

Consolidated Balance Sheet

Alfresa Holdings Corporation and consolidated subsidiaries
As of March 31, 2004

Assets	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2004	2004
Current assets:		
Cash and cash equivalents (Note 8)	¥ 57,901	\$ 547,838
Receivables:		
Trade notes and accounts	290,020	2,744,064
Other	23,083	218,407
Allowance for doubtful accounts	(734)	(6,947)
	312,369	2,955,524
Inventories:		
Merchandise	50,279	475,721
Finished goods	809	7,651
Work in process	350	3,310
Raw materials and supplies	814	7,700
	52,252	494,382
Deferred tax assets (Note 5)	2,616	24,750
Other	2,139	20,245
Total current assets	427,277	4,042,739
Investments and other assets:		
Investments in unconsolidated subsidiaries and affiliates	501	4,742
Investments in securities (Notes 3 and 8)	17,070	161,505
Long-term receivables:		
Long-term loans receivable	1,064	10,070
Other	2,757	26,081
Allowance for doubtful accounts	(3,079)	(29,130)
	742	7,021
Deferred tax assets (Note 5)	5,975	56,538
Deferred tax assets for land revaluation (Note 14)	2,201	20,821
Other	10,294	97,397
Total investments and other assets	36,783	348,024
Property, plant and equipment:		
Land (Notes 8 and 14)	27,417	259,409
Buildings and structures (Note 8)	39,332	372,144
Machinery and equipment	15,334	145,086
	82,083	776,639
Less accumulated depreciation	(35,078)	(331,896)
Net property, plant and equipment	47,005	444,743
Deferred charges and intangibles	2,123	20,093
	¥513,188	\$4,855,599

Liabilities, Minority Interests and Shareholders' Equity	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2004	2004
Current liabilities:		
Short-term debt (Note 6)	¥ 2,700	\$ 25,546
Long-term debt due within one year (Note 6)	163	1,542
Payables:		
Trade notes and accounts	366,302	3,465,817
Other	3,511	33,215
	369,813	3,499,032
Accrued expenses	4,677	44,249
Income taxes payable	3,532	33,421
Other	1,194	11,295
Total current liabilities	382,079	3,615,085
Long-term liabilities:		
Long-term debt due after one year (Note 6)	50	473
Employees' severance and retirement benefits (Note 7)	17,335	164,018
Directors' and statutory auditors' retirement benefits	1,074	10,165
Other	709	6,707
Total long-term liabilities	19,168	181,363
Contingent liabilities (Note 9)		
Minority interests	3,532	33,422
Shareholders' equity (Note 11):		
Common stock		
Authorized—135,000,000 shares		
Issued—33,801,031 shares	3,380	31,980
Capital surplus	18,624	176,213
Retained earnings	84,047	795,234
Shortfall on land revaluation (Note 14)	(3,201)	(30,291)
Unrealized gains on available-for-sale securities	5,629	53,255
Foreign currency translation adjustments	(12)	(112)
Treasury stock, at cost 14,022 shares	(58)	(550)
Total shareholders' equity	108,409	1,025,729
	¥513,188	\$4,855,599

Consolidated Statement of Operations

Alfresa Holdings Corporation and consolidated subsidiaries
Year ended March 31, 2004

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2004	2004
Net sales	¥1,066,578	\$10,091,568
Cost of sales	972,143	9,198,058
Gross profit	94,435	893,510
Selling, general and administrative expenses	82,032	776,160
Operating income	12,403	117,350
Other income (expenses):		
Interest and dividend income	297	2,813
Interest expense	(33)	(313)
Loss on disposal of property, plant and equipment	(1,362)	(12,889)
Gain on sales of property, plant and equipment	147	1,394
Gain on sales of securities	161	1,523
Equity in income of affiliates	28	264
Administration fees	2,216	20,965
Allowance for doubtful accounts	(260)	(2,460)
Reversal of allowance for directors' and statutory auditors' retirement benefits	93	880
Loss on impairment of fixed assets (Note 13)	(1,957)	(18,514)
Other, net	825	7,809
	155	1,472
Income before income taxes	12,558	118,822
Income taxes (Note 5):		
Current	6,961	65,861
Deferred	(1,290)	(12,202)
	5,671	53,659
Income before minority interests	6,887	65,163
Minority interests	(397)	(3,759)
Net income	¥ 6,490	\$ 61,404
Per share amounts:		
Net income	¥194.85	\$1.844
Cash dividends applicable to the year	25.00	0.237

Consolidated Statement of Shareholders' Equity

Alfresa Holdings Corporation and consolidated subsidiaries
Year ended March 31, 2004

	Number of shares of common stock	Millions of Yen						
		Common stock	Capital surplus	Retained earnings	Shortfall on land revaluation	Unrealized gains on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2003	33,801,031	¥3,380	¥17,804	¥78,384	¥(3,234)	¥3,183	¥ 26	¥(2,103)
Net income for the year				6,490				
Cash dividends paid at ¥25.00 per share				(741)				
Bonuses to directors and statutory auditors				(53)				
Sale of treasury stock (1,006,973 shares)			820					2,106
Shortfall on land revaluation				(33)	33			
Increase in unrealized gains						2,446		
Adjustments from translation of foreign currency financial statements							(38)	
Treasury stock acquired (14,022 shares)								(61)
Balance at March 31, 2004	33,801,031	¥3,380	¥18,624	¥84,047	¥(3,201)	¥5,629	¥(12)	¥ (58)

	Thousands of U.S. Dollars (Note 1)							
	Common stock	Capital surplus	Retained earnings	Shortfall on land revaluation	Unrealized gains on available-for-sale securities	Foreign currency translation adjustments	Treasury stock	
Balance at March 31, 2003	\$ 31,980	\$ 168,451	\$ 741,643	\$(30,596)	\$30,115	\$ 250	\$(19,905)	
Net income for the year			61,404					
Cash dividends paid at \$0.237 per share			(7,012)					
Bonuses to directors and statutory auditors			(496)					
Sale of treasury stock (1,006,973 shares)		7,762					19,930	
Shortfall on land revaluation			(305)	305				
Increase in unrealized gains					23,140			
Adjustments from translation of foreign currency financial statements						(362)		
Treasury stock acquired (14,022 shares)							(575)	
Balance at March 31, 2004	\$31,980	\$176,213	\$795,234	\$(30,291)	\$53,255	\$(112)	\$ (550)	

Consolidated Statement of Cash Flows

Alfresa Holdings Corporation and consolidated subsidiaries
Year ended March 31, 2004

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2004	2004
Cash flows from operating activities:		
Income before income taxes	¥ 12,558	\$ 118,822
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation and amortization	2,414	22,841
Decrease in allowance for doubtful accounts	(488)	(4,613)
Increase in employees' severance and retirement benefits	557	5,270
Decrease in unpaid employees' retirement benefits	(2,176)	(20,589)
Interest and dividend income	(297)	(2,813)
Interest expense	33	313
Amortization of consolidated goodwill	(117)	(1,103)
Loss on impairment of fixed assets	1,957	18,514
Gain on sales of property, plant and equipment	(147)	(1,394)
Loss on disposal of property, plant and equipment	1,362	12,889
Gain on sales of securities	(161)	(1,523)
Increase in trade notes and accounts receivable	(8,437)	(79,824)
Increase in inventories	(1,211)	(11,462)
Increase in trade notes and accounts payable	7,216	68,276
Other	809	7,650
	13,872	131,254
Interest and dividend received	332	3,143
Interest paid	(33)	(313)
Income taxes paid	(11,873)	(112,345)
Net cash provided by operating activities	2,298	21,739
Cash flows from investing activities:		
Net increase in time deposits	(919)	(8,693)
Payments for purchase of property, plant and equipment	(780)	(7,383)
Payments for purchase of intangible assets	(612)	(5,789)
Proceeds from sale of property, plant and equipment	1,031	9,751
Repayments of loans receivable	348	3,295
Payments for purchase of investment securities	(164)	(1,548)
Proceeds from sale of investment securities	347	3,282
Other	(11)	(106)
Net cash used in investing activities	(760)	(7,191)
Cash flows from financing activities:		
Net decrease in short-term debt	(90)	(852)
Repayments of long-term debt	(357)	(3,374)
Proceeds from sale of treasury stock	3,516	33,265
Cash payments for transfer of shares	(821)	(7,766)
Cash dividends paid	(741)	(7,012)
Cash dividends paid to minority shareholders	(18)	(171)
Other	(60)	(573)
Net cash provided by financing activities	1,429	13,517
Foreign currency translation loss on cash and cash equivalents	(17)	(151)
Net increase in cash and cash equivalents	2,950	27,914
Cash and cash equivalents at beginning of the year	54,951	519,924
Cash and cash equivalents at end of the year	¥ 57,901	\$ 547,838

Notes to Consolidated Financial Statements

Alfresa Holdings Corporation and consolidated subsidiaries
Year ended March 31, 2004

1. Basis of Presenting 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 Japanese Securities 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 of 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 shareholders’ equity) 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 Securities 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, 2004, which was ¥105.69 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 six significant subsidiaries 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.

One affiliate over which the Company has significant influence is accounted for by the equity method. Investments in unconsolidated subsidiaries and other affiliates are not accounted for by the equity method, as application of the equity method would not have a material effect on the consolidated financial statements.

Significant Subsidiaries and Affiliates

(Year ended March 31, 2004)

Company Name	Ownership interest (%)	Common Stock (Millions of Yen)	Main Business
AZWELL Inc.	100.0	¥8,470	Pharmaceutical Wholesaling And Manufacturing
Fukujin Co., Ltd.	100.0	2,338	Pharmaceutical Wholesaling
Kowa Yakuhin Co., Ltd.	51.1 (51.1)	104	Pharmaceutical Wholesaling
Ando Co., Ltd.	50.9 (50.9)	300	Pharmaceutical Wholesaling
Nissho Butsuryu Service Co., Ltd.	84.2 (84.2)	70	Transportation, Warehousing
QINGDAO NESCO MEDICAL CO., LTD.	100.0 (100.0)	300	Manufacturing of medical sutures
KINTETSU SMILE SUPPLY CO., LTD.	49.0 (49.0)	160	Rental of nursing care equipment

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

The Company was established on September 29, 2003 as a 100% holding parent company of AZWELL Inc. (“AZWELL”) and Fukujin Co., Ltd. (“Fukujin”) through transfer of the stock of those companies in accordance with the Japanese Commercial Code. The formation of the Company and the exchanging of shares of AZWELL and Fukujin (the “Combination”) were accounted for using the pooling-of interests method in accordance with “Accounting for the Consolidation of a Holding Company Established by Stock Exchange or Stock Transfers” (JICPA Accounting Committee Research Report No.6) and, as such, the assets and liabilities of AZWELL and Fukujin are combined at book value. In addition, the Consolidated Statement of Operations gives effect to the transaction as if the transaction occurred at the beginning of the fiscal year presented, regardless of when the Combination was in effect.

As there are no accounting requirements for the financial statements to be restated for prior periods under Japanese GAAP, the opening balances of the fiscal year in the Consolidated Statement of Shareholders’ Equity are presented, assuming the Company has existed as of April 1, 2003.

(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

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost. If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and 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 value of equity securities issued by unconsolidated subsidiaries and affiliated companies not accounted for by the equity method is 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.

(g) Allowance for sales rebates

The Company provides for an allowance for sales rebates, included in accrued expenses, for future payment of sales rebates based upon actual rebates experienced in the past.

(h) Allowance for sales returns

The Company provides for an allowance for sales returns, included in accrued expenses, for future payment of sales returns based upon the method provided by the Corporation Tax Law of Japan.

(i) Employees' severance and retirement benefits

The Companies 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, 2004 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

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.

(j) Retirement benefits of directors and statutory auditors

The liability for directors' and statutory auditors' retirement benefits is provided based upon the Company's internally established criteria.

(k) 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.

(l) 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 year-end rate and statements of operations are translated at the average exchange rates for the fiscal year, except that shareholders' equity accounts are translated at historical rates and income statement items resulting from transactions with the Company are translated at the rates used by the Company.

(m) 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 year ended March 31, 2004, were ¥1,424 million (US\$13,483 thousand).

(n) Derivatives and hedge accounting

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

If a forward foreign 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 forward foreign exchange contract are recognized.

(o) 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.

(p) Impairment of fixed assets

The accounting standard for impairment of fixed assets, "Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets," issued by the Business Accounting Deliberation Council on August 9, 2002 and the implementation guidance for the accounting standard for impairment of fixed assets (Financial Accounting Standard Implementation Guidance No. 6, issued by the Accounting Standards Board of Japan on October 31, 2003), permit the early application of these standards to the financial statements for the year ended March 31, 2004 or after and therefore the Company adopted these standards in this fiscal year. The effect of this early adoption was to decrease income before income taxes by ¥1,957 million (US\$18,514 thousand). Accumulated impairment losses are directly deducted from the acquisition costs.

(q) 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.

3. Securities

(a) The following tables summarize acquisition costs, book values (fair values) of available-for-sale securities with available fair values as of March 31, 2004:

Securities with fair values exceeding acquisition costs:

	Millions of Yen			Thousands of U.S. Dollars (Note 1)		
	2004			2004		
	Acquisition cost	Book (fair) value	Difference	Acquisition cost	Book (fair) value	Difference
Equity securities	¥6,086	¥15,591	¥9,505	\$57,581	\$147,517	\$89,936
Bonds	88	132	44	831	1,248	417
Other securities	102	111	9	965	1,054	89
Total	¥6,276	¥15,834	¥9,558	\$59,377	\$149,819	\$90,442

Other securities:

	Millions of Yen			Thousands of U.S. Dollars (Note 1)		
	2004			2004		
	Acquisition cost	Book (fair) value	Difference	Acquisition cost	Book (fair) value	Difference
Equity securities	¥250	¥225	¥(25)	\$2,368	\$2,125	\$(243)

(b) The following table summarizes book values of securities with no available fair values as of March 31, 2004:

Available-for-sale securities:

	Thousands of U.S. Dollars (Note 1)	
	Millions of Yen	2004
	2004	2004
Non-listed equity securities	¥ 1,011	\$ 9,561
Non-listed domestic bonds	4,499	42,569
Money market fund	8,110	76,738
Other	1,000	9,460
Total	¥14,620	\$138,328

(c) Maturities of available-for-sale securities with maturities are as follows:

	Millions of Yen				Thousands of U.S. Dollars (Note 1)			
	2004				2004			
	Within one year	Over one year but within five years	Over five years but within ten years	Total	Within one year	Over one year but within five years	Over five years but within ten years	Total
Bonds	¥117	¥12	¥-	¥129	\$1,107	\$114	\$-	\$1,221

- (d) Total sales of available-for-sale securities in the year ended March 31, 2004 amounted to ¥306 million (US\$2,898 thousand), and the related gains and losses in 2004 amounted to ¥161 million (US\$1,523 thousand) and ¥33 million (US\$312 thousand), respectively.

4. Derivative Financial Instruments and Hedging Transactions

AZWELL, a subsidiary of the Company, uses forward foreign currency 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 AZWELL's products and payables (including future transactions). Forward foreign currency contracts are subject to risks of foreign exchange.

The derivative transactions are executed and managed by AZWELL's Overseas Department 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 the Companies and items hedged:

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

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

5. 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 42.0% for the year ended March 31, 2004.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the year ended March 31, 2004:

	2004
Statutory tax rate	42.0 %
Non-deductible taxes	3.2
Per capita inhabitant tax	1.5
Amortization of consolidated goodwill	(0.4)
Tax credit	(1.4)
Other	0.3
Effective tax rate	45.2 %

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2004 were as follows:

	Thousands of U.S. Dollars (Note 1)	
	Millions of Yen 2004	2004
Deferred tax assets:		
Accrued enterprise tax	¥ 459	\$ 4,338
Accrued social insurance expenses	178	1,685
Excess allowance for doubtful receivables	1,465	13,869
Excess bonuses accrued	1,616	15,298
Employees' severance and retirement benefits	6,298	59,589
Directors' and statutory auditors' retirement benefits	436	4,124
Loss on investments in and advances to associates	262	2,479
Write-down of investments	485	4,584
Loss on impairment of fixed assets	817	7,731
Other	745	7,047
Total deferred tax assets	12,761	120,744
Deferred tax liabilities:		
Valuation of debt and equity securities of consolidated subsidiaries	(256)	(2,422)
Unrealized gains on available-for-sale-securities	(3,864)	(36,564)
Other	(50)	(470)
Total deferred tax liabilities	(4,170)	(39,456)
Net deferred tax assets	¥ 8,591	\$ 81,288

6. Short-term Debt and Long-term Debt

Short-term debt and long-term debt as of March 31, 2004, consisted of the following:

	Thousands of U.S. Dollars (Note 1)	
	Millions of Yen 2004	2004
Short-term debt consisted of unsecured bank overdrafts and notes, interest 0.7%	¥ 2,700	\$ 25,546
Loans from banks, due through August 2005, interest 1.0 to 1.3%	213	2,015
	2,913	27,561
Less amounts due within one year	(2,863)	(27,088)
Total	¥ 50	\$ 473

7. 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 sheet as of March 31, 2004 consisted of the following:

	Thousands of U.S. Dollars (Note 1)	
	Millions of Yen 2004	2004
Projected benefit obligation	¥ 35,290	\$ 333,905
Unrecognized prior service costs	2,163	20,469
Unrecognized actuarial differences	(6,042)	(57,169)
Less fair value of pension assets	(14,076)	(133,187)
Liability for employees' severance and retirement benefits	¥ 17,335	\$ 164,018

Included in the consolidated statement of operations for the year ended March 31, 2004 are severance and retirement benefit expenses comprised the following:

	Thousands of U.S. Dollars (Note 1)	
	Millions of Yen 2004	2004
Service costs—benefits earned during the year	¥3,066	\$29,009
Interest cost on projected benefit obligation	850	8,041
Expected return on plan assets	(153)	(1,443)
Amortization of prior service costs	(293)	(2,774)
Amortization of actuarial differences	719	6,805
Special retirement benefits and others	64	606
Severance and retirement benefit expense	¥4,253	\$40,244

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

The discount rates used by the Company for the year ended March 31, 2004 were 2.0%, and the rate of expected return on plan assets was 1.0% to 2.5%. 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.

8. Pledged Assets

Assets pledged as collateral for borrowing, and transaction guarantees, at March 31, 2004, were as follows:

	Thousands of U.S. Dollars (Note 1)	
	Millions of Yen 2004	2004
Cash and cash equivalents	¥ 394	\$ 3,724
Buildings and structures, net of accumulated depreciation	1,527	14,447
Land	2,509	23,741
Investments in securities	3,269	30,937
Total	¥7,699	\$72,849

9. *Contingent Liabilities*

Contingent liabilities at March 31, 2004 were as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2004	2004
Guarantee of payables and loans to affiliates	¥1,591	\$15,056
Guarantee of loans to employees	109	1,032

10. *Leases*

At March 31, 2004, non-capitalized finance leases were as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2004	2004
Machinery and equipment	¥ 8,341	\$ 78,918
Intangibles	6,337	59,958
Less accumulated depreciation	(5,232)	(49,501)
Total	¥ 9,446	\$ 89,375

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

Lease payments for such leases for the year ended March 31, 2004, were ¥3,373 million (US\$31,919 thousand).

If the above finance leases had been capitalized, depreciation of ¥3,201 million (US\$30,287 thousand) and interest of ¥187 million (US\$1,768 thousand) would have been recorded for the year ended March 31, 2004.

Obligations under non-capitalized finance leases, excluding the interest portion, at March 31, 2004, were as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2004	2004
Due within one year	¥2,863	\$27,087
Due after one year	6,968	65,927
Total	¥9,831	\$93,014

Future minimum lease payments for operating leases of the Companies, as lessee, at March 31, 2004, were as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2004	2004
Due within one year	¥ 932	\$ 8,817
Due after one year	1,959	18,540
Total	¥2,891	\$27,357

Future minimum lease revenues for operating leases of the Companies, as lessor, at March 31, 2004, were as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2004	2004
Due within one year	¥23	\$217
Due after one year	58	548
Total	¥81	\$765

11. Shareholders' Equity

- (a) Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as stated capital, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.
- (b) Effective October 1, 2001, the Commercial Code of Japan provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains equal to or exceeding 25% of common stock, they are available for dividends by resolution of the shareholders' meeting. Legal reserve is included in retained earnings in the accompanying financial statements.
- (c) The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Commercial Code of Japan.

12. Segment Information

The Companies have three operating segments, Pharmaceutical Wholesaling, Pharmaceutical Manufacturing and Other.

The Companies' primary areas of business include the wholesaling of products manufactured—such as pharmaceuticals, medical diagnostic reagents and medical equipment—and the offering of products manufactured, which also include pharmaceuticals, medical diagnostic reagents, medical devices, and health foods. In addition, the Companies are involved in the fields of transportation, storage and insurance.

The Companies operate mainly within Japan, so regional segment information is not disclosed. The overseas sales for the year ended March 31, 2004 were less than 10% of consolidated net sales.

A summary of segment information is as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2004	2004
Net sales:		
Pharmaceutical Wholesaling Customers	¥1,049,534	\$ 9,930,302
Pharmaceutical Manufacturing Customers	16,616	157,215
Intersegment	4,135	39,121
Total	20,751	196,336
Other Customers	428	4,051
Intersegment	3,026	28,633
Total	3,454	32,684
Elimination	(7,161)	(67,754)
Consolidated	¥1,066,578	\$10,091,568
Operating Income:		
Pharmaceutical Wholesaling	¥ 11,382	\$ 107,692
Pharmaceutical Manufacturing	866	8,197
Other	180	1,700
Elimination	(25)	(239)
Consolidated	¥ 12,403	\$ 117,350
Total Assets:		
Pharmaceutical Wholesaling	¥ 443,185	\$ 4,193,253
Pharmaceutical Manufacturing	15,699	148,542
Other	1,297	12,274
Elimination and Corporate Assets	53,007	501,530
Consolidated	¥ 513,188	\$ 4,855,599
Depreciation and Amortization:		
Pharmaceutical Wholesaling	¥ 2,026	\$ 19,165
Pharmaceutical Manufacturing	363	3,434
Other	23	222
Elimination and Unallocated Corporate Expenses	2	20
Consolidated	¥ 2,414	\$ 22,841
Loss on Impairment of Fixed Assets:		
Pharmaceutical Wholesaling	¥ 1,088	\$ 10,293
Pharmaceutical Manufacturing	-	-
Other	-	-
Elimination and Unallocated Corporate Expenses	869	8,221
Consolidated	¥ 1,957	\$ 18,514
Capital Expenditure:		
Pharmaceutical Wholesaling	¥ 737	\$ 6,969
Pharmaceutical Manufacturing	360	3,410
Other	23	215
Elimination and Corporate Expenditure	306	2,900
Consolidated	¥ 1,426	\$ 13,494

Corporate assets as of March 31, 2004 were ¥53,305 million (US\$504,348 thousand), and were mainly comprised of the Companies' cash and cash equivalents and marketable and investment securities.

13. Loss on Impairment of Fixed Assets

The Companies recognized impairment losses for groups of fixed assets in the year ended March 31, 2004, as follows:

Use	Type of assets	Millions of Yen	Thousands of U.S. Dollars (Note 1)
		2004	2004
Idle properties	Buildings and structures, land	¥ 697	\$6,596
Rental properties	Buildings and structures, land	224	2,119
Business properties	Buildings and structures, land	1,036	9,799

The Companies grouped business properties based on business units, 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%.

14. Land Revaluation

Under the "Law of Land Revaluation," promulgated on March 31, 1998 and revised on March 31, 2001, Fukujin Co., Ltd. and Kowa Yakuhin Co., Ltd., subsidiaries of the Company, 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 shortfall on land revaluation represents the unrealized devaluation of land and is stated, net of deferred tax assets and liabilities, as a component of shareholders' equity. There is no effect on the statement of operations.

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

The details of the one-time revaluations as of March 31, 2002 were as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
Land before revaluation	¥14,458	\$136,800
Land after revaluation	8,904	84,251
Shortfall on land revaluation (Net deferred tax)	3,224	30,506

The carrying amount of the land after the one-time revaluation noted above exceeded market value by ¥884 million (\$8,365 thousand) at March 31, 2004.

15. Subsequent Events

(a) At the general meeting of shareholders held on June 29, 2004, retained earnings at March 31, 2004, were appropriated as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2004	2004
Cash dividends (¥25 per share)	¥845	\$7,992

(b) On May 6, 2004, the Company's Board of Directors resolved to undertake a stock exchange in accordance with Articles 358:I of the Commercial Code of Japan in order to turn Taishodo Co., Ltd. ("Taishodo"), into a wholly owned subsidiary, and to issue new shares in conjunction with this transaction. The contracts for the stock exchange were signed on the same day.

(1) Purpose of share exchange

Taishodo had been in a business alliance with Fukujin Co., Ltd. ("Fukujin"), a wholly owned subsidiary of the Company. However, the Company has decided to make Taishodo a wholly owned subsidiary through a stock exchange to increase Alfresa's group value by leveraging management resources effectively and efficiently.

(2) Outline of Taishodo at March 31, 2004

Businesses	Wholesale of pharmaceuticals, etc.
Established	February 20, 1948
Head office	77, Kamakuracho, Kumagaya, Saitama Prefecture
Representative	Kentaro Iwasaki, President
Capital	¥28 million (\$265 thousand)
Shareholders' equity	¥4,321 million (\$40,885 thousand)
Total assets	¥27,299 million (\$258,295 thousand)

(3) A stock exchange was performed on July 1, 2004, in accordance with Articles 352 through 363 of the Code, at which time Taishodo become a wholly owned subsidiary of the Company.

Pursuant to the stock exchange, the Company issued 740,383 shares of common stock to be exchanged at a rate of 1.39 shares of common stock in the Company to a share of common stock in Taishodo.

(c) On April 1, 2004, the Company's consolidated subsidiary, Fukujin, acquired 86.8% of the shares of DAIWA Pharmaceutical Wholesalers Co., Ltd. ("DAIWA") and 54.7% of the shares of Odashima Limited ("Odashima") to make them consolidated subsidiaries.

(1) Outline of DAIWA at March 31, 2004

Businesses	Wholesale of pharmaceuticals, etc.
Established	June 17, 1946
Head office	9-29, Toiya-cho, Matsuyama, Ehime Prefecture
Representative	Noboru Kawashima, President (Appointed June 25, 2004)
Capital	¥60 million (\$568 thousand)
Shareholders' equity	¥3,021 million (\$28,582 thousand)
Total assets	¥11,232 million (\$106,272 thousand)

(2) Outline of Odashima at March 31, 2004

Businesses	Wholesale of pharmaceuticals, etc.
Established	January 7, 1949
Head office	68 Oroshi-machi, Hanamaki, Iwate Prefecture
Representative	Kinichiro Odashima, President
Capital	¥30 million (\$284 thousand)
Shareholders' equity	¥2,087 million (\$19,744 thousand)
Total assets	¥20,491 million (\$193,880 thousand)

Independent Auditors' Report

To the Board of Directors of
Alfresa Holdings Corporation

We have audited the accompanying consolidated balance sheet of Alfresa Holdings Corporation and consolidated subsidiaries as of March 31, 2004, and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended, expressed in 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, 2004, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements. As discussed in Note 2 (p) to the consolidated financial statements, the Company adopted early the new accounting standard for impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 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.

Tokyo, Japan
June 29, 2004

KPMG AZSA & Co.