

Consolidated Financial Statements for the Interim Period Ended September 30, 2002

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

November 13, 2002

Kuraya Sansendo Inc.

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Stock exchange listings: Tokyo, Osaka
Code number: 7459
Board of Directors meeting: November 13, 2002
Use of U.S. accounting standards: No

1. Results for the Interim Period Ended September 30, 2002 (April 1, 2002-September 30, 2002)

(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 ended Sept. 30, 2002	627,032	3.8	5,612	91.8	7,365	61.3
Interim period ended Sept. 30, 2001	603,950	21.0	2,925	(41.3)	4,567	(31.1)
Year ended March 31, 2002	1,222,221		5,780		9,130	

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)
Interim period ended Sept. 30, 2002	2,882	254.6	21.71	18.46
Interim period ended Sept. 30, 2001	812	(70.9)	5.95	5.38
Year ended March 31, 2002	2,950		21.67	18.92

Notes: 1. Equity in earnings of affiliates: Interim period ended Sept. 30, 2002: ¥— million;

Interim period ended Sept. 30, 2001: ¥— million; Year ended March 31, 2002: ¥— million

2. Average number of shares outstanding (consolidated): Interim period ended Sept. 30, 2002: 132,785,548 shares;
Interim period ended Sept. 30, 2001: 136,705,789 shares; Year ended March 31, 2002: 136,194,006 shares

3. Changes in accounting methods: None

4. Year-on-year change for net sales, operating income, ordinary income, and net income represent comparisons with the previous interim period.

(2) Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity /total assets (%)	Shareholders' equity per share (¥)
Interim period ended Sept. 30, 2002	627,062	111,682	17.8	833.23
Interim period ended Sept. 30, 2001	650,650	122,395	18.8	895.32
Year ended March 31, 2002	644,247	110,650	17.2	823.75

Note: Number of shares outstanding at end of period (consolidated): Interim period ended Sept. 30, 2002: 134,035,305 shares
Interim period ended Sept. 30, 2001: 136,705,770 shares; Year ended March 31, 2002: 134,325,518 shares

(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 ended Sept. 30, 2002	(12,993)	(4,684)	2,959	58,797
Interim period ended Sept. 30, 2001	(3,323)	(2,851)	(1,092)	63,491
Year ended March 31, 2002	12,542	(5,012)	(4,355)	73,933

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

Consolidated subsidiaries: 10 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) None (Eliminated) 2 companies

Equity method: (New) None (Eliminated) None

2. Projected Results for Fiscal Year Ending March 31, 2003 (April 1, 2002-March 31, 2003)

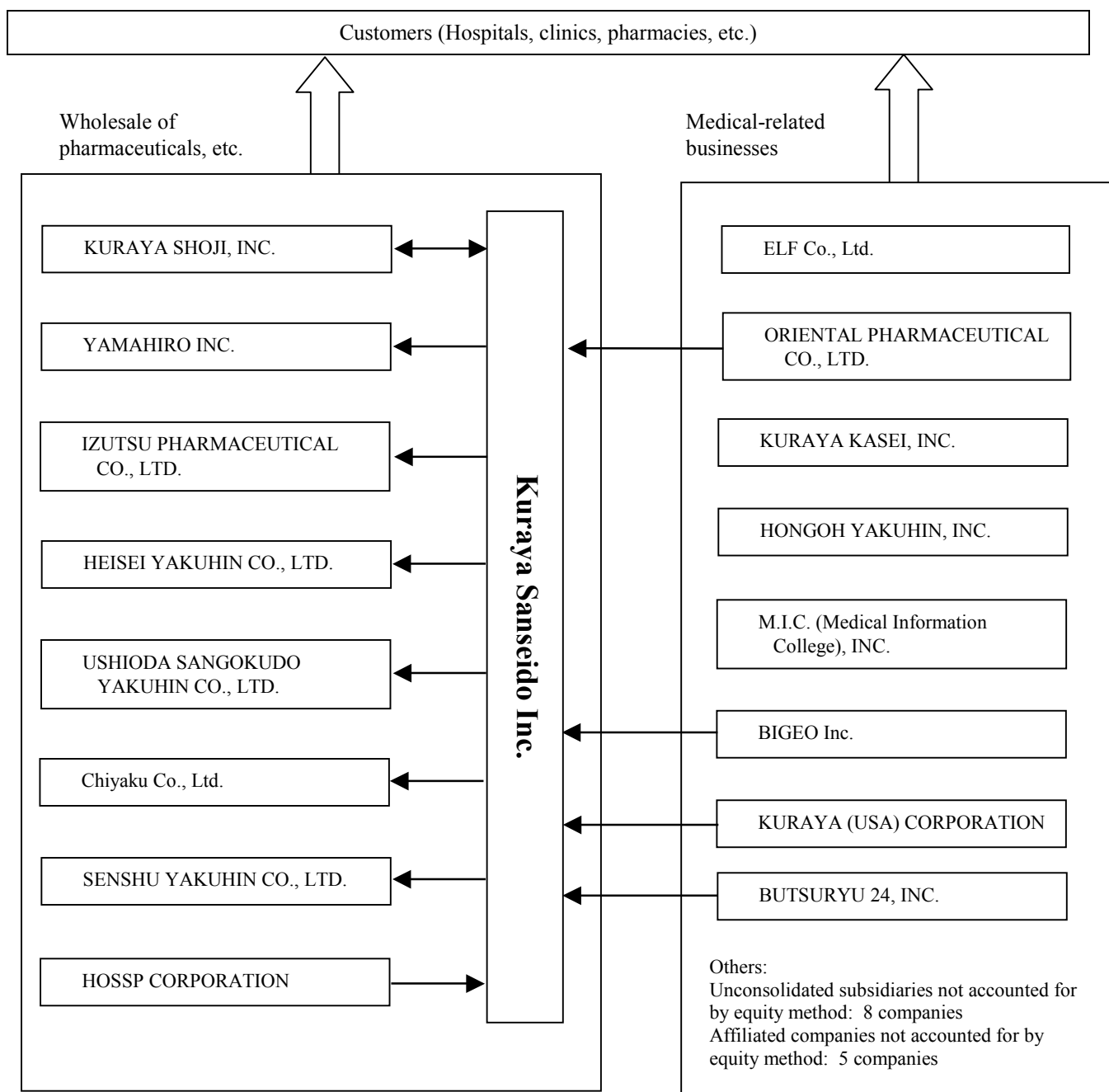
	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)
Year ending March 31, 2003	1,256,000	12,700	5,000

Reference: Estimated earnings per share (full year): ¥36.96

- * Estimated earnings per share is calculated including 1,248,372 shares of substitute treasury stock to be allocated upon the transfer of stock of USHIODA SANGOKUDO YAKUHN CO., LTD. on March 1, 2003.
- * Projected results are rendered in accordance with Japanese regulations. All estimates are forward-looking statements based on information available as of the date of release of these financial statements. Actual results may differ substantially depending on a number of factors including but not limited to economic trends and exchange rates. For the assumptions and other issues related to the above projections, please refer to page 6 of the attachments.

1. Corporate Group

The KURAYA SANSEIDO Group consists of 23 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.



Note: Effective from April 1, 2002, Kuraya Sanseido transferred business related to the wholesale of over-the-counter drugs of IZUTSU YAKUHIN CO., LTD. and prescription pharmaceuticals of NISHIDA YAKUHIN CO., LTD.

Overview of Subsidiaries

Company name	Address	Capital (¥ million)	Principal business	Percentage of voting rights (%)	Transactions
ELF Co., Ltd.	Fukushima-ku, Osaka	95	Medical-related business	78.9	Loan of funds; directors in common with Kuraya Sanseido
KURAYA SHOJI, INC.	Sumida-ku, Tokyo	65	Wholesale of pharmaceuticals, etc.	100.0	Stocking and sale of products; guarantee of debt; directors in common with Kuraya Sanseido
ORIENTAL PHARMACEUTICAL CO., LTD.	Tendo, Yamagata	90	Medical-related business	90.6	Stocking of products; loan of facilities; guarantee of debt; directors in common with Kuraya Sanseido
KURAYA KASEI, INC.	Nagano, Nagano	20	Medical-related business	100.0	Loan of facilities; guarantee of debt; directors in common with Kuraya Sanseido
YAMAHIRO INC.	Nakakoma- gun, Yamanashi	57	Wholesale of pharmaceuticals, etc.	100.0	Sale of products; directors in common with Kuraya Sanseido
IZUTSU PHARMACEUTICAL CO., LTD.	Nakagyou-ku, Kyoto	118	Wholesale of pharmaceuticals, etc.	51.0	Sale of products; directors in common with Kuraya Sanseido
HEISEI YAKUHIN CO., LTD.	Gifu, Gifu	809	Wholesale of pharmaceuticals, etc.	51.0	Sale of products; directors in common with Kuraya Sanseido
USHIODA SANGOKUDO YAKUHIN CO., LTD.	Mito, Ibaraki	98	Wholesale of pharmaceuticals, etc.	60.8	Sale of products; guarantee of debt; directors in common with Kuraya Sanseido
Chiyaku Co., Ltd.	Chuo-ku, Chiba	133	Wholesale of pharmaceuticals, etc.	51.0	Sale of products; directors in common with Kuraya Sanseido
SENSHU YAKUHIN CO., LTD.	Akita, Akita	400	Wholesale of pharmaceuticals, etc.	100.0	Sale of products; loan of funds; directors in common with Kuraya Sanseido

Note: On August 9, 2002, Kuraya Sanseido signed a share transfer agreement that will make USHIODA SANGOKUDO YAKUHIN CO., LTD. a 100% owned subsidiary through a simple exchange of shares, effective from March 1, 2003.

2. Management Policies

(1) Basic Management Policy

The corporate philosophy of Kuraya Sanseido 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 philosophy, the Kuraya Sanseido Group is shifting from its previous operating framework to establish new functions and roles that match the needs of society from a broader 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) Management Targets and Medium- to Long-Term Management Strategies

The Kuraya Sanseido Group has drawn up a medium-term management plan for the three years ending in March 2005 to align objectives and implement coordinated strategies, with the goal of creating a wholesale company that will grow and develop in the 21st century.

In accordance with the medium-term management plan, the Kuraya Sanseido Group will shift its growth focus from “expansion of scale” to “expansion of functions.” Over the three-year period, we will restructure our businesses to create a solid business platform capable of generating steady profits.

1. Consolidated Management Targets (for the year ending March 2005)

Net sales	¥1,330.0 billion
Operating income	¥16.3 billion
Ordinary income	¥20.0 billion
Net income	¥8.9 billion
Return on assets	2.5% (operating income/total assets)
Return on equity	6.9%

2. Basic Strategy

The basic strategy of the plan is boosting competitiveness by restructuring resources, operations and functions. By reinforcing the business restructuring currently in progress, the Kuraya Sanseido Group will optimize resources, operations and functions to establish a low cost structure, raise productivity and further expand functions, thus strengthening competitiveness.

In accordance with this basic strategy, we will implement the following key measures throughout the Group:

- Further strengthen sales by reorganizing and integrating Group operating bases, particularly those with overlapping market areas, and allocating personnel to strategic regions.
- Increase productivity by promoting the mobility of human resources within the Group and reducing the total number of employees, including temporary workers and other outside staff.
- Increase distribution efficiency by expanding regions where sales are separated from shipping and distribution, and enhance sales activities, including customer support.
- Integrate sales and distribution systems for the pharmaceutical wholesale business within the Group and promote usage of uniform accounting systems to boost operating efficiency.
- Reduce costs by developing and implementing a new business model that effectively adds information technology to existing resources for distribution/supply and information functions within the Group.
- In addition to sales of prescription pharmaceuticals, actively expand into healthcare-related fields and develop new businesses in order to secure steady profits.

(4) Measures Related to Administrative Reorganization

A Corporate Executive Officer system has been introduced to clearly separate management decision-making and auditing functions from business execution functions.

In conducting activities to realize our corporate philosophy, the Kuraya Sanseido Group is taking steps to ensure the practice of sound business ethics, including establishment of a Code of Conduct that sets standards for judgment and behavior.

3. Business Results and Financial Position

(1) Business Results

1. Summary of the Six Months Ended September 30, 2002

In the pharmaceutical industry, an average 6.3 percent reduction in National Health Insurance (NHI) prices for drugs was implemented in April 2002, which led to a decline in selling prices. However, sales of new drugs were favorable, and regulations for long-term drug administration were abolished. As a result of these and other factors, the market as a whole showed steady growth.

Amid this environment, the Kuraya Sanseido Group worked to maintain steady profits through measures such as lowering the cost of sales through joint purchasing and focusing on the formation of a rational pricing system.

We also worked to lower the ratio of SG&A expenses to net sales and raise productivity with measures such as soliciting applicants for early retirement and implementing a system for transfers within the Group.

At the same time, to raise the efficiency of Group business activities and to respond accurately to diversifying customer needs, we transferred businesses related to the wholesale of over-the-counter drugs of IZUTSU PHARMACEUTICAL CO., LTD. (Kyoto) and prescription pharmaceuticals of NISHIDA YAKUHIN CO., LTD. (Asahikawa).

Moreover, with the ongoing separation of prescription and dispensing, we developed a new business model for prescription pharmacies that incorporates planned delivery and billing proportionate to the volume used. In addition, we strengthened post marketing surveillance for collecting and analyzing information on matters such as drug efficacy and safety, as part of our effort to create new functions as a pharmaceutical wholesaler.

As a result of these factors, consolidated net sales for the six months ended September 30, 2002 were ¥627,032 million (a 3.8% increase over the same period in the previous year), and consolidated ordinary income was ¥7,365 million (a 61.3% increase over the same period in the previous year). The Company posted an extraordinary loss from payment of special retirement benefits and a loss on valuation of investment securities, resulting in consolidated net income of ¥2,882 million (a 254.6% increase over the same period in the previous year).

In August 2002, the Company entered into a share exchange agreement that will make USHIODA SANGOKUDO YAKUHIN CO., LTD. a wholly owned subsidiary through a simple exchange of shares, effective from March 1, 2003.

2. Outlook for the Full Fiscal Year

As drastic reforms to the health insurance system and other areas are carried out to rationalize and raise the efficiency of the social security system, the structure of the pharmaceutical industry, including pharmaceutical wholesaling, is undergoing major changes.

In these circumstances, the Kuraya Sanseido Group will continue working to lower the cost of sales and maintain reasonable selling prices in accordance with the basic strategies of the medium-term management plan, with the aim of securing steady profits.

In addition, we will work to reduce costs and increase productivity through internal reforms including personnel reductions and consolidation of offices.

Furthermore, we will strive to enhance our relationships with customers by conducting detailed sales activities using customer support functions, and continuing to develop and implement our new business model.

Accordingly, for the fiscal year ending March 31, 2003, we project consolidated net sales of ¥1,256.0 billion (a 2.8% year-on-year increase), consolidated ordinary income of ¥12.7 billion (a 39.1% year-on-year increase) and consolidated net income of ¥5.0 billion (a 69.4% year-on-year increase).

(2) Financial Position

In the interim period under review, on a consolidated basis, net cash used in operating activities was ¥12,993 million, net cash used in investing activities was ¥4,684 million, and net cash provided by financing activities was ¥2,959 million. In addition, the elimination of one subsidiary from consolidation reduced cash flows by ¥420 million. As a result, cash and cash equivalents (hereinafter referred to as “funds”) at the end of the period decreased ¥15,136 million (20.5%) from the end of the previous fiscal year, to ¥58,797 million.

[Cash Flows from Operating Activities]

The decrease in funds from operating activities was ¥12,993 million (in the same period in the previous year the decrease was ¥3,323 million). Income before income taxes and minority interests was ¥5,785 million (a 191.2% increase from the same period in the previous fiscal year), depreciation and amortization was ¥2,525 million, and special retirement benefits were ¥1,079 million. However, notes and accounts payable decreased ¥16,548 million, due in part to the effect of a holiday on the last day of the previous period, the increase in trade receivables was ¥3,684 million, and cash paid for income taxes was ¥3,732 million.

[Cash Flows from Investing Activities]

The decrease in funds from investing activities was ¥4,684 million (in the same period in the previous year the decrease was ¥2,851 million). The decrease mainly consisted of ¥4,404 million used for purchases of property, plant and equipment, including the NISHINIPPON DISTRIBUTION CENTER.

[Cash Flows from Financing Activities]

The increase in funds from financing activities was ¥2,959 million (in the same period in the previous year the decrease was ¥1,092 million). The main components of this were a ¥6,210 million net increase in short-term bank loans, ¥2,429 million used for the purchase of treasury stock, and ¥821 million in cash dividends paid.

4-1. Interim Consolidated Balance Sheets

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

	As of September 30, 2002		As of September 30, 2001		As of March 31, 2002	
ASSETS	627,062	100.0%	650,650	100.0%	644,247	100.0%
Current assets	484,220	77.2	495,374	76.1	499,614	77.5
Cash on hand and in banks	60,834		65,872		76,053	
Notes and accounts receivable-trade	341,025		342,700		336,315	
Marketable securities	34		12		39	
Inventories	53,816		54,817		53,691	
Deferred income taxes	2,559		1,741		2,802	
Accounts receivable	27,720		31,884		31,582	
Other current assets	1,971		2,091		2,176	
Allowance for doubtful accounts	(3,741)		(3,746)		(3,047)	
Fixed assets	142,841	22.8	155,275	23.9	144,633	22.5
Tangible fixed assets:	97,406	15.5	118,585	18.2	99,437	15.4
Buildings and structures	41,437		39,404		42,693	
Land	48,963		69,828		49,571	
Construction in progress	181		5,866		275	
Other tangible fixed assets	6,823		3,486		6,895	
Intangible fixed assets:	6,893	1.1	5,252	0.8	6,097	1.0
Software	1,920		1,056		1,750	
Consolidation difference	2,410		3,125		2,752	
Other intangible fixed assets	2,562		1,070		1,593	
Investments and other assets:	38,542	6.2	31,437	4.9	39,099	6.1
Investment securities	13,093		14,072		13,808	
Long-term loans receivable	459		438		379	
Deferred income taxes	6,992		6,132		6,022	
Deferred income taxes – land revaluation	8,668		—		8,626	
Other	14,508		16,127		15,968	
Allowance for doubtful accounts	(5,180)		(5,334)		(5,705)	
Total assets	627,062	100.0	650,650	100.0	644,247	100.0

4-1. Interim Consolidated Balance Sheets

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

	As of September 30, 2002		As of September 30, 2001		As of March 31, 2002	
LIABILITIES	510,567	81.4%	523,614	80.5%	528,823	82.1%
Current liabilities:	471,012	75.1	480,505	73.9	489,780	76.0
Notes and accounts payable-trade	427,607		440,137		444,256	
Short-term bank loans	23,306		17,424		17,115	
Current portion of convertible bonds	1,348		—		3,201	
Income taxes payable	3,077		1,959		3,901	
Reserve for bonuses	5,958		5,608		6,203	
Allowance for losses on sales returns	706		670		676	
Other current liabilities	9,007		14,705		14,426	
Long-term liabilities:	39,555	6.3	43,109	6.6	39,043	6.1
Convertible bonds	19,324		22,525		19,324	
Long-term debt	1,557		2,475		1,537	
Deferred income taxes – land revaluation	259		—		259	
Employees' retirement benefits	15,353		15,124		14,617	
Officers' retirement bonuses	1,724		1,750		1,860	
Allowance for losses on debt guarantees	292		311		300	
Other long-term liabilities	1,043		921		1,144	
MINORITY INTERESTS	4,812	0.8	4,640	0.7	4,773	0.7
Minority interests	4,812	0.8	4,640	0.7	4,773	0.7
SHAREHOLDERS' EQUITY	111,682	17.8	122,395	18.8	110,650	17.2
Common stock	12,079	1.9	11,152	1.7	11,152	1.7
Additional paid-in capital	25,247	4.0	24,321	3.7	24,321	3.8
Retained earnings	86,677	13.8	83,219	12.8	84,536	13.1
Revaluation surplus	(11,795)	(1.8)	—	—	(11,768)	(1.8)
Unrealized gains on certain investment securities	3,099	0.5	3,702	0.6	3,603	0.6
Treasury stock, at cost	(3,625)	(0.6)	(0)	(0.0)	(1,195)	(0.2)
Total liabilities, minority interests and shareholders' equity	627,062	100.0	650,650	100.0	644,247	100.0

4-2. Interim Consolidated Statements of Operations

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

	Interim period ended Sept. 30, 2002		Interim period ended Sept. 30, 2001		Year ended March 31, 2002	
Net sales	627,032	100.0%	603,950	100.0%	1,222,221	100.0%
Cost of sales	570,023	90.9	551,298	91.3	1,115,658	91.3
Provision for losses on sales returns	30	0.0	(86)	(0.0)	(80)	(0.0)
Gross profit	56,978	9.1	52,738	8.7	106,643	8.7
Selling, general and administrative expenses	51,365	8.2	49,813	8.2	100,862	8.2
Operating income	5,612	0.9	2,925	0.5	5,780	0.5
Non-operating income:	2,399	0.4	2,442	0.4	4,964	0.4
Interest income	60		74		150	
Dividend income	96		82		124	
Research fee income	1,417		1,416		2,808	
Real estate rental income	515		520		1,042	
Other non-operating income	310		349		837	
Non-operating expenses:	646	0.1	800	0.1	1,615	0.2
Interest expense	209		282		524	
Real estate rental expenses	351		366		743	
Other non-operating expenses	85		151		347	
Ordinary income	7,365	1.2	4,567	0.8	9,130	0.7
Extraordinary gains:	33	0.0	531	0.1	1,130	0.1
Gain on sales of fixed assets	22		153		447	
Gain on sales of investment securities	2		0		0	
Reversal of allowance for doubtful accounts	—		364		656	
Reversal of allowance for losses on debt guarantees	8		11		22	
Other extraordinary gains	—		2		2	
Extraordinary losses:	1,613	0.3	3,112	0.6	3,675	0.3
Loss on sale and disposal of fixed assets	307		149		234	
Loss on sale of investment securities	3		0		0	
Loss on valuation of investment securities	57		507		745	
Loss on disposal of golf memberships	50		—		—	
Loss on valuation of golf memberships	116		93		184	
Loss on reorganization of affiliates	—		—		43	
Special retirement benefits	1,079		2,335		2,435	
Other extraordinary losses	—		26		31	
Income before income taxes and minority interests	5,785	0.9	1,986	0.3	6,584	0.5
Current income taxes	3,048	0.5	1,962	0.3	5,049	0.4
Deferred income taxes	(425)	(0.1)	(683)	(0.1)	(1,551)	(0.1)
Gain in minority interests	280	0.0	—	—	135	0.0
Loss in minority interests	—	—	104	0.0	—	—
Net income	2,882	0.5	812	0.1	2,950	0.2

4-3. Interim Consolidated Statements of Retained Earnings

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

	Interim period ended Sept. 30, 2002	Interim period ended Sept. 30, 2001	Year ended March 31, 2002
CAPITAL SURPLUS			
Capital surplus, beginning of period	24,321	24,321	24,321
Increase in capital surplus	926	—	—
Increase due to conversion of convertible bonds	926	—	—
Capital surplus, end of period	25,247	24,321	24,321
RETAINED EARNINGS			
Retained earnings, beginning of period	84,536	83,241	83,241
Increase in retained earnings	2,962	812	2,950
Net income	2,882	812	2,950
Increase due to exclusion from consolidation	22	—	—
Disposition of land revaluation surplus	57	—	—
Decrease in retained earnings	822	835	1,655
Cash dividends paid	805	820	1,640
Bonuses to directors and corporate auditors	16	14	14
[Bonuses to corporate auditors]	[0]	[0]	[0]
Retained earnings, end of period	86,677	83,219	84,536

4-4. Interim Consolidated Statements of Cash Flows

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

	Interim period ended Sept. 30, 2002	Interim period ended Sept. 30, 2001	Year ended March 31, 2002
Cash flows from operating activities			
Income before income taxes and minority interests	5,785	1,986	6,584
Depreciation and amortization	2,525	2,093	4,865
Amortization of consolidation difference	362	375	748
Increase (decrease) in employees' retirement benefits - net	745	(770)	(1,277)
Increase (decrease) in officers' retirement benefits	(131)	(38)	70
Decrease in accrued employees' bonuses	(237)	(898)	(303)
Increase (decrease) in allowance for doubtful accounts	171	(869)	(1,196)
Increase (decrease) in allowance for returns	30	(86)	(80)
Reversal of allowance for losses on debt guarantees	(8)	(11)	(22)
Interest and dividend income	(156)	(156)	(275)
Interest expenses	209	282	524
Gain (loss) on foreign currency translation	(3)	0	(0)
(Gain) loss on disposal of fixed assets	284	(3)	(212)
(Gain) loss on sale and devaluation of securities - net	57	507	745
Loss on devaluation of golf memberships	—	93	184
Loss on golf memberships	166	—	—
Loss on restructuring of affiliated companies	—	—	43
Special retirement benefits	1,079	2,335	2,435
Decrease (increase) in trade receivables	(3,684)	(3,225)	3,004
Decrease (increase) in inventories	(231)	(117)	1,008
Decrease (increase) in other current assets	3,948	(2,945)	(2,560)
Decrease in notes and accounts payable	(16,548)	(4,528)	(409)
Increase (decrease) in accrued consumption taxes	(633)	5	502
Increase (decrease) in other current liabilities	(2,921)	2,191	1,539
Payment of officers' bonuses	(21)	(19)	(19)
Subtotal	(9,212)	(3,799)	15,897
Interest and dividends received	156	182	308
Cash paid for interest	(205)	(278)	(521)
Special retirement benefits paid	—	—	(2,435)
Cash paid for income taxes	(3,732)	572	(706)
Net cash (used in) provided by operating activities	(12,993)	(3,323)	12,542

4-4. Interim Consolidated Statements of Cash Flows

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

	Interim period ended Sept. 30, 2002	Interim period ended Sept. 30, 2001	Year ended March 31, 2002
Cash flows from investing activities			
Payments for time deposits	(262)	(577)	(6,280)
Maturity of time deposits	335	1,352	7,317
Payments for purchase of marketable securities	—	—	(7)
Proceeds from sale of marketable securities	—	5	13
Payments for purchase of property, plant and equipment	(4,404)	(3,874)	(5,663)
Proceeds from sale of property, plant and equipment	783	271	539
Payments for purchase of investment securities	(55)	(291)	(639)
Proceeds from sale of investment securities	8	9	10
Proceeds from additional purchase of stock of consolidated subsidiaries	(229)	—	—
Payments for issuance of loans	(133)	(188)	(301)
Proceeds from recovery of loans	51	341	544
Other, net	(777)	101	(545)
Net cash used in investing activities	(4,684)	(2,851)	(5,012)
Cash flows from financing activities			
Increase in short-term bank loans - net	6,210	559	609
Proceeds from long-term debt	800	600	1,811
Repayment of long-term debt	(798)	(1,115)	(3,624)
Repayment of bonds	—	(300)	(300)
Repayment of convertible bonds	(0)	—	—
Purchase of treasury stock	(2,429)	(1)	(1,196)
Proceeds from sale of treasury stocks	—	1	1
Cash dividends paid	(805)	(820)	(1,640)
Cash dividends paid to minority shareholders	(15)	(15)	(15)
Net cash provided by (used in) financing activities	2,959	(1,092)	(4,355)
Effect of exchange rate change on cash and cash equivalents	3	(0)	0
Net (decrease) increase in cash and cash equivalents	(14,715)	(7,267)	3,175
Cash and cash equivalents, beginning of period	73,933	70,758	70,758
Decrease in cash and cash equivalents due to exclusion of subsidiaries from consolidation	(420)	—	—
Cash and cash equivalents, end of period	58,797	63,491	73,933

4-5. Preparation of the Interim Consolidated Financial Statements

1. Scope of Consolidation

(1) Number of Consolidated Subsidiaries: 10 companies

ELF Co., Ltd., KURAYA SHOJI, INC., ORIENTAL PHARMACEUTICAL CO., LTD., KURAYA KASEI, INC., YAMAHIRO INC., IZUTSU PHARMACEUTICAL CO., LTD., HEISEI YAKUHIN CO., LTD., USHIODA SANGOKUDO YAKUHIN CO., LTD., Chiyaku Co., Ltd., and SENSHU YAKUHIN CO., LTD. HISATOMO KURAYA, INC. was merged into the Company on October 1, 2001. Therefore, it has been excluded from the scope of consolidation for the interim period ended September 30, 2002.

Because of the loss of material effect of NISHIDA YAKUHIN CO., LTD. following the transfer of its business to the Company as of April 1, 2002, it has been eliminated from the scope of consolidation from the interim period ended September 30, 2002.

(2) Unconsolidated Subsidiaries

Significant unconsolidated subsidiaries:

HONGOY YAKUHIN, INC. and M.I.C. (Medical Information College), INC.

Reason for exclusion from 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 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 (HONGOY YAKUHIN, INC., M.I.C. (Medical Information College), INC. and others) or to affiliated companies (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. Interim Accounting Periods of Consolidated Subsidiaries

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

4. Accounting Standards

(1) Accounting standards for valuation of major assets

(a) Valuation of Securities

Other marketable securities:

Securities quoted on stock exchanges: 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

(b) Valuation of Inventories

Valued at cost using the first-in first-out 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. Estimated useful lives are primarily 8-50 years for buildings and structures and 4-17 years for machinery and equipment and carriers.

(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 straight-line 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 based on the amount of trade receivables at the interim consolidated balance sheet date, multiplied by the actual rate of returns and the sales profit rate.

(d) Reserve for retirement benefits

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

However, four consolidated subsidiaries provide for retirement benefits in the amount of the projected benefit obligation at the interim balance sheet date, less the estimated fair value of pension assets related to contributory 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 interim balance sheet date.

Actuarial differences are expensed on a straight-line basis over three years beginning in the fiscal year in which they arise.

(e) Allowance for officers' retirement benefits

An allowance is provided to cover officers' retirement benefits based on the amount required to be paid at the end of the interim accounting period according to the internal rules of each company.

(f) Allowance for losses on debt guarantees

An allowance for losses related to debt guarantees is provided in the estimated amount required, taking into account the actual financial condition of the guarantee recipients.

(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 taxes and local consumption taxes are excluded from the amounts in the financial statements.

5. Scope of Funds in the Interim Consolidated Statements of Cash Flows

Funds (cash and cash equivalents) in the interim 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.

Changes in Method of Presentation

Interim Consolidated Statements of Cash Flows

The item presented as "Loss on devaluation of golf memberships" in the previous consolidated interim accounting period is included in "Loss on golf memberships" in this consolidated interim accounting period.

Additional Information

(Accounting for Treasury Stock and Reversal of Legal Reserve, etc.)

Effective from this interim period, the Company is applying "Accounting Standards for Treasury Stock and Reversal of Legal Reserve" (Business Accounting Standards No. 1). The effect of this change on profit and loss for this interim period is immaterial.

Due to the revision of rules for interim consolidated financial statements, the shareholders' equity section of the interim consolidated balance sheets and the interim consolidated statements of retained earnings in this interim period are prepared in accordance with the revised rules for interim consolidated financial statements. The financial statements for the previous interim period and the previous fiscal year have also been restated to conform to the revised classifications.

Notes to Interim Consolidated Balance Sheets

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

	As of September 30, 2002	As of September 30, 2001	As of March 31, 2002
1. Accumulated depreciation of property, plant and equipment	45,329	41,598	43,756
2. Pledged assets			
Time deposits	255	529	330
Notes and accounts receivable-trade	—	1,166	943
Buildings and structures	3,554	3,824	3,647
Land	7,169	8,387	8,163
Investment securities	1,075	1,778	1,447
Total	12,053	15,686	14,532
Liabilities corresponding to above pledged assets:			
Notes and accounts payable-trade	35,148	36,572	38,742
Short-term bank loans	6,309	9,232	5,886
Long-term debt	754	1,641	844
Total	42,213	47,447	45,474
3. Contingent liabilities			
Guarantees are provided for loans from banks, etc., of unconsolidated subsidiaries, affiliated companies and others, as follows:			
Chiba General Wholesalers Cooperative Association	450	—	—
Chiba Tonyacho Area Town Redevelopment Association	195	—	—
Love Drugs Co., Ltd.	145	185	165
KURAYA (USA) CORPORATION	—	4	—
		[U.S.\$39,000]	
Other	68	79	73
Total	859	269	238
4. Notes and bills discounted	—	196	—
5. Accounting for notes maturing at end of (interim) period			
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	—	8,539	8,297
Notes payable	—	4,496	3,866
6. The Company and its consolidated subsidiaries have overdraft contracts with 22 banks as of Sept. 30, 2002 (24 banks as of Sept. 30, 2001) for the efficient procurement of working assets. At the end of this consolidated accounting period, the unexercised balance of overdraft contracts was as follows:			
Total amount of overdraft limit	60,500	—	62,300
Unexercised balance	20,450	—	13,100
Net balance	40,050	—	49,200

Notes to Interim Consolidated Statements of Operations

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

	Interim period ended September 30, 2002	Interim period ended September 30, 2001	Year ended March 31, 2002
1. Major items and amounts in selling, general and administrative expenses:			
Wages and salaries	20,370	20,443	47,493
Welfare expenses	3,734	3,842	7,563
Provision for bonuses	5,948	5,598	6,258
Provision for employees' retirement benefits	2,505	2,237	4,071
Provision for officers' retirement bonuses	140	160	274
Shipping and delivery expenses	2,420	2,141	4,451
Rental expenses	1,818	1,844	3,673
Depreciation and amortization	2,244	1,795	4,251
Provision for doubtful accounts	692	—	—
Amortization of goodwill	362	375	748
2. Components of gain on sales of fixed assets:			
Land	22	153	446
Other	—	0	1
Total	22	153	447
3. Components of loss on sale and disposal of fixed assets:			
(Loss on disposal of fixed assets)			
Buildings and structures	72	124	191
Other	94	23	38
Total	167	148	229
(Loss on sale of fixed assets)			
Land	138	—	—
Buildings and structures	—	—	0
Other	1	0	4
Total	140	0	4

Notes to Interim Consolidated Statements of Cash Flows

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

	Interim period ended September 30, 2002	Interim period ended September 30, 2001	Year ended March 31, 2002
Relationship between the ending balance of cash and cash equivalents and amounts reported in the consolidated balance sheets			
Cash on hand and in banks	60,834	65,872	76,053
Time deposits with maturities exceeding three months	(2,036)	(2,381)	(2,119)
Cash and cash equivalents	58,797	63,491	73,933

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 pharmaceutical wholesale, etc. business constituted more than 90 percent of the consolidated totals for the interim period ended September 30, 2002, the interim period ended September 30, 2001, and the year ended March 31, 2002.

2. Geographical Segment Information

Geographical segment information is not disclosed, as the Company had no consolidated subsidiaries or significant branch offices outside Japan for the interim period ended September 30, 2002, the interim period ended September 30, 2001, or the year ended March 31, 2002.

3. Overseas Sales

The Company had no overseas sales for the interim period ended September 30, 2002, the interim period ended September 30, 2001, or the year ended March 31, 2002.

6. 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 balance of leased assets

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

	Interim period ended September 30, 2002			Interim period ended September 30, 2001			Year ended March 31, 2002		
	Acquisition cost	Accumulated depreciation	Ending balance	Acquisition cost	Accumulated depreciation	Ending balance	Acquisition cost	Accumulated depreciation	Ending balance
Machinery, equipment and carriers	8,156	3,071	5,085	6,782	2,712	4,070	7,504	2,847	4,656
Tools and fixtures	3,603	2,388	1,215	4,435	2,703	1,731	4,469	2,962	1,506
Total	11,759	5,459	6,300	11,217	5,415	5,801	11,973	5,810	6,162

(2) Future lease payments

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

	As of September 30, 2002	As of September 30, 2001	As of March 31, 2002
Due within one year	2,081	2,003	2,064
Due after one year	4,476	3,904	4,266
Total	6,557	5,908	6,331

(3) Lease payments, depreciation expense and interest paid

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

	As of September 30, 2002	As of September 30, 2001	As of March 31, 2002
Lease payments	1,240	1,328	2,587
Depreciation expense	1,149	1,211	2,372
Interest paid	94	106	205

(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.

2. Operating lease transactions

Accrued lease expenses

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

	As of September 30, 2002	As of September 30, 2001	As of March 31, 2002
Due within one year	32	27	35
Due after one year	63	42	65
Total	96	70	101

7. Marketable Securities

(As of September 30, 2002)

1. Other marketable securities with market values

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

	Acquisition cost	Balance sheet amount	Difference
Securities with balance sheet amounts that exceed acquisition cost:			
(1) Stocks	4,426	10,926	6,499
(2) Bonds			
National and local government bonds, etc.	—	—	—
Corporate bonds	34	32	(2)
Other	0	0	0
(3) Other	—	—	—
Total	4,460	10,958	6,497

Note: Acquisition cost is the book value after accounting for loss on revaluation at the end of the consolidated interim period. The amount of the loss on revaluation was ¥56 million.

For impairment of the applicable stocks, the Company books an unrealized loss on revaluation if the market value at the end of the consolidated accounting period is 30 percent or more below the acquisition cost.

2. Description and balance sheet amounts of securities without market values

Other marketable securities

Unlisted domestic stocks (excluding stocks traded over-the-counter): ¥775 million

Unlisted domestic bonds: ¥ 7 million

Unlisted foreign stocks: ¥300 million

(As of September 30, 2001)

1. Other marketable securities with market values

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

	Acquisition cost	Balance sheet amount	Difference
Securities with balance sheet amounts that exceed acquisition cost:			
(1) Stocks	4,642	12,301	7,658
(2) Bonds			
National and local government bonds, etc.	—	—	—
Corporate bonds	42	40	(1)
Other	0	0	0
(3) Other	—	—	—
Total	4,685	12,341	7,656

Note: Acquisition cost is the book value after accounting for loss on revaluation at the end of the consolidated interim period. The amount of the loss on revaluation was ¥501 million.

For impairment of the applicable stocks, the Company books an unrealized loss on revaluation if the market value at the end of the consolidated accounting period is 30 percent or more below the acquisition cost.

2. Description and balance sheet amounts of securities without market values

Other marketable securities

Unlisted domestic stocks (excluding stocks traded over-the-counter): ¥787 million

Unlisted domestic bonds: ¥ 7 million

(As of March 31, 2002)

1. Other marketable securities with market values

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

	Acquisition cost	Balance sheet amount	Difference
Securities with balance sheet amounts that exceed acquisition cost:			
(1) Stocks	4,442	11,893	7,450
(2) Bonds			
National and local government bonds, etc.	—	—	—
Corporate bonds	39	36	(2)
Other	0	0	0
(3) Other	—	—	—
Total	4,482	11,930	7,447

Note: Acquisition cost is the book value after accounting for loss on revaluation at the end of the consolidated fiscal year. The amount of the loss on revaluation was ¥738 million.

For impairment of the applicable stocks, the Company books an unrealized loss on revaluation if the market value at the end of the consolidated accounting period is 30 percent or more below the acquisition cost.

2. Description and balance sheet amounts of securities without market values

Other marketable securities

Unlisted domestic stocks (excluding stocks traded over-the-counter): ¥786 million

Unlisted domestic bonds: ¥ 7 million

Unlisted foreign stocks: ¥300 million

8. Derivative Transactions

None applicable

9. Production, Orders and Sales

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

	Interim period ended September 30, 2002		Interim period ended September 30, 2001		Year ended March 31, 2002	
Ethical drugs	551,092	87.9%	527,278	87.3%	1,069,480	87.5%
Over-the-counter drugs	24,657	3.9	25,418	4.2	52,059	4.3
Medical equipment, tools and clinical materials	28,458	4.5	24,636	4.1	51,622	4.2
Reagents	11,816	1.9	14,000	2.3	24,853	2.0
Others	11,007	1.8	12,616	2.1	24,205	2.0
Total	627,032	100.0	603,950	100.0	1,222,221	100.0

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

	Interim period ended September 30, 2002		Interim period ended September 30, 2001		Year ended March 31, 2002	
Ethical drugs	501,842	88.1%	482,718	87.6%	977,734	87.8%
Over-the-counter drugs	22,669	4.0	24,682	4.5	45,822	4.1
Medical equipment, tools and clinical materials	25,514	4.5	21,969	4.0	46,208	4.2
Reagents	10,484	1.8	11,360	2.1	22,653	2.0
Others	9,168	1.6	10,213	1.8	21,325	1.9
Total	569,679	100.0	550,944	100.0	1,113,744	100.0

Summary of Unconsolidated Financial Statements for the Interim Period Ended September 30, 2002

November 13, 2002

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

Kuraya Sanseido Inc.

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Tokyo 104-8464, Japan

<http://www.kurayasanseido.co.jp>

Representative: Sadatake Kumakura, President and CEO

Contact: Kikuo Miki, Senior Executive Officer and

General Manager of Public Relations Division

Phone: +81-3-3517-5171

Stock exchange listings:

Tokyo, Osaka

Code number:

7459

Board of Directors meeting:

November 13, 2002

Interim dividend system:

Yes

Interim dividend payment date:

December 9, 2002

Tangen unit system:

Yes

(1 tangen unit = 100 shares)

1. Results for the Interim Period of Ended September 30, 2002 (April 1, 2002-September 30, 2002)

(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 ended Sept. 30, 2002	588,866	7.7	4,819	41.5	6,489	30.3
Interim period ended Sept. 30, 2001	546,817	18.2	3,404	(27.8)	4,981	(20.4)
Year ended March 31, 2002	1,116,754		5,917		9,060	

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)
Interim period ended Sept. 30, 2002	2,904	101.3	21.88
Interim period ended Sept. 30, 2001	1,443	(45.4)	10.56
Year ended March 31, 2002	3,581		26.30

Notes:

- Average number of shares outstanding during the period: Interim period ended September 30, 2002: 132,785,548 shares
Interim period ended September 30, 2001: 136,705,789 shares
Year ended March 31, 2002: 136,194,006 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 interim period.

(2) Dividends

	Interim dividends per share (¥)	Annual dividends per share (¥)
Interim period ended Sept. 30, 2002	6.00	—
Interim period ended Sept. 30, 2001	6.00	—
Year ended March 31, 2002	—	12.00

(3) Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity/total assets (%)	Shareholders' equity per share (¥)
Interim period ended Sept. 30, 2002	584,523	111,777	19.1	833.94
Interim period ended Sept. 30, 2001	588,440	121,777	20.7	890.80
Year ended March 31, 2002	595,689	110,637	18.6	823.65

Notes:

- Total number of shares outstanding at end of period: September 30, 2002 134,035,305 shares
September 30, 2001 136,705,770 shares
March 31, 2002 134,325,518 shares
- Treasury stock outstanding at end of period: September 30, 2002 5,985,391 shares
September 30, 2001 99 shares
March 31, 2002 2,380,351 shares

2. Projected Results for Fiscal Year Ending March 31, 2003 (April 1, 2002-March 31, 2003)

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)	Annual dividends per share (¥)	
				Year-end	
Year ending March 31, 2003	1,178,000	10,700	4,900	6.00	12.00

Reference: Estimated earnings per share (full year): ¥36.22

* Estimated earnings per share is calculated including 1,248,372 shares of substitute treasury stock to be allocated upon the transfer of stock of USHIODA SANGOKUDO YAKUHIN CO., LTD. on March 1, 2003.

* Projected results are rendered in accordance with Japanese regulations. All estimates are forward-looking statements based on information available as of the date of release of these financial statements. Actual results may differ substantially depending on a number of factors including but not limited to economic trends and exchange rates. For the assumptions and other issues related to the above projections, please refer to page 6 of the attachments.

11-1. Interim Unconsolidated Balance Sheets

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

	As of September 30, 2002		As of September 30, 2001		As of March 31, 2002	
ASSETS	584,523	100.0%	588,440	100.0%	595,689	100.0%
Current assets:	462,492	79.1	452,061	76.8	472,644	79.3
Cash on hand and in banks	49,462		55,291		65,647	
Trade notes receivable	30,704		34,371		32,809	
Trade accounts receivable	307,301		289,908		295,601	
Inventories	42,935		41,273		42,499	
Deferred income taxes	2,095		1,408		2,526	
Accounts receivable	26,583		29,873		30,087	
Other current assets	5,295		1,684		5,080	
Allowance for doubtful accounts	(1,887)		(1,749)		(1,606)	
Fixed assets	122,031	20.9	136,378	23.2	123,045	20.7
Tangible fixed assets:	81,446	14.0	102,176	17.4	83,370	14.0
Buildings	34,524		32,172		35,639	
Land	39,237		60,060		39,847	
Others	7,683		9,943		7,882	
Intangible fixed assets	4,212	0.7	1,875	0.3	3,064	0.5
Investments and other assets:	36,372	6.2	32,326	5.5	36,610	6.2
Investment securities	9,342		10,003		9,981	
Equity in subsidiaries and affiliates	8,692		8,707		8,462	
Deferred income taxes	1,978		1,211		1,232	
Deferred taxes — land revaluation	8,494		—		8,498	
Other	10,592		15,593		11,821	
Allowance for doubtful accounts	(2,727)		(3,190)		(3,385)	
Total assets	584,523	100.0	588,440	100.0	595,689	100.0

11-1. Interim Unconsolidated Balance Sheets

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

	As of September 30, 2002		As of September 30, 2001		As of March 31, 2002	
LIABILITIES	472,746	80.9	466,662	79.3	485,051	81.4
Current liabilities:	441,512	75.5	432,763	73.5	454,464	76.3
Trade notes payable	15,834		15,157		14,332	
Trade accounts payable	393,897		391,198		406,288	
Short term bank loans	6,900		—		—	
Current portion of convertible bonds	1,348		—		3,201	
Income taxes payable	2,250		1,833		3,695	
Reserve for bonuses	4,908		4,522		5,214	
Allowance for losses on sales returns	553		518		529	
Other current liabilities	15,819		19,532		21,203	
Long-term liabilities:	31,233	5.4	33,898	5.8	30,587	5.1
Convertible bonds	19,324		22,525		19,324	
Employees' retirement benefits	9,641		9,338		8,914	
Officers' retirement bonuses	1,242		1,180		1,265	
Other long-term liabilities	1,025		855		1,082	
SHAREHOLDERS' EQUITY	111,777	19.1	121,777	20.7	110,637	18.6
Common stock	12,079	2.1	11,152	1.9	11,152	1.9
Capital surplus	25,247	4.3	24,321	4.1	24,321	4.1
Additional paid-in capital	25,247		24,321		24,321	
Retained earnings	86,814	14.8	82,920	14.1	84,720	14.2
Legal reserve	1,795		1,787		1,795	
Voluntary reserve	80,200		78,715		79,080	
General reserve	4,818		2,416		3,844	
Revaluation surplus	(11,682)	(2.0)	—	—	(11,687)	(2.0)
Unrealized gains on certain investment securities	2,944	0.5	3,382	0.6	3,326	0.6
Treasury stock, at cost	(3,625)	(0.6)	(0)	(0.0)	(1,195)	(0.2)
Total liabilities and shareholders' equity	584,523	100.0	588,440	100.0	595,689	100.0

11-2. Interim Unconsolidated Statements of Operations

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

	Interim period ended September 30, 2002		Interim period ended September 30, 2001		Year ended March 31, 2002	
Net sales	588,866	100.0%	546,817	100.0%	1,116,754	100.0%
Cost of sales	544,132	92.4	505,640	92.5	1,033,108	92.5
Provision for losses on sales returns	24	0.0	(97)	(0.0)	(89)	(0.0)
Gross profit	44,708	7.6	41,274	7.5	83,735	7.5
Selling, general and administrative expenses	39,889	6.8	37,870	6.9	77,817	7.0
Operating income	4,819	0.8	3,404	0.6	5,917	0.5
Non-operating income:	2,178	0.4	2,210	0.4	4,447	0.4
Interest income	55		61		129	
Dividend income	91		93		125	
Interest on marketable securities	0		0		0	
Research fee income	1,110		1,092		2,183	
Real estate rental income	527		508		1,034	
Other non-operating income	392		455		974	
Non-operating expenses:	508	0.1	633	0.1	1,305	0.1
Interest expense	23		34		70	
Bond interest expense	92		99		199	
Real estate rental expense	348		363		737	
Other non-operating expenses	44		136		298	
Ordinary income	6,489	1.1	4,981	0.9	9,060	0.8
Extraordinary gains:	22	0.0	496	0.1	676	0.1
Gain on sale of fixed assets	22		83		326	
Reversal of allowance for doubtful accounts	—		413		350	
Extraordinary losses:	1,410	0.2	2,478	0.5	2,889	0.3
Loss on sale and disposal of fixed assets	228		144		214	
Loss on valuation of investment securities	0		452		691	
Loss on disposal of golf memberships	50		—		—	
Loss on valuation of golf memberships	103		75		133	
Loss on reorganization of affiliates	—		—		43	
Special retirement benefits	1,028		1,806		1,806	
Other extraordinary losses	—		1		1	
Income before income taxes	5,100	0.9	2,999	0.5	6,847	0.6
Current income taxes	2,230	0.4	1,815	0.3	4,600	0.4
Deferred income taxes	(33)	(0.0)	(258)	(0.1)	(1,334)	(0.1)
Net income	2,904	0.5	1,443	0.3	3,581	0.3
Profit brought forward from the previous period	1,918		973		973	
Disposition of land revaluation surplus	(5)		—		—	
Interim dividends	—		—		820	
Unappropriated loss from merger	—		—		108	
Unappropriated retained earnings at the end of the period	4,818		2,416		3,844	

11-3. Significant Accounting Policies

1. Standards and Methods for Valuation of Assets

(1) Valuation of Securities

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

Securities quoted on stock exchanges: 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)

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

(2) Valuation of Inventories

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

2. Depreciation of Fixed Assets

(1) 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. Estimated useful lives are principally 8-50 years for buildings and structures and 4-17 years for machinery and equipment and vehicles and carriers.

(2) 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).

(3) Long-term prepaid expenses

Long-term prepaid expenses are amortized using the straight-line method.

3. Accounting Standards for Major Reserves

(1) 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.

(2) 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.

(3) Allowance for losses on sales returns

An allowance for losses on sales returns is provided based on the amount of trade receivables at the interim balance sheet date, multiplied by the actual rate of returns and the sales profit rate.

(4) Reserve for retirement benefits:

The Company provides for employees' retirement liability in the amount of the projected benefit obligation at the end of the period, less the estimated fair value of pension assets related to contributory pension plans.

Actuarial differences are expensed on a straight-line basis over three years beginning in the fiscal year in which they arise.

(5) Allowance for officers' retirement benefits

An allowance is provided to cover officers' retirement benefits in the amount required to be paid at the end of the interim accounting period based on the internal rules of the 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. Other

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

Additional Information

(Accounting for Treasury Stock and Reversal of Legal Reserve, etc.)

Effective from this interim period, the Company is applying "Accounting Standards for Treasury Stock and Reversal of Legal Reserve" (Business Accounting Standards No. 1). The effect of this change on profit and loss for this interim period is immaterial.

Due to the revision of rules for interim financial statements, the shareholders' equity section of the interim balance sheets and the interim statements of retained earnings in this interim period are prepared in accordance with the revised rules for interim financial statements. The financial statements for the previous interim period and the previous fiscal year have also been restated to conform to the revised classifications.

Notes to Unconsolidated Balance Sheets

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

	As of September 30, 2002	As of September 30, 2001	As of March 31, 2002
1. Accumulated depreciation of property, plant and equipment	36,669	33,298	35,193
2. Pledged assets			
Time deposits	15	15	15
Buildings	662	889	859
Land	1,546	2,670	2,294
Investment securities	290	223	232
Total	2,515	3,798	3,401
Liabilities corresponding to above pledged assets			
Trade accounts payable	33,924	33,745	36,410
3. Contingent liabilities			
Guarantees are provided for bank loans, etc., for the following companies:			
SENSHU YAKUHIN CO., LTD.	6,038	—	4,500
HISATOMO KURAYA, INC.	—	1,901	—
KURAYA SHOJI, INC.	380	578	248
USHIODA SANGOKUDO YAKUHIN CO., LTD.	373	—	—
KURAYA KASEI, INC.	339	423	394
ORIENTAL PHARMACEUTICAL CO., LTD.	201	215	206
Love Drugs Co., Ltd.	145	185	165
KURAYA (USA) CORPORATION	—	4	—
Other	0	[U.S.\$39,000] 94	84
Total	7,477	3,404	5,598
4. Accounting for notes maturing at end of (interim) period			
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	—	7,460	7,287
Notes payable	—	1,225	1,275
5. The Company has overdraft contracts with 6 banks as of Sept. 30, 2002 (7 banks as of March 31, 2002) for the efficient procurement of working assets. At the end of the interim period, the unexercised balance of overdraft contracts was as follows:			
Total amount of overdraft limit	35,500	—	38,500
Unexercised balance	6,900	—	—
Net balance	28,600	—	38,500
6. Increase/decrease in number of shares outstanding			
Increase			
Conversion of convertible bonds (shares)	3,314,827	—	—
Issue price	1,852	—	—
Capitalized amount	926	—	—
Decrease			
Purchase of treasury stock (shares)	3,605,040	—	2,380,200
Acquisition cost	2,429	—	1,195

Notes to Interim Unconsolidated Statements of Operations

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

	Interim period ended September 30, 2002	Interim period ended September 30, 2001	Year ended March 31, 2002
Depreciation			
Tangible fixed assets	1,965	1,605	3,796
Intangible fixed assets	231	127	334

12. Lease Transactions

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, rounded down to the nearest million)

	Interim period ended September 30, 2002			Interim period ended September 30, 2001			Year ended March 31, 2002		
	Acquisition cost	Accumulated depreciation	Ending balance	Acquisition cost	Accumulated depreciation	Ending balance	Acquisition cost	Accumulated depreciation	Ending balance
Machinery & equipment	1,540	670	869	1,548	440	1,108	1,716	692	1,024
Vehicles and carriers	5,068	1,593	3,475	3,441	1,286	2,155	4,232	1,306	2,926
Tools and fixtures	1,695	1,280	414	2,128	1,441	686	2,366	1,769	597
Total	8,304	3,543	4,760	7,118	3,167	3,950	8,315	3,768	4,547

(2) Future lease payments

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

	As of September 30, 2002	As of September 30, 2001	As of March 31, 2002
Due within one year	1,451	1,276	1,395
Due after one year	3,488	2,855	3,225
Total	4,940	4,131	4,621

(3) Lease payments, depreciation expense and interest paid

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

	As of September 30, 2002	As of September 30, 2001	As of March 31, 2002
Lease expenses	851	874	1,751
Depreciation expense	795	796	1,606
Interest paid	70	75	150

(4) Method of calculating depreciation expense

Depreciation expense 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

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

13. Marketable Securities

(Stocks of subsidiaries and affiliates)

No stocks of subsidiaries and affiliates were valued at market in the interim period ended September 30, 2002, the interim period ended September 30, 2001, or the year ended March 31, 2002.