PEACE

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JAPAN

SUM

ANNUAL REPORT 1999

HANWA CO., LTD.

For the year ended March 31,1999

阪和興業株式会社

About the Cover

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

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

Contents

Corporate Profile

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

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

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

HANWA CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Financial Highlights

For the years ended March 31

	Millions of yen		Thousands of U.S. dollars	
	1999	1998	**1999**	1998
Net sales	**¥598,568**	¥664,261	**$4,965,309**	$5,510,253
Operating income	**5,325**	6,456	**44,173**	53,555
Net loss	**(435)**	(5,388)	**(3,608)**	(44,695)

Note: The U.S. dollar amounts represent translations, for convenience only, of yen amounts at the rate of ¥120.55=$1.00.

President's Message

In this fiscal year, ended March 31, 1999, consecutive failures of large financial institutions added further instability to the ailing banking system, and credit contraction spread more widely. For fear of uncertainty of the future and loss of employment, personal consumption and capital investment remained low. The Japanese economy did not show any sign of recovery despite the biggest ever comprehensive stimulus packages by the government.

To cope with this market condition, we paid our utmost attention to control of credit. By adhering to strict credit control and collecting thorough information to avoid risks, we did our best to develop new items and new customers. However, total sales of our company dropped to ¥598,568 million, a 9.9% decrease from the previous year.

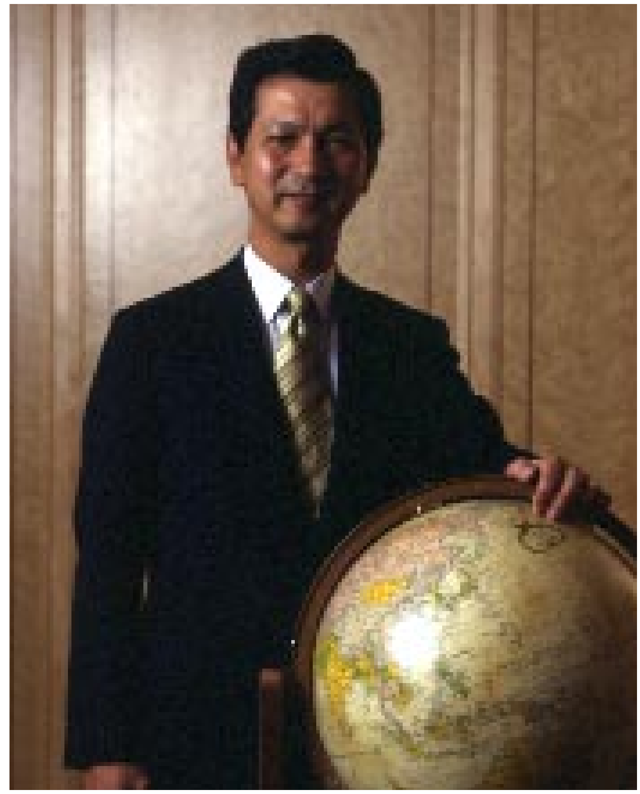
The steel division's sales were ¥380,178 million, a decrease of 13.1%. As a result of pump-priming measures, public works increased but because of the credit crunch, housing starts and capital investment by the private sector decreased. The automobile industry and the electric appliance industry remained sluggish. Steel prices fell sharply. The percentage decrease in sales of the nonferrous division was larger than that of the steel division. It declined by 26.6% to ¥43,999 million, because of low demand and less quantity sold at lower prices. One bright spot was the foods division. Sales were ¥110,910 million, a 9.9% increase. New imported items played a big role in this increase both in the revenue and quantity.

Because of the decrease in total sales, operating income was ¥5,325 million (a 17.5% decrease). As an extraordinary loss, we recorded a ¥1,936 million write-down of securities and also ¥389 million as a loss on closing of Southwest Steel Supply Co., U.S.A., a subsidiary in the U.S.A. The net loss for this period was ¥435 million.

The Japanese economy will gradually go back to normal, thanks to various governmental policies which so far have resulted in a successful adjustment of inventories, decrease in bankruptcies supported by expanded government guarantees and an increase of investment in the public sector. Still, however, there remains the unemployment problem, and personal consumption and capital investment are both hovering at low levels. To stir demand, further measures are awaited.

Meanwhile, the American economy is quite robust with the booming stock market. Personal consumption is expanding steadily and there is no inflation. Asian economies are recovering faster than expected, and European economies are firming due to easy money policy. Thus as a whole, the world economy is becoming stable. To avoid credit contraction on a world scale, every country must take joint measures to ease money, and our country must quickly stabilize the banking system and take some additional measures to realize full recovery.

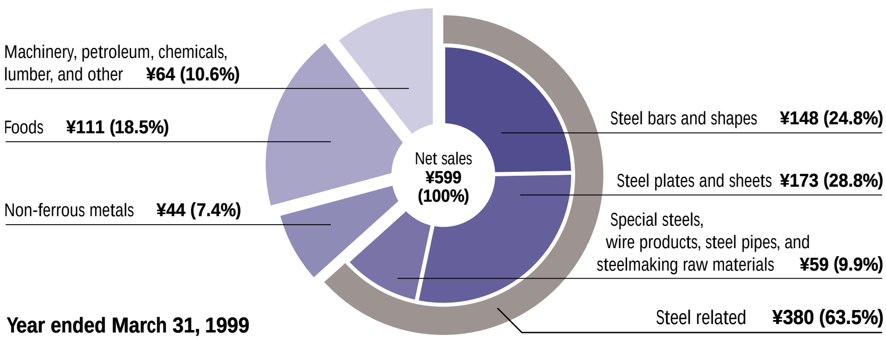
We, on our part, continue to concentrate our efforts to establish much more efficiency in our management and stick to a steadiness-first policy. Positive expansion of sales in overseas trade and improvement of the capital structure are our next targets.

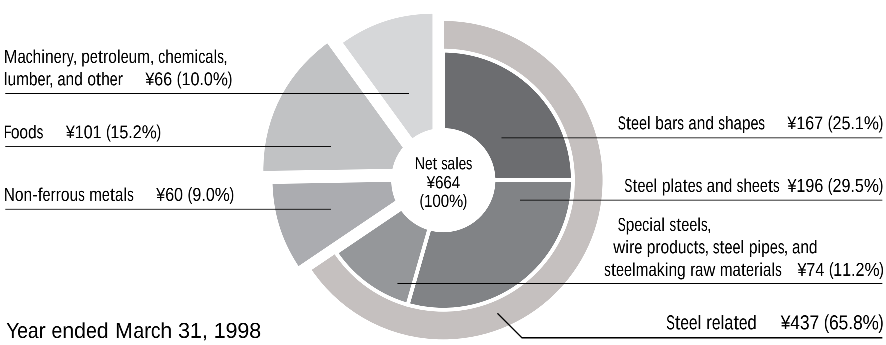


Shuji Kita
President & C.E.O.
Hanwa Co., Ltd.
June 30, 1999

Review of Operations

Net Sales by Product (Billions of Yen)

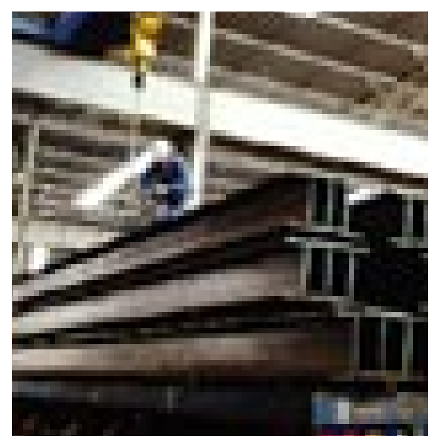




Steel Bars and Shapes

The total quantity produced in Japan fell by about 10%, but we sold a similar quantity to that of the previous year, due to a big increase in the export of H-beams to the U.S.A. However, the total sales amount was 13% lower due to historically low prices of steel scrap. Steel bars recorded good profits but shapes, for which inventories are a necessity, had a very hard time.

We foresee that the new fiscal year of 2000 will not be a good one in general, and that construction will be more gloomy. However, prices of bars and shapes will be going up because the steel scrap prices are firming and mills are curtailing production to raise prices of products. Since we hold a big market share, we hope we can attain a better result in the new fiscal year.



Steel Plates and Sheets

In such a severe recession where the Japanese economy has experienced minus growth for two years now, prices of steel plates and sheets went down continuously, burdened with large inventories despite mills' strenuous production curtailment. Total production decreased by 15% and our handling volume was 11% less than the previous year. Fortunately, aided by better relationships established during this year, we expanded the sales of steel pipes and fabricated products.

For fiscal 2000, we foresee the following.

Demand will stay at almost the same level and so suppliers must continue curtailment. Imports will decrease. Prices will hit bottom during the first half of the year and some items will be priced higher in the July–September period. A new distribution system will be introduced and reshuffling in the market will be inevitable.

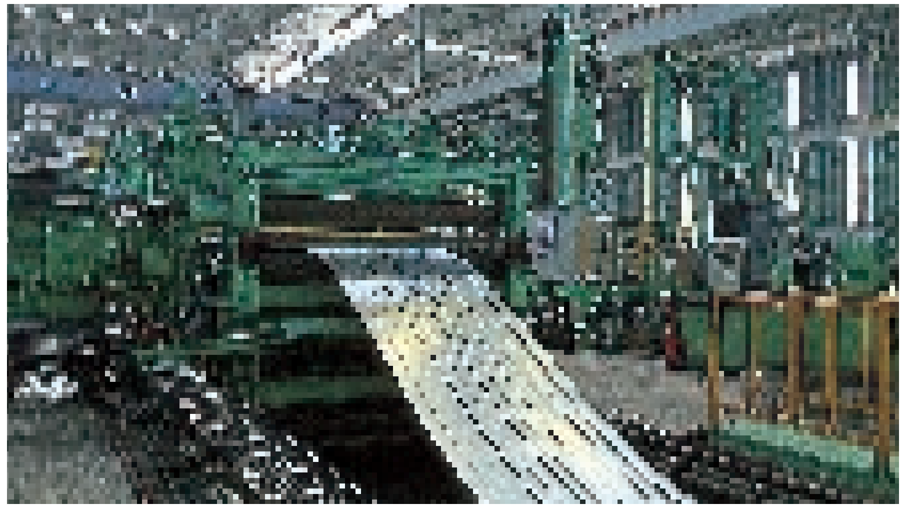
To cope with the situation, we will pay attention to;

A. Utilizing our inventory facility and financial ability

B. Strengthening relationships between our customers, suppliers and ourselves for mutual benefits

C. Using our distribution centers more efficiently

We will further pursue our goals of expanding sales of value-added products such as special steel plates and processed items, and also sales of pipes and stainless steel products. Obtaining new end users is also our target. We will do our best to achieve sales of ¥180,000 million, a 4% increase in this new year.



Wire Products and Special Steels

All the related fields from construction to machine tools have sunk in the recession and demand for our line fell to a very low level. The total quantity sold by us was 330,000 tons (a 20% decrease) and sales were ¥21,000 million (a 26% decrease).

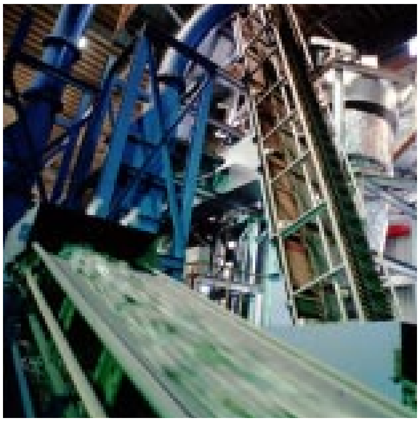
In the first half of fiscal 2000, our customers will experience a further dip of the market. But adjustments of inventory have been completed and they are now placing orders based on their actual use. Therefore, we are now expecting some recovery in our business. We also expect synergism by the merger of the Wire Products Department and the Special Steels Department. We streamlined sales routes and are now trying to increase new items by using combined knowledge. With enlarged sales power, our sales of both finished products and materials for them will increase. More imports for new and old customers and aggressive sales in new areas are our targets.

Learning the needs of customers, and working out solutions for them, we will do our best to attain an 8% increase in sales quantity and 4% in sales amount.

Steelmaking Raw Materials

Our main customers, electric furnace mills, were hardest hit in this recession. They suffered from less quantity sold at cheaper prices. Reshuffling in the industry will be inevitable. Steel scrap recorded its lowest prices ever since the end of the war; 34% less than that of the previous year. We barely sold 750,000 tons, (a 15% decrease) and ¥14,200 million (a 27% decrease). Of note this year, were the export of billets to Taiwan, Korea and Malaysia totaling 45,000 tons and an increase of sales of ferro-alloy and light metals imported from China.

In the new fiscal year, curtailment of production by the electric furnace mills will continue. By doubling our efforts to expand the export of scrap and billet, we must maintain the level of 750,000 tons with sales amount of ¥15,500 million.



Non-ferrous Metals

During the first half of fiscal 1999, the Asian recession pulled the world markets downward despite strong demand in the U.S.A. and EU. In the latter half, the appreciation of the yen further hurt the Japanese economy. Almost all prices of items we handle hit historically low points and we did have a very hard time. We sold 360,000 tons (a 15% decrease) and sales were ¥44,000 million (a 26% decrease).

In the new fiscal year, we cannot expect a sudden recovery in demand, but the worst is over and now we can expect at least a 10% improvement over the previous year. The main targets are expansion of the recycling of aluminum cans, which will support the future of this division, and also promotion of direct business with mine-operators in Australia for import of nickel, based on our investments in their new projects.

Food Products

Positive sales efforts brought us good results. We sold 165,000 tons (imports were 151,000 tons, 4.9% share in Japan) or ¥109,100 million (a 12% increase) in such a severe market of depressed consumption and low prices. Relatively new items, Chinese eel, Moroccan octopus, and Chilean salmon played very important roles for this increase of sales. On the other hand, sales of shrimp fell, experiencing ups and downs in market prices due to less supply and fluctuation of the yen. As a whole, we achieved profit as expected. Profits from all items except shrimp brought us this result.

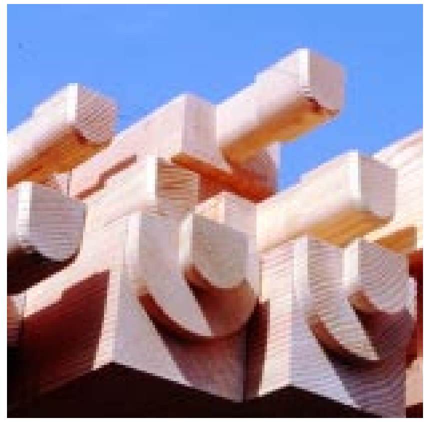
In fiscal 2000, we are going to face a much more severe situation where demand in Japan will be slack, and supply is going to be limited because other consuming countries can pay higher prices, while resources in the world are shrinking. Watching changes in supply and demand, and also the trend of the yen, we will try to increase sales of all items based on a “sale-first” policy. As to the processed items, we will expand this line by handling more value-added and unique items. Our sales goal is ¥120,000 million.

Machinery

Sales of amusement rides were a mere ¥400 million (a 70% decrease). Because of the recession, purse strings were tightened and also new competition from different types of leisure came into the picture. The market was very poor and there were a few theme parks that went out of business.

Sales of industrial machines were ¥2,100 million (a 4% increase). Continuing sales of pipe cutting machines, installation of equipment for cold storage and a new sales of laser die sinking machine contributed to the increase.

In the new fiscal year, we expect sales of amusement rides will be about ¥2,500 million because of Twin Mercury in Space World, Inc., and the export of 30 rides from a closed park. Sales of industrial machines will be ¥2,300 million, consisting of a power-up project for CO_2 lasers in Nippon Steel’s Oita plant, a laser cutting plate machine, and other steel processing equipment. Demand for machines is quite scarce, but we must accomplish our above plan.



Petroleum & Chemicals

The price of crude oil dipped under U.S.$10 during the latter half of fiscal 1999. Prices of all kinds of oil products continuously declined. To keep market share, refineries increased production. Supply always surpassed demand and the market remained slack. Under these circumstances, we increased sales quantity by 20% to 2,217,000 kl, but the sales amount decreased by 6% to ¥30,081 million due to low prices.

We expanded sales of chemicals by overseas trades and sales of paper by obtaining new supply sources.

The total sales of petroleum and chemicals were ¥33,265 million (a 6% decrease).

For the new fiscal year, our aim is for sales of ¥33,900 million (2% increase). Our policy is "profit-first" and "positive attack to new products." Adapting to rapid changes both in the domestic and overseas markets, we must reach out for new business opportunities.

Lumber

The total quantity sold was 420,000 m^3, a 20% increase over the previous year, but the sales amount was ¥17,500 million (only a 4% increase). Sales of U.S. lumber were 183,000 m^3 (14% increase), Northern European lumber sales were 106,000 m^3 (6% increase) and plywood and veneer sales were 131,000 m^3 (a major increase of 46%).

The reasons for this success were:

A. Sales of Northern European lumber have expanded steadily with our accumulated experience. We enjoyed a good profit.

B. Because the sole importer of Indonesian veneer lost steam after the collapse of the Suharto regime, we started handling Indonesian plywood. The big expansion in sales of plywood and veneer was a result of this new business.

C. Fortunately, we were not involved in any bankruptcy of customers.

D. Our competitors' presence dwindled in this business, and we increased our sales by 4%, although prices were 30% lower than those of the previous year.

In fiscal 2000, housing starts will increase by 10–15% to 1.2–1.3 million. We will continue to take an aggressive stance in purchases and sales and have set a sales goal of ¥24,000 million, a 37% increase.

Topics

Ningbo Baoxin Stainless Steel Co., Ltd.

Ningbo Baoxin Stainless Steel Co., Ltd., in China, our joint venture with Nisshin Steel and Shanghai Baosteel Group Corporation, started rolling stainless steel cold sheets. This is the first mill of this kind in China with the state-of-the-art equipment. Our total investment amounted to ¥1,023 million.In the first year, estimated production will be 80,000 tons and within 4–5 years, it will be increased to 160,000 tons after completion of the second stage of the expansion program.

By serving the needs of end-users of stainless steel sheet in China with quality products at competitive prices, we expect we can further strengthen our sales of stainless steel products.

Hanwa Safety Conference

Our Tokyo and Osaka Head Offices and Nagoya Branch Office formed “Hanwa Safety Conference”, individually with

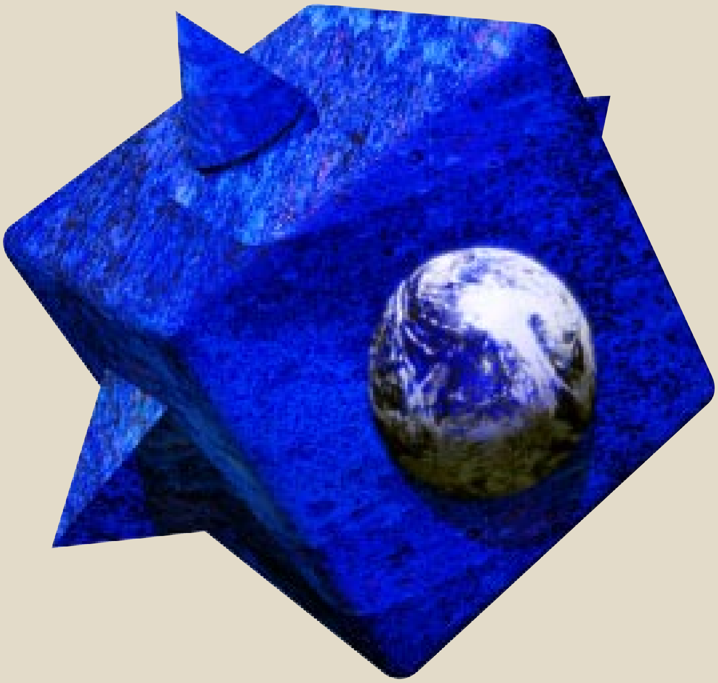
their respective steel fabricators with the aim of realizing a safer work environment at each construction site.

By this, we expect we can firmly establish our-selves as a leading trading firm who can assume full responsibility in supervising such aspects of the construction business as the supply of quality materials, punctual delivery of each section, and safety in erection and so on.This may be an additional service to our general contractor customers.

The Year 2000 Problem

This is a serious problem and we have established a special meeting consisting of representatives from all our offices over the world. We can now say that all basic problems have been solved and by the end of September 1999, we can complete all necessary adjustments. A manual has been worked out to cope with this problem, and a group of trouble-shooters are ready to react to any unforeseeable situation.

Financial Section



Contents

Consolidated Balance Sheets

March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 1)	
Assets	**1999**	1998	**1999**	1998
Current assets:				
Cash and cash equivalents	**¥ 42,898**	¥ 32,352	**$ 355,852**	$ 268,370
Marketable securities (Notes 3 and 5)	**7,805**	15,085	**64,745**	125,135
Receivables:				
Trade notes and accounts:				
Unconsolidated subsidiaries and affiliates	**947**	630	**7,856**	5,226
Other	**129,378**	143,618	**1,073,231**	1,191,356
Loans:				
Unconsolidated subsidiaries and affiliates	**3,497**	349	**29,009**	2,895
Other	**146**	3,536	**1,211**	29,332
Allowance for doubtful receivables	**(484)**	(1,233)	**(4,015)**	(10,228)
Inventories	**31,427**	36,797	**260,697**	305,243
Other current assets	**23,015**	24,150	**190,916**	200,332
Total current assets	**238,629**	255,284	**1,979,502**	2,117,661
Investments and non-current receivables:				
Investment securities (Note 5):				
Unconsolidated subsidiaries and affiliates	**809**	566	**6,711**	4,695
Other	**63,144**	78,010	**523,799**	647,117
Loans receivable:				
Unconsolidated subsidiaries and affiliates	**1,428**	837	**11,846**	6,943
Other	**7,359**	7,669	**61,045**	63,617
Other investments and non-current receivables	**17,874**	18,902	**148,270**	156,798
Allowance for doubtful receivables	**(1,511)**	(1,081)	**(12,534)**	(8,967)
Total investments and non-current receivables	**89,103**	104,903	**739,137**	870,203
Property and equipment (Note 5):				
Land	**13,186**	13,210	**109,382**	109,581
Buildings and structures	**22,351**	22,368	**185,409**	185,550
Other	**8,555**	8,112	**70,966**	67,291
Accumulated depreciation	**(14,348)**	(13,241)	**(119,021)**	(109,838)
Total property and equipment	**29,744**	30,449	**246,736**	252,584
Intangibles and other assets	**32**	30	**265**	249
Foreign exchange adjustments	**3,036**	1,731	**25,185**	14,359
	¥360,544	¥392,397	**$2,990,825**	$3,255,056

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Stockholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 1)	
	1999	1998	**1999**	1998
Current liabilities:				
Bank loans (Note 4)	**¥118,908**	¥129,789	**$ 986,379**	$1,076,640
Long-term debt due within one year (Note 4)	**2,472**	52,108	**20,506**	432,252
Trade notes and accounts payable:				
Unconsolidated subsidiaries and affiliates	**161**	103	**1,336**	855
Other	**102,882**	118,261	**853,438**	981,012
Accrued bonuses to employees	**1,097**	1,276	**9,100**	10,585
Other current liabilities	**10,591**	9,035	**87,856**	74,948
Total current liabilities	**236,111**	310,572	**1,958,615**	2,576,292
Non-current liabilities:				
Long-term debt due after one year (Note 4)	**81,059**	37,671	**672,410**	312,493
Retirement benefits	**1,184**	1,184	**9,821**	9,822
Other non-current liabilities	**771**	896	**6,396**	7,432
Total non-current liabilities	**83,014**	39,751	**688,627**	329,747
Minority interest	**—**	220	**—**	1,825
Contingent liabilities (Note 6)				
Stockholders' equity (Note 7):				
Common stock, par value ¥50 per share				
Authorized:650,000,000 shares				
Issued: 291,663,200 shares	**113,883**	113,883	**944,695**	944,695
Additional paid-in capital	**3,590**	9,571	**29,780**	79,394
Undisposed deficit	**(76,054)**	(81,600)	**(630,892)**	(676,897)
Less treasury stock, at cost: 1,941 shares (789 in 1998)	**—**	—	**—**	—
Total stockholders' equity	**41,419**	41,854	**343,583**	347,192
	¥360,544	¥392,397	**$2,990,825**	$3,255,056

Consolidated Statements of Operations

For the years ended March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	1999	1998	**1999**	1998
Net sales	**¥598,568**	¥664,261	**$4,965,309**	$5,510,253
Cost of sales	**573,717**	638,188	**4,759,162**	5,293,969
Gross profit	**24,851**	26,073	**206,147**	216,284
Selling, general and administrative expenses	**19,526**	19,617	**161,974**	162,729
Operating income	**5,325**	6,456	**44,173**	53,555
Other income (expenses):				
Interest and dividend income	**8,662**	7,917	**71,854**	65,674
Interest expense	**(12,540)**	(9,610)	**(104,023)**	(79,718)
Gain on sale of property and equipment	**101**	—	**838**	—
Reversal of allowance for doubtful receivables	**246**	—	**2,041**	—
Loss on write-down of securities	**(1,936)**	(4,946)	**(16,060)**	(41,029)
Loss on discontinued operations of foreign subsidiary	**(389)**	—	**(3,227)**	—
Loss on loans receivable	**—**	(4,646)	**—**	(38,540)
Other, net	**454**	(351)	**3,766**	(2,912)
Loss before income taxes	**(77)**	(5,180)	**(638)**	(42,970)
Income taxes	**358**	207	**2,970**	1,717
Minority interest in income of consolidated subsidiaries	**—**	(1)	**—**	(8)
Net loss	**¥ (435)**	¥ (5,388)	**$ (3,608)**	$ (44,695)

	Yen		U.S. dollars (Note 1)	
	1999	1998	**1999**	1998
Net loss per share	**¥ (1.49)**	¥ (14.45)	**$ (0.012)**	$ (0.120)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity

For the years ended March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	1999	1998	**1999**	1998
Common stock:				
Opening balance	**¥113,883**	¥152,929	**$ 944,695**	$1,268,594
Shares purchased and retired	**—**	(39,046)	**—**	(323,899)
Closing balance	**¥113,883**	¥113,883	**$ 944,695**	$ 944,695
Additional paid-in capital:				
Opening balance	**¥ 9,571**	¥ —	**$ 79,394**	$ —
Shares purchased and retired	**—**	12,733	**—**	105,624
Transfer to undisposed deficit	**(5,981)**	(3,162)	**(49,614)**	(26,230)
Closing balance	**¥ 3,590**	¥ 9,571	**$ 29,780**	$ 79,394
Undisposed deficit:				
Opening balance	**¥ (81,600)**	¥ (79,374)	**$(676,898)**	$ (658,432)
Transfer from additional paid-in capital	**5,981**	3,162	**49,614**	26,230
Net loss	**(435)**	(5,388)	**(3,608)**	(44,695)
Closing balance	**¥ (76,054)**	¥ (81,600)	**$(630,892)**	$ (676,897)
Number of shares of common stock issued (thousands):				
Opening balance	**291,663**	391,663		
Shares purchased and retired	**—**	(100,000)		
Closing balance	**291,663**	291,663		

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	1999	1998	**1999**	1998
Cash flows from operating activities:				
Net loss	**¥ (435)**	¥ (5,388)	**$ (3,608)**	$ (44,695)
Adjustments to reconcile net loss to net cash provided by operating activities				
Depreciation	**1,443**	1,217	**11,970**	10,095
Gain on sale of property and equipment	**(101)**	—	**(838)**	—
Loss on write-down of securities	**1,936**	4,946	**16,060**	41,029
Loss on loans receivable	**—**	4,646	**—**	38,540
Decrease in trade receivables	**13,947**	20,919	**115,695**	173,530
Decrease in inventories	**5,370**	216	**44,546**	1,792
Decrease in other current assets	**1,135**	2,291	**9,415**	19,004
Decrease in trade notes and accounts payable	**(15,321)**	(9,215)	**(127,092)**	(76,441)
Increase (decrease) in other current liabilities	**1,463**	(3,384)	**12,136**	(28,071)
Decrease in allowance for doubtful receivables	**(320)**	(331)	**(2,655)**	(2,746)
Other, net	**(1,143)**	92	**(9,482)**	763
Net cash provided by operating activities	**7,974**	16,009	**66,147**	132,800
Cash flows from investing activities:				
Additions to property and equipment	**(994)**	(1,407)	**(8,246)**	(11,671)
Proceeds from sale of property and equipment	**272**	359	**2,256**	2,978
Additions to securities	**(1,939)**	(2,134)	**(16,085)**	(17,702)
Proceeds from sale of securities	**22,721**	35,312	**188,478**	292,924
Additions to loans receivable	**(4,438)**	(39,509)	**(36,815)**	(327,740)
Repayment of loans receivable	**4,358**	49,078	**36,151**	407,117
Other, net	**1,026**	2,557	**8,511**	21,211
Net cash provided by investing activities	**21,006**	44,256	**174,250**	367,117
Cash flows from financing activities:				
Decrease in bank loans, net	**(10,881)**	(70,625)	**(90,261)**	(585,856)
Proceeds from long-term debt	**47,968**	25,350	**397,910**	210,286
Repayments of long-term debt	**(54,216)**	(11,232)	**(449,739)**	(93,173)
Common stock purchased and retired	**—**	(26,313)	**—**	(218,275)
Net cash used in financing activities	**(17,129)**	(82,820)	**(142,090)**	(687,018)
Effect of foreign exchange adjustments	**(1,305)**	2,587	**(10,825)**	21,460
Net increase (decrease) in cash and cash equivalents	**10,546**	(19,968)	**87,482**	(165,641)
Cash and cash equivalents at beginning of year	**32,352**	52,320	**268,370**	434,011
Cash and cash equivalents at end of year	**¥ 42,898**	¥ 32,352	**$ 355,852**	$ 268,370
Supplemental cash flow information				
Cash paid during the year for:				
Interest	**¥ 12,682**	¥ 9,303	**$ 105,201**	$ 77,171
Income taxes	**(691)**	826	**(5,732)**	6,852

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Basis of financial statements

The Company, a Japanese corporation, maintains its records and prepares its financial statements in Japanese yen. The accompanying consolidated financial statements have been translated from the financial statements that are prepared in Japanese, in accordance with the provisions of the Securities and Exchange Law of Japan and filed with the Minister of Finance of Japan and stock exchanges in Japan. Certain modifications, including presentation of the statements of stockholders' equity and cash flows, have been made in the accompanying financial statements and notes to facilitate understanding by non-Japanese readers. No change has been made in the application of accounting policies.

The financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 1999, which was ¥120.55 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

Consolidation — The consolidated financial statements include the accounts of the Company and its four (five in 1998) significant subsidiaries. The accounts of three foreign subsidiaries are included at their respective fiscal years ending the last day of February. Necessary adjustments for significant transactions occuring between the last day of February and March 31 have been made in the preparation of the consolidated financial statements.

Intercompany transactions and accounts have been eliminated. The difference between the cost of investments in consolidated subsidiaries and the equity in their net assets at dates of acquisition is amortized over five years.

Allowance for doubtful receivables — The allowance for doubtful receivables of the Company and its domestic consolidated subsidiary is provided in amounts sufficient to cover possible losses on collection. Pursuant to the change in the Corporation Tax Law effective from the year ended March 31, 1999, the Company and its domestic consolidated subsidiary adopted the policy of providing the allowance for doubtful receivables in an amount sufficient to cover possible losses on collection by estimating individually uncollectible amounts and applying a percentage based on collection experience to the remaining accounts. The Company and its domestic consolidated subsidiary previously provided the allowance using the formula provided by the Corporation Tax Law.

The effect of this change was to decrease loss before income taxes by ¥470 million ($3,899 thousand). The allowance for doubtful receivables of foreign consolidated subsidiaries is determined based upon estimates of management in amounts sufficient to cover possible collection losses.

Cash and cash equivalents — The Company considers cash and time deposits (with maturities of one year or less) to be cash and cash equivalents. Such time deposits may be withdrawn on demand without diminution of principal.

Securities — Marketable equity securities in both current assets and investments are stated at the lower of moving average cost or market value. Commencing with the year ended March 31, 1999, the Company and its domestic consolidated subsidiary record recoveries of write-downs of securities in accordance with a revision in the Corporation Tax Law. There was no effect on net income resulting from adopting this accounting policy. Cost and market value are compared on an item-by-item basis. Other securities, including investments in unconsolidated subsidiaries and affiliates, are stated at moving average cost. If the value of any such security declines below carrying value and the decline is judged to be material and other than temporary, the book value of such security is written down.

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

Inventories — Inventories are principally stated at the lower of cost or market value. Cost is principally determined by the last-in, first-out method.

Property and equipment — Property and equipment are carried at cost. Depreciation is principally provided on the declining balance method over estimated useful lives. Effective April 1, 1998, in accordance with revisions of the Corporation Tax Law, the Company and its domestic consolidated subsidiary shortened the estimated useful lives of buildings, excluding building fixtures. The effect of this change was to increase loss before income taxes by ¥95 million ($788 thousand). Major renewals and improvements are capitalized. Maintenance, repairs and minor renewals are expensed as incurred.

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

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

Income taxes — Income taxes are provided for on the basis of amounts currently payable for each period. Deferred income taxes pertaining to timing differences between financial and tax reporting purposes are not recognized.

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

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

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

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

Other foreign currency assets and liabilities are translated at historical rates except for the recognition of material unrealized losses.

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

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

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

3. Marketable securities

Marketable securities at March 31, 1999 and 1998, were as follows:

	Millions of yen		Thousands of U.S. dollars	
	1999	1998	**1999**	1998
Marketable equity securities	**¥ 6,105**	¥ 9,212	**$ 50,643**	$ 76,417
Bonds and other securities	**1,700**	5,873	**14,102**	48,718
	¥ 7,805	¥ 15,085	**$ 64,745**	$ 125,135

4. Bank loans and long-term debt

Bank loans at March 31, 1999 and 1998, were represented principally by short-term notes bearing interest at rates from 0.68% to 6.19% and from 1.10% to 7.17%, respectively.

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

	Millions of yen		Thousands of U.S. dollars	
	1999	1998	**1999**	1998
SFr. floating rate bonds due 2000	**¥ 12,806**	¥ 12,806	**$ 106,230**	$ 106,230
Loans from banks and insurance companies, bearing interest, at March 31, 1999 and 1998, from 0.80% to 7.65% and from 1.36% to 7.65%, respectively, maturing serially through 2004	**70,725**	76,973	**586,686**	638,515
	83,531	89,779	**692,916**	744,745
Less amounts due within one year	**2,472**	52,108	**20,506**	432,252
	¥ 81,059	¥ 37,671	**$ 672,410**	$ 312,493

The SFr. floating rate bonds due 2000 bear interest at 1/8% over the six-month Swiss Franc LIBOR determined semi-annually and payable semi-annually in arrears. The rate of interest of the bonds at March 31, 1999, is 3% per annum. In no event shall the rate of interest be less than 3% or more than 8% per annum. The bonds are redeemable, commencing on September 12, 1990, at the option of the Company at prices ranging from 101% to 100% of the principal amount.

The annual maturities of long-term debt outstanding at March 31, 1999, were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2000	¥ 2,472	$ 20,506
2001	77,727	644,770
2002	1,692	14,036
2003	1,120	9,291
2004	520	4,313
	¥ 83,531	$ 692,916

5. Assets pledged as collateral

At March 31, 1999 and 1998, assets pledged as collateral for short-term bank loans of ¥— million ($— thousand) and ¥10,692 million ($88,693 thousand) and long-term bank loans of ¥41,600 million ($345,085 thousand) and ¥47,600 million ($394,857 thousand) respectively, and guarantees were as follows:

	Millions of yen		Thousands of U.S. dollars	
	1999	1998	**1999**	1998
Marketable securities	**¥ 5,283**	¥ 5,684	**$ 43,824**	$ 47,150
Investment securities	**—**	14,512	**—**	120,382
Property and equipment, net of accumulated depreciation	**13,824**	14,472	**114,674**	120,050
	¥ 19,107	¥ 34,668	**$ 158,498**	$ 287,582

6. Contingent liabilities

At March 31, 1999 and 1998, the Company and its consolidated subsidiaries were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars	
	1999	1998	**1999**	1998
As endorsers of export letter of credit and notes discounted	**¥ 2,710**	¥ 8,300	**$ 22,480**	$ 68,851
As guarantors of indebtedness	**4,081**	4,293	**33,853**	35,612

7. Stockholders' equity

Common stock — The Company reduced its capital by ¥39,046 million ($323,899 thousand) by purchasing and retiring 100 million shares of common stock of the Company on January 23, 1998. The capital reduction was approved at an extraordinary general meeting of shareholders of the Company held on December 15, 1997.

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

8. Leases

Finance leases

As lessee

Total lease payments, including financing charges, under finance leases that do not transfer ownership of the leased property to the Company for the years ended March 31, 1999 and 1998 were ¥628 million ($5,209 thousand) and ¥633 million ($5,251 thousand), respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the year ended March 31, 1999 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Other property and equipment	**¥ 2,891**	**¥ 1,285**	**¥ 1,606**	**$ 23,982**	**$ 10,659**	**$ 13,323**
Other investments	**96**	**23**	**73**	**796**	**191**	**605**
Total	**¥ 2,987**	**¥ 1,308**	**¥ 1,679**	**$ 24,778**	**$ 10,850**	**$ 13,928**

Depreciation expense, which is not reflected in the accompanying statements of operations, computed by the straight-line method was ¥563 million ($4,670 thousand) for the year ended of March 31, 1999.

Obligations, excluding financing charges, under such non-capitalized finance leases as of March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	1999	1998	**1999**	1998
Due within one year	**¥ 514**	¥ 545	**$ 4,264**	$ 4,521
Due after one year	**1,236**	1,737	**10,253**	14,409
	¥ 1,750	¥ 2,282	**$ 14,517**	$ 18,930

As lessor

Lease payments, excluding financing charges, to be received under finance leases as of March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	1999	1998	**1999**	1998
Due within one year	**¥ 37**	¥ 33	**$ 307**	$ 274
Due after one year	**159**	208	**1,319**	1,725
	¥ 196	¥ 241	**$ 1,626**	$ 1,999

Operating leases

Obligations under operating leases as of March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	1999	1998	**1999**	1998
Due within one year	**¥ 35**	¥ 35	**$ 290**	$ 290
Due after one year	**188**	238	**1,560**	1,974
	¥ 223	¥ 273	**$ 1,850**	$ 2,264

9. Segment information

Industry segment information

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

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

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

Foods: Frozen seafoods and meat products

Other business: Machinery, petroleum and chemicals, lumber and other

Segment information by business category for the years ended March 31, 1999 and 1998, is as follows:

Year ended March 31, 1999

	Millions of yen						
	Steel	Non-ferrous metals	Foods	Other business	Total	Corporate	Consolidated
Net sales	¥380,178	¥43,999	¥110,910	¥63,481	¥598,568	¥ —	¥598,568
Costs and expenses	374,316	43,145	109,819	61,889	589,169	4,074	593,243
Operating income	¥ 5,862	¥ 854	¥ 1,091	¥ 1,592	¥ 9,399	¥ (4,074)	¥ 5,325
Assets	¥142,815	¥10,661	¥ 29,782	¥16,738	¥199,996	¥160,548	¥360,544
Depreciation	1,217	46	37	45	1,345	98	1,443
Capital expenditure	847	44	32	39	962	82	1,044

Year ended March 31, 1999

	Thousands of U.S. dollars						
	Steel	Non-ferrous metals	Foods	Other business	Total	Corporate	Consolidated
Net sales	$3,153,696	$364,985	$920,033	$526,595	$4,965,309	$ —	$4,965,309
Costs and expenses	3,105,068	357,901	910,983	513,389	4,887,341	33,795	4,921,136
Operating income	$ 48,628	$ 7,084	$ 9,050	$ 13,206	$ 77,968	$ (33,795)	$ 44,173
Assets	$1,184,695	$ 88,436	$247,051	$138,847	$1,659,029	$1,331,796	$2,990,825
Depreciation	10,095	382	307	373	11,157	813	11,970
Capital expenditure	7,026	365	265	324	7,980	680	8,660

Year ended March 31, 1998	Millions of yen						
	Steel	Non-ferrous metals	Foods	Other business	Total	Corporate	Consolidated
Net sales	¥437,303	¥59,913	¥100,881	¥66,164	¥664,261	¥ —	¥664,261
Costs and expenses	431,165	58,842	97,916	65,220	653,143	4,662	657,805
Operating income	¥ 6,138	¥ 1,071	¥ 2,965	¥ 944	¥ 11,118	¥ (4,662)	¥ 6,456
Assets	¥162,421	¥13,815	¥ 27,427	¥13,324	¥216,987	¥175,410	¥392,397
Depreciation	1,044	31	32	43	1,150	67	1,217
Capital expenditure	1,118	111	83	90	1,402	185	1,587

Year ended March 31, 1998	Thousands of U.S. dollars						
	Steel	Non-ferrous metals	Foods	Other business	Total	Corporate	Consolidated
Net sales	$3,627,565	$496,997	$836,840	$548,851	$5,510,253	$ —	$5,510,253
Costs and expenses	3,576,648	488,113	812,244	541,020	5,418,025	38,673	5,456,698
Operating income	$ 50,917	$ 8,884	$ 24,596	$ 7,831	$ 92,228	$ (38,673)	$ 53,555
Assets	$1,347,333	$114,600	$227,515	$110,527	$1,799,975	$1,455,081	$3,255,056
Depreciation	8,660	257	265	357	9,539	556	10,095
Capital expenditure	9,274	921	688	747	11,630	1,535	13,165

Corporate costs and expenses mainly consist of expenses of the administrative department.

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

Overseas net sales

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

Overseas net sales of the Companies are as follows:

Year ended March 31, 1999	Millions of yen			Thousands of U.S. dollars		
	Asia	Other areas	Total	Asia	Other areas	Total
Overseas net sales	**¥ 49,874**	**¥ 36,487**	**¥ 86,361**	**$ 413,720**	**$ 302,671**	**$ 716,391**
Percentage of consolidated net sales	**8.3%**	**6.1%**	**14.4%**			

Year ended March 31, 1998	Millions of yen			Thousands of U.S. dollars		
	Asia	Other areas	Total	Asia	Other areas	Total
Overseas net sales	¥ 63,302	¥ 19,096	¥ 82,398	$ 525,110	$ 158,407	$ 683,517
Percentage of consolidated net sales	9.5%	2.9%	12.4%			

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

10. Subsequent event

On June 29, 1999, the Company's shareholders approved the acquisition and retirement of up to 80 million outstanding shares of its common stock for a total amount not to exceed ¥31,237 million ($259,121 thousand).

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheets of Hanwa Co., Ltd. (a Japanese corporation) and subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Hanwa Co., Ltd. and subsidiaries as of March 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

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

Asahi & Co
(Member Firm of Andersen Worldwide SC)

Osaka, Japan
June 29, 1999

Statement on Accounting Principles and Auditing Standards

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

Network of Hanwa Co., Ltd.

Domestic Offices

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

Overseas Offices

OFFICE	ADDRESS	TELEPHONE	FAX
New York	Parker Plaza, 6th Floor, 400 Kelby Street, Fort Lee, New Jersey 07024, U.S.A.	1-201-363-4500	1-201-346-9890
Seattle	900 4th Avenue, Suite 1640, Seattle, Washington 98164, U.S.A.	1-206-622-2102	1-206-622-6464
Houston	Suite 515, 9800 Richmond Avenue, Houston, Texas 77042, U.S.A.	1-713-978-7904	1-713-978-7790
California	37, Santa Comba Irvine,California 92606 U.S.A.	1-949-552-6209	1-949-552-6031
Vancouver	Suite 1002, 777 West Broadway Vancouver, British Columbia, V5Z4J7, Canada	1-604-876-1175	1-604-876-1085
Bogota	Carrera 11 No. 86-32, Oficina 604 Apartado Aereo No. 093260 Santafe De Bogota, D.E. Colombia	57-1-218-3814/8406	57-1-256-0064
Seoul	Room 2501-1, Korea World Trade Center Bldg., 159-1, Samsung-Dong, Kangnam-ku, Seoul, 135-729, R.O.Korea	82-2-551-5387	82-2-551-5575
Beijing	Room 801, Beijing Fortune Building, 5 Dong San Huan Bei-lu, Chaoyang District, Beijing 100004, P.R.China	86-10-6590-8331~33	86-10-6590-8340
Shanghai	Room 905/906,Aetna Tower,No.107 Zhunyi Road, Shanghai 200335, P.R.China	86-21-6237-5260/5265~7	86-21-6237-5268/5269
Guangzhou	Unit 1709,17th Floor, Peace World Plaza, 362-366 Huan Shi Road East, Guangzhou,510060,P.R. China	86-20-8384-3885	86-20-8384-8875
Dongguan	Longxi Industrial Zone,Zhouxi Management Area,Huangcun District,Dongguan City,Guangdong Province P.R.China 511715	86-769-240-6428	86-769-240-6448
Taipei	Room 303 3rd Floor. No. 79, Chung Shan North Road Sec.2, Taipei Taiwan, R.O.C.	886-2-2560-2214~17	886-2-2571-0693
Kaohsiung	Room B, 15th Floor, No.7 Su-Wei 4th Road, Kaohsiung, Taiwan, R.O.C.	886-7-338-5508~10	886-7-338-5433
Hong Kong	Unit 3201-3 32nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong	852-25450110	852-25422544
Bangkok	19th Floor, Vorawat Bldg., 849 Silom Road, Bangrak, Bangkok, 10500 Thailand	66-2-635-1230	66-2-635-1220/1221
Kuala Lumpur	Suite 8-12B-3, Level 14 (12B), Menara Olympia 8, Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia	60-3-238-2311	60-3-238-2380
Singapore	20 Cecil Street, #11-02 The Exchange, Singapore, 049705	65-536-7822	65-536-7855
Tawau	P.O. Box 1231 91037 Tawau, Sabah, Malaysia	60-89-750016~7	60-89-750019
Jakarta	Menara Cakrawala 5th Floor Jalan M.H. Thamrin 9, Jakarta, 10340 Indonesia	62-21-3902293	62-21-3902294
Bombay	c/o M.D. Jagat A/5 Kamdar Building, Gokhale Road South, Dadar, Bombay 400 028, India	91-22-4305083	91-22-4308531
Tehran	6th Floor, Building, No.10 8th Street, Mirzaye-Shirazi Avenue, Tehran 15967, Iran	98-21-890-3537	98-21-890-4723
Kuwait	c/o Al-Sabih Engineering & Trading Co. P.O. Box No. 1366, Safat 13014, Kuwait Room 24, 6th Floor, Danat Trading Center, Abdullah Al-Ahmad Street, Sharq, Kuwait	965-243-7259	965-243-7263
Riyadh	P.O. Box 68974, Riyadh 11537, Saudi Arabia	966-1-478-3022	966-1-479-2459
Jeddah	c/o Office No. 219, Kaki Center P.O. Box 1224, Jeddah 21431, Saudi Arabia	966-2-661-0796	966-2-661-0796
Las Palmas	C/Luis Morote, NO.6-3F , Edf. Catalunia 35007-Las Palmas De Gran, Canaria, Spain	34-928-270894	34-928-275735
London	5th Floor, Finland House, 56 Haymarket, London, SW1Y 4rn. U.K.	44-171-839-4448	44-171-839-3994

Directors and Statutory Auditors

President
Shuji Kita　北　修爾

Senior Managing Director
Hiroshi Shintani　新谷　洋

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

Directors
Jiro Kita　北　二郎
Minoru Masuda　増田　実
Katsutoshi Kumagai　熊谷　勝年
Kazumichi Kaji　加地　一道
Kazuo Yokota　横田　和夫
Masaomi Amao　天尾　正臣
Tatsuyuki Yamasaki　山崎　達之
Hiroshi Omoto　大本　博
Noriyuki Hanafusa　花房　伯行
Hironari Furukawa　古川　弘成
Shinsuke Kitamura　北村　信輔

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

Investor Information
(As of March 31, 1999)

Company Name
Hanwa Co., Ltd. 阪和興業株式会社

Date of Establishment
April 1947

Stated Capital
¥113,883 million ($944,695 thousand)

Number of Shares of Common Stock Issued
291,663,200 shares

Number of Shareholders
28,932

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

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

Auditor
Asahi & Co.

Number of Employees
1,219

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

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