

FINANCIAL STATEMENTS

Consolidated Balance Sheets March 31, 2005 and 2004 Seikagaku Corporation and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 6,968	¥ 7,593	\$ 65,121
Short-term investments (Note 3)	2,407	3,210	22,495
Notes and accounts receivable—trade	6,601	5,804	61,692
Allowance for doubtful accounts	(11)	(11)	(103)
Inventories (Note 4)	3,762	3,860	35,159
Deferred tax assets (Note 8)	388	607	3,626
Other current assets	272	279	2,543
Total current assets	20,387	21,342	190,533
Property, plant and equipment—at cost:			
Land	710	711	6,635
Buildings and structures	11,480	11,318	107,290
Machinery and equipment	7,633	6,787	71,336
Construction in progress	51	810	477
Total	19,874	19,626	185,738
Accumulated depreciation	(11,039)	(10,638)	(103,168)
Net property, plant and equipment	8,835	8,988	82,570
Investments and other assets:			
Investments in an unconsolidated subsidiary	25	25	233
Investment securities (Note 3)	19,684	16,571	183,963
Goodwill	138	159	1,290
Deferred tax assets (Note 8)	180	479	1,682
Other assets	2,704	1,112	25,271
Allowance for doubtful accounts	(409)	(430)	(3,822)
Total investments and other assets	22,322	17,916	208,617
Total	¥ 51,544	¥ 48,246	\$ 481,720
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Notes and accounts payable—trade	¥ 645	¥ 550	\$ 6,028
Notes and accounts payable—other	1,364	1,220	12,748
Accrued expenses	609	575	5,692
Accrued income taxes	951	764	8,888
Other current liabilities	36	38	336
Total current liabilities	3,605	3,147	33,692
Long-term liabilities—			
Retirement benefits (Note 6)	1,513	1,503	14,140
Total long-term liabilities	1,513	1,503	14,140
Shareholders' equity (Notes 7 and 12):			
Common stock—authorized, 80,000,000 shares; issued, 39,056,062 shares in 2005 and 26,037,375 shares in 2004	3,840	3,840	35,888
Additional paid-in capital	5,302	5,302	49,551
Retained earnings	36,581	33,918	341,879
Unrealized gain on available-for-sale securities	1,018	726	9,514
Foreign currency translation adjustments	(252)	(133)	(2,355)
Treasury stock—at cost, 65,017 shares in 2005 and 40,086 shares in 2004	(63)	(57)	(589)
Total shareholders' equity	46,426	43,596	433,888
Total	¥ 51,544	¥ 48,246	\$ 481,720

See Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity Years Ended March 31, 2005 and 2004
Seikagaku Corporation and Consolidated Subsidiaries

	Millions of Yen						
	Issued Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
Balance, April 1, 2003	26,037,375	¥3,840	¥5,302	¥32,372	¥ 64	¥ (6)	¥(55)
Net income				2,118			
Cash dividends, ¥20 per share				(520)			
Bonuses to directors and corporate auditors				(52)			
Unrealized gain on available-for-sale securities					662		
Net change in foreign currency translation adjustments						(127)	
Purchase of treasury stock							(2)
Balance, March 31, 2004	26,037,375	3,840	5,302	33,918	726	(133)	(57)
Net income				3,625			
Cash dividends, ¥30 per share				(910)			
Bonuses to directors and corporate auditors				(52)			
Stock split (Note 7)	13,018,687						
Unrealized gain on available-for-sale securities					292		
Net change in foreign currency translation adjustments						(119)	
Purchase of treasury stock							(6)
Balance, March 31, 2005	39,056,062	¥3,840	¥5,302	¥36,581	¥1,018	¥(252)	¥(63)

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	
Balance, March 31, 2004	\$35,888	\$49,551	\$316,991	\$6,785	\$(1,243)	\$(533)	
Net income			33,879				
Cash dividends, \$0.28 per share			(8,505)				
Bonuses to directors and corporate auditors			(486)				
Unrealized gain on available-for-sale securities				2,729			
Net change in foreign currency translation adjustments					(1,112)		
Purchase of treasury stock						(56)	
Balance, March 31, 2005	\$35,888	\$49,551	\$341,879	\$9,514	\$(2,355)	\$(589)	

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows Years Ended March 31, 2005 and 2004
Seikagaku Corporation and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Operating activities:			
Income before income taxes	¥ 5,730	¥ 3,624	\$ 53,551
Adjustments for:			
Income taxes—paid	(1,656)	(1,867)	(15,476)
Depreciation and amortization	1,062	879	9,925
Foreign exchange (gain) loss	(47)	366	(439)
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable—trade	(806)	149	(7,533)
Decrease in inventories	73	447	682
Decrease in advance payments for research and development	55	566	514
Increase (decrease) in notes and accounts payable—trade	98	(82)	916
(Decrease) increase in accounts payable—other	(115)	349	(1,075)
Other—net	110	280	1,028
Net cash provided by operating activities	4,504	4,711	42,093
Investing activities:			
Proceeds from sales of short-term investments	3,732	2,799	34,879
Purchases of short-term investments	(1,300)	(1,299)	(12,150)
Purchases of fixed assets	(760)	(1,538)	(7,103)
Proceeds from sales of investment securities	75	281	701
Purchases of investment securities	(4,375)	(4,048)	(40,888)
Increase in a long-term deposit	(1,500)		(14,019)
Other—net	(140)	(57)	(1,308)
Net cash used in investing activities	(4,268)	(3,862)	(39,888)
Financing activities:			
Decrease in short-term borrowings		(190)	
Dividends paid	(908)	(519)	(8,486)
Other—net	(7)	(2)	(65)
Net cash used in financing activities	(915)	(711)	(8,551)
Foreign currency translation adjustments on cash and cash equivalents	54	(13)	505
Net (decrease) increase in cash and cash equivalents	(625)	125	(5,841)
Cash and cash equivalents, beginning of year	7,593	7,468	70,962
Cash and cash equivalents, end of year	¥ 6,968	¥ 7,593	\$ 65,121

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements Years Ended March 31, 2005 and 2004

Seikagaku Corporation and Consolidated Subsidiaries

1. Basis of presenting consolidated financial statements

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2004 financial statements to conform to the classifications used in 2005.

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 translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥107 to \$1, the approximate rate of exchange at March 31, 2005. Such translation should not be construed as representation 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, 2005 and 2004 include the accounts of the Company and its significant five subsidiaries (together, the "Group").

Investment in an unconsolidated subsidiary in 2005 and 2004 is stated at cost. If the equity method of accounting had been applied to the investment in this subsidiary, the effect on the accompanying consolidated financial statements would not be material.

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

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

b. 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 and commercial papers that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

c. Short-term investments and investment securities

Short-term investments and investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized

cost and (2) available-for-sale securities, which are not classified as held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, non-marketable available-for-sale securities are reduced to net realizable value by a charge to income.

d. 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.

e. Inventories

Merchandise and supplies are stated at cost determined by the moving-average method, and finished products, semi-finished products, raw materials and work in process are stated at cost determined by the average method.

f. Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings of the Company acquired on and after April 1, 1998. Property, plant and equipment of consolidated foreign subsidiaries are mainly depreciated by the straight-line method over the estimated useful lives of the assets. The range of useful lives is principally from 15 to 39 years for buildings and structures and from 5 to 15 years for machinery and equipment.

g. Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

h. Retirement and pension plans

The Company has a non-contributory funded defined benefit pension plan 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 Company had additionally participated in a multiemployer plan which is a contributory funded defined pension plan, but withdrew from the plan in March 2005.

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.

Retirement allowances for directors and corporate auditors of the Company are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

i. Research and development costs

Research and development costs are charged to income as incurred.

j. Income taxes

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

k. Appropriations of retained earnings

Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

l. 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 income statement.

m. 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 shareholders' equity, which is translated at the historical rates. Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

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

n. Per share information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. (See Notes 7 and 12.)

The average number of common shares used in the computation was 58,490,733 shares for 2005 and 58,494,395 shares for 2004 reflecting stock splits at July 20, 2004 and May 20, 2005.

Diluted net income per share is not disclosed because there are no dilutive securities in 2005 and 2004.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year, retroactively adjusted for stock splits at July 20, 2004 and May 20, 2005. (See Notes 7 and 12.)

o. New accounting pronouncements

In August 2002, the Business Accounting Council issued a Statement of

Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Group expects to adopt these pronouncements as of April 1, 2005 and is currently in the process of assessing the effect of adoption of these pronouncements.

3. Short-term investments and investment securities

Short-term investments and investment securities as of March 31, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Short-term investments:			
Debt securities	¥ 2,305	¥ 3,107	\$ 21,542
Other	102	103	953
Total	¥ 2,407	¥ 3,210	\$ 22,495
Investment securities:			
Equity securities	¥ 5,389	¥ 4,328	\$ 50,364
Debt securities	11,034	9,331	103,122
Other	3,261	2,912	30,477
Total	¥19,684	¥16,571	\$183,963

Information regarding the securities classified as available-for-sale at March 31, 2005 and 2004, was as follows:

	Millions of Yen			
	March 31, 2005			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 3,659	¥1,736	¥ 16	¥ 5,379
Debt securities	12,472	101	34	12,539
Other	3,416	22	112	3,326
Millions of Yen				
March 31, 2004				
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 2,999	¥1,296	¥77	¥ 4,218
Debt securities	11,631	43	36	11,638
Other	3,013	21	45	2,989

	Thousands of U.S. Dollars			
	March 31, 2005			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	\$ 34,196	\$16,224	\$ 149	\$ 50,271
Debt securities	116,561	953	318	117,196
Other	31,925	206	1,047	31,084

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2005 and 2004, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Available-for-sale:			
Equity securities	¥ 10	¥110	\$ 93
Other	37	25	346
Held-to-maturity	800	800	7,477
Total	¥847	¥935	\$7,916

Proceeds from sales of available-for-sale securities for the years ended March 31, 2005 and 2004 were ¥112 million (\$1,047 thousand) and ¥228 million, respectively. Gross realized losses on these sales, computed on the moving average cost basis, were ¥82 million (\$766 thousand) for the year ended March 31, 2005. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥1 million and ¥68 million, respectively, for the year ended March 31, 2004.

The carrying values of debt securities and other investment by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2005, are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
	Due in one year or less	¥ 1,604	¥800	\$ 14,991
Due after one year through five years	9,911		92,626	
Due after five years through ten years	1,819		17,000	
Due after ten years	509		4,757	
Total	¥13,843	¥800	\$129,374	\$7,477

4. Inventories

Inventories at March 31, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
	Merchandise	¥ 309	¥ 346
Finished products	1,842	1,646	17,215
Semi-finished products	155	143	1,448
Work in process	804	908	7,514
Raw materials and supplies	652	817	6,094
Total	¥3,762	¥3,860	\$35,159

5. Leases

(1) Finance leases

The Company leases certain machinery, equipment and other assets under finance lease agreements. Total lease payments under finance lease arrangements that do not transfer ownership of the leased equipment were ¥417 million (\$3,897 thousand) and ¥501 million for the years ended March 31, 2005 and 2004, respectively.

Pro forma information of leased equipment such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased equipment to the lessee on an "as if capitalized" basis for the years ended March 31, 2005 and 2004, was as follows:

	Millions of Yen		
	2005		
	Machinery and Equipment	Other	Total
Acquisition cost	¥1,971	¥27	¥1,998
Accumulated depreciation	1,671	25	1,696
Net leased property	¥ 300	¥ 2	¥ 302

	Millions of Yen		
	2004		
	Machinery and Equipment	Other	Total
Acquisition cost	¥2,269	¥29	¥2,298
Accumulated depreciation	1,746	21	1,767
Net leased property	¥ 523	¥ 8	¥ 531

	Thousands of U.S. Dollars		
	2005		
	Machinery and Equipment	Other	Total
Acquisition cost	\$18,421	\$252	\$18,673
Accumulated depreciation	15,617	234	15,851
Net leased property	\$ 2,804	\$ 18	\$ 2,822

Obligations, depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
	Due within one year	¥314	¥ 374
Due after one year	458	751	4,280
Total	¥772	¥1,125	\$7,215
Depreciation expense	¥258	¥ 381	\$2,411
Interest expense	38	53	355
Total	¥296	¥ 434	\$2,766

Depreciation expense is computed principally by the declining-balance method. Interest expense is computed by the interest method.

(2) Operating leases

The Group does not have any non-cancelable operating lease at March 31, 2005. The minimum rental commitment at March 31, 2004, was as follows:

	Millions of Yen
Due within one year	¥26

6. Retirement and pension plans

The Company has severance payment plans for employees, directors and corporate auditors.

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. The Company amended its non-contributory funded defined pension plan in March 2005. The new plan is pursuant to the cash balance pension plan.

Employees' retirement benefits for the retirement and pension fund at March 31, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Projected benefit obligation	¥ 4,251	¥ 5,281	\$ 39,729
Fair value of plan assets	(4,112)	(3,854)	(38,430)
Unrecognized prior service cost	1,162	158	10,860
Unrecognized actuarial loss (gain)	12	(317)	112
Net liability	¥ 1,313	¥ 1,268	\$ 12,271

The components of net periodic benefit costs for the years ended March 31, 2005 and 2004, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Service cost	¥236	¥220	\$2,205
Interest cost	132	128	1,234
Expected return on plan assets	(17)	(16)	(159)
Amortization of prior service cost	(31)	(22)	(290)
Recognized actuarial loss	46	75	430
Net periodic benefit costs	¥366	¥385	\$3,420

Assumptions used for the years ended March 31, 2005 and 2004, are set forth as follows:

	2005	2004
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	0.4%	0.5%
Amortization period of prior service cost	10 years	10 years
Recognition period of actuarial loss	10 years	10 years

The Company had another pension plan "Tokyo Pharmaceutical Welfare Pension Fund" which was a multiemployer's pension plan. The normal contribution amounts to the fund which were charged to income were ¥109 million (\$1,019 thousand) and ¥100 million for the years ended March 31, 2005 and 2004, respectively.

The Company withdrew the plan in March 2005, and made additional contribution of ¥1,008 million (\$9,421 thousand) to the fund upon withdrawal at March 31, 2005.

Retirement allowances for directors and corporate auditors are paid subject to approval of the shareholders in accordance with the Japanese Commercial Code (the "Code"). The Company recorded a liability for its unfunded retirement allowance plan covering all of its directors and corporate auditors. The liability for retirement benefits at March 31, 2005 and 2004, for directors and corporate auditors was ¥200 million (\$1,869 thousand) and ¥235 million, respectively. The annual provisions for retirement allowances for directors and corporate auditors for the years ended March 31, 2005 and 2004 were ¥37 million (\$346 thousand) and ¥44 million, respectively.

Certain foreign subsidiaries have defined contributory retirement plans, which mainly consist of a 401(k) plan in the United States of America covering substantially all of their employees. The amount contributed to the plans which was charged to income was ¥33 million (\$308 thousand) and ¥32 million for the years ended March 31, 2005 and 2004, respectively.

7. Shareholders' equity

The Code required at least 50% of the issue price of new shares to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital were credited to additional paid-in capital.

The Code provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of the amount of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the amount of common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥37,390 million (\$349,439 thousand) as of March 31, 2005, based on the amount recorded in the Company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On July 20, 2004, the Company made a stock split in the form of a free share distribution at the rate of 0.5 share for each outstanding share and 13,018,687 shares were issued to shareholders of record on May 31, 2004.

8. Income taxes

The Company is subject to Japanese national and local taxes based on income which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40% for the years ended March 31, 2005 and 2004. 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, 2005 and 2004, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Deferred tax assets (current):			
Research and development costs	¥ 6	¥ 243	\$ 56
Accrued bonuses	200	188	1,869
Other	213	213	1,991
Less valuation allowance	(28)	(32)	(262)
Total	391	612	3,654
Deferred tax liabilities (current):			
Unrealized gain on available-for-sale securities		5	
Other	3		28
Total	3	5	28
Net deferred tax assets (current)	¥ 388	¥ 607	\$ 3,626
Deferred tax assets (non-current):			
Retirement benefits	¥ 605	¥ 601	\$ 5,654
Tax loss carryforwards	357	279	3,337
Amortization	160	205	1,495
Other	302	308	2,822
Less valuation allowance	(224)	(152)	(2,093)
Total	1,200	1,241	11,215
Deferred tax liabilities (non-current):			
Unrealized gain on available-for-sale securities	679	479	6,346
Depreciation	340	282	3,178
Other	1	1	9
Total	1,020	762	9,533
Net deferred tax assets (non-current)	¥ 180	¥ 479	\$ 1,682

A reconciliation between the normal effective statutory tax rate for the year ended March 31, 2005, and the actual effective tax rate reflected in the accompanying consolidated statements of income is as follows:

	2005
Normal effective statutory tax rate	40.0%
Tax credit	(4.7)
Other—net	1.4
Actual effective tax rate	36.7%

No significant difference between the normal effective statutory tax rate and the actual effective tax rate was noted for the year ended March 31, 2004.

At March 31, 2005, a subsidiary in the United States of America has tax loss carryforwards of approximately ¥864 million (\$8,084 thousand) which are available to offset future federal income taxes by the Internal Revenue Code, expiring in 2022, 2023 and 2024. In addition, at March 31, 2005, the subsidiary has tax loss carryforwards of approximately ¥1,058 million (\$9,888 thousand) which are available to offset future state income

taxes. The expiration of the tax loss carryforwards for state tax is 2007 for ¥295 million (\$2,757 thousand), 2008 for ¥601 million (\$5,617 thousand) and 2009 for ¥162 million (\$1,514 thousand).

9. 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 ¥11,059 million (\$103,355 thousand) and ¥10,826 million for the years ended March 31, 2005 and 2004, respectively.

10. Research and development costs

Research and development costs charged to income were ¥3,655 million (\$34,159 thousand) and ¥4,766 million for the years ended March 31, 2005 and 2004, respectively.

11. Segment information

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

Information about geographical segments and sales to foreign

customers of the Group for the years ended March 31, 2005 and 2004, is as follows:

(1) Geographical segments

The geographical segments of the Group for the years ended March 31, 2005 and 2004 are summarized as follows:

	Millions of Yen				
	2005				
	Japan	North America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥20,058	¥1,602	¥905		¥22,565
Interarea transfer	67	405	11	¥ (483)	
Total sales	20,125	2,007	916	(483)	22,565
Operating expenses	13,575	1,946	674	(415)	15,780
Operating income	¥ 6,550	¥ 61	¥242	¥ (68)	¥ 6,785
Total assets	¥53,154	¥4,073	¥565	¥(6,248)	¥51,544

	Millions of Yen				
	2004				
	Japan	North America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥18,461	¥1,523	¥760		¥20,744
Interarea transfer	69	244	6	¥ (319)	
Total sales	18,530	1,767	766	(319)	20,744
Operating expenses	14,261	2,023	557	(339)	16,502
Operating income (loss)	¥ 4,269	¥ (256)	¥209	¥ 20	¥ 4,242
Total assets	¥49,814	¥4,183	¥442	¥(6,193)	¥48,246

	Thousands of U.S. Dollars				
	2005				
	Japan	North America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	\$187,458	\$14,972	\$8,458		\$210,888
Interarea transfer	626	3,785	103	\$ (4,514)	
Total sales	188,084	18,757	8,561	(4,514)	210,888
Operating expenses	126,869	18,187	6,299	(3,878)	147,477
Operating income	\$ 61,215	\$ 570	\$2,262	\$ (636)	\$ 63,411
Total assets	\$496,766	\$38,066	\$5,280	\$(58,392)	\$481,720

(2) Sales to foreign customers

Information regarding sales to foreign customers of the Group for the years ended March 31, 2005 and 2004, is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Sales to foreign customers (A)	¥ 6,004	¥ 4,648	\$ 56.112
Consolidated sales (B)	22,565	20,744	210.888
(A)/(B)	26.6%	22.4%	26.6%

Appropriations:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥20 (\$0.19) per share	¥780	\$7,290
Bonuses to directors and corporate auditors	60	561
Total	¥840	\$7,851

b. Stock split

At the Company's Board of Directors meeting held on March 1, 2005, the directors resolved a stock split to be effected on May 20, 2005, in the form of a free share distribution to shareholders of record on March 31, 2005, at the rate of 0.5 share for each outstanding share. Stated capital will not be changed as a result of this stock split.

12. Subsequent events

a. Appropriations of retained earnings

On June 24, 2005, the shareholders of the Company authorized the following appropriations of retained earnings at March 31, 2005. The following per share information is not retroactively adjusted for stock split noted below: