

# To Our Shareholders

*The MEDICEO Group was inaugurated in the fiscal year ended March 31, 2005, and achieved increases in both sales and net income despite a challenging operating environment. The MEDICEO Group will continue working to maximize its corporate value by fulfilling its philosophy of “contributing to people’s health and the advancement of society through creation of value in distribution.”*



**Sadatake Kumakura**  
President and Chief Executive Officer

## OVERVIEW OF RESULTS

The pharmaceutical market in Japan grew moderately in the year ended March 31, 2005, supported by increased demand for influenza and allergy treatments. This demand offset negative factors such as a drop in market prices following the revision of National Health Insurance (NHI) drug prices in April 2004.

Given these conditions, the MEDICEO Group conducted regional sales activities tailored to each of its areas of operation, and also worked to establish a nationwide network. 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 through an exchange of shares. On October 1, 2004, KURAYA SANSEIDO became an operating holding company and changed its corporate name to MEDICEO Holdings Co. Ltd. through a spin-off. At the same time, a new KURAYA SANSEIDO Inc. assumed the Company's pharmaceutical wholesale business and continued operations as before.

Consolidated net sales increased 29.7 percent from the previous fiscal year to ¥1,665,816 million. The increase in net sales was significantly higher than overall market growth due to an increase in the number of consolidated subsidiaries during the fiscal year, including EVERLTH and ATOL.

Gross profit was ¥137,806 million, an increase of 18.0 percent from the previous fiscal year. The MEDICEO Group moved to reduce costs by integrating core business systems for marketing, distribution and accounting, and also by reforming its retirement benefit system. Selling, general and administrative expenses, however, increased 25.0 percent from the previous fiscal year to ¥126,819 million. As a result, consolidated operating income decreased 28.4 percent compared with the previous fiscal year to ¥10,987 million. Although we recorded sales office consolidation expenses and a one-time charge associated with the revision of the retirement benefit system, we also booked extraordinary income totaling ¥2,131 million. As a result, net income increased 10.8 percent from the previous fiscal year to ¥8,730 million.

The number of shares of common stock increased because EVERLTH and ATOL were made wholly owned subsidiaries using the share exchange system. Consequently, net income per share decreased to ¥45.90 from ¥55.19 in the previous fiscal year, despite the increase in net income. Cash dividends applicable to the period totaled ¥12.00 per share, the same as in the previous fiscal year.

### **ESTABLISHING THE MEDICEO BRAND**

The MEDICEO Group is implementing a medium-term management plan covering the three-year period from April 2004 to March 2007. The objectives of the plan are to unify strategic business initiatives and target figures, and to serve as a guideline for establishing a corporate structure capable of securing steady profits. The plan's vision is to establish the MEDICEO brand. We will accomplish this by working to enhance and reinforce functions including sales, purchasing, distribution, and information and systems, and by meeting the wide-ranging needs of customers and suppliers. By doing so, we intend to increase trust in the Group as well as raise its corporate value and expand the scope of operations.

During the past fiscal year, 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., which changed its name to YAMAHIRO KURAYA SANSEIDO Inc. on the same date. In addition, the new KURAYA SANSEIDO Inc. transferred its wholesale distribution of prescription pharmaceuticals in Okayama and Hiroshima to EVERLTH Co., Ltd. on October 1, 2004, and assumed the pharmaceutical wholesale operations of Yurisanyakukan Co., Ltd., based in Hyogo Prefecture, on February 1, 2005.

On July 1, 2004, the Company took over business related to wholesale distribution of OTC pharmaceuticals from SENSHU YAKUHIN CO., LTD. and USHIODA SANGOKUDO YAKUHIN CO., LTD. In the medical equipment field, NAKAGAWA SEIKODO CO., LTD. became a wholly owned subsidiary of KURAYA SANSEIDO Inc. on May 1, 2004 by a simple exchange of shares, and the wholly owned subsidiary HOSSP CORPORATION was merged into NAKAGAWA SEIKODO CO., LTD. on January 1, 2005. Furthermore, the Company transferred business related to the sale of

diagnostic reagents in Kyoto and Shiga prefectures to IZUTSU PHARMACEUTICAL CO., LTD. on April 1, 2004.

In addition to these developments, the MEDICEO Group worked to promote unified sales initiatives in the prescription pharmaceuticals segment, and to reduce the cost of sales ratio through measures such as expanding the proportion of joint purchasing. The MEDICEO Group also worked to reduce costs through measures such as integrating the core business systems of marketing and distribution, 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 healthcare products.

### **INCREASING THE GROUP'S CORPORATE VALUE**

The MEDICEO Group seeks to grow and develop by raising the value of the MEDICEO brand and creating value as a next-generation distributor that goes beyond conventional frameworks. As part of this effort, on October 1, 2005 MEDICEO Holdings and PALTAC CORPORATION, a wholesale distributor of daily necessities, toiletries and cosmetics located in Osaka, will integrate their management through a share exchange and commence operations under the name Mediceo Paltac Holdings Co., Ltd. For this reason, MEDICEO Holdings plans to change its present corporate name to Mediceo Paltac Holdings Co., Ltd. as of that date. This will not only expand the scale of our product lineup and sales, but will also further reduce total distribution costs and increase our service capabilities.

Based on our corporate philosophy, "contributing to people's health and the advancement of society through creation of value in distribution," we will heighten our ability to serve healthcare institutions, our primary customers, and to contribute to the provision of medical treatment and health and beauty care to patients and consumers. By doing so, we aim to increase the value of the MEDICEO Group.

I would like to thank you, our shareholders, for your continuing trust and support of our efforts.

August 2005



**Sadatake Kumakura**  
President and Chief Executive Officer