

## CONSOLIDATED BALANCE SHEETS

Mediceo Paltac Holdings Co., Ltd. and its consolidated subsidiaries  
March 31, 2005 and 2006

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
<b>Current assets:</b>			
Cash in hand and in banks (Notes 3 and 10)	¥120,636	¥144,268	\$1,233,060
Notes and accounts receivable, trade	437,654	489,442	4,183,265
Marketable securities (Note 4)	8	—	—
Inventories	78,294	96,675	826,282
Deferred income taxes (Note 14)	4,836	8,593	73,444
Accounts receivable, other	33,029	37,792	323,009
Other current assets	2,576	2,771	23,684
Allowance for doubtful accounts	(3,716)	(5,459)	(46,658)
<b>Total current assets</b>	<b>673,317</b>	<b>774,082</b>	<b>6,616,085</b>
<b>Property, plant and equipment (Note 10):</b>			
Buildings and structures	48,645	63,559	543,239
Land (Note 7)	62,722	72,196	617,060
Construction in progress	3,082	1,819	15,547
Other tangible fixed assets	8,166	13,694	117,043
<b>Total property, plant and equipment</b>	<b>122,616</b>	<b>151,268</b>	<b>1,292,889</b>
<b>Intangible assets:</b>			
Software	5,473	4,683	40,026
Other intangible assets	907	1,457	12,453
<b>Total intangible assets</b>	<b>6,380</b>	<b>6,140</b>	<b>52,479</b>
<b>Investments and other assets:</b>			
Investment securities (Notes 4 and 10)	31,366	47,950	409,829
Long-term loans receivable	921	776	6,632
Deferred income taxes (Note 14)	3,357	1,193	10,197
Other assets	15,279	16,479	140,846
Allowance for doubtful accounts	(4,820)	(4,396)	(37,573)
<b>Total investments and other assets</b>	<b>46,103</b>	<b>62,002</b>	<b>529,932</b>
	<b>¥848,416</b>	<b>¥993,491</b>	<b>\$8,491,376</b>

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)
	2005	2006	2006
<b>Current liabilities:</b>			
Notes and accounts payable, trade (Note 10)	¥584,267	¥631,286	\$5,395,607
Short-term bank loans (Notes 8 and 10)	5,325	25,879	221,188
Long-term debt due within one year (Notes 8 and 10)	425	5,018	42,889
Income taxes payable (Note 14)	1,164	8,108	69,299
Reserve for bonuses	6,860	8,021	68,556
Allowance for losses on sales returns	710	961	8,214
Other current liabilities	15,187	21,998	188,017
Total current liabilities	613,939	701,270	5,993,761
<b>Long-term liabilities:</b>			
Convertible bonds	9,254	1,867	15,957
Long-term debt (Notes 8 and 10)	656	5,636	48,171
Deferred income taxes	5,200	8,010	68,462
Deferred income taxes — land revaluation (Note 7)	1,113	1,076	9,197
Reserve for employees' retirement benefits (Note 9)	15,976	17,068	145,880
Reserve for directors' and corporate auditors' retirement benefits	—	493	4,214
Consolidated adjustment account	28,583	11,749	100,419
Other long-term liabilities	4,850	3,908	33,402
Total long-term liabilities	65,632	49,808	425,709
<b>Minority interests</b>	741	—	—
<b>Contingent liabilities (Note 11)</b>			
<b>Shareholders' equity (Note 12):</b>			
Common stock:			
Authorized — 500,000,000 shares in 2005 and 2006			
Issued — 189,100,203 shares in 2005 and 242,518,061 shares in 2006	17,786	21,480	183,590
Capital surplus	67,618	131,328	1,122,462
Retained earnings	98,910	115,948	991,009
Land revaluation surplus (Note 7)	(19,660)	(18,751)	(160,265)
Unrealized gain on available-for-sale securities (Note 4)	6,123	11,318	96,735
Treasury stock, at cost	(2,673)	(18,910)	(161,624)
Total shareholders' equity	168,104	242,413	2,071,906
	¥848,416	¥993,491	\$8,491,376

## CONSOLIDATED STATEMENTS OF INCOME

Mediceo Paltac Holdings Co., Ltd. and its consolidated subsidiaries  
Years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
<b>Net sales</b>	¥1,665,816	¥1,921,714	\$16,424,906
Cost of sales	1,528,010	1,760,112	15,043,692
Gross profit	137,806	161,603	1,381,222
Selling, general and administrative expenses	126,819	140,995	1,205,085
<b>Operating income</b>	10,987	20,608	176,137
<b>Other income (expenses):</b>			
Research fee income	4,252	4,472	38,222
Interest and dividend income	552	738	6,308
Interest expense	(235)	(234)	(2,000)
Loss on devaluation of investment securities	(47)	(12)	(103)
Other, net (Note 13)	3,796	4,537	38,778
<b>Total other income (expenses)</b>	8,318	9,500	81,197
Income before income taxes and minority interests	19,305	30,109	257,342
<b>Income taxes (Note 14):</b>			
Current	4,294	9,707	82,966
Deferred	6,209	(442)	(3,778)
<b>Total income taxes</b>	10,503	9,266	79,197
Minority interests in net income of consolidated subsidiaries	72	0	0
<b>Net income</b>	¥ 8,730	¥ 20,843	\$ 178,145

	Yen		U.S. dollars (Note 1)
	2005	2006	2006
<b>Amounts per share of common stock:</b>			
Net income	¥45.90	¥97.64	\$0.83
Diluted net income	43.52	94.22	0.81
Cash dividends applicable to the period	12.00	15.00	0.13

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

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Mediceo Paltac Holdings Co., Ltd. and its consolidated subsidiaries  
Years ended March 31, 2005 and 2006

	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
<b>Balance at March 31, 2004</b>	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)
<b>Balance at March 31, 2005</b>	189,100	¥17,786	¥67,618	¥98,910	¥(19,660)	¥6,123	¥(2,673)
Conversion of convertible bonds into stock	8,064	3,693	3,693	—	—	—	—
Gain on transfer of treasury stock	—	—	100	—	—	—	637
Increase due to exchange of shares	45,353	—	59,916	—	—	—	—
Net income	—	—	—	20,843	—	—	—
Cash dividends paid (¥15.0 per share)	—	—	—	(2,850)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(311)	—	—	—
Reverse of land revaluation surplus	—	—	—	(539)	539	—	—
Changes in revaluation surplus	—	—	—	—	372	—	—
Consolidated write-offs	—	—	—	(104)	—	—	—
Changes in unrealized gain on available-for-sale securities, less applicable taxes	—	—	—	—	—	5,194	—
Treasury stock acquired	—	—	—	—	—	—	(16,873)
<b>Balance at March 31, 2006</b>	242,518	¥21,480	¥131,328	¥115,948	¥(18,751)	¥11,318	¥(18,910)

	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
<b>Balance at March 31, 2005</b>	\$152,017	\$577,932	\$845,385	\$(168,034)	\$52,333	\$(22,846)
Conversion of convertible bonds into stock	31,564	31,564	—	—	—	—
Gain on transfer of treasury stock	—	855	—	—	—	5,444
Increase due to exchange of shares	—	512,103	—	—	—	—
Net income	—	—	178,145	—	—	—
Cash dividends paid (\$0.13 per share)	—	—	(24,359)	—	—	—
Bonuses to directors and statutory auditors	—	—	(2,658)	—	—	—
Reverse of land revaluation surplus	—	—	(4,607)	4,607	—	—
Changes in revaluation surplus	—	—	—	3,179	—	—
Consolidated write-offs	—	—	(889)	—	—	—
Changes in unrealized gain on available-for-sale securities, less applicable taxes	—	—	—	—	44,393	—
Treasury stock acquired	—	—	—	—	—	(144,214)
<b>Balance at March 31, 2006</b>	\$183,590	\$1,122,462	\$991,009	\$(160,265)	\$96,735	\$(161,624)

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Mediceo Paltac Holdings Co., Ltd. and its consolidated subsidiaries  
Years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 19,304	¥ 30,109	\$ 257,342
Adjustments to reconcile income before income taxes to net cash flows provided by operating activities:			
Depreciation and amortization	7,625	9,126	78,000
Loss on impairment of fixed assets	—	2,110	18,034
Amortization of consolidation difference	(6,628)	(5,568)	(47,590)
Increase (decrease) in reserve for employees' retirement benefits – net	2,207	(1,921)	(16,419)
Increase (decrease) in reserve for directors' and corporate auditors' retirement benefits	(2,397)	85	726
Decrease in reserve for employees' bonuses	(648)	(68)	(581)
Decrease in allowance for doubtful accounts	(2,378)	(1,284)	(10,974)
Decrease in allowance for sales returns	(87)	(2)	(17)
Reversal of allowance for losses on debt guarantees	(74)	—	—
Interest and dividend income	(551)	(738)	(6,308)
Interest expenses	235	234	2,000
Loss on disposal of property, plant and equipment – net	(694)	438	3,744
Loss on sale or devaluation of securities – net	32	(273)	(2,333)
Loss related to stock of affiliates	20	441	3,769
Loss on sale and devaluation of golf club memberships – net	87	6	51
Additional retirement benefits for employees	753	36	308
Decrease (increase) in notes and accounts receivable – trade	(11,373)	10,799	92,299
Decrease (increase) in inventories	(9,717)	3,356	28,684
Decrease (increase) in other current assets	(1,978)	50	427
Increase (decrease) in notes and accounts payable	42,147	(2,287)	(19,547)
Increase (decrease) in accrued consumption taxes	(2,807)	2,858	24,427
Increase (decrease) in other current liabilities	1,556	(2,196)	(18,769)
Payment of directors' and corporate auditors' bonuses	(366)	(316)	(2,701)
Subtotal	34,266	44,994	384,564
Interest and dividends received	552	739	6,316
Cash paid for interest	(234)	(201)	(1,718)
Special retirement benefits paid	(753)	(36)	(308)
Cash paid for income taxes	(7,530)	(3,700)	(31,624)
Net cash provided by operating activities	26,302	41,796	357,231
<b>Cash flows from investing activities:</b>			
Payments for time deposits	(752)	(1,144)	(9,778)
Maturity of time deposits	918	1,250	10,684
Payments for purchase of marketable securities	(2)	(3)	(26)
Proceeds from sale of marketable securities	2	11	94
Payments for purchase of property, plant and equipment	(7,812)	(9,064)	(77,470)
Proceeds from sale of property, plant and equipment	4,197	3,863	(33,017)
Payments for purchase of investment securities	(305)	(3,103)	(26,521)
Proceeds from sale of investment securities	22	1,760	15,043
Proceeds from sale of subsidiary stock	—	251	2,145
Proceeds from acquisition of subsidiary stock due to change in scope of consolidation	35,258	10,628	90,838
Payments for issuance of loans	(186)	(75)	(641)
Proceeds from recovery of loans	506	213	1,821
Payments for transfer of business	(135)	(31)	(265)
Other, net	(432)	(189)	(1,615)
Net cash provided by investing activities	31,279	4,366	37,316
<b>Cash flows from financing activities:</b>			
Decrease in short-term bank loans — net	(4,714)	(1,034)	(8,838)
Proceeds from long-term debt	430	1,500	12,821
Repayment of long-term debt	(735)	(3,114)	(26,615)
Purchase of treasury stock	(1,106)	(16,873)	(144,214)
Payments for cash dividends	(1,981)	(2,246)	(19,197)
Payments for cash dividends of wholly owned subsidiary from share exchange	—	(604)	(5,162)
Payments for cash dividends to minority shareholders	(410)	(3)	(26)
Net cash used in financing activities	(8,516)	(22,375)	(191,239)
Net increase in cash and cash equivalents	49,064	23,787	203,308
<b>Cash and cash equivalents at beginning of year (Note 3)</b>	70,112	119,121	1,018,128
Cash and cash equivalents in connection with the exclusion of a certain subsidiary from consolidation	(55)	—	—
<b>Cash and cash equivalents at end of year (Note 3)</b>	¥ 119,121	¥ 142,908	\$ 1,221,436

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mediceo Paltac Holdings Co., Ltd. and its consolidated subsidiaries  
Years ended March 31, 2005 and 2006

## 1. Basis of presenting the consolidated financial statements

Mediceo Paltac Holdings Co., Ltd. (the "Company") and its consolidated subsidiaries 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, 2006, which was ¥117.00 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 the Company and thirteen and eleven significant domestic subsidiaries in 2005 and 2006, 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 July 1, 2005, Nakagawa Seikodo changed its name to MEDICEO MEDICAL CO., LTD.

PALTAC CORPORATION became a wholly owned subsidiary using the share exchange system on October 1, 2005, and therefore it is included in the scope of consolidation starting from the fiscal year ended March 31, 2006.

Oriental Pharmaceutical Co., Ltd. was removed from the scope of consolidation in the fiscal year ended March 31, 2006, as the sale of 67.0 percent of its outstanding shares on December 26, 2005 ended its significance. However, the profit and loss and cash flow of Oriental Pharmaceutical Co., Ltd. through September 30, 2005 are consolidated.

Chiyaku Co., Ltd. was removed from the scope of consolidation in the fiscal year ended March 31, 2006 because it merged with KURAYA SANSEIDO Inc., a wholly owned subsidiary of the Company, on January 1, 2006, with KURAYA SANSEIDO being the surviving company and Chiyaku Co., Ltd. being the dissolved company. However, the profit and loss and cash flow of Chiyaku Co., Ltd. through December 31 are consolidated.

SELMESTA CO., LTD. (formerly KURAYA SHOJI, INC.) was removed from the scope of consolidation in the fiscal year ended March 31, 2006 because Mediceo Paltac Holdings transferred 90.0 of its outstanding shares on March 31, 2006. However, the profit and loss and cash flow of SELMESTA CO., LTD. through March 31 are consolidated.

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:

PALTAC CORPORATION	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 102,121	\$ 872,829
Fixed assets	43,932	375,487
Deferred assets	9	76
Consolidation difference	11,137	95,188
Current liabilities	(86,271)	(737,359)
Long-term liabilities	(11,108)	(94,940)
Acquisition of PALTAC CORPORATION stock	59,821	511,291
Cash and cash equivalents of PALTAC CORPORATION	10,653	91,051
Shares acquired through share exchange	(59,846)	(511,504)
Proceeds from acquisition of shares of PALTAC CORPORATION	10,628	90,838

## 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 of such companies in the aggregate 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, 2005 and 2006, 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.

On April 1, 2005, six consolidated subsidiaries revised their retirement benefit systems and transferred part of the lump-sum retirement benefit system to a defined contribution pension plan, applying the "Accounting Process for Transfers Between Retirement Benefit Systems (Corporate Accounting Standards, Application Guideline 1).

The effect of these transfers was that an extraordinary gain of ¥363 million was incurred.

### Reserve for directors' and corporate auditors' retirement benefits

The MEDICEO Paltac 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 (at March 2005).

A certain subsidiary provides for payment of directors' and corporate auditors' retirement benefits based on the amount required to be paid at the end of the accounting period, in accordance with the internal rules of each company (at March 2006).

### 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).

### 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, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Cash in hand and in banks	¥120,636	¥144,268	\$1,233,060
Time deposits over three months	(1,514)	(1,360)	(11,624)
Cash and cash equivalents	¥119,122	¥142,908	\$1,221,436

### 4. Market value information for securities

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

Year ended March 31, 2006	Millions of yen		
	Original cost	Estimated book value	Unrealized gain
Securities whose book value exceeds their original cost:			
Equity securities	¥12,126	¥39,669	¥27,542
Bonds	—	—	—
Others	—	—	—
	¥12,126	¥39,669	¥27,542
Securities whose book value does not exceed their original cost:			
Equity securities	¥ 422	¥ 388	¥ (33)
Bonds	—	—	—
Others	—	—	—
	¥ 422	¥ 388	¥ (33)
Total	¥12,549	¥40,058	¥27,508

Year ended March 31, 2006	Thousands of U.S. dollars		
	Original cost	Estimated book value	Unrealized gain
Securities whose book value exceeds their original cost:			
Equity securities	\$103,641	\$339,051	\$235,402
Bonds	—	—	—
Others	—	—	—
	\$103,641	\$339,051	\$235,402
Securities whose book value does not exceed their original cost:			
Equity securities	\$ 3,607	\$ 3,316	\$ (282)
Bonds	—	—	—
Others	—	—	—
	\$ 3,607	\$ 3,316	\$ (282)
Total	\$107,256	\$342,376	\$235,111

Year ended March 31, 2005	Millions of yen		
	Carrying value	Estimated fair value	Unrealized gain
Securities whose fair value exceeds their carrying value:			
Equity securities	¥8,093	¥24,849	¥16,755
Bonds	5	5	—
Others	—	—	—
	¥8,098	¥24,854	¥16,755
Securities whose carrying value exceeds their fair value:			
Equity securities	¥ 351	¥ 320	¥ (31)
Bonds	—	—	—
Others	—	—	—
	¥ 351	¥ 320	¥ (31)
Total	¥8,450	¥25,174	¥16,724

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

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Sales value	¥25	¥548	\$4,684
Profit on sale	18	258	2,205
Loss on sale	3	12	103

#### (3) Book value of non-marketable securities

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Held-to-maturity:			
Debt securities	¥3,300	¥2,800	\$23,932
Available-for-sale:			
Equity securities	1,605	2,685	22,949
Bonds	3	1	9

(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	
	2005		2006		2006	
	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	¥8	¥1	¥1	¥—	\$9	\$—

### 5. Derivative transactions

A certain consolidated subsidiary has entered into foreign currency hedging transactions to reduce its exposure to adverse fluctuation in foreign exchange rates relating to its receivables and payables denominated in foreign currencies. The subsidiary does not engage in speculative transactions, and it applies deferral hedge accounting or designation accounting to forward exchange contracts that qualify.

For forward exchange contracts, in principle the subsidiary compares the total exchange rates of hedged items to the total market fluctuation of hedging instruments during the period from the time hedging begins until the point when its effectiveness is determined, and makes an assessment based on the amount of fluctuation of the two. However, if the material terms for the assets and liabilities of hedging instruments and hedged items are identical, the assessment of effectiveness is omitted because the effectiveness is clearly 100 percent.

### 6. Loss on impairment of fixed assets

Effective from the year ended March 31, 2006, the Company and its subsidiaries apply the accounting standards for loss on impairment of fixed assets, "Statement of Opinion on Establishment of Accounting Standards for Loss on Impairment of Fixed Assets" (issued by the Business Accounting Council on August 9, 2002) and "Application Guidance on Accounting Standards for Loss on Impairment of Fixed Assets" (Accounting Standard Application Guidance No. 6, issued on October 31, 2003). The application of these standards reduced income before income taxes by ¥2,110 million for the year ended March 31, 2006.

Accumulated impairment losses are directly written off against the value of each asset based on the revised rules for consolidated financial statements.

During the year ended March 31, 2006, the Company and its consolidated subsidiaries recorded impairment losses for the following asset groups:

Application	Type	Location	Millions of yen	Thousands of U.S. dollars
Idle assets	Land and buildings, etc.	Tohoku, 3	¥ 112	\$ 957
		Kanto, 16	982	8,393
		Koshinetsu, 2	268	2,290
		Hokuriku, 2	203	1,735
		Tokai, 9	276	2,359
		Kinki, 1	1	9
		Chugoku, 6	84	718
		Shikoku, 2	73	624
		Kyushu, 7	109	932
		Business assets	Land	Kanto, 1
Total			¥2,110	\$18,034

The Group's pharmaceutical wholesale business operates region-based sales companies, and groups assets by company. The assets of the cosmetics and daily necessities wholesale business are also grouped by company.

The distribution centers owned by the Company, an operating holding company, conduct central buying for the Group from manufacturers and perform the wholesale distribution functions of sales subsidiaries, and are therefore treated as assets of the pharmaceutical wholesale business.

For business-use assets owned by the Group that are idle, are not expected to be used in the future and have recoverable values less than book value, the Company writes down the book value to the recoverable value, and accounts for the amount of this write-down as an impairment loss (¥2,110 million) in extraordinary losses.

Item	Millions of yen	Thousands of U.S. dollars
Land	¥ 699	\$ 5,974
Buildings and structures	1,175	10,043
Other	236	2,017
Total	¥2,110	\$18,034

The Company measures the recoverable value of assets using the net sale value. The net sale value is the amount calculated based on the appraised value determined by a real estate appraiser or the value assessed for property tax purposes.

### 7. 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 a revaluation surplus in shareholders' equity.

## 8. Short-term bank loans and long-term debt

The Company has credit agreements with 23 banks in order to support effective financing. The lines of credit and bank loans under the credit agreements at March 31, 2005 and 2006 are listed below.

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Lines of credit	¥88,250	¥138,678	\$1,185,282
Balance of bank loans	(5,300)	(25,879)	(221,188)
Net: Open lines of credit	¥82,950	¥112,800	\$ 964,103

Short-term bank loans including loans under the credit agreement at March 31, 2005 and 2006 principally bore annual interest rates of 0.96% and 0.95% per annum, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Unsecured domestic convertible bonds due 2008 at a rate of 0.9%	¥ 9,254	¥ 1,867	\$ 15,957
Loans from banks	1,081	10,653	91,051
	10,335	12,520	107,009
Less amount due within one year	(425)	(5,018)	(42,889)
Amount due after one year	¥ 9,910	¥ 7,503	\$ 64,128

Domestic convertible bonds due 2008 provide, among other conditions, for (1) conversion prices of ¥916.0 (\$7.83) 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, 2006.

The annual maturities of long-term debt at March 31, 2006 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 5,018	\$42,889
2008	3,648	31,179
2009	1,736	14,838
2010	252	2,154

## 9. Employees' retirement benefits

### (1) Overview of retirement benefit plan

The Company and its subsidiaries have 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, the Company 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 FASB.

On April 1, 2005, six consolidated subsidiaries revised their retirement benefit systems and transferred part of the lump-sum retirement benefit system to a defined contribution pension plan, applying the "Accounting Process for Transfers Between Retirement Benefit Systems (Corporate Accounting Standards, Application Guideline 1).

The effect of these transfers was that an extraordinary gain of ¥363 million was incurred.

The effect associated with the transfer from a qualified pension plan to a contract-type corporate pension plan and defined contribution pension plan is as follows:

	Millions of yen	Thousands of U.S. dollars
Decrease in benefit obligation	¥3,571	\$30,521
Unrecognized net gain	934	7,983
Increase in reserve for retirement benefits	2,637	22,538

Assets in the amount of ¥1,703 million (\$14,556 thousand) will be contributed to the defined contribution pension plan over a period of 4 to 8 years. The unpaid amount of ¥1,272 million (\$10,872 thousand) was recorded in other current liabilities and long-term liabilities in 2006.

### (2) Retirement benefits

The liability for employees' retirement benefits at March 31, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Projected benefit obligation	¥(37,834)	¥(43,255)	\$(369,701)
Fair value of plan assets	22,089	28,711	245,393
Plan assets less than projected benefit obligation	(15,744)	(14,543)	(124,299)
Unrecognized actuarial loss	652	(1,340)	(11,453)
Unrecognized prior service costs	(424)	(458)	(3,915)
Subtotal	(15,517)	(16,342)	(139,675)
Prepaid pension expenses	458	725	6,197
Reserve for employees' retirement benefits	¥(15,976)	¥(17,068)	\$(145,880)

### (3) Net pension expense

The components of net pension expense in 2005 and 2006 are listed below.

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Service costs	¥2,346	¥2,362	\$20,188
Interest costs on projected benefit obligations	888	735	6,282
Expected return on plan assets	(417)	(466)	(3,983)
Unrecognized actuarial loss	1,894	100	855
Amortization of prior service costs	(545)	(330)	(2,821)
Loss on retirement benefits system revision	853	(363)	(3,103)
Other	621	863	7,376
Net pension expense	¥5,642	¥2,901	\$24,795

In addition to the pension expense above, an additional retirement benefit on early retirement is recorded in the amount of ¥35 million (\$299 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.

	2005	2006
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	1.5~2.5%	1.5~3.0%
Amortization period for prior service costs	3 years	3 years
Recognition period of actuarial loss	3~10 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 ¥60,322 million (\$515,573 thousand) at March 31, 2006 based on the proportion of the Company's payments to the fund.

### 10. Pledged assets

The Company and its consolidated subsidiaries pledged the following assets to secure trade payables and certain bank loans in the amount of ¥50,859 million (\$434,692 thousand) at March 31, 2006.

	Millions of yen	Thousands of U.S. dollars
Land	¥2,003	\$17,120
Buildings and structures at net book value	1,110	9,487
Investment securities	1,615	13,803
Time deposits	1,200	10,256

### 11. Contingent liabilities

Contingent liabilities of the Company and its consolidated subsidiaries at March 31, 2006 were guarantees for loans from banks of unconsolidated subsidiaries, affiliates and others in the amount of ¥2,717 million (\$23,222 thousand).

### 12. 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.

### 13. Other income (expenses)

Other income (expenses) – "Other, net" in the accompanying consolidated statements of operations for the years ended March 31, 2005 and 2006 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Gain on sale of investment securities – net	¥ 15	¥ 246	\$ 2,103
Gain (loss) on sales or disposal of property, plant and equipment – net	695	(438)	(3,744)
Loss on devaluation of golf club memberships	(89)	0	0
Restructuring costs of business establishments	(1,064)	(431)	(3,684)
Additional retirement benefits for employees	(753)	(36)	(308)
Amortization of consolidation difference	6,628	5,568	47,590
Loss on dissolution of employees' pension fund	(1,190)	—	—
Loss on revision of employees' retirement benefit plan	(853)	—	—
Miscellaneous	409	(372)	(3,179)
	¥ 3,797	¥4,537	\$38,778

### 14. Income taxes

The Company and its consolidated subsidiaries are subject to a number of income taxes, which, in the aggregate, indicate statutory tax rates in Japan of approximately 40.7% for the years ended March 31, 2005 and 2006.

The reconciliation between the statutory tax rate and the effective tax rate of the Company and its consolidated subsidiaries for financial statement purposes for the years ended March 31, 2005 and 2006 is presented as follows:

	2005	2006
Statutory tax rate	40.7%	40.7%
Non-deductible expenses for tax purposes	1.5	0.4
Per capita inhabitant taxes	1.2	1.0
Allowance for doubtful deferred taxes	30.9	(4.5)
Tax benefit for information technology (IT) investment	(1.5)	(0.8)
Amortization of consolidation difference	(14.0)	(7.5)
Others	(4.4)	1.5
Effective tax rate	54.4%	30.8%

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

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Deferred tax assets:			
Excess allowance for doubtful accounts	¥ 2,025	¥ 2,637	\$ 22,538
Excess reserve for employees' bonuses	2,842	3,315	28,333
Accrued enterprise taxes	148	695	5,940
Reserve for employees' retirement benefits	5,528	5,881	50,265
Reserve for directors' and corporate auditors' retirement benefits	—	200	1,709
Loss on impairment of fixed assets	—	1,040	8,889
Other	8,502	8,651	73,940
Subtotal	19,047	22,422	191,641
Allowance for doubtful deferred taxes	(5,957)	(4,645)	(39,701)
Total deferred tax assets	13,090	17,776	151,932
Deferred tax liabilities:			
Compression reserve for tax purposes	(2,442)	(2,802)	(23,949)
Unrealized gain on available-for-sale securities	(6,810)	(11,190)	(95,641)
Other	(844)	(2,007)	(17,154)
Total deferred tax liabilities	(10,097)	(16,001)	(136,761)
Net deferred tax assets	¥ 2,993	¥ 1,775	\$15,171

### 15. 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, 2006 were ¥5,264 million (\$44,991 thousand), including ¥2,046 million (\$17,487 thousand) due within one year.
- (2) Lease payments for fiscal years 2005 and 2006 were ¥1,912 million and ¥2,296 million (\$19,624 thousand), respectively.

### 16. Transactions with principal shareholder

The following are transactions between the Company and a principal shareholder of the Company which owned more than a 10% interest during the year ended March 31, 2006:

	Millions of yen	Thousands of U.S. dollars
Principal shareholder	Takeda Pharmaceutical Company Limited	
Common stock	¥63,541	\$543,085
Principal business	Pharmaceutical product manufacturer	
Percentage of total shares	9.2%	
Description of the Company's transactions:		
Purchase amount	¥128,262	\$1,096,256
Balance of accounts receivable, other, as of March 31, 2006	5,337	45,615
Balance of accounts payable, trade, as of March 31, 2006	67,168	574,085

Due to the increase in total outstanding shares in connection with the exchange of shares with PALTAC CORPORATION on October 1, 2005, Takeda Pharmaceutical Company Limited is no longer a principal shareholder. Therefore, the purchase amount is shown for the period in which it was a principal shareholder. Common stock and percentage of total shares show the amounts as of March 31, 2006.

### 17. Segment information

Prior to the year ended March 31, 2006, business segment information was not disclosed, as the consolidated net sales, operating income and total assets of the pharmaceutical wholesale business constituted more than 90 percent of the totals for all segments. On October 1, 2005, PALTAC CORPORATION, which operates the cosmetics and daily necessities wholesale business, carried out an exchange of shares that made it a wholly owned subsidiary of the Company. As a result, the consolidated net sales, operating income and total assets of the pharmaceutical wholesale business constituted less than 90 percent of the totals for all segments. Therefore, business segment information is disclosed effective from the year ended March 31, 2006.

	Millions of yen					
	2006					
	Pharmaceutical Wholesale Business	Cosmetics & Daily Necessities Wholesale Business	Medical-related Business	Total	Eliminations and Corporate	Consolidated
Net sales:						
(1) Sales to outside customers	¥1,714,493	¥196,423	¥10,798	¥1,921,714	¥ —	¥1,921,714
(2) Intersegment sales and transfers	274	—	659	933	(933)	—
Total sales	1,714,768	196,423	11,457	1,922,647	(933)	1,921,714
Operating expenses	1,699,795	193,455	11,199	1,904,449	(3,344)	1,901,106
Operating income	¥ 14,972	¥ 2,968	¥ 258	¥ 18,198	¥ 2,411	¥ 20,608
Assets, depreciation, impairment loss and capital expenditures:						
Assets	¥ 905,955	¥ 96,866	¥ 2,324	¥1,005,145	¥(11,654)	¥ 993,491
Depreciation	7,743	1,301	82	9,126	—	9,126
Impairment loss	2,493	598	—	3,091	(981)	2,110
Capital expenditures	7,168	3,218	24	10,410	—	10,410

Thousand of U.S. dollars						
2006						
	Pharmaceutical Wholesale Business	Cosmetics & Daily Necessities Wholesale Business	Medical- related Business	Total	Eliminations and Corporate	Consolidated
Net sales:						
(1) Sales to outside customers	\$14,653,786	\$1,678,829	\$92,291	\$16,424,906	\$ —	\$16,424,906
(2) Intersegment sales and transfers	2,342	—	5,632	7,974	(7,974)	—
Total sales	14,656,137	1,678,829	97,923	16,432,880	(7,974)	16,424,906
Operating expenses	14,528,162	1,653,462	95,718	16,277,342	(28,581)	16,248,769
Operating income	\$ 127,966	\$ 25,368	\$ 2,205	\$ 155,538	\$ 20,607	\$ 176,137
Assets, depreciation, impairment loss and capital expenditures:						
Assets	\$ 7,743,205	\$ 827,915	\$19,863	\$ 8,590,983	\$(99,607)	\$ 8,491,376
Depreciation	66,179	11,120	701	78,000	—	78,000
Impairment loss	21,308	5,111	—	26,419	(8,385)	18,034
Capital expenditures	61,265	27,504	205	88,974	—	88,974

## Notes:

- Method of business classification  
Businesses are classified in consideration of similarities of product type, business group and market.
- Description of business segments
 

Business segment	Description
Pharmaceutical Wholesale Business	Wholesale distribution of prescription pharmaceuticals, over-the-counter pharmaceuticals, medical equipment, etc.
Cosmetics & Daily Necessities Wholesale Business	Wholesale distribution of cosmetics, daily necessities, soap, detergents, etc.
Medical-related Business	Sales of health foods, industrial chemicals, food additives, etc.
- Operating income in eliminations and corporate includes ¥1,949 million (\$16,658 thousand) in transfers of the consolidated adjustment account.
- Assets in eliminations and corporate include consolidated adjustment account of ¥10,434 million (\$89,179 thousand).
- Depreciation and capital expenditures include long-term prepaid expenses and depreciation related to these expenses.

The Company and its consolidated subsidiaries operated within Japan, so regional segment information is not disclosed for the years ended March 31, 2005 and 2006.

Overseas sales information is not applicable to the years ended March 31, 2005 and 2006.

## 18. Subsequent events

(1) On June 29, 2006, shareholders of the Company approved the payment of a cash dividend of ¥6.00 (\$0.06) per share to shareholders on record at March 31, 2006, for a total payment of ¥2,070 million (\$17,692 thousand).

## (2) Offer of voluntary early retirement

As part of efforts to generate synergy through management integration, with the goal of establishing a corporate structure that can secure stable revenues for the Company and the Mediceo Paltac Group, the Board of Directors of the Company resolved, at a meeting held on May 12, 2006, to offer voluntary early retirement to employees of eight prescription pharmaceutical wholesale companies, which are its wholly owned consolidated subsidiaries, with a view to widening their independence and options for the future.

- Maximum number of applicants: 500
- Eligibility: Employees (including employees on loan) age 40-59 with at least 10 years of continuous service as of September 30, 2006
- Application period: June 1 – June 30, 2006
- Retirement date: September 30, 2006
- Other: Employers will pay employees retiring under this program a special additional retirement allowance and offer reemployment support, including career counseling.
- Estimated amount of retirement benefits: Payment of special retirement allowances associated with the implementation of the early retirement program is expected to total approximately ¥5.0 billion on a consolidated basis.



## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of Mediceo Paltac Holdings Co., Ltd.

We have audited the accompanying consolidated balance sheets of Mediceo Paltac Holdings Co., Ltd. and its subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 Mediceo Paltac Holdings Co., Ltd. and its subsidiaries as of March 31, 2005 and 2006, 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.

As described in Note 6, effective for the year ended March 31, 2006, the Company and its subsidiaries apply the accounting standards for loss on impairment of fixed assets and "Application Guidance on Accounting Standards for Loss on Impairment of Fixed Assets."

As described in Note 18, the Board of Directors of the Company resolved at a meeting held on May 12, 2006 to offer voluntary early retirement to employees of eight prescription pharmaceutical wholesale companies, which are its wholly owned consolidated subsidiaries.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers  
Tokyo, Japan  
June 29, 2006