Financial Section

ANNUAL REPORT 2012

Year ended March 31, 2012   KYORIN Holdings, Inc.

Contents

Financial Analysis

- Consolidated net sales decreased 0.8% year on year to ¥103,232 million. Our pharmaceutical business in Japan was up slightly year on year, reflecting orders brought forward out of consideration of possible inventory shortages due to the Great East Japan Earthquake in March 2011. However, the generic drug, ethical drug sales overseas, over-the-counter drugs and others, and consumer healthcare (skincare) businesses were down year on year.
- Operating income amounted to ¥14,464 million, down 12.0% year on year. The main factor behind this decrease was a drop in gross profit of ¥208 million despite an effort to reduce cost of sales. Also selling, general and administrative (SG&A) expenses were higher, primarily because R&D expenses increased by 11.8% year on year.

Business Overview

The Kyorin Group comprises KYORIN Pharmaceutical Co., Ltd., which is mainly involved with the 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, advertising planning and production, and the environmental hygiene business. 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.

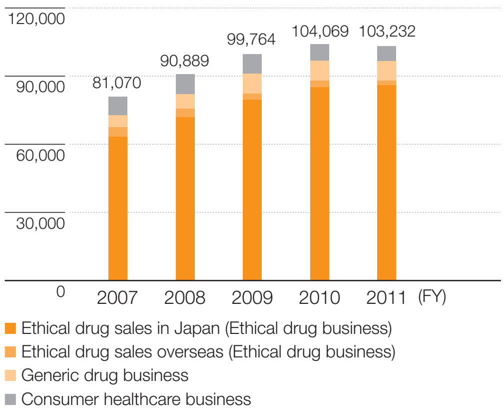
Industry Trends

In fiscal 2011, the Japanese economy got off to a challenging start mainly due to the Great East Japan Earthquake and the associated nuclear power station accident in March 2011, and the subsequent electric power supply instabilities. Although business conditions steadily recovered at the beginning of 2012, the future of the Japanese economy remains uncertain.

Under these circumstances, in the domestic pharmaceutical industry, where the core business of the Kyorin Group operates, the Japanese government continued to implement various policies designed to curtail spending on drugs, and there was intensified competition among medical companies. The consumer healthcare business faces a harsh environment due to the continued slump in consumer spending.

Net sales

(Millions of yen)



Consolidated Operating Results

Net sales

In fiscal 2011, business performance was inflated by an increase in distributors' inventory at the end of fiscal 2011 due to orders that were brought forward during fiscal 2011 out of consideration of possible inventory shortages associated with the Great East Japan Earthquake. In reaction to this, ethical drug sales in Japan increased slightly by 0.8% to ¥85,995 million.

Sales increased of our principal new products including Kipres, a treatment for bronchial asthma and allergic rhinitis; Uritos, a treatment for overactive bladder; and Mucodyne, a mucoregulant. Sales decreased of Pentasa, a treatment for ulcerative colitis and Crohn's disease.

Sales of gatifloxacin ophthalmic solution (out-licensed to Allergan, Inc. (US)), a product for ethical drug sales overseas, decreased by 26.4% to ¥2,015 million.

Sales for generic drugs decreased 2.4% year on year to ¥8,656 million. The increased sales to insurance dispensing pharmacies, thanks to the implementation of measures to promote the use of generic drugs since fiscal 2010, were outweighed by lower sales for products manufactured under outsourcing contracts, and decreased sales at sales companies in the area affected by the Great East Japan Earthquake.

Sales in the consumer healthcare business (skincare and nonprescription drugs, etc.) decreased 8.5% year on year to ¥6,564 million. Sales of our core product, the Milton brand of baby bottle disinfectant, remained at the same level as the previous fiscal year due to bolstering of marketing capabilities within a stagnant economic situation. However, sales fell year on year at Dr. Program, which is engaged in a nanocapsule technology-based cosmetics business.

As a result, overall net sales decreased 0.8% year on year to ¥103,232 million.

Summary of Consolidated Statements of Income

Millions of yen

	FY2010	FY2011	YoY change	YoY change (%)
Net sales	104,069	103,232	(837)	(0.8)
Cost of sales	37,554	36,926	(628)	(1.7)
Gross profit	66,514	66,306	(208)	(0.3)
SG&A expenses	50,071	51,842	1,771	3.5
(Including R&D expenses)	12,495	13,964	1,469	11.8
Operating income	16,443	14,464	(1,979)	(12.0)
Other income	769	879	110	14.3
Other expenses	102	67	(35)	(34.3)
Income before income taxes	17,136	15,262	(1,874)	(10.9)
Net income	10,927	9,231	(1,696)	(15.5)

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

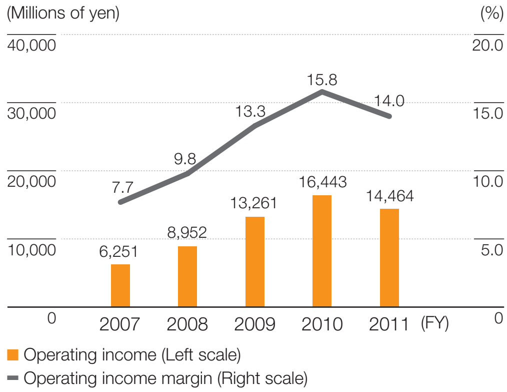
The cost of sales ratio decreased 0.3 of a percentage point year on year to 35.8%, due to lower cost of sales mainly reflecting increased sales of high-margin company products in ethical drugs, a rise in the production rates of plants, and lower manufacturing costs.

SG&A expenses increased 3.5% year on year to ¥51,842 million, mainly attributable to an increase in R&D expenses of ¥1,469 million (up 11.8%) in line with progress in the development pipeline. As a result, operating income decreased 12.0% year on year to ¥14,464 million. The operating income margin dropped 1.8 percentage points to 14.0%.

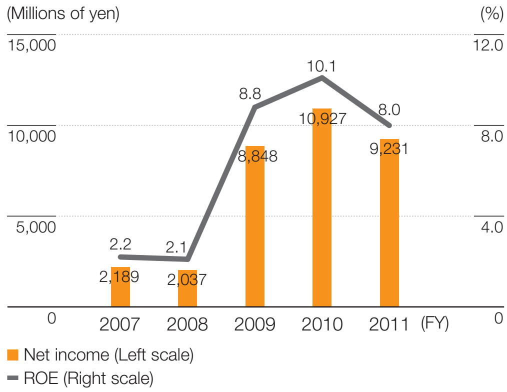
Net income and net income per share

Net income decreased 15.5% year on year to ¥9,231 million mainly due to the recording of higher deferred income taxes resulting from the reversal of deferred tax assets in line with the corporate income tax rate reduction announced in December 2011. Net income per share decreased ¥15.5% from the previous fiscal year to ¥123.54.

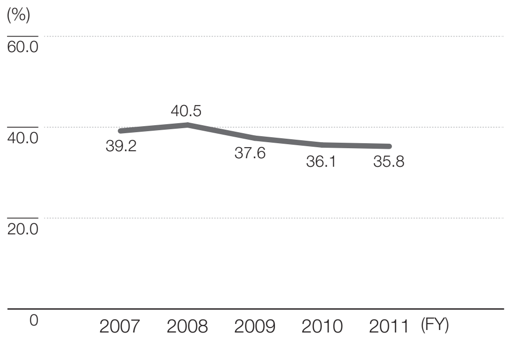
Operating income and operating income margin

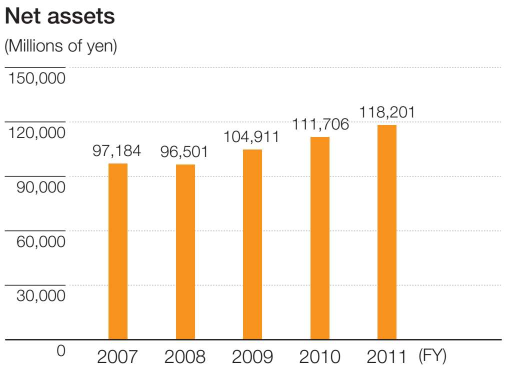


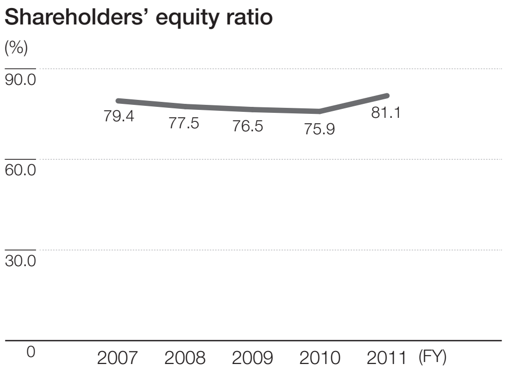
Net income and ROE



Cost of sales ratio







Assets, Liabilities and Net Assets

At March 31, 2012, current assets had declined ¥4,577 million mainly due to decreases in cash and cash in banks and deferred tax assets. These decreases were partly offset by increases in notes and accounts receivable. Fixed assets rose ¥3,016 million mainly due to an increase in investment securities despite declines in property, plant and equipment, net, and deferred tax assets. As a result, total assets decreased ¥1,561 million from a year earlier to ¥145,673 million.

Liabilities at year-end were down ¥8,056 million to ¥27,471 million from the previous year-end. This was mainly due to decreases in notes and accounts payable, short-term bank loans, accrued income taxes, and accrued retirement benefits for employees.

Net assets at year-end amounted to ¥118,201 million, up ¥6,495 million from a year ago. This was mainly attributable to increases in retained earnings and in unrealized holding gain on securities.

As a result, the shareholders' equity ratio at year-end was 81.1%, up 5.2 percentage points from the previous fiscal year-end.

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. In fiscal 2011, ROE was 8.0%, a figure the Group will seek to raise going forward.

Summary of Consolidated Balance Sheets

Millions of yen

	FY2010	FY2011	YoY change	YoY change (%)
Current assets	104,427	99,850	(4,577)	(4.4)
Fixed assets	42,806	45,822	3,016	7.0
Total assets	147,234	145,673	(1,561)	(1.1)
Current liabilities	30,421	23,385	(7,036)	(23.1)
Long-term liabilities	5,105	4,086	(1,019)	(20.0)
Total liabilities	35,527	27,471	(8,056)	(22.7)
Shareholders' equity	112,076	117,931	5,855	5.2
Total accumulated other comprehensive income	(370)	269	639	—
Net assets	111,706	118,201	6,495	5.8
Total liabilities and net assets	147,234	145,673	(1,561)	(1.1)

Cash Flows

Net cash provided by operating activities totaled ¥8,913 million. The main components were income before income taxes of ¥15,262 million, depreciation and amortization of ¥2,363 million, an increase in notes and accounts receivable of ¥2,474 million, a decrease in notes and accounts payable of ¥1,809 million, and income taxes paid of ¥6,505 million.

Net cash used in investing activities was ¥4,926 million. Cash was mainly used for payments for purchase of property, plant and equipment of ¥1,686 million, and payments for purchase of investment securities of ¥7,427 million. On the other hand, cash was provided by proceeds from sales and redemption of investment securities of ¥5,121 million.

Net cash used in financing activities was ¥7,412 million. This was largely attributable to a net decrease in short-term loans of ¥3,840 million and payment of cash dividends of ¥3,357 million.

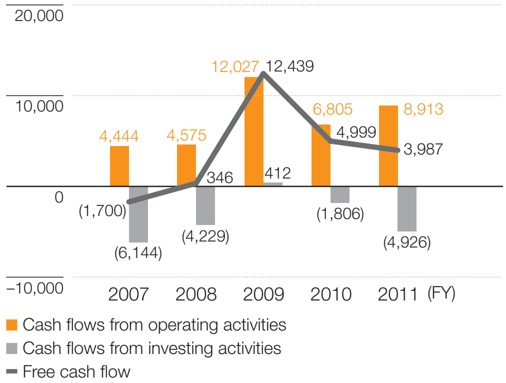
As a result, cash and cash equivalents at the end of the fiscal year were down ¥3,455 million year on year to ¥23,210 million.

Cash flows for the next fiscal year, the fiscal year ending March 31, 2013, are projected as follows.

Investing activities are projected to use ¥3,000 million cash mainly for acquiring property, plant and equipment, including enhancing plant facilities. Financing activities are projected to use approximately ¥3,400 million for the payment of dividends, comprising ¥35.00 per share for the year-end dividend, and ¥10.00 per share for the interim dividend.

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

(Millions of yen)



Summary of Consolidated Statements of Cash Flows

Millions of yen

	FY2010	FY2011	YoY change	YoY change (%)
Cash provided by operating activities	6,805	8,913	2,108	31.0
Cash used in investing activities	(1,806)	(4,926)	(3,120)	172.8
Cash provided by (used in) financing activities	201	(7,412)	(7,613)	—
Cash and cash equivalents at end of year	26,665	23,210	(3,455)	(13.0)

Outlook for Fiscal 2012

The outlook for the domestic pharmaceutical industry is expected to remain challenging mainly due to the fact that NHI drug prices were revised down in April 2012 by 6.0% on average for the industry as a whole and by roughly 6% for KYORIN Pharmaceutical, and to the negative impact of the ongoing implementation of government policies to curb medical expenditures. In the consumer healthcare business, the outlook for market conditions remains shrouded in uncertainty.

Under these conditions, the Kyorin Group will make every effort to achieve the targets prescribed by our medium-term business plan, HOPE 100 Stage 1 (for fiscal 2010–2015). Fiscal 2012 is the third year of this plan, and we will actively promote the plan's business strategies, including the acceleration of the Pharma Complex Model and the development of new consumer healthcare operations. Our ultimate goal here is to achieve sustainable growth and earn trust and improved assessments from all our stakeholders.

On the sales front, we are projecting record high sales mainly due to growth of the bronchial asthma and allergic rhinitis treatment Kipres, and the overactive bladder (OAB) treatment Uritos, both primary products in the new drugs business, and to the sales expansion of generic drugs.

On the earnings front, the cost of sales ratio is projected to be at the same level as the previous fiscal year, mainly due to efforts to reduce the ratio despite the impact of drug price reductions. On the other hand, SG&A expenses are projected to fall dramatically as a result of the lowering of R&D expenses due to reviews of development pipelines. As a result, the Kyorin Group expects operating income to achieve a record high.

Forecasts for Fiscal 2012

Millions of yen

	FY2011	FY2012	YoY change (%)
Net sales	103,232	104,700	1.4
Operating income	14,464	17,900	23.8
Net income	9,231	11,800	27.8

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) 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. Operations at the Noshiro Plant (Noshiro, Akita Prefecture, Japan) of Kyorin Group company KYORIN Pharmaceutical Co., Ltd. were not affected by the Great East Japan Earthquake that struck on March 11, 2011. No plant personnel were injured, and the plant itself sustained no physical damage from the disaster.

(6) 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.

(7) 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.

(8) 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.

(9) Exchange Rate Fluctuations

As the Group imports and exports pharmaceutical products, its sales are vulnerable to exchange rate fluctuations.

(10) 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.

(11) 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, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 3)
Assets	**2012**	2011	**2012**
Current assets:			
Cash and cash in banks (Notes 4, 11 and 13)	**¥ 21,615**	¥ 25,518	**$ 263,148**
Notes and accounts receivable (Note 11)	**45,067**	42,594	**548,661**
Short-term investments (Notes 4,5 and 11)	**7,372**	6,976	**89,749**
Inventories:			
Merchandise and finished goods	**11,016**	10,471	**134,112**
Work in process	**632**	1,024	**7,694**
Raw materials and supplies	**9,089**	8,868	**110,653**
Deferred tax assets (Note 14)	**2,340**	2,618	**28,488**
Other	**2,774**	6,420	**33,772**
Less allowance for doubtful accounts	**(58)**	(65)	**(706)**
Total current assets	**99,850**	104,427	**1,215,607**
Property, plant and equipment:			
Land	**1,619**	1,624	**19,710**
Buildings and structures (Note 13)	**28,222**	27,971	**343,584**
Machinery and vehicle	**15,827**	14,937	**192,683**
Lease assets (Note 10)	**149**	203	**1,814**
Construction in progress	**39**	110	**475**
Other (Note 13)	**6,690**	6,495	**81,446**
Less accumulated depreciation and impairment loss	**(38,003)**	(36,423)	**(462,661)**
Property, plant and equipment, net	**14,544**	14,916	**177,064**
Investments and other assets:			
Investment securities (Notes 5 and 11)	**26,040**	21,660	**317,020**
Long-term loans	**24**	23	**292**
Goodwill	**192**	339	**2,337**
Trademark	**11**	14	**134**
Deferred tax assets (Note 14)	**3,144**	4,111	**38,276**
Other	**2,284**	2,162	**27,806**
Less allowance for doubtful accounts	**(421)**	(422)	**(5,125)**
Total investments and other assets	**31,277**	27,889	**380,777**
Total assets	**¥145,673**	¥147,234	**$1,773,472**

Liabilities and net assets	Millions of yen 2012	2011	Thousands of U.S. dollars (Note 3) 2012
Current liabilities:			
Notes and accounts payable (Note 11)	¥ 9,043	¥ 10,852	$ 110,093
Short-term bank loans (Notes 6, 11 and 13)	3,159	6,996	38,459
Lease obligations (Note 6)	39	42	475
Accrued income taxes (Note 14)	2,111	3,437	25,700
Accrued bonuses to employees	3,110	3,222	37,862
Reserve for sales returns	52	52	633
Provision for point card certificates	65	59	791
Other	5,802	5,758	70,636
Total current liabilities	23,385	30,421	284,697
Long-term liabilities:			
Long-term debt (Notes 6 and 11)	316	449	3,847
Lease obligations (Note 6)	45	11	548
Accrued retirement benefits for employees (Note 12)	2,949	3,765	35,902
Accrued retirement benefits for directors and corporate auditors	32	23	390
Other	743	855	9,046
Total long-term liabilities	4,086	5,105	49,744
Contingent liabilities (Note 17)			
Net assets:			
Shareholders' equity (Note 7):			
Common stock, no par value:			
Authorized—297,000,000 shares in 2012 and 2011			
Issued—74,947,628 shares in 2012 and 2011	700	700	8,522
Capital surplus	4,752	4,752	57,852
Retained earnings	112,797	106,928	1,373,229
Treasury stock, at cost:			
228,377 shares in 2012			
219,032 shares in 2011	(318)	(304)	(3,871)
Total shareholders' equity	117,931	112,076	1,435,732
Accumulated other comprehensive income:			
Unrealized holding gain (loss) on other securities	537	(137)	6,538
Translation adjustments	(267)	(232)	(3,251)
Total accumulated other comprehensive income	269	(370)	3,275
Total net assets	118,201	111,706	1,439,019
Total liabilities and net assets	¥145,673	¥147,234	$1,773,472

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Net sales	¥103,232	¥104,069	$1,256,781
Cost of sales	36,926	37,554	449,550
Gross profit	66,306	66,514	807,232
Selling, general and administrative expenses (Note 8)	51,842	50,071	631,142
Operating income	14,464	16,443	176,090
Other income (expenses):			
Interest and dividend income	340	358	4,139
Rent income	269	273	3,275
Interest expense	(48)	(51)	(584)
Equity in earnings of affiliates	26	39	317
Loss on investments in partnership	(17)	(47)	(207)
Loss (gain) on sales and disposal of property, plant and equipment, net (Note 9)	(5)	67	(61)
Gain on sales of investment securities, net (Note 5)	1	22	12
Loss on devaluation of investment securities	(7)	(62)	(85)
Other, net	242	93	2,946
Other income, net	800	693	9,739
Income before income taxes and minority interests	15,262	17,136	185,805
Income taxes (Note 14)			
Current	5,179	5,944	63,051
Deferred	851	265	10,360
Total income taxes	6,031	6,209	73,423
Income before minority interests	9,231	10,927	112,381
Net income	¥ 9,231	¥ 10,927	$ 112,381

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Income before minority interests	¥9,231	¥10,927	$112,381
Other comprehensive income (Note 15):			
Unrealized holding gain (loss) on other securities	672	(271)	8,181
Translation adjustments	(34)	(97)	(414)
Share of other comprehensive income of associates accounted for using equity method	2	(4)	24
Total other comprehensive income	640	(373)	7,792
Comprehensive income	¥9,871	¥10,554	$120,173
Total comprehensive income attributable to:			
Owners of the parent	¥9,871	¥10,554	$120,173
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, 2012 and 2011

Millions of yen

	Number of shares issued (Common stock)	Shareholders' equity: Common stock	Shareholders' equity: Capital surplus	Shareholders' equity: Retained earnings	Shareholders' equity: Treasury stock, at cost	Shareholders' equity: Total shareholders' equity	Accumulated other comprehensive income: Unrealized holding gain (loss) on other securities	Accumulated other comprehensive income: Translation adjustments	Accumulated other comprehensive income: Total accumulated other comprehensive income	Total net assets
Balance as of April 1, 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 April 1, 2011	74,947,628	700	4,752	106,928	(304)	112,076	(137)	(232)	(370)	111,706
Cash dividends	—	—	—	(3,362)	—	(3,362)	—	—	—	(3,362)
Net income	—	—	—	9,231	—	9,231	—	—	—	9,231
Purchase of treasury stock	—	—	—	—	(13)	(13)	—	—	—	(13)
Other changes	—	—	—	—	—	—	674	(34)	640	640
Net changes during the year	—	—	—	5,868	(13)	5,854	674	(34)	640	6,494
Balance as of March 31, 2012	74,947,628	¥700	¥4,752	¥112,797	¥(318)	¥117,931	¥ 537	¥(267)	¥ 269	¥118,201

Thousands of U.S. Dollars (Note 3)

	Shareholders' equity: Common stock	Shareholders' equity: Capital surplus	Shareholders' equity: Retained earnings	Shareholders' equity: Treasury stock, at cost	Shareholders' equity: Total shareholders' equity	Accumulated other comprehensive income: Unrealized holding gain (loss) on other securities	Accumulated other comprehensive income: Translation adjustments	Accumulated other comprehensive income: Total accumulated other comprehensive income	Total net assets
Balance as of April 1, 2011	$8,522	$57,852	$1,301,777	$(3,701)	$1,364,451	$(1,668)	$(2,824)	$(4,505)	$1,359,946
Cash dividends	—	—	(40,930)	—	(40,930)	—	—	—	(40,930)
Net income	—	—	112,381	—	112,381	—	—	—	112,381
Purchase of treasury stock	—	—	—	(158)	(158)	—	—	—	(158)
Other changes	—	—	—	—	—	8,206	(414)	7,792	7,792
Net changes during the year	—	—	71,439	(158)	71,269	8,206	(414)	7,792	79,060
Balance as of March 31, 2012	$8,522	$57,852	$1,373,229	$(3,871)	$1,435,732	$6,538	$(3,251)	$ 3,275	$1,439,019

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Operating activities			
Income before income taxes and minority interests	¥15,262	¥17,136	$185,805
Depreciation and amortization	2,363	2,458	28,768
Amortization of goodwill	147	213	1,790
Decrease in allowance for doubtful accounts	(7)	(14)	(85)
(Decrease) increase in accrued bonuses to employees	(110)	187	(1,339)
Decrease in accrued retirement benefits for employees	(816)	(629)	(9,934)
Increase (decrease) in accrued retirement benefits for directors and corporate auditors	8	(30)	97
Equity in earnings of affiliates	(26)	(39)	(317)
Interest and dividend income	(340)	(359)	(4,139)
Interest expense	48	51	584
Loss (gain) on sales and disposal of property, plant and equipment, net	5	(67)	61
Gain on sales of investment securities, net	(1)	(22)	(12)
Loss on devaluation of investment securities	7	62	85
Increase in notes and accounts receivable	(2,474)	(5,736)	(30,119)
(Increase) decrease in inventories	(374)	1,509	(4,553)
(Decrease) increase in notes and accounts payable	(1,809)	993	(22,023)
(Decrease) increase in consumption taxes payable	(238)	249	(2,897)
Other	3,451	(2,461)	42,014
Subtotal	15,098	13,501	183,808
Interest and dividend received	369	363	4,492
Interest paid	(48)	(51)	(584)
Income taxes paid	(6,505)	(7,007)	(79,194)
Net cash provided by operating activities	8,913	6,805	108,510
Investing activities			
Payments for time deposits	(822)	(874)	(10,007)
Proceeds from withdrawal of time deposits	1,057	622	12,868
Purchase of short-term investments	(799)	—	(9,727)
Purchase of property, plant and equipment	(1,686)	(1,274)	(20,526)
Proceeds from sales of property, plant and equipment	25	251	304
Purchase of intangible assets	(357)	(226)	(4,346)
Purchase of investment securities	(7,427)	(4,960)	(90,419)
Proceeds from sales and redemption of investment securities	5,121	4,749	62,345
Other	(36)	(94)	(438)
Net cash used in investing activities	(4,926)	(1,806)	(59,971)
Financing activities			
(Decrease) increase in short-term bank loans, net	(3,840)	4,209	(46,749)
Repayments of lease obligations	(43)	(60)	(523)
Proceeds from long-term debt	200	200	2,435
Repayments of long-term debt	(328)	(332)	(3,993)
Redemption of bonds	(30)	(60)	(365)
Net increase in treasury stock	(12)	(21)	(146)
Cash dividends	(3,357)	(3,732)	(40,869)
Net cash (used in) provided by financing activities	(7,412)	201	(90,236)
Effects of exchange rate changes on cash and cash equivalents	(29)	(93)	(353)
(Decrease) increase in cash and cash equivalents	(3,454)	5,108	(42,050)
Cash and cash equivalents at beginning of year	26,665	21,556	324,629
Cash and cash equivalents at end of year (Note 4)	¥23,210	¥26,665	$282,566

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

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 statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

Certain reclassifications have been made in the 2011 consolidated financial statements to conform to the 2012 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. Their financial statements are used for preparing the consolidated financial statements, and necessary adjustments are made to the consolidated financial statements for any significant transactions between their balance sheet date (December 31) and the consolidated balance sheet date (March 31).

(b) Foreign Currency Translation

The revenue and expense accounts of the foreign consolidated subsidiaries are translated into yen at the average rates of exchange in effect during the year. The balance sheet accounts, except for the components of shareholders' equity, are translated into yen at the exchange rates in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. 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 an affiliate 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 (samples) are mainly 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 (excluding accompanying facilities) acquired on or after April 1, 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 and vehicle	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 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 lease 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 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 20 years or less on a straight-line basis except that when the amount 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 the balance sheet date, 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 amortized from the year following the 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 amortized as incurred by the straight-line method over the average remaining years of services of the employees (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. Accrued retirement benefits for these directors and corporate auditors have been estimated in an amount required under the assumption that all directors and corporate auditors retired at the balance sheet date based on their policy.

(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 7).

(m) Accounting Changes and Error Corrections

The "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan ("ASBJ") Statement No. 24, issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) have been applied to the accounting changes and corrections of prior period errors which are made after the beginning of the fiscal year ended March 31, 2012.

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 ¥82.14 = U.S.$1.00, the approximate rate of exchange on March 30, 2012. 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, 2012 and 2011 for the consolidated statements of cash flows consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Cash and cash in banks	**¥21,615**	¥25,518	**$263,148**
Short-term investments	**2,662**	2,462	**32,408**
Time deposits with a maturity over three months	**(1,067)**	(1,315)	**(12,990)**
Cash and cash equivalents	**¥23,210**	¥26,665	**$282,566**

5. Short-Term Investments and Investment Securities

Information regarding marketable securities classified as other securities as of March 31, 2012 and 2011 are as follows:

Marketable other securities

	Millions of yen			Thousands of U.S. dollars		
	2012			2012		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 4,623	¥ 6,027	¥1,404	$ 56,282	$ 73,375	$17,093
Debt securities:						
Government bonds	11,799	11,895	96	143,645	144,814	1,169
Corporate bonds	4,733	4,794	60	57,621	58,364	730
Other bonds	—	—	—	—	—	—
Other	18	19	0	219	231	0
Subtotal	21,175	22,736	1,561	257,792	276,796	19,004
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	2,062	1,692	(369)	25,103	20,599	(4,492)
Debt securities:						
Government bonds	5,799	5,768	(30)	70,599	70,222	(365)
Corporate bonds	1,300	1,254	(45)	15,827	15,267	(548)
Other bonds	1,200	914	(285)	14,609	11,127	(3,470)
Other	30	28	(2)	365	341	(24)
Subtotal	10,392	9,659	(733)	126,516	117,592	(8,924)
Total	¥31,567	¥32,395	¥ 828	$384,307	$394,388	$10,080

	Millions of yen		
	2011		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 1,560	¥ 2,128	¥ 568
Debt securities:			
Government bonds	4,398	4,428	29
Corporate bonds	9,323	9,417	93
Other bonds	200	200	0
Other	—	—	—
Subtotal	15,482	16,174	692
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	3,568	2,943	(625)
Debt securities:			
Government bonds	6,600	6,534	(66)
Corporate bonds	1,000	946	(53)
Other bonds	1,200	1,007	(192)
Other	53	53	—
Subtotal	12,423	11,486	(937)
Total	¥27,905	¥27,660	¥(245)

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 were ¥511 million ($6,221 thousand) and ¥488 million as of March 31, 2012 and 2011, respectively.

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Proceeds from sales	**¥301**	¥828	**$3,664**
Gains on sales	**1**	24	**12**
Losses on sales	**0**	2	**0**

6. 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, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Short-term bank loans	**¥2,855**	¥6,695	**$34,758**
Current portion of long-term debt	**304**	301	**3,701**
Current portion of lease obligations	**39**	42	**475**
Total	**¥3,198**	¥7,038	**$38,934**

The average interest rates applicable to short-term bank loans outstanding as of March 31, 2012 and 2011 are 0.9% and 0.6%, respectively.

Long-term debt as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Long-term debt, due through 2015 and 2014 at average interest rate of 1.6% and 1.9% in 2012 and 2011, respectively	**¥ 620**	¥ 750	**$ 7,548**
Lease obligations due through 2015	**84**	54	**1,023**
1.4% unsecured bonds, payable in yen, due 2011	**—**	30	**—**
Current portion of long-term debt and lease obligations, and bonds due within one year	**(343)**	(374)	**(4,176)**
Total	**¥ 361**	¥ 460	**$ 4,395**

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
2013	¥343	$4,176
2014	310	3,774
2015	50	609
2016	—	—
2017 and thereafter	—	—
Total	¥704	$8,571

7. Shareholders' Equity

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

(a) Dividends

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

8. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2012 and 2011 were ¥13,964 million ($170,002 thousand) and ¥12,495 million, respectively.

9. 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, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Gain:			
Buildings and structures	¥ —	¥ 16	$ —
Machinery and vehicle	0	—	0
Land	21	100	256
Other	—	0	—
	¥ 21	¥116	$ 256
Loss:			
Buildings and structures	¥ (9)	¥ (15)	$(110)
Machinery and vehicle	(1)	(12)	(12)
Other	(16)	(20)	(195)
	(27)	(49)	(329)
Total	¥ (6)	¥ 67	$ (73)

10. Leases

Leased assets principally consist of medical devices and system devices (machinery and vehicle) for the Pharmaceutical Business.

Pro forma information of the leased property whose term commences on or before March 31, 2008 and which does not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2012 and 2011 was as follows:

	Millions of yen			
	March 31, 2012			
	Acquisition costs	Accumulated depreciation	Accumulated impairment loss	Net book value
Machinery and vehicle	¥1,065	¥ 985	¥232	¥80
Other	74	69	—	4
Total	¥1,140	¥1,055	¥232	¥85

	Thousands of U.S. dollars			
Machinery and vehicle	$12,966	$11,992	$2,824	$ 974
Other	901	840	—	49
Total	$13,879	$12,844	$2,824	$1,035

	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

For the years ended March 31, 2012 and 2011, lease payments relating to finance leases accounted for in a similar manner as operating lease transactions amounted to ¥213 million ($2,593 thousand) and ¥262 million, respectively, which were 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 ($1,351 thousand) and ¥111 million, respectively, and related impairment losses amounted to none.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2012 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
2013	¥154	¥505	$1,875	$ 6,148
2014 and thereafter	163	413	1,984	5,028
Total	¥317	¥918	$3,859	$11,176
Accumulated impairment loss	¥232	¥ —	$2,824	$ —

11. Financial Instruments

(a) Investment policy of financial instruments

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

(b) Details of financial instruments, associated risks and risk management

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

The Company and its consolidated subsidiaries, in accordance with internal rules, keep track of the adverse financial conditions of the customers in the early stage to mitigate the bad debt by monitoring the major customers' credit conditions periodically and managing the due date and balance per each customer. The Company and its consolidated subsidiaries mitigate foreign currency risk by utilizing foreign currency deposits for operating receivables denominated in foreign currencies and settling payables denominated in the same currencies through the deposits.

Short-term investments and investment securities mainly consist of highly rated bond securities and equity securities of companies with business relationship and are exposed to market risk and credit risk. The Company and its consolidated subsidiaries regularly review the fair value and issuers' financial condition to mitigate the risks.

Operating payables such as notes and accounts payable are mainly due within six months. Certain operating payables are denominated in foreign currencies.

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

Operating payables, loans and debts, and bonds payable are exposed to liquidity risk. The Company and its consolidated subsidiaries manage the risk by preparing and updating the cash management plan periodically.

(c) 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 includes variable factors, those values may vary in case different assumptions are applied.

Carrying values, fair values, and their differences of financial instruments as of March 31, 2012 and 2011 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	2012			2012		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Cash and cash in banks	**¥21,615**	**¥21,615**	**¥—**	**$ 263,148**	**$ 263,148**	**$—**
Notes and accounts receivable	**45,067**	**45,067**	**—**	**548,661**	**548,661**	**—**
Short-term investments and investment securities	**32,395**	**32,395**	**—**	**394,388**	**394,388**	**—**
Total assets	**¥99,079**	**¥99,079**	**¥—**	**$1,206,221**	**$1,206,221**	**$—**
Notes and accounts payable	**¥ 9,043**	**¥ 9,043**	**¥—**	**$ 110,093**	**$ 110,093**	**$—**
Total liabilities	**¥ 9,043**	**¥ 9,043**	**¥—**	**$ 110,093**	**$ 110,093**	**$—**

	Millions of yen		
	2011		
	Carrying value	Fair value	Difference
Cash and cash in banks	¥25,518	¥25,518	¥—
Notes and accounts receivable	42,594	42,594	—
Short-term investments and investment securities	27,660	27,660	—
Total assets	¥95,772	¥95,772	¥—
Notes and accounts payable	¥10,852	¥10,852	¥—
Total liabilities	¥10,852	¥10,852	¥—

Unlisted securities and others of ¥1,017 million ($12,381 thousand) and ¥976 million whose fair values are extremely difficult to determine as of March 31, 2012 and 2011, respectively, were not included in the above schedules.

Valuation method of fair value of financial instruments and information about securities are as follows:

Cash and cash in banks and 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.

Short-term investments and Investment securities

Fair value of equity securities 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 counterparty financial institutions. Please see Note 5, Short-Term Investments and Investment Securities, for securities by classification.

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 securities with maturities subsequent to March 31, 2012 is as follows:

	Millions of yen			
	2012			
	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	¥21,615	¥ —	¥ —	¥ —
Notes and accounts receivable	45,067	—	—	—
Short-term investments and investment securities:				
Other securities with maturities:				
Government bonds	¥ 4,600	¥ 9,000	¥4,000	¥ —
Bonds	2,700	1,900	1,000	500
Other	—	—	1,000	200
Total	¥73,983	¥10,900	¥6,000	¥700

	Thousands of U.S. dollars			
	2012			
	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	$263,148	$ —	$ —	$ —
Notes and accounts receivable	548,661	—	—	—
Short-term investments and investment securities:				
Other securities with maturities:				
Government bonds	$ 56,002	$109,569	$48,697	$ —
Bonds	32,871	23,131	12,174	6,087
Other	—	—	12,174	2,435
Total	$900,694	$132,700	$73,046	$8,522

12. 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 adopt lump-sum retirement plans and Government Welfare Pension Fund Plan.

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, 2012 and 2011 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Projected benefit obligation	**¥(27,875)**	¥(27,835)	**$(339,360)**
Plan assets at fair value	**22,141**	20,803	**269,552**
Unfunded retirement benefit obligation	**(5,733)**	(7,031)	**(69,795)**
Unrecognized transitional assets and liabilities	**—**	—	**—**
Unrecognized actuarial gain or loss	**2,862**	3,372	**34,843**
Unrecognized prior service cost	**(77)**	(106)	**(937)**
Net retirement benefit obligation	**(2,949)**	(3,765)	**(35,902)**
Prepaid pension cost	**—**	—	**—**
Accrued retirement benefits for employees	**¥ (2,949)**	¥ (3,765)	**$ (35,902)**

The components of retirement benefit expenses for the years ended March 31, 2012 and 2011 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Service cost	**¥ 922**	¥ 924	**$11,225**
Interest cost	**546**	545	**6,647**
Expected return on plan assets	**(619)**	(587)	**(7,536)**
Amortization of transitional assets and liabilities	**—**	8	**—**
Amortization of actuarial gain or loss	**509**	645	**6,197**
Amortization of prior service cost	**(28)**	(28)	**(341)**
Premium of defined contribution pension plan and annuity in advance retirement severance plan, etc.	**289**	288	**3,518**
Total	**¥1,619**	¥1,797	**$19,710**

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

	2012	2011
Discount rates	**2.0%**	2.0%
Expected rate of return on plan assets	**3.0%**	3.0%

13. Pledged Assets

Assets pledged as collateral for guaranty deposits and plant mortgage as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
Assets pledged as collateral:	2012	2011	2012
For guaranty deposits			
Cash and cash in banks	**¥ 10**	¥ 10	**$ 122**
Total	**¥ 10**	¥ 10	**$ 122**
For plant mortgage			
Buildings and structures	**¥1,668**	¥1,738	**$20,307**
Other	**692**	493	**8,425**
Total	**¥2,360**	¥2,231	**$28,731**
Related loans and debt for plant mortgage pledged as collateral			
Short-term bank loans	**¥ —**	¥ 65	**$ —**
Total	**¥ —**	¥ 65	**$ —**

14. Income Taxes

Significant components of deferred tax assets and liabilities as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Accrued retirement benefits for employees	**¥1,091**	¥ 1,551	**$ 13,282**
Accrued bonuses to employees	**1,162**	1,308	**14,147**
Allowance for doubtful accounts	**158**	185	**1,924**
Accrued enterprise tax	**189**	279	**2,301**
Loss on disposal of inventories	**205**	253	**2,496**
Loss on devaluation of investment securities	**250**	298	**3,044**
Loss on disposal of property, plant and equipment	**918**	1,072	**11,176**
Amortization of deferred assets	**944**	547	**11,493**
Asset adjustment account	**222**	483	**2,703**
Tax loss carryforward	**342**	665	**4,164**
Other	**1,255**	1,394	**15,279**
Subtotal	**6,741**	8,042	**82,067**
Valuation allowance	**(909)**	(1,230)	**(11,066)**
Total deferred tax assets	**5,832**	6,811	**71,001**
Deferred tax liabilities:			
Reserve for reduction entry of property, plant and equipment	**(48)**	(69)	**(584)**
Unrealized holding gain on other securities	**(290)**	—	**(3,531)**
Other	**(8)**	(11)	**(97)**
Total deferred tax liabilities	**(347)**	(81)	**(4,224)**
Net deferred tax assets	**¥5,484**	¥ 6,730	**$ 66,764**

Taxes on income consist of corporate, inhabitants and enterprise taxes. Information on reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2012 is not disclosed as their difference was less than 5% of the statutory tax rate for the year ended March 31, 2012. Reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2011 was as follows:

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

Following the promulgation on December 2, 2011 of the "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011), the corporate income tax rate will be reduced and the special reconstruction corporation tax, a surtax for reconstruction funding after the Great East Japan Earthquake, will be imposed for the fiscal years beginning on or after April 1, 2012. In line with these changes, the statutory tax rate to calculate deferred tax assets and liabilities was changed from 41.3% to 38.0% for temporary differences which are expected to reverse during the periods from the fiscal year beginning on April 1, 2012 to the fiscal year beginning on April 1, 2014, and to 35.6% for temporary differences which are expected to reverse from the fiscal years beginning on or after April 1, 2015, respectively.

As a result of this change, the net amount of deferred tax assets decreased by ¥578 million ($7,037 thousand), income taxes - deferred and unrealized holding gain on other securities increased by ¥624 million ($7,597 thousand) and ¥45 million ($548 thousand), respectively.

15. Comprehensive Income

Reclassification adjustments and income tax effects on other comprehensive income for the year ended March 31, 2012 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Unrealized holding gain on other securities:		
Gain arising during the year	¥1,066	$12,978
Reclassification adjustments	0	0
Before income tax effects	1,066	12,978
Income tax effects	(393)	(4,785)
Unrealized holding gain on other securities	672	8,181
Translation adjustments:		
Adjustments arising during the year	(34)	(414)
Share of other comprehensive income of associates accounted for using equity method:		
Gain arising during the year	2	24
Total other comprehensive income	¥ 640	$ 7,792

16. Segment Information

(a) Overview of Reportable Segments

The Company's reportable segments are those for which separate financial information is available and regular examination by the board of directors is performed in order to decide how resources are allocated among the Company and evaluate their performance.

The Company has two 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 mainly produces, sells, and purchases ethical drugs, generic drugs and over-the-counter drugs. The Consumer Healthcare (Skincare) Business mainly sells and purchases skincare products.

(b) Method of Calculating Net Sales, Profit, 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.

Inter-segment transactions are based on prevailing market price.

(c) Information about Net Sales, Profit, Assets and Other Items by Reportable Segment

Millions of yen

	2012				
	Reportable segments				
	Pharmaceutical Business	Consumer Healthcare (Skincare) Business	Total	Adjustments	Consolidated
Net sales:					
Sales to third parties	¥100,654	¥2,577	¥103,232	¥ —	¥103,232
Inter-segment sales or transfers	65	1	66	(66)	—
Total	¥100,720	¥2,578	¥103,299	¥ (66)	¥103,232
Segment profit	¥ 14,218	¥ 52	¥ 14,270	¥ 193	¥ 14,464
Segment assets	¥134,354	¥ 968	¥135,322	¥10,350	¥145,673
Other items:					
Depreciation and amortization	¥ 2,214	¥ 34	¥ 2,248	¥ 115	¥ 2,363
Amortization of goodwill	147	—	147	—	147
Investment in associates accounted for using equity method	505	—	505	—	505
Increase in property, plant and equipment, and intangible assets	1,868	15	1,884	163	2,048

	Thousands of U.S. dollars				
	2012				
	Reportable segments				
	Pharmaceutical Business	Consumer Healthcare (Skincare) Business	Total	Adjustments	Consolidated
Net sales:					
Sales to third parties	$1,225,396	$31,373	$1,256,781	$ —	$1,256,781
Inter-segment sales or transfers	791	12	804	(804)	—
Total	$1,226,199	$31,385	$1,257,597	$ (804)	$1,256,781
Segment profit	$ 173,095	$ 633	$ 173,728	$ 2,350	$ 176,090
Segment assets	$1,635,671	$11,785	$1,647,456	$126,004	$1,773,472
Other items:					
Depreciation and amortization	$ 26,954	$ 414	$ 27,368	$ 1,400	$ 28,768
Amortization of goodwill	1,790	—	1,790	—	1,790
Investment in associates accounted for using equity method	6,148	—	6,148	—	6,148
Increase in property, plant and equipment, and intangible assets	22,742	183	22,936	1,984	24,933

	Millions of yen				
	2011				
	Reportable segments				
	Pharmaceutical Business	Consumer Healthcare (Skincare) Business	Total	Adjustments	Consolidated
Net sales:					
Sales to third parties	¥101,271	¥2,797	¥104,069	¥ —	¥104,069
Inter-segment sales or transfers	66	0	67	(67)	—
Total	¥101,338	¥2,798	¥104,136	¥ (67)	¥104,069
Segment profit	¥ 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

1. “Adjustments” for “Segment profit” of ¥193 million ($2,350 thousand) and ¥20 million for the years ended March 31, 2012 and 2011, respectively, were mainly eliminations of inter-segment transactions.
2. “Adjustments” for “Segment assets” of ¥10,350 million ($126,004 thousand) and ¥10,309 million as of March 31, 2012 and 2011, respectively, were the Company’s assets and offset of inter-segment receivables and payables.
3. “Adjustments” for “Depreciation and amortization” of ¥115 million ($1,400 thousand) and ¥95 million for the years ended March 31, 2012 and 2011, respectively, were depreciation of property, plant and equipment and intangible assets of the Company.
4. “Adjustments” for “Increase in property, plant and equipment and intangible assets” of ¥163 million ($1,984 thousand) and ¥129 million for the years ended March 31, 2012 and 2011, respectively, were increase in property, plant and equipment and intangible assets of the Company.
5. “Segment profit” 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 was omitted since the classification by product and service was the same as the reportable segment for the years ended March 31, 2012 and 2011.

(b) Information about Geographical Areas

(1) Sales

Information about sales by geographical area was omitted for the years ended March 31, 2012 and 2011, since domestic sales were more than 90% of net sales on the consolidated statements of income.

(2) Property, plant and equipment

Information about property, plant and equipment was omitted for the years ended March 31, 2012 and 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 Customer for the Years Ended March 31, 2012 and 2011

	Millions of yen	
	2012	
Name of customer	Sales amount	Related segments
Alfresa Corporation	**¥18,405**	Pharmaceutical Business
SUZUKEN CO., LTD.	**17,141**	Pharmaceutical Business
MEDIPAL HOLDINGS CORPORATION	**15,504**	Pharmaceutical Business
Toho Pharmaceutical Co., Ltd.	**13,795**	Pharmaceutical Business and Consumer Healthcare (Skincare) Business

	Thousands of U.S. dollars	
	2012	
Name of customer	Sales amount	Related segments
Alfresa Corporation	**$224,069**	Pharmaceutical Business
SUZUKEN CO., LTD.	**208,680**	Pharmaceutical Business
MEDIPAL HOLDINGS CORPORATION	**188,751**	Pharmaceutical Business
Toho Pharmaceutical Co., Ltd.	**167,945**	Pharmaceutical Business and Consumer Healthcare (Skincare) Business

	Millions of yen	
	2011	
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 (Skincare) Business

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

	Millions of yen			
				2012
	Pharmaceutical Business	Consumer Healthcare (Skincare) Business	Eliminations	Total
Balance as of March 31, 2012	**¥192**	**—**	**—**	**¥192**

	Thousands of U.S. dollars			
				2012
	Pharmaceutical Business	Consumer Healthcare (Skincare) Business	Eliminations	Total
Balance as of March 31, 2012	**$2,337**	**—**	**—**	**$2,337**

	Millions of yen			
				2011
	Pharmaceutical Business	Consumer Healthcare (Skincare) Business	Eliminations	Total
Balance as of March 31, 2011	¥339	—	—	¥339

Information about amortization of goodwill by reportable segment for the years ended March 31, 2012 and 2011 was omitted since the information is disclosed under "(c) Information about net sales, income, assets and other items by reportable segment" in this section.

17. Contingent Liabilities

Contingent liabilities as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Guarantors of indebtedness of employees	**¥4**	¥5	**$49**

18. Amounts per Share

Amounts per share for the years ended March 31, 2012 and 2011 were as follows:

	Yen		U.S. dollars
	2012	2011	**2012**
Basic net income	**¥ 123.54**	¥ 146.21	**$ 1.50**
Cash dividends	**45.00**	45.00	**0.55**
Net assets	**1,581.94**	1,494.83	**19.26**

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 was omitted because no potentially dilutive shares were outstanding during the years ended March 31, 2012 and 2011.

Cash dividends per share represent the cash dividends 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.

19. Subsequent Events

There are no relevant items.

Independent Auditor's Report

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

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

Independent Auditor's Report

The Board of Directors
KYORIN Holdings, Inc.

We have audited the accompanying consolidated financial statements of KYORIN Holdings, Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KYORIN Holdings, Inc. and its consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

Ernst & Young ShinNihon LLC

June 25, 2012

A member firm of Ernst & Young Global Limited

For reference: NON-CONSOLIDATED FINANCIAL SUMMARY

Non-consolidated Balance Sheets

KYORIN Holdings, Inc.
As of March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Assets			
Current assets	**¥ 9,140**	¥ 9,074	**$ 111,273**
Cash and deposits	**8,259**	6,759	**100,548**
Prepaid expenses	**66**	65	**804**
Income taxes receivable	**668**	2,079	**8,132**
Deferred tax assets	**133**	142	**1,619**
Other	**12**	27	**146**
Noncurrent assets	**80,958**	81,009	**985,610**
Property, plant and equipment	**245**	221	**2,983**
Intangible assets	**198**	167	**2,411**
Investments and other assets	**80,514**	80,620	**980,205**
Total assets	**90,099**	90,084	**1,096,896**
Liabilities			
Current liabilities	**586**	603	**7,134**
Non-current liabilities	**8**	16	**97**
Total liabilities	**594**	619	**7,232**
Net assets			
Shareholders' equity	**89,504**	89,465	**1,089,652**
Total net assets	**89,504**	89,465	**1,089,652**
Total liabilities and net assets	**90,099**	90,084	**1,096,896**

Non-consolidated Statements of Income

KYORIN Holdings, Inc.
As of March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Operating revenue	**¥6,139**	¥12,819	**$74,738**
Operating expenses	**2,650**	2,457	**32,262**
Operating income	**3,489**	10,361	**42,476**
Non operating income	**33**	40	**402**
Ordinary income	**3,523**	10,401	**42,890**
Extraordinary income	**—**	14	**—**
Extraordinary loss	**7**	6	**85**
Income before income taxes	**3,515**	10,409	**42,793**
Income taxes—current	**3**	3	**37**
Income taxes—deferred	**97**	20	**1,181**
Net income	**3,414**	10,385	**41,563**

Note: The rate of ¥82.14 to US$1, prevailing on March 31, 2012, has been used for translation into U.S. dollar amounts.

KYORIN Holdings, Inc.

5, Kanda Surugadai 2-chome, Chiyoda-ku, Tokyo
101-8311, Japan
Corporate Communication
TEL +81-3-3293-3414
E-mail http://www.kyorin-gr.co.jp/en/contact/
URL http://www.kyorin-gr.co.jp/

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