



Kyowa Hakko Kogyo Co., Ltd.

Consolidated Financial Summary

**Fiscal 2005 First Quarter
(April 1, 2005 - June 30, 2005)**

This document has been translated from the original Japanese as a guide for non-Japanese investors. It contains forward-looking statements based on a number of assumptions and beliefs made by management in light of information currently available. Actual financial results may differ materially depending on a number of factors, including changing economic conditions, legislative and regulatory developments, delay in new product and service launches, and pricing and product initiatives of competitors.



First Quarter Performance Update For The Year Ending March 31, 2006

Kyowa Hakko Kogyo Co., Ltd.		July 25, 2005	
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1. Notes relating to the preparation etc. of quarterly business performance updates

- a) Simplified accounting treatments were adopted
No adjustments for cost variance were applied
- b) There were the following changes to the accounting treatments from the previous fiscal year
As of the first quarter of the fiscal year ending March 31, 2006, the accounting standards regarding impairment of fixed assets set out in the 'Report Concerning Establishment of Accounting Standards for Impairment of Fixed Assets' (Business Accounting Council, August 9, 2002) and the 'Guidelines for the Application of Accounting Standards for the Impairment of Fixed Assets' (ASB Guidance No. 6, Accounting Standards Board of Japan, October 31, 2003) have been applied, resulting in an impairment loss of ¥738 million.
- c) There were three changes to the scope of consolidation and no changes to equity method accounting
Details of changes:
Kyowa Hakko Food Specialties Co., Ltd. and BioWa, Inc. were newly included in the scope of consolidation
Asahi Food Products Co., Ltd was excluded from the scope of consolidation

2. Results for the three months to June 30, 2005

(1) Progress of consolidated business performance

Amounts less than 1 million yen have been ignored

millions of yen

	Three Months to June 30, 2005		Three Months to June 30, 2004		Year Ended March 31, 2005
Net sales	88,403	(0.4%)	88,743	1.1%	358,963
Operating income	7,886	(8.7%)	8,640	57.7%	33,506
Recurring income	7,893	(13.7%)	9,150	--	32,366
Net income	4,260	(12.9%)	4,891	--	17,931
Net income per share (¥)	¥10.07	--	¥11.37	--	¥41.68
Fully diluted net income per share (¥)	¥10.07	--	--	--	--

Note: Percentages for net sales and operating income, etc. show changes compared to the comparable period of the previous fiscal year



Summary of business performance:

For the three-month period ended June 30, 2005, net sales were ¥88.4 billion, down ¥0.3 billion, or 0.4%, compared to the first quarter of the previous fiscal year, while operating income was ¥7.8 billion, a ¥0.7 billion, or 8.7% decrease. Despite these decreases, these results demonstrate generally strong progress towards our results forecasts for the interim and the full year periods of the fiscal year ending on March 31, 2006.

In the Pharmaceuticals business, sales of *Allelock*, an antiallergic agent, and *Durotep Patch*, which relieves persistent cancer pain, grew strongly, and sales of *Coniel*, a treatment for hypertension and angina, were maintained at a similar level as in the first quarter of the previous fiscal year. However, because of a sharp decline in sales of *Itrizole*, an antimycological agent that is sold through a distribution agreement, net sales for the segment were down from the comparable period of the previous fiscal year. In the Bio-Chemicals business, sales of amino acids, nucleic acids and related compounds mainly used in pharmaceuticals, foods and industrial materials were strong, but due to the sale of our overseas feed-use amino acids subsidiary, overall sales for the segment declined compared to the first quarter of the previous fiscal year. In the Chemicals business, the core functional products and solvents continued to perform well and shipment volumes and sales both exceeded those of the first quarter of the previous fiscal year. In the Food business, sales of bakery products and ingredients showed an increase, but sale of the consolidated subsidiary Asahi Food Products Co., Ltd., which was implemented in April 2005, resulted in a decline in net sales for the segment.

Gross profit was ¥32.9 billion, ¥0.2 billion higher than in the first quarter of the previous fiscal year. However, due to an increase in Pharmaceutical Business R&D costs related to KW-6002, a treatment for Parkinson's disease, operating income was ¥7.8 billion, a decrease of ¥0.7 billion compared to the comparable period of last fiscal year and recurring income was ¥7.8 billion, down ¥1.2 billion or 13.7%. Because of an extraordinary loss of ¥0.7 billion resulting from impairment losses on fixed assets, net income for the first quarter of the fiscal year was ¥4.2 billion, a decrease of ¥0.6 billion, or 12.9% compared to the first quarter of last fiscal year.

(2) Changes in consolidated financial position

(millions of yen)

	As of June 30, 2005	As of June 30, 2004	As of March 31, 2005
Total assets	374,888	368,156	374,492
Shareholders' equity	237,286	228,808	235,439
Equity ratio (%)	63.3%	62.1%	62.9%
Shareholders' equity per share (¥)	¥560.97	¥531.66	¥556.29



Consolidated cash flows

millions of yen

	April 1, 2005 to June 30, 2005	April 1, 2004 to June 30, 2004	April 1, 2004 to March 31, 2005
Cash flows from operating activities	(328)	--	30,104
Cash flows from investing activities	(2,011)	--	(8,104)
Cash flows from financing activities	(1,937)	--	(9,116)
Cash and cash equivalents at end of period	33,829	--	37,817

Note: Because this is the first time that consolidated cash flows have been disclosed on a quarterly basis, figures for the first quarter of the previous fiscal year are not recorded.

Summary of financial position:

Total assets as of June 30, 2005 were ¥374.8 billion, ¥0.3 billion higher than at March 31, 2005, the end of the previous fiscal year. The most notable changes were a ¥6.3 billion increase in inventories, while cash and time deposits, accounts and notes receivable and tangible fixed assets decreased by ¥3.9 billion, ¥0.7 billion and ¥1.7 billion respectively. In liabilities, accounts and notes payable increased by ¥7.2 billion and accrued expenses increased by ¥2.7 billion, while income tax payments reduced income taxes payable by ¥6.7 billion. The payment of summer bonuses lowered expenses payable by ¥3.9 billion, and the payment of pension contributions reduced the retirement allowance reserve by ¥1.1 billion. As a result total liabilities declined by ¥1.4 billion. Shareholders' equity increased ¥1.8 billion to ¥237.2 and the shareholders' equity ratio rose by 0.4 percentage points to 63.3%.

Consolidated cash flow: Cash and cash equivalents as of June 30, 2005 declined by ¥3.9 billion compared to March 31, 2005. During the first quarter there was a net outflow in respect of operating activities of ¥0.3 billion as income before income taxes of ¥7.1 billion recorded for the first quarter was offset by corporation tax payments of ¥7.6 billion. Cash flow from investing activities recorded a net outflow of ¥2.0 billion mainly as a result of ¥1.5 billion in payments for the acquisition of tangible fixed assets. Cash flow from financing activities recorded a net outflow of ¥1.9 billion, in particular reflecting dividend payments of ¥2.1 billion.



Forecasts for the year ending March 31, 2006:

millions of yen

	Revised forecasts		Previous forecast
	April 1, 2005 to September 30, 2005	April 1, 2005 to March 31, 2006	(Reference) April 1, 2005 to March 31, 2006
Net Sales	180,000	360,000	360,000
Operating income	12,000	26,000	24,000
Recurring income	13,500	27,000	25,000
Net Income	6,000	15,000	13,000
Net income per share (¥)	--	¥35.46	¥30.73

Summary of forecasts:

In the first quarter of the fiscal year, overall profits were ahead of plan, driven mainly by strong performances from core products in the Pharmaceuticals business and the Chemicals business and despite much lower than forecast sales of *Itrizole*, a product sold through a distribution agreement. As a result, in respect of both the interim and full year periods of the current fiscal year we have made upward revisions to the forecasts for operating income, recurring income and net income that were announced on May 11, 2005.



1. Consolidated balance sheets

	<i>Millions of yen</i>		
	As of June 30, 2005	As of March 31, 2005	As of June 30, 2004
ASSETS.....	374,888	374,492	368,156
Current assets.....	211,447	210,341	200,499
Cash and time deposits.....	32,215	36,138	23,770
Accounts and notes receivable.....	105,777	106,555	110,834
Marketable securities.....	--	999	1,999
Inventories.....	56,851	50,489	51,212
Deferred tax assets.....	4,924	6,867	4,240
Other current assets.....	11,876	9,496	8,595
Allowance for doubtful accounts.....	(198)	(207)	(152)
Fixed assets.....	163,441	164,151	167,657
Tangible fixed assets.....	89,892	91,635	95,535
Property, plant and equipment.....	38,744	40,408	43,390
Machinery and equipment.....	22,489	22,605	23,779
Land.....	20,960	21,662	21,785
Construction in progress.....	2,320	1,647	866
Other.....	5,377	5,310	5,713
Intangible fixed assets.....	189	212	282
Investments and other assets.....	73,359	72,303	71,839
Investments in securities.....	62,154	61,507	60,963
Long-term loans	1,998	2,011	2,098
Deferred tax assets	2,185	2,237	2,419
Other investments and other assets.....	8,605	8,218	7,341
Allowance for doubtful accounts.....	(1,126)	(1,219)	(777)
Allowance for investment valuations.....	(458)	(451)	(205)
Total assets.....	374,888	374,492	368,156



	<i>Millions of yen</i>		
	As of June 30, 2005	As of March 31, 2005	As of June 30, 2004
LIABILITIES.....	136,133	137,595	137,940
Current liabilities.....	102,984	103,489	101,217
Accounts and notes payable.....	57,124	49,845	55,053
Short-term bank loans.....	12,295	12,106	13,341
Accounts payable.....	17,785	15,077	14,978
Expenses payable.....	342	4,317	387
Income taxes payable.....	1,428	8,176	2,403
Reserve for accrued sales rebates.....	1,035	1,230	1,032
Reserve for accrued sales returns.....	53	54	59
Reserve for accrued sales promotion expenses...	810	901	790
Reserve for fixed asset disposal.....	1,014	1,030	968
Reserve for losses on business reorganization.....	--	1,224	--
Other current liabilities	11,093	9,523	12,201
Long-term liabilities.....	33,149	34,105	36,723
Long-term debt.....	21	86	116
Deferred tax liabilities.....	2,618	2,009	1,613
Accrued retirement liabilities.....	29,466	30,570	33,311
Accrued directors' retirement benefits.....	75	841	715
Reserve for fixed asset disposal.....	277	277	669
Reserve for debt guarantee losses.....	--	17	--
Other long-term liabilities.....	690	303	297
Minority interests.....	1,468	1,458	1,407
SHAREHOLDERS' EQUITY.....	237,286	235,439	228,808
Common stock	26,745	26,745	26,745
Capital surplus.....	43,184	43,184	43,182
Retained earnings.....	160,820	159,587	148,161
Valuation difference on other marketable securities..	15,922	15,307	15,364
Foreign exchange adjustment account	(1,535)	(1,564)	(2,296)
Treasury stock.....	(7,851)	(7,821)	(2,349)
Total liabilities, minority interests, and shareholders' equity.....	374,888	374,492	368,156



2. Consolidated statements of income

	<i>Millions of yen</i>		
	April 1, 2005 to June 30, 2005	April 1, 2004 to June 30, 2004	(Reference) April 1, 2004 to March 31, 2005
Net sales	88,403	88,743	358,963
Cost of sales	55,455	56,060	226,890
Gross profit.....	32,948	32,682	132,072
Recovery of reserve for accrued sales returns.....	54	94	94
Addition to reserve for accrued sales returns.....	53	59	54
Adjusted gross profit.....	32,949	32,716	132,112
Selling, general and administrative expenses.....	25,062	24,076	98,605
Operating income.....	7,886	8,640	33,506
Other income.....	1,035	1,004	4,145
Interest and dividend income.....	454	373	686
Income from equity method investments.....	193	184	563
Others.....	387	446	2,895
Other expenses.....	1,028	494	5,285
Interest expenses.....	45	65	239
Others.....	983	428	5,046
Recurring income.....	7,893	9,150	32,366
Extraordinary income.....	23	11	257
Extraordinary losses.....	738	23	2,721
Income before taxes.....	7,178	9,138	29,903
Corporate, local, and enterprise taxes.....	701	1,308	11,333
Corporate tax adjustment.....	2,187	2,911	569
Minority interests in consolidated subsidiaries..	27	26	67
Net income.....	4,260	4,891	17,931



3. Consolidated Statements of Cash Flows

Millions of Yen

	April 1, 2005 to June 30, 2005	(Reference) April 1, 2004 to March 31, 2005
Cash flows from operating activities:		
Income before income taxes.....	7,178	29,903
Depreciation and amortization.....	2,214	10,565
Decrease in retirement benefit allowance.....	(1,103)	(3,200)
Decrease (increase) in trade receivables.....	453	(361)
Increase in inventories.....	(6,363)	(374)
Increase in trade payables.....	7,433	2,175
Corporate etc. tax payments.....	(7,619)	(12,453)
Others.....	(2,520)	3,850
Net cash provided by operating activities.....	(328)	30,104
Cash flows from investing activities:		
Payments for purchase of property, plant & equipment...	(1,514)	(7,264)
Others.....	(497)	(839)
Net cash used in investing activities.....	(2,011)	(8,104)
Cash flows from financing activities:		
Payment for purchase of treasury stock.....	(24)	(5,524)
Dividends paid.....	(2,107)	(3,233)
Others.....	194	(357)
Net cash used in financing activities.....	(1,937)	(9,116)
Cash and cash equivalents translation differences.....	35	14
(Decrease) increase in cash and cash equivalents.....	(4,241)	12,897
Cash and cash equivalents at the beginning of the period.....	37,817	24,911
Cash and cash equivalents of newly consolidated subsidiaries at the beginning of the period.....	253	9
Cash and cash equivalents at the end of the period....	33,829	37,817



4. Segment information

Results by segment for the three months to June 30, 2005

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Corporate, elimination and other	Consolidated
Net Sales								
Sales to external customers	39,038	13,235	17,714	9,345	9,068	88,403	--	88,403
Inter-segment sales/transfers	84	2,290	1,222	1,151	3,599	8,348	(8,348)	--
Total sales	39,123	15,526	18,937	10,497	12,668	96,752	(8,348)	88,403
Operating expenses	34,660	14,065	17,730	9,966	12,503	88,925	(8,408)	80,517
Operating income	4,463	1,461	1,206	531	164	7,827	59	7,886

Results by segment for the three months to June 30, 2004

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Corporate, elimination and other	Consolidated
Sales								
Sales to external customers	39,410	14,798	14,672	9,911	9,950	88,743	--	88,743
Inter-segment sales/transfers	481	2,015	1,123	1,110	3,895	8,626	(8,626)	--
Total sales	39,892	16,814	15,795	11,022	13,845	97,370	(8,626)	88,743
Operating expenses	34,784	14,654	15,183	10,450	13,647	88,720	(8,616)	80,103
Operating income	5,108	2,159	611	571	197	8,649	(9)	8,640

Results by segment for the year ended March 31, 2005

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Corporate, elimination and other	Consolidated
Sales								
Sales to external customers	155,870	50,354	73,147	39,265	40,325	358,963	--	358,963
Inter-segment sales/transfers	556	7,412	4,835	5,233	17,458	35,496	(35,496)	--
Total sales	156,426	57,767	77,982	44,499	57,783	394,459	(35,496)	358,963
Operating expenses	138,325	50,879	72,644	42,838	56,150	360,838	(35,381)	325,456
Operating income	18,100	6,887	5,338	1,661	1,633	33,621	(114)	33,506