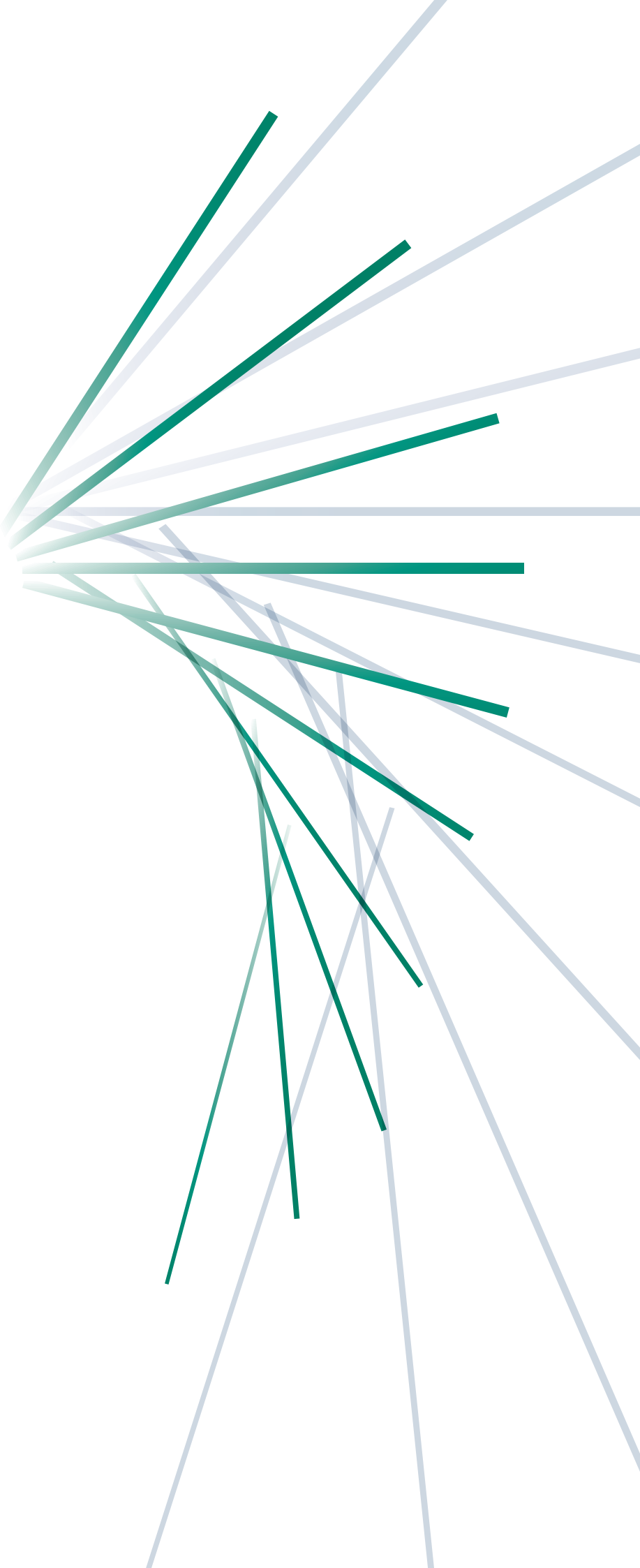
KISSEI

Annual Report 2009



About Kissei

Guided by its management philosophy, the Kissei Group is aiming 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 the health of people around the world through innovative drug products.

To this end, Kissei is proactively pushing forward with measures to construct a total marketing system, including to promote R&D activities from the patient's perspective, to manufacture the highest quality pharmaceuticals, to provide and collect drugs information necessary for the optimum use of its products, and to realize highly efficient operations.

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

The "Changing Plan (plan for change)," our medium-term management plan for the period from April 2008 to March 2011, aims to improve profitability in Japan and overseas, create a strategic R&D pipeline to develop the next generation of pharmaceuticals, and establish a system for the continuous creation of new drugs, as shown in the diagram below.

The Medium-Term Management Plan
(April 2008–March 2011)

Contents

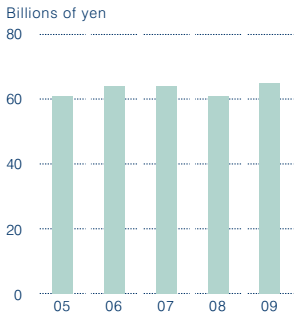
Financial Highlights

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

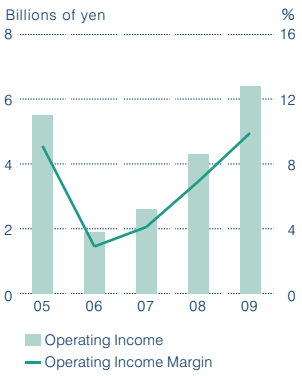
	Millions of yen, except per share data						Thousands of U.S. dollars, except per share data[1]
	2004	2005	2006	2007	2008	**2009**	**2009**
For the Year:							
Net Sales	¥58,226	¥60,933	¥64,008	¥64,216	¥61,481	**¥64,536**	**$658,531**
R&D Expenses	9,826	9,893	10,574	10,473	11,361	**11,557**	**117,929**
Capital Investment	1,818	1,660	2,284	3,954	2,460	**1,414**	**14,429**
Operating Income	6,210	5,517	1,877	2,646	4,270	**6,393**	**65,235**
Net Income	5,600	4,735	2,045	1,570	2,326	**2,061**	**21,031**
At Year-End:							
Total Assets	¥162,842	¥164,944	¥174,115	¥163,584	¥150,566	**¥140,181**	**$1,430,418**
Total Net Assets	116,266	120,086	124,260	123,232	118,775	**118,415**	**1,208,316**
Per Share (Yen and U.S. Dollars):							
Net Income[2]:							
Primary	¥101.8	¥86.5	¥37.3	¥28.9	¥42.9	**¥38.0**	**$0.388**
Fully-Diluted	88.7	75.5	33.5	27.1	40.2	**37.2**	**0.380**
Cash Dividends	17.0	20.0	24.0	28.0	28.0	**30.0**	**0.306**
Key Ratios (%):							
Operating Income Margin	10.7	9.1	2.9	4.1	6.9	**9.9**	
Shareholders' Equity Ratio	71.4	72.8	71.4	75.3	78.8	**84.4**	
Number of Employees	1,677	1,686	1,759	1,777	1,844	**1,870**	

1 U.S. dollar amounts are translated at the rate of ¥98=U.S.$1, the approximate effective rate of exchange at March 31, 2009.
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.

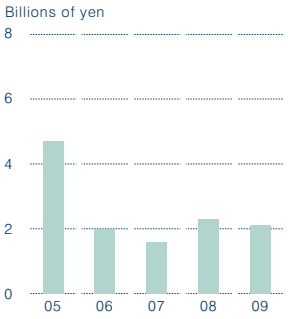
Net Sales



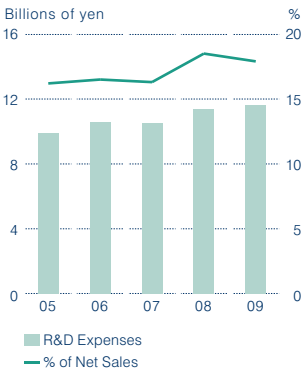
Operating Income / Operating Income Margin



Net Income



R&D Expenses



A Message from the President

Mutsuo Kanzawa
President and Chief Executive Officer

Review of Operations

Overview of Operations in the Year Under Review

In fiscal 2009, the year ended March 31, 2009, the Japanese economy slipped into a recession on the back of a rapid global economic slowdown that began with the financial crisis in the U.S. and later spread to the real economy. The domestic economy was further impacted by the fall in corporate earnings resulting from the continuing appreciation of the yen and the dramatic decline in exports. The sense of economic stagnation was heightened by deteriorating employment and salary conditions as well as the slumping stock market.

Conditions in the pharmaceutical industry also became increasingly severe, as in addition to the government pushing forward with its policy to promote the use of generic drugs, National Health Insurance (NHI) price revisions came into effect in April 2008. Competition in the information services, merchandising, and construction industries remained extremely fierce. In addition to the continuing downward trend in public spending, operating conditions were further exacerbated by the slowdown in both IT and capital investment that resulted from the economic downturn as well as the continued slump in domestic demand.

In this environment, in its pharmaceutical business Kissei cultivated Urief®, a drug for dysuria associated with benign prostatic hyperplasia (BPH); Glufast®, an insulin secretagogue; and Salagen®, a therapeutic agent for patients with dry mouth. In addition to these developments, we proactively worked to provide medical specialists with information on our existing pharmaceutical products. We received approval for Urief® in tablet form in July 2008, the NHI price listing was set in December 2008, and the product was launched in collaboration with sales partner Daiichi Sankyo Co., Ltd., in February 2009.

We had already received approval for an additional indication of Glufast® as combination therapy with the alpha-glucosidase inhibitor, and we subsequently also received approval for Glufast® as a combination therapy with thiazolidinediones, which was co-marketed with Takeda Pharmaceuticals Co., Ltd. We have been actively providing medical specialists with information on these additional indications.

In R&D, we pushed forward with all of our product development themes. We continued follow-up activities subsequent to the April 2007 filing for approval for an additional indication of Glufast® for combination therapy with thiazolidinediones, and acquired approval in February 2009. In September 2008, we concluded an exclusive licensing agreement for Japan, including for sub-licensing rights, to develop and market YS110 which is Y's Therapeutics Co., Ltd.'s humanized anti-CD26 monoclonal antibody and targets malignant mesothelioma. Presently, we are pushing forward with preparations for clinical trials. Further, in November 2008 our joint development partner JCR Pharmaceuticals Co., Ltd. filed a New Drug Application (NDA) for JR-013, for the treatment of renal anemia based on recombinant human erythropoietin.

In licensing activities, in May 2008 we entered into a licensing agreement with GlaxoSmithKline plc, of the U.K., for the exclusive development and marketing of remogliflozin (discovered and developed by Kissei) in Japan, Korea, China, and Taiwan. Through this agreement, GlaxoSmithKline acquired exclusive global development and marketing rights for remogliflozin.

Silodosin (brand name in Japan: Urief®) was developed by Kissei as a treatment for dysuria associated with BPH, and we have been out-licensing it to partners overseas. One of our overseas licensing partners, Watson Pharmaceuticals, Inc., of the U.S., acquired approval in October 2008 from the U.S. Food and Drug Administration (FDA) for silodosin and launched it in the U.S. in April 2009 under the product name of Rapaflo™. In addition, in November 2008 the European Medicines Agency (EMEA) accepted an NDA filing from another licensing partner, Recordati of Italy, and the EMEA is currently reviewing the NDA.

In other businesses, we are focusing on strengthening the Group's management foundations through implementing operational structural reforms and creating synergies throughout the Group.

As a result, in the fiscal year under review, consolidated net sales reached ¥64.54 billion, a 5.0% increase year on year; operating income was ¥6.39 billion, a 49.7% increase year on year; and net income was ¥2.06 billion, a decline of 11.4%, primarily attributable to the recording of a loss on devaluation of investment securities that accompanied the fall in the stock market.

Looking at each business segment, pharmaceutical business segment sales were impacted by the effects of NHI price revisions as well as generic and competitor drugs. Also, sales of the Parkinson's

disease treatment Cabaser® continued to fall due to labeling update from April 2007. However, these falls were absorbed by the strong gains recorded by new drugs Urief®, Glufast®, and Salagen®, as well as an increase in the licensing fee royalties received. As a result, segment sales edged up 1.0% year on year, to ¥55.30 billion.
In other businesses, increased sales were recorded in each of information service operations, merchandising operations, and construction project operations. Consequently, segment sales grew 37.6% year on year, to ¥9.24 billion.

Outlook for the Current Fiscal Year

The pharmaceutical industry will likely continue to face a difficult operating environment due to a series of previously implemented government policies, including those to promote the use of generic drugs and to restrict public health care expenditures.

The operating environment for other businesses will likely be increasingly sluggish due to the substantial deterioration in the economy, and within this kind of environment we anticipate conditions will remain challenging due to factors such as price competition.

In this setting, we will 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, 2010.

Consolidated performance forecast

	Millions of yen		%
	Forecast for year ending March 2010	Results for year ended March 2009	Change
Net Sales	¥65,500	¥64,536	1.5
Operating Income	6,500	6,393	1.7
Net Income	4,300	2,061	108.6

Net Sales

In our pharmaceutical business, we anticipate higher revenues due to continued efforts to cultivate our new drugs, such as in February 2009 when we launched Urief® in tablet form and also in the same month when we received approval for an additional indication for Glufast®.

In our other businesses, against the backdrop of a deteriorating operating environment we are forecasting a decline in sales for each of our operations in information services, merchandising, and construction projects.

Income

The Company will continue to actively invest in R&D, principally cultivating new drugs within its pharmaceutical business. Moreover, we expect operating income and net income to increase as the new product developments reduce the cost of sales margin. We do not anticipate any noteworthy other income or expenses.

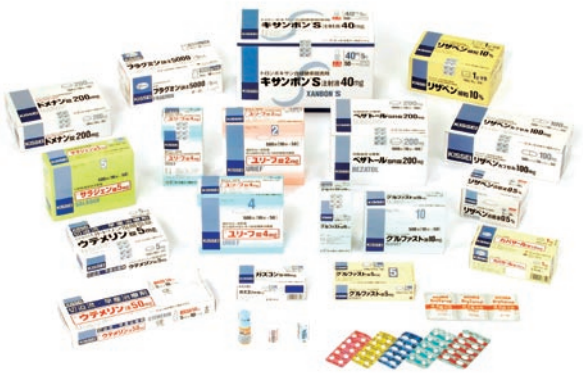
Main Pharmaceutical Products

(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
New Throking-i: for seniors
Cupagalorie: energy supplement



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 restructuring the NHI system, we forecast 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 coming to the fore, such as biomedicines. 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, titled "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 2010, the second year of the plan, we will take concrete steps to address the following key management issues: improving profitability in the domestic market, strengthening and enhancing our R&D pipeline, and establishing a stable overseas revenue base.

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.

We would like to ask for the continued understanding and support of our stakeholders in the years ahead.

June 2009

Mutsuo Kanzawa
President and Chief Executive Officer

Silodosin—spreading throughout the world

Establish revenue base overseas through the U.S. launch of Rapaflo™

Following our out-licensing of silodosin, a treatment for benign prostatic hyperplasia (BPH), to Watson Pharmaceuticals, Inc., of the U.S., it began sales of the drug in the U.S. in April 2009 under the product name, Rapaflo™.

Compared to existing drugs, silodosin has the following advantages:

- Rapid and sustained efficacy (based on subjective symptoms and objective symptoms)
- Favorable safety profile on blood pressure and the cardiovascular system

Currently, Watson Pharmaceuticals is actively promoting Rapaflo™ to specialist urology clinics in the U.S., and plans in the near future to expand its sales activities to include the primary care sector. It has been estimated that more than half of all males in the U.S. aged over 50 suffer from BPH, giving Rapaflo™ an enormous potential market.

Further, our out-licensing partners in Europe and China also filed an NDA for silodosin as a new drug during 2008, and going forward we expect a substantial increase in overseas sales.

www.rapaflo.com

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 the health of people around the world through 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 R&D efforts in our pharmaceutical business in Japan and overseas in the consolidated fiscal year is as follows.

In Japan, in April 2007 we filed an NDA for an additional indication of Glufast®, an insulin secretagogue, as a combination therapy with thiazolidinediones, which was jointly developed with Takeda Pharmaceuticals, and in June 2007, we filed an NDA for an additional formulation (tablets, joint development with Daiichi Sankyo), for Urief®, a drug for dysuria associated with BPH.

During the fiscal year ended March 31, 2009, we continued follow-up activities, and acquired approval for the additional indication of Glufast® for combination therapy in February 2009, and approval for an additional formulation for Urief® in July 2008. In addition, in November 2008 our joint development partner JCR Pharmaceuticals also filed an NDA for JR-013, for the treatment of renal anemia based on recombinant human erythropoietin.

We pushed forward with activities in every R&D product theme throughout the fiscal year, including commencing new development of the voglibose combination drug KMV-0207 for Glufast® life-cycle management and further trials for KUC-7483 as a therapeutic agent for overactive bladder.

Further, in September 2008 we concluded an exclusive licensing agreement for Japan, including for sub-licensing rights, to develop and market YS110, which is Y's Therapeutics humanized anti-CD26 monoclonal antibody and targets malignant mesothelioma. Currently, we are preparing for clinical trials.

We are aiming to advance our overseas operations by aggressively developing licensing out strategies for proprietary Kissei products to create a stable overseas revenue base. One of our overseas licensing partners, Watson Pharmaceuticals, acquired approval in October 2008 from the FDA for silodosin (brand name in Japan: Urief®) and launched it in the United States in April 2009 under the product name of Rapaflo™.

In addition, in November 2008 the European Medicines Agency (EMEA) accepted an NDA filing from another licensing partner, Recordati. In China, Daiichi Sankyo Pharmaceutical (Beijing) Co., Ltd., which is a subsidiary of our licensing partner, Daiichi Sankyo, filed an NDA for silodosin in December 2008, and is being reviewed by the authorities. Further, in March 2009, we commenced a licensing contract with Eisai Co., Ltd., for the exclusive development and marketing rights to silodosin in ASEAN countries, India, and Sri Lanka.

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 ¥11.56 billion, or 17.9% of net sales.

Pharmaceutical Business

Kissei Pharmaceutical 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 ¥11.48 billion.

Other Businesses

In consideration of the global business developments that are set to take place in the future, 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 ¥0.08 billion.

R&D Pipeline

R&D Pipeline (In-House)

As of July 2009

Development stage	Development code	Product origin	Development company	Therapeutic target
NDA	JR-013	JCR (Japan)	Kissei / JCR (Japan) (co-development)	Renal anemia on dialysis
Phase III Preparation	KUC-7483	Kissei	Kissei	Overactive bladder
Phase II	KPS-0373	Shionogi (Japan)	Kissei	Spinocerebellar ataxia
Phase I / II	YS110	Y's Therapeutics, Tokyo University (Japan)	Kissei	Malignant mesothelioma; Humanized anti-CD26 monoclonal antibody
Phase I	KMV-0207	Kissei / Takeda (Japan)	Kissei	Improvement of postprandial plasma glucose transition in patients with type 2 diabetes mellitus; Mitiglinide, Voglibose combination drug

R&D Pipeline (Out-Licensing)

As of July 2009

Development stage	Generic name / Development code	Development company	Territory	Therapeutic target
NDA	Mitiglinide	Eisai (Japan)	China[1]	Type 2 diabetes
			ASEAN (10 countries)[2]	
	Silodosin	Recordati (Italy)	Europe, Middle East, Africa	Dysuria associated with benign prostatic hyperplasia (BPH)
		Daiichi Sankyo (Japan)	China	
		Synmosa (Taiwan)	Taiwan, Hong Kong[3]	
NDA Preparation	Silodosin	Eisai (Japan)	ASEAN (10 countries), India, Sri Lanka	Dysuria associated with benign prostatic hyperplasia (BPH)
Phase III	Mitiglinide	Elixir (U.S.)	North America, Central America, South America	Type 2 diabetes
		Orient Europharma (Taiwan)	Taiwan, Hong Kong[3]	
		USV (India)	India[3]	
Phase II	Bedoradrine	MediciNova (U.S.)	Worldwide, except for Japan	Status asthmatics, Threatened premature labor
	Tranilast	Nuon Therapeutics (U.S.)	Worldwide, except for Japan and Korea	Rheumatoid arthritis
Phase I	KGA-3235	Dainippon Sumitomo (Japan)	Japan	Type 2 diabetes
		GlaxoSmithKline (U.K.)	Europe, U.S., others	

1 Clinical studies and NDA were conducted by Kissei
2 Including countries with NDA preparation stage
3 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 in order to raise corporate value and ensure consistent growth as a company with a clear raison d'etre.

Status of In-Company Organizations and the Maintenance of Internal Control Regulations

Explanation of Corporate Governance Bodies

Kissei's Board of Directors sets basic strategies for the Company and makes decisions on all important matters while also providing oversight of business execution. In principle, the Board of Directors 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 has adopted a corporate auditor system comprised of two in-house and two external auditors, who join the meetings of the Board of Directors and freely share their opinions. One of the corporate auditors is also licensed as an attorney and one is a certified public accountant, and they are consequently able to provide expertise and 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 "to contribute to society through high-quality, innovative pharmaceutical products," and "to promote public service by company employees." The Kissei Group Code of Conduct guides employee conduct, with the aim of upholding high ethical standards in R&D, manufacturing, and sales activities, all of which are fundamental to our business as a company involved in life sciences. In addition, Kissei has established the Compliance Committee to provide advice to the Board of Directors to help ensure that all laws and regulations are followed both in letter and spirit. The Compliance Program is conducted on a regular basis, and as part of this program the Compliance Program Manual is continually updated with employees receiving regular instruction on compliance-related issues. In May 2006, Kissei also created the Basic Policy on Internal Controls, in which every employee is trained. Based on this basic policy, in addition to maintaining all Company rules, the Risk Management Committee—which is an advisory body to the Board of Directors—was established, and risk management and other internal systems are consequently promoted.

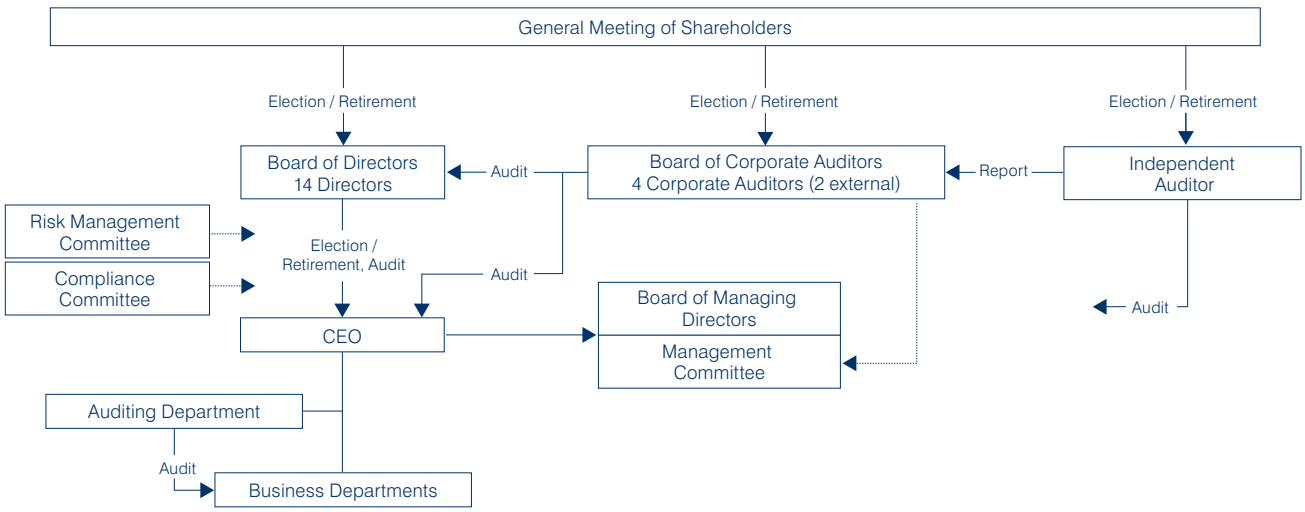
Internal Audits

Kissei has established the Auditing Department, an independent body that reports directly to the president. The six-member body conducts internal audits for each department and all internal systems in the Company based on the yearly auditing plan, ensuring that all departments carry out business activities in an appropriate manner. The Board of Corporate Auditors and the Auditing Department discuss the auditing systems and auditing plan at the beginning of each fiscal period. In addition, they meet each month to exchange opinions on the status of the audits being implemented.

Independent Auditor

Kissei regularly undergoes outside auditing by an independent auditor. The independent auditor engages in discussions with members of the Board of Directors, finance officers, and the Board of Corporate Auditors, which aids the strengthening and maintenance of the corporate governance structure. The two certified public accountants that execute the independent audit of the Company are employees of Ernst & Young ShinNihon LLC. Also, the Company has deployed three certified public accountants to assist the independent auditors and a further twelve employees to carry out audit-related duties.

Diagram of Corporate Governance Bodies and Internal Control System



Kissei Basic Policy on Internal Controls (Summary)

Kissei resolved to create the Basic Policy to Maintain Internal Control Systems at the Board of Directors meeting held on May 15, 2006. The details are as follows.

In the Basic Policy to Maintain Internal Control Systems, Kissei Pharmaceutical declares its intent to utilize the collective power of all its corporate officers and employees in order to continually improve corporate value and to fulfill its corporate social responsibilities, which are founded on its management philosophy. Based on article 362, paragraph 5 of the Companies Act, this basic policy defines policies for all activities to establish and maintain the Company's internal control systems.

1. Systems to ensure that directors and employees comply with laws and regulations as well as the Company's articles of incorporation when executing their duties
– In accordance with the Kissei Group Code of Conduct, a precondition of all Company activities shall be absolute compliance with corporate ethics as well as laws and regulations.
– The Board of Directors shall appoint a director responsible for compliance, and in addition to having overall responsibility for the Compliance Promotion Department, shall establish the Compliance Committee to act as an advisory body to the Board of Directors.

2. Systems for the storage and management of information relating to the directors' execution of duties
– The Board of Directors shall establish and maintain systems to appropriately store and manage information relating to the execution of duties by directors and departmental officers.
– The director responsible for legal affairs shall establish regulations relating to document management and storage and maintain them, together with related materials and other information, in an appropriate storage medium with search functionality.

3. Systems for regulations pertaining to risk management and related systems
– The Board of Directors shall define the risk management and other necessary internal regulations and establish and maintain systems to fully ascertain and manage risks relating to the execution of duties.

4. Systems to ensure directors execute their duties efficiently
– The Company shall establish and maintain systems to increase the efficiency with which directors execute their duties, construct internal organizations aiming to achieve cooperation and control, clearly allocate duties based on internal regulations, establish limits on authority and decision-making rules, and ensure duties are executed appropriately and efficiently.

5. Systems to ensure the appropriate execution of duties within the corporate group
– As prescribed by the Kissei Group Code of Conduct, Group companies will aim to foster an awareness among all their directors and employees of the importance of legal compliance.
– The Board of Directors shall establish and maintain administrative rules for affiliates, and for predetermined items shall require a request for approval and notification to the Affiliates Management Department prior to resolution by the Board of Directors, and when necessary each Group company shall acquire prior approval for a resolution from the Company's Board of Directors.

6. Items for systems relating to Company employees who assist the corporate auditors and the independence of these employees
– If a corporate auditor requests that a Company employee assists them in carrying out their duties, then, following discussions with other corporate auditors, the employee shall be deployed to the Auditing Department as an assistant to the corporate auditors.

7. Systems to ensure reporting to the corporate auditors and the Board of Corporate Auditors by directors and employees, and other systems to enable the corporate auditors to carry out their duties effectively
– Each responsible director or departmental officer shall report those items to the corporate auditors that were decided must be reported following discussions between the corporate auditors and the Board of Directors.

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 the brand power and image of our products and improves both corporate value and the bonds of trust we share with our stakeholders.

The Company has developed basic principles for employee behavior from the perspectives of being a responsible corporate citizen and maintaining CSR-centered management. In 1999, we created the Kissei Group Code of Conduct to guide employee behavior; and in 2001, we published the first edition of the Kissei Pharmaceutical's Compliance Program Manual.

Both the code of conduct and compliance program manual have subsequently been revised several times, particularly the manual, to ensure that employees adhere to newly enacted laws and regulations and that their behavior reflects changes taking place in the operating environment, such as the enactment of the Financial Products Trading Law. In April 2009, we published the fourth edition of the manual, which is distributed not only to Company employees, but 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 relationships with local communities and society at large. We actively participate in and contribute to the lives of the people in our local communities through involvement 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 both 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 the 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 the Safety Information Providing System, which enables our medical representatives (MRs)—essentially product information specialists—to use their notebook PCs to access product safety data prepared by the Company's Information Department. This system allows MRs to rapidly provide the relevant medical staff with information on-demand 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 employee management. The work systems we have introduced, for example, enable employees to choose a way of working best suited to the individual's capabilities 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 and R&D-oriented 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." Based on this basic environment policy, we strive to minimize the adverse impact of all our activities on the environment and to contribute to environmental protection.

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, Pharmacokinetics Research Laboratory, 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, 2009, total assets had decreased 6.9% year on year, or ¥10.39 billion, to ¥140.18 billion. Current assets fell ¥3.53 billion, to ¥82.03 billion, the primary factor being that an increase in cash on hand and in banks was exceeded by a decrease in marketable securities, which were used to supplement redemption funds for the second unsecured convertible bonds that became redeemable within the fiscal year.

Fixed assets decreased ¥6.86 billion, to ¥58.15 billion, mainly due to a decrease in investments in securities following a fall in the market value of shares and to depreciation.

Investments and advances were down 17.6% year on year, to ¥25.26 billion, mainly due to a decrease in investments in securities following a fall in the market value of shares. Property, plant and equipment was down 4.1%, to ¥28.37 billion, mainly due to depreciation.

Total liabilities at the fiscal year-end had fallen 31.5% year on year, or ¥10.03 billion, to ¥21.77 billion. Current liabilities were down ¥10.48 billion, to ¥15.94 billion. Principal factors were the redemption of the second unsecured convertible bonds that offset an increase in notes and accounts payable.

Long-term liabilities grew ¥0.45 billion, to ¥5.83 billion, predominately due to an increase in long-term debt. Accompanying the abolishment of the system for accrued retirement benefits for directors and corporate auditors in June 2008, the total amount in accrued retirement benefits to directors and corporate auditors at the point the system was abolished was transferred and displayed in long-term debt.

Total net assets at the fiscal year-end had edged down 0.3%, or ¥0.36 billion, to ¥118.42 billion. The primary factors were a decrease in unrealized holdings gains on securities which counterbalanced an increase in retained earnings. As a result, the shareholders' equity ratio increased from 78.8% at the end of the previous fiscal year to 84.4%.

Financial Results

Consolidated net sales in the fiscal year under review were up 5.0%, to ¥64.54 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 the licensing fee royalties received. However, these gains were offset by various factors, including the effects of NHI price revisions as well as generic and competitor drugs and the fall in sales of the Parkinson's disease treatment Cabaser® due to labeling update from April 2007. As a result, segment sales for the pharmaceutical business increased marginally, by 1.0%, or ¥0.53 billion, to ¥55.30 billion.

In other businesses, increased sales were recorded in each of information services, merchandising operations, and construction project operations. Consequently, segment sales were up 37.6%, or ¥2.53 billion, to ¥9.24 billion.

In the pharmaceutical business, the cost of sales as a percentage of segment sales decreased 3.1 percentage points primarily because of changes to the composition of segment sales and heightened production efficiency associated with the production of new products. However, as cost of sales as a percentage of segment sales increased 5.9 percentage points in other businesses, overall there was a 0.3 percentage point decrease. As a result, gross profit increased 5.5% year on year, or ¥2.14 billion, to ¥40.82 billion.

SG&A expenses increased due mainly to higher research and development expenses, primarily related to increased R&D expenses, even though market launch expenses were down because of a reduction in expenditures related to the market launch of Urief®, Glufast®, and Salagen®. As a result, operating income increased 49.7% year on year, or ¥2.12 billion, to ¥6.39 billion.

Other income decreased and a loss of ¥3.03 billion was recorded, primarily due to a fall in interest and dividend income in the pharmaceutical business and the recording of a loss on devaluation of investment securities.

As a result, income before income taxes and minority interests decreased 24.9%, or ¥1.11 billion, to ¥3.36 billion, and net income decreased 11.4%, or ¥0.26 billion, to ¥2.06 billion.

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

The Group 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, 2009, we distributed a year-end cash dividend of ¥15.0 per share. Together with the interim cash dividend of ¥15.0 per share, this gives a total cash dividend for the year of ¥30.0 per share. This includes a 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 the Tokyo Stock Exchange.

In the current fiscal year, ending March 31, 2010, we plan to increase both the interim cash dividend and year-end cash dividend by ¥1.0 per share, to ¥16.0 per share, giving a full-year cash dividend of ¥32.0 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. 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 as its own. 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 faced by the Group.

Consolidated Balance Sheets

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
At March 31, 2008 and 2009

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2009	2009
Current Assets:			
Cash on hand and in banks (Note 4)	¥ 12,067	**¥ 16,802**	**$ 171,449**
Short-term investments in specified trusts	2,275	**1,607**	**16,398**
Marketable securities (Note 4 and 5)	33,882	**26,362**	**269,000**
Notes and accounts receivable	23,420	**23,085**	**235,561**
Inventories (Note 6)	10,120	**10,324**	**105,347**
Deferred tax assets—current (Note 9)	1,914	**1,952**	**19,918**
Other current assets	1,962	**1,971**	**20,112**
Allowance for doubtful accounts	(82)	**(75)**	**(765)**
Total current assets	85,558	**82,028**	**837,020**
Property, Plant and Equipment (Note 2):			
Buildings and structures	35,112	**35,382**	**361,041**
Machinery and equipment	13,488	**14,148**	**144,367**
	48,600	**49,530**	**505,408**
Less: accumulated depreciation	(32,534)	**(34,593)**	**(352,990)**
	16,066	**14,937**	**152,418**
Land	13,441	**13,415**	**136,888**
Construction in progress	79	**17**	**173**
Total property, plant and equipment	29,586	**28,369**	**289,479**
Intangible Assets (Note 2):			
Software for internal use	2,366	**1,747**	**17,827**
Other	735	**505**	**5,153**
Total intangible assets	3,101	**2,252**	**22,980**
Investments and Advances:			
Investments in securities (Note 5)	26,789	**22,432**	**228,898**
Investments in unconsolidated subsidiaries	928	**697**	**7,112**
Leasehold deposits and guarantee deposits	434	**481**	**4,908**
Other investments and advances	2,504	**1,654**	**16,878**
Total investments and advances	30,655	**25,264**	**257,796**
Other Assets:			
Deferred tax assets—non-current (Note 9)	1,666	**2,268**	**23,143**
Total assets	¥150,566	**¥140,181**	**$1,430,418**

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2008	Millions of yen 2009	Thousands of U.S. dollars (Note 3) 2009
Current Liabilities:			
Short-term bank loans (Note 7)	¥ 2,270	**¥ 2,340**	**$ 23,878**
Current portion of long-term debt (Note 7)	12,154	**63**	**643**
Notes and accounts payables:			
Trade	4,352	**5,698**	**58,143**
Other	3,093	**3,247**	**33,133**
	7,445	**8,945**	**91,276**
Income taxes payable (Note 9)	1,137	**522**	**5,326**
Accrued bonuses to employees	1,865	**1,938**	**19,775**
Accrued bonuses to directors and corporate auditors	15	**15**	**153**
Reserve for sales returns	24	**22**	**224**
Reserve for sales rebates	577	**474**	**4,837**
Reserve for sales promotion expenses	247	**219**	**2,235**
Other current liabilities	681	**1,400**	**14,286**
Total current liabilities	26,415	**15,938**	**162,633**
Long-Term Liabilities:			
Long-term debt (Note 7)	404	**841**	**8,582**
Accrued retirement benefits to employees (Note 10)	3,385	**3,435**	**35,051**
Accrued retirement benefits to directors and corporate auditors	1,586	**104**	**1,061**
Other long-term liabilities	1	**1,448**	**14,775**
Total liabilities	31,791	**21,766**	**222,102**
Commitments and Contingent Liabilities (Note 11)			
Net Assets (Note 2):			
Common stock:			
Authorized: 227,000,000 shares			
Issued: 56,838,791 shares and 56,911,185 shares at March 31, 2008 and 2009, respectively	24,271	**24,357**	**248,541**
Additional paid-in capital	24,165	**24,254**	**247,490**
Retained earnings	72,408	**72,895**	**743,827**
Treasury stock (2,579,849 shares and 2,617,582 shares at March 31, 2008 and 2009)	(4,208)	**(4,301)**	**(43,888)**
Total shareholders' equity	116,635	**117,204**	**1,195,959**
Valuation, translation adjustments and others:			
Unrealized holding gains on securities	1,986	**1,045**	**10,663**
Total valuation, translation adjustments and others	1,986	**1,045**	**10,663**
Minority interests in consolidated subsidiaries	154	**166**	**1,694**
Total net assets	118,775	**118,415**	**1,208,316**
Total liabilities and net assets	¥150,566	**¥140,181**	**$1,430,418**

Consolidated Statements of Income

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
For the years ended March 31, 2007, 2008 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2007	2008	2009	2009
Net Sales	¥64,216	¥61,481	**¥64,536**	**$658,531**
Cost of Sales	28,019	22,801	**23,720**	**242,041**
Gross profit	36,197	38,680	**40,816**	**416,490**
Selling, General and Administrative Expenses (Note 14)	33,551	34,410	**34,423**	**351,255**
Operating income	2,646	4,270	**6,393**	**65,235**
Other Income (Expenses):				
Interest and dividend income	555	713	**784**	**8,000**
Interest expense	(177)	(159)	**(106)**	**(1,082)**
Loss on sale or disposal of properties	(40)	(384)	**(22)**	**(224)**
Gain on sales of securities	35	5	**—**	**—**
Income (loss) from investments in partnerships	—	156	**(242)**	**(2,469)**
Gain on sales of property, plant and equipment	—	19	**81**	**826**
Gain on sale of investments in securities	1,049	362	**—**	**—**
Disposition of sales information	—	571	**—**	**—**
Loss on evaluation of securities	(224)	(586)	**(683)**	**(6,969)**
Loss on devaluation of investment securities	(240)	(268)	**(2,863)**	**(29,214)**
Loss on disposal of inventories	(306)	(141)	**—**	**—**
Loss on devaluation of inventories	—	—	**(12)**	**(122)**
Loss on disposal of merchandise	(52)	—	**—**	**—**
Extraordinary contribution on withdrawal from pension fund	(64)	—	**—**	**—**
Loss on devaluation of stocks of subsidiaries and affiliates	—	(86)	**—**	**—**
Other, net	(9)	(1)	**29**	**295**
	527	201	**(3,034)**	**(30,959)**
Income before income taxes and minority interests	3,173	4,471	**3,359**	**34,276**
Income Taxes (Note 9):				
Current	1,787	1,839	**1,290**	**13,163**
Deferred	(221)	284	**(5)**	**(51)**
	1,566	2,123	**1,285**	**13,112**
Minority Interests	(37)	(22)	**(12)**	**(123)**
Net income	¥ 1,570	¥ 2,326	**¥ 2,061**	**$ 21,031**

	Yen			U.S. dollars (Note 3)
Per Share (Note 2):				
Net income:				
Primary	¥28.9	¥42.9	**¥38.0**	**$0.388**
Fully-diluted	27.1	40.2	**37.2**	**0.380**
Cash dividends	28.0	28.0	**30.0**	**0.306**

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, 2007, 2008 and 2009

	Millions of yen						
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Unrealized holding gains on securities	Treasury stock	Minority interests in consolidated subsidiaries
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)	—	—	—
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
Net income for the year	—	—	—	**2,061**	—	—	—
Cash dividends paid	—	—	—	**(1,574)**	—	—	—
Execution of convertible bonds*	**72,394**	**85**	**85**	—	—	—	—
Treasury stock purchased (43,325 shares)	—	—	—	—	—	**(102)**	—
Unrealized holding gains on securities	—	—	—	—	**(941)**	—	—
Gain on sale of treasury stock (5,592 shares)	—	—	**4**	—	—	**9**	—
Increase in minority interests	—	—	—	—	—	—	**12**
Balance at March 31, 2009	**56,911,185**	**¥24,357**	**¥24,254**	**¥72,895**	**¥1,045**	**¥(4,301)**	**¥166**

	Thousands of U.S. dollars (Note 3)					
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Unrealized holding gains on securities	Treasury stock	Minority interests in consolidated subsidiaries
Balance at March 31, 2008	56,838,791	$247,663	$246,582	$738,857	$20,265	$(42,939)	$1,571
Net income for the year	—	—	—	**21,031**	—	—	—
Cash dividends paid	—	—	—	**(16,061)**	—	—	—
Execution of convertible bonds*	**72,394**	**867**	**867**	—	—	—	—
Treasury stock purchased	—	—	—	—	—	**(1,041)**	—
Unrealized holding gains on securities	—	—	—	—	**(9,602)**	—	—
Gain on sale of treasury stock	—	—	**41**	—	—	**92**	—
Increase in minority interests	—	—	—	—	—	—	**123**
Balance at March 31, 2009	**56,911,185**	**$248,541**	**$247,490**	**$743,827**	**$10,663**	**$(43,888)**	**$1,694**

The accompanying notes are an integral part of these statements.

* Execution of No.2 Convertible Corporate Bonds, face value ¥171 million, each item recorded an increase of the amounts below.

Shares issued	72,394
Common stock	¥85,497,314
Additional paid-in capital	¥89,222,268

Consolidated Statements of Cash Flows

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
For the years ended March 31, 2007, 2008 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2007	2008	2009	2009
Cash Flows from Operating Activities:				
Income before income taxes and minority interests	¥ 3,173	¥ 4,471	**¥ 3,359**	**$ 34,276**
Depreciation and amortization	3,229	3,863	**3,710**	**37,857**
Change in allowance reserves	(96)	396	**(1,501)**	**(15,316)**
Interest and dividend income	(555)	(713)	**(784)**	**(8,000)**
Interest expense	177	159	**106**	**1,082**
Foreign exchange (gain) loss	(0)	6	**0**	**0**
Gain on sales of securities	(35)	(5)	**—**	**—**
Loss on evaluation of securities	224	586	**683**	**6,969**
Gain on sales of property, plant and equipment	—	(19)	**(81)**	**(827)**
Disposition of sales information	—	(571)	**—**	**—**
Loss on devaluation of investment securities	240	268	**2,863**	**29,214**
Loss on devaluation of stocks of subsidiaries and affiliates	—	86	**—**	**—**
Loss on sale or disposal of properties	12	374	**19**	**194**
Gain on sale of investments in securities	(1,049)	(362)	**—**	**—**
(Increase) decrease in notes and accounts receivable	(2,795)	4,719	**335**	**3,418**
(Increase) decrease in inventories	1,786	757	**(204)**	**(2,081)**
(Increase) decrease in other current assets	138	984	**458**	**4,673**
Increase (decrease) in notes and accounts payable	413	(5,196)	**1,346**	**13,735**
Increase (decrease) in other current liabilities	(267)	(1,956)	**881**	**8,990**
Increase (decrease) in other long-term liabilities	(20)	—	**1,378**	**14,061**
Other	(2)	(144)	**293**	**2,990**
Sub total	4,573	7,703	**12,861**	**131,235**
Receipt of interest and dividends	515	676	**724**	**7,388**
Payment of interest	(178)	(161)	**(105)**	**(1,072)**
Payment of income taxes	(951)	(1,912)	**(1,901)**	**(19,398)**
Net cash provided by operating activities	3,959	6,306	**11,579**	**118,153**
Cash Flows from Investing Activities:				
Increase in time deposits	(70)	(102)	**(90)**	**(919)**
Decrease in time deposits	79	97	**87**	**888**
Reduction of investments in specified trusts	119	89	**31**	**316**
Acquisition of investments in specified trusts	—	(200)	**—**	**—**
Purchase of securities	(528)	—	**—**	**—**
Proceeds from sales of marketable securities	8,247	3,600	**0**	**0**
Acquisition of property and equipment	(3,954)	(2,546)	**(1,016)**	**(10,367)**
Proceeds from sales of property and equipment	7	114	**121**	**1,235**
Proceeds from subsidies received from the government	—	160	**160**	**1,633**
Purchase of intangible assets	(1,326)	(316)	**(196)**	**(2,000)**
Acquisition of investments in securities	(3,374)	(5,607)	**(827)**	**(8,439)**
Proceeds from sales of investments in securities	2,440	1,069	**42**	**429**
Payments for loans	(166)	(245)	**(254)**	**(2,592)**
Collection of loans	163	265	**296**	**3,020**
Long-term advance payment costs	(11)	(11)	**(11)**	**(112)**
Proceeds from disposition of sales information	—	571	**—**	**—**
Other	(32)	7	**2**	**20**
Net cash provided by (used in) investing activities	1,594	(3,055)	**(1,655)**	**(16,888)**
Cash Flows from Financing Activities:				
Increase in short-term bank loans	1,560	590	**800**	**8,163**
Repayment of short-term bank loans	(1,730)	(790)	**(730)**	**(7,449)**
Increase in long-term debt	—	400	**501**	**5,112**
Repayment of long-term debt	(26)	(40)	**(63)**	**(643)**
Repayment of finance lease obligation	—	—	**(109)**	**(1,112)**
Cash dividends paid by the Company	(1,411)	(1,519)	**(1,574)**	**(16,061)**
Payments on redemption of convertible notes	(9,583)	—	**(11,920)**	**(121,633)**
Treasury stock purchased	(60)	(90)	**(102)**	**(1,041)**
Treasury stock sale	4	1	**13**	**133**
Net cash used in financing activities	(11,246)	(1,448)	**(13,184)**	**(134,531)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	0	(6)	**(0)**	**(0)**
Increase (Decrease) in Cash and Cash Equivalents	(5,693)	1,797	**(3,261)**	**(33,275)**
Cash and Cash Equivalents at Beginning of Year (Note 4)	49,647	43,954	**45,874**	**468,102**
Receipts of Cash and Cash Equivalents from Merger	—	123	**—**	**—**
Cash and Cash Equivalents at End of Year (Note 4)	¥43,954	¥45,874	**¥42,613**	**$434,827**

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

Kissei Pharmaceutical Co., Ltd. and its subsidiaries

Note 1
Basis of Presenting the Consolidated Financial Statements

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

Note 2
Summary of Significant Accounting Policies

(1) Scope of Consolidation

The number of subsidiaries the Company had for the years ended March 31, 2008 and 2009, were eight and seven, respectively, of which three were consolidated in the respective years. The significant subsidiaries which have been consolidated with the Company are listed below:

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

(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, 2009.

(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.

Short-term investments in specified trusts are stated at market value.

(5) Inventory Valuation

Inventories are mainly valued at cost using the gross average method (the amount of Balance sheet is from the calculation of written-off based on its profitability).

From this fiscal year, ASBJ Statement No.9 "The Accounting Standard for Measurement of Inventories" was adopted. The effects of this change were not material.

(6) Method of Depreciation of Significant Depreciable Assets

(i) Property, plant and equipment (excluding lease assets)

Depreciation is computed on the declining-balance method at rates based on the estimated useful lives of the 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.

(ii) Intangible assets (excluding lease assets)

Depreciation is computed on the straight-line method over certain periods.

Software costs for internal use are amortized over their expected useful lives (mainly 5 years) on a straight-line basis.

(iii) Lease assets

Lease assets are depreciated by the straight-line method with the useful life being the lease period and the residual value being zero.

(7) 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.

(8) 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.

(9) Income Taxes

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

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.

Notes to the Consolidated Financial Statements (Continued)

(10) 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) Accrued bonuses to directors and corporate auditors

To prepare for payments of bonuses to directors and corporate auditors, the Company recorded an allowance based on forecast payments in the fiscal year under review.

(iv) 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.

(v) 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.

(vi) 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.

(vii) 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).

(viii) Accrued retirement benefits to directors and corporate auditors

Until the year ended March 31, 2008, "accrued retirement benefits to directors and corporate auditors" were provided for an amount equal to the liability the Companies would have to pay if all directors and corporate auditors resigned at the balance sheet date.

At the General Meeting of Shareholders held on June 26,2008, it was resolved that retirement benefits to directors and corporate auditors were suspended effective June 26, 2008. As a result, accrued retirement benefits as of that date were transferred to Other long-term liabilities. The balance of accrued retirement benefits as of March 31, 2009 represents accruals for only subsidiaries.

(11) 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).

(12) Reclassification of Accounts

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

(13) Research and Development Expenses

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

(14) Accounting Standards Applied to Lease Transactions

Effective April 1, 2008 the Companies adopted a new accounting standard for lease transactions and related implementation guidance, which requires all finance lease transactions to be capitalized. Until the year ended March 31, 2008, finance leases in which there was no transfer of ownership of leased assets upon the expiration of lease periods had been accounted for as operating leases. This change had no impact on the operating results.

Note 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 ¥98=U.S.$1, the approximate effective rate of exchange at March 31, 2009. 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 ¥98=U.S.$1 or at any other rate.

Note 4
Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2008 and 2009 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2008	**2009**	**2009**
Cash on hand and in banks	¥12,067	**¥16,802**	**$171,449**
Marketable securities	33,882	**26,362**	**269,000**
Time deposits with original maturities of over three months	(74)	**(78)**	**(796)**
Marketable securities with maturities of over three months	—	**(473)**	**(4,826)**
Cash and cash equivalents	¥45,874	**¥42,613**	**$434,827**

Note 5
Securities

The acquisition cost, carrying amount, and gross unrealized holding gains and losses for securities with fair value by security type at March 31, 2008 and 2009 are as follows.

Available-for-sale securities:

	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

	Millions of yen			
	2009			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**¥16,369**	**¥18,371**	**¥3,075**	**¥1,073**
Corporate debt securities	**699**	**669**	**0**	**29**
Other	**1,140**	**996**	**—**	**144**
	¥18,208	**¥20,036**	**¥3,075**	**¥1,246**

Notes to the Consolidated Financial Statements (Continued)

	Thousands of U.S. dollars			
	2009			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**$167,031**	**$187,459**	**$31,378**	**$10,949**
Corporate debt securities	**7,132**	**6,827**	**0**	**296**
Other	**11,633**	**10,163**	**—**	**1,469**
	$185,796	**$204,449**	**$31,378**	**$12,714**

The carrying amount of securities where no market value is available at March 31, 2008 and 2009 are as follows.

Other securities:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Certificates of deposit	¥19,340	**¥12,340**	**$125,918**
Unlisted stocks (except for over-the-counter securities)	1,721	**1,707**	**17,418**
Other	15,886	**14,710**	**150,102**
	¥36,947	**¥28,757**	**$293,438**

There were no sales of available-for-sale securities in respect of the year ended March 31, 2009.

Note 6
Inventories

Inventories at March 31, 2008 and 2009 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Merchandise	¥ 2,756	**¥ 2,295**	**$ 23,418**
Finished goods	1,198	**1,344**	**13,714**
Work-in-process	1,818	**2,596**	**26,490**
Raw materials	3,655	**3,845**	**39,235**
Supplies	693	**244**	**2,490**
	¥10,120	**¥10,324**	**$105,347**

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

Short-term bank loans outstanding at March 31, 2008 and 2009 represent one-year notes issued by the Companies to banks. Short-term bank loans made during the years ended March 31, 2008 and 2009 bore interest at an average annual rate of 1.67% and 1.46%, respectively.

Maximum month-end balance and average month-end balance of short-term bank loans outstanding for the years ended March 31, 2008 and 2009 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Maximum month-end balance	¥3,440	**¥3,410**	**$34,796**
Average month-end balance	¥3,038	**¥3,018**	**$30,796**

Long-term debt of the Companies at March 31, 2008 and 2009 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2008	**2009**	**2009**
Non-secured loans with financial institutions, bearing interest at rates ranging from 0.00% to 3.61% due from 2008 to 2027	¥ 467	**¥904**	**$9,225**
0.8% convertible notes due 2009	12,091	—	—
	12,558	**904**	**9,225**
Less: current maturities due within one year	(12,154)	**(63)**	**(643)**
	¥ 404	**¥841**	**$8,582**

Convertible bonds were redeemed at maturity on September 30, 2008.

The aggregate annual maturities of long-term loans outstanding at March 31, 2009 are as follows.

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥ 63	$ 643
2011	63	643
2012	63	643
2013 and thereafter	715	7,296
	¥904	$9,225

Note 8
Research and Development Expenses

Research and development expenses were included in selling, general and administrative expenses for the years ended March 31, 2007, 2008 and 2009, amounting to ¥10,473 million, ¥11,361 million and ¥11,557 million ($117,929 thousand), respectively.

Note 9
Income Taxes

Income taxes in Japan applicable to the Companies for the years ended March 31, 2007, 2008 and 2009, consisting of corporate income tax, enterprise tax and local inhabitants taxes at the approximate rates, are as follows.

	Rates on taxable income		
	2007	2008	**2009**
Corporate income tax	30.0%	30.0%	**30.0%**
Enterprise tax	7.2	7.2	**7.2**
Local inhabitants 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 for the purposes of sales promotion as defined by Japanese tax law are not tax deductible.

Notes to the Consolidated Financial Statements (Continued)

Deferred tax assets (both current and non-current) at March 31, 2008 and 2009 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Deferred tax assets:			
Accrued retirement benefits to employees	¥ 1,368	**¥1,388**	**$14,163**
Prepaid research and development expenses	1,082	**1,160**	**11,837**
Accrued bonuses to employees	753	**783**	**7,990**
Payment of retirement benefits to directors and corporate auditors	641	**598**	**6,102**
Inventory assets	—	**392**	**4,000**
Write-down of securities	429	**173**	**1,765**
Reserve for sales rebates	233	**192**	**1,959**
Accrued enterprise tax	123	**75**	**765**
Other	1,355	**1,116**	**11,388**
	5,984	**5,877**	**59,969**
Valuation allowance	(1,056)	**(935)**	**(9,541)**
	¥ 4,928	**¥4,942**	**$50,428**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	¥(1,347)	**¥ (722)**	**$ (7,367)**
Other	(0)	**(0)**	**(0)**
Deferred tax assets, net	¥ 3,581	**¥4,220**	**$43,061**

Reconciliation of the actual tax rate for the years ended March 31, 2008 and 2009 are as follows.

	2008	2009
Effective statutory tax rate	40.4%	**40.4%**
Adjustments:		
Entertainment expenses and other nondeductibles	8.9	**10.0**
Dividend income not taxable	(1.9)	**(3.3)**
Tax benefits due to research and development expenses	(7.6)	**(8.3)**
Per capital levy of local inhabitants taxes	1.5	**2.1**
Valuation allowance	7.6	**(3.6)**
Other factors	(1.4)	**1.0**
Actual tax rate	47.5%	**38.3%**

Note 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.

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, 2008 and 2009 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Projected benefit obligations	¥12,534	**¥ 12,903**	**$131,663**
Fair value of plan assets	(9,064)	**(8,191)**	**(83,581)**
Funded status of the plans	3,470	**4,712**	**48,082**
Unrecognized net actuarial difference	(2,415)	**(3,308)**	**(33,755)**
Unamortized prior service cost	2,330	**2,031**	**20,724**
Net liability recognized	¥ 3,385	**¥ 3,435**	**$ 35,051**

The net periodic retirement benefit cost for the years ended March 31, 2007, 2008 and 2009 included the following.

	Millions of yen			Thousands of U.S. dollars
	2007	2008	2009	2009
Service cost	¥ 577	¥ 645	**¥677**	**$6,908**
Interest cost	255	297	**311**	**3,174**
Expected return on plan assets	(218)	(242)	**(226)**	**(2,306)**
Amortization of difference caused from actuarial calculation	165	254	**379**	**3,867**
Amortization of prior service cost	(294)	(299)	**(299)**	**(3,051)**
Additional payment of retirement costs	95	33	**28**	**286**
	¥ 580	¥ 688	**¥870**	**$8,878**

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, 2008 and 2009. The rate of expected return on plan assets was 2.5% as of March 31, 2008 and 2009. 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.

Note 11
Commitments and Contingent Liabilities

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 ($163 thousand) at March 31, 2009.

In addition, the Companies were contingently liable for guarantees in respect of loans borrowed by its unconsolidated subsidiaries for an amount of ¥84 million ($857 thousand) at March 31, 2009.

Note 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 years ended March 31, 2007, 2008 and 2009 is as follows.

	Millions of yen				
	2007				
	Pharmaceuticals	Other	Total	Elimination of inter-segment sales	Consolidated 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)	¥163,584
Depreciation	¥ 2,960	¥ 439	¥ 3,399	¥ (171)	¥ 3,229
Capital expenditure	¥ 5,772	¥ 548	¥ 6,320	¥(1,029)	¥ 5,291

Notes to the Consolidated Financial Statements (Continued)

	Millions of yen				
	2008				
	Pharmaceuticals	Other	Total	Elimination of inter-segment sales	Consolidated 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

	Millions of yen				
	2009				
	Pharmaceuticals	Other	Total	Elimination of inter-segment sales	Consolidated total
Sales:					
Sales to outside customers	**¥ 55,296**	**¥ 9,240**	**¥ 64,536**	**¥ —**	**¥ 64,536**
Inter-segment sales	**—**	**3,809**	**3,809**	**(3,809)**	**—**
Total sales	**55,296**	**13,049**	**68,345**	**(3,809)**	**64,536**
Operating expenses	**49,331**	**12,853**	**62,184**	**(4,042)**	**58,142**
Operating income	**¥ 5,965**	**¥ 196**	**¥ 6,161**	**¥ 233**	**¥ 6,393**
Assets	**¥133,209**	**¥ 8,829**	**¥142,038**	**¥(1,857)**	**¥140,181**
Depreciation	**¥ 3,344**	**¥ 564**	**¥ 3,908**	**¥ (198)**	**¥ 3,710**
Capital expenditure	**¥ 1,256**	**¥ 457**	**¥ 1,713**	**¥ (87)**	**¥ 1,626**

	Thousands of U.S. dollars				
	2009				
	Pharmaceuticals	Other	Total	Elimination of inter-segment sales	Consolidated total
Sales:					
Sales to outside customers	**$ 564,245**	**$ 94,286**	**$ 658,531**	**$ —**	**$ 658,531**
Inter-segment sales	**—**	**38,867**	**38,867**	**(38,867)**	**—**
Total sales	**564,245**	**133,153**	**697,398**	**(38,867)**	**658,531**
Operating expenses	**503,378**	**131,153**	**634,531**	**(41,245)**	**593,286**
Operating income	**$ 60,867**	**$ 2,000**	**$ 62,867**	**$ 2,378**	**$ 65,235**
Assets	**$1,359,275**	**$ 90,092**	**$1,449,367**	**$(18,949)**	**$1,430,418**
Depreciation	**$ 34,122**	**$ 5,755**	**$ 39,877**	**$ (2,020)**	**$ 37,857**
Capital expenditure	**$ 12,817**	**$ 4,663**	**$ 17,480**	**$ (888)**	**$ 16,592**

(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, 2009 is omitted because export sales account for less than 10% of total sales.

Note 13
Business Transactions with Parties Related to the Company

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)	—

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

Fiscal 2009 (April 1, 2008–March 31, 2009)

Executives, main individual stockholders, etc.

No corresponding items

(Additional Information)

From this fiscal year, ASBJ statements No. 11 “Accounting Standard for Related Party Disclosures” and its implementation guidance-ASBJ guidance No. 13 “Guidance on Accounting Standard for Related Party Disclosures” were applied.

Note 14
Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2007, 2008 and 2009 are as follows.

	Millions of yen			Thousands of U.S. dollars
	2007	2008	**2009**	**2009**
Advertising and sales promotion expenses	¥ 4,723	¥ 4,167	**¥ 3,668**	**$ 37,428**
Payroll costs	7,783	8,312	**8,753**	**89,316**
Research and development expenses	10,473	11,361	**11,557**	**117,929**
Traveling expenses	1,864	1,941	**1,938**	**19,776**
Depreciation	1,343	1,455	**1,494**	**15,245**
Other	7,365	7,174	**7,013**	**71,561**
	¥33,551	¥34,410	**¥34,423**	**$351,255**

Report of Independent Auditors

ERNST & YOUNG

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, 2009 and 2008, and the related consolidated statements of operations, 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, 2009 and 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, 2009 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.

June 26, 2009

Ernst & young ShinNihon LLC

Board of Directors

As of June 26, 2009

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, 2009

Head Office:
19-48, Yoshino, Matsumoto City, Nagano 399-8710, Japan
Telephone: +81-263-25-9081

Tokyo Head Office:
8-9, Nihonbashi-Muromachi 1-chome, Chuo-ku,
Tokyo 103-0022, Japan
Telephone: +81-3-3279-2761

Tokyo Head Office (Koishikawa):
1-3, Koishikawa 3-chome, Bunkyo-ku, Tokyo 112-0002, Japan
Telephone: +81-3-5684-3530

Date of Establishment:
August 9, 1946

Capital:
¥24,357 million (As of March 31, 2009)

Number of Employees:
1,600 (Non-consolidated)

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, Hamamatsu, Shiga, Kanazawa, Kita Osaka, Nara, Sakai, Kobe, Himeji, Yamaguchi, Okayama, Yonago, 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, 2009

Common Stock:

Authorized: 227,000,000 shares

Issued: 56,911,185 shares

Number of Shareholders:

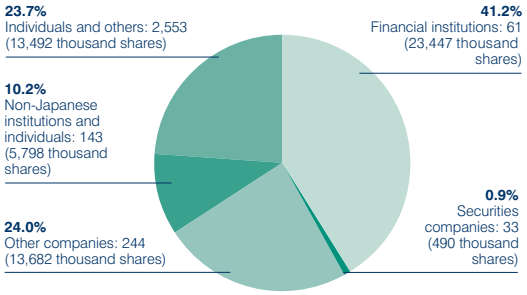
3,034 (Year-on-year change: 156 decrease)

Principal Shareholders:

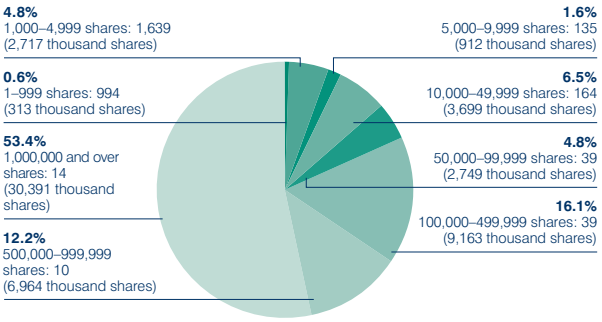
	Number of shares held (Thousands)	Voting right (%)
The Dai-ichi Mutual Life Insurance Company	3,418	6.3
Kanzawa Limited	3,178	5.9
Trust & Custody Services Bank, Ltd. (Trust account 4G)	3,095	5.7
Kunio Kanzawa	2,702	5.0
The Hachijuni Bank, Ltd.	2,670	4.9
Mizuho Bank, Ltd.	2,670	4.9
Trust & Custody Services Bank, Ltd. (Trust account)	2,467	4.5
Mutsuo Kanzawa	1,480	2.7
The Master Trust Bank of Japan, Ltd. (Trust account)	1,478	2.7
Nabelin Co., Ltd.	1,222	2.3

Note: Kissei holds 2,617,582 shares of treasury stock.

Composition of Shareholders:
By Category



By Number of Shares Held



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URL: http://www.kissei.co.jp/

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