Annual Report 2006
Year ended March 31, 2006

Partners in Change

NIPPON CHEMIPHAR CO., LTD.

CONTENTS

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.

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

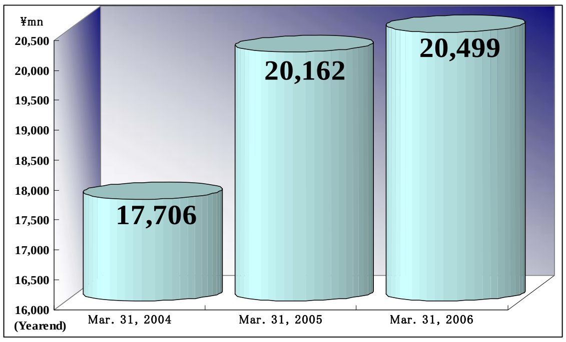
Nippon Chemiphar Co., Ltd. (hereinafter referred to as Chemiphar or the Company), was set up in 1950 and listed in the First Section of the Tokyo Stock Exchange in 1976. From the start, Chemiphar (4539) has strived to help people recover from illnesses and remain healthy.

With its depth of expertise in drug discovery, Chemiphar is strategically focused on identifying and scanning compound leads for development. It is speeding up the development and candidate screening of compounds it has discovered, and plans to give specialist overseas pharmaceutical companies access to these under license at an early stage of development. This is expected to accelerate the commercialization of new Chemiphar medications.

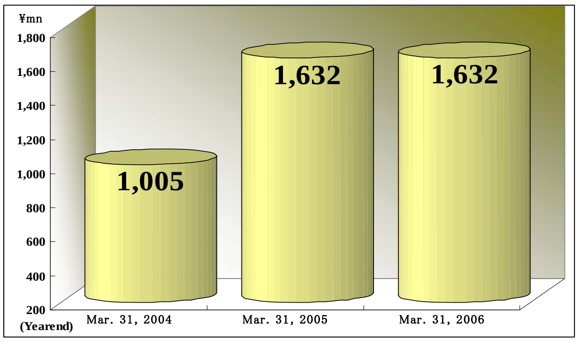
In August 2005, Chemiphar licensed two promising compounds, one each to a company in France and in the United States. Once these compounds find a place in the pharmaceutical market, Chemiphar plans to expand its revenue by making the constituent substances available worldwide.

Since the its particular strength lies in researching both therapies for life style-related diseases and analgesics, Chemiphar continues to explore avenues for licensing out some other compounds and launching additional generics.

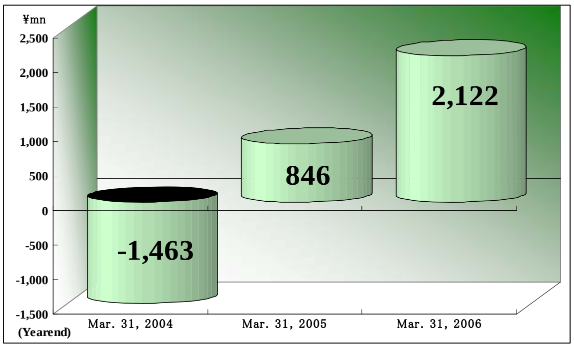
Net Sales



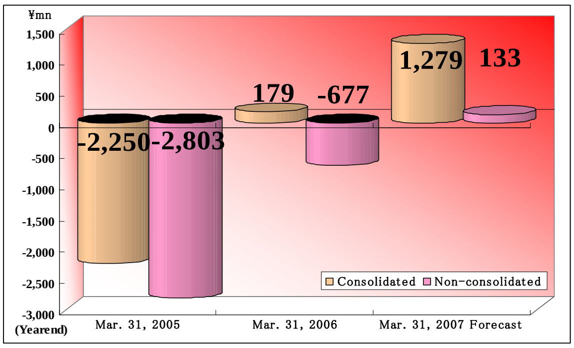
Operating Income



Net Income



Accumulated Profit



MESSAGE FROM THE PRESIDENT

NEW PLAN AND NEW CHALLENGE

On April 1, 2005, Nippon Chemiphar Co., Ltd. launched a three-year, medium-term management plan based on two expectations. First, by the year ended March 31, 2008, Chemiphar would double the sales of its urine alkalizer Uralyt, one of the Company's leading products. This it planned to do by generating awareness regarding hyperuricemia (the presence in the blood with an abnormally high concentration of uric acid) and exploring the role of the urinary tract in this condition, in a bid to become a market leader in the treatment of hyperuricemia and gout.

Second, Chemiphar would more than double the annual sales of generic drugs to a figure exceeding ¥10 billion, in the wake of the government promotion of generic drugs.

However, since government policy has moved faster than expected, it appears that Chemiphar will be in a position to resume paying dividends during calendar 2007, one year earlier than it had anticipated. In addition, to cater for rapid market changes, the Company is drafting a new medium-term management plan for implementation in calendar 2007.

THE IMPORTANCE OF TREATING HYPERURICEMIA

In its bid to help curb life style-related diseases, the Ministry of Health and Welfare (MOHW) has said that, commencing in calendar 2008, it shall require people over the age of 40 to have their serum urate levels checked. It is predicted that the testing will reveal some six million Japanese have the potential to develop hyperuricemia.

Further, in a report issued in January 2006, the Japan Society for the Study of Obesity (JSSO) identifies hyperuricemia as an indicator of metabolic syndrome. The report should go far in increasing awareness of the importance of treating hyperuricemia.

Clinical Research Starts in 2006

Chemiphar has been helping to run the Hyperuricemia Metabolic Syndrome Research Forum since its foundation in 2003. Thereafter, the Company was involved in laying the groundwork for clinical research that got underway in August 2006, when forum members set out to verify the relationship both between hyperuricemia and metabolic syndrome, and between acidic urine and metabolic syndrome.

In March 2006, clinical researchers started to check the efficacy of the parallel use of Chemiphar's Uralyt and GlaxoSmithKline's Zyloric in hindering the production of uric acid.

In addition, existing data on 200,000 patients collected over 20 years are currently undergoing analysis to ascertain the relationship between serum urate and uric pH levels. The findings are expected to be announced by academic societies and medics in the relevant publications in fall 2006 or early 2007.

Uralyt sales have not expanded as much as the Company had expected in 2005, because the Hyperuricemia Metabolic Syndrome Research Forum commenced its verification studies later than expected. However, some ¥300 million should be added to gross sales, since Uralyt has been sold solely by Chemiphar since October 1, the Company having decided against renewing its sales contract with Torii Pharmaceutical Co., Ltd.

To further enhance Uralyt sales, Chemiphar is devising a new strategy for inclusion in the Company's next medium-term management plan that is to be introduced in calendar 2007, cutting short the current three-year plan by one year.

Enhancing Its Generics Strategy

Chemiphar is providing affordable, quality, efficacious and safe generic products, about which it provides adequate information to the medical profession and patients.

Chemiphar's main target is large hospitals which, as central providers of medical services, traditionally set the pattern for small neighborhood clinics. The Company thus believes that, by strengthening its ties with principal hospitals, it will be able to raise the profile of its generic products.

It is an accepted fact that the use of generic drugs is helping lower patient costs which, in turn, allows for the more cost-effective running of hospitals. This is of particular importance given the recent legislation that has made public hospitals independent corporations, no longer able to depend on the government to bail them out during hard times.

DPC Hospitals Increasing in Number

Large hospitals, such as major public and university hospitals, make up the core of the DPC* system. In July 2006, there were some 360 DPC hospitals with a total of 194,000 beds. About eighty percent of these hospitals were using Chemiphar's generics.

To support both hospitals that are considering adopting the DPC system and those that are already applying it, Chemiphar founded the DPC Management Forum in November 2005. Since February 2006, the forum has been providing hospitals with ongoing support as the DPC system evolves.

Harnessing the Winds of Change

Over the past few years, the government has been encouraging clinics to close their pharmacies and patients to have their prescriptions filled at independent pharmacies. As a result, Chemiphar foresees the increasing importance of pharmacists, since they will decide which generic drugs their pharmacy will carry. Chemiphar is thus building relationships with dispensing pharmacy chains and, since 2004, has been building information networks with a number of these, including Nihon Chouzai Co., Ltd.

The government has implemented several measures to facilitate the prescribing of generic drugs, and has devised a system of financial incentives to encourage pharmacies to explain to customers price differences between generic and brand-name drugs.

In the interests of the Company's bottom line and its stakeholders, Chemiphar will introduce its next medium-term management plan in 2007, ahead of schedule. This will allow it to better benefit from government policy that is likely to boost sales of Chemiphar generics to ¥10 billion in the year to March 31, 2007, one year earlier than forecast.

Recognizing its corporate social responsibility, Chemiphar is using Uralyt and its generic drugs to help reduce medical costs and government spending on medication. To the satisfaction of its stakeholders, Chemiphar should enjoy increased sales and corporate value.

山口 一城

Kazushiro Yamaguchi
President & CEO

* DPC, or Diagnostic Procedure Combination, is a Japanese system—based on the Diagnosis-Related Group/ Prospective Payment System (DRG/PPS) that came into effect in the U.S. in 1983—whereby hospital-treated illnesses are grouped in categories to facilitate cost comparisons with a view to reducing government medication-related outlays.

Business Goals

1. To be the front runner in hyperuricemia treatment

By treating hyperuricemia and exploring the role of the urinary tract in this condition, Chemiphar can help reduce the incidence of lifestyle-related diseases**.**

2. To be the generic drug maker of choice in medical institutions

Chemiphar seeks to provide top-quality generic medication at affordable prices.

Early Treatment of Hyperuricemia

Japan, which boasts the world's highest longevity rate, is experiencing major increases in medical costs related both to the graying of society and across-the-board increases in life style-related diseases. The country's health insurance system has already begun to buckle under the burden of rising medical costs.

Chemiphar seeks to ensure that members of the medical profession and the public are well informed regarding the importance of treating hyperuricemia, the role of the urinary tract in the process, and the fact that early treatment can help prevent complications caused by such life style-related diseases as hypertension and diabetes. Awareness of these facts can facilitate early recovery and lower medical costs.

Poster to explain Chemiphar's two business goals (left) and a poster to stress the importance of the early treatment of hyperuricemia.

In January 2006, the Japan Society for the Study of Obesity published guidelines in which it names hyperuricemia as a life style-related disease. Since the Japanese Society of Gout and Nucleic Acid Metabolism issued its *Guidelines for the Management of Hyperuricemia and Gout* and The Japanese Urological Association its *Guidelines for Treating Urinary Lithiasis*, both in 2002, Chemiphar has been stressing the importance of maintaining a healthy urinary tract and the role of urine alkalizers.

CHALLENGING TO EXPAND GENERIC DRUG MARKET

In 2000, recognizing the growth potential of the market, Chemiphar made the promotion of generic drugs one of its business pillars. This was two years before the Japanese government started providing incentives for the use of such medication.

In September 2002, as part of its generic drug-related strategy, Chemiphar entered into a strategic alliance with Ranbaxy Laboratories Limited (Ranbaxy), one of the world's leading generic drug manufacturers, to which it gave a 10% stake of its subsidiary Nihon Pharmaceutical Co., Ltd. Through this alliance, Chemiphar is building a business model for generics in Japan that reflects the global supply system. This will allow the Company to enhance its product lineup and prepare for the price competition that lies ahead.

Chemiphar's distribution strategy is based on building and expanding information networks with the main dispensing pharmacy chains nationwide. To this end, in 2004 Chemiphar concluded a comprehensive business alliance with Nihon Chouzai Co., Ltd. , a major dispensing pharmacy chain. This was an important step since, once the substitution of generics is accepted across the board and competition increases among manufacturers, the decision of which generic drug is recommended to a patient will largely rest with pharmacists.

With the Japanese government already promoting the use of generic drugs, the market for these in Japan has started to expand. To gain the support of doctors, patients and members of the general public, the Company is positioning itself to derive the greatest benefit from market trends by providing adequate information regarding its generic products, while ensuring their supply is stable, their quality is high, and prices are affordable.

Poster to stress the importance of the use of generics

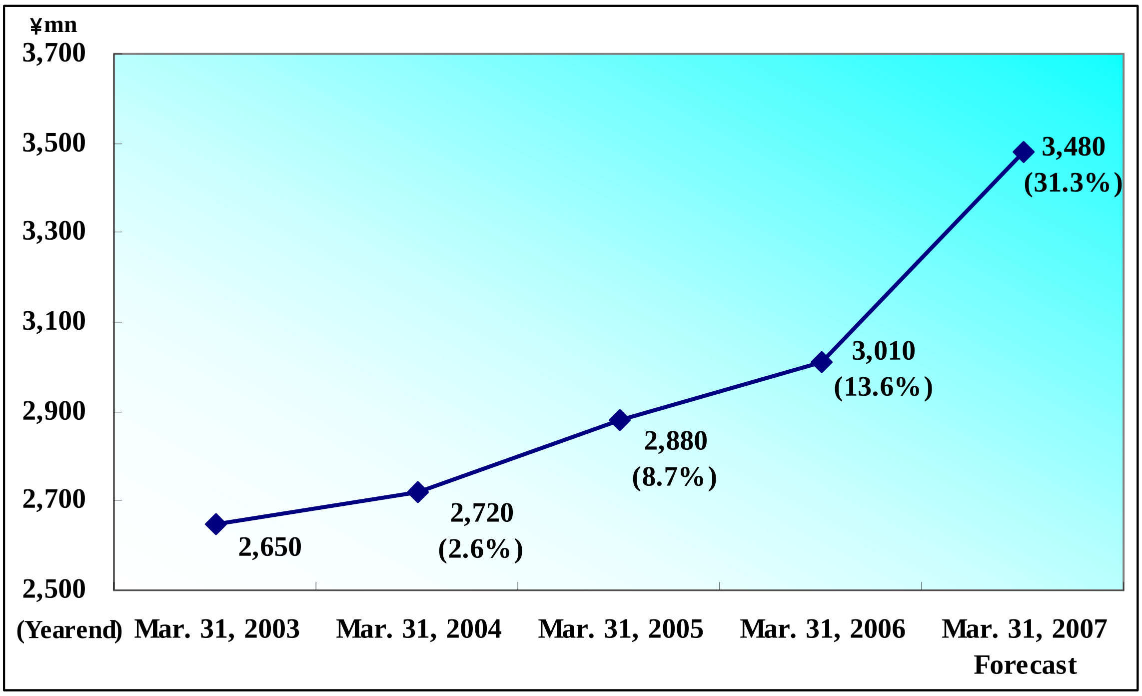
OUTLOOK

PROSPECTS FOR URALYT

The year 2002 was pivotal for Uralyt. Publications by the Japanese Society of Gout and Nucleic Acid Metabolism and The Japanese Urological Association made the first connection between hyperuricemia and a broader range of life style-related diseases. Previously, Uralyt had been used only for treatment of gout. However, with the organizations' publications, the role of Uralyt in the treatment of hyperuricemia was recognized, and sales of the product have been growing steadily since.

Currently underway is research on the connection between hyperuricemia and metabolic syndrome, as well as how hyperuricemia, life style-related diseases and acid urine are linked. Chemiphar expects the outcome of this research to show the importance of urinary tract control and further boost the sales of Uralyt, which boasts the highest gross sales margin of all the Company's products.

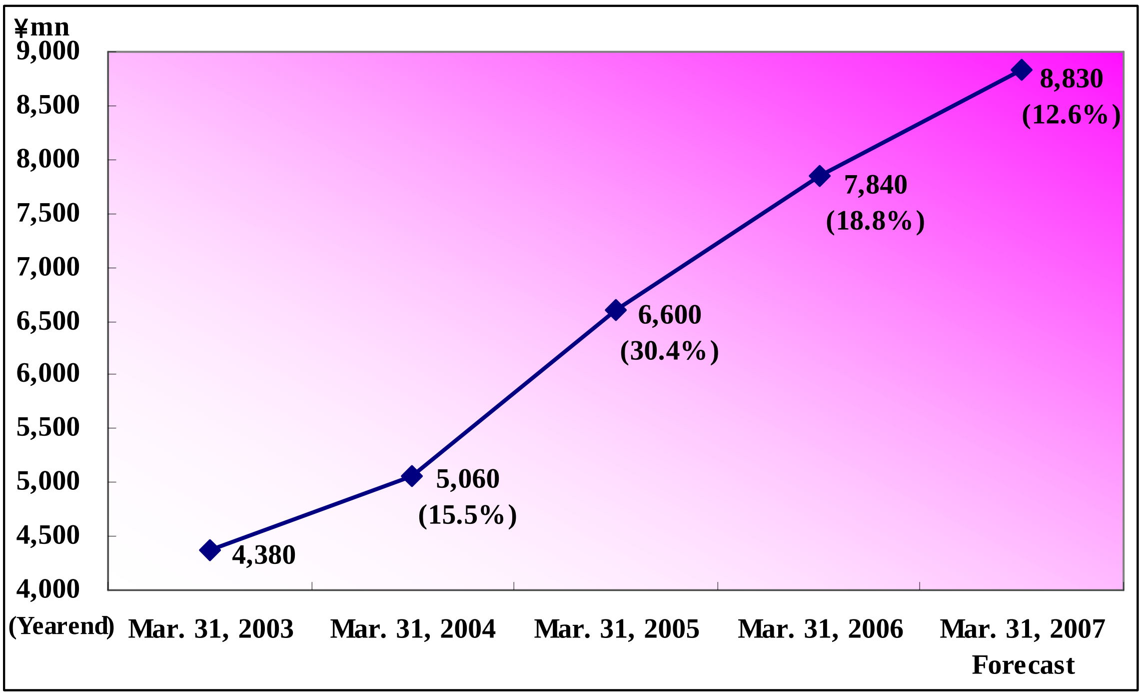
Sales of Uralyt ( ) indicates growth rate compared to 2003



GOVERNMENT'S GENERICS POLICY

Compared with the United States, where generic drugs account for 50% of the pharmaceutical market, their penetration rate in Japan is only 6%. The Company sees the Japanese market as holding tremendous promise, particularly since the government is determined to promote the use of generics as a key to placing a damper on spiraling medical costs.

Sales of Generics ( ) indicates year-on-year growth rate



INCREASING PRODUCT LINEUP

In 2002, Chemiphar entered into a business alliance with one of India's top pharmaceutical companies, Ranbaxy Laboratories Limited. As part of the agreement, the Company gave the Indian enterprise 10 % of its shareholdings in Nihon Pharmaceutical Industry Co., Ltd. (NPI), a Chemiphar subsidiary that develops and produces generic drugs in Japan.

In July 2005, Chemiphar successfully introduced to the Japanese market a generic drug produced by Ranbaxy that had been co-developed with Chemiphar. Then in July this year, the Company launched two more generics produced by Ranbaxy. The companies have set themselves the goal of annually lauching between three and five co-developed generics by 2009. Moreover, Chemiphar plans to enhance its own production capability, as well as its co-developing and product introduction systems, to boost the available options for its product delivery systems from 100 to 150.

Co-Development with Ranbaxy

FY to March 31				
2006	**2007**	**2008 (plan)**	**2009 (plan)**	**Post-2009 (plan)**
1	2	1	2	3 to 5

CLOSER TIES WITH DISPENSING PHARMACY CHAINS

To strengthning its sales network, Chemiphar is expanding its relationship with dispensing pharmacy chains that, in total, have approximately 50,000 outlets in Japan. The Company is concentrating only on the top 300 chains, having concluded its first alliance in 2003 with Nihon Chouzai Co., Ltd. Since then, it has added such main dispensing pharmacy chains as Kraft Inc., Ain Pharmaciez and Pfercos Co., Ltd. to its network.

DPC* IS KEY TO HOSPITAL MARKET

Chemiphar is targeting hospitals that, to date, have not used generics. Further, to support both hospitals that are still considering when to join the DPC system and those that have already taken the plunge, the Company set up and is helping to administer the DPC Management Forum. This organization a source of information and provides the opportunity for the discussion of policies. Since its inauguration in 2005, the forum has only hosted two general meetings, but each was attended by some 200 individuals with ties to the medical profession. Of 360 DPC hospitals (as of July 31, 2006), 284—or 79% of the total—are using Chemiphar generics.

Chemiphar's Generics in DPC Hospitals

	2005	**2006**	**2010**
DPC hospitals	144	360	1,000~1,200
Hospital beds approx.	99,000	194,000	400,000~600,000
DPC hospitals using Chemiphar generics	108 (75%)	285 (79%)	

* DPC is a Japanese system—based on the Diagnosis-Related Group/Prospective Payment System (DRG/PPS) that came into effect in the U.S. in 1983—whereby hospital-treated illnesses are grouped in categories to facilitate cost comparisons with a view to reducing government medication-related outlays.

President Yamaguchi with Dr. B Tempest and Mr. Malvinder Mohan Singh of Ranbaxy Laboratory Limited.

The DPC Management Forum attracts some 200 people.

Generic Drugs: Chemiphar Strategy, Government Policy

Year	Chemiphar	Government
2000	* Makes generics one of its business pillars. * With N.I.C. Corporation promotes use of generics in hospitals.	
2002	* Establishes post of Generics Promoter, Generics Business Department. * Forms alliance with Kraft, a large dispensing pharmacy chain. * Forms alliance with Ranbaxy.	* Introduces points system for use of generics. * Suggests that national hospitals use generics. * Requires that elderly (aged over 70) pay 10% of their medical costs, high-income elderly pay 20%.
2003	* Launches Pravastan for hyperlipemia. * Draws up three-year generics sales plan.	* Requires those with national health insurance to pay 30% of their medical cost. * Advanced treatment hospitals required to adopt DPC system.
2004	* *Forms alliance with Nihon Chouzai, a large dispensing pharmacy chain.*	* Public hospitals become independent corporations.
2005	* *Establishes Generic Pharmaceuticals Marketing Deprtment* * *Launches Vogseal, its first product with Ranbaxy.* * *Launches more than 10 generic products for first time.*	
2006	* *Sets up Dispensing Pharmacy Promotin Department* * *DPC Management Forum meets.*	* Perscription forms worded to give doctors option of prescribing generics. * Pharmacies get 10 points each time the difference between the price of generics and brand-name drugs is explained.

Government Regulations for Generics

Year	
2002	* Abolition of rule setting maximum percentage by which prices of generics can be cut.
2004	* Prices of generics set at 70% of brand-name drugs.
2006	* Generics must have the same composition as brand-name drugs. * Generics must remain on the market at least five years.
Planned	* Makers that cease production in less than 5 years will be penalized, and may be forced out of business. * Prices are to be revised yearly.

CHEMIPHAR TARGETS FOR 2006

1. Continue to base plans for future growth on a solid foundation.
2. Eliminate unconsolidated accumulated loss.
3. Draw up financial plan to accommodate changing business environment.
4. Adjust to increasing internal and external changes.
5. Focus on expansion of Uralyt and generics sales.

President Yamaguchi and Michael Long, Ph.D., president and CEO of Velcura Therapeutics, Inc.

Meeting in Paris with executives of Cerenis Therapeutics, S.A.

CONSOLIDATED FINANCIAL SECTION

This section is a reformatted version of the Japanese-style financial data. This information was audited in its original Japanese form

Consolidated Balance Sheets

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2006**	2005	**2006**
Current assets:			
Cash and time deposits (Note 13)	**4,958**	3,698	**42,139**
Trade notes and accounts receivable	**3,547**	3,974	**30,146**
Allowance for doubtful accounts	**(1)**	(6)	**(9)**
Inventories	**1,287**	1,159	**10,938**
Deferred tax assets—current (Note 10)	**404**	65	**3,434**
Other current assets	**208**	140	**1,768**
Total current assets	**10,403**	9,030	**88,416**
Property, plant and equipment:			
Land (Note 6)	**5,726**	6,793	**48,665**
Buildings (Note 6)	**9,656**	10,218	**82,067**
Machinery and equipment	**3,035**	3,321	**25,795**
Furniture and fixtures	**2,026**	2,177	**17,219**
Construction in progress	**—**	31	**—**
	20,443	22,540	**173,746**
Less accumulated depreciation	**(11,740)**	(12,413)	**(99,779)**
Net property, plant and equipment	**8,703**	10,127	**73,967**
Investments and other assets:			
Investment securities (Notes 4 and 6)	**1,783**	1,238	**15,154**
Long-term loans	**21**	33	**179**
Long-term prepaid expenses	**56**	80	**476**
Intangible assets	**42**	62	**357**
Deferred tax assets—non current (Note 10)	**19**	—	**162**
Leasehold deposits and loans to lessors	**1,387**	1,382	**11,788**
Deferred charges and other assets	**584**	678	**4,963**
Allowance for doubtful accounts	**(156)**	(190)	**(1,326)**
Total investments and other assets	**3,736**	3,283	**31,753**
Total assets	**22,842**	22,440	**194,136**

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars 2006
Current liabilities:			
Short-term bank loans	**813**	1,270	**6,910**
Current portion of long-term debts (Note 5)	**2,159**	1,959	**18,350**
Notes and accounts payable:			
Trade	**3,353**	2,815	**28,497**
Construction	**31**	67	**263**
Accrued expenses	**1,095**	1,021	**9,307**
Accrued income taxes (Note 10)	**1,020**	290	**8,669**
Reserve for sales promotion expenses	**203**	137	**1,725**
Other current liabilities	**781**	704	**6,638**
Total current liabilities	**9,455**	8,263	**80,359**
Long-term liabilities:			
Long-term debts (Note 5)	**3,010**	5,390	**25,582**
Reserve for employees' retirement benefits (Note 7)	**341**	433	**2,898**
Reserve for directors and statutory auditors' retirement benefits	**544**	539	**4,624**
Deferred income taxes on revaluation of land (Note 10	**1,589**	1,749	**13,505**
Lease deposits from lessees	**939**	998	**7,981**
Deferred tax liabilities—non current (Note 10)	**225**	46	**1,912**
Other long-term liabilities	**17**	16	**144**
Total long-term liabilities	**6,665**	9,171	**56,646**
Minority Interests	**—**	485	**—**
Commitments and contingent liabilities (Note 15)			
Shareholders' equity (Note 8)			
Common stcok:			
Authorized: 154,000,000 shares in 2006			
80,000,000 shares in 2005			
Issued: 38,522,301 shares in 2006 and 2005	**4,305**	4,305	**36,588**
Additional paid-in capital	**0**	0	**0**
Retained earnings	**179**	(2,250)	**1,521**
Revaluation surplus of land	**2,033**	2,390	**17,279**
Net unrealized holding gain on securities	**332**	185	**2,822**
Less: treasury stock, at cost—332,345 in 2006 and 309,642 in 2005	**(127)**	(109)	**(1,079)**
	6,722	4,521	**57,131**
Total liabilities and shareholders' equity	**22,842**	22,440	**194,136**

Consolidated Statements of Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Net sales	**¥20,500**	¥20,162	**$174,231**
Cost of sales	**7,576**	7,406	**64,389**
Gross profit	**12,924**	12,756	**109,842**
Selling, general and administrative expenses (Note 11)	**11,292**	11,124	**95,972**
Operating income	**1,632**	1,632	**13,870**
Other income (expenses):			
Interest and dividend income	**21**	6	**179**
Interest expenses	**(209)**	(266)	**(1,776)**
Loss on revaluation of investment securities	**(26)**	(34)	**(221)**
Other, net	**1,287**	(115)	**10,938**
	1,073	(409)	**9,120**
Income before income taxes and minority interests	**2,706**	1,223	**22,990**
Income taxes (Note 10)			
Current	**1,108**	323	**9,417**
Deferred	**(581)**	(33)	**(4,938)**
	527	290	**4,479**
Income before minority interests	**2,179**	933	**18,511**
Minority interests	**56**	86	**476**
Net income	**2,123**	847	**18,035**

Consolidated Statements of Shareholders' Equity

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Common stock:			
Balance at beginning of year	**¥4,305**	¥4,305	**$36,588**
Balance at end of year	**4,305**	4,305	**36,588**
Additional paid-in capital:			
Balance at beginning of year	**0**	525	**0**
Reversal of capital surplus	**0**	(525)	**0**
Balance at end of year	**0**	0	**0**
Retained earnings:			
Balance at beginning of year	**(2,251)**	(3,633)	**(19,131)**
Reversal of capital surplus	**—**	525	**—**
Reversal of revaluation surplus of land, net of tax	**307**	11	**2,609**
Net income	**2,123**	847	**18,044**
Balance at end of year	**179**	(2,250)	**1,521**
Revaluation surplus of land:			
Balance at beginning of year	**2,391**	2,401	**20,321**
Net change during year	**(358)**	(11)	**(3,042)**
Balance at end of year	**2,033**	2,390	**17,279**
Net unrealized holding gain on securities			
Balance at beginning of year	**182**	161	**1,547**
Net change during year	**150**	24	**1,275**
Balance at end of year	**332**	185	**2,822**
Treasury stock, at cost:			
Balance at beginning of year	**(49)**	(94)	**(416)**
Net change during year	**(78)**	(15)	**(663)**
Balance at end of year	**(127)**	(109)	**(1,079)**
Total shareholders' equity at end of year	**6,722**	4,521	**57,131**

Consolidated Statements of Cash Flows

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Cash flows from operating activities:			
Income before income taxes and minority interests	**2,706**	1,224	**22,998**
Depreciation and amortization	**256**	292	**2,176**
Increase in reserve for promotion expenses	**70**	137	**595**
Increase in reserve for employees' retirement benefits	**35**	90	**297**
Increase in reserve for directors and statutory auditors' retirement benefits	**22**	34	**187**
Interest and dividend income	**(20)**	(6)	**(170)**
Interest expense	**209**	266	**1,776**
Loss on revaluation of investment securities	**26**	34	**221**
Gain on sale of investment in securities	**(14)**	(83)	**(119)**
Gain on sale of land	**(102)**	—	**(867)**
Gain on sale of securities of consolidated subsidiaries	**(1,232)**	—	**(10,471)**
Loss on disposal of inventories	**—**	90	**—**
Loss on disposal of property, plant and equipment	**30**	58	**255**
Decrease in notes and accounts receivable	**(431)**	(342)	**(3,663)**
Increase in inventories	**(503)**	(67)	**(4,275)**
Increase in long-term prepaid expenses	**(22)**	(88)	**(187)**
Decrease in notes and accounts payable	**1,011**	411	**8,593**
Increase in accrued consumption tax	**(50)**	103	**(425)**
Decrease in long-term liabilities	**(58)**	(162)	**(493)**
Other	**218**	(229)	**1,853**
Subtotal	**2,151**	1,762	**18,281**
Interest and dividends received	**21**	6	**178**
Interest paid	**(209)**	(245)	**(1,776)**
Income taxes paid	**(317)**	(280)	**(2,694)**
Net cash provided by operating activities	**1,646**	1,243	**13,989**
Cash flows from investing activities:			
Purchases of investment securities	**(74)**	(505)	**(629)**
Purchases of property, plant and equipment	**(207)**	(168)	**(1,759)**
Proceeds from sales of fixed assets	**1,072**	42	**9,111**
proceeds from recovery of loans	**169**	21	**1,436**
Proceeds from sales of shares of consolidated subsidiarie	**1,266**	—	**10,760**
Other	**(86)**	12	**(731)**
Net cash provided by (used in) investing activities	**2,140**	(598)	**18,188**
Cash flows from financing activities:			
Net (decrease) increase in short-term bank loans	**(397)**	(5,791)	**(3,374)**
Proceeds from long-term debt	**500**	6,900	**4,250**
Proceeds from issuance of bonds	**600**	—	**5,099**
Rapayment of long-term debt	**(2,924)**	(1,588)	**(24,851)**
Amortization of long-term debt	**(230)**	(200)	**(1,955)**
Other	**(18)**	(15)	**(153)**
Net cash used in financing activities	**(2,469)**	(694)	**(20,984)**
Net increase (decrease) in cash and cash equivalents	**1,317**	(49)	**11,193**
Cash and cash equivalents at beginning of year	**3,641**	3,690	**30,946**
Cash and cash equivalents at end of year (Note 13)	**4,958**	3,641	**42,139**

Notes to Consolidated Financial Statements

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which differ in certain aspects of application and disclosure requirements from International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form with which readers outside Japan are more familiar. In addition, certain reclassifications have been made in the 2005 financial statements to conform to the classifications used in 2006.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Nippon Chemiphar Co., Ltd. (the Company) is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥117.66 to US$1, the approximate rate of exchange at March 31, 2006. Such translations should not be construed as representation that the Japanese yen amounts could be converted to U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The consolidated financial statements as of March 31, 2006, include the accounts of the Company and its 3 (5 in 2005) subsidiaries (together, the Group).

Under the control or influence concept, those companies in the operations of which the Company, directly or indirectly, is able to exercise control are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 3 (2 in 2005) affiliated companies are accounted for by the equity method. Investments in unconsolidated subsidiaries and other affiliates are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group has been eliminated.

b. Cash equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, demand deposits and other short-term investments with an original maturity of three months of the date of acquisition.

c. Inventories

Inventories consisting of merchandise, finished goods, raw materials, work in progress and stored items are stated at cost determined by the first-in, first-out method.

d. Investment securities

In accordance with the accounting standard for financial instruments, the securities held by the Group are classified as (1) held-to-maturity debt securities, which management has the positive intent and ability to hold to maturity, that are reported at amortized cost; (2) available-for-sale securities, which are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity; and (3) investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method, which are stated at cost.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

e. Allowance for doubtful accounts

The allowance for doubtful accounts is stated in amounts considered to be appropriate, based on the past credit loss experience and an evaluation of potential losses in the receivables outstanding.

f. Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Group is computed by the declining-balance method, while the straight-line method is applied to buildings acquired on and after April 1, 1998.

g. Intangible assets

Intangible assets are carried at cost less accumulated amortization, which is calculated by the straight-line method.

h. Deferred charges

Bond issue costs are equally amortized over three years in accordance with the enforcement rule provision of the Commercial Law.

i. Land revaluation

Under the Law of Land Revaluation, the Company revaluated the land owned for its business use on March 31, 2000 based on the enforcement ordinance concerning revaluation of land. The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of shareholders' equity, and its related deferred tax liabilities are recorded under long-term liabilities. The difference between the carrying amount and its fair value at March 31, 2006 and 2005 was ¥1,211 million ($10,292 thousand) and ¥1,465 million, respectively.

j. Reserve for employees' retirement benefits

The Company has defined benefit pension plans including a welfare pension fund and a tax-qualified retirement pension plan, while its consolidated subsidiaries have established lump-sum payment plans for retirement benefits. In certain cases, additional severance indemnities may be paid to certain employees.

k. Reserves for directors' and statutory auditors' retirement benefits

Reserves for directors' and statutory auditors' retirement benefits are recorded based on the estimated amount calculated in accordance with Company rules.

l. Reserve for sales promotion expenses

A reserve for sales promotion expenses is recorded based on the latest results to provide for future payment of sales promotion expenses in connection with the products and goods sold by the end of the current fiscal year.

m. Leases

Under the Japanese accounting standard for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain as-if-capitalized information is disclosed in the notes to the lessee's financial statements.

n. Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

o. Consumption tax

Consumption tax imposed on the Company's and its subsidiaries' sales to customers is withheld by the Company and its subsidiaries at the time of sale and subsequently paid to the government. This consumption tax is not included in net sales in the accompanying statements of income, but is recorded as a liability, "consumption tax payable." Consumption tax which is paid by the Company and its subsidiaries on the purchases of goods and services from outside the Group is also not included in costs or expenses in the accompanying statements of income, but is offset against consumption tax payable. The net balance is reflected as consumption tax payable under other current liabilities in the accompanying consolidated balance sheets at March 31, 2006 and 2005.

p. Appropriation of retained earnings

Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

q. Derivatives and hedging activities

The Company has time deposits with options and interest rate swap contracts, but does not enter into derivatives for trading or speculative purposes. The exposure of time deposits with options is limited to the interest amounts to be received, while interest rate swaps are utilized to hedge the interest rate exposure of long-term debt, and accounted for by the hedge accounting method. Because the counterparties to these derivatives are limited to financial institutions with a high credit rating, the Company does not anticipate any losses arising from credit risk.

r. Per-share information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share is not disclosed since there are no potential shares outstanding.

3. ACCOUNTING CHANGE

On August 9, 2002, the Business Accounting Council issued the Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets and, on October 31, 2003, the Accounting Standard Board of Japan (ASBJ) issued the Guidance for Application of the Accounting Standard for Impairment of Fixes Assets. The Group adopted this standard with effect from the year ended March 31, 2006. However, there was no effect on the income for that year.

4. INVESTMENT SECURITIES

Investment securities at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Marketable equity securities	**¥1,276**	¥ 959	**$10,845**
Unlisted equity securities	**70**	83	**595**
Investments in affiliates	**437**	196	**3,714**
Total	**¥1,783**	¥1,238	**$ 15,154**

The carrying amounts and aggregate fair values of investment securities at March 31, 2006 and 2005 were as follows:

	Millions of yen			
	Cost	Unrealized gain	Unrealized loss	Fair value
March 31, 2006				
Available-for-sale:				
Marketable equity securities	¥715	¥560	¥ —	¥1,276
March 31, 2005				
Available-for-sale:				
Marketable equity securities	¥652	¥314	¥ 7	¥ 959

	Thousands of U.S. dollars			
	Cost	Unrealized gain	Unrealized loss	Fair value
March 31, 2006				
Available-for-sale:				
Marketable equity securities	$6,077	$4,759	$ —	$10,845

Available-for-sale securities whose fair value was not readily determinable at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Equity securities	¥69	¥82	$586

5. LONG-TERM DEBTS

Long-term debts at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Corporate bonds	**¥ 1,070**	¥ 800	**$ 9,094**
Long-term loans	**4,099**	6,549	**34,838**
Total long-term debts	**5,169**	7,349	**43,932**
Less: current portion	**(2,159)**	(1,959)	**(18,350)**
	¥ 3,010	¥ 5,390	**$ 25,582**

Corporate bonds at March 31, 2006 and 2005 consisted of the following:

Balance at March 31			Millions of yen		Thousands of U.S. dollars	Interest Rate	
Issued by	Type	Issue date	2006	2005	2006	(%)	Maturity
Nippon Chemiphar Co., Ltd.	1st unsecured bonds	May 20, 2003	¥ 500	¥700	$4,250	0.41	May 20, 2008
	2nd unsecured bonds	Sept. 15, 2005	270	—	2,295	0.68	Sep. 15, 2010
	3rd unsecured bonds	Dec. 29, 2005	300	—	2,550	0.91	Dec. 29, 2010
Nippon Pharmaceutical Industry Co., Ltd.	1st unsecured bonds	Mar. 27, 2003	—	50	—	—	Mar. 27, 2006
	2nd unsecured bonds	Mar. 27, 2003	—	50	—	—	Mar. 27, 2008
Total			¥1,070	¥800	$9,094		

Notes: 1 Balance at March 31, 2005, includes current portion amounting to ¥320 million ($2,720 thousand).

2 Nippon Pharmaceutical Industry Co., Ltd., was excluded from the scope of consolidation at March 31, 2006, due to the sale of its shares during the year ended March 31, 2006.

The aggregated annual maturities of bonds are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥320	$2,720
2008	320	2,720
2009	220	1,870
2010	120	1,020
2011	90	765

Long-term loans at March 31, 2006 and 2005 consisted of the following:

Balance at March 31	Millions of yen		Thousands of U.S. dollars	Interest Rate	Repayment
	2006	2005	**2006**	(%)	term
Current portion of long-term loans	**¥1,839**	¥1,709	**$15,630**	1.9	—
Long-term loans	**2,260**	4,840	**19,208**	1.9	2008–2010
Total	**¥4,099**	¥6,549	**$34,838**		

The aggregated annual maturities of long-term loans are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥1,839	$15,630
2008	1,379	11,720
2009	731	6,213
2010	150	1,275

The long-term loans include syndicate loan agreements amounting to ¥2,868 million ($24,375 thousand) and ¥5,190 million at March 31, 2006 and 2005, respectively. The agreement includes the following financial restriction provisions:

a. Operating income and ordinary income in the statements of income should not be negative for two consecutive years.

b. The amount of shareholders' equity in the balance sheets at every year-end should be more than 75% of the level at March 31, 2004.

If the Company or the Group fails to comply with the provisions, the Company is required to repay the principal and related interest expenses on all the contractual liabilities.

In addition, the Company has entered into commitment agreements with five financial institutions to enable efficient fund-raising activities. The status of the commitments based on the agreements at March 31, 2006, was as follows:

	Millions of yen	Thousands of U.S. dollars
Aggregated commitment amounts	¥3,000	$25,497
Used	—	—
Unused balance	¥3,000	$25,497

6. PLEDGED ASSETS

The book value of pledged assets at March 31, 2006 and 2005 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Land	**¥5,140**	¥6,083	**$43,685**
Buildings	**909**	961	**7,726**
Investment securities	**426**	—	**3,620**
Total	**¥6,475**	¥7,045	**$55,031**

The related liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Short-term borrowings	**¥ 200**	¥ 489	**$ 1,700**
Current portion of long-term debt	**1,427**	1,362	**12,128**
Long-term debt	**1,871**	4,057	**15,902**

7. RESERVE FOR EMPLOYEES' RETIREMENT BENEFITS

The Company has a welfare pension fund and tax qualified pension plan as contributory defined benefit pension plans, while its consolidated subsidiaries have lump-sum payment plans.

The liability for employees' retirement benefits at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Projected benefit obligation	**¥(4,215)**	¥(4,141)	**$(35,824)**
Fair value of plan assets	**4,058**	3,332	**34,489**
Unrecognized actuarial net loss	**(183)**	376	**(1,555)**
Reserve for employees' retirement benefits	**¥ (340)**	¥ (432)	**$ (2,890)**

The components of net periodic retirement benefit costs for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Service cost	**¥332**	¥327	**$2,822**
Interest cost	**99**	94	**841**
Expected return on plan assets	**(83)**	(77)	**(705)**
Amortization of transitional obligation	—	51	—
Recognized actuarial loss	**47**	49	**399**
Amortization of prior service cost	—	—	—
Net periodic retirement benefit costs	**¥395**	¥445	**$3,357**

Assumptions used for the years ended March 31, 2006 and 2005 were set forth as follows:

	2006	2005
Discount rate	**2.5%**	2.5%
Expected rate of return on plan assets	**2.5%**	2.5%
Recognition period of actuarial gain/loss	**12 years**	12 years
Amortization period of transitional obligation	—	5 years

8. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Commercial Code (the Code).

The Code requires that all shares of common stock be issued with no par value, at least 50% of the issue price of new shares is required to be recorded as common stock, and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of the total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

On May 1, 2006, a new corporate law became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006, and for the fiscal years ending on or after May 1, 2006.

9. LEASE TRANSACTIONS

The Group leases certain equipment and other assets. Total rental expenses under the above leases for the years ended March 31, 2006 and 2005 were ¥197 million ($1,674 thousand) and ¥187 million, respectively. Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense of finance leases that do not transfer ownership of the leased property to the lessee on an as-if-capitalized basis for the years ended March 31, 2006 and 2005 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Acquisition cost:			
Machinery, equipment and vehicles	**¥ 23**	¥ 131	**$ 196**
Tools, furniture and fixtures	**840**	894	**7,139**
Other (software, etc.)	**38**	28	**323**
Total acquisition cost	**901**	1,053	**7,658**
Accumulated depreciation	**441**	473	**3,748**
Net leased property	**¥460**	¥ 580	**$3,910**

The above acquisition cost includes related interest expenses as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Obligations under financed leases:			
Due within one year	**¥167**	¥195	**$1,420**
Due after one year	**293**	385	**2,490**
Total	**¥460**	¥580	**$3,910**

The above obligations under financed leases included related interest expenses.

Pro forma depreciation expenses for the years ended March 31, 2006 and 2005, which have not been reflected in the accompanying consolidated statements of income, computed by the straight-line method, were ¥197 million ($1,674 thousand) and ¥187 million, respectively.

10. INCOME TAXES

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% and 39.5 % for the years ended March 31, 2006 and 2005, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Deferred tax assets:			
Accrued enterprise tax	**¥ 96**	¥ —	**$ 816**
Sales promotion expenses	**82**	141	**697**
Accrued bonuses	**206**	—	**1,751**
Allowance for doubtful accounts	**63**	71	**535**
Reserve for employees' retirement benefits	**135**	166	**1,147**
Reserve for directors' and statutory auditors' retirement allowances	**221**	213	**1,878**
Tax loss carryforward	—	317	—
Other	**155**	407	**1,317**
Subtotal	**963**	1,318	**8,185**
Less valuation allowance	**(536)**	(1,178)	**(4,555)**
Total	**426**	140	**3,621**
Deferred tax liabilities:			
Deferred tax liabilities on revaluation of land	**1,589**	1,748	**13,505**
Unrealized gain on available-for-sale securities	**227**	121	**1,929**
Total	**1,817**	1,869	**15,443**
Net deferred tax liabilities	**¥(1,390)**	¥(1,729)	**$(11,814)**

The reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2006 and 2005 were as follows:

	2006	2005
Normal effective statutory tax rate	**40.7%**	39.5%
Expenses not deductible for income tax purposes	**6.8**	14.3
Per capita inhabitant tax	**1.1**	2.6
Change in valuation allowance	**(23.8)**	(26.0)
Research and development cost tax credit	**(4.0)**	—
Other—net	**(1.3)**	(6.7)
Actual effective tax rate	**19.5**	23.7

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major components of selling, general and administrative expenses for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Advertising expenses	**¥ 308**	¥ 264	**$ 2,618**
Sales promotion expenses	**2,326**	2,131	**19,769**
Traveling expenses	**642**	642	**5,456**
Salary and allowances	**3,366**	3,331	**28,608**
Commissions	**910**	693	**7,734**
Research and development costs	**1,462**	1,706	**12,426**

12. AMOUNTS PER SHARE

Net assets per share at March 31, 2006 and 2005 and basic net income per share for the years then ended were as follows:

	Yen		U.S. dollars
	2006	2005	**2006**
Net assets	**¥176.02**	¥118.32	**$1.4960**
Basic net income	**55.57**	22.15	**0.4723**

Diluted net income per share has not been disclosed because the Company does not issue any potentially dilutive common stock equivalents.

The underlying data for the calculation of net income per share for the years ended March 31, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Net income	**¥ 2,123**	¥ 847	**$18,035**
Net income available for distribution to shareholders of common stock	**2,123**	847	**18,035**
Weighted average number of shares of common stock outstanding (thousand shares)	**38,200**	38,230	

13. CASH AND CASH EQUIVALENTS

The reconciliation between cash and cash equivalents reported in the consolidated statements of cash flows and cash and time deposits reported in the consolidated balance sheets is as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Cash and time deposits	**¥4,958**	¥3,698	**$42,139**
Time deposits maturing over 3 months	—	(57)	—
Cash and cash equivalents	**¥4,958**	¥3,641	**$42,139**

14. NON-CASH TRANSACTIONS

The Company sold certain shares of Nippon Pharmaceuticals Industry Co., Ltd., during the year ended March 31, 2006, and accordingly it was excluded from the scope of consolidation. The following table shows the assets and liabilities excluded from the consolidation at September 30, 2005:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥1,770	$15,043
Fixed assets	492	4,182
Total assets	¥2,262	$19,225
Current liabilities	¥ 768	$ 6,527
Non-current liabilities	220	1,870
Total liabilities	¥ 988	$ 8,397

15. COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following commitments and contingent liabilities at March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Guarantee of bank loans	**¥ 24**	¥ 50	**$ 204**
Trade notes discounted	**3,087**	3,496	**26,237**
Securities borrowed	**101**	—	**858**

16. SEGMENT INFORMATION

The Company's business is divided into pharmaceutical products, management of nursing homes and other business segments.

(1) Business segments

Information about the business segments of the Group for the years ended March 31, 2006 and 2005 is as follows:

	Millions of yen					
	2006					
	Pharmaceutical product business	Management of nursing homes	Other business	Total	Eliminations (Corporate)	Consolidated
I. Sales and operating income:						
Sales:						
Sales to customers	¥18,778	¥ 755	¥ 967	¥20,500	¥ —	¥20,500
Intersegment sales	22	—	103	125	(125)	—
Total sales	18,800	755	1,070	20,625	(125)	20,500
Operating expenses	17,594	523	891	19,008	(140)	18,868
Operating income	1,206	232	179	1,617	15	1,632
II. Assets, depreciation, capital expenditures:						
Assets	¥14,788	¥2,381	¥1,772	¥18,941	¥3,901	¥22,842
Depreciation	203	14	43	260	—	260
Capital expenditures	181	228	3	412	(222)	190

	Millions of yen					
	2005					
	Pharmaceutical product business	Management of nursing homes	Other business	Total	Eliminations (Corporate)	Consolidated
I. Sales and operating income:						
Sales:						
Sales to customers	¥18,346	¥ 800	¥1,016	¥20,162	¥ —	¥20,162
Intersegment sales	34	—	188	222	(222)	—
Total sales	18,380	800	1,204	20,384	(222)	20,162
Operating expenses	17,202	528	1,047	18,777	(247)	18,530
Operating income	1,178	272	157	1,607	25	1,632
II. Assets, depreciation, capital expenditures:						
Assets	¥17,503	¥2,521	¥1,566	¥21,590	¥ 850	¥22,440
Depreciation	220	15	50	285	—	285
Capital expenditures	172	8	1	181	—	181

	Thousands of U.S. dollars					
	2006					
	Pharmaceutical product business	Management of nursing homes	Other business	Total	Eliminations (Corporate)	Consolidated
I. Sales and operating income:						
Sales:						
Sales to customers	$159,595	$ 6,417	$ 8,219	$174,231	$ —	$174,231
Intersegment sales	187	—	875	1,062	(1,062)	
Total sales	159,782	6,417	9,094	175,293	(1,062)	174,231
Operating expenses	149,533	4,445	7,573	161,551	(1,190)	160,361
Operating income	10,249	1,972	1,521	13,742	128	13,870
II. Assets, depreciation, capital expenditures:						
Assets	$125,685	$20,236	$15,060	$160,981	$33,155	$194,136
Depreciation	1,725	119	366	2,210	—	2,210
Capital expenditures	1,538	1,938	26	3,502	(1,887)	1,615

(2) Geographical segments

The geographical segments were not disclosed as there were no foreign consolidated subsidiaries, or overseas branches.

(3) Overseas sales

Overseas sales information was not disclosed as export sales represented less than 10% of the consolidated sales for the years ended March 31, 2006 and 2005.

17. RELATED PARTY TRANSACTIONS

The related party transactions for the years ended March 31, 2006 and 2005, and the related account balances at each fiscal year-end are as follows:

		Millions of yen		Thousands of U.S. dollars
		2006	2005	**2006**
Japan Sopharchim Co., Ltd.	Purchase of merchandise and raw materials	**¥1,383**	¥1,156	**$11,754**
	Notes and accounts payable	**624**	496	**5,303**
Nippon Pharmaceutical Industry Co., Ltd.	Purchase of merchandise	**891**	—	**7,573**
	Notes and accounts payable	**795**	—	**6,757**

The Company has 5% voting rights in Japan Sopharchim Co., Ltd., which has 10.8% voting rights in the Company.

In addition, the representative director of the Company and his relatives have 77.5% of the voting rights in the Company.

The Company owned 50% (including 33.3% in terms of borrowed shares) of Nippon Pharmaceutical Industry Co., Ltd., at March 31, 2006.

BOARD OF DIRECTORS AND STATUTORY AUDITORS

(as of June 29,2006)

President and CEO
Kazushiro Yamaguchi

Director
Sadao Takahashi

Directors and Corporate Officers
Masaaki Yoshida
Heinojo Yamasaka
Syunichi Yamamoto
Katsumi Udagawa
Hiromichi Yata
Yasuo Kishi

Director and Corporate Advisor
Akira Yamaguchi

Director
Toshiaki Mohara

Corporate Auditors
Noboru Kato (full-time)
Tamotsu Tateno
Tsuyoshi Takahashi

CORPORATE DATA (as of March 31, 2006)

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: ¥4,305 million

Employees: 553

Subsidiaries: Welllife Co., Ltd.
Safety Research Institute for Chemical Compounds Co., Ltd.
Shapro Inc.

Affiliated Companies: Nihon Pharmaceutical Industry Co., Ltd.
Japan Sopharchim Co., Ltd.
Medical System Service Co., Ltd.

Securities Traded: Tokyo Stock Exchange (First Section)

Authorized Number of Shares: 154,000,000

Shares of Common Stock Issued: 38,522,301

Number of Stockholders: 5,580