

Consolidated Balance Sheets

Alfresa Holdings Corporation and consolidated subsidiaries
As of March 31, 2006 and 2005

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Current assets			
Cash and cash equivalents (Notes 3 and 8)	¥ 67,436	¥ 57,380	\$ 574,068
Receivables:			
Trade notes and accounts	380,744	338,203	3,241,201
Other	38,748	34,490	329,856
Allowance for doubtful accounts	(834)	(806)	(7,103)
	418,658	371,887	3,563,954
Inventories:			
Merchandise	68,592	66,991	583,912
Finished goods	931	819	7,926
Work in process	317	322	2,695
Raw materials and supplies	894	979	7,615
	70,734	69,111	602,148
Deferred tax assets (Note 5)	3,441	3,513	29,289
Other (Notes 3 and 8)	4,128	3,115	35,148
Total current assets	564,397	505,006	4,804,607
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliates	1,631	723	13,887
Investments in securities (Notes 3 and 8)	29,068	20,192	247,449
Long-term receivables:			
Long-term loans receivable	1,367	1,430	11,638
Other	7,936	8,520	67,557
Allowance for doubtful accounts	(3,832)	(4,156)	(32,626)
	5,471	5,794	46,569
Deferred tax assets (Note 5)	4,262	6,573	36,282
Deferred tax assets for land revaluation (Note 14)	0	2,051	0
Other (Note 8)	13,972	9,420	118,947
Total investments and other assets	54,404	44,753	463,134
Property, plant and equipment:			
Land (Notes 8 and 14)	36,424	31,724	310,074
Buildings and structures (Note 8)	58,059	50,309	494,248
Machinery and equipment	16,022	15,749	136,390
Construction in progress	562	1,083	4,782
	111,067	98,865	945,494
Less accumulated depreciation	(48,926)	(43,232)	(416,497)
Net property, plant and equipment	62,141	55,633	528,997
Deferred charges and intangibles	6,832	3,960	58,150
	¥687,774	¥609,352	\$5,854,888

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Current liabilities:			
Short-term debt (Note 6)	¥ 1,320	¥ 4,164	\$ 11,237
Long-term debt due within one year (Note 6)	540	1,012	4,598
Payables:			
Trade notes and accounts	501,296	450,682	4,267,442
Other	4,759	5,693	40,510
	506,055	456,375	4,307,952
Accrued expenses	5,983	4,837	50,936
Allowance for sales rebates	71	63	604
Allowance for sales returns	705	743	6,001
Income taxes payable	7,668	493	65,270
Other	2,606	1,514	22,192
Total current liabilities	524,948	469,201	4,468,790
Long-term liabilities:			
Long-term debt due after one year (Note 6)	847	801	7,214
Employees' severance and retirement benefits (Note 7)	20,952	19,339	178,348
Directors' and statutory auditors' retirement benefits	489	369	4,164
Deferred tax liabilities (Note 5)	2,162	1,594	18,408
Deferred tax liabilities for land revaluation (Note 14)	773	—	6,581
Consolidation adjustment account	—	926	—
Provision for loss on guarantees	473	589	4,030
Allowance for loss on transfer of business	482	—	4,103
Other	584	787	4,969
Total long-term liabilities	26,762	24,405	227,817
Contingent liabilities (Note 9)			
Minority interests	4,580	4,670	38,983
Shareholders' equity (Note 11)			
Common stock			
Authorized—135,000,000 shares			
Issued—38,775,353 shares	3,873	3,450	32,970
Capital surplus	39,671	21,357	337,711
Retained earnings	90,282	85,275	768,556
Land revaluation (Note 14)	(5,674)	(2,978)	(48,305)
Unrealized gains on available-for-sale securities	10,410	6,520	88,620
Foreign currency translation adjustments	38	(23)	326
Treasury stock, at cost 1,452,112 shares	(7,116)	(2,525)	(60,580)
Total shareholders' equity	131,484	111,076	1,119,298
	¥687,774	¥609,352	\$5,854,888

Consolidated Statements of Income

Alfresa Holdings Corporation and consolidated subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Net sales	¥1,411,639	¥1,195,314	\$12,017,017
Cost of sales	1,296,392	1,097,365	11,035,940
Gross profit	115,247	97,949	981,077
Selling, general and administrative expenses	100,400	91,415	854,691
Operating income	14,847	6,534	126,386
Other income (expenses):			
Interest and dividend income	494	373	4,202
Interest expense	(69)	(67)	(584)
Amortization of consolidated adjustment account	–	288	–
Write-down of securities	(276)	–	(2,353)
Loss on disposal of property, plant and equipment	(257)	(274)	(2,186)
Administration fees	2,984	2,564	25,400
Loss on impairment of fixed assets (Note 13)	(175)	(772)	(1,488)
Loss on cancellation of lease	(34)	(153)	(289)
Loss on transfer of business	(2,238)	–	(19,051)
Gain on sales of property, plant and equipment	487	–	4,149
Integration expense	–	(287)	–
Loss on liquidation of affiliates	–	(485)	–
Additional retirement benefits	(896)	(2,962)	(7,630)
Gain on sales of securities	14	–	123
Loss on sales of unconsolidated subsidiaries	50	–	424
Gain on transfer of operations	165	–	1,405
Gain on shares of co-development	268	–	2,285
Full amortization of long-term prepaid expense	(95)	–	(808)
Directors' retirement benefits	(151)	–	(1,286)
Amortization of leaseholds	(83)	–	(707)
Loss on cancellation of operating consignment contract	(73)	–	(618)
Other, net	1,533	812	13,043
	1,648	(963)	14,031
Income before income taxes	16,495	5,571	140,417
Income taxes (Note 5):			
Current	8,869	3,159	75,496
Deferred	281	(1,150)	2,392
	9,150	2,009	77,888
Income before minority interests	7,345	3,562	62,529
Minority interests	(271)	(354)	(2,313)
Net income	¥ 7,074	¥ 3,208	\$ 60,216
Per share amounts:			
Net income	¥ 189.55	¥ 91.81	\$ 1.614
Cash dividends applicable to the year	69.00	50.00	0.587

Consolidated Statements of Shareholders' Equity

Alfresa Holdings Corporation and consolidated subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen							
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Land revaluation	Unrealized gains on available-for- sale securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2004	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)
Balance at March 31, 2005	34,541,414	¥ 3,450	¥ 21,357	¥ 85,275	¥ (2,978)	¥ 6,520	¥ (23)	¥ (2,525)
Net income for the year				7,074				
Increase due to stock exchange	4,233,939	423	18,260					(1,301)
Cash dividends paid at ¥69.00 per share				(2,053)				
Bonuses to directors and statutory auditors				(79)				
Sale of treasury stock			54					243
Land revaluation				65	(65)			
Increase in unrealized gains						3,890		
Land revaluation due to change in deferred taxes					(2,631)			
Adjustments from translation of foreign currency financial statements							61	
Treasury stock acquired								(3,533)
Balance at March 31, 2006	38,775,353	¥ 3,873	¥ 39,671	¥ 90,282	¥ (5,674)	¥ 10,410	¥ 38	¥ (7,116)

	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	
Balance at March 31, 2005	\$ 29,369	\$ 181,804	\$ 725,926	\$ (25,348)	\$ 55,505	\$(193)	\$(21,497)	
Net income for the year			60,216					
Increase due to stock exchange	3,601	155,448					(11,076)	
Cash dividends paid at \$0.502 per share			(17,473)					
Bonuses to directors and statutory auditors			(672)					
Sale of treasury stock		459					2,065	
Land revaluation			559	(559)				
Increase in unrealized gains					33,115			
Land revaluation due to change in deferred taxes				(22,398)				
Adjustments from translation of foreign currency financial statements						519		
Treasury stock acquired							(30,072)	
Balance at March 31, 2006	\$32,970	\$337,711	\$768,556	\$(48,305)	\$88,620	\$326	\$(60,580)	

Consolidated Statements of Cash Flows

Alfresa Holdings Corporation and consolidated subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Cash flows from operating activities:			
Income before income taxes	¥ 16,495	¥ 5,571	\$ 140,417
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	4,007	2,660	34,111
Decrease in allowance for doubtful accounts	(531)	(80)	(4,518)
Increase (decrease) in employees' severance and retirement benefits	364	(790)	3,099
Decrease in directors' retirement benefits	(230)	(1,028)	(1,955)
Interest and dividend income	(494)	(373)	(4,202)
Interest expense	69	67	584
Amortization of consolidated adjustment account	19	(288)	166
Loss on impairment of fixed assets	175	772	1,488
Gain on sales of property, plant and equipment	(505)	-	(4,301)
Loss on disposal of property, plant and equipment	275	274	2,338
Increase in trade notes and accounts receivable	(12,898)	(13,035)	(109,794)
Decrease (increase) in inventories	4,730	(8,877)	40,265
Increase in trade notes and accounts payable	14,722	36,003	125,323
Increase in other receivables	(2,857)	(8,161)	(24,322)
Other	2,518	2,025	21,434
	25,859	14,740	220,133
Interest and dividends received	492	366	4,190
Interest paid	(72)	(65)	(616)
Income taxes paid	(1,614)	(4,871)	(13,734)
Net cash provided by operating activities	24,665	10,170	209,973
Cash flows from investing activities:			
Net decrease (increase) in time deposits	(729)	188	(6,205)
Payment for securities	(285)	(130)	(2,426)
Payments for purchase of property, plant and equipment	(3,628)	(2,227)	(30,880)
Payments for purchase of intangible assets	(1,663)	(2,194)	(14,157)
Proceeds from sale of property, plant and equipment	1,856	97	15,798
Advances of loans receivable	(267)	(265)	(2,271)
Repayments of loans receivable	379	426	3,223
Payments for purchase of investment securities	(905)	(77)	(7,703)
Payment for acquisition of long-term prepaid expense	(5,284)	-	(44,980)
Proceeds from sale of investment securities	292	187	2,484
Other	242	(44)	2,054
Net cash used in investing activities	(9,992)	(4,039)	(85,063)
Cash flows from financing activities:			
Net decrease in short-term debt	(2,844)	(1,835)	(24,210)
Proceeds from long-term debt	700	300	5,959
Repayments of long-term debt	(625)	(1,260)	(5,323)
Repayments of bonds	(500)	(100)	(4,256)
Proceeds from sale of treasury stock	320	-	2,727
Payments for purchase of treasury stock	(3,532)	(2,097)	(30,072)
Cash dividends paid	(2,053)	(2,547)	(17,473)
Cash dividends paid to minority shareholders	(21)	(28)	(183)
Net cash used in financing activities	(8,555)	(7,567)	(72,831)
Foreign currency translation loss on cash and cash equivalents	31	(6)	268
Net increase (decrease) in cash and cash equivalents	6,149	(1,442)	52,347
Cash and cash equivalents at beginning of the year	57,380	57,901	488,464
Increase in cash and cash equivalents due to stock exchange	3,907	921	33,255
Cash and cash equivalents at end of the year	¥ 67,436	¥ 57,380	\$ 574,066

Non-cash Investing and Financing Activities

During the fiscal year ended March 31, 2006, OKAUCHI KANKODO, Ltd. and Kowa Yakuhin Co., Ltd. (both currently Shikoku Alfresa Corporation), as well as SEIWA SANGYO CO., LTD. became consolidated subsidiaries through stock exchanges. The following summarizes the main components of the assets and liabilities of these three companies at the time of consolidation. Capital and capital surplus increased ¥393 million and ¥17,258 million, respectively, as a result of the stock exchanges.

OKAUCHI KANKODO, Ltd.

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	April 1, 2005	April 1, 2005
Current assets	¥7,160	\$60,949
Fixed assets	1,536	13,079
Total	¥8,696	\$74,028
Current liabilities	¥5,212	\$44,372
Long-term liabilities	303	2,581
Total	¥5,515	\$46,953

Kowa Yakuhin Co., Ltd.

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	April 1, 2005	April 1, 2005
Current assets	¥5,760	\$49,038
Fixed assets	2,087	17,762
Total	¥7,847	\$66,800
Current liabilities	¥4,058	\$34,542
Long-term liabilities	394	3,354
Total	¥4,452	\$37,896

SEIWA SANGYO CO., LTD.

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	October 1, 2005	October 1, 2005
Current assets	¥28,612	\$243,570
Fixed assets	8,423	71,703
Total	¥37,035	\$315,273
Current liabilities	¥27,860	\$237,163
Long-term liabilities	1,593	13,563
Total	¥29,453	\$250,726

Notes to Consolidated Financial Statements

Alfresa Holdings Corporation and consolidated subsidiaries
Year ended March 31, 2006

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 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, 2006, which was ¥117.47 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, 2006)			
Company Name	Ownership interest (%)	Common Stock (Millions of Yen)	Main Business
Alfresa Corporation	100.0%	¥4,000	Pharmaceutical wholesaling
SEIWA SANGYO CO., LTD.	100.0	1,144	Pharmaceutical wholesaling
Shikoku Alfresa Corporation	100.0	161	Pharmaceutical wholesaling
Alfresa Pip-Tokyo Corporation	51.0	400	Medical and sanitary products wholesaling Supply, processing & distribution (SPD) business
Kowa Pharmaceuticals Co., Ltd.	67.6 (67.6)	104	Pharmaceutical wholesaling
Odashima Limited	55.1 (55.1)	30	Pharmaceutical wholesaling
Alfresa Nikken Sangyo Corporation	51.0 (51.0)	190	Pharmaceutical wholesaling
Ando Co., Ltd.	50.9 (50.9)	300	Pharmaceutical wholesaling
Alfresa Pharma Corporation	100.0	1,000	Pharmaceutical manufacturing
QINGDAO NESCO MEDICAL CO., LTD. (Year ended December 31, 2005)	100.0 (100.0)	300	Manufacturing of medical sutures
Nissho Butsuryu Service Co., Ltd.	84.2 (84.2)	70	Transportation and warehousing

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

2. OKAUCHI KANKODO, Ltd., Kowa Yakuhin Co., Ltd. and DAIWA Pharmaceutical Wholesalers Co., Ltd. became wholly owned subsidiaries of the Company by stock exchange on April 1, 2005.

3. OKAUCHI KANKODO, Ltd. absorbed Kowa Yakuhin Co., Ltd. and DAIWA Pharmaceutical Wholesalers Co., Ltd. and changed the corporate name to Shikoku Alfresa Corporation on October 1, 2005.

4. SEIWA SANGYO CO., LTD. became a wholly owned subsidiary of the Company by stock exchange on October 1, 2005.

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 were 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.

(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 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.

(g) Software costs

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

(h) Allowance for sales rebates

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

(j) Provision for loss on guarantees

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

(k) Allowance for loss on transfer of business

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

(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, 2006 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 for 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 sheets of a consolidated overseas subsidiary are translated into Japanese yen at the year-end rate and the statements of income are 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 years ended March 31, 2006 and 2005, were ¥1,351 million (US\$11,508 thousand) and ¥1,354 million, respectively.

(q) 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.

(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) 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 market values) of available-for-sale securities with available fair values as of March 31, 2006 and 2005:

Securities with fair values exceeding acquisition costs:

	Millions of Yen					
	2006			2005		
	Acquisition cost	Book (market) value	Difference	Acquisition cost	Book (market) value	Difference
Equity securities	¥10,073	¥27,705	¥17,632	¥7,024	¥19,126	¥12,102
Bonds	244	261	17	11	13	2
Other securities	1	1	0	12	20	8
Total	¥10,318	¥27,967	¥17,649	¥7,047	¥19,159	¥12,112

	Thousands of U.S. Dollars (Note 1)		
	2006		
	Acquisition cost	Book (market) value	Difference
Equity securities	\$85,750	\$235,840	\$150,090
Bonds	2,076	2,224	148
Other securities	9	10	1
Total	\$87,835	\$238,074	\$150,239

Other securities:

	Millions of Yen					
	2006			2005		
	Acquisition cost	Book (market) value	Difference	Acquisition cost	Book (market) value	Difference
Equity securities	¥288	¥ 90	¥(198)	¥172	¥149	¥(23)
Bonds	52	52	(0)	—	—	—
Total	¥340	¥142	¥(198)	¥172	¥149	¥(23)

	Thousands of U.S. Dollars (Note 1)		
	2006		
	Acquisition cost	Book (market) value	Difference
Equity securities	\$2,451	\$ 766	\$(1,685)
Bonds	441	441	(0)
Total	\$2,892	\$1,207	\$(1,685)

(b) The following table summarizes book values of securities with no available fair market values as of March 31, 2006 and 2005:

Available-for-sale securities:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Non-listed equity securities	¥ 964	¥ 883	\$8,204
Commercial paper	–	1,600	–
Non-listed domestic bonds	0	600	0
Money market fund	80	55	681
Other	0	0	0
Total	¥1,044	¥3,138	\$8,885

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

	2006			2005		
	Within one year	Over one year but within five years	Total	Within one year	Over one year but within five years	Total
Bonds	¥157	¥110	¥267	¥20	¥10	¥30

	Thousands of U.S. Dollars (Note 1)		
	2006	2005	2006
Bonds	\$1,339	\$936	\$2,275

(d) The following table summarizes available-for-sale securities sold in the years ended March 31, 2006 and 2005:

Available-for-sale securities:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Sales value	¥7	¥33	\$63
Gain on sale	2	19	18
Loss on sale	–	8	–

4. 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.

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% for the years ended March 31, 2006 and 2005.

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, 2006 and 2005:

	2006	2005
Statutory tax rate	40.7%	40.7%
Non-deductible expenses	3.1	8.4
Non-taxable dividend income	(2.2)	(3.0)
Valuation allowance	13.9	(2.1)
Increase due to change in tax rate	–	0.3
Per capita inhabitants' tax	1.5	4.1
Amortization of consolidated adjustment account	0.1	(2.1)
Tax credits	(0.7)	(5.9)
Other	(0.9)	(4.3)
Effective tax rate	55.5%	36.1%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Deferred tax assets:			
Accrued enterprise tax	¥ 736	¥ 260	\$ 6,269
Accrued social insurance expenses	258	225	2,194
Excess allowance for doubtful receivables	1,410	1,446	12,001
Excess bonuses accrued	2,191	1,903	18,653
Employees' severance and retirement benefits	8,511	7,535	72,455
Directors' and statutory auditors' retirement benefits	222	158	1,888
Excess allowance for loss on debt guarantee	190	–	1,619
Loss on investments in and advances to affiliates	267	253	2,274
Write-down of investments	411	549	3,496
Loss on impairment of fixed assets	1,034	1,110	8,799
Sales discount	–	759	–
Loss on transfer of business	806	–	6,867
Other	2,261	1,924	19,249
	18,297	16,122	155,764
Valuation allowance	(2,033)	(455)	(17,308)
Total deferred tax assets	16,264	15,667	138,456
Deferred tax liabilities:			
Difference between market value and cost of assets and liabilities of consolidated subsidiaries	(1,063)	(719)	(9,047)
Unrealized gains on available-for-sale securities	(7,996)	(4,826)	(68,072)
Increase due to stock exchange	(1,506)	(1,507)	(12,824)
Other	(335)	(123)	(2,850)
Total deferred tax liabilities	(10,900)	(7,175)	(92,793)
Net deferred tax assets	¥ 5,364	¥ 8,492	\$ (45,663)

6. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt borrowings at March 31, 2006 and 2005 consisted principally of bank overdrafts, bearing interest at average annual rates of approximately 1.0% and 0.8%, respectively.

Long-term debt as of March 31, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Secured bonds:			
Interest 1.80%, payable in yen, due 2005, issued by a consolidated subsidiary	¥ -	¥ 500	\$ -
Unsecured bonds:			
Interest 0.87%, payable in yen, due 2006, issued by a consolidated subsidiary	100	100	851
Long-term loans, interest 1.10% to 2.65% maturing through 2011:			
Secured	1,287	956	10,961
Unsecured	-	257	-
	1,387	1,813	11,812
Less amounts due within one year	(540)	(1,012)	(4,598)
Total	¥ 847	¥ 801	\$ 7,214

The aggregate annual maturities of long-term debt outstanding as of March 31, 2006 are as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
2006	¥540	\$4,598
2007	324	2,761
2008	258	2,195
2009	212	1,809
2010	45	384
Thereafter	8	65

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, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Projected benefit obligation	¥ 40,504	¥ 36,889	\$ 344,801
Unrecognized prior service costs	1,657	1,870	14,105
Unrecognized actuarial differences	(1,435)	(4,709)	(12,223)
Less fair value of pension assets	(19,774)	(14,711)	(168,335)
Liability for employees' severance and retirement benefits	¥ 20,952	¥ 19,339	\$ 178,348

Included in the consolidated statements of income for the years ended March 31, 2006 and 2005 are severance and retirement benefit expenses comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Service costs—benefits earned during the year	¥3,753	¥3,283	\$31,943
Interest cost on projected benefit obligation	731	726	6,226
Expected return on plan assets	(117)	(144)	(993)
Amortization of prior service costs	(293)	(293)	(2,496)
Amortization of actuarial differences	697	762	5,933
Special retirement benefits and others	884	3,129	7,527
Severance and retirement benefit expense	¥5,655	¥7,463	\$48,140

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 Companies was 2.0%, and the rates of expected return on plan assets for the years ended March 31, 2006 and 2005 were 0.0% 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 other certain factors.

8. PLEDGED ASSETS

Assets pledged as collateral for borrowing, and transaction guarantees, at March 31, 2006 and 2005, are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Time deposits	¥ 663	¥ 379	\$ 5,644
Buildings and structures, net of accumulated depreciation	1,326	1,073	11,290
Land	4,968	5,065	42,289
Investments in securities	4,371	2,357	37,206
Guarantee money paid	93	382	794
Total	¥11,421	¥9,256	\$97,223

Secured liabilities:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Trade notes and accounts payable	¥ 9,494	¥ 7,506	\$80,818
Short-term debt	200	2,331	1,703
Long-term debt due within one year	296	500	2,524
Long-term debt due after one year	525	542	4,468
Other	52	52	442
Total	¥10,567	¥10,931	\$89,955

9. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Guarantee of payables and loans to affiliates	¥2,036	¥3,028	\$17,336
Guarantee of loans to employees	36	44	303

10. LEASES

Non-capitalized finance leases at March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Machinery and equipment	¥12,926	¥10,138	\$110,039
Intangibles	5,226	7,845	44,491
Less accumulated depreciation	(7,631)	(7,870)	(64,965)
Total	¥10,521	¥10,113	\$ 89,565

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, 2006 and 2005, are ¥4,099 million (US\$34,894 thousand) and ¥3,893 million, respectively.

If the above finance leases had been capitalized, depreciation of ¥3,828 million (US\$32,583 thousand) and ¥3,650 million and interest of ¥254 million (US\$2,163 thousand) and ¥275 million would have been recorded for the years ended March 31, 2006 and 2005, respectively.

Obligations under non-capitalized finance leases, excluding the interest portion, at March 31, 2006 and 2005, are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Due within one year	¥ 3,488	¥ 3,661	\$29,694
Due after one year	7,202	6,933	61,312
Total	¥10,690	¥10,594	\$91,006

Future minimum lease payments for operating leases of the Companies, as lessee, at March 31, 2006 and 2005, are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Due within one year	¥ 893	¥1,270	\$ 7,605
Due after one year	2,431	2,819	20,694
Total	¥3,324	¥4,089	\$28,299

Future minimum lease revenues for operating leases of the Companies, as lessor, at March 31, 2006 and 2005, are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Due within one year	¥23	¥23	\$195
Due after one year	14	37	119
Total	¥37	¥60	\$314

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, 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, 2006 and 2005 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)
	2006	2005	2006
Net sales:			
Pharmaceutical Wholesaling			
Customers	¥1,394,965	¥1,178,490	\$11,875,073
Intersegment	4	1	33
Total	¥1,394,969	¥1,178,491	\$11,875,106
Pharmaceutical Manufacturing			
Customers	¥ 16,176	¥ 16,413	\$ 137,706
Intersegment	5,848	4,468	49,778
Total	¥ 22,024	¥ 20,881	\$ 187,484
Other			
Customers	¥ 498	¥ 411	\$ 4,238
Intersegment	2,668	3,151	22,716
Total	3,166	3,562	26,954
Elimination	(8,520)	(7,620)	(72,527)
Consolidated	¥1,411,639	¥1,195,314	\$12,017,017
Operating expenses:			
Pharmaceutical Wholesaling	¥1,381,303	¥1,172,731	\$11,758,774
Pharmaceutical Manufacturing	21,619	20,421	184,036
Other	3,128	3,401	26,631
Elimination	(9,258)	(7,773)	(78,810)
Consolidated	¥1,396,792	¥1,188,780	\$11,890,631

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Operating income:			
Pharmaceutical Wholesaling	¥ 13,666	¥ 5,760	\$ 116,332
Pharmaceutical Manufacturing	405	460	3,448
Other	38	161	323
Elimination	738	153	6,283
Consolidated	¥ 14,847	¥ 6,534	\$ 126,386
Total assets:			
Pharmaceutical Wholesaling	¥ 661,553	¥ 579,860	\$ 5,631,674
Pharmaceutical Manufacturing	26,406	24,550	224,786
Other	983	1,300	8,369
Elimination and corporate assets	(1,168)	3,641	(9,941)
Consolidated	¥ 687,774	¥ 609,351	\$ 5,854,888
Depreciation and amortization:			
Pharmaceutical Wholesaling	¥ 2,897	¥ 2,186	\$ 24,662
Pharmaceutical Manufacturing	1,090	452	9,280
Other	12	16	105
Elimination and unallocated corporate expenses	8	6	64
Consolidated	¥ 4,007	¥ 2,660	\$ 34,111
Loss on impairment of fixed assets:			
Pharmaceutical Wholesaling	¥ 175	¥ 772	\$ 1,488
Pharmaceutical Manufacturing	—	—	—
Other	—	—	—
Elimination and unallocated corporate expenses	—	—	—
Consolidated	¥ 175	¥ 772	\$ 1,488
Capital expenditure:			
Pharmaceutical Wholesaling	¥ 5,424	¥ 4,605	\$ 46,175
Pharmaceutical Manufacturing	5,274	317	44,896
Other	35	10	300
Elimination and corporate expenditure	13	24	110
Consolidated	¥ 10,746	¥ 4,956	\$ 91,481

13. LOSS ON IMPAIRMENT OF FIXED ASSETS

The Companies recognized impairment losses for groups of fixed assets in the years ended March 31, 2006 and 2005, as follows:

Use	Type of assets	Millions of Yen		Thousands of U.S. Dollars (Note 1)
		2006	2005	2006
Idle properties	Buildings and structures, land	¥ 33	¥195	\$ 280
Business properties	Buildings and structures, land	142	577	1,208

The Companies grouped business properties based on business units and 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 ongoing 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 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 ¥1,978 million (\$16,842 thousand) and ¥1,201 million at March 31, 2006 and 2005, respectively.

15. SUBSEQUENT EVENTS

(a) At the general shareholders' meeting held on June 29, 2006, retained earnings at March 31, 2006, were appropriated as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	<u>2006</u>	<u>2006</u>
Cash dividends (¥35 per share)	¥1,306	\$11,120
Bonuses to directors and statutory auditors	44	374

(b) Based on a stock exchange contract concluded on December 20, 2005, a stock exchange between the Company and Meisho Co., Ltd. was carried out on April 1, 2006. Thereby, this company became a wholly owned subsidiary.

(1) Purpose of stock exchange

Corporate realignment intended to achieve competitive advantage in the market has swept the entire pharmaceutical wholesaling industry.

Under such circumstances, Meisho Co., Ltd. decided 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 the changing market.

(2) Profile at March 31, 2006

Meisho Co., Ltd.

Business lines:	Wholesaling of pharmaceuticals, etc.
Establishment:	December 19, 1963
Head office:	Ha 1, Muryoji-machi, Kanazawa, Ishikawa Prefecture
Representative:	Kenji Orimoto, President (at April 1, 2006)
Capital:	¥395 million (\$3,363)
Shareholders' equity:	¥10,769 million (\$91,674)
Total assets:	¥36,412 million (\$309,971)

(3) On April 1, 2006, the Company issued 1,500,000 shares of common stock and allocated 870,000 shares of treasury stock to be exchanged at a rate of 3 shares of common stock of the Company to one share of common stock of Meisho 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, 2006 and 2005, 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, 2006 and 2005, 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 Note 15(b) to the consolidated financial statements. Alfresa Holdings Corporation exchanged its common stock for common stock of Meisho Co., Ltd. on April 1, 2006 whereby this company became a wholly owned subsidiary.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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.

Osaka, Japan
June 29, 2006