

Consolidated Financial Statements for the Year Ended March 31, 2005

Corporate Name: Alfresa Holdings Corporation
Code No.: 2784

Listing: Tokyo Stock Exchange and Osaka Securities Exchange
Location of Head Office: Tokyo

(URL: <http://www.alfresa.com>)

Representative: Futoshi Yokoi, President

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Board of Directors' Meeting for Account Settlement: May 12, 2005

U.S. Accounting Standards: Not applied

1. Consolidated performance for the year ended March 31, 2005 (April 1, 2004 - March 31, 2005)

(1) Consolidated operating results

Note: Amounts below one million yen are disregarded.

	Net Sales		Operating Income		Ordinary Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2005	1,195,313	12.1	6,534	(47.3)	10,431	(31.7)
Year ended March 31, 2004	1,066,577	-	12,402	-	15,266	-

	Net Income		Earnings per Share	Diluted Earnings per Share	Return on Equity	Ratio of Ordinary Profit to Total Assets	Ratio of Ordinary Profit to Net Sales
	Millions of yen	%	Yen	Yen	%	%	%
Year ended March 31, 2005	3,207	(50.6)	91.81	-	2.9	1.7	0.9
Year ended March 31, 2004	6,489	-	194.85	-	6.0	3.0	1.4

- Notes: (1) Profit or loss on equity method investments
March 2005: ¥ - March 2004: ¥27 Million
- (2) Average number of shares outstanding during the period (consolidated)
March 2005: 34,020,682 March 2004: 33,029,395
- (3) Change in accounting method
None
- (4) Percentage of net sales, operating income, ordinary profit and net income show the change from the previous year.

(2) Consolidated financial position

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per Share
	Millions of yen	Millions of yen	%	Yen
Year ended March 31, 2005	609,351	111,075	18.2	3,281.01
Year ended March 31, 2004	513,188	108,409	21.1	3,207.01

Note: Number of outstanding shares at the end of the period (consolidated)
March 2005: 33,828,402 March 2004: 33,787,009

(3) Consolidated cash flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Ending Balance of Cash and Cash Equivalents
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended March 31, 2005	10,169	(4,039)	(7,566)	57,379
Year ended March 31, 2004	2,297	(760)	1,428	57,900

(4) Scope of consolidation / Application of equity method accounting

Number of consolidated subsidiaries: 10 Number of unconsolidated subsidiaries based on the equity method: - Number of affiliates based on the equity method: -

(5) Change in scope of consolidation / Application of equity method accounting

Consolidation: (New) 5 (Exclusion) 1 Equity method: (New) - (Exclusion) 1

2. Consolidated performance forecast for the year ending March 31, 2006 (April 1, 2005 - March 31, 2006)

	Net Sales	Ordinary Profit	Net Income
	Millions of yen	Millions of yen	Millions of yen
Interim period	650,000	5,700	3,100
Year ending March 31, 2006	1,340,000	14,700	7,500

Reference: Estimated earnings per share for March 2006: ¥221.71

* The above-mentioned prognoses are based on currently available information, and thus include many uncertain factors. Actual results may differ from those forecasts depending on changes in the business conditions.

1. Current Status of the Group

The Company has its basic role to formulate the management vision of the entire group and establish the management plan based on the vision as well as continuously enhance the corporate value by effectively utilizing management resources of the group.

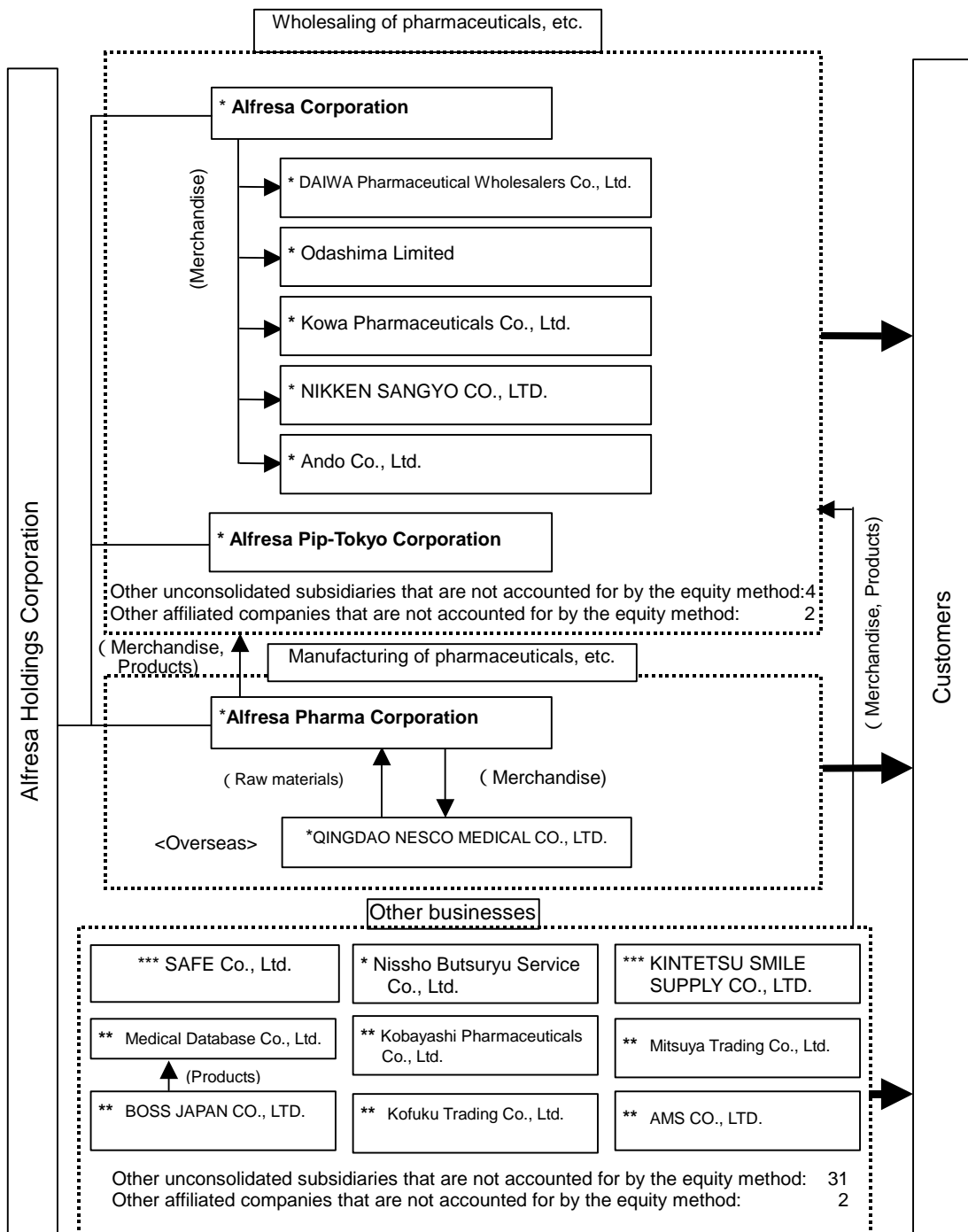
Our main businesses consist of wholesaling of pharmaceuticals, diagnostic reagents and medical devices/equipment centered on Alfresa Corporation, and manufacturing and marketing of pharmaceuticals, diagnostic reagents and medical devices/equipment centered on Alfresa Pharma Corporation.

The description of business and the relationship relating to the relevant business between the Company and affiliates are as follows.

Classification of business	Company name	Main line of business
Wholesaling of pharmaceuticals, etc.	Alfresa Corporation	Ethical drugs, diagnostic reagents, over-the-counter drugs, medical devices/materials
	Alfresa Pip-Tokyo Corporation	Medical materials and other products, SPD business*
	DAIWA Pharmaceutical Wholesalers Co., Ltd.	Ethical drugs, diagnostic reagents, medical devices/materials
	Odashima Limited	Ethical drugs, diagnostic reagents, medical devices/materials
	Kowa Pharmaceuticals Co., Ltd.	Ethical drugs, diagnostic reagents, over-the-counter drugs, medical devices/materials
	NIKKEN SANGYO CO., LTD.	Ethical drugs, diagnostic reagents, medical devices/materials
	Ando Co., Ltd.	Ethical drugs, diagnostic reagents, over-the-counter drugs, medical devices/materials
	Advanced Healthcare Service Co., Ltd.	Over-the-counter drugs
	Fine Small-Lot Packaging Center Co., Ltd.	Ethical drugs
	FAMILY CARE CO., LTD.	Others (health foods, etc.)
Manufacturing of pharmaceuticals, etc.	NORMECA ASIA CO., LTD.	Others (wholesaling of emergency and disaster supplies)
	Alfresa Pharma Corporation	Pharmaceuticals, diagnostic reagents, medical devices/equipment and other products (pharmaceutical raw materials, etc.)
Other businesses	QINGDAO NESCO MEDICAL CO., LTD.	Medical devices/equipment
	Nissho Butsuryu Service Co., Ltd.	Transportation, warehousing, insurance agency
	SAFE Co., Ltd.	Information services relating to pharmaceuticals, etc.
	AMS CO., LTD.	Insurance agency, real estate management, sales of daily necessity and miscellaneous goods, etc., staffing service
	Mitsuya Trading Co., Ltd.	Insurance agency
	Kofuku Trading Co., Ltd.	Insurance agency, sales of stamps
	Medical Database Co., Ltd.	Sales of medical-related software
	BOSS JAPAN CO., LTD.	Production and sales of medical-related software
	KINTETSU SMILE SUPPLY CO., LTD.	Rental service of nursing care equipment, etc.
Kobayashi Pharmaceuticals Co., Ltd. and others	Management of dispensing pharmacies, import and sales of pharmaceutical bulk powder, etc.	

*SPD (Supply Processing and Distribution): Concept to enhance rationalization, promote efficiency and improve the management system by consolidating everything from procurement to distribution and consumption for the entire range of in-hospital supplies. As medical institutions are required to operate more efficiently, they are increasingly outsourcing the product management.

The relationship of the Company and main affiliated companies is as follows:



- : Business relation Parenthesis () : Main contents of business.
- * Consolidated subsidiaries
- ** Unconsolidated subsidiaries that are not accounted for by the equity method
- *** Affiliated companies that are not accounted for by the equity method

Note: Alfresa Corporation and Alfresa Pharma Corporation are wholly owned subsidiaries of the Company.

Status of the consolidated subsidiaries

Name	Address	Capital (millions of yen)	Main line of business	Ratio of voting rights (%)	Relationship with the Company
Alfresa Corporation *	Chiyoda-ku, Tokyo	4,000	Wholesaling of pharmaceuticals, etc.	100.0	It has concluded a basic contract with the Company relating to management services. Interlocking director: 3
Alfresa Pharma Corporation *	Chuo-ku, Osaka	1,000	Manufacturing of pharmaceuticals, etc.	100.0	It has concluded a basic contract with the company relating to management services. Interlocking director: none
Alfresa Pip-Tokyo Corporation *	Sumida-ku, Tokyo	400	Wholesaling of pharmaceuticals, etc.	51.0	It is preparing for opening of business as of March 31, 2005. Interlocking director: 2
DAIWA Pharmaceutical Wholesalers Co., Ltd.	Matsuyama, Ehime Prefecture	60	Wholesaling of pharmaceuticals, etc.	86.8 (86.8)	It is responsible for Ehime Prefecture in the group. Interlocking director: 1
Nissho Butsuryu Service Co., Ltd.	Chuo-ku, Osaka	70	Other businesses (transportation, warehousing, etc.)	84.2 (84.2)	It mainly conducts transportation business for commercial products of Alfresa Corporation. Interlocking director: None
Kowa Pharmaceuticals Co., Ltd.	Koriyama, Fukushima Prefecture	104	Wholesaling of pharmaceuticals, etc.	67.6 (67.6)	It is responsible for the Tohoku region in the group. Interlocking director: 1
Odashima Limited	Hanamaki, Iwate Prefecture	30	Wholesaling of pharmaceuticals, etc.	54.8 (54.8)	It is responsible for the Tohoku region in the group. Interlocking director: 1
NIKKEN SANGYO CO., LTD.	Gifu, Gifu Prefecture	190	Wholesaling of pharmaceuticals, etc.	51.0 (51.0)	It is responsible for Gifu prefecture in the group. Interlocking director: None
Ando Co., Ltd.	Takasaki, Gunma Prefecture	300	Wholesaling of pharmaceuticals, etc.	50.9 (50.9)	It is responsible for Gunma Prefecture in the group. Interlocking director: 1
QINGDAO NESCO MEDICAL CO., LTD.	Qingdao, Shandong, China	300	Manufacturing of pharmaceuticals, etc.	100.0 (100.0)	It supplies raw materials to Alfresa Pharma Corporation. Interlocking director: None

Note 1. In the column of "Main line of business," segments by business type are stated.

2. Asterisk mark means specified subsidiaries.

3. Ratio of voting rights owned by subsidiaries of the Company is indicated within the parenthesis, which is included in the total ratio.

2. Management Policies

(1) Basic management policies

The Alfresa group, as a member of the healthcare industry, engages in wide-ranging businesses under our Group Mission “to maximize our corporate value by creating innovative value and earning the trust of society through contribution to people’s health mainly in the field of medical care.” Also, we would like to create a fresh life for all the people based on our “Healthcare Consortium” concept for providing comprehensive healthcare services.

(2) Basic policies on profit share

Returning profits to our shareholders is one of our key policies. As for dividends, over 2% dividend on equity is the target with the exact rate to be determined according to the consolidated business performance of the Company, fully taking into consideration such factors as the enhancement of the corporate constitution as well as future business developments.

(3) Methodology and policy to lower the trading unit of shares

As the lowering of the trading unit of shares increases liquidity and encourages more investors to participate in the capital market, it is one of our issues to be considered. The Alfresa Group continues to contemplate its costs and effect, based on analyses of share prices, trading volume, the number of shareholders, composition of shareholders and other factors.

(4) Target management benchmark

Since its establishment, the Alfresa group formulated and implemented a medium-term management plan that lasts until March 31, 2006. We, however, decided to establish a new medium-term management plan that lasts until the year ending March 31, 2008, considering market circumstances and changes of the group structure due to increasing group companies and the business reorganization in October 2004. In the new plan, our target for the final year of the medium-term is to achieve group sales of 2 trillion yen, whereas goals based on the current business scope are consolidated net sales of 1,385 billion yen, a net income margin of 1% and 10% of return on equity (ROE).

(5) Medium to long term management strategies

Our priority issues in the new medium-term management plan are “Strengthening of corporate governance system”, “Promotion of CSR” and “Development of new main system”.

“Strengthening of corporate governance system”

With regard to the corporate governance system, we will conduct group conferences and promote exchange of directors among the group companies to maximize synergies in the group and share information. We also decided to establish an advisory board to utilize the advice and proposals that the independent advisors make to the company’s overall management.

“Promotion of CSR”

With regard to corporate social responsibility (CSR), the entire Alfresa Group will, as a responsible member of the healthcare industry, make efforts to achieve various goals, including compliance, corporate governance and environmental consciousness, and endeavor to ensure our sustainable development.

“Development of new main system”

With regard to the new main system, we will develop sharing systems among the group companies as a group targeting net sales of 2 trillion yen. Through standardization and integration of business processes within the group by this system, we will promote laborsaving of back-office operations.

(6) Issues to address

The pharmaceutical industry is in both a difficult business environment and major changes, caused by measures to constrain increasing medical expenses due to the aging society, joint purchasing of pharmaceuticals by national hospitals and intensified competition among pharmaceutical wholesalers resulting from widening marketing territories.

The Alfresa Group will therefore press ahead with business/capital alliances with cooperative companies across Japan, and construct a nationwide sales network to achieve the group sales target of 2 trillion yen. Furthermore, the Company and CS YAKUHIN CO., LTD. (Nagoya, Aichi Prefecture) concluded a basic agreement in February 2005, in which the wholesaling business of over-the-counter-drugs and other products of Alfresa Corporation and its subsidiaries, Ando Co., Ltd. and Kowa Pharmaceuticals Co., Ltd., will be sequentially transferred to CS YAKUHIN CO., LTD. for the purpose of promoting soundness of overall management.

In the wholesaling business, the Alfresa Group is striving to increase sales and secure profit. Although the gross profit margin declined due to the harsh business environment in the year ended March 2005, the group will spare no effort to sell products at fair prices, while aiming for reduction of selling, general and administrative expenses in the year ending March 2006. Also, the group will work hard to strengthen its marketing capacity by introducing specialized delivery staff in the Tokai and Kinki regions to respond to the needs for frequent deliveries and by improving inventory control systems for customers and sales support systems. At the same time, the group will proactively develop human resources to enhance services such as provision of information to customers.

In the manufacturing business, the Alfresa group will continue to expand its product line in the central nervous system area and develop POCT (point-of care-testing) reagent (rapid test reagent). In addition, we aim to obtain early approval for “CN-801”, a treatment for chronic sleeping disorder (narcolepsy), for which the group has applied for manufacturing approval. We will also make efforts to expand its indications for obstructive sleep apnea syndrome and attention deficit hyperactivity disorder.

(7) Basic policy on corporate governance and related measures

Basic policy on corporate governance

The Alfresa Group regards enhancement of the corporate governance system as one of the most important issues in the new medium-term management plan. In order to fulfill our responsibility for stakeholders including shareholders, customers, employees, business partners, investors, creditors and local communities, and increase the corporate value, we consider it is important to firmly establish corporate governance. As specific measures, we will hold group conferences and promote exchange of directors among group companies in order to establish the group-wide governance. We also decided to establish an advisory board comprising outside advisors to achieve a fair and transparent corporate management.

Measures for corporate governance

(i) Current status of the business administration organizations and other corporate governance systems regarding managerial decision-making, execution and oversight of the Company

As a pure holding company, Alfresa Holdings Corporation formulates the management vision and mission for the entire group, and lays out business plans based on those. Given that its basic role is to continuously raise corporate value through an effective use of the group’s management resources, the Company manages its group-wide operations based on a master contract for management guidelines.

(a) Outline of the Company’s organizations

- Auditor system

The Company adopts an auditor system consisting of four corporate auditors, which has an auditing function on the Company’s management. There are no conflicts of interest between the Company and the external auditors.

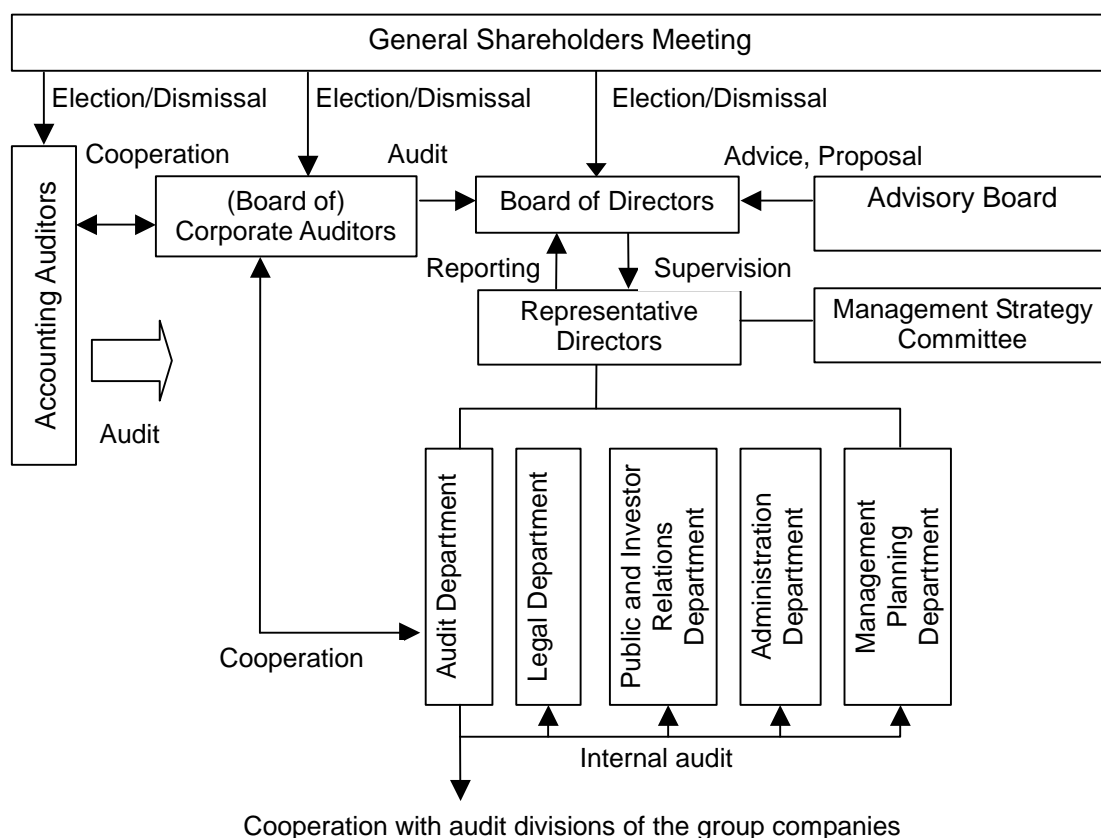
- The Board of Directors and executive officer system

The Board of Directors consists of four elected members, with no outside directors at present. In addition, the Company adopts an executive officer system to accelerate decision-making and clarify the roles of direction and business execution.

- Advisory Board

In order to give advice and recommendations to the overall management, and to enhance the fairness and transparency of corporate management, the Company has established an Advisory Board comprising outside advisors, all the directors and one representative from the board of corporate auditors, which in principle holds meetings four times a year.

(b) The status of internal control system and risk management system



To ensure that corporate activities attach importance to compliance, the Company has established “Legal Department” and “Audit Department” in October 1, 2004, as a part of efforts to enhance the compliance system and improve the risk management system.

(c) The status of internal auditing and corporate auditors’ inspection

The Company has two external auditors out of four corporate auditors. In principle, the Board of Corporate Auditors meeting is held once in every three months, and there were 11 meetings during the fiscal year under review. All the corporate auditors attended the Board of Corporate Auditors meetings each time.

Furthermore, group corporate auditors meetings are held, to which auditors of consolidated subsidiaries are invited to promote an active exchange of opinions and information relating to auditing policy or auditing criteria. Accounting auditors also participate in the meetings for collaboration.

In addition to corporate auditors, Audit Department was established last October as an organization to implement the internal audits and two staff were assigned. The Audit Department provides specific advice and recommendations for operational improvements based on the audit results. Also, regular liaison meetings are held with internal audit divisions of consolidated subsidiaries twice a year to enhance the quality of internal audits, and of the internal control system of the group as a whole.

Regarding collaboration between corporate auditors and the Audit Department, they exchange information concerning internal audit results as needed. Also, an internal audit plan of the Audit Department is prepared, taking into consideration requests and opinions from corporate auditors, with the goal of achieving improved performance by sharing the audit plan with each other.

(d) The status of contracts with accounting auditors and lawyers

The Company entrusts auditing firm KPMG AZSA & Co. with the auditing of corporate accounts and receives proposals for operational improvements through accounting audits. Certified Public Accountants who executed audit operations are as follows:

Designated Partner & Engagement Partner	Tomoyasu Kuwano
Designated Partner & Engagement Partner	Mamoru Yamamoto
Designated Partner & Engagement Partner	Takao Matsui

Also, should legal judgment be required, advice can be received from corporate lawyers as deemed appropriate.

(e) Directors' compensation and accountants' fees

Directors' compensation to directors and corporate auditors of the Company and accountants' fees to the auditing firm are as follows:

Directors' compensation:		
	Directors	112 million yen
	Corporate auditors	31 million yen
	Total	143 million yen
Accountants' fees:		
	For auditing	12 million yen
	Others	12 million yen

(ii) Outline of personal, capital or business relationships and other interests between the Company and its external auditors

There are no personal, capital or business relationships or other interests between the Company and its external auditors.

(iii) Implementation of activities to enhance corporate governance of the Company in the past year

During the year under review, the Company held 25 Board of Directors Meetings and 22 Management Strategy Meetings to determine important execution of duties and discuss key management issues. The Company held 11 times of the Board of Corporate Auditors meetings to discuss auditing policies and make reports. The Company also held a group corporate auditors meeting and determined the group's auditing policy.

3. Business Results and Financial Position

(1) Business results

Overview of business results for the fiscal year ended March 31, 2005

The Japan's economy during this fiscal year continued on track toward recovery as seen in the increase in capital investment owing to the improvement of corporate profit and the mild pickup of consumer spending.

Despite the reduction of drug price standards by 4.2% through the NHI drug price revision in April 2004, the pharmaceuticals market grew approximately 2% due to the epidemic of influenza in the winter and an unusually large quantity of pollen dispersal, etc.

Under Alfresa Holdings Corporation, a holding company established through stock transfer of AZWELL Inc. and Fukujin Co., Ltd. in September 2003, the group has addressed its business activities based on the core strategies of "network expansion", "pursuit of synergies", "greater selectivity and concentration" and "promotion of low-cost management." In July 2004, the Company made Taishodo Co., Ltd. a wholly owned subsidiary through stock exchange. In October 2004, the wholly owned subsidiaries of the company, AZWELL Inc., Fukujin Co., Ltd. and Taishodo Co., Ltd., were reorganized into Alfresa Corporation, which engages in wholesaling of pharmaceuticals, etc., and Alfresa Pharma Corporation, which engages in manufacturing of pharmaceuticals, etc., by corporate separation. Since its reorganization, the group has worked to strengthen its marketing capabilities by integrating marketing frameworks and optimizing the organization by consolidating or closing branches in overlapping areas.

The Alfresa group has also expanded its sales networks to be the No.1 group in the industry. In April 2004, DAIWA Pharmaceutical wholesalers Co., Ltd. (Matsuyama, Ehime Prefecture) and Odashima Limited (Hanamaki, Iwate Prefecture) became subsidiaries of Alfresa Corporation, followed by NIKKEN SANGYO CO., LTD. in February 2005. In addition, the Company concluded stock exchange agreement in January 2005, with OKAUCHI KANKODO, Ltd. (Takamatsu, Kagawa Prefecture), Kowa Yakuhin Co., Ltd. (Tokushima, Tokushima Prefecture) and DAIWA Pharmaceutical Wholesalers, Co., Ltd. to make them wholly owned subsidiaries.

To expand and enhance its business domains, the Company and PIP-Tokyo Co., Ltd. established a joint venture company Alfresa Pip-Tokyo Corporation in December 2004, to engage in the SPD business and the wholesaling business of medical materials. The SPD business helps improve the operational efficiency of medical institutions by consolidating everything from procurement to distribution and consumption of hospitals supplies. Alfresa Pip-Tokyo Corporation had been preparing for its full operation from April 2005.

As a result, consolidated net sales for the fiscal year ended March 31, 2005, came to 1,195,313 million yen (up 12.1% over the previous year), partly due to an increase in the number of consolidated subsidiaries. On the other hand, a decrease in profits caused by the decline of sales prices in the core pharmaceutical wholesaling business had a large impact, and operating income was 6,534 million yen (down 47.3% over the previous year) and ordinary profit was 10,431 million yen (down 31.7% over the previous year). Also, as Alfresa Corporation has solicited voluntary retirement, it posted an extraordinary loss on voluntary retirement benefits of 2,961 million yen. Accordingly, net income for the term was 3,207 million yen (down 50.6% over the previous year).

Overview of major businesses in the Alfresa group

Results of the wholesaling business

In the wholesaling business, the Company has tried to expand sales by developing joint sale promotion activities before the business reorganization, so that it could work out the effects of reorganization earlier. Also, the Company has responded properly to the expansion of the market due to the influenza epidemic and large pollen dispersal. These initiatives lead to the steady sales growth.

The major factor of the fall in profits is the decrease in gross profit margin due to sales price decline

caused by difficult price negotiations with customers and stiff competition among peer companies. While making efforts to maintain fair sales prices, Alfresa Corporation established “Low-cost Operation Promotion Committee” to improve operational efficiency with radical improvement programs. The Company regarded personnel optimization as an urgent task in particular after the reorganization, and solicited voluntary retirement at Alfresa Corporation in December 2004.

In the fiscal year, it has also become an important issue for pharmaceutical wholesalers to establish sales networks throughout Japan, as hospitals have increasingly shifted to joint purchasing. The group therefore proactively expanded its networks including business cooperation agreement with SEIWA SANGYO CO., LTD. (Hiroshima, Hiroshima Prefecture), business cooperation agreement and partial business transfer with Meisho Co., Ltd. (Kanazawa, Ishikawa Prefecture) and partial business acquisition from Matsuda Medical Co., Ltd. (Agawa-gun, Kochi Prefecture), in addition to the participation of DAIWA Pharmaceutical Wholesalers Co., Ltd., Odashima Limited and NIKKEN SANGYO CO., LTD in the Group.

As a result, consolidated net sales of the wholesaling business for the fiscal year was 1,178,490 million yen (up 12.3% over the previous year) and operating income was 5,759 million yen (down 49.4% over the previous year). The net sales includes inter-segment sales of 1 million yen.

Results of the manufacturing business

In the manufacturing business, antihistamine “Nipolazin” and nasal drip vasoconstrictor “Towk” (for large quantity of pollen dispersal), oral cephem antibiotic “Oraspor Dry Syrup” (of which distributorship was acquired in the year ended March 2004), therapeutic agent for iron-deficiency anemia “Incremin Syrup” and other three products, as well as adenovirus measuring reagent “Check Ad”, contributed to the increase in overall sales. Furthermore, the sales growth was encouraged by expansion of sales channels through the Alfresa group’s wholesaling network. Also, we applied to the Health, Labor and Welfare Ministry on March 31, 2005 for manufacturing approval of “CN-801”, a treatment for chronic sleep disorder (narcolepsy), for which phase III clinical trial has been implemented.

As a result, consolidated net sales of the manufacturing business for the fiscal year was 20,881 million yen (up 0.6% over the previous year) and operating income was 459 million yen (down 46.9% over the previous year). The net sales includes inter-segment sales of 4,468 million yen.

Results of the other businesses

In the transportation and other businesses, net sales was 3,561 million yen (up 3.1% over the previous year) and operating income was 161 million yen (down 10.1% over the previous year). The net sales includes inter-segment sales of 3,150 million yen.

(2) Financial position

(i) Consolidated cash flows

In the fiscal year under review, cash and cash equivalents (hereinafter referred to as “net cash”) decreased by 521 million yen from the end of the previous fiscal year to 57,379 million yen by the end of this fiscal year. Net cash provided by operating activities amounted to ¥10,169 million, while net cash used in investing activities was ¥4,039 million and net cash used in financing activities was ¥7,566 million.

Cash flows from operating activities

Net cash provided by operating activities was 10,169 million yen (up 342.6% over the previous year). This was primarily owing to the fact that, despite an increase in trade notes and accounts receivable of 13,035 million yen, an increase in inventories of 8,876 million yen and an increase of miscellaneous receivables of 8,161 million yen, there were also income before income taxes of 5,571 million yen and a increase in trade notes and accounts payable of 36,002 million yen.

Cash flows from investing activities

Net cash used in investing activities was 4,039 million yen (up 431.5% over the previous year). The amount was mainly used for payments of 2,227 million yen for acquisition of tangible fixed assets such as a down payment for the purchase of land for a distribution center, and for payment of 2,194 million yen to obtain intangible fixed assets such as system development expenses.

Cash flows from financing activities

Net cash used in financing activities was 7,566 million yen (an increase of 1,428 million yen in the previous term). This was mainly due to repayment of debt of 3,094 million yen, payment of 2,097 million yen for the purchase of treasury stock and cash dividends paid of 2,546 million yen.

(ii) Cash flow indicator trends

	Year ended March 31, 2004	Year ended March 31, 2005
Shareholders' equity ratio (%)	21.1	18.2
Ratio of market capitalization to total assets (%)	37.9	24.6
Debt repayment period (years)	1.3	0.6
Interest coverage ratio (%)	69.6	156.9

- Notes:
1. Shareholders' equity ratio: Shareholders' equity / Total assets
 2. Ratio of market capitalization to total assets: Market capitalization / Total assets
 3. Debt repayment period: Interest-bearing debt / Operating cash flow
 4. Interest coverage ratio: Operating cash flow / Interest payments
 5. The company's stock was listed on the first sections of the Tokyo Stock Exchange and the Osaka Securities Exchange on September 29, 2003.
 6. All figures are from financial statements calculated on a consolidated basis.
 7. Market capitalization is calculated by multiplying the term-end closing price by the term-end number of outstanding shares (excluding treasury stock).
 8. Interest-bearing debt indicates the total debt, appearing on the consolidated balance sheets, on which interest is being paid.
 9. Interest payments indicates the amount of interest paid appearing on the consolidated statements of cash flows.

(3) Business risks

(i) Business environment

Japan's ethical pharmaceuticals market, where the Alfresa Group mainly conducts business, is strongly affected by the National Health Insurance system and medical policies. Therefore, notifications, as represented by NHI drug price revision, may have direct impacts on business results of the Alfresa Group. If the medical system is dramatically changed, there could be a serious effect on the Group's business performance.

Currently, Japanese medical expenditures tend to increase due to an aging population and the increase in lifestyle diseases. However, with solvency of financial resources of medical care insurance system declining, medical system reforms are implemented for the purpose of restraining medical expenditures. These reforms include the introduction of comprehensive payments of medical service fees and reviews of co-payment ratio and NHI drug price scheme. Also, the progress in the separation of drug dispensing from medical practice has been changing the composition of customers, replacing clinics and hospitals with a growing percentage of dispensing pharmacies. Further, there is concern about possible sales price decline due to the transformation of national hospitals into independent administrative institutions and the changes in purchase ways of medical institutions. The Alfresa Group will be responding to these trends by molding its chain of operations ranging from purchase to the collection of accounts receivable into a form that better fits present circumstances. Depending on the approach to such environment, however, there could be an impact on the Group's results.

(ii) NHI drug price revisions

Prices of ethical pharmaceuticals, which are main products of the Alfresa Group, are officially fixed by notification from the Ministry of Health, Labor and Welfare. These officially fixed prices are referred to as "NHI drug prices".

NHI drug prices, which are virtually functioning as an upper limit on selling prices, are revised downward roughly once in every two years according to actual prices and demand trends in the market. Accordingly, the Group's business results could be influenced by NHI drug price revisions.

(iii) Changes in laws and other regulations

The Alfresa Group's main business is wholesaling, manufacturing and sales of ethical pharmaceuticals. In accordance with Japan's Pharmaceutical Affairs Law and other regulations, the Group is required to register licenses and permits and obtain designations as well as various approvals and permissions relating to the development, manufacturing and import of ethical pharmaceuticals.

(iv) Credit management

The Alfresa Group's main customers are medical institutions and dispensing pharmacies, and medical system reforms such as restraint of medical expenses could affect the business of these customers. The Alfresa Group promotes conclusion of formal trading contracts and, at the same time, credit management department and respective persons in charge strive to fully perform credit administration. Although we will continue to tighten credit management, the Group's results could be affected by unforeseeable circumstances that hamper the collection of trade receivables.

(v) Risks associated with the manufacturing business

In the manufacturing business, one of our core businesses, we handle life-related products. Therefore, we allocate significant resources to processes ranging from product development to sales, and expend all possible means to ensure safety and reliability of the products. However, there are risks of product recalls, the cancellation of sales and other consequences of unforeseeable side effects of products or the contamination of product contents. These risks could be accompanied by lawsuits against the Group. In such case, there could be an impact on the Group's business results.

(vi) System integration

The Alfresa Group is currently integrating its systems to realize more efficient business operations. The group does utmost to ensure its smooth operation. However, if the systems fail to operate properly at the time of integration, it could pose a problem for business operations, primarily involving sales activities such as order input and product shipment. This could have an impact on the Group's business results.

(vii) Overseas transactions

In the manufacturing business, we have a production base in China, while export/import-based product transactions can be affected by political conflicts and substantial fluctuations of foreign exchanges. These factors could have an impact on the Group's results.

(4) Performance forecast for the fiscal year ending March 31, 2006

(Millions of yen)

	Net Sales	Operating Income	Ordinary Profit	Net Income	Earnings per Share (yen)
Year ending March 31, 2006	1,340,000	10,660	14,700	7,500	221.71
Year ended March 31, 2005	1,195,313	6,534	10,431	3,207	91.81
Rate of change (%)	12.1	63.1	40.9	133.8	-

The pharmaceuticals market in the fiscal year ending March 31, 2006, is expected to continue to be under difficult management environment, with the implementation of the continued policies for the reduction of medical expenses and growing joint purchasing by national hospitals and so forth.

Under such circumstances, the Alfresa Group has endeavored to actualize synergistic effects since its business reorganization in October 2004. In the next fiscal year, the Alfresa Group will continue to make business deployment toward the realization of concrete synergistic effects.

In the wholesaling business, we will secure profits by both restraining the decline of gross profit margin with fair sales prices and controlling of selling, general and administrative expenses. Also, we will introduce delivery specialists, who brought favorable results in Kanto region, to Tokai and Kinki regions, and broaden sales staff's ability to gather/provide information, thereby increasing added value.

In the manufacturing business, we will try to increase sales of transferred products as well as continue to expand the sales channels through stronger alliance with the Group's wholesaling companies.

Also, Alfresa Pip-Tokyo Corporation, established in December 2004, went into full-scale operation in April 2005. We will expand the SPD business in core areas—Kanto, Tokai and Kinki—and concurrently address to reduce costs through the centralized procurement system of medical materials. We will strive to further power up our competitive edge through cooperation with the Group's wholesaling companies.

For the fiscal year ending March 31, 2006, Alfresa Holdings Corporation forecasts consolidated net sales of 1,340 billion yen, operating income of 10,660 million yen, ordinary profit of 14,700 million yen and net income of 7,500 million yen.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

Item	As of March 31, 2004		As of March 31, 2005		Change
	Millions of Yen	Percentage (%)	Millions of Yen	Percentage (%)	Millions of Yen
(Assets)					
I Current assets					
1. Cash and deposits	45,642		57,148		11,505
2. Trade notes and accounts receivable	290,020		338,202		48,182
3. Securities	13,609		2,254		(11,354)
4. Inventories	52,251		69,111		16,860
5. Deferred tax assets	2,615		3,512		896
6. Miscellaneous receivables	23,083		34,489		11,406
7. Others	789		1,092		303
Allowance for doubtful accounts	(734)		(805)		(71)
Total current assets	427,277	83.3	505,006	82.9	77,729
II Fixed assets					
1. Tangible fixed assets					
(1) Buildings and structures	39,331		50,309		
Accumulated depreciation	22,642	16,689	30,150	20,158	3,469
(2) Machinery, equipment and vehicles	7,301		7,412		
Accumulated depreciation	5,648	1,653	5,951	1,461	(191)
(3) Tools and fixtures	8,029		8,335		
Accumulated depreciation	6,787	1,242	7,130	1,205	(36)
(4) Land		27,416		31,723	4,306
(5) Construction in progress		2		1,083	1,080
Total tangible fixed assets	47,004	9.1	55,632	9.1	8,627
2. Intangible fixed assets	2,123	0.4	3,959	0.7	1,835
3. Investments and other assets					
(1) Available-for-sale securities	17,570		20,914		3,343
(2) Long-term loans	1,064		1,429		365
(3) Deferred tax assets	5,975		6,572		597
(4) Deferred tax assets on land revaluation	2,200		2,051		(149)
(5) Others	13,050		17,939		4,889
Allowance for doubtful accounts	(3,078)		(4,154)		(1,076)
Total investments and other assets	36,782	7.2	44,753	7.3	7,970
Total fixed assets	85,911	16.7	104,345	17.1	18,434
Total assets	513,188	100.0	609,351	100.0	96,163

Item	As of March 31, 2004		As of March 31, 2005		Change
	Millions of Yen	Percentage (%)	Millions of Yen	Percentage (%)	Millions of Yen
(Liabilities)					
I Current liabilities					
1. Trade notes and accounts payable	366,302		450,682		84,380
2. Short-term debt	2,863		4,676		1,813
3. Corporate bonds redeemed within a year	-		500		500
4. Income taxes payable	3,532		493		(3,038)
5. Accrued bonuses	3,983		4,635		652
6. Allowance for sales rebates	33		63		30
7. Allowance for loss on sales returns	582		742		160
8. Others	4,782		7,407		2,625
Total current liabilities	382,078	74.5	469,200	77.0	87,122
II Non-current liabilities					
1. Corporate bonds	-		100		100
2. Long-term debt	-		700		700
3. Deferred tax liabilities	-		1,593		1,593
4. Allowance for employees' retirement benefits	17,335		19,339		2004
5. Allowance for directors' retirement benefits	1,074		369		(706)
6. Allowance for loss on debt guarantee	503		588		85
7. Consolidation-related adjustments	-		926		926
8. Others	254		786		581
Total non-current liabilities	19,168	3.7	24,405	4.0	5,236
Total liabilities	401,246	78.2	493,605	81.0	92,359
(Minority interests)					
Minority interests	3,532	0.7	4,670	0.8	1,137
(Shareholders' equity)					
I Paid-in capital	3,380	0.6	3,450	0.6	70
II Additional paid-in capital	18,623	3.6	21,356	3.5	2,732
III Retained earnings	84,048	16.4	85,274	14.0	1,226
IV Shortfall on land revaluation	(3,201)	(0.6)	(2,977)	(0.5)	223
V Unrealized gain on securities	5,628	1.1	6,520	1.0	891
VI Foreign currency translation adjustments	(11)	(0.0)	(22)	(0.0)	(11)
VII Treasury stock, at cost	(58)	(0.0)	(2,525)	(0.4)	(2,468)
Total shareholders' equity	108,409	21.1	111,075	18.2	2,666
Total	513,188	100.0	609,351	100.0	96,163

(2) Consolidated Income Statements

Item	Year ended March 31, 2004		Year ended March 31, 2005		Change		
	Millions of Yen	Percentage (%)	Millions of Yen	Percentage (%)	Millions of Yen		
I Net sales		1,066,577	100.0		1,195,313	100.0	128,735
II Cost of sales		972,173	91.1		1,097,279	91.8	125,106
Total deduction		94,404	8.9		98,034	8.2	3,629
Reversal of allowance for returned unsold goods		613	0.1		681	0.1	68
Allowance for returned unsold goods		582	0.1		767	0.1	185
Gross profit		94,435	8.9		97,948	8.2	3,513
III Selling, general and administrative expenses		82,032	7.7		91,414	7.6	9,382
Operating income		12,402	1.2		6,534	0.6	(5,869)
IV Non-operating income							
1. Interest income	125			220			
2. Dividend income	171			152			
3. Information fees received	2,215			2,563			
4. Depreciation of consolidation-related adjustments	116			288			
5. Equity in earnings of unconsolidated subsidiaries and affiliates	27			-			
6. Others	854	3,512	0.3	1,233	4,458	0.4	946
V Non-operating expenses							
1. Interest expenses	33			67			
2. Organizational inauguration expenses	49			-			
3. Commission fees	41			47			
4. Allowance for doubtful accounts	260			-			
5. Others	263	648	0.1	447	561	0.1	(87)
Ordinary profit		15,266	1.4		10,431	0.9	(4,836)

Item	Year ended March 31, 2004		Year ended March 31, 2005		Change	
	Millions of Yen	Percentage (%)	Millions of Yen	Percentage (%)	Millions of Yen	
VI Extraordinary income						
1. Gain on sale of fixed assets	147		-			
2. Reversal of allowance for doubtful accounts	139		-			
3. Reversal of allowance for directors' retirement benefits	93		-			
4. Reversal of allowance for losses on debt guarantee	70		72			
5. Gain on sale of available-for-sale securities	161	610	-	72	0.0	(538)
VII Extraordinary loss						
1. Loss on sale of fixed assets	1,138		-			
2. Loss on disposal of fixed assets	223		273			
3. Loss on impairment of fixed assets	1,956		771			
4. Loss on cancellation of leases	-		153			
5. Integration expenses	-		286			
6. Loss on liquidation of affiliates	-		485			
7. Voluntary retirement benefits	-	3,318	2,961	4,932	0.4	1,613
Income before income taxes		12,558		5,571	0.5	(6,988)
Corporate, residential and enterprise taxes	6,960		3,159			
Corporate tax adjustments	(1,289)	5,671	(1,150)	2,009	0.2	(3,662)
Minority interests in net income		397		354	0.0	(44)
Net income		6,489		3,207	0.3	(3,282)

(3) Consolidated Statements of Retained Earnings

Item	Year ended March 31, 2004		Year ended March 31, 2005	
	Millions of Yen		Millions of Yen	
(Capital surplus)				
I Beginning balance		17,803		18,623
II Increase in capital surplus				
1. Increase due to stock exchange	-		2,732	
2. Gain on disposal of treasury stock	820	820	-	2,732
III Ending balance		18,623		21,356
(Retained earnings)				
I Beginning balance		78,384		84,048
II Increase in retained earnings				
1. Net income	6,489		3,207	
2. Increase due to exclusion from equity method	-	6,489	6	3,214
III Decrease in retained earnings				
1. Dividends	741		1,701	
2. Directors' bonuses	52		56	
3. Reversal of gain on land revaluation	32	825	223	1,988
IV Ending balance		84,048		85,274

(4) Consolidated Statements of Cash Flows

	Year ended March 31, 2004	Year ended March 31, 2005	Change
Item	Millions of Yen	Millions of Yen	Millions of Yen
I Cash flows from operating activities			
1. Income before income taxes	12,558	5,571	(6,987)
2. Depreciation	2,414	2,659	245
3. Decrease in allowance for doubtful accounts	(487)	(80)	407
4. Increase (decrease) in allowance for employees' retirement benefits	556	(789)	(1,346)
5. Decrease in allowance for directors' retirement benefits	-	(1,028)	(1,028)
6. Decrease in allowance for loss on business restructuring	(581)	-	581
7. Interest and dividends income	(297)	(373)	(75)
8. Interest expenses	33	67	34
9. Depreciation of consolidation-related adjustments	(116)	(288)	(171)
10. Loss on impairment of fixed assets	1,956	711	(1,184)
11. Gain on sale of available-for-sale securities	(161)	-	161
12. Gains on sale of fixed assets	(147)	-	147
13. Loss on sale and disposal of fixed assets	1,362	273	(1,088)
14. Decrease in unpaid employees' retirement benefits	(2,176)	-	2,176
15. Increase in trade notes and accounts receivable	(8,436)	(13,035)	(4,598)
16. Increase in inventories	(1,211)	(8,876)	(7,665)
17. Decrease (increase) in miscellaneous receivables	2,946	(8,161)	(11,108)
18. Increase in trade notes and accounts payable	7,216	36,002	28,786
19. Others	(1,556)	2,027	3,583
Subtotal	13,872	14,740	868
20. Interest and dividends received	332	366	34
21. Interest paid	(33)	(64)	(31)
22. Income taxes paid	(11,873)	(4,871)	7,001
Net cash provided by operating activities	2,297	10,169	7,872

	Year ended March 31, 2004	Year ended March 31, 2005	Change
Item	Millions of Yen	Millions of Yen	Millions of Yen
II Cash flows from investing activities			
1. Increase in time deposits	(1,179)	(703)	475
2. Proceeds from maturity of time deposits	260	891	631
3. Payments for purchase of securities	-	(129)	(129)
4. Payments for purchase of tangible fixed assets	(780)	(2,227)	(1,447)
5. Proceeds from sale of tangible fixed assets	1,030	97	(933)
6. Payments for purchase of intangible fixed assets	(611)	(2,194)	(1,582)
7. Payments for purchase of available-for sale securities	(163)	(77)	86
8. Proceeds from sale of available-for sale securities	346	187	(159)
9. Payments for loans provided	-	(265)	(265)
10. Proceeds from collection of loans	348	425	77
11. Others	(11)	(43)	(32)
Net cash used in investing activities	(760)	(4,039)	(3,279)
III Cash flows from financing activities			
1. Net increase (decrease) in short-term debt	(90)	(1,835)	(1,745)
2. Proceeds from long-term loans	-	300	300
3. Repayments of long-term debt	(356)	(1,259)	(903)
4. Payments of corporate bond redemption	-	(100)	(100)
5. Cash payments for share transfer	(820)	-	820
6. Payments for purchase of treasury stock	(60)	(2,097)	(2,036)
7. Proceeds from sale of treasury stock	3,515	-	(3,515)
8. Cash dividends paid	(741)	(2,546)	(1,805)
9. Cash dividends paid to minority shareholders	(18)	(27)	(9)
Net cash provided by (used in) financing activities	1,428	(7,566)	(8,995)
IV Translation difference of cash and cash equivalents	(15)	(6)	9
V Increase (decrease) in cash and cash equivalents	2,950	(1,442)	(4,392)
VI Beginning balance of cash and cash equivalents	54,950	57,900	2,950
VII Increase in cash and cash equivalents due to stock exchange	-	921	921
VIII Ending balance of cash and cash equivalents	57,900	57,379	(521)