

Consolidated Balance Sheets

MEDICEO Holdings Co., Ltd. and its consolidated subsidiaries
March 31, 2004 and 2005

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
Current assets:			
Cash in hand and in bank (Notes 3 and 8)	¥ 70,646	¥120,636	\$1,127,439
Trade notes and accounts receivable	338,035	437,654	4,090,224
Short-term investments (Note 4)	3	8	75
Other accounts receivable	23,169	33,029	308,682
Inventories	52,955	78,294	731,720
Deferred income taxes (Note 12)	3,633	4,836	45,196
Other current assets	2,097	2,576	24,075
Allowance for doubtful accounts	(2,892)	(3,716)	(34,729)
Total current assets	487,646	673,317	6,292,682
Property, plant and equipment (Note 8):			
Buildings and structures	76,591	98,845	923,785
Land (Note 5)	46,805	62,722	586,187
Construction in progress	2,715	3,082	28,804
Machinery, equipment and other	16,023	21,435	200,327
	142,134	186,084	1,739,103
Accumulated depreciation	(48,395)	(63,468)	(593,159)
Total property, plant and equipment	93,739	122,616	1,145,944
Intangible assets:			
Software	5,189	5,473	51,150
Consolidated adjustment account	1,156	—	—
Other intangible assets	948	907	8,476
Total intangible assets	7,293	6,380	59,626
Investments and other assets:			
Investment securities (Notes 4 and 8)	15,004	31,366	293,140
Long-term loans receivable	325	921	8,607
Deferred income taxes (Note 12)	6,809	3,357	31,374
Deferred income taxes – land revaluation (Note 5)	7,975	—	—
Other	13,625	15,279	142,795
Allowance for doubtful accounts	(5,790)	(4,820)	(45,047)
Total investments and other assets	37,948	46,103	430,869
	¥626,626	¥848,416	\$7,929,121

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
Current liabilities:			
Short-term bank loans (Notes 6 and 8)	¥ 7,339	¥ 5,325	\$ 49,766
Long-term debt due within one year (Notes 6 and 8)	735	425	3,972
Notes and accounts payable (Note 8):			
Trade	433,696	584,267	5,460,439
Other	6,795	9,792	91,514
Accrued expense	9,237	10,904	101,907
Income taxes payable (Note 12)	2,840	1,164	10,879
Other current liabilities	2,346	2,062	19,271
Total current liabilities	462,988	613,939	5,737,748
Long-term liabilities:			
Long-term debt (Notes 6 and 8)	15,201	9,910	92,617
Deferred income taxes	—	5,200	48,598
Deferred income taxes – land revaluation (Note 5)	234	1,113	10,402
Reserve for employees' retirement benefits (Note 7)	9,956	15,976	149,308
Reserve for directors' and corporate auditors' retirement benefits (Note 7)	1,854	—	—
Consolidated adjustment account	—	28,583	267,131
Other long-term liabilities	6,713	4,850	45,327
Total long-term liabilities	33,958	65,632	613,383
Minority interests	692	741	6,925
Contingent liabilities (Note 9)			
Shareholders' equity (Note 10):			
Common stock:			
Authorized – 500,000,000 shares in 2004 and 2005			
Issued – 147,736,054 shares in 2004 and 189,100,203 shares in 2005	15,183	17,786	166,224
Capital surplus	30,064	67,618	631,944
Retained earnings	93,309	98,910	924,392
Land revaluation surplus (Note 5)	(11,462)	(19,660)	(183,738)
Unrealized gain on available-for-sale securities (Note 4)	4,342	6,123	57,224
Treasury stock, at cost	(2,448)	(2,673)	(24,981)
Total shareholders' equity	128,988	168,104	1,571,065
	¥626,626	¥848,416	\$7,929,121

Consolidated Statements of Operations

MEDICEO Holdings Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
Net sales	¥1,283,926	¥1,665,816	\$15,568,374
Cost of sales	1,167,121	1,528,010	14,280,468
Gross profit	116,805	137,806	1,287,906
Selling, general and administrative expenses	101,450	126,819	1,185,224
Operating income	15,355	10,987	102,682
Other income (expenses):			
Research fee income	3,201	4,252	39,738
Interest and dividend income	217	552	5,159
Interest expense	(306)	(235)	(2,196)
Loss on devaluation of investment securities	(300)	(47)	(439)
Other, net (Note 11)	(3,073)	3,796	35,477
Total other income (expenses)	(261)	8,318	77,739
Income before income taxes and minority interests	15,094	19,305	180,421
Income taxes (Note 12):			
Current	6,328	4,294	40,131
Deferred	531	6,209	58,028
Total income taxes	6,859	10,503	98,159
Minority interests in net income of consolidated subsidiaries	356	72	673
Net income	¥ 7,879	¥ 8,730	\$ 81,589

	Yen		U.S. dollars (Note 1)
	2004	2005	2005
Amounts per share of common stock:			
Net income	¥55.19	¥45.90	\$0.43
Diluted net income	48.65	43.52	0.41
Cash dividends applicable to the period	12.00	12.00	0.11

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Shareholders' Equity

MEDICEO Holdings Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2004 and 2005

	Number of shares of common stock issued (Thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Land revaluation surplus	Unrealized gain on available-for-sale securities	Treasury stock, at cost
Balance at March 31, 2003	142,425	¥ 12,751	¥ 25,919	¥ 87,875	¥ (12,260)	¥ 2,602	¥ (4,626)
Conversion of convertible bonds into stock	5,311	2,432	2,432	—	—	—	—
Gain on transfer of treasury stock	—	—	1,713	—	—	—	2,192
Net income	—	—	—	7,879	—	—	—
Cash dividends paid (¥12.0 per share)	—	—	—	(1,645)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(151)	—	—	—
Reverse of land revaluation surplus	—	—	—	(649)	649	—	—
Changes in revaluation surplus	—	—	—	—	149	—	—
Changes in unrealized gain on available-for-sale securities, less applicable taxes	—	—	—	—	—	1,740	—
Treasury stock acquired	—	—	—	—	—	—	(14)
Balance at March 31, 2004	147,736	¥ 15,183	¥ 30,064	¥ 93,309	¥ (11,462)	¥ 4,342	¥ (2,448)
Conversion of convertible bonds into stock	5,682	2,602	2,602	—	—	—	—
Gain on transfer of treasury stock	—	—	800	—	—	—	1,820
Increase due to exchange of shares	35,682	—	34,151	—	—	—	—
Net income	—	—	—	8,729	—	—	—
Cash dividends paid (¥12.0 per share)	—	—	—	(2,381)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(358)	—	—	—
Reverse of land revaluation surplus	—	—	—	(388)	388	—	—
Changes in revaluation surplus	—	—	—	—	(8,586)	—	—
Changes in unrealized gain on available-for-sale securities, less applicable taxes	—	—	—	—	—	1,781	—
Treasury stock acquired	—	—	—	—	—	—	(2,045)
Balance at March 31, 2005	189,100	¥17,786	¥67,618	¥98,910	¥(19,660)	¥6,123	¥(2,673)

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Land revaluation surplus	Unrealized gain on available-for-sale securities	Treasury stock, at cost
Balance at March 31, 2004	\$ 141,897	\$ 280,972	\$ 872,047	\$(107,121)	\$ 40,579	\$(22,879)
Conversion of convertible bonds into stock	24,318	24,318	—	—	—	—
Gain on transfer of treasury stock	—	7,477	—	—	—	17,009
Increase due to exchange of shares	—	319,168	—	—	—	—
Net income	—	—	81,579	—	—	—
Cash dividends paid (¥12.0 per share)	—	—	(22,252)	—	—	—
Bonuses to directors and statutory auditors	—	—	(3,346)	—	—	—
Reverse of land revaluation surplus	—	—	(3,626)	3,626	—	—
Changes in revaluation surplus	—	—	—	(80,243)	—	—
Changes in unrealized gain on available-for-sale securities, less applicable taxes	—	—	—	—	16,645	—
Treasury stock acquired	—	—	—	—	—	(19,112)
Balance at March 31, 2005	\$166,224	\$631,944	\$924,392	\$(183,738)	\$57,224	\$(24,981)

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

MEDICEO Holdings Co., Ltd. and its consolidated subsidiaries

Years ended March 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
Cash flows from operating activities:			
Income before income taxes	¥ 15,094	¥ 19,304	\$ 180,411
Adjustments to reconcile income before income taxes to net cash flows provided by operating activities:			
Depreciation and amortization	5,709	7,625	71,262
Amortization of consolidation difference	726	(6,628)	(61,944)
Loss on disposal of property, plant and equipment – net	1,771	(694)	(6,486)
(Increase) decrease in reserve for employees' retirement benefits – net	(6,464)	2,207	20,626
Increase (decrease) in reserve for directors' and corporate auditors' retirement benefits	26	(2,397)	(22,402)
Decrease in reserve for employees' bonuses	(988)	(648)	(6,056)
Decrease in allowance for doubtful accounts	(443)	(2,378)	(22,224)
Decrease in allowance for sales returns	(6)	(87)	(813)
Interest expenses	306	235	2,196
Interest and dividend income	(217)	(551)	(5,150)
Loss on sale or devaluation of securities – net	296	32	300
Write-down on stock of subsidiary	–	20	187
Loss on sale and devaluation of golf club memberships – net	37	87	813
(Increase) decrease in notes and accounts receivable – trade	1,464	(11,373)	(106,290)
(Increase) decrease in inventories	2,929	(9,717)	(90,813)
Increase (decrease) in notes and accounts payable	(11,956)	42,147	393,897
Decrease in accrued consumption taxes	(292)	(2,807)	(26,234)
(Increase) decrease in other current assets	6,788	(1,978)	(18,486)
Increase in other liabilities	7,968	1,556	14,542
Payment of directors' and corporate auditors' bonuses	(163)	(366)	(3,421)
Subtotal	22,585	33,589	313,915
Interest and dividends received	217	552	5,159
Cash paid for interest	(303)	(234)	(2,187)
Cash paid for income taxes	(8,873)	(7,530)	(70,374)
Gain on sale of goodwill	(160)	–	–
Others	(219)	(76)	(710)
Net cash provided by operating activities	13,247	26,301	245,803
Cash flows from investing activities:			
Payments for time deposits	(265)	(752)	(7,028)
Maturity of time deposits	1,509	918	8,579
Payments for purchase of property, plant and equipment – net	(3,680)	(3,615)	(33,785)
Payments for purchase of investment securities	(117)	(305)	(2,850)
Proceeds from sale of investment securities	12	22	206
(Increase) decrease in loans receivable – net	(218)	320	2,991
Payments for purchase of investment in subsidiary	(12)	–	–
Proceeds from sale of goodwill	397	–	–
Payments for purchase of goodwill	–	(135)	(1,262)
Proceeds from acquisition of subsidiary stock due to change in scope of consolidation	–	35,258	329,514
Other, net	(1,866)	(432)	(4,038)
Net cash provided by (used in) investing activities	(4,240)	31,279	292,327
Cash flows from financing activities:			
Decrease in short-term bank loans – net	(4,960)	(4,714)	(44,056)
Proceeds from long-term debt	400	430	4,019
Repayment of long-term debt	(1,030)	(735)	(6,869)
Purchase of treasury stock	(14)	(1,106)	(10,336)
Payments for cash dividends	(1,645)	(1,981)	(18,514)
Payments for cash dividends to minority shareholders	(21)	(410)	(3,832)
Net cash used in financing activities	(7,270)	(8,516)	(79,588)
Translation adjustments to cash and cash equivalents	(0)	–	–
Net increase in cash and cash equivalents	1,737	49,064	458,542
Cash and cash equivalents at beginning of year	68,375	70,112	655,252
Cash and cash equivalents in connection with the exclusion of a certain subsidiary from consolidation	–	(55)	(514)
Cash and cash equivalents at end of year	¥ 70,112	¥119,121	\$1,113,280

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

MEDICEO Holdings Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2004 and 2005

1. Basis of presenting the consolidated financial statements

MEDICEO Holdings Co., Ltd. and its consolidated subsidiaries (the "Company") maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and were filed with the Financial Services Agency as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2005, which was ¥107.00 to U.S.\$1.00. These 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

Consolidated financial statements included the accounts of MEDICEO Holdings Co., Ltd. and ten and thirteen significant domestic subsidiaries in 2004 and 2005, respectively.

All material intercompany transactions and accounts have been eliminated. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded using the fair value at the time the Company acquired control of the respective subsidiaries.

On April 1, 2004, the Company made EVERLTH Co., Ltd. and ATOL Co., Ltd. wholly owned subsidiaries using a share exchange system, and consolidated their results for the fiscal year ended March 31, 2005.

On May 1, 2004, the Company made NAKAGAWA SEIKODO CO., LTD. a wholly owned subsidiary by a share exchange system, and consolidated its results from that date for the fiscal year ended March 31, 2005.

On April 1, 2004, the Company prepared for a corporate separation by newly establishing KURAYA SANSEIDO Spin-off Preparation Inc., and consolidating its results for the fiscal year ended March 31, 2005.

The main assets and liabilities of the new subsidiaries upon consolidation as a result of acquisition of shares, value of shares acquired and net proceeds from acquisition of shares are outlined below:

	Millions of yen	Thousands of U.S. dollars
ATOL Co., Ltd.		
Current assets	¥ 73,376	\$ 685,757
Fixed assets	24,104	225,271
Current liabilities	(58,135)	(543,318)
Long-term liabilities	(2,148)	(20,075)
Consolidated adjustment account	(18,554)	(173,402)
Acquisition cost of ATOL Co., Ltd. stock	18,642	174,224
Cash and cash equivalents of		
ATOL Co., Ltd.	16,230	151,682
Shares acquired through share exchange	(18,642)	(174,224)
Proceeds from acquisition of shares of ATOL Co., Ltd.	16,230	151,682
EVERLTH Co., Ltd.		
Current assets	¥ 56,711	\$ 530,009
Fixed assets	24,286	226,972
Current liabilities	(44,317)	(414,178)
Long-term liabilities	(2,862)	(26,748)
Consolidated adjustment account	(18,566)	(173,514)
Acquisition cost of EVERLTH Co., Ltd. stock	15,250	142,523
Cash and cash equivalents of		
EVERLTH Co., Ltd.	15,773	147,411
Shares acquired through share exchange	(15,250)	(142,523)
Proceeds from acquisition of shares of EVERLTH Co., Ltd.	15,773	147,411
NAKAGAWA SEIKODO CO., LTD.		
Current assets	¥ 12,758	\$ 119,234
Fixed assets	951	8,888
Current liabilities	763	7,131
Long-term liabilities	11,785	110,140
Consolidated adjustment account	158	1,477
Acquisition cost of NAKAGAWA SEIKODO CO., LTD. stock	2,529	23,636
Cash and cash equivalents of		
NAKAGAWA SEIKODO CO., LTD.	706	6,598
Shares acquired through share exchange	(2,529)	(23,636)
Proceeds from acquisition of shares of NAKAGAWA SEIKODO CO., LTD.	706	6,598

ELF Co., Ltd. terminated its capital relationship with the Company in September 2004, and was removed from the scope of consolidation from the fiscal year ended March 31, 2005. However, the income and cash flow of ELF Co., Ltd. through September 30, 2004 are consolidated for the fiscal year ended March 31, 2005.

In connection with making NAKAGAWA SEIKODO CO., LTD. a wholly owned subsidiary, the subsidiary HOSSP CORPORATION became a wholly owned subsidiary and merged with NAKAGAWA SEIKODO CO., LTD. on January 1, 2005. Therefore, the income and cash flow of HOSSP CORPORATION are consolidated through December 31, 2004.

Equity method

Investments in non-consolidated subsidiaries and affiliates in which the Company has the ability to exercise significant influence over the operating and financial policies of the investees, are accounted for using the equity method.

Investments in other non-consolidated subsidiaries and affiliates are not accounted for by the equity method, since the total net income and retained earnings in the aggregate of such companies are not material compared to those on a consolidated basis.

Consolidated adjustment account

The consolidated adjustment account is amortized over mainly 5 years on a straight-line basis. When immaterial, the consolidated adjustment account is charged to expense as incurred.

Cash flow statement

In preparing the consolidated statements of cash flows, cash in hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Short-term investments and investment securities

The Company adopted "Accounting Standards for Financial Instruments" issued by the Ministry of Finance ("MOF") on January 22, 1999. In accordance with these accounting standards, the Company's marketable and investment securities are considered as held-to-maturity or available-for-sale. Available-for-sale securities represent those securities that do not meet the criteria of trading securities and held-to-maturity securities.

Available-for-sale securities are stated at fair value and the unrealized gains and losses are reported as a separate component of stockholders' equity. In cases where substantial impairment of value is recognized compared to fair value, the carrying amount is reduced to the fair value. Held-to-maturity securities are stated at amortized cost using the straight-line method.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

Beginning in the year ended March 31, 2005, the Company accounts for its interest in investment limited partnerships (¥96 million and ¥125 million in the years ended March 31, 2005 and 2004, respectively) as part of "Investment securities," not as part of "Other" as previously classified, under "Investments and other assets," pursuant to the Law Partially Revising the Securities and Exchange Law, (Law No. 97 of June 9, 2004, enacted on December 1, 2004).

Inventories

In promoting reorganization through shifting to an operating holding company structure, integrating the management of subsidiaries and other measures, the Company is renewing core business systems shared throughout the Group and is promoting consistent groupwide accounting methods. Beginning with the year ended March 31, 2005, valuation of inventories has changed from cost using the first-in-first-out method to primarily cost using the moving-average method to make the calculation of income and loss more accurate. The effect of this change on income and loss in the

consolidated financial statements for the year ended March 31, 2005 was immaterial.

Property, plant and equipment

Depreciation of property, plant and equipment is computed 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.

Finance leases

Finance leases, except leases for which the ownership of the leased assets is considered to be transferred to the lessee, are accounted for in the same manner as operating leases.

Software costs

The Company included software in intangible assets and amortized it using the straight-line method over the estimated useful lives of the software (five years).

Allowance for doubtful accounts

Allowance for doubtful accounts is recorded at the amount necessary to cover for possible losses from doubtful accounts based on the amount estimated to be uncollectable on an individual basis and from other accounts based on historical loss ratios.

Reserve for employees' bonuses

At March 31, 2004 and 2005, the Company maintained a reserve for employees' bonuses based on estimated amounts to be paid in the subsequent period.

Employees' retirement benefits and pension

The Company adopted "Accounting Standards for Retirement Benefits" issued by the MOF on June 16, 1998. In accordance with these accounting standards, the Company provides for employees retirement benefits in the estimated amount required to be paid as of the balance sheet date, less the estimated fair value of pension assets. Prior service costs and actuarial gains and losses are amortized from the year in which the gains or losses arise, primarily by the straight-line method over a fixed number of years within the average remaining years of service of employees.

Reserve for directors' and corporate auditors' retirement benefits

The MEDICEO Group previously provided for payment of directors' and corporate auditors' retirement benefits in the amount required to be paid at the end of the fiscal year, in accordance with company rules. In June 2004, the directors' and corporate auditors' retirement benefit system was abolished, and the amount required to be paid at the time of abolishment will be paid to directors and corporate auditors upon their retirement.

Of the planned payment amount of ¥1,697 million, ¥1,668 million is accounted for in accrued expenses ("Others" in current liabilities), and ¥29 million is accounted for in long-term accrued expenses ("Others" in long-term liabilities).

Income taxes

Income tax payable is computed based on the pretax income included in the consolidated financial statements. The asset and liability method is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences. As of the year ended March 31, 2005, the Company is applying "Handling of Practical Matters for Statement of Pro Forma Business Taxation in the Statements of Income" (Practical Application Report, No. 12). As a result, the value-added portion and capital portion of business tax totaling ¥474 million is accounted for in selling, general and administrative expenses.

Foreign currency translation

Monetary assets and liabilities of the Company are translated at the current exchange rates at the balance sheet date. The resulting foreign currency gains or losses are recognized as other income or expenses.

Amounts per share of common stock

The computations of net income per share of common stock are based on the average number of shares outstanding during each year. In accordance with "Accounting Standards for Net Income per Share" issued by the Financial Accounting Standards Foundation on September 25, 2002, the net income excludes bonuses to directors and corporate auditors.

For computing diluted net income per share of common stock, the average number of shares was increased by the number of shares that would have been outstanding assuming that domestic convertible bonds were converted on the date of issuance (September 11, 1996) at the actual conversion rates in effect during the year. Cash dividends per share represent the actual amounts declared during the respective years.

3. Cash and cash equivalents

Cash and cash equivalents at March 31, 2004 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Cash in hand and in bank	¥70,646	¥120,636	\$1,127,439
Time deposits over three months	(534)	(1,514)	(14,151)
Cash and cash equivalents	¥70,112	¥119,121	\$1,113,280

4. Market value information for securities

(1) Available-for-sale securities with a market value

Year ended March 31, 2005	Millions of yen		
	Original cost	Estimated book value	Unrealized gain
Securities whose book value exceeds their original cost:			
Equity securities	¥8,093	¥24,849	¥16,755
Bonds	5	5	—
Others	—	—	—
	¥8,098	¥24,854	¥16,755
Securities whose book value does not exceed their original cost:			
Equity securities	¥ 351	¥ 320	¥ (31)
Bonds	—	—	—
Others	—	—	—
	¥ 351	¥ 320	¥ (31)
Total	¥8,450	¥25,174	¥16,724

Year ended March 31, 2005	Thousands of U.S. dollars		
	Original cost	Estimated book value	Unrealized gain
Securities whose book value exceeds their original cost:			
Equity securities	\$75,636	\$232,234	\$156,589
Bonds	47	47	—
Others	—	—	—
	\$75,683	\$232,281	\$156,589
Securities whose book value does not exceed their original cost:			
Equity securities	\$ 3,280	\$ 2,990	\$ (290)
Bonds	—	—	—
Others	—	—	—
	\$ 3,280	\$ 2,990	\$ (290)
Total	\$78,972	\$235,271	\$156,300

Year ended March 31, 2004	Millions of yen		
	Carrying value	Estimated fair value	Unrealized gain
Securities whose fair value exceeds their carrying value:			
Equity securities	¥3,843	¥12,303	¥8,460
Bonds	5	5	—
Others	—	—	—
	¥3,848	¥12,308	¥8,460
Securities whose carrying value exceeds their fair value:			
Equity securities	¥ 478	¥ 424	¥ (54)
Bonds	—	—	—
Others	—	—	—
	¥ 478	¥ 424	¥ (54)
Total	¥4,326	¥12,732	¥8,406

(2) Available-for-sale securities sold during the year

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Sales value	¥15	¥25	\$233
Profit on sale	4	18	168
Loss on sale	—	3	28

(3) Book value of non-marketable securities

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Held-to-maturity:			
Debt securities	¥ —	¥3,300	\$30,841
Available-for-sale:			
Equity securities	1,369	1,605	15,000
Bonds	2	3	28

(4) Schedule for redemption of available-for-sale securities with a maturity and held-to-maturity debt securities

	Millions of yen				Thousands of U.S. Dollars	
	2004		2005		2005	
	Due within one year	Due after one year through five years	Due within one year	Due after one year through five years	Due within one year	Due after one year through five years
Total	¥3	¥5	¥8	¥ 1	\$75	\$9

5. Land revaluation

Under the "Law on Land Revaluation," passed on March 31, 1998 and revised on March 31, 2001, the Company carried out a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2002.

The resulting land revaluation difference represents unrealized appreciation of land and is accounted for, net of deferred tax assets and liabilities, as revaluation surplus in shareholders' equity. There is no effect on the statements of operations. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess account and related deferred tax assets and liabilities.

6. Short-term bank loans and long-term debt

The Company has credit agreements with 30 banks in order to support effective financing. The lines of credit and bank loans under the credit agreements at March 31, 2004 and 2005 are listed below.

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Lines of credit	¥72,300	¥88,250	\$824,766
Balance of bank loans	(6,615)	(5,300)	(49,533)
Net: Open lines of credit	¥65,685	¥82,950	\$775,234

Short-term bank loans including loans under the credit agreement at March 31, 2004 and 2005 principally bore annual interest rates of 0.96% and 0.95% per annum, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Unsecured domestic convertible bonds due 2008 at a rate of 0.9%	¥14,459	¥ 9,254	\$86,486
Loans from banks	1,477	1,081	10,103
	15,936	10,335	96,589
Less amount due within one year	(735)	(425)	(3,972)
Amount due after one year	¥15,201	¥ 9,910	\$92,617

Domestic convertible bonds due 2008 provide, among other conditions, for (1) conversion prices of ¥916.0 (\$8.56) and (2) convertible period from October 1, 1996 to September 29, 2008.

At the current conversion price, a total of 10,102 thousand shares of common stock were issuable upon full conversion of the domestic bonds outstanding at March 31, 2005.

The annual maturities of long-term debt at March 31, 2005 were as follows:

Years ending March 31	Millions of yen		Thousands of U.S. dollars
	¥		\$
2006	425		3,972
2007	216		2,019
2008	50		467
2009	9,291		86,832
2010	37		346
Thereafter	316		2,953

7. Employees' retirement benefits

(1) Overview of retirement benefit plan

The Company has defined retirement benefit plans covering a contributory trustee employee pension plan established by the pharmaceutical industry, tax-qualified pension plans and unfunded retirement plans.

Effective from April 1, 2004, MEDICEO Holdings Co., Ltd. amended its retirement benefit plan. The new plan consists of a defined benefit plan and defined contribution plan instead of a tax-qualified pension plan and part of an unfunded retirement plan, respectively. The Company adopted "Accounting guidance for transition between Retirement Benefit Plans" issued by the FASF.

On October 1, 2004, two consolidated subsidiaries revised their retirement benefit system, transferring their tax-qualified pension plans to a defined benefit plan and a defined contribution plan. On April 1, 2005, six consolidated subsidiaries revised their retirement benefit systems and transferred to the defined contribution pension plan, applying "Accounting guidance for transition between Retirement Benefit Plans."

The Company incurred an extraordinary loss totaling ¥853 million in connection with these transfers, and expects an extraordinary gain of ¥330 million in connection with these transfers in the year ending March 31, 2006.

The impact of these transfers was as follows:

	Millions of yen	Thousands of U.S. dollars
Decrease in projected benefit obligation	¥4,420	\$41,308
Unrecognized actuarial loss	1,118	10,449
Decrease in plan assets	2,212	20,673
Decrease in retirement benefit trust	1,882	17,589
Increase in reserve for employees' retirement benefits	¥ 792	\$ 7,402

On March 25, 2005, the dissolution of the Kyushu Pharmaceutical Industry Employees' Pension Fund, which one consolidated subsidiary had joined, was approved. However, the subsidiary's guarantee of lump-sum payment equivalents to employees accounted for an extraordinary loss in the year ended March 31, 2005 of ¥1,190 million.

(2) Retirement benefits

The liability for employees' retirement benefits at March 31, 2004 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Projected benefit obligation	¥(30,269)	¥(37,834)	\$(353,589)
Fair value of plan assets	19,025	22,089	206,439
Plan assets less than projected benefit obligation	(11,244)	(15,744)	(147,140)
Unrecognized actuarial loss	1,288	652	6,093
Unrecognized prior service costs	—	(424)	(3,963)
Subtotal	(9,956)	(15,517)	(145,019)
Prepaid pension expenses	—	458	4,280
Reserve for employees' retirement benefits	¥(9,956)	¥(15,976)	\$(149,308)

Assets in the amount of ¥3,892 million (\$36,373 thousand) will be contributed to the defined contribution pension plan over a period of 1 to 8 years. The unpaid amount of ¥948 million (\$8,859 thousand) was recorded in other current liabilities and long-term liabilities in 2005.

(3) Net pension expense

The components of net pension expense in 2004 and 2005 are listed below.

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Service costs	¥2,418	¥2,346	\$21,925
Interest costs on projected benefit obligations	1,058	888	8,300
Expected return on plan assets	(433)	(417)	(3,897)
Unrecognized actuarial loss	1,795	1,894	17,700
Amortization of prior service costs	—	(545)	(5,093)
Loss on retirement benefits system revision	567	853	7,972
Net pension expense	¥5,405	¥5,405	\$50,514

In addition to the pension expense above, an additional retirement benefit on early retirement is recorded in the amount of ¥753 million (\$7,037 thousand).

(4) Assumptions

The projected benefit obligation is determined on the basis of employees' evaluation, their length of service and certain other factors. Other significant assumptions used in the calculation of projected benefit obligation and pension expense are listed below.

	2004	2005
Discount rate	2.5%	2.0%
Expected rate of return on plan assets	2.5%	1.5~2.5%
Amortization period for prior service costs	—	3 years
Recognition period of actuarial loss	3 years	3~10 years

(5) Contributory trustee employee pension plan

The assets of the contributory trustee employee pension plan established by the pharmaceutical industry amount to ¥42,823 million (\$400,215 thousand) at March 31, 2005 based on the proportion of the Company's payments to the fund.

8. Pledged assets

The Company pledged the following assets to secure trade payables and certain bank loans in the amount of ¥34,793 million (\$325,168 thousand) at March 31, 2005.

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Land	—	¥6,871	\$64,215
Buildings and structures at net book value	—	2,446	22,860
Investment securities	—	1,536	14,355
Time deposits	—	1,112	10,393

9. Contingent liabilities

Contingent liabilities of the Company at March 31, 2005 were guarantees for loans from banks of unconsolidated subsidiaries, affiliates and others in the amount of ¥2,875 million (\$26,869 thousand).

10. Shareholders' equity

The Japanese Commercial Code, amended effective from October 1, 2001, provides that an amount equal to at least 10% of appropriations paid in cash should be appropriated as the legal reserve until the total amount of the legal reserve and capital surplus equals 25% of common stock.

The legal reserve and capital surplus may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

11. Other income (expenses)

Other income (expenses) – "Other, net" in the accompanying consolidated statements of operations for the years ended March 31, 2004 and 2005 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Gain on sale of investment securities – net	¥ 4	¥ 15	\$ 140
Gain (loss) on sales or disposal of property, plant and equipment – net	(677)	695	6,495
Loss on devaluation of golf club memberships	(37)	(89)	(832)
Restructuring costs	(1,477)	(1,064)	(9,944)
Additional retirement benefit for employees	(1,362)	(753)	(7,037)
Amortization of consolidation difference	—	6,628	61,944
Loss on dissolution of employees' pension fund	—	(1,190)	(11,121)
Loss on revision of employees' retirement benefit plan	—	(853)	(7,972)
Miscellaneous	776	409	3,822
	¥(3,073)	¥ 3,797	\$35,486

12. Income taxes

The Company is subject to a number of income taxes, which, in the aggregate, indicate statutory tax rates in Japan of approximately 42.1% and 40.7% for the years ended March 31, 2004 and 2005, respectively.

The reconciliation between the statutory tax rate and the effective tax rate of the Company for financial statement purposes for the years ended March 31, 2004 and 2005 is presented as follows:

	2004	2005
Statutory tax rate	42.1%	40.7%
Non-deductible expenses for tax purposes	3.5	1.5
Per capita inhabitant taxes	1.1	1.2
Allowance for doubtful deferred taxes	—	30.9
Tax benefit for information technology (IT) investment	(4.3)	(1.5)
Amortization of consolidation difference	—	(14.0)
Others	4.5	(4.4)
Effective tax rate	45.4%	54.4%

Significant components of the deferred tax assets and liabilities of the Company as of March 31, 2004 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Deferred tax assets:			
Excess allowance for doubtful accounts	¥ 2,279	¥ 2,025	\$ 18,925
Excess reserve for employees' bonuses	2,543	2,842	26,561
Accrued enterprise taxes	266	148	1,383
Reserve for employees' retirement benefits	6,787	5,528	51,663
Reserve for directors' and corporate auditors' retirement benefits	756	—	—
Other	3,216	8,502	79,458
Subtotal	15,757	19,047	178,009
Allowance for doubtful deferred taxes	—	(5,957)	(55,673)
Total deferred tax assets	15,757	13,090	122,336
Deferred tax liabilities:			
Compression reserve for tax purposes	(1,196)	(2,442)	(22,822)
Unrealized gain on available-for-sale securities	(3,423)	(6,810)	(63,645)
Other	(696)	(844)	(7,888)
Total deferred tax liabilities	(5,315)	(10,097)	(94,364)
Net deferred tax assets	¥10,442	¥ 2,993	\$279,972

13. Non-capitalized financial leases

Finance leases which do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases. Certain information for such non-capitalized finance leases was as follows:

- (1) Future minimum lease payments at March 31, 2005 were ¥6,504 million (\$60,785 thousand), including ¥2,035 million (\$19,019 thousand) due within one year.
- (2) Lease payments for fiscal years 2004 and 2005 were ¥2,056 million and ¥1,912 million (\$17,869 thousand), respectively.

14. Transactions with the principal shareholder

The following are transactions between the Company and a principal shareholder of MEDICEO Holdings Co., Ltd. which owns more than a 10% interest:

	Millions of yen	Thousands of U.S. dollars
Principal shareholder	Takeda Pharmaceutical Company Limited	
Common stock	¥63,541	\$593,841
Principal business	Pharmaceutical product manufacturer	
Percentage of total shares	11.44%	
Description of the Company's transactions:		
Purchase amounts from April 2004 to March 2005	¥219,706	\$2,053,327
Research fee income amounts from April 2004 to March 2005	604	5,645
Balance of accounts payable - trade, as of March 31, 2005	60,761	567,860
Balance of accounts receivable - other, as of March 31, 2005	5,026	46,972

15. Segment information

Information by business segment is not disclosed because the Company is mainly engaged in the sale of pharmaceutical supplies and sales of this business segment exceeded 90% of consolidated net sales for the years ended March 31, 2004 and 2005.

The Company operated within Japan, so regional segment information is not disclosed for the years ended March 31, 2004 and 2005.

Overseas sales information is not applicable to the years ended March 31, 2004 and 2005.

16. Subsequent events

(1) On June 29, 2005, shareholders of MEDICEO Holdings Co., Ltd. approved the payment of a cash dividend of ¥ 6.00 (\$0.06) per share to shareholders on record at March 31, 2005, for a total payment of ¥1,113 million (\$10,402 thousand).

(2) Management integration with PALTAC CORPORATION

On April 18, 2005, as part of its business strategy of utilizing the total power of the MEDICEO Group, the Company's Board of Directors approved a Basic Management Integration Agreement to become a new type of wholesaler that handles cosmetics and daily necessities in addition to its existing business, which is limited to the areas of pharmaceuticals, medical equipment and related businesses. After signing the Basic Management Integration Agreement, on May 13, 2005 the Company's Board of Directors approved the signing of a share exchange agreement, and on the same day entered into the share exchange agreement, which will make PALTAC CORPORATION a wholly owned subsidiary of the Company as of October 1, 2005.

As wholesale distributors, the two companies are among the leaders in their respective industries — MEDICEO Holdings in pharmaceuticals and PALTAC CORPORATION in cosmetics and daily necessities. By combining their resources and expertise, the two companies will make the most of their strengths and supplement each other's weaknesses to make the new company's business foundation as strong as possible. The management integration aims to create a next-generation wholesale company that possesses superior capabilities for supporting health and beauty and is trusted by customers for its responsiveness to deregulation and other changes in the business

environment. The new company will pursue customer satisfaction and provide solutions as a general wholesaler handling a full range of consumer-oriented health, beauty care and daily necessities, allowing it to offer entirely new value that the two companies could not have achieved by operating in separate industries. Moreover, by integrating the two companies' sales and distribution networks and upgrading logistics services to build a low-cost, efficient supply chain, the management integration aims to create a wholesaler that contributes to customers and society. The benefits expected from the management integration are a stronger business foundation through the combination of the two companies' technologies and knowledge resources; streamlining through integration of the Healthcare Division and the Beauty and Home Products Division; securing and development of personnel for the core health and beauty businesses; greater efficiency throughout the supply chain; and peace of mind for shareholders and employees due to increased corporate value.

MEDICEO Holdings will carry out a share exchange on October 1, 2005 with PALTAC CORPORATION, and MEDICEO Holdings will become the parent company of PALTAC CORPORATION.

MEDICEO Holdings will allocate 1.50 shares of its common stock for each share of common stock of PALTAC CORPORATION. MEDICEO Holdings and PALTAC CORPORATION each requested third-party

institutions to calculate the share exchange ratio. After careful consideration based on the results and other factors, the two companies decided the share exchange ratio above.

MEDICEO Holdings will issue 45,353,485 shares of common stock in connection with the share exchange. The capital of MEDICEO Holdings will not increase. Capital surplus will increase by the amount of PALTAC CORPORATION's net assets as of the share exchange date multiplied by the percentage of PALTAC CORPORATION's total outstanding shares to be transferred to MEDICEO Holdings by the share exchange. No share-exchange subsidy will be paid.

Financial information on PALTAC CORPORATION

	Millions of yen	Thousands of U.S. dollars
Common stock:	¥5,206	\$48,654
Principal business:	Wholesale distributor of cosmetics and daily necessities	
Financial results (for the year ended September 30, 2004)		
Net sales:	¥384,671	\$3,595,056
Ordinary income:	8,614	80,505
Net income:	4,020	37,570
Total assets, total liabilities and shareholders' equity (as of September 30, 2004)		
Total assets:	¥141,484	\$1,322,280
Total liabilities:	88,225	824,533
Shareholders' equity:	53,259	497,748

Report of Independent Public Accountants

To the Shareholders and the Board of Directors of MEDICEO Holdings Co., Ltd.:

We have audited the accompanying consolidated balance sheet of MEDICEO Holdings Co., Ltd. and subsidiaries as of March 31, 2005, and the related consolidated statement of operations, shareholders' equity and cash flow for the year ended March 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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 the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 MEDICEO Holdings Co., Ltd. and subsidiaries as of March 31, 2005, and the consolidated result of their operation and their cash flow for the year ended March 31, 2005, in conformity with accounting principles generally accepted in Japan.

As described in Note 16 to the consolidated financial statements, on May 13, 2005 the Board of Directors of MEDICEO Holdings Co., Ltd. approved the signing of a share exchange agreement which will make PALTAC CORPORATION a wholly owned subsidiary as of October 1, 2005, and on June 29, 2005, shareholders of MEDICEO Holdings Co., Ltd. approved the share exchange agreement.

In our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Chuo Aoyama *PricewaterhouseCoopers*

Tokyo, Japan
June 29, 2005