

CONSOLIDATED BALANCE SHEETS

Mediceo Paltac Holdings Co., Ltd. and its consolidated subsidiaries
As of March 31, 2007 and 2008

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
Current assets:			
Cash and time deposits (Notes 4 and 11)	¥ 147,674	¥ 151,571	\$ 1,512,836
Notes and accounts receivable, trade	492,848	547,676	5,466,374
Inventories	106,218	104,711	1,045,124
Deferred income taxes (Note 15)	7,579	7,801	77,862
Accounts receivable, other	41,788	50,426	503,304
Other current assets	2,486	2,682	26,769
Allowance for doubtful accounts	(2,785)	(2,442)	(24,374)
Total current assets	795,808	862,425	8,607,895
Property and equipment (Note 11):			
Buildings and structures	125,931	128,910	1,286,655
Land (Notes 8 and 11)	70,338	79,969	798,173
Construction in progress	1,802	2,480	24,753
Other tangible fixed assets	36,467	37,834	377,623
Total property and equipment	234,538	249,193	2,487,204
Accumulated depreciation	(83,018)	(89,889)	(897,185)
Net property and equipment	151,520	159,304	1,590,019
Intangible assets:			
Goodwill	8,567	9,064	90,468
Software	4,201	3,977	39,695
Other intangible assets	726	848	8,464
Total intangible assets	13,494	13,889	138,627
Investments and other non-current assets:			
Investment securities (Notes 5 and 11)	56,951	50,026	499,311
Long-term loans receivable	674	616	6,148
Deferred income taxes (Note 15)	391	792	7,905
Other assets	18,221	20,177	201,388
Allowance for doubtful accounts	(4,128)	(2,396)	(23,915)
Total investments and other non-current assets	72,109	69,215	690,837
	¥1,032,931	¥1,104,833	\$11,027,378

The accompanying notes are an integral part of these financial statements

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
Current liabilities:			
Notes and accounts payable, trade (Note 11)	¥ 646,330	¥ 688,730	\$ 6,874,239
Short-term bank loans (Note 9)	31,294	29,688	296,317
Long-term debt due within one year (Note 9)	4,956	4,894	48,847
Income taxes payable (Note 15)	3,644	8,407	83,911
Provision for employees' bonuses	7,883	8,686	86,695
Other current liabilities	21,954	28,629	285,747
Total current liabilities	716,061	769,034	7,675,756
Long-term liabilities:			
Convertible bonds (Note 9)	1,340	—	—
Long-term debt (Note 9)	4,468	5,252	52,420
Deferred income taxes (Note 15)	14,030	10,519	104,991
Deferred income taxes - land revaluation (Note 8)	1,049	1,727	17,237
Employees' severance and retirement benefits (Note 10)	17,267	16,487	164,557
Negative goodwill	13,978	6,978	69,648
Other long-term liabilities	3,626	4,144	41,362
Total long-term liabilities	55,758	45,107	450,215
Contingent liabilities (Note 12)			
Net assets (Note 13):			
Shareholders' equity:			
Common stock:			
Authorized - 900,000,000 shares in 2007 and 2008			
Issued - 243,093,358 shares in 2007 and 243,246,169 shares in 2008	21,743	21,813	217,716
Capital surplus	132,879	134,040	1,337,858
Retained earnings	129,761	153,532	1,532,408
Less treasury stock, at cost	(18,298)	(7,665)	(76,505)
Valuation and translation adjustments:			
Unrealized gains on securities, net of taxes (Note 5)	13,099	6,772	67,592
Land revaluation differences, net of taxes (Note 8)	(18,072)	(17,824)	(177,902)
Total	261,112	290,668	2,901,167
Minority interests	—	24	240
Total net assets	261,112	290,692	2,901,407
	¥1,032,931	¥1,104,833	\$11,027,378

CONSOLIDATED STATEMENTS OF INCOME

Mediceo Paltac Holdings Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
Net sales	¥2,166,763	¥2,254,936	\$22,506,597
Cost of sales	1,978,528	2,063,282	20,593,692
Gross profit	188,235	191,654	1,912,905
Selling, general and administrative expenses	160,459	163,703	1,633,925
Operating income	27,776	27,951	278,980
Other income (expenses):			
Research fee income	5,077	5,286	52,760
Interest and dividend income	1,266	1,382	13,794
Interest expenses	(417)	(553)	(5,520)
Loss on devaluation of investment securities	(122)	(103)	(1,028)
Loss on impairment of fixed assets	(2,768)	(450)	(4,491)
Amortization of negative goodwill	6,068	7,001	69,877
Reversal of allowance for doubtful accounts	2,574	1,294	12,915
Additional retirement benefits for employees	(5,750)	(58)	(579)
Other, net (Note 14)	636	1,390	13,874
Total other income (expenses)	6,564	15,189	151,602
Income before income taxes and minority interests	34,340	43,140	430,582
Income taxes (Note 15):			
Current	9,728	13,202	131,770
Deferred	5,506	2,144	21,399
Total income taxes	15,234	15,346	153,169
Minority interests in net income of consolidated subsidiaries	—	—	—
Net income	¥ 19,106	¥ 27,794	\$ 277,413

	Yen		U.S. dollars (Note 1)
	2007	2008	2008
Amounts per share of common stock:			
Net income	¥82.86	¥119.20	\$1.19
Diluted net income	82.29	118.53	1.18
Cash dividends applicable to the period	15.00	18.00	0.18

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Mediceo Paltac Holdings Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2007 and 2008

	Millions of yen								
	Number of shares of common stock issued (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gain on securities, net of taxes	Land revaluation differences, net of taxes	Minority interests	Total net assets
Balance at March 31, 2006	242,518	¥21,480	¥131,328	¥115,948	¥(18,910)	¥11,318	¥(18,751)	¥—	¥ 242,413
Issuance of new stock	575	263	264	—	—	—	—	—	527
Cash dividends paid	—	—	—	(3,798)	—	—	—	—	(3,798)
Bonuses to directors and corporate auditors	—	—	—	(433)	—	—	—	—	(433)
Merger/separation of consolidated subsidiaries	—	—	—	(607)	—	—	—	—	(607)
Net income	—	—	—	19,106	—	—	—	—	19,106
Acquisition of treasury stock	—	—	—	—	(139)	—	—	—	(139)
Disposal of treasury stock	—	—	1,287	—	751	—	—	—	2,038
Reversal of land revaluation differences	—	—	—	(455)	—	—	—	—	(455)
Net change of items other than shareholders' equity during the year	—	—	—	—	—	1,781	679	—	2,460
Net change during the year	—	263	1,551	13,813	612	1,781	679	—	18,699
Balance at March 31, 2007	243,093	¥21,743	¥132,879	¥129,761	(18,298)	¥13,099	¥(18,072)	¥—	¥261,112
Issuance of new stock	153	70	70	—	—	—	—	—	140
Cash dividends paid	—	—	—	(3,472)	—	—	—	—	(3,472)
Net income	—	—	—	27,794	—	—	—	—	27,794
Acquisition of treasury stock	—	—	—	—	(65)	—	—	—	(65)
Disposal of treasury stock	—	—	1,091	—	10,698	—	—	—	11,789
Reversal of land revaluation differences	—	—	—	(551)	—	—	—	—	(551)
Net change of items other than shareholders' equity during the year	—	—	—	—	—	(6,327)	248	24	(6,055)
Net change during the year	—	70	1,161	23,771	10,633	(6,327)	248	24	29,580
Balance at March 31, 2008	243,246	¥21,813	¥134,040	¥153,532	¥ (7,665)	¥ 6,772	¥(17,824)	¥24	¥290,692

	Thousands of U.S. dollars (Note 1)								
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gain on securities, net of taxes	Land revaluation differences, net of taxes	Minority interests	Total net assets	
Balance at March 31, 2007	\$217,018	\$1,326,270	\$1,295,148	\$(182,633)	\$130,742	\$(180,377)	\$ —	\$2,606,168	
Issuance of new stock	698	698	—	—	—	—	—	1,396	
Cash dividends paid	—	—	(34,654)	—	—	—	—	(34,654)	
Net income	—	—	277,413	—	—	—	—	277,413	
Acquisition of treasury stock	—	—	—	(649)	—	—	—	(649)	
Disposal of treasury stock	—	10,890	—	106,777	—	—	—	117,667	
Reversal of land revaluation differences	—	—	(5,499)	—	—	—	—	(5,499)	
Net change of items other than shareholders' equity during the year	—	—	—	—	(63,150)	2,475	240	(60,435)	
Net change during the year	698	11,588	237,260	106,128	(63,150)	2,475	240	295,239	
Balance at March 31, 2008	\$217,716	\$1,337,858	\$1,532,408	\$(76,505)	\$ 67,592	\$(177,902)	\$240	\$2,901,407	

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, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 34,340	¥ 43,140	\$ 430,582
Adjustments to reconcile income before income taxes to net cash flows provided by operating activities:			
Depreciation and amortization	9,663	10,057	100,379
Loss on impairment of fixed assets	2,768	450	4,491
Amortization of goodwill (negative goodwill)	(3,451)	(4,153)	(41,451)
Decrease in employees' severance and retirement benefits	(3,722)	(2,396)	(23,915)
Decrease in allowance for retirement benefits for directors and corporate auditors	(493)	—	—
Decrease in allowance for doubtful accounts	(3,261)	(2,248)	(22,437)
Interest and dividend income	(1,266)	(1,382)	(13,794)
Interest expenses	417	553	5,520
Additional retirement benefits for employees	5,750	58	579
Decrease (increase) in notes and accounts receivable - trade	2,070	(12,962)	(129,374)
Decrease (increase) in inventories	(8,771)	9,483	94,650
Increase (decrease) in notes and accounts payable	8,974	(6,837)	(68,240)
Increase (decrease) in accrued consumption taxes	(1,195)	1,217	12,147
Other	(4,224)	(2,398)	(23,935)
Subtotal	37,599	32,582	325,202
Interest and dividends received	1,266	1,382	13,794
Interest expenses paid	(414)	(559)	(5,579)
Payment for additional retirement benefits for employees	(5,183)	(622)	(6,208)
Income taxes paid	(13,431)	(8,818)	(88,013)
Net cash provided by operating activities	19,837	23,965	239,196
Cash flows from investing activities:			
Payments for time deposits	(4,940)	(5,560)	(55,495)
Proceeds from time deposits	1,065	5,580	55,694
Payments for purchase of property and equipment	(12,236)	(16,076)	(160,455)
Proceeds from sale of property and equipment	3,194	7,397	73,830
Payments for purchase of investment securities	(4,151)	(5,882)	(58,708)
Proceeds from sale of investment securities	1,255	620	6,188
Payment for acquisition of investment in subsidiaries	(3,976)	(58)	(579)
Proceeds from sale of investment in affiliates	119	360	3,593
Proceeds from acquisition of investment in newly consolidated subsidiaries	—	3,318	33,117
Disbursement of loans	(75)	(54)	(539)
Collection of loans	247	202	2,016
Payments for business transfer	—	(825)	(8,234)
Other, net	(640)	(1,458)	(14,552)
Net cash provided by (used in) investing activities	(20,138)	(12,436)	(124,124)
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans - net	3,615	(4,004)	(39,964)
Proceeds from long-term debt	5,000	5,000	49,905
Repayment of long-term debt	(6,370)	(5,590)	(55,794)
Repayment of convertible bonds	(0)	(0)	(0)
Purchase of treasury stock	(138)	(65)	(649)
Cash dividends paid to shareholders	(3,798)	(3,472)	(34,654)
Net cash used in financing activities	(1,691)	(8,131)	(81,156)
Net increase (decrease) in cash and cash equivalents	(1,992)	3,398	33,916
Cash and cash equivalents at beginning of year (Note 4)	142,908	142,439	1,421,689
Increase in cash and cash equivalents due to change in scope of consolidation	1,523	367	3,663
Increase in cash and cash equivalents due to merger	—	142	1,417
Cash and cash equivalents at end of year (Note 4)	¥142,439	¥146,346	\$1,460,685

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, 2007 and 2008

1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

Mediceo Paltac Holdings Co., Ltd. (the "Company") and its consolidated subsidiaries (the "Companies") maintain their accounts and records in accordance with the provisions set forth in the Japanese Corporation Law and the Financial Instruments and Exchange Act and their related accounting regulations and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different in certain respects from the accounting and disclosure requirements of International Accounting Standards.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the readers, using the prevailing exchange rate at March 31, 2008, which was ¥100.19 to U.S.\$1.00. The convenience translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (17 subsidiaries in the year ended March 31, 2008 and 11 subsidiaries in the year ended March 31, 2007).

All significant intercompany transactions and accounts have been eliminated. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries are recorded using the fair value at the time the Company acquired control of the respective subsidiaries.

ATOL Naha Yakuhin Co., Ltd. became a subsidiary on January 15, 2008 after the new share issue by third party allotment granted by ATOL Co., Ltd., a wholly owned subsidiary of the Company. It is therefore included in the scope of consolidation at March 31, 2008.

On January 1, 2008, the Company made KOBASHOU.CO., LTD. a wholly owned subsidiary using the share exchange system. As a result, this company and its subsidiaries, KS-HOKKAIDO CO., LTD., KS-TOUHOKU CO., LTD., KS-TOUKAI CO., LTD. and SEIEI CO., LTD. are included in the scope of consolidation at March 31, 2008.

In both of these cases, these companies are consolidated only in the consolidated balance sheets for the fiscal year ended March 31, 2008 because the deemed acquisition date is the balance sheet date.

B. EQUITY METHOD

Investments in affiliated companies (all those 20% to 50% owned and certain others 15% to 20% owned) were accounted for by the equity method. Unconsolidated subsidiaries and the other affiliated companies are stated at cost since their net income and retained earnings in the aggregate are not material compared to consolidated net income and retained earnings, respectively

C. INTANGIBLE ASSETS

Goodwill (including negative goodwill), which is the difference between the cost of investments and equity in their net assets at the date of acquisition, arising from domestic consolidated subsidiaries is amortized over the estimated useful lives of the intangible assets up to 20 years using the straight-line method, or is charged to income in the year incurred if its immaterial.

Software for its own use is amortized over the estimated useful life (5 years) using the straight-line method.

D. CASH AND CASH EQUIVALENTS

In preparing the consolidated statements of cash flows, cash on 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.

E. SECURITIES

Held-to-maturity debt securities are carried at amortized cost. Available-for-sale securities with available fair market values are stated at fair market value and unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sale of such securities are computed using moving-average cost.

Available-for-sale securities with no available fair market values are stated at moving-average cost.

F. DERIVATIVES

Derivative financial instruments are valued at fair value.

G. INVENTORIES

Inventories are stated at cost, which is determined primarily by the moving-average method.

Effective from the year ended March 31, 2008, the Companies adopted "Accounting Standards for Measurement of Inventories" (ASBJ Statement No. 9 issued on July 5, 2006). As a result, operating income, ordinary income and income before income taxes and minority interests decreased each by ¥283 million (\$2,825 thousand) compared to their totals if the previous method had been used. Loss on devaluation of inventories is recorded as cost of sales.

The effect on segment information is described in "Segment Information."

H. PROPERTY AND EQUIPMENT AND DEPRECIATION

Property and equipment are stated at cost. Depreciation is computed by the declining-balance method at rates based on their estimated useful lives except for buildings (excluding building improvements) acquired on or after April 1, 1998, which are depreciated by the straight-line method.

The estimated useful lives are as follows:

Buildings and structures: 3-50 years

Other tangible fixed assets: 4-15 years

Pursuant to a revision of the Corporation Tax Law, effective from the year ended March 31, 2008, the Companies have changed their method of depreciation for property and equipment acquired on or after April 1, 2007 to that prescribed in the revised Corporation Tax Law.

As a result, operating income and income before income taxes and minority interests decreased each by ¥221 million (\$2,206 thousand) compared to their totals if the previous method had been used.

The effect on segment information is described in "Segment Information."

Pursuant to a revision of the Corporation Tax Law, for assets acquired on or before March 31, 2007, based on the prior Corporation Tax Law, the Companies depreciate the difference between memorandum amounts and 5% of the acquisition cost equally over 5 years.

These expenses are included in depreciation and amortization expenses from the preceding consolidated accounting period at the period in which the book value of the assets reaches 5% of the acquisition cost.

As a result, operating income decreased by ¥100 million (\$998 thousand) and income before income taxes and minority interests decreased by ¥103 million (\$1,028 thousand) compared to their totals if the previous method had been used.

The effect on segment information is described in "Segment Information."

I. CERTAIN LEASE TRANSACTIONS

Finance lease transactions which do not transfer ownership of the leased assets, are accounted for in the same manner as operating leases under Japanese GAAP.

J. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Allowance for doubtful accounts is provided in amounts sufficient to cover probable losses on collection. It consists of the estimated uncollectible amount with respect to certain identified items and the amount calculated using the actual percentage of collection losses in the past with respect to other items.

K. PROVISION FOR EMPLOYEES' BONUSES

Provision for employees' bonuses is provided in the amount expected to be paid in respect of the calculation period ended on the balance sheet date.

L. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

Employees of the Companies are entitled, under most circumstances, to

lump-sum severance payments or pension payments upon reaching the mandatory retirement age, or earlier in the case of voluntary or involuntary termination, based on the compensation at the time of severance and years of service.

The Companies provided allowance and expenses for employees' severance and retirement benefits at year end based on the estimated amounts of projected benefit obligation and the fair value of the pension assets. Prior service costs and actuarial differences are recognized as expenses primarily from the fiscal year in which they arise, using the straight-line method over a fixed number of years not exceeding the estimated average remaining period of service.

Two consolidated subsidiaries amended their retirement benefit plans on April 1, 2007, and are transferring their qualified pension plans to a contract-type corporate pension plan (a defined benefit plan) and a defined contribution pension plan. The subsidiaries have applied "Accounting for Transfers between Retirement Benefit Plans" (ASBJ Implementation Guidance No. 1).

The effect of this transfer was recorded as other income of ¥138 million (\$1,377 thousand).

M. INCOME TAXES

The Companies provide for income taxes applicable to all items included in the consolidated statements of income regardless of when such taxes are payable. Income taxes based on temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

N. AMOUNTS PER SHARE OF COMMON STOCK

The computation of net income per share of common stock is based on the average number of shares outstanding during each fiscal year. In accordance with "Accounting Standards for Net Income per Share" issued by the Financial Accounting Standards Foundation on September 25, 2002, 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. BUSINESS COMBINATIONS

On September 26, 2007, the Company concluded a share exchange agreement with KOBASHOU.CO., LTD. ("Kobashou"), a wholesaler of OTC pharmaceuticals. The Company made Kobashou a wholly owned subsidiary by acquiring 100 percent of its shares through an exchange executed on January 1, 2008. The transaction was accounted for using the purchase method. In addition, the Company acquired the four subsidiaries of Kobashou through the acquisition of all of the shares of their parent company.

The Company employed a third party, Deloitte Tohmatsu FAS, to calculate valuations for this exchange of shares to ensure a fair and appropriate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

valuation. Kobashou employed Nomura Securities Co., Ltd. as the third party for valuation. The third parties conducted a comprehensive valuation using market price analysis, discounted cash flow ("DCF") analysis and comparison with similar companies. Based on these valuations, the Company and Kobashou agreed to exchange 507.45 shares of common stock of the Company for each share of Kobashou common stock.

The Company allocated 6,834,336 shares of treasury stock valued at ¥11,787 million (\$117,647 thousand) to conduct the transaction. Including direct acquisition expenses totaling ¥82 million (\$818 thousand), total acquisition costs amounted to ¥11,870 million (\$118,475 thousand).

The acquisition cost included goodwill totaling ¥2,893 million (\$28,875 thousand) due to projected future excess profitability. The Company will amortize this amount equally over five years using the straight-line method.

Kobashou is consolidated only in the consolidated balance sheets for the fiscal year ended March 31, 2008 because the deemed acquisition date is the balance sheet date. The acquisition resulted in a net increase in assets as of March 31, 2008. The main components of the increase in assets due to this business combination in the year ended March 31, 2008 and the effect on cash and cash equivalents are as follows:

KOBASHOU.CO., LTD. and Four Subsidiaries	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 56,493	\$ 563,859
Property and equipment	9,357	93,393
Goodwill	2,893	28,875
Current liabilities	(56,755)	(566,474)
Long-term liabilities	(118)	(1,178)
Acquisition of KOBASHOU.CO., LTD. shares	¥ 11,870	\$ 118,475
Cash and cash equivalents of KOBASHOU.CO., LTD.	3,383	33,766
Shares acquired through share exchange	(11,870)	(118,475)
Net increase in cash and cash equivalents due to newly consolidated subsidiaries	¥ 3,383	\$ 33,766

Kobashou is not included in the Company's consolidated income statements for the fiscal year ended March 31, 2008 because the deemed acquisition date is the balance sheet date. A pro forma calculation of the effect of inclusion of Kobashou in the consolidated income statements for the fiscal year ended March 31, 2008 is as follows:

	(Millions of yen)		
	Pro Forma Statements of Income Assuming Consolidation of Kobashou (A) (non-audited)	Consolidated Statements of Income for the Year Ended March 31, 2008 (B)	Estimated Addition or Reduction due to Acquisition (A-B) (non-audited)
Net sales	¥2,420,534	¥2,254,936	¥165,598
Operating income	27,795	27,951	(156)
Ordinary income	42,722	42,635	87
Income before income taxes	40,356	43,140	(2,784)
Net income	25,604	27,794	(2,190)
Net income per share (¥)	107.44	119.20	(11.76)

(Thousands of U.S. dollars)

	Pro Forma Statements of Income Assuming Consolidation of Kobashou (A) (non-audited)	Consolidated Statements of Income for the Year Ended March 31, 2008 (B)	Estimated Addition or Reduction due to Acquisition (A-B) (non-audited)
Net sales	\$24,159,437	\$22,506,597	\$1,652,840
Operating income	277,423	278,980	(1,557)
Ordinary income	426,410	425,541	869
Income before income taxes	402,795	430,582	(27,787)
Net income	255,554	277,413	(21,859)
Net income per share (\$)	1.07	1.19	(0.12)

The pro forma calculation is based on the closing accounts of Kobashou for the year ended March 31, 2008. Moreover, transactions between the companies concerned in this business combination are eliminated and annual amortization cost based on the amount of goodwill as of the acquisition date is reflected in the pro forma calculation.

On September 26, 2007, the Company concluded a share exchange agreement with KOBASHOU.CO., LTD. ("Kobashou"), a wholesaler of OTC pharmaceuticals. The Company made Kobashou a wholly owned subsidiary by acquiring 100 percent of its shares through an exchange executed on January 1, 2008.

On January 30, 2008 Kobashou concluded an agreement to merge with the Company's consolidated subsidiary PALTAC CORPORATION ("Paltac").

On April 1, 2008, Kobashou merged as the surviving company with its four wholly owned subsidiaries involved in wholesaling OTC pharmaceuticals, KS-HOKKAIDO CO., LTD. ("KS-HOKKAIDO"), KS-TOUHOKU CO., LTD. ("KS-TOUHOKU"), KS-TOUKAI CO., LTD. ("KS-TOUKAI") and SEIEI CO., LTD. ("SEIEI"), all of which were dissolved.

On April 1, 2008, subsequent to the merger of Kobashou with its four subsidiaries, Paltac and Kobashou merged, with Paltac as the surviving company and Kobashou as the dissolving company. The name of the combined company changed to PALTAC KS CORPORATION.

The mergers are aimed at expanding the sales and distribution network and further enhancing logistics services by combining the cosmetics, daily necessities and OTC pharmaceuticals, the main products handled by Paltac, with the OTC pharmaceuticals, health foods and daily necessities of Kobashou. They are also aimed at creating a next generation multi-channel wholesaler with customer-oriented functions that will make a greater contribution to drugstores and other customers in each area, as well as to society.

The Company applied "Accounting Standard for Business Combinations" (Business Accounting Council, October 31, 2003) and "Application Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, November 15, 2007) and treated the combination as a common control transaction.

By combining the cosmetics, daily necessities and OTC pharmaceuticals that Paltac handles with the OTC pharmaceutical, health food and daily necessities and other products that Kobashou handles, the combined company has expanded its sales and distribution network and further enhanced its logistics services, and aims to contribute to drugstores and other customers in each area, as well as to society, as a next-generation wholesaler with customer-oriented functions.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2007 and 2008 consisted of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Cash	¥147,674	¥151,571	\$1,512,836
Time deposits with maturities over three months	(5,235)	(5,225)	(52,151)
Cash and cash equivalents	¥142,439	¥146,346	\$1,460,685

Significant non-cash transactions due to the conversion of convertible bonds during the years ended March 31, 2007 and 2008 consisted of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Increase in common stock	¥263	¥ 70	\$ 698
Increase in capital surplus	263	70	698
Decrease in convertible bonds	526	140	1,396

5. INVESTMENT SECURITIES

The Companies recognized ¥102 million (\$1,018 thousand) in loss on devaluation of investment securities for the year ended March 31, 2008. The Companies recognize impairment of applicable equities as an unrealized loss on devaluation if the market value at the end of the fiscal year is 30 percent or more below the acquisition cost.

(1) AVAILABLE-FOR-SALE SECURITIES WITH A MARKET VALUE

March 31, 2008	Millions of yen		
	Acquisition cost	Book value	Difference
Securities whose book value exceeds their acquisition cost:			
Equity securities	¥16,537	¥35,568	¥19,031
	¥16,537	¥35,568	¥19,031
Securities whose book value does not exceed their acquisition cost:			
Equity securities	¥ 5,485	¥ 4,988	¥ (497)
	¥ 5,485	¥ 4,988	¥ (497)
Total	¥22,022	¥40,556	¥18,534

March 31, 2008	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Securities whose book value exceeds their acquisition cost:			
Equity securities	\$165,056	\$355,005	\$189,949
	\$165,056	\$355,005	\$189,949
Securities whose book value does not exceed their acquisition cost:			
Equity securities	\$ 54,746	\$ 49,786	\$ (4,960)
	\$ 54,746	\$ 49,786	\$ (4,960)
Total	\$219,802	\$404,791	\$184,989

March 31, 2007	Millions of yen		
	Acquisition cost	Book value	Difference
Securities whose book value exceeds their acquisition cost:			
Equity securities	¥14,343	¥43,599	¥29,256
	¥14,343	¥43,599	¥29,256
Securities whose book value does not exceed their acquisition cost:			
Equity securities	¥ 849	¥ 754	¥ (95)
	¥ 849	¥ 754	¥ (95)
Total	¥15,192	¥44,353	¥29,161

(2) AVAILABLE-FOR-SALE SECURITIES SOLD DURING THE YEAR

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Proceeds from sales	¥202	¥3,592	\$35,852
Realized gains on sales	36	142	1,417
Realized losses on sales	—	1	10

(3) BOOK VALUE OF AVAILABLE-FOR-SALE SECURITIES WITHOUT A MARKET VALUE

March 31	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Held-to-maturity:			
Unlisted debt securities	¥3,300	¥3,300	\$32,937
Available-for-sale:			
Unlisted equity securities	2,596	2,755	27,498
Bonds	1	1	10
Investments in investment partnerships	25	17	170

(4) SCHEDULE FOR REDEMPTION OF AVAILABLE-FOR-SALE SECURITIES WITH A MATURITY AND HELD-TO-MATURITY DEBT SECURITIES

March 31	Millions of yen		
	2008		
	Due within one year	Due after one year through ten years	Due after ten years
Unlisted foreign securities (Total)	¥—	¥—	¥3,300

March 31	Thousands of U.S. Dollars		
	2008		
	Due within one year	Due after one year through ten years	Due after ten years
Unlisted foreign securities (Total)	\$—	\$—	\$32,937

March 31	Millions of yen		
	2007		
	Due within one year	Due after one year through ten years	Due after ten years
Unlisted foreign securities (Total)	¥—	¥—	¥3,300

6. DERIVATIVE TRANSACTIONS

A certain consolidated subsidiary has entered into forward foreign currency contracts 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 for-

ward 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 of the assets and liabilities of hedging instruments are the same as those of the hedged items, the assessment of effectiveness is omitted because the effectiveness is clearly 100 percent.

As the derivative transactions are made solely with leading financial institutions, the subsidiary does not expect any credit risk.

The derivative transactions are executed and managed in accordance with the established policies and within the amount of hedge items. Information on the derivative transaction utilized by certain subsidiary is not disclosed as hedge accounting has been applied on all derivative transactions.

7. LOSS ON IMPAIRMENT OF FIXED ASSETS

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

For business-use assets owned by the Companies 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 in other income (expenses).

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.

During the year ended March 31, 2008, the Companies recorded loss on impairment of fixed assets for the following asset groups:

Application	Type	Location	Millions of yen	Thousands of U.S. dollars
Idle assets	Land and buildings, etc.	Tohoku, 3	¥ 39	\$ 389
		Kanto, 3	10	100
		Kinki, 1	38	379
Business assets	Land and buildings, etc.	Hokkaido, 2	38	379
		Tohoku, 1	1	10
		Kanto, 2	55	549
		Tokai, 1	0	0
Leased assets	Land and buildings, etc.	Kanto, 1	250	2,495
		Kyushu, 1	19	190
Total			¥450	\$4,491

During the year ended March 31, 2007, the Companies recorded loss on impairment of fixed assets for the following asset groups:

Application	Type	Location	Millions of yen
Idle assets	Land and buildings, etc.	Tohoku, 8	¥ 523
		Kanto, 12	363
		Koshinetsu, 2	206
		Tokai, 3	78
		Kinki, 2	192
		Chugoku, 2	461
Business assets	Land and buildings, etc.	Shikoku, 1	100
		Hokkaido, 5	60
		Tohoku, 9	400
Leased assets	Buildings, etc.	Tokai, 12	384
		Kinki, 1	1
Total			¥2,768

The Prescription Pharmaceutical Wholesale Business of the Companies has established region-based operating classifications, and groups assets by region. Assets of the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business and Related Business are also grouped by region.

The distribution centers owned by the Company, an operating holding company, conduct central buying for the Companies from manufacturers and perform the wholesale distribution functions of sales subsidiaries, and are therefore treated as assets of the Prescription Pharmaceutical Wholesale Business.

Loss on impairment of fixed assets totaled ¥450 million (\$4,491 thousand) for the year ended March 31, 2008, as presented below.

Item	Millions of yen	Thousands of U.S. dollars
Land	¥237	\$2,365
Buildings and structures	208	2,076
Other	5	50
Total	¥450	\$4,491

8. LAND REVALUATION

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

The resulting land revaluation differences represent unrealized appreciation of land and is accounted for, net of deferred tax assets and liabilities, as land revaluation differences in net assets.

According to the Law, the Company and some consolidated subsidiaries are not permitted to revalue land at any time after the above revaluation even in cases where the fair value of the land declines. Such unrecorded revaluation loss is ¥5,062 million (\$5,524 thousand) as of March 31, 2008.

9. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

The Company has overdraft facilities with 22 banks in order to support effective financing. The unexecuted balance of overdraft facilities at March 31, 2007 and 2008 are listed below.

March 31	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Total overdraft facilities	¥139,994	¥153,500	\$1,532,089
Less amounts currently executed	(31,294)	(29,640)	(295,838)
Unexecuted balance	¥108,700	¥123,860	\$1,236,251

Short-term bank loans including overdraft facilities at March 31, 2007 and 2008 principally bore annual average interest rates of 1.15% and 1.32% per annum, respectively.

Long-term debt at March 31, 2007 and 2008 consisted of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Unsecured domestic convertible bonds due 2008 at a rate of 0.9%	¥ 1,340	¥ 1,200	\$ 11,977
Loans from banks	9,424	8,946	89,291
	10,764	10,146	101,268
Less amount due within one year	(4,956)	(3,694)	(36,870)
Amount due after one year	¥ 5,808	¥ 6,452	\$ 64,398

Domestic convertible bonds due 2008 provide, among other conditions, for (1) conversion prices of ¥916.0 (\$9.14) 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, 2008.

The annual maturities of long-term debt at March 31, 2008 were as follows:

Years ended March 31	Average interest rate (%)	Millions of yen	Thousands of U.S. dollars
2009	1.41	¥3,694	\$36,870
2010	1.44	2,210	22,058
2011	1.44	718	7,166
2012	1.44	718	7,166
2013	1.44	716	7,146

10. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

(1) OVERVIEW OF RETIREMENT BENEFIT PLAN

The Companies had defined retirement benefit plans covering contributory trustee employee pension plans established by the pharmaceutical industry, tax-qualified pension plans and unfunded retirement plans. On April 1, 2004, the Company changed to a defined contribution pension plan and defined retirement benefit plans covering contributory trustee employee pension plans established by the pharmaceutical industry, a contract-type corporate pension plan, and an unfunded retirement plan. This approach was adopted by two consolidated subsidiaries on October 1, 2004, six consolidated subsidiaries on April 1, 2005, and two consolidated subsidiaries on April 1, 2007. Employees of the Companies are entitled,

under most circumstances, to lump-sum severance payments or pension payments upon reaching the mandatory retirement age, or earlier in the case of voluntary or involuntary termination.

(2) RETIREMENT BENEFITS

Employees' retirement benefits at March 31, 2007 and 2008 consisted of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Projected benefit obligation	¥(38,581)	¥(39,425)	\$(393,502)
Fair value of plan assets	27,771	27,159	271,075
Unfunded employees' severance and retirement benefits	(10,810)	(12,266)	(122,427)
Unrecognized actuarial difference	(2,027)	1,874	18,704
Unrecognized prior service costs	(181)	(116)	(1,158)
Subtotal	(13,018)	(10,508)	(104,881)
Prepaid pension expenses	4,249	5,979	59,676
Employees' severance and retirement benefits	¥(17,267)	¥(16,487)	\$(164,557)

Certain insignificant consolidated subsidiaries calculated the liabilities using the simplified method.

The effects of the transfer to a defined contribution pension plan are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2008		2008
Total overdraft facilities	¥1,861		\$18,575
Less amounts currently executed	261		2,605
Unexecuted balance	¥2,122		\$21,180

The amount of assets transferred to the defined contribution pension plan is ¥1,984 million (\$19,802 thousand), and is scheduled to be transferred over 3 to 4 years. The untransferred amount of ¥1,380 million (\$13,774 thousand) at March 31, 2008 is accounted for in Other current liabilities and Other long-term liabilities.

(3) NET PENSION EXPENSE

The components of net pension expense for the years ended March 31, 2007 and 2008 are listed below.

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Service costs	¥2,223	¥2,489	\$24,843
Interest costs on projected benefit obligations	843	707	7,057
Expected return on plan assets	(604)	(600)	(5,989)
Unrecognized actuarial difference	(135)	(208)	(2,076)
Amortization of prior service costs	(469)	(145)	(1,447)
Loss transition to a defined contribution pension plan	—	(138)	(1,377)
Other	3,679	3,570	35,631
Net pension expense	¥5,537	¥5,675	\$56,642

In addition to the pension expense above, additional retirement benefits for employees amounting to ¥58 million (\$579 thousand) and ¥5,750 million were made for the years ended March 31, 2008 and 2007, respectively.

Service costs of consolidated subsidiaries using the simplified method were included in service costs above.

"Other" is the amount of premiums paid to the defined contribution pension plan and premiums paid to the welfare pension fund.

(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.

March 31	2007	2008
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	1.5~3.0%	2.0~3.0%
Amortization period for prior service costs	3~5 years	3~10 years
Recognition period of actuarial difference	3~10 years	3~10 years

(5) FUNDED STATUS OF THE CONTRIBUTORY TRUSTEED EMPLOYEE PENSION PLANS ESTABLISHED BY THE PHARMACEUTICAL INDUSTRY

The Companies recognize contributions to several contributory trustee employee pension plans established by the pharmaceutical industry as retirement benefit expenses. The funded status of these plans at March 31, 2007 was as follows:

(Millions of yen)				
	Tokyo Pharmaceutical Industry Employee Pension Fund	Osaka Pharmaceutical Industry Employee Pension Fund	Kinki Cosmetics Industry Employee Pension Fund	Other
Plan assets	¥461,861	¥358,625	¥41,151	¥132,336
Projected benefit obligation	469,730	370,888	50,821	119,049
Funded (Unfunded) employees' severance and retirement benefits	¥ (7,869)	¥ (12,263)	¥ (9,670)	¥ 13,287

(Thousands of U.S. dollars)				
	Tokyo Pharmaceutical Industry Employee Pension Fund	Osaka Pharmaceutical Industry Employee Pension Fund	Kinki Cosmetics Industry Employee Pension Fund	Other
Plan assets	\$4,609,851	\$3,579,449	\$410,730	\$1,320,850
Projected benefit obligation	4,688,392	3,701,846	507,246	1,188,232
Funded (Unfunded) employees' severance and retirement benefits	\$ (78,541)	\$ (122,397)	\$ (96,516)	\$ 132,618

(6) PERCENTAGE OF PLAN ASSETS ASCRIBABLE TO CONTRIBUTIONS BY THE MEDICEO GROUP

The percentage of the assets of each of these plans ascribable to contributions by the Companies at March 31, 2008 was as follows:

(%)				
	Tokyo Pharmaceutical Industry Employee Pension Fund	Osaka Pharmaceutical Industry Employee Pension Fund	Kinki Cosmetics Industry Employee Pension Fund	Other
	4.8%	5.0%	24.7%	8.4%

(7) SUPPLEMENTAL INFORMATION

The difference in plan assets and projected benefit obligation in (5) above is principally the result of the deduction of a contingent reserve totaling ¥94,120 million (\$939,415 thousand) from prior service cost of ¥110,635 million (\$1,104,252 thousand). In these plans, prior service cost is amortized over periods of 5 to 20 years based on the principal and interest amortization method. The percentages presented in (6) above do not correspond to the percentage of the actual pension benefit obligation of the Companies funded by the respective plans.

The principal factors resulting in the difference between plan assets and projected benefit obligation at March 31, 2007 were as follows:

(Millions of yen)				
	Tokyo Pharmaceutical Industry Employee Pension Fund	Osaka Pharmaceutical Industry Employee Pension Fund	Kinki Cosmetics Industry Employee Pension Fund	Other
Contingent reserve	¥52,152	¥ 9,362	¥ 5,509	¥27,097
Unamortized prior service cost	60,021	21,625	15,179	13,810
Difference	¥ (7,869)	¥(12,263)	¥ (9,670)	¥13,287

(Thousands of U.S. dollars)				
	Tokyo Pharmaceutical Industry Employee Pension Fund	Osaka Pharmaceutical Industry Employee Pension Fund	Kinki Cosmetics Industry Employee Pension Fund	Other
Contingent reserve	\$520,531	\$ 93,442	\$ 54,985	\$270,456
Unamortized prior service cost	599,072	215,839	151,502	137,838
Difference	\$ (78,541)	\$(122,397)	\$ (96,517)	\$132,618

The method and period for amortization of prior service cost is as follows

	Tokyo Pharmaceutical Industry Employee Pension Fund	Osaka Pharmaceutical Industry Employee Pension Fund	Kinki Cosmetics Industry Employee Pension Fund	Other
Amortization method	Principal and interest	Principal and interest	Principal and interest	Principal and interest
Amortization period	13 years, 10 months	15 years	20 years	5-20 years

Beginning with the year ended March 31, 2008, the Companies have adopted "Accounting Standards Board of Japan Statement No. 14, Partial Amendments to Accounting Standard for Retirement Benefits (Part 2)," (May 15, 2007).

11. PLEDGED ASSETS

The Companies pledged the following assets to secure notes and accounts payable, trade in the amount of ¥53,727 million (\$536,251 thousand) and ¥39,482 million at March 31, 2008 and 2007, respectively.

March 31	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Land	¥ 545	¥3,067	\$30,612
Buildings and structures at net book value	420	534	5,330
Investment securities	1,556	806	8,045
Time deposits	1,110	1,200	11,977

12. CONTINGENT LIABILITIES

The Companies were contingently liable as guarantors for loans of unconsolidated subsidiaries, affiliates and others in the amount of ¥958 million (\$9,562 thousand) and ¥1,030 million at March 31, 2008 and 2007, respectively.

13. NET ASSETS

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in-capital, which is included in capital surplus.

Under the Law, in cases where a divided distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 25, 2008, the shareholders approved cash dividends amounting to ¥2,502 million (\$24,973 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2008. Such appropriations are recognized in the period in which they are approved by the shareholders.

14. OTHER INCOME (EXPENSES)

Other income (expenses) - "Other, net" in the accompanying consolidated statements of income for the years ended March 31, 2007 and 2008 comprised the following:

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Gain on sales of investment securities – net	¥ 36	¥ 142	\$ 1,417
Gain (loss) on sales or disposal of property, plant and equipment – net	(364)	1,018	10,161
Loss on devaluation of golf club memberships	(12)	—	—
Restructuring costs of business establishments	(456)	(86)	(858)
Miscellaneous	1,432	316	3,154
	¥ 636	¥1,390	\$13,874

15. INCOME TAXES

Income taxes in the consolidated statements of income comprise corporation, enterprise and inhabitants' taxes. The aggregated normal effective tax rates were approximately 40.7% and 40.7% for the years ended March 31, 2007 and 2008, respectively.

The reconciliation between the statutory tax rate and the effective tax rate of the Companies for financial statement purposes for the years ended March 31, 2007 and 2008 is as follows:

Years ended March 31	2007	2008
Statutory tax rate	40.7%	40.7%
Non-deductible expenses for tax purposes	(4.6)	(4.8)
Per capita inhabitant taxes	1.0	0.8
Valuation allowance	9.9	(0.2)
Amortization of goodwill	(4.3)	(4.2)
Equity in earnings of affiliated companies	4.0	4.0
Others	(2.3)	(0.7)
Effective tax rate	44.4%	35.6%

Significant components of the deferred tax assets and liabilities of the Companies at March 31, 2007 and 2008 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Deferred tax assets:			
Excess allowance for doubtful accounts	¥ 1,555	¥ 918	\$ 9,163
Excess provision for employees' bonuses	3,258	3,583	35,762
Accrued enterprise taxes	429	779	7,775
Provision for employees' severance and retirement benefits	5,127	4,138	41,302
Loss on impairment of fixed assets	1,448	959	9,572
Tax loss carryforward	—	2,652	26,470
Loss on devaluation of investment securities	—	2,083	20,790
Expense for defined contribution pension plan	—	948	9,462
Other	9,110	4,640	46,312
Subtotal	20,927	20,700	206,607
Valuation allowance	(8,184)	(5,298)	(52,879)
Total deferred tax assets	12,743	15,402	153,728
Deferred tax liabilities:			
Deferred gain on sale of fixed assets	(2,787)	(2,695)	(26,899)
Net unrealized holding gains on securities			
gains on securities	(11,439)	(7,358)	(73,440)
Other	(4,583)	(7,275)	(72,612)
Total deferred tax liabilities	¥(18,009)	¥(17,328)	\$(172,951)
Net deferred tax assets	¥ (6,066)	¥ (1,926)	\$ (19,223)

Net deferred tax assets included in the consolidated balance sheets consisted of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Deferred tax assets included in current assets	¥ 7,579	¥ 7,801	\$ 77,862
Deferred tax assets included in property and equipment	391	792	7,905
Deferred tax liabilities included in current liabilities	(6)	—	—
Deferred tax liabilities included in long-term liabilities	¥(14,030)	(10,519)	\$(104,991)

16. NON-CAPITALIZED FINANCE LEASES

Finance leases which do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases.

The acquisition costs, accumulated depreciation and amortization and net book value of the leased property at March 31, 2007 and 2008 were as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Acquisition costs:			
Building and structures	¥7,681	¥ 7,005	\$ 69,917
Machinery and equipment	1,876	4,345	43,368
	¥9,557	¥11,350	\$113,285
Accumulated depreciation and amortization:			
Building and structures	¥5,178	¥ 3,982	\$ 39,744
Machinery and equipment	843	2,245	22,408
	¥6,021	¥ 6,227	\$ 62,152
Net book value:			
Building and structures	¥2,503	¥ 3,023	\$ 30,173
Machinery and equipment	1,033	2,100	20,960
	¥3,536	¥ 5,123	\$ 51,133

Future minimum lease payments at March 31, 2007 and 2008 were as follows:

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Due within one year	¥1,506	¥1,912	\$19,084
Due after one year	2,203	3,543	35,363
Total	¥3,709	¥5,455	\$54,447

Lease payments and the assumed depreciation charge for the years ended March 31, 2007 and 2008 were as follows:

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Lease payments	¥2,009	¥1,873	\$18,694
Assumed depreciation charge	1,914	1,807	18,036

The assumed depreciation charge is computed using the straight-line method over lease terms assuming no residual value.

Unexpired operating lease payments at March 31, 2007 and 2008 were as follows:

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Due within one year	¥ 406	¥ 474	\$ 4,731
Due after one year	1,438	1,301	12,985
Total	¥1,844	¥1,775	\$17,716

17. SEGMENT INFORMATION

Information by business segment for the years ended March 31, 2007 and 2008 is as follows:

Years ended March 31	Millions of yen					Eliminations and Corporate	Consolidated
	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Related Business	Total			
Net sales:							
(1) Sales to outside customers	¥1,713,320	¥535,282	¥6,334	¥2,254,936	¥ —	—	¥2,254,936
(2) Intersegment sales and transfers	868	666	2	1,536	(1,536)	—	—
Total sales	1,714,188	535,948	6,336	2,256,472	(1,536)	—	2,254,936
Operating expenses	1,692,944	529,384	6,260	2,228,588	(1,603)	—	2,226,985
Operating income	¥ 21,244	¥ 6,564	¥ 76	¥ 27,884	¥ 67	—	¥ 27,951
Assets, depreciation, impairment loss and capital expenditures:							
Assets	¥ 844,579	¥258,733	¥2,893	¥1,106,205	¥(1,372)	—	¥1,104,833
Depreciation	6,876	3,179	2	10,057	—	—	10,057
Impairment loss	450	—	—	450	—	—	450
Capital expenditures	15,481	1,822	2	17,305	—	—	17,305

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Thousands of U.S. dollars						
2008						
Years ended March 31	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Related Business	Total	Eliminations and Corporate	Consolidated
Net sales:						
(1) Sales to outside customers	\$17,100,708	\$5,342,669	\$63,220	\$22,506,597	\$ —	\$22,506,597
(2) Intersegment sales and transfers	8,664	6,647	20	15,331	(15,331)	—
Total sales	17,109,372	5,349,316	63,230	22,521,928	(15,321)	22,506,597
Operating expenses	16,897,335	5,283,801	62,481	22,243,617	(16,000)	22,227,617
Operating income	\$ 212,037	\$ 65,515	\$ 759	\$ 278,311	\$ 669	\$ 278,980
Assets, depreciation, impairment loss and capital expenditures:						
Assets	\$ 8,429,774	\$2,582,423	\$28,875	\$11,041,072	\$(13,694)	\$11,027,378
Depreciation	68,630	31,730	20	100,379	—	100,379
Impairment loss	4,491	—	—	4,491	—	4,491
Capital expenditures	154,517	18,185	20	172,722	—	172,722

Millions of yen						
2007						
Years ended March 31	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Related Business	Total	Eliminations and Corporate	Consolidated
Net sales:						
(1) Sales to outside customers	¥1,646,047	¥514,753	¥5,963	¥2,166,763	¥ —	¥2,166,763
(2) Intersegment sales and transfers	1,104	350	2	1,456	(1,456)	—
Total sales	1,647,151	515,103	5,965	2,168,219	(1,456)	2,166,763
Operating expenses	1,623,870	511,164	5,901	2,140,935	(1,948)	2,138,987
Operating income	¥ 23,281	¥ 3,939	¥ 64	¥ 27,284	¥ 492	¥ 27,776
Assets, depreciation, impairment loss and capital expenditures:						
Assets	¥ 835,236	¥195,400	¥2,800	¥1,033,436	¥ (505)	¥1,032,931
Depreciation	6,923	2,740	0	9,663	—	9,663
Impairment loss	2,006	762	—	2,768	—	2,768
Capital expenditures	5,172	8,711	2	13,885	—	13,885

Notes:

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

2. Description of business segments

Business segment	Description
Prescription Pharmaceutical Wholesale Business	Wholesale distribution of prescription pharmaceuticals, medical equipment, etc.
Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Wholesale distribution of cosmetics, daily necessities, soap, detergents, over-the-counter pharmaceuticals, etc.
Related Business	Sales of industrial chemicals, food additives, etc.

3. Depreciation and capital expenditures include long-term prepaid expenses and depreciation related to these expenses.

4. As discussed in Note 2(g), effective from the year ended March 31, 2008, the Companies adopted "Accounting Standards for Measurement of Inventories" (ASBJ Statement No. 9 issued on July 5, 2006). As a result, operating expenses in the Prescription Pharmaceutical Wholesale Business income increased by ¥283 million (\$2,825 thousand) compared to the amount if the previous method had been used, and operating income decreased by the same amount.

As discussed in Note 2(h), effective from the year ended March 31, 2008, pursuant to a revision of the Corporation Tax Law, effective from the year ended March 31, 2008, the Companies have changed their method of depreciation for property and equipment acquired on or after April 1, 2007 to that prescribed in the revised Corporation Tax Law. As a result, operating expenses increased by ¥94 million (\$938 thousand) in the Prescription Pharmaceutical Wholesale Business and ¥127 million (\$1,268 thousand) in the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business compared to the amounts if the previous method had been used, and operating income decreased by corresponding amounts. Related Business was not affected.

As discussed in Note 2(h), pursuant to a revision of the Corporation Tax Law, for assets acquired on or before March 31, 2007, based on the prior Corporation Tax Law, the Companies depreciate the difference between memorandum amounts and 5% of the acquisition cost equally over 5 years.

These expenses are included in depreciation and amortization expenses from the preceding consolidated accounting period at the period in which the book value of the assets reaches 5% of the acquisition cost. As a result, operating expenses increased by ¥90 million (\$898 thousand) in the Prescription Pharmaceutical Wholesale Business and ¥10 million (\$100 thousand) in the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business compared to the amounts if the previous method had been used, and operating income decreased by corresponding amounts. Related Business was not affected.

Geographical Segment Information

Geographical segment information is not disclosed, as the Company has no consolidated subsidiaries or significant branch offices outside Japan for the years ended March 31, 2008 and March 31, 2007.

Overseas Sales (April 1, 2007 — March 31, 2008)

Overseas sales are omitted because they constituted less than 10 percent of total net sales.

18. TRANSACTIONS WITH RELATED PARTIES

(Years ended March 31, 2008 and 2007)

None applicable.

19. SUBSEQUENT EVENTS

On May 14, 2008, the Board of Directors approved the payment of a cash dividend of ¥10.50 (\$0.10) per share to shareholders of record at March 31, 2008, for a total payment of ¥2,503 million (\$24,983 thousand).

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Mediceo Paltac Holdings Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2008, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mediceo Paltac Holdings Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2008, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

(KPMG AZSA & Co.)

Tokyo, Japan

May 25, 2008