



FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS March 31, 2003 and 2002

SEIKAGAKU CORPORATION AND CONSOLIDATED SUBSIDIARIES

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|---------|---------------------------------------|
| | 2003 | 2002 | 2003 |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 7,468 | ¥10,780 | \$ 62,233 |
| Short-term investments (Note 3) | 2,303 | 1,813 | 19,192 |
| Notes and accounts receivable—trade | 5,989 | 6,555 | 49,908 |
| Allowance for doubtful accounts | (11) | (21) | (91) |
| Inventories (Note 4) | 4,380 | 3,875 | 36,500 |
| Deferred tax assets (Note 9) | 516 | 488 | 4,300 |
| Other current assets | 1,039 | 623 | 8,658 |
| Total current assets | 21,684 | 24,113 | 180,700 |
| Property, plant and equipment—at cost: | | | |
| Land | 716 | 720 | 5,967 |
| Buildings and structures | 11,486 | 10,140 | 95,716 |
| Machinery and equipment | 6,587 | 4,517 | 54,892 |
| Construction in progress | 116 | 3,062 | 967 |
| Total | 18,905 | 18,439 | 157,542 |
| Accumulated depreciation | (10,038) | (9,529) | (83,650) |
| Net property, plant and equipment | 8,867 | 8,910 | 73,892 |
| Investments and other assets: | | | |
| Investments in an unconsolidated subsidiary | 25 | 25 | 208 |
| Investment securities (Note 3) | 14,117 | 7,784 | 117,642 |
| Goodwill | 199 | 174 | 1,658 |
| Deferred tax assets (Note 9) | 871 | 1,206 | 7,258 |
| Other assets | 1,292 | 2,730 | 10,767 |
| Allowance for doubtful accounts | (465) | (495) | (3,875) |
| Total investments and other assets | 16,039 | 11,424 | 133,658 |
| Total | ¥46,590 | ¥44,447 | \$388,250 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Short-term borrowings (Note 6) | ¥ 192 | ¥ 2 | \$ 1,600 |
| Notes and accounts payable—trade | 641 | 830 | 5,342 |
| Notes and accounts payable—other | 1,056 | 1,077 | 8,800 |
| Accrued expenses | 595 | 503 | 4,958 |
| Accrued income taxes | 1,116 | 565 | 9,300 |
| Other current liabilities | 31 | 59 | 258 |
| Total current liabilities | 3,631 | 3,036 | 30,258 |
| Long-term liabilities: | | | |
| Retirement benefits (Note 7) | 1,442 | 1,583 | 12,017 |
| Total long-term liabilities | 1,442 | 1,583 | 12,017 |
| Shareholders' equity (Notes 8 and 13): | | | |
| Common stock—authorized, 80,000,000 shares; issued, 26,037,375 shares in 2003 and 2002 | 3,840 | 3,840 | 32,000 |
| Additional paid-in capital | 5,302 | 5,302 | 44,183 |
| Retained earnings | 32,372 | 30,582 | 269,767 |
| Unrealized gain (loss) on available-for-sale securities | 64 | (46) | 533 |
| Foreign currency translation adjustments | (6) | 153 | (50) |
| Total | 41,572 | 39,831 | 346,433 |
| Treasury stock—at cost, 38,963 shares in 2003 and 3,653 shares in 2002 | (55) | (3) | (458) |
| Total shareholders' equity | 41,517 | 39,828 | 345,975 |
| Total | ¥46,590 | ¥44,447 | \$388,250 |

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY Years Ended March 31, 2003 and 2002
SEIKAGAKU CORPORATION AND CONSOLIDATED SUBSIDIARIES

| | Millions of Yen | | | | | | |
|--|---|--------------|----------------------------|-------------------|---|--|----------------|
| | Issued Number of Shares of Common Stock | Common Stock | Additional Paid-in Capital | Retained Earnings | Unrealized Gain (Loss) on Available-for-sale Securities | Foreign Currency Translation Adjustments | Treasury Stock |
| Balance, April 1, 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) | | | |
| Unrealized loss on available-for-sale securities | | | | | (37) | | |
| Net change 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) |
| Net income | | | | 2,367 | | | |
| Cash dividends, ¥20 per share | | | | (521) | | | |
| Bonuses to directors and corporate auditors | | | | (56) | | | |
| Unrealized gain on available-for-sale securities | | | | | 110 | | |
| Net change in foreign currency translation adjustments | | | | | | (159) | |
| Purchase of treasury stock | | | | | | | (52) |
| Balance, March 31, 2003 | 26,037,375 | ¥3,840 | ¥5,302 | ¥32,372 | ¥ 64 | ¥ (6) | ¥(55) |

12

| | Thousands of U.S. Dollars (Note 1) | | | | | |
|--|------------------------------------|----------------------------|-------------------|---|--|----------------|
| | Common Stock | Additional Paid-in Capital | Retained Earnings | Unrealized Gain (Loss) on Available-for-sale Securities | Foreign Currency Translation Adjustments | Treasury Stock |
| Balance, March 31, 2002 | \$32,000 | \$44,183 | \$254,850 | \$(383) | \$ 1,275 | \$ (25) |
| Net income | | | 19,725 | | | |
| Cash dividends, \$0.17 per share | | | (4,342) | | | |
| Bonuses to directors and corporate auditors | | | (466) | | | |
| Unrealized gain on available-for-sale securities | | | | 916 | | |
| Net change in foreign currency translation adjustments | | | | | (1,325) | |
| Purchase of treasury stock | | | | | | (433) |
| Balance, March 31, 2003 | \$32,000 | \$44,183 | \$269,767 | \$ 533 | \$ (50) | \$(458) |

CONSOLIDATED STATEMENTS OF CASH FLOWS Years Ended March 31, 2003 and 2002
SEIKAGAKU CORPORATION AND CONSOLIDATED SUBSIDIARIES

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|---------|---------------------------------------|
| | 2003 | 2002 | 2003 |
| Operating activities: | | | |
| Income before income taxes | ¥ 4,218 | ¥ 2,966 | \$ 35,150 |
| Adjustments for: | | | |
| Income taxes—paid..... | (1,191) | (1,241) | (9,925) |
| Depreciation and amortization..... | 779 | 1,011 | 6,491 |
| Loss on sales of short-term investments and investment securities..... | 515 | 357 | 4,292 |
| Loss on devaluation of investment securities | 295 | 718 | 2,458 |
| Foreign exchange loss (gain)..... | 124 | (232) | 1,033 |
| Bonuses to directors and corporate auditors | (56) | (48) | (466) |
| Changes in assets and liabilities: | | | |
| Decrease in notes and accounts receivable—trade | 540 | 342 | 4,500 |
| Increase in inventories | (558) | (169) | (4,650) |
| Decrease in notes and accounts payable—trade..... | (90) | (703) | (750) |
| (Decrease) increase in accounts payable—other..... | (150) | 224 | (1,250) |
| Decrease in retirement benefits | (141) | (234) | (1,175) |
| Other—net | (28) | (110) | (233) |
| Net cash provided by operating activities | 4,257 | 2,881 | 35,475 |
| Investing activities: | | | |
| Proceeds from sales of short-term investments | 2,732 | 1,045 | 22,766 |
| Purchases of short-term investments | (2,800) | (999) | (23,333) |
| Purchases of fixed assets | (982) | (2,425) | (8,183) |
| Proceeds from sales of investment securities | 1,458 | 2,363 | 12,150 |
| Purchases of investment securities | (8,875) | (4,068) | (73,958) |
| Other—net | 1,141 | (905) | 9,508 |
| Net cash used in investing activities | (7,326) | (4,989) | (61,050) |
| Financing activities: | | | |
| Increase (decrease) in short-term borrowings | 187 | (10) | 1,558 |
| Dividends paid | (521) | (520) | (4,342) |
| Other—net | (52) | (7) | (433) |
| Net cash used in financing activities..... | (386) | (537) | (3,217) |
| Foreign currency translation adjustments on cash and cash equivalents | 143 | (88) | 1,192 |
| Net decrease in cash and cash equivalents | (3,312) | (2,733) | (27,600) |
| Cash and cash equivalents, beginning of year | 10,780 | 13,513 | 89,833 |
| Cash and cash equivalents, end of year | ¥ 7,468 | ¥10,780 | \$ 62,233 |

See Notes to Consolidated Financial Statements.

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 in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting 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, certain reclassifications have been made in the 2002 financial statements to conform to the classifications used in 2003.

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 ¥120 to \$1, the approximate rate of exchange at March 31, 2003. 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, 2003 include the accounts of the Company and its significant five (six in 2002) majority-owned subsidiaries (together, the "Group").

Investment in an unconsolidated subsidiary in 2003 and 2002 is stated at cost. If the equity method of accounting had been applied to the investment in this subsidiary, the effect on the accompanying consolidated financial statements would not be material.

The excess of cost of the Company's investments in consolidated subsidiaries which were acquired prior to April 1, 1999 over its equity in the net assets at the date of acquisition is being amortized over a period of 5 years. From 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 held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. 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. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings of the Company acquired on and after April 1, 1998. Property, plant and equipment of consolidated foreign subsidiaries are mainly depreciated by the straight-line method over the estimated useful lives of the assets. The range of useful lives is principally from 15 to 39 years for buildings and structures and from 5 to 15 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 non-contributory funded 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.

The Company accounts for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

Certain foreign subsidiaries also have a defined contributory retirement plans, which mainly consist of a 401(k) plan in the United States of America, covering substantially all of their employees.

Retirement allowances for directors and corporate auditors of the Company are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

i. Research and Development Costs

Research and development costs are charged to income as incurred.

j. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

k. Appropriations of Retained Earnings

Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

l. Foreign Currency Transactions

All short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement.

m. Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical 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 consolidated foreign subsidiaries are translated into yen at the average exchange rate.

n. Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

The average number of common shares used in the computation was 26,034,412 shares for 2003 and 26,036,100 shares for 2002.

Diluted net income per share is not disclosed because there are no dilutive securities in 2003 and 2002.

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, 2003 and 2002, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|-------------------------|-----------------|--------|------------------------------|
| | 2003 | 2002 | 2003 |
| Short-term investments: | | | |
| Debt securities | ¥ 2,100 | ¥1,810 | \$ 17,500 |
| Other..... | 203 | 3 | 1,692 |
| Total..... | ¥ 2,303 | ¥1,813 | \$ 19,192 |
| Investment securities: | | | |
| Equity securities | ¥ 2,454 | ¥1,990 | \$ 20,450 |
| Debt securities | 8,586 | 2,317 | 71,550 |
| Other..... | 3,077 | 3,477 | 25,642 |
| Total..... | ¥14,117 | ¥7,784 | \$117,642 |

Information regarding the securities classified as available-for-sale at March 31, 2003 and 2002, was as follows:

| | Millions of Yen | | | |
|--|-----------------|---------------------|----------------------|---------------|
| | 2003 | | | |
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as available-for-sale: | | | | |
| Equity securities | ¥2,206 | ¥369 | ¥230 | ¥2,345 |
| Debt securities | 9,331 | 66 | 11 | 9,386 |
| Other..... | 3,362 | 32 | 117 | 3,277 |

| | 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 |

| | Thousands of U.S. Dollars | | | |
|--|---------------------------|------------------|-------------------|------------|
| | 2003 | | | |
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as available-for-sale: | | | | |
| Equity securities | \$18,383 | \$3,075 | \$1,916 | \$19,542 |
| Debt securities | 77,758 | 550 | 91 | 78,217 |
| Other..... | 28,017 | 267 | 975 | 27,309 |

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2003 and 2002, were as follows:

| | Carrying Amount | | |
|-------------------------|-----------------|--------|---------------------------|
| | Millions of Yen | | Thousands of U.S. Dollars |
| | 2003 | 2002 | 2003 |
| Available-for-sale: | | | |
| Equity securities | ¥ 109 | ¥ 110 | \$ 908 |
| Other..... | 3 | 3 | 25 |
| Held-to-maturity..... | 1,300 | 1,000 | 10,833 |
| Total..... | ¥1,412 | ¥1,113 | \$11,766 |

Proceeds from sales of available-for-sale securities for the years ended March 31, 2003 and 2002, were ¥1,739 million (\$14,492 thousand) and ¥11,227 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥16 million (\$133 thousand) and ¥531 million (\$4,425 thousand), respectively, for the year ended March 31, 2003 and ¥176 million and ¥533 million, respectively, for the year ended March 31, 2002.

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, 2003, 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..... | ¥ 999 | ¥1,300 | \$ 8,325 |
| Due after one year through five years | 7,563 | | 63,025 | |
| Due after five years through ten years..... | 1,283 | | 10,692 | |
| Due after ten years | 622 | | 5,183 | |
| Total..... | ¥10,467 | ¥1,300 | \$87,225 | \$10,833 |

4 Inventories

Inventories at March 31, 2003 and 2002, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|----------------------------------|-------------------|--------|---------------------------|
| | 2003 | 2002 | 2003 |
| | Merchandise | ¥ 357 | ¥ 262 |
| Finished products | 2,055 | 1,758 | 17,458 |
| Semi-finished products | 222 | 386 | 1,850 |
| Work in process | 988 | 871 | 8,233 |
| Raw materials and supplies | 758 | 598 | 6,317 |
| Total..... | ¥4,380 | ¥3,875 | \$36,500 |

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 ¥772 million (\$6,433 thousand) and ¥927 million for the years ended March 31, 2003 and 2002, 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, 2003 and 2002, was as follows:

| | Millions of Yen | | |
|--------------------------------|-------------------------|-------|--------|
| | 2003 | | |
| | Machinery and Equipment | Other | Total |
| Acquisition cost..... | ¥3,270 | ¥72 | ¥3,342 |
| Accumulated depreciation | 2,427 | 53 | 2,480 |
| Net leased property | ¥ 843 | ¥19 | ¥ 862 |

| | 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 |

| | Thousands of U.S. Dollars | | |
|--------------------------------|---------------------------|-------|----------|
| | 2003 | | |
| | Machinery and Equipment | Other | Total |
| Acquisition cost..... | \$27,250 | \$600 | \$27,850 |
| Accumulated depreciation | 20,225 | 442 | 20,667 |
| Net leased property | \$ 7,025 | \$158 | \$ 7,183 |

Obligations, depreciation expense and interest expense under finance leases:

| | Millions of Yen | | Thousands of U.S. Dollars |
|----------------------------|-----------------|--------|---------------------------|
| | 2003 | 2002 | 2003 |
| Due within one year..... | ¥ 437 | ¥ 692 | \$ 3,642 |
| Due after one year | 1,086 | 1,485 | 9,050 |
| Total..... | ¥1,523 | ¥2,177 | \$12,692 |
| Depreciation expense | ¥ 593 | ¥ 873 | \$ 4,942 |
| Interest expense..... | 75 | 106 | 625 |

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, 2003 and 2002, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--------------------------|-----------------|------|---------------------------|
| | 2003 | 2002 | 2003 |
| Due within one year..... | ¥52 | ¥36 | \$433 |
| Due after one year | 5 | 15 | 42 |
| Total..... | ¥57 | ¥51 | \$475 |

6 Short-term Borrowings

Short-term borrowings consist of unsecured bank loans. The weighted average interest rate of short-term borrowings was 1.8% and 8.0% at March 31, 2003 and 2002, 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, 2003 and 2002, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--------------------------------------|-----------------|---------|---------------------------|
| | 2003 | 2002 | 2003 |
| Projected benefit obligation | ¥5,132 | ¥ 5,009 | \$42,767 |
| Fair value of plan assets..... | (3,386) | (3,289) | (28,217) |
| Unrecognized prior service cost..... | 180 | 203 | 1,500 |
| Unrecognized actuarial loss | (681) | (602) | (5,675) |
| Net liability | ¥1,245 | ¥ 1,321 | \$10,375 |

The components of net periodic benefit costs for the years ended March 31, 2003 and 2002, are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|------|---------------------------|
| | 2003 | 2002 | 2003 |
| Service cost..... | ¥225 | ¥199 | \$1,875 |
| Interest cost..... | 125 | 132 | 1,042 |
| Expected return on plan assets.... | (23) | (66) | (192) |
| Amortization of prior service cost..... | (23) | (23) | (192) |
| Recognized actuarial loss | 61 | 10 | 509 |
| Net periodic benefit costs..... | ¥365 | ¥252 | \$3,042 |

Assumptions used for the years ended March 31, 2003 and 2002, are set forth as follows:

| | 2003 | 2002 |
|--|----------|----------|
| Discount rate | 2.5% | 2.5% |
| Expected rate of return on plan assets | 0.7% | 2.2% |
| Amortization period of prior service cost..... | 10 years | 10 years |
| Recognition period of actuarial loss | 10 years | 10 years |

The Company has another pension plan "Tokyo Pharmaceutical Welfare Pension Fund" which is a multiemployer's pension fund. The amounts contributed to the fund which were charged to income were ¥84 million (\$700 thousand) and ¥85 million for the years ended March 31, 2003 and 2002, respectively.

Retirement allowances for directors and corporate auditors are paid subject to approval of the shareholders in accordance with the Japanese Commercial Code (the "Code"). The Company recorded a liability for its unfunded retirement allowance plan covering all of its directors and corporate auditors. The liability for retirement benefits at March 31, 2003 and 2002, for directors and corporate auditors was ¥197 million (\$1,642 thousand) and ¥262 million, respectively. The annual provisions for retirement allowances for directors and corporate auditors for the years ended March 31, 2003 and 2002 were ¥44 million (\$367 thousand) and ¥45 million, respectively.

Certain foreign subsidiaries have defined contributory retirement plans, which mainly consist of a 401(k) plan in the United States of America covering substantially all of their employees. The amount contributed to the plans which was charged to income was ¥31 million (\$258 thousand) and ¥26 million for the years ended March 31, 2003 and 2002, respectively.

8 Shareholders' Equity

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

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to

existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese 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 beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥32,959 million (\$274,658 thousand) as of March 31, 2003, based on the amount recorded in the Company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

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 2003 and 2002. 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, 2003 and 2002, are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|--------|------------------------------|
| | 2003 | 2002 | 2003 |
| Deferred tax assets (current): | | | |
| Accrued bonuses..... | ¥ 166 | ¥ 132 | \$1,383 |
| Loss on devaluation of inventory..... | 108 | 107 | 900 |
| Other..... | 242 | 249 | 2,017 |
| Total..... | ¥ 516 | ¥ 488 | \$4,300 |
| Deferred tax assets (non-current): | | | |
| Retirement benefits | ¥ 576 | ¥ 665 | \$4,800 |
| Loss on devaluation of investment securities | 2 | 247 | 17 |
| Other | 485 | 294 | 4,041 |
| Less valuation allowance..... | (63) | | (525) |
| Total..... | ¥1,000 | ¥1,206 | \$8,333 |
| Deferred tax liabilities (current): | | | |
| Depreciation | ¥ 84 | | \$ 700 |
| Other..... | 45 | | 375 |
| Total..... | ¥ 129 | | \$1,075 |
| Net deferred tax assets..... | ¥ 871 | | \$7,258 |

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2003 and 2002, and the actual effective tax rates reflected in the accompanying consolidated statements of income is as follows:

| | 2003 | 2002 |
|---|-------|-------|
| Normal effective statutory tax rate | 42.0% | 42.0% |
| Amortization of goodwill | | 4.7 |
| Other—net | 2.7 | 1.6 |
| Actual effective tax rate | 44.7% | 48.3% |

On March 31, 2003, a tax reform law was enacted in Japan and the normal effective statutory tax rate was changed from approximately 42.0% to 40.0% effective for the fiscal years beginning on or after April 1, 2004. The effect of this change resulted in a decrease of deferred tax assets by ¥43 million (\$358 thousand), increase of deferred income tax by ¥45 million (\$375 thousand) and decrease of unrealized loss on available-for-sale securities by ¥2 million (\$17 thousand) in the consolidated financial statements for the year ended March 31, 2003.

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 ¥11,116 million (\$92,633 thousand) and ¥11,200 million for the years ended March 31, 2003 and 2002, respectively.

11 Research and Development Costs

Research and development costs charged to income were ¥4,134 million (\$34,450 thousand) and ¥3,737 million for the years ended March 31, 2003 and 2002, respectively.

12 Segment Information

The Group is mainly engaged in one industry segment which is the purchasing, manufacturing and selling of pharmaceutical products and related goods.

Information about geographic segments and sales to foreign customers of the Group for the years ended March 31, 2003 and 2002, is as follows:

(1) Geographical Segments

The geographical segments of the Group for the year ended March 31, 2003, are summarized as follows:

| | Millions of Yen | | | | |
|-----------------------------|-----------------|---------------|-------|----------------------------|--------------|
| | Japan | North America | Other | Eliminations/ Corporate | Consolidated |
| Sales to customers | ¥18,628 | ¥1,567 | ¥634 | | ¥20,829 |
| Interarea transfer | 77 | 246 | 2 | ¥ (325) | |
| Total sales | 18,705 | 1,813 | 636 | (325) | 20,829 |
| Operating expenses | 13,449 | 1,881 | 530 | (316) | 15,544 |
| Operating income (loss) ... | ¥ 5,256 | ¥ (68) | ¥106 | ¥ (9) | ¥ 5,285 |
| Total assets | ¥47,692 | ¥5,035 | ¥586 | ¥(6,723) | ¥46,590 |

| | Thousands of U.S. Dollars | | | | |
|-----------------------------|---------------------------|---------------|---------|----------------------------|--------------|
| | Japan | North America | Other | Eliminations/ Corporate | Consolidated |
| Sales to customers | \$155,233 | \$13,059 | \$5,283 | | \$173,575 |
| Interarea transfer | 642 | 2,050 | 17 | \$ (2,709) | |
| Total sales | 155,875 | 15,109 | 5,300 | (2,709) | 173,575 |
| Operating expenses | 112,075 | 15,675 | 4,417 | (2,634) | 129,533 |
| Operating income (loss) ... | \$ 43,800 | \$ (566) | \$ 883 | \$ (75) | \$ 44,042 |
| Total assets | \$397,433 | \$41,958 | \$4,884 | \$(56,025) | \$388,250 |

The information about geographic segments for the year ended March 31, 2002 is omitted, because the foreign operation of the Group was not significant in terms of total sales, operating income and total assets.

(2) Sales to Foreign Customers

Information regarding sales to foreign customers of the Group for the years ended March 31, 2003 and 2002, is as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|-------------------------------------|-----------------|---------|------------------------------|
| | 2003 | 2002 | 2003 |
| Sales to foreign customers (A)..... | ¥ 4,380 | ¥ 2,990 | \$ 36,500 |
| Consolidated sales (B) | 20,829 | 19,123 | 173,575 |
| (A)/(B) | 21.0% | 15.6% | 21.0% |

13 Subsequent Events

a. Appropriations of Retained Earnings

On June 27, 2003, the shareholders of the Company authorized the following appropriations of retained earnings at March 31, 2003:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|-----------------|------------------------------|
| Appropriations: | | |
| Cash dividends, ¥10 (\$0.08) per share | ¥260 | \$2,167 |
| Bonuses to directors and corporate auditors..... | 52 | 433 |
| Total..... | ¥312 | \$2,600 |

b. Announcement of BSE Infected Cow in Canada

In response to the Canadian government's announcement on May 20, 2003, of having detected a cow infected with Bovine Spongiform Encephalopathy ("BSE") in Canada, the Ministry of Health, Labour and Welfare of Japan has issued guidelines for taking preventive measures designated to strengthen safety of pharmaceutical products made from bovine-derived material from Canada, on May 22, 2003.

The guidelines define the handling of the sold products and the inventories as follows:

1. The bovine-derived material from Canada is forbidden to use for manufacturing of pharmaceutical products, medical devices, etc.
2. It is unnecessary to recall the products already manufactured and sold, using the bovine-derived material from Canada before issuance of the guidelines.

The Company manufactures and sells products made from bovine-derived materials. At the end of May 2003, the Company has inventories of ¥373 million (\$3,108 thousand), including bovine-derived ingredients from Canada, and will record a loss on disposal of such inventories of about the same amount for the year ending March 31, 2004.



INDEPENDENT AUDITORS' REPORT

Tohmatsu & Co.

MS Shibuya Building
13-23, Shibaura 4-chome
Minato-ku, Tokyo 108-8530, Japan

Tel :+81-3-3457-7321
Fax:+81-3-3457-1694
www.tohmatsu.co.jp

**Deloitte
Touche
Tohmatsu**

To the Board of Directors of
Seikagaku Corporation:

We have audited the accompanying consolidated balance sheets of Seikagaku Corporation and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seikagaku Corporation and consolidated subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

Our audits 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 27, 2003