

Annual Report 2005

Fiscal year ended March 31, 2005



Contributing to people's health and the advancement
of society through creation of value in distribution



Profile

The MEDICEO Group began operations on April 1, 2004 and took its current form on October 1, 2004, when the former KURAYA SANSEIDO Inc. spun off its pharmaceutical wholesale operations and changed its name to MEDICEO Holdings Co., Ltd. As the operating holding company at the Group's center, MEDICEO Holdings controls and supervises the management of its subsidiaries engaged in wholesale distribution of prescription pharmaceuticals, over-the-counter drugs, medical equipment, clinical reagents, and other pharmaceutical products, as well as related businesses. In addition, business alliances with other pharmaceutical wholesale companies give the MEDICEO Group a nationwide reach that enjoys both the benefits of scale and a framework for sales activities closely linked to each region it serves. In October 2005, a merger with PALTAC CORPORATION, a leading wholesaler of cosmetics and daily necessities, will create the Mediceo Paltac Group, a next-generation distributor that supports medical care, health and beauty.

MANAGEMENT PHILOSOPHY

Contributing to people's health and the advancement of society through creation of value in distribution

MANAGEMENT POLICY

1

Create a lively corporate culture that earns the trust of society

2

Conduct thorough compliance and management to raise shareholder value

3

Foster an honest, free and open-minded company atmosphere and develop highly creative personnel

We will work in unison as a group to establish the MEDICEO brand.

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FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements regarding MEDICEO Holdings Co., Ltd.'s plans, outlook, strategies and results for the future. All forward-looking statements are based on judgements derived from information available about the Company at the time of publication.

Certain risks and uncertainties could cause the Company's actual results to differ materially from any projections presented in this report. These risks and uncertainties include, but are not limited to, the economic circumstances surrounding the Company's business; competitive pressures; related laws and regulations; product development programs; and changes in exchange rates.

Financial Highlights

MEDICEO Holdings Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2003, 2004 and 2005

	Millions of yen			Percent change 2004/2005	Thousands of U.S. dollars (Note 1)
	2003	2004	2005		2005
For the Year:					
Net sales.....	¥1,274,503	¥1,283,926	¥1,665,816	29.7%	\$15,568,374
Operating income	10,160	15,355	10,987	(28.5)	102,682
Net income	5,016	7,879	8,730	10.8	81,589
At Year-End:					
Total shareholders' equity	¥ 112,261	¥ 128,988	¥ 168,104	30.3%	\$ 1,571,065
Total assets.....	638,589	626,626	848,416	(35.4)	7,929,121
Per Share (Yen and U.S. Dollars):					
Net income (Note 2)	¥ 36.48	¥ 55.19	¥ 45.90	(16.8)%	\$ 0.43
Diluted net income.....	31.50	48.65	43.52	(10.5)	0.41
Cash dividends	12.00	12.00	12.00	—	0.11
Total shareholders' equity (Note 3).....	828.14	893.84	904.59	1.2	8.45
Ratios:					
Return on assets (Note 4).....	1.6%	2.4%	1.5%		
Return on equity (Note 5).....	4.5	6.5	5.9		

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥107.00 to U.S. \$1.00, the approximate exchange rate on March 31, 2005.

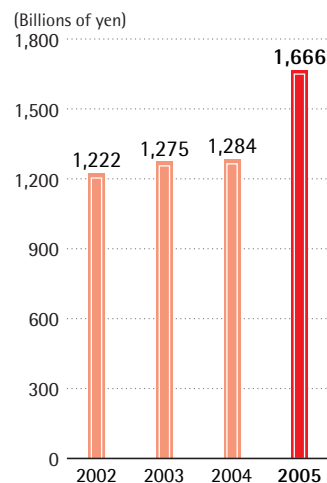
2. Net income per share = (Net income - Officers' bonuses) / (Average shares outstanding during the year - Average treasury stock during the year)

3. Total shareholders' equity per share = (Total shareholders' equity - Officers' bonuses) / (Shares outstanding at end of year - Treasury stock)

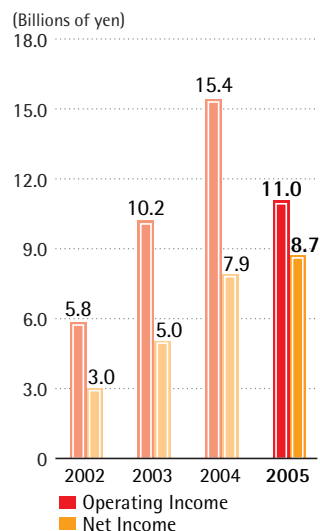
4. Return on assets = Operating income / Average total assets

5. Return on equity = Net Income / Average total shareholders' equity

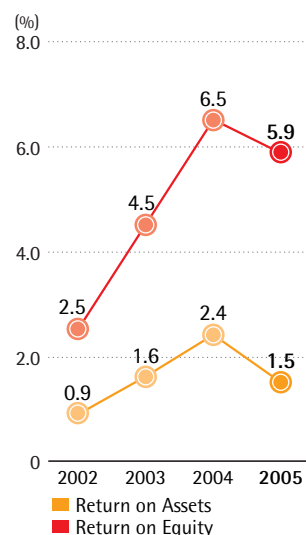
Net Sales



Operating Income / Net Income



Return on Assets / Return on Equity



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 SENSU 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

Deploying Group Strengths to Create New Value in Distribution

Rapid Efficiency Gains from System Integration and Concentration of Management

STRENGTHS OF THE MEDICEO GROUP

1. Rapid Efficiency Gains from System Integration and Concentration of Management

- Integration in stages of core systems throughout the MEDICEO Group
- Creation of a shared infrastructure, including distribution centers
- Improved Groupwide efficiency from standardization of operations and systems



2. Improved Earnings from Economies of Scale

- Bulk purchasing from suppliers
- Finely tuned sales activities closely linked to regional needs
- Unified nationwide sales promotion strategy



3. Enhanced Provision of High-Quality Information and Customer Support

- Internet site e-mediceo.com
- *Total Solution Model* for hospitals
- *MEDICEO-epi* for dispensing pharmacies



Establishment of the MEDICEO Brand

The MEDICEO Group is working to strengthen and enhance each of its functions, from purchasing, sales and distribution to provision of information and core systems, in order to respond to the needs of its wide range of suppliers and customers. By doing so, we will earn their trust, further raise our corporate value and expand the scope of our operations.

A Framework for Raising Groupwide Efficiency

The systems of each Group company are being integrated in stages with the core systems of MEDICEO Holdings. Concentrating management functions centered on purchasing, distribution, accounts receivable and payable, and information systems, and standardizing personnel and other systems will allow us to rapidly realize a framework for raising efficiency throughout the MEDICEO Group.

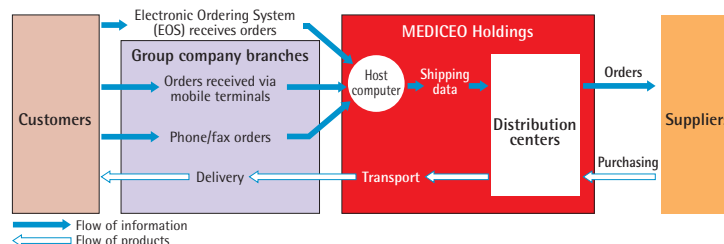
SAITAMA DISTRIBUTION CENTER Begins Operations

The MEDICEO Group further strengthened its nationwide distribution network for prescription pharmaceuticals in May 2005 with the opening of the SAITAMA DISTRIBUTION CENTER, which serves Tokyo and 11 prefectures. With a total floor space of 26,891 square meters, this state-of-the-art facility will provide a stable supply of pharmaceuticals with the highest level of quality management.



Pharmaceutical Distribution Network

Our distribution system integrates every stage from product ordering to delivery. Customer order information is stored at the host computer of MEDICEO Holdings, while distribution centers around the country carry out product shipping and purchasing, enabling large-scale product shipment that links suppliers and customers.



Utilizing the Benefits of Scale

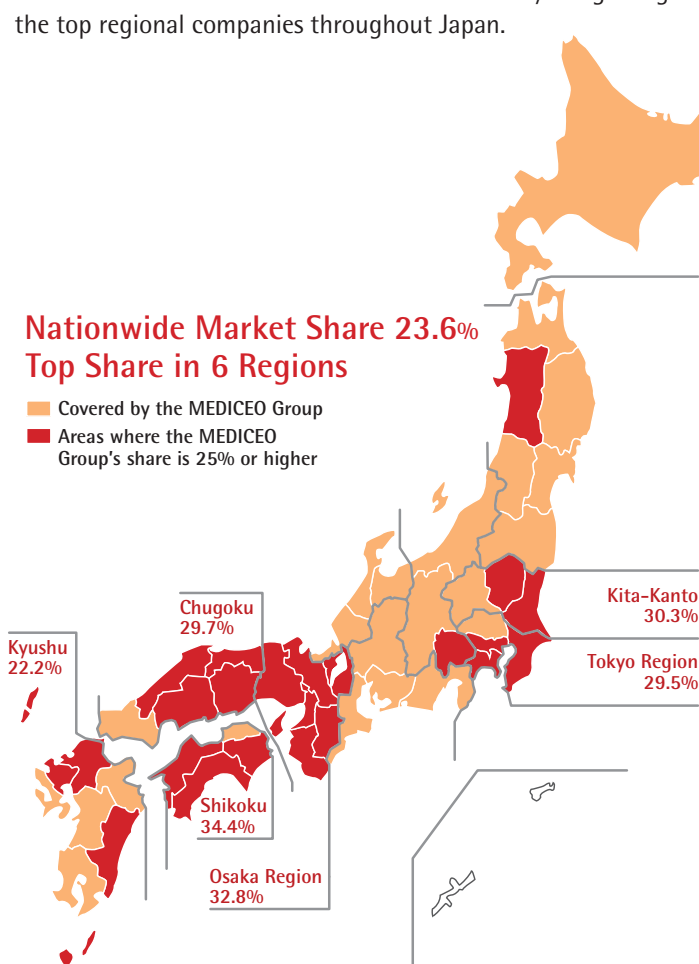
The MEDICEO Group uses the benefits of its size as a national wholesaler – including a nationwide supply system for pharmaceuticals, the ability to conduct bulk purchasing from suppliers, and unified sales promotion strategies for its more than 5,000 marketing specialists (MSs) – to improve its ability to generate sales and income.

Share of Prescription Pharmaceuticals Market (based on business alliances)

Through its business alliances, the MEDICEO Group holds the top share of the prescription pharmaceutical market in 6 of 11 regions in Japan (Kita-Kanto, the Tokyo region, the Osaka region, Chugoku, Shikoku and Kyushu) and a 23.6% share of the market as a whole. We have achieved this scale by integrating the top regional companies throughout Japan.

Nationwide Market Share 23.6% Top Share in 6 Regions

■ Covered by the MEDICEO Group
■ Areas where the MEDICEO Group's share is 25% or higher

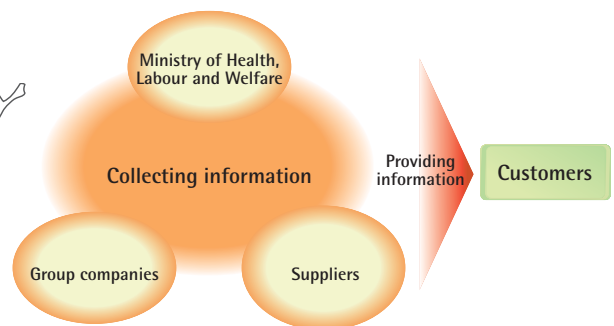


Note: Based on prescription pharmaceutical market data from CRECON Research & Consulting for the year ended March 31, 2004

Stronger Value-Added Functions

The MEDICEO Group provides timely, high-quality information to its customers throughout Japan via its publications and the Internet site e-mediceo.com.

In addition, our *Total Solution Model* offers proposals that help hospital administrators cut costs, and *MEDICEO-epi*, a new contract model for dispensing pharmacies, combines planned deliveries and usage-based payment. Offering these valuable services strengthens our customer support capabilities, which in turn will increase our value as a distributor.



Interview with President and CEO Sadatake Kumakura

As the MEDICEO Group establishes its foundation, President Sadatake Kumakura discusses the progress of the Group's business strategies, the planned launch of the Mediceo Paltac Group in October 2005 through management integration, and the Group's future growth strategies.



The MEDICEO Group faced a very challenging business environment in the year ended March 31, 2005. What is your evaluation of the Group's performance for the year?

The past fiscal year was the first year of the National Health Insurance (NHI) drug price revisions that were implemented in April 2004. Ordinarily, in the first year of drug price revisions, the prices for all products are revised, so until now pharmaceutical wholesalers have used such years to increase their profits. This time, however, price competition was even more severe than anticipated. As a result, first-half sales and earnings dropped rapidly at all wholesale companies, which collectively revised their forecasts downward for the first-half period ended September 30, 2004. Subsequently, prices recovered just as quickly as they had dropped in the first half, and the industry as a whole achieved results that surpassed the revised forecasts. Like the rest of the industry, the MEDICEO Group's revenues were adversely affected by the decline in product prices, and gross profit decreased more than we had projected.

What caused the decline in product prices?

This decline did not stem from requests for price reductions from unprofitable customers, as we had seen

previously. Trends such as national bulk purchasing by medical institutions and the development of major dispensing pharmacies into nationwide chains have become pronounced, resulting in broad and rapid communication of pricing information. Consequently, it is no longer possible for the prices quoted for a particular region to be confined to that region alone. In addition, as we wholesalers ourselves have come to operate nationwide, devising marketing strategies for each region has become difficult. We need to reconsider how we conduct price negotiations and secure profits based on an understanding of the trends of this new era. Now more than ever, yardsticks for appropriate pricing, like our standard weighted prices, are essential. Therefore, we will continue to clarify our purchasing prices in order to keep our profits in mind when setting prices.

A year has passed since the inauguration of the MEDICEO Group. What is your assessment of the Group's progress in establishing the MEDICEO brand, including the merger benefits?

Our objective in forming the MEDICEO Group was to raise management efficiency not through a merger of operations, but by preserving regional wage differences while still realizing the benefits of a merger by bringing together various systems, distribution, personnel and other structures under a single set of rules, with an operating holding company at the center. This framework aimed at both management efficiency and preservation of wage differences is what we call the MEDICEO brand. All group companies take full advantage of the benefits created by this shared group framework while working to increase market share in their respective regions. I believe the entire Group will be able to grow steadily as a result.

More than a year has passed since the Group was formed. During that time, as I discussed earlier, earnings

declined due to the changes in our business environment. Other than that, our progress is in line with my expectations in areas such as system integration, reduction of costs and expenses through joint purchasing, corporate governance of the Group, conducting operations while preserving each company's independence, and the establishment of cohesive power as a group.

In last year's annual report, I outlined the three main strengths of the MEDICEO Group. First, we already have a strong infrastructure in place, including core systems, a personnel system that incorporates performance-based elements, distribution centers, and a system for implementing joint sales promotion plans. Use of this solid infrastructure enables Group companies to quickly and steadily exploit the benefits of the management integration. Our second strength is economies of scale. The MEDICEO Group has over 5,000 marketing specialists, who are in charge of sales, and we intend to make full use of this sales force, the largest and most powerful in Japan, to achieve the highest levels of sales and income in our industry. Our third strength is region-based sales. The companies in the nationwide MEDICEO Group specialize in sales, and are thus able to tailor their business to their respective regions and achieve high productivity. This also enables us to further enhance customer support and our ability to gather and provide information. I also said last year that our greatest strength will be the understanding of manufacturers and customers of the advantages of doing business with the MEDICEO Group. I believe we are making good progress in deploying these strengths.

How is the progress of the Group's business strategies in the prescription pharmaceuticals business and other areas?

Prescription Pharmaceuticals Drug Business

In the prescription pharmaceuticals market, the primary business area of the MEDICEO Group, the hospital and dispensing pharmacy sales channels are changing most rapidly and are capturing a rising proportion of sales. The *Total Solution Model* and *MEDICEO-epi* are positioned as the MEDICEO Group's differentiation strategies in this market.

Total Solution Model

We designed the *Total Solution Model* to provide comprehensive support to hospitals, and thereby maintain a stable share of sales at each hospital and ensure that MEDICEO is successful not just in price competition but also in added value competition. Drug purchases account for about 20 percent of hospital costs, and until now, pharmaceutical wholesalers had not generally provided support for the other 80 percent. However, we can offer added value to hospitals in various ways.

One area where the MEDICEO Group stands out is support for clinical pathway management. A clinical pathway is a method of standardizing treatments, and is determined by each individual hospital. However, comparison with the national average is a topic of great interest for hospitals, and this is something that only a national wholesaler with information covering the entire country can provide. At present, MEDICEO has an unrivaled lead in this area, and the MEDICEO Group's activities have even been recognized by the Japanese Society for Clinical



Launch of the Management Innovation Promotion Committee

MEDICEO has consistently led the pharmaceutical wholesale industry in both net sales and gross profit margin. In the past fiscal year, however, we fell to second in gross profit margin and the SG&A expense ratio. We feel that securing industry leadership in quality and quantity will be difficult unless we improve the SG&A expense ratio. This led us to set up the Management Innovation Promotion Committee. The basic objectives of this committee's activities are to (1) generate the economies of scale expected from the size of the MEDICEO Group; (2) target all areas, placing nothing off limits; and (3) aim for an SG&A expense ratio between 6 and 7 percent. We have set the goal of reducing SG&A expenses by ¥10 billion, and the entire MEDICEO Group is pushing vigorously to achieve that goal.

Genichiro Tanabe
Executive Vice President,
MEDICEO Holdings Co., Ltd.

Pathway. Through clinical pathway management support, we analyze the actual usage of pharmaceuticals and other products, and conduct estimates of cost savings to create a list of standard brands of pharmaceutical products and diagnostic materials. By doing so, we can propose brand switches to conform to the budgets of each hospital, and we believe that this will increase the functions and positioning of the MEDICEO Group.

Following the completion of a one-year pilot project, the past fiscal year was the first year of full-scale implementation and expansion. We set an immediate target of introducing the *Total Solution Model* at 30 of the 500 hospitals that have a high number of acute beds, and succeeded in introducing it at 32 hospitals. Our target for this fiscal year is 70 hospitals.

MEDICEO-epi

The *MEDICEO-epi* system is a contract model for dispensing pharmacies that combines planned deliveries and usage-based payment. As of the end of March 2005, *MEDICEO-epi* has been introduced at approximately 2,000 locations. We have not yet reached our target of 3,000 locations, but the system is becoming well established, and we feel it is having an effect.

The original purpose of *MEDICEO-epi* was to lower our costs by reducing the frequency of deliveries, but the system is also serving to improve the cash flow and operations of customers who have adopted it. This demonstrates that *MEDICEO-epi* has added value beyond expectation. We intend to expand the use of *MEDICEO-epi* to Group companies in the near future.

Medical Equipment Business

In the medical equipment business, as in the prescription pharmaceuticals business, our customers are hospitals, clinics and pharmacies, so we have no need to develop new customers. Currently, the medical equipment market is worth ¥2.6 trillion, but as many as 300,000 companies are registered to handle medical equipment.

The MEDICEO Group has a 3.6 percent share of the medical equipment market, but our immediate objective is to increase this share to the same level as our pharmaceutical business, which is 23.6 percent, and grow sales to ¥700 billion. The revision of the Pharmaceutical Affairs Law in April 2005 placed heavy obligations on the medical equipment industry for inventory control and other management procedures. This is expected to lead to a substantial consolidation and shakeout of the 300,000 medical equipment wholesalers. This consolidation and shakeout will allow MEDICEO to develop its medical equipment business through its "main wholesaler" strategy using the distribution and logistics technology and the M&A methods it has applied previously.

We plan to establish a structure capable of total management of the medical equipment business, centered on MEDICEO MEDICAL CO., LTD. (formerly NAKAGAWA SEIKODO CO., LTD.), which became a wholly owned subsidiary in May 2004.

OTC Pharmaceuticals Business

Deregulation is proceeding in the trillion-yen domestic market for over-the-counter (OTC) pharmaceuticals. The first stage of deregulation in 1999 was focused on the ¥100 billion health tonic market, and allowed these drinks to be sold at convenience stores and supermarkets. Pharmaceutical wholesalers were unable to capture this market, and food wholesalers took charge of distribution.

The second round of deregulation in 2004 was centered mainly on gastrointestinal remedies, which is not such a large market. Daily goods wholesalers entered the market, as once again pharmaceutical wholesalers did not take advantage of the changes.

The third round of deregulation, which is scheduled for 2006, will target a very large market of about ¥300 billion, with products such as vitamins, eye drops, adhesive skin patches and pain relievers slated for deregulation. If this market moves to another sector as a result of the deregulation, pharmaceutical wholesalers could face a serious

situation. Meanwhile, on the buyers' side, convenience stores and supermarkets, which until now have not handled medicines, will need wholesalers that can provide information and knowledge about matters such as merchandise displays, and have nationwide operations.

The MEDICEO Group's strategy for the OTC business is to apply our successful experience cultivated in the prescription pharmaceuticals business to the OTC business, a market that is expected to double in size in the future, to make it a core business area. Partly because of the deregulation situation, however, we decided to implement a management integration with PALTAC CORPORATION, a leading wholesaler of cosmetics and daily necessities, on October 1, 2005.

What is the purpose of the management integration, and how do you envision the Mediceo Paltac Group?

The purpose of this management integration is not simply to expand the OTC business and broaden our product lineup and sales. Customers are likely to make further requests for reductions in total distribution costs and enhanced service from intermediary distributors in the future. If we can integrate the functions and the know-how of the two companies to respond to these requirements, we will be able to fully meet customers' expectations. By doing so, we intend to make a new start as a next-generation distributor.

Wholesalers in Japan have traditionally been separated by industry, but as I mentioned, convenience stores, supermarkets and drugstores can now handle a variety of items. On the other hand, they won't be able to procure this merchandise from their usual industry-specific wholesalers.

What they will need is a general wholesaler that offers a product lineup that matches their own type of business. Mediceo Paltac will represent the first step toward creating such a general wholesaler. Drugstores, a fast-growing sales channel, will be able to purchase 80 to 90 percent of their merchandise from a single company, Mediceo Paltac. This will have a powerful impact on the industry.

In the first phase after the management integration, we will rationalize the OTC business. Our OTC business has been unprofitable for a long time, but we believe that this management integration will make it a second core profit driver, after the prescription pharmaceuticals business.

In the second phase, we will achieve a high level of functionality and low-cost logistics company-wide. We plan to integrate PALTAC's 14 large distribution centers throughout Japan, as well as its logistics know-how and advanced systems, which have a 99.999 percent delivery accuracy rate, into the MEDICEO Group's ¥1.6 trillion business. This will enable us to implement logistics reform in the Group at unprecedented speed.

The pharmaceutical wholesale industry will converge on the "Big 4" companies, with each wholesale group having a nationwide network and sales of more than ¥1 trillion. Each group is also developing a customer support system with distinctive features, so it will be difficult to differentiate our company on the basis of these qualities alone. On the other hand, if customers see that every wholesaler has the same functions, they will be able to choose one as their main wholesaler. When selecting a main wholesaler, the deciding factor will be logistics, and that is the primary benefit I expect from this management integration.



Management Integration with PALTAC CORPORATION

The management integration with PALTAC CORPORATION, a company that operates in an entirely different market, will make it a member of the MEDICEO Group. This will enable us to form a corporate group that supports medical care, health and beauty, and aspire to be a next-generation wholesaler that stays a step ahead of changes in the business environment. We intend to fulfill our responsibilities and create the value expected from the MEDICEO Group by blending the Group's technologies and knowledge resources to meet the high expectations of the industry, our customers and communities.

Takashi Saito

Executive Vice President, MEDICEO Holdings Co., Ltd.
President, EVERLTH Co., Ltd.

Creation of Mediceo Paltac Holdings Co., Ltd.

On October 1, 2005, MEDICEO Holdings Co., Ltd. and PALTAC CORPORATION will integrate their management to form Mediceo Paltac Holdings Co., Ltd. A leading national wholesaler of daily necessities, toiletries and cosmetics with a history spanning more than 100 years, PALTAC has built a solid reputation among retailers and manufacturers for its high-quality services and solutions based on its unique merchandising and logistics systems. The integration will create a next-generation wholesale company with superior ability to support medical care, health and beauty.

Management Philosophy

Contributing to people's health and the advancement of society through creation of value in distribution

Management Policy

- (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



The logo design suggests people holding hands and harmony, which symbolize cooperation, coexistence and the strength to live. It also expresses that Mediceo Paltac is a company that grows with customers and business partners, expands broadly and respects people. The futuristic, refined English font also suggests the new direction Mediceo Paltac Holdings will take as a general wholesaler of pharmaceuticals and cosmetics and daily necessities.

Medium-Term Consolidated Management Plan (Year ending March 31, 2008)

Basic Policy

Establish a customer-oriented distribution business model

Focus Points

- (1) Create environment capable of supporting growth
- (2) Evolve logistics that start with the customer
- (3) Create new value that enriches life

Consolidated Management Targets

Figures in parentheses indicate percentage of net sales

Net Sales	¥2,175 billion	
Gross Profit	¥186.6 billion	(8.6%)
SG&A	¥155.9 billion	(7.2%)
Operating Income	¥30.7 billion	(1.4%)
Ordinary Income	¥41.6 billion	(1.9%)
Net Income	¥24.3 billion	(1.1%)
Return on assets (ROA)*	3.0%	
Return on equity (ROE)**	9.2%	

* Return on assets = Operating income / Average total assets

** Return on equity = Net income / Average total shareholders' equity

Mediceo Paltac Holdings Co., Ltd.

(Operating Holding Company)

Cosmetics and Daily Necessities Wholesale Company

PALTAC CORPORATION

Pharmaceutical Wholesale Companies (10 companies)

- SENSU YAKUHIN CO., LTD.
- Chiyaku Co., Ltd.
- YAMAHIRO KURAYA SANSEIDO Inc.
- IZUTSU PHARMACEUTICAL CO., LTD.
- ATOL Co., Ltd.
- USHIODA SANGOKUDO YAKUHIN CO., LTD.
- KURAYA SANSEIDO Inc.
- HEISEI YAKUHIN CO., LTD.
- EVERLTH Co., Ltd.
- MEDICEO MEDICAL CO., LTD.*

Medical-Related Companies (3 companies)

- ORIENTAL PHARMACEUTICAL CO., LTD.
- KURAYA KASEI, INC.
- KURAYA SHOJI, INC.

* Name changed from NAKAGAWA SEIKODO CO., LTD. on July 1, 2005

The healthcare market in which the MEDICEO Group operates can be broadly divided into 1) patients who require treatment; 2) people in only partially good health and those who are prone to illness, and 3) people who are basically healthy but want to be even healthier. The size of the first market, our main business area, is ¥9 trillion. If we can add to this the ¥4 trillion beauty and home products market in the second and third categories through our management integration with PALTAC, we will become a mega-group that does business in a ¥13 trillion market. The Mediceo Paltac Group will maximize its worth by creating new value as a next-generation distributor that supports medical care, health and beauty.

What is the Group's policy on corporate social responsibility?

The MEDICEO Group steadily carries out its business activities while ensuring sound, transparent management. By fulfilling the Group's management philosophy, "contributing to people's health and the advancement of society through creation of value in distribution," we earn the trust of all our stakeholders, who comprise shareholders, customers, employees, consumers and society at large. Doing so also allows us to maximize the Group's corporate value.

In fall 2004, we established guidelines for day-to-day decision making and conduct for officers and employees of the Group to ensure their understanding and practice of the management philosophy and corporate social responsibility, with an emphasis on compliance. After lengthy debate, the Group's management formulated the guidelines and created

a manual with detailed explanations, which was distributed to all employees of Group companies. In addition to encouraging employees to keep the manual on hand at all times, we conduct educational activities, including regular divisional meetings to ensure thorough knowledge and practice of each item in the manual.

Our risk management system has been a top priority since the formation of the MEDICEO Group. An example of this is our response to the Chuetsu earthquake in Niigata Prefecture in fall 2004. One hour after the earthquake occurred, we immediately set up an Emergency and Disaster Response Headquarters to establish a unified chain of communication and respond quickly based on assumption of the worst-case scenario. This enabled us to confirm the safety of employees and their families and gain a grasp of the situation. Moreover, our relationships with our various business partners throughout Japan inevitably contributed to the success of our efforts. Even though the quake-hit region was in a state of paralysis, it was able to receive various forms of support from other regions.

We are establishing our foundation as a group that can overcome changes in the business environment and consistently generate profits as an industry leader, which was the original purpose of forming the MEDICEO Group. In the near term, we plan to continue our various investment projects. The returns on these investments will be steady expansion of profits. This in turn will raise our stock price and increase our total market value, which will allow us to meet the expectations and maintain the trust of our shareholders.



About "Our Stance"

The recently formulated set of decision-making and action guidelines called "Our Stance" are the result of the painstaking efforts of four members of the MEDICEO Group's top management to express in words what they deeply feel are the essential concepts of good management. We will move closer to forming the ideal MEDICEO Group by promoting understanding and diffusion of these guidelines throughout the Group, allowing for differences in the speed and degree of their execution in each area.

Osamu Watanabe

Executive Vice President, MEDICEO Holdings Co., Ltd.
President, ATOL Co., Ltd.

Corporate Governance and Social Responsibility

The MEDICEO Group conducts its business activities while ensuring transparent and sound management in order to continuously improve corporate value and realize our management philosophy of “contributing to people’s health and the advancement of society through creation of value in distribution.”

Strengthening Corporate Governance

The MEDICEO Group is strengthening its corporate governance system with a focus on maximizing corporate value while ensuring transparent and sound management.

The Board of Directors considers and decides matters stipulated by management policy and by law, as well as other important matters concerning management, and also supervises the status of overall business execution. The Board consists of 10 directors, and holds monthly meetings attended by corporate auditors.

MEDICEO Holdings has adopted the auditor system, and has five corporate auditors, three of whom are from outside the company. The corporate auditors strictly monitor the execution of the duties of directors from the standpoints of legality and efficiency.

By resolution of the Ordinary General Meeting of Shareholders held 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 shareholder confidence. In addition, the system of special retirement benefits for directors and corporate auditors was discontinued in order to clarify evaluation of management’s performance.

The Company has adopted an executive officer system to clearly separate management decision-making and supervision from business execution. In addition, directors, executive officers and corporate auditors

participate in a Management Meeting, which convenes once a week, in principle, to share information on management strategies and consider business solutions.

Strengthening the Audit System

The Compliance Office, under the direct control of the President, conducts regular, company-wide internal audits to promote sound management and improvement in all of the Company’s operations. Based on the Basic Audit Policy prepared each fiscal year, the Compliance Office carries out on-site, paper and combined audits covering all aspects of the Company’s business execution and organizational structure. Upon completion of the audits, the Compliance Office prepares an audit report and submits it to the President. After determining from the audit report areas in need of improvement, the President issues instructions to the concerned divisions, and has them prepare improvement plans and report on implementation.

Corporate audits are conducted by three attending corporate auditors and two non-attending corporate 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 trade and conflict of interest rules.

Corporate auditors also attend meetings of the independent auditors concerning audit plans and results to exchange views,

and work to perform efficient and effective audits through collaborative efforts including participation in audits of business sites and subsidiaries. In addition, the corporate auditors exchange views concerning the business execution audits of the Internal Audit Division.

The three outside corporate auditors have no personal, financial, business or other relations of interest with the Company.

Promotion of Corporate Ethics

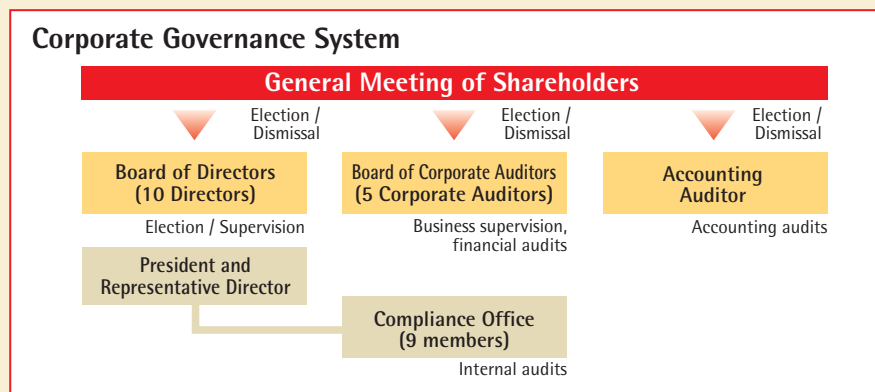
In November 2004, the MEDICEO Group compiled “Our Stance,” a set of decision-making and action guidelines to promote accurate, thorough understanding of its fundamental principles as a company engaged in the distribution of pharmaceuticals.

Our Stance

- 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 emphasize the importance of trust
- IV. Generate funds through high-quality profitability (funds are the corporate lifeline)
- V. Work thoroughly to solve problems and reform management
- VI. Enhance dialogue by listening attentively
- VII. Learn for yourself, then share this learning with others

These action guidelines were compiled in a booklet with detailed explanations, and distributed to all MEDICEO Group employees, who are instructed to keep the booklet on hand at all times. Other measures to promote thorough knowledge and practice of these standards include regular divisional meetings held for that purpose.

With the enactment of the Personal Information Protection Act in April 2005, the MEDICEO Group established the MEDICEO Group Information Security Policy. This policy defines the management structure and handling procedures for all personal information in the Group’s possession, and educational programs are being conducted for all employees.



Management Team

(As of June 29, 2005)



From left: Takashi Saito, Sadatake Kumakura, Osamu Watanabe, Genichiro Tanabe

President and Chief Executive Officer

SADATAKE KUMAKURA*

Vice Presidents

OSAMU WATANABE*

(President, Chief Executive Officer and Representative Director, ATOL Co., Ltd.)

TAKASHI SAITO*

(President, Chief Executive Officer, EVERLTH Co., Ltd.)

GENICHIRO TANABE*

(General Manager of Business Planning and Management Office)

*Representative Director

Directors

SHUICHI WATANABE

(General Manager of Sales Division;
President and Chief Executive Director, KURAYA
SANSEIDO Inc.)

BUNICHI MURAYAMA

(General Manager of Administration Division)

TARO SHINTANI

(General Manager of Logistics Division)

MASAHIKO MASUYAMA

(Manager of Business Planning and Management Office)

TAKURO HASEGAWA

(Deputy Manager of Business Planning and
Management Office)

AKIRA KISE

(Assistant General Manager of Administration Division)

Corporate Auditors

HIDEKI NOGUCHI

(Attending Corporate Auditor)

YOSHIHARU KATAOKA

(Attending Corporate Auditor)

AKIHIKO TANAKA

(Attending Outside Corporate Auditor)

YOKO SANUKI

(Outside Corporate Auditor)

YOSHIO OKAMOTO

(Outside Corporate Auditor)

Executive Managing Directors

KIKUO MIKI

(Section Head of Corporate Communication)

AKIYOSHI OGANE

(Vice President and Representative Director, USHIODA
SANGOKUDO YAKUJIN CO., LTD.)

KAZUO MISAKI

(Manager of epi Development Department)

HIDETAKA HATA

(Chairman and Chief Executive Officer,
HEISEI YAKUJIN CO., LTD.)

JYUICHIRO ICHIYAMA

(President and Representative Director,
ORIENTAL PHARMACEUTICAL CO., LTD.)

Senior Managing Directors

MASAACKI MATSUISHI

(Vice President and Representative Director, Director of
Sales Division, IZUTSU PHARMACEUTICAL CO., LTD.)

TAKAHARU SAKO

(Manager of CS Development Department)

TSUYOSHI UEHARA

(General Manager of Computer Systems
Management Division)

Chief Operating Officers

HIROYUKI MARUYAMA

(Director, Deputy Director of Sales Division,
Manager of Reagents Division, Manager of
Distribution Planning Department, IZUTSU
PHARMACEUTICAL CO., LTD.)

MASAACKI KOBUCHI

(Manager of Sales Division)

FUMINARI HIKITA

(Section Head of Compliance Section)

TOSHIO HIRASAWA

(Manager of Financial Accounts and Finance Department)

YUJI TANIGUCHI

(Manager of General Affairs Department)

YASUHIRO CHOUFUKU

(Assistant General Manager of Sales Division, Manager
of Strategic Sales and Marketing Department)

HIDEAKI TAKEMURA

(Manager of Medical Affairs Information Department and
Post Marketing Surveillance Department)

KAZUNORI TOYOTA

(Supervisor of Business Planning and Management
Office)

TOSHIHIKO KUME

(Supervisor of Business Planning and Management
Office)

KYUJIRO SHIMOMAKI

(Assistant General Manager of Logistics Division)

Management's Discussion and Analysis

Five-Year Summary

MEDICEO Holdings Co., Ltd. and its consolidated subsidiaries
Years ended March 31

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2001	2002	2003	2004	2005	2005
For the Year:						
Net sales	¥1,073,016	¥1,222,222	¥1,274,503	¥1,283,926	¥1,665,816	\$15,568,374
Gross profit	96,741	106,644	114,923	116,805	137,806	1,287,897
Selling, general and administrative expenses	94,792	100,863	104,763	101,450	126,819	1,185,224
Operating income	1,949	5,781	10,160	15,355	10,987	102,682
Net income	1,337	2,951	5,016	7,879	8,730	81,589
Depreciation and amortization	4,025	4,866	5,204	5,709	7,625	71,262
Capital expenditures (payment base)	4,287	5,663	6,206	4,974	7,812	73,009
Per Share Data:						
Net income (Note 2)	¥ 9.80	¥ 21.67	¥ 36.48	¥ 55.19	¥ 45.90	\$ 0.43
Diluted net income	9.02	18.92	31.50	48.65	43.52	0.41
Total shareholders' equity (Note 3)	899.68	823.75	828.14	893.84	904.59	8.45
Cash dividends applicable to the period	12.00	12.00	12.00	12.00	12.00	0.11
At Year-End:						
Total assets	¥ 652,368	¥ 644,248	¥ 638,589	¥ 626,626	¥ 848,416	\$ 7,929,121
Interest-bearing debt	42,681	41,177	33,730	23,275	15,660	146,355
Total shareholders' equity	122,992	110,650	112,261	128,988	168,104	1,571,065
Ratios:						
Return on assets (Note 4)	0.4%	0.9%	1.6%	2.4%	1.5%	
Return on equity (Note 5)	1.1	2.5	4.5	6.5	5.9	
Number of employees	8,226	7,780	7,741	7,468	9,496	

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥107.00 to U.S. \$1.00, the approximate exchange rate on March 31, 2005.

2. Net income per share = (Net income - Officers' bonuses) / (Average shares outstanding during the year - Average treasury stock during the year)

3. Total shareholders' equity per share = (Total shareholders' equity - Officers' bonuses) / (Shares outstanding at end of year - Treasury stock)

4. Return on assets = Operating income / Average total assets

5. Return on equity = Net income / Average total shareholders' equity

Overview of Results

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

The MEDICEO Group conducted regional sales activities tailored to each of its areas of operation while working to establish a nationwide network, and increased efficiency through further concentration of management resources to enhance corporate value. 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, KURAYA SANSEIDO Inc. became an operating holding company and changed its corporate name to MEDICEO Holdings Co., Ltd. through a spin-off on October 1, 2004. At the same time, a restructured 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 promoted area restructuring and other measures aimed at enhancing operating activities and making them more efficient. On April 1, 2004,

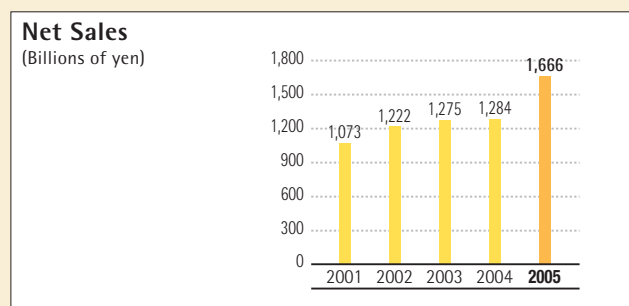
MEDICEO Holdings Co., Ltd (the "Company") transferred its business related to wholesale distribution of pharmaceuticals in Nagano Prefecture to YAMAHIRO Inc., which changed its name to YAMAHIRO KURAYA SANSEIDO Inc. In addition, the restructured KURAYA SANSEIDO Inc. transferred its wholesale distribution 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. 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.

The MEDICEO Group also worked to promote unified sales initiatives in the prescription pharmaceuticals segment, and to reduce the cost of

sales ratio through measures such as expanding 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 Saitama Prefecture to support the stable supply and efficient distribution of health care products.

Sales and Operating Income

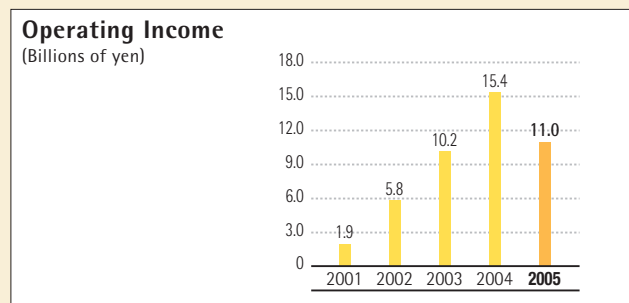
Consolidated net sales for the year ended March 31, 2005 increased 29.7 percent year-on-year to ¥1,665,816 million. The increase in net sales was significantly higher than the growth of the market as a whole because of the greater number of consolidated subsidiaries during the fiscal year, including EVERLTH Co., Ltd. and ATOL Co., Ltd.



Gross profit increased 18.0 percent to ¥137,806 million, due mainly to increased sales volume resulting from expansion of the MEDICEO Group. The ratio of gross profit to net sales decreased to 8.3 percent from 9.1 percent for the previous fiscal year, due to lower selling prices and unprecedented pressure on drug price margins in negotiations with some medical institutions and dispensing pharmacies.

Selling, general and administrative (SG&A) expenses increased 25.0 percent to ¥126,819 million. The ratio of SG&A expenses to net sales was 7.6 percent, compared to 7.9 percent for the previous fiscal year. The MEDICEO Group has moved to reduce SG&A expenses and benefit fully from increased sales by integrating core business systems for marketing, distribution and accounting, and by reforming its retirement benefit system.

Operating income decreased 28.4 percent to ¥10,987 million. The operating margin was 0.7 percent, compared to 1.2 percent for the previous fiscal year. Management expects that ongoing programs to integrate Group operations and raise efficiency will enhance economies of scale and lead to improvement in the operating margin.



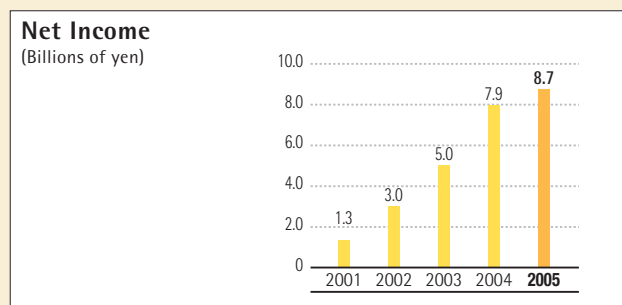
Other Income (Expenses)

Total other income (expenses) amounted to net other income of ¥8,318 million, compared to net other expense of ¥261 million for the previous fiscal year. Research fee income increased 32.8 percent to ¥4,252 million. Another primary factor in the year-on-year change was amortization of consolidation difference totaling ¥6,628 million, which represents amortization of goodwill related to newly consolidated subsidiaries. As discussed in Note 11 to the consolidated financial statements, the MEDICEO Group also generated gain on sale of property, plant and equipment totaling ¥2,131 million, and gain on sale of investment securities totaling ¥1,669 million. These one-time gains were offset by one-time expenses including ¥1,064 million in restructuring costs and ¥1,190 million for loss on dissolution of employees' pension fund plan in connection with changes to the retirement plan of a newly consolidated subsidiary. Reflecting the Company's consistent program of reducing interest-bearing debt, interest expense decreased 23.2 percent to ¥235 million. The interest coverage ratio was 50.2 times, compared to 50.9 times for the previous fiscal year.

As a result of the above factors, income before income taxes and minority interests increased 27.9 percent to ¥19,305 million.

Net Income

Income taxes net of deferrals increased 53.1 percent to ¥10,503 million, reflecting additional payment of deferred income taxes during the fiscal year. Net income increased 10.8 percent to ¥8,730 million. Net income per share decreased to ¥45.90, compared to ¥55.19 for the previous fiscal year, and fully diluted net income per share decreased to ¥43.52 from ¥48.65 for the previous fiscal year. Earnings per share decreased despite higher net income because of the expansion of the MEDICEO Group, as the average number of shares outstanding on a consolidated basis for the fiscal year ended March 31, 2005 was 185,084,168 shares, compared to 138,028,164 shares for the previous fiscal year.



Costs, Expenses and Income as a Percentage of Net Sales

Years ended March 31	2003	2004	2005	Increase (decrease) 2005 vs. 2004
Cost of sales	91.0%	90.9%	91.7%	0.8
Gross profit	9.0	9.1	8.3	(0.8)
SG&A expenses	8.2	7.9	7.6	(0.3)
Operating income	0.8	1.2	0.7	(0.5)
Income before income taxes and minority interests	0.9	1.2	1.2	—
Net income	0.4	0.6	0.5	(0.1)

Dividends

The MEDICEO Group places high priority on returning profits to shareholders, and works to increase profitability to provide stable dividends while increasing retained earnings to use in developing business and strengthening operations. Cash dividends per share applicable to the fiscal year ended March 31, 2005 remained unchanged from the previous fiscal year at ¥12.00. The payout ratio for the fiscal year on an undiluted basis was 26.1 percent.

Financial Strategy

The financial strategy of the MEDICEO Group centers on creating sufficient liquidity and capital for operating needs and a sound balance sheet. Capital investment in plant and equipment is carried out according to clearly defined plans.

Liquidity and Financial Position

Net cash provided by operating activities increased 98.5 percent to ¥26,301 million. Changes in working capital resulting from the increased scale of the MEDICEO Group complemented the increase in income before income taxes and depreciation and amortization. The substantial increase in notes and accounts payable more than offset the use of cash to increase trade receivables, inventories and other current assets. Working capital more than doubled to ¥59,378 million from ¥24,658 million a year earlier, and the current ratio was 1.10 to 1, compared to 1.05 to 1 at March 31, 2004.

Net cash provided by investing activities totaled ¥31,279 million. In the previous fiscal year, investing activities used net cash totaling ¥4,240 million. The primary factor in the year-on-year change was proceeds from acquisition of subsidiary stock due to change in the scope of consolidation totaling ¥35,258 million, which resulted from the increase in scale of the MEDICEO Group as discussed above. Net payments for purchase of property, plant and equipment decreased 1.8 percent to ¥3,615 million.

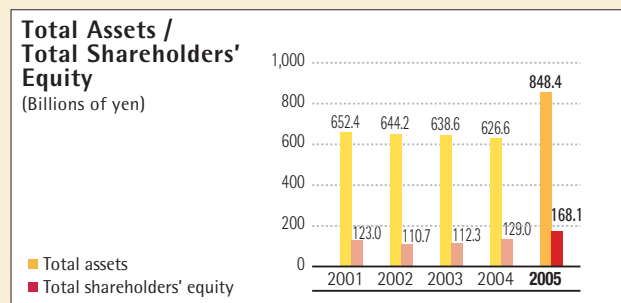
Net cash used in financing activities increased 17.1 percent to ¥8,516 million. The year-on-year change primarily resulted because the Company repurchased shares of stock totaling ¥1,106 million, up from ¥14 million in the previous fiscal year. Cash dividends paid also increased to ¥1,981 million from ¥1,645 million for the previous fiscal year. Debt reduction continued to strengthen the Company's financial structure and reduce fixed interest expenses. Net decrease in short-term bank loans used cash totaling ¥4,714 million, and net repayment of long-term debt used cash totaling ¥305 million.

As a result, cash and cash equivalents at the end of the year increased 69.9 percent from a year earlier to ¥119,121 million.

Cash Flow Highlights

Years ended March 31	Millions of yen			
	2003	2004	2005	Increase (decrease) 2005 vs. 2004
Net cash provided by operating activities	¥11,509	¥13,247	¥26,301	¥13,054
Net cash provided by (used in) investing activities	(6,540)	(4,240)	31,279	35,519
Net cash used in financing activities	(10,123)	(7,270)	(8,516)	(1,246)
Cash and cash equivalents at end of year	68,375	70,112	119,121	49,009

Total assets at March 31, 2005 increased 35.4 percent from a year earlier to ¥848,416 million, primarily reflecting the increase in working capital and property, plant and equipment resulting from the increased scope of consolidation. Shareholders' equity increased 30.3 percent to ¥168,104 million, reflecting an increase in retained earnings and a substantial increase in capital surplus resulting from the exchange of shares used to effect expansion of the MEDICEO Group. The return on average total shareholders' equity decreased to 5.9 percent from 6.5 percent for the previous fiscal year, and the ratio of shareholders' equity to total assets stood at 19.8 percent, compared to 20.6 percent a year earlier.



Capital Investment

The MEDICEO Group's capital expenditures in the year ended March 31, 2005 totaled ¥7,812 million. Primary investments were ¥2,723 million for expansion of the SAITAMA DISTRIBUTION CENTER in the pharmaceutical wholesale business, and ¥1,566 million for investment in software related to the integration of core systems for sales and distribution operations. The MEDICEO Group funded the entire amount of capital investment using internal capital.

Outlook for the Fiscal Year Ending March 2006

The operating environment in the pharmaceutical wholesale business is expected to become increasingly challenging. Emphasis on reducing medical care costs will intensify in tandem with increased

awareness of the need to reform the NHI system as part of efforts to improve Japan's fiscal condition. The pharmaceutical wholesale business must further enhance its treatment management capabilities and improve its ability to meet 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 focus on achieving the goals of 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, a leading wholesaler of cosmetics and daily necessities, agreed on May 13, 2005 to a management integration through an exchange of shares that will make PALTAC a wholly owned subsidiary of MEDICEO Holdings as of October 1, 2005. Effective from that date, MEDICEO Holdings plans to change its present corporate name to Mediceo Paltac Holdings Co., Ltd. The management integration between PALTAC and MEDICEO Holdings is aimed at creating a business structure for contributing to medical care, health and beauty. By speedily integrating the resources and expertise of PALTAC, the MEDICEO Group will further enhance distribution and service and create value in distribution as a new type of wholesaler that offers management benefits to business partners.

As a result, for the year ending March 31, 2006, the Company projects that consolidated net sales will increase 13.5 percent year-on-year to ¥1,890.0 billion and consolidated net income will increase 97.0 percent year-on-year to ¥17.2 billion.

Operating and Other Risks

Risks related to specific legal regulations

The Company and the MEDICEO Group handle various types of pharmaceuticals and related products, and conduct sales activities after receiving the necessary authorizations, registrations, designations and licenses from relevant local governments, pursuant to the Pharmaceutical Affairs Law and other laws.

Drug price standards

Prescription pharmaceuticals are subject to NHI drug price standards. The drug price standards stipulate the billing prices for pharmaceuticals covered by health insurance, and therefore function as an upper limit on selling prices. The drug price standards are, as a general principle, revised once every two years to reflect actual market prices. Because each revision lowers prices, the upper limit on

selling prices also declines with each revision of the drug price standards, which has a material effect on sales.

Revisions of drug price standards during the last five years were as follows:

NHI Drug Price Revisions

Implementation date	Average rate of decrease
April 1, 2000	7.0%
April 1, 2002	6.3%
April 1, 2004	4.2%

Sales discontinuations and product recalls

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

System risk

The business of the Company and the MEDICEO Group is heavily reliant on computer network systems. Loss 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 customer bankruptcy, civil rehabilitation or similar issues in regard to the receivables associated with ongoing transactions between the Company and the MEDICEO Group and medical institutions.

Inventory risk

The MEDICEO Group has inventories from suppliers. Business results may be affected in the event that selling prices decline or products become unsaleable due to supplier bankruptcy, civil rehabilitation or similar issues.

Litigation risk

The Company and the MEDICEO Group may be a party to litigation related to product liability, the environment, labor or other matters in the course of conducting business activities.

Consolidated Balance Sheets

MEDICEO Holdings Co., Ltd. and its consolidated subsidiaries
March 31, 2004 and 2005

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
Current assets:			
Cash in hand and in bank (Notes 3 and 8)	¥ 70,646	¥120,636	\$1,127,439
Trade notes and accounts receivable	338,035	437,654	4,090,224
Short-term investments (Note 4)	3	8	75
Other accounts receivable	23,169	33,029	308,682
Inventories	52,955	78,294	731,720
Deferred income taxes (Note 12)	3,633	4,836	45,196
Other current assets	2,097	2,576	24,075
Allowance for doubtful accounts	(2,892)	(3,716)	(34,729)
Total current assets	487,646	673,317	6,292,682
Property, plant and equipment (Note 8):			
Buildings and structures	76,591	98,845	923,785
Land (Note 5)	46,805	62,722	586,187
Construction in progress	2,715	3,082	28,804
Machinery, equipment and other	16,023	21,435	200,327
	142,134	186,084	1,739,103
Accumulated depreciation	(48,395)	(63,468)	(593,159)
Total property, plant and equipment	93,739	122,616	1,145,944
Intangible assets:			
Software	5,189	5,473	51,150
Consolidated adjustment account	1,156	—	—
Other intangible assets	948	907	8,476
Total intangible assets	7,293	6,380	59,626
Investments and other assets:			
Investment securities (Notes 4 and 8)	15,004	31,366	293,140
Long-term loans receivable	325	921	8,607
Deferred income taxes (Note 12)	6,809	3,357	31,374
Deferred income taxes – land revaluation (Note 5)	7,975	—	—
Other	13,625	15,279	142,795
Allowance for doubtful accounts	(5,790)	(4,820)	(45,047)
Total investments and other assets	37,948	46,103	430,869
	¥626,626	¥848,416	\$7,929,121

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
Current liabilities:			
Short-term bank loans (Notes 6 and 8)	¥ 7,339	¥ 5,325	\$ 49,766
Long-term debt due within one year (Notes 6 and 8)	735	425	3,972
Notes and accounts payable (Note 8):			
Trade	433,696	584,267	5,460,439
Other	6,795	9,792	91,514
Accrued expense	9,237	10,904	101,907
Income taxes payable (Note 12)	2,840	1,164	10,879
Other current liabilities	2,346	2,062	19,271
Total current liabilities	462,988	613,939	5,737,748
Long-term liabilities:			
Long-term debt (Notes 6 and 8)	15,201	9,910	92,617
Deferred income taxes	—	5,200	48,598
Deferred income taxes – land revaluation (Note 5)	234	1,113	10,402
Reserve for employees' retirement benefits (Note 7)	9,956	15,976	149,308
Reserve for directors' and corporate auditors' retirement benefits (Note 7)	1,854	—	—
Consolidated adjustment account	—	28,583	267,131
Other long-term liabilities	6,713	4,850	45,327
Total long-term liabilities	33,958	65,632	613,383
Minority interests	692	741	6,925
Contingent liabilities (Note 9)			
Shareholders' equity (Note 10):			
Common stock:			
Authorized – 500,000,000 shares in 2004 and 2005			
Issued – 147,736,054 shares in 2004 and 189,100,203 shares in 2005	15,183	17,786	166,224
Capital surplus	30,064	67,618	631,944
Retained earnings	93,309	98,910	924,392
Land revaluation surplus (Note 5)	(11,462)	(19,660)	(183,738)
Unrealized gain on available-for-sale securities (Note 4)	4,342	6,123	57,224
Treasury stock, at cost	(2,448)	(2,673)	(24,981)
Total shareholders' equity	128,988	168,104	1,571,065
	¥626,626	¥848,416	\$7,929,121

Consolidated Statements of Operations

MEDICEO Holdings Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
Net sales	¥1,283,926	¥1,665,816	\$15,568,374
Cost of sales	1,167,121	1,528,010	14,280,468
Gross profit	116,805	137,806	1,287,906
Selling, general and administrative expenses	101,450	126,819	1,185,224
Operating income	15,355	10,987	102,682
Other income (expenses):			
Research fee income	3,201	4,252	39,738
Interest and dividend income	217	552	5,159
Interest expense	(306)	(235)	(2,196)
Loss on devaluation of investment securities	(300)	(47)	(439)
Other, net (Note 11)	(3,073)	3,796	35,477
Total other income (expenses)	(261)	8,318	77,739
Income before income taxes and minority interests	15,094	19,305	180,421
Income taxes (Note 12):			
Current	6,328	4,294	40,131
Deferred	531	6,209	58,028
Total income taxes	6,859	10,503	98,159
Minority interests in net income of consolidated subsidiaries	356	72	673
Net income	¥ 7,879	¥ 8,730	\$ 81,589

	Yen		U.S. dollars (Note 1)
	2004	2005	2005
Amounts per share of common stock:			
Net income	¥55.19	¥45.90	\$0.43
Diluted net income	48.65	43.52	0.41
Cash dividends applicable to the period	12.00	12.00	0.11

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

Consolidated Statements of Shareholders' Equity

MEDICEO Holdings Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2004 and 2005

	Number of shares of common stock issued (Thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Land revaluation surplus	Unrealized gain on available-for-sale securities	Treasury stock, at cost
Balance at March 31, 2003	142,425	¥ 12,751	¥ 25,919	¥ 87,875	¥ (12,260)	¥ 2,602	¥ (4,626)
Conversion of convertible bonds into stock	5,311	2,432	2,432	—	—	—	—
Gain on transfer of treasury stock	—	—	1,713	—	—	—	2,192
Net income	—	—	—	7,879	—	—	—
Cash dividends paid (¥12.0 per share)	—	—	—	(1,645)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(151)	—	—	—
Reverse of land revaluation surplus	—	—	—	(649)	649	—	—
Changes in revaluation surplus	—	—	—	—	149	—	—
Changes in unrealized gain on available-for-sale securities, less applicable taxes	—	—	—	—	—	1,740	—
Treasury stock acquired	—	—	—	—	—	—	(14)
Balance at March 31, 2004	147,736	¥ 15,183	¥ 30,064	¥ 93,309	¥ (11,462)	¥ 4,342	¥ (2,448)
Conversion of convertible bonds into stock	5,682	2,602	2,602	—	—	—	—
Gain on transfer of treasury stock	—	—	800	—	—	—	1,820
Increase due to exchange of shares	35,682	—	34,151	—	—	—	—
Net income	—	—	—	8,729	—	—	—
Cash dividends paid (¥12.0 per share)	—	—	—	(2,381)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(358)	—	—	—
Reverse of land revaluation surplus	—	—	—	(388)	388	—	—
Changes in revaluation surplus	—	—	—	—	(8,586)	—	—
Changes in unrealized gain on available-for-sale securities, less applicable taxes	—	—	—	—	—	1,781	—
Treasury stock acquired	—	—	—	—	—	—	(2,045)
Balance at March 31, 2005	189,100	¥17,786	¥67,618	¥98,910	¥(19,660)	¥6,123	¥(2,673)

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Land revaluation surplus	Unrealized gain on available-for-sale securities	Treasury stock, at cost
Balance at March 31, 2004	\$ 141,897	\$ 280,972	\$ 872,047	\$(107,121)	\$ 40,579	\$(22,879)
Conversion of convertible bonds into stock	24,318	24,318	—	—	—	—
Gain on transfer of treasury stock	—	7,477	—	—	—	17,009
Increase due to exchange of shares	—	319,168	—	—	—	—
Net income	—	—	81,579	—	—	—
Cash dividends paid (¥12.0 per share)	—	—	(22,252)	—	—	—
Bonuses to directors and statutory auditors	—	—	(3,346)	—	—	—
Reverse of land revaluation surplus	—	—	(3,626)	3,626	—	—
Changes in revaluation surplus	—	—	—	(80,243)	—	—
Changes in unrealized gain on available-for-sale securities, less applicable taxes	—	—	—	—	16,645	—
Treasury stock acquired	—	—	—	—	—	(19,112)
Balance at March 31, 2005	\$166,224	\$631,944	\$924,392	\$(183,738)	\$57,224	\$(24,981)

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

Consolidated Statements of Cash Flows

MEDICEO Holdings Co., Ltd. and its consolidated subsidiaries

Years ended March 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
Cash flows from operating activities:			
Income before income taxes	¥ 15,094	¥ 19,304	\$ 180,411
Adjustments to reconcile income before income taxes to net cash flows provided by operating activities:			
Depreciation and amortization	5,709	7,625	71,262
Amortization of consolidation difference	726	(6,628)	(61,944)
Loss on disposal of property, plant and equipment – net	1,771	(694)	(6,486)
(Increase) decrease in reserve for employees' retirement benefits – net	(6,464)	2,207	20,626
Increase (decrease) in reserve for directors' and corporate auditors' retirement benefits	26	(2,397)	(22,402)
Decrease in reserve for employees' bonuses	(988)	(648)	(6,056)
Decrease in allowance for doubtful accounts	(443)	(2,378)	(22,224)
Decrease in allowance for sales returns	(6)	(87)	(813)
Interest expenses	306	235	2,196
Interest and dividend income	(217)	(551)	(5,150)
Loss on sale or devaluation of securities – net	296	32	300
Write-down on stock of subsidiary	–	20	187
Loss on sale and devaluation of golf club memberships – net	37	87	813
(Increase) decrease in notes and accounts receivable – trade	1,464	(11,373)	(106,290)
(Increase) decrease in inventories	2,929	(9,717)	(90,813)
Increase (decrease) in notes and accounts payable	(11,956)	42,147	393,897
Decrease in accrued consumption taxes	(292)	(2,807)	(26,234)
(Increase) decrease in other current assets	6,788	(1,978)	(18,486)
Increase in other liabilities	7,968	1,556	14,542
Payment of directors' and corporate auditors' bonuses	(163)	(366)	(3,421)
Subtotal	22,585	33,589	313,915
Interest and dividends received	217	552	5,159
Cash paid for interest	(303)	(234)	(2,187)
Cash paid for income taxes	(8,873)	(7,530)	(70,374)
Gain on sale of goodwill	(160)	–	–
Others	(219)	(76)	(710)
Net cash provided by operating activities	13,247	26,301	245,803
Cash flows from investing activities:			
Payments for time deposits	(265)	(752)	(7,028)
Maturity of time deposits	1,509	918	8,579
Payments for purchase of property, plant and equipment – net	(3,680)	(3,615)	(33,785)
Payments for purchase of investment securities	(117)	(305)	(2,850)
Proceeds from sale of investment securities	12	22	206
(Increase) decrease in loans receivable – net	(218)	320	2,991
Payments for purchase of investment in subsidiary	(12)	–	–
Proceeds from sale of goodwill	397	–	–
Payments for purchase of goodwill	–	(135)	(1,262)
Proceeds from acquisition of subsidiary stock due to change in scope of consolidation	–	35,258	329,514
Other, net	(1,866)	(432)	(4,038)
Net cash provided by (used in) investing activities	(4,240)	31,279	292,327
Cash flows from financing activities:			
Decrease in short-term bank loans – net	(4,960)	(4,714)	(44,056)
Proceeds from long-term debt	400	430	4,019
Repayment of long-term debt	(1,030)	(735)	(6,869)
Purchase of treasury stock	(14)	(1,106)	(10,336)
Payments for cash dividends	(1,645)	(1,981)	(18,514)
Payments for cash dividends to minority shareholders	(21)	(410)	(3,832)
Net cash used in financing activities	(7,270)	(8,516)	(79,588)
Translation adjustments to cash and cash equivalents	(0)	–	–
Net increase in cash and cash equivalents	1,737	49,064	458,542
Cash and cash equivalents at beginning of year	68,375	70,112	655,252
Cash and cash equivalents in connection with the exclusion of a certain subsidiary from consolidation	–	(55)	(514)
Cash and cash equivalents at end of year	¥ 70,112	¥119,121	\$1,113,280

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

Notes to Consolidated Financial Statements

MEDICEO Holdings Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2004 and 2005

1. Basis of presenting the consolidated financial statements

MEDICEO Holdings Co., Ltd. and its consolidated subsidiaries (the "Company") maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and were filed with the Financial Services Agency as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2005, which was ¥107.00 to U.S.\$1.00. These translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

Consolidated financial statements included the accounts of MEDICEO Holdings Co., Ltd. and ten and thirteen significant domestic subsidiaries in 2004 and 2005, respectively.

All material intercompany transactions and accounts have been eliminated. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded using the fair value at the time the Company acquired control of the respective subsidiaries.

On April 1, 2004, the Company made EVERLTH Co., Ltd. and ATOL Co., Ltd. wholly owned subsidiaries using a share exchange system, and consolidated their results for the fiscal year ended March 31, 2005.

On May 1, 2004, the Company made NAKAGAWA SEIKODO CO., LTD. a wholly owned subsidiary by a share exchange system, and consolidated its results from that date for the fiscal year ended March 31, 2005.

On April 1, 2004, the Company prepared for a corporate separation by newly establishing KURAYA SANSEIDO Spin-off Preparation Inc., and consolidating its results for the fiscal year ended March 31, 2005.

The main assets and liabilities of the new subsidiaries upon consolidation as a result of acquisition of shares, value of shares acquired and net proceeds from acquisition of shares are outlined below:

	Millions of yen	Thousands of U.S. dollars
ATOL Co., Ltd.		
Current assets	¥ 73,376	\$ 685,757
Fixed assets	24,104	225,271
Current liabilities	(58,135)	(543,318)
Long-term liabilities	(2,148)	(20,075)
Consolidated adjustment account	(18,554)	(173,402)
Acquisition cost of ATOL Co., Ltd. stock	18,642	174,224
Cash and cash equivalents of		
ATOL Co., Ltd.	16,230	151,682
Shares acquired through		
share exchange	(18,642)	(174,224)
Proceeds from acquisition		
of shares of ATOL Co., Ltd.	16,230	151,682
EVERLTH Co., Ltd.		
Current assets	¥ 56,711	\$ 530,009
Fixed assets	24,286	226,972
Current liabilities	(44,317)	(414,178)
Long-term liabilities	(2,862)	(26,748)
Consolidated adjustment account	(18,566)	(173,514)
Acquisition cost of EVERLTH Co., Ltd. stock	15,250	142,523
Cash and cash equivalents of		
EVERLTH Co., Ltd.	15,773	147,411
Shares acquired through share exchange	(15,250)	(142,523)
Proceeds from acquisition of		
shares of EVERLTH Co., Ltd.	15,773	147,411
NAKAGAWA SEIKODO CO., LTD.		
Current assets	¥ 12,758	\$ 119,234
Fixed assets	951	8,888
Current liabilities	763	7,131
Long-term liabilities	11,785	110,140
Consolidated adjustment account	158	1,477
Acquisition cost of NAKAGAWA		
SEIKODO CO., LTD. stock	2,529	23,636
Cash and cash equivalents of		
NAKAGAWA SEIKODO CO., LTD.	706	6,598
Shares acquired through share exchange	(2,529)	(23,636)
Proceeds from acquisition of shares		
of NAKAGAWA SEIKODO CO., LTD.	706	6,598

ELF Co., Ltd. terminated its capital relationship with the Company in September 2004, and was removed from the scope of consolidation from the fiscal year ended March 31, 2005. However, the income and cash flow of ELF Co., Ltd. through September 30, 2004 are consolidated for the fiscal year ended March 31, 2005.

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

Equity method

Investments in non-consolidated subsidiaries and affiliates in which the Company has the ability to exercise significant influence over the operating and financial policies of the investees, are accounted for using the equity method.

Investments in other non-consolidated subsidiaries and affiliates are not accounted for by the equity method, since the total net income and retained earnings in the aggregate of such companies are not material compared to those on a consolidated basis.

Consolidated adjustment account

The consolidated adjustment account is amortized over mainly 5 years on a straight-line basis. When immaterial, the consolidated adjustment account is charged to expense as incurred.

Cash flow statement

In preparing the consolidated statements of cash flows, cash in hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Short-term investments and investment securities

The Company adopted "Accounting Standards for Financial Instruments" issued by the Ministry of Finance ("MOF") on January 22, 1999. In accordance with these accounting standards, the Company's marketable and investment securities are considered as held-to-maturity or available-for-sale. Available-for-sale securities represent those securities that do not meet the criteria of trading securities and held-to-maturity securities.

Available-for-sale securities are stated at fair value and the unrealized gains and losses are reported as a separate component of stockholders' equity. In cases where substantial impairment of value is recognized compared to fair value, the carrying amount is reduced to the fair value. Held-to-maturity securities are stated at amortized cost using the straight-line method.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

Beginning in the year ended March 31, 2005, the Company accounts for its interest in investment limited partnerships (¥96 million and ¥125 million in the years ended March 31, 2005 and 2004, respectively) as part of "Investment securities," not as part of "Other" as previously classified, under "Investments and other assets," pursuant to the Law Partially Revising the Securities and Exchange Law, (Law No. 97 of June 9, 2004, enacted on December 1, 2004).

Inventories

In promoting reorganization through shifting to an operating holding company structure, integrating the management of subsidiaries and other measures, the Company is renewing core business systems shared throughout the Group and is promoting consistent groupwide accounting methods. Beginning with the year ended March 31, 2005, valuation of inventories has changed from cost using the first-in-first-out method to primarily cost using the moving-average method to make the calculation of income and loss more accurate. The effect of this change on income and loss in the

consolidated financial statements for the year ended March 31, 2005 was immaterial.

Property, plant and equipment

Depreciation of property, plant and equipment is computed using the declining-balance method.

In accordance with revisions of the Corporation Tax Law, buildings acquired after March 31, 1998 are depreciated using the straight-line method.

Finance leases

Finance leases, except leases for which the ownership of the leased assets is considered to be transferred to the lessee, are accounted for in the same manner as operating leases.

Software costs

The Company included software in intangible assets and amortized it using the straight-line method over the estimated useful lives of the software (five years).

Allowance for doubtful accounts

Allowance for doubtful accounts is recorded at the amount necessary to cover for possible losses from doubtful accounts based on the amount estimated to be uncollectable on an individual basis and from other accounts based on historical loss ratios.

Reserve for employees' bonuses

At March 31, 2004 and 2005, the Company maintained a reserve for employees' bonuses based on estimated amounts to be paid in the subsequent period.

Employees' retirement benefits and pension

The Company adopted "Accounting Standards for Retirement Benefits" issued by the MOF on June 16, 1998. In accordance with these accounting standards, the Company provides for employees retirement benefits in the estimated amount required to be paid as of the balance sheet date, less the estimated fair value of pension assets. Prior service costs and actuarial gains and losses are amortized from the year in which the gains or losses arise, primarily by the straight-line method over a fixed number of years within the average remaining years of service of employees.

Reserve for directors' and corporate auditors' retirement benefits

The MEDICEO Group previously provided for payment of directors' and corporate auditors' retirement benefits in the amount required to be paid at the end of the fiscal year, in accordance with company rules. In June 2004, the directors' and corporate auditors' retirement benefit system was abolished, and the amount required to be paid at the time of abolishment will be paid to directors and corporate auditors upon their retirement.

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).

Income taxes

Income tax payable is computed based on the pretax income included in the consolidated financial statements. The asset and liability method is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences. As of the year ended March 31, 2005, the Company is applying "Handling of Practical Matters for Statement of Pro Forma Business Taxation in the Statements of Income" (Practical Application Report, No. 12). 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.

Foreign currency translation

Monetary assets and liabilities of the Company are translated at the current exchange rates at the balance sheet date. The resulting foreign currency gains or losses are recognized as other income or expenses.

Amounts per share of common stock

The computations of net income per share of common stock are based on the average number of shares outstanding during each year. In accordance with "Accounting Standards for Net Income per Share" issued by the Financial Accounting Standards Foundation on September 25, 2002, the net income excludes bonuses to directors and corporate auditors.

For computing diluted net income per share of common stock, the average number of shares was increased by the number of shares that would have been outstanding assuming that domestic convertible bonds were converted on the date of issuance (September 11, 1996) at the actual conversion rates in effect during the year. Cash dividends per share represent the actual amounts declared during the respective years.

3. Cash and cash equivalents

Cash and cash equivalents at March 31, 2004 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Cash in hand and in bank	¥70,646	¥120,636	\$1,127,439
Time deposits over three months	(534)	(1,514)	(14,151)
Cash and cash equivalents	¥70,112	¥119,121	\$1,113,280

4. Market value information for securities

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

Year ended March 31, 2005	Millions of yen		
	Original cost	Estimated book value	Unrealized gain
Securities whose book value exceeds their original cost:			
Equity securities	¥8,093	¥24,849	¥16,755
Bonds	5	5	—
Others	—	—	—
	¥8,098	¥24,854	¥16,755
Securities whose book value does not exceed their original cost:			
Equity securities	¥ 351	¥ 320	¥ (31)
Bonds	—	—	—
Others	—	—	—
	¥ 351	¥ 320	¥ (31)
Total	¥8,450	¥25,174	¥16,724

Year ended March 31, 2005	Thousands of U.S. dollars		
	Original cost	Estimated book value	Unrealized gain
Securities whose book value exceeds their original cost:			
Equity securities	\$75,636	\$232,234	\$156,589
Bonds	47	47	—
Others	—	—	—
	\$75,683	\$232,281	\$156,589
Securities whose book value does not exceed their original cost:			
Equity securities	\$ 3,280	\$ 2,990	\$ (290)
Bonds	—	—	—
Others	—	—	—
	\$ 3,280	\$ 2,990	\$ (290)
Total	\$78,972	\$235,271	\$156,300

Year ended March 31, 2004	Millions of yen		
	Carrying value	Estimated fair value	Unrealized gain
Securities whose fair value exceeds their carrying value:			
Equity securities	¥3,843	¥12,303	¥8,460
Bonds	5	5	—
Others	—	—	—
	¥3,848	¥12,308	¥8,460
Securities whose carrying value exceeds their fair value:			
Equity securities	¥ 478	¥ 424	¥ (54)
Bonds	—	—	—
Others	—	—	—
	¥ 478	¥ 424	¥ (54)
Total	¥4,326	¥12,732	¥8,406

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

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Sales value	¥15	¥25	\$233
Profit on sale	4	18	168
Loss on sale	—	3	28

(3) Book value of non-marketable securities

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Held-to-maturity:			
Debt securities	¥ —	¥3,300	\$30,841
Available-for-sale:			
Equity securities	1,369	1,605	15,000
Bonds	2	3	28

(4) Schedule for redemption of available-for-sale securities with a maturity and held-to-maturity debt securities

	Millions of yen				Thousands of U.S. Dollars	
	2004		2005		2005	
	Due within one year	Due after one year through five years	Due within one year	Due after one year through five years	Due within one year	Due after one year through five years
Total	¥3	¥5	¥8	¥ 1	\$75	\$9

5. Land revaluation

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

The resulting land revaluation difference represents unrealized appreciation of land and is accounted for, net of deferred tax assets and liabilities, as revaluation surplus in shareholders' equity. There is no effect on the statements of operations. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess account and related deferred tax assets and liabilities.

6. Short-term bank loans and long-term debt

The Company has credit agreements with 30 banks in order to support effective financing. The lines of credit and bank loans under the credit agreements at March 31, 2004 and 2005 are listed below.

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Lines of credit	¥72,300	¥88,250	\$824,766
Balance of bank loans	(6,615)	(5,300)	(49,533)
Net: Open lines of credit	¥65,685	¥82,950	\$775,234

Short-term bank loans including loans under the credit agreement at March 31, 2004 and 2005 principally bore annual interest rates of 0.96% and 0.95% per annum, respectively.

Long-term debt at March 31, 2004 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Unsecured domestic convertible bonds due 2008 at a rate of 0.9%	¥14,459	¥ 9,254	\$86,486
Loans from banks	1,477	1,081	10,103
	15,936	10,335	96,589
Less amount due within one year	(735)	(425)	(3,972)
Amount due after one year	¥15,201	¥ 9,910	\$92,617

Domestic convertible bonds due 2008 provide, among other conditions, for (1) conversion prices of ¥916.0 (\$8.56) and (2) convertible period from October 1, 1996 to September 29, 2008.

At the current conversion price, a total of 10,102 thousand shares of common stock were issuable upon full conversion of the domestic bonds outstanding at March 31, 2005.

The annual maturities of long-term debt at March 31, 2005 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 425	\$ 3,972
2007	216	2,019
2008	50	467
2009	9,291	86,832
2010	37	346
Thereafter	316	2,953

7. Employees' retirement benefits

(1) Overview of retirement benefit plan

The Company has defined retirement benefit plans covering a contributory trustee employee pension plan established by the pharmaceutical industry, tax-qualified pension plans and unfunded retirement plans.

Effective from April 1, 2004, MEDICEO Holdings Co., Ltd. amended its retirement benefit plan. The new plan consists of a defined benefit plan and defined contribution plan instead of a tax-qualified pension plan and part of an unfunded retirement plan, respectively. The Company adopted "Accounting guidance for transition between Retirement Benefit Plans" issued by the FASF.

On October 1, 2004, two consolidated subsidiaries revised their retirement benefit system, transferring their tax-qualified pension plans to a defined benefit plan and a defined contribution plan. On April 1, 2005, six consolidated subsidiaries revised their retirement benefit systems and transferred to the defined contribution pension plan, applying "Accounting guidance for transition between Retirement Benefit Plans."

The Company incurred an extraordinary loss totaling ¥853 million in connection with these transfers, and expects an extraordinary gain of ¥330 million in connection with these transfers in the year ending March 31, 2006.

The impact of these transfers was as follows:

	Millions of yen	Thousands of U.S. dollars
Decrease in projected benefit obligation	¥4,420	\$41,308
Unrecognized actuarial loss	1,118	10,449
Decrease in plan assets	2,212	20,673
Decrease in retirement benefit trust	1,882	17,589
Increase in reserve for employees' retirement benefits	¥ 792	\$ 7,402

On March 25, 2005, the dissolution of the Kyushu Pharmaceutical Industry Employees' Pension Fund, which one consolidated subsidiary had joined, was approved. However, the subsidiary's guarantee of lump-sum payment equivalents to employees accounted for an extraordinary loss in the year ended March 31, 2005 of ¥1,190 million.

(2) Retirement benefits

The liability for employees' retirement benefits at March 31, 2004 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Projected benefit obligation	¥(30,269)	¥(37,834)	\$(353,589)
Fair value of plan assets	19,025	22,089	206,439
Plan assets less than projected benefit obligation	(11,244)	(15,744)	(147,140)
Unrecognized actuarial loss	1,288	652	6,093
Unrecognized prior service costs	—	(424)	(3,963)
Subtotal	(9,956)	(15,517)	(145,019)
Prepaid pension expenses	—	458	4,280
Reserve for employees' retirement benefits	¥(9,956)	¥(15,976)	\$(149,308)

Assets in the amount of ¥3,892 million (\$36,373 thousand) will be contributed to the defined contribution pension plan over a period of 1 to 8 years. The unpaid amount of ¥948 million (\$8,859 thousand) was recorded in other current liabilities and long-term liabilities in 2005.

(3) Net pension expense

The components of net pension expense in 2004 and 2005 are listed below.

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Service costs	¥2,418	¥2,346	\$21,925
Interest costs on projected benefit obligations	1,058	888	8,300
Expected return on plan assets	(433)	(417)	(3,897)
Unrecognized actuarial loss	1,795	1,894	17,700
Amortization of prior service costs	—	(545)	(5,093)
Loss on retirement benefits system revision	567	853	7,972
Net pension expense	¥5,405	¥5,405	\$50,514

In addition to the pension expense above, an additional retirement benefit on early retirement is recorded in the amount of ¥753 million (\$7,037 thousand).

(4) Assumptions

The projected benefit obligation is determined on the basis of employees' evaluation, their length of service and certain other factors. Other significant assumptions used in the calculation of projected benefit obligation and pension expense are listed below.

	2004	2005
Discount rate	2.5%	2.0%
Expected rate of return on plan assets	2.5%	1.5~2.5%
Amortization period for prior service costs	—	3 years
Recognition period of actuarial loss	3 years	3~10 years

(5) Contributory trustee employee pension plan

The assets of the contributory trustee employee pension plan established by the pharmaceutical industry amount to ¥42,823 million (\$400,215 thousand) at March 31, 2005 based on the proportion of the Company's payments to the fund.

8. Pledged assets

The Company pledged the following assets to secure trade payables and certain bank loans in the amount of ¥34,793 million (\$325,168 thousand) at March 31, 2005.

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Land	¥6,871	¥6,871	\$64,215
Buildings and structures at net book value	2,446	2,446	22,860
Investment securities	1,536	1,536	14,355
Time deposits	1,112	1,112	10,393

9. Contingent liabilities

Contingent liabilities of the Company at March 31, 2005 were guarantees for loans from banks of unconsolidated subsidiaries, affiliates and others in the amount of ¥2,875 million (\$26,869 thousand).

10. Shareholders' equity

The Japanese Commercial Code, amended effective from October 1, 2001, provides that an amount equal to at least 10% of appropriations paid in cash should be appropriated as the legal reserve until the total amount of the legal reserve and capital surplus equals 25% of common stock.

The legal reserve and capital surplus may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

11. Other income (expenses)

Other income (expenses) – "Other, net" in the accompanying consolidated statements of operations for the years ended March 31, 2004 and 2005 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Gain on sale of investment securities – net	¥ 4	¥ 15	\$ 140
Gain (loss) on sales or disposal of property, plant and equipment – net	(677)	695	6,495
Loss on devaluation of golf club memberships	(37)	(89)	(832)
Restructuring costs	(1,477)	(1,064)	(9,944)
Additional retirement benefit for employees	(1,362)	(753)	(7,037)
Amortization of consolidation difference	—	6,628	61,944
Loss on dissolution of employees' pension fund	—	(1,190)	(11,121)
Loss on revision of employees' retirement benefit plan	—	(853)	(7,972)
Miscellaneous	776	409	3,822
	¥(3,073)	¥ 3,797	\$35,486

12. Income taxes

The Company is subject to a number of income taxes, which, in the aggregate, indicate statutory tax rates in Japan of approximately 42.1% and 40.7% for the years ended March 31, 2004 and 2005, respectively.

The reconciliation between the statutory tax rate and the effective tax rate of the Company for financial statement purposes for the years ended March 31, 2004 and 2005 is presented as follows:

	2004	2005
Statutory tax rate	42.1%	40.7%
Non-deductible expenses for tax purposes	3.5	1.5
Per capita inhabitant taxes	1.1	1.2
Allowance for doubtful deferred taxes	—	30.9
Tax benefit for information technology (IT) investment	(4.3)	(1.5)
Amortization of consolidation difference	—	(14.0)
Others	4.5	(4.4)
Effective tax rate	45.4%	54.4%

Significant components of the deferred tax assets and liabilities of the Company as of March 31, 2004 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Deferred tax assets:			
Excess allowance for doubtful accounts	¥ 2,279	¥ 2,025	\$ 18,925
Excess reserve for employees' bonuses	2,543	2,842	26,561
Accrued enterprise taxes	266	148	1,383
Reserve for employees' retirement benefits	6,787	5,528	51,663
Reserve for directors' and corporate auditors' retirement benefits	756	—	—
Other	3,216	8,502	79,458
Subtotal	15,757	19,047	178,009
Allowance for doubtful deferred taxes	—	(5,957)	(55,673)
Total deferred tax assets	15,757	13,090	122,336
Deferred tax liabilities:			
Compression reserve for tax purposes	(1,196)	(2,442)	(22,822)
Unrealized gain on available-for-sale securities	(3,423)	(6,810)	(63,645)
Other	(696)	(844)	(7,888)
Total deferred tax liabilities	(5,315)	(10,097)	(94,364)
Net deferred tax assets	¥10,442	¥ 2,993	\$279,972

13. Non-capitalized financial leases

Finance leases which do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases. Certain information for such non-capitalized finance leases was as follows:

- (1) Future minimum lease payments at March 31, 2005 were ¥6,504 million (\$60,785 thousand), including ¥2,035 million (\$19,019 thousand) due within one year.
- (2) Lease payments for fiscal years 2004 and 2005 were ¥2,056 million and ¥1,912 million (\$17,869 thousand), respectively.

14. Transactions with the principal shareholder

The following are transactions between the Company and a principal shareholder of MEDICEO Holdings Co., Ltd. which owns more than a 10% interest:

	Millions of yen	Thousands of U.S. dollars
Principal shareholder	Takeda Pharmaceutical Company Limited	
Common stock	¥63,541	\$593,841
Principal business	Pharmaceutical product manufacturer	
Percentage of total shares	11.44%	
Description of the Company's transactions:		
Purchase amounts from		
April 2004 to March 2005	¥219,706	\$2,053,327
Research fee income amounts		
from April 2004 to March 2005	604	5,645
Balance of accounts payable - trade, as of March 31, 2005	60,761	567,860
Balance of accounts receivable - other, as of March 31, 2005	5,026	46,972

15. Segment information

Information by business segment is not disclosed because the Company is mainly engaged in the sale of pharmaceutical supplies and sales of this business segment exceeded 90% of consolidated net sales for the years ended March 31, 2004 and 2005.

The Company operated within Japan, so regional segment information is not disclosed for the years ended March 31, 2004 and 2005.

Overseas sales information is not applicable to the years ended March 31, 2004 and 2005.

16. Subsequent events

(1) On June 29, 2005, shareholders of MEDICEO Holdings Co., Ltd. approved the payment of a cash dividend of ¥ 6.00 (\$0.06) per share to shareholders on record at March 31, 2005, for a total payment of ¥1,113 million (\$10,402 thousand).

(2) Management integration with PALTAC CORPORATION

On April 18, 2005, as part of its business strategy of utilizing the total power of the MEDICEO Group, the Company's Board of Directors approved a Basic Management Integration Agreement to become a new type of wholesaler that handles 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 Management Integration Agreement, on May 13, 2005 the Company's Board of Directors approved the signing of a share exchange agreement, and on the same day entered into the share exchange agreement, which will make PALTAC CORPORATION a wholly owned subsidiary of the Company as of October 1, 2005.

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 management 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 daily necessities, allowing it to offer entirely new value that the two companies could not have achieved by 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 management integration aims to create a wholesaler that contributes to customers and society. The benefits expected from the management integration are a stronger business foundation through the 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; and peace of mind for shareholders and employees due to increased corporate value.

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.

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

MEDICEO Holdings will issue 45,353,485 shares of common stock in connection with the share exchange. The capital of MEDICEO Holdings will not increase. Capital surplus 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. No share-exchange subsidy will be paid.

Financial information on PALTAC CORPORATION

	Millions of yen	Thousands of U.S. dollars
Common stock:	¥5,206	\$48,654
Principal business:	Wholesale distributor of cosmetics and daily necessities	
Financial results (for the year ended September 30, 2004)		
Net sales:	¥384,671	\$3,595,056
Ordinary income:	8,614	80,505
Net income:	4,020	37,570
Total assets, total liabilities and shareholders' equity (as of September 30, 2004)		
Total assets:	¥141,484	\$1,322,280
Total liabilities:	88,225	824,533
Shareholders' equity:	53,259	497,748

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheet of MEDICEO Holdings Co., Ltd. and subsidiaries as of March 31, 2005, and the related consolidated statement of operations, shareholders' equity and cash flow for the year ended March 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MEDICEO Holdings Co., Ltd. and subsidiaries as of March 31, 2005, and the consolidated result of their operation and their cash flow for the year ended March 31, 2005, in conformity with accounting principles generally accepted in Japan.

As described in Note 16 to the consolidated financial statements, on May 13, 2005 the Board of Directors of MEDICEO Holdings Co., Ltd. approved the signing of a share exchange agreement which will make PALTAC CORPORATION a wholly owned subsidiary as of October 1, 2005, and on June 29, 2005, shareholders of MEDICEO Holdings Co., Ltd. approved the share exchange agreement.

In our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Chuo Aoyama PricewaterhouseCoopers

Tokyo, Japan
June 29, 2005

Subsidiaries and Affiliated Companies

(As of June 29, 2005)

PHARMACEUTICAL WHOLESALE COMPANIES

SENSHU YAKUHIHIN CO., LTD.

4-9-5, Oroshi-cho, Akita-shi, Akita 010-8511
Phone: 81-18-885-0131
Fax: 81-18-823-5509
Established: February, 2001
Lines of business: Wholesale distribution of pharmaceutical and other products
Homepage: <http://www.senshu.co.jp/>

USHIODA SANGOKUDO YAKUHIHIN CO., LTD.

1852-4, Otsuka-cho, Mito-shi, Ibaraki 311-4192
Phone: 81-29-251-5151
Fax: 81-29-251-4425
Established: May, 1949
Lines of business: Wholesale distribution of pharmaceutical and other products
Homepage: <http://www.ushiodasangokudou.jp/>

Chiyaku Co., Ltd.

3-2, Tonya-cho, Chuo-ku, Chiba-shi, Chiba 260-0025
Phone: 81-43-248-1001
Fax: 81-43-242-0469
Established: July, 1953
Lines of business: Wholesale distribution of pharmaceutical and other products
Homepage: <http://www.chiyaku.co.jp/>

KURAYA SANSEIDO Inc.

1-5, Yaesu 2-chome, Chuo-ku, Tokyo 104-8484
Phone: 81-3-3517-5050
Fax: 81-3-3517-5011
Established: April, 2004
Lines of business: Wholesale distribution of pharmaceutical and other products
Homepage: <http://www.kurayasanseido.co.jp>

YAMAHIRO KURAYA SANSEIDO Inc.

2, Ryutsudanchi Kita, Yamanokami, Tatomi-cho, Nakakoma-gun, Yamanashi 409-3845
Phone: 81-55-273-8911
Fax: 81-55-273-0079
Established: January, 1950
Lines of business: Wholesale distribution of pharmaceutical and other products
Homepage: <http://www.yamahiroks.jp/>

HEISEI YAKUHIHIN CO., LTD.

1-1, Motomachi, Gifu-shi, Gifu 500-8185
Phone: 81-58-265-8886
Fax: 81-58-265-8488
Established: January, 1929
Lines of business: Wholesale distribution of pharmaceutical and other products
Homepage: <http://www.heiseiyakuhih.co.jp/>

IZUTSU PHARMACEUTICAL CO., LTD.

5, Nioumon-cho, Karasuma Higashi Iru, Nijiyodori, Nakagyo-ku, Kyoto 604-0854
Phone: 81-75-211-5151
Fax: 81-75-211-7951
Established: October, 1950
Lines of business: Wholesale distribution of pharmaceutical and other products
Homepage: <http://www.izutsu.co.jp/>

EVERLTH Co., Ltd.

Hiroshimahaibiru 21, 3-1 Ginyamachyo, Naka-ku, Hiroshima-shi, Hiroshima 730-0022
Phone: 81-82-544-8301
Fax: 81-82-544-8350
Established: April, 1950
Lines of business: Wholesale distribution of pharmaceutical and other products
Homepage: <http://www.everlth.co.jp/>

ATOL Co., Ltd.

2-2-51, Handobashi, Hakata-ku, Fukuoka-shi, Fukuoka 816-8552
Phone: 81-92-451-8771
Fax: 81-92-451-8754
Established: January, 1947
Lines of business: Wholesale distribution of pharmaceutical and other products
Homepage: <http://www.atol-com.co.jp/>

NAKAGAWA SEIKODO CO., LTD.*

18-15, Hongo 3-chome, Bunkyo-ku, Tokyo 113-8445
Phone: 81-3-3816-5646
Fax: 81-3-3816-1395
Established: April 1947
Lines of business: Sale of medical and laboratory equipment
Homepage: <http://www.e-truth.co.jp/>

* Name changed to MEDICEO MEDICAL CO., LTD. as of July 1, 2005

MEDICAL-RELATED COMPANIES

ORIENTAL PHARMACEUTICAL CO., LTD.

1452-3, Aza Yakushihara Minami, Ohaza Takasen, Tendo-shi, Yamagata 994-0068
Phone: 81-236-55-4335
Fax: 81-236-55-4360
Established: August, 1946
Lines of business: Manufacturing and sale of pharmaceuticals and food additives

KURAYA SHOJI, INC.

4-25-12, Ishihara, Sumida-ku, Tokyo 130-0011
Phone: 81-3-3626-6555
Fax: 81-3-3626-6551
Established: September, 1971
Lines of business: Sale of general-use pharmaceuticals and food additives

KURAYA KASEI, INC.

917, Oaza Inaba, Nagano-shi, Nagano 380-0911
Phone: 81-26-221-2005
Fax: 81-26-222-3665
Established: January, 1998
Lines of business: Sale of chemical industrial items and food additives

TOKIMO, INC.

7-13, Misaki-cho 3-chome, Chiyoda-ku, Tokyo 101-0061
Phone: 81-3-3221-7381
Fax: 81-3-3221-7383
Established: June, 1986
Lines of business: Facility management for medical institutions

M.I.C. (Medical Information College), INC.

Tokimo Yushima Bldg. 4F, 3-26-7, Yushima Bunkyo-ku, Tokyo, 113-0034
Phone: 81-3-3832-6181
Fax: 81-3-3832-6182
Established: August, 1984
Lines of business: Training and supplying medical office workers, providing medical office work services on a contract basis, and consulting on medical management

BUTSURYU 24, INC.

Tokimo Yushima Bldg. 4F, 3-26-7, Yushima Bunkyo-ku, Tokyo 113-0034
Phone: 81-3-5846-4821
Fax: 81-3-3837-1825
Established: June, 1998
Lines of business: Management and operation of distribution center, collection and processing of information relating to distribution, and distribution of freight goods

BIGEO Inc.

1-7-35, Horinouchi, Suginami-ku, Tokyo 166-0013
Phone: 81-3-3318-5661
Fax: 81-3-3318-5680
Established: January, 2001
Lines of business: Cleaning and leasing service of medical uniforms and bedclothes

TRIM CO., LTD.

1-7, Isobedori 3-chome, Chuo-ku, Kobe 651-0084
Phone: 81-78-230-5210
Fax: 81-78-230-5785
Established: February, 1999
Lines of business: Non-life insurance agency
Homepage: <http://www.trim-insurance.co.jp/>

KURAYA (USA) CORPORATION

3625, Del Amo Blvd., Suite #150, Torrance, CA 90503, U.S.A.
Phone: 1-310-542-4245
Fax: 1-310-542-4175
Established: July, 1997
Lines of business: Supplying overseas disposable medical goods and sale of medical items
Homepage: <http://www.kurayausa.com>

Investor Information

(As of March 31, 2005)

Corporate Name	MEDICEO Holdings Co., Ltd.
Head Office	7-15, Yaesu 2-chome, Chuo-ku, Tokyo 104-8464, Japan Tel: 81-3-3517-5050 Fax: 81-3-3517-5011 http://www.mediceo.co.jp
Founded	October 8, 1898
Established	May 6, 1923
Number of Employees	9,496 (Consolidated basis) 813 (Parent company)
Paid-in Capital	¥17,786 million
Number of Outstanding Shares	189,100,203
Stock Listing	Tokyo
Ticker Code	7459
Trading Unit	100 shares
Transfer Agent for Common Stock	Sumitomo Trust & Banking Co., Ltd.
General Meeting of Shareholders	The Ordinary General Meeting of Shareholders is held annually in June.
Further Information	Investor Relations Department Tel : 81-3-3517-5171

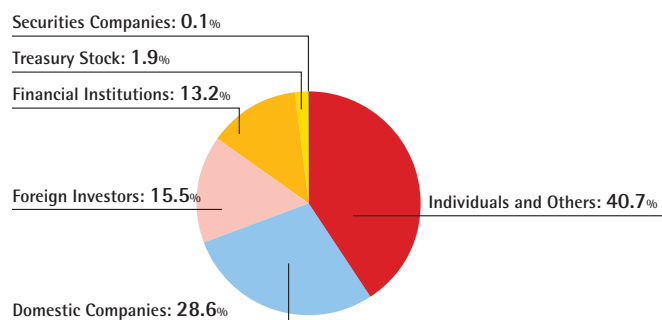
Principal Shareholders

	Number of Shares Held (thousand)	Percentage of Total Shares
Takeda Pharmaceutical Company Limited	21,190	11.2%
The Chase Manhattan Bank N.A. London	11,694	6.2
Employees Shareholders' Association	11,015	5.8
State Street Bank and Trust Company	7,217	3.8
Japan Trustee Services Bank, Ltd. (trust account)	5,896	3.1
Yamanouchi Pharmaceutical Co., Ltd.	3,896	2.1
The Master Trust Bank of Japan, Ltd. (trust account)	3,695	2.0
Sadatake Kumakura	3,421	1.8
Fujisawa Pharmaceutical Co., Ltd.	2,507	1.3
Osamu Takumiya	2,371	1.3

Notes:

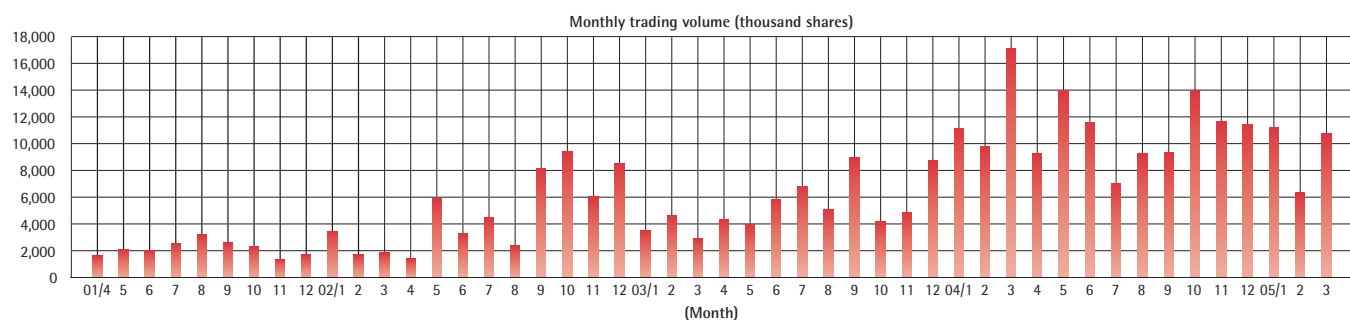
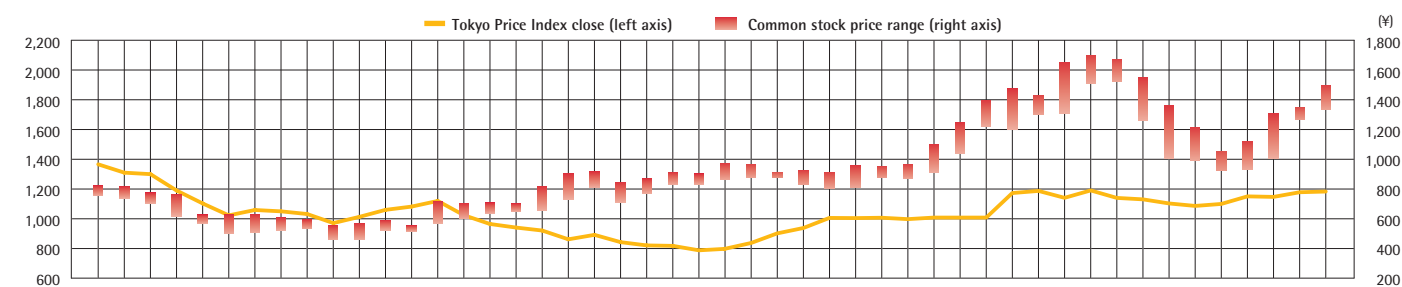
- The Company holds 3,524 thousand shares of treasury stock, but is excluded from the principal shareholders listed above
- On April 1, 2005, Yamanouchi Pharmaceutical Co., Ltd. and Fujisawa Pharmaceutical Co., Ltd. merged to form Astellas Pharma Inc.

Distribution of Shareholders



Monthly Stock Price Range & Trading Volume

(Tokyo Stock Exchange)



MED*i*CEO®



Printed in Japan with soy ink on recycled paper.