

Consolidated Financial Statements for the Fiscal Year Ended March 31, 2004

May 17, 2004

Listed Company Name:	Taisho Pharmaceutical Co., Ltd.	Stock Listing:	Tokyo
Security Code:	4535	Headquarters:	Tokyo
(URL http://www.taisho.co.jp/)			
Representative:	Akira Uehara, President		
Inquiries:	Takayuki Kagami	TEL:	+81-3-3985-1111
	Senior Director—Accounting		
Meeting of the Board of Directors for Approval of Fiscal 2003 Results: May 17, 2004			
U.S. GAAP:	Not Applied		

1. Financial Results for Fiscal 2003 (April 1, 2003 to March 31, 2004)

(1) Operating Results (Consolidated)

(Note: Amounts less than ¥1 million, except per share amounts, have been omitted.)

(Millions of yen)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)
Fiscal 2003	286,433 (+4.5%)	57,700 (+6.1%)	61,180 (+0.5%)
Fiscal 2002	274,077 (+1.0%)	54,394 (-10.4%)	60,857 (-9.8%)

	Net Income (% change)	Net Income per Share (Yen)	Net Income per Share, Diluted (Yen)	Return on Shareholders' Equity (%)	Ordinary Income to Total Assets (%)	Ordinary Income to Net Sales (%)
Fiscal 2003	40,910 (+15.6%)	127.87	—	8.3	10.4	21.4
Fiscal 2002	35,392 (-5.3%)	105.81	—	7.3	10.5	22.2

Notes:

1. Equity in earnings (loss) of subsidiaries and affiliates accounted for by the equity method:

Fiscal 2003:	¥(1,832) million
Fiscal 2002:	¥140 million
2. Average number of shares outstanding during the fiscal year (consolidated):

Fiscal 2003:	319,253,969 shares
Fiscal 2002:	333,656,072 shares
3. Changes in accounting methods: Yes
4. Percentage change for net sales, operating income, ordinary income and net income indicate percentage increase/decrease over the previous corresponding term.

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio (%)	Shareholders' Equity per Share (Yen)
March 31, 2004	601,956	500,761	83.2	1,597.78
March 31, 2003	577,706	485,717	84.1	1,474.65

Notes:

1. Number of shares outstanding at end of year (consolidated):

Fiscal year ended March 31, 2004:	313,356,268 shares
Fiscal year ended March 31, 2003:	329,318,591 shares

(3) Cash Flows

(Millions of yen)

	Cash Flow from Operating Activities	Cash Flow from Investing Activities	Cash Flow from Financing Activities	Cash and Cash Equivalents, End of Period
Fiscal 2003	57,529	27,254	(39,651)	106,801
Fiscal 2002	53,420	10,419	(27,613)	62,125

(4) Scope of Consolidation and Application of the Equity Method

Number of consolidated companies: 23

Number of non-consolidated subsidiaries to which the equity method applies: 0

Number of affiliates to which the equity method applies: 3

(5) Changes in Scope of Consolidation and Application of the Equity Method

1. Newly consolidated companies: 2
2. Excluded consolidated companies: 0
3. Newly included under the equity method: 0
4. Excluded under the equity method: 0

2. Financial Forecasts for Fiscal 2004 (April 1, 2004 to March 31, 2005)

(Millions of yen)

	Net Sales	Ordinary Income	Net Income
Interim period	149,500	34,000	19,500
Fiscal 2004	295,000	64,000	37,000

Reference: Forecast consolidated net income per share (Fiscal 2004): ¥117.80

Note: Forecasts of business results in this financial report reflect the Company's current analysis of available data. Certain factors could cause the Company's actual results to differ materially from any projections presented in this report. Readers are asked to refer to the attached documents for further details.

1. Group Organization

(1) Group Overview

The Taisho Group is made up of Taisho Pharmaceutical Co., Ltd., 23 subsidiaries and 3 affiliated companies. The Group's principal areas of business include the manufacture and sale of over-the-counter medications, food, and other goods, which are handled by the Self-Medication Operation Group, and the manufacture and sale of prescription pharmaceuticals, which is handled by the Prescription Pharmaceutical Operation Group.

The principal operations of Taisho and its affiliated companies are listed by segment below.

Self-Medication Operation Group

Taisho Pharmaceutical Co., Ltd.

Manufacture and sale of over-the-counter medications, quasi-drugs, food, and other products

Domestic subsidiaries

Taisho Kosei Service Co., Ltd.

Sale of Taisho Pharmaceutical products, insurance agent, procurement and sale of all product types

Taisho Okinawa Co., Ltd.

Sale of Taisho Pharmaceutical products in Okinawa

Taisho M.T.C. Co., Ltd.

Production of raw materials for medicines and quasi-drugs in Fukuoka Prefecture

Taisho Pharmaceutical Logistics Co., Ltd.

Management and operation of transport services for Taisho Pharmaceutical

Taisho Business Research Institute Co., Ltd.

Information processing services

Mejiro Real Estate Co., Ltd.

Leasing, maintenance, possession and management of real estate

Taisho Service Sangyo Co., Ltd.

Hotel management

Overseas subsidiaries

Taisho Pharmaceutical (Taiwan) Co., Ltd.

Manufacture and sale of Taisho Pharmaceutical products in Taiwan

Taisho Pharmaceutical California Inc.

Sale of Taisho Pharmaceutical products in the United States

Taisho Pharmaceutical (M) SDN. BHD.

Manufacture and sale of Taisho Pharmaceutical products in Malaysia

Taisho Pharmaceuticals (Philippines), Inc.

Manufacture (commissioned) and sale of Taisho Pharmaceutical products in the Philippines

PT. Taisho Indonesia

Manufacture and sale of Taisho Pharmaceutical products in Indonesia

Taisho Foods Deutschland GmbH

Manufacture (commissioned) and sale of Taisho Pharmaceutical products in Germany

Taisho Co., Ltd. Shanghai

Manufacture and sale of Taisho Pharmaceutical products in China

Taisho Pharmaceutical Asia (M) SDN. BHD.

Central control of operations in the ASEAN region, market development, business guidance, and sale of food products

Taisho Pharmaceutical (Europe) Ltd.

Manufacture (commissioned) and sale of Taisho Pharmaceutical products in the U.K.

Taisho Vietnam Co., Ltd.

Manufacture and sale of Taisho Pharmaceutical products in Vietnam

Taisho Pharmaceutical (H.K.) Ltd.

Sale of Taisho Pharmaceutical products in Hong Kong

Osotspa Taisho Co., Ltd.

Sale of Taisho Pharmaceutical products in Thailand

Taisho (Australia) Pty. Ltd.

Sale of Taisho Pharmaceutical products in Australia

Overseas affiliated company

Taisho Hizon Manufacturing Inc.

Commissioned manufacture of products for Taisho Pharmaceuticals (Philippines), Inc.

Prescription Pharmaceutical Operation Group

Taisho Pharmaceutical Co., Ltd.

Development, manufacture and sale of prescription pharmaceuticals

Domestic subsidiaries

Taisho Toyama Pharmaceutical Co., Ltd.

Sale of prescription pharmaceuticals

Medwell Taisho Co., Ltd.

Sale of prescription pharmaceuticals

Taisho Business Research Institute Co., Ltd.

Information processing services

Overseas subsidiary

Taisho Pharmaceutical R&D Inc.

Development of prescription pharmaceuticals in the United States

Domestic affiliated companies

Toyama Chemical Co., Ltd.

Development, manufacture and sales of prescription pharmaceuticals

Sanofi-Synthelabo-Taisho Pharmaceuticals Co., Ltd.

Sales of products developed as a result of merger



Notes:

1. Raw materials from Taisho M.T.C. Co., Ltd. are supplied through Mitsui Chemicals, Inc.
2. Taisho Hizon Manufacturing Inc. is an affiliate with an interest in Taisho Pharmaceuticals (Philippines), Inc., that is accounted for under the equity method and is omitted from the above chart.
3. Mejiro Real Estate Co., Ltd. was established in July 2003.
4. Taisho Pharmaceutical Co., Ltd. made former related company Taisho Service Sangyo Co., Ltd. into a wholly owned consolidated subsidiary in January 2004.
5. Operations were discontinued at Taisho Yakushin Co., Ltd., which was then removed as a related company.

2. Management Policies

(1) Basic Management Policies

Taisho's mission is to create and provide superior pharmaceuticals and health-related products as well as health-care-related information and services that contribute to the enrichment of people's lives through the improvement of health. To fulfill this mission, we are making persistent efforts to strengthen our management bases to ensure that we will continue to exhibit steady growth and expansion amid fierce global competition.

(2) Basic Earnings Distribution Policy

To be able to maintain long-term, stable dividends at a high level while strengthening the Company's corporate culture, Taisho is also working to increase its retained earnings. We intend to appropriate retained earnings for investment that will strengthen the Company's foundations, including R&D, capital, and new business development investment.

During the fiscal year ended March 31, 2004, the Company acquired 15,962,000 shares of treasury stock for a total acquisition cost of ¥28,478 million as part of its profit-sharing policy. Taisho also raised the ordinary dividend in the fiscal year ended March 31, 2001, and since then has paid an annual cash dividend of ¥25 per share.

(3) Policy Regarding Reduction of Investment Unit

Taisho maintains a policy of reviewing its share-trading unit in line with market movements with the aim of enhancing liquidity and to broaden the Company's shareholder base.

Taisho considers current liquidity levels to be adequate and will continue to monitor its share-trading unit in line with securities market requirements and the significant costs to be incurred.

(4) Medium-Term Management Strategies

Taisho is working to expand its Self-Medication Operation Group, which handles over-the-counter (OTC) medications and health-related products, and strengthen its Prescription Pharmaceutical Operation Group.

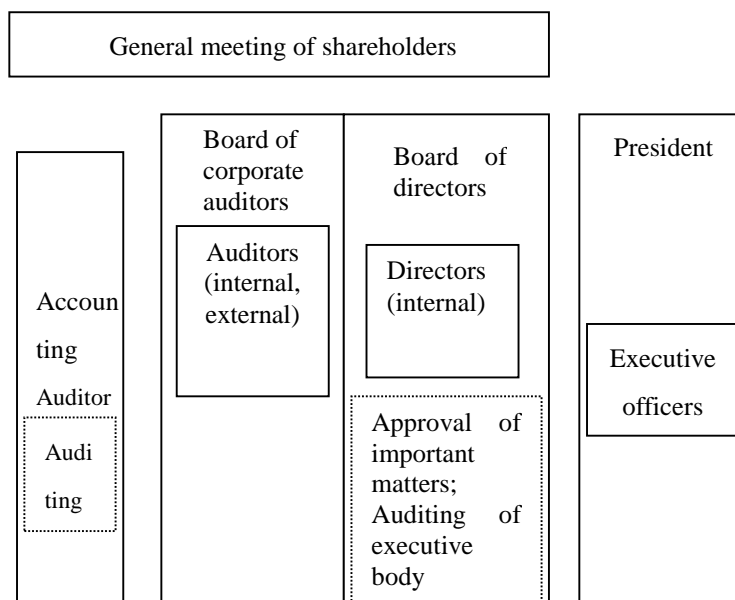
In the field of self-medication, which includes not only health and nutritional agents, but also products for the prevention, early detection, and early treatment of light ailments, Taisho is endeavoring to upgrade its product lines in response to consumer needs. Moreover, drawing on the research capabilities and experience it has cultivated through its prescription pharmaceutical operations, the Company is working to develop products that are both safe and highly effective. Specifically, Taisho is promoting switch-to-OTC products and foods for specified use in an effort to nurture and strengthen brand awareness and to deliver products of value and appeal to consumers. As part of its brand-strengthening endeavors, Taisho executed a sole distributorship contract with Procter & Gamble Far East, Inc. (P&G) during the fiscal year under review for the sale of P&G's "VICKS VapoRub" in Japan. After a short transition period, Taisho expects this product to make a full-fledged earnings contribution from fiscal 2004.

In prescription pharmaceuticals, the Company is concentrating on developing new, highly original products that will win worldwide acceptance. We are also looking to make optimum use of a diversity of distribution channels, adopt innovative procedures, and enhance our marketing structure in an effort to achieve greater efficiency.

(5) Basic Policy on Corporate Governance

Confronted by the challenge of an ever-changing operating environment, Taisho has positioned corporate governance as

a key management issue. In fiscal 1999, the Company introduced an executive officer system and limited the number of directors that comprise its Board with the aim of enhancing efficiency and promoting prompt and precise decision making. In addition, Taisho has adopted an audit structure, which stipulates that two of its four corporate auditors must be from outside the Company, thereby enhancing management transparency. The diagram below shows the structure of Taisho's corporate governance system.



Taisho established an auditing department previously with the aim of internally auditing the status of business execution, but the Company also set up a compliance office in fiscal 2001 as a specialist department responsible for ensuring corporate activities consistent with the highest ethical standards. In the same year, Taisho also formulated a Corporate Code of Conduct, and the Company continually strives to thoroughly ensure corporate behavior that conforms to laws, regulations, and ethical principles. Moreover, an internal and external help-line network covering a broad spectrum of corporate ethics has been set up as a contact point for employee inquiries. To fulfill its corporate mission, Taisho is continuing to expand and reinforce compliance systems and procedures.

(6) Issues Facing the Company

Taisho expects the operating environment to become increasingly challenging. The Company will therefore strategically and proactively adapt to changes in its operating environment according to the policies outlined in the section “Medium-Term Management Strategies”.

In order to reinforce its ethical drugs business, Taisho jointly established Taisho Toyama Pharmaceutical Co., Ltd. with Toyama Chemical Co., Ltd. in October 2002, thereby creating a new domestic sales company that is 55%-owned by Taisho. The new company began full-scale operations in the consolidated fiscal year under review, and is working to increase sales efficiency. In addition, Taisho has formed a strategic partnership with Toyama Chemical Co., Ltd., an equity method affiliate, in the research and development of ethical drugs. We are concentrating efforts on leveraging this partnership to produce results in various fields.

To further perfect internal company systems aimed at pharmaceutical safety management and quality assurance in preparation for the enforcement of the Revised Japanese Pharmaceutical Affairs Law in April 2005, Taisho newly established the QA Division as an organization with overall responsibility for quality assurance operations in April 2004. We are working to reinforce after-sales safety management and quality assurance at the R&D stage, which

will be required under the Revised Japanese Pharmaceutical Affairs Law.

In fiscal 2000, Taisho placed priority on the rebuilding of core management systems, and focused companywide efforts on reviewing business processes and upgrading information systems. During the year under review as well, new systems progressively came online as preparations were completed, and in May 2004, the Company completed this initiative by replacing systems in the Self-Medication Operation Group. Going forward, we will strive to further strengthen business administration and improve efficiency under the new systems.

(7) Business and Other Risks

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

a. Legal risk

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

b. Risk relating to pharmaceutical development and commercialization

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

c. Risk concerning the protection of intellectual property rights

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

d. Various litigious risks

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

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

3. Operating Results and Financial Position

(1) Overview of Fiscal 2003

Performance Overview

In fiscal 2003, ended March 31, 2004, the over-the-counter medications business faced adverse operating conditions as consumer spending remained stagnant in response to an unusually cool summer and mild winter. The ethical drugs business also faced a continued severe operating environment stemming from the permeation of government measures to reform medical expenditures, including official drug price cuts, and fierce competition.

Under these circumstances, Taisho stepped up its aggressive sales activities by striving to launch new products and reinforce its sales network. As a result, consolidated net sales in fiscal 2003 totaled ¥286,433 million, an increase of 4.5%, or ¥12,356 million, compared with the previous fiscal year (the figures in parentheses below show the rate of increase/decrease compared with the previous fiscal year). Sales by segment were as follows:

Segment Information

Segment/Category	Amount	(Billions of yen)	
		Increase (Decrease)	
		Amount	%
Self-Medication Operation Group	188.0	(7.0)	(3.6%)
Over-the-counter medications	178.2	(7.0)	(3.8%)
Foods for specified health use, etc.	7.8	(0.6)	(7.7%)
Other	1.9	0.5	43.9%
Prescription Pharmaceutical Operation Group	98.3	19.4	24.6%
Ethical drugs	82.1	20.4	33.2%
Other	10.6	(0.3)	(3.3%)
Royalty income	5.6	(0.7)	(11.2%)

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

Sales of the *Pabron* series of cold remedies fell by ¥0.5 billion, or 2.1%, while sales of digestive medicines edged up ¥0.1 billion, or 2.2%, and sales of the *Colac* series, in which the Company launched new products, rose by ¥0.6 billion, or 16.9%. However, sales of *RiUP*, a hair-growth product for male-pattern baldness, fell by ¥2.3 billion. Furthermore, in October 2003, Taisho acquired the right from Procter & Gamble Far East, Inc. (P&G) to become the sole distributor for sales of the cold remedy “VICKS VapoRub” in Japan. We expect this product to make a full-fledged earnings contribution from fiscal 2004.

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

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

Sales of the Company’s mainstay product *Clarith*, a macrolide antibiotic, edged up ¥0.5bn, or 2.0%, but sales of *Palux* injection, a peripheral vasodilator, fell 9.0%, or ¥1.3 billion. Steady growth was recorded, however, by *Lorcam*, a non-steroidal anti-inflammatory drug, whose sales rose 7.2%, or ¥0.3 billion, and *Ancaron*, a tablet for the treatment of

cardiac dysrhythmia, whose sales surged 20.6%, or ¥0.7 billion.

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

On the cost front, sales promotion expenses and personnel costs at Taisho Toyama Pharmaceutical Co., Ltd., increased, but Taisho did not incur the large rights acquisition expenses of the previous term (such as the acquisition of a sales license for the new quinolone antimicrobial agent *T-3811*, a product developed by Toyama Chemical) and the Company reviewed R&D and other expenses. As a result, overall SG&A expenses decreased by ¥2,600 million compared to the previous term. However, as the Company posted a loss based on the equity method on investment in Toyama Chemical Co., Ltd., ordinary income rose 0.5%, or ¥323 million, to ¥61,180 million. As Taisho posted an extraordinary gain of ¥9,100 million on the return of the portion of the employee welfare pension fund managed on behalf of the government, net income increased 15.6%, or ¥5,518 million, to ¥40,910 million.

Cash Flows

On a consolidated basis, cash and cash equivalents as of March 31, 2004 amounted to ¥106,801 million, an increase of ¥44,676 million compared with a year ago.

Cash flows from operating activities

Net cash provided by operating activities increased ¥4,109 million to ¥57,529 million. Income before income taxes and minority interests amounted to ¥69,910 million, an increase of ¥9,641 million over the previous term, but this increase was mainly due to a gain on the return of the portion of the employee welfare pension fund managed on behalf of the government. Cash flow resulting from an increase in notes and accounts payable was ¥7,605 million, an increase of ¥10,298 million, and another major factor behind the increase was the ¥13,691 million decline, to ¥20,380 million, in income taxes paid. On the other hand, cash flow resulting from an increase in notes and accounts receivable was a negative ¥8,733 million, a decrease of ¥15,215 million compared with the previous term, and reserves for retirement payment decreased ¥7,906 million to ¥7,265 million. Depreciation and amortization was ¥15,343 million, a decrease of ¥1,489 million.

Cash flows from investing activities

Net cash provided by investing activities was ¥27,254 million, an increase of ¥16,835 million. The main factors that led to the increase in cash flows from investing activities were ¥38,500 million in proceeds from the sales of investments in securities, an increase of ¥20,718 million from the previous fiscal year, ¥34,035 million in proceeds from the sales of marketable securities, an increase of ¥8,935 million from the previous fiscal year, and an increase of ¥22,572 million in time deposits stemming from transfers from time deposits exceeding three months, a decrease of ¥13,212 million from the previous fiscal year. The main factors that caused a decrease in cash flows from investment activities were ¥58,987 million in payments for purchases of investment securities (a decrease of ¥32,637 million) and ¥7,614 million in payments for purchases of property, plant and equipment (an increase of ¥5,804 million).

Cash flows from financing activities

Net cash used in financing activities was ¥39,651 million, an increase of ¥12,038 million. The increase is attributable to payments for acquisition of treasury stock totaling ¥28,478 million (an increase of ¥9,170 million) and payments for dividends, including anniversary dividends, amounting to ¥9,855 million (an increase of ¥1,388 million).

Cash Flow Benchmarks

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003
Shareholders' equity ratio (%)	81.5	82.5	84.1	83.2
Shareholders' equity ratio (market basis) (%)	158.9	111.9	96.3	104.6
Years to service debt (years)	0.0	0.0	0.0	0.0
Interest coverage ratio	1,408.1	2,232.7	4,109.2	11,505.8

Notes: Shareholder' equity ratio = shareholders' equity / total assets
 Shareholders' equity ratio (market basis) = Market capitalization / total assets
 Years to service debt = interest-bearing debt / operating cash flow
 Interest coverage ratio = operating cash flow / interest expense

These benchmarks are calculated using consolidated financial data. Market capitalization is calculated by multiplying the closing share price at period-end by the number of outstanding shares at period-end (excluding treasury stock). Operating cash flow is the net cash provided by operating activities stated in the consolidated statements of cash flows. Interest-bearing debt consists of debt on the consolidated balance sheets that incurs interest payment. Interest expense is the amount shown on the consolidated statements of cash flows.

(2) Outlook for Fiscal 2004

In fiscal 2004, the business environment is projected to remain harsh due to the continued permeation of measures to reform medical expenditures and fierce market competition. The Company's forecasts for consolidated performance in fiscal 2004 are as follows:

	Amount	Change	(Billions of yen)	(%)
Net sales	295.0	+8.6		+3.0%
Ordinary income	64.0	+2.8		+4.6%
Net income	37.0	-3.9		-9.6%

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Fiscal 2003 <u>March 31, 2004</u>		Fiscal 2002 <u>March 31, 2003</u>		Increase/(Decrease)
	Amount	Share	Amount	Share	Amount
Assets		%		%	
Current assets:					
Cash, including time deposits	138,358		116,267		22,090
Notes and accounts receivable-trade	75,752		67,025		8,727
Marketable securities	5,241		34,035		(28,794)
Inventories	21,708		18,580		3,128
Deferred tax assets	9,091		7,886		1,205
Other current assets	5,420		4,540		879
Sub-total	255,572		248,335		7,237
Allowance for doubtful accounts	(858)		(746)		(111)
Total current assets	254,714	42.3	247,588	42.9	7,126
Fixed assets					
Tangible fixed assets:					
Buildings and structures	52,870		55,754		(2,883)
Machinery and equipment	13,953		17,328		(3,374)
Land	27,206		23,471		3,734
Construction in progress	882		59		823
Others	5,797		6,106		(308)
Total tangible fixed assets	100,710	(16.7)	102,719	(17.8)	(2,009)
Intangible fixed assets:					
Goodwill	240		300		(60)
Trademarks	11,225		13,565		(2,339)
Software	3,984		3,688		295
Adjustment account for consolidation	49		72		(22)
Others	207		212		(4)
Total intangible fixed assets	15,707	(2.6)	17,838	(3.1)	(2,131)
Investments and other assets:					
Investment in securities	214,057		179,101		34,955
Long-term prepaid expenses	3,706		4,659		(953)
Deferred tax assets	8,106		20,707		(12,601)
Other investments	5,114		5,161		(47)
Sub-total	230,985		209,630		21,355
Allowance for doubtful receivables-long term	(161)		(70)		(91)
Total investments and other assets	230,823	(38.4)	209,559	(36.2)	21,263
Total fixed assets	347,241	57.7	330,118	57.1	17,123
Total assets	601,956	100.0	577,706	100.0	24,249

(Millions of yen)

	Fiscal 2003 March 31, 2004		Fiscal 2002 March 31, 2003		Increase/(Decrease)
	Amount	Share	Amount	Share	Amount
Liabilities		%		%	
Current liabilities:					
Notes and accounts payable-Trade	21,171		13,575		7,596
Short-term loans	265		340		(75)
Accounts payable	12,821		8,300		4,520
Accrued enterprise tax	14,829		6,510		8,318
Accrued expenses	7,828		12,160		(4,331)
Adjustment allowance for returns	522		609		(86)
Allowance for bonuses	3,171		3,653		(481)
Other current liabilities	1,407		1,196		211
Total current liabilities	62,019	10.3	46,346	8.0	15,672
Long-term liabilities:					
Long-term debts			5		(5)
Reserves for retirement benefits	33,744		41,010		(7,265)
Reserves for directors' retirement payment	1,501		1,380		120
Deferred tax liabilities	13		18		(4)
Other long-term liabilities	2,861		2,357		503
Total long-term liabilities	38,120	6.3	44,772	7.7	(6,652)
Total liabilities	100,139	16.6	91,119	15.8	9,019
Minority interest	1,055	0.2	870	0.2	185
Shareholders' equity					
Common stock	29,804	4.9	29,804	5.1	
Additional paid-in capital	14,935	2.5	14,935	2.6	
Retained earnings	498,172	82.8	467,229	80.9	30,943
Unrealized gain on securities	13,852	2.3	(165)	(0.0)	14,017
Foreign currency adjustment accounts	(4,769)	(0.8)	(3,330)	(0.6)	(1,439)
Treasury stock	(51,233)	(8.5)	(22,755)	(3.9)	(28,478)
Total shareholders' equity	500,761	83.2	485,717	84.1	15,043
Total liabilities and shareholders' equity	601,956	100.0	577,706	100.0	24,249

(2) Consolidated Statements of Income

(Millions of yen)

	Fiscal 2003 (April 1, 2003 to March 31, 2004)		Fiscal 2002 (April 1, 2002 to March 31, 2003)		Increase/ (Decrease)
	Amount	Share	Amount	Share	Amount
		%		%	
Net sales	286,433	100.0	274,077	100.0	12,356
Cost of sales	85,091	29.7	73,462	26.8	11,629
Gross profit	201,341	70.3	200,615	73.2	726
Allowances for adjustment of reimbursement for returned goods	607		731		(123)
Allowances for adjustment of transfer for returned goods	521		615		(93)
Gross profit-net	201,428	70.3	200,731	73.2	693
Selling, general & administrative expenses	143,727	50.2	146,336	53.4	(2,608)
Operating income	57,700	20.1	54,394	19.8	3,305
Non-operating income					
Interest income	3,803		4,290		(487)
Dividend income	270		290		(20)
Rental income on real estate	271		518		(246)
Investment gain by the equity method			140		(140)
Others	1,528		1,720		(191)
Total non-operating income	5,873	2.1	6,960	2.5	(1,086)
Non-operating expenses					
Interest and discount expenses	5		13		(7)
Loss on investment in equity method subsidiaries	1,832				1,832
Others	555		483		72
Total non-operating expenses	2,393	0.8	496	0.2	1,896
Ordinary income	61,180	21.4	60,857	22.2	322
Extraordinary gains					
Gains on sales of investment in securities			1,633		(1,633)
Gains on sales of fixed assets	1,034		35		1,000
Return of pension assets previously managed on behalf of the government	9,178				9,178
Total extraordinary gains	10,213	3.5	1,668	0.6	8,544
Extraordinary losses					
Unrealized loss on investment in securities	872		665		207
Loss on refund of investment in securities			24		(24)
Loss on disposal of fixed assets	611		270		341
Changes in accounting for directors' retirement payments			1,296		(1,296)
Total extraordinary losses	1,483	0.5	2,257	0.8	(773)
Income before income taxes	69,910	24.4	60,269	22.0	9,640
Corporate and inhabitants' taxes	27,382	9.6	24,707	9.0	2,674
Enterprise tax adjustment	1,852	0.6	184	0.1	1,667
Minority interest losses	234	0.1	15	0.0	219
Net income	40,910	14.3	35,392	12.9	5,517

(3) Consolidated Statements of Retained Earnings

(Millions of yen)

	Fiscal 2003 (April 1, 2003 to March 31, 2004)	Fiscal 2002 (April 1, 2002 to March 31, 2003)	Increase/ (Decrease)
(Additional paid-in capital)			
Additional paid-in capital, beginning balance	14,935	14,935	—
Additional paid-in capital, ending balance	14,935	14,935	—
(Retained earnings)			
Retained earnings, beginning balance	467,229	440,408	26,820
Increase in retained earnings			
Net income	40,910	35,392	5,517
Decrease in retained earnings			
Cash dividends	9,879	8,485	1,394
Directors' bonus	87	87	
Retained earnings, ending balance	498,172	467,229	30,943

(4) Consolidated Statements of Cash Flow

(Millions of yen)

	Fiscal 2003 (April 1, 2003 to March 31, 2004)	Fiscal 2002 (April 1, 2002 to March 31, 2003)
Cash flows from operating activities:		
Income before income taxes	69,910	60,269
Depreciation and amortization	15,343	16,832
Interest and dividends income	(4,073)	(4,580)
Interest expenses	5	13
Gains on sales of investment in securities		(1,633)
Losses in refund of investment in securities		24
Losses on revaluation of investment in securities	872	665
Losses on sales of fixed assets	(1,034)	(1)
Losses on disposal of fixed assets	611	270
Adjustment expenses for consolidated elimination	22	22
Equity in earnings of affiliates	1,832	(140)
Increase (decrease) in allowance for doubtful accounts	203	139
Increase (decrease) in reserves for retirement benefits	(7,265)	641
Increase (decrease) in reserves for directors' retirement payments	120	1,380
(Decrease) increase in reserves for bonuses	(481)	(53)
Decrease (increase) in notes and accounts receivable	(8,733)	6,481
Decrease (increase) in inventories	(3,159)	680
(Decrease) increase in accounts and notes payable	7,605	(2,693)
Others	1,964	4,597
Sub-total	73,743	82,914
Interest and dividend income received	4,172	4,591
Interest paid	(5)	(13)
Income taxes paid	(20,380)	(34,072)
Net cash provided by operating activities	57,529	53,420
Cash flows from investing activities:		
Decrease (increase) in time deposits	22,572	35,784
Proceeds from sales and refund of marketable securities	34,035	25,100
Payments for purchases of property, plant and equipment	(7,614)	(13,418)
Proceeds from sales of property, plant and equipment	1,047	39
Payments for purchases of intangible fixed assets	(1,366)	(8,976)
Payments for purchases of investment in securities	(58,987)	(26,350)
Proceeds from sales of investment in securities	38,500	17,781
Payments for acquisition of affiliate's stocks		(19,012)
Payments for acquisition of long-term prepaid expenses	(314)	(442)
(Increase) decrease in other assets	(617)	(86)
Net cash provided by (used in) investing activities	27,254	10,419
Cash flows from financing activities:		
Proceeds from short-term borrowings	265	443
Repayment of short-term borrowings	(340)	(462)
Proceeds from long-term borrowings		5
Repayment of long-term borrowings	(5)	—
Payments for dividends	(9,855)	(8,467)
Proceeds from sales of treasury stock	(28,478)	(19,307)
Other cash flows from financing activities	(1,236)	176
Net cash used in financing activities	(39,651)	(27,613)
Effect of exchange rate changes on cash and cash equivalents	(456)	(164)
Net increase in cash and cash equivalents	44,676	36,061
Cash and cash equivalents at the beginning of the period	62,125	26,064
Cash and cash equivalents at the end of the period	106,801	62,125

Summary of Significant Accounting Policies Used in Preparation of Consolidated Financial Statements

1. Scope of Consolidation

Number of consolidated subsidiaries: 23 (14 overseas and 9 domestic companies)

Overseas consolidated subsidiaries:

- Taisho Pharmaceutical (Taiwan) Co., Ltd.
- Taisho Pharmaceutical California Inc.
- Taisho Pharmaceutical (M) SDN.BHD.
- Taisho Pharmaceuticals (Philippines), Inc.
- P.T. Taisho Indonesia
- Taisho Foods Deutschland GmbH
- Taisho Co., Ltd. Shanghai
- Taisho Pharmaceutical Asia (M) SDN. BHD.
- Taisho Pharmaceutical (Europe) Ltd.
- Taisho Vietnam Co., Ltd.
- Taisho Pharmaceutical (H.K.) Ltd.
- Osotspa Taisho Co., Ltd.
- Taisho (Australia) Pty. Ltd.
- Taisho Pharmaceutical R&D Inc.

Domestic consolidated subsidiaries:

- Taisho Toyama Pharmaceutical Co., Ltd.
- Taisho Kosei Service Co., Ltd.
- Taisho Okinawa Co., Ltd.
- Taisho M.T.C. Co., Ltd.
- Taisho Pharmaceutical Logistics Co., Ltd.
- Medwell Taisho Co., Ltd.
- Taisho Business Research Institute Co., Ltd.
- Mejiro Real Estate Co., Ltd.
- Taisho Service Sangyo Co., Ltd.

There are no non-consolidated subsidiaries.

2. Application of the Equity Method

Number of affiliated companies accounted for under the equity method: 3 (1 overseas and 2 domestic companies)

Overseas affiliate accounted for under the equity method:

- Taisho Hizon Manufacturing Inc.

Domestic affiliated companies accounted for under the equity method:

- Toyama Chemical Co., Ltd.
- Sanofi-Synthelabo-Taisho Pharmaceuticals Co., Ltd.

3. Fiscal Year of Consolidated Subsidiaries

Excluding Taisho Toyama Pharmaceutical Co., Ltd., Mejiro Real Estate Co., Ltd. and Taisho Service Sangyo Co., Ltd., which end their fiscal year on March 31 annually, twenty of the Company's consolidated subsidiaries maintain a balance date of December 31 annually. In preparing the consolidated financial statements, a December 31, 2002 balance date for consolidated subsidiaries was used. However, in the event a major transaction took place between the period January 1, 2003 and the consolidated balance date of March 31, 2003, necessary adjustments have been made to the consolidated financial statements.

4. Summary of Significant Accounting Procedures

(1) Standards and evaluation methods for major assets

(a) Marketable securities

Held-to-maturity debt securities:

Amortized cost method, amortized on a straight-line basis

Other marketable securities, securities for which market quotations are available:

Market value, determined by the market price as of the balance sheet date, with unrealized gains and losses reported in shareholders' equity and the selling price determined by the moving-average method.

Other marketable securities, securities for which market quotations are unavailable:

Stated at cost determined by the moving-average method

(b) Inventories

Manufactured goods, merchandise, semi-finished goods, materials, and unfinished goods:

Stated at cost determined by the average method

Inventories:

Stated at last purchase price

(Change in accounting method)

Previously, materials were stated at cost determined by the average method, and sales promotion goods were stated at last purchase price. In line with the introduction of a new accounting system from the fiscal year under review, however, it is now possible to value inventories on a timely basis. As a result, the accounting method has been changed for materials and sales promotion goods, which are stated at cost determined by the moving-average method from the fiscal year under review. This change in accounting method has no material effect on the consolidated financial statements.

(2) Method for depreciating and amortizing major assets

(a) Tangible fixed assets

For the parent company and domestic consolidated subsidiaries, depreciation is computed using the declining balance method. In the case of overseas subsidiaries, depreciation is computed using the straight-line method in accordance with the regulations of the country in which the subsidiary is located. For property (excluding additions to property) acquired by the parent company or domestic subsidiaries after April 1, 1998, depreciation is computed using the straight-line method. Tangible fixed assets are depreciated over their economic life.

(b) Intangible fixed assets

Depreciation is computed using the straight-line method. For the parent company and domestic subsidiaries, software for in-house use is computed using the straight-line method based on an estimated useful life of 5 years.

(3) Accounting treatment for deferred assets

The amount of deferred assets is charged to income at the time of payment.

(4) Accounting for allowances and reserves

(a) Allowance for doubtful accounts

The allowance for doubtful accounts provides for possible losses arising from default on accounts receivable. Based on the default ratio of general loans, the likelihood of repayment of certain loans about which there is concern regarding default is determined, and the anticipated unrecoverable amount is recorded.

(b) Allowance for returned merchandise

To allow for losses due to returned merchandise, an amount of losses that is a portion of anticipated future losses from returned merchandise is recorded.

(c) Reserve for bonuses

To allow for the payment of employee bonuses, an amount of bonuses that is a portion of anticipated future payment of bonuses is recorded.

(d) Reserve for retirement benefits

To cover projected employees' retirement benefits, the Company provides the estimated amount of benefit obligation and pension plan assets at the end of the fiscal year. Employees' past service costs are stated at cost by the straight-line method, based on certain years within the average remaining service length, when employees' past service costs are generated. From the following fiscal year, the differential amount in the computation is to be stated at cost by the straight-line method, based on certain years within the average remaining service length, when employees' past service costs are generated.

(e) Reserve for directors' retirement benefits

A reserve for directors' and executive officers' retirement benefits is provided to adequately cover the costs of directors' and executive officers' retirement benefits, which are accounted for on an accrual basis in accordance with in-house regulations.

(5) Translation of foreign currency transactions and accounts

Receivables and payables denominated in foreign currencies are translated as of the balance sheet date using current exchange rates, with discrepancies recorded as gains or losses. All the assets and liabilities of foreign subsidiaries and affiliates are translated as of the balance sheet date using current exchange rates and all income and expense accounts are translated at average rates for their respective periods, with discrepancies recorded under shareholders' equity as foreign currency translation adjustment.

(6) Accounting for leases

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

(7) Accounting for hedges

1. Hedge accounting method

Hedging is principally computed under deferred processing.

2. Hedging method, hedge targets

Hedging method

Derivative transactions (foreign exchange contract transactions and interest rate swap transactions)

Hedge targets

Although it is possible that losses may result from rate fluctuations, such fluctuations are avoided by targeting products that do not reflect rate fluctuations and those that provide a fixed cash flow.

(8) Other

Consumption tax

Financial statements are prepared exclusive of consumption tax.

5. Valuation of Assets and Liabilities of Consolidated Subsidiaries

All assets and liabilities of consolidated subsidiaries are stated at fair value.

6. Amortization of Consolidated Account Adjustment

Consolidated account adjustments between the parent company and subsidiaries are amortized on a straight-line basis over an appropriate period.

7. Appropriation of Earnings

The consolidated statement of retained earnings is prepared based on earnings appropriation at consolidated companies determined during the fiscal year.

8. Scope of Cash and Cash Equivalents in the Statement of Cash Flows

Cash and cash equivalents in the consolidated statements of cash flows comprise cash on hand, demand deposits, and highly liquid short-term investments with a maturity of less than 3 months that can be readily converted into cash and carry little risk of fluctuation in value.

Notes

(Millions of yen)

(Consolidated Balance Sheets)

	Fiscal 2003	Fiscal 2002
1. Depreciation of property, plant and equipment	136,947	130,936
2. Items relating to affiliated companies		
Investment in securities	16,785	18,955
3. Contingent liabilities		
The Company has guaranteed the debt of one of its affiliated companies to the company's financial institution.		
Sanofi-Synthelabo-Taisho Pharmaceuticals Co., Ltd.	98	98

(Consolidated Statements of Income)

	Fiscal 2003	Fiscal 2002
1. R&D expenses included in selling, general and administrative expenses	24,171	29,526

(Consolidated Statements of Cash Flows)

1. Cash and cash equivalents at the end of the period and items related to the consolidated balance sheets were as follows:

	Fiscal 2003	Fiscal 2002
Cash and deposits	138,358	116,267
Marketable securities	5,241	34,035
Sub-total	143,599	150,303
Time deposits (over three months)	(31,570)	(54,142)
Bonds and notes with a redemption period of over three months	(5,227)	(34,035)
Total cash and cash equivalents at the end of the fiscal year	106,801	62,125

(Lease Transactions)

Finance leases, other than those where ownership of the leased assets is transferred to the lessee, were as follows:

	Fiscal 2003	Fiscal 2002
	Tangible and Intangible	Tangible and Intangible
	Fixed Assets	Fixed Assets
1. Acquisition cost equivalents	24,244	20,637
Accumulated depreciation	9,376	6,283
Term-end balance equivalents	14,867	14,353
2. Future lease payment		
Within one year	4,674	3,590
Over one year	10,193	10,763
Total	14,867	14,353
3. Leases paid (depreciation)	4,519	3,011
4. Depreciation is computed using the straight-line method, assuming the lease period to be the useful life and residual value to be zero.		

(Retirement Benefits)

1. Overview of the retirement benefit system applied

The Taisho Pharmaceutical Group has had a termination allowance plan since 1966 and maintains an adjusted pension system and joint-contributory welfare pension fund.

In line with the enactment of the defined pension plan law, the Company received permission from the Ministry of Health, Labour and Welfare to be exempted from future service obligations on pension assets managed on behalf of the government. Accordingly, the Company applied provisional measures as determined in Article 47-2 of Guidelines Regarding Retirement Benefit Accounting (Interim Report Number 13 of the Accounting System Committee) by the Japanese Institute of Certified Public Accountants, and reduced retirement benefit obligations related to the portion returned to the government on the authorized date, and reduced pension assets by the amount returned. As of March 31, 2004, the Company had returned pension assets amounting to ¥17,622 million.

2. Retirement benefit obligations

	Fiscal 2003	Fiscal 2002
Projected benefit obligation	46,841	75,336
Fair value of plan assets	5,804	19,279
Unfunded projected benefit obligation	<u>41,306</u>	<u>56,058</u>
Unrecognized past service liability	(715)	(2,414)
Unrecognized actuarial difference	8,007	17,460
Reserve for retirement benefits	<u>33,744</u>	<u>41,010</u>

3. Provision for reserve for retirement benefits

	Fiscal 2003	Fiscal 2002
Service cost	3,183	2,700
Interest cost	1,864	1,983
Expected return on plan assets	(507)	(850)
Past service liability cost	(154)	(174)
Actuarial difference cost	1,331	471
Provision for reserve for retirement benefits	<u>5,717</u>	<u>4,130</u>
Gain on return of pension assets previously managed on behalf of the government	(9,178)	—
Total	<u>(3,460)</u>	<u>4,130</u>

4. Assumptions used in accounting for the above plans

	Fiscal 2003	Fiscal 2002
Discount rate	2.0%	2.5%
Expected rate of return on plan assets	3.0%	4.0%
Method of distributing estimated retirement benefit obligation	Straight-line method	Straight-line method
Disposal period of past service liability	15 years	15 years
Disposal period of actuarial difference cost	15-16 years	15-16 years

(Notes to accounting for income taxes)

1. Principal deferred tax assets and liabilities were as follows:

	As of March 31, 2003	As of March 31, 2002
Deferred tax assets		
Enterprise tax payable	1,419	805
Accrued expenses	2,706	2,427
Accrued research expenses	2,627	2,859
Amount exceeding reserve for employee bonus limit	1,354	1,268
Amount exceeding reserve for employee retirement benefit limit	12,630	15,111
Allowance for directors' retirement benefits	607	564
Prepaid long-term research expenses	1,669	2,215
Valuation difference on other marketable securities	—	113
Tax loss carry forward	310	434
Other	5,835	5,265
Sub-total of deferred tax assets	<u>29,162</u>	<u>31,067</u>
Valuation allowance	(310)	(434)
Total deferred tax assets	<u>28,852</u>	<u>30,632</u>
Deferred tax liabilities		
Valuation difference on other marketable securities	(9,428)	
Fixed asset reduction reserve	(2,225)	(2,034)
Other	(13)	(21)
Total deferred tax liabilities	<u>(11,667)</u>	<u>(2,056)</u>
Deferred tax assets—net	<u>17,185</u>	<u>28,575</u>

2. Reconciliation of the statutory income tax rate to the effective income tax rate

Statutory income tax rate	42.0%
(Adjustments)	
Items not included in charges such as entertainment expenses	1.4%
Items not included in revenues such as dividends received	(0.1)%
Exclusion of taxes on testing and research costs	(3.4)%
Gain/loss on equity method investments	1.1%
Recording of valuation reserve	0.2%
Reduction in year-end deferred tax assets due to change in tax rates	0.7%
Other	(0.1)%
Effective income tax rate after application of tax-effect accounting	<u>41.8%</u>

In the previous fiscal year, a revision to the local tax law was enacted, which the Company applied from the next fiscal year. As a result, the statutory tax rate applied in fiscal 2003 was 42.0%, but a statutory tax rate of 40.5% was applied to deferred tax assets on March 31, 2004.

Segment Information

1. Segment information by type of business

Fiscal 2003 (April 1, 2003 to March 31, 2004)

(Millions of yen)

	Self-medication operation group	Prescription pharmaceutical operation group	Total	Elimination or corporate	Consolidated
I. Sales and operating income					
Sales					
(1) Sales to outside customers	188,062	98,371	286,433	—	286,433
(2) Sales or transfers between segments	—	—	—	—	—
Total	188,062	98,371	286,433	—	286,433
Operating expenses	144,671	84,063	228,733	—	228,733
Operating income	43,391	14,308	57,700	—	57,700
II. Assets, depreciation, and capital expenditure					
Assets	257,284	119,801	377,086	224,870	601,956
Depreciation	11,133	4,209	15,343	—	15,343
Capital expenditure	7,049	2,107	9,156	—	9,156

Fiscal 2002 (April 1, 2002 to March 31, 2003)

(Millions of yen)

	Self-medication operation group	Prescription pharmaceutical operation group	Total	Elimination or corporate	Consolidated
I. Sales and operating income					
Sales					
(1) Sales to outside customers	195,125	78,952	274,077		274,077
(2) Sales or transfers between segments					
Total	195,125	78,952	274,077		274,077
Operating expenses	144,713	74,970	219,683		219,683
Operating income	50,412	3,981	54,394		54,394
II. Assets, depreciation, and capital expenditure					
Assets	267,433	117,176	384,610	193,096	577,706
Depreciation	12,454	4,377	16,832		16,832
Capital expenditure	13,463	3,436	16,899		16,899

Notes:

1. Products are categorized as part of the Self-Medication Operation Group and the Prescription Pharmaceutical Operaton Group according to type of product, market, and sales method.
2. Principal products by segment

Self-Medication Operation Group	Over-the-counter medications, foods for specified health use, foods, medical supplies, and sanitary supplies
Prescription Pharmaceutical Operaton Group	Ethical drugs

3. Total assets, which are included in elimination or corporate assets, comprised the parent company's idle funds (cash and deposits, marketable securities, and other investments) and long-term investment assets (investment in securities), totaled ¥193,096 million as of the end of fiscal 2002 and ¥224,870 million as of the end of fiscal 2003.
4. In addition to depreciation of tangible and intangible fixed assets, depreciation includes depreciation of long-term prepaid expenses.
5. In addition to increases in tangible and intangible fixed assets, long-term prepaid expenses are included in capital expenditures.

6. Segment information by geographic area

Fiscal 2003 (April 1, 2003 to March 31, 2004)

Fiscal 2002 (April 1, 2002 to March 31, 2003)

As domestic sales and domestic assets as a proportion of total sales and total assets, respectively, exceed 90%, information relating to geographic area has been omitted.

2. Overseas sales

Fiscal 2003 (April 1, 2003 to March 31, 2004)

Fiscal 2002 (April 1, 2002 to March 31, 2003)

As total overseas sales constituted less than 10% of consolidated net sales, information relating to overseas sales has been omitted.

(Marketable securities)

Fiscal 2003 (as of March 31, 2004)

1. Bonds with market value to be held to maturity

(Millions of yen)

	Type	Book value	Market value	Unrealized gain (loss)
Securities with market value exceeding book value	Government bonds			
	Corporate bonds	4,288	4,689	400
	Sub-total	4,288	4,689	400
Securities with book value exceeding market value	Government bonds			
	Corporate bonds	3,801	3,784	(17)
	Sub-total	3,801	3,784	(17)
Total		8,090	8,473	382

2. Other marketable securities with a market value

(Millions of yen)

	Type	Acquisition cost	Book value	Unrealized gain (loss)
Securities with book value exceeding acquisition cost	Stocks	17,161	39,349	22,187
	Bonds			
	Government, municipal bonds, etc.	20,216	20,268	52
	Corporate bonds	43,336	43,820	484
	Other	30,000	31,614	1,614
	Sub-total	110,714	135,051	24,337
Securities with acquisition cost exceeding book value	Stocks	9	8	(1)
	Bonds			
	Government, municipal bonds, etc.	15,371	14,659	(1,071)
	Corporate bonds	40,500	40,200	(299)
	Other	—	—	—
	Sub-total	56,240	54,868	(1,371)
Total		166,954	189,920	22,965

Note: A loss on securities of ¥872 million was incurred in fiscal 2003. Loss on securities is posted to income when the market price at the end of the fiscal year falls below 50% of the acquisition cost.

3. Information regarding other marketable securities sold during Fiscal 2003 is as follows:

(Millions of yen)

Proceeds from sale	Total gain from sale	Total loss from sale
6	—	0

4. Marketable securities whose fair values are not readily determinable as of March 31, 2003

(Millions of yen)

	Book value
Other marketable securities	
Unlisted shares (excluding OTC securities)	486
Domestic ordinary corporate bonds	4,000

5. Planned redemption amount from other marketable securities with a maturity date or those to be held to maturity

(Millions of yen)

	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
1. Bonds				
(1) Government and municipal bonds	3,200	31,341		
(2) Corporate Bonds	3,071	27,944	8,075	
2. Other				
Other				
Total	6,272	59,285	8,075	

Fiscal 2002 (as of March 31, 2003)

1. Bonds with market value to be held to maturity

(Millions of yen)

	Type	Book value	Market value	Unrealized gain (loss)
Securities with market value exceeding book value	Government bonds			
	Corporate bonds	4,801	5,224	423
	Sub-total	4,801	5,224	423
Securities with book value exceeding market value	Government bonds			
	Corporate bonds	3,848	3,796	(52)
	Sub-total	3,848	3,796	(52)
Total		8,650	9,021	370

2. Other marketable securities with a market value

(Millions of yen)

	Type	Acquisition cost	Book value	Unrealized gain (loss)
Securities with book value exceeding acquisition cost	Stocks	5,613	10,640	5,026
	Bonds			
	Government, municipal bonds, etc.	28,771	29,055	283
	Corporate bonds	64,498	64,983	484
	Other	2,000	2,005	5
	Sub-total		100,884	106,683
Securities with acquisition cost exceeding book value	Stocks	11,564	7,695	(3,869)
	Bonds			
	Government, municipal bonds, etc.			
	Corporate bonds	24,000	23,837	(162)
	Other	30,000	27,990	(2,010)
	Sub-total		65,564	59,523
Total		166,449	166,207	(242)

Note: A loss on securities of ¥665 million was incurred in fiscal 2003. Loss on securities is posted to income when the market price at the end of the fiscal year falls below 50% of the acquisition cost.

3. Information regarding other marketable securities sold during fiscal 2003 is as follows:

(Millions of yen)

Proceeds from sale	Total gain from sale	Total loss from sale
1,969	1,633	—

4. Marketable securities whose fair values are not readily determinable as of March 31, 2003

(Millions of yen)

	Book value
Other marketable securities	
Unlisted shares (excluding OTC securities)	1,324
Domestic ordinary corporate bonds	18,000

5. Planned redemption amount from other marketable securities with a maturity date or those to be held to maturity

(Millions of yen)

	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
1. Bonds				
(1) Government and municipal bonds	—	28,627	—	
(2) Corporate Bonds	34,309	23,636	8,199	
2. Other				
Other	2,000	—	—	
Total	36,309	52,263	8,199	

(Derivative trading)

Fiscal 2003 (April 1, 2003 to March 31, 2004)

The Taisho Group did not engage in derivative trading.

Fiscal 2002 (April 1, 2002 to March 31, 2003)

The Taisho Group did not engage in derivative trading.

(Related party transactions)

(as of March 31, 2004)

(1) Directors and major individual shareholders

(Millions of yen)

Attribute	Company name	Location	Capital	Business	Voting rights held	Relationship		Transaction type		Amt. (3)	A/c item	End Balance
						Directors' posts	Business					
Directors and individuals with an absolute majority of voting rights (including subsidiary companies)	Taisho Service Sangyo Co., Ltd. (4)	Tokyo	100	Hotel operations	Nil	Transfer 1	Property leasing	Non-operating	Property leasing (1)	215	Unearned income	18
	Taisho Yakuhin Co., Ltd. (5)	Tokyo	10	Sale of medications	Nil	None	Product supply	Operating	Sale of the Company's products (2)	6	A/c receivable	0

Transaction conditions and the principles on the decision thereof:

Notes:

1. Property rental is determined after considering rentals of surrounding properties and areas.
2. Sale of the Company's products to Taisho Yakuhin Co., Ltd. is made under the same terms and conditions as those with non-related parties.
3. Transaction amounts with Taisho Service Sangyo Co., Ltd. and Taisho Yakuhin Co., Ltd. are exclusive of consumption tax.
4. The Company's director, Mr. Shoji Uehara, and his relatives directly held 90% of voting rights as of March 31, 2003. During the fiscal year under review, however, the Company acquired all shares for ¥2,044 million, making Taisho Service Sangyo Co., Ltd. a consolidated subsidiary. The acquisition price for these shares was determined while considering a third-party appraisal of their valuation.
5. Taisho Service Sangyo Co., Ltd. directly holds 100% of voting rights. Operations have been discontinued at Taisho Yakuhin Co., Ltd.

(2) Subsidiaries

(Millions of yen)

Attribute	Company name	Location	Capital	Business	Voting rights held	Relationship		Transaction type		Amt. (2)	A/c item	End Balance
						Directors' posts	Business					
Equity method subsidiary	Toyama Chemical Co., Ltd.	Shinjuku, Tokyo	22,397	Production of pharmaceuticals	21.86%	None	Product supply	Operating	Product supply (1)	12,310	Accounts payable	5,983

Policies for determining transaction conditions

Note 1: Toyama Chemical Co., Ltd. sells ethical drugs to Taisho Toyama Pharmaceutical Co., Ltd.

Prices on products supplied by Toyama Chemical Co., Ltd. are determined by referring to the prices of third-party products.

Note 2: Transactions exclude consumption taxes, and year-end balances include consumption taxes.

(as of March 31, 2003)

(1) Directors and major individual shareholders

(Millions of yen)

Attribute	Company name	Location	Capital	Business	Voting rights held	Relationship		Transaction type		Amt. (3)	A/c item	End Balance
						Directors' posts	Business					
Directors and individuals with an absolute majority of voting rights (including subsidiary companies)	Taisho Service Sangyo Co., Ltd. (4)	Tokyo	100	Hotel operations	Nil	Transfer 1	Property leasing	Non-operating	Property leasing (1)	213	Unearned income	14
	Taisho Yakuhin Co., Ltd. (5)	Tokyo	10	Sale of medications	Nil	None	Product supply	Operating	Sale of the Company's products (2)	46	A/c receivable	6

Transaction conditions and the principles on the decision thereof:

Notes:

1. Property rental is determined after considering rentals of surrounding properties and areas.
2. Sale of the Company's products to Taisho Yakuhin Co., Ltd. is made under the same terms and conditions as those with non-related parties.
3. Transaction amounts with Taisho Service Sangyo Co., Ltd. and Taisho Yakuhin Co., Ltd. are exclusive of consumption tax.
4. The Company's director, Mr. Shoji Uehara, and his relatives directly hold 90% of voting rights.
5. Taisho Service Sangyo Co., Ltd. directly holds 100% of voting rights.

5. Production, Orders, and Sales

1. Production

Performance

(Millions of yen)

		Fiscal 2003	Fiscal 2002
Self-Medication Operation Group	Over-the-counter medications	181,396	184,611
	Foods for specified health use, etc.	1,610	1,953
	Other	351	269
	Sub-total	183,358	186,835
Prescription Pharmaceutical Operation Group	Ethical drugs	59,535	57,820
	Other	9,725	9,355
	Sub-total	69,261	67,155
Total		252,619	253,990

Note: Overseas sales of *Lipovitan* are included in foods for specified health use, etc in the Self-Medication Operation Group.

2. Orders

The Taisho Group bases production on sales planning, and does not carry out production to order.

3. Sales

Results

(Millions of yen)

		Fiscal 2003	Fiscal 2002
Self-Medication Operation Group	Over-the-counter medications	178,233	185,233
	Foods for specified health use, etc.	7,876	8,535
	Other	1,953	1,357
	Sub-total	188,062	195,125
Prescription Pharmaceutical Operation Group	Ethical drugs	82,129	61,637
	Other	10,631	10,994
	Industrial property and other rental income	5,611	6,321
	Sub-total	98,371	78,952
Total		286,433	274,077

Note: Overseas sales of *Lipovitan* are included in foods for specified health use, etc in the Self-Medication Operation Group.

6 . Non-Consolidated Financial Statements for the Fiscal Year Ended March 31, 2004

May 17, 2004

Listed Company Name: Taisho Pharmaceutical Co., Ltd. Stock Listing: Tokyo
 Security Code: 4535 Headquarters: Tokyo
 (URL <http://www.taisho.co.jp/>)
 Representative: Akira Uehara, President
 Inquiries: Takayuki Kagami TEL: +81-3-3985-1111
 Senior Director—Accounting

Meeting of the Board of Directors for Approval of Fiscal 2003 Results: May 17, 2004

Date of the Ordinary General Meeting of Shareholders: June 29, 2004

Interim Dividend System: No

Tangen unit stock system: Yes (1 tangen unit; 1,000 shares)

1. Financial Results for Fiscal 2003 (April 1, 2003 to March 31, 2004)

(1) Operating Results

(Note: Amounts less than ¥1 million, except per share amounts, have been omitted.)

(Millions of yen, rounded down)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)
Fiscal 2003	240,562 (-10.5%)	57,292 (+ 5.1%)	62,506 (+ 3.5%)
Fiscal 2002	268,920 (+1.0%)	54,494 (-10.8%)	60,405 (-10.0%)

	Net Income (% change)	Net Income per Share (Yen)	Net Income per Share, Diluted (Yen)	Return on Shareholders' Equity (%)	Ordinary Income to Total Assets (%)	Ordinary Income to Net Sales (%)
Fiscal 2003	43,350 (+23.4%)	135.51	—	8.7	10.7	26.0
Fiscal 2002	35,136 (-5.7%)	105.05	—	7.2	10.4	22.5

Notes:

1. Average number of shares outstanding during the fiscal year:

Fiscal 2003: 319,253,969 shares

Fiscal 2002: 333,656,072 shares

2. Changes in accounting methods: Yes

3. Percentage change for net sales, operating income, ordinary income and net income indicate percentage increase/decrease over the previous corresponding term.

(2) Dividends Status

	Annual dividends per share		Total dividends for the year (millions of yen)	Payout ratio (%)	Ratio of dividends to shareholders' equity (%)	
	Interim	Year-end				
Fiscal 2003	25.00	—	25.00	7,833	18.4	1.5
Fiscal 2002	30.00	—	30.00	9,879	28.6	2.0

Notes:

1. Fiscal 2003 year-end dividend comprised an ordinary dividend of ¥25.00 per share.

(3) Financial Position

(Millions of yen unless otherwise stated)

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio (%)	Shareholders' Equity per Share (Yen)
Fiscal 2003	589,673	507,024	86.0	1,617.77
Fiscal 2002	577,634	488,101	84.5	1,481.89

Notes:

1. Number of shares outstanding at end of year:

Fiscal year ended March 31, 2004: 313,356,268 shares

Fiscal year ended March 31, 2003: 329,318,591 shares

2. Number of treasury stock at end of year

Fiscal year ended March 31, 2004: 27,609,242 shares

Fiscal year ended March 31, 2003: 11,646,919 shares

2. Financial Forecasts for Fiscal 2004 (April 1, 2004 to March 31, 2005)

(Millions of yen unless otherwise stated)

	Net sales	Ordinary income	Net income	Annual dividend per share		
				Interim	Year-end	
Interim	126,000	33,500	20,000	—	—	—
Fiscal 2004	246,500	62,500	37,500	—	25.00	25.00

Reference:

Forecast net income per share (fiscal 2004): ¥119.39

Note: Forecasts of business results in this financial report reflect the Company's current analysis of data available and the Company's assumptions as of May 17, 2004. Certain factors could cause the Company's actual results to differ materially from any projections presented in this report. Readers are asked to refer to the attached documents for further details.

Non-Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen)

	Fiscal 2003 March 31, 2004		Fiscal 2002 March 31, 2003		Increase/(Decrease)
	Amount	Share	Amount	Share	Amount
Assets		%		%	
<u>Current assets:</u>	<u>229,392</u>	<u>38.9</u>	<u>237,941</u>	<u>41.2</u>	(8,549)
Cash, including timedeposits	126,237		108,302		17,935
Notes receivable—trade	798		2,116		(1,318)
Accounts receivable—trade	62,440		64,147		(1,707)
Marketable securities	5,227		34,035		(28,808)
Manufactured goods	1,983		1,694		289
<u>Products</u>	9,473		7,684		1,789
Semi-finished goods	—		152		(152)
Materials	6,954		5,076		1,878
Unfinished goods	1,502		2,394		(892)
Merchandise	1,094		854		240
Advances	41		27		14
Prepaid expenses	1,010		1,068		(58)
Deferred tax assets	7,302		7,783		(481)
Other current assets	6,164		3,319		2,845
Allowance for doubtful Accounts	(839)		(718)		(121)
<u>Fixed assets</u>	<u>360,280</u>	<u>61.1</u>	<u>339,693</u>	<u>58.8</u>	20,587
<u>Tangible fixed assets:</u>	<u>95,382</u>	<u>16.2</u>	<u>100,287</u>	<u>17.4</u>	(4,905)
Buildings	48,484		51,516		(3,032)
Structures	2,561		2,870		(309)
Machinery and equipment	13,032		16,256		(3,224)
Vehicles	113		119		(6)
Tools and fixtures	5,644		6,025		(381)
Land	24,666		23,440		1,226
Construction in progress	880		58		822
<u>Intangible fixed assets:</u>	<u>15,535</u>	<u>2.6</u>	<u>17,635</u>	<u>3.0</u>	(2,100)
Goodwill	240		300		(60)
Patents	5		8		(3)
Trademarks	11,225		13,565		(2,340)
Telephone subscription Rights	58		58		0
Software	3,979		3,686		293
Others	26		16		10
<u>Investments and other assets:</u>	<u>249,362</u>	<u>42.3</u>	<u>221,770</u>	<u>38.4</u>	27,592
Investment in securities	189,179		151,493		37,686
Shares in affiliated Companies	42,102		38,351		3,751
Advances in affiliated Companies	3,944		3,944		0
Long-term loans to Employees	29		29		0
Long-term prepaid expenses	3,662		4,629		(967)
Deferred tax assets	7,874		20,769		(12,895)
Other investments	2,732		2,623		109
Allowance for doubtful Receivables—long term	(161)		(70)		(91)
Total assets	589,673	100.0	577,634	100.0	12,039

(Millions of yen)

	Fiscal 2003 March 31, 2004		Fiscal 2002 March 31, 2003		Increase/(Decrease)
	Amount	Share	Amount	Share	Amount
Liabilities		%		%	
<u>Current liabilities:</u>	<u>47,097</u>	<u>8.0</u>	<u>44,947</u>	<u>7.8</u>	2,150
Accounts payable	14,590		13,442		1,148
Other payables	11,596		8,441		3,155
Accrued taxes	11,422		6,315		5,107
Accrued expenses	5,291		11,775		(6,484)
Deposits held	834		779		55
Unearned income	9		41		(32)
Adjustment allowance for returns	508		606		(98)
Allowance for bonuses	2,843		3,545		(702)
<u>Long-term liabilities:</u>	<u>35,551</u>	<u>6.0</u>	<u>44,585</u>	<u>7.7</u>	(9,034)
Guarantee deposits held	1,355		2,339		(984)
Reserves for retirement benefits	32,694		40,864		(8,170)
Reserves for directors' retirement payment	1,501		1,380		121
<u>Total liabilities</u>	<u>82,648</u>	<u>14.0</u>	<u>89,532</u>	<u>15.5</u>	(6,884)
Shareholders' equity					
<u>Common stock</u>	<u>29,804</u>	<u>5.1</u>	29,804	5.1	—
<u>Additional paid-in capital</u>	<u>14,935</u>	<u>2.5</u>	14,935	2.6	—
Capital reserves	<u>14,935</u>		14,935		—
<u>Retained earnings</u>	<u>499,667</u>	<u>84.7</u>	466,283	80.7	33,384
Profit reserves	7,451		7,451		—
Voluntary reserves	448,865		423,695		25,170
Unappropriated retained earnings for the period	43,350		35,136		8,214
<u>Realized difference amount of other marketable securities</u>	<u>13,852</u>	<u>2.4</u>	(165)	(0.0)	14,017
<u>Treasury stock</u>	<u>(51,233)</u>	<u>(8.7)</u>	(22,755)	(3.9)	(28,478)
Total shareholders' equity	507,024	<u>86.0</u>	488,101	84.5	18,923
Total liabilities and shareholders' equity	589,673	100.0	577,634	100.0	12,039

(2) Statements of Income

(Millions of yen)

	Fiscal 2003 (April 1, 2003 to March 31, 2004)		Fiscal 2002 (April 1, 2002 to March 31, 2003)		Increase/ (Decrease)
	Amount	Share	Amount	Share	Amount
Net sales	240,562	100.0	268,920	100.0	(28,358)
Cost of sales	68,920	28.6	69,641	25.9	(721)
Gross profit	171,642	71.4	199,278	74.1	(27,636)
Allowances for adjustment of reimbursement for returned goods	606		731		(125)
Allowances for adjustment of transfer for returned goods	508		606		(98)
Selling, general and administrative expenses	114,447	47.6	144,909	53.9	(30,462)
Operating income	57,292	23.8	54,494	20.2	2,798
Non-operating income	5,574	2.3	6,318	2.4	(744)
Interest income	41		52		(11)
Interest on marketable securities	2,985		3,383		(398)
Dividend income	679		638		41
Rental income on real estate	516		550		(34)
Others	1,352		1,693		(341)
Non-operating expenses	360	0.1	407	0.1	(47)
Interest expenses	0		1		(1)
Others	359		406		(47)
Ordinary income	62,506	26.0	60,405	22.5	2,101
Extraordinary gains	9,914	4.1	1,667	0.6	8,247
Gains on release from the substitutional portion of the government's Welfare Pension Insurance Scheme	9,178		—		9,178
Gains on sales of investment in securities	—		1,633		(1,633)
Gains on sales of fixed assets	735		2		733
Others	—		31		(31)
Extraordinary losses	1,481	0.6	2,384	0.9	(903)
Unrealized loss on investment in securities	872		665		207
Loss on disposal of fixed assets	608		265		343
Unrealized loss on investment in affiliated companies	—		132		(132)
Changes in accounting for directors' retirement payments	—		1,296		(1,296)
Others	0		24		(24)
Income before income taxes	70,939	29.5	59,688	22.2	11,251
Corporate and inhabitants' taxes	23,754	9.9	24,364	9.0	(610)
Enterprise tax adjustment	3,833	1.6	187	0.1	3,646
Net income	43,350	18.0	35,136	13.1	8,214
Unappropriated retained earnings brought forward	—	—	—	—	—
Total unappropriated retained earnings	43,350	18.0	35,136	13.1	8,214

(3) Statements of Retained Earnings

(Millions of yen)

	Fiscal 2003 (April 1, 2003 to March 31, 2004)	Fiscal 2002 (April 1, 2002 to March 31, 2003)	Increase/ (Decrease)
Unappropriated retained earnings	43,350	35,136	8,214
Reversal of reserve for reduction of fixed assets	119	124	(5)
Total	43,469	35,260	8,209
Appropriated as follows:			
Cash dividends	7,833	9,879	(2,046)
	¥25 per shares	¥30 per share	
	Ordinary dividend	Ordinary dividend	¥25
	¥25	Commemorative dividend	5
Directors' bonuses (including bonuses paid to corporate auditors)	87 (6)	87 (9)	— (3)
Reserve for reduction of fixed assets	453	52	401
General reserves	35,095	25,241	9,854

Notes:

1. Reversal of reserve for reduction of fixed assets is in accordance with regulations stipulated in the Special Measures Act Concerning Temporary Taxation.
2. Reserve for reduction of fixed assets for fiscal 2003 includes an amount ¥19 million in line with reduction adjustment of deferred tax liabilities due to a change in income tax rates.
3. Dividends for fiscal 2003 are calculated exclusive of 27,609,242 shares of treasury stock.

Summary of Significant Accounting Policies Used in Preparation of
Non-Consolidated Financial Statements

1. Standards and evaluation methods for marketable securities

Shares in subsidiaries and affiliated companies

Stated at cost determined by the moving-average method

Other marketable securities, securities for which market quotations are available:

Market value, determined by the market price as of the balance sheet date, with unrealized gains and losses reported in shareholders' equity and the selling price determined by the moving-average method.

Other marketable securities, securities for which market quotations are unavailable:

Stated at cost determined by the moving-average method

2. Inventories

Manufactured goods, merchandise, semi-finished goods, and unfinished goods:

Stated at cost determined by the average method

Materials:

Stated at cost determined by the moving-average method

Inventories:

Stated at last purchase price (however, promotional goods stated at cost determined by the moving-average method)

Changes to Accounting Standards:

Historically, materials were stated at cost determined by the average method and promotional goods stated using the last purchase method. In order to more accurately value inventories and in a more timely fashion, a new accounting standard was adopted in the fiscal year under review. From fiscal 2003, materials and promotional goods are valued at cost determined by the moving-average method.

The impact of the adoption of this new accounting standard on the Company's financial statements is immaterial.

3. Method for depreciating and amortizing fixed assets

Tangible fixed assets

Depreciation is computed using the declining balance method. For buildings acquired after April 1, 1998, depreciation is computed using the straight-line method. Estimated useful life is the economic life of the asset.

Intangible fixed assets

Depreciation is computed using the straight-line method. However software for in-house use is computed using the straight-line method based on an estimated useful life of 5 years.

4. Accounting treatment for deferred assets

The amount of deferred assets is charged to income at the time of payment.

5. Accounting for allowances and reserves

Allowance for doubtful accounts

The allowance for doubtful accounts provides for possible losses arising from default on accounts receivable. Based on the default ratio of general loans, the likelihood of repayment of certain loans about which there is concern regarding default is determined, and the anticipated unrecoverable amount is recorded.

Allowance for returned merchandise

To allow for losses due to returned merchandise, an amount of losses that is a portion of anticipated future losses from returned merchandise is recorded.

Reserve for bonuses

To allow for the payment of employee bonuses, an amount of bonuses that is a portion of anticipated future payment of bonuses is recorded.

Reserve for retirement benefits

To cover projected employees' retirement benefits, the Company provides the estimated amount of benefit obligation and pension plan assets at the end of the fiscal year. Employees' past service costs are stated at cost by the straight-line method, based on certain years within the average remaining service length, when employees' past service costs are generated. From the following fiscal year, the differential amount in the computation is to be stated at cost by the straight-line method, based on certain years within the average remaining service length, when employees' past service costs are generated.

Additional Information:

Following the enactment of the "Defined Benefit Corporate Pension Plan Law," Taisho Pharmaceutical's application seeking exemption from the future benefit obligation of the substitutional retirement portion of the Welfare Pension Fund was approved by the Minister of Health, Labour and Welfare on February 25, 2004. Accordingly, Taisho Pharmaceutical adopted the transitional measure provided in paragraph 47-2 of the "Practical Guidance for Employee Retirement Benefit Accounting (Interim Report)" in the 13th issue of the Accounting Committee Report of the Japanese Institute of Certified Public Accountants and recognized as null and void its retirement payment obligation relating to the substitutional portion of the fund managed on behalf of the government as of the date approval was granted. The amount of pension assets refund as of March 31, 2004 was ¥17,622 million.

Reserve for directors' retirement benefits

A reserve for directors' and executive officers' retirement benefits is provided to adequately cover the costs of directors' and executive officers' retirement benefits, which are accounted for on an accrual basis in accordance with in-house regulations.

6. Translation of foreign currency transactions and accounts

Receivables and payables denominated in foreign currencies are translated as of the balance sheet date using current exchange rates, with discrepancies recorded as gains or losses.

7. Accounting for leases

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

8. Accounting for hedges

(1) Hedge accounting method

Hedging is principally computed under deferred processing.

(2) Hedging method, hedge targets

Hedging method

Derivative transactions (foreign exchange contract transactions and interest rate swap transactions)

Hedge targets

Although it is possible that losses may result from rate fluctuations, such fluctuations are avoided by targeting products that do not reflect rate fluctuations and those that provide a fixed cash flow.

9. Other

(1) Consumption tax

Financial statements are prepared exclusive of consumption tax.

Notes

(Millions of yen)

(Balance Sheets)

	March 31, 2004	March 31, 2003
1. Depreciation of property, plant and equipment	131,942	128,244
2. Shares		
Number of authorized shares (shares)	1,195,459,000	1,195,459,000
Number of shares issued and outstanding (shares)	340,965,510	340,965,510
3. Treasury stock—common stock	27,609,242	11,646,919
4. Guarantee obligation	398	398

(Statements of Income)

	Fiscal 2003	Fiscal 2002
1. Depreciation and amortization		
Tangible fixed assets	10,612	11,923
Intangible fixed assets	3,440	3,103
2. R&D expenses included in selling, general and administrative expenses and in production costs for fiscal 2002	24,191	29,535

(Lease Transactions)

Finance leases, other than those where ownership of the leased assets is transferred to the lessee, were as follows:

	Fiscal 2003	Fiscal 2002
	Tangible and Intangible	Tangible and Intangible
	Fixed Assets	Fixed Assets
1. Acquisition cost equivalents	24,209	20,609
Accumulated depreciation	9,358	6,271
Term-end balance equivalents	14,851	14,338
2. Future lease payment		
Within one year	4,668	3,584
Over one year	10,182	10,754
Total	<u>14,851</u>	<u>14,338</u>
3. Leases paid (depreciation)	4,512	3,003

4. Depreciation is computed using the straight-line method, assuming the lease period to be the useful life and residual value to be zero.

(Marketable securities)

Shares in subsidiaries and affiliated companies with market value as of March 31, 2004

(Millions of yen)

	Book value	Market value	Unrealized gain (loss)
Shares in subsidiary companies	—	—	—
Shares in affiliated companies	19,012	17,415	(1,597)
Total	19,012	17,415	(1,597)

Shares in subsidiaries and affiliated companies with market value as of March 31, 2003

(Millions of yen)

	Book value	Market value	Unrealized gain (loss)
Shares in subsidiary companies	—	—	—
Shares in affiliated companies	19,012	18,619	(393)
Total	19,012	18,619	(393)

(Notes to accounting for income taxes)

1. Principal deferred tax assets and liabilities were as follows:

(Millions of yen)

	As of March 31, 2004	As of March 31, 2003
Deferred tax assets		
Enterprise tax payable	1,130	790
Accrued expenses	1,569	2,423
Accrued research expenses	2,591	2,859
Amount exceeding reserve for employee bonus limit	1,151	1,240
Amount exceeding reserve for employee retirement benefit limit	12,332	15,107
Prepaid long-term research expenses	1,669	2,215
Loss on valuation of investment in securities	1,344	1,132
Allowance for directors' retirement benefits	607	564
Valuation difference on other marketable securities	—	113
Other	4,433	4,140
Total deferred tax assets	<u>26,831</u>	<u>30,588</u>
Deferred tax liabilities		
Valuation difference on other marketable securities	(9,428)	—
Fixed asset reduction reserve	(2,225)	(2,034)
Total deferred tax liabilities	<u>(11,654)</u>	<u>(2,034)</u>
Deferred tax assets—net	<u>15,177</u>	<u>28,553</u>

2. The effective income tax rates of the companies differed from the statutory tax rate for the following reasons:

	%
Statutory tax rate	42.0
(Adjustments)	
Expenses not deductible for tax purposes	0.1
Non-taxable dividend income	(0.3)
Tax credits for research expenses, etc.	(3.3)
Adjustments of deferred tax assets at end of period due to change in tax rates	0.5
Other—net	(0.1)
Effective tax rate	<u>38.9</u>

In fiscal 2002, a revision to the local tax law was enacted, which will take effect from the following fiscal year. As a result, the statutory tax rate applied in fiscal 2003 was 42.0%. The statutory tax rate applied in the calculation of deferred assets as of the end of the fiscal year under review was 40.5%.

(Per share information)

Fiscal 2003 (April 1, 2003 to March 31, 2004)		Fiscal 2002 (April 1, 2002 to March 31, 2003)	
Shareholders' equity per share	1,617.77	Shareholders' equity per share	1,481.89
Net income per share	135.51	Net income per share	105.05
Diluted net income per share is not reported since the Company has no instruments outstanding of a dilutive nature.		Diluted net income per share is not reported since the Company has no instruments outstanding of a dilutive nature.	
Basis for calculating net income per share		Basis for calculating net income per share	
Net income (millions of yen)	43,350	Net income (millions of yen)	35,136
Net income applicable to common stock (millions of yen)	43,263	Net income applicable to common stock (millions of yen)	35,049
Details of amounts not attributable to shareholders		Details of amounts not attributable to shareholders	
Net income appropriated to directors' bonus (millions of yen)	87	Net income appropriated to directors' bonus (millions of yen)	87
Average number of common stock for the period (shares)	319,253,969	Average number of common stock for the period (shares)	333,656,072
Details of diluted shares not included in net income per share due to their non-dilutive effect.		Details of diluted shares not included in net income per share due to their non-dilutive effect.	
Purchase of treasury stock for the purpose of stock option pursuant to the former Article 210-2 of the Commercial Code	144,000	Purchase of treasury stock for the purpose of stock option pursuant to the former Article 210-2 of the Commercial Code	144,000

Transfer of Officers (as of June 29, 2004)

1. Change in representative director

No change

2. Change in directors

(1) Candidate for corporate auditor

Corporate auditor Takayuki Tsukuda (Current title and position—President and Representative Director, Royal Hotel Co., Ltd.)

Note: Mr. Takayuki Tsukuda is proposed as an outside candidate for the position of corporate auditor pursuant to Article 18.1 of “The Law for Special Exceptions to the Commercial Code Concerning Audits, etc. of Joint Stock Corporation.”

(2) Retiring director

Managing Director Yoshimasa Miki
Executive Director Hironaka Aihara
Executive Director Yukio Yamamoto