Annual Report 2009 Year ending March 31, 2009

Generics' Focus: Patient Value

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.

Cover photo: Ibaraki factory

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.

Performance Overview

Sales Rise, Profit Declines

In FY2008, sales were up 6.6% YOY. However, operating income decreased 50.4% YOY, mainly due to higher cost of sales resulting from NHI price revisions as well as the fact that generics sales represent more than 60% of total sales.

Generics Sales Headed North

Sales of generics exceeded ¥10 billion, up 21.8% YOY, reflecting the July 2008 launch of the mega-generic drug Amlodipine Tablet Chemiphar, as well as increased sales to DPC* hospitals and dispensing pharmacies.

Looking Ahead: Higher Sales and Profit Forecast for FY2009

Expanded sales of generics in FY2009 are expected to give sales a 5.8% YOY boost, while pushing up operating income 29.3% YOY and net income 19.0% YOY.

There will be no NHI price revision this fiscal year, and the company expects to avert a rise in the cost of sales by boosting sales of proprietary generics, which have higher profit margins than purchased generics.

The Chemiphar headquarters building in Tokyo (above) and the Company logo atop the tower of our factory (below) in Ibaraki Prefecture.

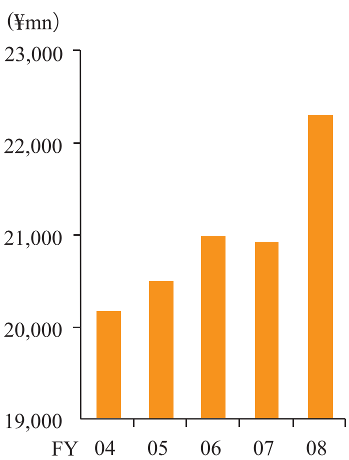
* The Diagnosis Procedure Combination (DPC) is a Japanese system—based on the Diagnosis-Related Group/Prospective Payment System (DRG/PPS) that went into effect in the United States in 1983—whereby hospital-treated illnesses are grouped in categories to facilitate cost comparisons and there is a per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

Financial Highlights

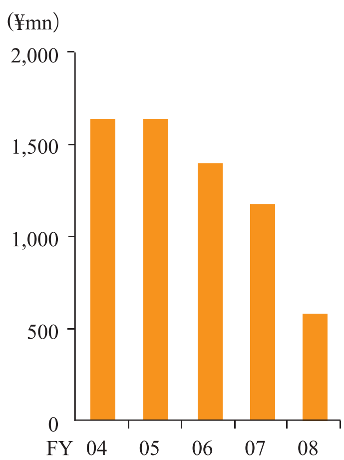
Fiscal Year	2008	2007	2006	2005	2004
Profit and loss statement					(¥mn)
Sales	¥22,308	¥20,918	¥20,966	¥20,499	¥20,162
Operating income	581	1,170	1,395	1,632	1,632
Income before tax	497	917	946	2,705	1,223
Net income	168	390	366	2,122	846
R&D expenses	1,428	1,317	1,464	1,462	1,706
Stocks					(¥)
Earnings per share	¥ 4.41	¥ 10.22	¥ 9.59	¥ 55.57	¥ 22.15
Book value per share	179.55	181.99	177.36	176.02	118.32
Dividend per share	3	3	2	—	—
Balance sheet					
Total assets (¥mn)	24,697	21,764	21,040	22,842	22,440
Net assets (¥mn)	6,848	6,943	6,771	6,722	4,521
Shares outstanding ('000)	38,522	38,522	38,522	38,522	38,522
Number of employees	624	591	575	603	649
Ratio					(%)
Operating profit margin	2.6	5.6	6.7	8.0	8.1
ROE	2.4	5.7	5.4	37.8	20.7
Equity ratio	27.7	31.9	32.2	29.4	20.1

Consolidated Results (FY2004–FY2008)

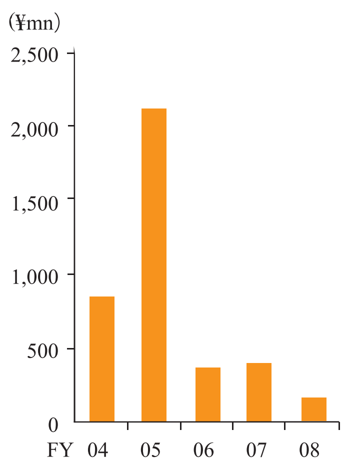
Sales



Operating Income



Net Income



Message from the President

Since 2000, Nippon Chemiphar Co., Ltd. has made generics one of its business pillars, ahead of other Japanese makers of original pharmaceuticals. It is our desire to help reduce medical costs further by expanding the use of generics, at the same time ensuring the quality, safety, affordability and stable supply of those we produce.

FY2008 Results

Japan's economic stagnation in the wake of the U.S. financial crisis has resulted in the need for all industries to review their systems and adapt to new realities. The pharmaceutical industry is no exception. Meanwhile, discussions concerning NHI price revisions are ongoing, with the government seeking ways of reducing the nation's medical and social security costs, as the pharmaceutical industry works to increase its global competitive edge.

Despite the severe situation, we recorded sales of ¥22.3 billion (up 6.6% YOY). However, our operating income was ¥581 million (down 50.4% YOY) and net income ¥168 million (down 56.9% YOY).

The decreases are a product of increased cost of sales (up 4.6 points YOY), NHI price reductions (6% YOY on average for us), and the growth of generics sales that, exceeding 60% of total sales, have lower profit margins compared to those of our proprietary core products.

Clear Sailing for Generics

Even though sales of our core products (Uralyt, Soleton and Calvan) were down 8.3% YOY in FY2008, sales of generics exceeded ¥11 billion (up 21.8% YOY), due to our launch of the mega-generic product Amlodipine Tablet Chemiphar, as well as increased sales to DPC hospitals and dispensing pharmacies.

Last fiscal year, sales of Amlodipine Tablet Chemiphar were in excess of ¥900 million and, since launching this product, we have been among the top three of the 34 companies that sell generic forms of amlodipine.

Since the product will have been on the market for a full year in March 2010, it is expected to make an appreciable contribution to total sales in FY2009. Moreover, the planned November 2009 release of a new tablet form of the drug, Amlodipine OD[1] Chemiphar, is expected to considerably expand our market share. We thus see our amlodipine products becoming yet another of our main products.

FY2009 Forecast
Sales—and Profit—Seen Rising

Chemiphar believes the anticipated jump in sales of generic pharmaceuticals will produce double-digit growth in generics sales, as well as in consolidated operating and net incomes, thus also boosting consolidated sales.

Further, expectations are for a 19.8% YOY hike in generics sales to ¥14 billion. The forecasts are supported by the increase in DPC hospitals (more than 560 scheduled this year, for a total of some 1,200 hospitals), the release of NHI price listings two months earlier than before, and full-year sales of our amlodipine generic products.

The government's 2012 volume-based target for generics sales is 30% of the pharmaceuticals market, up from 16.9% in 2006. Since, to date, sales of generics represent only about 20% of the overall pharmaceuticals market, the government shall continue its drive to promote the broader use of generics.

In response, Chemiphar plans to push its ratio of generics to overall pharmaceuticals sales to the 70% level by FY2011. By increasing sales of high-profit, original—not purchased—generics, we aim to achieve a stable profit structure and cost efficiency.

Foundations for Growth

Our plans remain supported by three pillars that involve attaining:

1. Greater presence in the generics market by focusing on the hospital sector;
2. A stronger position for Uralyt in the hyperuricemia[2] market; and
3. R&D focused on scanning compounds.

As we increasingly approach our 60th anniversary celebration, we are proud to be focusing on generic pharmaceuticals, which are currently one of our pillars. They will give us a solid platform from which to move to the next stage of growth, which will help us take on new challenges with a view to increasing patient value. Thank you for your continued support of Chemiphar.

山口一城

Kazushiro Yamaguchi
President & CEO

1. An orally dissolving tablet.
2. Hyperuricemia is a clinical condition in which the uric acid level in 1 deciliter of blood serum is over 7.0 milligrams. Without treatment, it may lead to gout, which causes severe pain, usually in the toe. In addition, hyperuricemia may lead to kidney impairment, urinary calculus as well as hardened arteries, a condition related to cardiac infarction and stroke.

Financial Focus

FY2008 Summary

Consolidated sales are ¥22,308 million (up 6.6% YOY). However, operating income is ¥581 million (down 50.4% YOY), due to an NHI price revision, while the cost of sales is up 4.6 points, resulting from a more than 60% ratio of generics to total pharmaceutical sales.

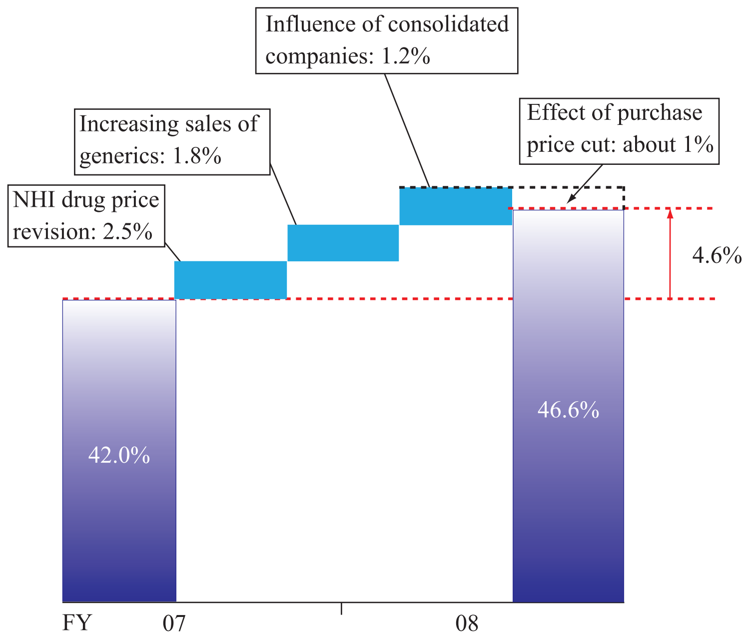
Cost of Sales Increase

Despite our efforts to reduce production costs in the year under review, the cost of sales rose 4.6 points YOY to 46.6%. This was due to:

1. An NHI price revision of 2.5 points;
2. Sales of generics having risen 1.8 points; and
3. An increase of some 1.2 points in consolidated companies' cost of sales that resulted from a change in the method by which SG&A expenses are calculated.

It should be noted that there will be no drug price revision in FY2009, and that the influence of consolidated companies will be minimal.

Reasons for Rise in Cost of Sales

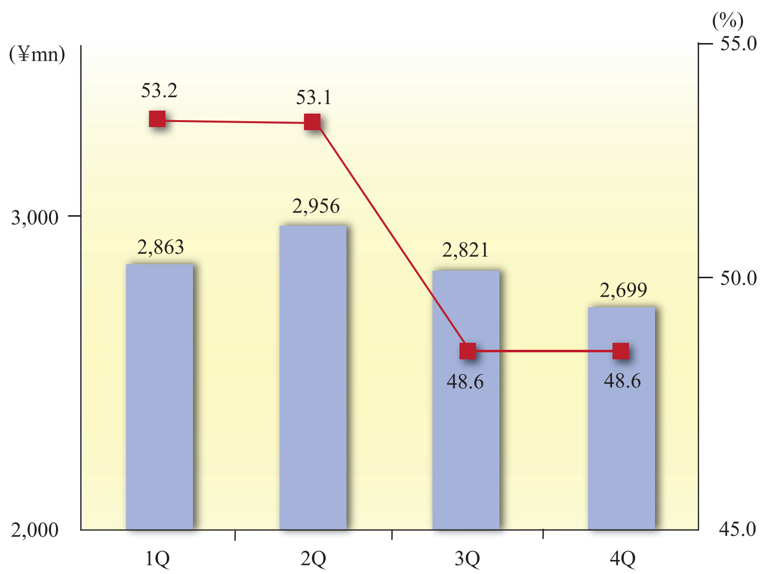


Cost Efficiency Plan Remains on Course

Over the past year, we have reduced SG&A expenses from 52.4% to 50.8% of total sales, that is 1.6 points YOY.

Our plan is eventually to trim SG&A expenses to less than 50% of total sales.

FY2008 SG&A Expenses

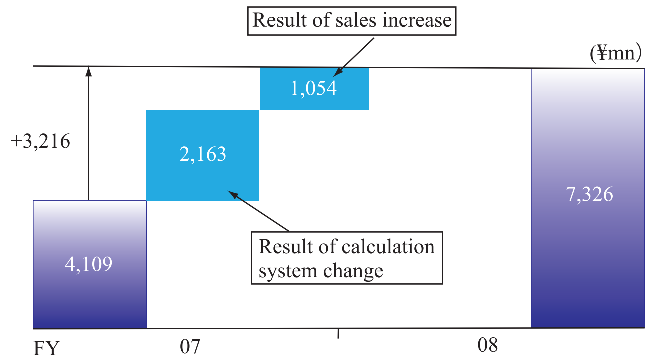


Accounts Receivable

FY2008 accounts receivable are up ¥3.2 billion YOY, following a change in the method of paying for goods.

The system that we are now applying accounts for ¥2.1 billion of the increase, while sales growth accounts for ¥1 billion.

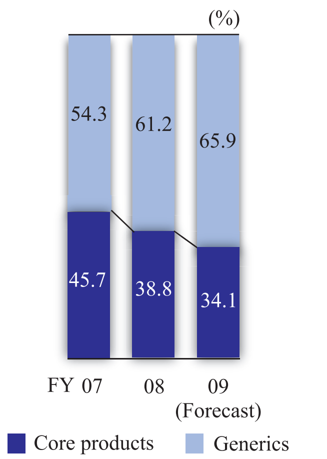
Accounts Receivable



Cash Flow

The Company's cash flow from operating activities for the year in review decreased ¥3.2 billion. This is the result of both the new method we have adopted of paying for goods, and our surplus stock of generics accumulated ahead of anticipated increased demand. However, these two factors are specific to FY2008, and we continue to expect a more favorable trend to commence next year.

Generics Sales to Total Sales



Forecasts for FY2009

Chemiphar expects FY2009 sales of ¥23,600 million (up 5.8% YOY), operating income of ¥750 million (up 29.3% YOY) and net income of ¥200 million (up 19% YOY).

With the ratio of generics sales to total sales increasing, and forecast to be more than 65% in FY2009, we plan to achieve stable profits by reducing cost of sales and fixed costs.

Sales of Main Generics (¥mn)

	FY2007		FY2008			FY2009 (Forecast)	
	Amount	Distrib. (%)	Amount	Distrib. (%)	YOY (%)	Amount	YOY (%)
Total Pharmaceutical Sales	¥17,835	100.0	¥19,266	100.0	8.0	¥21,415	11.2
Generics	9,680	54.3	11,787	61.2	21.8	14,115	19.8
Pravastatin	1,224		1,206		(1.5)	1,260	4.5
Amlodipine	—		915		—	1,800	96.7
Voglibose	559		831		48.7	950	14.3
Lansoprazole	126		573		4.5 times	700	22.2
Others	7,771		8,262		6.3	9,405	13.8

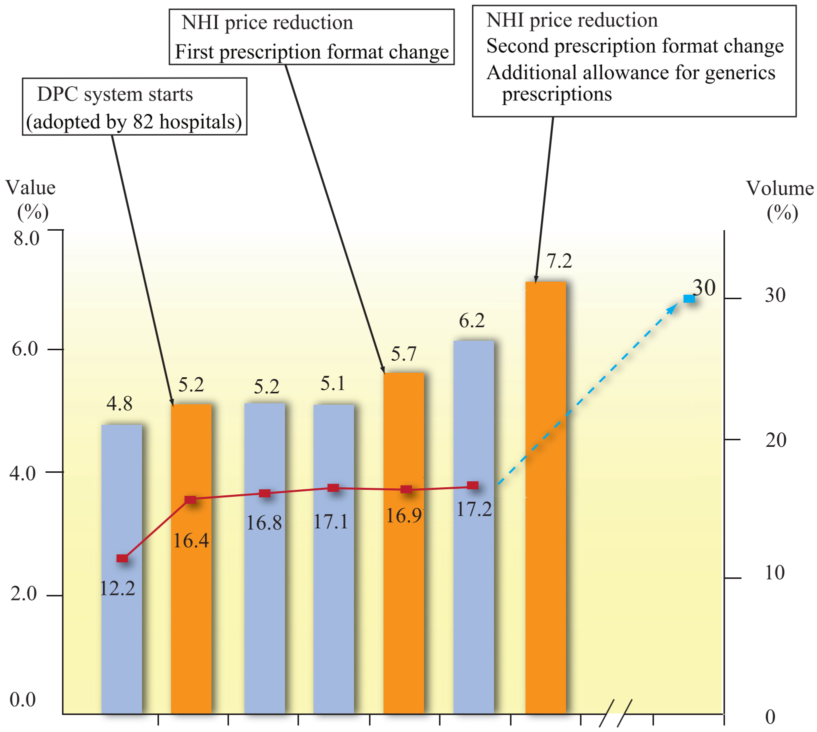
GENERICS EXPANSION

As social security costs rise in tandem with the rapidly aging society, medical cost efficiency increasingly is being seen as paramount if outlays are to be contained.

The Japanese government has implemented several measures to promote the use in Japan of generics. Its 2012 volume-based target ratio for generics is 30% of the pharmaceuticals market, up from 16.9% in 2006.

Since generics have been one of our business pillars since 2000, sales have grown steadily, having topped ¥10 billion (up 21.8% YOY) during the year in review. We forecast generics sales will reach the ¥14 billion mark (up 20% YOY) in FY2009.

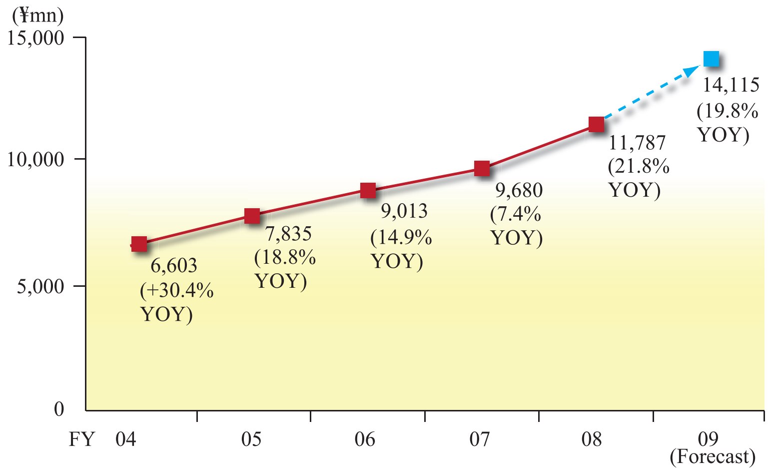
Generics as Ratio of Pharmaceutical Market



Sources: Japan Generic Medicines Association 2008 survey; Survey of Medical Care Activities in Public Health Insurance.

Generics as % of pharma sales value
Generics as % of pharma sales volume

Sales of Generics



We continue to support DPC forums to help expand the generics market at hospitals.

Focus on Amlodipine Tablet Chemiphar

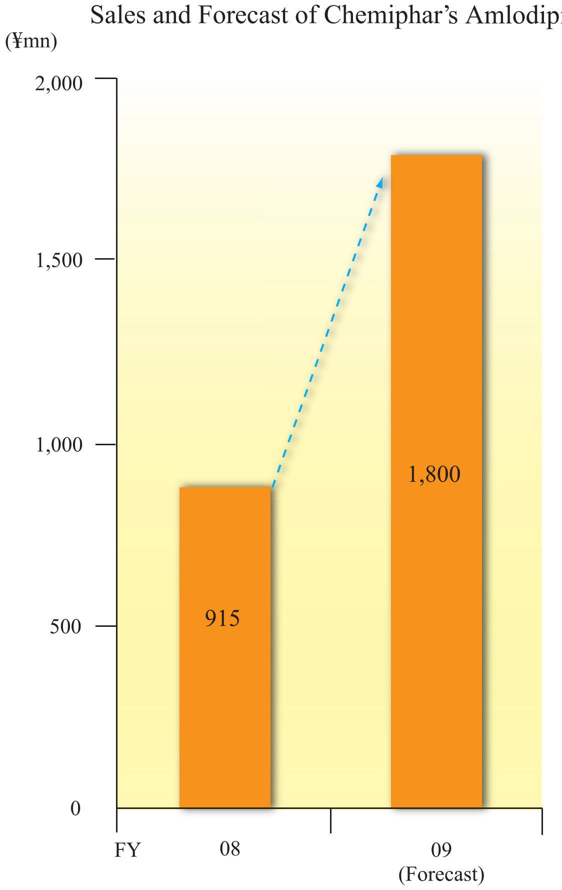
In July 2008, 34 companies—including Chemiphar—launched generic versions of Amlodipine. Its previously patented original products, under the trade names, Nolvasc and Amlodine together accounted for a ¥200 billion market.

Design

For the convenience of patients, as well as ease of product and dosage identification, Chemiphar has used a universal design for its tablet sheets. In addition, to lessen the inventory burden on hospitals and pharmacies, while reducing the likelihood of dispensing errors, we have produced convenient 140-tablet packaging and longer sheets of 14 tablets—two weeks' supply of medication.

It should be noted that the chemical additives of this tablet are the same as those found in Norvasc and Amlodine.

Sales and Forecast of Chemiphar's Amlodipine



Promotion

Chemiphar's informational tools include handbooks for patients and leaflets for hospitals and pharmacies. In addition, we have applied the expertise gleaned as an original pharmaceutical company in the collection of after-sales information and have applied the know-how to selling generics.

Our promotional efforts, directed at hospitals and pharmacies, together with the cooperation of wholesalers have pushed sales of our amlodipine products to in excess of ¥900 million. Since launching our generic, we have been among the top three of the 34 companies selling amlodipine generics.

In November 2009, to further expand our market share we plan to release a new, dissolving tablet, Amlodipine OD Chemiphar.

In July 2008, Chemiphar launched Amlodipine in two tablet strengths: 2.5mg and 5mg.

New Products

During FY2009, we plan to launch 17 products, including new strengths of existing ones (seven products). Of these, Amlodipine OD Chemiphar is expected to register huge sales.

Products Launched in May, June

Generic Name	Item	Strength	Original Trade Name
Levoflo Xacin	1	100mg	Clavit
Bicalutamide	1	80mg	Casodex
Alendronate Solidum Hydrate	1	5mg	Bonalon, Fosamax
Total	3		

Products to Be Launched in November

Generic Name	Item	Strength	Original Trade Name
Amlodipine OD	2	5mg, 10mg	Norvasc, Amlodipine
Meropenem	2	0.25g, 0.5g	Meropen
Sarpogrelate	2	50mg, 100mg	Anplag
Rebamipide	1	100mg	Mucosta
Total	7		

FY2009 Generics Market Drivers

The generics market is expected to experience considerable expansion during FY2009 for the following reasons.

1. Increase in the number of DPC hospitals:
   - From 718 DPC hospitals (FY2008) to more than 1,200 DPC hospitals (FY2009); and
   - Some 300 hospitals are being prepared for DPC accreditation.
2. NHI price listing moved to May (from July).
3. No NHI drug price revision.
4. Government measures to expand the generics market:
   - Generics used in the national hospital market are to double by 2013.
   - Greater NHI support for generics.

A member of the R&D research team scans compounds for development.

Staff at our free-dial call center have the necessary information at their fingertips.

Education of MRs

The role of MRs is critical to the advancement of our business, since they not only serve to promote drugs, but also provide user feedback. Thus, it is imperative that MRs undergo periodic training to ensure their knowledge remains up to date. To this end, Chemiphar has the following two programs.

Introductory Course

Freshmen take part in a program, designed to enable them to take the MR authorization exam, that includes the study of anatomy, physiology, pharmacology, pathology and medication. The introductory course is followed by periodic seminars.

Employees learn to access information and prepare client presentations.

Monthly Education Program

This program is provided to enable MRs to acquire up-to-date knowledge and improve their skills in the interests of conducting better after-sales promotions. At the monthly meetings, instructors give presentations outlining their respective products and related information.

These efforts have been gratefully received and have worked to boost Chemiphar's profile, with the result that hospitals and clinics have adopted our generics. But key to our acceptance in the marketplace is our determination to remove all doubts surrounding the use of generics by applying our know-how as an original pharmaceuticals maker.

A member of the sales team practices communication skills with an instructor.

Some of a new intake of employees at a training lecture given in Tokyo.

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, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2009**	2008	**2009**
Current assets:			
Cash and deposits (Note 13)	**¥ 1,902**	¥ 2,751	**$ 19,363**
Notes and accounts receivable—trade	**7,326**	4,110	**74,580**
Allowance for doubtful accounts	**(1)**	(1)	**(10)**
Inventories	**2,398**	2,311	**24,412**
Deferred tax assets (Note 10)	**388**	374	**3,950**
Other	**155**	353	**1,578**
Total current assets	**12,168**	9,898	**123,873**
Property, plant and equipment:			
Land (Note 5)	**5,478**	5,478	**55,767**
Buildings (Note 5)	**10,011**	9,678	**101,914**
Machinery, equipment and vehicles	**3,192**	2,994	**32,495**
Tools, furniture and fixtures	**1,684**	1,626	**17,143**
Lease assets	**64**	0	**652**
Construction in progress	**22**	0	**224**
	20,451	19,776	**208,195**
Accumulated depreciation	**(11,219)**	(10,850)	**(114,212)**
Net property, plant and equipment	**9,232**	8,926	**93,983**
Investments and other assets:			
Investment securities (Notes 3 and 5)	**1,348**	1,594	**13,723**
Long-term loans receivable	**10**	10	**102**
Long-term prepaid expenses	**11**	16	**112**
Intangible assets	**65**	46	**662**
Deferred tax assets (Note 10)	**341**	237	**3,471**
Lease and guarantee deposits	**154**	169	**1,568**
Long-term time deposits	**1,100**	600	**11,198**
Deferred assets	**255**	262	**2,596**
Other	**13**	5	**132**
Total investments and other assets	**3,297**	2,940	**33,564**
Total assets	**¥24,697**	¥21,764	**$251,420**

	Millions of yen		Thousands of U.S. dollars
LIABILITIES AND NET ASSETS	**2009**	2008	**2009**
Current liabilities:			
Short-term loans payable	**¥ 1,160**	¥ 464	**$ 11,809**
Current portion of bonds (Note 4)	**320**	320	**3,258**
Current portion of long-term loans payable (Note 4)	**1,697**	1,533	**17,276**
Lease obligations (Note 9)	**19**	0	**193**
Notes and accounts payable—trade	**3,410**	4,436	**34,714**
Notes payable—facilities	**216**	409	**2,199**
Accrued expenses	**1,517**	1,435	**15,443**
Income taxes payable (Note 10)	**258**	251	**2,627**
Provision for sales promotion expenses	**312**	230	**3,176**
Other	**554**	904	**5,640**
Total current liabilities	**9,463**	9,982	**96,335**
Non-current liabilities:			
Bonds payable	**690**	510	**7,024**
Long-term loans payable (Note 4)	**5,497**	2,254	**55,961**
Lease obligations (Note 9)	**69**	0	**703**
Provision for retirement benefits (Note 6)	**313**	280	**3,186**
Provision for directors' retirement benefits	**227**	201	**2,311**
Deferred tax liabilities for land revaluation	**1,589**	1,589	**16,176**
Other	**1**	5	**10**
Total long-term liabilities	**8,386**	4,839	**85,371**
Net assets:			
Capital stock:			
Authorized: 154,000,000 shares			
Issued: 38,522,301 shares in 2009 and 2008	**4,305**	4,305	**43,826**
Capital surplus	—	0	—
Retained earnings	**910**	858	**9,264**
Treasury stock	**(158)**	(149)	**(1,608)**
Sub total	**5,057**	5,014	**51,482**
Valuation and translation adjustments:			
Valuation difference on available-for-sale securities	**(244)**	(104)	**(2,484)**
Revaluaion surplus of land	**2,033**	2,033	**20,696**
Total valuation and translation adjustments	**1,789**	1,929	**18,212**
Subscription rights to shares	**2**	0	**20**
Minority interests	**0**	0	**0**
Total net assets	**6,848**	6,943	**69,714**
Total liabilities and net assets	**¥24,697**	¥21,764	**$251,420**

See notes to consolidated financial statements.

Consolidated Statements of Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Net sales	**¥22,308**	¥20,918	**$227,100**
Cost of sales	**10,388**	8,781	**105,752**
Gross profit	**11,920**	12,137	**121,348**
Selling, general and administrative expenses (Note 11)	**11,339**	10,967	**115,433**
Operating income	**581**	1,170	**5,915**
Other income (expenses):			
Interest and dividends income	**38**	47	**387**
Interest expenses	**(179)**	(176)	**(1,822)**
Loss on valuation of investment securities	**(54)**	(212)	**(550)**
Other, net	**112**	88	**1,140**
	(83)	(253)	**(845)**
Income before income taxes and minority interests	**498**	917	**5,070**
Income taxes (Note 10)			
Current	**351**	364	**3,573**
Deferred	**(21)**	163	**(213)**
	330	527	**3,360**
Income before minority interests	**168**	390	**1,710**
Minority interests in income	**(0)**	—	**(0)**
Net income	**¥ 168**	¥ 390	**$ 1,710**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2009 and 2008

Millions of Yen

	Shareholders' equity					Valuation and translation adjustements				
	Capital stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Valuation difference on available-for-sale 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
Dividends from surplus			(77)		(77)					(77)
Purchase of 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

Millions of Yen

	Shareholders' equity					Valuation and translation adjustements					
	Capital stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Valuation difference on available-for-sale securities	Revaluation surplus of land	Total valuation and translation adjustments	Subscription rights to shares	Minority interests	Total net assets
Balance at March 31, 2008	¥4,305	¥0	¥ 858	¥(149)	¥5,014	¥(104)	¥2,033	¥1,929	¥0	¥0	¥6,944
Net income			**168**		**168**						**168**
Dividends from surplus			**(115)**		**(115)**						**(115)**
Purchase of treasury stock				**(15)**	**(15)**						**(15)**
Disposal of treasury stock		**(0)**	**(1)**	**6**	**5**						**5**
Net changes of items other than shareholders' equity						**(140)**	**0**	**(140)**	**2**	**0**	**(139)**
Total changes of items during the year		—	**52**	**(9)**	**43**	**(140)**	**0**	**(140)**	**2**	**0**	**(96)**
Balance at March 31, 2009	**¥4,305**	—	**¥ 910**	**¥(158)**	**¥5,057**	**¥(244)**	**¥2,033**	**¥1,789**	**¥2**	**¥0**	**¥6,848**

Thousands of U.S. dollars

	Shareholders' equity					Valuation and translation adjustements					
	Capital stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Valuation difference on available-for-sale securities	Revaluation surplus of land	Total valuation and translation adjustments	Subscription rights to shares	Minority interests	Total net assets
Balance at March 31, 2008	$43,826	$0	$8,735	$(1,517)	$51,044	$(1,059)	$20,696	$19,637	$ 0	$0	$70,691
Net income			**1,710**		**1,710**						**1,710**
Dividends from surplus			**(1,171)**		**(1,171)**						**(1,171)**
Purchase of treasury stock				**(153)**	**(153)**						**(153)**
Disposal of treasury stock		**(0)**	**(10)**	**61**	**51**						**51**
Net changes of items other than shareholders' equity						**(1,425)**	**0**	**(1,425)**	**20**	**0**	**(1,414)**
Total changes of items during the year		—	**529**	**(92)**	**437**	**(1,425)**	**0**	**(1,425)**	**20**	**0**	**(977)**
Balance at March 31, 2009	**$43,826**	—	**$9,264**	**$(1,608)**	**$51,481**	**$(2,484)**	**$20,696**	**$18,212**	**$20**	**$0**	**$69,714**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Net cash provided by (used in) operating activities:			
Income before income taxes and minority interests	**¥ 498**	¥ 917	**$ 5,070**
Depreciation and amortization	**582**	288	**5,925**
Increase (decrease) in allowance for doubtful accounts	**17**	(9)	**173**
Increase (decrease) in provision for sales promotion expenses	**82**	16	**835**
Increase (decrease) in provision for retirement benefits	**33**	(21)	**336**
Increase (decrease) in provision for directors' retirement benefits	**26**	(345)	**265**
Interest and dividend income	**(38)**	(46)	**(387)**
Interest expenses	**179**	176	**1,822**
Loss on retirement of noncurrent assets	**11**	52	**112**
Loss on valuation of investment securities	**54**	212	**550**
Gain on sales of stocks of subsidiaries and affiliates	**(212)**	(233)	**(2,158)**
Increase (decrease) in notes and accounts receivable—trade	**(3,217)**	(245)	**(32,750)**
Increase (decrease) in inventories	**(82)**	(996)	**(835)**
Decrease (increase) in other current assets	**196**	(63)	**1,995**
Decrease in notes and accounts receivable—trade	**(1,025)**	935	**(10,435)**
Increase (decrease) in other current liabilities	**34**	18	**346**
Increase (decrease) in consumption taxes refund receivable	**109**	(89)	**1,110**
Increase (decrease) in long-term prepaid expenses	**4**	19	**41**
Other, net	**(56)**	(29)	**(570)**
Subtotal	**(2,805)**	557	**(28,555)**
Interest and dividends income received	**41**	45	**417**
Interest expenses paid	**(170)**	(180)	**(1,731)**
Income taxes paid	**(327)**	(504)	**(3,329)**
Net cash provided by (used in) operating activites	**(3,261)**	(82)	**(33,198)**
Net cash provided by (used in) investing activites:			
Purchases of property, plant and equipment	**(1,201)**	(423)	**(12,226)**
Purchases of intangible assets	**—**	(25)	**—**
Purchases of investment securities	**(51)**	(255)	**(519)**
Proceeds from sales of stocks of subsidiaries and affiliates	**—**	330	**—**
Payment of loans receivable to employees	**(4)**	(1)	**(41)**
Collection of short-term loans receivable	**—**	253	**—**
Proceeds from collection of lease and guarantee deposits	**16**	0	**163**
Payment into time deposits	**(500)**	(500)	**(5,090)**
Other payments	**(12)**	(12)	**(122)**
Other proceeds	**6**	40	**61**
Other, net	**4**	(4)	**41**
Net cash provided by (used in) investing activites	**(1,742)**	(597)	**(17,734)**
Net cash provided by (used in) financing activities:			
Net increase (decrease) in short-term loans payable	**696**	(356)	**7,085**
Proceeds from long-term loans payable	**5,300**	2,450	**53,955**
Repayment of long-term loans payable	**(1,893)**	(2,149)	**(19,271)**
Proceeds from issuances of bonds	**500**	0	**5,090**
Redemption of bonds	**(320)**	(420)	**(3,257)**
Cash dividends paid	**(114)**	(76)	**(1,161)**
Other, net	**(15)**	(13)	**(153)**
Net cash provided by (used in) financing activites	**4,154**	(564)	**42,288**
Net increase (decrease) in cash and cash equivalents	**(849)**	(1,243)	**(8,643)**
Cash and cash equivalents, at beginning of year	**2,751**	3,994	**28,006**
Cash and cash equivalents, at end of year (Note 13)	**¥ 1,902**	¥ 2,751	**$ 19,363**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

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 2008 financial statements to conform to the classifications used in 2009.

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 ¥98.23 to US$1, the approximate rate of exchange at March 31, 2009. 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, 2009, include the accounts of the Company and its two (also two in 2008) 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 at the six months period ended September 30, 2007.

Investments in two (also two in 2008) affiliated companies are accounted for by the equity method.

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

Prior to April 1, 2008, inventories of the Company and its consolidated domestic subsidiaries are stated at cost determined by the first-in, first-out method.

Effective April 1, 2008, the Company and its domestic subsidiaries applied the "Accounting Standards for Measurement of Inventories ("Accounting Standard No. 9" issued by the Accounting Standard Board of Japan on July 5, 2006).

This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The effect on the financial result was not material.

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 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 compared to the figures obtained according to the previous assessment method. Property, plant and equipment used under finance leases and capitalized, are depreciated over the lease terms of the respective assets.

g. Intangible assets

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

h. Deferred charges

Bond issuance costs are equally amortized over the years until the maturing dates.

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, 2009 and 2008 was ¥1,032 million ($10,506 thousand) and ¥1,162 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. Provision for 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, 2009 and 2008 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 2009 and 11 years in 2008).

l. Provision for director's retirement benefits

Provision for directors' retirement benefits are recorded based on the estimated amount calculated in accordance with Company rules.

m. Provision for sales promotion expenses

Provision 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

Prior to April 1, 2008, the Company and consolidated domestic subsidiaries accounted for finance leases which do not transfer ownership of the leased property to the lessee as operating leases. On March 30, 2007, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions" and ASBJ Guidance No.16, "Guidance on Accounting Standard for Lease Transactions." The new accounting standards require that all finance leasing transactions be capitalized.

Effective April 1, 2008, the Company and consolidated domestic subsidiaries adopted the new accounting standards for finance leases commencing after March 31, 2008 and capitalized assets used under such leases, except for certain immaterial or short-term finance leases, which are accounted for as operating leases. As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases. The effect on the financial result was not material.

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, 2009 and 2008.

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, 2009 and 2008 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Available-for-sale securities:			
Marketable equity securities	**¥ 808**	¥1,059	**$ 8,226**
Unlisted equity securities	**99**	69	**1,007**
Others	**59**	78	**601**
Subtotal	**966**	1,208	**9,834**
Investments in affiliates	**382**	386	**3,889**
Total	**¥1,348**	¥1,594	**$13,723**

The carrying amounts and aggregate fair values of investment securities at March 31, 2009 and 2008 were as follows:

	Millions of yen			
	Cost	Unrealized gain	Unrealized loss	Fair value
March 31, 2009				
Available-for-sale:				
Value posted in consolidated balance sheets exceeds acquisition price	**¥ 59**	**¥12**	**¥ —**	**¥ 71**
Acquisition price exceeds value posted in consolidated balance sheets	**1,143**	**—**	**406**	**737**
Other	**76**	**—**	**17**	**59**
	¥1,278	**¥12**	**¥423**	**¥ 867**
March 31, 2008				
Available-for-sale:				
Marketable equity securities	¥1,230	¥44	¥215	¥1,059

	Thousands of U.S. dollars			
	Cost	Unrealized gain	Unrealized loss	Fair Value
March 31, 2009				
Available-for-sale:				
Value posted in consolidated balance sheets exceeds acquisition price	**$ 601**	**$122**	**$ —**	**$ 723**
Acquisition price exceeds value posted in consolidated balance sheets	**11,636**	**—**	**4,133**	**7,503**
Other	**773**	**—**	**173**	**600**
	$13,010	**$122**	**$4,306**	**$8,826**

Available-for-sale securities whose fair value was not readily determinable at March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Equity securities	**¥98**	¥69	**$998**

4. LONG-TERM DEBTS

Long-term debts at March 31, 2009 and 2008 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Corporate bonds	**¥ 1,010**	¥ 830	**$ 10,282**
Long-term loans	**7,194**	3,787	**73,237**
Total long-term debts	**8,204**	4,617	**83,519**
Less: current portion	**(2,017)**	(1,853)	**(20,534)**
	¥ 6,187	¥ 2,764	**$ 62,985**

Corporate bonds at March 31, 2009 and 2008 comprised the following:

Balance at March 31			Millions of yen		Thousands of U.S. dollars	Interest rate	
Issued by	Type	Issue date	**2009**	2008	**2009**	(%)	Maturity
Nippon Chemiphar Co., Ltd.	1st unsecured bonds	May 20, 2003	**¥ —**	¥100	**$ —**	0.41	May 20, 2008
	2nd unsecured bonds	Sept. 15, 2005	**90**	150	**916**	0.68	Sep. 15, 2010
	3rd unsecured bonds	Dec. 29, 2005	**120**	180	**1,222**	0.91	Dec. 29, 2010
	4th unsecured bonds	Dec. 29, 2006	**300**	400	**3,054**	1.30	Dec. 29, 2011
	5th unsecured bonds	Mar. 31, 2009	**500**	—	**5,090**	1.10	Mar. 31, 2014
Total			**¥1,010**	¥830	**$10,282**		

Note: Balance at March 31, 2009 includes current portion amounting to ¥320 million ($3,258 thousand).

The aggregated annual maturities of bonds are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥320	$3,258
2011	290	2,952
2012	200	2,036
2013	100	1,018
2014	100	1,018

Long-term loans at March 31, 2009 and 2008 comprised the following:

Balance at March 31	Millions of yen		Thousands of U.S. dollars	Interest rate	Repayment
	2009	2008	**2009**	(%)	Term
Current portion of long-term loans	**¥1,697**	¥1,533	**$17,276**	1.9	—
Long-term loans	**5,497**	2,254	**55,961**	1.9	2010–2014
Total	**¥7,194**	¥3,787	**$73,237**		

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2011	¥1,792	$18,243
2012	1,507	15,342
2013	1,221	12,430
2014	757	7,706

The long-term loans include syndicate loan agreements amounting to ¥4,000 million ($40,721 thousand) and ¥329 million at March 31, 2009 and 2008, 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, 2008.
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, 2009, was as follows:

	Millions of yen	Thousands of U.S. dollars
Aggregated commitment amounts	**¥4,000**	**$40,721**
Used	**300**	**3,054**
Unused balance	**¥3,700**	**$37,667**

5. PLEDGED ASSETS

The book value of pledged assets at March 31, 2009 and 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Land	**¥—**	¥5,139	**$—**
Buildings	—	1,207	—
Investment securities	—	244	—
Total	**¥—**	¥6,590	**$—**

The related liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Short-term borrowings	**¥—**	¥264	**$—**
Current portion of long-term debt	—	673	—
Long-term debt	—	849	—

6. PROVISION FOR 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, 2009 and 2008 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Projected benefit obligation	**¥(4,416)**	¥(4,318)	**$(44,956)**
Fair value of plan assets	**3,017**	3,667	**30,714**
Funded status	**(1,399)**	(650)	**(14,242)**
Unrecognized actuarial net loss	**1,030**	308	**10,486**
Unrecognized prior service cost	**56**	61	**570**
Reserve for employees' retirement benefits	**¥ (313)**	¥ (279)	**$ (3,186)**

The components of net periodic retirement benefit costs for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Service cost	**¥351**	¥ 345	**$3,573**
Interest cost	**106**	107	**1,079**
Expected return on plan assets	**(91)**	(105)	**(926)**
Recognized actuarial loss	**53**	2	**539**
Amortization of prior service cost	**6**	6	**61**
Net periodic retirement benefit costs	**¥427**	¥ 356	**$4,347**

Assumptions used for the years ended March 31, 2009 and 2008 were set forth as follows:

	2009	2008
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**	11 years

7. STOCK OPTIONS

The stock option-related expense recognized and included in selling, general and administrative expenses for the year ended March 31, 2009 is ¥1 million ($10 thousand).

Following are details of the stock options the Company has as of March 31, 2009.

Number of grantees	6 Directors 8 Employees
Number of options	Common stock—41,000 shares
Date of grant	August 4, 2008
Exercisable period	August 5, 2011—August 4, 2014
Exercise price	¥516 ($5.25)
Fair value at grant date	¥146 ($1.49)

Fair value of the above stock options is estimated on the basis of:

Valuation method	Black-Scholes model
Expected volatility[1]	40.6%
Expected life[2]	4.5 years
Expected dividend[3]	¥3 ($0.03) per share
Risk-free interest rate[4]	1.03%

Notes
1. Calculated based on the weekly stock price from February 2, 2004 through July 28, 2008.
2. Estimated assuming the stock options are exercised in the middle of the exercisable period due to difficulty in calculating a reasonable estimate without enough data.
3. The actual result for the fiscal year ended March 31, 2008.
4. Calculated based on the interest rate of government bonds with a comparable remaining life.

8. NET ASSETS

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Corporate Law (the Law), in cases where a dividend distribution of a surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, legal earning reserve and additional paid in capital could be used to eliminate or reduce a deficit or could be capitalized by resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. However, all additional paid-in-capital and the entire legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

9. LEASE TRANSACTIONS

The Group leases certain equipment and other assets. Total lease payments for the years ended March 31, 2009 and 2008 were ¥189 million ($1,924 thousand) and ¥217 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, 2009 and 2008, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Acquisition cost:			
Machinery, equipment and vehicles	**¥ 51**	¥ 51	**$ 519**
Tools, furniture and fixtures	**646**	724	**6,576**
Other (software, etc.)	**158**	180	**1,609**
Total acquisition cost	**855**	957	**8,704**
Accumulated depreciation	**509**	474	**5,182**
Net leased property	**¥346**	¥482	**$3,522**

The above acquisition cost includes related interest expenses as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Obligations under financed leases:			
Due within one year	**¥153**	¥179	**$1,557**
Due after one year	**193**	303	**1,905**
Total	**¥346**	¥482	**$3,522**

The above obligations under financed leases included related interest expenses.

Lease obligations at March 31, 2009 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Lease obligations	**¥ 88**	**$ 896**
Less current portion	**(19)**	**(193)**
Less obligations, less current portion	**¥ 69**	**$ 703**

The future minimum payments required at March 31, 2009 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2011	¥19	$193
2012	19	193
2013	19	193
2014	11	112

10. INCOME TAXES

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended March 31, 2009 and 2008.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Deferred tax assets:			
Accrued enterprise tax	**¥ 14**	¥ 27	**$ 143**
Accrued bonuses	**218**	225	**2,219**
Allowance for doubtful accounts	**39**	45	**397**
Provision for sales promotion expenses	**126**	93	**1,283**
Provision for retirement benefits	**127**	113	**1,293**
Provision for directors' retirement benefits	**92**	81	**936**
Unrealized loss on available-for-sale securities	**167**	71	**1,700**
Other	**185**	204	**1,883**
Subtotal	**968**	862	**9,854**
Less valuation allowance	**(239)**	(251)	**(12,433)**
Total	**729**	611	**7,421**
Deferred tax liabilities:			
Deferred tax liabilities on revaluation of land	**1,589**	1,589	**16,176**
Total	**1,589**	1,589	**16,176**
Net deferred tax liabilities	**¥ (860)**	¥ (977)	**$ (8,755)**

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, 2009 and 2008 were as follows:

	2009	2008
Normal effective statutory tax rate	**40.7%**	**40.7%**
Expenses not deductible for income tax purposes	**25.2**	**18.4**
Per capita inhabitant tax	**5.9**	**3.2**
Change in valuation allowance	**(4.2)**	**2.4**
Research and development cost tax credit	**(8.4)**	**(5.2)**
Other—net	**7.1**	**(2.0)**
Actual effective tax rate	**66.3**	**57.5**

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major components of selling, general and administrative expenses for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Advertising expenses	**¥ 280**	¥ 215	**$ 2,850**
Sales promotion expenses	**2,751**	2,385	**28,006**
Traveling expenses	**578**	610	**5,884**
Salaries and allowances	**3,476**	3,588	**35,386**
Commissions	**908**	828	**9,244**
Research and development costs	**1,427**	1,317	**14,527**

12. AMOUNTS PER SHARE

Net assets per share at March 31, 2009 and 2008 and basic net income per share for the years then ended were as follows:

	Yen		U.S. dollars
	2009	2008	**2009**
Net assets	**¥179.55**	¥181.99	**$1.8279**
Basic net income	**4.41**	10.22	**0.0449**

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, 2009 and 2008 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Net income	**¥ 168**	¥ 390	**$1,710**
Net income available for distribution to shareholders of common stock	**168**	390	**1,710**
Weighted average number of shares of common stock outstanding (thousand shares)	**38,137**	38,161	

13. CASH AND CASH EQUIVALENTS

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

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Cash and time deposits	**¥1,902**	¥2,751	**$19,363**
Cash and cash equivalents	**¥1,902**	¥2,751	**$19,363**

14. COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following commitments and contingent liabilities at March 31, 2009 and 2008:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Guarantee of bank loans	**¥ 28**	¥ 70	**$ 285**
Trade notes discounted	**2,361**	2,930	**24,035**
Securities borrowed	**101**	101	**1,028**

15. SEGMENT INFORMATION

The Company's business is divided into pharmaceutical products and other business segments.

(1) Business segments

Information about the business segments of the Group for the years ended March 31, 2009 and 2008 is as follows:

	Millions of yen				
	2009				
	Pharmaceutical product business	Other business	Total	Eliminations (corporate)	Consolidated
I. Sales and operating income:					
a. Sales					
Sales to customers	**¥21,490**	**¥818**	**¥22,308**	**¥ —**	**¥22,308**
Intersegment sales	—	**71**	**71**	**(71)**	—
Total sales	**21,490**	**889**	**22,379**	**(71)**	**22,308**
Operating expenses	**21,910**	**896**	**21,806**	**(79)**	**21,727**
b. Operating income	**580**	**(7)**	**573**	**8**	**581**
II. Assets, depreciation, capital expenditures:					
Assets	**¥21,145**	**¥1,563**	**¥22,708**	**¥1,989**	**¥24,697**
Depreciation	**514**	**68**	**582**	—	**582**
Capital expenditures	**864**	**25**	**889**	—	**889**

	Thousands of U.S. dollars				
	2009				
	Pharmaceutical product business	Other business	Total	Eliminations (corporate)	Consolidated
I. Sales and operating income:					
a. Sales					
Sales to customers	**$218,773**	**$8,327**	**$227,100**	**$ —**	**$227,100**
Intersegment sales	—	**723**	**723**	**(723)**	—
Total sales	**218,773**	**9,050**	**227,823**	**(723)**	**227,100**
Operating expenses	**212,868**	**9,121**	**221,989**	**(804)**	**221,185**
b. Operating income	**5,905**	**(71)**	**5,834**	**81**	**5,915**
II. Assets, depreciation, capital expenditures:					
Assets	**$215,260**	**$15,912**	**$231,172**	**$20,248**	**$251,420**
Depreciation	**5,232**	**693**	**5,925**	—	**5,925**
Capital expenditures	**8,796**	**254**	**9,050**	—	**9,050**

	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)	19,748
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

(2) Geographical segments

The geographical segments were not disclosed as there were no foreign consolidated subsidiaries or overseas branches for the years ended March 31, 2009 and 2008.

(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, 2009 and 2008.

16. RELATED PARTY TRANSACTIONS

The related party transactions for the years ended March 31, 2009 and 2008, and the related account balances at each fiscal year end are as follows:

		Millions of yen		Thousands of U.S. dollars
		2009	2008	**2009**
Japan Sopharchim Co., Ltd.	Purchase of merchandise and raw materials	**¥1,796**	¥1,610	**$18,284**
	Notes and accounts payable	**644**	617	**6,556**
Nippon Pharmaceutical Industry Co., Ltd.	Purchase of merchandise	**2,254**	2,211	**22,946**
	Notes and accounts payable	**793**	1,175	**8,073**

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, 2009 and 2008.

Board of Directors and Statutory Auditors

President and CEO

Kazushiro Yamaguchi

Director and Managing Corporate Officer

Hiromichi Yata

Directors and Corporate Officers

Yasuo Kishi

Haruki Mori

Masanori Kutsuwada

Director

Toshiaki Mohara

Corporate Auditors

Noboru Kato
(full-time)

Tsuyoshi Takahashi

Naoshige Shindou

Corporate Data

(as of March 31, 2009)

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: 581 (non-consolidated)

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: 6,806

NIPPON CHEMIPHAR CO., LTD.

Head Office: 2-2-3, Iwamoto-cho, Chiyoda-ku,

Tokyo 101-0032, Japan

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