

FINANCIAL STATEMENTS

Consolidated Balance Sheets March 31, 2006 and 2005 Seikagaku Corporation and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 7,396	¥ 6,968	\$ 63,214
Short-term investments (Note 3)	4,239	2,407	36,231
Notes and accounts receivable—trade	6,349	6,601	54,265
Allowance for doubtful accounts	(2)	(11)	(17)
Inventories (Note 4)	4,082	3,762	34,889
Deferred tax assets (Note 9)	446	388	3,812
Other current assets	407	272	3,478
Total current assets	22,917	20,387	195,872
PROPERTY, PLANT AND EQUIPMENT—At cost:			
Land	715	710	6,111
Buildings and structures	11,942	11,480	102,068
Machinery and equipment	8,351	7,633	71,376
Construction in progress	20	51	171
Total	21,028	19,874	179,726
Accumulated depreciation	(11,945)	(11,039)	(102,094)
Net property, plant and equipment	9,083	8,835	77,632
INVESTMENTS AND OTHER ASSETS:			
Investments in an unconsolidated subsidiary	25	25	214
Investment securities (Note 3)	23,125	19,684	197,649
Goodwill	140	138	1,197
Deferred tax assets (Note 9)		180	
Other assets (Note 6)	2,455	2,704	20,983
Allowance for doubtful accounts	(413)	(409)	(3,530)
Total investments and other assets	25,332	22,322	216,513
TOTAL	¥ 57,332	¥ 51,544	\$ 490,017
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Notes and accounts payable—trade	¥ 698	¥ 645	\$ 5,966
Notes and accounts payable—other	1,264	1,364	10,803
Accrued expenses	647	609	5,530
Accrued income taxes	1,766	951	15,094
Other current liabilities	42	36	359
Total current liabilities	4,417	3,605	37,752
LONG-TERM LIABILITIES:			
Deferred tax liabilities (Note 9)	926		7,915
Retirement benefits (Note 7)	1,285	1,513	10,983
Other long-term liabilities	11		94
Total long-term liabilities	2,222	1,513	18,992
SHAREHOLDERS' EQUITY (Notes 8 and 13):			
Common stock—authorized, 234,000,000 shares in 2006 and 80,000,000 shares in 2005; issued, 58,584,093 shares in 2006 and 39,056,062 shares in 2005	3,840	3,840	32,820
Additional paid-in capital	5,302	5,302	45,316
Retained earnings	39,838	36,581	340,496
Unrealized gain on available-for-sale securities	2,364	1,018	20,205
Foreign currency translation adjustments	(17)	(252)	(145)
Treasury stock—at cost, 572,015 shares in 2006 and 65,017 shares in 2005	(634)	(63)	(5,419)
Total shareholders' equity	50,693	46,426	433,273
TOTAL	¥ 57,332	¥ 51,544	\$ 490,017

See notes to consolidated financial statements.

Consolidated Statements of Income Years Ended March 31, 2006 and 2005
Seikagaku Corporation and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
NET SALES (Notes 10 and 12)	¥23,144	¥22,565	\$ 197,812
COST OF SALES	7,168	6,842	61,265
Gross profit	15,976	15,723	136,547
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	9,075	8,938	77,564
Operating income	6,901	6,785	58,983
OTHER INCOME (EXPENSES):			
Interest and dividend income	289	238	2,470
Foreign exchange gain	351	42	3,000
Loss on disposal of inventories		(241)	
Additional contribution for withdrawal from multiemployer's pension fund		(1,008)	
Other—net	7	(86)	60
Other income (expenses)—net	647	(1,055)	5,530
INCOME BEFORE INCOME TAXES	7,548	5,730	64,513
INCOME TAXES (Note 9):			
Current	2,716	1,786	23,214
Deferred	154	319	1,316
Total income taxes	2,870	2,105	24,530
NET INCOME	¥ 4,678	¥ 3,625	\$ 39,983

PER SHARE OF COMMON STOCK (Note 2.o):	Yen		U.S. Dollars
	2006	2005	2006
Net income	¥79.24	¥60.93	\$ 0.68
Cash dividends applicable to the year	25.00	20.00	0.21

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity Years Ended March 31, 2006 and 2005
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, 2004	26,037,375	¥3,840	¥5,302	¥33,918	¥ 726	¥(133)	¥ (57)
Stock splits	13,018,687						
Net income				3,625			
Cash dividends, ¥20 per share				(910)			
Bonuses to directors and corporate auditors				(52)			
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)
Stock splits	19,528,031						
Net income				4,678			
Cash dividends, ¥25 per share				(1,360)			
Bonuses to directors and corporate auditors				(61)			
Unrealized gain on available-for-sale securities					1,346		
Net change in foreign currency translation adjustments						235	
Purchase of treasury stock							(571)
BALANCE, MARCH 31, 2006	58,584,093	¥3,840	¥5,302	¥39,838	¥2,364	¥ (17)	¥(634)

	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, 2005	\$32,820	\$45,316	\$312,658	\$ 8,701	\$(2,154)	\$ (538)
Net income			39,983			
Cash dividends, \$0.21 per share			(11,624)			
Bonuses to directors and corporate auditors			(521)			
Unrealized gain on available-for-sale securities				11,504		
Net change in foreign currency translation adjustments					2,009	
Purchase of treasury stock						(4,881)
BALANCE, MARCH 31, 2006	\$32,820	\$45,316	\$340,496	\$20,205	\$ (145)	\$(5,419)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows Years Ended March 31, 2006 and 2005
Seikagaku Corporation and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
OPERATING ACTIVITIES:			
Income before income taxes	¥ 7,548	¥ 5,730	\$ 64,513
Adjustments for:			
Income taxes—paid	(1,916)	(1,656)	(16,376)
Depreciation and amortization	1,194	1,062	10,205
Foreign exchange gain	(286)	(47)	(2,444)
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable—trade	260	(806)	2,222
(Increase) decrease in inventories	(224)	73	(1,915)
(Increase) decrease in advance payments for research and development	(166)	55	(1,419)
Increase in notes and accounts payable—trade	28	98	239
Increase (decrease) in accounts payable—other	151	(115)	1,291
(Decrease) increase in retirement benefit	(228)	11	(1,949)
Other—net	179	99	1,530
Net cash provided by operating activities	6,540	4,504	55,897
INVESTING ACTIVITIES:			
Proceeds from sales of short-term investments	2,901	3,732	24,795
Purchases of short-term investments	(2,505)	(1,300)	(21,410)
Purchases of fixed assets	(1,365)	(760)	(11,667)
Proceeds from sales of investment securities	1,151	75	9,838
Purchases of investment securities	(4,586)	(4,375)	(39,197)
Increase in long-term deposits		(1,500)	
Other—net	163	(140)	1,393
Net cash used in investing activities	(4,241)	(4,268)	(36,248)
FINANCING ACTIVITIES:			
Purchases of treasury stock	(573)	(7)	(4,898)
Dividends paid	(1,359)	(908)	(11,615)
Net cash used in financing activities	(1,932)	(915)	(16,513)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS			
ON CASH AND CASH EQUIVALENTS	61	54	522
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	428	(625)	3,658
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,968	7,593	59,556
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 7,396	¥ 6,968	\$ 63,214

See notes to consolidated financial statements.

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 2005 financial statements to conform to the classifications used in 2006.

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 ¥117 to \$1, the approximate rate of exchange at March 31, 2006. 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, 2006 and 2005 include the accounts of the Company and its significant five subsidiaries (together, the "Group").

Investment in an unconsolidated subsidiary in 2006 and 2005 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 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.

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 3 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. *Long-lived Assets*—In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ

Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements were 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 Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

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

The adoption of the new accounting standard did not have an impact on the financial position or results of operations of the Group for the year ended March 31, 2006.

- i. **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. The Company established a contributory funded defined pension plan in 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.

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.

- j. **Research and Development Costs**—Research and development costs are charged to income as incurred.
- k. **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.

- l. **Appropriations of Retained Earnings**—Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

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

- n. **Foreign Currency Financial Statements**—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for 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.

- o. **Per Share Information**—Basic net income per share is computed by dividing net income available to shareholders of common stock by the weighted-average number of shares of common stock outstanding for the period, retroactively adjusted for stock splits. (See Note 8.)

The average number of shares of common stock used in the computation was 58,197,975 shares for 2006 and 58,490,733 shares for 2005, reflecting stock splits at May 20, 2005 and July 20, 2004.

Diluted net income per share is not disclosed because there are no dilutive securities in 2006 and 2005.

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 May 20, 2005 and July 20, 2004. (See Note 8.)

- p. **New Accounting Pronouncements**

Business combination and business separation

In October 2003, BAC issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005 ASBJ issued "Accounting Standard for Business Separations" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Separations." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows 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. These specific criteria are as follows:

- (a) the consideration for the business combination consists solely of common shares with voting rights,
(b) the ratio of voting rights of each predecessor shareholder

group after the business combination is nearly equal, and (c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

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. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options

On December 27, 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. Short-term Investments and Investment Securities

Short-term investments and investment securities as of March 31, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Short-term investments:			
Debt securities	¥ 4,219	¥ 2,305	\$ 36,060
Other	20	102	171
Total	¥ 4,239	¥ 2,407	\$ 36,231
Investment securities:			
Equity securities	¥ 7,807	¥ 5,389	\$ 66,726
Debt securities	11,631	11,034	99,410
Other	3,687	3,261	31,513
Total	¥23,125	¥19,684	\$197,649

Information regarding the marketable securities classified as available-for-sale at March 31, 2006 and 2005, was as follows:

	Millions of Yen			
	March 31, 2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 3,788	¥4,010	¥ 1	¥ 7,797
Debt securities	15,086	115	151	15,050
Other	3,719	2	34	3,687
	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
	Thousands of U.S. Dollars			
	March 31, 2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	\$ 32,376	\$34,274	\$ 9	\$ 66,641
Debt securities	128,940	983	1,291	128,632
Other	31,787	17	291	31,513

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2006 and 2005, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Available-for-sale:			
Equity securities	¥ 10	¥ 10	\$ 85
Other	20	37	171
Held-to-maturity	800	800	6,838
Total	¥ 830	¥ 847	\$ 7,094

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2005 were ¥1,537 million (\$13,137 thousand) and ¥112 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥48 million (\$410 thousand) and ¥29 million (\$248 thousand), respectively, for the year ended March 31, 2006. Gross realized losses on these sales, computed on the moving average cost basis, were ¥82 million, for the year ended March 31, 2005.

The carrying values of debt securities and other investments by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2006, 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	¥ 3,436	¥800	\$ 29,368	\$6,838
Due after one year through five years	10,838		92,632	
Due after five years through ten years	1,867		15,957	
Due after ten years	597		5,103	
Total	¥16,738	¥800	\$143,060	\$6,838

4. Inventories

Inventories at March 31, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Merchandise	¥ 299	¥ 309	\$ 2,556
Finished products	2,073	1,842	17,718
Semi-finished products	97	155	829
Work in process	1,121	976	9,581
Raw materials and supplies	492	480	4,205
Total	¥4,082	¥3,762	\$34,889

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 ¥353 million (\$3,017 thousand) and ¥417

million for the years ended March 31, 2006 and 2005, 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, 2006 and 2005, was as follows:

	Millions of Yen	
	2006	
	Machinery and Equipment	Total
Acquisition cost	¥ 1,875	¥ 1,875
Accumulated depreciation	1,662	1,662
Net leased property	¥ 213	¥ 213

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

	Thousands of U.S. Dollars	
	2006	
	Machinery and Equipment	Total
Acquisition cost	\$ 16,026	\$ 16,026
Accumulated depreciation	14,205	14,205
Net leased property	\$ 1,821	\$ 1,821

Obligations, depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 314	¥ 314	\$ 2,684
Due after one year	228	458	1,948
Total	¥ 542	¥ 772	\$ 4,632
Depreciation expense	¥ 186	¥ 258	\$ 1,590
Interest expense	26	38	222
Total	¥ 212	¥ 296	\$ 1,812

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

(2) Operating Leases

The minimum rental commitments under non-cancelable operating leases at March 31, 2006 and 2005, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 9	¥ 26	\$ 77
Due after one year	28		239
Total	¥ 37	¥ 26	\$ 316

6. Long-term Deposits

Long-term deposits in bank of ¥1,500 million (\$12,821 thousand) were included in other assets of investments and other assets as of March 31, 2006 and 2005. Annual maturities of the deposits were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2010	¥ 500	\$ 4,274
2015	1,000	8,547
Total	¥1,500	\$12,821

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

7. 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.

Employees' retirement benefits for the retirement and pension fund at March 31, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Projected benefit obligation	¥ 4,679	¥ 4,251	\$ 39,991
Fair value of plan assets	(4,907)	(4,112)	(41,940)
Unrecognized prior service cost	1,036	1,162	8,855
Unrecognized actuarial loss	245	12	2,094
Net liability	¥ 1,053	¥ 1,313	\$ 9,000

The components of net periodic benefit costs for the years ended March 31, 2006 and 2005, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Service cost	¥ 161	¥236	\$ 1,376
Interest cost	106	132	906
Expected return on plan assets	(61)	(17)	(521)
Amortization of prior service cost	(127)	(31)	(1,086)
Recognized actuarial loss	18	46	154
Net periodic benefit costs	¥ 97	¥366	\$ 829

Assumptions used for the years ended March 31, 2006 and 2005, are set forth as follows:

	2006	2005
Discount rate	2.0%	2.5%
Expected rate of return on plan assets	1.5%	0.4%
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, the "Tokyo Pharmaceutical Welfare Pension Fund," which was a multi-employer pension plan. The contribution amount to the fund which was charged to income was ¥109 million for the year ended March 31, 2005.

The Company withdrew the plan and made an additional contribution of ¥1,008 million to the fund upon withdrawal on March 31, 2005.

The Company established a defined contribution pension plan in 2006. The amount contributed to the plan, which was charged to income, was ¥43 million (\$368 thousand) for the year ended March 31, 2006.

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, 2006 and 2005, for directors and corporate auditors was ¥232 million (\$1,983 thousand) and ¥200 million, respectively. The annual provisions for retirement allowances for directors and corporate auditors for the years ended March 31, 2006 and 2005 were ¥36 million (\$308 thousand) and ¥37 million, respectively.

Certain foreign subsidiaries have defined contribution 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 ¥35 million (\$316 thousand) and ¥33 million for the years ended March 31, 2006 and 2005, respectively.

8. Shareholders' Equity

Through May 1, 2006, Japanese companies are subject to the Code.

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

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

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased 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 that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥38,872 million (\$332,239 thousand) as of March 31, 2006, based on the amount recorded in the Company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of 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 May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

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

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

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. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for dis-

tribution 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 Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law 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 Corporate Law 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 a specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law 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 shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

On May 20, 2005, the Company split its stock in the form of a free share distribution at the rate of 0.5 share for each outstanding share and 19,528,031 shares were issued to shareholders of record on March 31, 2005.

9. 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, 2006 and 2005. 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, 2006 and 2005, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deferred tax assets (current):			
Accrued bonuses	¥ 204	¥ 200	\$ 1,744
Accrued enterprise tax	155	77	1,325
Other	136	142	1,162
Less valuation allowance	(31)	(28)	(265)
Total	464	391	3,966
Deferred tax liabilities (current):			
Unrealized gain on available-for-sale securities	18		154
Other		3	
Total	18	3	154
Net deferred tax assets (current)	¥ 446	¥ 388	\$ 3,812
Deferred tax assets (non-current):			
Retirement benefits	¥ 514	¥ 605	\$ 4,393
Tax loss carryforwards	487	357	4,163
Investment tax credit	172	161	1,470
Other	146	301	1,248
Less valuation allowance	(334)	(224)	(2,855)
Total	985	1,200	8,419
Deferred tax liabilities (non-current):			
Unrealized gain on available-for-sale securities	1,559	679	13,325
Depreciation	351	340	3,000
Other	1	1	9
Total	1,911	1,020	16,334
Net deferred tax (liabilities) assets (non-current)	¥ (926)	¥ 180	\$(7,915)

A reconciliation between the normal effective statutory tax rate for the year ended March 31, 2005, and the actual effective tax rates 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, 2006.

At March 31, 2006, a subsidiary in the United States of America has tax loss carryforwards of approximately ¥1,181 million (\$10,094 thousand) which are available to offset future federal income taxes under the Internal Revenue Code, expiring in 2022, 2023, 2024 and 2025. In addition, at March 31, 2006, the subsidiary has tax loss carryforwards of approximately ¥1,435 million

(\$12,265 thousand) which are available to offset future state income taxes. The expiration of the tax loss carryforwards for state tax is 2007 for ¥334 million (\$2,855 thousand), 2008 for ¥680 million (\$5,812 thousand), 2009 for ¥286 million (\$2,444 thousand) and 2010 for ¥135 million (\$1,154 thousand).

10. 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 ¥11,061 million (\$94,538 thousand) and ¥11,059 million for the years ended March 31, 2006 and 2005, respectively.

11. Research and Development Costs

Research and development costs charged to income were ¥3,489 million (\$29,821 thousand) and ¥3,655 million for the years ended March 31, 2006 and 2005, respectively.

12. 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, 2006 and 2005, is as follows:

(1) Geographical Segments

The geographical segments of the Group for the years ended March 31, 2006 and 2005 are summarized as follows:

	Millions of Yen				
	2006				
	Japan	North America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 20,890	¥ 1,358	¥ 896		¥ 23,144
Interarea transfer	82	422	25	¥ (529)	
Total sales	20,972	1,780	921	(529)	23,144
Operating expenses	13,975	2,143	693	(568)	16,243
Operating income (loss)	¥ 6,997	¥ (363)	¥ 228	¥ 39	¥ 6,901
Total assets	¥ 57,439	¥ 4,370	¥ 564	¥ (5,041)	¥ 57,332

	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

	Thousands of U.S. Dollars				
	2006				
	Japan	North America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	\$ 178,547	\$ 11,607	\$ 7,658		\$ 197,812
Interarea transfer	701	3,607	214	\$ (4,522)	
Total sales	179,248	15,214	7,872	(4,522)	197,812
Operating expenses	119,445	18,317	5,923	(4,856)	138,829
Operating income (loss)	\$ 59,803	\$ (3,103)	\$ 1,949	\$ 334	\$ 58,983
Total assets	\$ 490,932	\$ 37,350	\$ 4,820	\$ (43,085)	\$ 490,017

(2) Sales to Foreign Customers

Information regarding sales to foreign customers of the Group for the years ended March 31, 2006 and 2005, is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Sales to foreign customers (A)	¥ 6,095	¥ 6,004	\$ 52,094
Consolidated sales (B)	23,144	22,565	197,812
(A)/(B)	26.3%	26.6%	26.3%

13. Subsequent Event

On June 23, 2006, the shareholders of the Company authorized the following appropriations of retained earnings at March 31, 2006:

	Millions of Yen	Thousands of U.S. Dollars
Appropriations:		
Cash dividends, ¥15 (\$0.13) per share	¥870	\$7,436
Bonuses to directors and corporate auditors	66	564
Total	¥936	\$8,000