ANNUAL REPORT 2002

For the year ended March 31, 2002

SAWAI PHARMACEUTICAL CO., LTD.

PROFILE

Pursing the optimal in pharmaceutical manufacture, SAWAI has realized steady progress in its efforts to ensure the stable and economic supply of high–quality pharmaceutical products. We have consistently maintained a top–ranking position among generic drug makers in Japan.

SAWAI manufactures the products of additional high value by using original pharmaceutical techniques. Our products are highly regarded as “patient–friendly.”

CONTENTS

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries

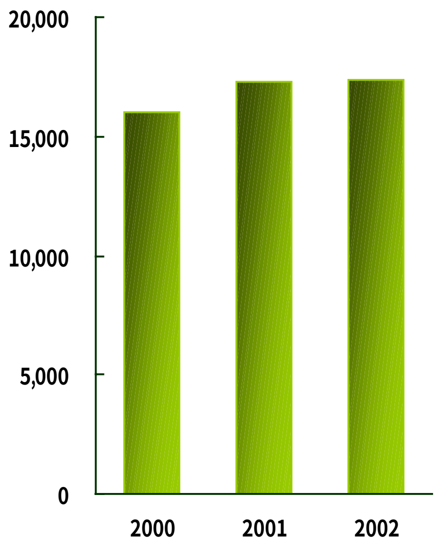
Financial Highlights

For the Years ended March 31, 2002, 2001 and 2000

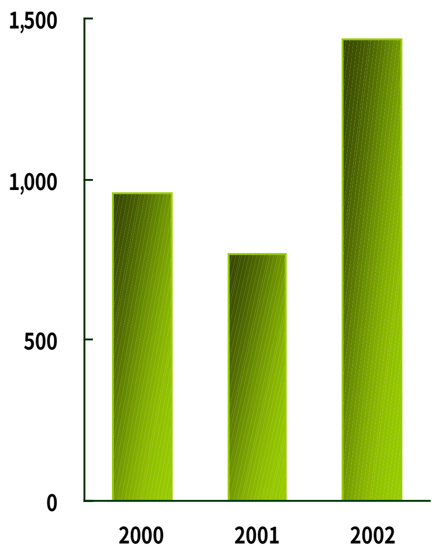
	Millions of yen			Thousands of U.S. dollars
Year ended March 31	**2002**	2001	2000	**2002**
Net sales	**¥ 17,399**	¥ 17,302	¥ 16,032	**$ 130,582**
Operating income	**2,079**	2,005	1,974	**15,610**
Net income	**1,434**	766	958	**10,762**
Total shareholders' equity	**15,428**	14,254	13,740	**115,782**
Total assets	**30,349**	26,609	25,289	**227,760**
Research and development (R&D) expenses	**1,577**	1,593	1,328	**11,835**
	%			
Ratio of R&D expenses to sales	**9.1**	9.2	8.3	
Return on equity	**9.3**	5.4	7.2	
Shareholders' equity to total assets	**50.8**	53.6	54.3	
Amounts per common share:	Yen			U.S. dollars
Net income	**¥ 135.58**	¥ 72.41	¥ 90.59	**$ 1.02**
Cash dividends applicable to period	**30.00**	25.00	20.00	**0.23**
Shareholders' equity	**1,458.26**	1,347.27	1,298.73	**10.94**

Note: The U.S. dollars amounts represent translation of Japanese yen, for convenience, at the rate of ¥ 133.25=$1, the rate prevailing on March 31, 2002.

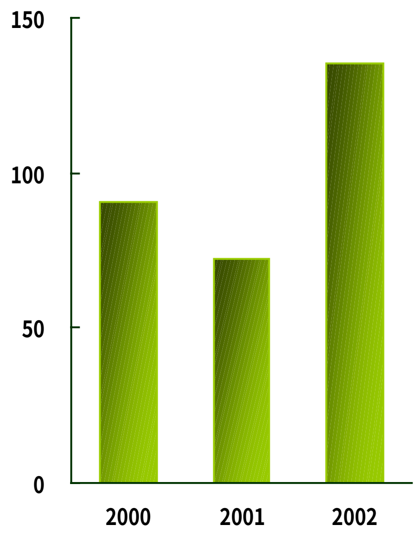
Net Sales (Millions of yen)



Net Income (Millions of yen)



Net Income Per Share (Yen)



To Our Shareholders

Management Policy

1. Basic Management Policy

The Sawai Group's basic management philosophy is as follows:

- To contribute to the national medical-care system by developing safe and effective medicines and ensuring a reliable supply of high-quality and cost-effective products.
- To realize a high quality of life for our employees and endeavor to protect our shareholders' interests.

In spite of the government's continuous efforts to control the increase in medical expenses brought on by our rapidly aging society, the strain on the financial situation of our national medical insurance has become acute and a further increase of the people's share is feared. Thus efficient and cost-conscious medical care has become a subject for study on a nation-wide scale.

The reform of the medical insurance system in April 2002 established a program to encourage the "prescription and preparation of medicines including generic drugs and the providing of information." The program is regarded as the first concrete step toward promoting low-cost, high-quality generic drugs.

The Sawai Group regards promoting the use of generic drugs in Japan, which lags far behind that in Europe and the U.S. and which contributes to a reduction in patients' share of medical expenses and the government's medical costs, as its social mission. To realize this mission, this Company and its affiliates are dedicated to becoming a leading generic-drug maker able to provide high-quality drugs, reliable information and a stable supply, while appealing for further administrative measures to spread the use of generic drugs and aggressively promoting business activities as well as research and development programs.

2. Basic Dividend Policy

Regarding rewarding our shareholders as an important goal of management in making good use of profits, we shall continue to pay dividends reflecting our business results. With due consideration to business activities and retained earnings, a dividend ratio of approximately 30% is our long-term goal.

While reinforcing our financial standing, we shall use retained earnings to fund research and development programs and manufacturing facilities aimed at business expansion.

Since our net profit per share has exceeded 100 yen, both on a consolidated and non-consolidated financial basis, the year-end dividend shall be 20 yen per share to appropriately reward our shareholders. Thus the total annual dividend will be 30 yen after adding the 10 yen per share, the interim dividend which has been already paid. The dividend for the previous term was 25 yen per share, including the commemorative dividend of 5 yen. This proposition shall be referred to the annual shareholders' meeting to be held on June 26, 2002.

3. Policy on Reducing the Investment Unit

With future business development in mind, we believe it an important management matter and a contribution to the appropriate pricing of our company shares to increase the number of our shareholders and improve the liquidity of the shares on the market.

In August 1999, the investment unit of our stocks was changed from 1,000 shares to 500 shares. Although we acknowledge that a further reduction of the investment unit is desirable, to encourage the participation of more investors, we do not believe that now is the time for such action, considering the current stock price and weighing the expected result against anticipated costs.

We would like to consider this possibility, however, keeping in mind the convenience of our shareholders and the measures for more active trading of our shares on the market.

4. Management Index Goal

Importance will be placed on various indices per each share and at least a net profit of 100 yen per share shall be our goal in normal times.

5. Corporate Business Strategy and Challenges

Aiming for rational and reasonable medical costs, the medical-insurance system continues to be reformed. In April 2002, the drug-pricing calculation rule for patent-expired long-registered drugs was reviewed, and the government's drug tariff was reduced by 6.3% on a pharmaceutical-industry average. With regard to generic drugs, the so-called GE rule, by which the price had been kept at no less than 40% of the fore-runner drug price, was discontinued, thus emphasizing the effect of the drug-tariff revision. The program for promoting the use of generics was adopted for the first time and a full-scale revaluation of the quality of generics, with an eye to their smooth promotion, has begun.

Furthermore, in order to address the harmful effect of drugs misused, the approval procedure required of drug manufacturers will be completely revised, aiming at more effective safety measures by monitoring drug use after their sale, i.e. post-marketing surveillance, and the system is to shift from a "drug manufacturing approval system" to a "sales approval system."

By further reinforcing research and development programs and other in-house structures and by quickly adapting to changing situations, we shall endeavor to maintain our position as the leading manufacturer of generic drugs and to further expand our business. For this purpose, the following actions shall be taken.

(1) Emphasize to the public the advantages of our high-quality and cost-effective products and enlarge our share of the market by aggressive business promotion.

(2) Establish a business structure capable of responding to a quickly changing environment, such as abolishment of GE rule on the one hand while adopting new programs promoting the use of generic drugs on the other.

(3) Institute further stringent measures to ensure quality assurance and better post-marketing surveillance of generic drugs, as requested by the authorities.

(4) Strengthen profitability by rationalizing our business, including appropriate personnel allocation, improvement in productivity and establishment of efficient product development.

(5) Aggressively carry on personnel training and establish an effective personnel system, such as introducing an evaluation system based on business results.

With regard to the management structure required to achieve the above, we will put the minimum number of personnel in place and construct a decision-making and business-execution structure to respond in a timely fashion to the changing outside environment. We would like to realize a management system known for its fairness and transparency.

Business Results and Financial Standing

I. Business Results

(1) Current year overview

The Japanese economy during the current fiscal year continued to be extremely weak as a result of factors such as stagnant business activities owing to the extended slowdown in IT business etc., sluggish consumer spending resulting from a further deterioration in the employment environment and financial instability due to the delayed settlement of bad loans.

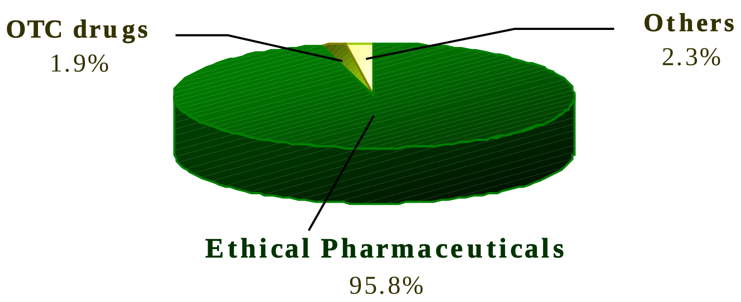
In the pharmaceutical industry, competition intensified and the environment continued to be difficult, as measures such as the restraint of drug expenses were taken to restore the deteriorating medical-insurance financial situation. Furthermore, reform measures were discussed centering on a review of medical costs and an increase in patients' share of the costs, with a view to a radical reform of the medical system.

In this environment, while appealing for the use of generic drugs, which will help to restrain the government's medical-care expenditures and to reduce patients' share of medical expenses, by making known the wide-spread use of generic drugs in Europe and the U.S., this company and its affiliates aggressively carried out business activities emphasizing the high quality and stable supply of our products and providing ample information. In addition, the fifth stage of the construction of extensions at the Kyushu factory to allow increased production of new products was completed and started operation in April 2002.

Although buying power was restrained because of the expected reduction in the drug tariff in April 2002, sales for the current year were ¥17,399 million, a 0.6% increase year-on-year.

Operating income was ¥2,079 million, a 3.7% increase year-on-year owing to the improvement in the gross profit ratio brought about by a reduction in production cost. Net income for the current year was ¥1,434 million, a 87.2% increase year-on-year owing to special gain from transferring commercial rights.

Sales by Business



Sales by Therapeutic Category

Years ended March 31	Millions of yen 2002		2001		Change (%)
Cardiovascular drugs	¥ 3,215	(18.5%)	¥ 3,184	(18.4%)	101.0
Antibiotics	2,173	(12.5%)	2,424	(14.0%)	89.6
Gastro-intestinal drugs	1,923	(11.1%)	1,770	(10.2%)	108.6
Other metabolic drugs	1,722	(9.9%)	1,726	(10.0%)	99.8
Central nervous system drugs	1,440	(8.3%)	1,378	(8.0%)	104.5
Vitamins	1,239	(7.1%)	1,369	(7.9%)	90.5
Blood / body fluid pharmaceutical products	887	(5.1%)	869	(5.0%)	102.1
Chemotherapeutic drugs	867	(5.0%)	814	(4.7%)	106.6
Others	3,927	(22.6%)	3,762	(21.7%)	104.4
Total	¥17,399	(100.0%)	¥17,302	(100.0%)	100.6

*** Exports**

Exports of pharmaceuticals for therapeutic use resulted in sales of ¥120 million (0.7% of total sales)

(2) Forecast for the coming year

Considering continued measures to restrain medical expenses and drug costs, as evidenced by the industry-wide average of a 6.3% reduction in the drug tariff in April 2002 and the introduction in October of a fixed-rate system for elderly patients' medical expenses, we anticipate a difficult business environment in the pharmaceutical industry. However, we see these moves as creating an opportune time for an increase in the demand for low-cost generic drugs because patients have become more cost-conscious. In view of a substantial increase in inquiries from pharmacies since the introduction of incentive programs to encourage the preparation of generic drugs, we as a group intend to aggressively make use of the program encouraging the use of generic drugs newly adopted by recent medical-system reforms, further explore new markets, and expand sales of new and high return products to secure profit for the company.

With regard to our business for the next year, although there are uncertain factors such as the prospects for sales to prescription pharmacies following initial positive sales, we expect sales of ¥19,000 million, ordinary income of ¥1,970 million, and net income for the year of ¥1,140 million.

II. Cash Flow

(1) Overview of the current year

The cash flow resulting from the current year's operating activities amounted to ¥2,273 million, an increase of ¥948 million year-on-year. This is because there was a substantial increase in the net income for the year before taxes and other adjustments, although inventory increased because of a drop in sales in the face of the anticipated drug-tariff revision, and accounts payable showed a decrease.

Cash flow resulting from investing activities amounted to ¥2,003 million, an increase of ¥940 million yen year-on-year. The increase was mainly due to investment in facilities involving the 5th-stage extension-construction of the Kyushu factory. (The investment amount for the current year was ¥2,165 million and the paid amount was ¥1,067 million.)

Cash flow resulting from financing activities amounted to ¥975 million, an increase of ¥1,096 million year-on-year. The increase was mainly due to a loan of ¥1,500 million from the Development Bank of Japan for the construction of the 5th-stage extension-construction of the Kyushu factory. Consequently, long and short-term loans increased by ¥1,241 million and the year-end balance was ¥8,089 million.

As a result, the cash and cash-equivalent balance at the year end was ¥2,403 million, an increase of ¥1,245 million from the beginning of the current year.

(2) Outlook for the coming year

With regard to the cash flow resulting from operating activities, net income for the year before taxes and other adjustments is expected to be ¥1,970 million (a ¥615 million decrease from the current year) and depreciation expenses ¥1,273 million (a ¥255 million increase from the current year). A substantial decrease compared to the current year is expected, considering the anticipated increase in corporate taxes as well as an increase in necessary operating funds resulting from increased sales.

Cash flow resulting from investing activities is expected to show a slight increase due to a payment of ¥1,099 million for the 5th-stage extension-construction of the Kyushu factory, although in general investment in facilities is expected to decrease.

Although increasing or decreasing loans shall be made on a flexible basis, viewing the progress of investment in facilities and payment of operating funds, the cash flow arising out of financial activities is expected to remain at the same level or increase slightly in loans of hundreds of million yen.

In order to meet the above needs, approximately ¥1,400 million is expected to be withdrawn in cash and its equivalents (which temporarily increased at the end of the current year).

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets

For the Years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2002**	2001	**2002**
Current Assets:			
Cash and time deposits (Note 12)	**¥ 2,833**	¥ 1,588	**$ 21,261**
Trade notes and accounts receivable	**6,857**	6,882	**51,459**
Allowance for doubtful receivables	**(35)**	(28)	**(262)**
	6,822	6,854	**51,197**
Inventories (Note 5)	**5,536**	5,097	**41,546**
Deferred income taxes (Note 10)	**245**	153	**1,838**
Other current assets	**91**	79	**683**
Total current assets	**15,527**	13,771	**116,525**
Investments and Long-term Receivables:			
Investment securities (Note 4)	**444**	512	**3,332**
Other investments and long-term receivables	**418**	475	**3,137**
Allowance for doubtful receivables	**(95)**	(111)	**(713)**
	364	364	**2,938**
Total investments and long-term receivables	**767**	876	**5,756**
Property, Plant and Equipment (Note 6) **:**			
Land	**3,420**	3,420	**25,666**
Buildings and structures	**12,611**	10,931	**94,642**
Machinery and equipment	**7,108**	6,184	**53,343**
Construction in progress	**84**	73	**630**
Other	**1,817**	1,664	**13,636**
	25,040	22,272	**187,917**
Accumulated depreciation	**(11,411)**	(10,656)	**(85,636)**
Net property, plant and equipment	**13,629**	11,616	**102,281**
Intangible assets	**57**	58	**429**
Deferred income taxes (Note 10)	**369**	288	**2,769**
	¥ 30,349	¥ 26,609	**$ 227,760**

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2002	2001	Thousands of U.S. dollars (Note 1) 2002
Current Liabilities:			
Bank loans (Note 6)	**¥ 1,700**	¥ 1,800	**$ 12,758**
Current portion of long-term debt (Note 6)	**1,351**	1,778	**10,139**
Trade notes and accounts payable	**2,544**	2,923	**19,092**
Accrued expenses	**398**	389	**2,987**
Income taxes payable	**988**	355	**7,414**
Stock purchase warrants (Note 8)	**51**	53	**383**
Other current liabilities	**1,985**	977	**14,896**
Total current liabilities	**9,017**	8,275	**67,669**
Long-Term Liabilities:			
Long-term debt, due after one year (Note 6)	**5,038**	3,269	**37,809**
Employees' retirement benefits (Note 7)	**347**	326	**2,604**
Directors' and corporate auditors' retirement benefits	**330**	313	**2,477**
Other long-term liabilities	**189**	172	**1,418**
Total long-term liabilities	**5,904**	4,080	**44,308**
Shareholders' Equity (Note 9) **:**			
Common stock; Authorized 38,800,000 shares, Issued and outstanding 10,580,000 shares	**3,400**	3,400	**25,516**
Capital surplus	**3,675**	3,675	**27,580**
Retained earnings	**8,343**	7,197	**62,612**
Net unrealized holding gains (losses) on securities	**10**	(18)	**75**
Total shareholders' equity	**15,428**	14,254	**115,783**
	¥ 30,349	¥ 26,609	**$ 227,760**

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Income

For the Years ended March 31, 2002, 2001 and 2000

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2002	2001	2000	**2002**
Net Sales	**¥ 17,399**	¥ 17,302	¥ 16,032	**$ 130,574**
Cost of Sales	**9,356**	9,665	8,733	**70,214**
Gross profit	**8,043**	7,637	7,299	**60,360**
Selling, General and Administrative Expenses	**5,964**	5,632	5,325	**44,758**
Operating income	**2,079**	2,005	1,974	**15,602**
Other Income (Expenses):				
Interest and dividend income	**7**	10	10	**52**
Interest expense	**(110)**	(124)	(125)	**(826)**
Gain on sale of securities, net	**-**	-	7	**-**
Compensation for damages	**-**	26	9	**-**
Loss on disposal of inventories	**(120)**	(99)	(160)	**(900)**
Unrealized loss on deposits for golf club memberships	**-**	(73)	-	**-**
Net transition obligation of retirement plans	**-**	(358)	-	**-**
Amortization of design cost of laboratory	**(68)**	-	-	**(510)**
Gains from the transfer of commercial rights (Note 14)	**919**	-	-	**6,897**
Unrealized loss on investment securities	**(107)**	-	-	**(803)**
Other, net	**(15)**	(17)	(29)	**(112)**
	506	(635)	(288)	**3,798**
Income before Income Taxes	**2,585**	1,370	1,686	**19,400**
Provision for income taxes :				
Current	**(1,344)**	(684)	(699)	**(10,086)**
Deferred	**193**	80	(29)	**1,448**
Net Income	**¥ 1,434**	¥ 766	¥ 958	**$ 10,762**

Per Share of Common Stock:

	Yen			U.S. dollars (Note 1)
Net income	**¥ 135.58**	¥ 72.41	¥ 90.59	**$ 1.02**
Dividends	**30.00**	25.00	20.00	**0.23**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

For the Years ended March 31, 2002, 2001 and 2000

		Millions of yen			
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains (losses) on securities
Balance at March 31, 1999	10,580,000	¥3,400	¥3,675	¥5,672	¥ -
Net income for the year				958	
Cash dividends paid at ¥30.00 per share				(317)	
Bonuses to directors and corporate auditors				(25)	
Cumulative effect of adopting the new accounting standard for deferred income taxes				377	
Balance at March 31, 2000	10,580,000	3,400	3,675	6,665	-
Net income for the year				766	
Cash dividends paid at ¥20.00 per share				(211)	
Bonuses to directors and corporate auditors				(23)	
Net unrealized holding losses on securities					(18)
Balance at March 31, 2001	10,580,000	3,400	3,675	7,197	(18)
Net income for the year				1,434	
Cash dividends paid at ¥25.00 per share				(264)	
Bonuses to directors and corporate auditors				(24)	
Net unrealized holding gains on securities					(28)
Balance at March 31, 2002 (Note 9)	10,580,000	¥3,400	¥3,675	¥8,343	¥ (10)

	Thousands of U.S. dollars (Note 1)			
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains (losses) on securities
Balance at March 31, 2001	$25,516	$27,580	$54,011	$ (135)
Net income for the year			10,762	
Cash dividends paid at $0.19 per share			(1,981)	
Bonuses to directors and corporate auditors			(180)	
Net unrealized holding gains on securities				210
Balance at March 31, 2002	$25,516	$27,580	$62,612	$ 75

See accompanying Notes to Consolidated Financial Statements.

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

For the Years ended March 31, 2002, 2001 and 2000

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2002	2001	2000	**2002**
Cash Flows from Operating Activities:				
Income before income taxes	¥ **2,585**	¥ 1,370	¥ 1,686	$ **19,400**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	**1,019**	926	852	**7,647**
Interest and dividend income	**(7)**	(10)	(10)	**(52)**
Interest expense	**110**	124	125	**826**
Gain on sale of securities, net	**-**	-	(7)	**-**
Decrease (increase) in trade notes and accounts receivable	**25**	(846)	423	**187**
Increase in inventories	**(438)**	(65)	(549)	**(3,287)**
Increase (decrease) in trade notes and accounts payable	**(444)**	90	(965)	**(3,332)**
Payment of bonuses to directors and corporate auditors	**(24)**	(23)	(25)	**(180)**
Other	**266**	587	(105)	**1,995**
Sub-total	**3,092**	2,153	1,425	**23,204**
Interest and dividends received	**6**	10	10	**45**
Interest paid	**(113)**	(117)	(124)	**(848)**
Income taxes paid	**(712)**	(721)	(1,001)	**(5,343)**
Net cash provided by operating activities	**2,273**	1,325	310	**17,058**
Cash Flows from Investing Activities:				
Proceeds from time deposits	**-**	60	240	**-**
Payments for purchase of property, plant and equipment	**(2,001)**	(1,111)	(1,209)	**(15,017)**
Payments for purchase of securities	**(27)**	(54)	(52)	**(203)**
Proceeds from sale of securities	**33**	57	40	**248**
Other	**(8)**	(15)	(8)	**(60)**
Net cash used in investing activities	**(2,003)**	(1,063)	(989)	**(15,032)**
Cash Flows from Financing Activities:				
Net increase (decrease) in bank loans	**(100)**	(500)	150	**(751)**
Proceeds from long-term debt	**3,020**	2,490	1,990	**22,664**
Repayment of long-term debt	**(1,679)**	(1,921)	(2,144)	**(12,600)**
Proceeds from issuance of subscription warrants	**-**	22	30	**-**
Redemption of subscription warrants	**(1)**	(1)	-	**(8)**
Cash dividends paid	**(265)**	(211)	(317)	**(1,988)**
Net cash used in financing activities	**975**	(121)	(291)	**7,317**
Net increase (decrease) in cash and cash equivalents	**1,245**	141	(970)	**9,343**
Cash and cash equivalents at beginning of year	**1,158**	1,017	1,987	**8,691**
Cash and cash equivalents at end of year (Note 12)	¥ **2,403**	¥ 1,158	¥ 1,017	$ **18,034**

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

For the Years ended March 31, 2002, 2001 and 2000

1. Basis of Financial Statements

SAWAI PHARMACEUTICAL CO., LTD. (the "Company") and its consolidated subsidiaries (the “Companies”) maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of shareholders’ equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation is not presented in the accompanying financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2002, which was ¥ 133.25 to US$ 1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its fully owned subsidiaries, MEDISA SHINYAKU INC. and ACTIVE WORK CO., LTD. that meet the control requirements for consolidation. All significant intercompany transactions and accounts have been eliminated in the consolidation. In the elimination of investments in subsidiaries, the assets and liabilities of subsidiaries are evaluated using the fair value at the time the Company acquired control of respective subsidiaries.

The Company has no affiliates, meeting the significant influence requirement for application of the equity method.

(b) Cash and time deposits

Cash and time deposits in the consolidated balance sheets include cash on hand, readily-available deposits and deposits with a maturity of one year or less.

(c) Allowance for doubtful receivables

The allowance for doubtful receivables is provided in amounts sufficient to cover possible losses on collection. Prior to April 1, 2000, it was determined by adding individually estimated uncollectable amounts to the collectively calculated maximum amount permitted by the Corporation Tax Law of Japan with respect to the remaining receivables.

Effective April 1, 2000, upon applying the new accounting standard for financial instruments, it is determined by adding individually estimated uncollectable amounts to an amount computed based on the actual ratio of bad debts in the past.

(d) Marketable and investment securities

Prior to April 1, 2000, listed securities in both marketable securities and investment securities were stated at the lower of moving average cost or market value. Recoveries of write-downs were recorded in subsequent years. Other securities were stated at moving average cost.

Effective April 1, 2000, upon applying the new accounting standard for financial instruments, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, “trading securities”), (b) debt securities intended to be held to maturity (hereafter, “held-to-maturity debt securities”), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, “available-for-sale securities”).

The Companies have no trading securities, held-to-maturity debt securities and equity securities in unconsolidated subsidiaries and affiliates. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders’ equity. Realized gains and losses on sale of such securities are computed moving-average cost.

Other securities with no available fair market value are stated at moving-average cost.

If a decline in fair value below cost of an individual security is judged to be material and other than temporary, the carrying value of the individual security is written down.

(e) Inventories

Inventories are stated at moving average cost, except for supplies, which are stated at average cost.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is provided on the straight-line method over estimated useful lives. Expenditures for significant renewals and betterments are capitalized, while expenditures for normal repairs and maintenance are charged to expense when incurred.

(g) Income taxes

Income taxes comprise corporation tax, prefectual and municipal inhabitants taxes and enterprise tax.

The provision for income taxes is based on income for financial statement purposes. The tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting are recognized as deferred income taxes.

The Companies provided income taxes at the amounts currently payable for the year ended March 31, 1999. Effective April 1, 1999, the Companies adopted the new accounting standard for deferred income taxes in Japan, which recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1999 is reflected as an adjustment to the retained earnings brought forward from the year ended March 31, 2000 in the amount of ¥ 377 million.

The effect for the year ended March 31, 2000 was to decrease net income by ¥ 29 million.

(h) Retirement benefits

(i) Employees:

The Companies' non-contributory pension plans cover substantially all employees. The provision is determined actuarially and funded currently through outside trustees. The Companies also have unfunded lump-sum retirement benefit plans which cover certain employees who are not covered by the funded pension plan.

Effective April 1, 2000, accrued retirement benefits were provided for payment of employees' post retirement benefits which were calculated based on the projected retirement benefit obligations and fair value of pension plan assets at the end of the fiscal year. The net transition obligation of ¥358 million was fully expensed in the year ended March 31, 2001. Unrecognized actuarial differences are recognized in expenses using the declining-balance method over 5 years.

Through the year ended March 31, 2000, the Companies recognized pension expense when, and to the extent, payments were made to the pension plans, and past service costs were being amortized at 20% per year. The liability for the unfunded lump-sum retirement benefit plans was recorded in accordance with the Corporation Tax Law of Japan, at 40% of the amount which would be required if all eligible employees voluntarily retired at the balance sheet date.

(ii) Directors and corporate auditors:

The liability for the Companies' directors' and corporate auditors' retirement benefits is provided based on the Companies' internally decided criteria.

(i) Bonuses to directors and corporate auditors

Bonuses to directors and corporate auditors, which are subject to approval at the general meeting of shareholders, are accounted for as an appropriation of retained earnings.

(j) Research and development

Research and development expenses for the improvement of existing products or the development of new products, including basic research and fundamental development costs, are charged to income in the period incurred and amounted to ¥ 1,577 million (US$ 11,835 thousand), ¥ 1,593 million and ¥ 1,328 for the years ended March 31, 2002, 2001 and 2000.

(k) Software costs

In accordance with the provisional rule of the JICPA’s Accounting Committee Report No.12 "Practical Guidance for Accounting for Research and Development Costs, etc.”, the Companies include software in intangible assets and depreciate it using the straight-line method over the estimated useful life of five years.

(l) Stock purchase warrants

In accordance with Japanese GAAP, the detachable stock purchase warrants issued with bonds are accounted for separately from the bonds and recorded in current liabilities. The bonds with warrants were issued by the Company, and purchased entirely by a consolidated subsidiary. The warrants were distributed as compensation to certain directors, corporate auditors and employees.

(m) Finance leases

Finance leases which do not transfer ownership or which do not have bargain purchase option provisions are accounted for in the same manner as operating leases in accordance with Japanese GAAP.

(n) Consolidated statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(o) Net income per share

The computations of net income per share of common stock are based on the weighted average number of shares of common stock outstanding during each year.
Although the Company issued bonds with detachable stock purchase warrants in 2000, diluted net income per share for 2002 and 2001 is not disclosed, because there was no dilutive effect of the stock purchase rights.

Diluted net income per share for 2000 is not disclosed, because the exercise period of the stock purchase rights had not begun.

3. Additional Information

(1) Financial instruments

Effective April 1, 2000, the Companies adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999). The adoption decreased income before income taxes by ¥11 million. Also, at April 1, 2000 marketable securities decreased by ¥45 million and investment securities increased by the same amount.

(2) Accounting for employees' retirement benefits

Effective April 1, 2000, the Companies adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998.

As a result, severance and retirement benefit expense increased by ¥ 304 million, and income before income taxes decreased by ¥ 305 million compared with what would have been recorded under the previous accounting standard.

4. Securities

(1) The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2002:

(a) Securities with book values exceeding acquisition costs:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 208	¥ 251	¥ 43	$ 1,561	$ 1,884	$ 323
Other	10	11	1	75	82	7
Total	¥ 218	¥ 262	¥ 44	$ 1,636	$ 1,966	$ 330

(b) Securities with book values not exceeding acquisition costs:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 170	¥ 143	¥ (27)	$ 1,276	$ 1,073	$ (203)
Other	5	5	-	37	37	-
Total	¥ 175	¥ 148	¥ (27)	$ 1,313	$ 1,110	$ (203)

(2) Total sales of available-for-sale securities in the year ended March 31, 2002 amounted to ¥ 33 million (US$ 248 thousand) and the related gains and losses amounted to ¥ 2 million (US$ 15 thousand) and ¥ 5 million (US$ 38 thousand), respectively.

(3) Book values of securities with no available fair values as of March 31, 2002 are as follows:

Unlisted equity securities ¥ 34 million (US$ 255 thousand)

(4) The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2001:

(a) Securities with book values exceeding acquisition costs:

	Millions of yen					
	Acquisition cost		Book value		Difference	
Equity securities	¥	119	¥	177	¥	57

(b) Securities with book values not exceeding acquisition costs:

	Millions of yen					
	Acquisition cost		Book value		Difference	
Equity securities	¥	379	¥	294	¥	(85)
Other		10		7		(3)
Total	¥	389	¥	301	¥	(88)

(5) Total sales of available-for-sale securities in the year ended March 31, 2001 amounted to ¥ 57 million and the related gains and losses amounted to ¥ 4 million and ¥ 7 million, respectively.

(6) Book values of securities with no available fair values as of March 31, 2001 are as follows:

Unlisted equity securities ¥ 34 million

5. Inventories

Inventories at March 31, 2002 and 2001, are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2002		2001		2002	
Finished goods and merchandise	**¥**	**3,345**	¥	2,817	**$**	**25,103**
Work-in- process		**1,192**		1,035		**8,946**
Raw materials and supplies		**999**		1,245		**7,497**
Total	**¥**	**5,536**	¥	5,097	**$**	**41,546**

6. Short-term Bank Loans and Long-term Debt

Short-term bank loans consist mainly of unsecured bank loans with a weighted average interest rate of 0.930% per annum at March 31, 2002 and 2001.

Long-term debt at March 31, 2002, consists of the following:

	Millions of yen	Thousands of U.S. dollars
Loans from banks and other public corporations, due 2002-2010, interest 0.9%-6.2 %		
Secured	¥ 5,233	$ 39,272
Unsecured	1,156	8,676
	6,389	47,948
Current portion of long-term debt	1,351	10,139
	¥ 5,038	$ 37,809

Long-term debt at March 31, 2001, consists of the following:

	Millions of yen	Thousands of U.S. dollars
Loans from banks and other public corporations, due 2001-2009, interest 0.9%-6.2 %		
Secured	¥ 3,574	$ 28,846
Unsecured	1,473	11,888
	5,047	40,734
Current portion of long-term debt	1,778	14,350
	¥ 3,269	$ 26,384

The aggregate annual maturities of long-term debt outstanding at March 31, 2002, are as follows:

March 31	Millions of yen	Thousands of U.S. dollars
2003	¥ 1,351	$ 10,139
2004	1,885	14,146
2005	1,482	11,122
2006	402	3,017
2007	344	2,582
2008 and thereafter	925	6,942
Total	¥ 6,389	$ 47,948

At March 31, 2002, assets pledged as collateral for secured long-term debt, including current portion are as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, net of accumulated depreciation	¥ 7,771	$ 58,319

7. Employees' Retirement Benefits

The liability for employees' retirement benefits at March 31, 2002, 2001 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Projected retirement benefit obligation	¥ (**2,401**)	¥ (2,198)	$ (**18,018**)
Plan assets	**1,663**	1,559	**12,480**
Unfunded retirement benefit obligation	(**738**)	(639)	(**5,538**)
Unrecognized actuarial differences	**391**	313	**2,934**
Liability for retirement benefits	¥ (**347**)	¥ (326)	$ (**2,604**)

Retirement benefit expenses for the year ended March 31, 2002, 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Service cost	¥ **279**	¥ 268	$ **2,094**
Interest cost	**66**	59	**495**
Expected return on plan assets	(**39**)	(40)	(**293**)
Amortization of actuarial differences	**63**	—	**473**
Net transition obligation	—	358	
Retirement benefit expenses	¥ **369**	¥ 645	$ **2,769**

The assumptions and basis used for the calculation of the retirement benefit obligation are as follows:

Discount rate	3.0%
Expected return rate for plan assets	2.5%
Amortization period for actuarial differences	5 years

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years.

8. Stock Purchase Warrants

At March 31, 2002, a summary of the terms for the purchase of stock on exercise of warrants is as follows:

	Warrants 1	Warrants 2
Increase in capital if exercised	**¥ 426,720,000**	**¥ 355,680,000**
	$ 3,202,401	**$ 2,669,268**
Exercise price per share of common stock	**¥ 1,680.00**	**¥ 1,520.00**
	$ 12.61	**$ 11.41**
Number of shares of common stock reserved for exercise	**254,000**	**234,000**
Term of exercise	**From April 3, 2000 To September 30,2003**	**From February 5, 2001 To August 3, 2004**

The exercise price is subject to adjustment under certain conditions.

9. Shareholders' Equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as capital surplus. In conformity therewith, the Company has divided the principal amount of the convertible debentures converted into common stock and the proceeds received from the issuance of common stock, including the exercise of warrants, between common stock and capital surplus by resolution of the Board of Directors.

Effective October 1, 2001, the Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and capital surplus equals 25% of common stock. The legal reserve and capital surplus may be used to eliminate or reduce a deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and capital surplus remains being equal to or exceeding 25% of common stock, they are available for dividends by the resolution of shareholders' meeting. Legal reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Commercial Code of Japan.

In the accompanying consolidated financial statements, the legal reserve, amounting to ¥ 401 million (US$ 3,009 thousand) and ¥ 383 million at March 31, 2002 and 2001, respectively, is included in retained earnings.

On June 26, 2002, the Company’s shareholders approved the payment of year-end cash dividends of ¥20 (U.S.$0.15) per share totaling ¥ 212 million (US$ 1,591 thousand) to the Company’s shareholders of record as of March 31, 2002 and the payment of bonuses to the Company’s directors totaling ¥ 23 million (US$ 173 thousand).

10. Income Taxes

The Companies are subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 40.87% for the years ended March 31, 2002, 2001 and 2000.

Significant components of deferred tax assets and liabilities at March 31, 2002 and 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Deferred tax assets:			
Unrealized gains on land	**¥ 219**	¥ 219	**$ 1,643**
Retirement benefits for employees	**139**	131	**1,051**
Retirement benefits for directors and corporate auditors	**135**	128	**1,013**
Unrealized gains on inventories	**72**	66	**540**
Accrued bonuses to employees	**101**	74	**758**
Allowance for doubtful receivables	**43**	52	**323**
Enterprise taxes	**77**	31	**578**
Other	**61**	55	**458**
Total deferred tax assets	**847**	756	**6,364**
Deferred tax liabilities:			
Reserve for deferred gains on sales of fixed assets	**(167)**	(169)	**(1,253)**
Reserve for special depreciation	**(56)**	(143)	**(420)**
Other	**(10)**	(3)	**(75)**
Total deferred tax liabilities	**(233)**	(315)	**(1,748)**
Net deferred tax assets	**¥ 614**	¥ 441	**$ 4,616**

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for financial statement purposes for the years ended March 31, 2002, 2001 and 2000:

	2002	2001	2000
Statutory tax rate	40.87 %	40.87 %	40.87 %
Non-deductible expenses	0.75	1.41	1.07
Non-taxable dividend income	(0.04)	(0.21)	(0.15)
Per capita inhabitant tax	1.15	2.26	1.84
Other	1.80	(0.26)	(0.46)
Effective tax rate	44.53 %	44.07 %	43.17 %

11. Leases

(a) Finance leases as lessee

At March 31, 2002 and 2001, assets leased under non-capitalized finance leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Machinery and equipment	¥ **100**	¥ 85	$ **750**
Other	**120**	171	**901**
Accumulated depreciation	**(124)**	(153)	**(931)**
Total	¥ **96**	¥ 103	$ **720**

Leases obligations under non-capitalized finance leases, including finance charges, remaining at March 31, 2002 and 2001, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Payments due within one year	¥ **36**	¥ 45	$ **270**
Payments due after one year	**60**	58	**450**
Total	¥ **96**	¥ 103	$ **720**

Leases payments under such leases for the years ended March 31, 2002, 2001 and 2000 were ¥ 48 million (US$ 360 thousand), ¥ 62 million, and ¥ 50 million respectively.

(b) Operating leases as lessee

Lease obligations under operating leases, remaining at March 31, 2002 and 2001, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Payments due within one year	¥ **48**	¥ 52	$ **360**
Payments due after one year	**67**	80	**503**
Total	¥ **115**	¥ 132	$ **863**

12. Cash Flow Information

The reconciliation of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows is as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Cash and time deposits	**¥ 2,833**	¥ 1,588	**$ 21,261**
Deposits placed with banks with maturities of over three months	**(430)**	(430)	**(3,227)**
Cash and cash equivalents	**¥ 2,403**	¥ 1,158	**$ 18,034**

13. Segment Information

The Companies operate primarily in the pharmaceutical supplies industry. Accordingly, segment information is omitted.

14. Gains from the Transfer of Commercial Rights

Gains from transfer of commercial rights are gains from the transfer of trade rights, trademark rights, etc. to Taiho Pharmaceutical Co., Ltd. for two anticancer drugs which the Company and Medisa Shinyaku Inc., a consolidated subsidiary, manufacture and sell.

15. Effect of Bank Holidays on March 31, 2002 and 2001

As financial institutions in Japan were closed on March 31, 2002 and 2001, ¥ 276 million ($ 2,072 thousand) and ¥ 231 million of trade notes receivable maturing on March 31, 2002 and 2001, respectively, and ¥12 million ($ 89 thousand) of trade notes payable maturing on March 31, 2002 were settled on the following business days, April 1, 2002 and April 2, 2001, and accounted for accordingly.

Report of Independent Public Accountants

To the Shareholders and the Board of Directors of
SAWAI PHARMACEUTICAL CO., LTD.:

We have audited the accompanying consolidated balance sheets of SAWAI PHARMACEUTICAL CO., LTD. and subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2002, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards 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 consolidated financial position of SAWAI PHARMACEUTICAL CO., LTD. and subsidiaries as of March 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2002 in conformity with accounting principles generally accepted in Japan (Note 1) applied on a consistent basis during the periods, except as noted in the following paragraphs.

As explained in Notes 3. (1) and (2), in the year ended March 31, 2001, SAWAI PHARMACEUTICAL CO., LTD. and its consolidated subsidiaries adopted new Japanese accounting standards for financial instruments and retirement benefits.

As explained in Note 2. (g), in the year ended March 31, 2000, SAWAI PHARMACEUTICAL CO., LTD. and its consolidated subsidiaries prospectively adopted new Japanese accounting standards for income taxes.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Osaka, Japan
June 26, 2002

Asahi & Co.

Asahi & Co.

Board of Directors

(As of June 26, 2002)

Chairman
Jiro Sawai*

President
Hiroyuki Sawai*

Senior Managing Director
Nobuyuki Kitamori, Ph.D.

Managing Directors
Hiroyuki Sato
Takashi Iwasa, Ph.D.
Harumasa Toya, Ph.D.
Mitsuo Sawai

Directors
Takekiyo Sawai
Keiichi Kimura
Kazuichi Ishikawa
Keisuke Kohgami

Standing Statutory Auditor
Mitsunori Watanabe

Statutory Auditors
Kazuo Ohishi, Attorney at Law
Arata Mano, Tax Accountant

*Representative Director

Corporate Data

(As of March 31, 2002)

Head Office
4-25, Akagawa 1-chome, Asahi-ku,
Osaka 535-0005, Japan

Established
1929

Stated Capital
¥ 3,400 million

Number of Shares Outstanding
10,580,000

Number of Shareholders
1,485

Number of Employees
511

Independent Public Accountants
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8-47 Kakuta-cho, Kita-ku,
Osaka 530-8345, Japan

Transfer Agent
The Mizuho Trust & Banking Co., Ltd.

Liaison Office
Tokyo

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Hiroshima, Fukuoka

Area Offices
Tokyo, Utsunomiya, Saitama, Tachikawa,
Yokohama, Hokuriku, Shizuoka, Kyoto,
Kobe, Takamatsu, Matsuyama

Factories
Osaka, Sanda, Kyushu

Laboratories
Osaka Laboratory
Research and Development Center
Pharmaceutical Research Center

Consolidated Subsidiaries
Medisa Shinyaku Inc.
Active Work Co., Ltd.

URL
http://www.sawai.co.jp/

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