

ANNUAL REPORT 2005

For the Year Ended March 31, 2005



Optimizing Opportunities



TAISHO PHARMACEUTICAL CO., LTD.

PROFILE

MANAGEMENT PHILOSOPHY

Taisho's mission is to create and offer superior pharmaceuticals and health-related products as well as healthcare-related information and services that contribute to the enrichment of people's lives by improving health. Respecting consumers' rights to know, protect and choose, we aim to contribute to the improvement of every aspect of health to create a brighter 21st century.

GROWTH STRATEGY

Taisho is concentrating on expanding its self-medication business and strengthening its prescription pharmaceutical business.

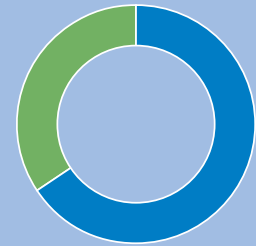
In the self-medication business, the primary theme is enlarging the line-up of products that target treatments for minor ailments as well as other consumer needs. Taisho is using knowledge gained through its many years of research activities to rapidly expand operations involving switch-OTC drugs, Foods for Specified Health Use and other businesses. Furthermore, the Taisho brand is being developed and reinforced so that these products will earn a solid reputation among consumers. The goal is to capture the leading market share in each product category.

In the prescription pharmaceutical business, priority is placed on R&D activities to develop highly original drugs that can be sold worldwide. Another theme is establishing sales systems that reflect changes in medical care delivery systems and customs, as well as steps to conduct sales activities more efficiently.

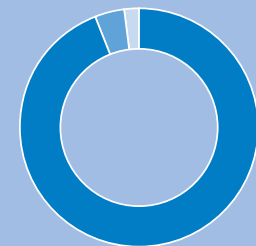
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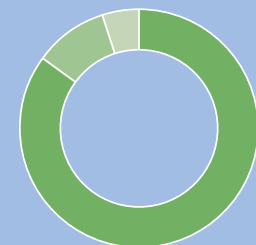
SALES BREAKDOWN BY SEGMENT



SALES BREAKDOWN OF SELF-MEDICATION OPERATION GROUP



SALES BREAKDOWN OF PRESCRIPTION PHARMACEUTICAL OPERATION GROUP



Leading Produc

■ Self-Medication Operation Group	¥183,417 million	66%
■ Prescription Pharmaceutical Operation Group	¥96,020 million	34%

■ Over-the-counter drugs	¥172,404 million	94%
■ Foods for Specified Health Use and others	¥7,840 million	4%
■ Other	¥3,172 million	2%



■ Ethical drugs	¥81,688 million	85%
■ Other	¥9,391 million	10%
■ Royalty income	¥4,941 million	5%

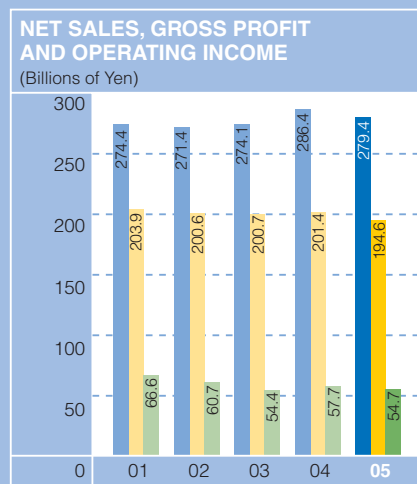


ts—The Taisho Advantage

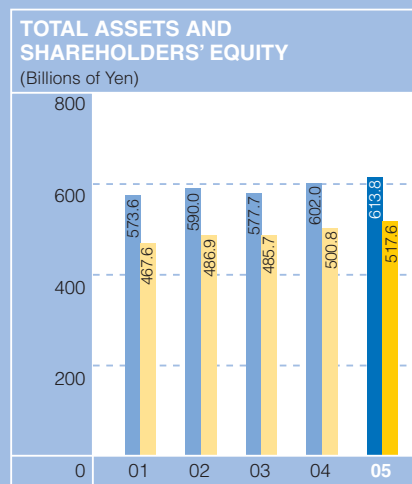
CONSOLIDATED FINANCIAL HIGHLIGHTS

Taisho Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2005, 2004 and 2003

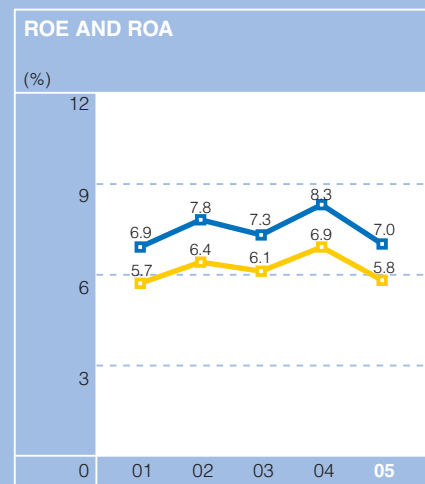
	Millions of Yen		
	2005	2004	2003
For the year:			
Net sales	¥ 279,437	¥ 286,434	¥ 274,077
Cost of sales	84,855	85,006	73,346
Gross profit	194,582	201,428	200,731
Operating income	54,698	57,700	54,394
Net income	35,489	40,910	35,392
At year-end:			
Total assets	¥ 613,803	¥ 601,956	¥ 577,707
Shareholders' equity	517,634	500,761	485,717
R&D expenses	23,221	24,171	29,526
Per share data:			
Shareholder's equity (yen)	¥1,678.78	¥1,597.78	¥1,474.65
Net income—basic (yen)	114.15	127.87	105.81
Cash dividends (yen)	25.00	25.00	30.00
Value indicators:			
Return on equity—ROE (%)	7.0	8.3	7.3
Return on assets—ROA (%)	5.8	6.9	6.1



■ Net sales
■ Gross profit
■ Operating income



■ Total assets
■ Shareholders' equity



■ ROE
■ ROA

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.

Turning

FELLOW SHAREHOLDERS

Always taking a long-term perspective, the Taisho Pharmaceutical Group is dedicated to raising corporate value by leveraging its unique strengths to meet a broad spectrum of consumer needs.

INTEREST IN SELF-MEDICATION CONTINUES TO RISE

Since its establishment more than 90 years ago, Taisho Pharmaceutical has served consumers by supplying a variety of pharmaceuticals and associated products. We have seen a major shift in consumers' needs concerning pharmaceuticals during the past few years. Along with the need for drugs to treat diseases and disorders, we are witnessing an upsurge in demand for health food and other products that can prevent diseases. The result is rising interest in self-medication, with people increasingly making their own decisions on how to lead a healthy life.

As demand grows, competition in the self-medication market is heating up. Consumers now have the choice of a vast array of products. Confronted with so many choices, people are seeking products that can meet an increasingly diverse and complex array of needs. To succeed in this environment, pharmaceutical companies must gain the insight to identify hidden consumer needs.

FOUR STRATEGIES TO SUCCEED IN THE SELF-MEDICATION BUSINESS

We have established four strategies that will enable us to independently expand our self-medication business. Numerous actions are now under way to achieve our goals.

The first strategy is to reinforce our product lineup. This means that we will continue to develop and sell quality products that fulfill the needs of consumers.

Second is to supply more information to consumers so that they can use products with confidence. One example is information on pharmacology, which involves studying drug mechanisms.

Third is to foster powerful brands. We believe that establishing a corporate brand means assembling a collection of individual product brands that consumers recognize and trust.

Building trusted product brands demands constant effort. We will accomplish this by

Strengths Into Opportunities



From left: SHOJI UEHARA *Chairman of the Board*
AKIRA UEHARA *President*

conducting our activities based on the “plan-do-see-act” process. At Taisho Pharmaceutical, we give “see” the highest priority, carefully studying the results of our work. These studies include the determination of our progress toward corporate goals. But analysis delves into deeper issues, too. Managers ask themselves why a particular project met or fell short of a target and why a particular barrier was overcome or remained an obstacle to progress. Constant efforts like these are how the Taisho Pharmaceutical Group builds brands.

The fourth strategy is to contain costs. Countless methods exist to cut the cost of manufacturing products, such as by outsourcing production. We have examined our options and chosen the methods best suited to our operations. These initiatives are bringing down our operating costs and making us more competitive.

A DISTINCTIVE R&D CULTURE — AN ESSENTIAL ELEMENT OF OUR VALUE AS A PHARMACEUTICAL COMPANY

As a pharmaceutical company, it is vital that we constantly work on developing new products. Mergers and acquisitions are creating many large pharmaceutical companies the world over. Often, these companies focus on recovering their investments over a short time frame. This primarily entails acquiring compounds that hold the promise of becoming a new drug, such as drug candidates undergoing clinical trials. Our position is different. Our operations are rooted in the conviction that the true value of a pharmaceutical company rests in the ability to conceive new drugs at the fundamental research stage, well before clinical trials begin. Traditionally, our industry has shown great respect for companies with R&D cultures that generate a steady stream of original products. By establishing a joint R&D framework with Toyama

Chemical Co., Ltd., we showed our respect for the R&D culture of this company, which has particular expertise in creating drugs for infectious diseases. This tie-up now underpins a sound relationship between the two companies.

Constantly launching new products is essential to conducting powerful and profitable sales activities. Establishing Taisho Toyama Pharmaceutical Co., Ltd. demonstrates our unique approach to solving the problem of how to keep our new product pipeline full. We believe that collaborating with and even acquiring other companies can produce enormous benefits in terms of product marketing capabilities. For example, one company may be able to launch a new product once every two years. But two companies together could introduce a new product every year. Giving sales teams more products to sell leads directly to more profitable sales activities.

FULFILLING OUR MISSION AS THE INDUSTRY LEADER

There is no doubt that Japan's over-the-counter drug market is contracting. As the leading company in this category, we will continue to work hard at adding vitality to this market. We are also determined to retain an aggressive yet flexible stance concerning new market sectors with good growth prospects, such as Foods for Specified Health Use and herbal medicines. We intend to play a pioneering role in developing such markets.

RAISING CORPORATE VALUE BY TARGETING GROWTH MARKETS OVER THE MEDIUM AND LONG TERMS

The pharmaceutical market has an extremely bright outlook over the medium and long terms because of Japan's rapidly aging population and the public's sustained interest in healthy living. Our greatest mission as a pharmaceutical company is to supply products that reflect the desire of people to stay healthy. Fulfilling this mission means establishing long-term relationships with consumers. I firmly believe this is the best way for us to raise our corporate value. As this value rises, our shareholders will also certainly share in the resulting benefits. Through this commitment to fulfilling our mission and raising value, we will remain an organization that can meet our social obligations and continue to grow.

August 2005



SHOJI UEHARA
Chairman of the Board



AKIRA UEHARA
President

EXPANDING THE SELF-MEDICATION BUSINESS

Demand in Japan for Foods for Specified Health Use and functional food products is growing quickly as the public becomes more interested in staying healthy. This growth is occurring even amid contraction of the over-the-counter (OTC) drug market, which is the nucleus of the self-medication business. We view these trends as a sign that a new type of self-medication market is emerging. We will continue to strengthen our lineups of OTC drugs and tonics and nutrient drinks. At the same time, we will rapidly increase our presence in growing categories like Foods for Specified Health Use and drugs that can enhance the quality of life. We believe these actions will strengthen and enlarge our self-medication business.

THE INCREASING ACCEPTANCE OF SELF-MEDICATION IN JAPAN

Demand for self-medication in Japan is growing. One reason is growing interest among the public in staying healthy.

Increasing financial constraints on national health insurance is also raising the need for self-medication. But Japan's OTC drug market is much less developed than those in Europe and the U.S. The gap is particularly large concerning the number of OTC drugs on the market that were originally prescription drugs.

To rectify this situation, Japan's Ministry of Health, Labour and Welfare has eased restrictions on the sale of OTC drugs and reexamined the role of these OTC drugs. Through these and other measures, the ministry aims to speed up the market penetration of self-medication.

There appears to be no doubt that

Japan's self-medication market will grow. Fueling growth are both national policies and the strong desire of individuals to take responsibility for promoting their health. As Japan's largest supplier of OTC drugs, Taisho is focusing its considerable knowledge and experience on the growing self-medication market. We are confident of achieving substantial growth for many years to come.

REINFORCING THE PRODUCT STRATEGY

In response to shifting market dynamics, Taisho is reinforcing its self-medication product strategy by dividing its activities into two categories: established market domains and growing market domains.

In the first category, existing brands will be used to expand the product lineup.

For example, products with new building

Eyeing the
—Self-Medication Operat

blocks will be launched, including switch-OTC drugs, which are products that incorporate active ingredients of prescription drugs. We also plan to develop new drug dose forms such as jelly-type formulations and quick dissolving tablets. In growing market domains, we are targeting business fields that are new to us, such as Foods for Specified Health Use and other types of food products and products that can help prevent diseases. By simultaneously increasing our product lineup in new and existing categories, we will be positioned to seize opportunities that emerge as the self-medication market continues to grow.

BECOMING STRONGER IN ESTABLISHED MARKET DOMAINS

Taisho has many products with leading market shares. Notable examples are the nutrient drink *Lipovitan D*, the hair regrowth treatment *RiUP* and the cold remedy series *Pabron*. Products like

these, backed by powerful brands, account for the majority of our earnings. But there is now an urgent need to reinforce our brand strategy to meet the challenge of the private brands of major drugstore chains. Our response is centered on the three elements vital to building a trusted brand: efficacy, safety and convenience. Based on this stance, we are developing products that can meet a consumer need. Regarding efficacy and safety, our goal is to use active ingredients in prescription drugs to produce switch-OTC drugs that provide new benefits for consumers. Regarding convenience, to provide products that meet consumer needs, we seek to make drugs easy to use and improve efficacy while preserving their safety. During fiscal 2004, we took actions to bolster the lineup of such well-known products as the *Lipovitan*, *ALFE* and *ZENA* series of tonics and nutrient drinks and the *Pabron* series of cold medications. We plan to introduce

many new products during the year ending in March 2006, too.

Tonics and nutrient drinks are a key component of our self-medication products, accounting for more than half of sales in this segment. Japan's tonics and nutrient drinks market was fundamentally altered in 1999 when the government eased regulations on the classifications of some OTC drug products and recategorized them as "quasi-drug" products which can be sold through various sales channels. Some nutrient drinks quickly became available at many types of retailers. Already, sales of our core *Lipovitan D* are higher at food retailers like convenience stores and supermarkets than at drugstores, the traditional sales channel. We are continuing our expansion of sales channels for these drinks, notably through regional supermarket chains. But this is being done at a prudent pace to prevent any erosion in the value of our highly respected brands and our profitability.



Launched over 40 years ago, the *Lipovitan* series has captured the leading share of Japan's nutrient drink market.



RiUP was Japan's first direct over-the-counter drug. *RiUP Lady*, which can meet woman's needs, was launched in 2005.

Transition
Ion Group

OTC drug sales at Taisho have been declining along with the size of the entire market. Our medium-term plan is to strengthen this business through a product strategy targeting growth switch-OTC drugs. We believe that sales of these drugs will begin to rebound in the medium term.

Taisho's *RiUP*, a hair regrowth treatment for androgenic alopecia, was Japan's first drug to be approved as a direct over-the-counter product. Based on a post-marketing surveillance study completed in 2005, we continue to work on ways to make further use of minoxidil, the active ingredient in *RiUP*.

ENTERING NEW DOMAINS

Taisho is making steady progress in establishing a presence in new market sectors, primarily by introducing Foods for Specified Health Use.

The *Livita* (Life Vitality Support) brand was launched in February 2003. We started this brand to provide a unified image for Foods for Specified Health Use and other food products that are scientifically proven to be safe and effective for promoting good health. Now in its third year, the *Livita* line of products continues to grow. Our strength in OTC drugs gives us a powerful base for rapid growth in the market for health-related food products. The reason is that this is a field that depends on gathering evidence concerning key ingredients. This is a perfect match with the expertise we have gained as a supplier of OTC drugs.

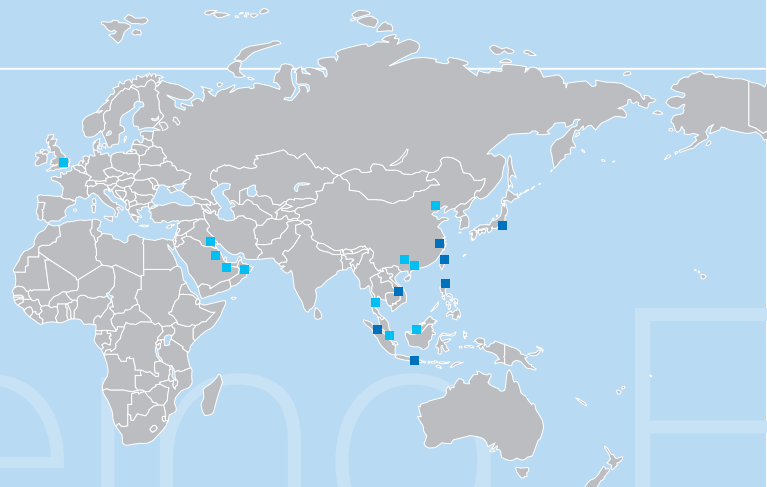
Our lineup of *Livita* products has two categories. The first is the "Do Series" of products that contribute to healthy lifestyles. The second is the "Care Series" of products that are created for

individuals who are concerned about lifestyle-related diseases. Both series are gaining recognition among consumers. In October 2004, we began selling *DoFiber* (in peach and grape flavors), a *Livita*-branded jelly drink that incorporates Psyllium, a plant origin dietary fiber. These products were developed under an agreement with Nissin Food Products Co., Ltd. In February 2005, we introduced a PET bottle version of *Glucocare*, a Foods for Specified Health Use that prevents rapid increases in blood sugar levels following meals. We plan to continue adding to the Care Series to supply more products that mainly target concerns about lifestyle-related diseases.

We are also working on the development of products that can lead to more healthy lives, such as a drug to help people stop smoking, and OTC drugs



Foods for Specified Health Use have shown remarkable growth. Launched in this field in 2002, the *Livita* brand product line continues to grow.



that can help prevent diseases. In addition, we are working hard on exploring means of creating products with ingredients that have proven track records outside Japan, including various herbal medicines.

BUILDING MORE POWERFUL BRANDS

Through television, radio, newspapers and other media, we have long conducted advertising activities that provide clear information to raise the public's awareness and understanding of our products. We are continuing these efforts to enhance our brands.

Acquiring brands of other companies has proven to be extremely successful. Particularly noteworthy is our acquisition of licenses to use the *Colac* brand for laxatives and the *VICKS* brand for cold remedies. We will continue to seek prominent brands that can augment our product lineup.

A strong organization is in place to back up brand equity. The Category Management Division is in charge of planning fundamental brand strategies and measures to foster brands. The Product Planning Division develops short- and medium-term product plans based on consumer needs and research seeds. The Product Development & Launching Division is responsible for commercializing products and making preparations for sales in line with product plans. With this realigned marketing framework, these divisions can effectively execute product strategies, speed up the development and launch of new products, and better perform brand management.

ENHANCING BRAND MARKETING CAPABILITIES

Taisho is reinforcing field marketing capabilities as one means of enhancing marketing activities. In our self-medication business, about 1,000 sales representatives serve retailers in all areas of Japan. Our sales team provides useful information regarding our products to drugstores and pharmacies, as well as convenience stores, supermarkets and other retailers. They are also a source of useful information for these retailers. Through detailed field marketing activities, sales representatives are increasing the number of Taisho products that rank first in their respective market categories. For this purpose, we have adopted the "zone system." By establishing tightly focused strategies for individual regions,

we can raise our profile at stores and help stores raise their sales. Due in part to initiatives to enhance marketing activities, sales promotion expenses are expected to increase by 4.4% to ¥29.5 billion in the fiscal year ending in March 2006.

A STRONGER STRATEGY FOR GROWTH OUTSIDE JAPAN

For many years, the nutrient drink business has been the primary means by which Taisho has expanded its self-medication business overseas. We began overseas sales of *Lipovitan*, which dominates the nutrient drink category in Japan, in 1963. *Lipovitan* is now available in 16 countries outside Japan. We are especially interested in the massive Chinese market, where we have subsidiaries in Shanghai and Hong Kong. *Lipovitan* first appeared in Chinese stores in 1998. Later, we started sales in China of *Lipovitan ALFE*, a nutrient drink developed specifically for women, a customer segment with rising spending power due to China's rapid economic growth. High-profile marketing activities are being conducted to back up this product.

In the fiscal year ending in March 2006, we are commencing the launch of OTC drugs outside Japan. The first step is the sale of *Pabron*, a cold remedy, and *Taisho Kampo*, a gastrointestinal treatment, in Thailand. Our goal is to establish both products as the market leaders within three years. If we are successful, we plan to start sales of OTC drugs in other Asian nations.



BUILDING A STRONGER PRESCRIPTION PHARMACEUTICAL BUSINESS

The fundamental principle of Taisho is to “develop drugs imbued with creativity and rooted in science and ethics, aiming to contribute to the health of the public.” Based on this stance, we reorganized our R&D organization in 1995 with the goal of developing original drugs that can be sold worldwide. In 2002, we bolstered our sales organization through the establishment, with Toyama Chemical Co., Ltd., of Taisho Toyama Pharmaceutical Co., Ltd. which doubled the number of medical representatives to about 1,000.

THE SALES AND MARKETING ORGANIZATION

Taisho is taking active measures to strengthen its prescription pharmaceutical business. One major initiative is the establishment of Taisho Toyama Pharmaceutical to build a more powerful sales framework. We are also active in many other respects, including forging alliances that can make sales activities more efficient.

JAPAN

Taisho products are sold in Japan through Taisho Toyama Pharmaceutical, a company jointly owned with Toyama Chemical. Since the beginning of its full-scale operations in April 2003, this company has quickly assembled a strong sales framework with the goal of becoming the market leader in its strategic fields of infectious diseases and

inflammatory/immunologic diseases. Currently, Taisho Toyama Pharmaceutical is concentrating on building an infrastructure capable of handling a steady stream of new products. In addition, much potential remains for developing new markets for existing products.

A STRONGER SALES ORGANIZATION

In April 2005, Taisho Toyama Pharmaceutical conducted an extensive realignment of its sales bases to allow information to be shared faster and to make sales activities more efficient. The network of 22 branch offices was reduced to 13 locations and sales offices were cut from 153 to 100. The new organization is already producing the expected benefits. We are also seeing additional benefits such as an increase in competition among our branch offices and greater motivation

Eyeing Strong
— Prescription Pharmace

among medical representatives.

In another move to bolster sales, we established the Hospital Sales Division within the Sales Department in April 2005. In Japan, hospitals are stepping up efforts to make treatments easier to understand for patients. This mainly involves the use of a clinical path system, mainly at large hospitals. The mission of the newly-created Hospital Sales Division is to persuade targeted hospitals to appropriately incorporate products sold by Taisho Toyama Pharmaceutical in their treatment guidelines. We expect that this new division will make a big contribution to ethical drug sales by strengthening sales channels to hospitals.

A TALENTED AND MOTIVATED WORKFORCE

The workforce of Taisho Toyama Pharmaceutical has consisted until now of people sent from its two parent companies. In April 2005, almost all individuals working at this company officially became Taisho Toyama Pharmaceutical employees, rather than working on assignment from Taisho or Toyama Chemical. All employees were thus placed under a unified personnel system. No longer do these individuals need to work together while being careful to respect the different corporate cultures and sales styles of Taisho and Toyama Chemical. As a result, Taisho Toyama

Pharmaceutical now has a highly cohesive and motivated workforce.

ESTABLISHMENT OF PRIORITY PRODUCTS

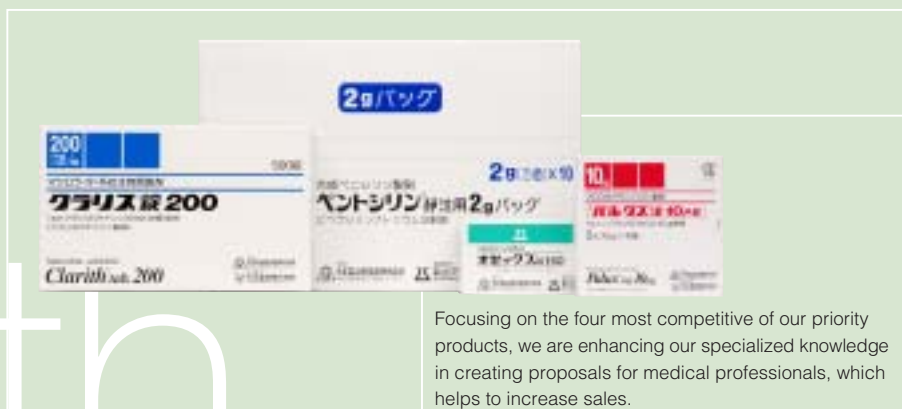
Since its inception, Taisho Toyama Pharmaceutical has concentrated on eight priority products. Currently, sales activities are particularly focused on the four most competitive products of these, for which we are enhancing specialized knowledge and skills in detailing proposals for medical professionals. By using its broad lineup of antibacterial agents, this company has promoted “cycling chemotherapy” for preventing antimicrobial resistance. Through measures such as these, Taisho Toyama Pharmaceutical is dedicated to supplying healthcare professionals with value-added ideas and information.

Healthcare institutions in Japan are increasingly using diagnosis procedure combination (DPC) as a means to control healthcare expenses. Standards for selecting pharmaceuticals are changing

as a result. Working as a partner with healthcare professionals, the medical representatives of Taisho Toyama Pharmaceutical are playing a part in meeting the needs spawned by these trends.

INCREASING SALES OF EXISTING PRODUCTS

A steady stream of new drugs is expected to start in the not too distant future at Taisho Toyama Pharmaceutical. To prepare for this, Taisho Toyama Pharmaceutical is now building the necessary infrastructure. Until that time, the company’s priority is raising earnings through higher sales of existing products. During the past few years, Taisho has steadily enhanced its stature in the field of drugs for infectious diseases. For example, *Clarith* is a macrolide antibiotic agent that has been posting sales growth every year since its introduction 15 years ago. With a collection of highly competitive drugs for infectious diseases, we are well positioned to continue increasing our share of this market sector.



Focusing on the four most competitive of our priority products, we are enhancing our specialized knowledge in creating proposals for medical professionals, which helps to increase sales.

enough
utical Operation Group

OVERSEAS

Taisho's ethical drugs have long had a reputation for excellence in and outside Japan. Our mainstay product *Clarith* is currently sold through a U.S. company, Abbott Laboratories, in more than 90 countries under the *Biaxin*, *Klacid* and other brands.

FUNDAMENTAL R&D POLICY

Taisho is positioning the period beginning in 2010 as an era of growth. To accomplish this, we are working on assembling the framework needed to produce a consistent stream of original new drugs. In research, we are building systems capable of quickly creating original compounds and identifying promising candidates for new drugs. For the development side, our goal is to raise the effectiveness and efficiency of clinical trials which require enormous investments.

Taisho is concentrating on four strategic areas: CNS, diabetes, immunology/allergy and infectious diseases. In the infectious disease domain, Taisho and Toyama Chemical are making full use of their joint R&D infrastructure. In particular, the two companies are sharing their compound libraries to efficiently create new drugs based on their respective strengths. Collaboration extends to the mutual use of personnel for conducting clinical trials.

The four strategic domains were selected because of projections for growth in the number of people afflicted with these ailments as Japan moves toward an aging society. This demand represents an attractive opportunity for Taisho.

For the time being, R&D activities will center on the development of original compounds. From 2010 onward, we plan to launch one original new drug every year. Over the medium term, these new products will increase Taisho's stature as one of the world's most respected names in ethical drugs. We will develop products on our own or with an alliance partner, depending on the competitive landscape and the development environment in each case, with the aim of quickly bringing new products to market.

Since the first of these self-developed drugs is not expected until about 2010, we plan to fill out our pipeline by licensing in compounds under development and to raise sales and extend the lives of existing products.

ENHANCING THE RESEARCH BASE AND DEVELOPMENT INFRASTRUCTURE

The Research Center is the nucleus of ethical drug R&D activities at Taisho. This center has an information gathering network that covers research institutions in Japan, the U.S. and Europe. In addition to keeping abreast of the latest

developments, the center uses sophisticated equipment and systems to conduct a variety of programs.

In the pharmaceutical industry, companies are seeking to shorten the drug discovery period by using advanced technologies and efficient techniques. At Taisho, genome-based drug discovery is performed using genetic searches and analysis based on molecular biology. We also use Combinatorial Chemistry and High-Throughput Screening in low molecular weight compound searches. Computational science is used to discover lead structures. ADMETox screening, a system for simultaneously evaluating *in vivo* and *in vitro* characteristics and safety of drugs at the discovery stage, is used as well. These techniques allow Taisho to synthesize optimal and high-quality compounds.

Taisho completed the establishment of this sophisticated drug discovery infrastructure in about 2000. More recently, now that our original compounds have advanced to the development stage, we established the Medical Development Research Laboratories in April 2004. This better allows us to study the safety and *in vivo* performance of compounds.

Along with investments in facilities, we are taking steps to enhance the motivation of our researchers. Most significant is a system for evaluating research themes and inviting individuals to submit

ideas for research themes. Researchers have submitted a higher number of themes every year since 1999. The quality of the themes has been rising, too.

About half of these ideas are submitted by researchers under the age of 36.

Overall, this program is greatly enhancing the vitality and quality of research activities. To build on this momentum, we started the research remuneration system in fiscal 2004.

We establish medium-term goals for the success rate of research programs.

In general, the average success rate from the final stage of the pre-clinical test phase to market is 10% to 11%. Our goal is to raise our success rate to at least 15% from 2010 onward. With this in mind, we are increasing our development staff and allocating more resources to training programs. As one element of this drive we established Taisho R&D USA Inc. in August 2001 to manage clinical trials in the U.S. We will continue

to strengthen our development infrastructure in Japan and overseas to bring products under development to the market as quickly as possible.

THE NEW DRUG PIPELINE

Taisho and Toyama Chemical are now at work on developing a new-type quinolone antibacterial agent called *T-3811*. Now in Phase 3 clinical trials in Japan, this compound is slated to be submitted as an NDA (new-drug application) during the first half of 2006.

Taisho has three original compounds in Phase 1 clinical trials in Japan: *TS-021*, a type 2 diabetes treatment; *TS-033*, a type 1 and 2 diabetes treatment; and *TS-022*, an atopic dermatitis treatment. Taisho is aiming to begin Phase 2 clinical trials of two of these diabetes drugs at the beginning of fiscal 2006. Taisho has signed a license agreement with Eli Lilly and Company for *TS-021* for worldwide territories except Japan and China.

Outside Japan, two compounds are in Phase 1 clinical trials: *TS-011*, a drug for acute stage of cerebral infarction; and *TS-041*, a drug for depression and anxiety that is being jointly developed with Janssen Pharmaceutica NV. Development is proceeding as planned on both of these compounds.

In the infectious disease area, we plan to begin Phase 1 clinical trials during fiscal 2005 of an original compound that covers the shortfalls of *Clarith*. In addition, an NDA has been submitted in Japan for *T-614*, an antirheumatic agent developed jointly by Toyama Chemical and Eisai Co., Ltd. for which Taisho has sale rights. In addition, *NT-702* is in Phase 2 clinical trials in Japan and overseas. Known by the development code *NM-702* outside Japan, this compound is a vascular dilatation and inhibitor of platelet aggregation treatment developed jointly with Nissan Chemical Industries, Ltd.

ORIGINAL NEW DRUGS ENTERING CLINICAL TRIAL STAGE

Therapeutic Area	Name	Application	Mechanism	Stage	Partner
Diabetes	<i>TS-021</i>	Type 2 diabetes	DPP-IV inhibitor	Phase 1	Eli Lilly and Company*1
	<i>TS-033</i>	Type 1 and 2 diabetes	SGLT inhibitor	Phase 1	
CNS	<i>TS-041</i>	Depression and anxiety	CRF1 receptor antagonist	Phase 1	Janssen Pharmaceutica NV.*2
	<i>TS-011</i>	Acute stage of cerebral infarction	20-HETE synthesizing enzyme inhibitor	Phase 1	
Allergies	<i>TS-022</i>	Atopic dermatitis	Prostaglandin derivative	Phase 1	

DPP=Dipeptidyl peptidase

SGLT=Sodium dependent glucose cotransporter

CRF1=Corticotropin-releasing factor 1

20-HETE=20-hydroxyeicosatetraenoic acid

*1 License out for global development except in Japan and China

*2 Co-development for overseas

COMPLIANCE ACTIVITIES

FUNDAMENTAL POLICY

Taisho continues to be guided by the principles set forth by its first honorary chairman, the late Shokichi Uehara, who constantly stressed the importance of the spirit of *shinsho* (gentlemanship in business in accordance with high social ethics). Compliance activities at Taisho are focused on ensuring that all executives and employees continue to base their activities on this spirit of *shinsho*.

ORGANIZATION AND CODE OF BEHAVIOR

To conduct a rigorous compliance program, Taisho has established a compliance framework that encompasses all group companies. There is a Compliance Management Section and

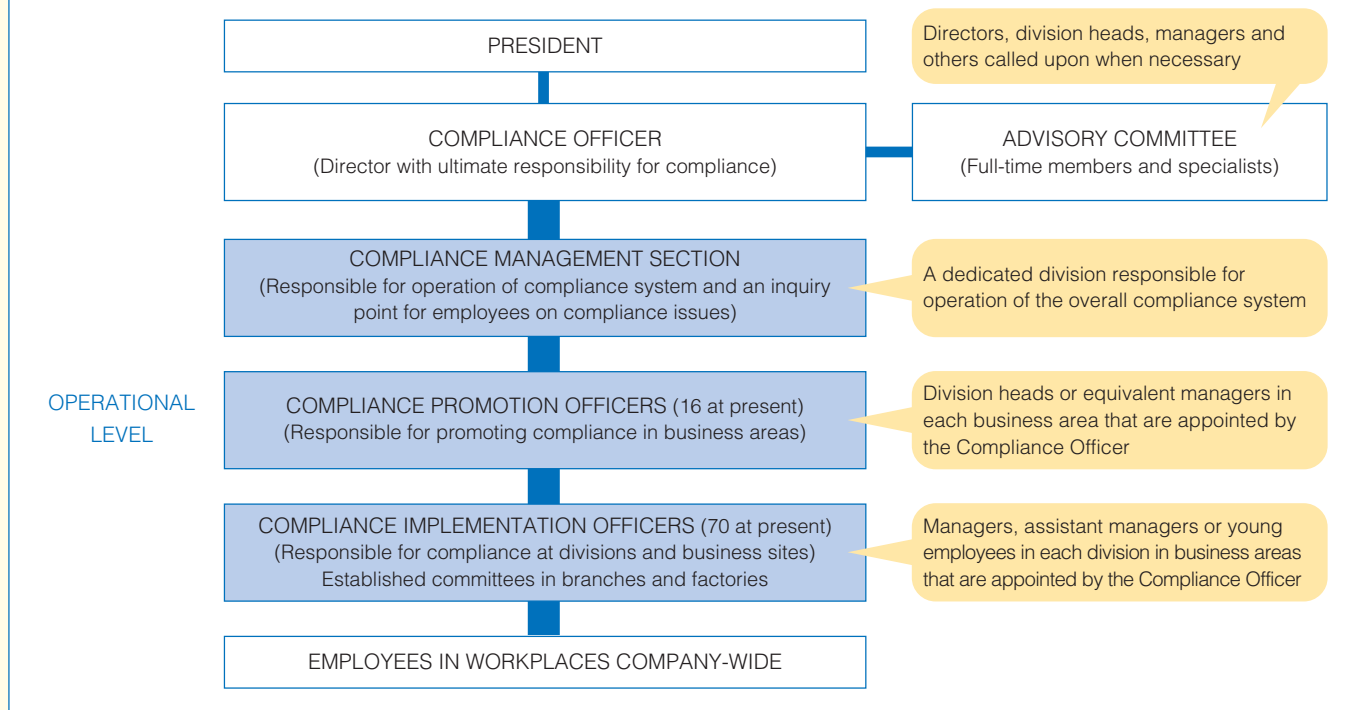
employees throughout the organization have been named to be responsible for the promotion and implementation of compliance initiatives. These individuals receive training and compliance-related communications and submit reports on compliance activities to the Compliance Management Section. The Compliance Officer, who is a Taisho director, has ultimate responsibility for compliance. This executive manages the Compliance Management Section and provides frequent reports and suggestions to management.

Taisho first formulated its Corporate Code of Conduct in July 2001. All executives and employees pledge to conduct business activities in conformity with this code. In February 2003, the

code was revised to make its provisions easier to understand and more specific. There are now Individual Codes of Conduct for 16 business areas (originally 11 areas), with each code of conduct containing items that are closely linked to the activities of each unit. Working groups formed by each division are rapidly preparing division-specific codes of conduct that will be even more detailed than those for business units.

In addition to the Taisho compliance framework, Taisho Toyama Pharmaceutical has its own compliance system. Furthermore, employees at overseas subsidiaries receive an English translation of the code of conduct to ensure a consistent approach to compliance across the entire group.

COMPANY-WIDE COMPLIANCE PROMOTION FRAMEWORK



CORPORATE GOVERNANCE

ACTIVITIES CONCERNING COMMUNICATION

All business sites hold regular meetings of all employees in divisions and other business units to raise awareness of compliance issues and ensure that activities conform to the code of conduct.

Meetings cover many subjects. Recent meetings have focused on Japan's Personal Information Protection Law, which has been fully enforced since April 2005. Through these meetings, management has become aware of significant risks associated with problems involving "gray zone" activities that fall between the responsibilities of an individual division or department. In the division-specific codes of conduct now being prepared, attention is being paid to eliminating this "peripheral risk." All compliance programs incorporate "plan-do-check-act" methodology to enable the effective operation of these programs while making improvements as required.

Taisho has many training programs for employees. Classes are conducted from many perspectives, including for individual business units, for new employees, and for different levels of management. To ensure compliance in daily business activities, Taisho also places much importance on compliance with regard to its suppliers. Many presentations are held to explain Taisho's compliance programs to these suppliers in order to gain their understanding and cooperation.

FUNDAMENTAL POLICY

Taisho positions corporate governance as one of its highest management priorities. In fiscal 1999, the executive officer system was adopted and the size of the board of directors was reduced to provide for more accurate and speedy decision-making and supervisory functions.

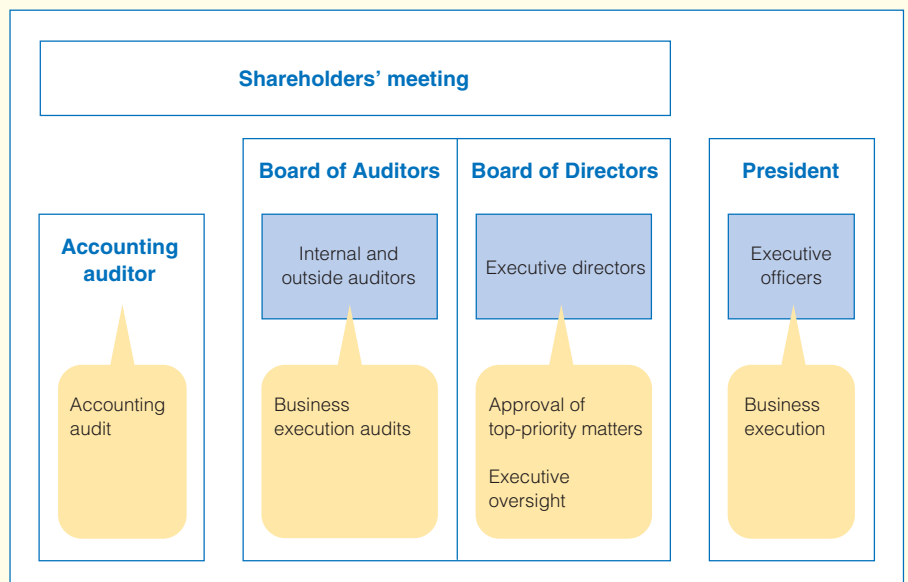
DIRECTORS, BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

Currently, there are seven directors and seven executive officers. The board of directors meets monthly as a rule, but there were 20 board meetings during fiscal 2004, including extraordinary sessions. In addition to meetings of the board of directors, another meeting of directors and auditors is regularly held to receive reports from executive officers, business unit managers and other managers on business operations, issues and other matters concerning business groups, administrative divisions and other units.

CORPORATE AUDITORS

Taisho uses the corporate auditor system to ensure the transparency of its management. There are currently four corporate auditors, two of whom are from outside the company, who supervise the management of the Taisho Group.

When performing their audits, the corporate auditors collaborate with administrative units such as the Audit Division, Accounting Division, Legal Division and Compliance Management Section. In addition, the corporate auditors attend meetings of the board of directors and other important meetings. These auditors also review important documents, receive reports on the activities of major business units, accompany the financial auditor on visits to factories, branches and subsidiaries, regularly receive reports from the Audit Department, and confirm that compliance programs, risk management systems and internal rules are functioning properly.



QUALITY ASSURANCE

THE TAISHO POLICY CONCERNING QUALITY ASSURANCE

The activities of all companies are built upon the trust of consumers and society at large. To earn and preserve this trust, companies must maintain a framework that can accurately adapt to shifts in the social environment to meet all stakeholder needs. These shifts include changes in the use of information, globalization, environmental measures and legislative amendments. Taisho believes that it is important to establish and maintain systems for this purpose as well as

to constantly review the suitability of these systems.

In April 2004, Taisho established the Quality Assurance Head Office to centralize the management of quality-related activities. This unit also makes it easier to identify and resolve problems. As a result, Taisho is better able to maintain a high level of reliability. Particular emphasis is placed on audits, evaluations and other checking functions as the basis for achieving continuous improvements in systems.

THE QUALITY ASSURANCE HEAD OFFICE

The Quality Assurance Head Office has the six components shown below.

Evaluating products is the primary role of the Quality Assurance Head Office. All products must comply with laws and regulations. Moreover, their safety must be scientifically proven. The office adopts a much broader perspective as well, evaluating products with regard to social norms, ethics, customs and against other standards.

To establish clear standards, Taisho has prepared a fundamental

FUNDAMENTAL PHILOSOPHY FOR QUALITY ASSURANCE

We constantly strive to ensure product safety and to enhance product quality from the consumer's perspective. And we are dedicated to the satisfaction and peace of mind of our customers. This commitment is unwavering.

FUNDAMENTAL POLICIES FOR QUALITY ASSURANCE

1. (Stance) We will listen to consumers and meet their expectations.
2. (Technology) We will constantly aim for the most advanced technology, adopting a global perspective.
3. (Self-management) We will constantly work on self-management activities that ensure the reliability of our activities.

QUALITY ASSURANCE HEAD OFFICE

PRODUCT QUALITY ASSURANCE DIVISION
Quality assurance for pharmaceuticals, quasi-drugs and cosmetics

PRESCRIPTION DRUG PHARMACOVIGILANCE DIVISION
Safety of ethical drugs; collection of information on and the evaluation and reporting of the safety of investigational drugs

SELF MEDICATION PHARMACOVIGILANCE DIVISION
Safety of over-the-counter drugs, quasi-drugs and cosmetics

GCP AUDIT SECTION
Audits to verify GCP conformity of clinical tests in Japan; verification of reliability and suitability of clinical tests outside Japan

NON-CLINICAL QUALITY ASSURANCE DIVISION
Reliability of non-clinical tests; reliability of investigational drugs

QA MANAGEMENT SECTION
Management of approaches to manufacturing and sales; assurance of reliability from R&D stage through commercialization; administration and management of Quality Assurance Head Office

philosophy and fundamental policies for quality assurance.

Quality assurance officers are appointed to take the lead in establishing processes for ensuring reliability through a plan-do-check-act (PDCA) cycle. In this manner, Taisho is dedicated to building an even more effective quality assurance framework.

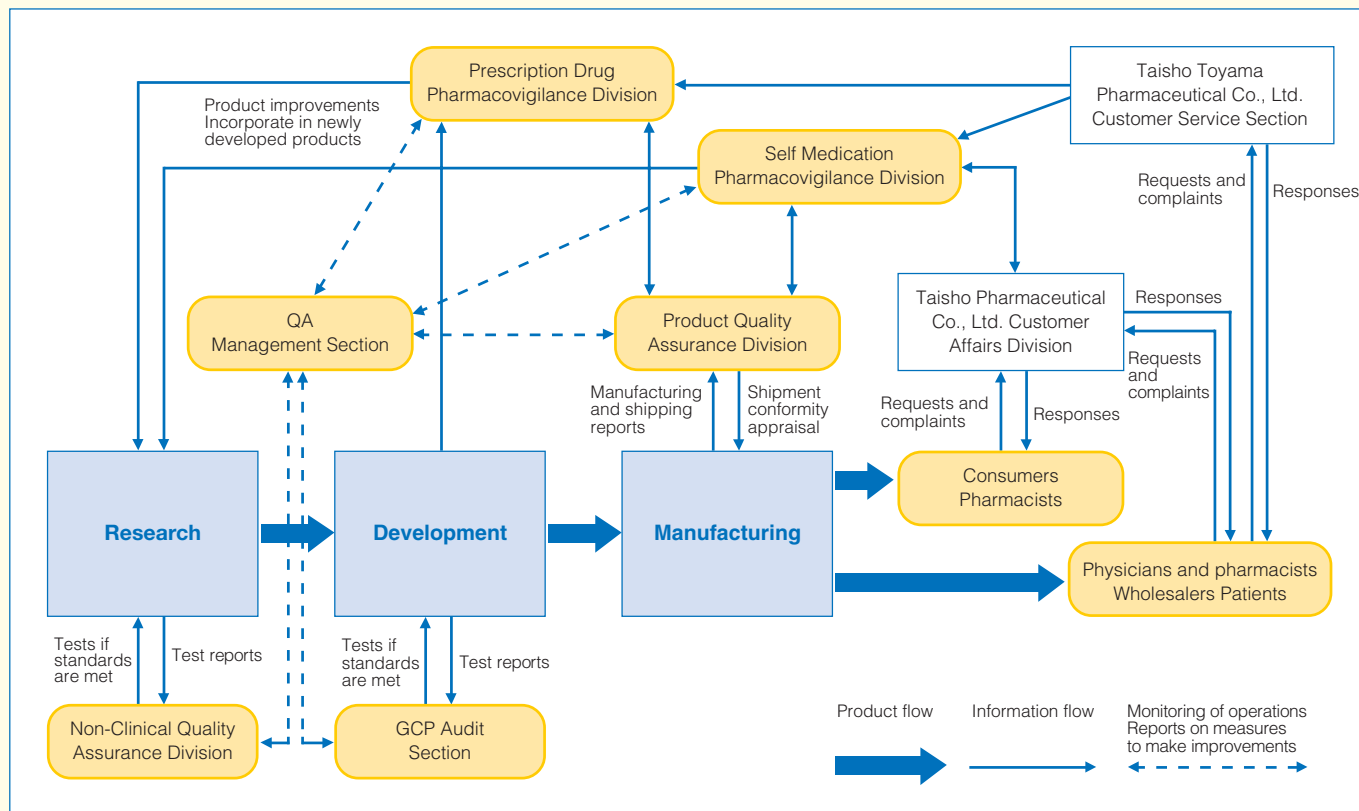
QUALITY ASSURANCE HEAD OFFICE OPERATING FRAMEWORK

On April 1, 2005, an amendment to the Pharmaceutical Affairs Law eased restrictions on the outsourcing of

pharmaceutical production. At the same time, the law imposes more stringent requirements with regard to the audit and evaluation of the quality management of contract manufacturers. Requirements for safety management of drugs following their sale are also tighter. Additionally, it is now more important to submit reliable results at the research stage with regard to a product's safety and efficacy.

At Taisho, the GCP Audit Section and Non-Clinical Quality Assurance Division are responsible for ensuring the reliability of test results at the R&D stage. The Self Medication

Pharmacovigilance Division and Prescription Drug Pharmacovigilance Division, meanwhile, specialize in managing the safety of over-the-counter drugs and prescription drugs, respectively. This provides adequate management systems for these two categories of products. In addition, the Product Quality Assurance Division manages the quality of all products, while the QA Management Section ensures PDCA methodology is followed. These units give Taisho an organization that can retain a constant focus on quality assurance.

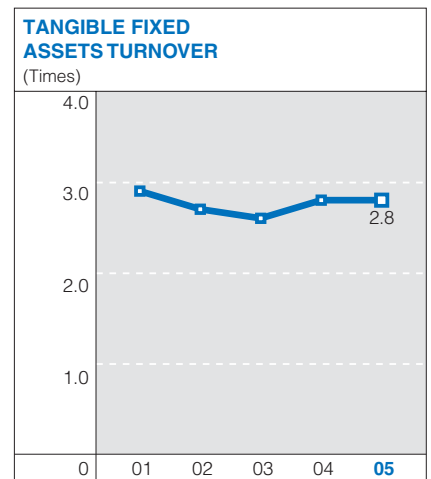
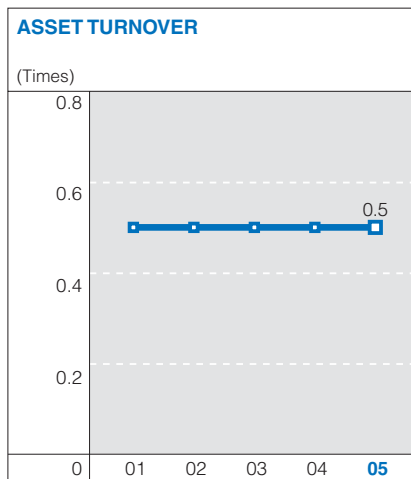
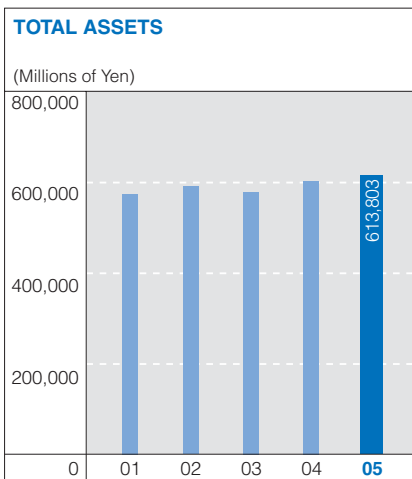
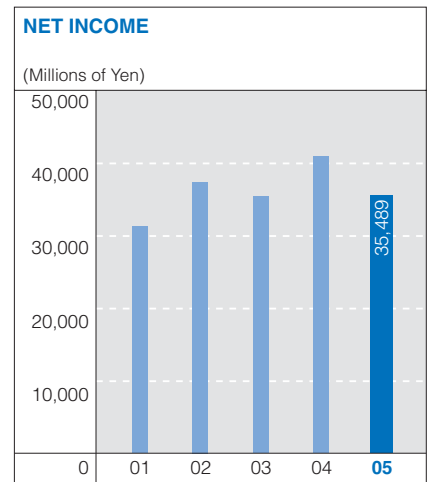
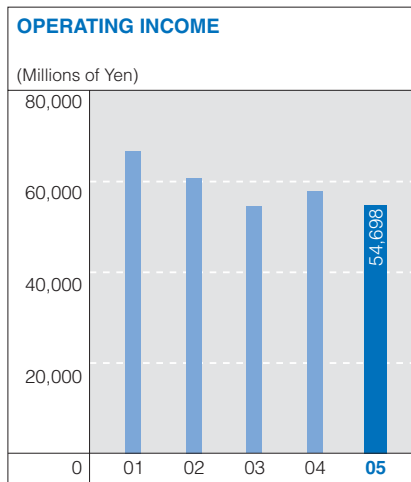
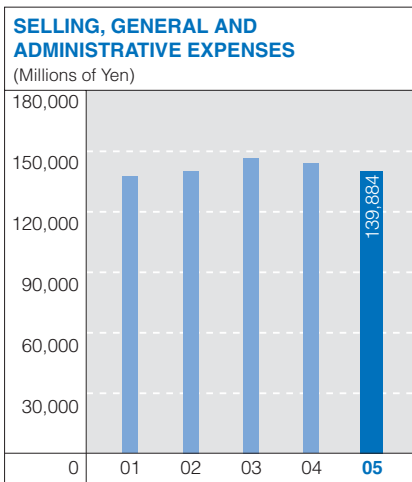
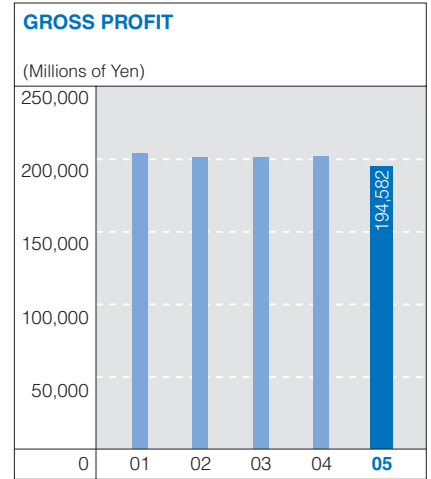
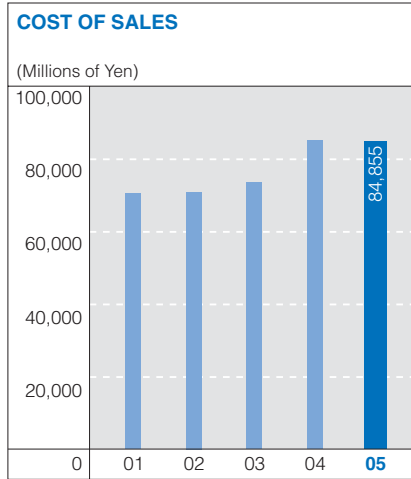
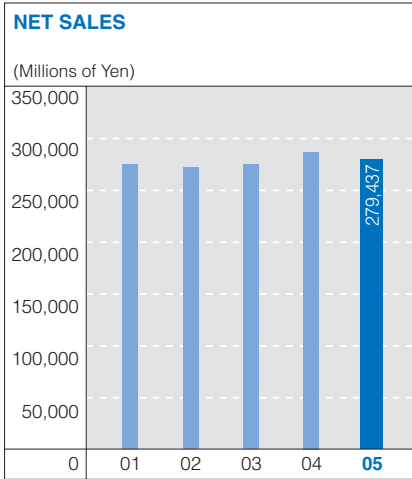


FINANCIAL SUMMARY

Taisho Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2005, 2004, 2003, 2002 and 2001

	Millions of Yen				
	2005	2004	2003	2002	2001
For the year:					
Net sales	¥ 279,437	¥ 286,434	¥ 274,077	¥ 271,397	¥ 274,396
Cost of sales	84,855	85,006	73,346	70,826	70,540
Gross profit	194,582	201,428	200,731	200,571	203,856
Selling, general and administrative expenses	139,884	143,728	146,337	139,870	137,265
Operating income	54,698	57,700	54,394	60,701	66,591
Net income	35,489	40,910	35,392	37,361	31,269
At year-end:					
Total assets	¥ 613,803	¥ 601,956	¥ 577,707	¥ 590,036	¥ 573,612
Current assets	273,145	254,715	247,589	251,793	245,078
Current liabilities	56,344	62,019	46,347	60,156	64,257
Working capital	216,800	192,696	201,242	191,637	180,821
Shareholders' equity	517,634	500,761	485,717	486,883	467,601
R&D expenses	23,221	24,171	29,526	32,212	33,401
R&D expenses as percentage of net sales (%)	8.3	8.4	10.8	11.9	12.2
Capital expenditure	7,074	8,829	8,957	24,996	15,602
Free cash flows	(9,320)	84,783	63,839	14,199	8,704
Per share data:					
Shareholders' equity (yen)	¥1,678.78	¥1,597.78	¥1,474.65	¥1,434.51	¥1,371.99
Net income—basic (yen)	114.15	127.87	105.81	109.66	91.41
Ratio data:					
Assets turnover (times)	0.5	0.5	0.5	0.5	0.5
Tangible fixed assets turnover (times)	2.8	2.8	2.6	2.7	2.9
Return on equity—ROE (%)	7.0	8.3	7.3	7.8	6.9
Return on assets—ROA (%)	5.8	6.9	6.1	6.4	5.7

GRAPHS OF SELECTED FINANCIAL HIGHLIGHTS



MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Strategy

Taisho and the Taisho Pharmaceutical Group position enhancing asset productivity, maintaining sufficient liquidity and working capital to sustain business activities and preserving a sound balance sheet as the cornerstones of the Group's financial policy.

Investment decisions regarding research and development, capital expenditures, mergers and acquisitions, and acquisitions of brands and other items are reached on an individual basis in the context of 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 growth and stable cash flows.

Group Overview

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

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

Net Sales

During fiscal 2004, ended March 31, 2005, the over-the-counter drugs business which had faced an adverse operating environment due to persistent market weakness was further impacted by inclement weather and a series of natural disasters. Conditions also remained challenging for the

ethical drugs business due to government measures to reform medical expenditures, intensifying competition and other factors.

Under these circumstances, the Taisho Pharmaceutical Group aggressively conducted sales activities with the launch of new products and actions to bolster its sales structure. Nonetheless, consolidated net sales declined ¥6,997 million year on year, or 2.4%, to ¥279,437 million.

Segment Information

In the Self-Medication Operation Group, overall sales of the *Lipovitan* series of nutrient drinks declined ¥1.8 billion year on year, or 1.8%, despite contributions from new products *Lipovitan Amino* and *Lipovitan Amino Gold*. This result was due to a drop in sales of *Lipovitan D*, as well as flagging sales of other products in the *Lipovitan* lineup. Sales of new products in the *ZENA* and *ALFE* series of drinks contributed to sales growth in Taisho's mini-drink category. Despite growth in sales of rhinitis treatment, sales of the *Pabron* series of cold remedies declined ¥0.7 billion overall, or 2.8%, as sales of comprehensive cold remedies were impacted by a later-than-usual cold season in Japan. Concerning *RiUP*, a Taisho hair regrowth treatment for androgenic alopecia, while the launch in late March of *RiUP Lady*, Japan's first hair regrowth treatment for female baldness, contributed ¥2.0 billion to sales, overall sales in the *RiUP* series declined 12.2%. *VICKS* series products, meanwhile, recorded strong growth, buoyed by the seamless transfer of these products to the quasi-drug category. In sales of nutrient drinks overseas, sales growth in China, Vietnam and Thailand led to a modest increase in overall sales.

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

	Millions of yen				
	2005	2004	2003	2002	2001
Net sales	¥279,437	¥286,434	¥274,077	¥271,397	¥274,396
Cost of sales	84,855	85,006	73,346	70,826	70,540
Gross profit	194,582	201,428	200,731	200,571	203,856
Selling, general and administrative expenses	139,884	143,728	146,337	139,870	137,265
Operating income	54,698	57,700	54,394	60,701	66,591
Income before income taxes and minority interests	58,341	69,910	60,269	66,446	55,868
Net income	35,489	40,910	35,392	37,361	31,269

From the 2004 fiscal year, sales (about ¥1.5 billion) from consolidated subsidiaries responsible for Taisho's hotel business and related operations are included as "other" sales.

In the Prescription Pharmaceutical Operation Group, while sales of the macrolide antibiotic *Clarith* and *Palux* injection, a peripheral vasodilator, declined, largely due to the impact of falling drug prices and measures to restrict prescriptions for premium-priced drugs, sales of cardiac arrhythmia treatment *Ancaron* continued to grow briskly. Sales of products from Toyama Chemical Co., Ltd. were also firm, particularly for *PENTCILLIN* and *OZEX*, two of its main products.

Income and Expenses

Concerning costs, a review of sales promotion, R&D, advertising and other costs drove overall selling, general and administrative (SG&A) expenses down ¥3,844 million year on year, or 2.7%, to ¥139,884 million.

On the earnings front, operating income for fiscal 2004 declined ¥3,002 million, or 5.2%, to ¥54,698 million. The decrease was mainly attributable to lower sales, as well as a higher cost of sales ratio and other factors. Net income was down ¥5,421 million, or 13.3%, to ¥35,489 million. This decline was due to the contribution to net income in the 2003

Sales of Major Self-Medication Operation Group Products

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

	Billions of yen				
	2002	2003	2004	2005	YOY Change (%)
Tonics and nutrient drinks	¥113.7	¥112.9	¥107.6	¥106.5	-1.1%
<i>Lipovitan</i> series	102.6	102.0	96.9	95.1	-1.8
<i>Lipovitan D</i>	77.2	77.9	72.9	70.8	-2.9
Other	25.4	24.1	24.0	24.3	1.5
<i>ZENA</i> series	4.2	4.2	4.6	5.0	8.2
<i>ALFE</i> and others	2.5	2.2	1.9	2.0	5.3
Overseas drinks	4.4	4.5	4.2	4.3	2.4
Cold remedies	26.7	28.7	28.1	27.3	-2.8
Gastrointestinal treatments	5.4	5.3	5.4	4.9	-9.6
<i>RiUP</i> and others	18.5	17.7	15.3	13.5	-12.2
<i>Livita</i> series	—	1.5	1.1	2.1	83.8

Sales of Major Prescription Pharmaceutical Operation Group Products

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

		Billions of yen				
		2002	2003	2004	2005	YOY Change (%)
Product	Generic Name					
<i>Clarith</i>	clarithromycin	¥25.9	¥27.1	¥27.6	¥27.4	-0.7%
<i>Palux</i>	alprostadiol	17.2	14.5	13.2	12.0	-9.2
<i>PENTCILLIN</i>	piperacillin sodium	—	—	6.4	6.5	1.3
<i>Ancaron</i>	amiodarone hydrochloride	2.6	3.5	4.2	4.8	14.8
<i>Lorcam</i>	lornoxicam	3.4	4.2	4.5	4.5	0.4
<i>TOMIRON</i>	cefteram pivoxil	—	—	4.9	4.8	-2.4
<i>OZEX</i>	tosufloxacin tosilate	—	—	2.9	3.3	14.4
<i>Metligine</i>	midodrine hydrochloride	2.6	2.4	2.2	2.2	-0.3
<i>LIMAS</i>	lithium carbonate	2.3	2.3	2.3	2.3	1.5
<i>SOLOX</i>	sofalcone	3.3	2.6	2.3	2.1	-5.6
<i>LUPRAC</i>	traseamide	—	—	1.6	1.8	12.8
<i>PASIL</i>	pazufloxacin mesilate	—	—	0.9	1.2	31.1

fiscal year of gains on settlement of surrogated obligation of employees' welfare pension fund of ¥9,178 million.

Changes in major income statement items were as follows.

Cost of sales declined ¥151 million, or 0.1%, compared with the previous fiscal year, to ¥84,855 million. The cost of sales ratio edged up 0.7 of a percentage point to 30.4%, mainly due to lower sales from the Self-Medication Operation Group and a decline in royalty income from the Prescription Pharmaceutical Operation Group. As a result, gross profit decreased ¥6,846 million, or 3.4%, to ¥194,582 million.

Efforts to rein in R&D, sales promotion and advertising costs drove SG&A expenses down ¥3,844 million, or 2.7%, year on year, to ¥139,884 million, which translated into a 0.1 of a percentage point drop in the SG&A expense net sales ratio, to 50.1%. Operating income, nonetheless, decreased ¥3,002 million, or 5.2%, to ¥54,698 million, predominantly caused by decreased sales and an increased cost of sales ratio.

Other income declined ¥10,504 million year on year, or 65.3%, to ¥5,583 million, mainly a reflection of gains on settlement of surrogated obligation of employees' welfare

pension fund posted in the 2003 fiscal year, and a lower gain on sales of property, plant and equipment. Other expenses, meanwhile, fell ¥1,937 million, or 50.0%, to ¥1,940 million, primarily from a decrease in equity in net losses of affiliated companies. Accordingly, income before income taxes and minority interests declined ¥11,569 million, or 16.5%, to ¥58,341 million.

Income taxes totaled ¥22,625 million, a decrease of ¥6,609 million, or 22.6%, while minority interests in gain of consolidated subsidiaries were ¥227 million, reversing a loss of ¥234 million posted in the previous year. As a result, net income decreased ¥5,421 million, or 13.3%, to ¥35,489 million, for a profit margin of 12.7%. Net income per share was ¥114.15, ROE was 7.0% and ROA was 5.8%.

Liquidity and Capital Resources

Cash Flows

As of March 31, 2005, cash and cash equivalents amounted to ¥77,557 million, down ¥29,245 million from the 2003 fiscal year-end.

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

	Millions of yen				
	2005	2004	2003	2002	2001
Sales:					
Self-Medication Operation Group:	¥183,417	¥188,063	¥195,125	¥192,428	¥198,897
Over-the-counter drugs	172,404	178,233	185,233	183,492	190,042
Foods for Specified Health Use and others	7,840	7,876	8,535	7,389	7,166
Other	3,172	1,953	1,357	1,547	1,689
Prescription Pharmaceutical Operation Group:	96,020	98,371	78,952	78,969	75,499
Ethical drugs	81,688	82,129	61,637	62,547	59,141
Other	9,391	10,631	10,994	9,647	10,133
Royalty income	4,941	5,611	6,321	6,775	6,225
Operating income:					
Self-Medication Operation Group	¥ 39,015	¥ 43,392	¥ 50,412	¥ 53,216	¥ 61,093
Prescription Pharmaceutical Operation Group	15,683	14,308	3,982	7,485	5,498
Identifiable assets:					
Self-Medication Operation Group	¥225,638	¥257,285	¥267,434	¥262,978	¥253,448
Prescription Pharmaceutical Operation Group	119,140	119,801	117,176	102,082	90,601
Depreciation:					
Self-Medication Operation Group	¥ 10,104	¥ 11,133	¥ 12,455	¥ 9,573	¥ 10,043
Prescription Pharmaceutical Operation Group	3,398	4,210	4,377	4,616	4,529
Capital expenditure:					
Self-Medication Operation Group	¥ 6,178	¥ 7,050	¥ 13,463	¥ 18,811	¥ 12,930
Prescription Pharmaceutical Operation Group	1,414	2,107	3,436	6,823	3,544

Cash flows from operating activities

Net cash provided by operating activities was ¥43,179 million, down ¥14,350 million from the 2003 fiscal year. This drop was mainly attributable to a decline in income before income taxes and minority interests of ¥11,569 million, and an increase of ¥7,104 million in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities was ¥52,499 million, a difference of ¥79,753 million compared with cash provided in the previous year. In addition to a cash outflow of ¥38,178 million for time deposits, the increase stemmed principally from ¥15,961 million in payments for purchases of investment securities, ¥6,881 million in payments for purchases of property, plant and equipment, and ¥2,252 million in payments for purchases of intangible assets. Furthermore, compared with the 2003 fiscal year, there was a ¥28,450 million decrease in proceeds from sales/redemption of marketable

securities and a ¥35,427 million decrease in proceeds from sales of investment securities.

Cash flows from financing activities

Net cash used in financing activities was ¥19,382 million, down ¥20,269 million from the 2003 fiscal year. This largely resulted from a decrease of ¥17,821 million in payments for purchases of treasury stock to ¥10,657 million, and cash dividends of ¥7,820 million, down ¥2,036 million year on year due to a special commemorative dividend paid in the 2003 fiscal year.

Financial Position

Total assets as of the end of the 2004 fiscal year rose ¥11,847 million, or 2.0%, to ¥613,803 million. Major movements in principal balance sheet items were as follows.

Current assets climbed ¥18,429 million, or 7.2%, to ¥273,144 million, attributable mainly to cash and cash equivalents of ¥77,557 million, down ¥29,245 million, or

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

	Millions of yen				
	2005	2004	2003	2002	2001
Net cash provided by operating activities	¥ 43,179	¥ 57,529	¥ 53,420	¥ 44,654	¥ 36,610
Net cash provided by (used in) investing activities	(52,499)	27,254	10,419	(30,455)	(27,906)
Net cash used in financing activities	(19,382)	(39,651)	(27,613)	(11,480)	(16,901)
Cash and cash equivalents at the beginning of the year	106,802	62,126	26,064	22,864	30,928
Cash and cash equivalents at the end of the year	77,557	106,802	62,126	26,064	22,864

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

	Millions of yen				
	2005	2004	2003	2002	2001
Cash and cash equivalents	¥ 77,557	¥106,802	¥ 62,126	¥ 26,064	¥ 22,864
Time deposits	69,748	31,570	54,142	89,926	106,841
Inventories	22,905	21,709	18,580	19,296	19,658
Total current assets	273,144	254,715	247,589	251,793	245,078
Investment securities	215,786	214,058	179,102	197,304	208,291
Property, plant and equipment, net	96,271	100,710	102,720	107,775	97,075
Intangible assets	13,244	15,707	17,839	14,308	12,466
Total intangible assets and other assets	28,602	32,473	48,296	33,164	23,168
Total assets	613,803	601,956	577,707	590,036	573,612
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	(42,948)	(51,234)	(22,756)	(3,447)	(513)
Total shareholders' equity	517,634	500,761	485,717	486,883	467,601
Total liabilities and shareholders' equity	613,803	601,956	577,707	590,036	573,612

27.4%, year on year, and time deposits of ¥69,748 million, up ¥38,178 million, or 120.9%. Marketable securities rose ¥5,999 million, or 114.7%, to ¥11,227 million, due to the reclassification of investment securities. The current ratio was 484.8%, reflecting the Company's strong liquidity.

Inventories stood at ¥22,905 million, up ¥1,196 million, or 5.5%, from the end of the 2003 fiscal year. The inventory turnover ratio was 12.5 times.

Investment securities edged up ¥1,728 million, or 0.8%, to ¥215,786 million. Property, plant and equipment, net declined ¥4,439 million, or 4.4%, to ¥96,271 million, due mainly to the depreciation of buildings and structures, machinery, equipment and vehicles. Intangible assets and other assets fell ¥3,871 million, or 11.9%, to ¥28,602 million, mainly representing the amortization of trademarks and sales licenses.

Current liabilities declined ¥5,674 million, or 9.1%, to ¥56,345 million, mainly attributable to a decrease in accrued income taxes. Long-term liabilities, meanwhile, edged up ¥424 million, or 1.1%, to ¥38,544 million, due to an increase in accrued retirement benefits.

Shareholders' equity stood at ¥517,634 million, up ¥16,873 million, or 3.4%, due largely to the cancellation of treasury stock. As of the end of the 2004 fiscal year, the equity ratio was 84.3%, an increase of 1.1 percentage point. Shareholders' equity per common share was ¥1,678.78, up ¥81, or 5.1%, from the previous fiscal year-end.

Business and Other Risks

Of the potential risks encountered by Taisho during the course of developing its business activities, those deemed to have the greatest likelihood of occurring are highlighted below. Forward-looking statements mentioned in this discussion of risks reflect management's beliefs and judgment as of March 31, 2005.

1. Legal risks and risks related to healthcare policy

Taisho's operations are subject to laws and regulations governing pharmaceutical affairs. A number of different approval and permission systems exist at each stage of pharmaceutical operations, including development, manufacture, import and distribution. Consequently, there is a risk that Taisho's products could fail to conform to regulations at one of these stages, or that previously granted approval could be revoked. Depending on trends in healthcare policy,

health insurance systems and other changes, Taisho may also face the risk of a decline in pharmaceutical prices, among other risks.

2. Risks involving pharmaceutical quality, side effects and other issues

Taisho does its utmost to guarantee the reliability and quality of its products. Nevertheless, unanticipated side effects, accidents and other factors could force Taisho to recall or halt the sales of the products affected or incur claims for damages.

3. Risks involving pharmaceutical development and commercialization

The development of pharmaceuticals is a lengthy process and requires a substantial amount of capital investment. There is uncertainty concerning the possibility of successfully launching products and businesses.

4. Risks involving the proper protection of intellectual property rights

If Taisho cannot properly protect its intellectual property rights, there is the risk that a third party might use Taisho's technology and other intellectual property and undermine the Company's competitiveness in the market. Similarly, there is also the risk that Taisho might encroach on the intellectual property rights of third parties.

5. Risks related to expiration of patents

Although Taisho strives to extend product lifecycles, sales could be negatively impacted, for example, by the emergence of generic drugs or the switch to over-the-counter medications produced following the expiration of patents.

6. Risks from lawsuits

Taisho faces the possibility of lawsuits during the course of its business activities related to product liability, environmental issues and other matters.

7. Risks from fluctuations in foreign exchange rates

Fluctuations in foreign currency exchange rates could affect royalties denominated in foreign currencies received from outside Japan, commercial transactions and other factors, thus impacting Taisho's operating results.

8. Other risks

Any deterioration in sociopolitical stability overseas could cause Taisho to suffer damage, such as the destruction of overseas business sites, or to downsize or withdraw from its businesses.

In addition, there are various other risks, including the risk of dependency on the license of products developed by other companies. Please note, therefore, that the above-stated risks do not cover all of the potential risks encountered by Taisho.

Basic Earnings Distribution Policy

To be able to maintain stable dividends over the long term at a high level while strengthening the company, Taisho has worked to increase its retained earnings. These retained earnings are appropriated for investment that will strengthen the Company's foundations, including R&D, capital investment, and new business development. This fundamental policy regarding retained earnings will not change. Taisho's dividend policy, however, will be roughly pegged to non-consolidated operating results for each business term beginning from fiscal 2005, ending March 31, 2006. The goal is a dividend payout ratio of 30% of net income, excluding extraordinary gains. Accordingly, while the Company paid a full-year dividend of ¥25 per share applicable to fiscal 2004, Taisho is planning to pay a per-share dividend of ¥30 in the 2005 fiscal year in line with its revised dividend 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 in the 2004 fiscal year of ¥35,779 million of 21.7%. The dividend to shareholders' equity ratio was on a par with the 2003 fiscal year, at 1.5%.

During the fiscal year ended March 31, 2005, the Company acquired 5,059 thousand shares of treasury stock for ¥10,657 million, as part of its strategy to return profits to shareholders. Taisho also canceled 10,000 thousand shares of treasury stock in February 2005.

Capital and IT-Related Expenditures

Capital expenditure totaled ¥7,074 million, a year-on-year decline of 19.9%. Of this amount, ¥1,112 million was used for the construction of a distribution center and business office in Yokohama, while ¥1,335 million was used to acquire R&D equipment at the Company's Research Center.

The Company is forecasting ¥13,200 million in capital expenditure for the fiscal year ending in March 2006, primarily to upgrade manufacturing facilities in order to respond effectively to diversifying consumer needs.

Research & Development

Research & Development Expenses

In the Self-Medication Operation Group, Taisho is conducting research and development into medicines, Foods for Specified Health Use and functional foods, and in other fields related to self-medication to provide products that meet consumer needs. The Company is leveraging its track record and accumulated know-how in ethical drugs to develop more effective and safer products. Research and development spending in this segment for the 2004 fiscal year totaled ¥6,674 million, which was 3.6% of total net sales. In the Prescription Pharmaceutical Operation Group, research and development activities are focused on highly original new drugs for the global market. Research and development amounted to ¥16,547 million for this segment for fiscal 2004, or 17.2% of total net sales. Combined R&D expenses for both segments totaled ¥23,221 million, or 8.3% of total net sales.

Breakdown of Capital Expenditure

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

	Millions of yen			
	2003	2004	2005	2006 (estimated)
Omiya Factory	¥1,499	¥1,521	¥ 792	¥ 6,500
Hanyu Factory	84	136	144	200
Okayama Factory	63	175	46	2,600
Research Center	1,492	1,218	1,958	1,300
Other	5,818	5,779	4,134	2,600
Total capital expenditure	¥8,956	¥8,829	¥7,074	¥13,200

Pipeline Development

New drugs in Taisho's product development pipeline are listed in the chart below.

Regarding *Clarith*, Taisho's mainstay macrolide antibiotic agent, the Company has filed for three changes in Japan related to this drug, including an additional indication and improved formula, in a bid to further extend the lifecycle of this product. Additionally, the new-type quinolone antibacterial agent *T-3811*, developed jointly with Toyama Chemical, is undergoing Phase 3 clinical trials. Meanwhile, the following two development items have been added. One is *NT-702*, an application for asthma developed by Taisho and Nissan

Chemical Industries, Ltd., which is in Phase 2 clinical trials. A new indication has also been added for *Palux* injection, a peripheral vasodilator developed by Taisho, this one for treatment of intermittent claudication, a condition that often accompanies lumbar spinal canal stenosis. One product, type 1 and 2 diabetic treatment *TS-033*, has also entered Phase 1 clinical testing. Overseas, *TS-041*, a drug for the treatment of depression and anxiety co-developed with Janssen Pharmaceutica, is currently in Phase 1 clinical trials.

Taisho anticipates that new macrolide antibiotic substances it has developed will enter Phase 1 clinical trials during the fiscal year ending in March 2006.

New Drug Pipeline (As of August 31, 2005)

Stage	Name	Type	Application	In Development With	Originator	Remarks
Filed	<i>Clarith</i>	Oral	Macrolide antibiotic agent; Legionella	Abbott Japan	Taisho	Additional indication
	<i>Clarith</i>	Oral	Macrolide antibiotic agent	Abbott Japan	Taisho	Improved dry syrup formula for children
	<i>Clarith</i>	Oral	Macrolide antibiotic agent; <i>H. pylori</i> eradication in combination with rabeprazole and amoxicillin	Eisai, Abbott Japan, others	Taisho	Change in dosage and administration
Phase 3	<i>T-3811</i>	Oral	New-type quinolone antibacterial agent	Toyama Chemical	Toyama Chemical	
Phase 2	<i>NT-702</i> (Overseas: <i>NM-702</i>)	Oral	Intermittent claudication (arteriosclerosis obliterans and spinal canal stenosis)	Nissan Chemical Industries	Nissan Chemical Industries	
	<i>NT-702</i>	Oral	Asthma	Nissan Chemical Industries	Nissan Chemical Industries	
	<i>Palux</i>	Injection	Intermittent claudication (spinal canal stenosis)	In-house	Taisho/ Mitsubishi Pharma	Additional indication
Phase 1	<i>TS-021</i>	Oral	Type 2 diabetes	In-house	Taisho	
	<i>TS-033</i>	Oral	Type 1 and 2 diabetes	In-house	Taisho	
	<i>TS-041</i>	Oral	Depression and anxiety	Janssen Pharmaceutica	Taisho	Overseas
	<i>TS-022</i>	External	Atopic dermatitis	In-house	Taisho	
	<i>TS-011</i>	Injection	Acute stage of cerebral infarction	In-house	Taisho	Overseas
	<i>SUN N8075</i>	Injection	Acute stage of cerebral infarction	Daiichi Suntory Pharma	Daiichi Suntory Pharma	Overseas

Human Resources

The total number of employees as of March 31, 2005 was 5,339, with the Self-Medication Operation Group accounting for 2,200 employees, the Prescription Pharmaceutical Operation Group accounting for 1,833 employees, and 1,306 employees engaged in Company-wide operations.

Medium-term Management Strategies

Taisho is working to expand its Self-Medication Operation Group and strengthen its Prescription Pharmaceutical Operation Group, two key management strategies.

In the field of self-medication, a new market paradigm is steadily emerging as markets for Foods for Specified Health Use, functional foods and similar products continue to expand rapidly despite the ongoing contraction of the OTC drug market. For its part, Taisho is endeavoring to upgrade its product lines in response to consumer needs related not only to health and nutritional agents but also products for the prevention, early detection, and early treatment of disease and treatment of minor ailments. Moreover, drawing on the research results and know-how in its ethical drugs business, the Company is working to develop safe products with high efficacy. Additionally, Taisho is actively promoting businesses such as switch-OTC products and Foods for Specified Health Use. With respect to all these products, Taisho will work to nurture and strengthen its brand and to deliver products of value and appeal to consumers. Guided by this policy, Taisho is purchasing promising brands and forging business partnerships as part of a drive to realize synergies among its own R&D, marketing and retail sales frameworks.

In the field of ethical drugs, the Company is concentrating on the research and development of new, highly distinctive products that will win worldwide acceptance. In parallel, Taisho is strengthening alliances to enhance its marketing structure in an effort to achieve greater efficiency. To this end, Taisho, in conjunction with Toyama Chemical, established

Taisho Toyama Pharmaceutical Co., Ltd. in October 2002 as a domestic sales company in the ethical drugs business. The new company, which is 55%-owned by Taisho, initiated full-scale operations from April 2003. The company has since conducted a sweeping review of its business sites and promotional framework, reducing the number of branch offices from 22 to 13, and the number of sales offices from 153 to 100, through a process of integration and streamlining. Previously, the medical representatives (MRs) and other employees at Taisho Toyama Pharmaceutical consisted of personnel on loan from Taisho and Toyama Chemical. Since April 2005, however, all employees were, in principle, permanently transferred to Taisho Toyama Pharmaceutical, enabling the company to consolidate its personnel system. Under this new system, Taisho Toyama Pharmaceutical is working to further boost sales efficiency in its ethical drugs business.

Outside Japan, Taisho will first strive to develop a solid business base in Asia to secure a market position befitting the Company's role as a global leader in the nutrient drink market. Taisho is also focusing on promoting the development of markets for nutrient drinks in Europe and the United States. Furthermore, in July 2005, Taisho entered the OTC drug market in Thailand.

Taisho has long placed priority on rebuilding its core management systems. The Company successfully completed this project during the 2004 fiscal year. Armed with this new system, Taisho is now enacting measures designed to enhance business management and operational efficiency, as well as reduce costs, raise productivity and improve logistics efficiency.

With the severity of its business environment expected to intensify, Taisho will work to expand the Self-Medication Operation Group and strengthen the Prescription Pharmaceutical Operation Group in an effort to strategically and decisively meet these challenges.

CONSOLIDATED BALANCE SHEETS

Taisho Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
ASSETS			
Current assets:			
Cash and cash equivalents (Note 5)	¥ 77,557	¥106,802	\$ 722,674
Time deposits	69,748	31,570	649,908
Marketable securities (Note 6)	11,227	5,228	104,613
Notes and accounts receivable, trade (Note 4)	78,920	75,753	735,373
Allowance for doubtful accounts	(631)	(858)	(5,885)
Inventories	22,905	21,709	213,428
Deferred income taxes (Note 11)	8,132	9,091	75,776
Other current assets	5,286	5,420	49,256
Total current assets	273,144	254,715	2,545,143
Investment securities (Note 6)	215,786	214,058	2,010,674
Property, plant and equipment, net (Note 7)	96,271	100,710	897,042
Intangible assets and other assets:			
Intangible assets	13,244	15,707	123,407
Deferred income taxes (Note 11)	8,695	8,107	81,020
Other assets	6,663	8,659	62,084
Total intangible assets and other assets	28,602	32,473	266,511
Total assets (Note 17)	¥613,803	¥601,956	\$5,719,370

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Current liabilities:			
Short-term loans (Note 8)	¥ 205	¥ 265	\$ 1,910
Notes and accounts payable, trade (Note 4)	20,371	21,172	189,812
Accrued income taxes (Note 11)	9,487	14,829	88,396
Accrued expenses	8,387	7,829	78,149
Other current liabilities	17,895	17,924	166,748
Total current liabilities	56,345	62,019	525,015
Long-term liabilities:			
Accrued retirement benefits (Note 9)	34,506	33,745	321,527
Other long-term liabilities (Note 11)	4,038	4,375	37,622
Total long-term liabilities	38,544	38,120	359,149
Minority interests in consolidated subsidiaries	1,280	1,056	11,925
Shareholders' equity:			
Common stock :			
Authorized—			
2005: 1,185,459 thousand shares			
2004: 1,195,459 thousand shares			
Issued—			
2005: 330,965 thousand shares			
2004: 340,965 thousand shares	29,804	29,804	277,716
Additional paid-in capital	14,935	14,935	139,164
Retained earnings (Note 10)	506,798	498,173	4,722,304
Net unrealized gains on securities	13,951	13,852	129,995
Foreign currency translation adjustment	(4,906)	(4,769)	(45,713)
Treasury stock (Note 2-(14))			
(2005: 22,669,229 shares, 2004: 27,609,242 shares)	(42,948)	(51,234)	(400,185)
Total shareholders' equity	517,634	500,761	4,823,281
Commitments and contingent liabilities (Notes 14 and 16)			
Total liabilities and shareholders' equity	¥613,803	¥601,956	\$5,719,370

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Taisho Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2005 and 2004

Millions of yen

	Number of shares	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustment	Treasury stock	Comprehensive income
Balance as of March 31, 2003	340,965,510	¥29,804	¥14,935	¥467,229	¥ (165)	¥(3,330)	¥(22,756)	
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
Dividends paid	-	-	-	(7,834)	-	-	-	
Bonuses to directors and corporate auditors	-	-	-	(87)	-	-	-	
Purchase of treasury stock	-	-	-	-	-	-	(10,657)	
Cancellation of treasury stock	(10,000,000)	-	-	(18,943)	-	-	18,943	
Net income	-	-	-	35,489	-	-	-	35,489
Unrealized gains on securities	-	-	-	-	99	-	-	99
Currency translation adjustment	-	-	-	-	-	(137)	-	(137)
Balance as of March 31, 2005	330,965,510	¥29,804	¥14,935	¥506,798	¥13,951	¥(4,906)	¥(42,948)	¥35,451

Thousands of U.S. dollars (Note 3)

	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustment	Treasury stock	Comprehensive income
Balance as of March 31, 2004	\$277,716	\$139,164	\$4,641,936	\$129,073	\$(44,438)	\$(477,394)	
Dividends paid	-	-	(72,996)	-	-	-	
Bonuses to directors and corporate auditors	-	-	(811)	-	-	-	
Purchase of treasury stock	-	-	-	-	-	(99,304)	
Cancellation of treasury stock	-	-	(176,513)	-	-	176,513	
Net income	-	-	330,688	-	-	-	\$330,688
Unrealized gains on securities	-	-	-	922	-	-	922
Currency translation adjustment	-	-	-	-	(1,275)	-	(1,275)
Balance as of March 31, 2005	\$277,716	\$139,164	\$4,722,304	\$129,995	\$(45,713)	\$(400,185)	\$330,335

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, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 58,341	¥ 69,910	\$ 543,618
Adjustments:			
Depreciation and amortization (Note 17)	13,502	15,343	125,809
Interest and dividend income	(3,847)	(4,073)	(35,844)
Interest expenses	5	6	45
Gains from sales of investment securities	(40)	–	(369)
Loss on devaluation of investment securities	73	872	678
Gains from sales of property, plant and equipment	(24)	(1,035)	(222)
Loss on disposals of property, plant and equipment, net	319	611	2,975
Increase (decrease) in accrued retirement benefits	763	(7,265)	7,105
Increase in accrued directors' retirement benefit	26	121	242
Amortization of goodwill	22	22	208
Equity in net earnings of affiliated companies	650	1,832	6,052
Increase in notes and accounts receivable, trade	(3,181)	(8,734)	(29,644)
Increase in inventories	(1,206)	(3,159)	(11,235)
(Increase) Decrease in notes and accounts payable, trade	(794)	7,605	(7,399)
Other, net	2,110	1,688	19,664
	66,719	73,744	621,683
Interest and dividends income received	3,950	4,172	36,808
Interest paid	(5)	(6)	(45)
Income taxes paid	(27,485)	(20,381)	(256,104)
Net cash provided by operating activities	43,179	57,529	402,342
Cash flows from investing activities:			
(Increase) Decrease in time deposits	(38,178)	22,572	(355,741)
Proceeds from sales/redemption of marketable securities	5,585	34,035	52,044
Payments for purchases of property, plant and equipment	(6,881)	(7,614)	(64,120)
Proceeds from sales of property, plant and equipment	805	1,047	7,502
Payment for purchases of intangible assets	(2,252)	(1,366)	(20,985)
Proceeds from sales of intangible assets	6	–	52
Payments for purchases of investment securities	(15,961)	(58,988)	(148,723)
Proceeds from sales of investment securities	3,073	38,500	28,636
Payments for long-term prepaid expenses	(362)	(314)	(3,371)
Other, net	1,666	(618)	15,521
Net cash used in (provided by) investing activities	(52,499)	27,254	(489,185)
Cash flows from financing activities:			
Repayment of long-term debt	–	(6)	–
Proceeds from short-term loans	335	265	3,122
Repayment of short-term loans	(395)	(340)	(3,681)
Cash dividends	(7,820)	(9,856)	(72,868)
Payments for purchases of treasury stock	(10,657)	(28,478)	(99,304)
Other, net	(845)	(1,236)	(7,872)
Net cash used in financing activities	(19,382)	(39,651)	(180,603)
Effect of exchange rate changes on cash and cash equivalents	(543)	(456)	(5,053)
Net increase (decrease) in cash and cash equivalents	(29,245)	44,676	(272,499)
Cash and cash equivalents at the beginning of the year	106,802	62,126	995,173
Cash and cash equivalents at the end of the year (Note 5)	¥ 77,557	¥106,802	\$ 722,674

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 the 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 the 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 million 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 can exercise significant influence over operating and financial policies.

Mejiro Real Estate Co., Ltd., a wholly owned subsidiary of the Company, was incorporated in July 2003, and its accounts have been included in both 2005 and 2004 consolidation.

Taisho Service Sangyo Co., Ltd. became a subsidiary, wholly owned by the Company, in January 2004 through acquisition of common shares by 2,044 million yen, and its accounts have been included in 2004 consolidation. Moreover, Taisho Service Sangyo Co., Ltd. was merged into Mejiro Real Estate Co., Ltd. in February 2005. Accounts of these subsidiaries have been included in 2005 consolidation.

Shimoda Central Co., Ltd., a wholly owned subsidiary of Mejiro Real Estate Co., Ltd., was incorporated in January 2005, and its accounts have been included in the 2005 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 Shimoda Central Co., Ltd., are included in the consolidated accounts with their accounts closed for their fiscal years ended December 31, 2004 and 2003, while the accounts of the three subsidiaries above are consolidated with their respective financial statements for the fiscal years ended March 31, 2005 and 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 the 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".

Subscriptions to investment business associations were included in other assets in the previous year. However, according to the amendment of Security Exchange Law in Japan, they were classified as other investment securities at the end of March 2005 which are accounted for by the equity method on a basis of recent statement of earnings. While subscriptions to investment business associations included in other investment securities at the end of March, 2005 amounted to 1,271 million yen (\$11,851 thousand), they were included in other assets at the end of March 31, 2004 at an amount of 1,641 million yen.

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 in which the gains or 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

The 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 average method.

(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 its 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. The unrecognized actuarial differences are amortized in the following year the next year in which they arise, while the unrecognized prior year service costs are amortized from the year in which they arise.

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 yen was recognized in the year ended March 31, 2004. The plan assets assumed to be transferred to the Japanese government amounts to 18,505 million yen (\$172,428 thousand) as at March 31, 2005.

(8) Revenue recognition

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

(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 stock are presented as additional paid-in capital in shareholders' equity in the accompanying consolidated balance sheets.

The Company abandoned treasury stocks of 10,000,000 shares on February 15, 2005 based on the resolution of board of directors on February 15, 2005. Consequently, the number of authorized common

stock is 1,185,459 thousand shares and that of issued common stock is 330,965 thousand shares as at March 31, 2005, respectively.

Board of directors resolved abandonment of treasury stocks of 10,500 thousand shares on May 24, 2005 and the Company wrote off 10,500 thousand treasury stocks on June 7, 2005. Accordingly, the number of authorized common stock and the number of issued common stock are 1,174,959 thousand shares and 320,465 thousand shares, respectively.

(15) Recently issued new accounting standards

On August 9, 2002, the Enterprise Accounting Council, which is sponsored by Ministry of Finance 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 or 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 a significant impact on the consolidated financial statements.

(16) Reclassifications

Certain accounts in the consolidated financial statements for the year ended March 31, 2004 have been reclassified to conform to the 2005 presentation.

3. UNITED STATES DOLLAR AMOUNTS:

The U.S. dollar amounts are included solely for convenience and have been translated at the rate of ¥107.32 = U.S.\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market as at March 31, 2005. 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 in Tokyo Stock Exchange, of which 22% common shares are owned by the Company. In 2003 fiscal year, the Company has acquired the exclusive sales right of certain ethical drug from Toyama Chemical Co. Ltd. at 7,300 million yen that is still under development of products approval by Ministry of Welfare and Labor. Taisho Toyama Co. Ltd. has 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 the both of the Company and Toyama Chemical Co. Ltd. For 2005 fiscal year and 2004 fiscal year, 12,567 million yen (\$117,098 thousand) and 12,310 million yen of the purchase from Toyama Chemical Co. Ltd. were made and its related balance of accounts payable amounted to 6,776 million yen (\$63,138 thousand) and 5,983 million yen as of March 31, 2005 and 2004, respectively.

Sanofi Synthelabo Taisho Pharmaceuticals Co., Ltd. established with the joint investment of the Company (49% investment in common shares) and Sanofi Synthelabo (51% investment in common shares) manufactured and sold Ancaron to the Company. For 2005 fiscal year 4,659 million yen (\$43,412 thousand) of the purchase was made and its related balance of account payable amounted to 1,160 million yen, while other income was made by 1,375 million yen (\$12,812 thousand) and its related balance of account receivable amounted to 605 million yen. (\$5,637 thousand)

5. CASH AND CASH EQUIVALENTS:

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Cash	¥77,557	¥106,802	\$722,674
Time deposits	—	—	—
	¥77,557	¥106,802	\$722,674

6. MARKETABLE SECURITIES AND INVESTMENT SECURITIES:

The following information relates to the aggregate book value and fair value of securities in 2005 and 2004.

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

March 31, 2005	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	6,569	6,863	294
Subtotal	6,569	6,863	294

Securities whose fair values do not exceed their book values on the consolidated balance sheet:

(1) Government bonds, municipal bonds, etc.	—	—	—
(2) Corporate bonds	1,598	1,591	(8)
Subtotal	1,598	1,591	(8)
Total	¥8,168	¥8,454	¥286

March 31, 2005	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	61,210	63,946	2,736
Subtotal	61,210	63,946	2,736

March 31, 2005	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	14,895	14,822	(73)
Subtotal	14,895	14,822	(73)
Total	\$76,105	\$78,768	\$2,663

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

ii) Other securities whose fair value is readily determinable.

March 31, 2005	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	¥ 25,876	¥ 46,535	¥20,659
(2) Government bonds, municipal bonds, etc.	25,086	25,255	169
(3) Corporate bonds	80,833	82,000	1,167
(4) Others	31,068	33,007	1,939
Subtotal	162,863	186,797	23,934

Securities whose fair values do not exceed their carrying values on the consolidated balance sheet:			
(1) Equity securities	998	991	(7)
(2) Government bonds, municipal bonds, etc.	9,331	8,450	(881)
(3) Corporate bonds	2,012	2,011	(1)
(4) Others	-	-	-
Subtotal	12,341	11,452	(889)
Total	¥175,205	¥198,250	¥23,045

March 31, 2005	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	\$ 241,113	\$ 433,614	\$192,501
(2) Government bonds, municipal bonds, etc.	233,749	235,320	1,571
(3) Corporate bonds	753,198	764,074	10,876
(4) Others	289,492	307,560	18,068
Subtotal	1,517,552	1,740,568	223,016

Securities whose fair values do not exceed their carrying values on the consolidated balance sheet:			
(1) Equity securities	9,300	9,229	(71)
(2) Government bonds, municipal bonds, etc.	86,944	78,738	(8,206)
(3) Corporate bonds	18,749	18,742	(7)
(4) Others	-	-	-
Subtotal	114,993	106,709	(8,284)
Total	\$1,632,545	\$1,847,277	\$214,732

Other securities whose fair value is readily determinable are recorded at fair value on the consolidated balance sheet at March 31, 2005.

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

Securities whose fair values do not exceed their carrying values on the consolidated balance sheet:			
(1) Equity securities	10	8	(2)
(2) Government bonds, municipal bonds, etc.	15,731	14,660	(1,071)
(3) Corporate bonds	40,500	40,201	(299)
(4) Others	-	-	-
Subtotal	56,241	54,869	(1,372)
Total	¥166,955	¥189,921	¥22,966

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

iii) Other securities sold in the current fiscal year.

	Millions of yen	Thousands of U.S. dollars (Note 3)
March 31, 2005		
Proceeds from sale of other securities	¥46	\$425
Gain on sale of other securities	40	369
Loss on sale of other securities	—	—

	Millions of yen
March 31, 2004	
Proceeds from sale of other securities	¥6
Gain on sale of other securities	—
Loss on sale of other securities	1

iv) Securities whose fair value is not readily determinable.

	Millions of yen	Book value Thousands of U.S. dollars (Note 3)
March 31, 2005		
Other securities:		
(1) Unlisted equity securities	¥ 457	\$ 4,254
(2) Bonds issued by domestic corporations	4,000	37,272
(3) Subscriptions to investment business associations	1,272	11,851
Total	¥5,728	\$53,377

	Millions of yen	Book value Thousands of U.S. dollars (Note 3)
March 31, 2004		
Other securities:		
(1) Unlisted equity securities	¥ 486	
(2) Bonds issued by domestic corporations	4,000	
Total	¥4,486	

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

	Millions of yen			
March 31, 2005	Due 2005	Due 2006–2009	Due 2010–2014	Due after 2015
(1) Government bonds, municipal bonds, etc.	¥ 3,220	¥30,366	¥ —	¥—
(2) Corporate bonds	9,615	23,719	7,000	—
(3) Others	—	—	—	—
Total	¥12,835	¥54,085	¥7,000	¥—

	Thousands of U.S. dollars (Note 3)			
March 31, 2005	Due 2005	Due 2006–2009	Due 2010–2014	Due after 2015
(1) Government bonds, municipal bonds, etc.	\$ 30,000	\$282,948	\$ —	\$ —
(2) Corporate bonds	89,594	221,009	65,225	—
(3) Others	—	—	—	—
Total	\$119,594	\$503,957	\$65,225	\$ —

	Millions of yen			
March 31, 2004	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	¥—

7. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment at March 31, 2005 and 2004 consisted of the following:

	Thousands of U.S. dollars (Note 3)		
	2005	2004	2005
Building and structures	¥ 114,253	¥ 112,784	\$ 1,064,604
Machinery, equipment and vehicles	68,090	68,735	634,459
Other	28,592	28,049	266,417
At cost	210,935	209,568	1,965,480
Accumulated depreciation	(143,281)	(136,947)	(1,335,095)
Land	27,230	27,206	253,730
Construction in progress	1,387	883	12,927
	¥ 96,271	¥ 100,710	\$ 897,042

8. SHORT-TERM LOANS:

Short-term loans at March 31, 2005 represented bank overdrafts which bore the average interest of 1.375%.

9. COST OF RETIREMENT AND SEVERANCE BENEFITS:

The funded status as at March 31, 2005 and 2004 was as follows:

	Thousands of U.S. dollars (Note 3)		
	2005	2004	2005
Benefit obligation	¥48,339	¥46,841	\$450,420
Plan assets	(8,573)	(5,804)	(79,878)
Unfunded benefit obligation	39,766	41,037	370,542
Unrecognized prior service cost	660	716	6,150
Unrecognized actuarial loss	(5,920)	(8,008)	(55,165)
Accrued retirement benefits	¥34,506	¥33,745	\$321,527

438 employees have transferred from Toyama Chemical Co., Ltd. (around 22% owned affiliated company) to Taisho Toyama Co., Ltd. (subsidiary) on April 1, 2005. Consequently, pension benefit obligation and unrecognized obligation increased by 649 million yen on that day, which is not reflected in the 2005 financial statements.

Effective from April 1, 2005, the Company and Taisho Toyama Pharmaceutical Co., Ltd. determined the amendment of employees' retirement benefit regulation based on the point which are granted depending on length of service periods, qualification, evaluation and managerial posts although employees retirement benefit have been determined based on final salary at the retirement in prior years. In addition, the commencement of payment of employees' retirement benefit was changed from 55-year old to 60-year old. Consequently, on April 1, 2005 pension benefit obligation decreased by 4,682 million yen and the same amount of unrecognized prior service liabilities (negative position) arose, which are not reflected in the 2005 financial statement.

The components of net retirement cost for the year ended March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Service cost	¥2,951	¥ 3,184	\$27,497
Interest cost	931	1,864	8,678
Expected return on plan assets	(174)	(507)	(1,623)
Amortization of prior service cost	(56)	(155)	(520)
Amortization of actuarial gain/loss	774	1,332	7,211
Retirement cost	4,426	5,718	41,243
Profit resulting from the separation of the substitutional portion of the employee's welfare pension fund	—	(9,178)	—
Total	¥4,426	¥(3,460)	\$41,243

Assumptions used for the year ended March 31, 2005 and 2004 were as follows:

	2005	2004
Discount rate	2.0%	2.0%
Expected return on plan assets	3.0%	3.0%
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 amount. 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 a 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, 2005 and 2004 which are included in retained earnings in the accompanying consolidated balance sheet were 7,451 million yen (\$69,429 thousand) and 7,451 million yen, 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, 2005 which was approved on June 29, 2005 at the general shareholders' meeting is as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2005	2005
Cash dividends at ¥25.00 (\$0.23) per share	¥7,707	\$71,817
Directors' and statutory auditors' bonuses	73	680
	¥7,780	\$72,497

11. INCOME TAXES:

The components of income tax expenses were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Income taxes			
—Current payable	¥22,142	¥27,382	\$206,315
—Deferred	483	1,852	4,501
	¥22,625	¥29,234	\$210,816

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 from 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 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 40.5%.

According to the announcement issued by Financial Accounting Standards Foundation, in the new statement, b) a value added component and c) a capital based component of the enterprise tax, which were amounted by ¥503 million (\$4,693 thousand) in total, are presented in the account of selling, general and administrative expenses.

The significant components of deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Deferred tax assets:			
Enterprise taxes	¥ 691	¥ 1,420	\$ 6,436
Accrued expenses	2,691	2,706	25,076
Research expenses, etc.	2,594	2,628	24,171
Accrued retirement benefits for directors, statutory auditors and executive officers	618	608	5,763
Accrued employees retirement benefits	13,495	12,631	125,745
Accrued bonuses	1,347	1,355	12,549
Prepaid research expenses	1,254	1,670	11,686
Operating loss carryforwards for tax purposes	341	311	3,174
Other	5,915	5,834	55,116
Gross deferred tax assets	28,946	29,163	269,716
Less: Valuation allowance	(559)	(311)	(5,209)
Total deferred tax assets	28,387	28,852	264,507
Deferred tax liabilities:			
Net unrealized gains on securities	(9,333)	(9,429)	(86,967)
Deferred gain on sales of real property	(2,241)	(2,225)	(20,881)
Other	(13)	(13)	(117)
Total deferred tax liabilities	(11,587)	(11,667)	(107,965)
Net deferred tax assets	¥ 16,800	¥ 17,185	\$ 156,542

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)
	2005	2004	2005
Current assets—Deferred income taxes	¥ 8,132	¥ 9,091	\$ 75,776
Other assets—Deferred income taxes	8,695	8,107	81,020
Long-term liabilities—Other	(27)	(13)	(254)
Net deferred tax assets	¥16,800	¥17,185	\$156,542

At March 31, 2005, 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, 2005 amounted to approximately 211 million yen (\$1,966 thousand) 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 totalled 23,221 million yen (\$216,375 thousand) and 24,171 million yen for the years ended March 31, 2005 and 2004, respectively.

13. OTHER INCOME AND EXPENSES:

Other income and expenses for the years ended March 31, 2005 and 2004 consist of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Other income:			
Gain on sales of property, plant and equipment	¥ 24	¥1,035	\$ 222
Rental income of real estate	110	272	1,028
Gain on sales of investment securities	40	—	369
Others	1,562	1,529	14,557
	¥1,736	¥2,836	\$16,176

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Other expenses:			
Devaluation losses on investment securities	¥ 26	¥ 872	\$ 242
Loss on disposal of property, plant and equipment	319	611	2,975
Equity in net losses of affiliated companies	650	1,832	6,052
Others	940	556	8,762
	¥1,935	¥3,871	\$18,031

14. LEASES:

Periodic lease charges to the Companies as a lessee for the years ended March 31, 2005 and 2004 were ¥4,440 million (\$41,369 thousand) and ¥4,519 million, respectively. An analysis of the amounts, as if they had been capitalized, relating to leased assets under finance lease contracts which were not capitalized at March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Tools, equipment, software and others:			
At cost	¥ 21,136	¥22,913	\$196,941
Accumulated depreciation	(10,084)	(8,415)	(93,957)
	¥ 11,052	¥14,498	\$102,984

The present values of future lease payments of the Companies, excluding amounts representing interest, at March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
(Lessee)			
Current obligation	¥ 3,743	¥ 4,129	\$ 34,879
Long-term obligation	7,509	10,586	69,970
Present values of future lease payment	¥11,252	¥14,715	\$104,849

15. DERIVATIVE FINANCIAL INSTRUMENTS:

The Company and its consolidated foreign subsidiaries utilize derivative financial instruments selectively, to hedge foreign exchange risk and floating interest exchange risk.

As of March 31, 2004 and 2005, there are no contract amounts outstanding for derivatives except for those held for "hedge accounting" purposes as described in Note 2 (3) c) above.

16. CONTINGENT LIABILITIES:

Contingent liabilities at March 31, 2005 for an affiliated company's loans, which are guaranteed by the Company, amounted to ¥196 million (\$1,826 thousand).

17. 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, 2005 and 2004 is presented below:

March 31, 2005	Millions of yen				
	Self-medication	Prescription pharmaceutical	Total	Elimination/Corporate	Consolidated
I. Net sales:					
(1) Outside customers	¥183,417	¥ 96,020	¥279,437	¥ -	¥279,437
(2) Inter-segment	-	-	-	-	-
Total	183,417	96,020	279,437	-	279,437
Operating expenses	144,402	80,337	224,739	-	224,739
Operating profit	¥ 39,015	¥ 15,683	¥ 54,698	-	¥ 54,698
II. Assets, depreciation and capital expenditure:					
Assets	¥225,638	¥119,140	¥344,778	¥269,025	¥613,803
Depreciation	10,104	3,398	13,502	-	13,502
Capital expenditure	6,178	1,414	7,592	-	7,592

March 31, 2005	Thousands of U.S. dollars (Note 3)				
	Self-medication	Prescription pharmaceutical	Total	Elimination/Corporate	Consolidated
I. Net sales:					
(1) Outside customers	\$1,709,065	\$ 894,709	\$2,603,774	\$ -	\$2,603,774
(2) Inter-segment	-	-	-	-	-
Total	1,709,065	894,709	2,603,774	-	2,603,774
Operating expenses	1,345,528	748,572	2,094,100	-	2,094,100
Operating profit	\$ 363,537	\$ 146,137	\$ 509,674	-	\$ 509,674
II. Assets, depreciation and capital expenditure:					
Assets	\$2,102,477	\$1,110,140	\$3,212,617	\$2,506,753	\$5,719,370
Depreciation	94,144	31,665	125,809	-	125,809
Capital expenditure	57,561	13,178	70,739	-	70,739

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 profit	¥ 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

(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, 2005

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, 2005 and 2004, and the results of their operations and their cash flows for each of the two years in the period ended March 31, 2005 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, 2005)

COMPANY NAME:	Taisho Pharmaceutical Co., Ltd.
DATE OF FOUNDATION:	October 12, 1912
PAID-IN CAPITAL:	¥29,804 million
NUMBER OF EMPLOYEES:	5,339
HOME PAGE:	http://www.taisho.co.jp/outline/index-e.htm

BOARD OF DIRECTORS

(As of July 1, 2005)

CHAIRMAN OF THE BOARD

Shoji Uehara*

MANAGING DIRECTOR

Hideyuki Waki

PRESIDENT

Akira Uehara*

EXECUTIVE DIRECTORS

Yoshiaki Sasaki
Kunihiro Kitamura

EXECUTIVE VICE PRESIDENT

Akira Ohira*

CORPORATE AUDITORS

Kunio Hiruma
Masahiro Furuhashi
Toshio Morikawa**
Takayuki Tsukuda**

* 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)
Self Medication Licensing Division: 81-3-3988-2963
(Prescription Pharmaceutical Operation Group)
Business Strategy Division: 81-3-3985-0716

BRANCH OFFICES

Sapporo, Sendai, Nagoya, Osaka, Kanazawa, Hiroshima, Shikoku, Fukuoka

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

MAJOR SUBSIDIARIES AND AFFILIATES

(As of July 1, 2005)

Name	Location	Capitalization/ Amount Invested	Business Area	Parent Company Ownership
DOMESTIC:				
Taisho Toyama Pharmaceutical Co., Ltd.	Tokyo, Japan	JPY 1,000,000,000	Sale of prescription pharmaceuticals	55%
Taisho Business Research Institute Co., Ltd.	Tokyo, Japan	JPY 50,000,000	Information processing services	100%
Taisho Pharmaceutical Logistics Co., Ltd.	Tokyo, Japan	JPY 30,000,000	Management and operation of transport services for Taisho Pharmaceutical	100%
Taisho Okinawa Co., Ltd.	Okinawa, Japan	JPY 50,000,000	Sale of Taisho Pharmaceutical products in Okinawa Prefecture	100%
Taisho Kosei Service Co., Ltd.	Tokyo, Japan	JPY 10,000,000	Sale of Taisho Pharmaceutical products, insurance agent, printing service, procurement and sale of all product types	100%
Mejiro Real Estate Co., Ltd.	Tokyo, Japan	JPY 600,000,000	Leasing, maintenance, possession and management of real estate, and hotel management	100%
Shimoda Central Co., Ltd.	Tokyo, Japan	JPY 100,000,000	Hotel management	100% (100%)
Taisho M.T.C. Co., Ltd.	Tokyo, Japan	JPY 400,000,000	Manufacture in Fukuoka Prefecture of raw materials for medicines and quasi-drugs, and their domestic and overseas sales	60%
Sanofi-Synthelabo-Taisho Pharmaceuticals Co., Ltd.	Tokyo, Japan	JPY 10,000,000	Sale of products developed as a result of merger	49%
OVERSEAS				
Taisho Pharmaceutical (Taiwan) Co., Ltd.	Hsinchu, Taiwan	TWD 200,000,000	Manufacture and sale of Taisho Pharmaceutical products in Taiwan	86.6%
Taisho Pharmaceutical California Inc.	Torrance, CA, U.S.A.	USD 41,050,000	Sale of Taisho Pharmaceutical products in the United States	100%
Taisho Pharmaceutical (M) SDN. BHD.	Selangor, Malaysia	MYR 24,380,000	Manufacture and sale of Taisho Pharmaceutical products in Malaysia	100%
Taisho Pharmaceutical Asia (M) SDN. BHD.	Selangor, Malaysia	MYR 26,500,000	Central control of operation in the ASEAN region, market development, business guidance, and sales of food products	100%
Taisho Pharmaceuticals (Philippines), Inc.	Makati, Philippines	PHP 18,900,000	Manufacture (commissioned) and sale of Taisho Pharmaceutical products in the Philippines	100%
PT. Taisho Indonesia	Jakarta, Indonesia	IDR 42,920,000,000	Manufacture and sale of Taisho Pharmaceutical products in Indonesia	100%
Taisho Co., Ltd. Shanghai	Shanghai, China	CNY 132,621,000	Manufacture and sale of Taisho Pharmaceutical products in China	85%
Taisho Pharmaceutical (Europe) Ltd.	London, U.K.	GBP 20,000,000	Manufacture (commissioned) and sale of Taisho Pharmaceutical products in the U.K.	100%
Taisho Vietnam Co., Ltd.	Khanh Hoa Pro., Vietnam	VND 136,806,000,000	Manufacture and sale of Taisho Pharmaceutical products in Vietnam	100%
Taisho Pharmaceutical (H.K.) Ltd.	Hong Kong, China	HKD 163,000,000	Manufacture and sale of Taisho Pharmaceutical products in Hong Kong	100%
Osotspa Taisho Co., Ltd.	Bangkok, Thailand	THB 15,000,000	Manufacture (commissioned) and sale of Taisho Pharmaceutical products in Thailand	49%
Taisho Pharmaceutical R&D Inc.	Morristown, NJ, U.S.A.	USD 4,000,000	Development of prescription pharmaceuticals in the United States	100%
Taisho Hizon Manufacturing Inc.	Antipolo City, Philippines	PHP 17,000,000	Commissioned manufacture of products for Taisho Pharmaceuticals (Philippines), Inc.	50%

INVESTOR INFORMATION

(As of March 31, 2005)

COMMON STOCK:

Authorized: 1,185,459,000
 Issued: 330,965,510
 Number of Shareholders: 32,916

GENERAL MEETING OF SHAREHOLDERS:

Held annually in June

LISTINGS:

Tokyo Stock Exchange

TICKER SYMBOL NUMBER:

4535

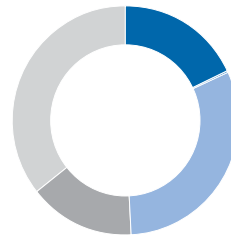
STOCK TRANSFER AGENT:

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:



Financial Institutions	17.85%
Securities Companies	0.24%
Other Companies	31.09%
Foreign Companies	15.14%
Individuals and Others	35.68%

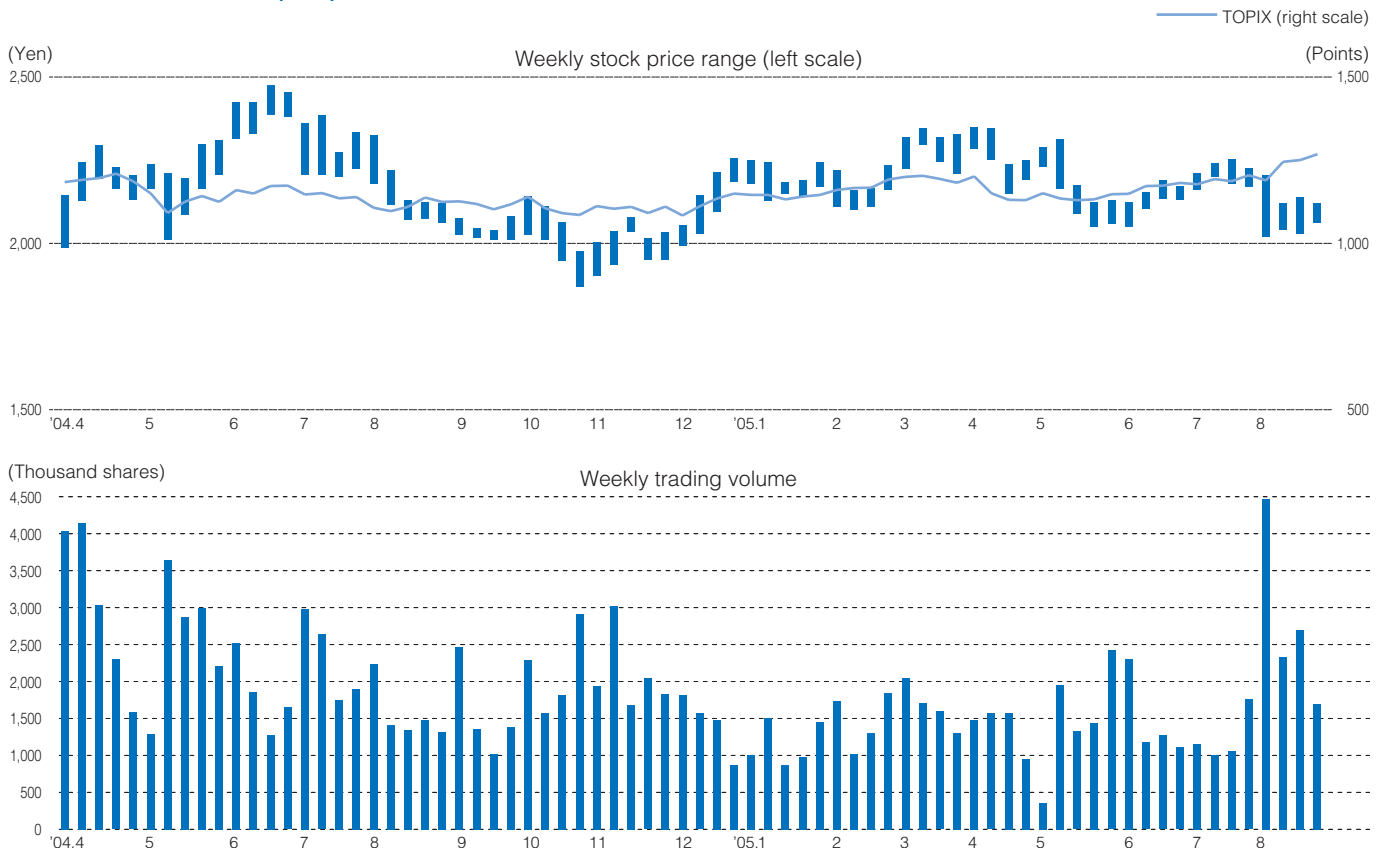
MAJOR SHAREHOLDERS:

Name of Shareholders	Number of Shares Held (Thousands)	Percentage of Voting Rights (%)*
Uehara Memorial Foundation	43,000	12.99
Shoji Uehara	36,614	11.06
Sumitomo Chemical Co., Ltd.	12,133	3.67
Japan Trustee Services Bank, Ltd.**	10,445	3.16
Sumitomo Mitsui Banking Corporation	10,000	3.02
The Bank of Tokyo-Mitsubishi, Ltd.	10,000	3.02
Uehara Museum of Modern Art Foundation	10,000	3.02
Northern Trust Company (AVFC)		
Sub-Account American Client	8,201	2.48
The Master Trust Bank of Japan, Ltd.**	7,204	2.18
Akira Uehara	7,145	2.16

*After excluding treasury stock of 22,669 thousand shares

**Trust Account

WEEKLY STOCK DATE (TSE): (April 2004 — August 2005)



TAISHO PHARMACEUTICAL CO., LTD.

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