KAKEN

Annual Report 2005

Year Ended March 31, 2005

Bringing smiles to everyone

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).

Corporate Philosophy

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.

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.

CONTENTS

Forward-Looking Statements

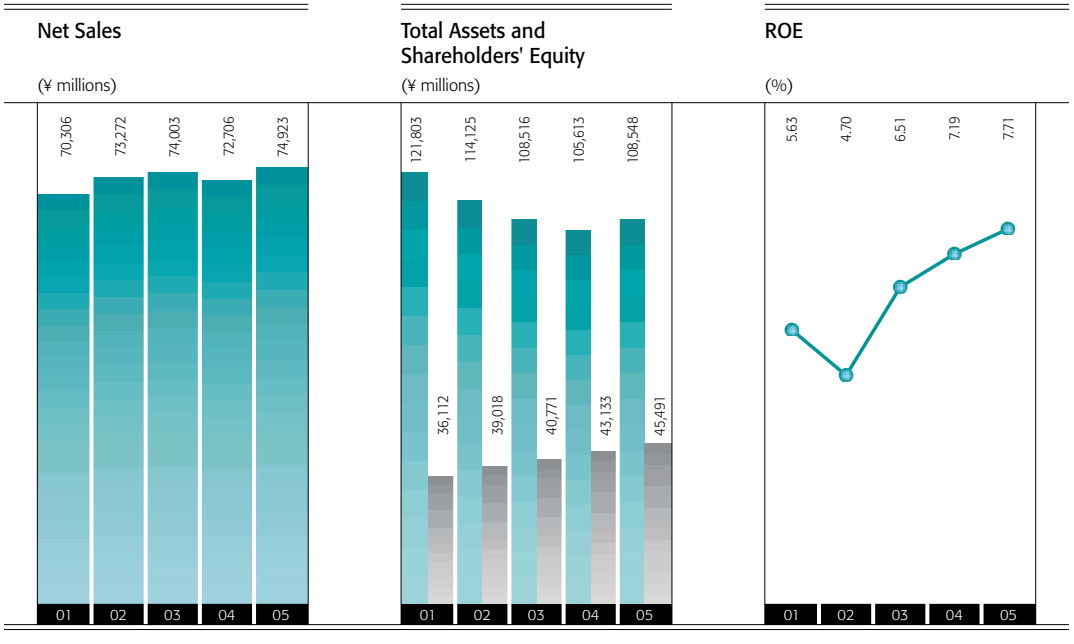
This annual report contains forward-looking statements pertaining to the Company's business and prospects. These statements are based on current analysis of existing information and trends. Actual results may differ from expectations due to unforeseen risks and uncertainties.

CONSOLIDATED FINANCIAL HIGHLIGHTS

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.

	Millions of yen		Thousands of U.S. dollars (Note)
	2005	2004	**2005**
For the years ended March 31,			
Net sales	**¥ 74,923**	¥ 72,706	**$ 700,215**
Operating income	**7,897**	7,526	**73,804**
Net income	**3,417**	3,017	**31,935**
At March 31,			
Total shareholders' equity	**45,491**	43,133	**425,150**
Total assets	**108,548**	105,613	**1,014,467**
Per share data:	Yen		U.S. dollars (Note)
Net income (Basic)	**¥ 36.54**	¥ 31.87	**$ 0.341**
Cash dividends (Non-Consolidated)	**12.00**	10.00	**0.112**
	(%)		
ROE	**7.71**	7.19	–
Capital adequacy ratio	**41.91**	40.84	–

Note: U.S. dollar amounts are translated, for convenience only, at the rate of ¥107 = $1 effective on March 31, 2005.



Business Climate and Performance

In fiscal 2004, ended March 31, 2005, Kaken Pharmaceutical faced a number of challenges. These included a 4.2% average downward adjustment of drug prices, the introduction of the Diagnosis Procedure Combination (DPC) system, and efforts to encourage use of generic drugs. Nevertheless, we were able to boost both revenue and earnings thanks to our sales activities, which are closely tied to local communities. These activities are spearheaded by our medical representatives (MRs), who provide high-value-added information to meet the needs of medical professionals in the field.

Consolidated net sales for the year amounted to ¥74,923 million, up 3.0% from fiscal 2003. Operating income increased 4.9%, to ¥7,897 million, and net income grew 13.3%, to ¥3,417 million. Return on equity (ROE) rose 0.5 percentage point, to 7.7%.

As a member of the pharmaceutical industry, we are required to have a higher level of equity capital than companies in other industries. This is because of the large risk burden associated with new drug development processes. Adhering to a flexible cash dividend policy, we set dividends according to our business performance, while addressing the need to maintain a balance between returns to shareholders and strengthening equity capital.

Based on this policy, the Company declared annual cash dividends of ¥12.00 per share, up ¥2.00 from the previous year. Other profits will be allocated to future investment in research and development.

Business Initiatives

We are currently implementing a medium-term management plan that began in April 2001 and will conclude in March 2006. Under the plan, we intend to establish a firm business foundation that will enable us to prevail in the future as an "independent pharmaceutical company with a strong presence."

Today, competition within the pharmaceutical industry is intensifying due to the far-reaching impact of measures to control medical costs. However, we view this change in the business climate as an excellent opportunity to undertake reforms aimed at maximizing corporate value. Our six key reforms are outlined below.

Focusing investments in research and development

Targeting specific research areas, we are working to expand our product range by speeding up research and development. At the same time, we will continue to actively pursue joint research initiatives and introduce new research themes.

To expedite research and development, we will outsource basic testing procedures and make use of external clinical trial organizations. In addition, we will recruit young research staff and consider increasing expenditures on specific R&D themes.

Strengthening our sales force

We plan to have 700 MRs in place by March 2006 to provide high-value-added information that meets the needs of medical professionals in the field, and so that our MRs can work more closely with local communities. We will also focus on the further development of Fiblast Spray, the first product in the field of regenerative medicine to be launched in Japan, as we strive to become a leading company in this area. In addition, we will reinforce sales activities in order to solidify our strong position in the field of orthopedics, as well as expand our market share.

Enhancing operating efficiency

We will make further reassessments of our production systems as we strive to lower manufacturing costs. In agricultural chemicals, we will expand consigned production to Chinese companies, while working to obtain FDA certification for those companies.

In the area of distribution, we will work to reduce costs by promoting outsourcing. We already undertake outsourcing at the Western Distribution Center, and we plan to start such activities at the Eastern Distribution Center some time during fiscal 2005.

Promoting environmental protection

Kaken's Shizuoka production and R&D facilities have obtained ISO14001 certification, and our Kyoto research laboratories have been awarded Kyoto Environmental System (KES) certification by Kyoto City in recognition of their environmental management systems. We view protection of the environment as a social responsibility, and to this end we are promoting activities at all levels of our organization.

Addressing amendments to the Pharmaceuticals Affairs Law

As a result of amendments to Japan's Pharmaceuticals Affairs Law, which came into effect in April 2005, pharmaceutical manufacturers are required to have stronger quality assurance and safety management systems in place. In response, Kaken established a dedicated division in January 2005 to ensure conformity with the new requirements and strengthen ties between the Company's various departments. We also completed the introduction of new in-house regulations in March 2005.

Responding to the Personal Information Protection Law

Under the Personal Information Protection Law, which came into effect in April 2005, companies handling personal information are required to establish systems for managing such information. They must also declare the intended use of information they receive. Being subject to the new law, Kaken and its affiliates have established a system for protecting personal information and put in place in-house regulations. We have also declared our intentions vis-à-vis the use of such information on our corporate website. We will continue working hard to prevent business risks, such as the leakage of personal data and information, through the operation of our personal information protection management system.

Future Challenges

As government-induced policies to curb medical expenditures begin to have an impact, we can expect competition within the pharmaceutical industry to intensify. However, the absence of scheduled drug price adjustments in the coming fiscal year should see an improvement in sales across the industry. Kaken intends to expand sales in both volume and value terms by actively promoting MR and marketing initiatives. Consequently, we are projecting a 1.0% net sales increase in the fiscal year ending March 2006, to ¥75.7 billion.

In the pharmaceuticals industry, where investment risk is high, it is important that we implement R&D activities aimed at stable growth and pursue sound business development. For this reason, we are targeting consolidated operating income of more than ¥10 billion and ROE of 8.0% or higher.

Kaken has channeled considerable resources into the protein bFGF, used in regenerative medicine, and has obtained manufacturing and marketing rights for bFGF in Japan and Asia. I am pleased to report that these manufacturing and marketing rights have been extended to include every country in the world. This provides us with an excellent opportunity to build on our existing expertise and pursue global development with overseas partners.

Kaken's commitment to "bringing smiles to everyone" entails providing superior pharmaceuticals that improve patients' quality of life. Adhering to this commitment, we will work hard to utilize management resources efficiently and maximize corporate value. In addition, by embracing strong principles and a compliance-oriented spirit, we will earn the trust of shareholders and all other stakeholders.

June, 2005

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Shiro Inui
President

Development of New Products

■ Expanding applications for regenerative medicine

A protein called bFGF (Trafermin) is a basic fibroblast growth factor existing in minute quantities in the human body. Kaken is channeling its resources into the development of pharmaceuticals for regenerative medicine that make use of bFGF. In 2001, we were the first pharmaceutical manufacturer in the world to succeed in bringing to market a new drug for use in the field of regenerative medicine. This drug is our wound-healing agent Fiblast Spray, which is widely recognized as being effective in the treatment of skin ulcers caused by bedsores or burns. Today, it is well reputed as treatment for skin ulcers in many hospitals and clinics, as well as university hospitals.

bFGF is produced using a technique that originates from genetic modification. It has been shown to stimulate growth of cells and boost the formation of new blood vessels. It also has a great many other potential applications.

We are currently developing a product containing Trafermin coded as KCB-1B, which is known to promote bone regeneration. KCB-1B enhances the healing of bone fractures by regenerating osteoblast cells. The purpose is to halve recuperation time so that total recovery of an injury that would normally take two months can occur in one month. It is estimated that two million patients in Japan annually receive treatment for bone fractures, including bone defects and osteoporosis, with an estimated market size of around ¥10 billion.

We are also developing a product coded as KCB-1D to treat periodontal diseases. KCB-1D has been recognized for promoting the regeneration of periodontal tissue, such as alveolar bone, periodontal membrane, and dental cementum. It is said that more than 90 million persons in Japan, representing over 80% of the nation's adult population, have the potential to develop periodontal disease. At a time when tooth extraction is the only

medical treatment that exists for this disorder, there are enormous market possibilities for bFGF if it is developed and adopted appropriately.

Fiblast Spray is also considered to be effective for treating skin ulcers resulting from complications associated with diabetes. This is being developed as KCB-1, which is currently in clinical trials.

bFGF has an expansive range of applications as a regenerative medicine, all of which have great hidden potential. These include angiogenesis treatment in the areas of peripheral circulation and severe angina, treatment of osteoarthritis, proliferation of stem cells, and nerve regeneration. We recognize Fiblast Spray and other derivatives of bFGF as prospective mainstay products. Accordingly, we are channeling research and development resources into these products, with a view to their practical application by around 2010.

■ Endocrine diseases

In October 2004, we received approval for the diagnostic agent KP-102D. As a result, in February 2005 we launched "GHRP Kaken 100 Injection."

We are currently conducting Phase II trials of KP-102LN. This is a new type of treatment that will be used to stimulate the secretion of growth hormones in people with short stature. Used to treat children with low levels of growth hormones in the three-to-twelve age group, KP-102LN works via the hypothalamus by stimulation of the growth hormone secretagogue receptors. It is estimated that there are 100,000 children in Japan who would benefit from this drug. It may be effective for aging. This drug, therefore, has significant potential for development into a major product.

N.K. Curex Co., Ltd., an affiliate of Kaken, is developing a drug called SNK-860 for the treatment of diabetic neuropathy. We are currently restructuring our development strategy in light of trials in the United States conducted by Sankyo Co., Ltd.

■ Inflammation and allergies

We are currently conducting Phase II clinical trials for KP-496, a drug used for treating bronchial asthma that has proven effective in blocking the action of leukotrienes and thromboxanes, substances released from inflammatory cells that make breathing difficult. Existing drugs affect only one or other of these substances, and there have been cases where constitutional predisposition has resulted in no clear benefits from such drugs. We are also conducting Phase II clinical trials for KN-48, used for the treatment of post-herpetic neuralgia. Additional drugs for treating other inflammatory diseases are currently in the preliminary stages of development.

■ Infectious diseases

We are currently in Phase II clinical trials for SPK-843, a drug for use in the treatment of systemic mycosis.

New Drug Development Pipeline

Product	Development Stage	Category	Launch	Indication	Remarks
KCB-1 (Fibrast Spray)	Phase II	bFGF	2008	Diabetic skin ulcers	New indication
KCB-1B	Phase II	bFGF	2012	Intractable bone fractures	New indication
KCB-1D	Phase II	bFGF	2010	Periodontitis	New indication
KP-102LN	Phase II	GH secretagogue	2010	Short stature	
SPK-843	Phase II	Polyene antibiotic	2009	Systemic mycosis	
KN-48	Phase II	Lidocaine patch	2010	Postherpetic neuralgia	Jointly developed with Teikoku Seiyaku
KP-496	Phase II	LT/TX dual inhibitor	2011	Asthma	Own development
SNK-860	Under consideration for redevelopment	ARI		Diabetic neuropathy	Jointly developed by N.K. Curex Co., Ltd. and Sanwa Kagaku Kenkyusho Co., Ltd.

Kaken is steadily expanding its fields of medical involvement and increasing sales of a broad spectrum of products, including Artz, an anti-osteoarthritic; Procyclin, used for treating chronic artery occlusive disease; Adofeed, a pain-relieving plaster; and Lipidil, an anti-hyperlipidemic. We are also actively promoting Fiblast Spray, a wound-healing agent that has garnered much attention in the field of regenerative medicine, as well as Seprafilm, a post-operative anti-adhesive.

Fiblast Spray currently holds the top market share for wound-healing agents, and we intend to expand indications and become a leading company in this area. We are also working hard to expand sales of the antifungal agent Mentax, together with Mentax Spray. In March 2005, we launched Lipidil, a new micronized formulation of the anti-hyperlipidemic Lipantil, featuring improved absorbability.

In February 2005, we launched GHRP Kaken 100 Injection (KP-102D), a diagnostic agent for growth hormone deficiency.

We have obtained exclusive marketing rights from Taiyo Yakuhin Co., Ltd., for Prink Injection Syringe, which is used in the treatment of skin ulcers and arterial occlusion. In this way, we are strengthening our product line in the areas of orthopedics and internal medicine.

Pharmaceuticals

Artz (anti-osteoarthritic) Artz is made of ultra-pure sodium hyaluronic acid extracted from rooster combs. Hyaluronic acid is a naturally occurring, biocompatible polymer found throughout the body, particularly in synovial fluid. A viscoelastic supplement, Artz replaces the diseased synovial fluid found in osteoarthritic knees and restores the physical properties and elastoviscosity of this diseased synovial fluid. It is injected directly into the knee joint by the physician.

Procylin (Prostacyclin analog) Procylin is an orally active and chemically stable prostacyclin analog (Beraprost) that directly acts on the PGI2 receptor to inhibit platelet aggregation. It is already in wide clinical use for treating chronic artery occlusive disease. In September 1999, Procylin was approved for the additional indication of pulmonary hypertension, which cannot be cured with most remedies currently in use.

Adofeed (pain-relieving plaster) Adofeed is a pain-relieving plaster containing Flurbiprofen as its active ingredient, which is absorbed through the skin. Applied to the affected area twice a day, Adofeed has proven effective in treating osteoarthritis, tennis elbow, muscle pain, and other inflammatory diseases.

Mentax (topical antifungal) Mentax is a topical antifungal with Butenafine as its main ingredient. An original Kaken product, Mentax is sold worldwide, including in the U.S. through Bertek/Mylan. In December 2001, Mentax was approved as OTC Drug in the U.S., which is sold under the trade name of Lotrimin Ultra through Schering- Plough.

Mentax Spray In July 2004, we launched a new spray formulation of the antifungal agent Mentax.

Lipidil This is a new micronized formulation of the drug Lipantil, a fibrate type of lipid-lowering agent containing Fenofibrate, which lowers both triglyceride and cholesterol. Thanks to the increased absorbability of Lipidil, patients can reduce the dosage by one-third compared with the previous formulation, yet receive the same benefits. The capsules have also been made smaller to make them easier to swallow.

Seprafilm (post-operative anti-adhesive) Seprafilm is a sheet-type, bioabsorbable, anti-adhesive, biomaterial consisting of hyaluronic acid and CMC. This unique product, licensed from Genzyme Corp., was already in use in the gynecological field in Japan. In June 1999, it received additional approval for use in preventing post-operative abdominal adhesions.

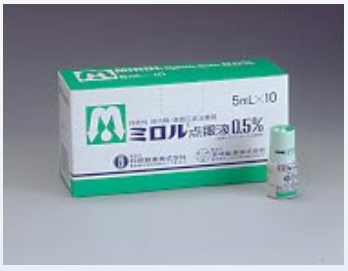
Fiblast Spray (wound healing agent) Consisting of Trafermin, a human recombinant form of bFGF, this is a new type of drug for treating bedsores and other skin ulcers. Fiblast Spray strongly stimulates the growth of endothelial cells and fibroblasts. It also accelerates wound healing by producing highly vascularized granulation tissues. Introduced by Scios Inc., Fiblast Spray was first developed by Kaken, which commenced sales in June 2001.

Ebrantil (α1-blocker) Ebrantil is a specific α1-adrenergic receptor antagonist (Urapidil) for neurogenic dysuria. Clinical studies have shown that twice-daily administration of Ebrantil capsules significantly improves difficulty in urination caused by central or peripheral neural disorders without causing significant hypertension. It was approved for this indication in November 1999. Ebrantil already has been in use for hypertension and dysuria caused by BPH (Benign Prostatic Hyperplasia).

Cytotec (ulcer preventive) An ulcer preventive whose active ingredient is Misoprostol, Cytotec is effective for NSAIDs - induced gastric ulcer. It was developed by Searle (now Pfizer, Inc.), and has been sold by Kaken since 1995.

Norinyl T28 (Low-dose oral contraceptive) Norinyl T28 is a Sunday-start-type, low-dose oral contraceptive pill containing a combination of two hormones: norethisterone and ethinylestradiol. Incidence of metrorrhagia, which is often observed by users of this type product, is low. Norinyl T28 was developed by Monsanto Company and Daiichi Pharmaceutical Co., Ltd. and received approval in June 1999. In September 1999, Kaken launched this product into the Japanese market. Kaken is currently marketing Norinyl T28 in collaboration with Morinaga Milk Industry Co., Ltd.

Eyecare 0.1 (Eye drop for corneal disorders) Hyaluronic acid, a naturally occurring, biocompatible polymer, was first discovered in the eye and has proved to promote to healing cornea epithelium wounds. It is also a major component of Kaken's Artz for the treatment of osteoarthritis. Eyecare 0.1 eye drop solution, containing ultrapure hyaluronic acid (0.1%), was approved in March 2000, for the treatment of corneal disorders, including dry eyes. It was launched into the Japanese market in July 2000 and co-marketed with Teika Pharmaceutical Co., Ltd. under the same brand name.



Mirol (Anti-glaucoma) Consisting of Levobunolol (0.5%), Mirol is a β-blocker for treating glaucoma and ocular hypertension. Mirol is used once daily as eye drop without heavy viscosity. This product was launched in February 2001. Originally developed by Allergan Inc. in the U.S., Mirol was sublicensed to Kaken from a Japanese licensee, Kyorin Pharmaceutical Co., Ltd.

Prink Injection Syringe In June 2004, we began sales of Prink Injection Syringe, a Prostaglandin E1 pre-filled syringe used for the treatment of arterial occlusion. We have obtained from Taiyo Yakuhin Co., Ltd. the exclusive marketing rights for Prink Injection Syringe, which is also effective in the treatment of skin ulcers.

GHRP Kaken 100 Injection This is a diagnostic agent for growth hormone deficiency (GHD) approved in Oct. 2004, which works via the hypothalamus by stimulation of the growth hormone secretagogue receptors. It is the first drug of its kind in the world to receive approval. It is useful and easier to diagnose GHD than other existing agents for GHD.

Agrochemicals and Animal Health Products

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, EC, SG and WG are registered in various countries and used widely to control fungal diseases on fruit trees, vegetables, flowers, turf and ornamentals. Due to natural source fungicides, they have been known to be highly safe for human, animals, plants and environment.

Pentoxazone (rice herbicide) Pentoxazone, a new oxazolidinedione compound, is known to be a Protox inhibitor and used to control annual broad leaves, barnyard grass and monocholia in paddy fields with a long lasting effect. Formulations of GR, SC, TB and EW of pentoxazone alone or combination with sulfonylurea and other herbicidal compounds are available, and can be applied before, during and after transplantation of rice seedlings due to the 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 to produce economically million tons of healthy chicken meat. Kaken is producing salinomycin under GMP and supplying worldwide a technical grade material or formulated products directly or through the distributors.

Colistin Sulfate (polypeptide antibiotic) Colistin sulfate is also Kaken's original product and 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 widely for long in the world because of its excellent safety and efficacy. Kaken is producing the EP5 grade material under GMP and the Drug Master File (DMF) is available if required.

R&D System

Discovery Research

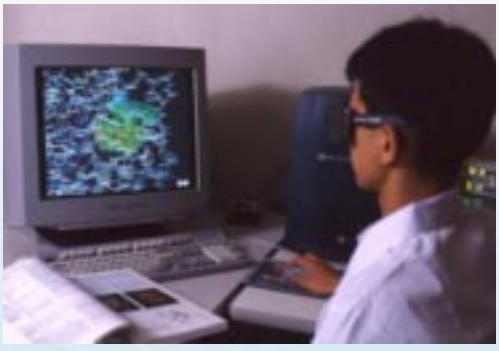
We are committed to strengthening and broadening our R&D activities. To this end, we are reinforcing in-house drug discovery research and adopting a multifaceted approach to cultivating new R&D themes. At the same time, we are actively pursuing joint research and introduce new technologies, both in Japan and overseas, in order to pinpoint and capitalize on lucrative opportunities.

Drug Discovery Research Laboratories are located in Kyoto, the ancient capital of Japan. There, our dedicated researchers constantly study the latest scientific information and technologies. Our main in-house drug discovery research themes are inflammation and immunology, endocrine and metabolic diseases, and infectious diseases, especially systemic mycosis. In endocrine and metabolic diseases, in particular, drugs for treating osteoporosis, diabetes, and obesity appear very promising for Kaken in light of Japan's aging society.

Computer-aided drug design (CADD) is an important part of our rational approach to drug discovery. Our medicinal chemists continue to explore chemical candidates synthesized in various projects in order to design superior drugs focusing the areas.

To establish a strong presence in genomic approach and other leading-edge technologies, we are actively involved in joint research programs with other laboratories and academic institutions. We enter licensing agreements with these entities as appropriate. These collaborations are designed to ensure more effective R&D and minimize unforeseeable risks pertaining to R&D investments.

Our laboratories are exploring a number of innovative technologies in collaboration with leading academic scientists and pharmaceutical companies. As a result, our expertise has expanded to the fields of asthma, endocrinology, systemic mycosis, cardiology, and oral care.



Our researchers are highly motivated and dedicated to excellence at every phase of drug discovery research. Moreover, we have a refined education program for young researchers to encourage their motivation.

Our current policy is to focus on specific research areas, while expanding our product range by speeding up ongoing R&D projects. By pursuing strategic alliances with companies and research institutions both in Japan and overseas, we are active for collaboration, introduction and licensing for new technologies and seeds on a global basis.

Development Research

Kaken's Development Research Laboratories are located in Shizuoka Prefecture. There, we undertake a wide range of research activities in a stimulating environment. Our objective here is to develop candidate compounds identified during discovery research into commercially acceptable new drugs. Our drug development research covers pharmacokinetics research, drug formulation, safety evaluation, and quality assurance.

The Company's drug development activities are highly acclaimed. We have received the Okochi Memorial Prize five times in the past. This is the most respected prize in Japan for companies and researchers who have contributed to innovative drug production.

Our Pharmacokinetics Research Group uses the up-to-date equipment and technologies to study the absorption, distribution, metabolism, and excretion of drugs in order to support their effectiveness and safety in the body. Our Drug Formulation Group studies general pharmaceutical designs and formulations using drug delivery systems (DDSs) and pinpoints technologies to develop optimal dosage forms. Our Safety Evaluation Group strictly evaluates the safety of candidate compounds. Our Quality Assurance Group works to ensure that information generated in all Kaken laboratories is of the highest quality and reliability.

As illustrated by the transition to Lipidil, a new formulation for Lipantil, in the year under review, the manufacture of drugs that are easy for patients to use is a major theme of our product development. We will continue to develop new products that take full advantage of our highly advanced drug formulation techniques.

To expedite clinical development, we are also active for efficient outsourcing of non-clinical trials, as well as of clinical trials to organizations specializing in such activities.

Medical Representative System

Kaken's medical representatives (MRs) provide doctors with updated information on the Company's products and respond promptly to requests from medical professionals. Our MRs also gather medical information related to the safety and effectiveness of our drugs and provide feedback from customers to the relevant departments.

Our MRs play a key role in our R&D and production activities through their communication with doctors and patients. Being on the front line, they obtain valuable information from doctors' offices and other medical institutions. In addition, they help us develop user-friendly package designs and product descriptions by incorporating the suggestions of medical professionals. We have established nine branches and 66 sub-branches so that medical representatives (MRs) can work closely with local communities and provide up-to-date information on products that meet the needs of medical professionals. We plan to increase the number of MRs to 700.

To date, we have directed our MR activities mainly at hospitals, due to our success in the area of orthopedics. However, in light of the recent release of the anti-hyperlipidemic agent Lipidil, we are expanding sales promotion activities directed at medical institutions engaged in internal medicine. Our aim is to expand the market share held by Kaken's products in this area.

We have also commenced marketing of generic products. A major objective of this strategy is to make use of efficiencies achieved by having our MRs expand their information and sales activities, which have previously been restricted to only original products, to peripheral areas. This will contribute to further growth in sales and improve cost efficiencies. Another reason behind this move to generic products is the need for a stable supply of good generic products in the context of Japanese society, where policies have been introduced in recent years to curb medical costs.

Production and Quality Control

Our production facilities in Shizuoka Prefecture are on the east bank of the Ohi River, near Mt. Fuji. These facilities are among the first in the industry to incorporate factory automation systems. They comply with Good Manufacturing Practices (GMP) of Japan, which stipulate requirements for drug manufacturing and quality control.

While adhering to these requirements, we also maintain even stricter in-house regulations for our production facilities. The quality of products for export is governed by cGMP regulations in the United States, which were formulated by the U.S. Food and Drug Administration (FDA).

We are constantly reviewing systems at our production facilities, with the aim of boosting quality and productivity. We are also examining the adoption of efficient production systems that make use of our specialist manufacturing-related expertise in production consignment and outsourcing.

In addition, we are promoting the outsourcing of the distribution function. Our Western Distribution Center is an outsourcing facility that covers western Japan, and we are planning to begin operations at our Eastern Distribution Center some time during fiscal 2005.

Environmental Protection Activities

As a pharmaceutical manufacturer concerned with people's well-being, our important management priorities are to protect the global environment and help realize a prosperous society.

To this end, our Shizuoka production and R&D facilities have obtained ISO14001 certification, the international standard for environment management, as part of further strengthening our commitment to the protection of the environment. These facilities work to minimize waste, incineration, and land reclamation, while reducing power consumption and otherwise saving energy. They also work to monitor and control the volumes of chemical used, minimize discharge of harmful substances into the atmosphere, and improve the quality of effluent.

Our Shizuoka facilities have also achieved a recycling ratio of over 99% for industrial waste. In addition, our Kyoto research facilities have been awarded Kyoto Environmental System (KES) certification by Kyoto City in recognition of their environmental management systems.

We will continue to actively engage in companywide activities, while raising awareness that environmental protection activities are a social responsibility.

Compliance by the Kaken Group

Every executive and employee of Kaken Pharmaceutical and its group of companies is strongly committed to compliance with respect 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, and conduct 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 will 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.

Corporate Governance

We have introduced an operating officer system in order to expedite decision-making and clarify supervisory and business execution functions. Faced with a choice between an auditor-style and committee-style of management, we opted for our existing auditor-style format. While we fully recognize that reinforcing the control and auditing functions is an important element of corporate governance, we chose our existing format—Board of Directors, corporate auditor system, and operating officer system—because we believe it is critical to the functional operation of our company.

In addition, we undertake internal audits based on in-house regulations. The reason for internal audits is to ensure that our internal control systems are functioning effectively. To reinforce these internal control functions, we have established a new internal auditing office. While the office is under the direct control of the president, it is no longer part of the Corporate Planning & Coordination Department, and it also operates independently of other business execution functions.

From left: Motoyuki Yajima, Takeshi Hirahara, Shiro Inui, Shuji Komoto, and Takeji Saito

President and Representative Director
Shiro Inui

Executive Managing Director
Takeshi Hirahara
(Administration)

Executive Managing Director
Takeji Saito
(Marketing and Sales)

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

Executive Director
Yutaka Handa
(Personnel)

Executive Director
Shinichi Takamatsu
(Accounting)

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

Executive Director
Tetsuo Onuma
(Sales Planning)

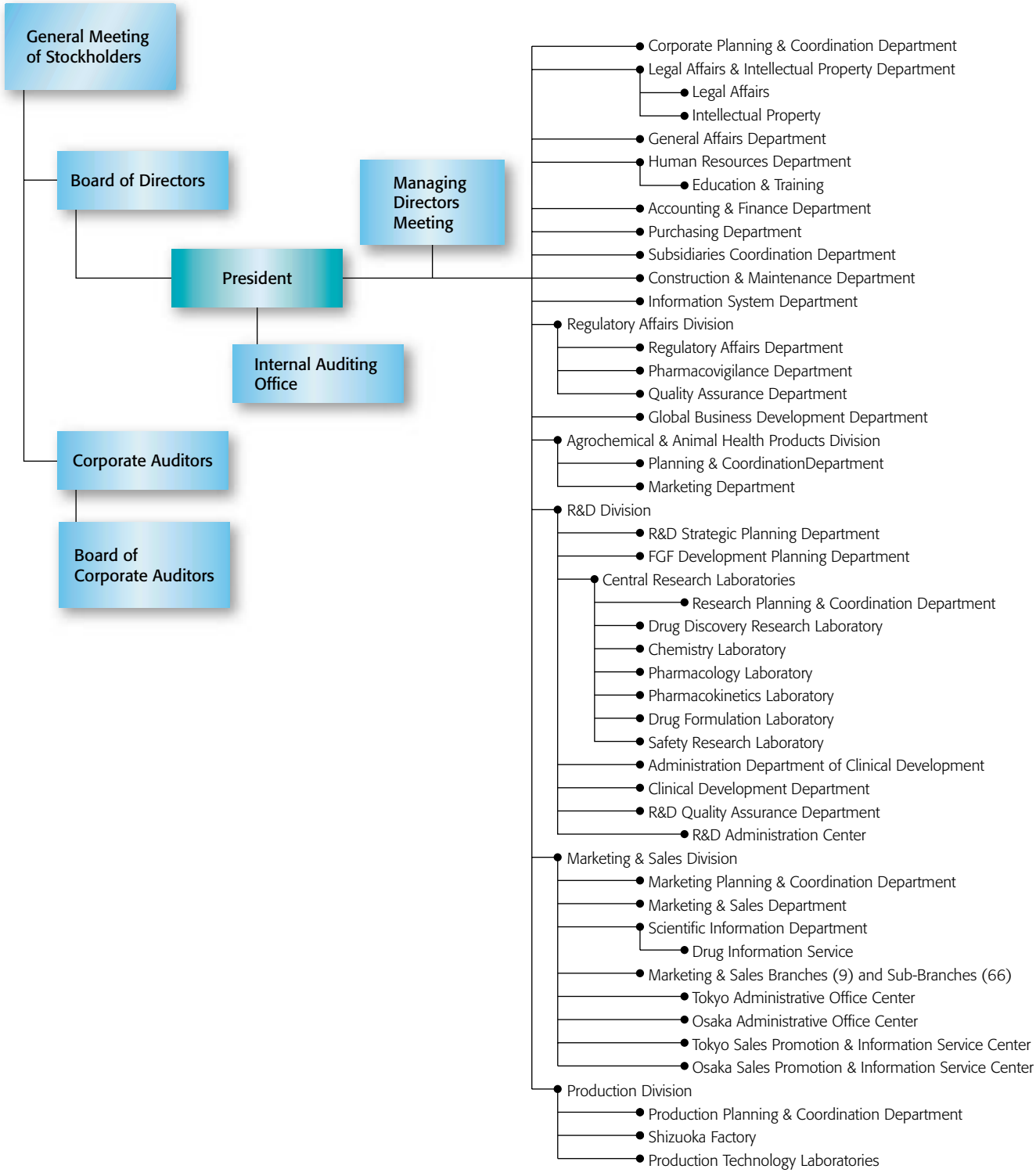
Executive Director
Masao Ishida
(Global Business Development)

Auditor
Osamu Okamoto
(Standing)

Auditor
Satoshi Shoji
(Standing)

Auditor
Sumio Yoshizawa

Auditor
Keizo Nemoto


General Meeting of Stockholders
Board of Directors
Managing Directors Meeting
President
Internal Auditing Office
Corporate Auditors
Board of Corporate Auditors
Corporate Planning & Coordination Department
Legal Affairs & Intellectual Property Department
Legal Affairs
Intellectual Property
General Affairs Department
Human Resources Department
Education & Training
Accounting & Finance Department
Purchasing Department
Subsidiaries Coordination Department
Construction & Maintenance Department
Information System Department
Regulatory Affairs Division
Regulatory Affairs Department
Pharmacovigilance Department
Quality Assurance Department
Global Business Development Department
Agrochemical & Animal Health Products Division
Planning & CoordinationDepartment
Marketing Department
R&D Division
R&D Strategic Planning Department
FGF Development Planning Department
Central Research Laboratories
Research Planning & Coordination Department
Drug Discovery Research Laboratory
Chemistry Laboratory
Pharmacology Laboratory
Pharmacokinetics Laboratory
Drug Formulation Laboratory
Safety Research Laboratory
Administration Department of Clinical Development
Clinical Development Department
R&D Quality Assurance Department
R&D Administration Center
Marketing & Sales Division
Marketing Planning & Coordination Department
Marketing & Sales Department
Scientific Information Department
Drug Information Service
Marketing & Sales Branches (9) and Sub-Branches (66)
Tokyo Administrative Office Center
Osaka Administrative Office Center
Tokyo Sales Promotion & Information Service Center
Osaka Sales Promotion & Information Service Center
Production Division
Production Planning & Coordination Department
Shizuoka Factory
Production Technology Laboratories

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.

Consolidated Five-Year Summary

	Millions of yen					Thousands of U.S. dollars (Note)
	2005	2004	2003	2002	2001	**2005**
For the years ended March 31,						
Net sales	**¥ 74,923**	¥ 72,706	¥ 74,003	¥ 73,272	¥ 70,306	**$ 700,215**
Operating income	**7,897**	7,526	7,947	7,725	6,805	**73,804**
Net income	**3,417**	3,017	2,598	1,765	1,999	**31,935**
At March 31,						
Total shareholders' equity	**45,491**	43,133	40,771	39,018	36,112	**425,150**
Total assets	**108,548**	105,613	108,516	114,125	121,803	**1,014,467**
Per share data:	Yen					U.S. dollars (Note)
Net income (Basic)	**¥ 36.54**	¥ 31.87	¥ 27.11	¥ 18.74	¥ 21.78	**$ 0.341**
Cash dividends (Non-Consolidated)	**12.00**	10.00	8.25	7.50	7.50	**0.112**
	(%)					
ROE	**7.71**	7.19	6.51	4.70	5.63	
Capital adequacy ratio	**41.91**	40.84	37.57	34.19	29.65	

Note: U.S. dollar amounts are translated, for convenience only, at the rate of ¥107 = $1 effective on March 31, 2005.

Sales of Pharmaceuticals (Non-Consolidated)

Billions of yen

Items	2005	2004	Change (%)
Arz	**¥ 21.7**	¥ 21.6	+ 0.4
Adofeed and related products	**10.1**	10.4	- 2.9
Procylin	**8.9**	10.0	- 11.0
Fiblast Spray	**3.5**	3.4	+ 2.9
Lipidil	**3.7**	3.3	+12.1
Mentax	**2.5**	2.2	+13.6
Cytotec	**2.2**	2.3	- 4.4
Seprafilm	**4.1**	3.3	+24.2

Note: The Company reclassified its product segment breakdown in the year ended March 31, 2005.

Revenues

In fiscal 2004, ended March 31, 2005, Kaken Pharmaceutical reported a 3.0% increase in consolidated net sales, to ¥74,923 million. This was despite a drop in drug prices and a harsh business climate. We attribute the revenue gain to stepped-up activities by our medical representatives to promote our products at hospitals and medical clinics.

Pharmaceuticals

Sales in our pharmaceuticals business grew 3.8%, to ¥72,272 million, or 96.5% of consolidated sales.

Our pharmaceuticals business consists of two core segments: pharmaceuticals (including medical devices), and agrochemicals and animal health products. At the beginning of the year under review there was a drop in the price of Artz, one of our mainstay products. Nevertheless, increased shipments in volume terms resulted in a year-on-year rise in sales. However, sales of Procyclin, another mainstay product, declined due to price readjustments and a lower volume of shipments. We posted an increase in sales volume of Adofeed, but a decline in value terms due to a drop in prices.

We are currently channeling resources into marketing Lipantil. Combined sales of this product and Lipidil were up year-on-year. Sales of Mirol grew as the result of an increase in sales volume, as well as a rise in the number of medical institutions using this product. Although we worked hard to promote Fiblast Spray, sales increased just slightly. In the area of medical devices, we recorded an increase in sales thanks to the growing number of institutions using Seprafilm.

As a result, sales of pharmaceuticals (including medical devices) rose 3.6%, to ¥67,485 million.

In the agrochemicals and animal health products segment, sales of Polyoxin declined as a result of a harsh business climate. However, healthy exports of Salinomycin and Colistin led to an increase in sales of these offerings. A concerted effort to increase sales of Pentoxazone resulted in a significant sales gain.

As a result, sales of agrochemicals and animal health products increased 6.8%, to ¥4,787 million.

Other

Sales in our other businesses declined 13.7%, to ¥2,651 million, representing 3.5% of net sales.

Rental income from Bunkyo Green Court, the site of our Tokyo headquarters, comprises the bulk of revenues from other businesses. During the period under review, this income remained at virtually the same level as the previous year. In September 2004, however, we sold all of our shares in consolidated subsidiary Eiko Filter Co., Ltd., which caused the decline in sales from other businesses.

Earnings

In the year under review, operating income increased 4.9%, to ¥7,897 million, owing to the increase in net sales and a decline in the selling, general and administrative expense ratio. Net income grew 13.3%, to ¥3,417 million. This was due to a number of factors, including a decline in equity in losses of affiliates.

The operating income ratio edged up 0.1 point, to 10.5%. Earnings per share increased 14.7%, to ¥36.54, and ROE rose 0.5 point, to 7.7%.

Profit Appropriation

In appropriating profit, we seek a balance between return to shareholders and strengthening equity capital. On this basis, the Company declared a year-end dividend of ¥6.00 per share, up ¥0.50 from a year earlier. This took total annual dividends in fiscal 2004 to ¥12.00 per share, up ¥2.00 from fiscal 2003. Retained earnings will be allocated to preparing the Company for future business growth and to research and development.

Financial Position

Total assets at fiscal year-end stood at ¥108,548 million, up 2.8% from a year earlier. This was due to an increase in cash on hand and at bank, which outweighed declines in property, plant, and equipment and long-term prepaid expenses. Total shareholders' equity rose 5.5%, to ¥45,491 million, owing primarily to a 22.0% jump in retained earnings. As a result, the ratio of shareholders' equity to total assets at fiscal year-end was 41.9%, up 1.1 points from a year earlier. Shareholders' equity per share rose ¥28.07, to ¥493.84.

Cash Flows

Cash and cash equivalents at the end of fiscal 2004 stood at ¥17,272 million, up ¥4,032 million from a year earlier.

Net cash provided by operating activities amounted to ¥8,477 million, up ¥4,362 million from the previous year. This was mainly attributable to an increase in income before income taxes and minority interests and a decrease in income taxes paid.

Net cash used in investing activities totaled ¥1,570 million, up ¥1,106 million from fiscal 2003. This was mainly due to the acquisition of property, plant, and equipment.

Net cash used in financing activities was ¥2,875 million, down ¥783 million compared to the previous year. This was largely the result of repayment of loans and the acquisition of treasury stock.

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.

Consolidated Balance Sheets

As of March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	**2005**	2004	**2005**
Current Assets:			
Cash on hand and at bank (Note 4)	**¥ 17,272**	¥ 13,257	**$ 161,421**
Marketable securities (Notes 4 and 5)	**150**	150	**1,402**
Receivables:			
Notes and accounts receivable-trade	**33,566**	32,639	**313,701**
Accounts receivable-other	**770**	1,116	**7,196**
	34,336	33,755	**320,897**
Less: Allowance for doubtful receivables	**(16)**	(21)	**(150)**
	34,320	33,734	**320,747**
Inventories (Note 6)	**10,250**	11,136	**95,794**
Deferred tax assets (Note 13)	**1,286**	964	**12,019**
Other current assets	**852**	919	**7,963**
Total current assets	**64,130**	60,160	**599,346**
Property, Plant and Equipment (Note 7):			
Buildings and structures	**34,912**	34,889	**326,280**
Machinery and equipment	**18,235**	17,830	**170,421**
	53,147	52,719	**496,701**
Less: Accumulated depreciation	**(31,007)**	(29,662)	**(289,785)**
	22,140	23,057	**206,916**
Land	**3,960**	3,723	**37,009**
Construction in progress	**303**	16	**2,832**
Total property, plant and equipment	**26,403**	26,796	**246,757**
Investments and Other Assets:			
Investment securities (Notes 5 and 7)	**6,177**	5,346	**57,729**
Investments in unconsolidated affiliates	**665**	1,538	**6,215**
Intangible assets and long-term prepaid expenses	**1,823**	2,491	**17,037**
Deferred tax assets (Note 13)	**6,501**	6,604	**60,757**
Deferred charges	**0**	92	**0**
Other assets	**2,849**	2,586	**26,626**
Total investments and other assets	**18,015**	18,657	**168,364**
TOTAL ASSETS	**¥108,548**	¥105,613	**$1,014,467**

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 3) 2005
Current Liabilities:			
Short-term bank loans (Note 7)	**¥ 5,380**	¥ 5,940	**$ 50,280**
Current portion of long-term debt (Note 7)	**200**	802	**1,869**
Payables:			
Notes and accounts payable-trade	**12,965**	12,964	**121,168**
Notes and accounts payable-construction	**593**	281	**5,542**
Accounts payable-other	**2,616**	2,352	**24,449**
	16,174	15,597	**151,159**
Accrued expenses	**479**	503	**4,477**
Accrued bonuses	**1,134**	1,185	**10,598**
Accrued sales rebates	**960**	756	**8,972**
Accrued income taxes (Note 13)	**2,213**	196	**20,682**
Other current liabilities	**480**	570	**4,486**
Total current liabilities	**27,020**	25,549	**252,523**
Non-Current Liabilities:			
Long-term debt (Note 7)	**28,955**	29,610	**270,607**
Accrued pension and severance costs (Note 10)	**6,116**	6,478	**57,159**
Accrued retirement benefits to directors	**277**	229	**2,589**
Deferred tax liabilities (Note 13)	**260**	280	**2,430**
Other long-term liabilities	**429**	333	**4,009**
Total non-current liabilities	**36,037**	36,930	**336,794**
Minority Interests in Consolidated Subsidiaries	**—**	1	**—**
Commitments and contingencies (Note 14)			
Shareholders' Equity:			
Common stock - no par value			
Authorized: 360,000,000 shares			
Issued : 94,518,374 shares as of March 31, 2004 and 94,922,782 shares as of March 31, 2005	**17,128**	17,000	**160,075**
Capital surplus	**15,874**	15,735	**148,355**
Retained earnings	**12,859**	10,540	**120,178**
Net unrealized gain(loss) on valuation of other securities, net of taxes (Note 2 (c))	**1,345**	988	**12,570**
Treasury stock, at cost: 2,885,364 shares in 2005 and 1,985,560 shares in 2004	**(1,715)**	(1,130)	**(16,028)**
Total shareholders' equity	**45,491**	43,133	**425,150**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**¥108,548**	¥105,613	**$1,014,467**

Consolidated Statements of Income

For the years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
Net sales	**¥74,923**	¨¥72,706	**$700,215**
Cost of sales	**37,751**	36,447	**352,813**
Gross profit	**37,172**	36,259	**347,402**
Selling, general and administrative expenses (Note 12)	**29,275**	28,733	**273,598**
Operating income	**7,897**	7,526	**73,804**
Other Income (Expenses):			
Interest and dividend income	**100**	78	**935**
Interest expense	**(423)**	(439)	**(3,953)**
Amortization of net obligation at transition	**(525)**	(525)	**(4,907)**
Loss on sales/disposal of property, plant and equipment, net	**(7)**	(47)	**(65)**
Gain (Loss) on sales of investment securities, net	**0**	181	**0**
Revaluation loss of investment securities	**—**	(70)	**—**
Equity in losses of affiliates	**(874)**	(921)	**(8,168)**
Revaluation loss of golf membership	**(42)**	(29)	**(393)**
Others, net	**(45)**	(492)	**(421)**
	(1,816)	(2,264)	**(16,972)**
Income before income taxes and minority interests	**6,081**	5,262	**56,832**
Income taxes (Note 13):			
Current	**3,167**	2,259	**29,598**
Deferred	**(503)**	(14)	**(4,701)**
	2,664	2,245	**24,897**
Income before minority interests	**3,417**	3,017	**31,935**
Minority interests	**0**	0	**0**
Net income	**¥3,417**	¥3,017	**$31,935**
	Yen		U.S. dollars (Note 3)
Per share data:			
Net income: (Note 2 (m))			
Basic	**¥36.54**	¥31.87	**$0.341**
Diluted	**¥28.49**	¥24.92	**$0.266**
Cash dividends (Note 2 (m))	**¥12.00**	¥10.00	**$0.112**

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

Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2005 and 2004

	Millions of yen					
	Number of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gain (loss) on other securities	Treasury stock at cost	Total shareholders' equity
Balance at March 31, 2003	94,518,374	¥17,000	¥15,735	¥ 8,406	¥ (262)	¥ (108)	¥ 40,771
Net income				3,017			3,017
Cash dividends				(846)			(846)
Directors' bonuses				(37)			(37)
Net unrealized gain on valuation of other securities, net of taxes					1,250		1,250
Treasury stock acquired, net						(1,022)	(1,022)
Balance at March 31, 2004	94,518,374	¥17,000	¥15,735	¥10,540	¥ 988	¥(1,130)	¥43,133
Net income				3,417			3,417
Cash dividends				(1,064)			(1,064)
Directors' bonuses				(34)			(34)
Shares issued on conversion of convertible bonds	404,408	128	139				267
Net unrealized gain on valuation of other securities, net of taxes					357		357
Treasury stock acquired, net						(585)	(585)
Balance at March 31, 2005	**94,922,782**	**¥17,128**	**¥15,874**	**¥12,859**	**¥1,345**	**¥(1,715)**	**¥45,491**

	Thousands of U.S. dollars (Note 3)					
	Number of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gain (loss) on other securities	Treasury stock at cost	Total shareholders' equity
Balance at March 31, 2004	94,518,374	$158,879	$147,056	$ 98,505	$ 9,234	$(10,561)	$403,112
Net income				31,935			31,935
Cash dividends				(9,944)			(9,944)
Directors' bonuses				(318)			(318)
Shares issued on conversion of convertible bonds	404,408	1,196	1,299				2,495
Net unrealized gain on valuation of other securities, net of taxes					3,336		3,336
Treasury stock acquired, net						(5,467)	(5,467)
Balance at March 31, 2005	**94,922,782**	**$160,075**	**$148,355**	**$120,178**	**$12,570**	**$(16,028)**	**$425,150**

Consolidated Statements of Cash Flows

For the years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
I. Cash flows from operating activities			
Income before income taxes and minority interests	**¥ 6,081**	¥ 5,262	**$ 56,832**
Adjustments for:			
Depreciation	**1,996**	2,008	**18,654**
Amortization of long-term prepaid expenses	**886**	1,113	**8,280**
Amortization of deferred charges	**92**	92	**860**
Accrual for pension and severance costs, less payments	**(615)**	(226)	**(5,748)**
Interest and dividend income	**(100)**	(78)	**(935)**
Interest expense	**423**	439	**3,953**
Equity in losses of affiliates	**874**	921	**8,168**
Revaluation loss of investment securities	**—**	70	**—**
Revaluation loss of golf membership	**42**	29	**393**
Gain on sale of investment securities	**—**	(181)	**—**
Loss on disposals of property, plant and equipment	**68**	43	**636**
Gain on sale of property, plant and equipment	**(64)**	—	**(598)**
Decrease (Increase) in notes and accounts receivable-trade	**(1,078)**	1,751	**(10,075)**
Decrease (Increase) in inventories	**810**	(929)	**7,570**
Increase in notes and accounts payable-trade	**127**	253	**1,187**
Paid bonuses to directors	**(34)**	(37)	**(318)**
Other, net	**608**	(1,227)	**5,683**
Subtotal	**10,116**	9,303	**94,542**
Interest and dividends received	**100**	78	**935**
Interest paid	**(423)**	(441)	**(3,953)**
Income taxes paid	**(1,316)**	(4,825)	**(12,299)**
Net cash provided by operating activities	**8,477**	4,115	**79,225**
II. Cash flows from investing activities			
Acquisition of property, plant and equipment	**(1,360)**	(1,139)	**(12,710)**
Proceeds from sales of property, plant and equipment	**133**	5	**1,243**
Acquisition of investment securities	**(234)**	(3)	**(2,187)**
Proceeds from sales of investment securities	**0**	691	**0**
Payment of long-term prepaid expenses	**(59)**	(72)	**(551)**
Other, net	**(50)**	54	**(468)**
Net cash used in investing activities	**(1,570)**	(464)	**(14,673)**
III. Cash flows from financing activities			
Decrease in short-term bank loans	**(500)**	(235)	**(4,673)**
Proceeds from long-term debt	**70**	—	**654**
Repayment of long-term debt	**(607)**	(1,555)	**(5,673)**
Acquisition of treasury stock	**(774)**	(1,022)	**(7,234)**
Cash dividends paid	**(1,064)**	(846)	**(9,944)**
Net cash used in financing activities	**(2,875)**	(3,658)	**(26,870)**
Net increase (decrease) in cash and cash equivalents	**4,032**	(7)	**37,682**
Cash and cash equivalents at beginning of year	**13,240**	13,247	**123,739**
Cash and cash equivalents at end of year (Note 4)	**¥17,272**	¥13,240	**$161,421**

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 Accounting Standards, and filed with the Director of Kanto Finance Bureau. The consolidated statements of shareholders' equity have been prepared to provide additional information.

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

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.

2. Summary of Significant Accounting Policies:

(a) Principles of Consolidation

The Company had four subsidiaries as of March 31, 2005. The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The company sold all the shares of EIKO FILTER CO., LTD. in this second semester. The consolidated subsidiaries as of March 31, 2005 are as follows:

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

The Company had an affiliate as of March 31, 2005 and 2004. The affiliate is N·K Curex Co., Ltd. and is accounted for by the equity method.

All significant intercompany transactions, account balances and unrealized profits 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 as one of four categories; (1) Trading, (2) Held-to-maturity debt, (3) Securities of subsidiaries and affiliated, and (4) Other. Trading securities are recorded at market value with unrealized gains and losses recognized in the current years earnings. Debt securities that are expected to be held-to-maturity are carried at amortized cost. Securities of subsidiaries and affiliates are carried at cost. Other securities are expected to be sold in the long term and those, whose fair values are readily determinable, are carried at fair value with unrealized gains or losses included as a separate component in shareholders' equity, net of taxes. Other securities without market quotations are stated at cost, determined by the moving average method.

(d) Inventories

Inventories are stated at cost, this being determined by the 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. Consolidated subsidiaries principally adopted the straight-line method. Furthermore, depreciation of buildings, except for ancillary facilities to buildings, acquired 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 17 years for machinery and equipment.

(f) 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 represents the amount actuarially calculated projected benefit obligations less (1) the fair value of the plan assets (2) unrecognized actuarial loss or gain and (3) the unrecognized transition amount arising from adopting the new standard (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. The transition amount (unfunded and unrecognized benefit obligation) of ¥7,902 million at April 1, 2000 is amortized on a straight-line basis over 15 years (for subsidiaries mainly 10 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.

(g) 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.

(h) Consumption Taxes
Consumption taxes have been excluded from amounts shown on the accompanying consolidated statements of income.

(i) 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 fluctuations in interest rates. The related interest differentials paid or received under the interest rate swap agreements are recognized in interest expenses over the terms of the agreements.

Derivative financial instruments have not been implemented by consolidated subsidiaries.

(j) Bond Issue Costs
Bond issue costs are capitalized and amortized over three years on the straight-line basis.

(k) Appropriation of Retained Earnings
The Commercial Code of Japan provides that appropriations of retained earnings, including bonuses to directors and statutory auditors, require approval by the shareholders at the annual ordinary general meeting of shareholders. Appropriations of retained earnings are, therefore, not reflected in the consolidated financial statements for the period to which they relate, but are recorded in the subsequent accounting period after shareholders' approval has been obtained.

(l) Shareholders' Equity
Under the Commercial Code of Japan, at least 50 per cent of the issue price of new shares is required to be designated as stated capital. The portion which is designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital have been credited to capital surplus.

The Commercial Code of Japan permits the Company to use retained earnings distributable to shareholders to acquire its own stock for retirement, following approval by the shareholders.

(m) Net Income and Dividends per Shares
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 tax).

3. 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 ¥107=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 ¥107 =U.S. $ 1 or any other rate.

4. Cash and Cash Equivalents:

Cash on hand and at bank 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 3)
	2005	2004	**2005**
Cash on hand and at banks	**¥17,272**	¥13,257	**$161,421**
Marketable securities	**150**	150	**1,402**
	17,422	13,407	**162,823**
Time deposits which fall due in more than three months	**—**	(17)	**—**
Marketable securities due in more than three months	**(150)**	(150)	**(1,402)**
	(150)	(167)	**(1,402)**
Cash and cash equivalents	**¥17,272**	¥13,240	**$161,421**

5. Marketable Securities and Investment Securities:

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

	Millions of yen						Thousands of U.S. dollars (Note 3)		
	Cost	Market value	Unrealized gain (loss)	Cost	Market value	Unrealized gain (loss)	Cost	Market value	Unrealized gain (loss)
For the years ended March 31,		**2005**			2004			**2005**	
Other securities:									
Market value available									
Equity securities	**¥3,486**	**¥5,754**	**¥2,268**	¥3,257	¥4,923	¥1,666	**$32,579**	**$53,776**	**$21,197**
Other securities	**45**	**44**	**(1)**	44	43	(1)	**421**	**411**	**(10)**
	3,531	**5,798**	**2,267**	3,301	4,966	1,665	**33,000**	**54,187**	**21,187**
Market value not available	**379**	**379**	**—**	380	380	—	**3,542**	**3,542**	**—**
Total	**¥3,910**	**¥6,177**	**¥2,267**	¥3,681	¥5,346	¥1,665	**$36,542**	**$57,729**	**$21,187**
Held-to-maturity debt securities:									
Market value not available	**¥ 150**	**¥ 150**	**¥ —**	¥ 150	¥ 150	¥ —	**$ 1,402**	**$ 1,402**	**$ —**

Other securities sold during the fiscal years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
Proceeds from sales	**¥0**	¥691	**$0**
Gross realized gains	**0**	181	**0**
Gross realized losses	**—**	—	**—**

6. Inventories:

Inventories as of March 31, 2005 and 2004 are comprised of the following:

March 31	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 3) 2005
Finished products	¥ 4,682	¥ 5,016	$43,757
Work in process	1,380	1,419	12,897
Raw materials	3,486	3,351	32,579
Supplies	559	1,188	5,224
Raw materials in transit	143	162	1,337
Total	¥10,250	¥11,136	$95,794

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

Short-term bank loans outstanding as of March 31, 2005 and 2004 are 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, 2005 and 2004 are 0.86 % and 0.86 %, respectively. Outstanding balance of short-term bank loans as of March 31, 2005 and 2004 were ¥ 5,380 million and ¥5,940 million, respectively.

Long-term debt as of March 31, 2005 and 2004 consisted of the following:

March 31	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 3) 2005
Loans from banks and other financial institutions due 2008 (interest rate 1.77%)	¥ 3,000	¥ 3,608	$ 28,037
0.0% unsecured convertible bond due 2007 (a)	7,394	7,849	69,103
0.0% unsecured convertible bond due 2007 (b)	10,000	10,000	93,458
Other long-term debt with interest bearing due 2005 to 2033 (interest rate 3.10%)	8,761	8,955	81,878
	29,155	30,412	272,476
Less: current portion	(200)	(802)	(1,869)
Total	¥28,955	¥29,610	$270,607

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
Holders of this bond are entitled to convert these bonds into common stock at a price of ¥732 during the period from August 8, 2002 to September 14, 2007.

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

	Millions of yen	Thousands of U.S. dollars (Note 3)
Within one year	¥ —	$ —
Over one year less than two years	—	—
Over two years less than five years	17,394	162,561
More than five years and thereafter	—	—
Total	¥17,394	$162,561

Aggregate annual maturities of long-term bank loans and other interest bearing debt are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	Long-term bank loans	Other interest bearing debt	Long-term bank loans	Other interest bearing debt
Within one year	¥ —	¥ 200	$ —	$ 1,869
Over one year less than two years	—	207	—	1,935
Over two years less than three years	—	213	—	1,991
Over three years less than four years	3,000	214	28,037	2,000
Over four years less than five years	—	221	—	2,065
More than five years and thereafter	—	7,706	—	72,018
Total	¥3,000	¥8,761	$28,037	$81,878

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, 2005 and 2004, assets pledged as collateral for certain short-term (¥1,400 million) and long-term debts (¥8,761 million), including current portion of long-term debts, were as follows:

	Millions of yen		Thousands of U.S.dollars (Note 3)
March 31	**2005**	2004	**2005**
Assets pledged			
Buildings and structures	**¥ 9,746**	¥10,228	**$ 91,084**
Machinery and equipment	**2,076**	1,885	**19,402**
Land	**108**	108	**1,009**
Investment securities	**1,324**	1,744	**12,374**
Total	**¥13,254**	¥13,965	**$123,869**
Liabilities and secured			
Short-term bank loans	**¥ 1,400**	¥ 1,460	**$ 13,084**
Long-term bank loans	**—**	288	**—**
Other interest bearing debt	**8,761**	8,955	**81,878**
Total	**¥10,161**	¥10,703	**$ 94,962**

8. 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 3)
March 31	**2005**	2004	**2005**
Acquisition cost	**¥15**	¥15	**$140**
Accumulated depreciation	**11**	9	**103**
Net book value	**¥ 4**	¥ 6	**$ 37**
Depreciation	**¥ 2**	¥ 2	**$ 19**

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 year ended March 31, 2005 and 2004 were summarized as follows:

	Millions of yen		Thousands of U.S.dollars (Note 3)
	2005	2004	**2005**
Periodic lease expense	**¥2**	¥2	**$19**

The amount of outstanding future lease payments due at March 31, 2005 and 2004, which excluded the portion of interest thereon, was summarized as follows:

	Millions of yen		Thousands of U.S.dollars (Note 3)
	2005	2004	**2005**
Within one year	**¥2**	¥2	**$19**
Over one year	**3**	5	**28**
Total	**¥5**	¥7	**$47**

9. 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 nonperformance by any of these counterparties all of whom are financial institutions with high bond ratings.

10. Pension and Retirement Benefits:

The benefit obligation and plan assets, funded status and composition of amounts recorded in the consolidated balance sheet as of March 31, 2005 and 2004 is as follows:

March 31	Millions of yen 2005	Millions of yen 2004	Thousands of U.S.dollars (Note 3) 2005
Projected benefit obligations	**¥(22,722)**	¥(23,444)	**$(212,355)**
Plan assets	**9,436**	8,774	**88,187**
Funded status	**(13,286)**	(14,670)	**(124,168)**
Unrecognized transition amount	**5,249**	5,786	**49,056**
Unrecognized actuarial loss	**2,780**	3,010	**25,981**
Unrecognized prior service cost	**(176)**	(198)	**(1,645)**
	(5,433)	(6,072)	**(50,776)**
Amounts recognized in the balance sheet consists of —			
Prepaid pension cost	**683**	406	**6,383**
Accrued pension and severance costs	**¥ (6,116)**	¥ (6,478)	**$ (57,159)**

The components of net pension and severance costs for the year ended March 31, 2005 and 2004 were as follows:

	Millions of yen 2005	Millions of yen 2004	Thousands of U.S.dollars (Note 3) 2005
Service cost	**¥ 795**	¥ 818	**$ 7,430**
Interest cost	**534**	547	**4,991**
Expected return on plan assets	**(219)**	(117)	**(2,047)**
Amortization of transition amount	**526**	527	**4,916**
Amortization of actuarial loss	**363**	397	**3,393**
Amortization of prior service cost	**(22)**	(22)	**(206)**
Net pension expense	**¥1,977**	¥2,150	**$18,477**

Assumptions used in calculation of the above information as of March 31, 2005 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

11. Shareholders' Equity:

The following appropriations of the Company's retained earnings in respect of the year ended March 31, 2005 which were approved by the shareholders at the general meeting held on June 29, 2005, have not been incorporated in the accompanying consolidated financial statements.

	Millions of yen	Thousands of U.S.dollars (Note 3)
Retained earnings at the end of the year	¥8,742	$81,701
Utilization of general reserve		
Utilization of deferred gain on sales of property, plant and equipment	13	121
	8,755	81,822
Appropriations:		
Dividends (¥6.00 per share)	(552)	(5,159)
Bonuses to directors	(39)	(364)
[of which to statutory auditors]	[5]	[47]
Transfer to general reserve:		
Others reserves	(1,000)	(9,346)
Retained earnings carried forward to the following year	¥7,164	$66,953

12. Research and Development Costs:

Research and development costs included in selling, general and administrative expenses for the years ended March, 2005 and 2004 amounted to ¥6,271million ($58,607 thousand) ,¥6,360million, respectively.

13. 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% and 42.05% for the years ended March 31, 2005 and 2004. This change of statutory tax rate is due to the introduction of size-based corporate tax by tax authority. Reconciliation of the differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2005 and 2004 is as follows:

	2005	2004
Statutory tax rate	**40.69%**	42.05%
Increase (decrease) in taxes resulting from:		
Expenses not deductible for income tax purpose (ex. Entertainment expenses)	**8.29**	9.27
Income not included for income tax purpose (ex. Dividend income)	**(0.01)**	(0.04)
Equity in losses of affiliates	**(0.32)**	(1.35)
Inhabitant equalization taxes	**1.34**	1.55
Tax deduction for research expenses	**(7.55)**	(5.69)
Other	**1.37**	(3.13)
Effective tax rate	**43.81%**	42.66%

Significant components of deferred tax assets as of March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
Deferred tax assets:			
Reserve for bonuses	**¥ 461**	¥ 534	**$ 4,308**
Reserve for sales rebates	**391**	307	**3,654**
Loss of supplies	**135**	78	**1,262**
Devaluation of financial instruments	**2,062**	1,695	**19,271**
Amortization of R&D	**41**	181	**383**
Amortization of long-term prepaid expenses	**837**	979	**7,822**
Pension and severance costs	**1,926**	1,900	**18,000**
Retirement benefits to directors	**113**	93	**1,056**
Allowance for bad debt	**76**	76	**710**
Unrealized gain of property, plant and equipment	**2,568**	2,568	**24,000**
Other	**343**	81	**3,206**
Total	**8,953**	8,492	**83,672**
Valuation allowance	**(82)**	(76)	**(766)**
Deferred tax assets	**8,871**	8,416	**82,906**
Deferred tax liabilities:			
Deferred gain on sales of property, plant and equipment	**(420)**	(450)	**(3,925)**
Unrealized gain on other securities	**(923)**	(678)	**(8,626)**
Other	**(2)**	(1)	**(19)**
Deferred tax liabilities	**(1,345)**	(1,129)	**(12,570)**
Deferred tax assets, net	**¥7,526**	¥7,287	**$70,335**

14. Contingencies:

The Group had contingent liabilities arising from notes discounted at banks in the ordinary course of business in the amount of ¥ 1,361 million as of March 31, 2004.

15. Segment Information:

Information about operations in industry segments of the Group for years ended March 31, 2005 and 2004 is as follows:

	Millions of yen				
	2005				
	Pharmaceutical	Other*	Total	Eliminations or Corporate	Consolidated
I. Sales and Operating Income					
Sales to customers	¥72,272	¥ 2,651	¥74,923	¥ —	¥ 74,923
Inter-segment/transfer	—	306	306	(306)	—
	72,272	2,957	75,229	(306)	74,923
Operating expenses	65,540	1,792	67,332	(306)	67,026
Operating income	¥ 6,732	¥ 1,165	¥ 7,897	¥ —	¥ 7,897
II. Assets, Depreciation and Capital Expenditures					
Assets	¥63,438	¥18,132	¥81,570	¥26,978	¥108,548
Depreciation	¥ 2,192	¥ 782	¥ 2,974	¥ —	¥ 2,974
Capital Expenditures	¥ 1,882	¥ 75	¥ 1,957	¥ —	¥ 1,957

	Millions of yen				
	2004				
	Pharmaceutical	Other*	Total	Eliminations or Corporate	Consolidated
I. Sales and Operating Income					
Sales to customers	¥69,634	¥ 3,072	¥72,706	¥ —	¥ 72,706
Inter-segment/transfer	—	310	310	(310)	—
	69,634	3,382	73,016	(310)	72,706
Operating expenses	63,303	2,187	65,490	(310)	65,180
Operating income	¥ 6,331	¥ 1,195	¥ 7,526	¥ —	¥ 7,526
II. Assets, Depreciation and Capital Expenditures					
Assets	¥64,201	¥19,278	¥83,479	¥22,134	¥105,613
Depreciation	¥ 2,414	¥ 799	¥ 3,213	¥ —	¥ 3,213
Capital Expenditures	¥ 915	¥ 64	¥ 979	¥ —	¥ 979

	Thousands of U.S. dollars (Note 3)				
	2005				
	Pharmaceutical	Other*	Total	Eliminations or Corporate	Consolidated
I. Sales and Operating Income					
Sales to customers	$675,439	$ 24,776	$700,215	$ —	$ 700,215
Inter-segment/transfer	—	2,860	2,860	(2,860)	—
	675,439	27,636	703,075	(2,860)	700,215
Operating expenses	612,523	16,748	629,271	(2,860)	626,411
Operating income	$ 62,916	$ 10,888	$ 73,804	$ —	$ 73,804
II. Assets, Depreciation and Capital Expenditures					
Assets	$592,878	$169,458	$762,336	$252,131	$1,014,467
Depreciation	$ 20,486	$ 7,308	$ 27,794	$ —	$ 27,794
Capital Expenditures	$ 17,589	$ 701	$ 18,290	$ —	$ 18,290

*Other business fields consist of mainly real estate.

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, 2005 and 2004 and the related consolidated statements of income, shareholders' equity 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, 2005 and 2004 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 3 to the accompanying consolidated financial statements.

Hijiribashi Audit Corporation

Hijiribashi Audit Corporation

Tokyo, Japan
June 29, 2005

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Company Information

Founded
March 1917

Incorporated
March 1948

Paid-in Capital
¥17,836 million (As of Jul. 31, 2005)

Common Stock
Authorized: 360,000,000 shares
Issued: 97,165,635 shares (As of Jul. 31, 2005)
Number of Shareholders: 21,896

Employees (Non-Consolidated)
Administration: 136
Sales & Marketing: 964
Production & Technology: 252
Research & Development: 273
Regulatory Affairs: 44

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