SEIKAGAKU CORPORATION

Building a Promising Future

ANNUAL REPORT 2011

For the year ended March 31, 2011

Applying Our Leadership in Glycoscience

Seikagaku is building a stable corporate future with original products from the field of glycoscience. Pharmaceuticals we originated from hyaluronic acid using glycoscience are enriching health and everyday life for the people of the world.

> CONTENTS

1 OUR BUSINESS

The Seikagaku Group works in two business fields:

Pharmaceuticals
- Pharmaceuticals and medical devices

Fine Chemicals
- Bulk products
- Research reagents and diagnostics

2 OUR HYALURONIC ACID PRODUCTS

As pioneering pharmaceuticals, ARTZ® and OPEGAN® are market-leading products that take advantage of the unique properties of hyaluronic acid.

3 OUR SPECIALTIES

Seikagaku Corporation, though small in size, has many strengths and a unique profile:

- Specializing in glycoscience
- Products of exceptionally high quality
- Business focus on R&D

4 OUR GOALS

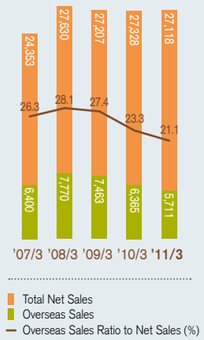
As a "Global Category Pharma," Seikagaku will contribute to improving people's "Quality of Life" around the world.

5-YEAR FINANCIAL SUMMARY

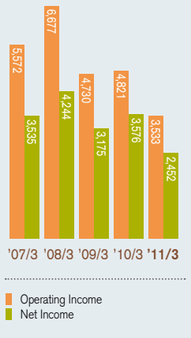
	Millions of Yen					Thousands of U.S. Dollars (Note 2)
	2007/3	2008/3	2009/3	2010/3 (Note 1)	2011/3	2011/3
Net Sales	¥ 24,353	¥ 27,630	¥ 27,207	¥ 27,328	¥ 27,118	$ 326,723
Overseas Sales	6,400	7,770	7,463	6,365	5,711	68,807
Overseas Sales Ratio (to Net Sales)	26.3%	28.1%	27.4%	23.3%	21.1%	21.1%
Gross Profit	16,554	18,682	17,223	16,834	16,637	200,446
R&D Expenses	4,537	5,654	5,965	5,518	6,724	81,012
Operating Income	5,572	6,677	4,730	4,821	3,533	42,566
Operating Income Ratio (to Net Sales)	22.9%	24.2%	17.4%	17.6%	13.0%	13.0%
Net Income	3,535	4,244	3,175	3,576	2,452	29,542
Net Income Ratio (to Net Sales)	14.5%	15.4%	11.7%	12.9%	9.0%	9.0%
Total Equity	52,833	53,646	52,309	55,426	56,107	675,988
Return on Shareholders' Equity (ROE)	6.8%	8.0%	6.0%	6.6%	4.4%	4.4%
Total Assets	59,244	60,620	58,215	62,734	62,684	755,229
Return on Total Assets (ROA)	6.1%	7.1%	5.3%	5.9%	3.9%	3.9%
Consolidated Dividend Payout Ratio	41.0%	40.7%	44.9%	39.7%	57.9%	57.9%
			(Yen)			(Dollars)
Net Income per Share of Common Stock (Note 3)	60.93	73.67	55.68	62.94	43.16	0.52
Cash Dividends per Share of Common Stock (Note 3)	25.00	30.00	25.00	25.00	25.00	0.30
Number of Employees	557	594	609	637	649	

Note: 1 The Company changed the accounting category for milestone royalties from "Net Sales" to "Other Income" in March 2011. Accordingly, retrospectively we reclassified only the figures for March 2010.
2 U.S. dollar amounts are converted, for convenience only, at the rate of ¥83=US$1, the approximate rate at March 31, 2011.
3 As for Per Share Information, please refer to Note 2. "Summary of Significant Accounting Policies," Section p (p. 21).

Net Sales and Overseas Sales
(Millions of Yen)

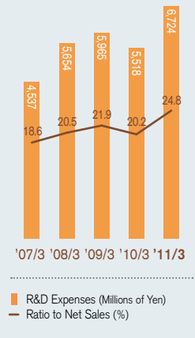


Operating Income and Net Income
(Millions of Yen)



Total Assets and Total Equity per Share

R&D Expenses and Ratio to Net Sales



TO OUR SHAREHOLDERS

Ken Mizutani
President

Moving Our Plan Forward

Following FDA approval of Gel-One®, Seikagaku moves closer to a new era of quantum growth. We have expanded sales of ARTZ®, our flagship product, and continue to invest proactively in new drug development.

The management and employees of Seikagaku offer our heartfelt sympathies to those affected by the Great East Japan Earthquake and prayers for a rapid recovery. Although the Takahagi Plant, which produces ARTZ® and OPEGAN®, incurred minor damage from the earthquake, and a subsidiary was hit by the devastating tsunami, we were fortunate to have been spared any loss of life. The disaster caused little disruption to our shipment plan, enabling us to maintain stable supply, and we returned to a normal production level at the Takahagi Plant by April 29.

Nevertheless, Sanriku Kakou Corporation, a subsidiary that processed the raw material for chondroitin sulfate was located near the center of the quake zone and was hit hard by the tsunami. Although the prospect for business resumption at Sanriku Kakou is uncertain, we are ensuring stable supply through stepped up purchases from other sources of supply.

Hitting a significant milestone

Gel-One®, a single injection medical device for treatment of osteoarthritis pain of the knee, received FDA approval in the U.S. in March 2011. Following this milestone, Seikagaku is now positioned to expand its market share with a single injection. A major objective going forward is to begin strengthening our presence in the U.S. by expanding sales of Gel-One® alongside SUPARTZ®, our existing product in the osteoarthritis treatment market.

Domestic pharmaceutical sales were a strong point again this year.

In the fiscal year ended March 31, 2011 (fiscal 2010), the business environment for pharmaceuticals remained severe. In Japan, measures to curb medical expenses continued, including an NHI reimbursement price reduction in April 2010 and promotion of the use of generic drugs. Overseas, efforts to limit medical spending such as tightening of insurance reimbursement criteria continued, and standards for new drug approval are also becoming much stricter.

A year of mixed results

In the year under review, net sales fell 1.8% year on year to ¥27,118 million. While pharmaceutical sales in Japan continued to rise, consolidated net sales declined because of lower export sales volume to the U.S. and the impact of yen appreciation. Another factor was a change in accounting policy in fiscal 2010 that reclassified milestone royalty income as non-operating income rather than as net sales.

Although rising pharmaceutical sales in Japan compensated for the impact of the NHI reimbursement price reduction, operating income fell 30.9% year on year to ¥3,533 million. Besides the impact of yen appreciation, this result reflects a sharp increase in R&D expenses accompanying posting in full of SI-6603 clinical trials expenses following their completion in Japan, a one-time factor because of an accounting rule.

Net income fell 31.4% to ¥2,452 million as a result of the recording of extraordinary losses of ¥984 million. Major items in these losses were the cost of restoring earthquake damage at the Takahagi Plant and impairment loss on valuation of land owned by the Company and rented to Sanriku Kakou.

Assuring our future growth and success

Returning profits to shareholders is a key management priority for Seikagaku and we continuously strive to increase shareholder value through sustained growth. In the coming years, we will continue to pursue development as a "Global Category Pharma" in order to earn and retain the trust of our shareholders and all our stakeholders. The key area of this development is strategic capital investment in production facilities and proactive R&D activities.

We are steadily implementing new capital investment to address key priorities in the closing year of the mid-term plan, which covers the three-year period ending March 31, 2012. With the slogan, "GPS" (Global, Powerful and Sustainable), the mid-term plan is designed to build up our fundamental strengths and business structure in preparation for achieving the Seikagaku Corporation Ten-Year Vision.

A major focus of the new capital investment is upgrading our production facilities at the Takahagi and Kurihama Plants. At the Takahagi Plant, we will invest about ¥9,800 million into expanding our production of ARTZ Dispo® to meet growing demand. We plan to have the new facilities operational by January 2015.

In addition, we will invest about ¥3,500 million into expanding our production of hyaluronic acid bulk at the Kurihama Plant. This upgrade will be fully operational by April 2014. We will also invest approximately ¥1,100 million to substantially improve production efficiency, at this plant, with the aim of having the new chondroitin sulfate production facilities operational by July 2012.

In R&D, we have started to construct a first new facility to accelerate research activities in more than 10 years. Among our projects, SI-6603, a non-surgical indication for treatment of lumbar disc herniation, is our next important compound following Gel-One®. Seikagaku obtained results from Phase II/III clinical trials in Japan in December 2010, and we aimed to file a new drug application for SI-6603 in the second half of calendar year 2011. However, based on the outcome of further discussions with the Pharmaceuticals and Medical Devices Agency, while the advantages of SI-6603 as a treatment of lumber disc herniation were recognized, we judged it necessary to accumulate further data by means of an additional Phase III clinical trial. As we have high hopes for SI-6603, we will proactively continue its development in Japan and promptly conduct the additional trial to facilitate its approval. At the same time, we will accelerate Phase II clinical trial in the U.S., in order to provide a significant new treatment option for patients suffering from lumbar disc herniation.

Overview of Capital Investment

	Takahagi Plant	Kurihama Plant	
	ARTZ Dispo® facilities	Hyaluronic acid bulk facilities	Chondroitin sulfate production facilities
Main purpose	Meeting growing demand for ARTZ Dispo®	Expanding the production for hyaluronic acid	Improving production efficiency
Target investment	¥9,800 million	¥3,500 million	¥1,100 million
Construction schedule	March 2012	January 2012	May 2011
Completion schedule	July 2013	March 2013	January 2012
Production start	January 2015	April 2014	July 2012

Revenues and profit are on track to rebound in fiscal 2011, following the extraordinary events of fiscal 2010.

The Company forecasts a 3.3% increase in net sales to ¥28,000 million in fiscal 2011 ending March 31, 2012. Sales of pharmaceuticals will increase due to sales performance of ARTZ® in Japan, launch of Gel-One® in the U.S. and sales growth in China. On the other hand, fine chemical sales will be lowered due to the termination of the research reagents business in March 2012.

Operating income is forecast at a 35.9% increase to ¥4,800 million, driven by a sales volume increase for pharmaceuticals and supported by lower depreciation on the No. 4 Production Building at the Takahagi Plant.

We forecast a 22.6% increase in ordinary income to ¥5,100 million as a result of lower milestone royalty income and a 34.6% increase in net income to ¥3,300 million due to decreases in extraordinary losses from the earthquake and other items.

We anticipate R&D expenses will fall substantially year on year, and the ratio of R&D expenses to net sales to be just at 21.1%.

Working for the steady trust of all shareholders

To maximize shareholder returns over the long run, our business aims at serving the health of people around the world, based on a unique approach to research and development. In the year ended March 31, 2011, we paid an interim dividend of ¥12.50 per share, and we also have set the final dividend at ¥12.50, bringing the total dividend for the year to ¥25 per share. This represents a dividend payout ratio of 57.9%, which exceeds the level set by our current dividend policy.

We are grateful for the continuing support of shareholders. As we move forward on initiatives to strengthen and grow our Company, may we all be mindful also of those people so profoundly affected by the recent earthquake and tsunami.

Ken Mizutani
President

Gel-One® Obtains FDA Approval in the U.S.

FDA approved Gel-One® (development code: Gel-200), a medical device for the treatment of pain in osteoarthritis of the knee, on March 22, 2011.

Gel-One® is a singe-injection viscosupplement product. It's main ingredient is a cross-linked hyaluronate hydrogel produced using a cross-linking technology originally developed by Seikagaku. Gel-One® maintains a long-term residual presence in the knee joint cavity and enables long-term pain relief with a single injection.

The aging population in the U.S. is leading to an upward trend in the incidence of knee osteoarthritis, and with that, there is a growing need for orthopaedic treatments, including joint-injectable products. Among these, multiple-injection treatments are the mainstay, and a need is emerging for products that provide long-term benefits through a small number of injections.

Significantly, through the imminent launch of Gel-One® in the U.S., Seikagaku aims to raise its sales share in the market by promoting solutions to two distinct treatment needs with products tailored for each. Gel-One® will offer knee osteoarthritis sufferers a single injection treatment option in addition to the Company's existing SUPARTZ®, which is administered in multiple injections.

Expanding Market Presence in the U.S.

Seikagaku plans to capture a greater share of the U.S. market in the field of joint disorder treatment by expanding sales of multiple-injection and single-injection products to more fully satisfy the needs of physicians and patients.

Knee osteoarthritis is primarily a disease of aging, characterized by the degeneration and disappearance of articular cartilage and consequent swelling and pain, and the U.S. population aged 65 and over is expected to rise by 3% annually through 2025. The market for hyaluronic acid injections in the U.S. is estimated to be $635 million. To understand why, consider that, there is estimated latent patients of 125 million, while actual patients being treated are only about 15 million and fewer, still are receiving hyaluronic acid injections. Seikagaku will help to increase these patients.

Since 2001 in the U.S. market, Seikagaku has sold SUPARTZ®, a multiple-injection formulation, through a sales partner, Smith & Nephew, Inc. With the approval of Gel-One®, we will not only be stepping up promotion of SUPARTZ® sales, but also bringing pain relief to an additional group of patients: those who, for personal reasons, or on the advice of their doctor or insurance company, seek a comparable duration of pain relief with fewer injections.

Seikagaku plans to launch Gel-One® in 2011 through a sales partner, Zimmer, Inc. (Warsaw, Indiana, U.S.A.). Zimmer is a global leader in the field of orthopaedics and the market share leader in the U.S. for knee replacements. As knee replacements and hyaluronic acid injections are used in the same therapy field, we have confidence that Zimmer can sell Gel-One® successfully through its established sales channels. Based on this assessment, Seikagaku anticipates the steady penetration of the single-injection product side-by-side with our multiple-injection sales, and a corresponding increase in overall market share.

Expansion Strategy of Seikagaku in the U.S.

Provide treatment options for knee osteoarthritis patients

Gel-One® Cross-linked Hyaluronate
(Single injection)
Sales partner: Zimmer
Diversification

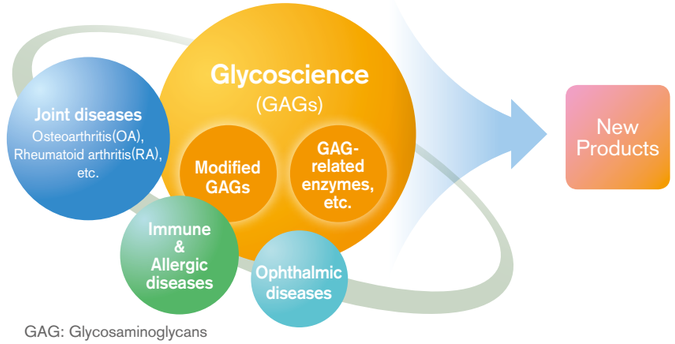
» High safety demonstrated in clinical trials
» Efficacy equivalent to multiple-injection products
⇒Opening up for the single-injection products and increase market share.

+

SUPARTZ®
(Multiple injections)
Sales partner: Smith & Nephew
Market Penetration

» World's leading product (high quality and safety)
» "SUPARTZ Direct:": Insurance reimbursement support system
» "My Knee and Me": Discovery and satisfy needs to a multiple-injection product.

Basic Policy of R&D



GAG: Glycosaminoglycans
(one of the key constituents of complex carbohydrates)

Innovate

Since our founding in 1947, Seikagaku has specialized in glycoscience. More narrowly within this field, we engage in drug discovery research with a focus on glycosaminoglycans (GAGs), a large family of long-chain polysaccharide (sugar) molecules. In the laboratory, we have become experts in the handling of GAGs while acquiring a portfolio of enzymes related to biosynthesis/metabolism of GAGs and high-level GAG manufacturing technology. The very nature of our specialization means that we develop pharmaceuticals from a fundamentally different approach than our competitors. This is one of our key competitive edges.

Pursuing efficiency with balance and focus

Our aim is to constantly and efficiently develop pharmaceuticals that truly address clinical and patient needs, and our R&D portfolio reflects this emphasis on marketable research. To achieve this, we pursue R&D through cross-divisional teams on a theme basis to cooperatively move potential products through the research, development, knowledge and expertise accumulated throughout the Company.

Today, we weigh candidate themes according to their potential market, quality and complementary balance, in line with an R&D policy of targeting substances for development that show clear potential for use in the treatment of joint diseases, immune and allergic diseases, and ophthalmic diseases.

The roots of our future success are being established by original research within the field of glycoscience. We strongly believe that our future key discoveries in pharmaceuticals, and many of our other pipeline themes, will come from this largely unexplored area of science.

A New Perspective on Life Processes

Glycoconjugates perform vital functions in biological processes

When we think about life processes, there is tendency to focus solely on genes and proteins. Yet, as we learn more about DNA, the “blueprint” of life, our attention is increasingly drawn to sugar chains, which were previously seen just as supporting actors in the life drama.

Proteins are synthesized according to information encoded in our DNA blueprints. Sugar chains, which are added to about one-half of the proteins synthesized in animal cells, help to enhance and diversify the functions of those proteins. Sugar chains are also linked to lipids to form glycolipids. These are widely distributed over the surface of cells and are thought to play roles in the exchange of information between cells.

Recent advances in glycoscience have shown that glycoconjugates perform specific functions at all stages of biological development, including the creation of life, fetal development and the generation and restoration of internal organ functions. It is generally accepted that many of the glycoconjugates produced throughout the body help to organize life processes through the exchange of information and substances.

There is definite interest in the role of glycoconjugates in diseases. It is thought that these sugar chains are directly involved in many conditions, including viral and bacterial infections, immunological diseases, and lifestyle-related diseases, as well as the onset and metastasis of cancer. For example, some pathogens such as influenza virus and a pathogenic strain of E. coli, O157, invade the body by binding to specific sugar chains on the cell surface. Furthermore, sugar-chain structures change when cells become cancerous, facilitating the growth and metastasis of cancers.

Because sugar chains determine the blood group of every human being, they are also profoundly involved in compatibility issues relating to blood transfusion and organ transplantation.

By studying the structures and functions of sugar chains involved in diseases, we can increase our understanding of their roles and effects. Such work is expected to lead to the development of revolutionary therapies and diagnostic methods based on applications of sugar chains and their genetics.

From birth to aging, glycoconjugates are profoundly involved in primary biological processes, including both normal and abnormal disease conditions. A fundamental understanding of glycoconjugates is vital to the future development of the health industry.

As a pioneer in glycoscience research, Seikagaku continues to contribute to improvement in the quality of life by developing new drugs in this field. The outcome of these efforts will provide the key to our future growth and success.

Pipeline Progress

Focused R&D underlines determined effort,
with clear priorities on markets and value

PIPELINE

Product	Lead indication	Target market	Preclinical	Phase I	Phase II	Phase III	Approval	In-house/ In-license
Gel-One®(Gel-200): Cross-linked hyaluronate hydrogel	Osteoarthritis of knee	U.S.					■	In-house
SI-6603: Condoliase	Lumbar disc herniation	Japan*				■		In-house
		U.S.			■			
SI-615: Adenosine A3 receptor agonist	Rheumatoid arthritis	Japan		■				In-license (Can-Fite BioPharma)
SI-636: Anti-VAP-1 antibodies	Rheumatoid arthritis, Psoriasis, Inflammatory bowel disease	Japan	■					In-license (BioTie Therapies)
(GAG-related)	Ophthalmic disorders		■					In-house
(Core target-related)	Arthritic disorders		■					In-house

* Phase III in preparation

Gel-One® (Gel-200)

Cross-linked Hyaluronate Hydrogel
for knee osteoarthritis

FDA approved Gel-One® (development code: Gel-200), a medical device for the treatment of pain in osteoarthritis of the knee, on March 22, 2011.

Please see additional details in Special Feature (p. 06–07).

SI-6603

Condoliase
for lumbar disc herniation

A lumbar disc herniation occurs when the nucleus pulposus, the element in the core of each lumbar disc, protrudes from one of the discs and presses on the surrounding nerves to cause pain and numbness. Formulated with an enzyme known as Condoliase, SI-6603 is expected to reduce the herniated nucleus pulposus with a single injection, bringing the same relief of pain and numbness as surgery.

It will offer significant clinical value, not only a reduced physical burden for patients, but also lower surgical costs. We believe that 10% to 20% of the estimated 1.1 million patients in Japan who are diagnosed with a lumbar disc herniation annually would likely be treated with SI-6603. Post-administration observations for all patients in a Phase II/III clinical trial in Japan were completed in August 2010. Based on discussions with the Pharmaceuticals and Medical Devices Agency in which the advantages of SI-6603 as a treatment were recognized, Seikagaku has decided to gather additional data in a follow-up Phase III trial in Japan to facilitate its approval. A Phase II clinical trial is going well in the U.S.

SI-615

Adenosine A3 Receptor Agonist
for rheumatoid arthritis

In-licensed from Can-Fite BioPharma Ltd. of Israel as a supplement for the in-house development pipeline, SI-615 is a small molecule in an oral formulation for treating the pain of rheumatoid arthritis. It is an adenosine A3 receptor agonist based on a novel mechanism. We have completed a Phase I single-administration trial in Japan. Can-Fite BioPharma is conducting a Phase IIb monotherapy clinical trial, and we will review our development policy while monitoring the progress of this trial.

SI-636

Anti-VAP-1 Antibodies
for inflammatory diseases

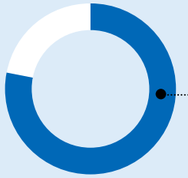
SI-636 is a monoclonal antibody that blocks the functioning of VAP-1. It was in-licensed from BioTie Therapies of Finland for use in the treatment of inflammatory diseases. It is expected to prevent inflammation by inhibiting VAP-1, an adhesion molecule involved in the accumulation and invasion of white blood cells at inflammation sites. Target patients include rheumatoid arthritis sufferers. This drug is potentially an extremely innovative therapeutic approach. BioTie conducted a Phase I repeat-dose trial with rheumatoid arthritis patients in Europe in January 2010, reported that there were no serious side effects and that tolerability had been confirmed. Development in Japan is still at the preclinical stage. Further development plans will be based on a detailed analysis of BioTie's Phase I results and the progress of the next stage.

Themes in Preclinical Development
(In-house)

Preclinical themes are too speculative to describe in detail, except to say that there are two projects at present and that they are focused in two disease target areas that fall within our core investigative focus: ophthalmic products and arthritic disorder products.

Seikagaku's products stem from original research in the glycoscience field that the Company helped pioneer, and have earned a closely guarded reputation for highest quality and purity.

Pharmaceuticals



Sales by Segment

78.1%

Overall, worldwide sales of pharmaceuticals and medical devices for the year ended March 31, 2011 declined by 1.0% year on year to ¥21,184 million (based on restatement of the previous year's figure to reflect newly adopted rules for royalty income).

Domestic sales of pharmaceuticals and medical devices rose for the seventh consecutive year, climbing by ¥654 million, as sales volume outpaced the year's biennial drug reimbursement price reductions under the Japan's National Health Insurance System. Unit deliveries to medical institutions in Japan of our main product ARTZ®, a hyaluronic acid formulation for knee osteoarthritis, grew by 8.4%, exceeding the overall market growth of 6.6%.

The target market in Japan continues to expand as the aged population increases, and growth has been further boosted by an ongoing campaign with our sales partner, Kaken Pharmaceutical Co., Ltd., to raise public awareness of knee osteoarthritis and the effectiveness of early treatment (in strict compliance with advertising regulations of the Pharmaceutical Affairs Law). The market share for ARTZ® increased after the lapse of four years on the success of focused sales expansion activities that capitalized on the brand strength of ARTZ® as the pioneering drug and the introduction of a prefilled plastic syringe that meets physician and patient needs.

Domestic sales of the ophthalmic surgery aid OPEGAN® fell year on year. Although continued sales promotion activities aimed at target opthalmologists, in collaboration with sales partner Santen Pharmaceutical Co., Ltd., led to an increase in deliveries to medical institutions, the higher unit sales did not fully offset the impact of the NHI reimbursement price reduction.

Sales of MucoUp®, a surgical aid for use in endoscopic mucosal resection, were also higher in response to market-building initiatives, such as workshops for surgeons on endoscopic surgical techniques held in cooperation with our sales partner, Johnson & Johnson K.K.

Overseas sales of pharmaceuticals and medical devices (ARTZ® series exports) declined by 21.4% to ¥3,208 million, primarily due to a decline in the Company's export sales to the U.S. of SUPARTZ®, the product name of ARTZ® in the U.S. Although price maintenance efforts stemmed a decline in local selling prices, unit sales fell due to factors including tightening of insurance reimbursements by some private insurance companies. A build-up of distributor inventories at the end of fiscal 2009 and the impact of yen appreciation also adversely affected sales.

Export sales to China continued to rise. Particularly among medical institutions in major cities, ARTZ® enjoys an excellent reputation for high quality and its proven performance around the world.

Main Products

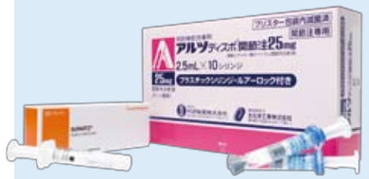
Intra-articular Injections for Improving Joint Functions

ARTZ® 25mg, ARTZ Dispo® 25mg, SUPARTZ®*1, ARTZAL®

Hyaluronic acid formulation, first launched in 1987 and currently approved in 21 countries. Used widely by many physicians and patients throughout the world as the formulation for the treatment of knee osteoarthritis*2. Now highly evaluated and used worldwide with over 250 million injections performed internationally to date.

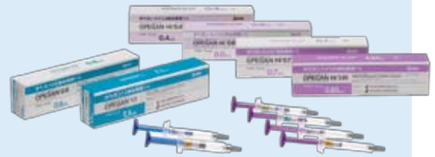
*1 SUPARTZ® is a trade name used in North America.

*2 In Japan, ARTZ® is also approved for indications of periarthritis of the shoulder and relief of knee pain from chronic rheumatoid arthritis. The indication for periarthritis of the shoulder is approved in several other countries as well.



Ophthalmic Surgical Aids

OPEGAN®, OPEGAN Hi®



OPEGAN® is the first domestically produced hyaluronic acid formulation used in ophthalmic surgery. Hyaluronic acid with high viscosity is used in cataract surgery to facilitate the procedure by protecting corneal endothelium and retaining the intraocular space.

Surgical Aids for Endoscopic Mucosal Resection

MucoUp®

By injecting MucoUp® as a surgical aid into the sub-mucosal layer at the lesion of tumors in the gastrointestinal tract, the lesion rises to form a dome that can be more easily, safely and completely removed by endoscopic mucosal resection.

Periodontal Regeneration Material

Emdogain® Gel

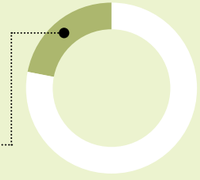
Medical device for use in dentistry to induce regeneration of periodontium.

Fine Chemicals

Bulk product sales of hyaluronic acid increased by 4.9%, and endotoxin assay reagents used in quality control showed solid performance in overseas markets. However, due to yen appreciation and lower sales of research reagents in Japan, sales of fine chemicals fell 4.5% year on year to ¥5,933 million.

Sales by Segment

21.9%



Main Products

Research Reagents and Diagnostics

- **Endotoxin-detecting reagents**
  Used mainly for quality control in the manufacture of pharmaceuticals and medical devices, and quality control of dialysis fluid.
- **Diagnostics for invasive fungal infections:**
  These are the first diagnostics in the world for the detection with a high sensitivity of (1→3)-β-D-glucan, a constituent of fungi.
- **Carbohydrate-related reagents, Saccharides, Enzymes, Antibodies**
  For nearly 50 years Seikagaku has been contributing to the advancement of glycoscience with these essential reagents for glycobiology.

* Carbohydrate-related reagents, Saccharides, Enzymes and Antibodies will be terminated in March 2012, due to termination of the Research Reagent business.

Bulk Products

- **Hyaluronic acid**
  Sold mainly to the manufacturers of pharmaceuticals as a raw material.
- **Sodium chondroitin sulfate**
  Widely used as a raw material in pharmaceuticals, ophthalmic products and drinks for nutritional fortification.

CORPORATE GOVERNANCE

Seikagaku views corporate governance as an area of utmost management priority, and endeavors to gather information accurately, speed up decision-making and better supervise the level of business execution. We are profoundly aware of our social mission and responsibilities as a pharmaceutical company and are committed to always earning the confidence of stakeholders, including our shareholders. In addition to establishing effective internal controls, such as for compliance and risk management, we are enhancing our corporate governance through mutual collaboration among departments within the company in order to create a management environment that meets the expectations of society.

Our corporate governance framework is summarized below:

<<Board of Directors>>

- The Board of Directors of Seikagaku Corporation holds regular monthly meetings to carry out tasks stipulated in the Articles of Incorporation, make decisions on important business and supervise the performance of business operations. If necessary, additional meetings of the Board of Directors are convened.
- There is one outside director on the Board of Directors, whom the company designates as an "Independent Director" under the Tokyo Stock Exchange (TSE) regulation in order to enhance the supervisory functions of the Board.

<<Business Operations>>

- Seikagaku introduced a managing officer system. Under this system, executive functions are separated from the Board of Directors, the functions of which are now limited to decision-making and the supervision of business operations.
- To speed up decision-making processes, we hold Management Committee meetings weekly. At the meetings, full-time directors and managing officers confer to ensure that all concerned parties are fully informed about management issues.

<<Audit framework and internal audit >>

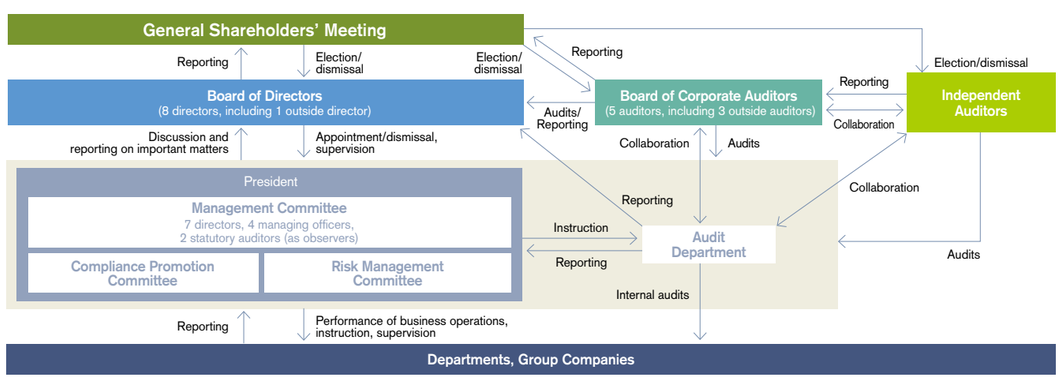
- In June 2007, Seikagaku further strengthened the audit framework by appointing one additional outside corporate auditor, bringing the total number of corporate auditors to five. All three outside corporate auditors, including one auditor with expertise in finance and accounting, are designated by the company as "Independent Auditors" under the TSE regulation.
- Internal audits include audits performed by the Audit Department, as well as quality audits and GCP audits, which are carried out by the Quality Assurance Dept. and the Regulatory Affairs Dept., respectively. These audits verify that all departments are conducting their operations in an appropriate manner.

<<Compliance>>

- Seikagaku has instituted a compliance program, based on the management beliefs and code of conduct outlined in the corporate principles, in order to act as a socially ethical company and achieve compliance with the stringent regulations that surround the pharmaceutical industry. We have also established the Compliance Committee, which is chaired by the President and shares the same members as the Management Committee.

<<Policy Toward Large-scale Purchases of Company Shares>>

To prevent inappropriate purchases that could harm corporate value and the common interests of shareholders, with the approval of the General Shareholders' Meeting, the Company introduced a policy regarding large-scale purchases of its shares. The policy provides for the establishment of a committee of persons independent of the management, in order to ensure objective and reasonable judgments of the Board of Directors.



(As of June 24, 2011)

BOARD OF DIRECTORS (As of June 21, 2011)


Ken Mizutani


Toshinori Yagura


Masaomi Miyamoto


Eiji Katayama


Hideki Kawamura


Kazuaki Onishi


Yasushi Fukumoto


Shinichi Ishikawa

PRESIDENT
Ken Mizutani

SENIOR MANAGING DIRECTOR
Toshinori Yagura

EXECUTIVE MANAGING DIRECTOR
Masaomi Miyamoto

OUTSIDE DIRECTOR
Eiji Katayama

DIRECTORS EXECUTIVE MANAGING OFFICERS
Hideki Kawamura
Kazuaki Onishi

DIRECTORS
Yasushi Fukumoto
Shinichi Ishikawa

AUDITORS
Kenji Kaneko
Tokushi Mitomi

OUTSIDE AUDITORS
Nobuhiro Takeuchi
Junya Sato
Akifumi Yamada

SENIOR MANAGING OFFICER
Shinji Usuda

MANAGING OFFICERS
Yoshiyuki Sakura
Shinji Harashima
Noriaki Inamura

SOCIAL CONTRIBUTIONS BY THE COMPANY AND EMPLOYEES

Glycoforum: Sharing academic information online with researchers around the world

While it is our mission to improve the health and well-being of people through our activities as a pharmaceutical company, we also proactively contribute to the advancement of glycoscience, a key research field for understanding life processes and diseases.

We support glycoscience research activities by collecting and distributing the latest research findings in the field through the "Glycoforum" website, established by Seikagaku in 1997. Visit *www.glycoforum.or.jp*

Contributions to Earthquake Relief

Seikagaku and its employees responded promptly to the needs of survivors Great East Japan Earthquake, donating a total of ¥54 million (US$650 thousand) in direct Company contributions and matched contributions from employees.

The Mizutani Foundation for Glycoscience: Encouraging and supporting research and researchers

The Mizutani Foundation for Glycoscience was endowed by the late Masakane Mizutani, founder of Seikagaku Corporation. The foundation promotes original glycoscience research in Japan and overseas through an active grant program, supports international exchanges and hosts glycoscience conferences. Seikagaku strongly supports the foundation's diverse efforts to advance glycoscience. See *www.mizutanifdn.or.jp*

FINANCIAL STATEMENTS

Consolidated Balance Sheets

Seikagaku Corporation and Consolidated Subsidiaries
March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 11)	¥ 7,692	¥ 9,367	$ 92,675
Short-term investments (Notes 3 and 11)	5,295	4,361	63,795
Notes and accounts receivable—trade (Note 11)	7,458	7,155	89,855
Allowance for doubtful accounts	(1)	(2)	(12)
Inventories (Note 4)	4,129	4,252	49,747
Deferred tax assets (Note 10)	680	770	8,193
Other current assets	1,462	1,550	17,615
Total current assets	26,715	27,453	321,868
PROPERTY, PLANT AND EQUIPMENT:			
Land	802	1,072	9,663
Buildings and structures	13,857	13,953	166,952
Machinery and equipment	13,019	12,936	156,855
Lease assets (Note 5)	1,437	1,386	17,313
Construction in progress	577	18	6,952
Total	29,692	29,365	357,735
Accumulated depreciation	(19,399)	(17,757)	(233,723)
Net property, plant and equipment	10,293	11,608	124,012
INVESTMENTS AND OTHER ASSETS:			
Investment in an unconsolidated subsidiary	25	25	301
Investment securities (Notes 3 and 11)	23,366	21,296	281,518
Goodwill	39	58	470
Deferred tax assets (Note 10)	131	4	1,578
Other assets (Notes 6 and 8)	2,380	2,595	28,675
Allowance for doubtful accounts	(265)	(305)	(3,193)
Total investments and other assets	25,676	23,673	309,349
TOTAL	¥ 62,684	¥ 62,734	$ 755,229
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Notes and accounts payable—trade (Note 11)	¥ 978	¥ 980	$ 11,783
Notes and accounts payable—other (Note 11)	1,891	2,475	22,783
Current portion of long-term debt (Notes 7 and 11)		700	
Current portion of long-term lease obligations (Notes 5 and 11)	210	216	2,530
Accrued expenses	793	811	9,554
Accrued income taxes (Note 11)	449	870	5,410
Other current liabilities	452	69	5,446
Total current liabilities	4,773	6,121	57,506
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 11)	700		8,434
Long-term lease obligations (Notes 5 and 11)	573	750	6,903
Asset retirement obligations	84		1,012
Deferred tax liabilities (Note 10)	350	321	4,217
Other long-term liabilities	97	116	1,169
Total long-term liabilities	1,804	1,187	21,735
EQUITY (Notes 9 and 17):			
Common stock—authorized, 234,000,000 shares; issued, 58,584,093 shares in 2011 and 2010	3,840	3,840	46,265
Capital surplus	5,302	5,302	63,880
Retained earnings	49,154	48,123	592,217
Treasury stock—at cost, 1,776,565 shares in 2011 and 1,776,416 shares in 2010	(2,077)	(2,077)	(25,024)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	670	715	8,072
Foreign currency translation adjustments	(782)	(477)	(9,422)
Total equity	56,107	55,426	675,988
TOTAL	¥ 62,684	¥ 62,734	$ 755,229

See notes to consolidated financial statements.

Consolidated Statements of Income

Seikagaku Corporation and Consolidated Subsidiaries
Years Ended March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
NET SALES (Notes 12 and 16)	¥ 27,118	¥ 27,328	$ 326,723
COST OF SALES	10,481	10,494	126,277
Gross profit	16,637	16,834	200,446
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	13,104	12,013	157,880
Operating income	3,533	4,821	42,566
OTHER INCOME (EXPENSES):			
Interest and dividend income	389	373	4,687
Interest expense	(49)	(55)	(590)
Foreign exchange loss	(350)	(422)	(4,217)
Royalty income	567	290	6,831
Loss on disaster (Note 14)	(933)		(11,241)
Other—net	18	107	217
Other income (expenses)—net	(358)	293	(4,313)
INCOME BEFORE INCOME TAXES	3,175	5,114	38,253
INCOME TAXES (Note 10):			
Current	726	1,570	8,747
Deferred	(3)	(32)	(36)
Total income taxes	723	1,538	8,711
NET INCOME	¥ 2,452	¥ 3,576	$ 29,542

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.p):			
Net income	¥ 43.16	¥ 62.94	$ 0.52
Cash dividends applicable to the year	25.00	25.00	0.30

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2011

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2011	2011
NET INCOME	¥ 2,452	$ 29,542
OTHER COMPREHENSIVE INCOME (LOSS) (Note 15):		
Unrealized loss on available-for-sale securities	(45)	(542)
Foreign currency translation adjustments	(305)	(3,675)
COMPREHENSIVE INCOME (Note 15)	¥ 2,102	$ 25,325
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 15)—Owners of the parent	¥ 2,102	$ 25,325

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Seikagaku Corporation and Consolidated Subsidiaries
Years Ended March 31, 2011 and 2010

	Millions of Yen							
						Accumulated Other Comprehensive Income (Loss)		
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Total Equity
BALANCE, APRIL 1, 2009	**58,584,093**	**¥ 3,840**	**¥ 5,302**	**¥ 45,967**	**¥ (2,076)**	**¥ (126)**	**¥ (598)**	**¥ 52,309**
Net income				3,576				3,576
Cash dividends, ¥25.0 per share				(1,420)				(1,420)
Unrealized gain on available-for-sale securities						841		841
Net change in foreign currency translation adjustments							121	121
Purchase of treasury stock					(1)			(1)
BALANCE, MARCH 31, 2010	**58,584,093**	**3,840**	**5,302**	**48,123**	**(2,077)**	**715**	**(477)**	**55,426**
Net income				2,452				2,452
Cash dividends, ¥25.0 per share				(1,421)				(1,421)
Unrealized loss on available-for-sale securities						(45)		(45)
Net change in foreign currency translation adjustments							(305)	(305)
BALANCE, MARCH 31, 2011	**58,584,093**	**¥ 3,840**	**¥ 5,302**	**¥ 49,154**	**¥ (2,077)**	**¥ 670**	**¥ (782)**	**¥ 56,107**

	Thousands of U.S. Dollars (Note 1)						
					Accumulated Other Comprehensive Income (Loss)		
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Total Equity
BALANCE, MARCH 31, 2010	**$ 46,265**	**$ 63,880**	**$ 579,795**	**$ (25,024)**	**$ 8,614**	**$ (5,747)**	**$ 667,783**
Net income			29,542				29,542
Cash dividends, $0.30 per share			(17,120)				(17,120)
Unrealized loss on available-for-sale securities					(542)		(542)
Net change in foreign currency translation adjustments						(3,675)	(3,675)
BALANCE, MARCH 31, 2011	**$ 46,265**	**$ 63,880**	**$ 592,217**	**$ (25,024)**	**$ 8,072**	**$ (9,422)**	**$ 675,988**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Seikagaku Corporation and Consolidated Subsidiaries
Years Ended March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
OPERATING ACTIVITIES:			
Income before income taxes	**¥ 3,175**	¥ 5,114	**$ 38,253**
Adjustments for:			
Income taxes—paid	**(1,170)**	(972)	**(14,096)**
Income taxes—refund	**58**	475	**699**
Depreciation and amortization	**2,202**	2,717	**26,530**
Loss on disaster	**933**		**11,241**
Foreign exchange loss	**329**	359	**3,964**
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable—trade	**(338)**	655	**(4,072)**
Increase in inventories	**(79)**	(331)	**(952)**
Decrease (increase) in advance payments for research and development	**812**	(413)	**9,783**
Increase in notes and accounts payable—trade	**9**	95	**108**
Increase/decrease in consumption tax payable/receivable	**(331)**	678	**(3,988)**
(Decrease) increase in accounts payable—other	**(69)**	66	**(831)**
Decrease in retirement benefits	**(11)**	(13)	**(133)**
Other—net	**(701)**	26	**(8,446)**
Net cash provided by operating activities	**4,819**	8,456	**58,060**
INVESTING ACTIVITIES:			
Purchases of time deposits		(1,500)	
Proceeds from maturities of time deposits		1,503	
Proceeds from redemption of short-term investments	**4,280**	3,360	**51,566**
Purchases of short-term investments	**(2,498)**	(703)	**(30,096)**
Purchases of fixed assets	**(1,428)**	(941)	**(17,205)**
Proceeds from sales of investment securities	**1,401**	470	**16,880**
Purchases of investment securities	**(6,425)**	(6,379)	**(77,410)**
Other—net	**11**	(60)	**133**
Net cash used in investing activities	**(4,659)**	(4,250)	**(56,132)**
FINANCING ACTIVITIES:			
Proceeds from long-term debt	**700**		**8,434**
Repayment of long-term debt	**(700)**		**(8,434)**
Repayments of lease obligations	**(236)**	(203)	**(2,843)**
Dividends paid	**(1,420)**	(1,419)	**(17,109)**
Other—net	**3**	(1)	**36**
Net cash used in financing activities	**(1,653)**	(1,623)	**(19,916)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(182)**	(15)	**(2,193)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS—(Forward)	**¥ (1,675)**	¥ 2,568	**$ (20,181)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**9,367**	6,799	**112,856**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 7,692**	¥ 9,367	**$ 92,675**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Seikagaku Corporation and Consolidated Subsidiaries
Years Ended March 31, 2011 and 2010

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 15.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2010 financial statements to conform to the classifications used in 2011.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Seikagaku Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥83 to $1, the approximate rate of exchange at March 31, 2011. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of March 31, 2011 and 2010 include the accounts of the Company and its four significant subsidiaries (together, the "Group").

Investment in an unconsolidated subsidiary in 2011 and 2010 is stated at cost. If the equity method of accounting had been applied to the investment in this subsidiary, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of an acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is being amortized over a period of 15 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; (e) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and (f) exclusion of minority interests from net income, if contained.

c. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, commercial paper and mutual funds mainly investing in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

d. Short-Term Investments and Investment Securities—Short-term investments and investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (2) available-for-sale securities, which are not classified as held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. Allowance for Doubtful Accounts—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Company's past credit loss experience and an evaluation of potential losses.

f. Inventories—Inventories are stated at the lower of cost, determined by the average method for finished products, raw materials, work in process and supplies, and by the moving-average method for merchandise, or net selling value.

g. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiary is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings of the Company and its consolidated domestic subsidiary acquired on and after April 1, 1998. Property, plant and equipment of consolidated foreign subsidiaries are mainly depreciated by the straight-line method over the estimated useful lives of the assets. The range of useful lives is principally from 15 to 39 years for buildings and structures and from 3 to 15 years for machinery and equipment. Lease assets are depreciated by the straight-line method over the respective lease periods.

h. Leases—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be measured at the obligations under finance leases less interest expense at the transition date and recorded as acquisition cost of lease assets.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as acquisition cost of lease assets measured at the obligations under finance leases less interest expense at the transition date.

All other leases are accounted for as operating leases.

i. Long-Lived Assets—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

j. Retirement and Pension Plans—The Company and its consolidated domestic subsidiary have non-contributory funded defined benefit pension plans covering substantially all of its employees. The amount of benefits is generally determined on the basis of the current basic rates of compensation and length of service at the time of termination.

The Company and its consolidated domestic subsidiary account for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

The Company and its consolidated domestic subsidiary also have another pension plan, which is a defined contributory pension plan from 2006.

Certain foreign subsidiaries also have defined contributory retirement plans, which mainly consist of a 401(k) plan in the United States of America, covering substantially all of their employees.

k. Asset Retirement Obligations—In March 2008, the ASBJ published the accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard was effective for fiscal years beginning on or after April 1, 2010.

The Company applied this accounting standard effective April 1, 2010. The effect of this change was to decrease operating income by ¥4 million ($48 thousand) and income before income taxes by ¥51 million ($614 thousand).

l. Research and Development Costs—Research and development costs are charged to income as incurred.

m. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

n. Foreign Currency Transactions—All short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income.

o. Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rates. Differences arising from such translation were shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

p. Per Share Information—Basic net income per share is computed by dividing net income available to shareholders of common stock by the weighted-average number of shares of common stock outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share is not disclosed because there are no dilutive securities in 2011 and 2010.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

q. New Accounting Pronouncements

Accounting Changes and Error Corrections—In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

(1) Changes in accounting policies

When a new accounting policy is applied with revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) Changes in presentations

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) Changes in accounting estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of prior period errors

When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

3. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2011 and 2010, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Short-term investments—Debt securities	¥ 5,295	¥ 4,361	$ 63,795
Total	¥ 5,295	¥ 4,361	$ 63,795
Investment securities:			
Equity securities	¥ 6,640	¥ 5,871	$ 80,000
Debt securities	14,504	13,331	174,747
Other	2,222	2,094	26,771
Total	¥ 23,366	¥ 21,296	$ 281,518

Information regarding the marketable securities classified as available-for-sale at March 31, 2011 and 2010, was as follows:

	Millions of Yen			
March 31, 2011	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 5,525	¥ 1,419	¥ 304	¥ 6,640
Debt securities	19,701	203	105	19,799
Other	2,319	6	103	2,222
March 31, 2010				
Securities classified as available-for-sale:				
Equity securities	¥ 4,455	¥ 1,604	¥ 188	¥ 5,871
Debt securities	17,599	207	114	17,692
Other	2,413		319	2,094

	Thousands of U.S. Dollars			
March 31, 2011	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$ 66,566	$ 17,096	$ 3,662	$ 80,000
Debt securities	237,361	2,446	1,265	238,542
Other	27,940	72	1,241	26,771

The information for available-for-sale securities which were sold during the years ended March 31, 2011 and 2010 was as follows:

	Millions of Yen		
March 31, 2011	Proceeds	Realized Gains	Realized Losses
Securities classified as available-for-sale:			
Equity securities	¥ 831	¥ 355	¥ 117
Debt securities	168		43
Other	402		196
Total	¥ 1,401	¥ 355	¥ 356
March 31, 2010			
Securities classified as available-for-sale:			
Equity securities	¥ 201	¥ 63	¥ 22
Debt securities	269	9	28
Total	¥ 470	¥ 72	¥ 50

	Thousands of U.S. Dollars		
March 31, 2011	Proceeds	Realized Gains	Realized Losses
Securities classified as available-for-sale:			
Equity securities	$ 10,012	$ 4,277	$ 1,410
Debt securities	2,024		518
Other	4,844		2,361
Total	$ 16,880	$ 4,277	$ 4,289

The impairment losses on available-for-sale equity securities for the year ended March 31, 2010 were ¥11 million.

4. INVENTORIES

Inventories at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Merchandise and finished products	¥ 2,487	¥ 2,521	$ 29,964
Work in process	782	865	9,422
Raw materials and supplies	860	866	10,361
Total	¥ 4,129	¥ 4,252	$ 49,747

5. LEASES

(1) Finance Leases

The Group leases certain machinery, computer equipment and other assets.

Annual maturities of obligations under finance leases as of March 31, 2011 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2012	¥ 210	$ 2,530
2013	177	2,132
2014	172	2,072
2015	224	2,699
Total	¥ 783	$ 9,433

(2) Operating Leases

The minimum rental commitments under non-cancelable operating leases at March 31, 2011 and 2010, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Due within one year	¥ 11	¥ 14	$ 133
Due after one year	9	16	108
Total	¥ 20	¥ 30	$ 241

6. LONG-TERM DEPOSITS

Long-term deposits in banks of ¥1,500 million ($18,072 thousand) were included in other assets of investments and other assets as of March 31, 2011 and 2010. Annual maturities of the deposits were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2015	¥ 500	$ 6,024
2020	1,000	12,048
Total	¥ 1,500	$ 18,072

There is a possibility that the Company would not receive full repayment of deposits if the Company withdraws before maturity. However the Company has no intention of withdrawing before maturity.

7. LONG-TERM DEBT

Long-term debt at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Loan from bank, 1.07%, due 2013 (unsecured)	¥ 700		$ 8,434
Loan from bank, 1.65%, due 2010 (unsecured)		¥ 700	

Annual maturity of long-term debt as of March 31, 2011 was as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2014	¥ 700	$ 8,434

8. RETIREMENT AND PENSION PLANS

The Company and its consolidated domestic subsidiary have severance payment plans for employees.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company and annuity payments from a trustee.

Employees' retirement benefits for the retirement and pension fund at March 31, 2011 and 2010, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Projected benefit obligation	¥ 5,040	¥ 4,668	$ 60,723
Fair value of plan assets	(4,435)	(4,546)	(53,434)
Unrecognized prior service cost	406	530	4,892
Unrecognized actuarial gain	(1,089)	(719)	(13,121)
Net asset	¥ (78)	¥ (67)	$ (940)

Prepaid pension expense of ¥78 million ($940 thousand) was included in other assets of investments and other assets as of March 31, 2011 and ¥67 million as of March 31, 2010.

The components of net periodic benefit costs for the years ended March 31, 2011 and 2010, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Service cost	¥ 170	¥ 164	$ 2,048
Interest cost	93	92	1,121
Expected return on plan assets	(112)	(131)	(1,349)
Amortization of prior service cost	(125)	(126)	(1,506)
Recognized actuarial loss	110	135	1,325
Net periodic benefit costs	¥ 136	¥ 134	$ 1,639

Assumptions used for the years ended March 31, 2011 and 2010, are set forth as follows:

	2011	2010
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.5%	3.1%
Amortization period of prior service cost	10 years	10 years
Recognition period of actuarial gain/loss	10 years	10 years

The Company and its domestic subsidiary have another pension plan, which is a defined contributory pension plan. The amount contributed to the plan, which was charged to income, was ¥56 million ($675 thousand) and ¥55 million for the years ended March 31, 2011 and 2010, respectively.

Certain foreign subsidiaries have defined contributory retirement plans, which mainly consist of a 401(k) plan in the United States of America, covering substantially all of their employees. The amount contributed to the plans, which was charged to income, was ¥36 million ($434 thousand) and ¥36 million for the years ended March 31, 2011 and 2010, respectively.

9. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the

equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. INCOME TAXES

The Company and its domestic subsidiary are subject to Japanese national and local taxes based on income which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40% for the years ended March 31, 2011 and 2010. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2011 and 2010, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Deferred tax assets—current:			
Accrued bonuses	¥ 253	¥ 253	$ 3,048
Research and development costs	34	240	410
Other	439	371	5,289
Less valuation allowance	(46)	(94)	(554)
Total	¥ 680	¥ 770	$ 8,193
Deferred tax assets—non-current:			
Foreign tax credit	¥ 230	¥ 275	$ 2,771
Loss on impairment	107		1,289
Deferred assets for tax purposes	98	155	1,181
Investment tax credit	97	137	1,169
Allowance for bad debt	96	112	1,157
Tax loss carryforwards		265	
Other	215	229	2,590
Less valuation allowance	(366)	(694)	(4,410)
Total	477	479	5,747
Deferred tax liabilities—non-current:			
Unrealized gain on available-for-sale securities	469	503	5,651
Depreciation	183	267	2,205
Other	44	26	530
Total	696	796	8,386
Net deferred tax liabilities—non-current	¥ (219)	¥ (317)	$ (2,639)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2011 and 2010, consisted of the following:

	2011	2010
Normal effective statutory tax rate	40.0%	40.0%
Change in valuation allowance	(11.8)	
Tax credit	(6.4)	(8.2)
Other—net	1.0	(1.7)
Actual effective tax rate	22.8%	30.1%

At March 31, 2011, a subsidiary in the United States of America has tax loss carryforwards of approximately ¥243 million ($2,928 thousand), which are available to offset future federal income taxes under the Internal Revenue Code, expiring in 2025 and 2026.

11. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10, "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No. 19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010. The Group applied the revised accounting standard and the guidance effective March 31, 2010.

(1) Group Policy for Financial Instruments

The Group keeps cash reserves for future capital investment, and for research and development. Cash reserves are invested in deposits, bonds, stocks and funds with due consideration of preventing a loss of principal.

(2) Nature and Extent of Risks Arising from Financial Instruments and Risk Management for Financial Instruments

Receivables such as trade notes and trade accounts are exposed to customer credit risk, and the Group manages its credit risk in accordance with internal guidelines. Short-term investments and investment securities are diversified to stock or investment trust funds, mainly to fixed income bonds with high credit rating and liquidity. The committee composed of the president and other members directs investment policy and monitors and manages funds regularly.

Long-term debt and lease obligations are mainly used for capital investment. Derivatives are not used.

(3) Concentration of Credit Risk

As of March 31, 2011, 82.6% of total receivables is from two major customers of the Group.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted price in active markets. If quoted price is not available, other rational valuation techniques are used instead.

(a) Fair value of financial instruments

	Millions of Yen		
March 31, 2011	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 7,692	¥ 7,692	
Short-term investments	5,295	5,295	
Notes and accounts receivable—trade	7,458	7,458	
Investment securities	23,366	23,366	
Total	¥ 43,811	¥ 43,811	
Notes and accounts payable—trade	¥ 978	¥ 978	
Notes and accounts payable—other	1,891	1,891	
Accrued income taxes	449	449	
Long-term debt	700	694	¥ (6)
Lease obligations	783	799	16
Total	¥ 4,801	¥ 4,811	¥ 10
March 31, 2010			
Cash and cash equivalents	¥ 9,367	¥ 9,367	
Short-term investments	4,361	4,361	
Notes and accounts receivable—trade	7,155	7,155	
Investment securities	21,296	21,296	
Total	¥ 42,179	¥ 42,179	
Notes and accounts payable—trade	¥ 980	¥ 980	
Notes and accounts payable—other	2,475	2,475	
Current portion of long-term debt	700	700	
Lease obligations	966	970	¥ 4
Total	¥ 5,121	¥ 5,125	¥ 4

	Thousands of U.S. Dollars		
March 31, 2011	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 92,675	$ 92,675	
Short-term investments	63,795	63,795	
Notes and accounts receivable—trade	89,855	89,855	
Investment securities	281,518	281,518	
Total	$ 527,843	$ 527,843	
Notes and accounts payable—trade	$ 11,783	$ 11,783	
Notes and accounts payable—other	22,783	22,783	
Accrued income taxes	5,410	5,410	
Long-term debt	8,434	8,361	$ (73)
Lease obligations	9,433	9,627	194
Total	$ 57,843	$ 57,964	$ 121

Cash and Cash Equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Short-Term Investments and Investment Securities

The fair values of short-term investments and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, at the quoted price obtained from the financial institution for the debt instruments, and at the published net assets value or at the quoted price obtained from the financial institution for the investment trust funds. The information of the fair value for the short-term investments and investment securities by classification is included in Note 3.

Notes and Accounts Receivable—Trade

The carrying values of notes and accounts receivable—trade approximate fair value because of their short maturities.

Notes and Accounts Payable—Trade/Other and Accrued Income Taxes

The carrying values of notes and accounts payable and accrued income taxes approximate fair value because of their short maturities.

Current Portion of Long-Term Debt

The carrying values of current portion of long-term debt approximate fair value because of their short maturities.

Long-Term Debt and Lease Obligations

The fair values of long-term debt and lease obligations are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Investment in an unconsolidated subsidiary that does not have a quoted market price in an active market	¥ 25	¥ 25	$ 301

(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Yen		
March 31, 2011	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	¥ 7,692		
Short-term investments	5,285		
Notes and accounts receivable—trade	7,458		
Investment securities		¥ 14,202	¥ 1,100
Total	¥ 20,435	¥ 14,202	¥ 1,100

	Thousands of U.S. Dollars		
March 31, 2011	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	$ 92,675		
Short-term investments	63,675		
Notes and accounts receivable—trade	89,855		
Investment securities		$ 171,108	$ 13,253
Total	$ 246,205	$ 171,108	$ 13,253

Please see Note 7 for annual maturities of long-term debt and Note 5 for obligations under finance leases, respectively.

12. TRANSACTIONS WITH A SIGNIFICANT CUSTOMER

The Company sells a major portion of its main product, ARTZ, to a pharmaceutical company in Japan under a sales agent agreement.

Sales to the customer were ¥14,701 million for the year ended March 31, 2010. The similar information for 2011 is disclosed in Note 16.

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥6,724 million ($81,012 thousand) and ¥5,518 million for the years ended March 31, 2011 and 2010, respectively.

14. LOSS ON DISASTER

The Group's assets were damaged and operations impacted by The Great East Japan Earthquake that occurred on March 11, 2011.

Loss on disaster consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Repair expense of damaged fixed assets	¥ 344	$ 4,144
Loss on impairment of land	266	3,205
Fixed cost during suspension of operations	141	1,699
Loss on disposal of damaged inventories	121	1,458
Other	61	735
Total	¥ 933	$ 11,241

The Group reviewed its long-lived assets for impairment as of March 31, 2011. As a result, the Group recognized an impairment loss of ¥266 million ($3,205 thousand) as loss on disaster (included in the above). The recoverable value of land is measured at its net selling value, and estimated by considering ratable value of land and disaster damage.

15. COMPREHENSIVE INCOME

For the Year Ended March 31, 2010

Total comprehensive income for the year ended March 31, 2010 was as follows:

	Millions of Yen
	2010
Total comprehensive income attributable to—Owners of the parent	¥ 4,538

Other comprehensive income for the year ended March 31, 2010 consisted of the following:

	Millions of Yen
	2010
Other comprehensive income:	
Unrealized gain on available-for-sale securities	¥ 841
Foreign currency translation adjustments	121
Total other comprehensive income	¥ 962

16. SEGMENT INFORMATION

For the Years Ended March 31, 2011 and 2010

In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No. 20 "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

The segment information for the year ended March 31, 2010 under the revised accounting standard is also disclosed hereunder as required.

(1) Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group consists of the pharmaceutical business and fine chemical business. Pharmaceutical business consists of pharmaceuticals and medical devices. Fine chemical business consists of research reagents, diagnostics and bulk products.

(2) Methods of measurement for the amounts of sales, profit, assets and other items for each reportable segment

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) Information about sales, profit, assets and other items is as follows:

	Millions of Yen				
	2011				
	Reportable Segment				
	Pharmaceutical	Fine Chemical	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥ 21,184	¥ 5,934	¥ 27,118		¥ 27,118
Intersegment sales or transfers		63	63	¥ (63)	
Total	¥ 21,184	¥ 5,997	¥ 27,181	¥ (63)	¥ 27,118
Segment profit	¥ 1,981	¥ 1,552	¥ 3,533		¥ 3,533
Segment assets	55,562	7,122	62,684		62,684
Other:					
Depreciation	1,701	561	2,262		2,262
Amortization of goodwill		12	12		12
Increase in property, plant and equipment and intangible assets	1,031	314	1,345		1,345

	Millions of Yen				
	2010				
	Reportable Segment				
	Pharmaceutical	Fine Chemical	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥ 21,116	¥ 6,212	¥ 27,328		¥ 27,328
Intersegment sales or transfers		69	69	¥ (69)	
Total	¥ 21,116	¥ 6,281	¥ 27,397	¥ (69)	¥ 27,328
Segment profit	¥ 3,232	¥ 1,589	¥ 4,821		¥ 4,821
Segment assets	55,135	7,599	62,734		62,734
Other:					
Depreciation	2,024	680	2,704		2,704
Amortization of goodwill		13	13		13
Increase in property, plant and equipment and intangible assets	865	212	1,077		1,077

	Thousands of U.S. Dollars				
	2011				
	Reportable Segment				
	Pharmaceutical	Fine Chemical	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	$ 255,229	$ 71,494	$ 326,723		$ 326,723
Intersegment sales or transfers		759	759	$ (759)	
Total	$ 255,229	$ 72,253	$ 327,482	$ (759)	$ 326,723
Segment profit	$ 23,867	$ 18,699	$ 42,566		$ 42,566
Segment assets	669,422	85,807	755,229		755,229
Other:					
Depreciation	20,494	6,759	27,253		27,253
Amortization of goodwill		145	145		145
Increase in property, plant and equipment and intangible assets	12,422	3,783	16,205		16,205

(4) Information about geographical areas

a. Sales

	Millions of Yen		
	2011		
Japan	North America	Other	Total
¥ 21,407	¥ 3,535	¥ 2,176	¥ 27,118

	Thousands of U.S. Dollars		
	2011		
Japan	North America	Other	Total
$ 257,916	$ 42,590	$ 26,217	$ 326,723

Note: Sales are classified in countries or regions based on location of customers.

b. Property, plant and equipment

	Millions of Yen		
	2011		
Japan	North America	Other	Total
¥ 9,061	¥ 1,219	¥ 13	¥ 10,293

	Thousands of U.S. Dollars		
	2011		
Japan	North America	Other	Total
$ 109,169	$ 14,687	$ 156	$ 124,012

(5) Information about major customers

	Millions of Yen	
	2011	
Name of Customers	Sales	Related Segment Name
KAKEN PHARMACEUTICAL CO., LTD.	¥ 15,321	Pharmaceutical Fine Chemical

(6) Information about impairment losses of assets

	Millions of Yen				
	2011				
	Reportable Segment				
	Pharmaceutical	Fine Chemical	Total	Reconciliations	Consolidated
Impairment losses of assets		¥266	¥266		¥266

	Thousands of U.S. Dollars				
	2011				
	Reportable Segment				
	Pharmaceutical	Fine Chemical	Total	Reconciliations	Consolidated
Impairment losses of assets		$ 3,205	$ 3,205		$ 3,205

(7) Information about goodwill

	Millions of Yen				
	2011				
	Reportable Segment				
	Pharmaceutical	Fine Chemical	Total	Reconciliations	Consolidated
Amortization of goodwill		¥ 12	¥ 12		¥ 12
Goodwill at March 31, 2011		39	39		39

	Thousands of U.S. Dollars				
	2011				
	Reportable Segment				
	Pharmaceutical	Fine Chemical	Total	Reconciliations	Consolidated
Amortization of goodwill		$ 145	$ 145		$ 145
Goodwill at March 31, 2011		470	470		470

For the Year Ended March 31, 2010

The Group is mainly engaged in one industry segment, which is the purchasing, manufacturing and selling of pharmaceutical products and related goods.

Information about geographical segments and sales to foreign customers of the Group for the year ended March 31, 2010, is as follows:

(1) Geographical segments

The geographical segments of the Group for the year ended March 31, 2010 are summarized as follows:

	Millions of Yen				
	2010				
	Japan	North America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥24,817	¥1,533	¥ 978		¥27,328
Interarea transfer	97	820	28	¥ (945)	
Total sales	24,914	2,353	1,006	(945)	27,328
Operating expenses	20,502	2,015	966	(976)	22,507
Operating income	¥ 4,412	¥ 338	¥ 40	¥ 31	¥ 4,821
Total assets	¥63,797	¥3,008	¥ 600	¥ (4,671)	¥62,734

(2) Sales to foreign customers

Information regarding sales to foreign customers of the Group for the year ended March 31, 2010, is as follows:

	Millions of Yen
	2010
Sales to foreign customers (A)	¥ 6,365
Consolidated sales (B)	27,328
(A)/(B)	23.3%

17. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

On June 21, 2011, the shareholders of the Company authorized the following appropriations of retained earnings at March 31, 2011:

	Millions of Yen	Thousands of U.S. Dollars
Appropriations—Cash dividends, ¥12.5 ($0.15) per share	¥ 710	$ 8,554
Total	¥ 710	$ 8,554

b. Expansion of Production Facilities

On May 11, 2011, the Company's Board of Directors resolved to construct the No. 5 Production Building at the Takahagi Plant responding a need to an increase in production volumes of ARTZ Dispo®, a joint function improving agent, as follows:

(1) Summary description of the production facilities

(a) Planned start for construction: March 2012
(b) Planned completion of construction: July 2013
(c) Planned start of operation: January 2015
(d) Amount of capital expenditure: Approximately ¥9,800 million ($118,072 thousand)

(2) Objective and its effects

The purpose for constructing the No. 5 Production Building is to expand production capacity to satisfy increased demand for ARTZ Dispo®. As a risk-management measure, the Company plans to adopt the latest seismic isolation construction method, which can reduce damage by lengthening the period of vibration of the building when an earthquake occurs.

INDEPENDENT AUDITORS' REPORT

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Seikagaku Corporation:

We have audited the accompanying consolidated balance sheets of Seikagaku Corporation (the "Company") and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income for the years then ended, the consolidated statement of comprehensive income for the year ended March 31, 2011, and the related consolidated statements of changes in equity, and cash flows for the years then 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 generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seikagaku Corporation and consolidated subsidiaries as of March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 21, 2011

Member of
Deloitte Touche Tohmatsu Limited

CORPORATE DATA

(As of March 31, 2011)

Corporate Profile

Company Name	Seikagaku Corporation
Head Office	Marunouchi Center Building 6-1, Marunouchi 1-chome, Chiyoda-ku Tokyo 100-0005, Japan
Establishment	June 2, 1947
Number of Employees	649 (consolidated basis)

Laboratories and Plants

Central Research Laboratories
(Tokyo)

The hub of drug development research for Seikagaku, emphasizing research creativity.

Takahagi Plant
(Ibaraki Prefecture)

Production facility for ARTZ®, OPEGAN® and other pharmaceuticals and medical devices. The No. 5 Production Building is planned as a new facility to meet growing demand for ARTZ Dispo®.

Kurihama Plant
(Kanagawa Prefecture)

Production facility for active pharmaceutical ingredients, such as hyaluronic acid and chondroitin sulfate.

Group Companies

Seikagaku Biobusiness Corporation
(Tokyo)

A fine chemical company engaging in production and sales of research reagents and diagnostics, such as endotoxin-detecting reagents and carbohydrate-related reagents, and sales of bulk products, such as hyaluronic acid and chondroitin sulfate for pharmaceuticals.

Associates of Cape Cod, Inc.
(Falmouth, Massachusetts)

A leading global supplier of analyte detection products, including Limulus Amebocyte Lysate (LAL) used for the detection and quantification of gram-negative bacterial endotoxins and (1→3)-β-D-glucans.

Investor Information

Stock Exchange Listing	TOKYO, First Section
Stock Code	4548
Paid-in Capital	¥3,840 million
Authorized Shares	234,000,000
Issued Shares	58,584,093
Closing Date of Accounts	March 31
General Shareholders' Meeting	June
Dividends	
March 31:	Date for confirming the shareholders receiving year-end dividends
September 30:	Date for confirming the shareholders receiving interim dividends
Independent Auditors	
Deloitte Touche Tohmatsu	

Major Shareholders

	Number of Shares Held (Thousand)	Percentage of Outstanding Shares
Shingyo KK	**7,843**	**13.8**
KK Kaiseisha	**7,293**	**12.8**
State Street Bank and Trust Company	**4,428**	**7.8**
The Master Trust Bank of Japan, Ltd. (Mitsubishi Chemical Corporation retirement benefit account in trust)	**3,105**	**5.5**
Trust & Custody Services Bank, Ltd. (Mizuho Bank, Ltd. retirement benefit account in trust re-entrusted by Mizuho Trust & Banking Co., Ltd.)	**1,973**	**3.5**
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	**1,536**	**2.7**
Soumei Co.	**1,248**	**2.2**
Japan Trustee Services Bank, Ltd. (Trust account)	**1,175**	**2.1**
Kaken Pharmaceutical Co., Ltd.	**807**	**1.4**
The Master Trust Bank of Japan, Ltd. (Trust account)	**753**	**1.3**

Note: The Company owns treasury stock of 1,776 thousand shares (3.0% of total issued shares), which is excluded from percentage calculations.

Quality Management System

An effective quality management system, incorporating GxPs* such as good manufacturing practice (GMP) and required for the manufacture and supply of pharmaceuticals and medical devices, has been established in accordance with Japanese and foreign regulatory requirements.

ISO 13485 certification and EC certification for medical device quality management were accredited by TÜV SÜD Product Service GmbH, a European Notified Body in Germany, as documented in the following certificates:
January 1998: EC Certificate (MDD Annex II.3)
— Updated in January 2008
February 1998: QMS Certificate (ISO 13485)
— Updated in February 2010

* GxP is a general term for Good Practice quality guidelines and regulations, with "x" representing the specific type of practice.

CORPORATE HISTORY

1947 Kosei Suisan K.K. established in Minato-ku, Tokyo. Kurihama Plant opens in Kanagawa.

1950 Industrial production of chondroitin sulfate as a pharmaceutical begins.

1952 Head Office relocated to Chuo-ku, Tokyo.

1953 Name of company changed to K.K. Seikagaku Kenkyusho.

1960 Tokyo Research Institute opens in Shinjuku-ku, Tokyo.

Development and marketing of research biochemicals begins.

1962 Name of company changed to Seikagaku Corporation.

1968 Tokyo Research Institute relocated to Higashiyamato-shi, Tokyo.

1975 Takahagi Plant opens in Ibaraki.

1981 World's first endotoxin colorimetry reagent developed and manufactured.

1987 Marketing begins for hyaluronic acid formulations ARTZ® and OPEGAN®.

1989 Company shares registered with the Japan Securities Dealers Association. (Now Jasdaq Securities Exchange)

1992 Overseas marketing of ARTZ® begins (Sweden).

1993 New production line for ARTZ Dispo® completed, and marketing of the product begins.

1997 Acquisition of Associates of Cape Cod, Inc. (U.S.A.)

1998 Quality Management System certification ISO 9001/EN 46001, ISO 13485 obtained (superseded by ISO 13485 certification since 2010).

2000 Name of Tokyo Research Institute changed to Central Research Laboratories.

2001 Marketing begins for hyaluronic acid formulation SUPARTZ® in U.S.A.

2004 Listing moved to the Tokyo Stock Exchange, Second Section.

2005 Listing moved to the Tokyo Stock Exchange, First Section.

Head Office relocated to Chiyoda-ku, Tokyo.

2007 Marketing begins for hyaluronic acid medical device MucoUp®.

Seikagaku Biobusiness Corporation established.

2011 Approval obtained for a single injection hyaluronic acid formulation Gel-One® in U.S.A.

SEIKAGAKU CORPORATION

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URL: http://www.seikagaku.co.jp/english/index.html

Kurihama Plant

3-1, Kurihama 7-chome, Yokosuka-shi
Kanagawa 239-0831, Japan
Tel: (81) 46-835-3311 Fax: (81) 46-834-1918

Takahagi Plant

258-5, Aza-Matsukubo, Oaza-Akahama
Takahagi-shi, Ibaraki 318-0001, Japan
Tel: (81) 293-23-1181 Fax: (81) 293-23-7542

Central Research Laboratories

1253, Tateno 3-chome, Higashiyamato-shi
Tokyo 207-0021, Japan
Tel: (81) 42-563-5811 Fax: (81) 42-563-5848

GROUP COMPANIES

Seikagaku Biobusiness Corporation

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17-24, Shinkawa 1-chome, Chuo-ku,
Tokyo 104-0033, Japan
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URL: http://www.seikagakubb.co.jp/english/index.html

Associates of Cape Cod, Inc.

124 Bernard E. Saint Jean Drive, East Falmouth
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