

Explanation of Kampo Medicines / Traditional Chinese Medicines

Kampo medicines (Kampo medicine)

Characteristics of Kampo Medicine and Kampo Medicines

Kampo medicine evolved independently between the 14th and 19th centuries from the medicine that was brought from China to Japan in the 5th and 6th centuries. It has continued to evolve, reflecting Japan's climate and conditions, and the Japanese people's constitution and lifestyle habits. Today, it has been established as the traditional medicine of Japan.

The defining feature of Kampo medicine is that it treats the mind and body as one, working as a holistic medical system that seeks to harmonize the entire body. In a Kampo consultation, each individual patient's symptoms (chief complaint) and constitution are carefully considered, and the formulation and administration method are instructed based on the result. Even in these modern times, when medical science has advanced, there are disorders that do not show up in tests and complaints that are difficult to treat with Western medicine. Kampo medicine specializes in such treatments.

Kampo medicines are generally made by compounding multiple crude drugs, such as plants, animals, or minerals found in nature. Therefore, since a single prescription contains multiple ingredients, it can be expected to demonstrate efficacy for treating multiple symptoms. The conditions for prescriptions based on Kampo medicine are set out in detail,

 For more details, please refer to the related website at: <https://www.tsumura.co.jp/english/index.html>

and Kampo medicines have been officially recognized as pharmaceutical products with therapeutic effects.

Today, the majority of Kampo medicines prescribed at medical institutions are prescription Kampo formulations, which are covered by health insurance. A total of 148 prescriptions have been approved by the Japanese Ministry of Health, Labour and Welfare. Moreover, over 80%* of physicians now use Kampo medicines for ordinary treatment. As an example, combined use of Western and Kampo medicines in cancer patients has been found to be effective for relieving side effects and pain, and a large number of cases of improved therapy completion rates are now reported.*

*Source: Japan Kampo Medicines Manufacturers Association, 2011 Survey on the Status of Kampo Prescriptions

Kampo formulations approved in Japan

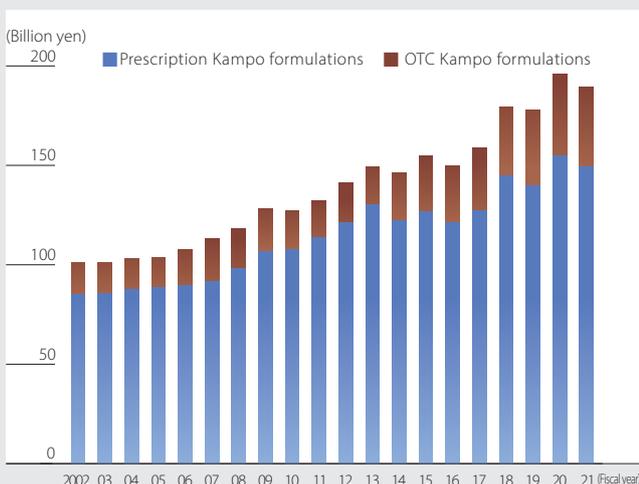
Number of prescription Kampo formulations: **148** (covered by health insurance), of which **129** are sold by Tsumura
 Number of OTC Kampo formulations: **294**, of which **46** are sold by Tsumura

Kampo Medicine Market Trend

The graph below on the left shows the production value of Kampo formulations in Japan. The graph shows that the scale of the Kampo medicine market has expanded by approximately 1.9 times over the past 20 years. Moreover, Kampo formulations make up approximately 2.1% of the overall pharmaceutical market (fiscal 2021, production value basis).

The graph below on the right shows the statistical results for a survey on "Diseases and conditions for which there are many opportunities to prescribe Kampo formulations," which was conducted for physicians who are members of a portal website operated by M3, Inc.

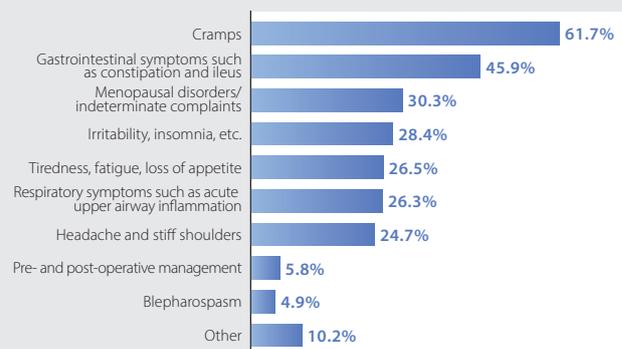
Production value of Kampo formulations



Source: Ministry of Health, Labour and Welfare "Annual Report on Statistics of Production by Pharmaceutical Industry in 2021"

Diseases and conditions for which there are many opportunities to prescribe Kampo medicines

Survey question: When you prescribe Kampo formulations, what kind of diseases and conditions do you often prescribe them for? (Multiple choice)



Source: "M3.com survey" (Clinical News November 15, 2022)
<https://www.m3.com/clinical/news/1093498>
 Note: Data presented with the permission of M3, Inc.

Survey overview
 Survey period: October 8–14, 2022
 Target: m3.com member physicians
 Total number of respondents: physicians working in hospitals: 532; physicians in private practice: 158

Traditional Chinese Medicines (Traditional Chinese Medicine)

Origins and Development of Traditional Chinese Medicine

Traditional Chinese medicine is said to have originated prior to the 13th century BCE during the Shang dynasty, which followed China's oldest Xia dynasty. Subsequently, during the Han dynasty, the foundations of the science were established with the completion of the three principal classics of traditional Chinese medicine: the Koteidaikei, which deals with basic medicine and clinical medicine, the Shinno-honzokyo, which is a pharmaceutical textbook, and the Shokanron, a medical text. Today in China, there is a countrywide effort to promote the development of traditional Chinese medicines, with an established educational curriculum for traditional Chinese medicine and research laboratories.

There are separate physician's licenses for Western medicine and traditional Chinese medicine in China. At universities, there are separate medical departments for studying Western medicine and traditional Chinese medicine. After a post-graduation internship, the interns qualify to sit their licensing examinations, and those who pass acquire the respective physician's license. Western medicine physicians can prescribe western medicines (new medicines), but under certain conditions they can also prescribe traditional Chinese medicinal products formulated from traditional Chinese medicine drug pieces (chopped crude drugs). Similarly, traditional Chinese medicine physicians may also

prescribe Western medicines in addition to traditional Chinese medicines.

Trend in China's policies regarding traditional Chinese medicine and classical prescriptions

In January 2022, the Chinese government officially announced the 14th Five-Year Plan for the Development of the Pharmaceutical Industry. This plan explains the Chinese government's policy direction for promoting the development of traditional Chinese medicines. The main points of the policy are as follows.

- Promote the integration of traditional Chinese medicine with Western medicine
- Promote the prosperity and development of the traditional Chinese medicine culture
- Promote an increase in traditional Chinese medicine hospitals and physicians
- Promote the research and development of classical prescriptions based on effective ingredients
- Improve the quality of crude drugs and strengthen traceability
- Improve the competitive environment of the traditional Chinese medicine market, and encourage the formulation of a market price that is aligned with its quality

Classification of Traditional Chinese Medicines

Traditional Chinese medicines

Prescription medicines

- Prescription traditional Chinese medicinal products
- Traditional Chinese medicine drug pieces

OTC

- OTC traditional Chinese medicinal products

Food products

Health foods

- Yakushokudogen products, etc.

Traditional Chinese medicines are a general expression for medication that has been used by traditional Chinese medicine for over 2,700 years. Like Kampo medicines, it is manufactured using raw materials from nature, such as plants, animals, and minerals. Traditional Chinese medicine is based on the three principal classics and theories handed down from the time of the Han dynasty, but with each era, its efficacy with common diseases has been tested, and new treatment methods have been incorporated into the system. As a result, a large number of prescriptions have been created, and traditional Chinese medicinal products have been continuously developed.

Furthermore, traditional Chinese medicinal products are classified into prescription medicines and OTC^{*1}, in the same way as Western medicines.

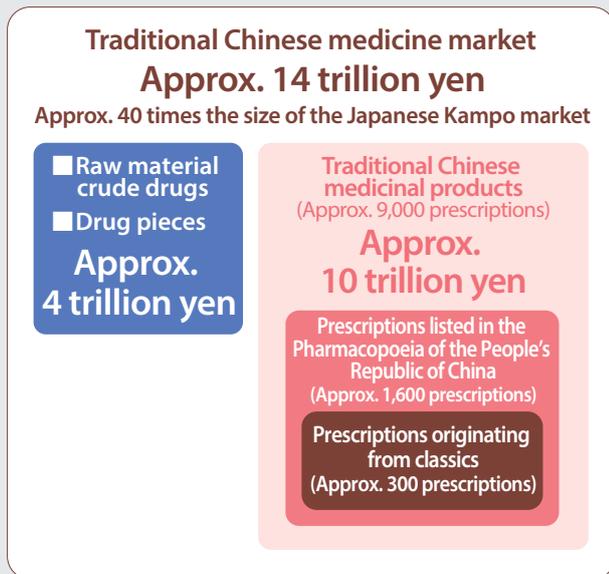
Prescription medicines in traditional Chinese medicine consist of "prescription traditional Chinese medicines" and "traditional Chinese medicine drug pieces," the latter of which are raw material crude drugs that have been processed^{*2} for use as prescribed medication in traditional Chinese clinics and formulation production. There are also health foods that are made using crude drugs for healthcare (prevention), although these are classified as food products, rather than traditional Chinese medicines.

*1 Over-the-Counter. Refers to general-use pharmaceuticals and drugs requiring guidance that can be purchased without a prescription from a physician.

*2 Conducting a certain level of processing to extract effective components and remove unneeded components, or to alleviate toxicity, etc.

Traditional Chinese Medicine Market Trend

The traditional Chinese medicines market in China is valued at approximately 14 trillion yen, making it more than 40 times the size of the Japanese Kampo products and crude drugs. Within this, the market for traditional Chinese medicinal products (prescription and OTC) is around 10 trillion yen, and



Source: Created by Tsumura from data provided by the Chinese National Medical Products Administration, Chinese Ministry of Industry and Information Technology, and Chinese National Bureau of Statistics. Converted at 1 RMB = 19.05 yen (As of December 31, 2022)

*3 A pharmaceutical product code promulgated by the Chinese National Medical Products Administration to guarantee the quality of pharmaceutical products by the state and guarantee the safety, efficacy, and quality control of drugs for use by the public.

*4 Prescriptions included in ancient medical texts compiled in the Qing dynasty and earlier

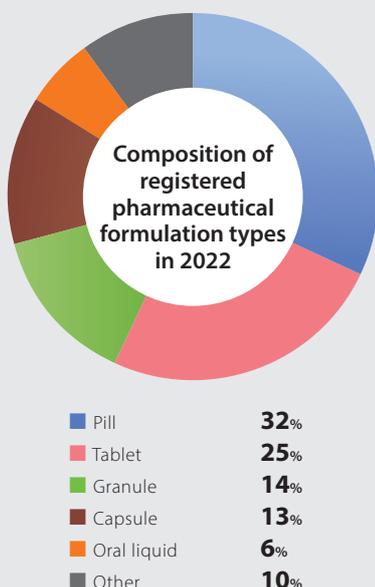
the market for raw material crude drugs and traditional Chinese medicine drug pieces is around 4 trillion yen.

Traditional Chinese medicinal products refers to prescriptions formulated for a large number of patients based on traditional Chinese medicines prescriptions from ancient to modern times. Today, around 9,000 prescriptions have received manufacturing and marketing approval in China. Of these, the Pharmacopoeia of the People's Republic of China*³ listed approximately 1,600 prescriptions, while approximately 300 prescriptions originate from the principal classics.*⁴

Traditional Chinese medicine drug pieces are traditional Chinese medicines used directly in clinical practice in traditional Chinese medicine. They are made by improvement processing of raw materials for traditional Chinese medicines in accordance with the theory of traditional Chinese medicine. There are around 600 types of traditional Chinese medicine raw materials, and the number of traditional Chinese medicine drug pieces created through different improvement processing methods far exceeds 600.

The Chinese government's policy is to focus on the development of compound formulation of traditional Chinese medicines based on classical prescriptions, and to support and reinforce R&D and quality improvement of traditional Chinese medicines. There are around 2,400 companies that manufacture traditional Chinese medicines, so the level of concentration in the market is not so high. However, groups of traditional Chinese medicines manufacturers are gradually being formed.

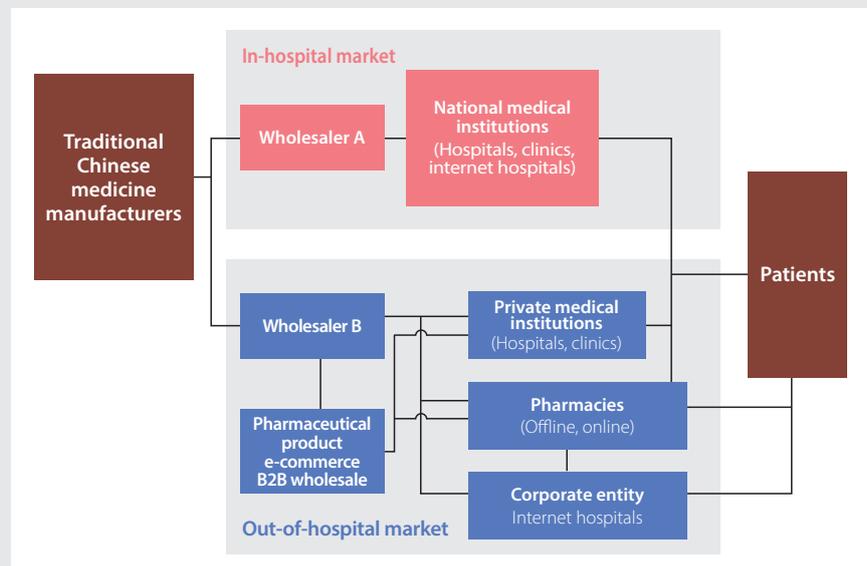
Dosage forms of traditional Chinese medicinal products



Source: Created by Tsumura from the DXY.cn database

Traditional Chinese medicines distribution structure

The distribution structure for traditional Chinese medicines is classified broadly into the in-hospital market, centered on national hospitals, and the out-of-hospital market, centered on pharmacies. The ratio of the market in 2019 was 7:3 for in-hospital to out-of-hospital.



Corporate Data (As of March 31, 2023)

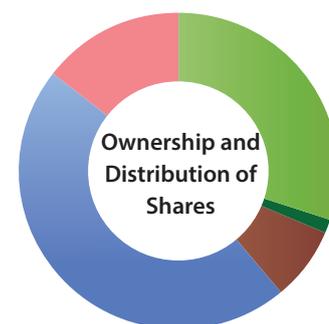
Corporate Name	TSUMURA & CO.
Head Office	2-17-11, Akasaka, Minato-ku, Tokyo 107-8521, Japan
Founded	April 10, 1893
Incorporated	April 25, 1936
Capital Stock	30,142 million yen
Number of Employees	4,032 people (consolidated)
Closing Date of Accounts	March 31

Stock Exchange Listing	Tokyo Stock Exchange Prime Market (Stock Code: 4540)
Shareholder Register Agent for Common Stock in Japan	Mitsubishi UFJ Trust and Banking Corporation
Independent Auditor	PricewaterhouseCoopers Aarata LLC
Authorized Common Stock	250,000,000
Issued Common Stock	76,758,362 (including 229,532 shares of treasury stock)
Number of Shareholders	20,437 people (increase of 7,529 compared with previous period)

Major Shareholders

Shareholder name	Number of shares (1,000 shares)	Percentage of equity (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	12,215	15.96
BANK OF CHINA (HONG KONG) LIMITED-PING AN LIFE INSURANCE COMPANY OF CHINA, LIMITED	7,675	10.03
Custody Bank of Japan, Ltd. (Trust Account)	3,622	4.73
THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800	2,720	3.56
MUFG Bank, Ltd.	2,197	2.87
STATE STREET BANK AND TRUST COMPANY 505001	2,156	2.82
Employees' Stockholding	1,772	2.32
BRIGHT RIDE LIMITED	1,692	2.21
THE BANK OF NEW YORK MELLON 140051	1,539	2.01
JP MORGAN CHASE BANK 380634	1,397	1.83

Note: The percentage of equity is calculated deducting 229,532 shares of treasury stock.
The above treasury stock does not include 137,800 shares of treasury stock held as trust assets of the officer remuneration BIP trust.



Japanese financial institutions*1	30.02%
Japanese securities firms	1.48%
Japanese corporations	7.47%
Overseas institutions	46.67%
Japanese individuals and others*2	14.36%

*1 "Financial institutions" includes 137,800 shares of treasury stock held as trust assets of the officer remuneration BIP trust.

*2 "Japanese individuals and others" includes 229,532 shares of treasury stock.

Editorial Policy

Integrated Reports are prepared with the goal of communicating and providing understanding to stakeholders including investors concerning the Tsumura Group's efforts to improve its corporate value from a medium- to long-term perspective.

INTEGRATED REPORT 2023 was prepared with emphasis on connectivity of information to provide an understanding of the Group's value creation story. The report was prepared mainly by the Corporate Communications Department (Investor Relations Group) based on a system for consolidating and sharing information companywide.

We look forward to making our future reports more insightful for stakeholders by gaining valuable input and information via interactions with them going forward.

Representation of the company's name

- In this report, the company is referred to as follows.
- Tsumura, Tsumura Group, the Group: Collective terms for the Tsumura Group in Japan and overseas
 - The Company: TSUMURA & CO. (non-consolidated)

Scope of data collection and applicable period

Performance data is from fiscal 2022.
TSUMURA & CO./LOGITEM TSUMURA CO., LTD./YUBARI TSUMURA CO., LTD. (April 1, 2022 – March 31, 2023)
Tsumura China Inc. and 11 other Chinese affiliates/TSUMURA USA, INC. (January 1, 2022 - December 31, 2022)

Notes are provided in cases where the scope of data collection differs from the above.

Information on the corporate website



Sustainability

<https://www.tsumura.co.jp/english/sustainability/index.html>



IR Information

<https://www.tsumura.co.jp/english/ir/index.html>



About Kampo

<https://www.tsumura.co.jp/english/kampo/index.html>

Group Companies

