



FOR IMMEDIATE RELEASE

Kyowa Hakko Announces strong increase in Half Year Income

Tokyo, November 10, 2004 – Kyowa Hakko Kogyo Co., Ltd. (Kyowa Hakko) today announced continued strong growth in consolidated operating income, recurring income and net income for the interim period to September 30, 2004. Consolidated net sales increased to 180.1 billion yen, up 2.5 billion yen (1.5%) compared to the first six months of the previous fiscal year.

Operating income for the interim period ending September 30, 2004 surged 3.0 billion yen (+23.8%) to 15.6 billion yen and recurring income rose 4.4 billion yen to 16.0 billion yen (+37.7%). Net income was 9.2 billion yen, an improvement of 13.3 billion yen compared to the first half of the previous fiscal year. Commenting on the results Dr. Yuzuru Matsuda, President of Kyowa Hakko said, 'Our efforts to reform our business structure and raise operating efficiency are bringing clear-cut results despite a tough operating environment in many of our businesses. We will continue to pursue our strategy of focusing on areas that leverage our unique strengths in biotechnology, fermentation and pharmaceuticals.'

Growth in the first half was driven by strong sales in Kyowa's pharmaceuticals business and income also benefited from delays in the recognition of expenses. For the remainder of the fiscal year to March 2005 Kyowa expects the operating environment to remain very challenging as the rapid rise in crude oil prices and the uncertain outlook for the global economy make prospects uncertain. For the year to March 31, 2005 Kyowa expects consolidated sales to grow by 1.8% to 355 billion yen and operating income to increase by 4.3% to 28 billion yen, compared to the previous fiscal year.

<p>The above forecasts have been produced based on information available at the time of the release of this document and contain many undetermined factors. Please be aware that, as a result of economic conditions and other features of the markets in which the Company operates, actual results can differ materially from these forecasts.</p>
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Segmental Review

(As the segmental allocation has been partly revised from this interim period the figures for the previous interim period have been restated in accordance with the revised segmental classification.)

Sales in the Pharmaceutical segment rose by 8.9 billion yen to 80.6 billion yen due to growth in core products and despite the effects of a reduction in National Health drug prices for prescription pharmaceuticals in April 2004. Segmental operating income grew by 3.8 billion yen to 9 billion yen, reflecting stronger sales and delays in the recognition of expenses.

Net sales grew for *Allelock*, an antiallergic agent, *Durotep Patch*, an analgesic for persistent cancer pain and *Depakene* an antiepileptic agent. In addition *Coniel*, a treatment for hypertension and angina pectoris, and *Nauzelin* for improving gastrointestinal function each recorded volume increases. In bulk exports and technology out-licensing, sales of an antiallergic agent (olopatadine hydrochloride) increased and remained favorable. In March 2004, approval was obtained to import *Coniel* into China and in September a locally incorporated company was established in Jiangsu, China in preparation for the construction of a production facility.

Kyowa Medex Co., Ltd., a subsidiary involved in the manufacture and sale of diagnostic medical devices, posted a decline in sales of biochemical reagents due to severe market trends. In immunological reagents however, contributions from newly introduced products and products including *Determiner* HbA1c, a diabetes reagent, led to sales growth at Kyowa Medex.

Sales in the Bio-Chemicals segment were 31.1 billion yen, a decline of 7.1 billion yen compared to the previous interim period and operating income also declined by 600 million yen to 3.8 billion yen. Key factors were a slackening of domestic demand for amino acids used in health food products (beverages). Sales for exports also declined, in particular in the United States market due to intensified price competition. In addition, overseas subsidiary Agroferm Hungarian-Japanese Fermentation Industries Ltd. (Agroferm) was sold to Degussa AG of Germany.

In the Chemicals segment sales increased by 2.8 billion yen over the previous interim period to 35.8 billion yen driven by the effects of high growth in China which led to higher foreign and domestic demand for petrochemical products. Although export shipment volumes declined compared to the previous interim period, sales increased due to good conditions in

foreign markets. In functional products, sales expanded mainly due to growth in materials for refrigerants that contribute to environmental conservation through their use as CFC substitutes. Operating income declined slightly, by 300 million yen to 1.1 billion yen following a sharp increase in the cost of raw materials such as naphtha and other products, and notwithstanding efforts to revise both domestic and imported product prices.

In the Foods segment, despite efforts to expand sales and marketing of core products and the market release of clearly differentiated new products, intense competition and the negative effects of an extremely hot summer led to a decline in segmental sales of 1.5 billion yen to 21.7 billion yen for the interim period. Nevertheless, our efforts to reduce costs were successful and the foods business grew operating income to 800 million yen, an increase of 100 million yen compared to the first half of the previous fiscal year.

Summary of operating results for the interim period

	<i>Billions of yen</i>		
	Consolidated results for the period ended September 30, 2004	Consolidated results for the period ended September 30, 2003	Change
Net sales	180.1	177.5	+2.5
Operating income	15.6	12.6	+3.0
Recurring income	16.0	11.6	+4.4
Net income	9.2	- 4.0	+13.3

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