KAKEN

Bringing smiles to everyone

Annual Report 2007

Year Ended March 31, 2007

Corporate Philosophy

Bringing smiles to everyone

By serving as many people as possible to return smiles of happiness to their faces, through supplying superior pharmaceuticals, Kaken helps improve the quality of life for patients.

To continue realizing our corporate philosophy of "bringing smiles to everyone," it is essential that Kaken not only responds to changes in the times but also innovates and remakes itself.

Looking to create new drugs that are competitive on the global market, we will build Kaken into a company that makes our employees proud by providing much-needed, high-quality pharmaceuticals. Kaken strives to advance to the 21st century as a company that maintains a strong presence and fulfills its obligations to society as a pharmaceutical company.

Profile

The origin of Kaken Pharmaceutical Co., Ltd. can be traced back to the Institute of Physical and Chemical Research (Riken), established in 1917. The Company started pharmaceutical business with full-scale development of penicillin and streptomycin based on Riken's own technologies in 1948, and since then broadened the scope of its business and drug development activities through merger and alliance. Kaken's prestige has soared accordingly.

While the Company has established strength in developing and selling pharmaceuticals for orthopedics, it is now expanding its involvement in other medical fields, such as hyperlipidemia and diabetes. The Company contributes to improving people's health by cultivating its own original technologies, engaging in joint development initiatives, introducing new technologies and acquiring marketing rights.

As a fruit of its technology and product introduction, the Company has been since June 2001 marketing Fiblast Spray consisting of Trafermin, a recombinant form of human basic fibroblast growth factor (bFGF) for the first time in the world, licensed from a US bio-pharmaceutical company, Scios, in the area of regenerative medicine (wound healing medicine).

Contents

Forward-Looking Statements

This annual report contains forward-looking statements pertaining to the Company's business and prospects. These statements are based on current analysis of existing information and trends. Actual results may differ from expectations due to unforeseen risks and uncertainties.

Business Philosophy: Three Joys

KAKEN
conducts business by

Creating joy for patients.

We strive to create and offer effective drugs that satisfy the needs of patients and medical professionals.

Creating joy as a company.

We recognize our social responsibility as a pharmaceutical company with a high ethical standard and society's trust.

Creating joy for our employees.

Our objective is to become a company with vitality and presence whose employees enjoy and take pride in their work.

Consolidated Financial Highlights

	Millions of yen		Thousands of U.S. dollars (Note)
	2007	2006	**2007**
For the years ended March 31,			
Net sales	**¥ 76,415**	¥ 75,540	**$ 647,585**
Operating income	**8,113**	8,359	**68,754**
Net income	**4,602**	3,886	**39,000**
At March 31,			
Total net assets	**60,433**	54,637	**512,144**
Total assets	**100,900**	98,739	**855,085**
Per share data:	Yen		U.S. dollars (Note)
Net income (Basic)	**¥ 42.42**	¥ 40.23	**$ 0.359**
Cash dividends (Non-Consolidated)	**17.00**	15.00	**0.144**
Ratios:	%		
ROE	**8.00**	7.76	—
Capital adequacy ratio	**59.89**	55.33	—

Note: U.S. dollar amounts are translated, for convenience only, at the rate of ¥118 = $1 effective on March 30, 2007.

President's Message

In fiscal year 2006, ended March 31, 2007, Kaken faced an increasingly challenging business climate as the Japanese government implemented further measures to curtail medical expenses.

Under these circumstances, we endeavored to respond flexibly to any changes and work steadily as a medium-sized pharmaceutical company to accelerate marketing activities and drug discovery to meet the needs of medical professionals in the field. We also actively pursued the generic drug business as one pillar of our operations.

Upholding its corporate philosophy of "bringing smiles to everyone," Kaken aims to be characterized by an independent spirit and a strong global presence.

Kaken's commitment to "bringing smiles to everyone" entails providing superior pharmaceuticals that improve patients' quality of life. We embrace strong principles and a compliance orientation, utilize management resources efficiently and maximize corporate value to earn the trust of all our stakeholders.

Overview of Results for the Fiscal Year Ended March 31, 2007

Kaken faced an increasingly challenging business climate in fiscal year 2006. In April 2006, Japanese government initiatives reduced drug prices by an average of 6.7% industrywide, heightened efforts to encourage the use of generic drugs and introduced other measures to limit medical costs.

Under these circumstances, the Group rapidly expanded its R&D pipeline and strove to promote sales activities closely tied to local communities by providing high-value-added information that meets the needs of medical professionals in the field.

As a result of these efforts, consolidated net sales rose 1.2% from fiscal year 2005, to ¥76,415 million. Operating income decreased 2.9%, to ¥8,113 million, as higher R&D expenses pushed up selling, general and administrative expenses. However, net income climbed 18.4%, to ¥4,602 million, owing to cost reductions achieved in the preceding term by liquidating affiliated companies accounted for under the equity method, as well as to lower interest costs following the repayment of long-term debt.

The Group's equity ratio amounted to 59.9% as all bonds with stock acquisition rights issued in 2002 were converted to stock.

Addressing Future Challenges for Continued Growth

Ongoing government initiatives to curb healthcare spending are exacerbating competition within the pharmaceutical industry. Under these circumstances, we aim to maximize corporate value by steadily raising awareness and implementing operational reforms, as well as maintaining our status as a trusted company in the eyes of the public through a strong commitment to compliance. Our five key reforms are outlined below.

Focus investments on research and development

Targeting specific research areas, we are working to expand our product range by accelerating research and development. At the same time, we will continue to actively pursue strategic alliances with domestic and overseas companies and research

institutions, and introduce new research themes.

To expedite research and development, we will outsource basic research procedures and make use of contract research organizations (CROs). In addition, we will consider increasing expenditures on specific R&D themes to fortify our R&D framework.

In the fiscal period under review, we applied for production and marketing approval for the pulmonary hypertension treatment TRK-100STP, a sustained-release formulation for Procylin tablets.

Strengthen our sales force

Our sales staff works closely with local communities to provide high-value-added information to meet the needs of medical professionals in the field. We will focus on the development of Fiblast Spray, a wound healing agent, as we strive to become a leader in this field. In addition, we will expand our market share to ensure our strong position in the field of orthopedics. We are also actively pursuing the generic drug business as one pillar of our operations.

Establish an internal control system and carefully manage risk

We will reinforce our internal control system and carefully manage risk as we strive to enhance operating efficiency and compliance to ensure that we reach our management goals. We have commenced efforts to assure reliable financial reporting in line with the Standard for Assessment and Audit of Internal Controls over Financial Reporting (J-SOX).

Optimize and streamline operations

On the production side, we will make further reassessments of procedures, products and standards as we strive to lower manufacturing costs. In the field of agrochemicals, we are expanding consigned production to Chinese companies, and we are committed to obtaining FDA certification.

Promote environmental protection

Kaken's Shizuoka production and R&D facilities have obtained ISO 14001 certification, and our Kyoto research laboratories have been awarded the Kyoto Environmental System certification by the city of Kyoto in recognition of their environmental management systems. We recognize environmental protection as a social responsibility, and to this end we are aggressively promoting activities at all levels of our organization. For example, we have established an Environment Committee and set up Environment Task Forces at each worksite. These activities are summarized in our Social and Environmental Report on the Kaken website.

Basic Policy and Approach concerning Return to Shareholders

Kaken considers long-term, comprehensive profit increases for its shareholders an important management goal. Operating in the pharmaceutical industry entails large risks, requiring us to have a higher level of equity capital than companies in other industries. We employ a flexible dividend policy that sets cash dividends based on performance while maintaining a balance between returns to shareholders and strengthening equity capital.

Dividends per share of common stock applicable to the fiscal year under review consisted of an ¥8.50 interim dividend and an ¥8.50 year-end dividend, resulting in total dividends for the year of ¥17 per share. This amount is ¥2 higher than for the preceding fiscal year, making fiscal year 2006 our fifth consecutive year of dividend increases. As a result, the consolidated dividend payout ratio increased to 40.1%.

Kaken also acquires treasury stock on a flexible basis. In the year under review, we acquired treasury stock three times at a total cost of ¥5,705 million, as per resolutions of the Board of Directors.

June, 2007

Shiro Inui
President

Developing New Products

Kaken's Innovative Product for Regeneration

Fiblast Spray—the world's first regenerative medicine—is the commercialized product of a human recombinant protein basic Fibroblast Growth Factor (bFGF). A member of the FGF family, bFGF exists endogenously in almost all tissues. bFGF, which binds to the extracellular matrix, is released from the matrix once cells or tissues are damaged, such as by trauma or ischemia, after which bFGF acts on a variety of cells and tissues to promote repair. As the drug's actions are broad-ranging, it is characterized by its powerful ability to stimulate growth of numerous cell types while stimulating the formation of new blood vessels.

After obtaining exclusive licensing rights in Asia in 1988 from Scios Inc. of the United States, Kaken made continued R&D efforts toward approval of the drug for the treatment of bedsores and other skin ulcers (burns and leg ulcers), releasing the product onto the world market for the first time as Fiblast Spray in June 2001. After more than six years on the market as a wound healing agent, the drug has a solid reputation in numerous hospitals and clinics in Japan.

To further apply and expand the technology cultivated in the development of Fiblast Spray, Kaken has completed Phase II clinical trials on intractable skin ulcers with diabetes, confirming the drug's effectiveness at treating diabetic skin ulcers.

bFGF has also been found to promote the proliferation and regeneration of periodontal and bone tissues, in addition to skin tissue. For periodontal tissue, bFGF has been proven its effectiveness in the regeneration of alveolar bone destroyed by periodontitis in early Phase II

New Drug Development Pipeline

Product	Development Stage	Category	Launch	Indication	Remarks
TRK-100STP	NDA	Orally active PGI_2 analog	2007	Pulmonary arterial hypertension	Sustained release tablet
KCB-1 (Fiblast Spray)	Preparing for Phase III	bFGF	2009	Diabetic ulcers	New indication
KCB-1D	Phase II-finished	bFGF	2010	Periodontitis	New indication
KCB-1B	Phase II	bFGF	2012	Bone fractures	New indication
KP-102LN	Phase II	GH secretagogue	2012	Short stature	
SPK-843	Phase II	Polyene antibiotic	2012	Systemic mycosis	Introduced from Aparts B.V. (preparing to recommence)
KN-48	Phase II	Lidocaine patch	2010	Postherpetic neural-gia	Introduced from Teikoku Seiyaku Co., Ltd. Additional study ongoing
KP-496NS	Preclinical	LT/TX dual inhibitor		Allergic rhinitis	In-house
KP-496DPI	Development stopped	LT/TX dual inhibitor		Asthma	
KP-103	Pre-clinical	Triazole antifundal		Onychomycosis (topical)	Licensed to Dow Pharmaceutical Sciences Inc.

clinical trial conducted with patients suffering from this disease. In recently completed late Phase II clinical trials with a much larger number of patients, we succeeded in reconfirming its strong effectiveness in alveolar bone regeneration and also in identifying the optimal dose for Phase III. We will conduct Phase III clinical trials as scheduled and apply for launch in 2010. We are conducting basic research with the prospect of expansion into areas of dentistry beyond periodontitis, including implant applications.

For bone tissue, bFGF has demonstrated the ability to promote the healing of fractures by enhancing bone metabolism through both the direct proliferative effect on osteoblasts and the indirect accelerative effect on osteoclasts. We are currently conducting Phase II clinical trials for bone fractures, aiming to apply for launch in 2012.

In addition to the areas in which we are conducting clinical trials, we are also currently collaborating with universities and other research organizations in Japan in broad-ranging areas to expand the possibilities of bFGF-based regenerative medicines.

In March 2005, we obtained worldwide rights to develop, manufacture and market bFGF. That same year in December, we concluded a license agreement with a Chinese pharmaceutical company for the development and marketing of Fiblast Spray. In June 2007, we concluded a license agreement with Sunstar Inc. involving the development and marketing in Europe and North America in the dental area.

Using the expertise accumulated in our research and development of bFGF, we continue to collaborate with our overseas partners to expand our global activities.

Review of Operations

■ Pharmaceuticals and Medical Devices

Artz (Sodium hyaluronic acid)

Artz is an anti-osteoarthritic with highly purified sodium hyaluronic acid as the active ingredient. Hyaluronic acid is extracted from rooster combs and has viscoelastic, water-retentive and lubricating properties.

In 1987, Artz was released for the first time, indicated for osteoarthritis of the knee as a form of hyaluronic acid injectable into the joint, obtaining additional approval for the treatment of shoulder periarthritis in 1989.

In 1992, Artz Dispo—a packaging of the drug with a disposable syringe—was released with the aim of making injection procedures simpler and faster, as well as reducing the danger of infections.

In 2005, the drug was approved for the treatment of knee joint pain accompanying chronic rheumatoid arthritis.

Procylin (oral prostaglandin I2 analog)

Procylin is a prostaglandin I2-analog, beraprost sodium, as its active ingredient, which dilates blood vessels and inhibits platelet aggregation, serving as a treatment for chronic artery occlusive disease. This drug was created by Toray Industries, Inc. and commercialized through joint clinical development with Kaken. It is the only oral prostaglandin I2 analog formulation in the world.

Procylin is a superior circulation enhancer with its ability to inhibit platelet aggregation and increase peripheral blood flow. The drug was launched in 1992 for its effectiveness in treating ulcers, pain and chills resulting from such conditions as arteriosclerosis obliterans (ASO) and thromboangitis obliterans (TAO). In 1999 Procylin received additional approval for primary pulmonary hypertension.

Adofeed (pain- and inflammation-relieving plaster)

Adofeed is an antiphlogistic analgetic plaster containing Flurbiprofen as its active ingredient, which is a non-steroidal anti-inflammatory drug that acts as a powerful prostaglandin biosynthesis inhibitor. Absorbed directly through the skin, Adofeed has proven effective in reducing pain and inflammation associated with osteoarthritis, shoulder periarthritis, tennis elbow, muscle pain and other inflammatory diseases.

Artz (Sodium hyaluronic acid)

Procylin
(oral prostaglandin I2 derivative)

Adofeed
(pain- and inflammation-relieving plaster)

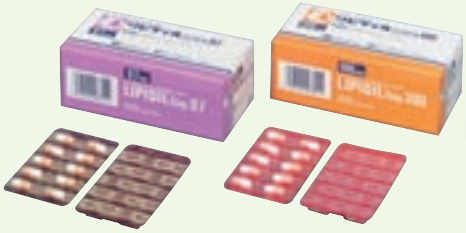
Mentax
(anti-Trichophyton agent)

Mentax (anti-Trichophyton agent)

Mentax is a topical treatment for superficial mycosis with butenafin hydrochloride—created by Kaken—as its main ingredient. Mentax is marketed worldwide, including in the United States through Mylan Pharmaceuticals. In December 2001, Mentax was approved as an over-the-counter (OTC) drug in the United States and is now marketed under the trade name Lotrimin Ultra through Schering-Plough Corporation.

In 2003, Mentax was approved for manufacture and sale as an OTC drug in Japan, and is currently being marketed as an OTC drug by Takeda Pharmaceutical Company Limited and Sato Pharmaceutical Co., Ltd.

In 2004, we launched a new spray formulation of Mentax.



Lipidil (anti-hyperlipidemic)

Seprafilm
(synthetic-absorbent
anti-adhesive)

Fiblast Spray
(wound healing agent)

Lipidil (anti-hyperlipidemia)

This new micronized formulation of the active ingredient Fenofibrate in the drug Lipantil—released in 1999—is a fibrate type of lipid-lowering agent with increased absorbability.

Fenofibrate is a fibrate compound developed by Fournier Pharma (now Solvay S.A.) in France. The drug improves overall lipid metabolism by activating peroxisome proliferator-activated receptor a (PPARa) in liver cells and lowering triglycerides and cholesterol while increasing HDL-cholesterol by adjusting the expression of a variety of proteins involved in lipid metabolism.

Lipidil is sold in over 90 countries and has accumulated extensive clinical experience.

Seprafilm (synthetic-absorbent anti-adhesive)

Seprafilm is a sheet-type, synthetic-absorbent anti-adhesive developed by Genzyme Corp. in the United States, consisting of sodium hyaluronic acid and CMC. Within 24 to 48 hours after applying Seprafilm to tissues damaged by surgery, the product becomes a hydrated gel and remains in place for approximately seven days, acting as an effective anti-adhesive by creating a physical barrier between damaged tissue and the surrounding normal tissue.

Fiblast Spray (wound healing agent)

Consisting of Trafermin, a recombinant form of human bFGF (basic fibroblast growth factor), Fiblast Spray is a wound healing promoter having effects of angiogenesis and granulation formation. Scios Inc. paved the way for the development of recombinant bFGF by mapping the complete DNA sequence of the human bFGF gene. Kaken then took over development of the drug, releasing Fiblast Spray as the world's first human bFGF agent in 2001.

The Company is currently engaged in clinical studies of Fiblast Spray to expand application of the drug to treat diabetic skin ulcers.

Ebrantil (treatment for dysuria and hypertension)

Ebrantil is a sustained-release formulation of theα1-selective blocker, Urapidil.

In Japan, the drug was first marketed in 1989 as a treatment drug for hypertension, based on its peripheral vasodilating effect. In 1995 the treatment was approved for difficulty in urination caused by benign prostatic hyperplasia, and in 1999 it was approved as the world's first α1-blocker for the treatment of dysuria caused by neurogenic bladder.

Cytotec (NSAID-induced ulcer preventive)

This drug is excellent at treating gastric and duodenal ulcers brought on by the administration of NSAIDs. The active ingredient, prostaglandin E1-analog Misoprostol, developed by G.D. Searle (now Pfizer, Inc.), both inhibits the secretion of gastric juices and exerts a mucosal protective effect (site protection).

In the Guidelines for the Examination of Gastric Ulcers and Guidelines for the Treatment of Rheumatoid Arthritis in Japan, Cytotec is recommended as a drug backed by clinical evidence for the prevention and treatment of NSAID-induced ulcers.

Generic Drugs

In Japan, government authorities are currently urging the use of generics as part of a movement to reduce medical costs. We are also seeing an increase in frequency of generic drug use in actual medical practice.

As the generic drug market grows, Kaken is making aggressive forays into generics to seize this business opportunity.

In addition to pharmaceuticals, medical devices, agro-chemicals and animal health products, and real estate, we intend to build generics into the fifth pillar of our operations with a medium-term goal of ¥10 billion in sales. We will continue to expand our product line to achieve this objective.

■ Agrochemicals

Polyoxins (fungicides)

Two different technical grade active ingredients (TGAIs), Polyoxin AL and Polyoxin Z, are produced by fermentation using a microorganism isolated from a soil of Mt. Aso in Japan. Formulations of WP, SG and WG are registered in various countries and used widely to control fungal diseases on fruit trees, vegetable, flowers, turf and ornamentals. As natural source fungicides, they are known to be highly safe for humans, animals, plants and the environment.

Pentoxazone (rice herbicide)

Pentoxazone is known as a Protox inhibitor and used to control annual broad leaves, barnyard grass and monocholia in paddy fields with a long-lasting effect. GR, SC, TB and EW formulations of pentoxazone alone or in combination with sulfonylurea and other herbicidal compounds are available and can be applied before, during and after transplantation of rice seedlings due to their high crop safety.

■ Animal Health Products

Salinomycin (ionophore anti-coccidial for chicken)

Salinomycin was discovered and developed by Kaken and registered first in Japan in 1978. Through successful marketing and licensing, salinomycin is now the best-selling anti-coccidial feed additive in the world and is instrumental in economically producing millions of tons of healthy chicken meat. Kaken produces salinomycin under GMP and supplies worldwide technical grade material and formulated products directly and through distributiors.

Colistin sulfate (polypeptide antibiotic)

Colistin sulfate is used as a veterinary medicine or feed additive to control diseases caused by gram-negative bacteria in poultry, swine, cattle and other animals. This antibiotic has been used worldwide for a long period of time because of its excellent safety and efficacy. Kaken produces the EP5 grade material under GMP, and its Drug Master File (DMF) is available if required.

Commitment and Excellence

R&D Division

Kaken has extensive technical expertise in its main drug discovery research in the areas of inflammation, immunity and allergies, as well as fungal infection disease. We invest substantial financial and human resources into such research activities with the aim of developing new drugs that are both effective and safe. To create new drugs that can compete in the world market, we maintain an active program of drug discovery research, spearheaded by outstanding research professionals and techniques refined over many years of experience in pharmaceutical development.

At present, we have a total of around 260 researchers. During the year under review, research and development expenses amounted to ¥6.5 billion. To expedite our R&D activities, we are actively pursuing strategic alliances with companies and research institutes both in Japan and overseas, as well as outsourcing some of our operations.

Kaken is fully committed to R&D activities that generate innovative proprietary products, which will enable the Company to build a unique position as a pharmaceutical manufacturer. To enable efficient R&D activities, we adopt a multifaceted approach that includes pinpointing specific research programs, in-house development, joint development, licensing and outsourcing.

Our Drug Discovery Research Laboratories are located in Kyoto, the ancient capital of Japan, and our Development Research Laboratories are in Shizuoka. We divide duties and employ cutting-edge research equipment and techniques to aid drug discovery and investigation, which require long and arduous research and unrivalled expertise. At our laboratory in Kyoto, we carry out discovery research, synthetic studies and pharmacological studies, while at our Shizuoka laboratory we conduct studies on drug safety, metabolism and formulation.

We advance R&D efforts through cooperation and coordination among six research sections. The Chemistry Laboratory handles synthesis of the compounds that are the seeds of new drugs. The Drug Discovery Research Laboratory seeks out and evaluates pharmacological activities of candidate compounds. The Pharmacology Laboratory verifies the utility of candidate compounds created through discovery research and compares them alongside other drugs. The Safety Research Laboratory verifies the safety of candidate compounds on animals to predict adverse effects on the human body. The Pharmacokinetics Laboratory assesses the pharmacokinetics of developed compounds in vivo. The Drug Formulation Laboratory investigates the physical and chemical properties of the drug compound and creates a production plan to ensure maximum safety and effectiveness in the resulting drug's action on the target disease.

As a result of our research activities, in 2001 Kaken's scientists received the 23rd Young Investigator Award from the American Society for Bone and Mineral Research (ASBMR)—the most prestigious organization in the field—in recognition of our research in osteoporosis. In 2003, Kaken's scientists received the Prize for the Most Outstanding Pharmacy Thesis from Academy of Pharmaceutical Science and Technology, Japan in the field of oral solid formulation design, underscoring our high level of basic technology. We are leveraging such research technologies to accelerate and expand our R&D efforts.

To expedite discovery research in genomic drug discovery and other areas, we will continue focusing on our specialist areas and actively pursue alliances with research institutions in Japan and overseas. We will also introduce and license new technologies on a global basis, seeking out new technologies and their seeds on a worldwide scale. As a part of our efforts to continue carrying out top-class research, we have set up a Scientific Advisory Board comprised of respected researchers in Japan who periodically discuss and advise on Kaken's drug discovery programs.

In our R&D division, clinical trials are studies in which drug candidates that have passed the non-clinical trials are actually administered to humans. The Clinical Development Department verifies the efficacy of candidate compounds coming out of discovery research or from elsewhere and plans and performs clinical trials on those compounds. The Administration Department of Clinical Development oversees clinical trial quality and reliability and manages safety information for investigational drugs. These departments coordinate with the research laboratories to ensure speedy completion of clinical trials.

Regulatory Affairs Division

Kaken's Regulatory Affairs Division consists of three departments—the Quality Assurance Department, the Pharmacovigilance Department and the Regulatory Affairs Department.

The Regulatory Affairs Division shoulders Kaken's responsibility as a pharmaceutical manufacturer and marketer, making the final judgments on quality, effectiveness and safety in providing Kaken's drugs to medical professionals in the field.

The Quality Assurance Department assesses whether each drug is produced according to those judgments every time and whether the quality test results comply with standards. The Pharmacovigilance Department then evaluates the safety information collected so far from medical institutions pertaining to the drug in question, after which the Regulatory Affairs Division judgments are comprehensively carried out.

The Quality Assurance Department therefore works to maintain quality by regularly inspecting internal and external plants and collecting and examining information on quality. Meanwhile, the Pharmacovigilance Department reports the assessed safety information to the required entities and distributes information to medical institutions on the appropriate use of pharmaceuticals to enhance their effectiveness, such as by incorporating this information in the drug documentation.

The Regulatory Affairs Department supervises and assists with general aspects of production and marketing. Separate from these matters, the department is also involved in drug R&D affairs. It compiles basic and clinical data produced in the R&D Division, obtaining drug approvals as well as registration in the drug price standards after approval.

Production Division

Our production facilities in Shizuoka Prefecture were among the first in the industry to incorporate factory automation systems. They comply with Japanese GMP, which stipulates requirements for drug manufacturing and quality control. In addition to satisfying these requirements, the quality of products for export clears current Good Manufacturing Practice (cGMP) regulations in the United States, which were formulated the Food and Drug Administration (FDA).

We have also set up Production Technology Laboratories within the facilities, aiming to enhance product quality and research pharmaceutically useful innovations.

Marketing and Sales Division

Kaken's medical representatives (MRs) provide professionals on the medical front line with up-to-date information on the Company's drugs and medical devices. Our MRs also talk with healthcare professionals to gather medical information related to the safety and effectiveness of our drugs and provide feedback to the relevant departments.

We have established nine branches and 66 sub-branches so that our 700 MRs can work closely with local communities, particularly in our specialist fields of orthopedics and dermatology.

Distribution Division

We outsource all distribution functions to distributors specialized in handling pharmaceuticals.

Fulfilling our Social Responsibilities

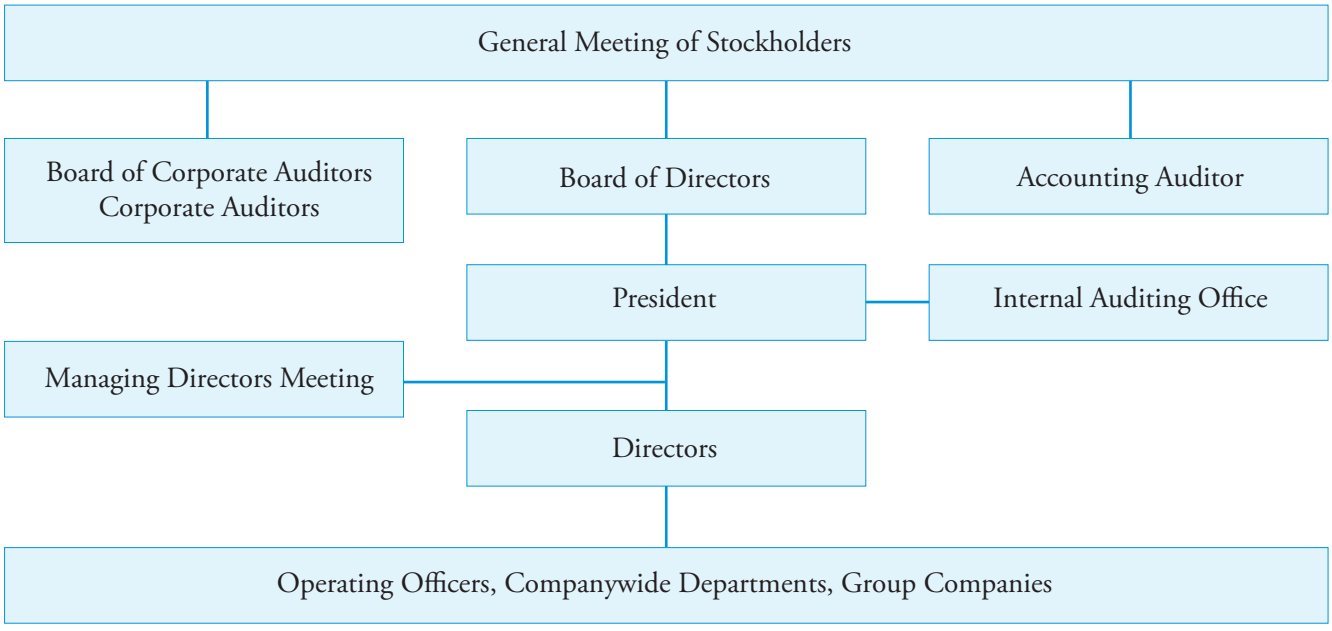
Corporate Governance

Kaken recognizes that corporate governance is one of the most important issues facing management with regard to continually enhancing corporate value. Through the implementation of appropriate systems, we have steadily raised the transparency of management, clarifying the separation of management's supervisory and business execution functions. In addition, we are fulfilling our obligation to provide stakeholders with appropriate information.

We have introduced an operating officer system to expedite decision-making and clarify supervisory and business execution functions.

Between the "company with corporate auditors" and "company with committees" formats for Kaken's management, we have chosen our existing format of "company with corporate auditors." While we fully recognize that reinforcing the control and auditing functions is an important element of corporate governance, we believe our Board of Directors, corporate auditor system and operating officer system—under the current management format for now—are critical to the functional operation of the Company.

Corporate Governance System



Our Initiatives

Kaken is aware that compliance is pivotal to earning the trust of society. To this end, we have established activity principles and guidelines and adhere to high ethical standards in all of our business activities. The Company's businesses are directly concerned with people's health and lives. In carrying out these important activities, each executive and employee maintains a strong daily commitment to these activity principles and guidelines.

Moreover, we maintain and operate a basic policy on internal control systems, pursuant to the Company Law, based on a resolution of the Board of Directors on May 12, 2006.

Compliance

Kaken recognizes compliance-based management as the most fundamental element in gaining society's trust and achieving healthy development. We further believe that this will enable the Company to raise its corporate value for the benefit of our shareholders, investors, business partners and the local community.

Kaken's Activity Principles

Every executive and employee of Kaken and its subsidiaries is strongly committed to compliance in operations with respect to observing Japanese and foreign laws and regulations, respecting different cultures and customs and adopting high ethical standards.

1. We recognize the preciousness of life and shall contribute to the welfare of society by channeling all our efforts into enhancing people's health and patients' quality of life.
2. We recognize the importance of maintaining appropriate relations with all our stakeholders, including shareholders, investors, employees, business partners and local communities.
3. We shall compete in a fair and free manner, conducting our business activities in a just and proper way.
4. We shall handle all the Company's assets, including information, in a legitimate and proper manner to facilitate the smooth running of its operations.
5. We shall respect the human rights and individuality of employees, pay attention to health and safety issues and work hard to foster a fair and honest workplace culture.
6. We shall manage Company information appropriately and disclose information in a timely and appropriate manner.
7. We shall take seriously the impact of our activities on the global environment and contribute to society as a good corporate citizen, including through environmental protection efforts.
8. We shall not tolerate terrorism and other anti-social behavior.

Environmental Protection Activities

Seeking to help protect the global environment and maintain and enhance the health and well-being of people, in 1983 Kaken launched its environmental protection program through the establishment of environment task forces at each worksite.

In 2000, we established an Environment Committee to oversee the implementation of policies across the Company. The Committee has established regulations to help realize a prosperous society, mindful that all Company activities should contribute to the protection and improvement of the global environment and the safety of people. In 2004, the Committee formulated basic principles and basic policies related to environmental issues.

In 2001, our Shizuoka production and R&D facilities obtained ISO14001 certification, the international standard for environment management. In 2005, our Kyoto research facilities were awarded Kyoto Environmental System (KES) certification by Kyoto City in recognition of their environmental management system. These both demonstrate Kaken's strong commitment to strengthening activities aimed at protecting the environment.

Our Shizuoka and Kyoto facilities continue to promote waste reduction, control of chemical substances, and energy-saving activities. All of our worksites, including the Company's headquarters and branches, will continue to reinforce and augment such initiatives by actively engaging in activities to protect the environment.

Board of Directors and Corporate Auditors

(Standing, from left) Susumu Kojima, Masao Ishida, Takao Endo
(Seated, from left) Tetsuo Onuma, Shuji Komoto, Shiro Inui, Takeshi Hirahara, Motoyuki Yajima

President and Representative Director
Shiro Inui

Executive Managing Director
Takeshi Hirahara
(Administration)

Executive Managing Director
Shuji Komoto
(Accounting, Purchasing and Agrochemicals)

Executive Managing Director
Motoyuki Yajima, Ph.D.
(Research and Development)

Executive Managing Director
Tetsuo Onuma
(Marketing and Sales)

Executive Director
Masao Ishida
(Global Business Development)

Executive Director
Takao Endo
(General Affairs)

Executive Director
Susumu Kojima
(Research and Development)

Auditor
Takeji Saito
(Standing)

Auditor
Fumio Hoshii
(Standing)

Auditor
Sumio Yoshizawa

Auditor
Keizo Nemoto

Financial Section

Consolidated Five-Year Summary

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Total assets	**100,900**	98,739	108,547	105,612	108,515	**855,085**
Per share data:		Yen				U.S. dollars (Note)
Net income (Basic)	**42.42**	¥40.23	¥36.54	¥31.87	¥27.11	**$0.359**
Cash dividends (Non-Consolidated)	**17.00**	15.00	12.00	10.00	8.25	**0.144**
Ratios:		(%)				
ROE	**8.00**	7.76	7.71	7.19	6.51	
Capital adequacy ratio	**59.89**	55.33	41.91	40.84	37.57	

Note: U.S. dollar amounts are translated, for convenience only, at the rate of ¥118 = $1 effective on March 31, 2007.

Management Discussion and Analysis

Business Climate

Competition between pharmaceutical companies increased as drug prices fell by an average of 6.7% across the industry in April 2006, efforts mounted to encourage use of generic drugs and other government-induced measures to limit medical costs took hold.

Under these circumstances, the Group rapidly expanded its pipeline with R&D as its focus area and worked hard to promote sales activities closely tied to local communities by providing high-value-added information that meets the needs of medical professionals in the field.

Performance

Consolidated net sales for the year under review amounted to ¥76,415 million, up 1.2% from the preceding fiscal year. Operating income decreased 2.9%, to ¥8,113 million, as higher R&D expenses pushed up selling, general and administrative expenses. However, net income climbed 18.4%, to ¥4,602 million, owing to reduced cost burden through liquidation in the previous fiscal year of affiliated companies accounted for using the equity method, as well as lower interest costs from the lump-sum repayment of long-term debt.

Segment Information

Starting in the fiscal year under review, the "Other" segment has been renamed as the "Real Estate" segment in light of the actual content of that segment's business.

Pharmaceuticals

Our pharmaceuticals segment consists of two core categories: pharmaceuticals (including medical devices), and agrochemicals and animal health products.

In pharmaceuticals, sales of Artz—an anti-osteoarthritic and one of our mainstay products—grew despite a regulatory price cut of more than 8%, as sales unit volume advanced 14.0%.

Sales of the anti-hyperlipidemic Lipidil and the synthetic-absorbent anti-adhesive medical device Seprafilm also

steadily expanded. Sales of generic drugs increased on the back of three new product launches. Sales of Procylin, a treatment for chronic artery occlusive disease, fell, as did sales of the pain- and inflammation-relieving plaster Adofeed and related products. Sales of our wound-healing agent Fiblast Spray remained nearly constant, as price cuts dulled the impact of higher unit sales volume.

In the agrochemicals category, the Company faced difficult business conditions brought on by restrictions on the use of agricultural chemicals. In this environment, sales of Polyoxin fungicides, used to control fungal diseases on fruit trees, vegetables and lawns, remained largely unchanged, while sales of the feed additive Salinomycin and the rice herbicide Pentoxazone increased.

As a result, net sales edged up 1.1% year-on-year, to ¥74,056 million, and operating income slipped 4.2%, to ¥6,826 million. Net sales overseas reached ¥3,580 million.

Real Estate

Rental income from Bunkyo Green Court represents the bulk of revenues from our real estate business. During the period under review, this income remained at virtually the same level as in the previous year.

Consequently, sales in the real estate segment rose 1.5%, to ¥2,359 million, and operating income increased 4.4%, to ¥1,287 million.

Financial Position

Total assets at fiscal year-end stood at ¥100,900 million, up 2.2% from a year earlier. This rise is mainly the result of an increase in trade notes and accounts receivable because the fiscal year-end fell on a non-business day. Total liabilities amounted to ¥40,467 million, down 8.2%, primarily as a result of the conversion of bonds. Net assets totaled ¥60,433 million, a 10.6% increase, mainly owing to the conversion of bonds and increased net income.

On April 14, 2006, the right to exercise the call option provision of the yen-denominated convertible bonds with stock acquisition rights issued in 2002 became available. The Board of Directors resolved to exercise this right to redeem the full value of the bonds before maturity.

As a result, the Group's equity ratio amounted to 59.9% as all bonds with stock acquisition rights were converted to common stock. Net assets per share totaled ¥565.92.

Cash Flows

Cash and cash equivalents at the end of fiscal year 2006 stood at ¥11,914 million, up ¥2,232 million from a year earlier.

Net cash provided by operating activities amounted to ¥11,933 million, up ¥5,587 million from the previous year. Contributing factors included an increase in net income before tax and a decrease in income taxes paid.

Net cash used in investing activities totaled ¥2,222 million, up ¥198 million. The principal use of cash was the acquisition of property, plant and equipment.

Net cash used in financing activities was ¥7,478 million, down ¥4,433 million. This was the result of cash dividends paid and the acquisition of treasury stock.

Risk Factors

The factors outlined in the list below may materially affect investors' decisions relating to the Company's business activities. It should be noted that not all risks are included in the list.

(1) Risks related to new drug development

Substantial investment and development periods extending over more than 10 years are required before a new drug is released onto the market. While undertaking development with due regard to verifying the efficacy and safety of a particular drug, development could be halted midway.

(2) Risks related to occurrence of side effects

Clinical trials undertaken in the development stage involve the trial administration of drugs to a restricted number of patients. Consequently, once a drug is launched into the market we conduct post-marketing surveillance to supplement clinical trials. In the event a new side effect is discovered at this stage, sales of the drug could be halted.

(3) Risks related to policies to curtail medical expenses

As government initiatives to curtail medical expenses, such medical system reforms as the establishment of a medical care system for elderly patients and annual drug cost revisions are under consideration. Such changes in the market environment could affect the Company's performance.

(4) Risks due to competition

Sales competition with other pharmaceutical companies may result in a drop in prices. In addition, the emergence of generic products upon the expiration of a patent causes a decline in sales of the original product, which could affect the Company's performance.

(5) Risks related to delay or cessation of production

Production may be delayed or halted as a result of various factors, such as problems with manufacturing facilities or delays in the procurement of raw materials. These factors could affect the Company's performance.

(6) Risks related to legal action

We are exposed to the possibility of legal action in the course of our business activities. Such actions could affect the Company's performance.

Consolidated Balance Sheets

As of March 31, 2007 and 2006

ASSETS	Millions of yen 2007	2006	Thousands of U.S. dollars (Note 4) 2007
Current Assets:			
Cash on hand and at bank (Note 5)	**¥ 10,915**	¥ 9,681	**$ 92,500**
Marketable securities (Note 6)	**999**	149	**8,466**
Receivables:			
Notes and accounts receivable–trade	**34,629**	32,369	**293,466**
Accounts receivable–other	**1,005**	1,283	**8,517**
	35,635	33,652	**301,992**
Less: Allowance for doubtful receivables	**(8)**	(6)	**(68)**
	35,627	33,646	**301,924**
Inventories (Note 7)	**9,126**	9,657	**77,339**
Deferred tax assets (Note 15)	**1,133**	992	**9,602**
Other current assets	**799**	1,127	**6,771**
Total current assets	**58,600**	55,256	**496,610**
Property, Plant and Equipment (Notes 8 and 9)**:**			
Buildings and structures	**34,989**	34,778	**296,517**
Machinery and equipment	**18,219**	17,944	**154,398**
	53,208	52,722	**450,915**
Less: Accumulated depreciation	**(31,822)**	(30,900)	**(269,678)**
	21,385	21,822	**181,229**
Land	**3,437**	3,331	**29,127**
Construction in progress	**415**	282	**3,517**
Total property, plant and equipment	**25,237**	25,435	**213,873**
Investments and Other Assets:			
Investment securities (Notes 6 and 9)	**10,391**	11,270	**88,059**
Intangible assets and long-term prepaid expenses	**795**	1,074	**6,737**
Deferred tax assets (Note 15)	**3,413**	3,467	**28,924**
Other assets	**2,461**	2,234	**20,856**
Total investments and other assets	**17,061**	18,047	**144,585**
TOTAL ASSETS	**¥100,900**	¥98,739	**$ 855,085**

The accompanying notes are an integral part of the Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	Millions of yen 2007	2006	Thousands of U.S. dollars (Note 4) 2007
Current Liabilities:			
Short-term bank loans (Note 9)	**¥ 5,380**	¥ 5,380	**$ 45,593**
Current portion of long-term debt (Note 9)	**1,006**	—	**8,525**
Payables:			
Notes and accounts payable–trade	**15,147**	12,301	**128,364**
Notes and accounts payable–construction	**1,178**	929	**9,983**
Accounts payable–other	**3,248**	2,601	**27,525**
	19,573	15,833	**165,873**
Accrued expenses	**648**	532	**5,492**
Accrued bonuses (Note 3)	**1,183**	1,149	**10,025**
Accrued sales rebates	**566**	807	**4,797**
Accrued income taxes (Note 15)	**2,562**	118	**21,712**
Other current liabilities	**557**	432	**4,720**
Total current liabilities	**31,478**	24,254	**266,763**
Non-Current Liabilities:			
Long-term debt (Note 9)	**3,000**	13,192	**25,424**
Accrued pension and severance costs (Note 12)	**4,958**	5,737	**42,017**
Accrued retirement benefits to directors	**354**	297	**3,000**
Deferred tax liabilities (Note 15)	**220**	239	**1,864**
Other long-term liabilities	**455**	381	**3,856**
Total non-current liabilities	**8,989**	19,848	**76,178**
Net assets:			
Shareholders' Equity:			
Common stock - no par value			
Authorized: 360,000,000 shares			
Issued: 113,282,639 shares as of March 31, 2007 and 105,992,690 shares as of March 31, 2006	**23,348**	20,737	**197,864**
Capital surplus	**22,226**	19,462	**188,356**
Retained earnings	**18,305**	15,428	**155,127**
Treasury stock, at cost: 6,495,694 shares in 2007 and 5,543,567 shares in 2006	**(5,771)**	(3,784)	**(48,907)**
Total shareholders' equity	**58,110**	51,843	**492,458**
Valuation and translation adjustments:			
Net unrealized gain on valuation of other securities, net of taxes (Note 2 (c))	**2,321**	2,793	**19,669**
Deferred gain on hedges	**1**	0	**8**
Total valuation and translation adjustments	**2,323**	2,793	**19,686**
Total net assets	**60,433**	54,637	**512,144**
TOTAL LIABILITIES AND NET ASSETS	**¥100,900**	¥98,739	**$855,085**

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Income

For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2007	2006	**2007**
Net sales	**¥76,415**	¥75,540	**$647,585**
Cost of sales	**39,222**	38,508	**332,390**
Gross profit	**37,193**	37,032	**315,195**
Selling, general and administrative expenses (Note 14)	**29,079**	28,673	**246,432**
Operating income	**8,113**	8,359	**68,754**
Other income (expenses):			
Interest and dividend income	**133**	115	**1,127**
Interest expenses	**(121)**	(410)	**(1,025)**
Amortization of net obligation at transition	**(524)**	(524)	**(4,441)**
Loss on sales/disposal of property, plant and equipment, net	**(188)**	(40)	**(1,593)**
Loss on impairment of fixed assets (Note 8)	**—**	(268)	**—**
Gain on establishment of retirement benefit trust	**342**	—	**2,898**
Gain on sales of investment securities, net	**—**	1,612	**—**
Equity in losses of affiliates	**—**	(401)	**—**
Loss on liquidation of affiliates	**—**	(1,112)	**—**
Revaluation loss of golf membership	**(5)**	(9)	**(42)**
Other, net	**33**	8	**280**
	(329)	(1,031)	**(2,788)**
Income before income taxes and minority interests	**7,783**	7,327	**65,958**
Income taxes (Note 15):			
Current	**2,964**	1,129	**25,119**
Deferred	**216**	2,312	**1,831**
	3,181	3,441	**26,958**
Income before minority interests	**4,602**	3,886	**39,000**
Minority interests	**—**	—	**—**
Net income	**¥ 4,602**	¥ 3,886	**$ 39,000**

Per share data:	Yen		U.S. dollars (Note 4)
Net income (Note 17):			
Basic	**¥42.42**	¥40.23	**$0.359**
Diluted	**¥40.83**	¥33.24	**$0.346**
Cash dividends (Note 2 (m))	**¥17.00**	¥15.00	**$0.144**

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2007 and 2006

	Millions of yen					
	Shareholders' equity					
	Number of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
BALANCE–MARCH 31, 2005	94,922,782	¥17,127	¥15,873	¥12,859	(¥1,715)	¥44,146
Net income				3,886		3,886
Cash dividends				(1,278)		(1,278)
Director's bonuses				(39)		(39)
Shares issued on conversion of convertible bonds	11,069,908	3,609	3,587			7,197
Treasury stock acquired, net			0		(2,069)	(2,069)
Net changes of items other than shareholders' equity						
BALANCE–MARCH 31, 2006	105,992,690	¥20,737	¥19,462	¥15,428	(¥3,784)	¥51,843
Net income				**4,602**		**4,602**
Cash dividends				**(1,682)**		**(1,682)**
Director's bonuses				**(43)**		**(43)**
Shares issued on conversion of convertible bonds	**7,289,949**	**2,611**	**2,596**			**5,208**
Treasury stock acquired					**(5,799)**	**(5,799)**
Treasury stock sold			**168**		**3,812**	**3,980**
Net changes of items other than shareholders' equity						
BALANCE–MARCH 31, 2007	**113,282,639**	**¥23,348**	**¥22,226**	**¥18,305**	**(¥5,771)**	**¥58,110**

	Millions of yen			
	Valuation and translation adjustments			
	Net unrealized gain on other securities	Deferred gain on hedges	Total valuation and translation adjustments	Total net assets
BALANCE–MARCH 31, 2005	¥1,344	—	¥1,344	¥45,490
Net income				3,886
Cash dividends				(1,278)
Director's bonuses				(39)
Shares issued on conversion of convertible bonds				7,197
Treasury stock acquired, net				(2,069)
Net changes of items other than shareholders' equity	1,448		1,448	1,448
BALANCE–MARCH 31, 2006	¥2,793	—	¥2,793	¥54,637
Net income				**4,602**
Cash dividends				**(1,682)**
Director's bonuses				**(43)**
Shares issued on conversion of convertible bonds				**5,208**
Treasury stock acquired				**(5,799)**
Treasury stock sold				**3,980**
Net changes of items other than shareholders' equity	**(471)**	**1**	**(470)**	**(470)**
BALANCE–MARCH 31, 2007	**¥2,321**	**¥1**	**¥2,323**	**¥60,433**

	Thousands of U.S. dollars (Note 4)					
	Shareholders' equity					
	Number of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
BALANCE–MARCH 31, 2006	105,992,690	$175,737	$164,932	$130,746	($32,068)	$439,347
Net income				**39,000**		**39,000**
Cash dividends				**(14,254)**		**(14,254)**
Director's bonuses				**(364)**		**(364)**
Shares issued on conversion of convertible bonds	**7,289,949**	**22,127**	**22,000**			**44,136**
Treasury stock acquired					**(49,144)**	**(49,144)**
Treasury stock sold			**1,424**		**32,305**	**33,729**
Net changes of items other than shareholders' equity						
BALANCE–MARCH 31, 2007	**113,282,639**	**$197,864**	**$188,356**	**$155,127**	**($48,907)**	**$492,458**

	Thousands of U.S. dollars (Note 4)			
	Valuation and translation adjustments			
	Net unrealized gain on other securities	Deferred gain on hedges	Total valuation and translation adjustments	Total net assets
BALANCE–MARCH 31, 2006	$23,669	—	$23,669	$463,025
Net income				**39,000**
Cash dividends				**(14,254)**
Director's bonuses				**(364)**
Shares issued on conversion of convertible bonds				**44,136**
Treasury stock acquired				**(49,144)**
Treasury stock sold				**33,729**
Net changes of items other than shareholders' equity	**(3,992)**	**8**	**(3,983)**	**(3,983)**
BALANCE–MARCH 31, 2007	**$19,669**	**$8**	**$19,686**	**$512,144**

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2007	2006	**2007**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 7,783**	¥ 7,327	**$ 65,958**
Adjustments for:			
Depreciation	**1,977**	1,940	**16,754**
Loss on impairment of fixed assets	**—**	268	**—**
Amortization of long-term prepaid expenses	**619**	818	**5,246**
Accrual for pension and severance costs, less payments	**(215)**	(613)	**(1,822)**
Interest and dividend income	**(133)**	(115)	**(1,127)**
Interest expense	**121**	410	**1,025**
Equity in losses of affiliates	**—**	401	**—**
Loss on liquidation of affiliates	**—**	1,112	**—**
Revaluation loss of golf membership	**5**	9	**42**
Gain on sale of investment securities, net	**—**	(1,612)	**—**
Gain on establishment of retirement benefits trust	**(342)**	—	**(2,898)**
Loss on disposals of property, plant and equipment	**188**	178	**1,593**
Gain on sale of property, plant and equipment	**—**	(147)	**—**
Decrease (Increase) in notes and accounts receivable–trade	**(2,260)**	1,195	**(19,153)**
Decrease in inventories	**530**	592	**4,492**
Increase (Decrease) in notes and accounts payable–trade	**2,845**	(663)	**24,110**
Paid bonuses to directors	**(43)**	(39)	**(364)**
Other, net	**1,091**	(770)	**9,246**
Subtotal	**12,166**	10,295	**103,102**
interest and dividends received	**133**	115	**1,127**
Interest paid	**(121)**	(410)	**(1,025)**
Income taxes paid, net	**(245)**	(3,653)	**(2,076)**
Net cash provided by operating activities	**11,933**	6,346	**101,127**
Cash flows from investing activities:			
Acquisition of property, plant and equipment	**(1,524)**	(1,532)	**(12,915)**
Proceeds from sales of property, plant and equipment	**1**	697	**8**
Acquisition of investment securities	**(356)**	(3,669)	**(3,017)**
Proceeds from sales of investment securities	**—**	2,600	**—**
Payment of long-term prepaid expenses	**(153)**	(42)	**(1,297)**
Other, net	**(189)**	(76)	**(1,602)**
Net cash used in investing activities	**(2,222)**	(2,023)	**(18,831)**
Cash flows from financing activities:			
Repayments of long-term debt	**—**	(8,560)	**—**
Acquisition of treasury stock	**(5,796)**	(2,073)	**(49,119)**
Cash dividends paid	**(1,682)**	(1,278)	**(14,254)**
Net cash used in financing activities	**(7,478)**	(11,912)	**(63,373)**
Net increase (decrease) in cash and cash equivalents	**2,232**	(7,590)	**18,915**
Cash and cash equivalents at beginning of year	**9,681**	17,271	**82,042**
Cash and cash equivalents at end of year (Note 5)	**¥11,914**	¥ 9,681	**$100,966**

The accompanying notes are an integral part of the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements:

The accompanying consolidated financial statements of KAKEN PHARMACEUTICAL CO., LTD. (the "Company") and its consolidated subsidiaries (collectively the "Group") are basically an English version of those which were prepared from accounts and records maintained by the Group and in accordance with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards, and filed with the Director of Kanto Finance Bureau.

Certain items presented in the consolidated financial statements have been reclassified for the convenience of readers outside Japan.

Effective the year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet (ASBJ Statement No.5) and the related implementation guidance issued by Accounting Standards Board of Japan (ASBJ) on December 9, 2005. In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets. In this connection, the consolidated balance sheet as of March 31, 2006 and the consolidated statement of shareholders' equity for the year ended March 31, 2006, which had been prepared to provide additional information to the Japanese disclosure requirements, have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

As permitted by the Securities and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

2. Summary of Significant Accounting Policies:

(a) Principles of Consolidation

The Company had three subsidiaries as of March 31, 2007 and 2006. The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The consolidated subsidiaries as of March 31, 2007 are as follows:

KAKEN REALTY & SERVICE CO., LTD.
KAKEN PHARMA CO., LTD.
FUJIKA CORPORATION

There was no affiliate which was accounted for by the equity method.

All significant intercompany transactions, account balances and unrealized profits or losses among the Group have been eliminated in consolidation.

(b) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits which are able to be withdrawn within three months and short-term investments with original maturity of three months or less and are considered to have minimal risk from market fluctuations.

(c) Marketable and Investment Securities

Securities are classified into one of the following four categories; (1) Trading, (2) Held-to-maturity debt, (3) Shares in subsidiaries and affiliated, and (4) Other. Trading securities are recorded at market value with unrealized gains and losses recognized in the current year's earnings. Debt securities that are expected to be held to maturity are carried at amortized cost. Shares in subsidiaries and affiliates are carried at cost. Other securities are expected to be sold in future and those, whose fair values are readily determinable, are carried at fair value and the related unrealized gains or losses, net of taxes, are included as a component of "Valuation and translation adjustments" under net assets. Other securities without market quotations are stated at cost, determined by the moving average method.

(d) Inventories

Inventories are stated at cost, being determined by the gross average method.

(e) Property, Plant and Equipment
Depreciation is computed on the declining-balance method at rates based on the estimated useful lives of assets, except for buildings, structures, machinery and equipment for the Komagome office that are computed on the straight-line method. Furthermore, depreciation of buildings, except for ancillary facilities to buildings, acquired on and after April 1, 1998, is computed using the straight-line method. The range of useful lives is from 3 years to 60 years for buildings and structures, and from 2 years to 8 years for machinery and equipment.

(f) Accounting for Impairment of Fixed Assets
In accordance with the accounting standard for impairment of fixed assets, the Group review their fixed assets for impairment by grouping the assets in income generating units whenever there is any indication of a significant decline in the fair value against its book value based on an independent appraisal, and when the existence of any impairment for the group of the assets is identified, an impairment loss will be recognized and such amount is directly deducted from the related assets.

(g) Pension and Retirement Benefits
Employees who terminate employment are entitled, under most circumstances, to lump-sum payments or pension payments as described below, determined by reference to current basic rate of pay, length of service and conditions under which the termination occurs. The minimum payment is an amount based on voluntary retirement. In addition to the minimum payment based on voluntary retirement, employees receive additional benefits for retirement due to age limit, death or other defined reasons. The Company has a non-contributory defined benefit funded pension plan (entrusted) which covers 30% of the benefits payable under the existing retirement plan to employees.

The accrued pension and severance costs represent the amount actuarially calculated projected benefit obligation less (1) the fair value of the plan assets, (2) unrecognized actuarial loss or gain, (3) the unrecognized transition amount arising from adopting the new standard and (4) unrecognized prior service cost. If the fair value of the plan assets exceeds the projected benefit obligations, prepaid pension and severance costs are recorded on the balance sheet. The transition amount is amortized on a straight-line basis over 15 years. Unrecognized actuarial loss or gain is amortized on a straight-line basis over 10 years from the next year in which they arise. Unrecognized prior service cost is amortized on a straight-line basis over 10 years from the year in which they arise. For the Company, prepaid pension and severance costs were recognized for a portion of the plan covered by the non-contributory pension plan assets and the accrued pension and severance costs were recognized for a portion of the plan not covered by the plan assets.

Accrued retirement benefits to directors and statutory auditors is provided in an amount equivalent to the liability the relevant company would have been required to pay upon retirement at the balance sheet date, as prescribed by its internal rules.

(h) Income Taxes
Income taxes are determined using the asset and liability approach, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amount in the financial statements.

(i) Consumption Taxes
Consumption taxes withheld and consumption taxes paid are excluded from revenues and expenses in the accompanying consolidated statements of income. The net balance of consumption taxes withheld and consumption taxes paid is included in current liabilities of the consolidated balance sheet as of the end of the fiscal year.

(j) Derivative Financial Instruments
Derivative instruments, which include foreign currency forward exchange contracts and interest rate swap agreements, are used as a part of the Company's risk management of foreign currency and interest rate risk exposures of its financial assets and liabilities.

Foreign currency exchange forward contracts:
The Company enters into foreign currency exchange forward contracts to limit exposure, affected by changes in foreign currency exchange rates, on accounts receivable and payable and cash flows generated from anticipated transactions denominated in foreign currencies. For foreign currency exchange forward contracts which are designated and are effective as hedges of such currency exchange rate risk on existing assets and liabilities, the Company adopted the accounting method whereby foreign currency denominated assets and liabilities are measured at the contract rate of the respective foreign currency exchange forward contracts. With respect to such contracts for anticipated transactions, the contracts are marked-to-market and the unrealized gains/losses are deferred in the balance sheet to be released to income when the exchange gains/losses on the hedged items or transactions are recognized.

Interest rate swap agreements:
The Company enters into interest rate swap agreements, in order to lower funding costs and limit the Company's exposure in respect of the underlying financial instruments, resulting from adverse fluctuation in interest rates. The related interest differentials paid or received under the interest rate swap agreements are recognized in interest expenses over the terms over the terms of the agreements.

Derivative financial instruments have not been implemented by consolidated subsidiaries.

(k) Appropriations of Retained Earnings
Appropriations of retained earnings at each year end are reflected in the consolidated financial statements for the following year upon stockholders' approval.

(l) Shareholders' Equity
The new Corporate Law of Japan ("the Law"), which superseded most of the provisions of the Commercial Code took into effect on May 1, 2006. The Law provided that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and legal reserve equals 25% of the stated capital. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met. The above mentioned legal reserve is included in retained earnings in the accompanying consolidated balance sheets.

(m) Net Income and Dividends per Share
Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each financial year appropriately adjusted for subsequent free distribution of shares (stock splits), if applicable.

Cash dividends per share shown for each year in the accompanying consolidated statements of income represent dividends approved or declared as applicable to the respective years.

Fully-diluted net income per share is computed, based on the assumption that the convertible bonds were fully converted into common stock on the date of issue or at the beginning of the respective years subsequent to the issue, with appropriate adjustments of related interest expense (net of taxes).

3. Change in Accounting Policies:
(Accounting for Directors' bonus)
Effective April 1, 2006, the Group adopted the new accounting standard for directors' bonus (ASBJ Statement No.4) issued by ASBJ on November 29, 2005. In accordance with the new standard, the Group accounted for the directors' bonuses as an expense of the fiscal year in which such bonuses are accrued, while in the prior years directors' bonuses had been accounted for as a deduction from the amount of retained earnings as an appropriation of retained earnings to be approved by the shareholders' meeting. The effect of this change was to decrease operating income and income before income taxes by ¥54 million ($458 thousand) for the year ended March 31, 2007.

4. United States Dollar Amounts:
The Group maintains its accounting records in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥118=U.S.$1. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be converted, realized or settled in dollars at ¥118=U.S.$1 or any other rate.

5. Cash and Cash Equivalents:
Cash on hand and at banks and marketable securities are reconciled to cash and cash equivalents of consolidated statements of cash flows as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2007	2006	**2007**
Cash on hand and at banks	**¥10,915**	¥9,681	**$ 92,500**
Marketable securities	**999**	149	**8,466**
	11,914	9,831	**100,966**
Marketable securities due in more than three months	**—**	(149)	**—**
Cash and cash equivalents	**¥11,914**	¥9,681	**$100,966**

6. Marketable Securities and Investment Securities:

The costs and aggregate market values of marketable and investment securities are as follows:

	Millions of yen					
	Cost	Market value	Unrealized gain (loss)	Cost	Market value	Unrealized gain (loss)
March 31	**2007**			2006		
Other securities:						
Market value available						
Equity securities	**¥5,605**	**¥9,519**	**¥3,914**	¥5,668	¥10,376	¥4,708
Other securities	**—**	**—**	**—**	13	14	1
	5,605	**9,519**	**3,914**	5,681	10,391	4,709
Market value not available	**372**	**372**	**—**	379	379	—
Total	**¥5,977**	**¥9,891**	**¥3,914**	¥6,061	¥10,770	¥4,709
Held-to-maturity securities:	**¥1,499**	**¥1,499**	**—**	¥ 649	¥ 649	—

	Thousands of U.S. dollars (Note 4)		
	Cost	Market value	Unrealized gain (loss)
March 31	**2007**		
Other securities:			
Market value available			
Equity securities	**$47,500**	**$80,669**	**$33,169**
Other securities	**—**	**—**	**—**
	47,500	**80,669**	**33,169**
Market value not available	**3,153**	**3,153**	**—**
Total	**$50,653**	**$83,822**	**$33,169**
Held-to-maturity securities:	**$12,703**	**$12,703**	**—**

Other securities sold during the fiscal years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2007	2006	**2007**
Proceeds from sales	**¥—**	¥2,600	**$—**
Gross realized gains	**—**	1,612	**—**
Gross realized losses	**—**	—	**—**

7. Inventories:

Inventories as of March 31, 2007 and 2006 are comprised of the following:

	Millions of yen		Thousands of U.S. dollars (Note 4)
March 31	**2007**	2006	**2007**
Finished products	**¥4,150**	¥4,114	**$35,169**
Work in process	**1,309**	1,434	**11,093**
Raw materials	**2,831**	3,202	**23,992**
Supplies	**735**	732	**6,229**
Raw materials in transit	**100**	173	**847**
Total	**¥9,126**	¥9,657	**$77,339**

8. Impairment of Fixed Assets:

The Group recorded losses on impairment of fixed assets amounting to ¥268 million for the year ended March 31, 2006 , but no loss on impairment was recognized for the year ended March 31, 2007.

9. Short-term Bank Loans and Long-term Debts:

Short-term bank loans outstanding as of March 31, 2007 and 2006 represented the notes issued by the Group to banks. Customarily, these notes are renewed at maturity subject to renegotiation of interest rates and other factors. The weighted-average interest rates applicable to short-term bank loans as of March 31, 2007 and 2006 are 1.37% and 0.90%, respectively. Outstanding balance of short-term bank loans as of March 31, 2007 and 2006 were ¥5,380 million ($45,593 thousand) and ¥5,380 million, respectively.

Long-term debt as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 4)
March 31	**2007**	2006	**2007**
Loans from banks and other financial institutions due on September 30, 2008 (interest rate 1.77%)	**¥3,000**	¥ 3,000	**$25,424**
0.0% unsecured convertible bond due in September, 2007 (a)	**¥1,006**	¥ 1,797	**$ 8,525**
0.0% unsecured convertible bond due in September, 2007 (b)	**—**	¥ 8,395	
Less: current portion	**(1,006)**	—	**(8,525)**
Total	**¥3,000**	¥13,192	**$25,424**

a) 0.0% Unsecured convertible bond

Holders of this bond are entitled to convert these bonds into common stock at a price of ¥630 during the period from August 9, 2000 to September 14, 2007

b) 0.0% Unsecured convertible bond

The 0.0% unsecured convertible bond due September 2007 (b), issued on July 25, 2002, was fully converted in the period from April 18, 2006 to June 16, 2006. As a result, capital and capital surplus were increased by ¥2,214 million ($18,763 thousand) and ¥2,202 million ($18,661 thousand), respectively.

Aggregate annual maturities of convertible bonds in the next five fiscal years are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 4)
Within one year	¥1,006	$8,525
Over one year less than five years	—	—
More than five years and thereafter	—	—
Total	¥1,006	$8,525

Aggregate annual maturities of long-term bank loans are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 4)
Within one year	¥ —	$ —
Over one year less than two years	3,000	25,424
Over two years less than five years	—	—
More than five years and thereafter	—	—
Total	¥3,000	$25,424

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that security and guarantees for future and present indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligations become due or in the event of their default, to offset cash deposits against such obligations due to the bank. The Group has not received any such requests to date.

At March 31, 2007 and 2006, assets pledged as collateral for certain short-term and long-term debts, including current portion of long-term debts, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
March 31	**2007**	2006	**2007**
Assets pledged:			
Buildings and structures	**¥2,289**	¥2,333	**$19,398**
Machinery and equipment	**2,364**	2,267	**20,034**
Land	**103**	103	**873**
Investment securities	**2,232**	2,517	**18,915**
Total	**¥6,990**	¥7,221	**59,237**
Liabilities secured:			
Short-term bank loans	**¥1,400**	¥1,400	**$11,864**
Total	**¥1,400**	¥1,400	**$11,864**

10. Accounting for leases:

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, however, leases that do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

Assumed data "as if capitalized" as to acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets, which excluded the portion of interest thereon, were summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
March 31	**2007**	2006	**2007**
Acquisition cost	**¥15**	¥15	**$127**
Accumulated depreciation	**14**	12	**119**
Net book value	**0**	¥ 2	**0**
Depreciation	**¥ 1**	¥ 1	**$ 8**

Depreciation is computed on the straight-line method over the lease term of the leased assets with no residual value.

Periodic lease expenses on finance lease contracts without ownership-transfer for the years ended March 31, 2007 and 2006 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2007	2006	**2007**
Periodic lease expense	**¥2**	¥2	**$17**

The amount of outstanding future lease payments due at March 31, 2007 and 2006, which excluded the portion of interest thereon, was summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2007	2006	**2007**
Within one year	**¥1**	¥2	**$8**
Over one year	**—**	1	**—**
Total	**¥1**	¥3	**$8**

11. Derivative Financial Instruments:

Derivative financial instruments are utilized by the Company principally to reduce interest rate and foreign exchange rate risks. The Company has established a control environment which includes policies and procedures for risk assessments and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Company does not hold or issue derivative financial instruments for speculative purposes.

The Company is exposed to certain market risks arising from its forward exchange contracts and interest rate swap agreements. The Company is also exposed to the risk of credit loss in the event of non-performance by the counterparties to the currency and interest rate derivatives; however, the Company does not anticipate non-performance by any of these counterparties all of whom are financial institutions with high bond ratings.

12. Pension and Retirement Benefits:

The benefit obligation and plan assets, funded status and composition of amounts recorded in the consolidated balance sheets as of March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
March 31	**2007**	2006	**2007**
Projected benefit obligations	**¥(21,720)**	¥(22,026)	**$(184,068)**
Plan assets	**11,988**	10,658	**101,593**
Funded status	**(9,732)**	(11,367)	**(82,475)**
Unrecognized transition amount	**4,199**	4,724	**35,585**
Unrecognized actuarial loss	**1,830**	1,978	**15,508**
Unrecognized prior service cost	**(132)**	(154)	**(1,119)**
	(3,834)	(4,819)	**(32,492)**
Amounts recognized in the balance sheet consists of			
Prepaid pension cost	**1,124**	918	**9,525**
Accrued pension and severance costs	**¥ (4,958)**	¥ (5,737)	**$ (42,017)**

The components of net pension and severance costs for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2007	2006	**2007**
Service cost	**¥ 699**	¥ 726	**$ 5,924**
Interest cost	**502**	517	**4,254**
Expected return on plan assets	**(261)**	(235)	**(2,212)**
Amortization of transition amount	**524**	524	**4,441**
Amortization of actuarial loss	**353**	376	**2,992**
Amortization of prior service cost	**(22)**	(22)	**(186)**
Net pension expense	**¥1,797**	¥1,887	**$15,229**

Assumptions used in calculation of the above information for the year ended March 31, 2007 were as follows:

Discount rate	2.3%
Expected rate of return on plan assets	2.5%
Method of attributing the projected benefits to periods of services	Years of service

13. Shareholders' Equity:

At the general shareholders' meeting held on June 28, 2007, it was approved to pay dividends of ¥8.50 per share to the shareholders as of March 31, 2007, aggregating ¥907 million ($7,686 thousand). Such dividends have not been incorporated in the accompanying consolidated financial statements for the year ended March 31, 2007.

14. Research and Development Costs:

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2007 and 2006 amounted to ¥6,533 million ($55,364 thousand) and ¥6,045 million, respectively.

15. Income Taxes:

The Group is subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 40.69% for the years ended March 31, 2007 and 2006. Reconciliation of the differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2007 and 2006 is as follows:

	2007	2006
Statutory tax rate	**40.69%**	40.69%
Increase (decrease) in taxes resulting from:		
Expenses not deductible for income tax purpose (ex. Entertainment expenses)	**5.72**	6.84
Income not included for income tax purpose (ex. Dividend income)	**(0.24)**	(0.08)
Inhabitant per capita taxes	**1.10**	1.14
Tax credit for research expenses	**(5.54)**	(1.82)
Other	**(0.86)**	0.19
Effective tax rate	**40.87%**	46.96%

Significant components of deferred tax assets as of March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2007	**2006**	**2007**
Deferred tax assets:			
Reserve for bonuses	**¥ 459**	¥ 467	**$ 3,890**
Reserve for sales rebates	**230**	328	**1,949**
Loss of supplies	**122**	135	**1,034**
Devaluation of financial instruments	**50**	84	**424**
Amortization of R&D	**241**	182	**2,042**
Amortization of long-term prepaid expenses	**325**	522	**2,754**
Pension and severance costs	**1,734**	1,959	**14,695**
Retirement benefits to directors	**144**	121	**1,220**
Allowance for bad debt	**—**	76	**—**
Unrealized gain of property, plant and equipment	**2,568**	2,568	**21,763**
Other	**358**	94	**3,034**
Total	**6,234**	6,542	**52,831**
Valuation allowance	**(11)**	(82)	**(93)**
Deferred tax assets	**6,223**	6,460	**52,737**
Deferred tax liabilities:			
Deferred gain on sales of property, plant and equipment	**(301)**	(322)	**(2,551)**
Unrealized gain on other securities	**(1,592)**	(1,916)	**(13,492)**
Other	**(2)**	(1)	**(17)**
Deferred tax liabilities	**(1,896)**	(2,240)	**(16,068)**
Deferred tax assets, net	**¥4,326**	¥4,219	**$36,661**

16. Related Party Transactions:

There is nothing to be noted according to the disclosure requirements in Japan for the year ended March 31, 2007.

17. Per Share Information:

Per share information for the years ended March 31, 2007 and 2006 is as follows:

	Yen		U.S. dollars (Note 4)
	2007	2006	2007
Net assets per share	**¥565.92**	¥543.49	**$4.796**
Net income per share	**42.42**	40.23	**0.359**
Diluted net income per share	**40.83**	33.24	**0.346**

Calculation for net income per share and diluted net income per share is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
For the years ended March 31, 2007 and 2006	2007	2006	2007
Net income	**¥4,602**	¥3,886	**$39,000**
Net income relating to common stock	**4,602**	3,842	**39,000**
Adjustment to net income	**—**	—	**—**
(Share data)			
Average number of share (thousand)	**108,486**	95,534	**—**
Additional number of share (thousand)	**4,241**	20,087	**—**

18. Segment Information:

Information about operations in industry segments of the Group for the years ended March 31, 2007 and 2006 is as follows:

					Millions of yen
Year ended March 31, 2007	Pharmaceutical	Real estate	Total	Elimination or Corporate	Consolidated
I. Sales and operating income					
Outside customers	**¥74,056**	**¥ 2,359**	**¥76,415**	**¥ —**	**¥ 76,415**
Inter-segment	**—**	**303**	**303**	**(303)**	**—**
Total	**74,056**	**2,662**	**76,718**	**(303)**	**76,415**
Operating expenses	**67,229**	**1,375**	**68,605**	**(303)**	**68,301**
Operating income	**¥ 6,826**	**¥ 1,287**	**¥ 8,113**	**¥ —**	**¥ 8,113**
II. Assets, depreciation and capital expenditure					
Assets	**¥64,966**	**¥16,789**	**¥81,756**	**¥19,144**	**¥100,900**
Depreciation	**¥ 1,869**	**¥ 727**	**¥ 2,596**	**¥ —**	**¥ 2,596**
Capital expenditure	**¥ 2,186**	**¥ 51**	**¥ 2,238**	**¥ —**	**¥ 2,238**

Millions of yen

Year ended March 31, 2006	Pharmaceutical	Other*	Total	Elimination or Corporate	Consolidated
I. Sales and operating income					
Outside customers	¥73,215	¥ 2,325	¥75,540	¥ —	¥75,540
Inter-segment	—	303	303	(303)	—
Total	73,215	2,628	75,843	(303)	75,540
Operating expenses	66,089	1,394	67,484	(303)	67,181
Operating income	¥ 7,126	¥ 1,233	¥ 8,359	¥ —	¥ 8,359
II. Assets, depreciation and capital expenditure					
Assets	¥63,205	¥17,588	¥80,794	¥17,944	¥98,739
Depreciation	¥ 1,983	¥ 775	¥ 2,759	¥ —	¥ 2,759
Loss on impairment	¥ 268	—	¥ 268	¥ —	¥ 268
Capital expenditure	¥ 1,914	¥ 52	¥ 1,966	¥ —	¥ 1,966

* Other business fields consist of mainly real estate.

Thousands of U.S. dollars

Year ended March 31, 2007	Pharmaceutical	Real estate	Total	Elimination or Corporate	Consolidated
I. Sales and operating income					
Outside customers	**$627,593**	**$ 19,992**	**$647,585**	**$ —**	**$647,585**
Inter-segment	**—**	**2,568**	**2,568**	**(2,568)**	**—**
Total	**627,593**	**22,559**	**650,153**	**(2,568)**	**647,585**
Operating expenses	**569,737**	**11,653**	**581,398**	**(2,568)**	**578,822**
Operating income	**$ 57,847**	**$ 10,907**	**$ 68,754**	**$ —**	**$ 68,754**
II. Assets, depreciation and capital expenditure					
Assets	**$550,559**	**$142,280**	**$692,847**	**$162,237**	**$855,085**
Depreciation	**$ 15,839**	**$ 6,161**	**$ 22,000**	**$ —**	**$ 22,000**
Capital expenditure	**$ 18,525**	**$ 432**	**$ 18,966**	**$ —**	**$ 18,966**

19. Subsequent Event:

There was no significant subsequent event to be noted herein as of June 28, 2007.

Report of Independent Auditors

To the Board of Directors
KAKEN PHARMACEUTICAL CO., LTD.

We have audited the accompanying consolidated balance sheets of KAKEN PHARMACEUTICAL CO., LTD. and its consolidated subsidiaries (collectively, the "Group") as of March 31, 2007 and 2006 and the related consolidated statements of income, changes in net assets and cash flows for the years ended , all expressed in Japanese yen.
These consolidated financial statements are the responsibility of the Company's management.
Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2007 and 2006 and the consolidated results of their operations and their cash flows for the years ended in conformity with accounting principles and practices generally accepted in Japan (See Note 1).

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader have been translated on the basis set forth in Note 4 to the accompanying consolidated financial statements.

Hijiribashi Audit Corporation

Hijiribashi Audit Corporation

Tokyo, Japan
June 28, 2007

Corporate Data
(As of March 31, 2007)

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Company Information

Founded
March 1917

Incorporated
March 1948

Paid-in Capital
¥23,348 million

Common Stock
Authorized: 360,000,000 shares
Issued: 113,298,512 shares (As of Jul. 31, 2007)
Number of Shareholders: 17,083

Employees (Non-Consolidated)
Administration: 136
Sales & Marketing: 988
Production & Technology: 245
Research & Development: 271
Regulatory Affairs: 40

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