

Unaudited Pro Forma Combined Consolidated Balance Sheets

KURAYA CORPORATION and its consolidated subsidiaries
 Sanseido Co., Ltd. and its consolidated subsidiaries
 Tokyo Pharmaceutical Co., Ltd. (nonconsolidated)
 As of March 31, 2000

ASSETS	Millions of yen				Thousands of U.S. dollars (Note)
	Sanseido	Kuraya	Tokyo Pharmaceutical	Total	Total
Cash on hand and in banks	¥ 28,583	¥ 32,148	¥ 1,093	¥ 61,824	\$ 582,421
Notes and accounts receivable	70,742	174,804	24,981	270,527	2,548,535
Marketable securities	—	2	—	2	19
Inventories	10,930	24,441	2,843	38,214	360,000
Prepaid expenses	135	590	83	808	7,612
Other receivables	6,879	13,157	2,667	22,703	213,877
Deferred tax assets	388	662	202	1,252	11,795
Other	160	1,390	83	1,633	15,384
Allowance for doubtful accounts	(459)	(1,178)	(175)	(1,812)	(17,070)
Total current assets	117,360	246,019	31,779	395,158	3,722,638
Buildings and structures	15,873	19,500	1,944	37,317	351,550
Land	23,987	36,243	1,819	62,049	584,541
Other	2,384	1,537	196	4,117	38,785
Total property, plant and equipment	42,245	57,281	3,960	103,486	974,903
Intangible assets	125	930	39	1,094	10,306
Investment securities	2,052	3,613	105	5,770	54,357
Long-term loans receivable	429	184	2	615	5,794
Delinquent loans	554	217	224	995	9,374
Deferred tax assets	461	3,809	393	4,663	43,928
Other	1,155	9,515	851	11,521	108,535
Allowance for doubtful accounts	(557)	(2,360)	(224)	(3,141)	(29,590)
Total investments and other	4,095	14,978	1,364	20,437	192,529
Total fixed assets	46,467	73,190	5,363	125,020	1,177,767
Total assets	¥163,827	¥319,210	¥37,143	¥520,180	\$4,900,424

Note: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥106.15 to U.S. \$1.00, the approximate exchange rate on March 31, 2000.

LIABILITIES	Millions of yen				Thousands of U.S. dollars (Note)
	Sanseido	Kuraya	Tokyo Pharmaceutical	Total	Total
Notes and accounts payable	¥ 95,551	¥218,365	¥27,146	¥341,062	\$ 3,213,019
Short-term bank loans	—	6,586	1,700	8,286	78,059
Accrued expenses	477	2,899	269	3,645	24,338
Income taxes payable	575	213	93	881	8,300
Consumption taxes payable	707	417	101	1,225	11,540
Accrued bonuses	1,922	3,239	501	5,662	53,340
Allowance for goods to be returned	141	309	81	531	5,002
Other	1,446	1,181	101	2,728	25,699
Total current liabilities	100,823	233,213	29,995	364,031	3,429,402
Convertible bonds	—	22,891	—	22,891	215,648
Long-term debt	—	626	—	626	5,897
Employees' retirement benefits	18	8,593	1,593	10,204	96,128
Directors' retirement benefits	831	1,114	89	2,034	19,162
Allowance for investment loss	—	1,090	—	1,090	10,268
Other	521	475	—	996	9,383
Total long-term liabilities	1,370	34,791	1,683	37,844	356,514
Total liabilities	102,193	268,004	31,678	401,875	3,785,916
MINORITY INTERESTS					
Minority interests	3	12	—	15	141
Total minority interests	3	12	—	15	141
TOTAL SHAREHOLDERS' EQUITY					
Common stock	6,928	10,542	203	17,673	166,491
Capital surplus	6,034	11,397	—	17,431	164,211
Retained earnings	48,666	29,305	5,261	83,232	784,098
Treasury stock	(0)	(52)	—	(52)	(490)
Total shareholders' equity	61,630	51,192	5,464	118,286	1,114,329
Total liabilities, minority interests and shareholders' equity	¥163,827	¥319,210	¥37,143	¥520,180	\$4,900,424

Unaudited Pro Forma Combined Consolidated Statements of Operations

KURAYA CORPORATION and its consolidated subsidiaries
 Sanseido Co., Ltd. and its consolidated subsidiaries
 Tokyo Pharmaceutical Co., Ltd. (nonconsolidated)
 Year ended March 31, 2000

	Millions of yen				Thousands of U.S. dollars (Note)
	Sanseido	Kuraya	Tokyo Pharmaceutical	Total	Total
Net sales	¥272,472	¥570,299	¥83,991	¥926,762	\$8,730,683
Cost of sales	244,145	515,444	76,631	836,220	7,877,720
Provision for goods to be returned	—	25	21	46	433
Gross profit	28,328	54,829	7,339	90,496	852,529
Selling, general and administrative expenses	26,409	50,751	7,213	84,373	794,847
Operating income	1,918	4,078	126	6,122	57,673
Non-operating revenues:					
Interest and dividend income	111	197	19	327	3,081
Research fee income	661	1,204	220	2,085	19,642
Rent income	672	181	66	919	8,658
Other	328	607	44	979	9,223
Non-operating expenses:					
Interest expense	9	376	20	405	3,815
Rent	734	—	44	778	7,329
Provision for doubtful accounts	—	1,246	126	1,372	12,925
Other	8	299	62	369	3,476
Ordinary income	2,940	4,347	222	7,509	70,740
Extraordinary income:					
Gain on sales of properties	93	0	—	93	876
Reversal of allowance for doubtful accounts	175	139	48	362	3,410
Extraordinary losses:					
Loss on disposal of properties	156	306	—	462	4,352
Loss on reorganization of affiliates	44	—	—	44	415
Devaluation of investment securities	—	15	—	15	141
Provision for retirement benefits	—	5,225	301	5,526	52,058
Retirement benefits to directors	—	103	—	103	970
Provision for directors' retirement benefits	—	771	89	860	8,102
Provision for investment loss	—	130	—	130	1,225
Relocation cost	—	949	—	949	8,940
Merger cost	—	254	—	254	2,393
Other	—	96	—	96	904
Income before income taxes and minority interests	3,008	—	—	3,008	28,337
Loss before income taxes and minority interests	—	3,367	119	3,486	32,840
Income taxes — current	1,041	2,125	293	3,459	32,586
Income taxes — deferred	423	(3,248)	(301)	(3,126)	(29,449)
Minority interests	(16)	(3)	—	(19)	(179)
Net income	1,560	—	—	1,560	14,696
Net loss	¥ —	¥ 2,241	¥ 111	¥ 2,352	\$ (22,157)

Note The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥106.15 to U.S. \$1.00, the approximate exchange rate on March 31, 2000.

Unaudited Pro Forma Combined Consolidated Cash Flow

KURAYA CORPORATION and its consolidated subsidiaries
 Sanseido Co., Ltd. and its consolidated subsidiaries
 Tokyo Pharmaceutical Co., Ltd. (nonconsolidated)
 Year ended March 31, 2000

	Millions of yen				Thousands of U.S. dollars (Note)
	Sanseido	Kuraya	Tokyo Pharmaceutical	Total	Total
Cash Flows from Operating Activities					
Income (loss) before income taxes and minority interests	¥ 3,008	¥ (3,367)	¥ (119)	¥ (478)	\$ (4,503)
Depreciation	1,949	1,477	180	3,606	33,971
Amortization of consolidation adjustment	0	44	—	44	415
Increase (decrease) in allowance for doubtful accounts	(208)	1,573	77	1,442	13,585
Increase in allowance for investment loss	—	130	—	130	1,225
Interest and dividend income	(111)	(198)	(19)	(328)	(3,090)
Interest expenses	9	376	20	405	3,815
Loss on disposal of properties	70	306	—	376	3,542
Loss on securities	23	35	—	58	546
Decrease (increase) in notes and accounts receivable	(536)	(13,745)	1,356	(12,925)	(121,761)
Decrease (increase) in inventories	(1,191)	325	520	(346)	(3,260)
Increase in other current assets	(1,566)	(1,699)	(620)	(3,885)	(36,599)
Increase (decrease) in notes and accounts payable	4,385	12,317	(2,319)	14,383	135,497
Increase (decrease) in other current liabilities	333	1,231	46	1,610	15,167
Others	(55)	6,613	518	7,076	66,660
Sub total	6,112	5,424	(356)	11,180	105,323
Receipts of interest and dividends	114	198	19	331	3,118
Payments of interest	(9)	(325)	(20)	(354)	(3,334)
Payments of income taxes	(2,374)	(7,466)	(527)	(10,367)	(97,664)
Net cash provided by (used in) operating activities	3,842	(2,168)	(885)	789	7,433
Cash Flows from Investing Activities					
Maturity of time deposits	—	929	25	954	8,987
Proceeds from sales of marketable securities	—	86	(1)	85	801
Payments for purchase of properties	(3,182)	(12,754)	(38)	(15,974)	(150,485)
Proceeds from sales of properties	194	—	44	238	2,242
Payments for purchase of investment securities	(51)	(521)	(3)	(575)	(5,417)
Proceeds from sales of investment securities	4	124	—	128	1,206
Payments for investment in newly consolidated subsidiary	—	(754)	—	(754)	(7,103)
Payments for deposits	—	(701)	—	(701)	(6,604)
Increase in long-term loans receivable	(406)	—	—	(406)	(3,825)
Collections of long-term loans receivable	18	—	—	18	170
Other receipts	28	—	52	80	754
Net cash provided by (used in) investing activities	(3,393)	(13,591)	78	(16,906)	(159,265)
Cash Flows from Financing Activities					
Purchase of treasury stock	(0)	(0)	—	(0)	(0)
Redemption of convertible bonds	—	(11,000)	—	(11,000)	(103,627)
Decrease in short-term bank loans	—	(10,207)	(100)	(10,307)	(97,098)
Repayments of long-term debt	—	(178)	—	(178)	(1,677)
Repayments of long-term payables	—	(20)	—	(20)	(188)
Payments of cash dividends	(722)	(787)	(20)	(1,529)	(14,404)
Payments of cash dividends to minority interests	—	(2)	—	(2)	(8,724)
Net cash used in financing activities	(722)	(22,196)	(120)	(23,038)	(217,033)
Net increase in cash and cash equivalents	—	—	(926)	(926)	(8,724)
Net decrease in cash and cash equivalents	(273)	(37,957)	—	(38,230)	(368,874)
Cash and cash equivalents at beginning of year	28,398	69,255	1,757	99,410	936,505
Cash and cash equivalents held by newly consolidated subsidiary at beginning of year	27	177	—	204	1,922
Cash and cash equivalents at end of year	28,152	31,475	831	60,458	569,553
Cash on hand and in banks on the balance sheet	28,583	32,148	1,093	61,824	582,553
Time deposits with maturity over three months	431	672	262	1,365	13,000
Cash and cash equivalents at end of year	¥28,152	¥ 31,475	¥ 831	¥ 60,458	\$ 569,553

Note: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥106.15 to U.S. \$1.00, the approximate exchange rate on March 31, 2000.

Consolidated Balance Sheets

KURAYA CORPORATION and its consolidated subsidiaries
March 31, 1999 and 2000

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	2000	2000
Current assets:			
Cash on hand and in banks (Note 8)	¥ 70,594	¥ 32,148	\$ 303,283
Marketable securities (Note 5)	110	3	28
Notes and accounts receivable:			
Trade	156,616	174,805	1,649,104
Other	12,109	13,273	125,216
Allowance for doubtful accounts	(1,266)	(1,179)	(11,122)
Inventories	23,955	24,442	230,585
Other current assets	2,171	2,528	23,849
Total current assets	264,289	246,020	2,320,943
Property, plant and equipment (Note 8):			
Land	27,843	36,243	341,915
Buildings and structures	23,061	31,771	299,726
Machinery and equipment	357	737	6,953
Vehicles, furniture and fixtures	1,131	1,648	15,547
Construction in progress	3,522	407	3,840
	55,914	70,806	667,981
Accumulated depreciation	(12,291)	(13,525)	(127,594)
Net property, plant and equipment	43,623	57,281	540,387
Investments and other assets:			
Investment securities (Notes 5 and 8)	3,942	3,978	37,528
Long-term loans receivable	374	184	1,736
Allowance for doubtful accounts	(647)	(2,360)	(22,264)
Lease deposits	6,275	7,735	72,972
Consolidated goodwill		260	2,453
Other	4,905	6,112	57,660
Total investments and other assets	14,849	15,909	150,085
	¥322,761	¥319,210	\$3,011,415

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	2000	2000
Current liabilities:			
Short-term bank loans (Notes 6 and 8)	¥ 16,455	¥ 6,443	\$ 60,783
Long-term debt due within one year (Notes 6 and 8)	11,143	143	1,349
Notes and accounts payable:			
Trade	200,602	218,366	2,060,057
Other	30	512	4,830
Accrued expense	4,791	6,448	60,830
Income taxes payable (Note 12)	5,525	214	2,019
Other current liabilities	793	1,178	11,113
Total current liabilities	239,339	233,304	2,200,981
Long-term debt (Notes 6 and 8)	27,669	23,517	221,859
Employees' retirement benefits	3,239	8,593	81,066
Other long-term liabilities	1,726	2,681	25,293
Minority interests	102	12	113
Contingent liabilities (Note 11)			
Shareholders' equity (Note 9):			
Common stock, par value ¥50 per share:			
Authorized – 89,600,000 shares			
Issued – 42,088,671 shares in 1999 and 45,145,931 shares in 2000	8,509	10,543	99,462
Additional paid-in capital	9,364	11,398	107,528
Retained earnings (Note 9)	32,813	29,215	275,613
Treasury stock, at cost	—	(53)	(500)
Total shareholders' equity	50,686	51,103	482,103
	¥322,761	¥319,210	\$3,011,415

Consolidated Statements of Operations

KURAYA CORPORATION and its consolidated subsidiaries
Three years ended March 31, 2000

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1998	1999	2000	2000
Net sales	¥477,686	¥508,116	¥570,300	\$5,380,189
Costs and expenses:				
Cost of sales	427,306	455,055	515,470	4,862,925
Selling, general and administrative expenses	47,483	44,954	50,752	478,792
	474,789	500,009	566,222	5,341,717
Operating income	2,897	8,107	4,078	38,472
Other income (expenses):				
Research fee income	994	1,084	1,205	11,368
Interest and dividend income	304	209	199	1,877
Interest expense	(487)	(399)	(376)	(3,547)
Amortization of goodwill (Note 7)	(302)	—	—	—
Loss on devaluation of securities	(322)	(174)	(16)	(151)
Other, net (Note 10)	2,349	(1,476)	(8,457)	(79,783)
	2,536	(756)	(7,445)	(70,236)
Income (loss) before income taxes	5,433	7,351	(3,367)	(31,764)
Income taxes (Note 12):				
Current	862	5,969	2,125	20,047
Deferred	—	(1,784)	(3,248)	(30,641)
	4,571	3,166	(2,244)	(21,170)
Minority interests in net income of consolidated subsidiaries	(20)	(27)	3	28
Equity in earnings of an affiliated company	15	—	—	—
Net income (loss)	¥ 4,566	¥ 3,139	¥ (2,241)	\$ (21,142)
		Yen		U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income (loss)	¥114.23	¥77.44	¥(50.04)	\$(0.47)
Diluted net income	81.14	50.39	—	—
Cash dividends applicable to the period	18.00	18.00	18.00	0.17

See accompanying notes.

Consolidated Statements of Shareholders' Equity

KURAYA CORPORATION and its consolidated subsidiaries
Three years ended March 31, 2000

	Number of shares of common stock issued (Thousands)	Millions of yen		
		Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1997	39,636	¥ 7,185	¥ 8,180	¥ 26,402
Increase due to merger (Note 3)	672	140	—	872
Net income	—	—	—	4,566
Cash dividends paid (¥21.0 per share)	—	—	—	(832)
Bonuses to directors and statutory auditors	—	—	—	(46)
Balance at March 31, 1998	40,308	7,325	8,180	30,962
Cumulative effect of adopting deferred tax accounting	—	—	—	(568)
Conversion of convertible bonds	1,781	1,184	1,184	—
Net income	—	—	—	3,139
Cash dividends paid (¥16.5 per share)	—	—	—	(665)
Bonuses to directors and statutory auditors	—	—	—	(55)
Balance at March 31, 1999	42,089	8,509	9,364	32,813
Conversion of convertible bonds	3,057	2,034	2,034	—
Net income (loss)	—	—	—	(2,241)
Cash dividends paid (¥18.0 per share)	—	—	—	(788)
Bonuses to directors and statutory auditors	—	—	—	(215)
Consideration to Sanseido Co., Ltd. shareholders related to the merger	—	—	—	(406)
Increase due to the increase in consolidated subsidiaries	—	—	—	52
Balance at March 31, 2000	45,146	¥10,543	¥11,398	¥29,215

	Thousands of U.S. dollars (Note 1)		
	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1999	\$ 80,273	\$ 88,339	\$ 309,556
Conversion of convertible bonds	19,189	19,189	—
Net income (loss)	—	—	(21,142)
Cash dividends paid (\$0.17 per share)	—	—	(7,434)
Bonuses to directors and statutory auditors	—	—	(2,028)
Consideration to Sanseido Co., Ltd. shareholders related to the merger	—	—	(3,830)
Increase due to the increase in consolidated subsidiaries	—	—	491
Balance at March 31, 2000	\$99,462	\$107,528	\$275,613

See accompanying notes.

Consolidated Statements of Cash Flows

KURAYA CORPORATION and its consolidated subsidiaries
Two years ended March 31, 1998 and 1999

	Millions of yen	
	1998	1999
Cash flows from operating activities:		
Net income	¥ 4,566	¥ 3,139
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,527	1,242
Loss (gain) on disposal of property, plant and equipment	(431)	18
Loss on devaluation of securities	322	174
Gain on sale of investment in a subsidiary	(464)	—
Exchange loss (gain) of Swiss franc convertible notes	(795)	—
Gain on redemption of convertible notes	(214)	—
Provision for investment losses	—	960
Provision for retirement benefits for directors	—	219
Other	(459)	570
Changes in assets and liabilities:		
Increase in notes and accounts receivable	(2,618)	(11,159)
Increase in inventories	(2,446)	(486)
Increase (decrease) in notes and accounts payable	(371)	16,784
Increase (decrease) in income taxes payable	(1,828)	5,341
Increase in deferred income tax assets	—	(1,215)
Other	(1,536)	139
Net cash provided by (used in) operating activities	(4,747)	15,726
Cash flows from investing activities:		
Payments for purchase of property, plant and equipment	(1,811)	(9,686)
Proceeds from sale of property, plant and equipment	556	6
Payments for purchase of investment securities — net	(397)	(616)
Proceeds from sale of investment securities	868	15
Payments of lease deposits — net	(1,185)	(219)
Proceeds from liquidation of a subsidiary	2,230	—
Other	(844)	(490)
Net cash used in investing activities	(583)	(10,990)
Cash flows from financing activities:		
Increase (decrease) in short-term bank loans	(4,763)	13,548
Proceeds from long-term debt	—	10,000
Repayment of long-term debt	(8,011)	(2,712)
Cash dividends paid and bonuses to directors and statutory auditors	(878)	(720)
Net cash provided by (used in) financing activities	(13,652)	20,116
Increase due to merger	726	—
Net increase (decrease) in cash on hand and in banks	(18,256)	24,852
Cash on hand and in banks at beginning of period	63,998	45,742
Cash on hand and in banks at end of period	¥ 45,742	¥ 70,594
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	¥ 197	¥ 399
Income taxes	2,756	2,690

See accompanying notes.

Consolidated Statements of Cash Flows

KURAYA CORPORATION and its consolidated subsidiaries
Year ended March 31, 2000

	Millions of yen	Thousand of U.S. dollars (Note 1)
	2000	2000
Cash flows from operating activities:		
Loss before income taxes	¥ (3,367)	\$ (31,764)
Adjustments to reconcile loss before income taxes to net cash used in operating activities:		
Depreciation and amortization	1,520	14,340
Loss on disposal of property, plant and equipment	307	2,896
Increase in reserve for retirement allowances	5,354	50,509
Increase in reserve for bonus	517	4,877
Increase in allowance for doubtful accounts	1,574	14,849
Increase in allowance for returns	25	236
Interest expenses	376	3,547
Interest and dividend income	(199)	(1,877)
Loss from sale and devaluation of securities, net	36	340
Provision for investment losses	130	1,226
Provision for retirement benefits for directors	844	7,962
Changes in assets and liabilities:		
Increase in notes and accounts receivable	(13,745)	(129,670)
Decrease in inventories	325	3,066
Increase in notes and accounts payable	12,318	116,208
Increase in other current assets	(1,699)	(16,028)
Increase in accrued expenses	978	9,226
Decrease in accrued consumption taxes	(70)	(660)
Increase in other current liabilities	325	3,066
Payment of directors bonuses	(124)	(1,170)
Interest and dividends received	199	1,877
Cash paid for interest	(325)	(3,066)
Cash paid for income taxes	(7,467)	(70,443)
Net cash used in operating activities	(2,168)	(20,453)
Cash flows from investing activities:		
Decrease in fixed deposit	929	8,764
Proceeds from sale of marketable securities — net	86	811
Payments for purchase of property, plant and equipment	(12,754)	(120,321)
Payments for purchase of investment securities — net	(521)	(4,915)
Proceeds from sale of investment securities	124	1,170
Payments of lease deposits — net	(702)	(6,623)
Payments for acquisition of subsidiary newly consolidated	(754)	(7,113)
Net cash used in investing activities	(13,592)	(128,226)
Cash flows from financing activities:		
Decrease in short-term bank loans	(10,207)	(96,292)
Repayment of long-term debt	(179)	(1,689)
Repayment of long-term other accounts payable	(20)	(189)
Repayment of convertible bonds	(11,000)	(103,774)
Cash dividends paid	(788)	(7,434)
Cash dividends paid to minority shareholders	(3)	(28)
Net cash used in financing activities	(22,197)	(209,406)
Net decrease in cash on hand and in banks	(37,957)	(358,085)
Cash on hand and in banks at beginning of period	69,255	653,349
Beginning cash and equivalents of newly consolidated subsidiaries	178	1,679
Cash on hand and in banks at end of period	¥ 31,476	\$ 296,943

See accompanying notes.

Notes to Consolidated Financial Statements

KURAYA CORPORATION and its consolidated subsidiaries
Three years ended March 31, 2000

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

KURAYA CORPORATION (the "Company") and its consolidated domestic 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 ("MOF") as required by the Securities and Exchange Law.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation — Consolidated financial statements of the company included the accounts of the Company, two domestic and eight overseas subsidiaries in 1998, two domestic subsidiaries in 1999, five domestic subsidiaries in 2000, which are significant. Intercompany transactions and accounts have been eliminated.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded using the fair value at the time the Company acquired control of the respective subsidiaries.

Effective for the year ended March 31, 2000, all companies are required to consolidate all significant investees which are controlled through substantial ownership of majority voting rights or existence of certain conditions. Previously, only majority-owned companies were consolidated. The prior years' consolidated financial statements have not been restated. There was no effect of applying this rule to the Company's consolidated financial statements.

Equity method — Investment in an overseas affiliated company is stated by the equity method. Investments in non-consolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies of the investees, are accounted for on the equity method.

Investments in unconsolidated subsidiaries and other affiliated companies are stated at cost, since net income, net sales and retained earnings in the aggregate of such companies are not material compared to those on a consolidated basis.

Cash flow statement — 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

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 1998 and 1999 have been prepared for the purpose of inclusion in the consolidated financial statements although such statements were not customarily prepared in Japan and not required to be filed with MOF prior to 2000.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, 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.

three months at the time of purchase are considered to be cash and cash equivalents.

The Company prepared the 2000 consolidated cash flow statement as required by and in accordance with the "Standards for Preparation of Consolidated Cash Flow Statements, etc." effective from the year ended March 31, 2000. The 1998 and 1999 consolidated cash flow statements, which were voluntarily prepared for the purpose of inclusion in the consolidated financial statements in a form familiar to readers outside Japan, have not been restated. Significant differences in the consolidated cash flow statements for 2000 and those for 1998 and 1999 include the use of additional disclosure in cash flows from operating activities in 2000 of interest expenses, interest and dividend income and interest and dividend received.

Marketable securities and investment securities — Marketable securities and investment securities having quoted prices at stock exchanges are valued at the lower of moving-average cost or market value. The other securities are stated at the moving-average cost. In cases where substantial impairment of value is recognized compared to the market value or the underlying net asset value, the carrying amount is reduced to the market value or the net asset value.

Inventories — Inventories are mainly stated at cost determined by the moving average method.

Property, plant and equipment — Depreciation of property, plant and equipment is computed by the declining-balance method with respect to the Company and its subsidiaries.

In accordance with revisions of the Corporation Tax Law, buildings acquired after March 31, 1998 are depreciated using the straight-line method.

Effective April 1, 1998, the Company and its domestic subsidiaries reduced the minimum capitalization amount for property, plant and equipment from ¥200 thousand to ¥100 thousand in accordance with changes in the Corporation Tax Law of Japan. Depreciation of assets whose acquisition costs are between ¥100 thousand and ¥200 thousand, is provided by the straight-line method over 3 years.

Deferred charges — Bond issue expenses are charged to income when incurred.

Allowance for doubtful accounts — As for the Company and domestic consolidated subsidiaries the allowance for the doubtful accounts is provided in amounts sufficient to cover possible losses. It comprises the amount calculated in accordance with the corporate income tax regulations and the amount estimated to be uncollectible on an individual basis.

Foreign currency financial statements — The financial statements of overseas consolidated subsidiaries are translated into Japanese yen by the following principal methods as set forth in the Accounting Standards for Foreign Currency Translation.

The balance sheet accounts of the overseas consolidated subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date except inter-company accounts and shareholders' equity, which are translated at the historical rates.

Revenue and expense accounts of the overseas consolidated subsidiaries are translated into Japanese yen at the average exchange rate for the year. Differences arising from such translations are included in assets or liabilities as translation adjustment.

Income taxes — The Company provided income taxes at the amounts currently payable for the year ended March 31, 1998. Effective April 1, 1998, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, which recognizes tax effects of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Under the new accounting standard, the provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1998 of ¥568 million is reflected as an adjustment to the retained earnings brought forward from the previous year. Prior years' financial statements have not been restated. The adoption increased net income for the year ended March 31, 1999 by ¥1,183 million and retained earnings at that date by ¥1,215 million.

Employees' retirement benefits and pension — Employees of the company and its domestic subsidiaries are covered by unfunded retirement plans and funded pension plans. The Company and its

domestic consolidated subsidiaries provide for the employees' retirement liability at 40% of the amount which would be required if all eligible employees voluntarily retired at the balance sheet date, less portion covered by the pension plans.

Effective from the year ended March 31, 2000, the Company and certain consolidated subsidiaries provided allowance for retirement benefits at the amount required had all eligible employees voluntarily severed employment at the balance sheet date, less the amount expected to be covered by the pension plan. The effect of the change on the consolidated financial statements for 2000 was an increase in loss before income taxes of ¥3,367 million (\$31,764) and a decrease in net assets by the same amount.

The Company and consolidated subsidiaries changed the accounting for past service costs and recognized the remaining balance of the past service costs amounting to ¥1,858 million (\$17,528) as liabilities at March 31, 2000 with a corresponding charge to income.

Previously, such costs were recognized when payments of past service costs were made to the pension funds. The effect of the change on the consolidated financial statements for 2000 was to increase loss before income taxes by ¥1,858 million (\$17,528) and to decrease net assets by the same amount.

Directors' retirement benefits — The Company pays lump-sum amounts as retirement benefits to directors retiring. Such amounts were expensed in the period when actually paid through the years ended March 31, 1998. Effective April 1, 1998, the Company provided the amount that would be required at the balance sheet date in accordance with the internal rules. This change in accounting policy was made because providing liabilities for such benefits has been recognized as an established accounting practice and the new policy would attain better cost allocation among periods in light of the increased number of directors and years of service.

The Company provided for directors' retirement benefits for the year ended March 31, 1999 amounting to ¥51 million (\$481 thousand), which was attributable to that year and included in selling, general and administrative expenses for 1999, and at the same time, the Company decided to also expense such benefits related to the prior periods equally over three years commencing in 1999, when ¥218 million of such amount was charged to income. The effect of the change was to decrease income before income taxes for 1999 by ¥270 million (\$2,547 thousand).

Effective April 1, 1999, consolidated subsidiaries changed the method of recognizing directors' retirement benefits and expensed, as selling, general and administrative expenses, 100% of the amount required in accordance with the internal rules if the directors retired at the balance sheet date. Previously, consolidated subsidiaries expensed such benefits when paid. This change in accounting policy

was made because providing allowance for such benefits has been recognized as an established accounting practice and the new policy would attain better cost allocation among periods in light of the increased number of directors and years of service. The effect of the change on the operating results for the year ended March 31, 2000, was to decrease operating income by ¥22 million (\$208 thousand) and to increase loss before income taxes by ¥134 million (\$1,264 thousand).

As explained above, directors' retirement benefits attributable to the period prior to April 1, 1998 were supposed to be expensed equally over three years commencing in 1999. However, in anticipation of the merger explained in Note 15, the Company decided to expense all of the remaining balance of such benefits in the year ended March 31, 2000. This decision increased the loss before income taxes for 2000 by ¥218 million (\$2,057 thousand).

Amounts per share of common stock — The computations of net income per share of common stock are based on the average number of shares outstanding during each year.

For computing diluted net income per share of common stocks, the average number of shares was increased by the number of shares that would have been outstanding assuming Euro-yen convertible notes were converted at the beginning of the respective fiscal years and domestic convertible bonds were converted on the date of issuance (September 11, 1996) at the actual conversion rates

3. MERGER WITH A COMPANY

On October 1, 1997, the Company merged with Kawai Co., Ltd. (Kawai), a Nagano-based wholesaler of pharmaceutical products. In this connection, the company issued 672 thousand new shares of

in effect during the year.

Related interest expense net of income taxes has been eliminated. Cash dividends per share represent the actual amounts declared during the respective years.

Accrued employees' bonuses — At March 31, 2000, the Company accrued the estimated amounts of employees' bonus based on estimated amounts to be paid in the subsequent period. Bonuses were previously accrued in accordance with the Japanese tax regulations.

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 long-term prepaid expenses in investments and other in the same manner in 2000 as in 1999. Pursuant to the Report, however, the Company included software in intangible assets in 2000 and amortized it using the straight-line method over the estimated useful lives (five years). The amount for 1999 has been reclassified to conform to the 2000 presentation.

Reclassifications — Certain prior year amounts have been reclassified to conform to 1999 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

common stock in the amount of ¥140 million (\$1,321 thousand) at ¥208 (\$1.96) per share to shareholders of Kawai. At the same time, the Company took over the legal reserve of ¥20 million (\$189 thousand) and retained earnings of ¥852 million (\$8,038 thousand).

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Cash on hand and in bank	¥70,594	¥32,148	\$303,283
Time deposits over three months	—	(672)	6,340
Cash and cash equivalents	¥70,594	¥31,476	\$296,943

Time deposits over three months in 1999 are not considered to be cash and cash equivalents.

5. MARKET VALUE INFORMATION FOR SECURITIES OF THE COMPANY

A summary of book value, market value and net unrealized gains of securities having market value at March 31, 1999 and 2000 is as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Book value:			
Current	¥ 63	¥ 2	\$ 19
Non-current	2,387	2,478	23,377
	2,450	2,480	23,396
Market value:			
Current	63	4	38
Non-current	3,534	4,045	38,160
	3,597	4,049	38,198
Net unrealized gains	¥1,147	¥1,569	\$14,802

The disclosure of market value information on a consolidated basis was not required in 1999.

6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 1999 and 2000 were all secured, principally bearing annual interest rates of 1.5% and 0.77% per annum, respectively.

Long-term debt at March 31, 1999 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Unsecured Euro-yen convertible notes due 1999	¥11,000	¥ —	\$ —
Unsecured domestic convertible bonds due 2008 at a rate of 0.9%	19,327	19,324	182,302
Unsecured domestic convertible bonds due 2003 at a rate of 0.8%	7,631	3,567	33,651
Loans from banks due serially through 2008 at interest rates of 2.03% to 2.06% per annum — secured	854	769	7,255
	38,812	23,660	223,208
Less amount due within one year	11,143	143	1,349
Amount due after one year	¥27,669	¥23,517	\$221,859

Unsecured Euro-yen convertible notes due 1999 were issued on September 25, 1995 in the Euro-market on a private offering basis. Interest on the notes were paid on October 25, 1995 at the rate of ¥6—per nominal value of ¥1,000—and no other interest payments were received.

The indentures covering the Euro-yen convertible notes and domestic convertible bonds due 2003 and 2008 provide, among other conditions, for (1) conversion into shares of common stock at the current conversion prices per share of ¥1,770.30 (\$16.70) after

amendment in accordance with the downward amendment article, ¥1,330 (\$12.55) and ¥1,784 (\$16.83), respectively, and (2) convertible period from October 26, 1995 to September 17, 1999, from January 4, 1999 to March 28, 2003, and from October 1, 1996 to September 29, 2008, respectively.

At the current conversion prices, a total of 13,513 thousand shares of common stock were issuable upon full conversion of the domestic notes outstanding at March 31, 2000.

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2001	¥ 143	\$ 1,349
2002	143	1,349
2003	3,710	35,000
2004	142	1,340
2005	124	1,170
Thereafter	19,398	183,000

7. GOODWILL

The Company acquired U.S. and European companies through the Company's U.S. subsidiaries in the years ended September 30, 1991 and 1995. In that connection, the company paid additional money in consideration for know-how held by those companies and account-

ed for the additional payment as goodwill. The goodwill is being amortized over mainly 15 years on a straight-line basis. Due to liquidation of the U.S. subsidiaries, related unamortized goodwill was written off in 1998.

8. PLEDGED ASSETS

The company and its consolidated subsidiaries pledged the following assets to secure trade payables in the amount of ¥4,586 million (\$43,264 thousand) as well as all bank loans at March 31, 2000.

	Millions of yen	Thousands of U.S. dollars
Time deposit	¥ 45	\$ 425
Land	3,289	31,028
Buildings at net book value	1,199	11,311
Investment securities	52	491

9. SHAREHOLDERS' EQUITY

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital.

Under the Code, certain amounts of retained earnings equal to at least 10% of cash dividends and bonuses to directors and statutory auditors must be set aside as a legal reserve until such reserve equals 25% of stated capital. The legal reserve may be used to reduce a deficit by resolution of the shareholders or may be capitalized by

resolution of the Board of Directors.

In accordance with the new disclosure requirements effective from the year ended March 31, 1999, legal reserve is included in retained earnings. Previously it was presented as a separate component of the stockholders' equity. The accompanying consolidated financial statements for year ended March 31, 1998 have been reclassified to conform to the revised presentation. The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company and in accordance with the Code.

10. OTHER INCOME (EXPENSES)

Other income (expenses) — “Other, net” in the accompanying statements of income for three years ended March 31, 2000 comprised the following:

	Millions of yen			Thousands of U.S. dollars
	1998	1999	2000	2000
Gain on sale of securities	¥ 170	¥ —	¥ —	\$ —
Gain (loss) on disposal of property, plant and equipment—net	431	(18)	(307)	(2,896)
Bond issue expense	—	(229)	—	—
Provision for doubtful accounts (non-current)	(134)	(229)	(1,247)	(11,764)
Retirement payment to directors	—	(36)	(103)	(972)
Exchange gain (loss) on Swiss franc convertible notes	795	—	—	—
Gain on redemption of convertible notes	214	—	—	—
Gain on liquidation of an unconsolidated subsidiary	466	—	—	—
Provision for retirement benefits for directors (Note 2)	—	(219)	(771)	(7,274)
Provision for investment losses	—	(960)	(130)	—
Provision for retirement benefits	—	—	(5,225)	(49,292)
Merger expense	—	—	(254)	(2,396)
Office relocation expenses	—	—	(949)	(8,953)
Miscellaneous	407	215	529	3,764
	¥2,349	¥(1,476)	¥(8,457)	\$(79,783)

11. CONTINGENT LIABILITIES

Contingent liabilities of the company and its consolidated subsidiaries at March 31, 2000 were guarantees for loans from banks of uncon-

solidated subsidiaries, affiliated companies and others in the amount of ¥1,103 million (\$10,406 thousand).

12. INCOME TAXES

The Company is subject to a number of income taxes, which, in the aggregate, indicate a statutory rate in Japan of approximately 52% for the year ended March 31, 1998, 56.9% for the year ended March 31, 1999, and 0 % for the year ended March 31, 2000.

The reconciliation between the statutory tax rate and the effective tax rate of the Company and consolidated subsidiaries for financial statement purposes for the year ended March 31, 2000 is not presented because net loss was incurred in 2000.

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

	Millions of yen
Deferred tax assets:	
Excess bad debt expenses	¥ 893
Excess bonuses accrued	487
Enterprise taxes	17
Retirement benefits	2,680
Disallowed provision for retirement benefits for directors	469
Disallowed provision for investment losses	458
Other	241
Total deferred tax assets	5,248
Deferred tax liabilities:	
Excess tax depreciation	697
Other	79
Total deferred tax liabilities	777
Net deferred tax asset	¥4,471

13. NON-CAPITALIZED FINANCIAL LEASES

Finance leases which do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases. Certain information for such non-capitalized finance leases was as follows:

- (1) Future minimum lease payments at March 31, 2000 were ¥4,884 million (\$46,075 thousand), including ¥1,750 million (\$16,509 thousand) due within one year.
- (2) Lease payments for fiscal 1999 and 2000 were ¥2,097 million and ¥2,162 million (\$20,396 thousand), respectively.

14. SEGMENT INFORMATION

The Company and its consolidated subsidiaries are mainly engaged in sale of pharmaceutical supplies and sales of such business segment exceeded 90% of consolidated net sales for three years ended March 31, 2000, respectively.

Information by location and overseas sales was not disclosed due to domestic sale of the Company and its domestic consolidated subsidiaries being in excess of 90% of consolidated net sales for three years ended March 31, 2000, respectively.

15. SUBSEQUENT EVENTS

Pursuant to the merger agreement among the Company, Sanseido Co., Ltd. ("Sanseido") and TOKYO PHARMACEUTICAL CO., LTD. (TPC), which was approved by the shareholders of the respective companies on June 29, 1999, the Company, Sanseido and TPC merged as of April 1, 2000. All of the assets, liabilities, rights, obligations and employees of the Company and TPC have been taken over by Sanseido, which was renamed as KURAYA SANSEIDO Inc.

The amount to be paid, as part of a consideration in the merger to

the shareholders of Sanseido at April 1, 2000 immediately before the merger as well as the bonuses to directors and corporate auditors for the year ended March 31, 2000, which were approved by the shareholders at the annual shareholders' meeting of KURAYA SANSEIDO Inc. held on June 29, 2000, are reflected as charges to retained earnings in the Company's consolidated statement of shareholder' equity for the year ended March 31, 2000.

Report of Independent Public Accountants



Asahi & Co

A Member Firm of Arthur Andersen

To the Shareholders and the Board of Directors of KURAYA SANSEIDO Inc:

We have audited the accompanying consolidated balance sheets of KURAYA CORPORATION (a Japanese corporation) and subsidiaries as of March 31, 1999 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for three years ended March 31, 2000, 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 KURAYA CORPORATION and subsidiaries as of March 31, 1999 and 2000, and the consolidated results of their operations and their cash flows for three years ended March 31, 2000, in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 2, in the year ended March 31, 2000, KURAYA CORPORATION prospectively adopted new Japanese accounting standards for consolidation and equity method accounting, and research and development costs. Also, as explained in Note 2, KURAYA CORPORATION and certain consolidated subsidiaries changed the methods of accounting for directors' retirement benefits, effective April 1, 1998, accounting for employees' retirement benefits, effective April 1, 1999, and accounting for past service costs, effective April 1, 1999, with which we concur.

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.

As discussed in Note 15, on April 1, 2000, the Company and two unrelated companies merged as of April 1, 2000. All of the assets, liabilities, rights, obligations and employees of the Company and TPC have been taken over by Sanseido, which was renamed as KURAYA SANSEIDO Inc.

A handwritten signature in black ink that reads "Asahi & Co." in a cursive, flowing script.

Tokyo, Japan
June 29, 2000

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 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 financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.