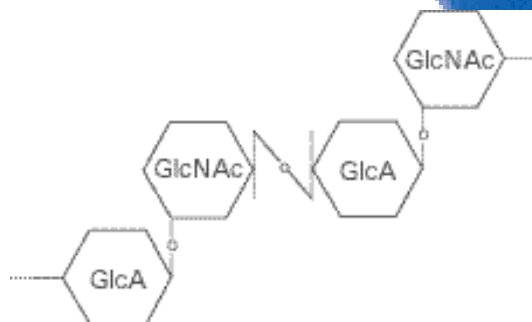


SEIKAGAKU CORPORATION

Annual Report

t 1999



Corporate Profile

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 between 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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Consolidated Financial Highlights

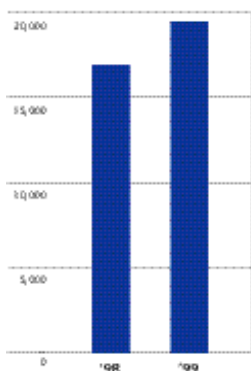
Years ended March 31	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Net Sales	¥19,493	¥16,933	\$161,099
Gross Profit	13,400	11,440	110,744
Operating Income	4,416	3,026	36,496
Net Income	2,219	941	18,339
Total Assets	42,227	41,462	348,983
Shareholders Equity	34,464	32,806	284,826

Per Share of Common Stock:	Yen		U.S. Dollars
	1999	1998	1999
Net Income (Assuming Full Dilution)	¥85.24	¥36.13	\$0.70
Cash Dividends	20.00	20.00	0.17

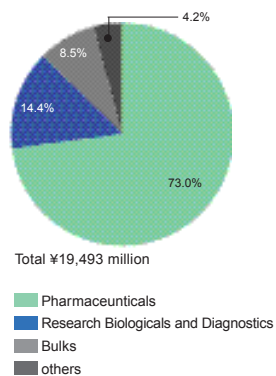
- Notes:
1. U.S. dollar amounts are converted, for convenience only, at the rate of ¥121 = US\$1, the approximate rate at March 31, 1999.
 2. Net income per share is computed on the weighted average number of shares outstanding after giving retroactive adjustment for subsequent stock splits for each 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

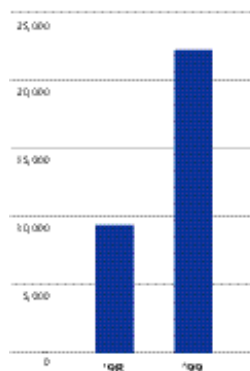


Net Sales by Products



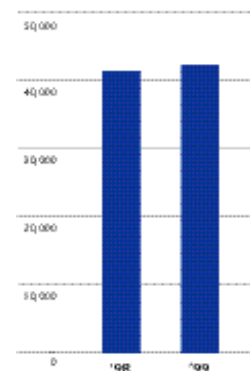
Net Income

Millions of Yen



Total Assets

Millions of Yen



An Interview with President Shirow Enoki



President Shirow Enoki

What were the major factors contributing to the recovery of Seikagaku's performance after three years of decline?



Enoki: After three years of declines in both sales and profits, due to continuous reductions in the reimbursement price and the market entry of many generic products, I am very happy to report a solid recovery in our performance. The main factors contributing to this resurgence are the regaining of domestic market share of the Company's major products, ARTZ® and ARTZ Dispo®, a hyaluronic acid formulation for osteoarthritis in knee and shoulder joints, and the steady growth of its market.

In 1995, the sales of generic products was begun in Japan, and thereafter there was an erosion in net sales, with the market entry of 23 generics companies. Until the coming of the generics, our market share for ARTZ® and ARTZ Dispo® was 100%. But by 1997, with the

introduction of generics, our share had fallen to 62%.

The decline was also due to a reduction in the reimbursement price in Japan's medical insurance programs. From 1996 to 1998, the reimbursement price of ARTZ® and ARTZ Dispo® was reduced by an average of 13% each year, under the policy of the Ministry of Health and Welfare of Japan, in order to improve the long-term financial balance of the medical insurance system. In the past fiscal year, we were able to regain some percentage of market share, to 68%. This was the result of the vigorous sales activities of our partner, Kaken Pharmaceutical Co., Ltd. and the withdrawal of several generic companies from the market, which were competing only by way of very cheap pricing. However, the remaining generic brands are sold by large pharmaceutical companies which are firmly established in the market. That is one of the reasons why we are stating fairly conservative prospects for our performance in 1999.

Another major factor contributing to the recovery of our performance was that, since 1994, the total market in Japan for ARTZ® and ARTZ Dispo® has grown an average of 8% per year. The expansion of this market is due primarily to the aging of Japanese society and the growing number of senior citizens who have joint problems. Also, the participation of the additional sales force of many generic companies helped to expand this market, and even after their withdrawal, demand still remains strong meaning that the regained market share



ARTZ Dispo[®]
This product is a disposable syringe containing Sodium Hyaluronate. It facilitates the injection process and minimizes the risk of infection.



ARTZAL[®] and ARTZ[®]
In the European market, these products are sold in several countries by Astra and Sankyo Pharma.



Blood collection from horse - shoe crabs at ACC for endotoxin and beta-glucan detection kits.

turned out to be larger sales volume than what we once lost. Also contributing to our solid performance in 1998 were royalties received through sales contracts with representative companies.



Through your alliance with Smith & Nephew Inc., SUPARTZ[®] will be sold in the United States, but what are your growth strategies for world markets and what are the market share prospects?



Enoki: A look at the sales of hyaluronic acid products by region shows that the market is largest in Japan. We are the largest company in the world producing hyaluronic acid products and have made a worldwide marketing agreement for SUPARTZ[®] (brand name ARTZ[®] in Japan) with Smith & Nephew (S&N), and they are now making preparations to launch SUPARTZ[®].

Prior to the conclusion of an exclusive contract with Smith & Nephew, we filed an application for the pre-marketing approval of SUPARTZ[®] with the FDA in the United States at the beginning of December last year. The U.S. FDA had already finished the GMP audit of our production facilities in the spring of 1999. Of course the most important market is the United States, so if we can secure the approval of the U.S. FDA, then S&N will start sales and marketing activities for us. We hope that SUPARTZ[®] can soon be launched in the U.S. market (in 2000) as the third product in that market.

The next step will be the efforts to be included

in the various reimbursement plans in the major insurance programs, after which the real growth of sales will start. So we have set our prospects for the next financial year at around \$500 million, which is not much different from the current level. Although we are firmly committed to penetrating the U.S. and major European markets, along with those of Canada, Australia and South Africa in a few years, we are not expecting major growth next year or the year after. As S&N is a leading global company in the orthopedic field, with a worldwide sales network, we hope to promote overseas operations effectively with this strong partner over the long term.



After your acquisition of ACC, what are the prospects for endotoxin reagents, what about market volume and strategy and what kind of technical cooperation and R&D activities do you plan to carry out?



Enoki: ACC, The Associates of Cape Cod, is located in Falmouth, Massachusetts, on the so-called elbow of Cape Cod. The late Dr. Stanley W. Watson, a researcher at the Woods Hole Oceanographic Institution, established this company based on the research he had carried out on the American horseshoe crab (genus Limulus), which has been around for more than two hundred million years. It does not have an advanced immunity system like human beings or other mammals, but its blood system reacts to



Research at ACC focuses on novel approaches to endotoxin and beta-glucan detection.



EMDOGAIN®
EMDOGAIN® promotes peri-
odontal tissue regeneration.



OPEGAN® 0.6, OPEGAN® 1.1
OPEGAN® is supplied in different dosages to meet requirements of ophthalmologic practitioners.

endotoxins of gram-negative bacteria quite sensitively. So using that capability, ACC succeeded in creating very sensitive reagents for endotoxins, which are now used widely in the manufacturing process of the pharmaceutical industry and are expected to undergo strong worldwide growth. On the other side of the Pacific, Seikagaku Corporation has been carrying out the same business, based on the Pacific horseshoe crab (genus *Tachypleus*), over the past 20 years.

We have been proceeding with the transfer of reagent production to ACC and the integration of research activities with Falmouth, and the first products will be introduced to the market during this term. ACC was a good acquisition which will allow us to integrate the technology and manufacturing know-how independently developed, and these cooperative efforts are expected to contribute significantly to Company earnings and efficiency.



What kind of contribution to sales has
EMDOGAIN® made?



Enoki: EMDOGAIN® is the trade name of a medical device developed by BIORA AB of Sweden for their enamel matrix protein. If properly applied on the tooth surface during flap surgery, EMDOGAIN® can result in the substantial regeneration of lost periodontal attachment. Formerly, caries were the major reason for the loss of teeth in Japan, but now periodontitis is the predominant cause for loss of teeth in aged people. However, until the arrival of

EMDOGAIN®, there were practically no effective ways to regenerate lost periodontal attachment.

BIORA first launched EMDOGAIN® in Europe under CE-Marking in 1995. We started our cooperation with BIORA in 1997, before approval of EMDOGAIN® by the U.S. FDA, and obtained approval in Japan from the Ministry of Health and Welfare on January 23, 1998. Since then, this innovative and effective approach to periodontitis has attracted wide attention both from academic institutions as well as from periodontal practitioners, and EMDOGAIN® has already been adopted at 20 out of a total of 29 dental university-affiliated hospitals in Japan. There is also a campaign that has been proposed by the Ministry of Health and Welfare and dental organizations called 80—20. It is a movement to have people keep at least 20 teeth at the age of 80 to maintain the quality of life. At that age, less than 20% of the Japanese population has 20 teeth. We believe that EMDOGAIN® can very nicely fit into this campaign and contribute to a more pleasant life for senior citizens in Japan.

At this moment, there are practically no competitors for this innovative application, and we hope to establish a fairly solid business within two to three years. So far, more than 100,000 units of EMDOGAIN® have been sold worldwide, and we will soon reach a rate of use similar to that of the U.S.



What is your mid-term perspective with respect to growth and strategies?



Enoki: We succeeded in recovering market share for ARTZ® and ARTZ Dispo® to a certain level, 68% of total market share, but 20% of the total 32% share now held by the generics represents major pharmaceutical companies with a very strong market presence. So we believe that it will be difficult to continue the pace of recovery we achieved in 1998. We will have a steady performance in 1999, with smaller growth and improvement in sales and operating profits. However, we have to admit that there exists a substantial uncertainty beyond the year 2000, as we cannot foresee the direction of the reorganization of the medical insurance systems of Japan.

While there will be a recovery for 1998 and 1999, the Japanese market for hyaluronic products has become fairly mature, so the major growth prospects for the Company are overseas. That is the reason why we have been trying to develop overseas markets for a number of years.

Overall, our domestic short-term strategies include ongoing expansion of the sales of EMDOGAIN®. We are also promoting an additional application for OPEGAN®, which we obtained approval in January 1999. We have also developed new versions, OPEGAN®0.6 and OPEGAN®1.1, and sales began in July 1999.

Our overseas short-term strategies are focused on the expansion of the sales of ARTZ® in overseas markets and an increase in the sales of reagents overseas in cooperation with ACC.

In the area of R&D activities, our lecithinized SOD product, used for the treatment for ulcerous inflammations of the colon (colitis ulcerosa), is undergoing clinical testing.

Other R&D activities include cooperation with IDEC Pharmaceuticals, Inc. of San Diego, U.S.A. to develop anti-CD-23 antibodies for the treatment of allergic diseases such as hay fever. We announced a tie-up this year with Taisho Pharmaceuticals Co., Ltd. to combine forces for the R&D, sales and distribution of this product in Asia and Europe. Taisho has a good sales organization and marketing strength, along with strong R&D capabilities, so we look forward to vigorous activities in the joint development and marketing of this product with Taisho.

We have been maintaining a stable expenditure on R&D, in spite of variations in total sales, focused upon the R&D of glycoconjugates. Seikagaku was established as a company aiming at the development of drugs based on glycoscience a long time ago, and it was the intention of our founder to stick to our field of expertise to thrive, grow and prosper as a specialty company in the field that we know best glycoconjugates.



FINANCIAL STATEMENT

SEIKAGAKU CORPORATION AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

March 31, 1999 and 1998

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	1998	1999
Assets			
Current assets:			
Cash and cash equivalents.....	¥ 3,783	¥ 3,907	\$ 31,264
Marketable securities (Note 3).....	11,323	12,136	93,579
Other short-term investments (Note 4).....	403	603	3,331
Notes and accounts receivable – trade (Note 13).....	5,913	5,282	48,868
Allowance for doubtful receivables.....	(40)	(45)	(331)
Inventories (Note 5).....	4,065	3,995	33,595
Prepaid expenses and other.....	404	360	3,339
Total current assets.....	<u>25,851</u>	<u>26,238</u>	<u>213,645</u>
Property, plant and equipment:			
Land.....	672	672	5,554
Buildings and structures.....	9,602	9,569	79,355
Machinery and equipment.....	4,131	4,168	34,140
Construction in progress.....		112	
Total.....	<u>14,405</u>	<u>14,521</u>	<u>119,049</u>
Accumulated depreciation.....	(7,858)	(7,247)	(64,942)
Net property, plant and equipment.....	<u>6,547</u>	<u>7,274</u>	<u>54,107</u>
Investments and other assets:			
Investment securities (Note 3).....	3,881	3,898	32,074
Investments in subsidiaries and associated companies.....	27	149	223
Money funds in trust.....	700	700	5,785
Long-term deposit (Note 7).....	2,450		20,248
Goodwill.....	951	1,287	7,860
Other assets.....	1,941	2,116	16,041
Allowance for doubtful receivables.....	(200)	(200)	(1,653)
Total investments and other assets.....	<u>9,750</u>	<u>7,950</u>	<u>80,578</u>
Foreign currency statements translation adjustment.....	79		653
Total.....	<u>¥42,227</u>	<u>¥41,462</u>	<u>\$348,983</u>
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term bank borrowings (Note 8).....	¥ 480	¥ 480	\$ 3,967
Current portion of long-term debt (Note 8).....	3,254		26,893
Notes and accounts payable – trade.....	1,147	1,022	9,479
Notes and accounts payable – other (Note 13).....	908	807	7,504
Income taxes payable.....	1,061	1,219	8,769
Accrued expenses and other.....	707	614	5,843
Total current liabilities.....	<u>7,557</u>	<u>4,142</u>	<u>62,455</u>
Long-term liabilities:			
Long-term debt (Note 8).....		3,358	
Retirement benefits for directors and corporate auditors (Note 9).....	206	567	1,702
Liability for lease partnership – net (Note 10).....		448	
Other.....		2	
Total long-term liabilities.....	<u>206</u>	<u>4,375</u>	<u>1,702</u>
Foreign currency statements translation adjustment.....		139	
Commitments (Note 6)			
Shareholders' equity (Notes 11 and 16):			
Common stock, ¥50 par value – authorized, 80,000,000 shares; issued and outstanding, 26,036,056 shares in 1999 and 26,037,077 shares in 1998.....	3,840	3,840	31,735
Additional paid-in capital.....	5,302	5,302	43,818
Retained earnings.....	25,323	23,664	209,281
Total.....	<u>34,465</u>	<u>32,806</u>	<u>284,834</u>
Treasury stock – at cost.....	(1)		(8)
Total shareholders' equity.....	<u>34,464</u>	<u>32,806</u>	<u>284,826</u>
Total.....	<u>¥42,227</u>	<u>¥41,462</u>	<u>\$348,983</u>

Consolidated Statements of Income and Retained Earnings

Years ended March 31, 1999 and 1998

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	1998	1999
Net sales (Note 13 and 17).....	¥19,493	¥16,933	\$161,099
Cost of sales.....	6,093	5,493	50,355
Gross profit.....	13,400	11,440	110,744
Selling, general and administrative expenses (Notes 13 and 14).....	8,984	8,414	74,248
Operating income.....	4,416	3,026	36,496
Other income (expenses):			
Interest and dividend income.....	512	753	4,231
Interest expense.....	(106)	(115)	(876)
Gain on sales of marketable securities and investment securities.....	376	488	3,108
Loss on sales of marketable securities and investment securities.....	(499)	(318)	(4,124)
Loss on devaluation of marketable securities and investment securities.....	(242)	(697)	(2,000)
Exchange gain.....	28	194	231
Income of lease partnership.....	848	95	7,008
Gain (loss) on derivative contracts - net (Note 15).....	(769)	53	(6,355)
Other - net.....	47	(40)	388
Other income - net.....	195	413	1,611
Income before income taxes.....	4,611	3,439	38,107
Income taxes (Note 12).....	2,392	2,498	19,768
Net income.....	2,219	941	18,339
Retained earnings, beginning of year.....	23,664	23,318	195,570
Increase due to addition of a newly consolidated subsidiary.....	26		215
Appropriations:			
Cash dividends.....	(521)	(521)	(4,306)
Bonuses to directors and corporate auditors.....	(65)	(74)	(537)
Retained earnings, end of year.....	¥25,323	¥23,664	\$209,281
Per share of common stock:			
Net income	¥85.24	¥36.13	\$0.70
Cash dividends applicable to the year.....	20.00	20.00	0.17

Notes to Consolidated Financial Statements

Years ended March 31, 1999 and 1998

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 and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. The consolidated statement of cash flows is not presented herein since it is not required as part of the basic financial statements under accounting principles generally accepted in 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 1998 consolidated financial statements to conform to the classifications used in 1999.

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 ¥121 to \$1, the approximate rate of exchange at March 31, 1999. 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 include the accounts of the Company and its significant four (three in 1998) majority-owned subsidiaries (together, the "Companies"). The fiscal years of all consolidated subsidiaries end December 31. Accordingly, the accompanying consolidated financial statements in 1999 include the account of the consolidated subsidiaries for the year ended December 31, 1998, except for the accounts of Seikagaku America Inc. The accounts of Seikagaku America Inc. for the nine months ended December 31, 1998, were newly included in the 1999 consolidation because the subsidiary merged with the other consolidated subsidiary, Associates of Cape Cod, Inc., as of January 1, 1999.

The accompanying consolidated 1998 financial statements include the accounts of the consolidated subsidiaries for the three months ended December 31, 1997, because the date of acquisition of the subsidiaries was deemed to be September 30, 1997. Investments in three unconsolidated subsidiaries (three unconsolidated subsidiaries and two associated companies which are owned 20% to 50% in 1998) 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 investment in consolidated subsidiaries, over its equity in the net assets at the date of acquisition ("Goodwill"), is being amortized over a period of five years.

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

- b. Cash Equivalents** — The Company considers all highly liquid investments, including time deposits with a maturity of three months or less, to be cash equivalents.
- c. Short-term Investments and Investment Securities** — Marketable 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.
- d. 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.

- e. **Depreciation** — Depreciation of property, plant and equipment is computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998, over the estimated useful lives of the assets.
- f. **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.
- g. **Retirement and Pension 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. Prior to February 1, 1999, the prior service cost was amortized by the declining-balance method at an annual rate of 30%. Effective February 1, 1999, however, this cost is amortized at an annual rate of 50%. Normal costs and amortization of prior service cost are charged to income and funded currently.

Certain overseas subsidiaries also have a funded contributory pension plan, 401(k) plan in the United States of America, covering substantially all of its 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.
- h. **Research and Development Costs** — Research and development costs are charged to income as paid.
- i. **Income Taxes** — The Company provides for income taxes at the amount currently payable for each year. The tax effect of temporary differences between tax and financial reporting purposes is not recorded. Certain overseas subsidiaries provide for deferred income taxes relating to temporary differences in accordance with accounting principles generally accepted in the relevant country.
- j. **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.
- k. **Foreign Currency Financial Statements** — The balance sheet accounts of the consolidated overseas subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date except for shareholders’ equity, which is translated at the historical exchange rate. Differences arising from such translation are shown as “Foreign currency statements translation adjustment” in the accompanying consolidated balance sheets. Revenue and expense accounts of the consolidated overseas subsidiaries are translated into Japanese yen at the average exchange rate.
- l. **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 26,036,282 and 26,035,038 for the years ended March 31, 1999 and 1998, respectively.

Fully diluted net income per share is computed assuming full conversion of outstanding convertible debentures at the beginning of the year with an applicable adjustment for related interest expense, net of tax, for such convertible debentures. Diluted net income per share is not disclosed because it is anti-dilutive.

3. Marketable Securities and Investment Securities

A summary of marketable and investment securities is shown below:

	Millions of Yen				Thousands of U.S. Dollars	
	1999		1998		1999	
	Carrying Amount	Aggregate Market Value	Carrying Amount	Aggregate Market Value	Carrying Amount	Aggregate Market Value
Marketable securities:						
Market quotations available:						
Stocks	¥2,364	¥2,708	¥2,546	¥2,775	\$19,537	\$22,380
Bonds and other.....	3,755	3,530	4,008	4,008	31,033	29,174
Total	6,119	¥6,238	6,554	¥6,783	50,570	\$51,554
Market quotations not available.....	5,204		5,582		43,009	
Total marketable securities	¥11,323		¥12,136		\$93,579	
Investment securities:						
Market quotations available:						
Stocks	¥1,394	¥1,870	¥1,514	¥1,578	\$11,520	\$15,454
Bonds and other.....	158	158	282	283	1,306	1,306
Total	1,552	¥2,028	1,796	¥1,861	12,826	\$16,760
Market quotations not available.....	2,329		2,102		19,248	
Total investment securities.....	¥3,881		¥3,898		\$32,074	

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, 1999 and 1998, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
	Time deposits.....	¥ 3	¥ 3
Asset-backed securities	400	600	3,306
Total.....	¥403	¥603	\$3,331

5. Inventories

Inventories as of March 31, 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1999		1999
	Merchandise	¥ 281	
Finished products	1,297		10,719
Semi-finished products.....	704		5,818
Work in process.....	1,148		9,488
Raw materials and supplies	635		5,248
Total.....	¥4,065		\$33,595

6. 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 ¥813 million (\$6,719 thousand) and ¥937 million for the years ended March 31, 1999 and 1998,

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, 1999 and 1998, was as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	1999			1998			1999		
	Machinery and Equipment	Other	Total	Machinery and Equipment	Other	Total	Machinery and Equipment	Other	Total
Acquisition cost	¥3,175	¥169	¥3,344	¥4,042	¥137	¥4,179	\$26,240	\$1,396	\$27,636
Accumulated depreciation.....	2,068	73	2,141	2,669	53	2,722	17,091	603	17,694
Net leased property	¥1,107	¥ 96	¥1,203	¥1,373	¥ 84	¥1,457	\$9,149	\$ 793	\$9,942

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Due within one year.....	¥ 610	¥ 662	\$ 5,041
Due after one year	1,316	1,490	10,876
Total.....	¥1,926	¥2,152	\$15,917
Depreciation expense	¥ 746	¥ 798	\$ 6,165
Interest expense.....	102	119	843

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.

(2). Operating Leases

The minimum rental commitments under non-cancelable operating leases at March 31, 1999 and 1998, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Due within one year.....	¥ 52	¥ 58	\$ 430
Due after one year	235	181	1,942
Total.....	¥287	¥239	\$2,372

7. Pledged Assets

At March 31, 1999, a long-term deposit of ¥2,450 million (\$20,248 thousand) was pledged as collateral for an interest rate swap transaction. The notional amount of the transaction was ¥3,500million (\$28,926 thousand).

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

Short-term bank borrowings are represented by short-term notes payable. The weighted average interest rates of short-term bank borrowings were 1.5% and 1.6% at March 31, 1999 and 1998, respectively.

Long-term debt at March 31, 1999 and 1998, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
2-7/10% yen convertible debentures due 2000, redeemable before due date	¥3,254	¥3,358	\$26,893
Less current portion	3,254		26,893
Total.....	Nil	¥3,358	Nil

The conversion price of the 2-7/10% yen convertible debentures was ¥6,513.20 per share at March 31, 1999. 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, 1999, cash dividends were restricted to an amount not to exceed approximately ¥20,928 million (\$172,959 thousand).

9. Retirement and Pension Plans

The net assets of the pension fund of the Company at November 30, 1998, the most recent date of available information, were ¥2,544 million (\$21,025 thousand).

Total pension cost for the pension plans charged to income in the consolidated statements of income was ¥233 million (\$1,926 thousand) for the year ended March 31, 1999.

10. Liability for Lease Partnership

The Company had invested in a partnership which was 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 was approximately 39%. The investment was redeemed at maturity in the year ended March 31, 1999.

The initial investment in the partnership was ¥400 million (\$3,306 thousand) and the Company's share of the income or loss of the partnership was recognized each fiscal year.

The initial investment, the accumulated recognized loss or income and the redemption of investment are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Initial investment.....	¥ 400	¥ 400	\$ 3,306
Accumulated recognized loss or income:			
Accumulated loss of prior year....	(848)	(943)	(7,008)
Income of the year	848	95	7,008
Total.....	400	(448)	3,306
Redemption of investment	(400)		(3,306)
Total.....	Nil	¥(448)	Nil

11. 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. The amounts of legal reserve appropriated by the Company were included in the amounts of retained earnings in the accompanying consolidated balance sheets. Such legal reserves for the years ended March 31, 1999 and 1998, were ¥557 million (\$4,603 thousand) and ¥498 million, respectively. 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.

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. There were no repurchases for this purpose during fiscal 1999.

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.

Under the code, the amount available for dividends is based on retained earnings as recorded on the books of the Company. At March 31, 1999, retained earnings recorded on the books of the Company which are available for dividends, subject to approval by the shareholders and legal reserve requirements, totaled ¥25,163 million (\$207,959 thousand).

12. 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 48% in 1999 and 51% in 1998. Overseas subsidiaries are subject to income taxes of the countries in which they operate. The actual effective tax rates in the accompanying consolidated statements of income differed from the normal effective statutory rates due principally to (1) non-recognition of the tax effects of temporary differences between tax and financial reporting and (2) certain expenses that are permanently non-deductible for tax purposes.

13. 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 1999. Transactions with and balances due from and to the customer for the years ended March 31, 1999 and 1998, were as follows:

	Millions of Yen		Thousands of
	1999	1998	U.S. Dollars
Transactions:			1999
Sales	¥12,002	¥11,284	\$99,190
Sales commission	841	643	6,950
Balances due from and to:			
Notes and accounts			
receivable – trade.....	3,868	3,562	31,967
Notes and accounts			
payable – other	433	321	3,579

14. Research and Development Costs

Research and development costs charged to income were ¥4,245million (\$35,083 thousand) and ¥4,349 million for the years ended March 31, 1999 and 1998, respectively.

15. 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, interest rate swaption contracts and option contracts as a part of their trading activities. However, the Company has decided that it would not use any newly contracted derivative instruments subsequent to the year ended March 31, 1999, except for foreign exchange forward contracts.

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.

Derivative transactions entered into by the Company have been made in accordance with internal policies which regulate the authorization and credit limit amount. Prior to December 1, 1998, the Director who was in charge of accounting division was authorized to approve entering into derivative contracts, however, effective December 1, 1998, the President is authorized to approve entering into derivative contracts. 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, 1999 and 1998:

	Millions of Yen				Thousands of U.S. Dollars	
	1999		1998		1999	
	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	¥3,500	¥(1,260)	¥11,500	¥(140)	\$28,926	\$(10,413)
Interest rate swaption—Selling—						
Fixed rate payment, floating rate receipt			10,000	(104)		

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.

As interest rate swaption has been exercised at the balance sheet date as of March 31, 1998, 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.

Overseas subsidiaries do not utilize derivative instruments in any form.

16. Subsequent Event

On June 29, 1999, the shareholders of the Company authorized the following appropriations of retained earnings as of March 31, 1999:

	Millions of Yen	Thousands of U.S. Dollars
Appropriations:		
Transfer to legal reserve	¥ 33	\$ 273
Cash dividends, ¥10 (\$0.08)	260	2,149
Bonuses to directors and corporate auditors	61	504
Total	¥354	\$2,926

17. Segment Information

Information regarding sales to foreign customers of the Companies for the years ended March 31, 1999 and 1998, is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Sales to foreign customers (A)	¥2,208	¥1,204	\$18,248
Consolidated sales (B)	19,493	16,933	161,099
(A)/(B)	11.3%	6.0%	11.3%

The Companies are 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 Companies 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.



INDEPENDENT AUDITORS' REPORT

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, 1999 and 1998, and the related consolidated statements of income and retained earnings 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, 1999 and 1998, and the results of their operations 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 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 1999

Corporate Data

Corporate Profile (As of July 1, 1999)

Establishment: June 2, 1947
Paid-in capital: ¥3,840 million
Authorized shares: 80,000,000
Outstanding shares: 26,037,375
Number of shareholders: 2,730
Number of employees: 488

Main Products

Ethical Drugs

ARTZ® (ARTZAL®), ARTZ Dispo®, OPEGAN®, OPEGAN®0.6,
OPEGAN®1.1, 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, 1999)

Chairman: Kenji Mizutani

President: Shirow Enoki

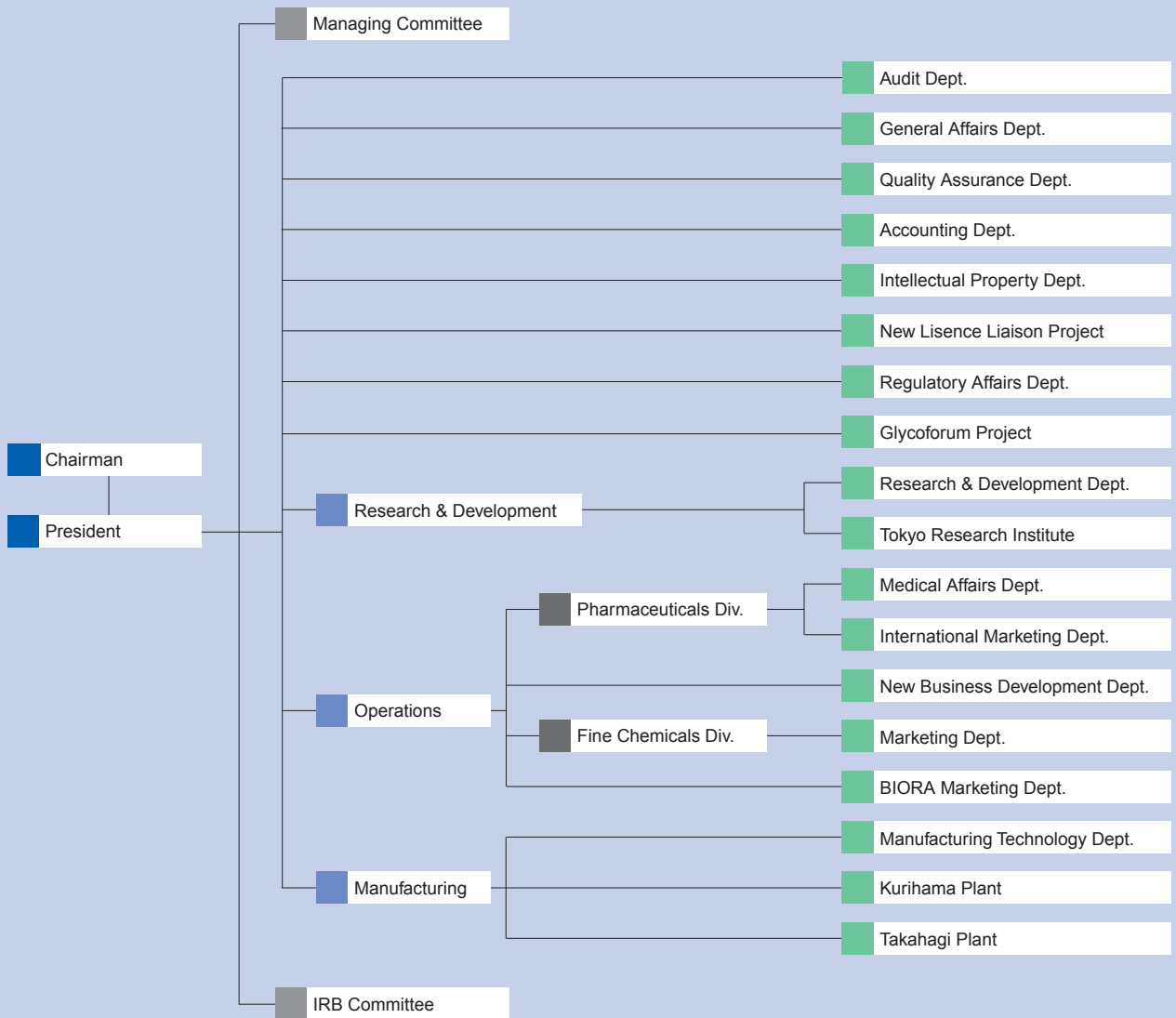
Managing Directors: Tetsuro Nuki
Ken Mizutani
Koujiro Saita
Katsuyuki Horie

Directors: Wataru Yamaya
Sakaru Suzuki
Hitoshi Harigae
Yuichiro Nagata
Hajime Kikuchi
Hideo Takahashi
Fumio Ishii

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.
- 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 mucopolysaccharides.
- 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. Worlds first endotoxin colorimetry reagent developed and manufactured.
- 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®. Sales license for ARTZ® approved in Taiwan.
- 1999 Marketing begins for OPEGAN®0.6, OPEGAN®1.1.





SEIKAGAKU CORPORATION

HEAD OFFICE

1-5, Nihonbashi-honcho 2-chome
Chuo-ku, Tokyo 103-0023 Japan
Tel: (81)3-3270-0966
Fax: (81)3-3270-0538
URL: <http://www.seikagaku.co.jp>

HEAD OFFICE ANNEX

1-11 Nihonbashi-honcho 3-Chome
Chuo-ku, Tokyo 103-0023 Japan
Tel: (81)3-3270-0966 Fax: (81)3-3270-0538

KURIHAMA PLANT

3-1 Kurihama 7-Chome, Yokosuka-shi
Kanagawa 239-0831 Japan
Tel: (81)468-35-3311 Fax: (81)468-34-1918

TAKAHAGI PLANT

258-5 Aza-Matsukubo, Oaza-Akahama
Takahagi-shi, Ibaraki 318-0001 Japan
Tel: (81)293-23-1181 Fax: (81)293-23-7542

TOKYO RESEARCH INSTITUTE

1253 Tateno 3-Chome, Higashiyamato-shi
Tokyo 207-0021 Japan
Tel: (81)42-563-5811 Fax: (81)42-563-5848

ASSOCIATES OF CAPE COD, INC.

704 Main Street
Falmouth, Massachusetts 02540 U.S.A.
Tel: (1)508-540-3808 Fax: (1)508-540-8680
URL: <http://www.acciusa.com>.

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>