

Annual Report 2005  
Year ended March 31, 2005

# *Leading the Way*



NIPPON CHEMIPHAR Co., LTD.

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### **Note about Forward-Looking Statements and Forecasts**

Statements made in this annual report with respect to current plans, estimates, strategies and beliefs and other statements of Nippon Chemiphar that are not historical facts are forward-looking statements about the future performance of Nippon Chemiphar. These statements are based on management's current assumptions and beliefs in light of the information currently available to it and involve known and unknown risks and uncertainties. Consequently undue reliance should not be placed on these statements. Nippon Chemiphar cautions the reader that a number of important factors could cause actual results to differ materially from those discussed in the forward-looking statements.

## PROFILE

The pharmaceutical company Nippon Chemiphar Co., Ltd. (4539) was established in 1950 and has been listed in the First Section of the Tokyo Stock Exchange since 1976. With its depth of expertise in drug discovery, Chemiphar is strategically focused on scanning and identifying drug leads for further development. Its R&D centers on analgesics, therapies for life style-related diseases, and hyperuricemia (the presence in the blood of an abnormally high concentration of uric acid).

Chemiphar is speeding up development and candidate screening of compounds it has discovered, and plans to license these overseas with a view to accelerating commercialization. Opportunities for venture-based drug research and for licensing are being sought so that new pharmaceuticals may be brought to the global market with minimum delay.

## MISSION STATEMENT

The goal of the Chemiphar Group is to make a difference in society by providing pharmaceutical drugs and healthcare-related services to help people become and remain healthy.

### Key Financial Data

(Year ended Mar. 31)	2004 (¥ mn)	2005 (¥ mn)
Net sales	17,706	20,162
R&D expenses	1,682	1,706
Operating income	1,005	1,632
Net income (loss)	(1,463)	846

## MESSAGE FROM THE PRESIDENT



It is with great pride that Nippon Chemiphar Co., Ltd. marks its 55th anniversary this year. Our celebration comes at a time when Japan, which boasts the world's highest longevity rate, is experiencing major increases in medical costs that are causing the National Health Insurance System to buckle under the burden of rising medical costs. In addition, an increased incidence of life style-related diseases has become evident not only among members of the graying population, but also among the young. While this phenomenon has become typical of mature societies around the globe, I believe that the early treatment of hyperuricemia and greater access to generic drugs will go far in improving the quality of many people's lives.

### **EARLY TREATMENT OF HYPERURICEMIA**

In Japan, it is only recently that hyperuricemia has been recognized as a clinical condition. I believe it is thus our duty to ensure that members of the public are educated regarding the importance of treating hyperuricemia, and the role of the urinary tract in this process. Moreover, they should be made aware of the fact that early treatment can help prevent complications caused by such life-style diseases as hypertension and diabetes, thereby facilitating early recovery and lowering medical costs.



President Kazushiro Yamaguchi and Michael Long, Ph.D., president and CEO of Velcura Therapeutics, Inc., following their signing of a licensing agreement for Chemiphar's NC-2300 compound.



In Paris, Cerenis Therapeutics, S.A. Directors (from left) Jean-Louis Dasseux, Ph.D., Carmen Daniela Oniciu, Ph.D. and William Brinkerhoff meet to discuss the development of Chemiphar's PPAR delta agonist.

## GENERIC DRUGS

We provide quality generic drugs that are affordable, safe and effective, and we ensure that medical professionals and patients are provided with adequate drug-related information. It is our hope that, in time, more hospitals will also use generic drugs.

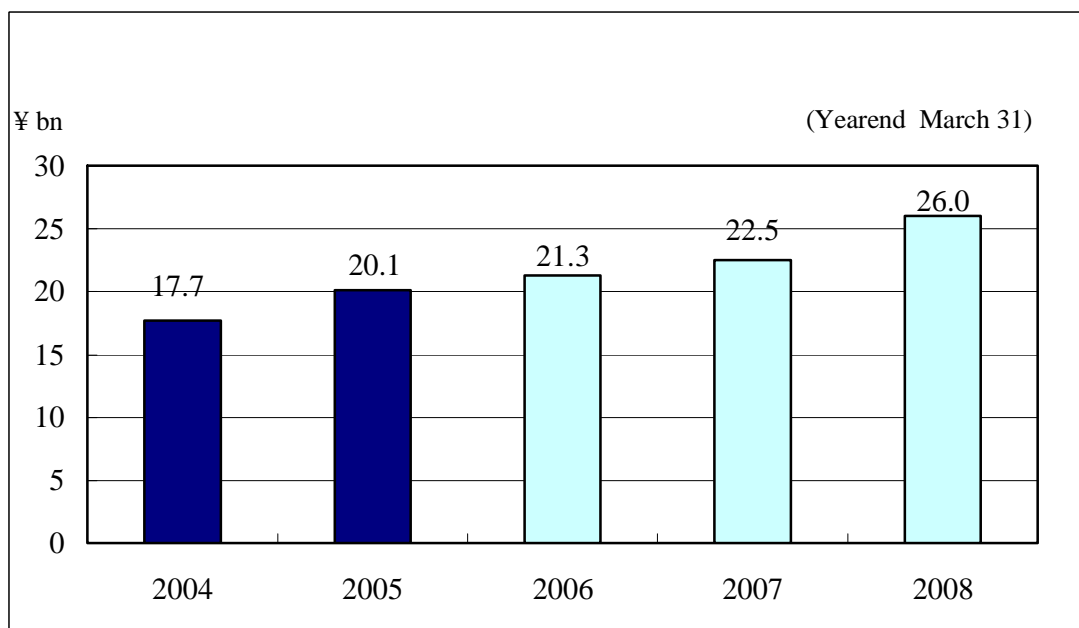
By promoting the use of these drugs, we seek to help lower the price of staying healthy, and assist hospitals to more effectively manage their costs.

Through our business, we wish to make a difference in society. The most important challenge facing management is how to provide patients with superior and affordable pharmaceuticals, earn stable profits for the benefit of our shareholders, and steadily increase our corporate value. We look forward to the continued support of all our shareholders.

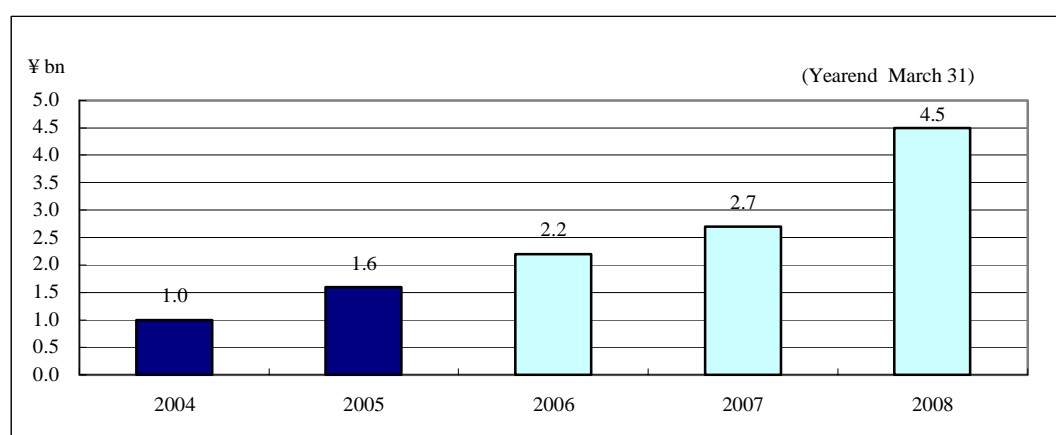
Kazushiro Yamaguchi  
President & CEO

## CONSOLIDATED BUSINESS HIGHLIGHTS

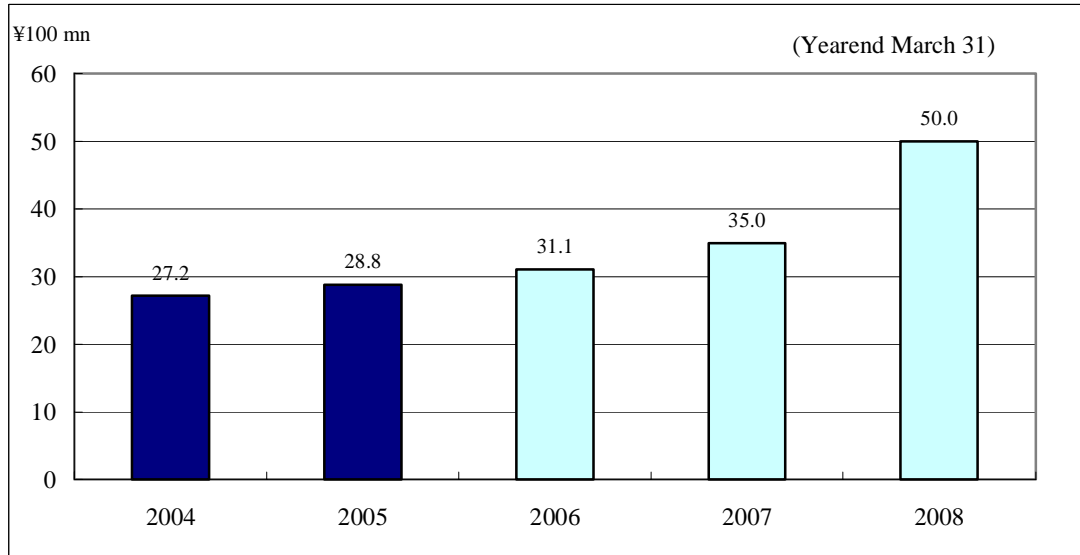
### Sales



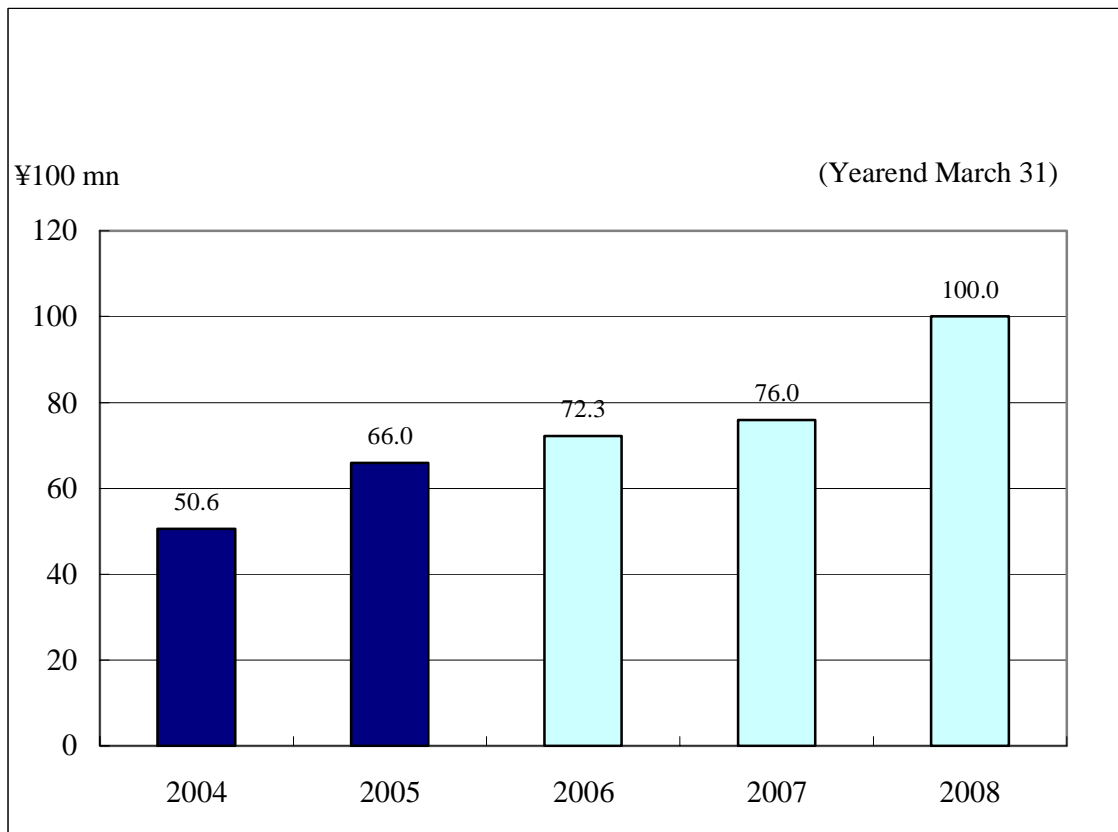
### Operating Income



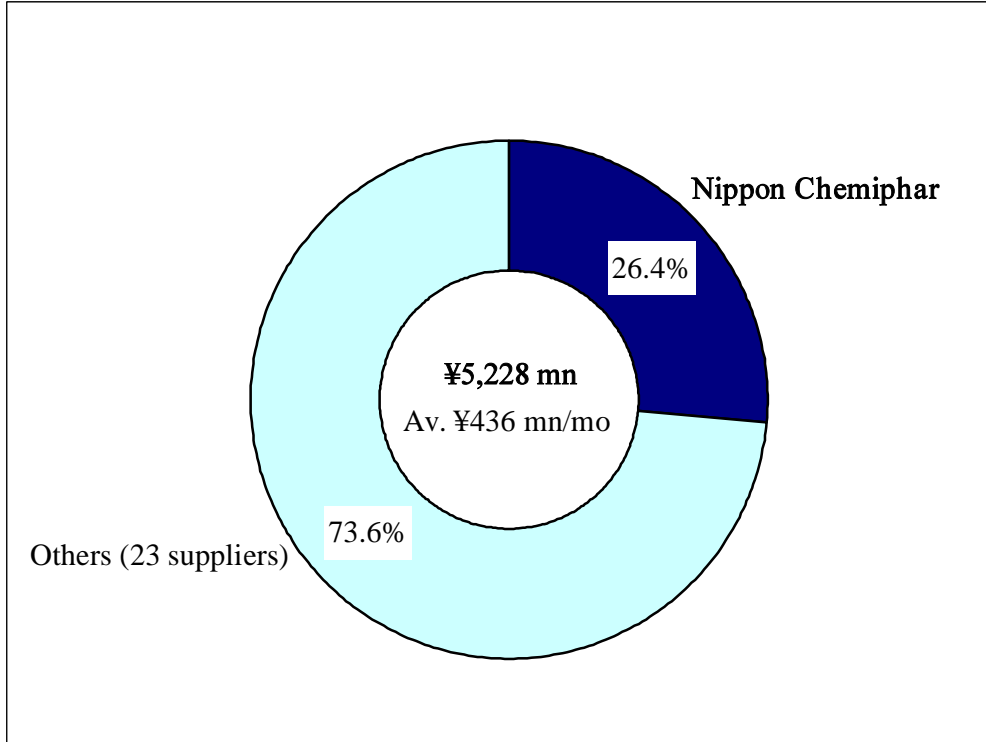
## Sales of Uralyt



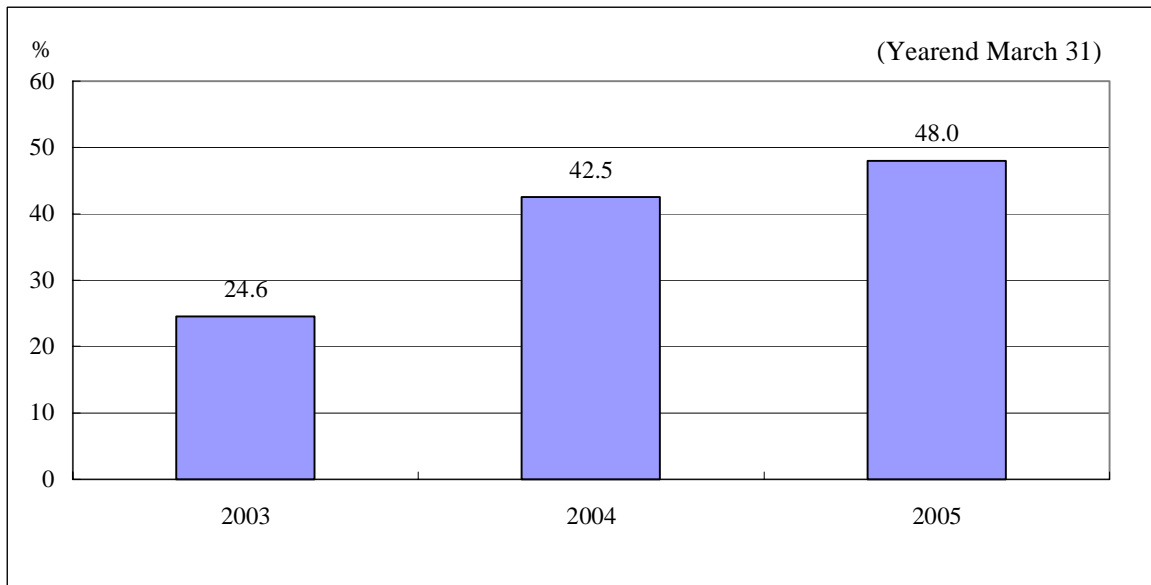
## Generic Drug Sales



### Market Share of Generic Pravastatin



### Chemiphar Generic Drugs—Use in Public Hospitals





# BUSINESS STRATEGY

## Principal Goals

### 1. Publicize the importance of treating hyperuricemia

With the urine alkalization treatment Uralyt, one of Chemiphar's leading products, the company aims to be a major force in generating awareness regarding hyperuricemia, and in exploring the role of the urinary tract in this condition, thus making it a market leader in the treatment of hyperuricemia.

### 2. Raise the profile of generic drugs in medical institutions

To date, Japanese medical institutions have not favored generic drugs. However, the government has introduced measures to promote their use in order to help control rapidly growing medical costs. At the same time, Chemiphar is also working to promote the use of generic drugs in Japan, to which end it is strengthening its tie-ups with other pharmaceutical companies such as the world-renowned Ranbaxy Laboratories Limited, major wholesalers, and dispensing pharmacies. With its depth of expertise in drug assessment, as well as in collecting and providing information, Chemiphar will continue to make available reliable, high-quality generics with a view to becoming an industry leader in providing these drugs to medical facilities.

## Medium-Term Management Plan

(April 2005 to March 2008)

Nippon Chemiphar Co., Ltd. launched a three-year, medium-term management plan on April 1, 2005. The plan has comprehensive sales and marketing strategies, tackles outstanding accumulated losses, focuses on research and development, and seeks to strengthen the company's position in the industry.

## Outlook

### Numeric Targets

1. 30% increase in consolidated sales

#### Consolidated Sales

(Yearend Mar. 31)	FY 2005	FY 2006	FY 2007	FY 2008 (Forecast)
Overall sales	¥20.0 bn	¥21.3 bn	¥22.5 bn	<b>¥26.0 bn</b>
Uralyt sales	¥2.9 bn	¥3.1 bn	¥3.5 bn	<b>¥5.0 bn</b>
Generic drug sales	¥6.6 bn	¥7.2 bn	¥7.6 bn	<b>¥10.0 bn</b>

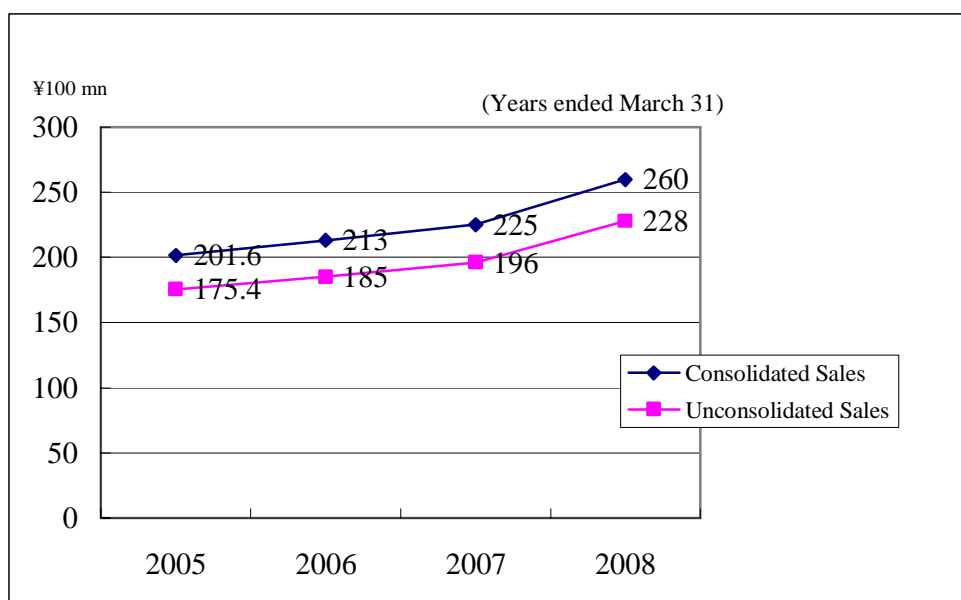
2. More than three-fold rise in consolidated ordinary income

#### Consolidated Ordinary Income

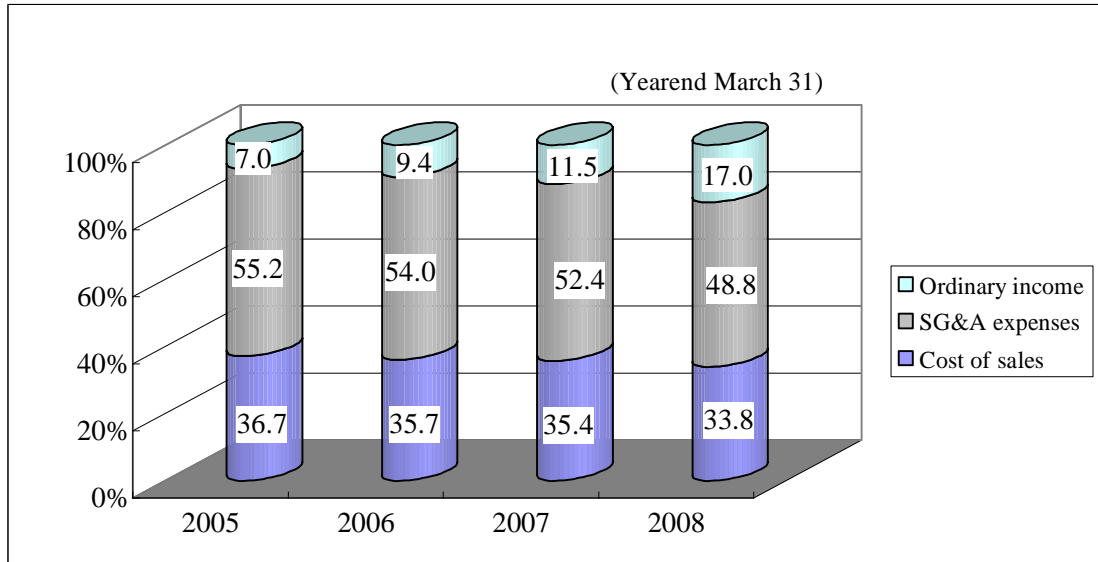
(Yearend Mar. 31)	FY 2005	FY 2006	FY 2007	FY 2008 (Forecast)
Ordinary income	¥1.4 bn	¥2.0 bn	¥2.6 bn	<b>¥4.4 bn</b>

3. Cleanup of ¥2.25 billion accumulated loss by March 31, 2007

#### Three-Year Sales Plan



## Consolidated Sales



### Uralyt Sales Expansion Strategy

Hyperuricemia, once considered preliminary to the onset of gout, has been recognized as a clinical condition and life-style disease. Thus, in addition to the approximately 150,000 individuals (of a reported 600,000 total) suffering from gout and for whom Uralyt was prescribed in 2004, there are thought to be some six million others who might avoid the onset of hyperuricemia if treated with Uralyt.

However, since no absolute connection has yet been made between hyperuricemia and specific life-style diseases, medical practitioners plan to conduct research to ascertain whether the suggested links really exist.

Chemiphar expects Uralyt sales to expand as a result of the following.

1. Patient trials. These will be conducted by medical practitioners to confirm the suspected existence of a link between hyperuricemia and life-style diseases.
2. Clinical trials. Tests will be conducted to verify the relationship between:
  - (a) acidic urine and both pain and frequent urination; and
  - (b) acidic urine and the recurrence of urinary lithiasis.
3. Marketing alliances. Given a large potential market for Uralyt, Chemiphar would consider an alliance with makers of pharmaceuticals that Uralyt could supplement.
4. University hospitals. Were Uralyt recognized as a key treatment for hyperuricemia and life-style diseases, efforts would be made to raise the profile of the drug at university hospitals.

### **Generic Drugs—Development Strategies**

Nihon Pharmaceutical Industry Co. Ltd., a Chemiphar subsidiary, is involved in the development and production of generic drugs in Japan. When, three years ago, Chemiphar entered into a business alliance with one of India's leading pharmaceutical companies, Ranbaxy Laboratories Limited, it gave 10% of its shareholdings in Nihon Pharmaceutical Industry to the Indian enterprise.

With due consideration to the bottom line, Chemiphar is drawing up plans to have Ranbaxy manufacture generic drugs now produced and sold in Japan by Chemiphar. In July this year, Chemiphar successfully introduced to the Japanese market a generic drug that had been co-developed with Ranbaxy and produced at Ranbaxy Laboratories.

This is the first time Chemiphar has marketed a generic drug it developed with an overseas pharmaceutical company. To date, Chemiphar has marketed generic drugs in Japan that have been developed both by itself and by other selectively chosen Japanese pharmaceutical companies. It hopes to expand its development arrangements in order to broaden its market share.

At present, Chemiphar has 75 generic drugs on the domestic market, but has its sites on expanding this figure to 100 by the end of the current medium-term plan.

Another major consideration in terms of marketing strategy is the method whereby generic drugs are delivered. In a bid to more clearly differentiate its products from those of competitors so as to expand its market share, Chemiphar is researching ways of making its drugs easier to take and handle than name-brand drugs.

### **Generic Drugs—Marketing Strategies**

Chemiphar seeks to become one of Japan's top generic drug suppliers to hospitals by:

1. Supporting research groups to expand their network of medical practitioners;
2. Promoting alliances with such companies as N.I.C. Corporation, and dispensing pharmacy chains including Nihon Chouzai Co., Ltd. and Kraft Inc.
3. Planning to increase brand awareness by including "Chemiphar" in the name of future products.

## **Goals of Medium-Term Plan**

1. Increase general awareness regarding the importance of treating hyperuricemia and the role of the urinary tract in this process
2. Strengthen tie-ups with research groups, medical practitioners, and other pharmaceutical companies.
3. Generate profits by enhancing sources and distribution of generic drugs to:
  - Strengthen the association with Ranbaxy; and
  - Expand its alliance with dispensing pharmacy chains, such as Nihon Chouzai and Kraft, and build a national network system.
4. Exploit the potential of Asian markets by expanding into South Korea, China and other Asian countries.
5. Promote drug discovery and licensing of compounds at early stages of development for the treatment of osteoporosis, hyperlipemia and hyperuricemia.



## CONSOLIDATED FINANCIAL SECTION

This section is a translation of the Japanese-language Annual Security Report (April 1, 2004 to March 31, 2005) released by Chemiphar on June 30, 2005. In Japan, such reports are produced in accordance with the requirements of the Securities and Exchange Law. The original financial section of Japanese-language report was audited by ChuoAoyama Pricewaterhouse Coopers.

## Consolidated Balance Sheets

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries  
March 31, 2005 and 2004

(Millions of yen)

	Notes	2004		2005	
		Amount	%	Amount	%
(Assets)					
<b>Current assets</b>					
Cash and time deposits		3,733		3,697	
Trade notes and accounts receivables	1	3,632		3,974	
Inventories		1,181		1,158	
Deferred tax assets—current		45		64	
Other		191		139	
Allowance for doubtful accounts		(2)		(5)	
Total current assets		8,781	40.4	9,030	40.3
<b>Fixed assets</b>					
Property, plant and equipment					
Buildings and structures	2	10,302		10,218	
Less accumulated depreciation		7,302	2,999	7,384	2,833
Machinery, equipment and vehicles		3,294		3,321	
Less accumulated depreciation		3,002	292	3,037	283
Furniture and fixtures		2,215		2,176	
Less accumulated depreciation		2,021	194	1,990	186
Land	2, 4		6,813		6,793
Construction in progress			—		30
Net property, plant and equipment			10,298		10,127
Intangible fixed assets					
Exclusive implementation right			61		36
Other			25		25
Total intangible fixed assets			86		62
Investments and other assets					
Investments in securities	2, 3		697		1,238
Long-term loans			50		33
Long-term prepaid expenses			—		79
Leasehold deposits and loans to lessors			1,427		1,382
Other			563		671
Allowance for doubtful accounts			(171)		(190)
Total investments and other assets			2,567	11.8	3,213
Total fixed assets			12,953	59.5	13,403
<b>Deferred charges</b>					
Bond issuance costs			13		6
Total deferred assets			13	0.1	6
<b>Total assets</b>			<b>21,749</b>	<b>100.0</b>	<b>22,440</b>



(Millions of yen)

	Notes	2004		2005	
		Amount	%	Amount	%
(Liabilities)					
<b>Current liabilities</b>					
Notes and accounts payable—trade		2,403		2,814	
Short-term bank loans	2	7,454		1,269	
Current portion of long-term debt (bonds)		200		250	
Current portion of long-term debt	2, 7	—		1,709	
Accounts payable—other		147		132	
Accrued income taxes		209		290	
Consumption taxes payable		31		134	
Accrued expenses		1,060		1,014	
Deposits received		541		370	
Reserve for sales return		8		6	
Reserve for sales promotion expenses		—		136	
Other		168		132	
Total current liabilities		12,224	56.2	8,262	36.8
<b>Long-term liabilities</b>					
Bonds		800		550	
Long-term debt	2, 7	844		4,839	
Reserve for employees' retirement benefits		343		432	
Reserve for directors and statutory auditors' retirement benefits		503		539	
Deferred tax liabilities		40		45	
Deferred income taxes on revaluation of land	4	1,752		1,748	
Lease deposits from lessees		1,159		997	
Other		16		16	
Total long-term liabilities		5,460	25.1	9,170	40.9
Total liabilities		17,685	81.3	17,433	77.7
(Minority interests)					
Minority interests		399	1.8	485	2.2
(Shareholders' equity)					
Common stock		4,304	19.8	4,304	19.2
Additional paid-in capital		525	2.4	0	0.0
Retained earnings		(3,633)	(16.7)	(2,250)	(10.0)
Revaluation surplus of land	4	2,401	11.0	2,390	10.6
Net unrealized holding gain on securities		161	0.8	185	0.8
Treasury stock, at cost	6	(94)	(0.4)	(109)	(0.5)
Total shareholders' equity		3,664	16.9	4,521	20.1
<b>Total liabilities, minority interests and shareholders' equity</b>		<b>21,749</b>	<b>100.0</b>	<b>22,440</b>	<b>100.0</b>

## Consolidated Statements of Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2005 and 2004

(Millions of yen)

	Notes	2004		2005		
		Amount	%	Amount	%	
<b>Net sales</b>			<b>17,706</b>	<b>100.0</b>	<b>20,162</b>	<b>100.0</b>
<b>Cost of sales</b>			<b>6,942</b>	<b>39.2</b>	<b>7,407</b>	<b>36.7</b>
Gross profit			10,763	60.8	12,754	63.3
Reserve for sales returns			3		—	
Reversal of reserve for sales returns			—		1	
Total gross profit			10,759	60.8	12,756	63.3
<b>Selling, general and administrative expenses</b>	<b>1, 2</b>		<b>9,754</b>	<b>55.1</b>	<b>11,124</b>	<b>55.2</b>
Operating income			1,005	5.7	1,632	8.1
<b>Non-operating income</b>						
Interest income		1			1	
Dividend income		5			4	
Rental income from leasing property, plant and equipment		38			43	
Gain on sale of investment securities		103			—	
Equity in earnings of affiliates		32			27	
Other		40	220	1.3	81	157
<b>Non-operating expenses</b>						
Interest expense		326			203	
Loss on sale of trade notes receivable		82			63	
Other		97	507	2.9	107	373
Ordinary income			718	4.1		1,415
<b>Extraordinary income</b>						
Gain on sale of investment securities		—	—	—	83	83
<b>Extraordinary losses</b>						
Extraordinary loss on sales promotion expenses	3	290			—	
Provision for doubtful accounts		—			42	
Loss on disposal of inventories		—			90	
Loss on disposal of property, plant and equipment		—			57	
Loss on revaluation of investment securities		14			33	
Expenses for retirement benefits		51			51	
Other	4	62	417	2.4	—	275
Income before income taxes and minority interests			300	1.7		1,223
Income taxes—current		240			323	
Income taxes—deferred		1,514	1,754	10.0	(33)	290
Minority interests			9	0.0		86
Net income (loss)			(1,463)	(8.3)		846

## Consolidated Statements of Retained Earnings

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2005 and 2004

(Millions of yen)

		2004		2005	
	Notes	Amount		Amount	
(Additional paid-in capital)					
<b>Balance at the beginning of the year</b>			205		525
<b>Increase in additional paid-in capital</b>					
Increase in investment due to issuance of new shares		319		—	
Gain on disposal of treasury stock		—	319	0	0
<b>Decrease in additional paid-in capital</b>					
Reversal of capital surplus		—	—	525	525
<b>Year-end balance of additional paid-in capital</b>			525		0
(Retained earnings)					
<b>Retained earnings at the beginning of the year</b>			(2,173)		(3,633)
<b>Increase in retained earnings</b>					
Net income		—		846	
Reversal of capital surplus		—		525	
Reversal of revaluation surplus of land, net of tax		3	3	10	1,383
<b>Decrease in retained earnings</b>					
Net loss		1,463		—	
Loss on disposal of treasury stock		0	1,463	—	—
<b>Year-end balance of retained earnings</b>			(3,633)		(2,250)

## Consolidated Statements of Cash Flows

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2005 and 2004

(Millions of yen)

		2004	2005
	Notes	Amount	Amount
<b>Cash flows from operating activities</b>			
Income before income taxes and minority interests		300	1,223
Depreciation and amortization		276	285
Amortization of bond issuance costs		6	6
Increase (decrease) in reserve for doubtful accounts		(26)	22
Increase in reserve for sales promotion expenses		—	136
Increase in reserve for employees' retirement benefits		131	89
Increase in reserve for directors and statutory auditors' retirement benefits		18	33
Interest and dividend income		(6)	(5)
Interest expense		326	203
Loss on sale of trade notes receivable		82	63
Loss on disposal of property, plant and equipment		—	57
Gain on sale of investment in securities		(103)	(83)
Loss on revaluation of investment securities		14	33
Increase (decrease) in notes and accounts receivable		352	(341)
Increase in inventories		(263)	(67)
Loss on disposal of inventories		—	90
Decrease in notes and accounts receivable		14	32
Increase (decrease) in notes and accounts payable		(131)	411
Increase (decrease) in other current liabilities		532	(244)
(Increase) decrease in accrued consumption tax		(107)	103
Increase (decrease) in lease deposits from lessees and other long-term liabilities		115	(161)
Increase in long-term prepaid expenses		—	(87)
Other		(49)	(40)
<b>Subtotal</b>		<b>1,485</b>	<b>1,761</b>
Interest and dividends received		6	6
Interest paid		(408)	(245)
Income taxes paid		(186)	(279)
Net cash provided by operating activities		897	1,243
<b>Cash flows from investing activities</b>			
Expenses for depositing time deposits		(22)	(155)
Proceeds from withdrawing time deposits		18	41
Purchases of property, plant and equipment		(125)	(168)
Proceeds from the sale of land, buildings and structures		11	42
Expenses for the purchase of intangible fixed assets		(62)	—
Purchases of investment securities		(33)	(505)
Proceeds from the sale of investment securities		296	102
Payments for loans		(3)	(3)
Proceeds from the recovery of loans		11	20
Proceeds from the collection of guarantee deposits		—	45
Proceeds from other investments		(12)	(12)
Other		13	(6)
Net cash provided by (used in) investing activities		91	(598)

		<b>2004</b>	<b>2005</b>
	<b>Notes</b>	<b>Amount</b>	<b>Amount</b>
<b>Cash flows from financing activities</b>			
Net decrease in short-term bank loans		(2,495)	(5,791)
Proceeds from long-term debt		1,120	6,900
Payments for long-term debt		(459)	(1,588)
Proceeds from the issue of bonds		1,000	—
Payments for the redemption of bonds		(100)	(200)
Proceeds from the issue of stock		639	—
Other		(3)	(14)
Net cash used in financing activities		(299)	(694)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>689</b>	<b>(49)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>3,000</b>	<b>3,690</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>3,690</b>	<b>3,640</b>

## Basis for Preparing Consolidated Financial Statements

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2005 and 2004

	2004	2005
1. Scope of consolidation	Number of consolidated subsidiaries: 5 Names of consolidated subsidiaries: Nihon Pharmaceutical Industry Co., Ltd., Welllife Co., Ltd., SHAPRO Inc., NC GIKEN Co., Ltd., Safety Research Institute for Chemical Compounds Co., Ltd.	Number of consolidated subsidiaries: 5 Names of consolidated subsidiaries: Nihon Pharmaceutical Industry Co., Ltd., Welllife Co., Ltd., SHAPRO Inc., NC GIKEN Co., Ltd., Safety Research Institute for Chemical Compounds Co., Ltd.
2. Application of the equity method	Unconsolidated companies accounted for by the equity method: 3 Names of the major companies: JAPAN SOPHARCHIM Co., Ltd., Medical System Service Co., Ltd.	Unconsolidated companies accounted for by the equity method: 2 Names of the major companies: JAPAN SOPHARCHIM Co., Ltd., Medical System Service Co., Ltd.  The other company accounted for by the equity method was excluded from the scope of application of the equity method subsequent to the company having been merged and absorbed by Medical System Service Co., Ltd.
3. Closing date for the settlement of accounts of consolidated subsidiaries	The closing date for the settlement of accounts of consolidated subsidiaries is the same as the consolidated balance sheet date.	Same as at left
4. Summary of significant accounting policies	<b>(1) Method and basis of valuation of major assets</b> 1) Marketable securities and investments in securities Other securities primarily designated as available-for-sale securities for which the fair values are readily determinable: Carried at fair value as of the balance sheet date with changes in net unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. The cost of securities sold is determined by the moving-average method. Other securities primarily designated as available-for-sale securities for which the fair values are not readily determinable: Carried at cost as determined by the moving-average method.	<b>(1) Method and basis of valuation of major assets</b> 1) Marketable securities and investments in securities Other securities primarily designated as available-for-sale securities for which the fair values are readily determinable:  Same as at left  Other securities primarily designated as available-for-sale securities for which the fair values are not readily determinable:  Same as at left

	<p>2) Derivative instruments Derivative instruments are valued at fair market value.</p> <p>3) Method and basis for valuation of inventories: Merchandise, products, raw materials, work in process and supplies are stated at cost as determined by the first-in, first-out method.</p> <p><b>(2) Method of depreciation for major depreciable assets</b></p> <p>1) Tangible fixed assets Depreciation is principally computed by the declining-balance method based on the estimated useful lives of the assets. However, the straight-line method is adopted for buildings (excluding building improvements) acquired on or after April 1, 1998.</p> <p>2) Intangible fixed assets Amortization of intangible assets is computed by the straight-line method.</p> <p><b>(3) Amortization of important deferred assets</b></p> <p>1) Issue cost of new shares is charged to income as incurred.</p> <p>2) Bond issuance costs are amortized for three years on a straight-line basis.</p> <p><b>(4) Standard of accounting for principal reserves</b></p> <p>1) Allowance for doubtful accounts The allowance for doubtful accounts is provided as amount of possible losses from uncollectible receivables based on the actual historical rate of losses from bad debt for ordinary receivables, and on the estimated recoverability for specific doubtful receivables.</p>	<p>2) Derivative instruments Same as at left</p> <p>3) Method and basis for valuation of inventories: Merchandise, products, raw materials, work in process and supplies Same as at left</p> <p><b>(2) Method of depreciation for major depreciable assets</b></p> <p>1) Tangible fixed assets  Same as at left</p> <p>2) Intangible fixed assets  Same as at left</p> <p><b>(3) Amortization of important deferred assets</b></p> <p>1) _____</p> <p>2) Bond issuance costs Same as at left</p> <p><b>(4) Standard of accounting for principal reserves</b></p> <p>1) Allowance for doubtful accounts  Same as at left</p>
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	<p>2) Reserve for employees' retirement benefits Reserve for employees' retirement benefits of the Company and its consolidated subsidiaries is provided for as the amount recognized as having accrued as of the balance sheet date. The difference of ¥255 million recognized because of a change in accounting standards is amortized on a pro rata basis over five years. Actuarial differences are amortized on a pro rata basis by the straight-line method over a certain period (12 years), which is shorter than the average remaining number of years of service for employees, at the time of their occurrence, from the following fiscal year of recognition.</p> <p>3) Reserve for directors' retirement allowances The reserve for directors' retirement allowances is provided as the required payment amount stipulated in internal rules.</p> <p>4) Reserve for sales returns The reserve for sales returns is provided at the limit amounts prescribed by corporation tax law.</p> <p>5) _____</p> <p><b>(5) Accounting for important leases</b> Finance leases that do not transfer ownership of leased property to the lessee are accounted for as rental transactions.</p> <p><b>(6) Principal hedge accounting methods</b></p> <p>1) Method of hedge accounting Interest swap transactions that meet hedge accounting requirements meet requirements for special treatment, and are accounted for accordingly.</p>	<p>2) Reserve for employees' retirement benefits Same as at left</p> <p>3) Reserve for directors' retirement allowances Same as at left</p> <p>4) Reserve for sales returns Same as at left</p> <p>5) Reserve for sales promotions The reserve for future sales promotions for the Company's products or merchandise is provided in an amount based on sales promotion expenses for the most recent fiscal term.</p> <p><b>(5) Accounting for important leases</b> Same as at left</p> <p><b>(6) Principal hedge accounting methods</b></p> <p>1) Method of hedge accounting Same as at left</p>
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	<p>2) Hedging instruments and hedged items Hedging instruments Interest swap transactions Hedged items Interest fluctuations of money borrowed</p> <p>3) Hedging policy The Company uses interest-related hedge accounting to hedge the risk of interest rate fluctuations on borrowings, however, it does not engage in speculative transactions.</p> <p>4) Method of assessing the effectiveness of hedging transactions The Company omits the assessment of the effectiveness of interest swap transactions, because these transactions meet the requirements for special treatment.</p>	<p>2) Hedging instruments and hedged items Hedging instruments Same as at left Hedged items Same as at left</p> <p>3) Hedging policy Same as at left</p> <p>4) Method of assessing the effectiveness of hedging transactions Same as at left</p>
5. Assessment of assets and liabilities of consolidated subsidiaries	Assets and liabilities of consolidated subsidiaries are valued at fair market value.	Same as at left
6. Appropriation of retained earnings	<p><b>(1) Appropriation of retained earnings and amortization of losses</b> The consolidated statement of retained earnings is prepared based on the appropriation of retained earnings and amortization of losses finalized during the fiscal year.</p> <p><b>(2) Special note to the Consolidated Statement of Retained Earnings</b> Retained earnings of consolidated subsidiaries include consolidated equity that accrued after the acquisition of shares.</p>	<p><b>(1) Appropriation of retained earnings and amortization of losses</b> Same as at left</p> <p><b>(2) Special note to the Consolidated Statement of Retained Earnings</b> Same as at left</p>
7. Scope of funds stated in the consolidated statements of cash flows	The funds (cash and cash equivalents) stated in the consolidated statements of cash flows consist of cash on hand, bank deposits that can be withdrawn on demand and short-term investments with original maturities of up to three months that are exposed to minor risk of fluctuation in value.	Same as at left
8. Other important matters in preparing the consolidated financial statements	Accounting for consumption taxes Consumption taxes are accounted for using the tax exclusion method.	Accounting for consumption taxes Same as at left

## Changes in Accounting Methods

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries  
March 31, 2005 and 2004

2004	2005
<p>(Bond issuance costs)</p> <p>In the past, bond issuance costs were charged to income as incurred. Effective from the fiscal year under review, bond issuance costs amortized over three years on a straight-line basis, as prescribed in the Commercial Code for the calculation of periodic income and losses. These costs are considered a part of expanded and diversified financing and a subsequent increase in the importance of bond issuance costs affects upcoming fiscal years.</p> <p>As a result of this change, ordinary income for the consolidated fiscal year under review increased ¥13 million and net loss before income taxes decreased ¥13 million, compared with the amounts calculated under the previous accounting method.</p>	<p>(Reserve for sales promotion expenses)</p> <p>The Company began providing a reserve for sales promotion expenses from the fiscal year under review, as a review conducted with related agencies concerning sales promotion expenses previously charged to income as incurred enabled the Company to make reasonable estimates of these expenses.</p> <p>As a result of this change, operating income, ordinary income and net income before taxes for the fiscal year under review each declined ¥130 million, compared with the amounts computed under the previous accounting method.</p> <p>The influence of these changes on the segment information is indicated in the segment information section.</p>

## Change in Method of Representation

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries  
March 31, 2005 and 200

2004	2005
	<p>(Consolidated Balance Sheets)</p> <p>Owing to the increased importance of the amount of current portion of long-term debt, which was previously included in short-term borrowings within current liabilities, this item is now represented separately.</p> <p>The current portion of long-term debt included in the short-term borrowings within current liabilities during the previous fiscal year was ¥392 million.</p>

## Additional Information

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries  
March 31, 2005 and 200

2004	2005
	<p>Subsequent to our review of transaction conditions indicated in the Changes in Accounting Methods, sales incentive expenses, previously accounted for as a deduction from net sales, became a clearly significant sales cost. Therefore, the method of representing this cost was reviewed based on the actual manner in which these costs are handled. As a result, sales incentive costs are accounted for under selling, general and administrative expenses. Sales incentive costs and sales commissions are now included as sales promotion expenses.</p> <p>As a result of this reclassification, both net sales and selling, general and administrative expenses for the previous consolidated fiscal year increased ¥987 million. However, there was no impact on operating income, ordinary income, or net income before income taxes.</p> <p>The influence on segment information is indicated in the segment information section.</p>
	<p>Subsequent to the Partial Amendment to the Local Tax Law (2003 law, No. 9), enacted on March 31, 2003, a Prima Facie Corporate Tax was introduced for fiscal years beginning on and after April 1, 2004. Thus, pursuant to the Practical Treatment of Indications on Statements of Income Related to the Prima Facie Corporate Tax Applied to the Local Tax Law (February 13, 2004, No. 12 of the Report of Practical Application by the Corporate Accounting Standard Committee), from the consolidated fiscal year under review the ratios of the Company's added value and common stock imposed as corporate tax are accounted for in selling, general and administrative expenses.</p> <p>As a result, selling, general and administrative expenses increased ¥36 million, and operating income, ordinary income and net income before income taxes declined ¥36 million.</p>

## Notes to Consolidated Financial Statements

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries  
March 31, 2005 and 2004

### Notes to Consolidated Balance Sheets

(Millions of yen)

2004	2005
1. Discounts on notes receivable ¥4,075 million	1. Discount on notes receivable ¥3,496 million
2. Assets pledged as collateral Land ¥6,083 million (book value) Buildings ¥1,017 million (book value) Investment securities ¥299 million <b>Total ¥7,400 million</b> Secured debt is as follows: Short-term borrowings ¥4,569 million	2. Assets pledged as collateral Land ¥6,083 million (book value) Buildings ¥961 million (book value) <b>Total ¥7,045 million</b> Secured debt is as follows: Short-term borrowings ¥489 million Current portion of long-term borrowings ¥1,362 million Long-term borrowings ¥4,057 million
3. Related to subsidiaries and affiliates Investment securities ¥172 million	3. Related to subsidiaries and affiliates Investment securities ¥196 million
4. Based on the Law Concerning Revaluation of Land (March 31, 1998, Law No. 34), the land for business use was revaluated. Deferred income tax liabilities related to the revaluation were accounted for as a component of liabilities and the difference between the market value of the land for business use and its carrying amount after the revaluation is included in Assets. The value of land is calculated based on Article 2, Item 4, of the Ordinance Implementing the Law Concerning Revaluation of Land (1998 Government Ordinance No. 119). Date of revaluation: March 31, 2000 The difference between the market value of land for business use and its carrying amount after the revaluation (¥1,233 million)	4. Based on the Law Concerning Revaluation of Land (March 31, 1998, Law No. 34), the land for business use was revaluated. Deferred income tax liabilities related to the revaluation were accounted for as a component of Liabilities and the difference between the market value of the land for business use and its carrying amount after the revaluation is included in Assets. The value of land is calculated based on Article 2, Item 4, of the Ordinance Implementing the Law Concerning Revaluation of Land (1998 Government Ordinance No. 119). Date of revaluation: March 31, 2000 The difference between the market value of land for business use and its carrying amount after the revaluation (¥1,465 million)
5. Contingent liabilities (guarantee liabilities for bank borrowings) The Company is contingently liable, as guarantors of indebtedness of Medical System Service Co., Ltd., to financial institutions in the amount of ¥75 million.	5. Contingent liabilities (guarantee liabilities for bank borrowings) The Company is contingently liable, as guarantors of indebtedness of Medical System Service Co., Ltd., to financial institutions in the amount of ¥50 million.
6. Treasury stock Number of shares in the company submitting the consolidated financial statements held by consolidated subsidiaries and affiliates is as follows: Common stock 280 thousand shares Total number of the Company's common shares issued and outstanding is 38,522 thousand.	6. Treasury stock Number of shares in the company submitting the consolidated financial statements held by consolidated subsidiaries and affiliates is as follows: Common stock 309 thousand shares Total number of the Company's common shares issued and outstanding is 38,522 thousand.
7. _____	7. Financial restriction codes Out of borrowings, syndicated loan contracts (with a current balance of ¥5,190 million) have

	<p>financial restriction articles attached. In the event that the following articles are violated, it is prescribed that the borrower lose the benefit due by the end of the term for all the liabilities under contract. In addition, the borrower must pay the principle and interest upon notification to the borrower by the agent based on a request from multiple lenders.</p> <p>(1) Operating and ordinary income posted in the Statements of Income and Consolidated Statements of Income for each fiscal year may not be losses for two successive terms.</p> <p>(2) Shareholders' equity reported in the Balance Sheets and Consolidated Balance Sheets as of the balance sheet date of each fiscal year and as of the closing date of the interim term must be 75% or more of the results for the fiscal year ended March 31, 2004.</p> <p>(3) Interest-bearing liabilities reported in the Balance Sheets and Consolidated Balance Sheets as of the balance sheet date of each fiscal year and as of the closing date of the interim term must be less than the amounts of Sales in the Statements of Income and Consolidated Statements of Income for the corresponding fiscal term (twice the amounts for the interim term).</p>
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## Notes to Consolidated Statement of Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries  
March 31, 2005 and 2004

(Millions of yen)

2004	2005																								
<p>1. Major accounts and amounts included in selling, general and administrative expenses were as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Advertising and commercial expenses</td> <td style="text-align: right;">¥248</td> </tr> <tr> <td>Sales commissions</td> <td style="text-align: right;">¥602</td> </tr> <tr> <td>Travel and transportation expenses</td> <td style="text-align: right;">¥634</td> </tr> <tr> <td>Salaries and benefits</td> <td style="text-align: right;">¥3,336</td> </tr> <tr> <td>Commissions</td> <td style="text-align: right;">¥679</td> </tr> <tr> <td>Research and development expenses</td> <td style="text-align: right;">¥1,682</td> </tr> </table>	Advertising and commercial expenses	¥248	Sales commissions	¥602	Travel and transportation expenses	¥634	Salaries and benefits	¥3,336	Commissions	¥679	Research and development expenses	¥1,682	<p>1. Major accounts and amounts included in selling, general and administrative expenses were as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Advertising and commercial expenses</td> <td style="text-align: right;">¥264</td> </tr> <tr> <td>Sales commissions</td> <td style="text-align: right;">¥2,130</td> </tr> <tr> <td>Travel and transportation expenses</td> <td style="text-align: right;">¥641</td> </tr> <tr> <td>Salaries and benefits</td> <td style="text-align: right;">¥3,331</td> </tr> <tr> <td>Commissions</td> <td style="text-align: right;">¥692</td> </tr> <tr> <td>Research and development expenses</td> <td style="text-align: right;">¥1,706</td> </tr> </table>	Advertising and commercial expenses	¥264	Sales commissions	¥2,130	Travel and transportation expenses	¥641	Salaries and benefits	¥3,331	Commissions	¥692	Research and development expenses	¥1,706
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Commissions	¥692																								
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<p>2. Aggregate R&amp;D expenses included in general and administrative expenses and manufacturing costs ¥1,682</p>	<p>2. Aggregate R&amp;D expenses included in general and administrative expenses and manufacturing costs ¥1,706</p>																								
<p>3. This amount is an extraordinary loss owing to a significant improvement in contractual conditions for transactions with agencies.</p>	<p>3. _____</p>																								
<p>4. This is the amount of additional expenses due to the total remuneration system for social insurance.</p>	<p>4. _____</p>																								

## Notes to Consolidated Statements of Cash Flows

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries  
March 31, 2005 and 2004

(Millions of yen)

2004	2005
Relation between the year-end balance of cash and cash equivalents and the amounts listed in the consolidated balance sheets	Relation between the year-end balance of cash and cash equivalents and the amounts listed in the consolidated balance sheets
Cash and time deposits 3,733	Cash and time deposits 3,697
Time and savings deposits for which the deposit period exceeds three months 43	Time and savings deposits for which the deposit period exceeds three months 57
Cash and cash equivalents 3,690	Cash and cash equivalents 3,640

## Notes to Leases

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries  
March 31, 2005 and 2004

(Millions of yen)

2004	2005
Finance lease contracts that do not transfer ownership of leased property to the lessee (1) Assumed data as to acquisition cost, accumulated depreciation and remaining book value of leased assets as of March 31, 2004	Finance lease contracts that do not transfer ownership of leased property to the lessee (1) Assumed data as to acquisition cost, accumulated depreciation and remaining book value of leased assets as of March 31, 2005
Machinery, equipment and vehicles	Machinery, equipment and vehicles
Acquisition cost 86	Acquisition cost 130
Accumulated depreciation 54	Accumulated depreciation 54
Remaining book value 31	Remaining book value 76
Furniture and fixtures	Furniture and fixtures
Acquisition cost 712	Acquisition cost 893
Accumulated depreciation 309	Accumulated depreciation 408
Remaining book value 403	Remaining book value 484
Other (including software)	Other (including software)
Acquisition cost 65	Acquisition cost 28
Accumulated depreciation 38	Accumulated depreciation 9
Remaining book value 26	Remaining book value 18
<b>Total</b>	<b>Total</b>
Acquisition cost 863	Acquisition cost 1,052
Accumulated depreciation 401	Accumulated depreciation 472
Remaining book value 462	Remaining book 580
(2) Assumed future lease payments at the end of the year under finance leases	(2) Assumed future lease payments at the end of the year under finance leases
Due within one year 164	Due within one year 195
Due after one year 297	Due after one year 384
<b>Total 462</b>	<b>Total 580</b>
Note: Regarding the amounts of (1) and (2), the ratio of assumed future lease payments to the year-end balance of tangible fixed assets is low and therefore computed including interest paid.	Note: Regarding the amounts of (1) and (2), the ratio of assumed future lease payments to the year-end balance of tangible fixed assets is low and therefore computed including interest paid.

(3) Lease payments and assumed depreciation expense	(3) Lease payments and assumed depreciation expense
Lease payments 198	Lease payments 187
Assumed depreciation expense 198	Assumed depreciation expense 187
(4) Computation method of assumed depreciation expense	(4) Computation method of assumed depreciation expense
Depreciation expense is computed by the straight-line method, assuming the lease period as the useful life and no residual value.	Same as at left



## Notes to Securities

### Previous Consolidated Fiscal Year (April 1, 2003–March 31, 2004)

1. Held-to-maturity debt securities for which fair values are readily determinable

Not applicable

2. Other securities primarily designated as available-for-sale securities for which fair values are readily determinable

(Millions of yen)

	Acquisition cost	Book value per consolidated balance sheets, as of the consolidated balance sheet date	Net of gains
Securities with book value exceeding acquisition cost	147	417	270
Subtotal	147	417	270
Securities with book value not exceeding acquisition cost	17	14	(3)
Subtotal	17	14	(3)
<b>Total</b>	<b>164</b>	<b>432</b>	<b>267</b>

3. Available-for-sale securities sold in the year ended March 31, 2004

(Millions of yen)

Proceeds from sales	Gross realized gains	Gross realized losses
399	107	4

4. Debt securities expected to be held to maturity and other securities primarily designated as available-for-sale securities for which values were not readily determinable as of March 31, 2004, and book value per consolidated balance sheets

(1) Held-to-maturity debt securities

Not applicable

(2) Available-for-sale securities

Unlisted stocks (excluding OTC issues) ¥92 million

### Current Consolidated Fiscal Year (April 1, 2004–March 31, 2005)

1. Held-to-maturity debt securities for which fair values are readily determinable

Not applicable

2. Other securities primarily designated as available-for-sale securities for which fair values are readily determinable

(Millions of yen)

	Acquisition cost	Book value per consolidated balance sheets as of consolidated balance sheet date	Net of gains
Securities with book value exceeding acquisition cost	538	852	314
Subtotal	538	852	314
Securities with book value not exceeding acquisition cost	113	106	(7)
Subtotal	113	106	(7)
<b>Total</b>	<b>652</b>	<b>959</b>	<b>306</b>

3. Available-for-sale securities sold in the year ended March 31, 2005

(Millions of yen)

Proceeds from sales	Gross realized gains	Gross realized losses
102	83	

4. Debt securities expected to be held to maturity and other securities primarily designated as available-for-sale securities for which values were not readily determinable as of March 31, 2005, and book value per consolidated balance sheets

(1) Held-to-maturity debt securities

Not applicable

(2) Available-for-sale securities

Unlisted stocks (excluding OTC issues) ; ¥82 million

### Notes to Derivative Transactions

#### Previous Consolidated Fiscal Year (April 1, 2003–March 31, 2004)

The Company conducts derivative transactions (interest cap) to hedge against the risk of interest rate fluctuations, but does not engage in speculative transactions, and keeps transaction amounts low. Our partners are highly trusted domestic banks. Therefore, we assume the risk of a partner's default or the risk of interest swap transactions for market interest rate fluctuations will be small.

As our transaction amounts are small, no special stipulations to control transactions are provided. However, we have received certain advice on this issue from the relevant authorities. Because transaction amounts and corresponding valuation income and losses are small and insignificant, the relevant information is omitted.

Although we conduct interest swap transactions, relevant information is omitted, as hedge accounting is applied.

#### Current Consolidated Fiscal Year (April 1, 2004–March 31, 2005)

The Company conducts transactions involving time deposits with options and interest rate swap transactions, but does not engage in speculative transactions, and keeps transaction amounts low. Time deposits with options are financial products with risks only to the amount of interest received. The interest rate swap transactions that we conduct are for the purpose of hedging interest payable on borrowings and bear little risks of fluctuation in market interest rates, and our partners are highly trusted domestic banks. Therefore, we regard the risk of default as small.

As our transaction amounts are small, no special stipulations to control transactions are provided. However, we have received certain advice on this issue from the relevant authorities. Because transaction amounts and corresponding valuation income and losses are small and insignificant, the relevant information is omitted.

Although we conduct interest swap transactions, relevant information is omitted, as hedge accounting is applied.

Hedge accounting methods are indicated in Basis for Preparing Consolidated Financial Statements, 4. Summary of Significant Accounting Policies.

## Retirement Benefit Plan

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries  
March 31, 2005 and 2004

( Millions of yen )

2004	2005
<p>Summary of Nippon Chemiphar's retirement plans</p> <p>Nippon Chemiphar has defined benefits plans that comprise an employees' pension fund and a defined retirement pension plan. Consolidated subsidiaries have a lump-sum severance indemnity plan, and some subsidiaries have employees' pension funds. Nippon Chemiphar and its subsidiaries may also pay additional retirement benefits upon the resignation of employees.</p> <p>Regarding the submitting company, Nippon Chemiphar's transition from a lump-sum severance indemnity plan to a defined retirement pension plan was a gradual process begun in 1987 and completed in 1992.</p>	<p>1. Summary of Nippon Chemiphar's retirement plans</p> <p>Same as at left</p>
<p>2. Balance and details of retirement benefit obligations as of March 31, 2004</p> <p>(1) Projected retirement benefit obligations (3,942)</p> <p>(2) Fair value of plan assets 3,097</p> <p>(3) Unfunded benefit obligations (1)+(2) (844)</p> <p>(4) Unamortized net retirement benefit obligation at transition 51</p> <p>(5) Unrecognized actuarial differences 450</p> <p>(6) Unrecognized past service liabilities (subtraction from obligations) —</p> <hr/> <p>(7) Net amount recorded in the consolidated balance sheets (3) + (4) + (5) + (6) (343)</p> <p>(8) Prepaid plan expenses —</p> <hr/> <p>(9) Reserve for employees' retirement benefits (7) – (8) (343)</p>	<p>2. Balance and details of retirement benefit obligations as of March 31, 2005</p> <p>(1) Projected retirement benefit obligations (4,141)</p> <p>(2) Fair value of plan assets 3,332</p> <p>(3) Unfunded benefit obligations (1)+(2) (808)</p> <p>(4) Unamortized net retirement benefit obligation at transition —</p> <p>(5) Unrecognized actuarial differences 376</p> <p>(6) Unrecognized past service liabilities (subtraction from obligations) —</p> <hr/> <p>(7) Net amount recorded in the consolidated balance sheets (3) + (4) + (5) + (6) (432)</p> <p>(8) Prepaid plan expenses —</p> <hr/> <p>(9) Reserve for employees' retirement benefits (7) – (8) (432)</p>

<p>Notes: 1. The employees' pension fund used by the Company and some of its subsidiaries is excluded, as the fund is established jointly. The Company's contribution to plan assets in the employees' pension fund totals ¥1,887 million. 2. Consolidated subsidiaries employ a simplified method for calculating their projected benefit obligations.</p>	<p>Notes: 1. The employees' pension fund used by the Company and some of its subsidiaries is excluded, as the fund is established jointly. The Company's contribution to plan assets in the employees' pension fund totals ¥1,920 million. 2. Consolidated subsidiaries employ a simplified method for calculating their projected benefit obligations.</p>																																
<p>3. Retirement benefit expenses</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 80%;">(1) Service cost</td> <td style="text-align: right;">322</td> </tr> <tr> <td>(2) Interest expense</td> <td style="text-align: right;">97</td> </tr> <tr> <td>(3) Expected return on plan assets</td> <td style="text-align: right;">(69)</td> </tr> <tr> <td>(4) Amortization of net retirement benefit obligation at transition</td> <td style="text-align: right;">51</td> </tr> <tr> <td>(5) Amortization of actuarial differences</td> <td style="text-align: right;">83</td> </tr> <tr> <td>(6) Past service liabilities charged to income</td> <td style="text-align: right;">—</td> </tr> <tr> <td colspan="2"><hr/></td> </tr> <tr> <td>(7) Retirement benefit expenses</td> <td style="text-align: right;">485</td> </tr> </table> <p>Notes: 1. Service cost includes the amount of the Company's contribution to the employees' pension fund minus employee contributions. 2. The retirement benefit expenses of consolidated subsidiaries that employ a simplified method are included in (1) Service cost.</p>	(1) Service cost	322	(2) Interest expense	97	(3) Expected return on plan assets	(69)	(4) Amortization of net retirement benefit obligation at transition	51	(5) Amortization of actuarial differences	83	(6) Past service liabilities charged to income	—	<hr/>		(7) Retirement benefit expenses	485	<p>3. Retirement benefit expenses</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 80%;">(1) Service cost</td> <td style="text-align: right;">327</td> </tr> <tr> <td>(2) Interest expense</td> <td style="text-align: right;">94</td> </tr> <tr> <td>(3) Expected return on plan assets</td> <td style="text-align: right;">(77)</td> </tr> <tr> <td>(4) Amortization of net retirement benefit obligation at transition</td> <td style="text-align: right;">51</td> </tr> <tr> <td>(5) Amortization of actuarial differences</td> <td style="text-align: right;">49</td> </tr> <tr> <td>(6) Past service liabilities charged to income</td> <td style="text-align: right;">—</td> </tr> <tr> <td colspan="2"><hr/></td> </tr> <tr> <td>(7) Retirement benefit expenses</td> <td style="text-align: right;">445</td> </tr> </table> <p>Notes: 1. Service cost includes the amount of the Company's contribution to the employees' pension fund minus employee contributions. 2. The retirement benefit expenses of consolidated subsidiaries that employ a simplified method are included in (1) Service cost.</p>	(1) Service cost	327	(2) Interest expense	94	(3) Expected return on plan assets	(77)	(4) Amortization of net retirement benefit obligation at transition	51	(5) Amortization of actuarial differences	49	(6) Past service liabilities charged to income	—	<hr/>		(7) Retirement benefit expenses	445
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(6) Past service liabilities charged to income	—																																
<hr/>																																	
(7) Retirement benefit expenses	485																																
(1) Service cost	327																																
(2) Interest expense	94																																
(3) Expected return on plan assets	(77)																																
(4) Amortization of net retirement benefit obligation at transition	51																																
(5) Amortization of actuarial differences	49																																
(6) Past service liabilities charged to income	—																																
<hr/>																																	
(7) Retirement benefit expenses	445																																
<p>4. Assumptions in the computation of retirement benefit obligations and others</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 80%;">(1) Inter-period allocation method for estimating retirement benefits</td> <td style="text-align: right;">Straight-line basis</td> </tr> <tr> <td>(2) Discount rate</td> <td style="text-align: right;">2.50%</td> </tr> <tr> <td>(3) Expected rate of return on plan assets</td> <td style="text-align: right;">2.50%</td> </tr> <tr> <td>(4) Number of years for amortization of actuarial differences</td> <td style="text-align: right;">12 years</td> </tr> <tr> <td>(5) Number of years for amortization of net retirement benefit obligations at transition</td> <td style="text-align: right;">5 years</td> </tr> </table>	(1) Inter-period allocation method for estimating retirement benefits	Straight-line basis	(2) Discount rate	2.50%	(3) Expected rate of return on plan assets	2.50%	(4) Number of years for amortization of actuarial differences	12 years	(5) Number of years for amortization of net retirement benefit obligations at transition	5 years	<p>4. Assumptions in the computation of retirement benefit obligations and others</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 80%;">(1) Inter-period allocation method for estimating retirement benefits</td> <td style="text-align: right;">Straight-line basis</td> </tr> <tr> <td>(2) Discount rate</td> <td style="text-align: right;">2.50%</td> </tr> <tr> <td>(3) Expected rate of return on plan assets</td> <td style="text-align: right;">2.50%</td> </tr> <tr> <td>(4) Number of years for amortization of actuarial differences</td> <td style="text-align: right;">12 years</td> </tr> <tr> <td>(5) Number of years for amortization of net retirement benefit obligations at transition</td> <td style="text-align: right;">5 years</td> </tr> </table>	(1) Inter-period allocation method for estimating retirement benefits	Straight-line basis	(2) Discount rate	2.50%	(3) Expected rate of return on plan assets	2.50%	(4) Number of years for amortization of actuarial differences	12 years	(5) Number of years for amortization of net retirement benefit obligations at transition	5 years												
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## Tax-Effect Accounting

Nippon Chemiphar Co., Ltd., and Consolidated Subsidiaries  
March 31, 2005 and 2004

(Millions of yen)

2004	2005
1. Breakdown by cause of deferred tax assets and liabilities	1. Breakdown by cause of deferred tax assets and liabilities
(Deferred tax assets)	(Deferred tax assets)
	Nondeductible losses on sales promotion expenses 141
Extraordinary losses on sales incentive expenses 114	Nondeductible losses on reserve for doubtful accounts 71
Nondeductible losses on reserve for retirement benefits 130	Nondeductible losses on reserve for retirement benefits 166
Nondeductible losses on reserve for retirement allowances for directors and corporate auditors 199	Nondeductible losses on reserve for retirement allowances for directors and corporate auditors 213
Loss brought forward 774	Loss brought forward 317
Other 395	Other 407
<hr/> Subtotal of deferred tax assets 1,614	<hr/> Subtotal of deferred tax assets 1,318
Valuation reserve (1,503)	Valuation reserve (1,178)
<hr/> Total of deferred tax assets 111	<hr/> Total of deferred tax assets 140
(Deferred tax liabilities)	(Deferred tax liabilities)
Deferred tax liabilities on land revaluation (1,752)	Deferred tax liabilities on land revaluation (1,748)
Net unrealized gains or losses on available-for-sale securities (106)	Net unrealized gains or losses on available-for-sale securities (121)
<hr/> Total deferred tax liabilities (1,859)	<hr/> Total deferred tax liabilities (1,869)
<hr/> Net deferred tax assets or liabilities (1,747)	<hr/> Net deferred tax assets or liabilities (1,729)

2. Reconciliation between the statutory income tax rate and the effective tax rate after the adoption of tax-effect accounting		2. Reconciliation between the statutory income tax rate and the effective tax rate after the adoption of tax-effect accounting	
Statutory income tax rate	40.8%	Statutory income tax rate	39.5%
(Reconciliation items)		(Reconciliation items)	
Permanently nondeductible expenses	55.6	Permanently nondeductible expenses	14.3
Expired loss brought forward	822.8	Per capita inhabitant's tax	2.6
Per capita inhabitant's tax	10.1	Increase in valuation reserve	(26.0)
Other	(346.1)	Other	(6.7)
<hr/>		<hr/>	
Effective income tax rate after the adoption of tax-effect accounting	583.2	Effective income tax rate after the adoption of tax-effect accounting	23.7

## Segment Information Business Segments

Previous Consolidated Fiscal Year (April 1, 2003–March 31, 2004)

(Millions of yen)

	Pharmaceutical product business	Management of nursing homes	Other businesses	Total	Eliminations (corporate)	Consolidated
Sales and operating income						
Sales						
(1) Sales to third parties	15,977	762	966	17,706		17,706
(2) Intersegment sales and transfers	57		159	217	(217)	
Total	16,034	762	1,126	17,923	(217)	17,706
Operating expenses	15,429	520	998	16,948	(246)	16,701
Operating income	605	242	127	975	29	1,005
Assets, depreciation expense and capital expenditures						
Assets	17,164	2,538	1,666	21,370	378	21,749
Depreciation expense	227	14	33	276		276
Capital expenditures	126	8		135		135

Notes:

- Given the types of products and services, as well as the similarity in markets, our businesses are segmented into pharmaceutical products, management of nursing homes and other businesses.
- Major products and/or services of each business segment

Business segment	Major products and services
Pharmaceutical products	Pharmaceutical products for medical use
Management of nursing homes	Management of urban-style nursing homes that provide nursing care
Other businesses	Sales of cosmetics and health foods, management of hospital environments and hygiene

- There are no unabsorbed operating expenses included in Eliminations (corporate).
- Of the assets for the consolidated fiscal year ended March 31, 2004, corporate assets included in Eliminations and (corporate) amounted to ¥2,664 million, mainly consisting of the Company's surplus fund.

**Current Consolidated Fiscal Year (April 1, 2004–March 31, 2005)**

(Millions of yen)

	Pharmaceutical products business	Management of nursing homes	Other businesses	Total	Eliminations (corporate)	Consolidated
Sales and operating income						
Sales						
(1) Sales to third parties	18,345	800	1,016	20,162		20,162
(2) Intersegment sales and transfers	34		187	221	(221)	
Total	18,379	800	1,204	20,384	(221)	20,162
Operating expenses	17,202	527	1,047	18,777	(247)	18,529
Operating income	1,177	272	156	1,606	25	1,632
Assets, depreciation expense and capital expenditures						
Assets	17,502	2,521	1,566	21,590	850	22,440
Depreciation expense	220	14	49	285		285
Capital expenditures	171	8	1	180		180

Notes:

- Given the types of products and services, as well as the similarity in markets, our businesses are segmented into pharmaceutical products, management of nursing homes and other businesses.
- Major products and/or services of each business segment

Business segment	Major products and services
Pharmaceutical products	Pharmaceutical products for medical use
Management of nursing homes	Management of urban-style nursing homes for charge with nursing care
Other businesses	Sales of cosmetics and health foods, management of hospital environments and hygiene

- There are no unabsorbed operating expenses included in Eliminations (corporate).
- Of the assets for the current consolidated fiscal year, corporate assets included in Eliminations (corporate) amounted to ¥3,052 million, mainly consisting of the Company's surplus fund.
- Effective from this consolidated fiscal year, the accounting method has been changed to provide a reserve for sales promotion, which includes sales commissions and miscellaneous costs that were previously charged to income as incurred upon disbursement. Owing to this change, operating expenses in the pharmaceutical product business segment increased ¥130 million, and operating income declined ¥130 million, compared with the amounts computed under the previous accounting method.
- From the current consolidated fiscal year, sales incentive expenses previously included as a reduction of sales are included in selling, general and administrative expenses. In accordance with this accounting classification, in the pharmaceutical product business segment both sales and operating expenses increased ¥987 million, but had no impact on operating income.



**Geographical Segment Information**

Relevant information is omitted, as there were no overseas consolidated subsidiaries or branches for the previous and current consolidated fiscal years.

**Overseas Sales**

Relevant information is omitted, as export amounts accounted for less than 10% of the consolidated sales for the previous and current consolidated fiscal years.

## Transactions with Related Parties

### Previous Consolidated Fiscal Year (April 1, 2003–March 31, 2004)

(1) Parent company and major corporate shareholders  
Not applicable

(2) Directors and individual shareholders  
Not applicable

(3) Subsidiaries

Attribute		Related companies
Company name		Japan Sopharchim Co., Ltd.
Address		Chiyoda-ku, Tokyo
Capital stock or investment in capital		¥10 million
Principal business or profession		Purchase, import and sale of pharmaceutical products
Ownership percentage of voting rights, etc. (Subject) %		(Owner) directly 5.0 (Subject) directly 10.5
Relation with the Company	Directors' posts held concurrently	3
	Business relationship	Operational transactions
Description of transactions		Purchase of products and raw materials
Transaction amount		¥1,007 million
Item		Notes payable—trade; accounts payable—trade
Year-end balance		¥461 million

Notes:

1. Transaction amount excludes consumption taxes, whereas Year-end balance includes these taxes.
2. The amount of transactions between Nippon Chemiphar and Japan Sopharchim Co., Ltd., was determined by referring to purchase and other conditions for unrelated operating bodies with regard to terms, conditions and decision policies thereon.
3. Nippon Chemiphar's president, Kazuhiro Yamaguchi, and his kin own 77.5% of voting rights.

(4) Fellow Subsidiaries  
Not applicable

### Current Consolidated Fiscal Year (April 1, 2004–March 31, 2005)

(1) Parent company and major corporate shareholders  
Not applicable

(2) Directors and individual shareholders  
Not applicable

### (3) Subsidiaries

Attribute	Related companies	
Company name	Japan Sopharchim Co., Ltd.	
Address	Chiyoda-ku, Tokyo	
Capital stock or investment in capital	¥10 million	
Principal business or profession	Purchase, import and sale of pharmaceutical products	
Ownership percentage of voting rights, etc. (Subject) (%)	(Owner) Directly 5.0 (Subject) Directly 10.8	
Relation with the Company	Directors' posts held concurrently	3
	Business relationship	Operational transactions
Description of transactions	Purchase of products and raw materials	
Transaction amount	¥1,156 million	
Item	Notes payable—trade and accounts payable—trade	
Year-end balance	496 million	

- Notes:
1. Transaction amount excludes consumption taxes, whereas Year-end balance" includes these taxes.
  2. The amount of transactions between Nippon Chemiphar and Japan Sopharchim Co., Ltd., was determined by referring to purchase and other conditions for unrelated operating bodies with regard to terms, conditions and decision policies thereon.
  3. Nippon Chemiphar's president, Kazuhiro Yamaguchi, and his kin own 77.5% of voting rights.

### (4) Fellow Subsidiaries Not applicable

## Per Share Data

Nippon Chemiphar Co., Ltd., and Consolidated Subsidiaries  
March 31, 2005 and 2004

(Yen)

Item	2004	2005
Shareholders' equity per share	95.83	118.32
Net income or loss per share	(40.11)	22.15
	Diluted net income per share is omitted, as a net loss per share is recorded, and there is no diluted net income per share.	Diluted net income per share is omitted, as there is no diluted net income per share.

Note: Assumptions in the computation of net income per share and net loss are as follows:

(Millions of yen)

Item	2004	2005
Net income or loss for the year on the Consolidated Statement of Income	(1,463)	846
Net income or loss on common stocks	(1,463)	846
Amount not belonging to common shareholders	—	—
Average number of shares during the year (thousands of shares)	36,480	38,230

## Significant Subsequent Events

Not applicable

## Consolidated Supplementary Details

### Details of Bonds

Company name	Issue	Issue date	Previous year-end balance (¥ mn)	Current year-end balance (¥ mn)	Interest rate (%)	Collateral	Deadline of redemption
Nihon Pharmaceutical Industry Co., Ltd.	First unsecured bond issue	March 27, 2003	50	50 (50)	0.45	Unsecured bonds	March 27, 2006
Nihon Pharmaceutical Industry Co., Ltd.	Second unsecured bond issue	March 27, 2003	50	50	0.80	Unsecured bonds	March 27, 2008
Nippon Chemipharm Co., Ltd.	First unsecured bond issue	May 20, 2003	900	700 (200)	0.41	Unsecured bonds	May 20, 2008
Total	—	—	1,000	800 (250)			

Notes:

- The amounts in parentheses of current year-end balance columns indicate the amounts to be redeemed within one year.
- Annual redemption amounts for the five years after the consolidated closing date is as follows:

(Millions of yen)				
2006	2007	2008	2009	2010 and thereafter
250	200	250	100	—

### Details of Borrowings

(Millions of yen)

Item	Previous year-end balance	Current year-end balance	Average interest rate (%)	Deadline of redemption
Short-term borrowings	7,061	1,269	—	—
Current portion of long-term borrowings	392	1,709	2.1	—
Long-term debt (excluding borrowings to be repaid within 1 year)	844	4,839	2.2	2007–2010
Total	8,298	7,819	—	—

Notes:

- The average interest rate is the weighted-average interest rate applied to the balance of borrowings at the current year-end.
- Scheduled long-term debt redemption amounts within the five years following the consolidated closing date (excluding borrowings scheduled to be repaid within one year) are as follows:

(Millions of yen)

2007	2008	2009	2010 and thereafter
1,681	1,200	1,187	770

(2) Other  
Not applicable

## **BOARD OF DIRECTORS AND STATUTORY AUDITORS**

### **President and CEO**

Kazushiro Yamaguchi

### **Director**

Sadao Takahashi

### **Directors and Corporate Officers**

Masaaki Yoshida

Heinojo Yamasaka

Syunichi Yamamoto

Katsumi Udagawa

Hironichi Yata

Yasuo Kishi

### **Director and Corporate Advisor**

Akira Yamaguchi

### **Corporate Auditors**

Noboru Kato (full-time)

Tamotsu Tateno

Toru Yamanaka

## **CORPORATE DATA** (as of March 31, 2005)

**Head Office:** 2-2-3, Iwamoto-cho, Chiyoda-ku, Tokyo 101-0032, Japan

Tel.: + 81 + 3-3863-1211

Fax.: + 81 + 3-3864-5940

URL: <http://www.chemiphar.co.jp>

**Other Offices:** Sapporo, Sendai, Tokyo, Yokohama, Kanetsu, Nagoya, Osaka, Hiroshima, Fukuoka

**Established:** June 16, 1950

**Capitalization:** ¥4,304.5 million

**Employees:** 550

**Subsidiaries:** Nihon Pharmaceutical Industry Co., Ltd.

Safety Research Institute for Chemical Compounds Co., Ltd.

Welllife Co., Ltd.

Shapro Inc.

NC Giken Co., Ltd.

**Affiliated Companies:** Japan Sopharchim Co., Ltd.

Medical System Service Co., Ltd.

**Securities Traded:** Tokyo Stock Exchange (First Section)

**Authorized Number of Shares:** 80,000,000

**Shares of Common Stock Issued:** 38,522,301

**Number of Stockholders:** 6,494