KISSEI

Annual Report 2007

KISSEI

Profile

Guided by its management philosophy, the Kissei Group aims to make significant contributions to society. We promote management policies that emphasize the importance of shareholders, employees, local communities, history and culture, and the environment.

The management vision underpinning our core pharmaceutical business challenges Kissei Pharmaceutical Co., Ltd., to be an R&D-oriented pharmaceutical company contributing to human health care with innovative drug products.

To this end, we promote research and development activities from the patient's perspective, striving to manufacture the highest quality pharmaceuticals while providing and collecting information necessary to use the products safely. At the same time, the Company has built a total marketing structure and undertaken other activities to make its operations efficient.

Each Group company assists with pharmaceutical business while leveraging our leading technology to develop operations domestically and internationally. The Company has successfully launched a number of new drugs as scheduled. *Glufast®*, a rapid onset and short-acting insulin secretagogue, was launched in 2004; *Salagen®*, a therapeutic agent for dry mouth induced by radiation therapy for head and neck cancer was introduced in 2005; and *Urief®*, used for the treatment of dysuria associated with benign prostatic hyperplasia (BPH), was put on the market in 2006. In addition, in May 2007, we received approval in Japan for an additional indication of *Glufast®* for combination therapy with α-glucosidase inhibitor, Alpha-GI.

The Company's highest management priorities are to achieve a recovery in profits by increasing sales of such new drugs and to enhance the Company's R&D pipeline to achieve sustainable growth.

Contents

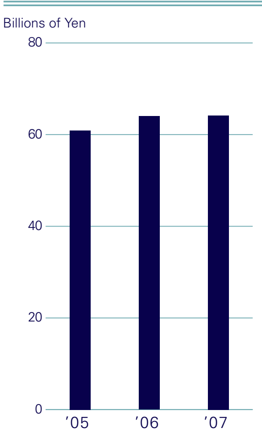
Financial Highlights

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

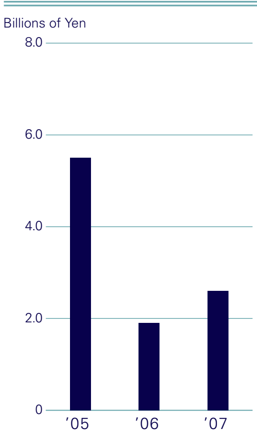
	Millions of Yen		Thousands of U.S. Dollars[1]
	2006	**2007**	**2007**
For the Year			
Net Sales	¥64,008	**¥64,216**	**$544,203**
R&D Expenses	10,574	**10,473**	**88,754**
Capital Investment	2,284	**3,954**	**33,508**
Operating Income	1,877	**2,646**	**22,424**
Net Income	2,045	**1,570**	**13,305**
At Year-End			
Total Assets	¥174,115	**¥163,584**	**$1,386,305**
Total Net Assets	124,260	**123,232**	**1,044,339**
Per Share (Yen and Dollars)			
Net Income[2]			
Primary	¥37.3	**¥28.9**	**$0.245**
Fully-Diluted	33.5	**27.1**	**0.230**
Cash Dividends	24.0	**28.0**	**0.237**
Key Ratios (%)			
Operating Income Margin	2.9 %	**4.1 %**	
Shareholders' Equity Ratio	71.4	**75.3**	
Number of Employees	1,759	**1,777**	

1. U.S. dollar amounts are translated at the rate of ¥118=U.S.$1, the approximate effective rate of exchange at March 31, 2007.
2. Net income per share is computed based on the weighted average number of shares of common stock after subtracting the weighted average number of shares of treasury stock for the year.

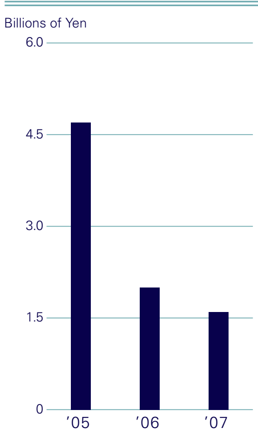
Net Sales



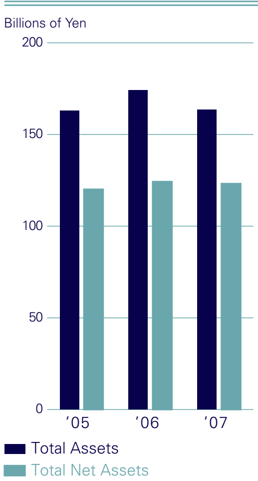
Operating Income



Net Income



Total Assets and Total Net Assets



A Message from the President

REVIEW OF OPERATIONS

OVERVIEW OF OPERATIONS IN THE YEAR UNDER REVIEW

While experienced a slowdown in overseas economies, rising interest rates, and continued surging oil prices, the Japanese economy in the year under review maintained a private-sector-led moderate recovery, supported by such factors as increased capital investment on the back of strong corporate earnings and firm consumer spending.

The pharmaceutical industry faced a more difficult environment due to the effects of government policies aimed at curbing medical treatment costs, which are pursued through the promotion of generic drugs and other measures, and NHI drug price revisions in April 2006. Such industries as information services, retailers, and construction remained on a recovery track, evident in such trends as increasing IT investments on the back of strong corporate profits. However, competition remained intense, with expenditure on public works projects continuing to decline and sustained fierce price competition.

In this environment, we launched *Urief®* (generic name: silodosin), a novel drug for dysuria associated with benign prostatic hyperplasia (BPH) in May 2006. At the same time, we cultivated *Glufast®*, a rapid onset and short-acting insulin secretagogue launched in May 2004, and *Salagen®*, a therapeutic agent for dry mouth induced by radiation therapy for head and neck cancer launched in September 2005. In addition, we actively collected and provided information on existing pharmaceutical products. Further, in September 2006 we reverted the marketing rights of the *FreeStyle®Kissei* portable blood glucose monitoring system, which we launched in March 2002, to Nipro Corporation due to the completion of the marketing contract period.

On the R&D front, we followed up applications for approval that were underway for additional indications of *Glufast®* (application made in October 2005 for combination therapy with α-glucosidase inhibitor, Alpha-GI) and for additional indications of *Salagen®* (application made in December 2005 as a therapeutic agent for dry mouth in patients with Sjögren's Syndrome). We pushed forward with R&D under respective themes. We have conducted R&D focused on low molecular weight drugs. We are developing drugs for the biopharmaceutical market, which we expect to expand in the future. Moreover, we are working aggressively to license out products from our drug discovery. In April 2006, we concluded a licensing agreement with GlaxoSmithKline plc (U.K.) for our new diabetes drug, KGA. In addition, in October 2006 sales commenced of *Glufast®* in South Korea after the conclusion of a licensing agreement with Choongwae Pharma Corporation (South Korea).

In other businesses, we are focusing on improving synergies among Group companies by actively working to restructure our operations.

As a result, in the fiscal year under review net sales reached ¥64.22 billion, a 0.3% increase from the previous year. We recorded operating income of ¥2.65 billion, a year-on-year increase of 40.9%, and net income of ¥1.57 billion, a 23.2% fall from the previous year.

By operational segment, in pharmaceutical business *Glufast®*, *Salagen®*, and our recently launched *Urief®* enjoyed increased sales. However, existing products in our lineup experienced decreasing sales due to the effect of NHI drug price revisions and generic and competing drugs. The conclusion of our contract to market the *FreeStyle®Kissei* portable blood glucose monitoring system also affected performance in this segment. As a result, net sales declined 1.9% from the previous year, to ¥55.58 billion. In other businesses, we achieved higher sales in each of the following areas: software development, computer rentals, and sales of information equipment for information services operations; sales of such commodities as noodles and materials for construction in the retail sector; and construction projects in construction operations. Net sales for other businesses increased 17.3% from the previous year, to ¥8.64 billion.

OUTLOOK FOR THE CURRENT FISCAL YEAR

The pharmaceutical industry will likely continue to face a difficult environment due largely to government efforts to reduce social security costs by curtailing medical treatment expenses. The situation will be exacerbated by planned reforms of the medical system in fiscal 2008. In other businesses, while capital investment will probably continue rising against a backdrop of favorable corporate earnings, we predict the operating environment will remain challenging due to price competition.

In this setting, we aim to establish a management structure to leverage Group synergies. Further, we will bring to fruition past investments implemented as part of our medium-term management plan and strive to implement our growth strategy.

The table below shows our performance forecasts for March 2008.

CONSOLIDATED PERFORMANCE FORECAST (Millions of Yen)

	Forecast for Year Ending March 2008	Results for Year Ended March 2007	Change (%)
Net Sales	64,300	64,216	0.1
Operating Income	4,050	2,646	53.1
Net Income	2,430	1,570	54.8

NET SALES

In pharmaceutical business, we aim to increase revenues by further developing the new products *Urief*® and *Glufast*®. In other businesses, we expect a fall in sales due to the current level of orders in construction operations and the adoption of a new accounting standard for the recording of net sales for software development in information services operations.

INCOME

We will continue to actively invest in R&D and the cultivation of new products mainly in pharmaceutical business. As a result, we expect operating income and net income to increase as new products reduce the cost of sales as a percentage of net sales. We do not forecast any non-operational or extraordinary income or losses.

MANAGEMENT STRATEGY

In April 2003, we started our five-year medium-term management plan, the Evolution Plan, under which we are taking up the twin challenges of reforming our profit structure and shifting toward a growth phase. Reforming the profit structure involves focusing on a number of key R&D areas and investing management resources efficiently. In addition, as we maintain our current personnel structure, we are committed to cutting expenses by fundamentally changing various operational procedures. Finally, profit structure reform also embraces the need for positive steps to develop strategic R&D and sales partnerships with other firms and research institutions.

Shifting toward a growth phase involves the aggressive development and sales of the three drugs *Glufast*® (diabetes), *Salagen*® (dry mouth), and *Urief*® (dysuria associated with BPH). We plan to apply for a total of five indications, including additional indications, for each of the drugs in Japan and aim for rapid growth of their markets. Regulatory approval has been granted for *Glufast*®, *Salagen*®, and *Urief*® in Japan, and sales have begun, while in May 2007 we also received approval for an additional indication of *Glufast*® for combination therapy with α-glucosidase inhibitor, Alpha-GI. We are currently waiting for approval for additional indications of *Salagen*® as a therapeutic agent for dry mouth in patients with Sjögren's Syndrome.

Overseas, the Company continues to promote its licensing business to generate milestone and royalty income. These efforts aim to develop overseas markets for the Company's original products as rapidly as possible.

In the current fiscal year, the Company's highest priorities are to achieve a recovery in income by increasing sales of new products and further enhance the Company's R&D pipeline to achieve sustainable growth. In addition, we will actively strengthen our corporate governance system and implement corporate social responsibility management and maximize corporate value while striving to be a company that our stakeholders trust.

June 2007

Mutsuo Kanzawa
President and Chief Executive Officer

Main Products

MAIN PHARMACEUTICAL PRODUCTS (generic name in parentheses):

Urief® (silodosin):	dysuria associated with benign prostatic hyperplasia (BPH)
Glufast® (mitiglinide):	type 2 diabetes
Salagen® (pilocarpine):	dry mouth
Cinalong® (cilnidipine):	hypertension
Rizaben® (tranilast):	allergy, hypertrophic scar, etc.
Rizaben® Eye Drops (tranilast):	allergic conjunctivitis
Xanbon® (ozagrel Na):	acute cerebral thrombosis, etc.
Domenan® (ozagrel HCl):	bronchial asthma
Utemerin® (ritodrine HCl):	threatened abortion and premature labor
Bezatol® (bezafibrate):	hyperlipidemia
Cabaser® (cabergoline):	Parkinson’s disease, etc.

MAIN NUTRITIONAL FOODS

Yumegohan	for patients with renal disease
Throking	for seniors
Cupagalorie	energy supplement

Research and Development

R&D AND GLOBAL EXPANSION

The Kissei Group is promoting R&D activities in its core pharmaceutical business to realize the management vision of being an R&D-oriented pharmaceutical company contributing to human health care with innovative drug products. A description of our R&D strategy and the current status of R&D in the pharmaceutical business follows.

The first aim under our strategy is to strengthen our drug discovery base. As part of our efforts to achieve this, in the fiscal year under review we enlarged our Central Research Laboratories to further enhance the speed and efficiency of our R&D. In April 2007, we completed the construction of the Joetsu Chemical Laboratories, of which process research for bulk pharmaceuticals will be conducted and bulk pharmaceuticals will be manufactured for use in both clinical and nonclinical trials.

The second aim involves the focused application of management resources to promote clinical development and the achievement of early approval for priority drugs. In October 2005, we applied for an additional indication of *Glufast*® for combination therapy with the α-glucosidase inhibitor, Alpha-GI and received approval in May 2007. In addition, having applied in December 2005, we expect approval in the second half of fiscal 2008 for an additional indication of *Salagen*®, as a therapeutic agent for dry mouth in patients with Sjögren's Syndrome. Moreover, the results of phase II and III clinical trials confirmed the benefit of an additional indication of *Glufast*® as a combined therapy with an insulin sensitizer and we submitted application for approval of an additional indication in April 2007. In addition, in spring 2007 phase II and III clinical trials commenced for the drug treatment for renal anemia JR-013 (gene-spliced human erythropoietin). Also, phase II clinical trials are progressing for KUC-7483, a therapeutic agent for overactive bladder, while phase I clinical trials are under way for diabetic medicine KGT-1681.

The third aim under our R&D strategy is promoting global expansion. We are working to aggressively license out products from our drug discovery and we view overseas licensing fees from our drug discovery to be a future pillar of our revenues. In South Korea, Choongwae Pharma Corporation, with which we have concluded a licensing agreement, began marketing *Glufast*® in October 2006. Phase III clinical trials for *Glufast*® underway in China, and in the America, Elixir Pharmaceuticals Inc. with which we have concluded a licensing agreement, is in discussions with the FDA regarding future clinical development.

Urief® performed well in phase III controlled trials conducted by Watson Pharmaceuticals, Inc., in the United States, and preparations are underway for an application. In Europe, Recordati S.p.A. of Italy is currently implementing phase III clinical trials for the drug. Furthermore, we are sharing and utilizing data with two companies to achieve rapid and efficient development in Europe and North America. In China, Daiichi Sankyo Co., Ltd. has started phase III clinical trials for *Urief*®, while in South Korea, Choongwae Pharma Corporation is currently implementing phase III clinical trials.

In addition, GlaxoSmithKline plc is continuing phase II clinical trials for KGT, which we licensed out to the company. We licensed out KUR-1246 to MediciNova, Inc. (U.S.), which began Phase II clinical trials for the drug, as a potential treatment for status asthmaticus and is preparing for phase II clinical trials of the drug as a potential treatment for threatened premature labor. For the new diabetes treatment KGA, we concluded a licensing-out agreement with GlaxoSmithKline plc in April 2006, which grants them with exclusive development and marketing rights for KGA throughout the world except for Japan, South Korea, China and Taiwan. GlaxoSmithKline plc is implementing non-clinical trials to further develop the drug.

In other businesses, we are actively investing in such areas as the latest information technology for software development to create platforms on which to expand operations.

Our R&D expenses in the consolidated fiscal year under review totaled ¥10.47 billion, comprising 16.3% of net sales.

PHARMACEUTICAL BUSINESS

The Company continues to actively pursue R&D in its core areas, which include urogenital, endocrinology and metabolism, with particular emphasis on diabetes. Our total R&D expenses were ¥10.31 billion.

OTHER BUSINESSES

Aiming to develop operations on a global scale, we have established a development system for medical software and other package software, and we continue to develop and promote the next-generation technology. Our total R&D expenses were ¥0.16 billion.

DEVELOPMENT PORTFOLIO IN JAPAN (As of June 2007)

Development Stage	Brand Name (Generic Name) / Development Code	Product Origin	Development Company	Therapeutic Target
NDA	Salagen® (Pilocarpine) / KSS-694	MGI Pharma (U.S.)	Kissei	Dry mouth in patients with Sjögren's Syndrome (additional indication)
	Glufast® (Mitiglinide) / KAD-1229	Kissei	Kissei / Takeda (Japan) (co-development)	Improvement of postprandial plasma glucose transition in patients with type 2 diabetes mellitus – combination therapy with insulin sensitizer (additional indication)
Phase Ⅱ / Ⅲ	JR-013	JCR (Japan)	Kissei / JCR (Japan) (co-development)	Renal anemia on dialysis
Phase Ⅱ	KUC-7483	Kissei	Kissei	Overactive bladder
Phase Ⅰ	KGT-1681	Kissei	Kissei	Type 2 diabetes
	KVK-702	Vertex (U.S.)	Kissei	Rheumatoid arthritis

R&D PIPELINE OVERSEAS (As of June 2007)

Development Stage	Generic Name / Development Code	Development Company	Territory	Therapeutic Target
NDA	Mitiglinide / KAD-1229	Hikma (Jordan)	Middle East	Type 2 diabetes
NDA preparation	Mitiglinide / KAD-1229 [a]	Eisai (Japan)	Asean (10 countries)	Type 2 diabetes
Phase Ⅲ	Silodosin / KMD-3213	Watson (U.S.)	U.S., Canada and Mexico	Dysuria associated with benign prostatic hyperplasia
		Choongwae (South Korea)	South Korea	
		Recordati (Italy)	Europe, Middle East, Africa	
		Daiichi Sankyo (Japan)	China	
	Mitiglinide / KAD-1229 [b]	Kissei	China	Type 2 diabetes
		Orient Europharma (Taiwan)	Taiwan, Hong Kong	
Phase Ⅲ preparation	Silodosin / KMD-3213 [b]	Synmosa (Taiwan)	Taiwan, Hong Kong	Dysuria associated with benign prostatic hyperplasia
	Mitiglinide / KAD-1229 [b]	USV (India)	India	Type 2 diabetes
Phase Ⅱ	Mitiglinide / KAD-1229 [c]	Elixir (U.S.)	North America, Central America, South America	Type 2 diabetes
	VX-702 (KVK-702)	Vertex (U.S.) (co-development)		Rheumatoid arthritis
	KGT-1251, KGT-1681	GlaxoSmithKline (U.K.)	Countries of the world, except Japan, South Korea, Taiwan, and China	Type 2 diabetes, obesity
	KUR-1246	MediciNova (U.S.)	Countries of the world, except Japan	Threatened premature labor, status asthmaticus

Notes: a) Clinical trials will not be required.
b) Phase I and phase II studies will not be required.
c) Under discussion with FDA.

Corporate Governance

BASIC APPROACH TO CORPORATE GOVERNANCE

One of the core management challenge of the Company is to strengthen its system of corporate governance to raise corporate value and ensure consistent growth as a company with a clear raison d'etre.

EXPLANATION OF CORPORATE GOVERNANCE BODIES

Kissei's Board of Directors sets basic strategies for the Company and makes final decisions on all important matters while providing oversight of business execution. In principle, the body convenes once a month to engage in active debate over operations, with priority on making prompt business decisions and increasing the transparency of operations. There are no external board members. The Company also has a corporate auditor system comprised of two in-house and two external auditors. The corporate auditors join the meeting of the Board of Directors and freely share their opinions. One of the corporate auditors is also licensed as an attorney to provide a special perspective on operations. Further, the two external auditors have no special interests with the Company.

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT STRUCTURE

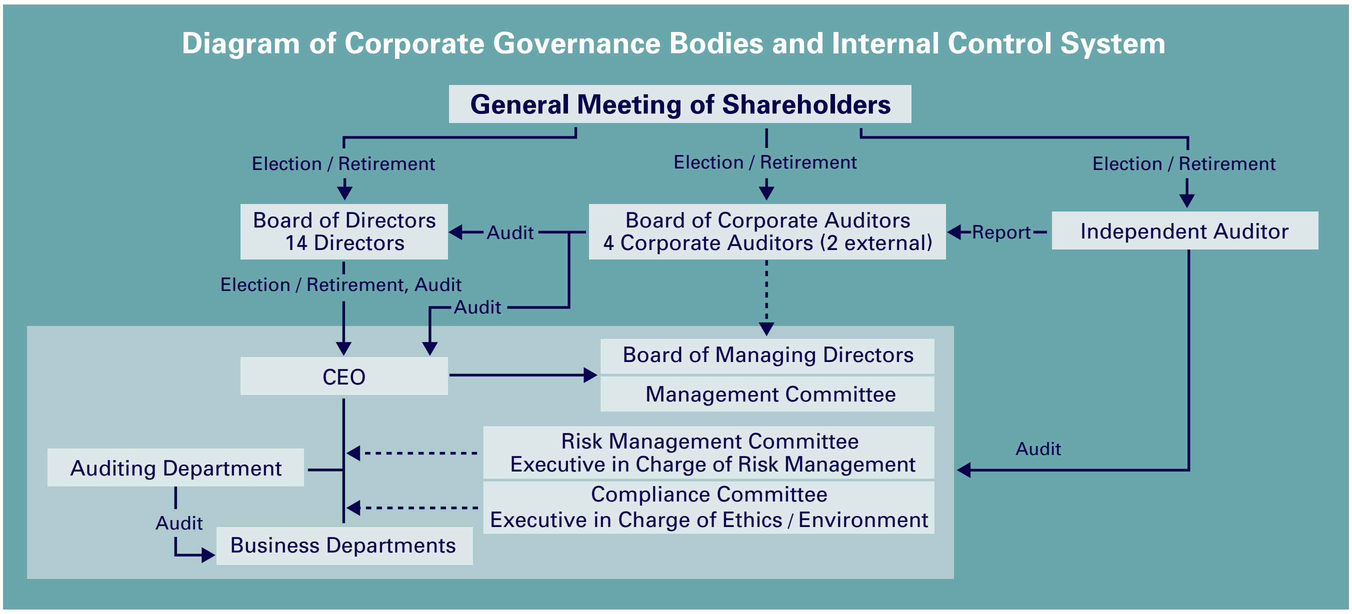
The Kissei Group operates under the management philosophy of "Contributing to society through high-quality, innovative pharmaceutical products," and "Promoting public service by company employees." The Company has a Code of Conduct to guide employee conduct. Upholding high ethical standards in R&D, manufacturing, and sales activities is fundamental to our business as a company involved in life sciences. In addition, Kissei has established a Compliance Committee which advices by the Board of Directors help ensure that all laws and regulations are followed both in letter and spirit. A Compliance Program is conducted on a regular basis, and as part of this program, our "Compliance Program Manual" is continually updated and employees receive regular instruction on the issue. Kissei has also created a Basic Policy on Internal Controls, in which every employee is trained. Company rules, risk management practices and other internal measures are promoted based on this basic policy.

INTERNAL AUDITS

Kissei has an independent Auditing Department that reports directly to the president. The four-member body conducts internal audits across all departments and internal systems in the Company based on a yearly auditing plan, ensuring that these departments are carrying out business activities in an appropriate manner.

INDEPENDENT AUDITOR

Kissei regularly undergoes outside auditing by an independent auditor. The independent auditor engages in discussions with member of the board, finance officers, and corporate auditors, which aid the strengthening of the corporate governance structure.



Financial Review

FINANCIAL POSITION

At fiscal year-end, total assets decreased 6.0%, or ¥10.53 billion, from the previous fiscal year-end, to ¥163.58 billion. Current assets declined 8.5%, to ¥93.72 billion (¥102.47 billion at the end of last fiscal year). Fixed assets decreased 2.5%, to ¥69.86 billion (¥71.65 billion at the end of last fiscal year), compared with the previous fiscal year-end.

The decrease in current assets can be attributed to the allotment of cash on hand and in banks and securities to the redemption of convertible notes due 2006 and to funds for capital investment and a decline in inventory assets, mainly product inventory. Fixed assets because an increases in buildings and structures, due to the enlargement of the Central Research Laboratories and construction in progress account, due to the construction of the Joetsu Chemical Laboratories which were offset by reductions due to a change in classification of bonds redeemable within the fiscal year to be held to maturity from investments in securities to marketable securities as well as a decline in market value of shares held.

Total liabilities at fiscal year-end fell 18.9%, or ¥9.41 billion, compared with the previous fiscal year-end, to ¥40.35 billion. Current liabilities decreased 29.4%, to ¥21.15 billion (¥29.94 billion at the end of last fiscal year). Fixed liabilities declined 3.1%, to ¥19.21 billion (¥19.82 billion at the end of last fiscal year). The main reason for the decrease in current liabilities was the redemption of convertible notes due 2006. Fixed liabilities fell as a result of a decrease in deferred tax liabilities for unrealized holding gains on investment securities.

At the fiscal year-end, total net assets slipped 0.9%, or ¥1.12 billion, from the previous fiscal year, to ¥123.23 billion, due to a fall in unrealized holding gains on securities.

FINANCIAL RESULTS

Overall, consolidated net sales in the fiscal year under review reached ¥64.22 billion, a 0.3% increase from the previous fiscal year. In our core pharmaceutical business, which accounts for a large part of net sales, *Glufast®*, *Salagen®*, and our recently launched *Urief®* were contributors to sales. However, existing products in our lineup experienced declines in sales due to the effect of NHI drug price revisions and sales of generic and competing products. Further, the conclusion of our contract to market *FreeStyle®Kissei* also negatively affected sales. As a result, net sales declined 1.9% from the previous fiscal year, to ¥55.58 billion. In other businesses, each of our consolidated subsidiary companies contributed to stepped-up revenues. Consequently, net sales for other businesses rose 17.3% from the previous fiscal year, to ¥8.64 billion.

In pharmaceutical business, the cost of sales as a percentage of net sales decreased 1.0 percentage point thanks to enhanced production efficiency associated with the production of new products and a reduction in fixed manufacturing costs that counteracted NHI drug price revisions and other potential causes of increases in the cost of sales as a percentage of net sales. That decrease was also attributable to changes to the percentage of net sales accounted for by respective products due to factors including the conclusion of our contract to market *FreeStyle®Kissei*. In addition, in other businesses, the cost of sales as a percentage of net sales fell 4.7 percentage points. As a result, the overall cost of sales as a percentage of net sales edged down 0.6 percentage points.

Gross profit increased ¥0.47 billion, thanks to improved sales and a decrease in the cost of sales as a percentage of net sales. SG&A expenses decreased ¥0.3 billion, with the main reduction in selling expenses, because efforts to enhance efficiency and cut costs offset the costs of continuing to introduce new products into the market and aggressively invest in R&D. As a result, we recorded operating income of ¥2.65 billion, an increase of 40.9%, or ¥0.77 billion, from the previous fiscal year.

In non-operating income and loss, a decrease in income of ¥0.95 billion compared with results in the previous fiscal year was mainly due to a loss on valuation of securities and a loss on disposal of inventories.

In extraordinary income and loss, while an extraordinary profit on gains on sales of securities was recorded, extraordinary losses, such as losses on valuation of securities and a loss on disposal of products following the end of our marketing rights to *FreeStyle® Kissei,* led to a net decline in income of ¥0.23 billion compared with the previous fiscal year.

As a result, income before income taxes and minority interests decreased 11.5%, or ¥0.41 billion, compared with the previous fiscal year, to ¥3.17 billion. Net income fell 23.3%, or ¥0.48 billion, compared with the previous fiscal year, to ¥1.57 billion.

BASIC POLICY ON THE DISTRIBUTION OF PROFITS / DIVIDENDS FOR THE FISCAL YEAR UNDER REVIEW AND CURRENT FISCAL YEAR

The Company aims to secure a solid management base while providing stable, sustainable returns to investors through cash dividends. While working to make efficient use of capital we regard paying dividends to shareholders based on profit levels as important. Further, we emphasize the distribution of profits through dividends. Giving first priority to increasing shareholder value, we will acquire or dispose of treasury stock flexibly and as necessary in relation to operational developments and based on the approval of the Board of Directors.

Internal funds are maintained to respond to expected changes in government policy, system reforms, and increasing globalization. At the same time, we will actively invest in R&D to develop the drugs that patients need. We believe this policy will not only generate profits in the future but also enable us to return appropriate dividends to our shareholders. As of May 2006, the enforcement of the Corporate Law abolished restrictions on the number of yearly dividend payments. However, the Company will retain its current dividend policy of twice-yearly dividend payments, consisting of interim and end-of-year payments.

For the fiscal year under review, we plan a year-end dividend of ¥14 per share, of which ¥2 is a special dividend to commemorate the Company's 60th anniversary in 2006. Together with the interim dividend of ¥14 per share, this gives a total dividend for the year of ¥28 per share. For the current fiscal year, we plan a full-year dividend of ¥28 per share, comprising dividends of ¥14 for the interim and at fiscal year-end, respectively.

Risk Factors

The following risk factors could potentially affect the Kissei Group's operating results and financial position. Forward-looking statements are based on the judgments the Group has made from consolidated financial statements for end of the current fiscal year under review.

1. R&D

The process of developing pharmaceuticals — from the R&D stage to approval and sales — requires a large investments of both time and funds. When developing new drugs, the chances of discovering an beneficial indication are limited. In addition, the Company can guarantee neither that a new drug undergoing development or an additional indication will have its intended benefit nor predict when the drugs will be approved.

2. GOVERNMENT POLICY

The prices of pharmaceuticals in Japan are set based on the government's NHI drug price standards. Generally, the prices are revised biennially. There may be revisions or other changes to the medical insurance system in Japan that go beyond the Company's forecast, such as the introduction of diagnosis procedure combination or the promotion of generic drugs, which would negatively impact the Company's operating results and financial position.

3. COMPETITION WITH OTHER COMPANIES' PRODUCTS

The Group faces competition from companies selling products with the same application. In addition, once a patent expires, price competition with generic products of the same composition intensifies. This competition could have a serious impact on the sales of existing drugs.

4. UNEXPECTED SIDE EFFECT RISKS

There is a risk that a pharmaceutical may produce an unexpected side effect that was undiscovered at the R&D stage. If unforeseen side effects or serious adverse event occur, the use of a drug may be limited, or sales of the drug may be terminated completely.

5. MANUFACTURING AND PROCUREMENT

Malfunctions with production equipment or the inability to procure raw materials in a timely fashion could delay or shut down drug manufacturing. In addition, a quality problem may cause a drug to be recalled, which would negatively impact the Company's operating results and financial position.

6. INTELLECTUAL PROPERTY RISKS

In the event that the Kissei Group is unable to appropriately protect its intellectual property, a third party may be able to use the Kissei Group's technology, which would undermine its competitive superiority in the market.

7. LEGAL RISKS

At present, there are no outstanding legal problems affecting the Kissei Group's management. There is the possibility, however, that in the course of its business activities, the Kissei Group could face lawsuits in the future both at home and abroad regarding patent, product liability, the environment, and labor matters.

8. ENVIRONMENTAL CONSERVATION

Pharmaceutical chemical substances used in research and manufacturing processing could have an impact on the environment. Every department and work site in the Group is working diligently to follow stringent substance management rules and protect the environment. However, if chemical substances were found to have polluted areas around a work site, legal action may be taken against the work site, and the Comapny may be faced with large costs to restore the environment, which would negatively impact the Company's operating results and financial position.

9. INFORMATION MANAGEMENT

The Group is paying close attention to the need to protect information by establishing strict rules for the management of personal and confidential information as well as providing education on the issue to employees. However, if an unexpected incident occurred in which information was improperly disclosed, the Group's image may be tarnished, which would negatively impact the Company's operating results and financial position.

Besides the risk factors mentioned above, there are various other risks.

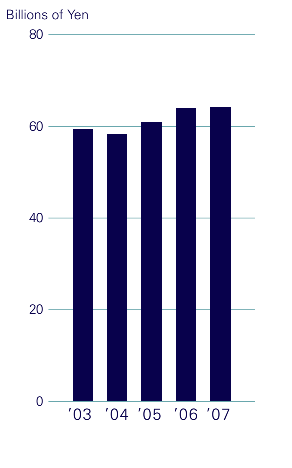
Financial Summary

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

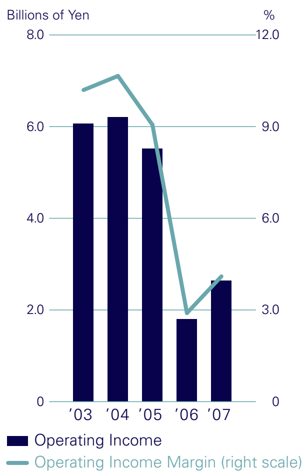
	1997	1998	1999	2000
Net Sales	¥ 59,108	¥ 56,687	¥ 55,974	¥ 57,029
Gross Profit	40,940	40,786	39,854	41,147
Operating Income	14,427	13,038	11,545	12,571
Net Income	6,070	5,439	5,334	5,724
Total Assets	142,627	137,353	138,934	146,649
Total Net Assets	88,270	92,778	97,234	105,437
Per Share (Yen and Dollars):				
Net Income[2]				
Primary	¥105.6	¥93.3	¥91.5	¥98.2
Fully-Diluted	97.9	83.0	82.0	88.4
Cash Dividends	15.0	14.0	15.0	14.0
R&D Expenses	¥7,460	¥8,873	¥9,284	¥9,231
(% of Net Sales)	12.6%	15.7%	16.6%	16.2%
Capital Investment	3,589	1,244	1,341	1,474
Current Ratio	364.1%	514.0%	561.2%	589.1%
Return on Equity	7.1%	6.0%	5.6%	5.7%
Return on Assets	4.5%	3.9%	3.9%	4.0%
Number of Shares Issued (Thousands)	58,279	58,279	58,279	58,279
Number of Employees	1,693	1,697	1,663	1,630

Note: Figures shown above were extracted from financial statements published in the respective years and the retrospective adjustments for the changes in accounting policies and adoption of new accounting standards incurred in the later years have not been reflected.
1. U.S. dollar amounts are translated at the rate of ¥118=U.S.$1, the approximate effective rate of exchange at March 31, 2007.
2. Net income per share is computed based on the weighted average number of shares of common stock after subtracting the weighted average number of shares of treasury stock for the year.

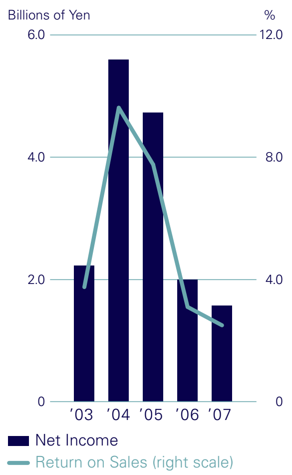
Net Sales



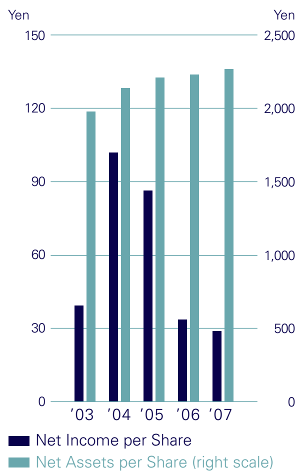
Operating Income and Operating Income Margin



Net Income and Return on Sales

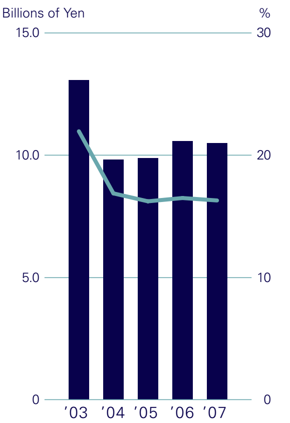


Net Income per Share and Net Assets per Share



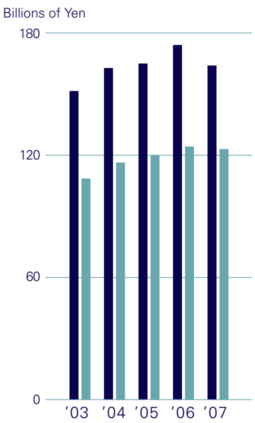
	Millions of Yen Except Per Share Data							Thousands of U.S. Dollars Except Per Share Data[1]
	2001	2002	2003	2004	2005	2006	**2007**	**2007**
	¥ 58,937	¥ 59,929	¥ 59,529	¥ 58,226	¥ 60,933	¥ 64,008	**¥ 64,216**	**$ 544,203**
	41,847	40,534	39,636	36,869	37,407	35,726	**36,197**	**306,754**
	9,786	6,958	6,073	6,210	5,517	1,877	**2,646**	**22,424**
	4,383	4,837	2,231	5,600	4,735	2,045	**1,570**	**13,305**
	149,189	155,740	151,582	162,842	164,944	174,115	**163,584**	**1,386,305**
	108,017	109,832	108,636	116,266	120,086	124,260	**123,232**	**1,044,339**
	¥76.0	¥84.9	¥39.4	¥101.8	¥86.5	¥37.3	**¥28.9**	**$0.245**
	68.8	76.5	35.8	88.7	75.5	33.5	**27.1**	**0.230**
	14.0	14.0	14.0	17.0	20.0	24.0	**28.0**	**0.237**
	¥11,517	¥13,045	¥13,074	¥9,826	¥9,893	¥10,574	**¥10,473**	**$88,754**
	19.5%	21.8%	22.0%	16.9%	16.2%	16.5%	**16.3%**	
	2,081	1,216	1,292	1,818	1,660	2,284	**3,954**	**33,508**
	653.8%	488.2%	567.3%	498.1%	512.4%	342.3%	**443.2%**	
	4.1%	4.4%	2.0%	5.0%	4.0%	1.7%	**1.3%**	
	3.0%	3.2%	1.5%	3.6%	2.9%	1.2%	**0.9%**	
	57,295	56,795	56,795	56,795	56,795	56,795	**56,796**	
	1,616	1,632	1,665	1,677	1,686	1,759	**1,777**	

R&D Expenses



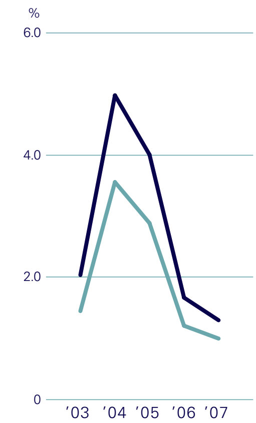
R&D Expenses
% of Net Sales (right scale)

Total Assets and Total Net Assets



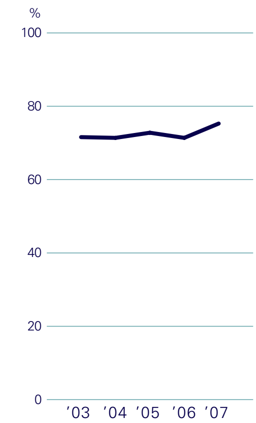
Total Assets
Total Net Assets

ROE and ROA



ROE
ROA

Equity Ratio



Consolidated Balance Sheets

Kissei Pharmaceutical Co., Ltd. and its subsidiaries   At March 31, 2006 and 2007

ASSETS	Millions of Yen 2006	Millions of Yen 2007	Thousands of U.S. Dollars (Note 3) 2007
Current Assets:			
Cash on hand and in banks (Note 4)	¥ 37,187	**¥ 33,480**	**$ 283,729**
Short-term investments in specified trusts	3,009	**2,717**	**23,025**
Marketable securities (Notes 4 and 5)	20,237	**14,143**	**119,856**
Notes and accounts receivable	25,195	**27,990**	**237,203**
Less: allowance for doubtful accounts	(4)	**(52)**	**(440)**
	25,191	**27,938**	**236,763**
Inventories (Note 6)	12,662	**10,877**	**92,178**
Deferred tax assets – current (Note 9)	1,398	**1,880**	**15,932**
Other current assets	2,781	**2,685**	**22,754**
Total current assets	102,465	**93,720**	**794,237**
Investments and Advances:			
Investments in securities (Note 5)	34,801	**30,921**	**262,042**
Investments in unconsolidated subsidiaries	995	**958**	**8,119**
Leasehold deposits and guarantee deposits	442	**451**	**3,822**
Other investments and advances	1,826	**1,804**	**15,288**
Total investments and advances	38,064	**34,134**	**289,271**
Property, Plant and Equipment (Note 2)**:**			
Buildings and structures	32,508	**33,878**	**287,102**
Machinery and equipment	11,116	**11,910**	**100,932**
	43,624	**45,788**	**388,034**
Less: accumulated depreciation	(28,796)	**(30,414)**	**(257,746)**
	14,828	**15,374**	**130,288**
Land	13,402	**13,402**	**113,576**
Construction in progress	420	**1,854**	**15,712**
Total property, plant and equipment	28,650	**30,630**	**259,576**
Other Assets:			
Deferred tax assets – non-current (Note 9)	256	**372**	**3,153**
Deferred charges and other	4,680	**4,728**	**40,068**
Total assets	¥174,115	**¥163,584**	**$1,386,305**

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2006	Millions of Yen 2007	Thousands of U.S. Dollars (Note 3) 2007
Current Liabilities:			
Short-term bank loans (Note 7)	¥ 2,640	**¥ 2,470**	**$ 20,932**
Current portion of long-term debt (Note 7)	9,611	**24**	**203**
Notes and payables:			
Trade	9,193	**9,549**	**80,924**
Other	3,572	**3,804**	**32,237**
	12,765	**13,353**	**113,161**
Income taxes payable (Note 9)	379	**1,212**	**10,271**
Accrued expenses and bonuses to employees	1,661	**1,867**	**15,822**
Reserve for sales returns	18	**20**	**170**
Reserve for sales rebates	629	**591**	**5,009**
Reserve for sales promotion expenses	314	**281**	**2,381**
Other current liabilities	1,919	**1,329**	**11,263**
Total current liabilities	29,936	**21,147**	**179,212**
Long-Term Debt (Note 7)	12,301	**12,274**	**104,017**
Accrued Retirement Benefits to Employees (Note 10)	3,641	**3,455**	**29,280**
Accrued Retirement Benefits to Directors and Corporate Auditors	1,389	**1,448**	**12,271**
Deferred Tax Liabilities – Non-Current (Note 9)	2,493	**2,027**	**17,178**
Total liabilities	49,760	**40,351**	**341,958**
Commitments and Contingent Liabilities (Note 11)			
Net Assets (Note 2):			
Common stock:			
Authorized: 227,000,000 shares			
Issued: 56,795,185 shares and 56,796,454 shares at March 31, 2006 and 2007, respectively	24,220	**24,221**	**205,263**
Additional paid-in capital	24,112	**24,114**	**204,356**
Retained earnings (Note 19)	71,388	**71,528**	**606,169**
Treasury stock (2,510,895 shares and 2,539,319 shares at March 31, 2006 and 2007)	(4,060)	**(4,119)**	**(34,907)**
Total shareholders' equity	115,660	**115,744**	**980,881**
Valuation, translation adjustments and others:			
Unrealized holding gains on securities	8,600	**7,357**	**62,348**
Total valuation, translation adjustments and others	8,600	**7,357**	**62,348**
Minority interests in consolidated subsidiaries	95	**131**	**1,110**
Total net assets	124,355	**123,232**	**1,044,339**
Total liabilities and net assets	¥174,115	**¥163,584**	**$1,386,305**

Consolidated Statements of Income

Kissei Pharmaceutical Co., Ltd. and its subsidiaries For the years ended March 31, 2005, 2006 and 2007

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2005	2006	**2007**	**2007**
Net Sales	¥60,933	¥64,008	**¥64,216**	**$544,203**
Cost of Sales	23,526	28,282	**28,019**	**237,449**
Gross profit	37,407	35,726	**36,197**	**306,754**
Selling, General and Administrative Expenses (Note 14)	31,890	33,849	**33,551**	**284,330**
Operating income	5,517	1,877	**2,646**	**22,424**
Other Income (expenses):				
Interest and dividend income	316	387	**555**	**4,703**
Interest expense	(203)	(214)	**(177)**	**(1,500)**
Loss on sale or disposal of properties	(77)	(34)	**(40)**	**(339)**
Gain on sale of marketable securities	0	70	**35**	**297**
Gain on sale of investments in securities	504	1,330	**1,049**	**8,890**
(Write-down) write-up of marketable securities and short-term investments in specified trusts	253	680	**(224)**	**(1,898)**
Write-down of investments in securities	(22)	(3)	**(240)**	**(2,034)**
Loss on disposal of inventory	–	–	**(306)**	**(2,593)**
Loss from investments in partnerships	–	(67)	**—**	**—**
Gain from transfer of pension	1,570	–	**—**	**—**
Legal settlement and recoveries	191	–	**—**	**—**
Impairment loss on fixed assets (Note 15)	–	(258)	**—**	**—**
Stipulated compensation (Note 16)	–	(148)	**—**	**—**
Loss on disposal of merchandise (Note 17)	–	–	**(52)**	**(441)**
Extraordinary contribution on withdrawal from pension fund (Note 18)	–	–	**(64)**	**(543)**
Other, net	(69)	(33)	**(9)**	**(76)**
	2,463	1,710	**527**	**4,466**
Income before income taxes and minority interests	7,980	3,587	**3,173**	**26,890**
Income Taxes (Note 9):				
Current	2,510	1,420	**1,787**	**15,144**
Deferred	720	120	**(221)**	**(1,873)**
	3,230	1,540	**1,566**	**13,271**
Minority Interests	(15)	(2)	**(37)**	**(314)**
Net income	¥ 4,735	¥ 2,045	**¥ 1,570**	**$ 13,305**

	Yen			U.S. Dollars (Note 3)
Per share (Note 2):				
Net income:				
Primary	¥86.5	¥37.3	**¥28.9**	**$0.245**
Fully-diluted	75.5	33.5	**27.1**	**0.230**
Cash dividends	20.0	24.0	**28.0**	**0.237**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Kissei Pharmaceutical Co., Ltd. and its subsidiaries For the years ended March 31, 2005, 2006 and 2007

	Millions of Yen						
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Unrealized holding gains on securities	Treasury stock	Minority interests in consolidated subsidiaries
Balance at March 31, 2004	56,795,185	¥24,220	¥24,111	¥67,812	¥ 4,001	¥(3,878)	¥ 92
Net income for the year	–	–	–	4,735	–	–	–
Cash dividends paid	–	–	–	(1,087)	–	–	–
Bonuses to directors and corporate auditors	–	–	–	(40)	–	–	–
Reduction due to merger	–	–	–	(76)	–	–	–
Treasury stock purchased (46,752 shares)	–	–	–	–	–	(103)	–
Unrealized holding gains on securities	–	–	–	–	390	–	–
Gain on sale of treasury stock (1,233 shares)	–	–	1	–	–	–	–
Increase in minority interests	–	–	–	–	–	–	1
Balance at March 31, 2005	56,795,185	24,220	24,112	71,344	4,391	(3,981)	93
Net income for the year	–	–	–	2,045	–	–	–
Cash dividends paid	–	–	–	(1,195)	–	–	–
Bonuses to directors and corporate auditors	–	–	–	(35)	–	–	–
Reduction due to change in scope of consolidation	–	–	–	(771)	–	–	–
Treasury stock purchased (36,900 shares)	–	–	–	–	–	(79)	–
Unrealized holding gains on securities	–	–	–	–	4,209	–	–
Gain on sale of treasury stock (1,542 shares)	–	–	0	–	–	–	–
Increase in minority interests	–	–	–	–	–	–	2
Balance at March 31, 2006	56,795,185	24,220	24,112	71,388	8,600	(4,060)	95
Net income for the year	**–**	**–**	**–**	**1,570**	**–**	**–**	**–**
Cash dividends paid	**–**	**–**	**–**	**(1,411)**	**–**	**–**	**–**
Bonuses to directors and corporate auditors	**–**	**–**	**–**	**(19)**	**–**	**–**	**–**
Execution of convertible bonds*	**1,269**	**1**	**1**	**–**	**–**	**–**	**–**
Treasury stock purchased (29,012 shares)	**–**	**–**	**–**	**–**	**–**	**(59)**	**–**
Unrealized holding gains on securities	**–**	**–**	**–**	**–**	**(1,243)**	**–**	**–**
Gain on sale of treasury stock (558 shares)	**–**	**–**	**1**	**–**	**–**	**–**	**–**
Increase in minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**36**
Balance at March 31, 2007	**56,796,454**	**¥24,221**	**¥24,114**	**¥71,528**	**¥ 7,357**	**¥(4,119)**	**¥131**

	Thousands of U.S. Dollars (Note 3)						
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Unrealized holding gains on securities	Treasury stock	Minority interests in consolidated subsidiaries
Balance at March 31, 2006	56,795,185	$205,251	$204,343	$604,987	$ 72,803	$(34,411)	$ 805
Net income for the year	**–**	**–**	**–**	**13,307**	**–**	**–**	**–**
Cash dividends paid	**–**	**–**	**–**	**(11,960)**	**–**	**–**	**–**
Bonuses to directors and corporate auditors	**–**	**–**	**–**	**(116)**	**–**	**–**	**–**
Execution of convertible bonds*	**1,269**	**13**	**12**	**–**	**–**	**–**	**–**
Treasury stock purchased	**–**	**–**	**–**	**–**	**–**	**(497)**	**–**
Unrealized holding gains on securities	**–**	**–**	**–**	**–**	**(10,491)**	**–**	**–**
Gain on sale of treasury stock	**–**	**–**	**15**	**–**	**–**	**–**	**–**
Increase in minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**305**
Balance at March 31, 2007	**56,796,454**	**$205,264**	**$204,358**	**$606,168**	**$ 62,312**	**$(34,908)**	**$1,110**

The accompanying notes are an integral part of these statements.

* Execution of No.1 Convertible Corporate Bonds, face value ¥3 million, each item recorded an increase of the amounts below.

Shares issued	1,269
Common stock	¥1,498,689
Additional paid-in capital	¥1,772,002

Consolidated Statements of Cash Flows

Kissei Pharmaceutical Co., Ltd. and its subsidiaries For the years ended March 31, 2005, 2006 and 2007

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2005	2006	**2007**	**2007**
Cash Flows from Operating Activities:				
Income before income taxes and minority interests	¥ 7,980	¥ 3,587	**¥ 3,173**	**$ 26,890**
Depreciation and amortization	3,012	3,138	**3,229**	**27,364**
Impairment loss on fixed assets	–	258	**–**	**–**
Change in allowance reserves	682	(59)	**(96)**	**(814)**
Interest and dividend income	(315)	(387)	**(555)**	**(4,703)**
Interest expense	203	214	**177**	**1,500**
Foreign exchange loss (gain)	13	(33)	**(0)**	**(2)**
Gain from transfer of pension	(1,570)	–	**–**	**–**
Gain from sale of securities	(504)	(1,400)	**(1,084)**	**(9,186)**
Loss (gain) from evaluation of securities	(253)	(680)	**224**	**1,899**
Loss from evaluation of investment securities	23	3	**240**	**2,034**
Loss on sale or disposal of properties	58	11	**12**	**102**
(Decrease) increase in notes and accounts receivable	(1,513)	1,332	**(2,795)**	**(23,686)**
Decrease (increase) in inventories	(1,055)	(2,516)	**1,786**	**15,136**
Decrease (increase) in other current assets	1,032	(19)	**138**	**1,169**
(Decrease) increase in notes and accounts payable	1,237	(74)	**413**	**3,500**
(Decrease) increase in other current liabilities	268	1,538	**(267)**	**(2,263)**
Bonuses to directors and corporate auditors	(40)	(36)	**(20)**	**(169)**
Other cash flows from operating activities, net	68	80	**(2)**	**(17)**
Sub total	9,326	4,957	**4,573**	**38,754**
Receipt of interest and dividends	277	347	**515**	**4,364**
Payment of interest	(203)	(214)	**(178)**	**(1,508)**
Payment of income taxes	(4,836)	(2,019)	**(951)**	**(8,059)**
Net cash provided by operating activities	4,564	3,071	**3,959**	**33,551**
Cash Flows from Investing Activities:				
Increase in time deposits	(58)	(79)	**(70)**	**(593)**
Decrease in time deposits	50	78	**79**	**669**
Reduction of investments in specified trusts	–	833	**119**	**1,008**
Purchase of securities	–	(627)	**(528)**	**(4,475)**
Proceeds from sales of marketable securities	1,188	1,451	**8,247**	**69,890**
Acquisition of property and equipment	(1,658)	(2,364)	**(3,954)**	**(33,508)**
Proceeds from sales of property and equipment	12	43	**7**	**59**
Purchase of intangible assets	(1,912)	(725)	**(1,326)**	**(11,237)**
Acquisition of investments in securities	(2,156)	(3,172)	**(3,374)**	**(28,593)**
Proceeds from sales of investments in securities	634	3,181	**2,440**	**20,678**
Payments for loans	(216)	(141)	**(166)**	**(1,407)**
Collection of loans	216	163	**163**	**1,381**
Long-term advance payment costs	(284)	(8)	**(11)**	**(93)**
Other cash flows from investing activities, net	(365)	(203)	**(32)**	**(272)**
Net cash provided by (used in) investing activities	(4,549)	(1,570)	**1,594**	**13,507**
Cash Flows from Financing Activities:				
Increase in short-term bank loans	470	2,030	**1,560**	**13,220**
Repayment of short-term bank loans	(440)	(2,205)	**(1,730)**	**(14,661)**
Repayment of long-term debt	(66)	(41)	**(26)**	**(220)**
Cash dividends paid by the Company	(1,087)	(1,195)	**(1,411)**	**(11,958)**
Payments on redemption of convertible notes	–	–	**(9,583)**	**(81,212)**
Treasury stock purchase	(105)	(82)	**(60)**	**(508)**
Treasury stock sale	3	3	**4**	**34**
Net cash used in financing activities	(1,225)	(1,490)	**(11,246)**	**(95,305)**
Effect of exchange rate changes on cash and cash equivalents	(13)	33	**0**	**2**
Increase (decrease) in cash and cash equivalents	(1,224)	43	**(5,693)**	**(48,245)**
Cash and cash equivalents at beginning of year (Note 4)	50,171	48,983	**49,647**	**420,737**
Receipts of cash and cash equivalents from merger	36	–	**–**	**–**
Receipts of cash and cash equivalents due to change in scope of consolidation	–	621	**–**	**–**
Cash and cash equivalents at end of year (Note 4)	¥48,983	¥49,647	**¥ 43,954**	**$372,492**

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 of Kissei Pharmaceutical Co., Ltd. (the "Company") and its subsidiaries (the "Companies") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) SCOPE OF CONSOLIDATION

The number of subsidiaries the Company had for the years ended March 31, 2006 and 2007 were nine and nine, respectively, of which three were consolidated in the respective years. The significant subsidiaries which have been consolidated with the Company are listed below:

CONSOLIDATED FORECAST (Millions of Yen)

Name of subsidiaries	Equity ownership percentage	Paid-in capital
Kissei Shoji Co., Ltd.	100%	¥ 50 million
Kissei Comtec Co., Ltd.	84	334 million
Hashiba 920 Co., Ltd.	100	45 million

*Hashiba 920 Co., Ltd. is included in the consolidated accounts beginning with the fiscal year 2006 due to the growing importance of the company to the Group.

(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, and the portion thereof attributable to minority interests is charged to minority interests.

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 for the three years ended March 31, 2007.

(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, as there would be no significant effect on consolidated net income if they were accounted for by the equity method.

(4) VALUATION OF SECURITIES

Held-to-maturity debt securities are carried at amortized cost.

Marketable securities classified as other securities are carried at fair value as of the balance sheet date with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. The cost of securities sold is primarily determined by the moving average method.

Non-marketable securities classified as other securities are stated at cost primarily determined by the moving average method.

(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.

Depreciation for buildings (excluding leasehold improvements and auxiliary facilities attached to buildings) acquired on or after April 1, 1998 is computed on the straight-line method.

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 charged to income.

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

(7) AMORTIZATION

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

Software costs for internal use are amortized over their expected useful lives (mainly 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 are not included in the respective revenue, cost or expenses in the accompanying consolidated statements of income.

(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.

(10) INCOME TAXES

Income taxes of the Companies consist of corporate income taxes, local inhabitants taxes and enterprise taxes.

The asset and liability approach is used to recognize deferred tax assets and liabilities in respect of temporary differences between the carrying amounts and the basis of assets and liabilities.

(11) ALLOWANCES, ACCRUED BONUSES TO EMPLOYEES AND RESERVES FOR CERTAIN EXPENSES

(I) ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Companies provide an allowance for doubtful accounts based on the percentage of their own actual bad debt loss history against the balance of total receivables in addition to the amount of uncollectible receivables estimated on an individual basis.

(II) ACCRUED BONUSES TO EMPLOYEES

"Accrued bonuses to employees" is provided for based on estimated amounts which the Companies should pay to employees in summer, for their services rendered during the six-month period ended on the balance sheet dates.

(III) ACCRUED BONUSES TO DIRECTORS AND CORPORATE AUDITORS

"Accrued bonuses to directors and corporate auditors" is provided for based on estimated amounts which the Companies should pay to directors and corporate auditors. Effective from the year ended March 31, 2007, the Companies applied "Accounting standard for directors' bonus" (Accounting Standard Board of Japan Statement No.4 issued on November 29, 2005 by the Accounting Standards Board of Japan).

As a result of the application of this standard, operating profit, ordinary income and income before income taxes for the year ended March 31, 2007 decreased by ¥16 million, respectively.

(IV) RESERVE FOR SALES RETURNS

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

(V) RESERVE FOR SALES REBATES

"Reserve for sales rebates" is provided for in an amount equivalent to the expected amount payable by the Companies to dealers in respect of the balance of accounts receivable at the balance sheet date. In estimating the amount of rebates, the Companies apply the actual rebate rates allowed in the six-month period preceding the balance sheet dates.

(VI) RESERVE FOR SALES PROMOTION EXPENSES

"Reserve for sales promotion expenses" is provided for in an amount which the Companies expect to pay in relation to dealers' inventories at the balance sheet dates. In estimating the amount of sales promotion expenses, the Companies apply the rate of such expenses against dealers' inventories based on the experience in the six-month period preceding the balance sheet dates.

(VII) ACCRUED RETIREMENT BENEFITS TO EMPLOYEES

To account for retirement benefits to employees, the Companies recognize accrued benefits on a consolidated basis at the end of the fiscal year based on the value of the projected benefit obligation and the estimated fair value of the plan assets.

Previously recognized liabilities are amortized on a straight-line basis over a term that does not exceed the average remaining service period of employees who are expected to receive benefits under the plans (10 years).

Unrecognized net actuarial gains or losses are amortized from the following year on a straight-line basis over a term that does not exceed the average remaining service period of employees who are expected to receive benefits under the plans (10 years).

Following the enactment of the Welfare Pension Insurance Law in Japan, the Companies obtained approval from Japan's Ministry of Health, Labour and Welfare on August 1, 2004 for the return of past obligations with respect to the portion of the pension fund that the Companies operate on behalf of the government (the so-called substitutional portion). The Companies transferred this portion on January 5, 2005 and consequently booked extraordinary income of ¥1,570 million in the year ended March 31, 2005.

(VIII) 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 Companies would have to pay if all directors and corporate auditors resigned at the balance sheet dates.

(12) 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 fiscal 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).

(13) RECLASSIFICATION OF ACCOUNTS

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

(14) RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are charged to income as incurred in accordance with the Japanese accounting standards.

(15) IMPAIRMENT OF FIXED ASSETS

On August 9, 2002, the Business Accounting Council of Japan issued new accounting standards entitled "Statement of Opinion on the Establishment of Accounting Standards for Impairment of Fixed Assets." Further, on October 31, 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No. 6 – "Application Guidance on Accounting Standards for Impairment of Fixed Assets." These standards are effective from the fiscal year beginning April 1, 2005.

The companies adopted these standards in the fiscal year ended March 31, 2006. As a result, property, plant and equipment as of March 31, 2006 decreased by ¥258 million, and income before income taxes and minority interest for the year ended March 31, 2006 decreased by the same amount, as compared with the amount which would have been reported if the previous standards had been applied consistently. The accumulated impairment loss is deducted from net book value of each asset.

(16) ACCOUNTING STANDARD FOR PRESENTATION OF NET ASSETS IN THE BALANCE SHEET

Effective from the year ended March 31, 2007, the Companies have applied “Accounting standards for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Statement No.5)”, and “Implementation guidance for Accounting standards for presentation of net assets in the balance sheet (Accounting Standards of Japan Guidance No.8)” both issued by the Accounting Standard Board of Japan on December 9, 2005.

The amounts corresponding to the conventional “Shareholders’ equity” in the balance sheet is ¥123,101 million.

“Net assets” in the balance sheets for this year is presented according to the revision of “Regulations Concerning the Terminology, Form and Presentation Methods of Consolidated Financial Statements” dated on April 25, 2006. Furthermore, the Companies presented its net assets in the balance sheets using the new presentation as of March 31, 2006 and 2007.

3. UNITED STATES DOLLAR AMOUNTS

The Companies maintain their accounting records in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥118=U.S.$1, the approximate effective rate of exchange at March 31, 2007. 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 ¥118=U.S.$1 or at any other rate.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2006 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Cash on hand and in banks	¥37,187	**¥33,480**	**$283,729**
Marketable securities	20,237	**14,143**	**119,856**
Time deposits with original maturities of over three months	(78)	**(70)**	**(593)**
Marketable securities with maturities of over three months	(7,699)	**(3,599)**	**(30,500)**
Cash and cash equivalents	¥49,647	**¥43,954**	**$372,492**

5. SECURITIES

The acquisition cost, carrying amount, gross unrealized holding gains and losses for securities with fair value by security type at March 31, 2006 and 2007 are as follows.

Available-for-sale securities:

	Millions of Yen			
	2006			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥11,307	¥24,917	¥13,621	¥11
Corporate debt securities	11,697	11,691	0	5
Other	3,122	3,948	863	38
	¥26,126	¥40,556	¥14,484	¥54

	Millions of Yen			
	2007			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**¥14,021**	**¥25,987**	**¥12,563**	**¥597**
Corporate debt securities	**3,998**	**3,997**	**1**	**3**
Other	**899**	**862**	**1**	**38**
	¥18,918	**¥30,846**	**¥12,565**	**¥638**

	Thousands of U.S. Dollars			
	2007			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**$118,822**	**$220,229**	**$106,466**	**$5,059**
Corporate debt securities	**33,881**	**33,873**	**8**	**25**
Other	**7,619**	**7,305**	**9**	**323**
	$160,322	**$261,407**	**$106,483**	**$5,407**

The carrying amount of securities where no market value is available at March 31, 2006 and 2007 is summarized as follows.

Other securities:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Unlisted stocks (except for over-the-counter securities)	¥ 1,944	**¥ 1,746**	**$ 14,797**
Other	12,538	**12,471**	**105,686**
	¥14,482	**¥14,217**	**$120,483**

Proceeds, gross realized gains from the sale of available-for-sale securities in respect of the year ended March 31, 2007 were ¥2,789 million ($23,634 thousand) and ¥1,069 million ($9,059 thousand), respectively.

6. INVENTORIES

Inventories at March 31, 2006 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Merchandise	¥ 3,679	**¥ 2,891**	**$24,500**
Finished goods	1,829	**1,588**	**13,458**
Work-in-process	3,381	**2,392**	**20,271**
Raw materials	3,012	**3,241**	**27,466**
Supplies	761	**765**	**6,483**
	¥12,662	**¥10,877**	**$92,178**

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

Short-term bank loans outstanding at March 31, 2006 and 2007 represent one-year notes issued by the Companies to banks. Short-term bank loans made during the years ended March 31, 2006 and 2007 bore interest at an average annual rate of 1.30% and 1.74%, respectively.

Maximum month-end balance and average month-end balance of short-term bank loans outstanding for the years ended March 31, 2006 and 2007 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Maximum month-end balance	¥4,050	**¥3,460**	**$29,322**
Average month-end balance	¥3,533	**¥3,020**	**$25,593**

Long-term debt of the Companies at March 31, 2006 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Non-secured loans with financial institutions, bearing interest at rates ranging from 2.00% to 6.00% due from 2006 to 2027	¥ 133	**¥ 107**	**$ 907**
0.7% convertible notes due 2006	9,586	**–**	**–**
0.8% convertible notes due 2008	12,191	**12,191**	**103,313**
	21,910	**12,298**	**104,220**
Less: current maturities due within one year	(9,611)	**(24)**	**(203)**
	¥12,301	**¥12,274**	**$104,017**

The 0.7% convertible notes due 2006 was repurchased at maturity on September 29, 2006.

The 0.8% convertible notes due September 30, 2008 were issued on August 23, 1996 with a 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 redeemed at the discretion of the Company at a price of ¥105 from October 1, 2002 to September 30, 2003, ¥104 from October 1, 2003 to September 30, 2004, ¥103 from October 1, 2004 to September 30, 2005, ¥102 from October 1, 2005 to September 30, 2006, ¥101 from October 1, 2006 to September 30, 2007 and ¥100 from October 1, 2007 to September 29, 2008. The holder of the convertible notes is entitled to convert ¥1,000,000 for shares at a current conversion price of ¥2,362 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 September 29, 2008. The number of shares which would be issued upon conversion of the notes outstanding at March 31, 2007 is 5,161 thousand shares.

The aggregate annual maturities of long-term loans outstanding at March 31, 2007 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year ending March 31		
2008	¥ 24	$ 203
2009	12,214	103,508
2010	23	195
2011 and thereafter	37	314
	¥12,298	$104,220

8. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses were included in selling, general and administrative expenses for the years ended March 31, 2005, 2006 and 2007 amounting to ¥9,893 million, ¥10,574 million and ¥10,473 million ($88,754 thousand), respectively.

9. INCOME TAXES

Income taxes in Japan applicable to the Companies for the years ended March 31, 2005, 2006 and 2007 consisting of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates were as follows:

	Rates on taxable income		
	2005	2006	**2007**
Corporate income tax	30.0%	30.0%	**30.0%**
Enterprise tax	7.2	7.2	**7.2**
Resident income taxes	6.1	6.1	**6.1**
	43.3%	43.3%	**43.3**
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid	40.4%	40.4%	**40.4%**

Effective income tax rates applicable in the accompanying consolidated statements of income differ from the above-mentioned statutory tax rates. The principal reason for such differences is that entertainment expenses the purposes of sales promotion as defined by Japanese tax law are not tax deductible.

Effective from April 1, 2004, enterprise tax regulations in Japan were amended. Under the new enterprise tax regulations, enterprise tax will be based on the sum of three tax components, namely income tax based component, value added component and capital based component. In accordance with the new accounting standard issued by the Accounting Standards Board of Japan, enterprise tax relating to the value added component and capital based component are required to be classified as selling, general and administrative expenses in the statements of income.

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

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Deferred tax assets:			
Write-down of securities	¥ 950	**¥ 585**	**$ 4,958**
Prepaid research and development expenses	712	**1,185**	**10,042**
Accrued retirement benefits to directors and corporate auditors	561	**585**	**4,958**
Accrued enterprise tax	76	**115**	**975**
Accrued bonuses to employees	567	**583**	**4,941**
Reserve for sales rebates	254	**239**	**2,025**
Accrued retirement benefits to employees	1,471	**1,396**	**11,830**
Royalties receivable			
Other	1,124	**1,242**	**10,525**
	5,715	**5,930**	**50,254**
Valuation allowance	(723)	**(717)**	**(6,076)**
	¥ 4,992	**¥ 5,213**	**$ 44,178**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	¥(5,830)	**¥(4,987)**	**$(42,263)**
Other	(1)	**(1)**	**(8)**
Deferred tax assets, net	¥ (839)	**¥ 225**	**$ 1,907**

Reconciliation of the actual tax rate is shown below.

	2006	**2007**
Effective statutory tax rate	40.4%	**40.4%**
Adjustments:		
Entertainment expenses and other nondeductibles	13.3	**14.5**
Dividend income not taxable	(1.5)	**(2.2)**
Tax benefits due to research and development expenses	(12.3)	**(8.5)**
Per capital levy of local resident income taxes	1.7	**2.0**
Other factors	1.3	**3.2**
Actual tax rate	42.9%	**49.4%**

10. RETIREMENT BENEFIT PLANS

Employees of the Companies are, under most circumstances, entitled to receive either a lump-sum payment, 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 retirement benefit plans and net liability recognized in the accompanying balance sheets at March 31, 2006 and 2007:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Projected benefit obligations	¥12,838	**¥11,788**	**$ 99,898**
Fair value of plan assets	(8,718)	**(9,529)**	**(80,754)**
Funded status of the plans	4,120	**2,259**	**19,144**
Unrecognized net actuarial difference	(742)	**(1,391)**	**(11,788)**
Unamortized prior service cost	263	**2,587**	**21,924**
Net liability recognized	¥ 3,641	**¥ 3,455**	**$ 29,280**

The net periodic retirement benefit cost for the years ended March 31, 2005, 2006 and 2007 included the following components:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	**2007**	**2007**
Service cost	¥ 581	¥ 613	**¥ 577**	**$ 4,890**
Interest cost	335	293	**255**	**2,161**
Expected return on plan assets	(192)	(181)	**(218)**	**(1,847)**
Amortization of prior service cost	(33)	(32)	**(294)**	**(2,492)**
Additional payment of retirement costs	26	35	**95**	**805**
Amortization of difference caused from actuarial calculation	289	221	**165**	**1,398**
	¥1,006	¥ 949	**¥ 580**	**$ 4,915**

The discount rate used to determine the actuarial present value of projected benefit obligations under the plan that covers the employees of the Companies were 2.5% and 2.5% as of March 31, 2006 and 2007, respectively. The rate of expected return on plan assets was 2.5% and 2.5% as of March 31, 2006 and 2007, respectively. Attribution of retirement 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.

11. 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 years ended March 31, 2005, 2006 and 2007 are summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	**2007**	**2007**
Lease rental expenses	¥454	¥365	**¥180**	**$1,525**

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 March 31, 2007 is summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Acquisition cost	¥1,400	$11,864
Accumulated depreciation	1,146	9,712
Net book value	¥ 254	$ 2,152
Depreciation	¥ 180	$ 1,525

Depreciation is computed using 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 March 31, 2006 and 2007, including the portion of interest thereon, is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Future lease payments:			
Within one year	¥178	**¥130**	**$1,101**
After more than one year	237	**124**	**1,051**
Total	¥415	**¥254**	**$2,152**

(2) CONTINGENT LIABILITIES

The Companies had contingent liabilities arising from notes discounted by banks in the ordinary course of business in the amount of ¥162 million ($1,373 thousand) at March 31, 2007.

In addition, the Companies were contingently liable for guarantees in respect of loans borrowed by its unconsolidated subsidiaries for an amount of ¥184 million ($1,559 thousand) at March 31, 2007.

12. SEGMENT INFORMATION

(1) INDUSTRY SEGMENT INFORMATION

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

Pharmaceuticals .... Ethical pharmaceuticals
Other .... Sale of materials and other goods
Information solution services
Construction subcontracting

The industry segment information of the Company and its consolidated subsidiaries for the three years ended March 31, 2007 is presented below:

	Millions of Yen				
	2005				
	Industry Segment			Elimination of Inter-segment Sales	Consolidated Total
	Pharmaceuticals	Other	Total		
Sales:					
Sales to outside customers	¥ 57,236	¥3,697	¥ 60,933	¥ –	¥ 60,933
Inter-segment sales	0	4,093	4,093	(4,093)	–
Total sales	57,236	7,790	65,026	(4,093)	60,933
Operating expenses	51,711	7,742	59,453	(4,037)	55,416
Operating income	¥ 5,525	¥ 48	¥ 5,573	¥ (56)	¥ 5,517
Assets	¥160,688	¥5,428	¥166,116	¥(1,173)	¥164,943
Depreciation	¥ 2,753	¥ 356	¥ 3,109	¥ (97)	¥ 3,012
Capital expenditure	¥ 3,602	¥ 365	¥ 3,967	¥ (110)	¥ 3,857

	Millions of Yen				
	2006				
	Industry Segment			Elimination of Inter-segment Sales	Consolidated Total
	Pharmaceuticals	Other	Total		
Sales:					
Sales to outside customers	¥ 56,643	¥ 7,365	¥ 64,008	¥ –	¥ 64,008
Inter-segment sales	0	4,606	4,606	(4,606)	–
Total sales	56,643	11,971	68,614	(4,606)	64,008
Operating expenses	54,852	11,837	66,689	(4,559)	62,130
Operating income	¥ 1,790	¥ 135	¥ 1,925	¥ (48)	¥ 1,877
Assets	¥167,072	¥10,668	¥177,740	¥(3,625)	¥174,115
Depreciation	¥ 2,891	¥ 395	¥ 3,286	¥ (148)	¥ 3,138
Capital expenditure	¥ 3,571	¥ 404	¥ 3,975	¥ (958)	¥ 3,017

	Millions of Yen				
	2007				
	Industry Segment			Elimination of Inter-segment Sales	Consolidated Total
	Pharmaceuticals	Other	Total		
Sales:					
Sales to outside customers	**¥ 55,579**	**¥ 8,637**	**¥ 64,216**	**¥ –**	**¥ 64,216**
Inter-segment sales	**0**	**6,146**	**6,146**	**(6,146)**	**–**
Total sales	**55,579**	**14,783**	**70,362**	**(6,146)**	**64,216**
Operating expenses	**53,490**	**14,088**	**67,578**	**(6,008)**	**61,570**
Operating income	**¥ 2,089**	**¥ 695**	**¥ 2,784**	**¥ (138)**	**¥ 2,646**
Assets	**¥156,247**	**¥12,385**	**¥168,632**	**¥(5,049)**	**¥163,583**
Depreciation	**¥ 2,960**	**¥ 439**	**¥ 3,399**	**¥ (171)**	**¥ 3,228**
Capital expenditure	**¥ 5,772**	**¥ 548**	**¥ 6,320**	**¥(1,029)**	**¥ 5,291**

	Thousands of U.S. Dollars				
	2007				
	Industry Segment			Elimination of Inter-segment Sales	Consolidated Total
	Pharmaceuticals	Other	Total		
Sales:					
Sales to outside customers	**$ 471,008**	**$ 73,195**	**$ 544,203**	**$ –**	**$ 544,203**
Inter-segment sales	**0**	**52,085**	**52,085**	**(52,085)**	**–**
Total sales	**471,008**	**125,280**	**596,288**	**(52,085)**	**544,203**
Operating expenses	**453,305**	**119,390**	**572,695**	**(50,915)**	**521,780**
Operating income	**$ 17,703**	**$ 5,890**	**$ 23,593**	**$ (1,169)**	**$ 22,424**
Assets	**$1,324,127**	**$104,958**	**$1,429,085**	**$(42,788)**	**$1,386,297**
Depreciation	**$ 25,085**	**$ 3,720**	**$ 28,805**	**$ (1,449)**	**$ 27,356**
Capital expenditure	**$ 48,915**	**$ 4,644**	**$ 53,559**	**$ (8,720)**	**$ 44,839**

(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 March 31, 2007 is omitted because export sales account for less than 10% of total sales.

13. BUSINESS TRANSACTIONS WITH PARTIES RELATED TO THE COMPANY

Fiscal 2006 (April 1, 2005—March 31, 2006)

Executives, main individual stockholders, etc.

Position	Executive
Name	Kunio Kanzawa
Address	—
Capital or Investment Amount (Millions of Yen)	—
Type of Business/Work	Chairman of the Company, Director of Kanzawa Medical Research Foundation
% of Voting Rights Owned	(Ownership) Direct 6.9
Relationship	
Concurrent Posts Held, etc.	—
Relationship with Place of Business	—
Type of Business Transaction	Donation paid to Kanzawa Medical Research Foundation
Amount (Millions of Yen)	23
Item	—
Year-End Balance (Millions of Yen)	—

Notes: 1. The above amounts do not include consumption tax.
2. The business transactions with Kanzawa Medical Research Foundation are third-party transactions.

Fiscal 2007 (April 1, 2006—March 31, 2007)

Executives, main individual stockholders, etc.

Position	Executive
Name	Kunio Kanzawa
Address	—
Capital or Investment Amount (Millions of Yen)	—
Type of Business/Work	Chairman of the Company, Director of Kanzawa Medical Research Foundation
% of Voting Rights Owned	(Ownership) Direct 5.1
Relationship	
Concurrent Posts Held, etc.	—
Relationship with Place of Business	—
Type of Business Transaction	Donation paid to Kanzawa Medical Research Foundation
Amount (Millions of Yen)	19
Item	—
Year-End Balance (Millions of Yen)	—

Notes: 1. The above amounts do not include consumption tax.
2. The business transactions with Kanzawa Medical Research Foundation are third-party transactions.

14. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

A summary of selling, general and administrative expenses for each of the three years in the period ended March 31, 2007 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	**2007**	**2007**
Advertising and sales promotion expenses	¥ 4,360	¥ 4,985	**¥ 4,723**	**$ 40,025**
Payroll costs	8,139	7,626	**7,783**	**65,958**
Research and development expenses	9,893	10,574	**10,473**	**88,754**
Traveling expenses	1,702	1,726	**1,864**	**15,797**
Depreciation	1,279	1,350	**1,343**	**11,381**
Other	6,517	7,587	**7,365**	**62,415**
	¥31,890	¥33,849	**¥33,551**	**$284,330**

15. IMPAIRMENT LOSS ON FIXED ASSETS

Asset impairment losses were booked for the following asset groups at March 31, 2006.

Location	Use	Type	Asset Impairment (Millions of Yen)
Matsumoto, Nagano	Rental	Land	99
Azumino, Nagano	Recreation	Land	158

The Companies have created asset groupings with values based on the minimum units used in the independent cash flow statement. Rental assets and recreational assets were grouped separately.

The impairment of the above assets was booked as an extraordinary loss of ¥258 million after reducing the value of the assets from the book value to the current fair value, which reflects declining land prices in recent years.

The fair value of the assets is the net value the Companies would expect to receive upon the sale of the assets, based upon a real estate valuation conducted in accordance with industry standards.

16. STIPULATED COMPENSATION

Supply contracts stipulate a minimum purchase volume. In past years, the Company paid compensation for falling short of the minimum. The compensation amount was confirmed in the term under review and thus booked in the consolidated financial statement for this term.

17. LOSS ON DISPOSAL OF MERCHANDISE

Disposal of inventory accompanying end of sales for portable blood glucose monitoring system.

18. EXTRAORDINARY CONTRIBUTION ON WITHDRAWN FROM PENSION FUND

Donations to special fund on the occasion of consolidated subsidiary Hashiba 920 Co., Ltd. voluntary withdrawal from the Nagano Prefecture construction industry corporate employees' pension fund.

19. SUBSEQUENT EVENT

The following appropriations of unappropriated retained earnings were approved at the shareholders' meeting held on June 28, 2007:

	Millions of Yen	Thousands of U.S. Dollars
Retained earnings:		
Balance at March 31, 2007	¥71,528	$606,169
Appropriations:		
Cash dividends (¥14 per share)	(760)	(6,440)
Balance to be carried forward	¥70,768	$599,729

Misuzu Audit Corporation

A network firm of
PRICEWATERHOUSECOOPERS

Misuzu Audit Corporation
Kasumigaseki Bldg.,32nd Floor
3-2-5,Kasumigaseki,Chiyoda-ku
Tokyo 100-6088,JAPAN
Telephone 81-3-5532-2100
Facsimile 81-3-5532-2901

Report of Independent Auditors

To the Board of Directors and Shareholders of Kissei Pharmaceutical Co., Ltd.

We have audited the accompanying consolidated balance sheets of Kissei Pharmaceutical Co., Ltd. and its subsidiaries as of March 31, 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kissei Pharmaceutical Co., Ltd and its subsidiaries as of March 31, 2007, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

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.

Misuzu Audit Corporation

Misuzu Audit Corporation
Tokyo, Japan
June 28, 2007

Board of Directors

As of June 28, 2007

CHAIRMAN:
Kunio Kanzawa

PRESIDENT AND CHIEF EXECUTIVE OFFICER:
Mutsuo Kanzawa

EXECUTIVE VICE PRESIDENT:
Masanori Iwadare

EXECUTIVE MANAGING DIRECTORS:
Hiroshi Saito
Yukiyoshi Ajisawa

MANAGING DIRECTORS:
Toshiaki Usuda
Keiichiro Yanagisawa

Directors:
Seiichiro Furihata
Kiyoshi Kumazawa
Sukio Adachi
Masuo Akahane
Teruo Tomizawa
Imao Mikoshiba
Hiroe Sato

AUDITORS:
Tetsuo Yabana
Yoshinobu Kubota
Hidenaga Kitazawa
Hajime Koike

Corporate Data

As of June 28, 2007

HEAD OFFICE:
19-48, Yoshino, Matsumoto City, Nagano 399-8710, Japan
Telephone: (0263) 25-9081

TOKYO HEAD OFFICE:
8-9, Nihonbashi-Muromachi 1-chome, Chuo-ku, Tokyo 103-0022, Japan
Telephone: (03) 3279-2761

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:
¥24,271 million

NUMBER OF EMPLOYEES:
1,600

CENTRAL RESEARCH LABORATORIES:
Azumino City, Nagano

TOXICOLOGICAL LABORATORIES:
Azumino City, Nagano

PHARMACEUTICAL LABORATORIES:
Azumino City, Nagano

JOETSU CHEMICAL LABORATORIES:
Joetsu City , Niigata

PLANTS:
Matsumoto City, Shiojiri City

DISTRIBUTION CENTER:
Shiojiri City

INFORMATION CENTER:
Matsumoto City

NUTRITIONAL BUSINESS CENTER:
Shiojiri City

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

OFFICES:
Hakodate, Asahikawa, Yamagata, Morioka, Akita, Aomori, Koriyama, Takasaki, Utsunomiya, Mito, Niigata, Tokyo-fourth, Tama, Chiba-first, Chiba-second, Atsugi, Okazaki, Gifu, Mie, Shizuoka, Shiga, Kanazawa, Kita Osaka, Nara, Sakai, Kobe, Himeji, Yamaguchi, Okayama, Kitakyushu, Oita, Nagasaki, Kumamoto, Kagoshima, Okinawa

SUBSIDIARY COMPANIES:
Kissei America, Inc.
Kissei Shoji Co., Ltd.
Kissei Comtec Co., Ltd.
Mitsui Kanko Co., Ltd.
Hashiba Technos Co., Ltd.
Kissei Wellcom Co., Ltd.
Planet Computer Technology (BeiJing) Co., Ltd.

Investor Information

As of March 31, 2007

COMMON STOCK:

Authorized: 227,000,000 shares

Issued: 56,796,454 shares

NUMBER OF SHAREHOLDERS:

3,569

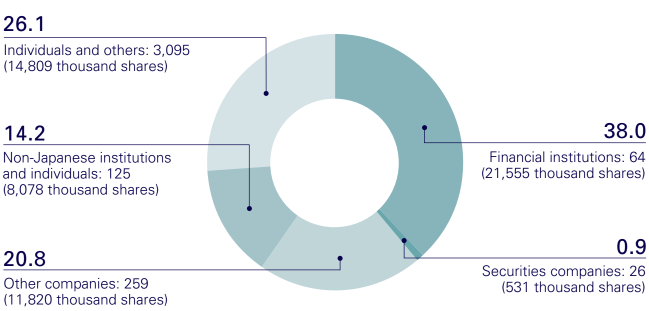
PRINCIPAL SHAREHOLDERS:

	Number of shares held (Thousands)
Kanzawa Limited	3,178
The Dai-ichi Mutual Life Insurance Company	2,718
Kunio Kanzawa	2,702
The Hachijuni Bank, Ltd.	2,670
Mizuho Bank, Ltd.	2,670
Japan Trustee Services Bank, Ltd. (Trust account)	2,494
The Master Trust Bank of Japan, Ltd. (Trust account)	2,118
Trust & Custody Services Bank, Ltd. (Trust account)	1,714
Mutsuo Kanzawa	1,458
Nabelin Co., Ltd.	1,219

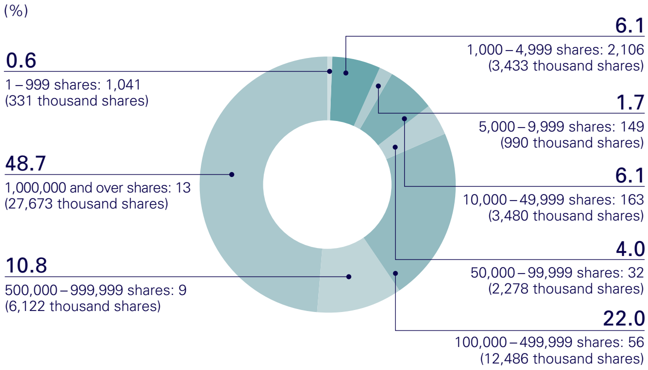
Note: Kissei holds 2,539,319 shares of treasury stock.

ANALYSIS OF SHAREHOLDERS:

By Category:



By Number of Shares Held:



KISSEI PHARMACEUTICAL CO., LTD.

19-48, Yoshino, Matsumoto City, Nagano 399-8710, Japan
URL: http://www.kissei.co.jp/

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