PEACE

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JAPAN

SUM

ANNUAL REPORT 2004

HANWA CO., LTD.

For the year ended March 31, 2004

阪和興業株式会社

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 non-ferrous 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 non-ferrous 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.

About the Cover

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

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

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Financial Highlights

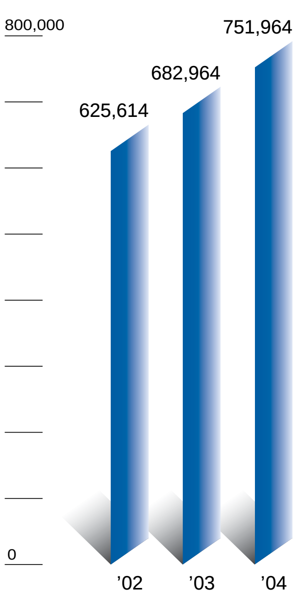
For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	**2004**	2003
For the year:				
Net sales	**¥ 751,964**	¥ 682,964	**$ 7,114,807**	$ 6,461,955
Operating income	**12,666**	10,257	**119,841**	97,048
Net income	**5,662**	5,907	**53,572**	55,890
At year-end:				
Total assets	**¥ 293,528**	¥ 281,557	**$ 2,777,254**	$ 2,663,989
Total stockholders' equity	**57,757**	52,748	**546,475**	499,082

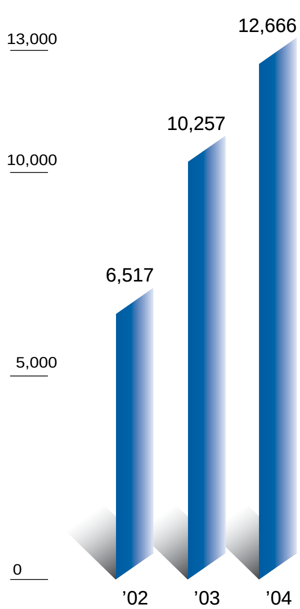
	Yen		U.S. dollars	
	2004	2003	**2004**	2003
Per share data:				
Net income	**¥ 26.43**	27.91	**$ 0.250**	$ 0.264
Cash dividends	**6.00**	5.00	**0.057**	0.047

Note: The U.S. dollar amounts represent translations, for convenience only, of yen amounts at the rate of ¥105.69=$1.00.

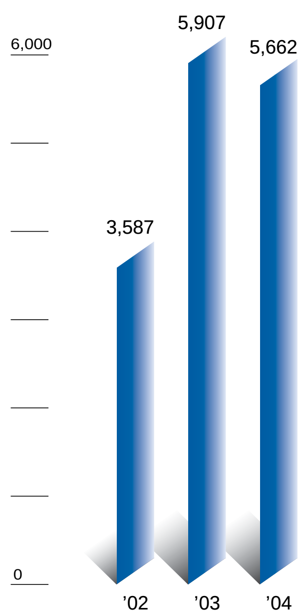
Net sales
(Millions of yen)



Operating income
(Millions of yen)



Net income
(Millions of yen)



Letter to Stakeholders

Dear Stakeholders,

We take pleasure in reporting that Hanwa Co., Ltd. and its consolidated subsidiaries achieved solid growth in both sales and income for the fiscal year ended March 31, 2004. Net sales increased by 10.1% to ¥752.0 billion while operating income showed a significant increase of 23.5% to ¥12.7 billion; however, due to the early adoption of accounting standard for impairment of long-lived assets to further strengthen the Company's financial foundations, net income for the term declined by 4.2% to ¥5.7 billion. As a result, the return on equity (ROE), one of the Company's key management ratios that we measure our performance, declined by 1.4 points to 10.2% but the debt-equity ratio (D/E ratio) in percentage terms showed a 40 point improvement to 200%.

Management Policy

Becoming an enterprise that is regarded and supported by all of its stakeholders as being a "Valued Enterprise" that makes contributions to both the international society and to the local community is a key policy objective of the Company.

Based on this philosophy, we have pursued the principle of placing customers above all else and being responsive in meeting the changing needs of the market. To achieve this, we have oriented the Company to be a "trading company with a presence" that emphasizes a proposal style sales approach that enhances value added as products passes through the distribution chain expanding business opportunities in order to enhance "win - win" relationship with our customers.

Dividend Policy

Returning profits to stockholders is one of our highest management priorities. Our basic policy is to distribute dividends in line with performance on the basis of ROE and payout ratio, while retaining internally the funds needed to strengthen the business going forward and to ensure ongoing financial soundness.

Management Targets

To strengthen the Company's focus on enterprise value and the quality of the balance sheet, we have included D/E ratio (net basis), which is widely used as a measure of financial stability to the return on assets (ROA), and ROE as target management benchmarks. For fiscal year ending March 31, 2007 based on the New Mid-term Business Plan, which has been implemented since 2004, are as follows:

Targeted Management Index	FY2006 (ending March 31, 2007)
ROA	2.1%
ROE	10.0%
D/E Ratio (Net basis)	120%

Medium- and Long-term Strategy, and Management Issues

In May 2004, we established a Mid-term Business Plan that covers a 3-year period from FY2004 through FY2006. It sets a number of management goals and describes the initiatives that will be taken to achieve them.

(A) Strengthening of the core business and customer-oriented, proposal-driven marketing

Steel business

- Strengthening of the engineering and processing functions in the construction and housing fields, promotion of proposal-driven marketing
- Strengthening of sales channels in the field of automotive, household appliances, industrial and construction equipment, development of new merchandise
- Strengthening of the coil center’s function and alliances with leading processors
- Investment, acquisitions and partnerships to expand the trade right
- Strengthening of functions of distribution centers and alliances with other companies for physical distribution

Nonferrous metal business

- Exploitation of new sources of resources, entry to ore resources business
- Focus on ferroalloys, light metals and raw materials for solar batteries
- Expansion of exporting raw materials to China

Food products business

- Strengthening of the processed food business overseas and establishment and fostering of product sales operations
- Strengthening of handling Japanese domestically caught seafood

Petroleum and chemicals business

- Development of business for practical application of new energy, such as cogeneration business and fuel cell business
- Strengthening of trading of petroleum products trade in Asia
- Promotion of the waste paper recycling business and international expansion of resin raw materials
- Expansion of general merchandise and reinforcement of the logistics function

(B) Strengthening of the international business, investment of resources in China and ASEAN markets

- Development of business with automotive industries in China and ASEAN countries centering on the International Automotive Team
- Setting up of coil centers in Thailand and South China and expansion of the network of processing functions
- Strengthening of operations in Vietnam, India, Russia and Eastern Europe
- Strengthening of international procurement functions and establishment of control systems such as securing quality
- Establishment of risk management systems for sales in domestic Chinese market
- Seizing of business opportunities in light of the accelerating trend toward FTA and identification of promising merchandise

(C) Strengthening of the recycling business and new development

- Collection of resources from the viewpoint of “urban mining” and sales to the optimum consumption area
- Expansion of items handled in terms of variety and quantity and establishment of an efficient purchase network
- Strengthening of handling of merchandise covered by the Basel Convention and recycling of industrial waste

(D) Fostering of new businesses and expansion of peripheral businesses

- Fostering of a business incubation team (BIT) and cultivation of new fields through industry-academia-government cooperation
- Downstream approach capitalizing on the credit function of hanwa-steel.com and expansion of merchandise
- Expansion of sales of timber products through enhancement of hanwa-lumber.com

(E) Improvement of productivity of sales & marketing

- Seeking for rational business processing led by the Operation IT Promotion Committee and implementation
- Enrichment of IT platform for greater flexibility
- Information sharing through cooperation crossing over departments and establishment of an information network for higher profitability
- Promotion of empowerment with the aim of vitalizing marketing and improving profitability

(F) Human resources (HR) policy and flexible investment policy to underpin the growth strategy

Human resources policy

- Fostering of human resources and recruitment for sustainable growth
  1) Enrichment of the training system and program (training for specific objectives and fostering executives, training of selected human resources and local employees of overseas subsidiaries)
  2) Diversification of recruitment
- Promotion of performance-based remuneration and establishment of a rational evaluation system

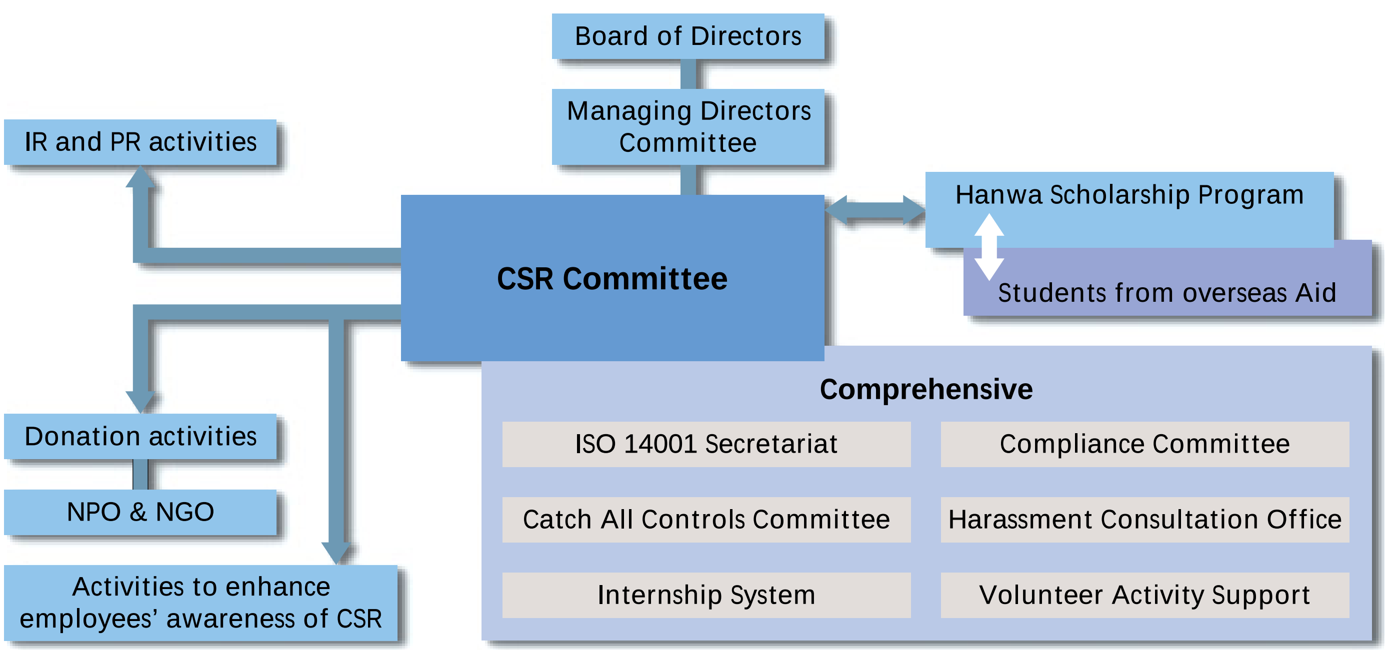
Investment policy

- Setting ¥10 billion of appropriation budget for priority investment
- Pursuit of a system enabling swift judgment of risks and speedy investment

CSR

The CSR Committee was established in March 2004 to promote CSR activities and to establish a higher corporate brand.

Outline of the CSR Committee



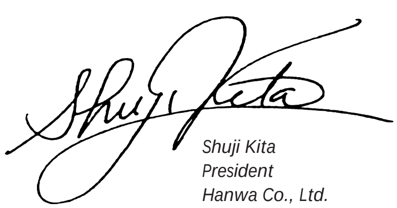
Corporate Governance

In order to fulfill its social responsibilities as a "good corporate citizen" and to be regarded by all stakeholders as a "Valued Enterprise", we will strive to achieve a management structure that is highly transparent and that complies with all of the laws and social norms.

In November 2003, we have established "Director Evaluation Committee" from a performance-based perspective.

We shall continue to bolster our approach to corporate governance through strengthened senior management structures.

August 2004



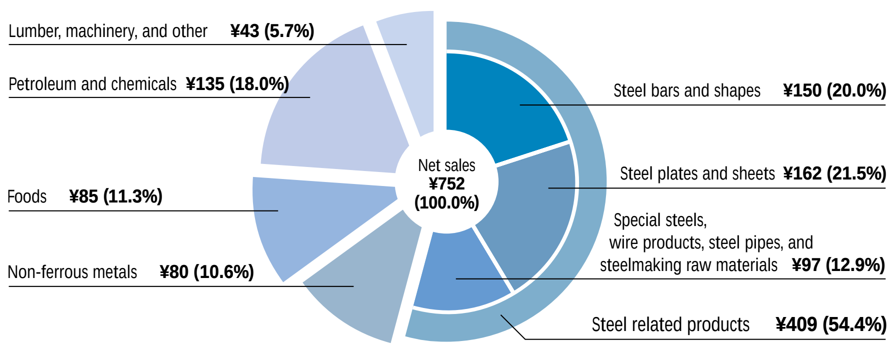
Shuji Kita
President
Hanwa Co., Ltd.

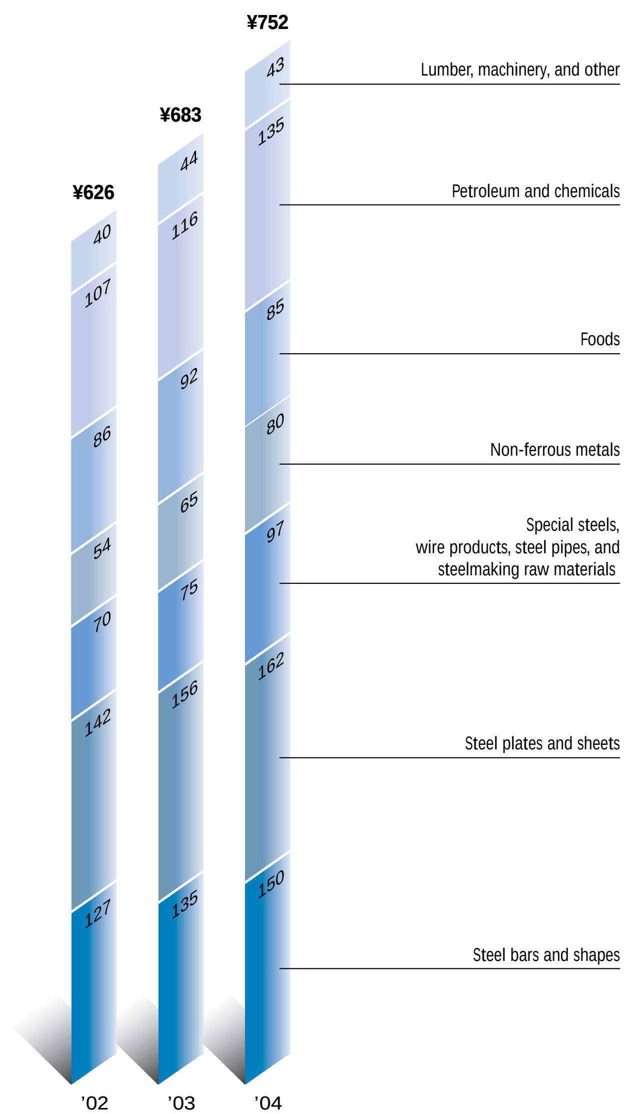
北　修爾
取締役社長
阪和興業株式会社

Review of Operations

For the years ended March 31, 2004

Net sales by Product (Billions of yen)





Steel (Domestic)

Review

Demand continued to be strong in the automotive, shipbuilding and construction machinery sectors and recovery was seen in equipment investment in the IT related sectors. Civil engineering and construction related demand continue to be slow but the tight supply of steel products for construction led to a significant rise in the price levels.

Under these conditions, our appropriate inventory policies and sales efforts to cope with manufacturers pricing policies worked effectively. The Division was able to increase the sales amount while the volume was held to an even level.

Outlook

We project that civil engineering will continue to stagnate while construction and housing sector will tend toward recovery and electrical machinery, construction materials, shipbuilding and automobiles are projected to continue to be strong.

This being the first year of the Mid-term Business Plan, we will make efforts to strengthen our engineering functions and processing functions while at the same time making efforts to enhance our customer-orientated, promotion of proposal-driven marketing and improve our productivity of sales and marketing.

Steel (Overseas)

Review

The steel industry, in the fiscal year ended March 31, 2004, affected by the continued high growth through the year in the East Asian economies, primarily China, experienced a global tightening in the supply and demand of raw materials. Particularly, with the expansion in the purchase of raw materials by China, the raw material prices showed a dramatic rise and the shortage of shipping capacity became pronounced. Due to these factors, supply and demand conditions in all categories of steel became tight and the rise in the market continued. In addition, due to the steep rise in the prices of the raw material, nickel, the prices for stainless steel sheets also showed dramatic increases.

Due to the tightening supply, our exports declined somewhat in volume terms compared with the prior year. However, sales, in spite of a 7.21% appreciation of the yen, increased substantially due principally to the steep rise in prices.

Outlook

Except for some categories such as steel plates, signs of softening of the market have begun to appear. In China, stemming from concerns over overheating, there have been moves toward restricting investments and financing into the sectors such as steel and we expect that steel market will also head toward a period of adjustment. However, such adjustments are not expected to bring about a major slowing down of Chinese macro economy but may be thought of as a stage in a process of sustainable growth. We project that the supply and demand for steel in markets in Southeast Asia will continue to be strong.

The Company is planning in the fiscal year 2004 to establish new coil centers in the Huanan region in China and Thailand while an expansion is planned for Chang-Fu Stainless Steel Center (Suzhou) Co., Ltd. In addition to taking steps to expand sales of high value added products, we are exploring a full-fledged entry into the Vietnam and India markets.

Non-ferrous Metals

Review

The LME market finally recorded a steep rise in the market in over 10 years in the second half of the fiscal year ended March 31, 2004 after a protracted recessionary period. This was due to the major expansion in the markets in China, which has a major impact on the global raw material supply and demand.

Combination of factors including rapid expansion of domestic demand in China, decline in production due to electricity shortages, and spike in the prices of iron ore, cokes and freight, prices of virtually all materials for metal surged from the end of the year. Prices for nickel recorded a 15-year high and ferroalloys renewed record high prices.

Amidst the rise in the non-ferrous metal market, we increased the sales volume of recycle businesses such as aluminum and we were also able to expand sales volume of high value added products. Against the background of strong production of stainless steel, the volume of stainless steel scrap and nickel scrap that we handled was strong. The sales of ferroalloys, due to the strengthening of our business with blast furnace and special steel mills made substantial contribution to our performance. In the area of solar batteries related products, the sales of polycrystaline silicone showed steady growth.

Overall, with the expansion of the handling volume and the rising markets, sales recorded substantial increase over the previous period.

Outlook

We expect that strong demand for non-ferrous metals in China will enter into a period of adjustment and while LME cools temporarily, the demand for materials centered around the United States and China will continue to be strong and the likelihood for a significant decline in the market is small.

In our overseas expansion, while we will expand our sources of supply, primarily in the ASEAN countries, China and the United States, we will continue our efforts to build efficient system of cargo collection in domestic recycling business.

In terms of sales and marketing, we will continue our rebuilding of distribution of stainless steel scrap and nickel scrap. In the area of ferroalloys, we will continue our efforts to expand sales to blast furnace, special steel and electrical furnace steel mills. In solar batteries related business, we will also make efforts to expand sales of intermediate products (wafers).

Food Products

Review

Imports of sea foods, in terms of both volume and value, were badly affected by cool summer during the fiscal year ended March 31, 2004 compared with the previous period.

In the first half of the fiscal year, the market for shrimps and eels were strong but in the second half due to issues surrounding antibiotics in marine products and bird flu, the market suffered a major setback. In addition, the yearend demand for costly foods such as crabs and herring roe was sluggish.

In raw material businesses, under these conditions, the volume and the value of sales materials that we handled declined substantially in comparison with the previous fiscal year. But our processing transactions in China, an area in which we have focused on as a way to supplement such trends expanded substantially.

Outlook

Issues concerning the safety and security of food including issue of antibiotics, bird flu and BSE remain unresolved and in a severe business climate that is expected, we expect that the market for sea foods will strengthen as an alternative for poultry and beef. Shrimps, on the other hand, will be expected to be sluggish due to the oversupply. Under the circumstances, we will focus on sales of processed products to food service industry and convenience stores and will increase our handling of products closer to the consumer.

Petroleum and Chemicals

Review

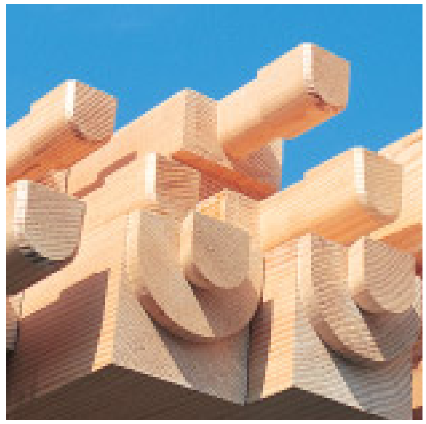
While the prices for crude oil surged due to the turmoil in Iraq, domestic fuel demand stagnated due to the cool summer and warm winter. In spite of these factors, we were able to surpass our projection for sales to users. In the wholesale segment, we were able to take advantage of the market fluctuation and we increased our volume and value of products sold. The sales of bunker oil was sluggish for both domestically and externally.

Chemicals enjoyed good performance in exports to China. However, due to the fall in the market for packaging paper, sales in our paper products declined. However, the overall volume and value of sales showed an increase over the previous fiscal year.

Outlook

Amidst the unstable situation in the Middle East and the continuing rise in the crude oil prices, we have not been able to fully pass on the increased cost to the consumers and we expect severe business environment to continue for some time. We will strengthen our business through expanding sales to existing customers and development of new customers. We will also continue to pursue diversification of our businesses including expanding sales of bunker oil, wholesale activities, expanding trade transactions and utilization of the futures markets.

In chemicals, with a focus on exports of lubricant oils and Atactic Polypropylene and import of synthetic resins, we will make efforts to expand sales of daily necessities to mass retailers.



Lumber

Review

Imports of plywood declined due to the delay in responding to the new JAS by Indonesia mills. Import of Canadian sawn timber also declined resulting from 2-month long port strike in Canada.

We were able to increase our sales of materials to domestic laminated board manufacturers and lumber mills but overall sales declined over the previous fiscal year. Domestically, our new business of stock sales of lumber products for 2x4 housing contributed to profits.

Outlook

During the current period, we will expand our business with pre-cut lumber mills for the housing market and we will also strengthen product imports from Rumania, China and Russia. In addition, we will focus on expanding sales of materials to laminated board manufacturers and lumber mills.

Machinery

Review

Leisure Sector: In terms of large projects, we supplied a roller coaster and children's play equipment to a theme park located in the Central region of Japan.

Industrial Sector: We supplied a steel manufacturer in Huanan region of China with steel fabrication equipment. With an eye toward the implementation of the Law for the Recycling of End-of-life Vehicles in January of 2005, we have begun marketing of Automobile Shredder Residue (ASR) equipment that enables over 95% recycling.

Outlook

Leisure Sector: Domestic competition is moderating due to competitors' withdrawal from the business. In addition, overseas manufacturers are undergoing reorganization in the industry to deal with management issues brought on by the global decline in demand for leisure equipment. We will place emphasis away from thriller rides such as large jet coasters and focus on marketing of various fountains with a focus on visual appreciation such as music fountains, mists, jumping fountains and the like as well as ball attractions.

Industrial Sector: Although impact of the financial restraints by the Chinese government on the Asian economy is expected, we will continue to strengthen our exports of steel fabrication machinery and tailored blanks, which is a processing equipment for steel sheet for automobiles. Domestically, we will focus on expanding sales of steel processing machinery focusing on sale of environmental recycle equipment such as ASR.

Our Ethical Principles

In accordance with the policy of the company incorporated into Corporate Creed and the “Charter of Corporate Behavior” established by Nippon Keidanren, Hanwa Co., Ltd. draws up, under the Corporate Policy, the Corporate Ethical Standards and the Ethical Standards of Behavior as guidelines for employee behaviors in order to promote legal, fair and sensible corporate conducts.

Corporate Creed

Confidence

Each director, officer and employee should recognize that confidence is the foundation of company existence, observe correct business practices and build up confidence of our stakeholders and society through everyday business.

Honesty

Always be aware that honesty is the basis of earning confidence, and try to act with fair and high openness, and complete its own assignments with honesty and responsibility.

Originality

Originality is the basis of progress and improvements. Under the current diversified circumstance, constantly absorb new information, improve efficiency, and fulfill its responsibility with courage, not being obsessed with traditional ideas.

Cooperation

Always respect other person’s position with a heart of cooperation in local communities and international societies. Try to keep in harmony with society through decent business conducts and make an open and vigorous work place.

Contribution

Widely contribute to society through business under sound company activities, and try to promote environmental conservation as a part of its social responsibility.

Corporate Policy

- Earn confidence with honesty and efforts.
- Be a specialist in the field with its vigor and guts.
- Improve efficiency with its originality and cooperation
- Promote corporate business and build happy homes
- Recognize its responsibility and contribute to society

Corporate Ethical Standards

Hanwa Co., Ltd. hereby draws up the following ethical standards as basic concept for constantly recognizing its required social role and responsibility and establishing high corporate ethical framework under its policy of the company. Its all directors, officers and employees shall comply with and perform these standards in its daily business activities.

1. Compliance with regulations and social rules

Hanwa Co., Ltd. complies with laws, regulations, international rules and other social rules, and promotes corporate activities in accordance with social common sense.

2. Fair corporate activities

Hanwa Co., Ltd. does business activities realizing that a fair and free competition is the basic rule of the market economy, and maintains sound and highly transparent relationship with the government and public administration.

3. Contribution to the industry society

Hanwa Co., Ltd. develops its business activities based on both short and long term perspectives, and contributes to the development of the industry society by active cultivation and creation of business chances.

4. Active information disclosure

Hanwa Co., Ltd. fully recognizes high interests of society in corporate activities, widely communicates with not only its shareholders but also society, and maintains its corporate transparency with fair and active information disclosures.

5. Consideration for environment

Hanwa Co., Ltd. constantly acknowledges that consideration for environment is a part of its social responsibilities and deals with environmental issues from the worldwide point of view voluntarily and actively.

6. Global harmonization

Hanwa Co., Ltd. as an international entity respects local cultures and customs abroad, and promotes its managements to contribute to developments of local areas.

7. Establishment of free and vigorous work environment

Hanwa Co., Ltd. respects its employees’ individual characters and personalities, ensures prosperous work environments, recognizes team works as the foundation of corporate activities, and achieves free, vigorous and creative corporate culture.

8. Promotion of active social actions as "a good corporate entity".

Hanwa Co., Ltd. integrates corporate and public benefits, widely returns its achievements gained through corporate activities and makes social contributions voluntarily and actively in every aspect.

9. Thorough familiarization of ethical standards and development of in-house framework

Hanwa Co., Ltd. thoroughly familiarizes the persons concerned with these standards to effectively implement the rule by its managements' active involvement and develop its in-house framework for more efficient and effective operations.

10. Prevention of recurrence of misconducts and appropriate information disclosure

Hanwa Co., Ltd. always checks its effectiveness in implementation of these standards. In the event any misconduct against these standards happens, Hanwa Co., Ltd. discloses relevant information, explains the circumstance promptly and properly to society and prevent recurrence of such misconducts by investigating cause of such misconducts.

Corporate Ethical Standards of Behavior

Under the spirits of the Corporate Ethical Standards, Hanwa Co., Ltd. hereby draws up the following ethical standards of behavior as concrete guidelines to ensure high corporate ethics through everyday business. Its all directors, officers and employees shall comply with these standards in their activities.

1. Comply with laws, regulations, international rules, social customs and in-house rules in accordance with the policy of the management, and maintain high ethics.
2. Give consideration to human rights and exclude unjust discriminations, abuses, harassments, etc..
3. Promote contribution to society and support volunteer activities.
4. Strengthen and maintain communication with local communities, and cooperate with social developments.
5. Observe environmental related laws and regulations and operate its business considering global environment.
6. Do not conduct unjust dealings such as insider deals of shares.
7. Confront resolutely antisocial forces and refrain from any profit-offering, etc.
8. Stay away from conducts contradicting company's profit and maintain sound relationship with its customers.
9. Comply with laws and regulations and stay within the extent socially permitted in giving clients presents and entertainments.
10. Make appropriate, fair and proper accounting books and records, and follow accounting related laws and regulations.
11. Conduct an in-house audit appropriately and always check contents of contracts and actual conditions of dealings with clients.
12. Draw up external documents such as contracts and in-house memorandums properly and keep such documents in accordance with company regulations.
13. Manage information carefully and maintain sound information network.
14. Give due consideration to issues of safety and hygiene in managing business activities and labor services.
15. Emphasize in-house education and develop expertise and creativity.
16. Maintain vigorous work environment with fair personnel evaluation.
17. Encourage employees to report, notify and consult, and promote open and highly transparent business activities.

Topics

1. 50% Expansion of the processing capacity of the Chang-Fu Stainless Steel Center (Suzhou) Co., Ltd.

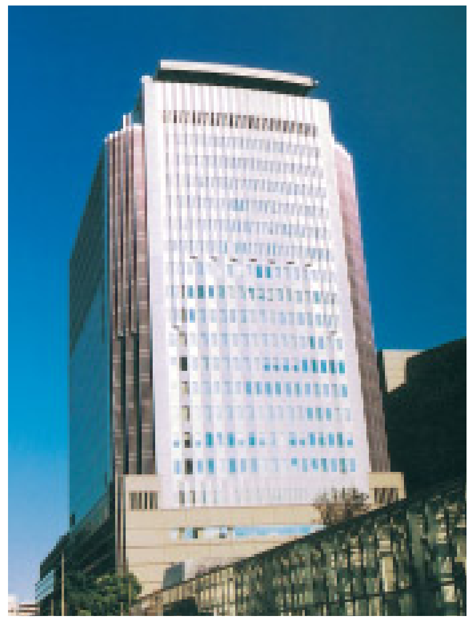
In March, 2004, Chang-Fu Stainless Steel Center (Suzhou) Co., Ltd. in which we hold a 58.06% share of ownership has completed construction of a new plant within the same site. The expansion was needed to meet the active demand from its principal users including household appliances and office automation equipment manufacturers. A large slitter line is planned to be installed within the plant and this will expand the monthly processing capacity from 10,000 tons to 15,000 tons.

In addition, in November, 2003, Chang-Fu was a recipient of the "Honorary Citizen Certificate" from the city of its domicile, Taichang in Jiangsu Province. This award was presented to 43 foreign affiliated enterprises that made significant contributions to the economic development of the city and Chang-Fu was selected among them.

2. The Nagoya Branch Office has relocated

On January 13, 2004, our Nagoya Branch Office has moved to the NHK Nagoya Broadcasting Center located in Higashi-Sakura, Higashi-ku, in Nagoya. The floor space of the office has been expanded by over 20% and the office was designed with the concept of, "comfortable to work, pleasant and where customers can be welcomed".

Utilizing the opportunities presented by the office relocation, the Nagoya Branch Office will further strengthen its efforts to expand business in the Chubu Region.



3. Regarding the Company's Social Responsibility (Establishment of the CSR Committee)

We have been aggressively promoting activities toward corporate social responsibility and with the aim of establishing a corporate brand whose existence will be recognized, the "CSR Committee" was established in March, 2004.

In our corporate activities going forward, enhancements will be made from various perspectives including compliance with the laws, consideration for the environment, and contributions to society and we will steadily achieve these responsibilities that Hanwa bears as a "social institution"

The outline of the organization is shown on page 4.

Management Discussion and Analysis

Economic overview

During the year under review, the world economy showed gradual trend for recovery in the US and Europe and continued buoyancy was seen in the East Asian economies, centering on the Chinese economy. In Japanese economy, also, there have been some bright signs including indication of firmness in private capital investments led by the digital appliance segment and the recovery of the stock markets, which is enjoying favorable conditions; however, the overall deflationary tone continues to linger and conditions that warrant vigilance continues.

Earnings

In spite of this severe environment, due to our strict and timely credit management and aggressive measures to expand sales, supported by favorable export performance to China and South East Asian markets, net sales for the fiscal year expanded by 10.1% over the previous year to ¥752.0 billion. As a result of continued strength in the steel products and non-ferrous metal markets and the Group's focus on maintaining profit margins, operating income expanded 23.5% over the previous fiscal year to ¥12.7 billion. Further, as a result of early adoption of accounting standard for impairment of long-lived assets, as an other expense item for the purpose of further strengthening our financial base in preparation for the execution of the New Mid-term Business Plan, net income for the term under review declined 4.2% over the previous year to ¥5.7 billion.

Sales by Business Segment

Steel: With the continued weakness, particularly in the construction industry, which is a major buyer of mild steel bars and shapes, there have not been any signs of robust recovery in the domestic demand. On the other hand, some bright signs for optimism has been emerging in the demand conditions in the construction machinery and industrial machinery sectors and in addition to continued favorable performance in exports to China and South East Asia of raw materials for OA equipment and home appliance industries. The prices for steel continued to hold firm during the fiscal year 2003 resulting in a 12.0% increase in net sales over the previous year to ¥409.4 billion.

Non-Ferrous Metals: Due to the robust demand for stainless steel in China, the market for stainless steel scraps and nickel continued to perform favorably. With the success of our efforts to strengthen the sales organization to focus on the handling of ferroalloys, including ferrochrome and silicon manganese, net sales of the segment increased 22.4% over the previous year to ¥79.6 billion.

Foods: Adding to the decline in demand attributable to the adverse effects of the cold summer in the first half of FY2003, the year-end demand was also unfavorable resulting in a decline in net sales by 8.5% to ¥84.6 billion.

Petroleum and Chemicals: While the international market for crude oil rose significantly as a result of increases in demand for fuel oils due to the cold spell in Europe and the United States and the problems in Iraq, in our domestic market, the winter demand for kerosene was depressed due to the warm winter during end of the year period resulting in severe pricing conditions. However, in spite of the adversities, due to the results of our efforts to expand the sales volume, net sales of the segment was able to show an increase of 16.6% over the previous year to ¥135.1 billion.

Other businesses: Principally in the lumber business, due to regulatory factors including the strengthening of the restrictions on logging by the Indonesian government and the transition to the new JAS Standards that resulted in the reduction of plywood imports, net sales declined 1.9% over the previous year to 43.2 billion.

Cash Flows

Net cash provided by operating activities, during the previous year was ¥3.3 billion but during the fiscal year, net cash used in operating activities was ¥6.9 billion. This is due to an ¥11.8 billion expansion in trade receivables and increase in the inventory level by ¥9.2 billion in comparison with the previous year associated with the active sales activities.

In terms of net cash provided by investing activities, compared with the net cash provided of ¥0.8 billion in the previous year, during the fiscal year, it was a net use of ¥1.0 billion. The reasons for this variance were due to increase in time deposits and to expansion of steel processing equipment.

Net cash used in financing activities amounted ¥10.9 billion, an increase by ¥0.8 billion over the previous year. In the financing activities undertaken this year was continued repayments of bank loans and long-term debts in line with the objective, established in the former Mid-term Business Plan of reducing interest bearing debt.

Outlook

We see little cause for optimism for management environment that surround the trading companies in chaotic conditions that continues to prevail in the Middle East, heightening concerns over terrorism, uncertainty enveloping the outlook for the world economy and a Japanese economy where the deflationary bias continues to be the basic theme.

We regard the steel business, non-ferrous metal business, food business, and petroleum and chemical businesses as core businesses and we will execute the marketing strategy outlined in the Mid-term Business Plan to expand the businesses. In other business areas, we will work to enhance earnings by boosting the sales of existing products and by developing new customers.

Five-Year Summary

For the years ended March 31

	Millions of yen except number of employees					Thousands of U.S. dollars
	2004	2003	2002	2001	2000	**2004**
For the year:						
Net sales	**¥ 751,964**	¥ 682,964	¥ 625,614	¥ 689,106	¥ 629,717	**$ 7,114,807**
Operating income	**12,666**	10,257	6,517	10,283	8,727	**119,841**
Net income	**5,662**	5,907	3,587	1,945	595	**53,572**
Net cash provided by (used in) operating activities	**(6,850)**	3,269	19,327	2,731	(9,715)	**(64,812)**
Net cash provided by (used in) investing activities	**(1,004)**	836	1,352	41,635	22,789	**(9,499)**
Net cash used in financing activities	**(10,873)**	(10,115)	(14,630)	(52,208)	(20,382)	**(102,877)**
At year-end:						
Cash and cash equivalents	**8,390**	27,808	35,183	27,701	34,435	**79,383**
Total assets	**293,528**	281,557	284,515	288,175	332,172	**2,777,254**
Total stockholders' equity	**57,757**	52,748	49,188	25,448	27,036	**546,475**
Number of employees	**1,285**	1,239	1,136	1,177	1,202	

	Yen					U.S. dollars
	2004	2003	2002	2001	2000	**2004**
Per share data:						
Net income	**¥ 26.43**	¥ 27.91	¥ 16.95	¥ 9.19	¥ 2.48	**$ 0.250**
Cash dividends	**6.00**	5.00	5.00	—	—	**0.057**
Stockholders' equity	**272.67**	249.30	232.40	120.23	127.73	**2.580**

	%				
	2004	2003	2002	2001	2000
Key financial ratios:					
Return on assets	**2.0**	2.1	1.3	0.6	0.2
Return on equity	**10.2**	11.6	9.6	7.4	1.7
Debt/equity ratio	**200**	240	270	580	740

Note: The U.S. dollar amounts represent translations, for convenience only, of yen amounts at the rate of ¥105.69=$1.00.

Financial Section

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Consolidated Balance Sheets

As at March 31, 2004 and 2003

Assets	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004	Thousands of U.S. dollars (Note 1) 2003
Current assets:				
Cash and cash equivalents	¥ **8,390**	¥ 27,808	$ **79,383**	$ 263,109
Marketable securities (Note 3)	**—**	102	**—**	965
Receivables:				
Trade notes and accounts:				
Unconsolidated subsidiaries and affiliates	**4,001**	3,181	**37,856**	30,097
Other	**145,863**	130,933	**1,380,102**	1,238,840
Loans:				
Unconsolidated subsidiaries and affiliates	**2,214**	3,533	**20,948**	33,428
Other	**8**	2	**75**	19
Allowance for doubtful receivables	**(835)**	(861)	**(7,900)**	(8,146)
Inventories	**50,562**	34,983	**478,399**	330,996
Deferred tax assets-current (Note 8)	**2,370**	1,060	**22,424**	10,029
Other current assets (Note 5)	**17,162**	14,287	**162,381**	135,179
Total current assets	**229,735**	215,028	**2,173,668**	2,034,516
Investments and non-current receivables:				
Investment securities (Notes 3 and 5):				
Unconsolidated subsidiaries and affiliates	**1,240**	1,421	**11,732**	13,445
Other	**12,377**	8,588	**117,107**	81,257
Loans receivable:				
Unconsolidated subsidiaries and affiliates	**325**	415	**3,075**	3,927
Other	**806**	940	**7,626**	8,894
Other investments and non-current receivables	**10,780**	11,277	**101,996**	106,698
Allowance for doubtful receivables	**(2,041)**	(2,092)	**(19,311)**	(19,794)
Total investments and non-current receivables	**23,487**	20,549	**222,225**	194,427
Property and equipment (Note 5)**:**				
Land (Note 9)	**24,352**	29,195	**230,410**	276,233
Buildings and structures	**19,936**	19,972	**188,627**	188,968
Other	**6,527**	5,789	**61,756**	54,773
Accumulated depreciation	**(11,184)**	(9,670)	**(105,819)**	(91,494)
Total property and equipment	**39,631**	45,286	**374,974**	428,480
Other assets:				
Deferred tax assets — noncurrent (Note 8)	**10**	75	**95**	710
Intangibles and other assets (Note 5)	**665**	619	**6,292**	5,856
Total other assets	**675**	694	**6,387**	6,566
Total	¥ **293,528**	¥ 281,557	$ **2,777,254**	$ 2,663,989

See accompanying Notes to Consolidated Financial Statements.

Liabilities, Minority Interest and Stockholders' Equity	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004	Thousands of U.S. dollars (Note 1) 2003
Current liabilities:				
Bank loans (Note 6)	**¥ 64,847**	¥ 74,615	**$ 613,559**	$ 705,980
Long-term debt due within one year (Note 6)	**1,050**	28,979	**9,935**	274,189
Trade notes and accounts payable:				
Unconsolidated subsidiaries and affiliates	**1,759**	1,378	**16,643**	13,038
Other	**92,591**	81,047	**876,062**	766,837
Accrued bonuses to employees	**1,555**	1,438	**14,713**	13,606
Income taxes payable	**81**	588	**766**	5,563
Other current liabilities	**13,968**	13,041	**132,160**	123,389
Total current liabilities	**175,851**	201,086	**1,663,838**	1,902,602
Non-current liabilities:				
Long-term debt due after one year (Note 6)	**48,675**	21,000	**460,545**	198,694
Employees' severance and retirement benefits (Note 7)	**2,468**	1,791	**23,351**	16,946
Directors' retirement benefits	**466**	367	**4,410**	3,472
Reserve for loss on sale-repurchase agreement of land	**2,819**	2,512	**26,672**	23,768
Deferred tax liabilities — noncurrent (Note 8)	**2,653**	—	**25,102**	—
Other non-current liabilities	**2,303**	1,551	**21,790**	14,675
Total non-current liabilities	**59,384**	27,221	**561,870**	257,555
Contingent liabilities (Note 13)				
Minority interest	**536**	502	**5,071**	4,750
Stockholders' equity (Note 9):				
Common stock,				
Authorized: 570,000,000 shares				
Issued: 211,663,200 shares	**45,651**	45,651	**431,933**	431,933
Retained earnings	**11,451**	9,991	**108,345**	94,531
Land revaluation difference	**1,616**	(419)	**15,290**	(3,964)
Net unrealized holding gains (losses) on securities	**2,282**	(385)	**21,591**	(3,643)
Foreign currency translation adjustments	**(3,225)**	(2,079)	**(30,514)**	(19,671)
Treasury stock, at cost: 99,130 shares (73,712 in 2003)	**(18)**	(11)	**(170)**	(104)
Total stockholders' equity	**57,757**	52,748	**546,475**	499,082
Total	**¥ 293,528**	¥ 281,557	**$ 2,777,254**	$ 2,663,989

HANWA CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income

For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2004	2003	**2004**	2003
Net sales	**¥ 751,964**	¥ 682,964	**$ 7,114,807**	$ 6,461,955
Cost of sales	**718,314**	651,641	**6,796,423**	6,165,588
Gross profit	**33,650**	31,323	**318,384**	296,367
Selling, general and administrative expenses	**20,984**	21,066	**198,543**	199,319
Operating income	**12,666**	10,257	**119,841**	97,048
Other income (expenses):				
Interest and dividend income	**781**	920	**7,390**	8,705
Interest expense	**(2,026)**	(2,223)	**(19,169)**	(21,033)
Gain on sale of property and equipment	**—**	249	**—**	2,356
Loss on impairment of long-lived assets (Note 15)	**(4,590)**	—	**(43,429)**	—
Loss on loans receivable	**(71)**	—	**(672)**	—
Provision for doubtful receivables	**(403)**	—	**(3,813)**	—
Loss on write-down of investment securities	**(234)**	(339)	**(2,214)**	(3,207)
Provision for loss on sale-repurchase agreement of land	**(307)**	(475)	**(2,905)**	(4,494)
Loss on sale of property and equipment	**(411)**	—	**(3,889)**	—
Loss on sale of investment securities	**—**	(941)	**—**	(8,904)
Other, net	**(981)**	(473)	**(9,282)**	(4,476)
Income before income taxes and minority interest	**4,424**	6,975	**41,858**	65,995
Income taxes (Note 8)**:**				
Current	**(65)**	166	**(615)**	1,571
Deferred	**(1,263)**	902	**(11,950)**	8,534
	(1,328)	1,068	**(12,565)**	10,105
Minority interest in income of consolidated subsidiaries	**(90)**	—	**(851)**	—
Net income	**¥ 5,662**	¥ 5,907	**$ 53,572**	$ 55,890

	Yen		U.S. dollars (Note 1)	
	2004	2003	**2004**	2003
Net income per share	**¥ 26.43**	¥ 27.91	**$ 0.250**	$ 0.264
Cash dividends per share	**6.00**	5.00	**0.057**	0.047

See accompanying Notes to Consolidated Financial Statements.

HANWA CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

For the years ended March 31, 2004 and 2003

	Thousands	Millions of yen					
	Number of shares of common stock	Common stock	Retained earnings	Land revaluation difference	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2002	211,663	¥ 45,651	¥ 5,141	¥ (418)	¥ (808)	¥ (377)	¥ (1)
Net income	—	—	5,907	—	—	—	—
Cash dividends	—	—	(1,058)	—	—	—	—
Transfer of land revaluation difference	—	—	1	(1)	—	—	—
Net changes in unrealized holding gains (losses) on securities	—	—	—	—	423	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(1,702)	—
Treasury stock	—	—	—	—	—	—	(10)
Balance at March 31, 2003	**211,663**	**45,651**	**9,991**	**(419)**	**(385)**	**(2,079)**	**(11)**
Net income	**—**	**—**	**5,662**	**—**	**—**	**—**	**—**
Cash dividends	**—**	**—**	**(1,058)**	**—**	**—**	**—**	**—**
Transfer of land revaluation difference (Note 9)	**—**	**—**	**(3,144)**	**2,035**	**—**	**—**	**—**
Net changes in unrealized holding gains (losses) on securities	**—**	**—**	**—**	**—**	**2,667**	**—**	**—**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**(1,146)**	**—**
Treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(7)**
Balance at March 31, 2004	**211,663**	**¥ 45,651**	**¥ 11,451**	**¥ 1,616**	**¥ 2,282**	**¥ (3,225)**	**¥ (18)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Retained earnings	Land revaluation difference	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2002	$ 431,933	$ 48,642	$ (3,955)	$ (7,645)	$ (3,567)	$ (9)
Net income	—	55,890	—	—	—	—
Cash dividends	—	(10,010)	—	—	—	—
Transfer of land revaluation difference	—	9	(9)	—	—	—
Net changes in unrealized holding gains (losses) on securities	—	—	—	4,002	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	(16,104)	—
Treasury stock	—	—	—	—	—	(95)
Balance at March 31, 2003	**431,933**	**94,531**	**(3,964)**	**(3,643)**	**(19,671)**	**(104)**
Net income	**—**	**53,572**	**—**	**—**	**—**	**—**
Cash dividends	**—**	**(10,011)**	**—**	**—**	**—**	**—**
Transfer of land revaluation difference (Note 9)	**—**	**(29,747)**	**19,254**	**—**	**—**	**—**
Net changes in unrealized holding gains (losses) on securities	**—**	**—**	**—**	**25,234**	**—**	**—**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**(10,843)**	**—**
Treasury stock	**—**	**—**	**—**	**—**	**—**	**(66)**
Balance at March 31, 2004	**$ 431,933**	**$ 108,345**	**$ 15,290**	**$ 21,591**	**$ (30,514)**	**$ (170)**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2004	2003	**2004**	2003
Cash flows from operating activities:				
Income before income taxes	**¥ 4,424**	¥ 6,975	**$ 41,858**	$ 65,995
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities				
Depreciation	**2,008**	1,707	**18,999**	16,151
Loss on impairment of long-lived assets	**4,590**	—	**43,429**	—
Decrease in allowance for doubtful receivables	**(72)**	(649)	**(681)**	(6,141)
Interest and dividend income	**(781)**	(920)	**(7,390)**	(8,705)
Interest expense	**2,026**	2,223	**19,169**	21,033
Gain on sale of property and equipment	**—**	(249)	**—**	(2,356)
Loss on write-down of investment securities	**234**	339	**2,214**	3,207
Provision for loss on sale-repurchase agreement of land	**307**	475	**2,905**	4,494
Loss on sale of property and equipment	**411**	—	**3,889**	—
Loss on sale of investment securities	**—**	941	**—**	8,904
Increase in trade receivables	**(16,054)**	(4,233)	**(151,897)**	(40,051)
Increase in inventories	**(15,795)**	(6,588)	**(149,446)**	(62,333)
Increase (decrease) in trade notes and accounts payable	**12,156**	(3,422)	**115,016**	(32,378)
Other, net	**1,212**	8,037	**11,467**	76,044
Sub total	**(5,334)**	4,636	**(50,468)**	43,864
Cash flows during the year for:				
Interest and dividends received	**798**	972	**7,550**	9,197
Interest paid	**(2,017)**	(2,172)	**(19,084)**	(20,551)
Income taxes paid	**(297)**	(167)	**(2,810)**	(1,580)
Net cash provided by (used in) operating activities	**(6,850)**	3,269	**(64,812)**	30,930
Cash flows from investing activities:				
Increase in time deposits, net	**(1,711)**	—	**(16,189)**	—
Proceeds from redemption and sale of securities	**108**	2,941	**1,022**	27,827
Additions to property and equipment	**(1,265)**	(603)	**(11,969)**	(5,705)
Proceeds from sale of property and equipment	**157**	1,403	**1,485**	13,274
Additions to investment securities	**(418)**	(3,230)	**(3,955)**	(30,561)
Proceeds from redemption and sale of investment securities	**813**	2,671	**7,693**	25,272
Additions to loans receivable	**(178)**	(2,444)	**(1,684)**	(23,124)
Repayment of loans receivable	**967**	479	**9,149**	4,532
Proceeds in the acquisition of the shares of newly consolidated subsidiary (Note 10)	**—**	452	**—**	4,277
Other, net	**523**	(833)	**4,949**	(7,882)
Net cash provided by (used in) investing activities	**(1,004)**	836	**(9,499)**	7,910
Cash flows from financing activities:				
Decrease in bank loans, net	**(9,579)**	(22,710)	**(90,633)**	(214,874)
Proceeds from long-term debt	**28,750**	15,000	**272,022**	141,924
Repayments of long-term debt	**(29,003)**	(1,337)	**(274,416)**	(12,650)
Payment of cash dividends	**(1,034)**	(1,058)	**(9,784)**	(10,010)
Other, net	**(7)**	(10)	**(66)**	(94)
Net cash used in financing activities	**(10,873)**	(10,115)	**(102,877)**	(95,704)
Effect of exchange rate changes on cash and cash equivalents	**(691)**	(1,365)	**(6,538)**	(12,916)
Net decrease in cash and cash equivalents	**(19,418)**	(7,375)	**(183,726)**	(69,780)
Cash and cash equivalents at beginning of year	**27,808**	35,183	**263,109**	332,889
Cash and cash equivalents at end of year	**¥ 8,390**	¥ 27,808	**$ 79,383**	$ 263,109

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Hanwa Co., Ltd. (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of stockholders' equity) from the consolidated financial statements prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥105.69 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 ten significant subsidiaries (together "the Companies"). The accounts of certain consolidated subsidiaries have been included on the basis of fiscal periods ended three months or less prior to March 31, and significant transactions after their year-ends are appropriately adjusted in consolidation.

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

Cash and cash equivalents — In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Allowance for doubtful receivables — The allowance for doubtful receivables is provided to cover possible losses on collection. With respect to normal trade accounts receivable, it is stated at an amount based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount has been individually estimated.

The allowance for doubtful receivables of overseas consolidated subsidiaries is determined by estimates of management.

Securities — The Companies classify securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Companies do not hold held-to-maturity debt securities. Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Equity securities issued by subsidiaries and affiliated companies, which are not consolidated or accounted for using the equity method, are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of stockholders' equity. Realized gains on sale of such securities are computed using moving-average cost. Other available-for-sale securities are stated at moving average cost.

Inventories — Inventories are principally stated at the lower of cost or market value. Cost is determined by the moving average cost method or the specific identification cost method.

Property and equipment — Property and equipment are carried at cost. Recognized loss on impairment of long-lived assets have been deducted from acquisition costs. Depreciation is principally provided on the declining balance method over estimated useful lives. Major renewals and improvements are capitalized. Maintenance, repairs and minor renewals are expensed as incurred.

Software costs — The Companies include software in intangible and other assets, and depreciate it using the straight-line method over the estimated useful life of five years.

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

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

Income taxes — The Companies recognize tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The Company and its wholly owned domestic subsidiaries file consolidated tax returns.

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

The liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

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.

Employees of Japanese companies are compulsorily included in the Welfare Pension Insurance Scheme operated by the government. Employers are legally required to deduct employees' welfare pension insurance contributions from their payroll and to pay them to the government together with employers' own contributions. For companies that have established their own Employees' Pension Fund, which meets certain legal requirements, it is possible to transfer a part of their welfare pension insurance contributions (referred to as the "substitutional portion" of the government's Welfare Pension Insurance Scheme) to their own Employees' Pension Fund under the government's permission and supervision.

Based on the newly enacted Defined Benefit Corporate Pension Law, the Company decided to restructure their Employees' Pension Fund and were permitted by the Minister of Health, Labor and Welfare on September 25, 2003 to be released from their future obligation for payments for the substitutional portion of the Welfare Pension Insurance Scheme. Pension assets for the substitutional portion maintained by the Employees' Pension Fund are to be transferred back to the government's scheme. The effects of the transfer are disclosed in the Note 7. Employees' severance and retirement benefits.

Reserve for loss on sale-repurchase agreement of land — Reserve for loss on sale-repurchase of land reflects an estimate of possible losses based on an exercise of a sale-repurchase agreement under which the Company sold land to the Organization for Promoting Urban Development.

Translation of foreign currencies — Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rates except for stockholders' equity accounts, which are translated at the historical rates. Income statements of consolidated overseas subsidiaries are translated at average rates except for transactions with the Company, which are translated at the rates used by the Company.

The Companies report foreign currency translation adjustments in stockholders' equity.

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 Japanese GAAP.

Derivatives and hedge accounting — The Company states derivative financial instruments at fair value and recognizes changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

Also, if interest rate swap agreements are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap agreement is added to or deducted from the interest on the assets or liabilities for which the swap agreement was executed.

The following summarizes hedging derivative financial instruments used by the Company and items hedged:

Hedging instruments:
- Interest rate swap agreements
- Commodity futures contracts
- Foreign exchange forward contracts

Hedged items:
- Interest expense on borrowings
- Inventories and commitments
- Equity investment in subsidiary

The Company evaluates hedge effectiveness by comparing the cumulative changes in cash flows or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments.

Reclassifications — Certain reclassifications have been made to prior-year amounts to conform to the current-year presentation.

Amounts per share — Computations of net income per share of common stock are based on the weighted average number of shares outstanding during each period. The Commercial Code of Japan requires that the declaration of dividends be approved at the general meeting of stockholders held after the end of the fiscal year. Therefore, cash dividends per share shown in the consolidated statements of income reflect the dividends approved after the end of the fiscal year.

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

The adoption of the new accounting standard had no impact on the financial statements.

Change in accounting policy — Commencing in the year ended March 31, 2004, the Company and its Subsidiaries adopted early the new Japanese accounting standard for impairment of long-lived assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Long-Lived Assets" issued by the Business Accounting Deliberation Council of Japan on August 9, 2002) and the Implementation Guidance for Accounting Standard for Impairment of Long-Lived Assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). As a result, net income before income taxes and minority interest for the year ended March 31, 2004 decreased by ¥4,590 million ($43,429 thousand) compared with what would have been reported if the new accounting standard had not been adopted early.

3. Securities

(A) The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2004 and 2003:

March 31, 2004

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	**¥ 3,917**	**¥ 7,804**	**¥ 3,887**	**$ 37,062**	**$ 73,839**	**$ 36,777**
Bonds						
Corporate bonds	**—**	**—**	**—**	**—**	**—**	**—**
Total	**¥ 3,917**	**¥ 7,804**	**¥ 3,887**	**$ 37,062**	**$ 73,839**	**$ 36,777**
Other securities:						
Equity securities	**¥ 332**	**¥ 293**	**¥ (39)**	**$ 3,141**	**$ 2,772**	**$ (369)**

March 31, 2003

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	¥ 2,212	¥ 2,542	¥ 330	$ 20,929	$ 24,051	$ 3,122
Bonds						
Corporate bonds	100	102	2	946	965	19
Total	¥ 2,312	¥ 2,644	¥ 332	$ 21,875	$ 25,016	$ 3,141
Other securities:						
Equity securities	¥ 2,734	¥ 2,022	¥ (712)	$ 25,868	$ 19,132	$ (6,736)

(B) The following tables summarize book values of securities whose fair values are not determinable as of March 31, 2004 and 2003:

(a) Equity securities issued by unconsolidated subsidiaries and affiliated companies

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	**2004**	2003
	Book value	Book value	Book value	Book value
Equity securities issued by unconsolidated subsidiaries and affiliated companies	**¥ 1,240**	¥ 1,421	**$ 11,732**	$ 13,445

(b) Available-for-sale securities

Unlisted stocks (excluding over-the-counter securities)	**¥ 2,280**	¥ 2,024	**$ 21,573**	$ 19,151
Other	**2,000**	2,000	**18,923**	18,923
Total	**¥ 4,280**	¥ 4,024	**$ 40,496**	$ 38,074

(C) Available-for-sale securities with maturities as of March 31, 2004 and 2003 will mature as follows:

Year ended March 31, 2004
No available-for-sale securities with maturities remains this year.

Year ended March 31, 2003

	Millions of yen			Thousands of U.S. dollars		
	Within one year	Over one year but within five years	Over five years but within ten years	Within one year	Over one year but within five years	Over five years but within ten years
Corporate bonds	102	—	—	965	—	—

(D) Total sales of available-for-sale securities in the years ended March 31, 2004 and 2003 amounted to ¥832 million ($7,872 thousand) and ¥2,269 million ($21,468 thousand), which resulted in net gains of ¥25 million ($237 thousand) and net losses of ¥941 million ($8,904 thousand), respectively.

4. Derivatives

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

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

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

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

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

The following tables summarize market value information as of March 31, 2004 and 2003, of derivatives for which hedge accounting has not been applied:

March 31, 2004

Currency related

	Millions of yen			Thousands of U.S. dollars		
	Contract or notional amount	Fair value	Net recognized gains (losses)	Contract or notional amount	Fair value	Net recognized gains (losses)
Foreign exchange forward contracts:						
Selling						
U.S. dollars	¥ 2,206	¥ 2,191	¥ 15	$ 20,872	$ 20,730	$ 142
Other currencies	10	9	1	95	85	10
Buying						
U.S. dollars	24,094	23,485	(609)	227,969	222,206	(5,763)
Other currencies	1,566	1,532	(34)	14,817	14,495	(322)
Currency swap agreements:						
Japanese yen received for U.S. dollars	11,490	999	999	108,714	9,452	9,452
Currency option agreements:						
Selling						
Put						
U.S. dollars	608			5,753		
	<12>	50	(38)	<113>	473	(360)
Euro	1,518			14,363		
	<33>	46	(13)	<312>	435	(123)
Buying						
Call						
U.S. dollars	203			1,921		
	<5>	1	(4)	<47>	9	(38)
Euro	506			4,788		
	<16>	9	(7)	<151>	86	(65)
Total			¥ 310			$ 2,933

Notes: The figures in < > represent option premiums for currency option agreements.

Commodity related

	Millions of yen			Thousands of U.S. dollars		
	Contract or notional amount	Fair value	Net recognized gains (losses)	Contract or notional amount	Fair value	Net recognized gains (losses)
Futures:						
Petroleum						
Selling	¥ 1,695	¥ 1,699	¥ (4)	$ 16,037	$ 16,075	$ (38)
Buying	6,737	6,867	130	63,743	64,973	1,230
Frozen seafoods						
Selling	—	—	—	—	—	—
Buying	6	6	—	57	57	—
Non-ferrous metals						
Selling	14,369	14,318	51	135,954	135,472	482
Buying	13,321	13,732	411	126,038	129,927	3,889
Total			¥ 588			$ 5,563

March 31, 2003

Currency related

	Millions of yen			Thousands of U.S. dollars		
	Contract or notional amount	Fair value	Net recognized gains (losses)	Contract or notional amount	Fair value	Net recognized gains (losses)
Foreign exchange forward contracts:						
Selling						
U.S. dollars	¥ 3,545	¥ 3,524	¥ 21	$ 33,541	$ 33,343	$ 198
Other currencies	34	35	(1)	322	331	(9)
Buying						
U.S. dollars	24,509	25,103	594	231,895	237,515	5,620
Other currencies	1,725	1,759	34	16,321	16,643	322
Currency swap agreements:						
Japanese yen received for U.S. dollars	12,602	526	526	119,236	4,977	4,977
Currency option agreements:						
Selling						
Put						
Euro	181			1,713		
	<5>	5	—	<47>	47	—
Buying						
Call						
Euro	91			861		
	<3>	16	13	<28>	151	123
Total			¥ 1,187			$ 11,231

Notes: The figures in < > represent option premiums for currency option agreements.

Commodity related

	Millions of yen			Thousands of U.S. dollars		
	Contract or notional amount	Fair value	Net recognized gains	Contract or notional amount	Fair value	Net recognized gains
Futures:						
Petroleum						
Selling	¥ 1,262	¥ 1,218	¥ 44	$ 11,940	$ 11,524	$ 416
Buying	790	818	28	7,475	7,740	265
Frozen seafoods						
Selling	16	15	1	151	142	9
Buying	9	9	—	85	85	—
Total			¥ 73			$ 690

5. Pledged assets

At March 31, 2004 and 2003, assets pledged as collateral for short-term bank loans of ¥396 million ($3,747 thousand) and ¥25,100 million ($237,487 thousand), respectively, and guarantees were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	**2004**	2003
Other current assets	**¥ 10**	¥ 10	**$ 94**	$ 94
Investment securities	**3,817**	1,503	**36,115**	14,221
Property and equipment, net of accumulated depreciation	**342**	25,024	**3,236**	236,768
Intangibles	**69**	78	**653**	738
Total	**¥ 4,238**	¥ 26,615	**$ 40,098**	$ 251,821

6. Bank loans and long-term debt

Bank loans at March 31, 2004 and 2003, were represented principally by short-term notes with an weighted average interest rate of 1.13% and 1.10%, respectively.

Long-term debt at March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	**2004**	2003
Loans from banks, with an weighted average interest rate of 0.94% and 0.93% at March 31, 2004 and 2003, maturing serially through 2009	**¥ 49,725**	¥ 49,979	**$ 470,480**	$ 472,883
	49,725	49,979	**470,480**	472,883
Less amounts due within one year	**1,050**	28,979	**9,935**	274,189
	¥ 48,675	¥ 21,000	**$ 460,545**	$ 198,694

The annual maturities of long-term debt outstanding at March 31, 2004, were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 1,050	$ 9,935
2006	17,050	161,321
2007	26,450	250,260
2008	50	473
2009	5,125	48,491
Total	¥ 49,725	$ 470,480

7. Employees' severance and retirement benefits

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	**2004**	2003
Projected benefit obligation	**¥ 23,059**	¥ 19,649	**$ 218,176**	$ 185,912
Less fair value of pension assets	**(13,031)**	(11,082)	**(123,295)**	(104,854)
Unrecognized actuarial differences	**(8,696)**	(7,946)	**(82,278)**	(75,182)
Unrecognized prior service cost	**720**	780	**6,812**	7,380
Prepaid pension cost	**416**	390	**3,936**	3,690
Liability for severance and retirement benefits	**¥ 2,468**	¥ 1,791	**$ 23,351**	$ 16,946

Included in the consolidated statements of income for the years ended March 31, 2004 and 2003, are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	**2004**	2003
Service costs -benefits earned during the year	**¥ 591**	¥ 808	**$ 5,592**	$ 7,645
Interest cost on projected benefit obligation	**488**	461	**4,617**	4,362
Expected return on plan assets	**(330)**	(435)	**(3,122)**	(4,116)
Amortization of actuarial difference	**617**	450	**5,838**	4,258
Amortization of prior service cost	**(60)**	(60)	**(568)**	(568)
Additional retirement benefits	**40**	132	**378**	1,249
Severance and retirement benefit expenses	**¥ 1,346**	¥ 1,356	**$ 12,735**	$ 12,830

Prior service cost and actuarial differences are amortized or recognized over stated years that do not exceed the average remaining service period of active employees expected to receive benefits under the plan.

Assumptions used for the years ended March 31, 2004 and 2003, are as follows:

	2004	2003
Discount rate	**2.0%**	2.5%
Expected rate of return on plan assets	**3.0%**	3.5%
Amortization period of prior service costs	**14 years**	14 years
Amortization period of actuarial differences	**14 years**	14 years

As explained in Note 2, the Company obtained permission by the Minister of Health, Labor and Welfare on September 25, 2003, to be released from their future obligation for payments for the substitutional portion of the Welfare Pension Insurance scheme.

The Companies estimate that the amounts of pension plan assets to be transferred back to the government and the related gains will be ¥4,546 million ($43,013 thousand) and ¥1,744 million ($16,501 thousand), respectively.

8. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate aggregate statutory income tax rates in Japan of approximately 42.1% for the years ended March 31, 2004 and 2003.

The aggregate statutory income tax rate will be reduced for the years commencing on April 1, 2004 or later due to the revised local tax law. At March 31, 2003, the Company and consolidated domestic subsidiaries applied the reduced aggregate statutory income tax rate of 40.5% for calculating deferred tax assets and liabilities that are expected to be recovered or settled in the years commencing on April 1, 2004 or later. As a result, for the year ended March 31, 2003, deferred taxes assets decreased by ¥2 million ($19 thousand) and provision for deferred income taxes increased by ¥2 million ($19 thousand) compared with what would have been reported using the currently applicable aggregate statutory income tax rate of 42.1%.

The following table summarizes the significant differences between the aggregate statutory income tax rate and the Company's effective tax rates for financial statement purposes for the years ended March 31, 2004 and 2003:

	2004	2003
Statutory tax rate	**42.1%**	42.1%
Tax effect of permanent differences	**4.7**	2.9
Valuation allowance recognized for deferred tax assets	**(76.9)**	(29.1)
Tax effect of unrealized intercompany profit	**2.8**	(0.2)
Difference of tax rates for consolidated subsidiaries	**(2.1)**	(0.5)
Other	**(0.6)**	0.1
Effective tax rate	**(30.0)%**	15.3%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	**2004**	2003
Deferred tax assets:				
Net operating loss carryforwards	**¥ 2,014**	¥ 4,721	**$ 19,056**	$ 44,668
Temporary differences pertaining to a consolidated subsidiary	**23,986**	23,834	**226,947**	225,509
Loss on impairment of long-lived assets	**1,867**	—	**17,665**	—
Loss on loans receivable	**—**	1,736	**—**	16,425
Temporary differences pertaining to investments in consolidated companies	**781**	777	**7,390**	7,352
Reserve for loss on sale-repurchase agreement of land	**1,147**	1,017	**10,852**	9,622
Other	**4,273**	3,503	**40,429**	33,145
Total deferred tax assets	**34,068**	35,588	**322,339**	336,721
Valuation allowance	**(31,471)**	(34,220)	**(297,767)**	(323,777)
Net deferred tax assets	**2,597**	1,368	**24,572**	12,944
Deferred tax liabilities:				
Net unrealized holding gains on securities	**1,566**	4	**14,817**	38
Land revaluation difference	**1,109**	—	**10,493**	—
Other	**195**	229	**1,845**	2,167
Total deferred tax liabilities	**2,870**	233	**27,155**	2,205
Net deferred tax assets (liabilities)	**¥ (273)**	¥ 1,135	**$ (2,583)**	$ 10,739

9. Stockholders' equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of stockholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Commercial Code.

Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves," issued by the Accounting Standards Board of Japan on February 21, 2002).

The effect on net income of the adoption of the new accounting standard was not material.

Land revaluation difference — Pursuant to the Law Concerning Land Revaluation, the Company revaluated land used for business activities at March 31, 2002.

Unrealized gain (loss) on land revaluation is recorded as land revaluation difference in a separate component of stockholders' equity of the accompanying consolidated balance sheets until realized. The amounts are shown net of applicable income tax.

The revaluation of the land was determined based on a declared land value in accordance with Article 2, Paragraph 1, of the Enforcement Ordinance Concerning Land Revaluation, and the appraisal value made by certified real estate appraisers in accordance with Article 2, Paragraph 5 of the same Ordinance with certain necessary adjustments.

As of March 31, 2004, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥1,539 million ($14,561 thousand).

10. Acquisition of consolidated subsidiary

Chang-Fu Stainless Center (Suzhou) Co., Ltd. has been included in consolidation effective from the preceding fiscal year as a result of additional acquisition of its shares.

The assets and liabilities at the acquisition and the acquisition proceeds were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 2,440	$ 23,086
Fixed assets	940	8,894
Consolidation difference	26	246
Current liabilities	(2,183)	(20,655)
Minority interest	(502)	(4,750)
Foreign currency translation adjustments	(74)	(700)
Acquisition cost	647	6,121
Interest prior to acquisition	(433)	(4,097)
Additional acquisition cost	214	2,024
Cash and cash equivalents of the consolidated subsidiary	(666)	(6,301)
Net acquisition proceeds	¥ (452)	$ (4,277)

11. 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 and its consolidated subsidiaries for the years ended March 31, 2004 and 2003, were ¥338 million ($3,198 thousand) and ¥403 million ($3,813 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 as of and for the years ended March 31, 2004 and 2003, were as follows:

As of March 31, 2004

	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	**¥ 1,227**	**¥ 709**	**¥ 518**	**$ 11,609**	**$ 6,708**	**$ 4,901**
Other investments	**129**	**28**	**101**	**1,221**	**265**	**956**
Total	**¥ 1,356**	**¥ 737**	**¥ 619**	**$ 12,830**	**$ 6,973**	**$ 5,857**

As of March 31, 2003

	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	¥ 1,408	¥ 759	¥ 649	$ 13,322	$ 7,182	$ 6,140
Other investments	122	79	43	1,154	747	407
Total	¥ 1,530	¥ 838	¥ 692	$ 14,476	$ 7,929	$ 6,547

Depreciation expense, which is not reflected in the accompanying statements of income, computed by the straight-line method was ¥276 million ($2,611 thousand) and ¥368 million ($3,482 thousand) for the years ended March 31, 2004 and 2003, respectively.

Interest expense, which is not reflected in the accompanying statements of income, computed by the interest method was ¥19million ($180thousand) and ¥30 million ($284 thousand) for the years ended March 31, 2004 and 2003, respectively.

Obligations, excluding financing charges, under such non-capitalized finance leases as of March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	**2004**	2003
Due within one year	**¥ 261**	¥ 292	**$ 2,469**	$ 2,763
Due after one year	**405**	419	**3,832**	3,964
Total	**¥ 666**	¥ 711	**$ 6,301**	$ 6,727

Operating leases
As Lessee
Obligations under operating leases as of March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	**2004**	2003
Due within one year	**¥ 45**	¥ 47	**$ 426**	$ 445
Due after one year	**92**	141	**870**	1,334
Total	**¥ 137**	¥ 188	**$ 1,296**	$ 1,779

12. Segment information

Industry segment information
The Companies' operations are classified into five industry segments as follows:

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

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

Foods: Frozen seafoods and meat products

Petroleum and chemicals: Petroleum products, chemical products, and cement

Other business: Machinery, lumber, and other.

Segment information by business category for the years ended March 31, 2004 and 2003, is as follows:

Year ended March 31, 2004

Millions of yen	Steel	Non-ferrous metals	Foods	Petroleum and chemicals	Other business	Total	Corporate	Consolidated
Net sales	**¥ 409,390**	**¥ 79,633**	**¥ 84,572**	**¥ 135,126**	**¥ 43,243**	**¥ 751,964**	**¥ —**	**¥ 751,964**
Costs and expenses	**398,963**	**78,164**	**83,427**	**133,862**	**40,492**	**734,908**	**4,390**	**739,298**
Operating income	**¥ 10,427**	**¥ 1,469**	**¥ 1,145**	**¥ 1,264**	**¥ 2,751**	**¥ 17,056**	**¥ (4,390)**	**¥ 12,666**
Assets	**¥ 163,912**	**¥ 27,654**	**¥ 30,996**	**¥ 18,334**	**¥ 12,060**	**¥ 252,956**	**¥ 40,572**	**¥ 293,528**
Depreciation	**1,432**	**86**	**45**	**19**	**357**	**1,939**	**69**	**2,008**
Loss on impairment of long-lived assets	**4,547**	**43**	**—**	**—**	**—**	**4,590**	**—**	**4,590**
Capital expenditure	**981**	**25**	**33**	**16**	**754**	**1,809**	**62**	**1,871**

Year ended March 31, 2004

Thousands of U.S. dollars	Steel	Non-ferrous metals	Foods	Petroleum and chemicals	Other business	Total	Corporate	Consolidated
Net sales	**$ 3,873,498**	**$ 753,458**	**$ 800,189**	**$ 1,278,513**	**$ 409,149**	**$ 7,114,807**	**$ —**	**$ 7,114,807**
Costs and expenses	**3,774,842**	**739,559**	**789,356**	**1,266,553**	**383,120**	**6,953,430**	**41,536**	**6,994,966**
Operating income	**$ 98,656**	**$ 13,899**	**$ 10,833**	**$ 11,960**	**$ 26,029**	**$ 161,377**	**$ (41,536)**	**$ 119,841**
Assets	**$ 1,550,875**	**$ 261,652**	**$ 293,273**	**$ 173,470**	**$ 114,107**	**$ 2,393,377**	**$ 383,877**	**$ 2,777,254**
Depreciation	**13,549**	**813**	**426**	**180**	**3,378**	**18,346**	**653**	**18,999**
Loss on impairment of long-lived assets	**43,022**	**407**	**—**	**—**	**—**	**43,429**	**—**	**43,429**
Capital expenditure	**9,282**	**237**	**312**	**151**	**7,134**	**17,116**	**587**	**17,703**

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

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

Year ended March 31, 2003

	Millions of yen							
	Steel	Non-ferrous metals	Foods	Petroleum and chemicals	Other business	Total	Corporate	Consolidated
Net sales	¥ 365,588	¥ 65,038	¥ 92,423	¥ 115,850	¥ 44,065	¥ 682,964	¥ —	¥ 682,964
Costs and expenses	358,297	63,809	89,938	114,639	41,787	668,470	4,237	672,707
Operating income	¥ 7,291	¥ 1,229	¥ 2,485	¥ 1,211	¥ 2,278	¥ 14,494	¥ (4,237)	¥ 10,257
Assets	¥ 149,734	¥ 18,308	¥ 26,473	¥ 18,938	¥ 12,030	¥ 225,483	¥ 56,074	¥ 281,557
Depreciation	1,253	92	55	22	210	1,632	75	1,707
Capital expenditure	431	23	51	20	246	771	76	847

Year ended March 31, 2003

	Thousands of U.S. dollars							
	Steel	Non-ferrous metals	Foods	Petroleum and chemicals	Other business	Total	Corporate	Consolidated
Net sales	$ 3,459,060	$ 615,366	$ 874,472	$ 1,096,130	$ 416,927	$ 6,461,955	$ —	$ 6,461,955
Costs and expenses	3,390,075	603,737	850,961	1,084,672	395,373	6,324,818	40,089	6,364,907
Operating income	$ 68,985	$ 11,629	$ 23,511	$ 11,458	$ 21,554	$ 137,137	$ (40,089)	$ 97,048
Assets	$ 1,416,728	$ 173,224	$ 250,478	$ 179,184	$ 113,823	$ 2,133,437	$ 530,552	$ 2,663,989
Depreciation	11,855	871	520	208	1,987	15,441	710	16,151
Capital expenditure	4,078	218	482	189	2,328	7,295	719	8,014

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

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

Regional segment information

The Companies operate mainly within Japan, so regional segment information is not disclosed.

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 for the years ended March 31, 2004 and 2003, were as follows:

Year ended March 31, 2004

	Millions of yen			Thousands of U.S. dollars		
	Asia	Other areas	Total	Asia	Other areas	Total
Overseas net sales	**¥ 112,062**	**¥ 8,462**	**¥ 120,524**	**$ 1,060,290**	**$ 80,064**	**$ 1,140,354**
Percentage of consolidated net sales	**14.9%**	**1.1%**	**16.0%**			

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

Year ended March 31, 2003

	Millions of yen			Thousands of U.S. dollars		
	Asia	Other areas	Total	Asia	Other areas	Total
Overseas net sales	¥ 94,218	¥ 10,717	¥ 104,935	$ 891,456	$ 101,400	$ 992,856
Percentage of consolidated net sales	13.8%	1.6%	15.4%			

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

13. Contingent liabilities

At March 31, 2004 and 2003, the Companies were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	**2004**	2003
As endorsers of export letters of credit and notes discounted	**¥ 10,646**	¥ 5,766	**$ 100,729**	$ 54,556
As guarantors of indebtedness	**1,516**	1,675	**14,344**	15,848

14. Related party transactions

Transactions with close relatives of a director of the Company for the years ended March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars	
Type of transaction	**2004**	2003	**2004**	2003
Real-estate				
Rents received	**¥ 6**	¥ —	**$ 57**	$ —
Purchases	**—**	251	**—**	2,375

15. Impairment of long-lived assets

Due to the continuous decline in land prices in Japan, the Companies reduced the carrying amount of the long-lived assets that were impaired to the recoverable amount. To assess the recoverable amount of the long-lived assets, appraised prices are principally used as the basis for the measurement. For the purpose of recognition and measurement, the Companies grouped the long-lived assets, principally based on the location of the business entity to which the assets belong. As a result of these procedures, loss on impairment of long-lived assets of ¥4,590 million ($43,429) was recognized, as shown in a separate component of other expenses in the consolidated statements of income.

The following table summarizes the allocation of loss on impairment of long-lived assets in the year ended March 31, 2004.

		Millions of yen			
Location	Purpose	Land	Structures	Building and Other	Total
Narashino, Chiba	Logistics center	¥ 2,456	¥ —	¥ 202	¥ 2,658
Suminoe, Osaka	Logistics center	1,429	92	—	1,521
Ama, Aichi	Logistics center	304	75	—	379
Kurokawa, Miyagi	Logistics center	32	—	—	32
Total		¥ 4,221	¥ 167	¥ 202	¥ 4,590

		Thousand of U.S. dollars			
Location	Purpose	Land	Structures	Building and Other	Total
Narashino, Chiba	Logistics center	$ 23,238	$ —	$ 1,911	$ 25,149
Suminoe, Osaka	Logistics center	13,521	870	—	14,391
Ama, Aichi	Logistics center	2,876	710	—	3,586
Kurokawa, Miyagi	Logistics center	303	—	—	303
Total		$ 39,938	$ 1,580	$ 1,911	$ 43,429

16. Subsequent events

At the ordinary general meeting of stockholders of the Company held on June 29, 2004, the following appropriation of retained earnings was approved:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥6 per share)	¥ 1,269	$ 12,007
Bonuses to directors	70	662
Transfer to legal reserve	134	1,268

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Hanwa Co., Ltd. (a Japanese corporation) and subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hanwa Co., Ltd. and subsidiaries as of March 31, 2004 and 2003, 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.

Without qualifying our opinion, we draw attention to Notes 2 to the consolidated financial statements. Effective March 31, 2004, Hanwa Co., Ltd. and its subsidiaries adopted the new Japanese accounting standard for impairment of long-lived assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the years ended March 31, 2004 and 2003 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Osaka, Japan
June 29, 2004

KPMG AZSA & Co.

Corporate Data

Company Name:	Hanwa Co., Ltd. 阪和興業株式会社
Address:	Osaka Head Office Hanwa Bldg., 4-3-9 Fushimi-machi, Chuo-ku, Osaka 541-8585, Japan Tel: 81-6-6206-3000 Fax: 81-6-6206-3365 Tokyo Head Office New Hanwa Bldg., 1-13-10 Tsukiji, Chuo-ku, Tokyo 104-8429, Japan Tel: 81-3-3544-2171 Fax: 81-3-3544-2351 Nagoya Branch Office NHK Nagoya Broadcasting Center Bldg., 1-13-3, Higashisakura, Higashi-ku, Nagoya 461-8614, Japan Tel: 81-52-952-8800 Fax: 81-52-952-9300
Employee:	868
Independent Auditor:	KPMG AZSA & Co.

Domestic Offices

OFFICE	ADDRESS	TELEPHONE	FAX
Tohoku	Sendai Daiichi Seimei Tower Bldg., 4-6-1 Ichiban-cho, Aoba-ku, Sendai 980-0811, Japan	81-022-227-7981	81-022-227-7969
Kyushu	Takeyama Hakata Bldg., 1-13-6, Hakataeki Higashi, Hakata-ku, Fukuoka 812-0013, Japan	81-092-471-7121	81-092-471-7060

Overseas Offices

OFFICE	ADDRESS	TELEPHONE	FAX
North and South America			
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
Los Angeles	1920 Main Street, Suite 1020, Irvine, California 92614, U.S.A.	1-949-955-2780/2781	1-949-955-2785
Vancouver	Suite 502, 1001 West Broadway Vancouver, British Columbia, V6H 4B1, Canada	1-604-876-1175	1-604-876-1085
Bogota	Carrera 9A No. 99-02, Oficina 804, Edificio CITIBANK Bogota, D.C. Colombia	57-1-618-2059	57-1-618-2056
Asia			
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 512-516, Beijing Fortune Building, 5 Dong San Huan Bei-lu, Chaoyang District, Beijing 100004, P.R.China	86-10-6590-8331~33	86-10-6590-8340
Qingdao	Crowne Plaza Qingdao, Room No.601, Hongkong Middle Road 76, Qingdao City, Shangdon Province 266071, P.R.China	86-532-577-9990	86-532-577-9630
Dalian	Senmao Bldg., 13F, 147 Zhongshan Street, Dalian, Liaoning Province 116011, P.R.China	86-411-8368-6954	86-411-8368-6934
Shanghai	Room 905/906, Aetna Tower,No.107 Zhunyi Road, Shanghai 200335, P.R.China	86-21-6237-5260/5265~7	86-21-6237-5268/5269
Chongqing	Room 2203, Metropolitan Tower, 68 Zhon Rong Lu, Central District, Chongqing 400010 P.R.China	86-23-6381-1101	86-23-6381-7385
Fuzhou	Room 2501, Lippo Tianma Plaza, No.1 Wu Yi Road, Fuzhou City, Fujian Province, P.R. China	86-591-83354165	86-591-83345202
Guangzhou	Unit 3006-3007,30th Floor, Dong Shan Plaza, 69 Xian Lie Zhong Road, Guangzhou City, Guangdong Province 510095, P.R. China	86-20-8732-0451	86-20-8732-0402
Dongguan	Longxi Industrial Zone, Zhouxi Management Area, Nan Cheng District, Dongguan, Guangdong Province 511715 P.R.China	86-769-240-6418	86-769-240-6448
Zhongshan	Unit 1909-1910, 19th Floor, Bank Of China Tower, 18 Zhongshan 3rd Road, Zhongshan, Guangdong Province P.R.China	86-760-332-0706	86-760-332-0696
Hong Kong	Unit 3201-3 32nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong	852-25450110	852-25422544
Taipei	Room 303 3rd Floor. No. 79, Chung Shan North Road Sec.2, Taipei, Taiwan, R.O.C.	886-2-2560-2214~17	886-2-2571-0693
Kaohsiung	Room B, 17th Floor, No.7 Su-Wei 4th Road, Kaohsiung, Taiwan, R.O.C.	886-7-338-5508~10	886-7-338-5433
Bangkok	17th 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	60-3-2078-2311	60-3-2078-2380
Singapore	20 Cecil Street, #20-06/07 Equity Plaza, Singapore, 049705	65-6536-7822	65-6536-7855
Tawau	P.O. Box 1231 91037 Tawau, Sabah, Malaysia	60-89-750016~7	60-89-750019
Jakarta	Menara Cakrawala 5th Floor Jalan M.H. Thamrin 9, Jakarta, 10340 Indonesia	62-21-3902293	62-21-3902294
Mumbai	c/o MR. A.J. Dave, 12B Chaitrangan Kanchan Galli, Off Law College RD., Pune-411004, Maharashtra, India	91-20-3090-3983	E-mail: rafinance@sify.com
Europe, Africa and Middle East			
London	5th Floor, Finland House, 56 Haymarket, London, SW1Y 4RN. U.K.	44-20-7839-4448	44-20-7839-3994
Las Palmas	C/Luis Morote, NO.6-3F , Edf. Catalunia 35007-Las Palmas De Gran Canaria, Spain	34-928-270894	34-928-275735
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	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

Board of Directors

President	
Shuji Kita	北　修爾
Senior Managing Directors	
Mitsuyuki Nakabayashi	中林　満之
Takashi Kyui	休井　匡
Managing Directors	
Takayuki Kamoto	嘉本　隆行
Noriyuki Hanafusa	花房　伯行
Tatsuyuki Yamasaki	山崎　達之
Hironari Furukawa	古川　弘成
Shinsuke Kitamura	北村　信輔
Directors	
Kazushi Higashida	東田　和四
Kazuo Yokota	横田　和夫
Masaomi Amao	天尾　正臣
Hiroshi Omoto	大本　博
Satoru Hara	原　惺
Tetsuro Akimoto	秋元　哲郎
Yoshifumi Nishi	西　吉史
Takuji Kita	北　卓治
Takaharu Tada	多田　孝治
Corporate Auditors	
Shosaburo Bando	坂東祥三郎
Hironari Masago	真砂　博成
Toshiaki Taguchi	田口　敏明
Hajime Yosano	与謝野　肇

Investor Information

(As of March 31, 2004)

Date of Establishment
April 1947

Stated Capital
¥45,651 million ($431,933 thousand)

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

Number of Stockholders
21,386

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.

HANWA CO., LTD.

http://www.hanwa.co.jp

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