SEIKAGAKU CORPORATION

Facing Our Challenges

> ANNUAL REPORT 2010

For the year ended
March 31, 2010

Exploring the Innovative Promise of Glycoscience

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

> CONTENTS

Seikagaku has been a pioneering leader in the field of glycoscience since 1950. Our mission is to contribute to improving the quality of life by using unique research and production technologies based on glycosaminoglycans (GAGs). We specialize in innovative products with high value, principally in the areas of joint disease and ophthalmic diseases. ARTZ®, our main product, was the world's first intra-articular (joint) injection for knee osteoarthritis and remains the world's No. 1 formulation in terms of units sold.

As a competitive "Global Category Pharma," we are leveraging our unique business model based on leadership in the glycoscience field and a lean organization concentrated on R&D and manufacturing, together with a high level of technological expertise in extraction and purification.

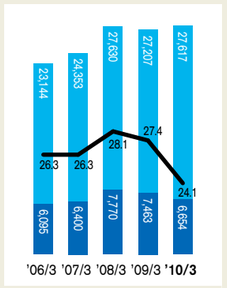
For us, the way ahead lies in contributing to the progress of medical care around the world, through glycoscience.

> 5-YEAR FINANCIAL SUMMARY

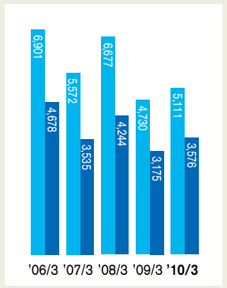
	Millions of Yen					Thousands of U.S. Dollars (Note 1)
	2006/3	2007/3	2008/3	2009/3	2010/3	2010/3
Net Sales	¥ 23,144	¥ 24,353	¥ 27,630	¥ 27,207	**¥ 27,617**	**$ 296,957**
Overseas Sales	6,095	6,400	7,770	7,463	**6,654**	**71,548**
Overseas Sales Ratio (to Net Sales)	26.3%	26.3%	28.1%	27.4%	**24.1%**	**24.1%**
Gross Profit	15,976	16,554	18,682	17,223	**17,123**	**184,118**
R&D Expenses	3,489	4,537	5,654	5,965	**5,518**	**59,333**
Operating Income	6,901	5,572	6,677	4,730	**5,111**	**54,957**
Operating Income Ratio (to Net Sales)	29.8%	22.9%	24.2%	17.4%	**18.5%**	**18.5%**
Net Income	4,678	3,535	4,244	3,175	**3,576**	**38,452**
Net Income Ratio (to Net Sales)	20.2%	14.5%	15.4%	11.7%	**12.9%**	**12.9%**
Total Equity	50,693	52,833	53,646	52,309	**55,426**	**595,979**
Return on Shareholders' Equity (ROE)	9.6%	6.8%	8.0%	6.0%	**6.6%**	**6.6%**
Total Assets	57,332	59,244	60,620	58,215	**62,734**	**674,559**
Return on Total Assets (ROA)	8.6%	6.1%	7.1%	5.3%	**5.9%**	**5.9%**
Consolidated Dividend Payout Ratio	31.5%	41.0%	40.7%	44.9%	**39.7%**	**39.7%**
			(Yen)			(Dollars)
Net Income per Share of Common Stock (Note 2.o)	79.24	60.93	73.67	55.68	**62.94**	**0.68**
Cash Dividends per Share of Common Stock (Note 2.o)	25.00	25.00	30.00	25.00	**25.00**	**0.27**
Number of Employees	544	557	594	609	**637**	

Note: U.S. dollar amounts are converted, for convenience only, at the rate of ¥93=US$1, the approximate rate at March 31, 2010.

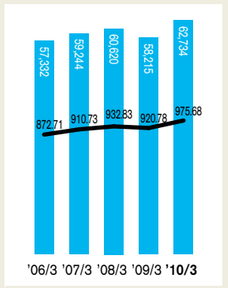
Net Sales and Overseas Sales
(Millions of Yen)



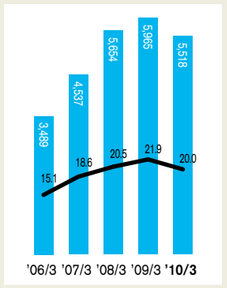
Operating Income and Net Income
(Millions of Yen)



Total Assets and Total Equity per Share



R&D Expenses and Ratio to Net Sales



> TO OUR SHAREHOLDERS

Our Focus Remains on Steadfast Growth

In contrast to the near-term challenges we face in our major markets, we foresee long-term success from the intelligent use of our resources, talent and market position to deliver sustainable value expansion.

SEIKAGAKU FROM A MANAGEMENT PERSPECTIVE

Sales of our main product, ARTZ®, a joint-function improving agent, remain solid, especially in Japan and China, and we have the production capacity to serve anticipated demand growth. In the year ended March 31, 2010, we overcame yen appreciation and a rise in depreciation on the new production building and achieved gains in both net sales and income. Our operations are generating the funds for new drug development, based on a policy of targeting 20% of net sales for R&D. While our new candidate, "Gel-200," has yet to clear the PMA review in the U.S., other themes moved steadily through their clinical trials.

These trends in sales, production and R&D present opportunities for long-term growth that must be pursued, next fiscal year's anticipated slowdown notwithstanding. Under the 10-year vision and current mid-term plan, we have begun concentrating on core competitive strengths. This simply means that we are making our business fundamentals more competitive than ever and ramping up our R&D capabilities to produce a steady flow of new products. Our core vision is to fully utilize our particular resources, talents and market position to build a business that is sustainable, globally competitive and maximally rewarding to shareholders.

HOW WE ARE TRANSFORMING STRONG FUNDAMENTALS INTO GROWTH

Our 10-year vision identifies the elements that are essential to our long-term success, and I cannot over-emphasize their importance. We must and will build the capacity to consistently create new sources of profit by either launching significant new products or opening up a new market on average every three years. At the same time, we must acquire world-class competitiveness as a "Global Category Pharma."*

To achieve our vision, we must focus on our core strength, which is, without a doubt, glycoscience—primarily glycosaminoglycans (GAGs). The field of glycoscience itself holds untapped potential for drug discovery based on the revelation that GAGs play an important role in various biological functions. We pioneered this field, and, as a result, we established a network of researchers from all over the world with whom we share invaluable insights.

Working with GAGs for 60 years has brought us many competitive benefits, not least of which are hard-to-acquire technologies and expertise. They make new entry difficult and also assure that the themes we explore, if successful, develop into one-of-a-kind products that serve unmet medical needs.

For example, rather than trying to release yet another new oral painkiller for treatment of osteoarthritis, we developed ARTZ® as an alternative, based on injecting hyaluronic acid into the knee joint. It provided relief even to some patients for whom painkillers were ineffective. This original research theme, based on our experienced insight, enabled us to establish a very unique product position in the area of knee osteoarthritis therapy. After 20 years on the market, our top product, ARTZ®, not only retains the highest market share in Japan, but is No. 1 worldwide in terms of units sold. Our ophthalmic surgical aid OPEGAN® was developed using the same approach. It was the first hyaluronic acid formulation ever produced in Japan, and it is also the leader in its market.

The goal of our 10-year vision is to repeat that success again and again, creating original and distinctive pharmaceuticals through glycoscience.

> Domestic pharmaceutical sales are growing steadily, with an outlook that continues to be strong.

PROGRESS WE CAN MEASURE

The current mid-term plan, summarized in the slogan "GPS" for Global, Powerful and Sustainable, defines a three-year process of building the foundation of our 10-year vision. Under the plan, we will maximize business opportunities by expanding cross-border activities in sales and network development. This is also the time to strengthen the corporate organization to best achieve our 10-year vision. And, we aim to firmly establish our position as a good corporate citizen in a highly regulated industry.

In the year under review, the first year since the plan's inauguration, operating income rose by 8.1% to ¥5,111 million on net sales of ¥27,617 million. Total net sales increased by 1.5%, supported by brisk pharmaceutical sales in Japan, principally from the growth of ARTZ®, even though export sales to the U.S. declined due to yen appreciation and decreased local selling prices brought on by curbs in reimbursement costs by some private health insurers.

Profits also grew, as SG&A, mainly R&D expenditure, was reduced, which balanced an increase in depreciation as the new production building entered its first full year of operation.

The anticipated approval and launch of Gel-200 on the U.S. market will be delayed because the FDA notified us in January 2010 that the original application for premarket approval (PMA) was "Not approvable." We set out to address the agency's stated concerns. In June 2010, we submitted an amendment to the PMA and continue to work with the FDA to achieve approval. On the other hand, SI-6603, which we anticipate will become a new significant source of profit, has made good progress, completing a Phase II/III clinical trial in Japan.

SHARP FOCUS ON THE YEAR AHEAD

We will continue to promote the steady expansion of our main product, ARTZ®, in Japan and overseas markets to assure us the resources to carry out new growth initiatives. Growth begins with R&D, and for SI-6603, we are planning to obtain results of the Phase II/III trial by the end of 2010 and submit an application to the Japanese Ministry of Health, Labour and Welfare in mid-2011. With Gel-200, we continue to pursue premarket approval through further discussion with the FDA, because we believe that it will benefit knee osteoarthritis sufferers in the U.S.

For the year ending March 31, 2011, we forecast that our continued initiatives to inform latent patients and expand sales promotions to healthcare providers will increase ARTZ® sales in Japan to more than offset the approximately 8% reduction in the NHI reimbursement price. Local sales of ARTZ® in China showed healthy growth, and this expansion should continue, but in the U.S., the sales volume and selling price of SUPARTZ® are expected to decline under the continuing impact of tightening reimbursement criteria by some private health insurers.

We expect profit to sag temporarily in the year ahead due to accounting procedures that require a lump-sum posting of R&D expenses associated with the completion of the SI-6603 clinical trial in Japan. On the positive side, depreciation costs for the No. 4 Production Building are now declining, which will help to partially counter the negative impact of the price reduction on our cost of sales ratio.

> Anticipated new products would add to solid existing sales, bringing a strong boost of profit growth momentum.

EARNING THE STEADY TRUST OF ALL STAKEHOLDERS

The foundation of our business is a desire to serve the health of people around the world based on a unique approach to research and development. Such an aim is consistent with maximizing shareholder returns over the long run. And, under the performance-oriented dividend policy, we aim to maintain the payout ratio at 30%, with an annual dividend of ¥20 as the base amount, while working toward further increases. In the year ended March 31, 2010, 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 39.7%.

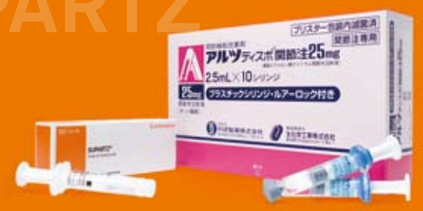
In these and all of our other endeavors, we are grateful for the continuing support of shareholders.

Ken Mizutani
President

* A "Global Category Pharma" is defined as a company that achieves international competitiveness by targeting its research and development toward a specialized field to develop new drugs for world markets. This is one strategy for long-term success identified by the Ministry of Health, Labour and Welfare in its vision for Japan's pharmaceutical industry.

Industry First, World Leader

SUPARTZ®



ARTZ®

Seikagaku pioneered injectable hyaluronic acid for knee joints over 20 years ago and continues to enhance the quality of life for osteoarthritis patients around the world.

Although ARTZ® (also sold as SUPARTZ® in the U.S.) has long been on the market, a number of factors support its continued use. First, is the unique mode of action, which relieves pain through a mechanism quite distinct from oral painkillers. It also has a high reputation for product quality. Finally, the market continues to grow, with the aged population (the major patient base) increasing and countless osteoarthritis sufferers still untreated.

A NOVEL PRODUCT

In 1987, we introduced ARTZ® as the world's first injectable hyaluronic acid joint-function improving agent for the treatment of knee osteoarthritis—first in Japan, then in Europe, the United States and China. Twenty-three years later, it is approved in 21 countries and is still No. 1 worldwide in terms of units sold. Many pharmaceutical companies have targeted arthritis treatments and developed oral painkillers such as COX-2 inhibitors, yet, our approach remains different: injecting hyaluronic acid directly into the joint. ARTZ® is thought to protect the cartilage with excellent viscoelasticity and provide increased lubrication, relieving pain and improving movement. Its formulation is effective even for patients who do not respond to oral painkillers, giving ARTZ® a very unique product position.

TOP QUALITY AND PURITY

More than 200 million injections of ARTZ® have been administered since its launch, confirming its reputation for high quality. Product quality is one of the main reasons that sales volume has expanded for more than 20 years, and is the result of proprietary refining techniques accumulated over the 60-year history of Seikagaku.

LARGE MARKET POTENTIAL

Osteoarthritis is primarily a disease of aging, characterized by the degeneration and disappearance of articular cartilage and consequent swelling and pain. With the average age rising in many industrialized countries, the number of patients suffering from osteoarthritis of the knee is increasing. Yet, surveys show that, in Japan, for example, nearly three-fourths of sufferers—24 million people—remain untreated.

We have begun to address this situation in Japan, as the pioneer, by providing thorough information to help greater numbers of knee pain sufferers find the appropriate treatment. With our sales partner, Kaken Pharmaceutical Co., Ltd., we explain the nature of the disease in electronic and print media, emphasizing the importance of early treatment and encouraging latent patients to consult with a doctor. In March 2010, we launched a website to provide clear information about knee osteoarthritis, linking with a searchable database of healthcare provider locations. Since these efforts began in 2006, the number of sufferers visiting medical institutions has risen strikingly. To leverage this increase in visits for sales growth of ARTZ®, we are promoting our product to a wider range of healthcare professionals: looking beyond our customary approaches to orthopaedists to also reach internists, surgeons and anesthetists.

We are also in close communication with doctors who administer ARTZ®, incorporating their suggestions and requests into features for higher product value.

BUILDING INTERNATIONAL RECOGNITION

Outside Japan, we provide the same detailed information to healthcare providers, and in the U.S., specifically, are working closely with our sales partner, Smith & Nephew, Inc., to increase sales volume through marketing activities that promote ARTZ® (SUPARTZ®) as a high-quality product, and as the world's most widely used product in this field. In the U.S., we also plan to enhance the clinical value of SUPARTZ® and its reputation with insurance companies by seeking approval of additional indications, such as for shoulder osteoarthritis. These efforts may help to counter the effects of the harsher environment created by strict reimbursement criteria from some private health insurers in the U.S.

In China, where the pharmaceutical market is growing by 30% annually, propelled by improvements to the medical insurance system and rapid economic growth, we have been working together with our sales partner, Kunming Baker Norton Pharmaceutical Co., Ltd., to raise awareness of osteoarthritis in large and medium-sized cities. We have steadily raised the profile of ARTZ® as a quality, FDA-approved brand, which has brought a sustained increase in the number of medical institutions using ARTZ®.

Our initiatives to promote and improve ARTZ® are maximizing both the benefits for patients and returns for shareholders.

ARTZ® series approved in 21 countries

NORTHERN EUROPE
Sweden
Finland
Denmark
Iceland

WESTERN EUROPE
Italy
Austria
Portugal
Netherlands
Belgium
U.K.
Germany
France
Spain

ASIA/OCEANIA
Japan
China
Taiwan
The Philippines
Australia
New Zealand

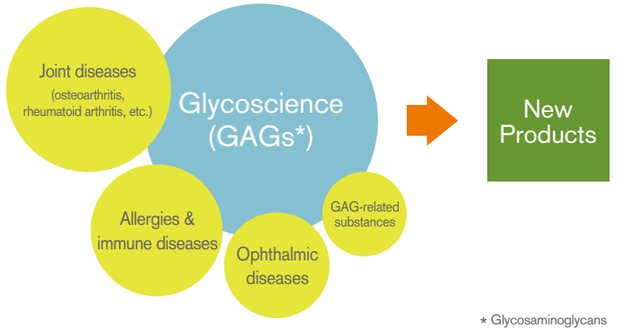
NORTH AMERICA
U.S.A.
Canada

> OUR R&D APPROACH

Original Research Geared to Original Strengths

Three features of our R&D that can produce consistent new value

Basic Policy of R&D



* Glycosaminoglycans

PIONEERING OUR OWN FIELD

Since our founding in 1947, Seikagaku has specialized in glycoscience, within which 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 very good at handling GAGs, possessing high-level technology for chemical analysis of carbohydrates and synthesis of oligo saccharides, a portfolio of enzymes related to biosynthesis/metabolism of GAGs and high-level GAG manufacturing technology. Because GAGs are quite difficult substances to manipulate and we created a worldwide network of independent carbohydrate scientists, other companies find it very hard to catch up with us in this area. So, we develop pharmaceuticals from a fundamentally different approach than our competitors, one that enhances treatment choices for patients and clinical practice, and creates worthwhile drugs that expand our corporate value. This is a key competitive edge.

MORE EFFICIENT RESEARCH AND DEVELOPMENT

Our R&D portfolio reflects a heightened emphasis on marketable research. Current projects comprise significant new potential products, even as we extend the lifetimes of existing products through new indications. Our aim is to constantly and efficiently develop pharmaceuticals that truly address clinical and patient needs. To achieve this, we reorganized R&D into cross-divisional teams on a theme basis to cooperatively move potential products through the research, development, production and marketing stages. This has enabled us to perform multifaceted analyses and thoroughly utilize knowledge and expertise accumulated throughout the Company.

A BALANCED AND FOCUSED RESEARCH POLICY

Today, we weigh candidate themes according to their potential market, quality and complementary balance, in line with an R&D policy of pursuing targeted substances to develop new drugs or medical devices for use in the treatment of joint diseases, allergies and immune diseases, and ophthalmic diseases.

Three of our targeted substances are GAGs or GAG-related. First: new products based directly on GAGs or GAG oligos. Second: GAGs modified to have new value, such as the cross-linked hyaluronate hydrogel, Gel-200. And third: GAG-related substances, such as enzymes or chemical compounds. These materials are not GAGs themselves, but demonstrate effects on GAGs.

The above targeted research areas define the centers from which we will expand our drug discovery. As we pursue the aims of our 10-year vision, our success will grow from discoveries in original research within the field of glycoscience. We strongly believe that our future key discoveries in pharmaceuticals, and many of our other pipeline themes, may come from this largely unexplored area of science.

We now move faster and more productively than in the past, all in the pursuit of our goal to make Seikagaku into an internationally competitive innovator in specialized areas—a “Global Category Pharma.”

> GLYCOSCIENCE

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 the genetics of sugar chains.

From birth to aging, glycoconjugates are profoundly involved in fundamental biological processes, including both normal and the 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	NDA/PMA application	In-house/In-license
Gel-200: Cross-linked hyaluronate hydrogel	Osteoarthritis of knee	U.S.						In-house
SI-602: Additional indication for SUPARTZ® (U.S.)	Osteoarthritis of shoulder	U.S.						In-house
SI-6603: Chondroitinase ABC	Lumbar disc herniation	Japan U.S.						In-house
SI-615: Adenosine A3 receptor agonist	Rheumatoid arthritis	Japan						In-license (Can-Fite BioPharma)
SI-636: Anti-VAP-1 antibodies	Inflammatory diseases	Japan						In-license (BioTie Therapies)
(GAG-related)	Ophthalmic diseases							In-house
(Core target-related)	Joint diseases							In-house

Gel-200 — Cross-linked Hyaluronate Hydrogel for Knee Osteoarthritis

Gel-200 is expected to expand treatment options for knee osteoarthritis patients in the U.S. The main ingredient is cross-linked hyaluronate hydrogel manufactured using our own cross-linking technology. This feature gives the solution extremely high viscoelasticity, which results in a long-term residual presence in the knee joint cavity. A single injection is expected to have efficacy similar to current multiple injection formulations over the same time span. On January 5, 2010 the FDA notified us that the original application for premarket approval (PMA) was not approvable. After a diligent review to address the agency's concerns, we submitted an amendment to the PMA on June 22, 2010. We remain committed to working with the FDA to achieve premarket approval of Gel-200 in the United States.

SI-602 — Additional Indication for SUPARTZ® for Shoulder Osteoarthritis

This is an additional indication of SUPARTZ® for shoulder osteoarthritis. This theme aims at improving the clinical value of SUPARTZ® in the U.S. through lifecycle management, and we are carrying out development with our SUPARTZ® sales partner, Smith & Nephew, Inc. In Japan, ARTZ® has already obtained an indication for shoulder periarthritis. We submitted a PMA supplement to the FDA on September 25, 2009, and it is now under review. If the new indication is approved, SUPARTZ® will be the first hyaluronic formulation for shoulder osteoarthritis in the U.S.

SI-6603 — Chondroitinase ABC 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 Chondroitinase ABC, 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. We expect to file an application by mid-2011. A Phase II clinical trial is in progress 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 plans to conduct a Phase IIb monotherapy clinical trial, and we will review our development policy while monitoring the progress of this trial.

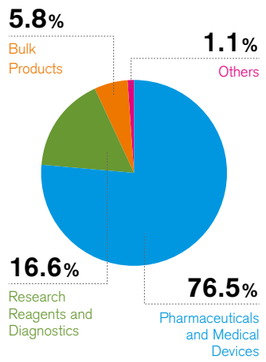
SI-636 — Anti-VAP-1 Antibodies for Inflammatory Diseases

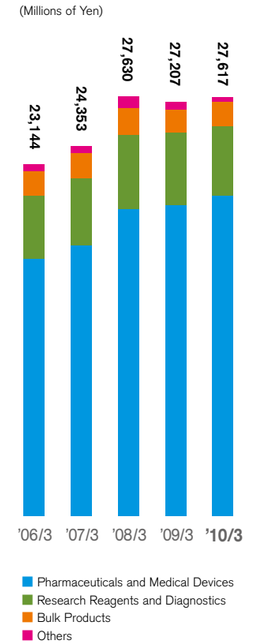
SI-636 is a monoclonal antibody that blocks the functioning of VAP-1. It was in-licensed from BioTie Therapies of Finland for use in the treatment of inflammatory diseases. It is expected to prevent inflammation by inhibiting VAP-1, an adhesion molecule involved in the accumulation and invasion of white 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, and 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 and arthritic disorders.

Sales by Segment





PHARMACEUTICAL BUSINESS

PHARMACEUTICALS AND MEDICAL DEVICES

Domestic sales of pharmaceuticals and medical devices for the year ended March 31, 2010 rose by 6.4% to ¥17,323 million. This is the sixth consecutive year of domestic sales growth despite biennial reimbursement price reductions by Japan's National Health Insurance System (there was no price cut in the year under review). For our main product ARTZ®, a hyaluronic acid formulation for knee osteoarthritis, unit deliveries to medical institutions in Japan grew by 8.6%. This growth helped ARTZ® retain a greater than 50% market share, although this year it was below the overall market growth rate of around 10%.

The target market is expanding, propelled by underlying growth in the aged population, the largest patient segment, and further boosted by an ongoing campaign with our sales partner, Kaken Pharmaceutical Co., Ltd., aimed at consumers to raise public awareness of knee osteoarthritis and the effectiveness of early treatment (in strict compliance with advertising regulations of the Pharmaceutical Affairs Law). To help maximize sales growth in the expanding market, we promoted ARTZ® use not only to orthopaedists (the main target), but also to surgeons, internists and other physicians.

Unit deliveries to medical institutions of OPEGAN®, the hyaluronic acid formulation used in cataract surgery, grew by 5.3%, faster than the overall market growth, further expanding its top market share. The increase can be attributed to serving the needs of ophthalmologists through joint promotion with our sales partner, Santen Pharmaceutical Co., Ltd.

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) dropped by 8.1% to ¥3,793 million. Export sales of ARTZ® to the U.S., our major overseas market, declined by 8.0%. Yen appreciation accounted for about a 7.0% decline and the rest was due to lower selling prices. Local sales of ARTZ® in the U.S., sold under the brand name SUPARTZ®, declined marginally, due to sales volume declines reflecting tightened reimbursement policies by some U.S. private health insurers. Nevertheless, joint efforts with our sales partner, Smith & Nephew, Inc., have helped SUPARTZ® retain its No. 2 position in the U.S. market.

Exports to non-U.S. foreign markets were 8.5% lower. Export sales to China declined due to shipment carryover into the next fiscal year, but local sales there grew quite strongly by around 30%.

Overall, worldwide sales of pharmaceuticals and medical devices increased to ¥21,116 million, an increase of ¥711 million (3.5%) year on year.

< 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 doctors and patients throughout the world as the formulation for the treatment of knee osteoarthritis[2]. Now highly evaluated and used worldwide with over 200 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® 0.6, OPEGAN® 1.1, 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 AID 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 CHEMICAL BUSINESS

RESEARCH REAGENTS AND DIAGNOSTICS

Domestic sales remained firm, led by endotoxin-detecting reagents for use in quality control in pharmaceutical production. However, overseas sales by Associates of Cape Cod, Inc. (ACC), a wholly owned subsidiary of Seikagaku Biobusiness operating in the U.S. and Europe, were eroded by yen appreciation, with the result that total net sales in this segment were 5.1% lower at ¥4,580 million.

< MAIN PRODUCTS >

Endotoxin-detecting reagents

Used mainly for quality control in the manufacture of pharmaceuticals and medical devices, and quality control of dialysis fluid.

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.

Food allergy-related test kits

Test kits used to detect food allergen contamination occurring in food manufacturing processes.

DIAGNOSTICS FOR INVASIVE FUNGAL INFECTIONS

FUNGITEC® G TEST MK

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.

BULK PRODUCTS

Net sales of the bulk products business rose to ¥1,593 million, a 6.8% increase from the previous period, reflecting growth in sales of products that use our hyaluronic acid.

< MAIN 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

To continually advance as a corporate citizen is one of the main themes in our mid-term plan. This mission begins with effective corporate governance. We strive to improve the corporate governance system in full understanding of our responsibilities as a pharmaceutical company, and to maintain continuous relationships of trust with shareholders and other stakeholders.

RESPONSIBLE GOVERNANCE

The Company has adopted the corporate auditors system, and the principal governing institutions are the General Shareholders' Meeting, the Board of Directors and the Board of Corporate Auditors.

The Board of Directors includes one outside director to strengthen decision-making and supervision of business execution. The term of office for directors is one year to ensure agile management capable of swiftly responding to change in the business environment.

The Board of Auditors consists of five statutory auditors, three of whom are outside auditors.

Business operations are conducted through the managing officer system. This system separates the roles of the directors who have management decision-making and business execution supervisory functions from the roles of managing officers responsible for business execution.

The Management Committee meets weekly (in principle) to address important management issues and decide on the appropriate action.

Internal auditing includes audits by the Audit Department, quality audits by the Quality Assurance Dept, and GCP Audits by Regulatory Affairs Dept. Timely communication between the Board of Auditors and these internal auditing organizations, centering on the standing auditors, assures that information is shared between them and strengthens supervisory and auditing functions.

EFFECTIVE INTERNAL CONTROL

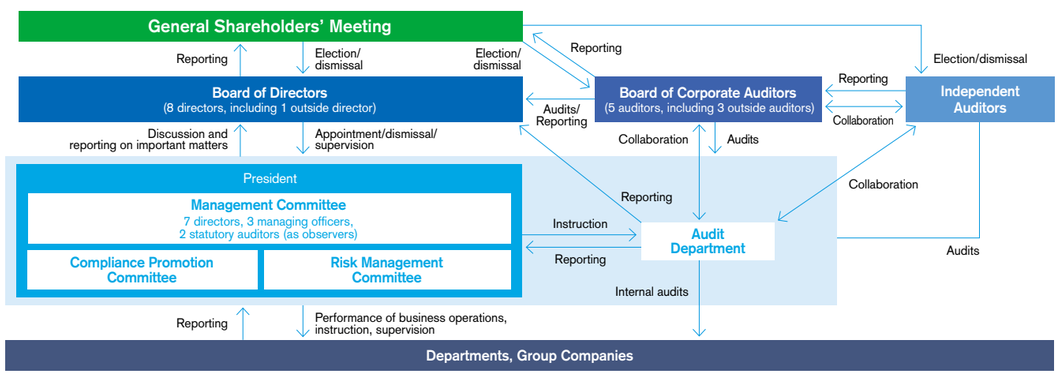
To implant a disciplined and sound corporate culture throughout the Seikagaku Group and to perform business activities ethically, we apply effective internal control systems. The Compliance Promotion Committee and the Risk Management Committee play important roles in this. Under the Compliance Promotion Committee, we regularly formulate adequate compliance programs, reflecting our corporate creed and guidelines for our activities, to rigorously comply not only with social ethics and laws but also with strict pharmaceutical industry-specified regulations. The program is thoroughly shared among all executives and employees, and further company-wide education is in action.

The Risk Management Committee, established in 2008 to reinforce risk management initiatives, addresses potential risks associated with business execution of the Company.

The management stringently enforces proper internal controls over financial reporting and demonstrates our commitment to transparent reporting. It has evaluated the effectiveness of its operation and received a clean opinion by an independent accounting firm.

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 an ad hoc committee of persons independent of the management, in order to ensure objective and reasonable judgments of the Board of Directors.



(As of June 18, 2010)

> BOARD OF DIRECTORS (As of June 18, 2010)


Ken Mizutani


Toshinori Yagura


Shinji Usuda


Eiji Katayama


Hideki Kawamura


Kazuaki Onishi


Yasushi Fukumoto


Shinichi Ishikawa

PRESIDENT
Ken Mizutani

SENIOR MANAGING DIRECTOR
Toshinori Yagura

EXECUTIVE MANAGING DIRECTOR
Shinji Usuda

OUTSIDE DIRECTOR
Eiji Katayama

DIRECTOR, EXECUTIVE MANAGING OFFICER
Hideki Kawamura

DIRECTORS
Kazuaki Onishi
Yasushi Fukumoto
Shinichi Ishikawa

AUDITORS
Kenji Kaneko
Tokushi Mitomi

OUTSIDE AUDITORS
Nobuhiro Takeuchi
Junya Sato
Akifumi Yamada

EXECUTIVE MANAGING OFFICER
Masaomi Miyamoto

MANAGING OFFICERS
Yoshiyuki Sakura
Shinji Harashima

> SOCIAL CONTRIBUTION THROUGH GLYCOSCIENCE RESEARCH

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 business operations 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 by collecting and distributing the latest research findings on glycoscience developments and publicizing original papers and commentary by key researchers in the field through the website "Glycoforum." Established by Seikagaku in 1997, Glycoforum has attracted the interest of researchers throughout the world, serving as a comprehensive information website on glycoscience. Articles are available both in English and Japanese. Glycoforum has been recommended by *Nature Reviews*. Visit *www.glycoforum.or.jp*

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

The Mizutani Foundation for Glycoscience was endowed by 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 backs the foundation's diverse efforts to advance glycoscience.
See *www.mizutanifdn.or.jp*

> CONSOLIDATED BALANCE SHEETS

Seikagaku Corporation and Consolidated Subsidiaries
March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 11)	¥ 9,367	¥ 6,799	$ 100,720
Short-term investments (Notes 3 and 11)	4,361	3,889	46,893
Notes and accounts receivable—trade (Note 11)	7,155	7,760	76,936
Allowance for doubtful accounts	(2)	(9)	(22)
Inventories (Note 4)	4,252	3,921	45,720
Deferred tax assets (Note 10)	770	720	8,280
Other current assets	1,550	1,962	16,667
Total current assets	27,453	25,042	295,194
PROPERTY, PLANT AND EQUIPMENT:			
Land	1,072	1,071	11,527
Buildings and structures	13,953	13,906	150,032
Machinery and equipment	12,936	12,213	139,097
Lease assets	1,386	1,289	14,903
Construction in progress	18		194
Total	29,365	28,479	315,753
Accumulated depreciation	(17,757)	(15,265)	(190,936)
Net property, plant and equipment	11,608	13,214	124,817
INVESTMENTS AND OTHER ASSETS:			
Investment in an unconsolidated subsidiary	25	25	269
Investment securities (Notes 3 and 11)	21,296	17,857	228,989
Goodwill	58	70	624
Other assets (Notes 6 and 8)	2,599	2,352	27,946
Allowance for doubtful accounts	(305)	(345)	(3,280)
Total investments and other assets	23,673	19,959	254,548
TOTAL	¥ 62,734	¥ 58,215	$ 674,559
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Notes and accounts payable—trade (Note 11)	¥ 980	¥ 883	$ 10,537
Notes and accounts payable—other (Note 11)	2,475	2,039	26,613
Current portion of long-term debt (Notes 7 and 11)	700		7,527
Current portion of long-term lease obligations (Notes 5 and 11)	216	189	2,323
Accrued expenses	811	761	8,720
Accrued income taxes	870	251	9,355
Other current liabilities	69	88	742
Total current liabilities	6,121	4,211	65,817
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)		700	
Long-term lease obligations (Notes 5 and 11)	750	878	8,064
Deferred tax liabilities (Note 10)	321		3,452
Other long-term liabilities	116	117	1,247
Total long-term liabilities	1,187	1,695	12,763
EQUITY (Notes 9 and 15):			
Common stock—authorized, 234,000,000 shares; issued, 58,584,093 shares in 2010 and 2009	3,840	3,840	41,290
Capital surplus	5,302	5,302	57,011
Retained earnings	48,123	45,967	517,452
Unrealized gain (loss) on available-for-sale securities	715	(126)	7,688
Foreign currency translation adjustments	(477)	(598)	(5,129)
Treasury stock—at cost, 1,776,416 shares in 2010 and 1,775,337 shares in 2009	(2,077)	(2,076)	(22,333)
Total equity	55,426	52,309	595,979
TOTAL	¥ 62,734	¥ 58,215	$ 674,559

See notes to consolidated financial statements.

> CONSOLIDATED STATEMENTS OF INCOME

Seikagaku Corporation and Consolidated Subsidiaries
Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
NET SALES (Notes 12 and 14)	¥27,617	¥27,207	$296,957
COST OF SALES	10,494	9,984	112,839
Gross profit	17,123	17,223	184,118
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	12,012	12,493	129,161
Operating income	5,111	4,730	54,957
OTHER INCOME (EXPENSES):			
Interest and dividend income	373	454	4,011
Interest expense	(55)	(62)	(591)
Foreign exchange loss	(422)	(90)	(4,538)
Other—net	107	(165)	1,150
Other income—net	3	137	32
INCOME BEFORE INCOME TAXES	5,114	4,867	54,989
INCOME TAXES (Note 10):			
Current	1,570	1,262	16,881
Deferred	(32)	430	(344)
Total income taxes	1,538	1,692	16,537
NET INCOME	¥ 3,576	¥ 3,175	$ 38,452

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.o):			
Net income	¥ 62.94	¥ 55.68	$ 0.68
Cash dividends applicable to the year	25.00	25.00	0.27

See notes to consolidated financial statements.

> CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Seikagaku Corporation and Consolidated Subsidiaries
Years Ended March 31, 2010 and 2009

	Millions of Yen							
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total Equity
BALANCE, APRIL 1, 2008	58,584,093	¥3,840	¥5,302	¥44,511	¥ 1,162	¥ 158	¥(1,327)	¥53,646
Net income				3,175				3,175
Cash dividends, ¥30.0 per share				(1,719)				(1,719)
Unrealized loss on available-for-sale securities					(1,288)			(1,288)
Net change in foreign currency translation adjustments						(756)		(756)
Purchase of treasury stock							(749)	(749)
BALANCE, MARCH 31, 2009	58,584,093	3,840	5,302	45,967	(126)	(598)	(2,076)	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	¥ 715	¥(477)	¥(2,077)	¥55,426

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total Equity
BALANCE, MARCH 31, 2009	$41,290	$57,011	$494,269	$(1,355)	$(6,430)	$(22,323)	$562,462
Net income			38,452				38,452
Cash dividends, $0.27 per share			(15,269)				(15,269)
Unrealized gain on available-for-sale securities				9,043			9,043
Net change in foreign currency translation adjustments					1,301		1,301
Purchase of treasury stock						(10)	(10)
BALANCE, MARCH 31, 2010	$41,290	$57,011	$517,452	$ 7,688	$(5,129)	$(22,333)	$595,979

See notes to consolidated financial statements.

> CONSOLIDATED STATEMENTS OF CASH FLOWS

Seikagaku Corporation and Consolidated Subsidiaries
Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
OPERATING ACTIVITIES:			
Income before income taxes	¥ 5,114	¥ 4,867	$ 54,989
Adjustments for:			
Income taxes—paid	(972)	(3,165)	(10,452)
Income taxes—refund	475		5,108
Depreciation and amortization	2,717	2,141	29,215
Foreign exchange loss	359	96	3,860
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable—trade	655	(809)	7,043
Increase in inventories	(331)	(66)	(3,559)
Increase in advance payments for research and development	(413)	(423)	(4,441)
Increase in notes and accounts payable—trade	95	101	1,022
Decrease/increase in consumption tax receivable/payable	678	(147)	7,290
Increase in accounts payable—other	66	54	710
Decrease in retirement benefit	(13)	(223)	(140)
Other—net	26	465	280
Net cash provided by operating activities	8,456	2,891	90,925
INVESTING ACTIVITIES:			
Purchases of time deposits	(1,500)		(16,129)
Proceeds from maturities of time deposits	1,503		16,161
Proceeds from redemption of short-term investments	3,360	3,665	36,129
Purchases of short-term investments	(703)		(7,559)
Purchases of fixed assets	(941)	(1,672)	(10,118)
Proceeds from sales of investment securities	470	1,476	5,054
Purchases of investment securities	(6,379)	(5,149)	(68,592)
Other—net	(60)	67	(645)
Net cash used in investing activities	(4,250)	(1,613)	(45,699)
FINANCING ACTIVITIES:			
Purchases of treasury stock	(1)	(753)	(11)
Repayments of lease obligations	(203)	(188)	(2,183)
Dividends paid	(1,419)	(1,718)	(15,258)
Net cash used in financing activities	(1,623)	(2,659)	(17,452)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(15)	(226)	(161)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,568	(1,607)	27,613
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,799	8,406	73,107
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 9,367	¥ 6,799	$100,720
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Assets acquired through finance leases	¥ 97	¥ 1,373	$ 1,043
Liabilities assumed through finance leases	102	1,256	1,097

See notes to consolidated financial statements.

Seikagaku Corporation and Consolidated Subsidiaries
Years Ended March 31, 2010 and 2009

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.

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 2009 financial statements to conform to the classifications used in 2010.

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 ¥93 to $1, the approximate rate of exchange at March 31, 2010. 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, 2010 and 2009 include the accounts of the Company and its four significant subsidiaries (together, the "Group").

Investment in an unconsolidated subsidiary in 2010 and 2009 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. PITF No. 18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this accounting standard effective April 1, 2008.

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 is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be 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 should 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. Research and Development Costs—Research and development costs are charged to income as incurred.

l. 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.

m. 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.

n. 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" in a separate component of equity.

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

o. 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 2010 and 2009.

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.

p. New Accounting Pronouncements

Asset Retirement Obligations—On March 31, 2008, the ASBJ published a new 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 is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

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, a 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.

Segment Information Disclosures—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.

3. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2010 and 2009, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Short-term investments:			
Debt securities	¥ 4,361	¥ 3,386	$ 46,893
Other		503	
Total	¥ 4,361	¥ 3,889	$ 46,893
Investment securities:			
Equity securities	¥ 5,871	¥ 4,819	$ 63,129
Debt securities	13,331	11,007	143,344
Other	2,094	2,031	22,516
Total	¥21,296	¥17,857	$228,989

Information regarding the marketable securities classified as available-for-sale at March 31, 2010 and 2009, was as follows:

	Millions of Yen			
March 31, 2010	Cost	Unrealized Gains	Unrealized Losses	Fair Value
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
March 31, 2009				
Securities classified as available-for-sale:				
Equity securities	¥ 4,213	¥ 973	¥367	¥ 4,819
Debt securities	14,830	78	515	14,393
Other	2,413		382	2,031

	Thousands of U.S. Dollars			
March 31, 2010	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$ 47,903	$17,247	$2,021	$ 63,129
Debt securities	189,237	2,226	1,226	190,237
Other	25,946		3,430	22,516

Available-for-sale investments whose fair value is not readily determinable as of March 31, 2009 were as follows. The similar information for 2010 is disclosed in Note 11.

March 31, 2009	Carrying Amount Millions of Yen
Available-for-sale—Time deposits	¥503
Total	¥503

Proceeds from sales of available-for-sale securities for the year ended March 31, 2009 were ¥1,511 million. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥132 million and ¥208 million, respectively, for the year ended March 31, 2009.

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

	Millions of Yen		
March 31, 2010	Proceeds	Realized Gains	Realized Losses
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, 2010	Proceeds	Realized Gains	Realized Losses
Securities classified as available-for-sale:			
Equity securities	$2,161	$677	$237
Debt securities	2,893	97	301
Total	$5,054	$774	$538

The impairment losses on available-for-sale equity securities for the years ended March 31, 2010 and 2009 were ¥11 million ($118 thousand) and ¥134 million, respectively.

4. INVENTORIES

Inventories at March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Merchandise and finished products	¥2,521	¥2,197	$27,107
Work in process	865	824	9,301
Raw materials and supplies	866	900	9,312
Total	¥4,252	¥3,921	$45,720

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, 2010 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2011	¥216	$ 2,323
2012	197	2,118
2013	168	1,806
2014	163	1,753
2015	222	2,387
Total	¥966	$10,387

(2) Operating Leases

The minimum rental commitments under non-operating leases at March 31, 2010 and 2009, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Due within one year	¥14	¥13	$151
Due after one year	16	8	172
Total	¥30	¥21	$323

6. LONG-TERM DEPOSITS

Long-term deposits in banks of ¥1,500 million ($16,129 thousand) were included in other assets of investments and other assets as of March 31, 2010 and ¥1,000 million as of March 31, 2009. Annual maturities of the deposits were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2015	¥ 500	$ 5,376
2020	1,000	10,753
Total	¥1,500	$16,129

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, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Loan from bank, 1.65%, due to 2010 (unsecured)	¥700	¥700	$7,527

Annual maturity of long-term debt as of March 31, 2010 was as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2011	¥700	$7,527

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, 2010 and 2009, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Projected benefit obligation	¥ 4,668	¥ 4,575	$ 50,194
Fair value of plan assets	(4,546)	(4,185)	(48,882)
Unrecognized prior service cost	530	657	5,699
Unrecognized actuarial gain	(719)	(1,101)	(7,731)
Net asset	¥ (67)	¥ (54)	$ (720)

Prepaid pension expense of ¥67 million ($720 thousand) was included in other assets of investments and other assets as of March 31, 2010 and ¥54 million as of March 31, 2009.

The components of net periodic benefit costs for the years ended March 31, 2010 and 2009, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Service cost	¥ 164	¥ 175	$ 1,764
Interest cost	92	93	989
Expected return on plan assets	(131)	(261)	(1,409)
Amortization of prior service cost	(126)	(127)	(1,355)
Recognized actuarial loss	135	56	1,452
Net periodic benefit costs	¥ 134	¥ (64)	$ 1,441

Assumptions used for the years ended March 31, 2010 and 2009, are set forth as follows:

	2010	2009
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	3.1%	5.3%
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 ¥55 million ($591 thousand) and ¥52 million for the years ended March 31, 2010 and 2009, 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 ($387 thousand) and ¥34 million for the years ended March 31, 2010 and 2009, 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, 2010 and 2009. 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, 2010 and 2009, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Deferred tax assets—current:			
Accrued bonuses	¥ 253	¥ 241	$ 2,721
Research and development costs	240	199	2,581
Loss on valuation of inventories	93	201	1,000
Other	278	292	2,989
Less valuation allowance	(94)	(186)	(1,011)
Total	770	747	8,280
Deferred tax liabilities—current:			
Enterprise tax receivables		25	
Other		2	
Total		27	
Net deferred tax assets—current	¥ 770	¥ 720	$ 8,280
Deferred tax assets—non-current:			
Foreign tax credit	¥ 275	¥ 208	$ 2,957
Tax loss carryforwards	265	354	2,850
Deferred assets for tax purposes	155	207	1,667
Investment tax credit	137	135	1,473
Allowance for bad debt	112	128	1,204
Other	229	163	2,462
Less valuation allowance	(694)	(633)	(7,462)
Total	479	562	5,151
Deferred tax liabilities—non-current:			
Unrealized gain on available-for-sale securities	503		5,409
Depreciation	267	278	2,871
Other	26	22	279
Total	796	300	8,559
Net deferred tax (liabilities) assets—non-current	¥(317)	¥ 262	$(3,408)

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, 2010 and 2009, consisted of the following:

	2010	2009
Normal effective statutory tax rate	40.0%	40.0%
Tax credit	(8.2)	(5.3)
Other—net	(1.7)	0.1
Actual effective tax rate	30.1%	34.8%

At March 31, 2010, a subsidiary in the United States of America has tax loss carryforwards of approximately ¥754 million ($8,108 thousand), which are available to offset future federal income taxes under the Internal Revenue Code, expiring in 2023, 2024, 2025 and 2026. In addition, at March 31, 2010, the subsidiary has tax loss carryforwards of approximately ¥143 million ($1,538 thousand), which are available to offset future state income taxes. The expiration of the tax loss carryforwards for state tax is 2010 for ¥1 million ($11 thousand), 2011 for ¥100 million ($1,075 thousand) and 2012 for ¥42 million ($452 thousand).

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 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Group applied the revised accounting standard and the new 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.

Current portion of 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, 2010, 79.7% 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, 2010	Carrying Amount	Fair Value	Unrealized Gain/Loss
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

March 31, 2010	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$100,720	$100,720	
Short-term investments	46,893	46,893	
Notes and accounts receivable—trade	76,936	76,936	
Investment securities	228,989	228,989	
Total	$453,538	$453,538	
Notes and accounts payable—trade	$ 10,537	$ 10,537	
Notes and accounts payable—other	26,613	26,613	
Current portion of long-term debt	7,527	7,527	
Lease obligations	10,387	10,430	$43
Total	$ 55,064	$ 55,107	$43

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

The carrying values of notes and accounts payable 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.

Lease Obligations

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

(b) Financial instruments whose fair value cannot be reliably determined

March 31, 2010	Carrying Amount Millions of Yen	Thousands of U.S. Dollars
Investment in an unconsolidated subsidiary that does not have a quoted market price in an active market	¥25	$269

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

March 31, 2010	Millions of Yen Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 9,367			
Short-term investments	4,347			
Notes and accounts receivable—trade	7,155			
Investment securities		¥12,644	¥1,000	¥426
Total	¥20,869	¥12,644	¥1,000	¥426

March 31, 2010	Thousands of U.S. Dollars Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$100,720			
Short-term investments	46,742			
Notes and accounts receivable—trade	76,936			
Investment securities		$135,957	$10,753	$4,581
Total	$224,398	$135,957	$10,753	$4,581

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 ($158,075 thousand) and ¥13,732 million for the years ended March 31, 2010 and 2009, respectively.

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥5,518 million ($59,333 thousand) and ¥5,965 million for the years ended March 31, 2010 and 2009, respectively.

14. SEGMENT INFORMATION

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 years ended March 31, 2010 and 2009, is as follows:

(1) Geographical Segments

The geographical segments of the Group for the years ended March 31, 2010 and 2009 are summarized as follows:

	Millions of Yen 2010 Japan	North America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥25,106	¥1,533	¥ 978		¥27,617
Interarea transfer	97	820	28	¥ (945)	
Total sales	25,203	2,353	1,006	(945)	27,617
Operating expenses	20,501	2,015	966	(976)	22,506
Operating income	¥ 4,702	¥ 338	¥ 40	¥ 31	¥ 5,111
Total assets	¥63,797	¥3,008	¥ 600	¥(4,671)	¥62,734

	Millions of Yen 2009 Japan	North America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥24,349	¥1,710	¥1,148		¥27,207
Interarea transfer	89	788	29	¥ (906)	
Total sales	24,438	2,498	1,177	(906)	27,207
Operating expenses	20,019	2,340	1,090	(972)	22,477
Operating income	¥ 4,419	¥ 158	¥ 87	¥ 66	¥ 4,730
Total assets	¥59,823	¥2,897	¥ 601	¥(5,106)	¥58,215

	Thousands of U.S. Dollars 2010 Japan	North America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	$269,957	$16,484	$10,516		$296,957
Interarea transfer	1,043	8,817	301	$(10,161)	
Total sales	271,000	25,301	10,817	(10,161)	296,957
Operating expenses	220,441	21,667	10,387	(10,495)	242,000
Operating income	$ 50,559	$ 3,634	$ 430	$ 334	$ 54,957
Total assets	$685,989	$32,344	$ 6,452	$(50,226)	$674,559

(2) Sales to Foreign Customers

Information regarding sales to foreign customers of the Group for the years ended March 31, 2010 and 2009, is as follows:

	Millions of Yen 2010	2009	Thousands of U.S. Dollars 2010
Sales to foreign customers (A)	¥ 6,654	¥ 7,463	$ 71,548
Consolidated sales (B)	27,617	27,207	296,957
(A)/(B)	24.1%	27.4%	24.1%

15. SUBSEQUENT EVENT

On June 18, 2010, the shareholders of the Company authorized the following appropriations of retained earnings at March 31, 2010:

	Millions of Yen	Thousands of U.S. Dollars
Appropriations—Cash dividends, ¥12.5 ($0.13) per share	¥710	$7,634
Total	¥710	$7,634

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, 2010 and 2009, and the related consolidated statements of income, 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, 2010 and 2009, 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 18, 2010

Member of
Deloitte Touche Tohmatsu

> CORPORATE DATA (As of March 31, 2010)

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	637 (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®, ARTZ Dispo®, OPEGAN®, OPEGAN Hi® and MucoUp®. The No. 4 Production Building commenced operation in October 2008 and continues steady production.

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
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	**7,793**	**13.7**
State Street Bank and Trust Company	**4,715**	**8.3**
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)	**1,078**	**1.9**
Meiji Yasuda Life Insurance Company	**860**	**1.5**
Kaken Pharmaceutical Co., Ltd.	**807**	**1.4**

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 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.

SEIKAGAKU CORPORATION

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