ANNUAL REPORT 2001

For the year ended March 31, 2001

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

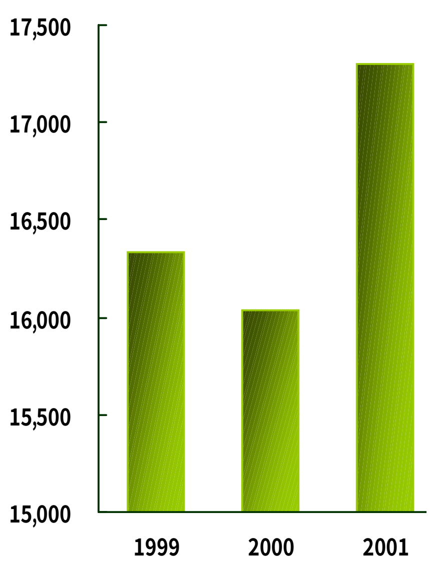
Financial Highlights

For the Years ended March 31, 2001, 2000 and 1999

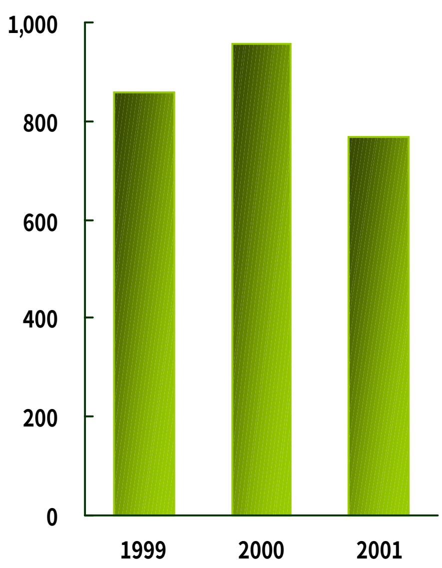
	Millions of yen			Thousands of U.S. dollars
Year ended March 31	**2001**	2000	1999	**2001**
Net sales	**¥ 17,302**	¥ 16,032	¥ 16,330	**$ 139,645**
Operating income	**2,005**	1,974	2,238	**16,182**
Net income	**766**	958	858	**6,182**
Total shareholders' equity	**14,254**	13,740	12,747	**115,044**
Total assets	**26,609**	25,289	25,475	**214,762**
Research and development (R&D) expenses	**1,593**	1,328	1,233	**12,857**
	%			
Ratio of R&D expenses to sales	**9.2**	8.3	7.5	
Return on equity	**5.5**	7.2	7.0	
Shareholders' equity	**53.6**	54.3	50.0	
Amounts per common share:	Yen			U.S. dollars
Net income	**¥ 72.41**	¥ 90.59	¥ 81.07	**$ 0.58**
Cash dividends applicable to period	**25.00**	20.00	20.00	**0.20**
Shareholders' equity	**1,347.27**	1,298.73	1,204.87	**10.87**

Note: The U.S. dollars amounts represent translation of Japanese yen, for convenience, at the rate of ¥123.90 =$1, the rate prevailing on March 31, 2001.

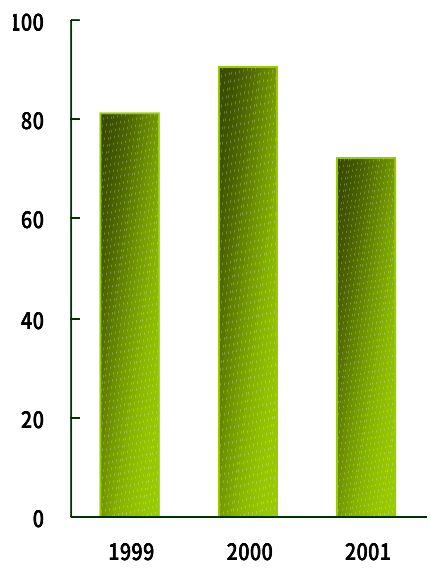
Net Sales (Millions of yen)



Net Income (Millions of yen)



Net Income Per Share (Yen)



To Our Shareholders

Management Policy

Sawai's fundamental corporate philosophy is as follows:

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

In our aging society, medical-insurance financing is a major concern. Although medical and drug expenses have often been regulated, it is clear there must be a thorough-going reform of the medical-insurance system. The focus of the reform should be to encourage the development of innovative medicines and drugs while suppressing an increase in drug expense. From this perspective, the use of inexpensive generic drugs proved effective and safe should be encouraged.

Sawai and its affiliates are dedicated to promoting effective generic drugs and have aimed at strengthening their research program, increasing production capacity and upgrading drug information. It is clear if medical costs are to be reduced, more inexpensive generic drugs should be prescribed. We believe our social mission is to reduce the patients' share in medical expenses and the government's medical cost by expanding the generic drug market in Japan, which is smaller than that in Europe and the U.S.

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

Medium- and Long-term Corporate Strategy and Challenges

We want to maintain our position as a leading manufacturer of generic drugs with high growth potential, so we:

(1) Emphasize the advantages of our high-quality and cost-effective products with the necessary information and aggressively work to expand our market share

(2) Maintain the high quality of our generic drugs and upgrade post-marketing surveillance that meet the requirements of the regulatory authorities

(3) Strengthen profitability through streamlining our business, including rationalizing the number of our staff, raising productivity and devoting sufficient resources to product development

(4) Enforce personnel administration by means of providing our staff with an on-going training program and evaluating their performance

Business Overview

The Japanese economy during the current fiscal year saw a moderate upturn led by the corporate sector, reflecting a boost in exports and capital investments. On the other hand, while consumer spending has been sluggish, the recovery of the nation's economy has been marking time due to a slowdown in the U.S. economy since the second half of the last year, so the outlook for the Japanese economy is uncertain.

In the pharmaceutical industry, drug tariff of the government was reduced by an average of 7 percent in April 2000. In addition, restrictions on medical costs and drug expenses have been imposed, including fixed-rate medical-expense system for elderly patients as the amended Health Insurance Law came into force in January 2001. These moves intensified price competition.

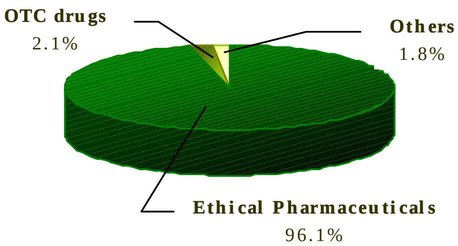
In an effort to rebuild the nation's pharmaceutical insurance financing and reduce the medical costs paid by patients, the Company and its affiliates have emphasized the use of cost-effective generic drugs recognized as effective and safe as in Europe and the U.S. At the same time, we carried out aggressive sales promotion with a focus on the high quality and preparation excellence of our drugs.

Net sales were ¥17,302 million, a 7.9% increase year-on-year, reflecting an increase in quantity and the sales of new products, which offset the lowering of unit prices stemming from a reduction in the drug tariff.

Looking at profits, the falling ratio of gross profits to sales due to lower unit drug prices and increasing R&D expenses were covered by the sales increase. Net income amounted to ¥766 million, even after a reduction in losses on disposition of inventory, down 20.1% due to the effects of adopting the new accounting standard for retirement benefits and loss on deposits for golf club membership.

The Company was listed on the Second Section of the Tokyo Stock Exchange on December 21, 2000.

Sales by Business



Sales by Therapeutic Category

Years ended March 31	2001		2000		Change (%)
	Millions of yen				
Cardiovascular drugs	¥ 3,185	(18.4%)	¥ 3,116	(19.4%)	102.2
Antibiotics	2,425	(14.0%)	2,445	(15.3%)	99.2
Gastro-intestinal drugs	1,770	(10.2%)	1,597	(10.0%)	110.8
Other metabolic drugs	1,727	(10.0%)	1,816	(11.3%)	95.1
Central nervous system drugs	1,379	(8.0%)	1,328	(8.3%)	103.8
Vitamins	1,370	(7.9%)	1,416	(8.8%)	96.8
Blood/body fluid pharmaceutical products	870	(5.0%)	655	(4.1%)	132.8
Chemotherapeutic drug	814	(4.7%)	515	(3.2%)	158.1
Others	3,762	(21.8%)	3,144	(19.6%)	119.7
Total	¥17,302	(100.0%)	¥16,032	(100.0%)	107.9

* Exports

Exports of pharmaceuticals for therapeutic use resulted in sales of ¥162 million (0.9% of total sales)

Dividend Policy

We consider rewarding our shareholders to be an important corporate goal. We will pay dividends that reflect business results while transferring to retained earnings any accumulation of funds to finance business expansion and strengthen our management structure.

For the year under review, the Company paid a year-end dividend of ¥10 per share, which, added to the commemorative dividend of ¥5 for listing on the Second Section of the Tokyo Stock Exchange, and the interim dividend of ¥10 per share, resulted in a full-year dividend per share of ¥25.

As a result, the dividend ratio was 43.4%, and cash dividends paid as a percentage of shareholders' equity was 1.9%.

Retained earnings for this term will be appropriated for capital investment to improve productivity to expand our business. The Board of Directors meeting on the interim dividend payments was held on November 17, 2000.

Consolidated Balance Sheets

For the Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2001**	2000	**2001**
Current Assets:			
Cash and time deposits (Note 12)	**¥ 1,588**	¥ 1,507	**$ 12,817**
Marketable securities (Note 4)	**-**	45	**-**
Trade notes and accounts receivable	**6,882**	6,035	**55,545**
Allowance for doubtful receivables	**(28)**	(29)	**(226)**
	6,854	6,006	**55,319**
Inventories (Note 5)	**5,097**	5,032	**41,138**
Deferred income taxes (Note 10)	**153**	188	**1,235**
Other current assets	**79**	82	**638**
Total current assets	**13,771**	12,860	**111,147**
Investments and Long-term Receivables:			
Investment securities (Note 4)	**512**	505	**4,132**
Other investments and long-term receivables	**475**	556	**3,834**
Allowance for doubtful receivables	**(111)**	(185)	**(896)**
	364	371	**2,938**
Total investments and long-term receivables	**876**	876	**7,070**
Property, Plant and Equipment (Note 6) **:**			
Land	**3,420**	3,420	**27,603**
Buildings and structures	**10,931**	10,753	**88,224**
Machinery and equipment	**6,184**	5,486	**49,911**
Construction in progress	**73**	104	**589**
Other	**1,664**	1,489	**13,431**
	22,272	21,252	**179,758**
Accumulated depreciation	**(10,656)**	(9,917)	**(86,005)**
Net property, plant and equipment	**11,616**	11,335	**93,753**
Intangible assets	**59**	58	**476**
Deferred income taxes (Note 10)	**287**	160	**2,316**
	¥ 26,609	¥ 25,289	**$ 214,762**

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Current Liabilities:			
Bank loans (Note 6)	¥ **1,800**	¥ 2,300	$ **14,528**
Current portion of long-term debt (Note 6)	**1,778**	1,566	**14,350**
Trade notes and accounts payable	**2,923**	2,874	**23,592**
Accrued expenses	**389**	391	**3,140**
Income taxes payable (Note 10)	**355**	392	**2,865**
Stock purchase warrants (Note 8)	**53**	30	**428**
Other current liabilities	**977**	667	**7,885**
Total current liabilities	**8,275**	8,220	**66,788**
Long-Term Liabilities:			
Long-term debt, due after one year (Note 6)	**3,269**	2,913	**26,384**
Employees' retirement benefits (Note 7)	**326**	8	**2,631**
Directors' and corporate auditors' retirement benefits	**313**	291	**2,526**
Other long-term liabilities	**172**	117	**1,389**
Total long-term liabilities	**4,080**	3,329	**32,930**
Shareholders' Equity (Note 9) **:**			
Common stock;			
Authorized 38,800,000 shares,			
Issued and outstanding par value ¥50 per share;			
10,580,000 shares	**3,400**	3,400	**27,441**
Capital surplus	**3,675**	3,675	**29,661**
Retained earnings	**7,197**	6,665	**58,087**
Net unrealized holding losses on securities	**(18)**	-	**(145)**
Total shareholders' equity	**14,254**	13,740	**115,044**
	¥ **26,609**	¥ 25,289	$ **214,762**

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Income

For the Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Net Sales	**¥ 17,302**	¥ 16,032	**$ 139,645**
Cost of Sales	**9,665**	8,733	**78,007**
Gross profit	**7,637**	7,299	**61,638**
Selling, General and Administrative Expenses	**5,632**	5,325	**45,456**
Operating income	**2,005**	1,974	**16,182**
Other Income (Expenses):			
Interest and dividend income	**10**	10	**81**
Interest expense	**(124)**	(125)	**(1,001)**
Gain on sale of securities, net	**-**	7	**-**
Compensation for damages	**26**	9	**210**
Loss on disposal of inventories	**(99)**	(160)	**(799)**
Unrealized loss on deposits for golf club membership	**(73)**	-	**(589)**
Net transition obligation of retirement plans	**(358)**	-	**(2,889)**
Other, net	**(17)**	(29)	**(138)**
	(635)	(288)	**(5,125)**
Income before Income Taxes	**1,370**	1,686	**11,057**
Provision for income taxes (Note 10):			
Current	**(684)**	(699)	**(5,521)**
Deferred	**80**	(29)	**646**
Net Income	**¥ 766**	¥ 958	**$ 6,182**

Per Share of Common Stock:

	Yen		U.S. dollars (Note 1)
Net income	**¥ 72.41**	¥ 90.59	**$ 0.58**
Dividends	**25.00**	20.00	**0.20**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

For the Years ended March 31, 2001 and 2000

		Millions of yen				
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized holding 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 (Note 9)	10,580,000	¥3,400	¥3,675	¥7,197	¥	(18)

	Thousands of U.S. dollars (Note 1)				
	Common stock	Capital surplus	Retained earnings	Net unrealized holding losses on securities	
Balance at March 31, 2000	$27,441	$29,661	$53,794	$	-
Net income for the year			6,182		
Cash dividends paid at $0.16 per share			(1,703)		
Bonuses to directors and corporate auditors			(186)		
Net unrealized holding losses on securities					(145)
Balance at March 31, 2001	$27,441	$29,661	$58,087	$	(145)

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, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Cash Flows from Operating Activities:			
Income before income taxes	**¥ 1,370**	¥ 1,686	**$ 11,057**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	**926**	852	**7,474**
Interest and dividend income	**(10)**	(9)	**(81)**
Interest expense	**124**	125	**1,001**
Gain on sale of securities, net	**-**	(7)	**-**
Decrease (increase) in trade notes and accounts receivable	**(846)**	423	**(6,828)**
Increase in inventories	**(65)**	(549)	**(525)**
Increase (decrease) in trade notes and accounts payable	**90**	(965)	**726**
Payment of bonuses to directors and corporate auditors	**(23)**	(25)	**(186)**
Other	**587**	(105)	**4,738**
Sub-total	**2,153**	1,425	**17,376**
Interest and dividends received	**10**	10	**81**
Interest paid	**(117)**	(124)	**(944)**
Income taxes paid	**(721)**	(1,001)	**(5,819)**
Net cash provided by operating activities	**1,325**	310	**10,694**
Cash Flows from Investing Activities:			
Proceeds from time deposits	**60**	240	**484**
Payments for purchase of property, plant and equipment	**(1,111)**	(1,209)	**(8,967)**
Payments for purchase of securities	**(54)**	(52)	**(436)**
Proceeds from sale of securities	**57**	40	**460**
Other	**(15)**	(8)	**(120)**
Net cash used in investing activities	**(1,063)**	(989)	**(8,579)**
Cash Flows from Financing Activities:			
Net increase (decrease) in bank loans	**(500)**	150	**(4,036)**
Proceeds from long-term debt	**2,490**	1,990	**20,097**
Repayment of long-term debt	**(1,921)**	(2,144)	**(15,504)**
Proceeds from issuance of subscription warrants	**22**	30	**178**
Redemption of subscription warrants	**(1)**	-	**(8)**
Cash dividends paid	**(211)**	(317)	**(1,703)**
Net cash used in financing activities	**(121)**	(291)	**(976)**
Net increase (decrease) in cash and cash equivalents	**141**	(970)	**1,138**
Cash and cash equivalents at beginning of year	**1,017**	1,987	**8,208**
Cash and cash equivalents at end of year (Note 12)	**¥ 1,158**	¥ 1,017	**$ 9,346**

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

For the Years ended March 31, 2001 and 2000

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 (“Japanese GAAP”), 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 Japanese GAAP and were filed with the appropriate Local Finance Bureau of the Ministry 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 and to conform to the current year presentation. The consolidated statements of shareholders’ equity for 2001 and 2000 have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements were not required for domestic purposes and were not filed with the regulatory authorities.

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, 2001, which was ¥ 123.90 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, 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. 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) for 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.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. 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

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 the year ended March 31, 1999 and 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.

The cumulative effect of adopting the new accounting standard was ¥ 377 million, 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.

(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. 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.

Effective April 1, 2000, accrued retirement benefits are provided for payment of employees' post retirement benefits which are 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 (U.S.$2,889 thousand) is fully expensed in the year ended March 31, 2001. Unrecognized actuarial differences are recognized in expenses using the declining-balance method over 5 years commencing with the following period.

Through the year ended March 31, 2000, the Company and its consolidated subsidiaries 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 Company's and subsidiaries' directors' and corporate auditors' retirement benefits is provided based on the Company's and subsidiaries' 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 ¥ 1,593 million (US$ 12,857 thousand) and ¥ 1,328 million for the years ended March 31, 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 "Report"), the Company accounts for software which was included in other investments and long-term receivables in the same manner in 2001 and 2000 as in 1999. Pursuant to the Report, however, the Company included software in intangible assets in 2001 and 2000, and depreciated it using the straight-line method over the estimated useful lives (five years).

(l) Stock purchase warrants

In accordance with Japanese GAAP, 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. The warrants were detachable.

(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.

3. Additional Information

(1) Financial instruments

Effective April 1, 2000, the Company and its consolidated subsidiaries (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 (US$ 89 thousand). Also, at April 1, 2000 marketable securities decreased by ¥45 million (US$ 363 thousand) 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 (US$ 2,454 thousand), and income before income taxes decreased by ¥ 305 million (US$ 2,462 thousand) 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, 2001:

(a) Securities with book values exceeding acquisition cost

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ **119**	¥ **177**	¥ **57**	$ **960**	$ **1,429**	$ **460**

(b) Other securities

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ **379**	¥ **294**	¥ **(85)**	$ **3,059**	$ **2,373**	$ **(686)**
Other	**10**	**7**	**(3)**	**81**	**56**	**(24)**
Total	¥ **389**	¥ **301**	¥ **(88)**	$ **3,140**	$ **2,429**	$ **(710)**

(2) Total sales of available-for-sale securities in the year ended March 31, 2001 amounted to ¥ 57 million (US$ 460 thousand) and the related gains and losses amounted to ¥ 4 million (US$ 32 thousand) and ¥ 7 million (US$ 56 thousand), respectively.

(3) Book values of securities with no available fair values as of March 31, 2001 are as follows:
Unlisted equity securities ¥ 34 million (US$ 274 thousand)

(4) 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.

5. Inventories

Inventories at March 31, 2001 and 2000, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Finished goods and merchandise	¥ **2,817**	¥ 2,839	$ **22,736**
Work-in- process	**1,035**	881	**8,354**
Raw materials and supplies	**1,245**	1,312	**10,048**
Total	¥ **5,097**	¥ 5,032	$ **41,138**

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

Short-term bank loans consist mainly of unsecured bank loans with a weighted average interest of 1.259% per annum at March 31, 2001.

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, 2001, are as follows:

March 31	Millions of yen	Thousands of U.S. dollars
2002	¥ **1,778**	$ **14,350**
2003	**1,114**	**8,991**
2004	**896**	**7,232**
2005	**580**	**4,681**
2006	**200**	**1,614**
2007 and thereafter	**479**	**3,866**
Total	¥ **5,047**	$ **40,734**

At March 31, 2001, assets pledged as collateral for secured long-term debt, including current portion, and short-term bank loans of ¥ 296 million (US$ 2,389 thousand), are as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, net of accumulated depreciation	¥ **7,778**	$ **62,776**

7. Retirement Benefits

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

	Millions of yen	Thousands of U.S. dollars
	2001	2001
Projected retirement benefit obligation	¥ (2,198)	$ (17,740)
Plan assets	1,559	12,583
Unfunded retirement benefit obligation	(639)	(5,157)
Unrecognized actuarial differences	313	2,526
Liability for severance and retirement benefits	¥ (326)	$ (2,631)

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

	Millions of yen	Thousands of U.S. dollars
	2001	2001
Service cost	¥ 268	$ 2,163
Interest cost	59	476
Expected return on plan assets	(40)	(323)
Net transition obligation	358	2,889
Severance and retirement benefit expenses	¥ 645	$ 5,205

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, 2001, 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	¥ 433,440,000	¥ 371,640,000
Exercise price per share of common stock	¥ 1,680.00	¥ 1,520.00
Number of shares of common stock reserved for exercise	258,000	244,500
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

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 ¥ 383 million (US$ 3,091 thousand) and ¥ 359 million at March 31, 2001 and 2000, 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 28, 2001, the Company's shareholders approved the payment of year-end cash dividends of ¥15 (U.S.$0.12) per share totaling ¥ 159 million (US$ 1,283 thousand) to the Company's shareholders of record as of March 31, 2001, the payment of bonuses to the Company's directors totaling ¥ 23 million (US$ 186 thousand) and the related appropriation of retained earnings to legal reserve of ¥ 18 million (US$ 145 thousand).

10. Income Taxes

The Company and its consolidated subsidiaries 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, 2001 and 2000.

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, 2001 and 2000:

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

Significant components of deferred tax assets and liabilities at March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax assets:			
Unrealized gains for land	**¥ 219**	¥ 219	**$ 1,768**
Retirement benefits for employees	**131**	—	**1,057**
Retirement benefits for directors and corporate auditors	**128**	119	**1,033**
Unrealized gains on inventories	**66**	51	**533**
Accrued bonuses to employees	**74**	49	**597**
Allowance for doubtful receivables	**52**	47	**420**
Enterprise taxes	**31**	30	**250**
Other	**55**	30	**444**
Total deferred tax assets	**756**	545	**6,102**
Deferred tax liabilities:			
Reserve for deferred gains on sales of fixed assets	**(169)**	(170)	**(1,364)**
Reserve for special depreciation	**(143)**	(26)	**(1,154)**
Other	**(3)**	(1)	**(25)**
Total deferred tax liabilities	**(315)**	(197)	**(2,543)**
Net deferred tax assets	**¥ 441**	¥ 348	**$ 3,559**

11. Leases

(a) Finance leases as lessee

At March 31, 2001 and 2000, assets leased under non-capitalized financial leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Machinery and equipment	¥ **171**	¥ 179	$ **1,380**
other	**85**	61	**686**
Accumulated depreciation	**(153)**	(122)	**(1,235)**
Total	¥ **103**	¥ 118	$ **831**

Leases obligations under non-capitalized finance leases, including finance charges, remaining at March 31, 2001 and 2000, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Payments due within one year	¥ **45**	¥ 50	$ **363**
Payments due after one year	**58**	68	**468**
Total	¥ **103**	¥ 118	$ **831**

Leases payments under such leases for the years ended March 31, 2001 and 2000, were ¥ 62 million (US$ 499 thousand) and ¥ 50 million, respectively.

(b) Operating leases as lessee

Lease obligations under operating leases, remaining at March 31, 2001 and 2000, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Payments due within one year	¥ **52**	¥ 51	$ **420**
Payments due after one year	**80**	82	**646**
Total	¥ **132**	¥ 133	$ **1,065**

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
	2001	2000	2001
Cash and time deposits	¥ **1,588**	¥ 1,507	$ **12,817**
Deposits placed with banks with maturities of over three months	**(430)**	(490)	**(3,471)**
Cash and cash equivalents	¥ **1,158**	¥ 1,017	$ **9,346**

13. 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, 2001 and 2000, 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, 2001 and 2000, 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 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 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 28, 2001

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 28, 2001)

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, 2001)

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
1,230

Number of Employees
449

Independent Public Accountants
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Osaka 530-8345, Japan

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

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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
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Active Work Co., Ltd.

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

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