Annual Report
2003

KISSEI

Profile

Kissei's management vision is to be a discovery- and R&D-oriented pharmaceutical company that contributes to the health of people around the world through the development of innovative drugs. In implementing our management strategies, we continually emphasize the patient's perspective. Kissei reinforces its commitment to corporate ethics through a rigorous compliance program. At the same time, the Company is aggressively working to contribute to environmental conservation by acquiring ISO 14001 certification.

In 1995, Kissei introduced the *Project 21* corporate reform initiative. To establish a new management structure that is appropriate for a discovery- and R&D-oriented pharmaceutical company and to achieve further growth, we have moved ahead with reforms in the areas of self-guidance, administrative processes, operational structure, and profit structure.

In April 2003, the Company began to implement the *Evolution Plan*, a new medium-term, five-year management plan. Under the plan, our activities are guided by the slogans "reforming our profit structure" and "shifting toward a growth phase." In an operating environment marked by intensifying competition and the globalization of pharmaceutical markets, Kissei will continue working to implement corporate reforms, to successfully execute its medium-term management plan, and to record ongoing growth as a discovery- and R&D-oriented pharmaceutical company that contributes to society.

Financial Highlights

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
	2002	2003	2003
Net Sales	¥ 59,929	¥ 59,529	$ 496,075
Operating Income	6,958	6,073	50,608
Net Income	4,837	2,231	18,592
Total Assets	155,740	151,582	1,263,183
Total Shareholders' Equity	109,832	108,636	905,300
Per Share (Yen and Dollars):			
Net Income			
Primary	¥84.9	¥39.4	$0.328
Fully-Diluted	76.5	35.8	0.298
Cash Dividends	14.0	14.0	0.117
R&D Expenditures	¥13,045	¥13,074	$108,950
Capital Investment	1,216	1,292	10,767

Note: U.S. dollar amounts are translated at the rate of ¥120=U.S.$1, the approximate effective rate of exchange at 31st March 2003.

A Message from the President

Review of Operations

In the fiscal year ended March 31, 2003, there were signs of recovery in corporate performances in Japan, but a considerable portion of the improvement was attributable to a rebound from the previous year's large performance declines and to the effects of restructuring measures. Consumer spending did not undergo a full-fledged recovery. In addition, at the end of the fiscal year the war in Iraq contributed to uncertainty about the future.

The domestic pharmaceutical industry experienced substantial changes in its operating environment during the year under review. The challenges faced by pharmaceutical companies included the NHI drug price revisions implemented in April 2002, the fundamental reform of Japan's medical system, intensifying global competition, and the need to keep pace with rapid advances in such fields as biotechnology.

In this setting, in its pharmaceutical operations the Company worked to increase sales of its core products, such as *Cabaser®* Tab., a therapeutic agent for Parkinson's disease, and products in the field of obstetrics and gynecology. At the same time, we implemented extensive medical information services. In other operations, we worked to bolster our profit foundation by actively executing highly efficient management.

As a result, on a consolidated basis net sales for the year were ¥59.5 billion, operating income was ¥6.1 billion, and net income was ¥2.2 billion.

During the year under review, Kissei purchased treasury stock to increase capital efficiency and to raise net income per share by reducing the number of shares outstanding. The Company bought 1,565,000 shares at a total cost of ¥2.4 billion.

Research and Development/Global Expansion

To realize its vision of being a discovery- and R&D-oriented pharmaceutical company, Kissei is investing heavily in research and development and promoting the development of new drugs. Also, to expand the volume of our overseas sales, we are actively pursuing opportunities to license our original drugs for global development.

In December 2002, we filed an NDA in Japan for *mitiglinide* (generic name), a postprandial blood-sugar lowering agent with rapid-onset, short-acting insulin secretion. In May 2003, we filed an NDA in Japan for *pilocarpine* (generic name), a therapeutic agent for dry mouth induced by radiation therapy for head and neck cancer.

In Japan, we plan to conduct co-marketing of *mitiglinide* with Takeda Chemical Industries, Ltd. In Europe, we have licensed out *mitiglinide* to Les Laboratoires Servier, of France, which is currently conducting large-scale phase III comparative clinical trials. In the United States, our subsidiary Kissei Pharma U.S.A., Inc., is conducting phase II clinical trials for *mitiglinide*, and we are currently preparing to license the development and marketing rights for North America to another company.

In addition, we are preparing to file an NDA in Japan in July 2004 for *silodosin* (generic name), a selective alpha 1A receptor antagonist used as a treatment for dysuria associated with benign prostatic hyperplasia (BPH). In Japan, we are currently conducting phase III double-blind comparative studies in a joint effort with Daiichi Pharmaceutical Co., Ltd. In the United States, Kissei Pharma U.S.A. has completed early phase II trials for *silodosin*, and we are currently preparing to license out the development and marketing rights for Europe and North America.

In October 2002, Kissei signed an agreement granting GlaxoSmithKline the worldwide development and marketing rights, excluding Japan, Korea, China, and Taiwan, for KGT (development code), a blood-sugar lowering agent with the inhibitive mechanism of sodium-dependent renal glucose transporter type 2 (SGLT2).

In November 2002, Kissei granted Boehringer Ingelheim GmbH the worldwide development, manufacturing, and marketing rights, excluding Japan, Korea, China, and Taiwan, for KUC-7483 (development code), a selective β_3 receptor stimulant discovered by Kissei and under development as a therapeutic agent for urinary incontinence/overactive bladder. In March 2003, Kissei granted Choongwae Pharma Corporation, of Korea, the development and marketing rights for *mitiglinide* in the Korean market. In Europe, GlaxoSmithKline began phase I clinical trials for KGT in April 2003, and in May 2003 Boehringer Ingelheim took over the phase I clinical trials for KUC-7483 in Europe.

New R&D themes include KFA-1982, an anticoagulant that inhibits Factor Xa in the coagulation cascade. In May 2003, Kissei began phase I clinical trials in Europe.

Financial Review

Newer drugs, such as *Cabaser®* Tab., a therapeutic agent for Parkinson's disease, and *Zoladex®* 1.8 mg Depot, a therapeutic agent for endometriosis, achieved increased sales during the year under review, and we received upfront fees from a co-marketing agreement for *mitiglinide* with Takeda Chemical Industries and from licensing agreements for KGT, an anti-diabetic agent, and for KUC-7483, a therapeutic agent for urinary incontinence/overactive bladder. However, sales of *Bezatol®* SR Tab., a therapeutic agent for hyperlipidemia, and *Xanbon®*, a cerebral circulation ameliorator, declined due to the adverse effects of NHI drug price revisions and competition from other products. As a result, the Company's net sales were about the same as in the previous fiscal year.

Operating income declined as a result of price reductions, a rise in the cost of sales due to an increase in the share of sales accounted for by in-licensed products, and R&D expenditures of ¥13.0 billion in the Company's pharmaceutical operations. Net income declined 53.9% following the substantial extraordinary income recorded in the previous fiscal year from the settlement received as compensation for damages in the Princeton notes securities fraud proceeding.

Kissei maintains a strong financial position, with a shareholders' equity ratio that remains above 70%. Cash flow continued to increase in the year under review, with cash and cash equivalents reaching ¥46.8 billion at year-end. Kissei will continue to make effective use of these funds to implement its management strategy and build a foundation for stable growth.

Outlook

Business conditions for our pharmaceutical operations are expected to remain difficult due to lower prices resulting from the April 2002 NHI drug price revisions, to the policy of promoting the use of generic drugs, and to the comprehensive evaluation of in-patient care at advanced treatment hospitals. Conditions for the Company's other operations are also expected to remain challenging, with no clear signs of economic recovery.

In this environment, the Kissei Group will aim to establish a management system that takes full advantage of Group synergies. We will implement our growth strategies in accordance with our new medium-term management plan.

In the fiscal year ending March 2004, we will strive to achieve net sales of ¥60.0 billion, operating income of ¥6.2 billion.

Strategy

As one facet of the reform of Japan's medical system, the government implemented a policy of promoting the use of generic drugs in the previous fiscal year. In April 2003, that step was followed up with additional measures to control spending on health care and drugs. The government has introduced a comprehensive evaluation of in-patient care at advanced treatment hospitals, and members of the NHI scheme for employees must now pay 30% of their medical expenses. For pharmaceutical companies that cannot continually launch new drugs, the operating environment is expected to become even more challenging.

In this setting, Kissei's management vision is "to be a discovery- and R&D-oriented pharmaceutical company that contributes to the health of people around the world through the development of innovative drugs." Accordingly, we are taking a comprehensive approach to our business, including pharmaceutical R&D based on the patient's perspective, high-quality pharmaceutical manufacturing, thorough medical information activities to ensure appropriate usage, and efficient administrative implementation.

In April 2003, we began our new medium-term management plan—*Evolution Plan*—that will cover the next five years. Under this plan, our activities are guided by the slogans "reforming our profit structure"and "shifting toward a growth phase."

Under the profit structure reform, in the difficult operating environment faced by the pharmaceutical industry, all Company officers and employees will share a sense of urgency in reevaluating current administrative practices from a variety of viewpoints, emphasizing the optimal utilization of management resources. In this way, we will strive to build an efficient management constitution.

In shifting toward a growth phase, we will leverage our total marketing system to secure strong positions in domestic pharmaceutical and nutritional food markets and aggressively promote global expansion. In doing so, we will expand the scale of our sales and realize a high profitability corporate constitution.

To these ends, during the period covered by this plan, we will launch three new drugs for which we have conducted focused development activities and strive to expand their markets rapidly: *mitiglinide*, a treatment for diabetes; *pilocarpine*, a treatment for dry mouth; and *silodosin*, a treatment for dysuria associated with BPH. In addition, to increase the profits we earn from overseas pharmaceutical markets, we will continue to take advantage of opportunities to license out our original compounds, thereby facilitating the timely overseas launches of original Kissei drugs.

The careful, step-by-step implementation of its medium-term management plan is one of the most important tasks facing Kissei. In this endeavor, I would like to ask for your continued support.

June 2003

Mutsuo Kanzawa
President and Chief Executive Officer

R&D Pipeline

Development Code (Generic Name)	Product Origin (Country)	Therapeutic Target	Region	Development Stage	Developing Company
KAD-1229 (*Mitiglinide*)	Kissei	Improvement of postprandial plasma glucose transition in patients with type 2 diabetes mellitus	Japan	NDA	Kissei
			U.S.A.	Phase II	Kissei
			Europe	Phase III	Les Laboratoires Servier
		Combination therapy with α-glucosidase inhibitor (additional indication)	Japan	Phase II/III	Kissei
KMD-3213 (*Silodosin*)	Kissei	Dysuria associated with benign prostatic hyperplasia	Japan	Phase III	Kissei/Daiichi Pharmaceutical
			U.S.A.	Phase II	Kissei
KUL-7211	Kissei	Pain relief and excretion of urinary tract stone	Japan	Phase I	Kissei
KUR-1246	Kissei	Threatened premature labor	Japan	Phase I	Kissei/Teikoku Hormone Mfg.
			Europe	Phase II	Kissei
KUC-7483	Kissei	Urinary incontinence/overactive bladder	Europe	Phase I	Boehringer Ingelheim
KGT	Kissei	Diabetic mellitus	Europe	Phase I	GlaxoSmithKline
KFA-1982	Kissei	Deep vein thrombosis, etc. (oral anticoagulant)	Europe	Phase I	Kissei
KSS-694 (*Pilocarpine*)	MGI Pharma (U.S.A.)	Dry mouth due to radiation therapy for head and neck cancer	Japan	NDA	Kissei
		Dry mouth due to Sjögren's syndrome (additional indication)	Japan	Phase II	Kissei
KIN-493 (*Oxcarbazepine*)	Novartis (Switzerland)	Diabetic neuropathic pain	Japan	Phase II	Kissei

Consolidated Balance Sheets

Kissei Pharmaceutical Co., Ltd. and its subsidiaries At 31st March 2002 and 2003

ASSETS	Millions of Yen 2002	Millions of Yen 2003	Thousands of U.S. Dollars (Note 3) 2003
Current Assets:			
Cash on hand and in banks (Note 4)	¥ 30,671	¥ 36,865	$ 307,208
Short-term investments in specified trusts	4,365	2,436	20,300
Marketable securities (Notes 4 and 5)	13,602	11,582	96,517
Notes and accounts receivable	27,691	24,037	200,308
Less: allowance for doubtful accounts	(71)	(27)	(225)
	27,620	24,010	200,083
Inventories (Note 6)	7,198	8,377	69,808
Deferred tax assets – current (Note 8)	2,786	1,960	16,334
Other current assets	4,735	4,272	35,600
Total current assets	90,977	89,502	745,850
Investments and Advances:			
Investments in securities (Note 5)	24,879	21,616	180,133
Investments in unconsolidated subsidiaries	850	850	7,083
Leasehold deposits and guarantee deposits	425	438	3,650
Other investments and advances	1,117	2,729	22,742
	27,271	25,633	213,608
Property, Plant and Equipment (Note 7):			
Buildings and structures	29,913	30,135	251,125
Machinery and equipment	8,269	8,548	71,233
	38,182	38,683	322,358
Less: accumulated depreciation	(22,346)	(23,757)	(197,975)
	15,836	14,926	124,383
Land	12,959	12,918	107,650
Construction in progress	49	379	3,159
	28,844	28,223	235,192
Other Assets:			
Deferred tax assets – non-current (Note 8)	3,776	3,798	31,650
Deferred charges and other	4,872	4,426	36,883
	¥155,740	¥151,582	$1,263,183

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2002	Millions of Yen 2003	Thousands of U.S. Dollars (Note 3) 2003
Current Liabilities:			
Short-term bank loans (Note 7)	¥ 1,770	¥ 2,050	$ 17,083
Current portion of long-term debt (Note 7)	61	60	500
Notes and payables:			
Trade	7,575	7,494	62,450
Construction and acquisition of properties	355	133	1,108
Other	2,424	1,910	15,917
	10,354	9,537	79,475
Income taxes payable (Note 8)	3,622	211	1,758
Accrued expenses and bonuses to employees	1,979	2,452	20,433
Reserve for accrued sales returns	19	23	192
Reserve for accrued sales rebates	547	518	4,317
Reserve for accrued sales promotion expenses	172	178	1,483
Other current liabilities	114	749	6,242
Total current liabilities	18,638	15,778	131,483
Long-Term Debt (Note 7)	22,367	22,032	183,600
Accrued Retirement Benefits to Employees (Note 9)	3,515	3,824	31,867
Accrued Retirement Benefits to Directors and Corporate Auditors	1,273	1,221	10,175
Total liabilities	45,793	42,855	357,125
Minority Interests in Consolidated Subsidiaries	115	91	758
Commitments and Contingent Liabilities (Note 10)			
Shareholders' Equity:			
Common stock:			
Authorised: 128,516,000 shares			
Issued: 56,795,185 shares and 56,795,185 shares at 31st March 2002 and 2003, respectively	24,220	24,220	201,833
Additional paid-in capital	24,110	24,110	200,917
Unappropriated retained earnings (Note 13)	61,596	63,004	525,033
Unrealized gains on available-for-sale securities, net of tax	346	302	2,517
Treasury stock (252,766 shares and 1,894,285 shares at 31st March 2002 and 2003)	(440)	(3,000)	(25,000)
Total shareholders' equity	109,832	108,636	905,300
	¥155,740	¥151,582	$1,263,183

Consolidated Statements of Income

Kissei Pharmaceutical Co., Ltd. and its subsidiaries For the years ended 31st March 2001, 2002 and 2003

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2001	2002	2003	2003
Net Sales	¥58,937	¥59,929	¥59,529	$496,075
Cost of Sales	17,090	19,395	19,893	165,775
Gross profit	41,847	40,534	39,636	330,300
Selling, General and Administrative Expenses				
(Notes 9, 10 and 12)	32,061	33,576	33,563	279,692
Operating income	9,786	6,958	6,073	50,608
Other Income (Expenses):				
Interest and dividend income	519	352	369	3,075
Interest expense	(212)	(206)	(203)	(1,692)
Loss on sale or disposal of properties	(13)	(79)	(114)	(950)
Gain (loss) on sale of marketable securities	173	(211)	(78)	(650)
Gain on sale of investments in securities	–	–	414	3,450
Write-down of marketable securities and				
short-term investments in specified trusts	–	(362)	(266)	(2,216)
Write-down of investments in securities	(298)	(1,120)	(1,509)	(12,575)
Reconciliation gain from a damage suit	1,005	3,382	–	–
Net obligation at transition immediately expensed				
for retirement benefits to employees (Note 2)	(2,757)	–	–	–
Other, net	34	4	(183)	(1,525)
	(1,549)	1,760	(1,570)	(13,083)
Income before income taxes	8,237	8,718	4,503	37,525
Income Taxes (Note 8):				
Current	4,327	5,336	1,449	12,075
Deferred	(454)	(1,462)	847	7,058
	3,873	3,874	2,296	19,133
Minority interests	19	(7)	24	200
Net income	¥ 4,383	¥ 4,837	¥ 2,231	$ 18,592

	Yen			U.S. Dollars (Note 3)
Per Share (Note 2):				
Net income:				
Primary	¥76.0	¥84.9	¥39.4	$0.328
Fully-diluted	68.8	76.5	35.8	0.298
Cash dividends	14.0	14.0	14.0	0.117

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 2001, 2002 and 2003

	Number of shares of common stock	Millions of Yen				
		Common stock	Additional paid-in capital	Unappropriated retained earnings	Unrealized gains on available-for-sale securities	Treasury stock
Balance at 31st March 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)	–	–
Bonuses to directors and corporate auditors	–	–	–	(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)	–	–
Bonuses to directors and corporate auditors	–	–	–	(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)
Net income for the year ended 31st March 2003	**–**	**–**	**–**	**2,231**	**–**	**–**
Cash dividends paid	**–**	**–**	**–**	**(787)**	**–**	**–**
Bonuses to directors and corporate auditors	**–**	**–**	**–**	**(36)**	**–**	**–**
Cost of treasury stock purchased	**–**	**–**	**–**	**–**	**–**	**(2,560)**
Unrealized gains on available-for-sale securities for the year	**–**	**–**	**–**	**–**	**(44)**	**–**
Balance at 31st March 2003	**56,795,185**	**¥24,220**	**¥24,110**	**¥63,004**	**¥ 302**	**¥(3,000)**

	Number of shares of common stock	Thousands of U.S. Dollars (Note 3)				
		Common stock	Additional paid-in capital	Unappropriated retained earnings	Unrealized gains on available-for-sale securities	Treasury stock
Balance at 31st March 2002	56,795,185	$201,833	$200,917	$513,300	$2,883	$ (3,667)
Net income for the year ended 31st March 2003	**–**	**–**	**–**	**18,592**	**–**	**–**
Cash dividends paid	**–**	**–**	**–**	**(6,559)**	**–**	**–**
Bonuses to directors and corporate auditors	**–**	**–**	**–**	**(300)**	**–**	**–**
Cost of treasury stock purchased	**–**	**–**	**–**	**–**	**–**	**(21,333)**
Unrealized gains on available-for-sale securities for the year	**–**	**–**	**–**	**–**	**(366)**	**–**
Balance at 31st March 2003	**56,795,185**	**$201,833**	**$200,917**	**$525,033**	**$2,517**	**$(25,000)**

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 2001, 2002 and 2003

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2001	2002	2003	2003
Cash Flows from Operating Activities:				
Income before income taxes	¥ 8,237	¥ 8,718	¥ 4,503	$ 37,525
Depreciation and amortization	3,125	3,107	3,083	25,692
Decrease in allowance for doubtful accounts	(7)	(48)	(44)	(367)
Increase (decrease) in accrued bonuses to employees	(31)	(70)	473	3,942
Increase in other reserves for accrued expense items	2,622	385	238	1,983
Interest and dividend income	(519)	(352)	(369)	(3,075)
Interest expense	212	206	203	1,692
Gain on sale of marketable securities	(173)	–	–	–
Gain on sale of investments in securities	–	–	(414)	(3,450)
Loss on sale of marketable securities included in short-term investments in specified trust	–	211	78	650
Write-down of marketable securities, investments in specified trusts and investments in securities	247	1,482	1,775	14,792
Loss on sale or disposal of properties	13	60	108	950
Increase (decrease) in notes and accounts receivable	(4,502)	97	3,654	30,450
Increase (decrease) in inventories	125	(925)	(1,179)	(9,825)
Increase (decrease) in other current assets	(1,111)	(442)	468	3,900
Increase (decrease) in notes and accounts payable	590	1,368	(817)	(6,808)
Increase (decrease) in other current liabilities	(560)	(50)	635	5,291
Bonuses to directors and corporate auditors	(50)	(48)	(36)	(300)
Other cash flows from operating activities, net	44	82	136	1,083
Sub total	8,262	13,781	12,495	104,125
Receipt of interest and dividends	418	301	327	2,725
Payment of interest	(211)	(206)	(203)	(1,692)
Payment of income taxes	(7,147)	(2,135)	(4,778)	(39,817)
Cash flows from operating activities	1,322	11,741	7,841	65,341
Cash Flows from Investing Activities:				
Increase in time deposits	(124)	(115)	(76)	(633)
Reduction in time deposits	105	124	115	958
Reduction of investments in specified trusts	400	209	1,271	10,592
Acquisition of marketable securities	(5,166)	(1,197)	–	–
Sales revenue from marketable securities	12,707	1,032	755	6,292
Acquisition of property and equipment	(2,082)	(1,216)	(1,292)	(10,767)
Sales revenue from property and equipment	11	9	37	308
Acquisition of investments in securities	(2,327)	(12,335)	(6,992)	(58,267)
Sales revenue from investments in securities	1,977	2,545	7,742	64,517
Payment of other assets (long-term prepaid expenses)	(557)	(2,222)	(878)	(7,316)
Other cash flows from investing activities, net	(452)	(17)	(1,754)	(14,617)
Cash flows from investing activities	4,492	(13,183)	(1,072)	(8,933)
Cash Flows from Financing Activities:				
Increase in short-term bank loans	550	200	380	3,167
Repayment of short-term bank loans	(295)	(175)	(100)	(833)
Repayment of long-term debt	(65)	(130)	(80)	(667)
Redemption of convertible notes	–	–	(256)	(2,133)
Cash dividends paid by parent company	(809)	(799)	(787)	(6,559)
Retirement of treasury stock	(2,160)	(881)	–	–
Acquisition of treasury stock	–	(514)	(2,560)	(21,333)
Other cash flows from financing activities, net	9	81	–	–
Cash flows from financing activities	(2,770)	(2,218)	(3,403)	(28,358)
Changes in cash and cash equivalents	3,044	(3,660)	3,366	28,050
Cash and cash equivalents at beginning of year (Note 4)	44,036	47,080	43,420	361,833
Cash and cash equivalents at end of year (Note 4)	¥47,080	¥43,420	¥46,786	$389,883

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 nine subsidiaries at 31st March 2003 (eight at 31st March 2002 and 2001). The consolidated financial statements include the accounts of the Company and two of its subsidiaries for the year ended 31st March 2003 (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 million

*As at 31st March 2003

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

The accounts of the remaining seven 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, 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 31st March 2003.

(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

Short-term investments in specified trusts, which are held for the purpose of generating profits on short-term differences in prices, are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise.

Held-to-maturity debt securities, that the Company and its subsidiaries have intent to hold to maturity, are stated at cost after accounting for premium or discount on acquisition, which is amortized over the period to maturity.

Other securities for which market quotations are available are stated at fair value.

Net unrealized gains or losses on these securities are reported as a separate item in the shareholders' equity at a net-of-tax amount.

Other securities for which market quotations are unavailable are stated at cost, cost being determined by the moving average method.

(5) Inventory Valuation

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

(6) Property, Plant and Equipment

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

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

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

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

(7) Amortization

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

Software costs for internal use are amortized 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 2002 and 2003.

(9) Foreign Currency Translation

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

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

(10) Income Taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants taxes and enterprise taxes.

See Note 8 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 years ended 31st March 2001, 2002 and 2003).

Net obligations at transition of ¥2,757 million ($22,975 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 ($24,425 thousand) and "Income before income taxes" decreased by ¥2,931 million ($24,425 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).

Effective from the year ended March 31, 2003, the Company adopted the Statement of Financial Accounting Standard No. 2 "Earnings per Share" issued by the Accounting Standards Board of Japan. Prior to adopting the new statement, earnings per share were calculated based on the net income shown on the income statement. The earnings per share calculation therefore excluded bonuses to directors and statutory auditors, since under the Japanese Commercial Code, these are recognized as an appropriation of retained earnings in the statement of shareholders' equity, rather than as expenses in the income statement. However, the new statement requires that net income should be adjusted by deducting bonuses paid to directors and statutory auditors as well as the payment of dividends to shareholders of preferred stocks to be recognized as an appropriation of retained earnings from net income shown in the income statement, and the calculation of earnings per share be made on that adjusted net income basis. The effect of adopting this new statement was immaterial.

(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 ¥120=U.S.$1, the approximate effective rate of exchange at 31st March 2003. 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 ¥120=U.S.$1 or at any other rate.

4 Cash and Cash Equivalents

Cash and cash equivalents at 31st March 2002 and 2003 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2003	2003
Cash on hand and in banks	¥30,671	¥36,865	$307,208
Marketable securities	13,602	11,582	96,517
Time deposits with original maturities of over three months	(115)	(77)	(642)
Bonds redeemable after original maturities of over three months and other	(738)	(1,584)	(13,200)
Cash and cash equivalents	¥43,420	¥46,786	$389,883

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 2002 and 2003 are as follows:

Available-for-sale securities:

	Millions of Yen			
	2002			
	Cost	Carrying amount	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

	Millions of Yen			
	2003			
	Cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Equity securities	¥ 8,700	¥ 9,616	¥2,014	¥1,098
Corporate debt securities	2,883	2,866	22	39
Others	2,391	1,999	–	392
	¥13,974	¥14,481	¥2,036	¥1,529

	Thousands of U.S. Dollars			
	2003			
	Cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Equity securities	$ 72,500	$ 80,133	$16,783	$ 9,150
Corporate debt securities	24,025	23,883	183	325
Others	19,925	16,659	–	3,266
	$116,450	$120,675	$16,966	$12,741

The carrying amount of securities where no market value is available at 31st March 2002 and 2003 is summarized as follows:

Available-for-sale securities:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2002	2003	2003
Unlisted equity securities	¥ 504	¥ 1,713	$14,275
Others	12,864	9,999	83,325
	¥13,368	¥11,712	$97,600

Proceeds, gross realized gains and gross realized losses from the sale of available-for-sale securities in respect of the year ended 31st March 2003 were ¥7,873 million ($65,608 thousand), ¥414 million ($3,450 thousand) and ¥30 million ($250 thousand), respectively.

6 Inventories

Inventories at 31st March 2002 and 2003 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2003	2003
Merchandise	¥2,104	¥3,690	$30,750
Finished goods	1,941	1,453	12,108
Work-in-process	1,733	1,849	15,408
Raw materials	637	752	6,267
Supplies	783	633	5,275
	¥7,198	¥8,377	$69,808

7 Short-Term Bank Loans and Long-Term Debt

Short-term bank loans outstanding at 31st March 2002 and 2003 were represented generally by one year notes issued by the Companies to banks. Short-term bank loans entered into during the years ended 31st March 2002 and 2003 bore interest at an average annual rate of 1.21% and 1.30%, respectively.

Information in respect of short-term bank loans outstanding for the years ended 31st March 2002 and 2003 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2003	2003
Maximum month-end balance	¥2,420	¥2,850	$23,750
Average month-end balance	¥2,314	¥2,403	$20,025

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 banks' 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 2002 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2003	2003
Loans with other financial institutions—not secured-bearing interest at rates ranging from 3.15% to 6.00% due from 2002 to 2027	¥ 395	¥ 315	$ 2,625
0.7% convertible notes due 2006	9,586	9,586	79,883
0.8% convertible notes due 2008	12,447	12,191	101,592
	22,428	22,092	184,100
Less: current maturities due within one year	(61)	(60)	(500)
	¥22,367	¥22,032	$183,600

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 from 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 ¥2,362 per share. The conversion price is subject to adjustment for subsequent stock splits and other circumstances.

The notes are convertible at any time prior to 28th September 2006. The number of shares which would be issued upon conversion of the notes outstanding at 31st March 2003 was 4,058 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 from 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 and ¥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 2003 was 4,130 thousand shares.

The aggregate annual maturities of long-term loans outstanding at 31st March 2003 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year ending 31st March		
2004	¥ 60	$ 500
2005	61	508
2006	37	308
2007 and thereafter	21,934	182,784
	¥22,092	$184,100

8 Income Taxes

Income taxes in Japan applicable to the Companies for the years ended 31st March 2001, 2002 and 2003 consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

	Rates on taxable income		
	2001	2002	**2003**
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.

For the year ending 31st March 2005, a corporation size-based enterprise tax will be introduced which will supersede the current enterprise tax. As a result, the statutory tax rate for the year ending 31st March 2005 will be approximately 40.4% effective 1st April 2004. The respective newly enacted rates were used in calculating the future expected tax effects of temporary differences as of 31st March 2003. As a result of the change in the tax rates, the balance of "Deferred tax assets—non-current" in the consolidated balance sheets decreased by ¥119 million ($992 thousand) and "Income Taxes—Deferred" in the consolidated statements of income increased by ¥126 million ($1,050 thousand), as compared with the previous tax rates.

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

	Millions of Yen		Thousands of U.S. Dollars
	2002	**2003**	**2003**
Deferred tax assets:			
Write-down of securities	¥ 832	**¥1,151**	**$ 9,592**
Prepaid research and development expenses	1,757	**834**	**6,950**
Accrued retirement benefits to directors and corporate auditors	531	**494**	**4,116**
Accrued enterprise tax	363	**–**	**–**
Accrued bonuses to employees	494	**724**	**6,033**
Reserve for accrued sales rebates	228	**216**	**1,800**
Accrued retirement benefits to employees	1,466	**1,545**	**12,875**
Royalties receivable	647	**678**	**5,650**
Other	812	**750**	**6,250**
	7,130	**6,392**	**53,266**
Valuation allowance	(320)	**(429)**	**(3,575)**
	¥6,810	**¥5,963**	**$49,691**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	¥ (248)	**¥ (205)**	**$ (1,708)**
Deferred tax assets, net	¥6,562	**¥5,758**	**$47,983**

Reconciliation of the actual tax rate is shown below:

	2002	2003
Effective statutory tax rate	41.7%	41.7%
Adjustments:		
Entertainment expenses and other non deductibles	5.6	9.9
Dividend income not taxable	(0.5)	(2.3)
Tax benefits due to increase of research and development costs	(4.9)	(2.6)
Per capital levy of local resident income taxes	0.7	1.3
Cut adjustment deferred tax assets caused by change of tax rate	–	2.8
Other factors	1.9	0.2
Actual tax rate	44.5%	51.0%

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 2002 and 2003:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2003	2003
Projected benefit obligations	¥13,353	¥15,671	$130,592
Fair value of plan assets	(8,336)	(8,270)	(68,917)
Funded status of the plans	5,017	7,401	61,675
Unrecognized net actuarial difference	(1,502)	(3,873)	(32,275)
Unamortized prior service cost	–	296	2,467
Net liability recognized	¥ 3,515	¥ 3,824	$ 31,867

The net periodic retirement benefit cost for the years ended March 2002 and 2003 included the following components:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2003	2003
Service cost	¥ 779	¥ 774	$ 6,450
Interest cost	367	391	3,258
Expected return on plan assets	(286)	(292)	(2,433)
Amortization of prior service cost	–	(33)	(275)
Additional payment of retirement costs	21	117	975
Amortization of difference caused from actuarial calculation	75	158	1,317
	¥ 956	¥1,115	$ 9,292

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% and 2.5% as of 31st March 2002 and 2003, respectively. The rate of expected return on plan assets was 3.5% and 2.5% as of 31st March 2002 and 2003, 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.

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 years ended 31st March 2001, 2002 and 2003 are summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2001	2002	2003	2003
Lease rental expenses	¥627	¥616	¥618	$5,150

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 2003 is summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Acquisition cost	¥3,027	$25,225
Accumulated depreciation	1,367	11,392
Net book value	¥1,660	$13,833
Depreciation	¥ 618	$ 5,150

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 2002 and 2003, including the portion of interest thereon, is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2003	2003
Future lease payments:			
Within one year	¥ 544	¥ 588	$ 4,900
After more than one year	1,057	1,072	8,933
Total	¥1,601	¥1,660	$13,833

(2) Contingent Liabilities

The Company had contingent liabilities arising from notes discounted by banks in the ordinary course of business in the amount of ¥600 million ($5,000 thousand) at 31st March 2003.

In addition, the Company was contingently liable for guarantees in respect of loans borrowed by its unconsolidated subsidiaries for an amount of ¥132 million ($1,100 thousand) at 31st March 2003.

11 Segment Information

(1) Industry Segment Information

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

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

The industry segment information of the Company and its consolidated subsidiaries for the three years ended 31st March 2003 is 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

	Millions of Yen				
	For the year ended 31st March 2003				
	Industry Segment			Elimination of Inter-segment Sales	Consolidated Total
	Pharmacy	Other	Total		
Sales:					
Sales to outside customers	¥ 56,241	¥3,288	¥ 59,529	¥ –	¥ 59,529
Inter-segment sales	0	3,486	3,486	(3,486)	–
Total sales	56,241	6,774	63,015	(3,486)	59,529
Operating expenses	50,176	6,762	56,938	(3,482)	53,456
Operating income	¥ 6,065	¥ 12	¥ 6,077	¥ (4)	¥ 6,073
Assets	¥147,277	¥5,109	¥152,386	¥ (804)	¥151,582
Depreciation	¥ 2,750	¥ 417	¥ 3,167	¥ (84)	¥ 3,083
Capital expenditure	¥ 2,006	¥ 408	¥ 2,414	¥ (244)	¥ 2,170

	Thousands of U.S. Dollars				
	For the year ended 31st March 2003				
	Industry Segment			Elimination of Inter-segment Sales	Consolidated Total
	Pharmacy	Other	Total		
Sales:					
Sales to outside customers	$ 468,675	$27,400	$ 496,075	$ –	$ 496,075
Inter-segment sales	0	29,050	29,050	(29,050)	–
Total sales	468,675	56,450	525,125	(29,050)	496,075
Operating expenses	418,133	56,350	474,483	(29,016)	445,467
Operating income	$ 50,542	$ 100	$ 50,642	$ (34)	$ 50,608
Assets	$1,227,308	$42,575	$1,269,883	$ (6,700)	$1,263,183
Depreciation	$ 22,917	$ 3,475	$ 26,392	$ (700)	$ 25,692
Capital expenditure	$ 16,717	$ 3,400	$ 20,117	$ (2,033)	$ 18,084

(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 2003 is omitted because export sales account for less than 10% of total sales.

12 Selling, General and Administrative Expenses

A summary of selling, general and administrative expenses for each of the three years in the period ended 31st March 2003 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2001	2002	2003	2003
Advertising and sales promotion expenses	¥ 3,851	¥ 4,224	¥ 3,367	$ 28,058
Payroll costs	7,499	7,391	7,885	65,708
Research and development costs	11,517	13,045	13,074	108,950
Traveling expenses	1,484	1,521	1,520	12,667
Depreciation	1,007	1,104	1,172	9,767
Other	6,703	6,291	6,545	54,542
	¥32,061	¥33,576	¥33,563	$279,692

13 Subsequent Event

The following appropriations of unappropriated retained earnings, which have not been reflected in the financial statements at 31st March 2003, were approved at the shareholders' meeting held on 27th June 2003:

	Millions of Yen	Thousands of U.S. Dollars
Retained earnings:		
Balance at 31st March 2003	¥63,004	$525,033
Appropriations:		
Cash dividends (¥7 per share)	(384)	(3,200)
Bonuses to directors and corporate auditors	(27)	(225)
Balance to be carried forward	¥62,593	$521,608

Report of Independent Certified Public Accountants on the Consolidated Financial Statements

ChuoAoyama Audit Corporation

PRICEWATERHOUSECOOPERS

Kasumigaseki Bldg. 32nd Floor
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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 2002 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years ended 31st March 2003, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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 2002 and 2003, and the consolidated results of their operations and cash flows for each of the three years ended 31st March 2003, in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

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

Tokyo, Japan
27th June 2003

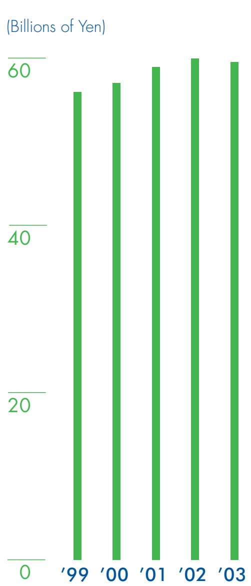
Financial Summary

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

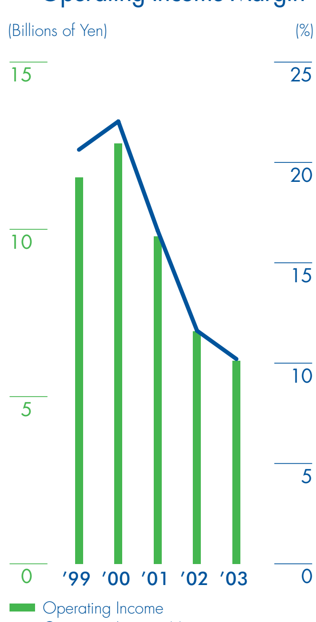
	1995	1996	1997
Net Sales	¥ 56,234	¥ 57,926	¥ 59,108
Gross Profit	42,395	42,931	40,940
Operating Income	16,568	16,619	14,427
Net Income	6,434	6,931	6,070
Total Assets	119,298	126,891	142,627
Total Shareholders' Equity	76,423	82,696	88,270
Per Share (Yen and Dollars):			
Net Income			
Primary	¥135.7	¥132.9	¥105.6
Fully-Diluted	–	–	97.9
Cash Dividends	14.0	16.0	15.0
R&D Expenditures	¥6,809	¥7,271	¥7,460
(% of Net Sales)	12.1%	12.6%	12.6%
Capital Investment	5,605	1,982	3,589
(% of Net Sales)	10.0%	3.4%	6.1%
Current Ratio	426.3%	267.7%	364.1%
Return on Equity	8.75%	8.71%	7.10%
Return on Assets	5.54%	5.63%	4.50%
Number of Shares Issued (Thousands)	47,992	52,839	58,279
Number of Employees	1,592	1,696	1,693

Notes: 1. U.S. dollar amounts are translated at the rate of ¥120=U.S.$1, the approximate effective rate of exchange at 31st March 2003.
2. Net income per share is computed based on the weighted average number of shares of common stock after substracting the weighted average number of shares of treasury stock for the year.

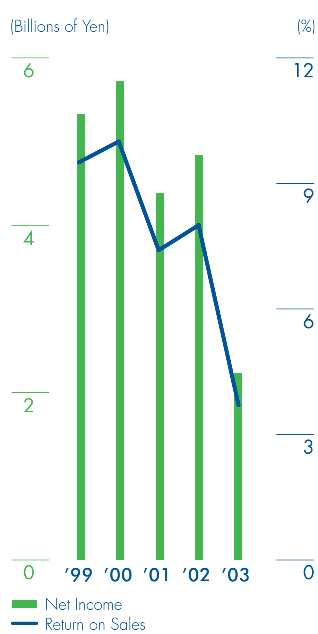
Net Sales



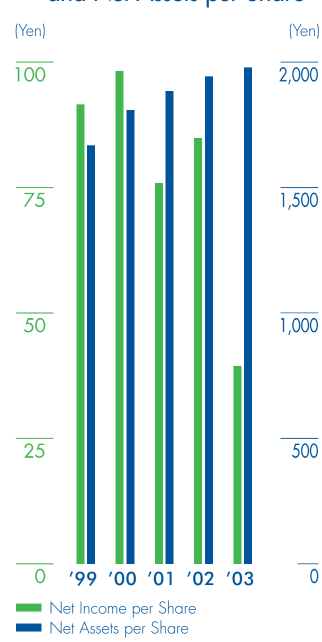
Operating Income and Operating Income Margin



Net Income and Return on Sales

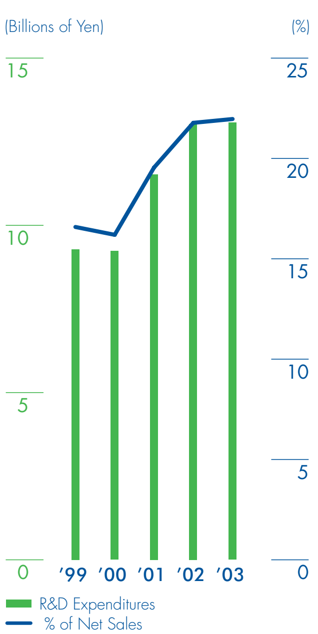


Net Income per Share and Net Assets per Share

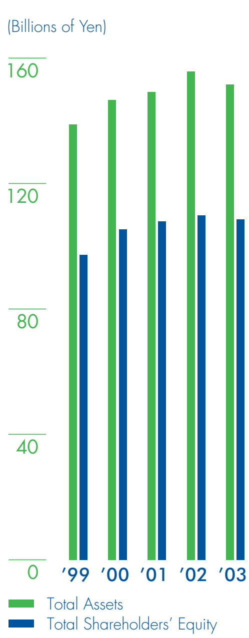


	Millions of Yen Except Per Share Data						Thousands of U.S. Dollars Except Per Share Data
	1998	1999	2000	2001	2002	2003	2003
	¥ 56,687	¥ 55,974	¥ 57,029	¥ 58,937	¥ 59,929	¥ 59,529	$ 496,075
	40,786	39,854	41,147	41,847	40,534	39,636	330,300
	13,038	11,545	12,571	9,786	6,958	6,073	50,608
	5,439	5,334	5,724	4,383	4,837	2,231	18,592
	137,353	138,934	146,649	149,189	155,740	151,582	1,263,183
	92,778	97,234	105,437	108,017	109,832	108,636	905,300
	¥93.3	¥91.5	¥98.2	¥76.0	¥84.9	¥39.4	$0.328
	83.0	82.0	88.4	68.8	76.5	35.8	0.298
	14.0	15.0	14.0	14.0	14.0	14.0	0.117
	¥8,873	¥9,284	¥9,231	¥11,517	¥13,045	¥13,074	$108,950
	15.7%	16.6%	16.2%	19.5%	21.8%	22.0%	
	1,244	1,341	1,474	2,081	1,216	1,292	10,767
	2.2%	2.4%	2.6%	3.5%	2.0%	2.2%	
	514.0%	561.2%	589.1%	653.8%	488.2%	567.3%	
	6.00%	5.61%	5.65%	4.11%	4.44%	2.04%	
	3.89%	3.86%	4.01%	2.96%	3.17%	1.45%	
	58,279	58,279	58,279	57,295	56,795	56,795	
	1,697	1,663	1,630	1,616	1,632	1,665	

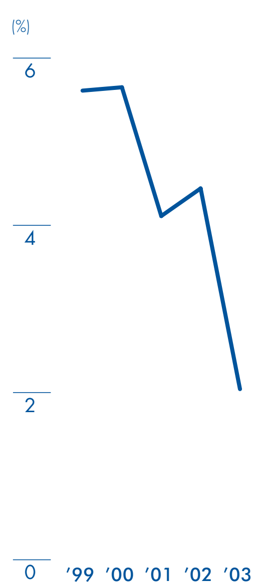
R&D Expenditures



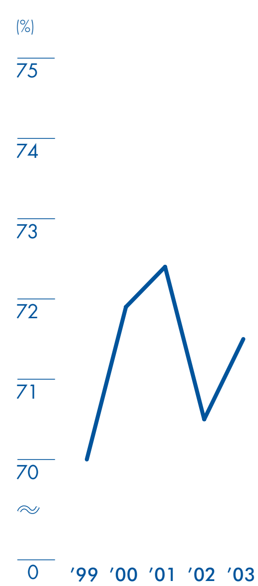
Total Assets and Total Shareholders' Equity



Return on Equity



Equity Ratio



Board of Directors

As of 27th June 2003

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:
Hidenaga Kitazawa
Teruo Tomizawa
Yoshiyuki Yamada
Yoshinobu Kubota

Corporate Data (Non-consolidated)

As of 27th June 2003

Head Office:
19-48, Yoshino, Matsumoto, Nagano 399-8710, Japan
Telephone: (0263) 25-9081

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

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

Date of Establishment:
August 9, 1946

Capital:
¥24,220 million

Number of Employees:
1,485

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, Yamaguchi, 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.
Hashiba 920 Co., Ltd.
Kissei Comtec America, Inc.

Investor Information

As of 31st March 2003

Common Stock:
Authorized: 128,516,000 shares
Issued: 56,795,185 shares

Number of Shareholders:
3,855 (decrease of 201 from previous fiscal year-end)

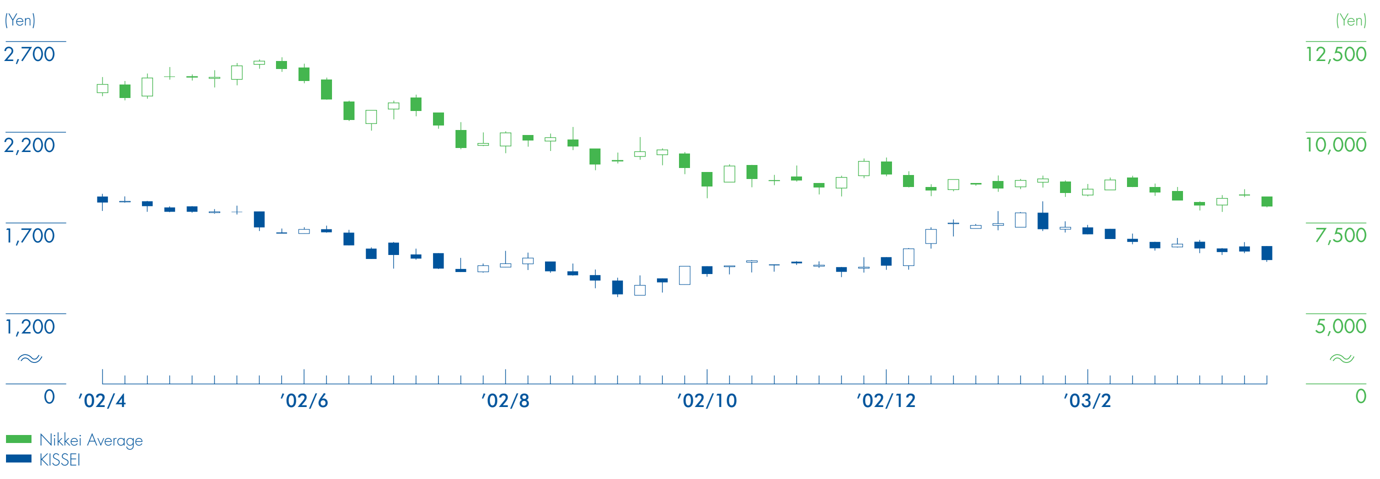
Average Number of Shares Held:
14,732 shares (increase of 730 from previous fiscal year-end)

Principal Shareholders:

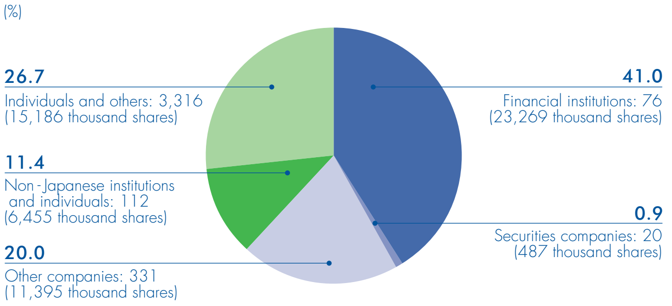
	Number of shares held (thousand)	Voting right (%)
Kunio Kanzawa	3,695	6.9
Kanzawa Limited	3,178	5.9
Mizuho Bank, Ltd.	2,772	5.1
Hachijuni Bank, Ltd.	2,754	5.1
The Dai-ichi Mutual Life Insurance Company	2,687	5.0
The Master Trust Bank of Japan, Ltd. (Trust account)	2,504	4.6
Japan Trustee Services Bank, Ltd. (Trust account)	1,590	2.9
UFJ Trust Bank Limited (Trust Account A)	1,506	2.8
Nabelin Co., Ltd.	1,356	2.5
The Nagano Bank, Ltd.	1,126	2.1

Note: Kissei holds 1,894,285 shares of treasury stock.

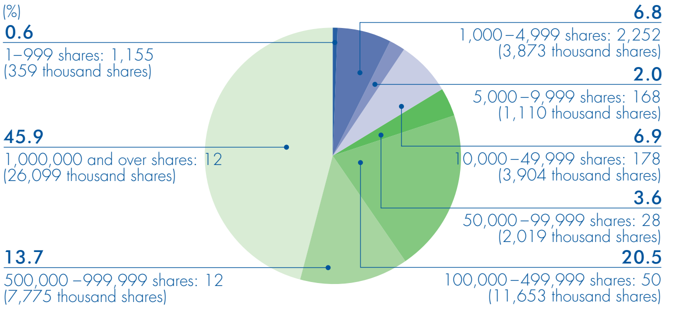
Stock Price Ranges:



Breakdown of Shareholders by Type:



Breakdown of Shareholders by Number of Shares Held:



KISSEI PHARMACEUTICAL CO., LTD.

Printed in Japan