceeds from sale of property, plant and equipment	**2,785**	1,137	2,145	**20,901**
Acquisition of investments in securities	**(1,349)**	(863)	(505)	**(10,124)**
Proceeds from sale of investments in securities	**18,798**	17,323	302	**141,073**
Additional investments in consolidated subsidiaries	**(1,096)**	(186)	—	**(8,225)**
Net decrease (increase) in short-term loans receivable	**799**	(2,190)	(164)	**5,996**
Increase in long-term loans receivable	**(185)**	(222)	(115)	**(1,388)**
Decrease in long-term loans receivable	**339**	730	787	**2,544**
Others	**(13)**	(844)	(1,295)	**(98)**
Net cash provided by/(used in) investing activities	**8,377**	(1,991)	23,422	**62,867**
Cash flows of financing activities:				
Net proceeds from short-term debt	**(13,106)**	(1,606)	461	**(98,356)**
Net increase in commercial paper	**—**	—	(16,000)	**—**
Proceeds from long-term debt	**150**	—	2,630	**1,126**
Repayment of long-term debt	**(570)**	(2,929)	(4,047)	**(4,278)**
Redemption for bonds (Note 6)	**—**	(12,000)	(29,848)	**—**
Dividends paid	**(3,251)**	(4,330)	(3,262)	**(24,398)**
Dividends paid to minority	**(11)**	(11)	(11)	**(83)**
Others	**(55)**	5	—	**(412)**
Net cash used in financing activities	**(16,843)**	(20,871)	(50,077)	**(126,401)**
Effect of exchanges on cash and cash equivalents	**819**	437	(339)	**6,146**
Increase in cash and cash equivalents	**9,308**	6,364	5,743	**69,854**
Cash and cash equivalents at the beginning of the year	**32,600**	26,215	20,433	**244,653**
Cash and cash equivalents at the beginning of the year acquired from a newly consolidated subsidiary	**—**	21	39	**—**
Cash and cash equivalents at the end of the year	**¥ 41,908**	¥ 32,600	¥ 26,215	**$ 314,507**

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

	Millions of Yen			Thousands of U.S. Dollars (Note 4)
	2002	2001	2000	**2002**
Cash and time deposits	**¥38,903**	¥31,073	¥24,136	**$291,962**
Time deposits whose maturity periods exceed three months	**(341)**	(472)	(920)	**(2,559)**
Investments in accounts receivable securitization	**3,346**	—	—	**25,111**
Marketable securities with original maturities of three months or less	**—**	1,999	2,999	**—**
	¥41,908	¥32,600	¥26,215	**$314,507**

The accompanying notes are an integral part of the statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2002, 2001 and 2000

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from accounts and records maintained by KYOWA HAKKO KOGYO CO., LTD. (the "Company") and its consolidated subsidiaries (hereinafter referred to in total as the "Companies"). 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 from International Accounting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau 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.

The Company's fiscal year is from April 1 to March 31. Therefore, "fiscal 2002" begins on April 1, 2001 and ends on March 31, 2002.

2. ACCOUNTING CHANGE

Until fiscal 2001, available-for-sale securities, for which market value is readily available, were valued at cost, cost being determined using the moving average method, although a new accounting standard for financial instruments was effective in fiscal 2001, which required that such securities should be valued at fair market value. However, adoption from fiscal 2001 was optional, therefore, the Company did not carry out a revaluation in fiscal 2001, and opting only to make footnote disclosure related to the fair market value information.

Effective from fiscal 2002, the Company and its domestic consolidated subsidiaries recorded a mark to market valuation for available-for-sale securities, for which market value is available, as well as for those denominated in foreign currencies. An accumulated amount of changes in fair value is displayed in shareholders' equity. If the fair value of a security exceeds its historical cost or vice versa, the resulting unrealized gain or loss is shown separately in the equity section, net of taxes.

As a result of the adoption of this standard, ¥14,946 million ($112,165 thousand) of unrealized gains on available-for-sale securities has been recognized. Investments in securities, minority interests, deferred tax assets and liabilities increased by ¥25,711 million ($192,953 thousand), ¥59 million ($443 thousand), ¥3 million ($23 thousand) and ¥10,709 million ($80,368 thousand), respectively. These deferred taxes were shown in Note 8, as a component of net deferred tax assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Principles of Consolidation

The Company had 53 subsidiaries as at March 31, 2002 (54 as at March 31, 2001). The consolidated financial statements include the accounts of the Company and 28 subsidiaries in fiscal 2002 (29 for fiscal 2001). As a result of liquidation, Kyowa Nozai Co., Ltd. has been excluded from consolidation in fiscal 2002.

Major subsidiaries are listed on the next page:

The remaining 25 (25 as at March 31, 2001) 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.

The accounts of 10 overseas consolidated subsidiaries, Biokyowa Inc., Kyowa Hakko U.S.A., Inc., Kyowa Foods Inc. and Kyowa America, Inc. (all incorporated in the U.S.A.), Kyowa Hakko Europe GmbH (incorporated in Germany), Fermentaciones Mexicanas, S.A. de C.V. (incorporated in Mexico and hereinafter referred to as "Fermex"), Agroferm Hungarian-Japanese Fermentation Industry Ltd. (incorporated in Hungary and referred to as "Agroferm"), Kyowa Hakko (H.K.) Co., Ltd. and Kyowa Foods (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 adopted 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, as allowed under accounting principles and practices generally accepted in Japan.

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.

Financial statements of all overseas subsidiaries are prepared on a calendar year basis. For all domestic consolidated subsidiaries, they adopt a March 31 fiscal year end basis.

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

Name of company	Direct and indirect equity ownership percentage	Capital stock (Millions)
Domestic subsidiaries		
Kyowa Yuka Co., Ltd.	100.0%	¥5,300
Kyowa Medex Co., Ltd.	100.0	750
Sainte Neige Wine Co., Ltd.	95.2	125
Kyowa F.D. Foods Co., Ltd.	100.0	275
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)	100.0	N. Peso 31
Agroferm Hungarian-Japanese Fermentation Industry Ltd. (Hungary)	100.0	HuF 3,506
Kyowa Hakko U.S.A., Inc. (U.S.A)	100.0	$1
Kyowa Hakko Europe GmbH (Germany)	100.0	EURO 1
Kyowa America, Inc. (U.S.A.)	100.0	$48

Any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary, if any at the date of establishment of control, has been amortized using a method, which the Company determined based on the specific circumstances of each consolidated subsidiary.

All assets and liabilities of consolidated subsidiaries are revalued to fair market value as of the date of establishment of the control.

(2) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The Company had 25 (25 at March 31, 2001) unconsolidated subsidiaries and 27 (30 at March 31, 2001) affiliates. The equity method is applied to the investments in 6 (7 at March 31, 2001) major domestic affiliates since the investments in the remaining unconsolidated subsidiaries and affiliates would not have had a material effect on the consolidated financial statements. Due to sales of investments in Janssen Kyowa Co., Ltd., which had been an affiliate and accounted for using the equity method, this company was excluded from the Group in fiscal 2002.

The six affiliates are accounted for using the equity method. The most significant affiliate is as follows;

Name of company	Equity ownership percentage	Capital stock (Millions of Yen)
J-PLUS Co., Ltd.	50.0%	¥480

Differences, arising from application of the equity method to unconsolidated subsidiaries and affiliates, between the cost of the investment and the amount of the underlying equity in net assets, are fully amortized in the year when incurred.

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

(3) Inventories Valuation

Inventories are valued at cost, cost being determined mainly by using the gross average cost method.

(4) Securities Valuation

Held-to-maturity debt securities are valued at amortized or accumulated cost.

Available-for-sale securities, for which market value is available, are valued at fair market value prevailing at the fiscal year-end.

Available-for-sale securities, for which market value is not available, are valued at cost, cost being determined by moving average method.

Where fair market value has declined by more than 30%, which is deemed to be "significantly declined in value", the Company measures the recoverability of each security and recognizes a subsequent loss on write down, if necessary.

See Note 2 and Note 5.

(5) Property, Plant and Equipment

Depreciation is computed mainly using the declining-balance method.

The Company and its domestic consolidated subsidiaries compute depreciation expense for buildings (other than related equipment and leasehold improvements) acquired on and after April 1, 1998 using the straight-line method.

The range of useful lives are principally as follows:

Buildings and structures:	15-50 years
Machinery and equipment:	4-15 years

(6) Reserves and Allowances

Allowance for Doubtful Accounts

An allowance for doubtful accounts is made against potential losses on collection at an amount measured using a historical bad debt ratio, plus an amount individually measured on collectibility of receivables that are expected to be uncollectible due to bad financial condition or insolvency.

Reserve for Accrued Sales Returns

A reserve for accrued sales returns is provided on the basis of the maximum amount deductible under Japanese income 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 at an amount determined based on the balance of receivables for pharmaceutical products from the sales agents and distributors at the year-end and the estimated rebate rates to be applied under the agreements.

Reserve for Accrued Sales Promotion Expenses

A reserve for accrued sales promotion expenses is provided at an amount equivalent to probable sales promotion expenses related to pharmaceutical inventories held by distributors. The amount of the reserve is determined based on the balance of inventories at year-end and the Companies' past experience ratio for such expenses.

Reserve for Write-Down of Investments in Securities

A reserve for the write-down of investments in securities is measured on the basis of the financial positions of the investees, such as subsidiaries and other investments, and provided for any decline in value of those investments.

Reserve for Retirement Benefits to Employees

A reserve for retirement benefits to employees is provided at an amount equal to the present value of the projected benefit obligation less fair value of the plan assets at the year-end.

Unrecognized prior service costs are amortized on a straight-line basis over five years from the year they occur.

Unrecognized actuarial differences are amortized on a straight-line basis over ten years from the year after they occur.

See Note 9.

Reserve for Retirement Benefits to Directors and Corporate Auditors

A reserve for retirement benefits to directors, including executive directors, and corporate auditors is provided in accordance with the Company's bylaws.

(7) Foreign Currency Translation

All monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated into yen at the spot rate prevailing at the year-end. Resulting translation gains or losses are charged or credited to income.

Assets and liabilities of overseas subsidiaries are translated into yen at the spot rate prevailing at the respective year-end of overseas subsidiaries, while income and expenses are translated at the annual average rate. Resulting translation adjustments are included in "shareholders' equity".

(8) Accounting for Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except that leases do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

See Note 7.

(9) Accounting for Hedging

Gains or losses arising from changes in the fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net income for the same year during which the gains or losses on the hedged items or transactions are recognized. However, certain foreign currency receivables and payables covered by forward exchange contracts are translated at the contract rate, if applicable.

The derivatives designated as hedging instruments by the Companies are principally currency swap and forward exchange contracts for receivables/payables denominated in foreign currency.

The Companies have a policy to utilize the above hedging instruments in order to reduce the Companies' risk of fluctuation in interest and exchange rates. Therefore, the Companies' purchase of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

The Companies evaluate the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

See Note 10.

(10) Income Taxes

Income taxes of the Company and its domestic consolidated subsidiaries consist of corporate income taxes, local inhabitant taxes and enterprise taxes.

The amended regulation for preparation of consolidated financial statements prescribes that, effective from fiscal 2000, income taxes are determined using the asset and liability method, 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 this accounting change at the beginning of fiscal 2000 was credited to retained earnings.

See Note 8 for details of deferred tax assets/liabilities.

(11) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are comprised of cash on hand, bank deposits, which are able to be withdrawn on demand at any time, and short-term investments with an original maturity of three months or less, which are readily convertible into cash and considered to represent a low risk of market price fluctuation.

(12) Accounting for Consumption Taxes

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

(13) Appropriation of Retained Earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings (including cash dividend payments) proposed by the Board of Directors should be approved at the shareholders' meeting, which must be held within three months after the end of each fiscal year. The appropriation charged to retained earnings as reflected in the accompanying consolidated statements of shareholders' equity represents that applicable to the immediately preceding fiscal year that was approved at the shareholders' meeting and disposed of during the year.

As is customary in Japan, the payment of bonuses to directors and corporate auditors is made out of retained earnings instead of being charged to income for the year, which constitutes a part of the appropriation mentioned above.

(14) 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.

(15) Reclassification

Certain fiscal 2001 and 2000 figures are reclassified to conform to the current year representation.

(16) Additional Information

The fiscal year-end of March 31, 2002 and 2001 fell on a bank holiday. As a result, notes receivable/payable are not accounted for as settled until the date of exchange. Therefore, the following items were included in the accompanying consolidated balance sheets as of March 31, 2002 and 2001 and remained unsettled.

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Notes receivable	**¥6,095**	¥6,247	**$45,741**
Notes payable	**3,285**	3,606	**24,653**
Notes payable for construction included in “other current liabilities”	**22**	10	**165**

In addition, the following receivable/payable balances, which originally fell due at the fiscal year-end, are included in the accompanying consolidated balance sheets as of March 31, 2002 and 2001, because those balances are settled in the same way as for notes receivable/payable.

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Accounts receivable—trade	**¥4,978**	¥2,969	**$37,358**
Accounts payable—trade	**4,145**	5,353	**31,107**
Accounts payable—other	**1,220**	2,078	**9,156**

4. UNITED STATES DOLLAR AMOUNTS

The consolidated financial statements are prepared in Japanese 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 ¥133.25=U.S.$1, the approximate exchange rate at March 31, 2002. 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 ¥133.25=U.S.$1 or at any other rate.

5. SECURITIES

a) Available-for-sale securities for which market value is available:

	March 31, 2002		
	Millions of Yen		
	Historical cost	Fair market value	Unrealized gain (loss)
Securities with unrealized gain:			
Shares	¥9,814	¥35,637	¥25,823
Other securities, excluding bonds	—	—	—
Securities with unrealized loss:			
Shares	1,109	960	(149)
Other securities, excluding bonds	20	20	(0)

	March 31, 2002		
	Thousands of U.S. Dollars		
	Historical cost	Fair market value	Unrealized gain (loss)
Securities with unrealized gain:			
Shares	$73,651	$267,445	$193,794
Other securities, excluding bonds	—	—	—
Securities with unrealized loss:			
Shares	8,323	7,205	(1,118)
Other securities, excluding bonds	150	150	(0)

Note: No comparative figures are prepared (see Note 2).

b) Amount of available-for-sale securities sold in fiscal 2002 and 2001:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Amount sold	**¥2,377**	¥17,318	**$17,839**
Realized gain	**1,103**	12,335	**8,278**
Realized loss	**58**	134	**435**

c) Details of investments in securities without market quotation:

	Millions of Yen		Thousands of U.S. Dollars
Description	**2002**	2001	**2002**
Held-to-maturity debt securities:			
Commercial paper	**¥ —**	¥1,999	**$ —**
Available-for-sale securities:			
Unlisted shares (excluding OTC shares)	**6,349**	6,241	**47,647**
Other securities	**1,007**	1,007	**7,557**

d) Maturity schedule of available-for-sale securities with scheduled maturity:

	March 31, 2002
	Millions of Yen
Less than one year	¥ 7
More than one year less than five years	20
More than five years less than ten years	—
Thereafter	—

	March 31, 2002
	Thousands of U.S. Dollars
Less than one year	$ 53
More than one year less than five years	150
More than five years less than ten years	—
Thereafter	—

e) Assets pledged as collateral and relevant debt:

	March 31		
	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Investments in securities	**¥ 85**	¥114	**$ 638**
Accounts and notes payable—trade	**450**	338	**3,377**

f) Investments in unconsolidated subsidiaries and affiliates:

	March 31		
	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Investments in shares	**¥12,348**	¥17,037	**$92,668**
Participations	**1,222**	1,046	**9,171**

6. SHORT-TERM AND LONG-TERM DEBT

Short-term debt consists principally of bank overdrafts bearing interest of 0.96% and 1.97%, the weighted average interest rate on outstanding balances as at March 31, 2002 and 2001, respectively. It is normal business custom in Japan for short-term bank loans to be rolled over each year.

Short-term debt as at March 31, 2002 and 2001, is summarized as follows:

	March 31		
	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Short-term bank loans	**¥28,918**	¥42,152	**$217,021**
Current portion of long-term borrowings	**541**	448	**4,060**
	¥29,459	¥42,600	**$221,081**

Long-term debt as at March 31, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Loans from banks, other financial institutions, etc., due from 2003 to 2012 with mortgage and collateral (Note 2)	**¥ 1,898**	¥ 2,027	**$ 14,244**
1.50 per cent. convertible bond due 2002 (Note 3)	**9,997**	9,997	**75,025**
1.75 per cent. bond due 2003 (Note 4)	**—**	—	**—**
2.55 per cent. bond due 2008	**15,000**	15,000	**112,570**
2.525 per cent. bond due 2008	**15,000**	15,000	**112,570**
1.98 per cent. bond due 2008	**3,000**	3,000	**22,514**
	44,895	45,024	**336,923**
Less: portion due within one year	**(9,997)**	—	**(75,025)**
	¥ 34,898	¥45,024	**$261,898**

Notes:
1. *All bonds shown above are unsecured.*
2. *The interest rate on long-term loans (excluding current portion) from banks was 3.05%, the weighted average interest rate on outstanding balances at the year-end.*
3. *Holders of the bond are entitled to convert the bond into common stock at a price of ¥1,880 during the period from March 1, 1990 to June 27, 2002, subject to adjustment in certain circumstances.*
4. *The bond was accounted for as redeemed due to a debt assumption contract. The debt assumption contract requires a counterparty to assume obligations of paying principal and interests on the bond. See Note 12 for underlying obligations of the Company.*

Annual maturities of bonds and convertible bond are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Within one year	¥ 9,997	$ 75,024
More than one year less than two years	—	—
More than two years less than three years	—	—
More than three years less than four years	—	—
More than four years less than five years	—	—
More than five years	33,000	247,655
	¥42,997	$322,679

Annual maturities of long-term debt, except for bonds and convertible bond, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Within one year	¥ 541	$ 4,060
More than one year less than two years	701	5,261
More than two years less than three years	802	6,019
More than three years less than four years	285	2,139
More than four years less than five years	33	248
More than five years	77	577
	¥2,439	$18,304

7. LEASE TRANSACTIONS

(1) Finance Leases

Information relating to finance leases, excluding those for which the ownership of the leased assets is considered to the lessee, as of, and for the years ended March 31, 2002 and 2001 are as follows.

The acquisition cost, accumulated depreciation and, net book value at March 31, 2002 and 2001, of leased assets, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Acquisition cost	**¥2,452**	¥2,878	**$18,402**
Accumulated depreciation	**1,214**	1,627	**9,111**
Net book value	**¥1,238**	¥1,251	**$ 9,291**

Lease payments and depreciation for the years ended March 31, 2002 and 2001, amounted to ¥561 million ($4,210 thousand) and ¥609 million, respectively.

Depreciation is calculated using the straight-line method over the lease term of the leased assets assuming no residual value.

The scheduled maturities of future lease rental payments of finance leases as of March 31, 2002 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Due within one year	**¥ 488**	¥ 496	**$3,662**
Due over one year	**750**	755	**5,629**
	¥1,238	¥1,251	**$9,291**

(2) Operating Leases

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Due within one year	**¥ 4**	¥2	**$ 30**
Due over one year	**10**	3	**75**
	¥14	¥5	**$105**

8. INCOME TAXES

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities as of March 31, 2002 and 2001, are as follows:

Balance sheet item	March 31, 2002 Millions of Yen	March 31, 2002 Thousands of U.S. Dollars
Deferred tax assets:		
Non-deductible portion of reserve for bonuses	¥ 1,002	$ 7,520
Enterprise taxes payable.	1,409	10,574
Non-deductible portion of reserve for accrued sales rebates, discounts and sales promotion	814	6,109
Non-deductible portion of reserve for retirement benefits to employees	5,082	38,139
Reserve for retirement benefits to directors and corporate auditors	406	3,047
Tax loss carried forward	7,293	54,732
Loss on write-down of investments in securities	764	5,734
Prepaid expense in tax accounting	861	6,462
Non-deductible portion of depreciation of property, plant and equipment	884	6,634
Loss on write-down of golf membership	457	3,430
Impairment on investments in certain consolidated subsidiaries	10,344	77,629
Loss on write-down of fixed assets held by overseas subsidiaries	3,934	29,523
Others	3,029	22,730
Sub-total	¥ 36,279	$ 272,263
Valuation allowance	(11,460)	(86,004)
Total deferred tax assets	¥ 24,819	$ 186,259
Deferred tax liabilities:		
Deferred gain, mainly related to expropriation of fixed assets	¥ (2,205)	$ (16,548)
Special depreciation of property, plant and equipment held by an overseas subsidiary	(2,530)	(18,987)
Unrealized gains on available-for-sale securities	(10,709)	(80,368)
Others	(519)	(3,895)
Total deferred tax liabilities	¥(15,963)	$(119,798)
Deferred tax assets, net	¥ 8,856	$ 66,461

Note: Classification of “Deferred tax assets, net” on the consolidated balance sheet as of March 31, 2002 is as follows:

Balance sheet item		Millions of Yen	Thousands of U.S. Dollars
Current assets	Deferred tax assets	¥5,041	$37,831
Non-current assets	Deferred tax assets	4,318	32,405
Non-current liabilities	Deferred tax liabilities	(503)	(3,775)
		¥8,856	$66,461

	March 31, 2001
	Millions of Yen
Deferred tax assets:	
Non-deductible portion of reserve for bonuses	¥ 736
Enterprise taxes payable.	1,034
Non-deductible portion of reserve for accrued sales rebates, discounts and sales promotion	961
Non-deductible portion of reserve for retirement benefits to employees	4,798
Reserve for retirement benefits to directors and corporate auditors	393
Non-deductible portion of amortization of deferred charges	656
Tax loss carried forward	2,465
Loss on write-down of investments in securities	722
Prepaid expense in tax accounting	682
Non-deductible portion of depreciation of property, plant and equipment	830
Loss on write-down of golf membership	403
Others	2,319
Sub-total	¥15,999
Valuation allowance	(2,900)
Total deferred tax assets	¥13,099
Deferred tax liabilities:	
Deferred gain, mainly related to expropriation of fixed assets	¥ (1,928)
Special depreciation of property, plant and equipment held by an overseas subsidiary	(2,221)
Others	(419)
Total deferred tax liabilities	¥ (4,568)
Deferred tax assets, net	¥ 8,531

Note: Classification of "Deferred tax assets, net" on the consolidated balance sheet as of March 31, 2001 is as follows:

		Millions of Yen
Current assets	Deferred tax assets	¥3,996
Non-current assets	Deferred tax assets	5,085
Non-current liabilities	Deferred tax liabilities	(550)
		¥8,531

Note: Deferred tax assets relating to operating losses are recorded in accordance with the Japanese accounting standards which require that the benefit of tax loss carryforwards be estimated and recorded as an asset, with the deduction of a valuation allowance if it is expected that some portion or all of the deferred tax assets will not be realized.

Reconciliation between the statutory tax rate and the effective tax rate as at March 31, 2002 and 2001, is as follows:

	March 31	
	2002	2001
Statutory tax rate	**41.69%**	41.69%
Permanent differences:		
Non-deductible expenses such as entertainment expenses	**13.51**	8.85
Non-taxable income such as dividend income	**(3.05)**	(1.83)
Future tax benefits deemed not to be realized	**82.52**	13.71
Equity in earnings of affiliates	**(4.09)**	(3.68)
Impairment on investments in certain consolidated subsidiaries	**(70.14)**	—
Others	**(4.36)**	(0.50)
Effective tax rate	**56.08%**	58.24%

9. RESERVE FOR RETIREMENT BENEFITS TO EMPLOYEES

The Company and its domestic consolidated subsidiaries operate various defined benefit plans, such as a contributory pension plan, a qualified pension plan and a severance payment plan.

a) The reserve for retirement benefits as of March 31, 2002 and 2001 is analyzed as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Projected benefit obligations	**¥(124,705)**	¥(108,845)	**$(935,872)**
Plan assets	**62,191**	73,493	**466,724**
Unfunded benefit obligations	**(62,514)**	(35,352)	**(469,148)**
Unrecognized actuarial differences	**47,321**	18,103	**355,129**
Unrecognized prior service costs (Note 3)	**(2,111)**	—	**(15,842)**
	¥ (17,304)	¥ (17,249)	**$(129,861)**

Notes: 1. The above table includes the amounts related to the portion subject to the Japanese Welfare Pension Insurance Law.
2. Certain subsidiaries calculate the projected benefit obligation by the simple method permitted under the standard.
3. Unrecognized prior service costs incurred in fiscal 2002, due to change in the benefit level prescribed by the contributory pension plan and a severance payment plan.

b) The net periodic pension expense related to the retirement benefits for fiscal 2002 and 2001 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Service cost (Notes 1 and 2)	**¥ 3,875**	¥ 4,190	**$ 29,081**
Interest cost	**3,629**	3,592	**27,235**
Expected return on plan assets	**(2,366)**	(2,580)	**(17,756)**
Amortization of transition adjustment	**—**	24,729	**—**
Amortization of unrecognized actuarial differences	**1,810**	—	**13,583**
Amortization of unrecognized prior service costs	**(527)**	—	**(3,955)**
Special severance payment	**198**	—	**1,486**
	¥ 6,619	¥29,931	**$ 49,674**

Notes: 1. Excludes employee's contributions made to the contributory pension plan operated by the Company.
2. Includes net periodic pension expense incurred by the subsidiaries which apply the simple method.

c) Assumptions used in calculation of the above information are as follows:

	As of March 31, 2002	As of March 31, 2001
Method of attributing the projected benefits to periods of services	Benefit/year of service approach	Benefit/year of service approach
Discount rate	2.5%	3.5%
Expected rate of return	3.1%	Plan assets: 4.00% Pension trust fund: 0.32%
Amortization of transition adjustments	—	Fully expensed in this fiscal year

10. DERIVATIVE TRANSACTIONS

(1) Conditions of Derivative Financial Instruments

In the normal course of business, the Companies use various financial instruments, including derivative financial instruments, to manage their exposures to market risks. The Companies do not use derivative financial instruments for speculative purposes. These instruments include foreign currency swap, foreign exchange contract, and interest rate swap and cap agreements.

All such instruments involve risk, including the credit risk of non-performance by counterparties. However, at March 31, 2002, in the management's opinion, there was no significant risk of loss in the event of non-performance of the counterparties on these financial instruments, because all counterparties were major financial institutions and securities companies with a high credit rating. Also, the Companies do not use derivative financial statements for highly leveraged transactions.

(2) Fair Value Information of Derivative Financial Instruments

Under the Japanese Regulation for Consolidated Financial Statements, fair value information is not required about outstanding derivative financial instruments which are hedged for exposing to losses from market volatility. All outstanding derivative financial instruments have been hedged by the Companies.

Therefore, no item was required to be disclosed in this section as of March 31, 2002.

11. SUPPLEMENTARY STATEMENTS OF INCOME

a) The major elements of selling, general and administrative expenses for each of the three years in the period ended March 31, 2002 are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2002	2001	2000	**2002**
Research and development expenses	**¥28,732**	¥28,344	¥25,011	**$215,625**
Salaries	**18,915**	18,201	18,077	**141,951**
Sales promotion	**10,347**	9,950	10,508	**77,651**
Bonuses to employees	**7,782**	7,720	8,161	**58,402**

b) Loss on restructuring of certain subsidiaries and affiliates was consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Loss on write down of fixed assets	¥19,491	$146,274
Loss on sales/disposal of fixed assets	555	4,165
Loss on sales of investments in affiliates	511	3,835
Provision for doubtful accounts	241	1,809
Loss on write down of investments in affiliates	112	841
Provision for loss on write down of investments	38	285
Other	133	997
	¥21,081	$158,206

12. COMMITMENTS AND CONTINGENT LIABILITIES

(1) The Companies had contingent liabilities arising from notes discounted by banks in the amount of ¥2,038 million ($15,295 thousand) at March 31, 2002. ¥518 million ($3,887 thousand) of such notes receivable had not been settled as of March 31, 2002 due to bank holiday.

The Company was contingently liable for guarantees of loans borrowed by Sanbo-Brewer Ltd. and others in the amounts of ¥430 million ($3,227 thousand) and ¥459 million ($3,445 thousand), respectively, at March 31, 2002.

(2) Contingent liabilities under a debt assumption agreement were to totaled ¥12,000 million ($90,056 thousand).

(3) On June 7, 2000, the Company and Kyowa Hakko Europe GmbH ("KHEG") had a fine of 13,200 thousand Euro imposed on them by a Decision of the European Commission with allegations that the Company and KHEG had violated EU competition law due to their involvement in a cartel for the sale of amino acid lysine within EEA (European Economic Area) prior to June, 1995. On August 25, 2000, the Company and KHEG lodged an appeal to the Court of First Instance of the European Communities with regard to the amount of fine. The final amount of the fine has not yet been determined. In the consolidated balance sheets, 1,120 thousand Euro (¥130 million; $976 thousand) was recognized under "accounts payable" based on the calculation method of the fine which the European Commission had previously adopted.

13. 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, 2001 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 foot note, represent more than 1 per cent. of the consolidated total assets, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements. No such transaction occurred in fiscal 2002. Related party transactions in fiscal 2001 is as follows:

				Millions of Yen			
				Transactions		Resulting account balances	
Name of related company	Paid-in capital (Millions of yen)	Principal business	Direct equity ownership percentage by the Company	Description of transactions	Year ended March 31, 2001	Account	At Mar. 31, 2001
Janssen-Kyowa Co., Ltd.	¥1,000	Development, process, import and wholesale of pharmaceuticals	40%	Purchase of pharmaceuticals	¥20,702	Accounts and notes payable	¥6,757

Material transactions and balances of the Company with its related individuals, including shareholders and directors, representing more than ¥1 million shall be disclosed, but are not applicable for the years ended March 31, 2002 and 2001.

14. SEGMENT INFORMATION

(1) Industry Segment Information

The Companies operate principally in the following 5 industry segments:

Industry segments:	Major products:
Pharmaceuticals Division	Ethical drugs and diagnostic reagents
Bio-Chemicals Division	Bulk pharmaceuticals, animal health products and agrochemicals
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, warehouse and sales of apparatus for industry

Year ended March 31, 2002	Millions of Yen							
	Industry segment						Corporate, elimination and other	Consolidated total
	Pharmaceuticals	Bio-Chemicals	Chemicals	Liquor and Food	Other	Total		
I. Sales and Operating Income (Loss):								
Sales:								
Sales to outside customers	**¥139,724**	**¥48,637**	**¥55,446**	**¥ 99,261**	**¥35,600**	**¥378,668**	**¥ —**	**¥378,668**
Inter-segment sales/transfers	**2,573**	**6,859**	**4,964**	**4,270**	**24,177**	**42,843**	**(42,843)**	**—**
Total sales	**142,297**	**55,496**	**60,410**	**103,531**	**59,777**	**421,511**	**(42,843)**	**378,668**
Operating expenses	**123,338**	**54,228**	**61,584**	**103,971**	**58,021**	**401,142**	**(42,831)**	**358,311**
Operating income (loss)	**¥ 18,959**	**¥ 1,268**	**¥ (1,174)**	**¥ (440)**	**¥ 1,756**	**¥ 20,369**	**¥ (12)**	**¥ 20,357**
II. Assets, Depreciation and amortization and Capital Expenditures:								
Assets	**¥117,196**	**¥70,794**	**¥71,162**	**¥ 72,327**	**¥30,631**	**¥362,110**	**¥ 68,003**	**¥430,113**
Depreciation and amortization	**5,368**	**4,881**	**4,149**	**2,860**	**137**	**17,395**	**424**	**17,819**
Capital expenditures	**4,523**	**2,586**	**1,729**	**2,243**	**161**	**11,242**	**212**	**11,454**

Year ended March 31, 2002	Thousands of U.S. Dollars							
	Industry segment						Corporate, elimination and other	Consolidated total
	Pharmaceuticals	Bio-Chemicals	Chemicals	Liquor and Food	Other	Total		
I. Sales and Operating Income (Loss):								
Sales:								
Sales to outside customers	**$1,048,585**	**$365,006**	**$416,105**	**$744,923**	**$267,167**	**$2,841,786**	**$ —**	**$2,841,786**
Inter-segment sales/transfers	**19,311**	**51,474**	**37,253**	**32,045**	**181,441**	**321,524**	**(321,524)**	**—**
Total sales	**1,067,896**	**416,480**	**453,358**	**776,968**	**448,608**	**3,163,310**	**(321,524)**	**2,841,786**
Operating expenses	**925,614**	**406,964**	**462,169**	**780,270**	**435,430**	**3,010,447**	**(321,434)**	**2,689,013**
Operating income (loss)	**$ 142,282**	**$ 9,516**	**$ (8,811)**	**$ (3,302)**	**$ 13,178**	**$ 152,863**	**$ (90)**	**$ 152,773**
II. Assets, Depreciation and amortization and Capital Expenditures:								
Assets	**$ 879,519**	**$531,287**	**$534,049**	**$542,792**	**$229,876**	**$2,717,523**	**$510,342**	**$3,227,865**
Depreciation and amortization	**40,286**	**36,630**	**31,137**	**21,463**	**1,028**	**130,544**	**3,182**	**133,726**
Capital expenditures	**33,944**	**19,407**	**12,976**	**16,833**	**1,208**	**84,368**	**1,591**	**85,959**

Year ended March 31, 2001	Millions of Yen							
	Industry segment						Corporate, elimination and other	Consolidated total
	Pharmaceuticals	Bio-Chemicals	Chemicals	Liquor and Food	Other	Total		
I. Sales and Operating Income (Loss):								
Sales:								
Sales to outside customers	¥138,928	¥46,920	¥56,224	¥ 98,718	¥34,820	¥375,610	¥ —	¥375,610
Inter-segment sales/transfers	2,522	5,800	4,435	4,635	22,807	40,199	(40,199)	—
Total sales	141,450	52,720	60,659	103,353	57,627	415,809	(40,199)	375,610
Operating expenses	121,876	53,911	63,343	102,434	56,486	398,050	(40,152)	357,898
Operating income (loss)	¥ 19,574	¥ (1,191)	¥ (2,684)	¥ 919	¥ 1,141	¥ 17,759	¥ (47)	¥ 17,712
II. Assets, Depreciation and amortization and Capital Expenditures:								
Assets	¥123,365	¥83,763	¥67,573	¥ 74,578	¥20,256	¥369,535	¥ 61,875	¥431,410
Depreciation and amortization	5,258	4,915	4,842	2,584	153	17,752	750	18,502
Capital expenditures	4,399	4,102	4,228	3,786	154	16,669	423	17,092

Year ended March 31, 2000	Millions of Yen							
	Industry segment						Corporate, elimination and other	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 amortization and Capital Expenditures:								
Assets	¥125,006	¥91,858	¥65,961	¥ 72,530	¥15,452	¥370,807	¥ 63,151	¥433,958
Depreciation and amortization	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

(2) Geographic Segment Information

Areas other than Japan are classified into "Americas", "Europe" and "Asia":

Classification:	**Area:**
(1) Americas	North America, Latin America
(2) Europe	Whole Europe
(3) Asia	Whole Asia

Sales and assets in Americas, Europe and Asia consists of less than 10% of total sales and total assets, respectively, therefore, all are totally referred as "Other areas".

	Millions of Yen				
	Geographic segment			Corporate,	
Year ended March 31, 2002	Japan	Other areas	Total	elimination and other	Consolidated total
I. Sales and Operating Income (Loss):					
Sales:					
Sales to outside customers	**¥343,241**	**¥35,427**	**¥378,668**	**¥ —**	**¥378,668**
Inter-segment sales/transfers	**16,972**	**7,385**	**24,357**	**(24,357)**	**—**
Total sales	**360,213**	**42,812**	**403,025**	**(24,357)**	**378,668**
Operating expenses	**337,831**	**44,326**	**382,157**	**(23,846)**	**358,311**
Operating income (loss)	**¥ 22,382**	**¥ (1,514)**	**¥ 20,868**	**¥ (511)**	**¥ 20,357**
II. Assets:					
Assets	**¥336,475**	**¥29,451**	**¥365,926**	**¥ 64,187**	**¥430,113**

	Thousands of U.S. Dollars				
	Geographic segment			Corporate,	
Year ended March 31, 2002	Japan	Other areas	Total	elimination and other	Consolidated total
I. Sales and Operating Income (Loss):					
Sales:					
Sales to outside customers	**$2,575,917**	**$265,869**	**$2,841,786**	**$ —**	**$2,841,786**
Inter-segment sales/transfers	**127,370**	**55,422**	**182,792**	**(182,792)**	**—**
Total sales	**2,703,287**	**321,291**	**3,024,578**	**(182,792)**	**2,841,786**
Operating expenses	**2,535,317**	**332,653**	**2,867,970**	**(178,957)**	**2,689,013**
Operating income (loss)	**$ 167,970**	**$ (11,362)**	**$ 156,608**	**$ (3,835)**	**$ 152,773**
II. Assets:					
Assets	**$2,525,140**	**$221,021**	**$2,746,161**	**$ 481,704**	**$3,227,865**

For comparative figures, the geographic segment information for fiscal 2000 and 2001 is omitted because over 90 per cent. of total sales and total assets relate to only the domestic segment.

(3) Overseas Sales

The classification of overseas sales is as follows:

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

Year ended March 31, 2002	Millions of Yen				
	Americas	Europe	Asia	Other areas	Total
I. Overseas sales	**¥21,577**	**¥15,239**	**¥19,385**	**¥192**	**¥ 56,393**
II. Consolidated net sales					**378,668**
III. Ratio of overseas sales to the consolidated net sales	**5.7%**	**4.0%**	**5.1%**	**0.1%**	**14.9%**

Year ended March 31, 2002	Thousands of U.S. Dollars				
	Americas	Europe	Asia	Other areas	Total
I. Overseas sales	**$161,929**	**$114,364**	**$145,478**	**$1,441**	**$ 423,212**
II. Consolidated net sales					**2,841,786**
III. Ratio of overseas sales to the consolidated net sales	**5.7%**	**4.0%**	**5.1%**	**0.1%**	**14.9%**

Year ended March 31, 2001	Millions of Yen				
	Americas	Europe	Asia	Other areas	Total
I. Overseas sales	¥22,092	¥13,218	¥16,538	¥687	¥ 52,535
II. Consolidated net sales					375,610
III. Ratio of overseas sales to the consolidated net sales	5.9%	3.5%	4.4%	0.2%	14.0%

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%

Note: Overseas sales are sales by the Companies to customers outside of Japan.

15. SUBSEQUENT EVENTS

(1) Subsequent to March 31, 2002, the Company's Board of Directors, with the approval by shareholders on June 27, 2002, declared a cash dividend of ¥1,628 million ($12,218 thousand), equal to ¥3.75 ($0.03) per share, which was applicable to earnings of the year ended March 31, 2002 and payable to shareholders on the register on March 31, 2002.

(2) On April 26, 2002, the Board of Directors elected to transfer the "liquor" business (Sales was ¥40,145 million for fiscal 2002-non-consolidated basis) to Asahi Breweries, Ltd. ("Asahi"), and an agreement for the transfer of the business and joint venture was entered into with Asahi. This decision was approved by the General Meeting of shareholders on June 27, 2002.

Under the agreement with Asahi, the sales division of the business will be sold to Asahi while the manufacturing division will be assumed to a new wholly-owned subsidiary incorporated by the Company through spin-off on September 2, 2002. On that date, 60% of outstanding shares of the new subsidiary will be transferred to Asahi. The remaining 40% will be sold to Asahi in three years after the incorporation of the new subsidiary.

The purchase consideration is to be determined on the fair market value of net assets of the business at the date of transfer.

REPORT OF INDEPENDENT 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, 2002 and 2001, and the related consolidated statements of income , cash flows and shareholders' equity for three years ended March 31, 2002, 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, 2002 and 2001, and the consolidated results of their operations and their cash flows for three years ended March 31, 2002 in conformity with accounting principles and practices generally accepted in Japan (see Note 1) and applied on a consistent basis.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the readers, have been translated on the basis set forth in Note 4 to the accompanying consolidated financial statements.

Tokyo, Japan
June 27, 2002

ChuoAoyama Audit Corporation

PRINCIPAL SUBSIDIARIES AND AFFILIATES

(As of March 31, 2002)

Name of Company	Percentage Owned Directly or Indirectly by the Company	Capital Stock (Millions)	Principal Business
Pharmaceuticals			
Kyowa Medex Co., Ltd.[1]	100.0%	¥750	Manufacture and sale of diagnostic reagents
Takinogawa Sangyo Co., Ltd.[1]	99.9	¥2223	Manufacture and sale of pharmaceuticals
Shinwa Pharmaceutical Co., Ltd.[1]	100.0	¥95	Manufacture and sale of herbal medicines
Kyowa Medical Promotion Co., Ltd.[1]	100.0	¥50	Sales promotion of pharmaceuticals
Bio-Chemicals			
Kyowa Hakko U.S.A., Inc. (U.S.A.)[1]	100.0	$1	Sale of pharmaceuticals, food additives, and chemicals
Kyowa Hakko Europe GmbH (Germany)[1]	100.0	EUR1	Sale of pharmaceuticals, food additives, and chemicals
Kyowa Italiana Farmaceutici S.R.L. (Italy)[1]	100.0	LIT1,355	Sale of pharmaceuticals, feed additives, and chemicals
Biokyowa Inc. (U.S.A.)[1]	100.0	$20	Manufacture and sale of feed additives
Fermentaciones Mexicanas, S.A. de C.V. (Mexico)[1]	100.0	N.Peso31	Manufacture and sale of feed additives
Agroferm Hungarian-Japanese Fermentation Industry Ltd. (Hungary)[1]	100.0	HuF3,506	Manufacture and sale of feed additives
Kyowa Hakko (H.K.) Co., Ltd. (Hong Kong)[1]	100.0	HK$1	Sale of pharmaceuticals, feed additives, and chemicals
Chemicals			
Kyowa Yuka Co., Ltd.[1]	100.0	¥5,300	Manufacture and sale of chemicals
Kurogane Kasei Co., Ltd.[2]	40.0	¥90	Manufacture of chemicals
J-PLUS Co., Ltd.[2]	50.0	¥480	Manufacture and sale of petrochemicals
Liquor and Food			
Sainte Neige Wine Co., Ltd.[1]	95.2	¥125	Manufacture of liquors
Toyama Co., Ltd.[1]	98.1	¥50	Wholesale of liquors and foods
Riken Kagaku Co., Ltd.[1]	100.0	¥30	Manufacture and sale of pharmaceuticals and chemicals
Kyowa F.D. Foods Co., Ltd.[1]	100.0	¥275	Manufacture and sale of foods
Ohland Foods Co., Ltd.[1]	100.0	¥50	Manufacture of foods
Kyowa Hifoods Co., Ltd.[1]	100.0	¥60	Manufacture, importation, and sale of foods and household goods
Asahi Foods Products Co., Ltd.[1]	78.0	¥36	Manufacture and sale of foods
Kyushu Kyowa Shokuhin Hanbai Co., Ltd.[1]	100.0	¥50	Wholesale of foods
Kyowa Foods Inc. (U.S.A.)[1]	100.0	$20	Manufacture and sale of nucleotide seasonings
Kyowa Foods (H.K.) Co., Ltd. (Hong Kong)[1]	100.0	HK$2	Sale of foods
Aji-Nihon Co., Ltd.[2]	46.3	¥95	Manufacture of foods and seasonings
Zenmi Foods Inc.[2]	50.0	¥190	Manufacture and sale of foods
Other			
Miyako Kagaku Co., Ltd.[1]	52.9	¥111	Sale of pharmaceuticals, chemicals, and foods
Chiyoda Kaihatsu Co., Ltd.[1]	100.0	¥113	Transportation, trading, and insurance
Kyowa Engineering Co., Ltd.[1]	100.0	¥70	Design and installation of equipment and facilities and sale of health foods
Kyowa Warehouse & Transportation Co., Ltd.[1]	100.0	¥70	Warehousing and transportation
Seifu Co., Ltd.[1]	100.0	¥40	Office building administration
Kyowa America, Inc. (U.S.A.)[1]	100.0	$48	Coordination and monitoring of subsidiaries in the United States
Japan Synthetic Alcohol Co., Ltd.[2]	33.3	¥480	Manufacture and marketing of various types of alcohol
Musashino Chemical Laboratory, Ltd.[2]	25.0	¥238	Manufacture and marketing of organic synthetic chemicals

Notes: 1. Consolidated subsidiary
2. Affiliate accounted for by equity method

OVERSEAS NETWORK

(As of June 27, 2002)

AMERICAS

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

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

St. Louis Office
1400 Elbridge Payne Road, Suite 110,
Chesterfield, MO 63017, U.S.A.
TEL: 1-636-532-4070
FAX: 1-636-532-1710

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

West Coast Office
85 Enterprise, Suite 430,
Aliso Viejo, CA 92656, U.S.A.
TEL: 1-949-425-0707
FAX: 1-949-425-0708

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

Kyowa Pharmaceutical, Inc.
212 Carnegie Center, Suite 101,
Princeton, NJ 08540, U.S.A.
TEL: 1-609-919-1100
FAX: 1-609-919-1111

Fermentaciones Mexicanas, S.A. de C.V. (Fermex)
Head Office
Edificio Torre Diamante,
Insurgentes Sur #1685 Piso 14,
Guadalupe Inn 01020, Mexico D.F., Mexico
TEL: 52-5-661-1410
FAX: 52-5-663-1695

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

Kyowa Hakko Kogyo Co., Ltd.
Oficina Informativa en Mexico
Edificio Torre Diamante,
Insurgentes Sur #1685 Piso 14,
Guadalupe Inn 01020, Mexico D.F., Mexico
TEL: 52-5-661-1410
FAX: 52-5-663-1695

EUROPE

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

Kyowa Hakko U.K. Ltd.
258 Bath Road, Slough,
Berkshire SL1 4DX, United Kingdom
TEL: 44-1753-566000
FAX: 44-1753-566010

Kyowa Italiana Farmaceutici S.R.L.
Viale Fulvio Testi 280, 20126, Milano, Italy
TEL: 39-02-644-704-1
FAX: 39-02-644-704-44

Kyowa Hakko Kogyo Co., Ltd.
Hungary Direct Commercial Representative Office
H-1022 Budapest II Bég utca. 3-5,
1st Floor, Hungary
TEL: 36-1-212-0645
FAX: 36-1-212-0644

Agroferm Hungarian-Japanese Fermentation Industry Ltd. (Agroferm)
Budapest Office
H-1022 Budapest II Bég utca. 3-5,
1st Floor, Hungary
TEL: 36-1-212-0645
FAX: 36-1-212-0644

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

ASIA

Kyowa Hakko Industry (Singapore) Pte Ltd.
260 Orchard Road, #12-04,
The Heeren, Singapore 238855
TEL: 65-733-4948
FAX: 65-733-0819

Kyowa Hakko (Thailand) Ltd.
101/11 Srinakarintra Road,
Suanluang Praves, Bangkok 10250, Thailand
TEL: 66-2-321-9387
FAX: 66-2-321-9389

Kyowa Hakko (Malaysia) SDN BHD.
20, Jalan SS 19/5, 47500 Subang Jaya,
Selangor, Darul Ehsan, Malaysia
TEL: 60-3-7340669, 7340671
FAX: 60-3-7340990

Kyowa Hakko Kogyo Co., Ltd.
Beijing Representative Office
100004, Beijing Fortune Bldg., Room 609,
No. 5, Dong San Huan Bei Lu,
Chao Yang District, Beijing,
People's Republic of China
TEL: 86-10-6590-8515
FAX: 86-10-6590-8517

Kyowa Hakko Kogyo Co., Ltd.
Shanghai Representative Office
1376 Nanjing Road West, Room 704,
Shanghai 200040,
People's Republic of China
TEL: 86-21-6279-8310
FAX: 86-21-6279-8320

Kyowa Hakko (H.K.) Co., Ltd.
Room 2103, Hang Lung Centre,
2-20 Paterson Street, Causeway Bay,
Hong Kong
TEL: 852-2895-6795
FAX: 852-2576-6142, 2576-6191

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

Shanghai Guan Sheng Yuan Kyowa Amino Acid Co., Ltd.
621 Yun Ling Donglu, Shanghai 200062,
People's Republic of China
TEL: 86-21-5280-1270
FAX: 86-21-5280-3162

Kyowa Foods (H.K.) Co., Ltd.
Room 2102, Hang Lung Centre,
2-20 Paterson Street, Causeway Bay,
Hong Kong
TEL: 852-2576-4113
FAX: 852-2576-6191

Wuxi Xiehe Food Co., Ltd.
No. 158 Xu Xiang Lane, Li Yuan,
Wuxi 214072, People's Republic of China
TEL: 86-51-0512-9781
FAX: 86-51-0510-9484

PRINCIPAL PRODUCTS

PHARMACEUTICALS

Antibiotics
Pasetocin®, Acetylspiramycin, Fortimicin®, Sagamicin®, Minostacin

Anticancer Agents
Mytomycin, 5-FU, Leunase®, Adriacin®, Hysron® H-200, Dacarbazine, Farmorubicin®, Platosin®, Navelbine®

Central Nervous System Agents
Depakene®, EC-Doparl, Doparl®, Benozil®, Neoperidol®

Cardiovascular Agents
Meditrans®nitro, Inovan®, Apiracohl®, Activacin®, Coniel®, Neucul®, Pre Dopa®

Contrast Medium
Imagenil®

Gastrointestinal Agents
Nauzelin®, Glumin®, Glumal®, Navoban®

Antiallergic Agents
Celtect®, Allelock®

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®, Leukoprol®

Ointments
Propaderm®, Tolmicen®, Nizoral®

Anthelmintic Agent
Mebendazole

Antimycological Agent
Itrizole®

Transdermal Analgesic Agent
Durotep® Patch

Diagnostic Medical Devices
Clinical Chemistry Diagnostic Reagents (Determiner® series), Immunological Diagnostic Reagents (Extel® series, Chemilumi series), Monoclonal Antibodies, Inhibitors (MX series), Full Auto Micro Plate EIA Analyzer (AP series), Fecal Occult Blood Test Analyzer (HM-JACK®), Diabetes Mellitus Test Analyzer (DM-JACK®)

BIO-CHEMICALS

Fine Chemicals for Pharmaceutical and Industrial Use
Amino acids (L-Alanine, L-Arginine, L-Histidine, L-Isoleucine, L-Ornithine, L-Aspartate, L-Proline, L-Serine, L-Threonine, L-Valine, etc.), Nucleic Acids (ATP, Orotic Acid, etc.), L-Malic Acid, Enzymes, Sodium hyaluronate

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

Agrochemicals
Plant growth regulators (Gibberellin, Fulmet®)

Animal Health Products
Spiramix, Nanaomycin, Polyup®, 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®

Pet Care Products
Elendaite®, E&D shampoo and rinse, 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), 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-Ethyl-1,5 Pentanediol, Butyl Ethyl Propanediol

LIQUOR AND FOOD

LIQUOR AND ALCOHOL

ORIGINAL PRODUCTS

Shochu (Japanese traditional spirits)
Daigoro, Kanoka, Sun, Genkai, Buson

St. Neige Wine
Class d'Or, Grande, Sulfite-free organic wines

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, Kendermann, Renzo Masi, Arcadia

Sparkling Wine
Canard-Duchêne (champagne), Dona, Lacrima Baccus (cava)

RAW MATERIAL ALCOHOL

FOOD

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

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

Bakery Ingredients and Products
Baker's yeast, Prepared mixes, Baking improvers, Activated gluten

Health Foods
Vitamins, Minerals, Carotenoids, Probiotics, Peptides

Freeze-Dried Foods
Instant egg-drop soup, Various food materials

DIRECTORS AND OFFICERS

(As of June 27, 2002)

BOARD OF DIRECTORS

President and Chief Executive Officer
Tadashi Hirata [1, 2]

Vice President
Arimasa Toi [1, 2]

Senior Managing Directors
Ayao Kikuchi [2]
Hiroshi Hosoda [2]
Toru Doiuchi [2]
Company President, Pharmaceuticals Company
Yoshito Imai [2]

Managing Directors
Sadao Teshiba [2]
Tomonori Yuji [2]
Company President, Bio-Chemicals Company
Yuzuru Matsuda [2]

Director
Toyokatsu Munakata [2]

Corporate Auditors
Takeshi Asaoka
Yoshio Ogura
Kozo Fukuya
Kozo Fujita

Notes: 1. Representative Director
2. Also serving as Executive Officer

EXECUTIVE OFFICERS

Senior Executive Officers
Naoyuki Sorimachi
Company President, Liquor and Alcohol Company
Seiga Itoh
Fumio Suzuki
Tadayasu Furukawa
Company President, Food Company
Noriyuki Hina

Executive Officers
Kyozo Tsuchiya
Shinzo Ishii
Hiroyuki Kuniyasu
Shin Kawahara
Kazuhiko Yamanoe
Toshifumi Asada
Nobuo Kanda
Shoji Hari
Company President, Chemicals Company
Yukinobu Kotani
Yutaka Yoshida

CORPORATE DATA

(As of March 31, 2002)

KYOWA HAKKO KOGYO CO., LTD.

Head Office
1-6-1, Otemachi, Chiyoda-ku,
Tokyo 100-8185, Japan
TEL: 81-3-3282-0007
FAX: 81-3-3284-1968
URL: http://www.kyowa.co.jp/

Number of Employees
7,299 [Parent Company: 4,751]

Date of Foundation
July 1, 1949

Paid-in Capital
¥26,745 million

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

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

INVESTOR INFORMATION

(As of March 31, 2002)

Stock Listings
Tokyo, Osaka, Nagoya, Fukuoka, and Sapporo

Securities Code Number
4151

Transfer Agent of Common Stock:
The Chuo Mitsui Trust and Banking Company, Limited
33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan

Number of Shares of Common Stock
Authorized: 987,900,000
Issued: 434,243,555

Number of Shareholders
87,528

Principal Shareholders

	Number of shares held (Thousands)	Percentage of total shares issued
The Dai-ichi Life Mutual Insurance Co.	35,230	8.11%
The Industrial Bank of Japan, Ltd.	19,731	4.54
The Norinchukin Bank	18,083	4.16
Japan Trustee Services Bank, Ltd. (Trust account)	10,228	2.35
The Mitsubishi Trust and Banking Corporation	9,697	2.23
NIPPONKOA Insurance Company, Limited	8,981	2.06
The Dai-Ichi Kangyo Bank, Limited	8,681	1.99
The Asahi Bank, Ltd.	8,511	1.96
Mizuho Trust & Banking Co., Ltd. (Retirement Benefit Trust for The Dai-Ichi Kangyo Bank)	8,500	1.95
The Mitsubishi Trust and Banking Corporation (Trust account)	8,320	1.91

For further information, please contact:
Corporate Communications Department
at the Head Office
FAX: 81-3-3282-0990
E-mail: ir@kyowa.co.jp

KYOWA HAKKO KOGYO CO., LTD. Annual Report 2002

KYOWA HAKKO KOGYO CO., LTD.

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