KYOWA HAKKO KOGYO CO., LTD.

Annual Report 2005

KYOWA

Looking to the Future

KYOWA HAKKO Annual Report 2005

Year ended March 31, 2005

Kyowa Hakko Kogyo Co., Ltd., *is an R&D-based company with special strengths in biotechnology. The Company is dedicated to the creation of new value in the life sciences, especially in its two core business segments of Pharmaceuticals and Bio-Chemicals, and strives to contribute to the health and well-being of people around the world.*

Following its founding, Kyowa Hakko contributed to the eradication of tuberculosis in Japan with the introduction of streptomycin and subsequently developed Mitomycin C, which is now a leading cancer chemotherapy agent in the world market. In Pharmaceuticals, the Company has actively engaged in the R&D, production, and sale of pharmaceuticals that address needs in such areas as cancer, allergies, and hypertension.

In Bio-Chemicals, Kyowa Hakko is a global leader in the supply of fermented bulk products, such as amino acids and nucleic acids.

The Company's Chemicals operations are expanding the lineup of specialty chemicals that contribute to environmental conservation.

Kyowa Hakko's Food operations use the Company's fermentation and other original technologies to differentiate the Company from competitors in the development of food ingredients, especially natural seasonings.

Shortcuts

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Note to Performance Forecasts

Forecasts contained in the Annual Report 2005 represent judgments based on information available as of June 28, 2005. It should be noted that there is a possibility that actual results could differ significantly due to such factors as exchange rate fluctuations.

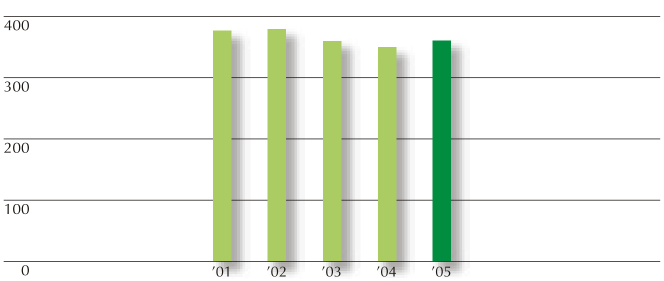
FINANCIAL HIGHLIGHTS

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2005, 2004 and 2003

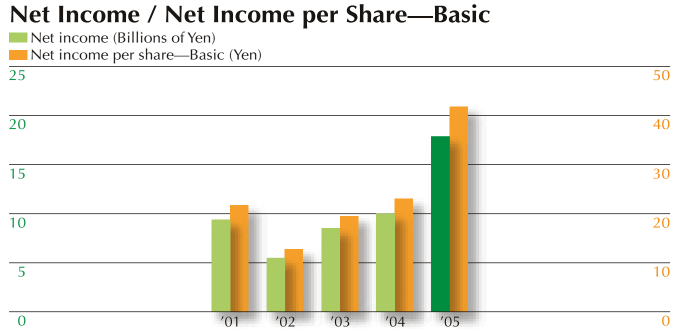
	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2005	2004	2003	**2005**
For the Year:				
Net sales	**¥358,963**	¥348,838	¥359,285	**$3,342,611**
Operating income	**33,507**	26,836	16,089	**312,012**
Net income	**17,932**	10,017	8,485	**166,980**
Capital expenditures	**7,647**	9,041	11,791	**71,208**
Depreciation and amortization	**10,565**	11,358	14,768	**98,380**
R&D expenses	**28,762**	29,206	31,438	**267,825**
At Year-End:				
Total assets	**374,493**	361,096	368,772	**3,487,224**
Interest-bearing debt	**12,193**	13,358	51,969	**113,540**
Total shareholders' equity	**235,439**	225,042	219,047	**2,192,374**
Per Share Data:	Yen			U.S. Dollars (Note 1)
Net income—basic (Note 2)	**¥ 41.7**	¥ 23.0	¥ 19.4	**$0.388**
Total shareholders' equity	**556.3**	522.6	505.4	**5.180**
Cash dividends	**10.0**	7.5	7.5	**0.093**
Ratios:	%			
Return on assets	**4.88**	2.74	2.12	
Return on equity	**7.79**	4.51	3.94	

Notes: 1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥107.39=US$1, the approximate exchange rate at March 31, 2005.
2. Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year, appropriately adjusted for subsequent free distributions of common stock.

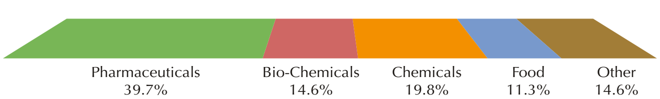
Net Sales
(Billions of Yen)



Net Income / Net Income per Share—Basic

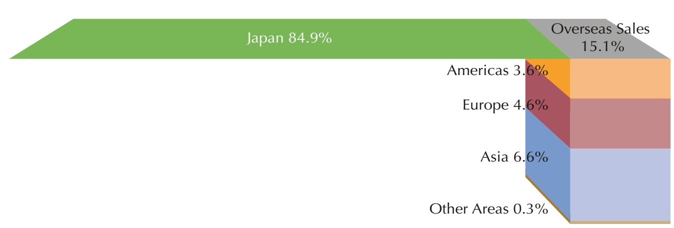


Sales Composition by Industry Segment*



** Figures include inter-segment sales.*

Sales Composition by Geographic Area



Operating Environment

In fiscal 2005, ended March 31, 2005, Kyowa Hakko faced intensified competition in its core operational areas. In Pharmaceuticals, official prices for ethical drugs were reduced in April 2004, and in Bio-Chemicals demand for amino acids for health foods was not as strong as in the previous year. In Chemicals, prices of naphtha and other raw materials increased, but, against a background of growth in China's economy, market conditions were strong in Japan and overseas. In Food, conditions remained difficult as the market trends of sluggish consumption and lower prices intensified.

In this operating environment, in accordance with the Company's Eighth Medium-Term Management Plan, Kyowa Bio-Innovator, which covers the three-year period ending with the year under review, Kyowa Hakko worked to implement operational restructuring measures and to improve its financial position. At the same time, we endeavored to enhance our profitability through aggressive sales promotions and cost-cutting measures and to develop new products. As a result, consolidated net sales in the year under review increased 2.9%, to ¥359.0 billion; operating income was up 24.9%, to ¥33.5 billion; and net income grew 79.0%, to ¥17.9 billion, a record high for the Company. Cash dividends per share were increased ¥2.50, to ¥10.00, comprising an interim per-share dividend of ¥3.75 and a year-end per-share dividend of ¥6.25.

Operating Holding Company

In April 2004, we separated our Chemicals operations into Kyowa Hakko Chemical Co., Ltd., and in April 2005 we separated our Food operations into Kyowa Hakko Food Specialties Co., Ltd., each of which is a wholly owned subsidiary. As a result, Kyowa Hakko has made a new start as an operating holding company. With biotechnology as its core technology, Kyowa Hakko now has two business pillars—Pharmaceuticals and Bio-Chemicals—with its Chemicals and Food operations managed as subsidiaries. Under this system, we will strive to meet customer needs more accurately and rapidly and to bolster our competitiveness in the different market environment faced by each operational area.

Eighth Medium-Term Management Plan (April 2002 to March 2005)

Under the Eighth Medium-Term Management Plan, we steadily implemented management reforms, such as measures to restructure our operations and improve our financial position. We achieved our goal of profitability in all operational areas one year ahead of schedule. In addition, we generally achieved the plan's initial numerical targets.

Numerical Targets

A year ago, I said that the numerical targets spelled out in the medium-term management plan were more difficult than originally expected and that achieving these targets in the final year of the plan would be hard. As the person responsible for the Company's management, this was regrettable, but I felt it was important to accurately communicate the situation at that point. I also promised that we would do our utmost to come as close as possible to realizing our objectives. In the year under review, we exceeded our forecasts from a year ago by large margins, with support from favorable external factors. With the sale of consolidated subsidiaries accompanying our operational restructuring measures, net sales did not reach our target, but operating income, at ¥33.5 billion, was close to the target of ¥34.0 billion. Our operating return on assets in the year under review was 9.1%, compared with the plan's target of 8.0%. Basically, we reached the levels initially set out in the plan.

Operational Restructuring

We have implemented the principles of selection and concentration as we have undertaken a range of initiatives. In Bio-Chemicals, we selected the strategy of withdrawing from feed-grade amino acid operations, which are significantly affected by market fluctuations, and concentrating our management resources on high-value-added amino acids, where we have a competitive advantage. Accompanying this move, we converted our U.S. feed-grade amino acid plant to the production of high-value-added amino acids and sold our plants in Mexico and Hungary. In Chemicals, through joint ventures and other alliances, we have increased our price competitiveness in key basic products, and we have worked to expand our operations, centered on high-value-added functional products. And having sold our alcoholic beverage operations to a leading beer company, we are concentrating our resources in our Food operations on natural seasonings and bakery products and ingredients, fields in which we boast special strengths.

Financial Position

Our financial position has been significantly reinforced, and our stability has improved dramatically. Interest-bearing debt, which was more than ¥150.0 billion at the end of March 1999, had been reduced to only ¥12.2 billion at the end of March 2005. With a shareholders' equity ratio of 62.9%, we have achieved a sound financial position.

Looking Back

In the sense that we restructured our operations and built a strong financial position, in a complex operating environment, I am more or less satisfied with our overall implementation of the plan. However, at a more detailed level, many problems remain, such as areas where the outcome was insufficient or unsatisfactory and areas where new issues have arisen. We will consider these areas seriously, analyze them, and strive to make continued progress under the Ninth Medium-Term Management Plan.

Ninth Medium-Term Management Plan (April 2005 to March 2008)

We began to implement the Ninth Medium-Term Management Plan in April 2005. Specifically, as covered in more detail in a subsequent section of this annual report, we have positioned the three-year period covered by the plan as a period of investment for the purpose of building a growth foundation. We will devise a range of measures designed to make Kyowa Hakko into a biotechnology group that records strong growth in global markets. Our operational restructuring is essentially completed, and our financial position has been significantly strengthened. This is the point at which we can effectively invest for future growth. We will steadily implement the Ninth Medium-Term Management Plan and build a solid operational foundation to support "sustainable, profitable growth."

Outlook for Fiscal Year Ending March 2006

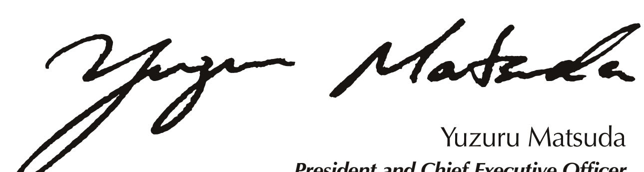
Our increased profit in the year under review was supported by many external factors, and in the current year we will conduct aggressive investment, principally in Pharmaceuticals operations. Accordingly, we are forecasting net sales of ¥360.0 billion, an increase of 0.3%; operating income of ¥24.0 billion, down 28.4%; and net income of ¥13.0 billion, a decline of 27.5%.

Enhancing Enterprise Value

Guided by our corporate philosophy of "contributing to the health and well-being of people worldwide by creating new value with the pursuit of advancements of life science and technology," we strive to develop our operations on a global scale as an R&D-based company with a strong foundation of original, innovative research and technology. We will draw on our strengths as we work to further raise our competitiveness and growth potential and enhance our enterprise value. In addition, as we work from the viewpoint of the customer to provide products, services, and information that feature superior quality and functionality, we will fulfill our social responsibilities—such as corporate ethics, quality assurance, and environmental safety—and endeavor to be a company that is trusted by society.

We would like to ask our shareholders for their continued support in the years ahead.

June 28, 2005



Yuzuru Matsuda
President and Chief Executive Officer

OUTLINE OF NINTH MEDIUM-TERM MANAGEMENT PLAN

Eighth Medium-Term Management Plan

[Fiscal Years 2003 to 2005 (April 2002 to March 2005)]

Theme: **Rebuilding profitability and the balance sheet**

Numerical Targets

	FY05	
	Target	Actual
Net Sales (Billions of yen)	370.0	359.0
Operating Income (Billions of yen)	34.0	33.5
Operating Return on Assets (%)	8.0	9.1

Ninth Medium-Term Management Plan

[Fiscal Years 2006 to 2008 (April 2005 to March 2008)]

Growing as a Global Biotechnology Group

Theme: **Investing in growth**

Basic policy: Aggressive investment to secure growth opportunities, primarily in Pharmaceuticals and Bio-Chemicals

Aggressive investment

Pharmaceuticals

✳ Promote development of KW-6002 (earliest U.S. application by mid-2006)

✳ Build foundation for overseas market development (KW-6002, China)

Bio-Chemicals

✳ Reinforce overseas production bases for amino acids

Chemicals

✳ Increase specialty chemical production capacity (raw materials for CFC-substitute refrigerant lubricants)

Grow sales in existing businesses

Pharmaceuticals

✳ Bolster domestic marketing of pharmaceuticals (SMART*)

✳ Implement POC Fast strategy (cancer, allergies, central nervous system, antibodies)

✳ Expand exports and technology licensing

Bio-Chemicals

✳ Increase cost competitiveness in amino acids

✳ Focus resources on health care operations (Japanese and U.S. health food markets)

Chemicals

✳ Build operations in growth fields (specialty chemicals)

✳ Continue to investigate alliances with other companies (basic chemicals)

Food

✳ Focus on natural seasonings and bread improvers and flavor enhancers

Comprehensive cost reduction initiatives

(target: ¥10 billion in reductions)

✳ Bolster competitiveness with comprehensive cost reductions, such as reducing workforce by 700 people, revising wage system, and reducing production costs.

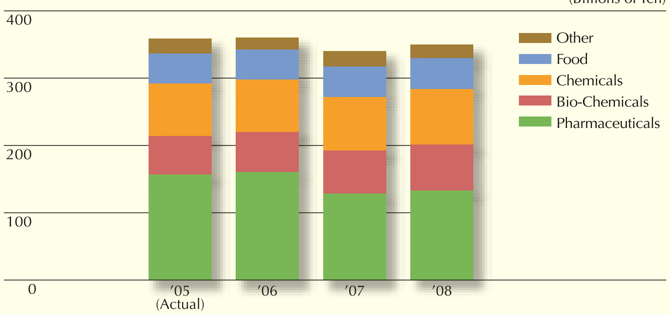
** SMART (Sales and Marketing Transformation) is a project involving the quantitative analysis of the effectiveness of the allocation of sales and marketing resources, the optimal reallocation of resources, and the improvement of productivity from the viewpoints of expected return by product, effective marketing methods that match medical needs, and effective sales activities.*

Numerical Targets

	FY08 Target
Net Sales (Billions of yen)	350.0
Operating Income (Billions of yen)	34.0
Return on Invested Capital (%)	12.0

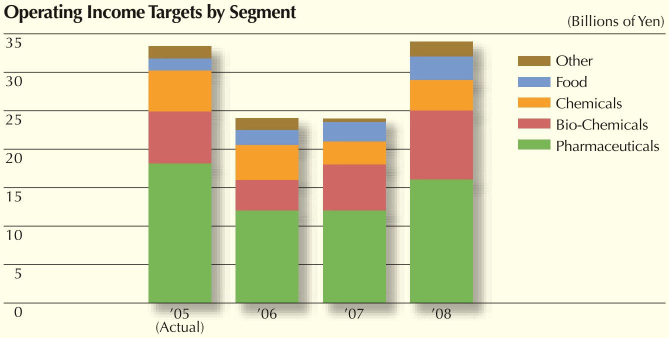
Sales Targets by Segment

(Billions of Yen)



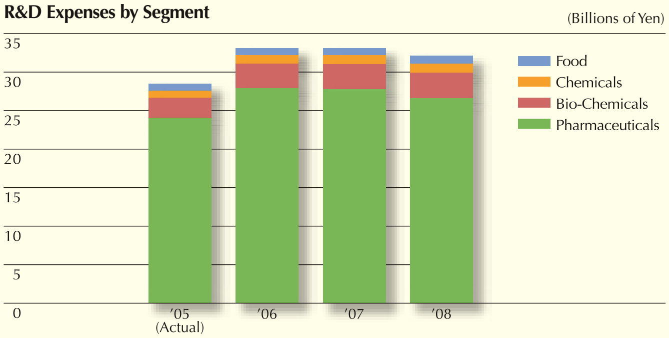
Operating Income Targets by Segment

(Billions of Yen)



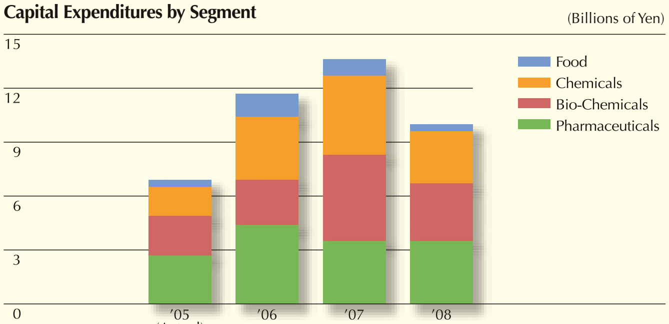
R&D Expenses by Segment

(Billions of Yen)



Capital Expenditures by Segment

(Billions of Yen)



Fiscal 2009 and thereafter

Theme: **Sustainable, profitable growth**

Growth drivers

Pharmaceuticals

✳ Expand marketing of KW-6002 overseas
✳ Develop operations in China
✳ Build antibody business (Potelligent™)

Bio-Chemicals

✳ Expand business in amino acids and other fermented bulk products
✳ Grow health care operations
✳ New product: Expand sales of dipeptides, including alanyl-glutamine

Chemicals

✳ Record growth in specialty chemicals
✳ Expand overseas operations, centered on China

Food

✳ Increase sales of natural seasonings and bakery products and ingredients
✳ Expand overseas operations, centered on China

Ninth Medium-Term Management Plan:

Investing for Future Growth

The pharmaceutical industry is undergoing significant reorganization, and the operating environment for pharmaceutical companies is changing dramatically. In this setting, Kyowa Hakko has made a new start as an operating holding company. In the following interview, President Yuzuru Matsuda discusses the strategy the Company will follow in implementing its Ninth Medium-Term Management Plan, which began in April 2005.

Q The pharmaceutical industry is undergoing major reorganization. How is Kyowa Hakko dealing with the rapid changes in its operating environment?

A Increasingly, the pharmaceutical industry is characterized by borderless competition on a global scale. Some say that to compete on an equal footing with the giant pharmaceutical companies in Europe and the United States in this type of difficult operating environment, a company has to have an operational scale that can support R&D investment of ¥200 billion a year.

Considering that Japan's principal pharmaceutical companies are in the top 20 or so worldwide for ethical drug sales, I understand why it might be appropriate for a Japanese company to decide to merge with another company. If Kyowa Hakko is going to strive to be a pharmaceutical company that can compete with the giant U.S. and European companies, then one option would be for us to discard our non-pharmaceutical operations, pursue mergers as a specialized pharmaceutical company, and work to expand our operational scale. However, looking at the historical record, I believe that aiming to become a giant pharmaceutical company is not a shortcut to succeeding in pharmaceutical operations.

For example, globally, about one-third of the new drug candidate compounds in the clinical development stage were discovered by major pharmaceutical companies. The remaining two-thirds are from relatively small-scale companies, such as venture-backed companies. On the other hand, the major pharmaceutical companies account for about 90% of the spending on R&D in the pharmaceutical industry. Clearly, the R&D efficiency of pharmaceutical companies that have achieved a huge operational scale through mergers is not very high. Therefore, I am convinced that expanding operational scale through mergers is not an essential prerequisite for survival as a pharmaceutical company.

Q What strategy will the Company use to compete in its core Pharmaceuticals operations?

A Kyowa Hakko is an R&D-based company, so our strategy will focus on speed—that is, on launching as rapidly as possible new drugs that draw on our strengths. Accordingly, we will implement the POC Fast strategy, where we conduct R&D with a special emphasis on speed from the discovery of new drug candidate compounds to early phase II clinical trials, where proof of concept, which is proof that a drug works as desired in humans, is obtained. Once proof of concept is obtained, we can choose the best way to launch the new drug as soon as possible and maximize its value, such as licensing it to another company or entering a tie-up with a large European or U.S. company and pursuing joint development or sales. New drug development is a very challenging process. Generally speaking, about 90% of the new drug candidate compounds that make it into clinical development do not make it out. The pharmaceutical industry entails considerable risk. The use of licensing and tie-ups reduces profits but also decreases development risk, time to launch, and costs. And after launch, for a diversified company like Kyowa Hakko, the use of such alliances makes it possible to conduct global pharmaceutical marketing more effectively.

Q **Would you comment on Kyowa Hakko's move to an operating holding company system in April 2005?**

A For the past several years, we have followed the principles of selection and concentration as we have implemented operational restructuring. In April 2005, we completed the structure that we had been working toward when we separated Food operations into Kyowa Hakko Food Specialties. Kyowa Hakko has become an operating holding company with two business pillars—Pharmaceuticals and Bio-Chemicals—and with Chemicals and Food operations handled through Kyowa Hakko Chemical, separated in April 2004, and Kyowa Hakko Food Specialties. With this system, we have a great deal of flexibility in developing our operations.

This transition to an operating holding company has four objectives.

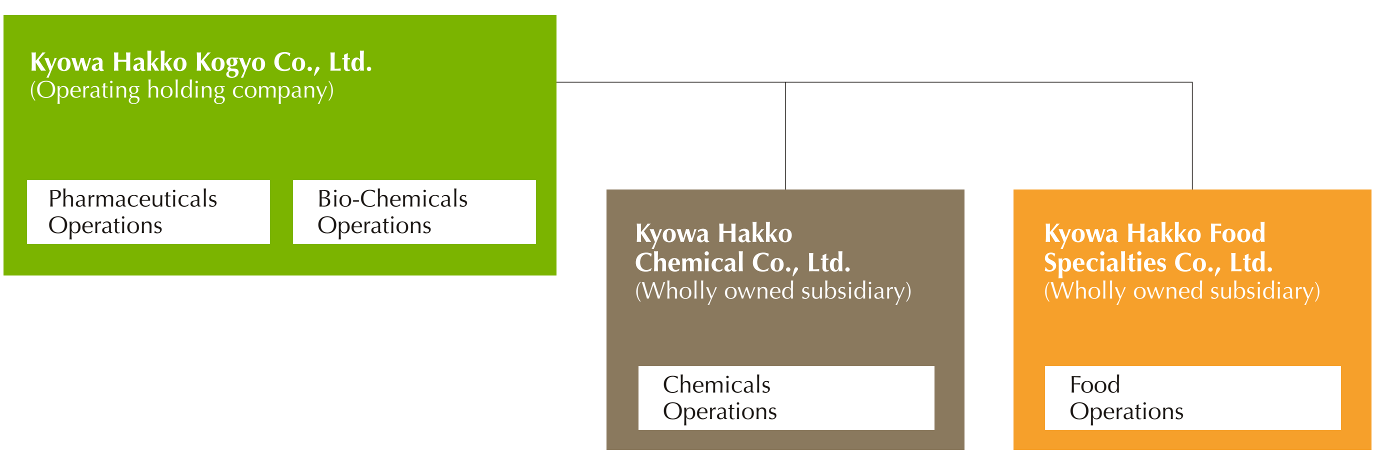
First, on a foundation of biotechnology, Kyowa Hakko has positioned Pharmaceuticals and Bio-Chemicals as its core operations, and as "Kyowa Hakko, the Bio-Leader" the Company will draw on its strengths as it moves forward.

Second is the independence of each field of operations. Until recently, we depended to a considerable extent on profits from Pharmaceuticals operations. By separating our operations and making them independent, we have clarified the need for each company to raise profits in its field and become more competitive so it can succeed in challenging markets.

Third is customer-centered management. Each field of operations has a different set of customers, and it is essential for each operation to accurately identify customer needs and respond to them quickly. We have delegated authority, and we expect the pace of management to pick up and for relationships with customers to get closer.

The fourth objective is reinforcing the competitiveness of the Kyowa Hakko Group. Through separation, the position of each operational field in the Kyowa Hakko Group has been clarified.

Operating Holding Company System



According to the Kyowa Hakko Group philosophy of "contributing to the health and well-being of people worldwide by creating new value with the pursuit of advancements of life science and technology," we expect Kyowa Hakko Food Specialties, which is focused on flavor and health, and Kyowa Hakko Chemical, which is guided by the key words "environment" and "health," to implement product development that draws on synergies with Pharmaceuticals and Bio-Chemicals operations and to enhance their competitiveness.

Q **What objectives are laid out in the Ninth Medium-Term Management Plan?**

A In accordance with the key words "following advances of life science and technology," as a corporate group that is different from specialized pharmaceutical manufacturers, our long-term management objective is to record strong growth as a global biotechnology group.

To achieve that goal, under the Eighth Medium-Term Management Plan, we restructured our operations and built a solid financial position. Now, under the Ninth Medium-Term Management Plan, we will invest to build the foundation for long-term growth. In doing so, we will be preparing for the goal of the Tenth Medium-Term Management Plan—the achievement of "sustainable, profitable growth."

Under the Ninth Medium-Term Management Plan, to invest aggressively in the final stage development of a new drug with strong potential and in expanding production capacity for strategic new products in a range of areas, over the three years covered by the plan we anticipate cumulative R&D expenses of ¥99.0 billion and capital expenditures of ¥35.5 billion. In accordance with the principles of selection and concentration, we have completed the restructuring of our operations and reinforced our financial position, and the corporate image and direction that we have targeted have become clear. That's why we are convinced that this is the right time for us to focus our investment in key fields.

Moreover, although we have restructured our operations and reinforced our financial position, under the new medium-term management plan we will continue to implement comprehensive cost reduction measures. These will include measures to reduce labor costs, such as reducing the workforce and revising wage systems; we plan to reduce the workforce by 700 from the current level of 4,500. Although the transition to an operating holding company has enabled us to create a framework for rapid decision making and implementation, there is room for improvement in our personnel system. We reached the conclusion that to raise our competitiveness and to achieve continued growth and development, we will need to reevaluate our operations from a variety of angles, and the problem of labor costs must be a part of that process. That is the reasoning behind our decision to reduce the workforce.

Q **In the first two years of the Ninth Medium-Term Management Plan, the operating income targets are lower than the results achieved in the fiscal year ended March 2005. Doesn't this fact create a negative impression?**

A The operating income targets in the first two years of the Ninth Medium-Term Management Plan are lower than our actual performance in the year ended March 2005, and in the final year of the plan our operating income target is slightly higher than our performance in the year ended March 2005, so this may leave a negative impression. As the person responsible for management, I regret that we cannot present shareholders with plans that call for steady increases. However, when we determined that it would be difficult for us to both pursue short-term profits and build a foundation for long-term growth, we decided that choosing the latter course of action was in the best interests of our shareholders and other stakeholders.

Nonetheless, our results in the year ended March 2005 were supported by special factors, such as exceptionally high pollen counts, which led to increased sales of antiallergic agents, and solid demand for petrochemical products against a background of strong growth in the Chinese economy. Also, the numerical targets in the Ninth Medium-Term Management Plan are themselves based on the assumption of normal operating conditions, rather than on an optimistic outlook. Accordingly, I would ask for the understanding of our stakeholders that this is actually an aggressive plan that calls for increased profits in a period when costs are rising.

Q Please explain the key points for growth in each business segment.

A In Pharmaceuticals, we will implement the POC Fast strategy, working to launch as rapidly as possible an anti-Parkinson's disease agent, an overactive bladder agent, and an anticancer agent, among other products. We will also take steps to steadily grow our overseas operations, such as preparing the foundation for further expansion in Europe, the United States, and China. On the other hand, through the implementation of the SMART Project for bolstering domestic marketing, we will increase sales of existing core products and make wide-ranging cost reductions. And in the field of biopharmaceuticals, by taking such steps as out-licensing our original Potelligent™ technology, we will expand our global operations and pave the way for future growth in out-licensing revenues.

Next, in Bio-Chemicals, as a leader in fermented bulk products, such as amino acids, nucleic acids, and related compounds, we will enhance our overseas production bases and increase productivity through the use of new manufacturing technologies for amino acids, thereby improving our cost competitiveness in Japan and overseas and bolstering our growth prospects. In health care, we will devote resources to mail order sales to individuals in Japan and to expanding our sales in the U.S. health food market. Further, we will work toward the early launch of our dipeptide, alanyl-glutamine, which we expect to open up new markets.

In Chemicals, we will focus on high-value-added products with strong growth potential, such as high-purity solvents for the IT industry and environmentally friendly functional products like raw materials for CFC-substitute refrigerant lubricants. In existing bulk products, we will continue to pursue tie-ups with other companies and to make cost reductions. In addition, we will conduct aggressive capital investment to open up new markets for functional products and increase production capacity.

In Food, with consumer concern about food safety increasing and food-safety regulations being strengthened, we will expand our operations with a focus on quality assurance. We will develop new products, such as natural seasonings and bread flavor enhancers and improvers, that are differentiated through the use of our original technologies, such as fermentation technologies. We will also work to build our operations in China and other overseas markets.

And finally, we have combined the BioFrontier Laboratories, which were established in April 2004, and the Tokyo Research

Laboratories to form the new BioFrontier Laboratories. The new laboratories report directly to the president and emphasize the dedication of Kyowa Hakko's founder to "building new operations that help people around the world." In this way, we have prepared an environment in which we can make steady progress with distinctive research themes.

Q How will Kyowa Hakko raise shareholder value?

A We will do our utmost to raise our profitability by building our core businesses. We will increase profits, enhance shareholder value, and use those gains to provide a return to shareholders. To ensure that managers and shareholders have the same interests, we have revised our compensation system for directors, abolishing the retirement bonus system, which had become something like a system of fixed compensation, and introducing a performance-based compensation system and a stock option system.

Funds retained in the Company will be allocated to investment linked to new growth, such as capital investment and R&D investment. The provision of a return to shareholders is one of our most important management issues, and under the Ninth Medium-Term Management Plan we will continue to make stable dividend payments. We will take a flexible approach to the acquisition of treasury stock, with consideration for cash flow and future investment and financing plans.

To enhance shareholder value, we will continue working to establish the management organization and framework that are needed to realize our corporate philosophy. In 1999, we introduced a managing officer system, and our administrative execution is audited by four corporate auditors, three of whom are outside corporate auditors. Also, in 2003 we established an advisory board to provide outside viewpoints, to strengthen the management constitution, and to enhance the transparency and soundness of management.

Q In closing, please outline Kyowa Hakko's long-term vision.

A The goal of our Tenth Medium-Term Management Plan is the achievement of "sustainable, profitable growth." To realize that goal, we must steadily implement the action plan incorporated in the Ninth Medium-Term Management Plan, and we have placed a priority on the process of implementing that action plan. Under the current medium-term management plan, we will streamline our organization, thereby improving our decision-making system, increasing management speed, enhancing our corporate culture, and reducing costs. These benefits, combined with the expected contribution to performance of anti-Parkinson's disease agent KW-6002, will prepare us for sustainable growth. Kyowa Hakko is ready to make great strides toward "becoming a biotechnology group that records strong growth in markets around the world."

✳ ***Pharmaceuticals:*** *Moving Forward in Clinical Development*

✳ ***Biopharmaceuticals:*** *Steady Progress with Potelligent™ Technology*

✳ ***New Technologies:*** *Novel Method for Manufacturing Dipeptides*

✳ ***Strategic Sector:*** *Strong Outlook for Health Care Operations*

Looking to the Future

In April 2005, Kyowa Hakko made a new start as a technology-driven company with Pharmaceuticals and Bio-Chemicals as its core fields of operation. We have begun our Ninth Medium-Term Management Plan, under which we have positioned the next three years as a period of investment for the purpose of building a growth foundation, and we are planning aggressive investment in R&D. This section introduces the various topics that Kyowa Hakko is focusing on as it looks to the future.

Pharmaceuticals: Moving Forward in Clinical Development

Basic Policy for New Drug R&D

Kyowa Hakko conducts new drug R&D with an emphasis on the POC (Proof of Concept) Fast strategy. This strategy entails leveraging our competitiveness by reducing as much as possible the time from the discovery of a new drug candidate to early phase II clinical trials, where the initial proof that the candidate works as expected in humans is verified. After POC is obtained, from latter phase II clinical trials, we must decide whether to file an NDA based on our own development, to license out the candidate, or to conduct joint development with another company.

In making that decision, we emphasize maximizing value based on our portfolio analysis for the entire development pipeline.

We follow a policy of conducting development overseas first, and in line with this policy we have established two clinical development subsidiaries: Kyowa Pharmaceutical, Inc., which is located in Princeton, New Jersey, in the United States, and Kyowa Hakko U.K. Ltd., which is situated in Slough, Berkshire, near London, in the United Kingdom. Our development pipeline includes new candidates entering the clinical stage from the preclinical stage, and accordingly we are working to increase our overseas development workforce.

Progress with Key Development Drugs

For Parkinson's Disease: KW-6002

KW-6002, the world's first selective adenosine A2A receptor antagonist, is under development as a treatment for Parkinson's disease. When it is used concomitantly with L-dopa, its effectiveness in improving the "wearing-off" effect has been confirmed. KW-6002 is now in phase III large-scale clinical trials in the United States and Europe. We are in the process of determining the best way to promote it and the additional indications that will maximize its value.

For Overactive Bladder: KW-7158

KW-7158 is a non-cholinergic compound with a tricyclic structure. It differs from existing anticholinergic drugs in that it is effective on the peripheral sensory nerves in the bladder. Indications are expected to include urinary frequency, urinary incontinence, and sense of urgency caused by overactive bladder contractions. In Europe and the United States, phase IIa clinical trials have been completed, while in Japan phase IIa clinical trials are under way. The market for this drug is large and includes competing products from global companies; therefore, our overseas development and operations will likely be based on alliances.

Overseas Development Schedule of Principal Candidate Drugs

(As of June 2005)

Principal Candidate Drugs				Overseas Development Schedule				
Category	*Code Name* *(Product Name)*	*Indication*	*Target Sales Scale at Peak**	2005	2006	2007	2008	2009
Central Nervous System	KW-6002	Parkinson's disease	Large	Phase III (U.S. & Europe)	NDA Filing			
Urology	KW-7158	Overactive bladder	Large	Phase IIa (U.S. & Europe)				NDA Filing
Anticancer	KW-2871	Malignant melanoma	Medium	Phase I/IIa (U.S.)				NDA Filing
Cardiovascular	KW-3049 *(Coniel)*	Hypertension	—	Launched [Dec. 2004] (China)				
Antiallergic	KW-4679 *(Allelock)*	Antiallergic	—	Phase III (China)	NDA Filing			

** Medium: over ¥10 billion / Large: over ¥30 billion*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For Cancer: KW-2871

KW-2871, an anticancer agent for malignant melanoma, is a monoclonal antibody that binds specifically to the GD3 cell surface antigen, which is expressed in about 90% of melanoma cells. Phase I trials have been completed in Australia, and KW-2871 is now in phase I/IIa trials in the United States.

Operations in China

In March 2004, Coniel®, an agent for treating hypertension, was approved as an imported drug by China's State Food and Drug Administration (SFDA), and we began sales in December 2004. This therapeutic area is one of those expected to record the highest growth in the Chinese ethical drug market, and academic activities are under way targeting marketing penetration. In addition, antiallergic agent Allelock® is in phase III clinical trials.

In February 2005, we began construction work on a plant in Suzhou, Jiangsu Province, China, which is scheduled to start-up operations in fall 2007. We plan to use this facility to produce Coniel® and Allelock® for sale in China.

Biopharmaceuticals: Steady Progress with Potelligent™ Technology

Since U.S. subsidiary BioWa, Inc., was founded in February 2003, it has aggressively expanded partnerships with European and U.S. pharmaceutical and biotechnology companies, using Kyowa Hakko's Potelligent™ technology. As a result, BioWa has granted licenses to companies that have global biopharmaceutical operations, such as Biogen Idec and Medarex. BioWa has already created significant corporate value with the licensing of Potelligent™ technology for more than 10 monoclonal antibodies. In addition, BioWa has commenced codevelopment with bio-venture companies that have antigens/antibodies with potential in the treatment of cancer and inflammatory allergies based on Potelligent™ technology. In 2005, to further advance the POC Fast strategy, which is one of the Kyowa Hakko Group's key strategies in Pharmaceuticals operations, and to accelerate BioWa's growth, Kyowa Hakko licensed to BioWa an anti IL-5 receptor antibody that has the potential to become an innovative treatment for asthma. To rapidly develop this antibody, which is scheduled to begin clinical trials in the United States in 2006, BioWa established a development division in March 2005, marking its growth into a U.S. bio-venture company with both licensing and development capabilities.

The global biopharmaceutical market is expected to see the development and launch of promising new drugs and to record further growth. In the rapidly

Antibody Pipeline

Category	Code Name	Target	Antibody	Indications	Stage
Anticancer	KW-2871[1]	Ganglioside GD3	Chimeric monoclonal	Malignant melanoma	Phase I/IIa
Anticancer	Undisclosed	FGF8		Prostate, breast, and ovary cancers	Preclinical
Anticancer	Undisclosed	Cytokine		Solid tumor	Preclinical
Anticancer	Undisclosed[1]	Tumor antigen		Hematologic and solid tumors	Preclinical
Anticancer	Potelligent™-FLT-1[1, 2]	VEGF-R/FLT-1	Humanized monoclonal	Breast and colon cancers	Preclinical
Anticancer	Potelligent™-GM2[1, 2]	Ganglioside GM2	Humanized monoclonal	Lung cancer, glioblastoma	Preclinical
Anticancer	Potelligent™-GD2[1, 2]	Ganglioside GD2	Humanized monoclonal	Solid tumor	Preclinical
Antiallergic	Potelligent™-T Cell[1]	T-Cell	Humanized monoclonal	Asthma	Preclinical
Antiallergic	Potelligent™-IL5R[1, 2]	IL-5 receptor	Humanized monoclonal	Asthma	Preclinical

Notes: 1. Potelligent™ technology applied
2. Development conducted by BioWa

growing biopharmaceutical industry, Potelligent™ technology has been highly evaluated in comparison with competing technologies because it is backed up with advanced science and it is "robust," a key attribute in development and manufacturing. In 2005, an important Potelligent™ patent was granted in the United States, marking further enhancement of our competitive edge. We expect BioWa to record significant growth in the next few years.

New Technologies: Novel Method for Manufacturing Dipeptides

Kyowa Hakko has announced an efficient new method for producing dipeptides that differs from previously used methods, such as chemical synthesis, in that it directly joins two amino acids without chemical modification. The Company's initial commercial use of this technology will be in the commercial production of alanyl-glutamine, a peptide comprising L-alanine and L-glutamine, which is scheduled to be under way by the end of 2006.

Alanyl-glutamine is stable against both heat and acid, is highly soluble, and functions as a source of L-glutamine in the body. L-glutamine is known as a nutritional supplement, but because it has poor stability and inferior solubility in aqueous solutions it has not been widely used as a component of infusions and enteral nutrients. However, with the development of this new low-cost production process, the use of alanyl-glutamine and other dipeptides in medicine and health care is expected to increase significantly.

Strategic Sector: Strong Outlook for Health Care Operations

In Bio-Chemicals, Kyowa Hakko is focusing resources on the health care market, which is expected to expand. Accordingly, in April 2005 we established our


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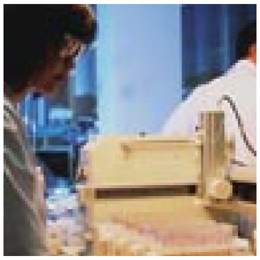
health care operations, which have responsibility for our health care related products in Japan and overseas, including amino acids and other fermented bulk products for the health care field; carotenoids and other products for dietary supplements; and consumer products Remake, a dietary supplement product line, and Enguard, a medical food.



With concern about health increasing, the health care field is poised for significant expansion. The range of products with strong growth prospects extends from such supplements as tablets and capsules to such everyday foods as confectionery and beverages with added functional ingredients, including amino acids. The key to success in the health care business is to discover materials with beneficial effects on human health, to develop them into consumer products, and to accurately convey their benefits so that consumers utilize them on a regular basis. In other words, simply developing and selling functional ingredients is not enough. It is extremely important to also provide a range of information to meet the needs of consumers and resolve their problems.

Kyowa Hakko's health care operations work in conjunction with the marketing department to formulate and implement development and marketing strategies for health care products. We will bolster our ability to provide comprehensive solutions to customers by assigning to the Healthcare Research Laboratories the responsibility for the discovery of new high-value-added ingredients, the evaluation and confirmation of nutritional function, the physical evaluation of stability and other factors, the enhancement of processability and flavor, and the provision of information to customers.

To expand our operations, we are also devoting resources to building a business foundation in products sold directly to consumers. Ornithine is one of the amino acids produced by Kyowa Hakko. We are rolling out an aggressive advertising and promotional campaign utilizing a range of media for Remake Ornithine, a mail order product. In addition to expanding Kyowa Hakko's mail order business, this initiative will provide a significant benefit to the Company in highlighting a distinctive amino acid as an effective functional ingredient under its own brand name.

In the future, we will expand our existing businesses, such as fermented bulk products and materials for supplements used in the health care field, in Japan and overseas. At the same time, we will work to build our consumer products business and develop our health care operations into a core part of our BioChemicals operations.

Outline of Health Care Business

Type of Business	*Products*	*Sales Channel*
Raw Materials Business Development and sale of raw materials for health food products	Amino acids (L-arginine, L-glutamine, L-ornithine, etc.), nucleic acids (citicoline, ATP, etc.), carotenoids, collagen, etc.	Subsidiary>>Health food manufacturer
OEM Business Development and sale of supplements for brand owners	Supplements (powder, tablets, and beverages)	Subsidiary>>Health food supplier
Kyowa Hakko Brand Business Development and sale of health food products for direct sales	Remake series of dietary supplement products, Enguard series of medical foods	Mail order Distributor

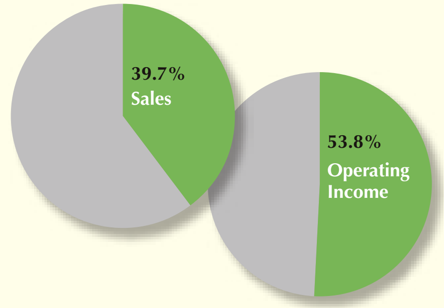
REVIEW OF OPERATIONS

At a Glance

Segment | **Profile** | **Sales and Operating Income***

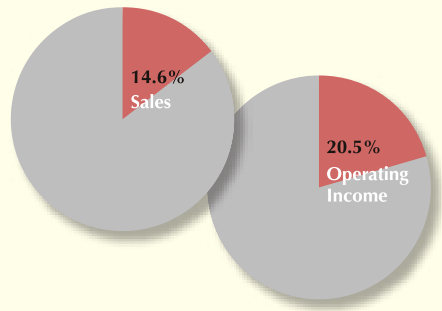
Pharmaceuticals

The Pharmaceuticals Segment conducts R&D, production, and sales of ethical pharmaceuticals, principally in the fields of cancer, allergies, and hypertension, and of diagnostic reagents. In ethical pharmaceuticals, targeting growth in overseas markets, in Europe, North America, and China, we are moving ahead with the clinical development of new drugs and with biopharmaceutical operations based on our original strong-acting antibody technology.



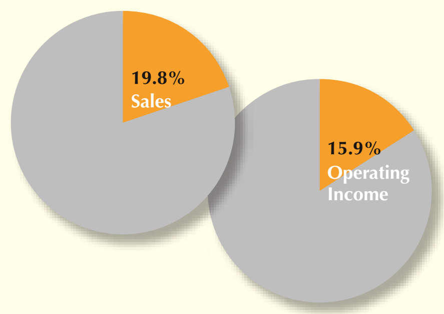
Bio-Chemicals

In Japan and overseas, the Bio-Chemicals Segment produces and markets fermented bulk products, such as amino acids, nucleic acids, and related compounds. These products are used as raw materials for pharmaceuticals, health foods and dietary supplements, cosmetics, and pharmaceutical intermediates. In April 2004, health food and raw material alcohol operations were transferred to the Bio-Chemicals Segment from the Food Segment. The Bio-Chemicals Segment also supplies agrochemicals and provides animal health products for the livestock and fisheries industries.



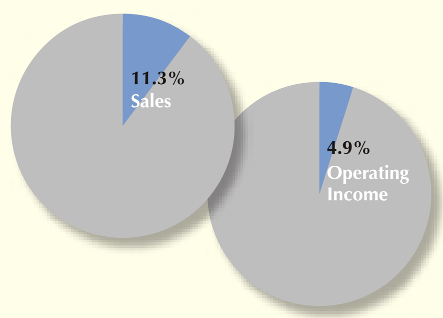
Chemicals

The Chemicals Segment produces and markets basic chemicals, which include solvents used in dyes and inks, plasticizers used as additives in PVC products, and raw materials for plasticizers, as well as specialty chemicals, which include environmentally friendly products and products used in advanced technologies.



Food

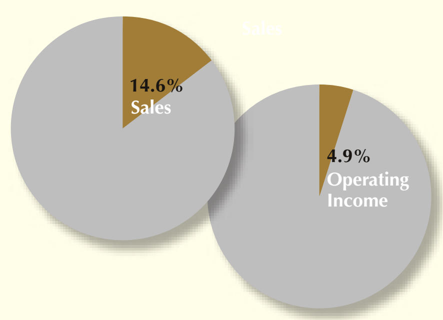
The Food Segment develops, produces, and markets seasonings, principally natural seasonings made from meat, vegetables, and fish; and bakery products and ingredients, such as yeast and bread improvers.



Other

The Other Segment comprises such related companies as Chiyoda Kaihatsu, Miyako Kagaku, Seifu, and Kyowa Engineering.

The activities of these companies include wholesale, distribution, equipment engineering, and other operations.

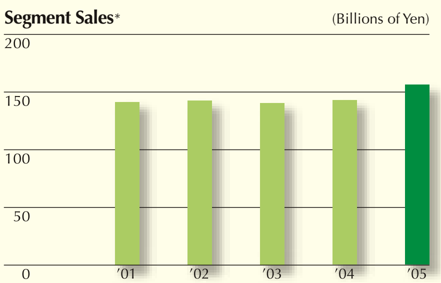


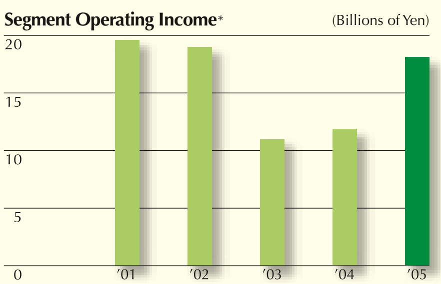
** Including inter-segment transactions*

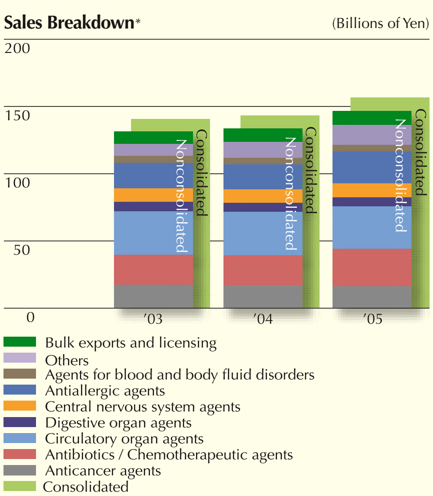
Topics		Main Products and Services
• Subsidiary Kyowa Medex began limited sales of research reagent MX, which measures oxidized LDL in blood plasma (May 2004). • Phase III clinical trials of anti-Parkinson's disease agent KW-6002 were commenced in the United States (July 2004) and Europe (November 2004). • Kyowa Hakko Pharmaceuticals (Suzhou), the Company's first pharmaceutical production base in China, was established (September 2004).	• Phase III clinical trials of antiallergic agent Allelock® began in China (November 2004). • Sales of anti-hypertension agent Coniel® began in China (December 2004). • Anticancer agent Navelbine® acquired an additional indication of inoperable or recurrent breast cancer in Japan (May 2005).	**Ethical Drugs** • Coniel® (Hypertension and angina pectoris) • Allelock® (Antiallergic agent) • Celtect® (Antiallergic agent) • Depakene® (Antiepileptic agent) • 5-FU (Anticancer agent) • Durotep® Patch (Transdermal analgesic agent) **Diagnostic Reagents** • Determiner® series (clinical chemistry diagnostic reagents)
• Feed-grade amino acid production subsidiary Agroferm, of Hungary, was sold to Degussa AG (June 2004). • Subsidiary Kyowa Wellness began mail order sales of four amino acids from the "Kyowa Hakko Amino Acid" series of dietary supplements (June 2004).	• An efficient, novel method for manufacturing dipeptides (amino acid dimers) was developed (September 2004). • A new version of Remake Ornithine, from the "Kyowa Hakko Amino Acid" series of dietary supplements, was launched in Japan (April 2005).	**Fine Chemicals** • Amino acids, nucleic acids, related compounds **Agrochemicals** • Plant growth regulators **Animal Health Products** **Health Food Products** • Vitamins, minerals, carotenoids, peptides, Remake series, Enguard series **Raw Material Alcohol** • For use in refined sake / For use in food preservatives and disinfectants
• Kyowa Yuka took over Kyowa Hakko's Chemicals operations and made a new start under the name of Kyowa Hakko Chemical (April 2004). • Japan Ethyl Acetate, a joint venture established by Showa Denko and Kyowa Hakko, began the production of ethyl acetate (April 2004).	• Kyowa Hakko Chemical announced an increase in production capacity for isononanoic acid, a raw material for CFC-substitute refrigerant lubricants, from 5,000 tons a year to 12,000 tons a year by the end of 2005 (May 2004).	**Solvents** • Butyl alcohol, ethyl acetate, butyl acetate **Raw Materials for Plasticizers** • Di-2-ethylhexyl alcohol, Oxocol® 900 **Environmentally Friendly Products** • Polyvinyl ether, 2-ethyl hexanoic acid, isononanoic acid (raw materials for CFC-substitute refrigerant lubricants) **Products for Advanced Technologies** • Squaric acid and its derivatives (raw materials for recording media)
• Two new products in the Alcook Special Selection Chinese Food Series were launched in Japan for use as Chinese food sauce in the food service industry (September 2004). • *Kokumi* seasoning Koku Road H was launched in Japan for use by the restaurant industry (April 2005). • Food operations were separated and made a new start as Kyowa Hakko Food Specialties (April 2005).	• All of the stock of bread crumb production subsidiary Asahi Foods Products was transferred to Kokubu & Co., Ltd. (April 2005).	**Seasonings** • Natural seasonings **Bakery Products and Ingredients** • Baker's yeast, premixes, baking improvers **Processed Foods** • Instant egg-drop soup
		Wholesale **Distribution** **Equipment Engineering**

REVIEW OF OPERATIONS Pharmaceuticals

President of Pharmaceuticals Business Unit
Yoshito Imai
Senior Executive Managing Officer







* *Including inter-segment transactions*

INDUSTRY OUTLOOK

To facilitate the development of patient-centered medicine, Japan's health care system is being reformed and the laws regulating the pharmaceutical industry, such as the Pharmaceutical Affairs Law, are being revised. The operating environment for Japanese pharmaceutical companies is undergoing dramatic change. Accompanying measures to control health care expenditures, drug prices have peaked, while the cost of drug development is increasing. Moreover, the industry is being reorganized through mergers and acquisitions among pharmaceutical companies, and overseas pharmaceutical companies are making inroads into the domestic market. In this operating environment, Kyowa Hakko will focus its research resources on its strengths in the fields of cancer, allergies, and the central nervous system and in core technologies, such as antibodies. We will strive to develop drugs that meet medical needs and to contribute to the spread of evidence-based medicine through the provision of high-quality medical information. As always, we will endeavor to be a company that is trusted by patients and health care workers.

OPERATIONAL STRATEGY

In Pharmaceuticals, we have three key strategic objectives. The first is the reinforcement of our domestic operations. For two years, we have been implementing the SMART* (Sales and Marketing Transformation) Project, which is beginning to show results with such core products as Coniel®, Allelock®, and Durotep® Patch. We will continue to advance this project and expand our domestic sales of pharmaceuticals.

The second objective is the promotion of the POC (Proof of Concept) Fast strategy, which will help us to compete with the giant, global pharmaceutical companies despite our smaller operational scale. Under this strategy, on the foundation of our strengths in drug discovery, we will conduct R&D with a special emphasis on speed from discovery to proof of concept. Once POC for new drugs is obtained, we will choose from a broad range of options, including joint research, out-licensing, and other alliances, with consideration for timing and success rate. In this way, we will launch new drugs more rapidly and maximize their value.

The third objective is the expansion of our overseas operations. We will build our presence in overseas markets by launching KW-6002, an anti-Parkinson's disease agent, as soon as possible in Europe and the United States; by expanding our operations in China through the launch of Coniel® and Allelock®; and by emphasizing the operational development of our Potelligent™ strong-acting monoclonal antibody technology, which can provide dramatic results in the development of biopharmaceuticals.

* *See page 4.*

Overview

In fiscal 2005, Pharmaceuticals operations faced intensified competition, due in part to the advances of overseas pharmaceutical companies. In addition, drug prices were reduced. Nonetheless, net sales rose 9.5%, to ¥156.4 billion, with support from higher sales of core products, such as antiallergic agent Allelock® and analgesic for persistent cancer pain Durotep® Patch. Operating income was up 51.6%, to ¥18.1 billion.

Ethical Drugs

In ethical drugs, the April 2004 drug price revisions reduced the prices of our products by an average of 4.2%. Nonetheless, certain core products recorded significant growth in sales, including antiallergic agent Allelock® (olopatadine hydrochloride), which met strong domestic demand for hay fever treatment accompanying increased pollen counts, and Durotep® Patch, the leading analgesic for persistent cancer pain. Another core product, Coniel®, an agent for treating hypertension and angina pectoris, registered increased sales volume

Principal Drug Sales

	Billions of Yen		
	2005	2004	2003
Coniel	**¥28.1**	¥28.9	¥28.8
Allelock	**18.8**	13.3	11.8
Celtect	**6.9**	7.0	8.9
Itrizole	**29.8**	23.4	23.2
Depakene	**10.1**	9.8	9.6
Adriacin + Farmorubicin	**9.1**	8.9	7.9
Nauzelin	**6.9**	7.1	7.5
5-FU	**3.5**	4.4	5.2
Neu-up	**4.7**	4.8	5.0
Durotep	**12.6**	8.8	4.7
Bulk exports and licensing	**10.1**	10.0	9.6

despite intense competition among calcium antagonists.

In bulk exports and technology out-licensing, sales were favorable. Higher technology revenues and exports were recorded by olopatadine hydrochloride, an antiallergic agent licensed out to Alcon Laboratories, Inc., of the United States, which markets it around the world in an eye-drop formulation. In China, we began phase III clinical trials for antiallergic agent Allelock® in November 2004, and we launched antihypertension agent Coniel® in December 2004. In September 2004, we established Kyowa Hakko Pharmaceuticals (Suzhou) Co., Ltd., in Suzhou, Jiangsu Province, China, where we began the construction of a new plant in February 2005.

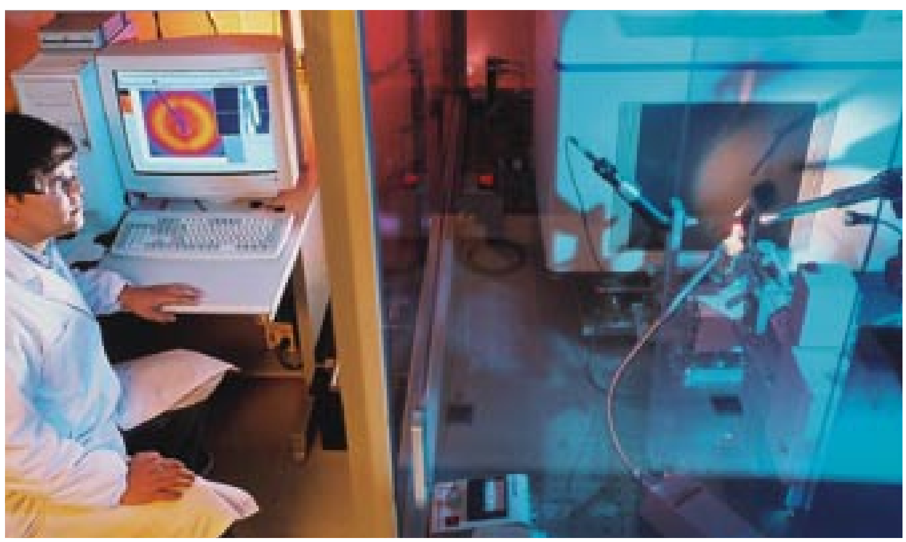
Diagnostic Reagents

Sales of clinical chemistry diagnostic reagents declined due to intensified competition. However, sales of immunological reagents increased, with support from Determiner® HbA1c, a diabetes reagent, and licensed-in products. Subsidiary Kyowa Medex Co., Ltd., handles the manufacture and sale of diagnostic reagents.

New Drug Development

In Japan, the Company has filed applications for additional indications of acute phase of cerebral infarction for thrombolytic agent Activacin® and of breast cancer for anticancer agent Navelbine®, which was launched in May 2005. We have also filed NDAs for MM-Q01, an MRI contrast medium for the gastrointestinal tract, and for antiepileptic KW-6485. Clinical trials for KW-2246, an analgesic for cancer pain, are under way.

Overseas, we began phase III clinical trials for anti-Parkinson's disease agent KW-6002 in the United States in July 2004 and in Europe in November. Biopharmaceutical KW-2871 is in clinical trials in the United States for the treatment of malignant melanoma.



Pharmaceuticals Pipeline

(As of June 2005)

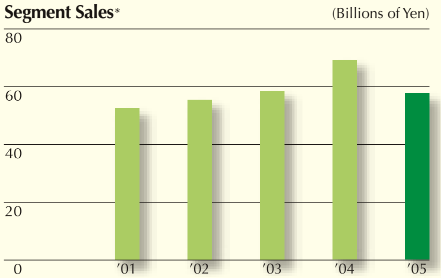
Category				
Code Name ***Generic Name***	**In-House / Licensed from** ***Indication***	**Stage in Japan**	**Stage Overseas** **(Country)**	**Remarks**
Anticancer[1]				
KW-2307[2] *Vinorelbine ditartrate*	Pierre Fabre *Breast cancer*	Launched [May 2005]		Product name: Navelbine® Original indication: Non-small-cell lung cancer
KW-2871	In-house *Malignant melanoma*		Phase I / IIa (U.S.)	Chimeric monoclonal antibody
KW-2246 *Fentanyl citrate*	Orexo *Cancer pain*	Phase I		
Antiallergic				
KW-4679 *Olopatadine hydrochloride*	In-house *Antiallergic*		Phase III (China)	Product name: Allelock® (Launched in Japan)
Central Nervous System				
KW-6485 *Topiramate*	Cilag *Antiepileptic*	Filed [July 2004]		
KW-6002 *Istradefylline*	In-house *Parkinson's disease*	Phase IIa	Phase III (U.S. & Europe)	
Cardiovascular, Urology				
KW-3049 *Benidipine hydrochloride*	In-house *Hypertension*		Launched (China) [December 2004]	Product name: Coniel® (Launched in Japan)
GMK-527[2] *Alteplase*	Genentech *Acute ischemic stroke*	Filed [April 2004]		Jointly developed with Mitsubishi Pharma Original indication: Acute myocardial infarction Product name: Activacin®
KW-7158	In-house *Overactive bladder*	Phase IIa	Phase IIa (U.S. & Europe)	
Other				
MM-Q01	Meiji Dairies *Contrast medium for MRI*	Filed [March 2003]		Jointly developed with Meiji Dairies

Notes: 1. KW-2401 (UCN-01), an injectable anticancer agent developed in-house, is in Phase II trials in the U.S. sponsored by the National Cancer Institute. Development has been discontinued in Japan.

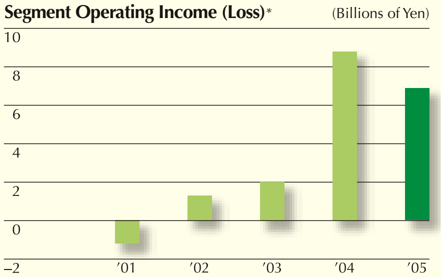
2. For additional indication

President of Bio-Chemicals Business Unit
Yukinobu Kotani
Executive Managing Officer

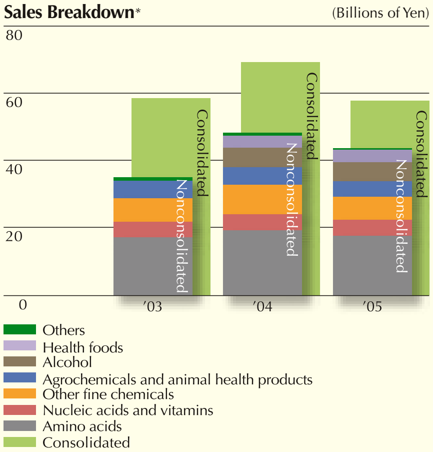
Segment Sales* (Billions of Yen)



Segment Operating Income (Loss)* (Billions of Yen)



Sales Breakdown* (Billions of Yen)



** Including inter-segment transactions / Reflecting the restatement of fiscal 2004 figures due to the reclassification of business segments effective from fiscal 2005*

INDUSTRY OUTLOOK

Our core bio-chemicals products are fermented bulk products, such as amino acids, nucleic acids, and related compounds. These products are widely used in such applications as pharmaceuticals and pharmaceutical intermediates, foods and dietary supplements, and cosmetics. In recent years, beverages containing amino acids have become best-sellers in Japan, leading to heightened awareness of amino acids and making a significant contribution to growth in demand. With global consumer concern for health maintenance and promotion increasing each year, and with a need to contain medical expenditures, demand for health care related products, including those for health foods and dietary supplements, is expected to continue to record significant growth in the years ahead. Demand is also strong for amino acids for use as pharmaceutical ingredients for parenteral and enteral nutrition preparations, as pharmaceutical intermediates, and in cosmetics. Following the recent BSE and SARS outbreaks, we are working to bolster our ability to provide a stable supply of high-quality products and to maintain and improve the quality assurance system that supports that ability.

OPERATIONAL STRATEGY

In Bio-Chemicals, we have three key strategic objectives to leverage our distinctive strengths and record growth in the health care market on a foundation of amino acids and other fermented bulk products. The first objective is to enhance our market position by bolstering our cost competitiveness in amino acids. Kyowa Hakko and Ajinomoto Co., Inc., are the world's two largest manufacturers of amino acids for pharmaceuticals, foods, and industrial applications, but in recent years companies in China and South Korea have entered the market with low-price strategies.

Kyowa Hakko will take steps to reinforce its production system with manufacturing bases in Japan, the United States, and China, including raising production capacity in China. At the same time, we will increase productivity through rationalization and the use of new manufacturing technologies, boosting our cost competitiveness in amino acids.

The second objective is to strengthen our health care operations, from which we expect future growth. By using our Healthcare Research Laboratories, we will identify consumer needs, develop products, and conduct planning and proposals, thereby expanding our mail order and OEM businesses. In the U.S. health care market, we will strengthen our marketing capabilities. In these ways, we will expand our health care operations.

The third objective is the creation of a future core field of business. In dipeptide operations, where we have developed a novel manufacturing process, we are aiming for the rapid launch of alanyl-glutamine, for which significant market expansion is expected in such applications as infusions, enteral nutrients, and so-called medical foods.

Overview

As a result of lower demand for amino acids for use in beverages in Japan, intensified competition in overseas markets for amino acids for use in health foods, and our withdrawal from overseas feed-grade amino acid operations, Bio-Chemicals operations' net sales declined 16.5%, to ¥57.8 billion. Operating income was down 22.2%, to ¥6.9 billion.

Fine Chemicals

Sales of products for pharmaceutical, food, and industrial applications, principally amino acids, nucleic acids, and related compounds, recorded a substantial decline from the previous year. In Japan, inventories of raw materials for pharmaceuticals were in excess, and demand for amino acids for use in beverages decreased. Overseas, the market for amino acids for use in dietary supplements saw intensifying price competition with manufacturers from China and South Korea.

Kyowa Wellness Co., Ltd., a health care products sales subsidiary that began operations in April 2004, recorded favorable sales.

In R&D, we are moving forward with the development of amino acid production technology that will make possible significant increases in productivity and reductions in costs. Moreover, we have developed a new production technology for dipeptides (amino acid dimers), which we expect to become our next core product, after simple amino acids. The initial example of the practical application of this technology was the commercialization of alanyl-glutamine, which is expected to develop into a major market in the field of infusions. Also, in the health care field, we continue to aggressively develop applications for amino acids, and we have had results in the areas of amino acid tableting technologies and flavor improvement.

Agrochemicals, Animal Health Products, and Fertilizers

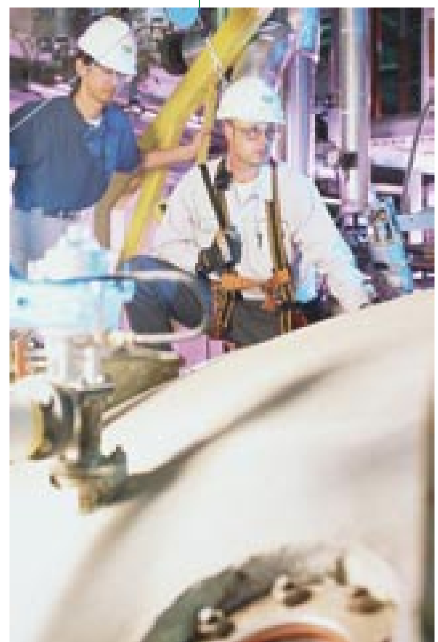
Sales of agrochemicals, animal health products, and fertilizers declined in the year under review. Sales of products for the livestock industry were about level year on year, but lower sales were recorded by agrochemicals, where domestic shipments were above the normal level in the previous fiscal year, and by products for the fisheries industry, demand for which was influenced by multiple typhoons.

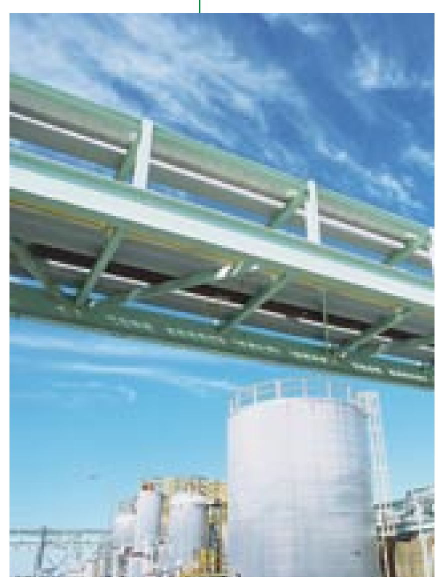
Raw Material Alcohol Division

Sales of industrial alcohol increased, but sales of alcohol for the refined sake industry declined due to continued sluggish consumption of refined sake and to a trend toward the consumption of *shochu*. Overall, sales of raw material alcohol decreased from the previous year.

Feed-Grade Amino Acids

Kyowa Hakko has withdrawn from overseas markets for feed-grade amino acids. In June 2004, we sold feed-grade amino acid production subsidiary Agroferm Hungarian-Japanese Fermentation Industry Ltd. (Agroferm), of Hungary, to German chemical company Degussa AG.

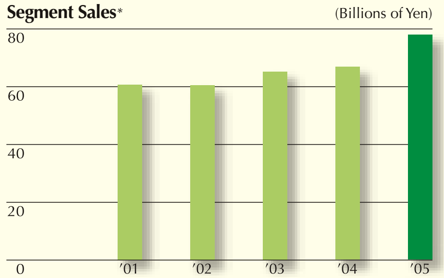




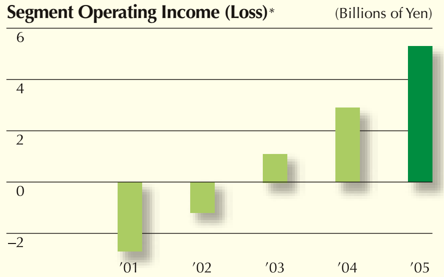
President and Chief Executive Officer of Kyowa Hakko Chemical Co., Ltd.

Shoji Hari
Managing Officer

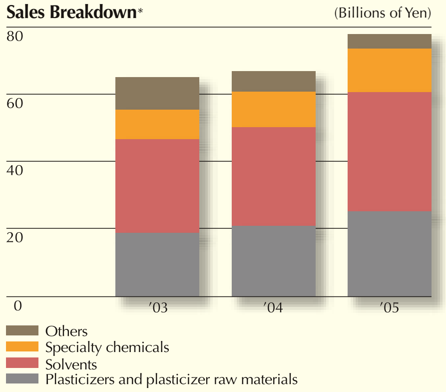
Segment Sales* (Billions of Yen)



Segment Operating Income (Loss)* (Billions of Yen)



Sales Breakdown* (Billions of Yen)



** Including inter-segment transactions*

INDUSTRY OUTLOOK

In the year under review, against a background of global economic growth, especially in China, which continues to expand rapidly, Japan's economy remained on a recovery track. In the firm demand-supply environment, domestic petrochemical companies faced rising raw materials prices and implemented price increases. At the same time, capacity utilization remained high due to strong domestic sales and exports, and performances in the petrochemical industry were favorable overall. In the future, however, highly competitive large-scale manufacturing facilities for ethylene and its derivative products will come on stream in the Middle and Near East as well as in China. As a result, the demand-supply structure is expected to change significantly, and global competition to intensify further.

OPERATIONAL STRATEGY

Our Chemicals operations had a new start in April 2004 under the name of Kyowa Hakko Chemical Co., Ltd., which targets flexible operational development and market-cultivation-oriented operations based on an integrated system spanning research, development, production, and sales. Strategic objectives for basic chemical products, such as solvents and raw materials for plasticizers, are to continue to promote joint ventures and other alliances with other companies, thereby bolstering the market positions of our core products and increasing our competitiveness. Next, we will expand our sales of high-value-added functional products for which market growth is expected, such as specialty chemicals and high-purity solvents, including environmentally friendly and IT-related products. At the same time, we will promote the development of new products and new markets and increase the share of Chemicals operations accounted for by these high-value-added products.

Overview

Prices of naphtha and other raw materials increased, but we revised domestic product prices, and demand remained strong in overseas markets, against a background of solid demand in China. As a result, domestic sales and exports were both favorable. Kyowa Hakko Chemical recorded net sales of ¥78.0 billion, an increase of 16.6%, and operating income of ¥5.3 billion, up 84.5%.

Basic Chemicals

In Japan, we worked to expand sales of our core products, solvents and raw materials for plasticizers, and raised prices three times in 2004 in response to higher raw materials costs. As a result, sales volume and value both rose. In solvents, sales of high-purity solvents for the IT industry recorded especially strong growth.

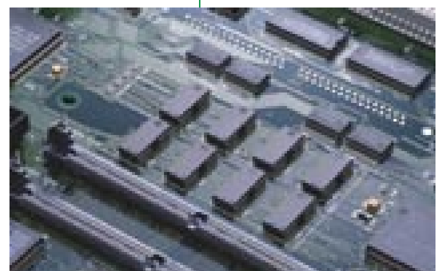
In exports, sales volume was about level with the previous year, but due to strong demand from China, overseas market conditions were strong, and as a result sales increased by a large margin.

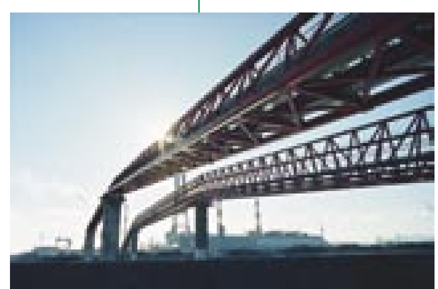
We established Japan Ethyl Acetate Co., Ltd., a joint venture with Showa Denko K.K., in August 2003 as a production company for ethyl acetate, a common solvent used in the ink and paint industries. The company has made favorable progress since it began operations in April 2004.

Specialty Chemicals

In specialty chemicals, we recorded higher sales volume and value. These gains were centered on isononanoic acid and polyvinyl ether, raw materials for lubricants in air conditioning and refrigeration equipment used for CFC substitutes, thereby contributing to global environmental protection, and on squaric acid derivatives, which are raw materials for recording media.

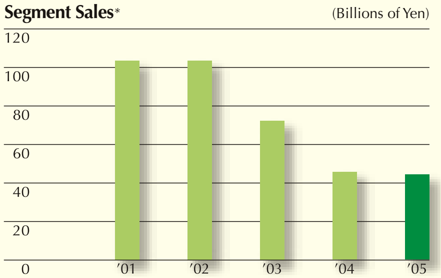
With global concern for environmental conservation increasing, demand for isononanoic acid is expected to expand in Asia, centered on China, and in the United States, where a switchover to HFCs is scheduled for 2010. In 2004, we raised our annual production capacity from 5,000 tons to 7,000 tons, and in the current year we plan to further increase it to 12,000 tons.



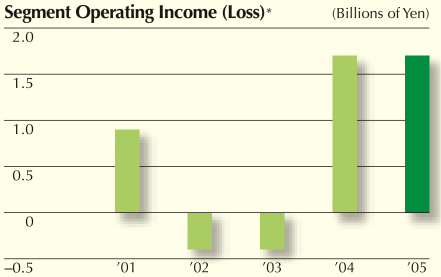


President and Chief Executive Officer of Kyowa Hakko Food Specialties Co., Ltd.
Fumio Norimatsu
Managing Officer

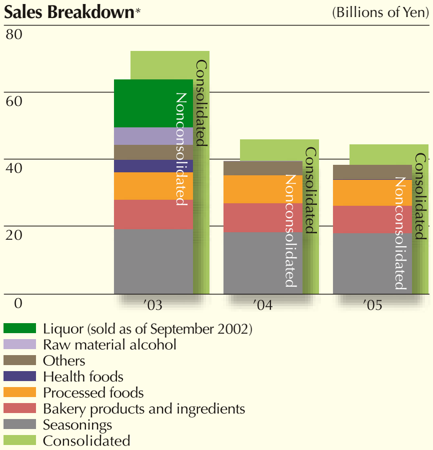
Segment Sales* (Billions of Yen)



Segment Operating Income (Loss)* (Billions of Yen)



Sales Breakdown* (Billions of Yen)



** Including inter-segment transactions / Reflecting the restatement of fiscal 2004 figures due to the reclassification of business segments effective from fiscal 2005*

INDUSTRY OUTLOOK

In the food industry, competition among companies continued to intensify as markets matured, consumer spending slumped, and product prices declined. Such problems as BSE and the outbreak of avian influenza, or bird flu, have increased consumer concern with food safety, and regulations are being strengthened. In this setting, except for certain strong sectors, such as convenience stores, and growth companies, demand for our mainstay seasonings and bakery products and ingredients has been flat.

Over the medium to long term, we expect steady growth in the processed food, take-out food, and food service industries. We also anticipate that demand for seasonings and bakery products and ingredients will increasingly focus not only on flavor but also on safety and price. The development of original new products and the establishment of quality assurance systems are important issues for every food company.

OPERATIONAL STRATEGY

In April 2005, Food operations were separated into a wholly owned subsidiary, Kyowa Hakko Food Specialties Co., Ltd.

Kyowa Hakko Food Specialties' mission is to earn the trust of customers by providing safe, high-quality products that contribute to improving health and diets. By using our fermentation and other original technologies, we are developing food materials that will earn distinctive market positions. With the establishment of a marketing system that unifies R&D and sales activities and a strengthened quality assurance system, Kyowa Hakko Food Specialties will develop markets with solutions-based marketing.

In seasonings, one of our core product areas, we aim to be a leader in natural seasonings, such as extract, amino acid, and brewed seasonings. In bakery products and ingredients, another core area, we will enhance our relationships with major bread companies by offering unique products, such as flavor enhancers and bread improvers.

Currently, we operate plants for the manufacture of natural seasonings and freeze-dried food materials in China. We will bolster our marketing capabilities in China and other Asian countries and work to develop new markets.

Overview

Markets for food ingredients were flat, and competition among companies intensified. We worked to launch new products, to implement solutions-based marketing, and to reinforce relationships with existing customers. Nonetheless, net sales declined 3.1%, to ¥44.5 billion. With the effects of cost reductions, however, operating income rose 0.5%, to ¥1.7 billion.

Seasonings

In our mainstay natural seasonings, sales of brewed seasonings increased, while in extract seasonings and amino acid seasonings sales of existing products to certain sectors of the food service industry declined. As a result, sales of seasonings were down from the previous year.

In May 2004, to meet demand for natural seasonings in China, we set up a second manufacturing plant at Wuxi Xiehe Food Co., Ltd., in the city of Wuxi, in Jiangsu Province.

Processed Foods

Sales of OEM products declined, and sales of processed foods were down from the previous year. In April 2005, freeze-dried food sales functions were transferred to wholly owned subsidiary Kyowa F.D. Foods Co., Ltd., thereby unifying manufacturing and sales of freeze-dried foods.

Bakery Products and Ingredients

We worked to increase sales of milk preparations, flavor enhancers, and bread improvers, but sluggish sales of premixes had a significant adverse influence, and sales of bakery products and ingredients declined.

To focus our management resources on our core areas of natural seasonings and bakery products and ingredients, on March 30, 2005, we concluded a contract for the transfer to Kokubu & Co., Ltd., of all of the stock of consolidated subsidiary Asahi Foods Products Co., Ltd.

CONTENTS

Corporate Activities and Governance

Environmental and Safety Issues

As outlined in its management guidelines, the Kyowa Hakko Group considers the environment, safety, and health to be among its most important management issues. The leadership of top management provides an example that is followed by everyone at Kyowa Hakko as they participate in responsible care (RC) practices, which encompass a wide range of environmental and safety-related activities.

Environment and Safety Management System

To ensure continual improvement in environmental issues, health and hygiene, security and disaster prevention, and product safety, the Group's environment and safety management system integrates the ISO 14001 management system and the Occupational Safety and Health Management System (OSHMS). Through the Plan, Do, Check, and Act (PDCA) cycle, we are promoting risk-management-based activities. In the year ended March 2005, we made steady progress in the application of this system to our consolidated subsidiaries.

Compliance

In environmental and safety-related activities, we strictly follow all relevant standards, including not only those set by national and municipal governments but also our own stricter standards. Compliance with these standards is monitored by Kyowa Hakko's Head Office. Essential matters regarding environmental and safety information are verified by third parties and included in our Sustainability Report. We are working to increase the transparency of our activities, taking such steps as including information from each work site in the report.

Performance

In the fiscal year under review, we worked to reduce the environmental burden of our operations through Companywide activities, principally targeting reduced energy consumption, reduced resource use, and zero emissions. Due to measures to control the generation of industrial waste and waste recycling activities, the volume of waste disposal at landfill sites was down 70% from the previous year, and we achieved our target for the year ending March 2008 for Companywide zero emissions three years ahead of schedule. Also, through energy-saving initiatives, we reduced energy consumption by the equivalent of 18,000 kiloliters of crude oil, and we reduced emissions of greenhouse gases by the equivalent of 48,000 tons of carbon dioxide.

We worked to enhance water quality by improving production processes and wastewater processing facilities, and we achieved a significant reduction of about 25% in the pollution burden.

We also continue to implement detailed control and reduction measures for emissions of chemical substances.

Further, we are promoting green purchasing in our supply chain on a Groupwide basis. In addition to green office plan activities, centered on administrative departments, we are taking steps to improve the quality of our activities, including the introduction of such evaluation methods as life cycle impact assessment.

In safety, we have maintained a top rank in the industry, with an accident rate* of 0.1 at Kyowa Hakko, Kyowa Hakko Chemical Co., Ltd., and Kyowa Medex Co., Ltd. We also had no incidents of fires or leaks in the year under review.

* The number of occupational injury accidents resulting in worker absences and injuries per million man-hours of labor.

Assessment

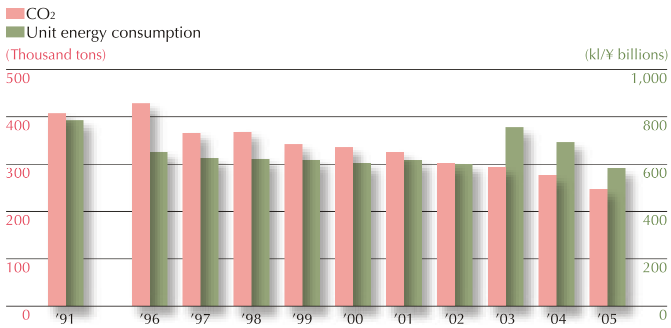
We are steadily implementing risk management. We are taking steps to effectively use our safety and environmental assessment system, such as bolstering predictive evaluation and change management in new product and new technology development.

R&D for Environmentally Supportive Products and Technologies

We are aggressively developing environmentally supportive products, including energy-saving technologies. Our raw materials for CFC-substitute refrigerant lubricants are products that contribute to environmental conservation. Another environmentally supportive product is a raw material for water-based paints that will help to control

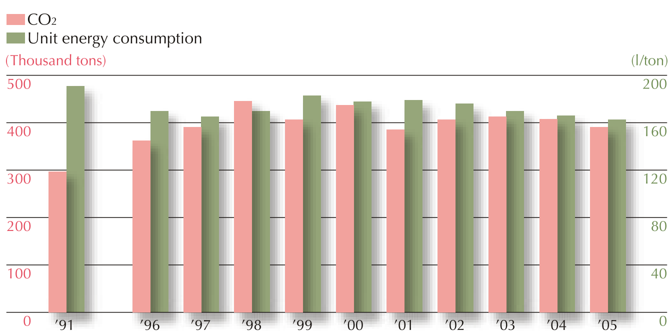
Yearly Changes in Unit Energy Consumption

*(Kyowa Hakko, Kyowa Medex, Riken Kagaku, Kyowa F.D. Foods, Kyowa HiFoods, and Ohland Foods)**



Yearly Changes in Unit Energy Consumption

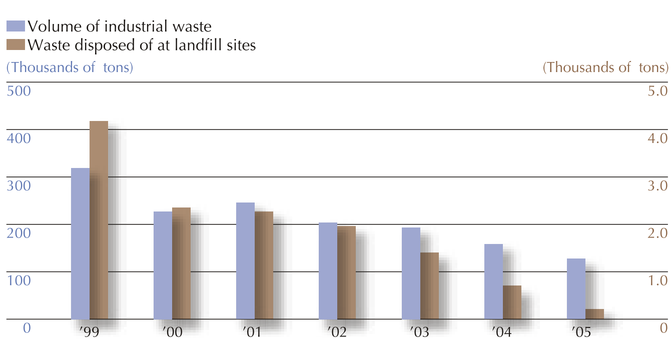
*(Kyowa Hakko Chemical)**



* *Energy consumption per unit of production is expressed on a crude-oil-conversion basis. It is not possible to make a uniform comparison of the amount of basic energy units used by Kyowa Hakko, Kyowa Medex, Riken Kagaku, Kyowa F.D. Foods, Kyowa HiFoods, and Ohland Foods, which engage in the small-volume production of pharmaceuticals and other products, and Kyowa Hakko Chemical, which is involved in the production of chemical products. Therefore, the amounts of unit energy consumption by Kyowa Hakko, Kyowa Medex, Riken Kagaku, Kyowa F.D. Foods, Kyowa HiFoods, and Ohland Foods and by Kyowa Hakko Chemical are presented separately. Because the energy consumption of the alcoholic beverage operations was lower than the average energy consumption for the Company as a whole, the transfer had the effect of worsening the Company's energy consumption numbers.*

Yearly Changes in Volume of Industrial Waste

(Kyowa Hakko, Kyowa Hakko Chemical, Kyowa Medex, Riken Kagaku, Kyowa F.D. Foods, Kyowa HiFoods, and Ohland Foods)



emissions of organic solvents. Also, we are participating in national research projects, and we are working with fundamental technologies for the development of low-environmental-burden bioprocesses and conducting the development of fermentation production technologies using wood-based biomass as a raw material. We are also implementing ISO 14001-based management in R&D divisions as well as in production areas as one facet of our commitment to addressing environmental and safety-related issues from the R&D stage.

On the foundation of these initiatives, Kyowa Hakko will continue working to improve its environmental and safety-related activities and to raise the quality of its information disclosure, including consolidated subsidiaries and affiliates.

Quality Assurance

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

Moreover, to further enhance quality assurance in products and services, we rigorously follow all relevant laws and regulations and give priority to safety, and we have built quality assurance systems for each operational area. In particular, in Pharmaceuticals, we have established systems for production control, quality control, and post-marketing safety control in accordance with the revised Pharmaceutical Affairs Law. In regard to other products, we conduct rigorous quality screenings at new product development meetings and other venues. At the same time, when we change raw materials or production methods, we conduct quality confirmation with strict change control (quality assessment).

We are continually working to improve production control and quality control systems, utilizing international standard quality assurance systems, such as GMP, ISO 9001, and HACCP, at all plants in accordance with product attributes. We have already received ISO 9001 certification at the Hofu and Ube plants, at Kyowa Hakko Chemical's Chiba and Yokkaichi plants, and at Kyowa Medex's plant. In the fiscal year under review, the Tsuchiura Plant of Kyowa Hakko Food Specialties Co., Ltd., was newly certified.

In addition to the activities outlined above, the Kyowa Hakko Group has made strengthening risk management, including enhancing quality auditing on a Groupwide basis, a special priority. In the future, we will continue working to further improve quality assurance throughout the Kyowa Hakko Group.

Corporate Citizenship

As a fundamental management policy, Kyowa Hakko takes measures to ensure that its management is open to society and strives to aggressively introduce international standards into its management practices. We work to communicate with local communities and, through corporate citizenship activities, to earn society's understanding and trust. To those ends, we implement a wide range of activities.

"Science for a Happier 21st Century" Essay Competition

In recent years, young people in Japan have grown increasingly distanced from science, and in response Kyowa Hakko has introduced a national science essay competition designed to encourage young people—who will play key roles in society in the 21st century—to think about and develop an interest in science. For junior and senior high school students, the competition is based on the theme of "Science for a Happier 21st Century." The seventh annual competition will be held in 2005. Other sponsors and supporters of the competition include the Mainichi Newspapers Co. and the Ministry of Education, Culture, Sports, Science and Technology.

Mobile Science Experiment Classroom—BioAdventure

Kyowa Hakko offers a mobile science experiment classroom that supports science education, with the Company's researchers serving as instructors. Staff members at the Tokyo Research Laboratories (now, BioFrontier Laboratories) install microscopes and other experimental equipment onto a vehicle—BioAdventure—that is taken to elementary, junior high, and senior high schools.

In addition, during school spring vacations we offer science laboratory classrooms at the Pharmaceutical Research Center for local elementary school students and, during summer vacations, science classrooms at the Ube Plant for elementary and junior high school students.

Asahi Young Session

Every year since 1987, the Company has sponsored the Asahi Young Session, a lecture series that provides an opportunity for leaders from various fields to deliver inspirational messages to young people about the importance of having future directions, dreams, and hopes. Ms. Yuko Matsuoka, who is the translator of the Harry Potter series, a simultaneous interpreter, and the president of a publishing company, was invited for the 17th session in 2005. So that those who were unable to attend the lecture will also have access to it, Ms. Matsuoka's address is available in printed form, which is provided upon request. Other sponsors and supporters of the lecture series include Asahi Shimbun and the Ministry of Education, Culture, Sports, Science and Technology.

Kato Memorial Bioscience Foundation

The Kato Memorial Bioscience Foundation, established by Kyowa Hakko in honor of the Company's founder, Dr. Benzaburo Kato, provides financial support for researchers for innovative work in the basic fields of bioscience. The foundation also sponsors an annual public symposium.

Fundamental Approach

Kyowa Hakko conducts its operational activities in accordance with its corporate philosophy of "contributing to the health and well-being of people worldwide by creating new value with the pursuit of advancements of life science and technology." Our fundamental approach to corporate governance is to establish the management organization and framework and implement the policies that are necessary to realize this philosophy.

Kyowa Hakko's system of basic management institutions comprises the corporate institutions stipulated by the Commercial Law Act—a board of directors and a board of auditors. The board of directors, which has six members as of June 28, 2005, makes decisions about important issues, such as management policies, and supervises the work of the directors. As of June 28, 2005, the board of auditors has four members, of whom three are outside auditors. In accordance with auditing policies determined by the board of auditors, the auditors attend important meetings, such as meetings of the board of directors, conduct investigations of operations and assets, and audit the work of the directors.

To ensure rapid management decision making and administrative execution, Kyowa Hakko has introduced a managing officer system.

In addition, the Management Meeting has been established as a decision-making body to make accurate and effective management decisions from a strategic viewpoint for all important issues related to management.

Progress in Governance

In July 2003, Kyowa Hakko established the Advisory Board to provide outside management viewpoints, to strengthen the management constitution, and to increase the transparency and soundness of management in regard to management issues faced by the Kyowa Hakko Group. The Advisory Board comprises four outside advisors and, in general, meets twice a year.

To consider basic policies related to management issues and to respond to a range of risks, we have established six in-house committees. The Corporate Ethics Committee, to ensure the Group earns the trust of society, oversees strict compliance with laws and ethical behavior and deliberates on the soundness and appropriateness of corporate activities. The Environmental Safety Committee, an advisory committee to the president, deliberates on basic policies regarding environmental conservation and safety. The Quality Assurance Committee, also an advisory committee to the president, deliberates on basic policies regarding quality assurance. The Information Disclosure Committee deliberates on basic policies regarding information activities and on important matters related to information disclosure. The Financial Management Committee deliberates on efficient financial activities and on associated risks. And the Information Security Committee deliberates on basic policies regarding the protection and handling of the confidential information held by the Group.

On April 1, 2005, we reorganized the Corporate Compliance Division into corporate ethics, quality assurance, and environmental safety and established the Audit Department. This department oversees internal auditing for the Group and, working with corporate auditors, verifies that the internal control system is functioning properly.

With the separation of its Chemicals operations in April 2004 and its Food operations in April 2005, Kyowa Hakko has completed the transition to an operating holding company.

We will continue to give more authority to each operational area and work to achieve rapid operational administration stemming from quicker decision making and the clarification of operational responsibilities.

As part of management reforms, in June 2005 we completely revised our system of compensating directors. We discontinued the previous directors' retirement bonus system, and we introduced a performance-based compensation system for directors and corporate executive officers under which evaluations of effort and achievement in raising corporate performance will be more strongly reflected in their compensation. We also introduced a stock option system under which directors and corporate executive officers will share the benefits and risks of stock price fluctuations with shareholders.

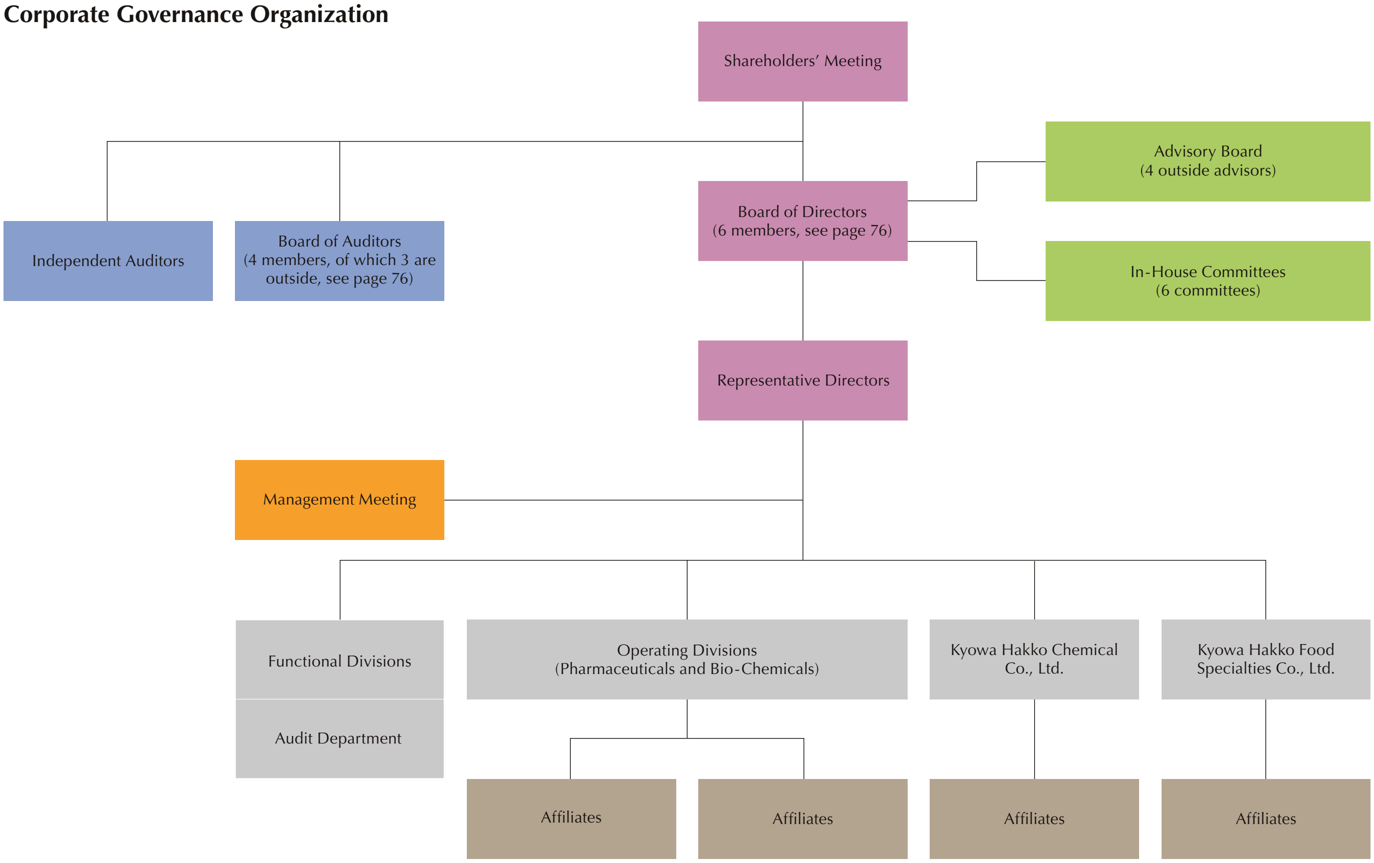
Increasing Management Transparency

Kyowa Hakko aims to be a company that is relied upon by all of its stakeholders, including shareholders, customers, and local communities. By using a variety of opportunities and methods, such as the timely disclosure of management information, we are working to raise management transparency through appropriate information release and disclosure.

Corporate Ethics

We have established Kyowa Hakko ethics principles and employee ethics action standards that form the basis of the activities of all employees at Kyowa Hakko Group companies. Also, we have established the Corporate Ethics Department and are working to provide employees with ongoing education and to raise their awareness of issues related to ethics.

Corporate Governance Organization



RISK FACTORS

In regard to the Kyowa Hakko Group's management performance and financial position, the major risks that could have a significant influence on the judgment of investors include, but are not limited to, those outlined below. The Group recognizes that these risk events may occur, and the Group uses a risk management system to prevent the occurrence of those risk events that can be controlled by the Group. At the same time, in the event of the occurrence of a risk event, the Group will do its utmost in responding. Matters in this section dealing with the future represent the judgment of the Kyowa Hakko Group as of the end of the fiscal year under review, March 31, 2005.

Risks associated with the operating environment in the domestic pharmaceutical industry

In the Group's core Pharmaceuticals operations, under the domestic public drug price system, the official prices for the majority of ethical drugs are periodically reduced. As a result, the Group is unable to avoid reductions in the selling prices of its drugs.

Risk that substantial R&D investment will not be recovered

The Group conducts substantial R&D investment in the development of new products and technologies, in the improvement of existing products, and in the development of new applications for existing products. In ethical drug operations, the development of new drugs requires lengthy periods of time and substantial R&D expenditures, and in the complicated new drug development process, if efficacy is not confirmed, development may be stopped. Also, even if development is successful and the product is launched, sales may not increase. Moreover, if serious unforeseen side effects develop after a product is launched, sales may be stopped. As a result of various factors such as these, it may not be possible for the Group to recover its investment in R&D.

In addition, in non-pharmaceutical operations, making use of key technologies, such as its core fermentation technologies and biotechnologies, the Group invests R&D resources in the development of new products and new technologies that are expected to differentiate the Group from its competitors. There is no guarantee these investments will produce results.

Legal regulation risks

In the course of carrying out its operations in Japan and overseas, the Group must strictly comply with legal regulations.

In Pharmaceuticals operations, in Japan and overseas the Group is subject to pharmaceutical-related regulations in all countries at each stage, from new drug development to drug manufacturing, importing and exporting, sales, distribution, and use. The Group must comply with large numbers of laws and business practices, and in addition there are a variety of approval and permission systems as well as monitoring systems. The Group emphasizes compliance to ensure that it does not violate the laws to which it is subject, and the Group is working to bolster internal control functions through such means as administrative oversight. However, there is no guarantee that the Group will be able to completely eliminate the possibility of committing a violation of these legal regulations. If, because the Group is unable to observe these legal regulations, new product development is delayed or stopped, or manufacturing or sales activities are restricted, the Group's credibility could be damaged.

Risk of declines in profitability due to significant crude oil price fluctuations

The primary raw materials for the products of the Group's Chemicals operations include ethylene and propylene, which are made from naphtha, which is refined from crude oil. The prices of those raw materials are significantly affected by fluctuations in the price of crude oil. In addition to the global demand-supply balance, the price of crude oil is determined by a range of unpredictable factors, including atmospheric conditions, war, and terrorism. The price of crude oil has been fluctuating significantly, and this trend is expected to continue.

Disaster- and accident-related risks

The Group conducts periodic disaster prevention tests and facility maintenance for all of its production line facilities. However, there is no guarantee that the Group will be able to completely prevent events that interrupt production, such as accidents, electricity outages, and boiler stoppages. Also, the petrochemical products and raw material alcohol manufactured by the Group are dangerous materials that are extremely flammable. In regard to these products, the Group pays particular attention to safety in its daily production activities; however, in the event of an accident caused by any of a variety of reasons, damage could be caused not only to production facilities but also to the surrounding region.

In addition, the Group handles materials that are subject to a broad array of guidelines, and at plants and research facilities these materials are strictly managed in accordance with storage specifications. However, in the event of their leakage outside the Company, for a number of reasons, such as natural disasters, the surrounding region could be damaged.

CONTENTS

Financial Section

ELEVEN-YEAR SELECTED FINANCIAL DATA

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2005, 2004, 2003, 2002, 2001, 2000, 1999, 1998 and 1997; the three-month period ended March 31, 1996; and the year ended December 31, 1995

	2005	2004	2003	2002
For the Year:				
Net sales	**¥358,963**	¥348,838	¥359,285	¥378,668
Gross profit	**132,113**	129,507	126,328	128,744
Selling, general and administrative expenses	**98,606**	102,671	110,239	108,387
Operating income	**33,507**	26,836	16,089	20,357
Net income	**17,932**	10,017	8,485	5,535
Capital expenditures	**7,647**	9,041	11,791	11,454
Depreciation and amortization	**10,565**	11,358	14,768	17,819
R&D expenses	**28,762**	29,206	31,438	29,294
Cash Flows:				
Net cash provided by operating activities	**30,104**	34,264	18,193	16,955
Net cash (used in)/provided by investing activities	**(8,104)**	10,477	2,586	8,377
Net cash used in financing activities	**(9,116)**	(44,226)	(38,748)	(16,843)
Cash and cash equivalents at the end of the year	**37,818**	24,911	24,588	41,908
At Year-End:				
Current assets	**210,341**	194,062	195,878	244,410
Total assets	**374,493**	361,096	368,772	430,113
Current liabilities	**103,489**	98,914	95,046	162,508
Interest-bearing debt	**12,193**	13,358	51,969	74,354
Total shareholders' equity	**235,439**	225,042	219,047	211,652
Number of employees	**5,960**	6,294	6,749	7,299
Per Share Data:				
Net income—basic (Note 2)	**¥ 41.7**	¥ 23.0	¥ 19.4	¥ 12.7
Total shareholders' equity	**556.3**	522.6	505.4	487.5
Cash dividends	**10.0**	7.5	7.5	7.5
Common Stock Price Range (Per share)**:**				
High	**864**	719	780	899
Low	**661**	495	411	587
Stock Information (Thousands of shares)**:**				
Number of common stock issued	**434,244**	434,244	434,244	434,244
Weighted average number of common stock issued	**427,636**	431,497	433,748	434,244
Financial Ratios:				
Return on assets	**4.88**	2.74	2.12	1.28
Operating return on assets	**9.11**	7.35	4.03	4.73
Return on equity	**7.79**	4.51	3.94	2.72
Equity ratio	**62.87**	62.32	59.40	49.21
Debt/equity ratio	**5.18**	5.94	23.73	35.13

Notes: 1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥107.39=US$1, the approximate exchange rate at March 31, 2005.
2. Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year, appropriately adjusted for subsequent free distributions of common stock.
3. As a result of a change in the Company's fiscal year-end from December 31 to March 31, fiscal 1996 was the three-month period ended March 31, 1996.
4. Only nonconsolidated figures are available.

Millions of Yen							Thousands of U.S. Dollars (Note 1)
2001	2000	1999	1998	1997	1996 (Note 3)	1995	**2005**
¥375,610	¥374,910	¥384,671	¥397,361	¥397,629	¥ 82,990	¥374,978	**$3,342,611**
123,945	126,872	127,864	144,191	144,248	31,645	149,050	**1,230,217**
106,233	105,216	104,407	109,448	110,320	24,959	105,425	**918,205**
17,712	21,656	23,457	34,743	33,928	6,686	43,625	**312,012**
9,395	11,274	6,143	13,528	12,339	1,296	15,615	**166,980**
17,092	21,053	24,408	24,555	19,132	4,317	11,428 (Note 4)	**71,208**
18,502	19,153	17,673	17,113	16,701	3,926	10,341 (Note 4)	**98,380**
28,921	25,888	24,083	25,358	22,882	5,026	20,658	**267,825**
28,789	32,737	—	—	—	—	—	**280,324**
(1,991)	23,422	—	—	—	—	—	**(75,463)**
(20,871)	(50,077)	—	—	—	—	—	**(84,887)**
32,600	26,215	—	—	—	—	—	**352,156**
237,852	223,353	270,499	235,697	236,337	228,298	241,871	**1,958,665**
431,410	433,958	477,729	437,271	431,774	418,956	432,500	**3,487,224**
169,821	158,542	211,376	181,554	182,648	175,389	186,209	**963,674**
87,624	102,870	151,489	98,282	97,786	98,195	99,656	**113,540**
194,692	195,039	185,766	188,645	180,391	174,294	174,943	**2,192,374**
7,766	7,866	5,044 (Note 4)	5,134 (Note 4)	5,174 (Note 4)	5,172 (Note 4)	5,298 (Note 4)	
Yen							U.S. Dollars (Note 1)
¥ 21.6	¥ 26.0	¥ 13.9	¥ 30.3	¥ 27.6	¥ 2.9	¥ 35.0	**$0.388**
448.3	449.1	427.8	422.6	404.2	390.5	391.9	**5.180**
7.5	10.0	7.5	7.5	7.5	1.9	7.5	**0.093**
1,225	1,581	694	888	1,080	1,030	1,010	**8.045**
701	610	485	492	720	914	799	**6.155**
434,244	434,244	434,244	446,343	446,343	446,343	446,343	
434,244	434,244	441,906	446,343	446,343	446,343	446,343	
%							
2.17	2.47	1.34	3.11	2.90	0.30	3.71	
4.09	4.75	5.13	8.00	7.98	1.57	10.37	
4.82	5.92	3.28	7.33	6.96	0.74	9.36	
45.13	44.94	38.89	43.14	41.78	41.60	40.45	
45.01	52.74	81.55	52.10	54.21	56.34	56.96	

Operating Environment and Business Performance

In fiscal 2005, ended March 31, 2005, conditions in the domestic economy were strong overall, with improvement in corporate profitability and a recovery in capital investment. Nonetheless, crude oil prices rose, and the economy was unable to shake off a sense of uncertainty.

Kyowa Hakko faced intensifying competition in its core operational areas. In Pharmaceuticals operations, ethical drug prices were reduced in April 2004, and in Bio-Chemicals operations demand for amino acids for health foods declined following sharp growth in the previous fiscal year. In Chemicals operations, raw materials prices increased, but the Chinese economy was strong, and market conditions were solid in Japan and overseas. Food operations continued to face difficult conditions, with consumption sluggish throughout the food products industry and prices trending downward.

In this business environment, the Kyowa Hakko Group worked to expand sales with strategic marketing activities, to increase profitability through cost reductions, and to develop new products. At the same time, we took steps to reform our operational structure. As a result, we posted higher net sales and net income.

Analysis of Profit and Loss

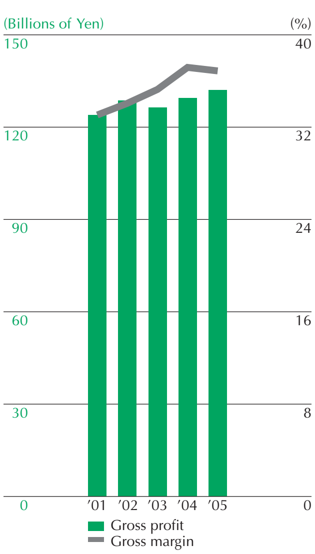
Sales

In the year under review, the Company's consolidated net sales rose 2.9%, to ¥359.0 billion. Bio-Chemicals and Food operations recorded lower sales, but Pharmaceuticals operations registered higher sales due to strong performances by core products. Also, higher demand in Japan and overseas supported increased sales in Chemicals operations.

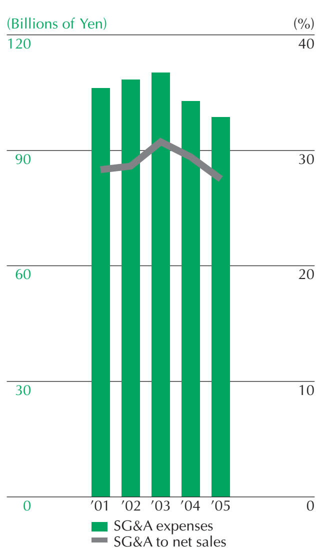
Cost of Sales and SG&A Expenses

The cost of sales rose 3.4%, to ¥226.9 billion, and the cost of sales ratio increased 0.3 percentage points, to 63.2%. Gross profit was up 2.0%, to ¥132.1 billion, and the gross margin declined 0.3 percentage points, to 36.8%. Selling, general and administrative (SG&A) expenses were down 4.0%, to ¥98.6 billion, and the ratio of SG&A expenses to net sales improved 1.9 percentage points, to 27.5%, due to efforts to control sales promotion expenses and to a significant decline in retirement benefit expense.

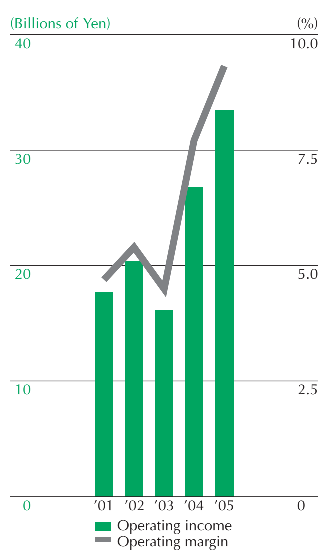
Gross Profit



SG&A Expenses



Operating Income



Net Income

Operating Income

Operating income recorded a significant increase, up 24.9%, to ¥33.5 billion, and the operating margin rose 1.6 percentage points, to 9.3%. This improvement was attributable to the decline in SG&A expenses, which exceeded the increase in the cost of sales.

Other Revenue (Expenses)

In the previous fiscal year, a total of ¥16.9 billion in other revenue was provided by gain on sale of investments in securities and gain on sale of property, plant and equipment, while other expenses totaled ¥26.4 billion, including arising from the lump-sum recognition of the previous years' unrecognized actuarial differences associated with cancellation of the Company's retirement benefit trust contract, loss on disposal of fixed assets relevant to organizational restructuring, loss on recalling products, and administrative fines in a cartel for sales of amino lysine within European Economic Area. Accordingly, net other expenses in the previous fiscal year were ¥11.5 billion. In the year under review, however, net other expenses were limited to ¥3.6 billion, and as a result income before income taxes and minority interests was up 94.5%, to ¥29.9 billion.

Income Taxes

Current and deferred income taxes totaled ¥11.9 billion, up from the previous year's level of ¥5.5 billion. The effective tax rate was 39.8%, compared with 35.9% in the previous year.

Net Income

In the year under review, net income was up 79.0%, to ¥17.9 billion, and the net margin improved significantly, up 2.1 percentage points, to 5.0%.

Performance by Segment

Sales, operating expenses, and operating income for each Kyowa Hakko business segment are outlined on the following page. The figures include inter-segment

	Millions of Yen						Thousands of U.S. Dollars (Note 1)
	2005	2004	2003	2002	2001	2000	**2005**
Sales by Industry Segment:							
Pharmaceuticals	**¥156,426**	¥142,881	¥140,594	¥142,297	¥141,450	¥142,338	**$1,456,616**
Bio-Chemicals	**57,767**	69,195	58,525	55,496	52,720	47,657	**537,918**
Chemicals	**77,983**	66,899	65,158	60,410	60,659	63,893	**726,166**
Food[2]	**44,500**	45,912	72,322	103,531	103,353	106,320	**414,377**
Other	**57,784**	62,906	63,485	59,777	57,627	55,166	**538,077**
Corporate, elimination and other	**(35,497)**	(38,955)	(40,799)	(42,843)	(40,199)	(40,464)	**(330,543)**
Total	**¥358,963**	¥348,838	¥359,285	¥378,668	¥375,610	¥374,910	**$3,342,611**
Operating Income (Loss) by Industry Segment:							
Pharmaceuticals	**¥18,100**	¥11,943	¥11,014	¥18,959	¥19,574	¥23,799	**$168,544**
Bio-Chemicals	**6,887**	8,847	1,975	1,268	(1,191)	(2,096)	**64,131**
Chemicals	**5,339**	2,893	1,100	(1,174)	(2,684)	(1,064)	**49,716**
Food[2]	**1,662**	1,654	(368)	(440)	919	(1,110)	**15,476**
Other	**1,634**	1,767	2,597	1,756	1,141	1,390	**15,216**
Corporate, elimination and other	**(115)**	(268)	(229)	(12)	(47)	737	**(1,071)**
Total	**¥33,507**	¥26,836	¥16,089	¥20,357	¥17,712	¥21,656	**$312,012**

Notes: 1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥107.39=US$1, the approximate exchange rate at March 31, 2005.
2. Due to the transfer of alcoholic beverage operations in September 2002, the name of the Liquor and Food Segment was changed to the Food Segment from the year ended March 31, 2004.
3. Due to the reclassification of business segments effective from fiscal 2005, segment information for fiscal 2004 has been restated. However, segment information for years prior to fiscal 2004 has not been restated.

transactions. From the fiscal year under review, certain changes have been made to the Company's business segments, such as the transfer of health foods and raw material alcohol operations from the Food Segment to the Bio-Chemicals Segment. The year-on-year comparisons below reflect those changes.

Pharmaceuticals

Sales in the Pharmaceuticals Segment, Kyowa Hakko's core line of business, increased 9.5% from the previous year, to ¥156.4 billion, accounting for 39.7% of total sales. Operating expenses rose 5.6%, to ¥138.3 billion, and operating income was up 51.6%, to ¥18.1 billion.

Bio-Chemicals

Sales in the Bio-Chemicals Segment declined 16.5% from the previous year, to ¥57.8 billion, accounting for 14.6% of total sales. Operating expenses decreased 15.7%, to ¥50.9 billion, and operating income was down 22.2%, to ¥6.9 billion.

Chemicals

Sales in the Chemicals Segment increased 16.6% from the previous year, to ¥78.0 billion, accounting for 19.8% of total sales. Operating expenses rose 13.5%, to ¥72.6 billion, and operating income was up 84.5%, to ¥5.3 billion.

Food

Sales in the Food Segment decreased 3.1%, to ¥44.5 billion, accounting for 11.3% of total sales. Operating expenses declined 3.2%, to ¥42.8 billion, and operating income edged up 0.5%, to ¥1.7 billion.

Other

Sales in the Other Segment declined 8.1%, to ¥57.8 billion, accounting for 14.6% of total sales. Kyowa Hakko's other businesses include the operations of subsidiaries engaged in transportation and in facilities design and operation. Operating expenses were down 8.2%, to ¥56.2 billion, and operating income decreased 7.5%, to ¥1.6 billion.

Cash Flows

Net cash provided by operating activities in fiscal 2005 amounted to ¥30.1 billion, a decline of ¥4.2 billion from the previous fiscal year. Factors increasing cash flow included an increase of ¥14.5 billion in income before income taxes and minority interests and a decrease in gain on sale of securities of ¥12.8 billion. Factors decreasing cash flow included a decrease in reserve for retirement benefits of ¥19.6 billion and an increase in income taxes paid of ¥10.5 billion.

Net cash used in investing activities was ¥8.1 billion, a decline of ¥18.6 billion from the previous year, when net cash provided by investing activities was ¥10.5 billion. Acquisition of property, plant and equipment decreased ¥1.9 billion and proceeds from sale of investments in securities declined ¥15.4 billion. Proceeds from sale of property, plant and equipment decreased ¥4.3 billion.

Net cash used in financing activities was ¥9.1 billion, a decrease of ¥35.1 billion from the previous year, when net cash used in financing activities totaled ¥44.2 billion. Acquisition of treasury stock increased ¥3.7 billion. There were no bond redemptions in the year under review, while in the previous year redemption of bond totaled ¥33.7 billion. Repayment of long-term debt declined ¥1.5 billion.

Cash and cash equivalents at fiscal year-end were up ¥12.9 billion, to ¥37.8 billion.

Financial Position

At the end of fiscal 2005, total current assets were ¥210.3 billion, an increase of 8.4% from the previous year-end. Cash and time deposits were up ¥10.9 billion, and accounts and notes receivable increased ¥2.1 billion. Other current assets rose ¥2.0 billion, while a new item, marketable securities, was ¥1.0 billion. Due to higher current assets, total assets rose 3.7%, to ¥374.5 billion.

Total current liabilities increased 4.6%, to ¥103.5 billion at fiscal year-end. Short-term borrowings declined from ¥13.2 billion at the previous fiscal year-end to ¥12.1 billion while accounts and notes payable increased ¥6.0 billion. A new item, reserve for loss on liquidation of business, was ¥1.2 billion.

In non-current liabilities, deferred tax liabilities rose ¥1.9 billion, while reserves overall declined ¥3.5 billion, including a decrease of ¥3.1 billion in reserve for retirement benefits. As a result, non-current liabilities were down 4.6%, to ¥34.1 billion. Long-term debt declined to ¥0.1 billion, and total interest-bearing debt, including short-term borrowings, was ¥12.2 billion, down from ¥13.4 billion at the previous fiscal year-end. As in the previous year, with cash and time deposits exceeding debt, the Company did not rely on borrowing.

Total shareholders' equity rose 4.6% from the previous year-end, to ¥235.4 billion. Although treasury stock had the effect of reducing shareholders' equity ¥5.5 billion, retained earnings increased ¥14.7 billion.

With the equity ratio rising to 62.9%, from 62.3% at the end of the previous year, the Company further strengthened its stability. The debt/equity ratio[1] improved from 5.9% to 5.2%.

Management Indexes

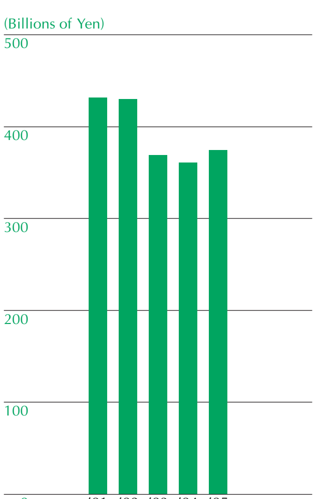
Profitability

Return on equity (ROE) increased to 7.79%, from 4.51% in the previous fiscal year, and return on assets (ROA) rose to 4.88%, from 2.74%. Operating return on assets was 9.11%, a significant increase from 7.35% in the previous year. Under our Eighth Medium-Term Management Plan, we set an operating return on assets target of 8.0%, and as a result of our efforts to reduce interest-bearing debt and to establish a profit-generating structure, we have achieved that target. EBITDA[2] was ¥40.7 billion in the year under review, an increase of 47.8% from the previous year.

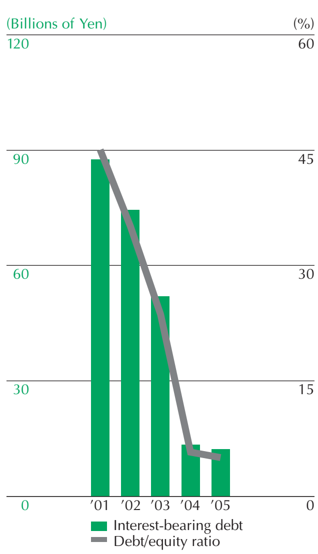
Capital Expenditures

The Kyowa Hakko Group is investing continuously with the goals of enhancing and rationalizing production facilities and promoting R&D activities. Capital expenditures during fiscal 2005 decreased 15.4% from the

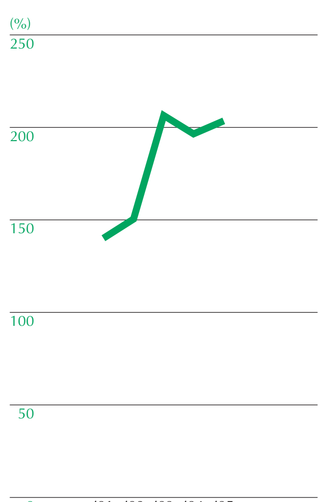
Total Assets



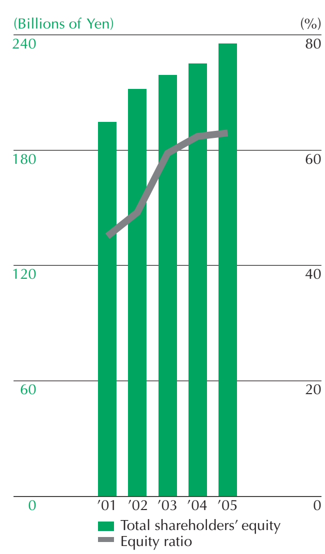
Interest-Bearing Debt



Current Ratio



Total Shareholders' Equity



Note 1: Debt/equity ratio = Interest-bearing debt (short-term borrowings + current portion of long-term debt + long-term debt) / total shareholders' equity

previous fiscal year, to ¥7.6 billion, and depreciation and amortization declined 7.0%, to ¥10.6 billion. Accordingly, capital expenditures remained within the range of depreciation and amortization and we were able to fund those expenditures internally. A breakdown of capital expenditures and depreciation and amortization by business segment is shown in the table below.

R&D Expenses

R&D expenses, which are included in production expenses and in SG&A expenses, declined 1.5% from the previous fiscal year, to ¥28.8 billion, or 8.0% of consolidated net sales. R&D expenses in Pharmaceuticals amounted to ¥24.2 billion, accounting for 84.1% of total R&D expenses and 15.5% of Pharmaceuticals Segment sales.

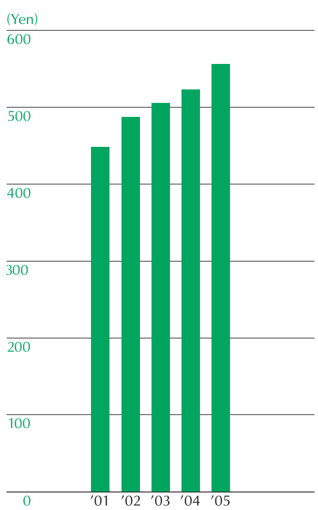
Per Share Data

In the fiscal year under review, net income per share was ¥41.7, up from ¥23.0 in the previous year. Total shareholders' equity per share increased from ¥522.6 to ¥556.3. Cash dividends per share for fiscal 2005 were ¥10.00, comprising interim dividends of ¥3.75 per share and year-end dividends of ¥6.25 per share, representing an increase of ¥2.50 per share from the previous fiscal year.

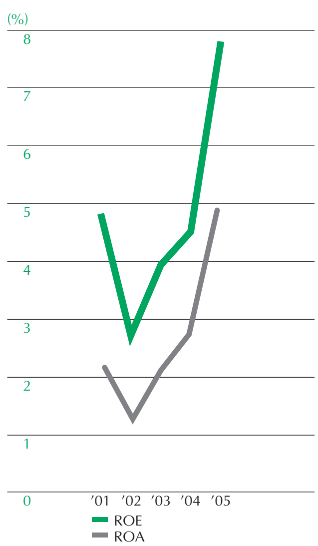
Billions of Yen

	Capital Expenditures			Depreciation and Amortization		
	2005	2004	2003	**2005**	2004	2003
Pharmaceuticals	**¥2.7**	¥3.6	¥ 4.2	**¥ 4.4**	¥ 4.6	¥ 5.1
Bio-Chemicals	**2.2**	1.9	3.7	**2.7**	3.0	3.9
Chemicals	**1.6**	1.8	2.2	**2.3**	2.7	3.6
Food	**0.5**	1.8	1.4	**1.1**	1.0	1.7
Other	**0.6**	0.1	0.1	**0.1**	0.1	0.1
Corporate, elimination and other	**(0.0)**	(0.1)	0.3	**(0.0)**	(0.0)	0.4
Total	**¥7.6**	¥9.0	¥11.8	**¥10.6**	¥11.4	¥14.8

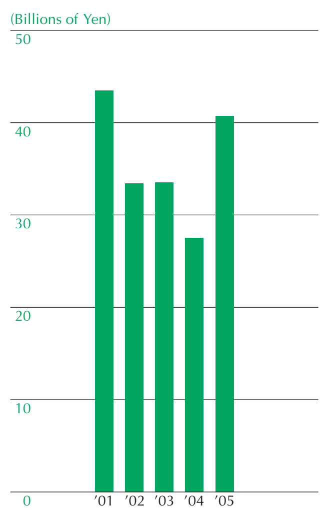
Total Shareholders' Equity per Share



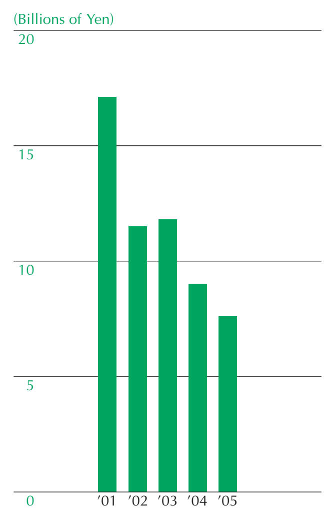
ROE and ROA



EBITDA[2]



Capital Expenditures



Note 2: EBITDA = Income before income taxes and minority interests + interest expenses + depreciation and amortization

Dividend Policy

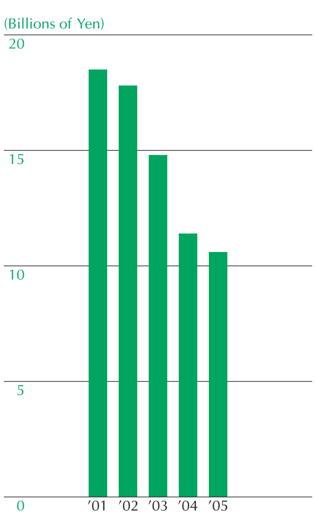
The Company considers providing a return to shareholders to be one of its most important management issues. The Company's basic policy for the payment of cash dividends calls for retaining earnings to strengthen the Company's financial position while making stable, continuous dividend payments, giving comprehensive consideration to the consolidated results of operations, the dividend payout ratio, and the dividends-on-equity ratio. In the year under review, in consideration of the significant increase in earnings, the Company raised annual dividends by ¥2.5 per share, from ¥7.5 per share in the previous year. Retained earnings will be allocated to investment supporting new growth, such as capital investment and R&D expenses.

Acquisition of Treasury Stock

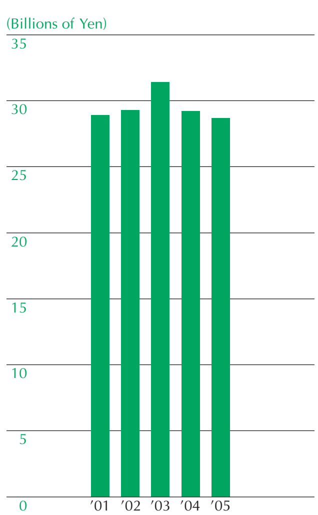
The Company takes a flexible approach to the acquisition of treasury stock. To facilitate the execution of a more adaptable capital policy, the provisions for acquisition of treasury stock were changed at the general meeting of shareholders held on June 29, 2004, to make it possible for treasury stock to be acquired through a decision of the board of directors.

The Company acquired 2,796 thousand shares in the previous fiscal year and 7,384 thousand shares in the year under review, at a cost of ¥5.5 billion. The Company held 11,210,294 shares of treasury stock on a consolidated basis as of the end of the year under review.

Depreciation and Amortization



R&D Expenses



Retirement Benefit Obligations

At the end of the year under review, projected pension benefit obligations totaled ¥63.9 billion at a discount rate of 2.5%, the same rate as in the previous fiscal year. The market value of pension fund assets at year-end was ¥31.3 billion, resulting in unfunded pension benefit obligations of ¥32.6 billion. Subtracting the unrecognized actuarial differences of ¥7.0 billion and adding the unrecognized prior service costs of ¥5.0 billion leaves ¥30.6 billion, which was recorded in the consolidated balance sheets as reserve for retirement benefits. The unrecognized actuarial differences will be amortized over a 10-year period starting from the following year using the straight-line method. The unrecognized prior service costs will be amortized over a 5-year period starting from the point at which they arose using the straight-line method.

Retirement Benefit Expense

Expected return on plan assets (calculated at 2.8%) of ¥0.7 billion and amortization of unrecognized prior service costs of ¥1.4 billion were subtracted from the total of service cost of ¥2.7 billion, interest cost of ¥1.6 billion, and amortization of unrecognized actuarial differences of ¥1.6 billion, resulting in a total of ¥3.7 billion in retirement benefit expense for the year under review.

CONSOLIDATED BALANCE SHEETS

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries
As at March 31, 2005 and 2004

ASSETS	Millions of Yen 2005	Millions of Yen 2004	Thousands of U.S. Dollars (Note 3) 2005
Current Assets:			
Cash	**¥ 34,764**	¥ 24,301	**$ 323,717**
Time deposits	**1,375**	939	**12,804**
Marketable securities	**1,000**	—	**9,312**
Accounts and notes receivable:			
Trade	**99,298**	100,290	**924,648**
Unconsolidated subsidiaries and affiliates	**9,008**	7,919	**83,881**
Other	**3,728**	1,685	**34,715**
	112,034	109,894	**1,043,244**
Inventories	**50,490**	50,495	**470,156**
Deferred tax assets (Note 7)	**6,868**	6,529	**63,954**
Other current assets	**4,017**	2,067	**37,406**
Less: allowance for doubtful accounts	**(207)**	(163)	**(1,928)**
Total current assets	**210,341**	194,062	**1,958,665**
Investments and Advances:			
Investments in securities (Note 4)	**44,735**	43,305	**416,566**
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 4)	**20,197**	18,501	**188,072**
Long-term loans to employees, mostly for housing	**36**	48	**335**
Long-term loans and other investments	**5,990**	6,122	**55,777**
Less: reserve for write-down of investments in securities	**(452)**	(206)	**(4,209)**
Less: allowance for doubtful accounts	**(1,219)**	(797)	**(11,351)**
	69,287	66,973	**645,190**
Property, Plant and Equipment (Note 6)**:**			
Buildings and structures	**121,464**	122,937	**1,131,055**
Machinery and equipment	**211,282**	211,303	**1,967,427**
	332,746	334,240	**3,098,482**
Less: accumulated depreciation	**(264,421)**	(261,410)	**(2,462,250)**
	68,325	72,830	**636,232**
Land	**21,663**	21,820	**201,723**
Construction in progress	**1,647**	2,035	**15,337**
	91,635	96,685	**853,292**
Deferred Tax Assets (Note 7)	**2,237**	1,957	**20,831**
Other Assets	**993**	1,419	**9,246**
	¥ 374,493	¥ 361,096	**$ 3,487,224**

The accompanying notes are an integral part of the statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2005	2004	2005
Current Liabilities:			
Short-term borrowings (Note 5)	**¥ 12,107**	¥ 13,232	**$ 112,739**
Accounts and notes payable:			
Trade (Note 4)	**45,501**	44,744	**423,699**
Unconsolidated subsidiaries and affiliates	**5,690**	3,625	**52,984**
Construction and acquisition of properties	**1,750**	1,393	**16,296**
Other	**16,375**	13,507	**152,481**
	69,316	63,269	**645,460**
Income taxes payable	**8,177**	8,767	**76,143**
Reserve for accrued sales returns	**54**	94	**503**
Reserve for accrued sales rebates	**1,231**	956	**11,463**
Reserve for accrued sales promotion expenses	**902**	796	**8,399**
Reserve for loss on disposal of fixed assets	**1,031**	1,157	**9,601**
Reserve for loss on liquidation of business	**1,224**	—	**11,398**
Guarantee deposits from customers	**7,472**	8,226	**69,578**
Other current liabilities	**1,975**	2,417	**18,390**
Total current liabilities	**103,489**	98,914	**963,674**
Long-Term Debt (Note 5)	**86**	126	**801**
Deferred Tax Liabilities (Note 7)	**2,010**	86	**18,717**
Reserve for Retirement Benefits:			
Employees (Note 8)	**30,571**	33,769	**284,673**
Directors and corporate auditors	**841**	781	**7,831**
Reserve for Loss on Disposal of Fixed Assets	**277**	669	**2,579**
Reserve for Loss on Guarantee of Liabilities	**17**	–	**158**
Other Non-Current Liabilities	**304**	321	**2,831**
Minority Interests in Consolidated Subsidiaries	**1,460**	1,388	**13,595**
Commitments and Contingent Liabilities (Notes 6 and 11)			
Shareholders' Equity:			
Common stock:			
Authorized: 987,900,000 shares at March 31, 2005 and 2004			
Issued: 434,243,555 shares at March 31, 2005 and 2004	**26,745**	26,745	**249,046**
Additional paid-in capital	**43,185**	43,182	**402,132**
Retained earnings (Note 16)	**159,588**	144,927	**1,486,060**
	229,518	214,854	**2,137,238**
Unrealized Gains on Available-for-Sale Securities (Note 4)	**15,307**	14,637	**142,537**
Translation Adjustments	**(1,565)**	(2,136)	**(14,573)**
Treasury Stock, at cost, 11,210,294 shares at March 31, 2005	**(7,821)**	(2,313)	**(72,828)**
Total shareholders' equity	**235,439**	225,042	**2,192,374**
	¥374,493	¥361,096	**$3,487,224**

CONSOLIDATED STATEMENTS OF INCOME

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2005, 2004 and 2003

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2005	2004	2003	**2005**
Net Sales (Note 14)	**¥358,963**	¥348,838	¥359,285	**$3,342,611**
Cost of Sales (Notes 6, 8 and 12)	**226,850**	219,331	232,957	**2,112,394**
Gross profit	**132,113**	129,507	126,328	**1,230,217**
Selling, General and Administrative Expenses (Notes 6, 8 and 10)	**98,606**	102,671	110,239	**918,205**
Operating income (Note 14)	**33,507**	26,836	16,089	**312,012**
Other Revenue (Expenses):				
Interest and dividend income	**686**	781	778	**6,388**
Interest expenses	**(240)**	(804)	(1,717)	**(2,235)**
Write-down of investments in securities	**(1)**	(18)	(306)	**(9)**
Gain on sale of investments in securities	**131**	12,978	1,688	**1,220**
Foreign exchange gain (loss)	**202**	(1,309)	(2,350)	**1,881**
Insurance premium received	**380**	405	340	**3,539**
Gain on sale of property, plant and equipment	**155**	3,959	3,489	**1,443**
Equity in earnings of affiliates	**564**	552	221	**5,252**
Provision for doubtful receivables	**(387)**	—	—	**(3,604)**
Loss on sale of investment in consolidated subsidiary	**(266)**	—	—	**(2,477)**
Loss from write-down of investments in affiliates	**(59)**	—	—	**(549)**
Provision for loss on liquidation of business	**(1,224)**	—	—	**(11,398)**
Extraordinary depreciation of property and equipment	**(165)**	—	—	**(1,536)**
Provision for cost of disposal of fixed assets	**(277)**	—	—	**(2,579)**
Provision for loss on write-down of investments	**(255)**	—	—	**(2,375)**
Provision for loss on guarantee of liabilities	**(17)**	—	—	**(158)**
Loss on restructuring of certain subsidiaries and affiliates (Note 10)	**—**	(843)	(6,047)	**—**
Arising from the lump-sum recognition of the previous years' unrecognized actuarial differences associated with cancellation of the Company's retirement benefit trust contract (Note 8)	**—**	(16,227)	—	**—**
Loss on disposal of fixed assets relevant to organizational restructuring (Note 10)	**—**	(3,225)	—	**—**
Loss on recalling products	**—**	(2,086)	—	**—**
Administrative fines in a cartel for sales of amino lysine within European Economic Area (Note 10)	**—**	(1,901)	—	**—**
Expenses on support for employees' early retirement	**—**	(1,464)	—	**—**
Loss on redemption of bond	**—**	(681)	—	**—**
Gain on the transfer of the alcoholic beverage operations (Note 10)	**—**	—	3,247	**—**
Gain on the transfer of the substitutional portion of contributory pension plan (Note 8)	**—**	—	2,873	**—**
Other, net	**(2,831)**	(1,576)	(1,312)	**(26,363)**
	(3,604)	(11,459)	904	**(33,560)**
Income before income taxes and minority interests	**29,903**	15,377	16,993	**278,452**
Income Taxes (Note 7):				
Current	**11,334**	9,463	3,227	**105,541**
Deferred	**569**	(3,936)	5,253	**5,298**
	11,903	5,527	8,480	**110,839**
	18,000	9,850	8,513	**167,613**
Minority Interests in (Earnings) Losses of Consolidated Subsidiaries	**(68)**	167	(28)	**(633)**
Net income	**¥ 17,932**	¥ 10,017	¥ 8,485	**$ 166,980**
	Yen			U.S. Dollars (Note 3)
Per Share Data (Note 15):				
Net income—basic	**¥41.7**	¥23.0	¥19.4	**$0.388**
Net income—diluted (*)	**—**	—	—	**—**
Cash dividends	**10.0**	7.5	7.5	**0.093**
Weighted Average Number of Shares (Thousands of shares)	**427,636**	431,497	433,748	

* Diluted net income per share for fiscal 2005, 2004 and 2003 is not disclosed because there were no residual securities.
The accompanying notes are an integral part of the statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2005, 2004 and 2003

	Number of shares of common stock (thousands)	Millions of Yen		
		Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 2002	434,244	¥26,745	¥43,180	¥131,897
Net income for the year ended March 31, 2003	—	—	—	8,485
Cash dividends	—	—	—	(1,627)
Directors' and corporate auditors' bonuses	—	—	—	(75)
Interim cash dividends	—	—	—	(1,628)
Increase due to application of inflation accounting to the accounts of Mexican subsidiary	—	—	—	119
Increase due to additional unconsolidated subsidiaries	—	—	—	1,018
Increase due to merger	—	—	—	39
Other	—	—	—	(2)
Balance at March 31, 2003	434,244	26,745	43,180	138,226
Net income for the year ended March 31, 2004	—	—	—	10,017
Cash dividends	—	—	—	(1,615)
Directors' and corporate auditors' bonuses	—	—	—	(82)
Interim cash dividends	—	—	—	(1,625)
Increase due to application of inflation accounting to the accounts of Mexican subsidiary	—	—	—	6
Gain on sale of treasury stock	—	—	2	—
Balance at March 31, 2004	434,244	26,745	43,182	144,927
Net income for the year ended March 31, 2005	**—**	**—**	**—**	**17,932**
Cash dividends	**—**	**—**	**—**	**(1,614)**
Directors' and corporate auditors' bonuses	**—**	**—**	**—**	**(83)**
Interim cash dividends	**—**	**—**	**—**	**(1,614)**
Increase due to subsidiaries included newly consolidation	**—**	**—**	**—**	**40**
Gain on sale of treasury stock	**—**	**—**	**3**	**—**
Balance at March 31, 2005	**434,244**	**¥26,745**	**¥43,185**	**¥159,588**

	Number of shares of common stock (thousands)	Thousands of U.S. Dollars (Note 3)		
		Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 2004	434,244	$249,046	$402,104	$1,349,539
Net income for the year ended March 31, 2005	**—**	**—**	**—**	**166,980**
Cash dividends	**—**	**—**	**—**	**(15,029)**
Directors' and corporate auditors' bonuses	**—**	**—**	**—**	**(773)**
Interim cash dividends	**—**	**—**	**—**	**(15,029)**
Increase due to subsidiaries included newly consolidation	**—**	**—**	**—**	**372**
Gain on sale of treasury stock	**—**	**—**	**28**	**—**
Balance at March 31, 2005	**434,244**	**$249,046**	**$402,132**	**$1,486,060**

The accompanying notes are an integral part of the statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2005, 2004 and 2003

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2005	2004	2003	**2005**
Cash Flows from Operating Activities:				
Income before income taxes and minority interests	**¥ 29,903**	¥ 15,377	¥ 16,993	**$278,452**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	**10,565**	11,358	14,768	**98,380**
Equity in earnings of affiliates	**(564)**	(552)	(221)	**(5,252)**
Write-down of investments in securities	**60**	18	306	**559**
(Decrease) Increase in reserve for retirement benefits	**(3,201)**	16,408	1,212	**(29,807)**
(Decrease) Increase in reserve for loss on disposal of fixed assets	**(518)**	1,826	—	**(4,824)**
Increase (Decrease) in reserve for retirement benefits to directors and corporate auditors	**60**	(32)	27	**559**
Decrease (Increase) in allowance for doubtful accounts	**474**	(153)	(470)	**4,414**
Increase in reserve for guarantee of liabilities	**17**	—	—	**158**
Increase in reserve for loss on investment	**255**	—	—	**2,375**
Increase in reserve for loss on liquidation of business	**1,224**	—	—	**11,398**
Gain on sale of securities	**(131)**	(12,978)	(1,687)	**(1,220)**
Loss on sale of investment in consolidated subsidiary	**266**	—	—	**2,477**
Loss (Gain) on disposal of property, plant and equipment	**780**	(2,432)	(2,748)	**7,263**
Gain on the transfer of the alcoholic beverage operations	**—**	—	(3,247)	**—**
Loss on restructuring of certain subsidiaries and affiliates	**—**	843	6,047	**—**
Loss on recalling products	**—**	2,086	—	**—**
Administrative fines in a cartel for sales of amino lysine within European Economic Area	**—**	1,901	—	**—**
Expenses on support for employees' early retirement	**—**	1,464	—	**—**
Loss on redemption of bond	**—**	681	—	**—**
Interest and dividend income	**(686)**	(781)	(778)	**(6,388)**
Interest expenses	**240**	804	1,717	**2,235**
(Increase) Decrease in trade receivables	**(361)**	1,792	15,895	**(3,362)**
(Increase) Decrease in inventories	**(374)**	407	4,184	**(3,483)**
Increase (Decrease) in trade payables	**2,176**	1,554	(6,466)	**20,263**
Payment of bonuses to directors and corporate auditors	**(93)**	(90)	(81)	**(866)**
Increase (Decrease) in consumption tax payables	**268**	(182)	(1,060)	**2,496**
Others	**3,565**	1,019	(8,467)	**33,196**
	43,925	40,338	35,924	**409,023**
Interest and dividend received	**772**	833	815	**7,189**
Interest expenses paid	**(242)**	(1,080)	(1,878)	**(2,253)**
Payment for administrative fines in a cartel for sales of amino lysine within European Economic Area	**—**	(2,074)	—	**—**
Compensation payment incurred in connection with recalling products	**(1,897)**	(359)	—	**(17,665)**
Payment of expenses on support for employees' early retirement	**—**	(1,454)	—	**—**
Income taxes paid	**(12,454)**	(1,940)	(16,668)	**(115,970)**
Net cash provided by operating activities	**30,104**	34,264	18,193	**280,324**
Cash Flows from Investing Activities:				
Increase in time deposits	**(448)**	(399)	(436)	**(4,172)**
Decrease in time deposits	**456**	633	456	**4,246**
Acquisition of property, plant and equipment	**(7,265)**	(9,202)	(12,783)	**(67,651)**
Proceeds from sale of property, plant and equipment	**371**	4,714	4,151	**3,455**
Acquisition of investments in securities	**(116)**	(227)	(5,256)	**(1,080)**
Proceeds from sale of investments in securities	**179**	15,613	2,573	**1,667**
Payment of sale of investment in consolidated subsidiary	**(22)**	(521)	—	**(205)**
Additional investments in consolidated subsidiaries	**794**	—	—	**7,394**
Net (increase) decrease in short-term loans receivable	**(260)**	113	767	**(2,421)**
Increase in long-term loans receivable	**—**	(238)	(82)	**—**
Decrease in long-term loans receivable	**65**	320	1,101	**605**
Proceeds from transfer of alcoholic beverage operations	**—**	—	13,073	**—**
Others	**(1,858)**	(329)	(978)	**(17,301)**
Net cash (used in)/provided by investing activities	**(8,104)**	10,477	2,586	**(75,463)**
Cash Flows from Financing Activities:				
Net proceeds from short-term debt	**(319)**	(4,006)	(11,036)	**(2,971)**
Repayment of long-term debt	**(45)**	(1,514)	(568)	**(419)**
Redemption of bond (Notes 5 and 13)	**—**	(33,681)	—	**—**
Redemption of convertible bond	**—**	—	(9,997)	**—**
Payment of employees' savings deposits for transferring to bank	**—**	—	(13,449)	**—**
Acquisition of treasury stock	**(5,525)**	(1,790)	(437)	**(51,448)**
Proceeds from sale of treasury stock	**20**	17	—	**186**
Dividends paid	**(3,233)**	(3,243)	(3,250)	**(30,105)**
Dividends paid to minority	**(14)**	(9)	(10)	**(130)**
Others	**—**	—	(1)	**—**
Net cash used in financing activities	**(9,116)**	(44,226)	(38,748)	**(84,887)**
Effect of Exchanges on Cash and Cash Equivalents	**14**	(192)	731	**130**
Increase (Decrease) in Cash and Cash Equivalents	**12,898**	323	(17,238)	**120,104**
Cash and Cash Equivalents at the Beginning of the Year	**24,911**	24,588	41,908	**231,968**
Decrease in Cash and Cash Equivalents Due to Deconsolidation of Subsidiary	**—**	—	(127)	**—**
Increase in Cash and Cash Equivalents Due to Consolidation of Certain Subsidiary	**9**	—	—	**84**
Increase in Cash and Cash Equivalents Due to Merger	**—**	—	45	**—**
Cash and Cash Equivalents at the End of the Year	**¥ 37,818**	¥ 24,911	¥ 24,588	**$ 352,156**

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

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2005	2004	2003	**2005**
Cash and time deposits	**¥36,139**	¥25,240	¥25,150	**$336,521**
Time deposits whose maturity periods exceed three months	**(320)**	(329)	(562)	**(2,980)**
Investments in accounts receivable securitization	**1,000**	—	—	**9,312**
Marketable securities with original maturities of three months or less	**999**	—	—	**9,303**
	¥37,818	¥24,911	¥24,588	**$352,156**

The accompanying notes are an integral part of the statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2005, 2004 and 2003

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from accounts and records maintained by KYOWA HAKKO KOGYO CO., LTD. (the "Company") and its consolidated subsidiaries (hereinafter referred to in total as the "Companies"). The Company and its domestic consolidated subsidiaries have maintained their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with generally accepted accounting principles and practices prevailing in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

The Company's fiscal year is from April 1 to March 31. Therefore, "fiscal 2005" begins on April 1, 2004 and ends on March 31, 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Principles of Consolidation

The Company had 47 subsidiaries as at March 31, 2005 (47 as at March 31, 2004). The consolidated financial statements include the accounts of the Company and 22 subsidiaries in fiscal 2005 (23 for fiscal 2004).

Effective from October 1, 2003, Fermentaciones Mexicanas, S.A. de C.V. (incorporated in Mexico and hereinafter referred to as "Fermex") was excluded from consolidation, as the Company transferred all of its holding shares in December 2003.

Effective from April 1, 2004, Kyowa Wellness Co., Ltd. (incorporated in Japan) was included in consolidation in view of the importance. Kyowa Foods (H.K.) Co., Ltd. (incorporated in China) was excluded from consolidation, as it was liquidated in April 2004. Agroferm Hungarian-Japanese Fermentation Industry Ltd. (incorporated in Hungary and hereinafter referred to as "Agroferm") was excluded from consolidation, as the Company transferred all of its holding shares in June 2004.

Major subsidiaries are listed below.

The remaining 25 (24 as at March 31, 2004) subsidiaries, whose combined total assets, net sales, net income and retained earnings are not significant in relation to those of the consolidated financial statements of the Companies, have been excluded from consolidation.

The accounts of 6 (8 as at March 31, 2004) overseas consolidated subsidiaries, Biokyowa Inc., Kyowa Hakko U.S.A., Inc., and Kyowa America, Inc. (all incorporated in the U.S.A.), Kyowa Hakko Europe GmbH (incorporated in Germany) , Kyowa Hakko (H.K.) Co., Ltd. (incorporated in China) and Kyowa Italiana Farmaceutici S.R.L. (incorporated in Italy), are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in their respective countries. Although certain differences exist in the accounting principles adopted by the overseas subsidiaries, essentially no adjustments have been made to their accounts in order to conform to Japanese accounting principles in the accompanying consolidated financial statements, as allowed under accounting principles and practices generally accepted in Japan.

The accounts of Fermex are based on inflation accounting as generally accepted in Mexico. Such inflation accounting includes the revaluation of fixed assets and the restatement of shareholders' equity adjusted by the National Consumer Price Index growth factor and the recognition of the effect of inflation on monetary assets and liabilities.

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

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

Name of company	Direct and indirect equity ownership percentage	Capital stock (Millions)
Domestic subsidiaries:		
Kyowa Hakko Chemical Co., Ltd.	100.0%	¥5,300
Kyowa Medex Co., Ltd.	100.0	450
Kyowa F.D. Foods Co., Ltd.	100.0	100
Miyako Kagaku Co., Ltd.	52.9	111
Chiyoda Kaihatsu Co., Ltd.	100.0	113
Overseas subsidiaries:		
Biokyowa Inc. (U.S.A.)	100.0	$20
Kyowa Hakko U.S.A., Inc. (U.S.A)	100.0	$1
Kyowa Hakko Europe GmbH (Germany)	100.0	EURO 1
Kyowa America, Inc. (U.S.A.)	100.0	$53

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

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

(2) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The Company had 25 (24 at March 31, 2004) unconsolidated subsidiaries and 21 (23 at March 31, 2004) affiliates. The equity method is applied to the investments in 6 (6 at March 31, 2004) major domestic affiliates since the investments in the remaining unconsolidated subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

The 6 affiliates are accounted for using the equity method. The most significant affiliate is as follows:

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

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

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

(3) Inventories Valuation

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

(4) Securities Valuation

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

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

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

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

See Note 4.

(5) Property, Plant and Equipment

Depreciation is computed mainly using the declining-balance method.

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

The range of useful lives are principally as follows:

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

(Additional Information)

For fiscal 2005, based on the Company's inquiry for the cancellation of rental agreements with tenants and prospective use of the property and equipment, the Company changed its useful life of certain rental property and equipment to the period until when the tenants' exit, where the property and equipment is expected to be disposed of after the termination of the rental agreement with tenants. As a result, the depreciation of the property and equipment of ¥165 million ($1,536 thousand) was accounted for as an extraordinary depreciation in "Other Expenses."

Effective from April 1, 2003, the Company and certain of its subsidiaries changed their depreciation method, from the group depreciation method to the individual calculation for each asset, using the declining-balance method. This change is due to the introduction of a new management system for fixed assets.

Compared to the group depreciation method, operating income increased by ¥1,119 million and income before income taxes increased by ¥1,139 million.

The impact on segment information as a result of this change is described in detail in the segment information section.

See Note 14.

(6) Reserves and Allowances

Allowance for Doubtful Accounts

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

Reserve for Accrued Sales Returns

A reserve for accrued sales returns is provided on the basis of the maximum amount deductible under Japanese income tax laws. The amount of the reserve is determined based on the past years' experience of the Companies.

Reserve for Accrued Sales Rebates

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

Reserve for Accrued Sales Promotion Expenses

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

Reserve for Write-Down of Investments in Securities

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

Reserve for Retirement Benefits to Employees

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

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

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

(Additional Information)

For fiscal 2004, the Company cancelled its corporate pension trust contract on September 25, 2003, with the approval of the trust administrator, beneficiary (employees and the employee's pension fund) and trustee (trust bank), and contributed to unfunded pension cost in connection with the welfare pension fund. Due to a significant revision in April 2004 and the Company's own organizational restructuring and establishment of an operating holding company, the Company determined that the division management of the corporate pension fund was difficult to maintain.

The Company fully amortized unrecognized actuarial losses associated with the cancellation of the corporate pension trust and accounted for other expense of ¥16,227 million.

For fiscal 2003, following the enactment of the Welfare Pension Insurance Law in Japan, on March 1, 2003, the KYOWA HAKKO KOGYO CO., LTD. Group contributory pension plan obtained approval from Japan's Ministry of Health, Labour and Welfare for exemption from the future benefit obligation with respect to the portion of the contributory pension plan that the Company and its domestic subsidiaries operate on behalf of the Government (the so-called substitutional portion).

The Company and certain of its domestic consolidated subsidiaries applied transitional provisions as prescribed in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No. 13 issued by the Japanese Institute of Certified Public Accountants) and the settlement of the substitutional portion was recognized at the date of approval from Japan's Ministry of Health, Labour and Welfare.

See Note 8 for the effect of this accounting.

Reserve for Retirement Benefits to Directors and Corporate Auditors

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

Reserve for Loss on Disposal of Fixed Assets

Through the establishment of an operating holding company, the Company comprehensively examined the utilization of fixed assets after an organizational restructuring, and determined the disposal of certain fixed assets and estimated the related loss.

Reserve for Loss on Liquidation of Business

Reserve for loss on liquidation of business provides for losses related to the restructuring in accordance with the Company's business plan. An amount rationally estimated for such losses is recognized.

Reserve for Loss on Guarantee of Liabilities

The Company has provided for loss on guarantee of liabilities, determined with respect to the financial position and other conditions of the guarantees.

(7) Foreign Currency Translation

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

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

(8) Accounting for Leases

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

See Note 6.

(9) Accounting for Hedging

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

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

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

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

See Note 9.

(10) Income Taxes

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

Income taxes are determined using the asset and liability method, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amount in the financial statements.

See Note 7 for details of deferred tax assets/liabilities.

(11) Cash and Cash Equivalents

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

(12) Accounting for Consumption Taxes

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

(13) Appropriation of Retained Earnings

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

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

(14) Net Income and Dividends per Share

Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding, exclusive of treasury stock, during each year. Cash dividends per share represent dividends declared as applicable to the respective period.

(15) Reclassification

Certain fiscal 2004 and 2003 figures are reclassified to conform to the current year representation.

3. UNITED STATES DOLLAR AMOUNTS

The consolidated financial statements are prepared in Japanese yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥107.39=U.S.$1, the approximate exchange rate at March 31, 2005. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts can be converted into dollars at ¥107.39=U.S.$1 or at any other rate.

4. SECURITIES

a) Available-for-sale securities for which market value is available in 2005 and 2004:

	March 31, 2005		
	Millions of Yen		
	Historical cost	Fair market value	Unrealized gain (loss)
Securities with unrealized gain:			
Shares	**¥7,211**	**¥33,184**	**¥25,973**
Other securities, excluding bonds	**20**	**20**	**0**
Securities with unrealized loss:			
Shares	**330**	**259**	**(71)**

	March 31, 2005		
	Thousands of U.S. Dollars		
	Historical cost	Fair market value	Unrealized gain (loss)
Securities with unrealized gain:			
Shares	**$67,148**	**$309,005**	**$241,857**
Other securities, excluding bonds	**186**	**186**	**0**
Securities with unrealized loss:			
Shares	**3,073**	**2,412**	**(661)**

	March 31, 2004		
	Millions of Yen		
	Historical cost	Fair market value	Unrealized gain (loss)
Securities with unrealized gain:			
Shares	¥6,955	¥31,761	¥24,806
Other securities, excluding bonds	20	20	0
Securities with unrealized loss:			
Shares	372	365	(7)

b) Amount of available-for-sale securities sold in fiscal 2004:

	Millions of Yen
	2004
Amount sold	¥15,572
Realized gain	12,965
Realized loss	(21)

Note: Amount of available-for-sale securities sold in fiscal 2005 is omitted because it is immaterial.

c) Details of investments in securities without market quotation in 2005 and 2004:

Description	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Held-to-maturity debt securities:			
Commercial paper	**¥1,000**	¥ —	**$ 9,312**
Available-for-sale securities:			
Unlisted shares	**9,897**	10,142	**92,159**
Other securities	**1,375**	1,017	**12,804**

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

	March 31, 2005
	Millions of Yen
Less than one year	¥1,020
More than one year less than five years	6
More than five years less than ten years	—
Thereafter	—

	March 31, 2005
	Thousands of U.S. Dollars
Less than one year	$9,498
More than one year less than five years	56
More than five years less than ten years	—
Thereafter	—

e) Assets pledged as collateral and relevant debt:

	March 31		
	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Investments in securities	**¥178**	¥174	**$1,658**
Accounts and notes payable—trade	**281**	321	**2,617**

f) Investments in unconsolidated subsidiaries and affiliates:

	March 31		
	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Investments in shares	**¥16,768**	¥16,441	**$156,141**
Participations	**2,649**	1,438	**24,667**

5. SHORT-TERM AND LONG-TERM DEBT

Short-term debt consists principally of bank overdrafts bearing interest of 0.75% and 0.74%, the weighted average interest rate on outstanding balances as at March 31, 2005 and 2004, respectively. It is normal business custom in Japan for short-term bank loans to be rolled over each year.

Short-term borrowings as at March 31, 2005 and 2004 are summarized as follows:

	March 31		
	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Short-term bank loans	**¥12,068**	¥13,187	**$112,376**
Current portion of long-term borrowings	**39**	45	**363**
	¥12,107	¥13,232	**$112,739**

Long-term debt as at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Loans from banks, other financial institutions, etc., due from 2006 to 2012 with mortgage and collateral (Note 2)	**¥86**	¥126	**$801**

Notes: 1. All bonds shown above are unsecured.
2. The interest rate on long-term loans (excluding current portion) from banks was 2.29%, the weighted average interest rate on outstanding balances at the year-end.
3. The bond was accounted for as redeemed due to a debt assumption contract. The debt assumption contract requires a counterparty to assume obligations of paying principal and interest on the bond. See Note 11 for underlying obligations of the Company.

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

	Millions of Yen	Thousands of U.S. Dollars
Within one year	¥ 39	$ 363
More than one year less than two years	30	279
More than two years less than three years	29	270
More than three years less than four years	18	168
More than four years less than five years	3	28
More than five years	6	56
	¥125	$1,164

6. LEASE TRANSACTIONS

(1) Finance Leases

Information relating to finance leases, excluding those for which the ownership of the leased assets is considered to the lessee, as of, and for the years ended March 31, 2005 and 2004 is as follows:

The acquisition cost, accumulated depreciation and net book value of leased assets, at March 31, 2005 and 2004, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Acquisition cost	**¥1,788**	¥2,071	**$16,649**
Accumulated depreciation	**960**	1,139	**8,939**
Net book value	**¥ 828**	¥ 932	**$ 7,710**

Lease payments and depreciation for the years ended March 31, 2005 and 2004, amounted to ¥370 million ($3,445 thousand) and ¥432 million, respectively.

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

The scheduled maturities of future lease rental payments of finance leases as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Due within one year	**¥329**	¥340	**$3,063**
Due over one year	**499**	592	**4,647**
	¥828	¥932	**$7,710**

(2) Operating Leases

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Due within one year	**¥159**	¥194	**$1,481**
Due over one year	**133**	356	**1,238**
	¥292	¥550	**$2,719**

7. INCOME TAXES

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities as of March 31, 2005, 2004 and 2003 are as follows:

Balance sheet item	March 31, 2005 Millions of Yen	March 31, 2005 Thousands of U.S. Dollars
Deferred tax assets:		
Reserve for bonuses	¥ 1,486	$ 13,837
Enterprise taxes payable	765	7,124
Non-deductible portion of reserve for accrued sales rebates, discounts and sales promotion	925	8,613
Non-deductible portion of reserve for retirement benefits to employees	11,585	107,878
Reserve for retirement benefits to directors and corporate auditors	343	3,194
Tax loss carried forward	292	2,719
Loss on write-down of investments in securities	308	2,868
Prepaid expense in tax accounting	1,615	15,039
Non-deductible portion of depreciation of property, plant and equipment	1,396	12,999
Loss on write-down of golf membership	400	3,725
Loss on write-down of fixed assets held by overseas subsidiaries	922	8,586
Reserve for loss on disposal of fixed assets	532	4,954
Others	4,218	39,277
Sub-total	¥ 24,787	$ 230,813
Valuation allowance	(4,975)	(46,327)
Total deferred tax assets	¥ 19,812	$ 184,486
Deferred tax liabilities:		
Deferred gain, mainly related to expropriation of fixed assets	¥ (1,919)	$ (17,869)
Unrealized gains on available-for-sale securities	(10,496)	(97,737)
Others	(302)	(2,812)
Total deferred tax liabilities	¥(12,717)	$(118,418)
Deferred tax assets, net	¥ 7,095	$ 66,068

Note: Classification of "Deferred tax assets, net" on the consolidated balance sheet as of March 31, 2005 is as follows:

Balance sheet item		Millions of Yen	Thousands of U.S. Dollars
Current assets	Deferred tax assets	¥ 6,868	$ 63,954
Non-current assets	Deferred tax assets	2,237	20,831
Non-current liabilities	Deferred tax liabilities	(2,010)	(18,717)
		¥ 7,095	$ 66,068

Balance sheet item	March 31, 2004 Millions of Yen
Deferred tax assets:	
Non-deductible portion of reserve for bonuses	¥ 1,345
Enterprise taxes payable	906
Non-deductible portion of reserve for accrued sales rebates, discounts and sales promotion	766
Non-deductible portion of reserve for retirement benefits to employees	12,002
Reserve for retirement benefits to directors and corporate auditors	318
Tax loss carried forward	581
Loss on write-down of investments in securities	538
Prepaid expense in tax accounting	1,370
Non-deductible portion of depreciation of property, plant and equipment	1,343
Loss on write-down of golf membership	393
Impairment on investments in certain consolidated subsidiaries	416
Loss on write-down of fixed assets held by overseas subsidiaries	1,187
Reserve for loss on disposal of fixed assets	743
Others	4,828
Sub-total	¥ 26,736
Valuation allowance	(5,708)
Total deferred tax assets	¥ 21,028
Deferred tax liabilities:	
Deferred gain, mainly related to expropriation of fixed assets	¥ (2,347)
Unrealized gains on available-for-sale securities	(10,082)
Others	(199)
Total deferred tax liabilities	¥(12,628)
Deferred tax assets, net	¥ 8,400

Note: Classification of “Deferred tax assets, net” on the consolidated balance sheet as of March 31, 2004 is as follows:

Balance sheet item		Millions of Yen
Current assets	Deferred tax assets	¥6,529
Non-current assets	Deferred tax assets	1,957
Non-current liabilities	Deferred tax liabilities	(86)
		¥8,400

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

Balance sheet item	March 31, 2003 Millions of Yen
Deferred tax assets:	
Non-deductible portion of reserve for bonuses	¥ 1,063
Enterprise taxes payable.	216
Non-deductible portion of reserve for accrued sales rebates, discounts and sales promotion	659
Non-deductible portion of reserve for retirement benefits to employees	4,319
Reserve for retirement benefits to directors and corporate auditors	327
Tax loss carried forward	3,823
Loss on write-down of investments in securities	855
Prepaid expense in tax accounting	1,234
Non-deductible portion of depreciation of property, plant and equipment	1,123
Loss on write-down of golf membership	489
Impairment on investments in certain consolidated subsidiaries	6,305
Loss on write-down of fixed assets held by overseas subsidiaries	1,581
Others	2,221
Sub-total	¥ 24,215
Valuation allowance	(5,608)
Total deferred tax assets	¥ 18,607
Deferred tax liabilities:	
Deferred gain, mainly related to expropriation of fixed assets	¥ (2,396)
Special depreciation of property, plant and equipment held by an overseas subsidiary	(2,029)
Unrealized gains on available-for-sale securities	(9,129)
Others	(47)
Total deferred tax liabilities	¥(13,601)
Deferred tax assets, net	¥ 5,006

Note: Classification of "Deferred tax assets, net" on the consolidated balance sheet as of March 31, 2003 is as follows:

Balance sheet item		Millions of Yen
Current assets	Deferred tax assets	¥3,877
Non-current assets	Deferred tax assets	1,459
Non-current liabilities	Deferred tax liabilities	(330)
		¥5,006

Reconciliation between the statutory tax rate and the effective tax rate as at March 31, 2005, 2004 and 2003 is as follows:

	March 31	
	2004	2003
Statutory tax rate	41.7%	41.7%
Permanent differences:		
Non-deductible expenses such as entertainment expenses	10.1	8.8
Non-taxable income such as dividend income	(1.8)	(1.2)
Special corporate tax credit	(9.1)	—
Future tax benefits deemed not to be realized	(37.7)	(19.3)
Equity in earnings of affiliates	(1.5)	(0.5)
Impairment on investments in certain consolidated subsidiaries	38.3	16.2
Adjustment of deferred tax assets due to change in tax rate	—	2.3
Others	(4.1)	1.9
Effective tax rate	35.9%	49.9%

For fiscal 2005, a reconciliation is not required to be disclosed because the difference between the rates is less than 5%.

8. RESERVE FOR RETIREMENT BENEFITS TO EMPLOYEES

The Company and its domestic consolidated subsidiaries operate various defined benefit plans, including a corporate pension plan (the so-called cash-balanced plan), a group contributory plan, a tax-qualified pension plan and a severance payment plan.

The group contributory pension plan obtained approval from Japan's Ministry of Health, Labour and Welfare for return of the past portion of the contributory pension plan that the Company and its domestic subsidiaries operate on behalf of the Government (the so-called substitutional portion) as of April 1, 2004.

a) The reserve for retirement benefits as of March 31, 2005, 2004 and 2003 is analyzed as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	**2005**
Projected benefit obligations	**¥(63,854)**	¥(70,112)	¥(73,334)	**$(594,599)**
Plan assets	**31,270**	26,551	23,240	**291,182**
Unfunded benefit obligations	**(32,584)**	(43,561)	(50,094)	**(303,417)**
Unrecognized actuarial differences	**7,017**	10,352	33,310	**65,341**
Unrecognized prior service costs (Note 2)	**(5,004)**	(560)	(817)	**(46,597)**
	¥(30,571)	¥(33,769)	¥(17,601)	**$(284,673)**

Notes: 1. Certain subsidiaries calculate the projected benefit obligation by the simple method permitted under the accounting standard generally accepted in Japan.
2. Unrecognized prior service costs (reduction of liability) incurred in fiscal 2003 were due to a change in the age of eligibility for annuity payments for the basic portion of the contributory pension plan. The Company and certain of its domestic consolidated subsidiaries transferred from employees' pension plan to the corporate pension plan and the revised severance payment plan in fiscal 2005. These amendments resulted in a recognition of prior service cost.
3. The Company and certain of its domestic consolidated subsidiaries applied transitional provisions as prescribed in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No. 13 issued by the Japanese Institute of Certified Public Accountants) and the settlement of the substitutional portion was recognized at the date of approval from Japan's Ministry of Health, Labour and Welfare. The amount of plan assets to be returned was ¥29,633 million at the end of fiscal 2003.

b) The net periodic pension expense related to the retirement benefits for fiscal 2005, 2004 and 2003 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	**2005**
Service cost (Notes 1 and 2)	**¥ 2,650**	¥ 2,795	¥ 5,018	**$ 24,676**
Interest cost	**1,583**	1,794	3,029	**14,741**
Expected return on plan assets	**(736)**	(648)	(2,277)	**(6,854)**
Amortization of unrecognized actuarial differences	**1,628**	3,002	4,913	**15,160**
Amortization of unrecognized prior service costs	**(1,431)**	(257)	(980)	**(13,325)**
Special severance payment	**—**	1,623	28	**—**
	¥ 3,694	¥ 8,309	¥ 9,731	**$ 34,398**
Gain on the transfer of the substitutional portion of contributory pension plan	**—**	—	(2,873)	**—**
Arising from the lump-sum recognition of the previous years' unrecognized actuarial differences associated with cancellation of the Company's retirement benefit trust contract	**—**	16,227	—	**—**
	¥ 3,694	¥24,536	¥ 6,858	**$ 34,398**

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

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

	As of March 31, 2005	As of March 31, 2004	As of March 31, 2003
Method of attributing the projected benefits to periods of services	**Benefit/year of service approach**	Benefit/year of service approach	Benefit/year of service approach
Discount rate	**2.5%**	2.5%	2.5%
Expected rate of return	**2.8%**	2.8%	3.6%

9. DERIVATIVE TRANSACTIONS

(1) Conditions of Derivative Financial Instruments

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

All such instruments involve risk, including the credit risk of non-performance by counterparties. However, at March 31, 2005, in the management's opinion, there was no significant risk of loss in the event of non-performance of the counterparties on these financial instruments, because all counterparties were major financial institutions and securities companies with high credit ratings. Also, the Companies do not use derivative financial instruments for highly leveraged transactions.

(2) Fair Value Information of Derivative Financial Instruments

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

Therefore, no item was required to be disclosed in this section as of March 31, 2005.

10. SUPPLEMENTARY STATEMENTS OF INCOME

a) The major elements of selling, general and administrative expenses for each of the three years in the period ended March 31, 2005, 2004 and 2003 are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	**2005**
Research and development expenses	**¥28,325**	¥28,724	¥30,932	**$263,758**
Salaries	**17,342**	17,449	17,886	**161,486**
Sales promotion	**7,016**	8,104	8,856	**65,332**
Bonuses to employees	**7,786**	7,092	7,326	**72,502**

b) Loss on disposal of fixed assets relevant to organizational restructuring is a loss related to the disposal of fixed assets which were identified through a review of the utilization of the Company's fixed assets after organizational restructuring. Details are as follows:

	Millions of Yen
	2004
Provision for cost of disposal of fixed assets	¥1,826
Loss on disposal of fixed assets	1,399
	¥3,225

c) Detail of the administrative fines in a cartel for sales of amino lysine within the European Economic Area (EEA) is as follows:

On June 7, 2000, the Company and Kyowa Hakko Europe GmbH ("KHEG") had a fine of 13,200 thousand Euro imposed on them by a Decision of the European Commission with allegations that the Company and KHEG had violated EU competition law due to their involvement in a cartel for the sale of amino acid lysine within the EEA prior to June 7, 1995. On August 25, 2000, the Company and KHEG lodged an appeal to the Court of the European Communities with regard to the amount of the fine. However, the Company decided to accept the ruling of the European first court of instance on July 9, 2003 to recognize that the European Commission's verdict in question is appropriate and to pay the above-mentioned fine (13,200 thousand Euro). The amount accounted for as a fine regarding amino lysine sales within the EEA is the difference between the fine and accrued liability accounted in fiscal 2001 (1,120 thousand Euro) and interest for delay of payment of the fine.

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

	Millions of Yen
	2004
Provision for loss on write-down of investments	¥ 35
Loss on sale of investment in affiliates	550
Other	258
	¥843

	Millions of Yen
	2003
Loss on write-down of fixed assets	¥3,241
Foreign exchange loss	1,350
Provision for doubtful accounts	388
Valuation loss on inventories	214
Provision for loss on write-down of investments	147
Loss on write-down of investments in affiliates	37
Loss on sales of investments in affiliates	5
Other	665
	¥6,047

e) Gain on the transfer of the alcoholic beverage operations consisted of the following:

	Millions of Yen
	2003
Gain on transfer of operations	¥5,069
Gain on corporate separation	988
Loss on transition of retirement benefit obligation	(592)
Lump-sum payment of employment transfer and special retirement benefits	(548)
Loss on disposal of inventories	(509)
Loss on disposal of property and equipment	(215)
Other	(946)
	¥3,247

11. CONTINGENT LIABILITIES

(1) The Companies and its consolidated subsidiaries had contingent liabilities arising from notes discounted by banks in the amount of ¥82 million ($764 thousand) at March 31, 2005.

The Company and its consolidated subsidiaries are contingently liable for guarantees of loans borrowed by Sanbo-Brewer Ltd. and others in the amounts of ¥300 million ($2,794 thousand) and ¥181 million ($1,685 thousand), respectively, at March 31, 2005.

(2) Contingent liabilities under a debt assumption agreement totaled ¥33,000 million ($307,291 thousand).

12. RELATED PARTY TRANSACTIONS

The Company discloses material transactions of the Company with its related companies, representing more than 10 percent of the consolidated sales or the total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements, for the years ended March 31.

Also, the Company discloses material balances and transactions with related companies where such balances and transactions, including the related amount in the footnote, represent more than 1 percent of the consolidated total assets, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements. No such transaction occurred in fiscal 2005, 2004 and 2003.

Material transactions and balances of the Company with its related individuals, including shareholders and directors, representing more than ¥1 million shall be disclosed, but are not applicable for the years ended March 31, 2005, 2004 and 2003.

13. CASH FLOW INFORMATION

(1) Summary of assets and liabilities excluded following the transfer of Agroferm

	Millions of Yen	Thousands of U.S. Dollars
	2005	
Current assets	¥2,144	$19,965
Fixed assets	941	8,762
Total assets	¥3,085	$28,727
Current liabilities	¥ 399	$ 3,715
Non-current liabilities	—	—
Total liabilities	¥ 399	$ 3,715

(2) Summary of assets and liabilities excluded following the transfer of alcoholic beverage operations:

	Millions of Yen
	2003
Current assets	¥11,247
Fixed assets	2,775
Total assets	¥14,022
Current liabilities	¥ 2,441
Non-current liabilities	1,750
Total liabilities	¥ 4,191

(3) Payment information of principal and interest on the 15th, 16th and 17th unsecured corporate bond, which were transferred on a debt assumption contract.

14. SEGMENT INFORMATION

(1) Industry Segment Information

The Companies operate principally in the following 5 industry segments:

Industry segments:	**Major products:**
(1) Pharmaceuticals Division	Ethical drugs and diagnostic reagents
(2) Bio-Chemicals Division	Bulk pharmaceuticals, health care products, animal health products and agrochemicals and alcohol
(3) Chemicals Division	Solvents, plasticizers and their raw materials and specialty chemicals
(4) Food Division	Seasonings, confectionery and baking ingredients and processed foods
(5) Other Division	Transportation, design and installation of equipment and facilities

Year ended March 31, 2005	Millions of Yen							
	Industry segment						Corporate, elimination and other	Consolidated total
	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total		
I. Sales and Operating Income:								
Sales:								
Sales to outside customers	**¥155,870**	**¥50,354**	**¥73,148**	**¥39,266**	**¥40,325**	**¥358,963**	**¥ —**	**¥358,963**
Inter-segment sales/transfers	**556**	**7,413**	**4,835**	**5,234**	**17,459**	**35,497**	**(35,497)**	**—**
Total sales	**156,426**	**57,767**	**77,983**	**44,500**	**57,784**	**394,460**	**(35,497)**	**358,963**
Operating expenses	**138,326**	**50,880**	**72,644**	**42,838**	**56,150**	**360,838**	**(35,382)**	**325,456**
Operating income	**¥ 18,100**	**¥ 6,887**	**¥ 5,339**	**¥ 1,662**	**¥ 1,634**	**¥ 33,622**	**¥ (115)**	**¥ 33,507**
II. Assets, Depreciation and Amortization and Capital Expenditures:								
Assets	**¥116,539**	**¥73,799**	**¥66,540**	**¥32,960**	**¥37,536**	**¥327,374**	**¥ 47,119**	**¥374,493**
Depreciation and amortization	**4,371**	**2,684**	**2,344**	**1,075**	**110**	**10,584**	**(19)**	**10,565**
Capital expenditures	**2,733**	**2,216**	**1,622**	**491**	**586**	**7,648**	**(1)**	**7,647**

Year ended March 31, 2005	Thousands of U.S. Dollars							
	Industry segment						Corporate, elimination and other	Consolidated total
	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total		
I. Sales and Operating Income:								
Sales:								
Sales to outside customers	**$1,451,439**	**$468,889**	**$681,143**	**$365,639**	**$375,501**	**$3,342,611**	**$ —**	**$3,342,611**
Inter-segment sales/transfers	**5,177**	**69,029**	**45,023**	**48,738**	**162,576**	**330,543**	**(330,543)**	**—**
Total sales	**1,456,616**	**537,918**	**726,166**	**414,377**	**538,077**	**3,673,154**	**(330,543)**	**3,342,611**
Operating expenses	**1,288,072**	**473,787**	**676,450**	**398,901**	**522,861**	**3,360,071**	**(329,472)**	**3,030,599**
Operating income	**$ 168,544**	**$ 64,131**	**$ 49,716**	**$ 15,476**	**$ 15,216**	**$ 313,083**	**$ (1,071)**	**$ 312,012**
II. Assets, Depreciation and Amortization and Capital Expenditures:								
Assets	**$1,085,194**	**$687,206**	**$619,611**	**$306,919**	**$349,529**	**$3,048,459**	**$ 438,765**	**$3,487,224**
Depreciation and amortization	**40,702**	**24,993**	**21,827**	**10,010**	**1,025**	**98,557**	**(177)**	**98,380**
Capital expenditures	**25,449**	**20,635**	**15,104**	**4,572**	**5,457**	**71,217**	**(9)**	**71,208**

Effective from fiscal 2005, the Company changed its management organization in accordance with its business plan. The main changes were the transfer of raw material alcohol and health-care operations from the Food segment to the Bio-Chemicals segment. The Industry Segment Information for fiscal 2004 has been restated accordingly. However, the Industry Segment Information for fiscal 2003 has not been restated.

	Millions of Yen							
	Industry segment						Corporate,	
Year ended March 31, 2004	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Corporate, elimination and other	Consolidated total
I. Sales and Operating Income:								
Sales:								
Sales to outside customers . . .	¥141,382	¥60,905	¥61,829	¥41,394	¥43,328	¥348,838	¥ —	¥348,838
Inter-segment sales/transfers . .	1,499	8,290	5,070	4,518	19,578	38,955	(38,955)	—
Total sales	142,881	69,195	66,899	45,912	62,906	387,793	(38,955)	348,838
Operating expenses	130,938	60,348	64,006	44,258	61,139	360,689	(38,687)	322,002
Operating income	¥ 11,943	¥ 8,847	¥ 2,893	¥ 1,654	¥ 1,767	¥ 27,104	¥ (268)	¥ 26,836
II. Assets, Depreciation and Amortization and Capital Expenditures:								
Assets	¥120,086	¥72,131	¥59,494	¥34,102	¥32,471	¥318,284	¥ 42,812	¥361,096
Depreciation and amortization . .	4,577	3,016	2,658	1,009	114	11,374	(16)	11,358
Capital expenditures	3,603	1,875	1,758	1,769	101	9,106	(65)	9,041

	Millions of Yen							
	Industry segment							
Year ended March 31, 2003	Pharmaceuticals	Bio-Chemicals	Chemicals	Liquor and Food	Other	Total	Corporate, elimination and other	Consolidated total
I. Sales and Operating Income (Loss):								
Sales:								
Sales to outside customers . . .	¥138,341	¥50,921	¥60,343	¥67,745	¥41,935	¥359,285	¥ —	¥359,285
Inter-segment sales/transfers . .	2,253	7,604	4,815	4,577	21,550	40,799	(40,799)	—
Total sales	140,594	58,525	65,158	72,322	63,485	400,084	(40,799)	359,285
Operating expenses	129,580	56,550	64,058	72,690	60,888	383,766	(40,570)	343,196
Operating income (loss) . .	¥ 11,014	¥ 1,975	¥ 1,100	¥ (368)	¥ 2,597	¥ 16,318	¥ (229)	¥ 16,089
II. Assets, Depreciation and Amortization and Capital Expenditures:								
Assets	¥109,167	¥65,085	¥68,859	¥40,275	¥30,501	¥313,887	¥ 54,885	¥368,772
Depreciation and amortization . .	5,055	3,898	3,629	1,677	131	14,390	378	14,768
Capital expenditures	4,185	3,664	2,150	1,401	130	11,530	261	11,791

(2) Geographic Segment Information

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

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

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

Year ended March 31, 2005

For fiscal 2005, Geographic Segment Information is omitted because both domestic sales and assets located in Japan are over 90% of those for all segments.

	Millions of Yen				
	Geographic segment			Corporate, elimination and other	Consolidated total
Year ended March 31, 2004	Japan	Other areas	Total		
I. Sales and Operating Income:					
Sales:					
Sales to outside customers	¥315,262	¥33,576	¥348,838	¥ —	¥348,838
Inter-segment sales/transfers	16,509	5,663	22,172	(22,172)	—
Total sales	331,771	39,239	371,010	(22,172)	348,838
Operating expenses	307,629	35,638	343,267	(21,265)	322,002
Operating income	¥ 24,142	¥ 3,601	¥ 27,743	¥ (907)	¥ 26,836
II. Assets:					
Assets	¥289,031	¥21,190	¥310,221	¥ 50,875	¥361,096

As described in additional information of Note 2 (5) to the consolidated financial statements, effective April 1, 2003, the Company and certain of its subsidiaries changed their depreciation method for certain fixed assets which are applied to the declining-balance method, from the group depreciation method to the individual depreciation method for each asset.

As compared to the group depreciation method, operating expenses decreased by ¥1,119 million and operating income increased by the same amount in the "Japan" segment.

	Millions of Yen				
	Geographic segment			Corporate, elimination and other	Consolidated total
Year ended March 31, 2003	Japan	Other areas	Total		
I. Sales and Operating Income (Loss):					
Sales:					
Sales to outside customers	¥322,691	¥36,594	¥359,285	¥ —	¥359,285
Inter-segment sales/transfers	17,176	6,477	23,653	(23,653)	—
Total sales	339,867	43,071	382,938	(23,653)	359,285
Operating expenses	322,460	44,325	366,785	(23,589)	343,196
Operating income (loss)	¥ 17,407	¥ (1,254)	¥ 16,153	¥ (64)	¥ 16,089
II. Assets:					
Assets	¥292,495	¥22,921	¥315,416	¥ 53,356	¥368,772

(3) Overseas Sales

The classification of overseas sales is as follows:

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

	Millions of Yen				
Year ended March 31, 2005	Americas	Europe	Asia	Other areas	Total
I. Overseas sales	**¥12,883**	**¥16,563**	**¥23,655**	**¥925**	**¥ 54,026**
II. Consolidated net sales					**358,963**
III. Ratio of overseas sales to consolidated net sales	**3.6%**	**4.6%**	**6.6%**	**0.3%**	**15.1%**

	Thousands of U.S. Dollars				
Year ended March 31, 2005	Americas	Europe	Asia	Other areas	Total
I. Overseas sales	**$119,965**	**$154,232**	**$220,272**	**$8,613**	**$ 503,082**
II. Consolidated net sales					**3,342,611**
III. Ratio of overseas sales to consolidated net sales	**3.6%**	**4.6%**	**6.6%**	**0.3%**	**15.1%**

	Millions of Yen				
Year ended March 31, 2004	Americas	Europe	Asia	Other areas	Total
I. Overseas sales	¥19,712	¥17,717	¥20,629	¥210	¥ 58,268
II. Consolidated net sales					348,838
III. Ratio of overseas sales to consolidated net sales	5.6%	5.1%	5.9%	0.1%	16.7%

	Millions of Yen				
Year ended March 31, 2003	Americas	Europe	Asia	Other areas	Total
I. Overseas sales	¥21,701	¥18,072	¥22,167	¥322	¥ 62,262
II. Consolidated net sales					359,285
III. Ratio of overseas sales to consolidated net sales	6.0%	5.0%	6.2%	0.1%	17.3%

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

15. PER SHARE DATA

	Yen			U.S. Dollars
	2005	2004	2003	**2005**
Net assets per share	**¥556.3**	¥522.6	¥505.4	**$5.180**
Net income—basic	**¥41.7**	¥23.0	¥19.4	**$0.388**
Net income—diluted (*)	**—**	—	—	**—**

* Diluted net income per share for fiscal 2005, 2004 and 2003 is not disclosed because there were no residual securities.

Basis for the calculation of net income per share data is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	**2005**
Net income	**¥17,932**	¥10,017	¥8,485	**$166,980**
Less: Components not pertaining to common shareholders				
Bonuses to directors and corporate auditors	**(109)**	(93)	(90)	**(1,015)**
Net income pertaining to common shareholders	**¥17,823**	¥ 9,924	¥8,395	**$165,965**

	2005	2004	2003
Average outstanding shares to common stock	**427,635,631**	431,497,240	433,747,760 shares

16. SUBSEQUENT EVENT

Subsequent to March 31, 2005, the Company's Board of Directors, with the approval by shareholders on June 28, 2005, declared a cash dividend of ¥2,645 million ($24,630 thousand), equal to ¥6.25 ($0.06) per share, which was applicable to earnings of the year ended March 31, 2005 and payable to shareholders on the register on March 31, 2005.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of
KYOWA HAKKO KOGYO CO., LTD.

We have audited the accompanying consolidated balance sheets of KYOWA HAKKO KOGYO CO., LTD. and its subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for the three years ended March 31, 2005, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 KYOWA HAKKO KOGYO CO., LTD. and its subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the three years ended March 31, 2005 in conformity with accounting principles generally accepted in Japan.

As described in Note 14, effective for the year ended March 31, 2005, KYOWA HAKKO KOGYO CO., LTD. and its subsidiaries changed their industry segments.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the readers, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan
June 28, 2005

PRINCIPAL SUBSIDIARIES AND AFFILIATES

(As of March 31, 2005)

Name of Company	Percentage Owned Directly or Indirectly by the Company	Capital Stock (Millions)	Principal Business
Pharmaceuticals			
Kyowa Medex Co., Ltd.[1]	100.0%	¥450	Manufacture and sale of diagnostic reagents
Shinwa Pharmaceutical Co., Ltd.[1]	100.0	¥95	Manufacture and sale of herbal medicines and health foods
Kyowa Medical Promotion Co., Ltd.[1]	100.0	¥50	Sales promotion of pharmaceuticals
Kyowa Warehouse & Transportation Co., Ltd.[1, 4]	100.0	¥70	Warehousing and transportation
Bio-Chemicals			
Kyowa Hakko U.S.A., Inc. (U.S.A.)[1]	100.0	$1	Sale of pharmaceuticals, fine chemicals, foods, and chemicals
Kyowa Hakko Europe GmbH (Germany)[1]	100.0	Euro1	Sale of pharmaceuticals, fine chemicals, and chemicals
Kyowa Italiana Farmaceutici S.R.L. (Italy)[1]	100.0	Euro1	Sale of pharmaceuticals and fine chemicals
Biokyowa Inc. (U.S.A.)[1]	100.0	$20	Manufacture and sale of fine chemicals
Kyowa Hakko (H.K.) Co., Ltd. (Hong Kong)[1]	100.0	HK$1	Sale of pharmaceuticals, foods, and chemicals
Kyowa Wellness Co., Ltd.[3]	100.0	¥30	Sale of health care products
Chemicals			
Kyowa Hakko Chemical Co., Ltd.[1]	100.0	¥5,300	Manufacture and sale of chemicals
Kurogane Kasei Co., Ltd.[2]	40.0	¥90	Manufacture and sale of chemicals
J-PLUS Co., Ltd.[2]	50.0	¥480	Manufacture and sale of plasticizers
Food			
Riken Kagaku Co., Ltd.[1]	100.0	¥30	Manufacture and sale of fine chemicals and seasonings
Kyowa F.D. Foods Co., Ltd.[1]	100.0	¥100	Manufacture and sale of freeze-dried foods and seasonings
Ohland Foods Co., Ltd.[1]	100.0	¥50	Manufacture and sale of foods
Kyowa HiFoods Co., Ltd.[1]	100.0	¥60	Manufacture, import, and sale of foods
Asahi Foods Products Co., Ltd.[1]	100.0	¥36	Manufacture and sale of bread crumbs
Kyushu Kyowa Shokuhin Hanbai Co., Ltd.[1]	100.0	¥50	Wholesale of foods
Aji-Nihon Co., Ltd.[2]	46.3	¥95	Manufacture and sale of foods and seasonings
Zenmi Foods Inc.[2]	50.0	¥190	Manufacture and sale of seasonings
Other			
Miyako Kagaku Co., Ltd.[1]	52.9	¥111	Wholesale of pharmaceuticals, chemicals, and foods
Chiyoda Kaihatsu Co., Ltd.[1]	100.0	¥113	Transportation, trading, and insurance
Kyowa Engineering Co., Ltd.[1]	100.0	¥70	Design and installation of equipment and facilities and sale of health foods
Seifu Co., Ltd.[1]	100.0	¥40	Financing
Kyowa America, Inc. (U.S.A.)[1]	100.0	$53	Coordination and monitoring of subsidiaries in the United States
Japan Synthetic Alcohol Co., Ltd.[2]	33.3	¥480	Manufacture and sale of various types of alcohol
Musashino Chemical Laboratory, Ltd.[2]	25.0	¥238	Manufacture and sale of organic synthetic chemicals

Notes: 1. Consolidated subsidiary
2. Affiliate accounted for by the equity method
3. On April 1, 2004, Kyowa HiFoods' health care operations were separated to form Kyowa Wellness.
4. Transferred from Other Segment to Pharmaceuticals Segment on April 1, 2004.

OVERSEAS NETWORK

(As of June 30, 2005)

AMERICAS

Kyowa America, Inc.
767 Third Avenue, 19th Floor,
New York, NY 10017, U.S.A.
TEL: 1-212-319-5353
FAX: 1-212-421-1283

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

Kyowa Hakko U.S.A., Inc.
767 Third Avenue, 19th Floor,
New York, NY 10017, U.S.A.
TEL: 1-212-319-5353
FAX: 1-212-421-1283
West Coast Office
85 Enterprise, Suite 430,
Aliso Viejo, CA 92656, U.S.A.
TEL: 1-949-425-0707
FAX: 1-949-425-0708

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

BioWa, Inc.
212 Carnegie Center, Suite 101,
Princeton, NJ 08540, U.S.A.
TEL: 1-609-580-7500
FAX: 1-609-919-1108

Select Supplements, Inc.
5800 Newton Drive,
Carlsbad, CA 92008, U.S.A.
TEL: 1-760-431-7509
FAX: 1-760-804-8073

EUROPE

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

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

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

ASIA

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

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

Kyowa Hakko (Malaysia) SDN BHD.
20, Jalan SS 19/5, 47500 Subang Jaya,
Selangor, Darul Ehsan, Malaysia
TEL: 60-3-5734-0669
FAX: 60-3-5734-0990

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

Kyowa Hakko Kogyo Co., Ltd.
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205 Maoming Nan lu Ruijin Bridge,
Shanghai 200020,
People's Republic of China
TEL: 86-21-6466-1222
FAX: 86-21-6415-6022

Kyowa Hakko (H.K.) Co., Ltd.
Room 2103, Hang Lung Centre,
2-20 Paterson Street, Causeway Bay,
Hong Kong, People's Republic of China
TEL: 852-2895-6795
FAX: 852-2576-6142
Guangzhou Representative Office
Room 411, China Hotel Office Tower,
Liu Hua Road, Guangzhou 510015,
People's Republic of China
TEL: 86-20-8667-5381
FAX: 86-20-8667-5472

Shanghai Kyowa Amino Acid Co., Ltd.
No. 621, Yun Ling Donglu,
Shanghai 200062,
People's Republic of China
TEL: 86-21-5280-1270
FAX: 86-21-5280-3162

Kyowa Pharmaceutical (H.K.) Co., Ltd.
Room 2103, Hang Lung Centre,
2-20 Paterson Street, Causeway Bay,
Hong Kong, People's Republic of China
TEL: 852-2895-6795
FAX: 852-2576-6142

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

Yantai Kyowa Foods Co., Ltd.
Zhao Wang Zhuang Town, Laiyang City,
Shangdong 265225,
People's Republic of China
TEL: 86-535-761-5778
FAX: 86-535-761-1787

PRINCIPAL PRODUCTS

PHARMACEUTICALS

Antibiotics
Pasetocin®, Fortimicin®, Sagamicin®

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

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

Cardiovascular Agents
Meditrans® tape, Inovan®, Apiracohl®, Coniel®, Pre Dopa®, Dobupum™

Contrast Medium
Imagenil®

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

Antiallergic Agents
Allelock®, Celtect®

Hormones
Desmopressin, Hysron®

Other Metabolic Agents
Gludiase®, ATP Kyowa, Activacin®

Agents for Blood and Fluid Disorders
Neu-up®, Emeradole®, Leukoprol®

Ointment
Propaderm®

Antimycological Agent
Itrizole®

Transdermal Analgesic Agent
Durotep® Patch

Diagnostic Medical Devices
Clinical Chemistry Diagnostic Reagents (Determiner® HDL-C), Immunological Reagents (Determiner® HbA1c, Chemilumi series, Allegro Lite series), Controls (Infectrol, Accurun series), Full Auto Micro Plate EIA Analyzer (AP series), Fecal Occult Blood Test Analyzer (HM-JACK® plus), Diabetes Mellitus Test Analyzer (DM-JACK®)

BIO-CHEMICALS

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

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

Health Foods
Vitamins, Minerals, Carotenoids, Probiotics, Peptides, Remake series, Enguard series

Agrochemicals
Plant growth regulators (Gibberellin, Fulmet®)

Animal Health Products
Nanaomycin, Polyup®, Atomolate®, Benesal®, Lysozyme chloride for pisciculture, Fantacin® for pisciculture, Ampicirin for pisciculture

Feeds and Feed Additives for Fish and Animals
Evian® Kyowa, Fry Feed Kyowa, Aminoplus®, Driselase®, Phytase

Pet Care Products
Elendaite®, E&D shampoo and rinse, Amino Glutamine Kyowa (H), Green Mussel E

Raw Material Alcohol
For use in refined sake, For use in food preservatives and disinfectants

CHEMICALS

Solvents
Butyl Alcohol, Acetone, Butyl Glycol Ether, Ethyl Acetate, Butyl Acetate, PM (Propylene Glycol Monomethyl Ether)

Plasticizers and Their Raw Materials
DOP (Di-2-Ethylhexyl Phthalate), DINP (Di-Isononyl Phthalate), DIDP (Di-Isodecyl Phthalate), 2-Ethylhexyl Alcohol, Oxocol® 900 (Isononyl Alcohol)

Organic Acids
Acetic Acid, 2-Ethyl Hexanoic Acid, Isononanoic Acid

Diols
1-3 Butylene Glycol, 2,4-DiEthyl-1,5 Pentanediol, Butyl Ethyl Propanediol

FOOD

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

Kokumi Seasonings
Simmerin®

Umami Seasonings
MSG (Monosodium glutamate), IMP (Sodium 5′-inosinate), WMP (Mix of IMP and Sodium 5′-guanylate)

Bakery Products and Ingredients
Baker’s yeast, Prepared mixes, Baking improvers, Activated gluten, Fermented flavor enhancers

Processed Foods
Instant egg-drop soup, Various food materials

MANAGEMENT MEMBERS

(As of June 28, 2005)

MEMBERS OF THE BOARD

President

Yuzuru Matsuda*

Yoshito Imai*

Tomonori Yuji

Kazuhiko Yamanoe

Nobuo Kanda

Yukinobu Kotani

** Representative director*

Corporate Auditors

Takeshi Asaoka

Masahiro Kawaguchi

Akira Taniguchi

Kozo Fujita

MANAGING OFFICERS

President and Chief Executive Officer

Yuzuru Matsuda

Senior Executive Managing Officers

Yoshito Imai
President of Pharmaceuticals Business Unit

Tomonori Yuji

Executive Managing Officers

Kazuhiko Yamanoe

Nobuo Kanda

Yukinobu Kotani
President of Bio-Chemicals Business Unit

Noriyuki Hina

Hiroyuki Kuniyasu

Yutaka Yoshida

Managing Officers

Shin Kawahara

Toshifumi Asada

Shoji Hari
President and Chief Executive Officer, Kyowa Hakko Chemical Co., Ltd.

Kenichi Fukuhara

Fumio Norimatsu
President and Chief Executive Officer, Kyowa Hakko Food Specialties Co., Ltd.

Masaji Kasai

Yoshiki Tsunekane

Mitsuru Takahashi

Akio Ozaki

Kazuyoshi Tachibana

CORPORATE DATA

(As of March 31, 2005)

KYOWA HAKKO KOGYO CO., LTD.

Head Office

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

Number of Employees

5,960 [Parent Company: 4,209]

Date of Foundation

July 1, 1949

Paid-in Capital

¥26,745 million

Principal Plants

Domestic

Hofu, Ube, Sakai, Fuji, Tsuchiura*
Kyowa Hakko Chemical (Yokkaichi, Chiba),
Kyowa Medex (Fuji)

Overseas

Biokyowa (U.S.A.), Shanghai Kyowa Amino Acid (China)

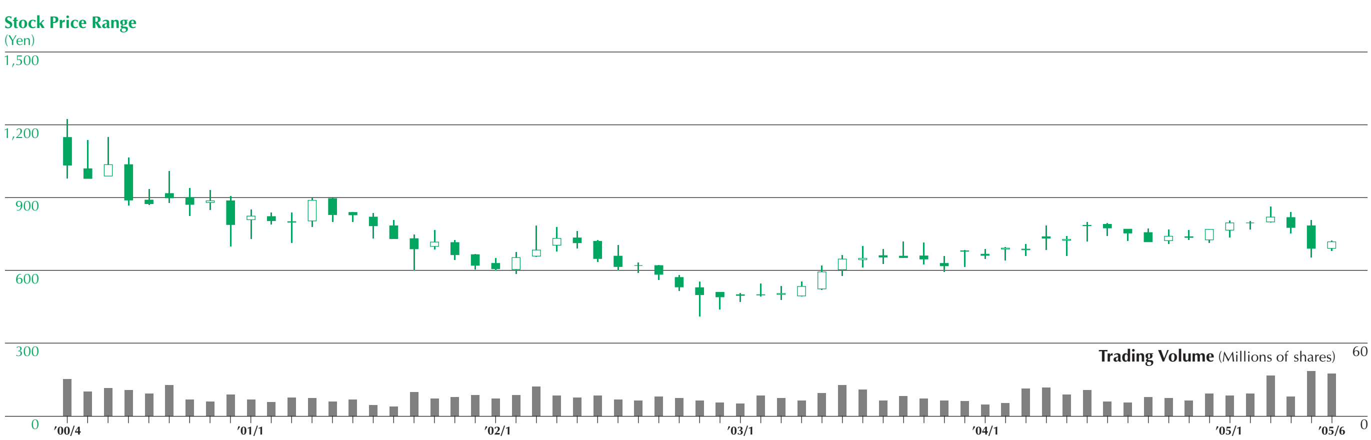
** Transferred to Kyowa Hakko Food Specialties Co., Ltd., as of April 1, 2005.*

Principal Laboratories

BioFrontier Laboratories
Pharmaceutical Research Center
Sakai Research Laboratories
Technical Research Laboratories
Food Creation Center*
Healthcare Research Laboratories
Kyowa Hakko Chemical Co., Ltd., Yokkaichi Research Laboratories
Kyowa Medex Co., Ltd., Research Laboratories

** Transferred to Kyowa Hakko Food Specialties Co., Ltd., as of April 1, 2005.*

Stock Price



INVESTOR INFORMATION

(As of March 31, 2005)

Stock Listings

Tokyo, Osaka*, Nagoya*, Fukuoka*, and Sapporo*

* As of May 2005, the Company delisted its stock.

Securities Code Number

4151

Transfer Agent of Common Stock

The Chuo Mitsui Trust and Banking Company, Limited
33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan

Number of Shares of Common Stock

Authorized: 987,900,000
Issued: 434,243,555

Number of Shareholders

73,669

Principal Shareholders

	Number of Shares Held (Thousands)	Percentage of Total Shares Issued
The Master Trust Bank of Japan, Ltd. (Trust account)	38,763	8.92%
Japan Trustee Services Bank, Ltd. (Trust account)	35,626	8.20
The Dai-ichi Life Mutual Insurance Co.	24,661	5.67
The Norinchukin Bank	18,083	4.16
Mizuho Trust & Banking Co., Ltd. (Retirement Benefit Trust for Mizuho Bank, Ltd.)	8,075	1.85
Mizuho Bank, Ltd.	7,126	1.64
NIPPONKOA Insurance Company, Limited	5,483	1.26
Kyowa Fund	5,327	1.22
SOMPO JAPAN INSURANCE INC.	5,296	1.21
Kyowa Hakko Kogyo Co., Ltd., Employee Stock Ownership Association	5,099	1.17

Note: The Company had 11,097 thousand shares of treasury stock as of March 31, 2005, which are not included in the above list.

KYOWA HAKKO KOGYO CO., LTD.

1-6-1, Otemachi, Chiyoda-ku, Tokyo 100-8185, Japan
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