Financial Section

ANNUAL REPORT 2011

Year ended March 31, 2011   KYORIN Holdings, Inc.

Contents

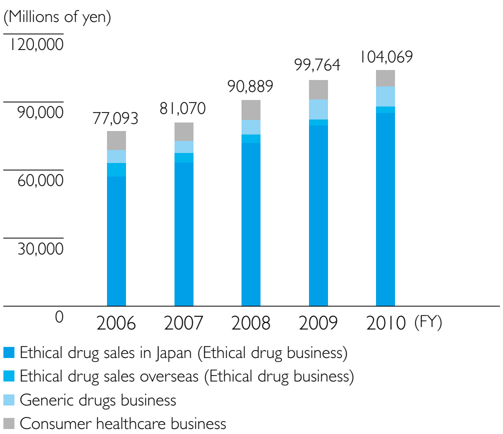
Disclaimer Regarding Forward-looking Statements

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.

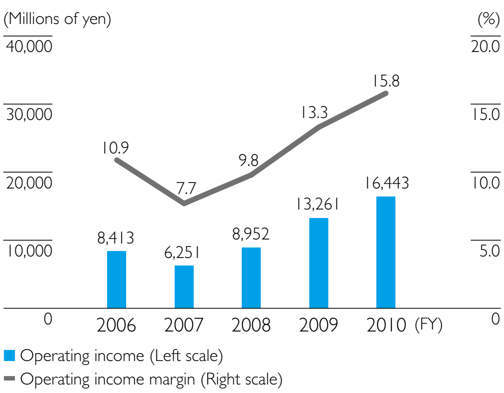
Financial Analysis

- Consolidated net sales increased for the seventh consecutive year, rising 4.3% year on year to a record ¥104,069 million. With regard to the ethical drugs business in Japan, the increase followed efforts to promote uptake of our main products in the market that increased sales volumes and offset a decline in drug prices. Moreover, strong performance in the insurance dispensing pharmacy market saw sales and other results for generic drugs increase year on year.
- Operating income and net income were ¥16,443 million (up 24.0% year on year) and ¥10,927 million (up 23.5% year on year) respectively, allowing the Group to post record profits for a second consecutive year. This result reflected an increase in sales of high-margin company products and efforts to curtail the increase in selling, general and administrative (SG&A) expenses (incl. R&D expenses).

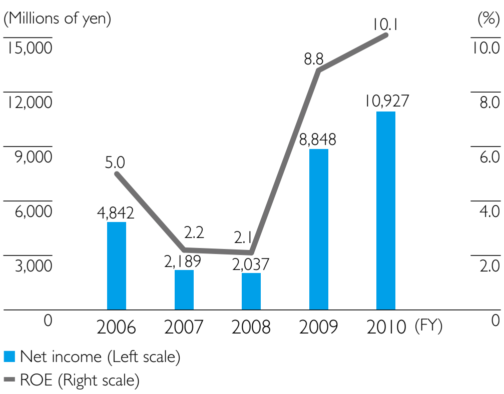
Net sales



Operating income and operating income margin



Net income and ROE



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 skincare products; and KYORIN Medical Supply 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"). As the Group's controlling company, KYORIN Holdings is responsible for the business strategies of the overall Group, and strives to efficiently allocate and utilize management resources.

* Kyobundo Co., Ltd. was renamed KYORIN Medical Supply Co., Ltd. on April 1, 2011.

Industry Trends

In the pharmaceutical industry, where the core business of the Kyorin Group operates, the Japanese government continued to implement various policies designed to curtail medical expenditures and spending on drugs. NHI drug prices were revised down in April 2010 by approximately 6.5% on average for the industry as a whole and by roughly 6% for KYORIN Pharmaceutical. As a result, the operating environment became even tougher.

Consolidated Operating Results

Net sales

Under these conditions, in terms of net sales in fiscal 2010, sales of our principal new products in the domestic ethical drug business showed steady growth, despite the negative impact of the downward revision of official ethical drug prices. These products included Kipres, a treatment for bronchial asthma and allergic rhinitis; and Uritos, a treatment for overactive bladder. Higher sales were also posted for Mucodyne, a mucoregulant. In the generic drug business, sales rose on the back of increased generic drug sales at insurance dispensing pharmacies and other locations. In the consumer healthcare (skincare) business, sales were soft mainly due to weakening demand. Overall, net sales increased 4.3% year on year to ¥104,069 million, marking seven straight years of top-line growth. Net sales also surpassed the ¥100,000 million mark for the first time since the Company was founded.

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

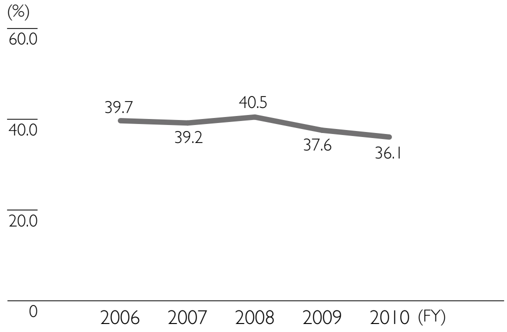
The cost of sales ratio decreased 1.5 percentage points year on year, mainly reflecting increased sales of high-margin company products in ethical drugs and a reduced cost of sales ratio at KYORIN Rimedio Co., Ltd. SG&A expenses excluding R&D expenses increased only 1.0% year on year to ¥37,576 million. As a result, the SG&A expenses ratio declined 1.2 percentage points to 36.1%. Consequently, operating income rose 24.0% year on year to ¥16,443 million. The operating income margin rose 2.5 percentage points to 15.8%.

Summary of Consolidated Statements of Income

Millions of yen

	FY2009	FY2010	YoY change	YoY change (%)
Net sales	99,764	104,069	4,305	4.3
Cost of sales	37,477	37,554	77	0.2
Gross profit	62,287	66,514	4,227	6.8
SG&A expenses	49,025	50,071	1,046	2.1
(Including R&D expenses)	11,807	12,495	688	5.8
Operating income	13,261	16,443	3,182	24.0
Other income	1,092	769	(323)	(29.6)
Other expenses	120	102	(18)	(15.0)
Income before income taxes	13,982	17,136	3,154	22.6
Net income	8,848	10,927	2,079	23.5

Cost of sales ratio



Net income and net income per share

Net income rose 23.5% year on year to ¥10,927 million. Net income per share increased ¥27.84 from the previous fiscal year to ¥146.21.

Segment Information

Please see Annual Report pages 19-21 "At a Glance, Segment Overview" for a breakdown of results by segment.

Assets, Liabilities and Net Assets

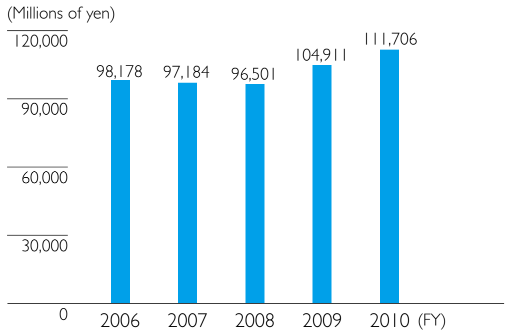
At March 31, 2011, current assets had increased ¥13,366 million due to increases in cash and cash in banks, notes and accounts receivable, and short-term investments. The increases were partly offset by a decrease in inventories. Fixed assets decreased ¥3,322 million mainly due to declines in property, plant and equipment, net, intangible fixed assets and investment securities. As a result, total assets increased ¥10,044 million, or 7.3%, from a year earlier to ¥147,234 million.

Liabilities at year-end were up ¥3,249 million, or 10.1%, to ¥35,527 million from the previous year-end. This was mainly due to increases in notes and accounts payable and short-term bank loans, which were partly offset by a decrease in accrued income taxes.

Net assets at year-end amounted to ¥111,706 million, up ¥6,795 million, or 6.5%, from a year ago. This was mainly attributable to an increase in retained earnings, despite a decrease in unrealized holding gain on securities.

As a result, the shareholders' equity ratio at year-end was 75.9%, down 0.6 of a percentage point from the previous fiscal year-end.

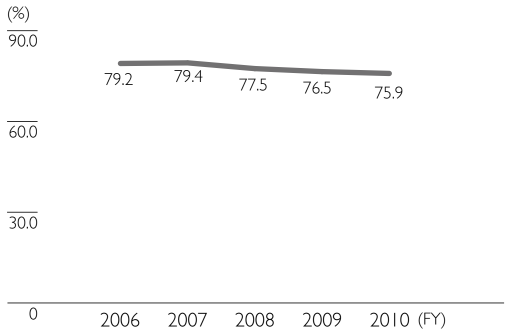
Net assets



Return on Equity (ROE)

The Kyorin Group has established net sales and operating income as its performance targets, with the aim of achieving sustainable growth. The Group recognizes that improving profitability and raising ROE is crucial to attaining those targets. Therefore, the Group is targeting ROE of around 10%, while maintaining ROE of at least the fiscal 2009 level of 8.8%. In fiscal 2010, ROE was 10.1%.

Shareholders' equity ratio



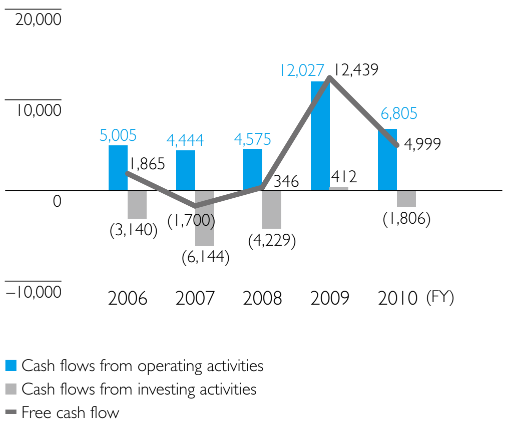
Summary of Consolidated Balance Sheets

Millions of yen

	FY2009	FY2010	YoY change	YoY change (%)
Current assets	91,060	104,427	13,366	14.7
Fixed assets	46,129	42,806	(3,322)	(7.2)
Total assets	137,190	147,234	10,044	7.3
Current liabilities	26,198	30,421	4,223	16.1
Long-term liabilities	6,079	5,105	(974)	(16.0)
Total liabilities	32,278	35,527	3,249	10.1
Shareholders' equity	104,907	112,076	7,169	6.8
Total accumulated other comprehensive income	3	(370)	(373)	—
Net assets	104,911	111,706	6,795	6.5
Liabilities and net assets	137,190	147,234	10,044	7.3

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

(Millions of yen)



Cash Flows

Net cash provided by operating activities totaled ¥6,805 million. The main components were income before income taxes of ¥17,136 million, depreciation and amortization of ¥2,458 million, increase in notes and account receivable of ¥5,736 million, decrease in inventories of ¥1,509 million, increase in notes and accounts payable of ¥993 million, and income taxes paid of ¥7,007 million.

Net cash used in investing activities was ¥1,806 million. Cash was mainly used for payments for purchase of property, plant and equipment of ¥1,274 million, payments for purchase of investment securities of ¥4,960 million. On the other hand, cash was provided by proceeds from sales and redemption of investment securities of ¥4,749 million.

Net cash provided by financing activities was ¥201 million. This was largely attributable to a net increase in short-term loans of ¥4,209 million, partly offset by payment of cash dividends of ¥3,732 million.

As a result, cash and cash equivalents at the end of the fiscal year were up ¥5,108 million year on year, or 23.7%, to ¥26,665 million.

Summary of Consolidated Statements of Cash Flows

Millions of yen

	FY2009	FY2010	YoY change	YoY change (%)
Cash provided by operating activities	12,027	6,805	(5,222)	(43.4)
Cash provided by (used in) investing activities	412	(1,806)	(2,218)	—
Cash provided by (used in) financing activities	(3,297)	201	3,498	—
Cash and cash equivalents at end of year	21,556	26,665	5,108	23.7

Outlook for Fiscal 2011

The outlook for the domestic pharmaceutical industry is clouded by concerns over the impact of the Great East Japan Earthquake that struck on March 11, 2011, in addition to the negative impact of ongoing implementation of government policies to curb medical expenditures, intensified competition among companies, and other factors. In the consumer healthcare business, the outlook for market conditions has remained shrouded in uncertainty.

Under these conditions, the Kyorin Group is projecting higher net sales for fiscal 2011, based on expectations of sales growth for key products in the domestic ethical drug business, namely Kipres, Uritos, and Mucodyne, as well as increased generic drug sales. In overseas ethical drugs, the Group is expecting a drop in sales of gatifloxacin opthalmic solution as generic versions of Zymar to come onto the market. In the consumer healthcare business, the Group is forecasting increased sales at Dr. Program Co., Ltd.

On the earnings front, the cost of sales ratio is projected to decrease primarily due to a rise in the production rates of plants. On the other hand, SG&A expenses should increase compared with fiscal 2010, largely in line with higher R&D expenses.

The impact of the Great East Japan Earthquake on the Group's markets remains uncertain at this time. Nonetheless, the disaster has had very little direct impact on the Kyorin Group. Therefore, the Group believes that the disaster will have only a negligible impact on business forecasts for fiscal 2011.

Forecasts for Fiscal 2011

Billions of yen

	FY2010	FY2011	YoY change (%)
Net sales	104.1	106.5	2.3
Operating income	16.4	16.6	1.0
Net income	10.9	10.9	(0.2)

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) 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. At this time, the Great East Japan Earthquake has had no impact on the Group's production activities.

(2) 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.

(3) 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.

(4) 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.

(5) 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.

(6) 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.

(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 Holdings, Inc. and Consolidated Subsidiaries
As of March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 4)
Assets	2011	2010	2011
Current assets:			
Cash and cash in banks (Notes 5, 13 and 15)	¥ 25,518	¥ 20,193	$ 306,891
Notes and accounts receivable (Note 13)	42,594	36,859	512,255
Short-term investments (Notes 5, 6 and 13)	6,976	5,353	83,897
Inventories:			
Merchandise and finished goods	10,471	11,068	125,929
Work in process	1,024	1,195	12,315
Raw materials and supplies	8,868	9,609	106,651
Deferred tax assets (Note 16)	2,618	2,616	31,485
Other	6,420	4,232	77,210
Less allowance for doubtful accounts	(65)	(69)	(782)
Total current assets	104,427	91,060	1,255,887
Property, plant and equipment:			
Land	1,624	1,645	19,531
Buildings and structures (Note 15)	27,971	28,295	336,392
Machinery and vehicle	14,937	14,524	179,639
Lease assets (Notes 7 and 12)	203	189	2,441
Construction in progress	110	29	1,323
Other (Note 15)	6,495	6,308	78,112
Less accumulated depreciation and impairment loss (Note 7)	(36,423)	(35,165)	(438,040)
Property, plant and equipment, net	14,916	15,825	179,387
Investments and other assets:			
Investment securities (Notes 6 and 13)	21,660	23,779	260,493
Long-term loans	23	27	277
Goodwill	339	552	4,077
Trademark	14	18	168
Deferred tax assets (Note 16)	4,111	4,188	49,441
Other	2,162	2,167	26,001
Less allowance for doubtful accounts	(422)	(432)	(5,075)
Total investments and other assets	27,889	30,302	335,406
Total assets	¥147,234	¥137,190	$1,770,704

Liabilities and net assets	Millions of yen 2011	2010	Thousands of U.S. dollars (Note 4) 2011
Current liabilities:			
Notes and accounts payable (Note 13)	**¥ 10,852**	¥ 9,858	**$ 130,511**
Short-term bank loans (Notes 8, 13 and 15)	**6,996**	2,795	**84,137**
Lease obligations (Note 8)	**42**	59	**505**
Accrued income taxes (Note 16)	**3,437**	4,501	**41,335**
Accrued bonuses to employees	**3,222**	3,043	**38,749**
Reserve for sales returns	**52**	114	**625**
Provision for point card certificates	**59**	57	**710**
Other	**5,758**	5,767	**69,248**
Total current liabilities	**30,421**	26,198	**365,857**
Long-term liabilities:			
Long-term debt (Notes 8, 13 and 15)	**449**	602	**5,400**
Lease obligations (Note 8)	**11**	40	**132**
Accrued retirement benefits for employees (Note 14)	**3,765**	4,394	**45,280**
Accrued retirement benefits for directors and corporate auditors	**23**	53	**277**
Other	**855**	988	**10,283**
Total long-term liabilities	**5,105**	6,079	**61,395**
Contingent liabilities (Note 19)			
Net assets:			
Shareholders' equity (Note 9):			
Common stock, no per value:			
Authorized — 297,000,000 shares in 2011 and 2010			
Issued — 74,947,628 shares in 2011 and 2010	**700**	700	**8,419**
Capital surplus	**4,752**	4,752	**57,150**
Retained earnings	**106,928**	99,738	**1,285,965**
Treasury stock, at cost:			
219,032 shares in 2011			
203,047 shares in 2010	**(304)**	(283)	**(3,656)**
Total shareholders' equity	**112,076**	104,907	**1,347,877**
Accumulated other comprehensive income:			
Unrealized holding (loss) gain on securities	**(137)**	138	**(1,648)**
Translation adjustments	**(232)**	(134)	**(2,790)**
Total accumulated other comprehensive income	**(370)**	3	**(4,450)**
Total net assets	**111,706**	104,911	**1,343,428**
Total liabilities and net assets	**¥147,234**	¥137,190	**$1,770,704**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2011	2010	2011
Net sales	¥104,069	¥99,764	$1,251,581
Cost of sales	37,554	37,477	451,642
Gross profit	66,514	62,287	799,928
Selling, general and administrative expenses (Note 10)	50,071	49,025	602,177
Operating income	16,443	13,261	197,751
Other income (expenses):			
Interest and dividend income	358	411	4,305
Rent income	273	277	3,283
Interest expense	(51)	(60)	(613)
Equity in earnings of affiliates	39	123	469
Loss on investments in partnership	(47)	(26)	(565)
Gain (loss) on sales and disposal of property, plant and equipment, net (Note 11)	67	(62)	806
Gain on sales of investment securities, net (Note 6)	22	32	265
Loss on devaluation of investment securities	(62)	(17)	(746)
Impairment loss (Note 7)	—	(154)	—
Loss on valuation of stocks of subsidiaries and affiliates	—	(10)	—
Loss on liquidation of subsidiaries and affiliates	—	(40)	—
Other, net	93	247	1,118
Other income, net	693	720	8,334
Income before income taxes and minority interests	17,136	13,982	206,085
Income taxes (Note 16)			
Current	5,944	5,518	71,485
Deferred	265	(385)	3,187
Total income taxes	6,209	5,133	74,672
Income before minority interests	10,927	—	131,413
Net income	¥ 10,927	¥ 8,848	$ 131,413

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2011

	Millions of yen	Thousands of U.S. dollars (Note 4)
	2011	2011
Income before minority interests	¥10,927	$131,413
Other comprehensive income (Note 17):		
Unrealized holding loss on securities	(271)	(3,259)
Translation adjustments	(97)	(1,167)
Share of other comprehensive income of associates accounted for using equity method	(4)	(48)
Total other comprehensive income	(373)	(4,486)
Comprehensive income (Note 17)	¥10,554	$126,927
Total comprehensive income attributable to (Note 17):		
Owners of the parent	¥10,554	$126,927
Minority interest	—	—

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2011 and 2010

Millions of yen

	Number of shares issued (Common stock)	Shareholders' equity					Accumulated other comprehensive income			
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total Shareholders' equity	Unrealized holding gain (loss) on securities	Translation adjustments	Total accumulated other comprehensive income	Total net assets
Balance as of March 31, 2009	74,947,628	¥700	¥4,752	¥ 92,310	¥(250)	¥ 97,513	¥(852)	¥(159)	¥(1,012)	¥ 96,501
Cash dividends	—	—	—	(1,420)	—	(1,420)	—	—	—	(1,420)
Net income	—	—	—	8,848	—	8,848	—	—	—	8,848
Purchase of treasury stock	—	—	—	—	(33)	(33)	—	—	—	(33)
Other changes	—	—	—	—	—	—	990	24	1,015	1,015
Net changes during the year	—	—	—	7,428	(33)	7,394	990	24	1,015	8,410
Balance as of March 31, 2010	74,947,628	700	4,752	99,738	(283)	104,907	138	(134)	3	104,911
Cash dividends	—	—	—	(3,737)	—	(3,737)	—	—	—	(3,737)
Net income	—	—	—	10,927	—	10,927	—	—	—	10,927
Purchase of treasury stock	—	—	—	—	(21)	(21)	—	—	—	(21)
Other changes	—	—	—	—	—	—	(275)	(97)	(373)	(373)
Net changes during the year	—	—	—	7,190	(21)	7,168	(275)	(97)	(373)	6,795
Balance as of March 31, 2011	**74,947,628**	**¥700**	**¥4,752**	**¥106,928**	**¥(304)**	**¥112,076**	**¥(137)**	**¥(232)**	**¥ (370)**	**¥111,706**

Thousands of U.S. Dollars (Note 4)

	Shareholders' equity					Accumulated other comprehensive income			
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total Shareholders' equity	Unrealized holding gain (loss) on securities	Translation adjustments	Total accumulated other comprehensive income	Total net assets
Balance as of March 31, 2010	$8,419	$57,150	$1,199,495	$(3,403)	$1,261,660	$ 1,660	$(1,612)	$ 36	$1,261,708
Cash dividends	—	—	(44,943)	—	(44,943)	—	—	—	(44,943)
Net income	—	—	131,413	—	131,413	—	—	—	131,413
Purchase of treasury stock	—	—	—	(253)	(253)	—	—	—	(253)
Other changes	—	—	—	—	—	(3,307)	(1,167)	(4,486)	(4,486)
Net changes during the year	—	—	86,470	(253)	86,206	(3,307)	(1,167)	(4,486)	81,720
Balance as of March 31, 2011	**$8,419**	**$57,150**	**$1,285,965**	**$(3,656)**	**$1,347,877**	**$(1,648)**	**$(2,790)**	**$(4,450)**	**$1,343,428**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2011	2010	2011
Operating activities			
Income before income taxes	¥17,136	¥13,982	$206,085
Depreciation and amortization	2,458	2,810	29,561
Impairment loss	—	154	—
Amortization of goodwill	213	400	2,562
(Decrease) increase in allowance for doubtful accounts	(14)	72	(168)
Increase in accrued bonuses to employees	187	481	2,249
(Decrease) increase in accrued retirement benefits for employees	(629)	64	(7,565)
Decrease in accrued retirement benefits for directors and corporate auditors	(30)	(33)	(361)
Equity in earnings of affiliates, net	(39)	(123)	(469)
Interest and dividend income	(359)	(411)	(4,317)
Interest expense	51	60	613
(Gain) loss on sales and disposal of property, plant and equipment, net	(67)	62	(806)
Gain on sales of investment securities, net	(22)	(32)	(265)
Loss on devaluation of investment securities	62	17	746
Increase in notes and accounts receivable	(5,736)	(1,244)	(68,984)
Decrease (increase) in inventories	1,509	(3,686)	18,148
Increase in notes and accounts payable	993	1,600	11,942
Increase (decrease) in consumption taxes payable	249	(91)	2,995
Other	(2,461)	(418)	(29,597)
Subtotal	13,501	13,665	162,369
Interest and dividend received	363	406	4,366
Interest paid	(51)	(63)	(613)
Income taxes paid	(7,007)	(1,981)	(84,269)
Net cash provided by operating activities	6,805	12,027	81,840
Investing activities			
Payments for time deposits	(874)	(955)	(10,511)
Proceeds from cancellation of time deposits	622	773	7,480
Purchase of property, plant and equipment	(1,274)	(1,153)	(15,322)
Proceeds from sales of property, plant and equipment	251	39	3,019
Purchase of intangible assets	(226)	(99)	(2,718)
Payments for purchase of investment securities	(4,960)	(2,905)	(59,651)
Proceeds from sales and redemption of investment securities	4,749	4,153	57,114
Other	(94)	561	(1,130)
Net cash (used in) provided by investing activities	(1,806)	412	(21,720)
Financing activities			
Increase (decrease) in short-term loans, net	4,209	(1,358)	50,619
Repayments of lease obligations	(60)	(58)	(722)
Proceeds from long-tern loans payable	200	—	2,405
Repayment of long-term loans payable	(332)	(367)	(3,993)
Redemption of bonds	(60)	(60)	(722)
Purchase of treasury stock, net	(21)	(33)	(253)
Cash dividends	(3,732)	(1,418)	(44,883)
Net cash provided by (used in) financing activities	201	(3,297)	2,417
Effects of exchange rate changes on cash and cash equivalents	(93)	50	(1,118)
Increase in cash and cash equivalents	5,108	9,193	61,431
Cash and cash equivalents at beginning of year	21,556	12,363	259,242
Cash and cash equivalents at end of year (Note 5)	¥26,665	¥21,556	$320,686

Notes to the Consolidated Financial Statements

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2011 and 2010

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of KYORIN Holdings, Inc. (the "Company") and its domestic subsidiaries have been prepared in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), 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.

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheets and the consolidated statements of changes in net assets. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 17 as required under Japanese GAAP.

Certain reclassifications have been made in the 2010 consolidated financial statements to conform to the 2011 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. closed its book at February 28 and KYORIN Rimedio Co., Ltd. closed its book at January 31. Effective from the year ended March 31, 2010, Kyobundo Co., Ltd. and KYORIN Rimedio Co., Ltd. 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.

Kyobundo Co., Ltd. was renamed to Kyorin Medical Supply, Co., Ltd at April 1, 2011.

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, 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 ($6,061 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 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. Changes in Accounting Standards

(a) Equity Method of Accounting for Investments

Effective from the year ended March 31, 2011, the Company adopted the "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16, issued on March 10, 2008) and the "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ PITF No. 24, issued on March 10, 2008).

The adoption of this new standard had no impact on income before income taxes and minority interests for the year ended March 31, 2011.

(b) Asset Retirement Obligations

Effective from the year ended March 31, 2011, the Company adopted the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, issued on March 31, 2008) and the "Implementation Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008).

The adoption of this new standard had no material impact on operating income and income before income taxes and minority interests for the year ended March 31, 2011.

(c) Income before Minority Interests

Effective from the year ended March 31, 2011, the Company adopted the "Regulation for Terminology, Forms, and Preparation of Financial Statements" (Cabinet Office Ordinance No. 5, issued on March 24, 2009), based on the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued on December 26, 2008) and Income before minority interests is presented in the accompanying consolidated statements of income.

(d) Presentation of Comprehensive Income

Effective from the year ended March 31, 2011, the Company adopted the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, issued on June 30, 2010). The amounts of "Accumulated other comprehensive income" and "Total accumulated other comprehensive income" as of March 31, 2010 represent the amounts of "Valuation and translation adjustments" and "Total valuation and translation adjustments," respectively.

4. 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 ¥83.15 = U.S.$1.00, the approximate rate of exchange on March 31, 2011. 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.

5. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2011 and 2010 for the consolidated statements of cash flows consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Cash and cash in banks	¥25,518	¥20,193	$306,891
Short-term investments	2,462	2,462	29,609
Time deposits with a maturity over three months	(1,315)	(1,099)	(15,815)
Cash and cash equivalents	¥26,665	¥21,556	$320,686

6. Short-Term Investments and Investment Securities

Information regarding marketable securities classified as other securities as of March 31, 2011 and 2010 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	2011			2011		
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	¥ 1,560	¥ 2,128	¥ 568	$ 18,761	$ 25,592	$ 6,831
Debt securities:						
Government bonds	4,398	4,428	29	52,892	53,253	349
Corporate bonds	9,323	9,417	93	112,123	113,253	1,118
Other bonds	200	200	0	2,405	2,405	0
Other	—	—	—	—	—	—
Subtotal	15,482	16,174	692	186,194	194,516	8,322
Securities whose carrying value does not exceed their acquisition cost:						
Stock	3,568	2,943	(625)	42,910	35,394	(7,517)
Debt securities:						
Government bonds	6,600	6,534	(66)	79,375	78,581	(794)
Corporate bonds	1,000	946	(53)	12,026	11,377	(637)
Other bonds	1,200	1,007	(192)	14,432	12,111	(2,309)
Other	53	53	—	637	637	—
Subtotal	12,423	11,486	(937)	149,405	138,136	(11,269)
Total	¥27,905	¥27,660	¥(245)	$335,598	$332,652	$ (2,946)

	Millions of yen		
	2010		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 1,962	¥ 2,854	¥ 892
Debt securities:			
Government bonds	1,400	1,401	1
Corporate bonds	9,683	9,809	126
Other bonds	200	202	2
Other	—	—	—
Subtotal	13,246	14,268	1,022
Securities whose carrying value does not exceed their acquisition cost:			
Stock	1,807	1,621	(185)
Debt securities:			
Government bonds	6,198	6,104	(93)
Corporate bonds	4,817	4,566	(250)
Other bonds	1,700	1,462	(237)
Other	93	59	(34)
Subtotal	14,616	13,815	(801)
Total	¥27,863	¥28,083	¥ 220

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 ¥488 million ($5,869 thousand) and ¥588 million as of March 31, 2011 and 2010, respectively.

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2011 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Proceeds from sales	**¥828**	¥542	**$9,958**
Gains on sales	**24**	37	**289**
Losses on sales	**2**	5	**24**

7. Impairment Loss

There was no loss on impairment of long-lived assets for the year ended March 31, 2011.

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

			2010
Location	Use	Type of assets	Millions of yen
Shinjuku-ku, Tokyo	Business use	Leased assets	¥154
Total			¥154

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%.

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, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Short-term bank loans	**¥6,695**	¥2,486	**$80,517**
Current portion of long-term bank loans	**301**	309	**3,620**
Current portion of lease obligations	**42**	59	**505**
Total	**¥7,038**	¥2,854	**$84,642**

The average interest rates applicable to short-term bank loans outstanding as of March 31, 2011 and 2010 are 0.6% and 1.0%, respectively.

Long-term debt as of March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Long-term bank loans due through 2014 at average interest rate of 1.9% and 2.2% in 2011 and 2010, respectively	**¥ 750**	¥ 881	**$ 9,020**
Lease obligations due through 2015	**54**	99	**649**
1.4% unsecured bonds, payable in yen, due 2011	**30**	90	**361**
Current portion of long-term bank loans and lease obligations, and bonds due within one year	**(374)**	(428)	**(4,498)**
Total	**¥ 460**	¥ 642	**$ 5,532**

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
2012	¥374	$ 4,498
2013	244	2,934
2014	208	2,502
2015	5	60
2016 and thereafter	—	—
Total	¥835	$10,042

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, 2011 and 2010 were ¥12,495 million ($150,271 thousand) and ¥11,807 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, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Gain:			
Buildings and structures	**¥ 16**	¥ 6	**$ 192**
Machinery and vehicle	**—**	0	**—**
Land	**100**	5	**1,203**
Other	**0**	0	**0**
	¥116	¥ 11	**$1,395**
Loss:			
Buildings and structures	**¥ (15)**	¥(25)	**$ (180)**
Machinery and vehicle	**(12)**	(12)	**(144)**
Other	**(20)**	(34)	**(241)**
	(47)	(71)	**(565)**
Total	**¥ 67**	¥(62)	**$ 806**

12. Leases

Leased assets principally consist of medical devices and system devices (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, and 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, 2011 and 2010 were as follows:

	Millions of yen			
	March 31, 2011			
	Acquisition costs	Accumulated depreciation	Accumulated impairment loss	Net book value
Machinery and vehicle	**¥1,065**	**¥602**	**¥344**	**¥118**
Other	**445**	**377**	**—**	**68**
Total	**¥1,511**	**¥980**	**¥344**	**¥186**
	Thousands of U.S. dollars			
Machinery and vehicle	**$12,808**	**$ 7,240**	**$4,137**	**$1,419**
Other	**5,352**	**4,534**	**—**	**818**
Total	**$18,172**	**$11,786**	**$4,137**	**$2,237**

	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

For the years ended March 31, 2011 and 2010, lease payments relating to finance leases accounted for in a similar manner as operating lease transactions amounted to ¥262 million ($3,151 thousand) and ¥346 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 ¥111 million ($1,335 thousand) and ¥92 million, respectively, and related impairment losses amounted to none and ¥154 million, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2011 on non-cancelable 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
2012	¥213	¥ 499	$2,562	$ 6,001
2013 and thereafter	317	926	3,812	11,137
Total	¥530	¥1,425	$6,374	$17,138
Accumulated impairment loss	¥344	¥ —	$4,137	$ —

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, 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, 2011 and 2010 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	2011			2011		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Cash and cash in banks	¥25,518	¥25,518	¥ —	$ 306,891	$ 306,891	$ —
Notes and accounts receivable	42,594	42,594	—	512,255	512,255	—
Short-term investments and investment securities	27,660	27,660	—	332,652	332,652	—
Total assets	¥95,772	¥95,772	¥ —	$1,151,798	$1,151,798	$ —
Notes and accounts payable	¥10,852	¥10,852	¥ —	$ 130,511	$ 130,511	$ —
Total liabilities	¥10,852	¥10,852	¥ —	$ 130,511	$ 130,511	$ —

	Millions of yen		
	2010		
	Carrying value	Fair value	Difference
Cash and cash in banks	¥20,193	¥20,193	¥ —
Notes and accounts receivable	36,859	36,859	—
Short-term investments and investment securities	28,083	28,083	—
Total assets	¥85,136	¥85,136	¥ —
Notes and accounts payable	¥ 9,858	¥ 9,858	¥ —
Total liabilities	¥ 9,858	¥ 9,858	¥ —

Unlisted securities and others of ¥976 million ($11,738 thousand) and ¥1,049 million whose fair values are extremely difficult to determine as of March 31, 2011 and 2010, respectively, 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, 2011 is as follows:

	Millions of yen			
	2011			
	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	¥25,517	¥ —	¥ —	¥ —
Notes and accounts receivable	42,594	—	—	—
Securities with maturities classified as other securities:				
Government bonds	¥ 3,000	¥4,000	¥2,000	¥2,000
Bonds	3,700	4,600	1,600	500
Other	200	—	1,000	200
Total	¥75,011	¥8,600	¥4,600	¥2,700

	Thousands of U.S. dollars			
	2011			
	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	$306,879	$ —	$ —	$ —
Notes and accounts receivable	512,255	—	—	—
Securities with maturities classified as other securities:				
Government bonds	$ 36,079	$ 48,106	$24,053	$24,053
Bonds	44,498	55,322	19,242	6,013
Other	2,405	—	12,026	2,405
Total	$902,117	$103,428	$55,322	$32,471

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, 2011 and 2010 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Projected benefit obligation	¥(27,835)	¥(27,759)	$(334,756)
Plan assets at fair value	20,803	19,709	250,186
Unfunded retirement benefit obligation	(7,031)	(8,049)	(84,558)
Unrecognized transitional assets and liabilities	—	8	—
Unrecognized actuarial gain or loss	3,372	3,781	40,553
Unrecognized prior service cost	(106)	(134)	(1,275)
Net retirement benefit obligation	(3,765)	(4,394)	(45,280)
Prepaid pension cost	—	—	—
Accrued retirement benefits for employees	¥ (3,765)	¥ (4,394)	$ (45,280)

The components of retirement benefit expenses for the years ended March 31, 2011 and 2010 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Service cost	¥ 924	¥ 830	$11,112
Interest cost	545	633	6,554
Expected return on plan assets	(587)	(427)	(7,060)
Amortization of transitional assets and liabilities	8	58	96
Amortization of actuarial gain or loss	645	643	7,757
Amortization of prior service cost	(28)	(28)	(337)
Premium of defined contribution pension plan and annuity in advance retirement severance plan, etc.	288	286	3,464
Total	¥1,797	¥1,996	$21,612

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

	2011	2010
Discount rates	2.0%	2.0%
Expected return on plan assets	3.0%	2.5%

15. Pledged Assets

Assets pledged as collateral for guaranty deposits and plant mortgage as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
Assets pledged as collateral:	2011	2010	2011
For guaranty deposits			
Cash and cash in banks	¥ 10	¥ 10	$ 120
Total	¥ 10	¥ 10	$ 120
For plant mortgage			
Buildings and structures	¥1,738	¥1,866	$20,902
Other	493	402	5,929
Total	¥2,231	¥2,269	$26,831
Related loans and debt for plant mortgage pledged as collateral			
Short-term bank loans	¥ 65	¥ 138	$ 782
Long-term bank loans	—	65	—
Total	¥ 65	¥ 204	$ 782

16. Income Taxes

Significant components of deferred tax assets and liabilities as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Accrued retirement benefits for employees	¥ 1,551	¥ 1,814	$ 18,653
Accrued bonuses to employees	1,308	1,230	15,731
Allowance for doubtful accounts	185	186	2,225
Accrued enterprise tax	279	361	3,355
Loss on disposal of inventories	253	205	3,043
Loss on devaluation of investment securities	298	327	3,584
Loss on disposal of property, plant and equipment	1,072	1,084	12,892
Amortization of deferred assets	547	—	6,578
Impairment loss	—	245	—
Asset adjustment account	483	725	5,809
Tax loss carryforward	665	967	7,998
Other	1,394	1,262	16,765
Subtotal	8,042	8,411	96,717
Valuation allowance	(1,230)	(1,502)	(14,793)
Total deferred tax assets	6,811	6,908	81,912
Deferred tax liabilities:			
One time revaluation for property, plant and equipment	(69)	(77)	(830)
Other	(11)	(26)	(132)
Total deferred tax liabilities	(81)	(103)	(974)
Net deferred tax assets	¥ 6,730	¥ 6,804	$ 80,938

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, 2011 and 2010 were as follows:

	2011	2010
Statutory tax rate	41.3%	41.3%
Entertainment expenses and others that are not tax-deductible permanently	3.4	3.8
Inhabitants' per capita taxes	0.4	0.5
Tax credits for research and development expenses	(6.5)	(9.4)
Valuation allowance	(1.6)	(0.9)
Other	(0.8)	1.4
Effective tax rate	36.2%	36.7%

17. Comprehensive Income

For the year ended March 31, 2010

Other comprehensive income for the year ended March 31, 2010 consists of the following:

	Millions of yen
	2010
Other comprehensive income:	
Unrealized holding gain on securities	¥ 981
Translation adjustments	24
Share of other comprehensive income of associates accounted for using equity method	9
Total other comprehensive income	¥1,015

Total comprehensive income for the year ended March 31, 2010 comprises the following:

	2010
Total comprehensive income attributable to:	
Owners of the parent	¥9,864
Minority interests	—
Total comprehensive income	¥9,864

18. Segment Information

Effective from the year ended March 31, 2011, the Company has adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, issued on March 27, 2009) and "Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, issued on March 21, 2008). The segment information for the year ended March 31, 2010 under this new accounting standard is also disclosed hereunder as required.

(a) Overview of Reportable Segments

The Company's reportable segments are those for which separately financial information is available and regular evaluation by the Board of Directors is being performed in order to decide how resources are allocated among the Company.

The Company has 2 reportable segments, the Pharmaceutical Business and the Consumer Healthcare (Skincare) Business, which are classified based on similarities in the products and services.

The Pharmaceutical Business produces, sells, and purchases ethical drugs and over-the-counter drugs.

The Consumer Healthcare (Skincare) Business produces, sells, and purchases mainly skincare products.

(b) Method of Calculating Net Sales, Income, Assets, Liabilities and Other Items by Reportable Segment

Accounting policies of the reportable segments are consistent to those described in Note 2, Summary of Significant Accounting Policies. Income by the reportable segment is based on operating income. Intersegment transactions are based on prevailing market price.

(c) Information about Net Sales, Income, Assets and Other Items by Reportable Segments

	Reportable segments: Pharmaceutical Business	Reportable segments: Consumer Healthcare Business	Reportable segments: Total	Adjustments	Consolidated
	Millions of yen 2011				
Net sales:					
Outside sales	¥101,271	¥2,797	¥104,069	¥ —	¥104,069
Intersegment sales or transfers	66	0	67	(67)	—
Total	101,338	2,798	104,136	(67)	104,069
Segment income	¥ 16,318	¥ 104	¥ 16,422	¥ 20	¥ 16,443
Segment assets	¥135,903	¥1,020	¥136,924	¥10,309	¥147,234
Other items:					
Depreciation and amortization	¥ 2,328	¥ 34	¥ 2,362	¥ 95	¥ 2,458
Amortization of goodwill	213	—	213	—	213
Investment in associates accounted for using equity method	488	—	488	—	488
Increase in property, plant and equipment, and intangible assets	1,507	47	1,554	129	1,684

	Reportable segments: Pharmaceutical Business	Reportable segments: Consumer Healthcare Business	Reportable segments: Total	Adjustments	Consolidated
	Thousands of U.S. dollars 2011				
Net sales:					
Outside sales	$1,217,931	$33,638	$1,251,581	$ —	$1,251,581
Intersegment sales or transfers	794	12	806	(806)	—
Total	1,218,737	33,650	1,252,387	(806)	1,251,581
Segment income	$ 196,248	$ 1,251	$ 197,498	$ 241	$ 197,751
Segment assets	$1,634,432	$12,267	$1,646,711	$123,981	$1,770,704
Other items:					
Depreciation and amortization	$ 27,998	$ 409	$ 28,406	$ 1,143	$ 29,561
Amortization of goodwill	2,562	—	2,562	—	2,562
Investment in associates accounted for using equity method	5,869	—	5,869	—	5,869
Increase in property, plant and equipment, and intangible assets	18,124	565	18,689	1,551	20,253

	Reportable segments: Pharmaceutical Business	Reportable segments: Consumer Healthcare Business	Reportable segments: Total	Adjustments	Consolidated
	Millions of yen 2010				
Net sales:					
Outside sales	¥ 96,422	¥3,342	¥ 99,764	¥ —	¥ 99,764
Intersegment sales or transfers	68	0	69	(69)	—
Total	96,490	3,342	99,833	(69)	99,764
Segment income (loss)	¥ 13,218	¥ (192)	¥ 13,026	¥ 235	¥ 13,261
Segment assets	¥131,409	¥1,243	¥132,653	¥4,536	¥137,190
Other items:					
Depreciation and amortization	¥ 2,666	¥ 40	¥ 2,707	¥ 102	¥ 2,810
Amortization of goodwill	291	108	400	—	400
Investment in associates accounted for using equity method	461	—	461	—	461
Increase in property, plant and equipment, and intangible assets	1,218	21	1,240	61	1,302

1. "Adjustments" for "Segment income (loss)" of ¥20 million ($241 thousand) and ¥235 million for the years ended March 31, 2011 and 2010, respectively were mainly eliminations of intersegment transactions.
2. "Adjustments" for "Segment assets" of ¥10,309 million ($123,981 thousand) and ¥4,536 million as of March 31, 2011 and 2010, respectively were offset assets of the Company and intersegment receivables and payables.
3. "Adjustments" for "Depreciation and amortization" of ¥95 million ($1,143 thousand) and ¥102 million for the years ended March 31, 2011 and 2010, respectively were depreciation of property, plant and equipment of the Company.
4. "Adjustments" for "Increase in property, plant and equipment and intangible assets" of ¥129 million ($1,551 thousand) and ¥61 million for the years ended March 31, 2011 and 2010, respectively were increase in property, plant and equipment and intangible assets of the Company.
5. "Segment income (loss)" is adjusted to operating income disclosed in the accompanying consolidated statements of income.

(Related information)

(a) Information about Products and Services

Information about products and services has been omitted since the classification by products and services is the same as the reportable segment.

(b) Information about Geographical Areas

(1) Sales

Information about sales by geographical areas has been omitted for the years ended March 31, 2011, since domestic sales is more than 90% of net sales on the consolidated statements of income.

(2) Property, plant and equipment

Information about property, plant and equipment has been omitted for the years ended March 31, 2011, since property, plant and equipment in Japan constituted more than 90% of property, plant and equipment on the consolidated balance sheets.

(c) Information by Major Customers for the Year Ended March 31, 2011

Millions of yen

Name of customer	Sales amount	Related segments
Alfresa Corporation	¥17,869	Pharmaceutical Business
SUZUKEN CO., LTD.	17,291	Pharmaceutical Business
MEDIPAL HOLDINGS CORPORATION	15,452	Pharmaceutical Business
Toho Pharmaceutical Co., Ltd.	13,261	Pharmaceutical Business and Consumer Healthcare Business

Thousands of U.S. dollars

Name of customer	Sales amount	Related segments
Alfresa Corporation	$214,901	Pharmaceutical Business
SUZUKEN CO., LTD.	207,949	Pharmaceutical Business
MEDIPAL HOLDINGS CORPORATION	185,833	Pharmaceutical Business
Toho Pharmaceutical Co., Ltd.	159,483	Pharmaceutical Business and Consumer Healthcare Business

(d) Information about Amortization and Unamortized Balances of Goodwill by Reportable Segment

	Millions of yen			
	Pharmaceutical Business	Consumer Healthcare Business	Eliminations	Total
Balances as of March 31, 2011	**¥339**	—	—	**¥339**

	Thousands of U.S. dollars			
	Pharmaceutical Business	Consumer Healthcare Business	Eliminations	Total
Balances as of March 31, 2011	**$4,077**	—	—	**$4,077**

Information about amortization of goodwill by reportable segment has been omitted since the information is disclosed under "(c) Information about net sales, income, assets, and other items by reportable segments" in this section.

19. Contingent Liabilities

Contingent liabilities as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Guarantors of indebtedness of employees	**¥5**	¥ 8	**$60**
Notes receivable endorsed	—	11	—

20. Amounts per Share

Amount per share for the years ended March 31, 2011 and 2010 were as follows:

	Yen		U.S. dollars
	2011	2010	**2011**
Basic net income	**¥ 146.21**	¥ 118.37	**$ 1.76**
Cash dividends	**45.00**	50.00	**0.54**
Net assets	**1,494.83**	1,403.60	**17.98**

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, 2011 and 2010.

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 share-holders of common stock and the number of shares of common stock outstanding at the year end.

21. Subsequent Events

(a) Appropriation of Retained Earnings

The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2011, were approved at the Board of Directors' meeting held on May 25, 2011:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥35.0 = U.S.$0.42 per share)	¥2,615	$31,449

(b) Decrease in the Amount of Additional Paid-in Capital

The resolution of decrease in the amount of additional paid-in capital was approved at the Board of Directors' meeting held on May 25, 2011 and general shareholders' meeting of the Company held on June 24, 2011.

(1) Purpose of decrease in the amount of additional paid-in capital

In order to secure financial flexibility and mobility, the Company decreases additional paid-in capital and transfers the same amount to other capital surplus.

(2) Details of decrease in the amount of additional paid-in capital

The Company decided the amount to be decreased from additional paid-in capital and its method pursuant to Article 448, Paragraph 1 of the Corporation Law. The Company decreases additional paid-in capital and transfers the same amount to other capital surplus.

1. Component and amount in additional paid-in capital to be decreased
   Additional paid-in capital ¥39,000 million ($469,032 thousand)
2. Component and amount in surplus to be increased
   Other capital surplus ¥39,000 million ($469,032 thousand)

(3) Schedule of decrease in the amount of additional paid-in capital

1. Resolution of Board of Directors' meeting	May 25, 2011
2. Resolution of general shareholders' meeting	June 24, 2011
3. Final due date of creditors' objections	July 28, 2011
4. Effective date	July 29, 2011

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Report of Independent Auditors

The Board of Directors
KYORIN Holdings, Inc.

We have audited the accompanying consolidated balance sheets of KYORIN Holdings, Inc. and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended March 31, 2011, 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 Holdings, Inc. and consolidated subsidiaries at March 31, 2011 and 2010, 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.

Supplemental Information

As discusses in Note 21 to the consolidated financial statements, the resolution of decrease in the amount of additional paid-in capital was approved at the board of directors' meeting held on May 25, 2011 and general shareholders' meeting of the Company held on June 24, 2011.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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 4.

Ernst & Young ShinNihon LLC

June 27, 2011

Non-consolidated Balance Sheets

KYORIN Holdings, Inc. (formerly KYORIN Co., Ltd.)
As of March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Assets			
Current assets	¥ 9,074	¥ 3,289	$ 109,128
Cash and deposits	6,759	2,357	81,287
Prepaid expenses	65	53	782
Income taxes receivable	2,079	—	25,003
Deferred tax assets	142	156	1,708
Other	27	721	325
Noncurrent assets	81,009	80,043	974,251
Property, plant and equipment	221	266	2,658
Intangible assets	167	88	2,008
Investments and other assets	80,620	79,688	969,573
Total assets	90,084	83,333	1,083,391
Liabilities			
Current liabilities	603	470	7,252
Non-current liabilities	16	23	192
Total liabilities	619	494	7,444
Net assets			
Shareholders' equity	89,465	82,838	1,075,947
Total net assets	89,465	82,838	1,075,947
Total liabilities and net assets	90,084	83,333	1,083,391

Non-consolidated Statements of Income

KYORIN Holdings, Inc. (formerly KYORIN Co., Ltd.)
Years Ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Operating revenue	¥12,819	¥6,082	$154,167
Operating expenses	2,457	2,470	29,549
Operating income	10,361	3,612	124,606
Non operating income	40	43	481
Non operating expenses	—	77	—
Ordinary income	10,401	3,577	125,087
Extraordinary income	14	134	168
Extraordinary loss	6	914	72
Income before income taxes	10,409	2,798	125,183
Income taxes—current	3	3	36
Income taxes—deferred	20	51	241
Net income	10,385	2,743	124,895

Note: The rate of ¥83.15 to US$1, prevailing on March 31, 2011, has been used for translation into U.S. dollar amounts.

KYORIN Holdings, Inc.

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