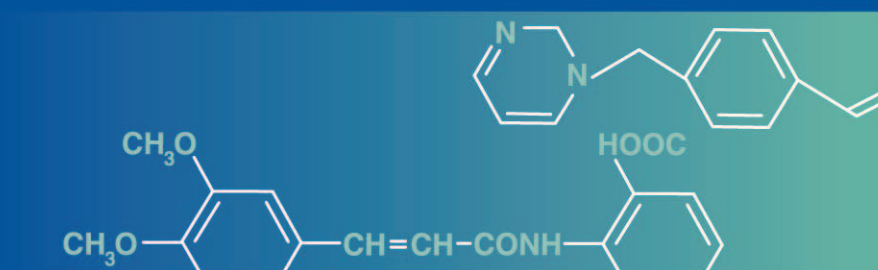


KISSEI

ANNUAL REPORT

2002

PROFILE

Pharmaceutical companies in Japan are facing an increasingly competitive operating environment. In April 2002, National Health Insurance (NHI) drug prices were reduced, and the government is considering the implementation of further measures to control health care spending. Moreover, competition in global drug development and marketing is also intensifying.

To ensure continued success in this challenging environment, Kissei Pharmaceutical Co., Ltd., will bolster its emphasis on key fields in which the Company has a competitive edge and will continue working to improve management efficiency.

We will aggressively invest management resources in the operational areas that are the foundation of a pharmaceutical company, such as drug discovery, clinical trials, and sales. In addition, we will strengthen our R&D and marketing capabilities in such key fields as endocrinology and metabolism (diabetes), urology, and obstetrics and gynecology. At the same time, we will implement measures to further heighten management efficiency. These measures will include conducting clinical trials more quickly and at a lower cost through joint development, streamlining our manufacturing facilities through production outsourcing, and boosting marketing efficiency through joint sales agreements, as we have done with KMD-3213. In this way, we will strive to fulfil our management vision of being an R&D-oriented pharmaceutical company contributing to human health care with innovative drug products.

CONSOLIDATED FINANCIAL SUMMARY

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

	Millions of Yen Except Per Share Data					Thousands of U.S. Dollars Except Per Share Data
	1998	1999	2000	2001	**2002**	**2002**
Net Sales	¥ 56,687	¥ 55,974	¥ 57,029	¥ 58,937	**¥ 59,929**	**$ 450,594**
Gross Profit	40,786	39,854	41,147	41,847	**40,534**	**304,767**
Operating Income	13,038	11,545	12,571	9,786	**6,958**	**52,316**
Net Income	5,439	5,334	5,724	4,383	**4,837**	**36,368**
Total Assets	137,353	138,934	146,649	149,189	**155,740**	**1,170,977**
Total Shareholders' Equity	92,778	97,234	105,437	108,017	**109,832**	**825,805**
Per Share (Yen and Dollars):						
Net Income						
Primary	¥ 93.3	¥ 91.5	¥ 98.2	¥ 76.0	**¥ 84.9**	**$ 0.638**
Fully-Diluted	83.0	82.0	88.4	68.8	**76.5**	**0.575**
Cash Dividends	14.0	15.0	14.0	14.0	**14.0**	**0.105**
R&D Expenditures	¥ 8,873	¥ 9,284	¥ 9,231	¥ 11,517	**¥ 13,045**	**$ 98,083**
(% of Net Sales)	15.7%	16.6%	16.2%	19.5%	**21.8%**	
Capital Investment	1,244	1,341	1,474	2,081	**1,216**	**9,143**
(% of Net Sales)	2.2%	2.4%	2.6%	3.5%	**2.0%**	
Current Ratio	514.0%	561.2%	589.1%	653.8%	**488.2%**	
Return on Equity	6.00%	5.61%	5.65%	4.11%	**4.44%**	
Return on Assets	3.89%	3.86%	4.01%	2.96%	**3.17%**	
Number of Shares Issued (Thousands)	58,279	58,279	58,279	57,295	**56,795**	
Number of Employees	1,697	1,663	1,630	1,616	**1,632**	

Note: U.S. dollar amounts are translated at the rate of ¥133=U.S.$1, the approximate effective rate of exchange at 31st March 2002.

REVIEW OF OPERATIONS

In the fiscal year ended March 31, 2002, the Japanese economy was marked by signs of recession and deflation. As a slowdown in the U.S. economy triggered growing concern about the course of economic conditions around the world, sluggish consumer spending persisted in Japan.

The domestic pharmaceutical industry experienced substantial changes in its operating environment. The challenges faced by drug companies included the fundamental reform of Japan's health care insurance scheme, including the NHI drug pricing policy, intensifying global competition, and the need to keep pace with rapid advances in biotechnology and other areas.

In this setting, Kissei worked to increase sales of such major products as *Bezatol*® SR Tab., a treatment for hyperlipidemia, and *Cabaser*® Tab., a treatment for Parkinson's disease. We introduced new products in key fields and actively implemented medical information activities. In nutritional food business, we enhanced our lineup of nutritional foods for patients with renal disease, patients receiving long-term nursing care, the elderly, and patients with diabetes. We also undertook aggressive marketing activities designed to expand our presence in the home nursing care market.

In R&D, we worked to speed up development through the focused application of management resources to products with high growth potential, such as *mitiglinide* (KAD-1229), a treatment for type 2 diabetes, and KMD-3213, a treatment for dysuria associated with benign prostatic hyperplasia (BPH).

As a result, consolidated net sales in the year under review reached ¥59.9 billion and consolidated net income was ¥4.8 billion.

RESEARCH AND DEVELOPMENT

To achieve its vision of being an R&D-oriented pharmaceutical company, Kissei is investing heavily in research and development. We are making steady progress with obtaining an indication for type 2 diabetes in Japan, the United States, and Europe for *mitiglinide*, a rapid-onset insulin secretagogue. In Europe, we have licensed out *mitiglinide* to Les Laboratoires Servier, of France, and that company is currently conducting large-scale phase III comparative trials. In the United States, subsidiary Kissei Pharma U.S.A., Inc., is conducting phase II clinical trials. And in Japan, we have completed phase III comparative trials, and we plan to file an NDA with the Ministry of Health, Labor and Welfare in 2002.

KMD-3213, a selective alpha 1A receptor antagonist, is under development in Japan and the United States as a treatment for dysuria associated with BPH. In the United States, Kissei Pharma U.S.A., Inc. has completed early phase II trials with favorable results. In Japan, we started phase III comparative studies in May 2002 in a joint development effort with Daiichi Pharmaceutical Co., Ltd. The development of this agent is moving steadily forward, and our goal is to file an NDA as soon as possible. In addition, KUR-1246, a selective beta 2 receptor agonist under development as a treatment for threatened premature labor, is now in phase II clinical trials in Europe under the direction of subsidiary Kissei Pharma Europe Ltd. Domestically, in a joint effort with Teikoku Hormone Mfg. Co., Ltd., we have KUR-1246 in phase I trials. KUC-7483, a selective beta 3 receptor agonist, is in phase I trials in Europe for the treatment of urinary incontinence and overactive bladder.

FINANCIAL REVIEW

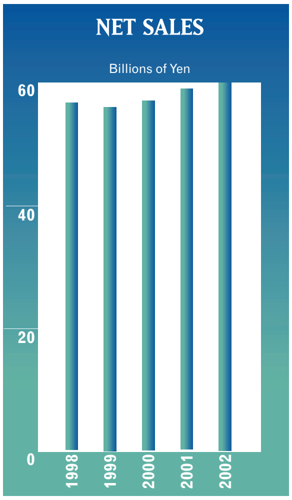
Although Kissei recorded an increase in net sales during the year under review, a rise in the cost of sales and higher selling, general and administrative (SGA) expenses resulted in a substantial decline in operating income. The principal reason for the increase in the cost of sales was a larger share of drugs sold under license, while higher R&D expenditures led to the rise in SGA expenses. Kissei considers research and development to be crucial for the growth of the Company, and in recent years it has maintained R&D expenditures at more than 20% of net sales. Although a write-down of investments in securities was recorded as an extraordinary expense, the settlement received as compensation for damages in the Princeton notes securities fraud proceeding was recorded as extraordinary income. As a result, net income for the year under review increased.

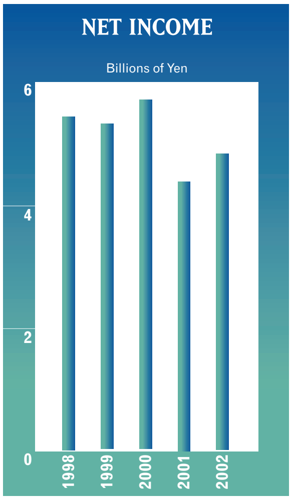
Kissei continues to maintain a strong financial position, with a shareholders' equity ratio that remains above 70%. During the year under review, the Company purchased its own stock to provide a return to shareholders through an increase in capital efficiency and a decrease in the number of shares issued. The Company acquired 742,000 shares, of which 500,000 were retired and the remaining 242,000 were held as treasury stock at year-end. Cash and cash equivalents at year-end totaled ¥43.4 billion. Kissei will continue to make effective use of these funds to implement its management strategy and build a foundation for stable growth.

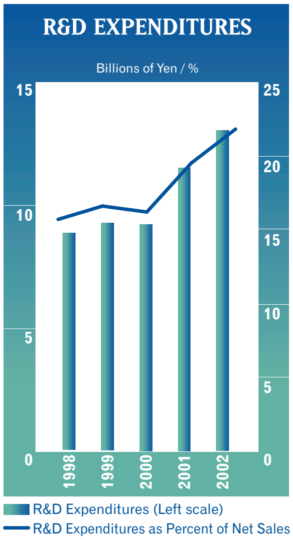
R&D PIPELINE IN JAPAN

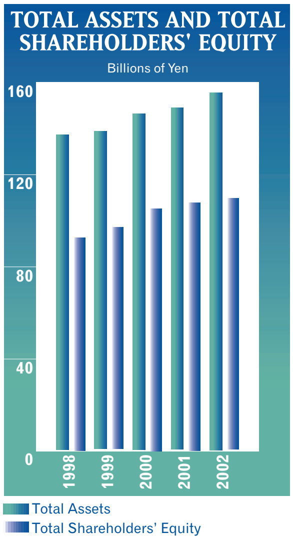
DEVELOPMENT STAGE	BRAND NAME DEVELOPMENT CODE	INTERNATIONAL NONPROPRIETARY NAME (INN)	THERAPEUTIC TARGET	PRODUCT ORIGIN
NDA	CABASER®	Cabergoline	Hyperprolactinemia (additional indication)	Jointly developed with Pharmacia
Phase III	KAD-1229	Mitiglinide	Type 2 diabetes	Kissei
	KSS-694	Pilocarpine	Dry mouth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

DEVELOPMENT STAGE	INN DEVELOPMENT CODE	THERAPEUTIC TARGET	REGION	DEVELOPING COMPANY
Phase III	Mitiglinide KAD-1229	Type 2 diabetes	Europe	Les Laboratoires Servier
Phase II	Mitiglinide KAD-1229	Type 2 diabetes	U.S.A.	Kissei Pharma U.S.A.
	KMD-3213	Dysuria associated with benign prostatic hyperplasia	U.S.A.	Kissei Pharma U.S.A.
	KUR-1246	Threatened premature labor	Europe	Kissei Pharma Europe
Phase I	KUC-7483	Urinary incontinence / Overactive bladder	Europe	Kissei Pharma Europe









STRATEGY FOR THE FUTURE

To realize our management vision of being an R&D-oriented pharmaceutical company, we have identified the following key objectives:

Bolster domestic marketing—We will enhance area marketing and use IT to improve our promotional activities. We will introduce products in key marketing fields and improve our sales efficiency.

Strengthen and speed up R&D—We will focus our management resources on key discovery fields and, through the active use of alliances, increase efficiency and speed in R&D.

Expand overseas business—We will aggressively move ahead with our original candidate drugs in overseas markets, making full use of licensing out and increasing revenues through royalty income.

OUTLOOK

With the advance of globalization, the disappearance of borders in the pharmaceutical industry is accelerating and international competition is intensifying. Due to the fiscal situation faced by the Japanese government, the April 2002 NHI drug prices reductions were more severe than previous price cuts. In this environment, Kissei will work to establish a management system that can achieve stable growth by strengthening its research, development, production, and marketing capabilities in accordance with its medium-term management plan. Over the past several years, we have been preparing to launch new products, and during this period a decline in profits was unavoidable. We are confident that in the near future we will be able to fully leverage our strengths as an R&D-oriented pharmaceutical company contributing to human health care with innovative drug products.

June 2002

Mutsuo Kanzawa
President and Chief Executive Officer

BOARD OF DIRECTORS

(As of 27th June 2002)

Chairman:
Kunio Kanzawa

President and Chief Executive Officer:
Mutsuo Kanzawa

Executive Vice President:
Masanori Iwadare

Executive Director:
Hiroshi Saito

Managing Director:
Yukiyoshi Ajisawa

Directors:
Toyotsugu Hiyoshi
Haruo Suzawa
Yoshikazu Kurashina
Toshiaki Usuda
Masayuki Takeuchi
Keiichiro Yanagisawa
Seiichiro Furihata
Kinji Iizuka
Kiyoshi Kumazawa
Tetsuo Yabana
Sukio Adachi
Masuo Akahane

Auditors:
Yoshiyuki Yamada
Mitsuru Tomura
Hidenaga Kitazawa
Yoshinobu Kubota

CONSOLIDATED BALANCE SHEETS

Kissei Pharmaceutical Co., Ltd. and its subsidiaries At 31st March 2001 and 2002

ASSETS	Millions of Yen 2001	Millions of Yen 2002	Thousands of U.S. Dollars (Note 3) 2002
Current Assets:			
Cash on hand and in banks (Note 4)	¥ 26,438	**¥ 30,671**	**$ 230,609**
Short-term investments in specified trusts	4,854	**4,365**	**32,820**
Marketable securities (Notes 4 and 5)	20,901	**13,602**	**102,271**
Notes and accounts receivable	27,788	**27,691**	**208,203**
Less: allowance for doubtful accounts	(119)	**(71)**	**(534)**
	27,669	**27,620**	**207,669**
Inventories (Note 6)	6,273	**7,198**	**54,120**
Deferred tax assets – current (Note 8)	1,764	**2,786**	**20,947**
Other current assets	4,293	**4,735**	**35,602**
Total current assets	92,192	**90,977**	**684,038**
Investments and Advances:			
Investments in securities (Note 5)	18,460	**24,879**	**187,060**
Investments in unconsolidated subsidiaries	772	**850**	**6,391**
Leasehold deposits and guarantee deposits	431	**425**	**3,196**
Other investments and advances	1,150	**1,117**	**8,398**
	20,813	**27,271**	**205,045**
Property, Plant and Equipment (Note 7):			
Buildings and structures	29,213	**29,913**	**224,910**
Machinery and equipment	7,707	**8,269**	**62,173**
	36,920	**38,182**	**287,083**
Less: accumulated depreciation	(20,752)	**(22,346)**	**(168,015)**
	16,168	**15,836**	**119,068**
Land	12,959	**12,959**	**97,436**
Construction in progress	454	**49**	**368**
	29,581	**28,844**	**216,872**
Other Assets:			
Deferred tax assets – non-current (Note 8)	2,721	**3,776**	**28,391**
Deferred charges and other	3,882	**4,872**	**36,631**
	¥149,189	**¥155,740**	**$1,170,977**

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of Yen 2001	Millions of Yen 2002	Thousands of U.S. Dollars (Note 3) 2002
Current Liabilities:			
Short-term bank loans (Note 7)	¥ 1,745	**¥ 1,770**	**$ 13,308**
Current portion of long-term debt (Note 7)	39	**61**	**458**
Notes and payables:			
Trade	6,062	**7,575**	**56,955**
Construction and acquisition of properties	112	**355**	**2,669**
Other	2,812	**2,424**	**18,226**
	8,986	**10,354**	**77,850**
Income taxes payable (Note 8)	420	**3,622**	**27,233**
Accrued expenses and bonuses to employees	2,049	**1,979**	**14,880**
Reserve for accrued sales returns	34	**19**	**143**
Reserve for accrued sales rebates	512	**547**	**4,113**
Reserve for accrued sales promotion expenses	151	**172**	**1,293**
Other current liabilities	164	**114**	**857**
Total current liabilities	14,100	**18,638**	**140,135**
Long-Term Debt (Note 7)	22,519	**22,367**	**168,173**
Accrued Retirement Benefits to Employees (Note 9)	3,305	**3,515**	**26,429**
Accrued Retirement Benefits to Directors and Corporate Auditors	1,139	**1,273**	**9,571**
Total liabilities	41,063	**45,793**	**344,308**
Minority Interests in Consolidated Subsidiaries	109	**115**	**864**
Commitments and Contingent Liabilities (Note 10)			
Shareholders' Equity:			
Common stock, par value ¥50 per share:			
Authorised: 129,016,000 shares			
Issued: 57,295,185 shares and 56,795,185 shares at 31st March 2001 and 2002, respectively	24,220	**24,220**	**182,105**
Additional paid-in capital	24,110	**24,110**	**181,278**
Unappropriated retained earnings (Note 13)	58,487	**61,596**	**463,128**
Unrealized gains on available-for-sale securities, net of tax	1,207	**346**	**2,602**
Treasury stock	(7)	**(440)**	**(3,308)**
Total shareholders' equity	108,017	**109,832**	**825,805**
	¥149,189	**¥155,740**	**$1,170,977**

CONSOLIDATED STATEMENTS OF INCOME

Kissei Pharmaceutical Co., Ltd. and its subsidiaries For the years ended 31st March 2000, 2001 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2000	2001	**2002**	**2002**
Net Sales	¥57,029	¥58,937	**¥59,929**	**$450,594**
Cost of Sales	15,882	17,090	**19,395**	**145,827**
Gross profit	41,147	41,847	**40,534**	**304,767**
Selling, General and Administrative Expenses (Notes 9, 10 and 12)	28,576	32,061	**33,576**	**252,451**
Operating income	12,571	9,786	**6,958**	**52,316**
Other Income (Expenses):				
Interest and dividend income	561	519	**352**	**2,646**
Interest expense	(254)	(212)	**(206)**	**(1,549)**
Loss on sales or disposal of properties	(60)	(13)	**(79)**	**(594)**
Gain (loss) on sales of marketable securities	356	173	**(211)**	**(1,586)**
Gain on sales of investments in securities	1,563	–	**–**	**–**
Write-down of marketable securities and short-term investments in specified trusts	(3,973)	–	**(362)**	**(2,722)**
Write-down of investments in securities	(394)	(298)	**(1,120)**	**(8,421)**
Reconciliation gain from a damage suit	–	1,005	**3,382**	**25,429**
Net obligation at transition immediately expensed for retirement benefits to employees (Note 2)	–	(2,757)	**–**	**–**
Other, net	203	34	**4**	**30**
	(1,998)	(1,549)	**1,760**	**13,233**
Income before income taxes	10,573	8,237	**8,718**	**65,549**
Income Taxes (Note 8):				
Current	6,274	4,327	**5,336**	**40,120**
Deferred	(1,445)	(454)	**(1,462)**	**(10,992)**
	4,829	3,873	**3,874**	**29,128**
Minority interests	(20)	19	**(7)**	**(53)**
Net income	¥ 5,724	¥ 4,383	**¥ 4,837**	**$ 36,368**

	Yen			U.S. Dollars (Note 3)
Per Share:				
Net income:				
Primary	¥98.2	¥76.0	**¥84.9**	**$0.638**
Fully-diluted	88.4	68.8	**76.5**	**0.575**
Cash dividends	14.0	14.0	**14.0**	**0.105**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Kissei Pharmaceutical Co., Ltd. and its subsidiaries For the years ended 31st March 2000, 2001 and 2002

		Millions of Yen				
	Number of shares of common stock	Common stock	Additional paid-in capital	Unappropriated retained earnings	Unrealized gains on available-for-sale securities	Treasury stock
Balance at 31st March 1999	58,279,185	¥24,220	¥24,110	¥48,916	¥ –	¥ (12)
Prior year adjustments for retroactive recognition of deferred tax (Note 8)	–	–	–	3,407	–	–
Net income for the year ended 31st March 2000	–	–	–	5,724	–	–
Cash dividends paid	–	–	–	(874)	–	–
Officers' bonuses	–	–	–	(50)	–	–
Cost of treasury stock purchased	–	–	–	–	–	(4)
Balance at 31st March 2000	58,279,185	24,220	24,110	57,123	–	(16)
Net income for the year ended 31st March 2001	–	–	–	4,383	–	–
Cash dividends paid	–	–	–	(809)	–	–
Officers' bonuses	–	–	–	(50)	–	–
Retirement of treasury stock	(984,000)	–	–	(2,160)	–	–
Cost of treasury stock sold	–	–	–	–	–	9
Unrealized gains on available-for-sale securities for the year	–	–	–	–	1,207	–
Balance at 31st March 2001	57,295,185	24,220	24,110	58,487	1,207	(7)
Net income for the year ended 31st March 2002	**–**	**–**	**–**	**4,837**	**–**	**–**
Cash dividends paid	**–**	**–**	**–**	**(799)**	**–**	**–**
Officers' bonuses	**–**	**–**	**–**	**(48)**	**–**	**–**
Retirement of treasury stock	**(500,000)**	**–**	**–**	**(881)**	**–**	**–**
Cost of treasury stock purchased	**–**	**–**	**–**	**–**	**–**	**(433)**
Unrealized gains on available-for-sale securities for the year	**–**	**–**	**–**	**–**	**(861)**	**–**
Balance at 31st March 2002	**56,795,185**	**¥24,220**	**¥24,110**	**¥61,596**	**¥ 346**	**¥ (440)**

		Thousands of U.S. Dollars (Note 3)				
	Number of shares of common stock	Common stock	Additional paid-in capital	Unappropriated retained earnings	Unrealized gains on available-for-sale securities	Treasury stock
Balance at 31st March 2001	57,295,185	$182,105	$181,278	$439,753	$9,075	$ (53)
Net income for the year ended 31st March 2002	**–**	**–**	**–**	**36,368**	**–**	**–**
Cash dividends paid	**–**	**–**	**–**	**(6,008)**	**–**	**–**
Officers' bonuses	**–**	**–**	**–**	**(361)**	**–**	**–**
Retirement of treasury stock	**(500,000)**	**–**	**–**	**(6,624)**	**–**	**–**
Cost of treasury stock purchased	**–**	**–**	**–**	**–**	**–**	**(3,255)**
Unrealized gains on available-for-sale securities for the year	**–**	**–**	**–**	**–**	**(6,473)**	**–**
Balance at 31st March 2002	**56,795,185**	**$182,105**	**$181,278**	**$463,128**	**$2,602**	**$(3,308)**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Kissei Pharmaceutical Co., Ltd. and its subsidiaries   For the years ended 31st March 2000, 2001 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2000	2001	**2002**	**2002**
Cash Flows from Operating Activities:				
Income before income taxes	¥10,573	¥ 8,237	**¥ 8,718**	**$ 65,549**
Depreciation and amortisation	3,269	3,125	**3,107**	**23,361**
Decrease in allowance for doubtful accounts	(31)	(7)	**(48)**	**(361)**
Decrease in accrued bonuses to employees	(155)	(31)	**(70)**	**(526)**
Increase in other reserves for accrued expense items	151	2,622	**385**	**2,895**
Interest and dividend income	(561)	(519)	**(352)**	**(2,646)**
Interest expense	254	212	**206**	**1,549**
Gain on sales of marketable securities	(356)	(173)	**–**	**–**
Gain on sales of investments in securities	(1,563)	–	**–**	**–**
Loss on sale of marketable securities included in short-term investments in specified trust	218	–	**211**	**1,586**
Write-down of marketable securities, investments in specified trusts and investments in securities	4,367	247	**1,482**	**11,143**
Loss on sale or disposal of properties	60	13	**60**	**451**
Increase (decrease) in notes and accounts receivable	(664)	(4,502)	**97**	**729**
Increase (decrease) in inventories	(1,025)	125	**(925)**	**(6,955)**
Increase in other current assets	(2,145)	(1,111)	**(442)**	**(3,323)**
Increase in notes and accounts payable	273	590	**1,368**	**10,286**
Decrease in other current liabilities	(153)	(560)	**(50)**	**(376)**
Officers' bonuses	(50)	(50)	**(48)**	**(361)**
Other cash flows from operating activities, net	2	44	**82**	**616**
Sub total	12,464	8,262	**13,781**	**103,617**
Receipt of interest and dividends	326	418	**301**	**2,263**
Payment of interest	(254)	(211)	**(206)**	**(1,549)**
Payment of income taxes	(6,380)	(7,147)	**(2,135)**	**(16,053)**
Cash flows from operating activities	6,156	1,322	**11,741**	**88,278**
Cash Flows from Investing Activities:				
Increase in time deposits	(105)	(124)	**(115)**	**(864)**
Reduction in time deposits	50	105	**124**	**932**
Acquisition of investments in specified trusts	(5)	–	**–**	**–**
Reduction of investments in specified trusts	3,653	400	**209**	**1,572**
Acquisition of marketable securities	(2,002)	(5,166)	**(1,197)**	**(9,000)**
Sales revenue from marketable securities	6,835	12,707	**1,032**	**7,759**
Acquisition of property and equipment	(1,699)	(2,082)	**(1,216)**	**(9,143)**
Sales revenue from property and equipment	16	11	**9**	**68**
Acquisition of investments in securities	(2,134)	(2,327)	**(12,335)**	**(92,744)**
Sales revenue from investments in securities	3,085	1,977	**2,545**	**19,135**
Payment of other assets (long-term prepaid expenses)	(1,380)	(557)	**(2,222)**	**(16,707)**
Other cash flows from investing activities	(86)	(452)	**(17)**	**(128)**
Cash flows from investing activities	6,228	4,492	**(13,183)**	**(99,120)**
Cash Flows from Financing Activities:				
Increase in short-term bank loans	230	550	**200**	**1,504**
Repayment of short-term bank loans	(310)	(295)	**(175)**	**(1,316)**
Increase in long-term debt	73	–	**–**	**–**
Repayment of long-term debt	(188)	(65)	**(130)**	**(978)**
Redemption of convertible notes	(565)	–	**–**	**–**
Cash dividends paid by parent company	(874)	(809)	**(799)**	**(6,008)**
Proceeds from issue of shares to minority interest in consolidated subsidiary	138	–	**–**	**–**
Retirement of treasury stock	–	(2,160)	**(881)**	**(6,624)**
Other cash flows from financing activities, net	(4)	9	**(433)**	**(3,255)**
Cash flows from financing activities	(1,500)	(2,770)	**(2,218)**	**(16,677)**
Changes in cash and cash equivalents	10,884	3,044	**(3,660)**	**(27,519)**
Cash and cash equivalents at beginning of year (Note 4)	33,152	44,036	**47,080**	**353,985**
Cash and cash equivalents at end of year (Note 4)	¥44,036	¥47,080	**¥43,420**	**$326,466**

The accompanying notes are an integral part of these statements.

1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Scope of Consolidation

The Company had eight subsidiaries at 31st March 2002 (eight at 31st March 2001 and seven at 31st March 2000). The consolidated financial statements include the accounts of the Company and two of its subsidiaries for the year ended 31st March 2002 (together referred to as the "Companies"). The consolidated subsidiaries are listed below:

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

*As at 31st March 2002

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

(2) Consolidation and Elimination

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

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

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

(3) Investments in Unconsolidated Subsidiaries and Affiliates

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

(4) Valuation of Securities

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

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

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

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

As a result of the change, "Income before income taxes" increased by ¥1,330 million ($10,000 thousand), as compared with the previous policy for valuation of securities.

(5) Inventory Valuation

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

(6) Property, Plant and Equipment

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

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

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

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

(7) Amortisation

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

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

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

(8) Accounting for Consumption Tax

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

Consumption tax withheld upon sale and consumption tax paid by the Companies on their purchases of goods and services is not included in the respective revenue, cost or expense items in the accompanying consolidated statements of income. Consumption tax withheld and consumption tax paid are recorded as assets or liabilities and the net balance is included in "Notes and payables - Other" on the balance sheets at 31st March 2001 and 2002.

(9) Foreign Currency Translation

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

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

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

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

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

(10) Income Taxes

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

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

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

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

(i) Allowance for doubtful accounts

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

(ii) Accrued bonuses to employees

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

(iii) Reserve for accrued sales returns

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

(iv) Reserve for accrued sales rebates

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

(v) Reserve for accrued sales promotion expenses

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

(vi) Accrued retirement benefits to employees

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

Unrecognized net actuarial gains or losses are mainly amortized from the following year on a straight-line basis over a term that does not exceed the average remaining service period of these employees who are expected to receive benefits under the plans (10 years for the net actuarial loss incurred during the year ended 31st March 2001 and 2002).

Net obligations at transition of ¥2,757 million ($20,729 thousand) incurred by the Company and its consolidated subsidiaries were entirely charged to expense in the year ended 31st March 2001.

As a result of the change, the periodic benefit cost increased by ¥2,931 million ($22,038 thousand) and "Income before income taxes" decreased by ¥2,931 million ($22,038 thousand) as compared with the previous basis.

(vii) Accrued retirement benefits to directors and corporate auditors

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

(12) Appropriation of Retained Earnings

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

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

(13) Net Income and Dividends per Share

Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each financial year appropriately adjusted for subsequent free distribution of shares (stock splits).

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

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

(14) Reclassification of Accounts

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

3. UNITED STATES DOLLAR AMOUNTS

The Companies maintain their accounting records in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical result of translating yen to dollars on the basis of ¥133=U.S.$1, the approximate effective rate of exchange at 31st March 2002. 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 ¥133=U.S.$1 or at any other rate.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at 31st March 2001 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	**2002**	**2002**
Cash on hand and in banks	¥26,438	**¥30,671**	**$230,609**
Marketable securities	20,901	**13,602**	**102,271**
Time deposits with original maturities of over three months	(124)	**(115)**	**(865)**
Bonds redeemable after original maturities of over three months and other	(135)	**(738)**	**(5,549)**
Cash and cash equivalents	¥47,080	**¥43,420**	**$326,466**

5. SECURITIES

The acquisition cost, carrying amount, gross unrealized holding gains and gross unrealized holding losses for securities with fair value by security type at 31st March 2001 and 2002 are as follows:

Available-for-sale securities:

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

	Millions of Yen			
	2002			
	Carrying amount	Fair value	Gross unrealized gains	Gross unrealized losses
Equity securities	**¥ 8,938**	**¥ 9,934**	**¥1,702**	**¥ 706**
Corporate debt securities	**2,829**	**2,797**	**7**	**39**
Others	**10,746**	**10,376**	**57**	**427**
	¥22,513	**¥23,107**	**¥1,766**	**¥1,172**

	Thousands of U.S. Dollars			
	2002			
	Cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Equity securities	**$ 67,203**	**$ 74,692**	**$12,797**	**$5,308**
Corporate debt securities	**21,271**	**21,030**	**52**	**293**
Others	**80,797**	**78,015**	**429**	**3,211**
	$169,271	**$173,737**	**$13,278**	**$8,812**

The carrying amount of securities where no market value is available at 31st March 2001 and 2002 is summarized as follows:

Available-for-sale securities:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2001	**2002**	**2002**
Unlisted equity securities	¥ 1,241	**¥ 1,360**	**$ 10,225**
Others	20,766	**12,864**	**96,722**
	¥22,007	**¥14,224**	**$106,947**

Proceeds, gross realized gains and gross realized losses from the sale of available-for-sale securities in respect of the year ended 31st March 2002 were ¥2,530 million ($19,022 thousand), ¥0 million ($0 thousand) and ¥21 million ($158 thousand), respectively.

6. INVENTORIES

Inventories at 31st March 2001 and 2002 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2001	**2002**	**2002**
Merchandise	¥1,151	**¥2,104**	**$15,820**
Finished goods	1,572	**1,941**	**14,594**
Work-in-process	1,990	**1,733**	**13,030**
Raw materials	1,067	**637**	**4,789**
Supplies	493	**783**	**5,887**
	¥6,273	**¥7,198**	**$54,120**

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

Short-term bank loans outstanding at 31st March 2001 and 2002 were represented generally by one year notes issued by the Companies to banks. Short-term bank loans entered into during the year ended 31st March 2001 and 2002 bore interest at an average annual rate of 1.23% and 1.21%, respectively.

Information in respect of short-term bank loans outstanding for the years ended 31st March 2001 and 2002 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	**2002**	**2002**
Maximum month-end balance	¥2,245	**¥2,420**	**$18,195**
Average month-end balance	¥2,018	**¥2,314**	**$17,398**

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

Long-term debt of the Companies at 31st March 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	**2002**	**2002**
Loans with other financial institutions–not secured-bearing interest at rates ranging from 3.15% to 6.30% due from 2001 to 2030	¥ 525	**¥ 395**	**$ 2,970**
0.7% convertible notes due 2006	9,586	**9,586**	**72,075**
0.8% convertible notes due 2008	12,447	**12,447**	**93,586**
	22,558	**22,428**	**168,631**
Less: current maturities due within one year	(39)	**(61)**	**(458)**
	¥22,519	**¥22,367**	**$168,173**

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

The notes are convertible at any time prior to 28th September 2006. The number of shares which would be issued upon conversion of the notes outstanding at 31st March 2002 was 3,247 thousand shares.

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

The notes are convertible at any time prior to 29th September 2008. The number of shares which would be issued upon conversion of the notes outstanding at 31st March 2002 was 4,216 thousand shares.

The Companies' assets pledged as collateral for short-term loans at 31st March 2002 are summarised as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment,		
net of accumulated depreciation:		
Buildings and structures	¥1,131	$8,504
Machinery and equipment	5	37
Land	168	1,263
	¥1,304	$9,804

The aggregate annual maturities of long-term loans outstanding at 31st March 2002 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year ending 31st March		
2003	¥ 61	$ 458
2004	61	458
2005	61	458
2006 and thereafter	22,245	167,257
	¥22,428	$168,631

8. INCOME TAXES

Income taxes in Japan applicable to the Companies for the years ended 31st March 2000, 2001 and 2002 consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

	Rates on taxable income		
	2000	2001	**2002**
Corporate income tax	30.0%	30.0%	**30.0%**
Enterprise tax	9.7	9.7	**9.7**
Resident income taxes	6.1	6.1	**6.1**
	45.8%	45.8%	**45.8%**
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid	41.7%	41.7%	**41.7%**

Income tax rates as shown in the accompanying consolidated statements of income differ from the above-mentioned statutory tax rates. The principal reason such differences arise is that entertainment expenses for the purposes of sales promotion, etc. as defined by Japanese tax law are not allowable as tax deductions.

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	**2002**	**2002**
Deferred tax assets:			
Write-down of securities	¥ 396	**¥ 832**	**$ 6,256**
Prepaid research and development expenses	1,482	**1,757**	**13,211**
Accrued retirement benefits to directors and corporate auditors	475	**531**	**3,992**
Accrued enterprise tax	56	**363**	**2,729**
Accrued bonuses to employees	355	**494**	**3,714**
Reserve for accrued sales rebates	214	**228**	**1,714**
Accrued retirement benefits to employees	1,378	**1,466**	**11,023**
Royalties receivable	810	**647**	**4,865**
Other	490	**812**	**6,105**
	5,656	**7,130**	**53,609**
Allowance for valuation	(308)	**(320)**	**(2,406)**
	¥ 5,348	**¥6,810**	**$51,203**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	¥ (863)	**¥ (248)**	**$ (1,865)**
Deferred tax assets, net	¥ 4,485	**¥6,562**	**$49,338**

Reconciliation of the actual tax rate is shown below:

	2001	2002
Effective statutory tax rate	41.7%	**41.7%**
Adjustments:		
Entertainment expenses and other not deductibles	6.3	**5.6**
Dividend income not taxable	(0.5)	**(0.5)**
Tax benefits due to increase of research and development costs	(2.0)	**(4.9)**
Per capital levy of local resident income taxes	0.7	**0.7**
Other factors	0.8	**1.9**
Actual tax rate	47.0%	**44.5%**

9. RETIREMENT BENEFIT PLANS

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

The following table sets forth a reconciliation of projected benefit obligations, plan assets, funded status of the retirement benefit plans and net liability recognized in the accompanying balance sheets at 31st March 2001 and 2002:

	Millions of Yen		Thousands of U.S. Dollars
	2001	**2002**	**2002**
Projected benefit obligations	¥12,231	**¥13,353**	**$100,398**
Fair value of plan assets	(8,177)	**(8,336)**	**(62,676)**
Funded status of the plans	4,054	**5,017**	**37,722**
Unamortized net obligation at transition	–	**–**	**–**
Unrecognized net actuarial difference	(749)	**(1,502)**	**(11,293)**
Net liability recognized	¥ 3,305	**¥ 3,515**	**$ 26,429**

The net periodic retirement benefit cost for the current year included the following components:

	Millions of Yen		Thousands of U.S. Dollars
	2001	**2002**	**2002**
Service cost	¥ 810	**¥ 779**	**$ 5,857**
Interest cost	349	**367**	**2,759**
Expected return on plan assets	(296)	**(286)**	**(2,150)**
Amortization of net obligation at transition	2,757	**–**	**–**
Additional payment of retirement costs	710	**21**	**158**
Amortization of difference caused from actuarial calculation	–	**75**	**564**
	¥4,330	**¥ 956**	**$ 7,188**

The discount rate used to determine the actuarial present value of projected benefit obligations under the plan that covers the employees of the Company and its subsidiaries was 3.0% as of 31st March 2001 and 2002, respectively. The rate of expected return on plan assets was 3.5% as of 31st March 2001 and 2002, 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.

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

10. COMMITMENTS AND CONTINGENT LIABILITIES

(1) Finance Leases

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

Lease rental expenses on finance lease contracts without ownership-transfer for the year ended 31st March 2000, 2001 and 2002 are summarised as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2000	2001	**2002**	**2002**
Lease rental expenses	¥608	¥627	**¥616**	**$4,632**

Assumed data in respect of the acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets (machinery and equipment), including the portion of interest thereon, for the year ended 31st March 2002 is summarised as follows:

	Millions of Yen	Thousands of U.S. Dollars
	31st March 2002	
Acquisition cost	¥2,798	$21,037
Accumulated depreciation	1,197	9,000
Net book value	¥1,601	$12,037
Depreciation	¥ 616	$ 4,632

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 31st March 2001 and 2002, including the portion of interest thereon, is summarised as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	**2002**	**2002**
Future lease payments:			
Within one year	¥ 538	**¥ 544**	**$ 4,090**
After more than one year	746	**1,057**	**7,947**
Total	¥1,284	**¥1,601**	**$12,037**

The amount of outstanding future lease payments on operating leases due at 31st March 2001 and 2002 is summarised as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	**2002**	**2002**
Future lease receptions:			
Within one year	¥12	**¥ –**	**$ –**
After more than one year	–	**–**	**–**
Total	¥12	**¥ –**	**$ –**

(2) Contingent Liabilities

The Company had contingent liabilities arising from notes discounted by banks in the ordinary course of business in the amount of ¥1,200 million ($9,023 thousand) at 31st March 2002.

In addition, the Company was contingently liable for guarantees in respect of loans borrowed by its unconsolidated subsidiaries for an amount of ¥94 million ($706 thousand) at 31st March 2002.

11. SEGMENT INFORMATION

(1) Industry Segment Information

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

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

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

Therefore, the industry segment information of the Company and its consolidated subsidiaries for the year ended 31st March 2001 and 2002 are presented below:

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

	Millions of Yen				
	For the year ended 31st March 2002				
	Industry Segment			Elimination of Inter-segment Sales	Consolidated Total
	Pharmacy	Other	Total		
Sales:					
Sales to outside customers	¥ 56,315	¥3,614	¥ 59,929	¥ –	¥ 59,929
Inter-segment sales	0	3,762	3,762	(3,762)	–
Total sales	56,315	7,376	63,691	(3,762)	59,929
Operating expenses	49,408	7,294	56,702	(3,731)	52,971
Operating income	¥ 6,907	¥ 82	¥ 6,989	¥ (31)	¥ 6,958
Assets	¥150,872	¥5,811	¥156,683	¥ (943)	¥155,740
Depreciation	¥ 2,772	¥ 395	¥ 3,167	¥ (60)	¥ 3,107
Capital expenditure	¥ 2,926	¥ 358	¥ 3,284	¥ 154	¥ 3,438

	Thousands of U.S. Dollars				
	For the year ended 31st March 2002				
	Industry Segment			Elimination of Inter-segment Sales	Consolidated Total
	Pharmacy	Other	Total		
Sales:					
Sales to outside customers	$ 423,421	$27,173	$ 450,594	$ –	$ 450,594
Inter-segment sales	0	28,286	28,286	(28,286)	–
Total sales	423,421	55,459	478,880	(28,286)	450,594
Operating expenses	371,489	54,842	426,331	(28,053)	398,278
Operating income	$ 51,932	$ 617	$ 52,549	$ (233)	$ 52,316
Assets	$1,134,376	$43,692	$1,178,068	$ (7,091)	$1,170,977
Depreciation	$ 20,842	$ 2,970	$ 23,812	$ (451)	$ 23,361
Capital expenditure	$ 22,000	$ 2,692	$ 24,692	$ 1,158	$ 25,850

(2) Information by Geographic Segment

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

(3) Export Sales

Export sales information of the Companies for the three years ended 31st March 2002 is omitted because export sales account for less than 10% of total sales.

12. ANALYSIS OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

An analysis of selling, general and administrative expenses for each of the three years in the period ended 31st March 2002 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2000	2001	**2002**	**2002**
Advertising and sales promotion expenses	¥ 3,624	¥ 3,851	**¥ 4,224**	**$ 31,759**
Payroll costs	7,289	7,499	**7,391**	**55,571**
Research and development costs	9,231	11,517	**13,045**	**98,083**
Travelling expenses	1,487	1,484	**1,521**	**11,436**
Depreciation	846	1,007	**1,104**	**8,301**
Other	6,099	6,703	**6,291**	**47,301**
	¥28,576	¥32,061	**¥33,576**	**$252,451**

13. SUBSEQUENT EVENT

The following appropriations of unappropriated retained earnings, which have not been reflected in the financial statements at 31st March 2002 were approved at the shareholders' meeting held on 27th June 2002:

	Millions of Yen	Thousands of U.S. Dollars
Retained earnings:		
Balance at 31st March 2002	¥61,596	$463,128
Appropriations:		
Cash dividends (¥7 per share)	(396)	(2,977)
Officers' bonuses	(37)	(278)
Balance to be carried forward	¥61,163	$459,873

ChuoAoyama Audit Corporation

PRICEWATERHOUSECOOPERS

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

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

We have audited the accompanying consolidated balance sheets of KISSEI PHARMACEUTICAL CO., LTD. and its consolidated subsidiaries as at 31st March 2001 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years ended 31st March 2002, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly, the consolidated financial position of KISSEI PHARMACEUTICAL CO., LTD. and its consolidated subsidiaries as at 31st March 2001 and 2002, and the consolidated results of their operations and cash flows for each of the three years ended 31st March 2002, in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

As described in Note 2, "Summary of Significant Accounting Policies" in the Notes to the Consolidated Financial Statements, the Company has adopted newly introduced accounting standards for financial instruments and post-employment benefits and revised accounting standards for foreign currency transactions and translations with effect from the year ended 31st March 2001.

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

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation

Tokyo, Japan
27th June 2002

KISSEI PHARMACEUTICAL CO., LTD.

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

Date of Establishment:
August 9, 1946

Capital:
¥24,220 million

Number of Employees:
1,490

Central Research Laboratories:
Hotaka

Toxicological Laboratories:
Hotaka

Pharmaceutical Laboratories:
Hotaka

Plants:
Matsumoto, Shiojiri

Distribution Centers:
Shiojiri, Sapporo, Fukuoka

Information Center:
Matsumoto

Nutritional Business Center:
Shiojiri

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

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

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

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