

Segment Review

RECENT NEWS AFFECTING PRODUCT SALES

Smith & Nephew (S&N), our sales partner in the U.S., reorganized its sales support structure in 2004 with the establishment of the Clinical Therapies Group to promote SUPARTZ® sales. S&N's recognition and response to the sales potential of SUPARTZ® is a very encouraging trend. As the developer of the product, Seikagaku will provide strong support, including the provision of scientific information. We will work toward the achievement of our sales target, which is a 25% share of the U.S. market by 2007. Our current progress is in line with this goal.

Steps have also been taken to increase sales in markets other than the United States. Sales partners were changed in Italy and China during the year under review. The aim of these moves was to strengthen sales structures in these countries.

In China, sales have stagnated since the initial market launch in 1997 for reasons that include complex distribution formats and competition from numerous generic products manufactured locally. In an effort to boost performance, in January 2004 we commenced sales through a new sales partner, Kunming Baker Norton Pharmaceutical Co., Ltd. which has over 30 sales offices in China as well as high-quality sales personnel. It plans sales activities carefully and actively invests to promote future sales.

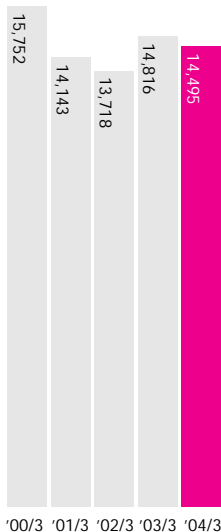
In the past it has been difficult to increase sales in Italy, in part because it is the home country of a strong competitor. We signed a new distribution contract with an Italian company, MDM S.p.A, and sales commenced in late October 2003. MDM is a specialist in the orthopedic field and has a strong base in Italy, where it is expected to bring a flexible approach to marketing.

Sales of ARTZ® products in Japan have been affected by increased use of generic products and reductions in NHI drug prices. On the other hand, the majority of patients for joint improver formulations are elderly, and because this age group is growing in the population, the market in Japan expanded at 4.9% compared with the previous fiscal year. In view of these circumstances, we plan to work closely with Kaken Pharmaceutical Co., Ltd. to promote our products on the basis of our high standards of quality and safety. A key advantage will be the status of our products as frontrunners trusted by the medical community, with the longest sales track record and highest sales in Japan in their class. We will also strive to differentiate our products and maintain sales through determined efforts on various levels, including the expansion our scientific information dissemination activities.

The Japanese market for our other major product, OPEGAN® and OPEGAN Hi®, the ophthalmic surgical aid for cataract surgery, is affected by limits on the number of units per operation, increased use of larger units, and slower growth in the number of cataract operations. However, we expect sales volumes to grow in step with growth of the aged population. We will work even more closely with Santen Pharmaceutical Co., Ltd. to enhance the potential of OPEGAN® products and strengthen sales support. Our assets in this area include reliable quality, and an effective approach to user needs, based on the flexibility that is possible because OPEGAN® is made in Japan.

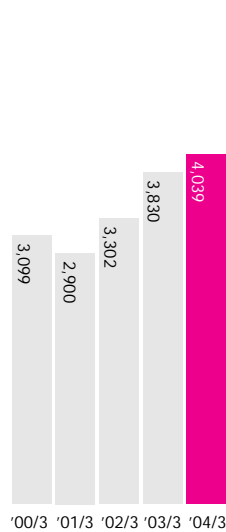
Net Sales of Pharmaceuticals and Medical Devices

(Millions of yen)



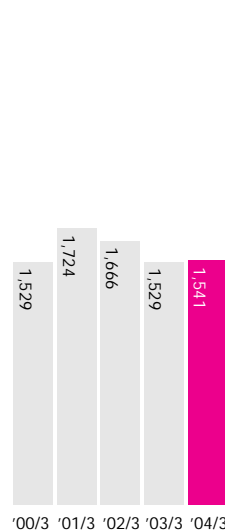
Net Sales of Research Biologics and Diagnostics

(Millions of yen)



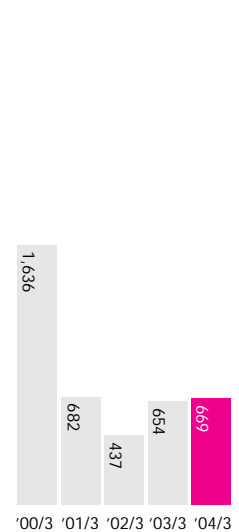
Net Sales of Bulks

(Millions of yen)



Net Sales of Others

(Millions of yen)



PRODUCT SEGMENT	SHARE OF NET SALES	COMMENTS
<p>Pharmaceuticals and Medical Devices</p> 	<p>69.9 %</p>	<p>The joint function improvers ARTZ® and ARTZ Dispo® are Seikagaku's largest-selling products. Against competition during the year under review, the deliveries of ARTZ® and ARTZ Dispo® to hospitals and medical clinics were maintained at the previous year's level of 11-million unit range.</p> <p>Total overseas exports of ARTZ®/SUPARTZ® products rose by 10% to ¥2,071 million, driven mainly by the increase of the U.S. sales of SUPARTZ® (exports grew despite a large additional order from S&N in the previous year to increase their distribution inventories). The overseas sales ratio for pharmaceuticals rose 1 percentage point to 11%.</p> <p>In an environment of strong competition and a 2% market shrinkage, combined sales of OPEGAN® and OPEGAN HI®, declined by 1.5% on a unit sale basis.</p> <p>Consolidated net sales in the Pharmaceuticals and Medical Devices sectors declined by 2.2% from the previous fiscal year to ¥14,495 million.</p>
<p>Research Biologics and Diagnostics</p> 	<p>19.5 %</p>	<p>Consolidated sales in this sector increased by 5.5% to ¥4,039 million. Sales of test kits for detection of food-allergy causing materials grew by nearly 50%, and domestic sales of Fungitec® G test, a diagnostic for invasive fungal infections, and Toxicolor® and Endospecy® endotoxin-assay reagents used for quality control of pharmaceuticals and medical devices also moved favorably.</p> <p>Significant growth was seen in Contract Testing Services (CTS) for endotoxin testing carried out by ACC, our subsidiary in the U.S., on behalf of medical device and drug makers. ACC also grew its sales in Europe of the key lysate products (a series of endotoxin-assay reagents) and enzymes for gene research, resulting in increased revenues.</p>
<p>Bulks</p> 	<p>7.4 %</p>	<p>Bulk sales of hyaluronic acid for medical use have been increasing steadily. Chondroitin sulfate continues to decline due to shrinking market demand and a slump in sales due to the influence of BSE, and we are addressing both issues. Regarding BSE threats to our bovine-based stocks, we are maintaining stocks from sources known to be safe, with our switch to fish-based materials originating from shark species.</p> <p>Consolidated sales in this segment increased by 0.8% to ¥1,541 million.</p>
<p>Others</p> 	<p>3.2 %</p>	<p>Consolidated sales for this segment, which includes oral care products, ingredients for dietary supplements and royalties grew by ¥14 million, to ¥669 million, an increase of 2.2%.</p> <p>Increasing royalties on patents held and from consignment-related agreements was the main factor influencing the increase in consolidated sales.</p>