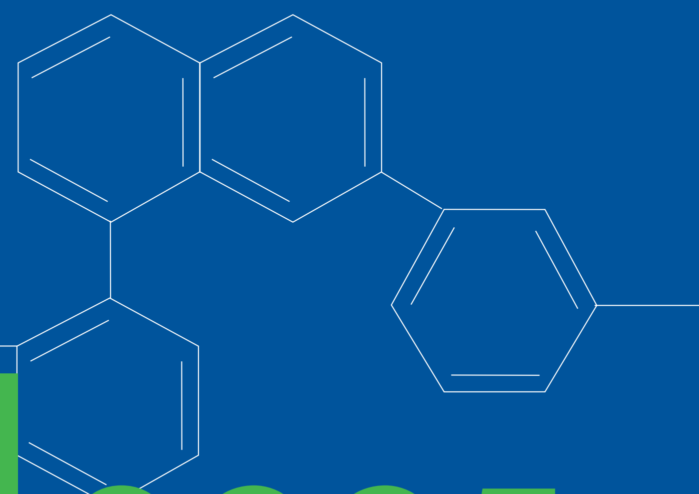
KISSEI

ANNUAL REPORT 2005



KISSEI
Profile

The Kissei Group operates under the management philosophy of contributing to societies everywhere. We promote management policies that emphasize the importance of shareholders, employees, local communities, history and culture, and the environment.

The management vision underpinning our core pharmaceutical business is for Kissei Pharmaceutical Co., Ltd., to be an R&D-oriented pharmaceutical company contributing to human health care with innovative drugs. To this end, we promote research and development activities from the patient's perspective, striving to manufacture the highest quality pharmaceuticals while providing information necessary to use the products properly. At the same time, the Company has built a total marketing structure and undertaken other activities to make its operations efficient.

Kissei launched its five-year medium-term management plan "Evolution Plan" in April 2003 with the slogans "Reforming our profit structure" and "Shifting toward a growth phase." We are forging ahead with this plan in order to realize growth as an R&D-oriented pharmaceutical company with a meaningful objective and significant corporate value.

FINANCIAL HIGHLIGHTS

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

	Millions of Yen Except Per Share Data		Thousands of U.S. Dollars Except Per Share Data
	2004	2005	2005
Net Sales	¥ 58,226	¥ 60,933	$ 569,467
Operating Income	6,210	5,517	51,561
Net Income	5,600	4,735	44,252
Total Assets	162,842	164,944	1,541,533
Total Shareholders' Equity	116,266	120,086	1,122,299
Per Share (Yen and Dollars):			
Net Income			
Primary	¥101.8	¥86.5	$0.808
Fully-Diluted	88.7	75.5	0.706
Cash Dividends	17.0	20.0	0.187
R&D Expenses	¥9,826	¥9,893	$92,458
Capital Investment	1,818	1,660	15,514

Notes: 1. U.S. dollar amounts are translated at the rate of ¥107=U.S.$1, the approximate effective rate of exchange at March 31, 2005.
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

Market Conditions during Term Under Review

The Japanese economy in the fiscal year ended March 31, 2005, began robustly with strong exports, capital investment growth, and firm consumer spending. The recovery trend, however, was upset by skyrocketing oil prices, the weakening of exports, and a host of other factors preventing the economy from fully maintaining a recovery track.

The pharmaceuticals industry continued to be affected by the Japanese government's policy of restraining medical treatment fees and drug prices. In particular, the government's reduction of National Heath Insurance (NHI) drug prices in April 2004 created a more severe environment for Kissei and others in the industry. In the information services and merchandising businesses, meanwhile, the demand for greater IT efficiencies and the persistent economic slump have combined to create intense price competition.

Amid this environment, Kissei executed an aggressive development and marketing strategy. We fully rolled out *Glufast®* Tab., a rapid onset and short acting insulin secretagogue launched in May 2004 in conjunction with Takeda Pharmaceutical Co., Ltd. From January 2005, we took over the marketing of the antihypertension agent *Cinalong®* from UCB Japan Co., Ltd. In addition, we have engaged in proactive informational activities with all of our existing drugs. Further, we acquired the marketing rights from Banyu Pharmaceutical Co., Ltd.'s specialty foods for renal ailments and began full-scale sales in March 2005.

In other business areas, the Company focused on improving the synergistic effects within the Kissei Group by instituting various restructuring initiatives.

Net sales in the year under review totaled ¥60.93 billion, an increase of 4.6% from the previous year. Operating income, however, declined 11.2%, to ¥5.52 billion, due to an increase in selling, general and administrative expenses, most of which were linked to the launch of *Glufast®* Tab. Net income declined 15.4%, to ¥4.73 billion.

Kissei also recorded a profit of ¥1.57 billion from the return of pension assets and the creation of a new pension fund system, for which the Company received approval on August 1, 2004.

Net Sales by Segment

In the pharmaceuticals sector, the Company was negatively affected by the revision of NHI drug prices and the appearance of competing drugs. However, the strong debut of *Glufast®* Tab. and the increase in R&D licensing income helped increase net sales of pharmaceuticals by 3.7% over the previous year, to ¥57.24 billion.

Net sales from other businesses jumped 21.3%, to ¥3.70 billion, despite an increasingly competitive environment.

Research and Development and Global Expansion

The Kissei Group is promoting the development of new drugs in its core pharmaceuticals business in order to realize the management vision of being an R&D-oriented pharmaceutical company contributing to human health care with innovative drug products. Kissei is also pursuing an expansion of overseas sales by aggressively licensing out its technology to global partners.

During the term under review, we filed a new drug application (NDA) as planned in June 2004 in Japan to receive manufacturing approval for silodosin (generic name; phase III clinical trials conducted with Daiichi Pharmaceutical Co., Ltd.), which is used for the treatment of dysuria associated with benign prostatic hyperplasia (BPH). At the same time, we conducted follow-up procedures to the May 2003 filing of the NDA for pilocarpine (generic name), a therapeutic agent for dry mouth induced by radiation therapy for head and neck cancer, and made significant progress on the development of added indications of both *Glufast®* Tab. and pilocarpine. Phase II and III clinical trials on the additional indications of combination therapy using α-glucosidase inhibitor and *Glufast®* Tab. confirmed its high benefit, and therefore the Company will file an NDA in Japan as planned in the second half of fiscal 2006, ending March 31, 2006. In addition, the phase III clinical trials to confirm the additional indications of pilocarpine for dry mouth due to Sjögren's syndrome have progressed, enabling the Company to file an NDA in Japan as scheduled in the latter half of fiscal 2006.

Phase I clinical trials for KUC-7483 (development code), a therapeutic agent designed to alleviate urinary incontinence and overactive bladder, began in Japan in summer 2004.

In the area of licensing, Les Laboratoires Servier ended development of mitiglinide (generic name) in July 2004 after having received the licensing rights to the drug for Europe, China and other markets. Silodosin, however, has been licensed out to Watson Pharmaceuticals, Inc., of the United States, for the North American market, and more recently the development and marketing rights were licensed to Italy's Recordati SpA for the European market. Watson Pharmaceuticals has begun phase III clinical trials for silodosin, while Recordati has begun clinical trial preparations.

We also signed a licensing agreement to grant Dainippon Pharmaceutical Co., Ltd., the Japanese market development and marketing rights to sodium-dependent renal glucose transporter type 1 (SGLT1) inhibitor: diabetes drug KGA-2727 (development code).

In 2002, the U.K's GlaxoSmithKline PLC (GSK) was granted worldwide development and marketing rights, excluding Japan, Korea, China and Taiwan, for KGT (development code), a blood sugar-lowering SGLT2 inhibitor. GSK has begun phase II clinical trials. Also in 2002, Germany's Boehringer Ingelheim GmbH was granted worldwide development and marketing rights, excluding Japan, Korea, China and Taiwan, for KUC-7483, the selective β_3 receptor agonist under development as a therapeutic agent for urinary incontinence and overactive bladder. Phase I clinical trials are currently underway.

In February 2004, Kissei entered an agreement with U.S. pharmaceutical company MediciNova Inc., granting worldwide development and marketing rights, excluding Japan, for KUR-1246 (development code), a selective β_2 receptor agonist under development as a treatment for threatened premature labor. MediciNova is conducting phase I clinical trials in the United States and is preparing for phase II trials.

Kissei will continue to actively seek licensing deals with pharmaceutical companies around the world for mitiglinide and other new drugs.

Outlook

The revised Pharmaceutical Affairs Law of Japan went into full force in April 2005, and other government measures are also expected to create a more challenging environment in the Japanese pharmaceuticals industry, including an expected overhaul of the medical insurance system, another round of regular NHI drug price reductions, and various initiatives to restrain medical treatment and other fees.

Concerns remain in other business areas as well, due largely to deflationary pressures and the lack of a clear economic recovery.

Despite the unfavorable circumstances, the Company aims to create a corporate structure which encourages synergies within the Kissei Group and leads to continued growth based on the current medium-term management plan.

CONSOLIDATED OUTLOOK (Unit: Millions of Yen)

	March 2006 outlook	March 2005 results	March 2005 results vs. March 2004 results	% change
Net sales	62,200	60,933	1,267	2.1%
Operating income	4,250	5,516	-1,266	-23.0%
Net income	2,800	4,734	-1,934	-40.9%

Net sales

Kissei forecasts an increase in net sales on expectations of growth in new drugs *Glufast®* Tab. and *Cinalong®*, along with steady demand for existing drugs.

Income

Though net sales are seen rising, we expect operating income and net income to decline compared with fiscal 2005 due to higher sales costs, increased expenditures to launch new products into the market, and the booking of a profit in fiscal 2005 from a return of pension assets.

Distribution of Profits

Kissei plans to pay a cash dividend of ¥24.0 per share in the current term (including a mid-term payout of ¥12.0 a share), in keeping with the Company's policy of returning profits to shareholders through dividends and improving capital efficiency.

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 objective and significant corporate value by bolstering its total marketing system and thoroughly implementing the following management strategies.

(1) Receive approval in Japan for and launch three drugs covering five indications, including the top-priority diabetes drug mitiglinide, and quickly expand their market shares
(2) Enhance market shares of existing products and increase net sales and income
(3) Actively pursue opportunities to license out drug candidates for global development, predominantly in Europe and the United States, to raise overseas sales
(4) 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
(5) Develop highly efficient production and distribution systems based on patient and market needs, in accordance with revisions in the Pharmaceutical Affairs Law
(6) Comprehensively review every aspect of our operations and strive to enhance productivity and generate synergies by promoting the more effective use of management resources across the Kissei Group
(7) 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.

June 2005

Mutsuo Kanzawa
President and Chief Executive Officer

Development Portfolio in Japan

Development Stage	Development Code (Generic Name)	Product Origin	Development Company	Therapeutic Target
NDA	KSS-694 (Pilocarpine)	MGI Pharma (U.S.)	Kissei	Dry mouth due to radiation therapy for head and neck cancer
	KMD-3213 (Silodosin)	Kissei	Kissei / Daiichi Pharmaceutical	Dysuria associated with benign prostatic hyperplasia
Phase III	KSS-694 (Pilocarpine)	MGI Pharma (U.S.)	Kissei	Dry mouth due to Sjögren's syndrome (additional indication)
Phase II / III	KAD-1229 (Mitiglinide)	Kissei	Kissei	Improvement of postprandial plasma glucose transition in patients with type 2 diabetes mellitus Combination therapy with α-glucosidase inhibitor (additional indication)
Phase I	KUC-7483	Kissei	Kissei	Urinary incontinence associated with overactive bladder
	KUR-1246	Kissei	Kissei / Teikoku Hormone Mfg.	Threatened premature labor
	KUL-7211	Kissei	Kissei	Pain relief and excretion of urinary tract stone

R&D Pipeline Overseas

Development Stage	Generic Name / Development Code	Development Company / Licensee	Territory	Therapeutic Target
Phase III	Silodosin (KMD-3213)	Watson	U.S., Canada and Mexico	Dysuria associated with benign prostatic hyperplasia
Phase II	Mitiglinide (KAD-1229)	Kissei		Type 2 diabetes
	KGT	GlaxoSmithKline	Worldwide, excluding Japan, Korea, China and Taiwan	Type 2 diabetes
	KUR-1246	MediciNova	Worldwide, excluding Japan	Threatened premature labor
	Silodosin (KMD-3213)	Recordati	Europe (45 countries)	Dysuria associated with benign prostatic hyperplasia
	VX-702 (KVK-702)	Vertex (joint development)		Rheumatoid arthritis
Phase I	KUC-7483	Boehringer Ingelheim	Worldwide, excluding Japan, Korea, China and Taiwan	Urinary incontinence / Overactive bladder
	KFA-1982	Kissei		Deep vein thrombosis, etc. (oral anticoagulant)

Notes: KUR-1246, licensed out to MediciNova, is in preparation for phase II clinical trials and is in phase I trials in the U.S. Silodosin, licensed out to Recordati, is in preparation for clinical trials.

Financial Review

Net sales in fiscal 2005, ended March 31, 2005, grew 4.6% over the previous term. Sales of *Bezatol*® SR Tab., a therapeutic agent for hyperlipidemia; *Xanbon*®, a cerebral circulation ameliorator; and *Utemerin*®, a drug for threatened premature labor and threatened abortion, declined due to the adverse effects of NHI drug price revisions and competition. On the other hand, sales gained momentum for new antidiabetic drug *Glufast*® Tab. and for *Cabaser*® Tab., a therapeutic agent for Parkinson's disease. In addition, demand for *Rizaben*® eyedrops for the treatment of allergic conjunctivitis rose sharply due to high cedar pollen levels in the year under review. Revenue from licensing fees and other technological tie-ups also increased thanks to higher licensing fees for silodosin and KUR-1246, along with strong income from collaborative sales and joint marketing.

The cost of sales, meanwhile, rose 1.9 points from the previous year, to 38.6% of net sales. Though the launch of *Glufast*® Tab. and the increase in technical fee income were factors reducing the manufacturing cost ratio, the NHI drug price revisions and increase of stock of *Cabaser*® Tab. and other products served to increase the ratio.

Selling, general and administrative expenses rose 4.0% due to promotional costs for *Glufast*® Tab. and the launch of antihypertension drug *Cinalong*® and expenses incurred in preparing to market silodosin and pilocarpine, along with higher advertising costs.

As a result of the higher costs, operating income declined 11.2%, to ¥5.52 billion.

The Company booked a gain of about ¥1.57 billion related to the gain from transfer of pension, and net income totaled ¥4.73 billion.

Kissei maintained a stable financial position, with an equity ratio of 72.8% for the term.

Basic Policy on Corporate Governance and Implementation Status

Kissei's Board of Directors sets the basic strategy for the Company and makes final decisions on all important matters while providing oversight of business execution. In principle, the body convenes once a month to engage in active debate over operations, with a priority on making prompt business decisions and increasing the transparency of management. The Company also has a corporate auditor system comprised of two in-house and two external auditors. The corporate auditors join the meeting of the Board of Directors and freely share their opinions. One of the corporate auditors is also licensed as an attorney to provide a special perspective on operations.

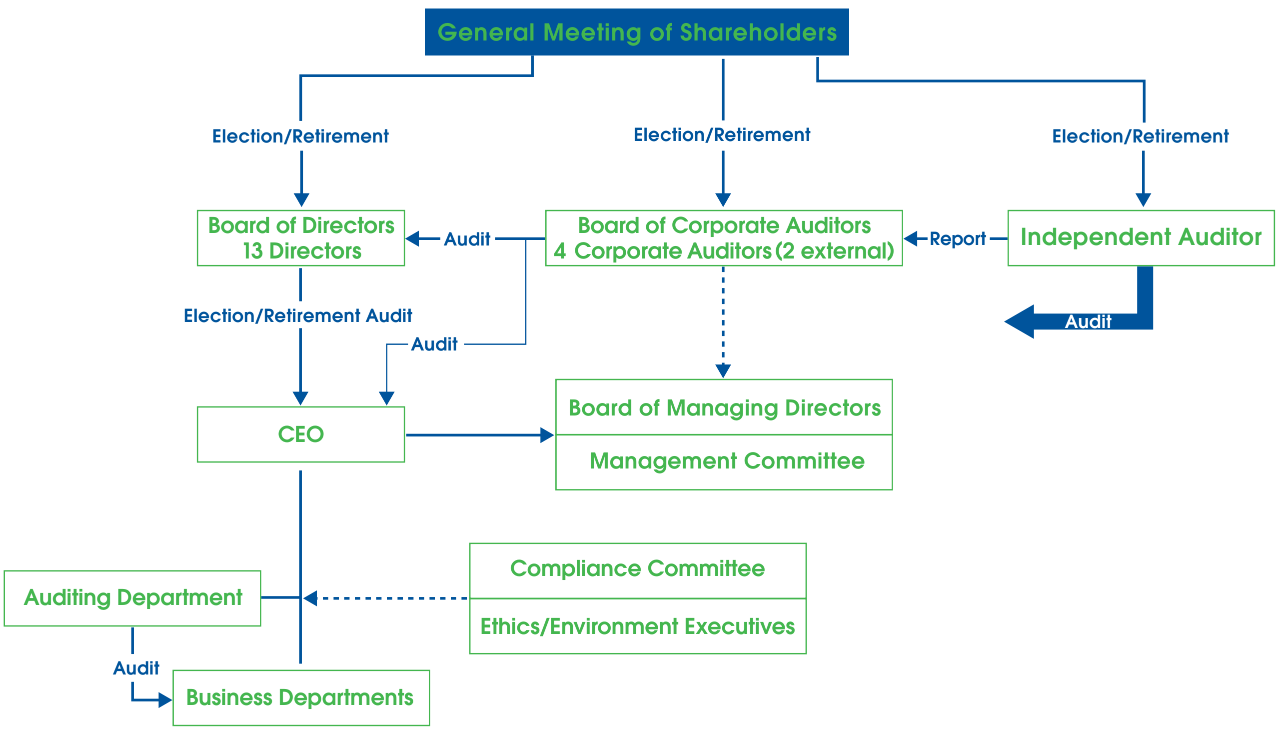
Kissei regularly undergoes outside auditing by an independent auditor (ChuoAoyama PricewaterhouseCoopers). The independent auditor engages in discussions with corporate management, finance officials, and corporate auditors, which aids the strengthening of the corporate governance structure.

In terms of internal controls, Kissei has an independent Auditing Department that reports directly to the president, conducting internal audits across all departments in the Company and following up on the results.

As a company directly involved in life science, Kissei conducts its business with an emphasis on ethics. We set forth the Code of Conduct in 1999 to complement the management philosophy we have held since our founding. The Code of Conduct compels our employees to abide by the letter and spirit of all laws and regulations at home and overseas. The Compliance Program furthering the ideals of the Code of Conduct was instituted in 2001, providing a manual by which to guide the practical application of compliance in workplace conduct. In the same year, the Compliance Committee comprising directors and other executives was established. Under this compliance structure, Kissei has been carrying out continual compliance training and education to raise awareness.

In April 2004, we set up the CSR Department as a way to fulfill our corporate social responsibility as a good corporate citizen through compliance with laws and contributions to global environmental conservation.

Kissei Corporate Governance and Compliance Structure



Risk Factors

The following risk factors could affect the Kissei Group's operating results and financial position.

1. R&D Risks

The process of developing pharmaceuticals—from the R&D stage to approval and sales—requires a large investment of both time and funds. When developing new drugs, the chances of discovering an effective indication are not high. The Company can neither guarantee that a new drug undergoing research or an additional indication will have their intended efficacy nor predict when the drugs will be approved.

2. Government Policy Risks

The prices of pharmaceuticals in Japan are set based on the government's NHI drug price standards. Generally, the prices are revised biennially, and to the extent possible, the Company factors the impact of the revisions into its operating results forecast. There may be revisions or other changes to the medical insurance system in Japan that go beyond the Company's forecast, which would negatively impact the Company's operating results and financial position.

3. Unexpected Side Effect Risks

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

4. Intellectual Property Risks

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

5. Legal Risks

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

Besides the risk factors mentioned above, there are various other risks that could affect the Kissei Group's operating results and financial position.

CONSOLIDATED BALANCE SHEETS

Kissei Pharmaceutical Co., Ltd. and its subsidiaries   At March 31, 2004 and 2005

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2005	2005
Current Assets:			
Cash on hand and in banks (Note 4)	¥ 38,220	¥ 35,858	$ 335,121
Short-term investments in specified trusts	3,521	3,092	28,897
Marketable securities (Notes 4 and 5)	13,202	14,584	136,299
Notes and accounts receivable	24,595	26,151	244,402
Less: allowance for doubtful accounts	(4)	(4)	(37)
	24,591	26,147	244,365
Inventories (Note 6)	8,728	9,798	91,570
Deferred tax assets – current (Note 9)	1,904	1,830	17,103
Other current assets	3,475	2,435	22,757
Total current assets	93,641	93,744	876,112
Investments and Advances:			
Investments in securities (Note 5)	30,890	33,829	316,159
Investments in unconsolidated subsidiaries	1,118	1,088	10,168
Leasehold deposits and guarantee deposits	447	436	4,075
Other investments and advances	3,352	2,595	24,252
	35,807	37,948	354,654
Property, Plant and Equipment (Note 7):			
Buildings and structures	30,550	30,879	288,589
Machinery and equipment	10,084	10,502	98,149
	40,634	41,381	386,738
Less: accumulated depreciation	(25,395)	(26,601)	(248,607)
	15,239	14,780	138,131
Land	12,918	12,918	120,729
Construction in progress	17	97	906
	28,174	27,795	259,766
Other Assets:			
Deferred tax assets – non-current (Note 9)	1,211	301	2,813
Deferred charges and other	4,009	5,156	48,188
	¥162,842	¥164,944	$1,541,533

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2004	Millions of Yen 2005	Thousands of U.S. Dollars (Note 3) 2005
Current Liabilities:			
Short-term bank loans (Note 7)	¥ 2,210	¥ 2,240	$ 20,935
Current portion of long-term debt (Note 7)	60	35	327
Notes and payables:			
Trade	7,206	8,438	78,860
Other	2,906	3,249	30,364
	10,112	11,687	109,224
Income taxes payable (Note 9)	3,294	966	9,028
Accrued expenses and bonuses to employees	2,106	2,314	21,626
Reserve for sales returns	28	24	224
Reserve for sales rebates	585	650	6,075
Reserve for sales promotion expenses	264	238	2,224
Other current liabilities	139	142	1,328
Total current liabilities	18,798	18,296	170,991
Long-Term Debt (Note 7)	21,958	21,916	204,822
Accrued Retirement Benefits to Employees (Note 10)	4,417	3,258	30,449
Accrued Retirement Benefits to Directors and Corporate Auditors	1,311	1,296	12,112
Total liabilities	46,484	44,766	418,374
Minority Interests in Consolidated Subsidiaries	92	92	860
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 March 31, 2004 and 2005, respectively	24,220	24,220	226,355
Additional paid-in capital	24,111	24,112	225,346
Unappropriated retained earnings (Note 15)	67,812	71,344	666,766
Unrealized holding gains on securities	4,001	4,391	41,037
Treasury stock (2,427,243 shares and 2,473,995 shares at March 31, 2004 and 2005)	(3,878)	(3,981)	(37,205)
Total shareholders' equity	116,266	120,086	1,122,299
	¥162,842	¥164,944	$1,541,533

CONSOLIDATED STATEMENTS OF INCOME

Kissei Pharmaceutical Co., Ltd. and its subsidiaries   For the years ended March 31, 2003, 2004 and 2005

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2003	2004	2005	2005
Net Sales	¥59,529	¥58,226	¥60,933	$569,467
Cost of Sales	19,893	21,357	23,526	219,869
Gross profit	39,636	36,869	37,407	349,598
Selling, General and Administrative Expenses				
(Notes 10, 11 and 14)	33,563	30,659	31,890	298,037
Operating income	6,073	6,210	5,517	51,561
Other Income (Expenses):				
Interest and dividend income	369	322	316	2,953
Interest expense	(203)	(204)	(203)	(1,897)
Loss on sale or disposal of properties	(114)	(27)	(77)	(720)
Gain (loss) on sale of marketable securities	(78)	201	0	0
Gain (loss) on sale of investments in securities	414	(22)	504	4,710
Write-up (write-down) of marketable securities and				
short-term investments in specified trusts	(266)	860	253	2,364
Write-down of investments in securities	(1,509)	–	(22)	(206)
Gain from transfer of pension	–	–	1,570	14,673
Legal settlement and recoveries	–	2,282	191	1,785
Other, net	(183)	0	(69)	(644)
	(1,570)	3,412	2,463	23,018
Income before income taxes and minority interests	4,503	9,622	7,980	74,579
Income Taxes (Note 9):				
Current	1,449	3,848	2,510	23,458
Deferred	847	135	720	6,729
	2,296	3,983	3,230	30,187
Minority Interests	24	(39)	(15)	(140)
Net income	¥ 2,231	¥ 5,600	¥ 4,735	$ 44,252

	Yen			U.S. Dollars (Note 3)
Per Share (Note 2):				
Net income:				
Primary	¥39.4	¥101.8	¥86.5	$0.808
Fully-diluted	35.8	88.7	75.5	0.706
Cash dividends	14.0	17.0	20.0	0.187

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 March 31, 2003, 2004 and 2005

		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 March 31, 2002	56,795,185	¥24,220	¥24,110	¥61,596	¥ 346	¥ (440)
Net income for the year	–	–	–	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 March 31, 2003	56,795,185	24,220	24,110	63,004	302	(3,000)
Net income for the year	–	–	–	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 March 31, 2004	56,795,185	24,220	24,111	67,812	4,001	(3,878)
Net income for the year	–	–	–	4,735	–	–
Cash dividends paid	–	–	–	(1,087)	–	–
Bonuses to directors and corporate auditors	–	–	–	(40)	–	–
Reduction due to merger	–	–	–	(76)	–	–
Treasury stock purchased (46,752 shares)	–	–	–	–	–	(103)
Unrealized holding gains on securities	–	–	–	–	390	–
Gain on sale of treasury stock (1,233 shares)	–	–	1	–	–	–
Balance at March 31, 2005	56,795,185	¥24,220	¥24,112	¥71,344	¥4,391	¥(3,981)

		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 March 31, 2004	56,795,185	$226,355	$225,336	$633,757	$37,393	$(36,243)
Net income for the year	–	–	–	44,252	–	–
Cash dividends paid	–	–	–	(10,159)	–	–
Bonuses to directors and corporate auditors	–	–	–	(374)	–	–
Reduction due to merger	–	–	–	(710)	–	–
Treasury stock purchased	–	–	–	–	–	(963)
Unrealized holding gains on securities	–	–	–	–	3,645	–
Gain on sale of treasury stock	–	–	9	–	–	–
Balance at March 31, 2005	56,795,185	$226,355	$225,346	$666,766	$41,037	$(37,205)

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 March 31, 2003, 2004 and 2005

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2003	2004	2005	2005
Cash Flows from Operating Activities:				
Income before income taxes and minority interests	¥ 4,503	¥ 9,622	¥ 7,980	$ 74,579
Depreciation and amortization	3,083	2,868	3,012	28,150
Decrease in allowance for doubtful accounts	(44)	(24)	(1)	(9)
Increase (decrease) in accrued bonuses to employees	473	(289)	248	2,318
Increase in other accrued expenses	238	861	434	4,056
Interest and dividend income	(369)	(322)	(315)	(2,944)
Foreign exchange loss	–	43	13	121
Interest expense	203	204	203	1,897
Gain from transfer of pension	–	–	(1,570)	(14,673)
Gain on sale of marketable securities	–	(7)	–	–
(Gain) loss on sale of investments in securities	(414)	22	(504)	(4,710)
(Gain) loss on sale of marketable securities included in short-term investments in specified trust	78	(193)	–	–
(Write-up) write-down of marketable securities, investments in specified trusts and investments in securities	1,775	(858)	(231)	(2,159)
Loss on sale or disposal of properties	108	18	59	551
Increase (decrease) in notes and accounts receivable	3,654	(558)	(1,513)	(14,140)
Decrease in inventories	(1,179)	(351)	(1,055)	(9,860)
Decrease in other current assets	468	826	1,032	9,645
Increase (decrease) in notes and accounts payable	(817)	(289)	1,237	11,561
Increase in other current liabilities	635	195	268	2,505
Bonuses to directors and corporate auditors	(36)	(27)	(40)	(374)
Other cash flows from operating activities, net	136	1	69	645
Sub total	12,495	11,742	9,326	87,159
Receipt of interest and dividends	327	259	277	2,589
Payment of interest	(203)	(204)	(203)	(1,897)
Payment of income taxes	(4,778)	(754)	(4,837)	(45,206)
Net cash provided by operating activities	7,841	11,043	4,563	42,645
Cash Flows from Investing Activities:				
Increase in time deposits	(76)	(50)	(58)	(542)
Decrease in time deposits	115	76	50	467
Reduction of investments in specified trusts	1,271	16	–	–
Proceeds from sales of marketable securities	755	1,581	1,188	11,103
Acquisition of property and equipment	(1,292)	(1,818)	(1,658)	(15,495)
Proceeds from sales of property and equipment	37	11	12	112
Acquisition of investments in securities	(6,992)	(5,005)	(2,156)	(20,150)
Proceeds from sales of investments in securities	7,742	458	634	5,925
Payment of other assets (long-term prepaid expenses)	(878)	(616)	(2,196)	(20,523)
Other cash flows from investing activities, net	(1,754)	(711)	(373)	(3,486)
Net cash used in investing activities	(1,072)	(6,058)	(4,549)	(42,514)
Cash Flows from Financing Activities:				
Increase in short-term bank loans	380	450	470	4,392
Repayment of short-term bank loans	(100)	(290)	(440)	(4,112)
Repayment of long-term debt	(80)	(75)	(66)	(617)
Redemption of convertible notes	(256)	–	–	–
Cash dividends paid by the Company	(787)	(765)	(1,087)	(10,159)
Acquisition of treasury stock	(2,560)	(877)	(102)	(953)
Net cash used in financing activities	(3,403)	(1,557)	(1,225)	(11,449)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	–	(43)	(13)	(121)
Increase (Decrease) in Cash and Cash Equivalents	3,366	3,385	(1,224)	(11,439)
Cash and Cash Equivalents at Beginning of Year (Note 4)	43,420	46,786	50,171	468,888
Receipts of Cash and Cash Equivalents from Merger	–	–	36	336
Cash and Cash Equivalents at End of Year (Note 4)	¥46,786	¥50,171	¥48,983	$457,785

The accompanying notes are an integral part of these statements.

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 March 31, 2004 and 2005 were twelve and nine, 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

(2) Consolidation and Elimination

In preparing the accompanying consolidated financial statements, all significant inter-company transactions, account balances and unrealized profits between the Companies have been eliminated, and the portion thereof attributable to minority interests is charged to minority interests.

In eliminating investments in the common stock of the consolidated subsidiaries against the underlying equity in the net assets of the subsidiaries, differences between the cost of the investments and the underlying equity in net assets were not recognized for the three years ended March 31, 2005.

(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 April 1, 1998 is computed on the straight-line method.

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

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

(7) Amortization

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

Software costs for internal use are amortized over their expected useful lives (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 expenses 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 March 31, 2004 and 2005.

(9) Foreign Currency Translation

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

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

(10) Income Taxes

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

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

(11) Allowances, Accrued Bonuses to Employees and Reserves for Certain Expenses

(i) Allowance for doubtful accounts

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

(ii) Accrued bonuses to employees

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

(iii) Reserve for sales returns
"Reserve for sales returns" is computed based on the percentage of the Companies' own actual return history in the preceding two years.
(iv) Reserve for sales rebates
"Reserve for 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 dates. The reserve for sales rebates is not deductible for tax purposes until paid.
(v) Reserve for sales promotion expenses
"Reserve for sales promotion expenses" is provided for in an amount which the Company expects to pay in relation to dealers' inventories at the balance sheet dates. 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 dates. The reserve for sales promotion expenses is not deductible for tax purposes until paid.
(vi) Accrued retirement benefits to employees
To account for retirement benefits to employees, the Company recognizes accrued benefits on a consolidated basis at the end of the fiscal year based on the value of the projected benefit obligation and the estimated fair value of the plan assets.

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

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

Following the enactment of the Welfare Pension Insurance Law in Japan, the Company obtained approval from Japan's Ministry of Health, Labour and Welfare on August 1, 2004 for the return of past obligations with respect to the portion of the pension fund that the Company operates on behalf of the government (the so-called substitutional portion). The Company transfered this portion on January 5, 2005, and consequently has booked extraordinary income of ¥1,570 million in the current year.
(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 dates. 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 September 30.

(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 fiscal year appropriately adjusted for subsequent free distribution of shares (stock splits).

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

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

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.

(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 August 9, 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 April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 31, 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 ¥107=U.S.$1, the approximate effective rate of exchange at March 31, 2005. 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 ¥107=U.S.$1 or at any other rate.

4 Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2004 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Cash on hand and in banks	¥38,220	¥35,858	$335,121
Marketable securities	13,202	14,584	136,299
Time deposits with original maturities of over three months	(50)	(58)	(542)
Marketable securities with maturities of more than three months	(1,201)	(1,401)	(13,093)
Cash and cash equivalents	¥50,171	¥48,983	$457,785

5 Securities

The acquisition cost, carrying amount, gross unrealized holding gains and losses for securities with fair value by security type at March 31, 2004 and 2005 are as follows:

Available-for-sale securities:

	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

	Millions of Yen			
	2005			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥10,676	¥17,719	¥7,194	¥151
Corporate debt securities	11,997	11,988	1	10
Others	3,256	3,588	372	40
	¥25,929	¥33,295	¥7,567	¥201

	Thousands of U.S. Dollars			
	2005			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	$ 99,773	$165,597	$67,233	$1,408
Corporate debt securities	112,118	112,041	12	90
Others	30,434	33,536	3,478	377
	$242,325	$311,174	$70,723	$1,875

The carrying amount of securities where no market value is available at March 31, 2004 and 2005 is summarized as follows:

Other securities:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Unlisted stocks (except for over-the-counter securities)	¥ 2,323	¥ 1,934	$ 18,074
Others	12,000	13,183	123,205
	¥14,323	¥15,117	$141,279

Proceeds and gross realized gains from the sale of available-for-sale securities in respect of the year ended March 31, 2005 were ¥630 million ($5,888 thousand) and ¥504 million ($4,710 thousand), respectively.

6 Inventories

Inventories at March 31, 2004 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Merchandise	¥3,384	¥3,996	$37,346
Finished goods	1,700	1,465	13,691
Work-in-process	1,886	1,645	15,374
Raw materials	942	1,419	13,262
Supplies	816	1,273	11,897
	¥8,728	¥9,798	$91,570

7 Short-Term Bank Loans and Long-Term Debt

Short-term bank loans outstanding at March 31, 2004 and 2005 represent one-year notes issued by the Companies to banks. Short-term bank loans made during the years ended March 31, 2004 and 2005 bore interest at an average annual rate of 1.31% and 1.30%, respectively.

Maximum month-end balance and average month-end balance of short-term bank loans outstanding for the years ended March 31, 2004 and 2005 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Maximum month-end balance	¥2,980	¥3,090	$28,879
Average month-end balance	¥2,653	¥2,700	$25,234

As is customary in Japan, substantially all of the notes are with banks, each of which has 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 March 31, 2004 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Non-secured loans with financial institution, bearing interest at rates ranging from 1.20% to 6.00% due from 2002 to 2027	¥ 241	¥ 174	$ 1,626
0.7% convertible notes due 2006	9,586	9,586	89,589
0.8% convertible notes due 2008	12,191	12,191	113,934
	22,018	21,951	205,149
Less: current maturities due within one year	(60)	(35)	(327)
	¥21,958	¥21,916	$204,822

The 0.7% convertible notes due September 29, 2006 were issued on August 23, 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 October 1, 2001 to September 30, 2002, ¥103 from October 1, 2002 to September 30, 2003, ¥102 from October 1, 2003 to September 30, 2004, ¥101 from October 1, 2004 to September 30, 2005 and ¥100 from October 1, 2005 to September 28, 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 September 28, 2006. The number of shares which would be issued upon conversion of the notes outstanding at March 31, 2005 was 4,058 thousand shares.

The 0.8% convertible notes due September 30, 2008 were issued on August 23, 1996 with a principal amount of ¥15,000 million. The notes can be repurchased at any time in their entirety at the option of the Company and may be redeemed at the discretion of the Company at a price of ¥105 from October 1, 2002 to September 30, 2003, ¥104 from October 1, 2003 to September 30, 2004, ¥103 from October 1, 2004 to September 30, 2005, ¥102 from October 1, 2005 to September 30, 2006, ¥101 from October 1, 2006 to September 30, 2007 and ¥100 from October 1, 2007 to September 29, 2008. The holder of the convertible notes is entitled to convert ¥1,000,000 for shares at a current conversion price of ¥2,362 per share. The conversion price is subject to adjustment for subsequent stock splits and other circumstances.

The notes are convertible at any time prior to September 29, 2008. The number of shares which would be issued upon conversion of the notes outstanding at March 31, 2005 is 5,161 thousand shares.

The aggregate annual maturities of long-term loans outstanding at March 31, 2005 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year ending March 31		
2005	¥ 35	$ 327
2006	9,612	89,831
2007	25	234
2008 and thereafter	12,279	114,757
	¥21,951	$205,149

8 Research and Development Expenses

Research and development expenses were included in selling, general and administrative expenses for the years ended March 31, 2003, 2004 and 2005 amounting to ¥13,074 million, ¥9,826 million and ¥9,893 million ($92,458 thousand), respectively.

9 Income Taxes

Income taxes in Japan applicable to the Companies for the years ended March 31, 2003, 2004 and 2005 consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates were as follows:

	Rates on taxable income		
	2003	2004	2005
Corporate income tax	30.0%	30.0%	**30.0%**
Enterprise tax	9.7	9.7	**7.2**
Resident income taxes	6.1	6.1	**6.1**
	45.8%	45.8%	**43.3%**
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid	41.7%	41.7%	**40.4%**

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

For the year ending March 31, 2005, a corporation-size based enterprise tax was introduced which superseded the current enterprise tax. As a result, the statutory tax rate for the year ending March 31, 2005 was approximately 40.4% effective April 1, 2004. The respective newly enacted rates were used in calculating the future expected tax effects of temporary differences.

Effective from April 1, 2004, enterprise tax regulations in Japan were amended. Under the new enterprise tax regulations, enterprise tax will be based on the sum of three tax components, namely; income tax based component, value added component and capital based component. In accordance with the new accounting standard issued by the Accounting Standards Board of Japan, enterprise tax relating to the value added component and capital based component are required to be classified as selling, general and administrative expenses in the statement of income. As a result of this new requirement, selling, general and administrative expense increased by¥188 million ($1,757 thousand) for the year ended March 31, 2005.

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Deferred tax assets:			
Write-down of securities	¥ 1,151	¥ 1,079	$ 10,084
Prepaid research and development expenses	592	504	4,710
Accrued retirement benefits to directors and corporate auditors	530	523	4,888
Accrued enterprise tax	349	118	1,103
Accrued bonuses to employees	706	808	7,551
Reserve for sales rebates	236	262	2,448
Accrued retirement benefits to employees	1,785	1,316	12,299
Royalties receivable	145	–	–
Other	759	927	8,664
	6,253	5,537	51,747
Valuation allowance	(425)	(429)	(4,009)
	¥ 5,828	¥ 5,108	$ 47,738
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	¥(2,712)	¥(2,976)	$(27,813)
Deferred tax assets, net	¥ 3,116	¥ 2,132	$ 19,925

Reconciliation of the actual tax rate is shown below:

During the year ended March 31, 2005, the difference between the effective statutory tax rate and the actual tax rate after adjustments is within 5 percentage points of the effective statutory tax rate. Explanatory notes are therefore omitted.

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

10 Retirement Benefit Plans

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

The following table sets forth a reconciliation of projected benefit obligations, plan assets, funded status of the retirement benefit plans and net liability recognized in the accompanying balance sheets at March 31, 2004 and 2005:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Projected benefit obligations	¥16,748	¥11,723	$109,561
Fair value of plan assets	(9,611)	(7,237)	(67,636)
Funded status of the plans	7,136	4,486	41,925
Unrecognized net actuarial difference	(2,982)	(1,524)	(14,243)
Unamortized prior service cost	263	296	2,766
Net liability recognized	¥ 4,417	¥ 3,258	$ 30,449

The net periodic retirement benefit cost for the years ended March 31, 2003, 2004 and 2005 included the following components:

	Millions of Yen			Thousands of U.S. Dollars
	2003	2004	2005	2005
Service cost	¥ 774	¥ 670	¥ 581	$5,430
Interest cost	391	392	335	3,130
Expected return on plan assets	(292)	(207)	(192)	(1,794)
Amortization of prior service cost	(33)	(33)	(33)	(308)
Additional payment of retirement costs	117	94	26	243
Amortization of difference caused from actuarial calculation	158	411	289	2,701
	¥1,115	¥1,327	¥1,006	$9,402

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 2.5% and 2.5% as of March 31, 2004 and 2005, respectively. The rate of expected return on plan assets was 2.5% and 2.5% as of March 31, 2004 and 2005, respectively. Attribution of retirement benefits to each year of service of the employees is based on the "benefit/years-of-service" approach, whereby the same amount of benefits is attributed to each year.

11 Commitments and Contingent Liabilities

(1) Finance Leases

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

Lease rental expenses on finance lease contracts without ownership transfer for the years ended March 31, 2003, 2004 and 2005 are summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2003	2004	2005	2005
Lease rental expenses	¥618	¥585	¥454	$4,243

Assumed data in respect of the acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets (machinery and equipment), including the portion of interest thereon, for the year ended March 31, 2005 is summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Acquisition cost	¥2,185	$20,420
Accumulated depreciation	1,430	13,364
Net book value	¥ 755	$ 7,056
Depreciation	¥ 454	$ 4,243

Depreciation is computed using the straight-line method over the lease term of the leased assets with no residual value.

The amount of outstanding future lease payments due at March 31, 2004 and 2005, including the portion of interest thereon, is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Future lease payments:			
Within one year	¥ 462	¥364	$3,402
After more than one year	680	391	3,654
Total	¥1,142	¥755	$7,056

(2) Contingent Liabilities

The Company had contingent liabilities arising from notes discounted by banks in the ordinary course of business in the amount of ¥400 million ($3,738 thousand) at March 31, 2005.

In addition, the Company was contingently liable for guarantees in respect of loans borrowed by its unconsolidated subsidiaries for an amount of ¥176 million ($1,645 thousand) at March 31, 2005.

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 March 31, 2005 is presented below:

	Millions of Yen				
	For the year ended March 31, 2003				
	Industry Segment			Elimination of Inter-segment	Consolidated
	Pharmaceuticals	Other	Total	Sales	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 March 31, 2004				
	Industry Segment			Elimination of Inter-segment	Consolidated
	Pharmaceuticals	Other	Total	Sales	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

	Millions of Yen				
	For the year ended March 31, 2005				
	Industry Segment			Elimination of Inter-segment Sales	Consolidated Total
	Pharmaceuticals	Other	Total		
Sales:					
Sales to outside customers	¥ 57,236	¥3,697	¥ 60,933	¥ –	¥ 60,933
Inter-segment sales	0	4,093	4,093	(4,093)	–
Total sales	57,236	7,790	65,026	(4,093)	60,933
Operating expenses	51,711	7,742	59,453	(4,037)	55,416
Operating income	¥ 5,525	¥ 48	¥ 5,573	¥ (56)	¥ 5,517
Assets	¥160,688	¥5,428	¥166,116	¥(1,173)	¥164,943
Depreciation	¥ 2,753	¥ 356	¥ 3,109	¥ (97)	¥ 3,012
Capital expenditure	¥ 3,602	¥ 365	¥ 3,967	¥ (110)	¥ 3,857

	Thousands of U.S. Dollars				
	For the year ended March 31, 2005				
	Industry Segment			Elimination of Inter-segment Sales	Consolidated Total
	Pharmaceuticals	Other	Total		
Sales:					
Sales to outside customers	$ 534,916	$34,551	$ 569,467	$ –	$ 569,467
Inter-segment sales	0	38,252	38,252	(38,252)	–
Total sales	534,916	72,804	607,720	(38,252)	569,467
Operating expenses	483,280	72,355	555,636	(37,729)	517,906
Operating income	$ 51,636	$ 449	$ 52,084	$ (523)	$ 51,561
Assets	$1,501,757	$50,729	$1,552,486	$(10,963)	$1,541,523
Depreciation	$ 25,729	$ 3,327	$ 29,056	$ (906)	$ 28,150
Capital expenditure	$ 33,664	$ 3,411	$ 37,075	$ (1,028)	$ 36,047

(2) Information by Geographic Segment

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

(3) Export Sales

Export sales information of the Companies for the three years ended March 31, 2005 is omitted because export sales account for less than 10% of total sales.

13 Business Transactions with Parties Related to the Company

Fiscal 2004 (April 1, 2003—March 31, 2004)

Executives, main individual stockholders, etc.

Position	Executive	Executive
Name	Kunio Kanzawa	Mutsuo Kanzawa
Address	—	—
Capital or Investment Amount (million yen)	—	—
Type of Business/Work	Chairman of the Company, Director of Kanzawa Medical Research Foundation	President and Chief Executive Officer of the Company
% of Voting Rights Owned	(Ownership) Direct 6.9	(Ownership) Direct 0.8
Relationship		
Concurrent Posts Held, etc.	—	—
Relationship with Place of Business	—	—
Type of Business Transaction	Donation paid to Kanzawa Medical Research Foundation	Purchased stock in related company
Amount (million yen)	20	7
Item	—	—
Year-End Balance (million yen)	—	—

Notes: 1. The above amounts do not include consumption tax.
2. The business transactions with the Kanzawa Medical Research Foundation are third-party transactions.
3. Conditions for business transactions and methods for deciding conditions for transactions, etc.
The purchase amount was decided based on the current market value.

Fiscal 2005 (April 1, 2004—March 31, 2005)
Executives, main individual stockholders, etc.

Position	Executive
Name	Kunio Kanzawa
Address	—
Capital or Investment Amount (million yen)	—
Type of Business/Work	Chairman of the Company, Director of Kanzawa Medical Research Foundation
% of Voting Rights Owned	(Ownership) Direct 6.9
Relationship	
Concurrent Posts Held, etc.	—
Relationship with Place of Business	—
Type of Business Transaction	Donation paid to Kanzawa Medical Research Foundation
Amount (million yen)	25
Item	—
Year-End Balance (million yen)	—

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

14 Selling, General and Administrative Expenses

A summary of selling, general and administrative expenses for each of the three years in the period ended March 31, 2005 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2003	2004	2005	2005
Advertising and sales promotion expenses	¥ 3,367	¥ 3,822	¥ 4,360	$ 40,748
Payroll costs	7,885	7,839	8,139	74,065
Research and development expenses	13,074	9,826	9,893	92,458
Traveling expenses	1,520	1,606	1,702	15,907
Depreciation	1,172	1,174	1,279	11,953
Other	6,545	6,392	6,517	60,906
	¥33,563	¥30,659	¥31,890	$298,037

15 Subsequent Event

The following appropriations of unappropriated retained earnings were approved at the shareholders' meeting held on June 29, 2005:

	Millions of Yen	Thousands of U.S. Dollars
Retained earnings:		
Balance at March 31, 2005	¥71,344	$666,766
Appropriations:		
Cash dividends (¥10 per share)	(543)	(5,075)
Bonuses to directors and corporate auditors	(35)	(327)
Balance to be carried forward	¥70,766	$661,364

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, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2005, 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, 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.

Chuo Aoyama Pricewaterhouse Coopers

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 29, 2005

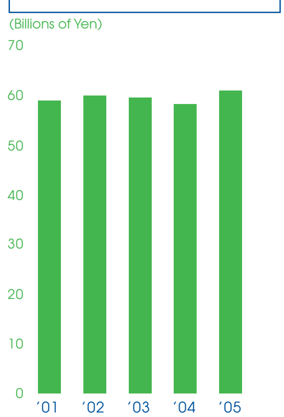
FINANCIAL SUMMARY

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

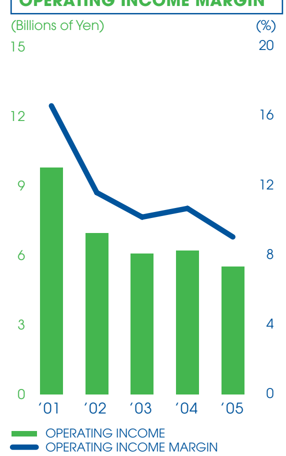
	1995	1996	1997	1998
Net Sales	¥ 56,234	¥ 57,926	¥ 59,108	¥ 56,687
Gross Profit	42,395	42,931	40,940	40,786
Operating Income	16,568	16,619	14,427	13,038
Net Income	6,434	6,931	6,070	5,439
Total Assets	119,298	126,891	142,627	137,353
Total Shareholders' Equity	76,423	82,696	88,270	92,778
Per Share (Yen 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 ¥107=U.S.$1, the approximate effective rate of exchange at March 31, 2005.
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.

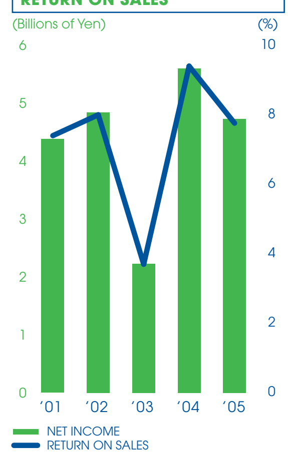
NET SALES



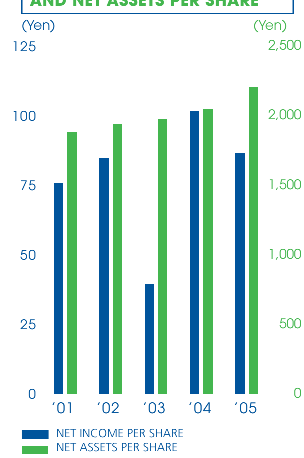
OPERATING INCOME AND OPERATING INCOME MARGIN



NET INCOME AND RETURN ON SALES

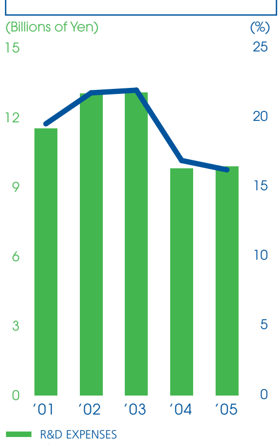


NET INCOME PER SHARE AND NET ASSETS PER SHARE

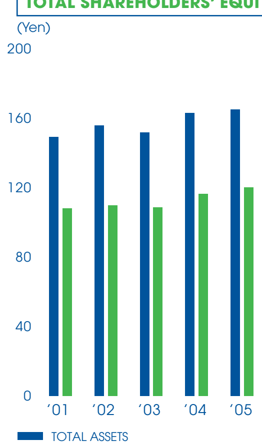


Millions of Yen Except Per Share Data							Thousands of U.S. Dollars Except Per Share Data
1999	2000	2001	2002	2003	2004	2005	2005
¥ 55,974	¥ 57,029	¥ 58,937	¥ 59,929	¥ 59,529	¥ 58,226	¥ 60,933	$ 569,467
39,854	41,147	41,847	40,534	39,636	36,869	37,407	349,598
11,545	12,571	9,786	6,958	6,073	6,210	5,517	51,561
5,334	5,724	4,383	4,837	2,231	5,600	4,735	44,252
138,934	146,649	149,189	155,740	151,582	162,842	164,944	1,541,533
97,234	105,437	108,017	109,832	108,636	116,266	120,086	1,122,299
¥91.5	¥98.2	¥76.0	¥84.9	¥39.4	¥101.8	¥86.5	$0.808
82.0	88.4	68.8	76.5	35.8	88.7	75.5	0.706
15.0	14.0	14.0	14.0	14.0	17.0	20.0	0.187
¥9,284	¥9,231	¥11,517	¥13,045	¥13,074	¥9,826	¥9,893	$92,458
16.6%	16.2%	19.5%	21.8%	22.0%	16.9%	16.2%	
1,341	1,474	2,081	1,216	1,292	1,818	1,660	15,514
2.4%	2.6%	3.5%	2.0%	2.2%	3.1%	2.7%	
561.2%	589.1%	653.8%	488.2%	567.3%	498.1%	512.4%	
5.61%	5.65%	4.11%	4.44%	2.04%	4.98%	4.01%	
3.86%	4.01%	2.96%	3.17%	1.45%	3.56%	2.89%	
58,279	58,279	57,295	56,795	56,795	56,795	56,795	
1,663	1,630	1,616	1,632	1,665	1,677	1,686	

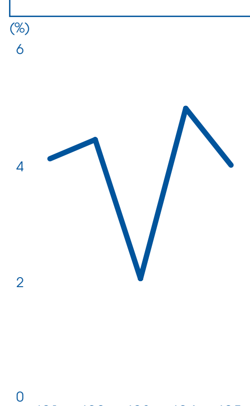
R&D EXPENSES



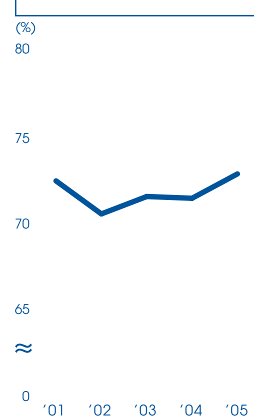
TOTAL ASSETS AND TOTAL SHAREHOLDERS' EQUITY



RETURN ON EQUITY



EQUITY RATIO



BOARD OF DIRECTORS

As of June 29, 2005

Chairman:
Kunio Kanzawa

President and Chief Executive Officer:
Mutsuo Kanzawa

Executive Vice President:
Masanori Iwadare

Executive Managing 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:
Tetsuo Yabana
Yoshinobu Kubota
Hidenaga Kitazawa
Hajime Koike

CORPORATE DATA (Non-consolidated)

As of June 29, 2005

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:
1,530

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 Computer Technology (Beijing) Co., Ltd.

INVESTOR INFORMATION

As of March 31, 2005

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

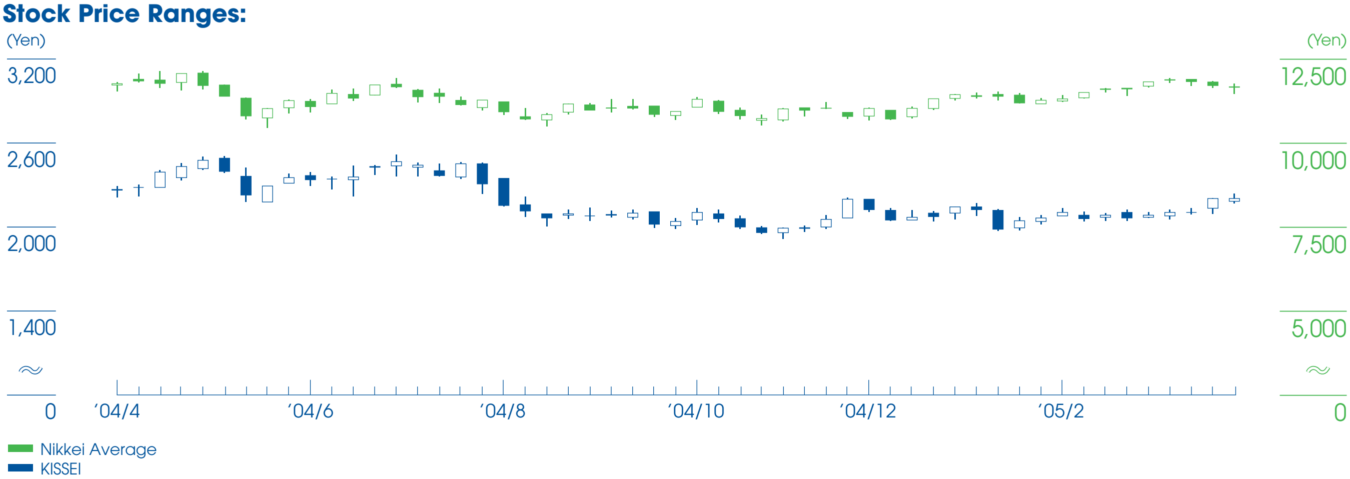
Number of Shareholders:
3,507 (decrease of 64 from previous fiscal year-end)

Principal Shareholders:

	Number of shares held (thousand)	Voting right (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	4,247	7.5
Kunio Kanzawa	3,699	6.5
Kanzawa Limited	3,178	5.6
Japan Trustee Services Bank, Ltd. (Trust account)	2,831	5.0
The Hachijuni Bank, Ltd.	2,670	4.7
Mizuho Bank, Ltd.	2,670	4.7
The Dai-ichi Mutual Life Insurance Company	2,418	4.3
Nippon Life Insurance Company (Separate Pension Account)	1,235	2.2
Nabelin Co., Ltd.	1,219	2.2
The Nagano Bank, Ltd.	1,126	2.0

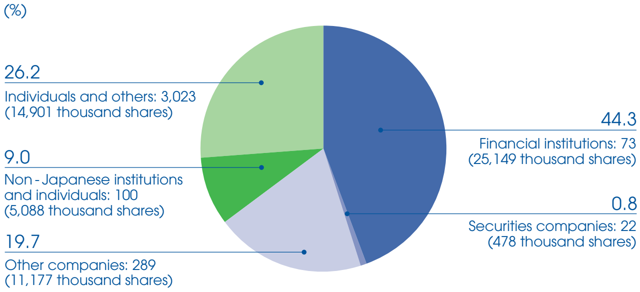
Note: Kissei holds 2,473,995 shares of treasury stock.

Stock Price Ranges:

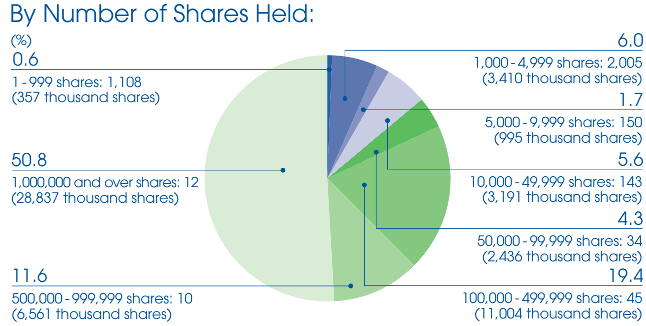


Analysis of Shareholders:

By Category:



By Number of Shares Held:



KISSEI PHARMACEUTICAL CO., LTD.

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