Annual Report 2001

Year Ended March 31, 2001

Bringing smiles to everyone.

KAKEN

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 domestic sales 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).

PHILOSOPHY

Kaken's ongoing quest is to bring smiles and happiness to as many people as possible. For this purpose, the Company strives to improve the quality of life of patients through the development and distribution of superior drugs.

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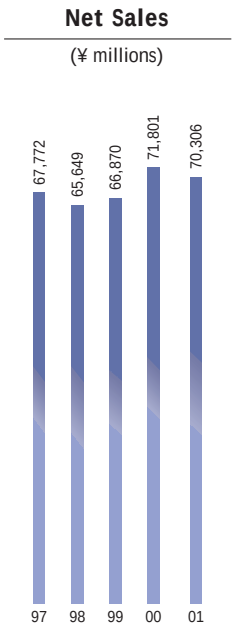
Kaken Pharmaceutical

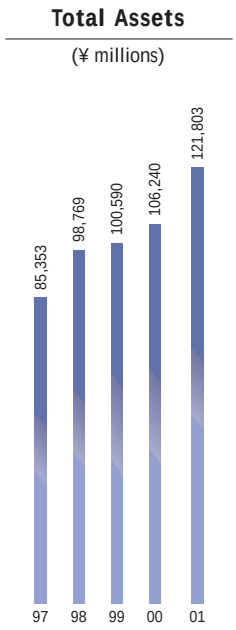
Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.

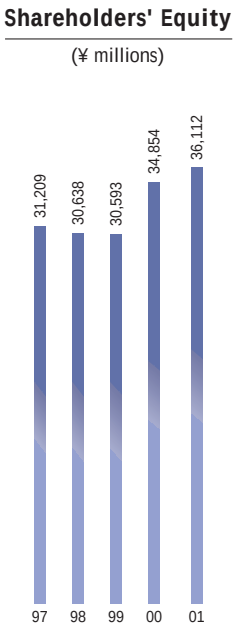
CONSOLIDATED FINANCIAL HIGHLIGHTS

	Millions of yen		Thousands of U.S. dollars (Note)
	2001	2000	**2001**
For the year ended March 31,			
Net sales	**¥ 70,306**	¥ 71,801	**$571,594**
Operating income	**6,805**	5,925	**55,325**
Net income	**1,999**	1,989	**16,252**
At March 31,			
Total shareholders' equity	**36,112**	34,854	**293,593**
Total assets	**121,803**	106,240	**990,268**
	Yen		U.S. dollars (Note)
Per share data:			
Net income (Basic)	**¥21.78**	¥21.68	**$0.177**
Cash dividends	**7.50**	7.50	**0.061**
ROE (%)	**5.63**	6.08	
Capital adequacy ratio (%)	**29.65**	32.81	

Note: U.S. dollar amounts are translated, for convenience only, at the rate of ¥123 = $1 effective on March 31, 2001.







PRESIDENT'S MESSAGE

OPERATING ENVIRONMENT In fiscal 2000, ended March 31, 2001, the Company's overall business environment continued to deteriorate for a number of issues. First, the industry suffered a seven percent average price reduction in April 2000. The government has advanced a policy to reduce drug prices to cope with the revision of the health insurance systems and health care for the elderly, in which co-payment of medical expenses increased. In addition, competition among companies in the industry intensified with the entry of foreign companies into the market, although the market benefited from increased sales of major new drugs introduced into the market in the preceding fiscal year.

In response, the Kaken Pharmaceutical Group strengthened its marketing activities on its core products and deployed sales representatives in the field of internal medicine, intending to distribute new drugs and expecting to introduce other drugs pending receipt of approval to manufacture such drugs.

To address declining margins caused by drug price reductions, the Company found means of centralizing plants and squeezed purchasing costs to enhance profitability. In addition, it strove to raise group-wide efficiency and worked to improve its profit structure.

The Group's other businesses, such as real estate, however, remained sluggish due to falling rents for office space and declining land prices.

PERFORMANCE AND FINANCIAL POSITION Consolidated net sales for the year amounted to ¥70,306 million (US$571.6 million), down 2.1 percent, or ¥1,495 million, from fiscal 1999. However, operating income jumped 14.8 percent, to ¥6,805 million, thanks to an improved gross profit margin and efforts to centralize production, raise marketing efficiency and minimize operating costs. For the year, the Company reported extraordinary expenses, such a revaluation loss on investments in securities and a loss on disposal of properties. As a result, consolidated net income moved up 0.5 percent, to ¥1,999 million (US$16.3 million).

PROFIT APPROPRIATION Adopting a long-term perspective, Kaken places high management importance on retaining ample earnings to fund future business growth while compensating shareholders continuously. For this reason, our fundamental policy is to undertake active investments in R&D to develop new products while strengthening our financial position and appropriating profits according to our business performance.

CAPITAL EXPENDITURES AND RATIONALIZATION In the year under review, the Company allocated ¥763 million from internal capital to finance the relocation of its distribution center, through a strategy designed to enhance sales and distribution efficiency. To upgrade product development and manufacturing facilities for the future, in July 2000 the Company raised ¥10 billion through an issuance of yen-denominated convertible bonds.

To improve our profit structure and reinforce our financial position, we continued extensive rationalization efforts. Specifically, we integrated and consolidated sales offices and production facilities, prepared to create a distribution facility on a former factory site, produced agrochemicals overseas on a consignment basis, and

reorganized our subsidiaries. In these and other ways, we have worked hard to cut operating costs.

During the year under review, we also endeavored to reduce the number of employees by adopting a new hiring system designed to reinforce our R&D and sales capabilities and by allocating human resources more appropriately.

BUSINESS OUTLOOK The future of the pharmaceutical industry in Japan will be affected by low birthrates and an aging population, which will cause major changes to the makeup of the nation. In this regard, drastic health care reforms are now under consideration, leading to predictions that our operating environment will face major unprecedented changes in the future. We believe that intensifying competition among companies in the industry will further stir up the business environment.

Facing these challenges, Kaken will strengthen its capabilities in R&D—the core component of a pharmaceutical company—and will work to shorten development lead times. To this end, we will focus on some research targets and establish platform technologies. We will also undertake efficient joint development initiatives with other companies in Japan and overseas. In addition to targeting further advances in orthopedics, we also will pursue progress in other fields, such as hyperlipidemia and diabetes, to strengthen our operating base.

In fiscal 2001, ending March 31, 2002, we expect to increase revenues with the launch of Fiblast Spray, a treatment for bed sores and skin ulcers. Fiblast Spray received the world's first approval as Trafermin, a human recombinant form of basic fibroblast growth factor (bFGF). In the future, we will work to nurture and expand applications for this product by pursuing R&D aimed at realizing its full potential in the field of regenerative medicine.

In addition, we will restructure our organization by introducing an executive officer system in order to reinforce the functions of the Board of Directors and to clarify their responsibilities, with a view to the anticipated amendment of the Japanese Commercial Code.

We look forward to the support of our shareholders and business partners as we strive to further raise our corporate value in the future.

June 28, 2001

乾 四朗

Shiro Inui
President

Kaken's overriding objective in developing pharmaceuticals is to help improve the quality of life of patients. Paralleling dramatic advances in medical treatment has been a major surge in demand for superior drugs. While the ultimate cure-all for every disease remains elusive, we have made a significant progress in supporting patients' healing processes. In addition to our core products, we are making inroads in the area of regenerative medicine. As we expand our business, we remain committed to making people's lives healthier and happier.

REVIEW OF OPERATIONS

PHARMACEUTICALS In fiscal 2000, the Company reported increases in sales of two mainstay products: Procylin (Beraprost Sodium), a platelet aggregation inhibitor, and Adofeed a pain-reliving plaster for treating of arthritic pain. However, we were unable to avoid a decline in sales of Artz (sodium hyaluronic acid), a viscoelastic supplement that improves the function of joints, due to reductions in drug prices and the launch of competitive products.

Owing to its aggressive marketing activities, the Company achieved higher sales of Lipantil (Fenofibrate), a lipid-lowering agent for the treatment of hyperlipidemia. The product continued to make a steady progress in penetrating the market. Ebrantil (Urapidil), α1 blocker to treat dysuria due to BPH and hypertension that was approved for the treatment of neurogenic dysuria in fiscal 1999, contributed to total sales. Also boosting revenues were sales of Seprafilm (hyaluronic acid & CMC), a medical device to prevent post-operative abdominal adhesion that was included in the scope of insurance coverage in February 2001.

In February 2001, Kaken launched a new product, Mirol (Levobunolol), β-blocker, for the treatment of glaucoma and ocular hypertension.

With regard to agrochemicals, the Company reported increased sales of Polyoxin, a fungicide for fruit and vegetable plants. However, domestic sales of Pentoxazon, a rice paddy herbicide, stagnated due to the reinforcement of a government policy to reduce acreage under rice cultivation. Since its market launch in 1998, Pentoxazon has become well-known for its safety and efficacy, as well as numerous features not found in traditional herbicides, and has contributed to total sales. In recognition of Pentoxazon development, the Company received an award from the Pesticide Science Society of Japan in 2001.

In fiscal 2000, we reported strong exports to the United States of Salinomycin, a mainstay feed additive product. Its sales to Europe, however, were down. In Japan, we released a new feed additive, Avatec (Lasalocid), which generated healthy sales.

As a result, sales in the pharmaceuticals and agrochmicals segments amounted to ¥67,272 million (US$546.9 million), down 0.4 percent from fiscal 1999.

OTHERS With regard to real estate management, revenues from real estate operations, such as Bunkyo Green Court Building, declined in the year under review due mainly to falling land prices. As a result of the foregoing, sales in this segment fell 29.2 percent, to ¥3,034 million (US$24.7 million).

MAIN PRODUCTS

Pharmaceuticals

>> Fiblast Spray (Wound healing agent)

- Consisting of Trafermin, a recombinant form of human bFGF, Fiblast Spray is a new type of drug for treating bed sores and skin ulcers.
- This strongly stimulates the growth of endothelial cells and fibroblasts, and accelerates wound healing by producing highly vascularized granulation tissues.
- Fiblast Spray was the world's first human recombinant bFGF product developed by Kaken, which commenced sales in June 2001.

>> 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.
- Artz is a viscoelastic supplement for replacing the diseased synovial fluid found in osteoarthritic knees and restoring the physical properties and elastoviscosity of such diseased synovial fluid.
- It is injected directly into the knee joint by a physician.

>> Procylin (Peripheral vasodilatation & Anti-platelet)

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

>> Adofeed (Pain-relieving plaster)

- Consisting of Flurbiprofen, Adofeed is a pain-relieving plaster, which is absorbed through the skin.
- It has proven effective in treating osteoarthritis, tennis elbow, muscle pain and other inflammatory diseases.
- It is applied to the affected area twice a day.

>> Mentax (Topical antifungal)

- Consisting of Butenafine, Mentax is a topical antifungal agent for treating athlete's foot.
- It is Kaken's original product that is sold around the world, including in the United States through Bertek/Mylan and in Canada through Schering-Plough.

>> Lipantil (Anti-hyperlipidemia)

- Consisting of Fenofibrate, Lipantil is a fibrate lipid lowering agent that lowers both triglycerides and cholesterol.
- Originally developed by Fournier in France, Lipantil was sublicensed to Kaken in 1996 by Fournier's Japanese licensee, Grelan Pharm. Kaken launched Lipantil into the Japanese market in May 1999.

>> Ebrantil (α1-blocker)

- Consisting of Urapidil, Ebrantil is a specific α1-adrenergic receptor antagonist for neurogenic dysuria. Twice-daily administration of Ebrantil capsules significantly improves dysuria caused by central or peripheral neural disorders without causing significant hypotension. It was approved for this indication in November 1999.
- Ebrantil has already been in use for treatment of hypertension and dysuria due to BPH.

>> Cytotec (Antiulcer)

- Consisting of Misoprostol (PGE1 analog), Cytotec is effective for NSAID-induced grastric ulcer.
- It was developed by G.D. Searle (now Pharmacia Corporation), and has been marketed 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.
- It was developed by Monsanto and Daiichi Pharmaceutical and received approval in June 1999. In September 1999, it was launched by Kaken into the Japanese market. Kaken is currently marketing Norinyl T28 in collaboration with Morinaga Milk.

>> 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 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 drops without heavy viscosity.
- It was launched in February 2001.

>> 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 initially in use in the gynecological field in Japan. In June 1999, it received additional approval for preventing post-operative abdominal adhesions.

Agrochemicals

>> Polyoxin (Fungicide)

- Polyoxin is a fungicide produced by a certain type of bacterium isolated from the soil in the Aso region of Japan.
- It is particularly effective for treating damage caused by alternalia in apple, pear and other fruit trees, as well as flowering trees and tobacco plants. It is also effective against botrytis rot and powdery mildew.
- With low toxicity, it does not damage crops and is highly safe for use.

>> Pentoxazon (Herbicide)

- Pentoxazon is a new type of paddy herbicide. It is effective against first-year weeds and has long-lasting effects.
- It is highly safe for use in rice paddies and can be used before, during or after transplantation.

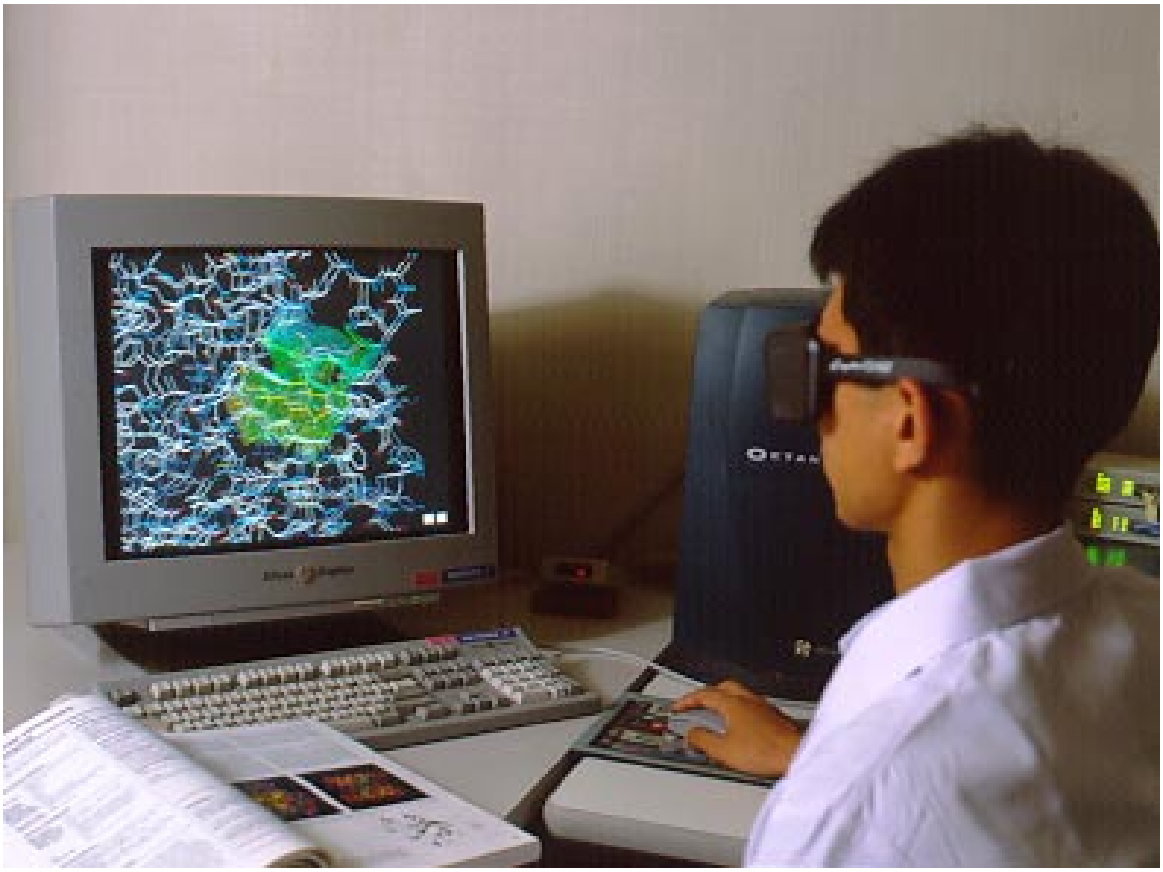
Animal Health Products

>> Salinomycin (Anti-coccidiosis in fowls)

- Salinomycin was developed originally by Kaken. In addition to sales in Japan, it is being exported to Europe, North America, Asia and elsewhere. It is the most widely used agent in the world to prevent and treat coccidiosis.
- Coccidiosis is a contagious disease that begins when protozoans become parasitic in the intestinal tracts of fowls. When transmitted, it causes stunted growth and even death. The disease can be known to cause major economic damage in modern, large-scale chicken farms.

>> Colistin (Anti-biotic agent)

- Colistin is used to prevent diseases caused by Gram-negative bacteria, such as colon bacillus and salmonella.
- It is highly safe and is one of the few drugs used against Gram-negative bacteria. It has found widespread use. In addition to sales in Japan, it is being exported to European and Asian countries.



Kaken strongly believes that R&D is the key to its success as a pharmaceutical company. Working in Japan's ancient capital of Kyoto, our researchers utilize the latest information and technologies to discover new drugs. Besides, in our research facilities near Mt. Fuji, researchers work tirelessly to develop drugs. A noteworthy result of these initiatives is Fiblast Spray, the world's first recombinant human bFGF product. In our enthusiasm to open new doors in research, we embrace the challenge of change as we tackle the increasingly competitive business environment.

RESEARCH AND DEVELOPMENT

Central Research Laboratories

DISCOVERY RESEARCH The role of the Drug Discovery Research Department is to discover new drugs. The department is located in Kyoto, the ancient capital of Japan. There, surrounded by historic and cultural remains, our dedicated researchers are constantly studying the latest scientific information and technologies.

Our drug discovery research focuses on inflammation, allergy, bone metabolism, diabetes and systemic mycosis to finally develop treatments for arthritis, asthma, bone diseases, diabetes and so on. In response to recent fundamental changes in drug discovery processes throughout the pharmaceutical science and biotechnology sectors, our research laboratories employ new technologies to accelerate discoveries and optimization processes.

Computer-aided drug design (CADD) is an important part of the Department's rational approach to drug discovery. Our chemists constantly explore chemical candidates synthesized in various projects, in order to design a superior peptidemimetic focusing library.

Our researchers are highly motivated and dedicated to excellence at every phase of drug discovery research. Moreover, we have a highly refined education program that is producing many talented young researchers.

DEVELOPMENT RESEARCH Kaken's development research facilities are located on the east bank of the Ohi River in Shizuoka Prefecture, near Mt. Fuji. We undertake a wide range of research activities in a stimulating environment. Our aim here is to develop candidate compounds discovered during drug discovery research into new drugs.

Our drug development research activities encompass pharmacokinetics research, drug formulation, safety evaluation and quality assurance.

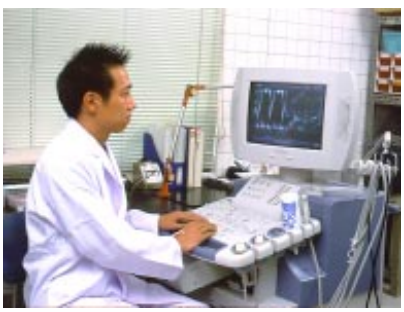
The Pharmacokinetics Research Group utilizes the latest equipment and technologies to study the absorption, distribution, metabolism and excretion of drugs in order to determine their effectiveness and safety in the body. The Drug Formulation Group studies general pharmaceutical designs and formulations using drug delivery systems (DDSs) and targets technologies to develop optimal dosage forms. The Safety Evaluation Group strictly

evaluates the safety of candidate compounds. The Quality Assurance Control Group works to ensure that information generated in all Kaken laboratories is of the highest quality and reliability.

In addition to the Company's own drug development research, 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.

PHARMACEUTICALS DEVELOPMENT PROJECT Kaken has been active in the development on the following main areas: tissue regeneration, pain treatment, endocrine diseases, metabolic disorders and systemic mycosis. To accelerate our R&D efforts and to broaden our network, we are actively engaged in joint development projects to form alliances with other companies. One recent result of these initiatives was Fiblast Spray, a treatment for bed sores and skin ulcers. Fiblast Spray received the world's first approval as a recombinant form of human bFGF (Trafermin) in April 2001, and Kaken began selling this product in June 2001. This bFGF is attracting high praise as an innovative product in the field of regenerative medicine. We expect it to have broader applications for other ailments in the future.

Actually, bFGF, the main component of Fiblast Spray, has proven effective in several kinds of cell growth and angiogenesis. For this reason, Kaken has positioned bFGF as an important object of its R&D activities, and continues to pursue new applications. One potential application is the treatment of intractable bone fractures, and clinical trials in this area are in progress. Another is the treatment of periodontal diseases, for which clinical trials are under preparation. In addition, we are engaged in clinical trials for a new drug in an effort to develop KP-102, a growth hormone-releasing peptide (GHRP), for treating



pituitary dwarfism. Clinical trials are also in progress for diagnosing hypothalamic pituitary functions.

We are now developing Arthrotec, a combination drug of Diclofenac and Misoprostol for treating arthritic pain, which is licensed from Pharmacia.

We filed an NDA to manufacture Loside (CCK antagonist), a treatment for pancreatitis jointly developed with Mitsubishi-Tokyo. We also made an additional application for Pronase-MS, a mucus solubilizer to be used as pretreatment for gastro-endoscopy.

Kaken signed a sales agreement for Aldos (anti-diabetic neuropathy) with N.K. Curex Co., Ltd., which was applied for approval to manufacture by N.K. Curex and Sanwa Kagaku Kenkyusho Co., Ltd. We also formed an agreement with IDD Inc. of the United States to undertake R&D aimed at developing treatments for diabetes. In these ways, we continued to broaden our R&D pipeline.

In addition to our competence in pharmaceuticals for orthopedics, we are focusing on products for such diseases as hyperlipidemia and diabetes, which have become more common as the aging population advances and for lifestyle-related diseases. As well as expanding in-house development of such products, we are emphasizing R&D and sales under licensing agreements from other domestic and overseas companies.

AGROCHEMICALS DEVELOPMENT PROJECT In our effort to develop agro-chemicals, feed additives and drugs for animals, we continue to search for new compounds from synthetic and natural resources. A number of promising candidates are now under further investigation. Meanwhile, we continue to develop new herbicides to expand our presence in this category.

MARKETING ACTIVITIES

Kaken's success to date has been largely due to its extensive marketing network, which serves both to distribute the Company's products and to gather market information necessary for future product development activities.

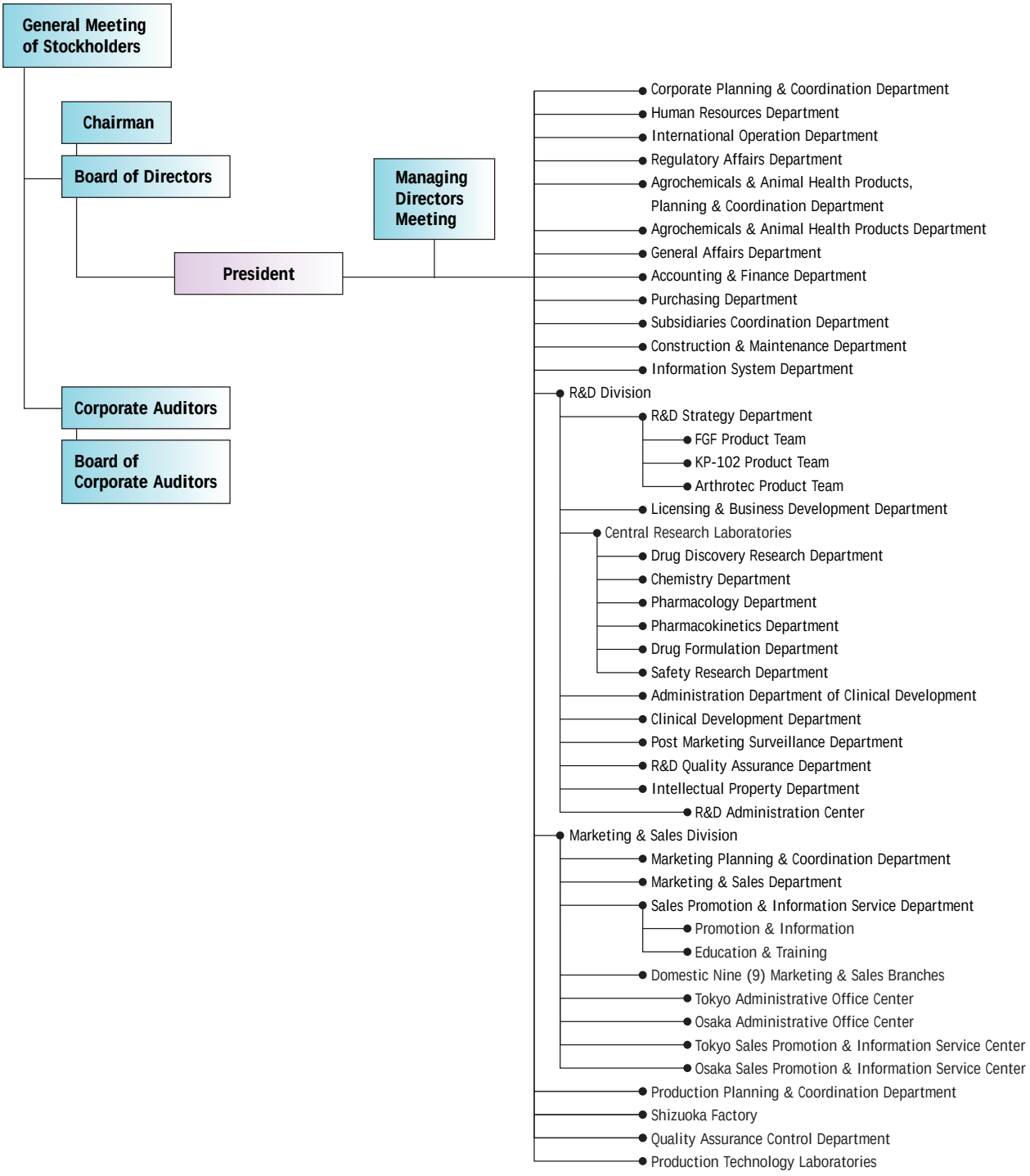
The Company's domestic network now includes nine full-function branch offices, 51 sub-branch offices and more than 660 medical representatives (MRs). Through this network, we are able to effectively serve our customers in every corner of Japan.

Our MRs keep updated on the Company's products, overall medical and pharmaceutical sciences and industry trends. They receive extensive training, including an intensive initial training program presented by in-house instructors and eminent outside experts. We also sponsor regular symposia that allow representatives to keep up with new developments.

Meanwhile, we work to nurture our MRs to be compatible with the MR accreditation system through the competent training program.

In addition to promoting original or in-licensed products, Kaken Pharmaceutical also markets products registered by other Japanese and overseas pharmaceutical companies. We also sell our products to overseas countries directly or under license/distributorship.

ORGANIZATIONS



Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.

CONSOLIDATED FIVE-YEAR SUMMARY

	Millions of yen					Thousands of U.S. dollars (Note)
	2001	2000	1999	1998	1997	**2001**
For the year ended March 31,						
Net sales	**¥ 70,306**	¥ 71,801	¥ 66,870	¥65,649	¥67,772	**$571,594**
Operating income	**6,805**	5,925	5,487	3,541	4,049	**55,325**
Net income	**1,999**	1,989	647	72	729	**16,252**
At March 31,						
Total shareholders' equity	**36,112**	34,854	30,593	30,638	31,209	**293,593**
Total assets	**121,803**	106,240	100,590	98,769	85,353	**990,268**
	Yen					U.S. dollars (Note)
Per share data:						
Net income (Basic)	**¥21.78**	¥21.68	¥7.06	¥0.79	¥7.94	**$0.177**
Cash dividends (Non-Consolidated)	**7.50**	7.50	7.50	7.50	7.50	**0.061**
ROE (%)	**5.63**	6.08	2.11	0.23	2.34	
Capital adequacy ratio (%)	**29.65**	32.81	30.41	31.02	36.57	

Note: U.S. dollar amounts are translated, for convenience only, at the rate of ¥123 = $1 effective on March 31, 2001.

FINANCIAL REVIEW

REVENUES In fiscal 2000, Kaken Pharmaceutical reported consolidated net sales of ¥70,306 million, down 2.1 percent from fiscal 1999. The Company's combined pharmaceuticals and agrochemicals businesses accounted for 95.7 percent of this total, with other businesses constituting the remaining 4.3 percent.

PHARMACEUTICALS In the pharmaceuticals segment, sales of the mainstay Artz declined due to a reduction in the price and the launch of a competitive product. However, sales of Procylin, Adofeed and Lipantil increased. Ebrantil, which was approved for a new indication in fiscal 1999, contributed to total sales. Also boosting revenues were sales of Seprafilm, which was included in the scope of insurance coverage for general abdominal operation in February 2001.

In the agrochemicals category, sales of Pentoxazon struggled due to the Japanese government policy to reduce acreage under rice cultivation. Exports of Polyoxin, however, were up.

Avatec (Lasalocid), a feed additive launched domestically in the year under review, contributed to total sales. Exports of Salinomycin to North America kept well, but those to Europe declined.

As a result, consolidated sales of pharmaceuticals and agrochemicals in fiscal 2000 amounted to ¥67,272 million, down 0.4 percent from fiscal 1999. Operating income jumped 54.3 percent, to ¥5,329 million.

OTHER Sales in this segment derive mainly from revenues related to Bunkyo Green Court Building, which was

constructed on land owned by Kaken and developed by a joint venture including Kaken. In the year under review, rental sales declined due to the effects of falling land prices. Segment sales, therefore, dropped 29.3 percent, to ¥3,034 million. Operating income fell 40.3 percent, to ¥1,476 million.

EARNINGS Despite the aforementioned decline in revenues, operating income grew 14.8 percent, to ¥6,805 million, due to extensive efforts to reduce sales costs and general and administrative expenses. However, net income remained mostly unchanged at ¥1,999 million (US$16.3 million), due to a revaluation loss on investments in securities and other non-operating expenses.

FINANCIAL POSITION At the end of fiscal 2000, cash and deposits totaled ¥19,884 million, about twice the level of a year earlier, thanks to funds raised through an issuance of convertible bonds. Total assets at fiscal year-end amounted to ¥121,803 million, up 14.6 percent, due largely to increases in marketable securities and notes and accounts receivable. However, long-term debt rose 11.8 percent, to ¥41,817 million, stemming from the issuance of the convertible bonds.

CASH FLOWS Cash and cash equivalents at the end of fiscal 2000 amounted to ¥23,941 million, up ¥12,607 million. This was due mainly to solid income before income taxes and minority interests, which stood at ¥4,541 million and remained close to the level of a year earlier. Other contributing factors included proceeds from the issuance of convertible bonds. Together, these items outweighed various factors holding down cash and cash equivalents, such as an increase in notes and accounts receivable, higher purchases of investments in securities, increased production equipment expenditures at the Shizuoka plant and payment of income taxes.

Net cash provided by operating activities was ¥6,118 million, an increase of 1,105.4 percent from the previous year. This considerable increase stemmed mainly from the aforementioned figure for income before income taxes and minority interests, as well as ¥3,624 million in depreciation. Another contributing factor was that the last day of the fiscal year was a public holiday, which led to a ¥2,367 million increase in notes and accounts payable.

Net cash used in investing activities amounted to ¥2,521 million, down from ¥5,541 million in fiscal 1999. Major components included ¥1,366 million in purchases of property, plant and equipment for the Shizuoka plant, as well as ¥846 million in purchases of securities.

Net cash provided by financing activities rose 313.6 percent, to ¥9,010 million from a year earlier. Proceeds from the issuance of convertible bonds constituted the principal component of this increase.

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.

CONSOLIDATED BALANCE SHEETS

As of March 31, 2001 and 2000

ASSETS	Millions of yen 2001	2000	Thousands of U.S. dollars (Note 3) 2001
Current Assets:			
Cash on hand and at bank (Note 4)	**¥ 19,884**	¥ 9,648	**$161,658**
Marketable securities (Notes 4 and 5)	**4,285**	2,210	**34,837**
Receivables:			
Notes and accounts receivable-trade	**37,442**	33,624	**304,406**
Accounts receivable-other	**566**	1,479	**4,602**
	38,008	35,103	**309,008**
Less: Allowance for doubtful accounts	**(11)**	(16)	**(89)**
	37,997	35,087	**308,919**
Inventories (Note 6)	**8,522**	8,533	**69,285**
Deferred tax assets (Note 14)	**904**	619	**7,350**
Other current assets	**775**	354	**6,301**
Total current assets	**72,367**	56,451	**588,350**
Property, Plant and Equipment:			
Buildings and structures	**34,864**	34,725	**283,447**
Machinery and equipment	**18,139**	18,393	**147,471**
	53,003	53,118	**430,918**
Less: Accumulated depreciation	**(26,655)**	(26,685)	**(216,707)**
	26,348	26,433	**214,211**
Land	**3,583**	3,624	**29,130**
Construction in progress	**—**	1,549	**—**
	29,931	31,606	**243,341**
Investments and Other Assets:			
Investments securities (Note 5)	**6,561**	5,763	**53,341**
Investments in unconsolidated affiliates (Note 5)	**773**	779	**6,285**
Intangible assets and long-term prepaid expenses	**3,415**	4,132	**27,764**
Deferred tax assets (Note 14)	**4,775**	3,046	**38,821**
Deferred charges	**366**	388	**2,976**
Other assets	**3,615**	4,075	**29,390**
	19,505	18,183	**158,577**
TOTAL ASSETS	**¥121,803**	¥106,240	**$990,268**

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2001	2000	Thousands of U.S. dollars (Note 3) 2001
Current Liabilities:			
Short-term bank loans (Note 7)	**¥ 6,409**	¥ 7,426	**$ 52,106**
Current portion of long-term debt (Note 7)	**6,602**	203	**53,675**
Payables:			
Notes and accounts payable-trade	**13,953**	11,586	**113,439**
Notes and accounts payable-construction	**526**	1,300	**4,276**
Accounts payable-other	**2,383**	2,188	**19,374**
	16,862	15,074	**137,089**
Accrued expenses	**463**	658	**3,764**
Accrued bonuses	**2,112**	2,009	**17,171**
Accrued sales rebates	**481**	485	**3,911**
Accrued income taxes (Note 14)	**3,402**	1,185	**27,658**
Other current liabilities	**622**	537	**5,057**
Total current liabilities	**36,953**	27,577	**300,431**
Non-Current Liabilities:			
Long-term debt (Note 7)	**41,817**	37,393	**339,976**
Accrued pension and severance costs (Note 10)	**5,780**	5,224	**46,992**
Accrued retirement benefits to directors	**511**	434	**4,154**
Deferred tax liabilities (Note 14)	**373**	397	**3,033**
Other long-term liabilities	**256**	360	**2,081**
Total non-current liabilities	**48,737**	43,808	**396,236**
Minority interests in consolidated subsidiaries	**1**	1	**8**
Shareholders' Equity:			
Common stock (par value of 50 yen)			
Authorized: 360,000,000 shares			
Issued : 91,799,041shares	**15,923**	15,923	**129,455**
Additional paid-in capital	**14,661**	14,661	**119,195**
Retained earnings	**5,537**	4,272	**45,016**
	36,121	34,856	**293,666**
Less: treasury stock, at cost	**(9)**	(2)	**(73)**
Total shareholders' equity	**36,112**	34,854	**293,593**
Commitments and contingencies (Note 15)			
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**¥121,803**	¥106,240	**$990,268**

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2001	2000	**2001**
Net sales	**¥70,306**	¥71,801	**$571,594**
Cost of sales	**36,321**	38,151	**295,293**
Gross profit	**33,985**	33,650	**276,301**
Selling, general and administrative expenses (Note 12)	**27,180**	27,725	**220,976**
Operating income	**6,805**	5,925	**55,325**
Other Income (Expenses):			
Interest and dividend income	**157**	111	**1,276**
Interest expense	**(862)**	(855)	**(7,008)**
Bad debt loss (Note 13)	**—**	(1,031)	**—**
Gain (loss) on sales/disposal of property, plant and equipment, net	**(423)**	497	**(3,439)**
Gain (loss) on sales of investments in securities, net	**—**	205	**—**
Revaluation loss of investments in securities	**(340)**	(819)	**(2,764)**
Revaluation loss of golf membership	**(316)**	—	**(2,569)**
Gain on settlement of legal proceeding	**—**	807	**—**
Others, net	**(480)**	(334)	**(3,902)**
	(2,264)	(1,419)	**(18,406)**
Income before income taxes and minority interests	**4,541**	4,506	**36,919**
Income taxes (Note 14):			
Current	**4,579**	2,775	**37,228**
Deferred	**(2,037)**	(258)	**(16,561)**
	2,542	2,517	**20,667**
Income before minority interests	**1,999**	1,989	**16,252**
Minority interests	**0**	0	**0**
Net income	**¥ 1,999**	¥ 1,989	**$ 16,252**

	Yen		U.S. dollars (Note 3)
Per share data:			
Net income:			
Basic	**¥ 21.78**	¥ 21.68	**$ 0.177**
Diluted	**¥ 18.89**	¥ 20.37	**$ 0.154**
Cash dividends	**¥ 7.5**	¥ 7.5	**$ 0.061**

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

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended March 31, 2001 and 2000

	Millions of yen					
	Number of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock at cost	Total Shareholders' equity
Balance at March 31, 1999	91,799,041	¥15,923	¥14,661	¥ 11	¥(2)	¥30,593
Net income				1,989		1,989
Cash dividends				(688)		(688)
Directors' bonuses				(50)		(50)
Cumulative effect of initial application for deferred tax accounting				3,010		3,010
Treasury stock acquired, net					0	0
Balance at March 31, 2000	91,799,041	¥15,923	¥14,661	¥4,272	¥(2)	¥34,854
Net income				1,999		1,999
Cash dividends				(688)		(688)
Directors' bonuses				(46)		(46)
Treasury stock acquired, net					(7)	(7)
Balance at March 31, 2001	**91,799,041**	**¥15,923**	**¥14,661**	**¥5,537**	**¥(9)**	**¥36,112**

	Thousands of U.S. dollars (Note 3)					
	Number of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock at cost	Total Shareholders' equity
Balance at March 31, 2000	91,799,041	$129,455	$119,195	$34,732	$(16)	$283,366
Net income				16,252		16,252
Cash dividends				(5,594)		(5,594)
Directors' bonuses				(374)		(374)
Treasury stock acquired, net					(57)	(57)
Balance at March 31, 2001	**91,799,041**	**$129,455**	**$119,195**	**$45,016**	**$(73)**	**$293,593**

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2001	2000	**2001**
I. Cash flows from operating activities			
Income before income taxes and minority interests	**¥ 4,541**	¥ 4,506	**$ 36,919**
Adjustments for:			
Depreciation	**2,100**	2,004	**17,073**
Amortization of long-term prepaid expenses	**1,228**	1,176	**9,984**
Amortization of deferred charges	**296**	490	**2,407**
Revaluation loss of golf membership	**316**	—	**2,569**
Accrual for pension and severance costs, less payments	**556**	41	**4,520**
Bad debt loss	**—**	1,031	**—**
Interest and dividend income	**(157)**	(111)	**(1,276)**
Interest expense	**862**	855	**7,008**
Gain on sale of investment securities	**—**	(205)	**—**
Revaluation loss of investment securities	**340**	819	**2,764**
Loss on disposals of property, plant and equipment	**468**	91	**3,805**
Gain on sale of property, plant and equipment	**(45)**	(588)	**(366)**
Increase in notes and accounts receivable-trade	**(3,818)**	(2,819)	**(31,041)**
(Increase) Decrease in inventories	**11**	(1,030)	**89**
(Decrease) Increase in notes and accounts payable-trade	**2,367**	(101)	**19,244**
Paid bonuses to directors	**(46)**	(50)	**(374)**
Other, net	**(642)**	(306)	**(5,219)**
	8,377	5,803	**68,106**
Interest and dividends received	**151**	138	**1,227**
Interest paid	**(854)**	(871)	**(6,943)**
Gain on settlement of legal proceeding	**807**	—	**6,561**
Income taxes paid	**(2,363)**	(4,563)	**(19,211)**
Net cash provided by operating activities	**6,118**	507	**49,740**
II. Cash flows from investing activities			
Acquisition of investment securities	**(846)**	(3,268)	**(6,878)**
Proceeds from sales of investments in securities	**11**	406	**89**
Acquisition of property, plant and equipment	**(1,366)**	(1,677)	**(11,106)**
Proceeds from sales of property, plant and equipment	**136**	779	**1,106**
Payment of long-term prepaid expenses	**(530)**	(1,779)	**(4,309)**
Other, net	**74**	(2)	**602**
Net cash used in investing activities	**(2,521)**	(5,541)	**(20,496)**
III. Cash flows from financing activities			
Proceeds from long-term debt	**30**	2,140	**244**
Repayment of long-term debt	**(35)**	(124)	**(285)**
Proceeds from issuance of convertible bonds	**9,726**	—	**79,073**
Increase (Decrease) in short-term bank loan	**(16)**	851	**(130)**
Cash dividends paid	**(688)**	(688)	**(5,593)**
Other, net	**(7)**	0	**(57)**
Net cash provided by (used in) financing activities	**9,010**	2,179	**73,252**
Net (decrease) increase in cash and cash equivalents	**12,607**	(2,855)	**102,496**
Cash and cash equivalents at beginning of year	**11,334**	14,189	**92,146**
Increase in cash and cash equivalents resulting from consolidation of an additional subsidiary	**—**	—	**—**
Cash and cash equivalents at end of year (Note 4)	**¥23,941**	¥11,334	**$194,642**

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 as to application and disclosure requirements of International Accounting Standards, and filed with the Japanese Ministry of Finance and the Tokyo Stock Exchange. The consolidated statements of shareholders' equity have been prepared to provide additional information.

Certain items presented in the consolidated financial statements filed with the Minister of Finance in Japan 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 five subsidiaries as of March 31, 2001. The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The consolidated subsidiaries as of March 31, 2001 are as follows:

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

The Company had an affiliate as of March 31, 2001. Investment in N·K Curex Co., Ltd. is accounted for by the equity method. Investment in the other affiliate, Bunkyo Green Court Build Co., Ltd., was liquidated in March, 2001.

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

The difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary is allocated to identifiable assets based on fair value at the date of acquisition. The unassigned residual value of the excess of the cost over the underlying net equity is recognized as goodwill, and, amortized over a period of five years on a straight-line basis.

(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 market risk fluctuations.

(c) Marketable and Investment Securities

Up to March 31, 2000 marketable securities are stated at the lower of cost or market, cost being determined by the moving average method. Other investment securities are shown at cost and provision is made only where there is a permanent diminution in value. Shareholdings in subsidiary companies are stated at cost.

Effective from the year ended March 31, 2001, the Group adopted the new Japanese accounting standard for financial instruments, under which securities are classified as one of four categories; (1) Trading, (2) Hold-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 curried at fair value with unrealized gains or losses included as a separate item in equity, net of applicable taxes. However, the standard provides a transition treatment in the year ended March 31, 2001, under which other securities are stated at cost, if certain information such as book value, market value, unrealized gain or loss and related deferred tax.

As a result of adoption of the new standard, income before income taxes and minority interests for the year ended March 31, 2001 increased by ¥48 million, as compared with the amount which would have been reported if the previous standard had been applied consistently.

(d) Inventories

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

(e) Property, Plant and Equipment

Depreciation is computed on the declining-balance method at rates on the estimated useful lives of assets, prescribed by the Japanese Corporation Tax Law. However, depreciation of buildings, structures, machinery and equipment for Komagome office is 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, following revisions of the Japanese Corporation Tax Law.

(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.

Up to March 31, 2000, the liability for severance indemnities for employees is stated at the amount equivalent to 40% of the liability the Company and certain consolidated subsidiaries would have been required to pay (i.e., 70% of the retirement benefits) if all eligible employees had voluntarily retired at the balance sheet dates.

At the beginning of the year ended March 31, 2001, the Company adopted the new Japanese accounting standard for retirement benefits, under which the accrued pension and severance costs represents the amount that 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. 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. 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 the plan assets. As a result of adoption of the new standard, income before income taxes and minority interests decreased by ¥386 million, as compared with the amount which would have been reported if the previous standard had been applied consistently.

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

Up to March 31, 1999, income taxes of the Group were provided for in an amount currently payable based on the tax returns filed with the tax authority.

In fiscal year ended March 31, 2000, the Group adopted the deferred tax accounting, similar to IAS 12, in accordance with amended Japanese accounting regulations. 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. The cumulative effect of adopting deferred tax accounting at the beginning of fiscal 2000 was directly credited to retained earnings in the amount of ¥3,010 million.

(h) Consumption Taxes

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

(i) Research and Development Expenses

Previously significant research and development expenses for new products and new technologies had been capitalized and amortized over five years on the straight-line basis.

However, on April 1, 1999, a new accounting standard for Research and Development expenses (the "R&D expenses") was adopted. Under the new standard, R&D expenses are charged to income as incurred, while the capitalized amounts at March 31, 1999 are amortized over remaining period.

This accounting change resulted in a decrease in "operating income" and "income before income taxes and minority interests" by ¥219 million for the year ended March 31, 2000.

(j) Derivative financial instruments

Derivative financial instruments, which include foreign exchange forward contracts and interest rate swap agreements, are used in the Company's risk management of foreign currency and interest rate risk exposures of its financial assets and liabilities.

Foreign exchange forward contracts

The Company enters into foreign 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. Foreign exchange forward contracts which are designated and effective as hedges of such currency exchange rate risk on existing assets and liabilities are marked to market and included as an offset to foreign exchange gains/losses recorded on the existing assets and liabilities.

Forward exchange contracts which do not correspond with trade accounts receivable and payable denominated in foreign currencies at fiscal year end but designed as "hedging instru-

ments" for anticipated transactions are evaluated at market value at the balance sheet date. Gains or losses arising from changes in fair value of the derivatives are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and 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 to limit the Company's exposure in relation to underlying debt instruments resulting from adverse fluctuations in interest rates. The related interest differentials paid or received under the interest rate swap agreements are recognized over the terms of the agreements in interest expense.

Interest rate swap agreements designated as "hedging instruments" for anticipated transactions are evaluated at market value at the balance sheet date. Gains or losses arising from changes in fair value of the derivatives are deferred as an asset or liability.

After an underlying hedged transaction is settled or ceases to exist, all changes in fair value of related derivatives which have not been settled are recognized in foreign exchange gains/losses.

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

(l) Appropriations of Retained Earnings
Under the Japanese Commercial Code (the "Code") and the Articles of Incorporation of the Company, the appropriation of retained earnings proposed by the Board of Directors is subject to approval by the shareholders at a meeting which must be held within three months after the end of each fiscal year. The appropriations of retained earnings reflected in the accompanying consolidated financial statements include the results of such appropriations applicable to the immediately preceding fiscal year as approved at the shareholders' meeting. Dividends are paid to shareholders on the shareholders' register as at the end of each fiscal year. As is customary practice in Japan, the payment of bonuses to directors and statutory auditors is made out of retained earnings through appropriation, instead of being charged to income of the year.

The Code provides that interim cash dividends may be paid as a part of the annual dividend upon approval by the Board of Directors. The Company pays such interim dividends to shareholders on the shareholders' register at September 30.

(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 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 ¥ 123 =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 ¥ 123 = U.S. $ 1 or any other rate.

4. 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 3)
	2001	2000	**2001**
Cash on hand and at banks	**¥19,884**	¥9,648	**$161,659**
Marketable securities	**4,285**	2,210	**34,837**
	24,169	11,858	**196,496**
Time deposits which fall due more than three months	**(78)**	(77)	**(634)**
Marketable securities due more than three months	**(150)**	(447)	**(1,220)**
	(228)	(524)	**(1,854)**
Cash and cash equivalents	**¥23,941**	¥11,334	**$194,642**

5. Marketable Securities, Investments Securities and Investments in Unconsolidated Affiliates:

Marketable securities (current assets) and investment securities and unconsolidated affiliates (non-current assets) which have market quotations on stock exchanges at March 31, 2000 are summarized as follows:

	Carrying amounts	Market value	Unrealized gain (loss)
	(Millions of yen)		
Marketable securities:			
Market value available:			
Equity securities	¥ —	—	—
Bonds and debentures	—	—	—
Other securities	297	275	(22)
	297	275	(22)
Market value not available	1,913		
Total	2,210		

	Carrying amounts	Market value	Unrealized gain (loss)
	(Millions of yen)		
Investments in securities:			
Market value available:			
Equity securities	5,584	5,554	(30)
Bonds and debentures	—	—	—
Other securities	—	—	—
	5,584	5,554	(30)
Market value not available	179		
Total	5,763		
Investments in unconsolidated affiliates:			
Market value not available	¥ 779		

Securities classified as "Other securities" and those, whose fair value are readily determinable, are carried at cost as of March 31, 2001. Information for those securities is as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
Carrying amount in the balance sheet	¥6,337	$51,520
Fair value	5,844	47,512
Unrecognized loss, net of tax	286	2,325
Deferred tax assets	207	1,683

6. Inventories:

Inventories as of March 31, 2001 and 2000 are comprised of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31
	2001	2000	**2001**
Finished products	**¥5,362**	¥5,293	**$43,594**
Work in process	**1,769**	1,502	**14,382**
Raw materials	**805**	1,057	**6,545**
Supplies	**439**	423	**3,569**
Raw materials in transit	**147**	258	**1,195**
	¥8,522	¥8,533	**$69,285**

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

Short-term bank loans outstanding as of March 31, 2001 and 2000 are represented notes issued by the Group to banks. Customarily, these notes are renewed at maturity subject to renegotiations of interest rates and other factors. The weighted-average interest rates applicable to short-term bank loans as of March 31, 2001 and 2000 are 1.13 % and 1.05 %, respectively. Outstanding balance of short-term bank loans as of March 31, 2001 and 2000 were ¥ 6,409 million and ¥7,426 million, respectively.

Long-term debts as of March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31
	2001	2000	**2001**
Loans from banks and other financial institutions due 2001 to 2007	**¥ 4,169**	¥ 3,174	**$ 33,895**
2.7% unsecured convertible bond due 2002 (a)	**6,256**	6,256	**50,862**
1.0% unsecured convertible bond due 2003 (b)	**18,491**	18,491	**150,333**
0.0% unsecured convertible bond due 2007 (c)	**10,000**	—	**81,301**
Other long-term debt with interest bearing due 2001 to 2033	**9,503**	9,675	**77,260**
	48,419	37,596	**393,651**
Less: current portion	**(6,602)**	(203)	**(53,675)**
	¥41,817	¥37,393	**$339,976**

a) 2.7% Unsecured convertible bond
Holders of this bond are entitled to convert these bonds into common stock (par value of ¥50) at a price of ¥1,357.10 during the period from April 1, 1993 to March 28, 2002.

b) 1.0% Unsecured convertible bond
Holders of this bond are entitled to convert these bonds into a common stock (par value of ¥50) at a price of ¥1,610 during the period from April 1, 1994 to March 28, 2003.

c) 0.0% Unsecured convertible bond
Holders of this bond are entitled to convert these bonds into a common stock (par value of ¥50) at a price of ¥791 during the period from August 9, 2000 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	¥ 6,256	$ 50,862
Over one year less than two years	18,491	150,333
Over two years less than five years	—	—
More than five years and thereafter	10,000	81,301
	¥34,747	$282,496

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	¥ 169	¥ 177	$ 1,374	$ 1,439
Over one year less than two years	613	183	4,984	1,488
Over two years less than three years	1,608	188	13,073	1,528
Over three years less than four years	779	194	6,334	1,577
Over four years less than five years	1,000	200	8,130	1,626
More than five years and thereafter	—	8,561	—	69,602
	¥4,169	¥9,503	$33,895	$77,260

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, 2001 and 2000, assets pledged as collateral for certain short-term (¥1,410 million) and long-term debts (¥12,319 million), including current portion of long-term debts, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31
	2001	2000	**2001**
Assets pledged			
Buildings and structures	**¥13,962**	¥13,548	**$113,512**
Machinery and equipment	**2,326**	2,152	**18,911**
Land	**108**	108	**878**
Investments in securities	**2,048**	2,048	**16,650**
	¥18,444	¥17,856	**$149,951**
Liabilities and secured			
Short-term bank loans	**¥ 1,410**	¥1,400	**$ 11,463**
Long-term bank loans	**2,816**	2,820	**22,895**
Other interest bearing debt	**9,503**	9,675	**77,260**
	¥13,729	¥13,895	**$111,618**

Under the terms of the agreement for the 2.7% convertible bonds due 2002, the cumulative amount of cash dividends may not exceed ¥400 million ($3,252 thousand) plus the aggregate amount of ordinary income after income taxes (as defined in the agreement) of the Company, beginning with the fiscal year ended March 31, 1993. Under the terms of the agreement for the 1.0% convertible bond due 2003, the cumulative dividends may not exceed ¥700 million ($5,691 thousand) plus the aggregate amount of ordinary income after income taxes of the Company, beginning with the fiscal year ended March 31, 1994.

8. Accounting for Leases:

As allowed under Japanese accounting standards, finance lease contracts other than those by which the ownership of the leased assets is to be transferred to lessees ("ownership-transfer") are accounted for by the method similar to the operating lease method.

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31
	2001	2000	**2001**
Acquisition cost	**¥15**	¥30	**$122**
Accumulated depreciation	**4**	17	**33**
Net book value	**¥11**	¥13	**$ 89**
Depreciation	**¥ 2**	¥ 3	**$ 16**

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, 2001 and 2000 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2001	2000	**2001**
Periodic lease expense	**¥2**	¥3	**$16**

The amount of outstanding future lease payments due at March 31, 2001 and 2000, which included the portion of interest thereon, was summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	March 31		March 31
	2001	2000	**2001**
Within one year	**¥ 2**	¥ 1	**$16**
Over one year	**10**	12	**82**
	¥12	¥13	**$98**

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; however, the Company does not anticipate nonperformance by any of these counterparties all of whom are financial institutions with high bond ratings.

Derivative financial instruments have not been implemented by consolidated subsidiaries.

(1) At March 31, 2001 and 2000, the forward exchange contracts outstanding were as follows:

	Millions of yen					
	March 31					
	2001			2000		
	Notional amount	Fair value	Unrealized loss	Notional amount	Fair value	Unrealized loss
U.S dollar forward exchange contracts to buy U.S. dollars	**¥—**	**¥—**	**¥—**	¥39	¥37	¥(2)

The above amounts exclude contracts entered into in order to hedge receivables and payables denominated in foreign currencies which have been translated and reflected at the corresponding contracted rates in the accompanying consolidated balance sheets as of March 31, 2000.

Fair value of forward exchange contracts was based on quoted market price.

(2) At March 31, 2001 and 2000, the interest rate swap agreements outstanding were as follows:

	Millions of yen					
	March 31					
	2001			2000		
	Notional amount	Fair value	Unrealized loss	Notional amount	Fair value	Unrealized loss
Pay/fixed Received/variable	**¥—**	**¥—**	**¥—**	¥320	¥(7)	¥(7)

The above information at March 31, 2001 in item (1) and (2) excludes derivative financial instruments for which the hedge accounting is applied. Thus, there are no items to be disclosed.

Fair value of interest rate swap agreements was based on quotes from the financial institution, a counterparty.

10. Pension and Retirement Benefits:

As described in Note 2 (f) pension and retirement benefits, the Group changed their accounting for retirement benefits in the year ended March 31, 2001.

The benefit obligation and plan assets, funded status and composition of amounts recorded in the consolidated balance sheet as of March 31, 2001 is as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
Projected benefit obligations	¥(21,441)	$(174,317)
Plan assets	7,980	64,878
Funded status	(13,461)	(109,439)
Unrecognized transition amount	7,372	59,935
Unrecognized actuarial loss	467	3,797
	(5,622)	(45,707)
Amounts recognized in the balance sheet consists of –		
Prepaid pension cost	158	1,285
Accrued pension and severance costs	¥ (5,780)	$ (46,992)

The components of net pension and severance costs for the year ended March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
Service cost	¥ 740	$ 6,016
Interest cost	742	6,032
Expected return on plan assets	(203)	(1,650)
Amortization of transition amount	530	4,309
Net pension expense	¥1,809	$14,707

Assumptions used in calculation of the above information as of March 31, 2001 were as follows:

Discount rate	3.5 %
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, 2001 which were approved by the shareholders at the general meeting held on June 28, 2001, 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	¥5,190	$42,195
Utilization of general reserve		
Utilization of deferred gain on sales of property, plant and equipment	22	179
	5,212	42,374
Appropriations:		
Transfer to legal reserve	(40)	(325)
Dividends (¥ 3.75 per share)	(344)	(2,797)
Bonuses to directors	(46)	(374)
[of which to statutory auditors]	[6]	[49]
Retained earnings carried forward to the following year	¥4,782	$38,878

For the period from April 1, 2001 to May 31, 2001, some convertible bonds were converted to common stock as follows:

Number of shares issued	1,850,814 shares
Increase in common stock	¥733 million
Increase in additional paid-in capital	¥731 million

12. Selling, General and Administrative Expenses:

Major elements of "Selling, general and administrative expenses" for two years in the period ended March 31, 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2001	2000	**2001**
Salaries	**¥6,934**	¥6,988	**$56,374**
Bonuses	**3,303**	3,166	**26,854**
Pension and severance costs	**955**	399	**7,764**
Provision for retirement benefits to directors	**79**	76	**642**
Research and development expenses	**4,977**	5,401	**40,463**
Sales promotion	**1,722**	1,706	**14,000**
Advertisement	**571**	800	**4,642**
Rent and lease	**1,734**	1,739	**14,098**
Travel	**1,449**	1,456	**11,780**

13. Bad Debt Loss:

In fiscal 2000, a special loss was incurred which principally related to the bankruptcy of Toho Life Mutual Insurance Company ("Toho Life"). The Company contributed ¥1,000 million to the statutory fund operated by Toho Life. The contribution was interest bearing therefore, interest receivable of ¥24 million had been also recognized. Accordingly, total of ¥1,024 million was included in bad debt loss under the line of "Other Income (Expenses)".

14. Income Taxes:

The Group are subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 42.05 % for the two years in the period ended March 31, 2001, respectively. Reconciliation of the differences between the statutory tax rate and the effective tax rate and the effective tax rate for the years ended March 31, 2001 and 2000 is as follows:

	2001	2000
Statutory tax rate	**42.05%**	42.05%
Increase (decrease) in taxes resulting from:		
Expenses not deductible for income tax purpose (ex. Entertainment expenses)	**12.75**	12.25
Income not included for income tax purpose (ex. Dividend income)	**(0.28)**	(0.28)
Inhabitant equalization taxes	**1.78**	1.83
Other	**(0.33)**	0.00
Effective tax rate	**55.97%**	55.85%

Significant components of deferred tax assets as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2001	2000	**2001**
Deferred tax assets:			
Non-deductible portion of reserve for bonuses	¥ 475	¥ 291	$ 3,862
Provision for reserve for sales rebates	202	204	1,642
Enterprise taxes payable	213	91	1,732
Devaluation of financial instruments	285	—	2,317
Amortization of R&D	98	—	797
Amortization of long-term prepaid expenses	973	—	7,910
Pension and severance costs	710	384	5,772
Provision for retirement benefits to directors	215	182	1,748
Non-deductible portion of allowance for bad debt	79	79	642
Unrealized gain of property, plant and equipment	2,568	2,568	20,878
Deferred gain on sale of property, plant and equipment	—	(182)	—
Other	28	48	228
Total deferred tax assets	5,846	3,665	47,528
Deferred tax liabilities:			
Deferred gain on sale of property, plant and equipment	(540)	(397)	(4,390)
Other	0	0	0
Total deferred tax liabilities	(540)	(397)	(4,390)
Deferred tax assets, net	¥5,306	¥3,268	$43,138

15. Commitments and Contingencies:

The Group had contingent liabilities arising from notes discounted at banks in the ordinary course of business in the amount of ¥2,360 million as of March 31, 2001.

In addition, the Company was contingently liable for guarantee of loans borrowed by N·K Curex Co., Ltd, an affiliate, in the amount of ¥2,555 million as of March 31, 2001.

16. Segment Information:

Information about operations in industry segments of the Group for years ended March 31, 2001 and 2000, is as follows:

	Millions of yen				
	2001				
	Pharmaceutical	Other*	Total	Eliminations or Corporate	Consolidated
I. Sales and Operating Income					
Sales to customers	**¥67,272**	**¥ 3,034**	**¥70,306**	**¥ —**	**¥ 70,306**
Inter-segment/transfer	**—**	**892**	**892**	**(892)**	**—**
	67,272	**3,926**	**71,198**	**(892)**	**70,306**
Operating expenses	**61,943**	**2,450**	**64,393**	**(892)**	**63,501**
Operating income	**¥ 5,329**	**¥ 1,476**	**¥ 6,805**	**¥ —**	**¥ 6,805**
II. Assets, Depreciation and Capital Expenditures					
Assets	**¥68,325**	**¥22,290**	**¥90,615**	**¥31,188**	**¥121,803**
Depreciation	**¥ 2,697**	**¥ 927**	**¥ 3,624**	**¥ —**	**¥ 3,624**
Capital Expenditures	**¥ 1,465**	**¥ 151**	**¥ 1,616**	**¥ —**	**¥ 1,616**

	2000				
	Pharmaceutical	Other*	Total	Eliminations or Corporate	Consolidated
I. Sales and Operating Income					
Sales to customers	¥67,513	¥4,288	¥71,801	¥ —	¥71,801
Inter-segment/transfer	—	846	846	(846)	—
	67,513	5,134	72,647	(846)	71,801
Operating expenses	64,059	2,663	66,722	(846)	65,876
Operating income	¥ 3,454	¥2,471	¥ 5,925	¥ —	¥5,925
II. Assets, Depreciation and Capital Expenditures					
Assets	¥64,302	¥23,159	¥87,461	¥18,779	¥106,240
Depreciation	¥ 2,770	¥ 900	¥ 3,670	¥ —	¥ 3,670
Capital Expenditures	¥ 2,928	¥ 375	¥ 3,303	¥ —	¥ 3,303

	Thousands of U.S. dollars (Note 3)				
	2001				
	Pharmaceutical	Other*	Total	Eliminations or Corporate	Consolidated
I. Sales and Operating Income					
Sales to customers	**$546,927**	**$ 24,667**	**$571,594**	**$ —**	**$571,594**
Inter-segment/transfer	**—**	**7,252**	**7,252**	**(7,252)**	**—**
	546,927	**31,919**	**578,846**	**(7,252)**	**571,594**
Operating expenses	**503,602**	**19,919**	**523,521**	**(7,252)**	**516,269**
Operating income	**$ 43,325**	**$ 12,000**	**$ 55,325**	**$ —**	**$ 55,325**
II. Assets, Depreciation and Capital Expenditures					
Assets	**$555,488**	**$181,220**	**$736,708**	**$253,560**	**$990,268**
Depreciation	**$ 21,927**	**$ 7,537**	**$ 29,464**	**$ —**	**$ 29,464**
Capital Expenditures	**$ 11,910**	**$ 1,228**	**$ 13,138**	**$ —**	**$ 13,138**

* Other business field mainly consists of real estate business.

REPORT OF INDEPENDENT ACCOUNTANTS

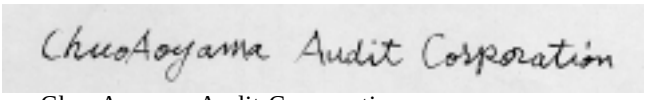
To the Board of Directors of
KAKEN PHARMACEUTICAL CO., LTD.

We have audited the accompanying consolidated balance sheets of KAKEN PHARMACEUTICAL CO., LTD. and its consolidated subsidiaries (collectively, the "Group") as of March 31, 2001 and 2000 and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan, and, accordingly, included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

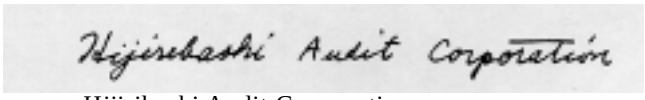
In our opinion, the accompanying consolidated financial statements referred to above present fairly the consolidated financial position of the Group as of March 31, 2001 and 2000 and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (See Note 1) applied on a consistent basis.

As discussed in Note 2(c), (f), (g) and (i) to the consolidated financial statements, the Group adopted new Japanese accounting standards for pension and retirement benefits, and financial instruments in the year ended March 31, 2001, and deferred taxation accounting, and research and development in the year ended March 31, 2000.

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.



ChuoAoyama Audit Corporation



Hijiribashi Audit Corporation

Tokyo, Japan
June 28, 2001

CORPORATE DATA (As of March 31, 2001)

REGISTERED HEAD OFFICE
28-8, Honkomagome 2-chome, Bunkyo-ku,
Tokyo 113-8650, Japan
Tel: 81-3-5977-5001
Fax: 81-3-5977-5131
http://www.kaken.co.jp

Founded
March 1917

Incorporated
March 1948

Paid-in Capital
¥17,000 million (As of Sept. 30, 2001)

Common Stock
Authorized: 360,000,000 shares
Issued: 94,518,374 shares (As of Sept. 30, 2001)
Number of Shareholders: 22,357

Employees (Non-Consolidated)
Administration: 118
Sales & Marketing: 977
Production & Technology: 291
Research & Development: 280

Licensing & Business Developmtnt Department
2-28-8, Hon-Komagome, Bunkyo-ku,
Tokyo 113-8650, Japan
Director & General Manager
Masao Ishida
Tel: 81-3-5977-5046
Fax: 81-3-5977-5133
E-mail: masao-ishida@kaken.co.jp

Branch Offices
Sapporo Branch
Sendai Branch
Tokyo-1 Branch
Tokyo-2 Branch
Nagoya Branch
Osaka-1 Branch
Osaka-2 Branch
Hiroshima Branch
Fukuoka Branch

Plant
Shizuoka Factory

Research Laboratories
Shizuoka Research Laboratories
Kyoto Research Laboratories
Production Technology Laboratories

Overseas Office:
Kaken New York Office
245 Park Avenue, 24th Floor, New York,
NY10167
Tel: 1-212-372-8910
Fax: 1-212-372-8970

BOARD OF DIRECTORS AND CORPORATE AUDITORS

Chairman and Representative Director
Yoshiharu Wakiyama

President and Representative Director
Shiro Inui

Executive Managing Director
Takuo Aioi
(Marketing)

Executive Managing Director
Susumu Yamazaki
(Agrochemicals and Animal Health Products)

Executive Managing Director
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(Research and Development)

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(Accounting)

Executive Director
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(Personnel)

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Auditor
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(Standing)

Auditor
Ichiro Aota
(Standing)

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Auditor
Nobukazu Sakai

Kaken Pharmaceutical Co., Ltd.
28-8, Honkomagome 2-chome, Bunkyo-ku,
Tokyo 113-8650, Japan
Tel: 81-3-5977-5001
Fax: 81-3-5977-5131
http://www.kaken.co.jp

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