

February 10, 2005

News Reports Concerning Dalton Investments LLC

Several newspapers issued on February 8 and 9 reported that Dalton Investments LLC (Dalton), which owns more than 5% of outstanding common stock of our company, opposed the merger with Grelan Pharmaceutical (Grelan) scheduled for October 1, 2005.

According to the reports, Dalton seems to insist that the merger ratio is favorable to Grelan and is detrimental to our shareholders' values, mentioning that when based on Grelan's recent financial figures, the evaluation of Grelan shares corresponds to 7 times of net asset value and to 44 times of last year's earnings.

Concerning the merger ratio, each company had selected financial advisors independently. In our case, the evaluation of stock value was done in detail and objectively by Nikko Cordial Securities Inc., our financial advisor. Based on the evaluation of each company, both companies discussed and determined the merger ratio with enough care for the interest of our shareholders. The merger ratio mentioned in Merger Agreement is Teikoku: Grelan = 1: 1.5, however, this is due to the fact that Grelan's total outstanding stocks are relatively few. In terms of total stock values, ratio of two companies will become 1: 0.28. Therefore this merger is not detrimental to our shareholders' values.

We have decided to merge with Grelan because we judged that future expansion of profit can be expected because Grelan is developing new drug with big sales having high certainty of launching. When the company values and merger values of such companies as Grelan are evaluated, the valuation of present asset condition based only on net assets is not reasonable, and future expected profitability shall be an important factor.

Grelan had built good relationship with some foreign pharmaceutical companies and is a company having the R&D capability to swiftly introduce the information on the development of new drugs outside Japan, conduct clinical development and file a new drug application. In fact, Lipidil, a drug for the treatment of hyperlipidemia which is to be marketed next month, can differentiate from other competitors by its micronized formulation. This product will be co-marketed by Kaken Pharmaceutical and Teijin Pharma, and large profit can be expected.

Furthermore, a launch of a new drug with big sales is scheduled within a few years. BNP-7787 (Product Name: Tavocept) generated by an American bio-venture company, BioNumerik is at Phase III clinical trial and will be marketed in 2007. Tavocept draws attention internationally as

a new drug alleviating the neurotoxicity caused by cancer chemotherapy. Grelan has a right of the product in Japan. After the merger, we expect an opportunity of large increase in the profit through market of Tavocept. For reference, Takeda Pharmaceutical Co., Ltd. receives the marketing right of Tavocept in Northern American territory and announces that the product is positioned as one of the key products which will strengthen their strategy in the field of cancer treatment.

It is also reported that the merger with Grelan was planned in order to reduce Dalton's shareholding ratio. However, we do not have such an idea. We are confident that this merger will strengthen the new products pipeline, expansion of sales and marketing organization, reduce the duplicated cost, etc., will give the increase in the corporate values. We would appreciate it if shareholders and stakeholders will understand our position.

At the end of last year, some newspapers reported that Dalton offered the "Friendly Management Buyout (MBO)." It is true that we have received such proposal, however, the proposal seemed hardly to be realized because all shareholders' agreement is a prerequisite of MBO. Furthermore, the proposal had no concrete management strategy. Therefore we could not accept their proposal. Our idea is that we will share appropriate profits to the shareholders by increasing the profits of the company.

In the meantime Dalton asked us to increase the dividend up to 400 yen per share on December 15, 2004, which we had not announced. This proposal would cause temporary funding and loss in resources for the development of new drugs in future, etc., and would be detrimental to the corporate values. It seems to be only for the purpose of short-term benefit for shareholders. We understand this proposal is made for the purpose of retaining shareholders profit in short term.

Also on January 20, 2005, Dalton requested us that we or our subsidiaries should purchase back the shares of our company which Dalton owns at 1,100 yen per share which is at a premium of 8% over the closing price on January 20, 2005 (i.e., 1,017 yen per share). However, there was no room to consider for us the purchase at higher price than current price. We declined the above proposals after the internal review promptly. Dalton's inconsistent requests and proposals have confused us.

An extraordinary shareholders meeting is scheduled on February 25, 2005, and an approval of this merger will be proposed. As mentioned above, this merger is planned to increase the corporate values and benefit of shareholders. We would like to ask our shareholders to agree with this merger. We are pleased to inform that our major shareholders and main business partners have agreed the merger.