

**Consolidated Interim Financial Results**  
**for the Fiscal Year Ending March 31, 2005**  
**(April 1, 2004 – September 30, 2004)**

Company name:	Sosei Co. Ltd.
Stock code:	4565
Stock exchange listing:	Tokyo Stock Exchange, Mothers Market
Address:	Tokyo
URL:	<a href="http://www.osei.com">http://www.osei.com</a>
Representative Director, President & CEO	Shinichi Tamura
Contact:	Toshio Miyashita, Vice President of Corporate Planning
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Board of Directors meeting for approving:	October 29, 2004
Accounting principle:	Japanese GAAP

**1. Consolidated Interim Financial Results (April 1, 2004 – September 30, 2004)**

**(1) Consolidated Results of Operations**

(Amounts rounded down to million yen)

	Net sales		Operating income		Ordinary income	
	Million yen	YoY change (%)	Million yen	YoY change (%)	Million yen	YoY change (%)
First half ended Sep. 2004	20	-	(943)	-	(1,050)	-
First half ended Sep. 2003	-	-	-	-	-	-
Fiscal year ended Mar. 2004	226		(910)		(947)	

	Net income		Net income per share (basic)	Net income per share (diluted)
	Million yen	YoY change (%)	Yen	Yen
First half ended Sep. 2004	(985)	-	(18,925.30)	-
First half ended Sep. 2003	-	-	-	-
Fiscal year ended Mar. 2004	(912)		(22,357.44)	-

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

First half ended September 2004: (18) million yen

First half ended September 2003: - million yen

Fiscal year ended March 2004: (40) million yen

2. Average number of shares outstanding (consolidated)

First half ended September 2004: 52,083 shares

First half ended September 2003: - shares

Fiscal year ended March 2004: 40,832 shares

3. Changes in accounting principles applied: None

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

**(2) Consolidated Financial Position**

(Amounts rounded down to million yen)

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	Million yen	Million yen	%	Yen
As of September 30, 2004	10,728	10,530	98.2	172,010.37
As of September 30, 2003	-	-	-	-
As of March 31, 2004	1,131	1,062	94.0	22,529.61

Notes: Number of shares outstanding (consolidated basis)

As of September 30, 2004: 61,220 shares

As of September 30, 2003: - shares

As of March 31, 2004: 47,170 shares

**(3) Consolidated Cash Flows Position**

(Amounts rounded down to 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
First half ended Sep. 2004	(838)	(4)	10,394	10,545
First half ended Sep. 2003	-	-	-	-
Fiscal year ended Mar. 2004	(854)	(28)	1,598	999

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

Consolidated subsidiaries: 1

Non-consolidated subsidiaries accounted for under the equity method: None

Affiliates accounted for under the equity method: 1

**(5) Change in Scope of Consolidation and Affiliated Accounted for Under the Equity Method**

Consolidated subsidiaries

Newly added: None

Excluded: None

Affiliated accounted for under the equity method:

Newly added: None

Excluded: None

**2. Forecast for the Fiscal Year Ending March 31, 2005 (April 1, 2004 - March 31, 2005)**

	Net sales	Ordinary income	Net income
	Million yen	Million yen	Million yen
Full year	250	(2,050)	(2,000)

Reference: Estimated net income per share for the full year: (35,311.36) yen

\* Forecast for the fiscal year ending March 2005 was made by management based on currently available data and information. Please be aware that actual results may turn out different from those forecast as our company's business is affected by many factors.

## 1. Corporate Group

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

### (1) Consolidated Companies

Business	Company	Major activities
Pharmaceutical business	Sosei Co. Ltd.	Development and sale of pharmaceuticals
Other business	Sosei Consulting Corporation	Consultancy relating to the transfer of pharmaceutical-related technologies

### (2) 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, as soon as possible, the 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 its business operations, operating results and financial strength. Currently, Sosei is at the stage of conducting R&D activities to create pharmaceuticals that can become a base for future growth. To secure the funds required to continuously conduct these activities we will, for the time being, retain earnings rather than pay a dividend.

### (3) Policy Regarding Reduction in Investment Unit

Sosei views a reduction in its investment unit as an important issue with regard to increasing the liquidity of its shares and enlarging the shareholder base. We will continue to 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 to continue the R&D of these products. Through these activities, our objective is to 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. Furthermore, the probability of successfully developing a product is low because the development of pharmaceuticals entails substantial expense

over a long-term 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 14 years since its inception. We can assess the Japanese pharmaceutical industry from a global perspective in order to bring European and U.S. pharmaceuticals to Japan. Furthermore, we can use “seeds” developed in Japan to capitalize on opportunities in other countries. In this manner, we are biopharmaceutical company with a unique operating framework, being based in Japan but having a global business perspective.

#### 2) Pipeline strategy

The Sosei pipeline is distinguished by the use of three resources to introduce new products and expand its product pipeline. First is in-licensing, whereby the rights to market a product in Japan are obtained from the drug developer, usually a US or Europe company. Second is our Drug Reprofile Platform<sup>®</sup> (DRP<sup>®</sup>), a project that involves seeking new ways to use existing drug products or candidates. Third is New Molecular Entity (NME) research programmes through alliances with pharmaceutical and biopharmaceutical-related companies and research institutes in Japan and other countries. Each of these three resources supplies a different type of product to the pipeline. In-licensing targets products already on sale or drug candidate compounds that have advanced to at least phase III clinical studies, thus providing compounds with a low risk of failure. DRP<sup>®</sup> targets compounds with relatively short development time frames. NME collaborative R&D is used for compounds still at the research stage. Backed by these diverse means of adding new products, we are able to study a large number of compounds with the potential of becoming new products, including compounds with differing development risks, time frames and expenses. The result is a well-balanced pipeline.

#### 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 an R&D framework that combines our own R&D workforce with alliance partners.

#### 4) Earnings

As described above, we are enlarging our pipeline while 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 in order to heighten the probability that the product can be commercialized. Then license-out the product to a pharmaceutical or other company, thus generating earnings from milestones and royalties.

Currently, Sosei focuses on pharmaceuticals in the areas of oncology and urology. We plan to generate earnings consistently and at an early stage by selecting business model a. or b. above 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**

Sosei currently has seven products in its pipeline. By continuing the development of these seven items while pursuing other promising compounds, we plan to further enlarge our pipeline.

Our development activities are aimed at transforming potential products, which are at stages ranging from basic research to bio-equivalency tests, into pharmaceuticals capable of achieving high levels of patient satisfaction, thereby quickly building a profitable operating base. To accomplish this, we conduct R&D activities that excel in terms of efficiency and the likelihood of success. For this purpose, our highest priorities are recruiting talented people

and further strengthening our R&D organization. Furthermore, we are placing priority on building alliances by using a variety of networks, particularly our distinctive R&D organization[is this meant to mean our distinguished SAB?]. We believe it is vital that we make efficient use of many companies that have leading-edge technologies in a number of fields.

To add compounds for development, Sosei is expanding its pipeline by using the three resources of acquiring new prospective products: in-licensing, DRP<sup>®</sup> and NME collaborative R&D. For in-licensing we believe it is important to maintain an extensive network, skills in gathering information and conducting negotiations, expertise in formulation development and sales planning, in order to attract potential business partners. For DRP<sup>®</sup>, we are concentrating on alliances with profiling partners who have advanced technology in order to gain consistent access to new compounds. For NME collaborative R&D, our priority is to build stable relationships with research institutes and other joint research partners.

To maximize earnings, we will conduct marketing and sales ourselves, initially in Japan, for pipeline products that we believe are suitable. We are now studying the best means of building marketing and sales organizations.

As explained above, we plan to expand the pipeline through ongoing development programs and the development of new products, as well as by building marketing and sales organizations. To conduct these activities, the procurement of funds, mainly through equity-related financing, to strengthen our financial position is an important issue.

## **(7) Fundamental Position and Actions Regarding Corporate Governance**

### 1) Fundamental position regarding corporate governance

Sosei and the Sosei Group place importance on maximizing their corporate value by conducting management with high degrees of soundness, transparency and objectivity. For this purpose, we position the strengthening of corporate governance as one of management's highest priorities.

### 2) Corporate governance actions

#### a. Management framework for management decision-making, business execution and oversight and other corporate governance systems

##### (i) Framework for reaching important management decisions involving directors and corporate auditors

- Sosei has adopted the corporate auditor system. Under this system, importance is placed on external directors and external corporate auditors in order to heighten management oversight functions and strengthen corporate governance as much as possible.
- The Board of Directors, which makes decisions regarding important management matters, holds meetings every month as well as at other times as required. Sosei positions the board's oversight of business execution as one of the most important elements of its corporate governance system. To conduct effective oversight and heighten the transparency of management, four directors, a majority of the seven-member board, do not have executive positions within Sosei (and three of the four are external directors). Three directors, a minority, also serve as Sosei executives who conduct business operations. Furthermore, the four non-executive directors are chosen based on their extensive experience and knowledge concerning corporate management and the pharmaceutical business.
- The Board of Auditors is an important body that oversees how the directors execute their duties. This board holds meetings every month as well as at other times as required. All 3 corporate auditors are from outside the Sosei Group. As a rule, the auditors attend all Board of Directors meetings and attend other important internal meetings as required. This enables the auditors to effectively supervise all management activities.
- No employees have been assigned exclusively to the external directors. However, these directors can receive the support of the Corporate Planning Division as required.

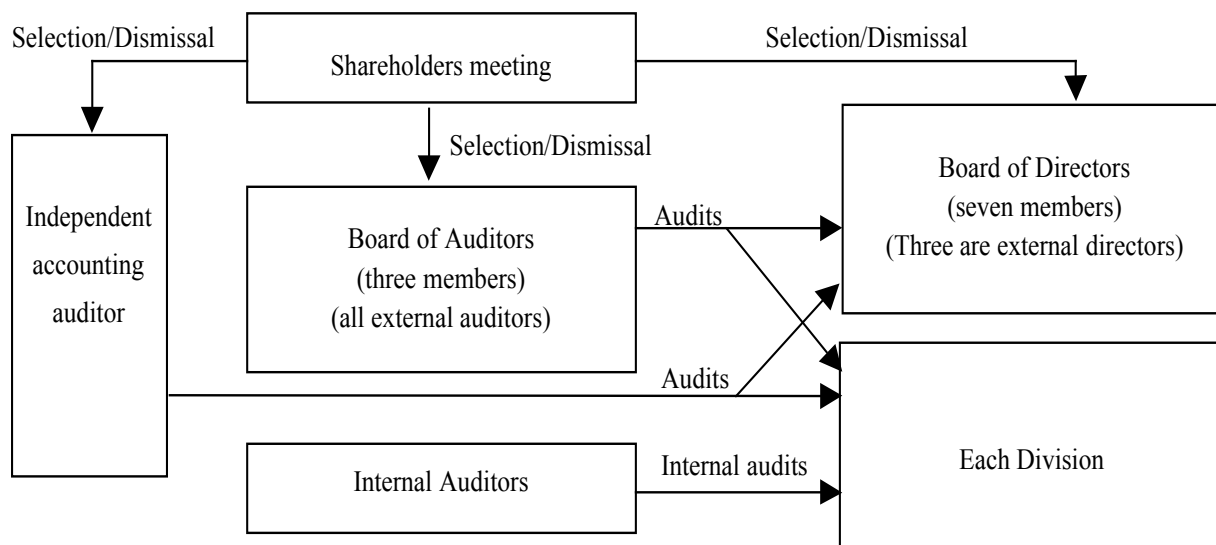
##### (ii) Internal control framework

The Corporate Planning Division performs internal audits to verify the effectiveness and status of the internal control framework. The division conducts regular audits and surveys. These activities cover all divisions of Sosei as well as

its subsidiary. Audit results are submitted to the representative director. The corporate auditors work closely with the internal auditors so that the corporate auditors can supervise the status of internal auditing activities.

(iii) Attorneys, independent accounting auditors and other external specialists

Important legal decisions and matters concerning compliance are referred to an external attorney as required. The independent accounting auditor audits financial statements from an objective perspective and submits a report to management. Management also exchanges opinions with the auditor, receives advice on ways to enact improvements, and receives other assistance. The independent accounting auditors also provides advice concerning important accounting issues. The independent accounting auditors submits an audit report to the Board of Auditors and frequently exchanges information with the corporate auditors as well as the internal auditors.



b. Personnel, financial and business relationships with external directors and corporate auditors

- Two of the external directors hold 340 shares of Sosei stock, representing 0.55% of total shares issued.
- One of the external auditors hold 50 shares of Sosei stock, representing 0.08% of total shares issued.

There are no stock equivalents due to stock acquisition rights.

c. Actions during past year to strengthen corporate governance

- The Board of Directors, which are attended by the directors, including external directors, and auditors, were held at least once each month. The board made decisions concerning fundamental management policies, items prescribed by law and other matters. The board also reviewed the status of each division, thus conducting the oversight of business execution.
- The Board of Auditors was held at least once each month for the purpose of auditing decision-making by the directors and the execution of business activities.
- To make the Board of Auditors more effective, we restructured the Board to have 2 statutory auditors out of 3 in total.

### **(8) Fundamental Policy Regarding Related Party Interests**

Transactions with related parties are conducted in a manner that is not detrimental to the interests of shareholders and other stakeholders. Furthermore, these transactions are conducted only as required by the Sosei Group's business activities and under terms that match those of other business partners.

### **(9) Other Important Items**

Not reportable information.

### 3. Results of Operations and Financial Position

#### (1) Results of Operations

##### 1) Operating environment

In the pharmaceutical industry, where the Sosei Group is active, steady growth continued, mainly in North America, with expansion fueled mainly by cardiovascular and central nervous system drugs. In Japan, however, there were no causes for a significant rise in demand for pharmaceuticals, so the Japanese market had to continue relying on overseas markets for growth. The operating environment as well as the business strategies of pharmaceuticals companies continued to change constantly. This change was driven by items such as the strengthening of operating bases by overseas pharmaceutical companies; reductions in drug prices; higher sales of generic drugs; measures by all pharmaceutical companies to strengthen sales activities; and growth in clinical development expenses as a share of R&D expenses.

##### 2) Results of operation

To sustain growth as a company engaged in the development of pharmaceuticals, we are placing priority over the medium term on increasing the number of potential products in our pipeline. By using our three resources of adding new products, in-licensing, DRP® and NME collaborative R&D, we now have seven products under development. Work will continue on these seven products while other products are added to further expand the pipeline. During the first half ended September 2004, various stages of progress was made in the development of SOT-375 and SOU-001, including clinical studies, preparations for clinical studies, pre-clinical studies and basic research.

##### Product pipeline

R&D code	Indication	Origin of product	R&D stage as of September 2004
SOT-375	Prostate cancer	In-licensing	Clinical study (bioequivalence study)
SOH-075	Emergency contraception	In-licensing	Preparations for clinical study in Japan
SOT-107	Intractable brain tumors	In-licensing	Applying for certification as an orphan drug
SOU-001	Stress urinary incontinence	DRP®	Phase I clinical study
SOA-132	Allergies	DRP®	Pre-clinical study
SOA-002	Allergies (antibody)	NME collaborative R&D	Preparations for pre-clinical study
SOT-095	Tumor (telomerase inhibitor)	NME collaborative R&D	Preparations for pre-clinical study

First half consolidated net sales were 20 million yen, there was an operating loss of 943 million yen, an ordinary loss of 1,050 million yen and a net loss of 985 million yen. The technology transfer business of subsidiary Sosei Consulting Co. Ltd. was responsible for 94% of net sales. Selling, general and administrative expenses totaled 958 million yen, of which 568 million yen was R&D expenses.

Components of selling, general and administrative expenses:

(Unit: million yen)

	First half ended September 2004
	Amount
Personnel expenses	172
Traveling expenses	47
Commissions paid	78
Others	93
R&D expenses	568
[Personnel expenses]	[82]
[Outsourcing expenses]	[485]
Total	958

3) Forecast for the full year

(Unit: million yen)

	Year ending March 2005			Year ended March 2004
	First half Results	Second half Forecasts	Full year Forecasts	Full year Results
	Amount	Amount	Amount	Amount
Net sales	20	230	250	226
[Pharmaceutical business]	[-]	[200]	[200]	[200]
[Other business]	[20]	[30]	[50]	[26]
Operating expenses	964	1,186	2,150	1,137
[R&D expenses]	[568]	[832]	[1,400]	[606]
Operating loss	943	957	1,900	910
Ordinary loss	1,050	1,000	2,050	947
Net loss	985	1,015	2,000	912

In the second half of the fiscal year, the Company will continue to concentrate on expanding its product pipeline. Regarding products already under development, the Company will continue to conduct clinical studies, pre-clinical studies and basic research. At the same time, new products for development will be added based on a careful examination of market trends and advances in medical technologies. The objective is to further increase corporate value by raising the number of products in the pipeline.

For the full fiscal year, the Company plans to record 200 million yen in sales from milestone sales associated with the application for final approval of SOT-375 and 50 million yen in sales from the technology transfer business of subsidiary Sosei Consulting Co. Ltd. Second-half R&D activities will include the following items: completion of bioequivalence studies for SOT-375 and application for approval; designation of SOT-107 as an orphan drug; completion of Phase I clinical studies for SOU-001 and the start of Phase II clinical studies; and the introduction of new products for development and other research projects. Due to these activities, the Company is projecting an ordinary loss of 2,050 million yen and a net loss of 2,000 million yen for the fiscal year.

## (2) Financial Position

### 1) Cash flows

(Unit: million yen)

	First half ended September 2004	Year ending March 2004
	Amount	Amount
Cash flows from operating activities	(838)	(854)
Cash flows from investing activities	(4)	(28)
Cash flows from financing activities	10,394	1,598
Effect of exchange rate changes on cash and cash equivalents	(4)	(0)
Increase in cash and cash equivalents	9,546	715
Cash and cash equivalents, beginning of period	999	283
Cash and cash equivalents, end of period	10,545	999

Net cash used in operating activities was 838 million yen. Although there was a 105 million yen increase in payables associated with R&D expenses, there was a loss before income taxes of 982 million yen because of R&D expenses and general and administrative expenses required for ongoing R&D activities. Net cash provided by financing activities was 10,394 million yen due to proceeds from the initial public offering. As a result, cash and cash equivalents for the first half ended September 30, 2004 totaled 10,545 million yen.

### 2) Financial condition

(Unit: million yen)

	First half ended September 2004		Fiscal year ended March 2004		Change	
	Amount	%	Amount	%	Amount	%
Current assets	10,588	98.7	1,042	92.2	9,546	915.7
[Cash and deposits]	[5,045]	[47.0]	[999]	[88.9]	[4,046]	[404.9]
[Securities]	[5,500]	[51.2]	[-]	[-]	[5,500]	[-]
Fixed assets	139	1.3	88	7.8	50	56.9
Tangible fixed assets	25	0.2	24	2.2	1	4.0
Intangible fixed assets	2	0.0	0	0.0	1	178.4
Investment and other assets	111	1.1	62	5.6	48	76.3
Total assets	10,728	100.0	1,131	100.0	9,596	848.4
Current liabilities	196	1.8	67	6.0	129	190.0
Long-term liabilities	0	0.0	0	0.0	0	37.0
Total liabilities	197	1.8	68	6.0	129	188.9
Shareholders' equity	10,530	98.2	1,062	94.0	9,467	890.8
Total liabilities and shareholders' equity	10,728	100.0	1,131	100.0	9,596	848.4

At the end of the first half, total assets were 10,728 million yen, an 848.4% increase compared with the end of the previous fiscal year, liabilities rose 188.9% to 197 million yen, and shareholders' equity increased 890.8% to 10,530 million yen, resulting in shareholders' equity ratio of 98.2%. Current assets increased by 9,546 million yen to 10,588 million yen, mainly due to the initial public offering. Of this amount, 5,045 million yen was cash and deposits and 5,500 million yen was invested in a free financial fund, a highly secure financial instrument. Investments and other assets include a 74 million yen investment in equity-method affiliate Stem Cell Sciences KK, 49 million yen higher than at the end of the previous fiscal year. There were no interest-bearing liabilities.

#### 4. Consolidated Interim Financial Statements

##### (1) Consolidated Balance Sheets

(Unit: thousand yen)

Account	Note	As of September 30, 2004		As of March 31, 2004	
		Amount	%	Amount	%
Assets					
I Current assets					
1. Cash and deposits		5,045,614		999,222	
2. Trade account receivable		6,679		4,172	
3. Securities		5,500,031		-	
4. Others		36,588		39,195	
Allowance for doubtful accounts		-		(155)	
Total current assets		10,588,913	98.7	1,042,433	92.2
II Fixed assets					
1. Tangible fixed assets	*	25,907		24,903	
2. Intangible fixed assets		2,153		773	
3. Investment and other assets		111,119		62,998	
Total fixed assets		139,179	1.3	88,675	7.8
Total assets		10,728,092	100.0	1,131,109	100.0
Liabilities					
I Current liabilities		196,977	1.8	67,919	6.0
II Long-term liabilities		640	0.0	467	0.0
Total liabilities		197,617	1.8	68,387	6.0
Shareholders' equity					
I Common stock		5,842,025	54.5	1,662,150	147.0
II Capital surplus		7,921,725	73.8	1,648,400	145.7
III Retained surplus		(3,234,208)	(30.1)	(2,248,509)	(198.8)
IV Unrealized holdings gains on other securities		933	0.0	681	0.1
Total shareholders' equity		10,530,475	98.2	1,062,722	94.0
Total liabilities and shareholders' equity		10,728,092	100.0	1,131,109	100.0

## (2) Consolidated Income Statements

(Unit: thousand yen)

Account	Note	April 1, 2004 – September 30, 2004		April 1, 2003 – March 31, 2004		
		Amount	%			
I Net sales			20,749	100.0	226,990	100.0
II Cost of sales			6,521	31.4	12,373	5.4
Gross profits			14,227	68.6	214,616	95.6
III Selling, general and administrative expenses	*		958,191	4,618.0	1,124,940	495.6
Operating loss			943,963	(4,549.4)	910,323	(401.0)
IV Non-operating income						
1. Interest income		344			-	
2. Insurance reimbursement		1,966			-	
3. Others		632	2,943	14.2	12,870	5.7
V Non-operating expenses						
1. New stock issue expenses		58,366			7,825	
2. Initial public offering expenses		26,244			-	
3. Equity in earnings/losses of non-consolidated subsidiaries		18,603			40,286	
4. Others		6,152	109,365	527.1	1,495	21.9
Ordinary loss			1,050,385	(5062.3)	947,060	(417.2)
VI Extraordinary income						
1. Reversal of allowance for doubtful accounts		155			-	
2. Prior year value-added tax refund		-			6,866	
3. Gain on changes in equity interest in subsidiaries and affiliates		67,951	68,107	328.2	38,459	20.0
VII Extraordinary loss						
1. Loss on sales of fixed assets		126			-	
2. Loss on moving of head office		-	126	0.6	9,645	4.3
Loss before income taxes			982,405	(4734.7)	911,379	(401.5)
Income taxes			3,293	15.8	1,533	0.7
Net loss			985,699	(4750.5)	912,913	(402.2)

**(3) Consolidated Surplus Statements**

(Unit: thousand yen)

Account	Note	April 1, 2004 – September 30, 2004		April 1, 2003 – March 31, 2004	
		Amount		Amount	
Capital surplus					
I Capital surplus, beginning of period			1,648,400		845,150
II Increase in capital surplus					
Capital increase through new stock issue		6,273,325	6,273,325	803,250	803,250
III Capital surplus, end of period			7,921,725		1,648,400
Retained surplus					
I Retained surplus, beginning of period			(2,248,509)		(1,345,185)
II Increase in retained surplus					
Increase in retained surplus due to inclusion of additional equity-method affiliate		-	-	9,588	9,588
III Decrease in retained surplus					
Net loss		985,699	985,699	912,913	912,913
IV Retained surplus, end of period			(3,234,208)		(2,248,509)

**(4) Consolidated Cash Flows Statements**

(Unit: thousand yen)

		April 1, 2004 – September 30, 2004	April 1, 2003 – March 31, 2004
Accounts	Note	Amount	Amount
I Cash flows from operating activities			
Loss before income taxes		(982,405)	(911,379)
Depreciation		3,713	6,256
Decrease in allowance for doubtful accounts		(155)	(144)
New stock issue expenses		58,366	7,825
Equity in earnings/losses of non-consolidated subsidiaries		18,603	40,286
Gain on changes in equity interest in subsidiaries and affiliates		(67,951)	(38,459)
Loss on sales of fixed assets		126	-
Decrease (increase) in trade receivable		(2,506)	517
Decrease in accounts receivable-other		13,485	7,193
Increase in accounts payables-other		105,700	36,640
Increase in accrued income taxes		14,451	-
Others		820	(2,145)
Subtotal		(837,751)	(853,409)
Interest received		344	91
Income taxes paid		(1,451)	(1,235)
Net cash provided by (used in) operating activities		(838,859)	(854,553)
II Cash flows from investing activities			
Payment for purchase of tangible fixed assets		(6,549)	(14,827)
Proceeds from sales of tangible fixed assets		324	-
Others		1,653	(13,598)
Net cash provided by (used in) investing activities		(4,571)	(28,426)
III Cash flows from financing activities			
Proceeds from a new stock issue		10,394,833	1,598,674
Net cash provided by (used in) financing activities		10,394,833	1,598,674
IV Effect of exchange rate changes on cash and cash equivalents		(4,978)	(357)
V Increase in cash and cash equivalents		9,546,423	715,337
VI Cash and cash equivalents, beginning of period		999,222	283,884
VII Cash and cash equivalents, end of period	*	10,545,645	999,222

## Basis of Preparation of Consolidated Interim Financial Statements

Item	April 1, 2004 – September 30, 2004	April 1, 2003 – March 31, 2004
1. Basis of consolidation	Consolidated subsidiary: 1 Sosei Consulting Co. Ltd.	Same as on the left.
2. Application of the equity method accounting	Affiliates accounted for by the equity method of accounting: 1 Stem Cell Sciences KK	Same as on the left.
3. Interim period (fiscal year) end of consolidated subsidiaries	The consolidated subsidiary's interim period ends on the closing date for consolidated financial statements.	The consolidated subsidiary's fiscal year ends on the closing date for consolidated financial statements.
4. Accounting standards	<p>(1) Valuation criteria and methods for principal assets</p> <p>1) Securities Other securities Other securities with market quotations Other securities with market quotations are carried at fair value on the consolidated interim 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 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</p> <p>1) Tangible fixed assets Depreciation of tangible fixed assets is computed by the declining-balance method. Useful life of principal assets is as follows: Buildings: 10-15 years Tool, furniture and fixtures: 4-10 years</p> <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 interim balance sheet date. Translation gain or loss is accounted as profit or loss.</p>	<p>(1) Valuation criteria and methods for principal assets</p> <p>1) Securities Other securities Other securities with market quotations Other securities with market quotations are carried at fair value on the consolidated fiscal year balance sheet date. (Unrealized holding gain or loss is included directly in shareholders' equity. Cost of securities sold is determined primarily by the moving-average method.) Other securities without market quotations Same as on the left.</p> <p>(2) Depreciation and amortization method for principal assets</p> <p>1) Tangible fixed assets Same as on the left.</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.</p>

Item	April 1, 2004 – September 30, 2004	April 1, 2003 – March 31, 2004
	<p>(5) Other significant accounting policies</p> <p>1) Consumption taxes All amounts stated are exclusive of consumption taxes.</p> <p>2) Deferred assets New stock issue expenses are charged to income as accrued. The spread method, in which the underwriter underwrites a new stock issue at the underwriting price (744,000 yen in this case) and sells the shares to the public at the offering price (800,000 yen in this case), was used for the new share issues (July 29, 2004) through public offering. In this method, the difference (786,800 thousand yen) between the offering price and the underwriting price represents the underwriting commission. This expense would have been accounted as new stock issue expenses if the conventional method in which the underwriter offers new shares to the public at the underwriting price had been used. The effect of this change was to reduce the sum of common stock and capital surplus, new stock issue expenses, ordinary loss and loss before income taxes by 786,800 thousand yen each, compared to the amounts that would have been reported if the previous method had been applied consistently.</p>	<p>(5) Other significant accounting policies</p> <p>1) Consumption taxes Same as on the left.</p> <p>2) Deferred assets New stock issue expenses are charged to income as accrued. The spread method, in which the underwriter underwrites a new stock issue at the underwriting price (450,000 yen in this case) and sells the shares to the public at the offering price (500,000 yen in this case), was used for the new share issues (July 25, 2003 and November 30, 2003) through private placements. In this method, the difference (177,500 thousand yen) between the offering price and the underwriting price represents the underwriting commission. This expense would have been accounted as new stock issue expenses if the conventional method in which the underwriter offers new shares to the public at the underwriting price had been used. The effect of this change was to reduce the sum of common stock and capital surplus, new stock issue expenses, ordinary loss and loss before income taxes by 177,500 thousand yen each, compared to the amounts that would have been reported if the previous method had been applied consistently.</p>
<p>5. Scope of cash and cash equivalents on consolidated cash flows statements</p>	<p>For the purpose of consolidated cash flows statements, cash and cash equivalents consists of vault cash, deposits that can be withdrawn on demand, and short-term investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and present insignificant risk of change in value.</p>	<p>Same as on the left.</p>



## 2) Securities

Current interim period (as of September 30, 2004)

### 1. Other securities with market quotations

(Unit: thousand yen)

Type	As of September 30, 2004		
	Acquisition cost	Carrying value	Unrealized gain (loss)
(1) Stocks	801	2,376	1,574
(2) Bonds			
Government and local bonds	-	-	-
Corporate bond	-	-	-
Other bonds	-	-	-
(3) Others	-	-	-
Total	801	2,376	1,574

### 2. Securities without market quotations

(Unit: thousand yen)

	As of September 30, 2004	
	Carrying value	
Other securities		
Unlisted stock (excluding OTC stock)		74,610
Free financial fund		5,500,031

Previous fiscal year (as of March 31, 2004)

### 1. Other securities with market quotations

(Unit: thousand yen)

Type	As of March 31, 2004		
	Acquisition cost	Carrying value	Unrealized gain (loss)
(1) Stocks	801	1,950	1,149
(2) Bonds			
Government and local bonds	-	-	-
Corporate bond	-	-	-
Other bonds	-	-	-
(3) Others	-	-	-
Total	801	1,950	1,149

### 2. Securities without market quotations

(Unit: thousand yen)

	As of March 31, 2004	
	Carrying value	
Other securities		
Unlisted stock (excluding OTC stock)		25,261

### 3) Derivatives

April 1, 2004 – September 30, 2004	April 1, 2003 – March 31, 2004
No reportable information. The Company does not hold or issue derivative instruments.	Same as on the left.

### 4) Segment information

#### a. Business segment information

Current interim period (April 1, 2004 – September 30, 2004)

(Unit: thousand yen)

	Pharmaceutical business	Others business	Total	Eliminations or corporate	Consolidated
Net sales					
(1) Sales - outside customers	-	20,749	20,749	-	20,749
(2) Sales and transfers - inter-segment	-	1,200	1,200	(1,200)	-
Total	-	21,949	21,949	(1,200)	20,749
Operating expenses	952,834	14,218	967,052	(2,340)	964,712
Operating income (loss)	(952,834)	7,730	(945,103)	1,140	(943,963)

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

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

(1) Pharmaceutical business: Pharmaceuticals

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

3. Operating expenses included in eliminations or corporate: None

4. The share of the Pharmaceuticals Business is less than 50% of the total segment sales although pharmaceuticals is the Company's core business mainly because most of the Company's drugs are still in the R&D stage. The principle activity in the Others category is transfer of pharmaceutical-related technologies, with sales totaling 19,539 thousand yen and representing 89.0% of the total sales of all segments.

Previous fiscal year (April 1, 2003 – March 31, 2004)

(Unit: thousand yen)

	Pharmaceutical business	Others business	Total	Eliminations or corporate	Consolidated
Net sales					
(1) Sales - outside customers	200,000	26,990	226,990	-	226,990
(2) Sales and transfers - inter-segment	-	6,000	6,000	(6,000)	-
Total	200,000	32,990	232,990	(6,000)	226,990
Operating expenses	1,117,707	28,562	1,146,269	(8,956)	1,137,313
Operating income (loss)	(917,707)	4,428	(913,279)	2,956	(910,323)

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

b. Geographic segment information

Current interim period (April 1, 2004 – September 30, 2004)

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

Previous fiscal year (April 1, 2003 – March 31, 2004)

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

c. Overseas sales

Current interim period (April 1, 2004 – September 30, 2004)

(Unit: thousand yen)

	Europe	North America	Others	Total
I Overseas sales	13,556	2,390	1,132	17,079
II Net sales				20,749
III Share of overseas sales in total consolidated net sales	65.3%	11.5%	5.5%	82.3%

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: U.K., Germany and France

(2) North America: U.S.

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

Previous fiscal year (April 1, 2003 – March 31, 2004)

(Unit: thousand yen)

	Europe	North America	Others	Total
I Overseas sales	13,650	6,253	1,429	21,332
II Net sales	-	-	-	226,990
III Share of overseas sales in total consolidated net sales	6.0%	2.8%	0.6%	9.4%

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: U.K., Germany and France

(2) North America: U.S.

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

## Per share information

April 1, 2004 – September 30, 2004		April 1, 2003 – March 31, 2004	
Shareholders' equity per share	172,010.37 yen	Shareholders' equity per share	22,529.61 yen
Net loss per share	18,925.30 yen	Net loss per share	22,357.44 yen
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. The Company split its common shares 5-for-1 on January 9, 2004.	

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

(Unit: thousand yen)

April 1, 2004 – September 30, 2004		April 1, 2003 – March 31, 2004	
Net loss	985,699	Net loss	912,913
Net income (loss) not available to common shareholders	-	Net income (loss) not available to common shareholders	-
Net loss available to common stocks	985,699	Net loss available to common stocks	912,913
Average number of shares outstanding	52,083 shares	Average number of shares outstanding	40,832 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: 4,400 shares) Stock Option 6 issues (stock acquisition rights: 3,465)	Summary of potential stock not included in the calculation of "Net income per share (diluted)" since there was no dilutive effect	Stock Option No. 1 (Balance of shares issuable under stock acquisition rights: 2,690 shares) Stock Option No. 2 (Balance of shares issuable under stock acquisition rights: 350 shares) Stock Option No. 3 (Balance of shares issuable under stock acquisition rights: 1,360 shares) Stock Option 4 issues (stock acquisition rights: 1,920)

## Subsequent events

April 1, 2004 – September 30, 2004	April 1, 2003 – March 31, 2004
No reportable information.	Same as on the left.

## 5. Production, Orders and Sales

### (1) Production

Information on production is not presented since the Company'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	April 1, 2004 – September 30, 2004	YoY change (%)
Pharmaceutical business	-	-
Others business	20,749	-
Total	20,749	-

Notes: 1. The above amounts do not include consumption taxes.

2. Prior-period comparisons are not provided since the Company started preparing consolidated interim financial statements from the current interim period.

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

(Unit: thousand yen)

	April 1, 2004 – September 30, 2004	
	Amount	%
Cytomics Limited	4,903	23.6
Oncodesign SA	2,641	12.7
Graffinity Pharmaceuticals AG	2,124	10.2

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