Kyorin

ANNUAL REPORT 2009

Year ended March 31, 2009

KYORIN Co., Ltd.

CONTENTS

Profile

Since the foundation of Kyorin in 1923, its corporate philosophy has been to cherish life and benefit society by contributing to better health. KYORIN has become what it is today by adhering to this philosophy, which has entailed enhancing corporate value and securing the trust of its stakeholders – a vital asset.

In March 2006, the KYORIN Group converted to a new organization with KYORIN Co., Ltd., as the Group holding company. Accordingly, fiscal 2007 represented the first year of the drive to create corporate value under the new organization. In the fiscal year ending March 31, 2010, which marks the final year of the Kyorin MIC-09 medium-term business plan, the Kyorin Group will strive to achieve the plan's objectives to "reinforce the new ethical drug business," "optimize the synergies of the merger with Nisshin Kyorin Pharmaceutical Co., Ltd.," and "nurture and reinforce KYORIN Rimedio Co., Ltd. and Dr. Program Co., Ltd. (peripheral business).

The newly formed Kyorin Group centers on a drug discovery business that not only discovers and develops new drugs that are accepted across the world but also licenses out those drugs. Its operations include a pharmaceuticals business focusing on new ethical and generic drugs, in addition to a consumer healthcare business. By expanding these operations, the Kyorin Group aims to become an optimum integrated healthcare organization that meets a diverse range of health needs.

Kyorin
健康はキョーリンの願いです。

The Kyorin Corporate Brand

Kyorin believes that true health can only be achieved when a patient forgets his or her sickness and becomes able to fully enjoy everyday life. We aim to go beyond the conventional concept of healthcare – treating diseases – and take care of people's mental and emotional health. To do so, we will propose products and services that ensure a happy life. For this reason, our new corporate mark is a smiling face in the shape of an apricot (a reference to our company name). This mark symbolizes our commitment to helping customers achieve true happiness.

Highlights of the Fiscal Year

KYORIN Co., Ltd. and Consolidated Subsidiaries
(as of the end of the fiscal year ended March 31, 2009)

Operating Results

Despite a significant decline in lump-sum income from licensees and business transfer, consolidated net sales increased 12.1% to ¥90,889 million and operating income jumped 43.2% to ¥8,952 million due to favorable sales of principal products in the ethical drugs in Japan segment, the effects of the integration with Nisshin Kyorin Pharmaceutical and growth in the generic drug business. Net income declined 7.0% to ¥2.0 billion due to recording an extraordinary loss of ¥4,564 million.

Ethical drug business

Sales of principal products, including Kipres, Pentasa and Uritos, expanded smoothly despite the discontinuation of sales of Gatiflo tablets.

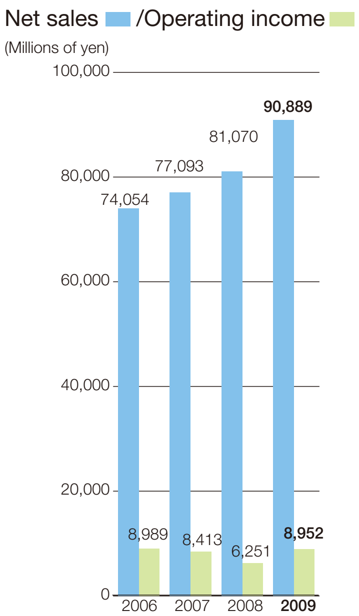
Peripheral business

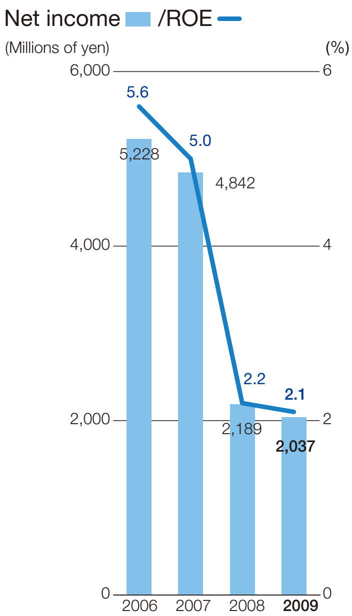
KYORIN Rimedio and Dr. Program achieved profitability in the second half of the fiscal year and for the full year, respectively.

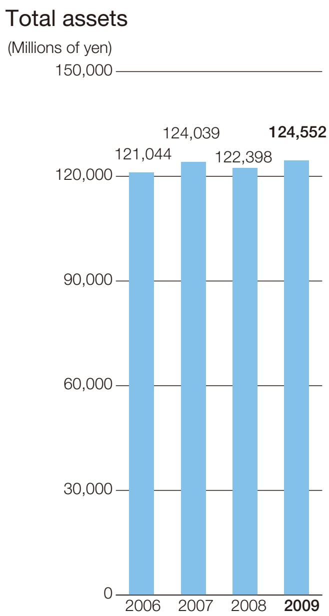
(Millions of yen)

Year ended March	2006	2007	2008	2009
Net sales	74,054	77,093	81,070	**90,889**
Operating income	8,989	8,413	6,251	**8,952**
Net income	5,228	4,842	2,189	**2,037**
Total assets	121,044	124,039	122,398	**124,552**
Net assets	94,752	98,178	97,184	**96,501**
R&D expenses	10,107	8,609	10,826	**10,531**
Capital expenditure	4,605	2,954	1,952	**1,612**
Depreciation expense	3,646	4,544	4,536	**3,799**
ROE (%)	5.6	5.0	2.2	**2.1**
ROA (%)	8.2	7.1	5.4	**7.5**
Net income per share (yen)	69.74	64.97	29.26	**27.24**
Dividend per share (yen)	20.00	30.00	22.50	**13.00**

The figures for the fiscal year ended March 2006 are the consolidated figures for KYORIN Pharmaceutical Co., Ltd. The figures from the fiscal years ended March 2007 and onward are the consolidated figures for KYORIN Co., Ltd.







Representative Director, President and Chief Executive Officer

Masahiro Yamashita

Greetings on Assuming the Post of President

I was elected President at the Ordinary General Shareholders' Meeting and the Board of Directors meeting held on June 24, 2009, and then assumed the post. I was heretofore mainly in charge of the sustainable growth of our new drug business in Japan as the responsible officer in sales operations. Drawing on my experience, I am determined to develop the Kyorin Group into an integrated healthcare corporate group to further raise the corporate value.

Brief Personal Career:

Apr. 1969	Joined KYORIN Yakuhin Co., Ltd.
Apr. 1995	Director, Sales & Marketing Planning Department, Sales & Marketing Headquarters, KYORIN Pharmaceutical Co., Ltd.
Apr. 1998	Director, Strategies & Business Development Division, KYORIN Pharmaceutical Co., Ltd.
Apr. 2004	Corporate Officer and Director, Sales & Marketing Headquarters, KYORIN Pharmaceutical Co., Ltd.
Jun. 2004	Corporate Officer and Executive Director, Sales & Marketing Headquarters, KYORIN Pharmaceutical Co., Ltd.
Jun. 2005	Senior Executive Officer and Executive Director, Sales & Marketing Headquarters, KYORIN Pharmaceutical Co., Ltd.
Jan. 2006	Executive Director, KYORIN Co., Ltd.
Jun. 2007	Senior Managing Officer and Executive Director, Sales & Marketing Headquarters, KYORIN Pharmaceutical Co., Ltd.
Jun. 2008	Executive Vice President and Executive Director, Sales & Marketing Headquarters, KYORIN Pharmaceutical Co., Ltd.
Jun. 2008	Executive Vice President and Executive Director, Sales and Marketing, KYORIN Co., Ltd.
Apr. 2009	Executive Vice President, Executive Director, Product Strategy Division, KYORIN Pharmaceutical Co., Ltd.
Jun. 2009	Representative Director, President and Chief Executive Officer, KYORIN Co., Ltd. Executive Director, Product Strategy Division, KYORIN Pharmaceutical

Kyorin MIC-09 Medium-Term Business Plan

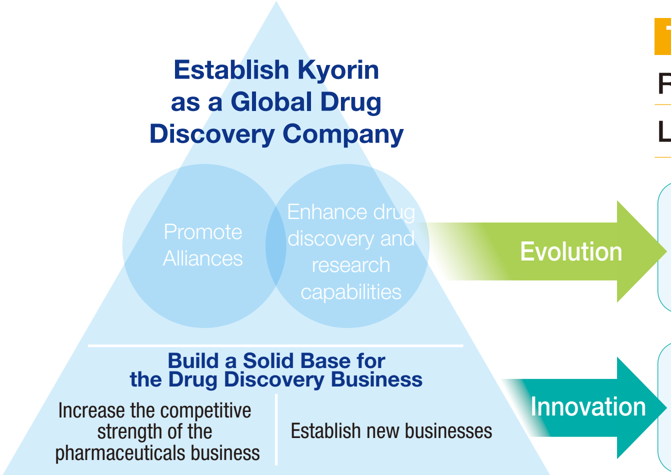
KYORIN's corporate philosophy has been to cherish life and benefit society by contributing to better health. I believe that the Group should enhance its value as a healthcare business group that develops diversified businesses around the mainstay pharmaceutical business and truly contributes to people's health under this corporate philosophy. In addition, it is important for the Group to have a well-balanced business portfolio that consists of a variety of businesses with different life cycles to ensure sustainable corporate growth in a rapidly changing environment marked by uncertain economic and social circumstances.

The Kyorin Group is still implementing the Kyorin MIC-09 medium-term business plan, which covers

Basic Policies: Evolution and Innovation II in the Kyorin MIC-09 medium-term business plan

The aim: Become an integrated, trusted and unique healthcare organization centered on global drug discovery operations.

Kyorin MIC-09, the Group's medium-term business plan, outlines how we will win against the competition by evolving our drug discovery business model. This will enable us to create drugs that are groundbreaking and versatile and can be commercialized rapidly. We must build a solid base to support our high-risk, high-return drug discovery business, which requires prolonged investment. Accordingly, we will promote innovation aimed at developing new operations that will complement our ethical drug business.



Targets for the Year Ending March 31, 2010	
Return on equity (ROE)	7.0%
Late-stage compounds	One per year

Establish Kyorin as a global drug discovery company by enhancing drug discovery and research capabilities and promoting alliances

Increase the competitive strength of the pharmaceutical business and develop new, related businesses to form a solid foundation for drug discovery, which relies on a long-term, high-risk, high-return business model

the five years from April 2005 to March 2010, with marketing, innovation and challenge as the plan's keywords. In this plan, we address three basic strategies as priorities: 1) Establish KYORIN as a global drug discovery company, 2) Increase the competitive strength of the pharmaceutical business to support investments in drug discovery operations and 3) Establish new businesses that contribute almost as much to future growth as the pharmaceutical business.

1. Establish Kyorin as a global drug discovery company

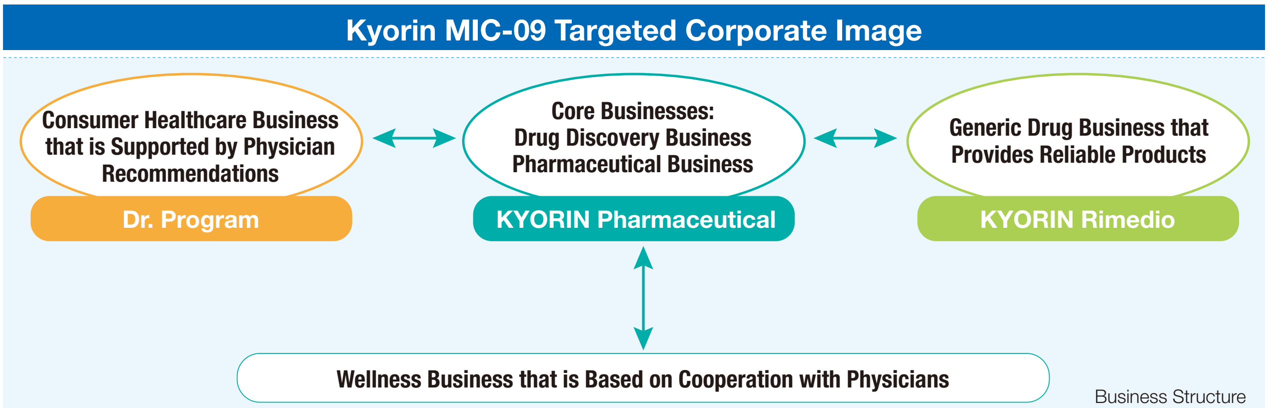
The Kyorin Group has established drug discovery and research bases in Japan, the United States and Europe—Exploratory Research Laboratories and Discovery Research Laboratories in Japan, ActivX Biosciences, Inc., in the United States and Kyorin-Scotland Research Laboratories in Europe. By leveraging this three-pronged network of global drug discovery to mutually generate operating synergies, a particular focus is on producing one late-stage compound per year. Late-stage compounds are drug candidates that have established their proof of concept (POC), which indicates their efficacy and safety in humans, up to the end of Phase IIa trials.

2. Increase the competitive strength of the pharmaceutical business to support investments in drug discovery operations

We intend to raise the competitiveness of our pharmaceutical business to support investments in the drug discovery business. Specifically, we are actively pursuing our FC strategy in respiratory medicine, otolaryngology and urology to reinforce long-term relationships with customers. We are also focused on extending the growth curves of our core pharmaceuticals by using a life-cycle management program for enhanced drug management (the addition of drug indications and formulations) and promoting the introduction of license-in products to strengthen our lineups in the FC areas.

3. Establish new businesses that contribute almost as much to future growth as the pharmaceutical business

We are developing healthcare-related businesses in accordance with our corporate philosophy in a complex manner. Specifically, we are endeavoring to expand our generic drug business mainly assumed by KYORIN Rimedio and our healthcare business mainly assumed by Dr. Program as promising businesses after our core pharmaceutical business.



Business Structure

Initiatives and Operating Results for Fiscal 2008

In Japan, the pharmaceutical industry continued to operate in an increasingly difficult market environment as seen by the ongoing governmental policies to control the cost of medical treatment and pharmaceuticals, the increased difficulty of R&D activities and the intensifying competition. Against this backdrop, the Kyorin Group addressed speeding up the growth of new drug operations and fostering the underlying strength of peripheral businesses, in line with the management policy set out in the fiscal year under review of "ensuring that our business is firmly positioned on a growth trajectory." As a result, consolidated net sales during the fiscal year ended March 31, 2009, rose 12.1% year on year to ¥90,889 million. Operating income came to ¥8,952 million, an increase of 43.2%, and ordinary income was ¥9,208 million, a rise of 38.6%. Net income dropped 7.0% to ¥2,037 million.

Initiatives for Fiscal 2009

In fiscal 2009, the last year of the Kyorin MIC-09 plan, the Group will strive to focus on the following three priorities to achieve the plan's growth target of 7% in ROE and the sustainable growth of the Group.

1. Reinforce the new drug business

(1) Develop competitive sales activity in Japan via selection and focus

The Group will regularly visit about 67,000 physicians, especially those in respiratory medicine, otolaryngology and urology, and collaborate with wholesalers to boost sales of the four existing mainstay products—Kipres, Mucodyne, Pentasa and Uritos—in the pursuit of sustainable growth in sales of new domestic drugs.

(2) Reinforce R&D channels

The Group will further promote R&D activities on new drugs and license-in products based on the "market-in" concept. We will reinforce the R&D channels of short-, medium- and long-term R&D projects through priority-based resource distribution by reviewing the self-discovered drugs and the value-enhancing measures for existing and licensed-in drugs according to the same evaluation criteria.

2. Utilize the consolidation effect due to the merger of Nisshin Kyorin Pharmaceutical

The Group intends to strengthen its R&D and marketing capabilities through the merger of Nisshin Kyorin Pharmaceutical by KYORIN Pharmaceutical in October 2008 and will work to maximize the

Goal and Initiatives for Fiscal 2009

Strive to achieve the financial target set out in the Kyorin MIC-09 plan

7% in ROE

- **Reinforce the new drug business**
  - Develop competitive sales activity in Japan via selection and focus
  - Reinforce R&D channels
- **Utilize the consolidation effect due to the merger with Nisshin Kyorin Pharmaceutical**
- **Develop and improve the corporate strength of KYORIN Rimedio and Dr. Program**

consolidated effect in fiscal 2009 with further cost reductions due to more efficient management of the Group.

3. Develop and improve the corporate strength of KYORIN Rimedio and Dr. Program

We see considerable growth potential for the generic drug business, in which KYORIN Rimedio principally engages, and anticipate a growing social need for such products. In fiscal 2008, sales of generic drugs, which were previously sold by the merged Nisshin Kyorin Pharmaceutical, were transferred to KYORIN Rimedio. KYORIN Rimedio aims to restore profitability in fiscal 2009 on a non-consolidated basis with measures such as setting reasonable selling prices, trimming costs and placing new products on the market.

Dr. Program, which engages in the development and sales of skin care products, aims to become the core company of the consumer healthcare business within the Group through appropriate business operations commensurate with its growth level.

Conclusion

The Kyorin Group endeavors to build and solidify trust with stakeholders. Above all, with regard to shareholders, I intend to steadily practice corporate governance that satisfies shareholder expectations and the return of profits to them. The distribution of dividends to shareholders was ¥22.5 per share for fiscal 2007 and ¥13.0 per share for fiscal 2008. Our dividend policy targets a payout ratio of 50%, and we plan to distribute a dividend of ¥45 per share for fiscal 2009, the year ending March 31, 2010.

I will thoroughly address the current and future status of the Kyorin Group to plan and steadily execute appropriate business targets. In these endeavors, please continue to provide us with your support and understanding as to the future initiatives of the Kyorin Group.

July 2009

Masahiro Yamashita, Representative Director,
President and Chief Executive Officer

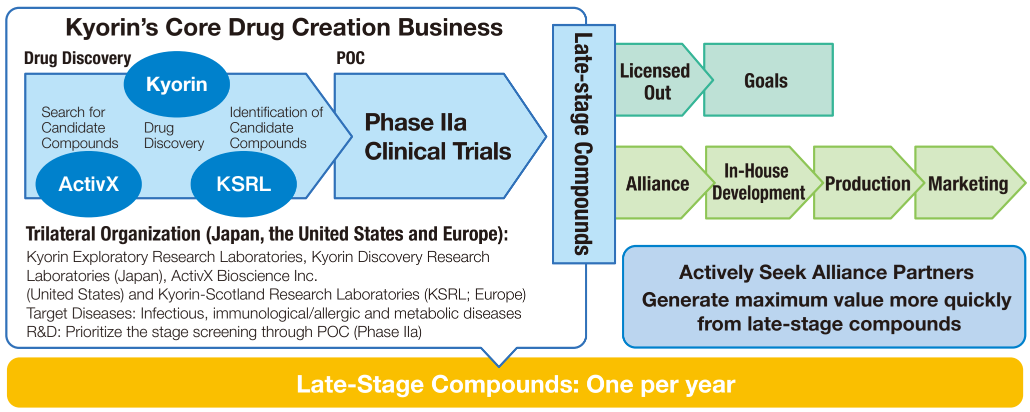
Ethical Drug R&D

Reinforcement of R&D channels for short-, medium- and long-term R&D projects

The Kyorin Group's core drug discovery business conducts efficient research activities by focusing KYORIN Pharmaceutical's research efforts on the areas of infectious, immunological/allergic and metabolic diseases. Exploratory Research Laboratories and Discovery Research Laboratories in Japan, ActivX Biosciences, Inc., in the United States and Kyorin-Scotland Research Laboratories in Europe form a trilateral drug discovery organization to develop new drugs that can be approved worldwide in these priority research areas. The Kyorin Group pursues quality improvement and the acceleration of its drug development and research operations by taking advantage of the Group companies' respective expertise.

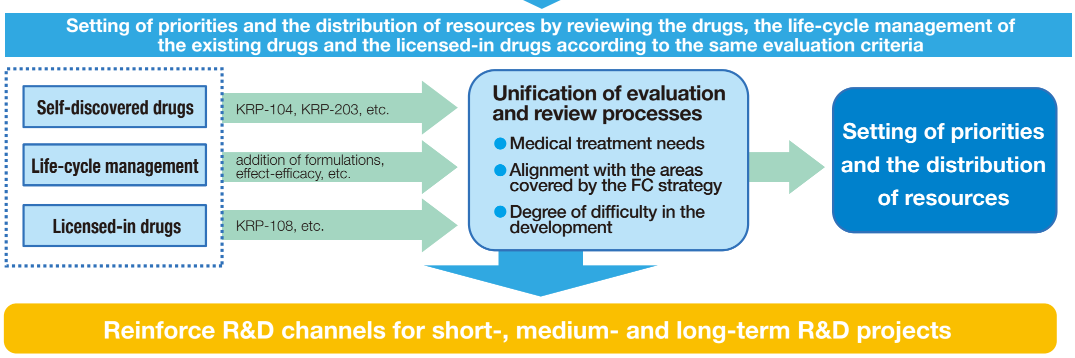
In line with the Kyorin MIC-09 plan, the Group is developing a global drug discovery system, and through the Company's trilateral organization, the system aims to obtain the ability to develop one late-stage compound each year that has completed proof of concept (POC) (confirmation of drug efficacy and safety in humans) through the Phase IIa trials. Although the Group worked to discover two late-stage compounds from fiscal 2005 to fiscal 2008, the increased efficiency of drug discovery will be a vital issue to reinforce R&D channels.

Shifting Our Focus from Total Drug Development to Drug Discovery



In fiscal 2009, the Group restructures its R&D portfolio based on the "market-in" concept that allows for the effective utilization of it's limited business resources to reinforce R&D channels, which will be the spine of the sustainable growth of KYORIN Pharmaceutical, the Group's core company. As for the continuing discovery of new drugs, we will devote ourselves to realizing effective monozukuri (in this case, the discovery of new drugs) by establishing an R&D system that enables seamless execution of the core processes from drug discovery to development, application for approval and commercialization of the product. Meanwhile, we will attempt to maximize product value through the advanced life-cycle management of existing drugs and be active in finding candidate compounds for drugs that may be licensed to Kyorin on a broader stage together with Kyorin USA, Inc., and Kyorin Europe GmbH, both of which are our subsidiaries.

Reinforcement of Monozukuri and License-in Based on the "Market-in" Concept

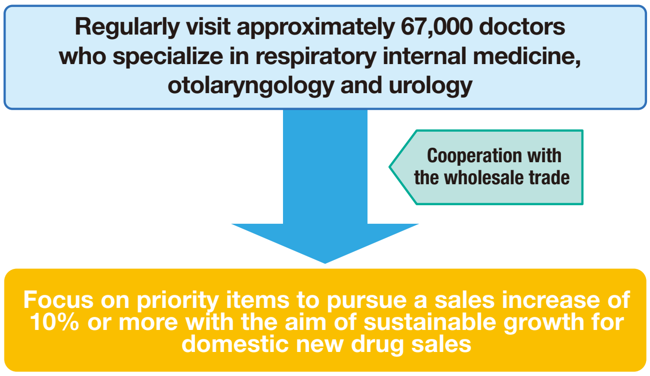


Ethical Drug Sales in Japan

Develop Competitive Sales Activity in Japan via Selection and Focus

In this segment, KYORIN Pharmaceutical—which primarily deals with the ethical drug business in the Group—promotes the franchise customer (FC) strategy that concentrates sales activity on the areas of respiratory internal medicine, otolaryngology and urology.
The Group is concentrating its business resources on about 67,000 physicians nationwide who are visited on a regular basis, including 23,500 physicians in the FC3 areas. The Group focuses on its original team-system sales activity to increase the number of adoptions and cases for the use of our products by enhancing relationships with longtime loyal users. Furthermore, the increased number of medical representatives (MRs), which rose to 750 through the merger with Nisshin Kyorin Pharmaceutical in October 2008, will further strengthen our sales capabilities. In addition, the Group is committed to the sustainable growth of priority products in cooperation with wholesalers.

Promotion of the FC Strategies



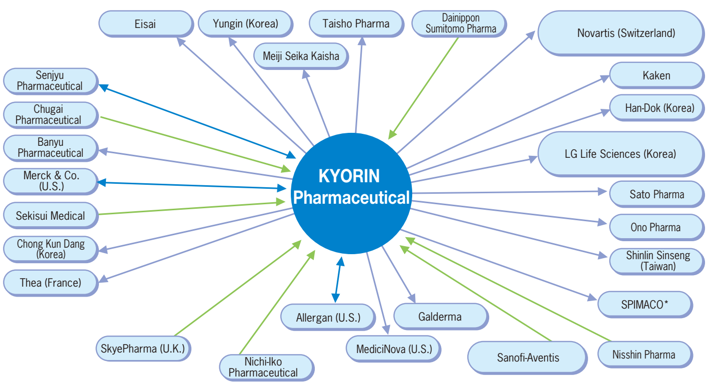
Maximizing the effects of absorbing Nisshin Kyorin Pharmaceutical

The effects of the October 2008 absorption of Nisshin Kyorin Pharmaceutical Co., Ltd., are expected to contribute to our business performance throughout the fiscal year ending March 31, 2010, by 1) enhancing our marketing abilities, 2) reducing the cost of sales and 3) increasing the efficiency of operations. To maximize the effect of enhanced marketing abilities, we will enlarge the staff of medical representatives to secure closer relationships with doctors and seek larger sales by increasing the number of calls regarding major products. We will also enable the self-production of our core Pentasa series products to help reduce the cost of sales. In addition, we will seek a further increase in the efficiency of operations and resulting cost reductions by streamlining research projects to reduce R&D expenses and enhancing the utilization of human resources.

Ethical Drug Sales Overseas

Proactive Development of Overseas Alliances

Major Domestic and Overseas Alliances



*SPIMACO:Saudi Pharmaceutical Industries & Medical Appliances Corporation

Strategic alliances are being used to expand global sales of gatifloxacin. Although Zymar (licensed to Allergan Inc. in the United States) ensures a certain share in the U.S. market for antibacterial eye drops, we are considering an early increase in the number of licensees in anticipation of the completion of the patent period for gatifloxacin and pursuing the possibility of other alliances regarding existing products.

In February 2009, Kyorin entered into a master agreement to grant the exclusive sales rights for Uritos® (generic name: imidafenacin), for treating an overactive bladder, to Saudi Pharmaceutical Industries & Medical Appliances Corporation (SPIMACO) in 13 countries in the Middle East and North Africa, including Saudi Arabia.

Generic Drug Business

Build New Businesses That Contribute to Future Growth : Develop and improve the corporate strength of KYORIN Rimedio

A potential new business that will complement our ethical drug business is the generic drug business. The Kyorin MIC-09 plan emphasizes the generic drug business to support our high-risk, high-return drug discovery business, which requires prolonged investment, and to ensure stable corporate growth. KYORIN Rimedio Co., Ltd., is the nucleus of the Kyorin Group's generic drug business.

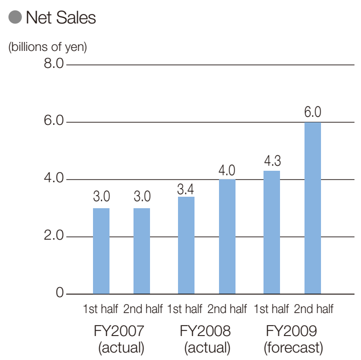
We see considerable growth potential for generic drugs in Japan's ethical drug market and anticipate a growing social need for such products. Above all, the market is expanding due to the increased use of generic drugs at hospitals under the Diagnosis Procedure Combination (DPC) system and at dispensing pharmacies. To capitalize on this opportunity, KYORIN Rimedio is strengthening its sales capabilities, trimming costs and expanding its product lineup.

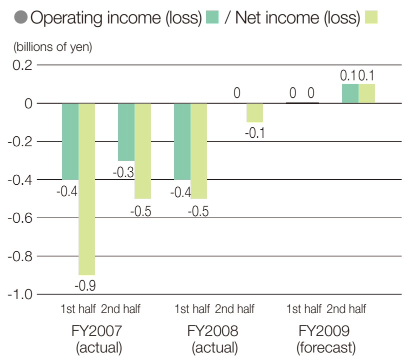
Sales capabilities are being strengthened by increasing the number of medical representatives to 70 and securing wholesale channels to promote sales. Other efforts include transferring the generic drug sales of Nisshin Kyorin Pharmaceutical to KYORIN Rimedio. By securing a greater number of customers, we expect to boost the market proliferation of our products. Furthermore, we will reinforce sales to dispensing pharmacies.

Cost-reduction measures include the start of the toll manufacturing of KYORIN Pharmaceutical's mainstay products and expanding sales of mainstay and new products to raise plant utilization rates.

Product lineups are being enhanced in the pursuit of higher sales in collaboration with KYORIN Pharmaceutical and joint development with other corporations, and we expect these arrangements to result in the addition of at least 10 products per year.

KYORIN Rimedio: Results for fiscal 2008 and Initiatives for fiscal 2009





Note: The date of closing accounts will change from January 31 to March 31, therefore the fiscal year ending March 2010 covers 14 months.

Overview (comparison with the previous year)

Net sales	Sales of products Increased, owing to the performance of Nisshin Kyorin Pharmaceutical Expanding sales of mainstay and new products
Operating income	Although the cost rate rose due to the reduction of NHI drug prices and intensified price competition, profitability recovered in the second half with enhanced cost-cutting efforts

Handling of issues

Aim to achieve profitability on an annual basis

Setting reasonable selling prices
Trimming costs
Increasing sales by introducing new products to the market

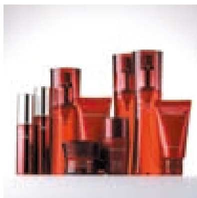
Consumer Healthcare Business

Build New Businesses that Contribute to Future Growth: Development and Improvement of a Customer Healthcare Business Centered on Dr. Program

Another potential new business that will complement our ethical drug business is the consumer healthcare business. In recent years, we have seen increasing changes in attitudes toward health. In response to these changes, the Kyorin Group is developing a consumer healthcare business that takes a broader approach to health issues, focusing on prevention, maintenance and improvement.

Dr. Program is the nucleus of the Kyorin Group's consumer healthcare business to develop and sell cosmetics using pharmaceutical technology. The inclusion of Dr. Program into the Kyorin Group in 2005 has helped push up overall sales with the continuation of the segment's efforts to expand its customer bases. Further sales expansion is intended by conducting more efficient ad activity to attract new customers.

In the consumer healthcare business, KYORIN Pharmaceutical sells Milton, which is a baby bottle disinfectant highly regarded by obstetricians and midwives. New promotions are planned in fiscal 2009 to increase sales in response to environmental changes such as the dwindling birthrate and an aging population and intensifying competition.

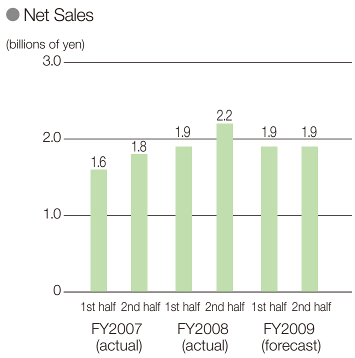


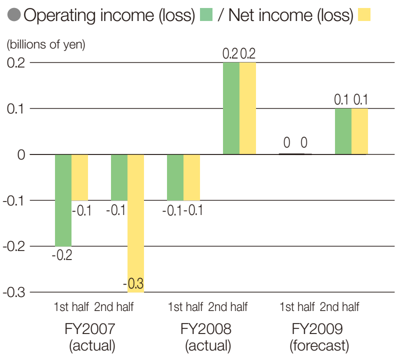
Dr. Program : TRINITYLINE

KYORIN Pharmaceutical : Milton CP

Milton : liquid form

Dr. Program: Results in fiscal 2008 and Initiatives for fiscal 2009





Note: The date of closing accounts changed from January 31 to March 31, therefore the fiscal year ended March 2009 covered 14 months.

Overview of fiscal 2008

- **New sales channels contributed to sales expansion (TV shopping via QVC broadcasting)**
- **Business operations started overseas**
- **Cost reduction via efficient and effective use of ad and sales promotion expenses**

Future initiatives

Create efficient ads to attract new customers (using such media as TV commercials)
Promote sales of a new product (U50) and the renewal of existing products
Develop and launch new products with an emphasis on proven technology and efficacy

U50
U50 received the Grand Gold Medal in the Monde Selection contest.

Basic Management Policies

In accordance with our corporate philosophy of "cherish life and benefit society by contributing to better health," the Kyorin Group engages in the development, manufacture and sale of beneficial drugs. By providing highly trusted products and services, we contribute to the maintenance and enhancement of people's health. We believe that the greater the contribution our drugs make to improving people's health, the more we can raise our corporate value, which in turn will ultimately lead to the Company's further development and growth. Backed by our ability to create innovative new ideas, the Kyorin Group aims to be an original and significant healthcare contributing force.

Basic Policy on Corporate Governance

The key management goal for KYORIN Co., Ltd. is to continue raising shareholder value. To achieve this goal requires fostering a management environment that enables us to build trust with stakeholders and the general public. Therefore, having given better corporate governance a high priority, we seek to ensure prompt decision-making, strong monitoring of the appropriateness of management, and ethical and transparent corporate activities.

To ensure transparency and fair disclosure, we release appropriate information without delay for the benefit of shareholders and investors. Within our website, we have created an investor information section on which we list business performance data, information presented at meetings, our securities report, news releases and other corporate information, enabling anybody to access information about Kyorin at any time. In the future, we intend to actively increase our disclosure of information, and expand and improve our communications with all stakeholders.

We are an audit- and committee-based company under Japanese law. The Board of Auditors endeavors to fully demonstrate its auditing and supervising functions and ensure the transparency of the decisions being made by the Board of Directors. Corporate auditors conduct audits in line with an auditing policy and plan set by the Board of Auditors at the beginning of each fiscal year. Corporate auditors carry out a diverse range of activities in fulfilling their auditing function. In addition to participating in important meetings, including those of the Board of Directors and the Management Committee, corporate auditors implement comprehensive audits by checking documents and other materials relating to key decisions and inspecting departments, facilities and Group companies.

In recognition of our corporate social responsibility, for every Kyorin Group company we appoint compliance and risk management officers. In addition, we have established a group-wide compliance and risk management system that is administered by the Compliance Committee and Risk Management Committee. We are establishing guidelines for each affiliated company based on the Kyorin Compliance Guidelines and will set up a system for employees to report and seek advice about possible irregularities. In addition to the above measures, we will create management guidelines for affiliated companies and build a system of support that respects their autonomy. Under this system, we will receive regular business reports from these companies and hold meetings with their management before deciding important issues. The Internal Audit Office conducts audits of affiliated companies based on internal audit guidelines. Based on the results of these audits, departments that oversee the operations of the affiliated companies issue instructions or warnings and provide appropriate guidance.

Management Organization and Internal Control System

(1) Management Organization

To clarify the roles of directors, who are responsible for making business decisions and supervising business execution, and executive officers, who are responsible for business execution, Kyorin has established an executive officer system. The Board of Directors usually meets once a month, deciding important operational matters after debating the issues as well as supervising each director's duties. To oversee business execution, we established a Management Committee, comprising the president and directors, which discusses key operational matters concerning the Group.

We also utilize a corporate auditor system with two statutory corporate auditors and three outside corporate auditors. By capitalizing on such auditing and supervisory functions, we are building a system that facilitates highly transparent decision-making.

(2) Internal Control System, Risk Management Structure and Compliance

Kyorin is building an internal control system in accordance with the following basic policy.

Basic Policy

In keeping with our corporate philosophy of "cherish life and benefit society by contributing to better health," we undertake our activities in Japan and overseas guided by a high standard of corporate ethics as we respect human rights and comply with the letter and spirit of all laws and codes of conduct.

1. We established the Compliance Committee, which is chaired by a director in charge and includes the participation of the Director of the Internal Audit Office who serves as a member of the committee. Thoroughgoing guidance is provided to executives and regular employees via training programs, while the Corporate Ethics Hotline has been set up for consultations and reporting matters concerning internal violations.
2. We are building and operating a structure for reducing and preventing risks. As part of this structure, we established the Risk Management Committee, chaired by a director in charge, with the General Affairs department responsible for overseeing the committee. For risks concerning compliance, the environment and accidents, we also formulated the Risk Management Guidelines and the Corporate Ethics and Compliance Guidelines as part of a quick-response structure.

Additionally, to handle crisis management when dealing with any contingencies, we have set up the Contingency Measures Headquarters under the leadership of the president.

3. In accordance with the Documentation Management Guidelines and other internal regulations, we carry out the appropriate preparation, preservation and management of information regarding directors' decisions, their execution of other duties and reports concerning directors.
4. To ensure that auditors effectively perform audits, the accounting auditing firm explains the details of the accounting audit to the auditors and exchanges various information while cooperating with the Internal Audit Office in ensuring appropriate communication and effective auditing.
5. Along with establishing compliance committees and risk management committees at each Kyorin Group company, the Compliance Committee and Risk Management Committee oversee and promote compliance and risk management for the entire Group. In addition, we have built a structure for consultation and reporting that covers the whole Group.

    We will create management guidelines for affiliated companies and build a system of support that respects their autonomy. Under this system, we will receive regular business reports from these companies and hold meetings with their management before deciding important issues.

    The Internal Audit Office performs audits of affiliated companies based on internal audit guidelines. Depending on the results of these audits, departments that oversee the operations of the affiliated companies issue instructions or recommendations and provide appropriate guidance. We are also building a structure that enables managers to prepare reliable internal control reports for financial reporting. Under this structure, the Internal Audit Office also evaluates and reports on internal controls related to financial reporting based on the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting.
6. Basic rationale on the elimination of anti-social forces and the establishment of related measures

    Giving consideration to our corporate philosophy, we formulated the Kyorin Corporate Charter to ensure a high standard of corporate ethics and thoroughgoing compliance. This charter clearly states that we will "stand firmly against any anti-social forces or groups that pose a threat to the order and safety of society."

    The Company will eliminate any relationships with and strongly confront anti-social forces or groups. As an internal structure for overall monitoring of our corporate ethics and our compliance structure, we established the Compliance Committee, with the director in charge of the committee also handling overall coordination. As the department in charge of compliance, the General Affairs department is working to strengthen and promote a wider permeation of corporate ethics and compliance through education and other measures in collaboration with relevant departments.

    We have also established standard measures to prepare for any possible undue demands from anti-social forces. To this end, we have built a structure that includes designating a "person responsible for prevention of undue claims" at our Head Office and all branch offices to respond to encounters with any anti-social forces or groups. We also maintain close communications with police departments with relevant jurisdictions, special crime prevention units and legal advisers to ascertain the latest trends and gather other information on anti-social forces or groups as well as for guidance, consultation and assistance.

    Also, we have prepared Responding to Telephone Calls and Visits to the Company during the Initial Phase of Claim-related Problems as a manual, to ensure that employees make appropriate initial responses. In this manner, we have established a structure for properly responding to any demands from anti-social groups.

(3) Audit Organization

1. Internal Auditors

Internal audits are conducted by the Internal Audit Office, which is staffed by five employees, reports directly to the president and is independent from other sections. Based on yearly auditing plans, the Internal Audit Office regularly assesses and evaluates the effectiveness and efficiency of the legal compliance and internal control systems in every section of the parent and Group companies. After an audit, the office communicates any problems or areas that need improvement directly to the president and makes the appropriate recommendations.

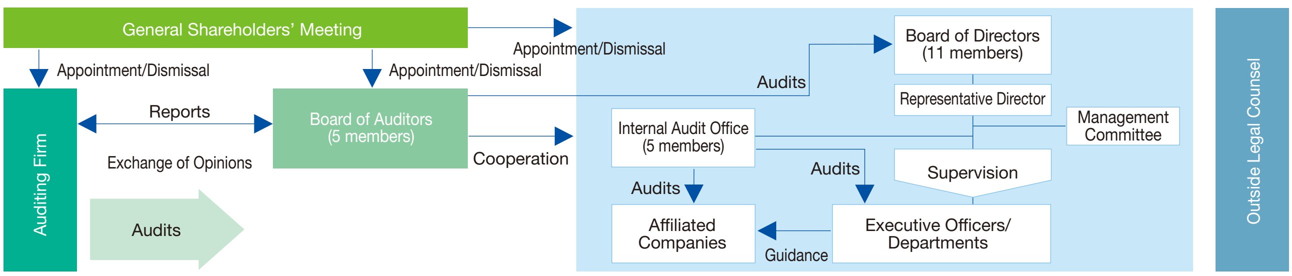
2. Corporate Auditors

Corporate auditors conduct audits in line with an auditing policy and plan set by the Board of Auditors at the beginning of each fiscal year. In addition to participating in important meetings, including those of the Board of Directors and the Management Committee, corporate auditors implement comprehensive audits by checking documents and other materials relating to key decisions and inspecting departments, facilities and Group companies.

3. Independent Auditors

In accordance with the Corporation Law and the Financial Instruments and Exchange Law, we receive annual audits by Ernst & Young ShinNihon. We benefit from its valuable advice as an accounting firm, as well as from its services as an auditor of our financial accounts.

Corporate Governance and Management Structure



(As of June 24, 2009)

The starting points of the Kyorin Group's corporate social responsibility (CSR) endeavors are to cherish life and contribute to society by contributing to better health, together with Kyorin's corporate branding aimed at making that philosophy a reality. For sustainable growth, Kyorin has made a commitment to medical workers, shareholders and customers to help bring about a happy society and will continue to work to realize that goal by providing trusted products and services, and by fulfilling its corporate social responsibility in the areas of environmental and industrial safety and hygiene and through activities that contribute to health and society.

Ongoing Environmental Initiatives

KYORIN Pharmaceutical is implementing the following activities.

1. Preventing global warming

- The amount of fuel used is being reduced by installing cogeneration systems and using smaller boilers.
- Power consumption is being reduced by controlling air-conditioning settings to 27°C in summer and 21°C in winter.
- Eco-cars and hybrid vehicles are being used to improve fuel efficiency and reduce exhaust emissions.

2. Reducing waste volume

- The amounts of emissions are being reduced and recycling is being promoted to achieve the ultimate goal of zero landfill.

3. Managing chemical substances

- Substances covered by the Pollutant Release and Transfer Register (PRTR) law are being managed, and methods for reducing amounts used and the use of alternatives are being evaluated.

4. Preventing atmospheric pollution

- Measurement and control of the amounts of soot and smoke, nitrogen oxides (NOx) and sulfur oxides (SOx) emitted by boilers and generators are being carried out.

5. Preventing water pollution

- Processing of wastewater, including by primary processing plants, and management of pH, biochemical oxygen demand (BOD) and suspended solids (SS) levels are being carried out.

6. Preventing deforestation

- Recycling of paper, using recycled paper and promoting a paperless office environment are being carried out.

7. Preventing destruction of the ozone layer

- Replacement of equipment that uses specified chlorofluorocarbons is being expedited.

8. Preventing ground subsidence

- Checking for ground subsidence and improved utilization of piped water are being carried out.

9. Preventing contamination of soil and surface water

- Tanks are being located above ground, oil barriers installed and emergency response training implemented.

10. Noise reduction

- Noise levels are being measured and responses prepared.

11. Preventing foul odors

- Draft chambers are being installed and scrubbers used to remove odors.

Measures Relating to Industrial Safety and Hygiene

In 2004, KYORIN Pharmaceutical obtained occupational health and safety management system certification (OHSAS 18001) for all production and research divisions, and in 2005, consolidated its ISO 14001 and OHSAS 18001 measures. The Rimedio Center of KYORIN Rimedio obtained ISO 14001 certification in 2008 and OHSAS 18001 certification in 2009.

1. Rate and severity of work accidents

As a result of measures implemented to prevent work accidents, the frequency and severity of such accidents are much lower than the industry average. There have been no fatal accidents since the start of operations.

2. Vehicle accidents

Despite setting a target of a year-on-year reduction of 10% in the number of vehicular accidents per branch, in fiscal 2008 there were 170 more accidents. Kyorin views this matter very seriously, and as such, is implementing various accident-prevention measures. For fiscal 2009, the Company has set per store targets that will hold accidents on a company-wide basis to no more than 113.

Corporate Social Responsibility

In recognition of the importance of its corporate social responsibility, the Kyorin Group is enhancing its corporate ethical standards and putting in place a system of compliance in line with the approach set out below.

◆Compliance Measures

Basic Policy

An enterprise should pursue profits through fair competition and at the same time should be a force for the greater good of society.

Based on its corporate philosophy to cherish life and contribute to society by contributing to better health, the Kyorin Group will conduct its activities based on a high standard of corporate ethics, respecting human rights and observing all laws, as well as standards of conduct and the spirit thereof.

Measures

To ensure the Group's activities are based on a high standard of corporate ethics, the Company has drawn up the Kyorin Corporate Charter and the Kyorin Compliance Guidelines, and instituted a compliance committee.

1. The Kyorin Corporate Charter was developed to specify matters of corporate ethics and compliance in accordance with our corporate philosophy, and serves as the starting point for our corporate activities.
2. The Kyorin Compliance Guidelines complements the Kyorin Corporate Charter by clarifying the standards to be followed for sound and proper business activities.
3. In March 2006, the Compliance Committee was established to provide overall supervision of corporate ethics and compliance systems. Each company has a compliance promotion manager who is responsible for the understanding and instilling of corporate ethics and compliance.

Education and Training

In-house training courses are conducted to promote understanding of and instill corporate ethics and compliance.

1. Compliance managers organize education and training courses on corporate ethics and compliance, which are conducted at each level of the organization on a company-wide basis, and instructional activities are aimed at company officers and employees.
2. Details relating to corporate ethics and compliance are being incorporated into training by job function conducted by each division to promote understanding and instill a sense of ethics and awareness of compliance among employees.

Risk Management Measures

The passing of the Corporation Law in May 2006 made it necessary to set up an internal control system.
Kyorin established a risk management committee in order to prevent risk and deal with any risks that do arise. Also, a risk management promotion manager has been appointed at each company to raise awareness relating to risk management.

Local Community Activities

Cherry blossom viewing party

The Kyorin Discovery Research Laboratories holds an annual party for viewing the blossoms on cherry trees that are more than 40 years old. As usual, this year's party had many participants. The occasion was also used as an opportunity to explain Kyorin's environmental and occupational safety activities.

Summer evening parties

Each year, the KYORIN Pharmaceutical Development Research Laboratories and various plants hold summer evening parties to which local residents are invited. These are popular events, providing an opportunity to further promote understanding of the Company's activities.

Local cleanup activities

For several years, the Okaya Plant has been a "foster parent" responsible for beautifying a section of the shore of Lake Suwa as part of the Lake Suwa Adoption Program.
Employees also help to keep the lakeside park clean. Employees of the Noshiro Plant participate in voluntary activities to maintain the "Kaze-no-Matsubara," a pine forest and recreational area that acts as a barrier protecting the locality from winds.
In our head office, employees participate on a voluntary basis in cleanup campaigns carried out twice a year by the local Chiyoda City authorities.

Public seminars

KYORIN Pharmaceutical provides highly regarded public lectures at its branches and offices. Currently, seminars are being conducted relating to chronic obstructive pulmonary disease (COPD), from which increasing numbers of elderly people are suffering. Wherever they are held across the nation, these seminars draw large numbers of attendees who can hear advice from experts on COPD symptoms, how to stop smoking, and other related matters.

Distribution of Doctor Salon booklets

Radio Nikkei broadcasts Doctor Salon, a program aimed at physicians. These broadcasts have been compiled into booklets, which KYORIN Pharmaceutical's medical representatives distribute during their monthly calls on doctors. A wide range of diseases is covered, providing timely coverage of current topics, making the booklets very popular with primary care physicians.

Supporting sporting events

The Kyorin Group supports sporting events that help to promote health. Starting in the fiscal year under review, the Group has also become a co-sponsor of the Giants Academy, where members of the Yomiuri Giants baseball club provide year-round baseball instruction to children. We also co-sponsor the Giants' Cup.

Employee voluntary community/health activities (Kyorin Smile Program)

The Kyorin Group launched its corporate branding program in March 2006. To help achieve a happy society, the aim of the corporate branding program is to change the awareness and actions of each and every employee by promoting the Kyorin Smile Program, a set of employee initiatives for making a contribution to society and people's health. The activities in this program include giving blood, local beautification schemes and monetary donations.

In fiscal 2008, the Kyorin Group donated a total of ¥200,039 contributed by employees to Unicef. This money is being used for funding a sanitation improvement project in Burkina Faso in West Africa. The Group also collected 2.0 kilograms of used stamps, which were donated to the Japanese Organization for International Cooperation in Family Planning (JOICFP). The stamps will be used to help fund White Ribbon Campaign activities aimed at protecting the lives of mothers and babies throughout the world.

Directors, Auditors and Corporate Officers (As of June 24, 2009)

Executive Director and Honorary Advisor
Minoru Ogihara

Representative Director, Chairman
Hiroko Ogihara

Representative Director, President and Chief Executive Officer
Masahiro Yamashita

Executive Director
Itaru Kojo

Executive Director
Toshiro Takusagawa

Executive Director
Keiji Hirai

Senior Executive Officer, Executive Director
Minoru Hogawa

Senior Executive Officer, Executive Director
Takashi Matsuda

Senior Executive Officer, Executive Director
Toyozo Goho

Corporate Officer, Executive Director
Tomiharu Matsumoto

Corporate Officer, Executive Director
Mitsutomo Miyashita

Senior Corporate Auditors

Hiroyuki Fukashiro
Seiyu Miyashita

Corporate Auditors

Masaji Obata
Junji Honda
Yasuyuki Hirota

Corporate Officers

Yoh Ito
Haruki Watanabe
Takashi Nishino
Satoru Kanai

Financial Review

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Overview

Trends in Domestic Pharmaceutical Industry

During the fiscal year ended March 31, 2009, the environment surrounding the Japanese pharmaceutical industry, which is the core business area for the Kyorin Group, became increasingly harsh mainly due to a reduction in standard drug prices implemented in April 2008, amounting to approximately 4% for KYORIN Pharmaceutical Co., Ltd. versus an industry average of 5.2%; the strengthening of measures to contain the cost of medical treatment and the cost of pharmaceuticals; and increasing complexity in new drug development. Future prospects have become increasingly uncertain owing in particular to the start of earnest debate concerning reforms of the National Health Insurance (NHI) drug pricing system.

Consolidated Operating Results

Despite a significant drop in lump-sum income from licensees as well as business transfer, consolidated net sales rose ¥9,819 million to ¥90,889 million owing to favorable sales of principal products for ethical drugs in Japan, coupled with positive effects from the merger with Nisshin Kyorin Pharmaceutical Co., Ltd., and growth in generic products.

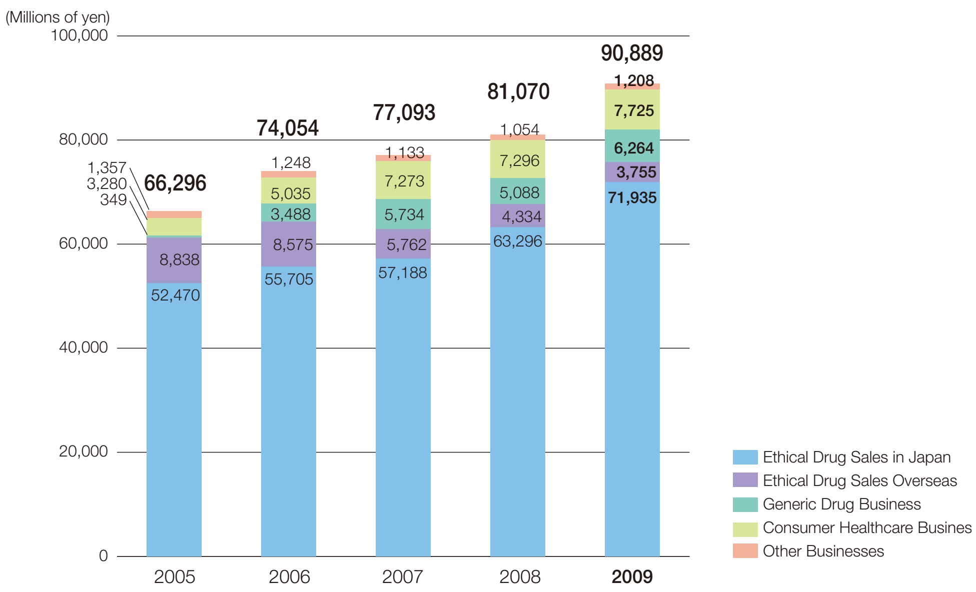
The cost of sales ratio increased 1.3 percentage points year-on-year to 40.5% primarily attributable to the decrease in lump-sum income as well as a revision to drug prices, down approximately 4% for KYORIN Pharmaceutical. Despite this, gross profit rose ¥4,785 million to ¥54,098 million due to increased net sales. Operating income increased ¥2,700 million, or 43.2%, to ¥8,952 million as a result of an increase of ¥2,084 million in selling, general and administrative (SG&A) expenses to ¥45,146 million and a decrease of ¥294 million in R&D expenses. Factors contributing to the rise in SG&A expenses included costs associated with the merger with Nisshin Kyorin Pharmaceutical. Net income totaled ¥2,037 million, down 7.0%, due to the recording of extraordinary losses in the amount of ¥4,564 million that included loss associated with the voluntary cessation of sales of Gatiflo, loss on revaluation of investment securities, and loss on sales of investment securities in line with the dissolution of Bistner First Investment LPS.

Summary of Consolidated Statements of Income

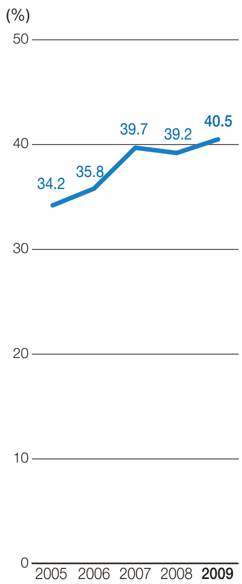
(Millions of yen)

	March 2009	March 2008	YoY change (%)
Net sales	**90,889**	81,070	12.1
Operating income	**8,952**	6,251	43.2
Net income	**2,037**	2,189	(7.0)

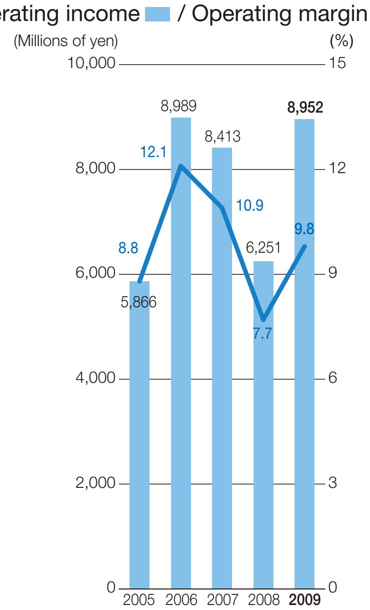
Net Sales



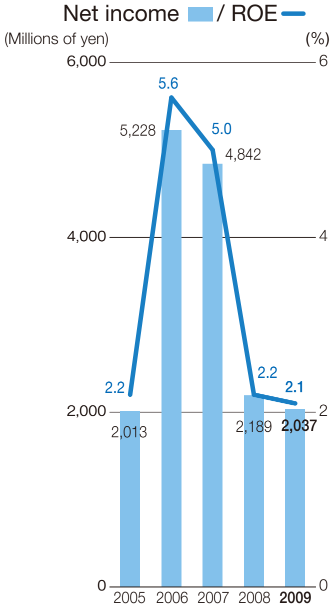
Cost of sales ratio



Operating income / Operating margin



Net income / ROE



Assets, Liabilities and Net Assets

Current assets increased ¥9,124 million principally due to increases in cash and cash in banks, notes and accounts receivable, and short-term investments, as well as a decrease in inventories. Fixed assets, including property, plant and equipment and investments and other assets, fell ¥6,970 million owing to an increase in deferred tax assets and decreases in tangible and intangible fixed assets and investment securities. As a result, total assets at year-end stood at ¥124,552 million, up ¥2,153 million from the end of the previous term.

Liabilities at year-end amounted to ¥28,051 million, an increase of ¥2,837 million, due mainly to increases in short-term bank loans and accrued income taxes and a decrease in notes and accounts payable.

Net assets at year-end amounted to ¥96,501 million, a decrease of ¥683 million, attributable to an increase in retained earnings and unrealized holding loss on securities.

As a result, the shareholders' equity ratio was 77.5%, down 1.9 percentage points from the end of the previous term.

Summary of Consolidated Balance Sheets

(Millions of yen)

	March 2009	March 2008	YoY change
Current assets	**75,140**	66,016	9,124
Fixed assets	**49,412**	56,382	(6,970)
Current liabilities	**21,715**	19,201	2,513
Long-term liabilities	**6,336**	6,012	323
Net assets	**96,501**	97,184	(683)

Cash Flows

Net cash provided by operating activities totaled ¥4,575 million, reflecting income before income taxes of ¥4,847 million, depreciation and amortization of ¥3,799 million, increase in notes and accounts receivable of ¥5,628 million, decrease in inventories of ¥1,649 million and income taxes paid of ¥2,497 million.

Net cash used in investing activities totaled ¥4,229 million mainly due to payments for time deposits of ¥2,021 million, proceeds from cancelation of time deposits of ¥2,220 million, payments for purchase of property, plant and equipment of ¥1,498 million, payments for purchase of investment securities of ¥4,808 million, proceeds from sales and redemption of investment securities of ¥5,512 million and payments of merger consideration of ¥3,511 million.

Net cash provided by financing activities totaled ¥1,184 million, largely attributable to an increase in short-term loans of ¥2,475 million and cash dividends of ¥863 million.

As a result, cash and cash equivalents at end of year totaled ¥12,363 million, up ¥1,224 million, and including ¥1,539 million gained from merger.

Turning to cash flow projections for the year ending March 31, 2010, with regard to net cash from investing activities, we forecast payments for property, plant and equipment of ¥2,600 million primarily to expand plant facilities.

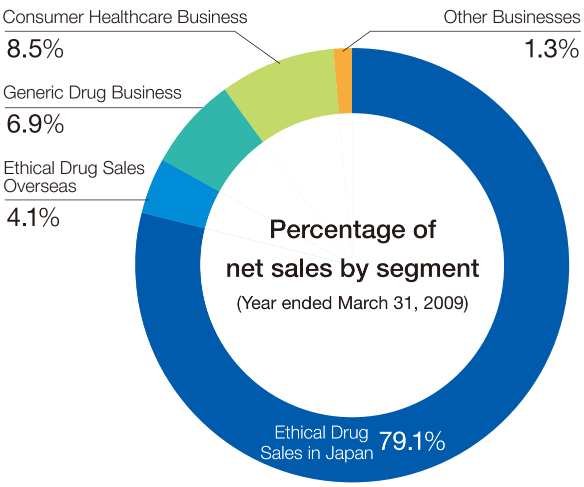
With regard to net cash from financing activities, we forecast total cash dividends for the year of approximately ¥1,400 million based on a year-end dividend of ¥9.00 per share and an interim dividend of ¥10.00 per share.

Summary of Consolidated Statements of Cash Flows

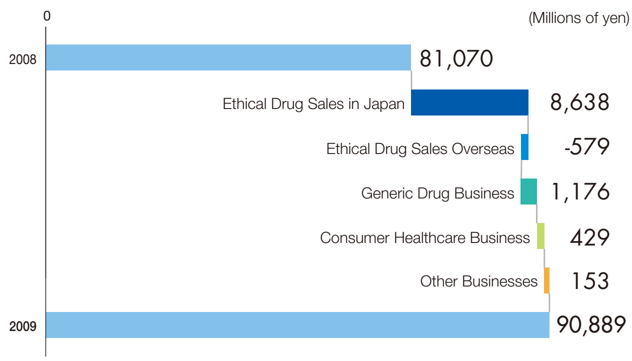
(Millions of yen)

	March 2009	March 2008
Cash provided by operating activities	**4,575**	4,444
Cash used in investing activities	**(4,229)**	(6,144)
Cash provided (used in) financing activities	**1,184**	(1,527)
Cash and cash equivalents at end of year	**12,363**	9,599

Segment Overview



Net sales by segment



Ethical Drug Sales in Japan

Principal Products

Kipres, a leukotriene receptor antagonist for treating bronchial asthma and allergic rhinitis
Mucodyne, a mucoregulant
Pentasa, for treating ulcerative colitis and Crohn's disease
Uritos, for treating overactive bladder


Kipres

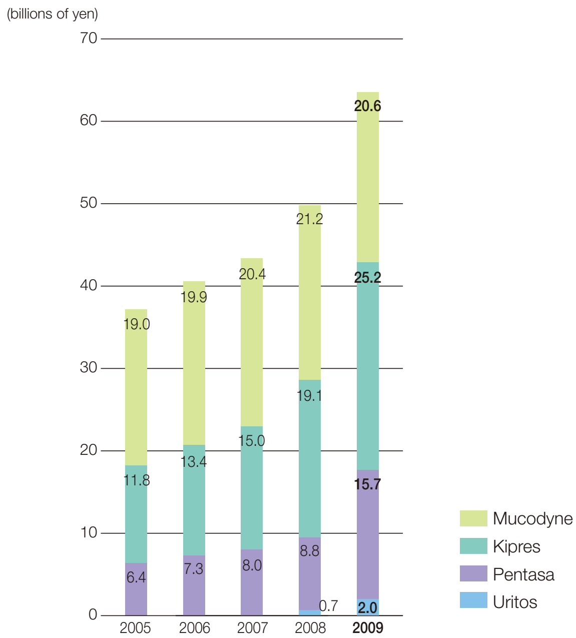

Mucodyne


Pentasa


Ketas


Uritos

Sales of the four principal products



In the ethical drug sales in Japan segment, we bolstered our sales capabilities by focusing sales resources on respiratory medicine, otolaryngology and urology through our franchise customer strategy, as well as strengthening cooperation with the wholesale trade. Through these endeavors, segment sales increased 13.6% year-on-year to ¥71,935 million.
Sales of our main products were steady, namely Kipres, a leukotriene receptor antagonist for treating bronchial asthma and allergic rhinitis; Pentasa, for treating ulcerative colitis and Crohn's disease; and Uritos, for treating an overactive bladder.

In October 2007, we launched Kipres 4mg fine granules and included the additional indication for treating allergic rhinitis in adults in January 2008. Sales of Kipres products were brisk as a result, up ¥6.1 billion to ¥25.2 billion.

Pentasa sales increased ¥6.9 billion to ¥15.7 billion in line with the transfer of sales due to the merger of Nisshin Kyorin Pharmaceutical with KYORIN Pharmaceutical on October 1, 2008.

Sales of Uritos were up ¥1.3 billion to ¥2.0 billion as a result of steady sales expansion in line with the lifting of restrictions on the prescription period in July 2008.

Sales declines were recorded for Mucodyne, a mucoregulant; Ketas, a bronchial asthma and cerebrovascular disorder treatment; Rocaltrol, an active form of vitamin D3; and Aplace, a gastritis and gastric ulcer treatment agent. Sales of Gatiflo, a broad-spectrum antibacterial agent, decreased considerably since we voluntarily stopped selling this product on September 30, 2008.

In terms of domestic development, in August 2008 we started Phase II clinical trials for KRP-108, a treatment for bronchial asthma, for which we concluded a licensing agreement with U. K.-based SkyePharma PLC in April 2008. In October 2008, we launched Pentasa Tablets 500 as an additional formulation for treating ulcerative colitis and Crohn's disease. In December

2008, we attained approval for an additional dosage and administration (4,000 mg divided into two doses per day) of Pentasa for the treatment of ulcerative colitis in its active phase.

On the production front, we are working to create efficient and stable production systems at the Noshiro Plant in Akita Prefecture and Okaya Plant in Nagano Prefecture of KYORIN Pharmaceutical and the Inami Plant in Toyama Prefecture of KYORIN Rimedio Co., Ltd. During the fiscal year, we shifted production of Pentasa, which was previously handled at the Osaka Plant of Nisshin Kyorin Pharmaceutical, to the Okaya and Noshiro Plants in line with the merger with Nisshin Kyorin Pharmaceutical on October 1, 2008. Production at the two plants is already underway. As part of efforts to achieve total optimization of the Kyorin Group's production system in terms of production efficiency, risk avoidance and stable supply, we transferred manufacturing of KYORIN Pharmaceutical's core products for which production technologies have been established from the Noshiro Plant to the Inami Plant of KYORIN Rimedio. The Kyorin Group aims to create a system that ensures continued efficient production of high-quality products and their stable supply.

For the year ending March 31, 2010, we expect sales growth in the principal products of Kipres, Mucodyne, Pentasa and Uritos. Segment sales are forecast to increase ¥4.2 billion to ¥76.1 billion in line with efforts aimed at realizing further synergistic effects through the merger with Nisshin Kyorin Pharmaceutical that was executed in October 2008.

Ethical Drug Sales Overseas

Principal Products

Gatifloxacin, and ophthalmic solution Zymar

Sales in the ethical drug sales segment overseas amounted to ¥3,755 million, down 13.4% from the previous fiscal year. This was due to a decline in royalty income from the ophthalmic solution Zymar, which we license to Allergan Inc., resulting mainly from currency fluctuations and a reduction in other lump-sum income.

In February 2009, we concluded a basic agreement with Saudi Pharmaceutical Industries & Medical Appliance Corporation in Saudi Arabia for the exclusive rights to market Uritos in 13 countries in the Middle East and North Africa.

With regard to development overseas, we concluded Phase IIa clinical trials for KRP-104, an anti-diabetes agent, in the United States and other countries in August 2008.

Sales in this segment for the year ending March 31, 2010 are forecast to decrease ¥1.1 billion to ¥2.7 billion in line with a projected decrease in sales of ophthalmic solution Zymar.

Generic Drug Business

Generic drug sales rose 23.1% year-on-year to ¥6,264 million owing to a significant increase in sales, particularly at KYORIN Rimedio, due to sales transfers from Nisshin Kyorin Pharmaceutical and sales of supplementary items launched in July 2008.

Sales in this segment for the year ending March 31, 2010 are forecast to increase ¥2.4 billion to ¥8.7 billion due to a full-year contribution from sales transferred from Nisshin Kyorin Pharmaceutical, an increase in sales of supplementary items and principal products, and the change in fiscal year end at KYORIN Rimedio from January 31 to March 31, resulting in a 14-month sales period.

Consumer Healthcare Business

Principal Products

Milton, a disinfectant for the insides and nipples of baby bottles, and TRINITYLINE, a range of cosmetic skincare products.

Despite a year-on-year decline in sales of non-prescription drugs at KYORIN Pharmaceutical and KYORIN Rimedio, sales from Dr. Program Co., Ltd., which is engaged in cosmetics business that applies drug formulation technology, increased. In addition, due to the change in the settlement date of Dr. Program from January 31 to March 31, the company's results included sales figures for 14 months. As a result, sales in the consumer healthcare business amounted to ¥7,725 million, up 5.9% year-on-year. The change in the settlement date was aimed at realizing more efficient business execution by changing Dr. Program's fiscal year to the period from April 1 to March 31, the same as its parent company, KYORIN Co., Ltd.

Sales in this segment for the year ending March 31, 2010 are forecast to increase ¥100 million to ¥7.8 billion.

Other Businesses

Kyobundo Co., Ltd. is responsible for the planning and production of sales promotion materials and advertisements. This subsidiary devises effective strategies to reinforce the business foundations of the Group and endeavors to enhance its performance by augmenting human resources and taking other steps to build a stronger organization. Kyobundo is also moving ahead with measures to decrease the business expenses of the Group, such as by centralizing the purchasing of packaging materials.

For the fiscal year ended March 31, 2009, segment sales, including the planning and production of sales promotion materials and advertisements and other businesses, amounted to ¥1,208 million, up 14.6% year-on-year.

Sales in this segment for the year ending March 31, 2010 are forecast to decrease ¥100 million to ¥1.1 billion.

Products under Development

(As of May 13, 2009)

Preclinical	Phase I	Phase II	Phase III
KRP-107 (Transplantation and autoimmune diseases treatment)	■ KRP-105 (Anti-dyslipidemia)	■ KRP-204 tablets (Anti-obesity)	● Amorolfine hydrochloride Nail varnish (Anti-mycotic agent)
KRP-109 (Acute lung injury (ALI))		● KRP-204 tablets (Overactive bladder)	
		● AS-3201 tablets (Diabetic neuropathy)	
		■ KRP-101 tablets (Anti-dyslipidemia with anti-diabetes)	
		● ■ KRP-104 tablets (Anti-diabetes agent)	
		● KRP-108 (Anti-asthmatic treatment)	■ KCA-757 (Anti-bronchial asthma and Interstitial cystitis agent)
	■ KRP-203 (Transplantation and autoimmune diseases treatment)	■ Ketas (Cerebrovascular disorders)	● Alphagan/Alphagan P (Glaucoma)

● Development in Japan
■ Development overseas
POC projects/Phase II – III compounds
Licensed out

POC Projects/Phase II-III Compounds

Product Name/Code	Origin	Description	Other Comments
PEKIRON Nail lacquer	KYORIN Pharmaceutical	Anti-mycotic agent. First nail varnish formulation for nail mycosis in Japan.	
KRP-204 tablets	Nisshin Flour Milling	Anti-obesity agent. A highly selective β3-agonist that may improve obesity and have less cardiac effect in comparison with previous compounds.	Co-development with Nisshin Flour Milling Ph II a ended
KRP-204 tablets	Nisshin Flour Milling	Overactive bladder agent. A highly selective β3-agonist that may relax bladder smooth muscle and improve urine storage dysfunction by activating β3 receptor on bladder.	Co-development with Nisshin Flour Milling Ph II a ended
AS-3201 tablets	Dainippon Sumitomo Pharma	Diabetic neuropathy agent. Sorbitol accumulation in cells is suppressed by effectively inhibiting aldose reductase, thereby improving diabetic neuropathy.	Co-development with Dainippon Sumitomo Ph II b(9/07)
KRP-101 tablets	KYORIN Pharmaceutical	Anti-dyslipidemia with anti-diabetes agent. A PPARα agonist expected to have an effect on diabetes in addition to improving lipid metabolism—a benefit that includes the reduction of neutral fats.	Ph II a ended
KRP-104	KYORIN Pharmaceutical	Anti-diabetes agent. A DPPⅣ inhibitor that reduces blood glucose by suppressing the degradation of insulin-releasing hormone. A diabetic therapy with fewer expected side effects than existing treatments.	Overseas Ph II a ended (8/08) Domestic Ph II b (3/09)
KRP-108	SkyePharma PLC	Anti-asthmatic treatment. An ICS/LABA combination product, which offers better compliance and convenience to the patients.	Licensing agreement with SkyePharma (4/08)
KRP-203	KYORIN Pharmaceutical	Transplantation and autoimmune diseases treatment. An immunosuppressant with a novel mechanism called an S1P-agonist. The treatment is expected to have a better safety profile than previous ones as well as an excellent effect under concomitant use with other types of immunosuppressants.	Licensing agreement formed with Novartis (February 2006)
KRP-105	KYORIN Pharmaceutical	Anti-dyslipidemia agent. A highly selective PPARα agonist. In addition to lipid metabolism improvement, KRP-105 increased adiponectin, reduced leptin, and suppressed weight gain in animal models, suggesting potential to be a unique and ant-dyslipidemia agent.	
KRP-107	In-house	Transplantation and autoimmune diseases treatment. Selective S1P1 receptor agonist	
KRP-109	In-house	Acute lung injury (ALI). Neutrophil elastase inhibitor with high distribution into lungs	

Licensing and Joint Development

Product Name/Code	Origin	Licensing and Joint Research Tie-ups	Other Comments
Alphagan/Alphagan P	Allergan	Senjyu Pharmaceutical	•Licensed from Allergan (Cross-license of gatifloxacin ophthalmic solution) •Licensed-out to Senju Pharmaceutical May 2004
Ketas	KYORIN Pharmaceutical	MediciNova	•KYORIN grants MediciNova an exclusive license in all countries worldwide except for Japan,China, South Korea and Taiwan to develop, manufacture and sell the compound and products for the multiple sclerosis indication.(10/04) *Result of Ph II was reported in April 2008.
KCA-757	KYORIN Pharmaceutical	MediciNova	•KYORIN grants MediciNova an exclusive license in all countries worldwide except for Japan,China, South Korea and Taiwan to develop and sell the compound and products •Interstitial cystitis : Results of Ph II/III was reported Ph II/III (Interstitial cystitis:5/05) In January 2007 and ceased development •Bronchial asthma: Clinical trial oversea was discontinued.
KRP-203	KYORIN Pharmaceutical	Novartis	•An immunosuppressant with novel S1P called S1Pagonist. It may have a better safety profile than previous ones as well as an excellent effect under concomitant use with other types of immunosuppressants. (2/06)

Business Risk

We have described below the risk factors that could affect the business performance or financial health of the Group. Although the Group has taken organizational and systematic measures to minimize risk, the outline does not include every risk or variable that could affect its business.

(1) Legal Regulations

Legal regulations in Japan, such as the Pharmaceutical Affairs Law, the National Health Insurance (NHI) system, NHI drug prices and laws in other countries can affect the Group's business. Every stage of our operations, including pharmaceutical development, production, import and distribution, is regulated by various approval and licensing systems. Unforeseen substantial shifts in future healthcare administration policy could affect our business performance and financial health.

(2) Pharmaceutical R&D

Ethical drug development requires substantial R&D investment over lengthy periods. Furthermore, the success rate is low for companies seeking to discover original compounds and bring pharmaceutical products to market. Currently, several of KYORIN Pharmaceutical's ethical drugs are undergoing clinical trials. The clinical development of such drugs could be terminated as a consequence of various factors, such as unforeseeable side effects or failure to achieve intended results.

(3) Increased Competition

The pharmaceutical industry is experiencing rapid technological change. Sales of the Group's principal products could be affected if a competitor developed and brought to market drugs that were more useful or produced the same effects.

(4) NHI Drug Price Revisions

Japan's NHI drug prices are usually revised every two years. When forecasting business results, the Kyorin Group does its best to predict and factor in the effects of such changes. Nevertheless, our performance could suffer as a result of greater-than-expected NHI drug price revisions or changes to the NHI system.

(5) Side Effects

Information concerning the safety of new pharmaceuticals is based only on clinical trials using a limited number of subjects and therefore cannot eliminate the possibility of other side effects. If a drug in general use is found to have unknown and unreported side effects after its launch, its usage may be restricted or, in some cases, its sale could be discontinued.

(6) Slowdowns or Delays in Production

Technical or regulatory problems, natural disasters and accidents, including fires, could cause slowdowns or delays in production or the cessation of operations, thereby affecting the Group's performance.

(7) Pharmaceutical Recalls

If pharmaceuticals are shown to be defective due to contamination or other causes, they will be recalled. Such a situation would adversely affect the Group's business results.

(8) Intellectual Property Protection

There is a risk that the Group may become unable to protect its intellectual property effectively in Japan or overseas. In this event, third parties could exploit the Group's technology and reduce demand for its principal products and related pharmaceuticals. If the Group's other activities are deemed to infringe on another company's patents or threaten its intellectual property rights, the Group may become involved in legal disputes and have to terminate some business operations.

(9) Lawsuits

The Group could become the subject of a lawsuit for alleged patent infringements, violations of the Product Liability Act or the Antimonopoly Act or as a result of environmental issues or labor disputes. Daiichi Sankyo Co., Ltd. has filed a patent infringement lawsuit against KYORIN Rimedio Co., Ltd. requesting an injunction on Levofloxacin Hydrate (brand name: Cravit). We intend to make a thorough response to this lawsuit.

(10) Exchange Rate Fluctuations

As the Group exports pharmaceutical products, its sales are vulnerable to exchange rate fluctuations. In the year ended March 31, 2009, overseas sales accounted for 5.8% of the Kyorin Group's consolidated net sales.

(11) Cancellations of Tie-up Agreements

KYORIN Pharmaceutical promotes strategic alliances to make efficient use of external capital. Through tie-up agreements with other pharmaceutical companies, the subsidiary allocates sales rights for some of its products and collaborates in sales, R&D and other activities. A cancellation of these tie-up agreements for any reason could

Consolidated Balance Sheets

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2008	**2009**
Assets			
Current assets:			
Cash and cash in banks (Notes 4 and 14)	¥ 12,223	¥ 10,647	$ 124,394
Notes and accounts receivable (Note 5)	35,615	28,995	362,457
Short-term investments (Notes 4 and 6)	3,500	2,209	35,620
Inventories:			
Merchandise and finished goods	9,454	12,067	96,214
Work in process	1,429	1,033	14,543
Raw materials and supplies	7,304	6,669	74,333
Deferred tax assets (Note 15)	2,067	1,556	21,036
Other	3,680	2,935	37,452
Less allowance for doubtful accounts	(134)	(99)	(1,364)
Total current assets	75,140	66,016	764,706
Property, plant and equipment:			
Land (Note 7)	1,671	1,740	17,006
Buildings and structures (Notes 7 and 14)	28,165	28,567	286,637
Machinery and vehicle (Note 7)	14,023	14,581	142,713
Lease assets (Notes 7 and 12)	189	—	1,923
Construction in progress	12	2	122
Other (Note 14)	6,352	6,410	64,645
Less accumulated depreciation and impairment loss (Note 7)	(33,291)	(33,086)	(338,805)
Property, plant and equipment, net	17,122	18,214	174,252
Investments and other assets:			
Investment securities (Note 6)	23,531	30,692	239,477
Long-term loans	30	57	305
Goodwill	953	998	9,699
Trademark	23	372	234
Deferred tax assets (Note 15)	5,042	3,181	51,313
Other	3,003	3,020	30,562
Less allowance for doubtful accounts	(294)	(155)	(2,992)
Total investments and other assets	32,289	38,167	328,608
Total assets	¥124,552	¥122,398	$1,267,576

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2008	**2009**
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable (Note 5)	¥ 8,258	¥ 10,792	$ 84,042
Short-term bank loans (Notes 8 and 14)	4,149	1,531	42,225
Lease obligations (Note 8)	59	—	600
Accrued income taxes (Note 15)	963	50	9,801
Accrued bonuses to employees	2,560	2,238	26,053
Reserve for sales returns	110	54	1,119
Reserve for dismantling of fixed assets	—	84	—
Provision for point card certificates	57	51	580
Other	5,555	4,399	56,534
Total current liabilities	21,715	19,201	220,995
Long-term liabilities:			
Long-term debt (Notes 8 and 14)	1,035	1,128	10,533
Lease obligations (Note 8)	99	—	1,008
Accrued retirement benefits for employees (Note 13)	4,330	4,346	44,067
Accrued retirement benefits for directors and corporate auditors	87	305	885
Other	783	231	7,969
Total long-term liabilities	6,336	6,012	64,482
Contingent liabilities (Note 17)			
Net assets (Note 9):			
Shareholders' equity:			
Common stock, no per value:			
Authorized–297,000,000 shares in 2009 and 2008			
Issued– 74,947,628 shares in 2009 and 2008	700	700	7,124
Capital surplus	4,752	4,752	48,361
Retained earnings	92,310	91,133	939,446
Treasury stock, at cost:			
179,456 shares in 2009 126,369 shares in 2008	(250)	(184)	(2,544)
Valuation and translation adjustments:			
Unrealized holding (loss) gain on securities	(852)	745	(8,671)
Translation adjustments	(159)	37	(1,618)
Total net assets	96,501	97,184	982,099
Total liabilities and net assets	¥124,552	¥122,398	$1,267,576

See accompanying notes to consolidated financial statements

Consolidated Statements of Income

KYOREN Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2008	**2009**
Net sales	¥90,889	¥81,070	$924,985
Cost of sales	36,791	31,757	374,425
Gross profit	54,098	49,312	550,560
Selling, general and administrative expenses (Note 10)	45,146	43,061	459,455
Operating income	8,952	6,251	91,105
Other income (expenses):			
Interest and dividend income	474	415	4,824
Rent income	197	57	2,005
Interest expense	(66)	(38)	(672)
Equity in (losses) earnings of affiliates	(426)	304	(4,335)
Loss on disposal of inventories	(322)	(385)	(3,277)
Reversal of allowance for doubtful accounts	—	12	—
Gain (loss) on sales and disposal of property, plant and equipment, net (Note 11)	34	(253)	346
(Loss) gain on sales of investment securities, net (Note 6)	(222)	28	(2,259)
Loss on devaluation of investment securities	(819)	(285)	(8,335)
Impairment loss (Note 7)	(414)	(270)	(4,213)
Head office relocation cost	—	(117)	—
Loss on valuation of golf club memberships	—	(54)	—
Provision for dismantling of fixed assets	—	(84)	—
Gain on bad debts recovered	27	—	275
Loss on discontinuance of sales of products	(2,641)	—	(26,878)
Other, net	77	42	784
Other income (expenses), net	(4,104)	(632)	(41,767)
Income before income taxes	4,847	5,619	49,328
Income taxes (Note 15)			
Current	2,727	2,095	27,753
Deferred	82	1,333	835
Total income taxes	2,809	3,429	28,587
Net income	¥ 2,037	¥ 2,189	$ 20,731

See accompanying notes to consolidated financial statements

Consolidated Statements of Changes in Net Assets

KYORIN Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

		Millions of yen						
	Number of shares issued (Common stock)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gain (loss) on securities	Translation adjustments	Total net assets
Balance at March 31, 2007	74,947,628	¥700	¥4,752	¥91,564	¥ (94)	¥1,199	¥ 56	¥98,178
Cash dividends	—	—	—	(2,620)	—	—	—	(2,620)
Net income	—	—	—	2,189	—	—	—	2,189
Purchase of treasury stock	—	—	—	—	(90)	—	—	(90)
Other changes	—	—	—	—	—	(453)	(19)	(473)
Net changes during the year	—	—	—	(430)	(90)	(453)	(19)	(994)
Balance at March 31, 2008	74,947,628	700	4,752	91,133	(184)	745	37	97,184
Cash dividends	—	—	—	(860)	—	—	—	(860)
Net income	—	—	—	2,037	—	—	—	2,037
Purchase of treasury stock	—	—	—	—	(65)	—	—	(65)
Other changes	—	—	—	—	—	(1,598)	(196)	(1,794)
Net changes during the year	—	—	—	1,177	(65)	(1,598)	(196)	(683)
Balance at March 31, 2009	74,947,628	¥700	¥4,752	¥92,310	¥(250)	¥ (852)	¥ (159)	¥96,501

	Thousands of U.S. dollars (Note 3)						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gain (loss) on securities	Translation adjustments	Total net assets
Balance at March 31, 2008	$7,124	$48,361	$927,468	$(1,873)	$ 7,582	$ 377	$989,049
Cash dividends	—	—	(8,752)	—	—	—	(8,752)
Net income	—	—	20,731	—	—	—	20,731
Purchase of treasury stock	—	—	—	(662)	—	—	(662)
Other changes	—	—	—	—	(16,263)	(1,995)	(18,258)
Net changes during the year	—	—	11,978	(662)	(16,263)	(1,995)	(6,951)
Balance at March 31, 2009	$7,124	$48,361	$939,446	$(2,544)	$(8,671)	$(1,618)	$982,099

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

KYORIN Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2008	**2009**
Operating activities			
Income before income taxes	¥ 4,847	¥5,619	$ 49,328
Depreciation and amortization	3,799	4,536	38,663
Impairment loss	414	270	4,213
Amortization of goodwill	312	251	3,175
Increase in allowance for doubtful accounts	174	54	1,771
Increase in accrued bonuses to employees	204	107	2,076
Decrease in accrued retirement benefits for employees	(15)	(265)	(153)
(Decrease) increase in accrued retirement benefits for directors and corporate auditors	(218)	20	(2,219)
Decrease in provision for dismantling of fixed assets	(84)	(251)	(855)
Equity in losses (earnings) of affiliates	426	(304)	4,335
Interest and dividend income	(474)	(415)	(4,824)
Interest expense	66	38	672
(Gain) loss on sales and disposal of property, plant and equipment, net	(33)	253	(336)
Loss (gain) on sales of investment securities, net	220	(28)	2,239
Loss on devaluation of investment securities	819	285	8,335
(Increase) decrease in notes and accounts receivable	(5,628)	2,517	(57,277)
Increase (decrease) in inventories	1,649	(5,173)	16,782
Increase in notes and accounts payable	447	1,121	4,549
Increase (decrease) in consumption taxes payable	814	(848)	8,284
Other	(1,073)	844	(10,920)
Subtotal	6,670	8,633	67,881
Interest and dividend received	466	416	4,743
Interest paid	(63)	(37)	(641)
Income taxes paid	(2,497)	(4,567)	(25,412)
Net cash provided by operating activities	4,575	4,444	46,560
Investing activities			
Payments for time deposits	(2,021)	(2,026)	(20,568)
Proceeds from cancelation of time deposits	2,220	1,923	22,593
Payments for purchase of property, plant and equipment	(1,498)	(2,025)	(15,245)
Proceeds from sales of property, plant and equipment	187	31	1,903
Payments for purchase of intangible assets	(83)	(126)	(845)
Payments for purchase of investment securities	(4,808)	(9,980)	(48,931)
Proceeds from sales and redemption of investment securities	5,512	6,535	56,096
Payments of merger consideration	(3,511)	—	(35,732)
Other	(227)	(476)	(2,310)
Net cash used in investing activities	(4,229)	(6,144)	(43,039)
Financing activities			
Increase in short-term loans, net	2,475	900	25,188
Repayments of lease obligations	(39)	—	(397)
Proceeds from long-term loans payable	—	600	—
Repayment for long-term loans payable	(262)	(270)	(2,666)
Redemption of bonds	(60)	(60)	(611)
Purchase of treasury stock, net	(65)	(90)	(662)
Cash dividends	(863)	(2,606)	(8,783)
Net cash provided by (used in) financing activities	1,184	(1,527)	12,050
Effects of exchange rate changes on cash and cash equivalents	(305)	(14)	(3,104)
Increase (decrease) in cash and cash equivalents	1,224	(3,242)	12,457
Cash and cash equivalents at beginning of year	9,599	12,842	97,690
Increase in cash and cash equivalents from newly consolidated subsidiary	31	—	315
Increase in cash and cash equivalents resulting from merger	1,507	—	15,337
Cash and cash equivalents at end of year (Note 4)	¥12,363	¥9,599	$125,819

See accompanying notes to consolidated financial statements

Note 1
Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of KYORIN Co., Ltd. (the "Company") and its domestic subsidiaries have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statement prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

Certain reclassifications have been made in the 2008 consolidated financial statements to conform to the 2009 presentation. These reclassifications had no effect on consolidated net income and net assets.

Note 2
Summary of Significant Accounting Policies

(a) Basis of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The accompanying consolidated financial statements include the accounts of the Company and significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies are included in the consolidated balance sheets on an equity basis. All significant inter-company balances and transactions are eliminated in consolidation.

Investments in subsidiaries and affiliates, which are not consolidated or accounted for by the equity method, are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

All consolidated subsidiaries close their books of account at December 31 for financial reporting purposes except for Kyobundo Co., Ltd., KYORIN Rimedio Co., Ltd. and Dr. Program Co., Ltd. close their books on February 28, January 31, and March 31, respectively. Effective from the year ended March 31, 2009, Dr. Program Co., Ltd has changed its fiscal year end to March 31 from January 31, and because of this change, it has a transitional 14-month fiscal year for the year ended March 31, 2009.

The necessary adjustments are made to the consolidated balance sheets of all the consolidated subsidiaries to reflect any significant transactions between their respective fiscal year end and the Company's fiscal year end.

Effective from the year ended March 31, 2009, the Company and its subsidiaries have adopted the ASBJ Practical Issues Task Force (PITF) No.18 "Practical solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" issued by the ASBJ on May 17, 2006 and made necessary adjustments in its consolidation process. The effect of the adoption on the consolidated statement of income for the year ended March 31, 2009 was immaterial.

(b) Foreign Currency Translation

The balance sheets accounts of the foreign consolidated subsidiaries are translated into yen at the exchange rates in effect at the balance sheet date. Translation adjustments are presented as a component of net assets in the accompanying consolidated balance sheets.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, deposit with banks withdrawable on demand, and short-term investments which are readily convertible into cash subject to an insignificant risk of any changes in their value and which were purchased with an original maturity of three months or less.

(d) Short-Term Investments and Investment Securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into other securities. Marketable securities classified as other securities are carried at fair value with changes in unrealized gain or loss, net of the applicable income taxes, directly included in net assets. Non-marketable securities classified as other securities are stated at cost.

Cost of securities sold is determined by the moving average method.

(e) Inventories

Merchandise and finished goods, work in process, and raw materials and some supplies are stated at cost determined by the gross average method. These inventories with lower profitability are written down to their net realizable value. Supplies except for samples are stated at the last purchase price method.

Effective from the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have adopted the “Accounting Standard for Measurement of Inventories” (Statement No.9, issued by Accounting Standards Board of Japan on July 5, 2006). Under this standard, inventories held for sale in the ordinary course of business in principle, shall be carried at the acquisition cost on the balance sheets. However, in the case that the net realizable value falls below the acquisition cost at the end of the period, inventories shall be carried at the net realizable value on the balance sheets, regarded as decreased profitability of assets. The effect of this change on operating income and net income before income taxes for the year ended March 31, 2009 was immaterial.

(f) Depreciation and Amortization (Except for Leased Assets)

Depreciation of property, plant and equipment is calculated by the declining-balance method at rates based on the estimated useful lives of the respective assets. For buildings acquired after April 1998, the straight-line method is used. The useful lives of property, plant and equipment are summarized as follows:

Buildings and structures	3 to 50 years
Machinery, equipment and vehicles	4 to 17 years

Intangible assets are amortized by the straight-line method over their estimated useful lives. Computer software for internal use is capitalized and is amortized by the straight-line method over the useful life of five years.

Effective from the year ended March 31, 2009, the Company and its domestic subsidiaries have reviewed and changed the useful lives of machinery and equipment pursuant to the amendment of the Corporate Tax Law in 2008. The effect of the change on operating income and income before income taxes for the year ended March 31, 2009 was immaterial.

(g) Leases

Leased assets are initially accounted for at their acquisition costs and depreciated over the leased term by the straight-line method with no residual value. Finance lease transactions that do not deem to transfer ownership of the leased property to the lessee whose term begins on or before March 31, 2008 are still accounted for in the same manner as operating lease transactions.

Effective from the year ended March 31, 2009, the Company has adopted “Accounting Standard for Lease Transaction” (ASJB Statement No. 13), and “Guidance on Accounting Standard for Lease Transaction” (ASBJ Guideline No. 16), originally issued by the Business Accounting Deliberation Counsel on June 17, 1993 and by the Japanese Institute of Certified Public Accountants on January 18, 1994, respectively, and both revised by the ASBJ on March 30, 2007, and finance leases were accounted for in the same manner as sales transaction. The effect of the adoption had no impact on operating income and income before income taxes for the year ended March 31, 2009 compared to the previous methods.

(h) Amortization of Goodwill

Goodwill is amortized over a period of within 20 years on a straight-line basis except that when the excess is immaterial, it is fully charged to income as incurred.

(i) Research and Development Expenses

Research and development expenses are charged to income as incurred.

(j) Income Taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the effective tax rates and laws which will be in effect when the differences are expected to reverse.

(k) Retirement Benefits

Accrued retirement benefits for employees are provided mainly at an amount calculated based on the projected benefit obligation and the fair value of the pension plan assets at balance sheet dates, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. Actuarial gain and loss are being amortized in the following year in which the gain or loss is recognized primarily by the straight-line method over the average remaining years of service of the employees (10 years). Prior service cost is being amortized as incurred by the straight-line method over the average remaining years of services of the employees (10 years). At certain domestic consolidated subsidiaries, ¥504 million ($5,129 thousand) of unrecognized transitional assets and liabilities is amortized over 10 years.

In addition, directors and corporate auditors of certain consolidated subsidiaries are customarily entitled to lump-sum payments under their respective unfunded retirement benefits plans. The provision for retirement benefits for these officers has been estimated in an amount as 100% as benefit obligation based on their policy required under assumption that all directors and corporate auditors retired at the balance sheets date.

At the board of directors’ meeting held on May 14, 2008, the Company and its domestic subsidiaries has determined to discontinue their accrued retirement benefits for directors and corporate auditors, effective at the end of the ordinary general shareholders’ meetings of the Company held on June 25, 2008, and of the KYORIN Pharmaceutical Co., Ltd. held on June 24, 2008. Because of this discontinuation, the Company and its domestic subsidiary, KYORIN Pharmaceutical Co., Ltd., have reversed all amount of accrued retirement benefits for directors and corporate auditors, and included the unpaid amount in “Other” in the long-term liabilities as of March 31, 2009.

(l) Appropriation of Retained Earnings

Appropriation of retained earnings with respect to a given financial period is made by resolution of the board of directors’ meeting for dividend and resolution of the ordinary general shareholders’ meeting for other appropriations. (see Note 9).

Note 3
U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥98.26 = U.S.$1.00, the approximate rate of exchange on March 31, 2009. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

Note 4
Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2009 and 2008 for the consolidated statements of cash flows consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Cash and cash in banks	¥12,223	¥10,647	$124,394
Short-term investments	1,062	73	10,808
Time deposits with a maturity over three months	(921)	(1,120)	(9,373)
Cash and cash equivalents	¥12,363	¥ 9,599	$125,819

Note 5
Notes with Maturity Date of Fiscal Year End

Notes with a maturity date of the fiscal year end are settled on the clearing date. Since KYORIN Remedio Co., Ltd. closed its book on January 31, 2009, on which financial institutions were closed, the following notes are included in the ending balance on the consolidated balance sheets as of March 31, 2009.

	Millions of yen	Thousands of U.S. dollars
Notes receivable	¥91	$926
Notes payable	149	1,516

Note 6
Short-Term Investments and Investment Securities

Information regarding marketable securities classified as other securities as of March 31, 2009 and 2008 are as follows:

Marketable other securities

	Millions of yen			Thousands of U.S. dollars		
	2009			**2009**		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥ 603	¥ 1,165	¥ 562	$ 6,137	$ 11,856	$ 5,720
Debt securities:						
Government bonds	199	199	0	2,025	2,025	0
Corporate bonds	2,695	2,716	20	27,427	27,641	204
Other bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	3,498	4,081	583	35,599	41,533	5,933
Securities whose carrying value do not exceed their acquisition cost :						
Stock	2,139	1,868	(271)	21,769	19,011	(2,758)
Debt securities:						
Government bonds	4,797	4,607	(190)	48,819	46,886	(1,984)
Corporate bonds	14,783	13,532	(1,250)	150,448	137,716	(12,721)
Other bonds	2,100	1,825	(274)	21,372	18,573	(2,789)
Other	96	51	(45)	977	519	(458)
Subtotal	23,917	21,884	(2,032)	243,405	222,715	(20,680)
Total	¥27,416	¥25,966	¥(1,449)	$279,015	$264,258	$(14,747)

	Millions of yen		
	2008		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 1,441	¥ 3,403	¥1,961
Debt securities:			
Government bonds	—	—	—
Corporate bonds	6,674	6,724	49
Other bonds	—	—	—
Other	—	—	—
Subtotal	8,116	10,127	2,011
Securities whose carrying value do not exceed their acquisition cost :			
Stock	1,586	1,497	(88)
Debt securities:			
Government bonds	3,997	3,806	(191)
Corporate bonds	10,485	10,046	(439)
Other bonds	2,100	1,927	(172)
Other	101	81	(19)
Subtotal	18,271	17,359	(911)
Total	¥26,387	¥27,486	¥1,099

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Proceeds from sales	¥2,775	¥4,240	$28,241
Gains on sales	72	30	733
Losses on sales	293	2	2,982

The redemption schedule for securities with maturities classified as other securities as of March 31, 2009 and 2008 are as follows:

	Millions of yen			
	2009			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds	¥1,000	¥ —	¥ —	¥4,000
Corporate bonds	2,300	10,200	1,600	3,700
Other bonds	200	500	—	1,200
Total	¥3,500	¥10,700	¥1,600	¥8,900

	Millions of yen			
	2008			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds	¥ —	¥ —	¥ —	¥4,000
Corporate bonds	2,140	9,200	1,600	4,400
Other bonds	—	700	—	1,400
Total	¥2,140	¥9,900	¥1,600	¥9,800

	Thousands of U.S. dollars			
	2009			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds	$10,177	$ —	$ —	$40,708
Corporate bonds	23,407	103,806	16,283	37,655
Other bonds	2,035	5,089	—	12,212
Total	$35,620	$108,895	$16,283	$90,576

Non-marketable securities classified as other securities consisted of unlisted securities of ¥362 million ($3,684 thousand) and other securities of ¥303 million ($3,084 thousand) at March 31, 2009, and unlisted securities of ¥1,704 million and other securities of ¥465 million at March 31, 2008.

Note 7
Impairment Loss

The Company and its consolidated subsidiaries recognized a loss on impairment of long-lived assets for the years ended March 31, 2009 and 2008 as follows:

2009				
Location	Use	Type of assets	Millions of yen	Thousands of U.S. dollars
Former Nara Office Kashihara City, Nara Prefecture	Idle properties	Land Buildings	¥ 3 17	$ 31 173
Chiyoda-ku,Tokyo	Business use	Leased assets	393	4,000
Total			¥414	$4,213

2008			
Location	Use	Type of assets	Millions of yen
Okaya Plant Okaya City, Nagano Prefecture	Idle properties	Buildings and machinery	¥145
Noshiro Plant Noshiro City, Akita Prefecture	Idle properties	Machinery	125
Total			¥270

The Company and its consolidated subsidiaries identify groups of assets based on the managerial accounting categories except for idle asset, which is grouped individually.

Since the former Nara Office of KYORIN Rimedio Co., Ltd. has been idle, its book value was written down to its recoverable amount and this decrease in value is included in other expenses as impairment loss. The recoverable amounts are estimated based on the net sales prices; the land is valuated by road rating, and the buildings are estimated to zero due to its decrepitude. The book value of the leased assets of Japan Medical Advance Co., Ltd. was written down to its recoverable value as it fell below the book value due to deterioration of the assets in terms of profitability. This decrease in value is included in other expenses as impairment loss. The recoverable amount of the leased assets is estimated based on its utility value with a discount rate of 6.7%.

Note 8
Short-Term Bank Loans, Long-Term Debt and Lease Obligations

At March 31, 2009 and 2008, short-term bank loans and the current portion of long-term debt and lease obligations consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Short-term bank loans	¥3,844	¥1,320	$39,121
Current portion of long-term bank loans	305	211	3,104
Current portion of lease obligations	59	—	600
Total	¥4,208	¥1,531	$42,825

The average interest rates applicable to short-term bank loans outstanding at March 31, 2009 and 2008 are 1.1% and 1.2%, respectively.

Long-term debt at March 31, 2009 and 2008 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Long-term bank loans due through 2014 at average interest rate of 2.1% and 1.8% in 2009 and 2008, respectively	¥1,250	¥ 978	$12,721
Lease obligations due through 2014	158	—	1,608
1.4% unsecured bonds, payable in yen, due 2011	150	210	1,527
Current portion of long-term bank loans and lease obligations, and bonds due within one year	(424)	(60)	(4,315)
Total	¥1,134	¥1,128	$11,541

The annual maturities of long-term debt and lease obligations are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥ 424	$ 4,315
2011	440	4,478
2012	322	3,277
2013	172	1,750
2014 and thereafter	200	2,035
Total	¥1,558	$15,856

Note 9
Shareholders' Equity

Since May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the Corporate Law"). The significant provisions in the Corporate Law that affect financial and accounting matters are summarized below;

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. The board of directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation for companies that meet certain criteria such as;

(1) having the board of directors,
(2) having independent auditors,
(3) having the board of corporate auditors, and
(4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and Stock option

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the board of directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of net assets. The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of net assets or deducted directly from stock acquisition rights.

Note 10
Research and Development Expenses

Research and development expenses, all of which were included in selling, general and administrative expenses amounted to ¥10,531 million ($107,175 thousand) for the year ended March 31, 2009 and ¥10,826 million for the year ended March 31, 2008.

Note 11
Gain (Loss) on Sales and Disposal of Property, Plant and Equipment, Net

Significant components of the gain (loss) on sales and disposal of property, plant and equipment, net for the year ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Gain:			
Buildings and structures	¥ 33	¥ —	$ 336
Machinery and vehicle	2	0	20
Land	69	0	702
Other	1	0	10
	¥ 105	¥ 0	$1,069
Loss:			
Buildings and structures	¥ (47)	¥(202)	$ (478)
Machinery and vehicle	(11)	(21)	(112)
Other	(13)	(30)	(132)
	(71)	(253)	(723)
Total	¥ 34	¥(253)	$ 346

Note 12
Leases

Leased assets principally consist of medical computer terminals (machinery and vehicle) for medical use.

Pro forma information of the leased property whose term begins on or before March 31, 2008 such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense for finance leases that do not transfer ownership of the leased property to the lessee on an “as if capitalized” basis for the years ended March 31, 2009 and 2008 was as follows:

	Millions of yen			
	March 31, 2009			
	Acquisition costs	Accumulated depreciation	Accumulated impairment loss	Net book value
Machinery and vehicle	¥1,383	¥537	¥393	¥451
Other	703	408	—	294
Total	¥2,086	¥946	¥393	¥746
	Thousands of U.S. dollars			
Machinery and vehicle	$14,075	$5,465	$4,000	$4,590
Other	7,154	4,152	—	2,992
Total	$21,229	$9,617	$4,000	$7,582

	Millions of yen		
	March 31, 2008		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery and vehicle	¥ 317	¥240	¥ 76
Other	790	349	441
Total	¥1,108	¥590	¥518

Lease payments relating to finance leases accounted for as rental transactions amounted to ¥348 million ($3,542 thousand), which was equal to the depreciation expense of the leased assets computed by the straight-line method over the lease terms assuming no residual value, and related impairment losses amounted to ¥393 million ($4,000 thousand) for the year ended March 31, 2009.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2009 on noncancelable operating leases and finance leases accounted for as rental transactions are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
Year ending March 31,	Finance leases	Operating leases	Finance leases	Operating leases
2010	¥ 307	¥ 529	$ 3,124	$ 5,384
2011 and thereafter	832	1,512	8,467	15,388
Total	¥1,140	¥2,041	$11,602	$20,771
Accumulated impairment loss	¥ 393	¥ —	$ 4,000	$ —

Note 13
Retirement Benefit Plans

The Company and its consolidated subsidiaries have defined benefit pension plans, defined contribution pension plans, and annuity in advance retirement severance plans and certain of its domestic consolidated subsidiaries have lump-sum retirement plan, Government Welfare Pension Fund Plan, and tax qualified pension plans.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at March 31, 2009 and 2008 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Projected benefit obligation	¥(25,851)	¥(25,088)	$(263,088)
Plan assets at fair value	17,207	20,422	175,117
Unfunded retirement benefit obligation	(8,643)	(4,665)	(87,961)
Unrecognized transitional assets and liabilities	67	117	682
Unrecognized actuarial gain or loss	4,408	392	44,861
Unrecognized prior service cost	(162)	(191)	(1,649)
Net retirement benefit obligation	(4,330)	(4,346)	(44,067)
Prepaid pension cost	—	—	—
Accrued retirement benefits for employees	¥ (4,330)	¥ (4,346)	$ (44,067)

The components of retirement benefit expenses for the years ended March 31, 2009 and 2008 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Service cost	¥ 810	¥ 752	$ 8,243
Interest cost	636	602	6,473
Expected return on plan assets	(506)	(544)	(5,150)
Amortization of transitional assets and liabilities	50	50	509
Amortization of actuarial gain or loss	220	(2)	2,239
Amortization of prior service cost	(28)	(28)	(285)
Premium of defined contribution pension plan and annuity in advance retirement severance plan, etc.	270	236	2,748
Total	¥1,451	¥1,065	$14,767

The assumptions used in accounting for the above plans are as follows:

	2009	2008
Discount rates	2.5%	2.5%
Expected return on plan assets	2.5%	2.5%

Note 14
Pledged Assets

Assets pledged as collateral for guaranty deposits and plant mortgage at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Assets pledged as collateral:			
For guaranty deposits			
Cash and cash in banks	¥ 10	¥ 10	$ 102
Total	¥ 10	¥ 10	$ 102
For plant mortgage			
Buildings	¥2,044	¥2,174	$20,802
Other	473	587	4,814
Total	¥2,518	¥2,761	$25,626
Related loans and debt for plant mortgage pledged as collateral			
Short -term bank loans	¥ 143	¥ 151	$ 1,455
Long-term bank loans	234	378	2,381
Total	¥ 378	¥ 530	$ 3,847

Note 15
Income Taxes

The significant components of deferred tax assets and liabilities as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Deferred tax assets:			
Accrued retirement benefits for employees	¥1,781	¥1,526	$18,125
Accrued bonuses to employees	1,035	895	10,533
Allowance for doubtful accounts	174	–	1,771
Accrued enterprise tax	132	17	1,343
Loss on disposal of inventories	200	41	2,035
Loss on devaluation of investment securities	713	681	7,256
Loss on disposal of property, plant and equipment	1,101	1,113	11,205
Impairment loss	224	–	2,280
Asset adjustment account	966	–	9,831
Depreciation and amortization	–	132	–
Accrued retirement benefits for directors and corporate auditors	–	387	–
Additional reserve for dismantling of fixed assets	–	34	–
Tax loss carry forward	859	646	8,742
Unrealized holding loss on securities	604	–	6,147
Other	1,058	791	10,767
Subtotal	8,853	6,267	90,098
Valuation allowance	(1,622)	(903)	(16,507)
Total deferred tax assets	7,231	5,364	73,590
Deferred tax liabilities:			
Reserve for special depreciation	–	(16)	–
One time revaluation for property, plant and equipment	(101)	(104)	(1,028)
Unrealized holding gain on securities	–	(489)	–
Other	(19)	(15)	(193)
Total deferred tax liabilities	(121)	(625)	(1,231)
Net deferred tax assets	¥7,109	¥4,738	$72,349

Taxes on income consist of corporate, inhabitants and enterprise taxes. Reconciliation of the statutory tax rate to the effective tax rate for the years ended March 31, 2009 and 2008 were as follows:

	2009	2008
Statutory tax rate	41.3%	41.3%
Entertainment expenses and others that are not tax deductible permanently	10.4	9.7
Inhabitants' per capita taxes	1.6	1.3
Tax credits for research and development expenses	(8.6)	(5.8)
Valuation allowance	14.8	16.1
Equity in earnings of affiliates	–	(2.7)
Amortization of goodwill	–	1.9
Other	(1.5)	(0.8)
Effective tax rate	58.0%	61.0%

Note 16
Segment Information

(1) Business Segments

Information regarding business segments is omitted in the consolidated financial statements for the years ended March 31, 2009 and 2008, because sales, operating income, and total assets in the pharmaceutical segment are more than 90% in all business segment for the years ended March 31, 2009 and 2008.

(2) Geographical Segments

Information regarding geographical areas is omitted for the years ended March 31, 2009 and 2008, because sales and total assets of Japanese area are more than 90% in all geographical areas for the years ended March 31, 2009 and 2008.

(3) Overseas Sales

Information regarding overseas sales is omitted for the years ended March 31, 2009 and 2008, because overseas sales is less than 10% in all consolidated net sales for the years ended March 31, 2009 and 2008.

Note 17
Contingent Liabilities

Contingent liabilities as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Guarantors of indebtedness of employees	¥10	¥5	$102
Guarantors of lease obligations of Japan Medical Advance Co., Ltd.,	—	1,269	—
Guarantors of indebtedness of Japan Medical Advance Co., Ltd.	—	91	—
Notes receivable endorsed	12	14	122

Note 18
Combination of Business

KYORIN Pharmaceutical Co., Ltd., a wholly owned subsidiary of the Company, merged Nisshin Kyorin Pharmaceutical Co., Ltd., an affiliate company of the Company, on October 1, 2008, and this transaction was accounted for using the purchasing method.

(1) Details of the merged company

(a) Company name and description of business

Company Name: KYORIN Pharmaceutical Co., Ltd.

Business: Manufacture, sale, and entrusted research and development of pharmaceutical products

(b) Purpose of the merger

In the long run, the Company concluded that it was the best option to enhance the corporate value by not causing Nisshin Kyorin Phermaceutical Co., Ltd to solely operate the pharmaceutical business but by integrating Nisshin Kyorin Pharmaceutical Co., Ltd into KYORIN Pharmaceutical Co., Ltd., through reinforcements of the capacities of the research and development and the sales force of ethical drugs.

(c) Effective date

October 1, 2008

(d) Type of the merger and trade name

Type: Merger

Trade name: KYORIN Pharmaceutical Co., Ltd.

(e) Acquired voting rights

100%

(2) Period of the merged company included in the consolidated income statement

Business result of operation of the merged company from October 1, 2008 to March 31, 2009 was included in the consolidated statement of income for the year ended March 31, 2009. For the period from April 1, 2008 to September 30, 2008, the Company accounted for by the equity method and recognized equity in losses of affiliates (with 50% of voting rights) in the consolidated statement of income.

(3) Acquisition cost

(a) Merger consideration

The merger consideration is paid in cash without issuing new shares of the merged company of allocating own shares. The amount of the merger consideration was ¥3,511 million ($35,732 thousand).

(b) Calculation of merger consideration

The amount of the merger consideration was calculated with consideration of the current net assets including the future value based on the merged company's balance sheets as of the end of June 2008.

(4) Goodwill

(a) Amount of goodwill

¥642 million ($6,534 thousand)

(b) Reason for goodwill incurred

Goodwill was incurred because of future excess earning power.

(c) Method and period of amortization

Goodwill is amortized on the straight-line method over 5 years.

(5) The assets and liabilities transferred to the merging company

	Millions of yen	Thousands of U.S. dollars
Current assets	¥5,729	$58,304
Noncurrent assets	360	3,664
Total assets	6,090	61,978
Current liabilities	2,359	24,008
Total liabilities	¥2,359	$24,008

(6) Effect of the merger on the consolidated statement of income

Information regarding the merger effect on the consolidated statement of income is omitted, as the effect of the merger, assuming that the merger was completed at the beginning of this fiscal year, was immaterial for the year ended March 31, 2009.

Note 19
Amounts Per Share

Amount per share for the years ended March 31, 2009 and 2008 were as follows:

	Yen		U.S. dollars
	2009	2008	**2009**
Basic net income	¥27.24	¥29.26	$0.28
Cash dividends	13.00	22.50	0.13
Net assets	1,290.67	1,298.89	13.14

Basic net income per share was computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year. Diluted net income per share has been omitted because no potentially dilutive instruments were outstanding during the years ended March 31, 2009 and 2008.

Cash dividends per share represent the cash dividends as applicable to the year.

The amount per share of net assets is computed based on the net assets available for distribution to the shareholders of common stock and the number of shares of common stock outstanding at the year end.

Note 20
Subsequent Events

The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2009, were approved at the board of directors' meeting held on May 26, 2009:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥ 9.0= U.S. 0.09$ per share)	¥672	$6,839

Ernst & Young ShinNihon LLC
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Report of Independent Auditors

The Board of Directors
Kyorin Co., Ltd.

We have audited the accompanying consolidated balance sheets of Kyorin Co., Ltd. and consolidated subsidiaries as of March 31, 2009 and 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 Kyorin 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.

Ernst & Young ShinNihon LLC

June 24, 2009

For reference : Unaudited
NON-CONSOLIDATED FINANCIAL SUMMARY

Non-consolidated Blance Sheet

KYORIN Pharmaceutical Co., Ltd.
Years Ended March 31, 2009 and 2008

(Millions of yen)

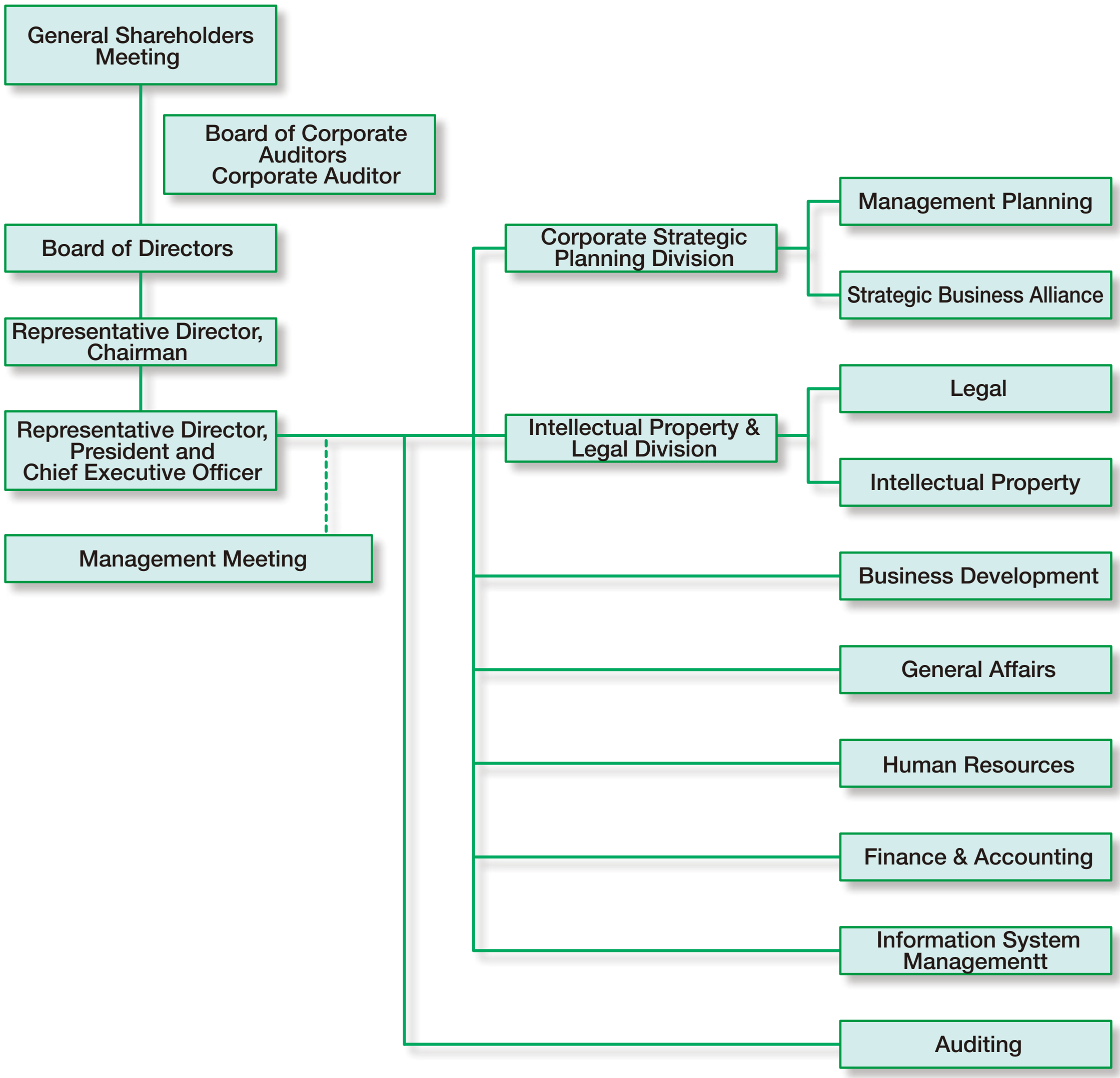
	2008	2009
Assets		
Current assets	57,044	64,822
Cash, deposits	7,755	8,615
Accounts receivable	25,895	32,018
Market securities	2,007	3,437
Inventory	17,156	15,684
Other	4,229	5,066
Fixed assets	47,866	43,699
Tangible assets	14,771	13,789
Intangible assets	1,450	486
Investments	31,644	29,423
Total Assets	104,910	108,522
Liabilities and equity		
Current liabilities	13,824	14,593
Notes and accounts payable	7,968	5,423
Other	5,855	9,170
Non-current liabilities	4,293	5,457
Total liabilities	18,118	20,051
Net assets		
Shareholders' equity	86,140	89,328
Net unrealized gain and translation adjustments	651	(857)
Total equity	86,792	88,470
Total liabilities and equity	104,910	108,522

Non-consolidated Statements of Income

(Millions of yen)

	2008	2009
Sales	70,480	77,962
Cost of Sales	25,217	29,551
Gross profit	45,262	48,411
Selling , general and administrative expenses	38,319	39,894
Operating income	6,942	8,517
Non operating income	676	998
Non operating expense	289	52
Recurring income	7,328	9,463
Extraordinary gain	15	176
Extraordinary loss	530	2,823
Income before income taxes and minority interests	6,813	6,816
Corporate,inhabitants and enterprise taxes	1,980	2,617
Deferred income taxes	1,056	157
Net income	3,776	4,041

Organization Chart
(As of April 1, 2009)



Corporate Information

(As of March 31, 2009)

KYORIN Co., Ltd.	**Head Office**	
	5, Kanda Surugadai 2-chome, Chiyoda-ku, Tokyo 101-8311	
	Phone: +81-3-3293-3451	
	URL: http://www.kyorin-gr.co.jp/eg/index.html	
Establishment	**1958**	
Common Stock	**¥700 million**	
Outstanding Shares	**74,947,628**	
Shareholders	**4,887**	
Major Shareholders		
	Minoru Ogihara	8.57%
	Hiroko Ogihara	6.86%
	Apricot Co., Ltd.	6.67%
	Japan Trustee Services Bank, Ltd. (Trust Account)	4.88%
	Ikuo Ogihara	4.02%
	Yoshiko Ogihara	3.90%
	Mykam Co., Ltd.	3.66%
	The Master Trust Bank of Japan, Ltd. (Trust Account)	3.69%
	Japan Trustee Services Bank, Ltd. (Trust Account 4G)	3.42%
	Keiko Sakurai	2.48%
Listing	**Tokyo Stock Exchange, First Section**	
Transfer Agent	**Mizuho Trust & Banking Co., Ltd.,**	
	2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-0028	
	Phone: +81-3-3278-8111	

Consolidated Subsidiaries

(As of July 2009)

KYORIN Pharmaceutical Co., Ltd.

Capital:	¥4,317 million
Percentage of ownership:	100%
Head office:	5, Kanda Surugadai 2-chome, Chiyoda-ku, Tokyo 101-8311
Operations:	Manufacture and sales of prescription medicines and quasi-drugs, diagnostics, and industrial chemicals

Kyobundo Co., Ltd.

Capital:	¥12 million
Percentage of ownership:	100%
Head office:	Kyorin Nishi-Shinjuku Building, 25-13, Nishi-Shinjuku 6-chome, Shinjuku-ku, Tokyo 160-0023
Operations:	Sales promotion, advertising planning and production

KYORIN Rimedio Co., Ltd.

Capital:	¥1,200 million
Percentage of ownership:	100%
Head office:	287-1, Shimocho Moroe-cho, Kanazawa City, Ishikawa Prefecture 920-0017
Operations:	Manufacture and sales of prescription medicines and quasi-drugs, diagnostics, and industrial chemicals

Dr. Program Co., Ltd.

Capital:	¥251 million
Percentage of ownership:	100%
Head office:	3rd Floor, 4-40, Minami-Aoyama 5-chome, Minato-ku, Tokyo 107-0062
Operations:	Production and sales of skincare products, pharmaceuticals and cosmetic materials

KYORIN Pharmaceutical Subsidiaries

(As of July 2009)

ActivX Biosciences, Inc.

Capital:	US$1
Percentage of ownership:	100%
Head office:	11025 N. Torrey Pines Rd. La Jolla, California 92037, United States
Operations:	Discovery and evaluation of candidate compounds

Kyorin USA, Inc.

Capital:	US$500,000
Percentage of ownership:	100%
Head office:	500 Frank W. Burr Boulevard, Teaneck, New Jersey 07666, United States
Operations:	Research and analysis of other companies' technologies and collection of information concerning clinical trials

Kyorin Europe GmbH

Capital:	50,000EURO
Percentage of ownership:	100%
Head office:	Kaiserstrasse 8, 60311 Frankfurt am Main, Germany
Operations:	Research and analysis of other companies' technologies and collection of information concerning clinical trials

Equity-Method Affiliates

(As of July 2009)

Nippon Rika Co., Ltd.

Capital:	¥411 million
Percentage of ownership:	29.2%
Head office:	2-2, Nihonbashi Honcho 4-chome, Chuo-ku, Tokyo 103-0023
Operations:	Production and sales of pharmaceuticals, reagents, intermediates and other products

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Kyorin

KYORIN Co., Ltd.