

First-Quarter Performance Update For The Year Ending March 31, 2005

Kyowa Hakko Kogyo Co., Ltd.		August 6, 2004	
Stock Code:	4151	Listed Exchanges:	Tokyo, Osaka, Nagoya, Fukuoka, Sapporo
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1. Notes relating to the preparation etc. of quarterly business performance updates

- a) Simplified accounting treatments were adopted
No adjustments for cost variance were applied
- b) There were no changes to the accounting treatments from the previous fiscal year
- c) There were two changes to the scope of consolidation and no changes to equity method accounting
Details of changes:
Kyowa Wellness Co., Ltd. was newly included in the scope of consolidation
Kyowa Foods (H.K.) Co., Ltd. was excluded from the scope of consolidation

2. Results for the three months to June 30, 2004

(1) Progress of consolidated business performance

<i>millions of yen - amounts less than 1 million yen have been ignored</i>				
	Three Months to June 30, 2004	Three Months to June 30, 2003	YOY Change%	Year Ended March 31, 2004
Net sales	88,743	87,738	1.1	348,838
Operating income	8,640	5,479	57.7	26,836
Recurring income	9,150	--	--	24,792
Net income	4,891	--	--	10,017
Net income per share (yen)	¥11.37	--	--	¥23.00
Fully diluted net income per share	--	--	--	--

Notes: Percentages for net sales and operating income show changes compared to the comparable period the year before
Because this is the first time quarterly results other than those for net sales and operating income have been disclosed, year-on-year comparisons are unavailable

Summary of business performance:

For the three-month period ended June 30, 2004, net sales were ¥88.7 billion, up ¥1 billion, or 1.1%, from the comparable period the year before, while operating income was ¥8.6 billion, a ¥3.1 billion, or 57.7%, increase, from the comparable period a year ago. On the whole, these results represent steady progress towards our forecast for the six months ending September 30, 2004 and for the year ending March 31, 2005.

In the Pharmaceuticals Business, sales of the following main products continued to rise: *Coniel*, a treatment for hypertension and angina, *Allelock*, an anti-allergy agent, *Durotep Patch*, which relieves persistent cancer pain, and *Itrizole*, an antimycological agent. In the Bio-Chemicals Business, sales of raw materials for pharmaceuticals, food, and industrial use fell following outstanding growth in the comparable period the year before. In the Chemicals Business, sales of functional products were steady, although sales in this segment were lower than a year ago. In the Food Business, sales of processed food rose.

Operating income increased significantly from the year before. This was because of the increase in net sales as well as changes to when operating expenses were incurred and other factors.

Lower interest expenses due to the early redemption of corporate bonds during the year to March 31, 2004 and other factors reduced non-operating expenses to generate a gain of ¥500 million on balance and led to recurring income of ¥9.1 billion. Net income for the period under review was ¥4.8 billion.

(2) Changes in consolidated financial position			
	As of June 30, 2004	As of June 30, 2003	As of March 31, 2004
Total assets (Millions of yen)	368,156	--	361,095
Shareholders' equity (Millions of yen)	228,808	--	225,041
Equity ratio (%)	62.1%	--	62.3%
Shareholders' equity per share (yen)	¥531.66	--	¥522.63

Note: Because this is the first time the financial position has been disclosed on a quarterly basis, year-on-year comparisons are not available

Summary of financial position:

Total assets as of June 30, 2004 were ¥368.1 billion, ¥7.0 billion higher than at March 31, 2004. The most notable changes were an increase in accounts and notes receivable of ¥4.1 billion and a rise in marketable securities of ¥1.9 billion. In liabilities, income tax payments reduced income taxes payable by ¥6.3 billion,

while the payment of summer bonuses lowered expenses payable by ¥3.5 billion. On the other hand, accounts and notes payable increased by ¥7.2 billion. Shareholders' equity increased ¥3.7 billion to ¥228.8 billion. As a result, the shareholders' equity ratio declined 0.2 percentage points to 62.1%.

For reference:

Forecasts for the year ending March 31, 2005:

No changes have been made to the forecasts that were announced on May 12, 2004.

Summary of forecasts:

The results for the three months to June 30, 2004 were steady. However, although recurring income came to 34% of its full-year target of ¥27 billion and net income was 33% of its full-year target of ¥15 billion, and although factors such as changes to when operating expenses will be incurred in the second quarter onwards have been taken into account, there will be no changes to the previously announced forecasts for the six months ending September 30, 2004 or for the year ending March 31, 2005.

*The above forecasts take into account assumptions that on the day of the release of this document were based on information available at the time of release as well as on a number of variable factors that can affect results in the future. It is possible that actual results are materially different for a wide variety of reasons.

1. Consolidated financial statements		
	<i>Millions of yen</i>	
	As of June 30, 2004	As of March 31, 2004
ASSETS	368,156	361,095
Current assets	200,499	194,062
Cash and time deposits	23,770	25,239
Accounts and notes receivable	110,834	106,726
Marketable securities	1,999	-
Inventories	51,212	50,494
Deferred tax assets	4,240	6,529
Other current assets	8,595	5,234
Allowance for doubtful accounts	(152)	(163)
Fixed assets	167,657	167,033
Tangible fixed assets	95,535	96,684
Property, plant and equipment	43,390	43,604
Machinery and equipment	23,779	23,584
Land	21,785	21,819
Construction in progress	866	2,035
Other property, plant and equipment	5,713	5,640
Intangible fixed assets	282	300
Investments and other assets	71,839	70,047
Investments in securities	60,963	59,632
Long-term loans	2,098	2,114
Deferred tax assets	2,419	1,957
Other investments and other assets	7,341	7,345
Allowance for doubtful accounts	(777)	(796)
Allowance for investment valuations	(205)	(205)
Total assets	368,156	361,095

	<i>Millions of yen</i>	
	As of June 30, 2004	As of March 31, 2004
LIABILITIES	137,940	134,665
Current liabilities	101,217	98,914
Accounts and notes payable	55,053	47,783
Short-term bank loans	13,341	13,231
Accounts payable	14,978	14,789
Expenses payable	387	3,941
Income taxes payable	2,403	8,767
Reserve for accrued sales rebates	1,032	956
Reserve for accrued sales returns	59	94
Reserve for accrued sales promotion expenses	790	795
Reserve for fixed asset disposal	968	1,157
Other current liabilities	12,201	7,397
Long-term liabilities	36,723	35,751
Long-term debt	116	125
Deferred tax liabilities	1,613	86
Accrued retirement liabilities	33,311	33,768
Accrued directors' retirement benefits	715	781
Reserve for fixed asset disposal	669	669
Other long-term liabilities	297	320
Minority interests	1,407	1,388
SHAREHOLDERS' EQUITY	228,808	225,041
Common stock	26,745	26,745
Capital surplus	43,182	43,182
Retained earnings	148,161	144,926
Valuation difference on other marketable securities	15,364	14,636
Foreign exchange adjustment account	(2,296)	(2,135)
Treasury stock	(2,349)	(2,313)
Total liabilities, minority interests, and shareholders' equity	368,156	361,095

2. Consolidated quarterly income statement		
	<i>Millions of yen</i>	
	April 1, 2004 to June 30, 2004	April 1, 2003 to March 31, 2004
Net sales	88,743	348,838
Cost of sales	56,060	219,361
Gross profit	32,682	129,476
Recovery of reserve for accrued sales returns	94	124
Addition to reserve for accrued sales returns	59	94
Adjusted gross profit	32,716	129,506
Selling, general and administrative expenses	24,076	102,670
Operating income	8,640	26,836
Other income	1,004	3,333
Interest and dividend income	373	780
Income from equity method investments	184	552
Others	446	2,000
Other expenses	494	5,377
Interest expenses	65	803
Others	428	4,573
Recurring income	9,150	24,792
Extraordinary income	11	17,031
Extraordinary losses	23	26,446
Income before taxes	9,138	15,377
Corporate, local, and enterprise taxes	1,308	9,462
Corporate tax adjustment	2,911	(3,935)
Minority interests in consolidated subsidiaries	26	(167)
Net income	4,891	10,017

3. Segment information

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

Millions of yen

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

Note: From April 1st, 2004, some of the divisions between the segments have been changed

Results by segment for the three months to June 30, 2003

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Corporate, elimination and other	Consolidated total
Sales								
Sales to outside customers	34,529	14,645	14,785	13,230	10,547	87,738	--	87,738
Inter-segment sales/transfers	269	2,475	1,236	1,170	4,458	9,610	(9,610)	--
Total sales	34,799	17,120	16,022	14,400	15,005	97,349	(9,610)	87,738
Operating expenses	32,878	14,996	15,324	14,021	14,590	91,812	(9,553)	82,258
Operating income	1,920	2,123	697	379	414	5,536	(56)	5,479

For reference: results by segment for the year ended March 31, 2004

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Corporate, elimination and other	Consolidated total
Sales								
Sales to outside customers	141,375	50,474	61,829	51,823	43,335	348,838	--	348,838
Inter-segment sales/transfers	1,490	8,493	5,069	4,879	19,832	39,765	(39,765)	--
Total sales	142,866	58,967	66,899	56,703	63,167	388,603	(39,765)	348,838
Operating expenses	130,958	50,475	64,005	54,702	61,386	361,529	(39,527)	322,001
Operating income	11,907	8,492	2,893	2,000	1,781	27,074	(238)	26,836

Reference

Sales of major ethical pharmaceutical products:

Billions of yen

Product Name	Category	Sales for three months to:		Sales forecasts for six months to September 30, 2004	Sales forecasts for year to March 31, 2005
		June 30, 2003	June 30, 2004		
<i>5FU</i> (all dosage forms)	Anticancer agent	1.2	0.9	2.3	3.9
<i>Adriacin</i> and <i>Farmorubicin</i>	Anticancer agent	2.2	2.3	4.4	8.6
<i>Navelbine</i>	Anticancer agent	0.3	0.3	0.7	1.4
<i>Itrizole</i>	Antimycological agent	5.2	8.3	12.4	22.7
<i>Inovan</i> and <i>Pre Dopa</i>	Cardiovascular agent	1.3	1.2	2.5	5.2
<i>Coniel</i>	Cardiovascular agent	7.1	7.1	14.1	28.4
<i>Nauzelin</i>	Gastrointestinal agent	1.6	1.7	2.9	6.5
<i>Depakene</i>	Central Nervous System agent	2.4	2.6	4.9	9.6
<i>Celtect</i>	Antiallergic agent	1.8	1.7	3.1	6.3
<i>Allelock</i>	Antiallergic agent	2.9	3.6	6.7	17.1
<i>Neu-up</i>	Agent for blood and fluid disorders	1.2	1.1	2.4	4.7
<i>Imagenil</i>	Contrast medium	0.3	0.2	0.5	1.0
<i>Durotep Patch</i>	Transdermal analgesic agents	1.9	2.9	5.6	11.7
<i>Export & License Income</i>		2.2	2.8	6.1	9.5

Note: These sales are included in sales of the Pharmaceuticals Business