

BUSINESS OVERVIEW

The Alfresa Group consists of 14 consolidated subsidiaries centered on Alfresa Corporation and Alfresa Pharma Corporation, 59 non-consolidated affiliates not accounted for by the equity method, and 10 affiliates not accounted for by the equity method. The Group's main businesses are the wholesale, and manufacture and marketing of pharmaceuticals, diagnostic reagents, and medical devices and equipment. The fundamental role of Alfresa Holdings is to formulate a management vision for the entire Group and lay out business plans based on this vision, while promoting sustainable growth in corporate value through the effective use of the Group's resources.

BUSINESS ENVIRONMENT

In the ethical pharmaceutical industry, the market has continued to grow at a moderate pace mainly due to an increase in Japan's population of elderly reflecting an aging society with fewer births as well as expansion of the market for medications for lifestyle-related diseases. Combined with these factors, the launch of highly marketable new products contributed to market growth of 3.4% year on year in the fiscal year under review.

Against this backdrop, the fiscal year ended March 31, 2008 was the first fiscal year of the Alfresa Group's "07-09 Medium-term Management Plan—Advancement and Expansion," which runs from April 2007 to March 2010. During the fiscal year, the Group strove to achieve the plan's main themes: "expansion of the Wholesaling business and pursuit of group synergy effects," "solidifying the business base of the Manufacturing business," "realizing the 'Healthcare Consortium' vision," and "enhancement of Group-wide management base and administration system."

MAIN INITIATIVES IN THE FISCAL YEAR ENDED MARCH 31, 2008

For the fiscal year under review, the Alfresa Group posted net sales of ¥1,769,454 million, operating income of ¥25,354 million, and net income of ¥16,178 million. The net income margin was 0.91%, slightly below the plan's first-year target of 0.96%. However, net sales were ¥26,454 million higher than the plan's first-year target of ¥1,743,000 million.

As part of efforts to expand its sales network, the Alfresa Group on October 1, 2007 converted CS YAKUHIN CO., LTD. (Aichi Prefecture) and RYUYAKU CO., LTD. (Okinawa Prefecture) into subsidiaries through stock exchanges.

Aiming to establish a wholesaling business for self-medication products, TAMPEI NAKATA CO., LTD. (Osaka Prefecture), CS YAKUHIN CO., LTD., and the Company concluded an agreement in November 2007 to set up a framework for this business. Furthermore, in February 2008, the Company concluded a basic agreement with TAMPEI NAKATA CO., LTD. to form an equity-based business alliance, and accepted a third-party allotment of shares from TAMPEI NAKATA CO., LTD. in June 2008. With future management integration in mind, the Group will continue to work with TAMPEI NAKATA CO., LTD. on their management reforms while strengthening business ties.

RESULTS OF OPERATIONS

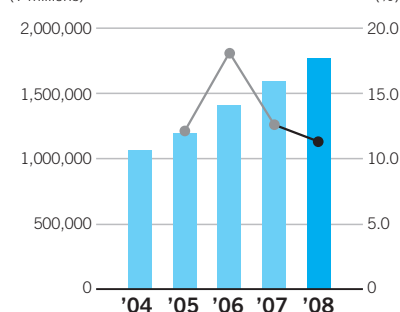
Net Sales

Consolidated net sales for the fiscal year ended March 31, 2008 were ¥1,769,454 million, an increase of ¥179,612 million, or 11.3%, year on year.

In the Wholesaling business, sales were boosted by CS YAKUHIN CO., LTD. and RYUYAKU CO., LTD. joining the Group, efforts by existing consolidated subsidiaries to develop new accounts and handle new products, as well as by focusing on sales

Net Sales and Sales Growth

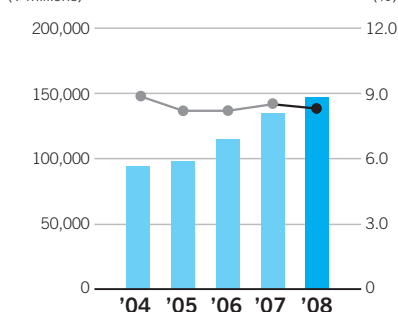
(Fiscal years ended March 31)
(¥ millions)



■ Net Sales
● Sales Growth

Gross Profit and Gross Profit Margin

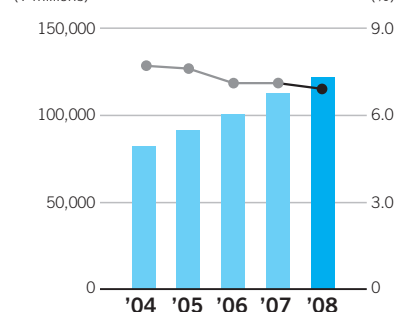
(Fiscal years ended March 31)
(¥ millions)



■ Gross Profit
● Gross Profit Margin

SG&A Expenses and SG&A Expenses Ratio

(Fiscal years ended March 31)
(¥ millions)



■ SG&A Expenses
● SG&A Expenses Ratio

channels to dispensing pharmacies through the utilization of specialized delivery staff. Furthermore, in order to respond to joint purchasing by hospitals, etc. on the national level, Alfresa Corporation set up the Kyushu Sales Division in January 2008 and established a business framework to cover the entire Kyushu region. The Group also made concrete progress on reorganizing the Group-wide distribution system—one of the goals of the Medium-term Management Plan, including commencing work on the construction of new distribution centers. As a result, net sales in the Wholesaling business increased ¥180,142 million, or 11.5%, year on year to ¥1,752,571 million, including intersegment sales of ¥4 million.

In the Manufacturing business, particularly in pharmaceuticals, there was an increase in sales of Modiodal, a narcolepsy treatment brought to market in March 2007. Meanwhile, in medical devices and equipment, there was an increase in sales of the synthetic absorbable monofilament suture, Monodiox. However, this sales growth was outweighed by a decrease in sales of Capilia Flu A+B for rapidly detecting influenza virus antigens A and B. Consequently, net sales in the Manufacturing business decreased ¥130 million, or 0.5%, year on year to ¥24,703 million, including intersegment sales of ¥7,816 million.

Cost of Sales and Gross Profit (Gross Profit Margin)

Cost of sales increased ¥167,125 million, or 11.5%, year on year to ¥1,622,280 million, tracking higher net sales due to the addition of consolidated subsidiaries. Gross profit rose ¥12,487 million, or 9.3%, year on year to ¥147,174 million for similar reasons. The gross profit margin, however, fell 0.2 of a percentage point from the previous fiscal year to 8.3%, despite efforts to focus sales activities on margins to ensure appropriate profits in the Wholesaling business.

Selling, General and Administrative (SG&A) Expenses (SG&A Expenses Ratio)

SG&A expenses climbed ¥9,120 million, or 8.1%, year on year to ¥121,820 million, mainly due to newly consolidated subsidiaries. However, due to ongoing efforts to reduce costs and improve sales productivity, the SG&A expenses ratio decreased 0.2 of a percentage point to 6.9%.

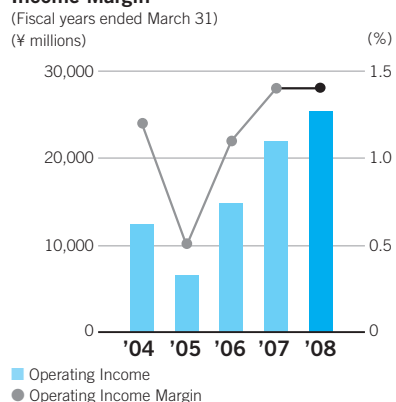
Operating Income (Operating Income Margin)

Operating income rose ¥3,367 million, or 15.3%, year on year to ¥25,354 million. The operating income margin remained mostly unchanged from the previous fiscal year at 1.4%. This was attributable to efforts in the core Wholesaling business to enforce sales at appropriate prices and further reduce costs. Operating income in the Wholesaling business rose ¥4,139 million, or 20.3% year on year, to ¥24,494 million. The operating income margin in the Wholesaling business was 1.4%. Operating income in the Manufacturing business decreased ¥109 million, or 14.7%, to ¥630 million. The operating income margin in the Manufacturing business was 2.6%.

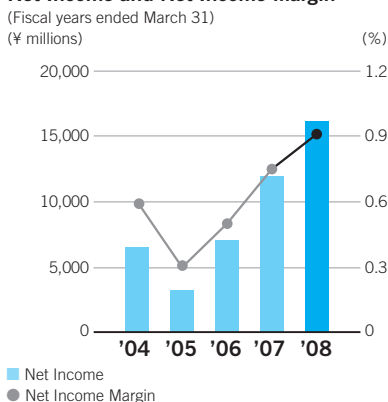
Other Income (Expenses) and Net Income (Net Income Margin)

The Group recorded other expenses of ¥2,049 million, mainly comprising a loss on changes in equity interest, loss on disposal of property, plant and equipment, transferred employees' additional retirement benefits, loss on impairment of fixed assets, and write-down of securities. On the other hand, the Group booked other income of ¥1,077 million mainly due to a gain on sales of property, plant and equipment, gain on sale of securities, and gain on transfer of operations. Overall, other income (expenses) was ¥672 million lower than projected. As a result, net income was ¥16,178 million, an increase of 35.5% year on year. The net income margin rose 0.16 of a percentage point to 0.91%.

Operating Income and Operating Income Margin



Net Income and Net Income Margin



FINANCIAL CONDITION

Total Assets

Total assets rose ¥78,052 million, or 10.1%, from a year earlier to ¥848,259 million. This mainly reflected an increase in consolidated subsidiaries and higher net sales.

Current Assets

Total current assets rose ¥68,104 million, or 10.7%, from a year earlier to ¥702,211 million. This was mainly attributable to increases in trade notes and accounts receivable of ¥66,187 million in line with the increase in consolidated subsidiaries and net sales, and a related ¥12,472 million increase in inventories.

Fixed Assets

Total fixed assets rose ¥9,949 million, or 7.3%, from a year earlier to ¥146,048 million. This was due to increases in property, plant and equipment of ¥4,192 million, goodwill of ¥3,324 million, and deferred tax assets of ¥2,661 million.

Liabilities

As of March 31, 2008, total liabilities were ¥662,123 million, an increase of ¥53,307 million, or 8.8%, from a year earlier. Total current liabilities were ¥631,530 million, an increase of ¥50,881 million, or 8.8%, from a year earlier. The main reason was an increase of ¥56,239 million in trade notes and accounts payable in line with higher net sales and an increase in consolidated subsidiaries. Total long-term liabilities rose ¥2,426 million, or 8.6%, to ¥30,593 million, chiefly the result of increases of ¥1,518 million in employees' severance and retirement benefits and ¥926 million in directors' and corporate auditors' retirement benefits.

Net Assets

Net assets were ¥186,136 million. The main contributing factors were increases of ¥210 million in common stock and ¥16,119 million in capital surplus due to the conversion of CS YAKUHIN CO., LTD. and RYUYAKU CO., LTD. into wholly owned subsidiaries through stock exchanges, and an increase of ¥12,953 million in retained earnings. The equity ratio was 21.3% and ROE was 9.6%.

Cash Flows

Net cash used in operating activities was ¥8,246 million. The main cash inflow was income before income taxes of ¥30,998 million. This was outweighed by cash outflows including an increase in trade notes and accounts receivable of ¥12,536 million, a decrease in trade notes and accounts payable of ¥7,948 million, as well as income taxes paid of ¥18,284 million.

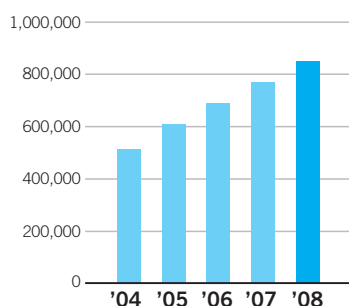
Net cash used in investing activities was ¥5,593 million, despite proceeds of ¥3,633 million from the issuance of new shares through stock exchanges with CS YAKUHIN CO., LTD. and RYUYAKU CO., LTD. The main cash outflows were payments of ¥4,693 million for the purchase of property, plant and equipment, including construction expenses as well as land for new distribution centers, and payments of ¥4,431 million for the purchase of investment securities.

Net cash used in financing activities was ¥2,741 million, mainly due to cash dividends paid of ¥3,224 million.

Consequently, cash and cash equivalents as of March 31, 2008 were ¥80,195 million, ¥16,574 million less than at the end of the previous fiscal year.

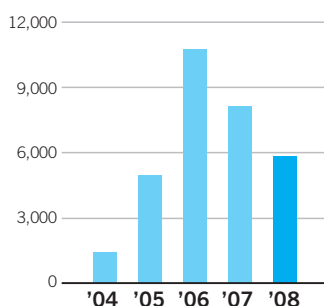
Total Assets

(As of March 31)
(¥ millions)



Capital Expenditure

(Fiscal years ended March 31)
(¥ millions)



Capital Expenditure

Capital expenditure for the Alfresa Group totaled ¥5,841 million. The main expenditures were for construction expenses and the acquisition of land for distribution centers.

Research and Development (R&D)

R&D expenses for the Alfresa Group were ¥1,503 million. This reflected R&D spending by Alfresa Pharma Corporation, which is responsible for the Group's Manufacturing business.

RISK INFORMATION

(1) Business Environment

Japan's ethical pharmaceuticals market, where the Alfresa Group mainly conducts business, is significantly influenced by Japan's National Health Insurance system and medical policies. The Group's results may be thus directly affected by official actions such as NHI drug price revisions. Furthermore, in the event that drastic reforms are made to Japan's medical system, there could be a material effect on the Group's results.

Presently, Japan's national medical expenditures are rising due to an aging population and increasing incidences of lifestyle-related diseases. However, because of declining funding sources for payments made by the medical insurance system, medical system reforms aimed at reducing expenditures are being implemented. These reforms include the introduction of comprehensive payments of medical service fees, as well as reviews of co-payment percentages and the NHI drug price scheme. Furthermore, the separation of drug dispensing from medical practice has been changing the mix of customers to whom the Group sells products, replacing clinics and hospitals with a growing percentage of dispensing pharmacies. Moreover, the possible decline in selling prices in step with the transformation of national hospitals into independent administrative institutions and changing purchasing methods used by medical institutions is also our concern. These trends could affect the Group's results. The Group will be responding to these trends by molding its chain of operations ranging from procurement to the collection of trade receivables into a form that better fits present circumstances.

(2) NHI Drug Price Revisions

Official prices of ethical pharmaceuticals, the Group's core products, are set by the Japanese government by notification of the Minister of Health, Labour and Welfare.

These official prices set by the Japanese government thus represent "NHI drug prices." Functioning effectively as an upper limit on selling prices, these drug prices are revised down roughly once every two years to reflect actual prices determined in the marketplace and trends in demand. Therefore, NHI drug price revisions could have an effect on the Group's results.

(3) Changes in Laws and Other Regulations

The Group's main business is the wholesale, and manufacture and marketing of ethical pharmaceuticals. In accordance with Japan's Pharmaceutical Affairs Law and other related regulations, the Group is required to register licenses and permits and obtain relevant designations as well as various other approvals and permits concerning the development, manufacture and import of ethical pharmaceuticals. The status of licenses, approvals and permits granted by the authorities could have an effect on the Group's results.

(4) Risks Associated with the Manufacturing Business

The Group's Manufacturing business is engaged in the development, manufacture, and marketing of pharmaceuticals and other products. Product development may not culminate in the sale of all products in the pipeline; development may be abandoned before launch, or the Group may be unable to license products from other companies. Although the Group does its utmost to ensure the safety and reliability of its products from product development to manufacturing, the business is nevertheless exposed to the risks of product recalls, suspension of sales, and accompanying lawsuits that may be caused by unforeseen side effects of products, contamination of product contents, and other risks. Therefore, these risks could have an effect on the Group's results.

(5) Systems Failure

The Group's business activities are largely dependent on computer network systems. Malfunction or failure of these systems due to disasters, accidents, or other causes would significantly hinder operating activities centered on sales and distribution. This could have an impact on the Group's results.

(6) Overseas Transactions

Part of the production network of the Group's manufacturing business is in China, while export- and import-based product transactions can be affected by political tensions and sharp exchange rate movements. These factors could have an impact on the Group's results.

DIVIDENDS AND FUNDAMENTAL POLICY ON THE DISTRIBUTION OF PROFITS

The Company has positioned the distribution of profits to shareholders as a key management policy. The Company determines the amount of profits distributed to shareholders based on consolidated financial results, while taking into consideration the stability of its management base and future business expansion. In doing so, the Company targets an annual DOE (dividend on equity) of 2% or more. Based on the above, the cash dividend applicable to the fiscal year ended March 31, 2008 was ¥83 per share.

Based on this policy, the Group plans to pay an interim dividend and year-end dividend of ¥45 per share each for the fiscal year ending March 31, 2009.

OUTLOOK FOR THE FISCAL YEAR ENDING MARCH 31, 2009

Outlook for the Fiscal Year Ending March 31, 2009 (millions of yen)	Consolidated	Wholesaling business	Manufacturing business
Net sales	1,925,000	1,907,000	26,000
Gross profit	162,000	152,300	9,700
Selling, general and administrative expenses	132,800	123,750	9,050
Operating income	29,200	28,550	650
Net income	18,100	17,590	510

Note: The eliminations component is allocated to business segments in accordance with internal standards.

Despite an average reduction of 5.2% in NHI drug prices on April 1, 2008, the ethical pharmaceuticals market is expected to continue growing at a moderate pace in the fiscal year ending March 2009. Growth is expected to be driven by Japan's aging population, a higher incidence of lifestyle-related diseases, and a boost from sales of new pharmaceuticals.

The Alfresa Group aims to step up efforts to expand business in the fiscal year ending March 31, 2009, the second year of the "07-09 Medium-term Management Plan—Advancement and Expansion."

In light of the urgent proposal raised at the Conference for Improving Distribution of Pharmaceuticals last year, the Wholesaling business has positioned "implementing economically rational price negotiations," "reforming package discounts," and "reforming the practice of deliveries prior to price agreements" as key issues and is working to address each issue. Aiming to rapidly establish a wholesaling business for self-medication products, the Group will press ahead with management reforms at TAMPEI NAKATA CO., LTD. Furthermore, the Group will work to enhance value-added services for customers while striving to raise distribution efficiency by realizing the Group Distribution Vision, and promoting low-cost operations at the same time. Based on this, the Wholesaling business is projecting net sales of ¥1,907,000 million, an 8.8% increase year on year; operating income of ¥28,550 million, a 16.6% increase year on year; and net income of ¥17,590 million, a 12.2% increase year on year, for the fiscal year ending March 31, 2009.

In the Manufacturing business, the Group will put efforts into launching the product NOBELZIN for the treatment of Wilson's disease, and promoting the sales of POCT (point-of-care testing) reagents. At the same time, it will expand its product line, increase contract manufacturing capacity, and inject greater efforts into expanding indications of the narcolepsy treatment, Modiodal. The Manufacturing business is projecting net sales of ¥26,000 million, a 5.3% increase year on year; operating income of ¥650 million, a 3.1% increase year on year; and net income of ¥510 million, a 1.0% increase year on year, for the fiscal year ending March 31, 2009.

Consequently, in the fiscal year ending March 31, 2009, the Alfresa Group is targeting consolidated net sales of ¥1,925,000 million, an 8.8% increase from the previous fiscal year; operating income of ¥29,200 million, up 15.2% from the previous fiscal year; and net income of ¥18,100 million, up 11.9% from the previous fiscal year.

CONSOLIDATED BALANCE SHEETS

Alfresa Holdings Corporation and consolidated subsidiaries
As of March 31, 2008 and 2007

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Current assets			
Cash and cash equivalents (Note 9)	¥ 80,195	¥ 96,769	\$ 800,429
Receivables:			
Trade notes and accounts	468,210	402,023	4,673,221
Other	50,821	40,973	507,246
Allowance for doubtful accounts	(1,068)	(860)	(10,660)
	517,963	442,136	5,169,807
Inventories:			
Merchandise	92,380	79,871	922,048
Finished goods	1,005	919	10,031
Work in process	383	396	3,823
Raw materials and supplies	937	1,048	9,352
	94,705	82,234	945,254
Deferred tax assets (Note 6)	4,162	6,741	41,541
Other (Note 4)	5,186	6,228	51,762
Total current assets	702,211	634,108	7,008,793
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliates	3,980	1,583	39,725
Investments in securities (Notes 4 and 9)	29,949	35,948	298,922
Long-term receivables:			
Long-term loans receivable	4,103	1,867	40,952
Other	8,168	8,361	81,525
Allowance for doubtful accounts	(5,497)	(5,064)	(54,866)
	6,774	5,164	67,611
Deferred tax assets (Note 6)	6,413	3,752	64,008
Other (Note 9)	17,300	13,593	172,672
Total investments and other assets	64,416	60,040	642,938
Property, plant and equipment:			
Land (Notes 9 and 15)	41,242	38,472	411,638
Buildings and structures (Note 9)	66,940	62,134	668,130
Machinery and equipment	17,088	16,388	170,556
Construction in progress	1,653	2,006	16,499
	126,923	119,000	1,266,823
Less accumulated depreciation	(54,393)	(50,662)	(542,898)
Net property, plant and equipment	72,530	68,338	723,925
Deferred charges and intangibles	9,102	7,721	90,848
	¥848,259	¥770,207	\$8,466,504

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Current liabilities:			
Short-term debt (Notes 7 and 9)	¥ 1,958	¥ –	\$ 19,543
Long-term debt due within one year (Notes 7 and 9)	579	231	5,779
Payables:			
Trade notes and accounts (Note 9)	610,103	553,864	6,089,460
Other	4,375	6,370	43,667
	614,478	560,234	6,133,127
Allowance for employees' bonuses	6,143	5,633	61,314
Allowance for bonuses to directors and corporate auditors	250	216	2,495
Accrued expenses	1,884	970	18,804
Allowance for sales rebates	78	97	779
Allowance for sales returns	927	698	9,252
Income taxes payable	3,183	10,989	31,770
Allowance for loss on transfer of business	327	–	3,264
Deferred tax liabilities (Note 6)	12	–	119
Other (Note 9)	1,711	1,581	17,078
Total current liabilities	631,530	580,649	6,303,324
Long-term liabilities:			
Long-term debt due after one year (Notes 7 and 9)	900	294	8,983
Employees' severance and retirement benefits (Note 8)	23,262	21,744	232,179
Directors' and corporate auditors' retirement benefits	1,544	618	15,411
Deferred tax liabilities (Note 6)	2,398	3,136	23,935
Deferred tax liabilities for land revaluation (Note 15)	852	852	8,504
Provision for loss on guarantees	332	374	3,314
Allowance for loss on transfer of business	–	452	–
Other	1,305	697	13,024
Total long-term liabilities	30,593	28,167	305,350
Contingent liabilities (Note 10)			
Net assets (Note 12)			
Common stock			
Authorized—135,000,000 shares			
Issued—42,326,223 shares in 2008 and 40,275,353 shares in 2007	4,230	4,020	42,220
Capital surplus	65,912	49,793	657,870
Retained earnings	112,002	99,049	1,117,896
Less treasury stock, at cost 561,155 shares in 2008 and 440,349 shares in 2007	(2,159)	(1,336)	(21,550)
Unrealized gains on available-for-sale securities	6,290	11,885	62,781
Unrealized gains on deferred hedge	1	0	10
Land revaluation (Note 15)	(5,730)	(5,730)	(57,191)
Foreign currency translation adjustments	70	58	699
Minority interests	5,520	3,652	55,095
Total net assets	186,136	161,391	1,857,830
	¥848,259	¥770,207	\$8,466,504

CONSOLIDATED STATEMENTS OF INCOME

Alfresa Holdings Corporation and consolidated subsidiaries
Years ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Net sales	¥1,769,454	¥1,589,843	\$17,660,984
Cost of sales	1,622,280	1,455,156	16,192,035
Gross profit	147,174	134,687	1,468,949
Selling, general and administrative expenses	121,820	112,700	1,215,890
Operating income	25,354	21,987	253,059
Other income (expenses):			
Interest and dividend income	1,015	759	10,131
Interest expense	(52)	(41)	(519)
Write-down of securities	(80)	(90)	(798)
Loss on disposal of property, plant and equipment	(534)	(494)	(5,330)
Information fees	3,990	3,440	39,824
Loss on impairment of fixed assets (Note 14)	(87)	(491)	(868)
Gain on sales of property, plant and equipment	557	374	5,559
Compensation for land readjustment project	—	21	—
Additional retirement benefits	—	(1,101)	—
Gain (loss) on sales of securities (Note 4)	199	(9)	1,986
Loss on sales of unconsolidated subsidiaries	—	(16)	—
Write-down of securities of unconsolidated subsidiaries	—	(60)	—
Write-down of contribution to unconsolidated subsidiaries	—	(498)	—
Gain (loss) on transfer of operations	175	(82)	1,747
Gain on shares of co-development	—	515	—
Loss on change in equity interest	(903)	—	(9,013)
Additional severance payments for transferred employees	(420)	—	(4,192)
Loss on disaster	(26)	—	(260)
Gain from mutual welfare premium	104	—	1,038
Additional contribution on withdrawal from the Welfare Pension Fund plans	—	(235)	—
System migration expense	—	(670)	—
Other, net	1,706	1,589	17,028
	5,644	2,911	56,333
Income before income taxes	30,998	24,898	309,392
Income taxes (Note 6):			
Current	10,584	14,906	105,639
Deferred	3,479	(2,804)	34,724
	14,063	12,102	140,363
Income before minority interests	16,935	12,796	169,029
Minority interests	(757)	(854)	(7,556)
Net income	¥ 16,178	¥ 11,942	\$ 161,473

	Yen		U.S. Dollars (Note 1)
Per share amounts:			
Net income	¥ 396.49	¥ 301.93	\$ 3.96
Cash dividends applicable to the year	83.00	77.00	0.83

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Alfresa Holdings Corporation and consolidated subsidiaries
Years ended March 31, 2008 and 2007

	Millions of Yen										
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains on available-for-sale securities	Unrealized gains on deferred hedge	Land revaluation	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2006	38,775,353	¥ 3,873	¥ 39,671	¥ 90,282	¥ (7,116)	¥ 10,410	¥ -	¥ (5,674)	¥ 38	¥ 4,580	¥ 136,064
Net income for the year				11,942							11,942
Increase due to stock exchange	1,500,000	147	9,594		3,693					(1,636)	11,798
Cash dividends paid at ¥72.00 per share				(2,764)						(22)	(2,786)
Bonuses to directors and statutory auditors				(169)						(25)	(194)
Sale of treasury stock			528		2,139	845					3,512
Land revaluation								(81)		(26)	(107)
Increase in unrealized gains						647				(14)	633
Change in consolidated scope				(242)		(31)				(59)	(332)
Foreign currency translation adjustments									20		20
Treasury stock acquired					(52)						(52)
Minority interest						14	0	25		854	893
Balance at March 31, 2007	40,275,353	¥ 4,020	¥ 49,793	¥ 99,049	¥ (1,336)	¥ 11,885	¥ 0	¥ (5,730)	¥ 58	¥ 3,652	¥ 161,391
Net income for the year				16,178							16,178
Increase due to stock exchange	2,050,870	210	16,117		(756)						15,571
Cash dividends paid at ¥81.00 per share				(3,225)							(3,225)
Sale of treasury stock			2		4						6
Increase in unrealized gains on available-for-sale securities						(5,595)					(5,595)
Increase in unrealized gains on deferred hedge							1				1
Foreign currency translation adjustments									12		12
Treasury stock acquired					(71)						(71)
Minority interest										1,868	1,868
Balance at March 31, 2008	42,326,223	¥ 4,230	¥ 65,912	¥ 112,002	¥ (2,159)	¥ 6,290	¥ 1	¥ (5,730)	¥ 70	¥ 5,520	¥ 186,136

	Thousands of U.S. Dollars (Note 1)										
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains on available-for-sale securities	Unrealized gains on deferred hedge	Land revaluation	Foreign currency translation adjustments	Minority interests	Total	
Balance at March 31, 2007	\$ 40,124	\$ 496,986	\$ 988,612	\$ (13,335)	\$ 118,625	\$ 0	\$ (57,191)	\$ 579	\$ 36,451	\$ 1,610,851	
Net income for the year			161,473							161,473	
Increase due to stock exchange	2,096	160,864		(7,546)						155,414	
Cash dividends paid at \$0.81 per share			(32,189)							(32,189)	
Sale of treasury stock		20		40						60	
Increase in unrealized gains on available-for-sale securities					(55,844)					(55,844)	
Increase in unrealized gains on deferred hedge						10				10	
Foreign currency translation adjustments								120		120	
Treasury stock acquired				(709)						(709)	
Minority interest									18,644	18,644	
Balance at March 31, 2008	\$ 42,220	\$ 657,870	\$ 1,117,896	\$ (21,550)	\$ 62,781	\$ 10	\$ (57,191)	\$ 699	\$ 55,095	\$ 1,857,830	

CONSOLIDATED STATEMENTS OF CASH FLOWS

Alfresa Holdings Corporation and consolidated subsidiaries
Years ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes	¥ 30,998	¥ 24,898	\$ 309,392
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	5,359	4,885	53,488
Increase (decrease) in allowance for doubtful accounts	(181)	659	(1,807)
Increase in allowance for bonuses to directors and statutory auditors	34	216	339
Increase (decrease) in employees' severance and retirement benefits	(124)	6	(1,238)
Increase (decrease) in directors' retirement benefits	59	(14)	589
Interest and dividend income	(1,015)	(759)	(10,131)
Interest expense	52	41	519
Loss on change in equity interest	903	–	9,013
Amortization of goodwill	1,475	1,098	14,722
Loss on impairment of fixed assets	87	491	868
Gain on sales of property, plant and equipment	(557)	(374)	(5,559)
Loss on disposal of property, plant and equipment	534	494	5,330
Write-down of contribution to unconsolidated subsidiaries	–	498	–
Increase in trade notes and accounts receivable	(12,536)	(2,733)	(125,122)
Increase in inventories	(464)	(7,382)	(4,631)
Increase (decrease) in trade notes and accounts payable	(7,948)	29,642	(79,329)
Increase in other receivables	(5,691)	(1,220)	(56,802)
Other	(1,907)	944	(19,033)
	9,078	51,390	90,608
Interest and dividends received	1,011	765	10,091
Interest paid	(51)	(38)	(509)
Income taxes paid	(18,284)	(12,123)	(182,494)
Net cash provided by (used in) operating activities	(8,246)	39,994	(82,304)
Cash flows from investing activities:			
Net increase in time deposits	(146)	(1,721)	(1,457)
Payments for purchase of property, plant and equipment	(4,693)	(7,818)	(46,841)
Payments for purchase of intangible assets	(348)	(213)	(3,473)
Proceeds from sale of property, plant and equipment	1,520	1,694	15,171
Proceeds from sale of intangible assets	1,066	–	10,640
Advances of loans receivable	(2,112)	(813)	(21,080)
Repayments of loans receivable	433	672	4,322
Payments for purchase of investment securities	(4,431)	(3,316)	(44,226)
Payments for acquisition of long-term prepaid expense	(800)	(90)	(7,985)
Proceeds from sale of investment securities	548	183	5,470
Proceeds from issuance of new shares through stock exchange	3,633	–	36,261
Payments for additional acquisition of shares in consolidated subsidiaries	(260)	–	(2,595)
Other	(3)	0	(31)
Net cash used in investing activities	(5,593)	(11,422)	(55,824)
Cash flows from financing activities:			
Net increase (decrease) in short-term debt	198	(1,529)	1,976
Proceeds from long-term debt	900	–	8,983
Repayments of long-term debt	(724)	(553)	(7,226)
Repayments of bonds	–	(100)	–
Proceeds from sale of treasury stock	7	3,029	70
Payments for purchase of treasury stock	(71)	(52)	(709)
Cash dividends paid	(3,225)	(2,764)	(32,189)
Cash dividends paid to minority shareholders	(34)	(22)	(339)
Capital contribution from minority interests	208	–	2,076
Net cash used in financing activities	(2,741)	(1,991)	(27,358)
Foreign currency translation gain on cash and cash equivalents	6	9	60
Net increase (decrease) in cash and cash equivalents	(16,574)	26,590	(165,426)
Cash and cash equivalents at beginning of the year	96,769	67,436	965,855
Decrease in cash and cash equivalents due to change in consolidation scope	–	(299)	–
Increase in cash and cash equivalents due to stock exchange	–	3,042	–
Cash and cash equivalents at end of the year	¥ 80,195	¥ 96,769	\$ 800,429

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Alfresa Holdings Corporation and consolidated subsidiaries
Years ended March 31, 2008 and 2007

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from the accounts maintained by Alfresa Holdings Corporation (“the Company”) and its subsidiaries in accordance with the provisions set forth in the Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of an overseas subsidiary are based on its accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in China.

The accompanying financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of net assets) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100.19 to U.S.\$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

Consolidated financial statements include the accounts of the Company and 14 significant subsidiaries (“the Companies”) over which the Company has power of control through majority voting rights or existence of certain conditions evidencing control by the Company.

One of the Company’s subsidiaries is consolidated using a fiscal period ended December 31. Significant transactions occurring from January 1 to March 31 are adjusted in these consolidated financial statements.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

Investments in unconsolidated subsidiaries and affiliates are not accounted for by the equity method, as the application of the equity method would not have a material effect on the consolidated financial statements.

Significant Subsidiaries

(Year ended March 31, 2008)

Company Name	Ownership Interest (%)	Common Stock (Millions of Yen)	Main Business
Alfresa Corporation	100.0	¥4,000	Pharmaceutical Wholesaling
Shikoku Alfresa Corporation	100.0	161	Pharmaceutical Wholesaling
SEIWA SANGYO CO., LTD.	100.0	1,144	Pharmaceutical Wholesaling
Meisho Co., Ltd.	100.0	395	Pharmaceutical Wholesaling
Odashima Limited	100.0	30	Pharmaceutical Wholesaling
CS YAKUHIN CO., LTD.	100.0	890	Pharmaceutical Wholesaling
RYUYAKU CO., LTD.	100.0	44	Pharmaceutical Wholesaling
Alfresa Pharma Corporation	100.0	1,000	Pharmaceutical Manufacturing
Alfresa Pip-Tokyo Corporation	85.1	400	Medical Materials Wholesaling and Supply, Processing & Distribution (SPD) Business
Alfresa System Corporation	51.0	150	Information System Operation, Maintenance, and Development
Kowa Pharmaceuticals Co., Ltd.	51.0 (51.0)	104	Pharmaceutical Wholesaling
Alfresa Nikken Sangyo Corporation	51.0 (51.0)	190	Pharmaceutical Wholesaling
Ando Co., Ltd.	50.9 (50.9)	300	Pharmaceutical Wholesaling
QINGDAO NESCO MEDICAL CO., LTD. (Year ended December 31, 2007)	100.0 (100.0)	300	Manufacturing of Surgical Sutures

Notes: 1. Figures in parentheses () in the ownership interest column represent the percentage of voting rights indirectly held.

2. CS YAKUHIN CO., LTD. and RYUYAKU CO., LTD. became wholly owned subsidiaries of the Company by stock exchange on October 1, 2007.

3. Alfresa System Corporation was established and became a subsidiary of the Company on October 25, 2007.

(b) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible into known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

(c) Allowance for doubtful accounts

The allowance for doubtful accounts is provided in amounts management considers sufficient to cover possible losses on collection. The allowance is mainly based on past collection experience and management's estimate of the collectibility of individual receivables.

(d) Securities

Equity securities issued by subsidiaries and affiliated companies which are not consolidated are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sale of such securities are computed using moving-average cost. Other securities with no available fair market value are stated at moving-average cost.

If the fair market value of available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline.

If the fair market values of equity securities issued by unconsolidated subsidiaries and affiliated companies not accounted for by the equity method, and available-for-sale securities are not readily available, such securities should be written down to net asset value with a corresponding charge in the statement of operations in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(e) Inventories

Inventories are stated at average cost.

(f) Property, plant and equipment

Property, plant and equipment of the Company and its consolidated domestic subsidiaries are carried at cost. Depreciation is computed primarily using the declining-balance method. In accordance with revisions of the Corporation Tax Law, buildings acquired after March 31, 1998 are depreciated using the straight-line method. The overseas consolidated subsidiary depreciates its property, plant and equipment using the straight-line method.

(Change in accounting policies)

Effective from this fiscal year, the Company and its consolidated domestic subsidiaries have changed their depreciation method in terms of property, plant and equipment acquired after April 1, 2007 in accordance with revisions of the Corporation Tax Law.

The effect of this change was to decrease operating income and income before income taxes by ¥100 million (US\$998 thousand), respectively. For the impact on the segment information, please refer to the corresponding note's information.

(Additional information)

Effective from this fiscal year, after having depreciated property, plant and equipment acquired before March 31, 2007 up to 5 percent of the remaining acquisition cost based on the prior Corporation Tax Law, the Company and its consolidated domestic subsidiaries have depreciated 5 percent of the remaining acquisition cost less minimum salvage value, using the straight-line method over 5 years and booked it as depreciation expense in accordance with revisions of the Corporation Tax Law.

The effect of the change was to decrease operating income and income before income taxes by ¥133 million (US\$1,327 thousand), respectively. For the impact on the segment information, please refer to the corresponding note's information.

(g) Deferred charges and intangibles

Goodwill and software are included in deferred charges and intangibles. Software is amortized using the straight-line method over a useful life of five years. Goodwill is amortized equally over a five-year period.

(h) Allowance for bonuses to directors and corporate auditors

The allowance for bonuses to directors and corporate auditors is provided for the estimated amounts which the Company and its consolidated domestic subsidiaries are obligated to pay to directors and corporate auditors after the fiscal year-end, based on services provided during the current year.

(i) Allowance for sales rebates

The allowance for sales rebates is provided for future payment of sales rebates based upon actual rebates experienced in the past.

(j) Allowance for sales returns

The allowance for sales returns is provided for future payment of sales returns based upon the method provided by the Corporation Tax Law of Japan.

(k) Provision for loss on guarantees

Provision for loss on guarantees is provided in an estimated amount based on the financial position and solvency of parties guaranteed by the Company.

(l) Allowance for loss on transfer of business

The allowance for loss on the transfer of business is provided for future payment caused by the transfer of business.

(m) Allowance for employees' bonuses

The allowance for employees' bonuses is provided for the estimated amounts, which the Company and its consolidated domestic subsidiaries are obligated to pay to employees after the fiscal year-end, based on services provided during the current year.

(n) Employees' severance and retirement benefits

The Company and its consolidated domestic subsidiaries provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Companies provided for employees' severance and retirement benefits at March 31, 2008 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

Prior service costs are recognized in expenses in equal amounts over 10 years, and actuarial gains and losses are recognized in expenses using the straight-line method over 10 years commencing with the following period.

(o) Retirement benefits for directors and corporate auditors

The liability for directors' and corporate auditors' retirement benefits is provided based upon certain consolidated subsidiaries' internally established criteria.

(p) Income taxes

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(q) Translation of foreign currencies

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

The balance sheets of a consolidated overseas subsidiary are translated into Japanese yen at the latest rate on the year-end closing date and the statements of income are translated at the average exchange rate for the fiscal year, except that net assets accounts are translated at historical rates and income statement items resulting from transactions with a consolidated domestic subsidiary are translated at the rates used for the consolidation.

(r) Research and development expenses

Research and development expenses for the improvement of existing products or the development of new products, including basic research and fundamental development costs, are charged to operations in the period incurred.

Such expenses for the years ended March 31, 2008 and 2007, were ¥1,503 million (US\$14,998 thousand) and ¥1,392 million, respectively.

(s) Derivatives and hedge accounting

In cases where foreign currency forward exchange contracts are used as hedges and meet certain hedging criteria, foreign currency forward exchange contracts and hedged items are accounted for in the following manner:

If a foreign currency forward exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the foreign currency forward exchange contract are recognized.

(t) Finance leases

Finance leases which do not transfer ownership or that do not have bargain purchase option provisions are accounted for in the same manner as operating leases in accordance with Japanese GAAP.

(u) Net income per share

The computations of net income per share of common stock are based on the weighted average number of shares outstanding during each period.

(v) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2008 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. EFFECT OF BANK HOLIDAY

The end of the fiscal year ended March 31, 2007, coincided with a bank holiday, and ¥3,009 million of trade notes receivable and ¥2,314 million of trade notes payable that were to mature at the end of fiscal year ended March 31, 2007 were accounted for as if they were settled on their date of maturity.

4. SECURITIES

(a) The following tables summarize acquisition costs, book values (fair market values) of available-for-sale securities with available fair values as of March 31, 2008 and 2007:

Securities with fair values exceeding acquisition costs:

	2008			2007		
	Acquisition cost	Book (market) value	Difference	Acquisition cost	Book (market) value	Difference
Equity securities	¥11,222	¥23,789	¥12,567	¥11,757	¥31,789	¥20,032
Bonds	9	10	1	142	173	31
Total	¥11,231	¥23,799	¥12,568	¥11,899	¥31,962	¥20,063

Thousands of U.S. Dollars (Note 1)

	2008		
	Acquisition cost	Book (market) value	Difference
Equity securities	\$112,007	\$237,439	\$125,432
Bonds	90	100	10
Total	\$112,097	\$237,539	\$125,442

Securities with fair values not exceeding acquisition costs:

	2008			2007		
	Acquisition cost	Book (market) value	Difference	Acquisition cost	Book (market) value	Difference
Equity securities	¥ 7,980	¥ 5,726	¥ (2,254)	¥3,678	¥3,499	¥(179)
Bonds	96	95	(1)	152	152	(0)
Total	¥ 8,076	¥ 5,821	¥ (2,255)	¥3,830	¥3,651	¥(179)

Thousands of U.S. Dollars (Note 1)

	2008		
	Acquisition cost	Book (market) value	Difference
Equity securities	\$79,649	\$57,151	\$(22,498)
Bonds	958	948	(10)
Total	\$80,607	\$58,099	\$(22,508)

(b) The following table summarizes book values of securities with no available fair market values as of March 31, 2008 and 2007:

Available-for-sale securities:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Non-listed equity securities	¥ 370	¥441	\$ 3,693
Non-listed domestic bonds	0	0	0
Money market fund	4	4	40
Negotiable certificates of deposit ^{Note}	10,000	0	99,810
Other	4	6	40
Total	¥10,378	¥451	\$103,583

Note: Negotiable certificates of deposit issued by domestic companies were included in cash and cash equivalents in previous years. Effective from this fiscal year, with the revision of "Accounting Practices for Financial Instruments" issued on January 31, 2000 and revised on July 4, 2007 by Accounting Practice Committee Report No. 14, those negotiable certificates of deposit were included in investments in securities. Negotiable certificates of deposit included in cash and cash equivalents as of March 31, 2007 were ¥5,000 million.

(c) The redemption schedule for available-for-sale securities with maturities is as follows:

	2008				2007			
	Within one year	Over one year but within five years	Over five years	Total	Within one year	Over one year but within five years	Over five years	Total
Bonds	¥44	¥11	¥-	¥55	¥10	¥101	¥50	¥161
Other	-	-	-	-	2	-	-	2
Total	¥44	¥11	¥-	¥55	¥12	¥101	¥50	¥163

	Thousands of U.S. Dollars (Note 1)			
	Within one year	Over one year but within five years	Over five years	Total
Bonds	\$439	\$110	\$-	\$549
Other	-	-	-	-
Total	\$439	\$110	\$-	\$549

(d) The following table summarizes available-for-sale securities sold in the years ended March 31, 2008 and 2007:

Available-for-sale securities:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Sales value	¥553	¥138	\$5,520
Gain on sale	199	8	1,986
Loss on sale	-	17	-

5. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Alfresa Pharma Corporation, a subsidiary of the Company, uses foreign currency forward exchange contracts as derivative financial instruments only for the purpose of mitigating future risks of fluctuations of foreign currency exchange rates with respect to foreign currency receivables from the sale of Alfresa Pharma's products and payables (including future transactions). Foreign currency forward exchange contracts are subject to risks of foreign exchange.

The derivative transactions are executed and managed by Alfresa Pharma's Overseas Division in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed.

The following summarizes hedging derivative financial instruments used by Alfresa Pharma and items hedged:

Hedging instruments:	Foreign currency forward exchange contracts
Hedged items:	Foreign currency future transactions, trade receivables and trade payables

The Companies do not disclose the outstanding forward exchange contracts as they are accounted for as hedges.

6. INCOME TAXES

The Company and its subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicate a statutory income tax rate in Japan of approximately 40.7% for the years ended March 31, 2008 and 2007.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2008 and 2007:

	2008	2007
Statutory tax rate	40.7%	40.7%
Non-deductible expenses	1.8	2.1
Non-taxable dividend income	(0.4)	(0.3)
Valuation allowance	0.3	3.7
Amortization of goodwill or consolidated adjustment account	1.9	1.8
Per capita inhabitants' tax	0.9	1.0
Deferred tax recognized for prior years' deductible temporary differences	-	(1.7)
Tax credits	(0.1)	(0.5)
Other	0.3	1.8
Effective tax rate	45.4%	48.6%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Deferred tax assets:			
Accrued enterprise tax	¥ 330	¥ 859	\$ 3,294
Accrued social insurance expenses	307	279	3,064
Excess allowance for doubtful receivables	2,094	1,918	20,900
Excess bonuses accrued	2,502	2,301	24,973
Employees' severance and retirement benefits	9,498	8,805	94,800
Directors' and statutory auditors' retirement benefits	383	261	3,823
Excess allowance for loss on debt guarantee	133	150	1,328
Loss on devaluation of membership	362	403	3,613
Write-down of investments	303	316	3,024
Loss on impairment of fixed assets	1,414	1,213	14,113
Sales discount	360	2,840	3,593
Loss on transfer of business	407	529	4,062
Excess depreciation	367	462	3,663
Other	2,604	2,319	25,991
	21,064	22,655	210,241
Valuation allowance	(3,336)	(3,047)	(33,297)
Total deferred tax assets	17,728	19,608	176,944
Deferred tax liabilities:			
Difference between fair value and cost of assets and liabilities of consolidated subsidiaries	(1,800)	(1,359)	(17,966)
Unrealized gains on available-for-sale securities	(6,015)	(9,077)	(60,036)
Increase due to stock exchange	(1,506)	(1,506)	(15,031)
Other	(242)	(309)	(2,416)
Total deferred tax liabilities	(9,563)	(12,251)	(95,449)
Net deferred tax assets	¥ 8,165	¥ 7,357	\$ 81,495

7. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt borrowings at March 31, 2008 and 2007 consisted principally of bank overdrafts bearing interest at average annual rates of approximately 1.6% and 1.8%, respectively.

Long-term debt as of March 31, 2008 and 2007, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Long-term loans, interest 1.0% to 2.9% in 2008 and 1.0% to 2.3% in 2007, maturing through 2016 in 2008 and through 2010 in 2007:			
Secured	¥ 579	¥ 525	\$ 5,779
Unsecured	900	—	8,983
	1,479	525	14,762
Less amounts due within one year	(579)	(231)	(5,779)
Total	¥ 900	¥ 294	\$ 8,983

The aggregate annual maturities of long-term debt outstanding as of March 31, 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
2009		¥ 64	\$ 639
2010		129	1,288
2011		128	1,278
Thereafter		579	5,778

8. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The Companies recorded the liabilities and expenses for severance and retirement benefits based on the amounts obtained by actuarial calculations.

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Projected benefit obligation	¥ 45,454	¥ 44,480	\$ 453,678
Unrecognized prior service costs	2,741	1,425	27,358
Unrecognized actuarial differences	(4,729)	(2,315)	(47,200)
Less fair value of pension assets	(20,204)	(21,846)	(201,657)
Liability for employees' severance and retirement benefits	¥ 23,262	¥ 21,744	\$ 232,179

Included in the consolidated statements of income for the years ended March 31, 2008 and 2007 are severance and retirement benefit expenses comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Service costs—benefits earned during the year	¥4,147	¥3,828	\$41,391
Interest cost on projected benefit obligation	844	790	8,424
Expected return on plan assets	(168)	(159)	(1,677)
Amortization of prior service costs	(465)	(298)	(4,641)
Amortization of actuarial differences	579	419	5,779
Special retirement benefits and others	471	1,307	4,701
Other	22	—	220
Severance and retirement benefit expense	¥5,430	¥5,887	\$54,197

Prior service costs previously recorded but no longer required due to a plan amendment are being amortized over ten years.

The discount rate used by the Companies was 2.0%, and the rates of expected return on plan assets for the years ended March 31, 2008 and 2007 were 0.0% to 2.5%, respectively. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years and on the basis of points granted to employees by evaluation, length of service and certain other factors.

9. PLEDGED ASSETS

Assets pledged as collateral for borrowing, and transaction guarantees, at March 31, 2008 and 2007, are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Time deposits	¥ 410	¥ 203	\$ 4,092
Buildings and structures, net of accumulated depreciation	1,525	1,076	15,221
Land	5,057	3,867	50,474
Investments in securities	5,646	6,691	56,353
Guarantee money paid	104	132	1,038
Total	¥12,742	¥11,969	\$127,178

Secured liabilities:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Trade notes and accounts payable	¥32,152	¥12,009	\$320,910
Short-term debt	1,300	–	12,975
Long-term debt due within one year	579	231	5,780
Long-term debt due after one year	–	294	–
Other	58	58	579
Total	¥34,089	¥12,592	\$340,244

10. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Guarantee of payables and loans to affiliates	¥1,998	¥1,759	\$19,942
Guarantee of loans to employees	22	12	220

11. LEASES

Non-capitalized finance leases at March 31, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Machinery and equipment	¥14,203	¥12,031	\$141,761
Intangibles	12,502	9,247	124,783
Less accumulated depreciation	(7,436)	(7,044)	(74,219)
Total	¥19,269	¥14,234	\$192,325

The above “as if capitalized” depreciation is calculated on the straight-line method over lease terms.

Lease payments for such leases for the years ended March 31, 2008 and 2007, are ¥5,464 million (US\$54,536 thousand) and ¥4,086 million, respectively.

If the above finance leases had been capitalized, depreciation of ¥5,085 million (US\$50,754 thousand) and ¥3,775 million and interest of ¥368 million (US\$3,673 thousand) and ¥236 million would have been recorded for the years ended March 31, 2008 and 2007, respectively.

Obligations under non-capitalized finance leases, excluding the interest portion, at March 31, 2008 and 2007, are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Due within one year	¥ 5,433	¥ 4,263	\$ 54,227
Due after one year	13,981	10,151	139,545
Total	¥19,414	¥14,414	\$193,772

Future minimum lease payments for operating leases of the Companies, as lessee, at March 31, 2008 and 2007, are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Due within one year	¥1,152	¥1,100	\$11,498
Due after one year	3,031	3,201	30,253
Total	¥4,183	¥4,301	\$41,751

Future minimum lease revenues for operating leases of the Companies, as lessor, at March 31, 2008 and 2007, are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Due within one year	¥-	¥14	\$-
Due after one year	-	-	-
Total	¥-	¥14	\$-

12. SHAREHOLDERS' EQUITY AND NET ASSETS

The Company and its subsidiaries are subject to the Corporate Law in Japan (the "Corporate Law") for the fiscal years ended on or after May 1, 2006. The areas in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends in kind (non-cash assets) to shareholders subject to certain limitations and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Commercial Code of Japan, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends.

The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal earnings reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of the aggregate amount of legal earnings reserve and additional paid-in capital equals 25% of the common stock. Under the Commercial Code of Japan, the aggregate amount of additional paid-in capital and legal earnings reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal earnings reserve may be reversed without limitation of such threshold.

The Corporate Law also provides that common stock, legal earnings reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of net assets.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of net assets or deducted directly from stock acquisition rights.

13. SEGMENT INFORMATION

The Companies' primary areas of business include the wholesaling of products such as pharmaceuticals, medical diagnostic reagents and medical devices, and the manufacturing of products such as pharmaceuticals, medical diagnostic reagents and medical devices.

The Companies operate mainly within Japan, so regional segment information is not disclosed.

The overseas sales for the years ended March 31, 2008 and 2007 were less than 10% of consolidated net sales.

A summary of business segment information is as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Net sales:			
Pharmaceutical Wholesaling			
Customers	¥1,752,567	¥1,572,425	\$17,492,434
Intersegment	4	4	40
Total	1,752,571	1,572,429	17,492,474
Pharmaceutical Manufacturing			
Customers	16,887	17,418	168,550
Intersegment	7,816	7,415	78,012
Total	24,703	24,833	246,562
Elimination	(7,820)	(7,419)	(78,052)
Consolidated	¥1,769,454	¥1,589,843	\$17,660,984
Operating Expenses:			
Pharmaceutical Wholesaling	¥1,728,077	¥1,552,075	\$17,247,999
Pharmaceutical Manufacturing	24,073	24,093	240,273
Elimination	(8,050)	(8,313)	(80,347)
Consolidated	¥1,744,100	¥1,567,855	\$17,407,925

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Operating Income:			
Pharmaceutical Wholesaling	¥ 24,494	¥ 20,355	\$ 244,475
Pharmaceutical Manufacturing	630	739	6,288
Elimination	230	893	2,296
Consolidated	¥ 25,354	¥ 21,987	\$ 253,059
Total Assets:			
Pharmaceutical Wholesaling	¥813,132	¥742,533	\$8,115,900
Pharmaceutical Manufacturing	26,105	26,848	260,555
Elimination and Corporate Assets	9,022	826	90,049
Consolidated	¥848,259	¥770,207	\$8,466,504
Depreciation and Amortization:			
Pharmaceutical Wholesaling	¥3,408	¥3,115	\$34,015
Pharmaceutical Manufacturing	1,895	1,761	18,914
Elimination and Unallocated Corporate Expenses	56	9	559
Consolidated	¥5,359	¥4,885	\$53,488
Loss on impairment of fixed assets:			
Pharmaceutical Wholesaling	¥ 87	¥ 491	\$ 868
Pharmaceutical Manufacturing	—	—	—
Elimination and Unallocated Corporate Expenses	—	—	—
Consolidated	¥ 87	¥ 491	\$ 868
Capital Expenditure:			
Pharmaceutical Wholesaling	¥4,633	¥7,494	\$46,242
Pharmaceutical Manufacturing	612	613	6,108
Elimination and Corporate Expenditure	596	14	5,949
Consolidated	¥5,841	¥8,121	\$58,299

As discussed in Note 2 (f) to the financial statements, effective from this fiscal year, the Company and its consolidated domestic subsidiaries have changed their depreciation method in terms of property, plant and equipment acquired after April 1, 2007 in accordance with the Corporation Tax Law as amended.

As a result of this change, depreciation and amortization increased by ¥62 million (US\$619 thousand), ¥37 million (US\$369 thousand), and ¥1 million (US\$10 thousand) for Pharmaceutical Wholesaling, Pharmaceutical Manufacturing and Elimination, respectively, decreasing operating income by the same amount.

As discussed in Note 2 (f) to the financial statements, effective from this fiscal year, after having depreciated property, plant and equipment acquired before March 31, 2007 up to 5 percent of the remaining acquisition cost based on the prior Corporation Tax Law, the Company and its consolidated domestic subsidiaries have depreciated 5 percent of the remaining acquisition cost less minimum salvage value, using the straight-line method over 5 years and booked as depreciation expense, according to the Corporation Tax Law as amended.

As a result of this change, depreciation and amortization increased by ¥86 million (US\$858 thousand) and ¥47 million (US\$469 thousand) for Pharmaceutical Wholesaling and Pharmaceutical Manufacturing, respectively, decreasing operating income by the same amount.

From the consolidated fiscal year beginning April 1, 2006, "Accounting Standard for Directors' Bonus" has been applied. Therefore, operating expenses increased ¥145 million, ¥19 million and ¥52 million for Pharmaceutical Wholesaling, Pharmaceutical Manufacturing and Elimination, respectively, decreasing operating income by the same amount for the year ended March 31, 2007.

14. LOSS ON IMPAIRMENT OF FIXED ASSETS

The Companies recognized impairment losses for groups of fixed assets in the years ended March 31, 2008 and 2007 as follows:

Use	Type of assets	Millions of Yen		Thousands of U.S. Dollars (Note 1)
		2008	2007	2008
Idle properties	Buildings and structures, land	¥83	¥ 50	\$828
Rental properties	Buildings and structures, land	—	6	—
Business properties	Buildings and structures, land	4	435	40

The Companies grouped business properties based on business premises, idle properties and rental properties based on each property. The recoverable amounts of idle properties and business properties are their net realizable values based on amounts determined by valuations made in accordance with real estate appraisal standards. The recoverable amounts of rental properties are the larger of (1) their net realizable values based on amounts determined by valuations made in accordance with real estate appraisal standards, or (2) the present values of expected cash flows from on-going utilization and subsequent disposition of the assets based on a discount rate of 5.9%.

15. LAND REVALUATION

Under the “Law of Land Revaluation,” promulgated on March 31, 1998 and revised on March 31, 2001, certain consolidated subsidiaries elected a one-time revaluation of their own-use land to a value based on real estate appraisal information as of March 31, 2002.

The resulting land revaluation represents the unrealized devaluation of land and is stated, net of deferred tax assets and liabilities, as a component of net assets. There is no effect on the statements of income.

Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be included in the land revaluation account and related deferred tax assets and liabilities.

The carrying amounts of the land after the one-time revaluation noted above exceeded market value by ¥2,030 million (US\$20,262 thousand) and ¥2,065 million at March 31, 2008 and 2007, respectively.

16. NON-CASH INVESTING AND FINANCING ACTIVITIES

During the fiscal year ended March 31, 2008, CS YAKUHIN CO., LTD. and RYUYAKU CO., LTD. became wholly owned consolidated subsidiaries through stock exchanges. The following summarizes the main components of the assets, liabilities, and proceeds from issuance of new shares through stock exchange (net of cash acquired) of the companies at the time of consolidation. Capital and capital surplus increased ¥210 million (US\$2,096 thousand) and ¥16,117 million (US\$160,864 thousand), respectively, as a result of the stock exchange.

CS YAKUHIN CO., LTD. (“CS YAKUHIN”)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	October 1, 2007	October 1, 2007	October 1, 2007
Current assets	¥ 64,657		\$ 645,344
Non-current assets	6,537		65,246
Goodwill	3,268		32,618
Current liabilities	(62,330)		(622,118)
Non-current liabilities	(2,325)		(23,206)
Stock exchange expense	(23)		(230)
The Companies’ share at the time of acquisition	79		789
Acquisition cost of newly consolidated subsidiary	9,863		98,443
Cash and cash equivalents of CS YAKUHIN	3,314		33,077
Stock-for-stock exchange	(9,863)		(98,443)
Net receipt from stock exchange	¥ 3,314		\$ 33,077

RYUYAKU CO., LTD. ("RYUYAKU")

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	October 1, 2007	October 1, 2007
Current assets	¥ 9,303	\$ 92,854
Non-current assets	3,911	39,036
Goodwill	1,284	12,816
Current liabilities	(6,704)	(66,913)
Non-current liabilities	(1,236)	(12,337)
Stock exchange expense	(14)	(140)
Acquisition cost of newly consolidated subsidiary	6,544	65,316
Cash and cash equivalents of RYUYAKU	320	3,194
Stock-for-stock exchange	(6,544)	(65,316)
Net receipt from stock exchange	¥ 320	\$ 3,194

During the fiscal year ended March 31, 2007, Meisho Co., Ltd. became a wholly owned consolidated subsidiary through a stock exchange. The following summarizes the main components of the assets and liabilities of the company at the time of consolidation. Capital and capital surplus increased ¥147 million and ¥8,179 million, respectively, as a result of the stock exchange.

Meisho Co., Ltd.

	Millions of Yen
	April 1, 2006
Current assets	¥27,614
Non-current assets	8,798
Total	¥36,412
Current liabilities	¥23,942
Non-current liabilities	1,701
Total	¥25,643

17. SUBSEQUENT EVENTS

At the Board of Directors' Meeting held on May 12, 2008, retained earnings at March 31, 2008, were appropriated as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2008	2008
Cash dividends (¥42 per share)	¥1,766	\$17,627

To the Board of Directors of
Alfresa Holdings Corporation:

We have audited the accompanying consolidated balance sheets of Alfresa Holdings Corporation and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alfresa Holdings Corporation and subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 25, 2008