The Formula is Clear

Annual Report 2014

For the year ended March 31, 2014

SEIKAGAKU CORPORATION

Exploring the Innovative Promise of Glycoscience

Profile

Pharmaceuticals originated from hyaluronic acid by Seikagaku are today enriching health and everyday life for the people of the world. In our Ten-Year Vision for becoming a “Global Category Pharma”, Seikagaku is building a stable corporate future based on creation of useful and original products from the field of glycoscience.

What is Glycoscience?

Glycoscience is a field of research into sugar chains and glycoconjugates. Recent advances in glycoscience have shown that sugar chains are deeply involved in communication between molecules or cells, and are essential to various physiological processes from the creation of life to aging.

Their functions also have relevance in the study of many diseases. Progress in glycoscience research is expected to develop novel diagnostics and innovative therapies.

Contents

Our Strengths

Specialized Field

A pharmaceutical company focusing on glycoscience

Since its foundation more than 60 years ago, Seikagaku has focused its attention on the importance of glycoscience and has been working on applied research for new drug development. Building on many research achievements, Seikagaku contributes to medical care in Japan and the world as a pioneer with expertise in the niche field of glycoscience research.

High Quality

High-level technologies to produce high-quality products

Seikagaku is the world’s first company to succeed in industrial production of chondroitin sulfate, which has led to the establishment of proprietary extraction and purification technologies. Using these technologies, we led the world in the launch of the joint function improving product ARTZ, whose main ingredient is hyaluronic acid. Since its launch, ARTZ has been used for more than 25 years and over 330 million injections with no major side effects. Seikagaku will continue to use its own technologies and know-how to develop and manufacture innovative drugs, and to supply high-quality products to the global market.

R&D

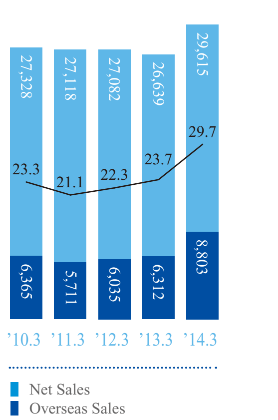
R&D-oriented business model

Seikagaku does not have its own sales force. Instead, we offer our products through sales partners that have strengths in their respective product fields. By maintaining a slim organizational structure, we are able to focus our management resources on R&D and production. This is evidenced by the fact that our R&D expenses account for more than 20% of net sales, and that about one-third of our employees are involved in R&D.

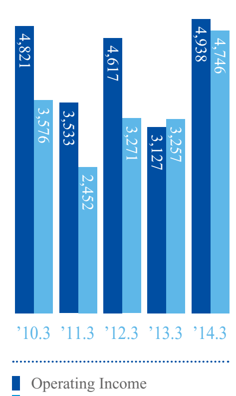
	Millions of Yen					Thousands of U.S. Dollars (Note 2)
	2010.3 (Note 1)	2011.3	2012.3	2013.3	2014.3	2014.3
Net Sales	¥ 27,328	¥ 27,118	¥ 27,082	¥ 26,639	¥ 29,615	$ 287,524
Overseas Sales	6,365	5,711	6,035	6,312	8,803	85,466
Overseas Sales Ratio (to Net Sales)	23.3%	21.1%	22.3%	23.7%	29.7%	29.7%
Gross Profit	16,834	16,637	17,334	16,772	18,391	178,553
R&D Expenses	5,518	6,724	5,971	6,838	6,588	63,961
Operating Income	4,821	3,533	4,617	3,127	4,938	47,942
Operating Income Ratio (to Net Sales)	17.6%	13.0%	17.0%	11.7%	16.7%	16.7%
Net Income	3,576	2,452	3,271	3,257	4,746	46,078
Net Income Ratio (to Net Sales)	12.9%	9.0%	12.1%	12.2%	16.0%	16.0%
Total Equity	55,426	56,107	58,014	61,316	64,786	628,990
Return on Shareholders' Equity (ROE)	6.6%	4.4%	5.7%	5.5%	7.5%	7.5%
Total Assets	62,734	62,684	68,731	70,471	73,826	716,757
Return on Total Assets (ROA)	5.9%	3.9%	5.0%	4.7%	6.6%	6.6%
Consolidated Dividend Payout Ratio	39.7%	57.9%	43.4%	43.6%	31.1%	31.1%
	(Yen)					(Dollars)
Net Income per Share of Common Stock (Note 3)	62.94	43.16	57.58	57.33	83.55	0.81
Cash Dividends per Share of Common Stock (Note 3)	25.00	25.00	25.00	25.00	26.00	0.25
Number of Employees	637	649	644	641	639	

Notes: 1 The Company changed the accounting category for milestone royalties from "Net Sales" to "Other Income" in March 2011. Accordingly, retrospectively we reclassified only the figures for March 2010.
2 U.S. dollar amounts are converted, for convenience only, at the rate of ¥103=US$1, the approximate rate at March 31, 2014.
3 As for Per Share Information, please refer to Note 2. "Summary of Significant Accounting Policies", Section q (p. 18).

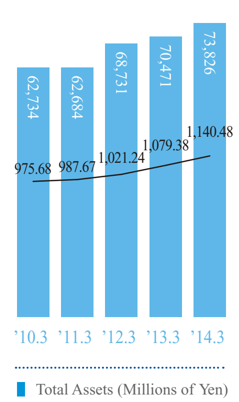
Net Sales and Overseas Sales
(Millions of Yen)



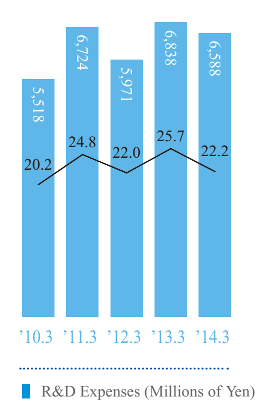
Operating Income and Net Income
(Millions of Yen)



Total Assets and Total Equity per Share



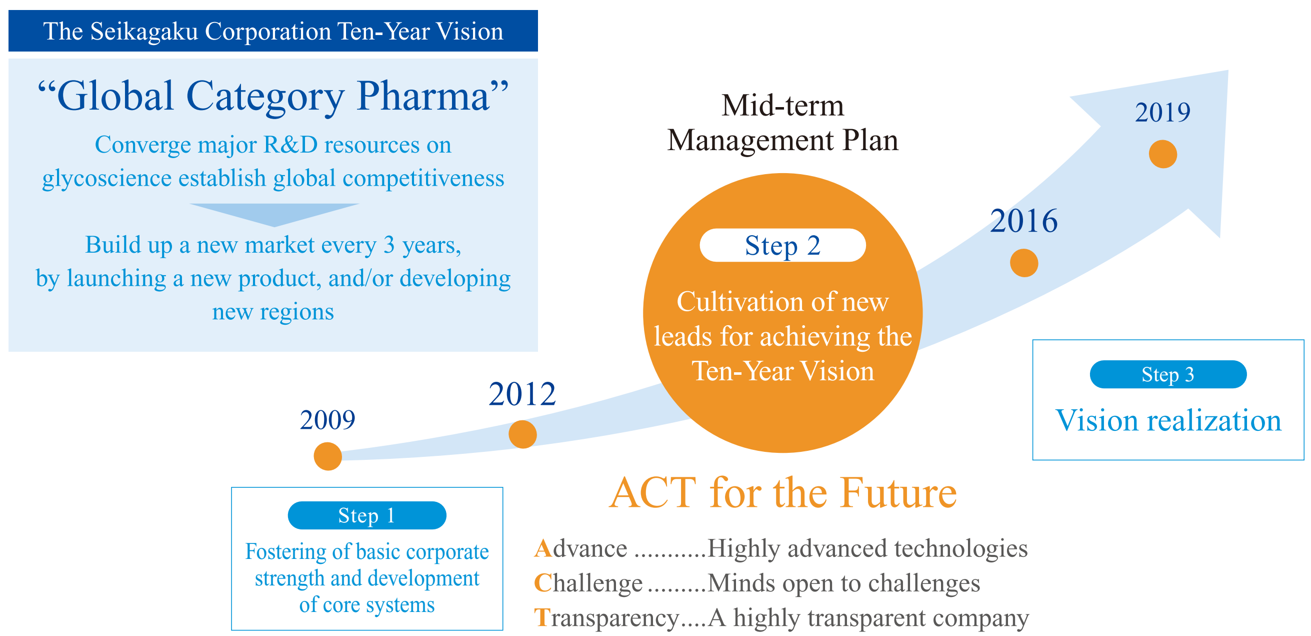
R&D Expenses and Ratio to Net Sales



To Our Shareholders

The Straightest Path to Our Future Vision

The formula for achieving our Ten-Year Vision is based on a wider global perspective as we cultivate new leads for future growth by reinforcing our strengths in competitive specialization, targeted R&D, and manufacture of high-quality products. This middle term we are now in is the time to patiently wait for the seeds to germinate, as the progress we have made in each area becomes a driver of new growth.



Solid progress in cultivating new leads for future growth to realize the Ten-Year Vision

Net sales in the fiscal year ended March 31, 2014 (fiscal 2013) increased as a result of the impact of yen depreciation on overseas sales and an increase in sales volumes of Gel-One, a single-injection injectable treatment for osteoarthritis pain of the knee in the U.S. Income also rose as a result of lower SGA expenses, principally, reduced lawsuit expenses and R&D costs, and a decrease in the income tax rate due to the continued application of preferential taxation following the designation of the Takahagi Plant as a special district for industrial revitalization.

Aspiring to be a "Global Category Pharma" with the power to achieve sustained growth

The past few years have been a time of major transformation in the business environment for the pharmaceutical industry, bringing changes including increasingly tight public healthcare finances, industry realignment on a global scale, and technological innovation in drug discovery research and attendant intensification of competition in new drug development. In these circumstances, we articulated the Seikagaku Corporation Ten-Year Vision with the aim of focusing on glycoscience, our key strength, to enhance competitiveness and standing as a "Global Category Pharma" in order to achieve sustained growth. We are currently implementing a four-year Mid-term Management Plan as the second step toward realization of our Ten-Year Vision, under which we are actively engaging in research, development, production, and marketing to cultivate new leads that will bear fruit.

Progress with the Mid-term Management Plan in fiscal 2013

On the whole, in fiscal 2013, the second year of the Mid-term Management Plan, we made solid progress with measures in a number of areas.

In sales-related activities, we are engaging in promotion activities for Gel-One, a single-injection product for the U.S. market, together with our sales partner Zimmer, Inc., and local sales are steadily increasing even though development of a sales structure is taking longer than expected. In addition, our victory in the Gel-One patent infringement lawsuit was confirmed in January 2014 as a result of the withdrawal of an appeal by the plaintiff, Genzyme Corporation.

Production facilities are being expanded according to the plan. We completed the No. 5 Production Building at the Takahagi Plant, which produces the joint function improving agent ARTZ, and are making preparations for a January 2015 startup. In addition, a dedicated production facility for Gel-One began operation in October 2013, resulting in improved manufacturing efficiency that can cope with sales expansion.

We also made progress with R&D projects in fiscal 2013. In January 2014 we submitted a new drug application in Japan for SI-6603, indicated for the treatment of lumbar disc herniation, and initiated enrollment for a Phase III clinical trial in the U.S. in October 2013. We also initiated patient enrollment for a Phase II/III clinical trial of SI-614, therapeutic drug for dry eye, in the U.S. in August 2014. Development of SI-657, an additional indication for ARTZ for the treatment of enthesopathy anticipated to increase product value, and SI-613, expected to be a next-generation joint function improving agent, is also proceeding.

Measures to increase sales of key products

The U.S. is a market where we expect further growth in the future. Since only 10% of knee osteoarthritis patients out of 15 million in such patients are using hyaluronic products, there remains substantial room for growth of this treatment. In this market environment, a product from which we expect the most is Gel-One.

A year and a half has passed since the full-scale launch of Gel-One. Although local sales are steadily growing, the sales structure development is taking longer than expected. We are striving to achieve a breakthrough in the market by building a presence in single-injection treatment and taking share from competitors. To hasten this development, we are working together with sales partner Zimmer, Inc. to bolster sales channel expansion activities, through measures such as promoting product awareness and inclusion on the formularies of private insurance companies. In addition, we are opening a local representative office in the U.S. in October 2014, which will facilitate support of Zimmer and the gathering of information about the market.

Gel-One enjoys a favorable reputation in the U.S. among physicians who have used it, and we will continue to publicize and promote product strengths by engaging in encouraging product trials. We will work to enhance the product value of Gel-One and are currently conducting a labeling change clinical trial to verify effectiveness at 26 weeks and the safety of retreatment.

The expanding pharmaceutical market in China has grown into a prominent position. Since the launch of ARTZ in China in 1997, we have established brand strength as a high-quality, world-first original product and achieved market penetration, with local sales still steadily increasing.

In Japan, growth in the market environment surrounding ARTZ is becoming difficult due to the impact of National Health Insurance drug price reductions and slowing of market expansion. In spite of these severe circumstances, we have increased the market share of ARTZ, as a result of strenuous sales efforts. Since the population of aged people in Japan is predicted to increase by 2% to 3% per year until 2020, we will seek further market expansion opportunities. We continue to heighten product credibility and value. One of the recent measures is development of pre-filled syringes to meet treatment needs. In addition, we are currently conducting a Phase III clinical trial for an additional indication for ARTZ for the treatment of enthesopathy aimed at improving the symptoms of a greater number of patients.

Increasing corporate value over the medium to long term

During the term of the Mid-term Management Plan, Seikagaku is making proactive investments in key strategic projects to achieve the Ten-Year Vision. Inevitably, high levels of depreciation on capital investment and R&D expenses will put downward pressure on earnings. To our delight, a number of projects are steadily progressing, and we expect the business to follow a growth trajectory during the next management plan as we further develop these projects and bring them to fruition.

For fiscal 2014, we forecast net sales of ¥29,150 million, down 1.6% year on year. Although we expect to increase sales of Gel-One in the U.S. and ARTZ in China, drug price reductions in Japan and an inventory buildup by the sales partner for SUPARTZ in the U.S. in fiscal 2013 will negatively affect sales. We forecast that these unfavorable factors will result in operating income of ¥2,750 million, down 44.3%, and net income of ¥3,450 million, down 27.3%.

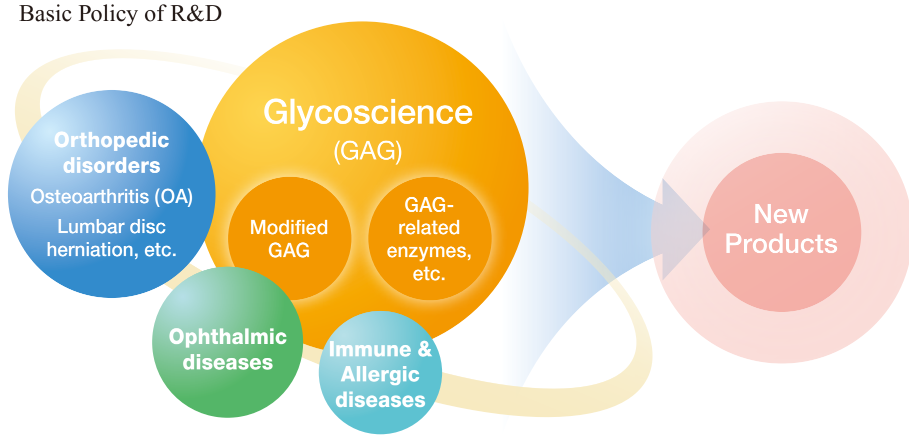
Increasing shareholder value

Seikagaku considers increasing shareholder value to be an important management priority. From the perspective of fairness in the return of profits to shareholders, accompanying the abolition of the shareholder special benefit plan we have decided to increase the basic amount in the dividend policy by ¥1 per year, from ¥25 to ¥26 per share, and plan to pay an annual dividend per share of ¥26 for fiscal 2014.

Seikagaku will continue to focus on increasing shareholder value through sustained growth. I ask the continued understanding and support of our shareholders.

President
Ken Mizutani

Basic Policy of R&D



Seikagaku pursues efficient R&D activities, involving well-targeted compounds and disease areas. Within our core field of glycoscience, and consistent with our established strengths, we focus on developing new products based on glycosaminoglycans* (GAG).

* A family of large polysaccharide components of complex carbohydrates, which play diverse biological roles

Concentrating on Our Strengths

Building a future on a history of glycoscience

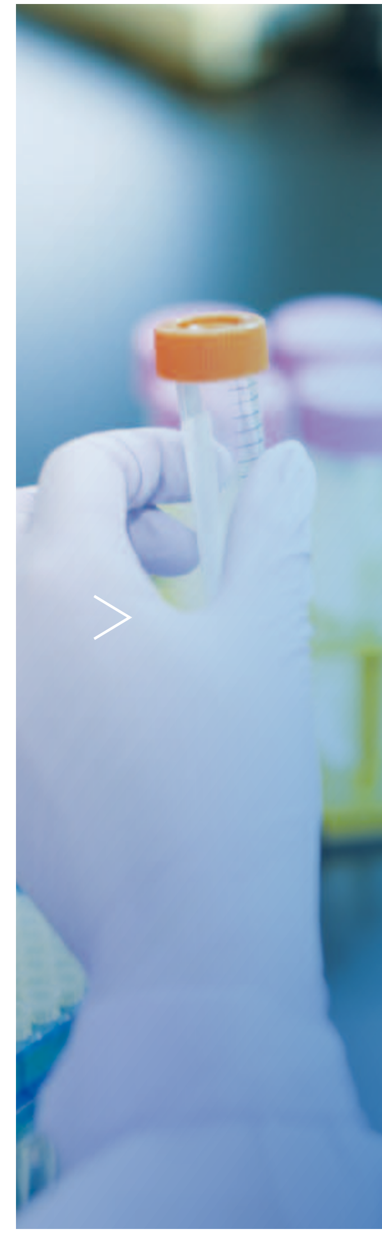
Seikagaku is a leading pioneer in glycoscience research. Long experience and know-how in glycoscience provide a key competitive edge for bringing new products onto the market.

Highest priority research focuses on orthopedic disorders (such as osteoarthritis and lumbar disc herniation), ophthalmic diseases, and immune and allergic diseases. These targets have high potential for significant results, based on the specialized technology infrastructure we have evolved over many years through the development, production, and marketing of GAG-related products. In addition, Seikagaku has broadened the research scope to substances such as modified GAG with properties produced by cross-linking, and GAG-related enzymes.

To maximize new drug launches, the Research and Development Division coordinates a uniquely comprehensive system for communication and workflow that holistically unites the organization. Within this framework, the Central Research Laboratories search for candidate substances, and evaluate efficacy, safety, and pharmacokinetics. The CMC* Laboratories work in parallel on the production of investigational drugs, design of manufacturing processes, and investigation of commercial production—and even, clinical development and post-marketing surveillance.

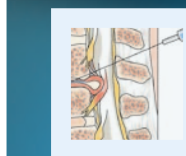
Under this coordinated R&D policy, aimed at driving our evolution as a "Global Category Pharma," Seikagaku intends to continuously provide new products, strengthen timeline management, and accelerate in-house development, while simultaneously continuing to conduct joint projects with outside academic organizations and licensing activities.

* Chemistry, Manufacturing and Control



Our Pipeline

SI-6603
Condoliase for lumbar disc herniation

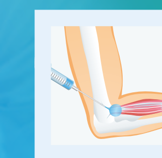


SI-6603 (generic name: condoliase) is an enzyme that, when directly injected into the intervertebral disc under X-ray observation, is expected to reduce pressure on the nerves that cause hernia pain. A single dose of SI-6603 is assumed to be as effective as surgery in alleviating symptoms, so, patients could expect lower physical burdens and improved quality of life (QOL).

In Japan, a Phase III clinical trial demonstrated significant improvement in lower limb pain compared to the placebo at 13 weeks after administration, with no major safety concerns. Seikagaku submitted a new drug application to the Ministry of Health, Labor and Welfare of Japan in January 2014.

In the U.S., Seikagaku is also focusing on the progress of a Phase III trial that began case registration in October 2013.

SI-657
Additional indication of ARTZ for enthesopathy

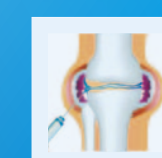


SI-657 is an additional indication of ARTZ being developed jointly with sales partner Kaken Pharmaceutical Co., Ltd. Enthesopathy is inflammation caused by undue burden at the sites where tendons and ligaments bond to the bone in the elbow and other joints. SI-657 is expected to provide pain relief, because hyaluronic acid's high viscoelasticity covers inflamed areas long-term and penetrates tendons and ligaments. The Phase III clinical trial initiated in May 2013 is progressing.

SI-614
Modified hyaluronate for dry eye

SI-614 is a modified hyaluronate produced by Seikagaku's proprietary technology. SI-614 is expected to improve symptoms of dry eye by protecting the ocular surface and promoting corneal epithelial wound healing in dry eye patients. In August 2014, Seikagaku initiated patient enrollment in a Phase II/III clinical trial in the U.S.

SI-613
Treatment for knee osteoarthritis



SI-613 is a new formulation in which hyaluronic acid and a non-steroidal anti-inflammatory drug (NSAID) are chemically bound using a proprietary technology. Having the knee pain relief and anti-inflammatory effect of a sustained release NSAID in addition to the joint function improving effect of hyaluronic acid, SI-613 is expected to provide prompt and long-term relief of intense pain and inflammation associated with knee osteoarthritis. Based on the results of the Phase II clinical trial obtained in December 2013, the next trial is under consideration.

Development code / Product name, etc.	Lead indication	Target market	Phase I	Phase II	Phase III	Application	In-house/In-license
SI-6603 Condoliase	Lumbar disc herniation	Japan U.S.					In-house
SI-657 Hyaluronic acid	Enthesopathy, additional indication of ARTZ	Japan					In-house
SI-614 Modified hyaluronate	Dry eye	U.S.			Phase II/III		In-house
SI-613 Hyaluronic acid-NSAID conjugates	Knee osteoarthritis	Japan					In-house
SI-615 Adenosine A3 receptor agonist	Rheumatoid arthritis	Japan					In-license (Can-Fite BioPharma)

Pharmaceuticals Business

Sales by Segment

85.6%

Worldwide sales of pharmaceuticals and medical devices for the year ended March 31, 2014 (fiscal 2013) rose by 9.6% to ¥25,342 million.

The sales increase is attributable to higher U.S. sales volumes for Gel-One, a single-injection injectable treatment for osteoarthritis pain of the knee, and the impact of yen depreciation.

Domestic Pharmaceuticals: ¥17,995 million (+1.3% compared with fiscal 2012)

ARTZ® 25mg, ARTZ Dispo® 25mg, SUPARTZ®, ARTZAL® etc.

Intra-articular injections for improving joint functions

A world-first multiple-injection hyaluronic acid formulation, launched in 1987. Highly evaluated and used widely as a formulation for the treatment of knee osteoarthritis* with over 330 million injections performed worldwide to date.

* In Japan, ARTZ has also received approval 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.

In Japan, vigorous sales activities supporting ARTZ helped to increase deliveries to medical institutions by 1.4%, and raise market share by 0.8 percentage points to 56.5%, although the growth rate decreased year on year due to the impact of a dragging market.

OPEGAN®, OPEGAN Hi®

Ophthalmic surgical aids

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

Deliveries of OPEGAN to medical institutions increased by 2.1%. However, the market share declined by 1.0 point amid continuing fierce competition, even though we continued sales promotion activities to target medical institutions with sales partner Santen Pharmaceutical Co., Ltd.

MucoUp®

Surgical aids for endoscopic mucosal resection

MucoUp is a surgical aid injected 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.

Our sales of MucoUp rose due to successful activities to increase penetration of endoscopic surgical techniques, conducted with sales partner Johnson & Johnson K.K.

Bulk Products: ¥1,630 million (+15.0%)

Bulk Products

Hyaluronic acid and chondroitin sulfate

Hyaluronic acid is sold mainly to the manufacturers of pharmaceuticals as a raw material. Chondroitin sulfate is widely used as a raw material in pharmaceuticals, ophthalmic products, and drinks for nutritional fortification.

Sales of bulk products increased as sales of hyaluronic acid stayed firm, propelling a 15% rise, compared to sales in fiscal 2012, to ¥1,630 million.

Overseas Pharmaceuticals: ¥5,717 million (+45.1% compared with fiscal 2012)

In the U.S., sales of SUPARTZ, the brand name of ARTZ in the U.S., fell 3.0% as a result of a continuing trend of preference for 3-injection products sold by competitors. Seikagaku's export sales to the U.S. rose due to yen depreciation and inventory build-up by the sales partner.

Export sales of ARTZ to China increased, thanks to the growth of local sales by 15%. The sales partner's continuing effort to expand the products' reputation for high quality and effectiveness succeeded and has led to popularity among medical institutions in major cities. In addition, bribery allegations involving some foreign-based pharmaceutical companies that surfaced last year and exerted negative impact on local sales, have nearly run their course.

Gel-One®

Cross-linked hyaluronate hydrogel for knee osteoarthritis

Formulated for use as a single-injection medical device for the treatment of osteoarthritis pain of the knee, requiring only a significantly lower volume of 3 ml for safe, effective, and complete treatment. Approved for use in the U.S. and sold by sales partner Zimmer, Inc., a global leader in the field of orthopedics.

The U.S. sales are steadily increasing. However, the growth rate was lower than expected because development of the sales infrastructure is taking time.

In January 2014, Genzyme Corporation withdrew an appeal to the United States Court of Appeals for the Federal Circuit of the ruling in the Gel-One patent infringement lawsuit. As a result, Seikagaku's victory was confirmed.

LAL Business

Sales by Segment

14.4%

The LAL business focuses on products related to endotoxin-detecting reagents used mainly for quality control in the manufacture of pharmaceuticals and medical devices, and quality control of dialysis fluid.

LAL Business: ¥4,271 million (+21.6%)

Endotoxin-detecting Reagents

Net sales from the LAL business rose 21.6% compared with fiscal 2012 to ¥4,271 million as a result of an increase in overseas sales of endotoxin-detecting reagents and the impact of yen depreciation.

Basic Policy on Corporate Governance

Good corporate governance is the primary management objective, leading to accurate information gathering, fast decisions, and optimum business supervision. Profoundly aware of our role as a pharmaceutical company, we seek the confidence of all stakeholders. By establishing internal controls, including compliance and risk management, we aim to build a management environment that engenders the trust of society.

Management structure

Board of Directors—The Board of Directors meets monthly and as necessary, to make decisions on tasks stipulated in the Articles of Incorporation, decide on important business, and oversee execution. To encourage flexibility and timeliness, the term of office for directors is one year. The outside director strengthens management oversight with an alternative, fair, and specialized perspective.

Business operations—Seikagaku's managing officer system limits the Board of Directors to decision-making and business execution oversight and segregates the business execution function. Management Committee meetings, attended by full-time directors and managing officers, are, in principle, held weekly for timely issue identification and resolution. To further strengthen internal control, we set up the Risk Management Committee. It is chaired by the director in charge of administration and comprises primarily directors and managing officers of various divisions.

Audit framework

The Audit & Supervisory Board comprises two full-time and three outside members, who share information with full-time members for impartial and professional supervision and audits of the execution of duties. They communicate as necessary with the Audit Department to enhance the supervisory functions.

Compliance system

Seikagaku has a compliance program to ensure socially ethical action and compliance with the stringent regulations of the pharmaceutical industry. Furthermore, there is a Compliance Committee comprising the President and members of the Management Committee.

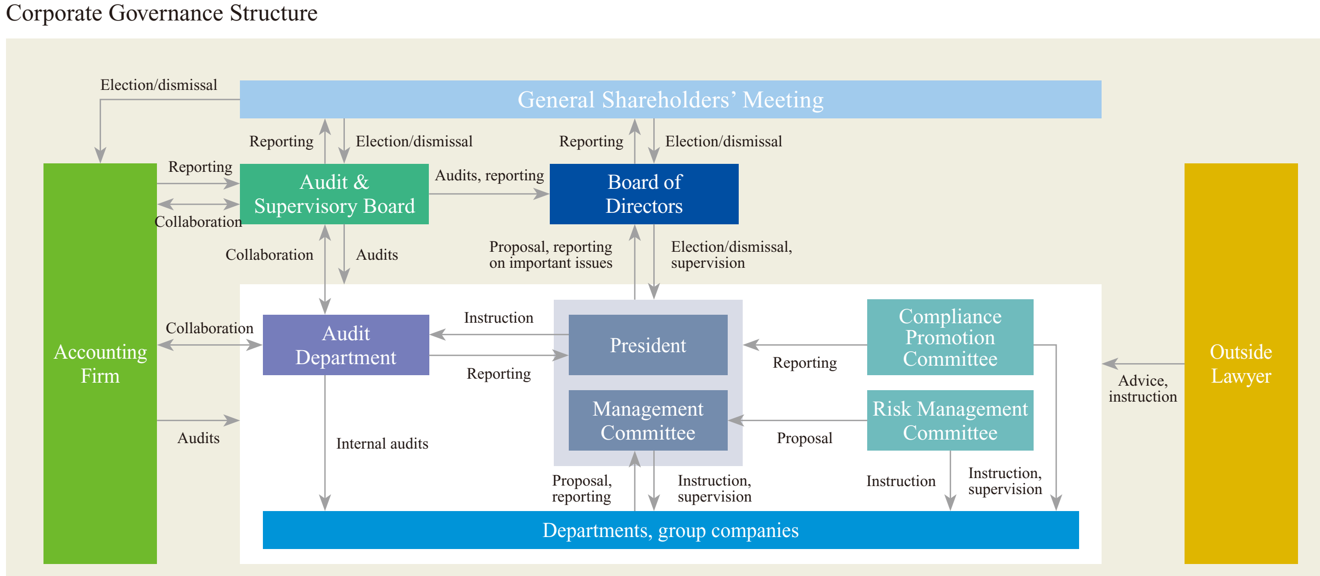
Seikagaku widely distributes a compliance handbook among officers and employees and conducts training to assure compliance groupwide. Advice and instructions from outside lawyers ensure that decisions and daily business are in compliance with laws and regulations.

Policy toward large-scale share purchases

Seikagaku has a policy to prevent inappropriate large-scale purchases of its shares that could harm corporate value and the common interests of shareholders. The aim of this policy is to ensure that, in the event of a large-scale share purchase, clear rules and procedures are in place, not to protect the Company itself, but to ensure that the Company responds appropriately.

The distinct features of this policy are that whether the Company keeps the policy or not is subject to the continued approval by shareholders at the General Shareholders' Meeting and that it establishes a committee, independent of management, as the evaluation organization.

Corporate Governance Structure



For full details, see http://ir.seikagaku.co.jp/en/management/governance.html

Ken Mizutani
PRESIDENT

Toshinori Yagura
SENIOR MANAGING DIRECTOR

Masaomi Miyamoto
EXECUTIVE MANAGING DIRECTOR

Kazuaki Ohnishi
EXECUTIVE MANAGING DIRECTOR

Eiji Katayama
OUTSIDE DIRECTOR

Hideki Kawamura
DIRECTOR

Shinichi Ishikawa
DIRECTOR

Osamu Serizawa
DIRECTOR

Tokushi Mitomi
AUDIT & SUPERVISORY BOARD MEMBER

Yasushi Fukumoto
AUDIT & SUPERVISORY BOARD MEMBER

Nobuhiro Takeuchi
OUTSIDE AUDIT & SUPERVISORY BOARD MEMBER

Junya Sato
OUTSIDE AUDIT & SUPERVISORY BOARD MEMBER

Akifumi Yamada
OUTSIDE AUDIT & SUPERVISORY BOARD MEMBER

Contributing to Society Through Glycoscience

Glycoforum - Gateway to glycoscience

The Glycoforum website shares glycoscience research information online with researchers around the world. As a pharmaceutical company, not only is our mission to improve the health and well-being of people through our activities, but we also proactively contribute to the advancement of glycoscience, a key research field for understanding life processes and diseases. Nature Review has recommended this site since 2000. We believe that Glycoforum can serve as a gateway to glycoscience research.

http://www.glycoforum.gr.jp/

Mizutani Foundation for Glycoscience —supporting research in glycoscience

Established in 1992 with an endowment from our founder, the late Masakane Mizutani, the Foundation contributes to humankind by subsidizing glycoscience researchers in Japan and overseas, supporting international exchanges and sponsoring glycoscience-related conferences. Seikagaku endorses the purpose of the foundation and has continuously supported its activities.

http://www.mizutanifdn.or.jp/

Consolidated Balance Sheet

Seikagaku Corporation and Consolidated Subsidiaries
March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 12)	¥ 8,782	¥ 6,410	$ 85,262
Short-term investments (Notes 4 and 12)	4,279	4,754	41,544
Notes and accounts receivable—trade (Note 12)	7,776	9,075	75,495
Allowance for doubtful accounts	(3)	(2)	(29)
Inventories (Note 5)	5,669	5,039	55,039
Deferred tax assets (Note 11)	1,113	681	10,806
Other current assets	1,042	661	10,116
Total current assets	28,658	26,618	278,233
PROPERTY, PLANT, AND EQUIPMENT:			
Land	972	965	9,437
Buildings and structures	18,507	16,240	179,680
Machinery and equipment	20,631	15,112	200,301
Lease assets (Note 6)	1,163	1,228	11,291
Construction in progress	9,196	10,344	89,282
Total	50,469	43,889	489,991
Accumulated depreciation	(23,551)	(22,422)	(228,651)
Net property, plant, and equipment	26,918	21,467	261,340
INVESTMENTS AND OTHER ASSETS:			
Investment in an unconsolidated subsidiary	25	25	242
Investment securities (Notes 4 and 12)	17,219	20,105	167,175
Goodwill	11	17	107
Deferred tax assets (Note 11)		30	
Other assets (Notes 7 and 9)	1,123	2,381	10,903
Allowance for doubtful accounts	(128)	(172)	(1,243)
Total investments and other assets	18,250	22,386	177,184
TOTAL	¥ 73,826	¥ 70,471	$ 716,757
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Notes and accounts payable—trade (Note 12)	¥ 1,320	¥ 1,521	$ 12,816
Notes and accounts payable—other (Note 12)	3,142	3,624	30,505
Current portion of long-term debt (Notes 8 and 12)		700	
Current portion of long-term lease obligations (Notes 6 and 12)	256	194	2,485
Accrued expenses	826	787	8,020
Accrued income taxes (Note 12)	940	671	9,126
Other current liabilities	181	127	1,757
Total current liabilities	6,665	7,624	64,709
LONG-TERM LIABILITIES:			
Long-term debt (Notes 8 and 12)	1,000		9,709
Long-term lease obligations (Notes 6 and 12)	47	233	456
Liability for retirement benefits (Note 9)	258		2,505
Asset retirement obligations	36	41	350
Deferred tax liabilities (Note 11)	918	1,162	8,912
Other long-term liabilities	116	95	1,126
Total long-term liabilities	2,375	1,531	23,058
EQUITY (Notes 10 and 18):			
Common stock—authorized, 234,000,000 shares; issued, 58,584,093 shares in 2014 and 2013	3,840	3,840	37,281
Capital surplus	5,302	5,302	51,476
Retained earnings	56,139	52,842	545,039
Treasury stock—at cost, 1,778,266 shares in 2014 and 1,777,474 shares in 2013	(2,079)	(2,078)	(20,184)
Accumulated other comprehensive income:			
Unrealized gain on available for sale securities	1,864	1,984	18,097
Foreign currency translation adjustments	153	(574)	1,485
Defined retirement benefit plan	(433)		(4,204)
Total equity	64,786	61,316	628,990
TOTAL	¥ 73,826	¥ 70,471	$ 716,757

See notes to consolidated financial statements.

Consolidated Statement of Income

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
NET SALES (Notes 13 and 17)	¥ 29,615	¥ 26,639	$ 287,524
COST OF SALES	11,224	9,867	108,971
Gross profit	18,391	16,772	178,553
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Note 14)	13,453	13,645	130,611
Operating income	4,938	3,127	47,942
OTHER INCOME (EXPENSES):			
Interest and dividend income	342	359	3,320
Interest expense	(21)	(33)	(204)
Foreign exchange gain	389	153	3,777
Royalty income	106	628	1,029
Gain on sales of investment securities	596		5,786
Business structure improvement expenses (Note 15)	(525)		(5,097)
Other—net	125	68	1,214
Other income—net	1,012	1,175	9,825
INCOME BEFORE INCOME TAXES	5,950	4,302	57,767
INCOME TAXES (Note 11):			
Current	1,522	1,029	14,777
Deferred	(318)	16	(3,088)
Total income taxes	1,204	1,045	11,689
NET INCOME	¥ 4,746	¥ 3,257	$ 46,078

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.q):			
Net income	¥ 83.55	¥ 57.33	$ 0.81
Cash dividends applicable to the year	26.00	25.00	0.25

	Thousands of Shares	
Weighted-average shares	56,806	56,807

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
NET INCOME	¥ 4,746	¥ 3,257	$ 46,078
OTHER COMPREHENSIVE INCOME (Note 16):			
Unrealized (loss) gain on available for sale securities	(119)	1,132	(1,155)
Foreign currency translation adjustments	726	334	7,048
Total other comprehensive income	607	1,466	5,893
COMPREHENSIVE INCOME	¥ 5,353	¥ 4,723	$ 51,971
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO—Owners of the parent	¥ 5,353	¥ 4,723	$ 51,971

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2014

		Millions of Yen							
						Accumulated Other Comprehensive Income			
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available for Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plan	Total Equity
BALANCE, APRIL 1, 2012	58,584,093	¥ 3,840	¥ 5,302	¥ 51,005	¥ (2,077)	¥ 852	¥ (908)		¥ 58,014
Net income				3,257					3,257
Cash dividends, ¥25 per share				(1,420)					(1,420)
Unrealized gain on available for sale securities						1,132			1,132
Net change in foreign currency translation adjustments							334		334
Purchase of treasury stock					(1)				(1)
BALANCE, MARCH 31, 2013	58,584,093	3,840	5,302	52,842	(2,078)	1,984	(574)		61,316
Net income				4,746					4,746
Cash dividends, ¥26 per share				(1,449)					(1,449)
Unrealized loss on available for sale securities						(120)			(120)
Net change in foreign currency translation adjustments							727		727
Net change in defined retirement benefit plan								¥ (433)	(433)
Purchase of treasury stock					(1)				(1)
BALANCE, MARCH 31, 2014	58,584,093	¥ 3,840	¥ 5,302	¥ 56,139	¥ (2,079)	¥ 1,864	¥ 153	¥ (433)	¥ 64,786

	Thousands of U.S. Dollars (Note 1)							
					Accumulated Other Comprehensive Income			
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available for Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plan	Total Equity
BALANCE, MARCH 31, 2013	$ 37,281	$ 51,476	$ 513,029	$ (20,174)	$ 19,262	$ (5,573)		$ 595,301
Net income			46,078					46,078
Cash dividends, $0.25 per share			(14,068)					(14,068)
Unrealized loss on available for sale securities					(1,165)			(1,165)
Net change in foreign currency translation adjustments						7,058		7,058
Net change in defined retirement benefit plan							$ (4,204)	(4,204)
Purchase of treasury stock				(10)				(10)
BALANCE, MARCH 31, 2014	$ 37,281	$ 51,476	$ 545,039	$ (20,184)	$ 18,097	$ 1,485	$ (4,204)	$ 628,990

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
OPERATING ACTIVITIES:			
Income before income taxes	¥ 5,950	¥ 4,302	$ 57,767
Adjustments for:			
Income taxes—paid	(1,275)	(1,303)	(12,379)
Depreciation and amortization	1,777	2,187	17,253
Business structure improvement expenses	525		5,097
Foreign exchange gain	(386)	(53)	(3,748)
Gain on sales of investment securities	(596)		(5,786)
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable—trade	1,372	(138)	13,320
Increase in inventories	(459)	(688)	(4,456)
(Decrease) increase in notes and accounts payable—trade	(214)	263	(2,078)
Decrease in consumption tax payable/receivable	(264)	(93)	(2,563)
Increase in accounts payable—other	357	98	3,466
Decrease in liability for retirement benefits	(133)	(170)	(1,291)
Other—net	(247)	(59)	(2,398)
Net cash provided by operating activities	6,407	4,346	62,204
INVESTING ACTIVITIES:			
Purchases of time deposits		(500)	
Proceeds from maturities of time deposits	1,000		9,709
Proceeds from redemption of short-term investments	4,743	8,349	46,049
Purchases of short-term investments	(335)	(3,635)	(3,252)
Purchases of fixed assets	(7,952)	(10,862)	(77,204)
Proceeds from sales of investment securities	2,234	1,448	21,689
Purchases of investment securities	(2,875)	(2,333)	(27,913)
Other—net	23	(32)	223
Net cash used in investing activities	(3,162)	(7,565)	(30,699)
FINANCING ACTIVITIES:			
Proceeds from long-term debt	1,000		9,709
Repayment of long-term debt	(700)		(6,796)
Repayments of lease obligations	(161)	(205)	(1,563)
Dividends paid	(1,449)	(1,420)	(14,068)
Other—net	(1)	(2)	(10)
Net cash used in financing activities	(1,311)	(1,627)	(12,728)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	438	212	4,252
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS—(Forward)	¥ 2,372	¥(4,634)	$ 23,029
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,410	11,044	62,233
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 8,782	¥ 6,410	$ 85,262

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2014

1. Basis of Presentation of 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 accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the 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 that is more familiar to readers outside Japan. In addition, certain reclassifications have been made to the 2013 consolidated financial statements to conform to the classifications used in 2014.

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 ¥103 to $1, the approximate rate of exchange at March 31, 2014. 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, 2014, include the accounts of the Company and its three significant subsidiaries (collectively, the "Group").

Investment in an unconsolidated subsidiary in 2014 and 2013 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 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 also eliminated.

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—In May 2006, the Accounting Standards Board of Japan ("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 that 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. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or accounting principles generally accepted in the United States of America tentatively may be used for the consolidation process, except for the following items that 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 equity; (c) expensing capitalized development costs of research and development; (d) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; and (e) exclusion of minority interests from net income, if contained in net income.

c. Business Combinations—In October 2003, the Business Accounting Council (the "BAC") issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The accounting standard for business combinations allowed companies to apply the pooling-of-interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation.

d. 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.

e. Short-term Investments and Investment Securities—Short-term investments and investment securities are classified and accounted for, depending on management's intent, as follows: available for sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable 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.

f. 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.

g. 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.

h. Property, Plant, and Equipment—Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment of the Group is computed by the straight-line method based on the estimated useful lives of the assets. The range of useful lives is principally from 15 to 50 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.

i. 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. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

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

All other leases are accounted for as operating leases.

j. 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 is 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.

k. Retirement and Pension Plans—The Company has noncontributory 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 accounts for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses are amortized on a straight-line basis over 10 years within the average remaining service period. Past service costs are amortized on a straight-line basis over 10 years within the average remaining service period.

The Company also has 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.

On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the BAC in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

Major changes are as follows:

(a) Treatment in the balance sheet

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) Treatment in the statement of income and the statement of comprehensive income

The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior-periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

(c) Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increase.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior-periods is required.

The Company applied the revised accounting standard for (a) and (b) above effective March 31, 2014, and expects to apply (c) above from April 1, 2014, and the effects of applying the revised accounting standard for (c) above in future applicable periods are minor.

l. Asset Retirement Obligations—In March 2008, the ASBJ issued 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 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.

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

n. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statement 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 income tax rates to the temporary differences.

o. 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 statement of income.

p. 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 rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

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

q. 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 2014 or 2013.

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

r. 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 following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—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 financial statements are restated.

3. Accounting Change

Beginning with the fiscal year ended March 31, 2014, the Company has changed the method of depreciation of property, plant, and equipment from the previous declining-balance method to the straight-line method to more appropriately reflect the actual characteristics of the business associated with the recent active capital investment.

As a result of the change of depreciation method, depreciation decreased by ¥710 million ($6,893 thousand), and operating income and income before income taxes increased by ¥589 million ($5,718 thousand) for the year ended March 31, 2014, compared to the corresponding amounts that would have been recognized under the previous method.

4. Short-term Investments and Investment Securities

Short-term investments and investment securities as of March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Short-term investments:			
Debt securities	¥ 4,279	¥ 4,754	$ 41,544
Total	¥ 4,279	¥ 4,754	$ 41,544
Investment securities:			
Equity securities	¥ 7,364	¥ 7,723	$ 71,496
Debt securities	8,339	10,643	80,961
Other	1,516	1,739	14,718
Total	¥ 17,219	¥ 20,105	$ 167,175

Information regarding the marketable securities classified as available for sale at March 31, 2014 and 2013, was as follows:

	Millions of Yen			
March 31, 2014	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale:				
Equity securities	¥ 4,800	¥ 2,582	¥ 18	¥ 7,364
Debt securities	12,302	318	2	12,618
Other	1,538	9	31	1,516
March 31, 2013				
Securities classified as available for sale:				
Equity securities	¥ 4,989	¥ 2,768	¥ 34	¥ 7,723
Debt securities	15,014	385	2	15,397
Other	1,745	12	18	1,739

	Thousands of U.S. Dollars			
March 31, 2014	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale:				
Equity securities	$ 46,602	$ 25,068	$ 175	$ 71,495
Debt securities	119,437	3,087	19	122,505
Other	14,932	88	301	14,719

The information for available for sale securities that were sold during the years ended March 31, 2014 and 2013, was as follows:

	Millions of Yen		
March 31, 2014	Proceeds	Realized Gains	Realized Losses
Securities classified as available for sale:			
Equity securities	¥ 1,556	¥ 627	¥ 9
Debt securities	99		
Other	678	6	28
Total	¥ 2,333	¥ 633	¥ 37
March 31, 2013			
Securities classified as available for sale:			
Equity securities	¥ 902	¥ 210	¥ 123
Debt securities	77		21
Other	470		35
Total	¥ 1,449	¥ 210	¥ 179

	Thousands of U.S. Dollars		
March 31, 2014	Proceeds	Realized Gains	Realized Losses
Securities classified as available for sale:			
Equity securities	$ 15,107	$ 6,088	$ 87
Debt securities	961		
Other	6,582	58	272
Total	$ 22,650	$ 6,146	$ 359

The impairment losses on available for sale securities were ¥27 million ($262 thousand) for the year ended March 31, 2014, and ¥65 million for the year ended March 31, 2013.

5. Inventories

Inventories at March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Merchandise and finished products	¥2,965	¥2,809	$28,787
Work in process	1,273	1,178	12,359
Raw materials and supplies	1,431	1,052	13,893
Total	¥5,669	¥5,039	$55,039

6. 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, 2014, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2015	¥ 256	$ 2,485
2016	25	243
2017	16	155
2018	6	58
Total	¥ 303	$ 2,941

(2) Operating Leases

The minimum rental commitments under noncancelable operating leases at March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Due within one year	¥ 17	¥ 12	$ 165
Due after one year	9	16	87
Total	¥ 26	¥ 28	$ 252

7. Long-term Deposits

Long-term deposits in banks of ¥500 million ($4,854 thousand) were included in other assets of investments and other assets as of March 31, 2014, and ¥1,500 million as of March 31, 2013. Annual maturities of the deposits were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 500	$ 4,854

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 the deposits before maturity.

8. Long-term Debt

Long-term debt at March 31, 2014 and 2013, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Loan from bank, 1.07%, due 2013 (unsecured)		¥ 700	
Loan from bank, 0.29%, due 2018 (unsecured)	¥ 1,000		$ 9,709

Annual maturity of long-term debt as of March 31, 2014, was as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2016	¥ 286	$ 2,777
2017	286	2,777
2018	286	2,777
2019	142	1,378

9. Retirement and Pension Plans

The Company has 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.

Year Ended March 31, 2014

(1) The changes in defined benefit obligation for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 5,467	$ 53,078
Current service cost	239	2,320
Interest cost	65	631
Actuarial losses	73	709
Benefits paid	(275)	(2,670)
Balance at end of year	¥ 5,569	$ 54,068

(2) The changes in plan assets for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 4,789	$ 46,495
Expected return on plan assets	124	1,204
Actuarial gains	349	3,388
Contributions from the employer	324	3,146
Benefits paid	(275)	(2,670)
Balance at end of year	¥ 5,311	$ 51,563

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets

	Millions of Yen	Thousands of U.S. Dollars
Funded defined benefit obligation	¥ 5,569	$ 54,068
Plan assets	(5,311)	(51,563)
Net liability arising from defined benefit obligation	¥ 258	$ 2,505

(4) The components of net periodic benefit costs for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 240	$ 2,330
Interest cost	66	641
Expected return on plan assets	(124)	(1,204)
Amortization of prior service cost	(104)	(1,010)
Recognized actuarial losses	114	1,107
Net periodic benefit costs	¥ 192	$ 1,864

(5) Accumulated other comprehensive income on defined retirement benefit plans as of March 31, 2014

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized prior service cost	¥ (95)	$ (922)
Unrecognized actuarial losses	762	7,398
Total	¥ 667	$ 6,476

(6) Plan assets

a Components of plan assets

Plan assets consisted of the following:

Debt investments	23%
Equity investments	37
Others	40
Total	100%

b Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(7) Assumptions used for the year ended March 31, 2014, were set forth as follows:

Discount rate	1.2%
Expected rate of return on plan assets	2.6

The Company has another pension plan, which is a defined contributory pension plan. The amount contributed to the plan, which was charged to income, was ¥55 million ($534 thousand) for the year ended March 31, 2014.

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 ¥48 million ($466 thousand) for the year ended March 31, 2014.

Year Ended March 31, 2013

The asset for retirement benefits at March 31, 2013, consisted of the following:

	Millions of Yen
Projected benefit obligation	¥ 5,467
Fair value of plan assets	(4,789)
Unrecognized prior service cost	199
Unrecognized actuarial loss	(1,153)
Net asset	¥ (276)

Prepaid pension expense of ¥276 million was included in other assets of investments and other assets as of March 31, 2013.

The components of net periodic benefit costs for the year ended March 31, 2013, are as follows:

	Millions of Yen
Service cost	¥ 201
Interest cost	98
Expected return on plan assets	(133)
Amortization of prior service cost	(104)
Recognized actuarial loss	96
Net periodic benefit costs	¥ 158

Assumptions used for the year ended March 31, 2013, are set forth as follows:

Discount rate	1.2%
Expected rate of return on plan assets	3.1%
Amortization period of prior service cost	10 years
Recognition period of actuarial gain (loss)	10 years

The Company has another pension plan, which is a defined contributory pension plan. The amount contributed to the plan, which was charged to income, was ¥55 million for the year ended March 31, 2013.

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 for the year ended March 31, 2013.

10. 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, including (1) having a board of directors, (2) having independent auditors, (3) having an audit and supervisory board, 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 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.

11. Income Taxes

The Company is subject to Japanese national and local taxes based on income that, in the aggregate, resulted in normal effective statutory tax rates of approximately 35% for the year ended March 31, 2014, and 38% for the year ended March 31, 2013. 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, 2014 and 2013, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Deferred tax assets—current:			
Research and development costs	¥ 261	¥ 140	$ 2,534
Accrued bonuses	215	234	2,088
Accounts receivable—other	126		1,223
Enterprise tax payable	116	72	1,126
Other	439	279	4,262
Total	1,157	725	11,233
Deferred tax liabilities—current:			
Other	44	44	427
Total	44	44	427
Net deferred tax assets—current	¥ 1,113	¥ 681	$ 10,806
Deferred tax assets—noncurrent:			
Foreign tax credit	¥ 192	¥ 88	$ 1,864
Other	345	291	3,350
Less valuation allowance	(112)	(129)	(1,088)
Total	425	250	4,126
Deferred tax liabilities—noncurrent:			
Unrealized gain on available for sale securities	950	1,082	9,223
Depreciation	157	127	1,524
Foreign undistributed earnings	156	6	1,514
Other	80	167	777
Total	1,343	1,382	13,038
Net deferred tax liabilities—noncurrent	¥ (918)	¥ (1,132)	$ (8,912)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2014, with the corresponding figures for 2013, is as follows:

	2014	2013
Normal effective statutory tax rate	38.0%	38.0%
Tax credit	(18.5)	(12.6)
Other—net	0.7	(1.1)
Actual effective tax rate	20.2%	24.3%

New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2014, from approximately 38% to 35%. The effect of this change was to decrease deferred tax assets by ¥82 million ($796 thousand) and deferred tax liabilities by ¥35 million ($340 thousand) in the consolidated balance sheet as of March 31, 2014, and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥77 million ($748 thousand) and unrealized gain on available for sale securities by ¥30 million ($291 thousand) in the consolidated balance sheet as of March 31, 2014.

12. Financial Instruments and Related Disclosures

(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 ratings and liquidity. The committee that comprises the president and other members directs investment policy and monitors funds regularly.

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

(3) Concentration of Credit Risk

As of March 31, 2014, 76.8% of total receivables are from two major customers of the Group.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead.

(a) Fair value of financial instruments

	Millions of Yen		
March 31, 2014	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 8,782	¥ 8,782	
Short-term investments	4,279	4,279	
Notes and accounts receivable—trade	7,776	7,776	
Investment securities	17,219	17,219	
Total	¥ 38,056	¥ 38,056	
Notes and accounts payable—trade	¥ 1,320	¥ 1,320	
Notes and accounts payable—other	3,142	3,142	
Accrued income taxes	940	940	
Long-term debt	1,000	980	¥ (20)
Lease obligations	303	292	(11)
Total	¥ 6,705	¥ 6,674	¥ (31)

	Millions of Yen		
March 31, 2013	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 6,410	¥ 6,410	
Short-term investments	4,754	4,754	
Notes and accounts receivable—trade	9,075	9,075	
Investment securities	20,105	20,105	
Total	¥ 40,344	¥ 40,344	
Notes and accounts payable—trade	¥ 1,521	¥ 1,521	
Notes and accounts payable—other	3,624	3,624	
Current portion of long-term debt	700	700	
Accrued income taxes	671	671	
Lease obligations	427	441	¥ 14
Total	¥ 6,943	¥ 6,957	¥ 14

	Thousands of U.S. Dollars		
March 31, 2014	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 85,262	$ 85,262	
Short-term investments	41,544	41,544	
Notes and accounts receivable—trade	75,495	75,495	
Investment securities	167,175	167,175	
Total	$ 369,476	$ 369,476	
Notes and accounts payable—trade	$ 12,816	$ 12,816	
Notes and accounts payable—other	30,505	30,505	
Accrued income taxes	9,126	9,126	
Long-term debt	9,709	9,515	$ (194)
Lease obligations	2,941	2,834	(107)
Total	$ 65,097	$ 64,796	$ (301)

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 asset 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 4.

Notes and Accounts Receivable—Trade

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

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

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

Long-term Debt and Lease Obligations

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

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

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Investment in an unconsolidated subsidiary that does not have a quoted market price in an active market	¥ 25	¥ 25	$ 242

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

	Millions of Yen		
March 31, 2014	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	¥ 8,782		
Short-term investments	4,255		
Notes and accounts receivable—trade	7,776		
Investment securities		¥ 8,192	¥ 500
Total	¥ 20,813	¥ 8,192	¥ 500

	Thousands of U.S. Dollars		
March 31, 2014	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	$ 85,262		
Short-term investments	41,311		
Notes and accounts receivable—trade	75,495		
Investment securities		$ 79,534	$ 4,854
Total	$ 202,068	$ 79,534	$ 4,854

Please see Note 8 for annual maturities of long-term debt and Note 6 for obligations under finance leases.

13. 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 ¥15,610 million for the year ended March 31, 2013.

The similar information for 2014 is disclosed in Note 17.

14. Research and Development Costs

Research and development costs charged to income were ¥6,588 million ($63,961 thousand) and ¥6,838 million for the years ended March 31, 2014 and 2013, respectively.

15. Business Structure Improvement Expenses

The Company recorded an extraordinary loss on costs associated with integration of the Kurihama Plant and Central Research Laboratories, etc.

Business structure improvement expenses consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Dismantlement cost	¥ 253		$ 2,456
Loss on retirement of fixed assets	139		1,350
Soil investigation and improvement cost	131		1,272
Other	2		19
Total	¥ 525		$ 5,097

16. Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Unrealized gain on available for sale securities:			
Gains arising during the year	¥ 316	¥ 1,744	$ 3,068
Reclassification adjustments to profit	(569)	33	(5,524)
Amount before income tax effect	(253)	1,777	(2,456)
Income tax effect	134	(645)	1,301
Total	¥ (119)	¥ 1,132	$ (1,155)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 726	¥334	$ 7,048
Total	¥ 726	¥334	$ 7,048
Total other comprehensive income	¥ 607	¥ 1,466	$ 5,893

17. Segment Information

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," 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.

(1) Description of Reportable Segments

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

(2) Methods of Measurement for the Amounts of Sales, Profit, Loss, Assets, Liabilities, and Other Items for Each Reportable Segment

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

(3) Information about Sales, Profit, Loss, Assets, Liabilities, and Other Items

	Millions of Yen				
	2014				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥ 25,343	¥ 4,272	¥ 29,615		¥ 29,615
Intersegment sales or transfers					
Total	¥ 25,343	¥ 4,272	¥ 29,615		¥ 29,615
Segment profit	¥ 3,963	¥ 975	¥ 4,938		¥ 4,938
Segment assets	68,473	5,353	73,826		73,826
Other:					
Depreciation	1,659	108	1,767		1,767
Amortization of goodwill		10	10		10
Increase in property, plant, and equipment and intangible assets	7,093	129	7,222		7,222

	Millions of Yen				
	2013				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥ 23,125	¥ 3,514	¥ 26,639		¥ 26,639
Intersegment sales or transfers					
Total	¥ 23,125	¥ 3,514	¥ 26,639		¥ 26,639
Segment profit	¥ 2,404	¥ 723	¥ 3,127		¥ 3,127
Segment assets	66,461	4,010	70,471		70,471
Other:					
Depreciation	2,019	156	2,175		2,175
Amortization of goodwill		12	12		12
Increase in property, plant, and equipment and intangible assets	9,107	58	9,165		9,165

	Thousands of U.S. Dollars				
	2014				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	$ 246,048	$ 41,476	$ 287,524		$ 287,524
Intersegment sales or transfers					
Total	$ 246,048	$ 41,476	$ 287,524		$ 287,524
Segment profit	$ 38,476	$ 9,466	$ 47,942		$ 47,942
Segment assets	664,786	51,971	716,757		716,757
Other:					
Depreciation	16,107	1,049	17,156		17,156
Amortization of goodwill		97	97		97
Increase in property, plant, and equipment and intangible assets	68,864	1,253	70,117		70,117

(4) Information about Geographical Areas

a. Sales

Millions of Yen			
2014			
Japan	North America	Other	Total
¥ 20,812	¥ 5,596	¥ 3,207	¥ 29,615

Thousands of U.S. Dollars			
2014			
Japan	North America	Other	Total
$ 202,058	$ 54,330	$ 31,136	$ 287,524

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

b. Property, plant, and equipment

Millions of Yen			
2014			
Japan	North America	Other	Total
¥ 25,672	¥ 1,221	¥ 25	¥ 26,918

Thousands of U.S. Dollars			
2014			
Japan	North America	Other	Total
$ 249,243	$ 11,854	$ 243	$ 261,340

(5) Information about Major Customers

	2014		
Name of Customer	Millions of Yen	Thousands of U.S. Dollars	Related Segment Name
KAKEN PHARMACEUTICAL CO., LTD.	¥15,731	$152,728	Pharmaceutical
BIOVENTUS LLC	3,010	29,223	Pharmaceutical

(6) Information about Goodwill

	Millions of Yen				
	2014				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Amortization of goodwill		¥ 10	¥ 10		¥ 10
Goodwill at March 31, 2014		11	11		11

	Thousands of U.S. Dollars				
	2014				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Amortization of goodwill		$ 97	$ 97		$ 97
Goodwill at March 31, 2014		107	107		107

18. Subsequent Event

Appropriations of Retained Earnings

On June 24, 2014, the Company's shareholders authorized the following appropriations of retained earnings at March 31, 2014:

	Millions of Yen	Thousands of U.S. Dollars
Appropriations—Cash dividends, ¥13 ($0.13) per share	¥ 738	$ 7,165
Total	¥ 738	$ 7,165

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Seikagaku Corporation:

We have audited the accompanying consolidated balance sheet of Seikagaku Corporation and its consolidated subsidiaries as of March 31, 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 its consolidated subsidiaries as of March 31, 2014, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

As discussed in Note 3 to the consolidated financial statements, Seikagaku Corporation changed its method of accounting for depreciation of property, plant, and equipment from the previous declining-balance method to the straight-line method. Our opinion is not qualified in respect of this matter.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

June 24, 2014

Member of
Deloitte Touche Tohmatsu Limited

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 stock registered with the Japan Securities Dealers Association (Now JASDAQ).
1992	Overseas marketing of ARTZ begins (Sweden).
1993	Marketing begins for ARTZ Dispo, a new formulation.
1997	Acquisition of Associates of Cape Cod, Inc. (U.S.A.)
1998	Quality Management System certification ISO 9001/EN 46001, ISO 13485 obtained (superseded by ISO 13485 certification since 2010).
2000	Name of Tokyo Research Institute changed to Central Research Laboratories.
2001	Marketing begins for hyaluronic acid formulation SUPARTZ in U.S.A.
2004	Listing moved to the Tokyo Stock Exchange, Second Section.
2005	Listing moved to the Tokyo Stock Exchange, First Section.
	Head Office relocated to Chiyoda-ku, Tokyo.
2007	Marketing begins for hyaluronic acid medical device MucoUp.
	Seikagaku Biobusiness Corporation established.
2011	Approval obtained for a single-injection hyaluronic acid formulation Gel-One in U.S.A.
2012	Marketing begins for Gel-One in U.S.A.
	Absorption-type merger of Seikagaku Biobusiness Corporation.
2013	CMC Laboratories established.

Investor Information

(As of March 31, 2014)

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

Major Shareholders

	Number of Shares Held (Thousand)	Percentage of Outstanding Shares
Shingyo KK	7,843	13.8
KK Kaiseisha	7,293	12.8
State Street Bank and Trust Company	2,820	5.0
Japan Trustee Services Bank, Ltd. (Trust account)	2,467	4.3
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
The Master Trust Bank of Japan, Ltd. (Trust account)	1,298	2.3
Kaken Pharmaceutical Co., Ltd.	1,207	2.1
Yugengaisha Toueikousan	700	1.2
Mizutani Foundation for Glycoscience (Public benefit account)	693	1.2

Note: Treasury stock (1,778 thousand shares) is excluded from the calculations of percentage above.

Corporate Data

(As of March 31, 2014)

Corporate Profile

Company Name	SEIKAGAKU CORPORATION
Head Office	Marunouchi Center Building 6-1, Marunouchi 1-chome, Chiyoda-ku Tokyo 100-0005, Japan Tel: (81) 3-5220-8950 Fax: (81) 3-5220-8951 URL: http://www.seikagaku.co.jp/english/
Establishment	June 2, 1947
Number of Employees	639 (consolidated basis)
SEIKAGAKU U.S.A. Representative Office	15 Exchange Place Jersey City, New Jersey 07302, U.S.A. Tel: (1) 201-434-8800 Fax: (1) 201-434-8808

Laboratories and Plants

Central Research Laboratories
CMC Laboratories (Tokyo)

Evaluation of efficacy, safety, and pharmacokinetics from the search of candidate substances at the Central Research Laboratories as the principal facilities for drug discovery. Production of investigational drugs, design of manufacturing processes, and investigation of commercial production at the CMC Laboratories.

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

Kurihama Plant (Kanagawa Prefecture)

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

Contacts
3-1, Kurihama 9-chome, Yokosuka-shi
Kanagawa 239-0831, Japan
Tel: (81) 46-835-3311 Fax: (81) 46-834-1918

Takahagi Plant (Ibaraki Prefecture)

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

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

Group Company

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

One of the world's largest manufacturers of products such as Limulus Amebocyte Lysate (LAL), developed to detect and quantify gram-negative bacterial endotoxins and (1→3)-β-D-glucans.

Contacts
124 Bernard E. Saint Jean Drive, East Falmouth
MA 02536, U.S.A.
Tel: (1) 508-540-3444 Fax: (1) 508-540-8680
URL: http://www.acciusa.com/

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 have been accredited by TÜV SÜD Product Service GmbH, a European Notified Body in Germany.

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

SEIKAGAKU CORPORATION

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