

Financial Statements

Seikagaku Corporation and Consolidated Subsidiaries

Consolidated Balance Sheets

March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
Assets			
Current assets:			
Cash and cash equivalents	¥10,780	¥13,513	\$ 81,053
Short-term investments (Note 3)	1,813	1,058	13,632
Notes and accounts receivable—trade	6,555	6,866	49,286
Allowance for doubtful accounts	(21)	(33)	(158)
Inventories (Note 4)	3,875	3,648	29,135
Deferred tax assets (Note 9)	488	527	3,669
Other current assets	623	574	4,684
Total current assets	24,113	26,153	181,301
Property, plant and equipment—at cost:			
Land	720	714	5,413
Buildings and structures	10,140	10,062	76,241
Machinery and equipment	4,517	4,377	33,962
Construction in progress	3,062	495	23,023
Total	18,439	15,648	138,639
Accumulated depreciation	(9,529)	(8,836)	(71,647)
Net property, plant and equipment	8,910	6,812	66,992
Investments and other assets:			
Investments in an unconsolidated subsidiary	25	25	188
Investment securities (Note 3)	7,784	7,870	58,526
Goodwill	174	482	1,308
Deferred tax assets (Note 9)	1,206	1,304	9,068
Other assets	2,730	1,903	20,527
Allowance for doubtful accounts	(495)	(452)	(3,722)
Total investments and other assets	11,424	11,132	85,895
Total	¥44,447	¥44,097	\$334,188
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term borrowings (Note 6)	¥ 2	¥ 11	\$ 15
Notes and accounts payable—trade	830	1,522	6,240
Notes and accounts payable—other	1,077	792	8,098
Accrued expenses	503	628	3,782
Accrued income taxes	565	582	4,248
Other current liabilities	59	93	444
Total current liabilities	3,036	3,628	22,827
Long-term liabilities:			
Retirement benefits (Note 7)	1,583	1,817	11,902
Other long-term liabilities		1	
Total long-term liabilities	1,583	1,818	11,902
Shareholders' equity (Notes 8 and 13):			
Common stock—authorized, 80,000,000 shares; issued, 26,037,375 shares in 2002 and 2001	3,840	3,840	28,872
Additional paid-in capital	5,302	5,302	39,865
Retained earnings	30,582	29,617	229,940
Unrealized loss on available-for-sale securities	(46)	(9)	(346)
Foreign currency translation adjustments	153	(98)	1,150
Total	39,831	38,652	299,481
Treasury stock—at cost, 3,653 shares in 2002 and 1,371 shares in 2001	(3)	(1)	(22)
Total shareholders' equity	39,828	38,651	299,459
Total	¥44,447	¥44,097	\$334,188

See Notes to Consolidated Financial Statements.

Seikagaku Corporation and Consolidated Subsidiaries

Consolidated Statements of Income

Years Ended March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
Net sales (Notes 10 and 12)	¥19,123	¥19,450	\$143,782
Cost of sales	6,434	6,597	48,376
Gross profit	12,689	12,853	95,406
Selling, general and administrative expenses (Note 11)	8,799	8,979	66,158
Operating income	3,890	3,874	29,248
Other income (expenses):			
Interest and dividend income	101	612	759
Loss on sales of short-term investments and investment securities	(357)	(439)	(2,684)
Loss on devaluation of short-term investments and investment securities	(718)	(274)	(5,398)
Exchange gain	174	35	1,308
Charge for full amount of transitional obligations for retirement benefits		(738)	
Other—net	(124)	(33)	(932)
Other expenses—net	(924)	(837)	(6,947)
Income before income taxes	2,966	3,037	22,301
Income taxes (Note 9):			
Current	1,258	1,699	9,459
Deferred	175	(295)	1,316
Total	1,433	1,404	10,775
Net income	¥ 1,533	¥ 1,633	\$11,526

	Yen		U.S. Dollars
Per share of common stock (Note 2.n):			
Net income	¥58.90	¥62.72	\$0.44
Cash dividends applicable to the year	20.00	20.00	0.15

See Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

Years Ended March 31, 2002 and 2001

	Issued Number of Shares of Common Stock	Millions of Yen					
		Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Loss on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
Balance, April 1, 2000	26,037,375	¥3,840	¥5,302	¥28,566			¥(1)
Net income				1,633			
Cash dividends, ¥20 per share				(521)			
Bonuses to directors and corporate auditors				(61)			
Net increase in unrealized loss on available-for-sale securities					¥ (9)		
Net decrease in foreign currency translation adjustments						¥ (98)	
Balance, March 31, 2001	26,037,375	3,840	5,302	29,617	(9)	(98)	(1)
Net income				1,533			
Cash dividends, ¥20 per share				(520)			
Bonuses to directors and corporate auditors				(48)			
Net increase in unrealized loss on available-for-sale securities					(37)		
Net increase in foreign currency translation adjustments						251	
Purchase of treasury stock							(2)
Balance, March 31, 2002	26,037,375	¥3,840	¥5,302	¥30,582	¥(46)	¥153	¥(3)

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Loss on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	
Balance, March 31, 2001	\$28,872	\$39,865	\$222,684	\$ (68)	\$ (737)	\$ (7)	
Net income			11,526				
Cash dividends, \$0.15 per share			(3,909)				
Bonuses to directors and corporate auditors			(361)				
Net increase in unrealized loss on available-for-sale securities				(278)			
Net increase in foreign currency translation adjustments					1,887		
Purchase of treasury stock						(15)	
Balance, March 31, 2002	\$28,872	\$39,865	\$229,940	\$(346)	\$1,150	\$(22)	

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Years Ended March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
Operating activities:			
Income before income taxes	¥ 2,966	¥ 3,037	\$ 22,301
Adjustments for:			
Income taxes—paid	(1,241)	(2,354)	(9,331)
Depreciation and amortization	1,011	965	7,603
Provision for doubtful accounts	31	250	233
Loss on sales of short-term investments and investment securities	357	439	2,684
Loss on devaluation of short-term investments and investment securities	718	274	5,398
Exchange gain	(232)	(34)	(1,744)
Bonuses to directors and corporate auditors	(48)	(61)	(361)
Changes in assets and liabilities, net of effects from:			
Decrease (increase) in notes and accounts receivable—trade	342	(884)	2,571
(Increase) decrease in inventories	(169)	230	(1,271)
(Decrease) increase in notes and accounts payable—trade	(703)	165	(5,286)
Increase (decrease) in accounts payable—other	224	(434)	1,684
(Decrease) increase in retirement benefits	(234)	711	(1,759)
Other—net	(141)	(2)	(1,060)
Net cash provided by operating activities	2,881	2,302	21,662
Investing activities:			
Proceeds from sales of short-term investments	1,045	1,565	7,857
Payments for purchases of short-term investments	(999)	(1,001)	(7,511)
Proceeds from sales of assets on sale-and-leaseback contracts		1,583	
Payments for purchases of fixed assets	(2,425)	(2,187)	(18,233)
Proceeds from sales of investment securities	2,363	4,931	17,767
Payments for purchases of investment securities	(4,068)	(5,253)	(30,586)
Other—net	(905)	32	(6,805)
Net cash used in investing activities	(4,989)	(330)	(37,511)
Financing activities:			
Dividends paid	(520)	(519)	(3,910)
Other—net	(17)	(487)	(128)
Net cash used in financing activities	(537)	(1,006)	(4,038)
Foreign currency translation adjustments on cash and cash equivalents	(88)	62	(662)
Net (decrease) increase in cash and cash equivalents	(2,733)	1,028	(20,549)
Cash and cash equivalents, beginning of year	13,513	12,485	101,602
Cash and cash equivalents, end of year	¥10,780	¥13,513	\$ 81,053

Notes to Consolidated Financial Statements

Years Ended March 31, 2002 and 2001

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted and applied in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information. Certain reclassifications have been made in the 2001 consolidated financial statements to conform to the classifications used in fiscal 2002.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Seikagaku Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥133 to \$1, the approximate rate of exchange at March 31, 2002. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

a. Consolidation — The consolidated financial statements as of March 31, 2002 and 2001, include the accounts of the Company and its significant six majority-owned subsidiaries (together, the "Group").

The fiscal years of all consolidated subsidiaries end on December 31. Accordingly, the accompanying consolidated financial statements include the accounts of the consolidated subsidiaries for the years ended December 31, 2001 and 2000. Significant transactions between December 31 and March 31 are reflected in the consolidated financial statements.

Investments in an unconsolidated subsidiary in fiscal 2002 and 2001 are stated at cost. If the equity method of accounting had been applied to such investments, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of the Company's investments in consolidated subsidiaries made in prior years, over its equity in the net assets at the date of acquisition ("Goodwill"), is being amortized over a period of 5 years. Effective April 1, 1999, the excess of the cost of an acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is being amortized over a period of 15 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Cash Equivalents — Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, commercial papers and mutual funds mainly investing in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

c. Short-term Investments and Investment Securities —

Short-term investments and investment securities are classified and accounted for, depending on management's intent, as follows:

- (1) held-to-maturity debt securities which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and
- (2) available-for-sale securities which are not classified as the aforementioned securities are classified as available-for-sale securities. Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method. Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, non-marketable available-for-sale securities are reduced to net realizable value by a charge to income.

- d. Allowance for Doubtful Accounts** — The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Company's past credit loss experience and an evaluation of potential losses.
- e. Inventories** — Merchandise and supplies are stated at cost determined by the moving-average method, and finished products, semi-finished products, raw materials and work in process are stated at cost determined by the average method.
- f. Depreciation** — Depreciation of property, plant and equipment is computed by the declining-balance method while the straight-line method is applied to buildings of the Company acquired on and after April 1, 1998, over the estimated useful lives of the assets. The range of useful lives is principally from 15 to 38 years for buildings and structures and from 4 to 7 years for machinery and equipment.
- g. Leases** — All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.
- h. Retirement and Pension Plans** — The Company has a funded non-contributory pension plan covering substantially all of its employees. The amount of benefits is generally determined on the basis of the current basic rates of compensation and length of service at the time of termination or mandatory retirement.
- Effective April 1, 2000, the Company adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.
- The full amount of the transitional obligation of ¥738 million, determined as of the beginning of year, is charged to income and presented as other expense in the statement of income. As a result, net periodic benefit costs as compared with the prior method, increased by ¥955 million and income before income taxes by ¥929 million.
- Certain overseas subsidiaries also have a funded contributory retirement plan, a 401(k) plan in the United States of America, covering substantially all of their employees.
- The Company also accrues retirement allowances for directors and corporate auditors who customarily receive lump-sum payments subject to shareholders' approval. The annual provision for retirement allowance is calculated to state the liability at the amount that would be required if all directors or corporate auditors retired at each balance sheet date. The provision for the retirement allowance is not funded.
- i. Research and Development Costs** — Research and development costs are charged to income as incurred.
- j. Income Taxes** — Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.
- k. Appropriations of Retained Earnings** — Appropriations of retained earnings at each year end are reflected in the financial statements for the following year upon shareholders' approval.
- l. Foreign Currency Transactions** — Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end exchange rates and resulting exchange gains and losses are recognized in earnings.
- m. Foreign Currency Financial Statements** — The balance sheet accounts of the consolidated overseas subsidiaries are translated into yen at the current exchange rates as of the balance sheet date except for shareholders' equity, which is translated at historical exchange rates. Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.
- Revenue and expense accounts of the consolidated overseas subsidiaries are translated into yen at the average rate of exchange during the respective fiscal year.
- n. Per Share Information** — The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year, retroactively adjusted for stock splits. The average number of common shares used in the computation was 26,036,100 shares for fiscal 2002 and 26,036,490 shares for fiscal 2001.
- Diluted net income per share is not disclosed because there is no dilutive securities in fiscal 2002 and 2001.
- Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

3. Short-Term Investments and Investment Securities

Short-term investments and investment securities as of March 31, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Short-term investments:			
Debt securities	¥1,810	¥ 901	\$13,609
Other	3	157	23
Total	¥1,813	¥1,058	\$13,632
Investment securities:			
Equity securities	¥1,990	¥3,361	\$14,962
Debt securities	2,317	1,611	17,421
Other	3,477	2,898	26,143
Total	¥7,784	¥7,870	\$58,526

Information regarding each category of the securities classified as available-for-sale and held-to-maturity at March 31, 2002 and 2001, was as follows:

	Millions of Yen			
	2002			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥1,512	¥462	¥ 94	¥1,880
Debt securities	3,164	5	42	3,127
Other	3,896	2	421	3,477
Held-to-maturity	999	1		1,000

	Millions of Yen			
	2001			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥3,273	¥741	¥661	¥3,353
Debt securities	2,009	8	55	1,962
Other	3,374	33	355	3,052
Held-to-maturity	550	2		552

Securities classified as:

	Thousands of U.S. Dollars			
	2002			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$11,368	\$3,474	\$ 706	\$14,136
Debt securities	23,789	38	316	23,511
Other	29,293	15	3,165	26,143
Held-to-maturity	7,511	8		7,519

Securities classified as:

	Thousands of U.S. Dollars			
	2001			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$11,368	\$3,474	\$ 706	\$14,136
Debt securities	23,789	38	316	23,511
Other	29,293	15	3,165	26,143
Held-to-maturity	7,511	8		7,519

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2002 and 2001, were as follows:

	Carrying Amount		
	Millions of Yen	2001	Thousands of U.S. Dollars
	2002		2002
Available-for-sale:			
Equity securities	¥110	¥ 8	\$827
Other	3	3	23
Total	¥113	¥11	\$850

Proceeds from sales of available-for-sale securities for the years ended March 31, 2002 and 2001, were ¥11,227 million (\$84,414 thousand) and ¥4,643 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥176 million (\$1,323 thousand) and ¥533 million (\$4,008 thousand), respectively, for the year ended March 31, 2002 and ¥862 million and ¥1,301 million, respectively, for the year ended March 31, 2001.

The carrying values of debt securities and other investment by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2002, are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Due in one year or less	¥ 811	¥1,000	\$ 6,098	\$7,519
Due after one year through five years	2,318		17,428	
Due after five years through ten years	946		7,113	
Total	¥4,075	¥1,000	\$30,639	\$7,519

4. Inventories

Inventories at March 31, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Merchandise	¥ 262	¥ 223	\$ 1,970
Finished products	1,758	1,590	13,218
Semi-finished products	386	437	2,902
Work in process	871	963	6,549
Raw materials and supplies	598	435	4,496
Total	¥3,875	¥3,648	\$29,135

5. Leases

(1) Finance Leases

The Company leases certain machinery, equipment and other assets under finance lease agreements. Total lease payments under finance lease arrangements that do not transfer ownership of the leased equipment were ¥927 million (\$6,970 thousand) and ¥752 million for the years ended March 31, 2002 and 2001, respectively.

Pro forma information of leased equipment such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased equipment to the lessee on an "as if capitalized" basis as of March 31, 2002 and 2001, was as follows:

	Millions of Yen		
	2002		
	Machinery and Equipment	Other	Total
Acquisition cost	¥4,197	¥96	¥4,293
Accumulated depreciation	2,824	59	2,883
Net leased property	¥1,373	¥37	¥1,410

	Millions of Yen		
	2001		
	Machinery and Equipment	Other	Total
Acquisition cost	¥4,486	¥127	¥4,613
Accumulated depreciation	2,367	67	2,434
Net leased property	¥2,119	¥ 60	¥2,179

	Thousands of U.S. Dollars		
	2002		
	Machinery and Equipment	Other	Total
Acquisition cost	\$31,556	\$722	\$32,278
Accumulated depreciation	21,233	444	21,677
Net leased property	\$10,323	\$278	\$10,601

Obligations, depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Due within one year	¥ 692	¥ 805	\$ 5,203
Due after one year	1,485	2,088	11,165
Total	¥2,177	¥2,893	\$16,368
Depreciation expense	¥ 873	¥672	\$ 6,564
Interest expense	106	90	797

Depreciation expense is computed principally by the declining-balance method. Interest expense is computed by the interest method.

(2) Operating Leases

The minimum rental commitments under non-cancelable operating leases at March 31, 2002 and 2001, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Due within one year	¥36	¥60	\$270
Due after one year	15	15	113
Total	¥51	¥75	\$383

6. Short-Term Borrowings

Short-term borrowings are represented by principally unsecured bank loans. The weighted average interest rate of short-term borrowings was 8.0% and 11.9% at March 31, 2002 and 2001, respectively.

7. Retirement and Pension Plans

The Company has severance payment plans for employees, directors and corporate auditors.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, or by death.

Employees' retirement benefits for the retirement and pension fund at March 31, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Projected benefit obligation	¥ 5,009	¥ 4,424	\$ 37,661
Fair value of plan assets	(3,289)	(2,976)	(24,729)
Unrecognized prior service cost	203	226	1,526
Unrecognized actuarial loss	(602)	(96)	(4,526)
Net liability	¥ 1,321	¥ 1,578	\$ 9,932

The components of net periodic benefit costs for the years ended March 31, 2002 and 2001, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Service cost	¥199	¥ 235	\$1,496
Interest cost	132	134	993
Expected return on plan assets	(66)	(81)	(496)
Amortization of prior service cost	(23)	(2)	(173)
Recognized actuarial loss	10		75
Charge of full amount of transitional obligation		738	
Net periodic benefit costs	¥252	¥1,024	\$1,895

Assumptions used for the years ended March 31, 2002 and 2001, are set forth as follows:

	2002	2001
Discount rate	2.5%	3.0%
Expected rate of return on plan assets	2.2%	2.8%
Amortization period of prior service cost	10 years	10 years
Recognition period of actuarial loss	10 years	10 years
Amortization period of transitional obligation		1 year

The Company has another pension plan "Tokyo Pharmaceutical Welfare Pension Fund" which is a multiemployee's pension fund. The amounts contributed to the fund which were charged to income were ¥85 million (\$639 thousand) and ¥129 million for the years ended March 31, 2002 and 2001, respectively.

Liability for retirement benefits at March 31, 2002 and 2001, for directors and corporate auditors was ¥262 million (\$1,970 thousand) and ¥239 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

Certain overseas subsidiaries also have a funded contributory retirement plan, a 401(k) plan in the United States of America covering substantially all of their employees. The amount contributed to the fund which was charged to income was ¥26 million (\$195 thousand) and ¥18 million for the years ended March 31, 2002 and 2001, respectively.

8. Shareholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

Prior to October 1, 2001, the Code required at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of

amounts designated as stated capital were credited to additional paid-in capital. Effective October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

Prior to October 1, 2001, the Code also required that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 25% of stated capital. Effective October 1, 2001, the revised Code allows for such appropriations to be set aside as a legal reserve until the total additional paid-in capital and legal reserve equals 25% of stated capital. The amount of total additional paid-in capital and legal reserve which exceeds 25% of stated capital can be transferred to retained earnings by resolution of the shareholders, which may be available for dividends. The Company's legal reserve amount, which is included in retained earnings, totals ¥706 million (\$5,308 thousand) and ¥675 million as of March 31, 2002 and 2001, respectively. Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥50 thousand. The revised Code eliminated this restriction.

Prior to October 1, 2001, the Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Code eliminated these restrictions allowing companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors after March 31, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of stated capital, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

9. Income Taxes

The Company is subject to Japanese national and local taxes based on income which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% in fiscal 2002 and 2001. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2002 and 2001, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Deferred tax assets (current):			
Accrued bonuses	¥ 132	¥ 105	\$ 992
Loss on devaluation of inventory	107	137	805
Research and development cost	64	120	481
Other	185	165	1,391
Total	¥ 488	¥ 527	\$3,669
Deferred tax assets (non-current):			
Retirement benefits	¥ 665	¥ 763	\$5,000
Loss on devaluation of investment securities	247	335	1,857
Other	294	206	2,211
Total	¥1,206	¥1,304	\$9,068

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2002 and 2001, and the actual effective tax rates reflected in the accompanying consolidated statements of income is as follows:

	2002	2001
Normal effective statutory tax rate	42.0%	42.0%
Amortization of goodwill	4.7	4.5
Other—net	1.6	(0.3)
Actual effective tax rate	48.3%	46.2%

10. Transactions with a Significant Customer

The Company sells a major portion of its main product, ARTZ, to a pharmaceutical company in Japan under a sales agent agreement.

Sales to the customer were ¥11,200 million (\$84,211 thousand) and ¥11,686 million for the years ended March 31, 2002 and 2001, respectively.

11. Research and Development Costs

Research and development costs charged to income were ¥3,737 million (\$28,098 thousand) and ¥3,789 million for the years ended March 31, 2002 and 2001, respectively.

12. Segment Information

Information regarding sales to foreign customers of the Group for the years ended March 31, 2002 and 2001, is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Sales to foreign customers (A)	¥ 2,990	¥ 2,344	\$ 22,481
Consolidated sales (B)	19,123	19,450	143,782
(A)/(B)	15.6%	12.1%	15.6%

The Group is mainly engaged in one industry segment which is the purchasing, manufacturing and selling of pharmaceutical products and related goods. In addition, the foreign operations of the Group are not significant in terms of total sales, operating income and total assets. Therefore, information about operations in different industries and foreign operations have been omitted.

13. Subsequent Events

a. Appropriations of Retained Earnings

On June 27, 2002, the shareholders of the Company authorized the following appropriations of retained earnings as of March 31, 2002:

	Millions of Yen	Thousands of U.S. Dollars
Appropriations:		
Cash dividends, ¥10 (\$0.08) per share	¥260	\$1,955
Bonuses to directors and corporate auditors	56	421
Total	¥316	\$2,376

b. Purchase of Treasury Stock

At the general shareholders meeting held on June 27, 2002, the Company is authorized to repurchase at management's discretion, of up to 1,000 thousand shares of the Company's common stock (the aggregated amount of ¥800,000 thousand).

Independent Auditors' Report

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**Deloitte
Touche
Tohmatsu**

To the Board of Directors and Shareholders of
Seikagaku Corporation:

We have examined the consolidated balance sheets of Seikagaku Corporation and consolidated subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Seikagaku Corporation and consolidated subsidiaries as of March 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 28, 2002