A New Stage of Growth

Annual Report

Year ended March 31, 2007

NIPPON CHEMIPHAR CO., LTD.

CONTENTS

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.

Next Stage 飛躍

OVERVIEW

Nippon Chemiphar Co., Ltd. (4539, 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 has strived to help people recover from illness and remain healthy by developing and marketing high-quality pharmaceuticals.

Chemiphar cleared its non-consolidated accumulated loss in the fiscal year ended March 2007, following the elimination of its consolidated accumulated loss in the previous fiscal year. It was thus able to resume paying dividends after a hiatus of nine years, marking the completion of the Company's financial recovery and a new, more aggressive five-year medium-term management plan.

Five-Year Medium-Term Management Plan Goals

- Achieve a greater share of the generic pharmaceuticals business by increasing the Company's overall resources.
- Accumulate evidence from clinical research to boost Uralyt sales.
- License to specialist overseas pharmaceutical companies at least another three compounds—besides the current two—at early stages of development to accelerate the commercialization of new Chemiphar medications.

FINANCIAL HIGHLIGHTS

Consolidated Sales and Operating Income

1. Nihon Pharmaceutical Industry Co., Ltd. (NPI), a former Chemiphar subsidiary, became a 50:50 joint venture with Chemiphar and Ranbaxy Laboratories Limited (India) in November 2005. As a result, the NPI's status changed from that of a subsidiary to that of an affiliate.

   Excluding the NPI, 2006 sales are up 4.3% and operating income is down 1.0%.

2. To concentrate on its ethical pharmaceuticals core business, Chemiphar sold the nursing home-related subsidiary Welllife Co., Ltd. to a company in the Strategic Value Partners Group in February 2007.

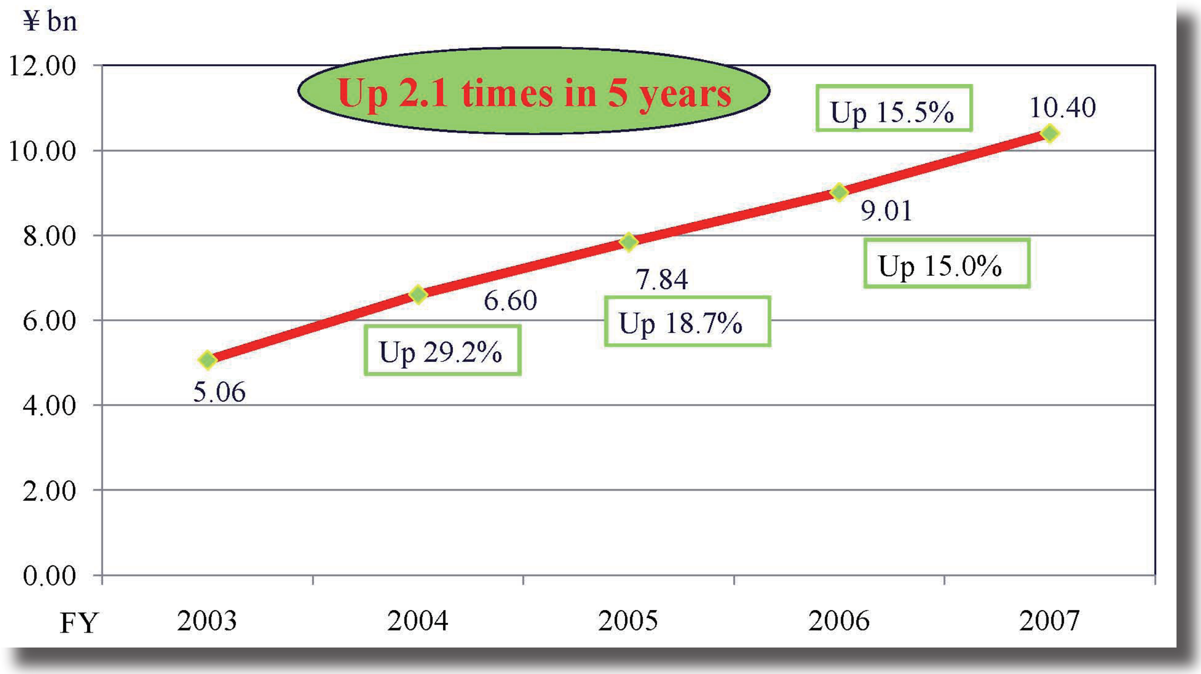
   Excluding the impact of Welllife, Chemiphar's sales are forecast to rise 6.4% year on year and its operating income is expected to rise 9.1% by the same comparison.

Consolidated Sales, Operatind Income

¥ mn

	FY 2005		FY 2006			FY 2007 (Forecast)		
	Amount	Distrib. (%)	Amount	Distrib. (%)	YOY (%)	Amount (%)	Distrib. (%)	YOY (%)
Sales	20,499	100.0	20,966	100.0	2.3	21,500	100.0	2.5
NPI's sales	398		0			0		
Excluding NPI	20,101	100.0	20,966	100.0	4.3			
Welllife's sales	—		758			0		
Excluding Welllife			20,208			21,500	100.0	6.4
Operating income	1,632	8.0	1,395	6.7	(14.5)	1,300	6.0	(6.8)
NPI's operating income	223		0			0		
Excluding NPI	1,409	7.0	1,395	5.9	(1.0)			
Welllife operating income	—		202			0		
Excluding Welllife			1,192			1,300	6.0	9.1

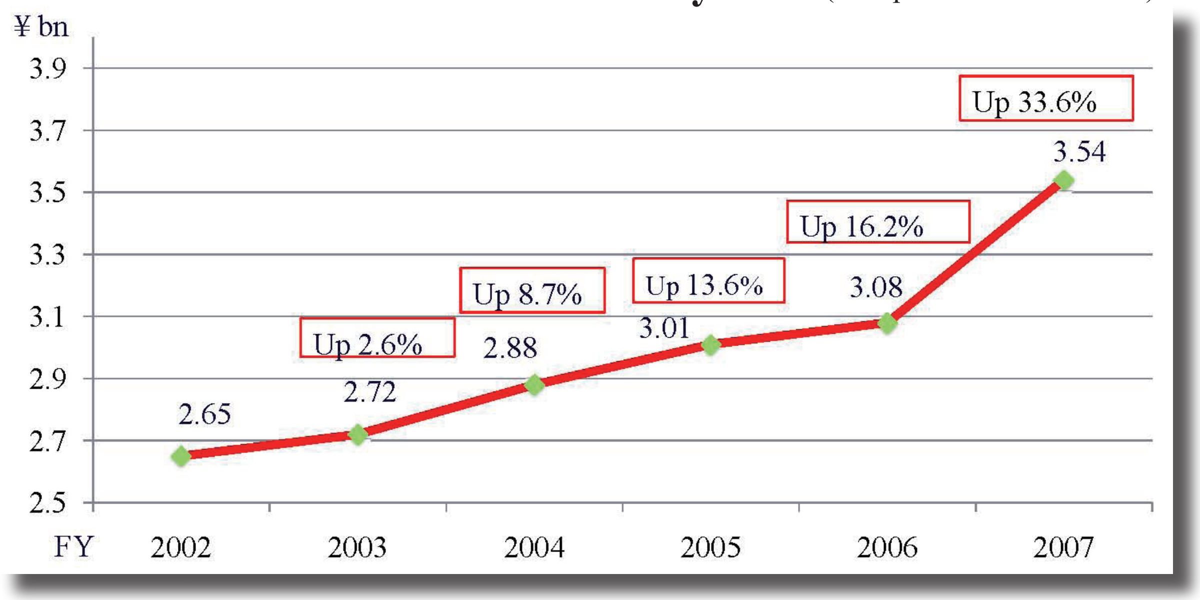
Sales of Generics



Note: The generics market started to expand in 2003, due to encouragement by the government.

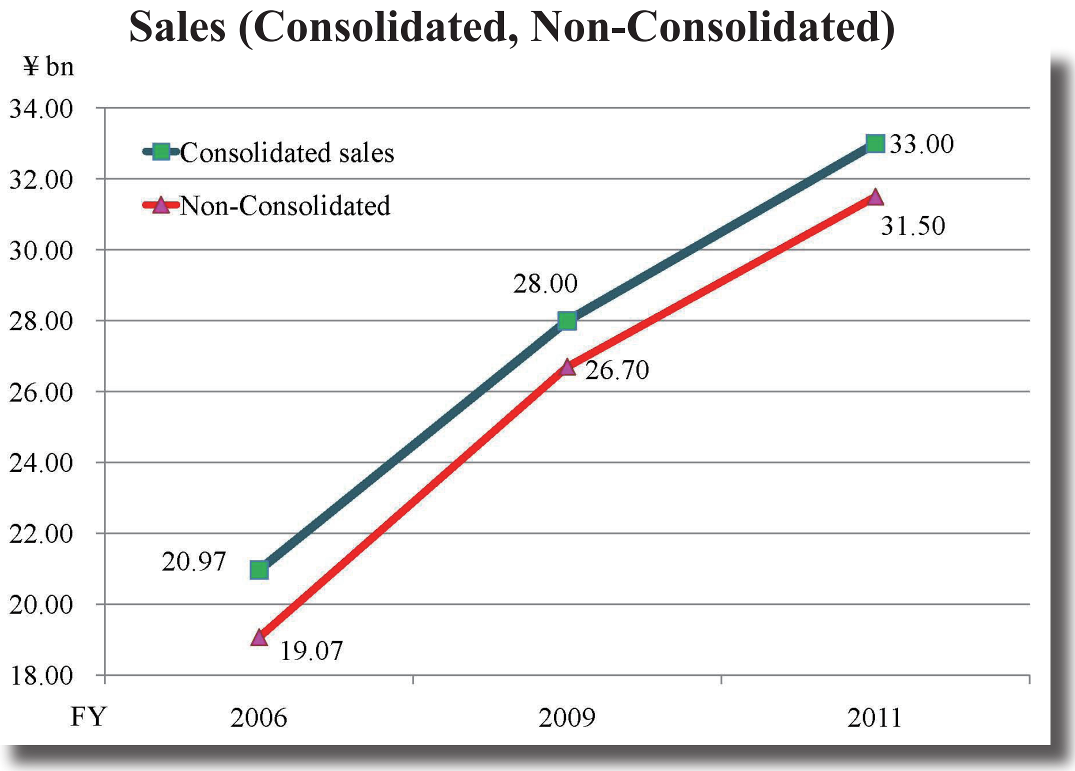
Sales of Uralyt

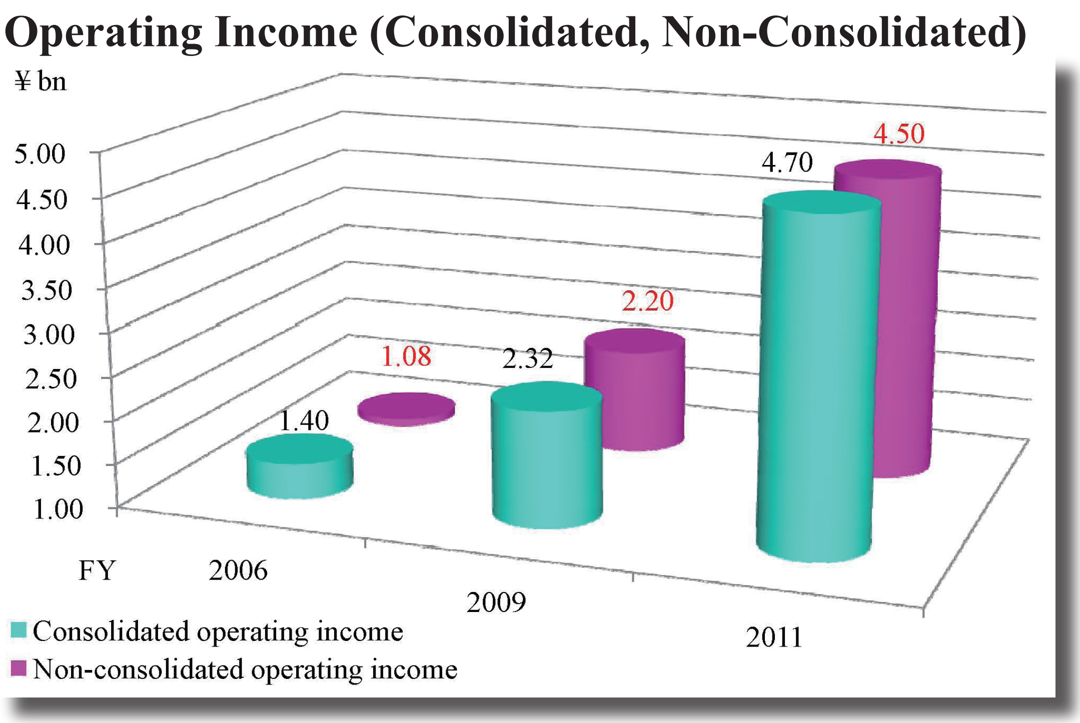
(Compared to March 2003)



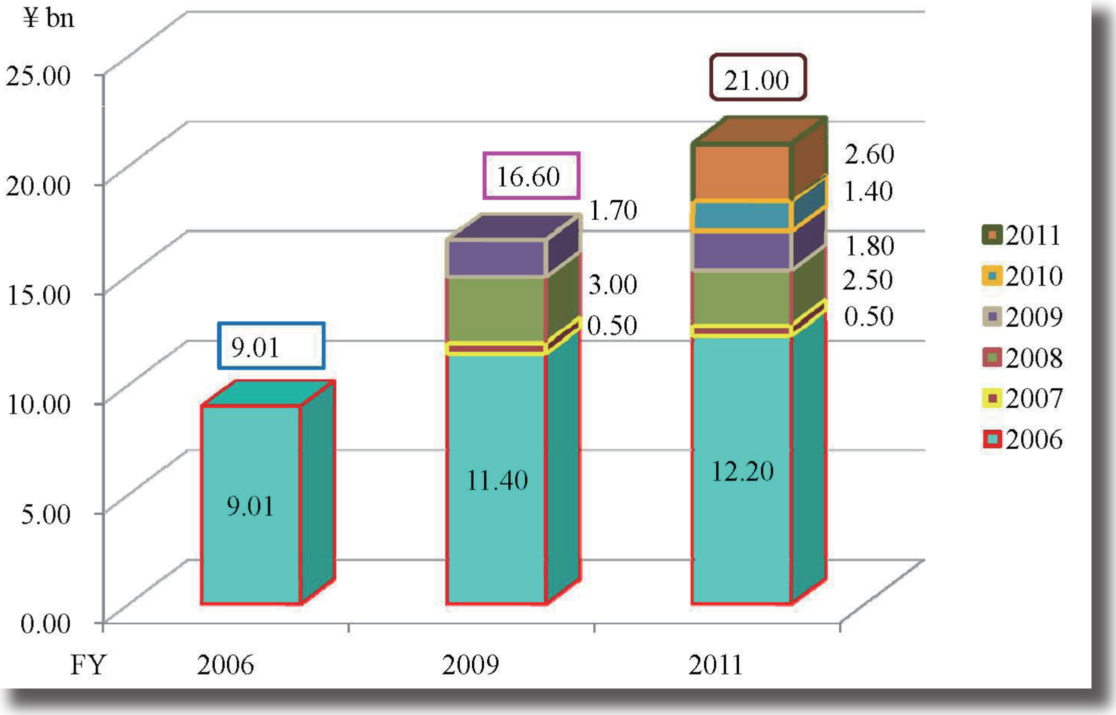
Note: Guidelines for hyperuricemia treatment and control of the urinary tract were published in 2002.

■ **Highlights of Medium-Term Management Plan**

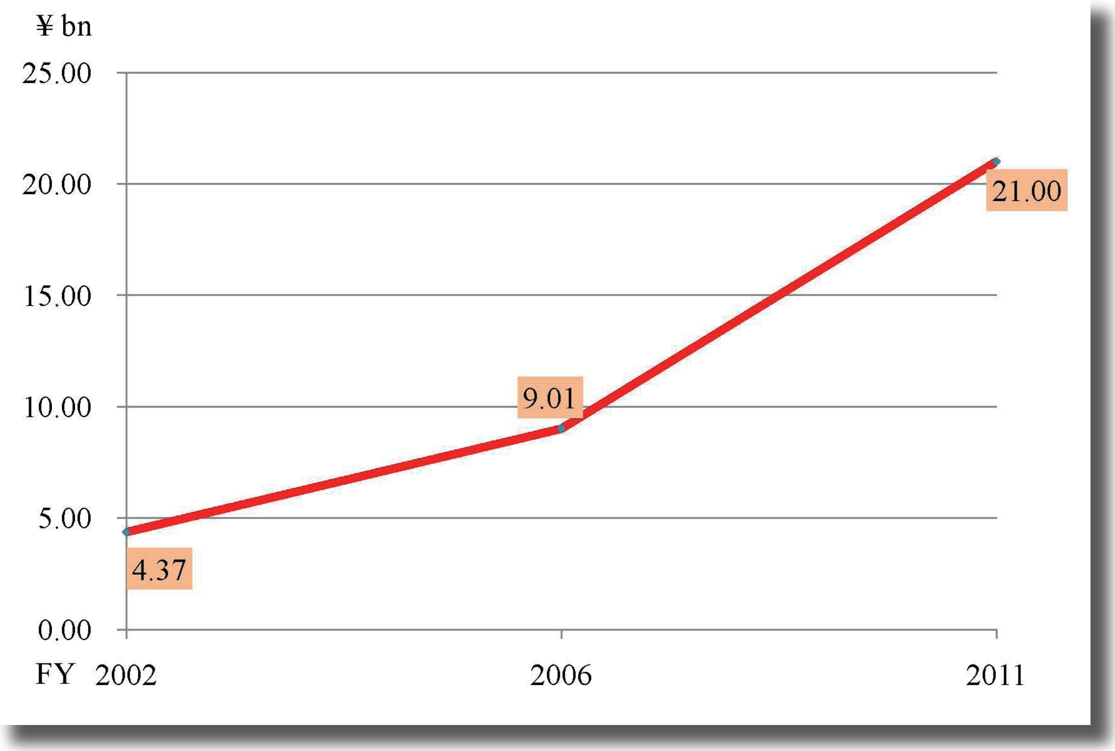




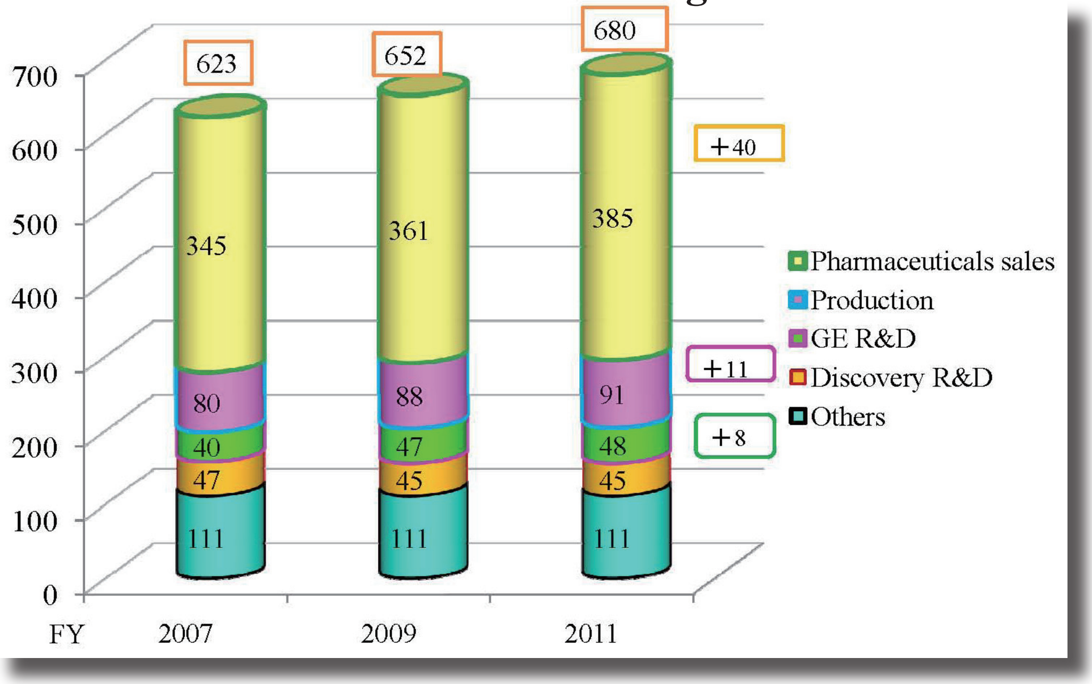
Sales of Generics



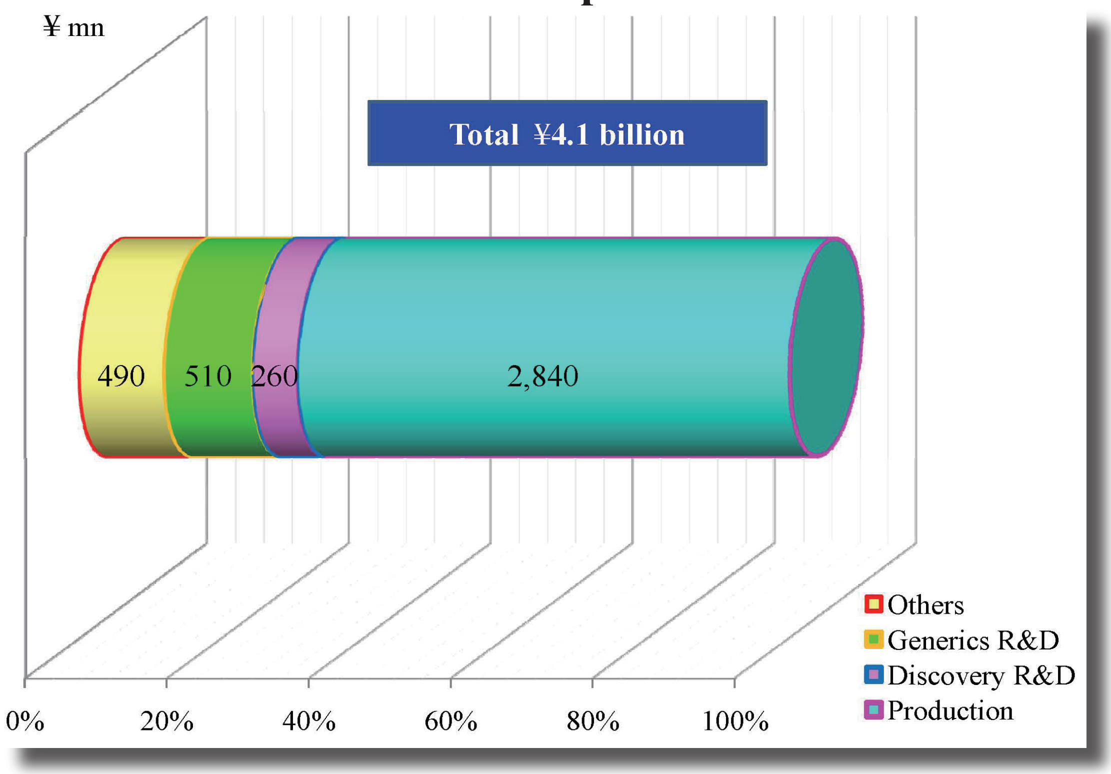
Sales of Generics



Personnel Planning



Non-Consolidated Capital Investment



MESSAGE FROM THE PRESIDENT

Nippon Chemiphar Co., Ltd. is a maker of both new and generic pharmaceuticals that are affordable, adequate in terms of quality and safety, and in stable supply. It is by means of these products that the Company hopes to contribute to high-quality medical services.

Results of Year Ending March 2007

The Company's consolidated sales for the year ending March 2007 were up 2.3% year on year to ¥20,966 million. Although in 2006 National Health Insurance (NHI) drug prices declined an average of 6.7% year on year for the industry (Chemiphar's generics were down 15%), Chemiphar's sales of generics saw a year-on-year increase of 15%, thanks to the government's growing support for the use of generic drugs.

Meanwhile, sales of Chemiphar's core product, Uralyt, rose 3% year on year following the discontinuation of the sales contract with Torii Pharmaceutical Co., Ltd. in October 2006.

In addition, fiscal 2006 sales—excluding the ¥398 million derived from the sales generated by the Chemiphar subsidiary NPI during the FY2005 interim period—were up 4.3% year on year.

Chemiphar's operating income was down 14.5% year on year to ¥1,395 million, due to a rise of 4.4 percentage points in the cost of sales following the NHI's drug price revision, and because generics for the first time accounted for more than 50% of product sales. Excluding NPI's operating income of ¥223 million, the Company's operating income was down 1.0% year on year.

The net income, moreover, was down 83% year on year to ¥366 million. This is because even though the Company recorded an extraordinary income of some ¥1.3 billion in 2005—following the sale of 40% of NPI's shares to India's top generics maker Ranbaxy Laboratories Limited and the sale of unused land—and in 2006 sold 80% of its shares in the nursing home-related company Welllife, Co., Ltd., about ¥1.3 billion of Welllife's retained earnings have been erased. This brought the extraordinary income down ¥198 million year on year.

In line with year-on-year expectations, the Company's non-consolidated sales were up 3.9%, operating income was up 11.6%, and ordinary income was up 10.9%. The non-consolidated net income of ¥988 million enabled the Company to eliminate its accumulated loss of ¥677 million and so, for the first time in nine years, a shareholders' meeting in June 2007 approved the payment of dividends (¥2 per share).

New Management Plan

With the Company's financial health restored, the initial three-year management plan (FY2005–FY2007) was completed one year early. This was made possible by the rapid change in the generics business environment and the market's greater-than-expected expansion that enabled Chemiphar to record generics sales exceeding ¥9 billion (close to the initial management plan's goal of ¥10 billion) already in the second year of the initial plan.

As a result, Chemiphar launched a new Medium-Term Management Plan in April 2007, with a goal of ¥20 billion in generics sales.

The year 2010 will mark the Company's 60th anniversary. While these are times of rapid change and I believe we should embrace what it new, at the same time we should never lose sight of our Company's traditions.

Pillars of The New Management Plan

Greater presence in the generics market

The Company's numeric goal for fiscal 2011 is ¥33 billion in consolidated sales (1.5 times the fiscal 2006 figure), of which sales of generics are expected to be ¥21 billion (2.3 times the fiscal 2006 figure).

Japan, which boasts the world's highest longevity, is experiencing major increases in medical costs that are causing the National Health Insurance (NHI) system to buckle. In addition, an increased incidence of lifestyle-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 greater access to generic drugs will go far in improving the quality of many people's lives.

In 2002, the government started to promote the use of generic drugs to reduce the burden of medical costs and encourage the more efficient management of medical institutions. I believe that 2008 will be crucial for the generics market: The number of DPC* hospitals with over 100 beds will more than double to 360; a new medical system will be introduced for those over the age of 75; and the patents will expire for pharmaceuticals with annual sales of more than ¥150 billion. With these factors driving the generics market, the government plans to expand it to annual sales of ¥800 billion—about double the size of the present generics market—by 2012.

Chemiphar boasts more than 100 active pharmaceutical ingredients (APIs), which represent

* The Diagnostic Procedure Combination (DPC) is a Japanese system—based on the Diagnosis-Related Group/Prospective Payment System (DRG/PPS) that went into effect in the United States in 1983—whereby hospital-treated illnesses are grouped in categories to facilitate cost comparisons with a view to reducing government medication-related outlays. DPC sets fixed per diem hospitalization fee.

a larger generics lineup than that of many other Japanese pharmaceutical companies. In order to launch a greater number of products and strengthen its product lineup, Chemiphar will concentrate its management resources on the generics business in the first three years of the plan. This should allow the Company to enjoy increased income during the plan's last two years.

The operating income, which accounted for 6.7% of sales in fiscal 2006, is expected to reach 8.3% in fiscal 2009, and 14.2% in fiscal 2011, when it is forecast to reach ¥4.7 billion, or about four times the fiscal 2006 figure. I believe that this will be possible despite such negative aspects as the anticipated annual (currently biannual) NHI drug price revision and the likewise anticipated annual (currently biannual) 15% reduction in generic drug prices.

Stronger position for Uralyt in the hyperuricemia market

In 2006, clinical research commenced to ascertain the effects of Uralyt on the urinary tract of those afflicted with hyperuricemia. Chemiphar hopes to have gathered sufficient evidence to verify the efficacy of the drug by 2010, and plans to license compounds for the treatment of hyperuricemia that will be key to the future growth of the Company.

Development of more own-brand pharmaceuticals

Chemiphar has licensed two compounds to companies, one each in the United States and France, and these are undergoing development as planned. The Company is focused on identifying and scanning compounds for development and, during the current management plan, hopes to license a further three compounds to pharmaceutical companies overseas.

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

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

Return for Shareholders

Chemiphar eliminated its non-consolidated accumulated loss and, this fiscal year, will pay dividends for the first time in nine years. By expanding sales, we hope to enable shareholders to enjoy greater benefits by attaining a stable dividend ratio of between 30% and 40%.

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Kazushiro Yamaguchi
President & CEO

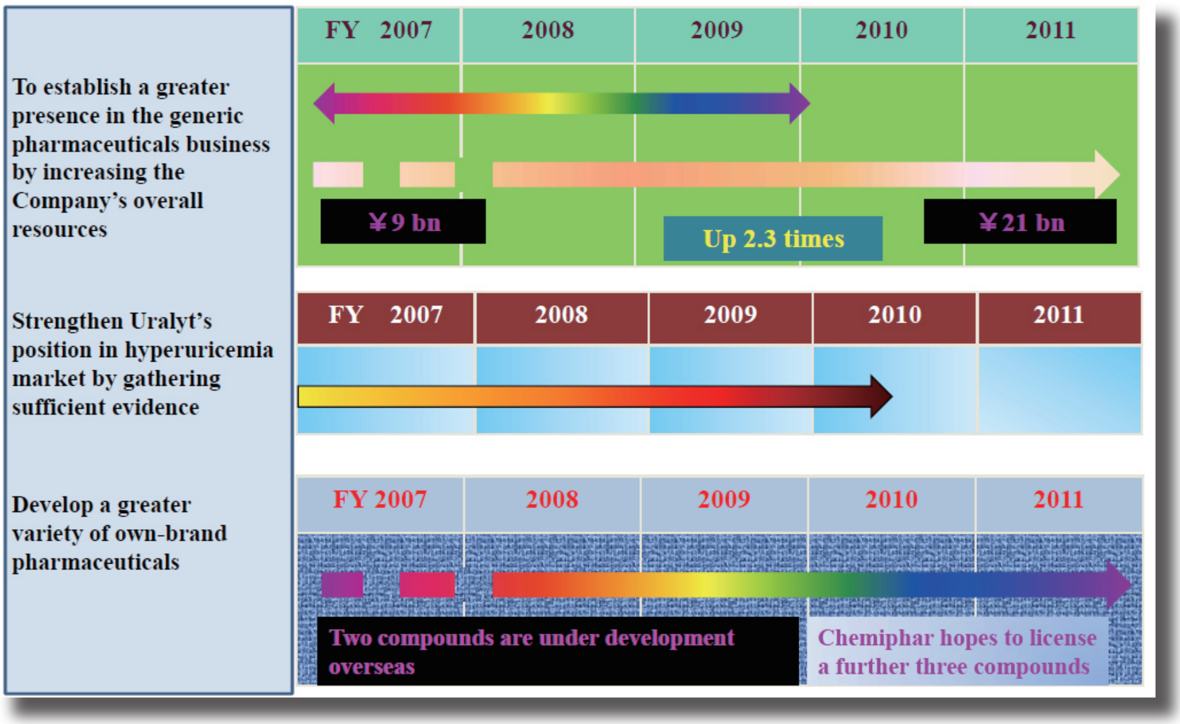
MEDIUM-TERM MANAGEMENT PLAN

- TIME FRAME: Five years (FY2007-FY2011).
- ASSUMPTIONS: Annual NHI drug price reduction (currently every two years); 15% cut in prices of generic drugs; and 5% cut in prices of new medications.
- CLINICAL RESEARCH: Evidence regarding the efficacy of Uralyt is expected around 2010.

Goals

- Expand the Company's business.
- Attain a greater share of the generic pharmaceuticals market.
- Prepare for the second and third stages of growth (post FY2011).

Stages of Chemiphar's Growth

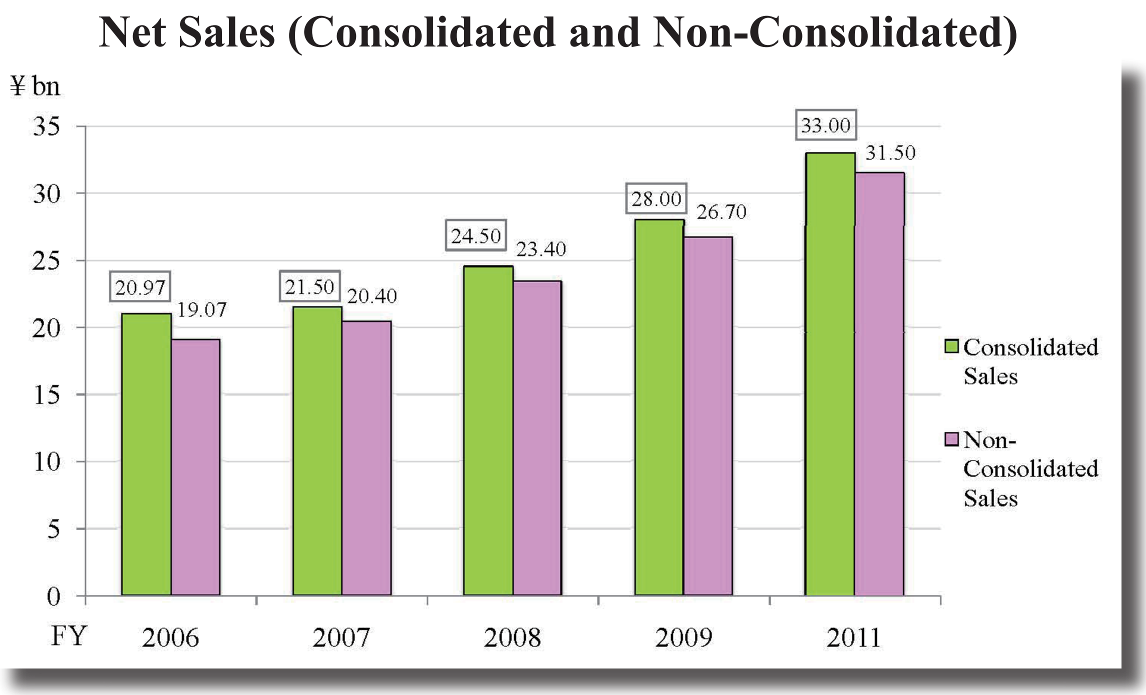


Note: Numeric targets for FY2010 and FY2011 will be revised in 2009, based on the results of the government's promotion of generic drugs in 2008 and 2009.

Numeric Goals

Sales (Consolidated and Non-Consolidated)

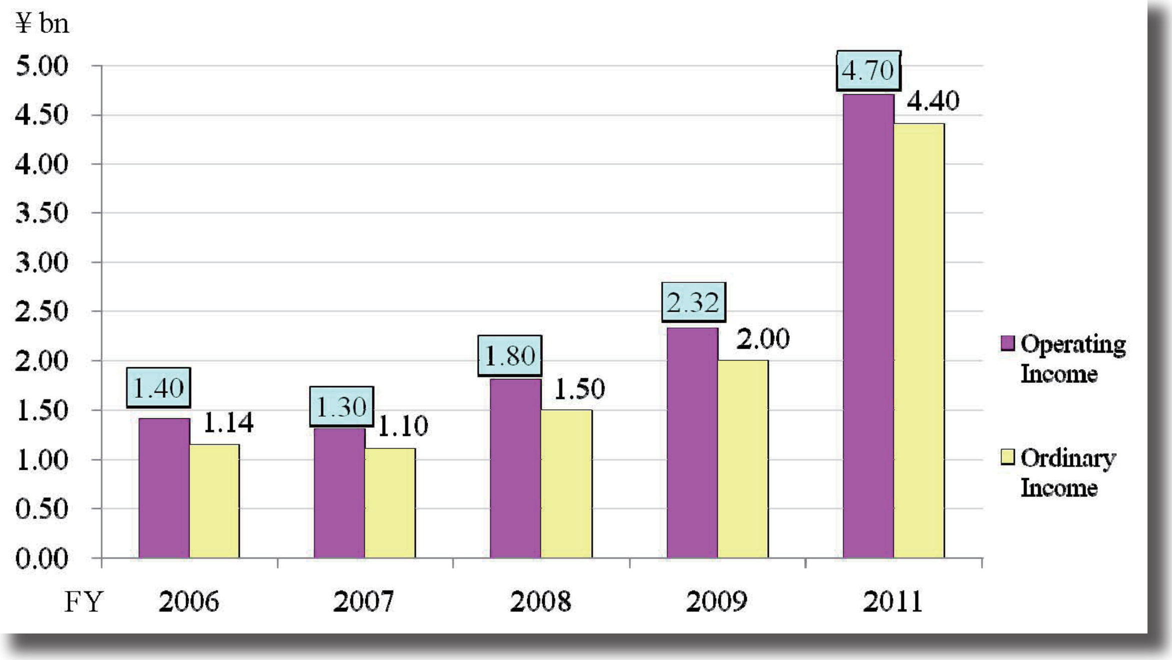
Consolidated net sales are forecast to increase 1.6 fold year on year, and non-consolidated net sales 1.7 fold year on year.



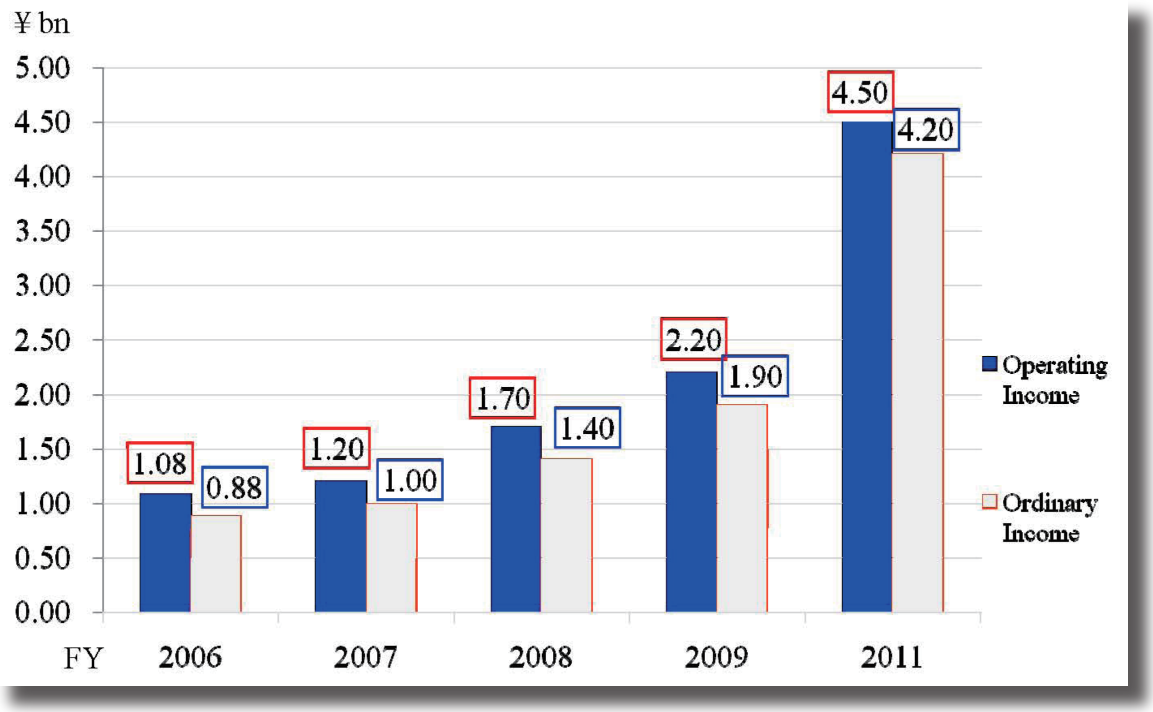
Operating and Ordinary Income

Consolidated operating income is expected to grow 3.4 times year on year and non-consolidated operating income 4.2 times year on year.

Consolidated Operating Income and Ordinary Income



Non-Consolidated Operating Income and Ordinary Income



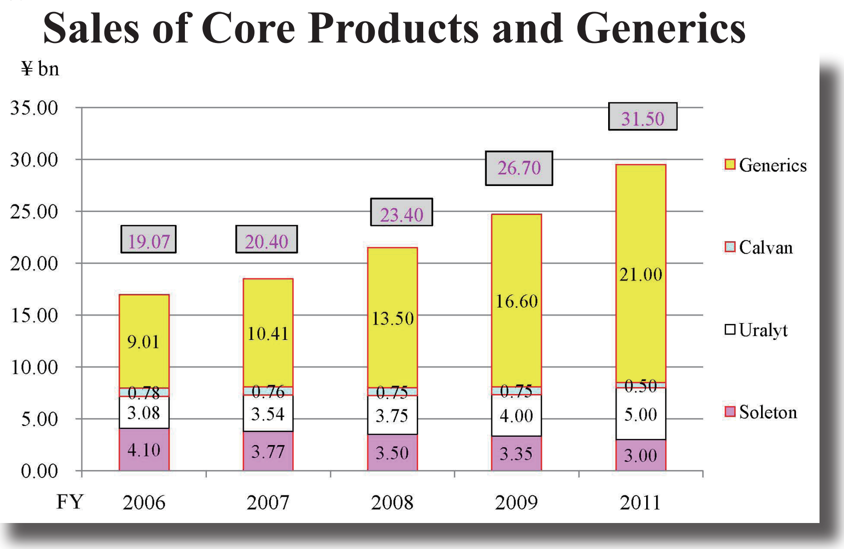
Product Sales

1) Core Products

Uralyt: Sales expected to grow 5% in the first three years of the plan, and 10% in the last two years. Annual sales are thus expected to exceed ¥5 billion for fiscal 2011.

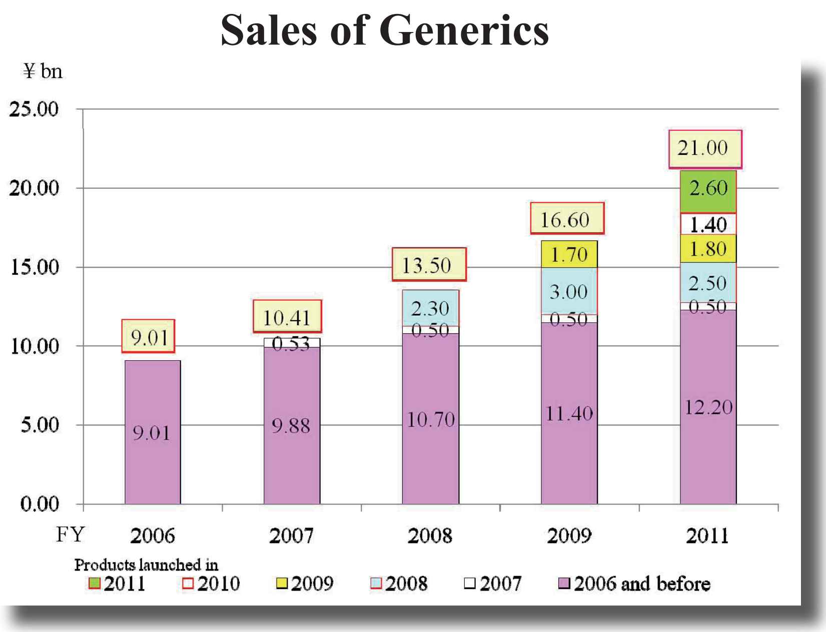
Soleton and Calvan: Sales are expected to decline dues to severe competition and NHI price revisions.

Since Chemiphar will seek to ensure that its core products continue to record annual sales of ¥8 billion (the FY2006 figure), sales of generics will have a positive impact on the Company's overall income.



2) Generics

The government will step up its promotion of generics commencing in FY2008. Also in 2008, when the patents of several popular pharmaceuticals expire, a number of generics with major sales potetial will be marketed.



Government Policy on Sales of Generics

2002

- The Ministry of Health, Labour and Welfare begins promoting the use of generic drugs.
- Hospitals, clinics and prescribing pharmacies receive incentives to prescribe generic drugs.
- The ministry strongly recommends the use of generic drugs at national hospitals.

2003

- Eighty-three core hospitals become DPC (fixed per diem hospitalization fee) facilities.

2004

- National hospitals become independent entities and, without government backing, are expected to become more efficient.

2006

- Format for writing prescriptions changes; doctors can leave choice of generics to pharmacists.

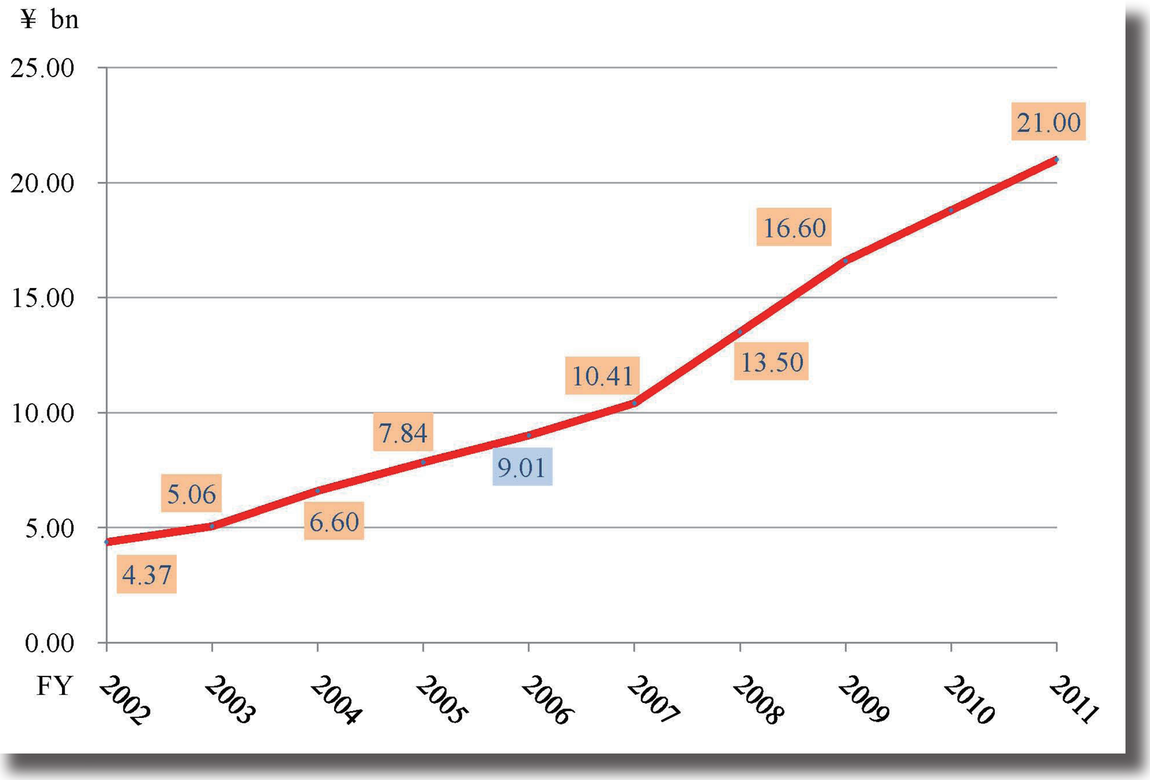
2007

- NHI revises generics' prices twice a year.

2008

- The government will expand the generics market when it creates a new, local government-level medical system for those 75 years of age and over.
- The number of DPC hospitals will increase to 730 facilities from 360.
- Patents will expire for top-earning pharmaceuticals.

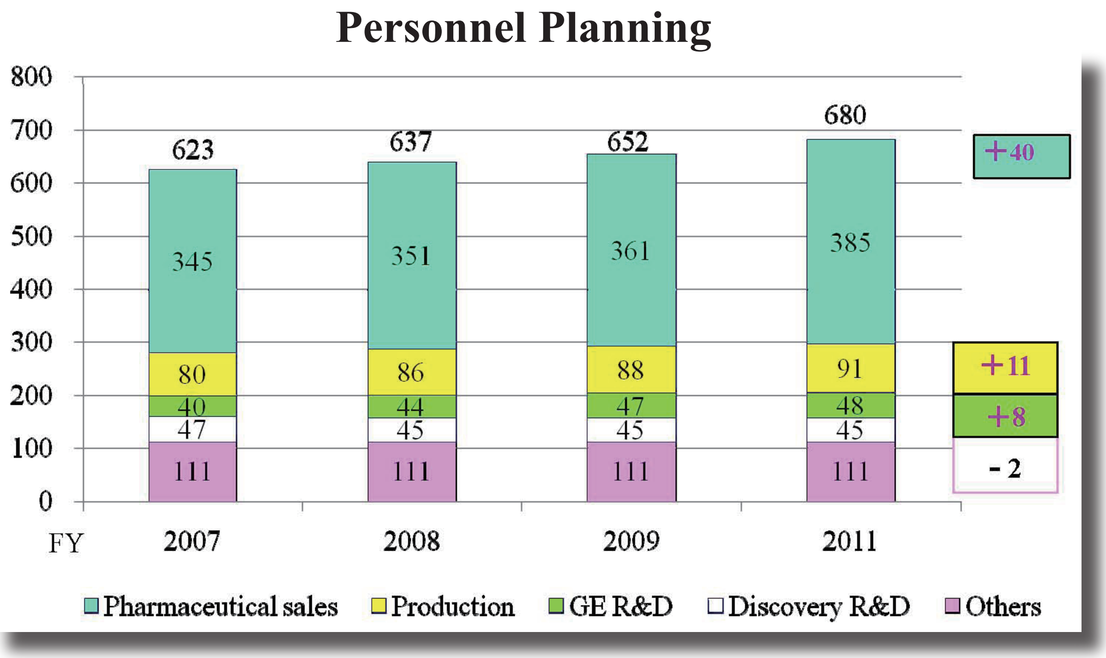
Sales of Generics



Adjusting Resources to Expand Generics Business

1) Addition of 50 staff members

- Generics sales: + 40 staff (sales persons will increase from 270 to 300)
- Generics production: + 11 staff
- Generics R&D: + 8 staff



2) Capital investment of ¥3.8 billion for FY2007–FY2009

- Generics production: ¥2.7 billion
- Generics R&D: ¥500 million
- Others (including new drug research): ¥600 million

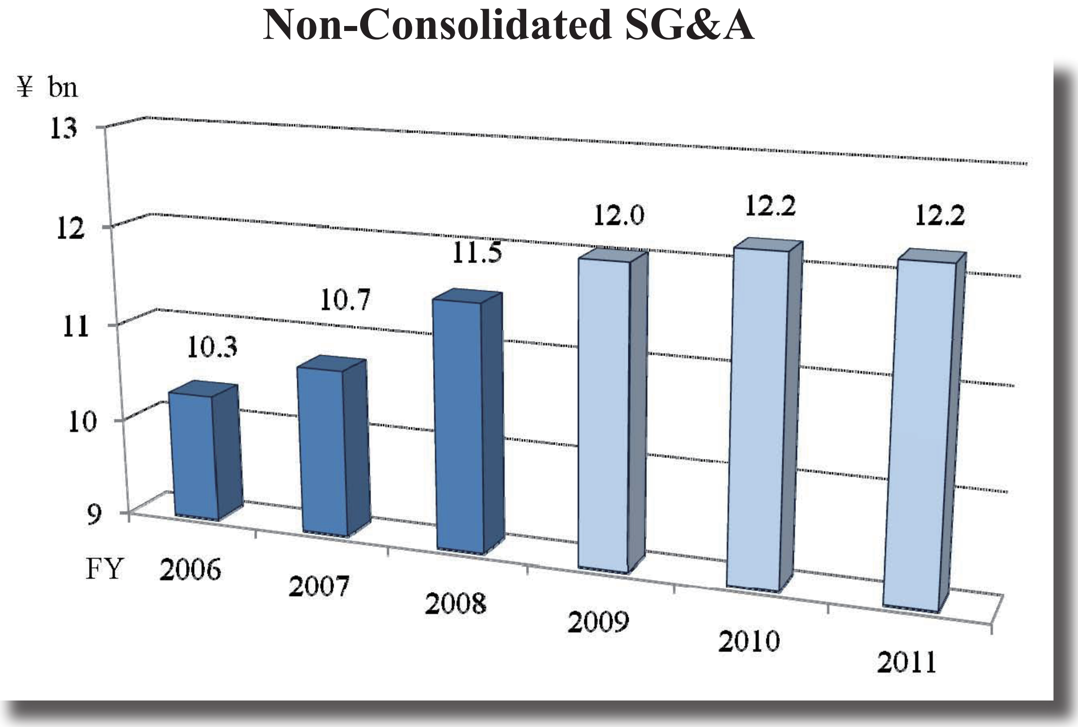
Non-Consolidated Capital Investment

¥ mn

Fiscal Year	2007	2008–09	Total	2010–11	Total
Total	1,140	2,600	3,740	360	4,100
Factory	560	2,100	2,660	180	2,840
Generics R&D	90	390	480	30	510
Laboratories	30	100	130	130	260
Others	460	10	470	20	490
Depreciation	170	520	690	680	1,370

Note: About 200 million yen is expected to be added annually for fixed and maintenance costs.

3) Selling, general & administrative expenses



4) Generic lineup

- The number of active pharmaceutical ingredients (APIs) will be increased from the current 100 to 155 by fiscal 2009 year end, and to 170 by fiscal 2011 year end.
- The ratio of Chemiphar-developed generics, which have a higher gross margin, will be increased from 44% to more than 60% by fiscal 2011 year end.
- Sales of generics are expected to account for 70% of the Company's sales by FY2011 year end, up from the current 53%.

Enhance Lineup

	As of March 2007	As of March 2010	As of March 2012
Number of APIs Compared to 2007	101 —	155 +54	Over 165 +10
Ratio of own and co-developed products	44%	56%	More than 60%
Ratio of generics	53%	67%	More than 70%

Financial Goals

- Boost operating income 15% by FY2011 year end.
- Increase dividends by between 30% and 40%.

Five-Year Management Plan

1. Sales targets and profit & loss forecasts will be kept realistic.
2. The strategy for the first three years (FY 2007-09) has been defined; thereafter expansion will be determined according to the business environment.
3. An action plan for FY2010 and FY2011 will be devised.

PRODUCTS

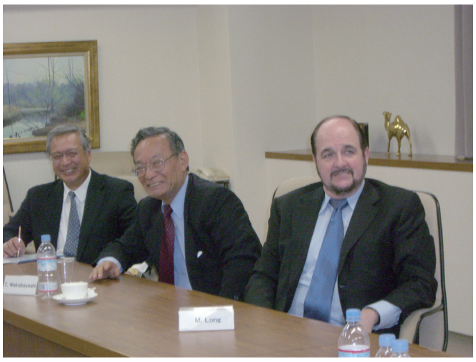
Uralyt (tablets) and Uralyt-U (powders): some 600,000 patients with gout are undergoing treatment in Japan, where the potential market among sufferers of hyperuricemia is estimated at six million individuals.

Main Generics Products

TOPICS

1. New licensed compounds

Basic research is underway as planned. The compounds are expected to enter preclinical and phase I trials in the near future.



Meeting with Velcura Therapeutics, Inc.

2. Chemiphar supports the DPC Management Forum to expand the generics market at hospitals

Doctors, pharmacists, hospital management representatives, executives of dispensing pharmacies and wholesalers attend the forum.

3. Third Hyperuricemia Metabolic Syndrome Research Forum

Clinical research to verify the relationship between hyperuricemia and Uralyt is underway. GlaxoSmithKline (GSK) and Teijin Pharma Limited have joined the forum.

4. Education

New employees, who hope to liaise with doctors, undergoing training.

Sharing opinions at one of the several courses provided annually for younger members of staff.

Chemiphar is one of three companies to be awarded a certificate by a management coaching company.

5. Staff report on the environment-related activities conducted at the Ibaraki factory (ISO14001)

6. Planning the path ahead

A meeting of the minds: staff from Chemiphar and Cerenis Therapeutics, S.A.

Chemiphar staff hold a generics planning meeting.

CONSOLIDATED FINANCIAL SECTION

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

Consolidated Balance Sheets

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries

March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2007**	2006	**2007**
Current assets:			
Cash and time deposits (Note 12)	**¥3,994**	¥4,958	**$33,822**
Trade notes and accounts receivable	**3,865**	3,547	**32,729**
Allowance for doubtful accounts	**(1)**	(1)	**(8)**
Inventories	**1,329**	1,287	**11,254**
Deferred tax assets—current (Note 9)	**388**	404	**3,286**
Other current assets	**535**	208	**4,530**
Total current assets	**10,110**	10,403	**85,613**
Property, plant and equipment:			
Land (Note 5)	**5,478**	5,726	**46,388**
Buildings (Note 5)	**9,149**	9,656	**77,475**
Machinery and equipment	**3,083**	3,035	**26,107**
Furniture and fixtures	**1,902**	2,026	**16,107**
	19,612	20,443	**166,077**
Less accumulated depreciation	**(11,426)**	(11,740)	**(96,757)**
Net property, plant and equipment	**8,186**	8,703	**69,320**
Investments and other assets:			
Investment securities (Notes 3 and 5)	**1,810**	1,783	**15,327**
Long-term loans	**11**	21	**93**
Long-term prepaid expenses	**35**	56	**297**
Intangible assets	**22**	42	**186**
Deferred tax assets—non current (Note 9)	**299**	19	**2,532**
Leasehold deposits and loans to lessors	**165**	1,387	**1,397**
Deferred charges and other assets	**522**	584	**4,418**
Allowance for doubtful accounts	**(120)**	(156)	**(1,014)**
Total investments and other assets	**2,744**	3,736	**23,236**
Total assets	**¥21,040**	¥22,842	**$178,169**

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars 2007
Current liabilities:			
Short-term bank loans	**¥820**	¥813	**$6,944**
Current portion of long-term debts (Note 4)	**2,287**	2,159	**19,367**
Notes and accounts payable:			
Trade	**3,500**	3,353	**29,638**
Construction	**15**	31	**127**
Accrued expenses	**1,240**	1,095	**10,501**
Accrued income taxes (Note 9)	**394**	1,020	**3,336**
Reserve for sales promotion expenses	**214**	203	**1,812**
Other current liabilities	**895**	781	**7,579**
Total current liabilities	**9,365**	9,455	**79,304**
Long-term liabilities:			
Long-term debts (Note 4)	**2,449**	3,010	**20,738**
Reserve for employees' retirement benefits (Note 6)	**301**	341	**2,549**
Reserve for directors and statutory auditors' retirement benefits	**548**	544	**4,641**
Deferred income taxes on revaluation of land (Note 9)	**1,589**	1,589	**13,456**
Lease deposits from lessees	**0**	939	**0**
Deferred tax liabilities—non current (Note 9)	**0**	225	**0**
Other long-term liabilities	**17**	17	**144**
Total long-term liabilities	**4,904**	6,665	**41,528**
Commitments and contingent liabilities (Note 13)			
Net assets:			
Shareholders' equity (Note 7):			
Common stcok:			
Authorized: 154,000,000 shares			
Issued: 38,522,301 shares in 2007	**4,305**	4,305	**36,455**
Additional paid-in capital	**0**	0	**0**
Retained earnings	**545**	179	**4,615**
Less: treasury stock, at cost—344,589 shares in 2007 and 332,345 shares in 2006	**(136)**	(127)	**(1,152)**
Total shareholders' equity	**4,714**	4,357	**39,918**
Valuation and translation adjustments:			
Revaluation surplus of land	**2,033**	2,033	**17,216**
Net unrealized holding gain on securities	**24**	332	**203**
Total valuation and translation adjustments	**2,057**	2,365	**17,419**
Total net assets	**6,771**	6,722	**57,337**
Total liabilities and net assets	**¥21,040**	**¥22,842**	**$178,169**

See notes to consoldiated financial statements.

Consolidated Statements of Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Net sales	**¥20,966**	¥20,500	**$177,543**
Cost of sales	**8,683**	7,576	**73,529**
Gross profit	**12,283**	12,924	**104,014**
Selling, general and administrative expenses (Note 10)	**10,888**	11,292	**92,201**
Operating income	**1,395**	1,632	**11,813**
Other income (expenses):			
Interest and dividend income	**22**	21	**186**
Interest expenses	**(163)**	(209)	**(1,380)**
Loss on revaluation of investment securities	**0**	(26)	**0**
Other, net	**(308)**	1,287	**(2,608)**
	(449)	1,073	**(3,802)**
Income before income taxes and minority interests	**946**	2,706	**8,011**
Income taxes (Note 9)			
Current	**894**	1,108	**7,571**
Deferred	**(314)**	(581)	**(2,659)**
	580	527	**4,912**
Income before minority interests	**366**	2,179	**3,099**
Minority interests	**0**	56	**0**
Net income	**¥366**	¥2,123	**$3,099**

See notes to consoldiated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Nippon Chemiphar Co., Ltd. and Consolidated Subsidia

Years ended March 31, 2007 and 2006

Millions of Yen

	Shareholders' equity					Valuation and translation adjustements			
	Capital	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gain on securities	Revaluation surplus of land	Total valuation and translation adjustments	Total net assets
Balance at March 31, 2005	¥4,305	¥0	¥(2,251)	¥(49)	¥2,005	¥182	¥2,391	¥2,573	¥4,578
Net income			2,123		2,123				2,123
Increase in treasury stock				(78)	(78)				(78)
Reversal of revaluation surplus of land			307		307				307
Net changes of items other than shareholders' equity						150	(358)	(208)	(208)
Total changes of items during the year	0	0	2,430	(78)	2,352	150	(358)	(208)	2,144
Balance at March 31,	¥4,305	¥0	¥179	¥(127)	¥4,356	¥332	¥2,033	¥2,365	¥6,722
Net income			**366**		**366**				**366**
Increase in treasury stock				**(9)**	**(9)**				**(9)**
Net changes of items other than shareholders' equity						**(308)**	—	**(308)**	**(308)**
Total changes of items during the year	**0**	**0**	**366**	**(9)**	**357**	**(308)**	—	**(308)**	**49**
Balance at March 31,	**¥4,305**	**¥0**	**¥545**	**¥(136)**	**¥4,714**	**¥24**	**¥2,033**	**¥2,057**	**¥6,771**

Thousands of U.S. Dollars

	Shareholders' equity					Valuation and translation adjustements			
	Capital	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gain on securities	Revaluation surplus of land	Total valuation and translation adjustments	Total net assets
Balance at March 31,	$36,455	$0	$1,516	$(1,075)	$36,887	$2,811	$17,216	$20,027	$56,923
Net income			**3,099**		**3,099**				**3,099**
Increase in treasury stock				**(76)**	**(76)**				**(76)**
Net changes of items other than shareholders' equity						**(2,608)**	—	**(2,608)**	**(2,608)**
Total changes of items during the year	**0**	**0**	**3,099**	**(76)**	**3,023**	**(2,608)**	—	**(2,608)**	**415**
Balance at March 31,	**$36,455**	**$0**	**$4,615**	**$(1,152)**	**$39,919**	**$203**	**$17,216**	**$17,419**	**$57,337**

See notes to consoldiated financial statements.

Consolidated Statements of Cash Flows

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥947**	¥2,706	**$8,019**
Depreciation and amortization	**257**	256	**2,176**
Increase in reserve for promotion expenses	**11**	70	**93**
Increase (decrease) in reserve for employees’ retirement benefits	**(26)**	35	**(220)**
Increase in reserve for directors and statutory auditors’ retirement benefits	**78**	22	**661**
Interest and dividend income	**(22)**	(20)	**(186)**
Interest expense	**163**	209	**1,380**
Loss on revaluation of investment securities	**0**	26	**0**
Gain on sale of investment in securities	**(388)**	(14)	**(3,286)**
(Gain) loss on sale of land	**20**	(102)	**169**
(Gain) loss on sale of securities of consolidated subsidiaries	**442**	(1,232)	**3,743**
Loss on disposal of property, plant and equipment	**1**	30	**9**
Increase in notes and accounts receivable	**(318)**	(431)	**(2,693)**
Increase in inventories	**(158)**	(503)	**(1,338)**
Decrease (increase) in long-term prepaid expenses	**21**	(22)	**178**
Increase in notes and accounts payable	**147**	1,011	**1,245**
Increase (decrease) in accrued consumption tax	**10**	(50)	**85**
Decrease in long-term liabilities	**(156)**	(58)	**(1,321)**
Other	**73**	218	**618**
Subtotal	**1,102**	2,151	**9,333**
Interest and dividends received	**23**	21	**195**
Interest paid	**(167)**	(209)	**(1,414)**
Income taxes paid	**(1,460)**	(317)	**(12,364)**
Net cash provided by (used in) operating activities	**(502)**	1,646	**(4,250)**
Cash flows from investing activities:			
Purchases of investment securities	**(656)**	(74)	**(5,555)**
Purchases of property, plant and equipment	**(193)**	(207)	**(1,635)**
Proceeds from sales of fixed assets	**32**	1,072	**271**
Proceeds from recovery of loans	**14**	169	**119**
Proceeds from sales of shares of consolidated subsidiaries	**577**	1,266	**4,886**
Other	**198**	(86)	**1,677**
Net cash provided by (used in) investing activities	**(28)**	2,140	**(237)**
Cash flows from financing activities:			
Net (decrease) increase in short-term bank loans	**7**	(397)	**59**
Proceeds from long-term debt	**1,730**	500	**14,650**
Proceeds from issuance of bonds	**500**	600	**4,234**
Rapayment of long-term debt	**(2,342)**	(2,924)	**(19,832)**
Amortization of long-term debt	**(320)**	(230)	**(2,710)**
Other	**(9)**	(18)	**(76)**
Net cash used in financing activities	**(434)**	(2,469)	**(3,675)**
Net increase (decrease) in cash and cash equivalents	**(964)**	1,317	**(8,163)**
Cash and cash equivalents at beginning of year	**4,958**	3,641	**41,985**
Cash and cash equivalents at end of year (Note 12)	**¥3,994**	¥4,958	**$33,822**

See notes to consoldiated financial statements.

Notes to Consolidated Financial Statements

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

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.

The consolidated financial statements issued domestically have undergone certain reclassifications and rearrangements in order that they might be presented in a form with which readers outside Japan are more familiar. In addition, certain reclassifications have been made in the 2006 financial statements to conform to the classifications used in 2007.

Effective the year ended March 31, 2007, the Company adopted a new accounting standard for the presentation of net assets on its balance sheets and the related implementation guidance issued by the Accounting Standards Board of Japan (ASBJ). In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets. Thus, the previously reported consolidated balance sheets as of March 31, 2006 and consolidated statements of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

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 ¥118.09 to US$1, the approximate rate of exchange at March 31, 2007. 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, 2007, include the accounts of the Company and its two (three in 2006) subsidiaries (together, the Group). Welllife Co., Ltd., which had been consolidated until the year ended March 31, 2006, was excluded from the consolidation of the balance sheets at March 31, 2007, but the results of operations for the year were included in the accompanying consolidated statements of income for the year then ended, because certain shares of the company were sold at the end of the fiscal year.

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. The companies over which the Group exercises significant influence are accounted for by the equity method.

Investments in three affiliated companies are accounted for by the equity method. Investment in an affiliate (Welllife Co., Ltd.) is 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 profits included in assets resulting from transactions within the Group have 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 from 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 component of valuation and translation adjustments under net assets; 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

Effective the year ended March 31, 2007, the Company adopted the "Tentative Solution on Accounting for Deferred Assets" issued by the ASBJ on August 11, 2006 and, accordingly, bond issuance costs are equally amortized over the years until the maturing dates, although until the previous fiscal year end, such cost had been amortized over three years after payment.

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 revaluation surplus of land represents unrealized appreciation of land and is stated, net of income taxes, as a component of valuation and translation adjustments under net assets, 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, 2007 and 2006 was ¥1,245 million ($10,543 thousand) and ¥1,211 million, respectively.

j. Loss on impairment of fixed assets

In accordance with the accounting standard for impairment of fixed assets, the Company and its consolidated subsidiaries periodically review their fixed assets for impairment by grouping them in income generating units whenever there is any indication of a significant decline in the fair value against book value based on an independent appraisal. When the existence of any impairment for the group of the assets is identified, an impairment loss will be recognized and such amount is directly deducted from the related assets.

k. 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.

Pursuant to the Japanese accounting standard for employees' retirement benefits, the Company and its consolidated subsidiaries recorded the liability for retirement benefits as of March 31, 2007 and 2006 based on projected benefit obligations and the fair value of the pension plan assets at those dates. The actuarial gains or losses are amortized from the year following the year in which the gain or loss is incurred by the straight-line method over the average remaining years of service of the eligible employees (11 years in 2007 and 12 years in 2006).

l. 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.

m. 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.

n. 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.

o. 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.

p. 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 that 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, 2007 and 2006.

q. Appropriation of retained earnings

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

r. 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 are 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.

s. 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. INVESTMENT SECURITIES

Investment securities at March 31, 2007 and 2006 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Available-for-sale securities:			
Marketable equity securities	**¥1,219**	¥1,276	**$10,323**
Unlisted equity securities	**69**	69	**584**
Others	**86**	—	**728**
Subtotal	**1,376**	1,345	**11,652**
Investments in affiliates	**434**	437	**3,675**
Total	**¥1,810**	¥1,783	**$ 15,327**

The carrying amounts and aggregate fair values of investment securities at March 31, 2007 and 2006 were as follows:

	Millions of yen			
	Cost	Unrealized gain	Unrealized loss	Fair value
March 31, 2007				
Available-for-sale:				
Value posted in consolidated balance sheets exceeds acquisition price	**¥609**	**¥115**	**¥ —**	**¥724**
Acquisition price exceeds value posted in consolidated balance sheets	**570**	—	**74**	**495**
Other	**86**	—	**0**	**86**
	¥1,266	**¥115**	**¥ 75**	**¥1,306**
March 31, 2006				
Available-for-sale:				
Marketable equity securities	¥715	¥560	¥ —	¥1,276

	Thousands of U.S. dollars			
	Cost	Unrealized gain	Unrealized loss	Fair value
March 31, 2007				
Available-for-sale:				
Value posted in consolidated balance sheets exceeds acquisition price	**$5,157**	**$974**	**$ —**	**$6,131**
Acquisition price exceeds value posted in consolidated balance sheets	**4,827**	—	**627**	**4,192**
Other	**728**	—	**0**	**728**
	$10,721	**$974**	**$627**	**$11,059**

Available-for-sale securities whose fair value was not readily determinable at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Equity securities	**¥69**	¥69	**$586**

4. LONG-TERM DEBTS

Long-term debts at March 31, 2007 and 2006 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Corporate bonds	**¥ 1,250**	¥ 1,070	**$ 10,585**
Long-term loans	**3,486**	4,099	**29,520**
Total long-term debts	**4,736**	5,169	**40,105**
Less: current portion	**(2,287)**	(2,159)	**(19,367)**
	¥ 2,449	¥ 3,010	**$ 20,738**

Corporate bonds at March 31, 2007 and 2006 comprised the following:

Balance at March 31			Millions of yen		Thousands of U.S. dollars	Interest rate	
Issued by	Type	Issue date	**2007**	2006	**2007**	(%)	Maturity
Nippon Chemiphar Co., Ltd.	1st unsecured bonds	May 20, 2003	**¥ 300**	¥500	**$2,540**	0.41	May 20, 2008
	2nd unsecured bonds	Sept. 15, 2005	**210**	270	**1,778**	0.68	Sep. 15, 2010
	3rd unsecured bonds	Dec. 29, 2005	**240**	300	**2,032**	0.91	Dec. 29, 2010
	4th unsecured bonds	Dec,29, 2006	**500**	—	**4,234**	1.30	Dec,29, 2011
Total			**¥1,250**	¥1,070	**$10,585**		

Note: Balance at March 31, 2007 includes current portion amounting to ¥420 million ($3,557 thousand).

The aggregated annual maturities of bonds are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥420	$3,557
2009	320	2,710
2010	220	1,863
2011	190	1,610
2012	100	847

Long-term loans at March 31, 2007 and 2006 comprised the following:

Balance at March 31	Millions of yen		Thousands of U.S. dollars	Interest rate	Repayment
	2007	2006	**2007**	(%)	Term
Current portion of long-term loans	**¥1,867**	¥1,839	**$15,810**	2.1	—
Long-term loans	**1,619**	2,259	**13,710**	1.8	2009–2013
Total	**¥3,486**	¥4,098	**$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
2009	¥1,039	$8,798
2010	389	3,294
2011	111	940
2012	61	517

The long-term loans include syndicate loan agreements amounting to ¥1,449 million ($12,270 thousand) and ¥2,868 million at March 31, 2007 and 2006, 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.
c. The amount of interest-bearing liabilities at each balance sheet date should be less than the amount of net sales in the consolidated statement of income for the year then ended.

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 four financial institutions to enable efficient fund-raising activities. The status of the commitments based on the agreements at March 31, 2007, was as follows:

	Millions of yen	Thousands of U.S. dollars
Aggregated commitment amounts	**¥3,000**	**$25,404**
Used	—	—
Unused balance	**¥3,000**	**$25,404**

5. PLEDGED ASSETS

The book value of pledged assets at March 31, 2007 and 2006 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Land	**¥5,139**	¥5,139	**$43,518**
Buildings	**860**	909	**7,283**
Investment securities	**415**	426	**3,514**
Total	**¥6,415**	¥6,475	**$54,323**

The related liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Short-term borrowings	**¥ 320**	¥ 200	**$ 2,710**
Current portion of long-term debt	**1,231**	1,427	**10,424**
Long-term debt	**528**	1,871	**4,471**

6. 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, 2007 and 2006 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Projected benefit obligation	**¥(4,268)**	¥(4,215)	**$(36,142)**
Fair value of plan assets	**4,223**	4,058	**35,761**
Funded status	**(44)**	(156)	**(1,219)**
Unrecognized actuarial net loss	**(256)**	(184)	**(2,168)**
Reserve for employees' retirement benefits	**¥ (301)**	¥ (340)	**$ (2,549)**

The components of net periodic retirement benefit costs for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Service cost	**¥346**	¥332	**$2,930**
Interest cost	**104**	99	**881**
Expected return on plan assets	**(101)**	(83)	**(855)**
Recognized actuarial loss	**8**	47	**68**
Net periodic retirement benefit costs	**¥358**	¥395	**$3,032**

Assumptions used for the years ended March 31, 2007 and 2006 were set forth as follows:

	2007	2006
Discount rate	**2.5%**	2.5%
Expected rate of return on plan assets	**2.5%**	2.5%
Recognition period of actuarial gain/loss	**11 years**	12 years

7. SHAREHOLDERS' EQUITY

The new Corporation Law of Japan (the Law), which superseded most of the provisions of the Commercial Code, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and legal reserve equals 25% of the stated capital. Such distributions can be made at any time by resolution of the shareholders or by the board of directors if certain conditions are met.

8. LEASE TRANSACTIONS

The Group leases certain equipment and other assets. Total rental expenses under the above leases for the years ended March 31, 2007 and 2006 were ¥193 million ($1,666 thousand) and ¥196 million, respectively. Pro forma information on 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, 2007 and 2006, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Acquisition cost:			
Machinery, equipment and vehicles	**¥ 54**	¥ 22	**$ 457**
Tools, furniture and fixtures	**767**	840	**6,495**
Other (software, etc.)	**38**	38	**322**
Total acquisition cost	**860**	901	**7,283**
Accumulated depreciation	**445**	441	**3,768**
Net leased property	**¥415**	¥ 459	**$3,514**

The above acquisition cost includes related interest expenses as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Obligations under financed leases:			
Due within one year	**¥157**	¥166	**$1,329**
Due after one year	**257**	292	**2,176**
Total	**¥415**	¥459	**$3,514**

The above obligations under financed leases included related interest expenses.

Pro forma depreciation expenses for the years ended March 31, 2007 and 2006, which have not been reflected in the accompanying consolidated statements of income, computed by the straight-line method, were ¥193 million ($1,634 thousand) and ¥196 million, respectively.

9. 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% for the years ended March 31, 2007 and 2006.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred tax assets:			
Accrued enterprise tax	**¥ 35**	¥ 96	**$ 296**
Sales promotion expenses	—	82	**1,855**
Accrued bonuses	**219**	206	**406**
Allowance for doubtful accounts	**48**	63	**737**
Reserve for Sales promotion	**87**	—	
Reserve for employees' retirement benefits	**122**	135	**1,033**
Reserve for directors' and statutory auditors' retirement allowances	**222**	221	**1,880**
Other	**196**	155	**1,660**
Subtotal	**932**	963	**7,892**
Less valuation allowance	**(229)**	(536)	**(1,939)**
Total	**703**	426	**5,953**
Deferred tax liabilities:			
Deferred tax liabilities on revaluation of land	**1,589**	1,589	**13,456**
Unrealized gain on available-for-sale securities	**16**	227	**135**
Total	**1,605**	1,817	**13,591**
Net deferred tax liabilities	**¥(902)**	¥(1,390)	**$(7,638)**

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, 2007 and 2006 were as follows:

	2007	2006
Normal effective statutory tax rate	**40.7%**	40.7%
Expenses not deductible for income tax purposes	**20.2**	6.8
Per capita inhabitant tax	**3.1**	1.1
Change in valuation allowance	**(32.6)**	(23.8)
Research and development cost tax credit	**(9.4)**	(4.0)
Gain on sale of investments in affiliates	**66.9**	—
Write-down of investment in an affiliate	**(22.9)**	—
Other—net	**(4.7)**	(1.3)
Actual effective tax rate	**61.3**	19.5

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major components of selling, general and administrative expenses for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Advertising expenses	**¥ 210**	¥ 308	**$ 1,778**
Sales promotion expenses	**2,173**	2,325	**18,401**
Traveling expenses	**615**	642	**5,208**
Salaries and allowances	**3,453**	3,365	**29,240**
Commissions	**816**	910	**6,910**
Research and development costs	**1,464**	1,462	**12,397**

11. AMOUNTS PER SHARE

Net assets per share at March 31, 2007 and 2006 and basic net income per share for the years then ended were as follows:

	Yen		U.S. dollars
	2007	2006	**2007**
Net assets	**¥177.36**	¥176.02	**$1.5019**
Basic net income	**9.59**	55.57	**0.0812**

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, 2007 and 2006 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Net income	**¥ 366**	¥ 2,122	**$3,099**
Net income available for distribution to shareholders of common stock	**366**	2,122	**3,099**
Weighted average number of shares of common stock outstanding (thousand shares)	**38,183**	38,200	

12. 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
	2007	2006	**2007**
Cash and time deposits	**¥3,994**	¥4,957	**$33,822**
Cash and cash equivalents	**¥3,994**	¥4,957	**$33,822**

13. COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following commitments and contingent liabilities at March 31, 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Guarantee of bank loans	**¥ 160**	¥ 24	**$ 1,355**
Trade notes discounted	**3,040**	3,087	**25,743**
Securities borrowed	**101**	101	**855**

14. 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, 2007 and 2006 is as follows:

	Millions of yen					
	2007					
	Pharmaceutical product business	Management of nursing homes	Other business	Total	Eliminations (corporate)	Consolidated
I. Sales and operating income:						
a. Sales						
Sales to customers	**¥19,072**	**¥758**	**¥1,135**	**¥20,966**	**¥ —**	**¥20,966**
Intersegment sales	—	—	**33**	**33**	**(33)**	—
Total sales	**19,072**	**758**	**1,169**	**20,999**	**(33)**	**20,966**
Operating expenses	**17,997**	**555**	**1,028**	**19,581**	**(10)**	**19,570**
b. Operating income	**1,075**	**202**	**140**	**1,418**	**(23)**	**1,395**
II. Assets, depreciation, capital expenditures:						
Assets	**¥15,373**	**¥—**	**¥1,523**	**¥16,896**	**¥4,143**	**¥21,040**
Depreciation	**195**	**14**	**42**	**253**	—	**253**
Capital expenditures	**140**	**24**	**11**	**175**	—	**175**

	Millions of yen					
	2006					
	Pharmaceutical product business	Management of nursing homes	Other business	Total	Eliminations (corporate)	Consolidated
I. Sales and operating income:						
a. Sales						
Sales to customers	¥18,777	¥ 754	¥ 966	¥20,499	¥ —	¥20,499
Intersegment sales	21	—	103	125	(125)	—
Total sales	18,799	754	1,070	20,624	(125)	20,499
Operating expenses	17,593	522	891	19,007	(140)	18,867
b. Operating income	1,205	232	178	1,617	15	1,632
II. Assets, depreciation, capital expenditures:						
Assets	¥14,788	¥2,380	¥1,771	¥18,940	¥3,901	¥22,842
Depreciation	202	14	43	259	—	259
Capital expenditures	181	228	2	412	(222)	190

	Thousands of U.S. dollars					
	2007					
	Pharmaceutical product business	Management of nursing homes	Other business	Total	Eliminations (corporate)	Consolidated
I. Sales and operating income:						
a. Sales						
Sales to customers	**$161,504**	**$ 6,419**	**$ 9,611**	**$177,543**	**$ —**	**$177,543**
Intersegment sales	**—**	**—**	**279**	**279**	**(279)**	**—**
Total sales	**161,504**	**6,419**	**9,899**	**177,822**	**(279)**	**177,543**
Operating expenses	**152,401**	**4,700**	**8,705**	**165,814**	**(85)**	**165,721**
b. Operating income	**9,103**	**1,711**	**1,186**	**12,008**	**(195)**	**11,813**
II. Assets, depreciation, capital expenditures:						
Assets	**$130,180**	**$ —**	**$12,897**	**$143,077**	**$35,083**	**$178,169**
Depreciation	**1,651**	**119**	**356**	**2,142**	**—**	**2,142**
Capital expenditures	**1,185**	**203**	**93**	**1,482**	**—**	**1,482**

(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, 2007 and 2006.

15. RELATED PARTY TRANSACTIONS

The related party transactions for the years ended March 31, 2007 and 2006, and the related account balances at each fiscal year end are as follows:

		Millions of yen		Thousands of U.S. dollars
		2007	2006	**2007**
Japan Sopharchim Co., Ltd.	Purchase of merchandise and raw materials	**¥1,445**	¥1,383	**$12,236**
	Notes and accounts payable	**493**	624	**4,175**
Nippon Pharmaceutical Industry Co., Ltd.	Purchase of merchandise	**1,974**	891	**16,716**
	Notes and accounts payable	**868**	795	**7,350**

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 67.5% 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, 2007 and 2006.

BOARD OF DIRECTORS AND STATUTORY AUDITORS

(as of June 28, 2007)

President and CEO

Kazushiro Yamaguchi

Director and Senior Managing Corporate Officer

Masaaki Yoshida

Directors and Corporate Officers

Hiromichi Yata

Yasuo Kishi

Director

Toshiaki Mohara

Corporate Auditors

Noboru Kato (full-time)

Tamotsu Tateno

Tsuyoshi Takahashi

Shinsaku Kuzui (alternate)

CORPORATE DATA

(as of March 31, 2007)

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: 537

Subsidiaries: 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.
Welllife 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: 6,761

NIPPON CHEMIPHAR CO., LTD.

2-2-3, Iwamoto-cho, Chiyoda-ku, Tokyo 101-0032, Japan
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