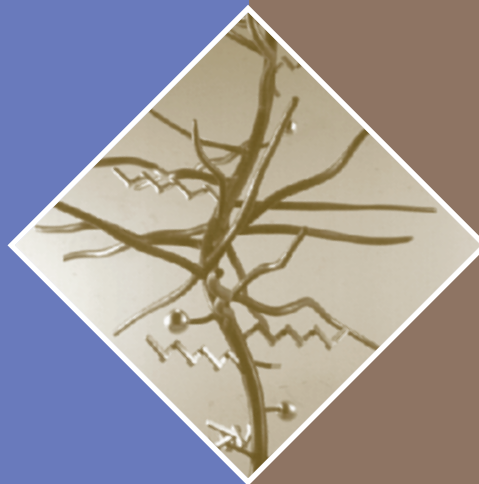


Annual Report 1998



**SEIKAGAKU
CORPORATION**

In June 1997, Seikagaku celebrated its 50th year of business. In this half century, Seikagaku has been one of the pioneers in the field of glycoscience and at the forefront in the research and development of complex carbohydrates for medicines, pharmaceutical ingredients, reagents and diagnostics. In the process, it has developed original products and achieved remarkable growth. Based on its philosophy of promoting business through cooperation with industries and academic institutions, Seikagaku has provided cooperation and support to researchers and institutions, contributing directly to the worldwide development of glycoscience. As the understanding of biological mechanisms improves, attention to the field of glycoscience grows.

Based upon its principle of respect for basic science, and built upon its foundation in glycoscience, Seikagaku is developing safe and useful products for distribution around the world, thereby improving the welfare of all humankind. By way of its business philosophy, Seikagaku is contributing to the healthy, prosperous development of society in Japan and countries around the world.

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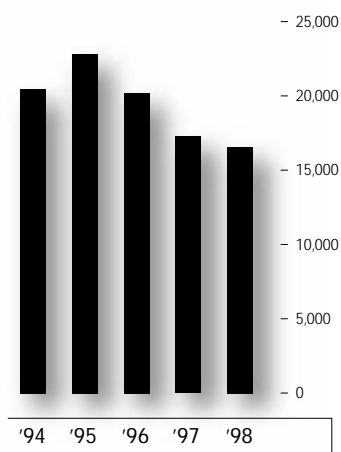
FINANCIAL HIGHLIGHTS

Years ended March 31	Millions of Yen					Thousands of U.S. Dollars
	1998	1997	1996	1995	1994	1998
Net Sales	¥16,596	17,296	¥20,226	¥22,837	¥20,464	\$125,727
Gross Profit	11,224	12,144	15,259	18,143	16,959	85,030
Operating Income	3,260	3,769	6,422	9,753	9,286	24,697
Net Income	1,232	1,699	3,446	4,316	4,305	9,333
Total Assets	41,507	46,179	49,823	53,514	49,429	314,447
Shareholders' Equity	33,097	32,460	31,426	28,852	25,127	250,735
Per Share of Common Stock:						
	Yen					U.S. Dollars
Net Income (Assuming Full Dilution)	¥46.82	¥63.98	¥124.73	¥155.08	¥158.76	\$0.35
Cash Dividends	20.00	20.00	27.50	27.50	21.00	0.15

- Notes:
1. U.S. dollar amounts are converted, for convenience only, at the rate of ¥132 = US\$1, the approximate rate at March 31, 1998.
 2. Net income per share is computed on the weighted average number of shares outstanding after giving retroactive adjustment for subsequent stock splits for each of the years.
 3. Cash dividends per common share are the amounts applicable to the respective years without giving retroactive adjustment for subsequent stock splits.

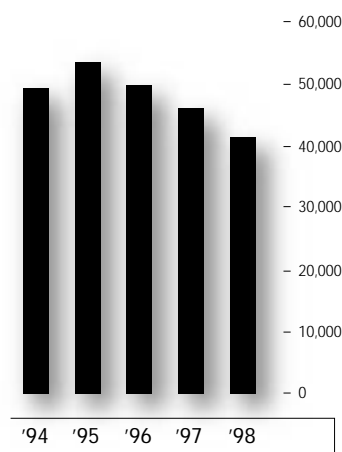
Net Sales

Millions of Yen



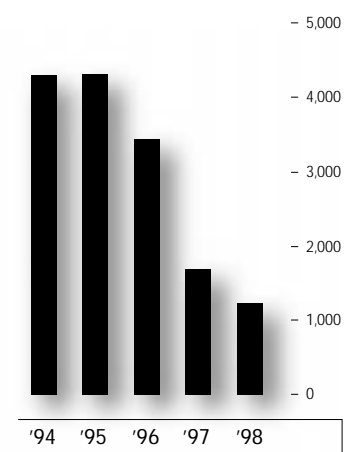
Total Assets

Millions of Yen



Net Income

Millions of Yen





President
Shirow Enoki

Business Environment and Performance During the Term

Paralleling the sluggish Japanese economy during the term under review, the business environment of the pharmaceutical industry became increasingly difficult, as the number of people receiving medical treatment dropped due to a revision of the Health Insurance Act which was passed on September 1, 1997 in an attempt to hold down medical expenses.

Amidst this complex economic environment, in Fiscal 1998 (April 1, 1997 to March 31, 1998), domestic sales of the Company's major products, ARTZ® and ARTZ Dispo® (osteoarthritic agents for enhancing knee and shoulder joint function) decreased, as they did in the previous term, due to both a reduction in reimbursement prices (the result of reforms enacted in April 1997) and to the lower prices of generics. At the same time, sales of ARTZ® and ARTZ-Dispo® overseas increased only slightly as a result of fierce competition and delays in application approval.

With respect to OPEGAN® and OPEGAN HI® (viscoelastic solutions which aid in ophthalmologic surgery), the sales of OPEGAN® marked a decline, but there was a considerable increase in the sales of OPEGAN HI® due in large part to its widely recognized efficacy. Thus the combined sales of the two products showed an overall increase.

Summary of Operations and Results by Sector

Based on the overall sales of both the ARTZ® and OPEGAN® products, net

sales in the pharmaceuticals sector during the term under review came to ¥13,357 million, a 3.3% decrease from the previous term. Meanwhile, net sales in the bulk biochemicals sector came to ¥1,735 million, a drop of 6.2% from the previous term, owing to government measures taken to curtail medical expenses and to the general stagnation of the economy.

In the research biologicals and diagnostics sector, in spite of the steady growth in the sales of the Fungitec®G test for diagnosing deep-seated fungal infection mycosis, lethargic markets held sales in this sector to only ¥1,508 million, which was a decrease of 7.9% from the previous term.

As a result, total net sales for the term came to ¥16,596 million, representing a 4.0% decrease from the previous fiscal year. Meanwhile, although we made every effort to reduce operating expenses by increasing the efficiency of our business operations, these steps were insufficient to offset the decline in sales. Operating income amounted to ¥3,260 million, down 13.5% compared to the previous fiscal year, and net income for the period under review came to ¥1,232 million, a 27.5% decrease.

It must be noted that as part of the government's measures carried out over the past three years to cut back on National Health Insurance expenses, the April 1998 reduction of reimbursement prices was the largest thus far, bringing about an industry-average decline of 9.7% and adversely affecting the business operations surrounding the pharmaceuticals industry.

As part of efforts to support international expansion, we have endeavored to provide a stable supply of high-quality products under ISO9001/EN46001 certification for hyaluronic acid products, which we acquired in February 1998, including the supply of such top-of-the-line products as ARTZ® and OPEGAN®. We have also worked for even greater sales growth by providing research data and clinical information, along with

technical support related to the effectiveness and safety of our products.

Overseas Development

In addition to the successful establishment and expansion of markets for ARTZ® in Sweden, Finland, Austria, Italy and Korea, approval for sales in China was received in October 1997 and for Denmark in November of the same year. It is expected that sales of ARTZ® in these new areas will help to significantly augment sales of the product in both the European and Asian markets.

In the field of diagnostics and reagents, we acquired the Associates of Cape Cod, Inc. (ACC) of the USA, a leading manufacturer of reagents for endotoxin assays. This acquisition brings us both quality and cost benefits, along with ACC's well-established customer base in the U.S. and European markets. In addition, the ongoing transfer of technology and know-how between Seikagaku and ACC will be of significant benefit.

In another example of close overseas cooperation, having received approval from the Ministry of Health and Welfare in January 1998 for the launch of EMDOGAIN (a medical device effective in re-generating tissue for the treatment of periodontal disease), we began the marketing and sales operations for this new product in March 1998. EMDOGAIN, which was developed by BIORA AB of Sweden, has proven to be very effective and was launched successfully in both the U.S. and Europe.

Outlook

In spite of the fact that the pharmaceutical industry is undergoing great change in lieu of amendments to the National Health Insurance System, we are striving to bring about an early recovery in our business performance. We plan to secure a more solid earnings base, not only through the development and marketing of new products related to glycoconjugates, but also through strengthened marketing and sales of our current range of products, which are already recognized for their superior qualities and

effectiveness.

Seikagaku has built a solid reputation, since its very beginnings, as a leading research and development enterprise in the field of complex carbohydrates. Today, in this field and others, we are concentrating all of our strength on bringing to market advanced products that are currently under development. These include adhesion prevention materials and anti-allergy medications.

The performance of ARTZ®, in particular, is expected to rebound through increased sales in the Chinese and European markets. At the same time, Seikagaku is continuing its efforts to revitalize its corporate structure in order to maintain its position as a leading developer and producer of advanced glycoscience technologies and products—products that are an indispensable part of improving the health and welfare of people around the world. In these efforts, we ask for the continued understanding and support of all of our shareholders as we move forward towards the new millennium.



President
Shiro Enoki

Physiological Functions of Complex Carbohydrates Seen as Core of Next-Generation Biotechnology

One of the primary components of biomolecular-level information systems is complex biopolymers such as glycoconjugates, also known as complex carbohydrates, of which glucose is one of the main building blocks. The rapid development of biotechnology in recent years has shown that all life functions, from fertilization, birth and aging to the generation of diseases, are controlled by this carbohydrate information system, and the relation of complex carbohydrates to the functions of the brain and the central nervous system has gained increasing attention. Glycoscience is the study of the mechanisms of these complex carbohydrates, and it is gaining prominence as an important new field of medical science.

Seikagaku at the Forefront of R&D

Seikagaku gained much attention almost fifty years ago when it was the first company to succeed in the industrial manufacture of chondroitin sulfate, one of the complex carbohydrates. In those days, no one recognized the ultimate importance that this material and the field of glycoscience would play for future generations. Over the ensuing years, Seikagaku worked in close

cooperation with leading scientists, lending support to academic research circles, to further the study of complex carbohydrates and their practical applications. In this way, Seikagaku

The multi-purpose sterile facility at Tokyo Research Institute offers integrated capabilities at all stages of clinical testing.



accomplished the successful development and marketing of its principal product, ARTZ[®] (a hyaluronic acid preparation which is also a complex carbohydrate), ahead of all competition.

Today, 80% of Seikagaku's sales are composed of ethical pharmaceuticals, followed by reagents and diagnostics, and bulk biochemicals. Almost all of these products are glycoconjugate-related materials derived and refined from living organisms.

During the term under review, Seikagaku's R&D expenditure amounted to ¥4.3 billion, or 26% of sales, and one of every three employees is engaged in R&D activities, developing specialized know-how and technology in the field of complex carbohydrates and related fields.

Seikagaku's Tokyo Research Institute is where the Company's core research programs are carried out, and this facility provides a complete research environment, equipped with the most advanced facilities. The Company is also promoting joint research projects with various academic institutions both at home and abroad.

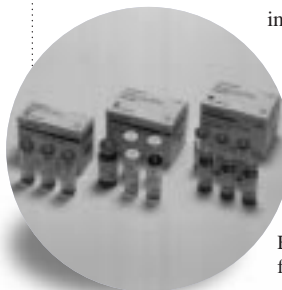
The Research Institute is now carrying out a program to develop a lecithinized SOD product, which is presently under clinical testing, for use as a treatment for ulcerous inflammations of the colon (colitis ulcerosa), colon disease and amyotrophic lateral sclerosis.

Clinical trials are now under way for PGE1 (prostaglandin E1) Prodrug, which will improve the long-term stability of PGE1, a drug used to

improve peripheral circulation in patients suffering from chronic arterial obstruction.

Other joint R&D programs in which Seikagaku is taking part overseas include a

Endospec[®] ES-Test MK, a diagnostic for gram-negative fungi infection.



project with IDEC Pharmaceuticals, Inc. of the U.S.A. for the development of anti-CD-23 antibodies for the treatment of type-I allergic diseases. The Company is also advancing the development of post-surgical adhesion prevention materials made from hyaluronate gel.

Expanding Product Recognition at Home and Abroad

Seikagaku's top products are the osteoarthritic knee and shoulder joint enhancing agent ARTZ® and ARTZ Dispo®, which is a disposable syringe form of ARTZ® for injection, along with OPEGAN®, viscoelastic solution for use in ophthalmic surgery, and OPEGAN Hi®, a high-polymer version of OPEGAN®. These medicines, which contain hyaluronic acid, are in general use throughout the domestic medical industry and have received wide support domestically and internationally.

ARTZ® and ARTZ Dispo® continue to enjoy steady growth in both recognition and sales overseas. After their introduction in Korea, Sweden, Finland, Austria and Italy, they were launched in the Chinese and Danish markets in 1998. With the rapid "graying" of societies in the advanced nations and the growing need for medicines which help the functioning of joints in the elderly, the Company is establishing a worldwide sales network to support the marketing of this efficacious agent.

One significant development during the term was Seikagaku's acquisition of Associates of Cape Cod, Inc. (ACC), a manufacturer of reagents for endotoxin assays, in November

ARTZAL®, the export version of ARTZ®, has been introduced through Astra Läkemedel AB in Sweden and Finland.



1997. Seikagaku has been licensing chromogenic method technology to ACC and has been the exclusive distributor of ACC's products in Japan since 1991. Following the acquisition, Seikagaku stepped up the transfer of technology and manufacturing know-how to ACC, which is ISO9001 certified and which has a strong, established customer base in the U.S. and Europe. In the future, our goal is to continue to implement a cooperative system of technology and know-how transfer between both companies, helping to make strong contributions to Company earnings.

In another important development, having obtained the exclusive domestic marketing rights from Sweden's BIORA AB for EMDOGAIN, a medical device for the treatment of problems caused by severe periodontal disease, the Company began the marketing and sales of EMDOGAIN in Japan in March 1998. EMDOGAIN has received wide recognition from periodontal specialists both in Japan and overseas for its effectiveness in promoting tissue re-generation for the treatment of periodontal disease.



Seikagaku's new partner, BIORA AB of Sweden, is a state-of-the-art biotechnology company.

FINANCIAL STATEMENT

SEIKAGAKU CORPORATION

Non-Consolidated Balance Sheets

March 31, 1998 and 1997

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1998	1997	1998
Assets			
Current assets:			
Cash and cash equivalents.....	¥ 3,622	¥ 4,456	\$ 27,439
Marketable securities (Note 3).....	11,637	18,949	88,159
Other short-term investments (Note 4).....	603	203	4,568
Notes and accounts receivable – trade (Note 12).....	5,124	4,924	38,818
Allowance for doubtful receivables.....	(42)	(40)	(318)
Inventories (Note 5).....	3,864	4,057	29,273
Prepaid expenses and other.....	330	317	2,500
Total current assets.....	25,138	32,866	190,439
Property, plant and equipment – at cost:			
Land.....	672	672	5,091
Buildings and structures.....	9,267	8,492	70,205
Machinery and equipment.....	3,431	3,450	25,992
Construction in progress.....	112	662	848
Total.....	13,482	13,276	102,136
Accumulated depreciation.....	(6,644)	(6,012)	(50,333)
Net property, plant and equipment.....	6,838	7,264	51,803
Investments and other assets:			
Investments in subsidiaries and associated company.....	3,245	132	24,583
Investment securities (Note 3).....	3,716	3,203	28,152
Money funds in trust.....	700	700	5,303
Other assets.....	2,070	2,214	15,682
Allowance for doubtful receivables.....	(200)	(200)	(1,515)
Total investments and other assets.....	9,531	6,049	72,205
Total.....	¥41,507	¥46,179	\$314,447
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term bank borrowings (Note 7).....	¥ 480	¥ 480	\$ 3,636
Current portion of long-term debt (Note 7).....		5,235	
Notes and accounts payable – trade.....	981	1,074	7,432
Notes and accounts payable – other (Note 12).....	797	689	6,038
Accrued income taxes.....	1,182	457	8,955
Accrued expenses.....	572	621	4,333
Other.....	25	38	189
Total current liabilities.....	4,037	8,594	30,583
Long-term liabilities:			
Long-term debt (Note 7).....	3,358	3,999	25,439
Retirement benefits for directors and corporate auditors.....	567	583	4,296
Liability for lease partnership – net (Note 9).....	448	543	3,394
Total long-term liabilities.....	4,373	5,125	33,129
Commitments (Note 6)			
Shareholders' equity (Notes 10 and 15):			
Common stock, ¥50 par value – authorized, 80,000,000 shares; issued and outstanding, 26,037,375 shares.....	3,840	3,840	29,091
Additional paid-in capital.....	5,302	5,302	40,167
Legal reserve.....	498	438	3,773
Retained earnings.....	23,457	22,880	177,704
Total shareholders' equity.....	33,097	32,460	250,735
Total.....	¥41,507	¥46,179	\$314,447

Non-Consolidated Statements of Income and Retained Earnings

Years ended March 31, 1998 and 1997

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1998	1997	1998
Net sales (Note 12)	¥16,596	¥17,296	\$125,727
Cost of sales	5,372	5,152	40,697
Gross profit	11,224	12,144	85,030
Selling, general and administrative expenses (Notes 12 and 13).....	7,964	8,375	60,333
Operating income.....	3,260	3,769	24,697
Other income (expenses):			
Interest and dividend income	745	688	5,644
Interest expense	(115)	(225)	(871)
Gain on sales of marketable securities and investment securities	487	216	3,689
Loss on sales of marketable securities.....	(318)	(407)	(2,409)
Loss on devaluation of marketable securities and investment securities	(697)	(457)	(5,280)
Exchange gain	194	111	1,469
Other - net.....	175	(62)	1,326
Other income (expenses) - net.....	471	(136)	3,568
Income before income taxes	3,731	3,633	28,265
Income taxes (Note 11)	2,499	1,934	18,932
Net income	1,232	1,699	9,333
Retained earnings, beginning of year	22,880	21,935	173,333
Appropriations:			
Cash dividends	(521)	(619)	(3,947)
Transfer to legal reserve	(60)	(69)	(454)
Bonuses to directors and corporate auditors.....	(74)	(66)	(561)
Retained earnings, end of year	¥23,457	¥22,880	\$177,704
	Yen		U.S. Dollars
Per share of common stock:			
Net income	¥47.31	¥65.25	\$0.36
Diluted net income	46.82	63.98	0.35
Cash dividends applicable to the year	20.00	20.00	0.15

Non-Consolidated Statements of Cash Flows

Years ended March 31, 1998 and 1997

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1998	1997	1998
Operating activities:			
Net income	¥ 1,232	¥ 1,699	\$ 9,333
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	749	715	5,674
Loss on devaluation of marketable securities and investment securities	697	457	5,280
Gain on sales of marketable securities and investment securities	(487)	(216)	(3,689)
Loss on sales of marketable securities	318	407	2,409
Exchange gain	(196)	(111)	(1,485)
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable – trade	(200)	742	(1,515)
Decrease in inventories	193	31	1,462
Increase in accrued income taxes	725	34	5,493
Other – net	(196)	236	(1,485)
Total Adjustments	1,603	2,295	12,144
Net cash provided by operating activities	2,835	3,994	21,477
Investing activities:			
Purchases of property, plant and equipment	(970)	(1,298)	(7,349)
Proceeds from sales of marketable securities	29,480	28,386	223,333
Purchases of marketable securities	(21,744)	(25,712)	(164,727)
Proceeds from sales of other short-term investments	203	1,401	1,538
Purchases of other short-term investments	(603)	(203)	(4,568)
Proceeds from sales of investment securities	361	409	2,735
Purchases of investment securities	(1,825)	(1,165)	(13,826)
Increase in investments in subsidiaries	(3,114)		(23,591)
Other – net	745	(492)	5,644
Net cash provided by investing activities	2,533	1,326	19,189
Financing activities:			
Repayments of long-term debt	(5,681)	(4,955)	(43,037)
Dividends paid	(521)	(619)	(3,947)
Net cash used in financing activities	(6,202)	(5,574)	(46,984)
Net decrease in cash and cash equivalents	(834)	(254)	(6,318)
Cash and cash equivalents, beginning of year	4,456	4,710	33,757
Cash and cash equivalents, end of year	¥ 3,622	¥ 4,456	\$ 27,439
Additional cash flow information:			
Interest paid	¥ 116	¥ 226	\$ 879
Income taxes paid	1,773	1,901	13,432
Noncash financing activities:			
Convertible debentures converted into common stock		19	

Notes to Non-Consolidated Financial Statements

Years ended March 31, 1998 and 1997

1. Basis of Presenting Non-Consolidated Financial Statements

The accompanying non-consolidated financial statements of Seikagaku Corporation (the "Company") 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 Accounting Standards. The non-consolidated statements of cash flows are not required as part of basic financial statements in Japan but are presented herein as additional information.

In preparing the non-consolidated financial statements, however, certain reclassifications and rearrangements have been made to the financial statements issued in Japan in order to present these statements in a form which is more familiar to readers outside Japan. In addition, the accompanying notes include information which is not required under accounting principles and practices generally accepted in Japan, but is presented herein as additional information.

The accompanying non-consolidated financial statements include only the accounts of the Company. Investments in subsidiaries and associated company are stated at cost and the equity method has not been adopted.

The non-consolidated financial statements are stated in Japanese yen, the currency of the country in which 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 ¥132 to \$1, the approximate rate of exchange at March 31, 1998. 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.

Certain reclassifications have been made in the 1997 non-consolidated financial statements to conform to the classifications used in 1998.

2. Summary of Significant Accounting Policies

- a. Cash Equivalents — The Company considers all highly liquid investments, including time deposits with a maturity of three months or less, to be cash equivalents.
- b. Short-term Investments and Investment Securities — Quoted securities are stated at the lower of cost, determined by the moving-average method, or market. Other securities are stated at cost as determined by the moving-average method.
- c. 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.

- d. Depreciation — Depreciation of property, plant and equipment is computed by the declining-balance method over the estimated useful lives of the assets.
- e. Leases — All leases are accounted for as operating leases. Under Japanese accounting standards for lease, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance lease 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.
- f. Investments in Subsidiaries and Associated Company — Investments in subsidiaries and associated company (20% to 50% ownership interests) are stated at cost determined by the moving-average method.
- g. Retirement Benefit Plans — The Company has a funded non-contributory pension plan as its employees' retirement benefits plan. 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 pension plan was adopted effective January 1, 1983. The prior service cost is being amortized by the declining-balance method at 30% annually. Normal costs and amortization of prior service cost are charged to income and funded currently.
- h. Income Taxes — The Company provides for income taxes at the amount currently payable for each year. Deferred income taxes relating to temporary differences between reporting for tax and accounting purposes are not recognized.
- i. Net Income per Share — The computation of net income per share is based on the weighted average number of shares outstanding during each year. The average number of common shares used in the computation was 26,037,375 and 26,034,438 for the years ended March 31, 1998 and 1997, respectively.

Fully diluted net income per share is computed assuming full conversion of outstanding convertible debentures at the beginning of the year or at the time of issuance, if after the beginning of the year, with an applicable adjustment for related interest expense, net of tax, for such convertible debentures. The average number of common shares used in the computation of diluted net income was 27,420,952 and 28,171,418 for the years ended March 31, 1998 and 1997, respectively.

3. Marketable and Investment Securities

A summary of marketable and investment securities is shown below:

	Millions of Yen				Thousands of U.S. Dollars	
	1998		1997		1998	
	Carrying Amount	Aggregate Market Value	Carrying Amount	Aggregate Market Value	Carrying Amount	Aggregate Market Value
Marketable securities:						
Market quotations available:						
Stocks	¥2,546	¥2,775	¥2,208	¥2,588	\$19,288	\$21,023
Bonds and other	3,509	3,509	7,418	7,566	26,583	26,583
Total	6,055	¥6,284	9,626	¥10,154	45,871	\$47,606
Market quotations not available.....	5,582		9,323		42,288	
Total marketable securities	¥11,637		¥18,949		\$88,159	
Investment securities:						
Market quotations available:						
Stocks	¥1,514	¥1,578	¥1,697	¥1,787	\$11,470	\$11,955
Bonds and other	100	1,614	400	401	757	12,227
Total	1,614	¥3,192	2,097	¥2,188	12,227	\$24,182
Market quotations not available.....	2,102		1,106		15,925	
Total investment securities.....	¥3,716		¥3,203		\$28,152	

Securities for which market quotations are not available principally consist of money market funds and corporate bonds for which there are no readily-available markets from which to obtain or calculate the market value thereof.

4. Other Short-term Investments

Other short-term investments at March 31, 1998 and 1997, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Time deposits.....	¥ 3	¥203	\$ 23
Asset-backed securities.....	600		4,545
Total.....	¥603	¥203	\$4,568

5. Inventories

Inventories at March 31, 1998 and 1997, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Merchandise.....	¥ 305	¥ 270	\$ 2,311
Finished products.....	1,386	1,838	10,500
Semi-finished products.....	696	661	5,273
Work in process.....	1,031	898	7,810
Raw materials and supplies.....	446	390	3,379
Total.....	¥3,864	¥4,057	\$29,273

6. Leases

Total lease payments under finance lease arrangements that do not transfer ownership of the leased equipment to the Company were ¥937 million (\$7,098 thousand) and ¥1,072 million for the years ended March 31, 1998 and 1997, 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, 1998 and 1997, were as follows:

	Millions of Yen			Thousands of U.S. Dollars			Thousands of U.S. Dollars		
	1998			1997			1998		
	Machinery and Equipment	Other	Total	Machinery and Equipment	Other	Total	Machinery and Equipment	Other	Total
Acquisition cost.....	¥4,042	¥137	¥4,179	¥3,733	¥161	¥3,894	\$30,621	\$1,038	\$31,659
Accumulated depreciation.....	2,669	53	2,722	2,470	73	2,543	20,219	402	20,621
Net leased property.....	¥1,373	¥ 84	¥1,457	¥1,263	¥ 88	¥1,351	\$10,402	\$ 636	\$11,038

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Due within one year.....	¥ 662	¥ 777	\$ 5,015
Due after one year.....	1,490	1,327	11,288
Total.....	¥2,152	¥2,104	\$16,303
Depreciation expense.....	¥ 798	¥ 878	\$ 6,045
Interest expense.....	119	143	902

Depreciation expense is computed by the straight-line method for the software and the declining-balance method for other assets. Interest expense is computed by the interest method.

7. Short-term Bank Borrowings and Long-term Debt

Short-term bank borrowings are represented by short-term notes. The weighted average interest rates of short-term bank borrowings were 1.6% at March 31, 1998 and 1997.

Long-term debt at March 31, 1998 and 1997, consisted of the following:

	Millions of Yen		Thousands of
	1998	1997	U.S. Dollars
			1998
2-7/10% yen convertible debentures due 2000, redeemable before due date	¥3,358	¥3,999	\$25,439
1/8% Swiss franc convertible debentures due 1998, redeemable before due date		5,235	
Total	3,358	9,234	25,439
Less current portion		(5,235)	
Total	¥3,358	¥3,999	\$25,439

The conversion price of the 2-7/10% yen convertible debentures was ¥6,513.20 per share at March 31, 1998. The conversion price is subject to adjustment in certain circumstances. Under certain conditions, the yen convertible debentures may be redeemed prior to maturity in whole or in part at prices declining from 102% to 100% of the principal amount.

The indenture agreements of the 2-7/10% yen convertible debentures provide for a restriction on the amount of cash dividends. At March 31, 1998, cash dividends were restricted to an amount not to exceed approximately ¥18,413 million (\$139,492 thousand).

The annual maturities of long-term debt as of March 31, 1998, were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2000	¥3,358	\$25,439

8. Retirement Benefit Plans

Contributions to the pension fund totaled ¥193 million (\$1,462 thousand) and ¥187 million for the years ended March 31, 1998 and 1997, respectively.

The net assets of the fund at November 30, 1997, the most recent date of available information, were ¥2,348million (\$17,788 thousand).

9. Liability for Lease Partnership

The Company has an investment in a partnership which is a lessor of an aircraft. The partnership was incorporated under the Japanese Commercial Code (the "Code") for the purpose of capitalizing on the tax benefits accorded to leveraged leases. The Company's share in the partnership is approximately 39%.

The initial investment in the partnership was ¥400 million (\$3,030 thousand) and the Company's share of the income or loss of the partnership is recognized each fiscal year.

The initial investment and the accumulated recognized loss are as follows:

	Millions of Yen		Thousands of
	1998	1997	U.S. Dollars
			1998
Initial investment	¥ 400	¥ 400	\$ 3,030
Accumulated recognized loss	(848)	(943)	(6,424)
Total	¥(448)	¥(543)	\$(3,394)

10. Shareholders' Equity

The Code requires at least 50% of the issue price of new shares, with a minimum of the par value, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

The Code also requires companies to appropriate from retained earnings to legal reserve an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings until the reserve equals 25% of stated capital. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders.

The Company may transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Under the Code, the Company may issue new common shares to existing shareholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Company may make such a stock split to the extent that the aggregate par value of the shares outstanding after the issuance does not exceed the stated capital.

However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the issuance shall not be less than ¥50.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividend is applicable. However, a semiannual interim dividend may be paid upon resolution of the Board of Directors subject to limitations imposed by the Code.

11. Income Taxes

The Company is subject to Japanese corporate, enterprise and inhabitants taxes, based on income, at a combined statutory tax rate of approximately 51% for the years ended March 31, 1998 and 1997. The effective tax rates in the accompanying non-consolidated statements of income differed from the normal statutory rate due principally to non-recognition of the tax effects of temporary differences between tax and financial reporting and certain expenses that are permanently non-deductible for tax purposes.

14. Derivatives

The Company enters into foreign exchange forward contracts to hedge market risk resulting from the changes in foreign exchange rates associated with assets and liabilities denominated in foreign currencies. The Company also enters into interest rate swap contracts and interest rate swaption contracts as a part of their trading activities.

Derivatives are subject to market risk which is the exposure created by potential fluctuations in market conditions, including foreign exchange or interest rates. Because the counterparties to these derivatives are limited to major financial institutions in Japan, the Company does not anticipate any losses arising from credit risk.

Interest rate swaps:

Floating rate payment, floating rate receipt	¥11,500	¥(140)	¥6,000	\$87,121	\$(1,061)
Fixed rate payment, floating rate receipt			3,000		
Floating rate payment, fixed rate receipt			2,000		

Interest rate swaption—Selling—

Fixed rate payment, floating rate receipt	10,000	(104)		75,758	(788)
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12. 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 agreement which is renewable upon expiration in March 1998. Transactions with and balances due from and to the customer for the years ended March 31, 1998 and 1997, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Transactions:			
Sales.....	¥11,284	¥11,797	\$85,485
Sales commission	643	707	4,871
Balances due from and to:			
Notes and accounts receivable – trade.....	3,562	3,211	26,985
Notes and accounts payable – other.....	321	340	2,432

13. Research and Development Costs

Research and development costs charged to income were ¥4,318 million (\$32,712 thousand) and ¥4,535 million for the years ended March 31, 1998 and 1997, respectively.

Derivative transactions entered into by the Company have been made in accordance with internal policies which regulate the authorization and credit limit amount. The Managing Director is authorized to approve entering into derivative contracts and the Accounting Department executes and controls the contracts. The performance and evaluation of derivatives is reported to the management periodically.

The Company had the following derivative contracts outstanding as of March 31, 1998 and 1997:

	Millions of Yen				Thousands of U.S. Dollars	
	1998		1997		1998	
	Contract or Notional Amount	Fair Value (Loss)	Contract or Notional Amount	Fair Value (Loss)	Contract or Notional Amount	Fair Value (Loss)
Interest rate swaps:						
Floating rate payment, floating rate receipt	¥11,500	¥(140)	¥6,000		\$87,121	\$(1,061)
Fixed rate payment, floating rate receipt			3,000			
Floating rate payment, fixed rate receipt			2,000			
Interest rate swaption—Selling—						
Fixed rate payment, floating rate receipt	10,000	(104)			75,758	(788)

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Company's exposure to credit or market risk.

Fair values of interest rate swap contracts and interest rate swaption contracts are not shown in 1997 because they were not yet required to be disclosed under Japanese accounting regulations.

As interest rate swaption has been exercised at the balance sheet date, the amounts shown represent the interest swap contract values.

Forward exchange contracted amounts which are assigned to associated assets or liabilities are reflected on the balance sheet at year end are not subject to the disclosure of market value information.

15. Subsequent Events

a. Appropriations of retained earnings

On June 26, 1998, the shareholders of the Company authorized the following appropriations of retained earnings as of March 31, 1998:

	Millions of Yen	Thousands of U.S. Dollars
Appropriations:		
Transfer to legal reserve	¥ 33	\$ 250
Cash dividends ¥10 (\$0.08)	260	1,970
Bonuses to directors and corporate auditors	66	500
Total	<u>¥359</u>	<u>\$2,720</u>

b. Purchase of treasury stock for retirement and related reduction of retained earnings

At the general shareholders meeting held on June 26, 1998, the Company's shareholders approved the purchase of treasury stock for retirement and related reduction of retained earnings. The Company is authorized to repurchase, at management's discretion, up to 2,600 thousand shares of the Company's stock for the purpose of canceling the shares by crediting such amounts against retained earnings.

16. Selected Consolidated Financial Data

As the Company acquired all shares of Associates of Cape Cod Inc. on November 5, 1997, the consolidated financial statements are necessitated by the Security Exchange Law from the year ended March 31, 1998.

The following is the selected financial data compiled on a consolidated basis for the year ended March 31, 1998:

	Millions of Yen	Thousands of U.S. Dollars
Consolidated net sales	¥16,867	\$127,780
Consolidated operating income.....	3,292	24,939
Consolidated income before income taxes	3,449	26,129
Consolidated net income.....	941	7,129
Consolidated total shareholders' equity.....	32,806	248,530
Consolidated total assets	41,462	314,106
	Yen	U.S. Dollars
Amount per share on a consolidated basis:		
Net assets	¥1,259.95	\$9.55
Net income.....	36.13	0.27



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Seikagaku Corporation:

We have examined the non-consolidated balance sheets of Seikagaku Corporation as of March 31, 1998 and 1997, and the related non-consolidated statements of income and retained earnings, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted 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 non-consolidated financial statements referred to above present fairly the financial position of Seikagaku Corporation as of March 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles 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 26, 1998

Corporate Profile (As of July 1, 1998)

Establishment:	June 2, 1947
Paid-in capital:	¥3,840 million
Authorized shares:	80,000,000
Outstanding shares:	26,037,375
Number of shareholders:	2,708
Number of employees:	482

Main Products

Ethical Drugs

ARTZ® (ARTZAL®), ARTZ Dispo®, OPEGAN®, OPEGAN Hi®

Medical Device

EMDOGAIN®

Research Biologicals & Diagnostics

Carbohydrate-related Reagents:

Enzymes, Substrates, Standards, Oligosaccharides

Endotoxin-detecting Reagents and Diagnostics:

*TOXICOLOR®, ENDOSPECY®, ENDOSPEC® ES TEST MK,
ENDOSPEC® ES TEST TE, FUNGITEC® G TEST MK,
FUNGITEC® G TEST TE*

Monoclonal Antibodies:

*Anti-glycoconjugates, Anti-adhesion molecules,
Anti-cell surface markers*

Components for Pharmaceuticals, Cosmetics and Health Food Products

Sodium chondroitin sulfate for oral and injection use

Sodium hyaluronate for cosmetics

Liver hydrolysate

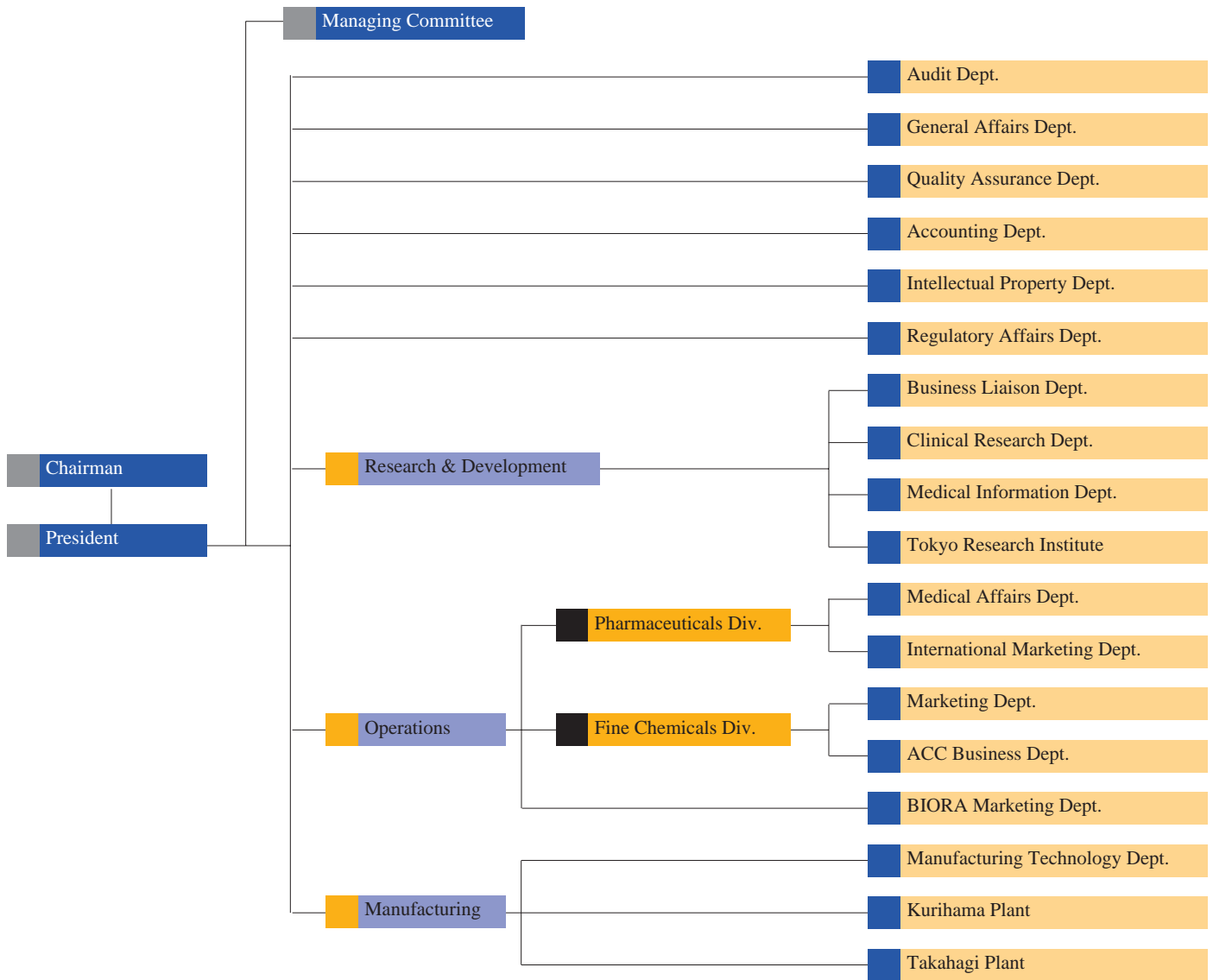
Board of Directors and AuditorS (As of July 1, 1998)

Chairman:	Kenji Mizutani
President:	Shirow Enoki
Managing Directors:	Tetsuro Nuki Ken Mizutani Koujiro Saita Katsuyuki Horie
Directors:	Wataru Yamaya Sakaru Suzuki Hitoshi Harigae Yuichiro Nagata Hajime Kikuchi
Auditors:	Ken Oda Akiyoshi Matsumoto Tatsuo Amiya Eiji Katayama

Corporate History

1947	Kosei Suisan K.K. established.
1950	Industrial production begins of chondroitin sulfate as a pharmaceutical.
1953	Official name of company changed to K.K. SEIKAGAKU KENKYUSHO (Biochemical Research Institute Inc.).
1957	Inauguration of Mucopolysaccharides Study Group.
1960	TOKYO RESEARCH INSTITUTE opens. Development and marketing of research biochemicals begins.
1962	Official name of company changed to SEIKAGAKU CORPORATION.
1967	Korinkaku Symposium for Japanese and international researchers working with polysaccharides.
1968	TOKYO RESEARCH INSTITUTE relocated to Higashi-Yamato city.
1975	TAKAHAGI PLANT opens.
1981	Proteoglycan Meeting convened for international researchers attending the 6th International Glycoconjugates Symposium. World's first endotoxin colorimetry reagent developed and manufactured.
1982	SEIKAGAKU AMERICA Inc. established.
1987	Marketing begins for ARTZ® and OPEGAN®. Joint research with Aichi Medical University established.
1989	Company shares registered with the Securities Dealers Association of Japan for over-the-counter trading.
1990	New wing completed of the TOKYO RESEARCH INSTITUTE.
1991	New bulk production facilities completed in the KURIHAMA PLANT.
1992	Mizutani Foundation for Glycoscience established. Sales license for ARTZ® (ARTZAL®) approved in Sweden.
1993	New production line for ARTZ Dispo® completed, and marketing of the product begins.
1994	Sales license for ARTZ® approved in Finland.
1995	Multipurpose sterile facility at the TOKYO RESEARCH INSTITUTE completed. New upgraded bulk production facility completed at the KURIHAMA PLANT. Sales license for ARTZ® approved in Austria. Sales license for ARTZ® approved in Italy.
1996	The Integrated Quality Control Wing in KURIHAMA PLANT completed.
1997	Sales license for ARTZ® approved in China. Acquisition of Associates of Cape Cod, Inc.(USA)
1998	QA certification (ISO9001/EN46001) obtained. Marketing Begins for EMDOGAIN®.

ORGANIZATION





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Kanagawa 239-0831 Japan

Tel: (81)468-35-3311 Fax: (81)468-34-1918

TAKAHAGI PLANT

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Takahagi-shi, Ibaraki 318-0001 Japan

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TOKYO RESEARCH INSTITUTE

1253 Tateno 3-Chome, Higashiyamato-shi

Tokyo 207-0021 Japan

Tel: (81)42-563-5811 Fax: (81)42-563-5848

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For more information about glycoscience,
please visit the Glycoforum website,
which is a guide to the latest advances in
glycoscience, at
<http://www.glycoforum.gr.jp>