

Consolidated Financial Results for the Fiscal Year Ended March 31, 2006

Company name:	Sosei Co. Ltd.
Stock code:	4565
Stock exchange listing:	Tokyo Stock Exchange, Mothers Market
Address:	Tokyo
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Board of Directors meeting for approving:	May 15, 2006
Accounting principle:	Japanese GAAP

1. Consolidated Financial Results (April 1, 2005 – March 31, 2006)

(1) Consolidated Results of Operations

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

	Net sales		Operating income		Ordinary income	
	Million yen	YoY change (%)	Million yen	YoY change (%)	Million yen	YoY change (%)
Fiscal year ended March 2006	415	70.0	(4,406)	-	(4,404)	-
Fiscal year ended March 2005	244	7.7	(1,753)	-	(1,884)	-

	Net income		Net income per share (basic)	Net income per share (diluted)
	Million yen	YoY change (%)	Yen	Yen
Fiscal year ended March 2006	(4,175)	-	(50,201.44)	-
Fiscal year ended March 2005	(1,820)	-	(32,136.46)	-

	Return on equity	Ratio of ordinary income to total assets	Ratio of ordinary income to net sales
	%	%	%
Fiscal year ended March 2006	(24.4)	(25.0)	(1,060.1)
Fiscal year ended March 2005	(33.7)	(34.2)	(771.1)

Notes: 1. Equity in earnings (losses) of non-consolidated subsidiaries

Fiscal year ended March 2006: (57) million yen

Fiscal year ended March 2005: (45) million yen

2. Average number of shares outstanding (consolidated)

Fiscal year ended March 2006: 83,179 shares

Fiscal year ended March 2005: 56,644 shares

3. Changes in accounting principles applied: Yes

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

(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 March 31, 2006	25,307	24,475	96.7	248,992.77
As of March 31, 2005	9,879	9,726	98.4	157,443.52

Note: Number of shares outstanding (consolidated)

As of March 31, 2006: 98,300 shares

As of March 31, 2005: 61,777 shares

(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
Fiscal year ended March 2006	(3,190)	2,624	47	9,458
Fiscal year ended March 2005	(1,700)	(21)	10,424	9,697

(4) Scope of Consolidation and the Application of Equity Method

Consolidated subsidiaries: 6

Non-consolidated subsidiaries accounted for under the equity method: -

Affiliates accounted for under the equity method: 1

(5) Change in Scope of Consolidation and the Application of Equity Method

Consolidated subsidiaries

Newly added: 5

Excluded: 1

Affiliated accounted for under the equity method:

Newly added: -

Excluded: -

2. Forecast for the Fiscal Year Ending March 31, 2007 (April 1, 2006 - March 31, 2007)

	Net sales	Ordinary income	Net income
	Million yen	Million yen	Million yen
Full year	250	(6,700)	(6,500)

Reference: Estimated net income per share for the full year: (66,124.11) yen

* Forecasts regarding future performance and plans in these materials are based on judgments made in accordance with information available to management at the time this report was prepared. Forecasts therefore embody risks and uncertainties. Actual results may differ significantly from these forecasts for a number of factors, including but not limited to the operating environment.

1. Corporate Group

The Sosei Group is made up of Sosei Co. Ltd., six subsidiaries and one affiliated company. These companies are engaged in the pharmaceutical business, which involves the research and development and sale of pharmaceuticals, and other businesses, which involve the transfer of pharmaceutical-related technologies. The business activities and positioning of group companies are as follows.

Consolidated Companies

Business	Company	Major activities
Pharmaceutical business	Sosei Co. Ltd.	Development and sale of pharmaceuticals
Pharmaceutical business	Arakis Limited	Development and sale of pharmaceuticals
Pharmaceutical business	Kosei, Inc.	Development and sale of pharmaceuticals
Pharmaceutical business	4 companies	-

Note: *Sosei Co. Ltd. made Arakis Limited and four companies wholly owned subsidiaries on August 30, 2005.

Four unnamed companies are non-trading companies.

**Kosei, Inc. changed its company name to Sosei Inc. as of 28 April 2006.

***SC Consulting Corporation, the Company's ex-subsidiary, was sold off as of 31 March 2006

Affiliated Company

Equity-method affiliate

Business	Company	Major activities
Pharmaceutical business	Stem Cell Sciences KK	Research and development, manufacturing and sales involving cell therapy and related technologies

2. Management Policies

(1) Fundamental Management Policy

As a biopharmaceutical company, Sosei concentrates on increasing the number of products in its development pipeline and conducting a broad range of R&D, taking advantage of the global network established since its inception through the technology transfer business, and from a variety of exclusive projects. Sosei aims to further develop itself as a global pharmaceutical company in order to supply innovative pharmaceuticals required by the public so that it may help people around the world to lead healthy and enriched lives.

(2) Fundamental Policy for Allocation of Earnings

Sosei views the return of earnings to shareholders as one of its highest priorities. The policy is to consider the payment of a dividend while taking into consideration the growth stage of business operations, operating results and financial strength. The Company, given the current status of its finances, is not in a position to pay a dividend. Currently, we are at the stage of conducting R&D activities to create pharmaceuticals that can become a base for future growth.

(3) Policy Regarding Reduction in Investment Unit

Sosei believes that it is important to increase the liquidity of its shares and enlarge the shareholder base. We consider stock splits and other means of lowering the investment unit while taking into consideration all relevant matters, such as the minimum cost of an investment in Sosei stock, trading volume, the number of shareholders, shareholder composition, operating results and stock market trends.

(4) Targeted Performance Indicators

Sosei seeks to achieve sustained growth by conducting pharmaceutical R&D and then generating earnings by commercializing or licensing-out the resulting products and technologies. We also seek to increase the number of products in

our pipeline and continue R&D involving these products. Through these activities, our objective is to quickly commercialize or license out a large number of newly developed products and technologies.

(5) Medium- and Long-Term Management Strategies

The development of pharmaceuticals is an intensely competitive field of business with participants ranging from large multinational companies to other companies of all sizes in Japan and overseas, and research institutions. Furthermore, the probability of successfully developing a product is low because the development of pharmaceuticals entails substantial expense over a long period without any guarantee that a product will reach the market. Since Sosei is relatively small within this industry in terms of people, capital, equipment and other items, it develops pharmaceuticals based on the following strategies.

1) Positioning

Sosei is using its network of relationships and experience gained through the technology transfer business over the 16 years since its inception. We can assess the Japanese pharmaceutical industry from a global perspective in order to bring Europe and US pharmaceuticals to Japan. On August 30, 2005, Sosei acquired Arakis Limited, a UK based biopharmaceutical company. This has created a larger biopharmaceutical group with a wider international base and an enhanced Product Discovery capability.

Sosei will use this base to conduct its businesses in a distinctive manner.

2) Pipeline strategy

The Sosei pipeline strategy is to establish a broad, well balanced Development Pipeline which it is able to further enhance by in-licensing and in-house Product Discovery.

a. In-licensing

This mainly involves bringing European and the US marketed drugs and late-stage development compounds, in to Japan. This makes it possible to develop new drugs in a relatively shorter period of time compared to the complete development process and with a lower development investment. In addition, we secure compounds that have a higher likelihood of regulatory approval.

b. Product Discovery & Development (through Sosei's own R&D)

To enhance its ability to consistently discover new products for development, Sosei has integrated the reprofiling capabilities from within Sosei and Arakis to create its unique Drug Reprofile Platform® (DRP®). It comprises two main approaches:

(i) New uses for marketed drugs and pharmaceutical templates

Sosei uses its pharmaceutical databases and searching techniques to seek new indications for established drugs and to optimize these opportunities for their new use, using either drug delivery or chemical modification.

(ii) New uses for drugs that have stalled in Phase II development

Japanese and overseas pharmaceutical companies (originators) have drug candidates where development has been suspended at the Phase II or later. In these cases, Sosei acquires rights to search for new indications or to make improvements in existing indications. Through this new profiling (and reprofiling) process, the Company searches for potential new and revised indications. When conducting the reprofiling process, Sosei works with European and US biotech companies that have highly advanced screening technology. Sosei has joint R&D alliances with these companies in order to work with them as DRP® partners.

The Company's core pipeline as of 15 May, 2006 consists of 10 products as below.

SOT-375 Indication: prostate cancer:

SOT-375 is a sustained-release injectable formulation of leuprolide acetate, the LHRH agonist, which is expected to be effective against hormonal-dependent prostate cancer. SOT-375 incorporates a biodegradable polymer in a liquid carrier and a drug (leuprolide acetate). This substance is formulated so that, when injected below the skin, it forms a controlled-release implant that constantly holds the blood testosterone level below a certain point. Leuprolide acetate is known to be effective

against prostate cancer as well as breast cancer and endometriosis. This formulation is administered subcutaneously where it forms a biodegradable slow-release implant.

Sosei in-licensed the exclusive rights from QLT USA, Inc. to develop and commercialize this product in Japan in January 2003. In the United States this product is approved as Eligard® by the FDA for the treatment of prostate cancer and its one-month, three-month four-month and six-month products are marketed in the US by Sanofi-Aventis, Inc. and in Europe by Astellas Pharmaceuticals. These products have also been licensed in the Oceanic and Canadian markets. For Japan Sosei has a collaborative strategy with Nippon Organon K.K. to co-promote this product.

Sosei applied to the Japanese Ministry of Health, Labour and Welfare (MHLW) in February 2005 for marketing approval of this drug under the generic drug classification. Subsequently, in January 2006, the application was withdrawn. As of 15 May 2006, no future plans have been made regarding the development of this drug but the company remains in discussions with the authority.

NVA237 Indication: chronic obstructive pulmonary disease (COPD):

The active ingredient in NVA 237 (formerly AD 237), glycopyrronium bromide, is currently approved and marketed for a completely different non-respiratory indication. The product concept of using the compound as a long acting bronchodilator was developed by Arakis, Sosei's subsidiary, and then partnered with Vectura Group plc (UK) in a joint development. NVA 237 has been developed using Vectura's proprietary PowderHale® inhalation technology optimizing delivering of product to the lung. NVA237 has kinetic selectivity for M3 receptors in the lung and is effective over 24 hours.

COPD is an irreversible and chronic obstruction of the lung, which in the developed world is primarily caused by smoking. It is estimated that the disease is prevalent in approximately 4% of the population in the key markets of the US, Europe and Japan, but currently remains under diagnosed. COPD is considered to be the fourth leading cause of morbidity and mortality in the US.

The worldwide development and commercialisation rights to NVA237 were licensed out to Novartis International Pharmaceutical Ltd. in April 2005. A phase IIb clinical study was initiated in October 2005.

AD 452 Indication: rheumatoid arthritis (RA):

AD 452 is a novel, small molecule disease modifying anti-rheumatic drug or DMARD, which reduces joint inflammation, destruction and pain and preserves mobility.

RA is a type of chronic arthritis or inflammation of the lining of the joints with the potential to affect the entire body. Symptoms include joint pain, stiffness, warmth, redness and swelling. It may also include bone and cartilage breakdown, loss of joint shape, alignment and movement. More than half of individuals suffering from RA for more than 10 years experience severe difficulty in performing their jobs and in doing normal daily activities. Although the exact cause of RA is unknown, there appears to be a genetic component and an external trigger to the body's immune system causing it to attack healthy joint tissue.

In September 2005, a Phase IIb clinical study was initiated investigating the efficacy of AD 452 in combination with methotrexate in patients with active RA. The study was a randomized, multi-centre, double blind, placebo controlled in Europe and US.

AD 923 Indication: cancer breakthrough pain (CBP):

AD 923 is a novel sublingual presentation of a known, potent analgesic delivered in a non-pressurized metered dose spray formulation. The drug is delivered into the sublingual space in a low volume spray which is rapidly absorbed locally having minimized the amount swallowed. The multi-dose delivery system provides patient flexibility, but has a lock-out component to protect the patient from inadvertent over-dosage.

Three Phase I studies have been completed. Data demonstrated rapid absorption and high bioavailability.

SOU-003 Indication: nocturia, nocturnal enuresis:

SOU-003 is an orally active small molecule with selective vasopressin V2 receptor agonist activity which increases water re-absorption in the kidneys for the treatment of nocturia and nocturnal enuresis. Sosei in-licensed it to develop and commercialize from Otsuka Pharmaceutical Co., Ltd in February 2005. The safety of SOU-003 has already been confirmed in several studies with healthy volunteers and also in various types of incontinence patients by Otsuka.

Sosei plans to commercialize this product which it believes will give individuals more choices for treating nocturnal enuresis and nocturia. Nocturia is more prevalent in the elderly for whom the condition becomes increasingly distressing and for which there is a growing medical need for treatment. The compound is expected to reduce the urine production rate at night which should avoid interruptions to sleep and improve the quality of life of sufferers.

AD 337 Indication: fibromyalgia syndrome:

AD 337 is the active single isomer of a racemic drug that is currently marketed for a different indication (selects one of two types of isomers.) It is a serotonin noradrenaline reuptake inhibitor which Sosei intends to develop as an oral product to treat fibromyalgia syndrome (FMS).

FMS is an under-diagnosed disorder of unknown etiology affecting an estimated 2-4% of the general population, of which approximately 80% are women. Patients complain that they ache all over and a large number of other symptoms are often present, particularly fatigues, morning stiffness, sleep disturbance and headaches.

Two Phase I pharmacokinetic studies of AD 337 have been successfully completed and planning is ongoing for Phase II proof-of-concept evaluation.

SOH-075 Indication: emergency contraception:

SOH-075 is a progestational hormone-based contraceptive that was developed outside Japan as an emergency contraceptive. When there is a risk of an unwanted pregnancy, SOH-075 has the potential of acting as a contraceptive when taken by women within 72 hours of intercourse. The WHO (World Health Organization) has designated Levonorgestrel (a synthetic progestational hormone), the active ingredient, as an essential drug for emergency contraception. This hormone is already incorporated in a number of oral contraceptives used in Japan. A large volume of data has been obtained outside Japan concerning the safety of this contraceptive agent, demonstrating that this is a drug with a high degree of safety.

This product was developed by Laboratoires HRA Pharma (France) as Norlevo® and the exclusive marketing rights for Japan, Australia and New Zealand were licensed to Sosei in April 2001. It is already marketed in more than 60 countries including France, Italy, South Korea, Taiwan.

SOT-107 Indication: glioma/brain cancer:

SOT-107 is a novel product (transferrin-conjugated diphtheria toxin) for the treatment of malignant tumors of the brain. It is based on the transferrin-mediated delivery of a modified diphtheria toxin, which is capable of selectively killing cancer cells.

The Company in-licensed the exclusive development and marketing rights for SOT-107, in Japan and Taiwan, from Celtic Pharma Development UK Plc. in November 2002. SOT-107 is a novel product, developed as TransMID™ in the US and Europe with designation of orphan drug status. Phase III clinical studies started in the US and Europe in May 2002.

Sosei obtained orphan drug designation for SOT-107 for the treatment of glioma (type of brain cancer) by the MHLW in February 2005 in Japan.

AD 529 Indication: neuropathic pain:

AD 529 is a selective NMDA receptor antagonist to treat neuropathic pain and other pain indications by an optimised route of delivery. It is an enantiomer based upon an established drug which is currently marketed for a different indication.

Neuropathic pain is a result of an injury or malfunction in the peripheral or central nervous system and approximately 26 million patients worldwide suffer from it in some form. Symptoms can be described as “electric” and “tingling” and they can be continuous or paroxysmal in nature. Examples include diabetic neuropathy, post-herpetic neuralgia, components of cancer pain, nerve trauma or entrapment. There remains a high unmet medical need within neuropathic pain and many patients receive inadequate pain relief from current therapies.

The successful completion of efficacy studies, with excellent results in validated neuropathic models, has led to the further development of a transdermal formulation of AD 529. These studies have also shown that its NR2B selectivity potentially confers better tolerability compared to unselective agents such as ketamine. Appropriate formulation and preclinical safety development studies are ongoing to allow it to progress into clinical trials.

SD726 Indication: chronic low back pain:

SD726 is a newly discovered serotonin noradrenalin reuptake inhibitor (SNRi) for the treatment of chronic low back pain.

This condition represents a major unmet medical need since it is inadequately treated with NSAIDs and is not commonly viewed by physicians as justifying opioid therapy due to the associated side effect burden of such powerful agents. This issue has been exacerbated by the recent concerns associated with the COX 2 inhibitor drugs that had previously been used in this condition.

SD726 is a New Molecular Entity (NME) that has been designed by Sosei through chemically modifying a known drug template of a marketed drug and which will be positioned in a completely different indication to the parent product. This approach has the clear advantages of creating strong, composition of matter, intellectual property.

SD726 has demonstrated excellent pain-relief efficacy in pre-clinical evaluations that used models of pain involving inflammation and neuropathic pain (primarily problems involving back pain). SD726 is currently undergoing regulatory pre-clinical development.

3) R&D alliances

Sosei has established a broad range of alliances covering each stage of the R&D process. These alliances shield us from increases in fixed expenses while giving us access to the latest advances in technology. Therefore, we have constructed a R&D framework that combines our own R&D with alliances.

4) Earnings

As described above, we aim to develop our pipeline in order to diversify risks whilst building a variety of alliances. Through these activities, we aim to generate earnings from the following two business models.

- a. Conduct development activities internally up to commercialization, thus generating earnings from the sale of products.
- b. Conduct development activities internally only up to a certain stage then license-out the product to a pharmaceutical or other company,, generating earnings from milestones and royalties.

Currently, Sosei plans to generate earnings consistently and at an early stage by selecting business model a. or b. for each of the products now under development. The selection will be based on our current financial strength, R&D capabilities, competitive advantages and other factors.

(6) Important Issues

1) Expanding the pipeline

The development of drugs involves many uncertainties. Sosei believes that it is vital to diversify its risks by having a large number of drug candidates in regulatory development.

Sosei currently (as of 15 May 2006) has 10 products in its core pipeline. It is anticipated that our pipeline will be further enlarged with opportunities from in-house Product Discovery activities, Drug Reprofile Platforms (DRP) and in-licensing to increase earnings and reduce business risk.

To add compounds for development, Sosei is expanding its pipeline by using our function utilising our capabilities to develop new prospective products, including in-licensing and new DRP®, Sosei's proprietary product discovery platform. For in-licensing, we believe it is important to maintain an extensive global network, skills in gathering information and conducting negotiations, and expertise in formulating development and sales plans that make us an attractive partner. For product discovery, we are working on discovering even more effective new indications, and emphasizing alliances with profiling partners having advanced technology in order to gain consistent beneficial access to new compounds

2) Strengthen R&D organization and capabilities

In order to successfully commercialise our pipeline, we must develop an R&D organization that excels in terms of efficiency and the likelihood of success. A high priority is therefore recruitment of talented people and building appropriate alliances. We believe it is vital to establish a broad range of alliances involving R&D activities in order to become involved in leading-edge technologies while avoiding increases in fixed expenses.

3) Build S&M organization

In order to expand earnings from the products upon its commercialisation, it will be more efficient if the Company builds the sales function by itself to obtain direct profit. Sosei investigates to build its own Sales & Marketing organization considering the status of pipeline development.

(7) Items Concerning Parent Company

No reportable information.

(8) Other Important Items

No reportable information.

3. Results of Operations and Financial Position

(1) Results of Operations

1) Operating environment

The Sosei Group is active in the pharmaceutical industry. Currently, the growth of traditional pharmaceutical companies is slowing worldwide due to the replacement of major drugs with generic products, the small number of major new drugs, and other factors. Due to this situation, there are a growing number of takeovers and other actions to realign the industry. Competition is intensive as a result and realignment is also taking place in the Japanese pharmaceutical industry. The Japanese government is taking steps to hold down healthcare costs, having recently determined major guidelines for revisions to the healthcare system. As a result, Japanese pharmaceutical companies are seeking ways to increase demand. Overseas pharmaceutical companies are rapidly revising their business strategies in response to a fast changing operating environment. They are strengthening their business foundations in Japan, initiating mergers and acquisitions, seeking revisions to the Japanese healthcare systems, generating higher sales of generic drugs and strengthening their marketing organizations.

2) Results of operations

In the fiscal year under review, the Sosei Group worked on expanding its product pipeline, strengthening new product creation capabilities and its international R&D framework. To this end, Arakis Limited, a biopharmaceutical development company based in the UK, was acquired on August 30, 2005. The acquisition expanded our development pipeline, enhanced our in-house Product Discovery capability and increased our international base.

Sosei's and Arakis' operation have been integrated, in particular combining the companies' reprofiling capabilities in to one Drug Reprofitting Platform® (DRP®). The first benefit of this new DRP® was the addition of SD726 (indicated for chronic low back pain) to our pipeline in December 2005. Furthermore, we conducted a review of our development pipeline with the aim of deploying our resources efficiently. We designated 10 products in regulatory Development Pipeline. We are now directing substantial resources to the development of these opportunities.

The addition of Arakis greatly expands our development activities in Europe and the US. This larger infrastructure gives Sosei a clinical development capability for products where we have worldwide rights. Moreover, we will be better able to meet the pharmaceutical regulations of each region of the world.

A summary of progress as of 15 May, 2006 in developing the 10 compounds now in our core pipeline is presented below.

Product pipeline

R&D code	Indication	Origin of product	R&D stage as of May 15, 2006
SOT-375	Prostate cancer	In-licensing	Sosei withdrew the marketing authorization application as generic drug in January 2006
NVA 237	Chronic obstructive pulmonary disease (COPD)	Arakis approach	Phase IIb clinical study
AD 923	Cancer breakthrough pain (CBP)	Arakis approach	Preparations for phase III clinical study
AD 452	Rheumatoid arthritis (RA)	Arakis approach	Phase IIb clinical study
SOH-075	Emergency contraception	In-licensing	Preparations for clinical study in Japan
SOU-003	Nocturia, nocturnal enuresis	In-licensing	Preparations for phase II clinical study
AD 337	Fibromyalgia syndrome	Arakis approach	Preparations for Phase II clinical study
SOT-107	Glioma/brain cancer	In-licensing	Preparations for clinical study in Japan
AD 529	Neuropathic pain	Arakis approach	Pre-clinical study
SD726	Chronic low back pain	DRP®	Pre-clinical study

*SOU-001 was removed from the list following the Company's decision to discontinue its development as of 15 May 2006.

During the current fiscal year, Sosei recorded net sales from consigned development work for NVA237 and from the technology transfer business. Operating expenses represent the cost of the above R&D activities, goodwill amortization associated with the acquisition of Arakis, and other items.

As a result of these activities, consolidated net sales were 415 million yen (+70.0% year-on-year), with an operating loss of 4,406 million yen (1,753 million yen one year earlier), an ordinary loss of 4,404 million yen (1,884 million yen one year earlier), and a net loss of 4,175 million yen (1,820 million yen one year earlier). Selling, general and administrative expenses totaled 4,457 million yen, of which 2,217 million yen was R&D expenses and 936 million yen was amortization of goodwill.

(2) Financial Position

1) Financial condition

(Unit: million yen)

	Year ended March 2006		Year ended March 2005		Change	
	Amount	%	Amount	%	Amount	%
Current assets	10,070	39.8	9,756	98.8	314	3.2
[Cash and cash equivalents]	[9,458]	[37.4]	[9,697]	[98.2]	[(239)]	[(2.5)]
Fixed assets	15,236	60.2	123	1.2	15,112	12,240.2
Property and equipment	47	0.2	33	0.3	14	42.7
Intangible fixed assets	15,048	59.5	7	0.1	15,041	207,040.6
Investment and other assets	140	0.5	82	0.8	57	69.6
Total assets	25,307	100.0	9,879	100.0	15,427	156.2
Current liabilities	831	3.3	152	1.6	678	443.3
Long-term liabilities	-	-	0	0.0	(0)	(100.0)
Total liabilities	831	3.3	153	1.6	677	442.1
Shareholders' equity	24,475	96.7	9,726	98.4	14,749	151.6
Total liabilities and shareholders' equity	25,307	100.0	9,879	100.0	15,427	156.2

Total assets at the end of current consolidated fiscal year were 25,307 million yen, an increase of 15,427 million yen from the end of the previous fiscal year.

Current assets increased by 314 million yen to 10,070 million yen. Fixed assets also increased by 15,112 million yen to 15,236 million yen. This mainly represents goodwill of 15,885 million yen, resulting from the acquisition of Arakis (the goodwill balance that existed at the end of the current consolidated fiscal year was 15,037 million yen.)

Total liabilities increased by 677 million yen to 831 million yen, and shareholders' equity totaled 24,475 million yen, an increase of 14,749 million yen from the end of the previous fiscal year. There were increases of 18,620 million yen in common stock and the capital surplus due to the sale of stock through a private placement in conjunction with the acquisition of Arakis.

The shareholders' equity ratio was down 1.7 points to 96.7%.

2) Cash flows

(Unit: million yen)

	Year ended March 2006	Year ended March 2005
	Amount	Amount
Cash flows from operating activities	(3,190)	(1,700)
Cash flows from investing activities	2,624	(21)
Cash flows from financing activities	47	10,424
Effect of exchange rate changes on cash and cash equivalents	278	(3)
Increase in cash and cash equivalents	(239)	8,698
Cash and cash equivalents, beginning of period	9,697	999
Cash and cash equivalents, end of period	9,458	9,697

Net cash used in operating activities was 3,190 million yen. This was mainly the result of a loss before income taxes of 4,315 million yen (1,816 million yen one year earlier), which was chiefly attributable to higher research and development expenses due to progress in research projects and to general and administrative expenses used for the acquisition of Arakis. The primary source of operating cash-in-flows was the 936 million yen of amortization of goodwill resulting from the acquisition of Arakis.

Net cash provided by investing activities was 2,624 million yen. This was mainly the result of a receipt of 2,667 million yen <5,832 million yen (cash at purchase date) minus 3,165 million yen (value, incidental expense and new stock issue expenses)>, for the cash purchase of Arakis shares and associated expenses.

Net cash provided by financing activities was 47 million yen.

The result of this, cash and cash equivalents totaled 9,458 million yen as of March 31, 2006.

(3) Forecast for the Year Ending March 2007

(Unit: million yen)

	Year ending March 2007	Year ended March 2006
	Annual forecast	Annual amount
Net sales	250	415
Operating expenses	7,050	4,822
[R&D expenses]	(4,000)	(2,217)
[Goodwill amortization]	(1,600)	(936)
Operating income (loss)	(6,800)	(4,406)
Ordinary income (loss)	(6,700)	(4,404)
Net income (loss)	(6,500)	(4,175)

In the fiscal year ending in March 2007, the Sosei Group will take numerous actions to generate earnings in the pharmaceutical business while continuing to work on expanding the pipeline. Work will continue on compounds currently under development in the clinical trial, pre-clinical trial and basic research stages. At the same time, we will expand the pipeline by carefully monitoring market trends and advances in medical technology in order to identify new compounds for development. The objective is to further increase corporate value.

Net sales in the fiscal year ending in March 2007 are expected to include one-time revenue from the licensing out of products under development, revenue from an outsourcing contract for the development of AD 237, sales of drugs to Sandoz Australia, and other items.

There will be a large increase in overall R&D expenses. This is because of the significant increase in compounds under development following the Arakis acquisition. Furthermore, the previous fiscal year included only seven months of R&D expenses at Arakis, while the March 2007 fiscal year will include a full year of Arakis expenses. In addition, Sosei will record one-year of amortization expenses for the goodwill resulting from the Arakis acquisition. Only seven months of these expenses were recorded in the previous fiscal year.

Due to these items, Sosei is projecting net sales of 250 million yen, ordinary loss of 6,700 million yen and net loss of 6,500 million yen in the fiscal year ending in March 2007.

4. Risk Factors

Listed below are the primary items, selected from among items associated with results of operations and financial conditions, which may represent risks with regard to the business operations of the Sosei Group (Sosei Co. Ltd., seven consolidated subsidiaries and one equity-method company). The list includes items that may not pose significant risks involving business operations but that management believes are important from the standpoint of making investment decisions. These items are provided from the standpoint of disclosing all relevant information to investors. Management is aware of these risks. Business activities are conducted in conjunction with preventive measures and the Group is prepared to respond appropriately in the event a problem does occur. However, there is no assurance that these problems will not occur. The following list of risk factors is not complete; the Group is also exposed to a variety of other risks in association with its business operations and other activities.

Forward-looking statements in these materials are based on judgments of the Group at the time of this report was prepared.

(1) Business Activities

1) Research and development of drugs

a. Uncertainty of research and development

The primary business of the Group is the development of drugs. In general, the development of drugs requires a long period of time, beginning with basic research and ending with approval for sale. As a result, substantial investments must be made in research and development. In addition, the likelihood of the success of a research project is much lower than in other industries. Consequently, future prospects of research and development activities are uncertain, and there are risks associated with the commercialization of newly developed products at present and in the future. These uncertainties may have a significant impact on the Group's financial condition and operating results.

The Company is reliant upon being able to identify new products from its own in-house discovery and from external in-licensing sources. In the event that the Group is unable to identify these drug candidates as planned in the future, there may be a significant impact on the Group's operating results.

b. Competition in the drug industry

The pharmaceutical industry, where the Group is active, is characterized by fierce competition from companies in Japan and overseas, including huge multinational corporations, research institutes and other entities. The industry is also noteworthy for the rapid pace of technological progress. Consequently, competition with such companies involving research, new product development, manufacturing and marketing activities may have a significant impact on the Group's financial situation and operating results.

c. Drug side effects

Any drug may produce unexpected side effects during clinical studies and following commercialization. The occurrence of such side effects may have a significant impact on the Group's financial situation and operating results.

d. Pharmaceutical Affairs Law and other regulations

In the pharmaceuticals industry, where the Group is active, research, new product development, manufacturing and sales activities are subject to the pharmaceutical business laws and other rules and regulations of various countries.

The Group conducts clinical trials and R&D activities on a global scale. These activities are performed in Japan, Europe and the US. The Group's development products have not received approval for commercialization from the applicable authorities, including the Japanese Ministry of Health, Labour and Welfare, the European Medicine's Agency for the Evaluation of Medicinal Products, and the US Food and Drug Administration. However, the Group's goal is to use the results of clinical trials performed during the development process to submit applications to these authorities, as stipulated in the applicable laws and regulations, to gain approval to manufacture and sell these pharmaceutical products. The Group expects that some products under development may be licensed to other pharmaceutical companies to maximize the product's revenue potential. The development of pharmaceuticals requires large investments in terms of time and capital from the discovery stage through the receipt of final approval for manufacture and sale. In some cases, it may not be possible to adequately

demonstrate the quality and efficacy of the drug candidate. This would prevent the Group from receiving final approval as planned and therefore commercializing the product. These risks also apply to drugs under development that are licensed to other pharmaceutical companies. In some cases, licensing may not be possible as initially planned, or the licence itself may be difficult to execute.

If any of these events occur, or if there is a significant change in the Pharmaceutical Affairs Law and other regulations in one or more countries, there may be a significant impact on the Group's financial situation and operating results.

At the same time, we are building an internal framework for obtaining the permissions required for the manufacture and sale of pharmaceutical products in view of the expected revision of the Pharmaceutical Affairs Law due to go into force on April 1, 2005. However, in some cases it may not be possible to fully meet the approval requirements. In such cases, we may not be able to obtain a manufacturing license as planned and this may result in our inability to win approval for manufacturing and marketing of new pharmaceutical products. Even in this event, there may be a significant impact on the Group's financial situation and operating results.

e. Product liability

In the pharmaceutical business, companies may be liable for business activities involving research, new product development, manufacturing and marketing. The Group has liability insurance covering its current business operations. However, a liability that exceeds this policy may have a significant impact on the Group's financial situation and operating results.

2) Business operations of the Sosei Group

a. Business alliances

The Group has established a variety of alliances covering every stage of its research and development activities. These alliances give the Group access to the latest technology while preventing increases in fixed expenses. By using its own research and development personnel as well as the resources provided by these alliances, the Group has constructed a strategic and flexible research and development framework. Similarly, the Group has established sales and marketing alliances for some products under development that the Group plans to market, to reduce the financial risk that the company is required to take. Any unexpected changes on these alliances may have a significant impact on the Group's financial situation and operating results.

The Group will continue to seek opportunities for a broad range of alliances to reinforce its operating base and improve operating efficiency. However, it may not be possible to make alliances as currently expected.

b. Recruitment and training of personnel

The business operations of the Group are highly reliant on the current management team and on the managers, employees and other individuals that execute business strategies. The Group is constantly working on the recruitment and training of talented individuals. However, the inability to recruit and train individuals as planned may have a significant impact on the Group's financial situation and operating results.

c. Intellectual property

In the course of conducting research and development and other activities, the Group uses a variety of intellectual property. Management believes that such property is either owned by the Group or that the Group has received legal permission to use this property. However, it is difficult to completely avoid future conflicts resulting from the alleged infringement on the intellectual property rights of third parties. Such conflicts may have a significant impact on the Group's financial situation and operating results.

d. Fund procurement

The Group may procure funds, primarily through the sale of stock, to support rapid growth in its business operations in the future. The resulting increase in the number of shares issued may dilute the value of shares already outstanding.

e. Contractual liabilities

The Group has contracts with alliance partner companies concerning the development pipeline under which, in some cases, the Group is obligated to pay milestone fees at a development stage prior to a product launch and at a time following the product launch.

Furthermore, the Group is also committed to share research and development expenses and to bearing a certain amount of sales promotion expenses. The Group considers that these liabilities are unavoidable given the nature of R&D-oriented biotechnology venture firms and this means that liabilities could be relatively high compared to our financial resources. There is no guarantee that payments will not overlap, in which case the financial burden may become heavy. In case the Group is unable to service its liabilities due to unforeseen factors, contracts with the Group may be terminated and the Group could be sued for liability for damages, affecting our financial situation and operating results.

f. Japanese sales and licensing-out

In line with its medium-term plans, the Group has two commercialisation strategies for its development products : 1) the sale of Group's products in Japan by the Company and 2) the licensing-out of other products to other pharmaceutical companies.

1) Sales in Japan

Presently, the Group has no products that have been approved for sale. In order to increase earnings, the Group believes there is a need to establish a sales network in Japan. The Group is planning a sales network that can sell Group products, perform joint sales activities with other companies, and perform other roles. However, in the event that the Group is unable to establish Japanese sales to fulfill its goals, there may be a significant impact on the Group's financial situation and operating results.

2) Licensing-out

Alternatively Group products can be licensed out to other pharmaceutical companies. These licenses can generate one-time payments as well as royalties linked to the product sales made by the license holders. However, the Group may not receive these revenues in the expected fiscal periods due to the inability to license-out the products at the planned time because of delays in development activities and for other reasons. This may have a significant impact on the Group's financial situation and operating results. Furthermore, in the event that there are difficulties licensing-out a product under development, there may be a significant impact on the Group's financial situation and operating results.

g. Dividend policy, including payment of no dividend

The Company has not paid a dividend since its founding. As of the date of submission of this report, the Company had no funds available for earnings distribution as dividends as prescribed by the Corporation Law. If the Company's financial condition improves in the future, management will, in line with its policy of placing importance on the return of earnings to shareholders, consider the payment of a dividend while taking into consideration the Group's operating results and financial situation.

h. Business expansion through M&A (merger, acquisition, business transfer and business assignment)

The Group is constantly taking actions aimed at maximizing corporate value through the effective utilization of its resources. As part of these actions, the Group has a policy of maintaining a flexible approach to using mergers and acquisitions in order to enlarge its scope of business activities. However, mergers and acquisitions may have a significant impact on the Group's financial situation and operating results and increase in the number of shares issued may dilute the value of shares already outstanding.

i. Important contracts

This section describes the contracts that are deemed of great importance to the growth in business of the Sosei Group. If any of these contracts were to expire, get annulled or end for any other reason, this could have an impact on the Group's financial situation and business results.

(a) Contracts at Sosei**SOT-375**

Contract name	License Agreement
Other party to contract	QLT USA, Inc. (formerly Atrix Laboratories, Inc.)
Date of contract	January 3, 2003
Contract period	From January 6, 2003 to the expiration of the term of patents on Atrigel®
Main details of contract	QLT USA gives Sosei exclusive development and marketing rights in Japan for all other sustained-release formulations of leuprolide acetate made using the Atrigel® sustained release technology.

Contract name	Distribution and Co-Promotion Agreement
Other party to contract	Nippon Organon K.K.
Date of contract	March 10, 2004
Contract period	From March 10, 2004 until the day nine years and six months after sales begin for the one-month sustained-release formulation of leuprolide acetate made using the Atrigel® sustained release technology.
Main details of contract	Sosei gives Nippon Organon exclusive marketing rights and sales-promotion rights in Japan for the one-month and three-month sustained-release formulations of leuprolide acetate made using the Atrigel® sustained release technology on the basis of the marketing rights which Sosei gained from QLT USA. Sosei retains the right to jointly conduct promotions to sell this drug in Japan with Nippon Organon.

SOH-075

Contract name	Distribution Contract
Other party to contract	Laboratoire HRA Pharma
Date of contract	April 6, 2001
Contract period	From April 6, 2001 until the last day of the year after NORLEVO™ has been on sale in Japan for nine years. The contract will be extended automatically for a period of five years if no notice of renewal-rejection has been made six months prior to the expiration of the term of contract.
Main details of contract	Laboratoire HRA Pharma gives Sosei exclusive marketing rights in Japan for NORLEVO™.

SOT-107

Contract name	License Agreement
Other party to contract	Celtic Pharma Development UK PLC (formerly KS Biomedix Holdings Plc)
Date of contract	November 1, 2002
Contract period	From the signing of the contract until the later of the following two dates: (1) The day the term of patents relating to a diphtheria toxin-transferrin conjugate in Japan expire (however, as of now, it has not been patented in Japan) or (2) The day when ten years have passed since a diphtheria toxin-transferrin conjugate product went on sale.
Main details of contract	Celtic Pharma gives Sosei exclusive marketing rights in Japan for a diphtheria toxin-transferrin conjugate.

Note: A Letter of Agreement dated at the same time as this contract stipulates that Sosei has the option to gain exclusive marketing rights to Taiwan for a diphtheria toxin-transferrin conjugate.

SOU-003

Contract name	License Agreement
Other party to contract	Otsuka Pharmaceutical Co., Ltd.
Date of contract	February 22, 2005
Contract period	From the signing of the contract until the later of the following two dates: (1) ten years after the sale of a product containing the applicable compound in the each country in the territory (the entire world except countries where Otsuka Pharmaceutical retains development and marketing rights); (2) the day on which the term of all patents associated with the applicable compound have expired in the applicable countries.
Main details of contract	Otsuka Pharmaceutical grants Sosei exclusive rights (including sublicensing rights), in the applicable compound in the applicable territory concerning research, development, manufacturing and marketing with regard to all disease or disorder as candidate indications. In Japan, Sosei is granted the right to conduct joint sales-promotion activities with Otsuka Pharmaceutical. In addition, Otsuka Pharmaceutical retains the right in certain countries in the territory to conduct joint sales-promotion activities with Sosei of the applicable compound.

(b) Contracts at Arakis**NVA237 (formerly AD-237)**

Contract name	License Agreement
Other party to contract	Novartis International Pharmaceutical Ltd, Vectura Group PLC
Date of contract	April 12, 2005
Contract period	From the signing of the contract until the later of the two following dates: (1) the day on which all applicable patents granted by Arakis and Vectura have expired; (2) ten years after the first day of sale of the final product commercialized by Arakis or licensee.
Main details of contract	Arakis and Vectura give Novartis exclusive global rights for development and commercialization of AD-237.

AD-452

Contract name	Intellectual Property Assignment
Other party to contract	Chiroscience R&D Ltd. and Darwin Discovery Ltd. (currently subsidiary of UCB SA)
Date of contract	July 3, 2000
Contract period	From the signing of the contract until the later of the two following dates: (1) the day on which the term of all applicable patents which Sosei received from the licensor have expired; (2) ten years after the sale of the final product commercialized by Arakis or third party who gained license.
Main details of contract	Chiroscience R&D and Darwin Discovery will transfer intellectual property rights to Arakis. In return, Arakis will pay to these two companies royalties and a portion of sales associated with products that use these intellectual property rights.

(c) Contracts at Sosei (not involving drug development)**Other contracts**

Contract name	Business Collaboration Agreement
Other party to contract	EPS Co., Ltd.
Date of contract	November 20, 2003
Contract period	A five-year period from the day of signing of the contract. The contract will be extended automatically for a period of one year if no notice of renewal-rejection has been made three months prior to the expiration of the term of contract.
Main details of contract	EPS conduct various tasks relating to clinical studies on consignment from Sosei. The consignment agreement, which provides the right of first refusal (or requires that EPS be given priority for clinical studies on consignment) to EPS, requires EPS to acquire through subscription a certain number of shares of the private placement planned by Sosei for November 2003.

Note: EPS acquired those shares when Sosei conducted the private placement of shares.

Contract name	Business Collaboration Agreement
Other party to contract	ITOCHU Corporation
Date of contract	March 3, 2005
Contract period	From March 4, 2005 to March 31, 2007. The contract will be extended automatically for a period of one year if no notice of renewal-rejection has been made one month prior to the expiration of the term of contract.
Main details of contract	The contract covers all aspects of the biotechnology business. ITOCHU purchased a certain number of Sosei shares.

Note: ITOCHU has purchased the shares mentioned above from existing Sosei shareholders.

(2) Review of Operations

Although established in June 1990, it was only in the fiscal year ended March 2001 (11th accounting period) that the Company redefined the pharmaceutical business as its core activity and shifted management resources into the business. Simultaneously, the Company expanded research and development operations, driving up R&D expenses. As a consequence, losses (ordinary loss) are increasing. The following table shows the historical movements of certain financial and management indices. Investors should, however, note that the information presented therein is insufficient for comparison of period results and nor for projecting future financial results.

The following illustrates historical movements of certain financial indices:

(Unit: thousand yen)

	Term 12	Term 13	Term 14	Term 15	Term 16
Fiscal year ended March	2002	2003	2004	2005	2006
(1) Consolidated financial indices					
Net sales	-	-	226,990	244,395	415,501
R&D expenses	-	-	606,385	1,324,374	2,217,024
Ordinary loss	-	-	947,060	1,884,578	4,404,808
Net loss	-	-	912,913	1,820,358	4,175,711
Shareholders' equity	-	-	1,062,722	9,726,388	24,475,989
Total assets	-	-	1,131,109	9,879,715	25,307,235
(2) Non-consolidated financial indices					
Net sales	92,359	44,189	203,807	208,646	38,090
R&D expenses	137,285	399,735	606,385	1,324,374	951,041
Ordinary loss	267,957	709,911	908,421	1,845,743	2,028,538
Net loss	244,547	713,344	912,033	1,847,234	2,027,695
Common stock	773,400	858,900	1,662,150	5,869,875	15,226,074
Shares outstanding	5,676	5,866	47,170	61,777	98,300
Shareholders' equity	901,342	358,864	1,054,013	9,689,888	26,331,019
Total assets	927,842	387,959	1,121,579	9,840,436	26,604,151

- Notes: 1. Net sales and R&D expenses are not inclusive of consumption taxes.
2. The Company started compiling consolidated financial statements in the fiscal year ended March 2004 and no consolidated financial information is provided for prior years.
3. In conformity with Article 193-2 of the Securities and Exchange Law of Japan, the consolidated financial statements for the fiscal year ended March 2004 and non-consolidated financial statements for fiscal years ended March 2003 through March 2006 are audited by our auditors, Deloitte Touche Tohmatsu. However, financial statements for the fiscal year ended March 2002 have not been audited.

(3) Earnings Forecasts and Medium-Term Goals

The Group announces its forecasts for operating results in each fiscal year. Furthermore, the Company announced an operating income structure as a medium-term goal for the fiscal year ending in March 2010. However, the Group may be unable to fulfill or maintain these forecasts and goals due to unforeseen events, such as changes in the operating or economic environment and other uncertainties.

(4) Standard for Delisting of Stock

The Mothers Market of the Tokyo Stock Exchange, where the Company's shares are traded, has strict delisting standards. It is possible that one or more of these standards could become applicable to the Company's shares due to deterioration in operating results, decline in the number of shareholders, trends in equity markets or for other reasons.

(5) Litigation

The Group was not the target of any litigation during the past fiscal year. However, the Group cannot completely shield itself from the possibility of being required to make a payment due to a court action in the future. Such an event may have a significant impact on the Group's financial situation and operating results.

QLT USA Inc. (formally Atrix Laboratories, Inc.) currently faces a patent infringement suit filed by Takeda Abbott Pharmaceuticals Products Inc., Takeda Chemical Industries, Ltd. and Wako Pure Chemical Industries, Ltd. The dispute concerns the Atrigel® sustained release drug-delivery system that Atrix uses for Eligard® and which is also used by Sosei for SOT-375. The patent infringement suit filed by these three companies concerns a patent that will expire on May 1, 2006.

The patent as granted in Japan will expire on April 23, 2006. Because SOT-375 is not expected to reach market until after this patent has expired, Sosei does not anticipate this suit having any affect on its business in either case. However, the possibility cannot be completely ruled out.

(6) Sosei Stock Held by Former Arakis Shareholders (venture capital firms and others)

In August 2005, Arakis Limited, a UK-based biopharmaceutical development company, became a wholly owned subsidiary of Sosei. Part of the payments made to Arakis shareholders, including venture capital firms, for these shares were made in the form of newly issued Sosei stock. These new shares were allocated to Arakis shareholders with the requirement that the shares not be sold for a period of one year following completion of the acquisition. This requirement excludes cases in which a securities company named by Sosei and Arakis shareholders agrees to the sale of these shares based on current market conditions.

As a result, venture capital firms and other shareholders will be free to sell our shares after August 31, 2006, when the requirement barring Arakis shareholders from selling allotted shares expires. In this event, the supply-demand balance of Sosei stock may deteriorate, affecting our share price.

(7) Stock Options

The Company offers stock options to its management and employees. Under this system, the Company offers stock options by way of stock subscription rights to directors, employees and statutory auditors of the Company and other selected individuals, pursuant to a resolution at the Annual General Meeting of Shareholders, in accordance with Articles 280-19 of the former Commercial Code of Japan and Article 11-5 of the Law for facilitating the creation of New Business, and stock acquisition rights to directors and employees of the Company pursuant to the resolution of the following Annual General Meeting of Shareholders in accordance to Articles 280-20 and Articles 280-21 of the Commercial Code of Japan.

The total number of shares that could be issued under stock options was 7,700 as of the date of submission of this report. Shares issued under the stock options and potential shares under the unexercised stock options represented 7.3% of outstanding shares. The value of existing shares will be diluted in the even that stock options are exercised. The Company is likely to continue to offer such initiatives to attract talented employees. The value of the Company's shares will be diluted further, assuming that stock options granted in the future are exercised.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: thousand yen)

Account	Note	As of March 31, 2005		As of March 31, 2006	
		Amount	%	Amount	%
Assets					
I Current assets					
1. Cash and deposits		4,197,523		7,957,886	
2. Account receivable - trade		6,872		151,300	
3. Securities		5,500,129		1,500,214	
4. Others		51,721		461,449	
Total current assets		9,756,246	98.8	10,070,850	39.8
II Fixed assets					
1. Property and equipment					
(1) Buildings	*1	14,471		14,259	
(2) Equipment, furniture and fixtures		18,880		33,344	
Total property and equipment		33,351	0.3	47,604	0.2
2. Intangible fixed assets					
(1) Goodwill		-		15,037,950	
(2) Others		7,264		10,341	
Total intangible fixed assets		7,264	0.1	15,048,291	59.5
3. Investments and other assets					
(1) Investment securities	*2	49,162		89,317	
(2) Others		33,689		51,171	
Total investments and other assets		82,852	0.8	140,488	0.5
Total fixed assets		123,469	1.2	15,236,385	60.2
Total assets		9,879,715	100.0	25,307,235	100.0

(Unit: thousand yen)

Account	Note	As of March 31, 2005		As of March 31, 2006	
		Amount	%	Amount	%
Liabilities					
I Current liabilities					
1. Accounts payable – trade		-		21,249	
2. Accounts payable – other		111,744		372,566	
3. Accrued income taxes		24,568		42,079	
4. Others		16,676		395,351	
Total current liabilities		152,989	1.6	831,246	3.3
II Long-term liabilities					
1. Deferred tax liabilities		337		-	
Total long-term liabilities		337	0.0	-	-
Total liabilities		153,327	1.6	831,246	3.3
Shareholders' equity					
I Common stock	*3	5,869,875	59.4	15,226,074	60.2
II Capital surplus		7,923,975	80.2	17,237,094	68.1
III Retained earnings		(4,068,868)	(41.2)	(8,244,579)	(32.6)
IV Unrealized holdings gains on available-for-sale securities		491	0.0	-	-
V Foreign currency translation adjustment		915	0.0	257,400	1.0
Total shareholders' equity		9,726,388	98.4	24,475,989	96.7
Total liabilities and shareholders' equity		9,879,715	100.0	25,307,235	100.0

(2) Consolidated Income Statement

(Unit: thousand yen)

Account	Note	Apr. 1, 2004 – Mar. 31, 2005		Apr. 1, 2005 – Mar. 31, 2006			
		Amount	%	Amount	%		
I Net sales			244,395	100.0	415,501	100.0	
II Cost of sales			13,050	5.3	364,757	87.8	
Gross profits			231,345	94.7	50,744	12.2	
III Selling, general and administrative expenses	*1		1,984,708	812.1	4,457,439	1,072.8	
Operating loss			1,753,362	(717.4)	4,406,695	(1,060.6)	
IV Non-operating income							
1. Interest income		1,503			147,267		
2. Commission income		532			-		
3. Insurance reimbursement		1,966			-		
4. Others		576	4,578	1.9	1,153	148,421	35.7
V Non-operating expenses							
1. New stock issue expenses		58,396			87,522		
2. Initial public offering expenses		26,244			-		
3. Equity in losses of associated company		45,681			57,012		
4. Others		5,472	135,794	55.6	1,999	146,534	35.2
Ordinary loss			1,884,578	(771.1)		4,404,808	(1,060.1)
VI Extraordinary income							
1. Reversal of allowance for doubtful accounts		155			-		
2. Gain on sale of investment securities		-			1,829		
3. Gain on changes in equity interest in associated company		67,951	68,107	27.8	98,798	100,628	24.2
VII Extraordinary loss							
1. Loss on sale and disposal of fixed assets	*2	281	281	0.1	11,475	11,475	2.8
Loss before income taxes			1,816,753	(743.4)		4,315,655	(1,038.7)
Income taxes			3,605	1.4		(139,943)	(33.7)
Net loss			1,820,358	(744.8)		4,175,711	(1,005.0)

(3) Consolidated Surplus Statement

(Unit: thousand yen)

		Apr. 1, 2004 – Mar. 31, 2005		Apr. 1, 2005 – Mar. 31, 2006	
Account	Note	Amount		Amount	
Capital surplus					
I Capital surplus, beginning of period			1,648,400		7,923,975
II Increase in capital surplus					
Capital increase through new stock issue		6,275,575	6,275,575	9,313,119	9,313,119
III Capital surplus, end of period			7,923,975		17,237,094
Retained earnings					
I Retained earnings, beginning of period			(2,248,509)		(4,068,868)
II Decrease in retained earnings					
Net loss		1,820,358	1,820,358	4,175,711	4,175,711
III Retained earnings, end of period			(4,068,868)		(8,244,579)

(4) Consolidated Cash Flow Statement

(Unit: thousand yen)

		Apr. 1, 2004 – Mar. 31, 2005	Apr. 1, 2005 – Mar. 31, 2006
Accounts	Note	Amount	Amount
I Cash flows from operating activities			
Loss before income taxes		(1,816,753)	(4,315,655)
Depreciation and amortization		8,686	23,609
Amortization of goodwill		-	936,084
Decrease in allowance for doubtful accounts		(155)	-
New stock issue expenses		58,396	87,522
Equity in losses of associated company		45,681	57,012
Gain on changes in equity interest in associated company		(67,951)	(98,798)
Gain on sales of investment securities		-	(1,829)
Loss on sales and disposal of fixed assets		281	11,475
Increase in trade receivable		(2,700)	(116,693)
Decrease in accounts receivable - other		14,858	107,892
Increase in trade payable		-	21,249
Increase in accounts payable - other		52,622	130,519
Decrease in accrued expense payable		-	(13,888)
Increase in accrued income taxes		21,410	17,755
Others		(14,863)	(181,860)
Subtotal		(1,700,487)	(3,335,606)
Interests received		1,503	147,267
Income taxes paid		(1,800)	(2,139)
Net cash used in operating activities		(1,700,784)	(3,190,478)
II Cash flows from investing activities			
Proceeds from sales of investment securities		-	1,854
Proceeds from purchase of subsidiaries	*2	-	2,667,163
Payment for sales of subsidiaries		-	(10,439)
Payment for purchase of property and equipment		(18,022)	(11,170)
Proceeds from sales of property and equipment		1,027	-
Payment for purchase of intangible fixed assets		(6,913)	(5,550)
Others		2,096	(17,454)
Net cash provided by (used in) investing activities		(21,811)	2,624,404
III Cash flows from financing activities			
Proceeds from a new stock issue		10,424,903	47,632
Net cash provided by financing activities		10,424,903	47,632
IV Foreign currency translation adjustment on cash and cash equivalents		(3,876)	278,889
V Increase in cash and cash equivalents		8,698,430	(239,551)
VI Cash and cash equivalents, beginning of period		999,222	9,697,652
VII Cash and cash equivalents, end of period	*1	9,697,652	9,458,100

Basis of Preparation of Consolidated Financial Statements

Item	Apr. 1, 2004 – Mar. 31, 2005	Apr. 1, 2005 – Mar. 31, 2006
1. Basis of consolidation	<p>Consolidated subsidiaries: 2 SC Consulting Inc. Kosei, Inc. Sosei Consulting Co. Ltd. has changed its name to SC Consulting Inc. effective January 1, 2005. Effective the current consolidated fiscal year, Kosei, Inc. is included in the consolidation due to its establishment.</p>	<p>Consolidated subsidiaries: 6 Arakis Limited Kosei, Inc. Effective the current fiscal year, 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. SC Consulting, which was a consolidated subsidiary, was sold on March 31, 2006, removing this company from the scope of consolidation as of the end of the fiscal year. SC Consulting has been incorporated in the consolidated income statement and surplus statement for the period during which it was a consolidated subsidiary during the fiscal year, but this company has been excluded from the consolidated balance sheet.</p>
2. Application of the equity method accounting	<p>Affiliates accounted for by the equity method of accounting: 1 Stem Cell Sciences KK</p>	<p>Same as on the left.</p>
3. Fiscal year end of consolidated subsidiaries	<p>The consolidated subsidiary's fiscal year ends on the closing date for consolidated financial statements.</p>	<p>Same as on the left.</p>
4. Accounting standards	<p>(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 Other securities without market quotations are stated at cost, cost being determined by the moving average method.</p> <p>(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</p>	<p>(1) Valuation criteria and methods for principal assets 1) Securities Other securities Other securities with market quotations Same as on the left.</p> <p>Other securities without market quotations Same as on the left.</p> <p>(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 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>

Item	Apr. 1, 2004 – Mar. 31, 2005	Apr. 1, 2005 – Mar. 31, 2006
	<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 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. Translation gain or loss is recorded as translation adjustment in shareholders' equity.</p> <p>(5) Other significant accounting policies 1) Consumption taxes All amounts stated are exclusive of consumption taxes.</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 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. In previous fiscal years, revenue and expenses of overseas consolidated subsidiaries have been translated into yen using the exchange rate prevailing as of each fiscal year end. Beginning with the fiscal year that ended in March 2006, these translations are performed using the average exchange rate for the applicable fiscal year. This change was made due to the growing importance of sales and expenses at overseas consolidated subsidiaries. The Company decided that using average exchange rates would more accurately present annual sales and earnings by better reflecting foreign exchange rate movements in operating results. This change did not have a material effect on earnings. This change was adopted in the third quarter of the fiscal year that ended in March 2006 because the importance of revenue and earnings from overseas consolidated subsidiaries increased beginning in this quarter. Therefore, results for the first half of this fiscal year use the previous foreign currency translation method. However, there would not be a material effect on earnings in this fiscal year if the new translation method were applied to the first half, too.</p> <p>(5) Other significant accounting policies 1) Consumption taxes Same as on the left.</p>

Item	Apr. 1, 2004 – Mar. 31, 2005	Apr. 1, 2005 – Mar. 31, 2006
	<p>2) Deferred assets New stock issue expenses are charged to income as accrued.</p> <p>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.</p> <p>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>2) Deferred assets New stock issue expenses are charged to income as accrued.</p>
5. Valuation of assets and liabilities of consolidated subsidiaries	All assets and liabilities of consolidated subsidiaries are valued at market.	Same as on the left.
6. Amortization of goodwill	_____	The goodwill account is amortized over a period of 7-10 years by the straight-line method.
7. Appropriation of retained earnings	The appropriation of retained earnings of consolidated subsidiaries included in the consolidated surplus statements reflects the appropriation of profit made during the consolidated fiscal year.	Same as on the left.
8. Scope of cash and cash equivalents on consolidated cash flow statement	For the purpose of consolidated cash flow statement, 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.

Change in Basis of Preparation of Consolidated Financial Statements

Apr. 1, 2004 – Mar. 31, 2005	Apr. 1, 2005 – Mar. 31, 2006
<p style="text-align: center;">_____</p>	<p>Accounting for impairment of fixed assets</p> <p>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</p> <p>In previous fiscal years, revenue and expenses of overseas consolidated subsidiaries have been translated into yen using the exchange rate prevailing as of each fiscal year end. Beginning with the fiscal year that ended in March 2006, these translations are performed using the average exchange rate for the applicable fiscal year.</p> <p>This change was made due to the growing importance of sales and expenses at overseas consolidated subsidiaries. The Company decided that using average exchange rates would more accurately present annual sales and earnings by better reflecting foreign exchange rate movements in operating results.</p> <p>This change did not have a material effect on earnings.</p> <p>This change was adopted in the third quarter of the fiscal year that ended in March 2006 because the importance of revenue and earnings from overseas consolidated subsidiaries increased beginning in this quarter. Therefore, results for the first half of this fiscal year use the previous foreign currency translation method. However, there would not be a material effect on earnings in this fiscal year if the new translation method were applied to the first half, too.</p>

Reclassifications

Apr. 1, 2004 – Mar. 31, 2005	Apr. 1, 2005 – Mar. 31, 2006						
<p>In prior periods, accumulated depreciation on property and equipment was presented as a deduction from the respective asset accounts. However, effective the current consolidated fiscal year, assets are carried at cost less depreciation, and total accumulated depreciation is presented in the notes to consolidated balance sheets.</p> <p>Accumulated depreciation on individual assets as of the end of the current consolidated fiscal year is as follows:</p> <table data-bbox="215 1646 694 1742"> <tr> <td>Buildings</td> <td style="text-align: right;">2,859</td> </tr> <tr> <td>Equipment, furniture and fixtures</td> <td style="text-align: right;">16,923</td> </tr> <tr> <td style="border-top: 1px solid black;">Total</td> <td style="text-align: right; border-top: 1px solid black;">19,782</td> </tr> </table>	Buildings	2,859	Equipment, furniture and fixtures	16,923	Total	19,782	<p style="text-align: center;">_____</p>
Buildings	2,859						
Equipment, furniture and fixtures	16,923						
Total	19,782						

Supplementary Information

Apr. 1, 2004 – Mar. 31, 2005	Apr. 1, 2005 – Mar. 31, 2006
	<p>Effective from the current consolidated fiscal year, Arakis Limited is included in the consolidation since it became a subsidiary on August 30, 2005.</p> <p>Consequently, the consolidated financial statements include the assets, liabilities and shareholders' equity of Arakis Limited as of the balance sheet date, and the revenue and expense accounts from August 30, 2005, the date Arakis Limited became a consolidated subsidiary, to the balance sheet date. The goodwill 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 fiscal year.</p> <p>As a result, the financial position as of the end of the fiscal year and the operating results for current fiscal year has been significantly affected as compared with the previous fiscal year.</p>

Notes to Consolidated Financial Statements

Notes of consolidated balance sheet

(Unit: thousand yen)

As of March 31, 2005	As of March 31, 2006
*1. Accumulated depreciation of property and equipment 19,782	*1. Accumulated depreciation of property and equipment 117,491
*2. The following item is applicable to affiliates Investment securities (stock) 47,531	*2. The following item is applicable to affiliates Investment securities (stock) 89,317
*3. Shares issued and outstanding: 61,777 common shares	*3. Shares issued and outstanding: 98,300 common shares

Notes of consolidated income statement

(Unit: thousand yen)

Apr. 1, 2004 – Mar. 31, 2005	Apr. 1, 2005 – Mar. 31, 2006
*1. Significant components of selling, general and administrative expenses R&D expenses 1,324,374	*1. Significant components of selling, general and administrative expenses R&D expenses 2,217,024 Amortization of goodwill 936,084
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	R&D expenses are as reported above. Significant components of R&D expenses are as follows: Personnel expenses 524,947 Trust expenses 1,580,039
*2. Significant components of loss on sale and disposal of fixed assets are as follows: Equipment, furniture and fixtures 281	*2. Significant components of loss on sale and disposal of fixed assets are as follows: Buildings 225 Equipment, furniture and fixtures 11,249

Notes of consolidated cash flow statement

(Unit: thousand yen)

Apr. 1, 2004 – Mar. 31, 2005	Apr. 1, 2005 – Mar. 31, 2006																																						
<p>*1 Reconciliation of consolidated balance sheets items to cash and cash equivalents at the end of fiscal year in the consolidated cash flow statement</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">(As of March 31, 2005)</td> </tr> <tr> <td>Cash and deposits</td> <td style="text-align: right;">4,197,523</td> </tr> <tr> <td>Securities</td> <td style="text-align: right;"><u>5,500,129</u></td> </tr> <tr> <td>Cash and cash equivalents</td> <td style="text-align: right;"><u>9,697,652</u></td> </tr> </table> <p>*2 _____</p>		(As of March 31, 2005)	Cash and deposits	4,197,523	Securities	<u>5,500,129</u>	Cash and cash equivalents	<u>9,697,652</u>	<p>*1 Reconciliation of consolidated balance sheets items to cash and cash equivalents at the end of fiscal year in the consolidated cash flow statement</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">(As of March 31, 2006)</td> </tr> <tr> <td>Cash and deposits</td> <td style="text-align: right;">7,957,886</td> </tr> <tr> <td>Securities</td> <td style="text-align: right;"><u>1,500,214</u></td> </tr> <tr> <td>Cash and cash equivalents</td> <td style="text-align: right;"><u>9,458,100</u></td> </tr> </table> <p>*2 Significant components of the assets and liabilities of the company which is included in the consolidation due to acquisition of shares. Arakis Ltd. is included in the consolidation due to acquisition of shares.</p> <p>(1) The breakdown of assets and liabilities at the beginning of consolidation and acquisition costs of stocks are as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td>Current assets</td> <td style="text-align: right;">6,186,093</td> </tr> <tr> <td>Fixed assets</td> <td style="text-align: right;">123,374</td> </tr> <tr> <td>Current liabilities</td> <td style="text-align: right;">(495,293)</td> </tr> <tr> <td>Goodwill account</td> <td style="text-align: right;"><u>15,885,763</u></td> </tr> <tr> <td>Acquisition cost of stocks</td> <td style="text-align: right;">21,699,938</td> </tr> <tr> <td>(acquisition cost according to contribution in kind)</td> <td style="text-align: right;">18,620,238)</td> </tr> <tr> <td>(acquisition cost payment from cash and deposits)</td> <td style="text-align: right;">3,079,700)</td> </tr> </table> <p>(2) The breakdown of the proceeds from acquisition is as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td>Arakis Ltd. - Cash and cash equivalents</td> <td style="text-align: right;">5,832,939</td> </tr> <tr> <td>Payment for purchase of subsidiaries, from cash and deposits</td> <td style="text-align: right;">(3,079,700)</td> </tr> <tr> <td>New stock issue expenses</td> <td style="text-align: right;"><u>(86,075)</u></td> </tr> <tr> <td>Difference: Proceeds from acquisition</td> <td style="text-align: right;">2,667,163</td> </tr> </table>		(As of March 31, 2006)	Cash and deposits	7,957,886	Securities	<u>1,500,214</u>	Cash and cash equivalents	<u>9,458,100</u>	Current assets	6,186,093	Fixed assets	123,374	Current liabilities	(495,293)	Goodwill account	<u>15,885,763</u>	Acquisition cost of stocks	21,699,938	(acquisition cost according to contribution in kind)	18,620,238)	(acquisition cost payment from cash and deposits)	3,079,700)	Arakis Ltd. - Cash and cash equivalents	5,832,939	Payment for purchase of subsidiaries, from cash and deposits	(3,079,700)	New stock issue expenses	<u>(86,075)</u>	Difference: Proceeds from acquisition	2,667,163
	(As of March 31, 2005)																																						
Cash and deposits	4,197,523																																						
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Difference: Proceeds from acquisition	2,667,163																																						

Leases

Apr. 1, 2004 – Mar. 31, 2005	Apr. 1, 2005 – Mar. 31, 2006
No reportable information.	Same as on the left.

Securities

1. Other securities with market quotations

(Unit: thousand yen)

	Type	As of March 31, 2005			As of March 31, 2006		
		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	1,631	829	-	-	-
	(2) Bonds	-	-	-	-	-	-
	(3) Others	-	-	-	-	-	-
	Subtotal	801	1,631	829	-	-	-
Securities whose acquisition cost exceeds their carrying value	(1) Stocks	-	-	-	-	-	-
	(2) Bonds	-	-	-	-	-	-
	(3) Others	-	-	-	-	-	-
	Subtotal	-	-	-	-	-	-
Total		801	1,631	829	-	-	-

2. Securities without market quotations

(Unit: thousand yen)

	As of March 31, 2005	As of March 31, 2006
	Carrying value	Carrying value
Other securities		
Unlisted stock	47,531	89,317
Free Financial Fund	5,500,129	1,500,214

Derivatives

Apr. 1, 2004 – Mar. 31, 2005	Apr. 1, 2005 – Mar. 31, 2006
No reportable information.	Same as on the left.

Retirement benefits

Apr. 1, 2004 – Mar. 31, 2005	Apr. 1, 2005 – Mar. 31, 2006
<p>1. Retirement benefit plans</p> <p>The Company participates in the Tokyo Pharmaceutical Welfare Pension Fund. The Company has adopted Implementation Guidance No. 33 on Special Measures on Accounting for Multi-company Welfare Funds.</p> <p>The share of the Company's assets of the total outstanding balance of the fund's assets was 231,390 thousand yen as of the end of the current fiscal year.</p>	<p>1. Retirement benefit plans</p> <p>The Company participates in the Tokyo Pharmaceutical Welfare Pension Fund. The Company has adopted Implementation Guidance No. 33 on Special Measures on Accounting for Multi-company Welfare Funds.</p> <p>The share of the Company's assets of the total outstanding balance of the fund's assets was 329,764 thousand yen as of the end of the current fiscal year.</p>
<p>2. Retirement benefit expenses</p> <p>The contributions to the Tokyo Pharmaceutical Welfare Pension Fund accounted as retirement benefit expenses were 6,834 thousand yen.</p>	<p>2. Retirement benefit expenses</p> <p>The contributions to the Tokyo Pharmaceutical Welfare Pension Fund accounted as retirement benefit expenses were 11,633 thousand yen.</p>

Deferred income taxes

As of March 31, 2005	As of March 31, 2006
<p>1. Significant components of deferred tax assets and liabilities</p> <p style="text-align: right;">(Unit: thousand yen)</p> <p>Deferred tax assets</p> <p>Deficit carried forward for tax purposes 1,633,508</p> <p>Others <u>10,995</u></p> <p>Subtotal 1,644,504</p> <p>Valuation reserve <u>(1,644,504)</u></p> <p>Total deferred tax assets <u>-</u></p> <p>Deferred tax liabilities</p> <p>Unrealized holdings gains on other securities <u>337</u></p> <p>Total deferred tax liabilities <u>337</u></p>	<p>1. Significant components of deferred tax assets and liabilities</p> <p style="text-align: right;">(Unit: thousand yen)</p> <p>Deferred tax assets</p> <p>Deficit carried forward for tax purposes 4,346,307</p> <p>Others <u>17,734</u></p> <p>Subtotal 4,364,042</p> <p>Valuation reserve <u>(4,364,042)</u></p> <p>Total deferred tax assets <u>-</u></p>
<p>2. Significant sources of the difference between the statutory and effective tax rate</p> <p>Statutory tax rate 40.7%</p> <p>Entertainment expenses and other items not to be included in expenses indefinitely (0.4)%</p> <p>Increase in valuation reserve (41.0)%</p> <p>Others <u>0.5%</u></p> <p>Effective tax rate <u>(0.2)%</u></p>	<p>2. Significant sources of the difference between the statutory and effective tax rate</p> <p>Statutory tax rate 40.7</p> <p>Amortization of goodwill (8.7)</p> <p>Increase in valuation reserve (31.2)</p> <p>Income taxes 3.3</p> <p>Others <u>0.8</u></p> <p>Effective tax rate <u>3.2</u></p>

Segment information

a. Business segment information

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

(Unit: thousand yen)

	Pharmaceutical business	Others business	Total	Eliminations or corporate	Consolidated
I. Net sales and operating income (loss)					
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)
II. Assets, depreciation and capital expenditure					
Assets	9,872,659	23,348	9,896,008	(16,292)	9,879,715
Depreciation	8,686	-	8,686	-	8,686
Capital expenditure	24,935	-	24,935	-	24,935

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 2006 (April 1, 2005 – March 31, 2006) No information on business segments has been presented because the Company and its consolidated subsidiaries have conducted over 90% of their sales and operating loss in pharmaceutical business and over 90% of the Company's consolidated total assets were located in pharmaceutical business.

b. Geographic segment information

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.

Fiscal year ended 31st March 2006 (April 1, 2005 – March 31, 2006)

(Unit: thousand yen)

	Japan	Europe	North America	Total	Eliminations or corporate	Consolidated
Net sales						
(1) Sales - outside customers	61,426	354,074	-	415,501	-	415,501
(2) Sales and transfers - inter-segment	-	-	24,906	24,906	(24,906)	-
Total	61,426	354,074	24,906	440,407	(24,906)	415,501
Operating expenses	1,991,268	1,910,151	22,484	3,923,904	898,292	4,822,196
Operating income (loss)	(1,929,841)	(1,556,076)	2,421	(3,483,496)	(923,198)	(4,406,695)

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

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

(1) Europe: UK

(2) North America: USA

3. Operating expenses included in eliminations or corporate: None

c. Overseas sales

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

(Unit: thousand yen)

	Europe	North America	Others	Total
I Overseas sales	27,022	7,867	2,769	37,660
II Consolidated 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.

Fiscal year ended 31st March 2006 (April 1, 2005 – March 31, 2006)

(Unit: thousand yen)

	Europe	North America	Others	Total
I Overseas sales	373,796	13,694	23,136	410,628
II Consolidated net sales	-	-	-	415,501
III Share of overseas sales in total consolidated net sales	90.0%	3.3%	5.5%	98.8%

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, France, Hungary and Sweden

(2) North America: USA

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

Related party transactions

Apr. 1, 2004 – Mar. 31, 2005	Apr. 1, 2005 – Mar. 31, 2006
No reportable information.	Same as on the left.

Per share information

(Unit: Yen)

Apr. 1, 2004 – Mar. 31, 2005	Apr. 1, 2005 – Mar. 31, 2006
Shareholders' equity per share: 157,443.52 Net loss per share: 32,136.45	Shareholders' equity per share: 248,992.76 Net loss per share: 50,201.43
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.

(Unit: thousand yen)

	Apr. 1, 2004 – Mar. 31, 2005	Apr. 1, 2005 – Mar. 31, 2006
Net loss	1,820,358	4,175,711
Net loss not available to common shareholders	-	-
Net loss available to common stocks	1,820,358	4,175,711
Average number of shares outstanding	56,644 shares	83,179 shares
Summary of potential stock not included in the calculation of "net income per share (diluted)" since there was no dilutive effect.	Stock Option 3 issues (Balance of shares issuable under stock acquisition rights: 3,888 shares) Stock Option 6 issues (Balance of shares issuable under stock acquisition rights: 3,205 shares)	Stock Option 3 issues (Balance of shares issuable under stock acquisition rights: 3,055 shares) Stock Option 8 issues (Stock acquisition rights: 4,645 shares)

Subsequent events

Apr. 1, 2004 – Mar. 31, 2005	Apr. 1, 2005 – Mar. 31, 2006
No reportable information.	Same as on the left.

6. Production, Orders and Sales

(1) Production

Information on production is not presented since the Group's core operation is research and development and none of its activities can be defined as production-related.

(2) Orders

No reportable information since the Group does not manufacture on order.

(3) Sales

The following is a summary of sales by operating segment:

(Unit: thousand yen)

Operating segment	Apr. 1, 2005 – Mar. 31, 2006	Y oY change (%)
Pharmaceutical business	388,589	89.7
Others business	26,911	(31.9)
Total	415,501	70.0

Notes: 1. All significant inter-segment transactions have been eliminated.

2. Summary of sales by major customer and their share of total sales are as follows:

(Unit: thousand yen)

	Apr. 1, 2004 – Mar. 31, 2005		Apr. 1, 2005 – Mar. 31, 2006	
	Amount	Share (%)	Amount	Share (%)
Novartis Pharma AG	-	-	354,074	85.2

3. The above amounts do not include consumption taxes.

* This financial report is solely a translation 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.