



Summary of Consolidated Financial Results
for the Nine Months Ended 31st December 2005 (FY2005/2006)

January 31, 2006

Company name: Sosei Co. Ltd. (Stock code: 4565 Tokyo Stock Exchange, Mothers Market)
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1. Notes on Preparation of Quarterly Consolidated Financial Information

1) Accounting standards for the preparation of quarterly consolidated financial statements:

The Standards for Interim Consolidated Financial Statements

2) Changes in accounting methods from the most recent consolidated fiscal year: Yes

3) Changes in scope of consolidation and application of equity method: Yes

4) Audited by independent accountants: Yes

The quarterly consolidated financial statements have been through auditing process in accordance with the supplementary provisions “Standards of Auditors’ Opinion for the Quarterly Financial Statements” of the “Instructions for the Application of the Regulations for Timely Disclosure of Corporate Information by Issuers of Listed Securities” as set by the Tokyo Stock Exchange.

2. Financial Results for the Nine Months Ended 31st December 2005 (Apr. 1, 2005 – Dec. 31, 2005)

(1) Consolidated Results of Operations

(All amounts are rounded down to the nearest million yen)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended Dec. 2005	209	561.1	(2,688)	-	(2,723)	-	(2,570)	-
Nine months ended Dec. 2004	31	-	(1,358)	-	(1,476)	-	(1,413)	-
Fiscal year ended March 2005 (For reference)	244	7.7	(1,753)	-	(1,884)	-	(1,820)	-

	Net income per share (basic)	Net income per share (diluted)
	Yen	Yen
Nine months ended Dec. 2005	(32,838.46)	-
Nine months ended Dec. 2004	(25,631.04)	-
Fiscal year ended March 2005 (For reference)	(32,136.46)	-

Note: Percentages for net sales, operating income, ordinary income, and net income represent year-on-year percentage change.

Qualitative Information Regarding Consolidated Results of Operations

The Sosei Group—the parent company, seven consolidated subsidiaries and one equity-method affiliate—recognizes that enhancing its product pipeline is a major medium-term management issue to ensure steady growth.

The Company’s Product Discovery capabilities have now been fully integrated and all activities are directed towards a lower risk approach based upon identifying new uses for existing drugs and drug templates – referred to as Drug Reprofitting. Within Sosei’s Drug Reprofitting Platform®s (DRP®), two types of opportunity are considered:

- new uses for marketed drugs and marketed drug templates and
- new uses for drugs that have stalled in Phase II development.

This low risk business strategy is further augmented by in-licensing products for development and distribution in Japan which have been marketed, or are in late stage development, in other territories.

During the 3rd quarter, Sosei's Development Pipeline has progressed. As the result of a portfolio review, the Company has prioritized its pipeline to focus resource on a Development Pipeline comprising 11 projects which are in a regulatory phase of development. Of these, AD 237 has entered a Phase IIB clinical study and AD 337 has completed its Phase I clinical evaluation. In addition, SD726 was nominated to progress to regulatory development within the Development Pipeline. SD726 is a New Molecular Entity (NME) that has been designed by chemically modifying a known drug template of a marketed drug and positioned in a completely different indication to the parent product, using the Company's DRP[®] approach.

As a result of these activities, consolidated net sales in the nine months to December 31, 2005 were 209 million yen (up 561.1% year-on-year), with an operating loss of 2,688 million yen (1,358 million yen one year earlier) an ordinary loss of 2,723 million yen (1,476 million yen one year earlier) and a net loss of 2,570 million yen (1,413 million yen one year earlier). Selling, general and administrative expenses totaled 2,729 million yen, of which 1,304 million yen was R&D expenses.

(2) Consolidated Financial Position

(All amounts are rounded down to the nearest million yen)

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	Million yen	Million yen	%	Yen
As of December 31, 2005	26,641	26,030	97.7	265,425.73
As of December 31, 2004	10,268	10,102	98.4	165,025.10
As of March 31, 2005 (For reference)	9,879	9,726	98.4	157,443.52

(3) Consolidated Cash Flow Position

(All amounts are rounded down to the nearest million yen)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents, end of period
	Million yen	Million yen	Million yen	Million yen
Nine months ended Dec. 2005	(2,116)	2,635	35	10,497
Nine months ended Dec. 2004	(1,289)	(13)	10,394	10,084
Fiscal year ended March 2005 (For reference)	(1,700)	(21)	10,424	9,697

Qualitative Information Regarding Consolidated Cash Flow Position

As of December 31, 2005, assets totaled 26,641 million yen, 16,762 million yen more than on March 31, 2005. Liabilities increased from 458 million yen to 611 million yen during the same nine-month period.

The principal use of cash in operating activities was 2,646 million yen in loss before income taxes because of rising R&D costs reflecting accelerated research and development activities and higher general administrative expenses. As a result of these and other sources and uses, net cash used in operating activities was 2,116 million yen.

Net cash provided by investing activities was 2,635 million yen. The principal source of cash from investing activities was 2,667 million yen from the acquisition of Arakis Limited. This amount represents 5,832 million yen in cash held by Arakis at the time of acquisition, less 3,165 million yen in consideration for the acquisition of Arakis stock, incidental expenses and new stock issue expenses.

Net cash provided by financing activities was 35 million yen.

The result was a net increase of 799 million yen in cash and cash equivalents during the quarter to 10,497 million yen as of December 31, 2005.

3. Forecast for the Fiscal Year Ending 31st March 2006 (April 1, 2005 – March 31, 2006)

(All amounts are rounded down to the nearest million yen)

	Net sales	Ordinary income	Net income
	Million yen	Million yen	Million yen
Full year	300	(5,000)	(5,000)

Reference: Estimated net income per share for the full year: (50,983.99) yen

Qualitative Information Regarding Forecast

In the fiscal year ending March 2006, the Sosei Group plans to record sales from contracted development work of AD 237 and sales from technology transfer business of the subsidiary SC Consulting, and other sales. In addition, Sosei expects to record an expense from the amortization of goodwill resulting from the Arakis acquisition.

The Sosei Group is not revising its forecast of consolidated operating results for the current fiscal year released on December 16, 2005. The Company is projecting a consolidated net loss of 5,000 million yen on net sales of 300 million yen. Ordinary loss is envisaged at 5,000 million yen.

Forward-looking statements in this report are based on information available to management at the time this report was prepared. As such, they carry risks and uncertainties and actual results and events may differ significantly from the forecast. Investors are advised not to rely solely on business forecasts in this report for making investment decisions. The Company plans to continue to release quarterly financial results. Forecasts of business results will also be revised as and when considered necessary, in accordance with disclosure rules.

4. Quarterly Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Thousands of yen)

Account	Note	As of December 31, 2004		As of December 31, 2005		As of March 31, 2005	
		Amount	%	Amount	%	Amount	%
Assets							
I Current assets							
1. Cash and deposits		4,584,185		8,997,366		4,197,523	
2. Trade account receivable		8,052		141,931		6,872	
3. Securities		5,500,082		1,500,193		5,500,129	
4. Others		41,107		354,996		51,721	
Total current assets		10,133,428	98.7	10,994,487	41.3	9,756,246	98.8
II Fixed assets							
1. Property and equipment	*	33,205		52,262		33,351	
2. Intangible fixed assets							
(1) Goodwill		-		15,438,519		-	
(2) Others		2,153	2,153	10,993	15,449,513	7,264	7,264
3. Investments and other assets		99,593		145,683		82,852	
Total fixed assets		134,952	1.3	15,647,459	58.7	123,469	1.2
Total assets		10,268,380	100.0	26,641,946	100.0	9,879,715	100.0
Liabilities							
I Current liabilities		164,929	1.6	611,645	2.3	152,989	1.6
II Long-term liabilities		615	0.0	-	-	337	0.0
Total liabilities		165,544	1.6	611,645	2.3	153,327	1.6
Shareholders' equity							
I Common stock		5,842,025	56.9	15,213,474	57.1	5,869,875	59.4
II Capital surplus		7,921,725	77.2	17,237,094	64.7	7,923,975	80.2
III Retained earnings		(3,661,809)	(35.7)	(6,639,429)	(24.9)	(4,068,868)	(41.2)
IV Unrealized holdings gains on available-for-sale securities		896	0.0	-	-	491	0.0
V Foreign currency translation adjustment		-	-	219,163	0.8	915	0.0
Total shareholders' equity		10,102,836	98.4	26,030,301	97.7	9,726,388	98.4
Total liabilities and shareholders' equity		10,268,380	100.0	26,641,946	100.0	9,879,715	100.0

(2) Consolidated Income Statement

(Thousands of yen)

Account	Note	Apr. 1, 2004 – Dec. 31, 2004			Apr. 1, 2005 – Dec. 31, 2005			Apr. 1, 2004 – Mar. 31, 2005		
		Amount		%	Amount		%	Amount		%
I Net sales			31,685	100.0		209,471	100.0		244,395	100.0
II Cost of sales			9,743	30.8		168,672	80.5		13,050	5.3
Gross profits			21,941	69.2		40,799	19.5		231,345	94.7
III Selling, general and administrative expenses	*1		1,380,859	4,358.0		2,729,467	1,303.0		1,984,708	812.1
Operating loss			1,358,917	(4,288.8)		2,688,667	(1,283.5)		1,753,362	(717.4)
IV Non-operating income										
1. Interest income		899			88,948			1,503		
2. Commission income		440			-			532		
3. Insurance reimbursement		1,966			-			1,966		
4. Others		576	3,882	12.3	3,921	92,870	44.3	576	4,578	1.9
V Non-operating expenses										
1. New stock issue expenses		58,366			87,393			58,396		
2. Initial public offering expenses		26,244			-			26,244		
3. Equity in losses of associated company		29,884			40,050			45,681		
4. Others		7,054	121,549	383.6	4	127,448	60.8	5,472	135,794	55.6
Ordinary loss			1,476,584	(4,660.1)		2,723,246	(1,300.0)		1,884,578	(771.1)
VI Extraordinary income										
1. Reversal of allowance for doubtful accounts		155			-			155		
2. Gain on sales of investment securities		-			1,053			-		
3. Gain on changes in equity interest in associated company		67,951	68,107	214.9	86,994	88,047	42.0	67,951	68,107	27.8
VII Extraordinary loss										
1. Loss on sales and disposal of fixed assets	*2	126	126	0.4	11,452	11,452	5.4	281	281	0.1
Loss before income taxes			1,408,603	(4,445.6)		2,646,651	(1,263.4)		1,816,753	(743.4)
Income taxes			4,696	14.8		(76,090)	(36.3)		3,605	1.4
Net loss			1,413,300	(4,460.4)		2,570,561	(1,227.1)		1,820,358	(744.8)

(3) Consolidated Surplus Statement

(Thousands of yen)

Account	Note	Apr. 1, 2004 – Dec. 31, 2004		Apr. 1, 2005 – Dec. 31, 2005		Apr. 1, 2004 – Mar. 31, 2005	
		Amount		Amount		Amount	
Capital surplus							
I Capital surplus, beginning of period			1,648,400		7,923,975		1,648,400
II Increase in capital surplus							
Capital increase through new stock issue		6,273,325	6,273,325	9,310,119	9,313,119	6,275,575	6,275,575
III Capital surplus, end of period			7,921,725		17,237,094		7,923,975
Retained earnings							
I Retained earnings, beginning of period			(2,248,509)		(4,068,868)		(2,248,509)
II Decrease in retained earnings							
Net loss		1,413,300	1,413,300	2,570,561	2,570,561	1,820,358	1,820,358
III Retained earnings, end of period			(3,661,809)		(6,639,429)		(4,068,868)

(4) Consolidated Cash Flow Statement

(Thousands of yen)

		Apr. 1, 2004 – Dec. 31, 2004	Apr. 1, 2005 – Dec. 31, 2005	Apr. 1, 2004 – Mar. 31, 2005
Accounts	Note	Amount	Amount	Amount
I Cash flows from operating activities				
Loss before income taxes		(1,408,603)	(2,646,651)	(1,816,753)
Depreciation and amortization		5,805	17,647	8,686
Amortization of goodwill		-	534,894	-
Decrease in allowance for doubtful accounts		(155)	-	(155)
New stock issue expenses		58,366	87,393	58,396
Equity in losses of associated company		29,884	40,050	45,681
Gain on changes in equity interest in associated company		(67,951)	(86,994)	(67,951)
Gain on sales of investment securities		-	(1,053)	-
Loss on sales and disposal of fixed assets		126	11,452	281
Increase (decrease) in trade receivable		(3,880)	(68,957)	(2,700)
Increase (decrease) in accounts receivable - other		21,271	49,264	14,858
Increase in accounts payables - other		70,031	4,564	52,622
Decrease in accrued expense payable		-	(72,587)	-
Increase in accrued income taxes		21,677	7,231	21,410
Others		(15,258)	(79,479)	(14,863)
Subtotal		(1,288,685)	(2,203,224)	(1,700,487)
Interests received		899	88,948	1,503
Income taxes paid		(1,742)	(2,079)	(1,800)
Net cash used in operating activities		(1,289,528)	(2,116,355)	(1,700,784)
II Cash flows from investing activities				
Proceeds from sales of investment securities		-	1,854	-
Proceeds from purchase of subsidiaries		-	2,667,163	-
Payment for purchase of property and equipment		(15,939)	(10,657)	(18,022)
Proceeds from sales of property and equipment		324	-	1,027
Payment for purchase of intangible fixed assets		-	(5,550)	(6,913)
Others		1,834	(17,486)	2,096
Net cash used in investing activities		(13,780)	2,635,324	(21,811)
III Cash flows from financing activities				
Proceeds from a new stock issue		10,394,833	35,161	10,424,903
Net cash provided by financing activities		10,394,833	35,161	10,424,903
IV Foreign currency translation adjustment on cash and cash equivalents				
		(6,478)	245,776	(3,876)
V Net increase (decrease) in cash and cash equivalents				
		9,085,045	799,907	8,698,430
VI Cash and cash equivalents, beginning of period				
		999,222	9,697,652	999,222
VII Cash and cash equivalents, end of period	*			
		10,084,268	10,497,559	9,697,652

Basis of Preparation of Quarterly Consolidated Financial Statements

Item	Apr. 1, 2004 – Dec. 31, 2004	Apr. 1, 2005 – Dec. 31, 2005	Apr. 1, 2004 – Mar. 31, 2005
1. Basis of consolidation	Consolidated subsidiary: 1 Sosei Consulting Corporation	Consolidated subsidiaries: 7 Arakis Limited Kosei, Inc. SC Consulting Inc. Effective the current consolidated accounting period, Arakis Limited is included in the consolidation due to acquisition of shares. In accordance with this acquisition, subsidiaries of Arakis Limited are also included in the consolidation.	Consolidated subsidiaries: 2 SC Consulting Inc. Kosei, Inc. Sosei Consulting Corporation has changed its name to SC Consulting Inc. effective January 1, 2005. Effective the current consolidated accounting period, Kosei, Inc. is included in the consolidation due to its establishment.
2. Application of the equity method accounting	Affiliates accounted for by the equity method of accounting: 1 Stem Cell Sciences KK	Same as on the left.	Same as on the left.
3. Quarter (fiscal year) end of consolidated subsidiaries	The consolidated subsidiary's quarter ends on the closing date for consolidated financial statements.	Same as on the left.	The consolidated subsidiary's fiscal year ends on the closing date for consolidated financial statements.
4. Accounting standards	(1) Valuation criteria and methods for principal assets 1) Securities Other securities Other securities with market quotations Other securities with market quotations are carried at fair value on the consolidated third-quarter balance sheet date. (Unrealized holding gain or loss is included directly in shareholders' equity. Cost of securities sold is determined primarily by the moving-average method.) Other securities without market quotations Other securities without market quotations are stated at cost, cost being determined by the moving-average method. (2) Depreciation and amortization method for principal assets 1) Property and equipment Depreciation of property and equipment is computed by the declining-balance method. Useful life of principal assets is as follows: Buildings: 10-15 years Equipment, furniture and fixtures: 4-10 years	(1) Valuation criteria and methods for principal assets 1) Securities Other securities Other securities with market quotations Same as on the left. Other securities without market quotations Same as on the left. (2) Depreciation and amortization method for principal assets 1) Property and equipment The Company and its domestic consolidated subsidiaries compute depreciation of property and equipment by the declining-balance method. Overseas consolidated subsidiaries compute depreciation of property and equipment by the straight-line method in accordance with the	(1) Valuation criteria and methods for principal assets 1) Securities Other securities Other securities with market quotations Other securities with market quotations are carried at fair value on the consolidated balance sheet date. (Unrealized holding gain or loss is included directly in shareholders' equity. Cost of securities sold is determined primarily by the moving-average method.) Other securities without market quotations Same as on the left. (2) Depreciation and amortization method for principal assets 1) Property and equipment Depreciation of property and equipment is computed by the declining-balance method. Useful life of principal assets is as follows: Buildings: 10-15 years Equipment, furniture and fixtures: 4-10 years

Item	Apr. 1, 2004 – Dec. 31, 2004	Apr. 1, 2005 – Dec. 31, 2005	Apr. 1, 2004 – Mar. 31, 2005
	<p>2) Intangible fixed assets Amortization of intangible fixed assets is computed by the straight-line method. The development costs of software intended for internal use are amortized over an expected useful life of five years by the straight-line method.</p> <p>(3) Recognition of major reserves To prepare for credit losses on accounts receivable, allowances equal to the estimated amount of uncollectible receivables are provided for general receivables based on the historical write-off ratio, and bad receivables based on a case-by-case determination of collectibility.</p> <p>(4) Translation of principal foreign currency-denominated assets and liabilities Foreign currency-denominated monetary assets and liabilities are translated into yen at the spot exchange rate in effect on the consolidated third-quarter balance sheet date. Translation gain or loss is accounted as profit or loss.</p>	<p>generally accepted accounting standards of the countries of their domicile. Useful life of principal assets is as follows: Buildings: 4-15 years Equipment, furniture and fixtures: 3-10 years</p> <p>2) Intangible fixed assets Same as on the left.</p> <p>(3) Recognition of major reserves Same as on the left.</p> <p>(4) Translation of principal foreign currency-denominated assets and liabilities Foreign currency-denominated monetary assets and liabilities are translated into yen at the spot exchange rate in effect on the consolidated third-quarter balance sheet date. Translation gain or loss is accounted as profit or loss. The balance sheet accounts (assets and liabilities) of overseas consolidated subsidiaries are translated at the exchange rate in effect on the consolidated balance sheet date. Revenue and expense accounts are translated at the average rate of exchange in effect during the period. Translation gain or loss is recorded as translation adjustment in shareholders' equity.</p>	<p>2) Intangible fixed assets Same as on the left.</p> <p>(3) Recognition of major reserves Same as on the left.</p> <p>(4) Translation of principal foreign currency-denominated assets and liabilities Foreign currency-denominated monetary assets and liabilities are translated into yen at the spot exchange rate in effect on the consolidated balance sheet date. Translation gain or loss is accounted as profit or loss. The balance sheet accounts (assets, liabilities, revenue and expenses) of overseas consolidated subsidiaries are also translated into yen at the exchange spot rate in effect on the consolidated balance sheet dates. Foreign currency translation adjustments are stated as a component of shareholders' equity.</p>

Item	Apr. 1, 2004 – Dec. 31, 2004	Apr. 1, 2005 – Dec. 31, 2005	Apr. 1, 2004 – Mar. 31, 2005
	<p>(5) Other significant accounting policies</p> <p>1) Consumption taxes All amounts stated are exclusive of consumption taxes.</p> <p>2) Deferred assets New stock issue expenses are charged to income as accrued. The spread method, in which the underwriter underwrites a new stock issue at the underwriting price (744,000 yen in this case) and sells the shares to the public at the offering price (800,000 yen in this case), was used for the new share issues (14,050 shares effective July 29, 2004) through public offering. In this method, the difference (786,800 thousand yen) between the offering price and the underwriting price represents the underwriting commission. This expense would have been accounted as new stock issue expenses if the conventional method in which the underwriter offers new shares to the public at the underwriting price had been used. The effect of this change was to reduce the sum of common stock and capital surplus, new stock issue expenses, ordinary loss and loss before income taxes by 786,800 thousand yen each, compared to the amounts that would have been reported if the previous method had been applied consistently.</p>	<p>(5) Other significant accounting policies</p> <p>1) Consumption taxes Same as on the left.</p> <p>2) Deferred assets New stock issue expenses are charged to income as accrued.</p>	<p>(5) Other significant accounting policies</p> <p>1) Consumption taxes Same as on the left.</p> <p>2) Deferred assets New stock issue expenses are charged to income as accrued. The spread method, in which the underwriter underwrites a new stock issue at the underwriting price (744,000 yen in this case) and sells the shares to the public at the offering price (800,000 yen in this case), was used for the new share issues (14,050 shares effective July 29, 2004) through public offering. In this method, the difference (786,800 thousand yen) between the offering price and the underwriting price represents the underwriting commission. This expense would have been accounted as new stock issue expenses if the conventional method in which the underwriter offers new shares to the public at the underwriting price had been used. The effect of this change was to reduce the sum of common stock and capital surplus, new stock issue expenses, ordinary loss and loss before income taxes by 786,800 thousand yen each, compared to the amounts that would have been reported if the previous method had been applied consistently.</p>
5. Scope of cash and cash equivalents on consolidated cash flow statements	For the purpose of consolidated cash flows statements, cash and cash equivalents consists of vault cash, deposits that can be withdrawn on demand, and short-term investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and present insignificant risk of change in value.	Same as on the left.	Same as on the left.

Change in Basis of Preparation of Quarterly Consolidated Financial Statements

Apr. 1, 2004 – Dec. 31, 2004	Apr. 1, 2005 – Dec. 31, 2005	Apr. 1, 2004 – Mar. 31, 2005
<p>_____</p>	<p>Accounting for impairment of fixed assets Effective from the current consolidated fiscal year, the Company has adopted new accounting standards to present Impairment of Assets (Statement of Opinion, “Accounting for Impairment of Fixed Assets,” [Business Accounting Council; August 9, 2002] and the “Accounting Standard Implementation Guidance No. 6” (Guidance for Accounting Standards for Impairment of Fixed Assets, ASBJ; October 31, 2003). The effect of this change is insignificant.</p> <p>Changes in accounting methods In prior periods, revenue and expense accounts of overseas consolidated subsidiaries were translated at the exchange rate in effect on the consolidated balance sheet date. However, given the growing materiality of impact of overseas consolidated subsidiaries on the consolidated financial statements, effective the current consolidated fiscal year, revenue and expense accounts of overseas consolidated subsidiaries are translated at the average rate of exchange during the period for the improvement of accuracy of accounting management. The effect of this change on profit/loss is insignificant.</p>	<p>_____</p>

Supplementary Information

Apr. 1, 2004 – Dec. 31, 2004	Apr. 1, 2005 – Dec. 31, 2005	Apr. 1, 2004 – Mar. 31, 2005										
<p style="text-align: center;">—————</p>	<p>Effective from the current consolidated accounting period, Arakis Limited is included in the consolidation since it became a consolidated subsidiary on August 30, 2005.</p> <p>Consequently, the consolidated financial statements for the third quarter include the assets, liabilities and shareholders' equity of Arakis Limited as of the third-quarter balance sheet date, and the revenue and expense accounts from August 30, 2005, the date Arakis Limited became a consolidated subsidiary, to the third-quarter balance sheet date. The consolidation adjusting account (15,885,763 thousand yen) is to be amortized by the straight-line method over a ten-year period starting from the current consolidated accounting period.</p> <p>As a result, the financial position as of the end of the third quarter and the operating results for the third quarter have been significantly affected as compared with the third quarter of the previous accounting period.</p> <p>The effect of the inclusion of Arakis Limited in the consolidation is as follows:</p> <p style="text-align: right;">(Thousands of yen)</p> <table data-bbox="616 1167 991 1323"> <tr> <td>Current assets:</td> <td style="text-align: right;">5,751,104</td> </tr> <tr> <td>Fixed assets:</td> <td style="text-align: right;">15,457,600</td> </tr> <tr> <td></td> <td style="text-align: right;">(of which goodwill:15,438,519)</td> </tr> <tr> <td>Current liabilities:</td> <td style="text-align: right;">466,018</td> </tr> <tr> <td>Net loss:</td> <td style="text-align: right;">1,172,787</td> </tr> </table>	Current assets:	5,751,104	Fixed assets:	15,457,600		(of which goodwill:15,438,519)	Current liabilities:	466,018	Net loss:	1,172,787	<p style="text-align: center;">—————</p>
Current assets:	5,751,104											
Fixed assets:	15,457,600											
	(of which goodwill:15,438,519)											
Current liabilities:	466,018											
Net loss:	1,172,787											

Notes to Quarterly Consolidated Financial Statements

Notes of consolidated balance sheet

(Thousands of yen)

As of December 31, 2004	As of December 31, 2005	As of March 31, 2005
* Accumulated depreciation of property and equipment: 20,985	* Accumulated depreciation of property and equipment: 111,581	* Accumulated depreciation of property and equipment: 19,782

Notes of consolidated income statement

(Thousands of yen)

Apr. 1, 2004 – Dec. 31, 2004	Apr. 1, 2005 – Dec. 31, 2005	Apr. 1, 2004 – Mar. 31, 2005
*1. Major components of selling, general and administrative expenses R&D expenses 870,763 R&D expenses are as reported above. Significant components of R&D expenses are as follows: Personnel expenses 141,469 Trust expenses 670,326	*1. Major components of selling, general and administrative expenses R&D expenses 1,304,329 Amortization of goodwill 534,894 R&D expenses are as reported above. Significant components of R&D expenses are as follows: Personnel expenses 385,378 Trust expenses 834,791	*1. Major components of selling, general and administrative expenses R&D expenses 1,324,374 R&D expenses are as reported above. Significant components of R&D expenses are as follows: Personnel expenses 231,469 Trust expenses 1,010,811
*2. The components of loss on sale and disposal of fixed assets are as follows: Equipment, furniture and fixtures 126	*2. The components of loss on sale and disposal of fixed assets are as follows: Buildings 225 Equipment, furniture and fixtures 11,227	*2. The components of loss on sale and disposal of fixed assets are as follows: Equipment, furniture and fixtures 281

Notes of consolidated cash flow statement

(Thousands of yen)

Apr. 1, 2004 – Dec. 31, 2004	Apr. 1, 2005 – Dec. 31, 2005	Apr. 1, 2004 – Mar. 31, 2005
* Reconciliation of consolidated balance sheets items to cash and cash equivalents at the end of quarter in the consolidated cash flow statement (As of December 31, 2004) Cash and deposits 4,584,185 Securities 5,500,082 Cash and cash equivalents 10,084,268	* Reconciliation of consolidated balance sheets items to cash and cash equivalents at the end of quarter in the consolidated cash flow statement (As of December 31, 2005) Cash and deposits 8,997,366 Securities 1,500,193 Cash and cash equivalents 10,497,559	* Reconciliation of consolidated balance sheets items to cash and cash equivalents at the end of fiscal year in the consolidated cash flow statement (As of March 31, 2005) Cash and deposits 4,197,523 Securities 5,500,129 Cash and cash equivalents 9,697,652

Leases

Apr. 1, 2004 – Dec. 31, 2004	Apr. 1, 2005 – Dec. 31, 2005	Apr. 1, 2004 – Mar. 31, 2005
No reportable information. The Company has no outstanding lease commitments.	Same as on the left.	Same as on the left.

Securities

1. Other securities with market quotations

(Thousands of yen)

	Type	As of December 31, 2004			As of December 31, 2005			As of March 31, 2005		
		Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost	(1) Stocks	801	2,312	1,511	-	-	-	801	1,631	829
	(2) Bonds	-	-	-	-	-	-	-	-	-
	(3) Others	-	-	-	-	-	-	-	-	-
	Subtotal	801	2,312	1,511	-	-	-	801	1,631	829
Securities whose acquisition cost exceeds their carrying value	(1) Stocks	-	-	-	-	-	-	-	-	-
	(2) Bonds	-	-	-	-	-	-	-	-	-
	(3) Others	-	-	-	-	-	-	-	-	-
	Subtotal	-	-	-	-	-	-	-	-	-
Total	801	2,312	1,511	-	-	-	801	1,631	829	

2. Securities without market quotations

(Thousands of yen)

	As of December 31, 2004	As of December 31, 2005	As of March 31, 2005
	Carrying value	Carrying value	Carrying value
Other securities			
Unlisted stock (excluding OTC stock)	63,328	94,475	47,531
Free financial fund	5,500,082	1,500,193	5,500,129

Derivatives

Apr. 1, 2004 – Dec. 31, 2004	Apr. 1, 2005 – Dec. 31, 2005	Apr. 1, 2004 – Mar. 31, 2005
No reportable information. The Company does not hold or issue derivative instruments.	Same as on the left.	Same as on the left.

Segment information

1. Business segment information

Nine months ended 31st December 2004 (April 1, 2004 – December 31, 2004) (Thousands of yen)

	Pharmaceutical business	Others business	Total	Eliminations or corporate	Consolidated
Net sales					
(1) Sales - outside customers	-	31,685	31,685	-	31,685
(2) Sales and transfers - inter-segment	-	1,800	1,800	(1,800)	-
Total	-	33,485	33,485	(1,800)	31,685
Operating expenses	1,371,190	22,922	1,394,113	(3,510)	1,390,603
Operating income (loss)	(1,371,190)	10,563	(1,360,627)	1,710	(1,358,917)

Notes: 1. Products and services are categorized into operating segments on the basis of similarities between product and service lines and markets.

2. Major products and categories in each operating segment are as follows:

(1) Pharmaceutical business: Pharmaceuticals

(2) Other business: Transfer of pharmaceutical-related technologies, publication of medical journals

3. Operating expenses included in eliminations or corporate: None

4. Although pharmaceuticals are the Company's core business the share of the Pharmaceuticals Business are less than 50% of the total segment sales mainly because most of the Company's drugs are still in the R&D stage. The principle activity in the others category is transfer of pharmaceutical-related technologies, with sales totaling 30,507 thousand yen and representing 91.1% of the total sales of all segments.

Nine months ended 31st December 2005 (April 1, 2005 – December 31, 2005) (Thousands of yen)

	Pharmaceutical business	Others business	Total	Eliminations or corporate	Consolidated
Net sales					
(1) Sales - outside customers	188,018	21,453	209,471	-	209,471
(2) Sales and transfers - inter-segment	-	1,800	1,800	(1,800)	-
Total	188,018	23,253	211,271	(1,800)	209,471
Operating expenses	2,348,111	24,171	2,372,283	525,856	2,898,139
Operating loss	2,160,093	918	2,161,011	527,656	2,688,667

Notes: 1. Products and services are categorized into operating segments on the basis of similarities between product and service lines and markets.

2. Major products and categories in each operating segment are as follows:

(1) Pharmaceutical business: Pharmaceuticals

(2) Other business: Transfer of pharmaceutical-related technologies, publication of medical journals

3. Operating expenses included in eliminations or corporate: None

Fiscal year ended 31st March 2005 (April 1, 2004 – March 31, 2005) (Thousands of yen)

	Pharmaceutical business	Others business	Total	Eliminations or corporate	Consolidated
Net sales					
(1) Sales - outside customers	204,881	39,513	244,395	-	244,395
(2) Sales and transfers - inter-segment	-	2,400	2,400	(2,400)	-
Total	204,881	41,913	246,795	(2,400)	244,395
Operating expenses	1,970,560	31,878	2,002,438	(4,680)	1,997,758
Operating income (loss)	(1,765,678)	10,035	(1,755,642)	2,280	(1,753,362)

Notes: 1. Products and services are categorized into operating segments on the basis of similarities between product and service lines and markets.

2. Major products and categories in each operating segment are as follows:

(1) Pharmaceutical business: Pharmaceuticals

(2) Other business: Transfer of pharmaceutical-related technologies, publication of medical journals

3. Operating expenses included in eliminations or corporate: None

2. Geographic segment information

Nine months ended 31st December 2004 (April 1, 2004 – December 31, 2004)

No information on geographic segments has been presented because the Company and its consolidated subsidiaries have conducted 90% of their sales in Japan and over 90% of the Company's consolidated total assets were located in Japan.

Nine months ended 31st December 2005 (April 1, 2005 – December 31, 2005)

(Thousands of yen)

	Japan	Europe	North America	Total	Eliminations or corporate	Consolidated
Net sales						
(1) Sales - outside customers	27,785	181,686	-	209,471	-	209,471
(2) Sales and transfers - inter-segment	1,800	-	-	1,800	(1,800)	-
Total	29,585	181,686	-	211,271	(1,800)	209,471
Operating expenses	1,359,884	1,004,086	8,312	2,372,283	525,856	2,898,139
Operating loss	1,330,298	822,400	8,312	2,161,011	527,656	2,688,667

Notes: 1. Geographic area segments are based on geographical proximity.

2. Principal countries and regions included in each geographic segment are as follows:

(1) Europe: UK

(2) North America: USA

3. Operating expenses included in eliminations or corporate: None

Fiscal year ended 31st March 2005 (April 1, 2004 – March 31, 2005)

No information on geographic segments has been presented because the Company and its consolidated subsidiaries have conducted 90% of their sales in Japan and over 90% of the Company's consolidated total assets were located in Japan.

3. Overseas sales

Nine months ended 31st December 2004 (April 1, 2004 – December 31, 2004)

(Thousands of yen)

	Europe	North America	Others	Total
I Overseas sales	20,654	4,111	1,561	26,326
II Net sales				31,685
III Share of overseas sales in total consolidated net sales	65.2%	13.0%	4.9%	83.1%

Notes: 1. Geographic area segments are based on geographical proximity.

2. Principal countries and regions included in each geographic segment are as follows:

(1) Europe: UK, Germany and France

(2) North America: USA

3. Overseas sales comprise sales of the Company and its consolidated subsidiaries in countries and regions other than Japan.

Nine months ended 31st December 2005 (April 1, 2005 – December 31, 2005)

(Thousands of yen)

	Europe	North America	Others	Total
I Overseas sales	195,109	9,611	621	205,341
II Net sales				209,471
III Share of overseas sales in total consolidated net sales	93.1%	4.6%	0.3%	98.0%

Notes: 1. Geographic area segments are based on geographical proximity.

2. Principal countries and regions included in each geographic segment are as follows:

(1) Europe: UK, Switzerland, Germany, France and Hungary

(2) North America: USA

3. Overseas sales comprise sales of the Company and its consolidated subsidiaries in countries and regions other than Japan.

Fiscal year ended 31st March 2005 (April 1, 2004 – March 31, 2005)

(Thousands of yen)

	Europe	North America	Others	Total
I Overseas sales	27,022	7,867	2,769	37,660
II Net sales				244,395
III Share of overseas sales in total consolidated net sales	11.1%	3.2%	1.1%	15.4%

Notes: 1. Geographic area segments are based on geographical proximity.

2. Principal countries and regions included in each geographic segment are as follows:

(1) Europe: UK, Germany and France

(2) North America: USA and Canada

3. Overseas sales comprise sales of the Company and its consolidated subsidiaries in countries and regions other than Japan.

Per share information

(Yen)

Apr. 1, 2004 – Dec. 31, 2004	Apr. 1, 2005 – Dec. 31, 2005	Apr. 1, 2004 – Mar. 31, 2005
Shareholders' equity per share: 165,025.09 Net loss per share: 25,631.04	Shareholders' equity per share: 265,425.73 Net loss per share: 32,838.45	Shareholders' equity per share: 157,443.52 Net loss per share: 32,136.45
Net income per share (diluted) is not presented since the Company posted a net loss.	Net income per share (diluted) is not presented since the Company posted a net loss.	Net income per share (diluted) is not presented since the Company posted a net loss.

Note: The following is a reconciliation of basic net loss per share to net income per share (diluted).

(Thousands of yen)

	Apr. 1, 2004 – Dec. 31, 2004	Apr. 1, 2005 – Dec. 31, 2005	Apr. 1, 2004 – Mar. 31, 2005
Net loss	1,413,300	2,570,561	1,820,358
Net loss not available to common shareholders	-	-	-
Net loss available to common stocks	1,413,300	2,570,561	1,820,358
Average number of shares outstanding	55,140 shares	78,278 shares	56,644 shares
Summary of potential stock not included in the calculation of "Net income per share (diluted)" since there was no dilutive effect	Stock Option 9 issues (Balance of shares issuable under stock subscription rights: 7,865 shares)	Stock Option 11 issues (Balance of shares issuable under stock subscription rights: 7,930 shares)	Stock Option 9 issues (Balance of shares issuable under stock subscription rights: 7,093 shares)

Subsequent events

Apr. 1, 2004 – Dec. 31, 2004	Apr. 1, 2005 – Dec. 31, 2005	Apr. 1, 2004 – Mar. 31, 2005
No reportable information.	Same as on the left.	Same as on the left.

* This financial report is solely a translation of summary of Japanese Kessan-Tanshin (including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer English translation.