

Consolidated Financial Statements for the Fiscal Year Ended March 31, 2005

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan. May 13, 2005

MEDICEO Holdings Co., Ltd.

Stock exchange listing: Tokyo

Code number: 7459

<http://www.mediceo.co.jp>

Representative: Sadatake Kumakura, President and CEO

Contact: Kikuo Miki, Executive Managing Director and

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Board of Directors meeting: May 13, 2005

Use of U.S. accounting standards: No

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1. Results for Fiscal 2005 (April 1, 2004 - March 31, 2005)

(1) Sales and Income

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
Fiscal 2005	1,665,815	29.7	10,986	(28.4)	23,185	20.1
Fiscal 2004	1,283,925	0.7	15,354	51.1	19,312	41.5

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)	Return on equity (%)	Ordinary income/total assets (%)	Ordinary income/net sales (%)
Fiscal 2005	8,729	10.8	45.90	43.52	5.9	3.1	1.4
Fiscal 2004	7,878	57.1	55.19	48.65	6.5	3.1	1.5

Notes: 1. Equity in earnings of affiliates: ¥— million (Fiscal 2004: ¥— million)

2. Average number of shares outstanding (consolidated): 185,084,168 shares (Fiscal 2004: 138,028,164 shares)

3. Changes in accounting methods: None

4. Year-on-year change for net sales, operating income, ordinary income and net income is based on the previous fiscal year.

(2) Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity/ total assets [%]	Shareholders' equity per share (¥)
Fiscal 2005	848,416	168,104	19.8	904.59
Fiscal 2004	626,626	128,987	20.6	893.84

Note: Number of shares outstanding at end of period (consolidated): 185,576,103 shares (Fiscal 2004: 144,014,297 shares)

(3) Cash Flows

	Cash flows from operating activities (¥ million)	Cash flows from investing activities (¥ million)	Cash flows from financing activities (¥ million)	Cash and cash equivalents at end of period (¥ million)
Fiscal 2005	26,301	31,279	(8,516)	119,121
Fiscal 2004	13,247	(4,240)	(7,270)	70,112

(4) Scope of consolidation and application of the equity method

Consolidated subsidiaries: 13 companies

Unconsolidated subsidiaries accounted for by the equity method: None

Affiliated companies accounted for by the equity method: None

(5) Changes in scope of consolidation and application of the equity method:

Consolidation: (New) 4 (Eliminated) 1

Equity method: (New) None (Eliminated) None

2. Projected Results for Fiscal 2006 (April 1, 2005 - March 31, 2006)

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)
Interim period	832,000	8,400	6,100
Fiscal 2006	1,890,000	25,000	17,200

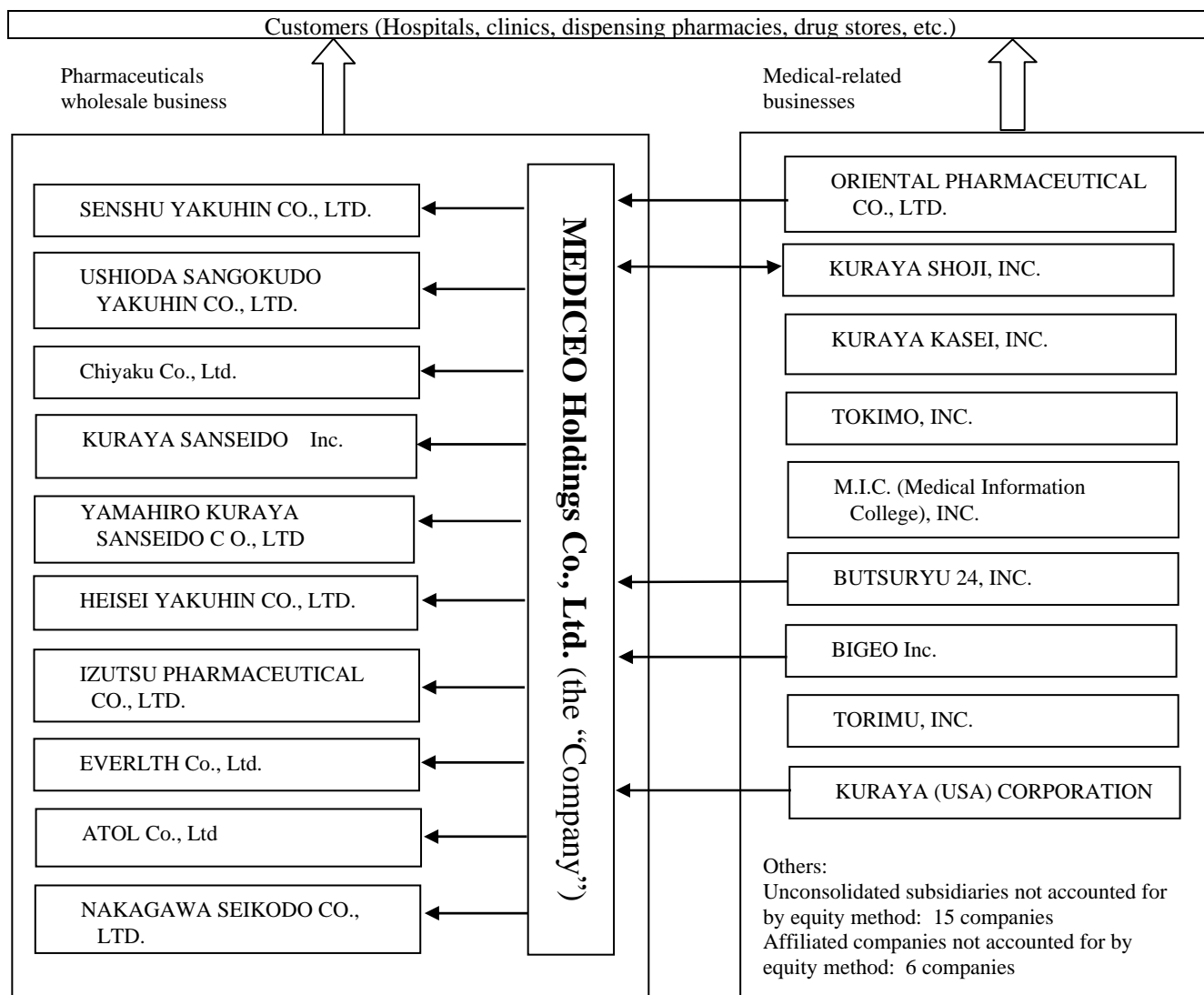
Reference: Estimated earnings per share (fiscal 2005): ¥74.26

Notes: 1. The amounts above are rounded down to the nearest million yen.

2. Please refer to page 8 of the attached materials for items concerning the projected results. Estimated earnings per share are calculated after taking into account the subsequent events on pages 32-33.

1. Corporate Group

The MEDICEO Group consists of 34 consolidated subsidiaries and 6 affiliates. The group companies primarily engage in sales of pharmaceuticals and the supply of services. The positioning and organization of group companies are shown in the flow chart below.



Consolidated subsidiary

Unconsolidated subsidiary not accounted for by equity method

Notes:

- On April 1, 2004, the Company transferred its prescription pharmaceutical wholesale business in Nagano prefecture to YAMAHIRO INC. On the same date, YAMAHIRO INC. changed its corporate name to YAMAHIRO KURAYA SANSEIDO Inc.
- On April 1, 2004, the Company made EVERLTH Co., Ltd. and ATOL Co., Ltd. wholly owned subsidiaries using a share exchange system.
- On April 1, 2004, the Company transferred its diagnostic reagents sales business in Kyoto and Shiga prefectures to IZUTSU PHARMACEUTICAL CO., LTD.
- On May 1, 2004, the Company made NAKAGAWA SEIKODO CO., LTD. a wholly owned subsidiary by a simple exchange of shares.
- On July 1, 2004, the Company assumed the OTC pharmaceutical wholesale businesses of SENSHU YAKUHIN CO., LTD. and USHIODA SANGOKUDO YAKUHIN CO., LTD.
- On October 1, 2004, KURAYA SANSEIDO Inc. implemented a corporate separation of its business of wholesale distribution of pharmaceuticals and other products and changed its name to MEDICEO Holdings Co., Ltd., an operating holding company. The business of wholesale distribution of ethical drugs and other products was transferred to KURAYA SANSEIDO Spin-off Preparation Inc., which changed its name to KURAYA SANSEIDO Inc.
- On October 1, 2004, Kuraya Sanseido transferred its wholesale distribution of pharmaceutical and other products in Okayama and Hiroshima Prefectures to EVERLTH Co., Ltd.
- On January 1, 2005, NAKAGAWA SEIKODO CO., LTD. merged with HOSSP CORPORATION. Nakagawa Seikodo was the surviving entity.
- On February 1, 2005, Kuraya Sanseido absorbed the pharmaceutical wholesale businesses of Yurisanyakukan Co. Ltd.

Overview of Consolidated Subsidiaries

Company name	Address	Capital (¥ million)	Principal business	Percentage of voting rights (%)	Nature of relationship
SENSHU YAKUHIN CO., LTD.	Akita, Akita	2,400	Wholesale of pharmaceuticals, etc.	100.0	Directors in common with the Company; loan of funds; guarantee of debt; sale of products
USHIODA SANGOKUDO YAKUHIN CO., LTD.	Mito, Ibaraki	98	Wholesale of pharmaceuticals, etc.	100.0	Directors in common with the Company; guarantee of debt; loan of facilities; sale of products;
Chiyaku Co., Ltd.	Chuo-ku, Chiba	133	Wholesale of pharmaceuticals, etc.	51.0	Sale of products
KURAYA SANSEIDO Inc.	Chuo-ku, Tokyo	100	Wholesale of pharmaceuticals, etc.	100.0	Directors in common with the Company; borrowing and loan of facilities; sale of products
YAMAHIRO KURAYA SANSEIDO INC.	Nakakoma-gun, Yamanashi	57	Wholesale of pharmaceuticals, etc.	100.0	Directors in common with the Company; loan of facilities; sale of products
HEISEI YAKUHIN CO., LTD.	Gifu, Gifu	809	Wholesale of pharmaceuticals, etc.	100.0	Directors in common with the Company; borrowing of facilities; sale of products
IZUTSU PHARMACEUTICAL CO., LTD.	Nakagyou-ku, Kyoto	118	Wholesale of pharmaceuticals, etc.	100.0	Directors in common with the Company; borrowing and loan of facilities; sale of products
EVERLTH Co., Ltd.	Naka-ku, Hiroshima	1,510	Wholesale of pharmaceuticals, etc.	100.0	Directors in common with the Company; sale of products
ATOL Co., Ltd.	Hakata-ku, Fukuoka	3,965	Wholesale of pharmaceuticals, etc.	100.0	Directors in common with the Company
NAKAGAWA SEIKODO CO., LTD.	Bunkyo-ku, Tokyo	280	Wholesale of pharmaceuticals, etc.	100.0	Directors in common with the Company; sale of products
ORIENTAL PHARMACEUTICAL CO., LTD.	Tendo, Yamagata	90	Medical-related business	98.2	Guarantee of debt; loan of facilities; stocking of products
KURAYA SHOJI, INC.	Sumida-ku, Tokyo	65	Medical-related business	100.0	Guarantee of debt; stocking and sale of products
KURAYA KASEI, INC.	Nagano, Nagano	20	Medical-related business	100.0	Loan of facilities; guarantee of debt

Notes: 1. On January 1, 2005, HOSSP CORPORATION was merged into NAKAGAWA SEIKODO CO., LTD.

2. SENSHU YAKUHIN CO., LTD. made a paid-in capital increase of ¥4.0 billion through an allotment of shares to MEDICEO Holdings, with a payment date and effective date of March 24, 2005.

3. MEDICEO Holdings made Chiyaku Co., Ltd. a wholly owned subsidiary through a simple share exchange on April 1, 2005.

4. KURAYA SANSEIDO Inc.; SENSHU YAKUHIN CO., LTD.; and ATOL Co., Ltd. are special subsidiaries.

2. Management Policies

(1) Basic Management Policy

The MEDICEO Group's management philosophy is "Contributing to people's health and the advancement of society through creation of value in distribution."

Management policy of the MEDICEO Group focuses on the following:

1. Creating a vitalized corporate culture to make the MEDICEO Group trusted by society
2. Management that raises shareholder value and thorough legal compliance
3. Faithfully create a free and open-minded corporate culture and train creative personnel

In addition, basic operating policy of the MEDICEO Group focuses on the following:

We raise the level of energy among the united companies of MEDICEO.

We fully concentrate on reform and improvement.

We overcome organizational hurdles and sublimate knowledge into share wisdom.

We pursue a basic policy of listening.

We work hard to create unity.

(2) Basic Policy for Distribution of Profits

By increasing profitability, the Group strives to increase retained earnings for use in future business development and strengthening of operations, while also providing stable dividends to shareholders.

(3) Medium- and Long-Term Management Strategies

The MEDICEO Group has drawn up a medium-term consolidated management plan covering the three-year period from April 2004 through March 2007 to share common business strategy directions and target figures, and to serve as a guideline for establishing a corporate structure that can secure steady profits.

Vision of the Medium-Term Management Plan (Establishment of the MEDICEO Brand)

The MEDICEO Group will work to enhance and reinforce functions including sales, purchasing, distribution, information and systems and meet the wide-ranging needs of customers and suppliers, in order to increase trust in the Group as well as to raise its corporate value and expand its business domain.

Focal Points

1. Quickly realize efficiency gains by integrating systems and consolidating administrative functions
2. Improve earnings by deploying the advantages of scale
3. Provide high-quality information and strengthen customer support

Consolidated Management Targets (for the year ending March 2007)

Net sales	¥1,780.0 billion
Operating income	¥27.0 billion
Ordinary income	¥39.0 billion
Net income	¥23.0 billion
Return on assets (Operating income/Average total assets)	3.0%
Return on equity (Net income/Average total shareholders' equity)	10.5%

MEDICEO Holdings and PALTAC CORPORATION (Chuo-ku, Osaka), which conducts wholesale distribution of cosmetics and daily necessities, agreed On May 13, 2005 to merge their business operations through a stock swap that will make PALTAC a wholly owned subsidiary of MEDICEO Holdings as of October 1, 2005. Consequently, MEDICEO Holdings is currently setting new management indicators and long-term management strategies.

(4) Basic Policies and Status of Implementation of Measures Concerning Corporate Governance

1) Basic Policies Concerning Corporate Governance

The MEDICEO Group focuses on ensuring transparent and sound management while maximizing its corporate value.

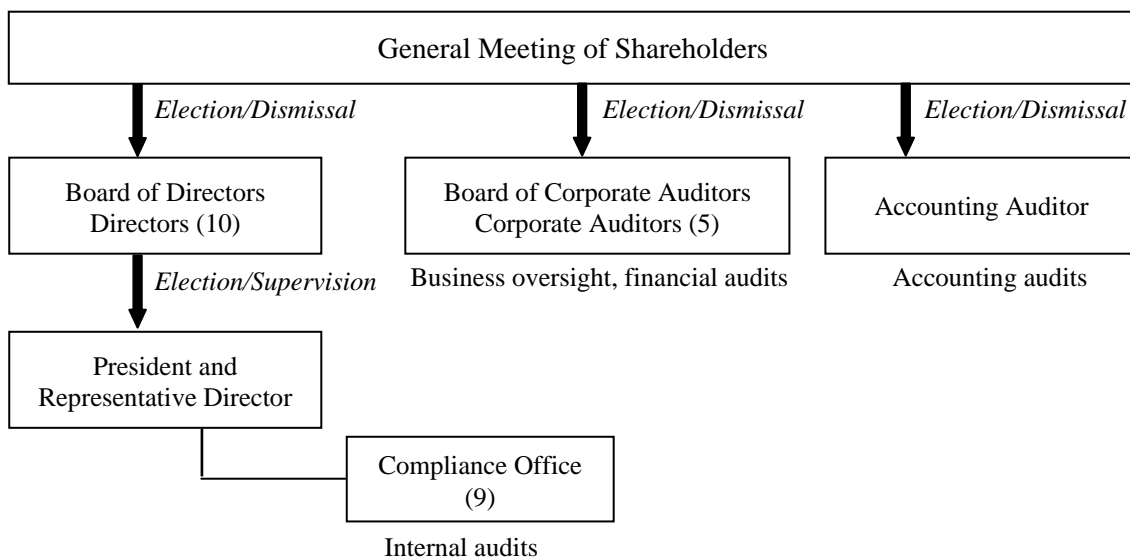
The Board of Directors considers and decides on management policies and matters established by law, as well as other important management-related matters. The Board also supervises the status of overall business execution.

Corporate auditors conduct strict supervision of directors' execution of duties from the standpoints of legality and efficiency.

The Compliance Office, which reports directly to the president, conducts regular company-wide internal audits with the aim of proper management and improvement across all aspects of business operations.

2) Status of Implementation of Measures Concerning Corporate Governance

Management organization related to management decision-making, execution and supervision, and other corporate governance systems



The Board of Directors is composed of 10 directors. Board meetings are held once a month and are attended by auditors. In addition, the Company has adopted the auditor system, and has appointed three outside auditors among its five corporate auditors.

By resolution of the Ordinary General Meeting of Shareholders on June 29, 2004, the term of office of directors was reduced from two years to one year to support the flexible creation of an optimal management structure and increase opportunities to earn confidence. In addition, the retirement benefit system for directors was abolished to clarify evaluation of management's performance.

The Company's executive officer system clearly separates management decision-making and supervision from business execution. In addition, a Management Meeting participated in by directors, executive officers and auditors is held, in principle, once a week to share information on management strategies and to consider business solutions.

Moreover, to help shareholders exercise voting rights more quickly and actively, Internet-based exercise of voting rights was implemented starting from the general meeting of shareholders held in June 2002.

The MEDICEO Group established "Our Stance," a set of decision-making and action guidelines for promoting accurate, thorough understanding of the Group's underlying principles as a company involved in the distribution of pharmaceuticals.

- I. Establish the MEDICEO brand
- II. Work to convey accurate information as the first step in CSR
- III. Value the opportunity to meet people and the importance of trust
- IV. Create funds through high-quality profitability (funds are the corporate life-line)
- V. Work thoroughly to solve problems and reform management
- VI. Enhance dialogue by listening thoroughly
- VII. Learn for yourself, then share this learning with others

Detailed explanations of the principles above have been compiled in a booklet distributed to all MEDICEO Group employees, who are instructed to carry it with them at all times. Other measures to encourage thorough knowledge and practice of these standards include regular divisional meetings held for that purpose.

In addition, upon implementation of the Personal Information Protection Act, the MEDICEO Group has established the "MEDICEO Group Information Security Policy," which sets the management structure and handling methods for all personal information in the Group's possession, and is conducting educational programs for all Group employees.

(2) Current State of Internal Audit, Independent Audit and Corporate Audit

A Compliance Office (9 people) under the direct control of the President oversees the internal audit based on the internal audit code. The Compliance Office creates an "Audit Report," based on the "Basic Audit Policy" created every fiscal year, after completing practical, paper and combined audits covering all aspects of business execution and organizational structure. After determining areas in need of improvement from the "Audit Report," the President relays this information to the concerned divisions and has them prepare improvement plans and report on implementation.

The corporate audit is conducted by three statutory auditors and two outside auditors. The corporate auditors attend all meetings of the Board of Directors in addition to important meetings within the Company, and conduct audits in areas including legal compliance and adherence to the Company's articles of incorporation, competitive trading and conflict of interest.

The Corporate Auditors attend meetings of the Independent Auditors concerning audit plans and results to exchange opinions, and work to perform more efficient and effective audits through collaborative efforts including participation in the audit of each business and subsidiary, and participation in and exchange of opinions concerning the business execution audits of the Internal Audit Division.

(3) Certified Public Accountants and Companies of Affiliation

Certified Public Accountant	Company of Affiliation
Hiroshi Ueno	ChuoAoyama Audit Corporation
Kiyoshi Ichimura	ChuoAoyama Audit Corporation
Joji Uchida	ChuoAoyama Audit Corporation

Note: Each certified public accountant has performed the audit for no more than seven consecutive years.

The group of employees participating in the audit is selected by the independent auditor corporation, and is composed chiefly of certified public accountants and assistant accountants but also includes system specialists.

(4) Information Concerning Compensation for Audit

In line with the Company's contract with ChuoAoyama Audit Corporation for the year ended March 31, 2005, compensation for the audit was ¥24 million. In addition, compensation not included in the amount paid for the audit totaled ¥8 million. (These sums are not inclusive of consumption and other taxes.)

(5) Information Concerning Outside Directors,

Personal Relationships with Outside Corporate Auditors, Financial or Business Relationships and Other Relationships of Interest

The Company does not employ Outside Directors, and has no personal, financial, business or other relations of interest with the three Outside Corporate Auditors it employees.

(6) Information Concerning Parent and Other Companies

N/A

3. Business Results and Financial Position

(1) Business Results

1) Summary of the Year Ended March 31, 2005

In the pharmaceutical industry, despite factors including a decrease in market prices due to the reduction of National Health Insurance (NHI) drug prices in April 2004, the market overall showed moderate growth due to increased demand for treatments for influenza and allergies.

In these conditions, the MEDICEO Group pursued regional sales activities tailored to each of its areas of operation, while working to establish a nationwide network, and worked to enhance corporate value by increasing management efficiency through further concentration of management resources. As part of these efforts, the MEDICEO Group made EVERLTH Co., Ltd. and ATOL Co., Ltd. wholly owned subsidiaries of KURAYA SANSEIDO Inc. on April 1, 2004 using the share exchange system. In addition, the Company became an operating holding company and changed its corporate name to MEDICEO Holdings Co. through a spin-off on October 1, 2004. At the same time, a new KURAYA SANSEIDO Inc. assumed the Company's pharmaceutical wholesale business and continued operations as before.

The MEDICEO Group worked to create a nationwide network and actively promoted area restructuring and other measures aimed at enhancing operating activities and making them more efficient.

On April 1, 2004, the Company transferred its business related to wholesale distribution of pharmaceuticals in Nagano Prefecture to YAMAHIRO INC. On the same date, this company changed its name to YAMAHIRO KURAYA SANSEIDO INC. In addition, the new KURAYA SANSEIDO Inc. transferred its wholesale distribution of ethical drugs in Okayama and Hiroshima to EVERLTH Co., Ltd. on October 1, 2004, and assumed the pharmaceutical wholesale operations of Yurisanyakukan Co., Ltd. (Toyooka City, Hyogo Prefecture) on February 1, 2005.

On July 1, 2004, the Company took over business related to wholesale distribution of OTC pharmaceuticals from SENSU YAKUHIN CO., LTD. and USHIODA SANGOKUDO YAKUHIN CO., LTD. In the medical equipment field, the MEDICEO Group made NAKAGAWA SEIKODO CO., LTD. a wholly owned subsidiary of KURAYA SANSEIDO Inc. on May 1, 2004 by a simple exchange of shares, and merged the wholly owned subsidiary HOSSP CORPORATION into NAKAGAWA SEIKODO CO., LTD. on January 1, 2005. Furthermore, the Company transferred business related to the sale of clinical diagnostics in Kyoto and Shiga prefectures to IZUTSU PHARMACEUTICAL CO., LTD. on April 1, 2004.

Amid these developments, the MEDICEO Group worked to promote unified sales initiatives in the ethical drugs segment, and to reduce the cost of sales ratio through measures such as expanding the proportion of joint purchasing.

While implementing these measures, the MEDICEO Group has worked toward promotion of strategic marketing of ethical drugs and expansion of joint purchasing. In addition, the Group worked to reduce costs through measures such as integrating core business systems, and constructed and began operation of the Health Care HIGASHINIPPON DISTRIBUTION CENTER in Kazo City, Saitama Prefecture, to enable the stable supply and efficient distribution of health care products.

In delivery price negotiations with medical institutions and dispensing pharmacies, unprecedented demands on drug-price margins continued in some negotiations. For customers with whom price agreements have yet to be reached, the MEDICEO Group conducted business activities while giving full consideration based on their requested prices. However, because of lower selling prices, the gross profit margin decreased compared with the same period in the previous year.

Consolidated Net Sales

Consolidated net sales were ¥1,665,815 million, an increase of 29.7 percent compared with the previous fiscal year. The increase in net sales was significantly higher than the growth of the market as a whole, due to an increase in the number of consolidated subsidiaries starting from this consolidated fiscal year, including EVERLTH Co., Ltd. and ATOL Co., Ltd.

Consolidated Operating Income

The gross profit margin decreased 0.8 percentage points to 8.3 percent from 9.1 percent for the previous fiscal year, reflecting a decrease in selling prices following the revision of NHI drug prices in April 2004. Gross profit was ¥137,805 million, an increase of 18.0 percent. The MEDICEO Group took measures to reduce costs by integrating core business systems for marketing, distribution and accounting and reforming the retirement benefit system, but selling, general and administrative expenses were ¥126,818 million, an increase of 25.0 percent compared with the previous fiscal year.

As a result, consolidated operating income was ¥10,986 million, a decrease of 28.4 percent compared with the previous fiscal year.

Consolidated Ordinary Income

Non-operating income totaled ¥13,339 million, an increase of 166.7 percent, mainly because the Company booked amortization of goodwill related to newly consolidated subsidiaries. Non-operating expenses were ¥1,140 million, an increase of 9.2 percent. As a result, consolidated ordinary income was ¥23,185 million, an increase of 20.1 percent compared with the previous fiscal year.

Consolidated Net Income

Extraordinary gains were ¥2,131 million, an increase of 819.7 percent compared with the previous fiscal year, due to gain on the sale of fixed assets. Extraordinary losses totaled ¥6,012 million, an increase of 35.1 percent from the previous fiscal year, due to factors including sales office consolidation expenses and one-time charges due to the revision of the retirement benefit system.

As a result, consolidated net income was ¥8,729 million, an increase of 10.8 percent compared with the previous fiscal year.

2) Outlook for the Next Fiscal Year

The operating environment in the pharmaceutical wholesale business is expected to become increasingly challenging due to intensified demand for cutting medical care costs in connection with increased awareness of the need to reform the national health insurance system as part of efforts to improve Japan's financial condition. The pharmaceutical wholesale business requires further enhancement of treatment management capabilities and improved functions for fully meeting diversifying customer needs. In addition, the move toward further deregulation of OTC pharmaceuticals is expected to significantly change distribution in that channel.

Under these conditions, the MEDICEO Group will further raise efficiency by improving the quality of basic functions and consolidating management resources through construction and enhancement of infrastructure for functions including delivery and distribution and information distribution. In addition, the Group will devote its full efforts to realizing the medium-term consolidated management plan by consistently securing reasonable profits and strengthening community-based business activities to increase its corporate value.

MEDICEO Holdings and PALTAC CORPORATION (Chuo-ku, Osaka), which conducts wholesale distribution of cosmetics and daily necessities, agreed on May 13, 2005 to merge their business operations through a stock swap that will make PALTAC a wholly owned subsidiary of MEDICEO Holdings as of October 1, 2005. For this reason, MEDICEO Holdings plans to change its present corporate name to Mediceo Paltac Holdings Co., Ltd.

The management integration between PALTAC CORPORATION and the MEDICEO Group, which handles pharmaceutical distribution, aims to create a structure that contributes to medical care, health and beauty. By combining resources and expertise as soon as possible with PALTAC CORPORATION, the MEDICEO Group will further enhance distribution and service and create value in distribution as a new type of wholesaler beneficial to the management of business partners.

As a result, for the year ending March 31, 2006, the Company projects consolidated net sales of ¥1,890.0 billion (a year-on-year increase of 13.5 percent), consolidated ordinary income of ¥25.0 billion (a year-on-year increase of 7.8 percent) and consolidated net income of ¥17.2 billion (a year-on-year increase of 97.0 percent). On an unconsolidated basis, the Company projects net sales of ¥1,475.0 billion (a year-on-year increase of 10.4 percent), ordinary income of ¥6.5 billion (a year-on-year decrease of 25.8 percent) and net income of ¥3.5 billion (a year-on-year increase of 38.5 percent).

Projections of results are prepared on the basis of information available to management on the date of announcement. Various factors could cause actual results to differ from the projected figures.
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(2) Financial Position

In the period under review, on a consolidated basis, net cash provided by operating activities was ¥26,301 million, net cash provided by investing activities was ¥31,279 million, and net cash used in financing activities was ¥8,516 million. As a result, cash and cash equivalents (hereinafter referred to as "funds") at the end of the period increased ¥49,009 million (69.9 percent) from the end of the previous fiscal year, to ¥119,121 million.

[Cash Flows from Operating Activities]

The increase in funds from operating activities was ¥26,301 million (an increase of 98.5 percent compared with the previous fiscal year). The main components of funds from operating activities were income before income taxes of ¥19,304 million (an increase of 27.9 percent compared with the previous fiscal year), depreciation and amortization of ¥7,625 million, and increase in notes and accounts payable of ¥42,147 million. However, amortization of consolidation difference was ¥6,628 million, total decrease in allowances was ¥3,378 million, increase in notes and accounts receivable – trade was ¥11,373 million, increase in inventories was ¥9,717 million, increase in accounts receivable and other assets was ¥1,978 million, decrease in accrued consumption taxes was ¥2,807 million, and cash paid for income taxes was ¥7,530 million.

[Cash Flows from Investing Activities]

The increase in funds from investing activities was ¥31,279 million (a decrease of ¥4,240 million in the previous fiscal year). Funds from investing activities mainly consisted of ¥7,812 million in payments for purchases of property, plant and equipment, including the SAITAMA DISTRIBUTION CENTER, ¥4,197 million in proceeds from the sale of tangible

fixed assets and ¥35,258 million received upon acquisition of shares of subsidiaries in connection with changes in the scope of consolidation.

[Cash Flows from Financing Activities]

The decrease in funds from financing activities was ¥8,516 million (in the previous fiscal year the decrease was ¥7,270 million). The main components were a ¥4,714 million net decrease in short-term bank loans, expenditure of ¥735 million for the repayment of long-term debt, expenditure of ¥1,106 million for purchase of treasury stock and ¥2,390 million in cash dividends paid.

Trends of Cash Flow Indicators

	Year ended March 31, 2001	Year ended March 31, 2002	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005
Shareholders' equity ratio (%)	18.9	17.2	17.6	20.6	19.8
Shareholders' equity ratio on a market value basis (%)	15.8	10.9	18.9	30.9	31.2
Debt repayment period (years)	1.9	3.3	2.9	1.8	0.6
Interest coverage ratio	46.6	24.1	29.8	43.7	112.2

Notes:

Shareholders' equity ratio: Shareholders' equity/Total assets

Shareholders' equity ratio on a market value basis: Total market value of stock/Total assets

Debt repayment period: Interest-bearing liabilities/Cash flows from operating activities

Interest coverage ratio: Cash flows from operating activities/Interest expense

1. All indicators are calculated based on consolidated financial figures.
2. Total market value of stock is calculated by multiplying the closing price at the end of the period by the number of shares issued and outstanding at the end of the period (excluding the number of treasury shares).
3. Cash flows from operating activities are as stated on the consolidated statements of cash flows. Interest-bearing liabilities includes all debt stated on the consolidated balance sheets on which interest is paid. For interest expenses, cash paid for interest in the consolidated statements of cash flows is used.

(3) Business and Other Risks

The main risks in the business of MEDICEO Holdings Co., Ltd. and the MEDICEO Group are as follows.

Risks related to specific legal regulations, etc.

MEDICEO Holdings Co., Ltd. and the MEDICEO Group handle various types of pharmaceuticals and related products as pharmaceutical wholesale distribution companies and healthcare-related companies. Therefore, we conduct sales activities after receiving the necessary authorizations, registrations, designations and licenses from the local governments where business sites are located, pursuant to the Pharmaceutical Affairs Law and other laws.

Drug price standards

Ethical drugs, the main products handled by MEDICEO Holdings Co., Ltd. and the MEDICEO Group, are subject to National Health Insurance (NHI) drug price standards. The drug price standards stipulate the billing prices for pharmaceuticals used within the scope of drugs that can be used in health insurance treatment. Accordingly, the drug price standards function as an upper limit on selling prices.

Sales discontinuations, product recalls, etc.

Business results may be affected in the event of a situation such as the discontinuation of sales or recall of certain products due to defects, unforeseen side effects or tampering of certain products sold.

System trouble

The business of MEDICEO Holdings Co., Ltd. and the MEDICEO Group is heavily reliant on computer network systems. Discontinuation of functions due to a natural disaster, accident, intrusion of a computer virus or other occurrences, may result in significant obstacles to product distribution.

Default risk

Business results would be affected in the event that a default occurs due to the bankruptcy or civil rehabilitation, etc., of customers, in regard to the credits associated with ongoing transactions that MEDICEO Holdings Co., Ltd. and the MEDICEO Group conduct with medical institutions.

Inventory risk

MEDICEO Holdings Co., Ltd. and MEDICEO Group companies have inventories from suppliers. Business results may be affected in the event that selling prices decline or products become unsaleable due to the bankruptcy or civil rehabilitation, etc. of suppliers.

Litigation risk

MEDICEO Holdings Co., Ltd. or MEDICEO Group companies may be parties to litigation related to product liability, the environment, labor or other matters in the course of conducting business activities.

Various risks other than these exist, and the risks described here are not all of the risks of MEDICEO Holdings Co., Ltd. and MEDICEO Group companies.

4-1. Consolidated Balance Sheets

(Millions of yen, rounded down to the nearest million)

	As of		As of		Year-on-Year Change
	March 31, 2005		March 31, 2004		
ASSETS	848,416	100.0%	626,626	100.0%	221,790
Current assets	673,317	79.4	487,645	77.8	185,671
Cash on hand and in bank	120,635		70,645		49,989
Notes and accounts receivable – trade	437,654		338,035		99,618
Marketable securities	8		2		5
Inventories	78,294		52,954		25,340
Deferred income taxes	4,836		3,633		1,202
Accounts receivable	33,028		23,169		9,859
Other current assets	2,576		2,095		480
Allowance for doubtful accounts	(3,716)		(2,891)		(825)
Fixed assets	175,099	20.6	138,980	22.2	36,119
Tangible fixed assets:	122,616	14.5	93,739	15.0	28,876
Buildings and structures	48,645		38,333		10,311
Land	62,721		46,805		15,916
Construction in progress	3,082		2,714		367
Other tangible fixed assets	8,166		5,885		2,281
Intangible fixed assets:	6,380	0.7	7,294	1.2	(913)
Software	5,473		5,188		284
Consolidation difference	—		1,155		(1,155)
Other intangible fixed assets	906		949		(42)
Investments and other assets:	46,102	5.4	37,946	6.0	8,155
Investment securities	31,366		15,003		16,362
Long-term loans receivable	921		324		596
Deferred income taxes	3,357		6,808		(3,450)
Deferred income taxes – land revaluation	—		7,974		(7,974)
Other	15,278		13,624		1,653
Allowance for doubtful accounts	(4,820)		(5,789)		969
Total assets	848,416	100.0	626,626	100.0	221,790

4-1. Consolidated Balance Sheets

(Millions of yen, rounded down to the nearest million)

	As of March 31, 2005		As of March 31, 2004		Year-on-Year Change
LIABILITIES	679,571	80.1%	496,946	79.3%	182,624
Current liabilities:	613,939	72.4	462,988	73.9	150,950
Notes and accounts payable – trade	584,267		433,696		150,571
Short-term bank loans	5,325		7,339		(2,014)
Current portion of long-term debt	425		735		(309)
Income taxes payable	1,163		2,839		(1,675)
Reserve for bonuses	6,860		6,026		834
Allowance for losses on sales returns	710		699		11
Other current liabilities	15,187		11,653		3,533
Long-term liabilities:	65,632	7.7	33,958	5.4	31,673
Convertible bonds	9,254		14,459		(5,205)
Long-term debt	656		741		(85)
Deferred tax liabilities	5,200		—		5,200
Deferred income taxes – land revaluation	1,112		234		878
Employees’ retirement benefits	15,975		9,956		6,019
Officers’ retirement benefits	—		1,854		(1,854)
Allowance for losses on debt guarantees	—		74		(74)
Consolidation adjustment account	28,583		—		28,583
Other long-term liabilities	4,849		6,638		(1,788)
MINORITY INTERESTS	741	0.1	691	0.1	49
Minority interests	741	0.1	691	0.1	49
SHAREHOLDERS’ EQUITY	168,104	19.8	128,987	20.6	39,116
Common stock	17,786	2.1	15,183	2.4	2,602
Capital surplus	67,618	8.0	30,064	4.8	37,553
Retained earnings	98,910	11.6	93,308	14.9	5,602
Revaluation surplus	(19,660)	(2.3)	(11,462)	(1.8)	(8,198)
Unrealized gain on certain investment securities	6,123	0.7	4,341	0.7	1,782
Treasury stock, at cost	(2,673)	(0.3)	(2,448)	(0.4)	(225)
Total liabilities, minority interests and shareholders’ equity	848,416	100.0	626,626	100.0	221,790

4-2. Consolidated Statements of Operations

(Millions of yen, rounded down to the nearest million)

	Year ended March 31, 2005		Year ended March 31, 2004		Year-on-Year Change
Net sales	1,665,815	100.0%	1,283,925	100.0%	381,890
Cost of sales	1,528,097	91.7	1,167,126	90.9	360,971
Provision for losses on sales returns	(87)	(0.0)	(5)	(0.0)	(81)
Gross profit	137,805	8.3	116,805	9.1	21,000
Selling, general and administrative expenses	126,818	7.6	101,450	7.9	25,368
Operating income	10,986	0.7	15,354	1.2	(4,368)
Non-operating income:	13,339	0.8	5,001	0.4	8,337
Interest income	272		66		206
Dividend income	279		151		127
Research fee income	4,251		3,201		1,050
Real estate rental income	737		834		(96)
Amortization of consolidation difference	6,628		—		6,628
Other non-operating income	1,169		748		420
Non-operating expenses:	1,140	0.1	1,044	0.1	96
Interest expense	235		306		(71)
Real estate rental expenses	436		612		(176)
Other non-operating expenses	468		124		343
Ordinary income	23,185	1.4	19,312	1.5	3,873
Extraordinary gains:					
Gain on sales of fixed assets	2,131	0.1	231	0.0	1,899
Gain on sales of investment securities	1,669		27		1,642
Gain on disposal of golf memberships	18		4		13
Gain on transfer of business	23		3		19
Reversal of allowance for doubtful accounts	—		160		(160)
Reversal of allowance for losses on debt guarantees	420		36		383
Other extraordinary gains	6,012	0.3	4,450	0.3	1,561
Extraordinary losses:					
Loss on sale and disposal of fixed assets	974		703		270
Loss on sale of investment securities	3		—		3
Loss on valuation of investment securities	47		43		3
Loss on liquidation of affiliate	20		—		20
Loss on valuation of equity in affiliate	—		256		(256)
Loss on disposal of golf memberships	1		3		(1)
Loss on valuation of golf memberships	89		36		52
Special retirement benefits	753		1,362		(609)
Sales office consolidation expenses	1,064		1,476		(412)
Corporate separation expense	391		—		391
Loss on revision of retirement benefit system	853		566		287
Loss on termination of retirement plan	1,190		—		1,190
Loss on business withdrawal of affiliate	503		—		503
Loss on doubtful accounts	117		—		117
Income before income taxes and minority interests	19,304	1.2	15,093	1.2	4,211
Current income taxes	4,293	0.3	6,327	0.5	(2,033)
Deferred income taxes	6,209	0.4	530	0.1	5,678
Gain in minority interests	72	0.0	356	0.0	(284)
Net income	8,729	0.5	7,878	0.6	850

4-3. Consolidated Statements of Retained Earnings

(Millions of yen, rounded down to the nearest million)

	Year ended March 31, 2005	Year ended March 31, 2004	Year-on-Year Change
CAPITAL SURPLUS			
Capital surplus, beginning of year	30,064	25,919	4,144
Increase in capital surplus	37,553	4,144	33,409
Increase due to conversion of convertible bonds	34,151 2,602	— 2,432	34,151 169
Gain on retirement of treasury stock	800	1,712	(911)
Capital surplus, end of year	67,618	30,064	37,553
RETAINED EARNINGS			
Retained earnings, beginning of year	93,308	87,874	5,433
Increase in retained earnings	8,729	7,878	850
Net income	8,729	7,878	850
Decrease in retained earnings	3,126	2,445	681
Cash dividends paid	2,380	1,644	736
Bonuses to directors and statutory auditors	357	151	205
[Bonuses to statutory auditors]	(22)	(6)	(16)
Loss on retirement of treasury stock	0	—	0
Reverse of revaluation surplus	388	649	(260)
Retained earnings, end of year	98,910	93,308	5,602

4-4. Consolidated Statements of Cash Flows

(Millions of yen, rounded down to the nearest million)

	Year ended March 31, 2005	Year ended March 31, 2004	Year-on-Year Change
Cash flows from operating activities			
Income before income taxes and minority interests	19,304	15,093	4,211
Depreciation and amortization	7,625	5,709	1,916
Amortization of consolidation difference	(6,628)	726	(7,354)
Increase (decrease) in employees' retirement benefits – net	2,207	(6,463)	8,670
Increase (decrease) in officers' retirement benefits	(2,397)	26	(2,423)
Increase (decrease) in accrued employees' bonuses	(648)	(988)	339
Increase (decrease) in allowance for doubtful accounts	(2,378)	(442)	(1,935)
Increase (decrease) in allowance for returns	(87)	(5)	(81)
Reversal of allowance for losses on debt guarantees	(74)	(217)	143
Interest and dividend income	(551)	(217)	(334)
Interest expenses	235	306	(71)
Gain (loss) on foreign currency translation	—	0	(0)
Loss on disposal of fixed assets	(694)	1,770	(2,465)
Loss on sale and devaluation of securities – net	32	296	(263)
Loss on cancellation of shares of affiliate's stock	20	—	20
Loss on golf memberships	87	37	49
Gain on transfer of business	—	(160)	160
Special retirement benefits	753	1,362	(609)
Decrease (increase) in notes and accounts receivable – trade	(11,373)	1,463	(12,836)
Decrease (increase) in inventories	(9,717)	2,928	(12,645)
Decrease in other current assets	(1,978)	6,787	(8,765)
Increase (decrease) in notes and accounts payable	42,147	(11,955)	54,103
Increase (decrease) in accrued consumption taxes	(2,807)	(292)	(2,515)
Increase (decrease) in other current liabilities	1,556	7,967	(6,411)
Payment of officers' bonuses	(366)	(163)	(203)
Subtotal	34,266	23,569	10,697
Interest and dividends received	552	217	335
Cash paid for interest	(234)	(303)	68
Special retirement benefits paid	(753)	(1,362)	609
Cash paid for income taxes	(7,530)	(8,873)	1,343
Net cash provided by operating activities	26,301	13,247	13,054

4-4. Consolidated Statements of Cash Flows

(Millions of yen, rounded down to the nearest million)

	Year ended March 31, 2005	Year ended March 31, 2004	Year-on-Year Change
Cash flows from investing activities			
Payments for time deposits	(752)	(265)	(486)
Maturity of time deposits	918	1,509	(590)
Payments for purchase of marketable securities	(2)	(2)	0
Proceeds from sale of marketable securities	2	2	0
Payments for purchase of property, plant and equipment	(7,812)	(4,974)	(2,838)
Proceeds from sale of property, plant and equipment	4,197	1,294	2,902
Payments for purchase of investment securities	(305)	(117)	(188)
Proceeds from sale of investment securities	22	12	10
Proceeds from additional purchase of stock of consolidated subsidiaries	—	(12)	12
Proceeds from acquisition of subsidiary stock due to change in scope of consolidation	35,258	—	35,258
Payments for issuance of loans	(186)	(418)	232
Proceeds from recovery of loans	506	200	305
Payments for transfer of business	(135)	—	(135)
Proceeds from transfer of business	—	397	(397)
Other, net	(429)	(1,865)	1,435
Net cash used in investing activities	31,279	(4,240)	35,520
Cash flows from financing activities			
Decrease in short-term bank loans – net	(4,714)	(4,960)	246
Proceeds from long-term debt	430	400	30
Repayment of long-term debt	(735)	(1,029)	294
Repayment of convertible bonds	(0)	(0)	(0)
Purchase of treasury stock	(1,106)	(14)	(1,092)
Cash dividends paid	(1,981)	(1,644)	(337)
Cash dividends paid to minority shareholders	(408)	(21)	(387)
Net cash used in financing activities	(8,516)	(7,270)	(1,246)
Effect of exchange rate change on cash and cash equivalents	—	(0)	0
Net increase (decrease) in cash and cash equivalents	49,064	1,736	47,327
Cash and cash equivalents at beginning of year	70,112	68,375	1,736
Cash and cash equivalents in connection with exclusion of consolidation for certain subsidiary	(55)	—	(55)
Cash and cash equivalents at end of year	119,121	70,112	49,009

4-5. Preparation of the Consolidated Financial Statements

1. Scope of Consolidation

(1) Number of Consolidated Subsidiaries: 13 companies

SENSHU YAKUHIN CO., LTD., USHIODA SANGOKUDO YAKUHIN CO., LTD., Chiyaku Co., Ltd., KURAYA SANSEIDO Inc., YAMAHIRO KURAYA SANSEIDO CO., LTD., HEISEI YAKUHIN CO., LTD., IZUTSU PHARMACEUTICAL CO., LTD., EVERLTH Co., Ltd., ATOL Co., Ltd., NAKAGAWA SEIKODO CO., LTD., ORIENTAL PHARMACEUTICAL CO., LTD., KURAYA SHOJI, INC. and KURAYA KASEI, INC. EVERLTH Co., Ltd. and ATOL Co., Ltd. became wholly owned subsidiaries by an exchange of shares on April 1, 2004. NAKAGAWA SEIKODO CO., LTD. was made a wholly owned subsidiary by a simple exchange of shares on May 1, 2004. KURAYA SANSEIDO Inc. was newly established on April 1, 2004 in preparation for the spin-off. These companies were therefore included in the scope of consolidation effective from the year ended March 31, 2005.

ELF Co., Ltd. terminated its tie-up with the Company in September 2004, and is therefore excluded from the year ended March 31, 2005. However, the income and cash flow of ELF Co., Ltd. until September 30, 2004 are consolidated.

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

(2) Unconsolidated Subsidiaries

Significant unconsolidated subsidiaries:

· EVERLTH AGROTECH Co., Ltd.

Reason for exclusion from consolidation:

The unconsolidated subsidiaries are small in scale, and their total assets, net sales, net income (equity equivalent) and retained earnings (equity equivalent) would not have a material effect on the consolidated financial statements.

2. Application of the Equity Method

(1) The equity method is not applied to any unconsolidated subsidiaries or affiliated companies.

(2) The equity method is not applied to unconsolidated subsidiaries (EVERLTH AGROTECH Co., Ltd. and others) and affiliates (ALCOS Co., Ltd. and others) as the total assets, net sales, net income and retained earnings of these companies would not have a material effect on the consolidated financial statements, and the importance of these companies in the aggregate is not significant.

3. Accounting Periods of Consolidated Subsidiaries

The accounting periods of all consolidated subsidiaries end on the consolidated account settlement date.

4. Accounting Standards

(1) Accounting standards for valuation of major assets

a. Valuation of Securities

Held-to-maturity bonds Amortized cost method

Other marketable securities:

Securities quoted on stock exchanges: Valued at market based on market prices at the consolidated account settlement date (valuation differences are fully capitalized and selling prices are computed using the moving-average method)

Securities without market prices: Valued at cost using the moving-average method

b. Valuation of Inventories

Valued at cost using the moving-average method

(Changes in Accounting Methods)

In shifting to an operating holding company structure by a company spin-off and reorganizing subsidiaries through management integration and other measures, the Company is renewing core business systems shared by the Group, and promoting consistent groupwide accounting methods. To calculate profit and loss more accurately, valuation of inventories, which was previously done at cost using the first-in-first-out method, has been changed mainly to valuation at cost using the moving average method effective starting the year ended March 31, 2005.

The effect of this change on profit and loss for the year ended March 31, 2005 is immaterial.

(2) Method of Depreciation of Major Depreciable Assets

Depreciation of fixed assets

a. Tangible fixed assets

The Company and its consolidated subsidiaries primarily use the declining-balance method. However, for buildings (excluding attached facilities) acquired on or after April 1, 1998, the straight-line method is employed. Estimated useful lives are primarily 8-50 years for buildings and structures and 4-17 years for machinery and equipment and carriers.

b. Intangible fixed assets

The Company and its consolidated subsidiaries primarily use the straight-line method. However, software for internal use is depreciated using the straight-line method based on the estimated useful life within the Company (5 years).

c. Long-term prepaid expenses

Long-term prepaid expenses are primarily amortized using the straight-line method.

(3) Accounting Standards for Major Reserves

a. Allowance for doubtful accounts

An allowance for doubtful accounts is provided in amounts deemed necessary to cover possible losses. It comprises the amount calculated in accordance with the corporate income tax regulations and the amount estimated to be uncollectible on an individual basis.

b. Reserve for bonuses

To provide for payment of bonuses to employees, a consolidated reserve is set aside in the estimated amount required to be paid for the consolidated accounting period.

c. Allowance for losses on sales returns

An allowance for losses on sales returns is provided based on the amount of trade receivables at the consolidated balance sheet date, multiplied by the actual rate of returns and the sales profit rate.

d. Reserve for retirement benefits

The Company and its consolidated subsidiaries provide for employees' retirement benefits in the estimated amount required to be paid at the consolidated balance sheet date, less the estimated fair value of pension assets related to contributory pension plans.

However, certain consolidated subsidiaries provide for retirement benefits in the amount of the projected benefit obligation at the consolidated balance sheet date, less the estimated fair value of pension assets related to contributory pension plans.

Past service liability and actuarial differences are expensed on a straight-line basis over three years beginning in the fiscal year in which they arise.

(Additional information)

On October 1, 2004, two consolidated subsidiaries revised their retirement benefit system, transferring their tax-qualified pension plans to contract-type corporate pension plans, and 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 is an extraordinary loss of ¥853 million. In addition, extraordinary gains of ¥330 million are expected in the year ending March 31, 2006.

e. Allowance for officers' retirement bonuses

An allowance is provided to cover officers' retirement bonuses based on the amount required to be paid at the end of the accounting period according to the internal rules of each company. The MEDICEO Group previously provided for payment of officers' retirement benefits in the amount required to be paid at the end of the interim period, in accordance with company rules. In June 2004, the officers' retirement benefit system was abolished, and the amount required to be paid at the time of the abolishment will be paid to directors and corporate auditors upon their retirement.

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

(4) Accounting for Lease Transactions

Finance lease transactions other than those for which ownership is deemed to be transferred to the lessee are accounted for as ordinary lease transactions.

(5) Other

Consumption taxes and local consumption taxes are excluded from the amounts in the financial statements.

5. Valuation of Assets and Liabilities of Consolidated Subsidiaries

The assets and liabilities of the consolidated subsidiaries are valued using the full mark-to-market method.

6. Amortization of Consolidation Difference

Consolidation difference is amortized on a straight-line basis over five years, except for insignificant amounts, which are fully amortized in the fiscal year in which they arise.

7. Appropriation of Profits, etc.

The consolidated statements of earned surplus are prepared based on the final appropriation of retained earnings of the respective consolidated companies determined during the consolidated accounting period.

8. Scope of Funds in the Consolidated Statements of Cash Flows

Funds (cash and cash equivalents) in the consolidated statements of cash flows comprise cash on hand, demand deposits, and short-term investments that are readily convertible into cash, are exposed to insignificant risk of changes in value and are redeemable in three months or less.

Change in Disclosure Policy

(Consolidated Balance Sheets)

Beginning in the year ended March 31, 2005, MEDICEO Holdings is accounting for its interest in investment limited partnerships (¥96 million in the year ended March 31, 2005) as Investment securities, not as Other as previously classified, under investments and other assets, pursuant to the law partially revising the Securities Exchange Law, legislated on June 9, 2004 and enacted on December 1, 2004.

Supplemental Information

(Pro Forma Standard Taxation System)

As of the year ended March 31, 2005, the Company is applying “Handling of Practical Matters for Statement of Pro Forma Business Taxation in the Statements of Income” (Practical Application Report, No. 12). As a result, the value added portion and capital portion of business tax totaling ¥474 million is accounted for in selling, general and administrative expenses.

Notes to Consolidated Balance Sheets

(Millions of yen, rounded down to the nearest million)

As of March 31, 2005		As of March 31, 2004	
1 Accumulated depreciation of property, plant and equipment		1. Accumulated depreciation of property, plant and equipment	
Buildings and structures	50,199	Buildings and structures	38,256
Other	13,268	Other	10,137
Total	63,467	Total	48,394
2. Items pertaining to unconsolidated subsidiaries and affiliates		2. Items pertaining to unconsolidated subsidiaries and affiliates	
Investment securities (stock)	1,290	Investment securities (stock)	901
3. Pledged assets		3. Pledged assets	
Time deposits	1,112	Time deposits	160
Buildings and structures	2,446	Buildings and structures	2,729
Land	6,871	Land	6,271
Investment securities	1,536	Investment securities	958
Total	11,965	Total	10,120
Liabilities corresponding to above pledged assets:		Liabilities corresponding to above pledged assets:	
Accounts payable	32,974	Accounts payable	24,185
Short-term loans	1,725	Short-term loans	2,815
Current portion of long-term debt	67	Current portion of long-term debt	473
Long-term loans	26	Long-term loans	391
Total	34,793	Total	27,865
4. Contingent liabilities		4. Contingent liabilities	
Guarantees are provided for loans from banks, etc., of unconsolidated subsidiaries, affiliated companies and others, as follows:		Guarantees are provided for loans from banks, etc., of unconsolidated subsidiaries, affiliated companies and others, as follows:	
ALCOS Co., Ltd.	2,091		
EVERLTH AGROTECH Co., Ltd.	685		
Love Drugs Co., Ltd.	45	Love Drugs Co., Ltd.	85
Other	53	Other	58
Total	2,875	Total	143

Notes to Consolidated Balance Sheets

(Millions of yen, rounded down to the nearest million)

As of March 31, 2005	As of March 31, 2004																
<p>5. Land Revaluation</p> <p>The Company and some of its consolidated subsidiaries carried out revaluations of land for business use in accordance with the “Land Revaluation Law” (Law No. 34, passed March 31, 1998). The net unrealized gain/loss is stated in shareholders’ equity as “Revaluation surplus” in the amount of the net unrealized gain or loss, less deferred tax assets related to revaluation and deferred tax liabilities related to revaluation.</p> <p>Revaluation method: Calculated according to the price recorded in the No. 10 Property Tax Ledger and No. 11 Supplementary Property Tax Ledger of Article 341 of the Regional Tax Law stipulated in Article 2, paragraph 3 of the “Executive Order on the Land Revaluation Law” (Directive No. 119 passed on March 31, 1998).</p> <p>Date of land revaluation: March 31, 2002</p> <p>Difference between market value of revalued land at end of period and book value after revaluation: ¥4,780 million</p>	<p>5. Land Revaluation</p> <p>The Company and some of its consolidated subsidiaries carried out revaluations of land for business use in accordance with the “Land Revaluation Law” (Law No. 34, passed March 31, 1998). The net unrealized gain/loss is stated in shareholders’ equity as “Revaluation surplus” in the amount of the net unrealized gain or loss, less deferred tax assets related to revaluation and deferred tax liabilities related to revaluation.</p> <p>Revaluation method: Calculated according to the price recorded in the No. 10 Property Tax Ledger and No. 11 Supplementary Property Tax Ledger of Article 341 of the Regional Tax Law stipulated in Article 2, paragraph 3 of the “Executive Order on the Land Revaluation Law” (Directive No. 119 passed on March 31, 1998).</p> <p>Date of land revaluation: March 31, 2002</p> <p>Difference between market value of revalued land at end of period and book value after revaluation: ¥6,292 million</p>																
<p>6. The Company and its consolidated subsidiaries have overdraft contracts with 30 banks for the efficient procurement of working assets. At the end of this consolidated accounting period, the unexercised balance of overdraft contracts was as follows:</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td></td> <td style="text-align: right;">(¥ million)</td> </tr> <tr> <td>Total amount of overdraft limit</td> <td style="text-align: right;">88,250</td> </tr> <tr> <td><u>Unexercised balance</u></td> <td style="text-align: right;"><u>5,300</u></td> </tr> <tr> <td>Net balance</td> <td style="text-align: right;">82,950</td> </tr> </table>		(¥ million)	Total amount of overdraft limit	88,250	<u>Unexercised balance</u>	<u>5,300</u>	Net balance	82,950	<p>6. The Company and its consolidated subsidiaries have overdraft contracts with 20 banks for the efficient procurement of working assets. At the end of this consolidated accounting period, the unexercised balance of overdraft contracts was as follows:</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td></td> <td style="text-align: right;">(¥ million)</td> </tr> <tr> <td>Total amount of overdraft limit</td> <td style="text-align: right;">72,300</td> </tr> <tr> <td><u>Unexercised balance</u></td> <td style="text-align: right;"><u>6,615</u></td> </tr> <tr> <td>Net balance</td> <td style="text-align: right;">65,685</td> </tr> </table>		(¥ million)	Total amount of overdraft limit	72,300	<u>Unexercised balance</u>	<u>6,615</u>	Net balance	65,685
	(¥ million)																
Total amount of overdraft limit	88,250																
<u>Unexercised balance</u>	<u>5,300</u>																
Net balance	82,950																
	(¥ million)																
Total amount of overdraft limit	72,300																
<u>Unexercised balance</u>	<u>6,615</u>																
Net balance	65,685																
<p>7. The total number of shares issued and outstanding is 189,100,203 shares of common stock.</p>	<p>7. The total number of shares issued and outstanding is 147,736,054 shares of common stock.</p>																
<p>8. The number of treasury shares held by consolidated companies is 3,524,100 shares of common stock.</p>	<p>8. The number of treasury shares held by consolidated companies is 3,721,757 shares of common stock.</p>																

Notes to Consolidated Statements of Operations

(Millions of yen, rounded down to the nearest million)

Year ended March 31, 2005		Year ended March 31, 2004	
1. Major items and amounts in selling, general and administrative expenses:		1. Major items and amounts in selling, general and administrative expenses:	
Wages and salaries	56,864	Wages and salaries	45,355
Welfare expenses	9,246	Welfare expenses	7,873
Provision for bonuses	6,829	Provision for bonuses	6,020
Provision for employees' retirement benefits	4,495	Provision for employees' retirement benefits	4,810
Provision for officers' retirement bonuses	379	Provision for officers' retirement bonuses	232
Shipping and delivery expenses	6,868	Shipping and delivery expenses	4,947
Rental expenses	4,009	Rental expenses	3,364
Depreciation and amortization	7,304	Depreciation and amortization	5,218
		Amortization of consolidation difference	726
2. Components of gain on sales of fixed assets:		2. Components of gain on sales of fixed assets:	
Land	1,668	Land	16
Other	0	Other	10
Total	1,669	Total	27
3. Components of loss on sale and disposal of fixed assets:		3. Components of loss on sale and disposal of fixed assets:	
(Loss on disposal of fixed assets)		(Loss on disposal of fixed assets)	
Buildings and structures	432	Buildings and structures	101
Software	78	Construction in progress	113
Other	152	Other	72
Total	663	Total	286
(Loss on sale of fixed assets)		(Loss on sale of fixed assets)	
Land	180	Land	408
Other	129	Other	8
Total	310	Total	416

Notes to Consolidated Statements of Cash Flows

(Millions of yen, rounded down to the nearest million)

Year ended March 31, 2005		Year ended March 31, 2004	
1. Relationship between ending balance of cash and cash equivalents and amounts reported in the consolidated balance sheets (As of March 31, 2005)		1. Relationship between ending balance of cash and cash equivalents and amounts reported in the consolidated balance sheets (As of March 31, 2004)	
Cash and deposits	120,635	Cash and deposits	70,645
Time deposits with maturities exceeding three months	(1,514)	Time deposits with maturities exceeding three months	(533)
Cash and cash equivalents	119,121	Cash and cash equivalents	70,122
2. The main components of the decrease in assets due to transfer of business in this consolidated accounting period are as follows:		2.	
ATOL CO., LTD.			
Current assets	73,376		
Fixed assets	24,104		
Current liabilities	(58,135)		
Long-term liabilities	(2,148)		
Consolidation difference	(18,554)		

Acquisition of ATOL CO., LTD. stock	18,642		
Cash and cash equivalents of ATOL CO., LTD.	16,230		
Shares acquired through share exchange	(18,642)		

Proceeds from acquisition of shares of ATOL CO., LTD.	16,230		
EVERLTH Co., Ltd.			
Current assets	56,711		
Fixed assets	24,286		
Current liabilities	(44,317)		
Long-term liabilities	(2,862)		
Consolidation difference	18,566		

Acquisition of EVERLTH Co., Ltd. stock	15,250		
Cash and cash equivalents of EVERLTH Co., Ltd.	15,773		
Shares acquired through share exchange	(15,250)		

Proceeds from acquisition of shares of EVERLTH Co., Ltd.	15,773		
NAKAGAWA SEIKODO CO., LTD.			
Current assets	12,758		
Fixed assets	951		
Current liabilities	763		
Long-term liabilities	(11,785)		
Consolidation difference	(158)		

Acquisition of NAKAGAWA SEIKODO CO., LTD. stock	2,529		
Cash and cash equivalents of NAKAGAWA SEIKODO CO., LTD.	706		
Shares acquired through share exchange	(2,529)		

Proceeds from acquisition of shares of NAKAGAWA SEIKODO CO., LTD.	706		

Main factor for increased assets from business transfer in year ended March 31, 2005		Main factor for increased assets from business transfer in year ended March 31, 2004	
Current assets	158	Current assets	237
3. Significant non-capital transactions Relationship between increases in capital and capital reserve and decrease in convertible bonds due to conversion of convertible bonds during the period		3. Significant non-capital transactions Relationship between increases in capital and capital reserve and decrease in convertible bonds due to conversion of convertible bonds during the period	
Increase in capital due to conversion of convertible bonds	2,602	Increase in capital due to conversion of convertible bonds	2,432
Increase in capital reserve due to conversion of convertible bonds	2,602	Increase in capital reserve due to conversion of convertible bonds	2,432
Decrease in convertible bonds due to conversion	5,205	Decrease in convertible bonds due to conversion	4,865

5. Segment Information

1. Business Segment Information

Business segment information is not disclosed, as the consolidated net sales, operating income and total assets of the pharmaceutical wholesale, etc. business constituted more than 90 percent of the totals for all segments in the years ended March 31, 2005 and March 31, 2004.

2. 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, 2005 and March 31, 2004.

3. Overseas Sales

The Company had no overseas sales for the years ended March 31, 2005 or March 31, 2004.

6. Lease Transactions

Omitted due to disclosure on EDINET.

7. Transactions with Related Parties

(April 1, 2004-March 31, 2005)

(1) The Company and Major Corporate Shareholders (Millions of yen, rounded down to the nearest million)

Classification	Major corporate shareholder	
Company name	Takeda Pharmaceutical Company Ltd.	
Address	Chuo-ku, Osaka	
Capital (million)	¥63,541	
Principal business	Manufacture and sale of pharmaceuticals, etc.	
Percentage of voting shares owned	11.44% (direct)	
Relationship	Directors holding concurrent posts: None	Business relationship: The Company purchases Takeda products
Transactions	Business transactions: Purchase of pharmaceuticals, etc.	Non-business transactions: Research fee income
Transactions amounts (million)	¥219,706	¥604
Line item	Accrued income	Notes and accounts payable
Balance at end of period (million)	¥5,026	¥60,761

Note: Consumption tax is not included in transaction amounts, but is included in the balance at the period.

Transaction Terms and Policy for Setting Transaction Terms:

For sale and purchase of pharmaceuticals, etc. and research fee income, prices and other transaction terms are the same as for ordinary transactions with other parties that have no relationship with the Company. The balance of accrued income mainly consists of purchase rebates. The transaction amount for purchase of pharmaceuticals, etc., is the amount after deduction of rebates.

(2) Directors and Individual Major Shareholders

None applicable

(3) Subsidiaries, etc.

None applicable

(4) Sister companies, etc.

None applicable

8. Deferred Tax Accounting

(As of March 31, 2005)

1. Breakdown of major factors giving rise to deferred tax assets and liabilities:

Deferred tax assets	
Allowance for doubtful accounts	¥2,025 million
Enterprise taxes payable	¥148 million
Reserve for bonuses	¥2,842 million
Employees' retirement benefits	¥5,528 million
Other	¥8,502 million
Total deferred tax assets	<u>¥19,047 million</u>
Valuation allowance	<u>(¥5,957) million</u>
Total deferred tax assets	<u>¥13,090 million</u>
Deferred tax liabilities	
Reserve for asset compression	(¥2,442) million
Unrealized gain on certain investment securities	(¥6,810) million
Other	(¥844) million
Total deferred tax liabilities	<u>(¥10,097) million</u>
Net deferred tax assets (liabilities)	<u>¥2,993 million</u>

Note: The net amount of deferred tax assets is included in the following items on the consolidated balance sheets:

Current assets	—	Deferred income taxes	¥4,836 million
Fixed assets	—	Deferred income taxes	¥3,357 million
Long-term liabilities	—	Deferred tax liabilities	(¥ 5,200 million)

2. The effective income tax rate of the Company differed from the statutory tax rate for the following reasons:

Statutory tax rate	40.7%
(Adjustments)	
Expenses not deductible for tax purposes	1.5%
Average rate of inhabitant's tax	1.2%
Corrective decrease in deferred assets at end of period due to change in tax rates	30.9%
IT investment tax reduction	(1.5)%
Amortization of consolidation difference	(14.0)%
Correction of loss on valuation of equity in affiliates	(5.0)%
Other	0.6%
Effective tax rate	54.4%

9. Marketable Securities

(As of March 31, 2004)

1. Other marketable securities with market values

(Millions of yen, rounded down to the nearest million)

	Acquisition cost	Balance sheet amount	Difference
Securities with balance sheet amounts that exceed acquisition cost:			
(1) Stocks	3,842	12,302	8,460
(2) Bonds			
National and local government bonds, etc.	—	—	—
Corporate bonds	5	5	0
Other	—	—	—
(3) Other	—	—	—
Sub-total	3,847	12,307	8,460
Securities with balance sheet amounts that do not exceed acquisition cost:			
(1) Stocks	477	424	(53)
(2) Bonds			
National and local government bonds, etc.	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
(3) Other	—	—	—
Sub-total	477	424	(53)
Total	4,325	12,732	8,406

Note: Acquisition cost is the book value after accounting for loss on revaluation at the end of the consolidated fiscal year. The amount of the loss on revaluation was ¥8 million.

For impairment of the applicable stocks, the Company books an unrealized loss on revaluation if the market value at the end of the consolidated accounting period is 30 percent or more below the acquisition cost.

2. Other marketable securities sold during Fiscal 2004 (April 1, 2003-March 31, 2004)

(Millions of yen, rounded down to the nearest million)

Amount sold	Total profit on sales	Total loss on sales
15	4	—

3. Description and balance sheet amounts of securities without market values

Other marketable securities

Unlisted domestic stocks (excluding stocks traded over-the-counter): ¥1,069 million

Unlisted domestic government bonds: ¥2 million

Unlisted foreign stocks: ¥300 million

4. Projected future redemption of securities with maturities and held-to-maturity bonds included in other marketable securities

(Millions of yen, rounded down to the nearest million)

	Within one year	1-5 years	5-10 years	More than 10 years
(1) Bonds				
National and local government bonds, etc.	—	—	—	—
Corporate bonds	—	5	—	—
Other	3	—	—	—
(2) Other	—	—	—	—
Total	3	5	—	—

(As of March 31, 2005)

1. Other marketable securities with market values

(Millions of yen, rounded down to the nearest million)

	Acquisition cost	Balance sheet amount	Difference
Securities with balance sheet amounts that exceed acquisition cost:			
(1) Stocks	8,093	24,849	16,755
(2) Bonds			
National and local government bonds, etc.	—	—	—
Corporate bonds	5	5	0
Other	—	—	—
(3) Other	—	—	—
Sub-total	8,098	24,854	16,755
Securities with balance sheet amounts that do not exceed acquisition cost:			
(1) Stocks	351	320	(31)
(2) Bonds			
National and local government bonds, etc.	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
(3) Other	—	—	—
Sub-total	351	320	(31)
Total	8,450	25,174	16,724

Note: Acquisition cost is the book value after accounting for loss on revaluation at the end of the consolidated fiscal year. The amount of the loss on revaluation was ¥23 million.

For impairment of the applicable stocks, the Company books an unrealized loss on revaluation if the market value at the end of the consolidated accounting period is 30 percent or more below the acquisition cost.

2. Other marketable securities sold during Fiscal 2005 (April 1, 2004-March 31, 2005)

(Millions of yen, rounded down to the nearest million)

Amount sold	Total profit on sales	Total loss on sales
25	18	3

3. Description and balance sheet amounts of securities without market values

(1) Held-to-maturity bonds

 Euroyen bonds ¥3,300 million

(2) Unrealized gains on certain investment securities

 Unlisted domestic stocks (excluding stocks traded over-the-counter) ¥1,305 million

 Unlisted domestic bonds ¥3 million

 Unlisted foreign stocks ¥300 million

4. Projected future redemption of securities with maturities and held-to-maturity bonds included in other marketable securities

(Millions of yen, rounded down to the nearest million)

	Within one year	1-5 years	5-10 years	More than 10 years
(1) Bonds				
National and local government bonds, etc.	—	—	—	—
Corporate bonds	5	—	—	—
Other	3	1	—	3,300
(2) Other	—	—	—	—
Total	8	1	—	3,300

10. Derivative Transactions

Omitted due to disclosure on EDINET.

11. Retirement Benefits

1. Description of retirement benefit system used

The Company and its consolidated subsidiaries use a defined benefit plan covering a contributory trustee employee pension plan established by the pharmaceutical industry, a contract-type corporate pension plan and an unfunded lump-sum retirement benefit plan, and a defined contribution plan covering a defined contribution pension plan. In addition, the Company and its consolidated subsidiaries may pay a premium severance payment when employees retire.

2. Retirement benefit obligation

(Millions of yen, rounded down to the nearest million)

	As of March 31, 2005	As of March 31, 2004
(1) Projected benefit obligation	(37,834)	(30,269)
(2) Fair value of plan assets	22,0289	19,025
(3) Funded status ((1) + (2))	(15,744)	(11,244)
(4) Unaccounted for difference arising from change in accounting standards	—	—
(5) Unrecognized net (gain) or loss	652	1,288
(6) Unrecognized past service cost	(454)	—
(7) Net amount stated on consolidated balance sheet ((3) + (4) + (5) + (6))	(15,517)	(9,956)
(8) Prepaid pension expenses	458	—
(9) Reserve for retirement benefits ((7) - (8))	(15,975)	(9,956)

As of March 31, 2005

As of March 31, 2004

Notes:

- Some subsidiaries use the simplified method in calculating the retirement benefit obligation.
- 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:

Decrease in benefit obligation	¥4,420 million
Unrecognized net gain	¥1,118 million
Decrease in plan assets	¥2,212 million
<u>Decrease in retirement benefit trust</u>	<u>¥1,882 million</u>
Increase in reserve for retirement benefits	¥792 million

The amount of assets transferred to the defined contribution pension plan is ¥3,892 million, and is scheduled to be transferred over 1 – 8 years. The untransferred amount of ¥948 million at the end of this consolidated accounting period is accounted for in accrued expenses (“Other current liabilities” in current liabilities), and long-term accrued expenses (“Other long-term liabilities” in long-term liabilities).

Notes

- Some subsidiaries use the simplified method in calculating the retirement benefit obligation.
- The effect associated with the transfer of part of the lump-sum retirement payment system to a defined contribution pension plan is as follows:

Decrease in benefit obligation	¥7,810 million
<u>Unrecognized actuarial gain (loss)</u>	<u>¥375 million</u>
Decrease in reserve for retirement benefits	¥7,434 million

The amount of assets transferred to the defined contribution pension plan is ¥8,001 million, and is scheduled to be transferred over 4 years. The untransferred amount of ¥8,001 million at the end of this consolidated accounting period is accounted for in accrued expenses (“Other current liabilities” in current liabilities), and long-term accrued expenses (“Other long-term liabilities” in long-term liabilities).

3. Retirement benefit expenses

(Millions of yen, rounded down to the nearest million)

	Year ended March 31, 2005	Year ended March 31, 2004
(1) Service cost	2,346	2,418
(2) Interest cost	888	1,057
(3) Expected return on plan assets	(417)	(433)
(4) Difference arising from accounting change charged to income	—	—
(5) Actuarial differences charged to income	1,894	1,795
(6) Past service cost charged to income	(545)	—
(7) Retirement benefit expenses ((1) + (2) + (3) + (4) + (5) + (6))	4,167	4,837
(8) Total pension plan assets based on premium contribution rate	853	566
Total	5,021	5,404

As of March 31, 2005

As of March 31, 2004

Notes:

- Besides the retirement benefit expenses above, the Company paid special retirement benefits of ¥753 million, which were recorded as an extraordinary loss.
- Retirement benefit expenses of consolidated subsidiaries using the simplified method are recorded in (1) Service cost.

Notes:

- Besides the retirement benefit expenses above, the Company paid special retirement benefits of ¥1,362 million, which were recorded as an extraordinary loss.
- Retirement benefit expenses of consolidated subsidiaries using the simplified method are recorded in (1) Service cost.

4. Basis for calculation of retirement benefit obligation, etc.

	<u>As of March 31, 2005</u>	<u>As of March 31, 2004</u>
(1) Periodic allocation method for projected benefits:	Mainly point basis	Mainly point basis
(2) Discount rate:	2.0%	2.5%
(3) Expected rate of return:	1.5-2.5%	2.5%
(4) Years over which past service cost is amortized:	3 years	Not applicable
(5) Years over which unrecognized net (gains) or losses are amortized (see note):	3-10 years	3 years
(6) Years over which difference arising from change in accounting standards is amortized:	Not applicable	Not applicable

Note: Expensed from the following period using the straight-line method over a fixed number of years within the average remaining service time when obligations arise

5. Corporate pension assets of multiemployer pension plan

The Company and some of its consolidated subsidiaries use a qualified pension plan, and the amount of pension assets corresponding to the Company's contribution to this plan cannot reasonably be calculated.

	<u>As of March 31, 2005</u>	<u>As of March 31, 2004</u>
Pension plan assets based on the proportion of contributions	42,823	35,651

12. Premise of Going Concern

None applicable

13. Production, Orders and Sales

(1) Sales (Millions of yen, rounded down to the nearest million)

	Year ended March 31, 2005		Year ended March 31, 2004	
Ethical drugs	1,431,988	86.0%	1,120,711	87.3%
Over-the-counter drugs	59,458	3.6	48,729	3.8
Medical equipment, tools and clinical materials	101,582	6.1	61,413	4.8
Reagents	32,543	1.9	29,117	2.3
Others	40,242	2.4	23,954	1.8
Total	1,665,815	100.0	1,283,925	100.0

(2) Purchases (Millions of yen, rounded down to the nearest million)

	Year ended March 31, 2005		Year ended March 31, 2004	
Ethical drugs	1,328,606	86.4%	1,018,254	87.5%
Over-the-counter drugs	53,083	3.4	43,095	3.7
Medical equipment, tools and clinical materials	92,501	6.0	54,538	4.7
Reagents	29,287	1.9	26,607	2.3
Others	34,905	2.3	20,778	1.8
Total	1,538,384	100.0	1,163,274	100.0

14. Subsequent Events

Exchange of Shares with Chiyaku Co., Ltd.

On April 1, 2005, MEDICEO Holdings made consolidated subsidiary Chiyaku Co., Ltd. a wholly owned subsidiary for the purpose of further promoting its business strategy of mobilizing the full capabilities of the MEDICEO Group. As a result of this share exchange, the Company allocated 694,771 shares of its treasury stock.

Merger with PALTAC CORPORATION

As part of its strategy of mobilizing the full capabilities of the MEDICEO Group, the Company's Board of Directors on April 18, 2005 approved a Basic Merger Agreement to become a new type of wholesaler with business including cosmetics and daily necessities in addition to its existing business, which is limited to the areas of pharmaceuticals, medical equipment and related businesses. After signing the Basic Merger Agreement, the Company's Board of Directors approved the signing of a stock swap agreement, and on the same day entered into the stock swap agreement, which will make PALTAC CORPORATION a wholly owned subsidiary of MEDICEO Holdings

1. Signing of the Basic Merger Agreement

(1) Objectives of the Merger

As wholesale distributors, the two companies are among the leaders in their respective industries – MEDICEO Holdings in pharmaceuticals and PALTAC CORPORATION in cosmetics and daily necessities. By combining their resources and expertise, the two companies will make the most of their strengths and supplement each other's weaknesses to make the new company's business foundation as strong as possible.

The integration aims to create a next-generation wholesale company that possesses superior capabilities for supporting health and beauty and is trusted by customers for its responsiveness to deregulation and other changes in the business environment. The new company will pursue customer satisfaction and provide solutions as a general wholesaler handling a full range of consumer-oriented health, beauty care and household products, allowing it to offer entirely new value that the two companies could not have achieved operating in separate industries.

Moreover, by integrating the two companies' sales and distribution networks and upgrading logistics services to build a low-cost, efficient supply chain, the merger aims to create a wholesaler that contributes to customers and society.

(2) Benefits Expected from the Merger

A stronger business foundation through combination of the two companies' technologies and knowledge resources

Streamlining through integration of the Healthcare Division and the Beauty and Home Products Division

Securing and development of personnel for the core health and beauty businesses

Greater efficiency throughout the supply chain

Peace of mind and expectations among shareholders and employees due to increased corporate value

2. Signing of the Share Exchange Agreement

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

Share exchange ratio

	MEDICEO Holdings (parent company)	PALTAC CORPORATION (Wholly owned subsidiary)
Exchange ratio	1	1.50

Notes:

1. Share allocation ratio

MEDICEO Holdings will allocate 1.50 shares of its common stock for each share of PALTAC CORPORATION's common stock.

2. Basis of calculation of share exchange ratio

MEDICEO Holdings and PALTAC CORPORATION each requested third-party institutions to calculate the share exchange ratio. After careful consideration based on the results and other factors, the two companies decided the share exchange ratio above.

Number of new shares to be issued by MEDICEO Holdings due to the share exchange:

45,353,485 shares of common stock

Amount of increase in capital and capital reserves of MEDICEO Holdings:

Capital: No increase

Capital reserves: Capital reserves will increase by the amount of PALTAC CORPORATION's net assets as of the share exchange date multiplied by the percentage of PALTAC CORPORATION's total outstanding shares to be transferred to MEDICEO Holdings by the share exchange.

Subsidy for Exchange of Shares

No share-exchange subsidy will be paid.

(2) Schedule of the Share Exchange

May 13, 2005	Board of Directors meetings held at MEDICEO Holdings and PALTAC CORPORATION
May 13, 2005	Share exchange agreement signing
June 29, 2005	Approval of share exchange agreement at MEDICEO Holdings' ordinary meeting of shareholders (planned)
June 29, 2005	Approval of share exchange agreement at PALTAC CORPORATION's extraordinary meeting of shareholders (planned)
October 1, 2005	Share exchange date (planned)

(3) Summary of PALTAC CORPORATION

Representative:	Kunio Mikita
Paid-in capital:	5,206 million yen
Address:	1-5-9, Minami Kyuhoji-machi, Chuo-ku, Osaka-shi, Osaka
Business areas:	Wholesale distributor of cosmetics and daily necessities
Business results (for the fiscal year ended September 30, 2004)	
Net sales	¥384,671 million
Ordinary income	¥8,614 million
Net income	¥4,020 million
Assets, liabilities and shareholders' equity (as of September 30, 2004)	
Total assets	¥141,484 million
Total liabilities	¥88,225 million
Shareholders' equity	¥53,259 million

Summary of Unconsolidated Financial Statements for the Fiscal Year Ended March 31, 2005

May 13, 2005

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan.

MEDICEO Holdings Co., Ltd.

Stock exchange listing: Tokyo

Code number: 7459

<http://www.mediceo.co.jp>

Representative: Sadatake Kumakura, President and CEO

Contact: Kikuo Miki, Executive Managing Director and
Section Head of Corporate Communication

Board of Directors meeting: May 13, 2005

Scheduled dividend payment date: June 30, 2005

Use of basic unit of stock: Yes

(1 *tangen* unit = 100 shares)

Phone: +81-3-3517-5171

Interim dividend system: Yes

Ordinary General Meeting

of Shareholders: June 29, 2005

1. Results for Fiscal 2005 (April 1, 2004 - March 31, 2005)

(1) Sales and Income

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
Fiscal 2005	1,336,544	9.7	4,325	(59.0)	8,759	(36.6)
Fiscal 2004	1,218,355	1.5	10,542	27.2	13,819	19.4

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)	Return on equity (%)	Ordinary income/total assets (%)	Ordinary income/net sales (%)
Fiscal 2005	2,526	(60.3)	13.17	12.67	1.6	1.3	0.7
Fiscal 2004	6,359	28.3	44.71	39.52	5.3	2.3	1.1

Notes:

1. Average number of shares outstanding: 185,198,100 shares (Fiscal 2004: 138,028,164 shares)

2. Changes in accounting methods: Yes

3. Year-on year change for net sales, operating income, ordinary income and net income is based on the previous fiscal year.

(2) Dividends

	Annual dividends per share (¥)			Total dividends (annual) (¥ million)	Payout ratio (%)	Dividend rate for shareholders' equity (%)
	Interim	Year-end				
Fiscal 2005	12.00	6.00	6.00	2,232	91.1	1.1
Fiscal 2004	12.00	6.00	6.00	1,696	26.8	1.3

(3) Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity/total assets (%)	Shareholders' equity per share (¥)
Fiscal 2005	771,838	195,479	25.3	1,052.89
Fiscal 2004	598,329	127,206	21.3	881.98

Notes:

1. Number of shares outstanding at end of period: 185,576,203 shares (Fiscal 2004: 144,014,297 shares)

2. Number of shares of treasury stock outstanding at end of period: 3,524,000 shares (Fiscal 2004: 3,721,757 shares)

2. Projected Results for Fiscal 2006 (April 1, 2005 - March 31, 2006)

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)	Annual dividends per share (¥)		
				Interim	Year-end	
Interim period	727,000	3,500	1,800	6.00	—	—
Fiscal 2006	1,475,000	6,500	3,500	—	6.00	12.00

Reference: Estimated earnings per share (fiscal 2005): ¥15.11

Notes:

1. The amounts above are rounded down to the nearest million yen.

2. Please refer to page 8 of the attached materials for items concerning the projected results. Estimated earnings per share are calculated after taking into account the subsequent events on pages 32-33.

:

16-1. Unconsolidated Balance Sheets

(Millions of yen, rounded down to the nearest million)

	As of March 31, 2005		As of March 31, 2004		Year-on-Year Change
ASSETS	771,838	100.0%	598,329	100.0%	173,509
Current assets:	593,290	76.9	470,141	78.6	123,148
Cash on hand and in bank	38,332		57,962		(19,629)
Trade notes receivable	191		17,889		(17,697)
Trade accounts receivable	489,289		325,613		163,675
Merchandise	41,999		42,153		(154)
Prepaid expenses	192		788		(595)
Deferred income taxes	749		2,823		(2,073)
Accounts receivable	22,477		23,410		(933)
Other current assets	58		306		(248)
Allowance for doubtful accounts	—		(806)		806
Fixed assets	178,548	23.1	128,187	21.4	50,361
Tangible fixed assets:	50,516	6.5	77,847	13.0	(27,331)
Buildings	23,112		31,560		(8,447)
Structures	572		1,037		(464)
Machinery and equipment	3,643		2,887		755
Vehicles and carriers	20		38		(17)
Tools and fixtures	1,825		2,489		(663)
Land	18,545		37,120		(18,575)
Construction in progress	2,796		2,714		81
Intangible fixed assets:	5,097	0.7	5,879	1.0	(782)
Land leaseholds	128		128		—
Telephone subscription rights	90		240		(150)
Facilities usage rights	63		75		(11)
Software	4,618		5,089		(470)
Other	195		345		(149)
Investments and other assets:	122,935	15.9	44,460	7.4	78,474
Investment securities	11,578		11,048		530
Equity in subsidiaries and affiliates	108,468		12,974		95,494
Investments	17		179		(161)
Long-term loans	—		30		(30)
Long-term loans to employees	—		14		(14)
Long-term loans to subsidiaries and affiliates	34		3,829		(3,795)
Long-term accumulated credits	—		2,342		(2,342)
Long-term prepaid expenses	48		255		(206)
Deferred income taxes	—		2,397		(2,397)
Deferred income taxes - land revaluation	—		7,792		(7,792)
Other	2,894		6,285		(3,390)
Allowance for doubtful accounts	(107)		(2,687)		2,580
Total assets	771,838	100.0	598,329	100.0	173,509

16-1. Unconsolidated Balance Sheets

(Millions of yen, rounded down to the nearest million)

	As of March 31, 2005		As of March 31, 2004		Year-on-Year Change
LIABILITIES	576,359	74.7%	471,122	78.7%	105,236
Current liabilities:	563,118	73.0	444,784	74.3	118,333
Trade notes payable	11,435		11,547		(112)
Trade accounts payable	526,532		412,424		114,107
Accrued payables	24,001		10,430		13,571
Income taxes payable	—		1,393		(1,393)
Consumption taxes payable	—		1,273		(1,273)
Accrued expenses	288		1,893		(1,604)
Deposits	18		189		(171)
Advance payments received	40		37		2
Reserve for bonuses	676		4,872		(4,196)
Allowance for losses on sales returns	—		547		(547)
Other current liabilities	125		172		(47)
Long-term liabilities:	13,241	1.7	26,338	4.4	(13,097)
Convertible bonds	9,254		14,459		(5,205)
Long-term accrued expenses	—		6,061		(6,061)
Deferred tax liabilities	3,365		—		3,365
Deferred tax liabilities related to revaluation	239		—		239
Guarantee deposits	—		3,928		(3,928)
Officers' retirement bonuses	—		1,313		(1,313)
Other long-term liabilities	382		575		(193)
SHAREHOLDERS' EQUITY	195,479	25.3	127,206	21.3	68,273
Common stock	17,786	2.3	15,183	2.5	2,602
Capital surplus	103,492	13.4	30,064	5.0	73,427
Additional paid-in capital	100,979		28,351		72,627
Other capital surplus	2,512		1,712		800
Gain on retirement of treasury stock	2,512		1,712		800
Retained earnings	91,799	11.9	91,804	15.4	(4)
Legal reserve	1,795		1,795		—
Voluntary reserves	86,394		83,081		3,312
Reserve for asset compression	1,597		1,629		(31)
Special reserve for asset compression	144		—		144
General reserve	84,651		81,451		3,200
Unallocated profit for the period	3,610		6,927		(3,317)
Revaluation surplus	(18,780)	(2.5)	(11,354)	(1.9)	(7,426)
Unrealized gain on securities	4,413	0.6	3,956	0.7	456
Treasury stock	(3,231)	(0.4)	(2,448)	(0.4)	(782)
Total liabilities and shareholders' equity	771,838	100.0	598,329	100.0	173,509

16-2. Unconsolidated Statements of Operations

(Millions of yen, rounded down to the nearest million)

	Year ended March 31, 2005		Year ended March 31, 2004		Year-on-year Change
Net sales	1,336,544	100%	1,218,355	100.0%	118,188
Cost of sales	1,281,189	95.9	1,129,932	92.7	151,256
Provision for losses on sales returns	(47)	(0.0)	(11)	(0.0)	(36)
Gross profit	55,403	4.1	88,434	7.3	(33,031)
Selling, general and administrative expenses	51,077	3.8	77,891	6.4	(26,813)
Operating income	4,325	0.3	10,542	0.9	(6,217)
Non-operating income:	5,330	0.4	4,157	0.3	1,172
Interest income	79		77		1
Dividend income	496		138		357
Interest on marketable securities	0		0		(0)
Research fee income	2,979		2,467		512
Real estate rental income	968		867		101
Other non-operating income	805		606		199
Non-operating expenses:	896	0.0	881	0.1	15
Interest expense	42		42		0
Bond interest expense	83		152		(68)
Real estate rental expense	659		589		70
Other non-operating expenses	110		97		12
Ordinary income	8,759	0.7	13,819	1.1	(5,059)
Extraordinary gains:	2,183	0.1	1,455	0.1	727
Gain on sale of fixed assets	1,573		11		1,562
Gain on sale of investment securities	7		2		4
Gain on disposal of golf memberships	5		2		2
Gain on transfer of business	350		1,080		(730)
Reversal of allowance for doubtful accounts	246		358		
Extraordinary losses:	5,035	0.4	4,306	0.3	(112)
Loss on sale and disposal of fixed assets	249		677		728
Loss on valuation of investment securities	3		29		(427)
Loss on valuation of equity in affiliate	2,367		328		(25)
Loss on cancellation of shares of affiliate's stock	3		—		2,039
Loss on disposal of golf memberships	—		3		3
Loss on valuation of golf memberships	36		20		(3)
Special retirement benefits	595		1,305		15
Office consolidation expenses	964		1,374		(709)
Loss on revision of retirement benefit system	—		566		(410)
Loss on business withdrawal of affiliate	503		—		(566)
Corporate separation expenses	310		—		503
Income before income taxes	5,907	0.4	10,968	0.9	310
Current income taxes	1,310	0.1	4,070	0.3	(2,760)
Deferred income taxes	2,071	0.1	539	0.1	1,532
Net income	2,526	0.2	6,359	0.5	(3,833)
Profit brought forward from the previous term	2,562		2,059		502
Disposition of land revaluation surplus	(359)		(658)		299
Interim dividends	1,119		832		287
Unappropriated retained earnings at the end of the term	3,610		6,927		(3,317)

16-3. Unconsolidated Statements of Appropriation of Retained Earnings

(Millions of yen, rounded down to the nearest million)

Item	Year ended March 31, 2005	Year ended March 31, 2004
Unappropriated retained earnings at the end of the year	3,610	6,927
Reversal of voluntary reserves		
Reversal of reserve for asset compression	243	37
Total unappropriated retained earnings	3,853	6,964
We propose to appropriate the foregoing as follows:		
Dividends	1,113	864
Bonuses to members of the Board of Directors	81	180
Bonuses to statutory auditors	7	8
Voluntary reserves		
Reserve for asset compression	—	5
Reserve for special asset compression	—	144
General reserve	—	3,200
Retained earnings carried forward to the next term	2,652	2,562

16-4. Significant Accounting Policies

1. Valuation of Securities

- (1) Stocks of subsidiaries and affiliates: Valued at cost using the moving-average method
- (2) Other marketable securities
Securities quoted on stock exchanges: Valued at market based on market prices at the account settlement date (valuation differences are fully capitalized and selling prices are computed using the moving-average method)
Securities without market prices: Valued at cost using the moving-average method

2. Valuation of Inventories

Valued at cost using the moving-average method

(Changes in Accounting Methods)

In shifting to an operating holding company structure by a company spin-off and reorganizing subsidiaries through management integration and other measures, the Company is renewing core business systems shared by the Group, and promoting consistent groupwide accounting methods. To calculate profit and loss more accurately, valuation of inventories, which was previously done at cost using the first-in-first-out method, has been changed mainly to valuation at cost using the moving average method effective starting the year ended March 31, 2005.

The effect of this change on profit and loss for the year ended March 31, 2005 is immaterial.

3. Depreciation of Fixed Assets

- (1) Tangible fixed assets
The Company uses the declining-balance method. However, for buildings (excluding attached facilities) acquired on or after April 1, 1998, the straight-line method is employed. Estimated useful lives are principally 8-50 years for buildings and structures and 4-17 years for machinery and equipment and vehicles and carriers.
- (2) Intangible fixed assets
The Company uses the straight-line method. However, software for internal use is depreciated using the straight-line method based on the estimated useful life within the Company (5 years).
- (3) Long-term prepaid expenses
Long-term prepaid expenses are amortized using the straight-line method.

4. Accounting Standards for Major Reserves

- (1) Allowance for doubtful accounts
An allowance for doubtful accounts is provided in amounts deemed necessary to cover possible losses. It comprises the amount calculated in accordance with the corporate income tax regulations and the amount estimated to be uncollectible on an individual basis.
- (2) Reserve for bonuses
To provide for payment of bonuses to employees, a reserve is set aside in the estimated amount required to be paid for the period.
- (3) Allowance for losses on sales returns
An allowance for losses on sales returns is provided based on the amount of trade receivables at the consolidated balance sheet date, multiplied by the actual rate of returns and the sales profit rate. Because sales functions were transferred to KURAYA SANSEIDO Inc., which was separated from MEDICEO Holdings on October 1, 2004, the allowance for losses on sales returns as of March 31, 2005 is not stated.
- (4) Reserve for retirement benefits
The Company provides for employees' retirement benefits in the amount of the projected benefit obligation at the end of the period, less the estimated fair value of pension assets related to contributory pension plans.
Actuarial differences are expensed on a straight-line basis over three years beginning in the fiscal year in which they arise. With the transfer of employees to KURAYA SANSEIDO Inc., which was separated from MEDICEO Holdings on October 1, 2004, the reserve for retirement benefits was transferred to KURAYA SANSEIDO Inc.
- (5) Allowance for officers' retirement bonuses
An allowance is provided to cover directors' retirement bonuses in the amount required to be paid at the end of the period based on the internal rules of the Company. In June 2004, the officers' retirement benefit system was abolished, and the amount required to be paid at the time of the abolishment will be paid to directors and corporate auditors upon their retirement.
Of the planned payment amount of ¥744 million, ¥731 million is accounted for in accrued expenses ("Others" in current liabilities), and ¥13 million is accounted for in long-term accrued expenses ("Others" in long-term liabilities).

5. Accounting for Lease Transactions

Finance lease transactions other than those for which ownership is deemed to be transferred to the lessee are accounted for as ordinary lease transactions.

6. Other

Consumption taxes and local consumption taxes are excluded from the amounts in the financial statements.

Change in Disclosure Policy

(Unconsolidated Balance Sheets)

Beginning in the year ended March 31, 2005, MEDICEO Holdings is accounting for its interest in investment limited partnerships (¥96 million in the year ended March 31, 2005) as Investment securities, not as Other as previously classified, under investments and other assets, pursuant to the law partially revising the Securities Exchange Law, legislated on June 9, 2004 and enacted on December 1, 2004.

The item that had previously been stated as “Long-term accrued expenses” in Long-term liabilities is included in the “Others” item of Long-term liabilities as of the year ended March 31, 2005, as it is less than 1/100 of total liabilities and shareholders’ equity.

Supplemental Information

(Pro Forma Standard Taxation System)

As of the year ended March 31, 2005, the Company is applying “Handling of Practical Matters for Statement of Pro Forma Business Taxation in the Statements of Income” (Practical Application Report, No. 12). As a result, the value added portion and capital portion of business tax totaling ¥338 million is accounted for in selling, general and administrative expenses.

Notes to Unconsolidated Balance Sheets

(Millions of yen, rounded down to the nearest million)

As of March 31, 2005		As of March 31, 2004	
1. Accumulated depreciation of property, plant and equipment		1. Accumulated depreciation of property, plant and equipment	
Buildings	15,312	Buildings	27,582
Structures	1,303	Structures	2,697
Machinery and equipment	3,374	Machinery and equipment	3,393
Vehicles and carriers	76	Vehicles and carriers	106
Tools and fixtures	4,253	Tools and fixtures	5,569
Total	24,321	Total	39,350
2. Pledged assets		2. Pledged assets	
Investment securities	228	Buildings	444
		Land	1,296
		Investment securities	182
Total	228	Total	1,922
Liabilities corresponding to above pledged assets:		Liabilities corresponding to above pledged assets:	
Trade accounts payable	29,669	Trade accounts payable	23,731
3. Notes related to subsidiaries and affiliates		3. Notes related to subsidiaries and affiliates	
Trade accounts receivable	489,054	Trade accounts receivable	88,061
Accounts payable	21,452	Trade accounts payable	6,050
4.		4. Stock of subsidiaries and affiliates	
		Stock of subsidiaries and affiliates includes ¥100 million paid for new shares of KURAYA SANSEIDO Spin-off Preparation Inc. (established April 1, 2004).	
5. Number of shares authorized: 500,000,000 shares		5. Number of shares authorized: 500,000,000 shares	
Number of shares outstanding: 189,100,203 shares		Number of shares outstanding: 147,736,054 shares	
6. Treasury stock		6. Treasury stock	
Number of treasury shares held by the Company: 3,524,000 shares of common stock		Number of treasury shares held by the Company: 3,721,757 shares of common stock	
7. Contingent liabilities		7. Contingent liabilities	
Guarantees are provided for bank loans, etc., for the following companies:		Guarantees are provided for bank loans, etc., for the following companies:	
SENSHU YAKUHIN CO., LTD.	3,600	SENSHU YAKUHIN CO., LTD.	4,100
ORIENTAL PHARMACEUTICAL CO., LTD.	501	USHIODA SANGOKUDO YAKUHIN CO., LTD.	253
KURAYA SHOJI, INC.	177	KURAYA SHOJI, INC.	225
USHIODA SANGOKUDO YAKUHIN CO., LTD.	173	KURAYA KASEI, INC.	204
KURAYA KASEI, INC.	134	ORIENTAL PHARMACEUTICAL CO., LTD.	177
Love Drugs Co., Ltd.	45	Love Drugs Co., Ltd.	85
Other	0	Other	0
Total	4,632	Total	5,045
8. Dividend Restrictions		8. Dividend Restrictions	
The increase in net assets resulting from revaluation of assets at market value pursuant to Article 124, item 3 of the Commercial Code Enforcement Regulations was ¥4,413 million.		The increase in net assets resulting from revaluation of assets at market value pursuant to Article 124, item 3 of the Commercial Code Enforcement Regulations was ¥3,956 million.	

<p>9. Land Revaluation</p> <p>The Company carried out revaluations of land for business use in accordance with the “Land Revaluation Law” (Law No. 34, passed March 31, 1998). The net unrealized gain/loss is stated in shareholders’ equity as “Revaluation surplus” in the amount of the net unrealized gain or loss, less deferred tax assets related to revaluation and deferred tax liabilities related to revaluation.</p> <p>Revaluation method: Calculated according to the price recorded in the No. 10 Property Tax Ledger and No. 11 Supplementary Property Tax Ledger of Article 341 of the Regional Tax Law stipulated in Article 2, paragraph 3 of the “Executive Order on the Land Revaluation Law” (Directive No. 119 passed on March 31, 1998).</p> <p>Date of land revaluation: March 31, 2002</p> <p>Difference between market value of revalued land at end of period and book value after revaluation: ¥3,751 million</p>	<p>9. Land Revaluation</p> <p>The Company carried out revaluations of land for business use in accordance with the “Land Revaluation Law” (Law No. 34, passed March 31, 1998). The net unrealized gain/loss is stated in shareholders’ equity as “Revaluation surplus” in the amount of the net unrealized gain or loss, less deferred tax assets related to revaluation and deferred tax liabilities related to revaluation.</p> <p>Revaluation method: Calculated according to the price recorded in the No. 10 Property Tax Ledger and No. 11 Supplementary Property Tax Ledger of Article 341 of the Regional Tax Law stipulated in Article 2, paragraph 3 of the “Executive Order on the Land Revaluation Law” (Directive No. 119 passed on March 31, 1998).</p> <p>Date of land revaluation: March 31, 2002</p> <p>Difference between market value of revalued land at end of period and book value after revaluation: ¥5,613 million</p>																
<p>10. The Company has overdraft contracts with 6 banks for the efficient procurement of working assets. At the end of this consolidated accounting period, the unexercised balance of overdraft contracts was as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">(¥ million)</td> </tr> <tr> <td>Total amount of overdraft limit</td> <td style="text-align: right;">50,000</td> </tr> <tr> <td><u>Unexercised balance</u></td> <td style="text-align: right;"><u>—</u></td> </tr> <tr> <td>Net balance</td> <td style="text-align: right;">50,000</td> </tr> </table>		(¥ million)	Total amount of overdraft limit	50,000	<u>Unexercised balance</u>	<u>—</u>	Net balance	50,000	<p>10. The Company has overdraft contracts with 6 banks for the efficient procurement of working assets. At the end of this consolidated accounting period, the unexercised balance of overdraft contracts was as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">(¥ million)</td> </tr> <tr> <td>Total amount of overdraft limit</td> <td style="text-align: right;">50,000</td> </tr> <tr> <td><u>Unexercised balance</u></td> <td style="text-align: right;"><u>—</u></td> </tr> <tr> <td>Net balance</td> <td style="text-align: right;">50,000</td> </tr> </table>		(¥ million)	Total amount of overdraft limit	50,000	<u>Unexercised balance</u>	<u>—</u>	Net balance	50,000
	(¥ million)																
Total amount of overdraft limit	50,000																
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	(¥ million)																
Total amount of overdraft limit	50,000																
<u>Unexercised balance</u>	<u>—</u>																
Net balance	50,000																
<p>11. Breakdown of increase and decrease in total shares outstanding during the period</p> <p>(Increase)</p> <p>Conversion of 1st tranche of 2nd convertible bonds: 5,682,281 shares</p> <p>Issue cost: ¥5,204 million</p> <p>Amount capitalized: ¥2,602 million</p> <p>Substitute treasury stock with share exchanges: 1,918,059 shares</p> <p>Total reissue cost: ¥1,262 million</p> <p>Exchange of shares 35,681,868 shares</p> <p>Issue price ¥70,025 million</p> <p>Amount capitalized ¥ — million</p> <p>(Decrease)</p> <p>Treasury stock acquired: 1,720,302 shares</p> <p>Acquisition cost: ¥2,045 million</p>	<p>11. Breakdown of increase and decrease in total shares outstanding during the period</p> <p>(Increase)</p> <p>Conversion of 1st tranche of 2nd convertible bonds: 5,311,108 shares</p> <p>Issue cost: ¥4,864 million</p> <p>Amount capitalized: ¥2,432 million</p> <p>Substitute treasury stock with share exchanges: 3,340,554 shares</p> <p>Total reissue cost: ¥2,192 million</p> <p>(Decrease)</p> <p>Treasury stock acquired: 12,491 shares</p> <p>Acquisition cost: ¥14 million</p>																

Notes to Unconsolidated Statements of Operations

(Millions of yen, rounded down to the nearest million)

Year ended March 31, 2005		Year ended March 31, 2004	
1. Major items and amounts in selling, general and administrative expenses:		1. Major items and amounts in selling, general and administrative expenses:	
Wages and salaries	21,161	Wages and salaries	34,131
Welfare expenses	3,255	Welfare expenses	5,981
Business consignment expenses	4,384	Business consignment expenses	5,257
Provision for bonuses	676	Provision for bonuses	4,872
Provision for employees' retirement benefits	1,611	Provision for employees' retirement benefits	3,994
Provision for officers' retirement bonuses	285	Provision for officers' retirement bonuses	153
Shipping and delivery expenses	3,616	Shipping and delivery expenses	4,094
Rental expenses	1,957	Rental expenses	3,081
Depreciation and amortization	4,636	Depreciation and amortization	4,685
2. Components of gain on sale of fixed assets:		2. Components of gain on sale of fixed assets:	
Vehicles and transport equipment	0	Land	11
Furniture and fixtures	0		
Land	1,573		
Total	1,573	Total	11
3. Components of loss on sale and disposal of fixed assets:		3. Components of loss on sale and disposal of fixed assets:	
Loss on disposal of fixed assets:		Loss on disposal of fixed assets:	
Buildings	96	Buildings	84
Structures	6	Structures	11
Vehicles and carriers	0	Machinery and equipment	6
Tools and fixtures	68	Vehicles and carriers	0
Software	73	Tools and fixtures	48
		Software	113
Total	245	Total	264
Loss on sale of fixed assets:		Loss on sale of fixed assets:	
Buildings	3	Buildings	8
Vehicles and carriers	0	Tools and fixtures	0
Tools and fixtures	0	Land	404
Total	4	Total	412
4. Transactions with affiliated companies include the following:		4. Transactions with affiliated companies include the following:	
Net sales	862,435	Net sales	252,135
Dividends received and other non-operating income	871	Gain on transfer of business	920
Gain on transfer of business	350		

17. Lease Transactions

Omitted due to disclosure on EDINET.

18. Marketable Securities

(Stocks of subsidiaries and affiliates)

No stocks of subsidiaries and affiliates were valued at market in either the year ended March 31, 2005 or the year ended March 31, 2004.

19. Deferred Tax Accounting

(As of March 31, 2005)

1. Major factors giving rise to deferred tax assets and liabilities:

Deferred tax assets	
Unrealized loss on valuation of investment securities	¥537 million
Unrealized loss on valuation of stocks of subsidiaries and affiliates	¥1,067 million
Reserve for bonuses	¥276 million
Officers' retirement bonuses	¥303 million
Other	¥522 million
Subtotal	<u>¥2,707 million</u>
Valuation allowance	(¥994) million
Total deferred tax assets	<u>¥1,713 million</u>
Deferred tax liabilities	
Reserve for asset compression	¥(603) million
Unrealized gain on certain investment securities	¥(3,028) million
Other	¥(696) million
Total deferred tax liabilities	<u>¥(4,328) million</u>
Net deferred tax assets (liabilities)	<u>¥2,615 million</u>

2. The effective income tax rate of the Company differed from the statutory tax rate for the following reasons:

Statutory tax rate	40.7%
(Adjustments)	
Average rate of inhabitant's tax	1.5%
Corrective decrease in deferred assets at end of period due to change in tax rates	1.1%
Evaluation discount	16.8%
IT investment tax reduction	(3.5%)
Other	0.6%
Effective tax rate	57.2%

20. Subsequent Events

Exchange of Shares with Chiyaku Co., Ltd.

On April 1, 2005, MEDICEO Holdings made consolidated subsidiary Chiyaku Co., Ltd. a wholly owned subsidiary for the purpose of further promoting its business strategy of mobilizing the full capabilities of the MEDICEO Group. As a result of this share exchange, the Company allocated 694,771 shares of its treasury stock.

Merger with PALTAC CORPORATION

As part of its strategy of mobilizing the full capabilities of the MEDICEO Group, the Company's Board of Directors on April 18, 2005 approved a Basic Merger Agreement to become a new type of wholesaler with business including cosmetics and daily necessities in addition to its existing business, which is limited to the areas of pharmaceuticals, medical equipment and related businesses. After signing the Basic Merger Agreement, the Company's Board of Directors approved the signing of a stock swap agreement, and on the same day entered into the stock swap agreement, which will make PALTAC CORPORATION a wholly owned subsidiary of MEDICEO Holdings.

21. Changes in Officers

(1) Changes in Representatives

- 1) Newly appointed representative directors (one as of October 1, 2005)
- | | | |
|--|--------------|---|
| Vice President and Representative Director | Kunio Mikita | (currently Representative Director/Chief Executive Officer of PALTAC CORPORATION) |
|--|--------------|---|

Note: The newly appointed representative director above was announced on April 18, 2005.

- 2) Resigning representative directors: None

(2) Changes in Other Officers

- 1) Candidates for new appointment as director (as of June 29, 2005)
- None
- Candidates for new appointment as director (two as of October 1, 2005)
- | | | |
|----------|----------------|--|
| Director | Kunio Mikita | (currently Representative Director/Chief Executive Officer of PALTAC CORPORATION) |
| Director | Juro Yamagishi | (currently Representative Director/Executive Vice President of PALTAC CORPORATION) |

Note: The two newly appointed directors above were announced on April 18, 2005.

- 2) Candidates for new appointment as auditor (as of June 29, 2005)
- None
- Candidates for new appointment as auditor (one as of October 1, 2005)
- | | | |
|---------|---------------|---|
| Auditor | Susumu Takagi | (currently Auditor of PALTAC CORPORATION) |
|---------|---------------|---|

Note: The newly appointed auditor above was announced on April 18, 2005.

- 3) Resigning directors: None
- 4) Resigning auditors: None
- 5) Promotions, etc. of directors: None

(3) Changes in Executive Officers

- 1) Candidates for new appointment as executive officer: None
- 2) Resigning executive officers: None
- 3) Promotions, etc. of executive officers: None