

# Consolidated Financial Statements for the Fiscal Year Ended March 31, 2003

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

May 13, 2003

## Kuraya Sanseido Inc.

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Chuo-ku, 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 Relation Division  
Phone: +81-3-3517-5171

Stock exchange listings: Tokyo, Osaka  
Code number: 7459  
Board of Directors meeting: May 13, 2003  
Use of U.S. accounting standards: No

## 1. Results for Fiscal 2003 (April 1, 2002 - March 31, 2003)

### (1) Sales and Income

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
Fiscal 2003	1,274,502	4.3	10,159	75.7	13,644	49.4
Fiscal 2002	1,222,221	13.9	5,780	196.5	9,130	69.0

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)	Return on equity (%)	Ordinary income/total assets (%)	Ordinary income/net sales (%)
Fiscal 2003	5,015	70.0	36.48	31.50	4.5	2.1	1.1
Fiscal 2002	2,950	120.6	21.67	18.92	2.5	1.4	0.7

Notes: 1. Equity in earnings of affiliates: ¥— million (Fiscal 2002: ¥— million)  
2. Average number of shares outstanding (consolidated): 133,336,952 shares (Fiscal 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 is based on the previous fiscal year.

### (2) Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity/ total assets [%]	Shareholders' equity per share (¥)
Fiscal 2003	638,589	112,261	17.6	828.14
Fiscal 2002	644,247	110,650	17.2	823.75

Note: Number of shares outstanding at end of period (consolidated): 135,375,126 shares (Fiscal 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)
Fiscal 2003	11,509	(6,540)	(10,123)	68,375
Fiscal 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 2004 (April 1, 2003 - March 31, 2004)

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)
Interim period	652,000	8,500	3,000
Fiscal 2004	1,308,000	16,400	5,800

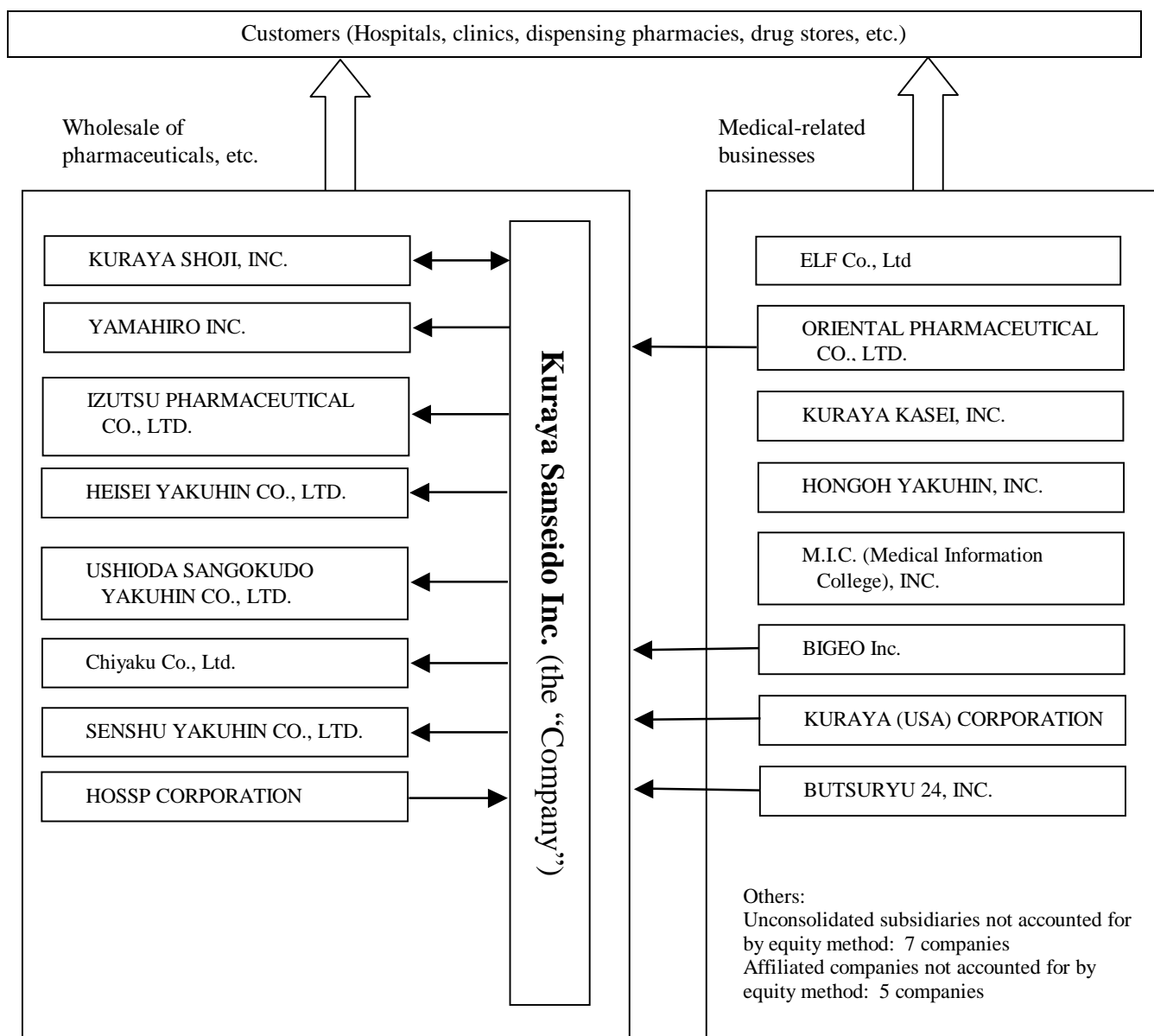
Reference: Estimated earnings per share (fiscal 2004): ¥41.81

Notes:

- The amounts above are rounded down to the nearest million yen.
- Please refer to page 7 of the attached materials for items concerning the projected results. Estimated earnings per share are calculated after taking into account the subsequent events on pages 29-30.

## 1. Corporate Group

The Kuraya Sanseido Group consists of 22 consolidated subsidiaries and 6 affiliates. The group companies primarily engage in sales of pharmaceuticals and the supply of services. The positioning and organization 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

- Notes:
- Effective from April 1, 2002, the Company assumed business related to the wholesale of over-the-counter drugs of IZUTSU PHARMACEUTICAL CO., LTD., and of prescription pharmaceuticals of NISHIDA YAKUHIN CO., LTD.
  - Effective from October 1, 2002, the Company assumed the pharmaceutical wholesale business of SENSHU YAKUHIN CO., LTD. in Miyagi Prefecture.
  - Effective from April 1, 2003, the Company transferred pharmaceutical wholesale operations in Ibaraki, Tochigi and Gunma prefectures to USHIODA SANGOKUDO YAKUHIN CO., LTD. and assumed pharmaceutical wholesale operations of the same company in Fukushima Prefecture. The Company also assumed business related to the wholesale of over-the-counter drugs of HEISEI YAKUHIN CO., LTD.

## Overview of Subsidiaries

Company name	Address	Capital (¥ million)	Principal business	Percentage of voting rights (%)	Transactions
ELF Co., Ltd.	Fukushima-ku, Osaka	99	Medical-related business	75.8	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.	100.0	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 March 1, 2003, the Company made USHIODA SANGOKUDO YAKUHIN CO., LTD. a wholly owned subsidiary by a simple exchange of shares.

## 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) Medium- and Long-Term Management Strategies

The Kuraya Sanseido has drawn up a medium-term consolidated 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 consolidated 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)

In view of trends in results and the market environment in the year ended March 2003 and beyond, the Kuraya Sanseido Group today revised its consolidated management targets for the year ending March 2005 as follows:

Net sales	¥1,346.0 billion
Operating income	¥18.9 billion
Ordinary income	¥22.4 billion
Net income	¥10.7 billion
Return on assets (Operating income/Total assets used)	2.8%
Return on equity (Net income/Shareholders' equity)	8.9%

#### 2) Basic Strategy

The basic strategy of the plan is “strengthening competitiveness through restructuring of resources, operations and functions.” The Kuraya Sanseido Group will reinforce the business restructuring currently in progress to optimize resources, operations and functions, establish a low cost structure, increase productivity and further expand functions in order to bolster competitiveness.

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

- Reorganize and integrate operating bases, particularly in regions where market areas overlap within the Group, focus allocation of personnel in strategic regions, and further strengthen sales capabilities.
- Increase productivity by fostering the mobility of human resources within the Group and reducing the total number of employees, including outside staff such as temporary workers.
- 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 increase operating efficiency.
- Reduce costs by developing and implementing a new business model that effectively combines information technology with existing resources for distribution and information functions within the Group.
- In addition to sales of ethical drugs, actively expand into over-the-counter drugs and healthcare-related fields and develop new businesses in order to secure steady profits.

#### (4) Basic Policies and Status of Implementation of Measures Concerning Corporate Governance

##### 1) Basic Policies Concerning Corporate Governance

The Kuraya Sanseido Group focuses on ensuring transparent and sound management while maximizing our corporate value.

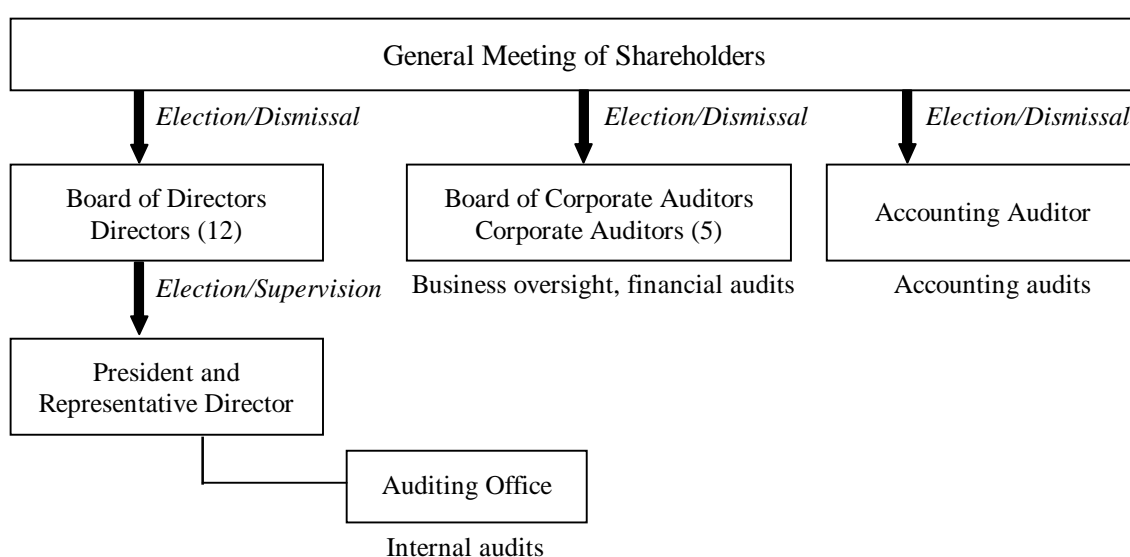
The Board of Directors considers and decides on management policies and matters established by law, as well as other important management-related matters. The Board also supervises the status of overall business execution.

Corporate auditors conduct strict supervision of directors' execution of duties from the standpoints of legality and efficiency.

An Auditing Office reporting directly to the president conducts regular company-wide internal audits, with the aim of appropriate management and improvement spanning all aspects of business operations.

##### 2) Status of Implementation of Measures Concerning Corporate Governance

Corporate Governance System other than the Company's Management Organization



The Board of Directors is composed of 12 directors. Board meetings are held once a month and are attended by auditors. The Company uses the auditor system, and appoints two outside auditors among the five auditors.

The Company has adopted an executive officer system to clearly separate management decision-making and supervision from business execution. In addition, a Management Meeting participated in by directors, executive officers and auditors is held, in principle, once a week to share information on management strategies and consider business solutions.

Moreover, to help shareholders exercise voting rights more quickly and actively, Internet-based exercise of voting rights was implemented starting from the general meeting of shareholders held in June 2002.

The Company has established an Action Guidelines Committee whose members include the Company's advising attorney. The Committee is drawing up "Action Guidelines" that will form standards for judgment and action in carrying out activities to realize our corporate philosophy. It has also created "Basic Points for Business" as standards for legal compliance and sound business activities.

Currently, the Company is conducting initiatives such as regular meetings with individual divisions aimed at ensuring thorough knowledge and practice of these standards in order to improve corporate ethics.

### 3. Business Results and Financial Position

#### (1) Business Results

##### 1) Summary of the Year Ended March 31, 2003

In the pharmaceutical industry, an average 6.3 percent reduction in National Health Insurance (NHI) prices for drugs was implemented in April 2002, and healthcare cost control measures were taken in October 2002, including fixed rates for medical costs for the elderly. However, the overall market showed moderate growth due to expansion of demand for new drugs and influenza-related products.

Amid this environment, the Kuraya Saneido Group took advantage of the strength of its broad product lineup composed of the products of many manufacturers to provide a stable supply of pharmaceutical products that meet customer needs. We also lowered the cost of sales through promotion of joint purchasing with Group companies. In addition, we worked to maintain steady profits by creating a new framework for the formation of a rational pricing system, and conducting marketing activities based on this framework. At the same time, we worked to lower the ratio of SG&A expenses to net sales and raise productivity with measures such as offering early retirement to employees and implementing a system for transfers within the Group.

To raise the efficiency of Group business activities and to respond accurately to diversifying customer needs, we took over 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). We also took over business related to the wholesale of pharmaceuticals of SENSU YAKUHIN CO., LTD. (Akita) in Miyagi Prefecture.

Furthermore, we took over business related to the wholesale of pharmaceuticals of ATOL Co., Ltd. (Fukuoka), with which we have a business tie-up, in the Tokyo region.

Also, USHIODA SANGOKUDO YAKUHIN CO., LTD. (Mito) was made a wholly owned subsidiary of the Company through a simple exchange of shares.

Additionally, with the ongoing separation of prescription and dispensing, we introduced a new business model for prescription pharmacies that incorporates planned delivery and billing proportionate to the volume used, and systematically implemented it on a nationwide level as part of our effort to create new functions as a pharmaceutical wholesaler. In this way, we worked to strengthen relationships with customers.

As a result of these factors, consolidated net sales for the year ended March 31, 2003 were ¥1,274,502 million (a 4.3% year-on-year increase), and consolidated ordinary income was ¥13,644 million (a 49.4% year-on-year increase). 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 ¥5,015 million (a 70.0% year-on-year increase).

With regard to the sale of prescription pharmaceuticals in Miyagi Prefecture, which is handled by the Sendai branch office, the Company received an advisory notice from the Japan Fair Trade Commission in December, 2001 for violating part of the Anti-Monopoly Act in part of the process of displaying and explaining new delivery prices to customer medical institutions in connection with a change in the method of calculating drug prices in April 2000.

A ruling was handed down in January 2002 in regard to the advisory, and the Company paid a surcharge of ¥28 million in March 2003.

We sincerely apologize for any inconvenience or concern this issue has caused to our associates. We will remain committed to contributing to society as a distributor that plays a part in health care by providing high-quality pharmaceutical products.

## *2) Outlook for the Fiscal Year Ending March 31, 2004*

Increases in patient copayments and insurance rates due to revisions of the National Health Insurance Law, in addition to administrative reforms to the healthcare system such as separation of hospital functions and revision of diagnostic evaluation are forecast to further accelerate changes in the structure of the pharmaceutical industry.

In these circumstances, the Kuraya Sanseido Group will strengthen sales by allocating sales staff to key strategic regions and further establish our framework for a rational pricing system, in accordance with the basic strategies of the medium-term consolidated management plan.

In addition, we will work to firmly establish our infrastructure and new personnel system through measures such as creating a new business model geared to the expected changes in the industry structure and integration of key systems. At the same time, we will seek to establish a new cost structure through an overhaul of sales activities and internal operations, including personnel reductions and business office consolidation. Through these measures, we will work to further raise our business efficiency.

For the fiscal year ending March 31, 2004, we project consolidated net sales of ¥1,308.0 billion (a 2.6% year-on-year increase), consolidated ordinary income of ¥16.4 billion (a 20.2% year-on-year increase) and consolidated net income of ¥5.8 billion (a 15.6% year-on-year increase).

The Kuraya Sanseido Group will carry out construction of a new distribution center in the city of Kazo, Saitama Prefecture, with the aim of enhancing distribution in response to changes in the healthcare market.

**Projections of results are prepared on the basis of information available to management on the date of announcement. Various factors could cause actual results to differ from the projected figures.**

## (2) Financial Position

In the fiscal year under review, on a consolidated basis, net cash provided by operating activities was ¥11,509 million, net cash used in investing activities was ¥6,540 million, and net cash used in financing activities was ¥10,123 million. As a result, cash and cash equivalents (hereinafter referred to as “funds”) at the end of the period decreased ¥5,558 million (7.5%) from the end of the previous fiscal year, to ¥68,375 million.

### [Cash Flows from Operating Activities]

The increase in funds from operating activities was ¥11,509 million (a decrease of 8.2 percent compared with the previous year). The main components of this increase were an ¥11,200 million increase in income before income taxes and minority interests (an increase of 70.1 percent compared with the previous year); depreciation and amortization of ¥5,203 million; a ¥2,871 million increase in trade receivables; a ¥2,314 million increase in inventories; a ¥1,495 million increase in notes and accounts payable; and cash paid for income taxes of ¥6,182 million.

### [Cash Flows from Investing Activities]

The decrease in funds from investing activities was ¥6,540 million (in the previous fiscal year the decrease was ¥5,012 million). The decrease mainly consisted of ¥6,205 million used for purchases of property, plant and equipment, including the NISHINIPPON DISTRIBUTION CENTER.

### [Cash Flows from Financing Activities]

The decrease in funds from financing activities was ¥10,123 million (in the previous fiscal year the decrease was ¥4,355 million). The main components of this were a ¥3,641 million net decrease in short-term bank loans, ¥4,250 million used for the purchase of treasury stock, and ¥1,626 million in cash dividends paid.

## Trends of Cash Flow Indicators

	Year ended March 31, 2001	Year ended March 31, 2002	Year ended March 31, 2003
Shareholders' equity ratio (%)	18.9	17.2	17.6
Shareholders' equity ratio on a market value basis (%)	15.8	10.9	18.9
Debt repayment period (years)	1.9	3.3	2.9
Interest coverage ratio	46.6	24.1	29.8

Notes:

Shareholders' equity ratio: Shareholders' equity/Total assets

Shareholders' equity ratio on a market value basis: Total market value of stock/Total assets

Debt repayment period: Interest-bearing liabilities/Cash flows from operating activities

Interest coverage ratio: Cash flows from operating activities/Interest expense

1. All indicators are calculated based on consolidated financial figures.
2. Total market value of stock is calculated by multiplying the closing price at the end of the period by the number of shares issued and outstanding at the end of the period (excluding the number of treasury shares).
3. Cash flows from operating activities are as stated on the consolidated statements of cash flows. Interest-bearing liabilities includes all debt stated on the consolidated balance sheets on which interest is paid. For interest expenses, cash paid for interest in the consolidated statements of cash flows is used.

## 4-1. Consolidated Balance Sheets

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

	As of		As of		Year-on-Year Change
	March 31, 2003		March 31, 2002		
<b>ASSETS</b>	638,589	100.0%	644,247	100.0%	(5,658)
Current assets	498,551	78.1	499,614	77.5	(1,062)
Cash on hand and in bank	70,153		76,053		(5,900)
Notes and accounts receivable – trade	340,233		336,315		3,917
Marketable securities	2		39		(36)
Inventories	55,900		53,691		2,208
Deferred income taxes	4,126		2,802		1,323
Accounts receivable	29,917		31,582		(1,665)
Other current assets	2,162		2,176		(13)
Allowance for doubtful accounts	(3,944)		(3,047)		(896)
Fixed assets	140,037	21.9	144,633	22.5	(4,596)
Tangible fixed assets:	95,464	14.9	99,437	15.4	(3,972)
Buildings and structures	40,603		42,693		(2,090)
Land	48,402		49,571		(1,169)
Construction in progress	53		275		(222)
Other tangible fixed assets	6,405		6,895		(490)
Intangible fixed assets:	7,629	1.2	6,097	1.0	1,532
Software	1,817		1,750		66
Consolidation difference	1,987		2,752		(765)
Other intangible fixed assets	3,825		1,593		2,231
Investments and other assets:	36,943	5.8	39,099	6.1	(2,156)
Investment securities	11,956		13,808		(1,852)
Long-term loans receivable	398		379		19
Deferred income taxes	7,678		6,022		1,656
Deferred income taxes – land revaluation	8,456		8,626		(170)
Other	13,633		15,968		(2,335)
Allowance for doubtful accounts	(5,180)		(5,705)		525
<b>Total assets</b>	<b>638,589</b>	<b>100.0</b>	<b>644,247</b>	<b>100.0</b>	<b>(5,658)</b>

## 4-1. Consolidated Balance Sheets

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

	As of		As of		Year-on-Year Change
	March 31, 2003		March 31, 2002		
<b>LIABILITIES</b>	521,900	81.7%	528,823	82.1%	(6,923)
Current liabilities:	481,680	75.4	489,780	76.0	(8,099)
Notes and accounts payable – trade	445,652		444,256		1,395
Short-term bank loans	12,299		15,940		(3,641)
Current portion of long-term debt	969		1,175		(206)
Current portion of convertible bonds	—		3,201		(3,201)
Income taxes payable	5,383		3,901		1,482
Reserve for bonuses	7,014		6,203		811
Allowance for losses on sales returns	704		676		28
Other current liabilities	9,657		14,426		(4,769)
Long-term liabilities:	40,219	6.3	39,043	6.1	1,176
Convertible bonds	19,324		19,324		—
Long-term debt	1,137		1,537		(399)
Deferred income taxes – land revaluation	252		259		(7)
Employees’ retirement benefits	16,420		14,617		1,803
Officers’ retirement benefits	1,827		1,860		(32)
Allowance for losses on debt guarantees	292		300		(8)
Other long-term liabilities	965		1,144		(179)
<b>MINORITY INTERESTS</b>	4,427	0.7	4,773	0.7	(346)
Minority interests	4,427	0.7	4,773	0.7	(346)
<b>SHAREHOLDERS’ EQUITY</b>	112,261	17.6	110,650	17.2	1,611
Common stock	12,751	2.0	11,152	1.7	1,598
Capital surplus	25,919	4.1	24,321	3.8	1,598
Retained earnings	87,874	13.7	84,536	13.1	3,338
Revaluation surplus	(12,259)	(1.9)	(11,768)	(1.8)	(490)
Unrealized gain on certain investment securities	2,602	0.4	3,603	0.6	(1,001)
Treasury stock, at cost	(4,626)	(0.7)	(1,195)	(0.2)	(3,431)
<b>Total liabilities, minority interests and shareholders’ equity</b>	<b>638,589</b>	<b>100.0</b>	<b>644,247</b>	<b>100.0</b>	<b>(5,658)</b>

## 4-2. Consolidated Statements of Income

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

	Year ended March 31, 2003		Year ended March 31, 2002		Year-on-Year Change
Net sales	1,274,502	100.0%	1,222,221	100.0%	52,281
Cost of sales	1,159,550	91.0	1,115,658	91.3	43,892
Provision for losses on sales returns	28	0.0	(80)	(0.0)	109
Gross profit	114,923	9.0	106,643	8.7	8,279
Selling, general and administrative expenses	104,763	8.2	100,862	8.2	3,900
Operating income	10,159	0.8	5,780	0.5	4,379
Non-operating income:	4,830	0.4	4,964	0.4	(133)
Interest income	115		150		(35)
Dividend income	145		124		20
Research fee income	2,886		2,808		78
Real estate rental income	1,024		1,042		(18)
Other non-operating income	659		837		(178)
Non-operating expenses:	1,346	0.1	1,615	0.2	(268)
Interest expense	388		524		(136)
Real estate rental expenses	708		743		(34)
Other non-operating expenses	249		347		(97)
Ordinary income	13,644	1.1	9,130	0.7	4,514
Extraordinary gains:	103	0.0	1,130	0.1	(1,026)
Gain on sales of fixed assets	28		447		(419)
Gain on sales of investment securities	33		0		33
Gain on disposal of golf memberships	30		—		30
Reversal of allowance for doubtful accounts	—		656		(656)
Reversal of allowance for losses on debt guarantees	8		22		(14)
Other extraordinary gains	2		2		0
Extraordinary losses:	2,547	0.2	3,675	0.3	(1,128)
Loss on sale and disposal of fixed assets	890		234		655
Loss on sale of investment securities	7		0		7
Loss on valuation of investment securities	312		745		(432)
Loss on disposal of golf memberships	80		—		80
Loss on valuation of golf memberships	132		184		(52)
Loss on reorganization of affiliates	—		43		(43)
Special retirement benefits	1,079		2,435		(1,356)
Sales office consolidation expenses	44		—		44
Other extraordinary losses	—		31		(31)
Income before income taxes and minority interests	11,200	0.9	6,584	0.5	4,615
Current income taxes	7,803	0.6	5,049	0.4	2,754
Deferred income taxes	(2,131)	(0.1)	(1,551)	(0.1)	(580)
Gain in minority interests	512	0.0	135	0.0	376
Loss in minority interests	—	—	—	—	—
Net income	5,015	0.4	2,950	0.2	2,065

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

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

	Year ended March 31, 2003	Year ended March 31, 2002	Year-on-Year Change
<b>CAPITAL SURPLUS</b>			
Capital surplus, beginning of year	24,321	24,321	—
Increase in capital surplus	1,598	—	1,598
Increase due to conversation of convertible bonds	1,598	—	1,598
Capital surplus, end of year	25,919	24,321	1,598
<b>RETAINED EARNINGS</b>			
Retained earnings, beginning of year	84,536	83,241	1,295
Increase in retained earnings	5,203	2,950	2,252
Net income	5,015	2,950	2,065
Increase due to merger	57	—	57
Increase due to exclusion from consolidation	22	—	22
Disposition of land revaluation surplus	107	—	107
Decrease in retained earnings	1,865	1,655	209
Cash dividends paid	1,610	1,640	(30)
Bonuses to directors and corporate auditors	16	14	2
[Bonuses to corporate auditors]	[0]	[0]	[0]
Unrealized loss on disposal of treasury stock	238	—	238
Retained earnings, end of year	87,874	84,536	3,338

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

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

	Year ended March 31, 2003	Year ended March 31, 2002	Year-on-Year Change
Cash flows from operating activities			
Income before income taxes and other adjustments	11,200	6,584	4,615
Depreciation and amortization	5,203	4,865	338
Amortization of consolidation difference	732	748	(15)
Increase (decrease) in employees' retirement benefits – net	1,811	(1,277)	3,088
Increase (decrease) in officers' retirement benefits	(27)	70	(98)
Decrease in accrued employees' bonuses	818	(303)	1,121
Increase (decrease) in allowance for doubtful accounts	373	(1,196)	1,570
Increase (decrease) in allowance for returns	28	(80)	109
Provision for allowance for losses on debt guarantees	(8)	(22)	14
Interest and dividend income	(260)	(275)	14
Interest expenses	388	524	(136)
Gain (loss) on foreign currency translation	(2)	(0)	(2)
Gain (loss) on disposal of fixed assets	862	(212)	1,074
Gain (loss) on sale and devaluation of securities – net	286	745	(459)
Loss on devaluation of golf memberships	—	184	(184)
Loss on golf memberships	182	—	182
Loss on restructuring of affiliated companies	—	43	(43)
Special retirement benefits	1,079	2,435	(1,356)
Decrease (increase) in trade receivables	(2,871)	3,004	(5,875)
Decrease (increase) in inventories	(2,314)	1,008	(3,323)
Decrease (increase) in other current assets	1,487	(2,560)	4,048
Increase (decrease) in notes and accounts payable	1,495	(409)	1,905
Increase in accrued consumption taxes	225	502	(277)
Increase (decrease) in other current liabilities	(1,772)	1,539	(3,311)
Payment of officers' bonuses	(21)	(19)	(2)
Subtotal	18,896	15,897	2,999
Interest and dividends received	261	308	(47)
Cash paid for interest	(386)	(521)	134
Special retirement benefits paid	(1,079)	(2,435)	1,356
Cash paid for income taxes	(6,182)	(706)	(5,476)
Net cash provided by operating activities	11,509	12,542	1,033
Cash flows from investing activities			
Payments for time deposits	(1,658)	(6,280)	4,622
Maturity of time deposits	1,990	7,317	(5,326)
Payments for purchase of marketable securities	(2)	(7)	4
Proceeds from sale of marketable securities	39	13	25
Payments for purchase of property, plant and equipment	(6,205)	(5,663)	(542)
Proceeds from sale of property, plant and equipment	1,251	539	711
Payments for purchase of investment securities	(452)	(639)	187
Proceeds from sale of investment securities	169	10	158
Proceeds from additional purchase of stock of consolidated subsidiaries	(229)	—	(229)
Payments for issuance of loans	(257)	(301)	43
Proceeds from recovery of loans	246	544	(297)
Other, net	(1,429)	(545)	(884)
Net cash used in investing activities	(6,540)	(5,012)	(1,527)

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

Cash flows from financing activities			
Increase (decrease) in short-term bank loans – net	(3,641)	609	(4,250)
Proceeds from long-term debt	800	1,811	(1,011)
Repayment of long-term debt	(1,405)	(3,624)	2,218
Repayment of bonds	—	(300)	300
Repayment of convertible bonds	(4)	—	(4)
Proceeds from issuance of stock	4	—	4
Purchase of treasury stock	(4,250)	(1,196)	(3,053)
Proceeds from sale of treasury stock	—	1	(1)
Cash dividends paid	(1,610)	(1,640)	30
Cash dividends paid to minority shareholders	(15)	(15)	—
Net cash used in financing activities	(10,123)	(4,355)	(5,767)
Effect of exchange rate change on cash and cash equivalents	2	0	2
Net increase (decrease) in cash and cash equivalents	(5,151)	3,175	(8,326)
Cash and cash equivalents at beginning of year	73,933	70,758	3,175
Increase in cash and equivalents due to merger	13	—	13
Cash and cash equivalents of newly consolidated subsidiaries at beginning of year	(420)	—	(420)
Cash and cash equivalents at end of year	68,375	73,933	(5,558)

## 4-5. Preparation of the 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 as of the fiscal year ended March 31, 2003.

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.

#### (2) Unconsolidated Subsidiaries

Significant unconsolidated subsidiaries:

HONGOHO 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 (HONGOHO 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 consolidated financial statements, and the importance of these companies in the aggregate is not significant.

### 3. Accounting Periods of Consolidated Subsidiaries

The 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 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 consolidated reserve is set aside in the estimated amount required to be paid for the 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 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 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 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 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 bonuses

An allowance is provided to cover officers' retirement bonuses based on the amount required to be paid at the end of the 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. 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 Consolidation Difference

Consolidation difference is amortized on a straight-line basis over five years, except for insignificant amounts, which are fully amortized in the fiscal year in which they arise.

7. Appropriation of Profits, etc.

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

8. Scope of Funds in the Consolidated Statements of Cash Flows

Funds (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.

**Changes in Accounting Methods**

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

Effective from the consolidated fiscal year ended March 31, 2003, the Company is applying "Accounting Standards for Treasury Stock Reversal of Legal Reserve, etc." (Business Accounting Standards, No. 1). The effect of this change on profit and loss for the consolidated fiscal year is immaterial.

Due to the revision of rules for consolidated financial statements, in the consolidated fiscal year ended March 31, 2003, the shareholders' equity section of the consolidated balance sheets and the consolidated statement of retained earnings are prepared in accordance with the revised rules for consolidated financial statements. Figures for the previous fiscal year have been restated to conform to the revised classifications.

(Per share data)

Effective from the consolidated fiscal year ended March 31, 2003, the Company in applying the “Accounting Standards for Net Income per Share” (Business Accounting Standards, No. 2) and “Application Guidelines for Accounting Standards for Net Income per Share (Business Accounting Standards Application Guidelines, No. 4) in the calculation of net assets per share, net income per share, and diluted net income per share.

**Change in the Method of Presentation**

(Consolidated Statements of Cash Flows)

The item stated as “Loss on devaluation of golf memberships” in the Consolidated Statements of Cash Flows in the consolidated fiscal year ended March 31, 2002 is included in “Loss on golf memberships” from the consolidated fiscal year ended March 31, 2003.

**Notes to Consolidated Balance Sheets**

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

As of March 31, 2003		As of March 31, 2002	
1 Accumulated depreciation of property, plant and equipment		1. Accumulated depreciation of property, plant and equipment	
Buildings and structures	37,643	Buildings and structures	35,503
Other	9,393	Other	8,252
Total	47,036	Total	43,756
2. Items pertaining to unconsolidated subsidiaries and affiliates		2. Items pertaining to unconsolidated subsidiaries and affiliates	
Investment securities (stock)	1,067	Investment securities (stock)	823
3. Pledged assets		3. Pledged assets	
Time deposits	255	Time deposits	330
Buildings	3,086	Notes and accounts receivable	943
Land	6,458	Buildings	3,647
Investment securities	825	Land	8,163
Total	10,625	Investment securities	1,447
Total	10,625	Total	14,532
Liabilities corresponding to above pledged assets:		Liabilities corresponding to above pledged assets:	
Accounts payable	36,564	Accounts payable	38,742
Short-term loans	4,619	Short-term loans	5,173
Current portion of long-term debt	551	Current portion of long-term debt	713
Long-term loans	525	Long-term loans	844
Total	42,261	Total	45,474
4. Contingent liabilities		4. Contingent liabilities	
Guarantees are provided for loans from banks, etc., of unconsolidated subsidiaries, affiliated companies and others, as follows:		Guarantees are provided for loans from banks, etc., of unconsolidated subsidiaries, affiliated companies and others, as follows:	
Chiba General Wholesalers		Love Drugs Co., Ltd.	165
Cooperative Association	450	Other	73
Chiba Tonyacho Area Town Redevelopment Association	195		
Love Drugs Co., Ltd.	125		
Other	64		
Total	835	Total	238
		5. Accounting for notes maturing at end of the fiscal year	
		Although the last day of the fiscal 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 period are as follows:	
		Notes receivable	8,297
		Notes payable	3,866

<p>6. Land Revaluation</p> <p>The Company and some of its consolidated subsidiaries carried out revaluations of land for business use in accordance with the “Land Revaluation Law” (Law No. 34, passed March 31, 1998). The net unrealized gain/loss is stated in shareholders’ equity as “Revaluation surplus” in the amount of the net unrealized gain or loss, less deferred tax assets related to revaluation and deferred tax liabilities related to revaluation.</p> <p>Revaluation method: Calculated according to the price recorded in the No. 10 Property Tax Ledger and No. 11 Supplementary Property Tax Ledger of Article 341 of the Regional Tax Law stipulated in Article 2, paragraph 3 of the “Executive Order on the Land Revaluation Law” (Directive No. 119 passed on March 31, 1998).</p> <p>Date of land revaluation: March 31, 2002</p> <p>Difference between market value of revalued land at end of period and book value after revaluation: ¥2,970 million</p>	<p>6. Land Revaluation</p> <p>The Company and some of its consolidated subsidiaries carried out revaluations of land for business use in accordance with the “Land Revaluation Law” (Law No. 34, passed March 31, 1998). The net unrealized gain/loss is stated in shareholders’ equity as “Revaluation surplus” in the amount of the net unrealized gain or loss, less deferred tax assets related to revaluation and deferred tax liabilities related to revaluation.</p> <p>Revaluation method: Calculated according to the price recorded in the No. 10 Property Tax Ledger and No. 11 Supplementary Property Tax Ledger of Article 341 of the Regional Tax Law stipulated in Article 2, paragraph 3 of the “Executive Order on the Land Revaluation Law” (Directive No. 119 passed on March 31, 1998).</p> <p>Date of land revaluation: March 31, 2002</p> <p>Book value before revaluation: ¥64,717 million</p> <p>Book value after revaluation: ¥44,497 million</p>																
<p>7. The Company and its consolidated subsidiaries have overdraft contracts with 21 banks for the efficient procurement of working assets. At the end of this consolidated accounting period, the unexercised balance of overdraft contracts was as follows:</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td></td> <td style="text-align: right;">(¥ million)</td> </tr> <tr> <td>Total amount of overdraft limit</td> <td style="text-align: right;">70,200</td> </tr> <tr> <td><u>Unexercised balance</u></td> <td style="text-align: right;"><u>10,995</u></td> </tr> <tr> <td>Net balance</td> <td style="text-align: right;">59,205</td> </tr> </table>		(¥ million)	Total amount of overdraft limit	70,200	<u>Unexercised balance</u>	<u>10,995</u>	Net balance	59,205	<p>7. The Company and its consolidated subsidiaries have overdraft contracts with 24 banks for the efficient procurement of working assets. At the end of this consolidated accounting period, the unexercised balance of overdraft contracts was as follows:</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td></td> <td style="text-align: right;">(¥ million)</td> </tr> <tr> <td>Total amount of overdraft limit</td> <td style="text-align: right;">62,300</td> </tr> <tr> <td><u>Unexercised balance</u></td> <td style="text-align: right;"><u>13,100</u></td> </tr> <tr> <td>Net balance</td> <td style="text-align: right;">49,200</td> </tr> </table>		(¥ million)	Total amount of overdraft limit	62,300	<u>Unexercised balance</u>	<u>13,100</u>	Net balance	49,200
	(¥ million)																
Total amount of overdraft limit	70,200																
<u>Unexercised balance</u>	<u>10,995</u>																
Net balance	59,205																
	(¥ million)																
Total amount of overdraft limit	62,300																
<u>Unexercised balance</u>	<u>13,100</u>																
Net balance	49,200																
<p>8. The total number of shares issued and outstanding is 142,424,946 shares of common stock.</p>	<p style="text-align: center;">_____</p>																
<p>9. The number of treasury shares held by consolidated companies is 7,049,820 shares of common stock.</p>	<p style="text-align: center;">_____</p>																

**Notes to Consolidated Statements of Income**

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

Year ended March 31, 2003		Year ended March 31, 2002	
1. Major items and amounts in selling, general and administrative expenses:		1. Major items and amounts in selling, general and administrative expenses:	
Wages and salaries	46,538	Wages and salaries	47,493
Welfare expenses	8,250	Welfare expenses	7,563
Provision for bonuses	7,007	Provision for bonuses	6,258
Provision for employees' retirement benefits	5,036	Provision for employees' retirement benefits	4,071
Provision for officers' retirement bonuses	251	Provision for officers' retirement bonuses	274
Shipping and delivery expenses	4,843	Shipping and delivery expenses	4,451
Rental expenses	3,349	Rental expenses	3,673
Depreciation and amortization	4,641	Depreciation and amortization	4,251
Provision for doubtful accounts	1,138	Amortization of consolidation difference	748
Amortization of consolidation difference	732		
2. Components of gain on sales of fixed assets:		2. Components of gain on sales of fixed assets:	
Land	27	Land	446
Other	0	Other	1
Total	28	Total	447
3. Components of loss on sale and disposal of fixed assets:		3. Components of loss on sale and disposal of fixed assets:	
(Loss on disposal of fixed assets)		(Loss on disposal of fixed assets)	
Buildings and structures	123	Buildings and structures	191
Construction in progress	212	Other	38
Other	48		
Total	384	Total	229
(Loss on sale of fixed assets)		(Loss on sale of fixed assets)	
Buildings and structures	111	Buildings and structures	0
Land	326	Other	4
Other	68		
Total	505	Total	4

**Notes to Consolidated Statements of Cash Flows**

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

Year ended March 31, 2003		Year ended March 31, 2002	
1. Relationship between ending balance of cash and cash equivalents and amounts reported in the consolidated balance sheets (As of March 31, 2003)		1. Relationship between ending balance of cash and cash equivalents and amounts reported in the consolidated balance sheets (As of March 31, 2002)	
Cash and deposits	70,153	Cash and deposits	76,053
Time deposits with maturities exceeding three months	(1,777)	Time deposits with maturities exceeding three months	(2,119)
Cash and cash equivalents	68,375	Cash and cash equivalents	73,933
2. Significant non-capital transactions Relationship between increases in capital and capital reserve and decrease in convertible bonds due to conversion of convertible bonds during the period			
Increase in capital due to conversion of convertible bonds	1,598		
Increase in capital reserve due to conversion of convertible bonds	1,598		
Decrease in convertible bonds due to conversion	3,197		

**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 years ended March 31, 2003 and March 31, 2002.

## 2. Geographical Segment Information

Geographical segment information is not disclosed, as the Company has no consolidated subsidiaries or significant branch offices outside Japan for the years ended March 31, 2003 and March 31, 2002.

## 3. Overseas Sales

The Company had no overseas sales for the years ended March 31, 2003 or March 31, 2002.

**6. Lease Transactions**

This information is omitted because the Company carries out electronic disclosure procedures pursuant to Article 27-30-6 of the Securities Exchange Law.

## 7. Transactions with Related Parties

(April 1, 2002-March 31, 2003)

(1) The Company and Major Corporate Shareholders (Millions of yen, rounded down to the nearest million)

Classification	Major corporate shareholder	
Company name	Takeda Chemical Industries, Ltd.	
Address	Chuo-ku, Osaka	
Capital (million)	¥63,540	
Principal business	Manufacture and sale of pharmaceuticals, etc.	
Percentage of voting shares owned	13.93% (direct)	
Relationship	Directors holding concurrent posts: None	Business relationship: Kuraya Sanseido purchases Takeda products
Transactions	Business transactions: Purchase of pharmaceuticals, etc.	Non-business transactions: Research fee income
Transactions amounts (million)	¥188,422	¥505
Line item	Accrued income	Notes and accounts payable
Balance at end of period (million)	¥6,859	¥46,603

Note: Consumption tax is not included in transaction amounts, but is included in the balance at the period.

Transaction Terms and Policy for Setting Transaction Terms:

For sale and purchase of pharmaceuticals, etc. and research fee income, prices and other transaction terms are the same as for ordinary transactions with other parties that have no relationship with the Company. The balance of accrued income is principally purchase rebates. The transaction amount for purchase of pharmaceuticals, etc., is the amount after deduction of rebates.

(2) Directors and Individual Major Shareholders

None applicable

(3) Subsidiaries, etc.

None applicable

(4) Sister companies, etc.

None applicable

## 8. Deferred Tax Accounting

(As of March 31, 2003)

1. Breakdown of major factors giving rise to deferred tax assets and liabilities:

Deferred tax assets	
Allowance for doubtful accounts	¥2,651 million
Enterprise taxes payable	¥658 million
Reserve for bonuses	¥2,541 million
Employees' retirement benefits	¥5,491 million
Officers' retirement bonuses	¥748 million
Other	¥3,692 million
Total deferred tax assets	<u>¥15,784 million</u>
Deferred tax liabilities	
Reserve for asset compression	(¥1,127) million
Unrealized gain on certain investment securities	(¥2,151) million
Other	(¥699) million
Total deferred tax liabilities	<u>(¥3,979) million</u>
Net deferred tax assets (liabilities)	<u>¥11,804 million</u>

Note: The net amount of deferred tax assets is included in the following items on the consolidated balance sheets:

Current assets	—	Deferred income taxes	¥4,126 million
Fixed assets	—	Deferred income taxes	¥7,678 million

2. The effective income tax rate of the Company differed from the statutory tax rate for the following reasons:

Statutory tax rate	42.1%
(Adjustments)	
Expenses not deductible for tax purposes	3.5%
Average rate of inhabitant's tax	1.7%
Corrective decrease in deferred assets at end of period due to change in tax rates	2.2%
Other	1.1%
Effective tax rate	50.6%

3. With the promulgation of the Law Revising Part of the Local Tax Law, etc., (Law No. 9 of 2003) on March 31, 2003, the statutory tax rate used in calculating deferred tax assets and deferred tax liabilities in this fiscal year (provided that these assets and liabilities are expected to be eliminated on or after April 1, 2004) was changed from 42.1 percent to 40.9 percent. As a result, the amount of deferred tax assets (the amount after deducting deferred tax liabilities) decreased ¥184 million yen, income tax adjustments recorded in this fiscal year increased ¥246 million, and unrealized gain on securities increased ¥61 million.

## 9. Marketable Securities

(As of March 31, 2003)

### 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	2,700	8,154	5,453
(2) Bonds			
National and local government bonds, etc.	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
(3) Other	—	—	—
Sub-total	2,700	8,154	5,453
Securities with balance sheet amounts that do not exceed acquisition cost:			
(1) Stocks	1,518	1,324	(194)
(2) Bonds			
National and local government bonds, etc.	—	—	—
Corporate bonds	5	5	—
Other	—	—	—
(3) Other	—	—	—
Sub-total	1,523	1,329	(194)
Total	4,223	9,483	5,259

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 ¥311 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. Other marketable securities sold during fiscal 2003 (April 1, 2002-March 31, 2003)

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

Amount sold	Total profit on sales	Total loss on sales
208	34	7

### 3. Description and balance sheet amounts of securities without market values

#### Other marketable securities

Unlisted domestic stocks (excluding stocks traded over-the-counter):	¥1,105 million
Unlisted domestic government bonds:	¥2 million
Unlisted foreign stocks:	¥300 million
Other:	¥0 million

### 4. Projected future redemption of securities with maturities and held-to-maturity bonds included in other marketable securities

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

	Within one year	1-5 years	5-10 years	More than 10 years
(1) Bonds				
National and local government bonds, etc.	—	—	—	—
Corporate bonds	—	5	—	—
Other	3	0	—	—
(2) Other	—	—	—	—
Total	3	5	—	—

(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	3,144	10,686	7,541
(2) Bonds			
National and local government bonds, etc.	—	—	—
Corporate bonds	6	7	0
Other	0	0	0
(3) Other	—	—	—
Sub-total	3,151	10,693	7,542
Securities with balance sheet amounts that do not exceed acquisition cost:			
(1) Stocks	1,298	1,207	(90)
(2) Bonds			
National and local government bonds, etc.	—	—	—
Corporate bonds	33	29	(3)
Other	—	—	—
(3) Other	—	—	—
Sub-total	1,331	1,237	(94)
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. Other marketable securities sold during fiscal 2002 (April 1, 2001-March 31, 2002)

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

Amount sold	Total profit on sales	Total loss on sales
24	0	0

3. 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 government bonds: ¥ 7 million

Unlisted foreign stocks: ¥300 million

4. Projected future redemption of securities with maturities and held-to-maturity bonds included in other marketable securities

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

	Within one year	1-5 years	5-10 years	More than 10 years
(1) Bonds				
National and local government bonds, etc.	—	—	—	—
Corporate bonds	32	5	—	—
Other	7	0	—	—
(2) Other	—	—	—	—
Total	39	5	—	—

## 10. Derivative Transactions

This information is omitted because the Company carries out electronic disclosure procedures pursuant to Article 27-30-6 of the Securities Exchange Law.

## 11. Retirement Benefits

### 1. Description of retirement benefit system used

The Company and its consolidated subsidiaries have a defined benefit plan comprising a qualified pension plan, a contributory pension plan and a lump-sum retirement payment. The Company may, in some cases, pay additional retirement benefits to employees upon their retirement.

### 2. Retirement benefit obligation

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

	As of March 31, 2003	As of March 31, 2002
(1) Projected benefit obligation	(35,899)	(36,233)
(2) Plan assets at fair value	17,107	20,187
(3) Funded status ((1) + (2))	(18,792)	(16,045)
(4) Unaccounted for difference arising from change in accounting standards	—	—
(5) Unrecognized net (gain) or loss	2,372	1,428
(6) Unrecognized past service cost	—	—
(7) Net amount stated on consolidated balance sheet ((3) + (4) + (5) + (6))	(16,420)	(14,617)
(8) Prepaid pension expenses	—	—
(9) Reserve for retirement benefits ((7) - (8))	(16,420)	(14,617)

As of March 31, 2003

As of March 31, 2002

Note: Some subsidiaries use the simplified method in calculating the retirement benefit obligation.

Note: Some subsidiaries use the simplified method in calculating the retirement benefit obligation.

### 3. Retirement benefit expenses

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

	Year ended March 31, 2003	Year ended March 31, 2002
(1) Service cost	2,693	2,662
(2) Interest cost	1,065	1,139
(3) Expected return on plan assets	(597)	(661)
(4) Difference arising from accounting change charged to income	—	—
(5) Actuarial differences charged to income	1,886	940
(6) Past service cost charged to income	—	—
(7) Retirement benefit expenses ((1) + (2) + (3) + (4) + (5) + (6))	5,047	4,081

As of March 31, 2003

As of March 31, 2002

Notes:

- Besides the retirement benefit expenses above, the Company paid special retirement benefits of ¥1,079 million, which were recorded as an extraordinary loss.
- Retirement benefit expenses of consolidated subsidiaries using the simplified method are recorded in (1) Service cost.

Notes:

- Besides the retirement benefit expenses above, the Company paid special retirement benefits of ¥2,435 million, which were recorded as an extraordinary loss.
- Retirement benefit expenses of consolidated subsidiaries using the simplified method are recorded in (1) Service cost.

4. Basis for calculation of retirement benefit obligation, etc.

	<u>As of March 31, 2003</u>	<u>As of March 31, 2002</u>
(1) Periodic allocation method for projected benefits:	Mainly point basis	Mainly point basis
(2) Discount rate:	3.0%	3.0%
(3) Expected rate of return:	3.0%	3.0%
(4) Years over which past service cost is amortized:	Not applicable	Not applicable
(5) Years over which unrecognized net (gains) or losses are amortized (see note):	3 years	3 years
(6) Years over which difference arising from change in accounting standards is amortized:	1 year	1 year
Note: Expensed from the following period using the straight-line method over a fixed number of years within the average remaining service time when obligations arise		

5. Corporate pension assets of multiemployer pension plan

The Company and some of its consolidated subsidiaries use a qualified pension plan, and the amount of pension assets corresponding to the Company's contribution to this plan cannot reasonably be calculated.

	<u>As of March 31, 2003</u>	<u>As of March 31, 2002</u>
Pension plan assets based on the proportion of contributions	32,559	33,960

## 12. Premise of Going Concern

None applicable

### 13. Production, Orders and Sales

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

	Year ended March 31, 2003		Year ended March 31, 2002	
Ethical drugs	1,110,137	87.1%	1,069,480	87.5%
Over-the-counter drugs	53,379	4.2	52,059	4.3
Medical equipment, tools and clinical materials	59,856	4.7	51,622	4.2
Reagents	27,973	2.2	24,853	2.0
Others	23,156	1.8	24,205	2.0
Total	1,274,502	100.0	1,222,221	100.0

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

	Year ended March 31, 2003		Year ended March 31, 2002	
Ethical drugs	1,020,074	87.9%	977,734	87.8%
Over-the-counter drugs	47,362	4.1	45,822	4.1
Medical equipment, tools and clinical materials	52,297	4.5	46,208	4.2
Reagents	21,552	1.8	22,653	2.0
Others	19,542	1.7	21,325	1.9
Total	1,160,828	100.0	1,113,744	100.0

## 14. Subsequent Events

(Share Exchange Agreement with IZUTSU PHARMACEUTICAL CO., LTD.)

On May 13, 2003, the Company's Board of Directors resolved to make consolidated subsidiary IZUTSU PHARMACEUTICAL CO., LTD. ("IZUTSU PHARMACEUTICAL") a wholly owned subsidiary of the Company in order to further promote business strategies that take advantage of the aggregate strength of the Kuraya Sanseido Group. On the same day, the Company concluded a share exchange agreement with this subsidiary.

### 1) Method and Details of Share Exchange

On September 1, 2003, the Company will make a share exchange with the shareholders of IZUTSU PHARMACEUTICAL by a simple exchange of shares, pursuant to Article 358-1 of the Commercial Code. The Company will become the wholly owning parent company of IZUTSU PHARMACEUTICAL, and IZUTSU PHARMACEUTICAL will become a wholly owned subsidiary of the Company.

#### (1) Share Exchange Ratio

	Kuraya Sanseido Inc. (wholly owning parent company)	IZUTSU PHARMACEUTICAL CO., LTD. (wholly owned subsidiary)
Share exchange ratio	1	1.368

Notes:

##### 1. Share allocation ratio

Kuraya Sanseido will allocate 1.368 shares of its stock for each share of IZUTSU PHARMACEUTICAL stock. However, no shares of Kuraya Sanseido stock shall be allocated for the 1,132,000 shares of IZUTSU PHARMACEUTICAL stock held by Kuraya Sanseido.

##### 2. Basis for calculation of share exchange ratio

Kuraya Sanseido and IZUTSU PHARMACEUTICAL decided on the share exchange ratio above after careful consideration based on the method and results of the share exchange ratio calculation done by Nikko Cordial Securities Inc., a third party institution.

#### (2) Shares to be Allocated upon the Share Exchange

Kuraya Sanseido will substitute its treasury stock for the issuance of new shares for all of the 1,488,384 shares to be allocated for the share exchange.

#### (3) Increase in Capital and Capital Reserve

Capital: No increase

Please note that during the period from May 14 to August 31, 2003, Kuraya Sanseido's capital will increase as a result of conversion requests for the second tranche of the Company's first issue of unsecured convertible bonds.

Capital reserve: The amount of the increase in Kuraya Sanseido's capital reserve will be the amount of existing net assets of IZUTSU PHARMACEUTICAL on the share exchange date multiplied by the ratio of the number of shares of IZUTSU PHARMACEUTICAL transferred to Kuraya Sanseido by the share exchange to IZUTSU PHARMACEUTICAL's total number of outstanding shares.

#### (4) Cash Distribution upon Share Exchange

None

### 2) Schedule of the Share Exchange

May 13, 2003: Approval of the share exchange agreement by the Board of Directors  
May 13, 2003: Signing of the share exchange agreement  
June 24, 2003: Approval of the share exchange agreement by the General Meeting of Shareholders of IZUTSU PHARMACEUTICAL (planned)  
September 1, 2003: Share exchange date (planned)

(Share Exchange Agreement with HEISEI YAKUHIN CO., LTD.)

On May 13, 2003, the Company's Board of Directors resolved to make consolidated subsidiary HEISEI YAKUHIN CO., LTD. ("HEISEI YAKUHIN") a wholly owned subsidiary of the Company in order to further promote business strategies that take advantage of the aggregate strength of the Kuraya Sanseido Group. On the same day, the Company concluded a share exchange agreement with this subsidiary.

1) Method and Details of Share Exchange

On September 1, 2003, the Company will make a share exchange with the shareholders of HEISEI YAKUHIN by a simple exchange of shares, pursuant to Article 358-1 of the Commercial Code. The Company will become the wholly owning parent company of HEISEI YAKUHIN, and HEISEI YAKUHIN will become a wholly owned subsidiary of the Company.

(1) Share Exchange Ratio

	Kuraya Sanseido, Inc. (wholly owning parent company)	HEISEI YAKUHIN CO., LTD. (wholly owned subsidiary)
Share exchange ratio	1	0.979

Notes:

1. Share allocation ratio

Kuraya Sanseido will allocate 0.979 shares of its stock for each share of HEISEI YAKUHIN stock. However, no shares of Kuraya Sanseido stock shall be allocated for the 1,968,900 shares of HEISEI YAKUHIN stock held by Kuraya Sanseido.

2. Basis for calculation of share exchange ratio

Kuraya Sanseido and HEISEI YAKUHIN decided on the share exchange ratio above after careful consideration based on the method and results of the share exchange ratio calculation done by Nikko Cordial Securities Inc., a third party institution.

(2) Shares to be Allocated upon the Share Exchange

Kuraya Sanseido will substitute its treasury stock for the issuance of new shares for all of the 1,852,170 shares to be allocated for the share exchange.

(3) Increase in Capital and Capital Reserve

Capital: No increase

Please note that during the period from May 14 to August 31, 2003, Kuraya Sanseido's capital will increase as a result of conversion requests for the second tranche of the Company's first issue of unsecured convertible bonds.

Capital reserve: The amount of the increase in Kuraya Sanseido's capital reserve will be the amount of existing net assets of HEISEI YAKUHIN on the share exchange date multiplied by the ratio of the number of shares of HEISEI YAKUHIN transferred to Kuraya Sanseido by the share exchange to HEISEI YAKUHIN's total number of outstanding shares.

(4) Cash Distribution upon Share Exchange

None

2) Schedule of the Share Exchange

May 13, 2003: Approval of the share exchange agreement by the Board of Directors

May 13, 2003: Signing of the share exchange agreement

June 27, 2003: Approval of the share exchange agreement by the General Meeting of Shareholders of HEISEI YAKUHIN (planned)

September 1, 2003: Share exchange date (planned)

(Solicitation of Applicants for Early Retirement)

Because the Company considers raising productivity essential for creating a foundation that can generate steady profits, it was resolved at a Board of Directors meeting held on May 13, 2003 to solicit applicants for voluntary early retirement.

- (1) Number of applicants  
120
- (2) Eligible persons  
To qualify, employees must be between 40 and 58 years of age as of September 30, 2003, with at least 10 consecutive years of service (including employees on loan).
- (3) Application period  
June 16, 2003 – June 27, 2003
- (4) Retirement date  
September 30, 2003
- (5) Other  
For employees retiring under this program, in addition to paying special additional retirement benefits, the Company will provide outplacement support, including job placement assistance and career consulting.
- (6) Estimated amount of retirement benefits  
The Company expects to pay an estimated ¥1.5 billion in special retirement benefits in connection with this plan.

# Summary of Unconsolidated Financial Statements for the Fiscal Year Ended March 31, 2003

May 13, 2003

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

http://www.kurayasanseido.co.jp

Representative: Sadatake Kumakura, President and CEO

Contact: Kikuo Miki, Senior Executive Officer and  
General Manager of Public Relations Division

Stock exchange listings: Tokyo, Osaka

Code number: 7459

Board of Directors meeting: May 13, 2003

Ordinary General Meeting

of Shareholders: June 26, 2003

Interim dividend system: Yes

Use of basic unit of stock: Yes

(1 tangen unit = 100 shares)

## 1. Results for Fiscal 2003 (April 1, 2002 - March 31, 2003)

### (1) Sales and Income

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
Fiscal 2003	1,200,543	7.5	8,286	40.0	11,572	27.7
Fiscal 2002	1,116,754	15.7	5,917	204.0	9,060	80.3

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)	Return on equity (%)	Ordinary income/total assets (%)	Ordinary income/net sales (%)
Fiscal 2003	4,957	38.4	36.24	31.29	4.4	1.9	1.0
Fiscal 2002	3,581	204.4	26.30	22.81	3.1	1.6	0.8

Notes:

1. Average number of shares outstanding: 133,336,952 shares (Fiscal 2002: 136,194,006 shares)

2. Changes in accounting methods: None

3. Year-on year change for net sales, operating income, ordinary income and net income is based on the previous fiscal year.

### (2) Dividends

	Annual dividends per share (¥)			Total dividends (annual) (¥ million)	Payout ratio (%)	Dividend rate for shareholders' equity (%)
		Interim	Year-end			
Fiscal 2003	12.00	6.00	6.00	1,616	33.1	1.4
Fiscal 2002	12.00	6.00	6.00	1,626	45.4	1.5

### (3) Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity/total assets (%)	Shareholders' equity per share (¥)
Fiscal 2003	601,443	112,405	18.7	829.40
Fiscal 2002	595,689	110,637	18.6	823.65

Notes:

1. Number of shares outstanding at end of period: 135,375,126 shares (Fiscal 2002: 134,325,518 shares)

2. Number of shares of treasury stock outstanding at end of period: 7,049,820 shares (Fiscal 2002: 2,380,351 shares)

## 2. Projected Results for Fiscal 2004 (April 1, 2003 - March 31, 2004)

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)	Annual dividends per share (¥)		
				Interim	Year-end	
Interim period	606,000	6,700	2,900	6.00	—	—
Fiscal 2004	1,216,000	12,700	5,000	—	6.00	12.00

Reference: Estimated earnings per share (fiscal 2004): ¥36.04

Notes:

1. The amounts above are rounded down to the nearest million yen.

2. Please refer to page 7 of the attached materials for items concerning the projected results. Estimated earnings per share are calculated after taking into account the subsequent events on pages 29-30.

## 16-1. Unconsolidated Balance Sheets

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

	As of		As of		Year-on-Year Change
	March 31, 2003		March 31, 2002		
<b>ASSETS</b>	601,443	100.0%	595,689	100.0%	5,753
Current assets:	476,786	79.3	472,644	79.3	4,141
Cash on hand and in bank	57,145		65,647		(8,501)
Trade notes receivable	27,310		32,809		(5,498)
Trade accounts receivable	317,218		295,601		21,616
Marketable securities	—		7		(7)
Merchandise	42,581		42,499		81
Prepaid expenses	982		781		201
Deferred income taxes	3,509		2,526		983
Accounts receivable	29,161		30,087		(925)
Other current assets	407		4,292		(3,884)
Allowance for doubtful accounts	(1,531)		(1,606)		75
Fixed assets	124,657	20.7	123,045	20.7	1,611
Tangible fixed assets:	79,449	13.2	83,370	14.0	(3,920)
Buildings	33,661		35,639		(1,978)
Structures	1,153		1,310		(156)
Machinery and equipment	3,299		3,814		(515)
Vehicles and carriers	46		43		2
Tools and fixtures	2,597		2,458		138
Land	38,648		39,847		(1,199)
Construction in progress	42		255		(212)
Intangible fixed assets:	5,373	0.9	3,064	0.5	2,309
Land leaseholds	157		157		—
Telephone subscription rights	243		321		(78)
Facilities usage rights	82		89		(7)
Software	1,705		1,634		70
Other	3,185		861		2,324
Investments and other assets:	39,834	6.6	36,610	6.2	3,223
Investment securities	8,507		9,981		(1,473)
Equity in subsidiaries and affiliates	9,273		8,462		811
Investments	213		292		(79)
Long-term loans	30		61		(30)
Long-term loans to employees	15		19		(4)
Long-term loans to subsidiaries and affiliates	3,858		244		3,614
Long-term accumulated credits	2,625		3,198		(572)
Long-term prepaid expenses	217		212		4
Deferred income taxes	2,805		1,232		1,572
Deferred income taxes - land revaluation	8,287		8,498		(210)
Other	6,820		7,792		(972)
Allowance for doubtful accounts	(2,820)		(3,385)		564
<b>Total assets</b>	<b>601,443</b>	<b>100.0</b>	<b>595,689</b>	<b>100.0</b>	<b>5,753</b>

## 16-1. Unconsolidated Balance Sheets

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

	As of		As of		Year-on-Year Change
	March 31, 2003		March 31, 2002		
<b>LIABILITIES</b>	489,038	81.3%	485,051	81.4%	3,986
Current liabilities:	456,784	75.9	454,464	76.3	2,320
Trade notes payable	15,478		14,332		1,146
Trade accounts payable	413,528		406,288		7,239
Current portion of convertible bonds	—		3,201		(3,201)
Accrued payables	12,993		17,695		(4,701)
Income taxes payable	4,035		3,695		339
Consumption taxes payable	1,903		1,573		329
Accrued expenses	1,944		1,259		685
Deposits	211		549		(337)
Advance payments received	45		69		(24)
Reserve for bonuses	6,010		5,214		795
Allowance for losses on sales returns	558		529		29
Other current liabilities	74		55		18
Long-term liabilities:	32,253	5.4	30,587	5.1	1,666
Convertible bonds	19,324		19,324		—
Guarantee deposits	10,647		8,914		1,732
Officers' retirement benefits	1,317		1,265		51
Other long-term liabilities	965		1,082		(117)
<b>SHAREHOLDERS' EQUITY</b>	112,405	18.7	110,637	18.6	1,767
Common stock	12,751	2.1	11,152	1.9	1,598
Capital surplus	25,919	4.3	24,321	4.1	1,598
Additional paid-in capital	25,919		24,321		1,598
Retained earnings	87,873	14.7	84,720	14.2	3,153
Legal reserve	1,795		1,795		—
Voluntary reserves	80,200		79,080		1,119
Reserve for asset compression	1,448		1,278		170
Reserve for special asset compression	—		50		(50)
General reserve	78,751		77,751		1,000
Unallocated profit for the period	5,877		3,844		2,033
Revaluation surplus	(11,974)	(2.0)	(11,687)	(2.0)	(287)
Unrealized gain on securities	2,462	0.4	3,326	0.6	(864)
Treasury stock	(4,626)	(0.8)	(1,195)	(0.2)	(3,431)
<b>Total liabilities and shareholders' equity</b>	<b>601,443</b>	<b>100.0</b>	<b>595,689</b>	<b>100.0</b>	<b>5,753</b>

## 16-2. Unconsolidated Statements of Income

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

	Year ended March 31, 2003		Year ended March 31, 2002		Year-on-year Change
Net sales	1,200,543	100.0%	1,116,754	100.0%	83,789
Cost of sales	1,110,177	92.5	1,033,108	92.5	77,068
Provision for sales returns	29	0.0	(89)	(0.0)	119
Gross profit	90,336	7.5	83,735	7.5	6,600
Selling, general and administrative expenses	82,050	6.8	77,817	7.0	4,232
Operating income	8,286	0.7	5,917	0.5	2,368
Non-operating income:	4,368	0.4	4,447	0.4	(79)
Interest income	96		129		(32)
Dividend income	127		125		1
Interest on marketable securities	0		0		—
Research fee income	2,260		2,183		76
Real estate rental income	1,045		1,034		10
Other non-operating income	838		974		(136)
Non-operating expenses:	1,082	0.1	1,305	0.1	(223)
Interest expense	41		70		(28)
Bond interest expense	179		199		(20)
Real estate rental expense	703		737		(34)
Carryover of allowance for doubtful accounts	12		—		12
Other non-operating expenses	145		298		(152)
Ordinary income	11,572	1.0	9,060	0.8	2,511
Extraordinary gains:	58	0.0	676	0.1	(618)
Gain on sale of fixed assets	28		326		(297)
Gain on sale of investment securities	30		—		30
Reversal of allowance for doubtful accounts	—		350		(350)
Extraordinary losses:	2,267	0.2	2,889	0.3	(622)
Loss on sale and disposal of fixed assets	781		214		566
Loss on valuation of investment securities	265		691		(425)
Loss on disposal of golf memberships	75		—		75
Loss on valuation of golf memberships	116		133		(16)
Loss on reorganization of affiliates	—		43		(43)
Special retirement benefits	1,028		1,806		(777)
Other extraordinary losses	—		1		(1)
Income before income taxes	9,363	0.8	6,847	0.6	2,516
Current income taxes	6,280	0.5	4,600	0.4	1,680
Deferred income taxes	(1,873)	(0.1)	(1,334)	(0.1)	(539)
Net income	4,957	0.4	3,581	0.3	1,375
Profit brought forward from the previous term	1,918		973		944
Disposition of land revaluation surplus	44		—		44
Unrealized loss on disposal of treasury stock	238		—		238
Interim dividends	804		820		(16)
Unappropriated profit from merger	—		108		(108)
Unappropriated retained earnings at the end of the term	5,877		3,844		2,033

**16-3. Unconsolidated Statements of Appropriation of Retained Earnings**

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

Item	Year ended March 31, 2003	Year ended March 31, 2002
Unappropriated retained earnings at the end of the year	5,877	3,844
Reversal of voluntary reserves		
Reversal of reserve for asset compression	38	30
Reversal of reserve for special asset compression	—	50
Total unappropriated retained earnings	5,916	3,925
We propose to appropriate the foregoing as follows:		
Dividends	812	805
Bonuses to members of the Board of Directors	120	—
Bonuses to corporate auditors	5	—
Voluntary reserves		
Reserve for asset compression	219	200
General reserve	2,700	1,000
Retained earnings carried forward to the next term	2,059	1,918

## 16-4. Significant Accounting Policies

### 1. Valuation of Securities

- (1) Stocks of subsidiaries and affiliates: Valued at cost using the moving-average method
- (2) Other marketable securities  
Securities quoted on stock exchanges: Valued at market based on market prices at the 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. Valuation of Inventories

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

### 3. 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.

### 4. 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 period.
- (3) 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.
- (4) Reserve for retirement benefits  
The Company provides for employees' retirement benefits 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 bonuses  
An allowance is provided to cover directors' retirement bonuses in the amount required to be paid at the end of the period based on the internal rules of the Company.

### 5. 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.

### 6. Other

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

### Changes in Accounting Methods

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

Effective from the fiscal year ended March 31, 2003, the Company is applying the "Accounting Standards for Treasury Stock Reversal of Legal Reserve, etc." (Business Accounting Standards, No. 1). The effect of this change on profit and loss for this fiscal year is immaterial.

Due to the revision of rules for financial statements, in the fiscal year ended March 31, 2003, the shareholders' equity section of the balance sheets is prepared in accordance with the revised rules for financial statements. Figures for the previous fiscal year have been restated to conform with the revised classifications.

(Per share data)

Effective from the fiscal year ended March 31, 2003, the Company is applying the “Accounting Standards for Net Income per Share” (Business Accounting Standards, No. 2) and “Application Guidelines for Accounting Standards for Net Income per Share (Business Accounting Standards Application Guidelines, No. 4) in the calculation of net assets per share, net income per share, and diluted net income per share.

## Notes to Unconsolidated Balance Sheets

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

As of March 31, 2003		As of March 31, 2002	
1. Accumulated depreciation of property, plant and equipment		1. Accumulated depreciation of property, plant and equipment	
Buildings	27,263	Buildings	25,473
Structures	2,688	Structures	2,582
Machinery and equipment	2,839	Machinery and equipment	2,169
Vehicles and carriers	96	Vehicles and carriers	100
Tools and fixtures	5,437	Tools and fixtures	4,867
Total	38,325	Total	35,193
2. Pledged assets		2. Pledged assets	
Time deposits	15	Time deposits	15
Buildings	694	Buildings	859
Land	1,546	Land	2,294
Investment securities	177	Investment securities	232
Total	2,434	Total	3,401
Liabilities corresponding to above pledged assets:		Liabilities corresponding to above pledged assets:	
Trade accounts payable	35,765	Trade accounts payable	36,410
3. Notes related to subsidiaries and affiliates		3. Notes related to subsidiaries and affiliates	
Trade accounts receivable	75,883	Trade accounts receivable	63,675
Trade accounts payable	6,692	Trade accounts payable	6,631
Accounts payable	9,064	Accounts payable	8,330
4. Number of shares authorized: 500,000,000 shares Number of shares outstanding: 142,424,946 shares		4. Number of shares authorized: 500,000,000 shares Number of shares outstanding: 136,705,869 shares	
5. Treasury stock Number of treasury shares held by the Company: 7,049,820 shares of common stock		_____	
6. Contingent liabilities		6. Contingent liabilities	
Guarantees are provided for bank loans, etc., for the following companies:		Guarantees are provided for bank loans, etc., for the following companies:	
SENSHU YAKUHIN CO., LTD.	4,900	SENSHU YAKUHIN CO., LTD.	4,500
USHIODA SANGOKUDO YAKUHIN CO., LTD.	333	KURAYA KASEI, INC.	394
KURAYA KASEI, INC.	305	KURAYA SHOJI, INC.	248
KURAYA SHOJI, INC.	216	ORIENTAL PHARMACEUTICAL CO., LTD.	206
ORIENTAL PHARMACEUTICAL CO., LTD.	192	Love Drugs Co., Ltd.	165
Love Drugs Co., Ltd.	125	Other	84
Other	0		
Total	6,073	Total	5,598
_____		7. Accounting notes maturing at end of fiscal year	
		Although the last day of the fiscal 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 period are as follows:	
		Notes receivable	7,287
		Notes payable	1,275

<p>8. Land Revaluation</p> <p>The Company carried out revaluations of land for business use in accordance with the “Land Revaluation Law” (Law No. 34, passed March 31, 1998). The net unrealized gain/loss is stated in shareholders’ equity as “Revaluation surplus” in the amount of the net unrealized gain or loss, less deferred tax assets related to revaluation and deferred tax liabilities related to revaluation.</p> <p>Revaluation method: Calculated according to the price recorded in the No. 10 Property Tax Ledger and No. 11 Supplementary Property Tax Ledger of Article 341 of the Regional Tax Law stipulated in Article 2, paragraph 3 of the “Executive Order on the Land Revaluation Law” (Directive No. 119 passed on March 31, 1998).</p> <p>Date of land revaluation: March 31, 2002</p> <p>Difference between market value of revalued land at end of period and book value after revaluation: ¥2,608 million</p>	<p>8. Land Revaluation</p> <p>The Company carried out revaluations of land for business use in accordance with the “Land Revaluation Law” (Law No. 34, passed March 31, 1998). The net unrealized gain/loss is stated in shareholders’ equity as “Revaluation surplus” in the amount of the net unrealized gain or loss, less deferred tax assets related to revaluation and deferred tax liabilities related to revaluation.</p> <p>Revaluation method: Calculated according to the price recorded in the No. 10 Property Tax Ledger and No. 11 Supplementary Property Tax Ledger of Article 341 of the Regional Tax Law stipulated in Article 2, paragraph 3 of the “Executive Order on the Land Revaluation Law” (Directive No. 119 passed on March 31, 1998).</p> <p>Date of land revaluation: March 31, 2002</p> <p>Book value before revaluation: ¥59,931 million</p> <p>Book value after revaluation: ¥39,746 million</p>																
<p>9. The Company has overdraft contracts with 6 banks for the efficient procurement of working assets. At the end of this consolidated accounting period, the unexercised balance of overdraft contracts was as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">(¥ million)</td> </tr> <tr> <td>Total amount of overdraft limit</td> <td style="text-align: right;">45,000</td> </tr> <tr> <td><u>Unexercised balance</u></td> <td style="text-align: right;"><u>—</u></td> </tr> <tr> <td>Net balance</td> <td style="text-align: right;">45,000</td> </tr> </table>		(¥ million)	Total amount of overdraft limit	45,000	<u>Unexercised balance</u>	<u>—</u>	Net balance	45,000	<p>9. The Company has overdraft contracts with 7 banks for the efficient procurement of working assets. At the end of this consolidated accounting period, the unexercised balance of overdraft contracts was as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">(¥ million)</td> </tr> <tr> <td>Total amount of overdraft limit</td> <td style="text-align: right;">38,500</td> </tr> <tr> <td><u>Unexercised balance</u></td> <td style="text-align: right;"><u>—</u></td> </tr> <tr> <td>Net balance</td> <td style="text-align: right;">38,500</td> </tr> </table>		(¥ million)	Total amount of overdraft limit	38,500	<u>Unexercised balance</u>	<u>—</u>	Net balance	38,500
	(¥ million)																
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	(¥ million)																
Total amount of overdraft limit	38,500																
<u>Unexercised balance</u>	<u>—</u>																
Net balance	38,500																
<p>10. Dividend restrictions</p> <p>Increase in net assets by applying market value to assets stipulated in Article 290-1-6 of the Commercial Code: ¥2,462 million</p>	<p style="text-align: center;">—————</p>																
<p>11. Breakdown of increase and decrease in total shares outstanding during the period</p> <p>(Increase)</p> <p>Conversion of 2nd tranche of 2nd convertible bonds: 5,719,077 shares</p> <p>Issue cost: ¥3,196 million</p> <p>Amount capitalized: ¥1,598 million</p> <p>Substitute treasury stock with share exchanges: 1,248,372 shares</p> <p>Total reissue cost: ¥819 million</p> <p>(Decrease)</p> <p>Treasury stock acquired: 5,917,841 shares</p> <p>Acquisition cost: ¥4,250 million</p>	<p>11. Breakdown of decrease in total shares outstanding during the period</p> <p>Treasury stock acquired: 2,380,200 shares</p> <p>Acquisition cost: ¥1,195 million</p>																

## Notes to Unconsolidated Statements of Income

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

Year ended March 31, 2003		Year ended March 31, 2002	
1. Major items and amounts in selling, general and administrative expenses:		1. Major items and amounts in selling, general and administrative expenses:	
Wages and salaries	35,918	Wages and salaries	35,874
Welfare expenses	6,402	Welfare expenses	5,736
Business consignment expenses	5,229	Business consignment expenses	4,493
Provision for bonuses	6,010	Provision for bonuses	5,214
Provision for employees' retirement benefits	4,274	Provision for employees' retirement benefits	3,269
Provision for officers' retirement bonuses	173	Provision for officers' retirement bonuses	174
Shipping and delivery expenses	4,014	Shipping and delivery expenses	3,578
Rental expenses	3,113	Rental expenses	3,037
Depreciation and amortization	4,070	Depreciation and amortization	3,583
Provision for doubtful accounts	107		
2. Components of gain on sale of fixed assets:		2. Components of gain on sale of fixed assets:	
Vehicles and carriers	0	Vehicles and carriers	0
Land	27	Land	325
Total	28	Total	326
3. Components of loss on sale and disposal of fixed assets:		3. Components of loss on sale and disposal of fixed assets:	
Loss on disposal of fixed assets:		Loss on disposal of fixed assets:	
Buildings	59	Buildings	173
Structures	8	Structures	4
Machinery and equipment	0	Machinery and equipment	17
Vehicles and carriers	0	Vehicles and carriers	0
Tools and fixtures	39	Tools and fixtures	16
Construction in progress	212		
Total	321	Total	212
Loss on sale of fixed assets:		Loss on sale of fixed assets:	
Buildings	111	Buildings	0
Vehicles and carriers	0	Tools and fixtures	1
Land	288		
Telephone subscription rights	60		
Total	460	Total	2
4. Non-operating income includes a total of ¥603 million in interest income, dividend income, real estate rental income, and other income from affiliated companies.		4. Non-operating income includes a total of ¥549 million in interest income, dividend income, real estate rental income, and other income from affiliated companies.	

## 17. Lease Transactions

This information is omitted because the Company carries out electronic disclosure procedures pursuant to Article 27-30-6 of the Securities Exchange Law.

## 18. Marketable Securities

(Stocks of subsidiaries and affiliates)

No stocks of subsidiaries and affiliates were valued at market in either the year ended March 31, 2003 or the year ended March 31, 2002.

## 19. Deferred Tax Accounting

(As of March 31, 2003)

### 1. Major factors giving rise to deferred tax assets and liabilities:

Deferred tax assets	
Allowance for doubtful accounts	¥1,366 million
Enterprise taxes payable	¥538 million
Reserve for bonuses	¥2,184 million
Employees' retirement benefits	¥3,567 million
Officers' retirement bonuses	¥538 million
Other	¥1,651 million
Total deferred tax assets	<u>¥9,846 million</u>
Deferred tax liabilities	
Reserve for asset compression	¥(1,127) million
Unrealized gain on certain investment securities	¥(1,703) million
Other	¥(699) million
Total deferred tax liabilities	<u>¥(3,531) million</u>
Net deferred tax assets (liabilities)	<u>¥6,315 million</u>

### 2. The effective income tax rate of the Company differed from the statutory tax rate for the following reasons:

Statutory tax rate	42.1%
(Adjustments)	
Expenses not deductible for tax purposes	3.0%
Average rate of inhabitant's tax	1.8%
Corrective decrease in deferred assets at end of period due to change in tax rates	1.4%
Other	(1.2%)
Effective tax rate	47.1%

3. With the promulgation of the Law Revising Part of the Local Tax Law, etc., (Law No. 9 of 2003) on March 31, 2003, the statutory tax rate used in calculating deferred tax assets and deferred tax liabilities in this fiscal year (provided that these assets and liabilities are expected to be eliminated on or after April 1, 2004) was changed from 42.1 percent to 40.9 percent. As a result, the amount of deferred tax assets (the amount after deducting deferred tax liabilities) decreased ¥82 million yen, income tax adjustments recorded in this fiscal year increased ¥132 million, and unrealized gain on securities increased ¥49 million.

## 20. Subsequent Events

(Partial Transfer of Business to and from USHIODA SANGOKUDO YAKUHIN CO., LTD.)

On April 1, 2003, the Company transferred its business related to wholesale of pharmaceuticals and other products in Ibaraki, Tochigi and Gunma prefectures to consolidated subsidiary USHIODA SANGOKUDO YAKUHIN CO., LTD. and took over that subsidiary's business related to wholesale of pharmaceuticals in Fukushima Prefecture. The purpose of these business transfers was to facilitate more efficient sales activities and clarification of roles.

(Share Exchange Agreement with IZUTSU PHARMACEUTICAL CO., LTD.)

On May 13, 2003, the Company's Board of Directors resolved to make consolidated subsidiary IZUTSU PHARMACEUTICAL CO., LTD. ("IZUTSU PHARMACEUTICAL") a wholly owned subsidiary of the Company in order to further promote business strategies that take advantage of the aggregate strength of the Kuraya Sanseido Group. On the same day, the Company concluded a share exchange agreement with this subsidiary.

(Share Exchange Agreement with HEISEI YAKUHIN CO., LTD.)

On May 13, 2003, the Company's Board of Directors voted to make consolidated subsidiary HEISEI YAKUHIN CO., LTD. ("HEISEI YAKUHIN") a wholly owned subsidiary of the Company in order to further promote business strategies that take advantage of the aggregate strength of the Kuraya Sanseido Group. On the same day, the Company concluded a share exchange agreement with this subsidiary.

(Solicitation of Applicants for Early Retirement)

Because the Company considers raising productivity essential for creating a foundation that can generate steady profits, it was resolved at a Board of Directors meeting held on May 13, 2003 to solicit applicants for voluntary early retirement.

## 21. Management Changes (as of June 26, 2003)

### (1) Changes in Representatives

None

### (2) Other Management Changes

- 1) Candidate for new appointment as director  
Board of Director                      Taro Shintani                      (currently Senior Executive Officer and General Manager, Distribution Division, Kuraya Sanseido Inc.)
- 2) Candidates for new appointment as auditors  
Statutory Auditor                      Hideki Noguchi                      (currently Board of Director and Manager of Management Planning Dept., Kuraya Sanseido Inc.)  
  
Statutory Auditor                      Yoshiharu Kataoka                      (currently Senior Executive Officer and General Manager, Administration Division and Finance Dept., Kuraya Sanseido Inc.)  
  
Statutory Auditor  
(Outside Auditor)                      Akihiko Tanaka                      (currently Senior Staff Member, Pharmaceutical Sales Div. and Business Center, Takeda Chemical Industries, Ltd.)  
  
Auditor (Outside Auditor)                      Yoko Sanuki                      (currently Attorney, NS Sogo Law Offices)  
Auditor (Outside Auditor)                      Yoshio Okamoto                      (currently Adviser, Sumitomo Trust and Banking Co., Ltd.)
- 3) Resigning director  
Board of Director                      Hideki Noguchi                      (currently Board of Director, and Manager of Management Planning Dept.)
- 4) Resigning auditors  
Statutory Auditor                      Tadashi Suzuki  
Statutory Auditor                      Toshio Hamamura  
Statutory Auditor                      Keihachiro Uramatsu  
Outside Auditor                      Sakae Tsuji  
Outside Auditor                      Kazuhisa Yanagihara
- 5) Promoted directors  
None

### (3) Changes in Corporate Executive Officers

- 1) Candidates for appointment as corporate executive officers  
None
- 2) Resigning corporate executive officers (as of June 30, 2003)  
Head Executive Officer                      Eiji Ishida                      (currently Audit Department)  
Head Executive Officer                      Kozo Kishi                      (currently Senior Executive Officer of Distribution Division)  
  
Head Executive Officer                      Yoshiharu Kataoka                      (currently Head Executive Officer of General Affairs and Finance Division)  
  
Head Executive Officer                      Hideyuki Aikei                      (currently Health Care Division Minami Kanto Regional Director)
- 3) Promotions of corporate executive officers  
None