



**Consolidated Financial Report
for the Year Ended December 31, 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 Fiscal Year 2005 (From Jan. 1, 2005 to Dec. 31, 2005)

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

	Revenues		Operating loss		Ordinary loss		Net loss	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal Year 2005	2,430	(9.9)	(1,970)	-	(1,870)	-	(1,905)	-
Fiscal Year 2004	2,696	9.9	(1,561)	-	(1,558)	-	(1,541)	-

	Net loss per share	Diluted net loss per share	Ratio of net loss / stockholders' equity	Ratio of ordinary loss / total assets	Ratio of ordinary loss / revenues
	Yen	Yen	%	%	%
Fiscal Year 2005	(19,093.11)	-	(23.7)	(19.7)	(77.0)
Fiscal Year 2004	(16,083.36)	-	(17.0)	(14.9)	(57.8)

Notes) 1. Equity in net income of unconsolidated subsidiaries and affiliates

Fiscal year 2005: - million yen Fiscal year 2004: - million yen

2. Average number of shares issued during the period ended (consolidated)

Fiscal year 2005: 99,782 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
Dec. 31, 2005	9,014	7,456	82.7	73,465.57
Dec. 31, 2004	10,009	8,656	86.5	88,530.64

Notes) 1. Number of shares issued at end of period (consolidated)

Dec. 31, 2005: 101,503 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
Fiscal Year 2005	(1,686)	(336)	688	5,679
Fiscal Year 2004	(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 2006 (From Jan. 1, 2006 to Dec. 31, 2006)

	Revenues	Ordinary loss	Net loss
	Million yen	Million yen	Million yen
Full-year	2,500-3,100	(1,900)-(1,300)	(1,900)-(1,300)

**Since descriptions about future events, for instance, earnings forecast for FY 2006, are estimation, results may differ from this estimation due to changes of several economic conditions.*

***This financial report has been translated from Japanese "Kessan Tanshin" 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.*

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

	<u>December 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
Assets		
Current assets:		
Cash and bank deposits.....	¥ 5,179,123	¥ 7,003,451
Marketable securities.....	1,000,679	499,100
Beneficial interest in trust.....	—	500,000
Accounts receivable.....	142,129	82,122
Inventories.....	437,902	544,684
Advances.....	1,013,642	656,659
Other current assets.....	89,550	202,354
Total current assets.....	<u>7,863,027</u>	<u>9,488,373</u>
Property and equipment, net.....	206,575	219,492
Goodwill, net.....	9,356	12,773
Other intangible assets, net.....	375,644	235,940
Other assets.....	559,576	52,786
Total assets.....	<u>¥ 9,014,180</u>	<u>¥ 10,009,364</u>
Liabilities and Stockholders' equity		
Current liabilities:		
Accounts payable.....	111,118	117,289
Accrued liabilities.....	128,188	137,661
Customer advances.....	1,251,983	978,379
Other current liabilities.....	8,977	6,982
Total current liabilities.....	<u>1,500,268</u>	<u>1,240,312</u>
Minority interest.....	56,936	112,526
Stockholders' equity:		
Common stock.....	5,503,862	5,156,314
Capital surplus.....	3,814,604	6,453,707
Accumulated deficit.....	(1,859,112)	(2,940,607)
Unrealized gains (losses) on securities.....	66	(900)
Foreign currency translation adjustments.....	(2,445)	(11,989)
Total stockholders' equity.....	<u>7,456,975</u>	<u>8,656,525</u>
Total liabilities and stockholders' equity.....	<u>¥ 9,014,180</u>	<u>¥ 10,009,364</u>

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

	Year ended December 31, 2005	Year ended December 31, 2004
Operating revenues	¥ 2,430,467	¥ 2,696,299
Operating expenses:		
Research and development.....	3,791,806	3,679,079
Selling, general and administrative.....	609,658	578,263
Total operating expenses.....	4,401,465	4,257,342
Operating loss.....	(1,970,998)	(1,561,043)
Non-operating income (expenses):		
Interest income.....	3,924	5,670
Grant.....	106,041	2,030
Foreign currency transaction (loss) gain, net.....	(1,003)	(4,827)
Stock issuance cost.....	(7,020)	(6,741)
Other items, net.....	(1,781)	5,920
Ordinary loss.....	(1,870,836)	(1,558,989)
Extraordinary gain (loss):		
Reversal of allowance for doubtful accounts, net.....	—	116
Gain on change in holding ratio of subsidiary.....	—	62,850
Gain on sales of property and equipment.....	85	—
Loss on dispositions of property and equipment and intangible assets.....	(17,005)	(44,844)
Loss on cancellation of leases.....	(53,995)	—
Loss on sales of investment securities.....	(6,506)	—
Loss before income taxes and minority interest.....	(1,948,258)	(1,540,866)
Provision for Income taxes – Current.....	12,486	10,228
Minority interest loss.....	55,590	9,623
Net loss.....	¥ (1,905,155)	¥ (1,541,472)
Loss per share:		
Basic.....	¥ (19,093.11)	¥ (16,083.36)
Diluted.....	—	—
Shares used in calculation of loss per share data:		
Basic.....	99,782	95,843
Diluted.....	—	—

*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)

	Year ended December 31, 2005	Year ended December 31, 2004
Capital surplus:		
Balance at beginning of period.....	¥ 6,453,707	¥ 6,081,734
Issuance of common stock upon exercise of Stock options.....	347,547	371,973
Reduction of capital surplus.....	(2,986,650)	—
Balance at end of period.....	3,814,604	6,453,707
Accumulated deficit:		
Balance at beginning of period.....	(2,940,607)	(1,399,134)
Reduction of capital surplus.....	2,986,650	—
Net loss.....	(1,905,155)	(1,541,472)
Balance at end of period.....	¥ (1,859,112)	¥ (2,940,607)

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

	Year ended December 31,	Year ended December 31,
	2005	2004
Cash flows from operating activities:		
Loss before income taxes and minority interest.....	¥ (1,948,258)	¥ (1,540,866)
Depreciation and amortization.....	162,772	145,523
Amortization of goodwill.....	3,416	4,050
Decrease in allowance for doubtful accounts.....	—	(116)
Interest income.....	(3,924)	(5,670)
Foreign currency transaction gain, net.....	(1,550)	(4,379)
Loss on investment in limited partnership.....	11,875	—
Gain on sales of property and equipment.....	(85)	—
Loss on dispositions of property and equipment and intangible assets.....	17,005	44,844
Loss on sales of investment securities.....	6,506	—
Stock issuance cost.....	7,020	6,741
Gain on change in holding ratio of subsidiary.....	—	(62,850)
(Increase) Decrease in accounts receivable.....	(60,006)	2,642
Decrease (Increase) in inventories.....	106,782	(14,517)
(Increase) Decrease in other current assets.....	(241,949)	253,461
(Decrease) Increase in accounts payable.....	(6,171)	9,350
Increase (Decrease) in other current liabilities.....	269,996	(274,109)
Subtotal.....	(1,676,570)	(1,435,896)
Interest income received.....	5,513	6,863
Income taxes paid.....	(15,463)	(4,515)
Net cash used in operating activities.....	(1,686,519)	(1,433,547)

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

	Year ended December 31,	Year ended December 31,
	2005	2004
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.....	500,000	2,300,000
Purchases of beneficial interest in trust.....	(500,000)	(1,000,000)
Proceeds from redemption of beneficial interest in trust.....	1,000,000	1,000,000
Purchases of property and equipment.....	(105,171)	(165,881)
Proceeds from sales of property and equipment.....	178	—
Purchases of intangible assets.....	(193,086)	(160,657)
Purchase of investments in securities.....	(834,249)	—
Decrease in long-term prepaid expense.....	94,900	—
Increase in long-term prepaid expense.....	(100,968)	(16,147)
Decrease in long-term prepaid expense.....	2,062	—
Proceeds from security deposits received.....	2,212	5,208
Payments for security deposits.....	(2,003)	(350)
Net cash (used in) provided by investing activities	(336,126)	2,962,171
Cash flows from financing activities:		
Net proceeds from issuance of common stock.....	688,074	738,385
Net proceeds from issuance of common stock to minority shareholders.....	—	161,319
Net cash provided by financing activities.....	688,074	899,705
Effect of exchange rate changes on cash and cash equivalents.....	10,332	3,101
Net (decrease) increase in cash and Cash equivalents.....	(1,324,238)	2,431,430
Cash and cash equivalents at beginning of period.....	7,003,451	4,572,021
Cash and cash equivalents at end of period.....	¥ 5,679,212	¥ 7,003,451

Shareholders

Major shareholders

AnGes' 10 largest shareholders as of December 31, 2005 are as follows:

Shareholder	Number of shares	% of share capital
Ryuichi Morishita.....	12,170	11.99
Toshikazu Nakamura.....	7,000	6.90
ECS Co., Ltd.....	4,625	4.56
Biofrontier Partners, Inc.....	2,461	2.43
Shota Morishita.....	2,400	2.37
Mayumi Morishita.....	2,200	2.17
Hitoshi Kotani.....	2,195	2.16
Miwako Sakata.....	1,500	1.48
Japan Trustee Services Bank, Ltd.....	1,391	1.37
Tsuneaki Sakata.....	1,340	1.32
	37,282	36.73

Classification by Shareholders

Shareholders as of December 31, 2005 are summarized by type as follows:

Shareholder	Number of shareholders	Number of shares	% of share capital
Government and Municipal corporation.....	—	—	—
Financial institution.....	11	3,729	3.68
Securities corporation.....	18	927	0.91
Other corporation*.....	219	7,292	7.18
Foreign corporation and other.....	31	2,057	2.03
Individuals and other.....	16,544	87,498	86.20
	16,823	101,503	100.00

* "Other corporation" includes 35 shares which have no voting right under the name of Japan Securities Depository Center, Inc.