

## FINANCIAL STATEMENTS

### Consolidated Balance Sheets March 31, 2007 and 2006 Seikagaku Corporation and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	¥ 6,730	¥ 7,396	\$ 57,034
Short-term investments (Note 3)	3,690	4,239	31,271
Notes and accounts receivable—trade	7,946	6,349	67,339
Allowance for doubtful accounts	(3)	(2)	(25)
Inventories (Note 4)	4,074	4,082	34,525
Deferred tax assets (Note 9)	411	446	3,483
Other current assets	956	407	8,102
<b>Total current assets</b>	<b>23,804</b>	<b>22,917</b>	<b>201,729</b>
<b>PROPERTY, PLANT AND EQUIPMENT—At cost:</b>			
Land	716	715	6,068
Buildings and structures	12,291	11,942	104,161
Machinery and equipment	8,554	8,351	72,492
Construction in progress	1,606	20	13,610
<b>Total</b>	<b>23,167</b>	<b>21,028</b>	<b>196,331</b>
Accumulated depreciation	(12,832)	(11,945)	(108,746)
<b>Net property, plant and equipment</b>	<b>10,335</b>	<b>9,083</b>	<b>87,585</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment in an unconsolidated subsidiary	25	25	212
Investment securities (Note 3)	22,807	23,125	193,280
Goodwill	125	140	1,059
Other assets (Note 6)	2,560	2,455	21,695
Allowance for doubtful accounts	(412)	(413)	(3,492)
<b>Total investments and other assets</b>	<b>25,105</b>	<b>25,332</b>	<b>212,754</b>
<b>TOTAL</b>	<b>¥ 59,244</b>	<b>¥ 57,332</b>	<b>\$ 502,068</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Notes and accounts payable—trade	¥ 849	¥ 698	\$ 7,195
Notes and accounts payable—other	1,813	1,264	15,364
Accrued expenses	730	647	6,187
Accrued income taxes	1,093	1,766	9,263
Other current liabilities	87	42	737
<b>Total current liabilities</b>	<b>4,572</b>	<b>4,417</b>	<b>38,746</b>
<b>LONG-TERM LIABILITIES:</b>			
Deferred tax liabilities (Note 9)	1,076	926	9,119
Retirement benefits (Note 7)	616	1,285	5,220
Other long-term liabilities	147	11	1,246
<b>Total long-term liabilities</b>	<b>1,839</b>	<b>2,222</b>	<b>15,585</b>
<b>EQUITY (Notes 8 and 13):</b>			
Common stock—authorized, 234,000,000 shares; issued, 58,584,093 shares in 2007 and 2006	3,840	3,840	32,542
Capital surplus	5,302	5,302	44,932
Retained earnings	41,712	39,838	353,492
Unrealized gain on available-for-sale securities	2,558	2,364	21,678
Foreign currency translation adjustments	56	(17)	474
Treasury stock—at cost, 573,003 shares in 2007 and 572,015 shares in 2006	(635)	(634)	(5,381)
<b>Total equity</b>	<b>52,833</b>	<b>50,693</b>	<b>447,737</b>
<b>TOTAL</b>	<b>¥ 59,244</b>	<b>¥ 57,332</b>	<b>\$ 502,068</b>

See notes to consolidated financial statements.

**Consolidated Statements of Income** Years Ended March 31, 2007 and 2006  
Seikagaku Corporation and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
NET SALES (Notes 10 and 12)	¥ 24,353	¥ 23,144	\$ 206,381
COST OF SALES	7,799	7,168	66,093
Gross profit	16,554	15,976	140,288
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	10,982	9,075	93,068
Operating income	5,572	6,901	47,220
OTHER INCOME (EXPENSES):			
Interest and dividend income	413	289	3,500
Foreign exchange gain	130	351	1,102
Other—net	(36)	7	(305)
Other income—net	507	647	4,297
INCOME BEFORE INCOME TAXES	6,079	7,548	51,517
INCOME TAXES (Note 9):			
Current	2,485	2,716	21,059
Deferred	59	154	500
Total income taxes	2,544	2,870	21,559
NET INCOME	¥ 3,535	¥ 4,678	\$ 29,958

PER SHARE OF COMMON STOCK (Note 2.p):	Yen		U.S. Dollars
	2007	2006	2007
Net income	¥ 60.93	¥ 79.24	\$ 0.52
Cash dividends applicable to the year	25.00	25.00	0.21

See notes to consolidated financial statements.

**Consolidated Statements of Changes in Equity** Years Ended March 31, 2007 and 2006  
Seikagaku Corporation and Consolidated Subsidiaries

	Millions of Yen							
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total Equity
<b>BALANCE, APRIL 1, 2005</b>	<b>39,056,062</b>	<b>¥3,840</b>	<b>¥5,302</b>	<b>¥36,581</b>	<b>¥1,018</b>	<b>¥(252)</b>	<b>¥(63)</b>	<b>¥46,426</b>
Stock splits	19,528,031							
Net income				4,678				4,678
Cash dividends, ¥25 per share				(1,360)				(1,360)
Bonuses to directors and corporate auditors				(61)				(61)
Unrealized gain on available-for-sale securities					1,346			1,346
Net change in foreign currency translation adjustments						235		235
Purchase of treasury stock							(571)	(571)
<b>BALANCE, MARCH 31, 2006</b>	<b>58,584,093</b>	<b>3,840</b>	<b>5,302</b>	<b>39,838</b>	<b>2,364</b>	<b>(17)</b>	<b>(634)</b>	<b>50,693</b>
Net income				3,535				3,535
Cash dividends, ¥27.5 per share				(1,595)				(1,595)
Bonuses to directors and corporate auditors				(66)				(66)
Unrealized gain on available-for-sale securities					194			194
Net change in foreign currency translation adjustments						73		73
Purchase of treasury stock			0				(1)	(1)
<b>BALANCE, MARCH 31, 2007</b>	<b>58,584,093</b>	<b>¥3,840</b>	<b>¥5,302</b>	<b>¥41,712</b>	<b>¥2,558</b>	<b>¥56</b>	<b>¥(635)</b>	<b>¥52,833</b>

	Thousands of U.S. Dollars (Note 1)							
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total Equity	
<b>BALANCE, MARCH 31, 2006</b>	<b>\$32,542</b>	<b>\$44,932</b>	<b>\$337,610</b>	<b>\$20,034</b>	<b>\$(144)</b>	<b>\$(5,373)</b>	<b>\$429,601</b>	
Net income			29,958				29,958	
Cash dividends, \$0.23 per share			(13,517)				(13,517)	
Bonuses to directors and corporate auditors			(559)				(559)	
Unrealized gain on available-for-sale securities				1,644			1,644	
Net change in foreign currency translation adjustments					618		618	
Purchase of treasury stock			0			(8)	(8)	
<b>BALANCE, MARCH 31, 2007</b>	<b>\$32,542</b>	<b>\$44,932</b>	<b>\$353,492</b>	<b>\$21,678</b>	<b>\$474</b>	<b>\$(5,381)</b>	<b>\$447,737</b>	

See notes to consolidated financial statements.

**Consolidated Statements of Cash Flows** Years Ended March 31, 2007 and 2006  
Seikagaku Corporation and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes	¥ 6,079	¥ 7,548	\$ 51,517
Adjustments for:			
Income taxes—paid	(3,212)	(1,916)	(27,220)
Depreciation and amortization	1,228	1,194	10,407
Foreign exchange gain	(112)	(286)	(949)
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable—trade	(1,600)	260	(13,559)
Decrease (increase) in inventories	15	(224)	127
Increase in advance payments for research and development	(469)	(166)	(3,975)
Increase in notes and accounts payable—trade	150	28	1,271
Increase in accounts payable—other	349	151	2,958
Decrease in retirement benefit	(669)	(228)	(5,670)
Other—net	528	179	4,474
Net cash provided by operating activities	2,287	6,540	19,381
<b>INVESTING ACTIVITIES:</b>			
Proceeds from redemption of short-term investments	4,954	2,601	41,983
Proceeds from sales of short-term investments		300	
Purchases of short-term investments	(1,000)	(2,505)	(8,475)
Purchases of fixed assets	(2,436)	(1,365)	(20,644)
Proceeds from sales of investment securities	817	1,151	6,924
Purchases of investment securities	(3,527)	(4,586)	(29,890)
Other—net	(249)	163	(2,110)
Net cash used in investing activities	(1,441)	(4,241)	(12,212)
<b>FINANCING ACTIVITIES:</b>			
Purchases of treasury stock	(1)	(573)	(8)
Dividends paid	(1,592)	(1,359)	(13,492)
Net cash used in financing activities	(1,593)	(1,932)	(13,500)
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS</b>			
ON CASH AND CASH EQUIVALENTS	81	61	687
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(666)	428	(5,644)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,396	6,968	62,678
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 6,730	¥ 7,396	\$ 57,034

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 ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

On December 27, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under Japanese GAAP and has been renamed "the consolidated statement of changes in equity" in the current fiscal year.

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 2006 consolidated financial statements to conform to the classifications used in 2007.

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 ¥118 to \$1, the approximate rate of exchange at March 31, 2007. 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, 2007 and 2006 include the accounts of the Company and its 4 significant (5 in 2006) subsidiaries (together, the "Group").

During the year ended March 31, 2007, the Company liquidated one subsidiary.

Investment in an unconsolidated subsidiary in 2007 and 2006 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, 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.

**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 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 issued a Statement of Opinion, “Accounting for Impairment of Fixed Assets,” and in October 2003 the ASBJ issued ASBJ 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 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.

**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 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.

The liability for retirement benefits for directors and corporate auditors was recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at balance sheet date at March 31, 2006. The liability for retirement benefits includes retirement benefits for those directors and corporate auditors at March 31, 2006 of

¥232 million. The Company abolished the plan of retirement benefits for directors and corporate auditors at June 23, 2006. These benefits related to the term registered will be paid at the time of their retirement. The liabilities of ¥137 million (\$1,161 thousand) for retirement benefits for directors and corporate auditors at abolition date are presented as other long-term liabilities for the year ended March 31, 2007.

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

**k. 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.

The Company adopted the new accounting standard for bonuses to directors and corporate auditors from the year ended March 31, 2007. The effect of adoption of this accounting standard was to decrease income before income taxes for the year ended March 31, 2007 by ¥47 million (\$398 thousand).

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

**m. Appropriations of Retained Earnings**—Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders’ approval.

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

o. **Foreign Currency Financial Statements**—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rates. Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of equity.

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

p. **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 58,011,634 shares for 2007 and 58,197,975 shares for 2006, reflecting stock splits at May 20, 2005.

Diluted net income per share is not disclosed because there are no dilutive securities in 2007 and 2006.

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. (See Note 8.)

q. **New Accounting Pronouncements**

**Measurement of Inventories**—Under Japanese GAAP, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories," which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

**Lease Accounting**—On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard

for lease transactions issued on June 17, 1993.

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

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

**Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**—

Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ PITF No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new task force prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

- (1) Amortization of goodwill
- (2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
- (3) Capitalization of intangible assets arising from development phases
- (4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
- (5) Retrospective application when accounting policies are changed
- (6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

### 3. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Short-term investments:			
Debt securities	¥ 3,687	¥ 4,219	\$ 31,246
Other	3	20	25
Total	¥ 3,690	¥ 4,239	\$ 31,271
Investment securities:			
Equity securities	¥ 8,101	¥ 7,807	\$ 68,653
Debt securities	11,827	11,631	100,229
Other	2,879	3,687	24,398
Total	¥ 22,807	¥ 23,125	\$ 193,280

Information regarding the marketable securities classified as available-for-sale at March 31, 2007 and 2006, was as follows:

	Millions of Yen			
	March 31, 2007			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 3,889	¥ 4,217	¥ 13	¥ 8,093
Debt securities	15,414	173	73	15,514
Other	2,919	5	45	2,879

	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

	Thousands of U.S. Dollars			
	March 31, 2007			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	\$ 32,958	\$ 35,737	\$ 110	\$ 68,585
Debt securities	130,627	1,466	618	131,475
Other	24,737	42	381	24,398

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2007 and 2006, were as follows:

	Carrying Amount		Thousands of U.S. Dollars
	2007	2006	
Available-for-sale:			
Equity securities	¥ 8	¥ 10	\$ 68
Other	3	20	25
Held-to-maturity		800	
Total	¥ 11	¥ 830	\$ 93

Proceeds from sales of available-for-sale securities for the years ended March 31, 2007 and 2006 were ¥816 million (\$6,915 thousand) and ¥1,537 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥28 million (\$237 thousand) and ¥13 million (\$110 thousand), respectively, for the year ended March 31, 2007. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥48 million and ¥29 million, respectively, for the year ended March 31, 2006.

The carrying values of debt securities and other investments by contractual maturities for securities classified as available-for-sale at March 31, 2007 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥ 3,687	\$ 31,246
Due after one year through five years	11,123	94,263
Due after five years through ten years	1,488	12,610
Due after ten years	570	4,830
Total	¥ 16,868	\$ 142,949

### 4. INVENTORIES

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Merchandise	¥ 305	¥ 299	\$ 2,585
Finished products	1,922	2,073	16,288
Semi-finished products	169	97	1,432
Work in process	1,181	1,121	10,008
Raw materials and supplies	497	492	4,212
Total	¥ 4,074	¥ 4,082	\$ 34,525

### 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 ¥354 million (\$3,000 thousand) and ¥353 million for the years ended March 31, 2007 and 2006, 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, 2007 and 2006, was as follows:

	Millions of Yen	
	2007	
	Machinery and Equipment	Total
Acquisition cost	¥ 1,759	¥ 1,759
Accumulated depreciation	1,648	1,648
Net leased property	¥ 111	¥ 111

	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

	Thousands of U.S. Dollars	
	2007	
	Machinery and Equipment	Total
Acquisition cost	\$ 14,907	\$ 14,907
Accumulated depreciation	13,966	13,966
Net leased property	\$ 941	\$ 941

Obligations, depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥ 265	¥ 314	\$ 2,246
Due after one year	41	228	347
Total	¥ 306	¥ 542	\$ 2,593
Depreciation expense	¥ 188	¥ 186	\$ 1,593
Interest expense	17	26	144
Total	¥ 205	¥ 212	\$ 1,737

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, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥ 14	¥ 9	\$ 119
Due after one year	23	28	195
Total	¥ 37	¥ 37	\$ 314

## 6. LONG-TERM DEPOSITS

Long-term deposits in banks of ¥1,500 million (\$12,712 thousand) were included in other assets of investments and other assets as of March 31, 2007 and 2006. Annual maturities of the deposits were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2010	¥ 500	\$ 4,237
2015	1,000	8,475
Total	¥ 1,500	\$ 12,712

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.

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, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Projected benefit obligation	¥ 4,743	¥ 4,679	\$ 40,195
Fair value of plan assets	(5,309)	(4,907)	(44,992)
Unrecognized prior service cost	910	1,036	7,712
Unrecognized actuarial loss	272	245	2,305
Net liability	¥ 616	¥ 1,053	\$ 5,220

The components of net periodic benefit costs for the years ended March 31, 2007 and 2006, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Service cost	¥ 172	¥ 161	\$ 1,458
Interest cost	93	106	788
Expected return on plan assets	(184)	(61)	(1,559)
Amortization of prior service cost	(126)	(127)	(1,068)
Recognized actuarial loss	(16)	18	(136)
Net periodic benefit costs	¥ (61)	¥ 97	\$ (517)

Assumptions used for the years ended March 31, 2007 and 2006, are set forth as follows:

	2007	2006
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	3.7%	1.5%
Amortization period of prior service cost	10 years	10 years
Recognition period of actuarial loss	10 years	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 ¥48 million (\$407 thousand) and ¥43 million for the years ended March 31, 2007 and 2006, 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 ¥37 million (\$314 thousand) and ¥35 million for the years ended March 31, 2007 and 2006, respectively.

## 8. EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan with various revisions that are, for the most part, 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) 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 Corporate Law 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 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 Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. 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 specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of 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 equity or deducted directly from stock acquisition rights.

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, 2007 and 2006. 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, 2007 and 2006, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Deferred tax assets (current):			
Accrued bonuses	¥ 215	¥ 204	\$ 1,822
Other	275	291	2,330
Less valuation allowance	(36)	(31)	(305)
Total	454	464	3,847
Deferred tax liabilities (current):			
Unrealized gain on available-for-sale securities	42	18	356
Other	1		8
Total	43	18	364
Net deferred tax assets (current)	¥ 411	¥ 446	\$ 3,483
Deferred tax assets (non-current):			
Tax loss carryforwards	¥ 579	¥ 487	\$ 4,907
Retirement benefits	247	514	2,093
Deferred assets for tax purposes	244	56	2,068
Investment tax credit	176	172	1,492
Foreign tax credit	163	23	1,381
Allowance for bad debt	160		1,356
Other	184	67	1,559
Less valuation allowance	(809)	(334)	(6,856)
Total	944	985	8,000
Deferred tax liabilities (non-current):			
Unrealized gain on available-for-sale securities	1,663	1,559	14,093
Depreciation	356	351	3,017
Other	1	1	9
Total	2,020	1,911	17,119
Net deferred tax liabilities (non-current)	¥ (1,076)	¥ (926)	\$ (9,119)

No significant difference between the normal effective statutory tax rate and the actual effective tax rate was noted for the years ended March 31, 2007 and 2006.

At March 31, 2007, a subsidiary in the United States of America has tax loss carryforwards of approximately ¥1,437 million (\$12,178 thousand) which are available to offset future federal income taxes under the Internal Revenue Code, expiring in 2022, 2023, 2024, 2025 and 2026. In addition, at March 31, 2007, the subsidiary has tax loss carryforwards of approximately ¥1,525 million (\$12,924 thousand) which are available to offset future state income taxes. The expiration of the tax loss carryforwards for state tax is 2007 for ¥338 million (\$2,864 thousand), 2008 for ¥686 million (\$5,814 thousand), 2009 for ¥288 million (\$2,441 thousand), 2010 for ¥155 million (\$1,314 thousand) and 2011 for ¥58 million (\$491 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 ¥11,967 million (\$101,415 thousand) and ¥11,061 million for the years ended March 31, 2007 and 2006, respectively.

## 11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,537 million (\$38,449 thousand) and ¥3,489 million for the years ended March 31, 2007 and 2006, 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, 2007 and 2006, is as follows:

### (1) Geographical Segments

The geographical segments of the Group for the years ended March 31, 2007 and 2006 are summarized as follows:

	Millions of Yen				
	2007				
	Japan	North America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 21,840	¥ 1,552	¥ 961		¥ 24,353
Interarea transfer	80	467	34	¥ (581)	
Total sales	21,920	2,019	995	(581)	24,353
Operating expenses	16,179	2,423	758	(579)	18,781
Operating income (loss)	¥ 5,741	¥ (404)	¥ 237	¥ (2)	¥ 5,572
Total assets	¥ 59,635	¥ 4,114	¥ 536	¥(5,041)	¥ 59,244

	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

	Thousands of U.S. Dollars				
	2007				
	Japan	North America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	\$ 185,085	\$ 13,152	\$ 8,144		\$ 206,381
Interarea transfer	678	3,958	288	\$ (4,924)	
Total sales	185,763	17,110	8,432	(4,924)	206,381
Operating expenses	137,110	20,534	6,424	(4,907)	159,161
Operating income (loss)	\$ 48,653	\$ (3,424)	\$ 2,008	\$ (17)	\$ 47,220
Total assets	\$ 505,381	\$ 34,865	\$ 4,542	\$ (42,720)	\$ 502,068

### (2) Sales to Foreign Customers

Information regarding sales to foreign customers of the Group for the years ended March 31, 2007 and 2006, is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Sales to foreign customers (A)	¥ 6,400	¥ 6,095	\$ 54,237
Consolidated sales (B)	24,353	23,144	206,381
(A)/(B)	26.3%	26.3%	26.3%

## 13. SUBSEQUENT EVENTS

### a. Appropriations of Retained Earnings

On June 22, 2007, the shareholders of the Company authorized the following appropriations of retained earnings at March 31, 2007:

	Millions of Yen	Thousands of U.S. Dollars
Appropriations—Cash dividends, ¥12.5 (\$0.11) per share	¥ 725	\$ 6,144
Total	¥ 725	\$ 6,144

### b. Repurchase of Treasury Stock

The Company's Board of Directors resolved to purchase treasury stock at the Board of Directors meeting on May 11, 2007, to improve capital efficiency and allow for agile financial policies in accordance with the business environment.

Type of shares:	Common stock
Number of shares:	Limited to 500,000 shares
Cost of shares purchase:	Limited to ¥700 million (\$5,932 thousand)
Period of purchase:	From May 15 to July 31, 2007