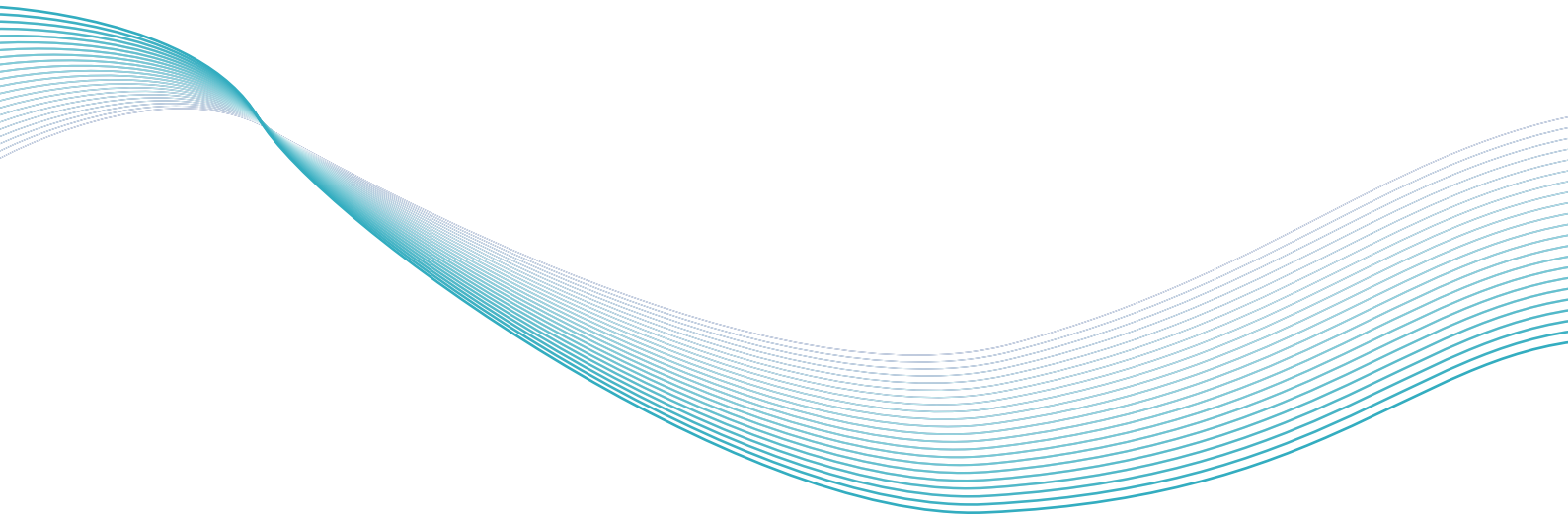
KISSEI

Annual Report 2010



About Kissei

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

The management vision underpinning its core pharmaceutical business challenges Kissei Pharmaceutical Co., Ltd., to be an R&D-oriented pharmaceutical company that contributes to the health of people around the world through innovative drug products.

To this end, Kissei is proactively pushing forward with measures to construct a total marketing system, including to promote R&D activities from the patient's perspective, to manufacture the highest quality pharmaceuticals, to provide and collect drug information necessary for the optimum use of its products, and to realize highly efficient operations.

In addition, each Group company assists in our pharmaceutical business and leverages its technologies to help develop our operations both domestically and internationally.

The diagram below encapsulates the Kissei medium-term management plan, "Changing Plan (plan for change)," which covers the period from April 2008 through March 2011. In the current fiscal year, which ends March 31, 2011 and is the plan's last year, the Kissei will heighten profitability by concentrating efforts on increasing new drug sales in the Japanese market and rapidly maximizing overseas earnings from mainstay products. In conjunction with those efforts, we will continue strengthening our R&D pipeline in order to grow as an R&D-oriented pharmaceutical company.

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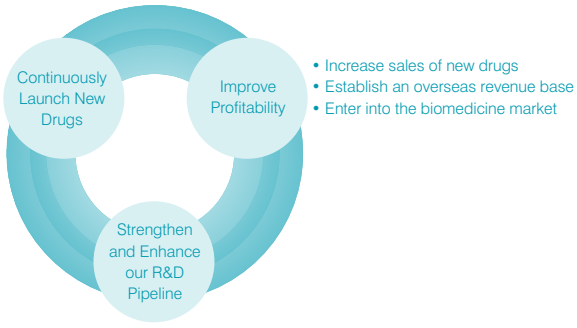


The Medium-Term Management Plan
(April 2008–March 2011)

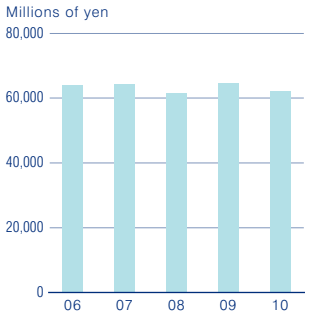
Financial Highlights

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

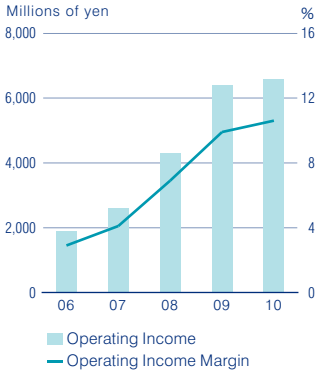
	Millions of yen, except per share data						Thousands of U.S. dollars, except per share data[1]
	2005	2006	2007	2008	2009	**2010**	**2010**
For the Year:							
Net Sales	¥60,933	¥64,008	¥64,216	¥61,481	¥64,536	**¥62,179**	**$668,591**
R&D Expenses	9,893	10,574	10,473	11,361	11,557	**10,786**	**115,978**
Capital Investment	1,660	2,284	3,954	2,460	1,414	**2,037**	**21,903**
Operating Income	5,517	1,877	2,646	4,270	6,393	**6,585**	**70,806**
Net Income	4,735	2,045	1,570	2,326	2,061	**4,371**	**47,000**
At Year-End:							
Total Assets	¥164,944	¥174,115	¥163,584	¥150,566	¥140,181	**¥147,022**	**$1,580,881**
Total Net Assets	120,086	124,260	123,232	118,775	118,415	**124,221**	**1,335,709**
Per Share (Yen and U.S. Dollars):							
Net Income[2]:							
Primary	¥86.5	¥37.3	¥28.9	¥42.9	¥38.0	**¥80.5**	**$0.866**
Fully-Diluted	75.5	33.5	27.1	40.2	37.2	**—**	**—**
Cash Dividends	20.0	24.0	28.0	28.0	30.0	**32.0**	**0.344**
Key Ratios (%):							
Operating Income Margin	9.1	2.9	4.1	6.9	9.9	**10.6**	
Return on Assets (ROA)	2.9	1.2	0.9	1.5	1.4	**3.0**	
Return on Equity (ROE)	4.0	1.7	1.3	1.9	1.7	**3.6**	
Shareholders' Equity Ratio	72.8	71.4	75.3	78.8	84.4	**84.4**	
Number of Employees	1,686	1,759	1,777	1,844	1,870	**1,920**	

1 U.S. dollar amounts are translated at the rate of ¥93=U.S.$1, the approximate effective rate of exchange at March 31, 2010.
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.

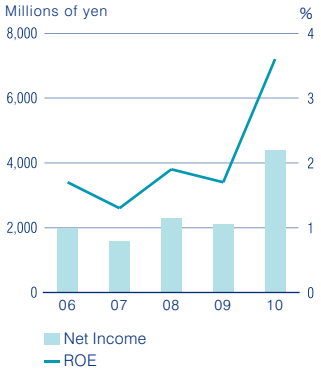
Net Sales



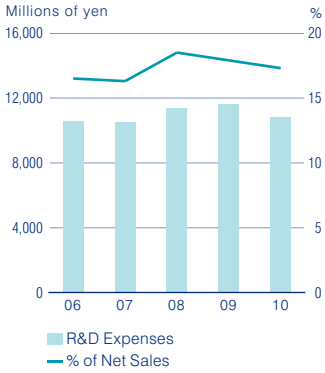
Operating Income / Operating Income Margin



Net Income / ROE



R&D Expenses



A Message from the President

Mutsuo Kanzawa
President and Chief Executive Officer

Review of Operations

Overview of Operations in the Year Under Review

In fiscal 2010, the year ended March 31, 2010, Japan's economy emerged from the worst of the recession as economic stimulus measures and inventory adjustments in respective countries led to a pickup in exports and a recovery in production. However, Japan continued to face tough economic conditions because of the sustained strength of the yen against the U.S. dollar, curbed capital investment among companies stemming from overcapacity, and an unfavorable employment market and low personal income due to the recession.

The pharmaceutical industry saw conditions become even tougher due to the Japanese government's continued policy of encouraging the use of generic drugs as a way of reducing medical treatment costs. Further, although fiscal 2011 National Health Insurance (NHI) price revisions include the trial introduction of a premium to promote new drug development, the NHI price revisions also include further reductions in the prices of long-listed drugs, or off-patent drugs for which generics are available. In addition, competition remained fierce in the information services, merchandising, and construction industries as worsening corporate earnings led to significant decreases in IT investment and capital investment as well as lackluster domestic demand.

In response to those business conditions, in the pharmaceutical business we continued cultivating such new products as Urief®, a treatment for dysuria associated with benign prostatic hyperplasia (BPH), which we began selling in tablet form in February 2009; Glufast®, a rapid onset and short acting insulin secretagogue, for which we received approval for an additional indication as a combination therapy with thiazolidinediones in February 2009; and Salagen®, a therapeutic agent for patients with dry mouth. At the same time, we actively provided medical specialists with information on our existing pharmaceutical products. Also, in April 2009 one of our overseas licensing partners, Watson Pharmaceuticals, Inc., of the U.S., launched silodosin (brand name in Japan: Urief®), a treatment for dysuria associated with BPH, in the U.S. under the product name Rapaflo®. Further, Choongwae Pharma Corporation, of South Korea, launched that treatment under the product name Thrupas® in September 2009.

In R&D, we conducted follow-up activities with a view to acquiring approval for JR-013 as a treatment of renal anemia based on recombinant human erythropoietin. Joint development partner JCR Pharmaceuticals Co., Ltd., filed a New Drug Application (NDA) for JR-013 in November 2008. Also, we advanced R&D under a range of themes. For example, we began clinical trials for YS110, a humanized anti-CD26 monoclonal antibody treatment for malignant mesothelioma. Having received approval for the production and sale of JR-013 as Epoetin Alfa BS Injection [JCR] on January 20, 2010, we are moving forward with launch preparations. In addition, Glufast®, for which Kissei filed an NDA in China, received approval in November 2009. Eisai Co., Ltd., to which Kissei granted the marketing rights for Glufast® in China, will be responsible for Glufast® sales in that market. Meanwhile, GlaxoSmithKline plc, of the U.K., to which Kissei out-licensed the new diabetes treatment remogliflozin, decided to cancel development of remogliflozin in light of a competitor's progress in developing an SGLT2 inhibitor. Also, licensing partner Recordati, of Italy, which filed an NDA for silodosin with the European Medicines Agency (EMEA), received approval on January 29, 2010. Plans call for drug price negotiations with respective European countries prior to its marketing.

In addition, in October 2009 Kissei withdrew all Cinalong® Tab.10 products, an antihypertension agent, from the market after it emerged that certain products included placebo tablets (trial prod-

ucts that do not include active constituents). UCB Japan Co., Ltd., manufactured Cinalong® while Kissei was responsible for its marketing. Kissei subsequently returned its marketing rights for Cinalong® to UCB Japan on February 28, 2010.

In other businesses, the Group is strengthening its management foundations by restructuring the operations of Group companies and creating synergies. For example, the Group sought to concentrate management resources and use them more efficiently by merging consolidated subsidiary Kissei Comtec Co., Ltd., and unconsolidated subsidiary Kissei Wellcom Co., Ltd., on December 1, 2009. Also, unconsolidated subsidiary Mitsui Kanko Co., Ltd., became a subsidiary of consolidated subsidiary Kissei Shoji Co., Ltd., on March 1, 2010.

As a result, for the fiscal year under review net sales declined 3.7% year on year, to ¥62,179 million, operating income rose 3.0%, to ¥6,585 million, and net income was up 112.1%, to ¥4,371 million.

By segment, the pharmaceutical business saw segment sales decline 2.9% year on year, to ¥53,708 million, because a decrease in licensing fee royalties received, the return of marketing rights accompanying the withdrawal of Cinalong® during the fiscal year, and the effect of generic drugs and other competing drugs on existing products counteracted higher sales of new drugs Urief®, Glufast®, and Salagen®. Meanwhile, other businesses recorded an 8.3% year-on-year decline in segment sales, to ¥8,471 million, as higher revenues from information services and merchandising were unable to completely absorb lower revenues from construction projects.

Outlook for the Current Fiscal Year

In the pharmaceutical industry, business conditions will likely remain tough due to the implementation of NHI price revisions in April 2010 and the stepping up of policies to promote the use of generic drugs in relation to revisions to medical treatment fees.

As for other businesses, challenging conditions are expected to continue in respective industries due to the weak base of domestic demand and concern over the possibility of worsening deflation.

In response to those business conditions, the Kissei Group aims to establish a management structure that can exploit Group synergies. Further, we will take steps to realize returns on past investments in R&D and improve profitability. At the present juncture, our performance forecast for the fiscal year ending March 31, 2011, is as follows.

Consolidated performance forecast

	Millions of yen		%
	Forecast for year ending March 2011	Results for year ended March 2010	Change
Net Sales	¥65,800	¥62,179	5.8
Operating Income	6,600	6,585	0.2
Net Income	4,700	4,371	7.5

Net Sales

In the pharmaceutical business, we expect revenues to increase as the cultivation of Urief® and Glufast® as well as the launch of Epoetin Alfa BS Injection counteracts the effect of NHI price revisions. Although other businesses continue to face challenging business conditions, we expect the segment's revenues to rise slightly.

Income

In the pharmaceutical business, we will continue actively investing in R&D and product cultivation. Nevertheless, we anticipate that higher revenues and a decrease in the cost of sales as a percentage of net sales will increase gross profit and produce increases in operating income and net income. In other businesses, earnings will likely decline due to an increase in the cost of sales as a percentage of net sales. We do not anticipate any noteworthy other income or expenses.

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
Epoetin Alfa BS Injection [JCR] (epoetin kappa): renal anemia
Bezatol® (bezafibrate): hyperlipidemia
Utemerin® (ritodrine HCl): threatened abortion and premature labor
Xanbon® (ozagrel Na): acute cerebral thrombosis, etc.
Rizaben® Eye Drops (tranilast): allergic conjunctivitis
Rizaben® (tranilast): allergy, hypertrophic scar, etc.
Domenan® (ozagrel HCl): bronchial asthma

Main Nutritional Foods

Yumegohan: for patients with renal disease
New Throking-i: for seniors
Cupagalorie: energy supplement

Management Strategy

In the pharmaceutical industry, business conditions are changing dramatically. With government finances under pressure and restructuring of the NHI system under consideration, we forecast low growth in the domestic market for pharmaceutical medical treatments. Also, in contrast to the global shortage of "seed" compounds, technological innovation has resulted in new categories of pharmaceuticals coming to the fore, such as biomedicines. As a result, competition to develop new drugs is growing increasingly fierce.

Against that backdrop, in accordance with our three-year medium-term management plan, "Changing Plan (plan for change)," which began from April 2008, we will continue cultivating the three new drugs launched during the period of the previous medium-term management plan and improve profitability by taking steps to increase efficiency throughout our operations. Based on that improved earnings foundation, we will pursue drug discovery even more vigorously in order to remain an R&D-oriented pharmaceutical company whose existence is relevant and of value to the world at large.

In the fiscal year ending March 31, 2011, the last year of the medium-term management plan, Kissei will continue to increase its earning power in the domestic market, establish a stable overseas earnings base, and further strengthen and enrich its R&D pipeline. Also, we will develop corporate governance systems, promote business management that reflects corporate social responsibility, and maximize corporate value while working to remain a company that stakeholders trust.

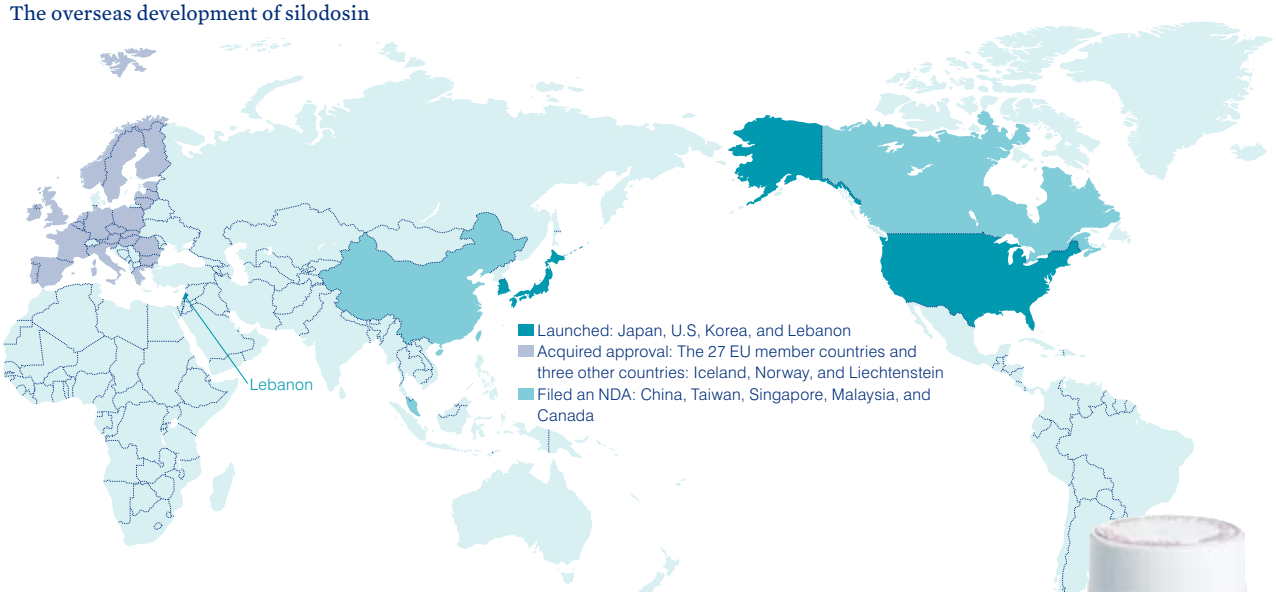
As we take on those challenges, we would like to ask for the continued understanding and support of our stakeholders.

June 2010

Mutsuo Kanzawa
President and Chief Executive Officer

Establish a stable overseas revenue base

The overseas development of silodosin



In April 2009, Watson Pharmaceuticals, Inc., launched U.S. sales of silodosin, under the brand name Rapaflo®, a treatment for dysuria associated with BPH that we licensed to the company. Meanwhile, another licensing partner, Recordati., of Italy, received approval for silodosin in Europe in January 2010. Recordati plans to bring silodosin to market in stages during 2010 after conducting drug price negotiations with respective European countries.

The rapid spread of silodosin worldwide promises to boost overseas sales.

Research and Development

The Kissei invests actively in R&D in its core pharmaceutical business to realize the management vision of being an R&D-oriented pharmaceutical company that contributes to the health of people around the world through innovative drug products. At the same time, the Company introduces strategic R&D themes and strengthens and enriches its R&D pipeline. Further—aiming to establish a stable overseas earnings base—the Company is promoting international roll-outs by licensing proprietary Kissei products.

For an overview of R&D initiatives in the pharmaceutical business in the fiscal year under review, please see "A Message from the President" on page 2 of this report.

In other businesses, we are creating platforms from which we can expand operations by actively investing in a range of areas, such as research on the latest IT for software development.

R&D expenses in the fiscal year under review totaled ¥10,786 million, or 17.3% of net sales.

Pharmaceutical Business

Kissei Pharmaceutical continues to actively pursue R&D in its core areas, particularly metabolism and endocrinology, primarily for diabetes, and the urogenital system. Total R&D expenses in this business sector in the fiscal year under review were ¥10,722 million.

Other Businesses

Aiming to develop business globally, we have established a development system for medical software and other package software, and are advancing initiatives to develop next-generation technologies. R&D expenses in this business sector in the fiscal year under review totaled ¥64 million.

R&D Pipeline (In-House)
As of June 2010

Development stage	Generic name / Development code	Development classification	Therapeutic target
NDA	KMV-0207	Kissei	Improvement of postprandial plasma glucose transition in patients with type 2 diabetes mellitus - Mitiglinide / Voglibose combination product -
Phase III	KUC-7483	Kissei	Overactive bladder - Beta 3 agonist -
Phase II	KPS-0373	In-licensed / Shionogi (Japan)	Spinocerebellar ataxia - Non-peptide mimetic of TRH -
Phase I / II	YS110	In-licensed / Y's Therapeutics, University of Tokyo, JST (Japan)	Malignant mesothelioma - Humanized anti-CD26 monoclonal antibody -
Phase I	KLH-2109	Kissei	Endometriosis/ uterine fibroids - GnRH antagonist -
	Silodosin/ KSO-0400	Kissei	Dysuria associated with benign prostatic hyperplasia - Alfa 1A antagonist - - Once-daily formulation -
	Ozagrel/ KCT-0809	Co-development / Teika (Japan)	Dry-eye - Restoration of corneal and conjunctival epithelium disorder -

R&D Pipeline (Out-Licensing)
As of June 2010

Development stage	Generic name / Development code	Development classification	Territory	Therapeutic target
Approved	Silodosin	Recordati (Italy)	Europe, Middle East, Africa	Dysuria associated with benign prostatic hyperplasia
NDA	Mitiglinide	Eisai (Japan)	ASEAN (10 countries)[1]	Type 2 diabetes
	Silodosin	Daiichi Sankyo (Japan)	China	Dysuria associated with benign prostatic hyperplasia
		Synmosa (Taiwan)	Taiwan, Hong Kong	
		Eisai (Japan)	ASEAN (10 countries)[2], India, Sri Lanka	
Phase III	Mitiglinide	Elixir (U.S.)	North America, Central America, South America	Type 2 diabetes
		USV (India)	India	
Phase II	Bedoradrine	MediciNova (U.S.)	Worldwide, except for Japan	Status asthmatics / Threatened premature labor
	Tranilast	Nuon Therapeutics (U.S.)	Worldwide, except for Japan and Korea	Rheumatoid arthritis / Chronic hyperuricemia with gout
Phase I	KGA-3235	Dainippon Sumitomo (Japan)	Japan	Type 2 diabetes
		GlaxoSmithKline (U.K.)	Europe, USA, others	
	Bedoradrine	MediciNova (U.S.)	Worldwide, except for Japan	COPD

1 Approved in Philippines and Thailand, NDA in 3 countries, and NDA preparation in 5 countries
2 NDA in 2 ASEAN countries

Corporate Governance

Corporate Governance Structure

Overview of Corporate Governance Structure

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

Kissei's Board of Directors sets basic strategies for the Company and makes decisions on all important matters while also providing oversight of business execution. In principle, the Board of Directors 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. In addition, the Board of Managing Directors, which is made up of Directors at the Managing Director level and higher, is convened by the President and deliberates and makes decisions regarding predetermined items for discussion.

The Company has adopted a corporate auditor system, with two in-house and two external auditors. The division of responsibility among the corporate auditors is designated in the auditing plan, which along with the audit policy is reported to the Board of Directors at the beginning of each fiscal year.

Reasons for Adopting the Corporate Governance Structure

The Company's four corporate auditors, including the two external auditors, attend meetings of the Board of Directors and freely share their opinions. One of the external auditors is a licensed attorney and one is a certified public accountant, and they are consequently able to provide expertise and a specialist perspective on operations. In addition, the two external auditors are independent board members as defined by the Tokyo Stock Exchange.

Kissei's Board of Directors does not include any external directors, but a structure is in place to provide a robust management oversight function along with the maintenance of objectivity and neutrality, and the current system has been adopted on this basis.

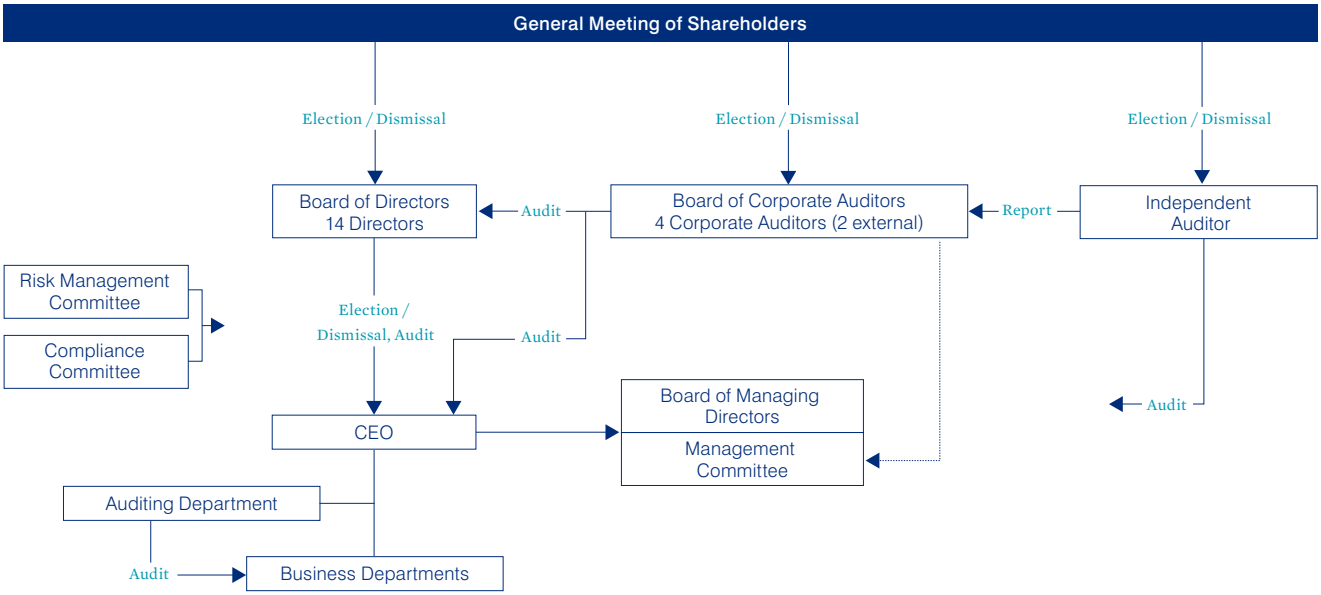
Internal Control System and Risk Management Structure

The Company operates under the management philosophy of "contributing to society through high-quality, innovative pharmaceutical products," and "serving society through our employees." The Kissei Code of Conduct guides employee conduct, with the aim of upholding high ethical standards in R&D, manufacturing, and sales activities, all of which are fundamental to our business as a company involved in life sciences. In addition, Kissei has established the Compliance Committee to provide advice to the Board of Directors to help ensure that all laws and regulations are followed both in letter and spirit. The Compliance Program is conducted on a regular basis, and as part of this program the Compliance Program Manual is continually updated with employees receiving regular instruction on compliance-related issues. In May 2006, Kissei also created the Basic Policy on Internal Controls, in which every employee is trained. Based on this basic policy, in addition to maintaining all Company rules, the Risk Management Committee—which is an advisory body to the Board of Directors—was established, and risk management and other internal systems are consequently promoted.

Internal Audits

Kissei has established the Auditing Department, an independent body that reports directly to the president. This five-member body conducts internal audits for each department and all internal systems in the Company based on the yearly auditing plan, ensuring that all departments carry out business activities in an appropriate manner.

Diagram of Corporate Governance Bodies and Internal Control System



The Board of Corporate Auditors and the Auditing Department discuss the auditing systems and auditing plan at the beginning of each fiscal period. In addition, they meet each month to exchange opinions on the status of the audits being implemented.

External Auditors

The two external auditors have no special interests in the Company. External auditors are expected to participate in the management of the Company from an objective and neutral perspective, and this is recognized as ensuring a high level of management transparency.

Independent Auditor

Kissei regularly undergoes outside auditing by an independent auditor. The independent auditor engages in discussions with members of the Board of Directors, finance officers, and the Board of Corporate Auditors, which aids the strengthening and maintenance of the corporate governance structure. The two certified public accountants that execute the independent audit of the Company are employees of Ernst & Young ShinNihon LLC. Also, the Company has deployed four certified public accountants to assist the independent auditors and a further 10 employees to carry out audit-related duties.

Kissei Basic Policy on Internal Controls (Summary)

Kissei resolved to create the Basic Policy to Maintain Internal Control Systems at the Board of Directors meeting held on May 15, 2006. The details are as follows.

In the Basic Policy to Maintain Internal Control Systems, Kissei Pharmaceutical declares its intent to utilize the collective power of all its corporate officers and employees in order to continually improve corporate value and to fulfill its corporate social responsibilities, which are founded on its management philosophy. Based on article 362, paragraph 5 of the Companies Act, this basic policy defines policies for all activities to establish and maintain the Company's internal control systems.

1. Systems to ensure that directors and employees comply with laws and regulations as well as the Company's articles of incorporation when executing their duties
- In accordance with the Kissei Code of Conduct, a precondition of all Company activities shall be absolute compliance with corporate ethics as well as laws and regulations.
- The Board of Directors shall appoint a director responsible for compliance, and in addition to having overall responsibility for the Compliance Promotion Department, shall establish the Compliance Committee to act as an advisory body to the Board of Directors.

2. Systems for the storage and management of information relating to the directors' execution of duties
- The Board of Directors shall establish and maintain systems to appropriately store and manage information relating to the execution of duties by directors and departmental officers.
- The director responsible for legal affairs shall establish regulations relating to document management and storage and maintain them, together with related materials and other information, in an appropriate storage medium with search functionality.

3. Systems for regulations pertaining to risk management and related systems
- The Board of Directors shall define the risk management and other necessary internal regulations and establish and maintain systems to fully ascertain and manage risks relating to the execution of duties.

4. Systems to ensure directors execute their duties efficiently
- The Company shall establish and maintain systems to increase the efficiency with which directors execute their duties, construct internal organizations aiming to achieve cooperation and control, clearly allocate duties based on internal regulations, establish limits on authority and decision-making rules, and ensure duties are executed appropriately and efficiently.

5. Systems to ensure the appropriate execution of duties within the corporate group
- As prescribed by the Kissei Group Code of Conduct, Group companies will aim to foster an awareness among all their directors and employees of the importance of legal compliance.
- The Board of Directors shall establish and maintain administrative rules for affiliates, and for predetermined items shall require a request for approval and notification to the Affiliates Management Department prior to resolution by the Board of Directors, and when necessary each Group company shall acquire prior approval for a resolution from the Company's Board of Directors.

6. Items for systems relating to Company employees who assist the corporate auditors and the independence of these employees
- If a corporate auditor requests that a Company employee assists them in carrying out their duties, then, following discussions with other corporate auditors, the employee shall be deployed to the Auditing Department as an assistant to the corporate auditors.

7. Systems to ensure reporting to the corporate auditors and the Board of Corporate Auditors by directors and employees, and other systems to enable the corporate auditors to carry out their duties effectively
- Each responsible director or departmental officer shall report those items to the corporate auditors that were decided must be reported following discussions between the corporate auditors and the Board of Directors.

Corporate Social Responsibility (CSR)

The Kissei's management philosophy is "contributing to society through high-quality, innovative pharmaceutical products" and "serving society through our employees." This philosophy has served as the starting point for our CSR-centered management since the Company was founded. In addition to maintaining systems to promote CSR throughout the Group, we are further broadening the scope of our CSR initiatives.

Compliance Initiatives

All of our employees are expected to act in accordance with societal and corporate ethics. The Company believes this action enhances the brand power and image of our products and improves both our corporate value and bonds of trust we share with our stakeholders.

In July 1999, the Company formulated the Kissei Code of Conduct as a specific guidelines for employee behavior, building on the basic principles for employee behavior that had been developed from the perspective of promoting corporate social responsibility (CSR) as a responsible corporate citizen, and in April 2001, we published the first edition of the Kissei Pharmaceutical's Compliance Program Manual. Both the code of conduct and the compliance program manual have subsequently been revised several times, with the manual in particular having been revised to ensure that employees adhere to the Companies Act and other newly enacted laws and regulations, and that their behavior reflects changes in the external operating environment. The fourth edition of the manual, published in April 2009, was distributed to all Kissei Group employees to provide practical guidance on compliance matters.

Kissei carries out compliance training for all employees to ensure that the importance of compliance with legal regulations and corporate ethics is thoroughly understood, and that each individual's role and responsibility regarding compliance is clear. In addition to various training programs for directors and division managers, newly appointed managers, and new employees, compliance training is also carried out by division and section to directly address operational issues. In addition, a helpline has been established outside the regular corporate organization as an additional consultation and contact system for compliance issues.

Consideration for Society

As a responsible corporate citizen, we place great importance on our relationships with local communities and society at large. We actively participate in and contribute to the lives of the people in our local communities through involvement in cultural, health, welfare, environmental, and sports activities, as well as medical treatment. One example is the Saito Kinen Festival, a global music festival held each fall in Matsumoto City, Nagano Prefecture. We have been the festival's main sponsor since it began in 1992. We also sponsor multifaceted research into the causes, prevention, diagnosis, and treatment of a range of conditions affecting women of reproductive age, particularly in the perinatal period, as well as conditions affecting middle-aged and elderly women. Our goal is to contribute to the improved health and welfare of the people of Japan by helping to develop both new medical treatments and the medical profession itself. To this end, we established the Kanzawa Medical Research Foundation in 1997 to promote and provide support for excellence in medical research.

Furthermore, as a first step in providing high-quality medical care for each individual patient, the Company held a joint industry-university course on urology from January 2006 to March 2010, and is holding a course on serious nerve diseases from April 2010, as a sponsored course at the Shinshu University School of Medicine. The Company also contributes to the development of the field of medicine and local communities through other ongoing, suitable donations.

Consideration for Customers

We established the Product Customer Service Center in 1995 to respond to inquiries from doctors, pharmacists, and other health care professionals, as well as from patients and their families.

We also introduced the Safety Information Providing System in October 2006 to enable our medical representatives (MRs)—essentially product information specialists—to use their notebook PCs for on-demand access to product safety data prepared by the Company's Information Department. This allows MRs to quickly respond on-site to inquiries from medical staff regarding side effects and other questions about our pharmaceuticals.

Consideration for Employees

Our fundamental philosophy toward our employees is based on our vision of "mutually respecting an individual's philosophy and sense of values, and providing a stimulating working environment to help build a dynamic and creative company."

We strive to maintain an ideal workplace through appropriate systems for recruitment, work, and employee management. The work systems we have introduced, for example, enable employees to choose a way of working best suited to the individual's capabilities and life plan. In many divisions and departments, we have introduced various flexible work hour systems like a deemed working hour system and flextime. Our goal is to create a working environment that allows all of our employees to fully utilize their abilities.

Given the increasing concern in recent years of the occurrence of a major earthquake, flood, or other widespread natural disaster, in October 2008 Kissei introduced a "Safety Confirmation System" as a means of maintaining contact between the Company and employees. This system sends an e-mail to confirm the safety of all employees in the stricken area, and can also be used by employees to confirm the safety of their families. Kissei has also been recognized for its maternity leave and nursing-care leave programs, and in November 2008 was awarded certification as a standards-compliant general business owner (*Kurumin*) in accordance with the Next Generation Education and Support Promotion Act.

Consideration for the Environment

Our basic environment policy is based on the following fundamental company goal: As a drug discovery and R&D-oriented company that aims to ensure the future health of people around the world, we will actively work to preserve the environment as part of our corporate social responsibilities and contribute to realizing an affluent and comfortable society. Based on this basic environment policy, we strive to minimize the adverse impact of all our activities on the environment and to contribute to environmental protection.

Kissei's environmental management promotes ISO 14001-compliant environmental management systems as a basic policy, and in 2000 we received ISO 14001 accreditation for environment management systems at our company head office, Matsumoto and Shiojiri plants, and Nutritional Business Center. This was followed by accreditation for our Pharmacokinetics Research Laboratory, Tokyo head office, Toxicological Laboratories, Central Research Laboratories, and Pharmaceutical Laboratories. Each facility has a designated person responsible for environmental management, to promote environmental protection activities.

Financial Review

Financial Position

At the end of the fiscal year under review, ended March 31, 2010, total assets stood at ¥147,022 million, up 4.9%, or ¥6,841 million, from the previous fiscal year-end. Total current assets amounted to ¥85,640 million, an increase of ¥3,612 million. That increase was mainly due to higher cash on hand and in banks offsetting lower notes and accounts receivable. Fixed assets rose ¥3,229 million, to ¥61,382 million, primarily because an increase in the market value of investments in securities counteracted a decrease due to depreciation.

Total liabilities amounted to ¥22,801 million at fiscal year-end, up 4.8%, or ¥1,035 million, from the previous fiscal year-end. Total current liabilities stood at ¥16,114 million, an increase of ¥176 million, which was principally attributable to higher income taxes payable canceling the effect of lower notes and accounts payable. Total long-term liabilities increased ¥859 million, to ¥6,687 million, mainly resulting from increases in long-term debt and accrued retirement benefits to employees.

Total net assets amounted to ¥124,221 million at fiscal year-end, up 4.9%, or ¥5,806 million, from the previous fiscal year-end. That increase primarily reflected rises in retained earnings and unrealized holding gains on securities.

As a result, the shareholders' equity ratio was 84.4%, unchanged from the previous fiscal year-end.

Financial Results

Net sales declined 3.7% year on year, to ¥62,179 million. Accounting for the majority of net sales, the segment sales of the Kissei Group's core pharmaceutical business declined 2.9% year on year, or ¥1,588 million, to ¥53,708 million, partly because lower licensing fee royalties received, the return of marketing rights accompanying the withdrawal of Cinalong® during the fiscal year, and the effect of generic drugs and other competing drugs on existing products counteracted higher sales of new drugs Urief®, Glufast®, and Salagen®. Further, other businesses recorded an 8.3% year-on-year decline in segment sales, or ¥769 million, to ¥8,471 million, as higher revenues from information services and merchandising were unable to completely absorb lower revenues from construction projects.

Regardless of the 3.7% decrease in net sales, gross profit only declined 1.0% year on year, or ¥397 million, to ¥40,419 million, thanks to a 1.8 percentage points decrease in the cost of sales as a percentage of net sales. This improvement was thanks to a decrease of 1.1 percentage points in the cost of sales as a percentage of segment sales in the pharmaceutical business—which reflected a change in the breakdown of segment sales and improved production efficiency resulting from new products—and a decrease of 3.4 percentage points in the cost of sales as a percentage of segment sales in other businesses.

In selling, general and administrative expenses, research and development expenses were down as a result of carrying over clinical trial research expenses to the following fiscal year and lower license-related expenses. As a result, operating income rose 3.0% year on year, or ¥192 million, to ¥6,585 million.

In other income (expenses), the Company posted a gain on evaluation of securities for the fiscal year, compared with a loss on evaluation of securities for the previous fiscal year. Further, in the previous fiscal year the Company recorded a large loss on devaluation of investments in securities, while in the fiscal year it saw a significant decrease in loss on devaluation of investments in securities. The net result of those factors contributed ¥3,066 million to income, and as a consequence the Company recorded other income of ¥32 million.

As a result, income before income taxes and minority interests was up 97.0% year on year, or ¥3,258 million, to ¥6,617 million, and net income rose 112.1% year on year, or ¥2,310 million, to ¥4,371 million.

Basic Policy on the Distribution of Profits / Dividends for the Fiscal Year under Review and the Current Fiscal Year

The Company aims to secure a solid management base while providing stable, consistent returns to shareholders through cash dividends. The Company considers working to make efficient use of capital while paying fair dividends to shareholders in accordance with profit levels to be a key management issue.

The Company's basic dividend policy is to make twice-yearly dividend payments, comprised of interim and year-end cash dividends. The Board of Directors decides the amount of interim dividends, while the General Meeting of Shareholders decides the amount of year-end dividends. Also, the Company's Articles of Incorpo–ration stipulate that a resolution of the Board of Directors enables the payment of interim dividends with record dates of September 30 each year.

Giving first priority to increasing shareholder value, the Company will acquire and dispose of treasury stock, based on resolutions of the Board of Directors, flexibly and as necessary in light of operational developments.

Internal funds are maintained to respond to expected changes in government policy, system reforms, and the challenges of increasing globalization. At the same time, the Company will actively invest in R&D to develop drugs that patients need. The Company believes this policy will not only contribute to future profits but also enable the Company to distribute profits to its shareholders appropriately.

For the fiscal year under review, the Company paid a year-end cash dividend of ¥16.0 per share, which when combined with an interim cash dividend of ¥16.0 per share gave a full-year cash dividend of ¥32.0 per share.

For the current fiscal year, ending March 31, 2011, the Group plans to pay an interim cash dividend of ¥17.0 per share and a year-end cash dividend of ¥17.0 per share, giving a full-year cash dividend of ¥34.0 per share.

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 the 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 large investments of both time and funds. When developing new drugs, the chances of discovering beneficial indications 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. Generally, the prices are revised biannually. 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 combinations 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 as its own. 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 events 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, 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 Company 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 this 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 faced by the Group.

Consolidated Balance Sheets

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
At March 31, 2009 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	2009	2010	2010
Current Assets:			
Cash on hand and in banks (Note 4 and 5)	¥ 16,802	**¥ 22,645**	**$ 243,495**
Notes and accounts receivable (Note 5)	23,085	**22,063**	**237,237**
Marketable securities (Note 4 and 5 and 6)	26,362	**26,097**	**280,613**
Inventories (Note 7)	10,324	**8,530**	**91,720**
Deferred tax assets—current (Note 9)	1,952	**2,412**	**25,935**
Other current assets	3,578	**3,906**	**42,000**
Allowance for doubtful accounts	(75)	**(13)**	**(140)**
Total current assets	82,028	**85,640**	**920,860**
Property, Plant and Equipment:			
Buildings and structures	35,382	**35,808**	**385,032**
Less: accumulated depreciation	(23,459)	**(23,654)**	**(254,344)**
Buildings and structures, Net	11,923	**12,154**	**130,688**
Land	13,415	**13,368**	**143,742**
Construction in progress	17	**24**	**258**
Other	14,148	**13,625**	**146,505**
Less: accumulated depreciation	(11,134)	**(11,344)**	**(121,978)**
Other, Net	3,014	**2,281**	**24,527**
Total property, plant and equipment	28,369	**27,827**	**299,215**
Intangible Assets:			
Software for internal use	1,747	**1,469**	**15,796**
Other	505	**342**	**3,677**
Total intangible assets	2,252	**1,811**	**19,473**
Investments and Other Assets:			
Investments in securities (Note 5 and 6)	23,129	**29,611**	**318,397**
Leasehold deposits and guarantee deposits	481	**434**	**4,667**
Deferred tax assets—non-current (Note 9)	2,268	**405**	**4,355**
Other	1,654	**1,294**	**13,914**
Total investments and other assets	27,532	**31,744**	**341,333**
Total assets	¥140,181	**¥147,022**	**$1,580,881**

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of yen 2009	Millions of yen **2010**	Thousands of U.S. dollars (Note 3) **2010**
Current Liabilities:			
Notes and accounts payables:	¥ 5,698	**¥ 5,624**	**$ 60,473**
Short-term bank loans (Note 8)	2,340	**2,070**	**22,258**
Current portion of long-term debt (Note 8)	63	**143**	**1,537**
Income taxes payable (Note 9)	522	**2,300**	**24,731**
Accrued bonuses to employees	1,938	**2,046**	**22,000**
Accrued bonuses to directors and corporate auditors	15	**30**	**323**
Reserve for sales returns	22	**62**	**667**
Reserve for sales rebates	474	**425**	**4,570**
Reserve for sales promotion expenses	219	**183**	**1,968**
Other current liabilities	4,647	**3,231**	**34,742**
Total current liabilities	15,938	**16,114**	**173,269**
Long-Term Liabilities:			
Long-term debt (Note 8)	841	**1,295**	**13,925**
Deferred tax liabilities—non-current (Note 9)	—	**168**	**1,806**
Accrued retirement benefits to employees (Note 10)	3,435	**3,719**	**39,989**
Accrued retirement benefits to directors and corporate auditors	104	**115**	**1,237**
Other long-term liabilities	1,448	**1,390**	**14,946**
Total long-term liabilities	5,828	**6,687**	**71,903**
Total liabilities	21,766	**22,801**	**245,172**
Commitments and Contingent Liabilities (Note 11)			
Net Assets:			
Common stock:			
Authorized: 227,000,000 shares			
Issued: 56,911,185 shares and 56,911,185 shares at March 31, 2009 and 2010, respectively	24,357	**24,357**	**261,903**
Additional paid-in capital	24,254	**24,254**	**260,796**
Retained earnings	72,895	**75,583**	**812,720**
Treasury stock (2,617,582 shares and 2,635,681 shares at March 31, 2009 and 2010)	(4,301)	**(4,336)**	**(46,624)**
Total shareholders' equity	117,204	**119,858**	**1,288,795**
Valuation, translation adjustments and others: Unrealized holding gains on securities	1,045	**4,182**	**44,968**
Total valuation, translation adjustments and others	1,045	**4,182**	**44,968**
Minority interests in consolidated subsidiaries	166	**181**	**1,946**
Total net assets	118,415	**124,221**	**1,335,709**
Total liabilities and net assets	¥140,181	**¥147,022**	**$1,580,881**

Consolidated Statements of Income

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
For the years ended March 31, 2008, 2009 and 2010

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2009	2010	2010
Net Sales	¥61,481	¥64,536	**¥62,179**	**$668,591**
Cost of Sales	22,801	23,720	**21,760**	**233,978**
Gross profit	38,680	40,816	**40,419**	**434,613**
Selling, General and Administrative Expenses (Note 14)	34,410	34,423	**33,834**	**363,807**
Operating income	4,270	6,393	**6,585**	**70,806**
Other Income (Expenses):				
Interest and dividend income	713	784	**653**	**7,022**
Interest expense	(159)	(106)	**(47)**	**(505)**
Loss on sale or disposal of properties	(384)	(22)	**(139)**	**(1,495)**
Gain (loss) on sales of securities	5	—	**(14)**	**(151)**
Income (loss) from investments in partnerships	156	(242)	**(184)**	**(1,978)**
Gain on sales of property, plant and equipment	19	81	**3**	**32**
Gain (loss) on sale of investments in securities	362	—	**(93)**	**(1,000)**
Settlement income	—	—	**66**	**710**
Disposition of sales information	571	—	**—**	**—**
Gain (loss) on evaluation of securities	(586)	(683)	**174**	**1,871**
Loss on devaluation of investments in securities	(268)	(2,863)	**(79)**	**(849)**
Loss on disposal of inventories	(141)	—	**—**	**—**
Loss on devaluation of inventories	—	(12)	**—**	**—**
Loss on extinguishment of tie-in shares	—	—	**(35)**	**(376)**
Impairment loss (Note 15)	—	—	**(329)**	**(3,538)**
Loss on devaluation of stocks of subsidiaries and affiliates	(86)	—	**—**	**—**
Other, net	(1)	29	**56**	**602**
	201	(3,034)	**32**	**345**
Income before income taxes and minority interests	4,471	3,359	**6,617**	**71,151**
Income Taxes (Note 9):				
Current	1,839	1,290	**2,784**	**29,936**
Deferred	284	(5)	**(553)**	**(5,946)**
	2,123	1,285	**2,231**	**23,990**
Minority Interests	(22)	(12)	**(15)**	**(161)**
Net income	¥ 2,326	¥ 2,061	**¥ 4,371**	**$ 47,000**

	Yen			U.S. dollars (Note 3)
Per Share:				
Net income:				
Primary	¥42.9	¥38.0	**¥80.5**	**$0.866**
Fully-diluted	40.2	37.2	**—**	**—**
Cash dividends	28.0	30.0	**32.0**	**0.344**

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, 2008, 2009 and 2010

	Millions of yen						
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Unrealized holding gains on securities	Minority interests in consolidated subsidiaries
Balance at March 31, 2007	56,796,454	¥24,221	¥24,114	¥71,528	¥(4,119)	¥7,357	¥131
Net income for the year	—	—	—	2,326	—	—	—
Cash dividends paid	—	—	—	(1,519)	—	—	—
Execution of convertible bonds	42,337	50	50	—	—	—	—
Treasury stock purchased (41,103 shares)	—	—	—	—	(90)	—	—
Unrealized holding gains on securities	—	—	—	—	—	(5,371)	—
Gain on sale of treasury stock (573 shares)	—	—	1	—	1	—	—
Increase due to merger	—	—	—	73	—	—	—
Increase in minority interests	—	—	—	—	—	—	23
Balance at March 31, 2008	56,838,791	24,271	24,165	72,408	(4,208)	1,986	154
Net income for the year	—	—	—	2,061	—	—	—
Cash dividends paid	—	—	—	(1,574)	—	—	—
Execution of convertible bonds	72,394	85	85	—	—	—	—
Treasury stock purchased (43,325 shares)	—	—	—	—	(102)	—	—
Unrealized holding gains on securities	—	—	—	—	—	(941)	—
Gain on sale of treasury stock (5,592 shares)	—	—	4	—	9	—	—
Increase in minority interests	—	—	—	—	—	—	12
Balance at March 31, 2009	56,911,185	24,357	24,254	72,895	(4,301)	1,045	166
Net income for the year	—	—	—	**4,371**	—	—	—
Cash dividends paid	—	—	—	**(1,683)**	—	—	—
Treasury stock purchased (18,956 shares)	—	—	—	—	**(37)**	—	—
Unrealized holding gains on securities	—	—	—	—	—	**3,137**	—
Gain on sale of treasury stock (857 shares)	—	—	**0**	—	**2**	—	—
Increase in minority interests	—	—	—	—	—	—	**15**
Balance at March 31, 2010	**56,911,185**	**¥24,357**	**¥24,254**	**¥75,583**	**¥(4,336)**	**¥4,182**	**¥181**

	Thousands of U.S. dollars (Note 3)						
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Unrealized holding gains on securities	Minority interests in consolidated subsidiaries
Balance at March 31, 2009	56,911,185	$261,903	$260,796	$783,817	$(46,247)	$11,237	$1,785
Net income for the year	—	—	—	**47,000**	—	—	—
Cash dividends paid	—	—	—	**(18,097)**	—	—	—
Treasury stock purchased	—	—	—	—	**(398)**	—	—
Unrealized holding gains on securities	—	—	—	—	—	**33,731**	—
Gain on sale of treasury stock	—	—	**0**	—	**21**	—	—
Increase in minority interests	—	—	—	—	—	—	**161**
Balance at March 31, 2010	**56,911,185**	**$261,903**	**$260,796**	**$812,720**	**$(46,624)**	**$44,968**	**$1,946**

Consolidated Statements of Cash Flows

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
For the years ended March 31, 2008, 2009 and 2010

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2009	2010	2010
Cash Flows from Operating Activities:				
Income before income taxes and minority interests	¥ 4,471	¥ 3,359	**¥ 6,617**	**$ 71,151**
Depreciation and amortization	3,863	3,710	**3,234**	**34,774**
Increase (decrease) in allowance reserves	396	(1,501)	**349**	**3,753**
Impairment loss	—	—	**329**	**3,538**
Interest and dividend income	(713)	(784)	**(653)**	**(7,022)**
Interest expense	159	106	**47**	**505**
Foreign exchange loss	6	0	**2**	**21**
(Gain) loss on sales of securities	(5)	—	**14**	**151**
(Gain) loss on evaluation of securities	586	683	**(174)**	**(1,871)**
Gain on sales of property, plant and equipment	(19)	(81)	**(3)**	**(32)**
Disposition of sales information	(571)	—	**—**	**—**
Loss on devaluation of investments in securities	268	2,863	**79**	**849**
Settlement income	—	—	**(66)**	**(710)**
Loss on extinguishment of tie -in shares	—	—	**35**	**376**
Loss on devaluation of stocks of subsidiaries and affiliates	86	—	**—**	**—**
Loss on sale or disposal of properties	374	19	**139**	**1,495**
(Gain) loss on sale of investments in securities	(362)	—	**93**	**1,000**
Decrease in notes and accounts receivable	4,719	335	**1,012**	**10,882**
(Increase) decrease in inventories	757	(204)	**1,813**	**19,494**
(Increase) decrease in other current assets	984	458	**(314)**	**(3,376)**
Increase (decrease) in notes and accounts payable	(5,196)	1,346	**(76)**	**(817)**
Increase (decrease) in other current liabilities	(1,956)	881	**(1,640)**	**(17,634)**
Increase (decrease) in other long-term liabilities	—	1,378	**(0)**	**(0)**
Other	(144)	293	**220**	**2,365**
Sub total	7,703	12,861	**11,057**	**118,892**
Receipt of interest and dividends	676	724	**621**	**6,677**
Payment of interest	(161)	(105)	**(47)**	**(505)**
Settlement package received	—	—	**66**	**710**
Payment of income taxes	(1,912)	(1,901)	**(1,002)**	**(10,774)**
Net cash provided by operating activities	6,306	11,579	**10,695**	**115,000**
Cash Flows from Investing Activities:				
Increase in time deposits	(102)	(90)	**(105)**	**(1,129)**
Decrease in time deposits	97	87	**122**	**1,312**
Reduction of investments in specified trusts	89	31	**—**	**—**
Acquisition of investments in specified trusts	(200)	—	**—**	**—**
Proceeds from sales of marketable securities	3,600	0	**476**	**5,118**
Acquisition of property and equipment	(2,546)	(1,016)	**(1,789)**	**(19,237)**
Proceeds from sales of property and equipment	114	121	**46**	**495**
Proceeds from subsidies received from the government	160	160	**160**	**1,720**
Acquisition of intangible assets	(316)	(196)	**(502)**	**(5,398)**
Acquisition of investments in securities	(5,607)	(827)	**(1,806)**	**(19,419)**
Proceeds from sales of investments in securities	1,069	42	**379**	**4,075**
Payments for loans	(245)	(254)	**(308)**	**(3,312)**
Collection of loans	265	296	**401**	**4,312**
Long-term advance payment costs	(11)	(11)	**(26)**	**(280)**
Proceeds from disposition of sales information	571	—	**—**	**—**
Other	7	2	**(89)**	**(957)**
Net cash provided by (used in) investing activities	(3,055)	(1,655)	**(3,041)**	**(32,699)**
Cash Flows from Financing Activities:				
Increase in short-term bank loans	590	800	**410**	**4,409**
Repayment of short-term bank loans	(790)	(730)	**(745)**	**(8,011)**
Increase in long-term debt	400	501	**604**	**6,495**
Repayment of long-term debt	(40)	(63)	**(70)**	**(753)**
Repayment of finance lease obligation	—	(109)	**(85)**	**(914)**
Cash dividends paid by the Company	(1,519)	(1,574)	**(1,683)**	**(18,097)**
Payments on redemption of convertible notes	—	(11,920)	**—**	**—**
Treasury stock purchased	(90)	(102)	**(37)**	**(398)**
Treasury stock sale	1	13	**2**	**22**
Net cash used in financing activities	(1,448)	(13,184)	**(1,604)**	**(17,247)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(6)	(0)	**(1)**	**(11)**
Increase (Decrease) in Cash and Cash Equivalents	1,797	(3,261)	**6,049**	**65,043**
Cash and Cash Equivalents at Beginning of Year (Note 4)	43,954	45,874	**42,613**	**458,204**
Receipts of Cash and Cash Equivalents from Merger	123	—	**19**	**205**
Cash and Cash Equivalents at End of Year (Note 4)	¥45,874	¥42,613	**¥48,681**	**$523,452**

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

Kissei Pharmaceutical Co., Ltd. and its subsidiaries

Note 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 Financial Instrument and Exchange Law.

Note 2

Summary of Significant Accounting Policies

(1) Scope of Consolidation

The numbers of subsidiaries the Company had for the years ended March 31, 2009 and 2010 were seven and six, respectively, of which three were consolidated in the respective years. The subsidiaries which have been consolidated with the Company are listed below:

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

(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, 2010.

(3) Investments in Unconsolidated Subsidiaries

Investments in unconsolidated subsidiaries 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.

Short-term investments in specified trusts are stated at market value.

(5) Inventory Valuation

Inventories are mainly valued at cost using the gross average method (the amount of Balance sheet is from the calculation of written-off based on its profitability).

(6) Method of Depreciation of Significant Depreciable Assets

(i) Property, plant and equipment (excluding lease assets)

Depreciation is computed on the declining-balance method at rates based on the estimated useful lives of the assets. 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.

(ii) Intangible assets (excluding lease assets)

Depreciation is computed on the straight-line method over certain periods.

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

(iii) Lease assets

Lease assets are depreciated by the straight-line method with the useful life being the lease period and the residual value being zero.

(7) 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.

(8) 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.

(9) Income Taxes

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

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.

Notes to the Consolidated Financial Statements (Continued)

(10) 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

To prepare for payments of bonuses to directors and corporate auditors, the Company recorded an allowance based on forecast payments in the fiscal year under review.

(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.

Prior service cost is 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).

(Changes in accounting policies)

Effective from the current fiscal year, the Company has adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19, July 31, 2008). This change had no impact on the operating results.

(viii) Accrued retirement benefits to directors and corporate auditors

were provided for an amount equal to the liability the Companies would have to pay if all directors and corporate auditors resigned at the balance sheet date.

(11) 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).

(12) Reclassification of Accounts

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

(13) Research and Development Expenses

Research and development expenses are recognized as an expense when incurred in accordance with the Japanese accounting standards.

(14) Recognizing Revenues and Costs of Construction Contracts

Until the year ended March 31, 2009, revenues and costs of construction contracts were recognized by the completed-contract method. Effective April 1, 2009, the Companies have applied a new accounting standard and related implementation guidance for construction contracts. Under the new accounting standard and guidance, revenues and costs of construction contracts that commenced on or after April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated.

The effects of this change were not material.

Note 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 ¥93=U.S.$1, the approximate effective rate of exchange at March 31, 2010. 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, realized or settled in dollars at ¥93=U.S.$1 or at any other rate.

Note 4
Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2009 and 2010 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Cash on hand and in banks	¥16,802	**¥22,645**	**$243,495**
Marketable securities	26,362	**26,097**	**280,613**
Time deposits with original maturities of over three months	(78)	**(61)**	**(656)**
Marketable securities with maturities of over three months	(473)	**—**	**—**
Cash and cash equivalents	¥42,613	**¥48,681**	**$523,452**

Note 5
Financial Instruments

Effective the fiscal year ended March 31, 2010, a new accounting standard for financial instruments and related implementation guidance have been adopted.

Overview

(1) Policy for financial instruments

The Companies manages temporary cash surpluses through low-risk financial assets. Further, the Companies raises short-term capital through bank borrowings. The Companies uses derivatives for the purpose of reducing risk and does not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk

Trade receivables—notes and accounts receivable —are exposed to credit risk in relation to customers. In accordance with the internal policies for managing credit risk of the Companies arising from receivables, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer.

Marketable securities and investments in securities are exposed to market risk. Those securities are composed of mainly the shares of common stock of other companies with which the Companies has business relationships.

(3) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value.

Estimated Fair Value of Financial Instruments

Carrying value of financial instruments on the consolidated balance sheet as of March 31, 2010 and unrealized gains (losses) are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to *2 below).

	Millions of yen		
As of March 31, 2010	Carrying Value	Estimated Fair Value	Unrealized Gains (Losses)
Assets			
Cash on hand and in banks	**¥22,645**	**¥22,645**	**¥ —**
Notes and accounts receivable	**22,063**	**22,063**	**—**
Marketable securities and investments in securities	**52,386**	**52,386**	**—**
Total Assets	**¥97,094**	**¥97,094**	**¥ —**
Derivatives	**¥ —**	**¥ —**	**¥ —**

Notes to the Consolidated Financial Statements (Continued)

As of March 31, 2010	Thousands of U.S. dollars		
	Carrying Value	Estimated Fair Value	Unrealized Gains (Losses)
Assets			
Cash on hand and in banks	$ 243,495	$ 243,495	$ —
Notes and accounts receivable	237,237	237,237	—
Marketable securities and investments in securities	563,290	563,290	—
Total Assets	$1,044,022	$1,044,022	$ —
Derivatives	$ —	$ —	$ —

*1: Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Cash on hand and in banks and notes and accounts receivable

Since these items are settled in a short period of time, their carrying value approximates fair value.

Marketable securities and investments in securities

The fair value of stocks is based on quoted market prices. For information on securities classified by holding purpose, please refer to Note 6 Securities.

*2: Financial instruments for which it is extremely difficult to determine the fair value

As of March 31, 2010	Millions of yen	Thousands of U.S. dollars
Unlisted stocks	¥1,759	$18,914
Investments in partnerships	922	9,914
Investments in unconsolidated subsidiaries	641	6,892

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not include in the above table.

*3: Redemption schedule for receivables and marketable securities with maturities at March 31, 2010

As of March 31, 2010	Millions of yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Assets				
Cash on hand and in banks	¥22,645	¥ —	¥ —	¥ —
Notes and accounts receivable	22,063	—	—	—
Marketable securities and investments in securities	26,097	666	753	274
Total	¥70,805	¥666	¥753	¥274

As of March 31, 2010	Thousands of U.S. dollars			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Assets				
Cash on hand and in banks	$243,495	$ —	$ —	$ —
Notes and accounts receivable	237,237	—	—	—
Marketable securities and investments in securities	280,613	7,161	8,097	2,946
Total	$761,345	$7,161	$8,097	$2,946

Note 6
Securities

The acquisition cost, carrying amount, and gross unrealized holding gains and losses for securities with fair value by security type at March 31, 2009 and 2010 are as follows.

	Millions of yen			
	2009			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥16,369	¥18,371	¥3,075	¥1,073
Corporate debt securities	699	669	0	29
Other	1,140	996	—	144
	¥18,208	¥20,036	¥3,075	¥1,246

	Millions of yen			
	2010			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥17,383	¥24,514	¥8,072	¥ 941
Corporate debt securities	1,199	1,178	6	27
Other	26,739	26,694	5	50
	¥45,321	¥52,386	¥8,083	¥1,018

	Thousands of U.S. dollars			
	2010			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	$186,914	$263,591	$86,795	$10,118
Corporate debt securities	12,892	12,667	64	290
Other	287,517	287,032	54	538
	$487,323	$563,290	$86,913	$10,946

Sales of securities classified as other securities and the gross realized gains and losses for years ended March 31, 2009 and 2010 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Sales proceeds	¥ —	¥765	$8,226
Gross realized gains	—	9	97
Gross realized losses	—	120	1,290

Note 7

Inventories

Inventories at March 31, 2009 and 2010 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Merchandise	¥ 2,295	¥1,501	$16,139
Finished goods	1,344	1,913	20,570
Work-in-process	2,596	1,675	18,011
Raw materials	3,845	3,380	36,344
Supplies	244	61	656
	¥10,324	¥8,530	$91,720

Note 8

Short-Term Bank Loans and Long-Term Debt

Short-term bank loans outstanding at March 31, 2009 and 2010 represent one-year notes issued by the Companies to banks. Short-term bank loans made during the years ended March 31, 2009 and 2010 bore interest at an average annual rate of 1.46% and 1.23%, respectively.

Long-term debt of the Companies at March 31, 2009 and 2010 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Non-secured loans with financial institutions, bearing interest at rates ranging from 0.00% to 3.61% due from 2009 to 2027	¥904	¥1,438	$15,462
Less: current maturities due within one year	(63)	(143)	(1,537)
	¥841	¥1,295	$13,925

Notes to the Consolidated Financial Statements (Continued)

The aggregate annual maturities of long-term loans outstanding at March 31, 2010 are as follows.

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2011	¥ 143	$ 1,537
2012	122	1,312
2013	222	2,387
2014 and thereafter	951	10,226
	¥1,438	$15,462

Note 9
Income Taxes

Reconciliation of the actual tax rate for the years ended March 31, 2008, 2009 and 2010 are as follows.

	2008	2009	**2010**
Effective statutory tax rate	40.4%	40.4%	**40.4%**
Adjustments:			
Entertainment expenses and other non-deductibles	8.9	10.0	**5.5**
Dividend income not taxable	(1.9)	(3.3)	**(1.7)**
Tax benefits due to research and development expenses	(7.6)	(8.3)	**(11.4)**
Per capital levy of local inhabitants taxes	1.5	2.1	**1.1**
Valuation allowance	7.6	(3.6)	**0.8**
Other	(1.4)	1.0	**(1.0)**
Actual tax rate	47.5%	38.3%	**33.7%**

Deferred tax assets (both current and non-current) at March 31, 2009 and 2010 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Deferred tax assets:			
Accrued retirement benefits to employees	¥1,388	**¥ 1,503**	**$ 16,161**
Prepaid research and development expenses	1,160	**1,286**	**13,828**
Accrued bonuses to employees	783	**827**	**8,893**
Payment of retirement benefits to directors and corporate auditors	598	**603**	**6,484**
Inventory assets	392	**561**	**6,032**
Write-down of securities	173	**195**	**2,097**
Reserve for sales rebates	192	**172**	**1,849**
Accrued enterprise tax	75	**229**	**2,462**
Other	1,116	**1,112**	**11,957**
	5,877	**6,488**	**69,763**
Valuation allowance	(935)	**(988)**	**(10,623)**
	¥4,942	**¥ 5,500**	**$ 59,140**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	¥ (722)	**¥(2,837)**	**$(30,505)**
Other	(0)	**(14)**	**(151)**
Deferred tax assets, net	¥4,220	**¥ 2,649**	**$ 28,484**

Note 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.

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, 2009 and 2010 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Projected benefit obligations	¥12,903	¥13,531	$ 145,495
Fair value of plan assets	(8,191)	(9,366)	(100,710)
Funded status of the plans	4,712	4,165	44,785
Unrecognized net actuarial difference	(3,308)	(2,178)	(23,419)
Unamortized prior service cost	2,031	1,732	18,623
Net liability recognized	¥ 3,435	¥ 3,719	$ 39,989

The net periodic retirement benefit cost for the years ended March 31, 2008, 2009 and 2010 included the following.

	Millions of yen			Thousands of U.S. dollars
	2008	2009	2010	2010
Service cost	¥ 645	¥677	¥666	$ 7,161
Interest cost	297	311	321	3,452
Expected return on plan assets	(242)	(226)	(205)	(2,204)
Amortization of difference caused from actuarial calculation	254	379	506	5,441
Amortization of prior service cost	(299)	(299)	(299)	(3,215)
Additional payment of retirement costs	33	28	7	75
	¥ 688	¥870	¥996	$10,710

The discount rate used to determine the actuarial present value of projected benefit obligations under the plan that covers the employees of the Companies was 2.5% as of March 31, 2008, 2009 and 2010. The rate of expected return on plan assets was 2.5% as of March 31, 2008, 2009 and 2010. 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.

Note 11
Commitments and Contingent Liabilities

Contingent Liabilities

The Companies had contingent liabilities arising from notes discounted by banks in the ordinary course of business in the amount of ¥15 million ($161 thousand) at March 31, 2010.

In addition, the Companies were contingently liable for guarantees in respect of loans borrowed by its unconsolidated subsidiaries for an amount of ¥19 million ($204 thousand) at March 31, 2010.

Note 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
	Facilities and equipment management

Notes to the Consolidated Financial Statements (Continued)

The industry segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2008, 2009 and 2010 is as follows.

	Millions of yen				
	2008				
	Pharmaceuticals	Other	Total	Elimination of inter-segment sales	Consolidated total
Sales:					
Sales to outside customers	¥ 54,768	¥ 6,713	¥ 61,481	¥ —	¥ 61,481
Inter-segment sales	0	7,479	7,479	(7,479)	—
Total sales	54,768	14,192	68,960	(7,479)	61,481
Operating expenses	50,967	13,607	64,574	(7,363)	57,211
Operating income	¥ 3,801	¥ 585	¥ 4,386	¥ (116)	¥ 4,270
Assets	¥145,027	¥ 7,442	¥152,469	¥(1,903)	¥150,566
Depreciation	¥ 3,565	¥ 518	¥ 4,083	¥ (220)	¥ 3,863
Capital expenditure	¥ 3,093	¥ 535	¥ 3,628	¥ (840)	¥ 2,788

	Millions of yen				
	2009				
	Pharmaceuticals	Other	Total	Elimination of inter-segment sales	Consolidated total
Sales:					
Sales to outside customers	¥ 55,296	¥ 9,240	¥ 64,536	¥ —	¥ 64,536
Inter-segment sales	—	3,809	3,809	(3,809)	—
Total sales	55,296	13,049	68,345	(3,809)	64,536
Operating expenses	49,331	12,853	62,184	(4,042)	58,142
Operating income	¥ 5,965	¥ 196	¥ 6,161	¥ 233	¥ 6,393
Assets	¥133,209	¥ 8,829	¥142,038	¥(1,857)	¥140,181
Depreciation	¥ 3,344	¥ 564	¥ 3,908	¥ (198)	¥ 3,710
Capital expenditure	¥ 1,256	¥ 457	¥ 1,713	¥ (87)	¥ 1,626

	Millions of yen				
	2010				
	Pharmaceuticals	Other	Total	Elimination of inter-segment sales	Consolidated total
Sales:					
Sales to outside customers	**¥ 53,708**	**¥ 8,471**	**¥ 62,179**	**¥ —**	**¥ 62,179**
Inter-segment sales	**1**	**5,378**	**5,379**	**(5,379)**	**—**
Total sales	**53,709**	**13,849**	**67,558**	**(5,379)**	**62,179**
Operating expenses	**47,609**	**13,466**	**61,075**	**(5,481)**	**55,594**
Operating income	**¥ 6,100**	**¥ 383**	**¥ 6,483**	**¥ 102**	**¥ 6,585**
Assets	**¥140,313**	**¥ 9,058**	**¥149,371**	**¥(2,349)**	**¥147,022**
Depreciation	**¥ 2,962**	**¥ 453**	**¥ 3,415**	**¥ (181)**	**¥ 3,234**
Capital expenditure	**¥ 2,414**	**¥ 203**	**¥ 2,617**	**¥ (44)**	**¥ 2,573**

	Thousands of U.S. dollars				
	2010				
	Pharmaceuticals	Other	Total	Elimination of inter-segment sales	Consolidated total
Sales:					
Sales to outside customers	$ 577,505	$ 91,086	$ 668,591	$ —	$ 668,591
Inter-segment sales	11	57,828	57,839	(57,839)	—
Total sales	577,516	148,914	726,430	(57,839)	668,591
Operating expenses	511,924	144,796	656,720	(58,935)	597,785
Operating income	$ 65,592	$ 4,118	$ 69,710	$ 1,096	$ 70,806
Assets	$1,508,742	$ 97,398	$1,606,140	$ (25,259)	$1,580,881
Depreciation	$ 31,849	$ 4,871	$ 36,720	$ (1,946)	$ 34,774
Capital expenditure	$ 25,957	$ 2,183	$ 28,140	$ (473)	$ 27,667

(2) Geographic Segment Information

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, 2010 is omitted because export sales account for less than 10% of total sales.

Note 13

Business Transactions with Parties Related to the Company

Fiscal 2009 (April 1, 2008–March 31, 2009)

Executives, main individual stockholders, etc.

No corresponding items

Fiscal 2010 (April 1, 2009–March 31, 2010)

Executives, main individual stockholders, etc.

No corresponding items

Note 14

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2008, 2009 and 2010 are as follows.

	Millions of yen			Thousands of U.S. dollars
	2008	2009	2010	2010
Advertising and sales promotion expenses	¥ 4,167	¥ 3,668	¥ 3,897	$ 41,903
Payroll costs	8,312	8,753	8,939	96,118
Research and development expenses	11,361	11,557	10,786	115,978
Traveling expenses	1,941	1,938	1,792	19,269
Depreciation	1,455	1,494	1,381	14,850
Other	7,174	7,013	7,039	75,689
	¥34,410	¥34,423	¥33,834	$363,807

Note 15

Impairment Loss

The main contents of impairment loss for the years ended March 31, 2008, 2009 and 2010 are as follows.

	Millions of yen			Thousands of U.S. dollars
	2008	2009	2010	2010
Buildings and structures	¥ —	¥ —	¥313	$3,366
Land	—	—	16	172
	¥ —	¥ —	¥329	$3,538

Further, the recoverable amount of assets scheduled for demolition is stated as zero. The recoverable amount of an asset is estimated based on the net amount that asset could be sold (net selling amount) for land and buildings, the net selling amount is estimated by appraisal amount based on real estate appraisal standards.

Report of Independent Auditors

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Report of Independent Auditors

The Board of Directors
Kissei Pharmaceutical Co., Ltd.

We have audited the accompanying consolidated balance sheets of Kissei Pharmaceutical Co., Ltd. and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kissei Pharmaceutical Co., Ltd. and consolidated subsidiaries at March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

June 29, 2010

Ernst & young ShinNihon LLC

Board of Directors

As of June 29, 2010

President and Chief Executive Officer:
Mutsuo Kanzawa

Executive Vice President:
Yukiyoshi Ajisawa

Executive Managing Directors:
Keiichiro Yanagisawa
Seiichiro Furihata

Managing Directors:
Sukio Adachi
Masuo Akahane

Directors:
Imao Mikoshiba
Hiroe Sato
Nobuo Shibata
Masaki Morozumi
Yasunori Nakata
Yoshio Furihata
Yasuhiro Omori
Masayuki Isaji

Auditors:
Tetsuo Yabana
Yoshinobu Kubota
Kiyoshi Kumazawa
Hiroshi Ueno

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Telephone: +81-3-3279-2761

Tokyo Head Office (Koishikawa):
1-3, Koishikawa 3-chome, Bunkyo-ku, Tokyo 112-0002, Japan
Telephone: +81-3-5684-3530

Date of Establishment:
August 9, 1946

Capital:
¥24,357 million (As of March 31, 2010)

Number of Employees:
1,576 (Non-consolidated) (As of March 31, 2010)

Central Research Laboratories:
Azumino City, Nagano

Toxicological Laboratories:
Azumino City, Nagano

Joetsu Chemical Laboratories:
Joetsu City, Niigata

Pharmaceutical Laboratories:
Azumino City, Nagano

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, Hamamatsu, Shiga, Kanazawa, Kita Osaka, Nara, Sakai, Kobe, Himeji, Yamaguchi, Okayama, Yonago, Kitakyushu, Oita, Nagasaki, Kumamoto, Kagoshima, Okinawa

Subsidiaries:
Consolidated Subsidiaries
Kissei Shoji Co., Ltd.
Kissei Comtec Co., Ltd.
Hashiba Technos Co., Ltd.
Non-consolidated Subsidiaries
Kissei America, Inc.
Mitsui Kanko Co., Ltd.
Planet Computer Technology (BeiJing) Co., Ltd.

Investor Information

As of March 31, 2010

Common Stock:

Authorized: 227,000,000 shares

Issued: 56,911,185 shares

Number of Shareholders:

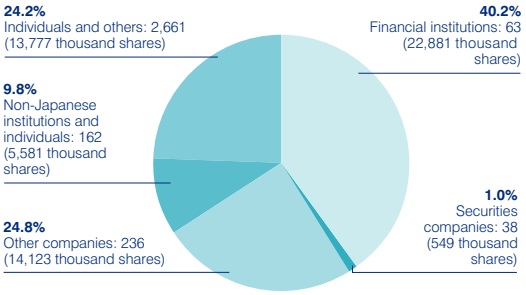
3,160 (Year-on-year change: 126 increase)

Principal Shareholders:

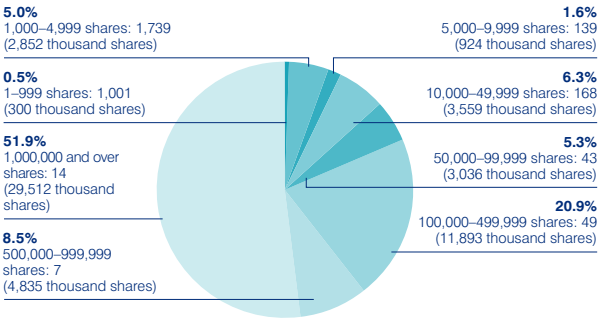
	Number of shares held (Thousands)	Voting right (%)
The Dai-ichi Mutual Life Insurance Company	3,418	6.3
Kanzawa Limited	3,178	5.9
Kunio Kanzawa	2,703	5.0
The Hachijuni Bank, Ltd.	2,671	4.9
Mizuho Bank, Ltd.	2,671	4.9
Japan Trustee Services Bank, Ltd. (Trust account)	2,575	4.7
The Master Trust Bank of Japan, Ltd. (Trust account)	1,703	3.1
Trust & Custody Services Bank, Ltd. (Pension trust account)	1,494	2.8
Mutsuo Kanzawa	1,493	2.8
Japan Trustee Services Bank, Ltd. (Trust account 9)	1,479	2.7

Note: The Company holds 2,635,681 shares of treasury stock but is not included in the above list of major shareholders. Further, the calculation of voting right percentages is based on total shares issued net of treasury stock.

Composition 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/