KISSEI

ANNUAL REPORT 2006

Profile

Under our management philosophy, the Kissei Group aims to contribute to freeing people from the pain and suffering of disease. 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 challenges Kissei Pharmaceutical Co., Ltd., to be an R&D-oriented pharmaceutical company contributing to human health care with innovative drug products. To this end, we promote research and development activities from the patient's perspective, striving to manufacture the highest quality pharmaceuticals while providing and collecting information necessary to use the products safely. At the same time, the Company has built a total marketing structure and undertaken other activities to make its operations efficient. Kissei is in the middle of a five-year medium-term management plan, the "Evolution Plan." Its slogans are "Reforming our profit structure" and "Shifting toward a growth phase." The plan will conclude in March 2008.

The Company has successfully launched a number of new drugs that are contributing to the bottom-line. *Glufast®*, a rapid onset and short-acting insulin secretagogue, was launched in 2004; *Salagen®*, a therapeutic agent for dry mouth induced by radiation therapy for head and neck cancer was introduced in 2005; and *Urief®*, used for the treatment of dysuria associated with benign prostatic hyperplasia (BPH), was successfully developed and put on the market in 2006.

While maintaining strong sales of existing drugs, the Company aims to fully leverage the growth possibilities of the new products as soon as possible. This strategy will support ongoing efforts to reform the profit structure. Greater profits can be reinvested into R&D to maintain growth as an R&D-oriented company with meaningful objectives and corporate value.

Contents

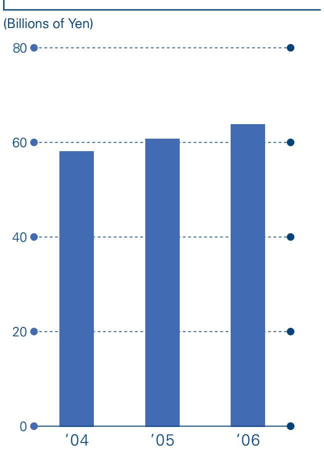
Financial Highlights

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

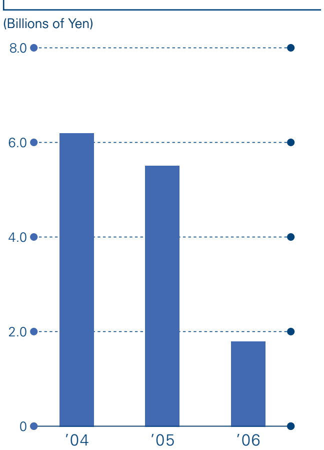
	Millions of Yen		Thousands of U.S. Dollars*1
	2005	**2006**	**2006**
For the Year:			
Net Sales	¥60,933	**¥64,008**	**$547,077**
R&D Expenses	9,893	**10,574**	**90,376**
Capital Investment	1,660	**2,284**	**19,521**
Operating Income	5,517	**1,877**	**16,043**
Net Income	4,735	**2,045**	**17,479**
At Year-End:			
Total Assets	¥164,944	**¥174,115**	**$1,488,162**
Total Shareholders' Equity	120,086	**124,260**	**1,062,051**
Per Share (Yen and Dollars):			
Net Income*2:			
Primary	¥86.5	**¥37.3**	**$0.319**
Fully-Diluted	75.5	**33.5**	**0.286**
Cash Dividends	20.0	**24.0**	**0.205**
Key Ratios (%):			
Operating Income Margin	9.1%	**2.9%**	
Shareholders' Equity Ratio	72.8	**71.4**	
Number of Employees	1,686	**1,759**	

*1. U.S. dollar amounts are translated at the rate of ¥117=U.S.$1, the approximate effective rate of exchange at March 31, 2006.
*2. Net income per share is computed based on the weighted average number of shares of common stock after substracting the weighted average number of shares of treasury stock for the year.

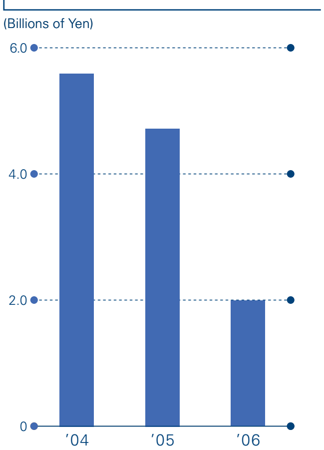
Net Sales



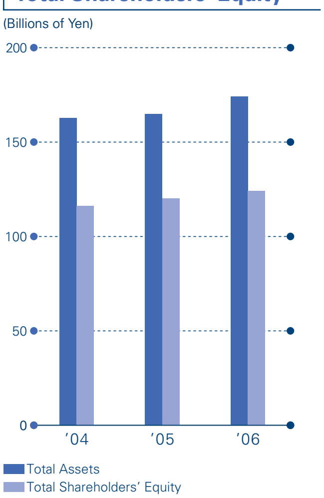
Operating Income



Net Income



Total Assets and Total Shareholders' Equity



A Message from the President

Mutsuo Kanzawa
President and Chief Executive Officer

REVIEW OF OPERATIONS

Overview of operations in term under review

In the term under review, Japan witnessed a stable recovery of its economy despite surging oil prices. Strong corporate earnings supported higher capital investment and firmer consumer spending.

The medical industry continued to face a difficult environment due largely to medical-related cost restraints. Certain industries experienced better recovery than others. Information services, retailers, and construction companies appeared on a recovery track, although reconsiderations of the cost benefits of IT and other investments, along with price competition, put continued pressure on companies.

In this environment, the Company forged ahead with the sale of new drugs and the active marketing of existing products. In May 2004, the antidiabetic drug *Glufast*® was launched, while in January 2005, we acquired the marketing rights to antihypertension agent *Cinalong*® from UCB Japan Co., Ltd. In September 2005, sales began for *Salagen*®, a therapeutic agent for dry mouth. The Company has actively promoted these new drugs while working to expand the presence of existing drugs through information promotion activities. The market for nutritional foods, meanwhile, is burgeoning.

On the R&D front, we filed a new drug application (NDA) in June 2004 in Japan to receive manufacturing and marketing approval for our original agent 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). In January 2006, we received manufacturing and marketing approval from Ministry of Health, Labour and Welfare, and in May we began marketing the drug under the name *Urief*® in tandem with Daiichi Pharmaceutical. In addition, the Company made progress on developing additional indications for *Glufast*® and *Salagen*®. A new application for the additional indication of *Glufast*® (combination therapy with α-glucosidase inhibitor) was made in October 2005, and the application for *Salagen*® (dry mouth due to Sjögren's syndrome) was made in December. In addition, the Company concluded a contract with JCR Pharmaceuticals Co., Ltd. in December for the joint development and marketing of a renal anemia drug (gene-spliced human erythropoietin, development code JR-013). Building a close partnership with JCR Pharmaceuticals will enable us to actively research, develop, and introduce new biopharmaceuticals. To further the partnership and build our capital base, the Company completed a third-party allotment of shares in April to JCR Pharmaceuticals. Besides these development partnerships, we aggressively licensed out our products in the term, with *Glufast*® licenses granted to Elixir Pharmaceuticals, Inc. of the U.S., among other deals.

In Europe, the Company had established the subsidiary Kissei Pharma Europe Ltd. for the purpose of managing local clinical trials and gathering market information. Due to consolidation efforts, this subsidiary ended operations at the end of March 2006 and is currently in liquidation proceedings.

In other areas of management, the Company restructured its consolidated business operations during the year to better tap synergies among subsidiaries. In addition, Hashiba 920 Co., Ltd., which had been a nonconsolidated subsidiary, was added to the consolidated accounts in the term under review.

Based on these various efforts, the Group's consolidated net sales increased 5.0%, to ¥64.01 billion. Operating income declined 66.0% in the year under review, to ¥1.88 billion, however, due to a number of factors, including increased sales costs linked to higher sales of products with higher initial costs, informational activity, and other costs linked to the launches of *Glufast*®, *Cinalong*®, and *Salagen*®, as well as expenses related to preparations for the launch of *Urief*®. Net income declined 56.8%, to ¥2.05 billion.

OUTLOOK FOR CURRENT TERM

The operating environment in the pharmaceutical industry will continue to be challenging in the current fiscal year ending March 2007. We expect to feel the effects of drug price revisions instituted in April and continuing cost restraints among medical institutions. In related industries, the environment also remains severe, due to price competition and other factors. The Kissei Group has laid out a growth strategy based on the current five-year management plan. Under this plan, we will focus on building a management structure that can leverage the synergies within the Group.

CONSOLIDATED FORECAST (Units: Millions of yen)

	March 2007 forecast	March 2006 results	Change (%)
Net sales	¥ 67,000	¥ 64,008	4.7
Operating income	3,250	1,877	73.1
Net income	2,130	2,045	4.2

Net sales

The Group targets higher sales based on the strong growth of new drugs *Glufast*®, *Salagen*®, and *Urief*®. Better sales of these and other drugs are expected to offset drug price revisions instituted in April.

Profits

New drugs are expected to contribute a larger percentage of sales, thus reducing the cost to sales ratio. As for SG&A, we plan to aggressively invest in the launch of new drugs and R&D. An extraordinary profit can be expected from the sale of investment securities. Overall, profit growth is expected for the year.

Dividends

The Company aims to make more efficient use of its capital, while at the same time providing stable returns to investors through cash dividends.

We currently plan to pay a special dividend of ¥4.0 per share (¥2.0 interim payment) to commemorate the Company's 60th anniversary in August. The total dividend per share is expected to be ¥28.0 per share (¥14.0 interim payment).

The Company began its current five-year medium-term management plan, the "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.

Reforming the profit structure will involve focusing on a number of key research areas and investing management resources wisely. In addition, even as we maintain our current personnel structure, we are committed to cutting expenses throughout our operations. Finally, profit structure reform also embraces the need for strategic sales and R&D partnerships with other firms and research institutions, a tack the Company has been taking for several years.

Shifting toward a growth phase involves the aggressive development and sales of the three drugs *Glufast*® (diabetes), *Salagen*® (dry mouth), and *Urief*® (dysuria associated with BPH). We plan to apply for a total of five indications for each of the drugs in Japan and aim for rapid growth of their markets. *Glufast*®, *Salagen*®, and *Urief*® have already been granted approval in Japan and sales have begun, while the preparations applications for new indications are currently under way.

Overseas, the Company continues to promote its licensing business to generate milestone and royalty income. These efforts are contributing to the fast development of overseas markets.

In other business areas, the Company seeks to develop products that complement the pharmaceutical division through improvements in technology and increased sales outside the Group.

June 2006

Mutsuo Kanzawa
President and Chief Executive Officer

R&D Pipeline

MAIN PHARMACEUTICAL PRODUCTS (generic name in parentheses):	
Urief® (silodosin):	dysuria associated with benign prostatic hyperplasia (BPH)
Glufast® (mitiglinide):	type 2 diabetes
Salagen® (pilocarpine):	dry mouth
Cinalong® (cilnidipine):	antihypertension
Rizaben® (tranilast):	allergy, hypertrophic scar, etc.
Xanbon® (ozagrel Na):	acute cerebral thrombosis, etc.
Domenan® (ozagrel HCl):	bronchial asthma
Utemerin® (ritodrine HCl):	threatened abortion and premature labor
Bezatol® (bezafibrate):	hyperlipidemia
Cabaser® (cabergoline):	Parkinson’s disease, etc.

MAIN NUTRITIONAL FOODS:	
Yumegohan	for patients with renal disease
Throking	for seniors
Cupagalorie	energy supplement

R&D AND GLOBAL EXPANSION

The Kissei Group is promoting R&D activities in its core pharmaceuticals business to realize the management vision of being an R&D-oriented pharmaceutical company contributing to human health care with innovative drug products.

In recent years, the drug development process has taken longer and the costs have risen higher due to the advent of genome-based drug discovery and other new technologies, the international harmonization of drug regulations, and stricter drug approval processes. Kissei has responded by making more strategic R&D investments to speed up the development process.

The Company has identified core areas of research, which include urogenital, endocrinology and metabolism, and immunology and allergy. The focus of R&D has been on low molecular weight drugs. We intend to continue to concentrate on drug discovery, with a focus on low molecular weight drugs in the key areas of interest. In addition, we will search out new development opportunities in the promising area of biopharmaceuticals. Significant progress has already been made in this area, as the Company concluded a contract with JCR Pharmaceuticals Co., Ltd., in December 2005 for the joint development and marketing of JR-013, a renal anemia drug (gene-spliced human erythropoietin).

The Company's medium-term R&D strategy and current status are as follows.

The central aim of our strategy is to bolster the drug discovery foundation. Management resources are being allocated to the priority areas of research as we undertake drug development projects that are global in nature.
At the same time, the Company is continually enhancing its R&D pipeline. In the term under review, we made progress in phase Ⅰ clinical trials in Japan for diabetic medicine KGT-1681 (development code), KUC-7483 (development code), a therapeutic agent for overactive bladder, and antirheumatic KVK-702 (development code).

A secondary aim of our strategy is to promptly receive approval for drugs in our core areas of research and progress through clinical trials efficiently. In May 2003, we filed an NDA for *Salagen*®, a treatment for dry mouth due to radiation therapy for head and neck cancer, and manufacturing and marketing approval was granted in July 2005. The drug went on the market in September 2005. In June 2004, we filed an NDA for silodosin (generic name), used for the treatment of dysuria associated with BPH. We followed through with the necessary discussions with Pharmaceuticals and Medical Devices Agency and as a result, Japanese government manufacturing and marketing approval was granted in January 2006. In May, we began marketing the drug jointly with Daiichi Pharmaceutical. In addition, an application for an additional indication of *Glufast*® (combination therapy with α-glucosidase inhibitor) was made in October 2005, and an application for a new indication of *Salagen*® (dry mouth due to Sjögren's syndrome) was made in December 2005. Both applications were made on schedule, and we expect to receive approval in the first half of fiscal 2008. Phases Ⅱ and Ⅲ clinical trials for the added indication of *Glufast*® (combination therapy with pioglitazone) are progressing.

A tertiary aim is to develop global markets for our products. We are working to aggressively license out products from our drug discovery, primarily to the U.S. and Europe, and we view overseas licensing fees from our drug discovery to be a future pillar of our revenues. *Glufast*® was licensed to Elixir Pharmaceuticals, Inc., for the U.S. market in March and to Orient Europharma, of Taiwan, and Hikma Co. of Jordan in the term under review. In Korea, Choongwae Pharma Corp. received approval for *Glufast*® in February and are underwriting to market the drug after price listing in fall. In China, *Glufast*® will undergo phase Ⅲ clinical trials in the current fiscal year.

For *Urief*®, phase Ⅲ clinical trials are progressing for the North American market under the leadership of Watson Pharmaceuticals, Inc. Recordati SpA, of Italy, began phase Ⅲ clinical trials this spring. Efficient development in the U.S. and Europe has been realized by the sharing of information among the three companies involved. In China, *Urief*® is in phase Ⅱ clinical trials under the oversight of Daiichi Pharmaceutical, while Choongwae Pharma is in the middle of phase Ⅲ trials in Korea. The drug was licensed out to Synmosa Co., of Taiwan, in January.

KUC-7483 was licensed to Boehringer Ingelheim GmbH, of Germany, and replaced with a related developmental compound, KTO, for further development. GlaxoSmithKline PLC (GSK), of the U.K., was granted rights to KGT, which is now proceeding through phase Ⅱ clinical trials overseas.

Total consolidated R&D spending in the term under review was ¥10.57 billion, or 16.5% of net sales.

Drug business

Diabetic and other endocrinology and metabolism drugs along with immunology and allergy drugs are core areas for R&D spending. R&D spending in the drug business totaled ¥10.42 billion in the year under review.

Other businesses

R&D spending in other businesses totaled ¥0.15 billion, covering such areas as the development of medical and other package software.

DEVELOPMENT PORTFOLIO IN JAPAN

(As of June 2006)

Development Stage	Generic Name / Development code	Product Origin	Development Company	Therapeutic Target
NDA	Mitiglinide / KAD-1229	Kissei	Kissei	Improvement of postprandial plasma glucose transition in patients with type 2 diabetes mellitus—combination therapy with α-glucosidase inhibitor (additional indication)
	Pilocarpine / KSS-694	MGI Pharma (U.S.)	Kissei	Dry mouth in patients with Sjögren's syndrome (additional indication)
Phase Ⅱ / Ⅲ	Mitiglinide / KAD-1229	Kissei	Kissei / Takeda (Japan) (co-development)	Improvement of postprandial plasma glucose transition in patients with type 2 diabetes mellitus —combination therapy with pioglitazone (additional indication)
Phase Ⅱ	KUC-7483	Kissei	Kissei	Overactive bladder
Phase Ⅰ	JR-013	JCR (Japan)	Kissei / JCR (Japan) (co-development)	Renal anemia
	KVK-702	Vertex (U.S.)	Kissei	Rheumatoid arthritis
	KGT-1681	Kissei	Kissei	Type 2 diabetes
	KUL-7211	Kissei	Kissei	Pain relief and excretion of urinary tract stone

R&D PIPELINE OVERSEAS

(As of June 2006)

Development Stage	Generic Name / Development code	Development Company	Territory	Therapeutic target
Approved	Mitiglinide / KAD-1229	Choongwae (Korea)	Korea	Type 2 diabetes
NDA preparation	Mitiglinide / KAD-1229	Hikma (Jordan)	Middle East	Type 2 diabetes
Phase Ⅲ	Silodosin / KMD-3213	Watson (U.S.)	U.S., Canada and Mexico	Dysuria associated with BPH
		Choongwae (Korea)	Korea	
		Recordati (Italy)	Europe, Middle East, Africa	
	Mitiglinide / KAD-1229[a]	Kissei	China	Type 2 diabetes
Phase Ⅲ preparation	Mitiglinide / KAD-1229[a]	Orient Europharma (Taiwan)	Taiwan, Hong Kong	Type 2 diabetes
	Silodosin / KMD-3213[a]	Synmosa (Taiwan)	Taiwan, Hong Kong	Dysuria associated with BPH
Phase Ⅱ	Mitiglinide / KAD-1229[b]	Elixir (U.S.)	North America, Central America, South America	Type 2 diabetes
	Silodosin / KMD-3213	Daiichi (Japan)	China	Dysuria associated with BPH
	VX-702 (KVK-702)	Vertex (U.S.) (co-development)		Rheumatoid arthritis
	KGT-1251, KGT-1681	GlaxoSmithKline (U.K.)	Countries of the world, except Japan, Korea, Taiwan, and China	Type 2 diabetes, obesity
	KUR-1246[c]	MediciNova (U.S.)	Countries of the world, except Japan	Threatened premature labor
Phase Ⅰ[d]	KFA-1982	Kissei		Deep-vein thrombosis, etc.

Notes: a) Phase Ⅰ and phase Ⅱ studies will not be required.
b) Required data for NDA will be discussed with FDA.
c) KUR-1246, licensed out to MediciNova, is in preparation for phase Ⅱ in the U.S.
d) As for KUC-7483, which was in phase Ⅰ, Boehringer Ingelheim decided to replace it with KTO for further development and ongoing nonclinical studies.

Corporate Governance

BASIC APPROACH TO CORPORATE GOVERNANCE

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

EXPLANATION OF CORPORATE GOVERNANCE BODIES

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 priority on making prompt business decisions and increasing the transparency of operations. There are no external board members.

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. Further, the two external auditors have no special interests with the Company.

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT STRUCTURE

The Kissei Group operates under the management philosophy of 'Contributing to society through high-quality, innovative pharmaceutical products,' and 'Promoting public service by company employees.' The Company has a Code of Conduct to guide employee conduct. Upholding high ethical standards in R&D, manufacturing, and sales activities is fundamental to our business as a company involved in life sciences. In addition, Kissei has established a Compliance Committee overseen by the Board of Directors to ensure that all laws and regulations are followed both in letter and spirit. A Compliance Program is conducted on a regular basis, and as part of this program, our "Compliance Program Manual" is continually updated and employees receive regular instruction on the issue.

Kissei has also created a Basic Policy on Internal Controls, in which every employee is trained. Company rules, risk management practices and other internal measures are promoted on the basis of this basic policy.

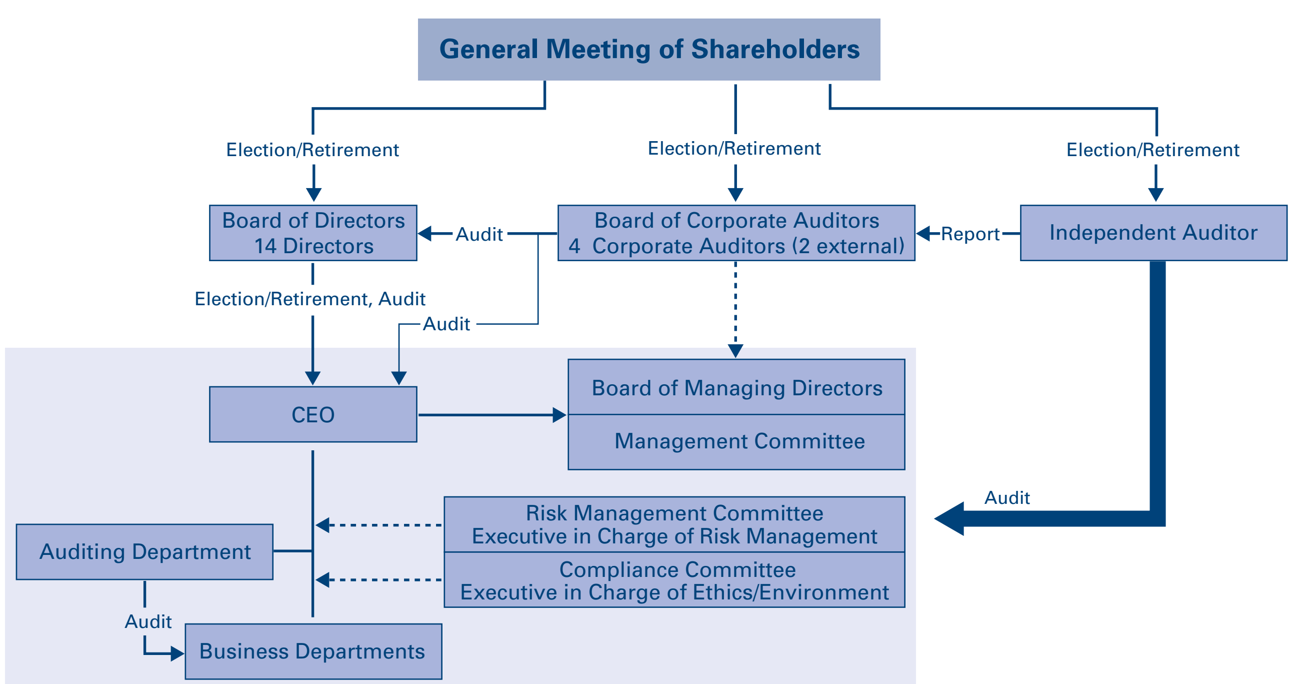
INTERNAL AUDITS

Kissei has an independent Auditing Department that reports directly to the president. The three-member-strong body conducts internal audits across all departments and internal bodies in the Company based on a yearly auditing schedule, ensuring that these departments are carrying out business activities in an appropriate manner.

INDEPENDENT AUDITOR

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

Diagram of Corporate Governance Bodies and Internal Control System



Financial Review

FINANCIAL POSITION

In the year under review, the Group's consolidated assets at the end of the term increased ¥9.17 billion from the same period last year, or 5.6%, to ¥174.11 billion. Current assets increased 9.3% to ¥102.46 billion, while fixed assets rose 0.6%, to ¥71.65 billion.

There were two main reasons for the increase in current assets. First, the amount of securities to be redeemed within a year increased, as they were subtracted from long-term investment securities. Second, Hashiba 920 Co., Ltd., previously a non-consolidated subsidiary, was added to the consolidated accounts, increasing the amounts of current cash and deposits and inventories. In fixed assets, the primary changes were the increase in the construction in progress account related to the construction of research facilities as well as a shift in current investment securities to be redeemed in a year to the fixed securities account. In addition, the increase in stock prices raised the value of stocks held.

Total liabilities at the end of the term increased ¥4.99 billion, or 11.2%, to ¥49.76 billion. Current liabilities jumped 63.6%, to ¥29.94 billion, while fixed liabilities fell 25.1%, to ¥19.82 billion.

Current liabilities increased mainly because convertible bonds due for redemption in September 2006 were moved from fixed liabilities to the current liabilities account, and the number of consolidated subsidiaries increased by one. Though there was an increase in deferred tax liabilities linked to the valuation gains on investment securities, fixed liabilities declined due mainly to the shift in a part of the convertible bonds to the current liabilities accounts to be redeemed within a year.

Total shareholders' equity increased ¥4.17 billion, or 3.5%, to ¥124.26 billion. The main reason for the rise was an increase in securities valuations of stockholdings due to the rising stock market.

FINANCIAL RESULTS

Overall consolidated net sales in the term under review rose 5.0%, to ¥64.01 billion. In the core pharmaceuticals division, the new drugs *Glufast* ® and *Cinalong* ® were major contributors. Sales of existing drugs, however, declined due to intensified competition, lower demand linked to drug price revisions, and a lessening of hay fever in Japan. Nutritional food sales posted an increase in sales thanks to a wider lineup, but technology licensing fees declined. Net sales of pharmaceuticals therefore totaled ¥56.64 billion, down 1.0% from the previous year. Total sales in other business areas increased 99.2%, to ¥7.36 billion, due to the addition of a consolidated subsidiary.

The cost rate rose 5.6 points from the previous year due primarily to a change in the product configuration as sales of *Cinalong* ®, *Cabaser* ® and nutritional food products increased and a new consolidated subsidiary was added to the accounts.

The increase in the cost rate lowered gross profit on sales ¥1.68 billion. SG&A expenses rose ¥1.96 billion as the Company incurred higher costs for introducing new drugs into the market, contract MRs, television and other advertisements, licensing-in of development projects, and codevelopment projects with other companies. Operating income therefore declined ¥3.64 billion. In the previous fiscal year, the Company booked an extraordinary profit mainly from the return of pension funds. Consequently, the extraordinary profit in the current term declined ¥1.28 billion even though the Company booked a gain on the sale of investment securities as well as a special loss on impairment assets.

Consolidated net income for the term declined 56.8%, to ¥2.05 billion.

Risk Factors

The following risk factors could affect the Kissei Group's operating results and financial position. Forward-looking statements are based on the judgments the Group has made from consolidated financial statements for the year under review.

1. R&D

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 limited. In addition, the Company can neither guarantee that a new drug undergoing research or an additional indication will have its intended benefit nor predict when the drugs will be approved.

2. GOVERNMENT POLICY

The prices of pharmaceuticals in Japan are set based on the government's NHI drug price standards. Generally, the prices are revised biennially. There may be revisions or other changes to the medical insurance system in Japan that go beyond the Company's forecast, such as the introduction of comprehensive health schemes or the promotion of generic drugs, which would negatively impact the Company's operating results and financial position.

3. COMPETITION WITH OTHER COMPANIES' PRODUCTS

The Group faces competition from companies selling products with the same application. In addition, once a patent expires, price competition with generic products of the same composition intensifies. This competition could have a serious impact on the sales of existing drugs.

4. UNEXPECTED SIDE EFFECT RISKS

There is a risk that a pharmaceutical may produce an unexpected side effect that 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.

5. MANUFACTURING AND PROCUREMENT

Malfunctions with production equipment or the inability to procure raw materials in a timely fashion could delay or shut down drug manufacturing. In addition, a quality problem may cause a drug to be recalled, which would negatively impact the Company's operating results and financial position.

6. INTELLECTUAL PROPERTY RISKS

In the event that the Kissei Group is unable to 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.

7. LEGAL RISKS

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

8. ENVIRONMENTAL CONSERVATION

Chemical substances used in research and manufacturing processing could have an impact on the environment. Every department and work site in the Group is working diligently to follow stringent substance management rules and protect the environment. However, if chemical substances were found to have polluted areas around a work site, legal action may be taken against the work site, and the Group may be faced with large costs to restore the environment, which would negatively impact the Company's operating results and financial position.

9. INFORMATION MANAGEMENT

The Group is paying close attention to the need to protect information by establishing strict rules for the management of personal and confidential information as well as providing education on the issue to employees. However, if an unexpected incident occurred in which information was improperly disclosed, the Group's image may be tarnished, which would negatively impact the Company's operating results and financial position.

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

Financial Summary

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

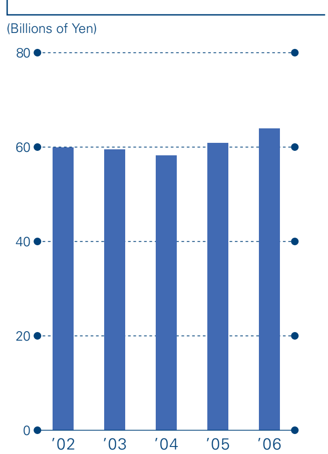
	1996	1997	1998	1999
Net Sales	¥ 57,926	¥ 59,108	¥ 56,687	¥ 55,974
Gross Profit	42,931	40,940	40,786	39,854
Operating Income	16,619	14,427	13,038	11,545
Net Income	6,931	6,070	5,439	5,334
Total Assets	126,891	142,627	137,353	138,934
Total Shareholders' Equity	82,696	88,270	92,778	97,234
Per Share (Yen and Dollars):				
Net Income*2				
Primary	¥132.9	¥105.6	¥93.3	¥91.5
Fully-Diluted	–	97.9	83.0	82.0
Cash Dividends	16.0	15.0	14.0	15.0
R&D Expenses	¥7,271	¥7,460	¥8,873	¥9,284
(% of Net Sales)	12.6%	12.6%	15.7%	16.6%
Capital Investment	1,982	3,589	1,244	1,341
Current Ratio	267.7%	364.1%	514.0%	561.2%
Return on Equity	8.7%	7.1%	6.0%	5.6%
Return on Assets	5.6%	4.5%	3.9%	3.9%
Number of Shares Issued (Thousands)	52,839	58,279	58,279	58,279
Number of Employees	1,696	1,693	1,697	1,663

Note: 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.

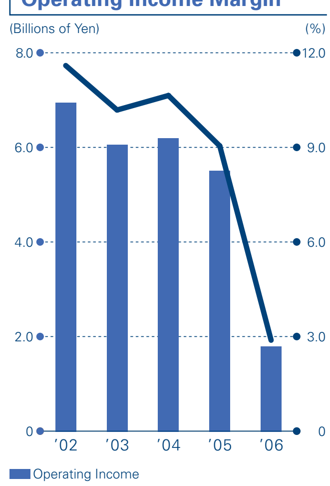
*1. U.S. dollar amounts are translated at the rate of ¥117=U.S.$1, the approximate effective rate of exchange at March 31, 2006.

*2. Net income per share is computed based on the weighted average number of shares of common stock after substracting the weighted average number of shares of treasury stock for the year.

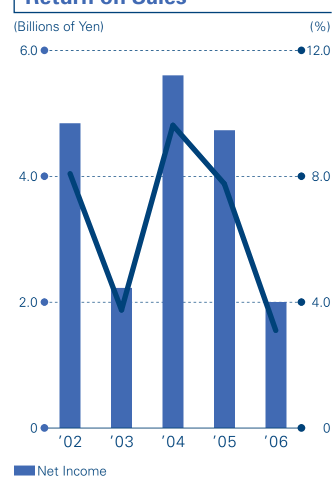
Net Sales



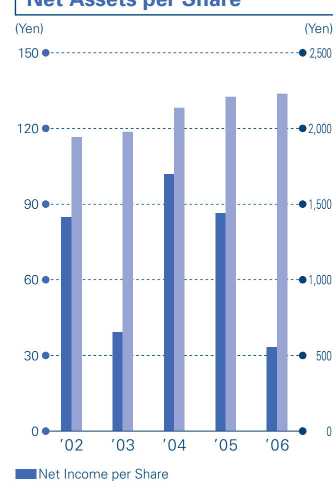
Operating Income and Operating Income Margin



Net Income and Return on Sales

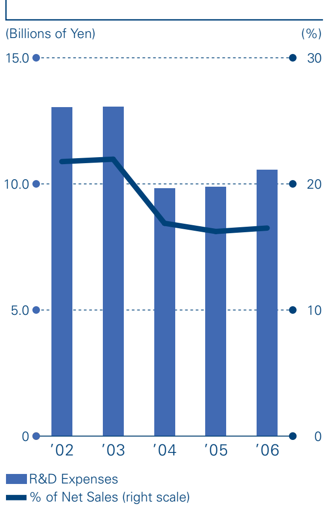


Net Income per Share and Net Assets per Share

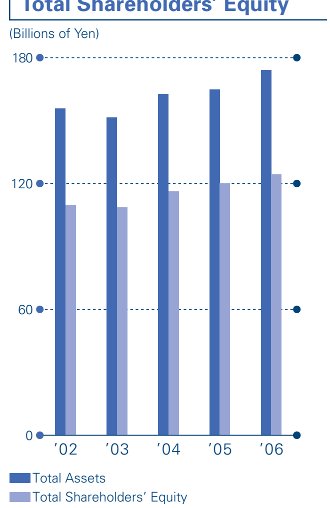


Millions of Yen Except Per Share Data							Thousands of U.S. Dollars Except Per Share Data*1
2000	2001	2002	2003	2004	2005	**2006**	**2006**
¥ 57,029	¥ 58,937	¥ 59,929	¥ 59,529	¥ 58,226	¥ 60,933	**¥ 64,008**	**$ 547,077**
41,147	41,847	40,534	39,636	36,869	37,407	**35,726**	**305,350**
12,571	9,786	6,958	6,073	6,210	5,517	**1,877**	**16,043**
5,724	4,383	4,837	2,231	5,600	4,735	**2,045**	**17,479**
146,649	149,189	155,740	151,582	162,842	164,944	**174,115**	**1,488,162**
105,437	108,017	109,832	108,636	116,266	120,086	**124,260**	**1,062,051**
¥98.2	¥76.0	¥84.9	¥39.4	¥101.8	¥86.5	**¥37.3**	**$0.319**
88.4	68.8	76.5	35.8	88.7	75.5	**33.5**	**0.286**
14.0	14.0	14.0	14.0	17.0	20.0	**24.0**	**0.205**
¥9,231	¥11,517	¥13,045	¥13,074	¥9,826	¥9,893	**¥ 10,574**	**$90,376**
16.2%	19.5%	21.8%	22.0%	16.9%	16.2%	**16.5%**	
1,474	2,081	1,216	1,292	1,818	1,660	**2,284**	**19,521**
589.1%	653.8%	488.2%	567.3%	498.1%	512.4%	**342.3%**	
5.7%	4.1%	4.4%	2.0%	5.0%	4.0%	**1.7%**	
4.0%	3.0%	3.2%	1.5%	3.6%	2.9%	**1.2%**	
58,279	57,295	56,795	56,795	56,795	56,795	**56,795**	
1,630	1,616	1,632	1,665	1,677	1,686	**1,759**	

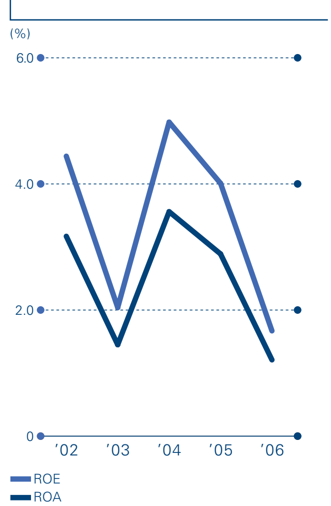
R&D Expenses



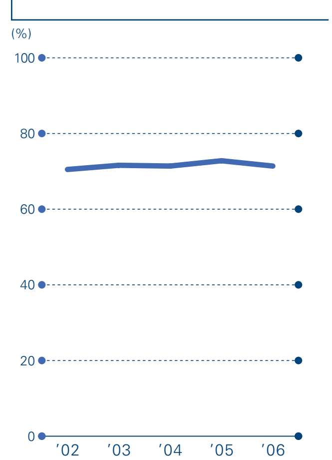
Total Assets and Total Shareholders' Equity



ROE and ROA



Equity Ratio



Consolidated Balance Sheets

Kissei Pharmaceutical Co., Ltd. and its subsidiaries At March 31, 2005 and 2006

ASSETS	Millions of Yen 2005	Millions of Yen 2006	Thousands of U.S. Dollars (Note 3) 2006
Current Assets:			
Cash on hand and in banks (Note 4)	¥ 35,858	**¥ 37,187**	**$ 317,838**
Short-term investments in specified trusts	3,092	**3,009**	**25,718**
Marketable securities (Notes 4 and 5)	14,584	**20,237**	**172,966**
Notes and accounts receivable	26,151	**25,195**	**215,342**
Less: allowance for doubtful accounts	(4)	**(4)**	**(34)**
	26,147	**25,191**	**215,308**
Inventories (Note 6)	9,798	**12,662**	**108,222**
Deferred tax assets – current (Note 9)	1,830	**1,398**	**11,949**
Other current assets	2,435	**2,781**	**23,769**
Total current assets	93,744	**102,465**	**875,769**
Investments and Advances:			
Investments in securities (Note 5)	33,829	**34,801**	**297,444**
Investments in unconsolidated subsidiaries	1,088	**995**	**8,504**
Leasehold deposits and guarantee deposits	436	**442**	**3,778**
Other investments and advances	2,595	**1,826**	**15,607**
	37,948	**38,064**	**325,333**
Property, Plant and Equipment (Note 2)**:**			
Buildings and structures	30,879	**32,508**	**277,846**
Machinery and equipment	10,502	**11,116**	**95,009**
	41,381	**43,624**	**372,855**
Less: accumulated depreciation	(26,601)	**(28,796)**	**(246,120)**
	14,780	**14,828**	**126,735**
Land	12,918	**13,402**	**114,547**
Construction in progress	97	**420**	**3,590**
	27,795	**28,650**	**244,872**
Other Assets:			
Deferred tax assets – non-current (Note 9)	301	**256**	**2,188**
Deferred charges and other	5,156	**4,680**	**40,000**
	¥164,944	**¥174,115**	**$1,488,162**

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2005	2006	Thousands of U.S. Dollars (Note 3) 2006
Current Liabilities:			
Short-term bank loans (Note 7)	¥ 2,240	**¥ 2,640**	**$ 22,564**
Current portion of long-term debt (Note 7)	35	**9,611**	**82,145**
Notes and payables:			
Trade	8,438	**9,193**	**78,573**
Other	3,249	**3,572**	**30,530**
	11,687	**12,765**	**109,103**
Income taxes payable (Note 9)	966	**379**	**3,239**
Accrued expenses and bonuses to employees	2,314	**1,661**	**14,196**
Reserve for sales returns	24	**18**	**154**
Reserve for sales rebates	650	**629**	**5,376**
Reserve for sales promotion expenses	238	**314**	**2,684**
Other current liabilities	142	**1,919**	**16,402**
Total current liabilities	18,296	**29,936**	**255,863**
Long-Term Debt (Note 7)	21,916	**12,301**	**105,137**
Accrued Retirement Benefits to Employees (Note 10)	3,258	**3,641**	**31,120**
Accrued Retirement Benefits to Directors and Corporate Auditors	1,296	**1,389**	**11,872**
Deferred Tax Liabilities – Non-Current (Note 9)	–	**2,493**	**21,307**
Total liabilities	44,766	**49,760**	**425,299**
Minority Interests in Consolidated Subsidiaries	92	**95**	**812**
Commitments and Contingent Liabilities (Note 11)			
Shareholders' Equity:			
Common stock:			
Authorized: 227,000,000 shares			
Issued: 56,795,185 shares and 56,795,185 shares at March 31, 2005 and 2006, respectively	24,220	**24,220**	**207,009**
Additional paid-in capital	24,112	**24,112**	**206,085**
Unappropriated retained earnings (Note 17)	71,344	**71,388**	**610,154**
Unrealized holding gains on securities	4,391	**8,600**	**73,504**
Treasury stock (2,473,995 shares and 2,510,895 shares at March 31, 2005 and 2006)	(3,981)	**(4,060)**	**(34,701)**
Total shareholders' equity	120,086	**124,260**	**1,062,051**
	¥164,944	**¥174,115**	**$1,488,162**

Consolidated Statements of Income

Kissei Pharmaceutical Co., Ltd. and its subsidiaries For the years ended March 31, 2004, 2005 and 2006

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2004	2005	**2006**	**2006**
Net Sales	¥58,226	¥60,933	**¥64,008**	**$547,077**
Cost of Sales	21,357	23,526	**28,282**	**241,727**
Gross profit	36,869	37,407	**35,726**	**305,350**
Selling, General and Administrative Expenses (Note 14)	30,659	31,890	**33,849**	**289,307**
Operating income	6,210	5,517	**1,877**	**16,043**
Other Income (Expenses):				
Interest and dividend income	322	316	**387**	**3,308**
Interest expense	(204)	(203)	**(214)**	**(1,829)**
Loss on sale or disposal of properties	(27)	(77)	**(34)**	**(291)**
Gain on sale of marketable securities	201	0	**70**	**598**
(Loss) gain on sale of investments in securities	(22)	504	**1,330**	**11,368**
Write-up of marketable securities and short-term investments in specified trusts	860	253	**680**	**5,812**
Write-down of investments in securities	–	(22)	**(3)**	**(26)**
Loss from investments in partnerships	–	–	**(67)**	**(573)**
Gain from transfer of pension	–	1,570	**–**	**–**
Legal settlement and recoveries	2,282	191	**–**	**–**
Impairment loss on fixed assets (Note 15)	–	–	**(258)**	**(2,205)**
Stipulated compensation (Note 16)	–	–	**(148)**	**(1,265)**
Other, net	0	(69)	**(33)**	**(282)**
	3,412	2,463	**1,710**	**14,615**
Income before income taxes and minority interests	9,622	7,980	**3,587**	**30,658**
Income Taxes (Note 9)**:**				
Current	3,848	2,510	**1,420**	**12,137**
Deferred	135	720	**120**	**1,025**
	3,983	3,230	**1,540**	**13,162**
Minority Interests	(39)	(15)	**(2)**	**(17)**
Net income	¥ 5,600	¥ 4,735	**¥ 2,045**	**$ 17,479**

	Yen			U.S. Dollars (Note 3)
Per Share (Note 2)**:**				
Net income:				
Primary	¥101.8	¥86.5	**¥37.3**	**$0.319**
Fully-diluted	88.7	75.5	**33.5**	**0.286**
Cash dividends	17.0	20.0	**24.0**	**0.205**

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, 2004, 2005 and 2006

		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, 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)
Net income for the year	**–**	**–**	**–**	**2,045**	**–**	**–**
Cash dividends paid	**–**	**–**	**–**	**(1,195)**	**–**	**–**
Bonuses to directors and corporate auditors	**–**	**–**	**–**	**(35)**	**–**	**–**
Reduction due to change in scope of consolidation	**–**	**–**	**–**	**(771)**	**–**	**–**
Treasury stock purchased (36,900 shares)	**–**	**–**	**–**	**–**	**–**	**(79)**
Unrealized holding gains on securities	**–**	**–**	**–**	**–**	**4,209**	**–**
Gain on sale of treasury stock (1,542 shares)	**–**	**–**	**0**	**–**	**–**	**–**
Balance at March 31, 2006	**56,795,185**	**¥24,220**	**¥24,112**	**¥71,388**	**¥8,600**	**¥(4,060)**

		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, 2005	56,795,185	$207,009	$206,085	$609,778	$37,530	$(34,026)
Net income for the year	**–**	**–**	**–**	**17,479**	**–**	**–**
Cash dividends paid	**–**	**–**	**–**	**(10,214)**	**–**	**–**
Bonuses to directors and corporate auditors	**–**	**–**	**–**	**(299)**	**–**	**–**
Reduction due to change in scope of consolidation	**–**	**–**	**–**	**(6,590)**	**–**	**–**
Treasury stock purchased	**–**	**–**	**–**	**–**	**–**	**(675)**
Unrealized holding gains on securities	**–**	**–**	**–**	**–**	**35,974**	**–**
Gain on sale of treasury stock	**–**	**–**	**0**	**–**	**–**	**–**
Balance at March 31, 2006	**56,795,185**	**$207,009**	**$206,085**	**$610,154**	**$73,504**	**$(34,701)**

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, 2004, 2005 and 2006

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2004	2005	**2006**	**2006**
Cash Flows from Operating Activities:				
Income before income taxes and minority interests	¥ 9,622	¥ 7,980	**¥ 3,587**	**$ 30,658**
Depreciation and amortization	2,868	3,012	**3,138**	**26,821**
Impairment loss on fixed assets	–	–	**258**	**2,205**
Change in allowance reserves	548	682	**(59)**	**(504)**
Interest and dividend income	(322)	(315)	**(387)**	**(3,308)**
Interest expense	204	203	**214**	**1,829**
Foreign exchange loss (gain)	43	13	**(33)**	**(282)**
Gain from transfer of pension	–	(1,570)	**–**	**–**
Gain from sale of securities	(178)	(504)	**(1,400)**	**(11,966)**
Gain from evaluation of securities	(868)	(253)	**(680)**	**(5,812)**
Loss from evaluation of investment securities	10	23	**3**	**26**
Loss on sale or disposal of properties	18	58	**11**	**94**
(Decrease) increase in notes and accounts receivable	(558)	(1,513)	**1,332**	**11,385**
Decrease in inventories	(351)	(1,055)	**(2,516)**	**(21,504)**
Decrease (increase) in other current assets	826	1,032	**(19)**	**(162)**
(Decrease) increase in notes and accounts payable	(289)	1,237	**(74)**	**(633)**
Increase in other current liabilities	195	268	**1,538**	**13,145**
Bonuses to directors and corporate auditors	(27)	(40)	**(36)**	**(308)**
Other cash flows from operating activities, net	1	68	**80**	**684**
Sub total	11,742	9,326	**4,957**	**42,368**
Receipt of interest and dividends	259	277	**347**	**2,966**
Payment of interest	(204)	(203)	**(214)**	**(1,829)**
Payment of income taxes	(754)	(4,836)	**(2,019)**	**(17,257)**
Net cash provided by operating activities	11,043	4,564	**3,071**	**26,248**
Cash Flows from Investing Activities:				
Increase in time deposits	(50)	(58)	**(79)**	**(675)**
Decrease in time deposits	77	50	**78**	**666**
Reduction of investments in specified trusts	16	–	**833**	**7,120**
Purchase of securities	–	–	**(627)**	**(5,359)**
Proceeds from sales of marketable securities	1,581	1,188	**1,451**	**12,402**
Acquisition of property and equipment	(1,818)	(1,658)	**(2,364)**	**(20,205)**
Proceeds from sales of property and equipment	11	12	**43**	**367**
Purchase of intangible assets	(610)	(1,912)	**(725)**	**(6,197)**
Acquisition of investments in securities	(5,005)	(2,156)	**(3,172)**	**(27,111)**
Proceeds from sales of investments in securities	458	634	**3,181**	**27,188**
Payments for loans	(456)	(216)	**(141)**	**(1,205)**
Collection of loans	124	216	**163**	**1,393**
Long-term advance payment costs	(6)	(284)	**(8)**	**(68)**
Other cash flows from investing activities, net	(380)	(365)	**(203)**	**(1,735)**
Net cash used in investing activities	(6,058)	(4,549)	**(1,570)**	**(13,419)**
Cash Flows from Financing Activities:				
Increase in short-term bank loans	450	470	**2,030**	**17,350**
Repayment of short-term bank loans	(290)	(440)	**(2,205)**	**(18,846)**
Repayment of long-term debt	(75)	(66)	**(41)**	**(350)**
Cash dividends paid by the Company	(765)	(1,087)	**(1,195)**	**(10,214)**
Treasury stock purchase	(881)	(105)	**(82)**	**(701)**
Treasury stock sale	4	3	**3**	**26**
Net cash used in financing activities	(1,557)	(1,225)	**(1,490)**	**(12,735)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(43)	(13)	**33**	**282**
Increase (Decrease) in Cash and Cash Equivalents	3,385	(1,224)	**43**	**368**
Cash and Cash Equivalents at Beginning of Year (Note 4)	46,786	50,171	**48,983**	**418,658**
Receipts of Cash and Cash Equivalents from Merger	–	36	**–**	**–**
Receipts of Cash and Cash Equivalents Due to Change in Scope of Consolidation	–	–	**621**	**5,308**
Cash and Cash Equivalents at End of Year (Note 4)	¥50,171	¥48,983	**¥49,647**	**$424,333**

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 years ended March 31, 2005 and 2006 were nine and nine, respectively, of which three 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
Hashiba 920 Co., Ltd.	100	45 million

*Hashiba 920 Co., Ltd. is included in the consolidated accounts beginning with the term under review due to the growing importance of the company to the Group.

(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, 2006.

(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.

(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 transferred this portion on January 5, 2005 and consequently booked extraordinary income of ¥1,570 million in the previous fiscal 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) Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Council of Japan issued new accounting standards entitled "Statement of Opinion on the Establishment of Accounting Standards for Impairment of Fixed Assets." Further, on October 31, 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No. 6 – "Application Guidance on Accounting Standards for Impairment of Fixed Assets." These standards are effective from the fiscal year beginning April 1, 2005.

The companies adopted these standards in the fiscal year ended March 31, 2006. As a result, property, plant and equipment as of March 31, 2006 decreased by ¥258 million ($2,205 thousand), and income before income taxes and minority interest for the year ended March 31, 2006 decreased by the same amount, as compared with the amount which would have been reported if the previous standards had been applied consistently. The accumulated impairment loss is deducted from net book value of each asset.

3 United States Dollar Amounts

The Companies maintain their accounting records in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥117=U.S.$1, the approximate effective rate of exchange at March 31, 2006. 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 ¥117=U.S.$1 or at any other rate.

4 Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2005 and 2006 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Cash on hand and in banks	¥35,858	**¥37,187**	**$317,838**
Marketable securities	14,584	**20,237**	**172,966**
Time deposits with original maturities of over three months	(58)	**(78)**	**(667)**
Marketable securities with maturities of over three months	(1,401)	**(7,699)**	**(65,804)**
Cash and cash equivalents	¥48,983	**¥49,647**	**$424,333**

5 Securities

The acquisition cost, carrying amount, gross unrealized holding gains and losses for securities with fair value by security type at March 31, 2005 and 2006 are as follows:

Available-for-sale securities:

	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

	Millions of Yen			
	2006			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**¥11,307**	**¥24,917**	**¥13,621**	**¥11**
Corporate debt securities	**11,697**	**11,691**	**0**	**5**
Others	**3,122**	**3,948**	**863**	**38**
	¥26,126	**¥40,556**	**¥14,484**	**¥54**

	Thousands of U.S. Dollars			
	2006			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**$ 96,645**	**$212,968**	**$116,420**	**$ 97**
Corporate debt securities	**99,970**	**99,921**	**0**	**49**
Others	**26,687**	**33,743**	**7,378**	**323**
	$223,302	**$346,632**	**$123,798**	**$469**

The carrying amount of securities where no market value is available at March 31, 2005 and 2006 is summarized as follows.

Other securities:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Unlisted stocks (except for over-the-counter securities)	¥ 1,934	**¥ 1,944**	**$ 16,618**
Others	13,183	**12,538**	**107,165**
	¥15,117	**¥14,482**	**$123,783**

Proceeds, gross realized gains and gross realized losses from the sale of available-for-sale securities in respect of the year ended March 31, 2006 were ¥6,564 million ($56,109 thousand), ¥1,364 million ($11,662 thousand) and ¥0 million ($1 thousand), respectively.

6 Inventories

Inventories at March 31, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Merchandise	¥3,996	**¥ 3,679**	**$ 31,445**
Finished goods	1,465	**1,829**	**15,632**
Work-in-process	1,645	**3,381**	**28,897**
Raw materials	1,419	**3,012**	**25,744**
Supplies	1,273	**761**	**6,504**
	¥9,798	**¥12,662**	**$108,222**

7 Short-Term Bank Loans and Long-Term Debt

Short-term bank loans outstanding at March 31, 2005 and 2006 represent one-year notes issued by the Companies to banks. Short-term bank loans made during the years ended March 31, 2005 and 2006 bore interest at an average annual rate of 1.30% 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, 2005 and 2006 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Maximum month-end balance	¥3,090	**¥4,050**	**$34,615**
Average month-end balance	¥2,700	**¥3,533**	**$30,197**

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, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Non-secured loans with financial institutions, bearing interest at rates ranging from 1.20% to 6.00% due from 2005 to 2027	¥ 174	**¥ 133**	**$ 1,136**
0.7% convertible notes due 2006	9,586	**9,586**	**81,932**
0.8% convertible notes due 2008	12,191	**12,191**	**104,197**
	21,951	**21,910**	**187,265**
Less: current maturities due within one year	(35)	**(9,611)**	**(82,128)**
	¥21,916	**¥12,301**	**$105,137**

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, 2006 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, 2006 is 5,161 thousand shares.

The aggregate annual maturities of long-term loans outstanding at March 31, 2006 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year ending March 31		
2006	¥ 9,611	$ 82,145
2007	24	205
2008	12,214	104,393
2009 and thereafter	61	522
	¥21,910	$187,265

8 Research and Development Expenses

Research and development expenses were included in selling, general and administrative expenses for the years ended March 31, 2004, 2005 and 2006 amounting to ¥9,826 million, ¥9,893 million and ¥10,574 million ($90,376 thousand), respectively.

9 Income Taxes

Income taxes in Japan applicable to the Companies for the years ended March 31, 2004, 2005 and 2006 consisting of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates were as follows:

	Rates on taxable income		
	2004	2005	**2006**
Corporate income tax	30.0%	30.0%	**30.0%**
Enterprise tax	9.7	7.2	**7.2**
Resident income taxes	6.1	6.1	**6.1**
	45.8%	43.3%	**43.3%**
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid	41.7%	40.4%	**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 for such differences is that entertainment expenses the purposes of sales promotion 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 statements of income. As a result of this new requirement, selling, general and administrative expenses increased ¥188 million 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
	2005	**2006**	**2006**
Deferred tax assets:			
Write-down of securities	¥ 1,079	**¥ 950**	**$ 8,120**
Prepaid research and development expenses	504	**712**	**6,085**
Accrued retirement benefits to directors and corporate auditors	523	**561**	**4,795**
Accrued enterprise tax	118	**76**	**649**
Accrued bonuses to employees	808	**567**	**4,846**
Reserve for sales rebates	262	**254**	**2,171**
Accrued retirement benefits to employees	1,316	**1,471**	**12,573**
Royalties receivable	–		
Other	927	**1,124**	**9,607**
	5,537	**5,715**	**48,846**
Valuation allowance	(429)	**(723)**	**(6,179)**
	¥ 5,108	**¥ 4,992**	**$ 42,667**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	¥(2,976)	**¥(5,830)**	**$(49,829)**
Other	–	**(1)**	**(9)**
Deferred tax assets, net	¥ 2,132	**¥ 839**	**$ 7,171**

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.

	2005	**2006**
Effective statutory tax rate	–%	**40.4%**
Adjustments:		
Entertainment expenses and other nondeductibles	–	**13.3**
Dividend income not taxable	–	**(1.5)**
Tax benefits due to research and development expenses	–	**(12.3)**
Per capital levy of local resident income taxes	–	**1.7**
Cut adjustment deferred tax assets caused by change of tax rate	–	**–**
Other factors	–	**1.3**
Actual tax rate	–%	**42.9%**

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, 2005 and 2006:

	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Projected benefit obligations	¥11,723	**¥12,838**	**$109,726**
Fair value of plan assets	(7,237)	**(8,718)**	**(74,513)**
Funded status of the plans	4,486	**4,120**	**35,213**
Unrecognized net actuarial difference	(1,524)	**(742)**	**(6,342)**
Unamortized prior service cost	296	**263**	**2,248**
Net liability recognized	¥ 3,258	**¥ 3,641**	**$31,120**

The net periodic retirement benefit cost for the years ended March 31, 2004, 2005 and 2006 included the following components:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2005	**2006**	**2006**
Service cost	¥ 670	¥ 581	**¥613**	**$5,239**
Interest cost	392	335	**293**	**2,504**
Expected return on plan assets	(207)	(192)	**(181)**	**(1,547)**
Amortization of prior service cost	(33)	(33)	**(32)**	**(273)**
Additional payment of retirement costs	94	26	**35**	**299**
Amortization of difference caused from actuarial calculation	411	289	**221**	**1,889**
	¥1,327	¥1,006	**¥949**	**$8,111**

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, 2005 and 2006, respectively. The rate of expected return on plan assets was 2.5% and 2.5% as of March 31, 2005 and 2006, 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, 2004, 2005 and 2006 are summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2005	**2006**	**2006**
Lease rental expenses	¥585	¥454	**¥365**	**$3,120**

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, 2006 is summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Acquisition cost	¥1,407	$12,026
Accumulated depreciation	992	8,479
Net book value	¥ 415	$ 3,547
Depreciation	¥ 365	$ 3,120

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, 2005 and 2006, including the portion of interest thereon, is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Future lease payments:			
Within one year	¥364	**¥178**	**$1,521**
After more than one year	391	**237**	**2,026**
Total	¥755	**¥415**	**$3,547**

(2) Contingent Liabilities

The Company had contingent liabilities arising from notes discounted by banks in the ordinary course of business in the amount of ¥201 million ($1,718 thousand) at March 31, 2006.

In addition, the Company was contingently liable for guarantees in respect of loans borrowed by its unconsolidated subsidiaries for an amount of ¥153 million ($1,308 thousand) at March 31, 2006.

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 services
	Sale of materials and other goods
	Construction subcontracting

The industry segment information of the Company and its consolidated subsidiaries for the three years ended March 31, 2006 is presented below:

	Millions of Yen				
	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

	Millions of Yen				
	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

	Millions of Yen				
	2006				
	Industry Segment			Elimination of Inter-segment Sales	Consolidated Total
	Pharmaceuticals	Other	Total		
Sales:					
Sales to outside customers	**¥ 56,643**	**¥ 7,365**	**¥ 64,008**	**¥ –**	**¥ 64,008**
Inter-segment sales	**0**	**4,606**	**4,606**	**(4,606)**	**–**
Total sales	**56,643**	**11,971**	**68,614**	**(4,606)**	**64,008**
Operating expenses	**54,852**	**11,837**	**66,689**	**(4,559)**	**62,130**
Operating income	**¥ 1,790**	**¥ 135**	**¥ 1,925**	**¥ (48)**	**¥ 1,877**
Assets	**¥167,072**	**¥10,668**	**¥177,740**	**¥(3,625)**	**¥174,115**
Depreciation	**¥ 2,891**	**¥ 395**	**¥ 3,286**	**¥ (148)**	**¥ 3,138**
Capital expenditure	**¥ 3,571**	**¥ 404**	**¥ 3,975**	**¥ (958)**	**¥ 3,017**

	Thousands of U.S. Dollars				
	2006				
	Industry Segment			Elimination of Inter-segment Sales	Consolidated Total
	Pharmaceuticals	Other	Total		
Sales:					
Sales to outside customers	**$ 484,128**	**$ 62,949**	**$ 547,077**	**$ –**	**$ 547,077**
Inter-segment sales	**0**	**39,368**	**39,368**	**(39,368)**	**–**
Total sales	**484,128**	**102,316**	**586,444**	**(39,368)**	**547,077**
Operating expenses	**468,821**	**101,171**	**569,992**	**(38,966)**	**531,026**
Operating income	**$ 15,299**	**$ 1,154**	**$ 16,453**	**$ (410)**	**$ 16,043**
Assets	**$1,427,966**	**$ 91,179**	**$1,519,145**	**$ (30,983)**	**$1,488,162**
Depreciation	**$ 24,709**	**$ 3,376**	**$ 28,085**	**$ (1,265)**	**$ 26,820**
Capital expenditure	**$ 30,521**	**$ 3,453**	**$ 33,974**	**$ (8,188)**	**$ 25,786**

(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, 2006 is omitted because export sales account for less than 10% of total sales.

13 Business Transactions with Parties Related to the Company

Fiscal 2005 (April 1, 2004—March 31, 2005)

Executives, main individual stockholders, etc.

Position	Executive
Name	Kunio Kanzawa
Address	—
Capital or Investment Amount (Millions of 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 (Millions of Yen)	25
Item	—
Year-End Balance (Millions of Yen)	—

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

Fiscal 2006 (April 1, 2005—March 31, 2006)

Executives, main individual stockholders, etc.

Position	Executive
Name	Kunio Kanzawa
Address	—
Capital or Investment Amount (Millions of 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 (Millions of Yen)	23
Item	—
Year-End Balance (Millions of Yen)	—

Notes: 1. The above amounts do not include consumption tax.
2. The business transactions with 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, 2006 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2005	**2006**	**2006**
Advertising and sales promotion expenses	¥ 3,822	¥ 4,360	**¥ 4,985**	**$ 42,607**
Payroll costs	7,839	8,139	**7,626**	**65,180**
Research and development expenses	9,826	9,893	**10,574**	**90,376**
Traveling expenses	1,606	1,702	**1,726**	**14,752**
Depreciation	1,174	1,279	**1,350**	**11,538**
Other	6,392	6,517	**7,587**	**64,854**
	¥30,659	¥31,890	**¥33,849**	**$289,307**

15 Impairment Loss on Fixed Assets

Asset impairment losses were booked for the following asset groups.

Location	Use	Type	Asset Impairment (Millions of Yen)
Matsumoto, Nagano	Rental	Land	99
Azumino, Nagano	Recreation	Land	158

The Group has created asset groupings with values based on the minimum units used in the independent cash flow statement. Rental assets and recreational assets were grouped separately.

The impairment of the above assets was booked as an extraordinary loss of ¥258 million ($2,205 thousand) after reducing the value of the assets from the book value to the current fair value, which reflects declining land prices in recent years.

The fair value of the assets is the net value the Company would expect to receive upon the sale of the assets, based upon a real estate valuation conducted in accordance with industry standards.

16 Stipulated Compensation

Supply contracts stipulate a minimum purchase volume. In past years, the Company paid compensation for falling short of the minimum. The compensation amount was confirmed in the term under review and thus booked in the consolidated financial statement for this term.

17 Subsequent Event

The following appropriations of unappropriated retained earnings were approved at the shareholders' meeting held on June 29, 2006:

	Millions of Yen	Thousands of U.S. Dollars
Retained earnings:		
Balance at March 31, 2006	¥71,388	$610,154
Appropriations:		
Cash dividends (¥12 per share)	(651)	(5,564)
Bonuses to directors and corporate auditors	(20)	(171)
Balance to be carried forward	¥70,717	$604,419

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 2006, 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. Those 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 2006, 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.

As described in Note 2 (16), effective for the year ended March 31, 2006, Kissei Pharmaceutical Co., Ltd. and its subsidiaries changed their accounting policy for the impairment of fixed assets.

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
Tokyo, Japan
June 29, 2006

Board of Directors

As of June 29, 2006

Chairman:
Kunio Kanzawa

President and Chief Executive Officer:
Mutsuo Kanzawa

Executive Vice President:
Masanori Iwadare

Executive Managing Directors:
Hiroshi Saito
Yukiyoshi Ajisawa

Managing Directors:
Toshiaki Usuda
Keiichiro Yanagisawa

Directors:
Seiichiro Furihata
Kiyoshi Kumazawa
Sukio Adachi
Masuo Akahane
Teruo Tomizawa
Imao Mikoshiba
Hiroe Sato

Auditors:
Tetsuo Yabana
Yoshinobu Kubota
Hidenaga Kitazawa
Hajime Koike

Corporate Data (Non-consolidated)

As of June 29, 2006

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 Laboratory:
Azumino

Toxicological Laboratory:
Azumino

Pharmaceutical Laboratory:
Azumino

Plants:
Matsumoto, Shiojiri

Distribution Center:
Shiojiri

Information Center:
Matsumoto

Nutritional Business Center:
Shiojiri

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

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

Subsidiary Companies:
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, 2006

Common Stock:

Authorized: 227,000,000 shares
Issued: 56,795,185 shares

Number of Shareholders:

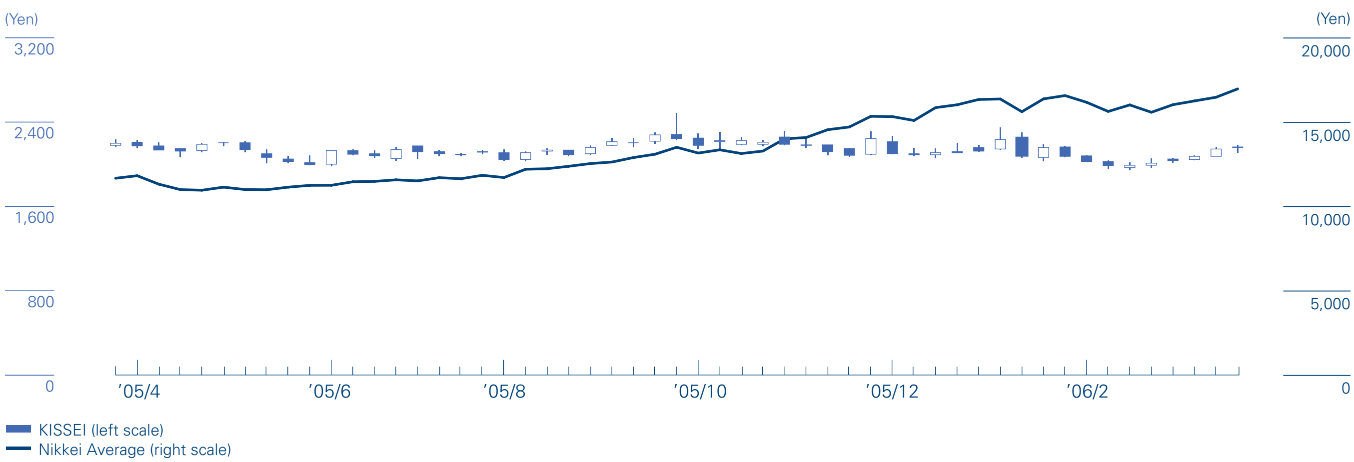
3,828 (increase of 321 from previous fiscal year-end)

Principal Shareholders:

	Number of shares held (Thousands)	Voting right (%)
Kunio Kanzawa	3,701	6.5
Kanzawa Limited	3,178	5.6
The Dai-ichi Mutual Life Insurance Company	2,718	4.8
The Hachijuni Bank, Ltd.	2,670	4.7
Mizuho Bank, Ltd.	2,670	4.7
The Master Trust Bank of Japan, Ltd. (Trust account)	2,533	4.5
Japan Trustee Services Bank, Ltd. (Trust account)	2,041	3.6
Nabelin Co., Ltd.	1,219	2.2
The Nagano Bank, Ltd.	1,126	2.0
Trust & Custody Services Bank, Ltd. (Trust account)	961	1.7

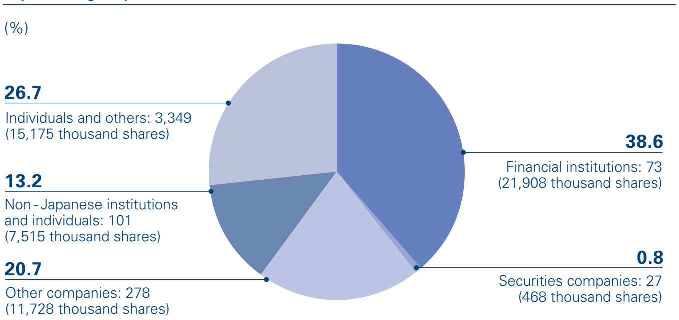
Note: Kissei holds 2,510,895 shares of treasury stock.

Stock Price Ranges:

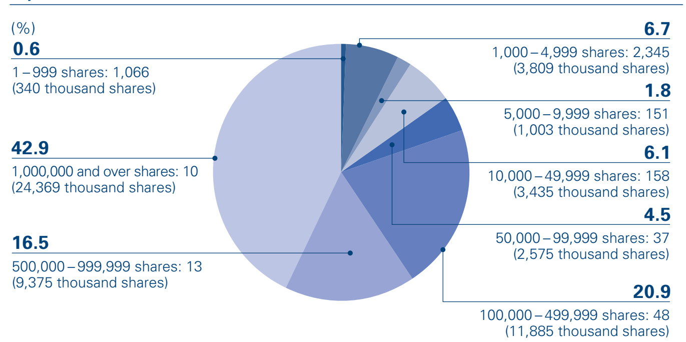


Analysis of Shareholders:

By Category:



By Number of Shares Held:



KISSEI PHARMACEUTICAL CO., LTD.
19-48, Yoshino, Matsumoto City, Nagano 399-8710, Japan
Telephone: (0263) 25-9081

PRINTED WITH SOY INK
This report is printed on recycled paper using soy ink.
Printed in Japan