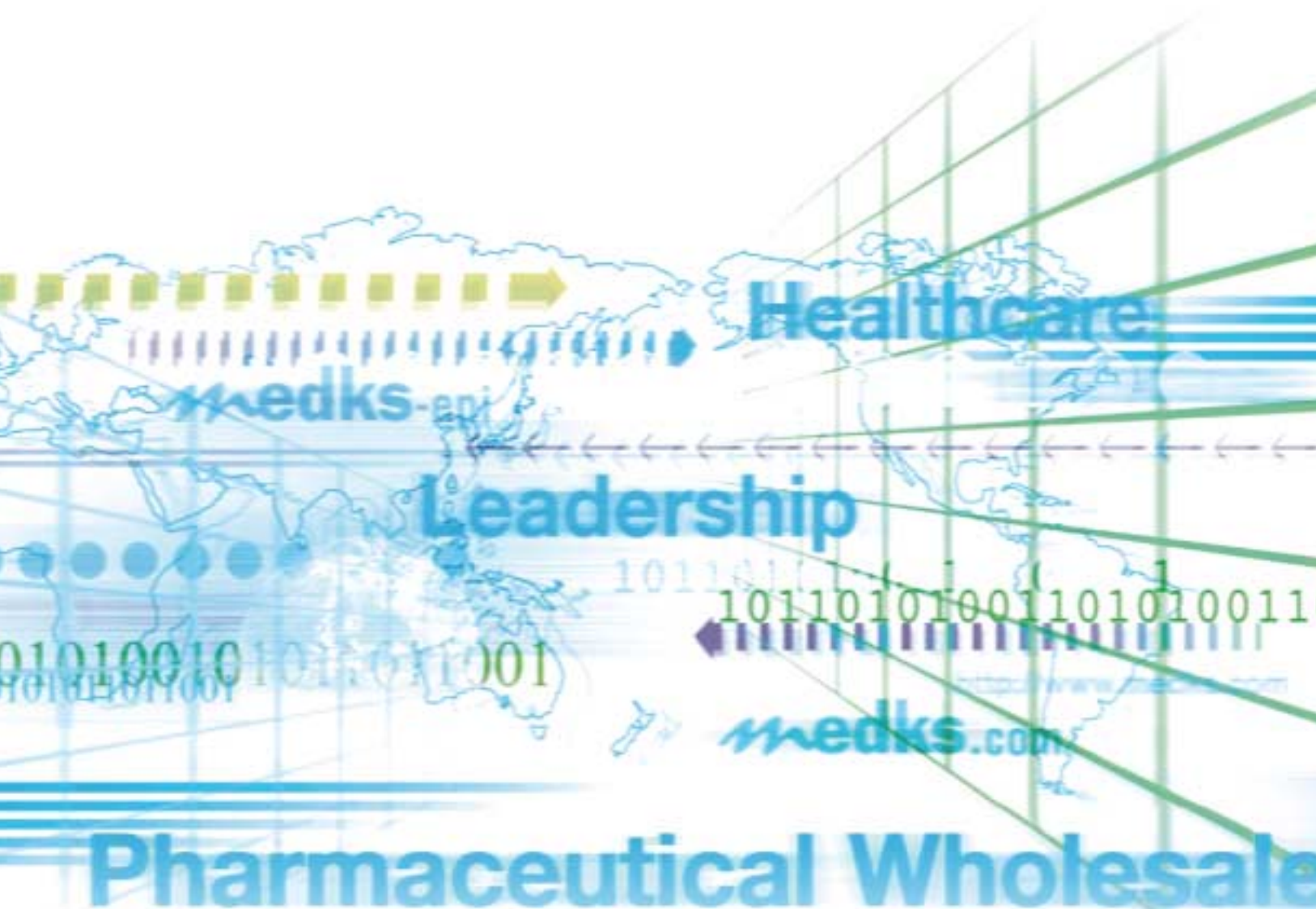


Kuraya Sanseido Inc.



*New Approaches to Achieve Leadership
in the Pharmaceutical Wholesale Market*

Annual Report 2001

Fiscal year ended March 31, 2001

Profile

Formed through the merger of three companies in April 2000, Kuraya Sanseido Inc. is Japan's largest pharmaceutical wholesaler, with an overwhelming share of Japan's two largest markets, the Tokyo area and the Kansai region. Our strengths include the largest customer base in Japan; more than 2,000 manufacturing suppliers; large-scale distribution centers; strong information and customer support capabilities; and knowledgeable marketing specialists. We are dedicated to providing a stable supply of healthcare products as well as generating superior value in other aspects of our business. As the leader in our industry, we strive at all times to be a company that inspires trust from our customers, suppliers and stockholders.

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Forward-Looking Statements

This annual report contains forward-looking statements regarding Kuraya Sanseido's plans, outlook, strategies and results for the future. All forward-looking statements are based on judgements derived from information available about the Company at the time of publication.

Certain risks and uncertainties could cause the Company's actual results to differ materially from any projections presented in this report. These risks and uncertainties include, but are not limited to, the economic circumstances surrounding the Company's business; competitive pressures; related laws and regulations; product development programs; and changes in exchange rates.

Financial Highlights

Kuraya Sanseido Inc. and its consolidated subsidiaries
Two years ended March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000 (Note 2)	2001	2001
For the Year:			
Net Sales	¥272,472	¥1,073,015	\$8,653,346
Operating Income	1,918	1,949	15,718
Net Income	1,560	1,337	10,782
At Year-End:			
Total Shareholders' Equity	¥ 61,630	¥ 122,992	\$ 991,871
Total Assets	163,827	652,368	5,261,032
Per Share: (Yen and U.S. dollars)			
Net Income	¥28.15	¥ 9.80	\$0.08
Diluted Net Income	—	9.02	0.07
Cash Dividends	12.00	12.00	0.10

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥124 to U.S. \$1.00, the approximate exchange rate on March 31, 2001.

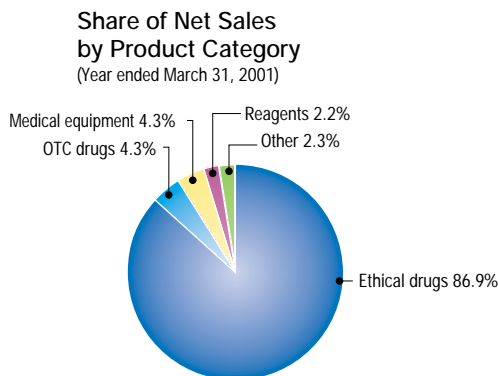
2. Figures for the year ended March 31, 2000 are those for the former Sanseido Co., Ltd. and its consolidated subsidiaries.

Interview with President Takashi Yamada



TAKASHI YAMADA
President and Representative Director

In April 2000, three companies merged to form Kuraya Sanseido, Inc., Japan's largest pharmaceutical wholesale business group. The corporate philosophy of the new company is to create value through our marketing to earn the trust of people who desire good health and those who help them achieve it. In the previous fiscal year, our top priority was on a smooth transition of business with customers and integration of Company and Group operations. At the same time, we worked to improve and raise the efficiency of sales activities, and reduce and rationalize purchasing costs. As a result, consolidated net sales for the year ended March 31, 2001 were ¥1,073,015 million and consolidated net income totaled ¥1,337 million.



The pharmaceutical wholesale industry – the foundation of Kuraya Sanseido's business – is undergoing a major consolidation through mergers and alliances. What impact will the business environment have on the Company's results for the coming year?

Our business is based on three core marketing divisions: ethical drugs, over-the-counter drugs and medical equipment. The domestic market for ethical drugs grew 2.5 percent in the year ended March 2000, but a 7 percent real reduction in National Health Insurance (NHI) reimbursement prices was effected in April 2000 under the government's policy of containing healthcare costs. This pressured profits for the wholesale industry as healthcare facilities and community pharmacies placed excessive demands on drug price differentials, making it difficult for drug wholesalers to distin-



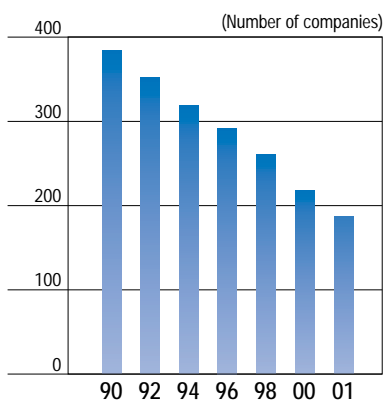
guish themselves on the basis of price alone. In this environment, the drug wholesale industry is seeing an increase in mergers and alliances as companies seek the benefits of greater purchasing power. In the past year in particular, this trend accelerated and was even stronger than anticipated, bringing significant changes to the industry. Under these circumstances, Kuraya Sanseido entered into equity participations and business tie-ups faster than we had initially planned. As a result, we have formed Japan's largest pharmaceutical wholesale business network.

In the area of OTC drugs, large chain drugstores are beginning to exercise their buying power. They have their own distribution centers and can carry out bulk shipments independently, and they are demanding fees from drug wholesalers for the use of their distribution centers, pressuring the profits of wholesalers. Meanwhile, sales at small community pharmacies, which have long been customers from whom we could count on reasonable profits, are dropping rapidly, and this too is contributing to pressure on profits. We are therefore taking measures to reduce our shipping costs, with a focus on large-scale distribution centers for OTC drugs. In addition, we will attempt to strengthen cooperation among Group companies by incorporating organizational marketing activities and sharing information to raise our sales capabilities.

In the medical equipment market, the aging population in Japan and advances in technology and machinery are driving expansion in demand. Our sales in this segment are growing steadily.

As a result of these factors, we posted consolidated net sales of ¥1,073,015 million and net income of ¥1,337 million. Cash dividends for the year totaled ¥12 per share.

Pharmaceutical Wholesalers
(Years ended March 31)



Source: The Federation of Japan
Pharmaceutical Wholesalers Association

When the new company was established, you set three main targets. Now that one year has passed, what progress has the Company made in each area?

For Kuraya Sanseido to create value through marketing, we set targets in three areas: expansion, enhanced capabilities and financial soundness.

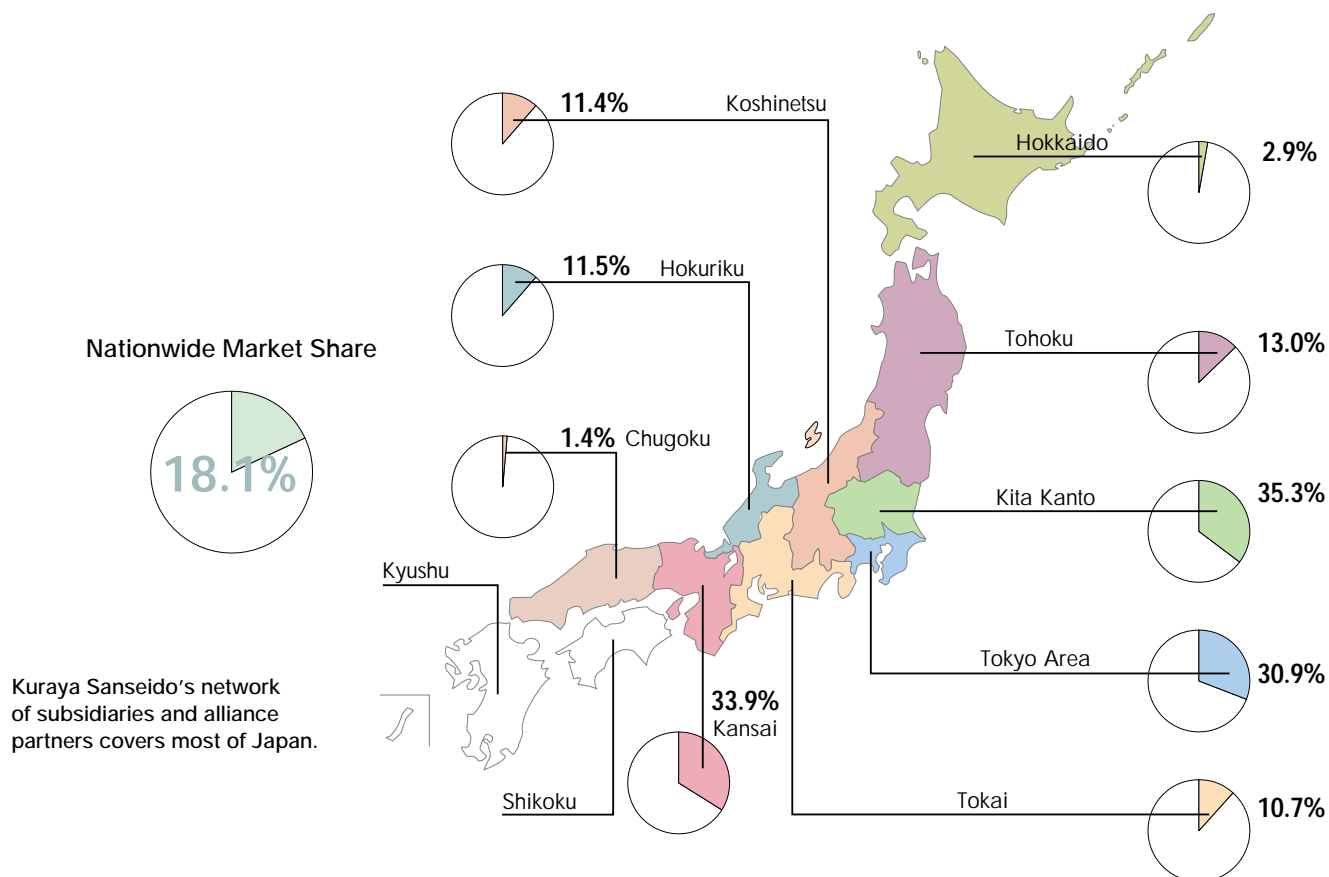
The first area is expansion. Through last year's merger, Kuraya Sanseido became Japan's largest pharmaceutical wholesale group, with 71,000 customers, a supplier base of more than 2,000 manufacturers, and a commanding market share in the two largest markets in Japan, the Tokyo area and the Kansai region. To reinforce this dominant position, we added five drug wholesalers to the Group through mergers during the past year, and formed broad business tie-ups with two companies that have strong foundations in the Kyushu and Chugoku areas. We have thus built a

powerful business network that covers 95.6 percent of Japan's population and accounts for approximately one-fifth of total sales in Japan's pharmaceutical wholesale market. In doing so, we have quickly achieved our goal of expanding our scale as a group.

We have also strengthened our marketing foundation, establishing sales offices in Fujieda, Shizuoka Prefecture in July 2000 and in Kita-ku, Tokyo in October 2000. These new offices, coupled with the addition of the sales offices from the newly merged companies, significantly bolstered our nationwide sales platform.

In terms of enhancing capabilities, our central focus is expanding our functions as a pharmaceutical distributor that meets the needs of society. Equipped with an understanding of a broad range of needs, we are effectively incorporating information technology into the distribution and information functions of the Group to create a new business model. When the new business model is introduced, we will be able to help our customers to avoid inventory risk, and by managing inventory and product

Market share of Kuraya Sanseido Group companies (by area)



Note: Based on figures calculated by Kuraya Sanseido for the year ended March 2000.



ordering on a consignment basis, we will help them manage their inventories more efficiently. Additionally, we expect the new business model will lower our own costs by raising the efficiency of our delivery business. It is already drawing attention from various quarters, and we expect it to play a major role in redefining our main business and ultimately our industry.

Turning to the area of financial soundness, since the merger, we have concentrated our efforts on a smooth transition of business as a new Company and on integrating the various functions of the pre-merger companies. Therefore, strengthening our financial position will be our primary objective for the fiscal year ending March 2002. During the year, we will look for investment opportunities to accommodate the Company's expansion initiatives and enhance our capabilities while bolstering cost competitiveness.

Since the Company is currently expanding its size, it is important to demonstrate merits of scale. What measures will management take in this area?

As I mentioned earlier, expansion is a prerequisite for survival in the pharmaceutical wholesale business, and by utilizing the advantages of our size, we have achieved the first success of our Group strategy. Joint purchasing among Group companies now stands at 70 percent of ethical drug sales, and we plan to raise that ratio even higher. Another objective is reducing costs through appropriate use of resources, including enhancement of marketing activities and consolidation of sales branches that overlap areas. In this effort, too, we will emphasize increasing speed and maximizing effect.

Increasing competitiveness is also a critical factor. Competitiveness can be achieved through the three categories of cost, service and purchasing. Our main focus will be on cost competitiveness. In the area of service competitiveness, we are already the leader in Japan in both tangible and intangible aspects, including large distribution centers, providing information to users, customer support and the quality of our marketing staff. In the area of purchasing, our ability to secure rebates on drug transactions with full-line pharmaceutical manufacturers by taking advantage of our scale and distribution centers has made us the most competitive company in our industry in Japan. However, there is still room for improvement in the fundamental area of cost competitiveness.

Our ratio of selling, general and administrative (SG&A) expenses to net sales is currently higher than the average of our competitors. We need to reduce this ratio and establish cost superiority over other drug wholesalers

as a basic requirement, so that when it comes to cost competition, we will be able to sell at prices that other drug wholesalers cannot beat. An added benefit of achieving the cost advantage is that our service competitiveness will become an even more powerful asset, raising our competitive edge another notch. This adds further impetus to our drive to quickly improve our cost competitiveness.

What are some specific management policies and steps to improve cost competitiveness you plan to implement during the year ahead?

Improving cost competitiveness is an urgent task, and our first initiative will be reducing headcount. Since personnel costs account for roughly 70 percent of SG&A expenses, cutting these costs is essential to achieving a one-point improvement in the SG&A expense ratio. In addition to offering early retirement to 300 people and transferring some employees to our Group companies, we will also reduce headcount through natural attrition and restrained hiring. Through these measures, we plan to reduce the number of employees from 6,000 at present to 5,000 in March 2002. Personnel reductions will be carried out on the Group level as well. Moreover, we will incorporate a slimmer organization by setting fixed staffing levels for each division and clarifying divisional targets, and will also reconsider capital expenditures, including suspending construction of the Eastern Japan Distribution Center.

Based on this new structure, we plan to conduct business activities under our management policy of converting to a lean organization. To ensure that cost cuts do not hinder our ability to provide high-quality customer service, we need to strengthen necessary functions as we slim down our organization. While trimming the fat from our operations, we will simultaneously strengthen the muscle to build a stronger corporate structure. Specifically, we will reinforce and speed up business innovation, improvement of systems, development and diffusion of the new business model, and full usage of logistics and information capabilities. We will aggressively implement these policies both at the parent company level as well as throughout the Group.

Our second area of focus will be securing an appropriate level of profits. The gross profit of wholesalers is composed of the margin on product sales to customers and rebates from drug transactions with pharmaceutical manufacturers. The purchase price of drugs from pharmaceutical manufacturers is uniform for all drug wholesalers, and the influence of lower drug reimbursement prices has led to the reduction of the profit margin. Rebates vary according to the capabilities of each drug wholesaler. Therefore, by



taking advantage of economies of scale and enhancing distribution, information and new business functions, it is possible to secure proportionate rebates. To ensure reasonable profits, we are meeting strict demands on drug price differentials from our customers by conducting price negotiations with firm conviction and a resolve not to give up any decrease in the amount of sales transactions. To secure rebates, we carry out joint marketing promotions with Group companies that leverage the scale and infrastructure of the Kuraya Sanseido Group, and maximize the benefits from joint purchasing. In addition, we are working to influence drug manufacturers to ensure distribution rebates and improve their rebate systems.

A key will be improving the quality of our marketing staff. Manufacturers are increasing the number of their medical representatives (MRs), but it is essential that we cultivate our own marketing staff with capabilities on par with those of MRs. While MRs promote only the products of their own company, marketing staff at Kuraya Sanseido impartially promote all pharmaceutical products and can provide objective comparisons with products of other drug manufacturers. We will train our marketing staff to give them appropriate marketing skills, so that they can offset decreases in profit margins with qualitative services such as supplying information.

One of your core objectives in the recent merger has been shareholder-oriented management. Do you have any new messages for shareholders and investors?

Management that places top priority on the concerns of shareholders is always foremost in my thoughts. Although our business environment is changing faster than expected, Kuraya Sanseido will strongly promote the measures I have outlined here and push ahead in our drive to increase our competitiveness and secure stable profits. We expect these measures will increase shareholder value over the medium term, and we will continue working to earn the confidence and support of our shareholders.

A handwritten signature in black ink, appearing to read 'Takashi Yamada'. The signature is fluid and cursive, with a long horizontal stroke at the top.

July 2001

Takashi Yamada

President and Representative Director

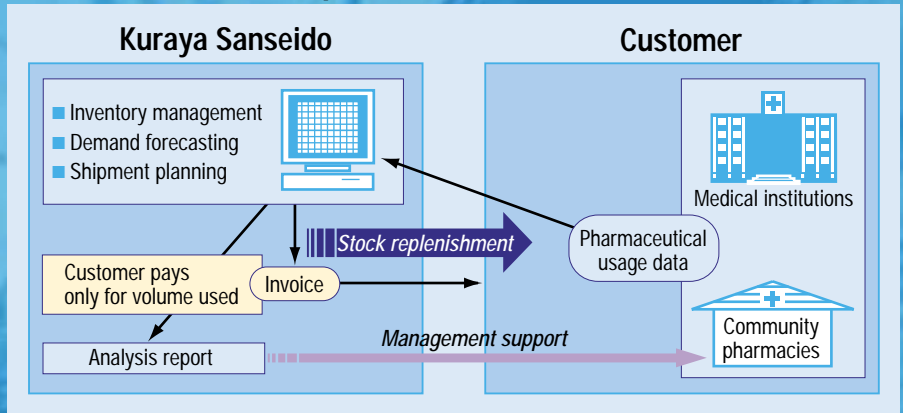


Kuraya Sanseido is training marketing staff who can impartially promote all pharmaceutical products and provide objective comparisons with products of different drug companies.

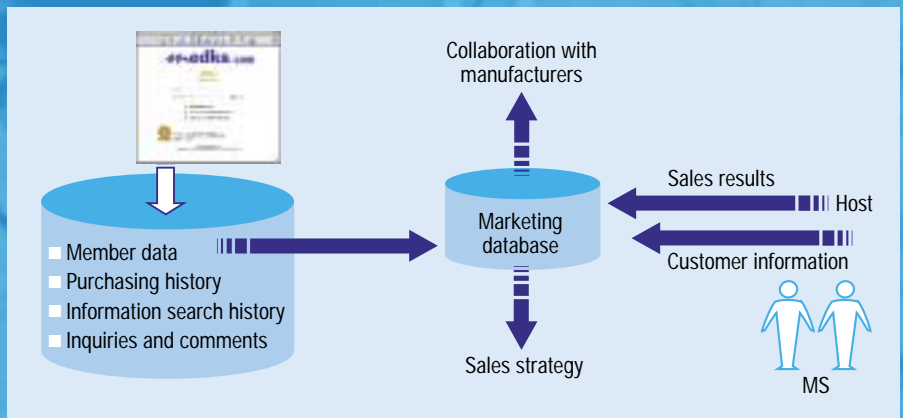


Customer service representatives have access to Kuraya Sanseido's extensive database to provide the latest information on the Company's pharmaceutical products.

Structure of *medks-epi*



Goals of *medks.com*



A New Model to Meet Market Needs

"The community pharmacy is a business format that is expected to grow. By creating a framework that generates profit from this format, we intend to further strengthen our business foundation. For Kuraya Sanseido, where cost competitiveness will form a core competitive strategy, the introduction of a new business model driven by information technology will satisfy the needs of both users and our corporate group for greater efficiency. As a result, we expect the competitiveness of the Kuraya Sanseido Group to increase significantly over the next five years."

SADATAKE KUMAKURA

Executive Vice President and Representative Director



Creating a New Business Model that Strengthens Customer Relationships

Kuraya Sanseido's ability to increase its competitiveness in the future will be limited under the Company's current business format. We are therefore building a new business model that takes full advantage of our key strengths: a 71,000-strong customer base, the largest in Japan, transactions with more than 2,000 drug manufacturers, and large-scale distribution centers.

kind of drug order at any time. This means we must maintain inventories of a large number of products to replenish stock and incur significant costs for irregular shipments. *medks-epi* greatly improves these problems by eliminating the ordering portion of the distribution process. For customers, it frees them from troublesome jobs such as inventory management and ordering, and lightens the financial burden associated with inventories. Moreover, because *medks-epi* manages the inventories of our clients, it will allow us to automatically supply products at our own pace and conduct efficient shipment planning, thus cutting our costs. The *medks-epi* system is currently in operation on a trial basis at selected community pharmacies. As a result of the trial project, we have successfully reduced the number of regular shipments to one-quarter and customer stock outages to less than one-eighth of their previous levels. The full incorporation of *medks-epi* in the future will lead to substantial improvement in the profitability of the Kuraya Sanseido Group.

[medks.com](#)

Opened in February 2001, the Internet-based procurement site [medks.com](#) is aimed at communicating with customers without a visit from a sales representative, thereby supporting sales and improving business efficiency. The site provides information customers need, including medical and pharmaceutical information, a medical equipment catalog, and management support services. In addition, the purchasing history and information search history of members is stored in a database, which allows us to analyze the information and develop sales strategies tailored to customer needs. Currently, the site handles only small-batch sales of ethical drugs, but in the near future we plan to create a framework for standard pharmaceutical orders, and will furnish valuable information on a regular basis. Our present goal is to attract 50,000 registered users.

Objectives of the New Business Model

Our primary objective in developing the new business model is to drastically cut distribution costs by thoroughly reexamining all transactions with customers from the ground up. Another aim is to build stable relationships with customers by using the business model to create a new framework for interacting with them. Finally, by extending the new model throughout the nationwide network of the Kuraya Sanseido Group, we aim to lead the rationalization and modernization of pharmaceutical distribution.

The Two Engines of the New Business Model: *medks-epi* and [medks.com](#)

The models we are currently developing are *medks-epi* (medical Kuraya Sanseido electronic payment and inventory) and [medks.com](#). The *medks-epi* model incorporates automatic stock replenishment and payment, thus deepening our ties with each customer. Through [medks.com](#), an online procurement site, we aim to furnish detailed information to a large number of users as well as conduct sales activities. These two models will be closely interconnected, and will serve to improve business efficiency from both narrow and broad perspectives.

medks-epi

At present, pharmaceutical wholesale services are based on responding to any

Board of Directors and Auditors



Standing from left to right: Osamu Takumiya, Sadatake Kumakura, Genichiro Tanabe
Seated: Takashi Yamada

President and Representative Director

Takashi Yamada

Executive Vice President and Representative Director

Sadatake Kumakura

Vice Presidents

Osamu Takumiya

Genichiro Tanabe

Directors

Susumu Wada

Masao Kumakura

Kenichi Murata

Shuichi Watanabe

Michihiro Ueda

Kazuya Yamagata

Hideki Noguchi

Bunichi Murayama

Akihiro Sakamoto

Auditors

Tadashi Suzuki

Toshio Hamamura

Keihachiro Uramatsu

Sakae Tsuji

Kazuhisa Yanagihara

(As of June 28, 2001)

Financial Section

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14	Consolidated Balance Sheets
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Management's Discussion and Analysis

Basis of Presentation

Kuraya Sanseido Inc. was created on April 1, 2000 through the merger of Kuraya Corporation, Sanseido Co., Ltd. and Tokyo Pharmaceutical Co., Ltd. The following discussion and analysis by management presents the audited results of Kuraya Sanseido for the year ended March 31, 2001. Year-on-year comparisons with the results of the companies prior to the merger are omitted. The financial statements present the audited results of operations and financial position for Kuraya Sanseido Inc. for the year ended March 31, 2001 and for Sanseido Co., Ltd. only for the year ended March 31, 2000.

Financial Strategy

Kuraya Sanseido and its subsidiaries strive to create sufficient liquidity and capital for operating needs and a sound balance sheet. Capital expenditures and investment in plant and equipment are evaluated according to clearly defined plans. Primary investment emphases include improved distribution and investment in research and development and other areas.

Sales and Operating Income

Net sales for the year ended March 31, 2001 totaled ¥1,073,015 million despite lower demand for products such as influenza treatments and downward pressure on prices due to the efforts of the government and healthcare institutions to control costs. Macroeconomic factors such as the increasing age of the population complemented the benefits of Kuraya Sanseido's expanded marketing network and the performance of effective new products. Cost of sales totaled ¥976,274 million. While the combined marketing capabilities of the three merged companies resulted in growth in sales volume that exceeded the overall market, pricing conditions among healthcare institutions and in the OTC market increased in severity against a backdrop of falling prices. As a result, gross profit was ¥96,741 million, and the ratio of gross profit to net sales was 9.0 percent. Selling, general and administrative (SG&A) expenses totaled ¥94,792 million. Management expects further reductions in personnel and organizational streamlining to exert a favorable effect on SG&A expenses in future fiscal years. Operating income totaled ¥1,949 million.

Other Income and Expenses and Net Income

Net interest expense totaled ¥163 million, and the interest coverage ratio stood at 4.7 times. Research fee income was ¥2,425 million, while the Company incurred a loss on devaluation of investment securities of ¥547 million due to the implementation of present value accounting. In other, net (see note 11 of the accompanying notes to consolidated financial statements), extraordinary income totaled ¥2,208. The cumulative effect of the application of new accounting standards for retirement benefits resulted in an extraordinary gain of ¥332 million. Extraordinary losses totaled ¥2,169 million, as the merger parties funded pension benefit obligations, arising from a change in the relevant accounting standards in Japan, prior to the merger. A charge of ¥1,215 million in connection with the restructuring of sales offices accounted for more than half of extraordinary losses. Other, net totaled ¥39 million.

Income before income taxes and minority interests totaled ¥3,703 million, and net income

totaled ¥1,337 million. Fully diluted net income per share totaled ¥9.02. Cash dividends per share for the fiscal year totaled ¥12.00.

Liquidity and Financial Position

Net cash provided by operating activities amounted to ¥22,384 million. The Company recorded income before income taxes for the fiscal year, and depreciation increased. Adjustments to current assets and liabilities also exerted a positive effect on cash flow. Working capital totaled ¥17,072 million, and the current ratio was 1.04 to 1.

Net cash used in investing activities totaled ¥2,891 million. The Company exercised discipline in making purchases of property, plant and equipment amounting to ¥3,637 million. An increase in cash and cash equivalents in connection with acquisition of investments in subsidiaries, net of payments for purchase, added ¥4,413 million to cash flow.

Net cash used in financing activities amounted to ¥9,247 million. Kuraya Sanseido strengthened its financial structure by reducing short-term bank loans by ¥7,084 million without taking on additional short-term debt. The Company took on new long-term debt totaling ¥1,470 million while repaying ¥2,102 million in long-term debt and bonds, resulting in a net reduction of ¥632 million in long-term debt.

As a result, cash and cash equivalents at the end of the year stood at ¥70,759 million. The consolidation of five additional subsidiaries increased cash and cash equivalents by ¥2,029 million. The Company maintains stable, broadly based access to external funding if necessary to complement internal capital resources and cash flow.

Total assets stood at ¥652,368 million. Shareholders' equity amounted to ¥122,992 million, primarily reflecting unrealized gains on investment securities. The return on total shareholders' equity stood at 1.1 percent, and the ratio of shareholders' equity to total assets stood at 18.9 percent.

Consolidated Balance Sheets

Kuraya Sanseido Inc. and its consolidated subsidiaries
March 31, 2000 and 2001

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
Current assets:			
Cash on hand and in banks (Note 4)	¥ 28,583	¥ 73,914	\$ 596,081
Marketable securities (Note 5)	—	14	113
Notes and accounts receivable (Note 8):			
Trade	70,742	339,148	2,735,065
Other	6,879	31,143	251,153
Allowance for doubtful accounts	(459)	(4,494)	(36,242)
Inventories	10,930	54,700	441,129
Deferred income taxes (Note 12)	388	1,617	13,040
Other current assets	297	1,266	10,209
Total current assets	117,360	497,308	4,010,548
Property, plant and equipment (Note 8):			
Land	23,988	69,923	563,895
Buildings and structures	26,341	73,301	591,137
Machinery and equipment	1,779	3,280	26,451
Vehicles, furniture and fixtures	5,436	7,452	60,097
Construction in progress	48	2,875	23,186
	57,592	156,831	1,264,766
Accumulated depreciation	(15,346)	(39,978)	(322,403)
Net property, plant and equipment	42,246	116,853	942,363
Investments and other assets:			
Investment securities (Notes 5 and 8)	2,053	15,469	124,750
Long-term loans receivable	430	658	5,306
Allowance for doubtful accounts	(558)	(5,456)	(44,000)
Deferred income taxes (Note 12)	462	5,029	40,556
Consolidation difference	—	3,499	28,218
Other	1,834	19,008	153,291
Total investments and other assets	4,221	38,207	308,121
	¥163,827	¥652,368	\$5,261,032

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
Current liabilities:			
Short-term bank loans (Notes 6 and 8)	¥ —	¥ 15,330	\$ 123,629
Long-term debt due within one year (Notes 6 and 8)	—	1,922	15,500
Notes and accounts payable (Note 8):			
Trade	95,551	444,666	3,586,016
Other	2,004	7,457	60,137
Accrued expense	2,401	8,341	67,266
Income taxes payable (Note 12)	575	851	6,863
Other current liabilities	292	1,669	13,460
Total current liabilities	100,823	480,236	3,872,871
Long-term liabilities:			
Long-term debt (Notes 6 and 8)	—	25,429	205,073
Employees' retirement benefits (Note 7)	18	15,895	128,185
Officers' retirement benefits	831	1,790	14,435
Other long-term liabilities	522	1,159	9,347
Total long-term liabilities	1,371	44,273	357,040
Minority interests	3	4,867	39,250
Contingent liabilities (Note 9)	—	—	—
Shareholders' equity (Note 10):			
Common stock, par value ¥50 per share:			
Authorized – 180,000,000 shares in 2000 and 500,000,000 shares in 2001			
Issued – 55,418,000 shares in 2000 and 136,705,869 shares in 2001	6,929	11,153	89,944
Additional paid-in capital	6,034	24,321	196,137
Retained earnings (Note 10)	48,667	83,241	671,298
Unrealized gains on certain investment securities (Note 5)	—	4,277	34,492
Treasury stock, at cost	—	—	—
Total shareholders' equity	61,630	122,992	991,871
	¥163,827	¥652,368	\$5,261,032

Consolidated Statements of Operations

Kuraya Sanseido Inc. and its consolidated subsidiaries
Two years ended March 31, 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
Net sales	¥272,472	¥1,073,015	\$8,653,346
Costs and expenses:			
Cost of sales	244,144	976,274	7,873,176
Selling, general and administrative expenses	26,410	94,792	764,452
Total costs and expenses	270,554	1,071,066	8,637,628
Operating income	1,918	1,949	15,718
Other income (expenses):			
Research fee income	661	2,425	19,556
Interest and dividend income	111	322	2,597
Interest expense	9	(485)	(3,911)
Loss on devaluation of investment securities	—	(547)	(4,411)
Other, net (Note 11)	310	39	314
Total other income (expenses)	1,091	1,754	14,145
Income before income taxes and minority interests	3,009	3,703	29,863
Income taxes (Note 12):			
Current	1,042	1,327	10,702
Deferred	423	985	7,944
Total income taxes	1,465	2,312	18,646
Minority interests in net income (loss) of consolidated subsidiaries	(16)	54	435
Net income	¥ 1,560	¥ 1,337	\$ 10,782

	Yen		U.S. dollars (Note 1)
	2000	2001	2001
Amounts per share of common stock:			
Net income	¥28.15	¥ 9.80	\$0.08
Diluted net income	—	9.02	0.07
Cash dividends applicable to the period	12.00	12.00	0.10

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Kuraya Sanseido Inc. and its consolidated subsidiaries
Two years ended March 31, 2001

	Number of shares of common stock issued (Thousands)	Millions of yen		
		Common stock	Additional paid-in capital	Retained earnings
Balance at April 1, 1999	55,418	¥ 6,929	¥ 6,034	¥47,882
Net income	—	—	—	1,560
Cash dividends paid (¥12.0 per share)	—	—	—	(720)
Bonuses to directors and statutory auditors	—	—	—	(55)
Balance at March 31, 2000	55,418	6,929	6,034	48,667
Increase due to merger (Note 3)	80,820	4,042	18,105	33,619
Conversion of convertible bonds	467	182	182	—
Net income	—	—	—	1,337
Cash dividends paid (¥12.0 per share)	—	—	—	(1,155)
Bonuses to directors and statutory auditors	—	—	—	(86)
Increase due to the increase in consolidated subsidiaries	—	—	—	859
Balance at March 31, 2001	136,705	¥11,153	¥24,321	¥83,241

	Thousands of U.S. dollars (Note 1)		
	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 2000	\$55,879	\$ 48,661	\$392,476
Increase due to merger (Note 3)	32,597	146,008	271,121
Conversion of convertible bonds	1,468	1,468	—
Net income	—	—	10,782
Cash dividends paid (\$0.10 per share)	—	—	(9,315)
Bonuses to directors and statutory auditors	—	—	(694)
Increase due to the increase in consolidated subsidiaries	—	—	6,928
Balance at March 31, 2001	\$89,944	\$196,137	\$671,298

See accompanying notes.

Consolidated Statements of Cash Flows

Kuraya Sanseido Inc. and its consolidated subsidiaries
Two years ended March 31, 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
Cash flows from operating activities:			
Income before income taxes	¥3,008	¥ 3,703	\$ 29,863
Adjustments to reconcile income before income taxes to net cash flows provided by operating activities:			
Depreciation and amortization	1,950	4,025	32,460
Loss on disposal of property, plant and equipment	70	717	5,782
Decrease in employees' retirement benefits — net	(732)	(41)	(331)
Increase (decrease) in officers' retirement benefits	86	(782)	(6,306)
Increase (decrease) in accrued employees' bonuses	271	(111)	(895)
Increase (decrease) in allowance for doubtful accounts	(208)	513	4,137
Increase (decrease) in allowance for returns	(1)	92	742
Interest expenses	9	485	3,911
Interest and dividend income	(111)	(322)	(2,597)
Loss on sale and devaluation of securities — net	24	(124)	(1,000)
Loss on devaluation of golf memberships	—	692	5,581
Provision for investment losses	—	(1,090)	(8,790)
Others	—	136	1,095
Changes in assets and liabilities:			
Increase in notes and accounts receivable — trade	(536)	(3,952)	(31,871)
Increase in inventories	(1,191)	(5,803)	(46,798)
Increase in notes and accounts payable	4,385	26,176	211,097
Increase in accrued consumption taxes	444	—	—
Increase in other current assets	(1,566)	(291)	(2,347)
Increase in other current liabilities	265	1,328	10,710
Payment of officers' bonuses	(55)	(177)	(1,427)
Interest and dividends received	114	301	2,427
Cash paid for interest	(9)	(480)	(3,871)
Cash paid for income taxes	(2,375)	(2,611)	(21,056)
Net cash provided by operating activities	3,842	22,384	180,516

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
Cash flows from investing activities:			
Payments for time deposits	¥ —	¥(1,719)	\$ (13,863)
Maturity of time deposits	—	2,006	16,177
Payments for purchase of property, plant and equipment — net	(2,988)	(3,637)	(29,331)
Payments for purchase of investment securities	(51)	(625)	(5,040)
Proceeds from sale of investment securities	5	973	7,847
Payments of loans receivable — net	(388)	(3,685)	(29,718)
Increase in cash and cash equivalents in connection with acquisition of investments in subsidiaries, net of payments for purchase	—	4,413	35,589
Other, net	29	(617)	(4,976)
Net cash used in investing activities	(3,393)	(2,891)	(23,315)
Cash flows from financing activities:			
Decrease in short-term bank loans — net	—	(7,084)	(57,129)
Proceeds from long-term debt	—	1,470	11,855
Repayment of long-term debt	—	(1,602)	(12,919)
Repayment of bonds	—	(500)	(4,032)
Proceeds from sale of treasury stocks, net of payments for purchase	—	54	435
Cash paid to shareholders of merged companies	—	(426)	(3,435)
Cash dividends paid	(722)	(1,150)	(9,274)
Cash dividends paid to minority shareholders	—	(9)	(73)
Net cash used in financing activities	(722)	(9,247)	(74,572)
Effect of exchange rate change on cash and cash equivalents	—	19	153
Net increase (decrease) in cash and cash equivalents:	(273)	10,265	82,782
Cash and cash equivalents at beginning of year	28,398	28,152	227,032
Cash and cash equivalents of merged companies at beginning of year	—	30,313	244,460
Cash and cash equivalents of newly consolidated subsidiaries at beginning of year	27	2,029	16,363
Cash and cash equivalents at end of year	¥28,152	¥70,759	\$570,637

Notes to Consolidated Financial Statements

Kuraya Sanseido Inc. and its consolidated subsidiaries
Two years ended March 31, 2001

1. Basis of presenting consolidated financial statements

Kuraya Sanseido Inc. and its consolidated subsidiaries (the "Company") 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 were filed with the Minister of Finance ("MOF") as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The translations 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, 2001, which was ¥124 to U.S.\$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

Consolidation - Consolidated financial statements included the accounts of the Company, one domestic subsidiary in the year ended March 31, 2000 and twelve domestic subsidiaries in the year ended March 31, 2001, which are significant. Since Kuraya Corporation ("Kuraya") and Tokyo Pharmaceutical Co., Ltd. ("TPC") were merged into Sanseido Co., Ltd. at April 1, 2000, six subsidiaries of the merged companies are consolidated in the year ended March 31, 2001.

Kuraya Sanseido Inc. acquired substantial ownership of five subsidiaries in 2001. Accordingly, the consolidated financial statements include results of operations and cash flows of the one subsidiary for the year and of the three subsidiaries for six months.

All material 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.

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 by the equity method.

Investments in non-consolidated 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.

Consolidation difference - Consolidation difference is being amortized over mainly 5 years on a straight-line basis. Immaterial consolidation difference is charged to expense as incurred.

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 not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Marketable securities and investment securities - Effective April 1, 2000, the Company adopted "Accounting Standards for Financial Instruments" pronounced by MOF at January 22, 1999, which resulted in a change in accounting for marketable and investment securities. In accordance with the accounting standards, the Company's marketable and investment securities are considered as available-for-sale.

Available-for-sale securities represent those securities that do not meet the classification of trading securities and held-to-maturity securities. Available-for-sale securities are stated at fair value and the unrealized gains and losses are reported as a separate component of shareholders' equity. In cases where substantial impairment of value is recognized compared to fair value, the carrying amount is reduced to the fair value.

Application of the new accounting standards resulted in a decrease of ¥130 million (\$1,048 thousand) in loss on devaluation of securities and an increase of ¥130 million (\$1,048 thousand) in income before income taxes and minority interests. Prior to April 1, 2000, marketable and investment securities having quoted prices at stock exchanges are valued at the lower of moving-average cost or market value. Other securities are stated at the moving-average cost.

Inventories - Inventories are mainly stated at cost determined by the first-in, first-out (FIFO) method.

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

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

Finance leases - Finance leases, except leases for which the ownership of the leased assets is considered to be transferred to the lessee, are accounted for in the same manner as operating leases.

Software costs - The Company includes software in intangible assets and amortizes it using the straight-line method over the estimated useful lives (five years).

Allowance for doubtful accounts - Allowance for doubtful accounts is recorded at an amount necessary to cover possible losses from doubtful accounts based on the amount estimated to be uncollectible on an individual basis and from other accounts based on historical loss ratios.

Accrued employees' bonuses - At March 31, 2000 and 2001, the Company accrued the employees' bonuses based on estimated amounts to be paid in the subsequent period.

Employees' retirement benefits and pension - Effective April 1, 2000, the Company adopted "Accounting Standards for Retirement Benefits" pronounced by MOF at June 16, 1998, which resulted in a change in accounting for employees' retirement benefits. In accordance with the accounting standards, allowance for employees' retirement benefits is recorded based on the projected benefit obligation less fair value of the pension plan assets. The experience adjustments of actuarial assumptions are amortized over three years using the straight-line method. Included in other income (expenses) is the cumulative effect of a change in accounting for employees' retirement benefits amounted to ¥332 million (\$2,677 thousand). Application of the new accounting standards resulted in an increase of ¥864 million (\$6,968 thousand) in selling, general and administrative expenses and a decrease of ¥532 million (\$4,290 thousand) in income before income taxes and minority interests.

Prior to April 1, 2000, the Company provided an allowance for employees' retirement benefits based on the past service costs less fair value of the pension plan assets.

Officers' retirement benefits - The Company pays retirement benefits to officers in accordance with its internal rules.

The Company provides for lump-sum severance payments for officers in the amount which would be required if all officers retired at each year-end. Such provision is not funded.

Income taxes - Income tax payable is computed based on the pretax income included in the consolidated financial statements. The asset and liability method is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

Foreign currency translation - Effective April 1, 2000, the company adopted "Accounting Standards for Foreign Currency Translation" revised by MOF at October 22, 1999. The effect of this accounting change on the Company's results is immaterial.

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 stock, 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 in effect during the year. Cash dividends per share represent the actual amounts declared during the respective years.

3. Merger

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

4. Cash and cash equivalents

Cash and cash equivalents at March 31, 2000 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Cash on hand and in bank	¥28,583	¥73,914	\$596,081
Time deposits over three months	(431)	(3,155)	(25,444)
Cash and cash equivalents	¥28,152	¥70,759	\$570,637

5. Market value information for securities

A summary of book value, market value and net unrealized gains of securities having market value at March 31, 2000 and 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Book value:			
Current	¥ —	¥ —	\$ —
Non-current	1,474	5,007	40,379
	1,474	5,007	40,379
Market value:			
Current	—	—	—
Non-current	6,101	13,830	111,532
	6,101	13,830	111,532
Net unrealized gains	¥4,627	¥ 8,823	\$ 71,153

In 2000 and 2001, the book value of securities is recorded at market value or underlying net asset value when substantial impairment is recognized. Furthermore, in the year ended March 31, 2000, the book value is based on the lower of cost or market.

The unrealized gains on securities, net of income taxes, are included in shareholders' equity in the year ended March 31, 2001. The unrealized gains are not recorded in the consolidated financial statements in the year ended March 31, 2000.

6. Short-term bank loans and long-term debt

Short-term bank loans at March 31, 2000 and 2001 were all unsecured, principally bearing annual interest rates of 0.91% and 1.53% per annum, respectively.

Long-term debt at March 31, 2000 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Unsecured domestic convertible bonds due 2008 at a rate of 0.9%	¥—	¥19,324	\$155,839
Unsecured domestic convertible bonds due 2003 at a rate of 0.8%	—	3,201	25,814
Secured domestic bonds due 2001 at a rate of 4.7%	—	300	2,419
Loans from banks due serially through 2008 at interest rates of 2.03% to 2.06% per annum - secured	—	4,526	36,500
		27,351	220,572
Less amount due within one year	—	(1,922)	(15,500)
Amount due after one year	¥—	¥25,429	\$205,072

Domestic convertible bonds due 2003 and 2008 provide, among other conditions, for (1) conversion prices of ¥782.4 (\$6.31) and ¥916.0 (\$7.39), respectively, and (2) convertible period 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 25,187 thousand shares of common stock were issuable upon full conversion of the domestic bonds outstanding at March 31, 2001.

The annual maturities of long-term debt at March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
2002	¥ 1,922	\$ 15,500
2003	4,345	35,040
2004	722	5,823
2005	451	3,637
2006	255	2,056
Thereafter	19,656	158,516

7. Employees' retirement benefits

(1) Overview of retirement benefit plan

The Company has defined retirement benefit plans covering a contributory trustee employee pension plan established by the pharmaceutical industry, tax-qualified pension plans and unfunded retirement plans.

(2) Retirement benefits

The following table reconciles the net fund status of plan to retirement benefits recorded in the consolidated balance sheets at March 31, 2001.

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	¥(39,590)	\$(319,274)
Fair value of plan assets	22,791	183,798
Plan assets less than projected benefit obligation	(16,799)	(135,476)
Experience adjustments of actuarial assumptions	904	7,291
Reserve for retirement benefits	¥(15,895)	\$(128,185)

(3) Net pension expense

The components of net pension expense in 2001 are listed below.

	Millions of yen	Thousands of U.S. dollars
Service costs	¥2,365	\$ 19,072
Interest cost on projected benefit obligation	1,022	8,242
Assumed return on plan assets	(608)	(4,903)
Cumulative effect of a change in accounting	(332)	(2,677)
Experience adjustments of actuarial assumptions	452	3,645
Net pension expense	¥2,899	\$(23,379)

(4) Assumptions

Projected benefit obligation is determined on the basis of employees' evaluation, their length of service and other certain factors. Other significant assumptions used in the calculation of projected benefit obligation and pension expense are listed below.

Discount rate	3.0%
Assumed rate of return on plan assets	3.0%
Amortization period for experience adjustments of actuarial assumptions	3 years
Amortization period for cumulative effect of a change in accounting	1 year

(5) Contributory trustee employee pension plan

Assets of the contributory trustee employee pension plan established by the pharmaceutical industry amounted to ¥36,753 million (\$296,395 thousand) at March 31, 2001 based on the proportion of the Company's payments to the fund.

8. Pledged assets

The Company pledged the following assets to secure trade payables in the amount of ¥17,163 million (\$138,411 thousand) as well as certain bank loans at March 31, 2001.

	Millions of yen	Thousands of U.S. dollars
Notes and accounts receivable – trade	¥1,189	\$ 9,589
Land	8,851	71,379
Buildings at net book value	4,808	38,774
Investment securities	1,765	14,234
Others	550	4,435

9. Contingent liabilities

Contingent liabilities of the Company at March 31, 2001 were guarantees for loans from banks of unconsolidated subsidiaries, affiliated companies and others in the amount of ¥211 million (\$1,702 thousand).

10. 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.

11. Other income (expenses)

Other income (expenses) – "Other, net" in the accompanying consolidated statements of operations for the two years ended March 31, 2001 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Gain on sale of investment securities	¥ —	¥ 670	\$5,403
Loss on disposal of property, plant and equipment – net	(62)	(261)	(2,105)
Cumulative effect of a change in accounting for employees' retirement benefits	—	332	2,677
Loss on devaluation of golf memberships	—	(693)	(5,589)
Restructuring costs	—	(1,215)	(9,798)
Miscellaneous	372	1,206	9,726
	¥310	¥ 39	\$ 314

12. Income taxes

The Company is subject to a number of income taxes, which, in the aggregate, indicate statutory tax rates in Japan of approximately 41.9% for the year ended March 31, 2000, and 42.1% for the year ended March 31, 2001.

The reconciliations between the statutory tax rate and the effective tax rate of the Company for financial statement purposes for the years ended March 31, 2000 and 2001 are as follows:

	2000	2001
Statutory tax rate	41.9%	42.1%
Non-deductible expenses for tax purposes	5.1	10.6
Minimum inhabitant taxes	2.4	4.9
Others	(0.7)	4.8
Effective tax rate	48.7%	62.4%

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

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Deferred tax assets:			
Excess bad debt expenses	¥ 180	¥2,387	\$19,250
Excess bonuses accrued	244	1,396	11,258
Enterprise taxes	54	52	419
Retirement benefits	—	4,920	39,677
Disallowed provision for retirement benefits for directors	348	678	5,468
Other	310	2,866	23,113
Total deferred tax assets	1,136	12,299	99,185
Deferred tax liabilities:			
Excess tax depreciation	(253)	(966)	(7,790)
Unrealized gain on certain investment securities	—	(3,714)	(29,952)
Other	(32)	(973)	(7,846)
Total deferred tax liabilities	(285)	(5,653)	(45,588)
Net deferred tax assets	¥ 851	¥6,646	\$53,597

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, 2001 were ¥5,992 million (\$48,326 thousand), including ¥2,086 million (\$16,823 thousand) due within one year.
- (2) Lease payments for fiscal 2000 and 2001 were ¥1 million (\$8 thousand) and ¥2,737 million (\$22,073 thousand), respectively.

14. Segment information

The Company is mainly engaged in the sale of pharmaceutical supplies. Sales of such business segments exceeded 90% of consolidated net sales for the two years ended March 31, 2001.

Information by location and overseas sales was not disclosed because domestic sales of Kuraya Sanseido Inc. and its domestic consolidated subsidiaries exceeded 90% of consolidated net sales for the two years ended March 31, 2001.

15. Subsequent events

- (1) On June 28, 2001, shareholders of Kuraya Sanseido Inc. approved the payment of a cash dividend of ¥12.00 (\$0.10) per share to shareholders of record at March 31, 2001, in a total payment of ¥820 million (\$6,613 thousand).
- (2) On May 17, 2001, the board of directors of Kuraya Sanseido Inc. approved the plan of accepting early retirements for certain employees in order to accelerate cost reduction. Kuraya Sanseido Inc. will pay additional retirement benefits estimated at ¥2,500 million (\$20,161 thousand) and support their employment.
Number of employees: 300
Applicable employees: Age ranging from 45 to 58 years old with at least 10 years of service at September 30, 2001
Date of retirement: September 30, 2001
- (3) On June 12, 2001, Kuraya Sanseido Inc. and its consolidated subsidiary owned 51% by Kuraya Sanseido Inc. entered into an agreement for the transfer of certain operations. Sales of certain operations to be transferred from Kuraya Sanseido Inc. to the subsidiary amounted to ¥23,531 million (\$189,766 thousand) in the year ended March 31, 2001. In addition, sales of certain operations to be transferred from the subsidiary to Kuraya Sanseido Inc. amounted to ¥5,115 million (\$41,250 thousand) in the year ended March 31, 2001.

Report of Independent Public Accountants

To the Shareholders and the Board of Directors of Kuraya Sanseido Inc.:

We have audited the accompanying consolidated balance sheets of Kuraya Sanseido Inc. (a Japanese corporation) and subsidiaries as of March 31, 2000 and 2001, and the related consolidated statements of operations, shareholders' equity and cash flows for the two years ended March 31, 2001, 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 Sanseido Inc. and subsidiaries as of March 31, 2000 and 2001, and the consolidated results of their operations and their cash flows for the two years ended March 31, 2001, in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods.

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.

The Shingo Audit Corporation

Tokyo, Japan
June 28, 2001

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.

Subsidiaries and Affiliated Companies

(as of June 28, 2001)

PHARMACEUTICAL WHOLESALE COMPANIES

KURAYA SHOJI, INC.

4-25-12, Ishihara, Sumida-ku, Tokyo 130-0011
Phone: 81-3-3626-6555
Fax: 81-3-3626-6551
Established: September, 1971
Lines of business: Sales of general-use pharmaceuticals, medical apparatus, health machines and equipment

HISATOMO KURAYA, INC.

Hongo Bldg. 3F, 5-24-7, Hongo, Bunkyo-ku, Tokyo 113-0033
Phone: 81-3-5684-3700
Fax: 81-3-5684-3903
Established: July, 1989
Lines of business: Sales of clinical inspection chemicals, reagents, inspection equipment, and pharmaceuticals

YAMAHIRO INC.

2, Ryutsudanchi Kita, Tatomi-cho, Nakakoma-gun, Yamanashi 409-3845
Phone: 81-55-273-8911
Fax: 81-55-273-0079
Established: January, 1950
Lines of business: Sales of pharmaceutical products

NISHIDA YAKUHIH CO., LTD.

20-Migi 7, 5 Jyodori, Asahikawa, Hokkaido 078-8215
Phone: 81-166-31-6121
Fax: 81-166-35-2123
Established: July, 1947
Lines of business: Sales of pharmaceutical products

IZUTSU YAKUHIH Co., Ltd.

5, Nioumon-cho, Karasuma Higashi Iru, Nijyodori, Nakagyo-ku, Kyoto 604-0854
Phone: 81-75-211-5151
Fax: 81-75-211-5790
Established: October, 1950
Lines of business: Wholesale distribution of pharmaceutical products
Homepage: <http://www.izutsu.co.jp/>

HEISEI YAKUHIH CO., LTD.

1-1, Motomachi, Gifu-shi, Gifu 500-8185
Phone: 81-58-265-8886
Fax: 81-58-265-8488
Established: January, 1929
Lines of business: Wholesale distribution of pharmaceutical products

USHIODA SANGOKUDO YAKUHIH CO., LTD.

1852-4, Otsuka-cho, Mito-shi, Ibaraki 311-4143
Phone: 81-29-251-5151
Fax: 81-29-251-4425
Established: May, 1949
Lines of business: Wholesale distribution of pharmaceutical products

Chiyaku Co., Ltd.

3-2, Tonya-cho, Chuo-ku, Chiba-shi, Chiba 260-0025
Phone: 81-43-248-1001
Fax: 81-43-242-0469
Established: July, 1953
Lines of business: Wholesale distribution of pharmaceutical products
Homepage: <http://www.chiyaku.co.jp/>

SENSHU YAKUHIH CO., LTD.

4-9-5, Oroshi-cho, Akita-shi, Akita 010-8511
Phone: 81-18-885-0131
Fax: 81-18-823-5509
Established: February, 2001
Lines of business: Wholesale of medical-use pharmaceuticals

HOSSP CORPORATION

1-12-27, Nobidome, Niiza-shi, Saitama 352-0011
Phone: 81-48-480-2880
Fax: 81-48-477-6292
Established: April, 1999
Lines of business: Sales of medical equipment, instruments, and examination materials

COMPANIES WITH BUSINESS TIES

ATOL CO., LTD.

2-2-51, Handobashi, Hakata-ku, Fukuoka-shi, Fukuoka 816-8552
Phone: 81-92-451-8771
Fax: 81-92-451-8754
Established: January, 1947
Lines of business: Wholesale of medical-use pharmaceuticals
Homepage: <http://www.atol-com.co.jp/>

EVERLTH Co., Ltd.

6-1-60, Yaga, Higashi-ku, Hiroshima-shi, Hiroshima 732-0042
Phone: 81-82-288-3312
Fax: 81-82-510-0263
Established: April, 1950
Lines of business: Wholesale distribution of pharmaceutical products.
Homepage: <http://www.everlth.co.jp/>

HEALTHCARE RELATED COMPANIES

ORIENTAL PHARMACEUTICAL CO., LTD.

1452-3, Aza Yakushihara Minami, Ohaza Takasen, Tendo-shi, Yamagata 994-0088
Phone: 81-236-55-4335
Fax: 81-236-55-4360
Established: August, 1946
Lines of business: Manufacturing and sales of pharmaceuticals and food additives

ELF Co., Ltd.

c/o Shato Seiko, 5-17-32, Fukushima, Fukushima-ku, Osaka-shi, Osaka 553-0003
Phone: 81-6-6453-5001
Fax: 81-6453-4621
Established: August, 1985
Lines of business: Providing home care services and home helper training programs

KURAYA KASEI, INC.

917, Oaza Inaba, Nagano-shi, Nagano 380-0911
Phone: 81-26-221-2005
Fax: 81-26-222-3665
Established: January, 1998
Lines of business: Sales of chemical industrial items and food additives

HONGOH YAKUHIH, INC.

Hongo Center Bldg. 3F, 2-27-20, Hongo, Bunkyo-ku, Tokyo 113-0033
Phone: 81-3-3815-2511
Fax: 81-3-3815-2633
Established: July, 1988
Lines of business: Management consultancy of pharmacies and sales of pharmacy computers and equipment
Homepage: <http://www.nona.dti.ne.jp/~hongoh/>

M.I.C. (Medical Information College), INC.

Fukuden Bldg. 4F, 2-1-12, Shibuya, Shibuya-ku, Tokyo 150-0002
Phone: 81-3-3499-7541
Fax: 81-3-3499-7544
Established: August, 1984
Lines of business: Training and supplying medical office workers, providing medical office work services on a contract basis, and consulting on medical management

BIGEO Inc.

1-7-35, Horinouchi, Suginami-ku, Tokyo 166-0013
Phone: 81-3-3318-5661
Fax: 81-3-3318-5680
Established: April, 2001
Lines of business: Leasing and cleaning of medical gowns and uniforms

Kuraya (USA) Corporation

3625, Del Amo Blvd., Suite #150, Torrance, CA 90503, U.S.A
Phone: 011-0310-542-4245
Fax: 011-0310-542-4175
Established: July, 1997
Lines of business: Supplying overseas disposable medical goods and sales of medical items

BUTSURYU 24, INC.

76-1, Minato, Urayasu-shi, Chiba 279-0024
Phone: 81-47-305-1820
Fax: 81-47-305-1825
Established: June, 1998
Lines of business: Management and operation of distribution center, collection and processing of information relating to distribution, and distribution of freight goods

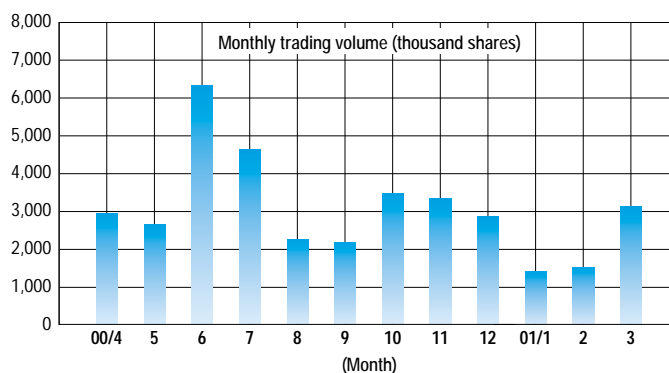
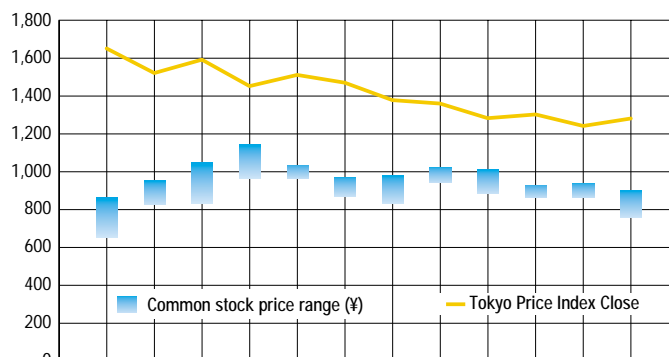
Investor Information

(as of March 31, 2001)

Corporate Name	Kuraya Sanseido Inc.
Head Office	7-15, Yaesu 2-chome, Chuo-ku, Tokyo 104-8464, Japan Tel: 81-3-3517-5050 Fax: 81-3-3517-5011 http://www.kurayasanseido.co.jp
Founded	October 1898
Established	May 1923
Paid-in Capital	¥11,153 million
Number of Outstanding Shares	136,705,869
Stock Listings	Tokyo, Osaka
Ticker Code	7459
Trading Unit	100 shares
Transfer Agent for Common Stock	Sumitomo Trust & Banking Co., Ltd.
General Meeting of Shareholders	The Ordinary General Annual Meeting of Shareholders is held annually in June.
Further Information	Investor Relations Department Tel : 81-3-3517-5171

Stock Price Range & Trading Volume

(Tokyo Stock Exchange)



Principal Shareholders

	Number of Shares Held (thousand)	Percentage of Total Shares
Takeda Chemical Industries, Ltd.	18,744	13.71%
Employees Shareholders' Association	11,705	8.56
Mizuho Trust and Banking Co., Ltd.	6,588	4.82
Sadatake Kumakura	3,417	2.50
Yamanouchi Pharmaceutical Co., Ltd.	2,821	2.06
The Mitsubishi Trust and Banking Corporation	2,503	1.83
The Asahi Bank, Ltd.	2,477	1.81
Osamu Takumiya	2,373	1.74
Sakura Bank, Ltd.	2,313	1.69
OM 04 SSB Client Omnibus	2,101	1.54



Kuraya Sanseido