

Ongoing Innovation for Further Growth

Annual Report 2005

Year Ended March 31, 2005

Profile

Since the foundation of Kyorin Pharmaceutical Co., Ltd., in 1923, its corporate philosophy has been to cherish life and benefit society by contributing to better health. We believe our success to date is attributable to this philosophy, which has constantly guided our business activities, enabling us to increase corporate value and secure our most vital asset—society’s trust.

Pharmaceutical companies are currently facing substantial shifts in their operating environments, triggered by declining birthrates and aging populations, changes to health insurance systems and a worldwide reorganization of the industry. In response, we have adopted a more comprehensive approach to ensure better health whereby focus is on self-medication as well as health improvement products—not just the pharmaceutical treatment of diseases. As a reflection of this approach, we redefined our corporate vision—to remain an integrated, trusted and unique healthcare company centered on global drug discovery operations. In line with this vision, we will seek to evolve the business model for our core drug discovery operations and create new health-related businesses to support such operations. Our drug discovery operations are centered on three therapeutic fields—infectious, immunological/allergic and metabolic diseases. We have already established a strong reputation as a drug discovery company by developing the world’s first new-quinolone antibacterial agent, norfloxacin, which has enabled the treatment of a broader range of infectious diseases. By licensing this drug to Merck & Co., Inc., we made yet another contribution to the treatment of the world’s infectious diseases. In addition to norfloxacin, we licensed gatifloxacin to several companies, including Bristol-Myers Squibb Company and Allergan, Inc. These steps were taken as part of our strategy to build alliances that will fully capitalize on external resources, allowing us to contribute better to the health of people throughout the world and maximize sales of our original products.

Under our company strategy, we will invest management resources in specific therapeutic fields for drug discovery and marketing. In Japan, we will press ahead with our Franchise Customer strategy by focusing on the medical areas closest related to our principal products—respiratory internal medicine, otolaryngology and urology. Our aim is to build a solid relationship of trust with medical staff as well as patients in these fields by providing carefully tailored products and drug-related information.

Remaining true to our corporate philosophy, we will strive to bring about a new era in the pharmaceutical industry as a company that continually contributes to better health through creativity, innovation and originality.

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The legendary ancient Chinese physician Tai Feng was said to have accepted apricot seedlings from poor patients in lieu of fees. As an organization committed to improving health, we chose the company name “Kyorin” meaning “apricot grove” to express the spirit and values of Tai Feng.

Disclaimer Regarding Forward-Looking Statements

Statements made in this annual report with respect to Kyorin’s forecasts, plans and strategies that are not 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.

President's Message

Business Results

In the year ended March 31, 2005, the pharmaceutical industry endured increasingly harsh market conditions, owing partly to the April 2004 cut in National Health Insurance (NHI) drug prices. Kyorin Pharmaceutical's average drug price fell 3.7%, while the industry's average drug price decreased 4.2%. In addition, the Ministry of Health, Labour and Welfare persisted with its policy to control medical treatment and pharmaceutical costs by promoting the use of generic drugs.

Despite this situation, sales of Kipres, a leukotriene receptor antagonist for the treatment of bronchial asthma, Mucodyne, a mucoregulant, and other respiratory medicines were firm. Furthermore, sales of Gatiflo, a broad-spectrum oral antibacterial agent, and Pentasa, an ulcerative colitis/Crohn's disease drug, rose, compared with the previous fiscal year. As a result, consolidated net sales increased 1.9%, to ¥66,296 million. Operating income fell 33.1%, to ¥5,866 million, reflecting higher selling, general and administrative expenses due to greater research and development (R&D) expenses. Consolidated net income declined 64.6%, to ¥2,013 million.

Working toward a New Corporate Vision

Under the Kyorin MIC-05 medium-term business plan*, which concluded on March 31, 2005, we established an internationally

* "MIC" stands for marketing, innovation and challenge—the main themes of our medium-term business plan.

competitive drug discovery business model that focused on building a trilateral drug discovery organization covering Japan, the United States and Europe. At the same time, we promoted efficient management to subsidize the costs needed for drug discovery investment. To build on these achievements, we initiated our next plan—the Kyorin MIC-09 medium-term business plan—on April 1, 2005.

Currently, pharmaceutical companies in Japan and other developed countries are implementing mergers and acquisitions (M&As) to enlarge the scale of their operations and thereby ensure sufficient funds for ever-increasing R&D costs. The trend is partly attributable to governmental policies to control costs for medical treatments and pharmaceutical products, as well as intensifying, worldwide competition in the area of drug discovery and development. Nonetheless, companies can discover compounds with excellent profiles for new drugs without large R&D expenses. In addition, the pharmaceutical market has become segmented around specific disease categories. By carefully targeting segments, medium-size companies can maximize their strategic advantages to survive in a fiercely competitive climate.

We will pursue our new corporate vision outlined in the Kyorin MIC-09 plan—to remain an integrated, trusted and unique healthcare company centered on global drug discovery

Kyorin will continue to strengthen its drug discovery business—the area where its greatest strengths lie—while developing new businesses to meet a broader range of healthcare needs.



operations. In our core drug discovery business, where our greatest strengths lie, we will continue to fulfill our role as a pharmaceutical company by discovering new drugs that are recognized across the world as “First in Class” and “Best in Class.” We also aim to derive maximum profits from our drug discovery business in a short period of time by licensing out our compounds to third parties.

Developing a Global Drug Discovery Business *Utilizing a business model that capitalizes on Kyorin’s strengths*

Kyorin’s drug discovery activities target three therapeutic fields—infectious, immunological/allergic and metabolic diseases. We are establishing a solid reputation for pioneering new-quinolone antibacterial agents and will continue to leverage our accumulated expertise in the three areas above to secure an advantage over our competitors.

Kyorin intends to accelerate new drug development not only by our own organization but also by establishing tie-ups and licensing out compounds to leading Japanese and multi-national companies. We also realize that we must form sales and marketing collaborations with such companies to provide innovative new drugs to medical institutions across the world and to maximize sales. In light of the above, we have licensed rights to norfloxacin to several companies, including Merck & Co., and gatifloxacin to Bristol-Myers Squibb, Allergan and several other companies.

Providing Integrated Healthcare *Nurturing new health-related businesses that will raise corporate value by meeting a broad range of health-related needs*

In the past, our slogan was “To always serve the doctor,” underlining our exclusive focus on the needs of physicians. Later, the slogan changed to “Your health is Kyorin’s mission,” reflecting efforts to date to improve the health of patients through treatment.

However, in view of the aging of the Japanese population, healthcare has taken on a new meaning. For us this will mean not just treating diseases, but helping people to remain healthy for longer as greater emphasis is being placed on lifespan and life-quality.

Realizing that we must take a new approach to healthcare, we will diversify our business to focus on self-medication and health-improvement products—not just the pharmaceutical treatment of diseases. To become an integrated healthcare company, we will complement our core drug discovery business with a healthcare business supported by physician recommendations, a generic drug business that provides reliable products and a wellness business based on cooperation with physicians. For this reason, we will continue making strategic investments to acquire new businesses and to secure marketing rights for existing products as well as development rights for drugs under development to enhance our pipeline. We are also investing resources for possible M&As.

Management Strategy for the Year Ending March 31, 2006

Our management strategy for the year ending March 31, 2006, the first year of the Kyorin MIC-09 plan, will be to build a new base for growth by focusing on our renewed corporate vision. The strategy includes the following four key goals.

- 1. Establish an effective global drug discovery system**
- 2. Develop an unassailable competitive advantage in our pharmaceuticals business**
- 3. Acquire new businesses as a base for our move into new fields**
- 4. Transform our corporate brand and personnel system**

By implementing the above, we will move closer to our vision, namely to remain an integrated, trusted and unique healthcare company centered on global drug discovery operations.

In these efforts, we look forward to the continued support and understanding of our stakeholders.

September 2005



Ikuko Ogihara, President

Enhancing Management Quality

Kyorin MIC-09 Medium-Term Business Plan

Our new corporate vision is to remain an integrated, trusted and unique healthcare company centered on global drug discovery operations.

Basic Policy: Evolution and Innovation II

Evolution and Innovation II is the basic policy of the Kyorin MIC-09 plan. The name reflects a continuation of Evolution and Innovation, the basic policy of the Kyorin MIC-05 plan, which guided us through the four years prior to March 31, 2005. In line with this basic policy, we will evolve our drug discovery business model and create new businesses to support drug discovery operations.

Evolve Our Drug Discovery Business Model

Under the Kyorin MIC-09 plan, we will establish a global drug discovery organization based around our drug discovery and research institutes in Japan, the United States and Europe. We intend to build a business model whereby we achieve maximum profit in a short time frame by developing compounds to a late stage and then licensing them out.

Create New Businesses to Support Drug Discovery Operations

We plan to move beyond our traditional domain of ethical drug development, by stepping up efforts to promote innovative health-related businesses that complement our high-risk, high-return drug discovery operations to ensure stable growth.

Development of the Drug Discovery and Research System

In December 2004, Kyorin acquired the U.S. company ActivX Biosciences, Inc. This move allows us to search for and evaluate targeted compounds using its proteomic technologies.

Basic Strategy 1: Drug Discovery Business

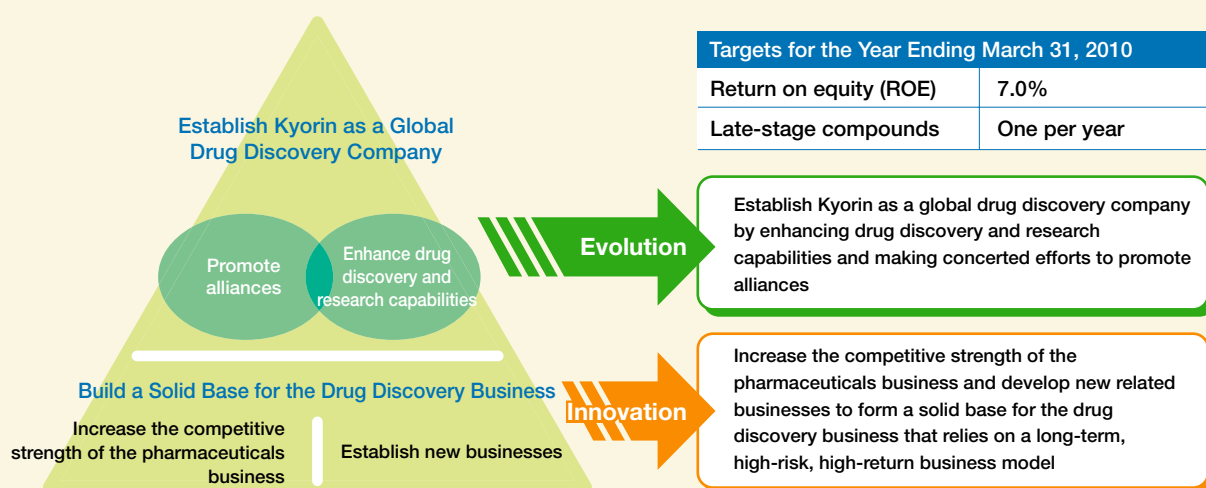
Establish Kyorin as a Global Drug Discovery Company

■ Establish a Global Drug Discovery System through Drug Discovery and Research Bases in Japan, the United States and Europe

We will continue to adjust our business model so that our focus is not just on launching products but also on licensing out compounds to third parties. Accordingly, to facilitate the licensing business we aim to produce one "First in Class" or "Best in Class" late stage compound per year by reinforcing the stages of drug discovery and research, especially from initial drug discovery to proof of concept (POC)—proof of drug efficacy and safety in humans.

Our three drug discovery and research institutes are Kyorin Discovery Research Laboratories in Japan, ActivX Biosciences, Inc., in the United States and Kyorin-Scotland Research

Kyorin MIC-09



Laboratories (KSRL) in the United Kingdom. We will establish a global drug discovery system that generates synergies between the three laboratories, which will facilitate a smooth progression from initial drug discovery to POC and ensure thorough and prompt evaluations of projects and compounds under development. We believe this will enable more effective drug discovery and development.

Key Challenges

- Build a global drug discovery organization
- Enhance POC evaluation in terms of speed and accuracy
- Ensure better documentation
- Promote measures to improve overseas clinical development
- Reinforce intellectual property management

■ Make Concerted Efforts to Form Alliances that Generate Maximum Value More Quickly from Late-Stage Compounds

We will seek to accelerate and improve the efficiency of new drug development by making full use of outside capital. To this end, we will establish collaborations with leading domestic and multinational companies for further development, production and marketing of our compounds that have achieved POC. Under the Kyorin MIC-09 plan, we aim to discover and license out one drug per year until March 31, 2009, as a measure to counter the negative effects of our Gatiflo patent expiring the same year.

Basic Strategy 2: Pharmaceuticals Business

Increase the Competitive Strength of Our Pharmaceuticals Business to Increase Profits for Drug Discovery

■ Increase the Competitive Strength of the Domestic Sales Organization

Cultivate customers that will become a long-term source of business

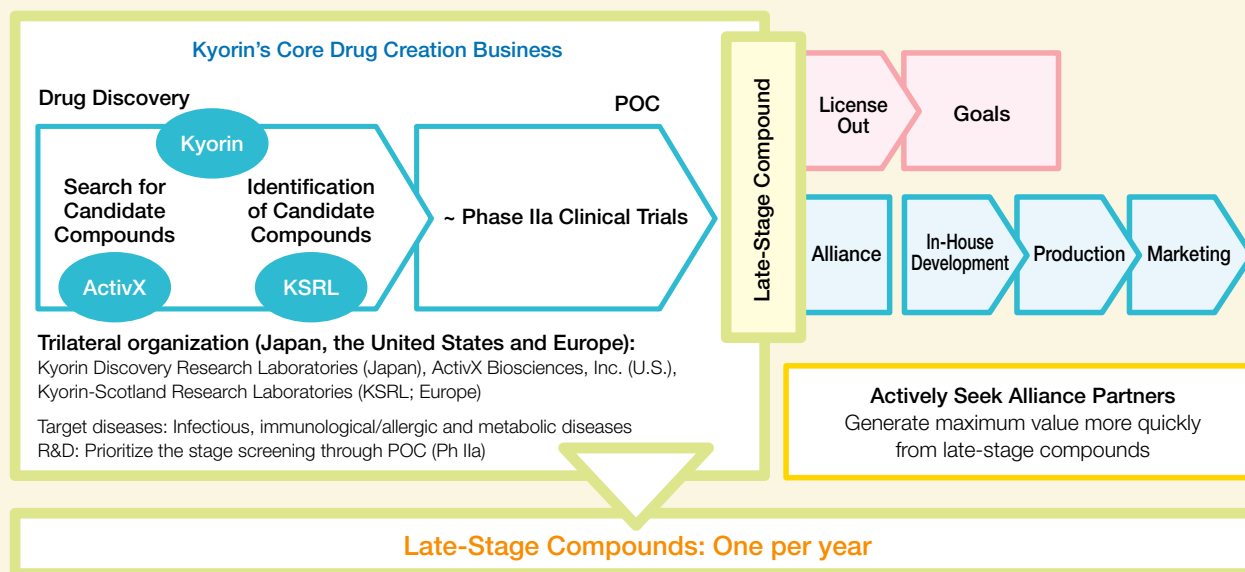
We will channel operating capital into cultivating demand from 50,000 physicians that are regularly visited by our medical representatives (MRs) and include a core of 26,000 Franchise Customer 3 (FC3)* physicians. As we do so, we will strive to cultivate long-term customers with the goal of raising the number of prescriptions for our drugs. In line with this goal, we intend to bolster our sales capabilities by establishing a sales force of 630 MRs.

* FC3 refers to the three areas—respiratory internal medicine, otolaryngology and urology—where we provide our principal products to patients with infectious, respiratory or other diseases.

Ensure better management of existing product lifecycles

We will promote the continued growth of our principal existing products through a lifecycle management program for the development of additional drug indications and formulations. To this end, we will establish the necessary scientific evidence while taking into account each product strategy.

Shifting Our Focus from Total Drug Development to Drug Discovery



Business Structure



■ Optimize Profits from the New Drug Uritos

We are seeking early approval of the new drug Uritos, which is currently under review by Japanese health authorities. In addition, we will prepare for the product's launch to secure maximum profits as early as possible. To this end, we will conduct pre-marketing activities that capitalize on relationships developed with customers as part of the FC3 strategy.

Uritos KRP-197 Treatment of Overactive Bladder (OAB)

Features: Steady and long-lasting efficacy with low incidence of adverse events such as dry mouth

Market: The Japanese market for OAB drugs is estimated to be worth approximately ¥30.0 billion. Factors that will probably influence the market include: simplified diagnosis based on new OAB guidelines, invigoration of the market due to the launch of new drugs and an increase of potential patients. Our goal is to capture an 8% to 10% share of the expanded market through sales of Uritos.

■ Utilize Outside Financial Resources by Promoting Alliance Strategies, Including M&As

Introduce new products to reinforce our lineups in the FC3 areas

We aim to enhance our product lineup by acquiring development, production and marketing rights from other pharmaceutical companies for products already under development and/or on the market.

Promote marketing partnerships to maximize sales

We will form marketing partnerships with leading companies inside and outside of Japan to provide innovative new drugs to a global healthcare market and thereby maximize sales.

Basic Strategy 3: New Businesses

Develop New Businesses that Will Build on the Foundations of the Pharmaceuticals Business and Contribute to Future Growth

Ensuring business stability is a key goal for us. We will therefore establish new health-related businesses, which have short business cycles, to complement our drug discovery operations, which rely on a long-term, high-risk, high-return business model. Our new businesses include a healthcare business supported by physician recommendations, a generic drug business that provides reliable products, and a wellness business based on cooperation with physicians. We will capitalize on the reliability of the Kyorin brand to offer products and services that embody our corporate philosophy—to contribute to better health.

■ Promote a Generic Drug Business that Provides Reliable Products

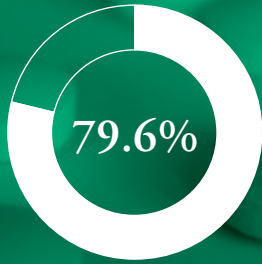
In our pharmaceuticals business, which focuses on treatment, we will extend the scope of our operations to generic drugs. In May 2005, we acquired Toyo Pharmar Co., Ltd., a company that specializes in generic drug production and sales. With this step, we ventured into Japan's generic drug market, anticipating its future expansion.

■ Nurture a Consumer Healthcare Business Supported by Physician Recommendations and a Wellness Business Based on Cooperation with Physicians

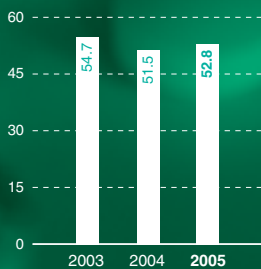
In June 2005, we acquired full ownership of Dr. Program Co., Ltd., a developer of cosmetics with pharmaceutical functions. This step was part of a move into the consumer healthcare business. In the wellness business, our focus will be on health improvement. We will strive hard to discover and nurture new businesses in this area, in addition to promoting alliances and collaborations.

Ethical Drugs in Japan

Segment Sales as a Percentage of Total Net Sales (as of March 31, 2005)



Segment Sales (Billions of yen)



Principal Products

Kipres: Leukotriene receptor antagonist
Mucodyne: Mucoregulant
Gatiflo: Broad-spectrum oral antibacterial agent
Pentasa: Ulcerative colitis/Crohn's disease drug



Kipres



Mucodyne



Gatiflo



Pentasa

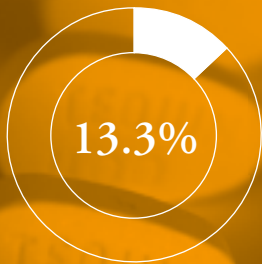
Highlights

In the year ended March 31, 2005, sales of Kipres rose, supported by prescriptions for new asthma patients, steady demand from customers switching to our product and a general expansion of the leukotriene receptor antagonist market. In an effort to boost sales, we filed an application for an additional indication in fiscal 2005 so that Kipres may be used to treat allergic rhinitis. In fiscal 2006, we plan to launch Kipres 4mg fine-granule formulation for asthma treatment in young children. In the area of existing products, we are endeavoring to increase sales through improved lifecycle management of existing products such as Mucodyne, Gatiflo and Ketas.

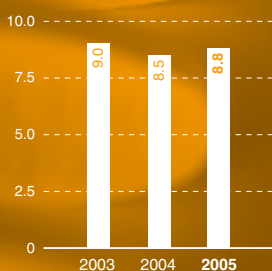
Review of Operations

Ethical Drugs Overseas

Segment Sales as a Percentage of Total Net Sales (as of March 31, 2005)



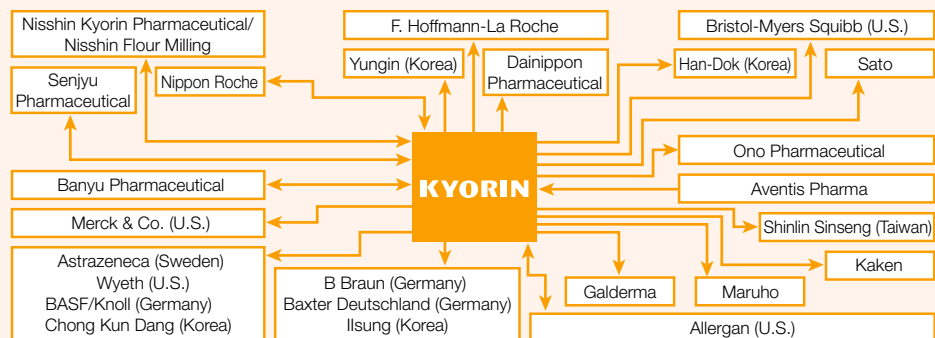
Segment Sales (Billions of yen)



Principal Products

Tequin: Broad-spectrum antibacterial agent
Zymar: Broad-spectrum antibacterial eyedrops

Major Domestic and Overseas Alliances



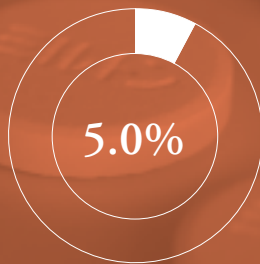
Highlights

Our efforts in this area focused on promoting global sales of gatifloxacin through business alliances. U.S. company Allergan, which markets gatifloxacin eye-drops under the brand name Zymar, steadily expanded its share of the U.S. market, with a particular improvement in demand from the ophthalmology field. As a result, Allergan's share of the U.S. antibacterial eyedrop market reached 20%. Building on this success, Allergan will endeavor to expand sales to customers in the pediatric field.

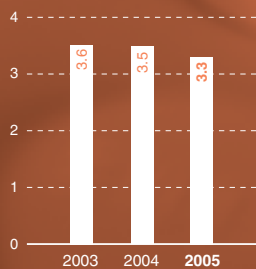
Sales of Tequin, the brand name for the oral and intravenous (i.v.) forms of gatifloxacin licensed to U.S.-based Bristol-Myers Squibb, fell compared with the previous year, as a consequence of fewer flu outbreaks in the United States. Exports of bulk powder for the product, however, exceeded average yearly levels.

Consumer Healthcare Business

Segment Sales as a Percentage of Total Net Sales
(as of March 31, 2005)



Segment Sales
(Billions of yen)



Principal Product

Milton: A disinfectant for the insides and teats of baby bottles.



Liquid form



Tablet form



Container designed for powdered form

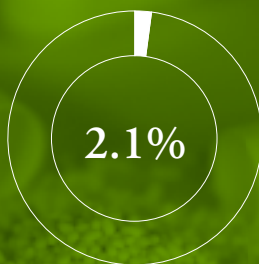
Highlights

We continued to develop our consumer healthcare business centered on the disinfectant Milton, a product with a solid reputation among obstetricians and gynecologists. In the area of over-the-counter (OTC) drugs, we sought to enhance the development and marketing of OTC switch drugs—ethical drugs that have been proved safe for OTC sale. Other steps to improve our lineup included cultivating a private branding business with retail chain stores seeking to differentiate their products from competitors.

Ongoing Innovation for Further Growth

Other Businesses

Segment Sales as a Percentage of Total Net Sales
(as of March 31, 2005)



Segment Sales
(Billions of yen)



Highlights

During the period under review, we continued to promote business in this category through subsidiary Kyobundo Co., Ltd., which specializes in advertising planning and production. On March 31, 2005, we acquired more than half of the outstanding shares in Toyo Pharmar, a generic drug producer, making it a consolidated subsidiary. We anticipate that changes in government policy will lead to greater use of generic drugs. In light of this, we will build a new business base using Toyo Pharmar to establish a firm foothold in the generic drug market.



Toyo Pharmar

Toyo Pharmar's Business Results for the Recent Fiscal Years (Millions of yen)

	Fiscal 2003/5	Fiscal 2004/5
Revenue	¥6,334	¥6,419
Ordinary income	257	347
Net income	143	202
Total assets	8,217	8,456
Total stockholders' equity	3,648	3,842

Products Under Development

(As of May 12, 2005)



Main R&D Activities

Development Stage		Compound/ Code	Efficacy/ Drug Type	Origin	Description	Other Comments
Japan	Overseas					
Application (Oct. 2004)	Phase I	URITOS KRP-197 tablets	OAB treatment	Kyorin Pharmaceutical	Potent anticholinergic agent expected to reduce adverse events such as dry mouth	Phase I completed in the United Kingdom. Joint development and marketing activities in Japan planned with Ono Pharmaceutical
Application (July 2004)	—	KIPRES Fine granules (4mg) (Generic name: montelukast sodium)	Antibronchial asthma agent	Merck & Co. (U.S.)	New oral granule formulation for children from one to five years old	An additional formulation with a new dosage jointly developed with Banyu Pharmaceutical
Phase III (Oct. 2004)	—	KIPRES tablets	Antibronchial asthma agent	Merck & Co. (U.S.)	New indication for allergic rhinitis in adults. A once daily dose of this LTD4 receptor antagonist is expected to relieve symptoms of allergic rhinitis and cause less drowsiness.	An additional indication jointly developed with Banyu Pharmaceutical
Phase III (Jan. 2004)	—	PEKIRON nail lacquer	Antimycotic agent	Kyorin Pharmaceutical	First nail varnish formulation for nail mycosis in Japan	Jointly developed with Maruho
Phase II (Oct. 2004)	Phase II (Oct. 2004)	N-5984 tablets	Diabetes and obesity treatment	Nisshin Seifun Group	A potent and selective β 3-AR agonist that reduces plasma glucose, insulinemia, TG and FFA, while increasing glucose tolerance	Jointly developed with Nisshin Pharma of the Nisshin Seifun Group
Phase II	—	AS-3201 tablets	Treatment for diabetic complications	Dainippon Pharmaceutical	Controls sorbitol accumulation in cells by effectively inhibiting aldose reductase, treating diabetic neuropathy	Jointly developed with Dainippon Pharmaceutical
—	Phase II (June 2004)	KRP-101 tablets	Hyperlipidemia treatment	Kyorin Pharmaceutical	A selective PPAR α agonist that is expected to improve overall lipid profiles by reducing LDL cholesterol and neutral fats while increasing HDL cholesterol	—

Licensing and Joint Development

Product Name/ Code	Licensee/ Research Partner	Development Stage	Efficacy/Drug Type	Origin	Other Comments
To be determined	Merck & Co. (U.S.)	—	Synthetic antibacterial agent	Kyorin Pharmaceutical/ Merck & Co. (U.S.)	Jointly researched with Merck & Co., prior to an exclusive licensing agreement
Alphagan/Alphagan P	Senju Pharmaceutical	Phase I	Glaucoma treatment	Allergan (U.S.)	Licensed from Allergan with a cross-licensing agreement for gatifloxacin ophthalmic solution. Licensed to Senju Pharmaceutical in May 2004
Ketas	MediciNova (U.S.)	—	Cerebrovascular disorder treatment	Kyorin Pharmaceutical	Licensed exclusively to MediciNova to be developed, manufactured and sold as a multiple sclerosis treatment in all countries except Japan, China, South Korea and Taiwan
KCA-757	MediciNova (U.S.)	Phase II	Bronchial asthma and interstitial cystitis treatment	Kyorin Pharmaceutical	Licensed exclusively to MediciNova to be developed and sold in all countries except Japan, China, South Korea and Taiwan

Corporate Governance

Basic Policy on Corporate Governance

The key management goal for Kyorin is to continue raising shareholder value. To achieve this, we are fostering a management environment that allows us to build trust with stakeholders and the general public. We have also prioritized better corporate governance and therefore seek to ensure prompt decision making, in addition to ethical and transparent corporate activities.

Measures to Promote Better Corporate Governance Management Organization

Kyorin has established an executive officer system. The Board of Directors usually meets once a month, deciding important operational matters after debating the issues as well as supervising each director's duties. Our Management Committee, which is comprised of the president and several executive officers, discusses key operational matters concerning the Group. We also utilize a corporate auditor system with two statutory corporate auditors and two outside corporate auditors. By capitalizing on such auditing and supervisory functions, we are building a system that facilitates highly transparent decision making.

Internal Control and Risk Management Systems

We have established internal control and risk management systems that continually ensure sound corporate activities. The internal control system centers around the Internal Audit Office, which reports directly to the president and conducts internal audits when necessary.

In light of the recent spate of corporate scandals involving other companies, we have prioritized strict compliance and developed the Kyorin Corporate Charter and the Kyorin Employee Code of Conduct, setting out guidelines for corporate activities based on our corporate philosophy. By taking this step, we aim to ensure strict compliance and a high standard of corporate ethics. Furthermore, we have demonstrated the importance we attach to this matter by publicizing the Kyorin Corporate Charter on our web site.

Internal and Outside Auditors

The Internal Audit Office reports directly to the president and is independent from other sections. Based on yearly auditing plans, the Internal Audit Office regularly assesses and evaluates the effectiveness and efficiency of the legal compliance and internal control systems in every facility and Group company. After an audit, the office communicates any problems or areas that need improvement directly to the president and makes the appropriate recommendations.

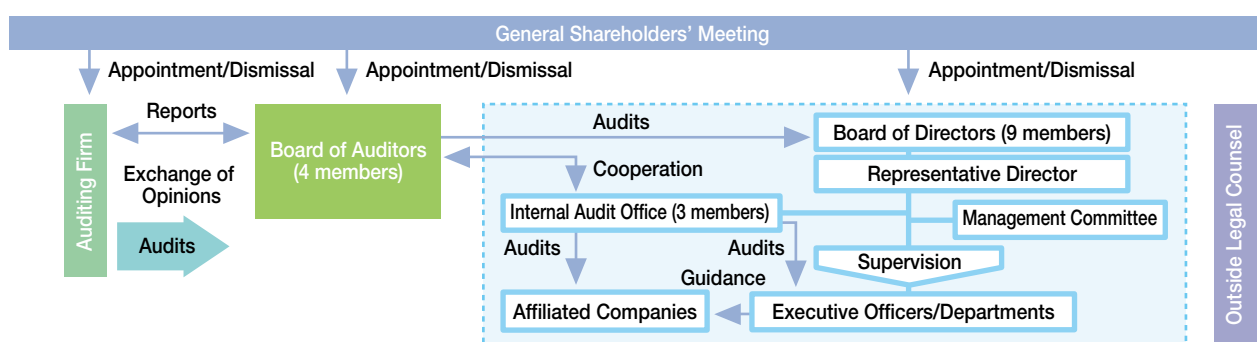
Corporate auditors conduct audits in line with an auditing policy set by the Board of Auditors at the beginning of each fiscal year. In addition to participating in important meetings, including Board of Directors and Management Committee meetings, corporate auditors implement comprehensive audits by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

Each accounting period, we receive audits from the auditing firm Ernst & Young ShinNihon. We use regular meetings with the firm's accountants to discuss our financial accounts and benefit from their valuable advice.

Efforts to Promote Better Corporate Governance during the Fiscal Year Under Review

On April 1, 2004, we introduced an executive officer system as part of reforms to our management system. The change was made to separate decision making and supervision of operations from the implementation of operations. Previously, directors had been responsible for all the above. Through this change, we aim to ensure quicker decision making and faster responses in our frontline operations. With the executive officer system in place, we reduced the Board of Directors—our central decision-making body—to an appropriate size, from 15 to 10, after the proposal was approved during the annual general shareholders' meeting in June 2004. This number was decreased to nine following a vote of approval at the annual general shareholders' meeting in June 2005.

Basic Corporate Governance Structure



(As of June 24, 2005)

Directors, Auditors and Corporate Officers

(As of September 2005)



From left:

Executive Director and Honorary Advisor

Minoru Ogihara

Chairman

Hiroshi Uchida

President

Ikuo Ogihara

From left:

Executive Director, Senior Executive Officer

Itaru Kojo

Executive Director, Senior Executive Officer

Toshiro Takusagawa

Executive Director, Senior Executive Officer

Yoshizumi Amano



From left:

Executive Director, Senior Executive Officer

Keiji Hirai

Executive Director, Senior Executive Officer

Masahiro Yamashita

Executive Director, Senior Executive Officer

Minoru Hogawa



Senior Corporate Auditors

Hiroyuki Fukashiro

Seiyu Miyashita

Corporate Auditors

Shogo Kobayashi

Masaji Obata

Corporate Officers

Takashi Matsuda

Toyozo Goho

Shinichi Saito

Akihiro Tanaka

Satoru Kanai

Takayoshi Ishizaki

Kunio Kajio

Satoshi Murayama

Mitsutomo Miyashita

Tomiharu Matsumoto

Yoh Ito

Financial Section

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Financial Highlights

Kyorin Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen					Change	Thousands of U.S. dollars
	2005	2004	2003	2002	2001	2005/2004	2005
FOR THE YEAR:							
Net sales	¥ 66,296	¥ 65,061	¥ 68,618	¥ 62,395	¥ 55,832	1.9%	\$ 617,339
Operating income	5,866	8,766	12,367	11,957	9,049	-33.1	54,623
Net income	2,013	5,692	4,120	4,117	2,951	-64.6	18,745
Research and development expenses	12,698	8,219	7,009	6,031	6,191	54.5	118,242
Capital investments	6,172	5,670	3,301	2,507	2,465	8.9	57,473
Depreciation and amortization	3,894	4,774	3,637	3,213	2,735	-18.4	36,260
AT YEAR-END:							
Total assets	¥109,234	¥121,355	¥139,961	¥134,472	¥125,476	-10.0%	\$1,017,171
Total shareholders' equity	90,544	91,856	105,318	102,356	99,750	-1.4	843,133
	Yen					Change	U.S. dollars
	2005	2004	2003	2002	2001	2005/2004	2005
PER SHARE DATA:							
Net income	¥26.48	¥68.76	¥47.21	¥60.55	¥51.27	-61.5%	\$0.25
Cash dividends	18.00	18.00	17.50	15.00	15.00	0.0	0.17

Note: U.S. dollar amounts are translated from yen at the rate of ¥107.39=U.S.\$1, the approximate rate of exchange on March 31, 2005.

Financial Review

Overview

In the year ended March 31, 2005, the pharmaceutical industry faced increasingly severe market conditions, partly owing to the April 2004 cut in NHI drug prices. Other factors included higher R&D costs and a drive by the Ministry of Health, Labour and Welfare to control medical treatment and pharmaceutical costs by promoting the use of generic drugs.

In such harsh conditions, consolidated operating income, income before income taxes and net income fell compared with the previous fiscal year, despite efforts to boost net sales and reduce the cost of sales ratio. The decline in income was a consequence of substantially higher R&D expenses and loss on sales and disposal of property, plant and equipment as well as retirement benefit plan changes.

Net Sales

Consolidated net sales rose 1.9% compared with the previous fiscal year, to ¥66,296 million, reflecting steady sales of the bronchial asthma medicine Kipres and the mucoregulant Mucodyne, as well as stronger overseas sales of the broad-spectrum antibacterial eyedrops Zymar.

Cost of Sales

Cost of sales rose as a consequence of expanding sales in Japan and overseas. Nevertheless, solid domestic sales of ethical drugs that cost little to produce helped reduce the cost

of sales ratio by 0.2 percentage point. As a result, cost of sales increased only 1.3%, to ¥22,682 million.

Selling, General and Administrative Expenses

Selling, general and administrative expenses climbed 11.3%, to ¥37,747 million. This reflected higher R&D expenses due to a drive to accelerate R&D by moving principal research products to the next stage of clinical trials. Such costs countered reductions in other selling, general and administrative expenses.

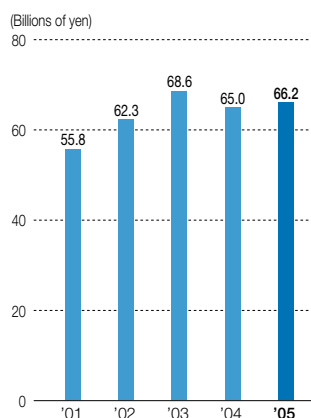
Operating Income

Operating income fell 33.1%, to ¥5,866 million, as a consequence of the dramatic increase in R&D expenses, which countered higher net sales, the lower cost of sales ratio and decreases in selling, general and administrative expenses other than R&D expenses.

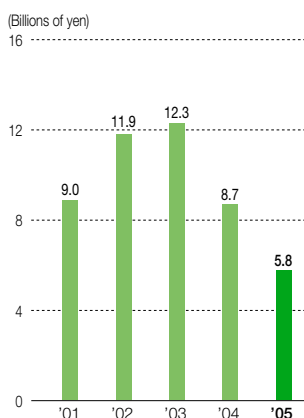
Other Expenses

Other expenses totaled ¥1,854 million, mainly reflecting gains on sales of investment securities of ¥1,787 million, loss on sales and disposal of property, plant and equipment of ¥1,366 million—stemming from the disposal of bulk powder production facilities at the Noshiro Plant—and loss on retirement benefit plan changes of ¥1,625 million due to the restructuring of the Company's pension system.

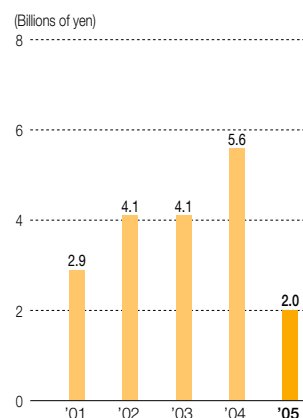
Net Sales



Operating Income



Net Income



Net Income and Income Taxes

Income before income taxes amounted to ¥4,012 million, down 57.7%. Current income taxes, which included corporate, enterprise and inhabitants tax, amounted to ¥147 million, an extremely small figure compared with income before income taxes. This was attributable to an ¥8,800 million one-time write-off of a shortfall in the reserve for retirement benefit liabilities. Net income dropped 64.6%, to ¥2,013 million.

Cash Flows

Net cash used in operating activities totaled ¥7,346 million, owing to the decrease in income before income taxes, a provision for retirement benefits, net of payments, of ¥8,800 million, an increase in notes and accounts receivable and a smaller increase in notes and accounts payable.

Net cash used in investing activities was ¥21,521 million. This mainly resulted from payments for purchase of investment securities of ¥23,352 million, payments for purchase of property, plant and equipment of ¥5,767 million—part of which stemmed from the construction of new production facilities at the Noshiro Plant—and payments for purchase of intangible assets of ¥2,395 million. These negative factors offset the combined proceeds from sales of marketable securities, investment securities and mortgage securities, which came to ¥9,455 million.

Net cash used in financing activities amounted to ¥1,516 million, primarily reflecting cash dividends of ¥1,412 million.

As a consequence of the above, cash and cash equivalents at end of year were ¥11,361 million, down ¥30,380 million from ¥41,741 million a year earlier.

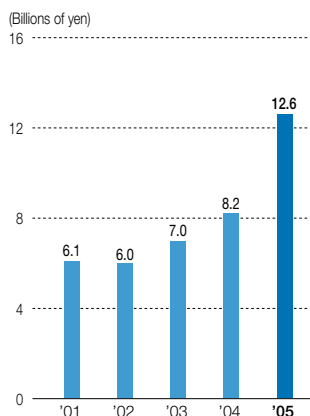
Capital Requirements

The Group's operating capital is mainly used to fund purchases of raw materials and other materials for pharmaceutical production, and other items. The operating capital is also used to cover production, R&D and personnel expenses. We also make capital investments on a continuing basis. In the year ended March 31, 2005, such investments totaled ¥6,172 million.

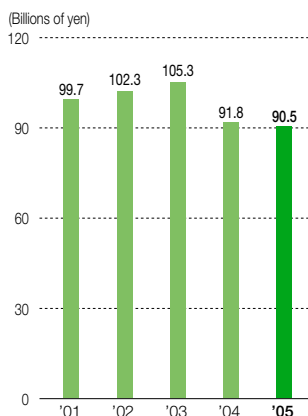
Financing Policies

The Group uses its own financial resources, such as cash flows from operating activities and internal reserves to generate all its operating capital as well as funds for capital investment. In the year ending March 31, 2006, in addition to R&D expenditure, we plan to invest approximately ¥4,300 million on the construction of new production facilities at our Noshiro Plant and improvements to information technology (IT) systems and research equipment. We also expect to spend approximately ¥3,300 million on the acquisition of Toyo Pharmar. It is our belief that all of the above investments can be financed with our own capital.

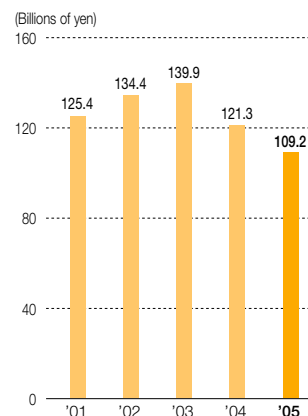
R&D Expenses



Total Shareholders' Equity



Total Assets



Business Risk

We have described below the risk factors that could affect the business performance or financial health of the Group.

Although the Group has taken organizational and systematic measures to minimize risk, the outline does not include every risk or variable that could impact its business.

Any forward-looking statements contained in the following text are based on management's rational assumptions and beliefs in light of information available as of March 31, 2005.

(1) Legal Regulation

Legal regulation in Japan such as the Pharmaceutical Affairs Law, the NHI system, NHI drug prices and also 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 impact 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 of companies seeking to discover original compounds and bring pharmaceutical products to market is anything but high. Currently, several of the Group's ethical drugs are undergoing clinical trials. The R&D 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 impacted if a competitor develops and brings to market drugs that are more useful or produce the same effects.

(4) NHI Drug Price Revisions

Japan's NHI drug prices are usually revised every two years. When forecasting business results, the 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. Following NHI drug price revisions in April 2004, the industry's average drug price fell 4.2% and Kyorin Pharmaceutical's average drug price decreased 3.7%.

(5) Side Effects

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

(6) Generic Drugs

The launch of generic drugs when patents for the Group's ethical drugs expire could impact business results.

(7) Slowdown or Delays in Production

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

(8) Pharmaceutical Recalls

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

(9) 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. In March 2004, Kyorin Pharmaceutical and its licensing partner Bristol-Myers Squibb filed a lawsuit against the Israeli company TEVA Pharmaceutical Industries Ltd. and its U.S. subsidiary TEVA Pharmaceuticals USA, Inc., in the United States District Court for the Southern District of New York alleging infringement of Kyorin's U.S. patent covering gatifloxacin, a new-quinolone antibacterial agent. We will continue in our full-fledged efforts to resolve this issue.

On the other hand, if our activities are seen to infringe on another company's patents or threaten intellectual property rights, we may become involved in legal disputes and have to terminate some business operations.

(10) 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.

(11) Exchange Rate Fluctuations

Since the Group exports pharmaceutical products, its sales are vulnerable to exchange rate fluctuations. In the year ended March 31, 2005, overseas sales accounted for 13.3% of consolidated net sales.

(12) The Cancellation of Tie-up Agreements

The Group promotes strategic alliances to make efficient use of external capital. Through tie-up agreements with other pharmaceutical companies, it 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 hamper the Group's ability to achieve its intended business results.

Consolidated Balance Sheets

Kyorin Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Assets			
Current assets:			
Cash and cash in banks (Notes 4 and 11)	¥ 8,760	¥ 39,235	\$ 81,572
Notes and accounts receivable	24,655	22,560	229,584
Short-term investments (Notes 4 and 5)	3,010	4,221	28,029
Inventories	10,152	9,408	94,534
Deferred tax assets (Note 12)	2,171	1,436	20,216
Other	3,079	4,378	28,671
Allowance for doubtful accounts	(48)	(42)	(447)
Total current assets	51,782	81,198	482,186
Property, plant and equipment, at cost:			
Land	1,669	1,748	15,541
Buildings	23,867	25,145	222,246
Machinery and equipment	11,958	12,421	111,351
Other	5,638	5,406	52,500
Construction in progress	5,126	73	47,733
Less accumulated depreciation	(31,264)	(30,092)	(291,126)
Property, plant and equipment, net	16,997	14,702	158,274
Investments and other assets:			
Investment securities (Notes 5 and 11)	28,621	12,270	266,515
Long-term loans	175	239	1,630
Goodwill	1,439	14	13,400
Trademark	2,839	3,663	26,436
Deferred tax assets (Note 12)	4,469	5,816	41,615
Other	2,928	3,471	27,265
Allowance for doubtful accounts	(18)	(21)	(168)
Total investments and other assets	40,455	25,454	376,711
Total assets	¥109,234	¥121,355	\$1,017,171

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Liabilities and shareholders' equity			
Current liabilities:			
Notes and accounts payable	¥ 5,827	¥ 5,618	\$ 54,260
Accrued income taxes (Note 12)	48	1,491	447
Accrued bonuses to employees	2,036	2,340	18,959
Reserve for sales returns	41	32	382
Other	3,267	4,778	30,422
Total current liabilities	11,220	14,261	104,479
Long-term liabilities:			
Retirement benefit obligation at transition (Notes 2 (j) and 10)	2,573	—	23,959
Accrued retirement benefits for employees (Note 10)	4,389	14,770	40,870
Accrued retirement benefits for directors and corporate auditors	374	403	3,483
Other	133	63	1,238
Total long-term liabilities	7,470	15,237	69,560
Minority interests	—	—	—
Shareholders' equity (Note 6):			
Common stock, no par value:	4,317	4,317	40,199
Authorized—345,000,000 shares in 2005 and 2004			
Issued—86,346,246 shares in 2005 and 2004			
Additional paid-in capital	949	949	8,837
Retained earnings	105,294	104,735	980,482
Unrealized holding gain on securities	713	2,478	6,639
Translation adjustments	(6)	(4)	(56)
Treasury stock, at cost:			
12,057,778 shares in 2005 and 11,990,246 shares in 2004	(20,724)	(20,619)	(192,979)
Total shareholders' equity	90,544	91,856	843,133
Contingent liabilities (Note 15)			
Total liabilities and shareholders' equity	¥109,234	¥121,355	\$1,017,171

Consolidated Statements of Income

Kyorin Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Net sales	¥66,296	¥65,061	\$617,339
Cost of sales (Note 13)	22,682	22,389	211,211
Gross profit	43,614	42,671	406,127
Selling, general and administrative expenses (Note 7)	37,747	33,905	351,495
Operating income	5,866	8,766	54,623
Other income (expenses):			
Interest and dividend income	165	129	1,536
Interest expense	(7)	(11)	(65)
Rent income	72	79	670
Equity in earnings of affiliates	371	259	3,455
Exchange gain (loss)	117	(245)	1,089
Loss on disposal of inventories	(182)	(336)	(1,695)
Loss on sales and disposal of property, plant and equipment (Note 8)	(1,366)	(1,758)	(12,720)
Gains on sales of investment securities	1,787	893	16,640
Gain on the release from the substitutional portion of the government's Welfare Pension Insurance Plan	—	4,475	—
Special depreciation on property, plant and equipment	(169)	(1,330)	(1,574)
Loss on devaluation of investment securities	(291)	—	(2,710)
Loss on amortization of investment securities	(323)	—	(3,008)
Loss on retirement benefit plan changes	(1,625)	—	(15,132)
Additional benefits for employees' early retirement	(430)	(1,071)	(4,004)
Prior year adjustments	—	(333)	—
Other, net	26	(42)	242
	(1,854)	707	(17,264)
Income before income taxes	4,012	9,474	37,359
Income taxes (Note 12):			
Current	147	3,398	1,369
Deferred	1,851	383	17,236
	1,998	3,781	18,605
Net income (Note 16)	¥ 2,013	¥ 5,692	\$ 18,745

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Kyorin Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Common stock (Note 6):			
Balance at beginning of year (2005—86,346,246 shares; 2004—86,346,246 shares)	¥ 4,317	¥ 4,317	\$ 40,199
Balance at end of year (2005—86,346,246 shares; 2004—86,346,246 shares)	¥ 4,317	¥ 4,317	\$ 40,199
Additional paid-in capital (Note 6):			
Balance at beginning of year	¥ 949	¥ 949	\$ 8,837
Balance at end of year	¥ 949	¥ 949	\$ 8,837
Retained earnings (Notes 6 and 17):			
Balance at beginning of year	¥104,735	¥100,643	\$ 975,277
Net income	2,013	5,692	18,745
Cash dividends paid	(1,412)	(1,549)	(13,148)
Bonuses to directors and corporate auditors	(41)	(49)	(382)
Balance at end of year	¥105,294	¥104,735	\$ 980,482
Unrealized holding gain on securities:			
Balance at beginning of year	¥ 2,478	¥ 69	\$ 23,075
Net changes during the year	(1,765)	2,409	(16,435)
Balance at end of year	¥ 713	¥ 2,478	\$ 6,639
Translation adjustments:			
Balance at beginning of year	¥ (4)	¥ 7	\$ (37)
Adjustments arising from translation of foreign currency financial statements	(2)	(11)	(19)
Balance at end of year	¥ (6)	¥ (4)	\$ (56)
Treasury stock at cost:			
Balance at beginning of year	¥ (20,619)	¥ (668)	\$(192,001)
Purchases of treasury stock	(104)	(19,951)	(968)
Balance at end of year	¥ (20,724)	¥ (20,619)	\$(192,979)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Kyorin Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Operating activities			
Income before income taxes	¥ 4,012	¥ 9,474	\$ 37,359
Depreciation and amortization	3,894	4,774	36,260
Increase in allowance for doubtful accounts	3	1	28
Decrease in accrued bonuses to employees	(317)	(207)	(2,952)
Increase in reserve for sales returns	8	11	74
Provision for retirement benefits, net of payments	(10,380)	(3,640)	(96,657)
(Decrease) increase in accrued retirement benefits for directors and corporate auditors	(29)	4	(270)
Equity in earnings of affiliates	(371)	(259)	(3,455)
Interest and dividend income	(165)	(129)	(1,536)
Interest expense	7	11	65
Exchange (gain) loss	(3)	229	(28)
Loss on sales and disposal of property, plant and equipment	1,366	1,758	12,720
Gain on sales of investment securities	(1,787)	(893)	(16,640)
Loss on devaluation of investment securities	291	—	2,710
Additional benefits for employees' early retirement	430	1,071	4,004
Loss on amortization of investment securities	323	—	3,008
(Increase) decrease in notes and accounts receivable	(1,980)	961	(18,437)
(Increase) decrease in inventories	(744)	1,400	(6,928)
Increase in notes and accounts payable	208	615	1,937
Increase in other current assets	(153)	(359)	(1,425)
Decrease in other current liabilities	(1,853)	(397)	(17,255)
Increase in other long-term liabilities	2,574	10	23,969
Increase (decrease) in consumption taxes payable	70	(541)	652
Payment of directors' and corporate auditors' bonus	(41)	(49)	(382)
Other	2	—	19
Subtotal	(4,637)	13,844	(43,179)
Interest and dividend received	160	252	1,490
Interest paid	(10)	(12)	(93)
Special retirement benefits paid	(1,269)	(108)	(11,817)
Income taxes paid	(1,590)	(5,420)	(14,806)
Net cash (used in) provided by operating activities	(7,346)	8,556	(68,405)
Investing activities			
Payments for time deposits	—	(1,500)	—
Proceeds from cancellation of time deposits	—	1,500	—
Proceeds from sales of marketable securities	1,701	3,709	15,839
Payments for purchase of marketable securities	—	(2,919)	—
Proceeds from sales of mortgage securities	2,000	2,000	18,624
Payments for purchase of mortgage securities	—	(2,000)	—
Payments for purchase of property, plant and equipment	(5,767)	(4,712)	(53,701)
Proceeds from sales of property, plant and equipment	417	41	3,883
Payments for purchase of intangible assets	(2,395)	(877)	(22,302)
Payments for purchase of investment securities	(23,352)	(1,358)	(217,450)
Proceeds from sales of investment securities	5,754	2,045	53,580
Proceeds from acquisition of securities in subsidiary due to the change of consolidation scope	134	—	1,248
Payments for loans made	(285)	(463)	(2,654)
Proceeds from collection of loans receivable	294	525	2,738
Payments for investments	(60)	(105)	(559)
Increase in other assets	37	(117)	345
Net cash used in investing activities	(21,521)	(4,232)	(200,400)
Financing activities			
Purchase of treasury stock	(104)	(19,951)	(968)
Cash dividends	(1,412)	(1,549)	(13,148)
Net cash used in financing activities	(1,516)	(21,501)	(14,117)
Effects of exchange rate changes on cash and cash equivalents	4	(196)	37
Decrease in cash and cash equivalents	(30,380)	(17,373)	(282,894)
Cash and cash equivalents at beginning of year	41,741	59,115	388,686
Cash and cash equivalents at end of year (Note 4)	¥ 11,361	¥ 41,741	\$ 105,792

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Kyorin Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

1. Basis of Presentation of Consolidated Financial Statements

Kyorin Pharmaceutical Co., Ltd. (the "Company"), and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

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 financial statements on an equity basis. All significant intercompany balances and transactions are eliminated in consolidation.

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

All consolidated subsidiaries close their books of account at December 31 for financial reporting purposes except for Kyobundo Co., Ltd., which closes its books as of February 28. The necessary adjustments are made to the financial statements of all the consolidated subsidiaries to reflect any significant transactions from January 1 to March 31 except for Kyobundo Co., Ltd., which reflects from March 1 to March 31.

The excess of cost over underlying net assets at fair value at the date of acquisition 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 in the year of acquisition. Such amortization is included in selling, general and administrative expenses.

(b) Foreign Currency Translation

Revenue and expense accounts of the foreign consolidated subsidiaries are translated using the average rate during the year, and the balance sheet accounts are translated into

yen at the exchange rates in effect at the balance sheet date. Translation adjustments are presented as a component of shareholders' equity in the accompanying consolidated financial statements.

(c) Cash Equivalents

All highly liquid investments with maturity of three months or less when purchased are considered cash equivalents.

(d) Inventories

Finished goods, work in process and semi-finished goods are stated at cost determined by the average method. Merchandise, raw materials and stored goods for samples are stated at the lower of cost or market determined by the average method. Stored goods except for samples are stated by the last purchase price method.

(e) Depreciation and Amortization

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 as an asset and amortized by the straight-line method over the useful life of five years.

(f) Leases

Noncancelable leases are accounted for as operating leases (whether such leases are classified as operating or finance lease) except that leases which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(g) Short-Term Investments and Investment Securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into held-to-maturity or other securities. Held-to-maturity securities are carried at amortized cost. 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 shareholders' equity.

Nonmarketable securities classified as other securities are stated at cost. Cost of securities sold is determined by the moving average method.

(h) Research and Development Expenses

Research and development expenses are charged to income as incurred.

(i) 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 enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(j) Retirement Benefits

Accrued retirement benefits for employees are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at balance sheet dates, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. Actuarial gain and loss are 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 amortized as incurred by the straight-line method over the average remaining years of services of the employees (10 years).

The Company shifted from the previous retirement pension plan, which consisted of the noncontributory funded pension plan and government Welfare Pension Insurance Plan, to the new retirement pension plan, which consisted of the defined contribution pension plan and defined benefit pension plan, and applied Accounting Procedures Concerning the Change in Retirement Benefit Plan (Corporate Accounting Principles Application Guideline 1) from January 1, 2005.

In addition, directors and corporate auditors of the Company and 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 made at an estimated amount.

4. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2005 and 2004 for the consolidated statements of cash flows consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and cash in banks	¥ 8,760	¥39,235	\$ 81,572
Short-term investments	3,010	4,221	28,029
Time deposits over three months	(10)	(10)	(93)
Short-term investments due over three months	(399)	(1,704)	(3,715)
Cash and cash equivalents at end of year	¥11,361	¥41,741	\$105,792

(k) Amounts Per Share

Presentation of diluted net income per share is not applicable as there were no potentially dilutive securities for the years ended March 31, 2005 and 2004.

(l) Appropriation of Retained Earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations (see Note 17).

(m) Impairment of Fixed Assets

A new Japanese accounting standard "Impairment of Fixed Assets" was issued in August 2002 that is effective for fiscal years beginning on or after April 1, 2005. Early adoption is permitted. The new standard requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies would be required to recognize an impairment loss in their income statement if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset. The Company is currently assessing the impact of this new accounting standard on its financial position and operating results.

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 ¥107.39 = U.S.\$1, the approximate rate of exchange on March 31, 2005. 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. Marketable Securities and Investment Securities

Information regarding marketable securities classified as other securities as of March 31, 2005 and 2004 is as follows:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	2005 Carrying value	Unrealized gain (loss)	Acquisition cost	2005 Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥ 920	¥ 2,146	¥1,226	\$ 8,567	\$ 19,983	\$11,416
Debt securities:						
Government bonds	1,000	1,001	1	9,312	9,321	9
Corporate bonds	803	806	2	7,477	7,505	19
Other bonds	2,488	2,498	9	23,168	23,261	84
Other	6,040	6,069	29	56,244	56,514	270
Subtotal	11,252	12,521	1,269	104,777	116,594	11,817
Securities whose acquisition cost do not exceed their carrying value:						
Stock	—	—	—	—	—	—
Debt securities:						
Government bonds	1,000	999	(0)	9,312	9,303	(0)
Corporate bonds	102	102	(0)	950	950	(0)
Other bonds	10,211	10,102	(108)	95,083	94,068	(1,006)
Other	1,003	1,000	(3)	9,340	9,312	(28)
Subtotal	12,317	12,205	(112)	114,694	113,651	(1,043)
Total	¥23,570	¥24,727	¥1,156	\$219,480	\$230,254	\$10,765

	Millions of yen		
	Acquisition cost	2004 Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 527	¥4,813	¥4,285
Debt securities:			
Government bonds	—	—	—
Corporate bonds	901	905	4
Other bonds	1,398	1,413	14
Other	—	—	—
Subtotal	2,827	7,132	4,304
Securities whose acquisition cost do not exceed their carrying value:			
Stock	358	232	(126)
Debt securities:			
Government bonds	—	—	—
Corporate bonds	100	100	(0)
Other bonds	1,688	1,679	(9)
Other	—	—	—
Subtotal	2,146	2,011	(135)
Total	¥4,974	¥9,144	¥4,169

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Proceeds from sales	¥2,854	¥ 51	\$26,576
Gains on sales	1,787	893	16,640
Losses on sales	—	—	—

The redemption schedule for securities with maturities classified as other securities as of March 31, 2005 is as follows:

	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Government bonds	¥ —	¥ —	¥ —	¥2,000
Corporate bonds	340	360	300	—
Other debt securities	2,700	5,300	1,500	4,700
Others	—	—	4,000	—
Total	¥3,040	¥5,660	¥5,800	¥6,700

	Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Government bonds	\$ —	\$ —	\$ —	\$18,623
Corporate bonds	3,166	3,352	2,794	—
Other debt securities	25,142	49,353	13,968	43,766
Others	—	—	37,247	—
Total	\$28,308	\$52,705	\$54,009	\$62,389

Non-marketable securities classified as other securities consisted of unlisted securities of ¥2,181 million (\$20,309 thousand) and other securities of ¥1,611 million (\$15,001 thousand) at March 31, 2005 and unlisted securities of ¥1,649 million and other securities of ¥2,909 million at March 31, 2004.

6. Additional Paid in Capital and Retained Earnings

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve, which was included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to the legal reserve until the total of such reserve and the additional paid-in capital account equals 25% of the common stock account. The legal reserve amounted to ¥905 million (\$8,427 thousand) as of March 31, 2005 and 2004.

The Code provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Code also provides that if the total amount of additional paid-in capital and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

7. Research and Development Expenses

Research and development expenses, all of which were included in selling, general and administrative expenses, for the years ended March 31, 2005 and 2004 amounted to ¥12,698 million (\$118,242 thousand) and ¥8,219 million, respectively.

8. Loss on Sales and Disposal of Property, Plant and Equipment

Significant components of the loss on sales and disposal of property, plant and equipment were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Gain:			
Buildings	¥ 20	¥ —	\$ 186
Land	37	12	345
Other	1	—	9
Loss:	¥ 59	¥ 12	\$ 549
Buildings	¥(1,040)	¥ (61)	\$ (9,684)
Machinery and equipment	(282)	(1,545)	(2,626)
Other	(103)	(164)	(959)
	(1,426)	(1,771)	(13,279)
Total	¥(1,366)	¥(1,758)	\$(12,720)

9. Leases

The following pro forma amounts represent the acquisition costs (including the interest portion), accumulated depreciation and net book value of leased assets as of March 31,

2005 and 2004, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	2005		
	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gain
Machinery and equipment	¥ 5	¥ 4	¥ 6
Other	1,765	1,065	699
Total	¥1,770	¥1,070	¥700

	Thousands of U.S. dollars		
	Acquisition cost	Carrying value	Unrealized gain
	Machinery and equipment	\$ 47	\$ 37
Other	16,435	9,917	6,509
Total	\$16,482	\$9,964	\$6,518

	2004		
	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gain
Machinery and equipment	¥ 6	¥ 3	¥ 3
Other	1,951	1,024	926
Total	¥1,958	¥1,028	¥930

Lease payments relating to finance leases accounted for as operating leases amounted to ¥386 million (\$3,594 thousand) and ¥426 million, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the lease terms assuming a nil residual value, for the years ended March 31, 2005 and 2004, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2005 on noncancelable operating leases and finance leases accounted for as operating leases are summarized as follows:

Millions of yen	Thousands of U.S. dollars			
	Finance leases	Operating leases	Finance leases	Operating leases
Year ending March 31				
2006	¥304	¥101	\$2,831	\$ 940
2007 and thereafter	396	576	3,687	5,364
Total	¥700	¥678	\$6,518	\$6,313

10. Retirement Benefit Plans

The Company shifted from the previous retirement pension plan, which consisted of the noncontributory funded pension plan and government Welfare Pension Insurance Plan, to the new retirement pension plan, which consisted of the defined contribution pension plan and defined benefit pension plan, and applied Accounting Procedures Concerning the Change in Retirement Benefit Plan (Corporate Accounting Principles Application Guideline 1) from January 1, 2005.

On August 29, 2003, the Company received approval from the Ministry of Health, Labour and Welfare for an exemption from the obligation for benefits related to future employees services under the substitutional portion of the 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, 2005 and 2004 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Retirement benefit obligation	¥(25,550)	¥(27,812)	\$(237,918)
Plan assets at fair value	17,862	8,738	166,328
Unfunded retirement benefit obligation	(7,688)	(19,073)	(71,590)
Unrecognized actuarial gain or loss	3,575	4,303	33,290
Unrecognized prior service cost	(275)	—	(2,561)
Net retirement benefit obligation	(4,389)	(14,770)	(40,870)
Prepaid pension cost	—	—	—
Accrued retirement benefits	¥ (4,389)	¥(14,770)	\$ (40,870)

The components of retirement benefit expenses for the years ended March 31, 2005 and 2004 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service cost	¥ 912	¥ 992	\$ 8,492
Interest cost	677	927	6,304
Expected return on plan assets	(220)	(318)	(2,049)
Amortization of actuarial gain or loss	511	581	4,758
Amortization of prior service cost	(7)	(30)	(65)
Gain on the release from the substitutional portion of the government's Welfare Pension Insurance Plan	—	(4,475)	—
Loss on retirement benefit plan changes	1,625	—	15,132
Other	58	—	540
Total	¥3,556	¥(2,323)	\$33,113

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

	2005	2004
Discount rates	2.5%	2.5%
Expected return on plan assets	2.5%	3.0%

11. Pledged Assets

Assets pledged as collateral for guarantee deposits of at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and cash in banks	¥10	¥10	\$93
Investment securities	—	17	—
Total	¥10	¥27	\$93

12. Income Taxes

The significant components of the Company's deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Accrued retirement benefits for employees	¥1,664	¥ 5,976	\$15,495
Accrued bonuses to employees	835	963	7,775
Accrued enterprise tax	—	171	—
Loss on disposal of inventories	49	20	456
Loss on devaluation of investment securities	294	394	2,738
Loss on disposal of property, plant and equipment	1,253	687	11,668
Depreciation and amortization	575	559	5,354
Accrued expenses for retirement benefit plan change	1,062	—	9,889
Tax loss carry forward	930	—	8,660
Other	648	425	6,034
Total deferred tax assets	¥7,314	¥ 9,199	\$68,107
Deferred tax liabilities:			
Reserve for special depreciation	(157)	(184)	(1,462)
One time revaluation for property, plant and equipment	(17)	(18)	(158)
Unrealized holding gain on securities	(475)	(1,716)	(4,423)
Other	(22)	(27)	(205)
Total deferred tax liabilities	(673)	(1,947)	(6,267)
Net deferred tax assets	¥6,641	¥ 7,252	\$61,840

Taxes on income consist of corporation, enterprise and inhabitants taxes. The aggregate statutory tax rate on income before income taxes was 41.3 % for 2005 and 42.0% for 2004.

The effective tax rate reflected in the consolidated statements of income for the year ended March 31, 2005 differed from the statutory tax rate for the following reasons:

	2005
Statutory tax rate	41.3%
Nondeductible entertainment expenses	10.5
Nondeductible per capita portion of inhabitant taxes	1.9
Nontaxable dividend income	(0.2)
Equity in earnings of affiliates	(3.5)
Other	(0.2)
Effective tax rate	49.8%

The reconciliation between the statutory tax rate and the effective tax rate has been omitted for the year ended March 31, 2004 because the difference was less than 5% of the statutory tax rate.

The Company and its consolidated subsidiary calculate enterprise taxes based on "amount of added value" and "amount of capital," and they are included in selling, general and administrative expenses for the year ended March 31, 2005 pursuant to "Practical Treatment for Presentation of External Based-Corporate Enterprise Taxes in the Statement of Income" (Accounting Standards Board, February 13, 2004). As a result, selling, general and administrative expenses increased ¥60 million (\$559 thousand) for the year ended March 31, 2005.

13. Related Party Transactions

The Company purchased medical products from an affiliate, Nisshin Kyorin Pharmaceutical Co., Ltd., for ¥3,276 million (\$30,506 thousand) and ¥3,536 million in the aggregate during the years ended March 31, 2005 and 2004, respectively. The terms of the transactions referred to above were negotiated and determined on an impartial basis.

The Company purchased treasury stock from a big holder of the Company shares, Apricot Co., Ltd., through a takeover bid for ¥8,913 million for the year ended March 31, 2004.

14. Segment Information

(1) Business Segments

Information regarding business segments is omitted in consolidated financial reports for the years ended March 31, 2005 and 2004 because sales, operating income and total assets in the pharmaceuticals segment are more than 90% in all business segments.

(2) Geographical Segments

Information regarding geographical areas is omitted for the years ended March 31, 2005 and 2004 because sales and total assets in the Japan area are more than 90% in all geographical areas.

(3) Overseas Sales

Overseas sales for the years ended March 31, 2005 and 2004 are summarized as follows:

	2005			
	Millions of yen			
	North America	Europe	Asia and Middle East	Total
Overseas sales	¥8,008	¥228	¥601	¥ 8,838
Consolidated net	—	—	—	66,296

	Thousands of U.S. dollars			
Overseas sales	\$74,569	\$2,123	\$5,596	\$ 82,298
Consolidated net sales	—	—	—	617,339
Overseas sales as a percentage of consolidated net sales	12.1%	0.3%	0.9%	13.3%

	2004			
	Millions of yen			
	North America	Europe	Asia and Middle East	Total
Overseas sales	¥7,988	¥263	¥280	¥8,533
Consolidated net sales	—	—	—	65,061
Overseas sales as a percentage of consolidated net sales	12.3%	0.4%	0.4%	13.1%

15. Contingent Liabilities

The Company was contingently liable as guarantors of indebtedness of the Company's employees in the aggregate amount of ¥9 million (\$84 thousand) at March 31,

2005 and ¥11 million at March 31, 2004.

16. Amounts Per Share

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Basic net income	¥ 26.48	¥ 68.76	\$ 0.25
Cash dividends	18.00	18.00	0.17
Net assets	1,218.22	1,234.80	11.34

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, 2005 and 2004.

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

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

The amounts of net income per share for the years ended March 31, 2005 and 2004 were calculated based on the following:

	Millions of yen	
	2005	2004
Net income	¥2,013	¥5,692
Net income not available to common shareholders	44	41
(Of which the amount appropriated as bonuses to directors and corporate auditors)	(44)	(41)
Net income available to common stock	1,968	5,650

	Thousands of shares	
Average number of common stock outstanding	74,323	82,179

	Thousands of U.S. dollars	
	2005	2004
Net income	\$18,745	\$53,003
Net income not available to common shareholders	410	382
(Of which the amount appropriated as bonuses to directors and corporate auditors)	(410)	(382)
Net income available to common stock	18,326	52,162

	Thousands of shares	
Average number of common stock outstanding	74,323	82,179

17. Subsequent Events

The following appropriations of retained earnings, which have not been reflected in the accompanying financial statements for the year ended March 31, 2005, were approved at the annual general shareholders' meeting held on June 24, 2005:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥18.00 = U.S.\$0.17 per share)	¥668	\$6,220
Bonuses to directors and corporate auditors	40	372
	¥708	\$6,593

Report of Independent Auditors



■ Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

■ Tel : 03 3503 1100
Fax : 03 3503 1197

Report of Independent Auditors

The Board of Directors
Kyorin Pharmaceutical Co., Ltd.

We have audited the accompanying consolidated balance sheets of Kyorin Pharmaceutical Co., Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kyorin Pharmaceutical Co., Ltd. and consolidated subsidiaries at March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

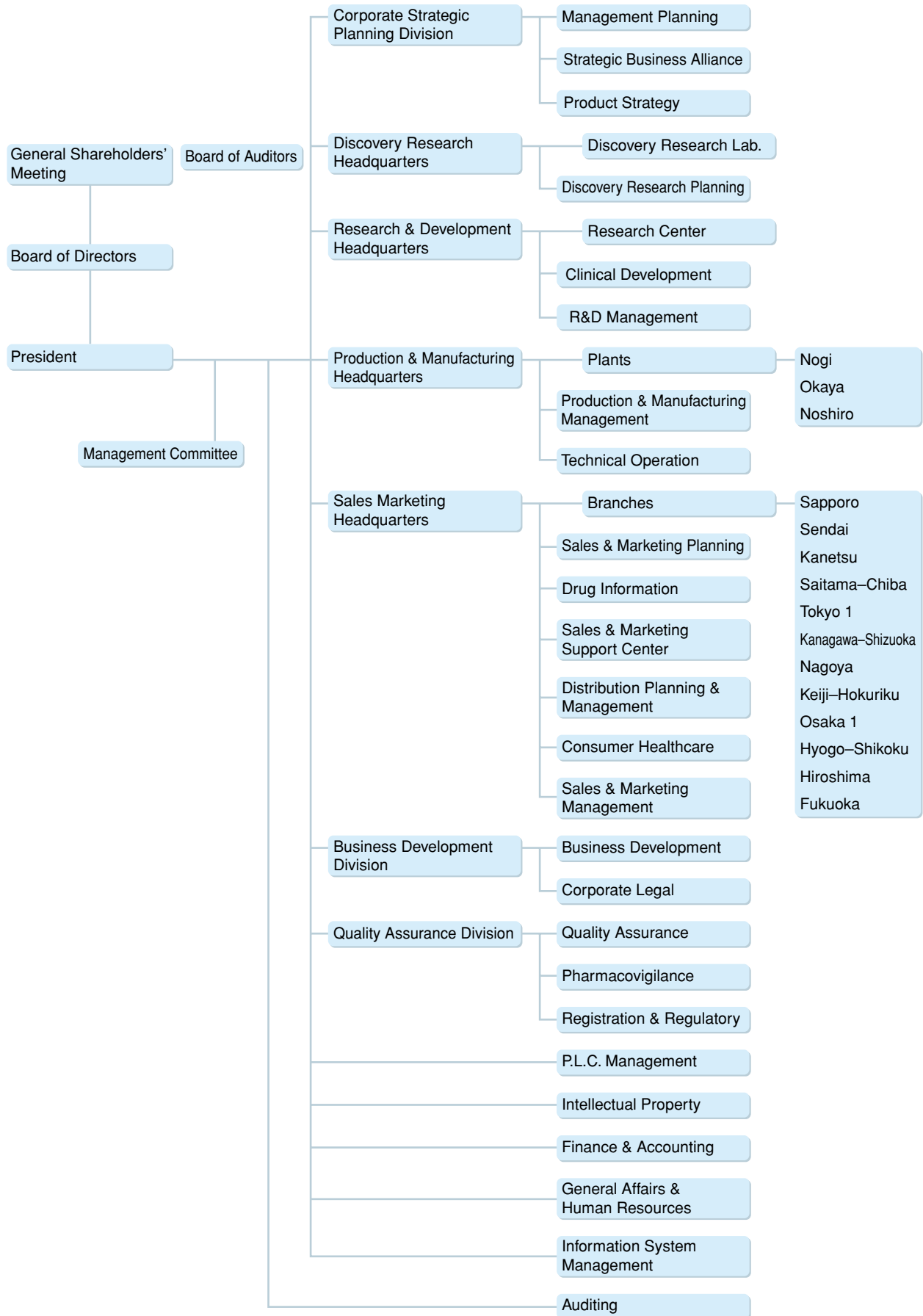
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon

June 24, 2005

Organization

(As of September 2005)



Corporate Information

(As of March 31, 2005)

Head Office	5, Kanda Surugadai 2-chome, Chiyoda-ku, Tokyo 101-8311 Phone: +81-3-3293-3411 URL: http://www.kyorin-pharm.co.jp/eg/index.html
Foundation	1923
Establishment	1940
Common Stock	¥4,317 million
Outstanding Shares	86,346 thousand
Shareholders	5,063
Major Shareholders	APRI Co., Ltd. 14.13% Minoru Ogihara 8.81% Apricot Co., Ltd. 5.79% Japan Trustee Services Bank, Ltd. 4.34% Mycam Co., Ltd. 3.75% Hiroko Ogihara 2.99% The Master Trust Bank of Japan, Ltd. 2.67% Ikuo Ogihara 2.14% Employee Shareholders 1.55% State Street Bank and Trust Company 1.51%
Listing	Tokyo Stock Exchange, First Section
Transfer Agent	Mizuho Trust & Banking Co., Ltd., 2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-8670 Phone: +81-3-3278-8111

Consolidated Subsidiaries

(As of September 2005)

Kyobundo Co., Ltd.	Capital: ¥12 million Percentage of ownership: 100% Head office: Kyorin Nishi-Shinjuku Building, 25-13 Nishi-Shinjuku, 6-chome, Shinjuku-ku, Tokyo 160-0023 Operations: Sales promotion, advertising planning and production
Bistner Co., Ltd.	Capital: ¥30 million Percentage of ownership: 100% Head office: YS Building, 6th Floor, 11-2, Nishi-Shinjuku 6-chome, Shinjuku-ku, Tokyo 160-0023 Operations: Advisory services, funds management
Toyo Pharmar Co., Ltd.	Capital: ¥542 million Percentage of ownership: 71.7% Head office: 287-1, Shimocho Moroe-cho, Kanazawa City, Ishikawa Prefecture 920-0017 Operations: Import, production and sales of pharmaceuticals, pharmaceutical materials, quasi-drugs and dietary supplements
Dr. Program Co., Ltd.	Capital: ¥251 million Percentage of ownership: 100.0% Head office: Doric Minami-Aoyama, 4th Floor, 27-14, Minami-Aoyama 2-chome, Minato-ku, Tokyo 107-0062 Operations: Production and sales of pharmaceuticals, cosmetic materials and Trinity Line skincare products
ActivX Biosciences, Inc.	Capital: US\$1 Percentage of ownership: 100% Head office: 11025 N. Torrey Pines Road Suite 120, La Jolla, California 92037, United States Operations: Discovery and evaluation of candidate compounds
Kyorin USA, Inc.	Capital: US\$500,000 Percentage of ownership: 100% Head office: 300 Frank W. Burr Blvd., 5th Floor, Teaneck, New Jersey 07666, United States Operations: Research and analysis of other companies' technologies and collection of information concerning clinical trials
Kyorin Europe GmbH	Capital: €50,000 Percentage of ownership: 100% Head office: Kaiserstrasse 8, 60311 Frankfurt am Main, Germany Operations: Research and analysis of other companies' technologies and collection of information concerning clinical trials
Equity-Method Affiliates	
(As of September 2005)	
Nisshin Kyorin Pharmaceutical Co., Ltd.	Capital: ¥300 million Percentage of ownership: 50% Head office: OHM Building, 1, Kanda Nishikicho 3-chome, Chiyoda-ku, Tokyo 101-0054 Operations: Production and sales of pharmaceuticals
Nippon Rika Co., Ltd.	Capital: ¥411 million Percentage of ownership: 28.7% Head office: 2-2, Nihonbashi Honcho 4-chome, Chuo-ku, Tokyo 103-0023 Operations: Production and sales of pharmaceuticals, reagents, intermediates and other products

KYORIN PHARMACEUTICAL CO., LTD.