

# Consolidated Financial Statements for the Interim Period of Fiscal 2001

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan.

November 17, 2000

**Kuraya Sansendo Inc.**  
7-15, Yaesu 2-chome  
Chuo-ku, Tokyo 104-8464, Japan

Stock exchange listings: Tokyo, Osaka  
Code number: 7459  
Board of Directors meeting: November 17, 2000

## 1. Results for the Interim Period of Fiscal 2001 (April 1, 2000-September 30, 2000)

### (1) Sales and Income

Note: All amounts are rounded down to the nearest million yen.

	Net sales (¥ million)	Year-on-year change [%]	Operating income (¥ million)	Year-on-year change [%]	Ordinary income (¥ million)	Year-on-year change [%]
Interim period of fiscal 2001	499,038	[—]	4,982	[—]	6,628	[—]
Interim period of fiscal 2000	—	[—]	—	[—]	—	[—]
Fiscal 2000	272,472		1,918		2,940	

	Net income (¥ million)	Year-on-year change [%]	Earnings per share (¥)	Earnings per share (diluted) (¥)
Interim period of fiscal 2001	2,789	[—]	20.48	17.87
Interim period of fiscal 2000	—	[—]	—	—
Fiscal 2000	1,560		28.15	—

Notes: 1. Equity in earnings of unconsolidated subsidiaries and affiliates: ¥— million  
(Interim period of fiscal 2000: ¥— million; Fiscal 2000: ¥— million)

2. Valuation gain on derivatives: ¥— million

3. Changes in accounting methods: None

4. Year-on-year change figures represent comparisons with the previous fiscal year.

### (2) Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity /total assets [%]	Shareholders' equity per share (¥)
Interim period of fiscal 2001	558,851	125,599	[+22.5]	921.11
Interim period of fiscal 2000	—	—	[—]	—
Fiscal 2000	163,827	61,630	[+37.6]	1,112.10

### (3) Cash Flows

	Cash flows from operating activities (¥ million)	Cash flows from investing activities (¥ million)	Cash flows from financing activities (¥ million)	Cash and cash equivalents at end of period (¥ million)
Interim period of fiscal 2001	(1,948)	(1,515)	(899)	56,139
Interim period of fiscal 2000	—	—	—	—
Fiscal 2000	3,842	(3,393)	(722)	28,152

### (4) Scope of consolidation and application of the equity method

Consolidated subsidiaries: 8 companies

Unconsolidated subsidiaries accounted for by the equity method: None

Affiliated companies accounted for by the equity method: None

### (5) Changes in scope of consolidation and application of the equity method:

Consolidation: (New) 7 companies

(Eliminated) None

Equity method: (New) None

(Eliminated) None

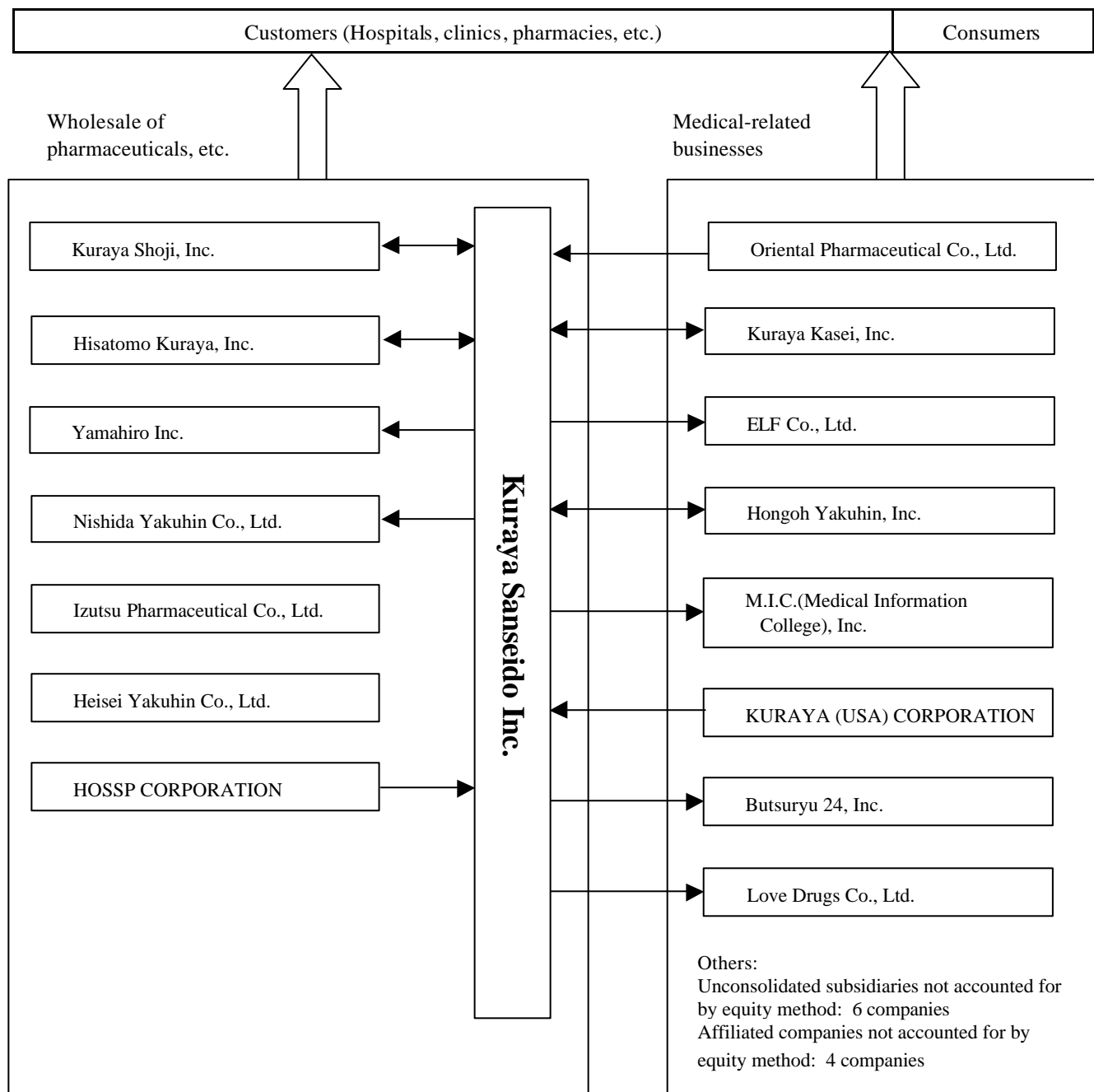
## 2. Projected Results for Fiscal 2001 (April 1, 2000-March 31, 2001)

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)
Fiscal 2001	1,098,000	12,600	5,600

Reference: Estimated earnings per share (fiscal 2001): ¥41.07

# 1. Corporate Group

The KURAYA SANSEIDO Group consists of 19 consolidated subsidiaries and six affiliates. The group companies primarily engage in sales of pharmaceuticals and the supply of services. The business operations of group companies are shown in the flow chart below.



Consolidated subsidiary

Unconsolidated subsidiary not accounted for by equity method

Affiliated company not accounted for by equity method

## Overview of Subsidiaries

Company name	Address	Capital (¥ million)	Principal business	Percentage of voting rights (%)	Transaction
Kuraya Shoji, Inc.	Sumida-ku, Tokyo	65	Wholesale of pharmaceuticals, etc.	100.00	Stocking and sale of products; payment of expenses; guarantee of debt; directors in common with Kuraya Sanseido
Hisatomo Kuraya, Inc.	Bunkyo-ku, Tokyo	40	Wholesale of pharmaceuticals, etc.	100.00	Stocking and sale of products; loan of facilities; guarantee of debt; directors in common with Kuraya Sanseido
Oriental Pharmaceutical Co., Ltd.	Tendo, Yamagata	90	Medical-related business	90.44	Stocking and sale of products; loan of facilities; guarantee of debt; directors in common with Kuraya Sanseido
Kuraya Kasei, Inc.	Nagano, Nagano	20	Medical-related business	100.00	Stocking and sale of products; loan of facilities; guarantee of debt; directors in common with Kuraya Sanseido
ELF Co., Ltd.	Fukushima-ku, Osaka	95	Medical-related business	78.95	Sale of products; loan of funds; directors in common with Kuraya Sanseido
Yamahiro Inc.	Nakakoma-gun, Yamanashi	57	Wholesale of pharmaceuticals, etc.	100.00	Sale of products; directors in common with Kuraya Sanseido
Nishida Yakuhin Co., Ltd.	Asahikawa, Hokkaido	16	Wholesale of pharmaceuticals, etc.	99.17	Sale of products; guarantee of debt; directors in common with Kuraya Sanseido
Izutsu Pharmaceutical Co., Ltd.	Nakagyou-ku, Kyoto	118	Wholesale of pharmaceuticals, etc.	51.00	Sale of products; directors in common with Kuraya Sanseido

## 2. Management Policies

As the finances of the national health insurance system tighten due to factors such as the graying population, measures to improve the quality of medical care and contain medical costs are being implemented and considered. The structure of the healthcare industry itself, including the pharmaceutical wholesale business, is undergoing major changes.

In view of these conditions, effective April 1, 2000, three companies—Kobe-based SANSEIDO Co., Ltd. and Tokyo-based KURAYA Corporation and Tokyo Pharmaceutical Co., Ltd.—merged to create a new company, KURAYA SANSEIDO Inc. The purpose of the merger was to better meet the increasingly diverse and sophisticated needs of our customers, primarily medical institutions, as well as our manufacturing suppliers. As of September 30, 2000, KURAYA SANSEIDO is conducting its business activities as a corporate group that includes eight consolidated subsidiaries.

### (1) Basic Management Policy

The corporate philosophy of the KURAYA SANSEIDO group is to create marketing value by repaying the trust placed in us by people who desire good health and those who can help provide it. Based on this corporate philosophy, we are shifting from our previous framework of pharmaceutical distribution to establish new functions and roles that match the needs of society from a wider perspective.

### (2) Basic Policy for Distribution of Profits

By increasing profitability, the Company strives to generate higher retained earnings for use in future business development and strengthening of operations, while also providing stable dividends to shareholders.

### *(3) Measures Related to Administrative Reorganization*

To clearly separate management decision-making and auditing functions from business execution functions, an Executive Officer system has been introduced. In addition, reforms were made to reduce the number of directors to add vitality to the Board of Directors and speed up the decision-making process.

### *(4) Medium- and Long-Term Management Strategies*

The KURAYA SANSEIDO Group has drawn up a medium-term management plan for the three years from fiscal 2001 through fiscal 2003. The plan is aimed at quickly demonstrating the effects of the merger to the fullest extent in order to create a wholesale company that will grow and develop in the 21<sup>st</sup> century.

The Company has stated its three basic management strategies as “Strengthening Sales by Restructuring Resources,” “Lowering Costs by Restructuring Our Business,” and “Strengthening Development by Restructuring Functions.” Currently we are developing our business in ways that take advantage of our scale, with these strategies at the core.

#### 1) Strengthen Sales by Restructuring Resources

In July 2000, we established a sales office in the city of Fujieda, Shizuoka Prefecture, thereby bolstering our sales base in the strategically important Tokai region. In order to expand our market share by increasing our sales presence in other areas where our share is low, we will actively invest in human resources as well as take steps to upgrade logistics- and information-related systems to support sales development.

#### 2) Lower Costs by Restructuring Our Business

Upon our start as KURAYA SANSEIDO, 24 sales bases and three distribution bases were closed or consolidated. However, we will continue to consider closing or consolidating regionally overlapping sales bases.

Furthermore, we will fundamentally review operations and improve systems in ways such as consolidating or newly opening business operation centers to promote higher efficiency in ordering and shipping and reduce labor requirements. At the same time, we will work to improve the ratio of direct and indirect personnel by reducing the number of indirect employees.

#### 3) Strengthen Development by Restructuring Functions

Initiatives to strengthen and expand customer support functions include developing and implementing a Web ordering network system, introducing a debit card service and building regional medical networks.

In addition, we launched the Special Committee on IT Strategy to create a new business model that will effectively weave together information technology with the Group’s distribution and information functions.

The KURAYA SANSEIDO Group will remain attuned to a wide variety of customer needs and link this understanding to development of new business models.

KURAYA SANSEIDO has decided to obtain more than 50 percent of the stock of Izutsu Pharmaceutical Co., Ltd., Heisei Yakuhin Co., Ltd., Ushioda Sangokudo Yakuhin Co., Ltd. and Chiyaku Co., Ltd. to cooperate with them as Group companies with the objective of further developing

and strengthening the KURAYA SANSEIDO Group. The Company is actively promoting business alliances with the aim of making cooperative use of sales, warehousing, distribution, information, customer support and computer systems.

### **3. Business Results**

#### *(1) First-Half Operating Environment*

A 7 percent real reduction in National Health Insurance price standards for ethical drugs was implemented in April 2000. As a consequence, medical institutions are strengthening their demands for price reductions, which is leading to prolonged price negotiations with pharmaceutical wholesalers. At the same time, however, the advance of the graying society and the launch of new drugs with strong market potential are expanding the overall market for ethical drugs.

Under these circumstances, the KURAYA SANSEIDO Group carried out marketing activities based on establishment of key product lines, particularly new pharmaceutical products. We are implementing organized, companywide sales activities to expand our market share at prescription pharmacies, where demand is growing concomitant with the separation of prescription and dispensary functions in the medical industry.

While aiming to secure reasonable profits from sales, we worked to reduce purchasing costs by expanding the scale of purchases and to reduce the number of indirect employees by streamlining and raising the efficiency of internal systems.

As a result, consolidated net sales for the interim period were ¥499,038 million, consolidated ordinary income amounted to ¥6,628 million, and consolidated net income totaled ¥2,789 million.

During the interim period, Izutsu Pharmaceutical Co., Ltd. became a consolidated subsidiary in connection with a business tie-up that began in April 2000.

Capital investment totaled ¥1,951 million, and comprised mainly the expansion of distribution facilities such as Nishi Nippon Distribution Center.

Funding for capital investment was wholly covered by funds on hand.

#### *(2) Outlook for the Full Fiscal Year*

Although there is a possibility that sales prices will decline due to the progress of price negotiations with medical institutions, the Company will continue to place top priority on securing reasonable profits while carrying out strategic marketing activities and working to expand its market share. Moreover, measures to link functions and systems between Group companies and rebuild our sales system will promote greater effectiveness in sales activities.

Following the addition of Izutsu Pharmaceutical Co., Ltd. to consolidated accounts during the interim period, three companies will be added as consolidated subsidiaries during the second half – Heisei Yakuhin Co., Ltd., Ushioda Sangokudo Yakuhin Co., Ltd. and Chiyaku Co., Ltd. These additions will further expand our sales areas and market share. Moreover, joint purchasing within the Group as well as strong promotion of shared usage of systems related to logistics, data and customer support will contribute to stable profits and reduce costs.

Based on the above factors, for the fiscal year ending March 31, 2001, we project consolidated net sales of ¥1,098.0 billion, consolidated ordinary income of ¥12.6 billion and consolidated net income of ¥5.6 billion.

#### 4-1. Consolidated Balance Sheets

##### ASSETS

(Millions of yen)

	As of September 30, 2000		As of March 31, 2000	
<b>ASSETS</b>	<b>558,851</b>	<b>100.0%</b>	<b>163,827</b>	<b>100.0%</b>
Current assets	423,073	75.7	117,360	71.6
Cash and cash equivalents	57,622		28,583	
Notes and accounts receivable	301,352		70,742	
Inventories	39,483		10,930	
Deferred income taxes	1,648		388	
Accounts receivable	24,159		6,879	
Other current assets	1,756		295	
Allowance for doubtful receivables	(2,950)		(459)	
Fixed assets	135,777	24.3	46,467	28.4
Tangible fixed assets:	106,104	19.0	42,245	25.8
Buildings and structures	36,956		15,873	
Land	64,576		23,987	
Construction in progress	1,331		48	
Other tangible fixed assets	3,239		2,336	
Intangible fixed assets :	1,741	0.3	125	0.1
Software	457		—	
Consolidation adjustments	636		—	
Other intangible fixed assets	647		125	
Investments and other assets:	27,932	5.0	4,095	2.5
Investment securities	16,869		2,052	
Long-term loans	595		429	
Other	664		461	
Deferred income taxes	12,613		1,709	
Allowance for doubtful receivables	(2,811)		(557)	
<b>Total assets</b>	<b>558,851</b>	<b>100.0</b>	<b>163,827</b>	<b>100.0</b>

#### 4-1. Consolidated Balance Sheets

##### LIABILITIES AND SHAREHOLDERS' EQUITY (Millions of yen)

	As of September 30, 2000		As of March 31, 2000	
<b>Total liabilities</b>	<b>431,703</b>	<b>77.2%</b>	<b>102,193</b>	<b>62.4%</b>
<b>Current liabilities:</b>	<b>393,392</b>	<b>70.4</b>	<b>100,823</b>	<b>61.6</b>
Notes and accounts payable	364,244		95,551	
Short-term loans	11,708		—	
Income taxes payable	2,640		575	
Reserve for bonuses	6,383		1,922	
Allowance for losses on sales returns	615		141	
Other current liabilities	7,799		2,631	
<b>Long-term liabilities:</b>	<b>38,311</b>	<b>6.8</b>	<b>1,370</b>	<b>0.8</b>
Convertible bonds	22,798		—	
Long-term debt	1,290		—	
Guarantee deposits	552		521	
Reserve for retirement allowances	—		18	
Reserve for retirement benefits	12,050		—	
Allowance for directors' retirement bonuses	1,308		831	
Other long-term liabilities	310		—	
<b>Minority interests</b>	<b>1,547</b>	<b>0.3</b>	<b>3</b>	<b>0.0</b>
<b>Minority interests</b>	<b>1,547</b>	<b>0.3</b>	<b>3</b>	<b>0.0</b>
<b>Shareholders' equity</b>	<b>125,599</b>	<b>22.5</b>	<b>61,630</b>	<b>37.6</b>
Common stock	11,016	2.0	6,928	4.2
Capital reserve	24,184	4.3	6,034	3.7
Consolidated retained earnings	85,510	15.3	48,666	29.7
Valuation difference on other marketable securities	4,888	0.9	—	—
Treasury stock	(0)	(0.0)	(0)	(0)
<b>Total liabilities, minority interests and shareholders' equity</b>	<b>558,851</b>	<b>100.0</b>	<b>163,827</b>	<b>100.0</b>

## 4-2. Consolidated Statements of Income

(Millions of yen)

	Interim period of fiscal 2001		Fiscal 2000	
Net sales	499,038	100.0%	272,472	100.0%
Cost of sales	449,414	90.1	244,145	89.6
Reserve for returned goods	81	0.0	(1)	(0.0)
Gross profit	49,543	9.9	28,328	10.4
Selling, general and administrative expenses	44,561	8.9	26,409	9.7
Operating income	4,982	1.0	1,918	0.7
Non-operating income:	2,267	0.4	1,774	0.7
Interest income	80		67	
Dividend income	77		44	
Research fee income	1,151		661	
Real estate rental income	477		672	
Other non-operating income	480		328	
Non-operating expenses:	621	0.1	752	0.3
Interest expense	191		9	
Real estate rental expenses	384		734	
Other non-operating expenses	45		8	
Ordinary income	6,628	1.3	2,940	1.1
Extraordinary gain:	1,045	0.2	268	0.1
Gain on sales of fixed assets	17		93	
Gain on sales of investment securities	656		—	
Reversal of allowance for doubtful accounts	38		175	
Surplus upon adoption of retirement benefit accounting standards	332		—	
Extraordinary loss:	1,946	0.4	200	0.1
Loss on disposal of fixed assets	94		156	
Loss on valuation of investment securities	199		—	
Loss on valuation of golf memberships	437		—	
Expenses related to reorganization of sales offices	1,214		—	
Loss on reorganization of affiliates	—		44	
Income before income taxes and minority interests	5,727	1.1	3,008	1.1
Income taxes current	1,696	0.3	1,041	0.4
Income taxes deferred	1,076	0.2	423	0.1
Minority interests	164	0.0	—	—
Minority interests in loss	—	—	16	0.0
Net income	2,789	0.6	1,560	0.6

### 4-3. Consolidated Statements of Retained Earnings

(Millions of yen)

	Interim period of Fiscal 2001	Fiscal 2000
Balance, beginning of year	48,666	47,882
Increase	34,476	—
Increase due to merger	33,619	—
Increase due to increase in number of consolidated subsidiaries	856	—
Deductions	423	775
Cash dividends paid	337	720
Bonuses to directors and corporate auditors	86	55
[Bonuses to corporate auditors]	[7]	[5]
Net income	2,789	1,560
Balance, end of year	85,510	48,666

#### 4-4. Consolidated Statements of Cash Flows

(Millions of yen)

	Interim period of fiscal 2001	Fiscal 2000
Cash flow from operating activities		
Income before income taxes and other adjustments	5,727	3,008
Depreciation and amortization	1,880	1,949
Depreciation adjustment for consolidation	77	0
Reversal of employees' retirement allowances	(12,431)	(732)
Provision for employees' retirement benefits	12,050	—
(Reversal of) provision for reserve for directors' retirement bonuses	(914)	86
Provision for bonuses	467	271
Provision for (reversal of) allowance for doubtful receivables	118	(208)
Provision for (reversal of) reserve for returned goods	81	(1)
(Reversal of) provision for reserve for investment losses	(1,090)	—
Net interest and dividend income	(158)	(111)
Interest paid	191	9
Gain on foreign currency translation	(9)	—
Loss on disposal of fixed assets	76	70
(Gain) loss on marketable securities	(456)	23
Loss on valuation of golf memberships	437	—
Increase in accounts receivable	(16,444)	(536)
Decrease (increase) in inventories	572	(1,191)
Decrease (increase) in other assets	548	(1,566)
Increase in notes and accounts payable	7,258	4,385
(Decrease) increase in accrued consumption tax payable	(179)	443
Increase in other current liabilities	488	264
Bonuses to directors	(176)	(55)
Subtotal	(1,882)	6,112
Interest and dividends received	163	114
Interest expenses	(189)	(9)
Income taxes	(40)	(2,374)
Net cash (used in) provided by operating activities	(1,948)	3,842
Cash flow from investing activities		
Increase in time deposits	(619)	—
Proceeds from redemption of time deposits	650	—
Payment for purchases of property, plant and equipment	(1,686)	(3,182)
Proceeds from sales of property, plant and equipment	280	194
Payment for purchases of marketable securities	(2,168)	(51)
Proceeds from sales of marketable securities	932	4
Proceeds from purchases of stocks in subsidiaries related to change in scope of consolidation	1,290	—
Payment for issuance of loans	(159)	(406)
Proceeds from recovery of loans	71	18
Other payments	(288)	—
Other proceeds	183	28
Net cash used in investing activities	(1,515)	(3,393)
Cash flow from financing activities		
Net increase in short-term bank loans	319	—
Repayment of long-term debt	(519)	—
Payment for redemption of convertible bonds	(0)	—
Payment for purchases of treasury stock	(9)	(1)
Proceeds from sale of treasury stock	79	1
Dividends paid by parent company	(332)	(722)
Payment of merger acquisition costs by parent company	(426)	—
Dividends paid to minority shareholders	(8)	—
Net cash used in financing activities	(899)	(722)
Effect of translation gain/loss on cash and cash equivalents	9	—
Net decrease in cash and cash equivalents	(4,353)	(273)
Cash and cash equivalents, beginning of period	28,152	28,398
Increase in cash and equivalents due to merger	30,312	—
Cash and cash equivalents of newly consolidated subsidiaries at beginning of period	2,028	27
Cash and cash equivalents, end of period	56,139	28,152

## 4-5. Preparation of the Interim Consolidated Financial Statements

### (1) Scope of Consolidation

#### 1. Number of consolidated subsidiaries: 8 companies

ELF Co., Ltd., Kuraya Shoji, Inc., Hisatomo Kuraya, Inc., Oriental Pharmaceutical Co., Ltd., Kuraya Kasei Inc., Yamahiro Inc., Nishida Yakuhin Co., Ltd., Izutsu Pharmaceutical Co., Ltd.

Kuraya Shoji, Inc., Hisatomo Kuraya, Inc., Oriental Pharmaceutical Co., Ltd., Kuraya Kasei Inc. and Yamahiro Inc. were added to consolidation as a result of the April 1, 2000 merger with Kuraya Corporation and Tokyo Pharmaceutical Co., Ltd. Nishida Yakuhin Co., Ltd. and Izutsu Pharmaceutical Co., Ltd. have been included in the scope of consolidation, the former because of its increased strategic importance and the latter because of the acquisition of its stock during the interim period.

#### 2. Non-consolidated Subsidiaries

Significant unconsolidated subsidiaries:

Sunday Total Planning, Co., Ltd., and Hongoh Yakuhin, Inc.

Reason for omission from scope of consolidation:

The total assets, net sales, net income and retained earnings of each of the unconsolidated subsidiaries omitted from consolidation are minor and would not have a material effect on the interim consolidated financial statements.

### (2) Application of the Equity Method

1. The equity method is not applied to any unconsolidated subsidiaries or affiliated companies.

2. The equity method is not applied to unconsolidated subsidiaries Sunday Total Planning Co., Ltd. and Hongoh Yakuhin, Inc., and to affiliated companies Love Drugs Co., Ltd., Inter Farcom Co., Ltd., HOSSP CORPORATION and others, as the net income and retained earnings of these companies would not have a material effect on the interim consolidated financial statements, and the importance of these companies in the aggregate is not significant.

### (3) Accounting Periods of Consolidated Subsidiaries

The interim accounting periods of all consolidated subsidiaries end on the interim consolidated account settlement date.

### (4) Accounting standards

#### 1. Accounting standards for valuation of major assets

##### (a) Valuation of Inventories

Valued at cost using the first-in first-out method

##### (b) Valuation of Securities

Other marketable securities:

Securities with market prices: Valued at market based on market prices at the interim account settlement date (valuation differences are fully capitalized and selling prices are computed using the moving-average method)

Securities without market prices: Valued at cost using the moving-average method

#### 2. Method of Depreciation of Major Depreciable Assets

Depreciation of fixed assets

##### (a) Tangible fixed assets

The Company and its consolidated subsidiaries primarily use the declining-balance method. However, for buildings (excluding attached facilities) acquired on or after April 1, 1998, the straight-line method is employed.

##### (b) Intangible fixed assets

The Company and its consolidated subsidiaries primarily use the straight-line method. However, software for internal use is depreciated using the straight-line method based on the estimated useful life within the company (5 years).

##### (c) Long-term prepaid expenses

Long-term prepaid expenses are primarily amortized using the moving-average method.

### 3. Accounting Standards for Major Reserves

#### (a) Allowance for doubtful accounts

An allowance for doubtful accounts is provided in amounts deemed necessary 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.

#### (b) Reserve for bonuses

To provide for payment of bonuses to employees, a reserve is set aside in the estimated amount required to be paid for the interim period.

#### (c) Allowance for losses on sales returns

An allowance for losses on sales returns is provided in the amount prescribed by the Corporation Tax Law. Consolidated subsidiaries ELF Co., Ltd., Kuraya Shoji, Inc. and Kuraya Kasei, Inc. do not provide this allowance.

#### (d) Reserve for retirement benefits:

The Company and one of its consolidated subsidiaries provide for employees' retirement liability in the estimated amount required to be paid at the interim balance sheet date, less the estimated fair value of pension assets related to contributory pension plans.

Five consolidated subsidiaries employ contributory pension plans in the amounts which would be required if all eligible employees voluntarily retired at the balance sheet date, less the portion covered by the pension plans.

Two other consolidated subsidiaries provide for retirement benefits in the amounts which would be required if all eligible employees voluntarily retired at the balance sheet date.

The discrepancy arising from the accounting change (¥332 million) was booked in full as an extraordinary gain at the end of the interim consolidated accounting period.

#### (e) Allowance for directors' retirement bonuses

A reserve is provided to cover directors' retirement bonuses based on the internal rules of each company.

### 4. Accounting for Lease Transactions

Finance lease transactions other than those for which ownership is deemed to be transferred to the lessee are accounted for as ordinary lease transactions.

### 5. Accounting for Consumption Taxes

Consumption taxes are excluded from revenues and expenses.

### (5) Valuation of Assets and Liabilities of Consolidated Subsidiaries

The assets and liabilities of the consolidated subsidiaries are valued using the full mark-to-market method.

### (6) Amortization of the Consolidation Adjustments Account

The consolidation adjustments account is amortized on a straight-line basis over five years.

### (7) Items related to appropriation of profits, etc.

The interim consolidated statements of earned surplus are prepared based on the final appropriation of retained earnings of the respective consolidated companies determined during the interim consolidated accounting period.

### (8) Scope of Funds in the Consolidated Statements of Cash Flows

Cash and cash equivalents in the consolidated statements of cash flows comprise cash on hand, demand deposits, and short-term investments that are readily convertible into cash, are exposed to insignificant risk of changes in value and are redeemable in three months or less.

#### (Supplementary information)

##### Accounting for retirement benefits:

Effective from the interim period under review, the Company adopted retirement benefit accounting standards ("Views on the establishment of accounting standards for retirement benefits," Business Accounting Deliberation Council, June 16, 1998).

Accrued expenses for past service liabilities of the reserve for retirement allowances and contributory pension plans are included in the reserve for retirement benefits.

Accounting for financial instruments:

Effective from the interim period under review, the Company adopted accounting standards for financial instruments (“Views on the establishment of accounting standards for financial instruments,” Business Accounting Deliberation Council, January 22, 1999).

The purpose of securities held by the Company was examined at the beginning of the interim period. Securities intended to be sold, bonds intended to be held until maturity, and bonds included in “Other marketable securities” that mature in less than one year are classified as marketable securities in current assets. Other securities are classified as investment securities.

Accounting standards for foreign currency transactions:

Effective from the interim period under review, the Company adopted the revised accounting standards for foreign currency transactions (“Views on revision of accounting standards for foreign currency transactions,” Business Accounting Deliberation Council, October 22, 1999).

**Items Pertaining to Interim Consolidated Balance Sheets**

(Millions of yen)

As of September 30, 2000		As of March 31, 2000	
1. Accumulated depreciation of property, plant and equipment	32,982	1. Accumulated depreciation of property, plant and equipment	15,346
2 Pledged assets		2. —	—
Time deposits	128		
Buildings	1,448		
Land	3,661		
Investment securities	1,610		
Total	6,847		
Liabilities corresponding to above pledged assets:			
Short-term loans	1,337		
Long-term loans	945		
Accounts payable	34,222		
Total	36,505		
3. Notes and bills discounted	759	3. —	—
4. Accounting for notes maturing at end of interim period		4. —	—
Although the last day of the interim accounting period was a bank holiday, notes maturing on that date are stated as if they were settled on the maturity date.			
Notes that matured on the last day of the interim period are as follows:			
Notes receivable	7,411		
Notes payable	6,043		

**Items Pertaining to Interim Consolidated Statements of Income**

(Millions of yen)

Interim period of fiscal 2001		Fiscal 2000	
1. Major items and amounts in SG&A expenses:		1. Major items and amounts in SG&A expenses:	
Wages and salaries	20,430	Wages and salaries	13,848
Welfare expenses	3,215	Welfare expenses	2,685
Provision for bonuses	6,369	Provision for bonuses	1,922
Provision for employees' retirement benefits	1,269	Provision for employees' retirement benefits	3
Provision for directors' retirement bonuses	72	Provision for directors' retirement bonuses	86
Shipping and delivery expenses	1,759	Shipping and delivery expenses	1,875
Rental expenses	1,627	Rental expenses	586
Depreciation and amortization	1,576	Depreciation and amortization	1,392
Depreciation adjustment for consolidation	77	Depreciation adjustment for consolidation	0

**Items Pertaining to Interim Consolidated Statements of Cash Flows**

(Millions of yen)

Interim period of fiscal 2001		Fiscal 2000	
Relationship between the ending balance of cash and cash equivalents and amounts reported in the consolidated balance sheets		Relationship between the ending balance of cash and cash equivalents and amounts reported in the consolidated balance sheets	
Cash and deposits	57,622	Cash and deposits	28,583
Time deposits with maturities exceeding three months	(1,483)	Time deposits with maturities exceeding three months	(431)
Cash and cash equivalents	56,139	Cash and cash equivalents	28,152

## Items Pertaining to Lease Transactions

(Items pertaining to finance lease transactions other than those that transfer ownership)

### 1. Acquisition cost, accumulated depreciation and ending balance of leased assets (Millions of yen)

	Interim period of fiscal 2001			Fiscal 2000		
	Acquisition cost	Accumulated depreciation	Ending balance	Acquisition cost	Accumulated depreciation	Ending balance
Machinery, equipment and carriers	5,266	2,121	3,145			
Tools and fixtures	5,096	3,214	1,882	—	—	—
Total	10,363	5,335	5,028			

### 2. Future lease payments (Millions of yen)

	As of September 30, 2000	As of March 31, 2000
Due within one year	1,895	—
Due after one year	3,292	—
Total	5,187	—

### 3. Equivalent amount of lease payments (Millions of yen)

	As of September 30, 2000	As of March 31, 2000
Lease payments	1,306	1
Depreciation expense	1,203	1
Interest paid	105	

### 4. Method of calculating depreciation expense equivalent

Depreciation expense equivalent of leased assets is calculated using the straight-line method, assuming the lease periods as the useful lives and no residual value.

### 5. Method of calculating interest paid equivalent

Interest paid equivalent is the difference between total lease payments and the acquisition cost equivalent of the leased assets, and is expensed evenly over each period using the interest method.

(Items pertaining to operating lease transactions)

### Accrued lease expenses

	As of September 30, 2000	As of March 31, 2000
Due within one year	18	
Due after one year	11	
Total	30	

## 5. Segment Information

### 1. Business Segment Information

Business segment information is not disclosed, as the consolidated net sales, operating income and total assets of the ethical drug sales business constituted more than 90 percent of the consolidated totals for the interim period of fiscal 2001, and fiscal 2000.

### 2. Geographical Segment Information

Geographical segment information is not disclosed, as the Company has no consolidated subsidiaries or significant branch offices outside Japan.

### 3. Overseas Sales

The Company had no overseas sales for the interim period ended September 30, 2000 or the fiscal year ended March 31, 2000.

## 6. Production, Orders and Sales

### (1) Sales

(Millions of yen)

	Interim period of fiscal 2001		Fiscal 2000	
Ethical drugs	433,017	86.8%	224,919	82.5%
Over-the-counter drugs	21,526	4.3	18,963	7.0
Medical equipment, tools and clinical materials	21,081	4.2	12,552	4.6
Reagents	11,053	2.2	8,927	3.3
Others	12,359	2.5	7,108	2.6
<b>Total</b>	<b>499,038</b>	<b>100.0</b>	<b>272,472</b>	<b>100.0</b>

### (2) Purchases

(Millions of yen)

	Interim period of fiscal 2001		Fiscal 2000	
Ethical drugs	390,695	87.1%	203,532	83.0%
Over-the-counter drugs	18,402	4.1	16,540	6.7
Medical equipment, tools and clinical materials	19,325	4.3	11,189	4.6
Reagents	9,786	2.2	7,857	3.2
Others	10,162	2.3	6,221	2.5
<b>Total</b>	<b>448,372</b>	<b>100.0</b>	<b>245,341</b>	<b>100.0</b>

**7. Marketable Securities**  
**Marketable Securities**

(Millions of yen)

	As of September 30, 2000		
	Balance sheet amount	Market value	Valuation gain (loss)
1. Securities with market values intended to be held until maturity			
National and local government bonds, etc.	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Total	—	—	—
	Acquisition cost	Balance sheet amount	Valuation gain (loss)
2. Other securities with market values			
a. Stocks	4,403	13,531	9,128
b. Bonds			
National and local government bonds, etc.	—	—	—
Corporate bonds	—	—	—
Others	6	7	1
c. Others	—	—	—
Total	4,409	13,539	9,129
3. Description and balance sheet amounts of securities without market values			
(1) Bonds intended to be held until maturity	—		
(2) Other marketable securities			
Unlisted stocks (excluding stocks traded over-the-counter)	664		
Unlisted domestic government bonds	0		

**Market Value of Marketable Securities**

(Millions of yen)

	As of March 31, 2000		
	Balance sheet amount	Market value	Valuation gain (loss)
Items classified as current assets:			
Stocks	—	—	—
Bonds	—	—	—
Others	—	—	—
Sub-total	—	—	—
Items classified as fixed assets:			
Stocks	1,474	6,101	4,626
Bonds	0	0	(0)
Others	—	—	—
Sub-total	1,474	6,101	4,626
Total	1,474	6,101	4,626

## Notes

## 1. Methods of calculating market value as of March 31, 2000

## (1) Listed marketable securities:

Closing prices on Tokyo Stock Exchange

## (2) Marketable securities traded over-the-counter:

Trading prices quoted by the Japan Securities Dealers Association

## (3) Quotation securities (excluding marketable securities for which (1) or (2) apply):

Over-the-counter bond quotations released by the Japan Securities Dealers Association

## 2. Book value of marketable securities not subject to disclosure

Items classified as fixed assets:

Unlisted stocks other than over-the-counter stocks           ¥577million

**8. Derivative Transactions**

None applicable

## 9. Subsequent Events

### 1. Transfer of a Portion of the Business of Heisei Yakuhin, Co., Ltd.

On October 1, 2000, the transfer and takeover of business related to wholesale of ethical drugs took place between the Company and Heisei Yakuhin, Co., Ltd. for the purpose of increasing the efficiency of sales activities and clarifying roles.

#### (1) Description and scale of business transferred (net sales and production)

Scale of business (Year ended March 31, 2000)

Net sales ¥422 million

Transferred assets

Accounts receivable ¥97 million

#### (2) Description of business received

Business related to wholesale of ethical drugs

Assets taken over

Accounts receivable ¥2,126 million

#### (3) Schedule of transfer

August 7, 2000 Approval by Board of Directors

August 7, 2000 Signing of contract for transfer of sales

October 1, 2000 Date of business transfer

### 2. Acquisition of Ushioda Sangokudo Yakuhin Co., Ltd. and Chiyaku Co., Ltd.

The Company acquired 50.1% and 51.0%, respectively, of outstanding shares in Ushioda Sangokudo Yakuhin Co., Ltd. and Chiyaku Co., Ltd. for the purpose of reinforcing and strengthening its business foundation through mutual cooperation between these companies and other companies in the KURAYA SANSEIDO group. Common usage of systems will be actively promoted through business tie-ups in logistics, information, customer support and purchasing.

#### (1) Ushioda Sangokudo Yakuhin Co., Ltd.

Address: 1852-4, Otsukacho, Mito-shi, Ibaraki

Capital: ¥98 million (as of March 31, 2000)

Main business: Pharmaceutical wholesale business

Scale of business (Year ended March 2000):

Net sales ¥70,126 million

Total assets ¥33,197 million

Date of stock acquisition: October 30, 2000

Number of shares acquired: 98,500

Percentage of ownership

after acquisition: 50.1%

#### (2) Chiyaku Co., Ltd.

Address: 3-2, Tonyamachi, Chuo-ku, Chiba-shi, Chiba

Capital: ¥133 million (as of March 31, 2000)

Main business: Pharmaceutical wholesale business

Scale of business (Year ended March 2000):

Net sales ¥24,712 million

Total assets ¥12,540 million

Date of stock acquisition: October 30, 2000

Number of shares acquired: 135,660

Percentage of ownership

after acquisition: 51.0%

### 3. Subsidiary's acquisition of business of Senshu Yakuhin Co., Ltd.

On October 30, 2000, the Board of Directors approved the takeover by Tohoku Pharmaceutical Hanbai Co., Ltd., a wholly owned subsidiary of the Company, of the pharmaceutical wholesale business of Senshu Yakuhin Co., Ltd., effective February 1, 2001, for the purpose of strengthening and reinforcing the business base of the Group.

#### (1) Description of business to be taken over

Business related to wholesale of ethical drugs and over-the-counter pharmaceuticals

(2) Schedule of transfer

October 30, 2000	Meeting of the Board of Directors of KURAYA SANSEIDO Inc. Meeting of the Board of Directors of Senshu Yakuhin Co., Ltd. Meeting of the Board of Directors of Tohoku Pharmaceutical Hanbai Co., Ltd.
November 1, 2000	Signing of business transfer contract
November 30, 2000*	Extraordinary General Meeting of Shareholders of Senshu Yakuhin Co., Ltd. Extraordinary General Meeting of Shareholders of Tohoku Pharmaceutical Hanbai Co., Ltd.
February 1, 2001*	Date of transfer

\*Scheduled

4. The Company and Atol Co., Ltd. and Everlth Co., Ltd., after agreeing in principle to cooperate with each other and form a broad business tie-up, voted at a Board of Directors meeting on November 9, 2000, to enter into a business tie-up. The Basic Agreement for the business tie-up was signed by the three companies on November 10, 2000.

To promote the smooth progress of the tie-up and build a solid relationship of trust among the three companies, each company will hold less than 1 percent of the others' total outstanding shares. In addition, the presidents of the three companies have been appointed as advisers to the other companies, effective from the date of the signing of the Basic Agreement.

Contents of Business Tie-Up

- 1) Study of an efficient, appropriate management system suitable for the 21<sup>st</sup> century
- 2) Study and shared usage of new sales activities and systems accompanying changes in healthcare systems and advances in information technology
- 3) Research and development and shared usage of a logistics management system
- 4) Research and development and shared usage of customer support systems
- 5) Study and implementation of an employee training program and ways of using employees effectively
- 6) Study and implementation of concrete measures for increased efficiency and streamlining to promote low-cost operations

**( Reference )****Interim Consolidated Balance Sheets (Comparison with Beginning of Period)** (Millions of yen)

	As of		As of	
	September 30, 2000		April 1, 2000	
<b>ASSETS</b>	558,851	100.0%	544,315	100.0%
Current assets	423,073	75.7	414,544	76.2
Cash and cash equivalents	57,622		64,656	
Notes and accounts receivable	301,352		284,908	
Inventories	39,483		40,056	
Deferred income taxes	1,648		1,323	
Accounts receivable	24,159		24,631	
Other current assets	1,756		1,434	
Allowance for doubtful receivables	(2,950)		(2,466)	
Fixed assets	135,777	24.3	129,771	23.8
Tangible fixed assets:	106,104	19.0	107,005	19.6
Buildings and structures	36,956		38,376	
Land	64,576		64,531	
Construction in progress	1,331		466	
Other tangible fixed assets	3,239		3,631	
Intangible fixed assets :	1,741	0.3	1,577	0.3
Software	457		245	
Consolidation adjustments	636		714	
Other intangible fixed assets	647		617	
Investments and other assets:	27,932	5.0	21,188	3.9
Investment securities	16,869		4,704	
Long-term loans	595		616	
Other	664		5,910	
Deferred income taxes	12,613		13,132	
Allowance for doubtful receivables	(2,811)		(3,177)	
<b>Total assets</b>	<b>558,851</b>	<b>100.0</b>	<b>544,315</b>	<b>100.0</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

(Millions of yen)

	As of March 31, 2000		As of April 1, 2000	
<b>Total liabilities</b>	<b>431,703</b>	<b>77.2%</b>	<b>425,126</b>	<b>78.1%</b>
<b>Current liabilities:</b>	<b>393,392</b>	<b>70.4</b>	<b>383,670</b>	<b>70.5</b>
Notes and accounts payable	364,244		356,986	
Short-term loans	11,708		11,386	
Income taxes payable	2,640		984	
Reserve for bonuses	6,383		5,916	
Allowance for losses on sales returns	615		534	
Other current liabilities	7,799		7,860	
<b>Long-term liabilities:</b>	<b>38,311</b>	<b>6.8</b>	<b>41,455</b>	<b>7.6</b>
Convertible bonds	22,798		22,891	
Long-term debt	1,290		1,810	
Guarantee deposits	552		655	
Reserve for retirement allowances	—		12,431	
Reserve for retirement benefits	12,050		—	
Allowance for directors' retirement bonuses	1,308		2,222	
Reserve for investment losses	—		1,090	
Other long-term liabilities	310		354	
<b>Minority interests</b>	<b>1,547</b>	<b>0.3</b>	<b>990</b>	<b>0.2</b>
Minority interests	1,547	0.3	990	0.2
<b>Shareholders' equity</b>	<b>125,599</b>	<b>22.5</b>	<b>118,198</b>	<b>21.7</b>
Common stock	11,016	2.0	10,969	2.0
Capital reserve	24,184	4.3	24,138	4.4
Additional paid-in capital	85,510	15.3	83,143	15.3
Consolidated retained earnings	4,888	0.9	—	—
Treasury stock	(0)	(0.0)	(52)	(0.0)
<b>Total liabilities, minority interests and shareholders' equity</b>	<b>558,851</b>	<b>100.0</b>	<b>544,315</b>	<b>100.0</b>

## Summary of Unconsolidated Financial Statements for Interim Period of Fiscal 2001

November 17, 2000

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan.

**Kuraya Sanseido Inc.**  
7-15, Yaesu 2-chome, Chuo-ku,  
Tokyo 104-8464, Japan

Stock exchange listings: Tokyo, Osaka  
Code number: 7459  
Board of Directors meeting: November 17, 2000  
Interim dividend system: Yes

### 1. Results for the Interim Period of Fiscal 2001 (April 1, 2000-September 30, 2000)

On April 1, 2000, Sanseido Co., Ltd. ("the Company") merged with Kuraya Corporation and Tokyo Pharmaceutical Co., Ltd. Therefore, year-on-year change percentages are not stated for the interim period of fiscal 2001.

#### (1) Sales and Income

Note: All amounts are rounded down to the nearest million yen.

	Net sales (¥ million)	Year-on-year change [%]	Operating income (¥ million)	Year-on-year change [%]	Ordinary income (¥ million)	Year-on-year change [%]
Interim period of fiscal 2001	462,762	[—]	4,716	[—]	6,254	[—]
Interim period of fiscal 2000	134,058	[+2.5]	497	[-84.5]	1,063	[-70.1]
Fiscal 2000	272,359		1,995		3,017	

	Net income (¥ million)	Year-on-year change [%]	Earnings per share (¥)
Interim period of fiscal 2001	2,644	[—]	19.41
Interim period of fiscal 2000	626	[-43.5]	11.30
Fiscal 2000	1,621		29.26

Notes:

- Average number of shares outstanding during the term:
 

Interim period of fiscal 2001	136,279,700 shares
Interim period of fiscal 2000	55,418,000 shares
Fiscal 2000	55,418,000 shares
- Changes in accounting methods: None
- Year-on year change for net sales, operating income, ordinary income and net income is based on the previous fiscal year.

#### (2) Dividends

	Interim dividends per share (¥)	Annual dividends per share (¥)
Interim period of fiscal 2001	6.00	—
Interim period of fiscal 2000	6.00	—
Fiscal 2000	—	12.00

#### (3) Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity/total assets [%]	Shareholders' equity per share (¥)
Interim period of fiscal 2001	522,230	124,141	[+23.8]	910.42
Interim period of fiscal 2000	159,762	61,029	[+38.2]	1,101.25
Fiscal 2000	163,868	61,691	[+37.6]	1,113.21

Note: Total number of shares outstanding at end of term:
 

Interim period of fiscal 2001	136,356,945 shares
Interim period of fiscal 2000	55,418,000 shares
Fiscal 2000	55,418,000 shares

### 2. Projected Results for Fiscal 2001 (April 1, 2000-March 31, 2001)

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)	Annual dividends per share (¥)	
				Year-end	
Fiscal 2001	986,000	11,500	5,200	6.00	12.00

Reference: Estimated earnings per share (fiscal 2001): ¥ 38.14

## 11-1. Balance Sheets

(Millions of yen, rounded down to the nearest million)

	As of September 30, 2000		As of September 30, 1999		As of March 31, 2000	
<b>ASSETS</b>	522,230	100.0%	159,762	100.0%	163,868	100.0%
Current assets:	392,705	75.2	112,667	70.5	117,296	71.6
Cash and cash equivalents	53,942		24,647		28,524	
Trade notes receivable	36,179		11,407		11,642	
Trade accounts receivable	242,964		60,265		59,097	
Inventories	36,041		10,422		10,930	
Deferred income taxes	1,469		445		388	
Accounts receivable	22,593		5,664		6,879	
Other current assets	1,679		280		293	
Allowance for doubtful receivables	(2,164)		(465)		(459)	
Fixed assets	129,525	24.8	47,095	29.5	46,572	28.4
Tangible fixed assets:	100,123	19.2	42,648	26.7	42,238	25.8
Buildings	33,841		15,799		15,286	
Land	60,597		24,125		23,987	
Others	5,683		2,724		2,963	
Intangible fixed assets	1,062	0.2	125	0.1	124	0.1
Investments and other assets:	28,340	5.4	4,320	2.7	4,209	2.5
Investment securities	12,235		1,574		1,568	
Equity in subsidiaries and affiliates	6,313		573		558	
Deferred income taxes	—		809		461	
Other	12,527		2,044		2,178	
Allowance for doubtful accounts	(2,736)		(681)		(558)	
<b>Total assets</b>	<b>522,230</b>	<b>100.0</b>	<b>159,762</b>	<b>100.0</b>	<b>163,868</b>	<b>100.0</b>
<b>LIABILITIES</b>	398,089	76.2	98,733	61.8	102,176	62.4
Current liabilities:	363,761	69.6	96,647	60.5	100,806	61.5
Trade notes payable	19,741		9,413		9,859	
Trade accounts payable	321,187		82,423		85,692	
Short-term loans	6,725		—		—	
Income taxes payable	2,048		665		574	
Reserve for bonuses	5,898		2,102		1,919	
Allowance for losses on sales returns	609		137		141	
Other current liabilities	7,551		1,904		2,619	
Long-term liabilities:	34,328	6.6	2,086	1.3	1,370	0.9
Convertible bonds	22,798		—		—	
Deferred income tax	247		—		—	
Reserve for retirement allowances	—		782		18	
Reserve for retirement benefits	9,427		—		—	
Reserve for directors' retirement bonuses	1,004		787		831	
Other long-term liabilities	850		515		521	
<b>SHAREHOLDERS' EQUITY</b>	124,141	23.8	61,029	38.2	61,691	37.6
Common stock	11,016	2.1	6,928	4.4	6,928	4.2
Additional paid-in capital	24,184	4.6	6,034	3.8	6,034	3.7
Legal reserve	1,623	0.3	730	0.4	763	0.4
Retained earnings	82,960	15.9	47,335	29.6	47,964	29.3
Voluntary reserve	79,340		45,960		45,960	
General reserve	3,620		1,374		2,004	
Valuation difference on other marketable securities	4,357	0.9	—	—	—	—
<b>Total liabilities and shareholders' equity</b>	<b>522,230</b>	<b>100.0</b>	<b>159,762</b>	<b>100.0</b>	<b>163,868</b>	<b>100.0</b>

## 11-2. Statements of Income

(Millions of yen, rounded down to the nearest million)

	Interim period of fiscal 2001		Interim period of fiscal 2000		Fiscal 2000	
Net sales	462,762	100.0%	134,058	100.0%	272,359	100.0%
Cost of sales	417,650	90.3	120,090	89.6	244,145	89.6
Reserve for returned goods	82	0.0	(5)	(0.0)	(1)	(0.0)
Gross profit	45,029	9.7	13,973	10.4	28,215	10.4
Selling, general and administrative expenses	40,312	8.7	13,475	10.0	26,220	9.7
Operating income	4,716	1.0	497	0.4	1,995	0.7
Non-operating income:	2,112	0.5	945	0.7	1,774	0.7
Interest income	77		31		66	
Dividend income	77		27		44	
Interest on marketable securities	0		0		0	
Research fee income	1,066		315		661	
Real estate rental income	492		334		672	
Other non-operating income	398		238		328	
Non-operating expenses:	574	0.1	379	0.3	751	0.3
Interest expense	48		4		9	
Bond interest expense	100		—		—	
Real estate rental expense	384		370		734	
Other non-operating expenses	41		4		8	
Ordinary income	6,254	1.4	1,063	0.8	3,017	1.1
Extraordinary gains	574	0.1	146	0.1	268	0.1
Gain on sales of fixed assets	0		77		93	
Gain on sales of investment securities	26		—		—	
Reversal of allowance for doubtful accounts	81		68		174	
Surplus upon adoption of retirement benefit accounting standards	465		—	0.0	—	
Extraordinary loss	1,764	0.4	2		200	0.1
Loss on disposal of fixed assets	88		2		156	
Loss on valuation of investment securities	140		—		—	
Loss on valuation of golf memberships	320		—		—	
Expenses related to reorganization of sales offices	1,214		—		—	
Loss on reorganization of affiliates	—		—		44	
Income before income taxes	5,064	1.1	1,207	0.9	3,085	1.1
Income taxes	1,126	0.2	563	0.4	1,041	0.4
Income tax adjustment	1,294	0.3	18	0.0	423	0.1
Net income	2,644	0.6	626	0.5	1,621	0.6
Profit brought forward from the previous term	2,419		748		748	
Interim dividends	—		—		332	
Provision for legal reserve	—		—		33	
Unappropriated loss from merger	1,444		—		—	
Unappropriated retained earnings at the end of the term	3,620		1,374		2,004	

## 11-3. Significant Accounting Policies

### (1) Valuation of Major Assets

#### Valuation of Inventories

Valued at cost or market using the first-in, first-out method

#### Valuation of Securities

Stocks of subsidiaries and affiliates: Valued at cost using the moving-average method

Securities quoted on stock exchanges: Valued at cost or market using the moving-average method

Other securities: Valued at cost using the moving-average method

### (2) Depreciation of Fixed Assets

#### Tangible fixed assets

The Company uses the declining-balance method. However, for buildings (excluding attached facilities) acquired on or after April 1, 1998, the straight-line method is employed.

#### Intangible fixed assets

The Company uses the straight-line method. However, software for internal use is depreciated using the straight-line method based on the estimated useful life within the company (5 years).

#### Long-term prepaid expenses

Long-term prepaid expenses are amortized using the moving-average method.

### (3) Accounting Standards for Major Reserves

#### Allowance for doubtful accounts

An allowance for doubtful accounts is provided in amounts deemed necessary 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.

#### Reserve for bonuses

To provide for payment of bonuses to employees, a reserve is set aside in the estimated amount required to be paid for the interim period.

#### Allowance for losses on sales returns

An allowance for losses on sales returns is provided in the maximum amount permitted by the Corporation Tax Law.

#### Reserve for retirement benefits:

The Company provides for employees' retirement liability in the estimated amount required to be paid at the interim balance sheet date, less the estimated fair value of pension assets related to contributory pension plans.

The differential arising from an accounting change (¥465 million) was booked in full as an extraordinary gain in the interim consolidated accounting period.

#### Allowance for directors' retirement bonuses

An allowance is provided to cover directors' retirement bonuses in the amount required to be paid at the end of the interim period in accordance with internal regulations.

### (4) Accounting for Lease Transactions

Finance lease transactions other than those for which ownership is deemed to be transferred to the lessee are accounted for as ordinary lease transactions.

### (5) Other

Consumption tax and local consumption taxes are excluded from the amounts in the consolidated financial statements.

### (Changes in Methods of Presentation)

The line item presented as "Business fees" until the previous interim period is renamed "Research fee income" beginning in the interim period under review.

### (Supplemental Information)

#### Accounting for retirement benefits:

Effective from the interim period under review, the Company adopted retirement benefit accounting standards ("Views on the establishment of accounting standards for retirement benefits," Business Accounting Deliberation Council, June 16, 1998).

Accrued expenses for past service liabilities of the reserve for retirement allowances and contributory pension plans are included in the reserve for retirement benefits.

Accounting for financial instruments:

Effective from the interim period under review, the Company adopted accounting standards for financial instruments (“Views on the establishment of accounting standards for financial instruments,” Business Accounting Deliberation Council, January 22, 1999).

The purpose of securities held by the Company was examined at the beginning of the interim period, and are stated as investment securities and equity in subsidiaries and affiliates.

Accounting standards for foreign currency transactions:

Effective from the interim period under review, the Company adopted the revised accounting standards for foreign currency transactions (“Views on revision of accounting standards for foreign currency transactions,” Business Accounting Deliberation Council, October 22, 1999).

### Items Pertaining to Unconsolidated Balance Sheets

(Millions of yen)

	As of September 30, 2000	As of September 30, 1999	As of March 31, 2000
1. Accumulated depreciation of property, plant and equipment	30,491	14,656	15,343
2 Pledged assets			
Time deposits	15		
Buildings	814		
Land	2,212		
Investment securities	275		
Total	3,318		
Liabilities corresponding to above pledged assets	29,687		
3. Incidental liabilities			
Guarantees are provided for bank loans, etc., for the following companies:			
Hisatomo Kuraya, Inc.	1,971		
Kuraya Shoji, Inc.	711		
Kuraya Kasei, Inc.	562		
Nishida Yakuhin Co., Ltd.	92		
Oriental Pharmaceutical Co., Ltd.	4		
Tokimo, Inc.	0		
Total	3,342		
4. Notes maturing at end of interim period (Calculated as of September 30, 2000, although such date was a holiday for financial institutions)			
Notes receivable	6,929		
Notes payable	3,625		

## Items Pertaining to Unconsolidated Statements of Income

(Millions of yen)

	Interim period of fiscal 2001	Interim period of fiscal 2000	Fiscal 2000
Depreciation			
Tangible fixed assets	1,741	934	1,944
Intangible fixed assets	45	1	2

## Items Pertaining to Lease Transactions

1. Finance lease transactions other than those for which ownership is deemed to be transferred to the lessee

(1) Acquisition cost, accumulated depreciation and ending balances of leased assets

(Millions of yen)

	Interim period of Fiscal 2001			Interim period of Fiscal 2000			Fiscal 2000		
	Acquisition cost	Accumulated depreciation	Ending balance	Acquisition cost	Accumulated depreciation	Ending balance	Acquisition cost	Accumulated depreciation	Ending balance
Machinery & equipment	1,540	234	1,306						
Vehicles and carriers	3,047	1,486	1,560						
Tools and fixtures	4,133	2,765	1,368	—	—	—	—	—	—
Total	8,721	4,486	4,235						

(2) Future lease payments

(Millions of yen)

	Interim period of fiscal 2001	Interim period of fiscal 2000	Fiscal 2000
Due within one year	1,587	—	—
Due after one year	2,773	—	—
Total	4,360	—	—

(3) Lease payments, depreciation expense and interest paid equivalent

(Millions of yen)

	Interim period of fiscal 2001	Interim period of fiscal 2000	Fiscal 2000
Lease expenses	1,128	1	1
Depreciation expense	1,041	1	1
Interest paid equivalent	90		

(4) Method of calculating depreciation expense equivalent

Depreciation expense equivalent of leased assets is calculated using the straight-line method, assuming the lease periods as the useful lives and no residual value.

(5) Method of calculating interest paid equivalent

Interest paid equivalent is the difference between total lease payments and the acquisition cost equivalent of the leased assets, and is expensed evenly over each period using the interest method.

## 【Subsequent Events】

(1) Transfer of a Portion of the Business of Heisei Yakuhin, Co., Ltd.

On October 1, 2000, the transfer and takeover of business related to wholesale of ethical drugs took place between the Company and Heisei Yakuhin, Co., Ltd., for the purpose of increasing the efficiency of sales activities and clarifying roles. Details are summarized in “Subsequent Events” in the consolidated financial statements.

(2) Acquisition of Ushioda Sangokudo Yakuhin Co., Ltd. and Chaku Co., Ltd.

The Company acquired 50.1% and 51.0%, respectively, of outstanding shares in Ushioda Sangokudo Yakuhin Co., Ltd. and Chaku Co., Ltd., for the purpose of reinforcing and strengthening its business foundation through mutual cooperation between these companies and other companies in the KURAYA SANSEIDO group. Common usage of systems will be actively promoted through business tie-ups in logistics, information, customer support and purchasing. Details are summarized in “Subsequent Events” in the consolidated financial statements.

(3) Subsidiary’s acquisition of business of Senshu Yakuhin Co., Ltd.

On October 30, 2000, the Board of Directors approved the takeover by Tohoku Pharmaceutical Hanbai Co., Ltd., a wholly owned subsidiary of the Company, of the pharmaceutical wholesale business of Senshu Yakuhin Co., Ltd., effective February 1, 2001, for the purpose of strengthening and reinforcing the business base of the Group. Details are summarized in “Subsequent Events” in the consolidated financial statements.

(4) Business tie-up with Atol Co., Ltd. and Everlth Co., Ltd.

The Company and Atol Co., Ltd. and Everlth Co., Ltd., after agreeing in principle to cooperate with each other and form a broad business tie-up, voted at a Board of Directors meeting on November 9, 2000, to enter into a business tie-up. The Basic Agreement for the business tie-up was signed by the three companies on November 10, 2000. Details are summarized in “Subsequent Events” in the consolidated financial statements.

### Composition of Increase in Common Stock During Interim Period

Form of Issue	Number of Shares Issued	Issue Price (¥ million)	Amount Capitalized (¥ million)
Merger	80,820,082	4,041	4,041
Conversion of convertible bonds	118,863	92	46

**[Reference]**

**Interim Balance Sheets –**

**Comparison with Combined Totals of the Three Companies (Previous Interim Period)**

(Note: The three companies are Sanseido Co., Ltd., Kuraya Corporation and Tokyo Pharmaceutical Co., Ltd.)

(Millions of yen, rounded down to the nearest million)

	As of September 30, 2000		As of September 30, 1999		As of March 31, 2000	
<b>ASSETS</b>	522,230	100.0%	489,713	100.0%	508,703	100.0%
Current assets:	392,705	75.2	377,042	77.0	384,322	75.6
Cash and cash equivalents	53,942		60,389		59,490	
Trade notes receivable	36,179		38,277		38,998	
Trade accounts receivable	242,964		219,864		225,519	
Inventories	36,041		37,885		36,570	
Deferred income taxes	1,469		1,095		1,170	
Accounts receivable	22,593		18,973		23,019	
Other current assets	1,679		2,339		1,282	
Allowance for doubtful receivables	(2,164)		(1,783)		(1,728)	
Fixed assets	129,525	24.8	112,671	23.0	124,381	24.4
Tangible fixed assets:	100,123	19.2	90,093	18.4	101,059	19.9
Buildings	33,841		32,604		35,194	
Land	60,597		52,646		60,547	
Others	5,683		4,842		5,318	
Intangible fixed assets	1,062	0.2	728	0.1	822	0.1
Investments and other assets:	28,340	5.4	21,850	4.5	22,499	4.4
Investment securities	12,235		4,622		4,798	
Equity in affiliates	6,313		2,874		3,145	
Deferred income taxes	—		1,706		4,514	
Other	12,527		14,072		13,139	
Allowance for doubtful accounts	(2,736)		(1,426)		(3,097)	
<b>Total assets</b>	<b>522,230</b>	<b>100.0</b>	<b>489,713</b>	<b>100.0</b>	<b>508,703</b>	<b>100.0</b>
<b>LIABILITIES</b>	398,089	76.2	367,557	75.1	391,157	76.9
Current liabilities:	363,761	69.6	336,030	68.6	354,272	69.6
Trade notes payable	19,741		37,709		38,189	
Trade accounts payable	321,187		274,681		295,118	
Short-term loans	6,725		10,300		6,725	
Income taxes payable	2,048		2,668		751	
Reserve for bonuses	5,898		5,404		5,423	
Allowance for losses on sales returns	609		474		526	
Other current liabilities	7,551		4,791		7,536	
Long-term liabilities:	34,328	6.6	31,526	6.5	36,884	7.3
Convertible bonds	22,798		22,892		22,891	
Deferred tax obligation	247		—		—	
Reserve for retirement benefits	—		5,320		—	
Reserve for retirement allowances	9,427		—		10,005	
Reserve for directors' retirement bonuses	1,004		1,301		1,900	
Reserve for investment losses	—		960		1,090	
Other long-term liabilities	850		1,052		997	
<b>SHAREHOLDERS' EQUITY</b>	124,141	23.8	122,156	24.9	117,546	23.1
Common stock	11,016	2.1	17,674	3.6	10,969	2.2
Additional paid-in capital	24,184	4.6	17,431	3.5	24,138	4.7
Legal reserve	1,623	0.3	1,508	0.3	1,582	0.3
Other retained earnings	82,960	15.9	85,541	17.5	80,856	15.9
Voluntary reserve	79,340		80,205		80,205	
General reserve	3,620		5,335		650	
Valuation difference of other marketable securities	4,357	0.9	—	—	—	—
<b>Total liabilities and shareholders' equity</b>	<b>522,230</b>	<b>100.0</b>	<b>489,713</b>	<b>100.0</b>	<b>508,703</b>	<b>100.0</b>

## Statements of Income — Comparison with Combined Totals of Three Companies (Previous Interim Period and Fiscal 2000)

(Note: The three companies are Sanseido Co., Ltd., Kuraya Corporation and Tokyo Pharmaceutical Co., Ltd.)

(Millions of yen, rounded down to the nearest million)

	Interim period of fiscal 2001		Interim period of fiscal 2000		Fiscal 2000	
Net sales	462,762	100.0%	438,348	100.0%	899,476	100.0%
Cost of sales	417,650	90.3	395,041	90.1	813,161	90.4
Reserve for returned goods	82	0.0	(2)	(0.0)	49	0.0
Gross profit	45,029	9.7	43,309	9.9	86,265	9.6
Selling, general and administrative expenses	40,312	8.7	39,538	9.0	80,569	9.0
Operating income	4,716	1.0	3,770	0.9	5,696	0.6
Non-operating income:	2,112	0.5	2,142	0.4	4,239	0.5
Interest income	77		75		232	
Dividend income	77		77		110	
Interest on marketable securities	0		53		62	
Research fee income	1,066		987		2,050	
Real estate rental income	492		458		920	
Other non-operating income	398		489		863	
Non-operating expenses:	574	0.1	923	0.2	2,891	0.3
Interest expense	48		110		163	
Bond interest expense	100		109		210	
Real estate rental expense	384		394		779	
Other non-operating expenses	41		309		1,739	
Ordinary income	6,254	1.4	4,989	1.1	7,044	0.8
Extraordinary gains	574	0.1	410	0.1	439	0.0
Gain on sales of fixed assets	0		77		93	
Gain on sales of investment securities	26		41		—	
Reversal of allowance for doubtful accounts	81		291		346	
Surplus upon adoption of retirement benefit accounting standards	465		—		—	
Extraordinary loss	1,764	0.4	331	0.0	7,960	0.9
Loss on disposal of fixed assets	88		44		462	
Loss on valuation of investment securities	140		—		2	
Loss on valuation of golf memberships	320		—		—	
Expenses related to reorganization of sales offices	1,214		—		—	
Transfer to reserve for retirement allowances	—		—		5,368	
Transfer to reserve for directors' retirement bonuses	—		218		748	
Transfer to reserve for investment losses	—		—		130	
Relocation expenses	—		—		949	
Merger expenses	—		—		254	
Loss on reorganization of affiliates	—		68		44	
Income before income taxes	5,064	1.1	5,068	1.2	(476)	(0.1)
Income taxes	1,126	0.2	2,401	0.6	3,185	0.0
Income taxes deferred	1,294	0.3	(46)	(0.0)	(2,929)	(0.0)
Net income	2,644	0.6	2,714	0.6	(731)	(0.1)
Profit brought forward from the previous term	2,419		2,326		2,326	
Prior-year adjustment for tax-effect accounting	—		295		295	
Interim dividends	—		—		738	
Provision for legal reserve	—		—		73	
Merger acquisition costs	—		—		426	
Undivided loss due to merger	1,444		—		—	
Unappropriated retained earnings at the end of the term	3,620		5,335		650	