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Consolidated Financial Report for the Six Months Ended June 30, 2004 (Unaudited)

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

Listings: Mothers of the Tokyo Stock Exchange, Code 4563

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Adoption of the U.S.GAAP: N/A

1. Business Results for Interim Period of Fiscal Year 2004 (From Jan. 1, 2004 to Jun. 30, 2004)

(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	876	(31.3)	(888)	-	(883)	-
Previous Interim Period	1,274	30.1	(364)	-	(360)	-
FY 2003 (12 Months)	2,453		(948)		(953)	

	Net loss		Net loss per share	Diluted net loss per share
	Million yen	%	yen	yen
Current Interim Period	(881)	-	(9,301.11)	-
Previous Interim Period	(363)	-	(4,321.58)	-
FY 2003 (12 Months)	(978)		(11,300.35)	-

Notes) 1. Equity in net income of unconsolidated subsidiaries and affiliates
Current interim Period: - million yen Previous interim Period: - million yen Fiscal year 2003: - million yen
2. Average number of shares outstanding during the period ended (consolidated)
Current interim Period: 94,741 shares Previous interim period: 84,070 shares Fiscal year 2003: 86,585 shares
3. Change in accounting policies: N/A
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, 2004	10,630	8,885	83.6	93,257.14
Jun. 30, 2003	5,681	4,116	72.5	48,954.88
Dec. 31, 2003	10,974	9,454	86.2	100,670.11

Notes) 1. Number of shares outstanding at end of period (consolidated)
Jun. 30, 2004: 95,281 shares Jun. 30, 2003: 84,079 shares Dec. 31, 2003: 93,914 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	(1,022)	56	308	3,916
Previous interim Period	(217)	(115)	1	3,499
FY 2003 (12 Months)	(689)	(4,484)	5,927	4,572

(4) Scope of consolidation and application of the equity method
Number of consolidated subsidiaries: 3
Number of unconsolidated 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 2004 (From Jan. 1, 2004 to Dec. 31, 2004)

	Revenues	Ordinary loss	Net loss
	Million yen	Million yen	Million yen
Full-year	2,000-3,000	(1,900)-(900)	(1,900)-(900)

**Since descriptions about future events, for instance, earnings forecast for FY 2004, 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, 2004

1. Summary

(1) Overview

Supported by business investment and exports, the Japanese economy continues recovering steadily. Exports to Asia, mainly of machinery equipment to China, have increased and business investment is increasing due to an improvement of corporate profits and progress in capital stock adjustment while the unemployment rate still remains at high level. As for short-term prospects, the economic recovery in Japan is expected to continue as the world economy recovers.

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 market could be reduced based on the government policy to control healthcare cost and is exposed to offensive of foreign company.

The following are a summary of the financial results of the AnGes group companies for six months ended June 30, 2004, 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	¥ 876	¥ (888)	¥ (883)	¥ (881)	¥ 1,459
Previous Interim Period	¥ 1,274	¥ (364)	¥ (360)	¥ (363)	¥ 1,343

(2) Revenue

For the six months ended June 30, 2004, total revenue has decreased by 31.3% to reach ¥876 Million. Pre-clinical and/or clinical studies have 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 Goodman Co., Ltd., from which AnGes received a R&D support payment. 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 them. 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. AnGes is entitled to receive royalty payments from these agreements.

(3) R&D expense

For the six months ended June 30, 2004, R&D expenses have increased by 8.6% over the previous term to reach ¥ 1,459 Million. The ratio of R&D expenses to operating revenue reached to 166.5%.

<Major developments>

For HGF development, clinical development programs for PAD (Peripheral Arterial Disease) and IHD (Ischemic Heart Disease) have been advanced in Japan and US. Regarding PAD, while Phase-II clinical trial studies started in US in April, 2003, Phase III clinical studies also started in Japan. The IND for the US IHD Phase I clinical trial was submitted to the FDA for review in February 2004. AnGes was also in the preparation for IND of IHD clinical trial in Japan. According to the clinical statistics, there are more than millions of patients who suffer ischemic heart disease and lack of effective medicines for the treatment. The submission of IND for starting the clinical trial of IHD in the US was a very significant development milestone for the HGF project.

AnGes signed an exclusive licensing agreement with NeoChemir Inc. (hereinafter "NeoChemir") to distribute their new carbon dioxide generating wound dressing for the Japanese market, in June 2004. The dioxide generating wound dressing patent was filed by NeoChemir. The goal of this joint development is to use the HGF plasmid as the treatment for the patients with ischemic skin ulcers. The introduction at this time of this new wound dressing for the treatment of ischemic ulcers and other diseases is expected to reinforce our product lineup, and help us continue to address the needs of the medical industry in the field of ischemic diseases

The pre-clinical studies including efficacy, toxicology and stability, for NF-κB decoy oligonucleotide have been conducting for NF-κB decoy nucleotide to verify safety, stability and characterization of pharmacological properties of the agents supporting the possible indications of Atopic dermatitis, psoriasis, rheumatic arthritis, and (degenerative) osteoarthritis. Preparations to initiate the clinical trials in Japan are in progress.

In order to effective deliver the NF-κB decoy oligonucleotide for new applications, AnGes is actively working with drug delivery industry leaders to develop an effective administration. In June 2004, AnGes and Shimadzu Corporation signed a joint research agreement to use Shimadzu's "Shima JET" needleless hypodermic pressure injector for NF-κB decoy oligonucleotide for the application of treating patients with psoriasis.

AnGes initiated a joint development with Gene Design Inc to develop the next-generation decoy nucleotides. Nucleotide is not suitable to be administered intravenously because it is relatively easily broken down by the nuclease in blood. So, its use is limited to diseases for which topical administrations or local administrations are possible. In this joint development, AnGes is aiming to develop the next-generation decoy nucleotides to be easily administered intravenously or orally for treating either cancers or Inflammatory Bowl disease (IBD).

<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	US	Preparing for Phase I clinical trials (IND Cleared)*	
	Parkinson disease		Pre-clinical trials	Yet to be decided
NF-κB decoy oligonucleotide	Atopic dermatitis		Preparing for clinical trials	Yet to be decided
	Psoriasis		Pre-clinical trials	Yet to be decided
	Rheumatic arthritis		Preparing for clinical trials	Seikagaku Corporation
	Degenerative osteoarthrosis		Pre-clinical trials	
	Prevention of restenosis		Preparing for clinical trials	Goodman

**IND for IHD was cleared in July 2004.*

HVJ-E vector technologies have been developed by its subsidiary, GenomIdea, Inc. GenomIdea developed the device for a DNA-screening technology together with Prof. Kaneda of University of Osaka Medical School and National Institute of Advanced Industrial Science and Technology (AIST) Kansai. GenomIdea initiated research of discovery of a new DNA candidate for drug development using HVJ-E. The drug design system for next-generation nucleic acid medicines (siRNA) has been developed with collaborations with Osaka University, AIST Kansai and Mitsubishi Space Software Co., Ltd.

Process & assay development and manufacturing of HVJ-E has been advanced by using the cell culture in stirred tank bioreactor and a scalable purification process. The development will enable using HVJ-E for future therapeutic applications such as cancer and vaccine. Lately, the GMP Master cell bank has been successfully manufactured, and the final release is completed. The preparation of GMP Virus Bank is also in progress.

(4) Operating and ordinary profit/ (loss)

For the six months ended June 30, 2004, operating loss was ¥888 Million compared to loss of ¥364 Million of the previous interim period. The operating loss is widened mainly due to the increase in R&D expenses to be borne by AnGes in addition to the decrease of total revenue.

For the six months ended June 30, 2004, ordinary loss was ¥883 Million compared to loss of ¥360 Million of the previous interim period.

For the six months ended June 30, 2004, net loss was ¥881 Million compared to loss of ¥363 Million of the previous interim period. The widening loss is the result of increased operating loss.

(5) Outlook for 2004

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, 2004 are as follows;

< Consolidated basis>

Revenue……………………. ¥ 2,000 ~ ¥ 3,000 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 2004, 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, 2004	December 31, 2003	Changes
Total asset…………………………....	¥ 10,630	¥ 10,974	¥ (343)
Stockholders' equity…………………..	¥ 8,885	¥ 9,454	¥ (568)
Stockholders' equity per share……….	¥ 93,257.14	¥ 100,670.11	¥ (7,412.97)
Stockholders' equity ratio……………..	83.6%	86.2%	(2.6)%

Stockholders' equity has decreased owing to the net loss of ¥881 Million while it has increased ¥309 million because of the exercising of employee stock options.

(2) Cash flows (In millions)

	As of and for the six months ended June 30, 2004	As of and for the six months ended June 30, 2003	Changes
Cash flows from operating activities…...……………..	¥ (1,022)	¥ (217)	¥ (804)
Cash flows from investing activities…………………..	56	(115)	172
Cash flows from financing activities…………………..	308	1	306
Changes in cash and cash equivalents………………	(655)	(330)	(325)
Cash and cash equivalents at end of period………...	¥ 3,916	¥ 3,499	¥ 417

For the six months ended June 30, 2004, cash and cash equivalents decreased by ¥655 Million, as a result, as of June 30 2004, cash and cash equivalents was ¥ 3,916 Million.

(Cash flows from operating activities)
For the six months ended June 30, 2004, cash flows from operating activities decreased by ¥1,022 Million compared to the decrease of ¥217 Million of the previous interim period. This is the result of net loss before income taxes and minority interests (¥883 Million), depreciation and amortization (¥55 Million), increase in advances (¥373 Million) and increase in customer advances (¥227 Million).

(Cash flows from investing activities)
For the six months ended June 30, 2004, cash flows from investing activities increased by ¥56 Million compared to the decrease of ¥115 Million of the previous interim period. Capital investment was mainly for HGF Patent and Information Technology for the clinical development. Purchase of intangible assets of ¥108 Million was recorded whereas proceeds from sale of marketable securities of ¥200 Million was recorded, which was purchased by floating money last year.

(Cash flows from financing activities)
For the six months ended June 30, 2004, cash flows from financing activities increased by ¥308 Million compared to the increase of ¥1 Million of the previous interim period. The increase comes from the exercising of employee stock options.

<Financial ratios>

	As of June, 30		As of December, 31	
	2004	2003	2003	2002
Stockholders' equity ratio to total asset……..........	83.6%	72.5%	86.2%	79.5%
Market value of stockholders' equity to total asset ……………………………………………...	637.28%	1,197.29%	700.03%	678.86%

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

	June 30, 2004	June 30, 2003	December 31, 2003
Assets			
Current assets:			
Cash and bank deposits…………………………	¥ 5,416,473	¥ 3,499,308	¥ 6,072,021
Marketable securities………………………………	2,100,120	—	2,298,748
Beneficial interest in trust……………………………	500,000	—	500,000
Accounts receivable…………………………………	107,543	94,338	84,765
Inventories……………………………………………	552,146	616,611	530,167
Advances………………………………………………	1,309,343	966,879	935,523
Other current assets…………………………………	162,065	144,395	175,007
Allowance for doubtful accounts……………………	—	(108)	(116)
Total current assets…………………………………	10,147,693	5,321,425	10,596,116
Property and equipment, net………………………	183,941	217,930	198,059
Goodwill, net…………………………………………	18,217	—	20,361
Other intangible assets, net…………………………	219,561	92,397	106,094
Other assets…………………………………………	60,890	49,399	53,492
Total assets…………………………………………	¥ 10,630,304	¥ 5,681,152	¥ 10,974,124
Liabilities and Stockholders' equity			
Current liabilities:			
Accounts payable……………………………………	111,858	256,209	107,939
Accrued liabilities……………………………………	94,774	93,069	106,146
Customer advances…………………………………	1,499,719	1,200,919	1,272,617
Other current liabilities………………………………	17,165	7,490	7,049
Total current liabilities………………………………	1,723,517	1,557,688	1,493,753
Minority interest………………………………………	21,153	7,386	26,037
Stockholders' equity:			
Common stock………………………………………	4,939,128	1,803,297	4,784,341
Capital surplus………………………………………	6,236,521	3,100,690	6,081,734
Accumulated deficit…………………………………	(2,280,329)	(784,008)	(1,399,134)
Unrealized losses on securities……………………	(66)	—	(1,957)
Foreign currency translation adjustments…………	(9,620)	(3,901)	(10,651)
Total stockholders' equity…………………………	8,885,633	4,116,077	9,454,332
Total liabilities and stockholders' equity…………	¥10,630,304	¥ 5,681,152	¥ 10,974,124

**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,
	2004	**2003**	**2003**
Operating revenues…………………………………………	¥ 876,194	¥ 1,274,769	¥ 2,453,440
Operating expenses:			
Research and development……………………………	1,459,238	1,343,160	2,807,757
Selling, general and administrative……………………	305,686	295,686	593,962
Total operating expenses…………………………………	1,764,925	1,638,846	3,401,719
Operating loss………………………………………………	(888,730)	(364,077)	(948,278)
Non-operating income (expenses):			
Interest income……………………………………………	3,046	80	605
Grant…………………………………………………………	1,972	—	19,929
Foreign currency transaction gain (loss), net………	(972)	1,215	9,502
Stock issuance cost………………………………………	(1,550)	—	(35,925)
Other items, net……………………………………………	2,985	2,318	218
Ordinary loss………………………………………………	(883,248)	(360,463)	(953,947)
Extraordinary gain (loss):			
Reversal of allowance for doubtful accounts, net...	116	233	224
Loss on write-down of advances……………………..	—	—	(24,541)
Loss on dispositions of property and equipment and intangible assets………………………………	(670)	—	(188)
Loss before income taxes and minority interest…..	(883,801)	(360,230)	(978,452)
Provision for Income taxes – Current………………	2,277	4,059	4,571
Deferred………………	—	343	(482)
Minority interest loss……………………………………	4,884	1,319	4,100
Net loss………………………………………………………	¥ (881,195)	¥ (363,314)	¥ (978,440)
Loss per share:			
Basic…………………………………………………………	¥ (9,301.11)	¥ (4,321.58)	¥ (11,300.35)
Diluted………………………………………………………	—	—	—
Shares used in calculation of loss per share data:			
Basic…………………………………………………………	94,741	84,070	86,585
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,
	2004	**2003**	**2003**
Capital surplus:			
Balance at beginning of period……………………………	¥ 6,081,734	¥ 3,099,940	¥ 3,099,940
Issuance of common stock upon public offering……..…	—	—	2,930,147
Issuance of common stock upon exercise of stock options……………………………..……………..….	154,787	750	51,647
Balance at end of period…………………………………	6,236,521	3,100,690	6,081,734
Accumulated deficit:			
Balance at beginning of period……………………………	(1,399,134)	(420,693)	(420,693)
Net loss……………………………………...................	(881,195)	(363,314)	(978,440)
Balance at end of period…………………………………	¥ (2,280,329)	¥ (784,008)	¥ (1,399,134)

**See accompanying notes.*

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

	6 months ended June 30, 2004	6 months ended June 30, 2003	Year ended December 31, 2003
Cash flows from operating activities:			
Loss before income taxes and minority interest…..…	¥ (883,801)	¥ (360,230)	¥ (978,452)
Depreciation and amortization……………………………	55,055	67,010	138,084
Amortization of goodwill………………………………	2,143	—	1,071
Decrease in allowance for doubtful accounts……….	(116)	(233)	(224)
Interest income…………………………………………	(3,046)	(80)	(605)
Foreign currency transaction loss (gain), net………	(1,130)	(1,049)	6,296
Loss on dispositions of property and equipment and intangible assets…………………………	670	—	188
Stock issuance cost……………………………………	1,550	—	35,925
(Increase) Decrease in accounts receivable………..	(22,778)	63,610	73,183
(Increase) Decrease in inventories…………………..	(21,978)	181,537	267,980
Increase in other current assets………………………	(344,499)	(600,652)	(599,450)
Increase (Decrease) in accounts payable……………	3,918	60,546	(87,723)
(Decrease) Increase in other current liabilities………	193,326	373,359	456,136
Subtotal………………………………………………	(1,020,687)	(216,182)	(687,589)
Interest income received……………………………..	2,694	80	234
Income taxes paid……………………………………..	(4,589)	(1,715)	(1,707)
Net cash used in operating activities………………	(1,022,582)	(217,817)	(689,062)
Cash flows from investing activities:			
Increase in time deposit (over 3 months)…………….	—	—	(1,500,000)
Purchases of marketable securities………………….	—	—	(2,300,845)
Proceeds from sales of marketable securities………	200,000	—	—
Purchase of beneficial interest in trust………………	—	—	(500,000)
Purchases of property and equipment………………	(21,899)	(98,103)	(141,791)
Purchases of intangible assets……………………....	(108,840)	(13,571)	(32,944)
Purchase of investments in securities……………...	—	—	(1,000)
Increase in long-term prepaid expense………………	(14,081)	(2,887)	(6,765)
Proceeds from security deposits received…………..	1,807	0	778
Payment for security deposits…………………………	—	(679)	(2,222)
Net cash used in investing activities………………	56,986	(115,240)	(4,484,790)
Cash flows from financing activities:			
Net proceeds from issuance of common stock………	308,023	1,500	5,927,663
Net cash provided by financing activities…………	308,023	1,500	5,927,663
Effect of exchange rate changes on cash and cash equivalents……………………………………	2,023	1,358	(11,296)
Net (decrease) increase in cash and cash equivalents…………………………………………	(655,548)	(330,199)	742,513
Cash and cash equivalents at beginning of period…....	4,572,021	3,829,508	3,829,508
Cash and cash equivalents at end of period……………	¥ 3,916,473	¥ 3,499,308	¥ 4,572,021

**See accompanying notes.*

AnGes MG, Inc
Notes to Consolidated Financial Statements (Unaudited)
June 30, 2004

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, 2004 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	77.6%

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,**
	2004	**2003**	**2003**
Cash and bank deposits……………………………………	¥ 5,416,473	¥ 3,499,308	¥ 6,072,021
Less: Time deposits with original maturities of more than three months…………………………………...….	(1,500,000)	—	(1,500,000)
Cash and cash equivalents……………………………..…	¥ 3,916,473	¥ 3,499,308	¥ 4,572,021

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……………………………………………..	3-10

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

Asset category	June 30, 2004	June 30, 2003	December 31, 2003
Buildings and improvements…………………………	¥ 185,663	¥ 185,535	¥ 185,659
Machinery……………………………………….…….	86,344	86,344	86,344
Furniture, Laboratory and office equipment……….	172,535	115,367	151,955
	444,542	387,246	423,959
Less: Accumulated depreciation…………….………	(260,601)	(169,315)	(225,899)
	¥ 183,941	¥ 217,930	¥ 198,059

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, 2004 and December 31, 2003 are as follows (in thousands):

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, 2003	Amortized cost	Unrealized gains	Unrealized losses	Estimated fair value
Type of security				
Corporate debt securities…………	¥ 2,300,705	¥ —	¥ 1,957	¥ 2,298,748
	¥ 2,300,705	¥ —	¥ 1,957	¥ 2,298,748

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

As of and for the six months ended June 30, 2003, the Company had no marketable securities and investments in securities.

4. Leases

Finance leases without transfer of ownership as lessee

Pro forma data as of June 30, 2003 and 2004, and December 31, 2003 as to acquisition cost, accumulated depreciation and net book value of leased assets are summarized as follows (in thousands):

	June 30,		December 31,
	2004	**2003**	**2003**
Pro forma acquisition cost……………………..………	¥ 225,028	¥ 205,146	¥ 219,584
Pro forma accumulated depreciation………..………	102,645	58,150	60,313
Pro forma net book value..……………………….……	¥ 122,383	¥ 146,995	¥ 159,271

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

	June 30,		December 31,
	2004	**2003**	**2003**
Due within one year………………..……………………	¥ 63,521	¥ 41,497	¥ 75,058
Thereafter…………………………...…………………	61,801	81,884	86,749
	¥ 125,322	¥ 123,382	¥ 161,807

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,
	2004	**2003**	**2002**
Lease expenses………………………………….………	¥ 44,008	¥ 53,003	¥ 90,488
Pro forma depreciation expenses.………………..……	42,191	46,621	86,111
Pro forma interest expenses……………………………	2,342	3,230	5,796

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,
	2004	**2003**	**2003**
Due within one year…………………………….………	¥ 751	¥ 830	¥ 742
Thereafter…………………………….………….………	563	1,453	928
	¥ 1,315	¥ 2,284	¥ 1,671