ANNUAL REPORT 2000

For the year ended March 31, 2000

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

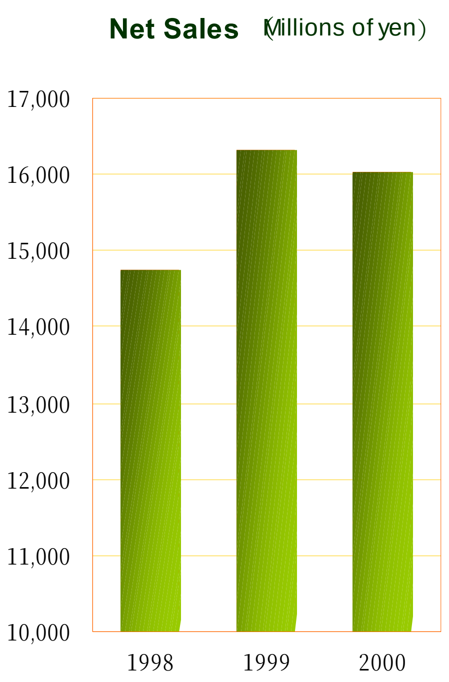
Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries

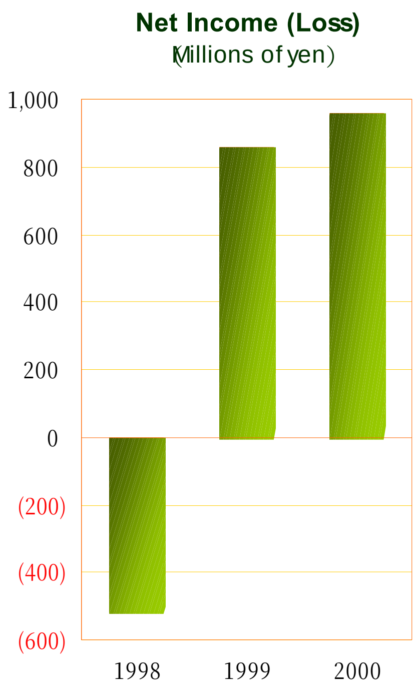
Financial Highlights

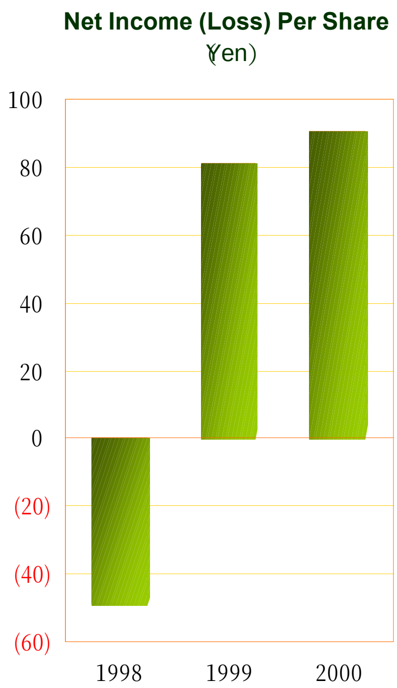
For the Years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars
Year ended March 31	**2000**	1999	1998	**2000**
Net sales	**¥ 16,032**	¥ 16,330	¥ 14,734	**$ 151,245**
Operating income	**1,974**	2,238	357	**18,622**
Net income (loss)	**958**	858	(516)	**9,038**
Total shareholders' equity	**13,740**	12,747	11,990	**129,622**
Total assets	**25,289**	25,475	23,234	**238,575**
Research and development (R&D) expenses	**1,328**	1,233	1,468	**12,528**
	%			
Ratio of R&D expenses to sales	**8.3**	7.5	10.0	
Return on equity	**7.2**	7.0	-	
Shareholders' equity	**54.3**	50.0	51.2	
Amounts per common share:	Yen			U.S. dollars
Net income (loss)	**¥ 90.59**	¥ 81.07	(¥ 48.76)	**$ 0.85**
Cash dividends applicable to period	**20.00**	20.00	5.00	**0.19**
Shareholders' equity	**1,298.73**	1,204.87	1,123.80	**12.25**

Note: The U.S. dollars amounts represent translation of Japanese yen, for convenience, at the rate of ¥106 =$1, the rate prevailing on March 31, 2000.







To Our Shareholders

Management Policy

SAWAI's fundamental corporate philosophy is as follows:

- To contribute to the national medical care by developing effective and safer medicines as well as ensuring the stable and cost-effective supply of high-quality products.
- To create, devise, and endeavor throughout our organization to realize a high quality of life for our employees and to protect shareholders interests.

In Japan, competition in the pharmaceutical industry remains severe due to restrictions on medical and drug expenses that have been imposed to enable the financial reconstruction of the National Health Insurance (NHI) system. Although the radical reform of the NHI system has been delayed from 2000 to 2002 or 2004, it is expected that the reform will be realized in the near future.

The main focus of reform appears to be the promotion of cost-effective generic drugs that have be verified as effective and safe. In light of this, we aim to expand the share of the Japanese drug market accounted for by generic drugs—a share that is comparatively less than that accounted for by generic drugs in the European and American drug markets. We believe that our social mission is to contribute to the reduction of the financial burden imposed by medical costs on both patients and the government.

In line with its policy of stepped-up efforts to contain drug expenses, in April 2000 the Ministry of Health and Welfare (MHW) lowered the prices of drugs covered by the NHI scheme by an average 7%. This move has intensified the competition among pharmaceutical firms. Moreover, with the MHW now assiduously revaluing the quality of generic drugs, manufacturers will have to implement strict policies in order to ensure high quality.

Against this backdrop, as a company supplying high-quality, cost-effective generic drugs backed by substantial drug information, we shall move forward in our business, underpinned by our fundamental corporate philosophy.

Business Performance

Generally, the Japanese economy in the current term has been seeing an upturn in business due to the effects of the government's economic stimulus policy and an increase in exports; however, the economic recovery remains sluggish and fragile due to such negative factors as industry restructuring.

Conditions in the pharmaceutical industry continue to be severe, with the stepped-up controls on medical and drug expenses related to the financial reconstruction of the NHI system, in large part due to the overall aging of the population. Revaluations of efficacy for cerebral circulation and metabolism improvement agents have been implemented for two consecutive fiscal terms. Moreover, the push toward revaluing generic drug qualities is picking up speed.

Against this backdrop, we have carried out aggressive PR campaigns that emphasize the high quality and cost-effectiveness of our products while focusing on sales promotion activities, the optimization of manpower, rationalization and maximizing management vitality. However, due to severe competition sales slowed, reflecting the underperformance of new products and seasonal sales fluctuations. Net sales amounted to ¥16,032 million, a 1.8% decrease from the previous term. Regarding profits, expenses increased due to such factors as higher advertising expenses and the adoption of tax-effect accounting for pension funds, thus operating income was ¥1,974 million, an 11.8 % decrease, and ordinary income was ¥1,686 million, a 6.6% decrease. As a result, net income was ¥958 million, an 11.7% increase.

Recognizing that the Y2K problem represented a critical issue for management, we worked to ensure complete Y2K compliance. As a result, we successfully avoided any trouble.

Dividend Policy

We consider maintaining a policy of rewarding shareholders to be an important corporate theme. Therefore, we pay dividends that reflect business results while transferring to retained earnings any accumulation of funds to finance future business expansion and maximize management vitality.

For the year under review, the Company paid a year-end dividend of ¥10 per share, which, added to the interim dividend of ¥10 per share, resulted in a common dividend per share of ¥20.

As a result, the dividend ratio was 25.3%, and cash dividends paid as a percentage of stockholders' equity was 1.6%.

Appropriations of retained earnings allocated for capital investment to improve productivity will be used for business expansion and maximizing management vitality. The annual meeting of the Board of Directors concerning the resolution of the interim dividend payment was held on November 15,1999.

Regarding capital investment, the Company and its consolidated subsidiaries used ¥1,364 million mainly for the renewal of production equipment for injection formulations at the Kyushu factory.

As for financing activities, we secured loans from the Japan Regional Development Corporation amounting to ¥500 million as well as from other financial institutions to fund capital investment. In line with the introduction of the "Incentive Plan," on behalf of its directors and managers the company issued its first unsecured corporate bond with a warrant on October 1, 1999. This bond amounted to ¥436 million and was allocated to operating funds.

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets

For the Years ended March 31, 2000 and 1999

ASSETS	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars (Note 1) 2000
Current Assets:			
Cash and time deposits (Note 10)	¥ **1,507**	¥ 2,717	$ **14,217**
Marketable securities (Note 3)	**45**	45	**425**
Trade notes and accounts receivable	**6,035**	6,459	**56,934**
Allowance for doubtful receivables	**(29)**	(40)	**(274)**
	6,006	6,419	**56,660**
Inventories (Note 4)	**5,032**	4,483	**47,472**
Deferred income taxes (Note 8)	**188**	-	**1,774**
Other current assets	**82**	72	**773**
Total current assets	**12,860**	13,736	**121,321**
Investments and Long-term Receivables:			
Investment securities (Note 3)	**505**	481	**4,764**
Other investments and long-term receivables	**556**	547	**5,245**
Allowance for doubtful receivables	**(185)**	(144)	**(1,745)**
	371	403	**3,500**
Total investments and long-term receivables	**876**	884	**8,264**
Property, Plant and Equipment (Note 5) **:**			
Land	**3,420**	3,420	**32,265**
Buildings and structures	**10,753**	10,510	**101,443**
Machinery and equipment	**5,486**	4,742	**51,755**
Construction in progress	**104**	116	**981**
Other	**1,489**	1,323	**14,047**
	21,252	20,111	**200,491**
Accumulated depreciation	**(9,917)**	(9,274)	**(93,557)**
Net property, plant and equipment	**11,335**	10,837	**106,934**
Intangible assets	**58**	18	**547**
Deferred income taxes (Note 8)	**160**	-	**1,509**
	¥ **25,289**	¥ 25,475	**$ 238,575**

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2000	1999	Thousands of U.S. dollars (Note 1) 2000
Current Liabilities:			
Bank loans (Note 5)	**¥ 2,300**	¥ 2,150	**$ 21,698**
Current portion of long-term debt (Note 5)	**1,566**	2,040	**14,774**
Trade notes and accounts payable	**2,874**	3,772	**27,113**
Accrued expenses	**391**	388	**3,689**
Income taxes payable (Note 8)	**392**	694	**3,698**
Stock purchase warrants (Note 6)	**30**	-	**283**
Other current liabilities	**667**	703	**6,292**
Total current liabilities	**8,220**	9,747	**77,547**
Long-Term Liabilities:			
Long-term debt, due after one year (Note 5)	**2,913**	2,593	**27,481**
Retirement benefits	**299**	264	**2,821**
Other long-term liabilities	**117**	124	**1,104**
Total long-term liabilities	**3,329**	2,981	**31,406**
Shareholders' Equity (Note 7) **:**			
Common stock;			
Authorized 38,800,000 shares,			
Issued and outstanding par value ¥50 per share;			
10,580,000 shares	**3,400**	3,400	**32,075**
Capital surplus	**3,675**	3,675	**34,670**
Retained earnings	**6,665**	5,672	**62,877**
Total shareholders' equity	**13,740**	12,747	**129,622**
	¥ 25,289	¥ 25,475	**$ 238,575**

Consolidated Statements of Income

For the Years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	**2000**
Net Sales	**¥ 16,032**	¥ 16,330	**$ 151,245**
Cost of Sales	**8,733**	9,099	**82,387**
Gross profit	**7,299**	7,231	**68,858**
Selling, General and Administrative Expenses	**5,325**	4,993	**50,236**
Operating income	**1,974**	2,238	**18,622**
Other Income (Expenses):			
Interest and dividends income	**10**	14	**94**
Interest expense	**(125)**	(150)	**(1,179)**
Gain on sale of securities, net	**7**	59	**66**
Compensation for damages	**9**	21	**85**
Special retirement costs	**-**	(185)	**-**
Loss on disposal of inventories	**(160)**	(267)	**(1,509)**
Loss on sale of membership	**-**	(101)	**-**
Other, net	**(29)**	(50)	**(273)**
	(288)	(659)	**(2,716)**
Income before Income Taxes	**1,686**	1,579	**15,906**
Provision for income taxes (Note 8):			
Current	**(699)**	(721)	**(6,594)**
Deferred	**(29)**	-	**(274)**
Net Income	**¥ 958**	¥ 858	**$ 9,038**

Per Share of Common Stock:

	Yen		U.S. dollars (Note 1)
Net income	¥ 90.59	¥ 81.07	$ 0.85
Dividends	20.00	20.00	0.19

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

For the Years ended March 31, 2000 and 1999

	Number of shares of common stock	Millions of yen		
		Common stock	Capital surplus	Retained earnings
Balance at March 31, 1998	10,580,000	¥ 3,400	¥ 3,675	¥ 4,814
Net income for the year				858
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 (Note 7)	10,580,000	¥ 3,400	¥ 3,675	¥ 6,665

	Thousands of U.S. dollars (Note 1)		
	Common stock	Capital surplus	Retained earnings
Balance at March 31, 1999	$ 32,075	$ 34,670	$ 53,509
Net income for the year			9,038
Cash dividends paid at $0.28 per share			(2,991)
Bonuses to directors and corporate auditors			(236)
Cumulative effect of adopting the new accounting standard for deferred income taxes			3,557
Balance at March 31, 2000	$ 32,075	$ 34,670	$ 62,877

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the Years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	**2000**
Cash Flows from Operating Activities:			
Income before income taxes	**¥ 1,686**	¥ 1,579	**$ 15,906**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	**852**	801	**8,037**
Interest and dividend income	**(10)**	(14)	**(94)**
Interest expense	**125**	150	**1,179**
Gain on sale of securities, net	**(7)**	(59)	**(66)**
Decrease (increase) in trade notes and accounts receivable	**423**	(931)	**3,991**
Increase in inventories	**(549)**	(714)	**(5,179)**
Increase (decrease) in trade notes and accounts payable	**(965)**	1,888	**(9,104)**
Payment of bonuses to directors and corporate auditors	**(25)**	-	**(236)**
Other	**(105)**	482	**(991)**
Sub-total	**1,425**	3,182	**13,443**
Interest and dividends received	**10**	14	**94**
Interest paid	**(124)**	(143)	**(1,170)**
Income taxes paid	**(1,001)**	(104)	**(9,443)**
Net cash provided by operating activities	**310**	2,949	**2,924**
Cash Flows from Investing Activities:			
Payments for time deposits	**-**	(1,110)	**-**
Proceeds from time deposits	**240**	1,030	**2,264**
Payments for purchase of property, plant and equipment	**(1,209)**	(344)	**(11,406)**
Payments for purchase of securities	**(52)**	(90)	**(490)**
Proceeds from sale of securities	**40**	157	**377**
Other	**(8)**	18	**(75)**
Net cash used in investing activities	**(989)**	(339)	**(9,330)**
Cash Flows from Financing Activities:			
Net increase (decrease) in bank loans	**150**	(250)	**1,415**
Proceeds from long-term debt	**1,990**	1,160	**18,774**
Repayment of long-term debt	**(2,144)**	(2,309)	**(20,226)**
Proceeds from subscription warrants	**30**	-	**283**
Cash dividends paid	**(317)**	-	**(2,991)**
Net cash used in financing activities	**(291)**	(1,399)	**(2,745)**
Net increase (decrease) in cash and cash equivalents	**(970)**	1,211	**(9,151)**
Cash and cash equivalents at beginning of year	**1,987**	776	**18,745**
Cash and cash equivalents at end of year (Note 10)	**¥ 1,017**	¥ 1,987	**$ 9,594**

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

For the Years ended March 31, 2000 and 1999

1. Basis of Financial Statements

SAWAI PHARMACEUTICAL CO., LTD. (the "Company") and its consolidated subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the Minister of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows for 1999 has been prepared for the purpose of inclusion in the consolidated financial statements, although such statement was not customarily prepared in Japan and not required to be filed with the Minister of Finance prior to 2000.

Certain reclassifications of the prior year’s consolidated financial statements have been made to conform to the current year presentation.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers, using the prevailing exchange rate at March 31, 2000, which was ¥ 106 to U.S.$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. Intercompany transactions and accounts have been eliminated in the consolidation. In the elimination of investments in subsidiaries, the assets and liabilities of subsidiaries, including the portion attributable to minority shareholders, 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.

(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. It is 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.

(d) Marketable and investment securities

Listed securities in both marketable securities and investment securities are stated at the lower of moving average cost or market value. Recoveries of write-downs are recorded in subsequent years. Other securities are stated at moving average cost.

(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 in accordance with the Corporation Tax Law of Japan. Expenditures for significant renewals and betterments are capitalized, while expenditures for normal repairs and maintenance are charged to expense when incurred.

(g) Income taxes

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 Company and its consolidated subsidiaries provided income taxes at the amounts currently payable for prior years. Effective April 1, 1999, the Company and its consolidated subsidiaries 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 asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

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 previous year. Prior years' financial statements have not been restated.

The cumulative effect of adopting the new accounting standard was ¥ 377 million (US$ 3,557 thousand), which is directly added to retained earnings brought forward from March 31, 1999. The effect for the year ended March 31, 2000 was to decrease net income by ¥ 29 million (US$ 274 thousand).

(h) Retirement benefits

(i) Employees:

The Company's and its consolidated subsidiaries' non-contributory pension plans cover substantially all employees. The provision is determined actuarially and funded currently through outside trustees. Past service costs are being amortized at 20% per year. The Company and its subsidiaries also have unfunded lump-sum retirement benefit plans which cover certain employees who are not covered by the funded pension plan. The liability for the unfunded lump-sum retirement benefit plans is 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 Company's and subsidiaries' directors' and corporate auditors' retirement benefits is provided based on the Company's and subsidiaries' internally decided criteria. Included in the liability of retirement benefits are retirement benefits for directors and corporate auditors of ¥ 9 million (US$ 85 thousand) and ¥ 4 million at March 31, 2000 and 1999, respectively.

(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 ¥ 1,328 million (US$ 12,528 thousand) for the year ended March 31, 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 "Report"), the Company accounts for software which was included in other investments and long-term receivables in the same manner in 2000 as in 1999. Pursuant to the Report, however, the Company included software in intangible assets in 2000 and depreciated it using the straight-line method over the estimated useful lives (five years). The amount for 1999 has not been reclassified to conform to the 2000 presentation.

(l) Stock purchase warrants

In accordance with accounting principles generally accepted in Japan, the 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 accounting principles generally accepted in Japan.

(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.

In accordance with the "Standards for Preparation of Consolidated Cash Flow Statements, etc.", effective from the year ended March 31, 2000, the Company is required to prepare the consolidated statements of cash flows. The prior year's consolidated statement of cash flows, which was prepared for readers outside Japan although such statement was not required, has been restated to conform to the 2000 presentation.

(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.

3. Market Value Information of Securities and Derivative Transactions

Market value information of securities at March 31, 2000, is as follows:

	Millions of yen			Thousands of U.S. dollars		
	Book value	Aggregate market value	Unrealized gain	Book value	Aggregate market value	Unrealized gain
Marketable securities	**¥ 45**	**¥ 49**	**¥ 4**	**$ 425**	**$ 462**	**$ 37**
Investment securities	**464**	**548**	**84**	**4,377**	**5,170**	**793**
Total	**¥ 509**	**¥ 597**	**¥ 88**	**$ 4,802**	**$ 5,632**	**$ 830**

These amounts do not include unlisted stocks.

The Company and its consolidated subsidiaries have no outstanding derivative transactions at March 31, 2000.

4. Inventories

Inventories at March 31, 2000 and 1999, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Finished goods and merchandise	**¥ 2,839**	¥ 2,394	**$ 26,783**
Work-in- process	**881**	989	**8,311**
Raw materials and supplies	**1,312**	1,100	**12,378**
Total	**¥ 5,032**	¥ 4,483	**$ 47,472**

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

Short-term bank loans consist mainly of unsecured bank loans with a weighted average interest of 1.287% per annum in 2000.

Long-term debt at March 31, 2000, consists of the following:

	Millions of yen	Thousands of U.S. dollars
Loans from banks and other public corporations, due 2000-2010, interest 0.5%-2.5%		
Secured	¥ **3,926**	$ **37,038**
Unsecured	**553**	**5,217**
	4,479	**42,255**
Current portion of long-term debt	**1,566**	**14,774**
	¥ **2,913**	$ **27,481**

The aggregate annual maturities of long-term debt outstanding at March 31, 2000, are as follows:

March 31	Millions of yen	Thousands of U.S. dollars
2001	¥ **1,566**	$ **14,774**
2002	**1,184**	**11,170**
2003	**442**	**4,170**
2004	**319**	**3,009**
2005	**562**	**5,302**
2006 and thereafter	**406**	**3,830**
Total	¥ **4,479**	$ **42,255**

At March 31, 2000, assets pledged as collateral for secured long-term debt, including current portion, and short-term bank loans of ¥ 544 million (US$ 5,132 thousand), are as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, net of accumulated depreciation	¥ **8,310**	$ **78,396**

6. Stock Purchase Warrants

At March 31, 2000, a summary of the terms for the purchase of stock on exercise of warrants is as follows:

	Warrants
Increase in capital if exercised	¥ **436,800,000**
Exercise price per share of common stock	¥ **1,680.00**
Number of shares of common stock reserved for exercise	**260,000 shares**
Term of exercise	**From April 3, 2000** **To September 30, 2003**

The exercise price is subject to adjustment under certain conditions.

7. Shareholders' Equity

The Japanese Commercial Code (the "Code") provides that an amount equivalent to at least 10% of cash dividends paid and other cash outlays resulting from appropriation of retained earnings be appropriated to legal reserve until it equals 25% of the common stock. In the accompanying consolidated financial statements, the legal reserve, amounting to ¥ 359 million (US$ 3,387 thousand) and ¥ 324 million at March 31, 2000 and 1999, respectively, is included in retained earnings. The Code also provides that both capital surplus and legal reserve are not available for cash dividends but may be used to reduce a capital deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

The Code provides that at least one-half of the issue price of new shares, with a minimum of the par value thereof, be included in common stock. 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.

On June 29, 2000, the Company's shareholders approved the payment of year-end cash dividends totaling ¥ 106 million (US$ 998 thousand) to the Company's shareholders of record as of March 31, 2000, the payment of bonuses to the Company's directors and corporate auditors totaling ¥ 23 million (US$ 217 thousand) and the related appropriation of retained earnings to legal reserve of ¥ 13 million (US$ 123 thousand).

8. Income Taxes

The Company and its consolidated subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 41% and 46% for the years ended March 31, 2000 and 1999, respectively.

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

Statutory tax rate	**40.87**	**%**
Non-deductible expenses	**1.07**	
Non-taxable dividend income	**(0.15)**	
Per capita inhabitant tax	**1.84**	
Other	**(0.46)**	
Effective tax rate	**43.17**	**%**

Significant components of the deferred tax assets and liabilities at March 31, 2000 are as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:		
Unrealized gains for land	**¥ 219**	**$ 2,066**
The provision for bonuses to directors and corporate auditors	**119**	**1,123**
Unrealized gains for inventories	**51**	**481**
Accrued bonuses to employees	**49**	**462**
Allowance for doubtful receivables	**47**	**443**
Enterprise taxes	**30**	**283**
Other	**30**	**283**
Total deferred tax assets	**545**	**5,141**
Deferred tax liabilities:		
Reserve for deferred gains on sales of fixed assets	**(170)**	**(1,604)**
Reserve for special depreciation	**(26)**	**(245)**
Other	**(1)**	**(9)**
Total deferred tax liabilities	**(197)**	**(1,858)**
Net deferred tax assets	**¥ 348**	**$ 3,283**

9. Leases

(a) Finance leases as lessee

Leases obligations under non-capitalized finance leases, including finance charges, remaining at March 31, 2000 and 1999, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Payments due within one year	**¥ 50**	¥ 45	**$ 472**
Payments due after one year	**68**	75	**641**
Total	**¥ 118**	¥ 120	**$ 1,113**

Leases payments under such leases for the years ended March 31, 2000 and 1999, were ¥ 50 million (US$ 472 thousand) and ¥ 48 million, respectively.

(b) Operating leases as lessee

Lease obligations under operating leases, remaining at March 31, 2000 and 1999, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Payments due within one year	**¥ 51**	¥ 57	**$ 481**
Payments due after one year	**82**	99	**774**
Total	**¥ 133**	¥ 156	**$ 1,255**

10. 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
	2000	1999	**2000**
Cash and time deposits	**¥ 1,507**	¥ 2,717	**$ 14,217**
Deposits placed with banks with maturities of over three months	**(490)**	(730)	**(4,623)**
Cash and cash equivalents	**¥ 1,017**	¥ 1,987	**$ 9,594**

11. Segment Information

The Company and its consolidated subsidiaries operate primarily in the pharmaceutical supplies industry. Accordingly, segment information is omitted.

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. (a Japanese corporation) and subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, 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 its consolidated subsidiaries as of March 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except for the new accounting policies in the following paragraph.

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

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 29, 2000

Asahi & Co.

Asahi & Co.
(A Member Firm of Arthur Andersen)

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying consolidated financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying consolidated financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

Board of Directors

(As of June 29, 2000)

Chairman
Jiro Sawai*

President
Hiroyuki Sawai*

Senior Managing Directors
Tsugio Shimamoto, Ph.D.
Shohei Ohya

Managing Directors
Hiroyuki Sato
Nobuyuki Kitamori, Ph.D.

Directors
Takekiyo Sawai
Takashi Iwasa, Ph.D.
Harumasa Toya, Ph.D.
Mitsuo Sawai
Yasushi Tanaka

Standing Statutory Auditor
Mitsunori Watanabe

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

*Representative Director

Corporate Data

(As of March 31, 2000)

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

Established
1929

Paid-in Capital
¥3,400 million

Number of Shares Outstanding
10,580,000

Number of Shareholders
755

Number of Employees
452

Independent Public Accountants
Asahi & Co.
1-4, Shibata 1-chome, Kita-ku,
Osaka 530-8345, Japan

Transfer Agent (As of October 1, 2000)
The Mizuho Trust & Banking Co., Ltd.

Liaison Office
Tokyo

Branches
Sapporo, Sendai, Tokyo, Nagoya, Osaka,
Hiroshima, Fukuoka

Area Offices
Tokyo, Utsunomiya, Urawa, 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 (Japanese only)

SAWAI PHARMACEUTICAL CO., LTD.
4-25, Akagawa 1-chome, Asahi-ku, Osaka 535-0005, Japan
http://www.sawai.co.jp

Printed in Japan