KISSEI

Annual Report 2008

About Kissei

Guided by its management philosophy, the Kissei Group aims to make significant contributions to society. It promotes management policies that emphasize the importance of shareholders, employees, local communities, history and culture, and the environment.

The management vision underpinning its core pharmaceutical business challenges Kissei Pharmaceutical Co., Ltd., to be an R&D-oriented pharmaceutical company that contributes to human health care with innovative drug products.

To this end, Kissei promotes research and development activities from the patient's perspective, striving to manufacture the highest quality pharmaceuticals while collecting and providing information necessary to use the products safely.

In addition, each Group company assists in our pharmaceutical business and leverages their technologies to help develop our operations both domestically and internationally.

Main Pharmaceutical Products
(Generic name in parentheses):

Urief® (silodosin): dysuria associated with benign prostatic hyperplasia (BPH)
Salagen® (pilocarpine): dry mouth
Glufast® (mitiglinide): type 2 diabetes
Bezatol® (bezafibrate): hyperlipidemia
Cinalong® (cilnidipine): hypertension
Utemerin® (ritodrine HCl): threatened abortion and premature labor
Xanbon® (ozagrel Na): acute cerebral thrombosis, etc.
Rizaben® Eye Drops (tranilast): allergic conjunctivitis
Rizaben® (tranilast): allergy, hypertrophic scar, etc.
Domenan® (ozagrel HCl): bronchial asthma
Cabaser® (cabergoline): Parkinson's disease, etc.

Main Nutritional Foods

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

Contents

A Message from the President

Mutsuo Kanzawa
President and Chief Executive Officer

Review of Operations

Overview of Operations in the Year Under Review

The Japanese economy in fiscal 2008, the year ended March 31, 2008, remained on a moderate recovery track, supported by a steady flow of exports to emerging economies and sustained growth in corporate capital spending. However, long-term crude oil price hikes, an economic slowdown in the United States, a strong yen, and a stagnant stock market were all significant causes for concern. These factors led to an increasing sense of uncertainty about the future of the Japanese economy.

The pharmaceutical industry faced increasingly challenging conditions caused by the effects of government policies aimed at curbing the cost of medical treatment through the promotion of generic drugs and other measures, and increasingly intense inter-company competition.

The information services, retailing, and construction industries continued to perform solidly, supported by increasing IT investment against a backdrop of strong corporate earnings. However, competition remained intense, and the decline in private-sector orders due to the implementation of the revised Buildings Standards Law exacerbated a situation already characterized by a continued fall in public spending, while competition remained fierce.

In this environment, Kissei cultivated *Urief®*, a drug launched in May 2006 for dysuria associated with benign prostatic hyperplasia (BPH); the insulin secretagogue *Glufast®*, which received approval in May 2007 for an additional indication as a combination therapy with alpha-glucosidase inhibitor, Alpha-GI; and *Salagen®*, a therapeutic agent for patients with dry mouth induced by radiation therapy, which received approval for an additional indication in November 2007 as a therapeutic agent for dry mouth in patients with Sjögren's syndrome. In addition to these development activities, we actively collected and disseminated information on existing pharmaceutical products.

In R&D, we pushed forward with all our development themes. Accordingly, in April 2007 in Japan we applied for an additional indication approval for *Glufast®* to be used in combination with an insulin sensitizer, jointly developed with Takeda Pharmaceuticals Co., Ltd. In June 2007, we applied for an additional formulation of *Urief®* jointly developed with Daiichi Sankyo Co., Ltd. Further, in January 2008 we entered into an agreement with Pneuma Partners LLC, of the U.S., concerning the research, development, and marketing in Japan of calfactant (generic name), now being developed by Pneuma as a treatment for acute respiratory distress syndrome.

In June 2007, we commenced a licensing agreement with Eisai Co., Ltd., for the exclusive development and commercialization rights to *Glufast®* in ASEAN countries. In September, we agreed a contract with Eisai for the development and commercialization rights to *Glufast®* in China.

In July 2007, we entered an agreement with Nuon Therapeutics, Inc., of the U.S., for the research and development, manufacturing, and marketing of the anti allergy drug Tranilast (brand name in Japan: *Rizaben®*) in the field of autoimmune diseases, such as multiple sclerosis. Kissei discovered and has marketed the drug since its foundation.

Furthermore, our licensing partner Watson Pharmaceuticals, Inc. filed a new drug application in February 2008 with the U.S. Food and Drug Administration (FDA) for silodosin (brand name in Japan: *Urief®*), a novel drug for dysuria associated with BPH.

In other businesses, the Company is focusing on improving synergies among Group companies by taking positive steps to restructure its operations. On April 1, 2007, consolidated subsidiary Hashiba 920 Co., Ltd., merged with non-consolidated subsidiary Kissei Technos Co., Ltd., and the surviving company's corporate name was changed to Hashiba Technos Co., Ltd.

As a result, in the fiscal year under review, net sales reached ¥61.48 billion, a 4.3% decrease from the previous year. We recorded year-on-year increases of 61.4% in operating income, to ¥4.27 billion, and 48.1% in net income, to ¥2.33 billion.

Looking at each business segment, although new products *Urief®*, *Glufast®*, and *Salagen®* together with revenues from licensing fee royalties contributed to pharmaceutical business segment sales, the termination of our contract to market the portable blood glucose monitoring system *FreeStyle®Kissei* from

September 2006; a substantial fall in sales for our Parkinson's disease treatment *Cabaser*®, following revisions to its package insert from April 2007; and a decrease in sales due to the effect of generic and competing drugs impacted the overall growth of sales. As a result, sales declined 1.5% year on year, to ¥54.77 billion.

In the other businesses segment, sales in information services were robust, but sluggish for retail, which include sales of construction-related materials, as well as for construction projects. Consequently, sales declined 22.3%, to ¥6.71 billion.

Outlook for the Current Fiscal Year

The pharmaceutical industry will likely continue to face a difficult environment due to a series of government reforms implemented from April 2008, including National Health Insurance (NHI) price reforms, revisions to medical treatment fees, policies to promote the use of generic drugs, and a series of medical system reforms including further revisions to the Latter-Term Elderly Medical System. The operating environment in other businesses is characterized by increasing uncertainty about the direction of the economy, and we anticipate conditions will remain challenging due to price competition.

In this setting, we aim to establish a management structure that can leverage Group synergies. Further, we will strive to realize returns on past investments in R&D and to improve profitability.

The table below shows our performance forecasts for the fiscal year ending March 31, 2009.

	Millions of yen		
	Forecast for year ending March 2009	Results for year ended March 2008	Change (%)
Net sales	¥63,300	¥61,481	3.0%
Operating income	4,950	4,270	16.0
Net income	3,150	2,326	35.5

Net Sales

In our pharmaceutical business, we are forecasting increased revenues as we implement decisive measures to counter the negative effect of NHI price revisions and other detrimental factors. These include measures to cultivate our new products, including *Urief*® and *Glufast*®, and to increase revenues from licensing fee royalties. In our other businesses, we are anticipating higher sales for each of our operations in information services, retail, and construction projects.

Income

The Company will continue to actively invest in R&D, principally in its pharmaceutical business. Moreover, we expect operating income, and net income to increase as new product developments reduce the cost of sales as a percentage of net sales. We do not expect any non-operational or extraordinary income or expenses.

Management Strategy

The pharmaceutical industry's operating environment is currently undergoing dramatic change. With government finances in a difficult state and serious consideration being given to NHI system restructuring, we anticipate low growth in the domestic market for pharmaceutical medical treatments. Also, in contrast to the global shortage of "seed" compounds, which serve as the foundation for the development of next-generation pharmaceuticals, technological innovation has resulted in new categories of pharmaceuticals, such as biomedicines, coming to the fore. Accordingly, the competition to develop new drugs in these areas is growing increasingly fierce.

Within this environment, in April 2008 we announced our new three-year medium-term management plan, called the "Changing Plan (plan for change)." Under this new plan, we will continue to cultivate the three new drugs launched under the previous medium-term management plan and improve profitability by implementing policies to increase efficiency throughout our operations. Based on this improved profit foundation, we will continue to focus on drug discovery, maintaining our status as an R&D-oriented pharmaceutical company.

In fiscal 2009, the first year of the new plan, we will take concrete steps to address the following key management issues: improving profitability by increasing sales of our three new drugs; constructing a stable overseas revenue base; and strengthening and enhancing our R&D pipeline. At the same time, we will work to fortify our corporate governance system, maintain a CSR-centered management structure, and maximize corporate value while striving to retain stakeholder trust.

June 2008

Mutsuo Kanzawa
President and Chief Executive Officer

The New Medium-Term Management Plan

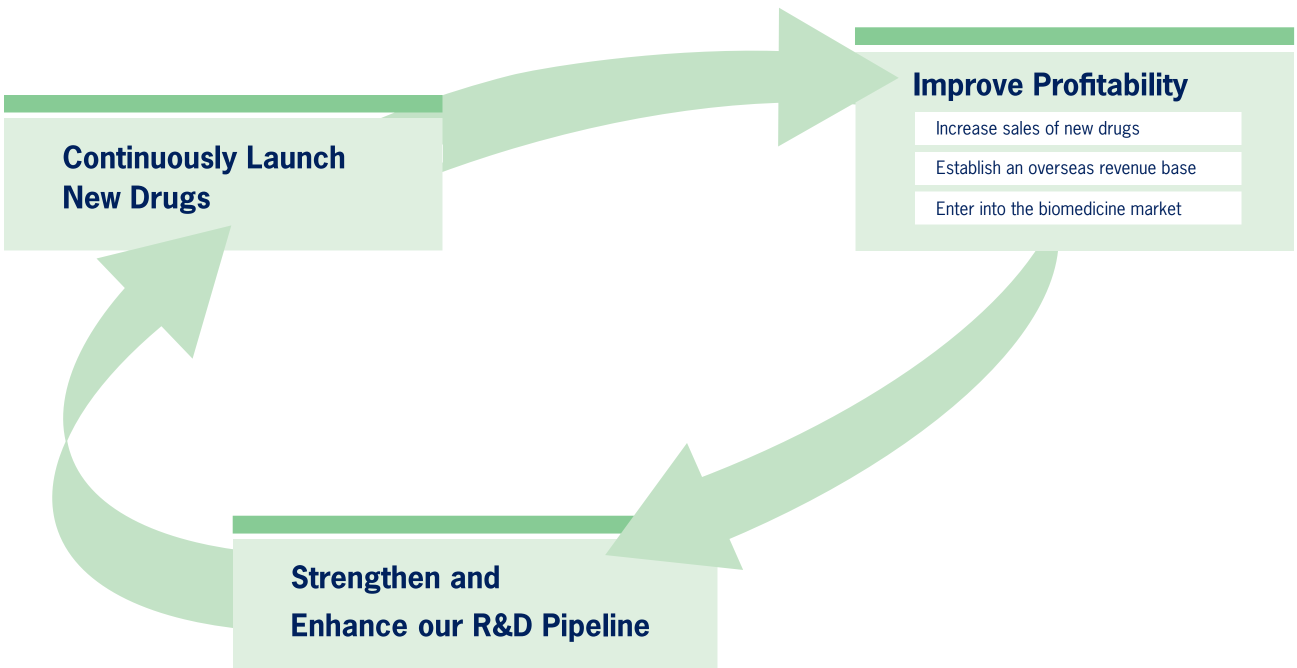
April 2008 marked the starting point of the "Changing Plan," our new three-year medium-term management plan. The plan's fundamental aims are to improve profitability by cultivating new drugs to increase sales, establish a stable overseas revenue base, and launch products in the new market category of biopharmaceuticals. In addition, the plan targets the creation of a strategic R&D pipeline to develop the next generation of pharmaceuticals and the establishment of a system for the continuous creation of new drugs. These initiatives are detailed as follows.

1. We will continue to cultivate our three new drugs, *Urief*®, *Glufast*®, and *Salagen*®, launch products in the biomedicines market, and increase profitability in the domestic market for pharmaceutical medical treatments.

2. We will work to launch our original drugs through licensing agreements with pharmaceutical companies in the U.S. and Europe, develop new products to expand our markets, and establish a stable overseas revenue base.

3. We will implement policies to increase efficiency throughout our operations and to create a highly productive business structure that will increase operating income per employee. Based on this income structure and our long-term vision, we will enhance our R&D pipeline through positive measures for drug discovery and licensing.

4. We will work to create a corporate culture that allows our employees to pursue their dreams and to feel a sense of worth and fulfillment in their work. We will also strive to maintain good relations with our stakeholders and to adhere to standards of behavior prescribed by society.



Research and Development

The Kissei Group is carrying out R&D activities in its core pharmaceutical business to realize its management vision of being an R&D-oriented pharmaceutical company that contributes to human health care with innovative drug products. To this end, the Company positions R&D investment as a key priority, promotes the introduction of strategic R&D themes, and works to strengthen and enhance its R&D pipeline. The current status of our pharmaceutical business's R&D efforts in Japan and overseas are as follows.

In Japan, in May 2007 an application for an additional indication filed in October 2005 for the insulin secretagogue *Glufast®* as a combination therapy with alpha-glucosidase inhibitor was approved, while in October 2007, an application for an additional indication filed in December 2005 for *Salagen®* as a therapeutic agent for dry mouth in patients with Sjögren's syndrome was also approved.

In April 2007, we applied for the approval of an additional indication to *Glufast®* for combination therapy with an insulin sensitizer, jointly developed with Takeda Pharmaceuticals Co., Ltd. Likewise, in June 2007 we applied for an additional formulation of *Urief®*, jointly developed with Daiichi Sankyo Co., Ltd.

In addition, in the fiscal year under review we progressed through a phase II/III clinical trial for JR-013, a treatment for renal anemia (gene-spliced human erythropoietin); a phase II clinical trial for KUC-7483, a therapeutic agent for overactive bladder; and phase I clinical trials for KGT-1681, a treatment for diabetes.

Further, in January 2008 we entered into an agreement with Pneuma Partners LLC, of the U.S., concerning the research, development, and marketing in Japan of calfactant (generic name), now under development by Pneuma as a treatment for acute respiratory distress syndrome.

Overseas, we are aggressively developing licensing strategies for proprietary Kissei products to create a stable overseas revenue base.

In February 2008, Watson Pharmaceuticals, Inc., of the U.S., one of our licensing partners, filed a new drug application for silodosin (brand name in Japan: *Urief®*) with the U.S. FDA. Additionally, Recordati S.p.A., of Italy, is currently implementing phase III clinical trials for the drug. In cooperation with these two companies, we are maximizing shared data to achieve rapid and efficient development in Europe and North America. In Asia, Daiichi Sankyo Co., Ltd., is currently implementing phase III clinical trials in China.

In August 2007, Elixir Pharmaceuticals Inc., of the U.S., commenced phase III clinical trials for mitiglinide (brand name in Japan: *Glufast®*); in June 2007, we entered a licensing agreement with Eisai Co., Ltd., for the exclusive development and commercialization rights to *Glufast®* in ASEAN countries; and in September 2007, we commenced another contract with Eisai for the development and commercialization rights to *Glufast®* in China. In January 2008, we applied for approval for the drug in China.

In addition, KGT-1681, which has been licensed out to GlaxoSmithKline plc, of the U.K., is in phase II clinical trials for a treatment for type 2 diabetes, while KUR-1246, licensed out to MediciNova, Inc., of the U.S., is also in phase II clinical trials as a treatment for status asthmatics.

Further, in July 2007 we entered into a contract with Nuon Therapeutics Inc., of the U.S., for Tranilast (brand name in Japan: *Rizaben®*), our proprietary allergic conjunctivitis treatment, for the R&D, production, and marketing of the drug for other areas including autoimmune disorders such as multiple sclerosis. In other businesses, we are creating platforms from which we can expand operations by actively investing in a range of areas, such as the latest IT for software development.

Our R&D expenses in the fiscal year under review totaled ¥11.36 billion, or 18.5% of net sales.

Pharmaceutical Business

The Kissei Group continues to actively pursue R&D in its core areas, particularly metabolism and endocrinology, primarily for diabetes, and urogenital. Total R&D expenses in this business sector in the fiscal year under review were ¥11.28 billion.

Other Businesses

Aiming to develop operations on a global scale, we have established a development system for medical software and other package software. In this business segment, we also continue to develop and promote next-generation technologies. As such, R&D expenses in the fiscal year under review totaled ¥84 million.

R&D Pipeline (In-House)

As of June 2008

Development Stage	Brand Name / Generic Name / Development Code	Product Origin	Development Company	Therapeutic Target
NDA	GLUFAST® / Mitiglinide	Kissei	Kissei / Takeda (Japan) (co-development)	Improvement of postprandial plasma glucose transition in patients with type 2 diabetes mellitus–combination therapy with insulin sensitizer (additional indication)
	URIEF® / Silodosin	Kissei	Kissei / Daiichi Sankyo (Japan) (co-development)	Dysuria associated with benign prostatic hyperplasia (BPH) (additional formulation: Tablet)
Phase II / III	JR-013	JCR (Japan)	Kissei / JCR (Japan) (co-development)	Renal anemia on dialysis
Phase II	KUC-7483	Kissei	Kissei	Overactive bladder
	KLS-0611	Kissei	Kissei	Dry eye
Phase I	KPS-0373	Shionogi (Japan)	Kissei	Spinocerebellar ataxia

R&D Pipeline (Out-Licensing)

As of June 2008

Development Stage	Generic Name / Development Code	Licensed Company	Territory	Therapeutic Target
Approved	Silodosin / KMD-3213	Choongwae (Korea)	South Korea	Dysuria associated with benign prostatic hyperplasia (BPH)
	Mitiglinide / KAD-1229	Hikma (Jordan)	Middle East	Type 2 diabetes
NDA	Silodosin / KMD-3213	Watson (U.S.)	U.S., Canada, Mexico	Dysuria associated with benign prostatic hyperplasia (BPH)
	Mitiglinide / KAD-1229	Eisai (Japan)	China [a]	Type 2 diabetes
			ASEAN (10 countries)	
Phase III	Silodosin / KMD-3213	Recordati (Italy)	Europe, Middle East, Africa	Dysuria associated with benign prostatic hyperplasia (BPH)
		Daiichi Sankyo (Japan)	China	
		Synmosa (Taiwan)	Taiwan, Hong Kong [b]	
	Mitiglinide / KAD-1229	Elixir (U.S.)	North America, Central America, South America	Type 2 diabetes
		Orient Europharma (Taiwan)	Taiwan, Hong Kong [b]	
Phase III preparation	Mitiglinide / KAD-1229	USV (India)	India [b]	Type 2 diabetes
Phase II	KGT-1681	GlaxoSmithKline (U.K.)	Countries of the world	Type 2 diabetes
	KUR-1246	MediciNova (U.S.)	Countries of the world, except Japan	Status asthmatics, threatened premature labor
Phase I	KGT-1681	GlaxoSmithKline (U.K.)	Countries of the world	Obesity
	KGA-3235	Dainippon Sumitomo (Japan)	Japan	Type 2 diabetes

Notes: a) Clinical studies and NDA were conducted by Kissei.
b) Phase I and phase II are not required.

Corporate Governance

Basic Approach to Corporate Governance

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

Explanation of Corporate Governance Bodies

Kissei's Board of Directors sets basic strategies 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 meetings 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 in 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's code of conduct manual guides employee conduct, with the aim of upholding high ethical standards in R&D, manufacturing, and sales, activities that are fundamental to our business as a company involved in life sciences. In addition, Kissei has established a Compliance Committee that provides advice to the Board of Directors to help 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 with employees receiving regular instruction on compliance issues. In May 2006, Kissei also created a Basic Policy on Internal Controls, in which every employee is trained. Company rules, risk management practices, compliance issues, and other internal measures are promoted based on this basic policy.

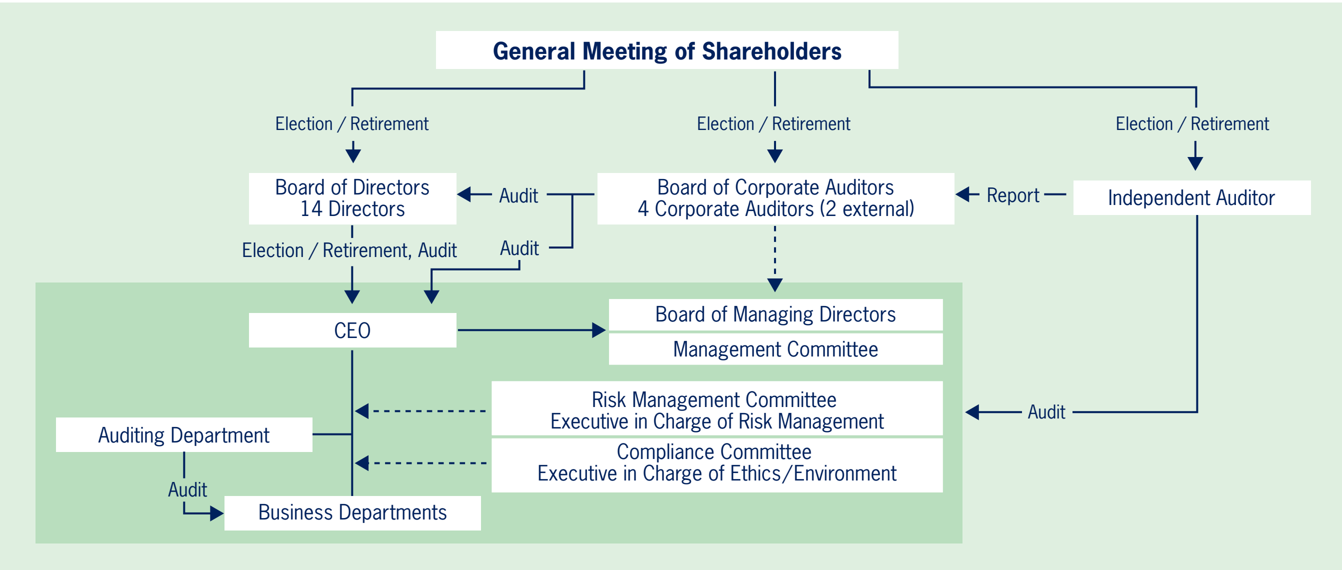
Internal Audits

Kissei has an independent Auditing Department that reports directly to the president. The five-member body conducts internal audits for each department and internal system in the Company based on a yearly auditing plan, ensuring that all departments carry 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 member of the board, finance officers, and corporate auditors, which aid the strengthening of the corporate governance structure.

Diagram of Corporate Governance Bodies and Internal Control System



Corporate Social Responsibility (CSR)

The Kissei Group's management philosophy is "to contribute to society through high-quality, innovative pharmaceutical products" and "to promote public service by company employees." This philosophy has served as the starting point for our CSR-centered management since the Company was founded. In addition to maintaining systems to promote CSR throughout the Group, we are further broadening the scope of our CSR initiatives.

Compliance Initiatives

All of our employees are expected to act in accordance with societal and corporate ethics. The Company believes this enhances our products' brand power and image, and improves corporate value and the bonds of trust we share with our stakeholders.

The Company has developed its basic principles for employee behavior from the perspective of maintaining CSR-based management. In 1999, we created the "Kissei Pharmaceuticals Code of Conduct" to guide employee behavior; and in 2001 we published the first version of the "Kissei Pharmaceuticals Compliance Program Manual."

The Code of Conduct and the Compliance Program Manual were created to ensure that employees adhere to newly enacted laws and regulations and that their behavior reflects environmental changes both within and outside the Company. In April 2007, we published the third revised edition of the manual, which is distributed to all Group employees to provide practical guidance on compliance matters.

Consideration for Society

As a responsible corporate citizen, we place great importance on our relations with local communities and society at large. We actively participate in and contribute to the lives of the people in our local communities through participation in cultural, medical treatment, health, welfare, environmental, and sports activities. One example is the Saito Kinen Festival, a global music festival held each fall in the town of Matsumoto, in Nagano Prefecture. We have been the festival's main sponsor since it began in 1992.

We also sponsor multifaceted research into the causes, prevention, diagnosis, and treatment of a range of conditions affecting women of reproductive age, particularly in the perinatal period, as well as conditions affecting middle-aged and elderly women.

Our goal is to contribute to the improved health and welfare of the people of Japan by helping to develop new medical treatments and the medical profession itself. To this end, we established the Kanzawa Medical Research Foundation in 1997 to promote and provide support for excellence in medical research.

Consideration for Customers

We have established a Product Customer Service Center to respond to inquiries not only from medical professionals, such as doctors and pharmacists, but also from patients and their families.

Further, from October 2006 we introduced our Safety Information Providing System, which enables our medical representatives (MR), essentially product information specialists, to provide product safety information directly to relevant medical staff via portable devices. It allows us to rapidly provide safety information to ensure all our pharmaceuticals are used safely and correctly.

Consideration for Employees

Our fundamental philosophy toward our employees is based on our vision of "mutually respecting different philosophies and values, and providing a stimulating working environment to help build a dynamic and creative company."

We strive to maintain an ideal workplace, such as through appropriate systems for recruitment, work, and managing employees, and have introduced work systems that enable employees to choose a way of working best suited to their situation and life plan. In many divisions and departments, we have introduced various flexible work hour systems, such as an imputed working hour system and flextime. Our goal is to create a working environment that allows all of our employees to fully utilize their abilities.

Consideration for the Environment

Our basic environment policy is based on the following fundamental company goal: "As a drug discovery company that aims to ensure the future health of people around the world, we will actively work to preserve the environment as part of our corporate social responsibilities and contribute to realizing an affluent and comfortable society." To help achieve this goal, we strive to minimize the impact of all our activities on the environment.

As part of a series of environmental initiatives, we have steadily increased the number of our locations with accreditation for environmentally friendly workplace policies. In 2000, we received ISO 14001 accreditation for environment management systems at our company head office, Matsumoto and Shiojiri plants, and Nutritional Business Center. We subsequently obtained accreditation for our Tokyo head office and Toxicological Laboratories.
In September 2007, we also acquired ISO 14001 accreditation for our Central Research Laboratories and Pharmaceutical Laboratories.

Financial Review

Financial Position

As of the end of the fiscal year ended March 31, 2008, total assets had decreased 8.0% year on year, or ¥13.02 billion, to ¥150.57 billion.

Current assets fell ¥8.16 billion, to ¥85.56 billion, primarily due to a decrease in cash on hand and in banks and notes and accounts receivable. Investments and advances were down 11.1% year on year, to ¥30.34 billion, which can mainly be attributed to a decrease in investments in securities due to a fall in the market value of shares accompanying the decline of the stock market. Property, plant and equipment was largely unchanged, falling 3.4%, to ¥29.59 billion.

Total liabilities at the fiscal year-end had fallen 21.2% year on year, or ¥8.56 billion, to ¥31.79 billion. Current liabilities increased ¥5.27 billion, to ¥26.42 billion, as a decrease in notes and accounts payable was offset by a change in classification from fixed to current liabilities for a ¥12.09 billion portion of the second unsecured convertible bonds that became redeemable within the fiscal year. Fixed liabilities decreased ¥13.83 billion, to ¥5.38 billion. This was principally due to the reclassification of convertible bonds from fixed to current liabilities and to a decrease in deferred tax liabilities, non-current.

Net assets at the fiscal year-end were down 3.6%, or ¥4.46 billion, to ¥118.78 billion. This was due to an increase in retained earnings that failed to offset a decrease in unrealized holding gains on securities.

As a result, the shareholders' equity ratio increased from 75.3% at the end of the previous fiscal year to 78.8%.

Financial Results

Consolidated net sales in the fiscal year under review were down 4.3%, to ¥61.48 billion. The majority of this total was provided by the Kissei Group's core pharmaceutical business, which registered strong gains for sales of its new drugs *Urief*®, *Glufast*®, and *Salagen*®, as well as an increase in licensing fee royalties received. However, these gains were absorbed by various factors, including the termination of our contract to market the *FreeStyle*®*Kissei* portable blood glucose monitoring system from September 2006; a substantial fall in sales of the Parkinson's disease treatment *Cabaser*®, following revisions to its package insert from April 2007; and a decrease in sales due to the effect of generic and competing drugs. As a result, sales declined 1.5% year on year, or ¥0.81 billion, to ¥54.77 billion.

In other businesses, strong sales were recorded in information services operations, but sales declined in retail operations and construction project operations. Consequently, other business sales fell 22.3%, or ¥1.92 billion, to ¥6.71 billion.

In the pharmaceutical business, the cost of sales as a percentage of segment sales decreased 5.7 percentage points because of changes to the composition of segment sales for products, an increase in licensing fees, a reduction in fixed manufacturing costs, and heightened production efficiency associated with the production of new products. In addition, in other businesses the cost of sales as a percentage of segment sales fell 3.5 percentage points, and consequently the overall cost of sales as a percentage of segment sales declined 6.5 percentage points year on year. As a result, gross profit increased 6.9% year on year, or ¥2.49 billion, to ¥ 38.68 billion.

SG&A expenses increased due to higher research and development expenses, primarily related to increases in R&D costs and depreciation accompanying new facilities coming on-line.

Cost of sales edged down slightly, despite continued investment in the launch of additional indications for *Urief*®, *Glufast*®, and *Salagen*®. Expenses relating to contract medical representatives were reduced and other costs cut through increased efficiency. As a result, operating income increased 61.4%, or ¥1.62 billion, to ¥4.27 billion.

Other income decreased ¥326 million year on year, to ¥201 million, as increases to interest in interest and dividend income and a recording of disposition of sales information was counteracted by a write-down of investments in securities and decreases in gain on sale of investments in securities and other, net.

As a result, income before income taxes and minority interests increased 40.9%, year on year, or ¥1.30 billion, to ¥4.47 billion, and net income increased 48.1%, or ¥0.76 billion, to ¥2.33 billion.

Basic Policy on the Distribution of Profits/Dividends for the Fiscal Year Under Review and the Current Fiscal Year

The Company aims to secure a solid management base while providing stable, sustainable returns to investors through cash dividends. While working to make efficient use of capital, we consider paying fair dividends to shareholders in accordance with profit levels to be a key management issue.

The Company's basic dividend policy is twice-yearly dividend payments, comprised of interim and year-end dividends. The amount of the interim dividend is decided by the Board of Directors, while the amount of the year-end dividend is decided at the General Meeting of Shareholders. Also, as stipulated by the Company's Articles of Incorporation, the interim dividend payment date is established by resolution of the Board of Directors on September 30 of each fiscal year.

Giving the highest priority to increasing shareholder value, we will acquire and dispose of treasury stock flexibly, and as necessary, in accordance with operational developments, and by resolution of the Board of Directors.

Internal funds are maintained to respond to expected changes in government policy, system reforms, and the challenges of increasing globalization. At the same time, we will actively invest in R&D to develop drugs that people need. We believe this policy will not only generate profits in the future, but also enable us to return profits to our shareholders through appropriate dividend payments.

For the fiscal year under review, ended March 31, 2008, we distributed a year-end dividend of ¥14.0 per share. Together with the interim dividend of ¥14.0 per share, this gives a total cash dividend for the year of ¥28.0 per share.

In the current fiscal year, ending March 31, 2009, we plan a special dividend of ¥2.0 per share, split equally between the interim and year-end dividend, to commemorate the 20th anniversary of the Company's listing on Tokyo Stock Exchange. Consequently, both the interim cash dividend and year-end cash dividend will be ¥15.0 per share, comprised of an ordinary cash dividend of ¥14.0 per share and a commemorative dividend of ¥1.0 per share, giving a full-year dividend of ¥30.0 per share.

Risk Factors

The following risk factors could potentially 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 end of the current fiscal year under review.

1. R&D

The process of developing pharmaceuticals — from the R&D stage to approval and sales — requires large investments of both time and funds. When developing new drugs, the chances of discovering beneficial indications are limited. In addition, the Company can guarantee neither that a new drug undergoing development 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 biannually. 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 diagnosis procedure combinations 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 was undiscovered at the R&D stage. If unforeseen side effects or serious adverse events 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 appropriately protect its intellectual property, a third party may be able to use the Kissei Group's technology, which would undermine its competitive superiority 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 patent, product liability, environment, and labor matters.

8. Environmental Conservation

Pharmaceutical 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 Company 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 this 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.

Financial Summary

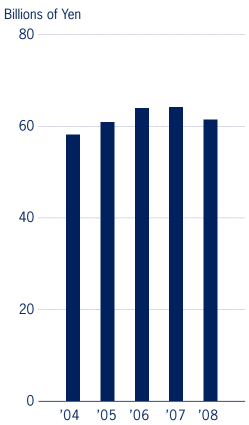
Kissei Pharmaceutical Co., Ltd. and its subsidiaries
Years ended March 31

	1998	1999	2000	2001
Net Sales	¥ 56,687	¥ 55,974	¥ 57,029	¥ 58,937
Gross Profit	40,786	39,854	41,147	41,847
Operating Income	13,038	11,545	12,571	9,786
Net Income	5,439	5,334	5,724	4,383
Total Assets	137,353	138,934	146,649	149,189
Total Net Assets	92,778	97,234	105,437	108,017
Per Share (Yen and Dollars):				
Net Income[2] :				
Primary	¥93.3	¥91.5	¥98.2	¥76.0
Fully-Diluted	83.0	82.0	88.4	68.8
Cash Dividends	14.0	15.0	14.0	14.0
R&D Expenses	¥8,873	¥9,284	¥9,231	¥11,517
(% of Net Sales)	15.7%	16.6%	16.2%	19.5%
Capital Investment	1,244	1,341	1,474	2,081
Current Ratio	514.0%	561.2%	589.1%	653.8%
Return on Equity	6.0%	5.6%	5.7%	4.1%
Return on Assets	3.9%	3.9%	4.0%	3.0%
Number of Shares Issued (Thousands)	58,279	58,279	58,279	57,295
Number of Employees	1,697	1,663	1,630	1,616

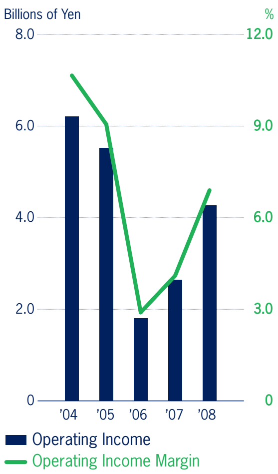
Note: Figures shown above were extracted from financial statements published in the respective years and the retrospective adjustments for the changes in accounting policies and adoption of new accounting standards incurred in the later years have not been reflected.

1. U.S. dollar amounts are translated at the rate of ¥100=U.S.$1, the approximate effective rate of exchange at March 31, 2008.
2. Net income per share is computed based on the weighted average number of shares of common stock after subtracting the weighted average number of shares of treasury stock for the year.

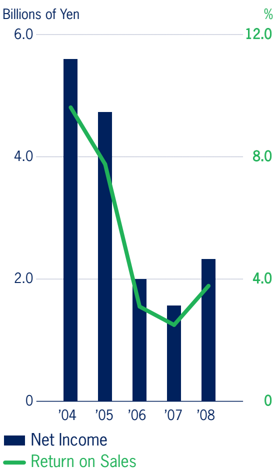
Net Sales



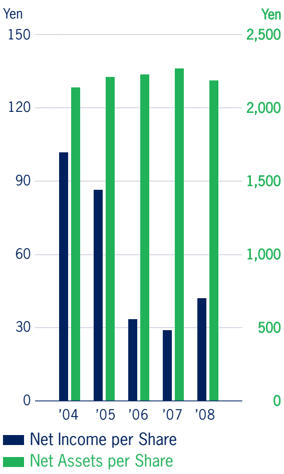
Operating Income and Operating Income Margin



Net Income and Return on Sales



Net Income per Share and Net Assets per Share

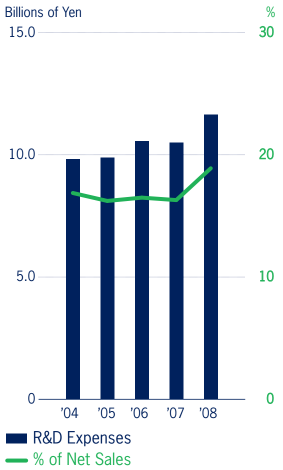


Millions of Yen Excet per Share Data

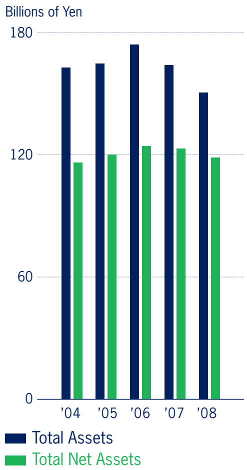
Thousands of U.S. Dollars Except per Share Data[1]

2002	2003	2004	2005	2006	2007	**2008**	**2008**
¥ 59,929	¥ 59,529	¥ 58,226	¥ 60,933	¥ 64,008	¥ 64,216	**¥ 61,481**	**$ 614,810**
40,534	39,636	36,869	37,407	35,726	36,197	**38,680**	**386,800**
6,958	6,073	6,210	5,517	1,877	2,646	**4,270**	**42,700**
4,837	2,231	5,600	4,735	2,045	1,570	**2,326**	**23,260**
155,740	151,582	162,842	164,944	174,115	163,584	**150,566**	**1,505,660**
109,832	108,636	116,266	120,086	124,260	123,232	**118,775**	**1,187,750**
¥84.9	¥39.4	¥101.8	¥86.5	¥37.3	¥28.9	**¥42.9**	**$0.429**
76.5	35.8	88.7	75.5	33.5	27.1	**40.2**	**0.402**
14.0	14.0	17.0	20.0	24.0	28.0	**28.0**	**0.280**
¥13,045	¥13,074	¥9,826	¥9,893	¥10,574	¥10,473	**¥11,361**	**$113,610**
21.8%	22.0%	16.9%	16.2%	16.5%	16.3%	**18.5%**	
1,216	1,292	1,818	1,660	2,284	3,954	**2,460**	**24,600**
488.2%	567.3%	498.1%	512.4%	342.3%	443.2%	**323.9%**	
4.4%	2.0%	5.0%	4.0%	1.7%	1.3%	**1.9%**	
3.2%	1.5%	3.6%	2.9%	1.2%	0.9%	**1.5%**	
56,795	56,795	56,795	56,795	56,795	56,796	**56,839**	
1,632	1,665	1,677	1,686	1,759	1,777	**1,844**	

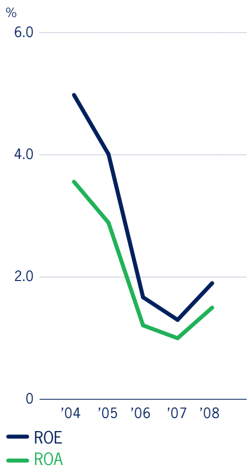
R&D Expenses



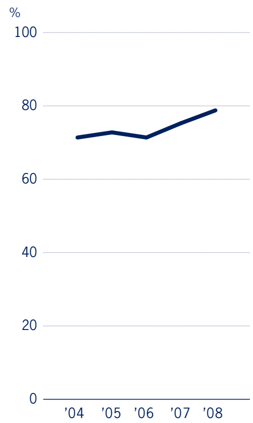
Total Assets and Total Net Assets



ROE and ROA



Equity Ratio



Consolidated Balance Sheets

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
At March 31, 2007 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
Assets	2007	**2008**	**2008**
Current Assets:			
Cash on hand and in banks (Note 4)	¥ 33,480	**¥ 12,067**	**$ 120,670**
Short-term investments in specified trusts	2,717	**2,275**	**22,750**
Marketable securities (Note 4 and 5)	14,143	**33,882**	**338,820**
Notes and accounts receivable	27,990	**23,420**	**234,200**
Less: allowance for doubtful accounts	(52)	**(82)**	**(820)**
	27,938	**23,338**	**233,380**
Inventories (Note 6)	10,877	**10,120**	**101,200**
Deferred tax assets – current (Note 9)	1,880	**1,914**	**19,140**
Other current assets	2,685	**1,962**	**19,620**
Total current assets	93,720	**85,558**	**855,580**
Investments and Advances:			
Investments in securities (Note 5)	30,921	**26,789**	**267,890**
Investments in unconsolidated subsidiaries	958	**928**	**9,280**
Leasehold deposits and guarantee deposits	451	**434**	**4,340**
Other investments and advances	1,804	**2,191**	**21,910**
Total investments and advances	34,134	**30,342**	**303,420**
Property, Plant and Equipment (Note 2)**:**			
Buildings and structures	33,878	**35,112**	**351,120**
Machinery and equipment	11,910	**13,488**	**134,880**
	45,788	**48,600**	**486,000**
Less: accumulated depreciation	(30,414)	**(32,534)**	**(325,340)**
	15,374	**16,066**	**160,660**
Land	13,402	**13,441**	**134,410**
Construction in progress	1,854	**79**	**790**
Total property, plant and equipment	30,630	**29,586**	**295,860**
Other Assets:			
Deferred tax assets – non-current (Note 9)	372	**1,666**	**16,660**
Deferred charges and other	4,728	**3,414**	**34,140**
Total assets	¥163,584	**¥150,566**	**$1,505,660**

The accompanying notes are an integral part of these statements.

Liabilities and Shareholders' Equity	Millions of Yen 2007	Millions of Yen 2008	Thousands of U.S. Dollars (Note 3) 2008
Current Liabilities:			
Short-term bank loans (Note 7)	¥ 2,470	**¥ 2,270**	**$ 22,700**
Current portion of long-term debt (Note 7)	24	**12,154**	**121,540**
Notes and payables:			
Trade	9,549	**4,352**	**43,520**
Other	3,804	**2,763**	**27,630**
	13,353	**7,115**	**71,150**
Income taxes payable (Note 9)	1,212	**1,137**	**11,370**
Accrued expenses and bonuses to employees	1,867	**2,210**	**22,100**
Reserve for sales returns	20	**24**	**240**
Reserve for sales rebates	591	**577**	**5,770**
Reserve for sales promotion expenses	281	**247**	**2,470**
Other current liabilities	1,329	**681**	**6,810**
Total current liabilities	21,147	**26,415**	**264,150**
Long-Term Liabilities			
Long-term debt (Note 7)	12,274	**405**	**4,050**
Accrued retirement benefits to employees (Note 10)	3,455	**3,385**	**33,850**
Accrued retirement benefits to directors and corporate auditors	1,448	**1,586**	**15,860**
Deferred tax liabilities – non-current (Note 9)	2,027	**—**	**—**
Total liabilities	40,351	**31,791**	**317,910**
Commitments and Contingent Liabilities (Note 11)			
Net Assets (Note 2):			
Common stock:			
Authorized: 227,000,000 shares			
Issued: 56,796,454 shares and 56,838,791 shares at March 31, 2007 and 2008, respectively	24,221	**24,271**	**242,710**
Additional paid-in capital	24,114	**24,165**	**241,650**
Retained earnings	71,528	**72,407**	**724,070**
Treasury stock (2,539,319 shares and 2,579,849 shares at March 31, 2007and 2008)	(4,119)	**(4,208)**	**(42,080)**
Total shareholders' equity	115,744	**116,635**	**1,166,350**
Valuation, translation adjustments and others: Unrealized holding gains on securities	7,357	**1,986**	**19,860**
Total valuation, translation adjustments and others	7,357	**1,986**	**19,860**
Minority interests in consolidated subsidiaries	131	**154**	**1,540**
Total net assets	123,232	**118,775**	**1,187,750**
Total liabilities and net assets	¥163,584	**¥150,566**	**$1,505,660**

Consolidated Statements of Income

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
For the years ended March 31, 2006, 2007 and 2008

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2006	2007	**2008**	**2008**
Net Sales	¥64,008	¥64,216	**¥61,481**	**$614,810**
Cost of Sales	28,282	28,019	**22,801**	**228,010**
Gross profit	35,726	36,197	**38,680**	**386,800**
Selling, General and Administrative Expenses (Note 14)	33,849	33,551	**34,410**	**344,100**
Operating income	1,877	2,646	**4,270**	**42,700**
Other Income (expenses):				
Interest and dividend income	387	555	**713**	**7,130**
Interest expense	(214)	(177)	**(159)**	**(1,590)**
Loss on sale or disposal of properties	(34)	(40)	**(384)**	**(3,840)**
Gain on sale of marketable securities	70	35	**5**	**50**
Income from investments in partnerships	—	—	**156**	**1,560**
Gain on sales of fixed assets	—	—	**19**	**190**
Gain on sale of investments in securities	1,330	1,049	**361**	**3,610**
Disposition of sales information	—	—	**571**	**5,710**
Holding gains and losses for specified money in trust	680	(224)	**(586)**	**(5,860)**
Write-down of investments in securities	(3)	(240)	**(268)**	**(2,680)**
Loss on disposal of inventories	—	(306)	**(141)**	**(1,410)**
Loss from investments in partnerships	(67)	—	**—**	**—**
Impairment loss on fixed assets (Note 15)	(258)	—	**—**	**—**
Stipulated compensation (Note 16)	(148)	—	**—**	**—**
Loss on disposal of merchandise (Note 17)	—	(52)	**—**	**—**
Extraordinary contribution on withdrawal from pension fund (Note 18)	—	(64)	**—**	**—**
Evaluation loss in affiliates' investments	—	—	**(86)**	**(860)**
Other, net	(33)	(9)	**0**	**0**
	1,710	527	**201**	**2,010**
Income before income taxes and minority interests	3,587	3,173	**4,471**	**44,710**
Income Taxes (Note 9)**:**				
Current	1,420	1,787	**1,839**	**18,390**
Deferred	120	(221)	**284**	**2,840**
	1,540	1,566	**2,123**	**21,230**
Minority Interests	(2)	(37)	**(22)**	**(220)**
Net income	¥ 2,045	¥ 1,570	**¥ 2,326**	**$ 23,260**

	Yen			U.S. Dollars (Note 3)
Per Share (Note 2)**:**				
Net income:				
Primary	¥37.3	¥28.9	**¥42.9**	**$0.429**
Fully-diluted	33.5	27.1	**40.2**	**0.402**
Cash dividends	24.0	28.0	**28.0**	**0.280**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
For the years ended March 31, 2006, 2007 and 2008

	Number of shares of common stock	Millions of Yen: Common stock	Additional paid-in capital	Retained earnings	Unrealized holding gains on securities	Treasury stock	Minority interests in consolidated subsidiaries
Balance at March 31, 2005	56,795,185	¥24,220	¥24,112	¥71,344	¥ 4,391	¥(3,981)	¥ 93
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	—	—	—	—
Increase in minority interests	—	—	—	—	—	—	2
Balance at March 31, 2006	56,795,185	24,220	24,112	71,388	8,600	(4,060)	95
Net income for the year	—	—	—	1,570	—	—	—
Cash dividends paid	—	—	—	(1,411)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(19)	—	—	—
Execution of convertible bonds*	1,269	1	1	—	—	—	—
Treasury stock purchased (29,012 shares)	—	—	—	—	—	(59)	—
Unrealized holding gains on securities	—	—	—	—	(1,243)	—	—
Gain on sale of treasury stock (558 shares)	—	—	1	—	—	—	—
Increase in minority interests	—	—	—	—	—	—	36
Balance at March 31, 2007	56,796,454	24,221	24,114	71,528	7,357	(4,119)	131
Net income for the year	**—**	**—**	**—**	**2,326**	**—**	**—**	**—**
Cash dividends paid	**—**	**—**	**—**	**(1,519)**	**—**	**—**	**—**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Execution of convertible bonds*	**42,337**	**50**	**50**	**—**	**—**	**—**	**—**
Treasury stock purchased (41,103 shares)	**—**	**—**	**—**	**—**	**—**	**(90)**	**—**
Unrealized holding gains on securities	**—**	**—**	**—**	**—**	**(5,371)**	**—**	**—**
Gain on sale of treasury stock (573 shares)	**—**	**—**	**1**	**—**	**—**	**1**	**—**
Increase due to merger	**—**	**—**	**—**	**73**	**—**	**—**	**—**
Increase in minority interests	**—**	**—**	**—**	**—**	**—**	**—**	**23**
Balance at March 31, 2008	**56,838,791**	**¥24,271**	**¥24,165**	**¥72,408**	**¥ 1,986**	**¥(4,208)**	**¥154**

	Number of shares of common stock	Thousands of U.S. Dollars (Note 3): Common stock	Additional paid-in capital	Retained earnings	Unrealized holding gains on securities	Treasury stock	Minority interests in consolidated subsidiaries
Balance at March 31, 2007	56,796,454	$242,210	$241,140	$715,280	$73,570	$(41,190)	$1,310
Net income for the year	**—**	**—**	**—**	**23,260**	**—**	**—**	**—**
Cash dividends paid	**—**	**—**	**—**	**(15,190)**	**—**	**—**	**—**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Execution of convertible bonds*	**42,337**	**500**	**500**	**—**	**—**	**—**	**—**
Treasury stock purchased	**—**	**—**	**—**	**—**	**—**	**(900)**	**—**
Unrealized holding gains on securities	**—**	**—**	**—**	**—**	**(53,710)**	**—**	**—**
Gain on sale of treasury stock	**—**	**—**	**10**	**—**	**—**	**10**	**—**
Increase due to merger	**—**	**—**	**—**	**730**	**—**	**—**	**—**
Increase in minority interests	**—**	**—**	**—**	**—**	**—**	**—**	**230**
Balance at March 31, 2008	**56,838,791**	**$242,710**	**$241,650**	**$724,080**	**$19,860**	**$(42,080)**	**$1,540**

The accompanying notes are an integral part of these statements.

* Execution of No.1 Convertible Corporate Bonds, face value ¥3 million, each item recorded an increase of the amounts below.

Shares issued	42,337
Common stock	¥49,999,997
Additional paid-in capital	¥50,337,625

Consolidated Statements of Cash Flows

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
For the years ended March 31, 2006, 2007 and 2008

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2006	2007	**2008**	**2008**
Cash Flows from Operating Activities:				
Income before income taxes and minority interests	¥ 3,587	¥ 3,173	**¥ 4,471**	**$ 44,710**
Depreciation and amortization	3,138	3,229	**3,863**	**38,630**
Impairment loss on fixed assets	258	—	**—**	**—**
Change in allowance reserves	(59)	(96)	**396**	**3,960**
Interest and dividend income	(387)	(555)	**(713)**	**(7,130)**
Interest expense	214	177	**159**	**1,590**
Foreign exchange (gain) loss	(33)	(0)	**6**	**60**
Gain from sale of securities	(1,400)	(35)	**(5)**	**(50)**
(Gain) loss from evaluation of securities	(680)	224	**586**	**5,860**
Loss on sales of property, plant and equipment	—	—	**(19)**	**(190)**
Disposition of sales information	—	—	**(571)**	**(5,710)**
Loss from evaluation of investment securities	3	240	**268**	**2,680**
Evaluation loss in affiliates' investments	—	—	**86**	**860**
Loss on sale or disposal of properties	11	12	**374**	**3,740**
Loss on sale of investments in securities	—	(1,049)	**(362)**	**(3,620)**
Increase (decrease) in notes and accounts receivable	1,332	(2,795)	**4,719**	**47,190**
(Increase) decrease in inventories	(2,516)	1,786	**757**	**7,570**
(Increase) decrease in other current assets	(19)	138	**984**	**9,840**
(Decrease) increase in notes and accounts payable	(74)	413	**(5,196)**	**(51,960)**
Increase (decrease) in other current liabilities	1,538	(267)	**(1,956)**	**(19,560)**
Bonuses to directors and corporate auditors	(36)	(20)	**—**	**—**
Other cash flows from operating activities, net	80	(2)	**(144)**	**(1,440)**
Sub total	4,957	4,573	**7,703**	**77,030**
Receipt of interest and dividends	347	515	**676**	**6,760**
Payment of interest	(214)	(178)	**(161)**	**(1,610)**
Payment of income taxes	(2,019)	(951)	**(1,912)**	**(19,120)**
Net cash provided by operating activities	3,071	3,959	**6,306**	**63,060**
Cash Flows from Investing Activities:				
Increase in time deposits	(79)	(70)	**(102)**	**(1,020)**
Decrease in time deposits	78	79	**97**	**970**
Reduction of investments in specified trusts	833	119	**89**	**890**
Acquisition of investments in specified trusts	—	—	**(200)**	**(2,000)**
Purchase of securities	(627)	(528)	**—**	**—**
Proceeds from sales of marketable securities	1,451	8,247	**3,600**	**36,000**
Acquisition of property and equipment	(2,364)	(3,954)	**(2,546)**	**(25,460)**
Proceeds from sales of property and equipment	43	7	**114**	**1,140**
Proceeds from subsidies received from the government	—	—	**160**	**1,600**
Purchase of intangible assets	(725)	(1,326)	**(316)**	**(3,160)**
Acquisition of investments in securities	(3,172)	(3,374)	**(5,607)**	**(56,070)**
Proceeds from sales of investments in securities	3,181	2,440	**1,069**	**10,690**
Payments for loans	(141)	(166)	**(245)**	**(2,450)**
Collection of loans	163	163	**265**	**2,650**
Long-term advance payment costs	(8)	(11)	**(11)**	**(110)**
Proceeds from disposition of sales information	—	—	**571**	**5,710**
Other cash flows from investing activities, net	(203)	(32)	**7**	**70**
Net cash (used in) provided by investing activities	(1,570)	1,594	**(3,055)**	**(30,550)**
Cash Flow from Financing Activities:				
Increase in short-term bank loans	2,030	1,560	**590**	**5,900**
Repayment of short-term bank loans	(2,205)	(1,730)	**(790)**	**(7,900)**
Increase in long-term debt	—	—	**400**	**4,000**
Repayment of long-term debt	(41)	(26)	**(40)**	**(400)**
Cash dividends paid by the Company	(1,195)	(1,411)	**(1,519)**	**(15,190)**
Payments on redemption of convertible notes	—	(9,583)	**—**	**—**
Treasury stock purchase	(82)	(60)	**(90)**	**(900)**
Treasury stock sale	3	4	**1**	**10**
Net cash used in financing activities	(1,490)	(11,246)	**(1,448)**	**(14,480)**
Effect of exchange rate changes on cash and cash equivalents	33	0	**(6)**	**(60)**
Increase (decrease) in cash and cash equivalents	43	(5,693)	**1,798**	**17,980**
Cash and cash equivalents at beginning of year (Note 4)	48,983	49,647	**43,954**	**439,540**
Receipts of cash and cash equivalents from merger	—	—	**—**	**—**
Receipts of cash and cash equivalents due to change in scope of consolidation	621	—	**122**	**1,220**
Cash and cash equivalents at end of year (Note 4)	¥49,647	¥ 43,954	**¥45,874**	**$458,740**

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 Financial Instrument and Exchange Low.

2. Summary of Significant Accounting Policies

(1) Scope of Consolidation

The number of subsidiaries the Company had for the years ended March 31, 2007 and 2008 were nine and eight, respectively, of which three were consolidated in the respective years. The significant subsidiaries which have been consolidated with the Company are listed below:

Consolidated Forecast — Millions of Yen

Name of subsidiaries	Equity ownership percentage	Paid-in capital
Kissei Shoji Co., Ltd.	100%	¥ 50 million
Kissei Comtec Co., Ltd.	84	334 million
Hashiba Technos Co., Ltd.	100	45 million

*On April 1, 2007, consolidated subsidiary Hashiba 920 Co., Ltd., merged with non-consolidated subsidiary Kissei Technos Co., Ltd., and the surviving company's corporate name was changed to Hashiba Technos Co., Ltd.

(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, 2008.

(3) Investments in Non-consolidated 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 net assets. The cost of securities sold is primarily determined by the moving average method.

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

Specified money in trust is stated at market value.

(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. The range of useful lives is principally from 3 to 50 years for buildings and structures.

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.

In accordance with the revision made to the Corporate Tax Law of Japan (the "Tax Law") which went into effect on April 1, 2007, effective the year ended March 31, 2008, the Company and consolidated subsidiaries have adopted the new method prescribed in the revised Tax Law for depreciating property, plant and equipment acquired on or after April 1, 2007. The effect of this change on the consolidated financial statements for the year ended March 31, 2008 was immaterial.

In addition to the above adoption, effective the year ended March 31, 2008, these companies depreciate the difference between 5% of acquisition cost and nominal value by the straight-line method over a period of five years from the year following the year in which the accumulated depreciation has reached 95% of acquisition cost with respect to property, plant and equipment acquired on or before March 31, 2007. The effect of this change on the consolidated financial statements for the year ended March 31, 2008 was immaterial.

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 deferred charges 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 (mainly 5 years) on a straight-line basis.

Research and development costs incurred for specific projects, in search of new products and new technology, are recognized as an expense when 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 Companies to dealers in respect of the balance of accounts receivable at the balance sheet date. In estimating the amount of rebates, the Companies apply the actual rebate rates allowed in the six-month period preceding the balance sheet dates.

(v) Reserve for sales promotion expenses

"Reserve for sales promotion expenses" is provided for in an amount which the Companies expect to pay in relation to dealers' inventories at the balance sheet dates. In estimating the amount of sales promotion expenses, the Companies apply the rate of such expenses against dealers' inventories based on the experience in the six-month period preceding the balance sheet dates.

(vi) Accrued retirement benefits to employees

To account for retirement benefits to employees, the Companies recognize 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.

Prior service cost is 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).

(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 Companies would have to pay if all directors and corporate auditors resigned at the balance sheet dates.

(12) 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).

(13) Reclassification of Accounts

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

(14) Research and Development Expenses

Research and development expenses are recognized as an expense when incurred in accordance with the Japanese accounting standards.

(15) 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, 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.

(16) Accounting Standard for Prsentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Companies have applied "Accounting standards for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Statement No.5)", and "Implementation guidance for Accounting standards for presentation of net assets in the balance sheet (Accounting Standards of Japan Guidance No.8)" both issued by the Accounting Standard Board of Japan on December 9, 2005.

The amounts corresponding to the conventional "Shareholders' equity" in the balance sheet is ¥123,101 million.

"Net assets" in the balance sheets for this year is presented according to the revision of "Regulations Concerning the Terminology, Form and Presentation Methods of Consolidated Financial Statements" dated on April 25, 2006. Furthermore, the Companies presented its net assets in the balance sheets using the new presentation as of March 31, 2007 and 2008.

(17) Change to the Method of Presentation for Certificates of Deposits

Certificates of Deposits, which were included in "Cash on hand and in banks" in the consolidated balance sheets at March 31, 2007, are included in "Investments in securities" at March 31, 2008, in accordance with the revisions to the "Practical Guidelines on Accounting Standards for Financial Instrument" and "Q&A on Accounting Standards for Financial Instruments". The amount of certificates of deposits were ¥19,340 million at March 31, 2007 and 2008.

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 ¥100=U.S.$1, the approximate effective rate of exchange at March 31, 2008. 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, realized or settled in dollars at ¥100=U.S.$1 or at any other rate.

4. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2007 and 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	**2008**	**2008**
Cash on hand and in banks	¥33,480	**¥12,067**	**$120,670**
Marketable securities	14,143	**33,882**	**338,820**
Time deposits with original maturities of over three months	(70)	**(74)**	**(740)**
Marketable securities with maturities of over three months	(3,599)	**—**	**—**
Cash and cash equivalents	¥43,954	**¥45,875**	**$458,750**

5. Securities

The acquisition cost, carrying amount, gross unrealized holding gains and losses for securities with fair value by security type at March 31, 2007 and 2008 are as follows.

Available-for-sale securities:

	Millions of Yen			
	2007			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥14,021	¥25,987	¥12,563	¥597
Corporate debt securities	3,998	3,997	1	3
Other	899	862	1	38
	¥18,918	¥30,846	¥12,565	¥638

	Millions of Yen			
	2008			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**¥19,155**	**¥22,512**	**¥4,808**	**¥1,451**
Corporate debt securities	**399**	**379**	**1**	**20**
Other	**896**	**834**	**—**	**63**
	¥20,450	**¥23,725**	**¥4,809**	**¥1,534**

	Thousands of U.S. Dollars			
	2008			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**$191,550**	**$225,120**	**$48,080**	**$14,510**
Corporate debt securities	**3,990**	**3,790**	**10**	**200**
Other	**8,960**	**8,340**	**—**	**630**
	$204,500	**$237,250**	**$48,090**	**$15,340**

The carrying amount of securities where no market value is available at March 31, 2007 and 2008 is summarized as follows.

Other securities:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Certificates of Deposit	¥ —	**¥19,340**	**$193,400**
Unlisted stocks (except for over-the-counter securities)	1,746	**1,721**	**17,210**
Other	12,471	**15,886**	**158,860**
	¥14,217	**¥36,947**	**$369,470**

Proceeds, gross realized gains and gross realized losses from the sale of available-for-sale securities in respect of the year ended March 31, 2008 were ¥493 million ($4,930 thousand) , ¥370 million ($3,700 thousand) and ¥8 million ($80 thousand), respectively.

The balance in specified trusts was ¥2,716 million in fiscal 2007 and ¥2,274 million (U.S. $22,740 thousand) in fiscal 2008.

6. Inventories

Inventories at March 31, 2007 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Merchandise	¥ 2,891	**¥ 2,756**	**$ 27,560**
Finished goods	1,588	**1,198**	**11,980**
Work-in-process	2,392	**1,818**	**18,180**
Raw materials	3,241	**3,655**	**36,550**
Supplies	765	**693**	**6,930**
	¥10,877	**¥10,120**	**$101,200**

7. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans outstanding at March 31, 2007 and 2008 represent one-year notes issued by the Companies to banks. Short-term bank loans made during the years ended March 31, 2007 and 2008 bore interest at an average annual rate of 1.74% and 1.67%, respectively.

Maximum month-end balance and average month-end balance of short-term bank loans outstanding for the years ended March 31, 2007 and 2008 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Maximum month-end balance	¥3,460	**¥3,440**	**$34,400**
Average month-end balance	¥3,020	**¥3,038**	**$30,380**

Long-term debt of the Companies at March 31, 2007 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	**2008**	**2008**
Non-secured loans with financial institutions, bearing interest at rates ranging from 2.00% to 6.00% due from 2007 to 2027	¥ 107	**¥ 467**	**$ 4,670**
0.8% convertible notes due 2008	12,191	**12,091**	**120,910**
	12,298	**12,558**	**125,580**
Less: current maturities due within one year	(24)	**(12,154)**	**(121,540)**
	¥12,274	**¥ 404**	**$ 4,040**

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, 2008 is 5,128 thousand shares.

The aggregate annual maturities of long-term loans outstanding at March 31, 2008 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year ending March 31		
2009	¥ 63	$ 630
2010	63	630
2011	63	630
2012 and thereafter	278	2,780
	¥467	$4,670

8. Research and Development Expenses

Research and development expenses were included in selling, general and administrative expenses for the years ended March 31, 2006, 2007 and 2008 amounting to ¥10,574 million, ¥10,473 million and ¥11,361 million ($113,610 thousand), respectively.

9. Income Taxes

Income taxes in Japan applicable to the Companies for the years ended March 31, 2006, 2007 and 2008 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		
	2006	2007	**2008**
Corporate income tax	30.0%	30.0%	**30.0%**
Enterprise tax	7.2	7.2	**7.2**
Resident income taxes	6.1	6.1	**6.1**
	43.3%	43.3%	**43.3%**
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid	40.4%	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.

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

	Millions of Yen		Thousands of U.S. Dollars
	2007	**2008**	**2008**
Deferred tax assets:			
Accrued retirement benefits to employees	¥ 1,396	**¥ 1,368**	**$ 13,680**
Prepaid research and development expenses	1,185	**1,082**	**10,820**
Accrued bonuses to employees	583	**753**	**7,530**
Accrued retirement benefits to directors and corporate auditors	585	**641**	**6,410**
Write-down of securities	585	**429**	**4,290**
Reserve for sales rebates	239	**233**	**2,330**
Accrued enterprise tax	115	**123**	**1,230**
Other	1,242	**1,355**	**13,550**
	5,930	**5,984**	**59,840**
Valuation allowance	(717)	**(1,056)**	**(10,560)**
	¥ 5,213	**¥ 4,928**	**$ 49,280**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	¥(4,987)	**¥(1,347)**	**$(13,470)**
Other	(1)	**(0)**	**(4)**
Deferred tax assets, net	¥ 225	**¥ 3,581**	**$ 35,810**

Reconciliation of the actual tax rate is shown below.

	2007	**2008**
Effective statutory tax rate	40.4%	**40.4%**
Adjustments:		
Entertainment expenses and other nondeductibles	14.5	**8.9**
Dividend income not taxable	(2.2)	**(1.9)**
Tax benefits due to research and development expenses	(8.5)	**(7.6)**
Per capital levy of local resident income taxes	2.0	**1.5**
Valuation allowance	—	**7.6**
Other factors	3.2	**(1.4)**
Actual tax rate	49.4%	**47.5%**

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, 2007 and 2008:

	Millions of Yen		Thousands of U.S. Dollars
	2007	**2008**	**2008**
Projected benefit obligations	¥11,788	**¥12,534**	**$125,340**
Fair value of plan assets	(9,529)	**(9,064)**	**(90,640)**
Funded status of the plans	2,259	**3,470**	**34,700**
Unrecognized net actuarial difference	(1,391)	**(2,415)**	**(24,150)**
Unamortized prior service cost	2,587	**2,330**	**23,300**
Net liability recognized	¥ 3,455	**¥ 3,385**	**$ 33,850**

The net periodic retirement benefit cost for the years ended March 31, 2006, 2007 and 2008 included the following components:

	Millions of Yen			Thousands of U.S. Dollars
	2006	2007	**2008**	**2008**
Service cost	¥ 613	¥ 577	**¥ 645**	**$ 6,450**
Interest cost	293	255	**297**	**2,970**
Expected return on plan assets	(181)	(218)	**(242)**	**(2,420)**
Amortization of difference caused from actuarial calculation	221	165	**254**	**2,540**
Amortization of prior service cost	(32)	(294)	**(299)**	**(2,990)**
Additional payment of retirement costs	35	95	**33**	**330**
	¥ 949	¥ 580	**¥ 688**	**$ 6,880**

The discount rate used to determine the actuarial present value of projected benefit obligations under the plan that covers the employees of the Companies was 2.5% as of March 31, 2007 and 2008. The rate of expected return on plan assets was 2.5% as of March 31, 2007 and 2008. 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, 2006, 2007 and 2008 are summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2006	2007	**2008**	**2008**
Lease rental expenses	¥365	¥180	**¥179**	**$1,790**

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, 2008 is summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Acquisition cost	¥928	$9,280
Accumulated depreciation	631	6,310
Net book value	¥297	$2,970
Depreciation	¥179	$1,790

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, 2007 and 2008, including the portion of interest thereon, is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	**2008**	**2008**
Future lease payments:			
Within one year	¥130	**¥150**	**$1,500**
After more than one year	124	**147**	**1,470**
Total	¥254	**¥297**	**$2,970**

(2) Contingent Liabilities

The Companies had contingent liabilities arising from notes discounted by banks in the ordinary course of business in the amount of ¥16 million ($160 thousand) at March 31, 2008.

In addition, the Companies were contingently liable for guarantees in respect of loans borrowed by its unconsolidated subsidiaries for an amount of ¥170 million ($1,700 thousand) at March 31, 2008.

12. Segment Information

(1) Industry Segment Information

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

Pharmaceuticals .... Ethical pharmaceuticals
Other .... Sale of materials and other goods
Information solution services
Construction subcontracting
Facilities and equipment management

The industry segment information of the Company and its consolidated subsidiaries for the three years ended March 31, 2008 is presented below:

	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

	Millions of Yen				
	2007				
	Industry segment			Elimination of Inter-segment sales	Consolidated total
	Pharmaceuticals	Other	Total		
Sales:					
Sales to outside customers	¥ 55,579	¥ 8,637	¥ 64,216	¥ —	¥ 64,216
Inter-segment sales	0	6,146	6,146	(6,146)	–
Total sales	55,579	14,783	70,362	(6,146)	64,216
Operating expenses	53,490	14,088	67,578	(6,008)	61,570
Operating income	¥ 2,089	¥ 695	¥ 2,784	¥ (138)	¥ 2,646
Assets	¥156,247	¥12,385	¥168,632	¥(5,049)	¥163,583
Depreciation	¥ 2,960	¥ 439	¥ 3,399	¥ (171)	¥ 3,228
Capital expenditure	¥ 5,772	¥ 548	¥ 6,320	¥(1,029)	¥ 5,291

	Millions of Yen				
	2008				
	Industry segment			Elimination of Inter-segment sales	Consolidated total
	Pharmaceuticals	Other	Total		
Sales:					
Sales to outside customers	**¥ 54,768**	**¥ 6,713**	**¥ 61,481**	**¥ —**	**¥ 61,481**
Inter-segment sales	**0**	**7,479**	**7,479**	**(7,479)**	**—**
Total sales	**54,768**	**14,192**	**68,960**	**(7,479)**	**61,481**
Operating expenses	**50,967**	**13,607**	**64,574**	**(7,363)**	**57,211**
Operating income	**¥ 3,801**	**¥ 585**	**¥ 4,386**	**¥ (116)**	**¥ 4,270**
Assets	**¥145,027**	**¥ 7,442**	**¥152,469**	**¥(1,903)**	**¥150,566**
Depreciation	**¥ 3,565**	**¥ 518**	**¥ 4,083**	**¥ (220)**	**¥ 3,863**
Capital expenditure	**¥ 3,093**	**¥ 535**	**¥ 3,628**	**¥ (840)**	**¥ 2,788**

	Thousands of U.S. Dollars				
	2008				
	Industry segment			Elimination of Inter-segment sales	Consolidated total
	Pharmaceuticals	Other	Total		
Sales:					
Sales to outside customers	**$ 547,680**	**$ 67,130**	**$ 614,810**	**$ —**	**$ 614,810**
Inter-segment sales	**0**	**74,790**	**74,790**	**(74,790)**	**—**
Total sales	**547,680**	**141,920**	**689,600**	**(74,790)**	**614,810**
Operating expenses	**509,670**	**136,070**	**645,740**	**(73,630)**	**572,110**
Operating income	**$ 38,010**	**$ 5,850**	**$ 43,860**	**$ (1,160)**	**$ 42,700**
Assets	**$1,450,270**	**$ 74,420**	**$1,524,690**	**$(19,030)**	**$1,505,660**
Depreciation	**$ 35,650**	**$ 5,180**	**$ 40,830**	**$ (2,200)**	**$ 38,630**
Capital expenditure	**$ 30,930**	**$ 5,350**	**$ 36,280**	**$ (8,400)**	**$ 27,880**

(2) Geographic Segment Information

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, 2008 is omitted because export sales account for less than 10% of total sales.

13.Business Transactions with Parties Related to the Company

Fiscal 2007 (April 1, 2006—March 31, 2007)

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 5.1
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)	19
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 2008 (April 1, 2007—March 31, 2008)

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 5.0
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)	16
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, 2008 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2006	2007	**2008**	**2008**
Advertising and sales promotion expenses	¥ 4,985	¥ 4,723	**¥ 4,167**	**$ 41,670**
Payroll costs	7,626	7,783	**8,312**	**83,120**
Research and development expenses	10,574	10,473	**11,361**	**113,610**
Traveling expenses	1,726	1,864	**1,941**	**19,410**
Depreciation	1,350	1,343	**1,455**	**14,550**
Other	7,587	7,365	**7,174**	**71,740**
	¥33,849	¥33,551	**¥34,410**	**$344,100**

15. Impairment Loss on Fixed Assets

Asset impairment losses were booked for the following asset groups at March 31, 2006.

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

The Companies have 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 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 Companies 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 the year ended March 31, 2006.

17. Loss on Disposal of Merchandise

The loss is related to the disposal of inventory accompanying end of sales for portable blood glucose monitoring system for the year ended March 31, 2007.

18. Extraordinary Contribution on Withdrawn from Pension Fund

The loss is related to the donations to special fund on the occasion of consolidated subsidiary Hashiba 920 Co., Ltd. voluntary withdrawal from the Nagano Prefecture construction industry corporate employees' pension fund for the year ended March 31, 2007.

Report of Independent Auditors

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197

Report of Independent Auditors

The Board of Directors
Kissei Pharmaceutical Co., Ltd.

We have audited the accompanying consolidated balance sheets of Kissei pharmaceutical Co., Ltd. and consolidated subsidiaries as of March 31, 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kissei pharmaceutical Co., Ltd. and consolidated subsidiaries at March 31, 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

July 9, 2008

Ernst & Young ShinNihon LLC

Board of Directors

As of June 26, 2008

Chairman:
Kunio Kanzawa

President and Chief Executive Officer:
Mutsuo Kanzawa

Executive Vice President:
Hiroshi Saito

Executive Managing Director:
Yukiyoshi Ajisawa

Managing Directors:
Keiichiro Yanagisawa
Seiichiro Furihata

Directors:
Sukio Adachi
Masuo Akahane
Imao Mikoshiba
Hiroe Sato
Nobuo Shibata
Masaki Morozumi
Yasunori Nakata
Yoshio Furihata

Auditors:
Tetsuo Yabana
Yoshinobu Kubota
Kiyoshi Kumazawa
Hiroshi Ueno

Corporate Data

As of June 26, 2008

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:
¥24,271 million

Number of Employees:
1,600

Central Research Laboratories:
Azumino City, Nagano

Toxicological Laboratories:
Azumino City, Nagano

Joetsu Chemical Laboratories:
Joetsu City , Niigata

Pharmaceutical Laboratories:
Azumino City, Nagano

Plants:
Matsumoto City, Shiojiri City

Distribution Center:
Shiojiri City

Information Center:
Matsumoto City

Nutritional Business Center:
Shiojiri City

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

Offices:
Hakodate, Asahikawa, Yamagata, Morioka, Akita, Aomori, Koriyama, Takasaki, Utsunomiya, Mito, Niigata, Tokyo-fourth, Tama, Chiba-first, Chiba-second, Atsugi, Okazaki, Gifu, Mie, Shizuoka, Shiga, Kanazawa, Kita Osaka, Nara, Sakai, Kobe, Himeji, Yamaguchi, Okayama, Kitakyushu, Oita, Nagasaki, Kumamoto, Kagoshima, Okinawa

Subsidiaries:
Consolidated Subsidiaries
Kissei Shoji Co., Ltd.
Kissei Comtec Co., Ltd.
Hashiba Technos Co., Ltd.
Non-consolidated Subsidiaries
Kissei America, Inc.
Mitsui Kanko Co., Ltd.
Kissei Wellcom Co., Ltd.
Planet Computer Technology (BeiJing) Co., Ltd.

Investor Information

As of March 31, 2008

Common Stock:

Authorized: 227,000,000 shares
Issued: 56,838,791 shares

Number of Shareholders:

3,190 (Year-on-year change: 379 decrease)

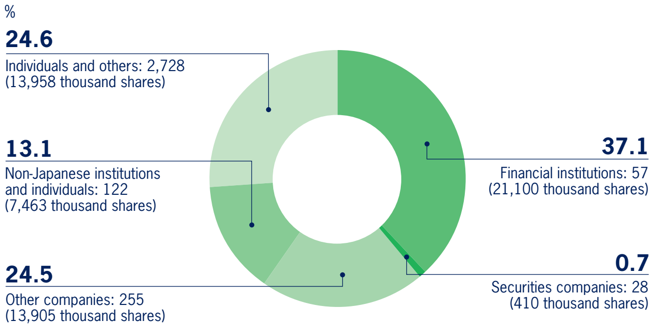
Principal Shareholders:

	Number of shares held (Thousands)	Voting right (%)
The Dai-ichi Mutual Life Insurance Company	3,418	6.3
Kanzawa Limited	3,178	5.9
Kunio Kanzawa	2,702	5.0
Mizuho Bank, Ltd.	2,670	4.9
The Hachijuni Bank, Ltd.	2,670	4.9
Japan Trustee Services Bank, Ltd. (Trust account)	1,938	3.6
The Master Trust Bank of Japan, Ltd. (Trust account)	1,806	3.3
Mutsuo Kanzawa	1,469	2.7
Trust & Custody Services Bank, Ltd. (Trust account)	1,442	2.7
Nabelin Co., Ltd.	1,219	2.2

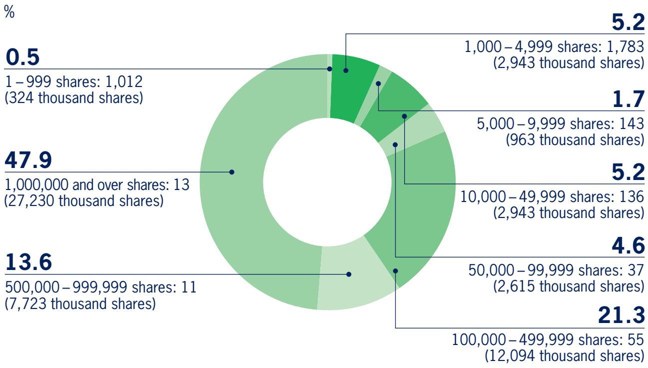
Note: Kissei holds 2,579,849 shares of treasury stock.

Composition of Shareholders:

By Category



By Number of Shares Held



KISSEI PHARMACEUTICAL CO., LTD.

19-48, Yoshino, Matsumoto City, Nagano 399-8710, Japan
URL: http://www.kissei.co.jp/

In consideration of environmental concerns, this report is printed on FSC-certified paper using the waterless printing process and soy ink.

Printed in Japan