

Consolidated Balance Sheets

Seikagaku Corporation and Consolidated Subsidiaries
March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 6,799	¥ 8,406	\$ 69,378
Short-term investments (Note 3)	3,889	3,784	39,684
Notes and accounts receivable—trade	7,760	7,009	79,184
Allowance for doubtful accounts	(9)	(6)	(92)
Inventories (Note 4)	3,921	3,991	40,010
Deferred tax assets (Note 10)	720	954	7,347
Other current assets	1,962	840	20,020
Total current assets	25,042	24,978	255,531
PROPERTY, PLANT AND EQUIPMENT—At cost:			
Land	1,071	714	10,929
Buildings and structures	13,906	12,304	141,898
Machinery and equipment	12,213	8,490	124,622
Lease assets	1,289		13,153
Construction in progress		5,659	
Total	28,479	27,167	290,602
Accumulated depreciation	(15,265)	(13,609)	(155,765)
Net property, plant and equipment	13,214	13,558	134,837
INVESTMENTS AND OTHER ASSETS:			
Investment in an unconsolidated subsidiary	25	25	255
Investment securities (Note 3)	17,857	19,873	182,214
Goodwill	70	104	714
Other assets (Note 6)	2,352	2,453	24,000
Allowance for doubtful accounts	(345)	(371)	(3,520)
Total investments and other assets	19,959	22,084	203,663
TOTAL	¥ 58,215	¥ 60,620	\$ 594,031
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Notes and accounts payable—trade	¥ 883	¥ 799	\$ 9,010
Notes and accounts payable—other	2,039	2,290	20,806
Accrued expenses	761	738	7,765
Accrued income taxes	251	1,678	2,561
Other current liabilities	277	67	2,827
Total current liabilities	4,211	5,572	42,969
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)	700	700	7,143
Lease obligations (Note 5)	878		8,959
Retirement benefits (Note 8)		169	
Deferred tax liabilities (Note 10)		411	
Other long-term liabilities	117	122	1,194
Total long-term liabilities	1,695	1,402	17,296
EQUITY (Notes 9 and 14):			
Common stock—authorized, 234,000,000 shares; issued, 58,584,093 shares in 2009 and 2008	3,840	3,840	39,184
Capital surplus	5,302	5,302	54,102
Retained earnings	45,967	44,511	469,051
Unrealized (loss) gain on available-for-sale securities	(126)	1,162	(1,285)
Foreign currency translation adjustments	(598)	158	(6,102)
Treasury stock—at cost, 1,775,337 shares in 2009 and 1,074,803 shares in 2008	(2,076)	(1,327)	(21,184)
Total equity	52,309	53,646	533,766
TOTAL	¥ 58,215	¥ 60,620	\$ 594,031

See notes to consolidated financial statements.

Consolidated Statements of Income

Seikagaku Corporation and Consolidated Subsidiaries
Years Ended March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
NET SALES (Notes 11 and 13)	¥ 27,207	¥ 27,630	\$ 277,623
COST OF SALES	9,984	8,948	101,878
Gross profit	17,223	18,682	175,745
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	12,493	12,005	127,480
Operating income	4,730	6,677	48,265
OTHER INCOME (EXPENSES):			
Interest and dividend income	454	451	4,633
Interest expense	(62)	(10)	(633)
Foreign exchange loss	(90)	(242)	(918)
Other—net	(165)	(8)	(1,684)
Other income—net	137	191	1,398
INCOME BEFORE INCOME TAXES	4,867	6,868	49,663
INCOME TAXES (Note 10):			
Current	1,262	2,912	12,877
Deferred	430	(288)	4,388
Total income taxes	1,692	2,624	17,265
NET INCOME	¥ 3,175	¥ 4,244	\$ 32,398

	Yen		U.S. Dollars
	2009	2008	2009
PER SHARE OF COMMON STOCK (Note 2.o):			
Net income	¥ 55.68	¥ 73.67	\$ 0.57
Cash dividends applicable to the year	25.00	30.00	0.26

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Seikagaku Corporation and Consolidated Subsidiaries
Years Ended March 31, 2009 and 2008

	Millions of Yen							
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized (Loss) Gain on Available- for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total Equity
BALANCE, APRIL 1, 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							(692)	(692)
BALANCE, MARCH 31, 2008	58,584,093	3,840	5,302	44,511	1,162	158	(1,327)	53,646
Net income				3,175				3,175
Cash dividends, ¥30.0 per share				(1,719)				(1,719)
Unrealized loss on available-for-sale securities					(1,288)			(1,288)
Net change in foreign currency translation adjustments						(756)		(756)
Purchase of treasury stock							(749)	(749)
BALANCE, MARCH 31, 2009	58,584,093	¥ 3,840	¥ 5,302	¥45,967	¥ (126)	¥(598)	¥(2,076)	¥52,309

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Unrealized (Loss) Gain on Available- for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total Equity
BALANCE, MARCH 31, 2008	\$39,184	\$54,102	\$454,194	\$ 11,857	\$ 1,612	\$(13,541)	\$547,408
Net income			32,398				32,398
Cash dividends, \$0.31 per share			(17,541)				(17,541)
Unrealized loss on available-for-sale securities				(13,142)			(13,142)
Net change in foreign currency translation adjustments					(7,714)		(7,714)
Purchase of treasury stock						(7,643)	(7,643)
BALANCE, MARCH 31, 2009	\$39,184	\$54,102	\$469,051	\$ (1,285)	\$(6,102)	\$(21,184)	\$533,766

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Seikagaku Corporation and Consolidated Subsidiaries
Years Ended March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
OPERATING ACTIVITIES:			
Income before income taxes	¥ 4,867	¥ 6,868	\$ 49,663
Adjustments for:			
Income taxes—paid	(3,165)	(2,295)	(32,296)
Depreciation and amortization	2,141	1,257	21,847
Foreign exchange loss	96	163	979
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable—trade	(809)	931	(8,255)
(Increase) decrease in inventories	(66)	51	(673)
(Increase) decrease in advance payments for research and development	(423)	120	(4,316)
Increase (decrease) in notes and accounts payable—trade	101	(59)	1,031
Increase in accounts payable—other	54	76	551
Decrease in retirement benefit	(223)	(447)	(2,276)
Other—net	318	80	3,245
Net cash provided by operating activities	2,891	6,745	29,500
INVESTING ACTIVITIES:			
Proceeds from redemption of short-term investments	3,665	4,199	37,398
Purchases of short-term investments		(999)	
Purchases of fixed assets	(1,672)	(3,979)	(17,061)
Proceeds from sales of investment securities	1,476	1,493	15,061
Purchases of investment securities	(5,149)	(4,129)	(52,541)
Other—net	67	(168)	684
Net cash used in investing activities	(1,613)	(3,583)	(16,459)
FINANCING ACTIVITIES:			
Purchases of treasury stock	(753)	(697)	(7,684)
Proceeds from long-term debt		700	
Repayments of lease obligations	(188)		(1,918)
Dividends paid	(1,718)	(1,443)	(17,531)
Other—net		1	
Net cash used in financing activities	(2,659)	(1,439)	(27,133)
FOREIGN CURRENCY TRANSLATION			
ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(226)	(47)	(2,306)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,607)	1,676	(16,398)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,406	6,730	85,776
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 6,799	¥ 8,406	\$ 69,378
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Assets acquired through finance leases	¥ 1,373		\$ 14,010
Liabilities assumed through finance leases	1,256		12,816

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Seikagaku Corporation and Consolidated Subsidiaries
Years Ended March 31, 2009 and 2008

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 Act 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 2008 financial statements to conform to the classifications used in 2009.

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 ¥98 to \$1, the approximate rate of exchange at March 31, 2009. 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, 2009 and 2008 include the accounts of the Company and its 4 significant subsidiaries (together, the "Group").

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

Investment in an unconsolidated subsidiary in 2009 and 2008 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. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

In May 2006, the Accounting Standards Board of Japan (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." PITF No. 18 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 of America 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: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; (e) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and (f) exclusion of minority interests from net income, if contained. PITF No. 18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this accounting standard effective April 1, 2008. No effect of adopting the new standard is recognized on the income before income taxes.

c. 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.

d. 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, investment securities are reduced to net realizable value by a charge to income.

e. 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.

f. Inventories Prior to April 1, 2008, 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.

In July 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." 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. The standard was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this new accounting standard for measurement of inventories effective April 1, 2008. The effect of this change is negligible.

g. 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 ma-

chinery and equipment. Lease assets are depreciated by the straight-line method over the respective lease periods.

h. Leases In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 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.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be measured at the obligations under finance leases less interest expense at the transition date and recorded as acquisition cost of lease assets.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as acquisition cost of lease assets measured at the obligations under finance leases less interest expense at the transition date. The effect of this change was to increase operating income by ¥19 million (\$194 thousand), and to decrease income before income taxes by ¥53 million (\$541 thousand), which included a cumulative effect of ¥23 million (\$235 thousand) at March 31, 2008. The cumulative effect was presented in other expense in the 2009 consolidated statement of income.

All other leases are accounted for as operating leases.

i. 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.

- j. 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.

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

eign 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.

Diluted net income per share is not disclosed because there are no dilutive securities in 2009 and 2008.

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**

Asset Retirement Obligations—On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

3. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2009 and 2008, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Short-term investments:			
Debt securities	¥ 3,386	¥ 3,781	\$ 34,551
Other	503	3	5,133
Total	¥ 3,889	¥ 3,784	\$ 39,684
Investment securities:			
Equity securities	¥ 4,819	¥ 6,728	\$ 49,173
Debt securities	11,007	10,892	112,316
Other	2,031	2,253	20,725
Total	¥17,857	¥19,873	\$182,214

Information regarding the marketable securities classified as available-for-sale at March 31, 2009 and 2008, was as follows:

March 31, 2009	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 4,213	¥ 973	¥367	¥ 4,819
Debt securities	14,830	78	515	14,393
Other	2,413		382	2,031

March 31, 2008	Millions of Yen			
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

March 31, 2009	Thousands of U.S. Dollars			
Securities classified as available-for-sale:				
Equity securities	\$ 42,989	\$9,929	\$3,745	\$ 49,173
Debt securities	151,326	796	5,255	146,867
Other	24,623		3,898	20,725

Available-for-sale investments whose fair values are not readily determinable as of March 31, 2009 and 2008, were as follows:

	Carrying Amount		
	Millions of Yen	2008	Thousands of U.S. Dollars 2009
Available-for-sale:			
Time deposits	¥503	¥ 3	\$5,133
Equity securities		8	
Total	¥503	¥11	\$5,133

Proceeds from sales of available-for-sale securities for the years ended March 31, 2009 and 2008 were ¥1,511 million (\$15,418 thousand) and ¥1,493 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥132 million (\$1,347 thousand) and ¥208 million (\$2,122 thousand), respectively, for the year ended March 31, 2009. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥18 million and ¥47 million, respectively, for the year ended March 31, 2008.

The carrying values of debt securities and other investments by contractual maturities for securities classified as available-for-sale at March 31, 2009 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥ 3,889	\$ 39,684
Due after one year through five years	10,874	110,959
Due after five years through ten years	614	6,265
Due after ten years	475	4,847
Total	¥15,852	\$161,755

4. INVENTORIES

Inventories at March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Merchandise	¥ 279	¥ 255	\$ 2,847
Finished products	1,740	2,186	17,755
Semi-finished products	178	82	1,816
Work in process	824	900	8,408
Raw materials and supplies	900	568	9,184
Total	¥3,921	¥3,991	\$40,010

5. LEASES

(1) Finance Leases

The Group leases certain machinery, computer equipment and other assets.

Annual maturities of obligations under finance leases as of March 31, 2009 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2010	¥ 189	\$ 1,929
2011	193	1,970
2012	173	1,765
2013	144	1,469
2014	144	1,469
2015 and thereafter	224	2,286
Total	¥1,067	\$10,888

Pro forma information for the year ended March 31, 2008

Pro forma information for the year ended March 31, 2008 of leased property 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 property to the lessee on an "as if capitalized" basis was as follows:

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

Obligations under finance leases:

	Millions of Yen
	2008
Due within one year	¥ 184
Due after one year	1,024
Total	¥1,208

Total rental expenses including lease payments under finance leases for the year ended March 31, 2008 were ¥290 million.

Depreciation expense and interest expense under finance leases:

	Millions of Yen
	2008
Depreciation expense	¥145
Interest expense	9
Total	¥154

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, 2009 and 2008, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Due within one year	¥13	¥16	\$133
Due after one year	8	16	81
Total	¥21	¥32	\$214

6. LONG-TERM DEPOSITS

Long-term deposits in banks of ¥1,000 million (\$10,204 thousand) were included in other assets of investments and other assets as of March 31, 2009 and ¥1,500 million as of March 31, 2008. Annual maturity of the deposits was as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2015	¥1,000	\$10,204

There is a possibility that the Company would not receive 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, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Loan from bank, 1.65%, due to 2010 (unsecured)	¥700	¥700	\$7,143

Annual maturity of long-term debt as of March 31, 2009 was as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2011	¥700	\$7,143

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, 2009 and 2008, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Projected benefit obligation	¥ 4,575	¥ 4,649	\$ 46,684
Fair value of plan assets	(4,185)	(4,897)	(42,704)
Unrecognized prior service cost	657	783	6,704
Unrecognized actuarial gain	(1,101)	(366)	(11,235)
Net (asset) liability	¥ (54)	¥ 169	\$ (551)

The components of net periodic benefit costs for the years ended March 31, 2009 and 2008, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Service cost	¥ 175	¥ 175	\$ 1,786
Interest cost	93	94	949
Expected return on plan assets	(261)	(192)	(2,663)
Amortization of prior service cost	(127)	(126)	(1,296)
Recognized actuarial loss	56	(7)	571
Net periodic benefit costs	¥ (64)	¥ (56)	\$ (653)

Assumptions used for the years ended March 31, 2009 and 2008, are set forth as follows:

	2009	2008
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	5.3%	3.6%
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 ¥52 million (\$531 thousand) and ¥50 million for the years ended March 31, 2009 and 2008, 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 ¥34 million (\$347 thousand) and ¥40 million for the years ended March 31, 2009 and 2008, respectively.

9. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, 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 Companies Act 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 Companies Act 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 Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act 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 Companies Act 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 Companies Act, stock acquisition rights, are presented as a separate component of equity. The Companies Act 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, 2009 and 2008. 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, 2009 and 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Deferred tax assets—current:			
Accrued bonuses	¥ 241	¥ 232	\$ 2,459
Loss on valuation of inventories	201		2,051
Research and development costs	199	414	2,031
Other	292	348	2,980
Less valuation allowance	(186)	(33)	(1,898)
Total	747	961	7,623
Deferred tax liabilities—current:			
Enterprise tax receivables	25		255
Unrealized gain on available-for-sale securities		7	
Other	2		21
Total	27	7	276
Net deferred tax assets—current	¥ 720	¥ 954	\$ 7,347
Deferred tax assets—non-current:			
Tax loss carryforwards	¥ 354	¥ 716	\$ 3,612
Foreign tax credit	208	266	2,123
Deferred assets for tax purposes	207	213	2,112
Investment tax credit	135	179	1,378
Allowance for bad debt	128	144	1,306
Other	163	239	1,663
Less valuation allowance	(633)	(1,034)	(6,459)
Total	562	723	5,735
Deferred tax liabilities—non-current:			
Depreciation	278	358	2,837
Unrealized gain on available-for-sale securities		765	
Other	22		224
Total	300	1,123	3,061
Net deferred tax assets (liabilities)—non-current	¥ 262	¥ (400)	\$ 2,674

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2009 is as follows:

	2009
Normal effective statutory tax rate	40.0%
Tax credit	(5.3)
Other—net	0.1
Actual effective tax rate	34.8%

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

At March 31, 2009, a subsidiary in the United States of America has tax loss carryforwards of approximately ¥1,466 million (\$14,959 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, 2009, the subsidiary has tax loss carryforwards of approximately ¥723 million (\$7,378 thousand), which are available to offset future state income taxes. The expiration of the tax loss carryforwards for state tax is 2009 for ¥220 million (\$2,245 thousand), 2010 for ¥118 million (\$1,204 thousand), 2011 for ¥171 million (\$1,745 thousand) and 2012 for ¥214 million (\$2,184 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 ¥13,732 million (\$140,122 thousand) and ¥12,990 million for the years ended March 31, 2009 and 2008, respectively.

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥5,965 million (\$60,867 thousand) and ¥5,654 million for the years ended March 31, 2009 and 2008, 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, 2009 and 2008, is as follows:

(1) Geographical Segments

The geographical segments of the Group for the years ended March 31, 2009 and 2008 are summarized as follows:

Millions of Yen					
2009					
	Japan	North America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥24,349	¥1,710	¥1,148		¥27,207
Interarea transfer	89	788	29	¥ (906)	
Total sales	24,438	2,498	1,177	(906)	27,207
Operating expenses	20,019	2,340	1,090	(972)	22,477
Operating income	¥ 4,419	¥ 158	¥ 87	¥ 66	¥ 4,730
Total assets	¥59,823	¥2,897	¥ 601	¥(5,106)	¥58,215

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

Thousands of U.S. Dollars					
2009					
	Japan	North America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	\$248,460	\$17,449	\$11,714		\$277,623
Interarea transfer	908	8,041	296	\$ (9,245)	
Total sales	249,368	25,490	12,010	(9,245)	277,623
Operating expenses	204,276	23,878	11,122	(9,918)	229,358
Operating income	\$ 45,092	\$ 1,612	\$ 888	\$ 673	\$ 48,265
Total assets	\$610,439	\$29,561	\$ 6,133	\$(52,102)	\$594,031

Note: As discussed in Note 2.h, effective April 1, 2008, the Company applied the revised ASBJ Statement No. 13, "Accounting Standard for Lease Transactions." The effect of this change was to increase operating income of the Japan region by ¥19 million (\$194 thousand) for the year ended March 31, 2009, and to increase total assets of the Japan region by ¥1,114 million (\$11,367 thousand) as of March 31, 2009.

(2) Sales to Foreign Customers

Information regarding sales to foreign customers of the Group for the years ended March 31, 2009 and 2008, is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Sales to foreign customers (A)	¥ 7,463	¥ 7,770	\$ 76,153
Consolidated sales (B)	27,207	27,630	277,623
(A)/(B)	27.4%	28.1%	27.4%

14. SUBSEQUENT EVENT

On June 19, 2009, the shareholders of the Company authorized the following appropriations of retained earnings at March 31, 2009:

	Millions of Yen	Thousands of U.S. Dollars
Appropriations—Cash dividends, ¥12.5 (\$0.13) per share	¥710	\$7,245
Total	¥710	\$7,245