

December 24, 2004

Teikoku Hormone Mfg. Co., Ltd.

Answer to the "Friendly Management Buyout Proposal II" by Dalton Investments

On December 20, 2004, we received the proposal "Friendly Management Buyout Proposal II" from Dalton Investments LLC (Dalton) (Representative: Mr. James B. Rosenwald). However, same as the former proposal, no concrete future business strategy was presented, except for the offer in which Dalton would buy 100% of the outstanding stocks at 1,300 Yen per share.

We had announced the conclusion of agreement on the merger with Grelan Pharmaceuticals as of December 7, 2004, and, therefore, we formerly declined the proposal by Dalton today.

Dalton raised questions on the contents of agreement on the merger (i.e., valuation on Grelan) and cast doubt on the increase in shareholder value. We consider that the valuation on Grelan is right, because the valuation was determined through discussion based on the evaluation of merger ratio by financial advisors appointed independently by both parties. We can expect sufficient synergy effects by expanding new product pipeline, framework and know-how of future development of new products, and marketing organization, together with the operation systems we have cultivated.

Therefore, we are confident that this merger will increase the shareholder value from the mid- and long-term viewpoint.

We take this proposal as one of the valuable opinions from shareholders to our management and will continuously investigate the business strategy for the increase in the benefits of shareholders.