Released at July 29, 2005

Consolidated Financial Report
for the Six Months Ended June 30, 2005 (Unaudited)

AnGes MG, Inc. http://www.anges-mg.com

Listings: Mothers of the Tokyo Stock Exchange, Code 4563
Head Office: 4F, Saito Bio-Incubator, 7-7-15, Saito-Asagi, Ibaraki, Osaka, 567-0085, Japan
Adoption of the U.S.GAAP: None

1. Business Results for the Interim Period of Fiscal Year 2005 (From Jan. 1, 2005 to Jun. 30, 2005)

(1) Results of Operations (Figures are rounded down to the nearest million yen)

	Revenues		Operating loss		Ordinary loss	
	Million yen	%	Million yen	%	Million yen	%
Current Interim Period	1,200	37.0	(1,005)	-	(906)	-
Previous Interim Period	876	(31.3)	(888)	-	(883)	-
FY 2004 (12 Months)	2,696		(1,561)		(1,558)	

	Net loss		Net loss per share	Diluted net loss per share
	Million yen	%	yen	Yen
Current Interim Period	(902)	-	(9,114.29)	-
Previous Interim Period	(881)	-	(9,301.11)	-
FY 2004 (12 Months)	(1,541)		(16,083.36)	-

Notes) 1. Equity in net income of unconsolidated subsidiaries and affiliates
Current interim Period: - million yen Previous interim Period: - million yen Fiscal year 2004: - million yen
2. Average number of shares issued during the period ended (consolidated)
Current interim Period: 98,972 shares Previous interim period: 94,741 shares Fiscal year 2004: 95,843 shares
3. Change in accounting policies: None
4. Percentages for Revenues, Operating loss, Ordinary loss and Net loss indicate changes from the previous term.

(2) Financial Position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	Million yen	Million yen	%	Yen
Jun. 30, 2005	9,586	8,206	85.6	82,192.71
Jun. 30, 2004	10,630	8,885	83.6	93,257.14
Dec. 31, 2004	10,009	8,656	86.5	88,530.64

Notes) 1. Number of shares issued at end of period (consolidated)
Jun. 30, 2005: 99,850 shares Jun. 30, 2004: 95,281 shares Dec. 31, 2004: 97,780 shares

(3) Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents, at end
	Million yen	Million yen	Million yen	Million yen
Current interim Period	(1,054)	(912)	448	5,488
Previous interim Period	(1,022)	56	308	3,916
FY 2004 (12 Months)	(1,433)	2,962	899	7,003

(4) Scope of consolidation and application of the equity method
Number of consolidated subsidiaries: 3
Number of non-consolidated subsidiaries accounted for under the equity method: N/A
Number of affiliates accounted for under the equity method: N/A

(5) Changes in the scope of consolidation and application of the equity method
Number of consolidated subsidiaries: Increase N/A Decrease N/A
Number of affiliates accounted for under the equity method: Increase N/A Decrease N/A

2. Earnings Forecast for the Fiscal Year 2005 (From Jan. 1, 2005 to Dec. 31, 2005)

	Revenues	Ordinary loss	Net loss
	Million yen	Million yen	Million yen
Full-year	2,200-3,200	(1,900)-(900)	(1,900)-(900)

**Since descriptions about future events, for instance, earnings forecast for FY 2005, are estimation, results may differ from this estimation due to changes of several economic conditions.*
***This financial report has been translated from Japanese original which has been prepared in accordance with generally accepted accounting principles in Japan, for reference purposes only. Also some changes are added to this report in order to present in a form more familiar to the readers outside Japan.*

For reference use only

AnGes MG, Inc.

Operational and financial results for the six months ended June 30, 2005

1. Summary

(1) Overview

The Japanese economy is recovering at a moderate pace, while corporate profits are improving and business investment is increasing moderately, and private consumption is picking up. The exports have been weakening, especially to the EU. As for the short-term prospects, the economic recovery is expected to remain solid with steady recovery in the world economy, as the corporate sector continues to be resilient. On the other hand, attention should be given to the inventory adjustment in the IT related area, and to the developments of crude oil prices and other factors.

The pharmaceutical industry in Japan faces an ever-increasing challenge to develop innovative products, which can be accepted in the global market, while the domestic pharmaceutical price could be reduced based on the government policy to control healthcare cost and the competition from the foreign companies.

The following are a summary of the financial results of the AnGes group companies for the six months ended June 30, 2005, during which AnGes has made steady progress in product development and initiated negotiations to establish alliances and partnerships.

	Revenue	Operating Profit/(Loss)	Ordinary Profit/(Loss)	Net Income / (Loss)	R&D Expenses
Current Interim Period	¥ 1,200	¥ (1,005)	¥ (906)	¥ (902)	¥ 1,921
Previous Interim Period	¥ 876	¥ (888)	¥ (883)	¥ (881)	¥ 1,459

(2) Revenue

For the six months ended June 30, 2005, total revenue has increased by 37.0% to reach ¥1,200 Million. AnGes has made a joint R&D agreement with Alfresa Corporation to develop the NF-κB decoy oligonucleotide for Atopic dermatitis. Pre-clinical and/or clinical studies have also been conducted for HGF and NF-κB decoy oligonucleotide. AnGes has licensed and/or joint R&D agreements with Daiichi Pharmaceutical Co., Ltd., Seikagaku Corporation and Alfresa Corporation, from which AnGes received an one-time contract payment and R&D support payments. These payments are accounted for as operating revenues.

Regarding the reagents business, AnGes has a license agreement on HVJ-E vector with Ishihara Sangyo Kaisha, Ltd. and is entitled to receive royalties from the sales. In addition to Ishihara Sangyo, AnGes has non-exclusive license agreements on NF-κB decoy with two bio ventures, Gene Design Inc. and Hokkaido System Science Co., Ltd. In addition, AnGes has a license agreement on the drug design service for siRNA with Mitsubishi Space Software Co., Ltd. AnGes is entitled to receive royalty payments from these agreements.

(3) R&D expense

For the six months ended June 30, 2005, R&D expenses have increased by 31.6% over the previous interim period to reach ¥ 1,921 Million. The ratio of R&D expenses to operating revenue reached to 160.0%.

<Major developments>

For HGF development, clinical development programs for PAD (Peripheral Arterial Disease) and IHD (Ischemic Heart Disease) have been making progress in Japan and the US. Regarding PAD, Phase II clinical trial studies in US have completed the patient enrolment. In the near future, data analysis and evaluation of the result will be expected to be completed after the evaluation period for each case patient. In Japan, the PAD Phase III clinical studies progress is being made. Meanwhile, the US IHD Phase I clinical trial, which was started in November 2004, is also making a progress. Preparations to initiate the IHD clinical trials in Japan are in progress.

The basic patent which widely covers HGF gene therapy has been granted in Europe (EP0847757B1). This European patent is granted following our US and Japanese HGF patent. Japan, US and Europe are leading pharmaceutical markets. Therefore, now AnGes has the exclusive right to undertake HGF gene therapy business in these major countries.

AnGes has executed a license agreement with Vical Inc. (USA) having patents for Non-viral Gene Delivery. Through this agreement, AnGes obtained an exclusive right to use this delivery technology in HGF in Japan, North America and Europe.

For NF-kB decoy oligonucleotide development, Phase I clinical trial studies for Atopic dermatitis in Japan, is expected to be started before the 3^{rd} quarter of 2005. The development of effective administration for NF-κB decoy oligonucleotide using the drug delivery systems is also in progress.

<R&D projects and its current status>

Project	Target indications	Region	Development stage	Alliance partners
HGF	PAD	Japan	Phase III clinical trials	Daiichi Pharmaceutical
		US	Phase II clinical trials	
	IHD	Japan	Preparing for clinical trials	
		US	Phase I clinical trials	
	Parkinson disease		Pre-clinical	Yet to be decided
NF-κB decoy oligonucleotide	Atopic dermatitis		Preparing for clinical trials	Alfresa Corporation
	Psoriasis		Pre-clinical	Yet to be decided
	Rheumatic arthritis		Preparing for clinical trials	Seikagaku Corporation
	Degenerative osteoarthrosis		Pre-clinical	
	Prevention of restenosis		Preparing for clinical trials	Goodman

HVJ-E vector technologies have been developed by the subsidiary, GenomIdea, Inc. GenomIdea has identified new DNA candidates for drug development by using the device for DNA-screening which was developed in collaboration with Prof. Kaneda of University of Osaka Medical School and National Institute of Advanced Industrial Science and Technology (AIST) Kansai, and seeds search for DNA diagnostic. The drug design system for next-generation nucleic acid medicines (siRNA) has reached completion in collaborations with Osaka University, AIST Kansai and Mitsubishi Space Software Co., Ltd. The drug design service using this system started in April, 2005.

The GMP Master Cell Bank and Master Virus Bank have been successfully manufactured, and the final releases are completed. The GMP Master Cell Bank can be used widely for manufacturing of the biomedicine and vaccine so that new bio-business including license-out of HVJ-E is developing.

The pre-clinical studies including efficacy and toxicology of using HVJ-E as the delivery vehicle of NF-kB decoy oligoneucleotide for the treatment of Inflammatory Bowl disease (IBD), have been conducted to verify safety and characterizations of the HVJ-E vector for the therapeutical application.

(4) Operating and ordinary profit/ (loss)

For the six months ended June 30, 2005, operating loss was ¥1,005 Million compared to loss of ¥888 Million of the previous period. The operating loss is widened mainly due to the increase in R&D expenses incurred for NF-κB decoy oligonucleotide, HVJ-E and searching new seeds using own fund as well as HGF using R&D support payment funded by the business partner, although operating revenue increased due to R&D support payment and an one-time contract payment from the business partners.

For the six months ended June 30, 2005, ordinary loss was ¥906 Million compared to loss of ¥883 Million of the previous interim period. Grant received from Osaka Prefecture of the amount of ¥100 Million was recorded.

For the six months ended June 30, 2005, net loss was ¥902 Million compared to loss of ¥881 Million of the previous interim period.

(5) Outlook for 2005

We aim to make further progress in the current major projects and establish an alliance with new partners to increase revenues including license payments. The financial outlook depends upon uncertain factors such as progress of the current R&D project proceeds and the contract negotiations with new partnering companies. The projected revenue and income for the year ending December 31, 2005 are as follows;

< Consolidated basis>

Revenue……………………. ¥ 2,200 ~ ¥ 3,200 Million
Ordinary income/ (loss)….. ¥ (1,900) ~ ¥ (900) Million
Net income / (loss)………… ¥ (1,900) ~ ¥ (900) Million

**Since descriptions about future events, for instance, earnings forecast for FY 2005, are estimation, results may differ from this estimation due to changes of several economic conditions.*

2. Financials and Cash flows

(1) Asset and Liability/Equity (In millions, except per share data)

	June 30, 2005	December 31, 2004	Changes
Total asset………………………….…...	¥ 9,586	¥ 10,009	¥ (423)
Stockholders' equity…………………..	¥ 8,206	¥ 8,656	¥ (449)
Stockholders' equity per share……….	¥ 82,192.71	¥ 88,530.64	¥ (6,337.93)
Stockholders' equity ratio……………..	85.6%	86.5%	(0.9%)

Stockholders' equity has decreased owing to the net loss of ¥902 Million while it has increased ¥452 Million because of the exercising of employee stock options.

(2) Cash flows (In millions)

	As of and for the six months ended June 30, 2005	2004	Changes
Cash flows from operating activities…..……………..	¥ (1,054)	¥ (1,022)	¥ (31)
Cash flows from investing activities…………………..	(912)	56	(969)
Cash flows from financing activities…………………..	448	308	140
Changes in cash and cash equivalents………………	(1,514)	(655)	(859)
Cash and cash equivalents at end of period………..	¥ 5,488	¥ 3,916	¥ 1,572

For the six months ended June 30, 2005, cash and cash equivalents decreased by ¥1,514 Million, as a result, as of June 30, 2005, cash and cash equivalents was ¥ 5,488 Million.

(Cash flows from operating activities)

For the six months ended June 30, 2005, net cash used in operating activities decreased by ¥31 Million compared with the previous interim period to ¥1,054 Million. This change was mainly due to decrease of accrued liabilities. For the six months ended June 30, 2005, loss before income taxes and minority interest was ¥910 Million and increase in accounts receivable was ¥161 Million.

(Cash flows from investing activities)

For the six months ended June 30, 2005, net cash used in investing activities decreased by ¥969 Million compared to the previous interim period to ¥912 Million. This change was mainly due to the purchase of marketable securities and investment in securities. ¥603 Million earmarked for future R&D investment has been invested in terms of corporate bonds, which are safer and less risky investment instruments.

(Cash flows from financing activities)

For the six months ended June 30, 2005, net cash provided by financing activities increased by

¥140 Million compared with the previous interim period to ¥448 Million. Net proceeds from issuance of common stock of ¥448 Million were recorded due to the exercising of employee stock options.

<Financial ratios>

	As of June, 30		As of December, 31	
	2005	2004	2004	2003
Stockholders' equity ratio to total asset…….......	85.6%	83.6%	86.5%	86.2%
Market value of stockholders' equity to total asset ……………………………………………...	637.46	637.28%	516.77%	700.03%

AnGes MG, Inc
Consolidated Balance Sheets
(In thousands)
(Unaudited)

	June 30, 2005	June 30, 2004	December 31, 2004
Assets			
Current assets:			
Cash and bank deposits…..…………..………..……	¥ 4,988,584	¥ 5,416,473	¥ 7,003,451
Marketable securities…………………………..….	1,501,014	2,100,120	499,100
Beneficial interest in trust………………………..….	500,000	500,000	500,000
Accounts receivable……..…..…….………………	244,108	107,543	82,122
Inventories…………………….…………..……….	555,996	552,146	544,684
Advances………………….….………….…………	849,338	1,309,343	656,659
Other current assets…………….………..………	98,418	162,065	202,354
Total current assets…………………….…..……	8,737,461	10,147,693	9,488,373
Property and equipment, net……….……….……	212,843	183,941	219,492
Goodwill, net……………………………….……….	11,101	18,217	12,773
Other intangible assets, net………………………	369,050	219,561	235,940
Other assets……………………….……….…………	255,681	60,890	52,786
Total assets……………………………….……...	¥ 9,586,138	¥ 10,630,304	¥ 10,009,364
Liabilities and Stockholders' equity			
Current liabilities:			
Accounts payable………………………………….	114,986	111,858	117,289
Accrued liabilities…………………….…..………	111,141	94,774	137,661
Customer advances……………………….………	1,046,869	1,499,719	978,379
Other current liabilities…………………..……..….	6,845	17,165	6,982
Total current liabilities………….…………..….	1,279,842	1,723,517	1,240,312
Minority interest……………………….……..………..	99,353	21,153	112,526
Stockholders' equity:			
Common stock……………………….………….	5,382,704	4,939,128	5,156,314
Capital surplus………………………………….......	3,693,447	6,236,521	6,453,707
Accumulated deficit……………………………….	(856,017)	(2,280,329)	(2,940,607)
Unrealized losses on securities…………………......	(5,405)	(66)	(900)
Foreign currency translation adjustments………...	(7,787)	(9,620)	(11,989)
Total stockholders' equity…………..……..….	8,206,941	8,885,633	8,656,525
Total liabilities and stockholders' equity……………	¥ 9,586,138	¥ 10,630,304	¥ 10,009,364

**See accompanying notes.*

AnGes MG, Inc
Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	6 months ended June 30,		Year ended December 31,
	2005	**2004**	**2004**
Operating revenues……………………	¥ 1,200,756	¥ 876,194	¥ 2,696,299
Operating expenses:			
Research and development………………	1,921,059	1,459,238	3,679,079
Selling, general and administrative………	284,938	305,686	578,263
Total operating expenses………………	2,205,997	1,764,925	4,257,342
Operating loss………………………………	(1,005,241)	(888,730)	(1,561,043)
Non-operating income (expenses):			
Interest income……………………………	1,901	3,046	5,670
Grant…………………………………………	104,566	1,972	2,030
Foreign currency transaction loss, net………	(5,198)	(972)	(4,827)
Stock issuance cost…………………………	(4,162)	(1,550)	(6,741)
Other items, net……………………………	1,746	2,985	5,920
Ordinary loss………………………………	(906,386)	(883,248)	(1,558,989)
Extraordinary gain (loss):			
Reversal of allowance for doubtful accounts, net...	—	116	116
Gain on change in holding ratio of subsidiary……..	—	—	62,850
Loss on dispositions of property and equipment and intangible assets………………	(4,410)	(670)	(44,844)
Loss before income taxes and minority interest…..	(910,797)	(883,801)	(1,540,866)
Provision for Income taxes – Current………	4,436	2,277	10,228
Minority interest loss………………………	13,172	4,884	9,623
Net loss……………………………………	¥ (902,060)	¥ (881,195)	¥ (1,541,472)
Loss per share:			
Basic………………………………………	¥ (9,114.29)	¥ (9,301.11)	¥ (16,083.36)
Diluted……………………………………	—	—	—
Shares used in calculation of loss per share data:			
Basic………………………………………	98,972	94,741	95,843
Diluted……………………………………	—	—	—

**See accompanying notes.*
***Diluted loss per share data is not calculated because the impact was anti-dilutive.*

AnGes MG, Inc
Consolidated Statements of Capital surplus and Accumulated Deficit
(In thousands)
(Unaudited)

	6 months ended June 30,		Year ended December 31,
	2005	**2004**	**2004**
Capital surplus:			
Balance at beginning of period……………………………	¥ 6,453,707	¥ 6,081,734	¥ 6,081,734
Issuance of common stock upon exercise of stock options………………………………………………	226,390	154,787	371,973
Reduction of capital surplus………………………………	(2,986,650)	—	—
Balance at end of period…………………………………	3,693,447	6,236,521	6,453,707
Accumulated deficit:			
Balance at beginning of period……………………………	(2,940,607)	(1,399,134)	(1,399,134)
Reduction of capital surplus………………………………	2,986,650	—	—
Net loss………………………………………………………	(902,060)	(881,195)	(1,541,472)
Balance at end of period…………………………………	¥ (856,017)	¥ (2,280,329)	¥ (2,940,607)

**See accompanying notes.*

AnGes MG, Inc
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	6 months ended June 30, 2005	6 months ended June 30, 2004	Year ended December 31, 2004
Cash flows from operating activities:			
Loss before income taxes and minority interest	¥ (910,797)	¥ (883,801)	¥ (1,540,866)
Depreciation and amortization	71,848	55,055	145,523
Amortization of goodwill	1,671	2,143	4,050
Decrease in allowance for doubtful accounts	—	(116)	(116)
Interest income	(1,901)	(3,046)	(5,670)
Foreign currency transaction loss (gain), net	374	(1,130)	(4,379)
Loss on dispositions of property and equipment and intangible assets	4,410	670	44,844
Stock issuance cost	4,162	1,550	6,741
Gain on change in holding ratio of subsidiary	—	—	(62,850)
(Increase) Decrease in accounts receivable	(161,986)	(22,778)	2,642
(Increase) Decrease in inventories	(11,311)	(21,978)	(14,517)
(Increase) Decrease in other current assets	(91,188)	(344,499)	253,461
(Decrease) Increase in accounts payable	(2,303)	3,918	9,350
Increase (Decrease) in other current liabilities	53,096	193,326	(274,109)
Subtotal	(1,043,924)	(1,020,687)	(1,435,896)
Interest income received	1,810	2,694	6,863
Income taxes paid	(12,278)	(4,589)	(4,515)
Net cash used in operating activities	(1,054,392)	(1,022,582)	(1,433,547)
Cash flows from investing activities:			
Proceeds from repayment of time deposit (over 3 months)	—	—	1,500,000
Purchases of marketable securities	(200,000)	—	(500,000)
Proceeds from redemption of marketable securities	—	200,000	2,300,000
Purchases of beneficial interest in trust	(500,000)	—	(1,000,000)
Proceeds from redemption of beneficial interest in trust	500,000	—	1,000,000
Purchases of property and equipment	(34,296)	(21,899)	(165,881)
Purchases of intangible assets	(163,126)	(108,840)	(160,657)
Purchase of investments in securities	(416,369)	—	—
Increase in long-term prepaid expense	(98,893)	(14,081)	(16,147)
Decrease in long-term prepaid expense	2,160	—	—
Payment for security deposits	(1,941)	—	(350)
Proceeds from security deposits received	92	1,807	5,208
Net cash (used in) provided by investing activities	(912,373)	56,986	2,962,171
Cash flows from financing activities:			
Net proceeds from issuance of common stock	448,617	308,023	738,385
Net proceeds from issuance of common stock to minority shareholders	—	—	161,319
Net cash provided by financing activities	448,617	308,023	899,705
Effect of exchange rate changes on cash and cash equivalents	3,282	2,023	3,101
Net (decrease) increase in cash and cash equivalents	(1,514,864)	(655,548)	2,431,430
Cash and cash equivalents at beginning of period	7,003,451	4,572,021	4,572,021
Cash and cash equivalents at end of period	¥ 5,488,586	¥ 3,916,473	¥ 7,003,451

**See accompanying notes.*

AnGes MG, Inc
Notes to Consolidated Financial Statements (Unaudited)
June 30, 2005

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of AnGes MG, Inc ("AnGes") and its consolidated subsidiaries (collectively, the "Company") are basically an English version of those which have been prepared in accordance with generally accepted accounting principles in Japan and filed with the Tokyo Stock Exchange as "*Interim financial report*."

The accompanying consolidated financial statements incorporate certain reclassifications of figures from those included in the *Interim financial report* in order to present in a form more familiar to the readers outside Japan. Certain amounts in the accompanying consolidated financial statements from prior year have been reclassified to conform to the current year presentation. In addition, the notes to consolidated financial statements included certain information which is not required under Japan GAAP but is presented herein as additional information.

The amounts presented in the consolidated financial statements are rounded down to the nearest thousand yen.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of AnGes and its subsidiaries in which AnGes has a controlling financial interest and exercise control over its operation. All intercompany transactions and balances have been eliminated in consolidation.

The list of consolidated subsidiaries as of and for the six months ended June 30, 2005 is as follows:

Name of subsidiary	Location	% of ownership
AnGes, Inc.	U.S.A	100.0%
AnGes Euro Limited	UK	100.0%
GenomIdea Inc.	Japan	61.6%

AnGes has no equity investment which is accounted for under the equity method.

AnGes and its subsidiaries have fiscal year-ends of December 31.

Cash and Cash equivalents

For the purpose of consolidated statements of cash flows, “Cash and cash equivalents” consist of cash on hands, demand deposits, and certain investments which are readily convertible to cash, and which mature within three months or less from date of purchase with virtually no risk of loss of values.

“Cash and bank deposits” on the consolidated balance sheets and “Cash and cash equivalents” on the consolidated statements of cash flows are reconciled as follows (in thousands):

	June 30,		December 31,
	2005	2004	2004
Cash and bank deposits……………………………………….	¥ 4,988,584	¥ 5,416,473	¥ 7,003,451
Add: Marketable securities………………………………….	1,501,014	—	—
Less: Time deposits with original maturities of more than three months…………………………………….…….	—	(1,500,000)	—
Less: Marketable securities not included in cash and cash equivalents……………………………………….	(1,001,012)	—	—
Cash and cash equivalents………………………………..…	¥ 5,488,586	¥ 3,916,473	¥ 7,003,451

Marketable securities and investments in securities

The Company considers its marketable securities and investments in securities as available-for-sale securities which are not held for trading purposes and not held to maturity with the positive intent and ability to hold maturity. Available-for-sale securities of which the fair market values are readily determinable are recorded at fair market value. Unrealized gains and losses are reported in a separate component of stockholders’ equity. Available-for-sale securities of which the fair market values are not readily determinable are recorded at cost. The cost of securities sold is based on the moving average method.

Inventories

Inventories are principally stated at cost. The cost of raw materials is determined using the moving average method, the cost of work in process is determined using the specific identification method, and the cost of supplies is determined using the last purchase price method.

Depreciation and Amortization

Property and equipment

Depreciation of "Property and equipment" is calculated using the declining-balance method at rates based on the estimated useful lives of the assets which are prescribed by the Japanese Income Tax Laws. Useful lives by asset category are as follows:

Asset category	Years
Buildings and improvements…………………………………………………………	3-15
Machinery…………………………………………………………………………………	3 - 4
Furniture, Laboratory and office equipment………………………………………………..	3-15

Property and equipment consisted of the following (in thousands):

Asset category	June 30, 2005	June 30, 2004	December 31, 2004
Buildings and improvements…………………………	¥ 103,376	¥ 185,663	¥ 106,532
Machinery………………………………………..…….	86,344	86,344	86,344
Furniture, Laboratory and office equipment……….	304,627	172,535	269,226
	494,347	444,542	462,103
Less: Accumulated depreciation…………….……….	(281,504)	(260,601)	(242,611)
	¥ 212,843	¥ 183,941	¥ 219,492

Intangible assets and goodwill

Intangible assets and goodwill are carried at cost less accumulated amortization. Capitalized costs for software for internal use are amortized using the straight-line method over 5 years. Goodwill is amortized using the straight-line method over 5 years.

Deferred charges

Stock issuance costs are expensed as incurred.

Allowance for doubtful accounts

"Allowance for doubtful accounts" is maintained for the amounts deemed uncollectible based on solvency analyses and for estimated delinquency based on collection rates projected from historical credit loss experiences, and for the amounts to cover specific accounts that are estimated to be uncollectible.

Translation of foreign currency balances and transactions

Foreign currency transactions are translated using foreign exchange rate prevailing at the transaction dates. Receivables and payables denominated in foreign currencies were translated at the current rate at the balance sheets date. The differences of the prevailing rate between the transaction date and balance sheets date are involved in or charged to income accordingly.

All the assets and liabilities of foreign subsidiaries are translated at current rates at the balance sheets dates. All the income and expense accounts are translated at weighted-average rate. Adjustments arising from translating financial statements of overseas subsidiaries denominated in foreign currencies into Japanese yen are reported in a separate component of stockholders' equity.

Lease transactions

Finance leases, other than those which involve transferring of ownership of the leased assets to the lessee, are accounted for in a manner similar to operating leases.

Consumption taxes

Consumption taxes are excluded from the amounts in the consolidated statements of operations.

3. Fair value of financial instruments

The fair values of available-for-sale securities by type of security and contractual maturity as of June 30, 2005 and 2004, and December 31, 2004 are as follows (in thousands):

June 30, 2005	Amortized cost	Unrealized gains	Unrealized losses	Estimated fair value
Type of security				
Corporate debt securities.............	¥ 1,602,920	¥ 16	¥ 5,422	¥1,597,514
	¥ 1,602,920	¥ 16	¥ 5,422	¥1,597,514

June 30, 2004	Amortized cost	Unrealized gains	Unrealized losses	Estimated fair value
Type of security				
Corporate debt securities.............	¥ 2,100,187	¥ —	¥ 66	¥ 2,100,120
	¥ 2,100,187	¥ —	¥ 66	¥ 2,100,120

December 31, 2004	Amortized cost	Unrealized gains	Unrealized losses	Estimated fair value
Type of security				
Corporate debt securities.............	¥ 500,000	¥ —	¥ 900	¥ 499,100
	¥ 500,000	¥ —	¥ 900	¥ 499,100

As of June 30, 2005, 2004 and December 31, 2004, carrying amounts of investments in securities which have no fair market value were ¥13,500 thousand, ¥1,000 thousand and ¥1,000 thousand, respectively. Investments in securities are classified into "other assets" of consolidated balance sheets.

4. Leases

Finance leases without transfer of ownership as lessee

Pro forma data as of June 30, 2005 and 2004, and December 31, 2004 as to acquisition cost, accumulated depreciation and net book value of leased assets are summarized as follows (in thousands):

	June 30,		December 31,
	2005	2004	2004
Pro forma acquisition cost……………………………	¥ 232,778	¥ 225,028	¥ 230,926
Pro forma accumulated depreciation………………	167,203	102,645	137,829
Pro forma net book value……………………………	¥ 65,574	¥ 122,383	¥ 93,096

Future minimum lease payments under finance leases without transfer of ownership are summarized as follows (in thousands):

	June 30,		December 31,
	2005	2004	2004
Due within one year…………………………………	¥ 47,018	¥ 63,521	¥ 54,257
Thereafter…………………………………………	21,264	61,801	41,845
	¥ 68,283	¥ 125,322	¥ 96,103

Lease expenses and pro forma data as to depreciation expenses and interest expenses are summarized as follows (in thousands):

	6 months ended June 30,		Year ended December 31,
	2005	2004	2004
Lease expenses………………………………………	¥ 31,877	¥ 44,008	¥ 84,489
Pro forma depreciation expenses…………………	30,168	42,191	80,867
Pro forma interest expenses………………………	1,434	2,342	4,246

Depreciation is based on the straight-line method over the lease term of the leased assets with no residual value. The difference between the total lease expenses and the pro forma acquisition cost of leased assets is assumed to be pro forma interest expense and the allocation to each period is based on the interest method.

Operating lease transactions as lessee

Future minimum lease payments under operating leases are summarized as follows (in thousands):

	June 30,		December 31,
	2005	2004	2004
Due within one year…………………………………	¥ —	¥ 751	¥ 722
Thereafter…………………………………………	—	563	180
	¥ —	¥ 1,315	¥ 903