



## **FOR IMMEDIATE RELEASE**

### **Kyowa Hakko Reports Earnings for the Six-Month Period Ended Sept. 30, 2002**

Tokyo, Japan, Nov. 13, 2002 - (JCN Newswire) - Kyowa Hakko Kogyo Co., Ltd., one of Japan's leading makers of pharmaceuticals and bio-chemicals, today reported earnings for the six-month period to September 30, 2002.

- Sales fell 5.6 billion yen to 185.3 billion yen
- Operating income fell 2.9 billion yen to 7.8 billion yen
- The Company returned to profit with net income of 5.8 billion yen
- Continued to restructure operations and transferred the alcoholic beverage business to Asahi Breweries
- Expanded overseas R&D activities, giving priority to the clinical trials in Europe and the U.S.

Group net sales fell largely as a result of the transfer of the Company's alcoholic beverage business to Asahi Breweries Ltd., which was completed on September 2. The transfer of alcoholic beverage business helped boost extraordinary gains to 6.8 billion yen, leading to the improvement in net income. Cash and cash equivalents at the end of the period were 36 billion yen, up from 26.1 billion yen a year ago.

Operating income was affected by increased research and development costs in the Pharmaceuticals business as the Company shifts its focus on developing promising pharmaceutical products overseas.

Volume sales in the Pharmaceuticals business rose following the active marketing of flagship products such as Coniel, used in the treatment of hypertension and angina pectoris, Allelock, an anti-allergic agent, Itrizole, an oral antimycological agent, and Navelbine, an anti-cancer agent. Sales of Durotep Patch, a medication for persistent cancer pain that was released in March 2002 also rose.

On the other hand, net sales in the Pharmaceuticals Business came to 71.4 billion yen, almost



level with the net sales of 71.8 billion yen over the same period the year before because of the increase in sales volume which helped to offset the effects of revisions to the Japanese National Health Insurance, which lowered the prices of pharmaceuticals.

During the period under review, the Company received additional approval for Depakene, an effective treatment for manic and manic-depressive disorders, and for Inovon, a treatment for acute circulatory failure. While the Company also filed further applications for Desmopressin, a treatment for nocturnal enuresis, and Navelbine, an anti-cancer agent.

Currently, clinical trials overseas are under way for the anti-Parkinson's compound KW-6002, while clinical tests for the anticancer agent KW-2170, the urinary incontinence treatment KW-7158, the anti cancer agent KW-2871 (chimeric monoclonal antibody), and the anti-asthmatic KW-4490 are also on going.

Sales in the Bio-Chemicals business rose 1.9 billion yen, or 7.1 percent, to 29.9 billion yen as a result of increased volume sales of amino acids for in health food supplements and industrial applications. This trend is likely to continue further.

Operating income for the division was 600 million yen, a slight improvement over the same period the year before, boosted by increased sales of high value-added amino acids and improved profitability at Biokyowa Inc. in the U.S. after it ceased manufacturing feed-grade amino acid lysine to focus on high added-value amino acids.

This was partly offset, however, by the effects of a difficult operating environment for Fermentaciones Mexicanas, S.A de C.V., which is responsible for the manufacture and sale of feed-grade amino acids, and for Agroferm Hungarian-Japanese Fermentation Industry, Ltd., While net sales in agriculture product segment were roughly the same flat as in the same period in 2001, overall net sales for this segment fell below the previous year due to decreased exports of agricultural chemicals to Asia and due to a downturn in the aquaculture industry.

Sales in the Chemicals Business fell 0.6 billion yen to 30.5 billion yen partly because of the Company's withdrawal from the alkylbenzene business and due to falling prices in Japan related to the sluggish economy in Japan. On the other hand exports grew, boosted by a fall in the value of the yen and demand for functional products, such as lubricant raw materials for use as



CFC refrigerant substitutes and which make significant contributions to environmental preservation.

The Company took steps to reduce production costs and lower distribution expenses, which narrowed the business's operating loss by 200 million yen to an operating loss of 200 million yen.

For the full year ending March 31, 2003 the business is expected to post operating profits that break even after reporting a 1.1 billion operating loss the year before because of price gains and growth in sales volumes. Sales are expected to be nearly flat at 60 billion yen.

Sales in the Liquor and Food Business fell 8 billion yen, or 15.8 percent, to 42.9 billion yen after the Company transferred its alcoholic beverage operations to Asahi Breweries Ltd. on September 2nd. The business posted an operating loss of 1.4 billion yen, 1.1 billion yen lower than the loss from the year before.

The business was also affected by lackluster consumer spending and price declines as well as a prolonged slump in consumer confidence because of concerns about food safety following an outbreak of bovine spongiform encephalitis (BSE).

Sales at subsidiaries responsible for Other Businesses rose 1.8 billion yen, or 6.3 percent from the year before, to 31.7 billion yen, while the business's operating income rose 300 million yen, or 41.5 percent, to 1.2 billion yen.

For more information, please see the financial statements attached below.

#### About Kyowa Hakko Kogyo Co. Ltd.:

Kyowa Hakko (TSE: 4151), a leading Japanese research-based pharmaceutical and biotechnology company, is devoted to discovering, developing, manufacturing, and marketing quality pharmaceutical products and bio-products such as amino acids. Pharmaceutical central research is focused on two therapeutic fields and drug discovery using antibody-based technologies. Those therapeutic fields are cancer and allergies, where Kyowa Hakko has a strong background worldwide with products such as Mitomycin and Olopatadine. Kyowa Hakko



is currently developing four compounds for cancer and allergies overseas. In addition, the Company is also moving forward with the development of KW-6002, an agent for the treatment of Parkinson's disease, and KW-7158, an agent for treating urinary incontinence. For further information, please visit the Kyowa Hakko Kogyo Co. Ltd. home page at: [www.kyowa.co.jp](http://www.kyowa.co.jp)

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## IV. Consolidated Interim Financial Statements

### 1. Consolidated Interim Balance Sheet

	Millions of Yen		
	As of September 30, 2002	2001	As of March 31, 2002
<b>Assets</b>			
<b>Current assets</b>			
Cash and Time Deposits .....	33,277	24,672	38,903
Accounts and notes receivable .....	112,065	133,054	129,731
Marketable Securities .....	3,176	1,999	–
Inventories .....	54,676	62,341	59,335
Deferred tax assets .....	3,853	3,701	5,040
Other current assets .....	9,084	8,715	11,712
Allowance for bad debts .....	(272)	(389)	(314)
<b>Total Current assets</b> .....	<b>215,861</b>	234,096	244,409
<b>Fixed assets</b>			
Buildings and Structures .....	47,548	52,840	50,346
Machinery and equipment .....	28,052	34,733	31,416
Land .....	21,886	23,523	23,091
Construction in progress .....	1,620	3,166	2,282
Other property, plant and equipment .....	6,161	6,508	6,233
<b>Total Property, plant and equipment</b> .....	<b>105,269</b>	120,772	113,370
<b>Intangible fixed assets</b> .....	<b>717</b>	1,214	966
Investments in securities .....	56,423	63,017	56,320
Long-term loans .....	2,303	2,584	2,493
Deferred tax assets .....	3,969	3,129	4,317
Other investments and other assets .....	9,328	9,120	9,337
Allowance for bad debts-{} .....	(815)	(780)	(977)
Allowance for investment valuations .....	(125)	(169)	(125)
Investment and other assets .....	71,084	76,903	71,366
<b>Total Fixed assets</b> .....	<b>177,071</b>	198,889	185,703
<b>Total Assets</b> .....	<b>392,932</b>	432,986	430,112



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**KYOWA HAKKO – Interim – Consolidated – September 30, 2002**

	Millions of Yen		
	As of September 30,		As of March 31,
	2002	2001	2002
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts and notes receivable .....	51,854	62,679	53,484
Short-term bank loans .....	28,869	38,281	29,458
Current maturities of convertible bonds .....	–	9,997	9,997
Accrued expenses .....	21,134	26,842	25,882
Expenses payable .....	4,181	4,762	4,750
Income taxes payable .....	3,801	3,073	14,765
Reserve for accrued sales rebates .....	878	1,143	1,118
Reserve for accrued sales returns .....	114	216	186
Reserve for accrued sales promotion expenses .....	467	499	500
Other current liabilities .....	9,939	23,497	22,365
<b>Total Current liabilities</b> .....	<b>121,240</b>	<b>170,991</b>	<b>162,508</b>
<b>Long-term liabilities</b>			
Bonds .....	33,000	33,000	33,000
Long-term debt .....	1,338	1,804	1,897
Deferred tax liabilities .....	53	604	502
Accrued retirement benefits .....	17,162	17,514	17,303
Accrued directors' retirement benefits .....	708	667	789
Other long-term liabilities .....	399	1,258	1,011
<b>Total Long-term liabilities</b> .....	<b>52,662</b>	<b>54,848</b>	<b>54,506</b>
<b>Total Liabilities</b> .....	<b>173,903</b>	<b>225,840</b>	<b>217,014</b>
<b>(Minority Interests in Consolidated Subsidiaries)</b>	<b>1,431</b>	<b>1,434</b>	<b>1,445</b>
<b>(Shareholders' Equity)</b>			
Common stock .....	–	26,745	26,745
Additional paid-in capital .....	–	43,180	43,180
Retained earnings .....	–	125,386	131,897
Valuation difference on other marketable securities .....	–	14,602	14,946
Foreign exchange adjustment account .....	–	(4,203)	(5,061)
Treasury stock .....	–	(0)	(54)
<b>Total Shareholders' Equity</b> .....	<b>–</b>	<b>205,710</b>	<b>211,652</b>
Common stock .....	26,745	–	–
Additional paid-in capital .....	43,180	–	–
Retained earnings .....	137,082	–	–
Valuation difference on other marketable securities .....	13,727	–	–
Foreign exchange adjustment account .....	(2,947)	–	–



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**KYOWA HAKKO – Interim – Consolidated – September 30, 2002**

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Treasury stock .....	(190)	–	–
<b>Total Shareholders` Equity .....</b>	<b>217,596</b>	–	–
<b>Total liabilities, minority interests in consolidated subsidiaries and shareholders` equity .....</b>	<b>392,932</b>	432,986	430,112



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**KYOWA HAKKO – Interim – Consolidated – September 30, 2002**

**2. Consolidated Interim Statements of Income**

For the interim periods ended September 30, 2002 and 2001 and the year ended March 31, 2002

	Millions of Yen		
	April 1, 2002 to Sept. 30, 2002	April 1 2001 to Sept. 30, 2001	April 1 2001 to March 31, 2002
<b>Net Sales</b> .....	<b>185,393</b>	191,067	378,667
<b>Cost of Sales</b> .....	<b>122,234</b>	126,453	250,144
<b>Gross Profit</b> .....	<b>63,158</b>	64,614	128,523
Recovery of reserve for accrued sales returns .....	186	414	414
Addition to reserve for accrued sales returns .....	114	216	193
Adjusted gross profit .....	<b>63,230</b>	64,811	128,744
Selling, general, and administrative expenses .....	<b>55,388</b>	53,984	108,387
<b>Operating Income</b> .....	<b>7,841</b>	10,827	20,356
Other revenue .....	<b>1,809</b>	2,449	4,846
Interest and dividend income .....	<b>694</b>	591	827
Income from equity method investments .....	<b>8</b>	760	1,223
Other revenue .....	<b>1,106</b>	1,096	2,796
Other expenses .....	<b>4,837</b>	2,894	6,242
Interest expenses .....	<b>974</b>	1,666	3,114
Others.....	<b>3,862</b>	1,228	3,127
<b>Recurring Profit</b> .....	<b>4,814</b>	10,382	18,960
Extraordinary income .....	<b>6,806</b>	501	14,663
Extraordinary losses .....	<b>5</b>	17,995	21,161
Income before income taxes .....	<b>11,614</b>	(7,111)	12,462
Income, inhabitant and enterprise taxes .....	<b>3,136</b>	2,668	16,513
Income tax adjustment .....	<b>2,615</b>	(7,155)	(9,524)
Minority Interests in Consolidated Subsidiaries .....	<b>16</b>	(45)	(61)
<b>Net income</b> .....	<b>5,847</b>	(2,579)	5,535



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**KYOWA HAKKO – Interim – Consolidated – September 30, 2002**

**3. Consolidated Interim Statements of Retained Earnings**

For the interim periods ended September 30, 2002 and 2001 and the year ended March 31, 2002

	Millions of Yen		
	April 1, 2002 to Sept. 30, 2002	April 1 2001 to Sept. 30, 2001	April 1, 2002 to March 31, 2002
Retained earnings at beginning of period	–	129,694	129,694
Total increase in retained earnings .....	–	–	5
Increase due to inflation accounting at consolidated subsidiaries in Mexico .....	–	–	5
Total decrease in retained earnings .....	–	1,727	3,337
Dividend payments .....	–	1,628	3,256
Directors' bonuses .....	–	80	80
Decrease due to the adoption of tax effect accounting at consolidated subsidiary in Mexico. ....	–	19	–
Other decreases .....	–	–	1
Net income .....	–	(2,579)	5,535
Retained earnings at end of period .....	–	125,386	131,897
Capital Surplus			
Capital surplus at beginning of period .....	<b>43,180</b>	–	–
Capital surplus at end of period .....	<b>43,180</b>	–	–
Retained Earnings			
Retained earnings at beginning of period .....	<b>131,897</b>	–	–
Increase in retained earnings .....	<b>6,887</b>	–	–
Net income .....	<b>5,847</b>	–	–
Rise in the number of consolidated subsidiaries: .....	<b>1,035</b>	–	–
Increase due to inflation accounting at consolidated subsidiaries in Mexico .....	<b>4</b>	–	–
Decrease in retained earnings .....	<b>1,703</b>	–	–
Dividend payments .....	<b>1,628</b>	–	–
Directors' bonuses .....	<b>74</b>	–	–
Retained earnings at end of period .....	<b>137,082</b>	–	–



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**KYOWA HAKKO – Interim – Consolidated – September 30, 2002**

**4. Consolidated Interim Statements of Cash Flows**

For the interim periods ended September 30, 2002 and 2001 and the year ended March 31, 2002

	Millions of Yen		
	April 1, 2002	April 1 2001	April 1, 2002
	to Sept. 30, 2002	to Sept. 30, 2001	to Sept. 30, 2002
<b>Cash Flow from Operating Activities</b>			
Income before income taxes .....	11,614	(7,111)	12,462
Depreciation and amortization .....	7,447	8,738	17,819
Income from equity method investments .....	(8)	(760)	(1,223)
Gain on sales of marketable securities .....	(995)	0	(12,726)
Gain on sales of property, plant, and equipment .....	(1,961)	(301)	(1,335)
Gain on transfer of alcohol beverage business .....	(3,556)	–	–
Loss on restructuring of overseas business structures .....	–	17,995	21,081
Interest and dividend income .....	(694)	(591)	(827)
Interest expenses .....	974	1,666	3,114
Decrease in trade receivables .....	11,836	756	2,843
Decrease in inventories .....	870	(4,519)	(476)
Decrease in trade payables .....	(251)	789	(8,080)
Others .....	(1,027)	995	(1,267)
Sub-total .....	24,248	17,657	31,383
Receipt of interest and dividend income .....	729	811	1,058
Payment of interest expenses .....	(1,147)	(1,743)	(3,241)
Payment of income expenses .....	(14,084)	(10,085)	(12,245)
<b>Net cash provided by (used in) operating activities .....</b>	<b>9,747</b>	<b>6,639</b>	<b>16,955</b>
<b>Cash Flow from Investing Activities</b>			
Increase in time deposits .....	(166)	(193)	(433)
Decrease in time deposits .....	117	118	563
Payments for purchase of property, plant, and equipment .....	(6,055)	(5,616)	(11,830)
Proceeds from sale of property, plant, and equipment .....	2,898	766	2,784
Payments for purchase of investment securities .....	(504)	(1,045)	(1,348)
Proceeds from sale of investment securities .....	1,623	23	18,798
Payments for purchase of stock in subsidiaries .....	–	(1,076)	(1,096)
Net increase in short-term .....	125	952	798
Increase in long-term loans receivable .....	(66)	(36)	(184)
Decrease in long-term loans receivable .....	1,040	122	339
Proceeds from transfer of alcoholic beverage business .....	11,591	–	–
Others .....	(241)	(328)	(13)
<b>Net cash provided by (used in) investing activities .....</b>	<b>10,363</b>	<b>(6,313)</b>	<b>8,376</b>
<b>Cash Flow from Financing Activities</b>			
Increase in short-term debt .....	26	(4,793)	(13,105)
Proceeds from long-term debt .....	–	–	150
Repayment of long-term debt .....	(242)	(790)	(570)
Payment for bond redemption .....	(9,997)	–	–
Payment for transfer of control of employee savings deposits ..	(13,449)	–	–
Dividend paid .....	(1,625)	(1,626)	(3,251)



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Dividends paid to minority interests .....	(10)	(11)	(11)
Others .....	(122)	(0)	(54)
<b>Net cash provided by (used in) financing activities .....</b>	<b>(25,419)</b>	(7,222)	(16,843)
<b>Cash and Cash Equivalents at end of the Period .....</b>	<b>(399)</b>	(421)	818
<b>Decrease in cash and cash equivalents .....</b>	<b>(5,708)</b>	(6,474)	9,308
<b>Cash and cash equivalents at the beginning of the Period .....</b>	<b>41,908</b>	32,600	32,600
Increase in cash and cash equivalents resulting from consolidation of formerly unconsolidated subsidiaries .....	(126)	–	–
<b>Cash and cash equivalents at the end of the Period .....</b>	<b>36,073</b>	26,126	41,908