

December 7, 2004

Teikoku Hormone Mfg. Co., Ltd.

Teikoku Hormone and Grelan Pharmaceutical Enter into an agreement to merge on October 1, 2005

Teikoku Hormone Mfg. Co., Ltd. (Headquartered in Tokyo, Japan; President: Takashi Yamaguchi; “Teikoku”) and Grelan Pharmaceutical Co., Ltd. (Headquartered in Tokyo, Japan; President: Hisayuki Noguchi; “Grelan”) today announced that the two companies have reached an agreement to merge on October 1, 2005, on the premise that the merger is subject to shareholder and regulatory approvals.

An extraordinary shareholders meeting will be held in February 2005 to discuss and approve the merger.

#### 1. Background and the objectives of the merger

The business environments surrounding Japanese pharmaceutical industries has become increasingly challenging due to further implementation of medication expenditure control through periodical price cuts and other measures as a part of national medical spending containment policies as well as the intensifying competition through extension of globalization of the domestic market by penetration of U.S. and European pharmaceutical companies.

To achieve sustainable growth under such severe circumstances, Teikoku and Grelan have acknowledged that it is necessary to combine their respective competences namely, excellent R & D capabilities to innovate new drugs continually, strong marketing presence and healthy financial underpinnings.

Teikoku and Grelan have been considering a merger to create a research-driven pharmaceutical company with strengthened competitive capability as “Specialty Pharma”. Today they reached an agreement on the terms of their merger.

The newly combined company (“Combined Company”) aims to achieve maximization of shareholders’ value and to contribute to the improvement of health care and quality of life by leveraging accelerated growth through the combination of R & D, marketing and strong financial resources of both companies.

## 2. Outline of the merger

### (1) Schedule

Board meeting for approval of Merger Agreement	December 7, 2004
Signing of Merger Agreement	December 7, 2004
Shareholders meeting for approval of Merger Agreement	February 25, 2005 (Schedule)
Effective date of Merger	October 1, 2005 (Schedule)

### (2) Merger structure

The merger will be effected as a Japanese statutory merger transaction whereby Teikoku will be the surviving entity. Merger will be carried out in a spirit of equality.

### (3) Merger Ratio

Company	Teikoku (Surviving Entity)	Grelan (Merged Entity)
Merger Ratio	1.0	1.5

#### Note

##### 1. Allocation of shares

1.0 Grelan share will be exchanged for 1.5 Teikoku shares.

On an equity value basis, the ratio between Teikoku and Grelan is 1:0.28.

##### 2. Basis of evaluation of merger ratio

The two companies negotiated and agreed on the above merger ratio based on the valuations carried out by the financial advisors appointed by the respective companies independently. Both Teikoku and Grelan have received opinions from their respective advisors, i.e. Nikko Cordial Securities Inc. for Teikoku and Alliance Co., Ltd. for Grelan.

It is to be noted that should any material change in the conditions used as a basis for the Merger Ratio calculation occur, the Merger Ratio is subject to change through discussions between two merging companies.

##### 3. Valuation results, methods and basis by third party

Nikko Cordial Securities Inc. made valuation and analysis by using Stock price method, DCF method, Adjusted net book value Method and Market multiple method for Teikoku; DCF method, Adjusted net book value Method and Market multiple method for Grelan.

Alliance Co., Ltd. made valuation and analysis by using Stock Price Average method, DCF method, Adjusted net book value Method for Teikoku; DCF method, Adjusted net book value Method and Market multiple method for Grelan.

#### 4. Number of newly issued shares (anticipated)

Common stock                      6,605,119 shares

#### (4) Cash payment upon merger

No cash payment is planned to shareholders of Teikoku and Grelan under this merger, except for the instance in which cash payment is made upon merger in place of Grelan's interim dividend.

#### 3. Company profiles

Company name	Teikoku Hormone Mfg. Co., Ltd (Surviving Entity)	Grelan Pharmaceutical Co., Ltd. (Merged entity)
Business	Manufacturing, marketing and import/export of pharmaceuticals, quasi-drugs, foods, medical devices, etc.	Manufacturing, marketing and import/export of pharmaceuticals, quasi-drugs, foods, medical devices, etc.
Date of establishment	June, 1929	March, 1950
Location of head office	5-1, Shibaura 2-Chome, Minato-ku, Tokyo	3-4-3, Sakaecho, Hamura-city, Tokyo
Representative	Takashi Yamaguchi	Hisayuki Noguchi
Capital (units: thousand yen)	1,197,900	220,240
Total shares outstanding	23,958,000 shares (as of Sept. 30, 2004)	4,408,400 shares (as of Sept. 30, 2004)
Shareholders equity (units: thousand yen)	32,875,702	996,985
Total assets (units: thousand yen)	44,866,860	9,240,763
Fiscal year end	March 31	March 31
Employees	860	277
Major customers and suppliers	Takeda Chemical Industries, Ltd. Sumitomo Pharmaceuticals Co., Ltd.	Takeda Chemical Industries, Ltd.
Major shareholders (%) (as of Sept. 30, 2004)	Bank of Tokyo Mitsubishi                      4.83 Morgan Stanley & Co. Inc.                      4.19 Eiichi Yamaguchi                                      4.00 Takeda Chemical Industries                      3.81 B. B. H. Boston Heartland Value Fund Inc.                                      2.92 Nippon Life Insurance                              2.41 Toa Reinsurance Co., Ltd.                          2.08 (Note) Teikoku has 540 thousand shares (2.27%) of its own shares	Nagase & Co., Ltd.                                      34.02 Takeda Chemical Industries                      18.00 Hisayuki Noguchi                                      15.89 Grelan Pharm. Employees Shareholding Union                                      10.14 Bank of Tokyo Mitsubishi                          3.97 Hashime Kanazawa                                  2.82 UFJ Bank    1.58
Main banks	Bank of Tokyo Mitsubishi UFJ Bank	Sumitomo Mitsui Banking Coop. Bank of Tokyo Mitsubishi
Number of	3,921	110

shareholders		
Relationship	Capital	None
	Personnel	None
	Trading	None

## Results for the past three fiscal years (Consolidated)

(units: thousand yen)

Fiscal year	Teikoku (Surviving Entity)			Grelan (Merged Entity)			
	Mar. 2002	Mar. 2003	Mar. 2004	Sept. 2001	Sept. 2002	Mar. 2003	Mar. 2004
Net Sales	22,448,123	21,157,287	20,188,209	7,773,726	8,141,874	4,541,193	8,764,999
Recurring Income	2,236,588	1,289,681	530,749	249,709	526,579	634,763	869,261
Net Income	712,882	121,816	271,086	240,021	262,734	238,043	168,470
Earnings per share (yen)	29.75	5.07	11.57	54.45	59.63	53.52	36.88
Dividend per share (yen)	8.00	8.00	12.00	—	5.0	2.5	5.0
Shareholders' equity per share (yen)	1,350.84	1,352.00	1,409.55	273.04	153.00	199.77	226.60

Note: 1. Figures of Grelan at Fiscal year of Mar. 2003 correspond to 6 months settlement due to change of the fiscal year end.

2. Figures of Grelan are of the single entity because no consolidated settlement is done by Grelan.

## 4. Description of the Combined Company

(1) Company name: to be determined (will be determined upon consultation of both companies)

## (2) Business Description

Manufacturing, marketing and import/export of pharmaceuticals, quasi-drugs, foods, medical devices, etc.

## (3) Location of head office

5-1, Sibaura 2-Chome, Minato-ku, Tokyo

## (4) Representatives

President, Representative Director Takashi Yamaguchi

Vice President, Representative Director Hisayuki Noguchi

(5) Capital: 1,197,900 thousand yen

(6) Total Assets: to be determined

(7) Fiscal year end: March 31

(8) Business aspects after merger

Financial performance of Teikoku for the current fiscal year will not be influenced by this announcement. Financial performance from the next fiscal year on is described below in “(9) Forecast of performance after the merger” and “(10) Forecast of consolidated performance after the merger”.

(9) Forecast of performance after the merger (for two periods)

(Unit: Million yen)

	Mar. 2006	Mar. 2007
Net Sales	25,600 (5,000)	31,500 (10,400)
Operating income	1,600 ( 740)	2,870 ( 1,670)
Recurring income	1,580 ( 590)	2,730 ( 1,400)
Net income	830 ( 340)	1,530 ( 820)
Earnings per share (yen)	27.64	50.96

Note: 1. Figures in parentheses are expected figures attributable to the merger.

2. Net income will be fluctuated due to the amount of tax, etc.
3. As for figures of March 2006, expected contribution of half the fiscal year of the merged company is included.
4. The above figures are sums of the forecast of each of the two companies. Synergy effects after the merger are under consideration at present.

(10) Forecast of consolidated performance after the merger (for two periods)

(Unit: Million yen)

	Mar. 2006	Mar. 2007
Net Sales	25,800 (5,000)	31,600 (10,400)
Operating income	1,650 ( 740)	2,900 ( 1,670)
Recurring income	1,630 ( 590)	2,770 ( 1,400)
Net income	870 ( 340)	1,560 ( 820)

Note: 1. Figures in parentheses are expected figures attributable to the merger.

2. Net income will be fluctuated due to the amount of tax, etc.
3. As for figures of March 2006, expected contribution of half the fiscal year of the merged company is included.
4. The above figures are sums of the forecast of each of the two companies. Synergy effects after the merger are under consideration at present.