

May 13, 2003

Kuraya Sanseido Inc.

President: Sadatake Kumakura

Code number: 7459 (First Section, Tokyo Stock Exchange
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Share Exchange Agreement with Izutsu Pharmaceutical Co., Ltd.

May 13, 2003 – The Board of Directors of Kuraya Sanseido Inc. (“Kuraya Sanseido”) today resolved to make Izutsu Pharmaceutical Co., Ltd. (“Izutsu Pharmaceutical”) a wholly owned subsidiary of the Company 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 Izutsu Pharmaceutical cooperate as Group companies to actively reinforce and strengthen their management foundations. On July 7, 2000, Kuraya Sanseido purchased a majority of the shares of Izutsu Pharmaceutical. Under these circumstances, making Izutsu Pharmaceutical 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 24, 2003 | Approval of share exchange agreement at Izutsu Pharmaceutical’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 Izutsu Pharmaceutical. Kuraya Sanseido will become the sole parent company of Izutsu Pharmaceutical, and Izutsu Pharmaceutical 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) | Izutsu Pharmaceutical Co., Ltd. (wholly owned subsidiary) |
|----------------------|---|--|
| Share exchange ratio | 1 | 1.368 |

Notes:

1. Share Allocation Ratio

Shareholders will be allocated 1.368 shares of Kuraya Sanseido stock for each share of Izutsu Pharmaceutical stock. However, no allocation will be made for the 1,132,000 shares of Izutsu Pharmaceutical stock owned by Kuraya Sanseido.

2. Basis for Calculation of Share Exchange Ratio

Kuraya Sanseido and Izutsu Pharmaceutical 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 Izutsu Pharmaceutical'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 Izutsu Pharmaceutical.

(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 1,488,384 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 Izutsu Pharmaceutical'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 Izutsu Pharmaceutical, less the total book value of treasury shares that Kuraya Sanseido allocates to Izutsu Pharmaceutical 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. Izutsu Pharmaceutical will be able to pay a year-end dividend of ¥5 per share, up to a total amount of ¥11,100,000, 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 Izutsu Pharmaceutical after the exchange of shares

- (1) Corporate name: IZUTSU PHARMACEUTICAL CO., LTD.
- (2) Principal business: Wholesale distribution of pharmaceutical products
- (3) Head office: 5, Nioumon-cho, Karasuma Higashi Iru,
Nijyodori, Nakagyo-ku, Kyoto

(4) Representative: Hiroaki Shimaji, President and Representative Director

(5) Paid-in capital: ¥118 million

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

Kuraya Sanseido already treats Izutsu Pharmaceutical 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. | IZUTSU PHARMACEUTICAL CO. LTD.. |
| Principal business | Wholesale distribution of pharmaceuticals | Wholesale distribution of pharmaceuticals |
| Date of establishment | May 6, 1923 | October 3, 1950 |
| Head office | 7-15, Yaesu 2-chome, Chuo-ku, Tokyo | 5, Nioumon-cho, Karasuma Higashi Iru, Nijyodori, Nakagyo-ku, Kyoto |
| Representative | Sadatake Kumakura, President and Representative Director | Hiroaki Shimaji, President and Representative Director |
| Paid-in capital | ¥12,751 million | ¥118 million |
| Number of outstanding shares | 142,424 thousand shares | 2,220 thousand shares |
| Shareholders' equity | ¥112,405 million | ¥2,726 million |
| Total assets | ¥601,443 million | ¥30,210 million |
| Fiscal year end | March 31 | March 31 |
| Number of employees | 5,747 | 397 |
| Major suppliers and customers | <p>Suppliers: 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>Customers: Hospitals, clinics, pharmacies, etc.</p> <p>Sales Regions:* 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>Suppliers: Kuraya Sanseido Inc., Takeda Chemical Industries, Ltd., Yamanouchi Pharmaceutical Co., Ltd., Daiichi Pharmaceutical Co., Ltd., Chugai Pharmaceutical Co., Ltd., Otsuka Pharmaceutical Co., Ltd., Ono Pharmaceutical Co., Ltd., Mitsubishi Pharma Corp., Taiho Pharmaceutical Co., Ltd., Banyu Pharmaceutical Co., Ltd.</p> <p>Customers: Hospitals, clinics, pharmacies, etc.</p> <p>Sales Regions: Kyoto, Shiga</p> |
| Major shareholders and percentage of total shares held (excluding treasury stock) | <p>1. Takeda Chemical Industries, Ltd. 13.2%</p> <p>2. Employees' Shareholders Assn. 8.4%</p> <p>3. The Master Trust Bank of Japan (trust account) 3.3%</p> <p>4. Sadatake Kumakura 2.4%</p> <p>5. Trust & Custody Services Bank, Ltd. (pension trust account) 2.1%</p> | <p>1. Kuraya Sanseido Inc. 51.0%</p> <p>2. Hiroaki Shimaji 11.9%</p> <p>3. Shimaji Co., Ltd. 10.9%</p> <p>4. Tatsuko Shimaji 8.0%</p> <p>5. Kajiro Shimaji 5.0%</p> |
| Main banks | Mizuho Bank, Ltd., Resona Bank, Ltd., The Bank of Tokyo-Mitsubishi, Ltd. Sumitomo Mitsui Banking Corporation, UFJ Bank Ltd. | The Bank of Kyoto, Ltd., Mizuho Bank, Ltd. |
| Inter-company relations | Capital relationship | Kuraya Sanseido owns 51.0% of Izutsu Pharmaceutical's stock |

| | | |
|--|------------------------|---|
| | Personnel relationship | Two of Izutsu Pharmaceutical's six directors serve concurrently as executive directors of Kuraya Sanseido, and one of Izutsu Pharmaceutical's three auditors serves as an auditor of Kuraya Sanseido. In addition, 114 of Izutsu Pharmaceutical's employees are employees on loan from Kuraya Sanseido. |
| | Business relationship | Izutsu Pharmaceutical purchases approximately 88% 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 |

Izutsu Pharmaceutical 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 | | | | 43,906 | 51,679 | 59,505 |
| Operating income (loss) | | | | (865) | (409) | 676 |
| Ordinary income (loss) | | | | (729) | (260) | 922 |
| Net income (loss) | | | | (1,532) | (217) | 513 |
| Net income (loss) per share (¥) | | | | (690.40) | (97.96) | 225.51 |
| Cash dividends per share (¥) | | | | - | - | 5.00 |
| Shareholders' equity per share (¥) | | | | 1,295.55 | 1,043.53 | 1,222.08 |