



Consolidated Financial Report for the Three Months Ended March 31, 2004 (Unaudited)

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

Listings: Mothers of the Tokyo Stock Exchange, Code 4563

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Osaka, 560-0082, Japan

Adoption of the U.S.GAAP: None

1. Business Results for the First Quarter 2004 (From Jan. 1, 2004 to Mar. 31, 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	%
1Q 2004 (3 Months)	447	(45.1)	(413)	-	(413)	-
1Q 2003 (3 Months)	816	-	(28)	-	(28)	-
FY 2003 (12 Months)	2,453		(948)		(953)	

	Net loss		Net loss per share	Diluted net loss per share
	Million yen	%	yen	Yen
1Q 2004 (3 Months)	(411)	-	(4,353.07)	-
1Q 2003 (3 Months)	(26)	-	(311.90)	-
FY 2003 (12 Months)	(978)		(11,300.35)	-

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

1Q 2004: - million yen 1Q 2003: - million yen Fiscal year 2003: - million yen

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

1Q 2004: 94,432 shares 1Q 2003: 84,061 shares Fiscal year 2003: 86,585 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
Mar. 31, 2004	10,706	9,219	86.1	97,269.29
Mar. 31, 2003	5,821	4,452	76.5	52,960.44
Dec. 31, 2003	10,974	9,454	86.2	100,670.11

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

Mar. 31, 2004: 94,782 shares Mar. 31, 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
1Q 2004 (3 Months)	(776)	(98)	174	3,867
1Q 2003 (3 Months)	(267)	(67)	1	3,497
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 non-consolidated subsidiaries accounted for under the equity method: -

Number of affiliates accounted for under the equity method: -

(5) Changes in the scope of consolidation and application of the equity method

Number of consolidated subsidiaries: Increase - Decrease -

Number of affiliates accounted for under the equity method: Increase - Decrease -

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	3,400-4,400	(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 1Q Report 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.

Operational and financial results for the three months ended March 31, 2004

1. Overview

The Japanese economy continues recovering steadily, supported by business investment and exports. 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.

For the three months ended March 31, 2004, AnGes has made steady progress in product development and initiated negotiations to establish alliances and partnerships.

For the three months ended March 31, 2004, total revenue has decreased by 45.1% to reach ¥447 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. and Seikagaku Corporation, from which AnGes received a R&D support payment. This payment is 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.

The following is a summary of the financial results of the AnGes group companies by business segments for the three months ended March 31, 2003 and 2004, and for the year ended December 31, 2003.

<Segment information (In millions)>

Business	3 months ended March 31,				Year ended December 31,	
	2004		2003		2003	
	Revenue	(%)	Revenue	(%)	Revenue	(%)
Pharmaceuticals.....	¥ 420	93.8	¥ 768	94.2	¥ 2,335	95.2
Reagents.....	1	0.4	0	0.1	3	0.1
Other.....	25	5.8	46	5.7	114	4.7
	¥ 447	100.0	¥ 816	100.0	¥ 2,453	100.0

As a result, for the three months ended March 31, 2004, ordinary loss was ¥413 Million compared to loss of ¥28 Million in the first quarter of 2003 and net loss was ¥411 Million compared to loss of ¥26 Million in the first quarter of 2003.

2. Cash flows (In millions)

For the three months ended March 31, 2004, cash and cash equivalents decreased by ¥704 Million compared to the decrease of ¥ 332 Million in the first quarter of 2003. As of March 31 2004, cash and cash equivalents was ¥ 3,867 Million.

(Cash flows from operating activities)

For the three months ended March 31, 2004, cash flows from operating activities decreased by ¥776 Million compared to the decrease of ¥267 Million in the first quarter of 2003. This is the result of net loss (¥414 Million), depreciation and amortization (¥26 Million), increase in inventories (¥117 Million) and increase in advances (¥215 Million).

(Cash flows from investing activities)

For the three months ended March 31, 2004, cash flows from investing activities decreased by ¥98 Million compared to the decrease of ¥67 Million in the first quarter of 2003. Capital investment was mainly for HGF Patent and Information Technology for the clinical development. Purchase of intangible assets of ¥78 Million was recorded.

(Cash flows from financing activities)

For the three months ended March 31, 2004, cash flows from financing activities increased by ¥174 Million compared to the increase of ¥1 Million in the first quarter of 2003. The increase comes from the exercising of employee stock options.

3. Research and Development

For the three months ended March 31, 2004, R&D expenses have decreased by 1.0% over the previous term to reach ¥ 697 Million. The ratio of R&D expenses to operating revenue reached to 155.8%.

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. On the other hand, IND for the US IHD Phase I clinical trial was filed with FDA in February 2004. AnGes also advances the preparation for IHD clinical trial in Japan.

The pre-clinical studies including efficacy, toxicology and stability, for NF-κB decoy oligonucleotide have been conducted for NF-κB to verify safety, stability and test pharmacological properties of the agents supporting the possible indications of Atopic dermatitis, psoriasis, rheumatic arthritis, and (degenerative) osteoarthritis. Preparations are being made to conduct clinical trials in Japan. In addition, AnGes is optimizing an effective administration of NF-κB decoy oligonucleotide by Drug Delivery System (DDS).

<R&D projects and its current status>

Project	Target indications	Region	Development stage	Alliance partner
HGF	PAD	Japan	Phase III clinical trials	Daiichi Pharmaceutical
		US	Phase II clinical trials	
HGF	IHD	US	Preparing for clinical trials	
	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 osteoarthritis		Pre-clinical trials	
	Prevention of restenosis		Preparing for clinical trials	Goodman

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 with them. Further studies have been done to develop HVJ-E as an effective Drug Delivery System (DDS). Master cell bank for manufacturing of HVJ-E has been made and the final release is pending for the completion of all tests.

4. 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.....	¥ 3,400 ~ ¥ 4,400 Million
Ordinary income/ (loss).....	¥ (900) ~ ¥ (1,900) Million
Net income / (loss).....	¥ (900) ~ ¥ (1,900) 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.*

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

	March 31,		December 31,
	2004	2003	2003
Assets			
Current assets:			
Cash and bank deposits.....	¥ 5,367,110	¥ 3,497,160	¥ 6,072,021
Marketable securities.....	2,299,776	—	2,298,748
Beneficial interest in trust.....	500,000	—	500,000
Accounts receivable.....	119,356	370,613	84,765
Inventories.....	647,213	763,931	530,167
Advances.....	1,150,580	564,276	935,523
Other current assets.....	153,711	252,901	175,007
Allowance for doubtful accounts.....	—	(780)	(116)
Total current assets.....	10,237,749	5,448,103	10,596,116
Property and equipment, net.....	197,877	231,775	198,059
Goodwill, net.....	19,289	—	20,361
Other intangible assets, net.....	192,396	91,819	106,094
Other assets.....	58,693	49,755	53,492
Total assets.....	¥ 10,706,006	¥ 5,821,453	¥ 10,974,124
Liabilities and Stockholders' equity			
Current liabilities:			
Accounts payable.....	112,552	239,113	107,939
Accrued liabilities.....	100,225	127,444	106,146
Customer advances.....	1,244,883	990,928	1,272,617
Other current liabilities.....	7,053	6,938	7,049
Total current liabilities.....	1,464,714	1,364,424	1,493,753
Minority interest.....	21,914	4,168	26,037
Stockholders' equity:			
Common stock.....	4,872,049	1,803,297	4,784,341
Capital surplus.....	6,169,442	3,100,690	6,081,734
Accumulated deficit.....	(1,810,205)	(446,912)	(1,399,134)
Unrealized losses on securities.....	(580)	—	(1,957)
Foreign currency translation adjustments.....	(11,328)	(4,214)	(10,651)
Total stockholders' equity.....	9,219,377	4,452,860	9,454,332
Total liabilities and stockholders' equity.....	¥ 10,706,006	¥ 5,821,453	¥ 10,974,124

*See accompanying notes.

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

	<u>3 months ended March 31,</u>		<u>Year ended</u>
	<u>2004</u>	<u>2003</u>	<u>December 31,</u>
			<u>2003</u>
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.....	<u>87,708</u>	<u>750</u>	<u>51,647</u>
Balance at end of period.....	6,169,442	3,100,690	6,081,734
Accumulated deficit:			
Balance at beginning of period.....	(1,399,134)	(420,693)	(420,693)
Net loss.....	<u>(411,071)</u>	<u>(26,218)</u>	<u>(978,440)</u>
Balance at end of period.....	<u>¥ (1,810,205)</u>	<u>¥ (446,912)</u>	<u>¥ (1,399,134)</u>

*See accompanying notes.

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

	3 months ended March 31,		Year ended
	2004	2003	December 31, 2003
Cash flows from operating activities:			
Loss before income taxes and minority interest.....	¥ (414,052)	¥ (28,699)	¥ (978,452)
Depreciation and amortization.....	26,509	40,699	138,084
Amortization of goodwill.....	1,071	—	1,071
Decrease in allowance for doubtful accounts.....	(116)	438	(224)
Interest income.....	(1,702)	(70)	(605)
Foreign currency transaction loss (gain), net.....	3,207	(1,148)	6,296
Loss on dispositions of property and equipment.....	181	—	188
Stock issuance cost.....	1,141	—	35,925
(Increase) Decrease in accounts receivable.....	(34,591)	(212,534)	73,183
(Increase) Decrease in inventories.....	(117,045)	34,217	267,980
Increase in other current assets.....	(191,625)	(306,555)	(599,450)
Increase (Decrease) in accounts payable.....	4,612	43,450	(87,723)
(Decrease) Increase in other current liabilities.....	(50,600)	164,558	456,136
Subtotal.....	(773,011)	(265,645)	(687,589)
Interest income received.....	732	70	234
Income taxes paid.....	(4,514)	(1,715)	(1,707)
Net cash used in operating activities.....	(776,793)	(267,290)	(689,062)
Cash flows from investing activities:			
Increase in time deposit (over 3 months).....	—	—	(1,500,000)
Purchases of marketable securities.....	—	—	(2,300,845)
Purchase of beneficial interest in trust.....	—	—	(500,000)
Purchases of property and equipment.....	(12,728)	(56,958)	(141,791)
Purchases of intangible assets.....	(78,738)	(9,098)	(32,944)
Purchase of investments in securities.....	—	—	(1,000)
Increase in long-term prepaid expense.....	(7,200)	(787)	(6,765)
Proceeds from security deposits received.....	—	0	778
Payment for security deposits.....	—	(678)	(2,222)
Net cash used in investing activities.....	(98,667)	(67,522)	(4,484,790)
Cash flows from financing activities:			
Net proceeds from issuance of common stock.....	174,275	1,500	5,927,663
Net cash provided by financing activities.....	174,275	1,500	5,927,663
Effect of exchange rate changes on cash and cash equivalents.....	(3,726)	964	(11,296)
Net (decrease) increase in cash and cash equivalents.....	(704,910)	(332,348)	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.....	¥ 3,867,110	¥ 3,497,160	¥ 4,572,021

*See accompanying notes.

AnGes MG, Inc
Notes to Consolidated Financial Statements (Unaudited)
March 31, 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 “1st Quarter financial report.”

The accompanying consolidated financial statements incorporate certain reclassifications of figures from those included in the 1st Quarter 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 three months ended March 31, 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):

	March 31,		December 31,
	2004	2003	2003
Cash and bank deposits.....	¥ 5,367,110	¥ 3,497,160	¥ 6,072,021
Less: Time deposits with original maturities of more than three months.....	(1,500,000)	—	(1,500,000)
Cash and cash equivalents.....	¥ 3,867,110	¥ 3,497,160	¥ 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	March 31,		December 31,
	2004	2003	2003
Buildings and improvements.....	¥ 185,655	¥ 184,473	¥ 185,659
Machinery.....	86,344	86,344	86,344
Furniture, Laboratory and office equipment.....	168,446	109,023	151,955
	440,446	379,841	423,959
Less: Accumulated depreciation.....	(242,569)	(148,065)	(225,899)
	¥ 197,877	¥ 231,775	¥ 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 March 31, 2004 and December 31, 2003 are as follows (in thousands):

<u>March 31, 2004</u>	<u>Amortized cost</u>	<u>Unrealized gains</u>	<u>Unrealized losses</u>	<u>Estimated fair value</u>
Type of security				
Corporate debt securities.....	¥ 2,300,357	¥ 105	¥ 686	¥ 2,299,776
	<u>¥ 2,300,357</u>	<u>¥ 105</u>	<u>¥ 686</u>	<u>¥ 2,299,776</u>
<u>December 31, 2003</u>	<u>Amortized cost</u>	<u>Unrealized gains</u>	<u>Unrealized losses</u>	<u>Estimated fair value</u>
Type of security				
Corporate debt securities.....	¥ 2,300,705	¥ —	¥ 1,957	¥ 2,298,748
	<u>¥ 2,300,705</u>	<u>¥ —</u>	<u>¥ 1,957</u>	<u>¥ 2,298,748</u>

As of March 31, 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 three months ended March 31, 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 March 31, 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):

	March 31,		December 31,
	2004	2003	2003
Pro forma acquisition cost.....	¥ 223,898	¥ 280,871	¥ 219,584
Pro forma accumulated depreciation.....	80,869	112,142	60,313
Pro forma net book value.....	¥ 143,029	¥ 168,728	¥ 159,271

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

	March 31,		December 31,
	2004	2003	2003
Due within one year.....	¥ 71,792	¥ 45,680	¥ 75,058
Thereafter.....	74,047	101,446	86,749
	¥ 145,840	¥ 147,126	¥ 161,807

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

	3 months ended March 31,		Year ended December 31,
	2004	2003	2002
Lease expenses.....	¥ 21,617	¥ 26,777	¥ 90,488
Pro forma depreciation expenses.....	20,712	24,888	86,111
Pro forma interest expenses.....	1,234	749	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):

	March 31,		December 31,
	2004	2003	2003
Due within one year.....	¥ 732	¥ 833	¥ 742
Thereafter.....	732	1,666	928
	¥ 1,465	¥ 2,500	¥ 1,671