ANNUAL REPORT

KISSEI

2001

PROFILE

Japanese pharmaceutical companies are facing an increasingly competitive operating environment due to measures being implemented in accordance with the International Conference on Harmonization of Technical Requirements for Registration of Pharmaceuticals for Human Use (ICH), which are facilitating greater access to the Japanese market, and the emergence of large multinational pharmaceutical companies as a result of mergers and acquisitions. Furthermore, current discussions on the fundamental reform of Japan's health care insurance scheme, including the National Health Insurance (NHI) drug pricing policy, are pointing to an implementation date in 2002. The reform of the health care insurance system is expected to have wide-ranging ramifications for the pharmaceutical industry.

In this environment, Kissei Pharmaceutical Co., Ltd., is working to realize the goals of its medium-term management plan, "Forward Plan 21," initiated in April 2000. The Company aims to fully implement the plan by March 2003, focusing on its core objectives of "expanding operational scale" and "strengthening competitiveness."

Achieving these objectives is important for fulfilling the Company's management vision of strengthening Kissei as an R&D-oriented pharmaceutical company that contributes to human health care through the development of innovative drug products. Realizing the core objectives of "Forward Plan 21" is also the minimum requirement for ensuring Kissei continues to succeed in today's rapidly changing pharmaceutical industry.

Kissei will continue working to increase sales of existing drugs while aggressively introducing and marketing new products. The Company is also committed to promoting the development of innovative drug products overseas and the steady growth of its nutritional food business. Through these and other strategies, Kissei aims to speed up the development of its key future drug compounds, including KAD-1229 (*mitiglinide*: International Nonproprietary Name (INN)) for type 2 diabetes and KMD-3213 for dysuria associated with benign prostatic hyperplasia (BPH), and to enhance its business growth in the years ahead.

CONSOLIDATED FINANCIAL SUMMARY

Kissei Pharmaceutical Co., Ltd. and its subsidiaries Years ended 31st March

			Millions of Yen Except Per Share Data			Thousands of U.S. Dollars Except Per Share Data
	1997	1998	1999	2000	**2001**	**2001**
For the year:						
Net Sales	¥ 59,108	¥ 56,687	¥ 55,974	¥ 57,029	**¥ 58,937**	**$ 475,298**
Gross Profit	40,940	40,786	39,854	41,147	**41,847**	**337,476**
Operating Income	14,427	13,038	11,545	12,571	**9,786**	**78,919**
Net Income	6,070	5,439	5,334	5,724	**4,383**	**35,346**
Total Assets	142,627	137,353	138,934	146,649	**149,189**	**1,203,137**
Total Shareholders' Equity	88,270	92,778	97,234	105,437	**108,017**	**871,105**
Per Share (Yen and Dollars):						
Net Income						
Primary	¥105.6	¥93.3	¥91.5	¥98.2	**¥76.0**	**$0.613**
Fully-Diluted	97.9	83.0	82.0	88.4	**68.8**	**0.555**
Cash Dividends	15.0	14.0	15.0	14.0	**14.0**	**0.113**
At year-end:						
R&D Expenditures	¥ 7,460	¥ 8,873	¥ 9,284	¥ 9,231	**¥ 11,517**	**$ 92,879**
(% of Net Sales)	12.6%	15.7%	16.6%	16.2%	**19.5%**	
Capital Investment	3,589	1,244	1,341	1,474	**2,081**	**16,782**
(% of Net Sales)	6.1%	2.2%	2.4%	2.6%	**3.5%**	
Current Ratio	364.1%	514.0%	561.2%	589.1%	**653.8%**	
Return on Equity	7.10%	6.00%	5.61%	5.65%	**4.11%**	
Return on Assets	4.50%	3.89%	3.86%	4.01%	**2.96%**	
Number of Shares Issued (Thousands)	58,279	58,279	58,279	58,279	**57,295**	
Number of Employees	1,693	1,697	1,663	1,630	**1,616**	

Note: U.S. dollar amounts are translated at the rate of ¥124=U.S.$1, the approximate effective rate of exchange at 31st March 2001.

A MESSAGE FROM THE PRESIDENT

REVIEW OF OPERATIONS

During the fiscal year ended March 31, 2001, the Japanese economy showed some signs of recovery, driven by growth in IT-related industries. However, business conditions remained challenging due to stagnant personal consumption and indications of a slowdown in the U.S. economy in the latter half of the period.

The domestic pharmaceutical industry experienced a difficult start to the fiscal year, with NHI drug price reductions averaging 7.0% being implemented in April 2000. Moreover, clear distinctions emerged between the industry's strong-performing companies that successfully launched new drugs and developed their overseas operations and those under-performing companies that relied solely on the domestic market and failed to launch new products.

In this environment, Kissei focused on achieving the core objectives of "Forward Plan 21" by strengthening sales of such key products as *Bezatol® SR Tab.* for hyperlipidemia and aggressively promoting such new drugs as *Cabaser® Tab.*, a treatment for Parkinson's disease launched in 1999. In our core field of urogenital systems, we launched the estrogen formulation *Estraderm® M* in February 2000 and *Zoladex® 1.8mg Depot* for endometriosis in October 2000, while continuing to promote the provision of detailed information concerning all our pharmaceutical products. We also enhanced our lineup in our nutritional food business, introducing new food products for patients with renal disease, patients receiving long-term nursing care, and the aged.

As a result of these efforts, consolidated net sales for the fiscal year under review reached ¥58.9 billion, and consolidated net income totaled ¥4.4 billion.

RESEARCH AND DEVELOPMENT

As an R&D-oriented pharmaceutical company, Kissei is committed to its mission of offering new and innovative drug products to patients around the world. Moreover, the Company sees the sale of its in-house-developed drugs in the global market as crucial to the future expansion of its business.

In recent years, Kissei has felt the effects of reduced levels of domestic clinical testing due to ICH measures that have led to the introduction of stricter regulations governing Good Clinical Practice (GCP). Despite this difficult operating environment, the Company is working to strengthen its presence in key market sectors by raising the efficiency of its drug development program and speeding up the time it takes to bring new products to the market. With these objectives in mind, Kissei entered into joint drug development agreements with Teikoku Hormone Mfg. Co., Ltd., in January 2001 for KUR-1246, an agent for the prevention of premature labor, and with Daiichi Pharmaceutical Co., Ltd., in March 2001 for KMD-3213, a treatment for dysuria associated with BPH.

In addition, Kissei proceeded with the development of three drug compounds, in-house or through licensing out, in Japan, the United States, and Europe: *mitiglinide* (INN), for type 2 diabetes; KMD-3213; and KUR-1246.

Kissei will continue to actively invest in drug research and development, working hard toward achieving future business expansion.

FINANCIAL REVIEW

Although Kissei recorded an increase in net sales during the year under review, a rise in the cost of sales and higher selling, general and administration (SGA) expenses resulted in a decline in profits. Reductions in NHI drug prices and a larger share of drugs sold under license contributed to the increase in the cost of sales, while the rise in SGA expenses can be primarily attributed to higher R&D expenditures. Kissei continues to view research and development as crucial for the long-term future of the Company, and this strategic investment was targeted at speeding up the development process of new drug compounds.

Due to changes in accounting standards, liabilities for the Company's net pension allowance obligations at transition were included in the consolidated financial statements from the fiscal year under the review. As a result, Kissei recorded a one-time extraordinary loss to cover a shortfall in pension plan obligations.

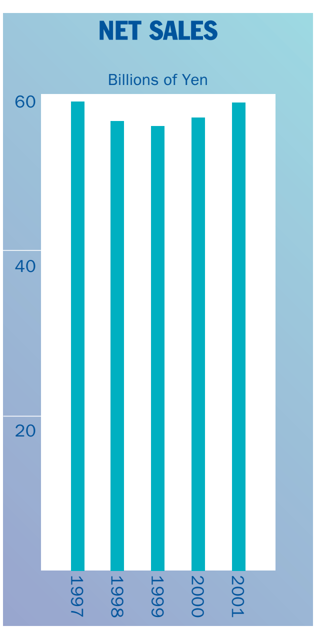
Kissei continues to maintain a level of profitability that is above the average for Japanese pharmaceutical companies, with a financially sound balance sheet and a shareholders' equity ratio that continues to exceed 70%. During the fiscal year under review, the Company carried out a buyback and retirement of 984,000 Kissei shares with the strategic

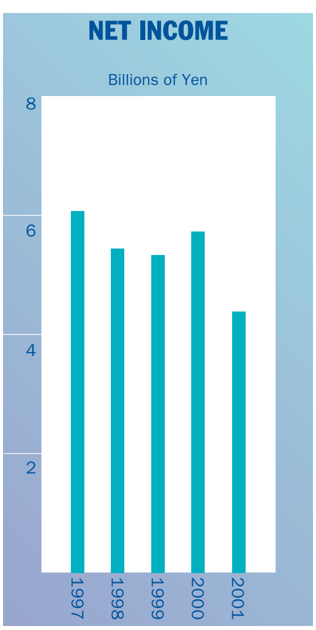
R&D PIPELINE IN JAPAN

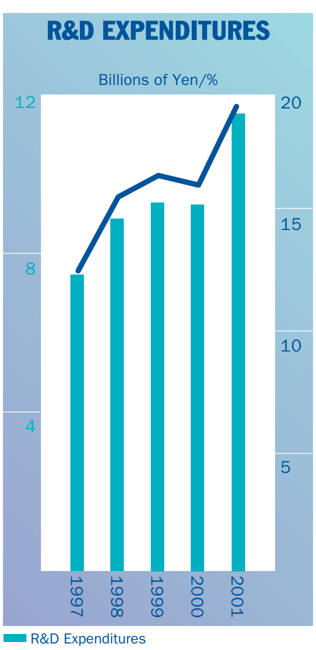
DEVELOPMENT STAGE	BRAND NAME DEVELOPMENT CODE	INTERNATIONAL NONPROPRIETARY NAME (INN)	THERAPEUTIC TARGET	PRODUCT ORIGIN
NDA	RIZABEN®	Tranilast	Restenosis after PTCA (additional indication)	Kissei
Pre-NDA	CABASER®	Cabergoline	Hyperprolactinemia (additional indication)	Jointly developed with Pharmacia
Phase III	KAD-1229	Mitiglinide	Type 2 diabetes	Kissei
	KSS-694		Dry mouth due to radiation therapy for head and neck cancer	MGI Pharma
	KMD-3213		Dysuria associated with benign prostatic hyperplasia	Kissei / Jointly developed with Daiichi Pharmaceutical
Phase II	KIN-493	Oxcarbazepine	Diabetic pain	Novartis
	KCO-692	Clodronic acid	Breast cancer metastasis	Leiras Oy
	KSS-694		Dry mouth due to Sjögren's syndrome	MGI Pharma
Phase I	KUL-7211		Relief of colic caused by ureterolithiasis, acceleration of excretion of calculi	Kissei
	KPY-998		Pulmonary diseases resulting from impaired mucociliary clearance	Inspire Pharmaceuticals
	KUR-1246		Threatened premature labor	Kissei / Jointly developed with Teikoku Hormone Mfg.

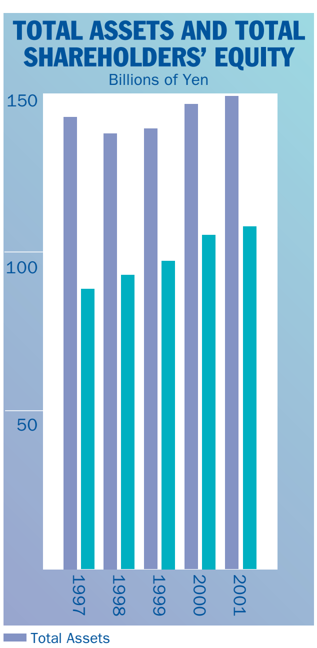
R&D PIPELINE OVERSEAS

DEVELOPMENT STAGE	INN DEVELOPMENT CODE	THERAPEUTIC TARGET	REGION/COUNTRY	DEVELOPING COMPANY
Phase III	Mitiglinide (KAD-1229)	Type 2 diabetes	Europe	Les Laboratoires Servier
Phase II	Mitiglinide (KAD-1229)	Type 2 diabetes	U.S.A.	Kissei Pharma U.S.A.
	KMD-3213	Dysuria associated with benign prostatic hyperplasia	U.S.A.	Kissei Pharma U.S.A.
Phase I	KUR-1246	Threatened premature labor	Europe	Kissei Pharma Europe









goal of increasing shareholder value. Cash flow continued to increase, with available funds in excess of ¥47.0 billion. Kissei continues to make effective use of these funds to contribute to the future growth of the Company.

OUTLOOK

The domestic pharmaceutical industry will continue to face a difficult operating environment due to the expected reform of the health care insurance scheme. In this environment, we will seek to move forward as a pharmaceutical company devoted to the research and development of innovative drug products, based on the objectives set out in our medium-term management plan. In the fiscal year ending March 31, 2002, we will focus on advancing the clinical development of new and innovative drug compounds, consolidating the sales of existing products, and introducing drug products licensed from other companies into the Japanese market.

Although we have no plans to bring any new in-house developed products to the market during the current fiscal year, we are confident the launch of Kissei's key future drug compounds presently under development, *mitiglinide* and KMD-3213 will contribute to the Company's continued growth and prosperity.

July 2001

Mutsuo Kanzawa
President and Chief Executive Officer

BOARD OF DIRECTORS

(As of 28th June 2001)

Chairman:
Kunio Kanzawa

President and Chief Executive Officer:
Mutsuo Kanzawa

Executive Vice President:
Masamichi Sasaki

Executive Directors:
Masanori Iwadare
Tokumi Tamura

Managing Directors:
Hiroshi Saito
Yukiyoshi Ajisawa

Directors:
Toyotsugu Hiyoshi
Haruo Suzawa
Yoshikazu Kurashina
Toshiaki Usuda
Masayuki Takeuchi
Keiichiro Yanagisawa
Seiichiro Furihata
Kinji Iizuka
Hayao Hasegawa
Kiyoshi Kumazawa

Auditors:
Yoshiyuki Yamada
Mitsuru Tomura
Yoshinobu Kubota
Hideo Saito

CONSOLIDATED BALANCE SHEETS

Kissei Pharmaceutical Co., Ltd. and its subsidiaries At 31st March 2000 and 2001

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2000	**2001**	**2001**
Current Assets:			
Cash on hand and in banks (Note 4)	¥ 25,936	**¥ 26,438**	**$ 213,210**
Short-term investments in specified trusts	4,956	**4,854**	**39,145**
Marketable securities (Notes 4 and 5)	33,258	**20,901**	**168,556**
Notes and accounts receivable	23,286	**27,788**	**224,097**
Less: allowance for doubtful accounts	(126)	**(119)**	**(960)**
	23,160	**27,669**	**223,137**
Inventories (Note 6)	6,398	**6,273**	**50,589**
Deferred tax assets – current (Note 8)	1,575	**1,764**	**14,226**
Other current assets	3,186	**4,293**	**34,621**
Total current assets	98,469	**92,192**	**743,484**
Investments and Advances:			
Investments in securities (Note 5)	8,842	**18,460**	**148,871**
Investments in unconsolidated subsidiaries	882	**772**	**6,226**
Leasehold deposits and guarantee deposits	414	**431**	**3,476**
Other investments and advances	1,093	**1,150**	**9,274**
	11,231	**20,813**	**167,847**
Property, Plant and Equipment (Note 7)**:**			
Buildings and structures	27,507	**29,213**	**235,589**
Machinery and equipment	7,110	**7,707**	**62,153**
	34,617	**36,920**	**297,742**
Less: accumulated depreciation	(19,061)	**(20,752)**	**(167,355)**
	15,556	**16,168**	**130,387**
Land	12,960	**12,959**	**104,508**
Construction in progress	852	**454**	**3,661**
	29,368	**29,581**	**238,556**
Other Assets:			
Deferred tax assets – non-current (Note 8)	3,319	**2,721**	**21,944**
Deferred charges and other	4,262	**3,882**	**31,306**
	¥146,649	**¥149,189**	**$1,203,137**

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2000	Millions of Yen 2001	Thousands of U.S. Dollars (Note 3) 2001
Current Liabilities:			
Short-term bank loans (Note 7)	¥ 1,490	¥ **1,745**	$ **14,073**
Current portion of long-term debt (Note 7)	44	**39**	**314**
Notes and payables:			
Trade	5,472	**6,062**	**48,887**
Construction and acquisition of properties	147	**112**	**903**
Other	1,674	**2,812**	**22,678**
	7,293	**8,986**	**72,468**
Income taxes payable (Note 8)	3,240	**420**	**3,387**
Accrued expenses and bonuses to employees	1,992	**2,049**	**16,524**
Reserve for accrued sales returns	61	**34**	**274**
Reserve for accrued sales rebates	503	**512**	**4,129**
Reserve for accrued sales promotion expenses	177	**151**	**1,218**
Employees' saving deposits	1,829	**–**	**–**
Other current liabilities	86	**164**	**1,323**
Total current liabilities	16,715	**14,100**	**113,710**
Long-Term Debt (Note 7)	22,580	**22,519**	**181,605**
Accrued Post-Employment Benefits (Note 9)	414	**3,305**	**26,653**
Accrued Retirement Benefits to Directors and Corporate Auditors	1,376	**1,139**	**9,185**
Total liabilities	41,085	**41,063**	**331,153**
Minority Interests in Consolidated Subsidiaries	127	**109**	**879**
Commitments and Contingent Liabilities (Note 10)			
Shareholders' Equity:			
Common stock, par value ¥50 per share:			
Authorised: 129,016,000 shares			
Issued: 58,279,185 shares and 57,295,185 shares at 31st March 2000 and 2001, respectively	24,220	**24,220**	**195,323**
Additional paid-in capital	24,110	**24,110**	**194,435**
Unappropriated retained earnings (Note 13)	57,123	**58,487**	**471,669**
Unrealized gains on available-for-sale securities, net of tax	–	**1,207**	**9,734**
Treasury stock	(16)	**(7)**	**(56)**
Total Shareholders' equity	105,437	**108,017**	**871,105**
	¥146,649	**¥149,189**	**$1,203,137**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

Kissei Pharmaceutical Co., Ltd. and its subsidiaries   For the years ended 31st March 1999, 2000 and 2001

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	1999	2000	2001	2001
Net Sales	¥55,974	¥57,029	**¥58,937**	**$475,298**
Cost of Sales	16,120	15,882	**17,090**	**137,822**
Gross profit	39,854	41,147	**41,847**	**337,476**
Selling, General and Administrative Expenses (Notes 9, 10 and 12)	28,309	28,576	**32,061**	**258,557**
Operating income	11,545	12,571	**9,786**	**78,919**
Other Income (Expenses):				
Interest and dividend income	832	561	**519**	**4,185**
Interest expense	(271)	(254)	**(212)**	**(1,710)**
Loss on sales or disposal of properties	(49)	(60)	**(13)**	**(104)**
Gain on sales of marketable securities	169	356	**–**	**–**
Gain on sales of investments in securities	–	1,563	**–**	**–**
Write-down of marketable securities and short-term investments in specified trusts	(30)	(3,973)	**–**	**–**
Write-down of investments in securities	(377)	(394)	**(298)**	**(2,403)**
Reconciliation gain from a damage suit	–	–	**1,005**	**8,105**
Net obligation at transition immediately expensed for post-employment benefits (Note 2)	–	–	**(2,757)**	**(22,234)**
Other, net	217	203	**207**	**1,669**
	491	(1,998)	**(1,549)**	**(12,492)**
Income before income taxes	12,036	10,573	**8,237**	**66,427**
Income Taxes (Note 8)**:**				
Current	6,702	6,274	**4,327**	**34,895**
Deferred	–	(1,445)	**(454)**	**(3,661)**
	6,702	4,829	**3,873**	**31,234**
Minority interests	–	(20)	**19**	**153**
Net income	¥ 5,334	¥ 5,724	**¥ 4,383**	**$ 35,346**

	Yen			U.S. Dollars (Note 3)
Per Share:				
Net income				
Primary	¥91.5	¥98.2	**¥76.0**	**$0.613**
Fully-diluted	82.0	88.4	**68.8**	**0.555**
Cash dividends	15.0	14.0	**14.0**	**0.113**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Kissei Pharmaceutical Co., Ltd. and its subsidiaries For the years ended 31st March 1999, 2000 and 2001

	Number of shares of common stock	Millions of Yen				
		Common stock	Additional paid-in capital	Unappropriated retained earnings	Unrealized gains on available-for-sale securities	Treasury stock
Balance at 31st March 1998	58,279,185	¥ 24,220	¥ 24,110	¥ 44,452	¥ –	¥ (4)
Net income for the year ended 31st March 1999	–	–	–	5,334	–	–
Cash dividends paid	–	–	–	(815)	–	–
Officers' bonuses	–	–	–	(55)	–	–
Cost of treasury stock (purchased) sold	–	–	–	–	–	(8)
Balance at 31st March 1999	58,279,185	24,220	24,110	48,916	–	(12)
Prior year adjustments for retroactive recognition of deferred tax (Note 8)	–	–	–	3,407	–	–
Net income for the year ended 31st March 2000	–	–	–	5,724	–	–
Cash dividends paid	–	–	–	(874)	–	–
Officers' bonuses	–	–	–	(50)	–	–
Cost of treasury stock (purchased) sold	–	–	–	–	–	(4)
Balance at 31st March 2000	58,279,185	24,220	24,110	57,123	–	(16)
Net income for the year ended 31st March 2001	–	–	–	4,383	–	–
Cash dividends paid	–	–	–	(809)	–	–
Officers' bonuses	–	–	–	(50)	–	–
Retirement of treasury stock	(984,000)	–	–	(2,160)	–	–
Cost of treasury stock (purchased) sold	–	–	–	–	–	9
Unrealized gains on available-for-sale securities for the year	–	–	–	–	1,207	–
Balance at 31st March 2001	57,295,185	¥ 24,220	¥ 24,110	¥ 58,487	¥ 1,207	¥ (7)

	Number of shares of common stock	Thousands of U.S. Dollars (Note 3)				
		Common stock	Additional paid-in capital	Unappropriated retained earnings	Unrealized gains on available-for-sale securities	Treasury stock
Balance at 31st March 2000	58,279,185	$195,323	$194,435	$460,669	$ –	$ (128)
Net income for the year ended 31st March 2001	–	–	–	35,346	–	–
Cash dividends paid	–	–	–	(6,524)	–	–
Officers' bonuses	–	–	–	(403)	–	–
Retirement of treasury stock	(984,000)	–	–	(17,419)	–	–
Cost of treasury stock (purchased) sold	–	–	–	–	–	72
Unrealized gains on available-for-sale securities for the year	–	–	–	–	9,734	–
Balance at 31st March 2001	57,295,185	$195,323	$194,435	$471,669	$ 9,734	$ (56)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Kissei Pharmaceutical Co., Ltd. and its subsidiaries   For the years ended 31st March 2000 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2000	**2001**	**2001**
Cash Flows from Operating Activities:			
Income before income taxes	¥ 10,573	**¥ 8,237**	**$ 66,427**
Depreciation and amortisation	3,269	**3,125**	**25,201**
Decrease in allowance for doubtful accounts	(31)	**(7)**	**(56)**
Decrease in accrued bonuses to employees	(155)	**(31)**	**(250)**
Increase in other reserves for accrued expense items	151	**2,622**	**21,145**
Interest and dividend income	(561)	**(519)**	**(4,185)**
Interest expense	254	**212**	**1,710**
Gain on sales of marketable securities	(356)	**(173)**	**(1,395)**
Gain on sales of investments in securities	(1,563)	**–**	**–**
Loss on sale of marketable securities included in short-term investments in specified trust	218	**–**	**–**
Write-down of marketable securities, investments in specified trusts and investments in securities	4,367	**247**	**1,992**
Loss on sale or disposal of properties	60	**13**	**104**
Increase in notes and accounts receivable	(664)	**(4,502)**	**(36,306)**
Increase (decrease) in inventories	(1,025)	**125**	**1,008**
Increase in other current assets	(2,145)	**(1,111)**	**(8,960)**
Increase in notes and accounts payable	273	**590**	**4,758**
Decrease in other current liabilities	(153)	**(560)**	**(4,516)**
Officers' bonuses	(50)	**(50)**	**(403)**
Other cash flows from operating activities, net	2	**44**	**355**
Sub total	12,464	**8,262**	**66,629**
Receipt of interest and dividends	326	**418**	**3,371**
Payment of interest	(254)	**(211)**	**(1,702)**
Payment of income taxes	(6,380)	**(7,147)**	**(57,637)**
Cash flows from operating activities	6,156	**1,322**	**10,661**
Cash Flows from Investing Activities:			
Increase in time deposits	(105)	**(124)**	**(1,000)**
Reduction in time deposits	50	**105**	**846**
Acquisition of investments in specified trusts	(5)	**–**	**–**
Reduction of investments in specified trusts	3,653	**400**	**3,226**
Acquisition of marketable securities	(2,002)	**(5,166)**	**(41,661)**
Sales revenue from marketable securities	6,835	**12,707**	**102,476**
Acquisition of property and equipment	(1,699)	**(2,082)**	**(16,790)**
Sales revenue from property and equipment	16	**11**	**88**
Acquisition of investments in securities	(2,134)	**(2,327)**	**(18,766)**
Sales revenue from investments in securities	3,085	**1,977**	**15,944**
Payment of other assets (long-term prepaid expenses)	(1,380)	**(557)**	**(4,492)**
Other cash flows from investing activities	(86)	**(452)**	**(3,645)**
Cash flows from investing activities	6,228	**4,492**	**36,226**
Cash Flows from Financing Activities:			
Increase in short-term bank loans	230	**550**	**4,435**
Repayment of short-term bank loans	(310)	**(295)**	**(2,379)**
Increase in long-term debt	73	**–**	**–**
Repayment of long-term debt	(188)	**(65)**	**(524)**
Redemption of convertible notes	(565)	**–**	**–**
Cash dividends paid by parent company	(874)	**(809)**	**(6,524)**
Proceeds from issue of shares to minority interest in consolidated subsidiary	138	**–**	**–**
Retirement of treasury stock	–	**(2,160)**	**(17,419)**
Other cash flows from financing activities	(4)	**9**	**72**
Cash flows from financing activities	(1,500)	**(2,770)**	**(22,339)**
Changes in cash and cash equivalents	10,884	**3,044**	**24,548**
Cash and cash equivalents at beginning of year (Note 4)	33,152	**44,036**	**355,129**
Cash and cash equivalents at end of year (Note 4)	¥ 44,036	**¥ 47,080**	**$ 379,677**

The accompanying notes are an integral part of these statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Kissei Pharmaceutical Co., Ltd. and its subsidiaries

1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from the accounts maintained by KISSEI PHARMACEUTICAL CO., LTD. (the "Company") and its subsidiaries in accordance with the provisions set forth in the Commercial Code of Japan (the "Code") and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Certain items presented in the consolidated financial statements filed with the Director of the Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

The consolidated statement of cash flows has been become required to be disclosed with effect from the fiscal year ended 31st March 2000 in accordance with the new Accounting Standards for Consolidated Statements of Cash Flows issued by the Business Accounting Deliberation Council. The consolidated statement of cash flows for the year ended 31st March 1999 is not included herein.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Scope of Consolidation

The Company had eight subsidiaries at 31st March 2001 (seven at 31st March 2000 and six at 31st March 1999). The consolidated financial statements include the accounts of the Company and two of its subsidiaries for the year ended 31st March 2001 (together referred to as the "Companies"). The consolidated subsidiaries are listed below:

Name of subsidiaries	Equity ownership percentage*	Paid-in capital
KISSEI SHOJI CO., LTD.	100%	¥ 50 million
KISSEI COMTEC CO., LTD.	70	208

*As at 31st March 2001

The accounts of all other subsidiaries were not consolidated since their respective total assets, net sales and net income (loss) in aggregate are not significant in relation to those of the consolidated financial statements of the Companies.

(2) Consolidation and Elimination

In preparing the accompanying consolidated financial statements, all significant inter-company transactions, account balances and unrealized profits between the Companies have been eliminated.

The Companies' fiscal year-end is 31st March each year.

In eliminating investments in the common stock of the consolidated subsidiaries against the underlying equity in the net assets of the subsidiaries, differences between the cost of the investments and the underlying equity in net assets were not recognized until 1999 since the Company has held 100% of the consolidated subsidiaries' equity since their foundation. During the current year ended 31st March, 2000, KISSEI COMTEC CO., LTD. ("COMTEC") issued additional shares of common stock to third parties and as a result, the equity ownership percentage of the Company was reduced by 30% to 70%. In eliminating the investment in the common stock of COMTEC against the underlying equity in the net assets of COMTEC, the increase in the underlying equity in net assets, due to the change in the equity ownership percentage was recognized as a "Gain" in the consolidated statement of income for the year ended 31st March 2000.

(3) Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates are carried at cost, cost being determined by the moving average method, since the investments in these companies would have no significant effect on the consolidated net income if they were accounted for by the equity method.

(4) Valuation of Securities

Until the year ended 31st March 2000, securities having quoted market values were valued at the lower of cost or market value, cost being determined by the moving average method, and securities without quoted market values were valued at cost, cost being determined by the moving average method. The securities with quoted market values included in "Short-term investments in specified trusts" were also valued at the lower of cost or market value, cost being determined by the moving average method.

With effect from the year ended 31st March 2001, the Company and its consolidated subsidiaries have adopted the Accounting Standard for Financial Instruments issued by the Business Accounting Council (BAC) of Japan.

Under the new standards, the existing securities held by the Company and its consolidated subsidiaries have been reclassified as available-for-sale. These securities are carried at fair value, based on current market quotes, and the resulting net unrealized gains and losses, net of the related tax are reported separately as a portion of shareholders' equity. Realized gains or losses on securities sold are determined mainly on the moving average method. If the fair value is not available, securities are carried at cost, cost being determined mainly by the moving average method.

Securities with remaining maturities of one year or less are classified as "Short-term investments in securities" and non-current securities are included in "Investments in securities".

As a result of the change, "Income before income taxes" increased by ¥1,330 million ($10,726 thousand), as compared with the previous policy for valuation of securities.

As a result of reclassification of securities at the beginning of the current year, short-term investments in securities decreased by ¥7,086 million ($57,145 thousand) and investments in securities increased by the same amount.

(5) Inventory Valuation

Inventories are stated at cost, cost being determined by the average method.

(6) Property, Plant and Equipment

Depreciation is computed on the declining-balance method at rates based on the estimated useful lives of assets, which are prescribed by Japanese tax laws. The range of useful lives is principally from 3 to 50 years for buildings and structures and from 2 to 20 years for machinery and equipment.

According to the recent amendment in Japanese tax laws, depreciation for buildings (excluding leasehold improvements and auxiliary facilities attached to buildings) acquired on or after 1st April 1998, has been computed using the straight-line method. This change did not have a significant impact on the consolidated results of operations.

The Companies have shortened the estimated useful lives of the buildings to that assorted in the recent amendment to Japanese income tax laws. As a result, depreciation expenses for the year ended 31st March 1999 increased by ¥90 million, operating income and net income decreased by ¥83 million, respectively.

The cost of property and equipment retired or otherwise disposed of and accumulated depreciation in respect thereof are eliminated from the related accounts, and the resulting gain or loss is reflected in income.

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(7) Amortisation

Amortisation of intangible assets and long-term prepaid expenses included in "Other Assets" is computed on the straight-line method over a period prescribed by Japanese tax laws.

Software costs for internal use are amortised over their expected useful lives (less than 5 years) on a straight-line basis.

Research and development costs incurred for specific projects, in search of new products and new technology, are charged to income as incurred.

(8) Accounting for Consumption Tax

Consumption tax is imposed at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions).

Consumption tax withheld upon sale and consumption tax paid by the Companies on their purchases of goods and services is not included in the respective revenue, cost or expense items in the accompanying consolidated statements of income. Consumption tax withheld and consumption tax paid are recorded as assets or liabilities and the net balance is included in "Notes and payables—Other" on the balance sheets at 31st March 2000 and 2001.

(9) Foreign Currency Translation

Receivables and payables denominated in foreign currencies are translated at the current exchange rate prevailing on the respective balance sheet dates and the resulting exchange gains or losses are recognized in the determination of net income for the relevant period.

Investments in unconsolidated subsidiaries denominated in foreign currencies are translated at the historical exchange rates prevailing at the time such transactions were made.

Until the year ended 31st March 2000, long-term receivables and payables denominated in foreign currencies had been translated at the historical exchange rates prevailing at the time such transactions occurred, except when material foreign exchange rate fluctuations occurred, in which case they were translated at the current exchange rate, in order to recognize the significant effect of the change in yen value against foreign currencies.

With effect from the year ended 31st March 2001, as a result of adopting the revised Accounting Standard for Foreign Currency Transactions and Financial Statements, long-term receivables and payables are all required to be translated at the current exchange rate.

This change resulted in no material effect on "Income before income taxes" for the year ended 31st March 2001.

(10) Income Taxes

Income taxes are provided for based on the the tax returns for the financial year. The tax effects of temporary differences in recognition of assets and liabilities between financial accounting and tax reporting have also been recorded from the year ended 31st March 2000.

See Note 7 below for further details of deferred tax accounting.

(11) Allowances, Accrued Bonuses to Employees and Reserves for Accrued Expense Items

Certain accrued expenses provided by the Companies, which are essentially an estimate of amounts to be determined in future years, are subject to limits established by Japanese tax laws for allowable deduction. The basis of recognising such accrued expenses is as follows:

(i) Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide an allowance for doubtful accounts based on the percentage of their own actual bad debt loss history against the balance of total receivables plus the amount of uncollectible receivables estimated on an individual basis.

(ii) Accrued bonuses to employees

"Accrued bonuses to employees" is provided for based on an estimated amount which the Companies should pay to employees in the summer, as applicable to their services for the six-month period ended on the balance sheet date.

(iii) Reserve for accrued sales returns

The "Reserve for accrued sales returns" is computed based on the percentage of the Companies own actual return history in the preceding two years.

(iv) Reserve for accrued sales rebates

The "Reserve for accrued sales rebates" is provided for at an amount equivalent to the expected amount payable by the Company to dealers in respect of the balance of accounts receivable at the balance sheet date. In estimating the amount of rebates, the Company applies the actual rebate rates allowed in the six month period preceding the balance sheet date. The reserve for accrued sales rebates is not deductible for tax purposes until paid.

(v) Reserve for accrued sales promotion expenses

The "Reserve for accrued sales promotion expenses" is provided for at an amount which the Company expects to pay in relation to dealers' inventories at the balance sheet date. In estimating the amount of sales promotion expenses, the Company applies the rate of such expenses against dealers' inventories based on the experience in the six month period preceding the balance sheet date. The reserve for accrued sales promotion expenses is not deductible for tax purposes until paid.

(vi) Accrued post-employment benefits to employees

With effect from the year ended 31st March 2001, the Company and its consolidated subsidiaries have adopted the Accounting Standard for Post-Employment Benefits issued by the Business Accounting Council (BAC) of Japan. Under the new standards, accrued post-employment benefits to employees are recognized based on the estimated actuarial present value of the projected benefit obligation and the estimated fair value of plan assets.

Unrecognized net actuarial gains or losses are mainly amortized from the following year on a straight line basis over a term that does not exceed the average remaining service period of these employees who are expected to receive benefits under the plans (10 years for the net actuarial loss incurred during the year ended 31st March 2001).

Net obligations at transition of ¥2,757 million ($22,234 thousand) incurred by the Company and its consolidated subsidiaries were entirely charged to expense in the year ended 31st March 2001.

As a result of the change, the periodic benefit cost increased by ¥2,931 million ($23,637 thousand) and "Income before income taxes" decreased by ¥2,931 million ($23,637 thousand) as compared with the previous basis.

(vii) Accrued retirement benefits to directors and corporate auditors

"Accrued retirement benefits to directors and corporate auditors" are provided for at an amount equal to the liability the Company would have to pay if all directors and corporate auditors resigned at the balance sheet date. Provisions for accrued retirement benefits to directors and corporate auditors are not deductible for tax purposes until paid.

(12) Appropriation of Retained Earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the appropriation of retained earnings proposed by the Board of Directors is subject to approval by the shareholders at a meeting which must be held within three months after the end of each financial year. The appropriations of retained earnings reflected in the accompanying consolidated financial statements include the results of such appropriations applicable to the immediately preceding financial year as approved at the shareholders' meeting, and effected, during the relevant year. Dividends are paid to shareholders on the shareholders' register as at the end of each financial year. As is customary practice in Japan, the payment of bonuses to directors and corporate auditors is made out of retained earnings through appropriation, instead of being charged to income for the year.

The Japanese Commercial Code provides that interim cash dividends may be paid as a part of the annual dividend upon approval by the Board of Directors. The Company pays such interim dividends to the shareholders on its shareholders' register at 30th September.

(13) 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 during each financial year appropriately adjusted for subsequent free distribution of shares (stock splits).

Cash dividends per share shown for each year in the accompanying consolidated statements of income represent dividends approved or declared as applicable to the respective years.

Fully-diluted net income per share is computed based on the assumption that the convertible notes were fully converted into common stock on the date of issue or at the beginning of the respective years subsequent to the issue, with appropriate adjustments for related interest expenses (net of tax).

(14) Reclassification of Accounts

Prior years amounts have been reclassified to conform with the current year's presentation.

3. UNITED STATES DOLLAR AMOUNTS

The Comapnies maintain their accounting records in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical result of translating yen to dollars on the basis of ¥124=U.S.$1, the approximate effective rate of exchange at 31st March 2001. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be converted, realised or settled in dollars at ¥124=U.S.$1 or at any other rate.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at 31st March 2000 and 2001 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	**2001**	**2001**
Cash on hand and in banks	¥25,936	**¥26,438**	**$213,210**
Marketable securities	33,258	**20,901**	**168,556**
Time deposits with more than three months to maturities	(104)	**(124)**	**(1,000)**
Bonds redeemable after more than three months and other	(15,054)	**(135)**	**(1,089)**
Cash and cash equivalents	¥44,036	**¥47,080**	**$379,677**

5. SECURITIES

The acquisition cost, carrying amount, gross unrealized holding gains and gross unrealized holding losses for securities with fair value by security type at 31st March, 2000 and 2001 are as follows:

Available-for-sale securities:

	Millions of Yen			
	2000			
	Carrying amount	Fair value	Gross unrealized gains	Gross unrealized losses
Equity securities	¥ 6,377	¥ 8,913	¥ 2,536	¥ –
Corporate debt securities	6,191	6,199	8	–
Others	8,860	8,876	16	–
	¥21,428	¥23,988	¥ 2,560	¥ –

	Millions of Yen			
	2001			
	Cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Equity securities	**¥ 8,513**	**¥11,183**	**¥ 3,049**	**¥ 379**
Corporate debt securities	**1,091**	**1,091**	**0**	**0**
Others	**6,451**	**5,852**	**28**	**627**
	¥16,055	**¥18,126**	**¥ 3,077**	**¥ 1,006**

	Thousands of U.S. Dollars			
	2001			
	Cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Equity securities	**$ 68,653**	**$ 90,185**	**$ 24,589**	**$ 3,056**
Corporate debt securities	**8,798**	**8,798**	**0**	**0**
Others	**52,024**	**47,194**	**226**	**5,057**
	$129,475	**$146,177**	**$ 24,815**	**$ 8,113**

The carrying amount of securities where no market value is available at 31st March, 2000 and 2001 is summarized as follows:

Available-for-sale securities:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2000	**2001**	**2001**
Unlisted equity securities	¥ 1,349	**¥ 1,241**	**$ 10,008**
Others	20,205	**20,766**	**167,468**
	¥21,554	**¥22,007**	**$177,476**

Proceeds, gross realized gains and gross realized losses from the sale of available-for-sale securities in respect of the year ended 31st March, 2001 were ¥7,058 million ($56,919 thousand), ¥34 million ($274 thousand) and ¥50 million ($403 thousand), respectively.

6. INVENTORIES

Inventories at 31st March 2000 and 2001, consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2000	**2001**	**2001**
Merchandise	¥1,344	**¥1,151**	**$ 9,282**
Finished goods	1,710	**1,572**	**12,678**
Work-in-process	2,009	**1,990**	**16,048**
Raw materials	942	**1,067**	**8,605**
Supplies	393	**493**	**3,976**
	¥6,398	**¥6,273**	**$50,589**

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans outstanding at 31st March 2000 and 2001 were represented generally by one year notes issued by the Companies to banks. Short-term bank loans entered into during the year ended 31st March 2000 and 2001 bore interest at an average annual rate of 1.29% and 1.23%, respectively.

Information in respect of short-term bank loans outstanding for the years ended 31st March 2000 and 2001 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	**2001**	**2001**
Maximum month-end balance	¥2,160	**¥2,245**	**$18,105**
Average month-end balance	¥1,924	**¥2,018**	**$16,274**

As is customary in Japan, substantially all of the notes are with banks, each of which has concluded basic agreements with the Companies to the effect that, with respect to all present or future loans with the banks, the Companies shall, under certain circumstances, provide collateral (including sums on deposit with the banks), or guarantors, immediately upon the bank's request, and that any collateral furnished pursuant to such agreements or otherwise will be applicable to all indebtedness to the banks. The Companies have not received any such requests to date.

Long-term debt of the Companies at 31st March 2000 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	**2001**	**2001**
Loans with other financial institutions — not secured-bearing interest at rates ranging from 3.15% to 6.30% due from 2000 to 2030	¥ 591	**¥ 525**	**$ 4,234**
0.7% convertible notes due 2006	9,586	**9,586**	**77,306**
0.8% convertible notes due 2008	12,447	**12,447**	**100,379**
	22,624	**22,558**	**181,919**
Less: current maturities due within one year	(44)	**(39)**	**(314)**
	¥22,580	**¥22,519**	**$181,605**

The 0.7% convertible notes due 29th September 2006 were issued on 23rd August 1996 in the principal amount of ¥10,000 million. The notes can be repurchased at any time in their entirety at the option of the Company and may be wholly redeemed at a price of ¥104 from 1st October 2001 to 30th September 2002, ¥103 from 1st October 2002 to 30th September 2003, ¥102 1st October 2003 to 30th September 2004, ¥101 from 1st October 2004 to 30th September 2005 and ¥100 from 1st October 2005 to 28th September 2006. The holder of the convertible notes is entitled to convert ¥1,000,000 for shares at a current conversion price of ¥2,952 per share. The conversion price is subject to adjustment for subsequent stock splits and other circumstances.

The notes are convertible at any time prior to 28th September 2006. The number of shares which would be issued upon conversion of the notes outstanding at 31st March 2001 was 3,247 thousand shares.

The 0.8% convertible notes due 30th September 2008 were issued on 23rd August 1996 in the principal amount of ¥15,000 million. The notes can be repurchased at any time in their entirety at the option of the Company and may be wholly redeemed at a price of ¥105 from 1st October 2002 to 30th September 2003, ¥104 from 1st October 2003 to 30th September 2004, ¥103 1st October 2004 to 30th September 2005, ¥102 from 1st October 2005 to 30th September 2006, ¥101 from 1st October 2006 to 30th September 2007, ¥100 from 1st October 2007 to 29th September 2008. The holder of the convertible notes is entitled to convert ¥1,000,000 for shares at a current conversion price of ¥2,952 per share. The conversion price is subject to adjustment for subsequent stock splits and other circumstances.

The notes are convertible at any time prior to 29th September 2008. The number of shares which would be issued upon conversion of the notes outstanding at 31st March 2001 was 4,216 thousand shares.

The Companies' assets pledged as collateral for short-term loans at 31st March 2001 are summarised as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment, net of accumulated depreciation:		
Buildings and structures	¥1,169	$ 9,427
Machinery and equipment	5	40
Land	168	1,355
	¥1,342	$10,822

The aggregate annual maturities of long-term loans outstanding at 31st March 2001 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year ending 31st March		
2002	¥ 39	$ 314
2003	67	540
2004	67	540
2005 and thereafter	22,385	180,525
	¥22,558	$181,919

8. INCOME TAXES

Income taxes in Japan applicable to the Companies for the years ended 31st March 1999, 2000 and 2001 consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

	Rates on taxable income		
	1999	2000	**2001**
Corporate income tax	34.5%	30.0%	**30.0%**
Enterprise tax	11.2	9.7	**9.7**
Resident income taxes	7.2	6.1	**6.1**
	52.9%	45.8%	**45.8%**
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid	47.6%	41.7%	**41.7%**

Income tax rates as shown in the accompanying consolidated statements of income differ from the above-mentioned statutory tax rates. The principal reason such differences arise is that entertainment expenses for purposes of sales promotion, etc. as defined by Japanese tax law are not allowable as tax deductions. In addition, the difference arises because no tax effects have been recognized until the year ended 31st March 1999 on certain timing differences between financial accounting and tax reporting, primarily in relation to accrued enterprise tax, accrued sales rebates, accrued sales promotion expenses, retirement pension costs and accrued retirement benefits to directors and corporate auditors, all of which are not deductible until paid.

With effect from the year ended 31st March 2000, in accordance with the new accounting standard promulgated by the Japanese government, the Companies adopted deferred tax accounting, whereby tax effects on temporary differences are adequately reflected and recognized as additions to or deductions from "Income taxes" in the accompanying consolidated statements of income.

As a result of the change, "Net income" for the year ended 31st March 2000, increased by ¥1,445 million ($11,653 thousand) and "Unappropriated retained earnings" increased by ¥4,852 million ($39,129 thousand).

Deferred tax assets (both current and non-current) consisted of the following elements:

	Millions of Yen		Thousands of U.S. Dollars
	2000	**2001**	**2001**
Deferred tax assets:			
Write-down of securities	¥1,862	**¥ 396**	**$ 3,193**
Prepaid research and development expenses	855	**1,482**	**11,952**
Accrued retirement benefits to directors and corporate auditors	562	**475**	**3,831**
Accrued enterprise tax	322	**56**	**452**
Accrued bonuses to employees	241	**355**	**2,863**
Reserve for accrued slaes rebates	206	**214**	**1,726**
Accrued post-employment benefits	169	**1,378**	**11,113**
Royalties receivable	–	**810**	**6,532**
Other	677	**490**	**3,951**
	4,894	**5,656**	**45,613**
Allowance for valuation	(–)	**(308)**	**(2,484)**
	¥4,894	**¥ 5,348**	**$ 43,129**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	¥ –	**¥ (863)**	**$ (6,959)**
Deferred tax assets, net	¥4,894	**¥ 4,485**	**$ 36,170**

Reconciliation of the actual tax rate is shown below:

	2000	**2001**
• Effective statutory tax rate	41.7%	**41.7%**
• Adjustments;		
Entertainment expenses and other not deductibles	4.6	**6.3**
Dividends income not taxable	(0.3)	**(0.5)**
Per capital levy of local resident income taxes	0.2	**0.7**
Other factors	(0.5)	**(1.2)**
• Actual tax rate	45.7%	**47.0%**

9. POST-EMPLOYMENT BENEFIT PLANS

Employees of the Companies are, under most circumstances, entitled to receive either a lump sum payment or a pension or a combination thereof, at amounts which are determined by reference to current basic rates of pay, length of service and conditions under which the terminations occur.

The following table sets forth a reconciliation of projected benefit obligations, plan assets, funded status of the post-employment benefit plans and net liability recognized in the accompanying balance sheets at 31st March 2001:

	Millions of Yen	Thousands of U.S. Dollars
Projected benefit obligations	¥12,231	$98,637
Fair value of plan assets	(8,177)	(65,944)
Funded status of the plans	4,054	32,693
Unamortized net obligation at transition	–	–
Unrecognized net actuarial (gain) or loss	(749)	(6,040)
Net liability recognized	¥ 3,305	$26,653

The net periodic post-employment benefit cost for the current year included the following components:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 810	$ 6,532
Interest cost	349	2,815
Expected return on plan assets	(296)	(2,387)
Amortization of net obligation at transition	2,757	22,234
Additional payment of retirement costs	710	5,726
	¥ 4,330	$34,919

The discount rate used to determine the actuarial present value of projected benefit obligations under the plan that covers the employees of the Company and its subsidiaries was 3.0% as of 31st March 2001. The rate of expected return on plan assets was 3.5% as of 31st March 2001. Attribution of post-employment benefits to each year of service of the employees is based on the "benefit/years-of-service" approach, whereby the same amount of benefits is attributed to each year.

The "Accrued post-employment benefits" account as at 31st March 2000 was set-up for the periodic accrual of retirement benefit costs that are not covered by the funded pension program mentioned above, and represents the total amount of the liability the Company and its consolidated subsidiaries would be required to pay if all eligible employees voluntarily terminated their employment at the balance sheet date.

10. COMMITMENTS AND CONTINGENT LIABILITIES

(1) Finance Leases

All finance lease contracts, other than those by which the ownership of the leased assets is transferred to lessees, are accounted for using a method similar to that for operating leases.

Lease rental expenses on finance lease contracts without ownership-transfer for the year ended 31st March 1999, 2000 and 2001 are summarised as follows:

	Millions of Yen			Thousands of U.S. Dollars
	1999	2000	**2001**	**2001**
Lease rental expenses	¥639	¥608	**¥627**	**$5,056**

Assumed data in respect of the acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets (machinery and equipment), including the portion of interest thereon, for the year ended 31st March 2001, is summarised as follows:

	Millions of Yen	Thousands of U.S. Dollars
	31st March 2001	
Acquisition cost	¥3,072	$24,774
Accumulated depreciation	1,788	14,419
Net book value	¥1,284	$10,355
Depreciation	¥ 627	$ 5,056

Depreciation is computed on the straight-line method over the lease term of the leased assets with no residual value.

The amount of outstanding future lease payments due at 31st March 2000 and 2001, including the portion of interest thereon, is summarised as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	**2001**	**2001**
Future lease payments:			
Within one year	¥ 588	**¥ 538**	**$ 4,339**
After more than one year	889	**746**	**6,016**
Total	¥1,477	**¥1,284**	**$10,355**

The amount of outstanding future lease payments on operating leases due at 31st March 2000 and 2001 is summarised as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	**2001**	**2001**
Future lease receptions:			
Within one year	¥69	**¥12**	**$97**
After more than one year	12	**–**	**–**
Total	¥81	**¥12**	**$97**

(2) Contingent Liabilities

The Company had contingent liabilities arising from notes discounted by banks in the ordinary course of business in the amount of ¥1,650 million ($13,306 thousand) at 31st March 2001.

In addition, the Company was contingently liable for guarantees in respect of loans borrowed by its unconsolidated subsidiaries in an amount of ¥65 million ($524 thousand) at 31st March 2001.

11. SEGMENT INFORMATION

(1) Industry Segment Information

The Company and its subsidiaries operate principally in the following two industrial segments:

Pharmacy	Pharmaceuticals
Other............................	Information solution service
	Sale of materials and other goods

Until the year ended 31st March 2000, net sales of the pharmacy segment accounted for over 90% of total sales and therefore, industrial segment information was not required. However, with effect from the year ended 31st March 2001, the Companies separated one single industrial segment into two industrial segments due to increase of other segment.

Therefore, the industry segment information of the Companies for the year ended 31st March 2001 is presented below:

	Millions of Yen				
	For the year ended 31st March 2001				
	Industry Segment			Elimination of Inter-segment sales/All Company	Consolidated Total
	Pharmacy	Other	Total		
Sales					
Sales to outside customers	¥ 55,017	¥ 3,920	¥ 58,937	¥ –	¥ 58,937
Inter-segment sales	0	2,034	2,034	(2,034)	–
Total Sales	55,017	5,954	60,971	(2,034)	58,937
Operating expenses	45,349	5,868	51,217	(2,066)	49,151
Operating income	¥ 9,668	¥ 86	¥ 9,754	¥ 32	¥ 9,786
Assets	¥ 144,875	¥ 5,264	¥150,139	¥ (950)	¥149,189
Depreciation	¥ 2,854	¥ 328	¥ 3,182	¥ (58)	¥ 3,124
Capital expenditure	¥ 2,633	¥ 421	¥ 3,054	¥ (70)	¥ 2,984

	Thousands of U.S. Dollars				
	For the year ended 31st March 2001				
	Industry Segment			Elimination of Inter-segment sales/All Company	Consolidated Total
	Pharmacy	Other	Total		
Sales					
Sales to outside customers	$ 443,685	$ 31,613	$ 475,298	$ –	$ 475,298
Inter-segment sales	0	16,403	16,403	(16,403)	–
Total Sales	443,685	48,016	491,701	(16,403)	475,298
Operating expenses	365,718	47,322	413,040	(16,661)	396,379
Operating income	$ 77,967	$ 694	$ 78,661	$ 258	$ 78,919
Assets	$1,168,347	$ 42,451	$1,210,798	$ (7,661)	$1,203,137
Depreciation	$ 23,016	$ 2,645	$ 25,661	$ (468)	$ 25,193
Capital expenditure	$ 21,234	$ 3,395	$ 24,629	$ (564)	$ 24,065

(2) Information by Geographic Segment

As the Companies are all incorporated in Japan, information by geographic segment is not applicable.

(3) Export Sales

Export sales information of the Companies for the three years ended 31st March 2001 is omitted because export sales account for less than 10% of total sales.

12. ANALYSIS OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

An analysis of selling, general and administrative expenses for each of the three years in the period ended 31st March 2001 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	1999	2000	**2001**	**2001**
Advertising and sales promotion expenses	¥ 3,529	¥ 3,624	**¥ 3,851**	**$ 31,056**
Payroll costs	7,301	7,289	**7,499**	**60,476**
Research and development costs	9,284	9,231	**11,517**	**92,879**
Travelling expenses	1,508	1,487	**1,484**	**11,968**
Depreciation	766	846	**1,007**	**8,121**
Other	5,921	6,099	**6,703**	**54,057**
	¥28,309	¥28,576	**¥32,061**	**$258,557**

13. SUBSEQUENT EVENTS

The following appropriations of unappropriated retained earnings, which have not been reflected in the financial statements at 31st March 2001, were approved at the shareholders' meeting held on 28th June 2001:

	Millions of Yen	Thousands of U.S. Dollars
Retained earnings:		
Balance at 31st March 2001	¥58,487	$471,669
Appropriations:		
Cash dividends (¥7 per share)	(401)	(3,234)
Officers' bonuses	(48)	(387)
Balance to be carried forward	¥58,038	$468,048

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON THE CONSOLIDATED FINANCIAL STATEMENTS

ChuoAoyama Audit Corporation

PRICEWATERHOUSECOOPERS

Kasumigaseki Bldg. 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6088, Japan

To the Board of Directors
KISSEI PHARMACEUTICAL CO., LTD.

We have audited the accompanying consolidated balance sheets of KISSEI PHARMACEUTICAL CO., LTD. and its consolidated subsidiaries as at 31st March 2000 and 2001, and the related consolidated statements of income, shareholders' equity for each of the three years in the period ended 31st March 2001, and cash flows for the years ended 31st March 2000 and 2001, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly, the consolidated financial position of KISSEI PHARMACEUTICAL CO., LTD. and its consolidated subsidiaries as at 31st March 2000 and 2001, and the consolidated results of their operations for each of the three years in the period ended 31st March 2001, and the cash flows for the years ended 31st March 2000 and 2001 in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

As described in Note 2, "Summary of Significant Accounting Policies" and Note 8 "Income Taxes" in the Notes to the Consolidated Financial Statements, the Companies have prepared these statements in compliance with the new accounting rules and regulations which became effective from the year ended 31st March 2000, with respect to presentation of consolidated finacial statements, accounting for research and development costs and accounting for deferred income taxes, and have adopted newly introduced accounting standards for financial instruments and post-employment benefits and revised accounting standards for foreign currency transactions and translations with effect from the year ended 31st March, 2001.

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

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation

Tokyo, Japan
28th June 2001

KISSEI PHARMACEUTICAL CO., LTD.

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Tokyo Head Office:
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Tokyo Head Office (Koishikawa):
1-3, Koishikawa 3-chome,
Bunkyo-ku, Tokyo 112-0002, Japan
Telephone: (03) 5684-3530

Date of Establishment:
August 9, 1946

Capital:
¥24,220 million

Number of Employees:
1,445

Central Research Laboratories:
Hotaka

Toxicological Laboratories:
Hotaka

Pharmaceutical Laboratories:
Hotaka

Plants:
Matsumoto, Shiojiri

Distribution Centers:
Shiojiri, Sapporo, Fukuoka

Information Center:
Matsumoto

Nutritional Bussiness Center:
Shiojiri

Branches:
Sapporo, Sendai, Kan-etsu, Tokyo, Yokohama, Matsumoto,
Nagoya, Kyoto, Osaka, Takamatsu, Hiroshima, Fukuoka

Offices:
Sendai-daini, Koriyama, Takasaki, Utsunomiya, Mito, Niigata,
Tama, Chiba, Atsugi, Gifu, Mie, Shizuoka, Kanazawa, Kita Osaka,
Sakai, Kobe, Himeji, Okayama, Kitakyushu, Nagasaki,
Kumamoto, Kagoshima, Okinawa

Subsidiary Companies:
Kissei Pharma U.S.A., Inc.
Kissei Pharma Europe Ltd
Kissei Shoji Co., Ltd.
Kissei Comtec Co., Ltd.
Kissei Technos Co., Ltd.
Jonan Paperware Co., Ltd.
Mitsui Kanko Co., Ltd.
Kissei Comtec America, Inc.

(As of 28th June 2001)

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