

A Message from the President

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Business Results

The results for the year ended March 31, 2002 show slight reductions in both sales and income compared with the previous year's figures. Consolidated net sales were essentially even, slipping by 1.7% to ¥19,123 million and net income was 6.1% lower at ¥1,533 million. These declines were significantly less than in the previous year and better than the forecast at the beginning of the term. The slide in sales was attributed to intense competition in Japan with our mainstay products, ARTZ® and ARTZ Dispo®, the joint function improvers. Another factor was the decline in bulk sales due to falling demand from the over-the-counter market in the slowing Japanese economy. On the other hand, export sales of ARTZ Dispo® (introduced in the U.S. market under the brand name of SUPARTZ® in April 2001) increased steadily throughout the period. These activities brought our cumulative sales of ARTZ® (including overseas brands) to beyond 100 million units since 1987.

The major extraordinary loss for the year under review arose from appraisal losses and losses on sale of negotiable securities. Because additions to the reserve fund for employee pension benefits, as made in

the previous fiscal year, were not called for, extraordinary losses in the year under review were reduced.

Outlook

For the year ending March 31, 2003, we are predicting a return to sales growth and profitability. Our conservative projection calls for net income to recover to a level not seen for two years, at around ¥2,300 million on net sales of ¥21,000 million. This growth will be driven by increases in overseas sales that offset an anticipated income decline in Japan.

Although we will take all the steps necessary with our marketing partners to maintain unit sales volume in Japan at current levels, income from these sales will decline as a result of decreases in the Japanese Health Insurance reimbursement prices for these products.

A Three-platform Program for Higher Growth

The current profit ratio is 8.0%, and the balance sheet is very healthy. Total assets are ¥44.4 billion. Total shareholders' equity is around 90%, and we are virtually debt free, with sufficient assets to comfortably fund strategic investments

and sustain our current levels of research and development. Although we are a very healthy company on the basis of our balance sheet, our share price has been disappointing for some time. This is because that, even though we have been very successful with one product, we have yet to develop a successor that can meet our specifications for high-level profitability and growth.

There is no question that the ultimate key to strong, sustained growth is finding new products, but this is a difficult process that will take time and is full of uncertainty. Therefore, until we can achieve that ultimate objective, it is essential for us to sustain our current business in a maturing Japanese market as we expand our overseas business over the medium term.

We have crystallized this thinking into a formal, three-element strategy to support renewed growth and profitability.



Consolidated Financial Highlights

Years Ended March 31	Millions of Yen				Thousands of U.S. Dollars (Note 1)
	2002	2001	2000	1999	2002
Net Sales	¥ 19,123	¥ 19,450	¥ 22,017	¥ 19,493	\$ 143,782
Gross Profit	12,689	12,853	15,622	13,400	95,406
Operating Income	3,890	3,874	6,312	4,416	29,248
Net Income	1,533	1,633	2,570	2,219	11,526
Total Assets	44,447	44,097	43,815	42,227	334,188
Shareholders' Equity	39,828	38,651	37,707	34,464	299,459
Per Share of Common Stock:	Yen				U.S. Dollars
Net Income (Assuming Full Dilution)	¥ 58.90	¥ 62.72	¥ 98.70	¥ 85.24	\$ 0.44
Cash Dividends	20.00	20.00	20.00	20.00	\$ 0.15

- Notes:
1. U.S. dollar amounts are converted, for convenience only, at the rate of ¥133 = U.S.\$1, the approximate rate at March 31, 2002.
 2. Net income per share is computed on the weighted average number of shares outstanding after giving retroactive adjustment for subsequent stock splits for each of the years.
 3. Cash dividends per common share are the amounts applicable to the respective years without giving retroactive adjustment for subsequent stock splits.

1 Maintain Domestic Sales Revenues

We will build our first platform by maintaining sales of existing products, especially sodium hyaluronate, and improving profit margins.

2 Grow Overseas Sales

We will build our next platform by expanding overseas sales and fostering our new business activities.

3 Accelerate New-drug Discovery

Over the long term, we will construct a third platform by developing new products and launching them onto the market.

Step 1 Maintain Domestic Sales Revenues

We intend to protect our high market share for ARTZ® and ARTZ Dispo® in Japan by exploiting four strong advantages: a skilled and creative marketing partner in Kaken Pharmaceutical Co., Ltd., ability to provide unmatched volumes of research and clinical data, most extensive research experience and an excellent reputation in the medical community through the high quality and safety of these products.

We will also leverage similar strengths with Santen Pharmaceutical Co. Ltd., the marketing partner for OPEGAN® and OPEGAN Hi®, to expand the market for these ophthalmologic surgical aids for cataract surgery. We will develop a new market for Emdogain® Gel, which we license from Biora AB in Sweden and reintroduced to the Japanese market in March 2002.

It is a product that biologically recreates tooth attachment lost due to periodontitis. Emdogain® Gel is a resorbable, implantable material which consists of hydrophobic enamel matrix proteins premixed with the vehicle solution, propylene Glycol Alginate. It is intended as an adjunct to periodontal surgery for topical application onto exposed root surfaces to treat intrabony defects due to moderate or severe periodontitis.

We are also moving to bring profitability to our reagent business by March 2004. Specific measures will include a streamlining of the current product list, rationalization of pricing and improvements in organizational efficiency. Our main purpose for selling reagents is to encourage research in glycoconjugates. We believe there is sufficient room for us to advance rationalization with the understanding of the researchers who have supported us over the years.

ARTZ Dispo®, the world's first sodium hyaluronate formulation for osteoarthritis in knee and shoulder joints



OPEGAN Hi®, the ophthalmologic surgical aid for cataract surgery



Step 2

Grow Overseas Sales

This part of our strategy will be the basis for medium-term sales and profit growth. In January 2002, SUPARTZ®, the brand name in the U.S. and major EU countries for the product known as ARTZ Dispo® in Japan, was listed in the Medicare insurance reimbursement system in the U.S. With these events pushing us forward, we anticipate that SUPARTZ® sales will continue to increase steadily in the coming fiscal year.

Associates of Cape Cod, Inc. (ACC) is a consolidated subsidiary in the U.S. and primary manufacturer of reagents for endotoxin assays. In the year under review, the company took steps that will significantly enhance its manufacturing and R&D capabilities by completing construction of a new multipurpose headquarters building. Production will move to the newly completed facility by the beginning of 2004, following approval by the FDA.

We believe that with these new facilities, a strengthened worldwide sales network, and a collection of new products and applications being readied for the market, ACC is on the verge of achieving its full potential.

Step 3

Accelerate New-drug Discovery

We have been a research-based organization and traditionally devote approximately 20% of our total revenues to R&D. Currently, we have six promising new products in various stages of clinical trials, and the search continues for new products that will take us to the next stage of growth as a company. Last year, we announced a reorganization of our R&D structure with the object of speeding up breakthrough development of world-class products. At the same time, we announced our cooperation with the Japanese Government's projects in glycoconjugate research.

We are fortunate to have been leading and supporting research in this field for over 50 years. Now, as genome research gives way to the realization of the key role of glycoconjugates in cell metabolism and communication, we are poised on the crest of what promises to become a very large wave.

How well we exploit this opportunity depends on whether or not we can quickly transform our findings into development and introduction of new products. I believe the steps we have taken in the past year position us to do exactly that.



President

Shirow Enoki

Worldwide Market for SUPARTZ®, ARTZAL® and ARTZ®

NORTHERN EUROPE

- Sweden
- Finland
- Iceland
- Denmark



WESTERN EUROPE

- UK
- France
- Germany
- Holland
- Spain
- Belgium
- Austria
- Italy
- Portugal



ASIA

- Japan
- Taiwan
- China
- Korea



NORTH AMERICA

- U.S.A.
- Canada



SUPARTZ®, which went on sale in the U.S. from April 2001

