

Continuous Improvement is Our Goal

A N N U A L R E P O R T 2 0 0 4



Striving to Become No.1

Management Philosophy

Taisho's mission is to create and offer superior pharmaceuticals and health-related products as well as health-related information and services that contribute to the enrichment of people's lives by improving health. Focusing on the consumer's perspective, we emphasize each individual's right to know, to seek peace of mind and to choose. Based on the highest ethical standards, we aim to contribute to the improvement of every aspect of health.

Growth Strategy

In the mainstay field of self-medication, which includes products for the treatment and prevention of illness, and the management of health, Taisho is endeavoring to upgrade its product lineup in response to consumers' light ailment needs. Moreover, drawing on the safe and highly effective active ingredients it has cultivated over many years through its prescription pharmaceutical operations, Taisho is aggressively promoting switch-to-OTC products and foods for specified health use. In an effort to nurture and strengthen brand awareness and to deliver products of value and appeal to consumers, Taisho is dedicated, as an industry leader, to secure a top market share across a broad spectrum of markets.

In prescription pharmaceuticals, the Company is concentrating on developing new, highly original products that will win worldwide acceptance in a number of fields such as psychiatric disorders, diabetes, treatments for inflammation, immunization, and infectious diseases. Taisho is also bolstering its sales structure and working to enhance marketing efficiency so as to fully deploy these new products on the front line of medicine.



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Cautionary Statement with Respect to Forward-Looking Statements

Statements made in this annual report with respect to Taisho's current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of the Taisho Group. These statements are based on management's assumptions and beliefs in light of the information currently available to it and therefore readers should not place undue reliance on them. The Taisho Group cautions readers that a number of important factors including but not limited to changes in general economic conditions could cause actual results to differ materially from those discussed in the forward-looking statements.

CONSOLIDATED FINANCIAL HIGHLIGHTS

Taisho Pharmaceutical Co., Ltd. and Consolidated Subsidiaries For the years ended March 31, 2004, 2003 and 2002

	Millions of yen		
	2004	2003	2002
For the year:			
Net sales.....	¥ 286,434	¥ 274,077	¥ 271,397
Cost of sales.....	85,006	73,346	70,826
Gross profit.....	201,428	200,731	200,571
Operating income.....	57,700	54,394	60,701
Net income.....	40,910	35,392	37,361
At year-end:			
Total assets.....	¥ 601,956	¥ 577,707	¥ 590,036
Shareholders' equity.....	500,761	485,717	486,883
R&D expenses.....	24,171	29,526	32,212
Per share data:			
Shareholders' equity (yen).....	¥1,597.78	¥1,474.65	¥1,434.51
Net income—basic (yen).....	127.87	105.81	109.66
Cash dividends (yen).....	25.00	30.00	25.00
Value indicators:			
Return on equity—ROE.....	8.3	7.3	7.8
Return on assets—ROA.....	6.9	6.1	6.4

Net Sales, Gross Profit & Operating Income



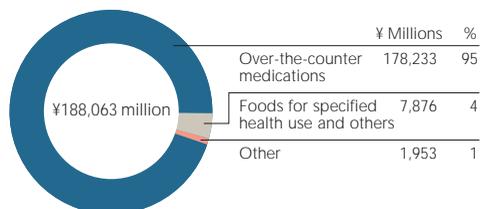
Sales Breakdown by Segment



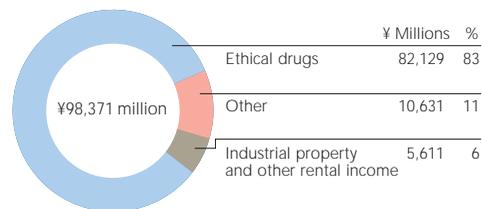
Operating Income



Sales Breakdown of Self-Medication Operation Group



Sales Breakdown of Prescription Pharmaceutical Operation Group



Raising Market Profile by Addressing the Diverse Health Needs of Consumers

Mainstay Products Impacted by an Unusually Cool Summer and Mild Winter

The following is an overview of the Taisho Pharmaceutical Group's consolidated financial results for fiscal 2003, the fiscal year ended March 31, 2004, and an outlook for fiscal 2004.

In the fiscal year under review, Taisho stepped up its aggressive sales activities in the self-medication field, by striving to launch new products and reinforce its sales network. Consolidated net sales were also boosted by the full-year contribution from products made by Toyama Chemical Co., Ltd. ("Toyama Chemical")—a year-on-year increase of 4.5%—and sold through consolidated subsidiary Taisho Toyama Pharmaceutical Co., Ltd. ("Taisho Toyama Pharmaceutical").

In the Self-Medication Operation Group, sales of mainstay tonic and nutrient drinks declined 5.0%, compared with the previous fiscal year, due to the unusually cool summer. Sales of cold remedies were also weak, reflecting the mild winter, resulting in an overall drop in segment sales of 3.6%. As previously mentioned, sales of Toyama Chemical products contributed to the Prescription Pharmaceutical Operation Group's performance. Delays in establishing a sales structure, however, made for harsh operating conditions throughout the fiscal year under review. As a result, sales in this segment fell below initial targets.

On the cost front, the cost of sales ratio increased 2.9 percentage points owing to the inclusion of Taisho Toyama Pharmaceutical in the Taisho Group's scope of consolidation. The selling, general and administrative (SG&A) expenses ratio, on the other hand, improved 3.2 percentage points following a review of sales promotion and R&D expenses.

During the fiscal year ended March 31, 2004, the Company acquired 15,962,323 shares of treasury stock for a total acquisition cost of ¥28.5 billion as part of its profit sharing policy and efforts to increase liquidity and capital efficiency. In the fiscal year under review, Taisho has declared an annual cash dividend of ¥25 per share, a level the Company has maintained each year since raising the level from ¥20 per share in the fiscal year ended March 31, 2001.

Outlook for Fiscal 2004

In fiscal 2004, the business environment is projected to remain harsh. Against this backdrop, Taisho forecasts consolidated net sales of ¥295.0 billion, an increase of 3.0% year on year and operating income of ¥59.0 billion, up 2.3% compared with fiscal 2003. Net income for the period is expected to fall 9.5% to ¥37.0 billion, reflecting the absence of extraordinary gains from the return of the substitutional retirement portion of the Welfare Pension Fund managed on behalf of the government reported in fiscal 2003.



Shoji Uehara
Chairman of the Board



Akira Uehara
President

In the Self-Medication Operation Group, we will continue to focus on sales of our mainstay tonic and nutrient drinks. To this end, Taisho will actively launch new products and strengthen marketing. As part of the Company's ongoing reorganization, we have established a prefecture-based marketing structure, which commenced sales activities from April 2004. At the same time, we worked to reinforce area marketing. In over-the-counter medication, Taisho is expecting an increase in sales, buoyed by new deregulation in fiscal 2004, market growth, and efforts to strengthen marketing structure.

Sales in the Prescription Pharmaceutical Operation Group are expected to climb due to three revamp and commercial release of an existing product and contributions from Taisho Toyama Pharmaceutical. Taisho also anticipates increasing R&D expenses by approximately ¥2.8 billion to ¥27.0 billion, to strengthen the clinical testing of a number of new drug candidates.

As part of the Company's efforts to strengthen corporate governance, Taisho introduced an executive officer system in fiscal 1999. At the same time, we adopted an audit structure, which stipulates that three of the five corporate auditors must come from outside the Company, thereby enhancing management transparency. In fiscal 2001, Taisho set up a compliance office as a specialist department responsible for ensuring corporate

activities remain consistent with the highest ethical standards. In the same year, the Company formulated its Corporate Code of Conduct and established an internal and external helpline network in conjunction with its internal communication "speak up" system. Through these means Taisho is endeavoring to provide comprehensive guidance in matters relating to corporate social responsibility.

The Taisho Group is committed to delivering a wide range of products and information services that accurately incorporate the expectations of consumers. At the same time, we will strive to improve operating performance while maximizing shareholder value. We look forward to our shareholders' understanding and continuous support.

August 2004

Shoji Uehara, Chairman of the Board

Akira Uehara, President



Business, Market, Consumers

Aiming to be the Undisputed Leader of the Self-Medication Market

Taisho Pharmaceutical promotes marketing activities tailored to each region across Japan, meeting the diverse health-related needs of consumers in its mainstay Self-Medication Operation Group. At the same time, we are bolstering our efforts in the foods for specified health use market, which contributes to the prevention of lifestyle-related ailments and promotes overall health.

Meeting All Health-Related Needs

The Self-Medication Operation Group is a core business of Taisho supported by both its know-how and strong brand recognition built over the 90 years since its establishment. The needs of consumers for health is entering a period of qualitative change, marked by a noticeable increase in interest in self-medication. Consumers are concerned about managing their health, and are more inclined to purchase off-the-shelf medication to address minor ailments.

In response to these growing needs, Taisho is concentrating efforts on expanding its range of leading brand-name products by fostering prominent products in each category, including core over-the-counter medications, quasi-drugs and foods for specified health use.

As of fiscal 2003, we boast the leading share of the market for eight brands of tonics and nutrient drinks and so on. Moreover, five other brands hold number two positions in the market. We aim to reach the top market positions in a wide variety of fields. From the viewpoint of contributing to medical cost reductions, we are strengthening switch-to-OTC efforts by transferring active ingredients from prescription medications to over-the-counter medications.

Emphasizing the Provision of Information as well as Products Pharmaceuticals are provided along with information about their proper usage to ensure sufficient efficacy. From the perspective of preventative medicine, one mission of a pharmaceutical company is to educate people about various ailments and relevant medications.

Supporting consumers' right to know, Taisho provides easy-to-understand information on the packages and cautionary inserts of over-the-counter medications. In addition, we provide software for pharmacies and drugstores explaining the proper usage of over-the-counter medications. From August 2003, we started the "Taisho Pharmaceutical Naruhodo. net" to distribute detailed, easily understood information over the Internet regarding the cautionary inserts of over-the-counter medications.

Taisho makes every effort to disclose beneficial information by posting on the Internet content explaining how to care for colds, athlete's foot and other ailments and by publishing health-related magazines for consumers.



The *Lipovitan* series holds the top share of the Japanese tonic and nutrient drink market and is a mainstay Taisho product with a history as a trusted brand built up over 40 years.



The *Dermanin* series of athlete's foot treatments has the number one share of the market in Japan. In 2003, we added *Dermanin Ace* to our lineup by using the switch-to-OTC version of the active ingredient amorolpin hydrochloride used in prescription drugs.



The *Pabron* series of cold remedies boasts the top share of the Japanese market. Taisho has a broad lineup of products to satisfy the diverse needs of consumers.

Fiscal 2003 Market Overview

Drug market down 4% overall (Taisho's estimate)

In the drink market, drug-oriented channel drinks down 6%, food-oriented channel drinks down 8% due to the cool summer

Taisho Fiscal 2003 Business Highlights

Sales of nutrient drinks down 5% from the previous year

Slight decline in cold remedies due to the warm winter

Release of *RIUP* in 120mL bottles in September

2002 helped increase the number of continuous users despite a YOY fall in sales

Strong sales of *Colac* and *ZENA*

VICKS acquired the top share of the cough drops market

Fiscal 2004 Market Forecast

Continued slight decline in the OTC market

Accelerated polarization of the retail market

Greater focus on price and private brands by drugstores

Fierce competition among small to mid-size drugstores

Expansion of Taisho's business

Rapid growth of foods for specified health use

Taisho Fiscal 2004 Business Strategies

Continue fiscal 2003 strategy to aggressively launch new products and strengthen marketing

Increase brand share by area

Reorganization of marketing structure by prefecture in April

Focused, attentive marketing for each store in each area (prefecture)

Nutrient drinks

A variety of products to be launched

Conduct samplings to acquire new users

RIUP

Acquire new users, retain existing users

Expect approval for and launch women's *RIUP*

Livita series

Enhance series lineup with new products



Leading Market Share Strategy

Of our principal products, seven mainstay brands hold the top share of their respective markets, comprising the tonics and nutrient drinks *Lipovitan D* and *Lipovitan Gold*, the *Pabron* series of cold remedies, the laxative *Colac*, the *Dermanin* series of athlete's food treatments, the *RIUP* series of hair-care treatments, and the motion sickness remedy *Semper*. In addition, the throat lozenges *VICKS Medicated Drops*, which we acquired from P&G in the U.S., also attained the top share of its market in fiscal 2003. Taisho is purchasing the brand name products of other companies in order to attain top market share in various product categories, while expanding its lineup of top brand name products. Prime examples of this successful strategy include the acquisition of the laxative *Colac* in 1997 and *VICKS Medicated Drops* in 2002.



Approved for use by the Japanese Ministry of Health, Labour and Welfare as foods for specified health use for improving cholesterol levels, *Cholescare* is coming increasingly to the attention of consumers as their concerns about cholesterol levels rise.



RiUP was the first direct OTC drug sold as a self-medication not to be classed as a prescription drug. It is the only hair-growth product available in Japan.

Focused, Attentive Marketing Based on Detailed Local Knowledge

Aiming for Increased Market Share Through a Further Strengthening of Detailed Area Sales Activities
Taisho's marketing activities are carefully segmented by brand from various perspectives, including planning, development and product growth, and we are strengthening our sales activities focusing on those sales outlets in each area with the most marketing and promotional power.

Over 70% of Japan's retail OTC market is dominated by a handful of major drugstore chains and other companies, and there is growing polarization among local small- and medium-sized pharmacies and drugstores. In addition, relaxed regulations in 1999 resulted in the reclassification of health drinks and some pharmaceuticals as non-pharmaceutical products, which made the sale of these products at regular convenience stores and train station kiosks possible. As a result, multiple sales channels have developed and competition has intensified.

Taisho is working to optimize its marketing promotion strategy by channel, and from April 2004 we reorganized our sales force by prefecture and introduced new products in an effort to increase the market share of our brands in each area. As a result, sales activities have been strengthened through detailed marketing at both area (by prefecture and city) and individual store level, which has resulted in increased sales in each marketing channel.

SR: Responsible for New Product Penetration

In fiscal 2004, two new *ALFE* series and three new *Lipovitan* series products were introduced in the April-June

quarter, and many more new products are planned. Further sales expansion is planned for the *RiUP* hair-care tonic with a 120mL version of the product for repeat users and a 60mL version aimed at developing new users, while *RiUP* for women is expected to be approved by the end of fiscal 2004. Besides these, new foods for specified health use and new health-care pharmaceutical products are planned.

In order to make these new products available to as many potential consumers as possible, some 1,000 sales representatives (SRs) are working to provide our customers with timely product information. In addition, with an eye on further progress in deregulation, we are working to increase the brand recognition and knowledge of our products among new marketing channels such as convenience stores.

Strong Pipeline of Pharmacies and Drugstores in Japan

We have created our own nationwide direct sales organization for the self-medication business that bypasses the traditional pharmaceutical wholesaler distribution channel. Through direct sales activities, we have over the years established a strong pipeline to provide detailed service and information to large pharmaceutical chains and companies, as well as local pharmacies and drugstores. This has not only created strong branding, but also significantly differentiated ourselves from other makers dependent on wholesale distribution, and enhanced our trustworthiness and competitive position with our customers.

Taisho promotes switch-to-OTC drugs that use the active ingredients of prescription drugs in self-medication drugs as a way of encouraging self-medication in society.



Establishing a Solid Position in the Foods for Specified Health Use Market

From Treatment to Prevention, Focus on Enhancing QOL
The OTC market in the last few years has trended flat to slightly downward, while the foods for specified health use market has seen rapid expansion, thereby expanding Taisho's potential business domain. The number of foods for specified health use products that work to prevent Quality of Life (QOL) lifestyle-related ailments linked to blood pressure, blood sugar levels, cholesterol and body fat are on the increase.

In February 2002, Taisho entered the foods for specified health use market with the introduction of a cholesterol absorption-inhibiting food for specified health use called *Cholescare*. In February 2003, Taisho began the development of a new chemically proven safe and effective "total brand" called *Livita* (for Life Vitality Support). As a follow-up, we announced *Glucocare*, a food for specified health use to alleviate the rapid increase in blood sugar after meals. Both of these products have been well-received as effective products in the daily prevention of lifestyle-related ailments and in QOL management.

Substantial Revenue Growth in Fiscal 2004 from New Products

In February 2004, Taisho simultaneously introduced two new *Livita* series products. As a follow-up to *Cholescare*, a new *Cholescare Neo* that not only inhibits cholesterol absorption and works to reduce serum cholesterol levels but also has zero calories was introduced. In addition to *Gen-en Shukan*, a specialty purpose food that has 50% reduced salt (sodium) levels. During the current fiscal

year, we intend to introduce more *Livita* brand products, and are forecasting a two-fold increase in related sales.

Based on our research and development capabilities as a pharmaceutical producer, we are able to leverage our relationships with pharmacy and drugstore sales routes as an OTC market leader. Going forward, we intend to grow the *Livita* series into a major product category by utilizing these advantages.



The Growing Foods for Specified Health Use Market

With the aging of Japanese society and the increase in lifestyle-related diseases, the foods for specified health use market is enjoying rapid growth, to the point that it is approaching a scale comparable to that of the OTC and quasi-drug product segments. As a pharmaceutical producer, we believe it is necessary to provide consumers with easily understandable and easily selectable products to purchase. Consequently, we are providing easy to understand information about product content, function and efficacy. In addition, we are emphasizing the scientifically verifiable merits of our products in our marketing activities.



Through its capital and business tie-up with Toyama Chemical Co., Ltd., Taisho is proceeding toward the development of new drugs demanded by the medical field and their release to market. We support the health of people as a partner in drug treatment with our upgraded product lineup of antibiotics and other drugs.

Aiming for a Number Two Position in the Domestic Infectious Diseases Market with a More Efficient Sales Organization

After reflecting on our failure to reach fiscal 2003 targets, we are exerting every effort for the early achievement of our medium-term goal of ¥120 billion in total sales by focusing on the reorganization of our sales structure, on enhancing overall synergy by setting a single standard for personnel policies by April 2005, and increasing MR motivation.

Pharmaceuticals Business Less Than Forecast

Taisho Toyama Pharmaceutical—the result of a capital and business tie-up between Taisho and Toyama Chemical — began full-scale operations in April 2003, focusing on the infectious diseases and inflammatory/immunologic diseases that are the forte of both companies. The new venture began under high expectations and with a first-year sales goal of ¥95.0 billion, on the strength of a sales organization of 1,000 MRs and the expectation of synergy effects.

However, first-year sales were limited to ¥83.0 billion. These results reflected the impact of a warm winter, which substantially affected sales of antibacterial agents which accounted for over 50% of the total sales target. Other major factors included a reduced number of medical check-ups because of policies to restrain medical expenses, and government measures to promote generic drugs at advanced treatment medical facilities.

In addition, due to the substantial movement of MRs as a result of reorganizations by both companies, the efficiency of MRs' activities were negatively affected, and there were delays in the training of MRs in terms of

academic knowledge and the mastering of selling skills for both companies' products.

Sales Organization Reassessment and Integration of Personnel Compensation and Benefits

After reviewing the mistakes of the prior year, we embarked on a reorganization of our sales organization in fiscal 2004. The number of nationwide sales offices was consolidated from 153 to 95, and the overall organization was streamlined. MR assignments were reviewed, and specialty teams were created for focus product areas, while training programs were strengthened to improve productivity.

Moreover, in order to accelerate the synergistic effects of consolidation, the practice of temporarily assigning sales and marketing staff from the parent organizations of each company was abandoned in favor of permanent assignment to Taisho Toyama Pharmaceutical by April 2005. In terms of compensation and benefits, personnel motivation was enhanced by using the Taisho Pharmaceuticals system as the standard for determining new 2005 compensation and benefits based on fiscal 2004 performance.



Through the establishment of Taisho Toyama Pharmaceutical Co., Ltd., and the addition of Toyama Chemical Co., Ltd.'s Medical Representatives, we have built a roster of 1,000 Medical Representatives, a scale that rivals other major pharmaceuticals companies in Japan. We have prepared a structure capable of precisely fulfilling the needs of medical institutions across the nation.

Taisho Toyama Pharmaceutical Fiscal 2003 Market Overview

Prescription pharmaceuticals market up 1.7%
(delivery price base)

Principal factors affecting performance	Warm winter dampened market for antibacterial agents
	Fixed rate expense for elderly
	Copayment increase to 30% reduced number of doctor visits
	Inclusive hospitalization plans encouraged use of generic drugs at advanced treatment hospitals

Taisho Toyama Pharmaceutical Fiscal 2003 Business Highlights

Began full-scale operations in April 2003, focusing on infectious diseases and inflammatory/immunologic diseases

Initiated structure with 1,000 medical representatives (MRs) (Initial year target: ¥95.0 bil. → Actual: ¥83.0 bil.)

Factors behind target shortfall	Warm winter dampened antibacterial agents
	Extensive personnel changeover reduced efficiency
	Proficiency in product knowledge fell short of expectations
	Rationalization of inventories, coordination with wholesale agents
	Fallout from generic drugs and inclusive hospitalization plans

Taisho Toyama Pharmaceutical Fiscal 2004 Business Strategies

1. Increase efficiency with marketing restructuring

Streamline structure, improve productivity	Integration of facilities	153 sales offices → 95 sales offices
	Revision of management structure	From dual vice president (VP) structure to single
	Revision of MR placement	
Establish new specialty division	Biopex division established	Ten specialists
		Greatly strengthens orthopedic and inflammation fields

2. Set single standard of personnel policies to quickly realize synergies

Eliminate temporary assignments from parent company and enact full transfers	Planned implementation by April 2005
	Aimed at sales and marketing staff
Taisho policies to be adopted as standard	
Fiscal 2004 results will be reflected in fiscal 2005 personnel policies	

Taisho Toyama Pharmaceutical Fiscal 2004 Targets

Net sales ¥85.0 bil. (up from ¥83.0 bil.)	Launch of three new product variations
	<i>Clarith</i> : smaller tablets
	<i>Metligine</i> : rapidly disintegrating tablets
	<i>SOLON</i> : powder (half portion)
To achieve medium-term target of ¥120 billion	Monthly sales per MR of ¥10 mil., ¥120 mil. annually
Attain second position in infectious diseases field in Japan	Super MR certification and training (100 persons)
	Attaining top position is a medium-term goal



Clarith and *Tomiron* are the mainstay antibacterial agents of Taisho and Toyama Chemical, respectively. Using our mutual strengths, we aim to generate synergistic effects through the merger.

Realization of Full-Fledged Synergistic Effects

The impact of official drug price revisions on Taisho Toyama Pharmaceutical sales in fiscal 2004 is minus 3.9%. This notwithstanding, our goal is for a ¥2.0 billion increase to ¥85.0 billion. In terms of contribution to sales, the introduction of smaller tablets for *Clarith* (a top brand in macrolide antibiotics), rapid disintegrating tablets for *Metligine* (the antihypotensive agent) and new dosage form for *SOLON* (the anti-ulcer agent) are particularly noteworthy. We forecast that more active sales of such products will be able to offset the negative impact of drug price revisions and even produce a “plus alpha” increase in sales.

With the full contribution following a full year of operations under a new sales organization, we should be able to realize full-fledged synergistic effects, and will work to deepen and expand Taisho Toyama Pharmaceutical’s customer presence. In the infectious diseases segment, which is a particular business focus, the venture aims to

achieve a number two share of the domestic market in fiscal 2004, and to achieve the number one position over the medium-term. To achieve this, we will be selecting and training a 100-person team of “super MRs” as infectious disease experts with high level, specialized pharmaceutical and clinical expertise.

The medium-term sales goal for Taisho Toyama Pharmaceutical is ¥120 billion, and we intend to exert every effort in achieving this goal, including the accelerated development and market introduction of new drugs, and achievement of monthly sales of ¥10 million per month and ¥120 million per annum per MR.



New Biopex Division Established

The antiarrhythmic agent *Ancaron* achieved sales growth of around 20% in fiscal 2003 through the concentrated academic PR activities of a specialist department. Based on this success, another specialist department consisting of 10 MR specialists was established for our *Biopex* bone filler paste used in the orthopedic treatment of bone defects. By further strengthening our orthopedic business domain with the education of highly specialized MRs, we aim to expand and improve this formula for application in other pharmaceutical product areas.



To prepare for revisions to the Pharmaceutical Affairs Law, Taisho is establishing systems to ensure the worry-free use of its products by engaging in quality assurance activities integrated from research and development to production and safety management after sales.

Subsequent Events and Fiscal 2004 Targets

New QA Headquarters Established for Over-the-Counter Medications in the Self-Medication Operation Group and Ethical Drugs in the Prescription Pharmaceutical Operation Group

A new amended Pharmaceutical Affairs Law will become effective in April, 2005. The new law will require a product quality assurance structure as well as a safety management structure as a condition for the approval of new drug applications, meaning that the weight of responsibility

following the product's launch will be greater than before. In responding to the newly amended law and an increased focus in recent years on fulfilling corporate social responsibility, Taisho established a new headquarters-based integrated Quality Assurance (QA) organization in April, 2004. The new department is tasked with the comprehensive quality assurance of all product stages, from research, development, application, production and marketing, as Taisho proactively works to create an organization that consumers can trust.

Taisho is working to strengthen both Self-Medication Operation Group and Prescription Pharmaceutical Operation Group businesses with the aim of ensuring stable and sustained growth.

Taisho

	Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)
FY2004 Estimates (Billions of Yen)	295.0	59.0	64.0	37.0	117.8
YOY Growth (Billions of Yen)	+8.6 +3.0%	+1.3 +2.3%	+2.8 +4.6%	-3.9 -9.5%	-10.1 -7.9%



Integrated Information System Operation

Taisho has established a leading-edge information system utilizing the latest IT technology which can flexibly utilize medical product information and clinical data via PC. This will allow the timely provision of information regarding appropriate usage to doctors and pharmacists based on Evidence-Based Medicine (EBM). In addition, as an integrated corporate-wide information system, we created a new centralized operations system, and transferred the operations of all departments to this new system by May, 2004.



Research and Development

“Nurturing” of Self-Developed Products and “Contribution” to Results as Key Words

Through accelerated new drugs developed and a higher success ratio, Taisho is aiming for the continuous creation of promising original compounds, and already has several development themes in the clinical trial stage that show increasing future market promise.

New Drug Pipeline (As of August 31, 2004)

Taisho

STAGE	NAME	APPLICATION	DEVELOPMENT WITH	REMARKS
Launched (Date of launch)	<i>Clarith</i> (May 2004)	Macrolide antibiotic agent; smaller tablets		Formula changed
	<i>Metligine</i> (July 2004)	Antihypotensive agent; rapidly disintegrating tablets		Additional formula
	<i>SOLON</i> (August 2004)	Treatment for gastritis and gastric ulcers; fine granules (half portion)		Additional formula
Filed	<i>RiUP</i> (OTC Drug)	Female androgenetic alopecia		Indication expansion
Phase III	T-3811 (oral)	New-type quinolone antibacterial agent	Toyama Chemical	
Phase II	NT-702	Vasodilator/Antiplatelet agent	Nissan Chemical	
	(NM-702)	(Intermittent claudication)	(Nissan Chemical)	(U.S.)
Phase I	SUN N8075	Cerebral infarction (acute)	Daiichi Suntory Pharma	U.S.
	TS-011	Cerebral infarction (acute)	In-house	U.S.
	TS-021	Type II diabetes	In-house	
	TS-022	Atopic dermatitis	In-house	

Toyama Chemical

STAGE	NAME	APPLICATION	DEVELOPMENT WITH	REMARKS
Filed	T-614	Antirheumatic agent (DMARD)	Eisai	Phase IIa completed in South Africa Licensed out to Dong-A Pharmaceutical (Korea)
	<i>Pasil</i>	New quinolone antibacterial agent; Legionella	Mitsubishi Pharma	Additional indication
Phase III	T-3811 (oral)	New-type quinolone antibacterial agent	Taisho (oral)	Overseas: Licensed out to Schering-Plough Corporation (U.S.)
Phase I	T-3811 (injection)		In-house (injection)	
Phase II	T-588	Alzheimer's disease Sequelae of cerebro-vascular disorders	In-house	Phase IIa completed in U.K.
Pre-clinical	T-5226	Antirheumatic agent (AP-1 inhibitor)	In-house	



Taking the consumer's viewpoint, our daily research and development efforts are focused on clearly identified medical needs with advanced facilities and systems.

The Self-Medication Operation Group—Research and Development Promotion from the Standpoints of “Efficacy,” “Safety” and “Convenience”

Self-Medication Operation Group research and development is focusing on “efficacy,” “safety” and “convenience.” In terms of “efficacy” and “safety,” compounds for which efficacy and safety has been established through ethical pharmaceutical use over a specified period are utilized in the conversion to Over-the-Counter (OTC) drugs. In terms of “convenience,” based on “efficacy” and “safety” as precepts, the quest is to find the optimal formulation, dosage and frequency, for those who take the drug. In addition, Taisho has recently been expanding the development of products to meet the diversifying health-care needs of consumers for example foods for specified health use products.

**Prescription Pharmaceutical Operation Group:
Establishing a Framework to Produce Three Compounds
for Clinical Trials a Year**

In the Prescription Pharmaceutical Operation Group, Taisho is working to enhance its drug discovery platform based on the latest technologies. The aim is to bring three compounds to the clinical trial-stage a year—two original compounds and one introduced compound—and to achieve a 15% success ratio in terms of those compounds that reach the market from the pre-clinical test stage. In addition, by closely following the trends in domestic and overseas clinical testing, to either enter into joint development agreements or to make derivatives of these compounds license out.

In fiscal 2003, solid progress was made in development themes with promising market potential. The acute cerebral infarction treatment *TS-011* entered phase I testing in the U.S., while the type II diabetes treatment *TS-021* and the atopic dermatitis treatment *TS-022* entered phase I testing in Japan. In addition, Toyama Chemical submitted an application for approval of *T-614* in September 2003, and the new-type quinolone antibiotic *T-3811* entered phase III testing.

Original Research Areas

NAME	STAGE	DOMESTIC/ OVERSEAS	PROPERTY/INDICATION	FORMULATION
TS-011	P1	U.S.	Medicine to protect brain by improving localized blood flow. Acute stage of cerebral infarction	Injecton
TS-021	P1	Japan	Reduce high blood sugar levels after meals in patients with type II diabetes	Oral
TS-022	P1	Japan	Control of itching associated with atopic dermatitis	Topical

Compounds which are licensed to/co-developed with major global companies: MGS0028 (schizophrenia); licensed out to Merck (pre-clinical) CRA compounds (depression/anxiety); co-developed with J&J (pre-clinical).

Taisho Research Projects Entering Clinical Development

FISCAL YEAR	NAME	PROPERTY/INDICATION	TARGET
2003	TS-011	Cerebral infarction (acute)	Approval around
	TS-021	Type II diabetes	2010
	TS-022	Atopic dermatitis	
2004 (scheduled)	TS-033	Type I & II diabetes	
2005 and after (scheduled)	Several others		
		Average of two products per year from original development	



Production, International Diversification

Building a Highly Efficient, High-Quality Production Structure with a Focus on Globalization

We are building a sophisticated production and distribution structure that optimizes the various aspects of the supply chain, including product quality, production technology, distribution and marketing. Moreover, as we believe that Taisho's OTC products and ethical pharmaceuticals can be used by consumers and doctors around the globe in promoting better health care, we are also focusing on the global development of our business.





Taisho has introduced overseas a variety of tonics, nutrient drinks and other products as a world-leading pharmaceuticals company.



With production, marketing and distribution connected through an information network, we are moving to a production system that emphasizes efficiency and speed. In addition, we are building an efficient distribution system able to respond to the diversifying range of sales channels and needs of pharmacies, drugstores and medical institutions.

Establishing Systems to Coordinate Sales and Distribution Activities

We have established production bases in three domestic and five overseas locations where various OTC and ethical drug products are produced, and are working to establish a quality assurance framework that meets U.S. Good Manufacturing Practices (GMP), which are the strictest in the world. Each manufacturing plant works in collaboration with Taisho's production technology research lab in Saitama Prefecture, which is responsible for production technology reform. In addition to raising productivity, these facilities strive for the efficient, speedy and stable supply of products. In addition, the production division is connected over a common information network with the sales and distribution divisions, with the aim of advancing toward a production system based on efficiency and speed.

Moreover, we are also working to expand our production structure in order to accommodate and increase our ethical drug product lineup with the addition of products handled by Taisho Toyama Pharmaceutical, as we closely monitor potential changes in the production environment as the result of changes in the Pharmaceutical Affairs Law that will become effective from April 2005.

Providing High-Quality Products to Users Around the World

One of the largest self-medication producers in the world, Taisho's mainline nutrient drink *Lipovitan* is now sold in 19 countries around the world including Japan. Local subsidiaries have been established in Hong Kong, Taiwan, Malaysia, the Philippines, Indonesia, Thailand, Vietnam, China, Australia, the United States and the United Kingdom, while the product is currently being produced in Taiwan, Malaysia, Indonesia, Shanghai and Vietnam.

The high growth potential of the China market is of particular focus in the Asia market, while the Taisho Pharmaceutical Europe subsidiary has been established in London as the base for development of the European market centering on the United Kingdom.

In ethical pharmaceuticals, our main-line macrolide antibiotic agent *Clarith* is being sold through Abbott Laboratories of the U.S. to over 90 countries. In addition, Taisho is actively pursuing joint research with overseas research institutions and pharmaceutical producers as well as introducing and licensing new drug compounds. Our U.S. clinical trial subsidiary Taisho R&D USA was established in 2001. Thus the globalization of Taisho's pharmaceutical business is already well underway.

Capital Expenditure (Breakdown by Area)

(Millions of Yen)

	02/3	03/3	04/3	EST. 05/3
Omiya factory	¥ 4,372	¥ 1,499	¥ 1,521	¥ 3,000
Hanyu factory	100	84	136	100
Okayama factory	5,792	63	175	200
Research Center	1,881	1,492	1,218	2,000
Others	12,851	5,818	5,779	4,000
Total capital expenditure	¥ 24,996	¥ 8,956	¥ 8,829	¥ 9,300



Corporate Social Responsibility

Contributing to Society

Taisho has positioned corporate social responsibility (CSR) as the basis of corporate management. We proactively engage in various social activities to fulfill our corporate social responsibility in line with our corporate philosophy of contributing to healthier and more abundant lifestyles.

Measures to Enhance Compliance

Taisho first formulated its Corporate Code of Conduct in July 2001, which was later revised on a principal business segment basis in February 2003. Currently, the Company is reviewing these standards, to incorporate the unique features of each division and department.

As part of the Company's compliance promotion structure, Taisho appointed a Compliance Officer, established the Compliance Management Section and identified employees throughout the organization, responsible for the implementation and overview of compliance initiatives. In addition, we are continuously promoting employee education at every level within the organization including operational and administrative departments.

Communicating with Local Communities

In the Self-Medication Operation Group, "Taisho's Customer 119 Office" responds to customer inquiries in a polite, sincere and speedy manner. These customer opinions are then used to further improve our products and services. We received approximately 46,000 inquiries in fiscal 2003, and aim to enhance the operational structure of the Customer 119 Office as a customer hotline in the future.

The Customer Advice Office responds to questions about ethical drugs sold by Taisho Toyama Pharmaceutical Co., Ltd. In fiscal 2003, The Customer Advice Office fielded 11,000 questions from pharmacists and other medical professionals.

Cooperation with the Self-Medication Advocacy Council (SMAC)

Taisho supports the activities of the SMAC, an organization that promotes consumer health, medical access and welfare. Launched in May 2002, the Council was recognized for its social contributions and certified as a specified nonprofit organization (NPO) in April

2003. The SMAC promotes the concept of self-medication not only in name but also in substance and continues to deliver outstanding contributions to society.

In November 2003, the Council held a scientific forum. During the forum, Taisho received significant understanding and interest in its efforts to promote self-medication activities and to distribute information about self-medication for consumers, and its presentation in connection with how to read the package inserts for OTC drugs.

Supporting Research into Life Sciences

Established in 1985 to commemorate the 70th anniversary of Taisho's founding, the Uehara Memorial Foundation offers research grants (grant money present) and awards recognizing research achievements (Uehara Prize), holds international symposiums, and provides scholarships to young researchers for studying abroad or studying in Japan.

Taisho strives to broaden the scope of operations of the Uehara Memorial Foundation by increasing the number and amount of grants to match the applications of researchers. During the 19 years from 1985 to 2003, the Foundation has provided grants including the Uehara Prize totaling ¥12.3 billion. In fiscal 2003, the Foundation gave ¥1,058 million in grants to 353 researchers, and held a public symposium, Exploring New Frontiers—The Front Line of Brain Science, introducing the results of cutting-edge brain science research.



To promote compliance, Taisho has formulated codes of conduct for the entire company and each business field. We encourage each of our employees to act in a socially responsible manner in their daily work activities.



Taisho has supported the activities of the Self-Medication Advocacy Council (SMAC) since it was established in May 2002.



The Uehara Memorial Foundation provides grants to researchers, study abroad scholarships to young researchers and assistance for accepting overseas students.



All three of our factories in Omiya, Hanyu and Okayama have acquired ISO 14001 certification for environmental management systems. The Hanyu factory releases water clean enough to be used for agricultural purposes.

Environmental Activities

Taisho Pharmaceutical has positioned environmental activities as an important management issue on a par with its social activities. In all of its corporate activities from product development to manufacturing, distribution, consumption and disposal, Taisho pays due consideration to environmental preservation in order to pass on a pristine global environment to the next generation.

Environmental management as an important aspect of corporate activities

As a basis for its environmental activities, the Company established the Environment Section (currently Environment Division) in 1978. In 2001, Taisho formulated its basic policies and conduct guidelines as a summary of its fundamental approach to environmental activities based on management principles. Taisho promotes environmental activities Companywide.

The Company established the Environmental Committee comprised of directors as the highest organization governing environmental issues, and set up the Environmental Work Committee as an organization to advance environmental policies. In each factory and office, we have set up Environmental Management Committees to promote the further reduction of environmental risks by working to conserve resources and reduce waste. To fulfill its disclosure responsibilities for Companywide activities, Taisho published the Environmental Report in 2002 and the Environmental and Social Report in 2003.

Environmental Targets, Results and Vision

From the viewpoint of environmental management, Taisho introduced environmental accounting in fiscal 2002 to track and evaluate the cost and effectiveness of its environmental activities.

The Company identifies environmental targets and issues to be addressed every year. Taisho evaluates its progress toward achieving its targets and reflects new ideas in future initiatives. In this way, we maintain our vision for environmental activities.

By fiscal 2002, all three of the Company's factories in Japan, at Omiya, Hanyu and Okayama, had acquired ISO 14001 certification, an international standard for environmental management systems. By fiscal 2008, we aim to attain zero waste emissions at our three domestic factories, and have focused efforts on reducing the volume of materials used, such as packaging materials, and recycling resources. As a result, the Hanyu factory achieved zero waste emissions in March 2004. We expect to achieve zero emissions at the Omiya factory during the current fiscal year and at the Okayama factory during the next fiscal year.

In addition, the development of products that have less impact on the environment and improvements in packaging material procurement have resulted in the 100mL bottle being 9% lighter from January 2004. From the distribution aspect, the Company has increased the ratio of environmentally friendly electric-powered forklifts in use to more than 80%, two years ahead of schedule.

The Company aims to enhance the quality and quantity of all its environmental activities in order to gain the trust of society and receive recognition for its efforts.

GRAPHS OF SELECTED FINANCIAL HIGHLIGHTS

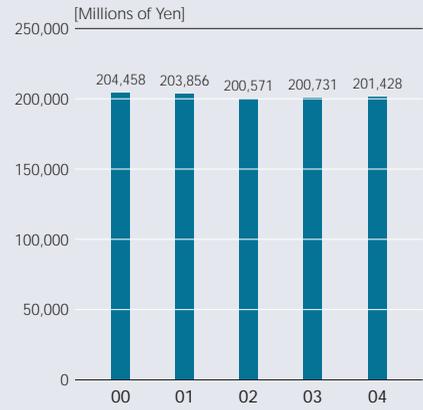
Net Sales



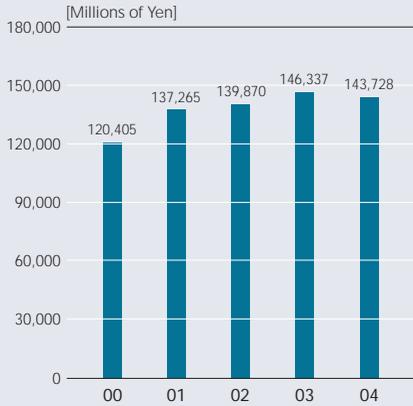
Cost of Sales



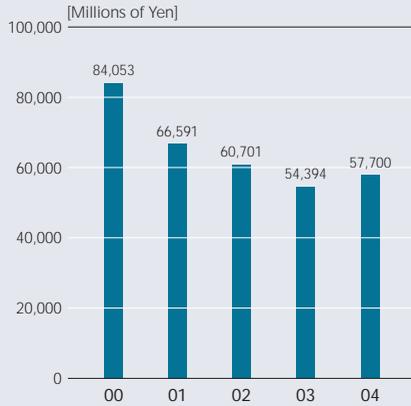
Gross Profit



Selling, General and Administrative Expenses



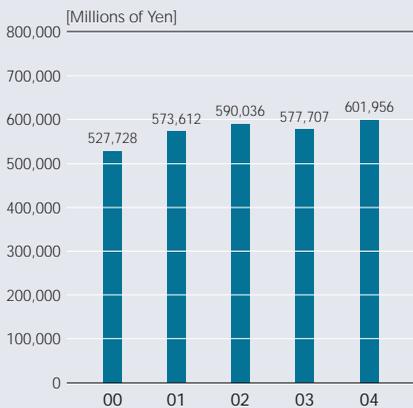
Operating Income



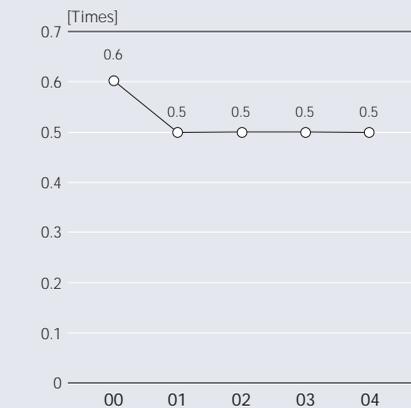
Net Income



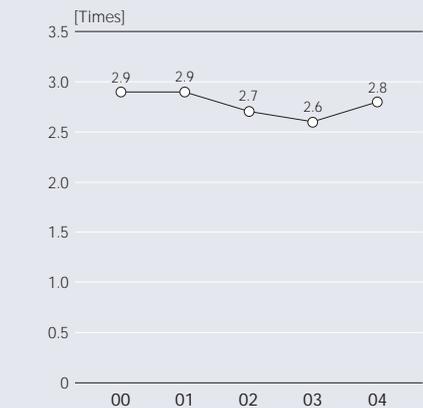
Total Assets



Asset Turnover



Tangible Fixed Assets Turnover



FINANCIAL SUMMARY

Taisho Pharmaceutical Co., Ltd. and Consolidated Subsidiaries For the years ended March 31, 2004, 2003, 2002, 2001 and 2000

	Millions of yen				
	2004	2003	2002	2001	2000
For the year:					
Net sales	¥ 286,434	¥ 274,077	¥ 271,397	¥ 274,396	¥ 275,251
Cost of sales.....	85,006	73,346	70,826	70,540	70,793
Gross profit	201,428	200,731	200,571	203,856	204,458
Selling, general and administrative expenses.....	143,728	146,337	139,870	137,265	120,405
Operating income.....	57,700	54,394	60,701	66,591	84,053
Net income	40,910	35,392	37,361	31,269	50,754
At year-end:					
Total assets	¥ 601,956	¥ 577,707	¥ 590,036	¥ 573,612	¥ 527,728
Current assets.....	254,715	247,589	251,793	245,078	346,912
Current liabilities	62,019	46,347	60,156	64,257	62,319
Working capital	192,696	201,242	191,637	180,821	284,593
Shareholders' equity	500,761	485,717	486,883	467,601	441,409
R&D expenses	24,171	29,526	32,212	33,401	23,238
R&D expenses as percentage of net sales (%).....	8.4	10.8	11.9	12.2	8.4
Capital expenditures.....	8,829	8,957	24,996	15,602	6,991
Free cash flows	84,783	63,839	14,199	8,704	19,693
Per share data:					
Shareholders' equity (yen)	¥1,597.78	¥1,474.65	¥1,434.51	¥1,371.99	¥1,286.00
Net income—basic (yen).....	127.87	105.81	109.66	91.41	147.32

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Strategy

Taisho and the Taisho Pharmaceutical Group position enhanced asset efficiency, maintaining sufficient liquidity and working capital to sustain business activities and a robust balance sheet as the cornerstones of its financial policy. Maintaining due diligence and care and a sound financial position are also integral to the smooth and efficient procurement of investment and working capital funds.

Investment decisions regarding research and development, capital expenditure, M&A, brand and other acquisitions, are assessed on an individual basis in the context of equity costs and the medium- and long-term potential of each project. The Taisho Pharmaceutical Group strives to realize efficient management and appropriate cost control in an effort to generate business growth and stable cash flows.

Overview

In the period under review, the unusually mild summer and warm winter impacted over-the-counter (OTC) medications. Conditions were further exacerbated by the continued slump in consumer spending. The business environment for pharmaceuticals was also weak due to the growing impact of drug price revision initiatives aimed at moderating health care costs.

Under these conditions, proactive sales activities were undertaken such as the launch of new products and the strengthening of the sales infrastructure.

Group Overview

The Taisho Pharmaceutical Group is made up of Taisho Pharmaceutical Co., Ltd. ("Taisho"), 23 subsidiaries and three other affiliated companies.

The Self-Medication Operation Group comprises Taisho, seven domestic and 13 overseas subsidiaries and one overseas related company. The Prescription Pharmaceutical Operation Group is made up of Taisho, three domestic subsidiaries, one overseas subsidiary and two other related domestic companies.

Net Sales

Taisho stepped up its aggressive sales activities by striving to launch new products and reinforce its sales network. As a result, consolidated net sales in fiscal 2003 totaled ¥286.4 billion, an increase of 4.5% compared with the previous fiscal year. Sales by segment are presented in the following paragraphs.

Segment Information

In the Self-Medication Operation Group, sales of the overall *Lipovitan* series of nutrient drinks declined by ¥5.1 billion, or 5.1%, as *Lipovitan 8II*, which was released in the previous fiscal year, contributed approximately ¥0.8 billion, and the new product *Lipovitan Wins* contributed approximately ¥0.5 billion. Sales of *Lipovitan D* decreased by ¥5.0 billion in response to the cool summer. Sales of the small drink *ZENA* series grew by ¥0.4 billion, or 10.1%, with the support of the new product *ZENA F0-I*.

Sales of the *Pabron* series of cold remedies fell by ¥0.5 billion, or 2.1%, while sales of digestive medicines edged up ¥0.1 billion, or 2.2%, and sales of the *Colac* series, in which the Company launched new products, rose by ¥0.6 billion, or 16.9%. However, sales of *RiUP*, a hair-care product for male pattern baldness, fell by ¥2.3 billion. Furthermore, in October 2003, Taisho acquired the rights from Procter & Gamble Far East, Inc. (P&G) to become

Taisho Pharmaceutical Co., Ltd. and Consolidated Subsidiaries For the years ended March 31, 2004, 2003, 2002, 2001 and 2000

	Millions of yen				
	2004	2003	2002	2001	2000
Net sales	¥ 286,434	¥ 274,077	¥ 271,397	¥ 274,396	¥ 275,251
Cost of sales	85,006	73,346	70,826	70,540	70,793
Gross profit.....	201,428	200,731	200,571	203,856	204,458
Selling, general and administrative expenses.....	143,728	146,337	139,870	137,265	120,405
Operating income.....	57,700	54,394	60,701	66,591	84,053
Income before income taxes and minority interests	69,910	60,269	66,446	55,868	88,113
Net income.....	¥ 40,910	¥ 35,392	¥ 37,361	¥ 31,269	¥ 50,754

the sole distributor for sales of the cold remedy *VICKS VapoRub* in Japan. We expect this product to make a full-fledged earnings contribution from fiscal 2004.

Overseas, although sales of tonic and nutrient drinks grew in China, Malaysia, and Thailand, they recorded a slight overall decline.

In the Prescription Pharmaceutical Operation Group, sales registered a strong increase of ¥19.4 billion, or 24.6%, compared to the previous fiscal year. However, this was mainly due to the contribution of approximately ¥21.2 billion from products made by Toyama Chemical and sold through our consolidated subsidiary Taisho Toyama Pharmaceutical, which began trading in fiscal 2003.

Sales of the Company's mainstay *Clarith* product, a macrolide antibiotic, edged up ¥0.5 billion, or 2.0%, but sales of *Palux* injection, a peripheral vasodilator, fell 9.0%, or ¥1.3 billion. *Lorcam*, a nonsteroidal anti-inflammatory drug, whose sales rose 7.2%, or ¥0.3 billion, and *Ancaron*, a tablet for the treatment of cardiac arrhythmia, whose sales surged 20.6%, or ¥0.7 billion, recorded steady growth.

Overseas royalty income included in the Prescription Pharmaceutical Operation Group decreased by ¥0.7 billion, or 11.2%.

Income and Expenses

Expenses including sales promotion and personnel costs at Taisho Toyama Pharmaceutical increased but, on the other hand, Taisho did not incur the large rights acquisition expenses of the previous fiscal year (such as the acquisition of a sales license for the new-type quinolone antibacterial agent *T-3811*, a product developed by Toyama Chemical). The Company made progress with a review of R&D and other expenses. SG&A expenses were reduced by ¥2.6 billion year on year. In the period under review, Toyama Chemical recorded a loss on investment in equity-method subsidiaries. In addition, Taisho also reported income of ¥9.1 billion relating to the return of pension assets previously managed on behalf of the government. As a result of these factors, net income rose ¥5,518 million, or 15.6%, to ¥40,910 million. Movements in major income statement items were as follows.

Taisho Pharmaceutical Co., Ltd. and Consolidated Subsidiaries For the years ended March 31, 2004, 2003, 2002, 2001 and 2000

	Millions of yen				
	2004	2003	2002	2001	2000
Sales:					
Self-medication operation group:	¥ 188,063	¥ 195,125	¥ 192,428	¥ 198,897	¥ 201,512
Over-the-counter medications	178,233	185,233	183,492	190,042	191,745
Foods for specified health use and others	7,876	8,535	7,389	7,166	7,974
Other	1,953	1,357	1,547	1,689	1,793
Prescription pharmaceutical operation group:	98,371	78,952	78,969	75,499	73,738
Ethical drugs.....	82,129	61,637	62,547	59,141	59,114
Other.....	10,631	10,994	9,647	10,133	8,413
Industrial property and other rental income	5,611	6,321	6,775	6,225	6,211
Operating income:					
Self-medication operation group	¥ 43,392	¥ 50,412	¥ 53,216	¥ 61,093	¥ 67,379
Prescription pharmaceutical operation group	14,308	3,982	7,485	5,498	16,673
Identifiable assets:					
Self-medication operation group	¥ 257,285	¥ 267,434	¥ 262,978	¥ 253,448	¥ 242,701
Prescription pharmaceutical operation group	119,801	117,176	102,082	90,601	93,159
Depreciation:					
Self-medication operation group	¥ 11,133	¥ 12,455	¥ 9,573	¥ 10,043	¥ 10,452
Prescription pharmaceutical operation group	4,210	4,377	4,616	4,529	4,969
Capital expenditure:					
Self-medication operation group	¥ 7,050	¥ 13,463	¥ 18,811	¥ 12,930	¥ 5,416
Prescription pharmaceutical operation group	2,107	3,436	6,823	3,544	4,608

Cost of sales increased 15.9% compared with the previous fiscal year, to ¥85,006 million. Despite this however, cost of sales as a ratio of net sales climbed only 2.9 percentage points to 29.7%. As a result, gross profit increased only slightly, to ¥201,428 million. SG&A expenses edged down 1.8% year on year, to ¥143,728 million, which translated to a 3.2 percentage point drop in the SG&A expense net sales ratio, to 50.2%. Operating income for the period under review increased 6.1%, to ¥57,700 million, for an operating income ratio of 20.1%.

Interest and dividend income declined 11.1%, to ¥4,073 million, while interest expenses fell 53.8%, to ¥6 million. As a result, the impact of interest paid on the Company's profit and loss was negligible with net financial income totaling ¥4,067 million, a drop of ¥501 million, or 10.7%. As previously mentioned, Taisho also reported income of ¥9,178 million relating to the return of pension assets previously managed on behalf of the government. For the period under review, non-operating expenses totaled ¥3,871 million, which included a loss on investment in equity-method subsidiaries.

Accordingly, income before income taxes and minority interests climbed 16.0% to ¥69,910 million.

Income taxes for the period totaled ¥29,234 million, an increase of 17.4%, while minority interests in loss of consolidated subsidiaries were ¥234 million. Net income increased 15.6% to ¥40,910 million, for a profit margin of 14.3%. Net income per share was ¥127.87, with ROE of 8.3% and ROA of 6.9%.

Liquidity and Capital Resources

Cash Flows

On a consolidated basis, cash and cash equivalents as of March 31, 2004 amounted to ¥106,802 million, an increase of ¥44,676 million compared with the previous fiscal year-end.

Cash flows from operating activities

Net cash provided by operating activities increased ¥4,108 million to ¥57,529 million. Income before income taxes and minority interests amounted to ¥69,910 million, an increase of ¥9,640 million over the previous term. This increase was mainly due to a gain on the return of the portion of the employee welfare pension fund managed on behalf of the government. Cash flow resulting from an increase in notes and accounts payable was ¥7,605 million, an increase of ¥10,298 million. Another major factor behind the increase was the ¥13,691 million decline, to ¥20,381 million, in income taxes paid. On the other hand, cash flow resulting from a decrease in notes and accounts receivable was ¥8,734 million, a decrease of ¥15,215 million compared with the previous term, and accrued retirement benefits decreased ¥7,906 million to ¥7,265 million. Depreciation and amortization was ¥15,343 million, a decrease of ¥1,488 million.

Cash flows from investing activities

Net cash provided by investing activities was ¥27,254 million, an increase of ¥16,835 million. The main factors that led to the increase in cash flows from investing activities were ¥38,500 million in proceeds from the sales of investment securities, an increase of ¥20,718 million from the previous fiscal year, ¥34,035 million in proceeds from the sales of marketable securities, an increase of ¥8,935 million from the previous fiscal year, and a decrease of ¥13,212 million in time deposits stemming from transfers from time deposits exceeding three months, for a balance of ¥22,572 million. The main factors that caused a decrease in cash flows from investment activities were ¥58,988 million in payments for purchases of investment securities, an increase of ¥32,638 million and ¥7,614 million in payments for purchases of property, plant and equipment, down ¥5,804 million.

Taisho Pharmaceutical Co., Ltd. and Consolidated Subsidiaries For the years ended March 31, 2004, 2003, 2002, 2001 and 2000

	Millions of yen				
	2004	2003	2002	2001	2000
Net cash provided by operating activities.....	¥ 57,529	¥ 53,420	¥ 44,654	¥ 36,610	¥ 73,098
Net cash provided by (used in) investing activities.....	27,254	10,419	(30,455)	(27,906)	(53,401)
Net cash used in financing activities	(39,651)	(27,613)	(11,480)	(16,901)	(13,921)
Cash and cash equivalents at the beginning of the period....	62,126	26,064	22,864	30,928	25,164
Cash and cash equivalents at the end of the period.....	106,802	62,126	26,064	22,864	30,928

Cash flows from financing activities

Net cash used in financing activities was ¥39,651 million, an increase of ¥12,038 million. The increase is attributable to payments for purchases of treasury stock totaling ¥28,478 million, an increase of ¥9,170 million and payments for cash dividends, including anniversary dividends, amounting to ¥9,856 million, an increase of ¥1,389 million.

Financial Position

Total assets as of the end of the fiscal year rose 4.2% to ¥601,956 million, reflecting the increase in investment securities and cash and cash equivalents. Major movements in principal balance sheet items were as follows.

Current assets edged up 2.9% to ¥254,715 million attributed mainly to the increase in cash and cash equivalents. The current ratio for the period under review was 410.7%, reflecting the Company's strong liquidity position.

Inventories stood at ¥21,709 million, up from ¥18,580 million as of the end of the previous fiscal year. The inventory turnover ratio was an extremely efficient 14.2 times.

Net property, plant and equipment declined 1.9% to ¥100,710 million. Intangible assets fell 11.9% to ¥15,707 million mainly representing the amortization of trademarks and sales licenses. Deferred income taxes dropped 60.8% to ¥8,107 million.

Shareholders' equity stood at ¥500,761 million, up 3.0%, on the back of net unrealized gains on securities of ¥13,852 million. As of the end of the fiscal year, the equity ratio was 83.2%, a decline of 0.9 percentage points, reflecting the Company's policy of essentially debt-free operations. Shareholders' equity per common share was ¥1,597.80.

Business and Other Risks

The main issues that may be risks in terms of Taisho's business expansion are as follows. The matters relating to the future in this document were determined by the Company at the end of the consolidated fiscal year under review.

1. Legal risk

Taisho's operations are subject to laws and regulations governing pharmaceutical affairs. At each stage of pharmaceutical development, manufacture, importation and distribution, for example, various approval and patenting systems have been established.

2. Risk relating to pharmaceutical development and commercialization

The development of ethical drugs requires a large amount of R&D investment and takes a long time, but there is uncertainty regarding the possibility of achieving success in terms of launching products on the market and business operations.

Taisho Pharmaceutical Co., Ltd. and Consolidated Subsidiaries For the years ended March 31, 2004, 2003, 2002, 2001 and 2000

	Millions of yen				
	2004	2003	2002	2001	2000
Cash and cash equivalents.....	¥ 106,802	¥ 62,126	¥ 26,064	¥ 22,864	¥ 30,928
Time deposits.....	31,570	54,142	89,926	106,841	97,251
Inventories.....	21,709	18,580	19,296	19,658	19,754
Total current assets.....	254,715	247,589	251,793	245,078	346,912
Investment securities.....	214,058	179,102	197,304	208,291	55,326
Property, plant and equipment, net.....	100,710	102,720	107,775	97,075	91,786
Intangible assets.....	15,707	17,839	14,308	12,466	14,772
Total intangible assets and other assets.....	32,473	48,296	33,164	23,168	33,704
Total assets.....	¥ 601,956	¥ 577,707	¥ 590,036	¥ 573,612	¥ 527,728
Common stock.....	¥ 29,804	¥ 29,804	¥ 29,804	¥ 29,804	¥ 29,804
Additional paid-in capital.....	14,935	14,935	14,935	14,935	14,935
Treasury stock.....	(51,234)	(22,756)	(3,447)	(513)	(515)
Total shareholders' equity.....	500,761	485,717	486,883	467,601	441,409
Total liabilities and shareholders' equity.....	¥ 601,956	¥ 577,707	¥ 590,036	¥ 573,612	¥ 527,728

3. Risk concerning the protection of intellectual property rights

If the Company is unable to adequately protect its intellectual property rights (IPR), third parties may use the Company's technologies and weaken the Company's competitiveness in the market.

4. Various litigious risks

In the process of its business activities, the Company may be sued for matters involving product liability, the environment and so forth.

Various other risks besides these exist, and the risks mentioned here do not comprise all the risks that the Company faces.

Basic Earnings Distribution Policy

To be able to maintain long-term, stable dividends at a high level while strengthening the Company's corporate culture, Taisho is also working to increase its retained earnings. We intend to appropriate retained earnings for investment that will strengthen the Company's foundations, including R&D, capital and new business development investment. During the fiscal year ended March 31, 2004, the Company acquired 15,962,323 shares of treasury stock for a total acquisition cost of ¥28,478 million as part of its profit-sharing policy.

Taisho has declared an ordinary cash dividend of ¥25 per share, which translates to a dividend payout ratio based on non-consolidated net income of ¥43,350 million of 18.4%. The dividend to shareholders' equity ratio was 1.5%, down from 2.0% in the previous fiscal year.

Capital and IT-Related Expenditures

Capital expenditures totaled ¥8,829 million, a year-on-year decline of 1.4%, and were primarily devoted to the acquisition of land for operating activities and the introduction of new manufacturing facilities at Taisho's Omiya Factory. In addition, Taisho has been carrying out an upgrade of its information systems since fiscal 2000, as a major management priority and in an effort to enhance efficiency.

Research & Development

Research & Development Expenses

In the Self-Medication Operation Group, Taisho is conducting research and development into medicines, nutritional products and in fields, such as hair-growth, that enhance the quality of life. The Company is leveraging its track record and accumulated know-how in ethical drugs, to develop effective and safe superior products. Research and development spending in this segment totaled ¥6,572 million. In the Prescription Pharmaceutical Operation Group, research and development activities are focused on highly original new drugs for the global market as a priority domain. Research and development amounted to ¥17,598 million for this segment, for a combined total of ¥24,171 million, or 8.4% of total net sales.

Pipeline Development

Taisho and Taisho Toyama Pharmaceutical are developing the following new drugs planned for release.

In the domestic market, several new themes are entering the clinical phase as a result of reinforcing research and development since 1995. In fiscal 2003, the acute cerebral infarction treatment *TS-011* underwent Phase I testing in the United States, and the type II diabetic treatment *TS-021* and the atopic dermatitis treatment *TS-022* entered Phase I testing in Japan. In fiscal 2004, we plan to place the type I and II diabetic treatment *TS-033* into Phase I clinical testing. In other areas, *NT-702*, a vascular dilatation and inhibitor of platelet aggregation treatment developed by Taisho and Nissan Chemical Industries, Ltd., is in Phase II clinical trials. In OTC medications, the Company is applying for the expanded application of *RiUP* (minoxidil) for female androgenetic alopecia.

Overseas, Taisho and Nissan Chemical Industries, have started Phase II clinical trials of *NM-702* (development code *NT-702* in Japan). The Company has also collaborated with Daiichi Suntory Pharma Co., Ltd. in the development of *SUN N8075* to treat acute cerebral infarction, currently in Phase I clinical trials in the United States. Moreover, the Company is pursuing development of new drug candidates and derivatives including *MGS0028*, a treatment for schizophrenia, which has been licensed to Merck & Co., Inc., and CRA compounds for

treatment of depression and anxiety co-developed with Janssen Pharmaceutica.

In other developments, Toyama Chemical applied for clinical trials of *T-614*, an antirheumatic agent jointly developed with Eisai Co., Ltd. In Japan, the new-type quinolone antibacterial agent *T-3811* (oral) is under Phase III clinical trials, while overseas, the Company has licensed out to Schering-Plough Corporation. Taisho Toyama Pharmaceutical plans to market the aforementioned products. Toyama Chemical has also completed Phase IIa clinical trials of *T-588*, a treatment for Alzheimer's disease, in the United Kingdom.

In the current fiscal year, Taisho successfully launched a smaller tablet form of its mainstay antibiotic agent *Clarith*; a rapidly disintegrating tablet of the antihypertensive agent *Metligine*; and fine granules, reducing the intake volume by half, for *SOLON*, a treatment for gastritis and gastric ulcers.

Human Resources

The total number of employees as of March 31, 2004 was 5,477, an increase of 671. This increase is attributed to an increase in secondees from Toyama Chemical following the establishment of joint-venture company Taisho Toyama Pharmaceutical, and the commencement of full-fledged operations.

Medium-Term Management Strategies

Taisho is making every effort to expand the Self-Medication Operation Group (OTC medications as well as household goods and nutritional foods) and strengthen the Prescription Pharmaceutical Operation Group (ethical drugs).

In the Self-Medication Operation Group, Taisho is focusing on the expansion of product lines that match consumer needs for promoting their health, preventing disease, detecting disease in the early stages, curing diseases in the early stages, and light medical treatment. We are advancing the development of safe new products with high efficacy by applying our research and know-how in ethical drugs. We are also aggressively promoting switch-to-OTC drugs and Foods For Specified Health Use (FOSHU). Our products have gained the support of consumers, and we will continue to nurture them into trusted brands. As a part of our efforts to strengthen our brand name, we acquired the rights

to sell *VICKS VapoRub* in Japan from P&G during the fiscal year under review. Taisho expects *VICKS VapoRub* to begin making a full contribution to earnings from the fiscal year ending March 31, 2005 as operations gain momentum.

In the ethical drugs business, we are concentrating our research and development efforts on creating highly original new drugs for the world market. At the same time, we aim to improve sales efficiency by upgrading our sales structure to respond to changes in distribution systems and practices.

To reinforce the ethical drugs business, Taisho established Taisho Toyama Pharmaceutical in October 2002 as a domestic sales company for ethical drugs in a joint venture with Toyama Chemical. Taisho has a 55% stake in the new company, which began full-scale operations in the fiscal year under review. We are working to improve sales efficiency further under the new company. Taisho has formed a strategic partnership with Toyama Chemical, an equity method company, in the research and development of ethical drugs. Together, we are focusing on enhancing our R&D efforts in various fields.

In preparation for the implementation of the revised Pharmaceuticals Affairs Law in April 2005, Taisho established the Quality Assurance Division in April 2004 as an organization for managing quality assurance departments in order to create an optimal internal structure for managing the safety and ensuring the quality of pharmaceuticals. We are also making every effort to ensure quality at the research and development stage and are strengthening safety management in the after-sales market as required by the revised Pharmaceuticals Affairs Law.

From the fiscal year ended March 31, 2001, Taisho has been reviewing work processes and renewing systems as a part of a primary issue for rebuilding core business systems. During the fiscal year under review, we moved divisions that were ready to the new system, and completed the switchover for the Self-Medication Operation Group in May 2004. Taisho will continue to focus on increasing efficiency and strengthening management under the new system.

CONSOLIDATED BALANCE SHEETS

Taisho Pharmaceutical Co., Ltd. and Consolidated Subsidiaries As of March 31, 2004 and 2003

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Current assets:			
Cash and cash equivalents (Note 5).....	¥106,802	¥ 62,126	\$1,010,521
Time deposits	31,570	54,142	298,706
Marketable securities (Note 6).....	5,228	34,036	49,462
Notes and accounts receivable, trade	75,753	67,025	716,747
Allowance for doubtful accounts	(858)	(747)	(8,119)
Inventories.....	21,709	18,580	205,400
Deferred income taxes (Note 11).....	9,091	7,886	86,018
Other current assets	5,420	4,541	51,282
Total current assets.....	254,715	247,589	2,410,017
Investment securities (Note 6).....	214,058	179,102	2,025,334
Property, plant and equipment, net (Note 7).....	100,710	102,720	952,886
Intangible assets and other assets:			
Intangible assets.....	15,707	17,839	148,618
Deferred income taxes (Note 11).....	8,107	20,708	76,704
Other assets	8,659	9,749	81,928
Total intangible assets and other assets.....	32,473	48,296	307,250
Total assets.....	¥601,956	¥577,707	\$5,695,487

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Current liabilities:			
Short-term loans (Note 8).....	¥ 265	¥ 340	\$ 2,507
Notes and accounts payable, trade.....	21,172	13,575	200,320
Accrued income taxes (Note 11).....	14,829	6,511	140,310
Accrued expenses.....	7,829	12,161	74,075
Other current liabilities.....	17,924	13,760	169,591
Total current liabilities.....	62,019	46,347	586,803
Long-term liabilities:			
Long-term debt.....	—	6	—
Accrued retirement benefits (Note 9).....	33,745	41,010	319,279
Other long-term liabilities (Note 11).....	4,375	3,757	41,396
Total long-term liabilities.....	38,120	44,773	360,675
Minority interests in consolidated subsidiaries.....	1,056	870	9,990
Shareholders' equity:			
Common stock:			
Authorized—1,195,459 thousand shares			
Issued—340,965 thousand shares.....	29,804	29,804	281,999
Additional paid-in capital.....	14,935	14,935	141,310
Retained earnings (Note 10).....	498,173	467,229	4,713,526
Net unrealized (losses) gains on securities.....	13,852	(165)	131,064
Foreign currency translation adjustment.....	(4,769)	(3,330)	(45,124)
Treasury stock			
(2004: 27,609,242 shares, 2003: 11,646,919 shares).....	(51,234)	(22,756)	(484,756)
Total shareholders' equity.....	500,761	485,717	4,738,019
Commitments and contingent liabilities (Notes 14 and 15)			
Total liabilities and shareholders' equity.....	¥601,956	¥577,707	\$5,695,487

CONSOLIDATED STATEMENTS OF INCOME

Taisho Pharmaceutical Co., Ltd. and Consolidated Subsidiaries For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Net sales	¥286,434	¥274,077	\$2,710,131
Cost of sales	85,006	73,346	804,292
Gross profit	201,428	200,731	1,905,839
Selling, general and administrative expenses (Note 12)	143,728	146,337	1,359,900
Operating income	57,700	54,394	545,939
Other income:			
Interest and dividends	4,073	4,581	38,537
Profit resulting from the separation of the substitutional portion of the employee's pension fund	9,178	—	86,842
Other (Note 13)	2,836	4,048	26,830
	16,087	8,629	152,209
Other expenses:			
Interest	6	13	55
Other (Note 13)	3,871	2,741	36,630
	3,877	2,754	36,685
Income before income taxes and minority interests	69,910	60,269	661,463
Income taxes (Note 11)	29,234	24,892	276,605
Income before minority interests	40,676	35,377	384,858
Minority interests in loss of consolidated subsidiaries	234	15	2,218
Net income	¥ 40,910	¥ 35,392	\$ 387,076

	Yen		U.S. dollars (Note 3)
	2004	2003	2004
Per share:			
Net income—Basic	¥ 127.87	¥ 105.81	\$ 1.21
—Diluted	—	—	—
Cash dividends	25.00	30.00	0.24

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Taisho Pharmaceutical Co., Ltd. and Consolidated Subsidiaries For the years ended March 31, 2004 and 2003

	Millions of yen							
	Number of shares	Common stock	Additional paid-in capital	Retained earnings	Net unrealized (losses) gains on securities	Foreign currency translation adjustment	Treasury stock	Comprehensive income
Balance as of March 31, 2002	340,965,510	¥29,804	¥14,935	¥440,409	¥ 7,292	¥(2,110)	¥ (3,447)	
Dividends paid	—	—	—	(8,485)	—	—	—	
Bonuses to directors and corporate auditors	—	—	—	(87)	—	—	—	
Purchase of treasury stock	—	—	—	—	—	—	(19,309)	
Net income	—	—	—	35,392	—	—	—	¥35,392
Unrealized loss on securities	—	—	—	—	(7,457)	—	—	(7,457)
Currency translation adjustment	—	—	—	—	—	(1,220)	—	(1,220)
Balance as of March 31, 2003	340,965,510	29,804	14,935	467,229	(165)	(3,330)	(22,756)	26,715
Dividends paid	—	—	—	(9,879)	—	—	—	
Bonuses to directors and corporate auditors	—	—	—	(87)	—	—	—	
Purchase of treasury stock	—	—	—	—	—	—	(28,478)	
Net income	—	—	—	40,910	—	—	—	40,910
Unrealized gains on securities	—	—	—	—	14,017	—	—	14,017
Currency translation adjustment	—	—	—	—	—	(1,439)	—	(1,439)
Balance as of March 31, 2004	340,965,510	¥29,804	¥14,935	¥498,173	¥13,852	¥(4,769)	¥(51,234)	¥53,488

	Thousands of U.S. dollars (Note 3)						
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized (losses) gains on securities	Foreign currency translation adjustment	Treasury stock	Comprehensive income
Balance as of March 31, 2003	\$281,999	\$141,310	\$4,420,750	\$ (1,561)	\$(31,509)	\$ (215,305)	
Dividends paid	—	—	(93,477)	—	—	—	
Bonuses to directors and corporate auditors	—	—	(823)	—	—	—	
Purchase of treasury stock	—	—	—	—	—	(269,451)	
Net income	—	—	387,076	—	—	—	\$387,076
Unrealized gains on securities	—	—	—	132,625	—	—	132,625
Currency translation adjustment	—	—	—	—	(13,615)	—	(13,615)
Balance as of March 31, 2004	\$281,999	\$141,310	\$4,713,526	\$131,064	\$(45,124)	\$(484,756)	\$506,086

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Taisho Pharmaceutical Co., Ltd. and Consolidated Subsidiaries For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 69,910	¥ 60,269	\$ 661,463
Adjustments:			
Depreciation and amortization	15,343	16,832	145,173
Interest and dividend income	(4,073)	(4,581)	(38,537)
Interest expenses	6	13	55
Proceeds from sales of investment securities	—	(1,633)	—
Loss on redemption of investment securities	—	24	—
Devaluation of investment securities	872	665	8,255
Proceeds from sales of property, plant and equipment	(1,035)	(4)	(9,793)
Loss on disposal of property, plant and equipment, net	611	270	5,785
(Decrease) increase in accrued retirement benefits	(7,265)	641	(68,739)
Increase in accrued directors' retirement benefit	121	1,380	1,141
Amortization of goodwill	22	22	211
Equity in net losses (earnings) of affiliated companies	1,832	(140)	17,334
(Increase) decrease in notes and accounts receivable, trade	(8,734)	6,481	(82,636)
(Increase) decrease in inventories	(3,159)	680	(29,892)
Increase (decrease) in notes and accounts payable, trade	7,605	(2,693)	71,956
Other, net	1,688	4,688	15,962
	<u>73,744</u>	<u>82,914</u>	<u>697,738</u>
Interest and dividend income received	4,172	4,591	39,475
Interest paid	(6)	(13)	(55)
Income taxes paid	(20,381)	(34,072)	(192,836)
Net cash provided by operating activities	<u>57,529</u>	<u>53,420</u>	<u>544,322</u>
Cash flows from investing activities:			
Decrease in time deposits	22,572	35,784	213,568
Proceeds from sales/redemption of marketable securities	34,035	25,100	322,030
Payments for purchases of property, plant and equipment	(7,614)	(13,418)	(72,041)
Proceeds from sales of property, plant and equipment	1,047	39	9,906
Payment for purchases of intangible assets	(1,366)	(8,976)	(12,925)
Payments for purchases of investment securities	(58,988)	(26,350)	(558,120)
Proceeds from sales of investment securities	38,500	17,781	364,273
Payment for purchases of investment in stocks of affiliated company	—	(19,012)	—
Payments for long-term prepaid expenses	(314)	(442)	(2,975)
Other, net	(618)	(87)	(5,847)
Net cash provided by investing activities	<u>27,254</u>	<u>10,419</u>	<u>257,869</u>
Cash flows from financing activities:			
Proceeds from long-term debt	—	5	—
Repayment of long-term debt	(6)	—	(55)
Proceeds from short-term loans	265	443	2,507
Repayment of short-term loans	(340)	(462)	(3,217)
Cash dividends	(9,856)	(8,467)	(93,250)
Payments for purchases of treasury stock	(28,478)	(19,307)	(269,451)
Other, net	(1,236)	175	(11,698)
Net cash used in financing activities	<u>(39,651)</u>	<u>(27,613)</u>	<u>(375,164)</u>
Effect of exchange rate changes on cash and cash equivalents	(456)	(164)	(4,317)
Net increase in cash and cash equivalents	44,676	36,062	422,710
Cash and cash equivalents at the beginning of the year	62,126	26,064	587,811
Cash and cash equivalents at the end of the year (Note 5)	¥106,802	¥ 62,126	\$1,010,521

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Taisho Pharmaceutical Co., Ltd. and Consolidated Subsidiaries

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS:

The accompanying consolidated financial statements of Taisho Pharmaceutical Co., Ltd. (the "Company") and its domestic and foreign subsidiaries (together, the "Companies") are basically English versions of those which have been filed with the Ministry of Finance and prepared in accordance with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements as well as reported amounts of revenues and expenses during the reporting periods.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present these statements in a form which is more familiar to the readers of these statements outside Japan. In addition, the notes to consolidated financial statements include information that is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information.

The figures shown in the consolidated financial statements have been rounded to the nearest millions of yen.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(1) Consolidation and investments in affiliates

The consolidated financial statements include the accounts of the Company and all significant subsidiaries in which the Company has the ability to control and exercise significant influence over operating and financial policies.

Toyama Chemical Co., Ltd. became an affiliate, approximately 22% owned by the Company, in September 2002 through the subscription of newly issued shares by ¥19,012 million. Therefore, the investment in this company has been accounted for using the equity method in 2003 consolidation. Taisho Toyama Pharmaceutical Co., Ltd. which is a 55% owned subsidiary of the Company and a 45% owned affiliate of Toyama Chemical Co., Ltd. was established in October 2002, under the Shareholders' Agreement, and acts as a distributor and a promoter to doctors of the medical products for both companies. Therefore, the accounts of the subsidiary have been included in 2003 consolidation.

Mejiro Real Estate Co., Ltd., a wholly owned subsidiary of the Company, was incorporated in July 2003, and its accounts have been included in the 2004 consolidation.

Taisho Service Sangyo Co., Ltd. became a subsidiary, wholly owned by the Company, in January 2004 through acquisition of common shares for ¥2,044 million. Therefore, the accounts of the subsidiary have been included in 2004 consolidation.

All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated in consolidation. All the consolidated subsidiaries, except for Taisho Toyama Pharmaceutical Co., Ltd., Mejiro Real Estate Co., Ltd., and Taisho Service Sangyo Co., Ltd., are included in the consolidated accounts with their accounts closed for their fiscal years ended December 31, 2003 and 2002, while the accounts of those three subsidiaries are consolidated with their respective financial statements for their fiscal years ended March 31, 2004. Material differences in intercompany transactions and accounts arising from the use of the different fiscal year-ends are appropriately adjusted in consolidation.

Investments in 50% or less owned companies, over which the parent company does not have control, but has the ability to exercise significant influence are accounted for by the equity method. The excess of the cost over the underlying net equity of investments in affiliates accounted for on an equity basis is deferred and amortized over the period in which future benefit of investments is estimated to continue. Consolidated net income includes the Company's equity in current earnings of these equity companies after the elimination of unrealized intercompany profits.

(2) Foreign currency translation

Foreign currency transactions are translated using foreign exchange rates prevailing at the transaction dates.

All monetary assets and liabilities denominated in foreign currencies, whether they are long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

All assets and liabilities of foreign subsidiaries and affiliates are translated at current rates at the respective balance sheet dates and all the income and expense accounts are translated at average rates for respective periods. Foreign currency translation adjustments are presented as a component of shareholders' equity in the consolidated financial statements.

(3) Financial instruments

a) Derivatives:

All derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments."

b) Securities:

Securities held by the Company and its subsidiaries are classified into four categories:

Trading securities are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise.

Held-to-maturity debt securities are stated at cost after accounting for any premium or discount on acquisition, which is amortized over the period to maturity.

Investments of the Company in equity securities of non-consolidated subsidiaries and affiliates are accounted for by the equity method.

Other securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in shareholders' equity at a net-of-tax amount. Other securities for which market quotations are unavailable are stated at cost.

When the fair value of held-to-maturity debt securities or other securities has declined significantly and such impairment of the value is not deemed temporary, those securities are written down to the fair value and the resulting losses are included in net profit or loss for the period.

Trading securities and debt securities due within one year are presented as "current assets" and all the other securities are presented as "investment securities."

c) Hedge Accounting:

Gains or losses arising from changes in fair value of derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

Derivatives designated as hedging instruments by the Company are principally forward exchange and interest swap contracts. A hedged item is an asset, liability, firm commitment, or forecasted future transaction that exposes the enterprise to risk of changes in fair value or changes in future cash flows and that for hedge accounting purposes, is designated as being hedged.

The Company has a policy to utilize the above hedging instruments in order to reduce the Company's exposure to the risk of exchange and interest rate fluctuations. Thus, the Company's purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

The Company evaluates effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

(4) Allowance for doubtful accounts

An allowance for doubtful accounts is provided for estimated future losses based on past experience, and the allowance is based on an evaluation of the collectability of individual receivables.

(5) Inventories

Inventories held by the Company are stated at cost, which is determined by the moving-average method.

Along with the introduction of a new computer system, which enables inventories to be measured in a timely manner, the Company has changed the valuation method of raw materials and promotion goods to the moving-average method from fiscal 2004. Raw materials and promotion goods had previously been measured using the annual average method and last purchase cost method, respectively. However, the effect on net income for this change is immaterial.

(6) Property, plant and equipment

Property, plant and equipment, including significant renewals and improvements, are capitalized at cost. Maintenance and repairs and minor renewals and betterments are charged to income. Depreciation is computed primarily on the declining-balance method at rates based on the estimated useful lives of the assets. In the case of retirement or disposal, the difference between the net book value and salvage or sales proceeds is charged or credited to income.

(7) Retirement benefits and pension plans

Lump-sum severance indemnity regulations of the Companies, which cover substantially all employees, provide for benefit payments determined by reference to the employee's current basic rate of pay, length of service, position in the respective companies and termination circumstance. The regulations provide for additional benefits upon retirement at the retirement age from 55 years old to 60 years old, death or for certain defined reasons.

In addition to the lump-sum severance indemnity regulations, the Company has contributory funded defined benefit pension plans which are pursuant to the Japanese Welfare Pension Insurance Law and cover a portion of the governmental welfare pension program under which the contributions are made by the Company and their employees.

The accrued retirement benefits represent the actuarially calculated present value of projected benefit obligation in excess of the fair value of the plan assets except for, as permitted under the standard, the unrecognized actuarial differences and the unrecognized prior service cost which are amortized on a straight-line basis over the period of fifteen or sixteen years, that is within the average remaining service period of employees, from the next year in which they arise.

In order to prepare for the payment of retirement severance indemnity for directors, statutory auditors and executive officers, the provision is newly provided for lump-sum severance indemnity based on internal regulation in 2003, while in prior years such payments to them were charged to income when paid.

By this change, the amount for the provision which belongs to previous years is charged to income in other expenses, and the amount for the current year is charged to income in selling, general and administrative expenses. Consequently, compared with prior year, this accounting change caused operating income for the fiscal year ended March 31, 2003 to decrease by ¥83 million and income before income taxes and minority interests for the fiscal year ended March 31, 2003 to decrease by ¥1,380 million, respectively.

On February 25, 2004, the Company and certain of its domestic consolidated subsidiaries obtained the governmental approval (first approval) of exemption from the obligation for benefits related to future employee service under the substitutional portion of governmental welfare pension from the Ministry of Health, Labour and Welfare. As permitted by Article 47-2 of "Practical Guidelines on Accounting for Postretirement Benefits (Interim Report)" issued by the JICPA, the Company adopted the transitional treatment for separation of the substitutional portion. This allows the substitutional portion of the benefit obligation and related assets transferred to the Japanese government is regarded as elimination of those and is accounted for on the date of the first approval, together with the recognition of the proportionate amount of the unrecognized items (i.e. transition obligation, past service costs and net unrecognized gain or loss). As a

result, a one-off profit resulting from the separation of the substitutional portion of the Employee's Pension Welfare Fund amounting to ¥9,178 million was recognized in the year ended March 31, 2004. The plan assets assumed to be transferred to the Japanese government amounts to ¥17,622 million as at March 31, 2004.

(8) Revenue recognition

Sales are generally recognized at the time the goods are delivered to customers.

(9) Finance leases

Finance leases, other than those where ownership of the lease assets is transferred to the lessee, are accounted for as operating leases.

(10) Income taxes

The provision for income taxes is computed based on the pre-tax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the reported amounts and the tax bases of assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

(11) Appropriation of retained earnings

The appropriation of retained earnings reflected in the accompanying consolidated financial statements has been recorded after approval by the shareholders as required under the Japanese Commercial Code.

(12) Earnings per share information

The computation of net income and cash dividends per share is based on the weighted-average number of shares outstanding, excluding treasury stock shares during each period.

The Company retains stock option plans, however, net income per share is not dilutive after the computation.

Effective from the year ended March 31, 2003 the Company and its subsidiaries adopted the Statement of Accounting Standard No.2 "Accounting Standard for Earnings per Share" issued by the Accounting Standards Board of Japan. Prior to adoption of the new statement, earnings per share were calculated based on the net income shown on consolidated statements of income, which is the amount before deduction of bonuses to directors and statutory auditors, that are recognized as an appropriation of retained earnings in the consolidated statement of shareholders' equity. However, the new statement requires that net income should be adjusted by deducting the amounts not attributable to the common shareholders, such as bonuses paid to directors and statutory auditors as well as the payment of dividends to shareholders of preferred stocks to be recognized as an appropriation of retained earnings from net income shown in statements of income and the calculation of earnings per share be made on that adjusted net income basis.

(13) Cash equivalents

For the purpose of the statement of cash flows, all highly liquid investments which are readily convertible into cash and/or mature within three months or less are considered to be cash equivalents.

(14) Treasury stock

Treasury stock is stated at cost as a separate component of shareholders' equity in the accompanying consolidated balance sheets. Net gains on resale of treasury shares are presented as additional paid-in capital in shareholders' equity in the accompanying consolidated balance sheets.

Effective from the year ended March 31, 2003 the Company and its subsidiaries adopted the Statement of Accounting Standard No.1 "Accounting for Treasury Stock and Reduction of Legal Reserve" issued by the Accounting Standards Board of Japan. However, the effect on net income for this period is immaterial.

Effective from October 1, 2001, the Company is allowed to acquire its own shares to the extent that the aggregate cost of treasury stock does not exceed the maximum amount available for dividends. On June 27, 2003, the general shareholders' meeting approved the acquisition of its own shares to a limit of 15,000,000 shares of which the amount is limited to ¥35,000 million until the date of the next general shareholders' meeting.

In accordance with that approval, the Company has acquired treasury stocks of 9,600,000 shares in the prior resolution period.

On June 29, 2004, the ordinary shareholders' meeting approved the acquisition of own shares with a limit of 7,000,000 shares of which the amount is limited to ¥16,000 million until the date of the next ordinary shareholders' meeting.

(15) Recently issued new accounting standards

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets." The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount which is measured at the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending after March 31, 2004.

Although this standard has not been applied in the consolidated financial statements, the adoption of this standard, the management believe, may not have significant impact on the consolidated financial statements.

(16) Reclassifications

Certain accounts in the consolidated financial statements for the year ended March 31, 2003 have been reclassified to conform to the 2004 presentation.

3. UNITED STATES DOLLAR AMOUNTS:

The U.S. dollar amounts are included solely for convenience and have been translated at the rate of ¥105.69 = US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market as at March 31, 2004. This translation should not be construed as a representation that the yen amounts actually represent, or have been or could be converted into U.S. dollars.

4. RELATED PARTY TRANSACTIONS:

The Company has related party transactions with Toyama Chemical Co. Ltd, a public and listed company on the Tokyo Stock Exchange, of which 22 % common shares are owned by the Company. In fiscal 2003, the Company acquired the exclusive sales rights of certain ethical drugs from Toyama Chemical Co. Ltd. at ¥7,300 million that are still under development and awaiting approval by the Ministry of Health, Labor and Welfare. Taisho Toyama Co. Ltd. was established in October 2002 with the joint investment of the Company (55 % investment in common share) and Toyama Chemicals Co. Ltd. (45% investment in common share) and acts as a sales distributor and promoter of the ethical drug products developed by both the Company and Toyama Chemical Co. Ltd. During fiscal 2003 Taisho Toyama had been undergoing preparation for operations and commenced operation in the beginning of fiscal 2004. For fiscal 2004 ¥12,310 million of the purchase from Toyama Chemical Co., Ltd. was made and its related balance of accounts payable amounted to ¥2,625 million and ¥5,983 million as of March 31, 2003 and 2004, respectively.

The Company has acquired all common shares of Taisho Service Sangyo Co., Ltd. in January 2004 at ¥2,044 million of which common shares are wholly owned by Mr. Shoji Uehara and his relatives. This transaction amount is determined based on independent appraisal. The only other regular transaction with Taisho Service Sangyo Co., Ltd. is rent income totaling ¥215 million for fiscal 2004 and ¥213 million for fiscal 2003.

5. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents at March 31, 2004 and 2003 are comprised of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Cash	¥106,802	¥ 41,285	\$1,010,521
Time deposits	—	20,841	—
	¥106,802	¥ 62,126	\$1,010,521

6. MARKETABLE SECURITIES AND INVESTMENT SECURITIES:

The following information relates to the aggregate book value and fair value of securities in 2004 and 2003.

i) Held-to-maturity securities whose fair value is readily determinable.

March 31, 2004	Millions of yen		
	Book value	Fair value	Unrealized gains (losses)
Securities whose fair values exceed their book values on the consolidated balance sheet:			
(1) Government bonds, Municipal bonds, etc...	¥ —	¥ —	¥ —
(2) Corporate bonds	4,289	4,689	400
Subtotal	4,289	4,689	400

Securities whose fair values do not exceed their book values on the consolidated balance sheet:			
(1) Government bonds, Municipal bonds, etc...	—	—	—
(2) Corporate bonds	3,801	3,784	(17)
Subtotal	3,801	3,784	(17)
Total	¥8,090	¥8,473	¥383

March 31, 2004	Thousands of U.S. dollars (Note 3)		
	Book value	Fair value	Unrealized gains (losses)
Securities whose fair values exceed their book values on the consolidated balance sheet:			
(1) Government bonds, Municipal bonds, etc...	\$ —	\$ —	\$ —
(2) Corporate bonds	40,580	44,367	3,787
Subtotal	40,580	44,367	3,787

Securities whose fair values do not exceed their book values on the consolidated balance sheet:			
(1) Government bonds, Municipal bonds, etc...	—	—	—
(2) Corporate bonds	35,967	35,804	(163)
Subtotal	35,967	35,804	(163)
Total	\$76,547	\$80,171	\$3,624

March 31, 2003	Millions of yen		
	Book value	Fair value	Unrealized gains (losses)
Securities whose fair values exceed their book values on the consolidated balance sheet:			
(1) Government bonds, Municipal bonds, etc.....	¥ —	¥ —	¥ —
(2) Corporate bonds	4,802	5,225	423
Subtotal	4,802	5,225	423

March 31, 2003	Thousands of U.S. dollars (Note 3)		
	Book value	Fair value	Unrealized gains (losses)
Securities whose fair values do not exceed their book values on the consolidated balance sheet:			
(1) Government bonds, Municipal bonds, etc.....	—	—	—
(2) Corporate bonds	3,849	3,797	(52)
Subtotal	3,849	3,797	(52)
Total	¥8,651	¥9,022	¥371

March 31, 2003	Thousands of U.S. dollars (Note 3)		
	Book value	Fair value	Unrealized gains (losses)
Securities whose fair values exceed their book values on the consolidated balance sheet:			
(1) Government bonds, Municipal bonds, etc.....	\$ —	\$ —	\$ —
(2) Corporate bonds	45,434	49,436	4,002
Subtotal	45,434	49,436	4,002

March 31, 2003	Millions of yen		
	Book value	Fair value	Unrealized gains (losses)
Securities whose fair values do not exceed their book values on the consolidated balance sheet:			
(1) Government bonds, Municipal bonds, etc.....	—	—	—
(2) Corporate bonds	36,416	35,921	(495)
Subtotal	36,416	35,921	(495)
Total	\$81,850	\$85,357	\$(3,507)

ii) Other securities whose fair value is readily determinable.

March 31, 2004	Millions of yen		
	Acquisition cost	Fair value	Unrealized gains (losses)
Securities whose fair values exceed their carrying values on the consolidated balance sheet:			
(1) Equity securities	¥ 17,162	¥ 39,349	¥22,187
(2) Government bonds, Municipal bonds, etc.....	20,216	20,268	52
(3) Corporate bonds	43,336	43,821	485
(4) Others	30,000	31,614	1,614
Subtotal	110,714	135,052	24,338

March 31, 2004	Thousands of U.S. dollars (Note 3)		
	Acquisition cost	Fair value	Unrealized gains (losses)
Securities whose fair values do not exceed their carrying values on the consolidated balance sheet:			
(1) Equity securities	\$ 162,380	\$ 372,308	\$209,928
(2) Government bonds, Municipal bonds, etc.....	191,276	191,768	492
(3) Corporate bonds	410,032	414,614	4,582
(4) Others	283,849	299,120	15,271
Subtotal	1,047,537	1,277,810	230,273

March 31, 2004	Millions of yen		
	Acquisition cost	Fair value	Unrealized gains (losses)
Securities whose fair values exceed their carrying values on the consolidated balance sheet:			
(1) Equity securities	¥ 5,613	¥ 10,640	¥ 5,027
(2) Government bonds, Municipal bonds, etc.....	28,772	29,056	284
(3) Corporate bonds	64,499	64,983	484
(4) Others	2,000	2,005	5
Subtotal	100,884	106,684	5,800

March 31, 2003	Millions of yen		
	Acquisition cost	Fair value	Unrealized gains (losses)
Securities whose fair values do not exceed their carrying values on the consolidated balance sheet:			
(1) Equity securities	90	77	(13)
(2) Government bonds, Municipal bonds, etc.....	148,842	138,706	(10,136)
(3) Corporate bonds	383,196	380,366	(2,830)
(4) Others	—	—	—
Subtotal	532,128	519,149	(12,979)
Total	\$1,579,665	\$1,796,959	\$217,294

Other securities whose fair value is readily determinable are recorded at fair value on the consolidated balance sheet at March 31, 2004.

Securities whose fair values do not exceed their carrying values on the consolidated balance sheet:			
(1) Equity securities.....	11,565	7,696	(3,869)
(2) Government bonds, Municipal bonds, etc.....	—	—	—
(3) Corporate bonds.....	24,000	23,837	(163)
(4) Others.....	30,000	27,990	(2,010)
Subtotal.....	65,565	59,523	(6,042)
Total.....	¥166,449	¥166,207	¥ (242)

March 31, 2003	Thousands of U.S. dollars (Note 3)		
	Acquisition cost	Fair value	Unrealized gains (losses)
Securities whose fair values exceed their carrying values on the consolidated balance sheet:			
(1) Equity securities.....	\$ 53,114	\$ 100,675	\$ 47,561
(2) Government bonds, Municipal bonds, etc.....	272,230	274,913	2,683
(3) Corporate bonds.....	610,265	614,847	4,582
(4) Others.....	18,923	18,970	47
Subtotal.....	954,532	1,009,405	54,873

Securities whose fair values do not exceed their carrying values on the consolidated balance sheet:			
(1) Equity securities.....	109,423	72,815	(36,608)
(2) Government bonds, Municipal bonds, etc.....	—	—	—
(3) Corporate bonds.....	227,079	225,542	(1,537)
(4) Others.....	283,849	264,831	(19,018)
Subtotal.....	620,351	563,188	(57,163)
Total.....	\$1,574,883	\$1,572,593	\$ (2,290)

Other securities whose fair value is readily determinable are recorded at fair value on the consolidated balance sheet at March 31, 2003.

iii) Other securities sold in the current fiscal year.

March 31, 2004	Millions of yen	Thousands of U.S. dollars (Note 3)
Proceeds from sale of other securities.....	¥ 6	\$59
Gain on sale of other securities.....	—	—
Loss on sale of other securities.....	1	8

March 31, 2003	Millions of yen	Thousands of U.S. dollars (Note 3)
Proceeds from sale of other securities.....	¥1,970	\$18,639
Gain on sale of other securities.....	1,633	15,452
Loss on sale of other securities.....	—	—

iv) Securities whose fair value is not readily determinable.

March 31, 2004	Book value	
	Millions of yen	Thousands of U.S. dollars (Note 3)
Other securities:		
(1) Unlisted equity securities.....	¥ 486	\$ 4,602
(2) Bonds issued by domestic corporations.....	4,000	37,847
(3) Beneficial interest on trusted lease receivables.....	—	—
Total.....	¥4,486	\$42,449

March 31, 2003	Book value	
	Millions of yen	Thousands of U.S. dollars (Note 3)
Other securities:		
(1) Unlisted equity securities.....	¥ 1,324	\$ 12,527
(2) Bonds issued by domestic corporations.....	18,000	170,309
(3) Beneficial interest on trusted lease receivables.....	—	—
Total.....	¥19,324	\$182,836

v) Redemption schedule for other securities having a maturity date and held-to-maturity securities.

March 31, 2004	Millions of yen			
	Due 2004	Due 2005–2008	Due 2009–2013	Due after 2014
(1) Government bonds, Municipal bonds, etc. .	¥3,201	¥31,341	¥ —	¥ —
(2) Corporate bonds.....	3,071	27,944	8,075	—
(3) Others.....	—	—	—	—
Total.....	¥6,272	¥59,285	¥8,075	¥ —

March 31, 2004	Thousands of U.S. dollars (Note 3)			
	Due 2004	Due 2005–2008	Due 2009–2013	Due after 2014
(1) Government bonds, Municipal bonds, etc. .	\$30,284	\$296,541	\$ —	\$ —
(2) Corporate bonds.....	29,060	264,396	76,403	—
(3) Others.....	—	—	—	—
Total.....	\$59,344	\$560,937	\$76,403	\$ —

March 31, 2003	Millions of yen			
	Due 2003	Due 2004–2007	Due 2008–2012	Due after 2013
(1) Government bonds, Municipal bonds, etc. .	¥34,309	¥28,627	¥ —	¥ —
(2) Corporate bonds.....	2,000	23,637	8,199	—
(3) Others.....	—	—	—	—
Total.....	¥36,309	¥52,264	¥8,199	¥ —

March 31, 2003	Thousands of U.S. dollars (Note 3)			
	Due 2003	Due 2004–2007	Due 2008–2012	Due after 2013
(1) Government bonds, Municipal bonds, etc. .	\$324,622	\$270,858	\$ —	\$ —
(2) Corporate bonds.....	18,923	223,640	77,576	—
(3) Others.....	—	—	—	—
Total.....	\$343,545	\$494,498	\$77,576	\$ —

7. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Buildings and structures	¥ 112,784	¥ 110,425	\$ 1,067,128
Machinery, equipment and vehicles	68,735	72,254	650,342
Other	28,049	27,446	265,393
At cost	209,568	210,125	1,982,863
Accumulated depreciation.....	¥(136,947)	¥(130,936)	\$(1,295,743)
Land	27,206	23,471	257,414
Construction in progress.....	883	60	8,352
	¥ 100,710	¥ 102,720	\$ 952,886

8. SHORT-TERM LOANS:

Short-term loans at March 31, 2004 represented bank overdrafts which bore average interest of 1.375%.

9. COST OF RETIREMENT AND SEVERANCE BENEFITS:

The funded status as at March 31, 2004 and 2003 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Benefit obligation.....	¥46,841	¥ 75,337	\$443,192
Plan assets	(5,804)	(19,280)	(54,921)
Unfunded benefit obligation	41,037	56,057	388,271
Unrecognized prior service cost	716	2,413	6,773
Unrecognized actuarial loss	(8,008)	(17,460)	(75,765)
Accrued retirement benefits.....	¥33,745	¥ 41,010	\$319,279

The components of net retirement cost for the years ended March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Service cost	¥ 3,184	¥ 2,700	\$ 30,122
Interest cost.....	1,864	1,983	17,638
Expected return on plan assets.....	(507)	(850)	(4,801)
Amortization of prior service cost	(155)	(174)	(1,464)
Amortization of actuarial gain/loss	1,332	471	12,602
Retirement cost	5,718	4,130	54,097
Profit resulting from the separation of the substitutional portion of the employees' welfare pension fund.....	(9,178)	—	(86,842)
Total	¥(3,460)	¥4,130	\$(32,745)

Assumptions used for the years ended March 31, 2004 and 2003 were as follows:

	2004	2003
Discount rate	2.0%	2.5%
Expected return on plan assets	3.0%	4.0%
Method of attributing the projected benefits to periods of service	Straight-line basis	Straight-line basis
Period for amortization of prior service cost	15 years	15 years
Period for amortization of actuarial gain/loss	15-16 years	15-16 years

10. APPROPRIATION OF RETAINED EARNINGS:

The Japanese Commercial Code provides that an amount equal to at least 10 % of cash dividends and bonuses to directors and statutory auditors shall be appropriated as a legal reserve until such reserve equals 25 % of the capital stock account. This reserve is not available for dividends but may be used to reduce a deficit or may be transferred to stated capital. Effective from October 1, 2001, such reserve shall be provided until the sum of capital surplus and a legal reserve equals 25 % of the stated capital. The balances of the legal reserve of the Company at March 31, 2004 and 2003 which are included in retained earnings in the accompanying consolidated balance sheet were ¥7,451 million (\$70,500 thousand) and ¥7,451 million, respectively.

Under the Japanese Commercial Code, the appropriation of retained earnings for a fiscal year is made by resolution of shareholders at a general meeting to be held after the balance sheet date, and the accounts for the year do not reflect such appropriation.

The proposed appropriation of retained earnings of the Company for the year ended March 31, 2004 which was approved on June 29, 2004 at the general shareholders' meeting is as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
Cash dividends at ¥30.00 per share	¥7,834	\$74,122
Directors' and statutory auditors' bonuses.....	87	823
	¥7,921	\$74,945

11. INCOME TAXES:

The components of income tax expenses were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Income taxes			
—Current payable	¥27,382	¥24,707	\$259,079
—Deferred	1,852	185	17,526
	¥29,234	¥24,892	\$276,605

On March 31, 2003, the Japanese National Diet approved various changes to the calculation of the statutory local enterprise tax for companies with capital in excess of ¥100 million, effective April 1, 2004. Under the amended legislation, the enterprise tax will be the sum of three tax components; a) an income based component, b) a value added component and c) a capital based component, although there was only an "income tax based component" before the amendment. Concurrently, the basic tax rate for the "income based component" would be reduced from 9.6% to 7.2%. As a result of this amendment, the tax rate to be applied to deferred

tax assets and liabilities as at March 31, 2003 for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, that are expected to reverse in the year beginning April 1, 2004 or later, decreased from 42.0% to 40.9%. This resulted in a reduction in deferred tax assets at March 31, 2003 by ¥384 million, compared with the deferred tax asset that would have been recognized if a tax rate of 42.0% had been fully applied to all temporary differences. Net income for the year ended March 31, 2003 also reduced by ¥384 million as a result of these changes in statutory local enterprise tax regulations.

The significant components of deferred tax assets and liabilities as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Deferred tax assets:			
Enterprise taxes	¥ 1,420	¥ 805	\$ 13,435
Accrued expenses	2,706	2,427	25,607
Research expenses, etc.	2,628	2,860	24,862
Accrued retirement benefits for directors, statutory auditors and executive officers	608	565	5,752
Accrued employees retirement benefits.....	12,631	15,112	119,509
Accrued bonuses	1,355	1,269	12,818
Net unrealized losses on securities	—	114	—
Prepaid research expenses.....	1,670	2,216	15,800
Operating loss carryforwards for tax purposes	311	435	2,939
Other	5,834	5,264	55,205
Gross deferred tax assets	29,163	31,067	275,927
Less: Valuation allowance.....	(311)	(435)	(2,939)
Total deferred tax assets	28,852	30,632	272,988
Deferred tax liabilities:			
Net unrealized gains on securities	(9,429)	—	(89,210)
Deferred gain on sales of real property.....	(2,225)	(2,035)	(21,056)
Other	(13)	(21)	(126)
Total deferred tax liabilities.....	(11,667)	(2,056)	(110,392)
Net deferred tax assets	¥17,185	¥ 28,576	\$ 162,596

The valuation allowance mainly relates to deferred tax assets of foreign consolidated subsidiaries with tax loss carryforwards that are not expected to be realized in the near future.

Net deferred tax assets included in the consolidated balance sheets were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Current assets—Deferred income taxes.....	¥ 9,091	¥ 7,886	\$ 86,018
Other assets—Deferred income taxes.....	8,107	20,708	76,704
Long-term liabilities—Other	(13)	(18)	(126)
Net deferred tax assets	¥17,185	¥28,576	\$162,596

At March 31, 2003, no deferred income taxes have been provided on undistributed earnings of foreign subsidiaries not expected to be remitted in the foreseeable future. Tax loss carryforwards of consolidated foreign subsidiaries at March 31, 2003 amounted to approximately ¥612 million and are available as an offset against future taxable income of such foreign subsidiaries. These carryforwards expire at various dates and realization is dependent on generating sufficient taxable income by such foreign subsidiaries prior to expiration of the tax loss carryforwards.

Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets less valuation allowance will be realized. The amount of such net deferred tax assets considered realizable, however, could change in the near term if estimates of future taxable income during the carryforward period change.

12. RESEARCH AND DEVELOPMENT EXPENSES:

Research and development expenses included in selling, general and administrative expenses approximated ¥24,171 million (\$228,702 thousand) and ¥29,526 million for the years ended March 31, 2004 and 2003, respectively.

13. OTHER INCOME AND EXPENSES:

Other income and expenses for the years ended March 31, 2004 and 2003 consist of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Other income:			
Gain on sales of property, plant and equipment	¥1,035	¥ 4	\$ 9,793
Equity in net earnings of affiliated companies.....	—	140	—
Rental income of real estate	272	518	2,570
Gain on sales of investment securities.....	—	1,633	—
Others	1,529	1,753	14,467
	¥2,836	¥4,048	\$26,830

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Other expenses:			
Devaluation losses on investment securities...	¥ 872	¥ 665	\$ 8,255
Loss on disposal of property, plant and equipment	611	270	5,785
Equity in net losses of affiliated companies.....	1,832	—	17,334
Prior years' retirement benefit for directors, statutory auditors and executive officers.....	—	1,296	—
Others	556	510	5,256
	¥3,871	¥2,741	\$36,630

14. LEASES:

Periodic lease charges to the Company as a lessee for the years ended March 31, 2004 and 2003 were ¥4,519 million (\$42,757 thousand) and ¥3,011 million, respectively. An analysis of amounts, as if they had been capitalized, relating to leased assets under finance lease contract which were not capitalized at March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Tools, equipment, software and others:			
At cost	¥22,913	¥20,637	\$216,791
Accumulated depreciation	(8,415)	(6,283)	(79,622)
	¥14,498	¥14,354	\$137,169

The following analysis of amounts, as if they had been capitalized, relating to leased assets under finance lease contracts which were not capitalized at March 31, 2004 were calculated using the prior method that includes the amount of interest.

	Millions of yen	Thousands of U.S. dollars (Note 3)
	Tools, equipment, software and others:	
At cost	¥24,244	\$229,390
Accumulated depreciation	(9,377)	(88,720)
	¥14,867	\$140,670

The present values of future lease payments of the Company, excluding amounts representing interest, at March 31, 2004 was as follows:

(Lessee)	Millions of yen	Thousands of U.S. dollars (Note 3)
	Current obligation	¥ 4,129
Long-term obligation	10,586	100,163
Present values of future lease payment	¥14,715	\$139,232

The following are the present values of future lease payments of the Company for the years ended March 31, 2004 and 2003 calculated using the prior method that includes the amount of interest.

(Lessee)	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Current obligation	¥ 4,674	¥ 3,590	\$ 44,226
Long-term obligation	10,193	10,764	96,444
Present values of lease payment	¥14,867	¥14,354	\$140,670

15. CONTINGENT LIABILITIES:

Contingent liabilities at March 31, 2004 for an affiliated company's loans which are guaranteed by the Company amounted to ¥98 million (\$927 thousand).

16. SEGMENT INFORMATION:

(1) Industry segment information

The Company and its subsidiaries are engaged principally in the following two industrial segments:

Self-medication: OTC products, consumer goods for household and general use and other products

Pharmaceutical: Ethical drugs.

The segment information of the Company and its subsidiaries for the years ended March 31, 2004 and 2003 is presented below:

March 31, 2004	Millions of yen				
	Self-medication	Prescription Pharmaceutical	Total	Elimination/Corporate	Consolidated
I. Net sales:					
(1) Outside customers	¥188,063	¥98,371	¥286,434	¥ —	¥286,434
(2) Inter-segment	—	—	—	—	—
Total	188,063	98,371	286,434	—	286,434
Operating expenses	144,671	84,063	228,734	—	228,734
Operating income	¥ 43,392	¥14,308	¥ 57,700	—	¥ 57,700
II. Assets, depreciation and capital expenditure:					
Assets	¥257,285	¥119,801	¥377,086	¥224,870	¥601,956
Depreciation	11,133	4,210	15,343	—	15,343
Capital expenditure	7,050	2,107	9,157	—	9,157

March 31, 2004	Thousands of U.S. dollars (Note 3)				
	Self-medication	Prescription Pharmaceutical	Total	Elimination/Corporate	Consolidated
I. Net sales:					
(1) Outside customers	\$1,779,378	\$930,753	\$2,710,131	\$ —	\$2,710,131
(2) Inter-segment	—	—	—	—	—
Total	1,779,378	930,753	2,710,131	—	2,710,131
Operating expenses	1,368,816	795,376	2,164,192	—	2,164,192
Operating income	\$ 410,562	\$135,377	\$ 545,939	—	\$ 545,939
II. Assets, depreciation and capital expenditure:					
Assets	\$2,434,334	\$1,133,515	\$3,567,849	\$2,127,638	\$5,695,487
Depreciation	105,343	39,830	145,173	—	145,173
Capital expenditure	66,702	19,937	86,639	—	86,639

March 31, 2003	Millions of yen				
	Self-medication	Prescription Pharmaceutical	Total	Elimination/Corporate	Consolidated
I. Net sales:					
(1) Outside customers	¥195,125	¥ 78,952	¥274,077	¥ —	¥274,077
(2) Inter-segment	—	—	—	—	—
Total	195,125	78,952	274,077	—	274,077
Operating expenses	144,713	74,970	219,683	—	219,683
Operating income	¥ 50,412	¥ 3,982	¥ 54,394	—	¥ 54,394
II. Assets, depreciation and capital expenditure:					
Assets	¥267,434	¥117,176	¥384,610	¥193,097	¥577,707
Depreciation	12,455	4,377	16,832	—	16,832
Capital expenditure	13,463	3,436	16,899	—	16,899

(2) Geographic area information and export sales information

As the total sales by consolidated subsidiaries outside Japan and the total export sales overseas are less than 10 % of the consolidated net sales, information relating to geographic area and export sales has been omitted.

REPORT OF INDEPENDENT AUDITOR

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS 

Kasumigaseki Bldg. 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6088, Japan

June 29, 2004

To the Board of Directors
of Taisho Pharmaceutical Co., Ltd.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Taisho Pharmaceutical Co., Ltd. and its consolidated subsidiaries at March 31, 2004 and 2003, and the results of their operations and their cash flows for each of the two years in the period ended March 31, 2004 in conformity with accounting principles generally accepted in Japan. These 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 audits of these statements in accordance with auditing standards generally accepted in Japan which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.



ChuoAoyama PricewaterhouseCoopers
(Certified Public Accountants)

CORPORATE DATA

(As of July 1, 2004)

BOARD OF DIRECTORS

CHAIRMAN OF THE BOARD

Shoji Uehara*

MANAGING DIRECTOR

Hideyuki Waki

CORPORATE AUDITORS

Kunio Hiruma

Masahiro Furuhashi

PRESIDENT

Akira Uehara*

EXECUTIVE DIRECTORS

Yoshiaki Sasaki

Toshio Morikawa**

Takayuki Tsukuda**

EXECUTIVE VICE PRESIDENT

Akira Ohira*

Kunihiro Kitamura

Yoshio Ninomiya**

SENIOR MANAGING DIRECTOR

Hisataka Hotta*

* Representative Director

** External auditor as stipulated by Act 18-1 related to the exception to the commercial code for audits.

DIRECTORY

Head Office

24-1, Takada 3-chome, Toshima-ku, Tokyo 170-8633, Japan

Telephone : 81-3-3985-1111

Facsimile : Public Relations Section: 81-3-3985-6485

International Division: 81-3-3980-6624

(Self-Medication Operation Group)

Business Planning & Coordination Division: 81-3-3988-2963

(Prescription Pharmaceutical Operation Group)

Business Strategy Division: 81-3-3985-0716

Home page : <http://www.taisho.co.jp>

Branch Offices

Sapporo, Sendai, Nagoya, Osaka, Kanazawa,

Hiroshima, Shikoku, Fukuoka

Milan Office

Via Mario Idiomi No. 3/6 20090 ASSAGO Milan, Italy

Telephone: 39-2-4571-2688 Facsimile: 39-2-4571-4484

Beijing Office

Room 3003, Chang Fu Gong Center Jia-26

Jian Guo Men Wai Avenue, Beijing 100022, China

Telephone: 86-10-6513-0834 Facsimile: 86-10-6513-0835

Guangzhou Office

Room 2803, GIE Tower, 403 Huanshi Rd. East,

Guangzhou, PRC 510095, China

Telephone: 86-20-8732-0767/82 Facsimile: 86-20-8732-1309

Omiya Factory

403, Yoshino-cho 1-chome, Kita-ku,

Saitama-shi, Saitama 331-9520, Japan

Telephone: 81-48-663-1111 Facsimile: 81-48-664-9400

Research Center

403, Yoshino-cho 1-chome, Kita-ku,

Saitama-shi, Saitama 331-9530, Japan

Telephone: 81-48-663-1111 Facsimile: 81-48-652-7254

Okayama Factory

33-2, Taiheidai, Shouou-cho,

Katsuta-gun, Okayama 709-4321, Japan

Telephone: 81-868-38-6131 Facsimile: 81-868-38-5342

Hanyu Factory

603-27, Komatsudai 1-chome,

Hanyu, Saitama 348-8540, Japan

Telephone: 81-48-563-1121 Facsimile: 81-48-563-2152

INVESTOR INFORMATION

(As of March 31, 2004)

Date of Foundation: October 12, 1912

Paid-in Capital: ¥29,804 million

Number of Employees: 5,477

Common Stock

Authorized: 1,195,459,000

Issued: 340,965,510

Number of Shareholders: 43,244

General Meeting of Shareholders:

Held annually in June

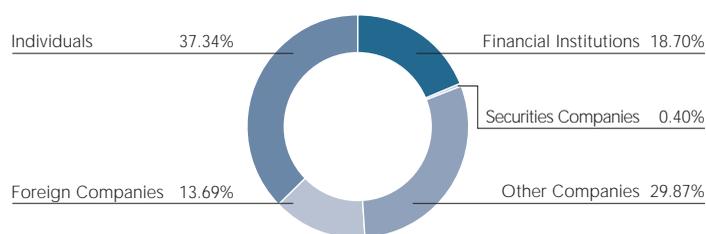
Listings: Tokyo Stock Exchange

Ticker Symbol Number: 4535

Stock Transfer Agent: The Mitsubishi Trust and Banking Corporation
26F Marunouchi Bldg, 4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo 100-6326, Japan

Headquarters: 24-1, Takada 3-chome, Toshima-ku, Tokyo 170-8633, Japan

Distribution of Shareholders



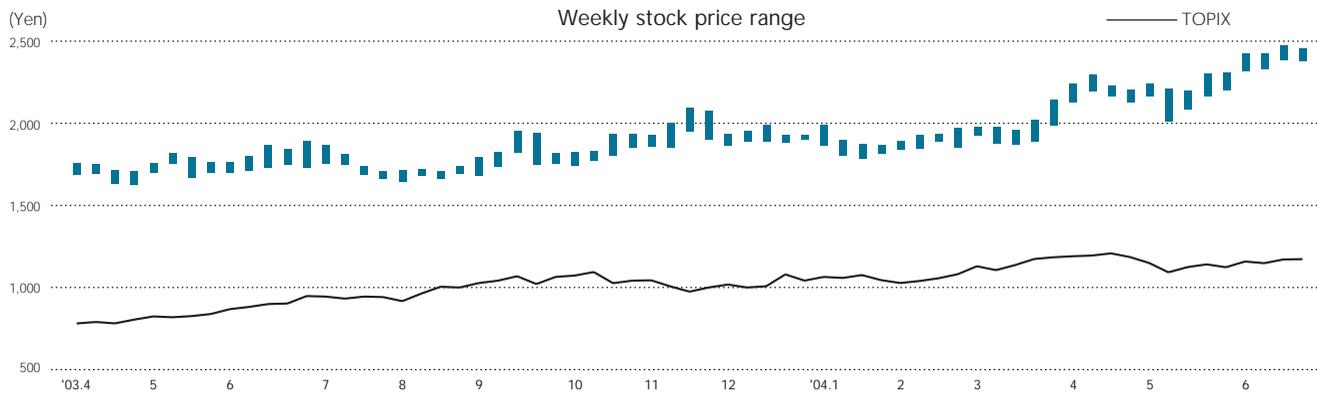
Major Shareholders

Name of Shareholders	Number of Shares Held (Thousands)	Percentage of Voting Rights (%)*
Uehara Memorial Foundation	43,000	13.89
Shoji Uehara	36,614	11.83
Japan Trustee Services Bank, Ltd.**	12,764	4.12
Sumitomo Chemical Co., Ltd.	12,100	3.91
Northern Trust Company (AVFC) Sub-Account American Client	11,373	3.67
Sumitomo Mitsui Banking Corporation	10,000	3.23
The Bank of Tokyo-Mitsubishi, Ltd.	10,000	3.23
Uehara Museum of Modern Art Foundation	10,000	3.23
The Master Trust Bank of Japan, Ltd.**	9,601	3.10
Akira Uehara	7,145	2.31

*After excluding Treasury Stock of 27,609 thousand shares

**Trust Account

Monthly Stock Date (TSE) (April 2003 — June 2004)



MAJOR SUBSIDIARIES AND AFFILIATES

Name	Address	Parent Company Ownership (%)
Domestic		
Taisho Toyama Pharmaceutical Co., Ltd.	25-1, Takada 3-chome, Toshima-ku, Tokyo 170-8635, Japan Tel: 81-3-3985-8100 Fax: 81-3-3985-8140	55%
Taisho Business Research Institute Co., Ltd.	26-3, Takada 3-chome, Toshima-ku, Tokyo 170-8633, Japan Tel: 81-3-3985-1140 Fax: 81-3-3985-3649	100%
Taisho Pharmaceutical Logistics Co., Ltd.	26-3, Takada 3-chome, Toshima-ku, Tokyo 170-8633, Japan Tel: 81-3-3985-5231 Fax: 81-3-3985-3694	100%
Taisho Okinawa Co., Ltd.	19-18, Kume 1-chome, Naha-shi, Okinawa 900-0033, Japan Tel: 81-98-868-7809 Fax: 81-98-864-5738	100%
Taisho Kosei Service Co., Ltd.	26-3, Takada 3-chome, Toshima-ku, Tokyo 170-8633, Japan Tel: 81-3-3981-6281 Fax: 81-3-3983-0181	100%
Taisho Service Sangyo Co., Ltd.	26-3, Takada 3-chome, Toshima-ku, Tokyo 171-0033, Japan Tel: 81-3-3985-1161 Fax: 81-3-3985-1163	100%
Mejiro Real Estate Co., Ltd.	26-3, Takada 3-chome, Toshima-ku, Tokyo 171-0033, Japan Tel: 81-3-3985-8965	100%
Taisho M.T.C. Co., Ltd.	Shiodome City Center, 5-2, Higashi-Shimbashi 1-chome, Minato-ku, Tokyo 105-7117, Japan Tel: 81-3-6253-3852 Fax: 81-3-6253-4235	60%
Sanofi-Synthelabo-Taisho Pharmaceuticals Co., Ltd.	3-23, Kioicho, Chiyoda-ku, Tokyo 102-0094, Japan Tel: 81-3-5275-7139 Fax: 81-3-5275-7217	49%
Overseas		
Taisho Pharmaceutical (Taiwan) Co., Ltd. Head Office and Factory	No. 69 Kuang Fu North Road, Fukou Hsiang, Hsinchu, Taiwan R.O.C. Tel: 886-3-598-2624 Fax: 886-3-598-1971	86.6%
Taipei Office	3F., No. 129 Chung Yang North Road, Peitou, Taipei, Taiwan R.O.C. Tel: 886-2-2897-7554 Fax: 886-2-2896-1635	
Taisho Pharmaceutical California Inc.	3878 Carson Street, #216 Torrance, CA 90503, U.S.A. Tel: 1-310-543-2035 Fax: 1-310-543-9636	100%
Taisho Pharmaceutical (M) SDN. BHD. Head Office and Factory	Lot 9, Jalan P/12, Kawasan Perusahaan Seksyen 10, 43650 Bandar Baru Bangi, Selangor Darul Ehsan, Malaysia Tel: 60-3-8926-1228 Fax: 60-3-8926-1788	100%
Taisho Pharmaceutical Asia (M) SDN. BHD.		
Taisho Pharmaceuticals (Philippines), Inc.	No. 51 Paseo de Roxas cor., Sen. Gil Puyat Ave., Urdaneta Village, Makati City, Metro Manila, Philippines Tel: 63-2-817-1284 Fax: 63-2-812-4599	100%
PT. Taisho Indonesia	Gedung Kirana Elok Lt. 4, JL. Rawa Sumur III, Blok DD-12 Kawasan Industri Pulogadung, Jakarta Timur 13930, Indonesia Tel: 62-21-460-4461~4463 Fax: 62-21-460-4464	100%
Cipanas Factory	Jl. Gadog No. 1, Cipanas, Sindanglaya, P.O. Box 15, Indonesia Tel: 62-263-513786 Fax: 62-263-515524	
Taisho Co., Ltd. Shanghai Shanghai Office	Room 1302, South Tower, Hong Kong Plaza, No. 283 Huai Hai Zhong Road, Shanghai 2000-21, China Tel: 86-21-6390-7015~7 Fax: 86-21-6390-7020	85%
Head Office	4733 Cao An Road, Huang Du Town Jia Ding District Shanghai 201804, China Tel: 86-21-5959-8874 Fax: 86-21-5959-8637	
Taisho Pharmaceutical (Europe) Ltd.	6/8 Long Lane, London EC1A 9HF, United Kingdom Tel: 44-20-7726-8621 Fax: 44-20-7726-8622	100%
Taisho Vietnam Co., Ltd. Head Office & Factory	National Road 1A, Suoi Hiep Ward, Dien Khanh Dist., Khanh Hoa Pro., Vietnam Tel: 84-58-745-111, 112 Fax: 84-58-745-113	100%
Ho Chi Minh Office	Hai Thanh Office Center, Room 006, 02 Thi Sach St., Dist. 1, Ho Chi Minh City, Vietnam Tel: 84-8-824-7493/4/5 Fax: 84-8-824-7492	
Taisho Pharmaceutical (H.K.) Ltd.	Flat A6, 8th Floor, Po Yin Building, 62-70 Texaco Road, Tsuen Wan, N.T., Hong Kong Tel: 852-2408-2190 Fax: 852-2408-2193	100%
Osotspa Taisho Co., Ltd.	2100 Ram Kham Heang Road, Huamak-Bangkapi, Bangkok 10240, Thailand Tel: 66-2-374-7219 Fax: 66-2-732-2167	49%
Taisho Pharmaceutical R&D Inc.	Mount Kemble Corporate Center, 350 Mount Kemble Avenue Morristown, New Jersey 07960, U.S.A. Tel: 1-973-285-0870 Fax: 1-973-285-1665	100%
Taisho Hizon Manufacturing Inc.	Sitio Malanim Barangay Dela Paz, Sumulong Highway, Antipolo City, Philippines Tel/Fax: 63-2-696-3857	50%



TAISHO PHARMACEUTICAL CO., LTD.

Head Office: 24-1, Takada 3-chome, Toshima-ku, Tokyo 170-8633, Japan

Telephone: 81-3-3985-1111

Facsimile: Public Relations Section: 81-3-3985-6485

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