

May 13, 2003

Kuraya Sanseido Inc.

President: Sadatake Kumakura

Code number: 7459 (First Section, Tokyo Stock Exchange  
and First Section, Osaka Securities Exchange)

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## **Share Exchange Agreement with Heisei Yakuhin Co., Ltd.**

May 13, 2003 – The Board of Directors of Kuraya Sanseido Inc. (“Kuraya Sanseido”) today resolved to make Heisei Yakuhin Co., Ltd. (“Heisei Yakuhin”) a wholly owned subsidiary of Kuraya Sanseido through an exchange of shares, effective September 1, 2003. The two companies entered into a share exchange agreement, as summarized below.

### **1. Reason for Implementing the Exchange of Shares**

Kuraya Sanseido and Heisei Yakuhin cooperate as Group companies to actively reinforce and strengthen their management foundations. On September 19, 2000, Kuraya Sanseido purchased a majority of the shares of Heisei Yakuhin. Under these circumstances, making Heisei Yakuhin a wholly owned subsidiary was judged to be the best approach under the business strategy of taking advantage of the comprehensive strengths of the Kuraya Sanseido Group.

### **2. Terms and Conditions of the Share Exchange Agreement**

#### **(1) Share exchange schedule**

May 13, 2003	Approval of share exchange agreement by Board of Directors
May 13, 2003	Signing of share exchange agreement
June 27, 2003	Approval of share exchange agreement at Heisei Yakuhin’s general shareholders’ meeting (planned)
Sept. 1, 2003	Date of share transfer (planned)

#### **(2) Share exchange method**

On September 1, 2003, Kuraya Sanseido will exchange shares with the shareholders of Heisei Yakuhin. Kuraya Sanseido will become the sole parent company of Heisei Yakuhin, and Heisei Yakuhin will become a wholly owned subsidiary of Kuraya Sanseido.

#### **(3) Simple exchange of shares**

In accordance with the provisions of Article 358-1 of the Commercial Code, Kuraya Sanseido will carry out the share exchange without obtaining approval of the share exchange agreement at Kuraya Sanseido’s general meeting of shareholders.

#### (4) Share Exchange Ratio

	Kuraya Sanseido Inc. (sole parent company)	Heisei Yakuhin Co., Ltd. (wholly owned subsidiary)
Share exchange ratio	1	0.979

Notes:

##### 1. Share Allocation Ratio

Shareholders will be allocated 0.979 shares of Kuraya Sanseido stock for each share of Heisei Yakuhin stock. However, no allocation will be made for the 1,968,900 shares of Heisei Yakuhin stock owned by Kuraya Sanseido.

##### 2. Basis for Calculation of Share Exchange Ratio

Kuraya Sanseido and Heisei Yakuhin decided on the share exchange ratio above after inter-company discussions based on the method and results of the share exchange ratio calculation performed by Nikko Cordial Securities Co., Ltd., a third-party institution.

##### 3. Method, Results and Basis of Calculation by Third-Party Institution

Nikko Cordial Securities Inc. conducted an analysis of Kuraya Sanseido's valuation using the market price method. It performed an analysis of Heisei Yakuhin's valuation using comparisons with other similar listed companies, net assets based on market value, and discounted cash flow. The results of each analysis were considered in calculating the share exchange ratios of Kuraya Sanseido and Heisei Yakuhin.

#### (5) Shares to be Allocated through the Share Exchange

Kuraya Sanseido will use treasury shares in lieu of the issuance of new stock for all of the 1,852,170 shares to be allocated upon the share exchange.

#### (6) Amount of Increase in Capital and Legal Reserve

- I. Capital: The exchange of shares will not increase capital. However, capital may increase between May 14, 2003 and August 31, 2003, due to conversion requests for the second series of the Company's first issue of unsecured convertible bonds.
- II. Capital Reserve: The capital reserve will increase by the amount of Heisei Yakuhin's net assets that remain outstanding on the effective date of the share exchange, multiplied by the ratio of the number of shares to be transferred to Kuraya Sanseido upon the share exchange to the total number of issued shares of Heisei Yakuhin, less the total book value of treasury shares that Kuraya Sanseido allocates to Heisei Yakuhin shareholders. However, the capital reserve

will not increase in the event that this formula does not result in an increase.

(7) Year-end dividend

- I. Kuraya Sanseido will be able to pay dividends of ¥6 per share, up to a total amount of ¥812,250,756, to its shareholders of record as of March 31, 2003.
- II. Heisei Yakuhin will be able to pay a year-end dividend of ¥5 per share, up to a total amount of ¥19,304,000, to its shareholders of record as of March 31, 2003.

(8) Terms of Kuraya Sanseido's directors and auditors appointed before the exchange of shares

The terms of office of persons who were appointed as directors or auditors of Kuraya Sanseido before the exchange of shares shall be the terms that would have applied if the share exchange had not taken place.

(9) Subsidy for exchange of shares

No subsidy will be paid for the exchange of shares.

**3. Situation of Kuraya Sanseido after the exchange of shares**

- (1) Corporate name: KURAYA SANSEIDO Inc.
- (2) Principal business: Wholesale distribution of pharmaceutical products
- (3) Head office: 7-15, Yaesu 2-chome, Chuo-ku, Tokyo
- (4) Representative: Sadatake Kumakura, President and Representative Director
- (5) Paid-in capital: ¥12,751 million

**4. Situation of Heisei Yakuhin after the exchange of shares**

- (1) Corporate name: HEISEI YAKUHIN CO., LTD.
- (2) Principal business: Wholesale distribution of pharmaceutical products
- (3) Head office: 1-1, Motomachi, Gifu-shi, Gifu
- (4) Representative: Yuichi Shinoda, President and Representative Director
- (5) Paid-in capital: ¥809 million

**5. Effect of the share exchange on consolidated and non-consolidated results**

Kuraya Sanseido already treats Heisei Yakuhin as a consolidated subsidiary, so making it a wholly owned subsidiary will have a negligible effect on consolidated results for the year ending March 31, 2004 and subsequent fiscal years, and will have no effect on non-consolidated results for the year ending March 31, 2004 and subsequent fiscal years.

**For reference:**

**Overview of Companies**

(As of March 31, 2003)

Corporate name	KURAYA SANSEIDO Inc.	HEISEI YAKUHIN CO. LTD.																				
Principal business	Wholesale distribution of pharmaceuticals	Wholesale distribution of pharmaceuticals																				
Date of establishment	May 6, 1923	January 20, 1929																				
Head office	7-15, Yaesu 2-chome, Chuo-ku, Tokyo	1-1, Motomachi, Gifu-shi, Gifu																				
Representative	Sadatake Kumakura, President and Representative Director	Yuichi Shinoda, President and Representative Director																				
Paid-in capital	¥12,751 million	¥809 million																				
Number of outstanding shares	142,424 thousand shares	3,860 thousand shares																				
Shareholders' equity	¥112,405 million	¥5,261 million																				
Total assets	¥601,443 million	¥19,965 million																				
Fiscal year end	March 31	March 31																				
Number of employees	5,747	307																				
Major suppliers and customers	<p><b>Suppliers:</b> Takeda Chemical Industries, Ltd., Yamanouchi Pharmaceutical Co., Ltd., Chugai Pharmaceutical Co., Ltd., Otsuka Pharmaceutical Co., Ltd., Eisai Co., Ltd., Mitsubishi Pharma Corp., Daiichi Pharmaceutical Co., Ltd., Novartis Pharma K.K., Pfizer Pharmaceutical Co., Ltd., Dainippon Pharmaceutical Co., Ltd.</p> <p><b>Customers:</b> Hospitals, clinics, pharmacies, etc.</p> <p><b>Sales Regions:*</b> Tokyo, Hyogo, Hokkaido, Miyagi, Yamagata, Fukushima, Saitama, Chiba, Kanagawa, Niigata, Toyama, Ishikawa, Fukui, Yamanashi, Nagano, Gifu, Shizuoka, Aichi, Mie, Shiga, Kyoto, Osaka, Nara, Wakayama, Okayama, Hiroshima</p>	<p><b>Suppliers:</b> Kuraya Sanseido Inc., Takeda Chemical Industries, Ltd., Yamanouchi Pharmaceutical Co., Ltd., Daiichi Pharmaceutical Co., Ltd., Mitsubishi Pharma Corp., Dainippon Pharmaceutical Co., Ltd., Novartis Pharma K.K., Otsuka Pharmaceutical Co., Ltd., Santen Pharmaceutical Co., Ltd., Bayer Yakuhin, Ltd.</p> <p><b>Customers:</b> Hospitals, clinics, pharmacies, etc.</p> <p><b>Sales Regions:</b> Gifu, Mie</p>																				
Major shareholders and percentage of total shares held (excluding treasury stock)	<table border="0"> <tr> <td>1. Takeda Chemical Industries, Ltd.</td> <td>13.2%</td> </tr> <tr> <td>2. Employees' Shareholders Assn.</td> <td>8.4%</td> </tr> <tr> <td>3. The Master Trust Bank of Japan (trust account)</td> <td>3.3%</td> </tr> <tr> <td>4. Sadatake Kumakura</td> <td>2.4%</td> </tr> <tr> <td>5. Trust &amp; Custody Services Bank, Ltd. (pension trust account)</td> <td>2.1%</td> </tr> </table>	1. Takeda Chemical Industries, Ltd.	13.2%	2. Employees' Shareholders Assn.	8.4%	3. The Master Trust Bank of Japan (trust account)	3.3%	4. Sadatake Kumakura	2.4%	5. Trust & Custody Services Bank, Ltd. (pension trust account)	2.1%	<table border="0"> <tr> <td>1. Kuraya Sanseido Inc.</td> <td>51.0%</td> </tr> <tr> <td>2. Chieko Shinoda</td> <td>19.0%</td> </tr> <tr> <td>3. Yuichi Shinoda</td> <td>15.1%</td> </tr> <tr> <td>4. Koei Limited</td> <td>6.4%</td> </tr> <tr> <td>5. Kinji Kobayashi</td> <td>1.9%</td> </tr> </table>	1. Kuraya Sanseido Inc.	51.0%	2. Chieko Shinoda	19.0%	3. Yuichi Shinoda	15.1%	4. Koei Limited	6.4%	5. Kinji Kobayashi	1.9%
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Main banks	Mizuho Bank, Ltd., Resona Bank, Ltd., The Bank of Tokyo-Mitsubishi, Ltd., Sumitomo Mitsui Banking Corporation, UFJ Bank Ltd.	The Juroku Bank, Ltd., The Mie Bank, Ltd., Ogaki Kyoritsu Bank, Ltd., UFJ Bank Ltd.																				
Inter-company relations	Capital relationship	Kuraya Sanseido owns 51.0% of Heisei Yakuhin's stock																				
	Personnel relationship	One of Heisei Yakuhin's three directors serves concurrently as an executive director of Kuraya Sanseido, and two of Heisei Yakuhin's three auditors serve as auditors of Kuraya Sanseido. In addition, eleven of Heisei Yakuhin's employees are employees on loan from Kuraya Sanseido.																				
	Business relationship	Heisei Yakuhin purchases approximately 83% of its supplies from Kuraya Sanseido.																				

\*As of April 1, 2003

## Overview of Companies – (2)

### Results from the latest three fiscal terms

#### Kuraya Sanseido Co., Ltd.

(Millions of yen)

Fiscal year ended	Consolidated			Non-Consolidated		
	March 31, 2001	March 31, 2002	March 31, 2003	March 31, 2001	March 31, 2002	March 31, 2003
Net sales	1,073,015	1,222,221	1,274,502	965,348	1,116,754	1,200,543
Operating income	1,949	5,780	10,159	1,946	5,917	8,286
Ordinary income	5,403	9,130	13,644	5,026	9,060	11,572
Net income	1,337	2,950	5,015	1,176	3,581	4,957
Net income per share (¥)	9.80	21.67	36.48	8.62	26.30	36.24
Cash dividends per share (¥)				12.00	12.00	12.00
Shareholders' equity per share (¥)	899.68	823.75	828.14	889.67	823.65	829.40

#### Heisei Yakuhin Co., Ltd.

(Millions of yen)

Fiscal year ended	Consolidated			Non-Consolidated		
	March 31, 2001	March 31, 2002	March 31, 2003	March 31, 2001	March 31, 2002	March 31, 2003
Net sales				44,497	40,030	41,924
Operating income				238	389	318
Ordinary income				405	539	472
Net income				196	131	250
Net income per share (¥)				50.90	34.13	62.36
Cash dividends per share (¥)				5.00	5.00	5.00
Shareholders' equity per share (¥)				1,216.05	1,320.36	1,360.32