

Consolidated Financial Statements for the Interim Period Ended September 30, 2003

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

November 13, 2003

Kuraya Sansendo Inc.

7-15, Yaesu 2-chome

Chuo-ku, Tokyo 104-8464, Japan

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

Representative: Sadatake Kumakura, President and CEO

Contact: Kikuo Miki, Senior Executive Officer and

General Manager of Public Relations Division

Phone: +81-3-3517-5171

Stock exchange listings:

Tokyo, Osaka

Code number:

7459

Board of Directors meeting:

November 13, 2003

Use of U.S. accounting standards: No

1. Results for the Interim Period Ended September 30, 2003 (April 1, 2003-September 30, 2003)

(1) Sales and Income

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

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
Interim period ended Sept. 30, 2003	632,178	0.8	6,536	16.5	8,507	15.5
Interim period ended Sept. 30, 2002	627,032	3.8	5,612	91.8	7,365	61.3
Year ended March 31, 2003	1,274,502	—	10,159	—	13,644	—

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)
Interim period ended Sept. 30, 2003	2,947	2.2	21.68	19.09
Interim period ended Sept. 30, 2002	2,882	254.6	21.71	18.46
Year ended March 31, 2003	5,015	—	36.48	31.50

Notes: 1. Equity in earnings of affiliates: Interim period ended Sept. 30, 2003: ¥— million;

Interim period ended Sept. 30, 2002: ¥— million; Year ended March 31, 2003: ¥— million

2. Average number of shares outstanding (consolidated): Interim period ended Sept. 30, 2003: 135,922,054 shares;

Interim period ended Sept. 30, 2002: 132,785,548 shares; Year ended March 31, 2003: 133,336,952 shares

3. Changes in accounting methods: None

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

(2) Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity /total assets (%)	Shareholders' equity per share (¥)
Interim period ended Sept. 30, 2003	624,777	118,980	19.0	857.74
Interim period ended Sept. 30, 2002	627,062	111,682	17.8	833.23
Year ended March 31, 2003	638,589	112,261	17.6	828.14

Note: Number of shares outstanding at end of period (consolidated): Interim period ended Sept. 30, 2003: 138,713,739 shares;

Interim period ended Sept. 30, 2002: 134,035,305 shares; Year ended March 31, 2003: 135,375,126 shares

(3) Cash Flows

	Cash flows from operating activities (¥ million)	Cash flows from investing activities (¥ million)	Cash flows from financing activities (¥ million)	Cash and cash equivalents at end of period (¥ million)
Interim period ended Sept. 30, 2003	(3,226)	(2,617)	(1,373)	61,156
Interim period ended Sept. 30, 2002	(12,993)	(4,684)	2,959	58,797
Year ended March 31, 2003	11,509	(6,540)	(10,123)	68,375

(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) None

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)
Year ending March 31, 2004	1,288,000	16,400	5,800

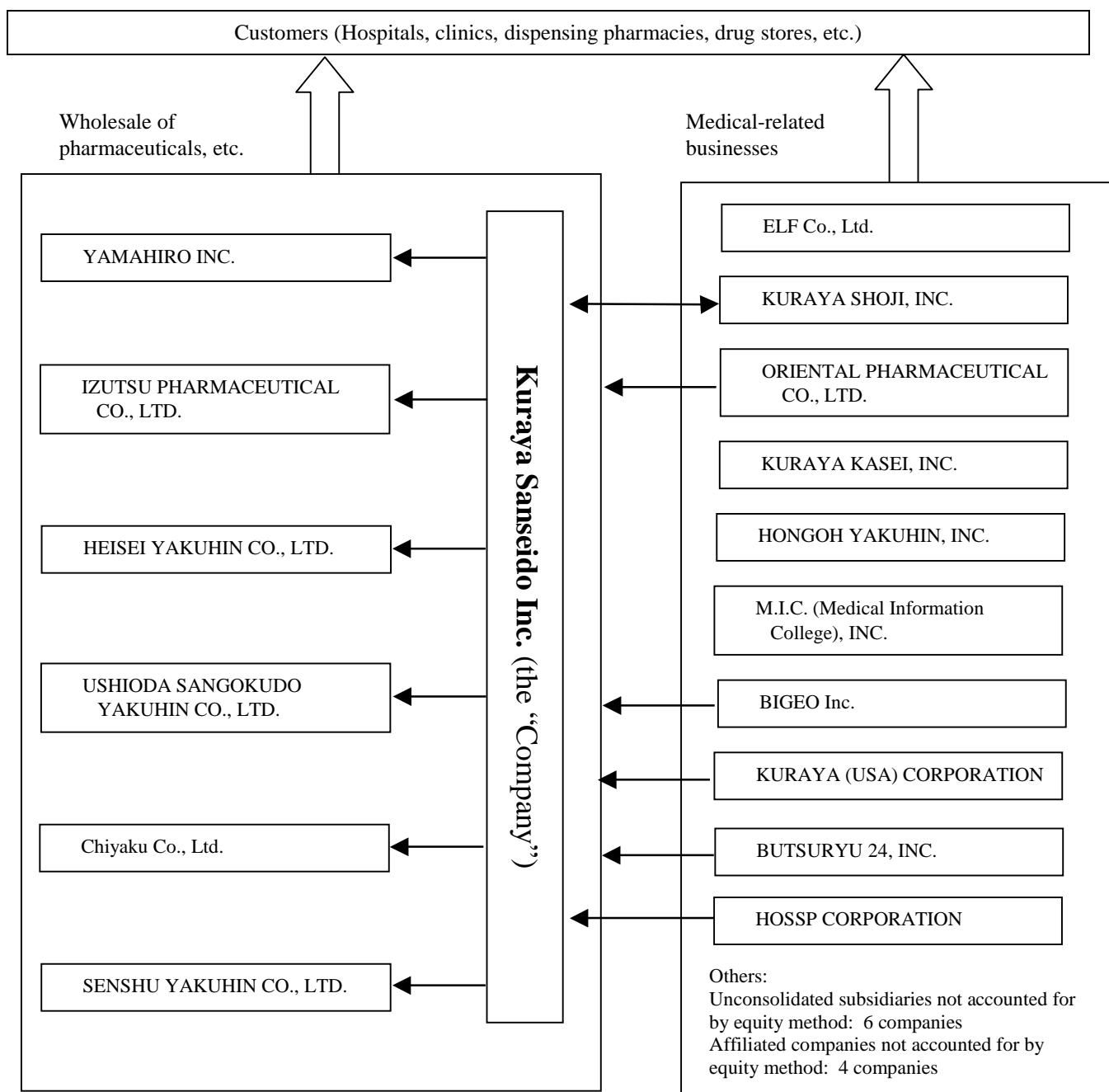
Reference: Estimated earnings per share (fiscal 2004): ¥41.81

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.

1. Corporate Group

The KURAYA SANSEIDO Group consists of 21 consolidated subsidiaries and 5 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

Note: 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 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
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.	Nakagyō-ku, Kyoto	118	Wholesale of pharmaceuticals, etc.	100.0	Sale of products; borrowing and loan of facilities; directors in common with Kuraya Sanseido
HEISEI YAKUHIN CO., LTD.	Gifu, Gifu	809	Wholesale of pharmaceuticals, etc.	100.0	Sale of products; borrowing of facilities; directors in common with Kuraya Sanseido
USHIODA SANGOKUDO YAKUHIN CO., LTD.	Mito, Ibaraki	98	Wholesale of pharmaceuticals, etc.	100.0	Sale of products; loan of facilities; 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; borrowing of facilities
SENSHU YAKUHIN CO., LTD.	Akita, Akita	400	Wholesale of pharmaceuticals, etc.	100.0	Sale of products; loan of funds; guarantee of debt; directors in common with Kuraya Sanseido
ELF Co., Ltd.	Fukushima-ku, Osaka	99	Medical-related business	75.8	Loan of funds
KURAYA SHOJI, INC.	Sumida-ku, Tokyo	65	Medical-related business	100.0	Stocking and sale of products; guarantee of debt
ORIENTAL PHARMACEUTICAL CO., LTD.	Tendo, Yamagata	90	Medical-related business	98.2	Stocking of products; loan of facilities; guarantee of debt
KURAYA KASEI, INC.	Nagano, Nagano	20	Medical-related business	100.0	Loan of facilities; guarantee of debt

Note: On September 1, 2003, the Company made IZUTSU PHARMACEUTICAL, LTD. and HEISEI YAKUHIN CO., LTD. wholly owned subsidiaries through 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)

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/Average total assets)	2.8%
Return on equity (Net income/Average total 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.

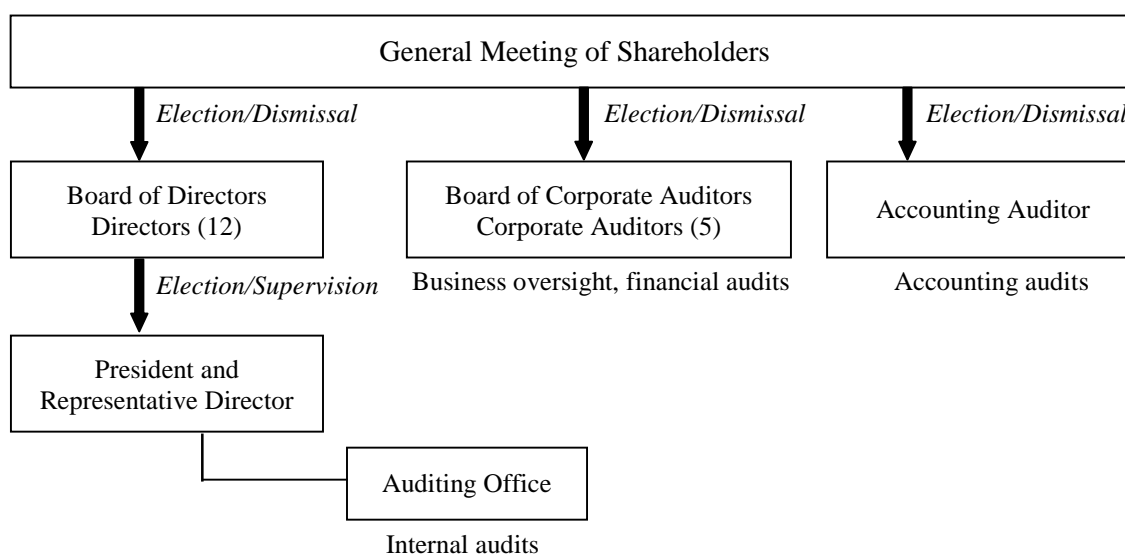
The Board of Directors considers and decides on management policies and matters established by law, as well as other important management-related matters. The Board also supervises the status of overall business execution.

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 three 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 Six Months Ended September 30, 2003

In the pharmaceutical industry, the number of patients receiving medical consultations decreased due to an increase in the co-payment rate for certain patients in April 2003. In addition, there was a negative effect in reaction to the abolition of regulations for long-term drug administration in April 2002. However, new drugs supported expansion of the market, which grew slightly overall.

Amid this environment, the Kuraya Sanseido Group worked to secure stable profits by maintaining its rational pricing system and to reduce the ratio of SG&A expenses to net sales by consolidating business offices. We offered employees early retirement with a retirement date of September 30, 2003, and 102 employees applied.

We also carried out restructuring for the development of the entire Kuraya Sanseido Group in areas including the implementation of a new personnel system that incorporates job standards and a performance-based philosophy, and the integration of core systems into the areas of sales, distribution and accounting. In addition, we began construction of a new distribution center on land held by the Company in the city of Kazo, Saitama Prefecture, with the aim of enhancing distribution to respond to customer needs in the healthcare market.

Moreover, to actively promote cooperation among Kuraya Sanseido Group companies and enhance and strengthen its management base, we transferred business related to the wholesale of pharmaceuticals in Ibaraki, Tochigi and Gunma prefectures to USHIODA SANGOKUDO YAKUHIN CO. LTD (Mito), took over business related to the wholesale of pharmaceuticals in Fukushima Prefecture, from the same company, and took over business related to the wholesale of over-the-counter drugs of HEISEI YAKUHIN CO., LTD. (Gifu).

IZUTSU PHARMACEUTICAL CO., LTD. (Kyoto) and HEISEI YAKUHIN CO., LTD. were each made wholly owned subsidiaries of the Company through a simple exchange of shares.

In addition, we carried out the organizational introduction of our new business model on a nationwide level to create and establish new functions as a pharmaceutical wholesaler. At the same time, we worked to build stronger relationships with our customers by further enhancing value-added functions that extend to patients.

As a result of these factors, consolidated net sales for the six months ended September 30, 2003 were ¥632,178 million (a 0.8% increase over the same period in the previous year), and consolidated ordinary income was ¥8,507 million (a 15.5% increase over the same period in the previous year). Due to special retirement benefits and other factors, consolidated net income was ¥2,947 million (a 2.2% increase over the same period in the previous year).

2) Outlook for the Full Fiscal Year

Healthcare system reforms, including the movement toward making national and other hospitals independent administrative bodies and the separation of hospital functions, in tandem with the changing structure of the industry, are forecast to expand the role of pharmaceutical wholesalers and further raise expectations for their enhanced functions.

In these circumstances, the Kuraya Sanseido Group will carry out organizational development to secure continued stable profits and reduce costs in accordance with the basic strategies of the medium-term consolidated management plan. At the same time, we will build a new business model that promotes sales activities that make the maximum use of our solid infrastructure and maintains a grasp of the changes in the structure of the pharmaceutical industry. Through these measures, we will work to further improve our business results.

For the fiscal year ending March 31, 2004, we project consolidated net sales of ¥1,288.0 billion (a 1.1% 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)

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.
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(2) Financial Position

In the interim period under review, on a consolidated basis, net cash used in operating activities was ¥3,226 million, net cash used in investing activities was ¥2,617 million, and net cash used in financing activities was ¥1,373 million. As a result, cash and cash equivalents (hereinafter referred to as “funds”) at the end of the period decreased ¥7,218 million (10.6%) from the end of the previous fiscal year, to ¥61,156 million.

[Cash Flows from Operating Activities]

The decrease in funds from operating activities was ¥3,226 million (in the same period of the previous year the decrease was ¥12,993 million). Regarding the main components of the decrease, income before income taxes and minority interests was ¥6,038 million (an increase of 4.4% compared with the same period of the previous year), depreciation and amortization was ¥2,771 million, and the decrease in other current assets was ¥6,221 million. However, notes and accounts payable decreased ¥12,337 million and cash paid for income taxes was ¥5,176 million.

[Cash Flows from Investing Activities]

The decrease in funds from investing activities was ¥2,617 million (in the same period of the previous fiscal year the decrease was ¥4,684 million). The decrease mainly consisted of ¥2,001 million used for purchases of property, plant and equipment, including the HEALTHCARE HIGASHINIPPON DISTRIBUTION CENTER.

[Cash Flows from Financing Activities]

The decrease in funds from financing activities was ¥1,373 million (in the same period of the previous fiscal year the increase was ¥2,959 million). The main components of the decrease were a ¥280 million net decrease in short-term bank loans and ¥833 million in cash dividends paid.

Trends of Cash Flow Indicators

	Year ended March 31, 2002		Year ended March 31, 2003		Year ending March 31, 2004
	Interim	Full year	Interim	Full year	Interim
Shareholders' equity ratio (%)	18.8	17.2	17.8	17.6	19.0
Shareholders' equity ratio on a market value basis (%)	13.2	10.9	17.4	18.9	20.9
Debt repayment period (years)	—	3.3	—	2.9	—
Interest coverage ratio	—	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. Negative numbers are not presented for debt repayment period and interest coverage ratio.

4-1. Interim Consolidated Balance Sheets

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

	As of September 30, 2003		As of September 30, 2002		As of March 31, 2003	
ASSETS	624,777	100.0%	627,062	100.0%	638,589	100.0%
Current assets	485,835	77.8	484,220	77.2	498,551	78.1
Cash on hand and in bank	62,999		60,834		70,153	
Notes and accounts receivable – trade	341,142		341,025		340,233	
Marketable securities	2		34		2	
Inventories	56,059		53,816		55,900	
Deferred income taxes	3,414		2,559		4,126	
Accounts receivable	23,429		27,720		29,917	
Other current assets	2,462		1,971		2,162	
Allowance for doubtful accounts	(3,675)		(3,741)		(3,944)	
Fixed assets	138,941	22.2	142,841	22.8	140,037	21.9
Tangible fixed assets:	94,288	15.1	97,406	15.5	95,464	14.9
Buildings and structures	39,091		41,437		40,603	
Land	48,107		48,963		48,402	
Construction in progress	917		181		53	
Other tangible fixed assets	6,172		6,823		6,405	
Intangible fixed assets:	7,575	1.2	6,893	1.1	7,629	1.2
Software	5,167		1,920		1,817	
Consolidation difference	1,510		2,410		1,987	
Other intangible fixed assets	897		2,562		3,825	
Investments and other assets:	37,076	5.9	38,542	6.2	36,943	5.8
Investment securities	13,006		13,093		11,956	
Long-term loans receivable	351		459		398	
Deferred income taxes	7,666		6,992		7,678	
Deferred income taxes – land revaluation	8,163		8,668		8,456	
Other	13,490		14,508		13,633	
Allowance for doubtful accounts	(5,601)		(5,180)		(5,180)	
Total assets	624,777	100.0	627,062	100.0	638,589	100.0

4-1. Interim Consolidated Balance Sheets

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

	As of September 30, 2003		As of September 30, 2002		As of March 31, 2003	
LIABILITIES	505,188	80.9%	510,567	81.4%	521,900	81.7%
Current liabilities:	465,139	74.5	471,012	75.1	481,680	75.4
Notes and accounts payable – trade	433,314		427,607		445,652	
Short-term bank loans	12,885		23,306		13,268	
Current portion of convertible bonds	—		1,348		—	
Income taxes payable	2,515		3,077		5,383	
Reserve for bonuses	5,872		5,958		7,014	
Allowance for losses on sales returns	683		706		704	
Other current liabilities	9,868		9,007		9,657	
Long-term liabilities:	40,048	6.4	39,555	6.3	40,219	6.3
Convertible bonds	19,323		19,324		19,324	
Long-term debt	982		1,557		1,137	
Deferred income taxes – land revaluation	252		259		252	
Employees' retirement benefits	16,949		15,353		16,420	
Officers' retirement benefits	1,750		1,724		1,827	
Allowance for losses on debt guarantees	74		292		292	
Other long-term liabilities	716		1,043		965	
MINORITY INTERESTS	607	0.1	4,812	0.8	4,427	0.7
Minority interests	607	0.1	4,812	0.8	4,427	0.7
SHAREHOLDERS' EQUITY	118,980	19.0	111,682	17.8	112,261	17.6
Common stock	12,751	2.0	12,079	1.9	12,751	2.0
Capital surplus	27,632	4.4	25,247	4.0	25,919	4.1
Retained earnings	89,406	14.3	86,677	13.8	87,874	13.7
Revaluation surplus	(11,616)	(1.8)	(11,795)	(1.8)	(12,259)	(1.9)
Unrealized gains on certain investment securities	3,243	0.5	3,099	0.5	2,602	0.4
Treasury stock, at cost	(2,436)	(0.4)	(3,625)	(0.6)	(4,626)	(0.7)
Total liabilities, minority interests and shareholders' equity	624,777	100.0	627,062	100.0	638,589	100.0

4-2. Interim Consolidated Statements of Operations

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

	Interim period ended Sept. 30, 2003		Interim period ended Sept. 30, 2002		Year ended March 31, 2003	
Net sales	632,178	100.0%	627,032	100.0%	1,274,502	100.0%
Cost of sales	574,103	90.8	570,023	90.9	1,159,550	91.0
Provision for losses on sales returns	(21)	(0.0)	30	0.0	28	0.0
Gross profit	58,096	9.2	56,978	9.1	114,923	9.0
Selling, general and administrative expenses	51,559	8.2	51,365	8.2	104,763	8.2
Operating income	6,536	1.0	5,612	0.9	10,159	0.8
Non-operating income:	2,503	0.4	2,399	0.4	4,830	0.4
Interest income	34		60		115	
Dividend income	97		96		145	
Research fee income	1,507		1,417		2,886	
Real estate rental income	418		515		1,024	
Other non-operating income	446		310		659	
Non-operating expenses:	532	0.1	646	0.1	1,346	0.1
Interest expense	166		209		388	
Real estate rental expenses	309		351		708	
Other non-operating expenses	55		85		249	
Ordinary income	8,507	1.3	7,365	1.2	13,644	1.1
Extraordinary gains:	171	0.0	33	0.0	103	0.0
Gain on sales of fixed assets	11		22		28	
Gain on sales of investment securities	0		2		33	
Gain on disposal of golf memberships	—		—		30	
Reversal of allowance for losses on debt guarantees	—		8		8	
Gain on transfer of business	160		—		—	
Other extraordinary gains	—		—		2	
Extraordinary losses:	2,640	0.4	1,613	0.3	2,547	0.2
Loss on sale and disposal of fixed assets	204		307		890	
Loss on sale of investment securities	—		3		7	
Loss on valuation of investment securities	36		57		312	
Loss on valuation of equity in affiliate	256		—		—	
Loss on disposal of golf memberships	3		50		80	
Loss on valuation of golf memberships	6		116		132	
Special retirement benefits	1,303		1,079		1,079	
Sales office consolidation expenses	828		—		44	
Income before income taxes and minority interests	6,038	0.9	5,785	0.9	11,200	0.9
Current income taxes	2,308	0.3	3,048	0.5	7,803	0.6
Deferred income taxes	502	0.1	(425)	(0.1)	(2,131)	(0.1)
Gain in minority interests	279	0.0	280	0.0	512	0.0
Net income	2,947	0.5	2,882	0.5	5,015	0.4

4-3. Interim Consolidated Statements of Retained Earnings

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

	Interim period ended Sept. 30, 2003	Interim period ended Sept. 30, 2002	Year ended March 31, 2003
CAPITAL SURPLUS			
Capital surplus, beginning of period	25,919	24,321	24,321
Increase in capital surplus	1,712	926	1,598
Increase due to conversion of convertible bonds	0	926	1,598
Gain on retirement of treasury stock	1,712	—	—
Capital surplus, end of period	27,632	25,247	25,919
RETAINED EARNINGS			
Retained earnings, beginning of period	87,874	84,536	84,536
Increase in retained earnings	2,947	2,962	5,203
Net income	2,947	2,882	5,015
Increase due to merger	—	—	57
Increase due to the increase in consolidated subsidiaries	—	22	22
Reverse of revaluation surplus	—	57	107
Decrease in retained earnings	1,415	822	1,865
Cash dividends paid	812	805	1,610
Bonuses to directors and statutory auditors	151	16	16
[Bonuses to statutory auditors]	[6]	[0]	[0]
Loss on retirement of treasury stock	—	—	238
Reverse of revaluation surplus	450	—	—
Retained earnings, end of period	89,406	86,677	87,874

4-4. Interim Consolidated Statements of Cash Flows

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

	Interim period ended Sept. 30, 2003	Interim period ended Sept. 30, 2002	Year ended March 31, 2003
Cash flows from operating activities			
Income before income taxes and minority interests	6,038	5,785	11,200
Depreciation and amortization	2,771	2,525	5,203
Amortization of consolidation difference	371	362	732
(Increase) decrease in employees' retirement benefits – net	529	745	1,811
Increase (decrease) in officers' retirement benefits	(77)	(131)	(27)
Increase (decrease) in accrued employees' bonuses	(1,142)	(237)	818
Increase (decrease) in allowance for doubtful accounts	152	171	373
Increase (decrease) in allowance for returns	(21)	30	28
Reversal of allowance for losses on debt guarantees	(217)	(8)	(8)
Interest and dividend income	(131)	(156)	(260)
Interest expenses	166	209	388
Gain (loss) on foreign currency translation	0	(3)	(2)
Loss on disposal of fixed assets	901	284	862
Loss on sale and devaluation of securities – net	293	57	286
Loss on golf memberships	9	166	182
Loss on restructuring of affiliated companies	(160)	—	—
Special retirement benefits	1,303	1,079	1,079
(Increase) decrease in notes and accounts receivable – trade	(1,379)	(3,684)	(2,871)
(Increase) decrease in inventories	(176)	(231)	(2,314)
(Increase) decrease in other current assets	6,221	3,948	1,487
Increase (decrease) in notes and accounts payable	(12,337)	(16,548)	1,495
Increase (decrease) in accrued consumption taxes	(1,040)	(633)	225
Increase (decrease) in other current liabilities	71	(2,921)	(1,772)
Payment of officers' bonuses	(163)	(21)	(21)
Subtotal	1,983	(9,212)	18,896
Interest and dividends received	131	156	261
Cash paid for interest	(165)	(205)	(386)
Special retirement benefits paid	—	—	(1,079)
Cash paid for income taxes	(5,176)	(3,732)	(6,182)
Net cash (used in) provided by operating activities	(3,226)	(12,993)	11,509

4-4. Interim Consolidated Statements of Cash Flows

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

	Interim period ended Sept. 30, 2003	Interim period ended Sept. 30, 2002	Year ended March 31, 2003
Cash flows from investing activities			
Payments for time deposits	(181)	(262)	(1,658)
Maturity of time deposits	116	335	1,990
Payments for purchase of marketable securities	—	—	(2)
Proceeds from sale of marketable securities	—	—	39
Payments for purchase of property, plant and equipment	(2,001)	(4,404)	(6,205)
Proceeds from sale of property, plant and equipment	302	783	1,251
Payments for purchase of investment securities	(51)	(55)	(452)
Proceeds from sale of investment securities	4	8	169
Proceeds from additional purchase of stock of consolidated subsidiaries	(12)	(229)	(229)
Payments for issuance of loans	(337)	(133)	(257)
Proceeds from recovery of loans	142	51	246
Proceeds from transfer of business	317	—	—
Other, net	(916)	(777)	(1,429)
Net cash used in investing activities	(2,617)	(4,684)	(6,540)
Cash flows from financing activities			
Increase (decrease) in short-term bank loans – net	(280)	6,210	(3,641)
Proceeds from long-term debt	300	800	800
Repayment of long-term debt	(557)	(798)	(1,405)
Repayment of convertible bonds	(0)	(0)	(4)
Proceeds from issuance of common stock	—	—	4
Purchase of treasury stock	(2)	(2,429)	(4,250)
Cash dividends paid	(812)	(805)	(1,610)
Cash dividends paid to minority shareholders	(21)	(15)	(15)
Net cash (used in) provided by financing activities	(1,373)	2,959	(10,123)
Effect of exchange rate change on cash and cash equivalents	(0)	3	2
Net decrease in cash and cash equivalents	(7,218)	(14,715)	(5,151)
Cash and cash equivalents, beginning of period	68,375	73,933	73,933
Cash and cash equivalents in connection with merger of unconsolidated subsidiary	—	—	13
Cash and cash equivalents in connection with exclusion of consolidation for certain subsidiary	—	(420)	(420)
Cash and cash equivalents, end of period	61,156	58,797	68,375

4-5. Preparation of the Interim Consolidated Financial Statements

1. Scope of Consolidation

(1) Number of Consolidated Subsidiaries: 10 companies

ELF Co., Ltd., KURAYA SHOJI, INC., ORIENTAL PHARMACEUTICAL CO., LTD., KURAYA KASEI, INC., YAMAHIRO INC., IZUTSU PHARMACEUTICAL CO., LTD., HEISEI YAKUHIN CO., LTD., USHIODA SANGOKUDO YAKUHIN CO., LTD., Chiyaku Co., Ltd., and SENSHU YAKUHIN CO., LTD.

(2) Unconsolidated Subsidiaries

Significant unconsolidated subsidiaries:

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

Reason for exclusion from consolidation:

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

2. Application of the Equity Method

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

(2) The equity method is not applied to unconsolidated subsidiaries (HONGOY YAKUHIN, INC., M.I.C. (Medical Information College), INC. and others) or to affiliated companies (HOSSP CORPORATION and others), as the net income and retained earnings of these companies would not have a material effect on the interim consolidated financial statements, and the importance of these companies in the aggregate is not significant.

3. Interim Accounting Periods of Consolidated Subsidiaries

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

4. Accounting Standards

(1) Accounting standards for valuation of major assets

(a) Valuation of Securities

Other marketable securities:

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

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

(b) Valuation of Inventories

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

(2) Method of Depreciation of Major Depreciable Assets

Depreciation of fixed assets

(a) Tangible fixed assets

The Company and its consolidated subsidiaries primarily use the declining-balance method. However, for buildings (excluding attached facilities) acquired on or after April 1, 1998, the straight-line method is employed. Estimated useful lives are primarily 8-50 years for buildings and structures and 4-17 years for machinery and equipment and carriers.

(b) Intangible fixed assets

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

(c) Long-term prepaid expenses

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

(3) Accounting Standards for Major Reserves

(a) Allowance for doubtful accounts

An allowance for doubtful accounts is provided in amounts deemed necessary to cover possible losses. It comprises the amount calculated in accordance with the corporate income tax regulations and the amount estimated to be uncollectible on an individual basis.

(b) Reserve for bonuses

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

(c) Allowance for losses on sales returns

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

(d) Reserve for retirement benefits

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

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

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

(e) Allowance for officers' retirement benefits

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

(f) Allowance for losses on debt guarantees

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

(4) Accounting for Lease Transactions

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

(5) Other

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

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

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

Notes to Interim Consolidated Balance Sheets

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

	As of September 30, 2003	As of September 30, 2002	As of March 31, 2003
1. Accumulated depreciation of property, plant and equipment	47,615	45,329	47,036
2. Pledged assets			
Time deposits	215	255	255
Buildings and structures	2,872	3,554	3,086
Land	6,328	7,169	6,458
Investment securities	845	1,075	825
Total	10,262	12,053	10,625
Liabilities corresponding to above pledged assets:			
Accounts payable	24,359	35,148	36,564
Short-term loans	5,518	6,309	5,170
Long-term loans	546	754	525
Total	30,424	42,213	42,261
3. Contingent liabilities			
Guarantees are provided for loans from banks, etc., of unconsolidated subsidiaries, affiliated companies and others, as follows:			
Chiba General Wholesalers Cooperative Association	—	450	450
Chiba Tonyacho Area Town Redevelopment Association	—	195	195
Love Drugs Co., Ltd.	105	145	125
Other	61	68	64
Total	166	859	835
4. The Company and its consolidated subsidiaries have overdraft contracts with 21 banks as of Sept. 30, 2003 (22 banks as of Sept. 30, 2002; 21 banks as of March 31, 2003) for the efficient procurement of working assets. At the end of this consolidated accounting period, the unexercised balance of overdraft contracts was as follows:			
Total amount of overdraft limit	72,600	60,500	70,200
Unexercised balance	10,965	20,450	10,995
Net balance	61,635	40,050	59,205

Notes to Interim Consolidated Statements of Operations

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

	Interim period ended September 30, 2003	Interim period ended September 30, 2002	Year ended March 31, 2003
1. Major items and amounts in selling, general and administrative expenses:			
Wages and salaries	20,150	20,370	46,538
Welfare expenses	3,958	3,734	8,250
Provision for bonuses	5,864	5,948	7,007
Provision for employees' retirement benefits	2,502	2,505	5,036
Provision for officers' retirement bonuses	130	140	251
Shipping and delivery expenses	2,486	2,420	4,843
Rental expenses	1,679	1,818	3,349
Depreciation and amortization	2,512	2,244	4,641
Provision for doubtful accounts	78	692	1,138
Amortization of consolidation difference	371	362	732
2. Components of gain on sales of fixed assets:			
Land	11	22	27
Other	—	—	0
Total	11	22	28
3. Components of loss on sale and disposal of fixed assets:			
(Loss on disposal of fixed assets)			
Buildings and structures	12	72	123
Construction in progress	—	—	212
Other	8	94	48
Total	20	167	384
(Loss on sale of fixed assets)			
Land	175	138	326
Buildings and structures	8	—	111
Other	—	1	68
Total	183	140	505

Notes to Interim Consolidated Statements of Cash Flows

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

	Interim period ended September 30, 2003	Interim period ended September 30, 2002	Year ended March 31, 2003
Relationship between the ending balance of cash and cash equivalents and amounts reported in the consolidated balance sheets	(As of September 30, 2003)	(As of September 30, 2002)	(As of March 31, 2003)
Cash on hand and in banks	62,999	60,834	70,153
Time deposits with maturities exceeding three months	(1,842)	(2,036)	(1,777)
Cash and cash equivalents	61,156	58,797	68,375

5. Segment Information

1. Business Segment Information

Business segment information is not disclosed, as the consolidated net sales, operating income and total assets of the pharmaceutical wholesale, etc. business constituted more than 90 percent of the consolidated totals for the interim period ended September 30, 2003, the interim period ended September 30, 2002, and the year ended March 31, 2003.

2. Geographical Segment Information

Geographical segment information is not disclosed, as the Company had no consolidated subsidiaries or significant branch offices outside Japan for the interim period ended September 30, 2003, the interim period ended September 30, 2002, or the year ended March 31, 2003.

3. Overseas Sales

The Company had no overseas sales for the interim period ended September 30, 2003, the interim period ended September 30, 2002, or the year ended March 31, 2003.

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. Marketable Securities

(As of September 30, 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	4,267	10,829	6,562
(2) Bonds			
National and local government bonds, etc.	—	—	—
Corporate bonds	5	5	0
Other	—	—	—
(3) Other	—	—	—
Total	4,272	10,834	6,562

Note: Acquisition cost is the book value after accounting for loss on revaluation at the end of the consolidated interim period. The amount of the loss on revaluation was ¥1 million.

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

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

Other marketable securities

Unlisted domestic stocks (excluding stocks traded over-the-counter): ¥1,070 million

Unlisted domestic bonds: ¥ 2 million

Unlisted foreign stocks: ¥ 300 million

Other: ¥ 0 million

(As of September 30, 2002)

1. Other marketable securities with market values

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

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

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

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

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

Other marketable securities

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

Unlisted domestic bonds: ¥ 7 million

Unlisted foreign stocks: ¥300 million

(As of 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	4,218	9,478	5,259
(2) Bonds			
National and local government bonds, etc.	—	—	—
Corporate bonds	5	5	—
Other	—	—	—
(3) Other	—	—	—
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. 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 bonds:	¥ 2 million
Unlisted foreign stocks:	¥ 300 million
Other	¥ 0 million

8. 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.

9. Premise of Going Concern

None applicable

10. Production, Orders and Sales

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

	Interim period ended September 30, 2003		Interim period ended September 30, 2002		Year ended March 31, 2003	
Ethical drugs	553,928	87.6%	551,092	87.9%	1,110,137	87.1%
Over-the-counter drugs	24,036	3.8	24,657	3.9	53,379	4.2
Medical equipment, tools and clinical materials	29,684	4.7	28,458	4.5	59,856	4.7
Reagents	13,413	2.1	11,816	1.9	27,973	2.2
Others	11,115	1.8	11,007	1.8	23,156	1.8
Total	632,178	100.0	627,032	100.0	1,274,502	100.0

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

	Interim period ended September 30, 2003		Interim period ended September 30, 2002		Year ended March 31, 2003	
Ethical drugs	504,042	87.8%	501,842	88.1%	1,020,074	87.9%
Over-the-counter drugs	21,205	3.7	22,669	4.0	47,362	4.1
Medical equipment, tools and clinical materials	26,238	4.6	25,514	4.5	52,297	4.5
Reagents	12,540	2.2	10,484	1.8	21,552	1.8
Others	9,770	1.7	9,168	1.6	19,542	1.7
Total	573,797	100.0	569,679	100.0	1,160,828	100.0

Summary of Unconsolidated Financial Statements for the Interim Period Ended September 30, 2003

November 13, 2003

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

Kuraya Sansendo Inc.

7-15, Yaesu 2-chome, Chuo-ku,

Tokyo 104-8464, Japan

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

Representative: Sadatake Kumakura, President and CEO

Contact: Kikuo Miki, Senior Executive Officer and

General Manager of Public Relations Division

Phone: +81-3-3517-5171

Stock exchange listings: Tokyo, Osaka

Code number: 7459

Board of Directors meeting: November 13, 2003

Interim dividend system: Yes

Interim dividend payment date: December 9, 2002

Tangen unit system: Yes

(1 tangen unit = 100 shares)

1. Results for the Interim Period of Ended September 30, 2003 (April 1, 2003-September 30, 2003)

(1) Sales and Income

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

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
Interim period ended Sept. 30, 2003	599,208	1.8	4,869	1.0	6,481	(0.1)
Interim period ended Sept. 30, 2002	588,866	7.7	4,819	41.5	6,489	30.3
Year ended March 31, 2003	1,200,543	—	8,286	—	11,572	—

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)
Interim period ended Sept. 30, 2003	2,814	(3.1)	20.71
Interim period ended Sept. 30, 2002	2,904	101.3	21.88
Year ended March 31, 2003	4,957	—	36.24

Notes:

- Average number of shares outstanding during the period: Interim period ended September 30, 2003: 135,922,054 shares
Interim period ended September 30, 2002: 132,785,548 shares Year ended March 31, 2003: 133,336,952 shares
- Changes in accounting methods: None
- Year-on year change for net sales, operating income, ordinary income and net income is based on the previous interim period.

(2) Dividends

	Interim dividends per share (¥)	Annual dividends per share (¥)
Interim period ended Sept. 30, 2003	6.00	—
Interim period ended Sept. 30, 2002	6.00	—
Year ended March 31, 2003	—	12.00

(3) Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity/total assets (%)	Shareholders' equity per share (¥)
Interim period ended Sept. 30, 2003	599,292	118,827	19.8	856.64
Interim period ended Sept. 30, 2002	584,523	111,777	19.1	833.94
Year ended March 31, 2003	601,443	112,405	18.7	829.40

Notes:

- Total number of shares outstanding at end of period: September 30, 2003 138,713,739 shares
September 30, 2002 134,035,305 shares March 31, 2003 135,375,126 shares
- Treasury stock outstanding at end of period: September 30, 2003 3,712,298 shares
September 30, 2002 5,985,391 shares March 31, 2003 7,049,820 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 (¥)	
				Year-end	
Year ending March 31, 2004	1,212,000	12,700	5,000	6.00	12.00

Reference: Estimated earnings per share (fiscal 2004): ¥ 36.05

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.

12-1. Interim Unconsolidated Balance Sheets

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

	As of		As of		As of	
	September 30, 2003		September 30, 2002		March 31, 2003	
ASSETS	599,292	100.0%	584,523	100.0%	601,443	100.0%
Current assets:	471,843	78.7	462,492	79.1	476,786	79.3
Cash on hand and in bank	50,662		49,462		57,145	
Trade notes receivable	21,805		30,704		27,310	
Trade accounts receivable	327,446		307,301		317,218	
Merchandise	43,895		42,935		42,581	
Deferred income taxes	2,676		2,095		3,509	
Accounts receivable	24,922		26,583		29,161	
Other current assets	1,568		5,295		1,390	
Allowance for doubtful accounts	(1,135)		(1,887)		(1,531)	
Fixed assets	127,448	21.3	122,031	20.9	124,657	20.7
Tangible fixed assets:	78,371	13.1	81,446	14.0	79,449	13.2
Buildings	32,312		34,524		33,661	
Land	38,353		39,237		38,648	
Others	7,705		7,683		7,139	
Intangible fixed assets	5,807	1.0	4,212	0.7	5,373	0.9
Investments and other assets:	43,270	7.2	36,372	6.2	39,834	6.6
Investment securities	9,589		9,342		8,507	
Equity in subsidiaries and affiliates	12,853		8,692		9,273	
Deferred income taxes	2,638		1,978		2,805	
Deferred income taxes — land revaluation	7,975		8,494		8,287	
Other	13,149		10,592		13,781	
Allowance for doubtful accounts	(2,936)		(2,727)		(2,820)	
Total assets	599,292	100.0	584,523	100.0	601,443	100.0

12-1. Interim Unconsolidated Balance Sheets

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

	As of September 30, 2003		As of September 30, 2002		As of March 31, 2003	
LIABILITIES	480,464	80.2	472,746	80.9	489,038	81.3
Current liabilities:	448,207	74.8	441,512	75.5	456,784	75.9
Trade notes payable	12,996		15,834		15,478	
Trade accounts payable	408,449		393,897		413,528	
Short term bank loans	—		6,900		—	
Current portion of convertible bonds	—		1,348		—	
Income taxes payable	1,643		2,250		4,035	
Reserve for bonuses	4,721		4,908		6,010	
Allowance for losses on sales returns	535		553		558	
Other current liabilities	19,860		15,819		17,173	
Long-term liabilities:	32,257	5.4	31,233	5.4	32,253	5.4
Convertible bonds	19,323		19,324		19,324	
Employees' retirement benefits	10,977		9,641		10,647	
Officers' retirement bonuses	1,240		1,242		1,317	
Other long-term liabilities	716		1,025		965	
SHAREHOLDERS' EQUITY	118,827	19.8	111,777	19.1	112,405	18.7
Common stock	12,751	2.1	12,079	2.1	12,751	2.1
Capital surplus	27,632	4.6	25,247	4.3	25,919	4.3
Additional paid-in capital	25,919		25,247		25,919	
Other capital surplus	1,712		—		—	
Retained earnings	89,299	14.9	86,814	14.8	87,873	14.7
Legal reserve	1,795		1,795		1,795	
Voluntary reserve	83,081		80,200		80,200	
Unallocated profit for the period	4,423		4,818		5,877	
Revaluation surplus	(11,523)	(1.9)	(11,682)	(2.0)	(11,974)	(2.0)
Unrealized gains on certain investment securities	3,104	0.5	2,944	0.5	2,462	0.4
Treasury stock, at cost	(2,436)	(0.4)	(3,625)	(0.6)	(4,626)	(0.8)
Total liabilities and shareholders' equity	599,292	100.0	584,523	100.0	601,443	100.0

12-2. Interim Unconsolidated Statements of Operations

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

	Interim period ended September 30, 2003		Interim period ended September 30, 2002		Year ended March 31, 2003	
Net sales	599,208	100.0%	588,866	100.0%	1,200,543	100.0%
Cost of sales	554,796	92.6	544,132	92.4	1,110,177	92.5
Provision for losses on sales returns	(23)	(0.0)	24	0.0	29	0.0
Gross profit	44,434	7.4	44,708	7.6	90,336	7.5
Selling, general and administrative expenses	39,565	6.6	39,889	6.8	82,050	6.8
Operating income	4,869	0.8	4,819	0.8	8,286	0.7
Non-operating income:	2,073	0.4	2,178	0.4	4,368	0.4
Interest income	39		55		96	
Dividend income	99		91		127	
Interest on marketable securities	0		0		0	
Research fee income	1,147		1,110		2,260	
Real estate rental income	436		527		1,045	
Other non-operating income	350		392		838	
Non-operating expenses:	461	0.1	508	0.1	1,082	0.1
Interest expense	21		23		41	
Bond interest expense	86		92		179	
Real estate rental expense	306		348		703	
Carryover of allowance for doubtful accounts	—		—		12	
Other non-operating expenses	46		44		145	
Ordinary income	6,481	1.1	6,489	1.1	11,572	1.0
Extraordinary gains:	1,247	0.2	22	0.0	58	0.0
Gain on sale of fixed assets	11		22		28	
Gain on sale of investment securities	—		—		30	
Gain on transfer of business	1,080		—		—	
Reversal of allowance for doubtful accounts	156		—		—	
Extraordinary losses:	2,666	0.5	1,410	0.2	2,267	0.2
Loss on sale and disposal of fixed assets	198		228		781	
Loss on valuation of investment securities	29		0		265	
Loss on valuation of equity in affiliate	328		—		—	
Loss on disposal of golf memberships	3		50		75	
Loss on valuation of golf memberships	1		103		116	
Special retirement benefits	1,303		1,028		1,028	
Office consolidation expenses	803		—		—	
Income before income taxes	5,061	0.8	5,100	0.9	9,363	0.8
Current income taxes	1,380	0.2	2,230	0.4	6,280	0.5
Deferred income taxes	866	0.1	(33)	(0.0)	(1,873)	(0.1)
Net income	2,814	0.5	2,904	0.5	4,957	0.4
Profit brought forward from the previous period	2,059		1,918		1,918	
Disposition of land revaluation surplus	(450)		(5)		44	
Loss on retirement of treasury stock	—		—		238	
Interim dividends	—		—		804	
Unappropriated retained earnings at the end of the period	4,423		4,818		5,877	

12-3. Significant Accounting Policies

1. Standards and Methods for Valuation of Assets

(1) Valuation of Securities

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

b. Other marketable securities

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

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

(2) Valuation of Inventories

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

2. Depreciation of Fixed Assets

(1) Tangible fixed assets

The Company uses the declining-balance method. However, for buildings (excluding attached facilities) acquired on or after April 1, 1998, the straight-line method is employed. Estimated useful lives are principally 8-50 years for buildings and structures and 4-17 years for machinery and equipment and vehicles and carriers.

(2) Intangible fixed assets

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

(3) Long-term prepaid expenses

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

3. Accounting Standards for Major Reserves

(1) Allowance for doubtful accounts

An allowance for doubtful accounts is provided in amounts deemed necessary to cover possible losses. It comprises the amount calculated in accordance with the corporate income tax regulations and the amount estimated to be uncollectible on an individual basis.

(2) Reserve for bonuses

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

(3) Allowance for losses on sales returns

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

(4) Reserve for retirement benefits:

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

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

(5) Allowance for officers' retirement benefits

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

4. Accounting for Lease Transactions

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

5. Other

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

Notes to Unconsolidated Balance Sheets

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

	As of September 30, 2003	As of September 30, 2002	As of March 31, 2003
1. Accumulated depreciation of property, plant and equipment	38,793	36,669	38,325
2. Pledged assets			
Time deposits	—	15	15
Buildings	511	662	694
Land	1,417	1,546	1,546
Investment securities	163	290	177
Total	2,092	2,515	2,434
Liabilities corresponding to above pledged assets			
Trade accounts payable	23,767	33,924	35,765
3. Contingent liabilities			
Guarantees are provided for bank loans, etc., for the following companies:			
SENSHU YAKUHIN CO., LTD.	5,150	6,038	4,900
KURAYA SHOJI, INC.	412	380	216
USHIODA SANGOKUDO YAKUHIN CO., LTD.	293	373	333
KURAYA KASEI, INC.	308	339	305
ORIENTAL PHARMACEUTICAL CO., LTD.	186	201	192
Love Drugs Co., Ltd.	105	145	125
Other	0	0	0
Total	6,456	7,477	6,073
4. The Company has overdraft contracts with 6 banks as of Sept. 30, 2003, Sept. 30, 2002 and March 31, 2003 for the efficient procurement of working assets. At the end of the interim period, the unexercised balance of overdraft contracts was as follows:			
Total amount of overdraft limit	50,000	35,500	45,000
Unexercised balance	—	6,900	—
Net balance	50,000	28,600	45,000
5. Increase/decrease in number of shares outstanding			
Increase:			
Conversion of 1 st tranche of 2 nd convertible bonds		Conversion of 2 nd tranche of 2 nd convertible bonds	Conversion of 2 nd tranche of 2 nd convertible bonds
Conversion of convertible bonds (shares)	1,091	3,314,827	5,719,077
Issue price	0	1,852	3,196
Capitalized amount	0	926	1,598
Substitute treasury stock with share exchanges: 3,340,554 shares Total reissue cost: ¥2,192 million			Substitute treasury stock with share exchanges: 1,248,372 shares Total reissue cost: ¥819 million
Decrease:			
Purchase of treasury stock (shares)	3,032	3,605,040	5,917,841
Acquisition cost	2	2,429	4,250

Notes to Interim Unconsolidated Statements of Operations

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

	Interim period ended September 30, 2003	Interim period ended September 30, 2002	Year ended March 31, 2003
Depreciation			
Tangible fixed assets	1,865	1,965	4,066
Intangible fixed assets	611	231	499

13. 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.

14. Marketable Securities

(Stocks of subsidiaries and affiliates)

No stocks of subsidiaries and affiliates were valued at market in the interim period ended September 30, 2003, the interim period ended September 30, 2002, or the year ended March 31, 2003.

15. Subsequent Events

(Partial transfer of business to YAMAHIRO INC.)

On October 28, 2003, the Company's Board of Directors resolved to make a partial transfer of its business related to wholesale of prescription pharmaceuticals to consolidated subsidiary YAMAHIRO INC., effective April 1, 2004. On the same day, the Company concluded a business transfer agreement with this subsidiary.

(1) Contents of the Transfer

Business related to wholesale of prescription pharmaceuticals in Nagano Prefecture

Scale of Business (year ended March 31, 2003)

Net Sales: ¥19,009 million

(2) Schedule of the Transfer

October 28, 2003: Board of Directors resolution

October 28, 2003: Signing of business transfer agreement

April 1, 2004: Transfer of business