

> Financial Statements

Consolidated Balance Sheets

Seikagaku Corporation and Consolidated Subsidiaries
March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 8,406	¥ 6,730	\$ 84,060
Short-term investments (Note 3)	3,784	3,690	37,840
Notes and accounts receivable—trade	7,009	7,946	70,090
Allowance for doubtful accounts	(6)	(3)	(60)
Inventories (Note 4)	3,991	4,074	39,910
Deferred tax assets (Note 10)	954	411	9,540
Other current assets	840	956	8,400
Total current assets	24,978	23,804	249,780
PROPERTY, PLANT AND EQUIPMENT—At cost:			
Land	714	716	7,140
Buildings and structures	12,304	12,291	123,040
Machinery and equipment	8,490	8,554	84,900
Construction in progress	5,659	1,606	56,590
Total	27,167	23,167	271,670
Accumulated depreciation	(13,609)	(12,832)	(136,090)
Net property, plant and equipment	13,558	10,335	135,580
INVESTMENTS AND OTHER ASSETS:			
Investment in an unconsolidated subsidiary	25	25	250
Investment securities (Note 3)	19,873	22,807	198,730
Goodwill	104	125	1,040
Other assets (Note 6)	2,453	2,560	24,530
Allowance for doubtful accounts	(371)	(412)	(3,710)
Total investments and other assets	22,084	25,105	220,840
TOTAL	¥ 60,620	¥ 59,244	\$ 606,200
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Notes and accounts payable—trade	¥ 799	¥ 849	\$ 7,990
Notes and accounts payable—other	2,290	1,813	22,900
Accrued expenses	738	730	7,380
Accrued income taxes	1,678	1,093	16,780
Other current liabilities	67	87	670
Total current liabilities	5,572	4,572	55,720
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)	700		7,000
Retirement benefits (Note 8)	169	616	1,690
Deferred tax liabilities (Note 10)	411	1,076	4,110
Other long-term liabilities	122	147	1,220
Total long-term liabilities	1,402	1,839	14,020
EQUITY (Notes 9 and 14):			
Common stock—authorized, 234,000,000 shares; issued, 58,584,093 shares in 2008 and 2007	3,840	3,840	38,400
Capital surplus	5,302	5,302	53,020
Retained earnings	44,511	41,712	445,110
Unrealized gain on available-for-sale securities	1,162	2,558	11,620
Foreign currency translation adjustments	158	56	1,580
Treasury stock—at cost, 1,074,803 shares in 2008 and 573,003 shares in 2007	(1,327)	(635)	(13,270)
Total equity	53,646	52,833	536,460
TOTAL	¥ 60,620	¥ 59,244	\$ 606,200

See notes to consolidated financial statements.

Consolidated Statements of Income

Seikagaku Corporation and Consolidated Subsidiaries
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
NET SALES (Notes 11 and 13)	¥ 27,630	¥ 24,353	\$ 276,300
COST OF SALES	8,948	7,799	89,480
Gross profit	18,682	16,554	186,820
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	12,005	10,982	120,050
Operating income	6,677	5,572	66,770
OTHER INCOME (EXPENSES):			
Interest and dividend income	451	413	4,510
Foreign exchange (loss) gain	(242)	130	(2,420)
Other—net	(18)	(36)	(180)
Other income—net	191	507	1,910
INCOME BEFORE INCOME TAXES	6,868	6,079	68,680
INCOME TAXES (Note 10):			
Current	2,912	2,485	29,120
Deferred	(288)	59	(2,880)
Total income taxes	2,624	2,544	26,240
NET INCOME	¥ 4,244	¥ 3,535	\$ 42,440

	Yen		U.S. Dollars
	2008	2007	2008
PER SHARE OF COMMON STOCK (Note 2.o):			
Net income	¥ 73.67	¥ 60.93	\$ 0.74
Cash dividends applicable to the year	30.00	25.00	0.30

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Seikagaku Corporation and Consolidated Subsidiaries
Years Ended March 31, 2008 and 2007

	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
BALANCE, APRIL 1, 2006	58,584,093	¥ 3,840	¥ 5,302	¥ 39,838	¥ 2,364	¥ (17)	¥ (634)	¥ 50,693
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)
BALANCE, MARCH 31, 2007	58,584,093	3,840	5,302	41,712	2,558	56	(635)	52,833
Net income				4,244				4,244
Cash dividends, ¥25.0 per share				(1,445)				(1,445)
Unrealized loss on available-for-sale securities					(1,396)			(1,396)
Net change in foreign currency translation adjustments						102		102
Purchase of treasury stock			0				(692)	(692)
BALANCE, MARCH 31, 2008	58,584,093	¥ 3,840	¥ 5,302	¥ 44,511	¥ 1,162	¥ 158	¥ (1,327)	¥ 53,646

	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	
BALANCE, MARCH 31, 2007	\$ 38,400	\$ 53,020	\$ 417,120	\$ 25,580	\$ 560	\$ (6,350)	\$ 528,330	
Net income			42,440				42,440	
Cash dividends, \$0.25 per share			(14,450)				(14,450)	
Unrealized loss on available-for-sale securities				(13,960)			(13,960)	
Net change in foreign currency translation adjustments					1,020		1,020	
Purchase of treasury stock		0				(6,920)	(6,920)	
BALANCE, MARCH 31, 2008	\$ 38,400	\$ 53,020	\$ 445,110	\$ 11,620	\$ 1,580	\$ (13,270)	\$ 536,460	

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Seikagaku Corporation and Consolidated Subsidiaries
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
OPERATING ACTIVITIES:			
Income before income taxes	¥ 6,868	¥ 6,079	\$ 68,680
Adjustments for:			
Income taxes—paid	(2,295)	(3,212)	(22,950)
Depreciation and amortization	1,257	1,228	12,570
Foreign exchange loss (gain)	163	(112)	1,630
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable—trade	931	(1,600)	9,310
Decrease in inventories	51	15	510
Decrease (increase) in advance payments for research and development	120	(469)	1,200
(Decrease) increase in notes and accounts payable—trade	(59)	150	(590)
Increase in accounts payable—other	76	349	760
Decrease in retirement benefit	(447)	(669)	(4,470)
Other—net	80	528	800
Net cash provided by operating activities	6,745	2,287	67,450
INVESTING ACTIVITIES:			
Proceeds from redemption of short-term investments	4,199	4,954	41,990
Purchases of short-term investments	(999)	(1,000)	(9,990)
Purchases of fixed assets	(3,979)	(2,436)	(39,790)
Proceeds from sales of investment securities	1,493	817	14,930
Purchases of investment securities	(4,129)	(3,527)	(41,290)
Other—net	(168)	(249)	(1,680)
Net cash used in investing activities	(3,583)	(1,441)	(35,830)
FINANCING ACTIVITIES:			
Purchases of treasury stock	(697)	(1)	(6,970)
Proceeds from long-term debt	700		7,000
Dividends paid	(1,443)	(1,592)	(14,430)
Other—net	1		10
Net cash used in financing activities	(1,439)	(1,593)	(14,390)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(47)	81	(470)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,676	(666)	16,760
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,730	7,396	67,300
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 8,406	¥ 6,730	\$ 84,060

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Seikagaku Corporation and Consolidated Subsidiaries
Years Ended March 31, 2008 and 2007

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 Financial Instruments and Exchange Law (formerly, 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.

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 2007 financial statements to conform to the classifications used in 2008.

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 ¥100 to \$1, the approximate rate of exchange at March 31, 2008. 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, 2008 and 2007 include the accounts of the Company and its 4 significant subsidiaries (together, the "Group").

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

During the year ended March 31, 2008, the Company established one domestic subsidiary and liquidated one subsidiary.

Investment in an unconsolidated subsidiary in 2008 and 2007 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, 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 is stated at cost determined by the moving-average method and finished products, semi-finished products, raw materials, work in process and supplies are stated at cost determined by the average method.

Effective April 1, 2007, the Company changed its accounting method of supplies from the moving-average method to the average method to unify the accounting method of inventories and to provide more sufficient cost accounting system. The effect of this change is negligible.

f. **Property, Plant and Equipment** Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiary 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 and its consolidated domestic subsidiary 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.

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- g. 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. All other leases are accounted for as operating leases.
- h. Long-lived Assets** The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss 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 and its consolidated domestic subsidiary have non-contributory funded defined benefit pension plans covering substantially all of its employees. The amount of benefits is generally determined on the basis of the current basic rates of compensation and length of service at the time of termination.
- The Company and its consolidated domestic subsidiary account for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.
- The Company and its consolidated domestic subsidiary have 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.
- j. Research and Development Costs** Research and development costs are charged to income as incurred.
- k. Bonuses to Directors and Corporate Auditors** Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.
- 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. 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.
- 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 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.
- 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 9.)
- Diluted net income per share is not disclosed because there are no dilutive securities in 2008 and 2007.
- 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.
- p. 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 Accounting Standards Board of Japan (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. 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.

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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 shall be capitalized recognizing lease assets and lease obligations in the balance sheet.

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 its foreign subsidiaries which have been 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 Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new standard 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, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Short-term investments:			
Debt securities	¥ 3,781	¥ 3,687	\$ 37,810
Other	3	3	30
Total	¥ 3,784	¥ 3,690	\$ 37,840
Investment securities:			
Equity securities	¥ 6,728	¥ 8,101	\$ 67,280
Debt securities	10,892	11,827	108,920
Other	2,253	2,879	22,530
Total	¥19,873	¥22,807	\$ 198,730

Information regarding the marketable securities classified as available-for-sale at March 31, 2008 and 2007 was as follows:

	Millions of Yen			
	March 31, 2008			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 4,527	¥ 2,364	¥ 171	¥ 6,720
Debt securities	14,767	119	213	14,673
Other	2,418		165	2,253

	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

	Thousands of U.S. Dollars			
	March 31, 2008			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	\$ 45,270	\$ 23,640	\$ 1,710	\$ 67,200
Debt securities	147,670	1,190	2,130	146,730
Other	24,180		1,650	22,530

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2008 and 2007 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Available-for-sale:			
Equity securities	¥ 8	¥ 8	\$ 80
Other	3	3	30
Total	¥ 11	¥ 11	\$ 110

Proceeds from sales of available-for-sale securities for the years ended March 31, 2008 and 2007 were ¥1,493 million (\$14,930 thousand) and ¥816 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥18 million (\$180 thousand) and ¥47 million (\$470 thousand), respectively, for the year ended March 31, 2008. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥28 million and ¥13 million, respectively, for the year ended March 31, 2007.

The carrying values of debt securities and other investments by contractual maturities for securities classified as available-for-sale at March 31, 2008 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Due in one year or less	¥ 3,781
Due after one year through five years	10,271	102,710
Due after five years through ten years	906	9,060
Due after ten years	528	5,280
Total	¥ 15,486	\$ 154,860

4. INVENTORIES

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Merchandise	¥ 255	¥ 305	\$ 2,550
Finished products	2,186	1,922	21,860
Semi-finished products	82	169	820
Work in process	900	1,181	9,000
Raw materials and supplies	568	497	5,680
Total	¥ 3,991	¥ 4,074	\$ 39,910

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 ¥290 million (\$2,900 thousand) and ¥354 million for the years ended March 31, 2008 and 2007, 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, 2008 and 2007 was as follows:

	Millions of Yen			
	2008			
	Machinery and Equipment	Construction in Progress	Other	Total
Acquisition cost	¥ 306	¥ 1,013	¥ 8	¥ 1,327
Accumulated depreciation	152		2	154
Net leased property	¥ 154	¥ 1,013	¥ 6	¥ 1,173

	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

	Thousands of U.S. Dollars			
	2008			
	Machinery and Equipment	Construction in Progress	Other	Total
Acquisition cost	\$ 3,060	\$ 10,130	\$ 80	\$ 13,270
Accumulated depreciation	1,520		20	1,540
Net leased property	\$ 1,540	\$ 10,130	\$ 60	\$ 11,730

Obligations, depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Due within one year	¥ 184	¥ 265	\$ 1,840
Due after one year	1,024	41	10,240
Total	¥ 1,208	¥ 306	\$ 12,080
Depreciation expense	¥ 145	¥ 188	\$ 1,450
Interest expense	9	17	90
Total	¥ 154	¥ 205	\$ 1,540

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, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Due within one year	¥ 16	¥ 14	\$ 160
Due after one year	16	23	160
Total	¥ 32	¥ 37	\$ 320

6. LONG-TERM DEPOSITS

Long-term deposits in banks of ¥1,500 million (\$15,000 thousand) were included in other assets of investments and other assets as of March 31, 2008 and 2007. Annual maturities of the deposits were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2010	¥ 500	\$ 5,000
2015	1,000	10,000
Total	¥ 1,500	\$ 15,000

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. LONG-TERM DEBT

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Loan from bank, 1.65%, due to 2010 (unsecured)	¥ 700		\$ 7,000

Annual maturity of long-term debt as of March 31, 2008 was as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2010	¥ 700	\$ 7,000

8. RETIREMENT AND PENSION PLANS

The Company and its consolidated domestic subsidiary have 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, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Projected benefit obligation	¥ 4,649	¥ 4,743	\$ 46,490
Fair value of plan assets	(4,897)	(5,309)	(48,970)
Unrecognized prior service cost	783	910	7,830
Unrecognized actuarial (gain) loss	(366)	272	(3,660)
Net liability	¥ 169	¥ 616	\$ 1,690

The components of net periodic benefit costs for the years ended March 31, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Service cost	¥ 175	¥ 172	\$ 1,750
Interest cost	94	93	940
Expected return on plan assets	(192)	(184)	(1,920)
Amortization of prior service cost	(126)	(126)	(1,260)
Recognized actuarial loss	(7)	(16)	(70)
Net periodic benefit costs	¥ (56)	¥ (61)	\$ (560)

Assumptions used for the years ended March 31, 2008 and 2007 are set forth as follows:

	2008	2007
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	3.6%	3.7%
Amortization period of prior service cost	10 years	10 years
Recognition period of actuarial gain/loss	10 years	10 years

The Company and domestic subsidiary have another pension plan, which is a defined contributory pension plan. The amount contributed to the plan, which was charged to income, was ¥50 million (\$500 thousand) and ¥48 million for the years ended March 31, 2008 and 2007, 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 ¥40 million (\$400 thousand) and ¥37 million for the years ended March 31, 2008 and 2007, respectively.

9. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions 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.

10. INCOME TAXES

The Company and its domestic subsidiary are 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, 2008 and 2007. 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, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Deferred tax assets (current):			
Research and development costs	¥ 414	¥ 6	\$ 4,140
Accrued bonuses	232	215	2,320
Accrued enterprise tax	148	85	1,480
Other	200	184	2,000
Less valuation allowance	(33)	(36)	(330)
Total	961	454	9,610
Deferred tax liabilities (current):			
Unrealized gain on available-for-sale securities	7	42	70
Other		1	
Total	7	43	70
Net deferred tax assets (current)	¥ 954	¥ 411	\$ 9,540
Deferred tax assets (non-current):			
Tax loss carryforwards	¥ 716	¥ 579	\$ 7,160
Foreign tax credit	266	163	2,660
Deferred assets for tax purposes	213	244	2,130
Investment tax credit	179	176	1,790
Allowance for bad debt	144	160	1,440
Other	239	431	2,390
Less valuation allowance	(1,034)	(809)	(10,340)
Total	723	944	7,230
Deferred tax liabilities (non-current):			
Unrealized gain on available-for-sale securities	765	1,663	7,650
Depreciation	358	356	3,580
Other		1	
Total	1,123	2,020	11,230
Net deferred tax liabilities (non-current)	¥ (400)	¥ (1,076)	\$ (4,000)

No significant difference between the normal effective statutory tax rate and the actual effective tax rate was noted for the years ended March 31, 2008 and 2007.

At March 31, 2008, a subsidiary in the United States of America has tax loss carryforwards of approximately ¥1,874 million (\$18,740 thousand) which are available to offset future federal income taxes under the Internal Revenue Code, expiring in 2022, 2023, 2024, 2025, 2026 and 2027. In addition, at March 31, 2008, the subsidiary has tax loss carryforwards of approximately ¥1,323 million (\$13,230 thousand) which are available to offset future state income taxes. The expiration of the tax loss carryforwards for state tax is 2008 for ¥387 million (\$3,870 thousand), 2009 for ¥276 million (\$2,760 thousand), 2010 for ¥149 million (\$1,490 thousand), 2011 for ¥215 million (\$2,150 thousand) and 2012 for ¥296 million (\$2,960 thousand).

11. 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 ¥12,990 million (\$129,900 thousand) and ¥11,967 million for the years ended March 31, 2008 and 2007, respectively.

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥5,654 million (\$56,540 thousand) and ¥4,537 million for the years ended March 31, 2008 and 2007, respectively.

13. 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, 2008 and 2007 is as follows:

(1) Geographical Segments

The geographical segments of the Group for the years ended March 31, 2008 and 2007 are summarized as follows:

	Millions of Yen				
	2008				
	Japan	North America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 24,702	¥ 1,737	¥ 1,191		¥ 27,630
Interarea transfer	80	726	38	¥ (844)	
Total sales	24,782	2,463	1,229	(844)	27,630
Operating expenses	18,417	2,847	1,123	(1,434)	20,953
Operating income (loss)	¥ 6,365	¥ (384)	¥ 106	¥ 590	¥ 6,677
Total assets	¥ 69,764	¥ 3,638	¥ 618	¥ (13,400)	¥ 60,620

	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

Thousands of U.S. Dollars

	2008				
	Japan	North America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	\$ 247,020	\$ 17,370	\$ 11,910		\$ 276,300
Interarea transfer	800	7,260	380	\$ (8,440)	
Total sales	247,820	24,630	12,290	(8,440)	276,300
Operating expenses	184,170	28,470	11,230	(14,340)	209,530
Operating income (loss)	\$ 63,650	\$ (3,840)	\$ 1,060	\$ 5,900	\$ 66,770
Total assets	\$ 697,640	\$ 36,380	\$ 6,180	\$ (134,000)	\$ 606,200

(2) Sales to Foreign Customers

Information regarding sales to foreign customers of the Group for the years ended March 31, 2008 and 2007 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Sales to foreign customers (A)	¥ 7,770	¥ 6,400	\$ 77,700
Consolidated sales (B)	27,630	24,353	276,300
(A)/(B)	28.1%	26.3%	28.1%

14. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

On June 20, 2008, the shareholders of the Company authorized the following appropriations of retained earnings at March 31, 2008:

	Millions of Yen	Thousands of U.S. Dollars
Appropriations—Cash dividends, ¥17.5 (\$0.18) per share	¥ 1,006	\$ 10,060
Total	¥ 1,006	\$ 10,060

b. Repurchase of Treasury Stock

The Company's Board of Directors resolved to purchase treasury stock at the Board of Directors meeting on May 13, 2008, 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 purchased:	Limited to ¥650 million (\$6,500 thousand)
Period of purchase:	From May 15 to July 29, 2008