2004
ANNUAL REPORT

KISSEI

PROFILE

Kissei's management vision is to be an R&D-oriented pharmaceutical company that contributes to the health of people around the world through the development of innovative drugs. Targeting further growth, we are working to execute our management strategies, ever mindful of the needs of patients.

The Company fully realizes the importance of promoting corporate social responsibility (CSR) in management. Toward that end, we established the CSR Department in April 2004, and we are taking further steps to achieve the thorough implementation of our compliance program and to contribute to the preservation of the global environment.

Kissei unveiled its current five-year management plan, Evolution Plan, in April 2003. In accordance with this plan, we are taking on the challenges of reforming our profit structure and shifting toward a growth phase. As part of those efforts, we launched *Glufast*® Tab., a rapid onset and short acting insulin secretagogue, in May 2004 in Japan. Also, we filed an NDA in Japan in June 2004 for silodosin (generic name), used for the treatment of dysuria associated with benign prostatic hyperplasia (BPH), following the completion of clinical development.

Through the successful implementation of its medium-term management plan, Kissei aims to achieve further growth as an R&D-oriented pharmaceutical company that possesses an important raison d'être and significant corporate value.

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
	2003	**2004**	**2004**
Net Sales	¥ 59,529	**¥ 58,226**	**$ 549,302**
Operating Income	6,073	**6,210**	**58,585**
Net Income	2,231	**5,600**	**52,830**
Total Assets	151,582	**162,842**	**1,536,245**
Total Shareholders' Equity	108,636	**116,266**	**1,096,849**
Per Share (Yen and Dollars):			
Net Income			
Primary	¥39.4	**¥101.8**	**$0.960**
Fully-Diluted	35.8	**88.7**	**0.837**
Cash Dividends	14.0	**17.0**	**0.160**
R&D Expenses	¥13,074	**¥9,826**	**$92,698**
Capital Investment	1,292	**1,818**	**17,151**

Notes: 1. U.S. dollar amounts are translated at the rate of ¥106=U.S.$1, the approximate effective rate of exchange at 31st March 2004.
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.

A MESSAGE FROM THE PRESIDENT

Review of Operations

In the fiscal year ended March 31, 2004, such factors as outbreaks of severe acute respiratory syndrome (SARS), chiefly in East Asia, exacerbated the stagnant condition of the Japanese economy. Nevertheless, driven by strong demand for IT-related products, including digital consumer electronic devices, and by higher exports, personal consumption showed signs of trending upward.

The operating environment in the domestic pharmaceutical industry continued to be severe due to an increase, to 30%, in the proportion of medical expenses borne by members of the national health insurance (NHI) scheme for employees; the introduction of the fixed payment system for inpatient care at advanced treatment hospitals; and the implementation of government policies to curb healthcare and drug spending, including further promotion of the use of generic products. In addition, Japan's information services and retail industries were adversely affected by the deflationary economy and by intense competition.

Faced with such difficult conditions, in its mainstay pharmaceutical operations, Kissei received approval in April 2003 for the additional indication of hyperprolactinemia-related diseases for *Cabaser®* Tab., a therapeutic agent for Parkinson's disease. As well as striving to increase sales of existing products, we continued to work hard to provide medical professionals with detailed information about our products. And, we made concerted efforts to restructure other operations in an attempt to generate synergies among members of the Kissei Group.

As a result of these endeavors, net sales amounted to ¥58.2 billion. Attributable to a reduction in selling, general and administrative expenses, primarily brought about by a decrease in R&D expenses, operating income increased to ¥6.2 billion. The Company recorded an extraordinary gain of ¥2.3 billion in damages in the tranilast patent infringement litigation case, and net income climbed to ¥5.6 billion.

In the fiscal year under review, Kissei carried out share buybacks to raise shareholder value through enhancing capital efficiency and decreasing the number of shares outstanding. The Company bought back 500,000 shares, at a total book value of ¥0.8 billion, and held 2.4 million of its own shares at fiscal year-end.

Research and Development / Global Expansion

To realize its management vision of being an R&D-oriented pharmaceutical company, Kissei is devoting considerable resources to developing new drugs. We are also actively pursuing opportunities to license out drug candidates for international development with the aim of expanding overseas sales.

In January 2004, the Company received approval from the Ministry of Health, Labor and Welfare for the NDA it filed for the diabetes drug mitiglinide (generic name) in Japan in December 2002. We launched this product, which we are marketing in conjunction with Takeda Pharmaceutical Company Limited, as *Glufast®* Tab., a rapid onset and short acting insulin secretagogue, in May 2004. Mitiglinide is currently in phase II of clinical trials in the United States and in phase III in Europe. Kissei is forging ahead with negotiations to license out development and marketing rights for North America and Europe as soon as possible.

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.

Also, the Company filed an NDA in Japan in June 2004 for silodosin (generic name), a selective α_{1A} receptor antagonist used as a treatment for dysuria associated with benign prostatic hyperplasia (BPH), following the completion of phase III clinical trials in association with Daiichi Pharmaceutical Co., Ltd. In March 2004, we signed a contract with Choongwae Pharma Corporation, of Korea, granting development and marketing rights for this product in the Korean market, and in April 2004 we entered into an agreement with Watson Pharmaceuticals, Inc., of the United States, granting development and marketing rights for the United States, Canada, and Mexico.

In October 2002, Kissei signed an agreement granting GlaxoSmithKline, of the United Kingdom, worldwide development and marketing rights, excluding Japan, Korea, China, and Taiwan, for KGT (development code), a blood sugar lowering sodium dependent glucose transport (SGLT2) antagonist. Also, in November 2002, the Company licensed out to Boehringer Ingelheim GmbH, of Germany, worldwide development and marketing rights, excluding Japan, Korea,China, and Taiwan, for KUC-7483 (development code), a selective β_3 receptor agonist under development as a therapeutic agent for urinary incontinence / overactive bladder. Both these products are undergoing phase I clinical trials by these companies.

In February 2004, we entered into an agreement with U.S. pharmaceutical company MediciNova Inc., granting worldwide development and marketing rights, excluding Japan, for KUR-1246, a selective β_2 receptor agonist under development as a treatment for threatened premature labor.

Financial Review

Sales of such products as *Cabaser*® Tab., a therapeutic agent for Parkinson's disease, *Zoladex*® 1.8 mg Depot, a therapeutic agent for endometriosis, and *FreeStyle*® Kissei blood glucose self-monitoring systems continued to grow in the fiscal year under review. However, sales of *Xanbon*® injectable, a cerebral circulation ameliorator, *Utemerin*®, a drug for threatened abortion and premature labor, and *Fragmin*®, an anticoagulant, decreased due to such factors as conservative buying ahead of NHI drug price revisions and government policies to promote the use of generic drugs. In addition, sales of *Rizaben*® eyedrops, for the treatment of allergic conjunctivitis, declined on account of unusually low cedar pollen levels in the year under review. Consequently, net sales decreased 2.2%, to ¥58.2 billion.

Selling, general and administrative expenses were down 8.7%, to ¥30.7 billion, primarily attributable to lower R&D expenses following the completion of NDA filings for mitiglinide and pilocarpine. As a result, operating income rose 2.3%, to ¥6.2 billion.

With regard to other income, thanks to a recovery in the stock market, the Company recorded appraisal and investment gains on marketable securities and short-term investments in specified trusts, which contributed to a sharp 113.7% increase in income before income taxes and minority interests, to ¥9.6 billion.

Net income climbed 151.0%, to ¥5.6 billion, mainly due to the damages of ¥2.3 billion the Company received from winning the tranilast patent infringement litigation case.

Kissei maintains a strong financial position, with the equity ratio exceeding 70% at the end of the fiscal year under review. Also, cash flow continues to show an upward tendency, and cash and cash equivalents reached ¥50.2 billion at year-end. We will effectively utilize these funds to make investments in line with our management strategies to build a foundation for stable growth.

Outlook for the Current Fiscal Year

Conditions in Japan's pharmaceutical industry will continue to be severe due to the effects of the April 2004 NHI drug price revisions. We also predict that conditions in our other business areas will remain harsh on account of the continued deflationary environment and concerns that there may be a delay in the recovery of consumer spending.

In such a business environment, through sound management, the Company aims to steer the Kissei Group in a direction that will generate synergies between constituent members. Also, based on our medium-term management plan, we will make concerted efforts to implement strategies to achieve further growth.

The outlook for the Company's performance in the current fiscal year is as follows.

Net sales: The NHI drug price revisions implemented in April 2004 will have an adverse effect on our pharmaceutical operations. Nonetheless, we expect an increase in net sales in the current fiscal year due to such revenue sources as the newly launched drug *Glufast*® Tab. and upfront and milestone payments from licensing out agreements.

Profits: We anticipate a rise in operating income. However, because of the absence of such other income items as the appraisal and investment gains on marketable securities and short-term investments in specified trusts and the patent infringement litigation damages recorded in the year under review, we forecast a decline in net income.

Cash dividends: We estimate cash dividends of ¥20.0 per share for the current fiscal year, including an interim dividend of ¥10.0 per share.

Strategy

The Company began its current five-year, medium-term management plan—Evolution Plan—in April 2003. Under this plan, we are taking on the challenges of reforming our profit structure and shifting toward a growth phase. Kissei aims to realize its vision of being an R&D-oriented pharmaceutical company with an important raison d'être and significant corporate value by bolstering its total marketing system and thoroughly implementing the following management strategies.

- Receive approval in Japan for and launch three drugs covering five indications, including top-priority diabetes drug mitiglinide, and quickly expand their market shares
- Enhance market shares of existing products and increase net sales and income
- Actively pursue opportunities to license out drug candidates

for global development, predominantly in Europe and the United States, to raise overseas sales

- Consistently discover and develop new drugs that are marketable around the world and enrich our R&D pipeline by bolstering our new drug research infrastructure
- Develop highly efficient production and distribution systems based on patient and market needs, in accordance with revisions in the Pharmaceutical Affairs Law
- Comprehensively review every aspect of our operations and strive to enhance productivity and generate synergies by promoting Groupwide the more effective use of management resources
- Contribute to society as a good corporate citizen by thoroughly implementing our compliance program and actively contributing to the preservation of the global environment

Through the successful implementation of our medium-term management plan, we aim to evolve uniquely as an R&D-oriented pharmaceutical company. I would like to ask for your continued support as we face the challenges that lie ahead.

July 2004

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	U.S.A.	Phase II	Kissei
			Europe	Phase III	
		Combination therapy with α-glucosidase inhibitor (additional indication)	Japan	Phase II / III	Kissei
KMD-3213 (Silodosin)	Kissei	Dysuria associated with benign prostatic hyperplasia	Japan	NDA	Kissei / Daiichi Pharmaceutical
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.
KGT	Kissei	Diabetic mellitus	Europe	Phase I	GlaxoSmithKline
			U.S.A		
KUC-7483	Kissei	Urinary incontinence / overactive bladder	Japan	Phase I	Kissei
			Europe	Phase I	Boehringer Ingelheim
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 III	Kissei

Note: Silodosin, licensed out at phase II to Watson Pharmaceuticals, Inc., of the United States, and KUR-1246, licensed out at phase II to MediciNova Inc., also of the United States, are both about to undergo clinical trials at these companies.

CONSOLIDATED BALANCE SHEETS

Kissei Pharmaceutical Co., Ltd. and its subsidiaries At 31st March 2003 and 2004

ASSETS	Millions of Yen 2003	Millions of Yen 2004	Thousands of U.S. Dollars (Note 3) 2004
Current Assets:			
Cash on hand and in banks (Note 4)	¥ 36,865	¥ 38,220	$ 360,566
Short-term investments in specified trusts	2,436	3,521	33,217
Marketable securities (Notes 4 and 5)	11,582	13,202	124,547
Notes and accounts receivable	24,037	24,595	232,028
Less: allowance for doubtful accounts	(27)	(4)	(37)
	24,010	24,591	231,991
Inventories (Note 6)	8,377	8,728	82,340
Deferred tax assets – current (Note 9)	1,960	1,904	17,962
Other current assets	4,272	3,475	32,783
Total current assets	89,502	93,641	883,406
Investments and Advances:			
Investments in securities (Note 5)	21,616	30,890	291,415
Investments in unconsolidated subsidiaries	850	1,118	10,547
Leasehold deposits and guarantee deposits	438	447	4,217
Other investments and advances	2,729	3,352	31,623
	25,633	35,807	337,802
Property, Plant and Equipment (Note 7):			
Buildings and structures	30,135	30,550	288,208
Machinery and equipment	8,548	10,084	95,132
	38,683	40,634	383,340
Less: accumulated depreciation	(23,757)	(25,395)	(239,576)
	14,926	15,239	143,764
Land	12,918	12,918	121,868
Construction in progress	379	17	160
	28,223	28,174	265,792
Other Assets:			
Deferred tax assets – non-current (Note 9)	3,798	1,211	11,424
Deferred charges and other	4,426	4,009	37,821
	¥151,582	¥162,842	$1,536,245

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2003	2004	Thousands of U.S. Dollars (Note 3) 2004
Current Liabilities:			
Short-term bank loans (Note 7)	¥ 2,050	¥ 2,210	$ 20,849
Current portion of long-term debt (Note 7)	60	60	566
Notes and payables:			
Trade	7,494	7,206	67,981
Other	2,043	2,906	27,415
	9,537	10,112	95,396
Income taxes payable (Note 9)	211	3,294	31,076
Accrued expenses and bonuses to employees	2,452	2,106	19,868
Reserve for accrued sales returns	23	28	264
Reserve for accrued sales rebates	518	585	5,519
Reserve for accrued sales promotion expenses	178	264	2,491
Other current liabilities	749	139	1,311
Total current liabilities	15,778	18,798	177,340
Long-Term Debt (Note 7)	22,032	21,958	207,151
Accrued Retirement Benefits to Employees (Note 10)	3,824	4,417	41,670
Accrued Retirement Benefits to Directors and Corporate Auditors	1,221	1,311	12,367
Total liabilities	42,855	46,484	438,528
Minority Interests in Consolidated Subsidiaries	91	92	868
Commitments and Contingent Liabilities (Note 11)			
Shareholders' Equity:			
Common stock:			
Authorised: 128,516,000 shares			
Issued: 56,795,185 shares and 56,795,185 shares at 31st March 2003 and 2004, respectively	24,220	24,220	228,491
Additional paid-in capital	24,110	24,111	227,462
Unappropriated retained earnings (Note 14)	63,004	67,812	639,736
Unrealized holding gains on securities	302	4,001	37,745
Treasury stock (1,894,285 shares and 2,427,243 shares at 31st March 2003 and 2004)	(3,000)	(3,878)	(36,585)
Total shareholders' equity	108,636	116,266	1,096,849
	¥151,582	¥162,842	$1,536,245

CONSOLIDATED STATEMENTS OF INCOME

Kissei Pharmaceutical Co., Ltd. and its subsidiaries   For the years ended 31st March 2002, 2003 and 2004

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2002	2003	2004	2004
Net Sales	¥59,929	¥59,529	¥58,226	$549,302
Cost of Sales	19,395	19,893	21,357	201,481
Gross profit	40,534	39,636	36,869	347,821
Selling, General and Administrative Expenses				
(Notes 10, 11 and 13)	33,576	33,563	30,659	289,236
Operating income	6,958	6,073	6,210	58,585
Other Income (Expenses):				
Interest and dividend income	352	369	322	3,038
Interest expense	(206)	(203)	(204)	(1,924)
Loss on sale or disposal of properties	(79)	(114)	(27)	(255)
Gain (loss) on sale of marketable securities	(211)	(78)	201	1,896
Gain (loss) on sale of investments in securities	–	414	(22)	(207)
Write-up (write-down) of marketable securities and				
short-term investments in specified trusts	(362)	(266)	860	8,113
Write-down of investments in securities	(1,120)	(1,509)	–	–
Compensation for damages through court action	3,382	–	2,282	21,528
Other, net	4	(183)	0	0
	1,760	(1,570)	3,412	32,189
Income before income taxes and minority interests	8,718	4,503	9,622	90,774
Income Taxes (Note 9):				
Current	5,336	1,449	3,848	36,302
Deferred	(1,462)	847	135	1,274
	3,874	2,296	3,983	37,576
Minority Interests	(7)	24	(39)	(368)
Net income	¥ 4,837	¥ 2,231	¥ 5,600	$ 52,830

	Yen			U.S. Dollars (Note 3)
Per Share (Note 2):				
Net income:				
Primary	¥84.9	¥39.4	¥101.8	$0.960
Fully-diluted	76.5	35.8	88.7	0.837
Cash dividends	14.0	14.0	17.0	0.160

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 2002, 2003 and 2004

		Millions of Yen				
	Number of shares of common stock	Common stock	Additional paid-in capital	Unappropriated retained earnings	Unrealized holding gains on securities	Treasury stock
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)	–	–
Treasury stock purchased (249,618 shares)	–	–	–	–	–	(433)
Unrealized holding gains on securities	–	–	–	–	(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)	–	–
Treasury stock purchased (1,641,519 shares)	–	–	–	–	–	(2,560)
Unrealized holding gains on securities	–	–	–	–	(44)	–
Balance at 31st March 2003	56,795,185	24,220	24,110	63,004	302	(3,000)
Net income for the year ended 31st March 2004	–	–	–	5,600	–	–
Cash dividends paid	–	–	–	(765)	–	–
Bonuses to directors and corporate auditors	–	–	–	(27)	–	–
Treasury stock purchased (532,958 shares)	–	–	–	–	–	(878)
Unrealized holding gains on securities	–	–	–	–	3,699	–
Gain on sale of treasury stock (2,357 shares)	–	–	1	–	–	–
Balance at 31st March 2004	56,795,185	¥24,220	¥24,111	¥67,812	¥4,001	¥(3,878)

		Thousands of U.S. Dollars (Note 3)				
	Number of shares of common stock	Common stock	Additional paid-in capital	Unappropriated retained earnings	Unrealized holding gains on securities	Treasury stock
Balance at 31st March 2003	56,795,185	$228,491	$227,453	$594,377	$ 2,849	$(28,302)
Net income for the year ended 31st March 2004	–	–	–	52,830	–	–
Cash dividends paid	–	–	–	(7,217)	–	–
Bonuses to directors and corporate auditors	–	–	–	(254)	–	–
Treasury stock purchased	–	–	–	–	–	(8,283)
Unrealized holding gains on securities	–	–	–	–	34,896	–
Gain on sale of treasury stock	–	–	9	–	–	–
Balance at 31st March 2004	56,795,185	$228,491	$227,462	$639,736	$37,745	$(36,585)

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 2002, 2003 and 2004

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2002	2003	2004	2004
Cash Flows from Operating Activities:				
Income before income taxes and minority interests	¥ 8,718	¥ 4,503	¥ 9,622	$ 90,774
Depreciation and amortization	3,107	3,083	2,868	27,057
Decrease in allowance for doubtful accounts	(48)	(44)	(24)	(226)
Increase (decrease) in accrued bonuses to employees	(70)	473	(289)	(2,726)
Increase in other reserves for accrued expense items	385	238	861	8,123
Interest and dividend income	(352)	(369)	(322)	(3,038)
Foreign exchange loss	–	–	43	405
Interest expense	206	203	204	1,924
Gain on sale of marketable securities	–	–	(7)	(66)
(Gain) loss on sale of investments in securities	–	(414)	22	207
(Gain) loss on sale of marketable securities included in short-term investments in specified trust	211	78	(193)	(1,820)
(Write-up) write-down of marketable securities, investments in specified trusts and investments in securities	1,482	1,775	(858)	(8,094)
Loss on sale or disposal of properties	60	108	18	170
Increase (decrease) in notes and accounts receivable	97	3,654	(558)	(5,264)
Decrease in inventories	(925)	(1,179)	(351)	(3,311)
Increase (decrease) in other current assets	(442)	468	826	7,792
Increase (decrease) in notes and accounts payable	1,368	(817)	(289)	(2,726)
Increase (decrease) in other current liabilities	(50)	635	195	1,840
Bonuses to directors and corporate auditors	(48)	(36)	(27)	(254)
Other cash flows from operating activities, net	82	136	1	7
Sub total	13,781	12,495	11,742	110,774
Receipt of interest and dividends	301	327	259	2,443
Payment of interest	(206)	(203)	(204)	(1,925)
Payment of income taxes	(2,135)	(4,778)	(754)	(7,113)
Net cash provided by operating activities	11,741	7,841	11,043	104,179
Cash Flows from Investing Activities:				
Increase in time deposits	(115)	(76)	(50)	(472)
Reduction in time deposits	124	115	76	717
Reduction of investments in specified trusts	209	1,271	16	151
Acquisition of marketable securities	(1,197)	–	–	–
Sales revenue from marketable securities	1,032	755	1,581	14,915
Acquisition of property and equipment	(1,216)	(1,292)	(1,818)	(17,151)
Sales revenue from property and equipment	9	37	11	104
Acquisition of investments in securities	(12,335)	(6,992)	(5,005)	(47,217)
Sales revenue from investments in securities	12,545	7,742	458	4,321
Payment of other assets (long-term prepaid expenses)	(2,222)	(878)	(616)	(5,811)
Other cash flows from investing activities, net	(17)	(1,754)	(711)	(6,708)
Net cash used in investing activities	(13,183)	(1,072)	(6,058)	(57,151)
Cash Flows from Financing Activities:				
Increase in short-term bank loans	200	380	450	4,245
Repayment of short-term bank loans	(175)	(100)	(290)	(2,736)
Repayment of long-term debt	(130)	(80)	(75)	(708)
Redemption of convertible notes	–	(256)	–	–
Cash dividends paid by the Company	(799)	(787)	(765)	(7,217)
Retirement of treasury stock	(881)	–	–	–
Acquisition of treasury stock	(514)	(2,560)	(877)	(8,273)
Other cash flows from financing activities, net	81	–	–	–
Net cash used in financing activities	(2,218)	(3,403)	(1,557)	(14,689)
Effect of exchange rate changes on cash and cash equivalents	–	–	(43)	(405)
Increase (decrease) in cash and cash equivalents	(3,660)	3,366	3,385	31,934
Cash and Cash Equivalents at Beginning of Year (Note 4)	47,080	43,420	46,786	441,377
Cash and Cash Equivalents at End of Year (Note 4)	¥43,420	¥46,786	¥50,171	$473,311

The accompanying notes are an integral part of these statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Kissei Pharmaceutical Co., Ltd. and its subsidiaries

1 Basis of Presenting the Consolidated Financial Statements

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

2 Summary of Significant Accounting Policies

(1) Scope of Consolidation

The number of subsidiaries the Company had for the year ended 31st March 2003 and 2004 were nine and twelve, respectively, of which two were consolidated in the respective years. The significant subsidiaries which have been consolidated with the Company are listed below:

Name of subsidiaries	Equity ownership percentage*	Paid-in capital
KISSEI SHOJI CO., LTD.	100%	¥ 50 million
KISSEI COMTEC CO., LTD.	84	334 million

*As at 31st March 2004

(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 2004.

(3) Investments in Unconsolidated Subsidiaries and Affiliates

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

(4) Valuation of Securities

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

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

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

(5) Inventory Valuation

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

(6) Property, Plant and Equipment

Depreciation is computed on the declining-balance method at rates based on the estimated useful lives of assets, which are prescribed by Japanese tax laws. The range of useful lives is principally from 3 to 50 years for buildings and structures 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 respective periods as 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 are 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 2003 and 2004.

(9) Foreign Currency Translation

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

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

(10) Income Taxes

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

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

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

(i) Allowance for doubtful accounts

The Companies provide an allowance for doubtful accounts based on the percentage of their own actual bad debt loss history against the balance of total receivables 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 summer, for their services rendered during the six-month period ended on the balance sheet date.

(iii) Reserve for accrued sales returns

"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

"Reserve for accrued sales rebates" is provided for in 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

"Reserve for accrued sales promotion expenses" is provided for in 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 2002, 2003 and 2004).

Following the enactment of the Welfare Pension Insurance Law in Japan on 1st August 2003, the Kissei Employee Pension Fund, ran by the Company, obtained approval from Japan's Ministry of Health, Labor and Welfare for exemption from the future benefit obligation with respect to the portion of the Pension Fund that the Company operates on behalf of the Government (the so-called substitutional portion). The Company did not apply transitional provisions as prescribed in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No. 13 issued by the Japanese Institute of Certified Public Accountants). If the Company applied transitional provisions as prescribed in paragraph 47-2 of the same Practical Guideline, the amount of profits are expected to be ¥1,526 million ($14,396 thousand) (extraordinary income).

(vii) Accrued retirement benefits to directors and corporate auditors

"Accrued retirement benefits to directors and corporate auditors" payment of which is subject to prior approval of shareholders are provided for in 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 resolution of 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 distributions of shares (stock splits).

Cash dividends per share shown for each year in the accompanying consolidated statements of income represent dividends in the total of the year-end dividends and the interim cash dividends paid during the years respective 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 31st March 2004, 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.

(15) Research and Development Expenses

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

(16) Accounting Standard for Impairment of Fixed Assets

On 9th August 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning 1st April 2005. However, an earlier adoption is permitted for fiscal years beginning 1st April 2004 and for fiscal years ending between 31st March 2004 and 31st March 2005.

The Company has not yet applied this new standard nor has determined the effect of applying it on the Company's consolidated financial statements.

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 ¥106=U.S.$1, the approximate effective rate of exchange at 31st March 2004. 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 ¥106=U.S.$1 or at any other rate.

4 Cash and Cash Equivalents

Cash and cash equivalents at 31st March 2003 and 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Cash on hand and in banks	¥36,865	¥38,220	$360,566
Marketable securities	11,582	13,202	124,547
Time deposits with original maturities of over three months	(77)	(50)	(472)
Marketable securities with maturities of more than three months	(1,584)	(1,201)	(11,330)
Cash and cash equivalents	¥46,786	¥50,171	$473,311

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 2003 and 2004 are as follows:

Available-for-sale securities:

	Millions of Yen			
	2003			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding 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

	Millions of Yen			
	2004			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥ 8,879	¥15,223	¥6,536	¥192
Corporate debt securities	12,085	12,081	14	18
Others	2,089	2,463	403	28
	¥23,053	¥29,767	¥6,953	¥238

	Thousands of U.S. Dollars			
	2004			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	$ 83,764	$143,613	$61,660	$1,811
Corporate debt securities	114,009	113,972	132	170
Others	19,708	23,236	3,802	264
	$217,481	$280,821	$65,594	$2,245

The carrying amount of securities where no market value is available at 31st March 2003 and 2004 is summarized as follows:

Other securities:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Unlisted stocks (except for over-the-counter securities)	¥ 1,713	¥ 2,323	$ 21,915
Others	9,999	12,000	113,208
	¥11,712	¥14,323	$135,123

Proceeds, gross realized gains and gross realized losses from the sale of available-for-sale securities in respect of the year ended 31st March 2004 were ¥25 million ($235 thousand), ¥0 million ($0 thousand) and ¥22 million ($207 thousand), respectively.

6 Inventories

Inventories at 31st March 2003 and 2004 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Merchandise	¥3,690	¥3,384	$31,925
Finished goods	1,453	1,700	16,038
Work-in-process	1,849	1,886	17,792
Raw materials	752	942	8,887
Supplies	633	816	7,698
	¥8,377	¥8,728	$82,340

7 Short-Term Bank Loans and Long-Term Debt

Short-term bank loans outstanding at 31st March 2003 and 2004 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 2003 and 2004 bore interest at an average annual rate of 1.30% and 1.31%, respectively.

Information in respect of short-term bank loans outstanding for the years ended 31st March 2003 and 2004 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Maximum month-end balance	¥2,850	¥2,980	$28,113
Average month-end balance	¥2,403	¥2,653	$25,028

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 2003 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Loans with other financial institutions–not secured-bearing interest at rates ranging from 1.20% to 6.00% due from 2002 to 2027	¥ 315	¥ 241	$ 2,274
0.7% convertible notes due 2006	9,586	9,586	90,434
0.8% convertible notes due 2008	12,191	12,191	115,009
	22,092	22,018	207,717
Less: current maturities due within one year	(60)	(60)	(566)
	¥22,032	¥21,958	$207,151

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 redeemed at the discretion of the Company 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 2004 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 redeemed at the discretion of the Company 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 ¥2,362 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 29th September 2008. The number of shares which would be issued upon conversion of the notes outstanding at 31st March 2004 was 5,161 thousand shares.

The aggregate annual maturities of long-term loans outstanding at 31st March 2004 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year ending 31st March		
2004	¥ 60	$ 566
2005	36	340
2006	27	255
2007 and thereafter	21,894	206,547
	¥22,017	$207,708

8 Research and Development Expenses

Research and development expenses were included in selling, general and administrative expenses for the years ended 31st March 2002, 2003 and 2004 in ¥13,045 million, ¥13,074 million and ¥9,826 million ($92,698 thousand), respectively.

9 Income Taxes

Income taxes in Japan applicable to the Companies for the years ended 31st March 2002, 2003 and 2004 consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

	Rates on taxable income		
	2002	2003	2004
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
	2003	2004	2004
Deferred tax assets:			
Write-down of securities	¥1,151	¥1,151	$ 10,859
Prepaid research and development expenses	834	592	5,585
Accrued retirement benefits to directors and corporate auditors	494	530	5,000
Accrued enterprise tax	–	349	3,293
Accrued bonuses to employees	724	706	6,660
Reserve for accrued sales rebates	216	236	2,226
Accrued retirement benefits to employees	1,545	1,785	16,840
Royalties receivable	678	145	1,368
Other	750	759	7,160
	6,392	6,253	58,991
Valuation allowance	(429)	(425)	(4,010)
	¥5,963	¥5,828	$ 54,981
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	¥ (205)	¥2,712	$(25,585)
Deferred tax assets, net	¥5,758	¥3,116	$ 29,396

Reconciliation of the actual tax rate is shown below:

	2002	2003	2004
Effective statutory tax rate	41.7%	41.7%	41.7%
Adjustments:			
Entertainment expenses and other non deductibles	5.6	9.9	4.8
Dividend income not taxable	(0.5)	(2.3)	(0.3)
Tax benefits due to increase of research and development expenses	(4.9)	(2.6)	–
Tax benefits due to research and development expenses	–	–	(6.5)
Per capital levy of local resident income taxes	0.7	1.3	0.7
Cut adjustment deferred tax assets caused by change of tax rate	–	2.8	0.6
Other factors	1.9	0.2	0.4
Actual tax rate	44.5%	51.0%	41.4%

10 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 2003 and 2004:

	Millions of Yen			Thousands of U.S. Dollars
	2002	2003	2004	2004
Projected benefit obligations	¥13,353	¥15,671	¥16,748	$158,000
Fair value of plan assets	(8,336)	(8,270)	(9,611)	(90,670)
Funded status of the plans	5,017	7,401	7,136	67,321
Unrecognized net actuarial difference	(1,502)	(3,873)	(2,982)	(28,132)
Unamortized prior service cost	–	296	263	2,481
Net liability recognized	¥ 3,515	¥ 3,824	¥ 4,417	$ 41,670

The net periodic retirement benefit cost for the years ended 31st March 2003 and 2004 included the following components:

	Millions of Yen			Thousands of U.S. Dollars
	2002	2003	2004	2004
Service cost	¥ 779	¥ 774	¥ 670	$ 6,321
Interest cost	367	391	392	3,698
Expected return on plan assets	(286)	(292)	(207)	(1,953)
Amortization of prior service cost	–	(33)	(33)	(311)
Additional payment of retirement costs	21	117	94	887
Amortization of difference caused from actuarial calculation	75	158	411	3,877
	¥ 956	¥1,115	¥1,327	$12,519

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 2003 and 2004, respectively. The rate of expected return on plan assets was 3.5% and 2.5% as of 31st March 2003 and 2004, respectively. Attribution of retirement benefits to each year of service of the employees is based on the "benefit/years-of-service" approach, whereby the same amount of benefits is attributed to each year.

11 Commitments and Contingent Liabilities

(1) Finance Leases

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

Lease rental expenses on finance lease contracts without ownership transfer for the years ended 31st March 2002, 2003 and 2004 are summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2002	2003	2004	2004
Lease rental expenses	¥616	¥618	¥585	$5,519

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 2004 is summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Acquisition cost	¥2,759	$26,028
Accumulated depreciation	1,617	15,255
Net book value	¥1,142	$10,773
Depreciation	¥ 585	$ 5,519

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 2003 and 2004, including the portion of interest thereon, is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Future lease payments:			
Within one year	¥ 588	¥ 462	$ 4,358
After more than one year	1,072	680	6,415
Total	¥1,660	¥1,142	$10,773

(2) Contingent Liabilities

The Company had contingent liabilities arising from notes discounted by banks in the ordinary course of business in the amount of ¥480 million ($4,528 thousand) at 31st March 2004.

In addition, the Company was contingently liable for guarantees in respect of loans borrowed by its unconsolidated subsidiaries for an amount of ¥253 million ($2,387 thousand) at 31st March 2004.

12 Segment Information

(1) Industry Segment Information

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

Pharmaceuticals	Ethical 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 2004 is presented below:

	Millions of Yen				
	For the year ended 31st March 2002				
	Industry Segment			Elimination of Inter-segment Sales	Consolidated Total
	Pharmaceuticals	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
	Pharmaceuticals	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

	Millions of Yen				
	For the year ended 31st March 2004				
	Industry Segment			Elimination of Inter-segment Sales	Consolidated Total
	Pharmaceuticals	Other	Total		
Sales:					
Sales to outside customers	¥ 55,178	¥3,048	¥ 58,226	¥ –	¥ 58,226
Inter-segment sales	0	4,091	4,091	(4,091)	–
Total sales	55,178	7,139	62,317	(4,091)	58,226
Operating expenses	49,003	7,139	56,142	(4,126)	52,016
Operating income	¥ 6,175	¥ (0)	¥ 6,175	¥ 35	¥ 6,210
Assets	¥158,861	¥5,436	¥164,297	¥(1,455)	¥162,842
Depreciation	¥ 2,563	¥ 395	¥ 2,958	¥ (90)	¥ 2,868
Capital expenditure	¥ 2,378	¥ 298	¥ 2,676	¥ (242)	¥ 2,434

	Thousands of U.S. Dollars				
	For the year ended 31st March 2004				
	Industry Segment			Elimination of Inter-segment Sales	Consolidated Total
	Pharmaceuticals	Other	Total		
Sales:					
Sales to outside customers	$ 520,547	$28,755	$ 549,302	$ –	$ 549,302
Inter-segment sales	0	38,594	38,594	(38,594)	–
Total sales	520,547	67,349	587,896	(38,594)	549,302
Operating expenses	462,293	67,349	529,642	(38,925)	490,717
Operating income	$ 58,255	$ (0)	$ 58,255	$ 330	$ 58,585
Assets	$1,498,689	$51,283	$1,549,972	$(13,727)	$1,536,245
Depreciation	$ 24,179	$ 3,726	$ 27,905	$ (849)	$ 27,057
Capital expenditure	$ 22,434	$ 2,811	$ 25,245	$ (2,283)	$ 22,962

(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 2004 is omitted because export sales account for less than 10% of total sales.

13 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 2004 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2002	2003	2004	2004
Advertising and sales promotion expenses	¥ 4,224	¥ 3,367	¥ 3,822	$ 36,057
Payroll costs	7,391	7,885	7,839	73,953
Research and development expenses	13,045	13,074	9,826	92,698
Traveling expenses	1,521	1,520	1,606	15,151
Depreciation	1,104	1,172	1,174	11,075
Other	6,291	6,545	6,392	60,302
	¥33,576	¥33,563	¥30,659	$289,236

14 Subsequent Event

The following appropriations of unappropriated retained earnings, were approved at the shareholders' meeting held on 29th June 2004:

	Millions of Yen	Thousands of U.S. Dollars
Retained earnings:		
Balance at 31st March 2004	¥67,812	$639,736
Appropriations:		
Cash dividends (¥10 per share)	(544)	(5,132)
Bonuses to directors and corporate auditors	(40)	(377)
Balance to be carried forward	¥67,228	$634,227

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

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

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of Kissei Pharmaceutical Co., Ltd. and its subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kissei Pharmaceutical Co., Ltd. and its subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The 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 PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 29, 2004

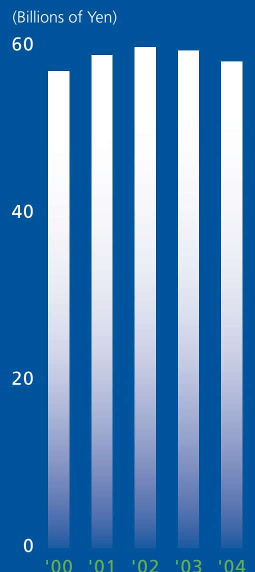
FINANCIAL SUMMARY

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

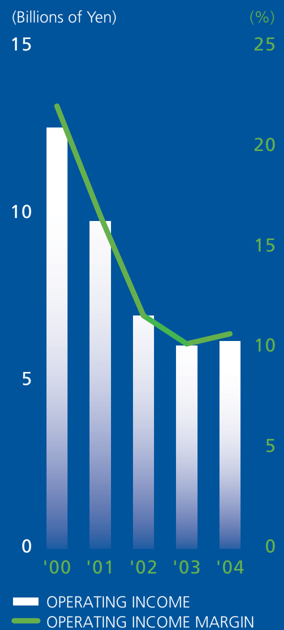
	1995	1996	1997	1998
Net Sales	¥ 56,234	¥ 57,926	¥ 59,108	¥ 56,687
Gross Profit	42,395	42,931	40,940	40,786
Operating Income	16,568	16,619	14,427	13,038
Net Income	6,434	6,931	6,070	5,439
Total Assets	119,298	126,891	142,627	137,353
Total Shareholders' Equity	76,423	82,696	88,270	92,778
Per Share (Yen and Dollars):				
Net Income				
Primary	¥135.7	¥132.9	¥105.6	¥93.3
Fully-Diluted	–	–	97.9	83.0
Cash Dividends	14.0	16.0	15.0	14.0
R&D Expenses	¥6,809	¥7,271	¥7,460	¥8,873
(% of Net Sales)	12.1%	12.6%	12.6%	15.7%
Capital Investment	5,605	1,982	3,589	1,244
(% of Net Sales)	10.0%	3.4%	6.1%	2.2%
Current Ratio	426.3%	267.7%	364.1%	514.0%
Return on Equity	8.75%	8.71%	7.10%	6.00%
Return on Assets	5.54%	5.63%	4.50%	3.89%
Number of Shares Issued (Thousands)	47,992	52,839	58,279	58,279
Number of Employees	1,592	1,696	1,693	1,697

Notes: 1. U.S. dollar amounts are translated at the rate of ¥106=U.S.$1, the approximate effective rate of exchange at 31st March 2004.
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.
3. Figures shown above were extracted from financial statements published in the respective years and the retrospective adjustments for the changes in accounting policies and adoption of new accounting standards incurred in the later years have not been reflected.

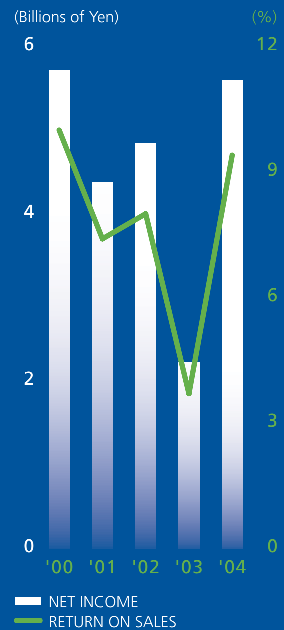
NET SALES



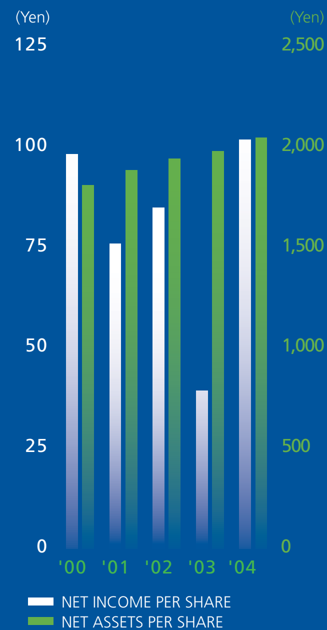
OPERATING INCOME AND OPERATING INCOME MARGIN



NET INCOME AND RETURN ON SALES

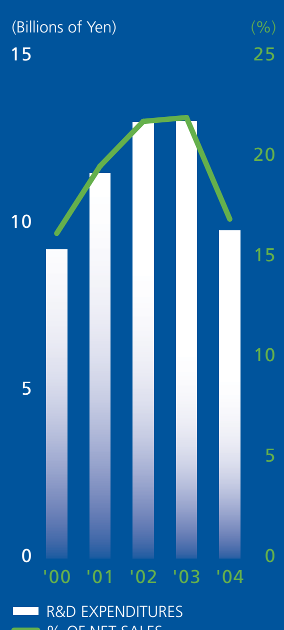


NET INCOME PER SHARE AND NET ASSETS PER SHARE

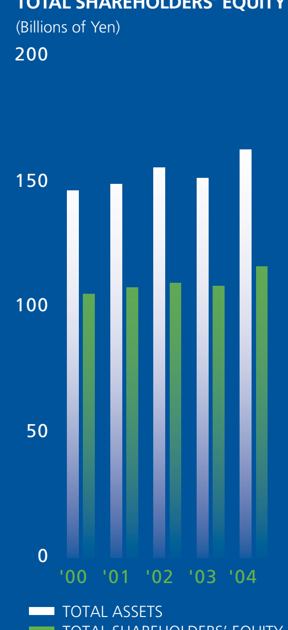


Millions of Yen Except Per Share Data						Thousands of U.S. Dollars Except Per Share Data
1999	2000	2001	2002	2003	2004	2004
¥ 55,974	¥ 57,029	¥ 58,937	¥ 59,929	¥ 59,529	¥ 58,226	$ 549,302
39,854	41,147	41,847	40,534	39,636	36,869	347,821
11,545	12,571	9,786	6,958	6,073	6,210	58,585
5,334	5,724	4,383	4,837	2,231	5,600	52,830
138,934	146,649	149,189	155,740	151,582	162,842	1,536,245
97,234	105,437	108,017	109,832	108,636	116,266	1,096,849
¥91.5	¥98.2	¥76.0	¥84.9	¥39.4	¥101.8	$0.960
82.0	88.4	68.8	76.5	35.8	88.7	0.837
15.0	14.0	14.0	14.0	14.0	17.0	0.160
¥9,284	¥9,231	¥11,517	¥13,045	¥13,074	¥9,826	$92,698
16.6%	16.2%	19.5%	21.8%	22.0%	16.9%	
1,341	1,474	2,081	1,216	1,292	1,818	17,151
2.4%	2.6%	3.5%	2.0%	2.2%	3.1%	
561.2%	589.1%	653.8%	488.2%	567.3%	498.1%	
5.61%	5.65%	4.11%	4.44%	2.04%	4.98%	
3.86%	4.01%	2.96%	3.17%	1.45%	3.56%	
58,279	58,279	57,295	56,795	56,795	56,795	
1,663	1,630	1,616	1,632	1,665	1,677	

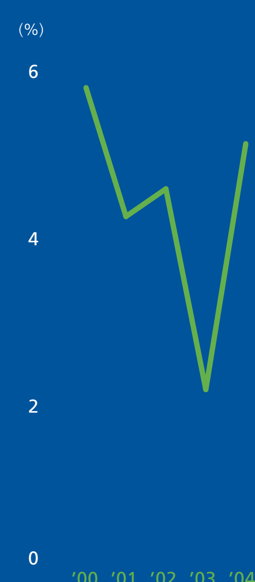
R&D EXPENSES



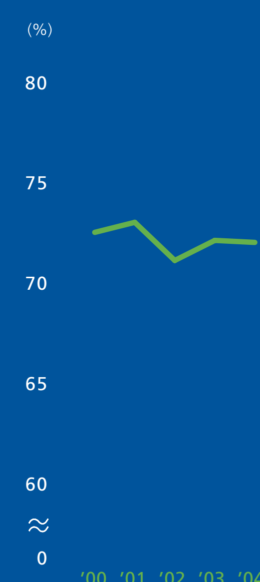
TOTAL ASSETS AND TOTAL SHAREHOLDERS' EQUITY



RETURN ON EQUITY



EQUITY RATIO



BOARD OF DIRECTORS

As of 29th June 2004

Chairman:
Kunio Kanzawa

President and Chief Executive Officer:
Mutsuo Kanzawa

Executive Vice President:
Masanori Iwadare

Executive Director:
Hiroshi Saito

Managing Director:
Yukiyoshi Ajisawa

Directors:
Toshiaki Usuda
Masayuki Takeuchi
Keiichiro Yanagisawa
Seiichiro Furihata
Kiyoshi Kumazawa
Sukio Adachi
Masuo Akahane
Teruo Tomizawa

Auditors:
Hidenaga Kitazawa
Tetsuo Yabana
Yoshinobu Kubota
Hajime Koike

CORPORATE DATA (Non-consolidated)

As of 29th June 2004

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

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

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

Date of Establishment:
August 9, 1946

Capital:
¥24,220 million

Number of Employees:
1,500

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 Europe Ltd
Kissei America, Inc.
Kissei Shoji Co., Ltd.
Kissei Comtec Co., Ltd.
Kissei Technos Co., Ltd.
Mitsui Kanko Co., Ltd.
Hashiba 920 Co., Ltd.
Kissei Wellcom Co., Ltd.
Planet Co., Ltd.
Planet Computer Technology (Beijing) Co., Ltd.

INVESTOR INFORMATION

As of 31st March 2004

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

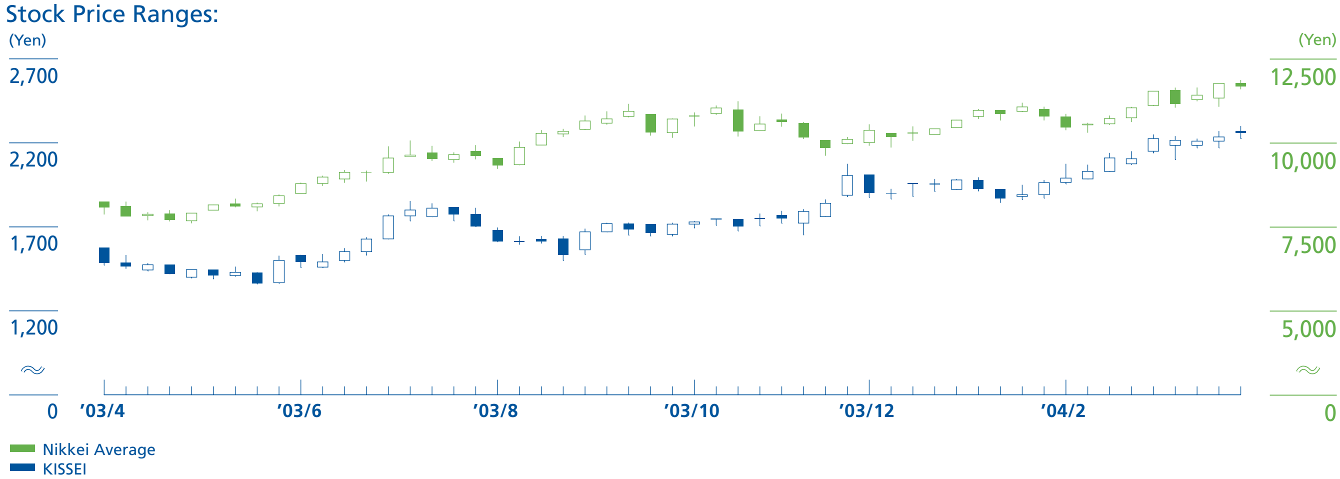
Number of Shareholders:
3,571 (decrease of 284 from previous fiscal year-end)

Principal Shareholders:

	Number of shares held (thousand)	Voting right (%)
Kunio Kanzawa	3,697	6.9
Japan Trustee Services Bank, Ltd. (Trust account)	3,566	6.7
The Master Trust Bank of Japan, Ltd. (Trust account)	3,469	6.5
Kanzawa Limited	3,178	5.9
The Hachijuni Bank, Ltd.	2,695	5.0
Mizuho Bank, Ltd.	2,694	5.0
The Dai-ichi Mutual Life Insurance Company	2,418	4.5
Nabelin Co., Ltd.	1,319	2.5
The Nagano Bank, Ltd.	1,126	2.1
Kissei Pharmaceutical Co., Ltd. Employee Stock Ownership Association	1,069	2.0

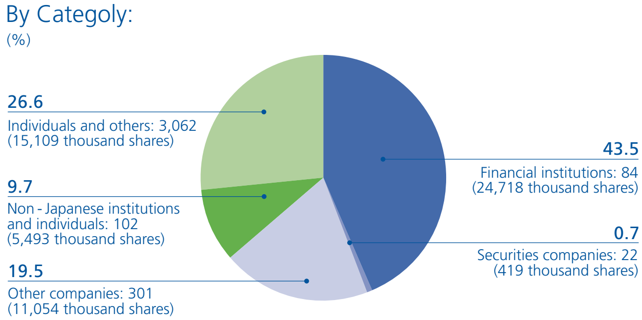
Note: Kissei holds 2,427,243 shares of treasury stock.

Stock Price Ranges:

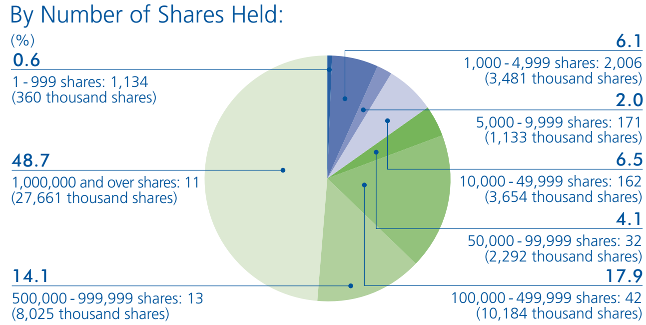


Analysis of Shareholders:

By Categoly:



By Number of Shares Held:



KISSEI PHARMACEUTICAL CO., LTD.

Printed in Japan