

Consolidated Financial Statements for the Fiscal Year Ended March 31, 2004

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

May 13, 2004

KURAYA SANSEIDO Inc.

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Stock exchange listing:

Tokyo

Code number:

7459

Board of Directors meeting:

May 13, 2004

Use of U.S. accounting standards:

No

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

(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 2004	1,283,925	0.7	15,354	51.1	19,312	41.5
Fiscal 2003	1,274,502	4.3	10,159	75.7	13,644	49.4

	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 2004	7,878	57.1	55.19	48.65	6.5	3.1	1.5
Fiscal 2003	5,015	70.0	36.48	31.50	4.5	2.1	1.1

Notes: 1. Equity in earnings of affiliates: ¥— million (Fiscal 2003: ¥— million)

2. Average number of shares outstanding (consolidated): 138,028,164 shares (Fiscal 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 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 2004	626,626	128,987	20.6	893.84
Fiscal 2003	638,589	112,261	17.6	828.14

Note: Number of shares outstanding at end of period (consolidated): 144,014,297 shares (Fiscal 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)
Fiscal 2004	13,247	(4,240)	(7,270)	70,112
Fiscal 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 2005 (April 1, 2004 - March 31, 2005)

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)
Interim period	833,000	14,800	8,700
Fiscal 2005	1,689,000	30,200	17,700

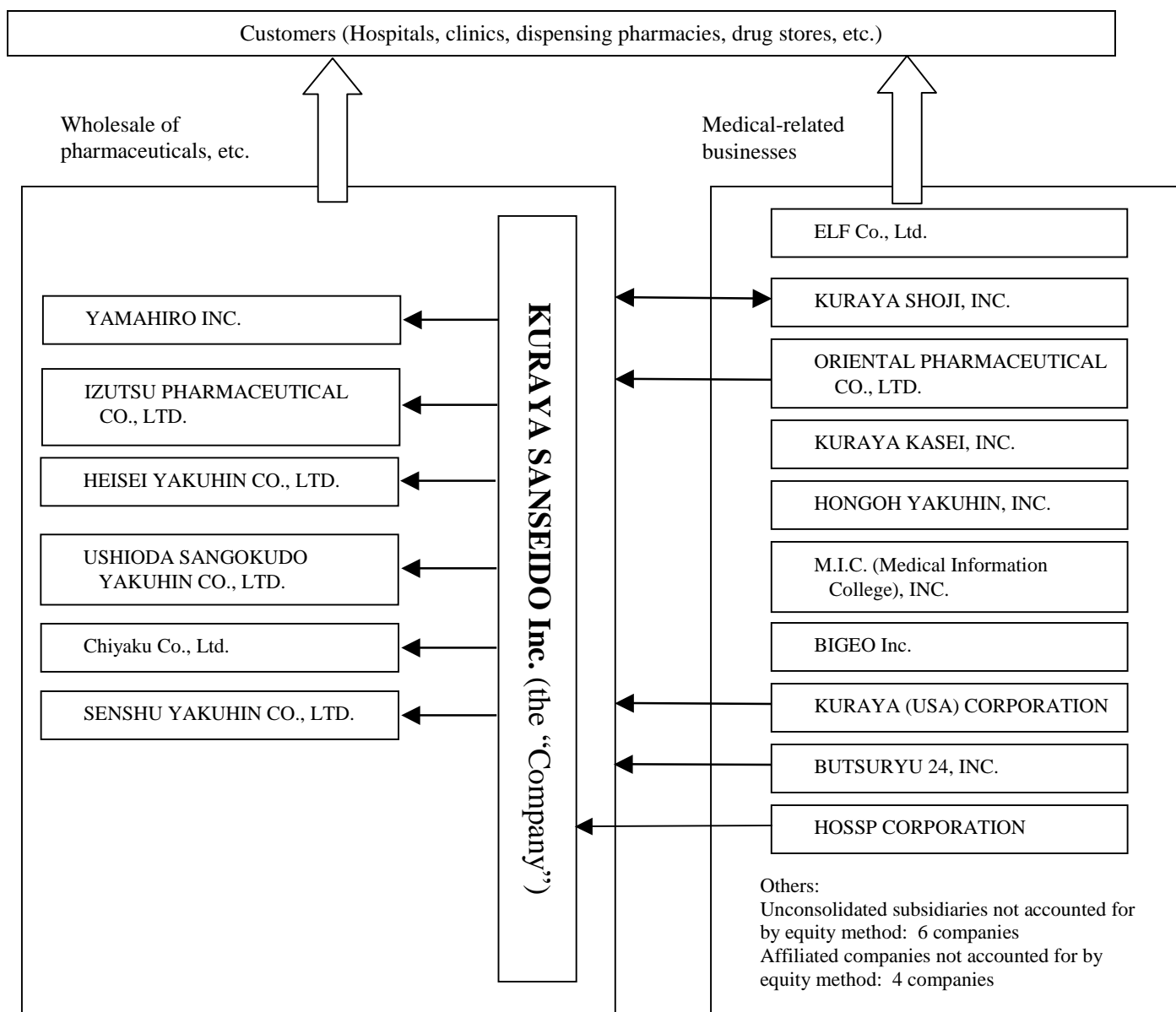
Reference: Estimated earnings per share (fiscal 2005): ¥97.46

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 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

- Notes:
- On April 1, 2004, the Company transferred its prescription pharmaceutical wholesale business in Nagano Prefecture to YAMAHIRO INC. On the same day, YAMAHIRO INC. changed its corporate name to YAMAHIRO KURAYA SANSEIDO Inc.
 - On April 1, 2004, the Company transferred its diagnostic reagent sales business in Kyoto and Shiga Prefecture to IZUTSU PHARMACEUTICAL, CO., LTD.
 - On April 1, 2004, the Company used a share exchange method to make ATOL CO., LTD. and EVERLTH Co., Ltd. its wholly owned subsidiaries.
 - On May 1, 2004, the Company made NAKAGAWA SEIKODO CO., LTD. a wholly owned subsidiary through a simple exchange of shares.

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.	Nakagyou-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 CO., 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. We have been shifting from our previous operating framework to establish new functions and roles that match the needs of society from a broader perspective.

As of April 1, 2004, Kuraya Sanseido made ATOL CO., LTD. (Fukuoka) and EVERLTH Co., Ltd. (Hiroshima) wholly owned subsidiaries using a share exchange method. This marked the commencement of business activities as the MEDICEO Group.

With this, Kuraya Sanseido adopted a new management philosophy, “Contributing to people’s health and the advancement of society through creation of value in distribution.”

(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 Group 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. During these three years, the Company has been restructuring its businesses with the aim of building a foundation for generating solid earnings.

The Group’s fundamental strategy is strengthening competitiveness by restructuring resources, business operations and functions. By pushing ahead with further business restructuring and optimizing resources, business operations and functions, the Group has established a low-cost structure, boosted productivity and further expanded functions, thus enhancing its corporate competitiveness.

Furthermore, the Group has drawn up a new medium-term consolidated management plan covering the three years from April 2004 to March 2007. This plan will serve as a guiding vision aimed at establishing a corporate structure that can secure steady earnings and promoting a common direction for business strategies and numerical targets in the newly created MEDICEO Group.

1) *Vision of the Medium-Term Management Plan (Establishment of the MEDICEO Brand)*

The MEDICEO Group will work to enhance and reinforce functions including sales, purchasing, distribution, information and systems and meet the wide-ranging needs of customers and suppliers, in order to increase trust in the Group as well as to raise its corporate value and expand its business domain.

2) *Focal Points*

1. Quickly realize efficiency gains by integrating systems and consolidating administrative functions
2. Improve earnings by deploying the advantages of scale
3. Provide high-quality information and strengthen customer support

3) *Consolidated Management Targets (for the year ending March 2007)*

Net sales	¥1,780.0 billion
Operating income	¥27.0 billion
Ordinary income	¥39.0 billion
Net income	¥23.0 billion
Return on assets (Operating income/Average total assets)	3.0%
Return on equity (Net income/Average total shareholders’ equity)	10.5%

(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.

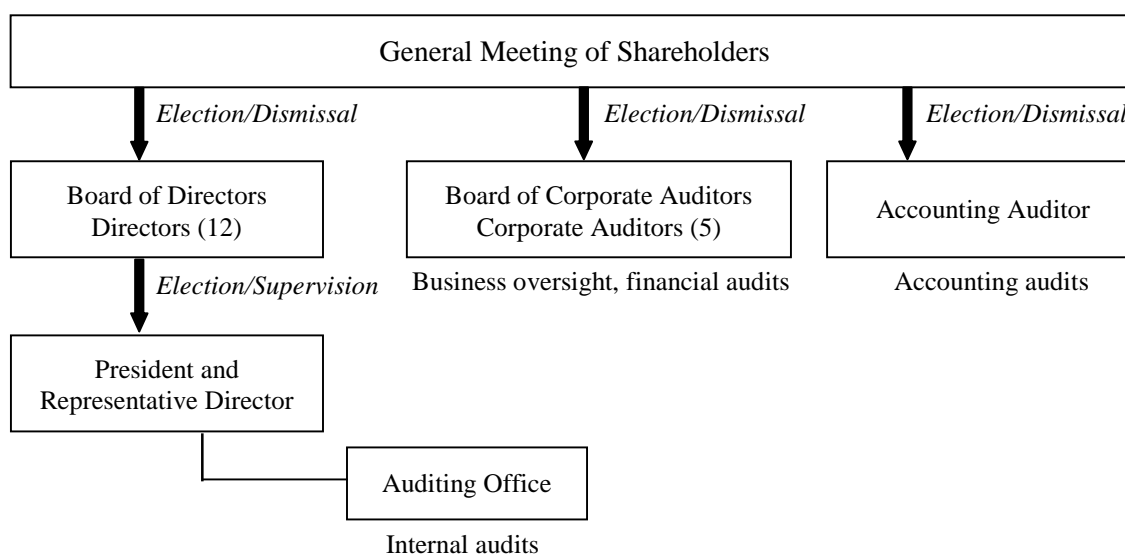
The Board of Directors considers and decides on management policies and matters established by law, as well as other important management-related matters. The Board also supervises the status of overall business execution.

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.

Effective from April 1, 2004, the number of directors was increased by two in order to strengthen the management team in preparation for expansion of the Company's business scope by the exchange of shares.

3. Business Results and Financial Position

(1) Business Results

1) Summary of the Year Ended March 31, 2004

In the pharmaceutical industry, despite factors such as the effect of an increase in the co-payment rate for certain patients enacted in April 2003 and a contraction in demand for influenza and pollen allergy medications and other drugs, the market overall displayed moderate growth due to market expansion from new products.

In this environment, to actively promote cooperation among Kuraya Sanseido Group companies and enhance and strengthen the 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 to these developments, the Kuraya Sanseido Group worked to maintain its rational pricing system, and reinforced sales capabilities by opening a new operating base in the strategic Tokai region and introducing information terminals for sales representatives to increase their performance. In addition, we worked to build stronger relationships with customers by upgrading the skills of sales representatives and promoting organizational development to further the introduction of a new business model that combines scheduled deliveries and billing by volume used.

We also reduced SG&A expenses by consolidating business offices and cutting group-wide costs. We offered employees early retirement with a retirement date of September 30, 2003, and 102 employees applied.

Moreover, we took steps to build the foundation for strengthening and sharing functions throughout the entire Kuraya Sanseido Group into the future. These steps included implementation of a new personnel system based on job standards and fair evaluation of performance, the integration of core systems in the areas of sales, distribution and accounting, and construction of two new distribution centers in the city of Kazo, Saitama Prefecture, that will specialize in handling ethical drugs and health care products, respectively.

2) Income Analysis

(Consolidated net sales)

Consolidated net sales were ¥1,283,925 million (a 0.7% increase over the previous fiscal year).

In the ethical drugs segment, we worked to clearly specify final costs and set purchase prices at the beginning of the period, as well as set and maintain selling prices arrived at from SG&A expenses in the final cost plus a fair profit. By building relationships of trust with customers, we secured stable sales.

(Consolidated operating income)

In addition to conducting profit-oriented sales by maintaining selling prices, we deployed our supply and distribution functions with mega-distribution centers as the linchpin, and expanded joint sales promotion activities and bulk purchasing with consolidated subsidiaries in the pharmaceutical wholesale business. As a result, gross profit was ¥116,805 million (a 1.6% increase over the previous fiscal year). Furthermore, integration of core systems for marketing, distribution and accounting in the Kuraya Sanseido Group, adoption of a new personnel system, and an upturn in investment returns on tax-qualified pension plan assets resulted in SG&A expenses of ¥101,450 million (a 3.2% decrease from the previous fiscal year).

As a result, consolidated operating income was ¥15,354 million (a 51.1% increase over the previous fiscal year).

(Consolidated ordinary income)

Non-operating income was ¥5,001 million (a 3.5% increase over the previous fiscal year), mainly due to an increase in research fee income. Non-operating expenses were ¥1,044 million (a 22.5% decrease from the previous fiscal year), due to lower interest expense resulting from a decrease in bank loans, and a decrease in bond interest expenses because of the conversion of convertible bonds.

As a result, consolidated ordinary income was ¥19,312 (a increase of 41.5% over the previous fiscal year).

(Consolidated net income)

Extraordinary gains were ¥231 million (a 124.1% increase over the previous fiscal year), mainly from a gain on the transfer of the animal health business. Extraordinary losses were ¥4,450 million (an increase of 74.7 percent over the previous fiscal year), as the Company recorded special retirement benefits due to the early retirement program, expenses from consolidation of sales branches, and a one-time loss on revision of the retirement benefit system.

As a result, consolidated net income was ¥ 7,878 million (an increase of 57.1% over the previous fiscal year).

3) Outlook for the Fiscal Year Ending March 31, 2005

Trends such as measures for the government's healthcare system reforms and the conversion of public hospitals and others to independent administrative agencies are expected to cause further significant changes in the operating environment of the pharmaceutical industry.

On April 1, 2004, ATOL CO., LTD. and EVERLTH Co., Ltd. became wholly owned subsidiaries of Kuraya Sanseido using a share exchange method, and on May 1, 2004, NAKAGAWA SEIKODO CO., LTD. became a wholly owned subsidiary of Kuraya Sanseido by a simple exchange of shares. On October 1, 2004, the present KURAYA SANSEIDO Inc., upon becoming an operating holding company and changing its name to MEDICEO Holdings Co., Ltd., will separate its pharmaceutical wholesale business, which will become the new KURAYA SANSEIDO Inc. As a result of this company separation, the new KURAYA SANSEIDO Inc., ATOL CO., LTD., EVERLTH Co., Ltd. and NAKAGAWA SEIKODO CO., LTD. will all become wholly owned subsidiaries of MEDICEO Holdings Co., Ltd.

Kuraya Sanseido, YONYAKU CO., LTD. (Ehime Prefecture) and NAKAZAWA UJIKE PHARMACEUTICAL CO., LTD. (Kochi) entered into a business alliance covering all of their operations.

Amid predicted changes in the operating environment, the Kuraya Sanseido Group will make full use of its enhanced functions and raise efficiency and increase its corporate value by concentrating management resources, while maintaining its strength of community-based sales activities built up in each sales area. By doing so, the Group will promote the Medium-Term Management Plan and work to further improve business results.

In addition, effective from April 1, 2004, Kuraya Sanseido changed to a retirement benefit system consisting of a tax-qualified pension plan that replaced the contract-based plan, as well as a newly introduced defined-contribution pension plan and an unfunded lump-sum retirement benefit plan.

As a result, for the fiscal year ending March 31, 2005, we project consolidated net sales of ¥1,689.0 billion (a 31.5% increase year-on-year), consolidated ordinary income of ¥30.2 billion (a 56.4% increase year-on-year), and consolidated net income of ¥17.7 billion (a 124.6% increase year-on-year).

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.

4) Business and Other Risks

The main risks in the business of Kuraya Sanseido and the Kuraya Sanseido Group are as follows.

- Risks related to specific legal regulations, etc.

Kuraya Sanseido and the Kuraya Sanseido Group handle various types of pharmaceuticals and related products as pharmaceutical wholesale distribution companies. Therefore, we conduct sales activities after receiving the necessary authorizations, registrations, designations and licenses from the local governments where business sites are located, pursuant to the Pharmaceutical Affairs Law and other laws.

- Drug price standards

Ethical drugs, the main products handled by Kuraya Sanseido and the Kuraya Sanseido Group, are subject to National Health Insurance (NHI) drug price standards. The drug price standards stipulate the billing prices for pharmaceuticals used within the scope of drugs that can be used in health insurance treatment. Accordingly, the drug price standards function as an upper limit on selling prices.

- Sales discontinuations, product recalls, etc.

Business results may be affected in the event of a situation such as the discontinuation of sales or recall of certain products due to defects, unforeseen side effects or tampering of certain products sold.

- System trouble

The business of Kuraya Sanseido and the Kuraya Sanseido Group is heavily reliant on computer network systems. Discontinuation of functions due to a natural disaster, accident, intrusion of a computer virus or other occurrences, may result in significant obstacles to product distribution.

- Default risk

Business results would be affected in the event that a default occurs due to the bankruptcy or civil rehabilitation, etc., of customers, in regard to the credits associated with ongoing transactions between Kuraya Sanseido and the Kuraya Sanseido Group and medical institutions.

- Inventory risk

Kuraya Sanseido and the Kuraya Sanseido Group have inventories from suppliers. Business results may be affected in the event that selling prices decline or products become unsaleable due to the bankruptcy or civil rehabilitation, etc. of suppliers.

- Litigation risk

Kuraya Sanseido and the Kuraya Sanseido Group may be a party to litigation related to product liability, the environment, labor or other matters in the course of conducting business activities.

Various risks other than these exist, and the risks described here are not all of the risks of Kuraya and the Kuraya Sanseido Group.

(2) Financial Position

In the fiscal year under review, on a consolidated basis, net cash provided by operating activities was ¥13,247 million, net cash used in investing activities was ¥4,240 million, and net cash used in financing activities was ¥7,270 million. As a result, cash and cash equivalents (hereinafter referred to as “funds”) at the end of the period increased ¥1,736 million (2.5%) from the end of the previous fiscal year, to ¥70,112 million.

[Cash Flows from Operating Activities]

The increase in funds from operating activities was ¥13,247 million (a 15.1% increase year-on-year). Regarding the main components of the increase, income before income taxes and minority interests was ¥15,093 million (an increase of 34.8% year-on-year), depreciation and amortization was ¥5,709 million, the decrease in trade notes and accounts receivable was ¥1,463 million, the decrease in inventories was ¥2,928 million, and the decrease in other current assets was ¥6,787 million. However, notes and accounts payable decreased ¥11,955 million and cash paid for income taxes was ¥8,873 million.

[Cash Flows from Investing Activities]

The decrease in funds from investing activities was ¥4,240 million (in the previous year the decrease was ¥6,540 million). The decrease mainly consisted of ¥4,974 million in payments for purchase of property, plant and equipment, including the Health Care HIGASHINIPPON DISTRIBUTION CENTER.

[Cash Flows from Financing Activities]

The decrease in funds from financing activities was ¥7,270 million (in the previous fiscal year the decrease was ¥10,123 million). The main components were a ¥4,960 million net decrease in short-term bank loans, ¥1,029 million used in repayment of long-term debt, and ¥1,665 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	Year ended March 31, 2004
Shareholders' equity ratio (%)	18.9	17.2	17.6	20.6
Shareholders' equity ratio on a market value basis (%)	15.8	10.9	18.9	30.9
Debt repayment period (years)	1.9	3.3	2.9	1.8
Interest coverage ratio	46.6	24.1	29.8	43.7

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

- All indicators are calculated based on consolidated financial figures.
- 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).
- 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, 2004		March 31, 2003		
ASSETS	626,626	100.0%	638,589	100.0%	(11,963)
Current assets	487,645	77.8	498,551	78.1	(10,906)
Cash on hand and in bank	70,645		70,153		492
Notes and accounts receivable – trade	338,035		340,233		(2,198)
Marketable securities	2		2		0
Inventories	52,954		55,900		(2,945)
Deferred income taxes	3,633		4,126		(492)
Accounts receivable	23,169		29,917		(6,747)
Other current assets	2,095		2,162		(66)
Allowance for doubtful accounts	(2,891)		(3,944)		1,052
Fixed assets	138,980	22.2	140,037	21.9	(1,057)
Tangible fixed assets:	93,739	15.0	95,464	14.9	(1,725)
Buildings and structures	38,333		40,603		(2,269)
Land	46,805		48,402		(1,597)
Construction in progress	2,714		53		2,661
Other tangible fixed assets	5,885		6,405		(519)
Intangible fixed assets:	7,294	1.2	7,629	1.2	(335)
Software	5,188		1,817		3,371
Consolidation difference	1,155		1,987		(831)
Other intangible fixed assets	949		3,825		(2,875)
Investments and other assets:	37,946	6.0	36,943	5.8	1,003
Investment securities	15,003		11,956		3,047
Long-term loans receivable	324		398		(74)
Deferred income taxes	6,808		7,678		(870)
Deferred income taxes – land revaluation	7,974		8,456		(481)
Other	13,624		13,633		(8)
Allowance for doubtful accounts	(5,789)		(5,180)		(609)
Total assets	626,626	100.0	638,589	100.0	(11,963)

4-1. Consolidated Balance Sheets

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

	As of		As of		Year-on-Year Change
	March 31, 2004		March 31, 2003		
LIABILITIES	496,946	79.3%	521,900	81.7%	(24,953)
Current liabilities:	462,988	73.9	481,680	75.4	(18,692)
Notes and accounts payable – trade	433,696		445,652		(11,955)
Short-term bank loans	7,339		12,299		(4,960)
Current portion of long-term debt	735		969		(233)
Income taxes payable	2,839		5,383		(2,544)
Reserve for bonuses	6,026		7,014		(988)
Allowance for losses on sales returns	699		704		(5)
Other current liabilities	11,653		9,657		1,995
Long-term liabilities:	33,958	5.4	40,219	6.3	(6,261)
Convertible bonds	14,459		19,324		(4,865)
Long-term debt	741		1,137		(396)
Deferred income taxes – land revaluation	234		252		(17)
Employees’ retirement benefits	9,956		16,420		(6,463)
Officers’ retirement benefits	1,854		1,827		26
Allowance for losses on debt guarantees	74		292		(217)
Other long-term liabilities	6,638		965		5,672
MINORITY INTERESTS	691	0.1	4,427	0.7	(3,735)
Minority interests	691	0.1	4,427	0.7	(3,735)
SHAREHOLDERS’ EQUITY	128,987	20.6	112,261	17.6	16,725
Common stock	15,183	2.4	12,751	2.0	2,432
Capital surplus	30,064	4.8	25,919	4.1	4,144
Retained earnings	93,308	14.9	87,874	13.7	5,433
Revaluation surplus	(11,462)	(1.8)	(12,259)	(1.9)	797
Unrealized gain on certain investment securities	4,341	0.7	2,602	0.4	1,739
Treasury stock, at cost	(2,448)	(0.4)	(4,626)	(0.7)	2,178
Total liabilities, minority interests and shareholders’ equity	626,626	100.0	638,589	100.0	(11,963)

4-2. Consolidated Statements of Operations

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

	Year ended March 31, 2004		Year ended March 31, 2003		Year-on-Year Change
Net sales	1,283,925	100.0%	1,274,502	100.0%	9,422
Cost of sales	1,167,126	90.9	1,159,550	91.0	7,575
Provision for losses on sales returns	(5)	(0.0)	28	0.0	(34)
Gross profit	116,805	9.1	114,923	9.0	1,882
Selling, general and administrative expenses	101,450	7.9	104,763	8.2	(3,312)
Operating income	15,354	1.2	10,159	0.8	5,194
Non-operating income:	5,001	0.4	4,830	0.4	171
Interest income	66		115		(49)
Dividend income	151		145		5
Research fee income	3,201		2,886		315
Real estate rental income	834		1,024		(190)
Other non-operating income	748		659		89
Non-operating expenses:	1,044	0.1	1,346	0.1	(302)
Interest expense	306		388		(81)
Real estate rental expenses	612		708		(96)
Other non-operating expenses	124		249		(124)
Ordinary income	19,312	1.5	13,644	1.1	5,668
Extraordinary gains:	231	0.0	103	0.0	128
Gain on sales of fixed assets	27		28		(1)
Gain on sales of investment securities	4		33		(29)
Gain on disposal of golf memberships	3		30		(26)
Gain on transfer of business	160		—		160
Reversal of allowance for doubtful accounts	36		—		36
Reversal of allowance for losses on debt guarantees	—		8		(8)
Other extraordinary gains	—		2		(2)
Extraordinary losses:	4,450	0.3	2,547	0.2	1,903
Loss on sale and disposal of fixed assets	703		890		(186)
Loss on sale of investment securities	—		7		(7)
Loss on valuation of investment securities	43		312		(268)
Loss on valuation of equity in affiliate	256		—		256
Loss on disposal of golf memberships	3		80		(76)
Loss on valuation of golf memberships	36		132		(95)
Special retirement benefits	1,362		1,079		283
Sales office consolidation expenses	1,476		44		1,431
Loss on revision of retirement benefit system	566		—		566
Income before income taxes and minority interests	15,093	1.2	11,200	0.9	3,893
Current income taxes	6,327	0.5	7,803	0.6	(1,476)
Deferred income taxes	530	0.1	(2,131)	(0.1)	2,661
Gain in minority interests	356	0.0	512	0.0	(155)
Net income	7,878	0.6	5,015	0.4	2,863

4-3. Consolidated Statements of Retained Earnings

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

	Year ended March 31, 2004	Year ended March 31, 2003	Year-on-Year Change
CAPITAL SURPLUS			
Capital surplus, beginning of year	25,919	24,321	1,598
Increase in capital surplus	4,144	1,598	2,546
Increase due to conversion of convertible bonds	2,432	1,598	834
Gain on retirement of treasury stock	1,712	—	1,712
Capital surplus, end of year	30,064	25,919	4,144
RETAINED EARNINGS			
Retained earnings, beginning of year	87,874	84,536	3,338
Increase in retained earnings	7,878	5,203	2,675
Net income	7,878	5,015	2,863
Increase due to merger	—	57	(57)
Increase due to the increase in consolidated subsidiaries	—	22	(22)
Reverse of revaluation surplus	—	107	(107)
Decrease in retained earnings	2,445	1,865	580
Cash dividends paid	1,644	1,610	34
Bonuses to directors and statutory auditors	151	16	135
[Bonuses to statutory auditors]	[6]	[0]	[6]
Loss on retirement of treasury stock	—	238	(238)
Reverse of revaluation surplus	649	—	649
Retained earnings, end of year	93,308	87,874	5,433

4-4. Consolidated Statements of Cash Flows

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

	Year ended March 31, 2004	Year ended March 31, 2003	Year-on-Year Change
Cash flows from operating activities			
Income before income taxes and minority interests	15,093	11,200	3,893
Depreciation and amortization	5,709	5,203	505
Amortization of consolidation difference	726	732	(6)
Increase (decrease) in employees' retirement benefits – net	(6,463)	1,811	(8,275)
Increase (decrease) in officers' retirement benefits	26	(27)	53
Increase (decrease) in accrued employees' bonuses	(988)	818	(1,806)
Increase (decrease) in allowance for doubtful accounts	(442)	373	(816)
Increase (decrease) in allowance for returns	(5)	28	(34)
Reversal of allowance for losses on debt guarantees	(217)	(8)	(209)
Interest and dividend income	(217)	(260)	43
Interest expenses	306	388	(81)
Gain (loss) on foreign currency translation	0	(2)	2
Loss on disposal of fixed assets	1,770	862	908
Loss on sale and devaluation of securities – net	296	286	9
Loss on golf memberships	37	182	(144)
Gain on transfer of business	(160)	—	(160)
Special retirement benefits	1,362	1,079	283
Decrease (increase) in notes and accounts receivable – trade	1,463	(2,871)	4,335
Decrease (increase) in inventories	2,928	(2,314)	5,243
Decrease in other current assets	6,787	1,487	5,299
Increase (decrease) in notes and accounts payable	(11,955)	1,495	(13,451)
Increase (decrease) in accrued consumption taxes	(292)	225	(517)
Increase (decrease) in other current liabilities	7,967	(1,772)	9,739
Payment of officers' bonuses	(163)	(21)	(141)
Subtotal	23,569	18,896	4,672
Interest and dividends received	217	261	(43)
Cash paid for interest	(303)	(386)	83
Special retirement benefits paid	(1,362)	(1,079)	(283)
Cash paid for income taxes	(8,873)	(6,182)	(2,690)
Net cash provided by operating activities	13,247	11,509	1,738
Cash flows from investing activities			
Payments for time deposits	(265)	(1,658)	1,393
Maturity of time deposits	1,509	1,990	(481)
Payments for purchase of marketable securities	(2)	(2)	(0)
Proceeds from sale of marketable securities	2	39	(36)
Payments for purchase of property, plant and equipment	(4,974)	(6,205)	1,231
Proceeds from sale of property, plant and equipment	1,294	1,251	43
Payments for purchase of investment securities	(117)	(452)	334
Proceeds from sale of investment securities	12	169	(157)
Proceeds from additional purchase of stock of consolidated subsidiaries	(12)	(229)	217
Payments for issuance of loans	(418)	(257)	(160)
Proceeds from recovery of loans	200	246	(46)
Proceeds from transfer of business	397	—	397
Other, net	(1,865)	(1,429)	(435)
Net cash used in investing activities	(4,240)	(6,540)	2,299

4-4. Consolidated Statements of Cash Flows

Cash flows from financing activities			
Decrease in short-term bank loans – net	(4,960)	(3,641)	(1,319)
Proceeds from long-term debt	400	800	(400)
Repayment of long-term debt	(1,029)	(1,405)	375
Repayment of convertible bonds	(0)	(4)	4
Proceeds from issuance of common stock	—	4	(4)
Purchase of treasury stock	(14)	(4,250)	4,236
Cash dividends paid	(1,644)	(1,610)	(34)
Cash dividends paid to minority shareholders	(21)	(15)	(5)
Net cash used in financing activities	(7,270)	(10,123)	2,853
Effect of exchange rate change on cash and cash equivalents	(0)	2	(2)
Net increase (decrease) in cash and cash equivalents	1,736	(5,151)	6,887
Cash and cash equivalents at beginning of year	68,375	73,933	(5,558)
Increase in cash and cash equivalents in connection with merger of unconsolidated subsidiary	—	13	13
Cash and cash equivalents in connection with exclusion of consolidation for certain subsidiary	—	(420)	420
Cash and cash equivalents at end of year	70,112	68,375	1,736

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.

(2) Unconsolidated Subsidiaries

Significant unconsolidated subsidiaries:

HONGOYAKUHIN, 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 (HONGOYAKUHIN, 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, certain 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.

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

(Additional information)

On April 1, 2004, the Company revised its retirement benefit system, transferring the tax-qualified pension plan to a contract-type corporate pension plan, and transferring part of the lump-sum retirement benefit system to a defined contribution pension plan, applying the "Accounting Process for Transfers Between Retirement Benefit Systems (Corporate Accounting Standards, Application Guideline 1)."

The effect of these transfers is an extraordinary loss of ¥566 million.

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.

Notes to Consolidated Balance Sheets

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

As of March 31, 2004		As of March 31, 2003	
1. Accumulated depreciation of property, plant and equipment		1. Accumulated depreciation of property, plant and equipment	
Buildings and structures	38,256	Buildings and structures	37,643
Other	10,137	Other	9,393
Total	48,394	Total	47,036
2. Items pertaining to unconsolidated subsidiaries and affiliates		2. Items pertaining to unconsolidated subsidiaries and affiliates	
Investment securities (stock)	901	Investment securities (stock)	1,067
3. Pledged assets		3. Pledged assets	
Time deposits	160	Time deposits	255
Buildings and structures	2,729	Buildings and structures	3,086
Land	6,271	Land	6,458
Investment securities	958	Investment securities	825
Total	10,120	Total	10,625
Liabilities corresponding to above pledged assets:		Liabilities corresponding to above pledged assets:	
Accounts payable	24,185	Accounts payable	36,564
Short-term loans	2,815	Short-term loans	4,619
Current portion of long-term debt	473	Current portion of long-term debt	551
Long-term loans	391	Long-term loans	525
Total	27,865	Total	42,261
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:	
Love Drugs Co., Ltd.	85	Chiba General Wholesalers	
Other	58	Cooperative Association	450
		Chiba Tonyacho Area Town	
		Redevelopment Association	195
		Love Drugs Co., Ltd.	125
		Other	64
Total	143	Total	835

<p>5. 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: ¥6,292 million</p>	<p>5. 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. The Company and its consolidated subsidiaries have overdraft contracts with 20 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 border="0" 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;">72,300</td> </tr> <tr> <td><u>Unexercised balance</u></td> <td style="text-align: right;"><u>6,615</u></td> </tr> <tr> <td>Net balance</td> <td style="text-align: right;">65,685</td> </tr> </table>		(¥ million)	Total amount of overdraft limit	72,300	<u>Unexercised balance</u>	<u>6,615</u>	Net balance	65,685	<p>6. 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 border="0" 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
	(¥ million)																
Total amount of overdraft limit	72,300																
<u>Unexercised balance</u>	<u>6,615</u>																
Net balance	65,685																
	(¥ million)																
Total amount of overdraft limit	70,200																
<u>Unexercised balance</u>	<u>10,995</u>																
Net balance	59,205																
<p>7. The total number of shares issued and outstanding is 147,736,054 shares of common stock.</p>	<p>7. The total number of shares issued and outstanding is 142,424,946 shares of common stock.</p>																
<p>8. The number of treasury shares held by consolidated companies is 3,721,757 shares of common stock.</p>	<p>8. The number of treasury shares held by consolidated companies is 7,049,820 shares of common stock.</p>																

Notes to Consolidated Statements of Operations

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

Year ended March 31, 2004		Year ended March 31, 2003	
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	45,355	Wages and salaries	46,538
Welfare expenses	7,873	Welfare expenses	8,250
Provision for bonuses	6,020	Provision for bonuses	7,007
Provision for employees' retirement benefits	4,810	Provision for employees' retirement benefits	5,036
Provision for officers' retirement bonuses	232	Provision for officers' retirement bonuses	251
Shipping and delivery expenses	4,947	Shipping and delivery expenses	4,843
Rental expenses	3,364	Rental expenses	3,349
Depreciation and amortization	5,218	Depreciation and amortization	4,641
Amortization of consolidation difference	726	Provision for doubtful accounts	1,138
		Amortization of consolidation difference	732
2. Components of gain on sales of fixed assets:		2. Components of gain on sales of fixed assets:	
Land	16	Land	27
Other	10	Other	0
Total	27	Total	28
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	101	Buildings and structures	123
Software	113	Construction in progress	212
Other	72	Other	48
Total	286	Total	384
(Loss on sale of fixed assets)		(Loss on sale of fixed assets)	
Land	408	Buildings and structures	111
Other	8	Land	326
		Other	68
Total	416	Total	505

Notes to Consolidated Statements of Cash Flows

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

Year ended March 31, 2004		Year ended 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, 2004)		1. Relationship between ending balance of cash and cash equivalents and amounts reported in the consolidated balance sheets (As of March 31, 2003)	
Cash and deposits	70,645	Cash and deposits	70,153
Time deposits with maturities exceeding three months	(533)	Time deposits with maturities exceeding three months	(1,777)
Cash and cash equivalents	70,122	Cash and cash equivalents	68,375
2. The main components of the decrease in assets due to transfer of business in this consolidated accounting period are as follows:		2.	
Current assets	237		
3. 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		3. 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	2,432	Increase in capital due to conversion of convertible bonds	1,598
Increase in capital reserve due to conversion of convertible bonds	2,432	Increase in capital reserve due to conversion of convertible bonds	1,598
Decrease in convertible bonds due to conversion	4,865	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, 2004 and March 31, 2003.

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, 2004 and March 31, 2003.

3. Overseas Sales

The Company had no overseas sales for the years ended March 31, 2004 or March 31, 2003.

6. Lease Transactions

Omitted due to disclosure on EDINET.

7. Transactions with Related Parties

(April 1, 2003-March 31, 2004)

(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	13.09% (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)	¥189,413	¥520
Line item	Accrued income	Notes and accounts payable
Balance at end of period (million)	¥3,452	¥45,795

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, 2004)

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

Deferred tax assets	
Allowance for doubtful accounts	¥2,278 million
Enterprise taxes payable	¥265 million
Reserve for bonuses	¥2,453 million
Employees' retirement benefits	¥6,787 million
Officers' retirement bonuses	¥756 million
Other	¥3,215 million
Total deferred tax assets	<u>¥15,757 million</u>
Deferred tax liabilities	
Reserve for asset compression	(¥1,195) million
Unrealized gain on certain investment securities	(¥3,423) million
Other	(¥696) million
Total deferred tax liabilities	<u>(¥5,315) million</u>
Net deferred tax assets (liabilities)	<u>¥10,441 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	¥3,633 million
Fixed assets	—	Deferred income taxes	¥6,808 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	2.0%
Average rate of inhabitant's tax	1.1%
Corrective decrease in deferred assets at end of period due to change in tax rates	
IT investment tax reduction	(4.3)%
Other	4.5%
Effective tax rate	45.4%

9. Marketable Securities

(As of March 31, 2004)

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	3,842	12,302	8,460
(2) Bonds			
National and local government bonds, etc.	—	—	—
Corporate bonds	5	5	0
Other	—	—	—
(3) Other	—	—	—
Sub-total	3,847	12,307	8,460
Securities with balance sheet amounts that do not exceed acquisition cost:			
(1) Stocks	477	424	(53)
(2) Bonds			
National and local government bonds, etc.	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
(3) Other	—	—	—
Sub-total	477	424	(53)
Total	4,325	12,732	8,406

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 ¥8 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 2004 (April 1, 2003-March 31, 2004)

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

Amount sold	Total profit on sales	Total loss on sales
7	4	—

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

Other marketable securities

Unlisted domestic stocks (excluding stocks traded over-the-counter): ¥1,069 million

Unlisted domestic government bonds: ¥2 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	—	5	—	—
Other	3	—	—	—
(2) Other	—	—	—	—
Total	3	5	—	—

(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	—	—

10. Derivative Transactions

Omitted due to disclosure on EDINET.

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. However, as of April 1, 2004, these will be transferred to a defined benefit plan comprising a contributory pension plan, a contract-type corporate pension plan and a lump-sum retirement payment, and a defined contribution plan consisting of a defined contribution pension plan. In addition, the Company and its consolidated subsidiaries may pay a premium severance payment when employees retire.

2. Retirement benefit obligation

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

	As of March 31, 2004	As of March 31, 2003
(1) Projected benefit obligation	(30,269)	(35,899)
(2) Plan assets at fair value	19,025	17,107
(3) Funded status ((1) + (2))	(11,244)	(18,792)
(4) Unaccounted for difference arising from change in accounting standards	—	—
(5) Unrecognized net (gain) or loss	1,288	2,372
(6) Unrecognized past service cost	—	—
(7) Net amount stated on consolidated balance sheet ((3) + (4) + (5) + (6))	(9,956)	(16,420)
(8) Prepaid pension expenses	—	—
(9) Reserve for retirement benefits ((7) - (8))	(9,956)	(16,420)

As of March 31, 2003

As of March 31, 2002

Notes:

- Some subsidiaries use the simplified method in calculating the retirement benefit obligation.
- The effect associated with the transfer of part of the lump-sum retirement payment system to a defined contribution pension plan is as follows:

Decrease in benefit obligation	¥7,810 million
<u>Unrecognized net gain</u>	<u>¥375 million</u>
Decrease in reserve for retirement benefits	¥7,434 million

The amount of assets transferred to the defined contribution pension plan is ¥8,001 million, and is scheduled to be transferred over four years. The untransferred amount of ¥8,001 million at the end of this consolidated accounting period is accounted for in accrued expenses ("Other current liabilities" in current liabilities), and long-term accrued expenses ("Other long-term liabilities" in long-term liabilities).

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, 2004	Year ended March 31, 2003
(1) Service cost	2,418	2,693
(2) Interest cost	1,057	1,065
(3) Expected return on plan assets	(433)	(597)
(4) Difference arising from accounting change charged to income	—	—
(5) Actuarial differences charged to income	1,795	1,886
(6) Past service cost charged to income	—	—
(7) Retirement benefit expenses (1) + (2) + (3) + (4) + (5) + (6)	4,837	5,047
(8) Total pension plan assets based on premium contribution rate	566	—
Total	5,404	5,047

As of March 31, 2004

As of March 31, 2003

Notes:

- Besides the retirement benefit expenses above, the Company paid special retirement benefits of ¥1,362 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 ¥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.

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

	<u>As of March 31, 2004</u>	<u>As of March 31, 2003</u>
(1) Periodic allocation method for projected benefits:	Mainly point basis	Mainly point basis
(2) Discount rate:	2.5%	3.0%
(3) Expected rate of return:	2.5%	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:	Not applicable	Not applicable
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, 2004</u>	<u>As of March 31, 2003</u>
Pension plan assets based on the proportion of contributions	35,651	32,559

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, 2004		Year ended March 31, 2003	
Ethical drugs	1,120,711	87.3%	1,110,137	87.1%
Over-the-counter drugs	48,729	3.8	53,379	4.2
Medical equipment, tools and clinical materials	61,413	4.8	59,856	4.7
Reagents	29,117	2.3	27,973	2.2
Others	23,954	1.8	23,156	1.8
Total	1,283,925	100.0	1,274,502	100.0

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

	Year ended March 31, 2004		Year ended March 31, 2003	
Ethical drugs	1,018,254	87.5%	1,020,074	87.9%
Over-the-counter drugs	43,095	3.7	47,362	4.1
Medical equipment, tools and clinical materials	54,538	4.7	52,297	4.5
Reagents	26,607	2.3	21,552	1.8
Others	20,778	1.8	19,542	1.7
Total	1,163,274	100.0	1,160,828	100.0

14. Subsequent Events

(Exchange of shares with ATOL CO., LTD. and EVERLTH Co., Ltd.)

On April 1, 2004, the Company implemented an exchange of shares making ATOL CO., LTD. and EVERLTH Co., Ltd. wholly owned subsidiaries, for the purpose of increasing management efficiency and corporate value by conducting business on a nationwide scale and consolidating management resources.

As a result of this exchange of shares, the Company's total common stock issued and outstanding increased to 35,681,868 shares.

(Exchange of shares with NAKAGAWA SEIKODO CO., LTD.)

On May 1, 2004, the Company made a simple exchange of shares making consolidated subsidiary NAKAGAWA SEIKODO CO., LTD. a wholly owned subsidiary of the Company for the purpose of promoting business strategies that take advantage of the aggregate strength of the Kuraya Sanseido Group.

The Company allocated 1,918,059 shares of its treasury stock held for the simple exchange of shares.

Summary of Unconsolidated Financial Statements for the Fiscal Year Ended March 31, 2004

May 13, 2004

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 listing:

Tokyo

Code number:

7459

Board of Directors meeting:

May 13, 2004

Ordinary General Meeting

of Shareholders:

June 29, 2004

Interim dividend system:

Yes

Use of basic unit of stock:

Yes

(1 *tangen* unit = 100 shares)

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

(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 2004	1,218,355	1.5	10,542	27.2	13,819	19.4
Fiscal 2003	1,200,543	7.5	8,286	40.0	11,572	27.7

	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 2004	6,359	28.3	44.71	39.52	5.3	2.3	1.1
Fiscal 2003	4,957	38.4	36.24	31.29	4.4	1.9	1.0

Notes:

1. Average number of shares outstanding: 138,028,164 shares (Fiscal 2003: 133,336,952 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 2004	12.00	6.00	6.00	1,696	26.8	1.3
Fiscal 2003	12.00	6.00	6.00	1,616	33.1	1.4

(3) Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity/total assets (%)	Shareholders' equity per share (¥)
Fiscal 2004	598,329	127,206	21.3	881.98
Fiscal 2003	601,443	112,405	18.7	829.40

Notes:

1. Number of shares outstanding at end of period: 144,014,297 shares (Fiscal 2003: 135,375,126 shares)

2. Number of shares of treasury stock outstanding at end of period: 3,721,757 shares (Fiscal 2003: 7,049,820 shares)

2. Projected Results for Fiscal 2005 (April 1, 2004 - March 31, 2005)

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)	Annual dividends per share (¥)		
				Interim	Year-end	
Interim period	620,900	6,000	2,400	6.00	—	—
Fiscal 2005	—	—	—	—	6.00	12.00

Reference: Estimated earnings per share (fiscal 2005): ¥—

Notes:

- The amounts above are rounded down to the nearest million yen.
- The Company plans to make a company separation on October 1, 2004, and projections for fiscal 2005 are omitted because certain items are not yet determined. The Company plans to announce these projections when it discloses the summary of financial position and results for the first quarter of fiscal 2005.

16-1. Unconsolidated Balance Sheets

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

	As of		As of		Year-on-Year Change
	March 31, 2004		March 31, 2003		
ASSETS	598,329	100.0%	601,443	100.0%	(3,114)
Current assets:	470,141	78.6	476,786	79.3	(6,645)
Cash on hand and in bank	57,962		57,145		816
Trade notes receivable	17,889		27,310		(9,421)
Trade accounts receivable	325,613		317,218		8,395
Merchandise	42,153		42,581		(427)
Prepaid expenses	788		982		(194)
Deferred income taxes	2,823		3,509		(686)
Accounts receivable	23,410		29,161		(5,750)
Other current assets	306		407		(101)
Allowance for doubtful accounts	(806)		(1,531)		724
Fixed assets	128,187	21.4	124,657	20.7	3,530
Tangible fixed assets:	77,847	13.0	79,449	13.2	(1,602)
Buildings	31,560		33,661		(2,100)
Structures	1,037		1,153		(116)
Machinery and equipment	2,887		3,299		(411)
Vehicles and carriers	38		46		(8)
Tools and fixtures	2,489		2,597		(108)
Land	37,120		38,648		(1,528)
Construction in progress	2,714		42		2,671
Intangible fixed assets:	5,879	1.0	5,373	0.9	506
Land leaseholds	128		157		(28)
Telephone subscription rights	240		243		(2)
Facilities usage rights	75		82		(6)
Software	5,089		1,705		3,383
Other	345		3,185		(2,840)
Investments and other assets:	44,460	7.4	39,834	6.6	4,626
Investment securities	11,048		8,507		2,540
Equity in subsidiaries and affiliates	12,974		9,273		3,700
Investments	179		213		(33)
Long-term loans	30		30		—
Long-term loans to employees	14		15		(0)
Long-term loans to subsidiaries and affiliates	3,829		3,858		(29)
Long-term accumulated credits	2,342		2,625		(282)
Long-term prepaid expenses	255		217		37
Deferred income taxes	2,397		2,805		(408)
Deferred income taxes - land revaluation	7,792		8,287		(494)
Other	6,285		6,820		(535)
Allowance for doubtful accounts	(2,687)		(2,820)		133
Total assets	598,329	100.0	601,443	100.0	(3,114)

16-1. Unconsolidated Balance Sheets

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

	As of		As of		Year-on-Year Change
	March 31, 2004		March 31, 2003		
LIABILITIES	471,122	78.7%	489,038	81.3%	(17,915)
Current liabilities:	444,784	74.3	456,784	75.9	(12,000)
Trade notes payable	11,547		15,478		(3,930)
Trade accounts payable	412,424		413,528		(1,103)
Accrued payables	10,430		12,993		(2,563)
Income taxes payable	1,393		4,035		(2,641)
Consumption taxes payable	1,273		1,903		(629)
Accrued expenses	1,893		1,944		(51)
Deposits	189		211		(22)
Advance payments received	37		45		(8)
Reserve for bonuses	4,872		6,010		(1,137)
Allowance for losses on sales returns	547		558		(11)
Other current liabilities	172		74		98
Long-term liabilities:	26,338	4.4	32,253	5.4	(5,914)
Convertible bonds	14,459		19,324		(4,865)
Long-term accrued expenses	6,061		—		6,061
Guarantee deposits	3,928		10,647		(6,718)
Officers' retirement bonuses	1,313		1,317		(4)
Other long-term liabilities	575		965		(389)
SHAREHOLDERS' EQUITY	127,206	21.3	112,405	18.7	14,801
Common stock	15,183	2.5	12,751	2.1	2,432
Capital surplus	30,064	5.0	25,919	4.3	4,144
Additional paid-in capital	28,351		25,919		2,432
Other capital surplus	1,712		—		1,712
Gain on retirement of treasury stock	1,712		—		1,712
Retained earnings	91,804	15.4	87,873	14.7	3,930
Legal reserve	1,795		1,795		—
Voluntary reserves	83,081		80,200		2,880
Reserve for asset compression	1,629		1,448		180
General reserve	81,451		78,751		2,700
Unallocated profit for the period	6,927		5,877		1,049
Revaluation surplus	(11,354)	(1.9)	(11,974)	(2.0)	620
Unrealized gain on securities	3,956	0.7	2,462	0.4	1,494
Treasury stock	(2,448)	(0.4)	(4,626)	(0.8)	2,178
Total liabilities and shareholders' equity	598,329	100.0	601,443	100.0	(3,114)

16-2. Unconsolidated Statements of Operations

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

	Year ended March 31, 2004		Year ended March 31, 2003		Year-on-year Change
Net sales	1,218,355	100.0%	1,200,543	100.0%	17,812
Cost of sales	1,129,932	92.7	1,110,177	92.5	19,755
Provision for losses on sales returns	(11)	(0.0)	29	0.0	(40)
Gross profit	88,434	7.3	90,336	7.5	(1,902)
Selling, general and administrative expenses	77,891	6.4	82,050	6.8	(4,158)
Operating income	10,542	0.9	8,286	0.7	2,256
Non-operating income:	4,157	0.3	4,368	0.4	(210)
Interest income	77		96		(19)
Dividend income	138		127		11
Interest on marketable securities	0		0		(0)
Research fee income	2,467		2,260		207
Real estate rental income	867		1,045		(178)
Other non-operating income	606		838		(232)
Non-operating expenses:	881	0.1	1,082	0.1	(200)
Interest expense	42		41		0
Bond interest expense	152		179		(27)
Real estate rental expense	589		703		(114)
Carryover of allowance for doubtful accounts	—		12		(12)
Other non-operating expenses	97		145		(47)
Ordinary income	13,819	1.1	11,572	1.0	2,247
Extraordinary gains:	1,455	0.1	58	0.0	1,397
Gain on sale of fixed assets	11		28		(17)
Gain on sale of investment securities	2		—		2
Gain on disposal of golf memberships	2		30		(27)
Gain on transfer of business	1,080		—		1,080
Reversal of allowance for doubtful accounts	358		—		358
Extraordinary losses:	4,306	0.3	2,267	0.2	2,039
Loss on sale and disposal of fixed assets	677		781		(104)
Loss on valuation of investment securities	29		265		(236)
Loss on valuation of equity in affiliate	328		—		328
Loss on disposal of golf memberships	3		75		(71)
Loss on valuation of golf memberships	20		116		(95)
Special retirement benefits	1,305		1,028		277
Office consolidation expenses	1,374		—		1,374
Loss on revision of retirement benefit system	566		—		566
Income before income taxes	10,968	0.9	9,363	0.8	1,605
Current income taxes	4,070	0.3	6,280	0.5	(2,210)
Deferred income taxes	539	0.1	(1,873)	(0.1)	2,412
Net income	6,359	0.5	4,957	0.4	1,402
Profit brought forward from the previous term	2,059		1,918		140
Disposition of land revaluation surplus	(658)		44		(703)
Loss on retirement of treasury stock	—		238		(238)
Interim dividends	832		804		28
Unappropriated retained earnings at the end of the term	6,927		5,877		1,049

16-3. Unconsolidated Statements of Appropriation of Retained Earnings

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

Item	Year ended March 31, 2004	Year ended March 31, 2003
Unappropriated retained earnings at the end of the year	6,927	5,877
Reversal of voluntary reserves		
Reversal of reserve for asset compression	37	38
Total unappropriated retained earnings	6,964	5,916
We propose to appropriate the foregoing as follows:		
Dividends	864	812
Bonuses to members of the Board of Directors	180	120
Bonuses to statutory auditors	8	5
Voluntary reserves		
Reserve for asset compression	5	219
Reserve for special asset compression	144	—
General reserve	3,200	2,700
Retained earnings carried forward to the next term	2,562	2,059

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.
(Additional information)
On April 1, 2004, the Company revised its retirement benefit system, transferring the tax-qualified pension plan to a contract-type corporate pension plan, and transferring part of the lump-sum retirement benefit system to a defined contribution pension plan, applying the "Accounting Process for Transfers Between Retirement Benefit Systems (Corporate Accounting Standards, Application Guideline 1)."
The effect of these transfers is an extraordinary loss of ¥566 million.
- (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

(Balance Sheets)

Long-term accrued expenses are stated as a separate item effective from the year ended March 31, 2004, because they

exceed 1/100 of total liabilities and shareholders' equity. For the year ended March 31, 2003, this amount was ¥135 million, and was included in "Other long-term liabilities."

Notes to Unconsolidated Balance Sheets

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

As of March 31, 2004		As of March 31, 2003	
1. Accumulated depreciation of property, plant and equipment		1. Accumulated depreciation of property, plant and equipment	
Buildings	27,582	Buildings	27,263
Structures	2,697	Structures	2,688
Machinery and equipment	3,393	Machinery and equipment	2,839
Vehicles and carriers	106	Vehicles and carriers	96
Tools and fixtures	5,569	Tools and fixtures	5,437
Total	39,350	Total	38,325
2. Pledged assets		2. Pledged assets	
Buildings	444	Time deposits	15
Land	1,296	Buildings	694
Investment securities	182	Land	1,546
Investment securities		Investment securities	177
Total	1,922	Total	2,434
Liabilities corresponding to above pledged assets:		Liabilities corresponding to above pledged assets:	
Trade accounts payable	23,731	Trade accounts payable	35,765
3. Notes related to subsidiaries and affiliates		3. Notes related to subsidiaries and affiliates	
Trade accounts receivable	88,061	Trade accounts receivable	75,883
Trade accounts payable	6,050	Trade accounts payable	6,692
		Accounts payable	9,064
4. Stock of subsidiaries and affiliates		4. _____	
Stock of subsidiaries and affiliates includes ¥100 million paid for new shares of KURAYA SANSEIDO Spin-off Preparation Inc. (established April 1, 2004).			
5. Number of shares authorized: 500,000,000 shares		5. Number of shares authorized: 500,000,000 shares	
Number of shares outstanding: 147,736,054 shares		Number of shares outstanding: 142,424,946 shares	
6. Treasury stock		6. Treasury stock	
Number of treasury shares held by the Company: 3,721,757 shares of common stock		Number of treasury shares held by the Company: 7,049,820 shares of common stock	
7. Contingent liabilities		7. 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.	4,100	SENSHU YAKUHIN CO., LTD.	4,900
USHIODA SANGOKUDO		USHIODA SANGOKUDO	
YAKUHIN CO., LTD.	253	YAKUHIN CO., LTD.	333
KURAYA SHOJI, INC.	225	KURAYA KASEI, INC.	305
KURAYA KASEI, INC.	204	KURAYA SHOJI, INC.	216
ORIENTAL PHARMACEUTICAL CO., LTD.	177	ORIENTAL PHARMACEUTICAL CO., LTD.	192
Love Drugs Co., Ltd.	85	Love Drugs Co., Ltd.	125
Other	0	Other	0
Total	5,045	Total	6,073
8. Dividend Restrictions		8. Dividend Restrictions	
The increase in net assets resulting from revaluation of assets at market value pursuant to Article 124, item 3 of the Commercial Code Enforcement Regulations was ¥3,956 million.		The increase in net assets resulting from revaluation of assets at market value pursuant to Article 290-1, item 6 of the Commercial Code was ¥2,462 million.	

<p>9. 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: ¥5,613 million</p>	<p>9. 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>10. 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;">50,000</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;">50,000</td> </tr> </table>		(¥ million)	Total amount of overdraft limit	50,000	<u>Unexercised balance</u>	<u>—</u>	Net balance	50,000	<p>10. 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
	(¥ million)																
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<p>11. Breakdown of increase and decrease in total shares outstanding during the period</p> <p>(Increase)</p> <p>Conversion of 1st tranche of 2nd convertible bonds: 5,311,108 shares</p> <p>Issue cost: ¥4,864 million</p> <p>Amount capitalized: ¥2,432 million</p> <p>Substitute treasury stock with share exchanges: 3,340,554 shares</p> <p>Total reissue cost: ¥2,192 million</p> <p>(Decrease)</p> <p>Treasury stock acquired: 12,491 shares</p> <p>Acquisition cost: ¥14 million</p>	<p>11. Breakdown of 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>																

Notes to Unconsolidated Statements of Operations

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

Year ended March 31, 2004		Year ended March 31, 2003	
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	34,131	Wages and salaries	35,918
Welfare expenses	5,981	Welfare expenses	6,402
Business consignment expenses	5,257	Business consignment expenses	5,229
Provision for bonuses	4,872	Provision for bonuses	6,010
Provision for employees' retirement benefits	3,994	Provision for employees' retirement benefits	4,274
Provision for officers' retirement bonuses	153	Provision for officers' retirement bonuses	173
Shipping and delivery expenses	4,094	Shipping and delivery expenses	4,014
Rental expenses	3,081	Rental expenses	3,113
Depreciation and amortization	4,685	Depreciation and amortization	4,070
		Provision for doubtful accounts	107
2. Components of gain on sale of fixed assets:		2. Components of gain on sale of fixed assets:	
Land	11	Vehicles and carriers	0
		Land	27
Total	11	Total	28
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	84	Buildings	59
Structures	11	Structures	8
Machinery and equipment	6	Machinery and equipment	0
Vehicles and carriers	0	Vehicles and carriers	0
Tools and fixtures	48	Tools and fixtures	39
Software	113	Construction in progress	212
Total	264	Total	321
Loss on sale of fixed assets:		Loss on sale of fixed assets:	
Buildings	8	Buildings	111
Tools and fixtures	0	Vehicles and carriers	0
Land	404	Land	288
		Telephone subscription rights	60
Total	412	Total	460
4. Transactions with affiliated companies include the following:		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.	
Net sales	252,135		
Gain on transfer of business	920		

17. Lease Transactions

Omitted due to disclosure on EDINET.

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, 2004 or the year ended March 31, 2003.

19. Deferred Tax Accounting

(As of March 31, 2004)

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

Deferred tax assets

Allowance for doubtful accounts	¥1,013 million
Enterprise taxes payable	¥139 million
Reserve for bonuses	¥1,983 million
Employees' retirement benefits	¥4,492 million
Officers' retirement bonuses	¥534 million
Other	¥1,664 million
Total deferred tax assets	<u>¥9,828 million</u>

Deferred tax liabilities

Reserve for asset compression	¥(1,195) million
Unrealized gain on certain investment securities	¥(2,715) million
Other	¥(696) million
Total deferred tax liabilities	<u>¥(4,608) million</u>
Net deferred tax assets (liabilities)	<u>¥5,220 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)	
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%
IT investment tax reduction	(5.9%)
Other	2.6%
Effective tax rate	42.0%

20. Subsequent Events

(Partial Transfer of Business to YAMAHIRO INC.)

On April 1, 2004, the Company transferred part of its business related to wholesale of ethical drugs in Nagano Prefecture to consolidated subsidiary YAMAHIRO INC. (current name: YAMAHIRO KURAYA SANSEIDO Inc.). The purpose of this business transfer was to facilitate more efficient sales activities and clarification of roles.

(1) Details of the Transfer of Business

Business related to the wholesale of ethical drugs in Nagano Prefecture

Business scale (Year ended March 31, 2004)

Net sales ¥19,486 million

(2) Transferred Assets

Book value of assets ¥4,699 million

Transfer price ¥5,049 million

(Exchange of shares with ATOL CO., LTD. and EVERLTH Co., Ltd.)

On April 1, 2004, the Company implemented an exchange of shares making ATOL CO., LTD. and EVERLTH Co., Ltd. wholly owned subsidiaries, for the purpose of increasing management efficiency and corporate value by conducting business on a nationwide scale and consolidating management resources.

As a result of this exchange of shares, the Company's total common stock issued and outstanding increased to 35,681,868 shares.

(Exchange of shares with NAKAGAWA SEIKODO CO., LTD.)

On May 1, 2004, the Company made a simple exchange of shares making consolidated subsidiary NAKAGAWA SEIKODO CO., LTD. a wholly owned subsidiary of the Company for the purpose of promoting business strategies that take advantage of the aggregate strength of the Kuraya Sanseido Group.

The Company allocated 1,918,059 shares of its treasury stock held for the simple exchange of shares.

(Spin-Off)

On May 13, 2004, the Board of Directors of Kuraya Sanseido resolved to become a holding company on October 1, 2004 (the company name will be changed to MEDICEO Holdings Co., Ltd. on the same date) and transfer pharmaceutical wholesale business operations to KURAYA SANSEIDO Spin-off Preparation Inc. (this company will change its name to KURAYA SANSEIDO Inc. on the same date). This will be placed on the agenda as "Spin-off (Absorption and Separation)" at the Ordinary General Meeting of Shareholders scheduled to be held on June 29, 2004.

(1) Objectives of spin-off

As the environment surrounding the pharmaceuticals wholesale industry undergoes significant change, this management integration preserves the functions of the regional sales activities that Kuraya Sanseido has cultivated in each sales region, and shifts the Company toward a holding company system that will work to expand sales throughout the country, make management more efficient through concentration of management resources and improve corporate value.

(2) Spin-off method

Spin-off separation (physical separation) through which Kuraya Sanseido becomes the separated company and KURAYA SANSEIDO Spin-off Preparation Inc., established with 100% investment of Kuraya Sanseido on April 1, 2004, for the purpose of this spin-off, becomes the successor company.

(3) Allotment of shares

Because Kuraya Sanseido presently holds all of Kuraya Sanseido Spin-off Preparation Inc.'s outstanding shares, Kuraya Sanseido Spin-off Preparation Inc. will not issue any stock after the spin-off.

(4) Scope of business to be spun off

The Company's pharmaceutical wholesale business, except as otherwise provided.

(5) Assets and liabilities to be separated (As of March 31, 2004)

Current assets	¥ 278,560 million	Current liabilities	¥294,266 million
Fixed assets	35,458 million	Long-term liabilities	10,191 million
Total assets	¥314,019 million	Total liabilities	¥304,458 million

(6) Company to take over business from Kuraya Sanseido as a result of the spin-off:

Corporate name KURAYA SANSEIDO Spin-off Preparation Inc.

Head office 7-15, Yaesu 2-chome, Chuo-ku, Tokyo

Paid-in capital ¥100 million

Principal business Wholesale of pharmaceutical products, etc.

21. Changes in Officers

(1) Changes in Representatives

1) Newly appointed representative directors (two as of October 1, 2004)

Vice President and Representative Director	Osamu Watanabe	(currently Director of Kuraya Sanseido; President and Representative Director of ATOL CO., LTD.)
Vice President and Representative Director	Takashi Saito	(currently Director of Kuraya Sanseido; President and Representative Director of EVERLTH Co., Ltd.)

Note: The two newly appointed representative directors above were announced on December 12, 2003.

2) Resigning representative director (one as of June 29, 2004)

Chairman and Representative Director	Takashi Yamada	(currently Chairman and Representative Director of Kuraya Sanseido)
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Note: The resignation of the above representative director was announced on December 12, 2003.

Resigning representative director (one as of September 30, 2004)

Vice President and Representative Director	Osamu Takumiya	(currently Vice President and Representative Director of Kuraya Sanseido; Chairman and Representative Director of KURAYA SANSEIDO Spin-off Preparation Inc.)
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Note: On October 1, 2004, through a corporate separation method, Kuraya Sanseido will become an operating holding company (scheduled to change its name to MEDICEO Holdings Co., Ltd. on the same day) and its pharmaceutical wholesale business will be separated and absorbed into the current KURAYA SANSEIDO Spin-off Preparation Inc. (scheduled to change its name to KURAYA SANSEIDO Inc. on the same day). After his resignation, Mr. Takumiya will become Chairman and Representative Director of the new KURAYA SANSEIDO Inc. Mr. Takumiya's assumption of the position of Chairman and Representative Director of the current KURAYA SANSEIDO Spin-off Preparation Inc. was announced on March 31, 2004.

(2) Changes in Other Officers

1) Candidates for new appointment as director (four as of June 29, 2004)

Director	Masahiko Masuyama	(currently Chief Executive Officer, Director of Affiliated Business Division of Kuraya Sanseido)
Director	Shinichi Matsuo	(currently Senior Executive Officer, Director of Human Resources, Administrative Division of Kuraya Sanseido)
Director	Kazumi Takahashi	(currently Senior Executive Officer, Tokyo Regional Sales Division Director, Ethical Drug Sales Division of Kuraya Sanseido)
Director	Yoshihiro Takatori	(currently Executive Officer, Director of Account Department, Administrative Division of Kuraya Sanseido)

Candidates for new appointment as director (two as of October 1, 2004)

Director	Takuro Hasegawa	(currently Director, Vice Director of Pharmaceuticals Sales Division and Director of Marketing Development Department of EVERLTH Co., Ltd.)
Director	Akira Kise	(currently Officer, Vice Director of Administration Department of ATOL CO., LTD.) (Scheduled to assume the position of Director of ATOL CO., LTD. on June 25, 2004)

- 2) Candidates for new appointment as auditor None
- 3) Resigning directors (three as of June 29, 2004)
- | | | |
|----------|-----------------|--|
| Director | Takashi Yamada | (currently Chairman and Representative Director) |
| Director | Masao Kumakura | (currently Director, Executive Director of Affiliated Business Division) |
| Director | Kazuya Yamagata | (currently Director, Director of Human Resources) |
- Resigning directors (seven as of September 30, 2004; current positions as of resignation date)
- | | | |
|----------|--------------------|---|
| Director | Osamu Takumiya | (currently Vice President and Representative Director; Chairman and Representative Director of KURAYA SANSEIDO Spin-off Preparation Inc.) |
| Director | Kenichi Murata | (currently Director, Director of Medical Equipment Division; Director of KURAYA SANSEIDO Spin-off Preparation Inc.) |
| Director | Akihiro Sakamoto | (currently Director, Health Care Division Director; Director of KURAYA SANSEIDO Spin-off Preparation Inc.) |
| Director | Taro Kimura | (currently Director, Management Planning Department Executive Director) |
| Director | Shinichi Matsuo | (currently Director, Director of Human Resources Administrative Division) |
| Director | Kazumi Takahashi | (currently Director, Tokyo Regional Sales Division Director, Ethical Drug Sales Division) |
| Director | Yoshihiro Takatori | (currently Director, Director of Account Department, Administrative Division) |
- 4) Resigning auditors None
- 5) Promotions, etc. of directors None

(3) Changes in Executive Officers

- 1) Candidates for new appointment as executive officer (eleven as of July 1, 2004)
- | | | |
|-------------------|-------------------|---|
| Executive Officer | Masaaki Obuchi | (currently Director of Business Division, SENSHU YAKUHI CO., LTD.) |
| Executive Officer | Fuminari Hikita | (currently Legal Affairs Director, Administrative Division) |
| Executive Officer | Sakae Terauchi | (currently Hokkaido/Tohoku Regional Sales Division Director, Ethical Drug Sales Division) |
| Executive Officer | Kazuyoshi Kamata | (currently Tokai Regional Sales Division Director, Ethical Drug Sales Division) |
| Executive Officer | Toshio Hirasawa | (currently Director of Financial Affairs, Administrative Division) |
| Executive Officer | Yuji Taniguchi | (currently Director of General Affairs, Administrative Division) |
| Executive Officer | Yukihiro Hirosaka | (currently Hokuriku Regional Sales Division Director, Ethical Drug Sales Division) |
| Executive Officer | Akio Nishimura | (currently Minami Kanto Regional Sales Division Director, Ethical Drug Sales Division) |
| Executive Officer | Yasuhiro Choufuku | (currently Director of Sales Strategy, Ethical Drug Sales Division) |
| Executive Officer | Hideaki Takemura | (currently Director of Medical Information, Ethical Drug Sales Division) |
| Executive Officer | Kazunori Toyoda | (currently Director of Management Coordination Committee) |

2) Resigning executive officers (four as of June 29, 2004)		
Chief Executive Officer	Masahiko Masuyama	(Listed under (2)1), Candidates for new appointment as director)
Senior Executive Officer	Shinichi Matsuo	(Listed under (2)1), Candidates for new appointment as director)
Senior Executive Officer	Kazumi Takahashi	(Listed under (2)1), Candidates for new appointment as director)
Executive Officer	Yoshihiro Takatori	(Listed under (2)1), Candidates for new appointment as director)
Resigning executive officers (one as of June 30, 2004)		
Executive Officer	Hiroshi Narawa	(currently Health Care Division Vice Director)
3) Promotions, etc. of executive officers (fourteen as of July 1, 2004)		
Chief Executive Officer	Kikuo Miki	(currently Senior Executive Officer, Director of Public and Investor Relations Dept.)
Chief Executive Officer	Renzo Konishi	(currently Senior Executive Officer, Executive Vice Director of Medical Equipment Division)
Chief Executive Officer	Akiyoshi Ogane	(currently Senior Executive Officer, assigned to USHIODA SANGOKUDO YAKUHIN CO., LTD.)
Chief Executive Officer	Kazuo Misaki	(currently Senior Executive Officer, Information Technology Promotion Department Director)
Chief Executive Officer	Hidetaka Hata	(currently Senior Executive Officer, Director of Business Division, HEISEI YAKUHIN CO., LTD.)
Chief Executive Officer	Yoshio Imaichi	(currently Senior Executive Officer, Hyogo/Chugoku Regional Sales Division Director, Ethical Drug Sales Division)
Chief Executive Officer	Juichiro Ichiyama	(currently Senior Executive Officer, Director of Business Division, ORIENTAL PHARMACEUTICAL CO., LTD.)
Chief Executive Officer	Akira Moriwaki	(currently Senior Executive Officer, Osaka/Kiwa Regional Sales Division Director, Ethical Drug Sales Division)
Senior Executive Officer	Masaaki Matsuishi	(currently Executive Officer, assigned to IZUTSU PHARMACEUTICAL CO., LTD.)
Senior Executive Officer	Hitoshi Higuchi	(currently Executive Officer, Director of Purchase Planning Department, Ethical Drug Sales Division)
Senior Executive Officer	Yuzuru Sato	(currently Executive Officer, assigned to SENSHU YAKUHIN CO., LTD.)
Senior Executive Officer	Takaharu Sako	(currently Executive Officer, Director of Customer Support Center, Ethical Drug Sales Division)
Senior Executive Officer	Yoshiro Hasegawa	(currently Executive Officer, Interregional Sales Coordination Department, Ethical Drug Sales Division)
Senior Executive Officer	Tsuyoshi Uehara	(currently Executive Officer, Executive Director of System Division)