Financial Section

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Disclaimer Regarding Forward-Looking Statements

Statements made in this annual report with respect to KYORIN Holdings Inc.'s forecasts, plans, strategies and other statements other than those of historical facts are forward-looking statements about the future performance of the Company and its consolidated subsidiaries and are based on management's rational assumptions and beliefs in light of information currently available. As a consequence, readers should understand that, for a variety of reasons, actual results could differ materially from projections presented in this report.
Key factors that could impact our results include, but are not limited to, economic conditions, social trends, competition from rival companies, laws and regulations, uncertainties in drug development and exchange rate fluctuations.

Financial Analysis

- Consolidated net sales for fiscal 2009 were a record ¥99,764 million, up 9.8% year on year. This was the result of strong sales in the principal products of our ethical drugs in Japan business, and growth in generic drugs sales.

- Operating income was ¥13,261 million, up 48.1% from the previous year, as higher sales and an improved cost of sales ratio boosted gross profit, outweighing an increase in selling, general and administrative (SG&A) expenses due to the merger with Nisshin Kyorin Pharmaceutical Co., Ltd. Net income was also a record, up 334.3% year on year to ¥8,848 million.

Business Overview

The Kyorin Group comprises KYORIN Pharmaceutical Co., Ltd., which is mainly involved with R&D, manufacture and sales of pharmaceuticals; KYORIN Rimedio Co., Ltd., which mainly manufactures and sells generic drugs; Dr. Program Co., Ltd., which mainly develops and sells cosmetics, pharmaceuticals and raw materials for cosmetics; and Kyobundo Co., Ltd., which is mainly involved in sales promotion, and advertising planning and production. These four companies operate under the Group holding company, KYORIN Holdings, Inc. ("the Company"). The Group formulated a new long-term vision, HOPE 100, and the new HOPE 100 Stage 1 medium-term business plan, to guide its efforts to realize its future corporate image. Essentially, the Group is diversifying its core consumer healthcare business, which centers on the pharmaceuticals business.

Trends in the Domestic Pharmaceutical Industry

During fiscal 2009, the market environment for the pharmaceutical industry, which is the core business area for the Kyorin Group, became even harsher as competition intensified among companies in and outside of Japan. In Japan, authorities debated reforms to the drug pricing system. Guidelines for revised drug pricing standards were set, and in April 2010 premiums for promoting new drug creation and the elimination of off-label drug use were introduced on a trial basis. The revisions also further reduced the prices of original drugs for which there are generics, creating significant changes in the business environment.

Consolidated Operating Results

Net sales

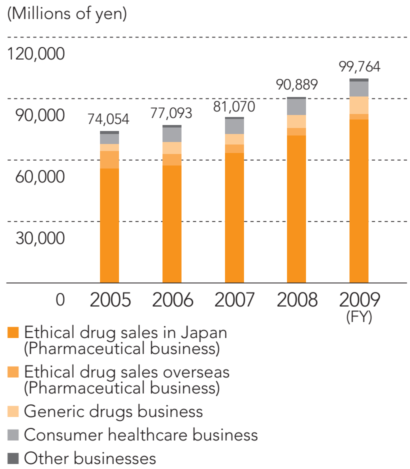
Under these conditions, consolidated net sales for fiscal 2009 increased 9.8% to ¥99,764 million. A decline in sales from ethical drugs overseas was offset by brisk sales of our principal ethical drugs in Japan, including Kipres, for treating bronchial asthma and allergic rhinitis, Pentasa, for treating ulcerative colitis and Crohn's disease, and Uritos, for treating an overactive bladder. Further contributing to total net sales were increased sales in generic drugs of supplementary items and principal products as well as a change in the accounting period for the generic drugs segment with results reflecting a 14-month transitional period in the consolidated business year.

Summary of Consolidated Statements of Income

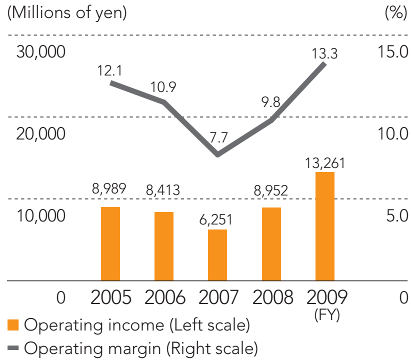
Millions of yen

	FY2008	FY2009	YoY change	YoY change (%)
Net sales	90,889	99,764	8,874	9.8
Cost of sales	36,791	37,477	686	1.9
Gross profit	54,098	62,287	8,188	15.1
SG&A expenses	45,146	49,025	3,878	8.6
(Including R&D expenses)	(10,531)	(11,807)	(1,275)	(12.1)
Operating income	8,952	13,261	4,309	48.1
Other income	807	1,092	285	35.4
Other expenses	550	120	(430)	(78.2)
Income before income taxes	4,847	13,982	9,134	188.5
Net income	2,037	8,848	6,811	334.3

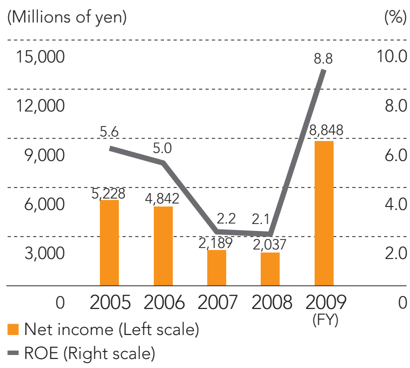
Net sales



Operating income and operating margin



Net income and ROE



Cost of sales ratio, SG&A expenses, and operating income

The cost of sales ratio decreased approximately 2.9 percentage points due to the in-house manufacture of Pentasa and steady sales growth of Uritos. SG&A expenses (excluding R&D expenses) increased 7.5% year on year to ¥37,218 million following KYORIN Pharmaceutical's October 2008 merger by absorption of Nisshin Kyorin Pharmaceutical; however, the SG&A expenses ratio actually decreased 0.8 of a percentage point from the previous fiscal year to 37.3% due to sales growth. As a result, operating income increased 48.1% to ¥13,261 million and the operating margin increased 3.5 percentage points to 13.3%.

Net income and net income per share

Net income was up sharply year on year to ¥8,848 million. Net income per share increased ¥91.13 from the previous fiscal year to ¥118.37.

Segment Information

Please see Annual Report pages 14–17 "Operation Overview" for a breakdown of results by segment.

Assets, Liabilities and Net Assets

At March 31, 2010, current assets had increased ¥15,920 million due to increases in cash and cash in banks, notes and accounts receivable, and inventories. Fixed assets decreased ¥3,282 million due to declines in property, plant and equipment, net, intangible fixed assets and deferred tax assets. As a result, total assets increased ¥12,637 million, or 10.1%, to ¥137,190 million.

Liabilities at year-end were up ¥4,227 million, or 15.1%, to ¥32,278 million from the previous year-end. This was mainly due to an increase in current liabilities of ¥4,483 million resulting from increases in notes and accounts payable and accrued income taxes, and a decrease in short-term bank loans.

Net assets at year-end amounted to ¥104,911 million, up ¥8,410 million, or 8.7%, year on year. This was attributable to increases in retained earnings and unrealized holding gain on securities.

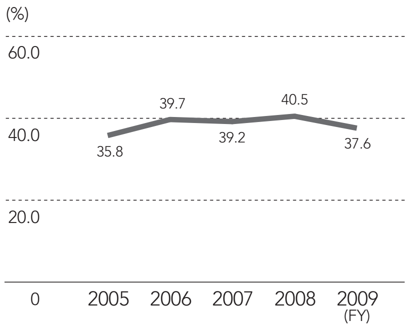
As a result, the shareholders' equity ratio at year-end was 76.5%, down 1.0 percentage point from the previous fiscal year-end.

Summary of Consolidated Balance Sheets

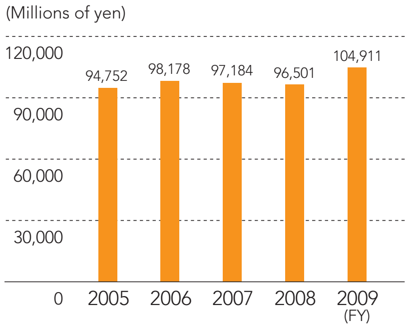
Millions of yen

	FY2008	FY2009	YoY change	YoY change (%)
Current assets	75,140	91,060	15,920	21.2
Fixed assets	49,412	46,129	(3,282)	(6.6)
Total assets	124,552	137,190	12,637	10.1
Current liabilities	21,715	26,198	4,483	20.6
Long-term liabilities	6,336	6,079	(256)	(4.0)
Total liabilities	28,051	32,278	4,227	15.1
Shareholders' equity	97,513	104,907	7,394	7.6
Valuation and translation adjustments	(1,012)	3	1,015	—
Net assets	96,501	104,911	8,410	8.7
Liabilities and net assets	124,552	137,190	12,637	10.1

Cost of sales ratio

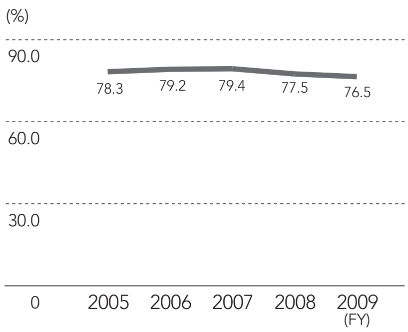


Net assets



The figures for fiscal 2005 are the consolidated figures for KYORIN Pharmaceutical Co., Ltd. The figures from fiscal 2008 and onward are the consolidated figures for KYORIN Co., Ltd.

Shareholders' equity ratio



Cash Flows

Net cash provided by operating activities totaled ¥12,027 million, reflecting mainly income before income taxes of ¥13,982 million, depreciation and amortization of ¥2,810 million, increase in notes and account receivable of ¥1,244 million, increase in inventories of ¥3,686 million, increase in notes and accounts payable of ¥1,600 million and income taxes paid of ¥1,981 million.

Net cash provided by investing activities was ¥412 million, mainly due to payments for purchase of property, plant and equipment of ¥1,153 million, payments for purchase of investment securities of ¥2,905 million and proceeds from sales and redemption of investment securities of ¥4,153 million.

Net cash used in financing activities was ¥3,297 million, largely attributable to a net decrease in short-term loans of ¥1,358 million and payment of cash dividends of ¥1,418 million.

As a result, cash and cash equivalents at the end of the fiscal year were up ¥9,193 million year on year, or 74.4%, to ¥21,556 million.

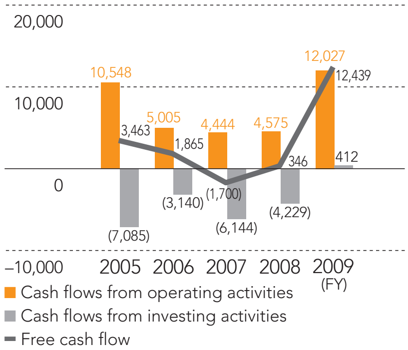
Summary of Consolidated Statements of Cash flows

Millions of yen

	FY2008	FY2009	YoY change	YoY change (%)
Cash provided by operating activities	4,575	12,027	7,452	162.9
Cash provided by (used in) investing activities	(4,229)	412	4,641	—
Cash provided by (used in) financing activities	1,184	(3,297)	(4,481)	—
Cash and cash equivalents at end of year	12,363	21,556	9,193	74.4

Cash flows from operating activities, cash flows from investing activities, and free cash flow

(Millions of yen)



Forecast for Fiscal 2010

The pharmaceutical industry in Japan will continue to face a harsh environment on account of the April 2010 revision of National Health Insurance (NHI) drug pricing standards (industry average: 6.4%, KYORIN Pharmaceutical: in 6% range). Other healthcare businesses are also expected to experience uncertainty over the future of the economy.

Under these conditions, the Kyorin Group will implement strategies for each business segment based on its new medium-term business plan, the first year of which is fiscal 2010. In the core pharmaceutical business, we will work to build and develop a new pharmaceutical business model for sustainable growth, and in the consumer healthcare business we aim to develop our business to make it more profitable and seek to create new businesses.

In terms of sales, in our pharmaceutical business in Japan we expect sales to grow on the back of higher sales for our mainstay products Kipres, Uritos, Pentasa and Mucodyne. In our pharmaceutical business overseas, we expect sales of our ophthalmic solution Zymar to decline following the expiry of patents. In our generic drugs business, we are expecting a decrease in sales due to the change in fiscal year-end in fiscal 2009, but we also expect to effectively grow sales as policies for promoting the uptake of generic drugs in Japan take effect.

In terms of profits, although we anticipate a decline in the cost of sales ratio, we expect SG&A expenses to increase due to higher R&D expenses. Our consolidated forecasts for fiscal 2010 are as follows.

Forecasts for fiscal 2010

Billions of yen

	FY2009	FY2010	YoY change(%)
Net sales	99.8	100.3	0.5
Operating income	13.3	12.7	(4.2)
Net income	8.8	8.5	(3.9)

Our forecast for cash flows for fiscal 2010 is as follows.

In investing activities, we expect to use cash of approximately ¥1,700 million for expanding production facilities and other purchases of property, plant and equipment. In financing activities, we expect to use cash of approximately ¥3,700 million for the payment of cash dividends; for payment of year-end cash dividends of ¥40 per share and planned interim dividends of ¥10 per share.

Business Risks

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 Co. Ltd.'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 healthcare system, including National Health Insurance (NHI) drug prices, is being revised. 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 all 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 the Group's 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 relating to its products, 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.

(10) Exchange Rate Fluctuations
As the Group imports and exports pharmaceutical products, its sales are vulnerable to exchange rate fluctuations.

(11) Cancellations of Tie-up Agreements
The Group promotes strategic alliances to make efficient use of external capital. Through tie-up agreements with other pharmaceutical companies in and outside of Japan, 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 affect the forecast performance of the Group.

(12) IT Security and Information Management
In the course of business operations the Group utilizes numerous IT systems. This means business operations are vulnerable to disruptions caused by system faults or outside causes such as computer viruses. Furthermore, the leakage of information could cause a loss of trust in the Group and materially affect the business performance of the Group.

Consolidated Balance Sheets

KYORIN Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 3)
Assets	2010	2009	2010
Current assets:			
Cash and cash in banks (Notes 4, 13 and 15)	¥ 20,193	¥ 12,223	$ 217,036
Notes and accounts receivable (Notes 5 and 13)	36,859	35,615	396,163
Short-term investments (Notes 4, 6 and 13)	5,353	3,500	57,534
Inventories:			
Merchandise and finished goods	11,068	9,454	118,960
Work in process	1,195	1,429	12,844
Raw materials and supplies	9,609	7,304	103,278
Deferred tax assets (Note 16)	2,616	2,067	28,117
Other	4,232	3,680	45,486
Less allowance for doubtful accounts	(69)	(134)	(742)
Total current assets	91,060	75,140	978,719
Property, plant and equipment:			
Land (Note 7)	1,645	1,671	17,681
Buildings and structures (Notes 7 and 15)	28,295	28,165	304,117
Machinery and vehicle (Note 7)	14,524	14,023	156,105
Lease assets (Notes 7 and 12)	189	189	2,031
Construction in progress	29	12	312
Other (Note 15)	6,308	6,352	67,799
Less accumulated depreciation and impairment loss (Note 7)	(35,165)	(33,291)	(377,956)
Property, plant and equipment, net	15,825	17,122	170,088
Investments and other assets:			
Investment securities (Notes 6 and 13)	23,779	23,531	255,578
Long-term loans (Note 13)	27	30	290
Goodwill	552	953	5,933
Trademark	18	23	193
Deferred tax assets (Note 16)	4,188	5,042	45,013
Other	2,167	3,003	23,291
Less allowance for doubtful accounts	(432)	(294)	(4,643)
Total investments and other assets	30,302	32,289	325,688
Total assets	¥137,190	¥124,552	$1,474,527

Liabilities and net assets	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars (Note 3) 2010
Current liabilities:			
Notes and accounts payable (Notes 5 and 13)	¥ 9,858	¥ 8,258	$ 105,954
Short-term bank loans (Notes 8, 13 and 15)	2,795	4,149	30,041
Lease obligations (Note 8)	59	59	634
Accrued income taxes (Note 16)	4,501	963	48,377
Accrued bonuses to employees	3,043	2,560	32,706
Reserve for sales returns	114	110	1,225
Provision for point card certificates	57	57	613
Other	5,767	5,555	61,984
Total current liabilities	26,198	21,715	281,578
Long-term liabilities:			
Long-term debt (Notes 8, 13 and 15)	602	1,035	6,470
Lease obligations (Note 8)	40	99	430
Accrued retirement benefits for employees (Note 14)	4,394	4,330	47,227
Accrued retirement benefits for directors and corporate auditors	53	87	570
Other	988	783	10,619
Total long-term liabilities	6,079	6,336	65,337
Contingent liabilities (Note 18)			
Net assets (Note 9):			
Shareholders' equity:			
Common stock, no per value:			
Authorized — 297,000,000 shares in 2010 and 2009			
Issued — 74,947,628 shares in 2010 and 2009	700	700	7,524
Capital surplus	4,752	4,752	51,075
Retained earnings	99,738	92,310	1,071,991
Treasury stock, at cost:			
203,047 shares in 2010			
179,456 shares in 2009	(283)	(250)	(3,042)
Valuation and translation adjustments:			
Unrealized holding gain (loss) on securities	138	(852)	1,483
Translation adjustments	(134)	(159)	(1,440)
Total net assets	104,911	96,501	1,127,590
Total liabilities and net assets	¥137,190	¥124,552	$1,474,527

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

KYORIN Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2010	2009	2010
Net sales	¥99,764	¥90,889	$1,072,270
Cost of sales	37,477	36,791	402,805
Gross profit	62,287	54,098	669,465
Selling, general and administrative expenses (Note 10)	49,025	45,146	526,924
Operating income	13,261	8,952	142,530
Other income (expenses):			
Interest and dividend income	411	474	4,417
Rent income	277	197	2,977
Interest expense	(60)	(66)	(645)
Equity in earnings (losses) of affiliates	123	(426)	1,322
Loss on disposal of inventories	—	(322)	—
Loss on investments in partnership	(26)	(25)	(279)
(Loss) gain on sales and disposal of property, plant and equipment, net (Note 11)	(62)	34	(666)
Gain (loss) on sales of investment securities, net (Note 6)	32	(222)	344
Loss on devaluation of investment securities	(17)	(819)	(183)
Impairment loss (Note 7)	(154)	(414)	(1,655)
Gain on bad debts recovered	—	27	—
Loss on discontinuance of sales of products	—	(2,641)	—
Loss on valuation of stocks of subsidiaries and affiliates	(10)	—	(107)
Loss on liquidation of subsidiaries and affiliates	(40)	—	(430)
Other, net	247	102	2,655
Other income (expenses), net	720	(4,104)	7,739
Income before income taxes	13,982	4,847	150,279
Income taxes (Note 16)			
Current	5,518	2,727	59,308
Deferred	(385)	82	(4,138)
Total income taxes	5,133	2,809	55,170
Net income	¥ 8,848	¥ 2,037	$ 95,099

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

KYORIN Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2010 and 2009

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 as of 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 as of March 31, 2009	74,947,628	700	4,752	92,310	(250)	(852)	(159)	96,501
Cash dividends	—	—	—	(1,420)	—	—	—	(1,420)
Net income	—	—	—	8,848	—	—	—	8,848
Purchase of treasury stock	—	—	—	—	(33)	—	—	(33)
Other changes	—	—	—	—	—	990	24	1,015
Net changes during the year	—	—	—	7,428	(33)	990	24	8,410
Balance as of March 31, 2010	74,947,628	¥700	¥4,752	¥99,738	¥(283)	¥ 138	¥(134)	¥104,911

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 as of March 31, 2009	$7,524	$51,075	$ 992,154	$(2,687)	$ (9,157)	$(1,709)	$1,037,199
Cash dividends	—	—	(15,262)	—	—	—	(15,262)
Net income	—	—	95,099	—	—	—	95,099
Purchase of treasury stock	—	—	—	(355)	—	—	(355)
Other changes	—	—	—	—	10,641	258	10,909
Net changes during the year	—	—	79,837	(355)	10,641	258	90,391
Balance as of March 31, 2010	$7,524	$51,075	$1,071,991	$(3,042)	$ 1,483	$(1,440)	$1,127,590

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

KYORIN Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2010	2009	2010
Operating activities			
Income before income taxes	¥13,982	¥ 4,847	$150,279
Depreciation and amortization	2,810	3,799	30,202
Impairment loss	154	414	1,655
Amortization of goodwill	400	312	4,299
Increase in allowance for doubtful accounts	72	174	774
Increase in accrued bonuses to employees	481	204	5,170
Increase (decrease) in accrued retirement benefits for employees	64	(15)	688
Decrease in accrued retirement benefits for directors and corporate auditors	(33)	(218)	(355)
Decrease in provision for dismantling of fixed assets	—	(84)	—
Equity in (earnings) losses of affiliates, net	(123)	426	(1,322)
Interest and dividend income	(411)	(474)	(4,417)
Interest expense	60	66	645
Loss (gain) on sales and disposal of property, plant and equipment, net	62	(33)	666
(Gain) loss on sales of investment securities, net	(32)	220	(344)
Loss on devaluation of investment securities	17	819	183
Increase in notes and accounts receivable	(1,244)	(5,628)	(13,371)
(Increase) decrease in inventories	(3,686)	1,649	(39,617)
Increase in notes and accounts payable	1,600	447	17,197
(Decrease) increase in consumption taxes payable	(91)	814	(978)
Other	(418)	(1,073)	(4,493)
Subtotal	13,665	6,670	146,872
Interest and dividend received	406	466	4,364
Interest paid	(63)	(63)	(677)
Income taxes paid	(1,981)	(2,497)	(21,292)
Net cash provided by operating activities	12,027	4,575	129,267
Investing activities			
Payments for time deposits	(955)	(2,021)	(10,264)
Proceeds from cancelation of time deposits	773	2,220	8,308
Purchase of property, plant and equipment	(1,153)	(1,498)	(12,393)
Proceeds from sales of property, plant and equipment	39	187	419
Purchase of intangible assets	(99)	(83)	(1,064)
Payments for purchase of investment securities	(2,905)	(4,808)	(31,223)
Proceeds from sales and redemption of investment securities	4,153	5,512	44,637
Payments of merger consideration	—	(3,511)	—
Other	561	(227)	6,030
Net cash provided by (used in) investing activities	412	(4,229)	4,428
Financing activities			
(Decrease) increase in short-term loans, net	(1,358)	2,475	(14,596)
Repayments of lease obligations	(58)	(39)	(623)
Repayment for long-term loans payable	(367)	(262)	(3,945)
Redemption of bonds	(60)	(60)	(645)
Purchase of treasury stock, net	(33)	(65)	(355)
Cash dividends	(1,418)	(863)	(15,241)
Net cash (used in) provided by financing activities	(3,297)	1,184	(35,436)
Effects of exchange rate changes on cash and cash equivalents	50	(305)	537
Increase in cash and cash equivalents	9,193	1,224	98,807
Cash and cash equivalents at beginning of year	12,363	9,599	132,878
Increase in cash and cash equivalents from newly consolidated subsidiary	—	31	—
Increase in cash and cash equivalents resulting from merger	—	1,507	—
Cash and cash equivalents at end of year (Note 4)	¥21,556	¥12,363	$231,685

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

KYORIN Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2010 and 2009

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 2009 consolidated financial statements to conform to the 2010 presentation. These reclassifications had no effect on consolidated net income and net assets.

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.

Among the consolidated subsidiaries, Kyorin USA, Inc., Kyorin Europe GmbH, and ActivX Biosciences, Inc. close their books of account at December 31 for financial reporting purposes. Kyobundo Co., Ltd. closes its book at February 28 and KYORIN Rimedio Co., Ltd. closes its book at January 31. Effective from the year ended March 31, 2010, Kyobundo Co., Ltd. and KYORIN Rimedio Co., Ltd. have changed their fiscal year end to March 31 from February 28 and January 31, respectively. Because of these changes, they have a transitional 13 or 14-month fiscal year for the year ended March 31, 2010.

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.

(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.

(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.

(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. All finance leases are accounted for in the same manner as sales transaction. However, finance lease transactions that do not deem to transfer ownership of the leased property to the lessee whose term commences on or before March 31, 2008 are still accounted for in a similar manner as operating lease transactions.

(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 gains or losses 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 ($5,417 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.

Effective from the year ended March 31, 2010, the Company adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19, issued on July 31, 2008). As actuarial gains or losses are being amortized from the following year, there were no effects of this change on operating income and income before income taxes for the year ended March 31, 2010. As a result of adoption of new standard, liabilities for employees' retirement benefits increased by ¥1,922 million ($20,658 thousand) as of March 31, 2010.

(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).

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 ¥93.04 = U.S.$1.00, the approximate rate of exchange on March 31, 2010. 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.

4. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2010 and 2009 for the consolidated statements of cash flows consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash and cash in banks	¥20,193	¥12,223	$217,036
Short-term investments	2,462	1,062	26,462
Time deposits with a maturity over three months	(1,099)	(921)	(11,812)
Cash and cash equivalents	¥21,556	¥12,363	$231,685

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
Notes receivable	¥ 91
Notes payable	149

6. Short-Term Investments and Investment Securities

Information regarding marketable securities classified as other securities as of March 31, 2010 and 2009 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	2010			2010		
Marketable other securities	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥ 1,962	¥ 2,854	¥ 892	$ 21,088	$ 30,675	$ 9,587
Debt securities:						
Government bonds	1,400	1,401	1	15,047	15,058	11
Corporate bonds	9,683	9,809	126	104,074	105,428	1,354
Other bonds	200	202	2	2,150	2,171	21
Other	—	—	—	—	—	—
Subtotal	13,246	14,268	1,022	142,369	153,353	10,985
Securities whose carrying value do not exceed their acquisition cost :						
Stock	1,807	1,621	(185)	19,422	17,423	(1,988)
Debt securities:						
Government bonds	6,198	6,104	(93)	66,617	65,606	(1,000)
Corporate bonds	4,817	4,566	(250)	51,773	49,076	(2,687)
Other bonds	1,700	1,462	(237)	18,272	15,714	(2,547)
Other	93	59	(34)	1,000	634	(365)
Subtotal	14,616	13,815	(801)	157,094	148,485	(8,609)
Total	¥27,863	¥28,083	¥ 220	$299,473	$301,838	$ 2,365

	Millions of yen		
	2009		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 603	¥ 1,165	¥ 562
Debt securities:			
Government bonds	199	199	0
Corporate bonds	2,695	2,716	20
Other bonds	—	—	—
Other	—	—	—
Subtotal	3,498	4,081	583
Securities whose carrying value do not exceed their acquisition cost :			
Stock	2,139	1,868	(271)
Debt securities:			
Government bonds	4,797	4,607	(190)
Corporate bonds	14,783	13,532	(1,250)
Other bonds	2,100	1,825	(274)
Other	96	51	(45)
Subtotal	23,917	21,884	(2,032)
Total	¥27,416	¥25,966	¥(1,449)

Unlisted securities and other non-marketable securities are not included in the above schedules as their fair market values are extremely difficult to be determined. The amounts of these securities are ¥588 million ($6,320 thousand) and ¥665 million as of March 31, 2010 and 2009, respectively.

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2010 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Proceeds from sales	¥542	¥2,775	$5,825
Gains on sales	37	72	398
Losses on sales	5	293	54

The redemption schedule for securities with maturities classified as other securities as of March 31, 2009 is 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

7. Impairment Loss

The Company and its consolidated subsidiaries recognized a loss on impairment of long-lived assets for the years ended March 31, 2010 and 2009 as follows:

			2010	
Location	Use	Type of assets	Millions of yen	Thousands of U.S. dollars
Shinjuku-ku, Tokyo	Business use	Leased assets	¥154	$1,655
Total			¥154	$1,655

Location	Use	Type of assets	2009 Millions of yen
Former Nara Office			
Kashihara City,		Land	¥ 3
Nara Prefecture	Idle properties	Buildings	17
Chiyoda-ku, Tokyo	Business use	Leased assets	393
Total			¥414

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

For the year ended March 31, 2010, the book value of the leased assets of Kyobundo 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 was included in other expenses as impairment loss. The recoverable amount of the leased assets was estimated based on its utility value with a discount rate of 6.7%.

For the year ended March 31, 2009, since the former Nara Office of KYORIN Rimedio Co., Ltd. had been idle, its book value was written down to its recoverable amount and this decrease in value was included in other expenses as impairment loss. The recoverable amounts were estimated based on the net sales prices; the land was valuated by road rating, and the buildings were 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 was included in other expenses as impairment loss. The recoverable amount of the leased assets was estimated based on its utility value with a discount rate of 6.7%.

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

Short-term bank loans and the current portion of long-term debt and lease obligations as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Short-term bank loans	¥2,486	¥3,844	$26,720
Current portion of long-term bank loans	309	305	3,321
Current portion of lease obligations	59	59	634
Total	¥2,854	¥4,208	$30,675

The average interest rates applicable to short-term bank loans outstanding as of March 31, 2010 and 2009 are 1.0% and 1.1%, respectively.

Long-term debt as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Long-term bank loans due through 2014 at average interest rate of 2.2% and 2.1% in 2010 and 2009, respectively	¥ 881	¥1,250	$ 9,469
Lease obligations due through 2014	99	158	1,064
1.4% unsecured bonds, payable in yen, due 2011	90	150	967
Current portion of long-term bank loans and lease obligations, and bonds due within one year	(428)	(424)	(4,600)
Total	¥ 642	¥1,134	$ 6,900

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
2011	¥ 428	$ 4,600
2012	305	3,278
2013	172	1,849
2014	160	1,720
2015 and thereafter	4	43
Total	¥1,070	$11,500

9. Shareholders' Equity

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

(a) Dividends

Under the Corporation 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 Corporation 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 Corporation 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 Corporation 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 Corporation Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporation 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 Corporation 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 Corporation Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of net assets. The Corporation 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.

10. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2010 and 2009 were ¥11,807 million ($126,902 thousand) and ¥10,531 million, respectively.

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 years ended March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Gain:			
Buildings and structures	¥ 6	¥ 33	$ 64
Machinery and vehicle	0	2	0
Land	5	69	54
Other	0	1	0
	¥ 11	¥105	$ 118
Loss:			
Buildings and structures	¥(25)	¥ (47)	$(269)
Machinery and vehicle	(12)	(11)	(129)
Other	(34)	(13)	(365)
	(71)	(71)	(763)
Total	¥(62)	¥ 34	$(666)

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 commences 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, 2010 and 2009 were as follows:

	Millions of yen			
	March 31, 2010			
	Acquisition costs	Accumulated depreciation	Accumulated impairment loss	Net book value
Machinery and vehicle	¥1,383	¥ 757	¥455	¥170
Other	463	295	—	167
Total	¥1,846	¥1,052	¥455	¥338

	Thousands of U.S. dollars			
Machinery and vehicle	$14,865	$ 8,136	$4,890	$1,827
Other	4,976	3,171	—	1,795
Total	$19,841	$11,307	$4,890	$3,633

	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

For the year ended March 31, 2010 and 2009, lease payments relating to finance leases accounted for in a similar manner as operating lease transactions amounted to ¥346 million ($3,719 thousand) and ¥348 million, respectively, 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, reversal of accumulated impairment loss on leased assets amounted to ¥92 million ($989 thousand) and ¥393 million, respectively, and related impairment losses amounted to ¥154 million ($1,655 thousand) and none, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2010 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
2011	¥263	¥ 528	$2,827	$ 5,675
2012 and thereafter	530	985	5,696	10,587
Total	¥793	¥1,514	$8,523	$16,273
Accumulated impairment loss	¥455	¥ —	$4,890	$ —

13. Financial Instruments

Effective from the year ended March 31, 2010, the Company and its consolidated subsidiaries ("the Companies") adopted "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, issued on March 10, 2008) and Guidance on Disclosure about Fair Value of Financial Instruments (ASBJ Guidance No. 19, issued on March 10, 2008). Status of financial instruments is as follows:

(1) Investment policy of financial instruments

The Companies mainly operate funds by the highly secured financial instruments such as deposits and highly rated bonds, ensuring the security and liquidity. The Companies use bank loans as our prime source of financing and no derivatives are used.

(2) Details of financial instruments, associated risk and risk management

Operating receivables such as notes and accounts receivable are exposed to credit risk.

The Companies follow internal rules and monitors the major customers' credit conditions periodically and manages the due date and balance per each customer. The Companies keep track of the adverse financial conditions of our customers in the early stage to mitigate the bad debt. The Companies have operating receivables dominated in foreign currencies that are exposed to foreign currency fluctuation risk. The Companies mitigate foreign currency fluctuation risk by utilizing foreign currency deposits and netting receivables with payables dominated in foreign currencies.

Short-term investments and investment securities are mainly consists of highly rated bonds and stock of companies that have business relationship with the Companies. These are exposed to market fluctuation risk and credit risk and the Companies regularly review the fair value and issuers' financial condition to mitigate market fluctuation risk and credit risk.

Operating payables such as notes and accounts payable are due within six months and the Companies have operating payables dominated in foreign currencies.

Short-term bank loans are mainly used to finance operating capital and long-term loans and bonds payable are mainly used to finance necessary funds for the capital investments and business expansion.

Operating payables, loans and bonds are exposed to liquidity risk. The Companies manages the liquidity risk by preparing and updating the cash management plan periodically.

(3) Supplemental information on fair value of financial instruments

As well as the values based on market prices, fair values of financial instruments include values, which are reasonably calculated in case market prices do not exist. As the calculation of those values adopts certain assumptions, those values may vary in case different assumptions are applied.

Fair value and others of financial instruments as of March 31, 2010 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	2010			2010		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Cash and cash in banks	¥20,193	¥20,193	¥ —	$217,036	$217,036	$ —
Notes and accounts receivable	36,859	36,859	—	396,163	396,163	—
Short-term investments and investment securities	28,083	28,083	—	301,838	301,838	—
Total assets	¥85,136	¥85,136	¥ —	$915,047	$915,047	$ —
Notes and accounts payable	¥ 9,858	¥ 9,858	¥ —	$105,954	$105,954	$ —
Total liabilities	¥ 9,858	¥ 9,858	¥ —	$105,954	$105,954	$ —

Unlisted securities and others of ¥1,049 million ($11,275 thousand) whose fair values are extremely difficult to determine as of March 31, 2010 were not included in the above schedules.

Valuation method of fair value of financial instruments information regarding securities is as follows:

(1) Cash and cash in banks

The carrying value is deemed as the fair value since it is scheduled to be settled in a short period of time.

(2) Notes and accounts receivable

The carrying value is deemed as the fair value since it is scheduled to be settled in a short period of time.

(3) Short-term investments and investment securities

Fair value of stocks is based on the price on stock exchanges and that of bonds is based on the price on bond markets or the price presented by the counter party financial institutions. Please see Note 6. Short-Term Investments and Investment Securities.

(4) Notes and accounts payable

The carrying value is deemed as the fair value since it is scheduled to be settled in a short period of time.

The redemption schedule for monetary receivables and security with maturities subsequent to March 31, 2010 is as follows:

	Millions of yen			
	2010			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after 10 years
Cash and cash in banks	¥20,192	¥ —	¥ —	¥ —
Notes and accounts receivable	36,859	—	—	—
Securities with maturities classified as other securities				
Government bonds	¥ 2,400	¥1,200	¥2,000	¥2,000
Bonds	2,400	8,300	2,500	500
Other	500	200	—	1,200
Total	¥62,352	¥9,700	¥4,500	¥3,700

	Thousands of U.S. dollars			
	2010			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after 10 years
Cash and cash in banks	$217,025	$ —	$ —	$ —
Notes and accounts receivable	396,193	—	—	—
Securities with maturities classified as other securities				
Government bonds	$ 25,795	$ 12,898	$21,496	$21,496
Bonds	25,795	89,209	26,870	5,374
Other	5,374	2,150	—	12,898
Total	$670,163	$104,256	$48,366	$39,768

14. 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 as of March 31, 2010 and 2009 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Projected benefit obligation	¥(27,759)	¥(25,851)	$(298,356)
Plan assets at fair value	19,709	17,207	211,834
Unfunded retirement benefit obligation	(8,049)	(8,643)	(86,511)
Unrecognized transitional assets and liabilities	8	67	86
Unrecognized actuarial gain or loss	3,781	4,408	40,638
Unrecognized prior service cost	(134)	(162)	(1,440)
Net retirement benefit obligation	(4,394)	(4,330)	(47,227)
Prepaid pension cost	—	—	—
Accrued retirement benefits for employees	¥ (4,394)	¥ (4,330)	$ (47,227)

The components of retirement benefit expenses for the years ended March 31, 2010 and 2009 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service cost	¥ 830	¥ 810	$ 8,921
Interest cost	633	636	6,804
Expected return on plan assets	(427)	(506)	(4,589)
Amortization of transitional assets and liabilities	58	50	623
Amortization of actuarial gain or loss	643	220	6,911
Amortization of prior service cost	(28)	(28)	(301)
Premium of defined contribution pension plan and annuity in advance retirement severance plan, etc.	286	270	3,074
Total	¥1,996	¥1,451	$21,453

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

	2010	2009
Discount rates	2.0%	2.5%
Expected return on plan assets	2.5%	2.5%

15. Pledged Assets

Assets pledged as collateral for guaranty deposits and plant mortgage as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
Assets pledged as collateral:	2010	2009	2010
For guaranty deposits			
Cash and cash in banks	¥ 10	¥ 10	$ 107
Total	¥ 10	¥ 10	$ 107
For plant mortgage			
Buildings	¥1,866	¥2,044	$20,056
Other	402	473	4,321
Total	¥2,269	¥2,518	$24,387
Related loans and debt for plant mortgage pledged as collateral			
Short-term bank loans	¥ 138	¥ 143	$ 1,483
Long-term bank loans	65	234	699
Total	¥ 204	¥ 378	$ 2,193

16. Income Taxes

Significant components of deferred tax assets and liabilities as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Accrued retirement benefits for employees	¥ 1,814	¥ 1,781	$ 19,497
Accrued bonuses to employees	1,230	1,035	13,220
Allowance for doubtful accounts	186	174	1,999
Accrued enterprise tax	361	132	3,880
Loss on disposal of inventories	205	200	2,203
Loss on devaluation of investment securities	327	713	3,515
Loss on disposal of property, plant and equipment	1,084	1,101	11,651
Impairment loss	245	224	2,633
Asset adjustment account	725	966	7,792
Tax loss carry forward	967	859	10,393
Unrealized holding loss on securities	—	604	—
Other	1,262	1,058	13,564
Subtotal	8,411	8,853	90,402
Valuation allowance	(1,502)	(1,622)	(16,144)
Total deferred tax assets	6,908	7,231	74,248
Deferred tax liabilities:			
One time revaluation for property, plant and equipment	(77)	(101)	(828)
Other	(26)	(19)	(279)
Total deferred tax liabilities	(103)	(121)	(1,107)
Net deferred tax assets	¥ 6,804	¥ 7,109	$ 73,130

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, 2010 and 2009 were as follows:

	2010	2009
Statutory tax rate	41.3%	41.3%
Entertainment expenses and others that are not tax deductible permanently	3.8	10.4
Inhabitants' per capita taxes	0.5	1.6
Tax credits for research and development expenses	(9.4)	(8.6)
Valuation allowance	(0.9)	14.8
Other	1.4	(1.5)
Effective tax rate	36.7%	58.0%

17. Segment Information

(1) Business Segments

Information regarding business segments is omitted in the consolidated financial statements for the years ended March 31, 2010 and 2009, 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, 2010 and 2009.

(2) Geographical Segments

Information regarding geographical areas is omitted for the years ended March 31, 2010 and 2009, because sales and total assets of Japanese area are more than 90% in all geographical areas for the years ended March 31, 2010 and 2009.

(3) Overseas Sales

Information regarding overseas sales is omitted for the years ended March 31, 2010 and 2009, because overseas sales is less than 10% in all consolidated net sales for the years ended March 31, 2010 and 2009.

18. Contingent Liabilities

Contingent liabilities as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Guarantors of indebtedness of employees	¥ 8	¥10	$ 86
Notes receivable endorsed	11	12	118

19. Combination of Business

For the year ended March 31, 2009, 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 Pharmaceutical 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.

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

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
Current assets	¥5,729
Noncurrent assets	360
Total assets	6,090
Current liabilities	2,359
Total liabilities	¥2,359

(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.

20. Amounts Per Share

Amount per share for the years ended March 31, 2010 and 2009 were as follows:

	Yen		U.S. dollars
	2010	2009	2010
Basic net income	¥ 118.37	¥ 27.24	$ 1.27
Cash dividends	50.00	13.00	0.54
Net assets	1,403.60	1,290.67	15.09

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, 2010 and 2009.

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.

21. 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, 2010, were approved at the board of directors' meeting held on May 25, 2010:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥40.0=U.S.$0.43 per share)	¥2,989	$32,126

Report of Independent Auditors

KYORIN Pharmaceutical Co., Ltd.
As of March 31, 2010 and 2009

Non-consolidated Balance Sheet

KYORIN Pharmaceutical Co., Ltd.
As of March 31, 2010 and 2009

Millions of yen

	2009	2010
Assets		
Current assets	64,822	78,422
Cash, deposits	8,615	15,313
Accounts receivable	32,018	33,088
Market securities	3,437	5,290
Inventory	15,684	19,147
Other	5,066	5,581
Fixed assets	43,699	41,400
Tangible assets	13,789	12,847
Intangible assets	486	328
Investments	29,423	28,225
Total Assets	108,522	119,822
Liabilities and equity		
Current liabilities	14,593	19,003
Notes and accounts payable	5,423	6,849
Other	9,170	12,154
Non-current liabilities	5,457	5,312
Total liabilities	20,051	24,316
Net assets		
Shareholders' equity	89,328	95,384
Net unrealized gain and translation adjustments	(857)	120
Total equity	88,470	95,505
Total liabilities and equity	108,522	119,822

Non-consolidated Statements of Income

KYORIN Pharmaceutical Co., Ltd.
Years Ended March 31, 2010 and 2009

Millions of yen

	2009	2010
Sales	77,962	85,308
Cost of Sales	29,551	28,374
Gross profit	48,411	56,934
Selling, general and administrative expenses	39,894	43,795
Operating income	8,517	13,139
Non operating income	998	1,497
Non operating expense	52	56
Recurring income	9,463	14,580
Extraordinary gain	176	37
Extraordinary loss	2,823	112
Income before income taxes and minority interests	6,816	14,506
Corporate,inhabitants and enterprise taxes	2,617	5,452
Deferred income taxes	157	(419)
Net income	4,041	9,472

KYORIN Holdings, Inc.

5, KANDA SURUGADAI 2-CHOME, CHIYODA-KU, TOKYO
101-8311 JAPAN
CORPORATE COMMUNICATION
TEL +81-3-3293-3451
E-mail http://www.kyorin-gr.co.jp/contact/
URL http://www.kyorin-gr.co.jp/

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