



Kyowa Hakko Kogyo Co., Ltd.

Consolidated Financial Summary

Fiscal 2005 Interim

(April 1, 2005 – September 30, 2005)

This document is an English translation of parts of the Japanese-language original. All financial information has been prepared in accordance with generally accepted accounting principles in Japan. It contains forward-looking statements based on a number of assumptions and beliefs made by management in light of information currently available. Actual financial results may differ materially depending on a number of factors, including fluctuations in exchange rates, changing economic conditions, legislative and regulatory developments, delays in new product launches, and pricing and product initiatives of competitors.

SUMMARY OF FINANCIAL STATEMENTS (Consolidated)

For the interim period ended September 30, 2005

Kyowa Hakko Kogyo Co. Ltd.

October 31, 2005

Stock Code: 4151

Listed exchanges: **Tokyo (First section)**

URL: <http://www.kyowa.co.jp/>

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President: Dr. Yuzuru Matsuda

Tetsuo Hanai

Date of the meeting of the Board of Directors: October 31, 2005

Telephone: 81 3 3282 0009

U.S. GAAP Accounting Principles: Not adopted

1. Consolidated Financial Results for the Six-Month Period Ended September 30, 2005

Amounts less than ¥1 million have been ignored

1) Consolidated Operating Results

Millions of yen

	April 1, 2005 to September 30, 2005		April 1, 2004 to September 30, 2004		April 1, 2004 to March 31, 2005
		Change %		Change %	
Net sales	177,332	(1.6)	180,161	1.5	358,963
Operating income.....	12,302	(21.5)	15,670	23.8	33,506
Recurring income.....	14,385	(10.6)	16,091	37.8	32,366
Net income	7,594	(18.3)	9,297	-	17,931
Net income per share (¥)	¥17.95		¥21.60		¥41.68
Fully diluted earnings per share (¥).....	¥17.95		-		-

(1) Gain from investments in subsidiaries and affiliates accounted for by the equity method:

April 1, 2005 to September 30, 2005: ¥319 million April 1, 2004 to September 30, 2004: ¥258 million April 1, 2004 to March 31, 2005: ¥563 million

(2) Average number of shares outstanding (consolidated) during the period:

April 1, 2005 to September 30, 2005: 422,982,451 shares April 1, 2004 to September 30, 2004: 430,362,776 shares April 1, 2004 to March 31, 2005: 427,635,631 shares

(3) Changes to accounting treatment

Yes

(4) Percentages for interim net sales, operating income, recurring income and net income represent changes from the previous interim period

2) Consolidated Financial Position

Millions of yen

	As of September 30, 2005	As of September 30, 2004	As of March 31, 2005
Total assets.....	378,154	375,635	374,492
Shareholders' equity	242,893	231,915	235,439
Equity ratio (%)	64.2%	61.7%	62.9%
Shareholders' equity per share (¥).....	¥574.35	¥538.97	¥556.28

(1) Shares outstanding (consolidated) at:

September 30, 2005: 422,900,739 shares September 30, 2004: 430,296,350 shares March 31, 2005: 423,033,261 shares

3) Consolidated Cash Flows

Millions of yen

	April 1, 2005 to September 30, 2005	April 1, 2004 to September 30, 2004	April 1, 2004 to March 31, 2005
Net cash provided by (used in) operating activities ...	7,241	17,296	30,104
Net cash provided by (used in) investing activities....	2,954	(3,211)	(8,104)
Net cash provided by (used in) financing activities ...	(2,904)	(1,695)	(9,116)
Cash and cash equivalents at end of period	45,466	37,307	37,817

4) Consolidated subsidiaries and affiliates accounted for by the equity method:

Number of consolidated subsidiaries: 22

Number of non-consolidated subsidiaries accounted for by the equity method: 0

Number of affiliates accounted for by the equity method: 6

5) Changes in the scope of consolidation and companies accounted for by the equity method

Consolidated subsidiaries Newly included: 2 Excluded: 2

Companies accounted for by the equity method Newly included: 0 Excluded: 0

2. Consolidated Results Forecast for the Fiscal Year Ending March 31, 2006

Millions of yen

April 1, 2005 to March 31, 2006

Net Sales	360,000
Operating Income.....	26,000
Recurring Income.....	27,000
Net Income.....	15,000

(Note) Net income per share forecast for the fiscal year ending March 31, 2006 (consolidated): ¥35.47

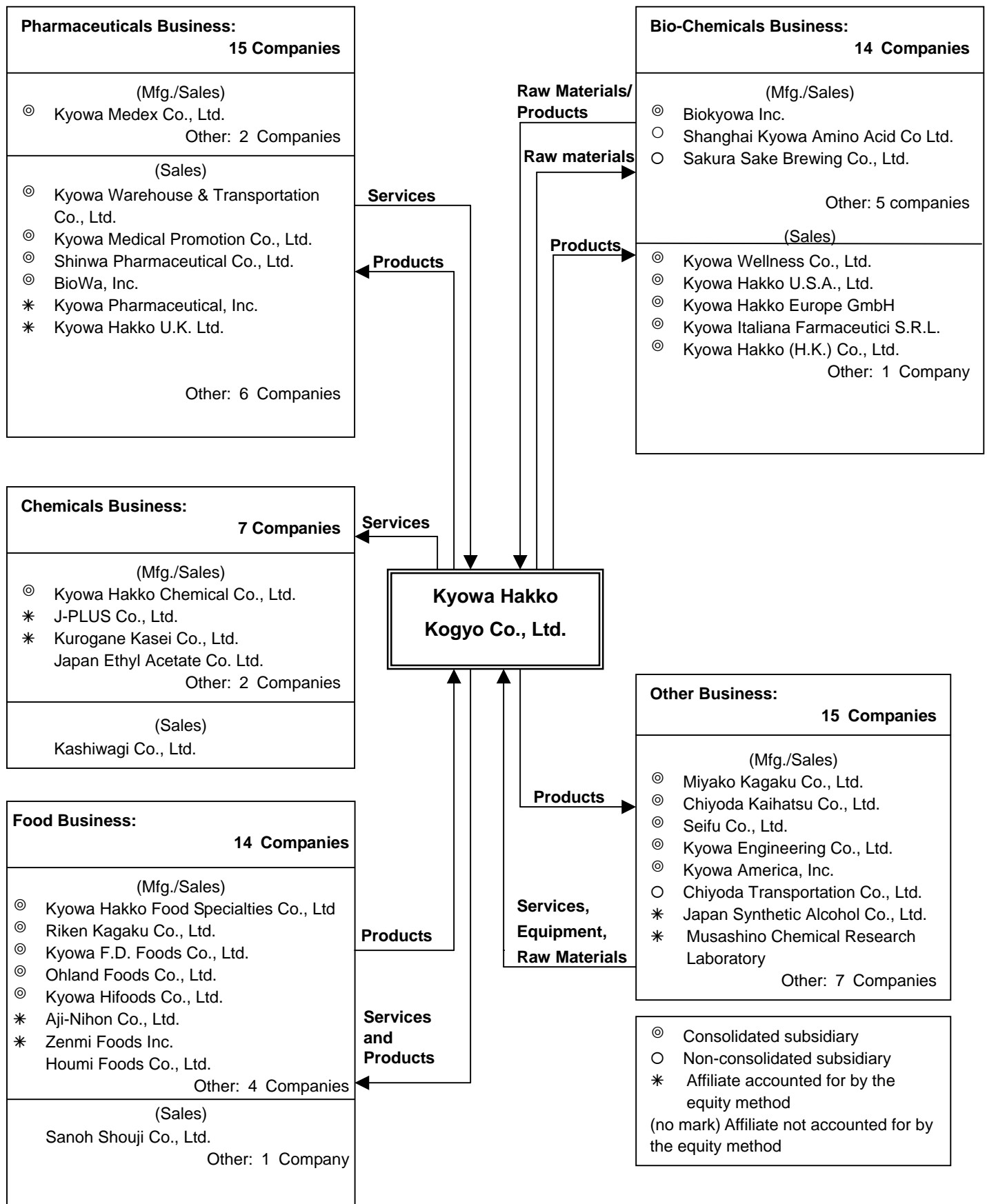
The forecasts above are based on the information available to management on the date of their announcement. Actual results can differ materially from these projections for a wide variety of reasons. Please consult page 15 of the attached materials for further information concerning these forecasts.

1. Group Status

The Kyowa Hakko Group is composed of the parent company (Kyowa Hakko Kogyo Co., Ltd., also referred to as “the Company”), 44 subsidiaries and 21 affiliates. The major operating activities of the companies are outlined below. The categories used here are the same as those found in the Industry Segment Information.

Pharmaceuticals Business	<p>Prescription pharmaceuticals are manufactured and sold predominantly by the parent company and distribution of these is performed by Kyowa Warehouse & Transportation Co., Ltd., while Kyowa Medical Promotion Co., Ltd. carries out sales promotion activities on behalf of Kyowa Hakko. Shinwa Pharmaceutical Co., Ltd. sells herbal medicines, health foods, etc. Overseas, BioWa, Inc. pursues the out-licensing in the U.S. and Europe of antibody technology developed by the company and is also involved in the strategic development of Kyowa Hakko’s antibody technology business. Kyowa Pharmaceutical, Inc. handles the development in the U.S. of new drug candidates created by the parent company, and Kyowa Hakko U.K. Ltd. handles the development in Europe of new drug candidates created by the parent company and the sales of parent company products. Manufacturing and sales of diagnostic and related products at the testing phase are the responsibility of Kyowa Medex Co., Ltd.</p>
Bio-Chemicals Business	<p>Raw materials for pharmaceuticals and related products, agrochemicals and products for the livestock and fishing industries are manufactured primarily by Kyowa Hakko. Sales are the responsibility of the parent company and overseas subsidiaries such as Kyowa Hakko U.S.A., Inc., Kyowa Hakko Europe GmbH, Kyowa Italiana Farmaceutici S.R.L., and Kyowa Hakko (H.K.) Co., Ltd. Biokyowa Inc. and Shanghai Kyowa Amino Acid Co., Ltd. manufacture and sell high value-added amino acids and supply some of these products to Kyowa Hakko. Healthcare products are manufactured and sold by Kyowa Hakko. Kyowa Wellness Co., Ltd. also sells healthcare products supplied by Kyowa Hakko and also those purchased from other companies. The parent company manufactures and sells raw material alcohol and delivers a portion of its products as raw materials to the Sakura Sake Brewery Co., Ltd., and others.</p>
Chemicals Business	<p>Chemical products such as solvents, plasticizers and their raw materials, and functional products are mainly manufactured and sold by Kyowa Hakko Chemical Co., Ltd., and partly by J-PLUS Co., Ltd., Kurogane Kasei Co., Ltd., and Japan Ethyl Acetate Co., Ltd. Kyowa Hakko Chemical Co., Ltd. also sells products provided by such companies and receives services from Kyowa Hakko. The Kashiwagi Co., Ltd. primarily sells products supplied by Kyowa Hakko Chemical Co., Ltd. and goods purchased from third parties.</p>
Food Business	<p>The manufacture of foodstuffs is performed by Kyowa Hakko Food Specialties Co., Ltd., Riken Kagaku Co., Ltd., Kyowa F.D. Foods Co., Ltd., Ohland Foods Co., Ltd., Aji-Nihon Co., Ltd., Zenmi Foods Co., Ltd., and Houmi Foods Co., Ltd. Kyowa Hakko Food Specialties Co., Ltd. provides each of these companies with some of their raw materials and is supplied with finished products by them. Kyowa Hakko Food Specialties Co., Ltd., Kyowa Hifoods Co., Ltd., and Sanoh Shouji Co., Ltd. handle sales of foodstuffs. Kyowa Hakko Food Specialties Co., Ltd. provides these companies with a portion of the products they deal with and receives services and certain products from Kyowa Hakko.</p>
Other Business	<p>A number of related companies are responsible for wholesale, distribution and constructing facilities, and include Chiyoda Kaihatsu Co., Ltd., Miyako Kagaku Co., Ltd., Seifu Co., Ltd., Kyowa Engineering Co., Ltd., and Chiyoda Unyu Co., Ltd. and these provide services and supply services and equipment, and raw materials to Kyowa Hakko and some of its related companies. In addition, Japan Synthetic Alcohol Co., Ltd. produces alcohol for industrial applications, and Musashino Chemical Research Laboratory manufactures and sells organic synthetic chemicals. Kyowa America, Inc. is a U.S.-based holding company. In July 2005, it was decided to dissolve Seifu Co., Ltd. and as of September 30, 2005, liquidation procedures are underway.</p>

The flow chart on the following page shows an illustration of the Kyowa Hakko Group



2. Management Policies

(1) Basic Management Policies

The Kyowa Hakko Group's fundamental management policy is to contribute to the health and well being of people worldwide by creating new value through the pursuit of advancements in life sciences and technology. Based on this policy, the Group is developing business around the world as a creative and innovative R&D corporation.

Our businesses aim to provide products, services, and information that deliver superior quality and performance in line with our focus on customer satisfaction. In addition, we are working to build a highly transparent and healthy corporate management that swiftly discloses accurate and objective information. At the same time, by fulfilling our corporate social responsibilities including legal and other compliance and maintaining product quality we are striving to be a company that earns the broad trust of society.

(2) Basic Policy on Profit Distribution

Kyowa Hakko regards the return of profits to its shareholders as one of its key priorities. Regarding dividends, we consider the delivery of stable and sustainable dividends to be the basis of our policy while maintaining fully adequate internal reserves, and considering factors such as our consolidated results, the dividend payout ratio and the dividend return on shareholders' equity. Kyowa Hakko aims to respond flexibly and expeditiously in its share buyback policy while retaining sufficient reserves to make the investments in facilities and research and development that are required to fund new growth.

(3) Policy on reducing the size of share trading units

Kyowa Hakko believes it important to encourage a wide variety of investors, including individual investors, to participate in the stock market. The Company will formulate its policies after carefully considering factors such as its earnings, stock price, and the costs and benefits of reducing the share-trading unit.

(4) Medium- and long-term management policies and issues

In April 2005, the Kyowa Hakko Group shifted to a holding company system with Pharmaceuticals and Bio-Chemicals as its twin pillars. In this way Kyowa Hakko aims to become "*Kyowa Hakko, the Bio-Leader*", a holding company built on a biotechnology base. Furthermore, through separation of our Chemicals and Food businesses into wholly owned subsidiaries, we have established a corporate structure that can more accurately and speedily respond to customer needs.

Fiscal 2005 marks the first year of Kyowa Hakko's three year 9th medium-term business plan. The 9th medium-term plan takes "*Growth and Development*" as its basic policy, under which we aim to take bold steps to further advance our research and development, invest in production facilities, promote sales

growth and implement cost reductions. The Kyowa Hakko Group also aims to utilize its business resources more efficiently and has designated return on invested capital (ROIC) as a management indicator.

As regards the Pharmaceuticals business, the Japanese National Health Insurance is planning to implement reimbursement price revisions for ethical drugs in fiscal 2006, competition from overseas pharmaceuticals manufacturers is expected to increase, and restructuring of the domestic pharmaceuticals industry is forecast to accelerate. In response, Kyowa Hakko will promote research and development aimed at the early launch of anti-Parkinson's disease agents, anti-urinary incontinence agents, and anticancer agents, and also prepare to sell our in-house developed products in the Chinese market, steadily implementing measures focused on growth and development. In addition, we will aim for sustained growth by maximizing product value through seeking expanded applications for new products, further strengthening the domestic and overseas business, and promoting cost reductions.

In Bio-Chemicals, increased competition from Chinese and Korean makers in the amino acids market and expansion and increased competition in the health foods market is expected. As a leader in fermented bulk products such as amino acids and nucleic acids and related compounds we will aim to strengthen our competitive position through introducing innovative technology and reducing costs. Furthermore, in the healthcare business, the Group will strengthen its marketing strategy by concentrating on such areas as sales to individuals.

At Kyowa Hakko Chemicals Co., Ltd., which is developing our Chemicals business, despite concerns over the high prices of raw materials, continued growth is expected in environmentally friendly products. Under the 9th medium-term plan, we aim to maintain profits in the existing bulk business against the background of firmly based growth in the Chinese market. In functional products, where we are particularly strong, we will develop markets and actively invest in production facilities to increase capacity, steadily implementing preparations for future growth and development.

Our food business is conducted by Kyowa Hakko Specialty Foods Co., Ltd. Amid increasing consumer awareness of food safety and a trend of increasingly strict regulation, and whilst paying full attention to product quality assurance, it is focusing on using our fermentation technology and other original technologies to develop distinctive new products such as natural seasonings, bread improvers and flavor enhancers, while striving to develop overseas markets.

(5) Corporate Governance Policies and Achievements

1. Overview of managerial decision making, management organization concerned with execution and supervision, and other corporate governance systems

Kyowa Hakko's basic policy towards corporate governance is to realize its management philosophy by setting up the appropriate organizational structure and then implementing the necessary policies. The Company's management system is based upon a Board of Directors and a Board of Auditors as set forth in the Japanese Commercial Code for a *kabushiki kaisha* (joint stock corporation). The Company's Board of Directors consists of six directors (as of September 30, 2005) who make decisions regarding business policies and other important matters. The Board oversees the directors as they carry out their duties. The Board of Auditors consists of four auditors (as of September 30, 2005, of which three are auditors from outside the Company). In accordance with the auditing policies and other guidelines formulated by the Board of Auditors, the auditors oversee the performance of the directors by attending meetings of the Board of Directors and other important gatherings, and monitor the Company's operations and its financial state.

In addition, in order to systematically separate the execution of business and the supervision of business execution, an executive officer system has been introduced.

The Company has organized a Management Meeting to make accurate and effective administrative decisions from a strategic perspective in matters that are of overall concern to business. The Company has set up an Advisory Board including four advisors from outside the Company, to consider management issues affecting the Kyowa Hakko Group from an outside perspective. The objective of the Advisory Board is to strengthen the Company's administrative structure and to enhance administrative transparency and soundness. In addition, the Company has established various in-house committees that meet to consider basic policies relating to managerial issues and to respond to various inherent risks. Once a year, the activities of these committees are reported to the Board of Directors. An outline of these committees is as follows:

Corporate Ethics Committee:

Deliberates on legal compliance, the establishment and enhancement of corporate ethics, and the soundness and appropriateness of corporate activities to earn the trust of society.

Environmental Safety Committee:

Acting as an advisory committee to the President, deliberates on basic policies towards environmental conservation and safety.

Quality Assurance Committee:

Acting as an advisory committee to the President, deliberates on basic policies towards quality assurance.

Information Disclosure Committee:

Deliberates comprehensively on basic policies for information and on important items regarding information disclosure.

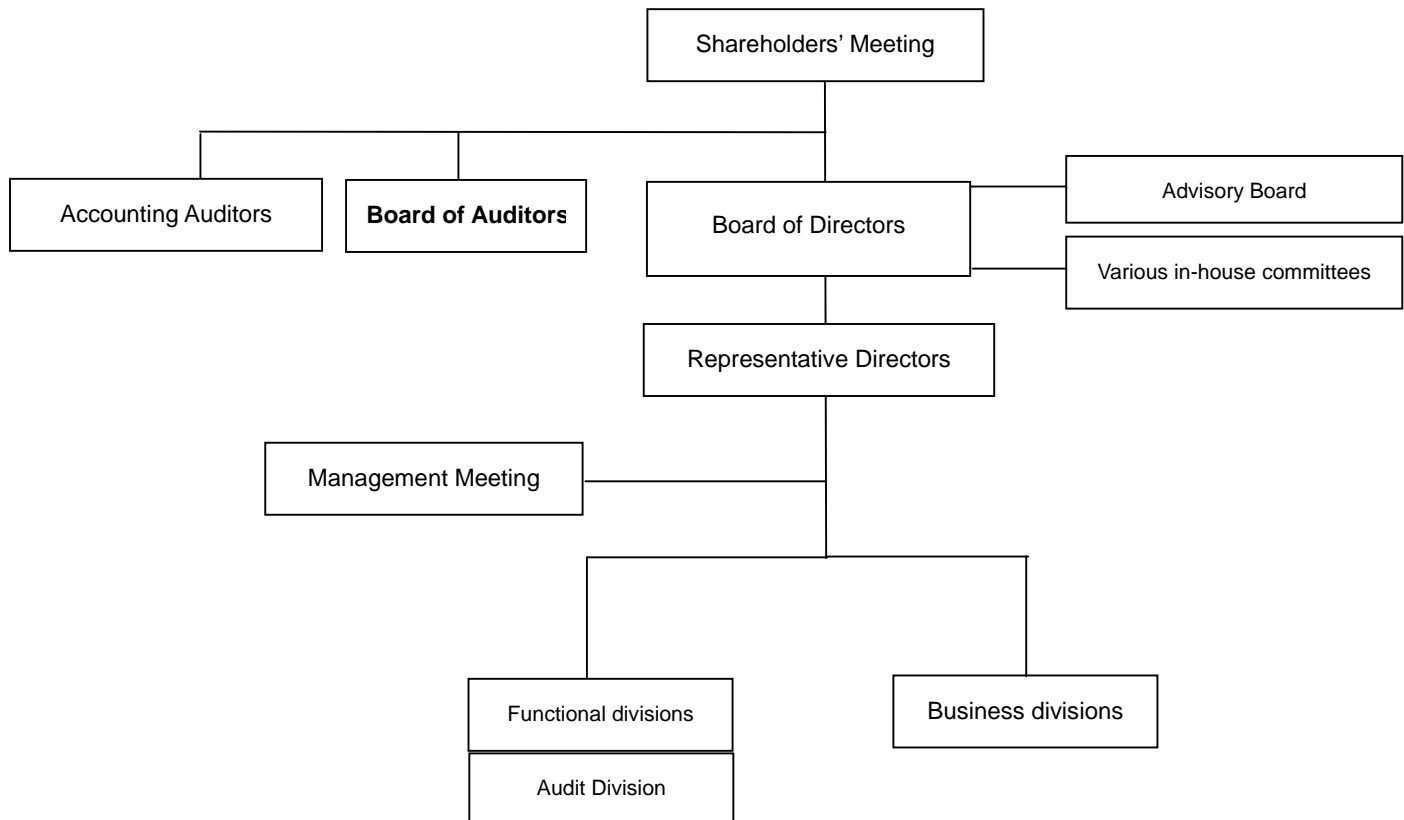
Financial Management Committee:

Deliberates on the efficiency of financial activities and the risks associated with them.

Information Security Committee:

Deliberates on basic policies concerning the protection and handling of confidential information held by the Group.

This diagram shows Kyowa Hakko's corporate governance structure:



2. Outline of beneficial relationships between Kyowa Hakko and external auditors in respect of personal, capital, transactions and other matters.

Kyowa Hakko's external auditors have no personal relationship with Kyowa Hakko's directors or corporate auditors and no beneficial relationship with the company in regard to capital, transactions or other matters.

(6) Items related to Parent Company

No items.

(7) Other important management items

No items.

3. Operating Results and Financial Position

I. Summary of Operating Results

(1) Operating results for the interim period

	<i>Billions of yen</i>		
	Consolidated results for the period ended September 30, 2005	Consolidated results for the period ended September 30, 2004	Change
Net sales	177.3	180.1	(2.8)
Operating income	12.3	15.6	(3.3)
Recurring income	14.3	16.0	(1.7)
Net income	7.5	9.2	(1.7)

During the consolidated interim period under review, the Japanese economy showed a gentle recovery benefiting from a recovery in personal consumption as well as improvements in corporate profits and an expansion in capital expenditure. However, sources of uncertainty such as the rapid rise in crude oil prices led to a continuing lack of clarity in the outlook.

As regards the business environment in which the Kyowa Hakko Group operates, in Pharmaceuticals, global competition in sales and new drug development intensified as prices for prescription pharmaceuticals were further controlled, major U.S. and European pharmaceuticals companies continued to pose a threat and industry consolidation progressed, while the burden of investment in research and development increased. In Bio-Chemicals, the severe business climate continued as domestic demand for amino acids used in health and nutrition products (beverages) decreased and the entry of Chinese and South Korean manufacturers into the amino acid market led to intensified price competition in overseas markets. In Chemicals, although high prices for raw materials and fuel were sustained throughout the period, domestic and overseas markets remained favorable, supported by expanding demand in China. Market conditions in Food continued to require us to respond rapidly to changes in market structure resulting from the diversifying food lifestyles of consumers.

Against this background, the Kyowa Hakko Group actively implemented research and development and capital investment in order to seize long-term growth opportunities. At the same time we aimed to raise our competitiveness and profitability through developing new products, implementing the strategic development of sales activities and comprehensive cost reductions. Nevertheless net sales in the consolidated interim period under review declined by ¥2.8 billion (1.6%) over the previous interim period

to ¥177.3 billion. As a result of increased research and development expenditure, in particular on the anti-Parkinson's disease drug KW-6002, operating income declined by ¥3.3 billion (21.5%) to ¥12.3 billion and recurring income was down by ¥1.7 billion (10.6%) to ¥14.3 billion. Net income declined by ¥1.7 billion (18.3 %) to ¥7.5 billion affected by extraordinary losses for early retirement expenses and appraisal losses on fixed assets.

Research and development expenses for the consolidated interim period were ¥16.2 billion (an increase of ¥2.4 billion, or 17.3%, compared to the interim period of last fiscal year) representing a ratio of R&D expenses to net sales of 9.2%.

(2) Segmental Review

Pharmaceuticals

	<i>Billions of yen</i>		
	Consolidated results for the period ended September 30, 2005	Consolidated results for the period ended September 30, 2004	Change
Net sales	77.7	80.6	(2.8)
Operating income	7.2	9.0	(1.7)

On a product basis, sales of *Allelock* (Generic name: *olopatadine hydrochloride*), an antiallergic agent, *Durotep Patch*, an analgesic for persistent cancer pain, and *Navelbine* an anti-cancer agent grew. Sales of *Coniel*, a treatment for hypertension and angina pectoris and *Depakene*, an antiepileptic agent were similar to levels achieved in the interim period of last fiscal year. However, sales of antimycological agent *Itrizole*, which is sold through a distribution agreement, declined significantly resulting in a decline in sales for the prescription pharmaceuticals compared to the interim period of last fiscal year.

In the licensing-out and export of pharmaceutical products, sales of antiallergic agent (*olopatadine hydrochloride*) were affected by the timing of shipments and sales remained level compared to the interim period of last year.

At Kyowa Medex Co., Ltd., a subsidiary involved in the manufacture and sale of *in vitro* medical devices, contributions from sales of immunological reagents such as *Determiner HbA1c*, a diabetes reagent and *Determiner BNP*, a myocardial marker developed jointly with Shionogi & Co., Ltd., led to an increase in sales compared to last year's interim period.

As a result of these factors, consolidated net sales in the interim period declined ¥2.8 billion (3.6%) compared to the previous interim period to ¥77.7 billion and operating income for the period was ¥ 7.2 billion, a decline of ¥1.7 billion (19.7%).

In new drug development in Japan, applications for additional indications in respect of *Navelbine*, an anticancer drug, and *Activacin*, a thrombolytic agent were approved in May and October respectively. In addition NDAs for MM-Q01, an MRI medium for the gastrointestinal tract and for KW-6485, an antiepileptic agent have been applied for. KW-6002, a treatment for Parkinson's disease, KW-2246, an analgesic for cancer pain, and KW-7158, a treatment for overactive bladder are in clinical trials.

Overseas, in the United States and Europe phase III clinical trials for KW-6002, a treatment for Parkinson's disease progressed as scheduled. Biopharmaceutical KW-2871 is in clinical trials in the United States for treating malignant melanoma and antiallergic agent *Allelock* is in Phase III clinical trials in China.

Bio-Chemicals

	<i>Billions of yen</i>		
	Consolidated results for the period ended September 30, 2005	Consolidated results for the period ended September 30, 2004	Change
Net sales	28.3	31.1	(2.8)
Operating income	1.7	3.8	(2.1)

Sales of amino acids, nucleic acids and related compounds mainly used in pharmaceuticals and industrial materials declined as a result of lower domestic sales of raw materials for pharmaceuticals and intensified competition in overseas markets. In healthcare products, mail-order sales and sales to sports clubs of OEM and other products increased but demand for beverage-use amino acids slackened and sales declined compared to the first half of fiscal 2004.

Sales of products for the livestock and fishing industries declined slightly compared to the previous interim period. Shipments of alcohol for industrial increased and sales increased significantly compared to the previous interim period.

As a result segmental sales declined by ¥2.8 billion (9.1%) to ¥28.3 billion and segmental operating income declined by ¥2.1 billion (55.4%) to ¥1.7 billion.

In R&D, the development of fermentation production technology aimed at major cost reductions in amino acid production is nearing fruition, and we have also continued development to increase product functionality and extend applications in the health care business.

Chemicals

	<i>Billions of yen</i>		
	Consolidated results for the period ended September 30, 2005	Consolidated results for the period ended September 30, 2004	Change
Net sales	41.2	35.8	5.3
Operating income	1.9	1.1	0.8

In the chemical products market, worldwide price rises in fuels and raw materials such as naphtha, and firm demand in Asia, particularly in China, formed the background to strong market conditions in domestic and overseas markets. In Japan, although shipment volumes declined slightly compared to first half of fiscal 2004, product price increases for our core products were implemented in response to rapid rises in the prices of naphtha and fuel, and as a result sales increased. Export volumes were similar to the first half of last fiscal year but export sales surged. By product area, while our core solvents and plasticizer raw materials recorded shipment volumes similar to the first half of the previous fiscal year, sales were significantly higher. In functional products, market inventory adjustments led to lower volumes for some of our products but sales grew compared to the first half of fiscal 2004.

As a result, sales for the segment increased by ¥5.3 billion (15.0%) to ¥41.2 billion and operating income surged by 70%, or ¥0.8 billion, to ¥1.9 billion.

Food

	Billions of yen		
	Consolidated results for the period ended September 30, 2005	Consolidated results for the period ended September 30, 2004	Change
Net sales	20.9	21.7	0.8
Operating income	0.8	0.8	0.0

Kyowa Hakko Food Specialties Co., Ltd., a wholly-owned subsidiary formed to manage the food business, made efforts to expand sales and bring new products to market.

In the seasonings business, *umami* seasonings volumes expanded but as a result of lower product prices, sales were slightly below those recorded in the first half of fiscal 2004. In natural seasonings, a new yeast extract seasoning was launched in May, and *Kokumi* seasoning with a full-bodied taste and extract-type seasonings for take-out foods increased sales. However, overall sales of seasonings declined compared to the first half of fiscal 2004. Sales of processed foods also declined despite increases in OEM soups and ingredients for instant noodles. In the bakery products and ingredients business, sales grew driven by higher sales of milk preparations, flavor enhancers and bread improvers.

As a result consolidated net sales for the segment declined by ¥0.8 billion (3.8%) to ¥20.9 billion, partly reflecting the disposal of consolidated subsidiary Asahi Food Products Co., Ltd. in April 2005, while segmental operating income declined by 8.5% to ¥0.8 billion.

Other

	Billions of yen		
	Consolidated results for the period ended September 30, 2005	Consolidated results for the period ended September 30, 2004	Change
Net sales	26.1	27.8	(1.7)
Operating income	0.4	0.7	(0.2)

Sales in Other businesses declined by ¥1.7 billion (6.4%) to ¥26.1 billion and operating income was ¥0.4 billion, a decline of ¥ 0.2 billion (32.1%).

(3) Profit Distribution

Cash dividends for the period under review will be increased by ¥1.25 per share compared to the previous interim period, to ¥5.00 per share.

(2) Outlook for the Full Year

	Billions of yen		%
	FORECAST		
	Fiscal Year ending March 31, 2006	Change compared to the previous fiscal year	
Net sales	360	1.0	0.3%
Operating income	26	(7.5)	(22.4)%
Recurring income	27	(5.3)	(16.6)%
Net income	15	(2.9)	(16.4)%
Net income per share	¥35.47	(¥6.21)	(14.9)%

(These figures assume an exchange rate of ¥109 to the U.S. dollar)

While the Japanese economy is generally expected to continue its gentle recovery there are concerns that the rise in crude oil prices may be sustained and the outlook for the economies of the United States and China is unclear. We thus expect the operating environment to remain unpredictable.

In this environment the Kyowa Hakko Group is committed to invest in future growth and development, the core policy of its medium-term business plan and we will actively promote research and development and implement facilities investment in fiscal 2005, the first year of our three year business plan. We will also increase investment in marketing to expand sales as we strive to build the foundations for future profits.

Although consolidated net sales for fiscal 2005 are expected to increase compared to the previous fiscal year, operating income, recurring income and net income are each forecast to decline mainly as a result of increased expenses arising from investment in research and development and increased sales expenses.

On a segmental basis, in Pharmaceuticals, although we expect to grow sales of core products through the strategic development of our sales activities as a result of a significant fall in the sales of antimycological agent *Itrazole*, which is sold through a distribution agreement, sales for the segment are expected to decline compared to fiscal 2004. Operating income is also expected to decline, in particular as a result of an increase in R&D expenses related to KW-6002.

In Bio-Chemicals, sales are forecast to increase but as a result of intensified price competition worldwide and high fuel and raw material prices as well as sales expenses resulting from our strategy to actively develop sales of healthcare products, operating income is forecast to decline compared to fiscal 2004.

In Chemicals, product price increases are expected to result in higher sales but higher fuel and raw

material prices are forecast to cause a decline in operating income compared to fiscal 2004. In Food, while we expect net sales to decline compared to the previous fiscal year, operating income is expected to rise, benefiting from cost reductions and the restructuring of unprofitable businesses. Net sales and operating income in the Other segment are both forecast to be lower than in fiscal 2004.

Annual Dividends

Management plans to pay a year-end cash dividend of ¥5.00 per share (previous period ¥6.25). Combined with the interim dividend of ¥5.00 per share (previous interim period ¥3.75) the total for fiscal 2005 is expected to be ¥10.00 per share, the same as for fiscal 2004.

**The above forecasts are based on information available and assumptions made at the time of release of this document about a number of uncertain factors that can affect results in the future. It is possible that actual results are materially different for a wide variety of reasons.*

II. Summary of Financial Position

(1) Summary of Interim Financial Position

1) Assets, Liabilities, and Capital Summary

Total assets stood at ¥378.1 billion at the close of the first half of fiscal 2005, up ¥3.6 billion from the end of March 2005. Current assets increased by ¥5.8 billion despite decreases in cash and deposits, and accounts and notes receivable, largely as a result of an increase in marketable securities. Fixed assets declined by ¥2.1 billion, mainly as a result of a decline in tangible fixed assets. Liabilities declined by ¥3.8 billion, mainly reflecting declines in corporation tax payable and retirement benefit allowances. Shareholders' equity increased by ¥7.4 billion as a result of the net income recorded for the interim period and increased appraisal gains on other marketable securities.

2) Cash Flow Summary

	<i>Billions of yen</i>		
	Consolidated results for	Consolidated results for	Change
	the period ended	the period ended	
	September 30, 2005	September 30, 2004	
Cash flows from operating activities	7.2	17.2	(10.0)
Cash flows from investing activities	2.9	(3.2)	6.1
Cash flows from financing activities	(2.9)	(1.6)	(1.2)
Cash and cash equivalents at end of period	45.4	37.3	8.1

Net cash provided by operating activities was ¥7.2 billion, a decline of ¥10.0 billion compared to the previous interim period. Factors causing a rise were the increase in trade receivables of ¥6.2 billion and decrease in corporate tax paid of ¥1.0 billion. On the other hand, income before income taxes declined by ¥3.3 billion, and trade payables increased by ¥10.0 billion, while the increase in inventories was ¥2.7 billion lower.

Net cash provided by investing activities was ¥2.9 billion, a change of ¥6.1 billion compared to the ¥3.2 billion used in investing activities in the first half of fiscal 2004. Despite outflows of ¥2.7 billion for the acquisition of tangible fixed assets, inflows from the sale of marketable investment securities and the sale of tangible fixed assets were ¥2.9 billion and ¥2.7 billion respectively.

Net cash used in financing activities was ¥2.9 billion, an increase of ¥1.2 billion compared to the first half of fiscal 2004. The main cause was the payment of an increase of ¥1.0 billion in the final dividend payment.

Key Shareholders' Equity and Cash Flow Indicators

	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005 (Interim)
Shareholders' equity ratio (%)	59.4	62.3	62.9	64.2
Shareholders' equity (market price base) ratio (%)	59.4	82.1	92.7	98.5
Years to debt redemption	2.9	0.4	0.4	-
Interest coverage ratio	9.7	31.7	124.4	80.1

Notes:

Shareholders' equity ratio = Shareholders' equity / Total assets

Shareholders' equity (market price base) ratio = Market capitalization / Total assets

Years to debt redemption = Interest-bearing debt / Operating cash flow (Not shown for interim period)

Interest coverage ratio = Operating cash flow / Interest payments

*All ratios based on consolidated figures.

*Market capitalization based on closing stock price at end of period, multiplied by number of shares issued and outstanding at end of period (net of treasury stock).

*Operating cash flow is the figure for cash flows from operating activities in the consolidated statements of cash flows. Of the borrowings on the consolidated balance sheet, interest-bearing debt includes borrowings and corporate bonds.

*For interest payments, the Interest payments figure in the consolidated statements of cash flows is used.

(2) Fiscal 2005 Outlook for Financial Position

Cash flows from operating activities: Management expects income before income taxes and minority interests to be lower than in fiscal 2004, so consolidated cash flow income in fiscal 2005 is expected to decline compared to fiscal 2004.

Cash flows from investing activities: In fiscal 2005 acquisitions of property, plant and equipment are expected to increase compared to fiscal 2004. However, proceeds from the sale of tangible fixed assets and investment securities are expected to be higher than in the previous fiscal year, resulting in a lower cash outflow from investing activities than in fiscal 2004.

Cash flows from financing activities: Total dividend payments during fiscal 2005 are expected to be higher than in fiscal 2004, as a result of increases in the amount of the fiscal 2004 final dividend and fiscal 2005 interim dividend. While considering economic circumstances and our funding situation we intend to maintain a flexible stance towards fund raising, the repayment of borrowings and the purchase of treasury stock.

Note: The above financial position outlook is based on information available to management at the time of writing. The actual financial position may differ significantly from projections.

4. Consolidated Financial Statements

Consolidated Balance Sheets

Millions of yen

	As of September 30, 2005	As of September 30, 2004	As of March 31, 2005
ASSETS			
Current assets:			
Cash and time deposits	27,969	36,738	36,138
Accounts and notes receivable	101,111	107,328	106,555
Marketable securities	13,998	999	999
Inventories	53,358	50,141	50,489
Deferred tax assets	7,283	6,106	6,867
Other current assets	12,635	9,212	9,496
Less: allowance for doubtful accounts	(199)	(161)	(207)
	216,157	210,365	210,341
Fixed assets:			
Tangible fixed assets			
Buildings and structures	37,572	41,842	40,408
Machinery and equipment	22,938	22,997	22,605
Land	20,574	21,745	21,662
Construction in progress	1,952	1,297	1,647
Other	5,303	5,702	5,310
	88,341	93,586	91,635
Intangible fixed assets	183	257	212
Investments and other assets:			
Investment securities	63,555	57,921	61,507
Long-term loans	2,467	2,036	2,011
Deferred tax assets	488	3,849	2,237
Other investments and other assets	8,507	8,575	8,218
Allowance for doubtful accounts	(1,081)	(751)	(1,219)
Allowance for investment valuations	(464)	(205)	(451)
	73,472	71,426	72,303
Total Assets	378,154	375,635	374,492

Consolidated Balance Sheets (continued)

	<i>Millions of yen</i>		
	As of September 30, 2005	As of September 30, 2004	As of March 31, 2005
LIABILITIES			
Current liabilities:			
Accounts and notes payable	49,948	57,872	49,845
Short-term bank loans	12,205	13,219	12,106
Accrued expenses	17,702	12,755	15,077
Expenses payable	4,370	3,928	4,317
Income taxes payable	4,846	6,620	8,176
Reserve for sales rebates	980	1,066	1,230
Reserve for sales returns	46	47	54
Reserve for sales promotion expenses	683	704	901
Reserve for fixed asset disposal expenses	943	1,028	1,030
Reserve for loss on business reorganization	-	-	1,224
Other current liabilities	10,288	9,201	9,523
	102,016	106,445	103,489
Long-term liabilities:			
Long-term debt	17	103	86
Deferred tax liabilities	3,362	1,673	2,009
Retirement benefit allowance	27,191	32,442	30,570
Directors' retirement benefit allowance	75	754	841
Reserve for fixed asset disposal expenses	262	578	277
Reserve for losses on debt guarantees	-	-	17
Other long-term liabilities	787	289	303
	31,697	35,842	34,105
TOTAL LIABILITIES	133,714	142,287	137,595
Minority interests	1,546	1,432	1,458
SHAREHOLDERS' EQUITY:			
Common stock	26,745	26,745	26,745
Capital surplus	43,185	43,183	43,184
Retained earnings	164,154	152,567	159,587
Valuation difference on other marketable securities	18,268	13,512	15,307
Foreign exchange adjustment account	(1,530)	(1,686)	(1,564)
Treasury stock	(7,928)	(2,405)	(7,821)
	242,893	231,915	235,439
Total Liabilities, Minority Interests and Shareholders' Equity	378,154	375,635	374,492

Consolidated Statements of Income

Millions of yen

	April 1, 2005 to September 30, 2005	April 1, 2004 to September 30, 2004	April 1, 2004 to March 31, 2005
Net sales	177,332	180,161	358,963
Cost of sales	114,044	116,609	226,890
Gross profit	63,287	63,552	132,072
Reversal of reserve for sales returns.....	54	94	94
Addition to reserve for sales returns	46	47	54
Adjusted gross profit	63,295	63,598	132,112
Selling, general and administrative expenses:			
Transportation	2,225	2,277	4,677
Sales promotion.....	3,583	2,903	7,015
Addition to reserve for sales promotion expense	683	704	901
Salaries	8,646	8,739	17,341
Bonuses	4,195	3,838	7,786
Addition to allowance for directors retirement benefits	62	86	172
Employee retirement benefit expense	857	994	1,959
Depreciation	375	397	868
Research and development.....	15,960	13,630	28,324
Others.....	14,404	14,354	29,557
	50,993	47,928	98,605
Operating income	12,302	15,670	33,506
Other income:			
Interest income	69	46	100
Dividend income	553	439	585
Currency exchange gain.....	30	367	202
Dividend on insurance	313	380	380
Investment return from anonymous association..	1,756	-	-
Income from equity method investments	319	258	563
Others.....	682	1,392	2,313
	3,726	2,884	4,145
Other expenses:			
Interest expense	94	127	239
Unrealized loss on securities	-	0	0
Expense on removal of fixed assets	75	163	225
Loss on sale of fixed assets.....	197	326	843
Loss on sale of inventories.....	260	984	2,028
Lease contract cancellation fee	269	-	-
Disaster loss	181	-	-
Others	563	861	1,947
	1,643	2,464	5,285
Recurring income	14,385	16,091	32,366

Consolidated Statements of Income (continued)

Millions of yen

	April 1, 2005 to September 30, 2005	April 1, 2004 to September 30, 2004	April 1, 2004 to March 31, 2005
Extraordinary income:			
Gain on sale of fixed assets.....	1,629	49	115
Realized profit on investments in securities.....	3	-	141
Reversal of allowance for doubtful accounts	1	6	0
	1,634	55	257
Extraordinary losses:			
Early retirement support expenses	(2,834)	-	-
Asset impairment losses.....	(738)	-	-
Loss on sale of affiliates shares.....	-	(264)	(265)
Loss on sale of fixed assets	-	(59)	(59)
Realized loss on investments in securities	-	(11)	(11)
Addition to reserve for losses on business reorganization.....	-	-	(1,224)
Addition to allowance for doubtful accounts	-	-	(387)
Addition to reserve for fixed asset disposal expenses	-	-	(277)
Addition to investment appraisal reserve.....	-	-	(254)
Extraordinary write-off expenses	-	-	(164)
Appraisal loss on affiliates' shares.....	-	-	(59)
Addition to reserve for losses on debt guarantees	-	-	(17)
	3,572	334	2,721
Income before income taxes	12,446	15,812	29,903
Corporate, local, and enterprise taxes.....	4,125	5,887	11,333
Corporate tax adjustment.....	668	579	569
Minority interests in consolidated subsidiaries	59	48	67
Net income	7,594	9,297	17,931

Consolidated Statements of Surplus

Millions of yen

	April 1, 2005 to September 30, 2005	April 1, 2004 to September 30, 2004	April 1, 2004 to March 31, 2005
Capital surplus:			
Balance at beginning of period.....	43,184	43,182	43,182
Increase in capital surplus:			
Gain on disposal of treasury stock.....	0	1	2
Balance at end of period.....	43,185	43,183	43,184
Retained earnings:			
Balance at beginning of period.....	159,587	144,926	144,926
Increase in retained earnings:			
Net income.....	7,594	9,297	17,931
Increase due to increase in number of consolidated subsidiaries	-	40	40
Decrease in retained earnings:			
Dividend payments	2,644	1,614	3,228
Directors' bonuses	98	83	83
Decrease due to increase in number of consolidated subsidiaries.....	284	-	-
Balance at end of period.....	164,154	152,567	159,587

Consolidated Statements of Cash Flows

Millions of Yen

	April 1, 2005 to September 30, 2005	April 1, 2004 to September 30, 2004	April 1, 2004 to March 31, 2005
Cash flows from operating activities:			
Income before income taxes	12,446	15,812	29,903
Depreciation and amortization	4,587	5,082	10,565
Decrease in retirement benefit allowance.....	(3,375)	(1,325)	(3,200)
(Decrease) increase in allowance for directors' retirement	(760)	(26)	60
Decrease in reserve for of fixed asset disposal expenses	(101)	(220)	(518)
Increase in debt guarantee loss allowance	-	-	17
Increase in business restructuring allowance.....	-	-	1,244
Increase in investment appraisal allowance	-	-	254
(Decrease) increase in allowance for bad debts.....	(67)	(41)	474
Interest and dividend income.....	(622)	(485)	(686)
Interest expenses	94	127	239
Income from equity method investments	(319)	(258)	(563)
Income from investments in anonymous associations.....	(1,756)	-	-
Asset impairment losses.....	738	-	-
Write down of investment securities.....	26	0	59
(Gain) loss on sales of tangible fixed assets	(1,455)	371	779
(Gain) loss on sales of marketable securities	(3)	11	(130)
Loss on disposal of affiliates shares	-	264	265
Employees' early retirement expenses.....	2,834	-	-
Decrease (increase) in trade receivables	5,067	(1,145)	(361)
Increase in inventories.....	(2,871)	(94)	(374)
Increase in trade payables	290	10,319	2,175
Directors' bonus payments	(109)	(93)	(93)
(Decrease) increase in consumption tax payable	(386)	18	267
Others.....	427	1,205	3,565
Sub-total	14,682	27,110	43,925
Interest and dividend income	665	530	772
Interest payments	(90)	(122)	(241)
Cash distributions received from anonymous associations	1,547	-	-
Payment of premium severance for early retirement.....	(2,314)	-	-
Compensation paid for recall of products	-	(1,897)	(1,897)
Corporate etc. tax payments.....	(7,248)	(8,325)	(12,453)
Net cash provided by operating activities	7,241	17,296	30,104

Consolidated Statements of Cash Flows (continued)

Millions of Yen

	April 1, 2005 to September 30, 2005	April 1, 2004 to September 30, 2004	April 1, 2004 to March 31, 2005
Cash flows from investing activities:			
Increase in time deposits	(256)	(257)	(448)
Decrease in time deposits	175	155	456
Payments for purchase of property, plant & equipment...	(2,764)	(3,080)	(7,264)
Proceeds from sale of property, plant, and equipment	2,723	91	370
Payments for purchase of investment securities	(41)	(34)	(137)
Proceeds from sale of investment securities	2,976	1	178
Proceeds from sale of subsidiaries' shares.....	448	793	793
Net increase in short-term loans receivable	(239)	(225)	(260)
Decrease in long-term loans receivable	40	40	64
Others.....	(108)	(696)	(1,857)
Net cash (used in) provided by investing activities.....	2,954	(3,211)	(8,104)
Cash flows from financing activities:			
Net increase (decrease) in short-term debt	(146)	49	(319)
Repayment of long-term debt	(4)	(23)	(45)
Payment for purchase of treasury stock	(109)	(98)	(5,542)
Proceeds from sale of treasury stock	7	8	20
Dividends paid	(2,638)	(1,617)	(3,233)
Dividends paid to minority interests	(13)	(13)	(13)
Net cash used in financing activities	(2,904)	(1,695)	(9,116)
Cash and cash equivalents translation differences	104	(1)	14
Increase in cash and cash equivalents.....	7,395	12,387	12,897
Cash and cash equivalents at the beginning of the period.....	37,817	24,911	24,911
Cash and cash equivalents of newly consolidated subsidiaries at the beginning of the period.....	253	9	9
Cash and cash equivalents at the end of the period	45,466	37,307	37,817

5. Segment information

Segment information by business type

1. Interim period: April 1, 2005 – September 30, 2005

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/ Corporate	Consolidated
Net Sales:								
(1) Sales to external customers	77,645	23,669	38,702	18,608	18,705	177,332	-	177,332
(2) Inter-segment sales and transfers	148	4,685	2,521	2,330	7,410	17,096	(17,096)	-
Total	77,794	28,354	41,224	20,938	26,116	194,429	(17,096)	177,332
Operating expenses	70,518	26,645	39,268	20,120	25,621	182,174	(17,144)	165,029
Operating income	7,275	1,709	1,956	818	494	12,255	47	12,302

Note: The segmental classification is based on the business administration divisions of the Kyowa Hakko Group. The main products of each segment are as follows:

Pharmaceuticals: Pharmaceuticals and diagnostic and related products for medical practitioners

Bio-chemicals: Pharmaceutical raw materials, healthcare products, agrochemicals and products for livestock and fishing industries, raw material alcohol

Chemicals: Solvents, plasticizers, plasticizer raw materials, and specialty chemicals

Food: Natural seasonings, *umami* seasonings, processed food, additives, bakery ingredients and products,

Other: Transportation, design and installation of equipment

Previous interim period: April 1, 2004 – September 30, 2004

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/ Corporate	Consolidated
Net Sales								
(1) Sales to external customers	79,827	27,239	33,643	19,485	19,965	180,161	-	180,161
(2) Inter-segment sales and transfers	862	3,944	2,196	2,276	7,921	17,200	(17,200)	-
Total	80,689	31,183	35,839	21,761	27,887	197,362	(17,200)	180,161
Operating expenses	71,629	27,347	34,688	20,867	27,159	181,691	(17,200)	164,491
Operating income	9,059	3,835	1,150	894	728	15,670	0	15,670

Note: The segmental classification is based on the business administration divisions of the Kyowa Hakko Group. The main products of each segment are as follows:

Pharmaceuticals: Pharmaceuticals and diagnostic and related products for medical practitioners

Bio-chemicals: Pharmaceutical raw materials, agrochemicals and products for livestock and fishing industries, raw material alcohol

Chemicals: Solvents, plasticizers, plasticizer raw materials, and specialty chemicals

Food: Seasonings, bakery ingredients and products, processed food

Other: Transportation, industrial machinery sales

The segmental classification was formerly based on the internal company system and recorded according to each company and 'Corporate'. The segmental classification of the group's businesses has changed in connection with the separation of the Chemicals business from April 2004.

Previous fiscal year: April 1, 2004 - March 31, 2005

Millions of yen

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

Note: The segmental classification is based on the business administration divisions of the Kyowa Hakko Group. The main products of each segment are as follows:

Pharmaceuticals: Pharmaceuticals and diagnostic and related products for medical practitioners

Bio-chemicals: Pharmaceutical raw materials, healthcare products, agrochemicals and products for livestock and fishing industries, raw material alcohol

Chemicals: Solvents, plasticizers, plasticizer raw materials, and specialty chemicals

Food: Seasonings, bakery ingredients and products, processed food

Other: Transportation, design and installation of equipment

The segmental classification was formerly based on the internal company system and recorded according to each company and 'Corporate'. The segmental classification of the group's businesses has changed in connection with the separation of the Chemicals business from April 2004.

Segment information by location

April 1, 2005 – September 30, 2005

Millions of yen

	America	Europe	Asia	Other Regions	Total
(1) Overseas sales	8,511	7,387	12,871	287	29,059
(2) Consolidated sales					177,332
(3) Overseas sales as a percentage of consolidated sales	4.5%	4.2%	7.3%	0.2%	16.4%

April 1, 2004 – September 30, 2004

Millions of yen

	America	Europe	Asia	Other Regions	Total
(1) Overseas sales	8,073	9,938	10,899	555	29,466
(2) Consolidated sales					180,161
(3) Overseas sales as a percentage of consolidated sales	4.5%	5.5%	6.1%	0.3%	16.4%

April 1, 2004 – March 31, 2005

Millions of yen

	America	Europe	Asia	Other Regions	Total
(1) Overseas sales	12,883	16,563	23,655	924	54,026
(2) Consolidated sales					358,963
(3) Overseas sales as a percentage of consolidated sales	3.6%	4.6%	6.6%	0.3%	15.1%

Notes:

1. The regions have been classified geographically.

2. Regions other than Japan are as follows:

America..... North America and Latin America

Europe..... All of Europe

Asia.....All of Asia

Other Regions.... Oceania and Africa

3. Overseas sales comprise sales by Kyowa Hakko and its consolidated subsidiaries to customers outside of Japan.