Generics: Meeting the No. 1 Challenge

Annual Report

Year ended March 31, 2008

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 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

Set up in 1950 and listed in the First Section of the Tokyo Stock Exchange in 1976, Nippon Chemiphar Co., Ltd. (4539, hereinafter referred to as Chemiphar or the Company) manufactures and sells ethical pharmaceuticals. From the start, Chemiphar has strived to help people recover from illness and remain healthy by developing and marketing quality products.

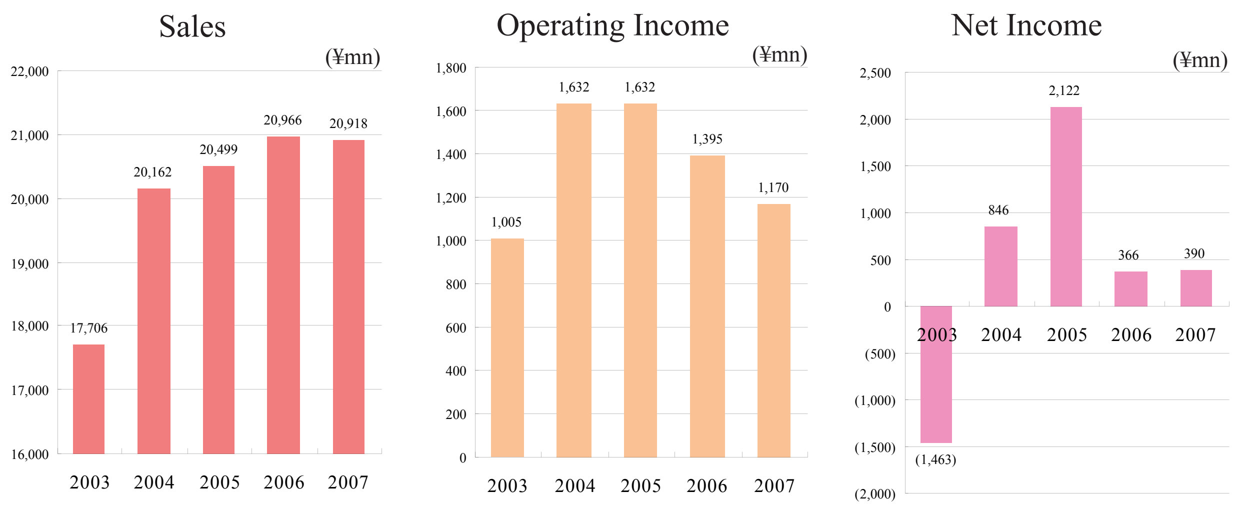
In order to enhance sales and profits, the Company has chosen to make generic pharmaceuticals a corner stone of its business strategy, and to focus its R&D on identifying and scanning compounds at early stages of their development.

Medium-Term Management Plan (FY2007–FY2011)

Three pillars support the five-year plan.

- Achieving a greater share of the generics market by increasing the Company’s overall resources. Chemiphar is focusing on hospital and dispensing pharmacy chains.
- The accumulation of clinical research results to boost Uralyt (a urine alkalizer) sales.
- Licensing 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.

Consolidated Results (FY2003–FY2007)



PUBLIC STEPS, OUR GENERICS

Throughout its medium-term management plan (April 1, 2007–March 31, 2012) the Company is concentrating its resources on placing the Chemiphar brand in a high-profile position in the generics market, with emphasis on hospitals and dispensing pharmacy chains.

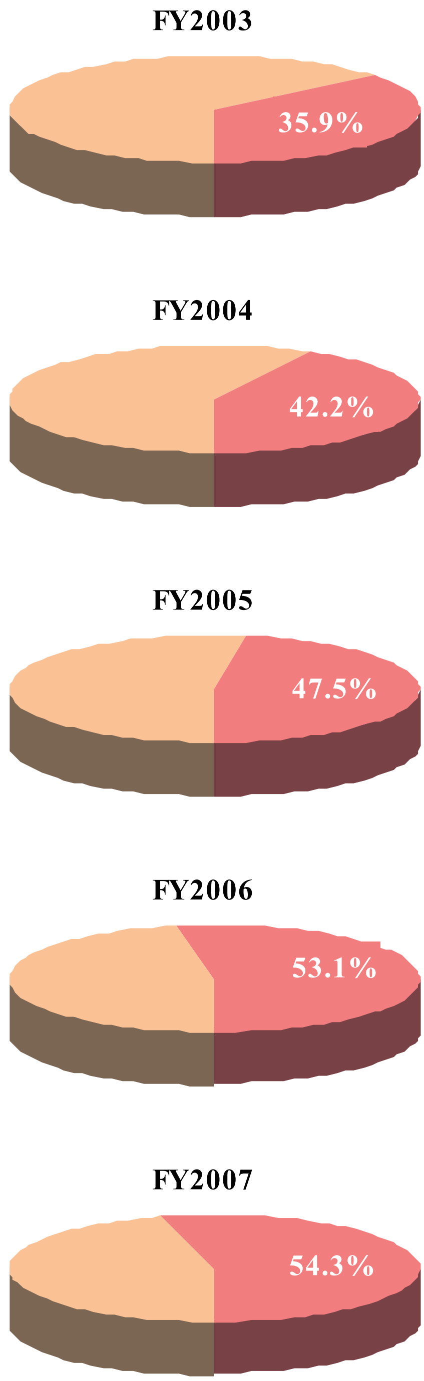
FY2008 is a crucial year for Japan's generic pharmaceuticals industry. Two main factors are driving the expansion of the generics market.

1. Government measures. Changes were made in the format for prescriptions, regulations governing pharmacists and pharmacies, and medical service fees. DPC* hospitals are expected to double in number by fiscal year end.
2. The July 2008 Japan launch of a mega generic pharmaceutical. The original drug recorded annual sales exceeding ¥200 billion; its generic equivalent is expected to considerably boost the domestic generics market.

* The DPC system sets fixed per diem hospitalization fees.

Chemiphar's main generics

Generics Sales to Total Sales



MESSAGE FROM THE PRESIDENT

Nippon Chemiphar Co., Ltd. is a maker of new and generic pharmaceuticals that are noted for their quality, safety, affordability and stable supply. It is by means of these products that the Company hopes to contribute to high-quality medical services.

FY2007 Results

Japan's pharmaceutical industry experienced a downturn in the year ending March 31, 2008. This was due to such factors as the average 5.2% April reduction in NHI drug prices, which caused purchases to be delayed; and inventory reductions by hospitals, clinics and pharmacies ahead of the April start of the government's generics promotion that included the revision of medical service fees.

At the start of FY2007, the Company forecast 2.5% growth in sales for that year. However, given market conditions, the Company's FY2007 consolidated sales were down 0.2% YOY, even though generics sales were up 7.4% YOY.

Since the Company sold the nursing home-related subsidiary Welllife Co., Ltd. in FY2006, to concentrate on its ethical pharmaceuticals core business, Chemiphar's FY2007 sales were up 3.5% YOY, excluding sales generated by Welllife.

In the same fiscal year, the Company's consolidated operating income was down 16.1% YOY for two main reasons: income generated by Welllife was not included in the FY2007 figures (although it was still in the numbers for FY2006) and sales of generics increased, reflecting the higher cost of sales and expenditure on promotion. As a result, the Company's ordinary income declined 11.9% YOY.

However, excluding the FY2006 impact of Welllife, the FY2007 operating income slipped 1.8% YOY and ordinary income was up 7.6% YOY.

Net income rose 6.6% YOY, mainly because extraordinary losses such as shortfalls on sales of securities were down ¥261 million YOY.

Since the Company's net income was ¥311 million for FY2007, it will pay a dividend of ¥3 per share, up ¥1 YOY, as confirmed by the June 2008 general meeting of shareholders.

FY2008 Is Pivotal for Business Expansion

Chemiphar expects double-digit growth in sales, as well as operating, ordinary and net incomes to result from the anticipated jump in sales of generic pharmaceuticals. It has also predicted a 34.3% YOY hike in generics sales to ¥13 billion.

The forecasts are backed by changes in Japan's generic pharmaceuticals market: government measures introduced in April 2008 to promote the use of generics; the doubling of DPC hospitals that is expected to have been attained by year end; and a mega generic drug launched in July. These changes will lead to the increased use of generics in hospitals and dispensing pharmacies.

Pillars of the Medium-Term Management Plan

Greater Presence in the Generics Market

In FY2011, the last year of the plan, the Company expects to see consolidated sales of more than ¥33 billion, or 1.5 times the FY2006 figure. It also predicts that sales of generics will exceed ¥21 billion, 2.2 times the FY2006 figure.

In FY2002, the Japanese government started to promote the use of generic pharmaceuticals, with a view to increasing the efficiency of medical services for patients and decreasing their medical cost burden.

During FY2008, the government will continue to enhance its measures: the prescription form has been altered again; medical service fees have been changed; and the number of DPC hospitals is expected to more than double from last calendar year's figure of 360. In addition, July saw the launch of a mega generic pharmaceutical, the original of which had created a market worth some ¥200 billion.

At present, Chemiphar markets more than 140 generic products, the largest lineup of any domestic maker selling both original and generic drugs, and plans to launch another 18 products during the current fiscal year.

In FY2011, the Company hopes to have an operating income of more than 14%.

Fortifying Uralyt's Position in the Hyperuricemia Market

In 2006, clinical research started to ascertain the role of Uralyt in controlling certain urinary tract-related conditions and hyperuricemia. The Company expects results around the end of

FY2010. In addition, since Chemiphar also is developing a new medication for hyperuricemia, Uralyt will become the focal pillar of its next medium-term management plan.

Expanded Product Licensing

Currently, the Company has licensed out two compounds, one each to a venture company in the U.S. and in France. Both companies started Phase I trials in the U.S. in 2008.

Chemiphar's R&D has focused on scanning compounds, and by the end of FY2011 plans to license out five items to domestic and overseas companies to help it more quickly develop new pharmaceuticals.

Return for Shareholders

Chemiphar eliminated its non-consolidated accumulated loss in FY2006, and thus last fiscal year was able to start paying a dividend—of ¥2 per share—for the first time in nine years. This fiscal year, the Company will pay a dividend of ¥3 per share. By expanding sales, it hopes to enable shareholders to enjoy greater benefits and attain a stable dividend ratio of between 30% and 40%. We would like to thank all of our shareholders for their continued support.

山口 一城

Kazushiro Yamaguchi

President & CEO

* 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 and there are per diem hospitalization fees aimed at reducing government medication-related outlays.

FINANCIAL HIGHLIGHTS

To better concentrate on its generics business, the Company has been restructuring and this year finished trimming its Group structure. FY2006 sales and income include those of Welllife, but when the Company excludes the impact of Welllife, FY2007 sales are up 3.5% YOY, operating income has slipped 1.8% YOY and ordinary income has declined 7.6% YOY.

Although in its medium-term management plan the Company forecast FY2008 sales of ¥24.5 billion, the figure was recently amended to ¥23.9 billion to reflect market changes.

Similarly, while the medium-term management plan predicted an operating income of ¥1.8 billion for the current fiscal year, the forecast figure is now ¥1.4 billion, since the sales forecast was down ¥600 million YOY and SG&A expenses rose, reflecting the fact that the number of medical representatives (MRs) had increased to 300 one year earlier than originally planned.

Consequently, Chemiphar's FY2008 forecast is for a decline in both ordinary income—to ¥1.2 billion—and net income—to ¥600 million, as the Company expands its generics business. However, the FY2009 forecast is expected to be in line in with the medium-term management plan.

Consolidated Sales, Income

(¥mn)

	FY2006		FY2007			FY2008 (Forecast)		
	Amount	Distrib. (%)	Amount	Distrib. (%)	YOY (%)	Amount	Distrib. (%)	YOY (%)
Sales	20,966	100.0	20,918	100.0	(0.2)	23,900	100.0	14.3
Excluding WL*	20,208		20,918		3.5			
Operating income	1,395	6.7	1,170	5.6	(16.1)	1,400	5.9	19.6
Excluding WL*	1,192		1,170		(1.8)			
Ordinary income	1,143	5.5	1,008	4.8	(11.9)	1,200	5.0	19
Excluding WL*	936		1,008	71	7.6			
Net income	366	1.7	390	1.9	6.6	600	2.5	53.8

* In March 2007, Chemiphar sold 80% of its shares in a subsidiary, Welllife Co., Ltd., a nursing home business.

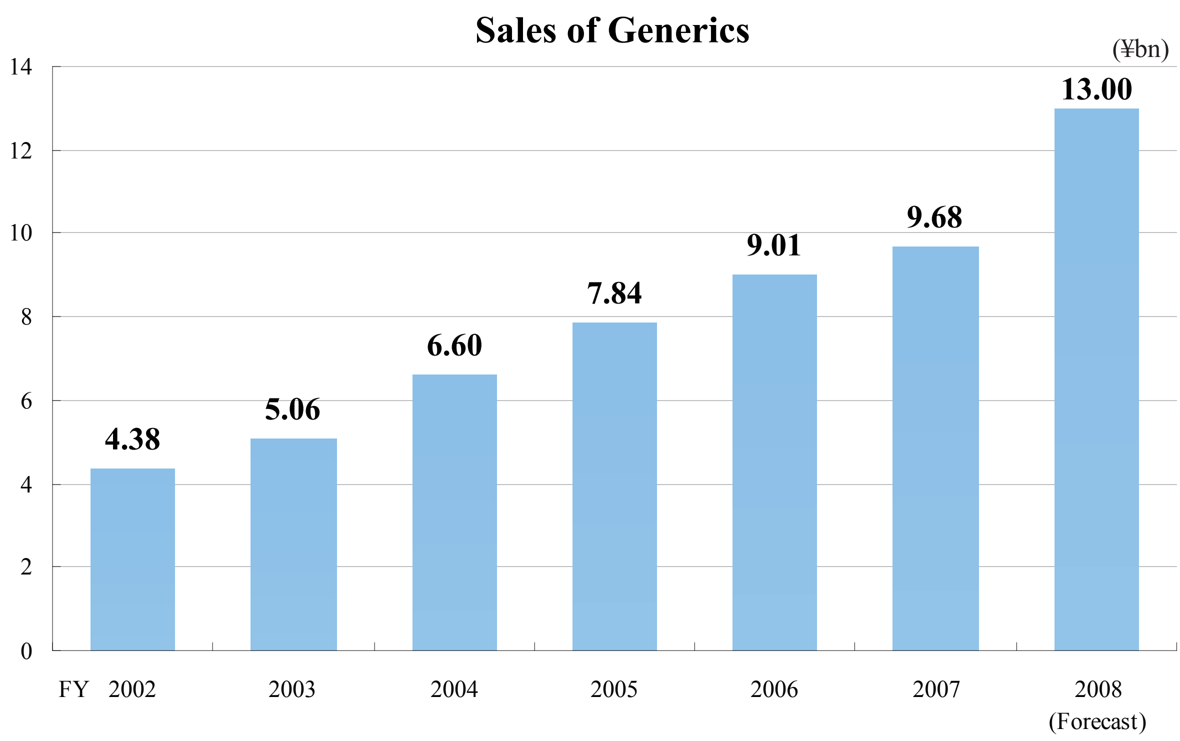
GENERIC PHARMACEUTICALS

Japan's medical costs are growing rapidly, parallel with its aging society. To curb the subsequent growth of medical costs, the government has been implementing measures to promote the use of generic pharmaceuticals since 2002.

The government's 2012 volume-based numeric target for generics is 30% of the pharmaceuticals market, up from 16.9% in 2006.

In anticipation of changing requirements, in calendar 2000 Chemiphar included generics as one of its business pillars and, in FY2007, generics were placed at the core of its medium-term management plan growth strategy. Thus, the Company's sales of generics have been increasing consistently since 2000.

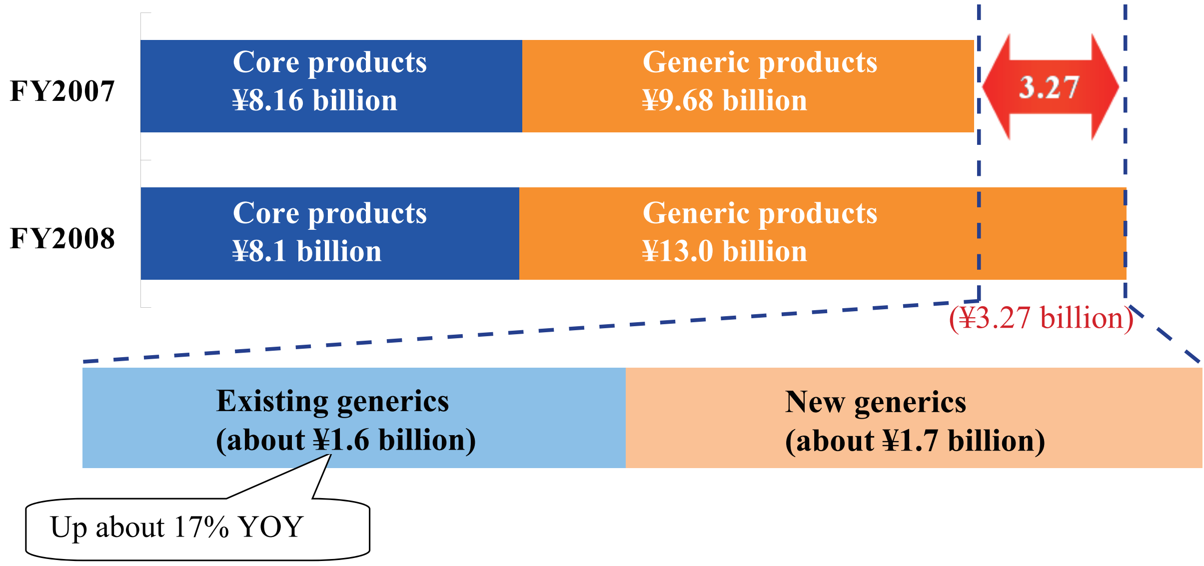
The Company anticipates a 34.3% YOY rise in generics sales this fiscal year, reflecting the ongoing expansion of Japan's generics market following the government's latest revision of its medical service fees, the change in prescription forms and the July launch of a mega generic pharmaceutical.



Forecasts for FY2008

Chemiphar expects FY2008 sales to be up ¥3.27 billion YOY. Broken down, the figure represents an increase of some ¥1.6 billion (up about 17% YOY) in the sale of existing generic pharmaceuticals, as well as ¥1.7 billion expected to be generated by sales of new generic products launched since July 2008.

Sales Forecast



Support for DPC Hospitals

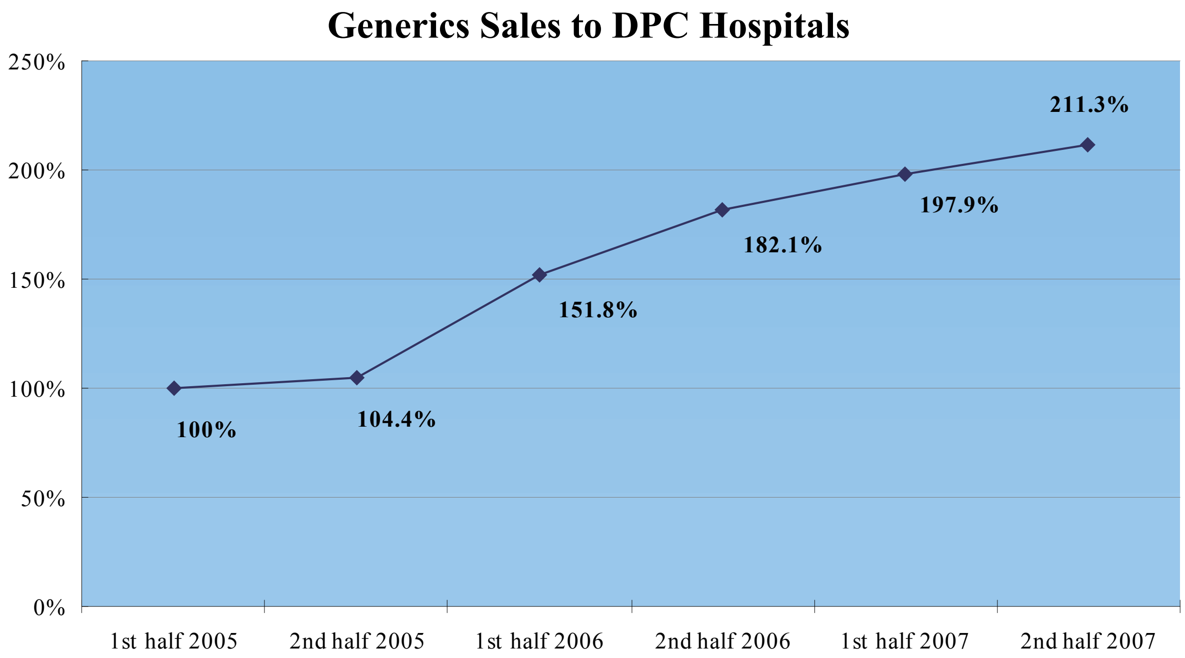
The DPC Management Research Forum

The DPC system introduced a fixed per diem hospitalization fee in 2003 at 82 major, mainly university, hospitals. In 2008, the number of hospitals at which the DPC system applies is expected to increase to more than 700.

Because these DPC hospitals represent the core of Japan's community healthcare system, and per diem hospitalization charges are fixed at these facilities, it is expected that generics will increasingly be used.

The 6th DPC Management Forum

The Company supports the DPC Management Forum and maintains a close relationship with hospitals that have applied, or are considering applying, the DPC system.



Dispensing Pharmacies

The Company considers the role of dispensing pharmacies to be just as important as that of DPC hospitals in its bid to expand its share of the generics market.

This assessment is based on the government's incentives for those dispensing pharmacies at which generics represent 30% of dispensed prescriptions.

Chemiphar held a seminar on the revision of medical service fees attended by some 1,000 pharmacists.

Driving the expansion of the generics market are:

- A new prescription form (changed from that introduced in calendar 2006).
- A points system for the dispensing of generics.
- Rule changes for pharmacists, who are obliged to promote generics and explain them to patients.

NEW PRODUCTS

New Products Launched in July

Generic Name	Classification	Form	Original Trade Name	Chemiphar Trade Name
Meloxicam	antiphlogistic analgesic	tablet	Mobic Tablet	Meloxicam Tablet Chemiphar
Ebastine	antiallergic	tablet	Ebastel Tablet	Ebastine Tablet Chemiphar
		dissolving tablet	Ebastel OD Tablet	Ebastine OD Tablet Chemiphar
Amlodipine	antihypertension	tablet	Norvasc Tablet / Amlodipine Tablet	Amlodipine Tablet Chemiphar
Granisetron	antiemetic	jelly	N.A. (original in tablet form)	Granisetron Jelly Chemiphar
Ciprofloxacin	antibacterial	drip	Ciprofloxacin Injection	Ciprofloxacin Injection Chemiphar
Benidipine	antihypertension	tablet	Coniel Tablet	Benidipine Hydrochloride Tablet NPI
Risperidone	antipsychotic	tablet	Risoerdal Tablet	Risperidone Tablet NPI

New Products with Special Features

1. Amlodipine Tablet Chemiphar 2.5 mg/5 mg

For the greater safety and convenience of patients, as well as ease of product and dosage identification, Chemiphar has used a universal package design for amlodipine.

In addition, convenient 140-tablet packaging and longer, 14-tablet sheets—two weeks' supply of medication—are also available to lessen the inventory burden on hospitals and pharmacies, while lessening the likelihood of dispensing errors.

10-tablet sheet

14-tablet sheet

2. Granisetron Jelly Chemiphar

Chemiphar launched Granisetron in a form that differs from that of the original to make it easier for patients to take.

1) This is the first time that Granisetron has been made available as a jelly. It can also be obtained in injection, tablet and powder form.

2) Chemiphar's jelly Granisetron, which comes in stick-like packs, is easy to ingest even for those who have difficulty swallowing.

3) The jelly comes in an air-push* package, so called because the air pushes up the jelly, making it easy to take.

* Japanese patent number 3665498.

New products launched in July 2008

RESEARCH AND DEVELOPMENT

With its depth of expertise in drug discovery, Chemiphar is focusing its resources on screening and identifying compounds which it is licensing, at early stages of development, to promising biotech companies with a view to speeding up their development and commercialization. In 2005, the Company licensed out two compounds that currently are undergoing Phase I clinical trials in the U.S.

NC-2300

The Company issued a license for the development of NC-2300 to Velcura Therapeutics, Inc. in August 2005. At preclinical trials, it was found that NC-2300 not only inhibits the production of cathepsin K, a key enzyme that causes bone destruction, but also suppresses inflammation.

Phase I clinical trials started in the U.S. in the first half of calendar 2008. In addition, a paper written on the compound based on collaborative research by individuals at Chemiphar and Tokyo Medical and Dental University appeared in the February 1, 2008 issue of *Science*.

NC-2400

In August 2005, the Company licensed its patents for PPAR delta agonists to Cerenis Therapeutics, Inc. (France), which identified NC-2400 as a lead product candidate for treating arteriosclerosis. Phase I clinical trials commenced in the first half of calendar 2008.

Michael Long, Ph.D., president and CEO of Velcura Therapeutics, Inc. (third from left) addresses a meeting at Chemiphar's head office.

Members of Cerenis Therapeutics, S.A. and Chemiphar at a reception after a meeting in France.

TOPICS

1. Support for DPC Management Forum

The 6th DPC Management Forum in Tokyo.

Some 250 people attend the Kyushu regional meeting.

Dr. Toshiki Mano, a professor at the Tama University Medical Risk Management Institute and forum representative, addresses the Tokyo gathering.

A DPC seminar is held in Tokyo for pharmaceutical wholesalers.

2. Bolstering dispensing pharmacies

Chemiphar arranged a seminar on the April revision of medical service fees. The event attracted some 1,000 pharmacists.

Mr. Nobuo Yamamoto, a vice-president of the Japan Pharmaceutical Association, addressing the audience.

3. The 4th Hyperuricemia Metabolic Syndrome Research Forum

Clinical research to verify the relationship between hyperuricemia and Uralyt is underway. GlaxoSmithKline (GSK) and Teijin Pharma Limited also now are supporting the forum.

Osaka University professor, Sumitomo Hospital superintendant and research forum representative Dr. Yuji Matsuzawa speaks at the event.

4. Education

Female MRs hold a meeting at head office.

New employees who hope to work as MRs, liaising with doctors, undergo training.

5. Ibaraki Factory (ISO14001)

The Eco Ibaraki mark that was presented to the factory to acknowledge its environment-focused activities.

eco.IBARAKI

6. Ibaraki Factory: new Uralyt section

7. The remodeled head office

In April 2008, work was completed to make the Company's head office building better able to resist earthquake damage.

Before

After

CONSOLIDATED FINANCIAL SECTION

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

Consolidated Balance Sheets

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2008**	2007	**2008**
Current assets:			
Cash and cash equivalents (Note 12)	**¥2,751**	¥3,994	**$27,458**
Trade notes and accounts receivable	**4,110**	3,865	**41,022**
Allowance for doubtful accounts	**(1)**	(1)	**(10)**
Inventories	**2,311**	1,329	**23,066**
Deferred tax assets—current (Note 9)	**374**	388	**3,733**
Other current assets	**353**	535	**3,523**
Total current assets	**9,898**	10,110	**98,792**
Property, plant and equipment:			
Land (Note 5)	**5,478**	5,478	**54,676**
Buildings (Note 5)	**9,678**	9,149	**96,596**
Machinery and equipment	**2,994**	3,083	**29,883**
Furniture and fixtures	**1,626**	1,902	**16,230**
	19,776	19,612	**197,385**
Less accumulated depreciation	**(10,850)**	(11,426)	**(108,294)**
Net property, plant and equipment	**8,926**	8,186	**89,091**
Investments and other assets:			
Investment securities (Notes 3 and 5)	**1,594**	1,810	**15,910**
Long-term loans	**10**	11	**100**
Long-term prepaid expenses	**16**	35	**160**
Intangible assets	**46**	22	**459**
Deferred tax assets—non current (Note 9)	**237**	299	**2,365**
Leasehold deposits and loans to lessors	**169**	165	**1,687**
Deferred charges and other assets	**979**	522	**9,771**
Allowance for doubtful accounts	**(111)**	(120)	**(1,108)**
Total investments and other assets	**2,940**	2,744	**29,344**
Total assets	**¥21,764**	¥21,040	**$217,227**

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars 2008
Current liabilities:			
Short-term bank loans	**¥464**	¥820	**$4,631**
Current portion of long-term debts (Note 4)	**1,853**	2,287	**18,495**
Notes and accounts payable:			
Trade	**4,436**	3,500	**44,276**
Construction	**409**	15	**4,082**
Accrued expenses	**1,435**	1,240	**14,323**
Accrued income taxes (Note 9)	**251**	394	**2,505**
Reserve for sales promotion expenses	**230**	214	**2,296**
Other current liabilities	**904**	895	**9,023**
Total current liabilities	**9,982**	9,365	**99,631**
Long-term liabilities:			
Long-term debts (Note 4)	**2,764**	2,449	**27,587**
Reserve for employees' retirement benefits (Note 6)	**280**	301	**2,795**
Reserve for directors and statutory auditors' retirement benefits	**201**	548	**2,006**
Deferred income taxes on revaluation of land (Note 9)	**1,589**	1,589	**15,860**
Other long-term liabilities	**5**	17	**50**
Total long-term liabilities	**4,839**	4,904	**48,298**
Commitments and contingent liabilities (Note 13)			
Net assets:			
Shareholders' equity (Note 7):			
Common stock:			
Authorized: 154,000,000 shares			
Issued: 38,522,301 shares in 2008 and 2007	**4,305**	4,305	**42,968**
Additional paid-in capital	**0**	0	**0**
Retained earnings	**858**	545	**8,564**
Less: treasury stock, at cost—370,639 shares in 2008 and 344,859 shares in 2007	**(149)**	(136)	**(1,487)**
Total shareholders' equity	**5,014**	4,714	**50,045**
Valuation and translation adjustments:			
Revaluation surplus of land	**2,033**	2,033	**20,291**
Net unrealized holding gain on securities	**(104)**	24	**(1,038)**
Total valuation and translation adjustments	**1,929**	2,057	**19,253**
Total net assets	**6,943**	6,771	**69,298**
Total liabilities and net assets	**¥21,764**	¥21,040	**$217,227**

See notes to consolidated financial statements.

Consolidated Statements of Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Net sales	**¥20,918**	¥20,966	**$208,783**
Cost of sales	**8,781**	8,683	**87,643**
Gross profit	**12,137**	12,283	**121,140**
Selling, general and administrative expenses (Note 10)	**10,967**	10,888	**109,462**
Operating income	**1,170**	1,395	**11,678**
Other income (expenses):			
Interest and dividend income	**47**	22	**469**
Interest expenses	**(176)**	(163)	**(1,756)**
Loss on revaluation of investment securities	**(212)**	0	**(2,116)**
Other, net	**88**	(308)	**878**
	(253)	(449)	**(2,525)**
Income before income taxes and minority interests	**917**	946	**9,153**
Income taxes (Note 9)			
Current	**364**	894	**3,633**
Deferred	**163**	(314)	**1,627**
	527	580	**5,260**
Income before minority interests	**390**	366	**3,893**
Minority interests	**0**	0	**0**
Net income	**¥390**	¥366	**$3,893**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2008 and 2007

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, 2006	¥4,305	¥0	¥179	¥(127)	¥4,356	¥332	¥2,033	¥2,365	¥6,722
Net income			366		366				366
Increase in treasury stock		0		(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, 2007	¥4,305	¥0	¥545	¥(136)	¥4,714	¥24	¥2,033	¥2,057	¥6,771

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	Minority interests	Total net assets
Balance at March 31, 2007	¥4,305	¥0	¥545	¥(136)	¥4,714	¥24	¥2,033	¥2,057	¥—	¥6,771
Net income			**390**		**390**					**390**
Cash dividends paid			**(77)**		**(77)**					**(77)**
Increase in treasury stock		**0**		**(13)**	**(13)**					**(13)**
Net changes of items other than shareholders' equity						**(128)**		**(128)**	**0**	**(128)**
Total changes of items during the year		**0**	**313**	**(13)**	**300**	**(128)**		**(128)**	**0**	**172**
Balance at March 31, 2008	**¥4,305**	**¥0**	¥858	**¥(149)**	¥5,014	**¥(104)**	**¥2,033**	**¥1,929**	¥0	**¥6,943**

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	Minority interests	Total net assets
Balance at March 31, 2007	$42,968	$0	$5,440	$(1,357)	$47,051	$240	$20,291	$20,531	$—	$67,582
Net income			**3,893**		**3,893**					**3,893**
Cash dividends paid			**(769)**		**(769)**					**(769)**
Increase in treasury stock		**0**		**(130)**	**(130)**					**(130)**
Net changes of items other than shareholders' equity						**(1,278)**		**(1,278)**	**0**	**(1,278)**
Total changes of items during the year	**0**	**0**	**3,124**	**(130)**	**2,994**	**(1,278)**		**(1,278)**	**0**	**1,716**
Balance at March 31, 2008	**$42,968**	**$0**	**$8,564**	**$(1,487)**	**$50,045**	**$(1,038)**	**$20,291**	**$19,253**	**$0**	**$69,298**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥917**	¥947	**$9,152**
Depreciation and amortization	**288**	257	**2,874**
Increase in reserve for promotion expenses	**16**	11	**160**
Decrease in reserve for employees' retirement benefits	**(21)**	(26)	**(210)**
(Decrease) increase in reserve for directors and statutory auditors' retirement benefits	**(345)**	78	**(3,443)**
Interest and dividend income	**(46)**	(22)	**(459)**
Interest expense	**176**	163	**1,757**
Loss on revaluation of investment securities	**212**	0	**2,116**
Gain on sale of investment in securities	**0**	(388)	**0**
Loss on sale of land	**0**	20	**0**
(Gain) loss on sale of securities of consolidated subsidiaries	**(233)**	442	**(2,326)**
Loss on disposal of property, plant and equipment	**52**	1	**519**
Increase in notes and accounts receivable	**(245)**	(318)	**(2,445)**
Increase in inventories	**(996)**	(158)	**(9,941)**
Decrease in long-term prepaid expenses	**19**	21	**189**
Increase in notes and accounts payable	**935**	147	**9,332**
(Decrease) increase in accrued consumption tax	**(89)**	10	**(888)**
Decrease in long-term liabilities	**0**	(156)	**0**
Other	**(83)**	73	**(828)**
Subtotal	**557**	1,102	**5,559**
Interest and dividends received	**45**	23	**449**
Interest paid	**(180)**	(167)	**(1,796)**
Income taxes paid	**(504)**	(1,460)	**(5,030)**
Net cash used in operating activities	**(82)**	(502)	**(818)**
Cash flows from investing activities:			
Purchases of investment securities	**(255)**	(656)	**(2,545)**
Purchases of property, plant and equipment	**(423)**	(193)	**(4,222)**
Proceeds from sales of fixed assets	**0**	32	**0**
Payment for purchase of intangible fixed assets	**(25)**	0	**(250)**
Proceeds from recovery of loans	**253**	14	**2,525**
Proceeds from sales of shares of consolidated subsidiaries	**330**	577	**3,294**
Other	**(477)**	198	**(4,761)**
Net cash used in investing activities	**(597)**	(28)	**(5,959)**
Cash flows from financing activities:			
Net (decrease) increase in short-term bank loans	**(356)**	7	**(3,553)**
Proceeds from long-term debt	**2,450**	1,730	**24,453**
Proceeds from issuance of bonds	**0**	500	**0**
Repayment of long-term debt	**(2,149)**	(2,342)	**(21,449)**
Amortization of bonds	**(420)**	(320)	**(4,192)**
Other	**(89)**	(9)	**(888)**
Net cash used in financing activities	**(564)**	(434)	**(5,629)**
Net decrease in cash and cash equivalents	**(1,243)**	(964)	**(12,406)**
Cash and cash equivalents at beginning of year	**3,994**	4,958	**39,864**
Cash and cash equivalents at end of year (Note 12)	**¥2,751**	¥3,994	**$27,458**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan 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 2007 financial statements to conform to the classifications used in 2008.

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 ¥100.19 to US$1, the approximate rate of exchange at March 31, 2008. 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, 2008, include the accounts of the Company and its two (also two in 2007) 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. The companies over which the Group exercises significant influence are accounted for by the equity method.

Medical System Service Co., Ltd., which had been accounted for by the equity method until the year ended March 31, 2007, was excluded from the scope of equity method at March 31, 2008, but the equity in earnings for the first half of the fiscal year was included in the accompanying consolidated statements of income for the year then ended, because certain shares of the company were sold in December 30, 2007.

Investments in two (three in 2007) 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) 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 (2) investments in 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 past credit loss experience and an evaluation of potential losses in 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.

For the year ended March 31, 2008, the Company and its domestic subsidiaries have changed their depreciation methods for tangible fixed assets acquired on or after April 1, 2007 in accordance with fiscal 2007 amendments of the Corporation Tax Law. As a result, operating income and income before income taxes for the year ended March 31, 2008 each decreased by ¥18 million ($180 thousand) compared to the figures obtained according to the previous assessment method.

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 Accounting Standards Board of Japan (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 costs had been amortized over three years after payment.

i. Land revaluation

Under the Law of Land Revaluation, the Company revalued 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, 2008 and 2007 was ¥1,162 million ($11,598 thousand) and ¥1,245 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 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, 2008 and 2007 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 2008 and 11 years in 2007).

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, 2008 and 2007.

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, 2008 and 2007 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Available-for-sale securities:			
Marketable equity securities	**¥1,059**	¥1,219	**$10,570**
Unlisted equity securities	**69**	69	**689**
Others	**78**	86	**779**
Subtotal	**1,208**	1,376	**12,057**
Investments in affiliates	**386**	434	**3,853**
Total	**¥1,594**	¥1,810	**$ 15,910**

The carrying amounts and aggregate fair values of investment securities at March 31, 2008 and 2007 were as follows:

	Millions of yen			
	Cost	Unrealized gain	Unrealized loss	Fair value
March 31, 2008				
Available-for-sale:				
Value posted in consolidated balance sheets exceeds acquisition price	**¥140**	**¥44**	**¥ —**	**¥185**
Acquisition price exceeds value posted in consolidated balance sheets	**1,090**	**—**	**215**	**874**
Other	**83**	**—**	**5**	**78**
	¥1,313	**¥115**	**¥ 220**	**¥1,138**
March 31, 2007				
Available-for-sale:				
Marketable equity securities	¥1,179	¥115	¥ 74	¥1,219

	Thousands of U.S. dollars			
	Cost	Unrealized gain	Unrealized loss	Fair value
March 31, 2008				
Available-for-sale:				
Value posted in consolidated balance sheets exceeds acquisition price	**$1,397**	**$439**	**$ —**	**$1,846**
Acquisition price exceeds value posted in consolidated balance sheets	**10,879**	**—**	**2,146**	**8,723**
Other	**828**	**—**	**50**	**779**
	$10,879	**$439**	**$2,196**	**$11,358**

Available-for-sale securities whose fair value was not readily determinable at March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Equity securities	**¥69**	¥69	**$689**

4. LONG-TERM DEBTS

Long-term debts at March 31, 2008 and 2007 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Corporate bonds	**¥ 830**	¥ 1,250	**$ 8,284**
Long-term loans	**3,787**	3,486	**37,798**
Total long-term debts	**4,617**	4,736	**46,082**
Less: current portion	**(1,853)**	(2,287)	**(18,495)**
	¥ 2,764	¥ 2,449	**$ 27,587**

Corporate bonds at March 31, 2008 and 2007 comprised the following:

Balance at March 31			Millions of yen		Thousands of U.S. dollars	Interest rate	
Issued by	Type	Issue date	**2008**	2007	**2008**	(%)	Maturity
Nippon Chemiphar Co., Ltd.	1st unsecured bonds	May 20, 2003	**¥ 100**	¥ 300	**$998**	0.41	May 20, 2008
	2nd unsecured bonds	Sept. 15, 2005	**150**	210	**1,497**	0.68	Sep. 15, 2010
	3rd unsecured bonds	Dec. 29, 2005	**180**	240	**1,797**	0.91	Dec. 29, 2010
	4th unsecured bonds	Dec. 29, 2006	**400**	500	**3,992**	1.03	Dec,29, 2011
Total			**¥ 830**	¥1,250	**$8,284**		

Note: Balance at March 31, 2008 includes current portion amounting to ¥320 million ($3,194 thousand).

The aggregated annual maturities of bonds are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥320	$3,194
2010	220	2,196
2011	190	1,896
2012	100	998

Long-term loans at March 31, 2008 and 2007 comprised the following:

Balance at March 31	Millions of yen		Thousands of U.S. dollars	Interest rate	Repayment
	2008	2007	**2008**	(%)	Term
Current portion of long-term loans	**¥1,533**	¥1,867	**$15,301**	2.0	—
Long-term loans	**2,254**	1,619	**22,497**	1.9	2009–2013
Total	**¥3,787**	¥3,486	**$37,798**		

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars

2010	¥882	$8,803
2011	740	7,386
2012	455	4,451
2013	169	1,687

The long-term loans include syndicate loan agreements amounting to ¥329 million ($3,284 thousand) and ¥1,449 million at March 31, 2008 and 2007, 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, 2008, was as follows:

	Millions of yen	Thousands of U.S. dollars
Aggregated commitment amounts	**¥3,000**	**$29,943**
Used	—	—
Unused balance	**¥3,000**	**$29,943**

5. PLEDGED ASSETS

The book value of pledged assets at March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Land	**¥5,139**	¥5,139	**$51,293**
Buildings	**1,207**	860	**12,047**
Investment securities	**244**	415	**2,435**
Total	**¥6,590**	¥6,415	**$65,775**

The related liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Short-term borrowings	**¥ 264**	¥ 320	**$ 2,635**
Current portion of long-term debt	**673**	1,231	**6,717**
Long-term debt	**849**	528	**8,474**

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, 2008 and 2007 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Projected benefit obligation	**¥(4,318)**	¥(4,268)	**$(43,098)**
Fair value of plan assets	**3,667**	4,223	**36,600**
Funded status	**(650)**	(44)	**(6,487)**
Unrecognized actuarial net loss	**308**	(256)	**(3.074)**
Unrecognized prior service cost	**61**	—	**609**
Reserve for employees' retirement benefits	**¥ (279)**	¥ (301)	**$ (2,785)**

The components of net periodic retirement benefit costs for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Service cost	**¥345**	¥346	**$3,453**
Interest cost	**107**	104	**1,068**
Expected return on plan assets	**(105)**	(101)	**(1,048)**
Recognized actuarial loss	**2**	8	**20**
Amortization of prior service cost	**6**	—	**60**
Net periodic retirement benefit costs	**¥356**	¥358	**$3,553**

Assumptions used for the years ended March 31, 2008 and 2007 were set forth as follows:

	2008	2007
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**	11 years
Recognition period of prior service cost	**11 years**	—

7. NET ASSETS

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 lease payments for the years ended March 31, 2008 and 2007 were ¥217 million ($2,166 thousand) and ¥193 million, respectively. Pro forma information on leased property, such as acquisition cost, accumulated depreciation, obligation under finance leases, 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, 2008 and 2007, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**208**
Acquisition cost:			
Machinery, equipment and vehicles	**¥ 51**	¥ 54	**$ 509**
Tools, furniture and fixtures	**724**	767	**7,226**
Other (software, etc.)	**180**	38	**1,797**
Total acquisition cost	**957**	860	**9,552**
Accumulated depreciation	**474**	445	**4,731**
Net leased property	**¥482**	¥415	**$4,811**

The above acquisition cost includes related interest expenses as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Obligations under financed leases:			
Due within one year	**¥179**	¥157	**$1,787**
Due after one year	**303**	257	**3,024**
Total	**¥482**	¥415	**$4,811**

The above obligations under financed leases included related interest expenses.

Pro forma depreciation expenses for the years ended March 31, 2008 and 2007, which have not been reflected in the accompanying consolidated statements of income and have been computed by the straight-line method, were ¥217 million ($2,166 thousand) and ¥193 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, 2008 and 2007.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Deferred tax assets:			
Accrued enterprise tax	**¥ 27**	¥ 35	**$ 269**
Accrued bonuses	**225**	219	**2,246**
Allowance for doubtful accounts	**45**	48	**449**
Reserve for Sales promotion	**93**	87	**928**
Reserve for employees' retirement benefits	**113**	122	**1,128**
Reserve for directors' and statutory auditors' retirement allowances	**81**	222	**808**
Unrealized loss on available-for-sale securities	**71**	—	**709**
Other	**204**	196	**2,036**
Subtotal	**862**	932	**8,604**
Less valuation allowance	**(251)**	(229)	**(2,505)**
Total	**611**	703	**6,098**
Deferred tax liabilities:			
Deferred tax liabilities on revaluation of land	**1,589**	1,589	**15,860**
Unrealized gain on available-for-sale securities	**—**	16	**—**
Total	**1,589**	1,605	**15,860**
Net deferred tax liabilities	**¥(977)**	¥(902)	**$(9,751)**

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, 2008 and 2007 were as follows:

	2008	2007
Normal effective statutory tax rate	**40.7%**	40.7%
Expenses not deductible for income tax purposes	**18.4**	20.2
Per capita inhabitant tax	**3.2**	3.1
Change in valuation allowance	**2.4**	(32.6)
Research and development cost tax credit	**(5.2)**	(9.4)
Gain on sale of investments in affiliates	**—**	66.9
Write-down of investment in an affiliate	**—**	(22.9)
Other—net	**(2.0)**	(4.7)
Actual effective tax rate	**57.5**	61.3

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major components of selling, general and administrative expenses for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Advertising expenses	**¥ 215**	¥ 210	**$ 2,146**
Sales promotion expenses	**2,385**	2,173	**23,805**
Traveling expenses	**610**	615	**6,088**
Salaries and allowances	**3,588**	3,453	**35,812**
Commissions	**828**	816	**8,264**
Research and development costs	**1,317**	1,464	**13,145**

11. AMOUNTS PER SHARE

Net assets per share at March 31, 2008 and 2007 and basic net income per share for the years then ended were as follows:

	Yen		U.S. dollars
	2008	2007	**2008**
Net assets	**¥181.99**	¥177.36	**$1.8165**
Basic net income	**10.22**	9.59	**0.0957**

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, 2008 and 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Net income	**¥ 390**	¥ 366	**$3,893**
Net income available for distribution to shareholders of common stock	**390**	366	**3,893**
Weighted average number of shares of common stock outstanding (thousand shares)	**38,161**	38,183	

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
	2008	2007	**2008**
Cash and time deposits	**¥2,751**	¥3,994	**$27,458**
Cash and cash equivalents	**¥2,751**	¥3,994	**$27,458**

13. COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following commitments and contingent liabilities at March 31, 2008 and 2007:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Guarantee of bank loans	**¥ 70**	¥ 160	**$ 699**
Trade notes discounted	**2,930**	3,040	**29,244**
Securities borrowed	**101**	101	**1,008**

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, 2008 and 2007 is as follows:

	Millions of yen				
	2008				
	Pharmaceutical product business	Other business	Total	Eliminations (corporate)	Consolidated
I. Sales and operating income:					
a. Sales					
Sales to customers	**¥19,823**	**¥ 1,095**	**¥20,918**	**¥ —**	**¥20,918**
Intersegment sales	—	**39**	**39**	**(39)**	—
Total sales	**19,823**	**1,134**	**20,957**	**(39)**	**20,918**
Operating expenses	**18,716**	**1,068**	**19,784**	**(36)**	**19,747**
b. Operating income	**1,106**	**66**	**1,173**	**(2)**	**1,170**
II. Assets, depreciation, capital expenditures:					
Assets	**¥17,219**	**¥1,514**	**¥18,733**	**¥3,031**	**¥21,764**
Depreciation	**239**	**43**	**282**	—	**282**
Capital expenditures	**1,095**	**20**	**1,116**	—	**1,116**

	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

	Thousands of U.S. dollars				
	2008				
	Pharmaceutical product business	Other business	Total	Eliminations (corporate)	Consolidated
I. Sales and operating income:					
a. Sales					
Sales to customers	**$197,854**	**$10,929**	**$208,783**	**$ —**	**$208,783**
Intersegment sales	**—**	**389**	**389**	**(389)**	**—**
Total sales	**197,854**	**11,318**	**209,173**	**(389)**	**208,783**
Operating expenses	**186,805**	**10,660**	**197,465**	**(359)**	**197,105**
b. Operating income	**11,039**	**659**	**11,708**	**(20)**	**11,678**
II. Assets, depreciation, capital expenditures:					
Assets	**$171,863**	**$15,111**	**$186,975**	**$30,253**	**$217,227**
Depreciation	**2,385**	**429**	**2,815**	**—**	**2,815**
Capital expenditures	**10,929**	**200**	**11,139**	**—**	**11,139**

(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, 2008 and 2007.

15. RELATED PARTY TRANSACTIONS

The related party transactions for the years ended March 31, 2008 and 2007, and the related account balances at each fiscal year end are as follows:

		Millions of yen		Thousands of U.S. dollars
		2008	2007	**2008**
Japan Sopharchim Co., Ltd.	Purchase of merchandise and raw materials	**¥1,610**	¥1,445	**$16,069**
	Notes and accounts payable	**617**	493	**6,158**
Nippon Pharmaceutical Industry Co., Ltd.	Purchase of merchandise	**2,211**	1,974	**22,068**
	Notes and accounts payable	**1,175**	868	**11,728**

The Company has a 5% voting right in Japan Sopharchim Co., Ltd., which has a 10.8% voting right 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, 2008 and 2007.

BOARD OF DIRECTORS AND STATUTORY AUDITORS

(as of June 27, 2008)

President and CEO

Kazushiro Yamaguchi

Director and Senior Managing Corporate Officer

Masaaki Yoshida

Director and Managing Corporate Officer

Hiromichi Yata

Directors and Corporate Officers

Yasuo Kishi

Haruki Mori

Director

Toshiaki Mohara

Corporate Auditors

Noboru Kato (full-time)

Tsuyoshi Takahashi

Naoshige Shindou

CORPORATE DATA

(as of March 31, 2008)

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

Tel.: + 81 + 3-3863-1211

Fax: + 81 + 3-3864-5940

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

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

Established: June 16, 1950

Capitalization: ¥4,304 million

Employees: 563

Subsidiaries:

Safety Research Institute for Chemical Compounds Co., Ltd.

Shapro Inc.

Affiliated Companies:

Nihon Pharmaceutical Industry Co., Ltd.

Japan Sopharchim 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: 6,792

NIPPON CHEMIPHAR CO., LTD.
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