

## Consolidated Balance Sheets

Alfresa Holdings Corporation and consolidated subsidiaries  
As of March 31, 2005 and 2004

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
<b>Current assets</b>			
Cash and cash equivalents (Note 8)	¥ 57,380	¥ 57,901	\$ 534,313
Receivables:			
Trade notes and accounts	338,203	290,020	3,149,297
Other	34,490	23,083	321,163
Allowance for doubtful accounts	(806)	(734)	(7,505)
	371,887	312,369	3,462,955
Inventories:			
Merchandise	66,991	50,279	623,807
Finished goods	819	809	7,630
Work in process	322	350	3,002
Raw materials and supplies	979	814	9,119
	69,111	52,252	643,558
Deferred tax assets	3,513	2,616	32,708
Other (Notes 3 and 8)	3,115	2,139	29,012
<b>Total current assets</b>	<b>505,006</b>	<b>427,277</b>	<b>4,702,546</b>
<b>Investments and other assets:</b>			
Investments in unconsolidated subsidiaries and affiliates	723	501	6,728
Investments in securities (Notes 3 and 8)	20,192	17,070	188,025
Long-term receivables:			
Long-term loans receivable	1,430	1,064	13,314
Other	8,520	2,757	79,336
Allowance for doubtful accounts	(4,156)	(3,079)	(38,690)
	5,794	742	53,960
Deferred tax assets	6,573	5,975	61,206
Deferred tax assets for land revaluation (Note 14)	2,051	2,201	19,101
Other (Note 8)	9,420	10,294	87,717
<b>Total investments and other assets</b>	<b>44,753</b>	<b>36,783</b>	<b>416,737</b>
<b>Property, plant and equipment:</b>			
Land (Notes 8 and 14)	31,724	27,417	295,408
Buildings and structures (Note 8)	50,309	39,332	468,470
Machinery and equipment	15,749	15,332	146,647
Construction in progress	1,083	2	10,087
	98,865	82,083	920,612
Less accumulated depreciation	(43,232)	(35,078)	(402,568)
<b>Net property, plant and equipment</b>	<b>55,633</b>	<b>47,005</b>	<b>518,044</b>
Deferred charges and intangibles	3,960	2,123	36,867
	¥609,352	¥513,188	\$5,674,194

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
<b>Current liabilities:</b>			
Short-term debt (Note 6)	¥ 4,164	¥ 2,700	\$ 38,775
Long-term debt due within one year (Note 6)	1,012	163	9,424
Payables:			
Trade notes and accounts	450,682	366,302	4,196,687
Other	5,693	3,511	53,007
	<b>456,375</b>	<b>369,813</b>	<b>4,249,694</b>
Accrued expenses	4,837	4,677	45,045
Income taxes payable	493	3,532	4,593
Allowance for sales rebates	63	33	587
Allowance for sales returns	743	582	6,914
Other	1,514	579	14,095
<b>Total current liabilities</b>	<b>469,201</b>	<b>382,079</b>	<b>4,369,127</b>
<b>Long-term liabilities:</b>			
Long-term debt due after one year (Note 6)	801	50	7,458
Employees' severance and retirement benefits (Note 7)	19,339	17,335	180,086
Directors' and statutory auditors' retirement benefits	369	1,074	3,437
Deferred tax liabilities (Note 5)	1,594	–	14,839
Consolidation adjustment account	926	–	8,625
Provision for loss on guarantees	589	503	5,484
Other	787	206	7,328
<b>Total long-term liabilities</b>	<b>24,405</b>	<b>19,168</b>	<b>227,257</b>
<b>Contingent liabilities (Note 9)</b>			
<b>Minority interests</b>	<b>4,670</b>	<b>3,532</b>	<b>43,489</b>
<b>Shareholders' equity (Note 11)</b>			
Common stock			
Authorized—135,000,000 shares			
Issued—34,541,414 shares	3,450	3,380	32,126
Capital surplus	21,357	18,624	198,869
Retained earnings	85,275	84,047	794,064
Land revaluation (Note 14)	(2,978)	(3,201)	(27,727)
Unrealized gains on available-for-sale securities	6,520	5,629	60,715
Foreign currency translation adjustments	(23)	(12)	(211)
Treasury stock, at cost 713,012 shares	(2,525)	(58)	(23,515)
<b>Total shareholders' equity</b>	<b>111,076</b>	<b>108,409</b>	<b>1,034,321</b>
	<b>¥609,352</b>	<b>¥513,188</b>	<b>\$5,674,194</b>

## Consolidated Statements of Income

Alfresa Holdings Corporation and consolidated subsidiaries  
Years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
<b>Net sales</b>	<b>¥1,195,314</b>	<b>¥1,066,578</b>	<b>\$11,130,588</b>
<b>Cost of sales</b>	<b>1,097,365</b>	<b>972,143</b>	<b>10,218,505</b>
Gross profit	97,949	94,435	912,083
<b>Selling, general and administrative expenses</b>	<b>91,415</b>	<b>82,032</b>	<b>851,238</b>
Operating income	6,534	12,403	60,845
<b>Other income (expenses):</b>			
Interest and dividend income	373	297	3,476
Interest expense	(67)	(33)	(625)
Amortization of consolidated adjustment account	288	116	2,685
Loss on disposal of property, plant and equipment	(274)	(1,362)	(2,549)
Administration fees	2,564	2,216	23,871
Loss on impairment of fixed assets (Note 13)	(772)	(1,957)	(7,188)
Loss on cancellation of lease	(153)	–	(1,426)
Integration expense	(287)	–	(2,669)
Loss on liquidation of affiliates	(485)	–	(4,520)
Additional retirement benefits	(2,962)	–	(27,579)
Other, net	812	709	7,557
	(963)	155	(8,967)
<b>Income before income taxes</b>	<b>5,571</b>	<b>12,558</b>	<b>51,878</b>
<b>Income taxes (Note 5):</b>			
Current	3,159	6,961	29,417
Deferred	(1,150)	(1,290)	(10,709)
	2,009	5,671	18,708
<b>Income before minority interests</b>	<b>3,562</b>	<b>6,887</b>	<b>33,170</b>
<b>Minority interests</b>	<b>(354)</b>	<b>(397)</b>	<b>(3,298)</b>
<b>Net income</b>	<b>¥ 3,208</b>	<b>¥ 6,490</b>	<b>\$ 29,872</b>

Per share amounts:	Yen		U.S. Dollars (Note 1)
Net income	¥91.81	¥194.85	\$0.855
Cash dividends applicable to the year	50.00	25.00	0.466

# Consolidated Statements of Shareholders' Equity

Alfresa Holdings Corporation and consolidated subsidiaries  
Years ended March 31, 2005 and 2004

	Number of shares of common stock	Millions of Yen						
		Common stock	Capital surplus	Retained earnings	Land revaluation	Unrealized gains on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
<b>Balance at March 31, 2003</b>	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
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)
<b>Balance at March 31, 2004</b>	33,801,031	¥3,380	¥18,624	¥84,047	¥(3,201)	¥5,629	¥(12)	¥ (58)
Net income for the year				3,208				
Increase due to stock exchange	740,383	70	2,733					
Increase due to exclusion from equity method				6				
Cash dividends paid at ¥25.00 per share				(1,708)				
Bonuses to directors and statutory auditors				(57)				
Land revaluation				(223)	223			
Increase in unrealized gains						891		
Adjustments from translation of foreign currency financial statements							(11)	
Treasury stock acquired (698,770 shares)								(2,467)
<b>Balance at March 31, 2005</b>	34,541,414	¥3,450	¥21,357	¥85,275	¥(2,978)	¥6,520	¥(23)	¥(2,525)

	Thousands of U.S. Dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Land revaluation	Unrealized gains on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
<b>Balance at March 31, 2004</b>	\$31,474	\$173,424	\$782,645	\$(29,811)	\$52,412	\$(111)	\$ (541)
Net income for the year			29,872				
Increase due to stock exchange	652	25,445					
Increase due to exclusion from equity method			63				
Cash dividends paid at \$0.233 per share			(15,902)				
Bonuses to directors and statutory auditors			(530)				
Land revaluation			(2,084)	2,084			
Increase in unrealized gains					8,303		
Adjustments from translation of foreign currency financial statements						(100)	
Treasury stock acquired (698,770 shares)							(22,974)
<b>Balance at March 31, 2005</b>	\$32,126	\$198,869	\$794,064	\$(27,727)	\$60,715	\$(211)	\$(23,515)

## Consolidated Statements of Cash Flows

Alfresa Holdings Corporation and consolidated subsidiaries  
Years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 5,571	¥ 12,558	\$ 51,878
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	2,660	2,414	24,765
Decrease in allowance for doubtful accounts	(80)	(488)	(748)
Decrease (Increase) in employees' severance and retirement benefits	(790)	557	(7,353)
Decrease in director's retirement benefits	(1,028)	(2,176)	(9,577)
Interest and dividend income	(373)	(297)	(3,476)
Interest expense	67	33	625
Amortization of consolidated adjustment account	(288)	(117)	(2,685)
Loss on impairment of fixed assets	772	1,957	7,188
Loss on disposal of property, plant and equipment	274	1,362	2,549
Increase in trade notes and accounts receivable	(13,035)	(8,437)	(121,384)
Increase in inventories	(8,877)	(1,211)	(82,658)
Increase in trade notes and accounts payable	36,003	7,216	335,253
Increase in other receivables	(8,161)	–	(75,998)
Other	2,025	501	18,881
	14,740	13,872	137,260
Interest and dividends received	366	332	3,410
Interest paid	(65)	(33)	(604)
Income taxes paid	(4,871)	(11,873)	(45,365)
Net cash provided by operating activities	10,170	2,298	94,701
<b>Cash flows from investing activities:</b>			
Net decrease (increase) in time deposits	188	(919)	1,751
Payment for securities	(130)	–	(1,210)
Payments for purchase of property, plant and equipment	(2,227)	(780)	(20,741)
Payments for purchase of intangible assets	(2,194)	(612)	(20,432)
Proceeds from sale of property, plant and equipment	97	1,031	904
Advances of loans receivable	(265)	–	(2,470)
Repayments of loans receivable	426	348	3,964
Payments for purchase of investment securities	(77)	(164)	(721)
Proceeds from sale of investment securities	187	347	1,745
Other	(44)	(11)	(404)
Net cash used in investing activities	(4,039)	(760)	(37,614)
<b>Cash flows from financing activities:</b>			
Net decrease in short-term debt	(1,835)	(90)	(17,087)
Proceeds from long-term debt	300	–	2,794
Repayments of long-term debt	(1,260)	(357)	(11,732)
Proceeds from sale of treasury stock	–	3,516	–
Cash payments for transfer of shares	–	(821)	–
Repayments of bonds issued	(100)	–	(931)
Payments for purchase of treasury stock	(2,097)	(60)	(19,532)
Cash dividends paid	(2,547)	(741)	(23,714)
Cash dividends paid to minority shareholders	(28)	(18)	(258)
Net cash provided by (used in) financing activities	(7,567)	1,429	(70,460)
Foreign currency translation loss on cash and cash equivalents	(6)	(17)	(57)
Net increase (decrease) in cash and cash equivalents	(1,442)	2,950	(13,430)
Cash and cash equivalents at beginning of the year	57,901	54,951	539,165
Increase in cash and cash equivalents due to stock change	921	–	8,578
Cash and cash equivalents at end of the year	¥ 57,380	¥ 57,901	\$ 534,313

# Notes to Consolidated Financial Statements

Alfresa Holdings Corporation and consolidated subsidiaries  
Year ended March 31, 2005

## 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 (together with the Company, hereinafter referred to as the “Companies”) 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, 2005, which was ¥107.39 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 ten 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.

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, 2005)

Company Name	Ownership Interest (%)	Common Stock (Millions of Yen)	Main Business
Alfresa Corporation	100.0%	¥4,000	Pharmaceutical wholesaling
Alfresa Pharma Corporation	100.0	1,000	Pharmaceutical manufacturing
Alfresa Pip-Tokyo Corporation	51.0	400	Medical materials wholesaling, SPD business
DAIWA Pharmaceutical			
Wholesalers Co., Ltd.	86.8 (86.8)	60	Pharmaceutical wholesaling
Nissho Butsuryu Service Co., Ltd.	84.2 (84.2)	70	Transportation, warehousing
Kowa Pharmaceuticals Co., Ltd.	67.6 (67.6)	104	Pharmaceutical wholesaling
Odashima Limited	54.8 (54.8)	30	Pharmaceutical wholesaling
NIKKEN SANGYO CO., LTD.	51.0 (51.0)	190	Pharmaceutical wholesaling
Ando Co., Ltd.	50.9 (50.9)	300	Pharmaceutical wholesaling
QINGDAO NESCO MEDICAL CO., LTD.	100.0 (100.0)	300	Manufacturing of medical sutures

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 Statements of Income 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 Statements of Shareholders’ Equity are presented, assuming the Company had 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

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 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.

Other securities with no available fair market value are stated at moving-average cost. If the market value of 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) Software costs

The Company includes software in intangible assets and depreciates it using the straight-line method over a useful life of five years.

(h) 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.

(i) 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.

(j) Accrued retirement benefits

Accrued retirement benefits for corporate directors are provided for based on the amounts that have accrued as at the balance sheet date, which are computed based on the Company's internal policies.

Alfresa Corporation and Alfresa Pharma Corporation have abolished directors' retirement allowance as of the extraordinary general meeting of shareholders on September 27, 2004. As a result, the reserve for directors' retirement allowance was eliminated to cover the unpaid portion of ¥347 million for the directors' term of service up to September 30, 2004, which is included in "other fixed liabilities".

(k) Provision for loss on guarantees

Provision for loss on guarantees is provided in an estimated amount of the financial position and solvency of subsidiaries.

(l) 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, 2005 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.

(m) Retirement benefits of directors and statutory auditors

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

(n) 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.

(o) Translation of foreign currencies

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

The balance sheet of a consolidated overseas subsidiary is translated into Japanese yen at the year-end rate and the statement of income is translated at the average exchange rate for the fiscal year, except that shareholders' equity accounts are translated at historical rates and income statement items resulting from transactions with a consolidated domestic subsidiary are translated at the rates used by it.

(p) 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, 2005 were ¥1,354 million (US\$12,607 thousand).

(q) 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.

(r) 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.

(s) 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; therefore, the Company adopted these standards in that year.

(t) 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.

Diluted net income per share is not disclosed because there were no potentially dilutive securities.

### 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, 2005 and 2004:

Securities with fair values exceeding acquisition costs:

	2005			2004		
	Acquisition cost	Book (fair) value	Difference	Acquisition cost	Book (fair) value	Difference
Equity securities	¥7,024	¥19,126	¥12,102	¥6,086	¥15,591	¥9,505
Bonds	11	13	2	88	132	44
Other securities	12	20	8	102	111	9
Total	¥7,047	¥19,159	¥12,112	¥6,276	¥15,834	¥9,558

	Thousands of U.S. Dollars (Note 1)		
	Acquisition cost	Book (fair) value	Difference
Equity securities	\$65,409	\$178,101	\$112,692
Bonds	100	122	22
Other securities	112	182	70
Total	\$65,621	\$178,405	\$112,784

Other securities:

	2005			2004		
	Acquisition cost	Book (fair) value	Difference	Acquisition cost	Book (fair) value	Difference
Equity securities	¥172	¥149	¥(22)	¥250	¥225	¥(25)

	Thousands of U.S. Dollars (Note 1)		
	Acquisition cost	Book (fair) value	Difference
Equity securities	\$1,597	\$1,389	\$(208)

(b) The following table summarizes book values of securities with no available fair values as of March 31, 2005 and 2004:

Available-for-sale securities:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Non-listed equity securities	¥ 883	¥ 1,011	\$ 8,222
Commercial paper	1,600	1,000	14,896
Non-listed domestic bonds	600	4,499	5,587
Money market fund	55	8,110	512
Other	0	0	1
<b>Total</b>	<b>¥3,138</b>	<b>¥14,620</b>	<b>\$29,218</b>

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

	Millions of Yen							
	2005				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	¥20	¥10	¥-	¥30	¥117	¥12	¥-	¥129

	Thousands of U.S. Dollars (Note 1)			
	2005			
	Within one year	Over one year but within five years	Over five years but within ten years	Total
Bonds	\$186	\$93	\$-	\$279

(d) The following table summarizes available-for-sale securities sold in the years ended March 31, 2005 and 2004:

Available-for-sale securities:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Sales value	¥33	¥306	\$303
Profit on sale	19	161	174
Loss on sale	8	33	79

#### 4. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Alfresa Pharma Corporation, 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 the Alfresa Pharma'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 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 the Companies and items hedged:

Hedging instruments:	Forward foreign exchange contracts
Hedged items:	Foreign currency future transactions

The Companies do not disclose the outstanding forward exchange contracts as 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 40.7% and 42.0% for the years ended March 31, 2005 and 2004, respectively.

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, 2005 and 2004:

	2005	2004
Statutory tax rate	40.7%	42.0%
Non-deductible expenses	8.4	3.2
Non-taxable dividend income	(0.3)	-
Valuation allowance	(2.1)	-
Increase due to change in tax rate	0.3	-
Per capita inhabitants' tax	4.1	1.5
Amortization of consolidated goodwill	(2.1)	(0.4)
Tax credit	(5.9)	(1.4)
Other	(4.3)	0.3
Effective tax rate	36.1%	45.2%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Deferred tax assets:			
Accrued enterprise tax	¥ 260	¥ 459	\$ 2,417
Accrued social insurance expenses	225	178	2,096
Excess allowance for doubtful receivables	1,446	1,465	13,463
Excess bonuses accrued	1,903	1,616	17,717
Employees' severance and retirement benefits	7,535	6,298	70,165
Directors' and statutory auditors' retirement benefits	158	436	1,470
Loss on investments in and advances to associates	253	262	2,354
Write-down of investments	549	485	5,112
Loss on impairment of fixed assets	1,110	817	10,337
Sales discount	759	-	7,072
Other	1,924	745	17,917
	16,122	12,761	150,120
Valuation allowance	(455)	-	(4,236)
Total deferred tax assets	15,667	12,761	145,884
Deferred tax liabilities:			
Difference between market and cost of assets and liabilities of consolidated subsidiaries	(719)	(256)	(6,699)
Unrealized gains on available-for-sale securities	(4,826)	(3,864)	(44,942)
Increase due to stock exchange	(1,507)	-	(14,028)
Other	(123)	(50)	(1,140)
Total deferred tax liabilities	(7,175)	(4,170)	(66,809)
Net deferred tax assets	¥ 8,492	¥ 8,591	\$ 79,075

The value-added input and capital input portions of enterprise tax amounting to ¥312 million were treated as selling, general and administrative expenses in accordance with Practical Guidance Report No. 12, "Treatment of the Pro Forma Standard Tax Portion of Corporate Tax in the Statement of Income," announced by the Accounting Standards Board of Japan on February 13, 2004.

6. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt borrowings at March 31, 2005 and 2004 consisted principally of bank overdrafts, bearing interest at average annual rates of approximately 0.8% and 0.7%, respectively.

Long-term debt as of March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Secured Bonds:			
Interest 1.8%, payable in yen, due 2005, issued by a consolidated subsidiary	¥ 500	¥ -	\$ 4,656
Unsecured Bonds:			
Interest 0.9%, payable in yen, due 2006, issued by a consolidated subsidiary	100	-	931
Long-term loans, interest 1.10% to 2.65% maturing through 2011:			
Secured	956	213	8,903
Unsecured	257	-	2,392
	1,813	213	
Less amounts due within one year	(1,012)	(163)	(9,424)
Total	¥ 801	¥ 50	\$ 7,458

The aggregate annual maturities of long-term debt outstanding as of March 31, 2005 are as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
2005	¥1,012	\$9,424
2006	405	3,767
2007	182	1,695
2008	119	1,106
2009	74	685
Thereafter	21	205

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 Sheets as of March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Projected benefit obligation	¥ 36,889	¥ 35,290	\$ 343,504
Unrecognized prior service costs	1,870	2,163	17,421
Unrecognized actuarial differences	(4,709)	(6,042)	(43,850)
Less fair value of pension assets	(14,711)	(14,076)	(136,989)
Liability for employees' severance and retirement benefits	¥ 19,339	¥ 17,335	\$ 180,086

Included in the Consolidated Statements of Income for the years ended March 31, 2005 and 2004 are severance and retirement benefit expenses comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Service costs-benefits earned during the year	¥3,283	¥3,066	\$30,577
Interest cost on projected benefit obligation	726	850	6,760
Expected return on plan assets	(144)	(153)	(1,342)
Amortization of prior service costs	(293)	(293)	(2,730)
Amortization of actuarial differences	762	719	7,098
Special retirement benefits and others	3,129	64	29,135
Severance and retirement benefit expense	¥7,463	¥4,253	\$69,498

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

The discount rate used by the Company was 2.0%, and the rates of expected return on plan assets for the years ended March 31, 2005 and 2004 were 0.0% to 2.5% and 1.0% 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 other certain factors.

## 8. PLEDGED ASSETS

Assets pledged as collateral for borrowing, and transaction guarantees, at March 31, 2005 and 2004, were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Time deposits	¥ 379	¥ 394	\$ 3,529
Buildings and structures, net of accumulated depreciation	1,073	1,527	9,992
Land	5,065	2,509	47,163
Investments in securities	2,357	3,269	21,947
Other	382	–	3,555
Total	¥9,256	¥7,699	\$86,186

Secured liabilities:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Trade notes and accounts payable	¥ 7,506	¥37,631	\$ 69,895
Short-term debt	2,331	1,149	21,706
Long-term debt due within one year	500	–	4,656
Long-term debt due after one year	542	–	5,047
Other	52	100	484
Total	¥10,931	¥38,880	\$101,788

## 9. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Guarantee of payables and loans to affiliates	¥3,028	¥1,591	\$28,193
Guarantee of loans to employees	44	109	408

## 10. LEASES

At March 31, 2005 and 2004, non-capitalized finance leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Machinery and equipment	¥10,138	¥ 8,341	\$ 94,400
Intangibles	7,845	6,337	73,055
Less accumulated depreciation	(7,870)	(5,232)	(73,280)
Total	¥10,113	¥ 9,446	\$ 94,175

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, 2005 and 2004, were ¥3,893 million (US\$36,248 thousand) and ¥3,373 million, respectively.

If the above finance leases had been capitalized, depreciation of ¥3,650 million (US\$33,988 thousand) and ¥3,201 million and interest of ¥275 million (US\$2,560 thousand) and ¥187 million would have been recorded for the years ended March 31, 2005 and 2004, respectively.

Obligations under non-capitalized finance leases, excluding the interest portion, at March 31, 2005 and 2004, were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Due within one year	¥ 3,661	¥2,863	\$34,093
Due after one year	6,933	6,968	64,557
Total	¥10,594	¥9,831	\$98,650

Future minimum lease payments for operating leases of the Companies, as lessee, at March 31, 2005 and 2004, were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Due within one year	¥1,270	¥ 932	\$11,826
Due after one year	2,819	1,959	26,253
Total	¥4,089	¥2,891	\$38,079

Future minimum lease revenues for operating leases of the Companies, as lessor, at March 31, 2005 and 2004, were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Due within one year	¥23	¥23	\$213
Due after one year	37	58	344
Total	¥60	¥81	\$557

## 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) 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, diagnostic reagents and medical devices and equipment—and the offering of products manufactured, which also include pharmaceuticals, 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, 2005 and 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)
	2005	2004	2005
Net sales:			
Pharmaceutical Wholesaling			
Customers	¥1,178,490	¥1,049,534	\$10,973,924
Intersegment	1	–	10
Total	1,178,491	1,049,534	10,973,934
Pharmaceutical Manufacturing			
Customers	16,413	16,616	152,835
Intersegment	4,468	4,135	41,607
Total	20,881	20,751	194,442
Other			
Customers	411	428	3,829
Intersegment	3,151	3,026	29,338
Total	3,562	3,454	33,167
Elimination	(7,620)	(7,161)	(70,955)
Consolidated	¥1,195,314	¥1,066,578	\$11,130,588
Operating Expenses:			
Pharmaceutical Wholesaling	¥1,172,731	¥1,038,151	\$10,920,301
Pharmaceutical Manufacturing	20,421	19,884	190,161
Other	3,401	3,274	31,663
Elimination	(7,773)	(7,134)	(72,382)
Consolidated	¥1,188,780	¥1,054,175	\$11,069,743

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
<b>Operating Income:</b>			
Pharmaceutical Wholesaling	¥ 5,760	¥ 11,382	\$ 53,632
Pharmaceutical Manufacturing	460	866	4,280
Other	161	180	1,504
Elimination	153	(25)	1,429
<b>Consolidated</b>	<b>¥ 6,534</b>	<b>¥ 12,403</b>	<b>\$ 60,845</b>
<b>Total Assets:</b>			
Pharmaceutical Wholesaling	¥ 579,860	¥ 443,185	\$ 5,399,571
Pharmaceutical Manufacturing	24,550	15,699	228,608
Other	1,300	1,297	12,107
Elimination and Corporate Assets	3,641	53,007	33,908
<b>Consolidated</b>	<b>¥ 609,351</b>	<b>¥ 513,188</b>	<b>\$ 5,674,194</b>
<b>Depreciation and Amortization:</b>			
Pharmaceutical Wholesaling	¥ 2,186	¥ 2,026	\$ 20,354
Pharmaceutical Manufacturing	452	363	4,209
Other	16	23	147
Elimination and Unallocated Corporate Expenses	6	2	55
<b>Consolidated</b>	<b>¥ 2,660</b>	<b>¥ 2,414</b>	<b>\$ 24,765</b>
<b>Loss on Impairment of Fixed Assets:</b>			
Pharmaceutical Wholesaling	¥ 772	¥ 1,088	\$ 7,188
Pharmaceutical Manufacturing	—	—	—
Other	—	—	—
Elimination and Unallocated Corporate Expenses	—	869	—
<b>Consolidated</b>	<b>¥ 772</b>	<b>¥ 1,957</b>	<b>\$ 7,188</b>
<b>Capital Expenditure:</b>			
Pharmaceutical Wholesaling	¥ 4,605	¥ 737	\$ 42,880
Pharmaceutical Manufacturing	317	360	2,955
Other	10	23	93
Elimination and Corporate Expenditure	24	306	220
<b>Consolidated</b>	<b>¥ 4,956</b>	<b>¥ 1,426</b>	<b>\$ 46,148</b>

Corporate assets as of March 31, 2005 and 2004 were ¥5,195 million (US\$48,375 thousand) and ¥53,304 million, respectively, 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 years ended March 31, 2005 and 2004, as follows:

Use	Type of assets	Millions of Yen		Thousands of U.S. Dollars (Note 1)
		2005	2004	2005
Idle properties	Buildings and structures, land	¥195	¥ 697	\$1,812
Rental properties	Buildings and structures, land	–	224	–
Business properties	Buildings and structures, land	577	1,036	5,376

The Companies grouped business properties based on idle properties, rental properties and business 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, 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 shareholders’ equity. There is no effect on the statement 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 removed from the shortfall on 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 ¥1,201 million (\$11,182 thousand) and ¥884 million at March 31, 2005 and 2004, respectively.

15. SUBSEQUENT EVENTS

(a) At the general meeting of shareholders held on June 29, 2005, retained earnings at March 31, 2005, were appropriated as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Cash dividends (¥25 per share)	¥846		\$7,875

(b) Based on a stock exchange agreement concluded on January 11, 2005, a stock exchange between the Company and OKAUCHI KANKODO, Ltd., Kowa Yakuhin Co., Ltd. and DAIWA Pharmaceutical Wholesalers Co., Ltd. was carried out on April 1, 2005. Thereby these companies were converted into wholly owned subsidiaries.

(1) Purpose of stock exchange

OKAUCHI KANKODO, Ltd., Kowa Yakuhin Co., Ltd. and DAIWA Pharmaceutical Wholesalers Co., Ltd. have reached a basic agreement to join the Alfresa Group, and effectively utilize, upgrade and promote efficiency of management resources to create a system that can strengthen their operating base and respond flexibly to changing market conditions.

(2) Profile of parties involved at March 31, 2005

(I) OKAUCHI KANKODO, Ltd.

Business lines: Wholesaling of pharmaceuticals, etc.  
Establishment: October 14, 1948  
Head office: 4-2, Kamei-cho, Takamatsu, Kagawa Prefecture  
Representative: Shinsuke Okauchi, President  
Capital: ¥46 million (\$429 thousand)  
Shareholders' equity: ¥3,031 million (\$28,223 thousand)  
Total assets: ¥8,445 million (\$78,643 thousand)

(II) Kowa Yakuhin Co., Ltd.

Business lines: Wholesaling of pharmaceuticals, etc.  
Establishment: November 5, 1957  
Head office: 224-29, Hiraishi Ebisuno, Kawauchi-cho, Tokushima, Tokushima Prefecture  
Representative: Ryuzo Okauchi, President  
Capital: ¥56 million (\$517 thousand)  
Shareholders' equity: ¥3,208 million (\$29,873 thousand)  
Total assets: ¥7,534 million (\$70,152 thousand)

(III) DAIWA Pharmaceutical Wholesalers Co., Ltd.

Business lines: Wholesaling of pharmaceuticals, etc.  
Establishment: June 17, 1946  
Head office: 9-29, Toiya-cho, Matsuyama, Ehime Prefecture  
Representative: Noboru Kawashima, President  
Capital: ¥60 million (\$559 thousand)  
Shareholders' equity: ¥3,074 million (\$28,624 thousand)  
Total assets: ¥11,184 million (\$104,150 thousand)

(3) In the stock exchange, the Company issued 1,854,434 shares of common stock to be exchanged at a rate of 0.945 shares of common stock of the Company to one share of common stock of OKAUCHI KANKODO, Ltd., 6.234 shares of common stock of the Company to one share of common stock of Kowa Yakuhin Co., Ltd., and 0.483 shares of common stock of the Company to one share of common stock of DAIWA Pharmaceutical Wholesalers Co., Ltd., respectively.

(c) On May 12, 2005, the Company's Board of Directors resolved to undertake a stock exchange in order to convert SEIWA SANGYO CO., LTD. into a wholly owned subsidiary, and to issue new shares in conjunction with this transaction. The agreement on the stock exchange was signed on the same day and approved at the general shareholders' meeting held on June 29, 2005.

(1) Purpose of stock exchange

SEIWA SANGYO CO., LTD. had been in a business alliance with the Company and Alfresa Corporation, a wholly owned subsidiary of the Company. The Company then decided to make SEIWA SANGYO CO., LTD. a wholly owned subsidiary through a stock exchange to increase Alfresa's group value by leveraging management resources effectively and efficiently.

(2) Profile of SEIWA SANGYO CO., LTD. at March 31, 2005

Business lines: Wholesaling of pharmaceuticals, etc.  
Establishment: April 7, 1947  
Head office: 1-2-19, Shoko Center, Nishi-ku, Hiroshima, Hiroshima Prefecture  
Representative: Hidetomi Takahashi, President  
Capital: ¥1,144 million (\$10,653 thousand)  
Shareholders' equity: ¥8,448 million (\$78,673 thousand)  
Total assets: ¥38,170 million (\$355,436 thousand)

(3) The stock exchange will be performed on October 1, 2005 at which time SEIWA SANGYO CO., LTD. will become a wholly owned subsidiary of the Company.

Pursuant to the stock exchange, the Company will issue 2,379,505 shares of common stock to be exchanged at a rate of 0.277 shares of common stock of the Company to one share of common stock of SEIWA SANGYO CO., LTD.

## Independent Auditors' Report

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, 2005 and 2004, and the related consolidated statements of income, shareholders' equity 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, 2005 and 2004, 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.

Without qualifying our opinion, we draw attention to the following:

- (1) As discussed in Note 15 (b) to the consolidated financial statements, Alfresa Holdings Corporation exchanged its common stock for common stock of OKAUCHI KANKODO, Ltd., Kowa Yakuhin Co., Ltd. and DAIWA Pharmaceutical Wholesalers Co., Ltd. on April 1, 2005 whereby these companies became wholly owned subsidiaries.
- (2) As discussed in Note 15 (c) to the consolidated financial statements, Alfresa Holdings Corporation contracted a share exchange agreement with SEIWA SANGYO CO., LTD. on May 12, 2005, in order to turn SEIWA SANGYO CO., LTD. into a wholly owned subsidiary, and the agreement was approved at the general shareholders meeting held on June 29, 2005.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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.

Osaka, Japan  
June 29, 2005

*KPMG AZSA & Co.*