KAKEN

Annual Report 2006

Year Ended March 31, 2006

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

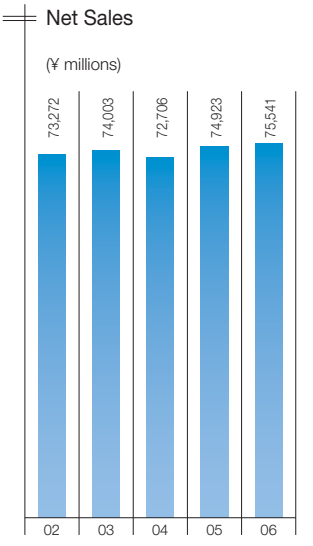
This annual report contains forward-looking statements pertaining to the Company's business and prospects. These statements are based on current analysis of existing information and trends. Actual results may differ from expectations due to unforeseen risks and uncertainties.

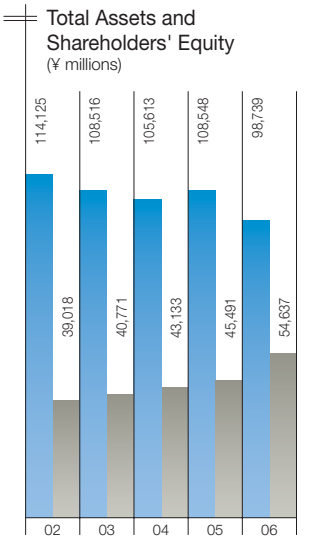
Consolidated Financial Highlights

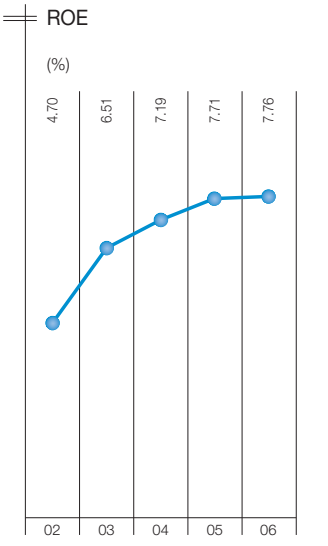
Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.

	Millions of yen		Thousands of U.S. dollars (Note)
	2006	2005	**2006**
For the years ended March 31,			
Net sales	**¥ 75,541**	¥ 74,923	**$ 645,649**
Operating income	**8,360**	7,897	**71,453**
Net income	**3,887**	3,417	**33,222**
At March 31,			
Total shareholders' equity	**54,637**	45,491	**466,983**
Total assets	**98,739**	108,548	**843,923**
Per share data:	Yen		U.S. dollars (Note)
Net income (Basic)	**¥ 40.23**	¥ 36.54	**$ 0.344**
Cash dividends (Non-Consolidated)	**15.00**	12.00	**0.128**
	(%)		
ROE	**7.76**	7.71	–
Capital adequacy ratio	**55.33**	41.91	–

Note: U.S. dollar amounts are translated, for convenience only, at the rate of ¥117 = $1 effective on March 31, 2006.







Business Climate and Performance

In fiscal 2005, ended March 31, 2006, Kaken Pharmaceutical faced an increasingly challenging business climate. This included further measures to curtail medical expenses in response to Japan's aging society, as well as efforts to encourage use of generic drugs. Under these circumstances, we worked hard to promote sales activities closely tied to local communities, in order to provide high-value-added information that meets the needs of medical professionals in the field.

As a result, consolidated net sales for the year amounted to ¥75,541 million, up 0.8% from fiscal 2004. Operating income increased 5.9%, to ¥8,360 million, and net income climbed 13.8% to ¥3,887 million, representing the fourth consecutive year-on-year net income increase.

As a member of the pharmaceutical industry, we are required to have a higher level of equity capital than companies in other industries, due to the large risks associated with our activities. Consequently, we adopt a dividend policy that sets dividends while maintaining a balance between returns to shareholders and strengthening equity capital. The Board of Directors adopts a flexible stance toward the acquisition of treasury stock to enable the Company to return profits to shareholders and adapt to future changes in the business climate. In the year under review, we acquired treasury stocks at a total cost of ¥1,996 million. In addition, we continued efforts to maximize corporate value by allocating retained earnings to research and development, strengthening our sales force, and capital investment.

Research and development expenses and capital investment

During the year, we allocated ¥6,046 million to research and development to further strengthen our specialist fields. We also allocated ¥1,801 million to capital investment targeting additional labor savings, rationalization, and enhanced quality, primarily in fields earmarked for long-term growth. Spending in both areas was financed through the Company's own funds.

Targets

In the pharmaceuticals industry, where investment risk is high, it is important that business performance is sufficient to sustain ongoing research and development. For this reason, we are targeting consolidated operating income of more than ¥10 billion and ROE of 8.0% or higher.

Furthermore, by maximizing the value of each of our divisions, we aim to establish a firm business foundation that will enable us to prevail in the future as an "independent pharmaceutical company with a strong presence."

Issues to Address

As government-induced policies to curb medical expenditures begin to have an impact, we expect competition within the pharmaceutical industry, both in Japan and overseas, to intensify. However, we view this change in the business climate as an excellent opportunity to undertake reforms aimed a maximizing corporate value, as well as activities with a strong commitment to compliance. Our four key reforms are outlined below.

Focus investments on 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 strategic alliances with domestic and overseas companies and research institutions 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 consider increasing expenditures on specific R&D themes.

In December 2005, we liquidated N.K. Curex, a joint venture established in April 1988 with Japan Energy. We took the decision to cease operation of this affiliate in light of the lack of success of a joint development initiative with SANWA KAGAKU KENKYUSHO on a drug to treat diabetic neuropathy.

Strengthen our sales force

Our sales activities are spearheaded by our medical representatives (MRs), who work closely with local communities to provide high-value-added information to meet the needs of medical professionals in the field. We will focus on the further development of Fiblast Spray as we strive to become a leading company in the field of regenerative medicine. In addition, we will expand our market share to solidify our strong position in the field of orthopedics.

Enhance operating efficiency

We will reinforce our internal control system as we strive to enhance operating efficiency. On the production side, we will make further reassessments of procedures and standards as we strive to lower manufacturing costs. In the field of agrochemicals, we will expand consigned production to Chinese companies, while working to obtain FDA certification for those companies.

In the area of distribution, we have implemented outsourcing for our entire pharmaceutical business. We began outsourcing at the Western Distribution Center during the previous fiscal year, and in November 2005 we commenced outsourcing at the Eastern Distribution Center.

Promote 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. For example, we have established an Environment Committee, and have also set up Environment Task Forces at each worksite.

Future Challenges

In April 2006, government measures to curtail medical expenses saw a further drop in drug prices by an average of 6.7% across the industry, leading to even more intense competition within the pharmaceutical industry. Kaken intends to expand sales by actively promoting MR activities. We will increase prescriptions for Fiblast Spray and Lipidil by reinforcing our sales activities. As a result of a number of factors, including the lump sum repayment of long-term debt and the liquidation of N.K. Curex during the year under review, we are projecting an year-on-year increase in earnings for the year ending March 2007.

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, 2006

乾 四朗

Shiro Inui
President

Developing New

Using our strengths acquired through our history of R&D and marketing, we are developing regenerative medicines and innovative new drugs to treat inflammation and allergies (including pain relief), as well as fungal infection diseases.

Advances in R&D on regenerative medicines

Kaken succeeded in bringing a new regenerative medicine, Fiblast Spray, to market in 2001. That medicine is steadily gaining a reputation for its effectiveness in the treatment of skin ulcers in many hospitals and clinics, as well as university hospitals. Fiblast Spray is the world's first product to contain Trafermin, a recombinant human basic fibroblast growth factor (bFGF) that exists in trace amounts in the human body and repairs injured tissues in the skin, blood vessels, and bones. To extend clinical applications of bFGF, we are currently conducting research and development on a number of other potential applications.

A new indication of Fiblast Spray, for diabetic ulcers or skin ulcers resulting from complications associated with diabetes, is currently in Phase II clinical trials.

Kaken is also developing a product, coded as KCB-1D, to treat periodontal diseases. KCB-1D promotes regeneration of periodontal tissues, such as alveolar bone, periodontal membrane, and dental cementum. We are currently conducting Phase II clinical trials for KCB-1D, and we plan to launch this new drug in 2010.

Another product containing bFGF that is in Phase II clinical trials is KCB-1B. By promoting bone regeneration, KCB-1B is expected to enhance the healing of bone fractures. We plan to launch this new product in 2012.

In March 2005, we obtained worldwide rights from Chiron Corporation (U.S.A.) to develop, manufacture, and market bFGF. In December 2005, we granted the license to develop and market Fiblast Spray to a Chinese pharmaceutical company, Beijing Tide Pharmaceutical Company. Using the know-how accumulated during the course of our research and development of bFGF, we are collaborating with our current and future overseas partners to expand our global activities.

Products

New Drug Development Pipeline

Product	Development Stage	Category	Launch	Indication	Remarks
KCB-1 (Fiblast Spray)	Phase II	bFGF	2009	Diabetic ulcers	New indication
KCB-1D	Phase II	bFGF	2010	Periodontitis	New indication
KCB-1B	Phase II	bFGF	2012	Intractable bone fractures	New indication
KP-102LN	Phase II	GH secretagogue	2012	Short stature	
SPK-843	Phase II	Polyene antibiotic	2010	Systemic mycosis	Introduced from Aparts B.V.
KN-48	Phase II	Lidocaine patch	2010	Postherpetic neuralgia	Introduced from Teikoku Seiyaku Co., Ltd.
KP-496	Phase II	LT/TX dual inhibitor	2011	Asthma	Own development
KP-103				Antifungal agent for nail	Licensed to Dow Pharmaceutical Sciences Inc.
SNK-860	Development abandoned			Diabetic neuropathy	Jointly developed with N.K. Curex Co., Ltd. and Sanwa Kagaku Kenkyusho Co., Ltd.

Drug to treat onychomycosis (KP-103)

KP-103 is an antifungal agent discovered by Kaken's research group. In April 2006, Kaken concluded a license agreement with Dow Pharmaceutical Sciences Inc. (U.S.A.) for the development and marketing of KP-103 products in the United States and Europe. That firm plans to develop and launch a product containing KP-103 for the treatment of onychomycosis by topical use.

Growth hormone secretagogue (KP-102LN)

We are currently conducting Phase II clinical trials of KP-102LN. This drug stimulates the secretion of growth hormones in people with short stature. As a nasal preparation, it is far less invasive than growth hormone drugs applied through injections. It is estimated that around 350,000 children in Japan would benefit from this drug.

In other R&D activities, Kaken continues to develop agents for the treatment of osteoporosis, inflammatory disease, allergy, pain, and systemic mycosis.

Agrochemicals

We have developed new combination products and expanded applications for our Pentoxazone herbicide and Polyoxin fungicide, and we have applied for registration. We have also conducted various trials aimed at meeting new agrochemical registration guidelines.

Meanwhile, we have developed a new crop herbicide for overseas markets. We have also undertaken basic evaluations and trials for the practical use of microbial pesticides and miticides.

During the year under review, the market for Artz, an anti-osteoarthritic made of hyaluronic acid and one of Kaken's mainstay products, expanded owing to the progressive aging of Japanese society. Sales of Artz grew owing to the drug's approval for the additional indication of rheumatoid arthritis. We plan to continue raising our market share for this drug, one of our specialist fields.

We aim to expand sales of Adofeed and related products, a pain-relieving plaster, and Lipidil, our new micronized formulation of the anti-hyperlipidemic Lipantil.

With the support of extensive medical information, we are working hard to promote the use of Fiblast Spray, our proprietary wound healing agent used for the treatment of skin ulcers and burns. Kaken aims to become a leader in the field of regenerative medicine.

We are also strengthening efforts aimed at the adoption of Seprafilm to treat Caesarian sections and other obstetric indications.

Amid a growing market for Lipidil, we plan to utilize the large-scale clinical trials announced in November 2005 in our sales activities, as well as for expanding our share of the market for this fibrate type pharmaceutical.

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

Kaken's main drug discovery research themes are inflammation and allergies (including pain relief), as well as fungal infection diseases. We channel substantial financial and human resources into such research activities with the aim of developing new drugs that are both effective and safe. To create new drugs that can compete in the world market, we maintain an active program of drug discovery research, spearheaded by outstanding research professionals and techniques refined over many years experience in pharmaceutical development.

At present, we have a total of around 290 researchers. During the year under review, R&D expenses amounted to ¥6,046 million. To expedite our R&D activities, we are actively pursuing strategic alliances with companies and research institutes both in Japan and overseas, and are also outsourcing some of our operations.

Discovery Research and Development Research

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

Our Drug Discovery Research Laboratories are located in Kyoto, the ancient capital of Japan, and our Development Research Laboratories are located in Shizuoka. This arrangement is designed to aid the development of new drugs, which requires long and arduous research and unrivalled expertise.

To expedite drug discovery research, we create new drugs using cutting-edge research equipment and facilities, as well as computer-aided drug design (CADD) technologies. To make effective use of external organizations specializing in non-clinical trials associated with drug discovery research and the clinical trials that follow, we will introduce and license new technologies on a global basis.

As a result of its innovative research activities, in 2001 we received the Young Investigator Award of the American Society for Bone and Mineral Research (ASBMR) at its 23rd annual meeting in Phoenix, Arizona, in recognition of our research in the field of osteoporosis. In 2003, we received the Japan Prize for the Most Outstanding Thesis from Academy of Pharmaceutical Science and Technology, Japan (APSTJ), in recognition of our formation technology.

To expedite discovery research in genomic drug discovery and other areas, we will continue focusing on our specialist areas and actively pursue alliances with research institutions in Japan and overseas. We will also introduce and license new technologies on a global basis. In a related initiative, we established the Scientific Advisory Board, whose members discuss and advise on Kaken's drug discovery programs with the aim of creating innovative world-class drugs.

Our production technology research laboratory engages in research on mass-production technologies in Shizuoka. It also develops and modifies devices with the aim of creating drugs with high added value. The Company's production technologies 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.

Quality Production and Distribution System

Our production facilities in Shizuoka Prefecture are on the east bank of the Ohi River, near Mt. Fuji. These facilities were among the first in the industry to incorporate factory automation systems. They comply with the Good Manufacturing Practices (GMP) of Japan, which stipulate requirements for drug manufacturing and quality control. In addition to satisfying these requirements, the quality of products for export clears cGMP regulations in the United States, which were formulated by that nation's Food and Drug Administration (FDA).

We have also promoted outsourcing of the distribution function. We initiated outsourcing at our Western Distribution Center in the previous fiscal year, and in November 2005 we commenced outsourcing at the Eastern Distribution Center, which covers the Kanto region and northern Japan.

Medical Representative System

Kaken's Medical Representatives (MRs) provide doctors with updated information on the Company's products and talk with professionals and patients on the medical front line. Our MRs also gather medical information related to the safety and effectiveness of our drugs and provide feedback to the relevant research and production departments.

We have established nine branches and 66 sub-branches so that our 671 MRs can work closely with local communities. We plan to increase the number of MRs to 700.

Until recently, the area of orthopedics accounted for a large proportion of our MR activities. 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 recently increased our production and marketing of generic drugs. A major objective behind this move is the need for a stable supply of good generic drugs in Japan, due to the introduction of policies in recent years to curb medical costs. In the process, we hope to make a positive social contribution. We also plan to enhance efficiency by having our MRs expand their activities, previously restricted to original products, to include peripheral areas.

Generic Drugs

Kaken is able to demonstrate its strengths, derived from its proprietary development technologies and cutting-edge manufacturing technologies, in the area of generic drugs. We manufacture and market generic drugs while adding value through innovations, such as making them easier for medical professionals to use and easier for patients to swallow. This expands the activities of our MRs by increasing the number of items they handle, which in turn promotes efficient sales and helps boost overall sales volume.

Corporate Governance

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

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

Our Initiatives

Kaken is aware that compliance is pivotal to earning the trust of society. To this end, we have established activity principles and guidelines and adhere to high ethical standards in all of our business activities. Every executive and employee is strongly committed to these activity principles and guidelines, reflecting our stance as a company that is directly concerned with people's health and lives.

We established an Internal Auditing Office that, while under the direct control of the president, operates independently of other business execution functions. The Office monitors the validity of business execution functions and ensures that they comply with laws and regulations. It also facilitates the exchange of information between the Auditing Committee and the Company's corporate auditors.

Kaken's Activity Principles and Guidelines

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.

Environmental Protection Activities

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

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

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

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

Risk Factors

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

(1) Risks related to new drug development

Substantial investment and a long development period are required before a new drug is released in the market. While undertaking development with due regard to verifying the efficacy and safety of a particular drug, it is possible that development will be halted.

(2) Risks related to occurrence of side effects

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

(3) Risks related to policies to curtail medical expenses

Drug prices are revised once every two years in Japan as part of a government initiative to curtail medical expenses, with the ultimate objective of reforming the medical insurance system. When the price of a drug is reduced, there is a drop in sales, and it is possible that this will affect the Company's performance.

(4) Risks due to competition

Sales competition with other pharmaceutical companies may result in a drop in prices. In addition, the emergence of generic products upon the expiration of a patent causes a decline in sales of the original product, and it is possible that this will affect the Company's performance.

(5) Risks related to delay or cessation of production

Production may be delayed or halted as a result of various factors, such as problems with manufacturing facilities or delays in the procurement of raw materials. It is possible, therefore, that this will affect the Company's performance.

(6) Risks related to legal action

We are exposed to the possibility of legal action in the course of our business activities, and it is possible that this will affect the Company's performance.

Board of Directors and Corporate Auditors

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

Executive Director
Yutaka Handa
(Personnel)

Executive Director
Shinichi Takamatsu
(Accounting)

Executive Director
Tetsuo Onuma
(Sales Planning)

Executive Director
Masao Ishida
(Global Business Development)

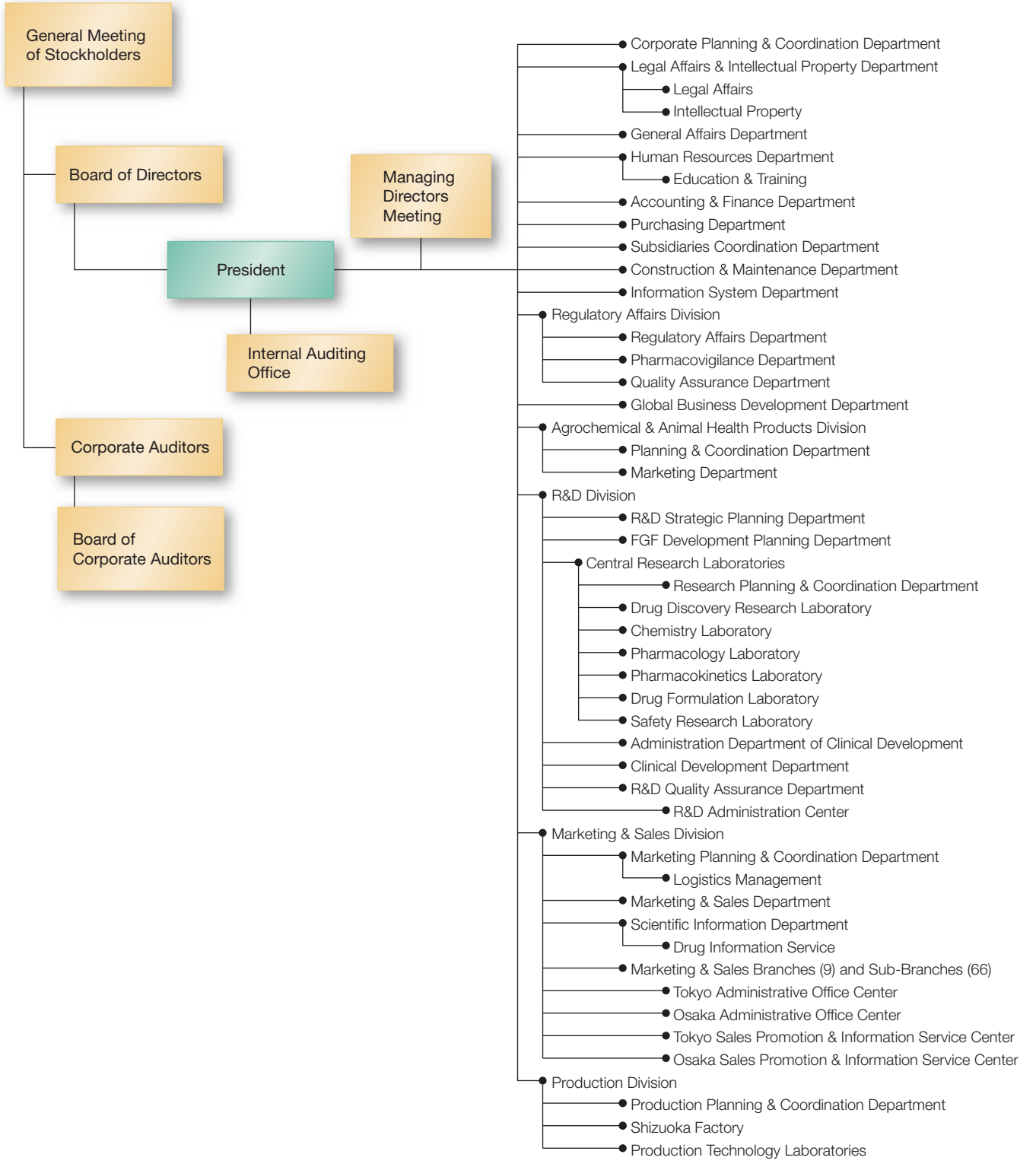
Auditor
Osamu Okamoto
(Standing)

Auditor
Satoshi Shoji
(Standing)

Auditor
Sumio Yoshizawa

Auditor
Keizo Nemoto

Organizations



Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.

Consolidated Five-Year Summary

	Millions of yen					Thousands of U.S. dollars (Note)
	2006	2005	2004	2003	2002	**2006**
For the years ended March 31,						
Net sales	**¥ 75,541**	¥ 74,923	¥ 72,706	¥ 74,003	¥ 73,272	**$ 645,649**
Operating income	**8,360**	7,897	7,526	7,947	7,725	**71,453**
Net income	**3,887**	3,417	3,017	2,598	1,765	**33,222**
At March 31,						
Total shareholders' equity	**54,637**	45,491	43,133	40,771	39,018	**466,983**
Total assets	**98,739**	108,548	105,613	108,516	114,125	**843,923**
Per share data:	Yen					U.S. dollars (Note)
Net income (Basic)	**¥ 40.23**	¥ 36.54	¥ 31.87	¥ 27.11	¥ 18.74	**$ 0.344**
Cash dividends (Non-Consolidated)	**15.00**	12.00	10.00	8.25	7.50	**0.128**
			(%)			
ROE	**7.76**	7.71	7.19	6.51	4.70	
Capital adequacy ratio	**55.33**	41.91	40.84	37.57	34.19	

Note: U.S. dollar amounts are translated, for convenience only, at the rate of ¥117 = $1 effective on March 31, 2006.

Sales of Pharmaceuticals (Non-Consolidated)

Billions of yen

Items	2006	2005	Change (%)
Artz	**¥ 22.6**	¥ 21.7	+4.0
Adofeed and related products	**10.1**	10.1	+0.3
Procylin	**8.7**	8.9	−1.7
Seprafilm	**4.8**	4.1	+17.3
Fiblast Spray	**3.6**	3.5	+4.3
Lipidil	**3.5**	3.7	−6.7
Cytotec	**2.2**	2.2	−1.8
Mentax	**2.3**	2.5	−7.3
Generic Products	**3.6**	2.5	+39.5

Note: The Company reclassified its product segment breakdown in the year ended March 31, 2006.

Revenues

In fiscal 2005, ended March 31, 2006, Kaken Pharmaceutical reported a 0.8% increase in consolidated net sales, to ¥75,541 million. Sales in our pharmaceuticals business totaled ¥73,216 million, or 96.9% of net sales, while sales in other areas amounted to ¥2,325 million, or 3.1% of net sales.

Pharmaceuticals

Consolidated sales in the pharmaceuticals segment rose 1.3%, to ¥73,216 million. Segment operating income grew 5.9%, to ¥7,127 million.

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

In the year under review, sales of Artz, an anti-osteoarthritic and one of our mainstay products, grew 4.0% on the back of approval for additional benefits, notably the treatment of knee joint pain accompanying chronic rheumatoid arthritis. Sales of our wound-healing agent Fiblast Spray increased 4.3%, and sales of Seprafilm, a post-operative anti-adhesive, grew a substantial 17.3%. Sales of the pain-relieving plaster Adofeed and related products remained mostly unchanged from the previous year. Sales of Procylin, a prostacyclin analog used for treating chronic artery occlusive disease, edged down 1.7%. Sales of our anti-hyperlipidemic Lipidil fell slightly. In the area of generic drugs, sales of Prink Injection Syringe, a Postaglandin E1 pre-filled syringe used for the treatment of arterial occlusion, surged 39.5%, contributing to the overall increase in pharmaceutical sales.

As a result, sales in the pharmaceuticals (including medical devices) category rose 1.0%, to ¥68,176 million.

In the agrochemicals and animal health products category, sales of Salinomycin, a feed additive, increased. However, difficult business conditions, caused by restrictions on the use of agricultural chemicals and other factors, resulted in just a slight increase in sales of the rice herbicide Pentoxazone. Sales of Polyoxin fungicides, used to control fungal diseases on fruit trees, vegetables, and lawns, remained largely unchanged.

As a result, sales in the agrochemicals and animal health products category increased 5.3%, to ¥5,040 million.

Other

Sales in our other businesses declined 12.3%, to ¥2,325 million, and operating income increased 5.8%, to ¥1,233 million.

Rental income from Bunkyo Green Court, the site of our Tokyo headquarters, represents the bulk of revenues from other businesses. During the period under review, this income remained at virtually the same level as the previous year. However, we recorded a decline in total sales from other businesses due to the sale of all of our shares in Eiko Filter Co., Ltd., a consolidated subsidiary, in the previous fiscal year.

Earnings

In the year under review, operating income increased 5.9%, to ¥8,360 million. Despite posting minimal growth in sales, this increase was attributable to enhanced efficiency stemming from a reduction in selling, general, and administrative expenses.

We posted ¥1,112 million loss on liquidation of affiliates, due to the liquidation of N.K. Curex Co., Ltd., an equity-method affiliate. However, we also reported a ¥1,613 million gain on sales of investment securities. As a result, net income grew 13.8%, to ¥3,887 million, rising the fourth consecutive year.

The operating income ratio grew 0.6 point, to 11.1%. Earnings per share increased ¥3.69 to ¥40.23, and ROE rose 0.05 point, to 7.76%.

Profit Appropriation

In appropriating profit, we seek a balance between return to shareholders and strengthening equity capital. On this basis, the Company declared an annual dividend of ¥15.00 per share, up 25% from the previous period. This was the fourth consecutive dividend increase. As a result, the dividend payout ratio increased 5.79 points, to 39.4%.

Retained earnings will be allocated to activities to prepare the Company for future business growth, such as research and development, augmenting our sales force, and capital investment.

Financial Position

Total assets at fiscal year-end stood at ¥98,739 million, down ¥9,809 million from a year earlier. One major contributing factor was a ¥8,874 million decrease in cash and deposits stemming from the lump sum repayment of long-term debt associated with the construction of residential units in Bunkyo Green Court.

Total liabilities amounted to ¥44,102 million, down ¥18,955 million. Long-term liabilities declined ¥16,189 million, to ¥19,848 million, owing to the lump sum repayment of long-term debt and the exercising of rights regarding bonds with subscription warrants.

At fiscal year-end, total shareholders' equity stood at ¥54,637 million, up ¥9,146 million. As a result, equity ratio was 55.3%, up 13.4 points. Despite the purchase of treasury stock, this increase was attributable to an increase in common stock and capital surplus, resulting from the exercising of bonds with warrants, as well as higher retained earnings and an increase in unrealized gains from marketable securities.

Cash Flows

Cash and cash equivalents at the end of fiscal 2005 stood at ¥9,682 million, down ¥7,590 million from a year earlier. The main factor behind this decrease was the lump-sum repayment of long-term debt.

Net cash provided by operating activities amounted to ¥6,346 million, down ¥2,131 million from the previous year. This was due mainly to an increase in income taxes paid.

Net cash used in investing activities totaled ¥2,024 million. This was mainly due to the acquisition of investment securities and property, plant, and equipment.

Net cash used in financing activities was ¥11,912 million, up ¥9,037 million from the previous year. This was largely the result of a ¥8,561 million lump-sum repayment of long-term debt, acquisition of treasury stock, and cash dividends paid.

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.

Consolidated Balance Sheets

As of March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	2006	2005	2006
Current Assets:			
Cash on hand and at bank (Note 5)	¥ 9,682	¥ 17,272	$ 82,752
Marketable securities (Note 6)	150	150	1,282
Receivables:			
Notes and accounts receivable-trade	32,370	33,566	276,666
Accounts receivable-other	1,283	770	10,966
	33,653	34,336	287,632
Less: Allowance for doubtful receivables	(6)	(16)	(51)
	33,647	34,320	287,581
Inventories (Note 7)	9,657	10,250	82,538
Deferred tax assets (Note 15)	993	1,286	8,487
Other current assets	1,127	852	9,633
Total current assets	55,256	64,130	472,273
Property, Plant and Equipment (Notes 8 and 9)**:**			
Buildings and structures	34,778	34,912	297,248
Machinery and equipment	17,944	18,235	153,367
	52,722	53,147	450,615
Less: Accumulated depreciation	(30,900)	(31,007)	(264,012)
	21,822	22,140	186,513
Land	3,332	3,960	28,479
Construction in progress	282	303	2,410
Total property, plant and equipment	25,436	26,403	217,402
Investments and Other Assets:			
Investment securities (Notes 6 and 9)	11,271	6,177	96,333
Investments in unconsolidated affiliates	—	665	—
Intangible assets and long-term prepaid expenses	1,074	1,823	9,180
Deferred tax assets (Note 15)	3,467	6,501	29,632
Other assets	2,235	2,849	19,103
Total investments and other assets	18,047	18,015	154,248
TOTAL ASSETS	¥ 98,739	¥108,548	$ 843,923

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2006	2005	Thousands of U.S. dollars (Note 4) 2006
Current Liabilities:			
Short-term bank loans (Note 9)	¥ 5,380	¥ 5,380	$ 45,983
Current portion of long-term debt (Note 9)	—	200	—
Payables:			
Notes and accounts payable-trade	12,302	12,965	105,145
Notes and accounts payable-construction	930	593	7,949
Accounts payable-other	2,601	2,616	22,231
	15,833	16,174	135,325
Accrued expenses	533	479	4,555
Accrued bonuses	1,150	1,134	9,829
Accrued sales rebates	808	960	6,906
Accrued income taxes (Note 15)	119	2,213	1,017
Other current liabilities	431	480	3,684
Total current liabilities	24,254	27,020	207,299
Non-Current Liabilities:			
Long-term debt (Note 9)	13,192	28,955	112,752
Accrued pension and severance costs (Note 12)	5,737	6,116	49,034
Accrued retirement benefits to directors	297	277	2,539
Deferred tax liabilities (Note 15)	240	260	2,051
Other long-term liabilities	382	429	3,265
Total non-current liabilities	19,848	36,037	169,641
Shareholders' Equity:			
Common stock - no par value			
Authorized: 360,000,000 shares			
Issued : 105,992,690 shares as of March 31, 2006 and 94,922,782 shares as of March 31, 2005	20,737	17,128	177,239
Capital surplus	19,462	15,874	166,342
Retained earnings	15,429	12,859	131,872
Net unrealized gain on valuation of other securities, net of taxes (Note 2 (c))	2,793	1,345	23,872
Treasury stock, at cost: 5,543,567 shares in 2006 and 2,885,364 shares in 2005	(3,784)	(1,715)	(32,342)
Total shareholders' equity	54,637	45,491	466,983
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	¥98,739	¥108,548	$ 843,923

Consolidated Statements of Income

For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2006	2005	2006
Net sales	¥75,541	¥74,923	$645,649
Cost of sales	38,508	37,751	329,128
Gross profit	37,033	37,172	316,521
Selling, general and administrative expenses (Note 14)	28,673	29,275	245,068
Operating income	8,360	7,897	71,453
Other Income (Expenses):			
Interest and dividend income	115	100	983
Interest expense	(411)	(423)	(3,513)
Amortization of net obligation at transition	(525)	(525)	(4,487)
Loss on sales/disposal of property, plant and equipment, net	(41)	(7)	(350)
Loss on impairment of fixed assets (Note 8)	(268)	—	(2,291)
Gain on sales of investment securities, net	1,613	0	13,786
Equity in losses of affiliates	(401)	(874)	(3,427)
Loss on liquidation of affiliates	(1,112)	—	(9,504)
Revaluation loss of golf membership	(10)	(42)	(86)
Others, net	8	(45)	68
	(1,032)	(1,816)	(8,821)
Income before income taxes and minority interests	7,328	6,081	62,632
Income taxes (Note 15):			
Current	1,129	3,167	9,649
Deferred	2,312	(503)	19,761
	3,441	2,664	29,410
Income before minority interests	3,887	3,417	33,222
Minority interests	—	0	—
Net income	¥ 3,887	¥ 3,417	$ 33,222

	Yen		U.S. dollars (Note 4)
Per share data:			
Net income: (Note 17)			
Basic	¥ 40.23	¥ 36.54	$ 0.344
Diluted	¥ 33.24	¥ 28.49	$ 0.284
Cash dividends (Note 2 (l))	¥ 15.00	¥ 12.00	$ 0.128

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

Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2006 and 2005

	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, 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
Net income				3,887			3,887
Cash dividends				(1,278)			(1,278)
Directors' bonuses				(39)			(39)
Shares issued on conversion of convertible bonds	11,069,908	3,609	3,588				7,197
Net unrealized gain on valuation of other securities, net of taxes					1,448		1,448
Treasury stock acquired, net						(2,069)	(2,069)
Balance at March 31, 2006	**105,992,690**	**¥ 20,737**	**¥19,462**	**¥15,429**	**¥ 2,793**	**¥(3,784)**	**¥ 54,637**

	Thousands of U.S. dollars (Note 4)					
	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, 2005	94,922,782	$146,393	$135,675	$109,906	$11,496	$(14,658)	$388,812
Net income				33,222			33,222
Cash dividends				(10,923)			(10,923)
Directors' bonuses				(333)			(333)
Shares issued on conversion of convertible bonds	11,069,908	30,846	30,667				61,513
Net unrealized gain on valuation of other securities, net of taxes					12,376		12,376
Treasury stock acquired, net						(17,684)	(17,684)
Balance at March 31, 2006	**105,992,690**	**$177,239**	**$166,342**	**$131,872**	**$23,872**	**$(32,342)**	**$466,983**

Consolidated Statements of Cash Flows

For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2006	2005	2006
I. Cash flows from operating activities			
Income before income taxes and minority interests	¥ 7,328	¥ 6,081	$ 62,632
Adjustments for:			
Depreciation	1,941	1,996	16,590
Loss on impairment of fixed assets	268	—	2,291
Amortization of long-term prepaid expenses	818	886	6,991
Amortization of deferred charges	—	92	—
Accrual for pension and severance costs, less payments	(614)	(615)	(5,248)
Interest and dividend income	(115)	(100)	(983)
Interest expense	411	423	3,513
Equity in losses of affiliates	401	874	3,427
Loss on liquidation of affiliates	1,112	—	9,504
Revaluation loss of golf membership	10	42	86
Gain on sale of investment securities, net	(1,613)	0	(13,786)
Loss on disposals of property, plant and equipment	179	68	1,530
Gain on sale of property, plant and equipment	(147)	(64)	(1,256)
Decrease (Increase) in notes and accounts receivable-trade	1,196	(1,078)	10,222
Decrease in inventories	593	810	5,068
Increase (Decrease) in notes and accounts payable-trade	(663)	127	(5,667)
Paid bonuses to directors	(39)	(34)	(333)
Other, net	(770)	608	(6,581)
Subtotal	10,296	10,116	88,000
Interest and dividends received	115	100	983
Interest paid	(411)	(423)	(3,513)
Income taxes paid	(3,654)	(1,316)	(31,231)
Net cash provided by operating activities	6,346	8,477	54,239
II. Cash flows from investing activities			
Acquisition of property, plant and equipment	(1,532)	(1,360)	(13,094)
Proceeds from sales of property, plant and equipment	698	133	5,966
Acquisition of investment securities	(3,670)	(234)	(31,367)
Proceeds from sales of investment securities	2,601	0	22,231
Payment of long-term prepaid expenses	(43)	(59)	(368)
Other, net	(78)	(50)	(667)
Net cash used in investing activities	(2,024)	(1,570)	(17,299)
III. Cash flows from financing activities			
Decrease in short-term bank loans	—	(500)	—
Proceeds from long-term debt	—	70	—
Repayment of long-term debt	(8,561)	(607)	(73,171)
Acquisition of treasury stock	(2,073)	(774)	(17,718)
Cash dividends paid	(1,278)	(1,064)	(10,923)
Net cash used in financing activities	(11,912)	(2,875)	(101,812)
Net increase (decrease) in cash and cash equivalents	(7,590)	4,032	(64,872)
Cash and cash equivalents at beginning of year	17,272	13,240	147,624
Cash and cash equivalents at end of year (Note 5)	¥ 9,682	¥ 17,272	$ 82,752

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 three subsidiaries as of March 31, 2006. The consolidated financial statements include the accounts of the Company and all of its subsidiaries. KAKEN LOGISTICS CO., LTD. was excluded from the scope of consolidation, because it was dissolved by the reason of a merger with KAKEN REARITY & SERVICE CO., LTD. in this second semester. The consolidated subsidiaries as of March 31, 2006 are as follows:

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

The Company had an affiliate as of March 31, 2005. The affiliate is N-K Curex Co., Ltd. and is accounted for by the equity method. N-K Curex Co., Ltd. was excluded from the scope of equity method, because it was liquidated in December, 2005.

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 is amortized on a straight-line basis over 15 years. Unrecognized actuarial loss or gain is amortized on a straight-line basis over 10 years from the next year in which they arise. Unrecognized prior service cost is amortized on a straight-line basis over 10 years from the year in which they arise. For the Company, prepaid pension and severance costs were recognized for a portion of the plan covered by the non-contributory pension plan assets and the accrued pension and severance costs were recognized for a portion of the plan not covered by the plan assets.

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

(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) 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.

(k) 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.

(l) 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. Change in Accounting Policies:

(Accounting for impairment of Fixed Assets)

Effective April 1, 2005, the Group made an application of the new Japanese accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council of Japan on August 9, 2002) and the Implementation Guidance for Accounting Standard for Impairment of Fixed Assets (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003).

As a result, income before income taxes decreased by ¥268 million. For cumulative impairment losses, the Group directly deducted from respective asset amounts based on the revised regulation on consolidated financial statements.

---

4. United States Dollar Amounts:

The Group maintains its accounting records in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥117 =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 ¥117 = U.S.$1 or any other rate.

5. Cash and Cash Equivalents:

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

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2006	2005	2006
Cash on hand and at banks	¥9,682	¥17,272	$82,752
Marketable securities	150	150	1,282
	9,832	17,422	84,034
Time deposits which fall due in more than three months	—	—	—
Marketable securities due in more than three months	(150)	(150)	(1,282)
	(150)	(150)	(1,282)
Cash and cash equivalents	¥9,682	¥17,272	$82,752

6. 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 4)		
	Cost	Market value	Unrealized gain (loss)	Cost	Market value	Unrealized gain (loss)	Cost	Market value	Unrealized gain (loss)
March 31	2006			2005			2006		
Other securities:									
Market value available									
Equity securities	¥5,668	¥10,377	¥4,709	¥3,486	¥5,754	¥2,268	$48,444	$88,692	$40,248
Other securities	14	15	1	45	44	(1)	120	128	8
	5,682	10,392	4,710	3,531	5,798	2,267	48,564	88,820	40,256
Market value not available	379	379	—	379	379	—	3,239	3,239	—
Total	¥6,061	¥10,771	¥4,710	¥3,910	¥6,177	¥2,267	$51,803	$92,059	$40,256
Held-to-maturity debt securities:									
Market value not available	¥ 650	¥ 650	¥ —	¥ 150	¥ 150	¥ —	$ 5,556	$ 5,556	$ —

Other securities sold during the fiscal years ended March 31, 2006 and 2005 were as follows;

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2006	2005	2006
Proceeds from sales	¥2,601	¥0	$22,231
Gross realized gains	1,613	0	13,786
Gross realized losses	—	—	—

7. Inventories:

Inventories as of March 31, 2006 and 2005 are comprised of the following:

	Millions of yen		Thousands of U.S. dollars (Note 4)
March 31	2006	2005	2006
Finished products	¥ 4,115	¥ 4,682	$35,171
Work in process	1,435	1,380	12,265
Raw materials	3,202	3,486	27,367
Supplies	732	559	6,256
Raw materials in transit	173	143	1,479
Total	¥ 9,657	¥10,250	$82,538

8. Impairment of Fixed Assets:

The group recorded impairment losses to the following asset group for the year ended March 31, 2006.

Use	Classification	Location
Storage facility	Buildings, Machinery and equipment, and Land	Tobu logistic center (Noda-shi, Chiba)

(Method of Grouping Asset)

The group classified its asset group according to separate standards for different type of business segment.

Rental property and asset which is scheduled to sell were classified based on individual basis.

(Process of Recognizing Impairment Losses)

Regarding Tobu logistic center, board of director decided to sell it in January 2006. Based on this decision, the asset stated above was reduced to its potential recovery value.

(Breakdown of Impairment Losses)

Classification	Millions of yen	Thousands of U.S. dollars (Note 4)
Buildings	¥ 191	$ 1,633
Machinery and equipment	10	86
Land	63	538
Others	4	34
Total	¥ 268	$ 2,291

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

Short-term bank loans outstanding as of March 31, 2006 and 2005 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, 2006 and 2005 are 0.90 % and 0.86 %, respectively. Outstanding balance of short-term bank loans as of March 31, 2006 and 2005 were ¥5,380 million and ¥5,380 million, respectively.

Long-term debt as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 4)
March 31	2006	2005	2006
Loans from banks and other financial institutions due 2008 (interest rate 1.77%)	¥ 3,000	¥ 3,000	$ 25,641
0.0% unsecured convertible bond due 2007 (a)	1,797	7,394	15,359
0.0% unsecured convertible bond due 2007 (b)	8,395	10,000	71,752
Other long-term debt with interest bearing due 2005 to 2033 (interest rate 3.10%)	—	8,761	—
	13,192	29,155	112,752
Less: current portion	—	(200)	—
Total	¥13,192	¥28,955	$112,752

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 4)
Within one year	¥ —	$ —
Over one year less than two years	10,192	87,111
Over two years less than five years	—	—
More than five years and thereafter	—	—
Total	¥10,192	$87,111

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

	Millions of yen	Thousands of U.S. dollars (Note 4)
Within one year	¥ —	$ —
Over one year less than two years	—	—
Over two years less than three years	3,000	25,641
Over three years less than five years	—	—
More than five years and thereafter	—	—
Total	¥3,000	$25,641

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, 2006 and 2005, assets pledged as collateral for certain short-term and long-term debts, including current portion of long-term debts, were as follows:

	Millions of yen		Thousands of U.S.dollars (Note 4)
March 31	2006	2005	2006
Assets pledged			
Buildings and structures	¥ 2,333	¥ 9,746	$ 19,940
Machinery and equipment	2,267	2,076	19,376
Land	103	108	880
Investment securities	2,518	1,324	21,521
Total	¥ 7,221	¥13,254	$ 61,717
Liabilities and secured			
Short-term bank loans	¥ 1,400	¥ 1,400	$ 11,966
Other interest bearing debt	—	8,761	—
Total	¥ 1,400	¥10,161	$ 11,966

10. Accounting for Leases:

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

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

	Millions of yen		Thousands of U.S.dollars (Note 4)
March 31	2006	2005	2006
Acquisition cost	¥15	¥15	$128
Accumulated depreciation	12	11	102
Net book value	¥ 3	¥ 4	$ 26
Depreciation	¥ 2	¥ 2	$ 17

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

Periodic lease expenses on finance lease contracts without ownership-transfer for the years ended March 31, 2006 and 2005 were summarized as follows:

	Millions of yen		Thousands of U.S.dollars (Note 4)
	2006	2005	2006
Periodic lease expense	¥2	¥2	$17

The amount of outstanding future lease payments due at March 31, 2006 and 2005, which excluded the portion of interest thereon, was summarized as follows:

	Millions of yen		Thousands of U.S.dollars (Note 4)
	2006	2005	2006
Within one year	¥2	¥2	$17
Over one year	1	3	9
Total	¥3	¥5	$26

11. Derivative Financial Instruments:

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

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

12. Pension and Retirement Benefits:

The benefit obligation and plan assets, funded status and composition of amounts recorded in the consolidated balance sheets as of March 31, 2006 and 2005 is as follows:

March 31	Millions of yen 2006	Millions of yen 2005	Thousands of U.S.dollars (Note 4) 2006
Projected benefit obligations	¥(22,026)	¥(22,722)	$(188,256)
Plan assets	10,658	9,436	91,094
Funded status	(11,368)	(13,286)	(97,162)
Unrecognized transition amount	4,725	5,249	40,384
Unrecognized actuarial loss	1,978	2,780	16,906
Unrecognized prior service cost	(154)	(176)	(1,316)
	(4,819)	(5,433)	(41,188)
Amounts recognized in the balance sheet consists of —			
Prepaid pension cost	918	683	7,846
Accrued pension and severance costs	¥ (5,737)	¥ (6,116)	$ (49,034)

The components of net pension and severance costs for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen 2006	Millions of yen 2005	Thousands of U.S.dollars (Note 4) 2006
Service cost	¥ 726	¥ 795	$ 6,205
Interest cost	518	534	4,428
Expected return on plan assets	(236)	(219)	(2,017)
Amortization of transition amount	525	526	4,487
Amortization of actuarial loss	377	363	3,222
Amortization of prior service cost	(22)	(22)	(188)
Net pension expense	¥1,888	¥1,977	$16,137

Assumptions used in calculation of the above information as of March 31, 2006 were as follows:

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

13. Shareholders' Equity:

The following appropriations of the Company's retained earnings in respect of the year ended March 31, 2006 which were approved by the shareholders at the general meeting held on June 29, 2006, have not been incorporated in the accompanying consolidated financial statements.

	Millions of yen	Thousands of U.S.dollars (Note 4)
Retained earnings at the end of the year	¥10,119	$86,487
Utilization of general reserve		
Utilization of deferred gain on sales of property, plant and equipment	113	966
	10,232	87,453
Appropriations:		
Dividends (¥7.50 per share)	(753)	(6,436)
Bonuses to directors	(44)	(376)
[of which to statutory auditors]	[6]	[51]
Transfer to general reserve:		
Others reserves	(1,000)	(8,547)
Retained earnings carried forward to the following year	¥ 8,435	$72,094

14. Research and Development Costs:

Research and development costs included in selling, general and administrative expenses for the years ended March, 2006 and 2005 amounted to ¥6,046 million($51,675 thousand) and ¥6,271 million, respectively.

15. Income Taxes:

The Group is subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 40.69 % for the two years in the period ended March 31, 2006. Reconciliation of the differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2006 and 2005 is as follows:

	2006	2005
Statutory tax rate	40.69%	40.69%
Increase (decrease) in taxes resulting from:		
Expenses not deductible for income tax purpose (ex. Entertainment expenses)	6.84	8.29
Income not included for income tax purpose (ex. Dividend income)	(0.08)	(0.01)
Equity in losses of affiliates	—	(0.32)
Inhabitant equalization taxes	1.14	1.34
Tax deduction for research expenses	(1.82)	(7.55)
Other	0.19	1.37
Effective tax rate	46.96%	43.81%

Significant components of deferred tax assets as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2006	2005	2006
Deferred tax assets:			
Reserve for bonuses	¥ 468	¥ 461	$ 4,000
Reserve for sales rebates	329	391	2,812
Loss of supplies	136	135	1,162
Devaluation of financial instruments	85	2,062	726
Amortization of R&D	183	41	1,564
Amortization of long-term prepaid expenses	523	837	4,470
Pension and severance costs	1,960	1,926	16,752
Retirement benefits to directors	121	113	1,034
Allowance for bad debt	76	76	650
Unrealized gain of property, plant and equipment	2,568	2,568	21,949
Other	94	343	804
Total	6,543	8,953	55,924
Valuation allowance	(82)	(82)	(701)
Deferred tax assets	6,461	8,871	55,223
Deferred tax liabilities:			
Deferred gain on sales of property, plant and equipment	(323)	(420)	(2,761)
Unrealized gain on other securities	(1,916)	(923)	(16,376)
Other	(2)	(2)	(17)
Deferred tax liabilities	(2,241)	(1,345)	(19,154)
Deferred tax assets, net	¥ 4,220	¥ 7,526	$ 36,069

16. Related Party Transactions:

The Company conducted the debt write-off of ¥870 million ($7,436 thousand) of N-K Curex Co., Ltd. (affiliated company) for the year ended March 31, 2006.

17. Per Share Information:

Per share information for the years ended March 31, 2006 and 2005 is as follows:

	Yen		U.S. dollars (Note 4)
	2006	2005	2006
Net assets per share	¥ 543.49	¥ 493.84	$4.645
Net income per share	40.23	36.54	0.344
Diluted net income per share	33.24	28.49	0.284

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

For the years ended March 31, 2006 and 2005	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 4) 2006
Net income	¥ 3,887	¥ 3,417	$ 33,222
Net income relating to common stock	3,843	3,378	32,846
Adjustment to net income	—	—	—
(Share data)			
Average number of share (thousand)	95,534	92,457	
Additional number of share (thousand)	20,087	26,119	

18. Segment Information:

Information about operations in industry segments of the Group for the years ended March 31, 2006 and 2005 is as follows:

	Millions of yen 2006				
	Pharmaceutical	Other*	Total	Eliminations or Corporate	Consolidated
I. Sales and Operating Income					
Sales to customers	¥73,216	¥ 2,325	¥75,541	¥ —	¥ 75,541
Inter-segment/transfer	—	303	303	(303)	—
	73,216	2,628	75,844	(303)	75,541
Operating expenses	66,089	1,395	67,484	(303)	67,181
Operating income	¥ 7,127	¥ 1,233	¥ 8,360	¥ —	¥ 8,360
II. Assets, Depreciation and Capital Expenditures					
Assets	¥63,206	¥17,589	¥80,795	¥17,944	¥ 98,739
Depreciation	¥ 1,983	¥ 776	¥ 2,759	¥ —	¥ 2,759
Loss on impairment of fixed assets	¥ 268	¥ —	¥ 268	¥ —	¥ 268
Capital Expenditures	¥ 1,915	¥ 52	¥ 1,967	¥ —	¥ 1,967

	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

	Thousands of U.S. dollars (Note 4)				
	2006				
	Pharmaceutical	Other*	Total	Eliminations or Corporate	Consolidated
I. Sales and Operating Income					
Sales to customers	$ 625,778	$ 19,871	$645,649	$ —	$645,649
Inter-segment/transfer	—	2,590	2,590	(2,590)	—
	625,778	22,461	648,239	(2,590)	645,649
Operating expenses	564,863	11,923	576,786	(2,590)	574,196
Operating income	$ 60,915	$ 10,538	$ 71,453	$ —	$ 71,453
II. Assets, Depreciation and Capital Expenditures					
Assets	$540,222	$150,333	$690,555	$153,368	$843,923
Depreciation	$ 16,949	$ 6,632	$ 23,581	$ —	$ 23,581
Loss on impairment of fixed assets	$ 2,291	$ —	$ 2,291	$ —	$ 2,291
Capital Expenditures	$ 16,368	$ 444	$ 16,812	$ —	$ 16,812

*Other business fields consist of mainly real estate.

19. Subsequent Event:

The 0.0% unsecured convertible bond due 2007 (b), issued on July 25, 2002, was fully converted in the period from April 18, 2006 to June 16, 2006. As a result of this conversion, the description became as follows:

Treasury stock used for this conversion	common stock	5,393 thousand shares
Treasury stock, disposal gain		¥165 million ($1,410 thousand)
Stock issued	common stock	6,034 thousand shares
Increase in common stock		¥2,214 million ($18,923 thousand)
Increase in capital surplus		¥2,203 million ($18,829 thousand)

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, 2006 and 2005 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, 2006 and 2005 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).

As described in Note 3, KAKEN PHARMACEUTICAL CO., LTD. and consolidated subsidiaries have adapted the new accounting standard for impairment of fixed assets.

As described in Note 19, the 0.0% unsecured convertible bond due 2007 (b) held by KAKEN PHARMACEUTICAL CO., LTD. was fully converted in the period from April 18, 2006 to June 16, 2006.

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

Hijiribashi Audit Corporation

Tokyo, Japan
June 29, 2006

Corporate Data (As of March 31, 2006)

Directory

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

Global Business Development
Executive Director & General Manager
Masao Ishida
Tel: 81-3-5977-5046
Fax: 81-3-5977-5133
E-mail: masao-ishida@kaken.co.jp

Main Branches
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
E-mail: ny@kaken.co.jp

Company Information

Founded
March 1917

Incorporated
March 1948

Paid-in Capital
¥22,977 million (As of Jul. 31, 2006)

Common Stock
Authorized: 360,000,000 shares
Issued: 112,106,450 shares (As of Jul. 31, 2006)
Number of Shareholders: 18,676

Employees (Non-Consolidated)
Administration: 137
Sales & Marketing: 985
Production & Technology: 251
Research & Development: 267
Regulatory Affairs: 37

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

Printed in Japan