

Cultivating Growth Opportunities

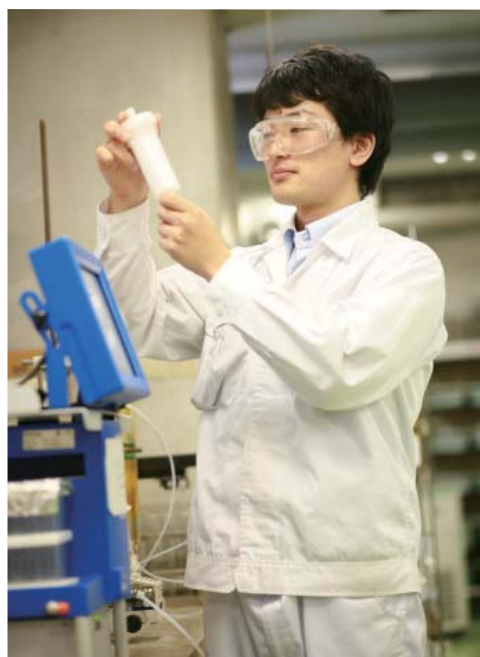
Annual Report 2011 Year ended March 31, 2011



Nippon Chemiphar Co., Ltd.

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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 Chemiphar are forecasts about the future performance of Chemiphar. These forecasts are based on information currently available to management. Consequently, our forecasts are subject to known and unknown risks and uncertainties and may differ significantly from actual results. Items that may influence our forward-looking statements and forecasts include changes in the economy, business and competitive environment surrounding Chemiphar's business, and revisions to the Pharmaceutical Affairs Law and other related legislation, etc., as well as other items not limited to the above.

FY2010 in Review

Double-Digit Sales Growth

Chemiphar's sales of generics expanded 23.8% YOY due to the April 2010 revisions to medical service fees in Japan. These revisions included government incentives intended to promote the use of generics, particularly at dispensing pharmacies. Core products, on the other hand, were affected by National Health Insurance (NHI) price revisions and increasingly severe competition, causing sales of these products to fall 12.9%—in line with our expectations. As a combined result, consolidated net sales grew 14.1% YOY, to ¥27,361 million.

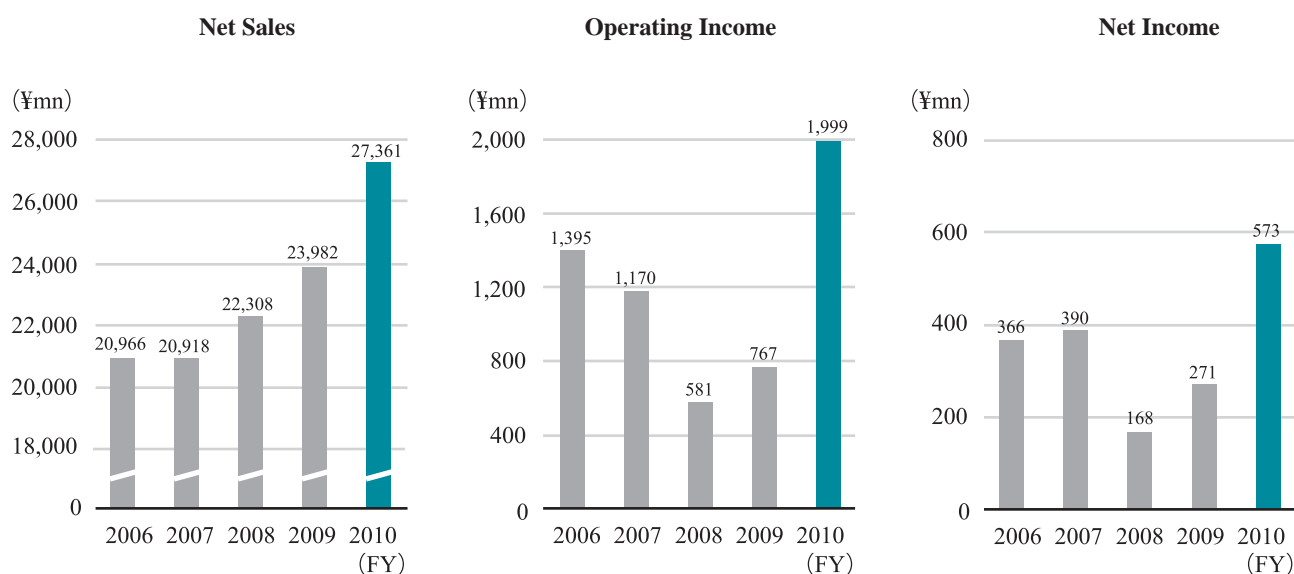
Operating Income and Net Income More Than Double

In addition to the sales increase, income benefited from the contribution to performance over the entire fiscal year of Nihon Pharmaceutical Industry Co., Ltd. (NPI), which became a consolidated subsidiary in December 2009. This helped to achieve a 0.2 percentage point improvement in the cost of sales ratio. Furthermore, ongoing efforts to boost cost efficiency led to a 3.9 percentage point improvement in our SG&A expense ratio. As a result, operating income was 2.6 times the previous year's figure, at ¥1,999 million, and net income was up 2.1 times, to ¥573 million.

Sales and Income Growth Expected for FY2011

In FY2011, we expect double-digit growth in generics to continue. Accordingly, we forecast consolidated net sales of ¥29,100 million, up 6.4% YOY. We anticipate operating income of ¥2,500 million (up 25.1%) and net income of ¥1,100 million (up 92.0%).

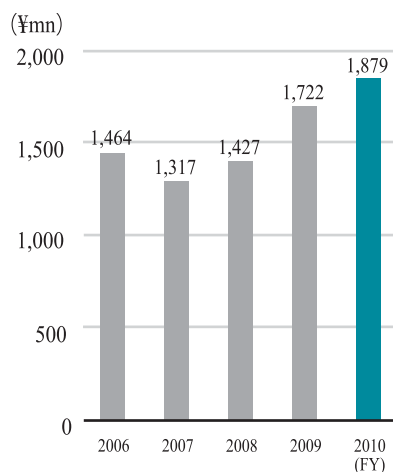
Five-Year Financial Data



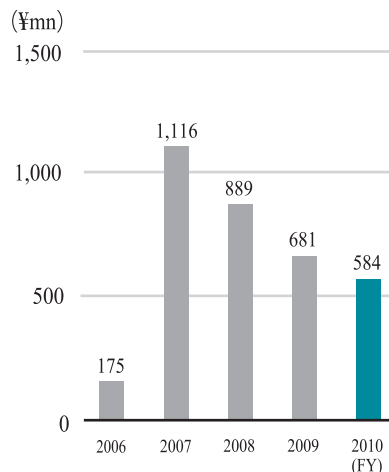
Financial Highlights

	(¥mn)				
Fiscal Years	2006	2007	2008	2009	2010
For the year:					
Net sales	20,966	20,918	22,308	23,982	27,361
Operating income	1,395	1,170	581	767	1,999
Income before income taxes and minority interests	946	917	498	557	1,416
Net income	366	390	168	271	573
R&D expenses	1,464	1,317	1,427	1,722	1,879
Per share data:					
Net income (yen)	9.59	10.22	4.41	7.10	13.95
Net assets (yen)	177.36	181.99	179.55	185.22	212.92
Cash dividends (yen)	2	3	3	3	3
At year end:					
Total assets	21,040	21,764	24,697	29,601	30,786
Net assets	6,771	6,943	6,848	7,866	8,964
Shares outstanding (thousands)	38,522	38,522	38,522	38,522	42,614
Number of employees	575	591	624	714	711
Ratios:					
Operating income margin (%)	6.7	5.6	2.6	3.2	7.3
ROE (%)	5.4	5.7	2.4	3.9	7.2
Equity ratio (%)	32.2	31.9	27.7	23.9	29.1

R&D Expenses

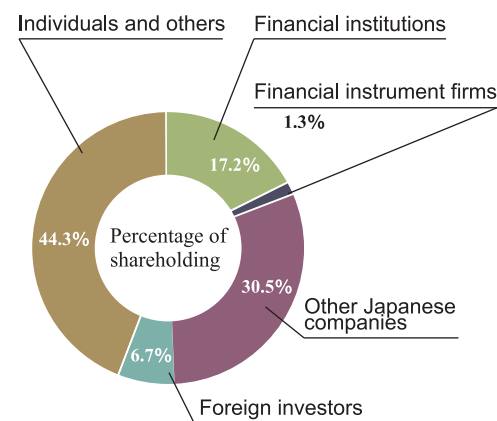


Capital Expenditure



Composition of Shareholders

(As of March 31, 2011)



Message from the President

I would like to discuss Chemiphar's operating performance during the fiscal year ended March 31, 2011 (FY2010) and describe some of our upcoming initiatives.

Chemiphar has made generics one of its business pillars since 2000, two years ahead of the Japanese government's initial move to promote generics, which was in 2002. Over the past 11 years, generics has become an increasingly important business for us. As we have pushed forward on the dual fronts of new drugs and generics, we have become top-class among manufacturers pursuing business in both areas.

In April 2010, the Japanese government introduced measures to promote the use of generics, centering on revisions to service fees for dispensing pharmacies. These revisions helped to boost our sales of generics 23% on a consolidated basis, and income surged.

Amid the continuing changes in the Japanese economy and the business environment surrounding the pharmaceutical industry, we believe we can contribute to lowering the cost to patients and the government's healthcare expenditures by focusing our attention on the generics business, thereby advancing our business. To achieve our three goals, we are working together throughout the Company to put these into practice. I ask for your ongoing support of these endeavors.

Nippon Chemiphar's Three Goals

- Secure our presence in the generics business
- Achieve a stronger position in the hyperuricemia market, centered on Uralyt
- Contribute to society through proprietary developments toward drug discovery

August 2011

山口 - 城

Kazushiro Yamaguchi
President & CEO



Interview

The president, Kazuhiro Yamaguchi, explains the current and future business of Chemiphar, where management resources are concentrated on generics from 2000.

Question: 1

Chemiphar is focusing both on generics and new drugs. What are some of your initiatives for generating profits?

Answer:

We have focused on lowering cost of sales and using SG&A expenses more efficiently.

For a company like ours, which is involved in the manufacture of both new drugs and generics, boosting income requires that we first address differences in the cost structures between generics and the new drugs business.

While the new drugs business has a lower cost of sales than generics, it involves many other costs, such as for R&D and marketing activities. The generics business, on the other hand, has a higher cost of sales ratio because NHI prices are lower than for new drugs. However, R&D and SG&A expenses are lower than for new drugs.

As generics have gained a significant sales share, important issues that have come to the fore include lowering the cost of sales while at the same time slimming SG&A expenses and making operations more efficient.

To lower cost of sales, we are reinforcing our development structure so that we can increase the sales percentage of in-house products, which are highly profitable. We have begun building a more efficient manufacturing structure that concentrates the production function at a subsidiary. With regard to SG&A expenses, two years ago we began a project to reduce costs, launching a companywide initiative to employ expenditures more efficiently. Focused ongoing efforts on this front have proven successful, and our SG&A expense ratio has improved steadily.

Going forward, we will continue working to lower cost of sales and use SG&A expenses more efficiently, which should lead to further improvements in profitability.

Question: 2

Would you please explain in more detail your initiatives to build an efficient production structure?

Answer:

We created a high-quality, cost-competitive production structure by converting NPI to a wholly owned subsidiary and integrating into that company our Ibaraki factory, which is now the NPI Tsukuba factory.

On July 1, 2010, we converted NPI to a wholly owned subsidiary; until then, the company had handled the production of generics for the Chemiphar Group. Then, on October 1, 2010, we transferred our Ibaraki factory (now the NPI Tsukuba factory) to the subsidiary.

By integrating NPI, whose forte is in the production of generics, with our own expertise in the manufacture of new drugs, we have reinforced our ability to provide a stable supply of high-quality

products. This move enabled us to optimize capital expenditure and the placement of personnel. We have also begun looking toward the integration of our production bases. To this end, we are reorganizing these bases with a view toward ensuring high quality and cost competitiveness through a stronger and more efficient manufacturing structure.

Question: 3

Answer:

How were you affected by the recent earthquake? Did it highlight any part of your system that will need to be strengthened?

As a company that handles pharmaceuticals, we recognize the need to enhance our structure to ensure a stable supply of products.

Our Sendai Branch, Morioka Office and Mito Office are located in the area affected by the earthquake, but none of our personnel were injured, and our facilities sustained no major structural damage. Furthermore, after halting operations to confirm the status of NPI's two factories following the earthquake, operations resumed at the Tsukuba factory on March 22 and at the Ibaraki factory on March 24.

The recent earthquake caused us to rethink our approach to protecting our "stable supply," which is the lifeline for pharmaceuticals, and we have begun reviewing our business continuity plan in this context. Specifically, we are studying ways to secure product and raw material inventories and ensure that backup functionality is in place at our factories and logistics bases.

Question: 4

Answer:

What sort of strategies are you considering as part of your medium- to long-term vision for developing the business further?

In addition to fulfilling our three goals, we will accelerate our expansion in Asia, centering on China.

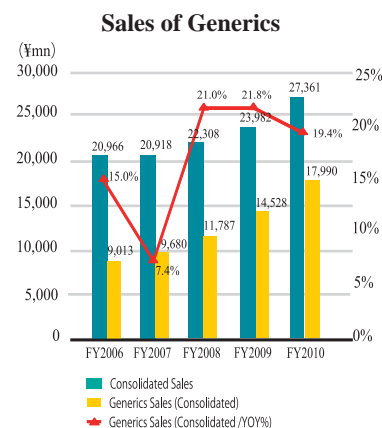
I believe that FY2011 will be an extremely important year for us in terms of our medium- to long-term vision. Of the three goals we have set, our top priority at present is to organize our operations to ensure that we continue to deliver steady double-digit growth in the generics business. Spurred by the launch by another company of the first new hyperuricemic treatment in 40 years, Uralyt sales have benefited from a growing hyperuricemia market, and we are leveraging the drug to continue driving an increase in our market share. In our drug research, we will employ outsourcing and shift toward a small and select R&D team, promoting the development of new out-licensing candidates to support our growth over the medium term.

We also plan a full-fledged business launch in the Asian market. Generating sales and income by marketing our generics and core products in China, South Korea and Southeast Asia is another important topic for the future.

Financial Focus

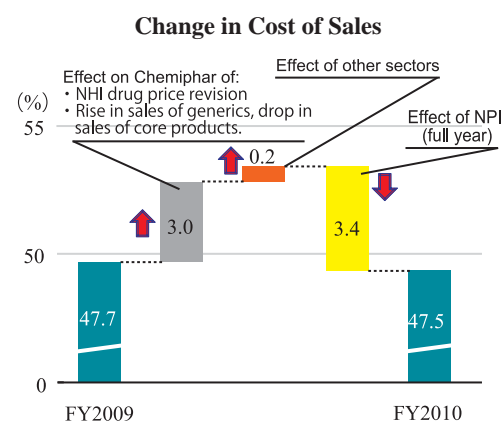
Expanding Sales and Income from Generics

Buoyed by the Japanese government's efforts to promote the use of generics, our sales in this area continue to grow, contributing significantly to the increase of total net sales. Our expansion in sales of generics has been particularly noteworthy since FY2008, with sales rising approximately 20% YOY.



Change in Cost of Sales (Consolidated)

NHI price revisions and a rising percentage of generics in total sales are the primary reasons for the increase in the consolidated cost of sales ratio during the year under review. However, the full-year contribution of NPI, which has become a consolidated subsidiary, improved the ratio 0.2 percentage point.



Increasing Cost Efficiency

Whereas consolidated net sales were up 14.1% YOY, we managed to curtail the rise in SG&A expenses to 5.1% through expense optimization initiatives. As a result, SG&A expenses as a percentage of net sales improved 3.9 percentage points during the year, to 45.2%.

Consolidated Balance Sheets (As of March 31, 2011)

As of March 31, 2011, total assets were up ¥1,185 million from the previous term, owing largely to a ¥1,162 million increase in cash and deposits.

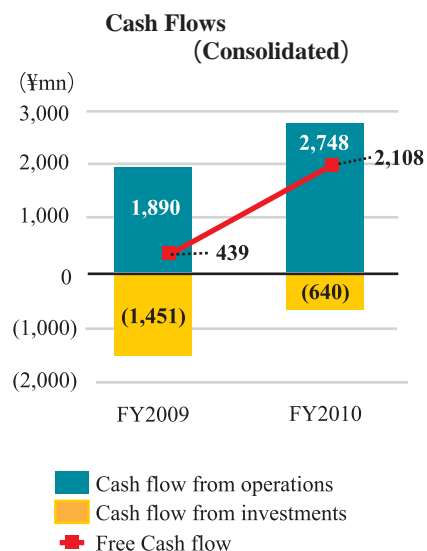
Total liabilities rose ¥87 million during the year, mainly because of higher trade notes and accounts payable stemming from greater purchases of supplies.

Total net assets amounted to ¥8,964 million, up ¥1,098 million. This rise was due largely to the 1,297 million increase in capital surplus arising from the conversion of NPI to a wholly owned subsidiary in July 2010.

	FY2009 FY2010 Change		
Current assets	15,899	17,098	1,199
Net property, plant and equipment	10,249	10,054	(195)
Investments and others	3,453	3,634	181
Total assets	29,601	30,786	1,185
Current liabilities	11,379	12,036	657
Non-current liabilities	10,356	9,786	(570)
Total liabilities	21,735	21,822	87
Capital stock	5,211	6,961	1,750
Accumulated other comprehensive income	1,850	1,998	148
Subscription rights to shares	4	5	1
Minority interests	801	0	(801)
Total net assets	7,866	8,964	1,098
Total liabilities and net assets	29,601	30,786	1,185

Cash Flows (Consolidated)

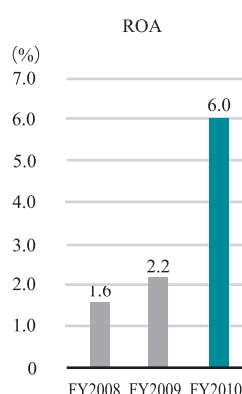
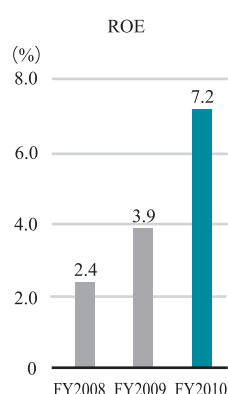
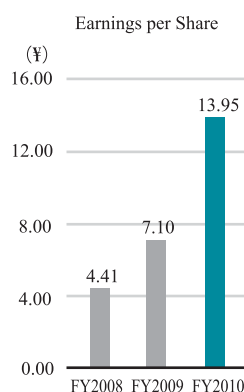
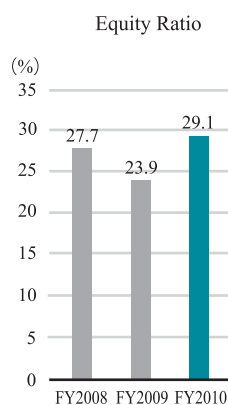
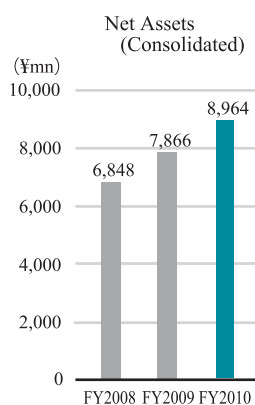
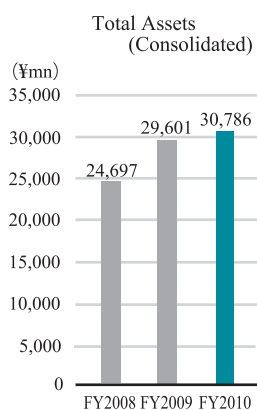
During the year, free cash flow amounted to ¥2,108 million, rising ¥1,669 million from the preceding term. Principal reasons for this rise were increased profits and an improvement in inventories, which prompted an ¥858 million increase in net cash provided by operating activities. In addition, net cash used in investing activities improved ¥811 million compared with the preceding fiscal year, when we invested ¥868 million to convert NPI to a wholly owned subsidiary.



FY2011 Forecast

In FY2011, we expect consolidated net sales to rise 6.4%, to ¥29,100 million, boosted by an increase in sales of generics. On the profit front, helped by ongoing cost management efforts we anticipate operating income of ¥2,500 million (up 25.1% YOY) and net income of ¥1,100 million (up 92.0% YOY).

Principal Financial Indicators



Generics Expansion

Generics Performance in FY2010

During the year, sales of generics benefited from the start of new government measures to encourage their use, and sales increased, particularly at dispensing pharmacies. On a non-consolidated basis, sales of generics rose 19.4% YOY, to ¥17,150 million. On a consolidated basis, the increase was 23.8%, to ¥17,990 million, owing to the inclusion of NPI in the scope of consolidation.

New Product Launches

In the fiscal year under review, we launched a total of 16 new products in May and November, bringing our overall product offerings up to around 160.

Products Launched in May

Generic Name	Item	Therapeutic Category
Latanoprost	1	Glaucoma or ocular hypertension treatment
Epinastine hydrochloride	1	Allergenic disease treatment

Products Launched in November

Generic Name	Item	Therapeutic Category
Sodium rabeprazole	2	Proton pump inhibitor
Glimepiride	4	Sulfonylurea anti-diabetic oral hypoglycemic agent
Flumazenil	2	Benzodiazepine receptor antagonist
Tamsulosin hydrochloride OD	2	Improvement of urinary disorder due to prostatic hyperplasia
Allopurinol	1	Hyperuricemia therapeutic agent
Enalapril maleate	2	Hypertension treatment
Alfacalcidol	1	Osteoporosis treatment

Hospital Performance Trends

Sales of Chemiphar's generics (non-consolidated basis) to hospitals grew in line with the further expansion of Diagnosis Procedure Combination (DPC) hospitals, rising 16.2% on a prescription basis.

Demand for generics is expected to continue increasing among DPC and other hospitals. To enhance the quality of the drug information we provide to hospitals and reinforce our follow-up system, we are expanding our team system onto a national scale, whereas until now this has concentrated on certain regional markets. We enacted measures to bolster marketing efforts in these markets in the spring of 2011.

Performance at Dispensing Pharmacies

In April 2010, the Japanese government launched new generics promotion measures targeting dispensing pharmacies, prompting a 40.4% YOY increase in our sales of generics (non-consolidated basis) to dispensing pharmacies. As in the preceding fiscal year, these pharmacies continued to play a key role in the Company's growing sales of generics.

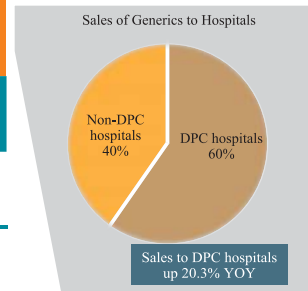
Such efforts have led our sales of generics in this market to double over the past two years.

Initiatives Targeting Dispensing Pharmacies

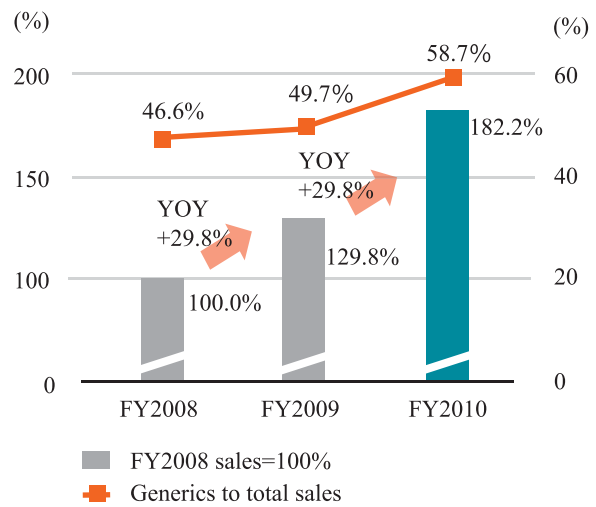
- Encourage pharmacy chains to promote Chemiphar drugs
- Enhance relationships with dealers
- Use information tools
 - Provide information on a regular basis through *Pharmacy Digest*
 - Website (content targeting pharmacists)
- Strengthen customer support function
 - Respond swiftly to pharmacist inquiries with high-quality information

Sales of Generics to Hospitals, Clinics

	YOY	Distrib.
Hospitals	116.2%	40%
Clinics	120.8%	60%
Total	119.0%	100.0%



Sales of Generics to Dispensing Pharmacies (Non-consolidated)



Pharmacy Digest, an informational monthly

Initiatives for Uralyt

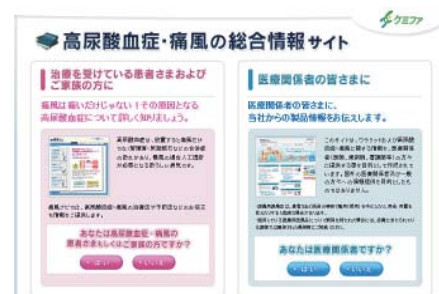
In May 2011, another company launched the first new hyperuricemic treatment in 40 years, generating expectations of growth in the hyperuricemia market. We have seized this opportunity to promote a better understanding of clinical conditions and guideline-based diagnosis and treatment.

Improved Formulation

We have seen a rise in awareness toward the treatment of urinary alkalinization since the publication of treatment guidelines for gout and hyperuricemia diagnosis. In August 2010, Uralyt tablets, used for urinary alkalinization, were upgraded from uncoated tablets to film coated tablets. This improvement makes tablets easy to swallow and masks the bitter taste, thereby raising patient compliance.

Website-Based Awareness Activities

In April 2010, we launched a website providing a comprehensive range of information related to hyperuricemia and gout. Patients can use the “gout navi” section of the site to gain a basic understanding of this clinical condition and learn how to treat or prevent the condition through diet. For medical personnel, “Uralyt.jp” provides information that may prove helpful for medical examinations, such as treatment guidelines and sample prescriptions by Dr. Tatsuo Hosoya, Professor at Jikei University and President of the Japanese Society of Gout and Nucleic Acid Metabolism.



Clinical Research Relating to Uralyt

Clinical research into hyperuricemia and uric acid is ongoing. In addition to conducting our own clinical research, we provide the latest information from academic societies to update medical professionals on improvements in the treatment of hyperuricemia.

Major Clinical Studies Related to Uralyt

Subject	Follow-Up Steps
Parallel use of Allopurinol	Published in <i>Endocrine Research</i> , October 19, 2010
Relationship between metabolic syndrome and uric acid level and urine pH	Announced at the 2010 Metabolic Syndrome Research Forum, currently being drafted as an English-language research article
Alkalinization effect on interstitial cystitis	Expected to conclude in FY2012
Role in preventing kidney stones	Expected to conclude in the first half of FY2012
Prevention of cramping frequency during leukemia treatment	Clinical trial complete, publication of post-analysis research paper expected
Efficacy against cramping	Double-blind test using crossover method under consideration, expected to conclude in FY2013

New Drug Development

Chemiphar's drug research focuses on discovery. To bring discovered compounds to market as quickly as possible, we use a venture-type research system that involves out-licensing at an early stage to highly specialized companies in Japan and overseas.

We are currently out-licensing one candidate compound with an overseas firm, and are pursuing research on NC-2500 as a candidate for out-licensing. We have high hopes for research into NC-2500 as a treatment for hyperuricemia, one of Chemiphar's three goals.

Research and development

	NC-2500	NC-2400
Purpose	Lowering of uric acid	Improving lipid metabolism
Function	Xanthine oxidoreducace inhibitor	PPAR δ Agonist
Discovery	Nippon Chemiphar	Nippon Chemiphar
Development	Nippon Chemiphar	Cerenis (France)
Phase	Preclinical testing	Phase I
Country	Japan	USA

About NC-2500

This candidate inhibits the enzyme xanthine oxidoreducace and prevents the production of uric acid. It is expected to be used as a medication for hyperuricemia and gout.

Impact of the Great East Japan Earthquake

The Great East Japan Earthquake, which struck on March 11, 2011, caused massive destruction, centered on the Tohoku region. The Chemiphar Group halted operations temporarily at NPI's two factories for facility checks, recommencing operations promptly after determining that the factories had sustained no major damage. The impact of the disaster on our financial results in FY2010 was slight, involving the provision of support through relief funds and drugs. We also expect the effects on our performance in FY2011 to be minimal.

Learning from this experience, we are revising our risk management structure. In particular, we are ensuring our ability to provide products stably by securing our sources of raw materials and considering multiple factory and distribution streams.

We have introduced a number of measures to conserve electricity in the aftermath of the disaster, with the goal of reducing consumption by 15% during the peak demand months of July to September. We have mounted an aggressive response to societal demands to conserve electricity, encompassing such measures as shifting production to nighttime hours and holiday operation.

Effects of the Earthquake

Location	Injury	Property Damage	Note
Branches and offices	None	None	
Factories			
Tsukuba factory	None	Minor	Resumed operation on March 22.
Ibaraki factory	None	Minor	Resumed operation on March 24.
Discovery research laboratories	None	Minor	Minor delay in research schedules.
Distribution center	None	Minor	

Post-Earthquake Responses

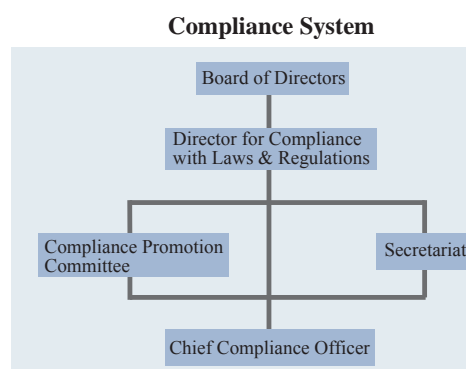
Cooperating with Electricity-Saving Efforts
Manufacturing department responses <ul style="list-style-type: none"> • Shift to holiday and nighttime operations • Accumulate inventories of mainstay products • Adjust production schedules, remaining aware of electrical consumption
Measures at headquarters and laboratories <ul style="list-style-type: none"> • Reduce air conditioning load (set thermostats to 28 degrees) • Limit use of equipment that uses electricity, such as elevators, vending machines, hot water pots and lighting • Increase number of days when no overtime is permitted (from day a week to two days) • Move forward "cool biz" implementation (Generally in effect from June; start on May 1) Introduce "super cool biz" (permitting polo shirts, t-shirts, sneakers, etc.)
Install demand-based surveillance equipment
Other Measures
Review risk management structure <ul style="list-style-type: none"> • Increase product and raw material inventories, consider multiple lines at core product factories, as well as multiple lines at logistics facilities

Activities for Stakeholders

Chemiphar believes that a company must meet its corporate social responsibility in order to be considered a necessary part of society, and we therefore aim to contribute to human health and prosperous lifestyles by providing high-quality products and services. Here, we introduce some of our stakeholder initiatives.

Compliance

It is our position to maintain as a top priority compliance with laws and corporate ethics in our business operations. We formulate programs for compliance with laws and corporate ethics, and focus these efforts through committees on risk management, compliance with laws and regulations, and information security. During the year, we distributed to all employees a handbook detailing standards of conduct for compliance with laws and corporate regulations. We also enhanced the Nippon Chemiphar Hot Line, an internal reporting system we put in place in 2002. We are focusing in particular on education via the person in each department responsible for compliance with laws and regulations.



For Patients and Medical Personnel

Initiatives to Ensure the Proper Use of Drugs

Our approximately 260 MRs are deployed nationwide, working to provide medical personnel with accurate and prompt information regarding our drugs. Also, we established toll-free Customer Support to enable MRs to respond to inquiries from medical personnel and patients. The data accumulated through these activities is centrally managed and can be fed back to each department to provide information leading to the development of new and better products.



An MR providing information for a doctor

Manufacturing Control and Quality Control

In making every effort to ensure manufacturing and quality control are properly carried out, we create procedure confirmation notes in accordance with Good Manufacturing Practice (GMP*) and Good Quality Practice (GQP**). Raw material procurement and storage, and product storage and transportation are conducted under ISO rating manual verification procedures, as we strive to supply quality drugs under proper management.

*GMP: Material ordinance of product and quality control for medications

**GQP: Material ordinance of quality control guidelines for medications

Formulation Design Innovations

When developing generics, we determine the needs of various medical personnel and work to design products accordingly. We plan to continue such initiatives that make medicines easier to use.

Examples of Formulation Design Innovations

- Applying universal design in packages
Product names are shown in large print, increasing their visibility. Using universal fonts, product information is printed on white matte labels. (right photo)
- Reflecting the needs of medical professionals
We use packaging materials that can be opened from any of four directions. (center photo)
- Innovations to prevent medical accidents
Lightweight polyethylene bottles are used for drug ampoules, and their design eliminates the need to jab in a needle to withdraw liquid from the cylinder. This helps avoid accidental pinpricks. (left photo)



Holding Various Seminars

In addition to seminars for various medical personnel, we hold public lectures for citizens to enhance understanding of prevention and treatment of lifestyle-related diseases. We also participate in educational activities through the Japan Pharmaceutical Manufacturers Association.



Open lecture by the Japanese Society of Gout and Nucleic Acid Metabolism in February 2011

Social Contributions

Supporting Reconstruction Following the Great East Japan Earthquake

We donated ¥30 million in relief funds via the Japanese Red Cross Society to aid the people affected by the Great East Japan Earthquake. Through an industry organization, we also supplied ¥60 million worth of drugs (based on NHI price).

Clean-up Activities around Office and Factories

As part of our active efforts to participate in and contribute to the communities where we operate, we conduct clean-up activities in the areas surrounding Chemiphar's Soka office and NPI's Tsukuba factory.



Clean-up activities

Cooperating with Blood Donations

During the year, the Soka office launched a corporate blood donation drive. Approximately 30 people applied for and donated blood through the program.



We provide a field for a baseball team

Providing a Playing Ground Free of Charge at the NPI Tsukuba Factory

At the Tsukuba factory, we provide a field for the local baseball team free of charge.

For Employees Nurturing Careers

We have introduced an extensive training program for each job category and depending on the employee's age. Additionally, we conduct surveys and meetings with management for employees to support their career path according to their aspirations and aptitude.



Right: Second-year step-up training
Left: New employee training

Supporting a Balance between Work and Home Life

To balance work with childcare and nursing care, we have established provisions for childcare and nursing care leave. Ten employees have used this childcare-leave system in the last three years.

In June 2010, we commemorated the 60th anniversary of the Company's establishment by opening a "chemistry lab" for employees' children to help them understand their parents' work.



Above: An experiment in a "Chemistry lab"
Left: Children checking newly made tablets

Sexual Harassment Prevention Manual

To prevent sexual harassment within and outside the organization, we have put together a manual and instruction course. During the year, we strengthened our reporting and counseling systems, and built internal systems for prevention and improvement.

Environmental Initiatives

ISO 14001

NPI's Tsukuba factory obtained international environmental certification under ISO 14001 in 2002. We set up an Environmental Committee, which is tasked with moving the Group toward more environmentally friendly management systems.

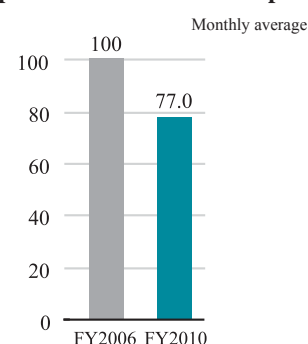
Main initiatives:

- Document environmental policies, distribute to all employees and disseminate information, conduct appropriate education and training.
- Effectively reduce electricity and kerosene consumption to prevent global warming.
- To use resources efficiently, encourage and promote awareness of proper separation and achieve 100% recycling of reusable polyethylene and paper waste.
- Promote reduced water usage to prevent the depletion of resources.
- Strive to prevent environmental pollution caused by chemical substances.

Conserving Water

We work to save water, in order to conserve water resources. In 2006, we took advantage of renovations at our headquarters building to install water-saving toilets and valves.

Comparison of Water Consumption



Before and after the renovation of our headquarters (2006 = 100)

Introducing Hybrid Cars

To reduce CO₂ emissions, we have introduced eight hybrid cars to our fleet. We aim for our business operations to have a low environmental impact. We will continue to introduce such measures as is deemed necessary.



Directors and Statutory Auditors

(As of June 29, 2011)



Kazushiro Yamaguchi
President and CEO

Director and Senior
Managing Corporate Officer



Hiromichi Yata

Director and Managing
Corporate Officer



Yasuo Kishi

Director and Managing
Corporate Officer



Haruki Mori

Director and Corporate Officer



Masanori Kutsuwada

Director and Corporate Officer



Tsuyoshi Koyama

Director



Masaaki Hatakeyama

Corporate Auditor (full-time)



Noboru Kato

Corporate Auditor



Tsuyoshi Takahashi

Corporate Auditor



Naoshige Shindou

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, 2011 and 2010

Thousands of
U.S. dollars
(Note 1)

ASSETS	Millions of yen		2011
	2011	2010	
Current assets:			
Cash and deposits (Notes 3 and 15)	¥ 5,068	¥ 3,906	\$ 60,950
Notes and accounts receivable-trade (Note 3)	8,344	8,091	100,349
Allowance for doubtful accounts	(1)	(2)	(12)
Inventories	2,896	3,267	34,828
Deferred tax assets (Note 11)	686	537	8,250
Other	105	100	1,263
Total current assets	17,098	15,899	205,628
Property, plant and equipment:			
Land	5,550	5,550	66,747
Buildings	11,137	11,086	133,939
Machinery, equipment and vehicles	4,081	3,930	49,080
Tools, furniture and fixtures	1,854	1,819	22,297
Lease assets (Note 10)	467	270	5,616
Construction in progress	41	22	493
	23,130	22,677	278,172
Accumulated depreciation	(13,076)	(12,428)	(157,258)
Net property, plant and equipment	10,054	10,249	120,914
Investments and other assets:			
Investment securities (Notes 3 and 4)	1,036	1,083	12,459
Long-term loans receivable	7	9	84
Long-term prepaid expenses	—	3	—
Goodwill	693	421	8,334
Intangible assets	71	77	854
Deferred tax assets (Note 11)	339	419	4,077
Lease and guarantee deposits	121	157	1,455
Long-term deposits (Note 3)	1,100	1,000	13,229
Deferred assets	247	265	2,971
Other	20	19	241
Total investments and other assets	3,634	3,453	43,704
Total assets	¥30,786	¥29,601	\$370,246

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Current liabilities:			
Short-term loans payable (Note 3)	¥ 992	¥ 1,109	\$ 11,930
Current portion of bonds (Note 6)	470	460	5,652
Current portion of long-term loans payable (Note 6)	2,596	2,471	31,221
Lease obligations (Note 10)	86	56	1,034
Notes and accounts payable-trade (Note 3)	4,235	3,808	50,932
Notes payable-facilities	176	292	2,117
Accrued expenses	1,865	1,814	22,429
Income taxes payable (Note 11)	675	386	8,118
Provision for sales promotion expenses	317	298	3,812
Other	624	685	7,505
Total current liabilities	12,036	11,379	144,750
Non-current liabilities:			
Bonds payable (Notes 3 and 6)	1,105	1,125	13,289
Long-term loans payable (Notes 3 and 6)	5,801	6,557	69,766
Lease obligations (Note 10)	325	209	3,909
Provision for retirement benefits (Note 7)	678	622	8,154
Provision for directors' retirement benefits	278	254	3,343
Deferred tax liabilities for land revaluation	1,589	1,589	19,110
Other	10	—	120
Total long-term liabilities	9,786	10,356	117,691
Net assets (Note 9):			
Capital stock:			
Authorized: 154,000,000 shares			
Issued: 42,614,205 and 38,522,301 shares in 2011 and 2010	4,305	4,305	51,774
Capital surplus	1,297	—	15,598
Retained earnings	1,523	1,065	18,316
Treasury stock	(164)	(159)	(1,972)
Sub total	6,961	5,211	83,716
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	(35)	(183)	(421)
Revaluation surplus of land	2,033	2,033	24,450
Total accumulated other comprehensive income	1,998	1,850	24,029
Subscription rights to shares	5	4	60
Minority interests	0	801	0
Total net assets	8,964	7,866	107,805
Total liabilities and net assets	¥30,786	¥29,601	\$370,246

See notes to consolidated financial statements.

Consolidated Statements of Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Net sales (Note 18)	¥27,361	¥23,982	\$329,056
Cost of sales	12,990	11,449	156,224
Gross profit	14,371	12,533	172,832
Selling, general and administrative expenses (Note 12)	12,372	11,766	148,791
Operating income	1,999	767	24,041
Other income (expenses):			
Interest and dividends income	30	30	360
Interest expenses	(229)	(235)	(2,754)
Loss on valuation of investment securities	(304)	(30)	(3,656)
Loss on disaster (Note 13)	(43)	—	(517)
Other, net	(37)	25	(445)
	(583)	(210)	(7,012)
Income before income taxes and minority interests	1,416	557	17,029
Income taxes (Note 11)			
Current	935	375	11,245
Deferred	(172)	(108)	(2,069)
	763	267	9,176
Income before minority interests	653	290	7,853
Minority interests in income	80	19	962
Net income	¥ 573	¥ 271	\$ 6,891

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011		2011
Income before minority interest	¥653		\$7,853
Other comprehensive income			
Valuation difference on available-for-sale securities	150		1,804
Comprehensive income	803		9,657
Comprehensive income attributable to			
Comprehensive income attributable to owners of the parent	722		8,683
Comprehensive income attributable to minority interest	81		974

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2011 and 2010

Millions of Yen

	Shareholders' equity					Accumulated other comprehensive income						Total net assets
	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 accumulated other comprehensive income		Subscription rights to shares	Minority interests	
								comprehensive income				
Balance at March 31, 2009	¥4,305	¥—	¥ 910	¥(158)	¥5,057	¥(244)	¥2,033	¥1,789		¥2	¥ 0	¥6,848
Net income			271		271							271
Dividends from surplus			(115)		(115)							(115)
Purchase of treasury stock				(2)	(2)							(2)
Disposal of treasury stock			(1)	1	0							0
Net changes of items other than shareholders' equity						61		61		2	801	864
Total changes of items during the year		—	155	(1)	154	61		61		2	801	1,018
Balance at March 31, 2010	¥4,305	¥—	¥1,065	¥(159)	¥5,211	¥(183)	¥2,033	¥1,850		¥4	¥ 801	¥7,866

Millions of Yen

	Shareholders' equity					Accumulated other comprehensive income						Total net assets
	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 accumulated other comprehensive income		Subscription rights to shares	Minority interests	
								comprehensive income				
Balance at March 31, 2010	¥4,305	¥ —	¥ 1,065	¥(159)	¥5,211	¥(183)	¥2,033	¥1,850		¥4	¥ 801	¥7,866
Net income			573		573							573
Increase due to share exchange		1,297			1,297							1,297
Dividends from surplus			(115)		(115)							(115)
Purchase of treasury stock				(5)	(5)							(5)
Disposal of treasury stock			(0)	0	0							0
Net changes of items other than shareholders' equity						148		148		1	(801)	(652)
Total changes of items during the year		1,297	458	(5)	1,750	148		148		1	(801)	1,098
Balance at March 31, 2011	¥4,305	¥1,297	¥1,523	¥(164)	¥6,961	¥ (35)	¥2,033	¥1,998		¥5	¥ 0	¥8,964

Thousands of U.S. dollars

	Shareholders' equity					Accumulated other comprehensive income						Total net assets
	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 accumulated other comprehensive income		Subscription rights to shares	Minority interests	
								comprehensive income				
Balance at March 31, 2010	\$51,774	\$ —	\$12,808	\$(1,912)	\$62,670	\$(2,201)	\$24,450	\$22,249		\$48	\$ 9,633	\$ 94,600
Net income			6,891		6,891							6,891
Increase due to share exchange		15,598			15,598							15,598
Dividends from surplus			(1,383)		(1,383)							(1,383)
Purchase of treasury stock				(60)	(60)							(60)
Disposal of treasury stock			(0)	0	0							0
Net changes of items other than shareholders' equity						1,780		1,780		12	(9,655)	(7,841)
Total changes of items during the year		15,598	5,508	(60)	21,046	1,780		1,780		12	(9,633)	13,205
Balance at March 31, 2011	\$51,774	\$15,598	\$18,316	\$(1,972)	\$83,716	\$ (421)	\$24,450	\$24,029		\$60	\$ 0	\$107,805

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

Thousands of
U.S. dollars
(Note 1)

	Millions of yen		2011
	2011	2010	
Net cash provided by (used in) operating activities:			
Income before income taxes and minority interests	¥ 1,416	¥ 557	\$ 17,029
Depreciation and amortization	782	699	9,405
Amortization of goodwill	152	22	1,828
Increase in allowance for doubtful accounts	2	3	24
Increase (Decrease) in provision for sales promotion expenses	18	(18)	216
Increase in provision for retirement benefits	57	96	686
Increase in provision for directors' retirement benefits	24	3	289
Interest and dividend income	(30)	(30)	(361)
Interest expenses	229	235	2,754
Loss on retirement of noncurrent assets	10	10	120
Loss on valuation of investment securities	304	30	3,656
Increase in notes and accounts receivable-trade	(252)	(397)	(3,031)
Decrease (increase) in inventories	369	(108)	4,438
(Increase) decrease in other current assets	(1)	58	(12)
Increase in notes and accounts payable-trade	427	933	5,135
Increase in other current liabilities	19	401	229
Increase (decrease) in consumption taxes payable	20	(18)	241
Decrease in long-term prepaid expenses	3	8	36
Other, net	45	(15)	541
Subtotal	3,594	2,469	43,223
Interest and dividends income received	32	32	385
Interest expenses paid	(232)	(238)	(2,790)
Income taxes paid	(646)	(373)	(7,769)
Net cash provided by operating activities	2,748	1,890	33,049
Net cash provided by (used in) investing activities:			
Payment into time deposits	(51)	(9)	(613)
Proceeds from withdrawal of time deposits	48	100	577
Purchases of property, plant and equipment	(539)	(648)	(6,482)
Purchases of investment securities	(4)	(6)	(48)
Acquisition of shares in subsidiaries resulting in changes in scope of consolidation	—	(868)	—
Payment of loans receivable to employees	(4)	(5)	(48)
Proceeds from collection of lease and guarantee deposits	17	5	204
Proceeds from withdrawal of long-term deposits	—	500	—
Payment into time deposits	(100)	(500)	(1,203)
Other payments	(8)	(12)	(96)
Other proceeds	—	—	—
Other, net	1	(8)	12
Net cash used in investing activities	(640)	(1,451)	(7,697)
Net cash provided by (used in) financing activities:			
Net (decrease) increase in short-term loans payable	(117)	(296)	(1,407)
Proceeds from long-term loans payable	2,000	3,800	24,053
Repayment of long-term loans payable	(2,632)	(1,981)	(31,654)
Proceeds from issuances of bonds	500	500	6,013
Redemption of bonds	(510)	(320)	(6,133)
Cash dividends paid	(115)	(114)	(1,383)
Other, net	(75)	(80)	(902)
Net cash (used in) provided by financing activities	(949)	1,509	(11,413)
Net increase in cash and cash equivalents	1,159	1,948	13,939
Cash and cash equivalents, at beginning of year	3,850	1,902	46,302
Cash and cash equivalents, at end of year (Note 15)	¥ 5,009	¥ 3,850	\$ 60,241

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

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 2010 financial statements to conform to the classifications used in 2011.

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 ¥83.15 to US\$1, the approximate rate of exchange at March 31, 2011. 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.

As permitted by the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The consolidated financial statements as of March 31, 2011, include the accounts of the Company and its three (three in 2010) 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.

Nihon Pharmaceutical Industry Co., Ltd., which had been accounted for by the equity method until the year ended March 31, 2009, was included in the scope of consolidation due to the acquisition of its shares at the end of the third quarter for the year ended March 31, 2010.

Investments in one (one in 2010) affiliated company is 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

Inventories held for sale in the ordinary course of business are 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.

Inventories of the Company and its consolidated subsidiaries 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.

g. Intangible assets

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

Amortization of goodwill purchased is computed by the straight-line method over 5 years.

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 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, 2011 and 2010 was ¥1,304 million (\$15,863 thousand) and ¥1,133 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

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, 2011 and 2010, 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 2011 and 11 years in 2010).

l. Provision for directors' retirement benefits

Provision for directors' retirement benefits is 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

Leased assets under finance leases commencing after March 31, 2008 are capitalized except for certain immaterial or short-term finance leases, which are accounted for as operating leases. 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.

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, 2011 and 2010.

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.

t. Application of new accounting standards

Accounting Standard for Asset Retirement Obligations

“Accounting Standard for Asset Retirement Obligations”(Accounting Standard Board of Japan (“ASBJ”) Statement No. 18, issued on March 31, 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations”(ASBJ Guidance No. 21, issued on March 31, 2008) became effective for fiscal years beginning on or after April 1, 2010. Accordingly, operating income and income before income taxes and minority interests decreased by ¥1 million (\$12 thousand) and ¥9 million (\$108 thousand), respectively, compared with the previous accounting method.

Accounting Standard for Business Combinations

“Accounting Standard for Business Combinations” (ASBJ Statement No. 21, revised on December 26, 2008), “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, revised on December 26, 2008) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, revised on December 26, 2008) became effective for fiscal years beginning on or after April 1, 2010, and the Company and its consolidated subsidiaries have applied them from the fiscal year ended March 31, 2011.

3. FINANCIAL INSTRUMENTS

Effective from the year ended March 31, 2010, the Company and its subsidiaries adopted the revised Accounting Standard, “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10 revised on March 10, 2008) and the “Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No.19 revised on March 10, 2008). Information on financial instruments for the year ended March 31, 2011 and 2010, required pursuant to the revised accounting standards is as follows.

(1) Qualitative information on financial instruments

a. Policies for using financial instruments

The Company and its subsidiaries limit their investment of temporary surpluses to highly secure financial assets and raise the funds through loans from banks and other institutions and by issuing corporate bonds. Derivatives are employed to hedge against the risks described below; the Company and its subsidiaries do not engage in speculative transactions.

b. Policies and systems for risk management

Notes and accounts receivable, which are claimable assets, involve credit risks on the part of customers. With regard to claimable assets, the Company and its subsidiaries manage claimable assets by transaction partners according to due date and balance.

Investment securities are subject to market price fluctuation risk. Regarding these risks, the Company and its subsidiaries have in place a system to determine periodically for each company the fair value and the financial condition of the issuer.

Trade notes and accounts payable, which are trade liabilities, generally arise in the course of operating activities, and the majority of these are payable within one year.

Long-term loans payable and bonds payable are principally taken out to fund long-term working capital. Floating-rate loans are subject to interest rate fluctuation risk, but for long-term loans the Company minimizes the risk of fluctuations in interest payments by fixing payment interest rates, employing derivative transactions (interest rate swap transactions) to hedge against such risk.

Trade liabilities and loans are subject to liquidity risk. To manage this risk, the Company and each of its subsidiaries create cash flow plans monthly

c. Supplemental information on fair values

The fair value of financial instruments is based on their market value. The fair value of financial instruments that have no available market value is determined by using a rational method of calculation. However, as variables are inherent in these value calculations, the resulting values may differ if different assumptions are used. Also, market risk related to derivative financial instruments is not included in the contract amounts of those instruments.

d. Concentration of credit risk

As of March 31, 2011, 52.5% of operating receivables were due from specific major customers.

(2) Fair values of financial instruments

Carrying values and fair values of the financial instruments on the consolidated balance sheet at March 31, 2011 and 2010, are the following.

Assets	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Carrying value			
Cash and deposits	¥ 5,068	¥ 3,906	\$ 60,950
Notes and account receivable–trade	8,344	8,091	100,349
Investment securities	972	1,023	11,690
Long-term deposits	1,100	1,000	13,229
Total	15,484	14,020	186,218
Fair value			
Cash and deposits	5,068	3,906	60,950
Notes and account receivable–trade	8,344	8,091	100,349
Investment securities	972	1,023	11,690
Long-term deposits	948	863	11,401
Total	15,332	13,884	184,390
Difference			
Cash and deposits	—	—	—
Notes and account receivable–trade	—	—	—
Investment securities	—	—	—
Long-term deposits	(152)	(137)	(1,828)
Total	¥ (152)	¥ (137)	\$ (1,828)
Liabilities			
	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Carrying value			
Notes and account payable–trade	¥ 4,235	¥ 3,808	\$ 50,932
Short-term loans payable	992	1,109	11,930
Bonds payable	1,575	1,585	18,942
Long-term loans payable	8,396	9,028	100,974
Total	15,198	15,530	182,778
Fair value			
Notes and account payable–trade	4,235	3,808	50,932
Short-term loans payable	992	1,109	11,930
Bonds payable	1,573	1,584	18,918
Long-term loans payable	8,437	9,061	101,467
Total	15,237	15,562	183,247
Difference			
Notes and account payable–trade	—	—	—
Short-term loans payable	—	—	—
Bonds payable	2	1	24
Long-term loans payable	(41)	(33)	(493)
Total	¥ (39)	¥ (32)	\$ (469)

Method of calculating the fair value of financial instruments and matters related to available-for-sale securities and derivative transactions.

a. Cash and deposits and notes and account receivable–trade

As these instruments are settled within a short term and their fair values and book values are similar, their book values are assumed as their fair values.

b. Investment securities

The fair values of equity securities are determined by their prices on stock exchanges. See Note 4 for the description of securities by classification.

c. Long-term deposits

These amounts are based on valuations provided by financial institutions. For differences, only the “fair valuation amounts of derivative portions” are indicated in the table. These differences have minimal impact on profits and losses at the time of maturity.

d. Notes and account payable—trade and short-term loans payable

As these instruments are settled within a short term and their fair values and book values are similar, their book values are assumed as their fair values.

e. Bonds payable

For the fair values of bonds, the total amount of principal and interest is discounted to present value using the assumed rate of interest on newly issued bonds of the same type.

f. Long-term loans payable

For the fair values of long-term loans, the total amount of principal and interest is discounted to present value using the assumed rate of interest on new loans of the same type. The fair value of long-term debt is determined by discounting the total amount of principal and interest by the assumed interest rate on new borrowings of the same type. Exceptional accounting is employed on interest rate swaps on long-term debt with floating interest rates.

Financial instruments for which fair value is not readily determinable

The fair value of unlisted equity securities with a carrying amount of ¥64 million (\$770 thousand) as of March 31, 2011, is not readily determinable.

Redemption schedule for receivables with maturity dates as of March 31, 2011, are summarized as follows:

	Millions of yen			
	2011			
	1 year or less	More than 1 year but less than 5 years	More than 5 years but less than 10 years	More than 10 years
Cash and deposits	¥ 5,068	¥ —	¥ —	¥ —
Notes and account receivable—trade	8,344	—	—	—
Long-term deposits	—	500	—	600
Total	¥ 13,412	¥ 500	¥ —	¥ 600

	Thousands of U.S. dollars			
	2011			
	1 year or less	More than 1 year but less than 5 years	More than 5 years but less than 10 years	More than 10 years
Cash and deposits	\$ 60,950	\$ —	\$ —	\$ —
Notes and account receivable-trade	100,349	—	—	—
Long-term deposits	—	6,013	—	7,216
Total	\$ 161,299	\$ 6,013	\$ —	\$ 7,216

4. INVESTMENT SECURITIES

Investment securities at March 31, 2011 and 2010 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Available-for-sale securities:			
Marketable equity securities	¥ 916	¥ 961	\$11,016
Unlisted equity securities	82	60	987
Others	56	62	673
Total	¥1,054	¥1,083	\$12,676

The carrying amounts and aggregate fair values of investment securities at March 31, 2011 and 2010 were as follows:

	Millions of yen			Fair value
	Cost	Unrealized gain	Unrealized loss	
March 31, 2011				
Available-for-sale:				
Value posted in consolidated balance sheets exceeds acquisition price	¥ 124	¥51	¥ —	¥ 175
Acquisition price exceeds value posted in consolidated balance sheets	825	—	84	741
Other	67	—	11	56
	¥1,016	¥51	¥95	¥972

	Millions of yen			
	Cost	Unrealized gain	Unrealized loss	Fair value
<u>March 31, 2010</u>				
Available-for-sale:				
Value posted in consolidated balance sheets exceeds acquisition price	¥ 165	¥78	¥ —	¥ 243
Acquisition price exceeds value posted in consolidated balance sheets	1,083	—	365	718
Other	72	—	10	62
	¥1,320	¥78	¥375	¥1,023

	Thousands of U.S. dollars			
	Cost	Unrealized gain	Unrealized loss	Fair Value
<u>March 31, 2011</u>				
Available-for-sale:				
Value posted in consolidated balance sheets exceeds acquisition price	\$ 1,491	\$613	\$ —	\$ 2,104
Acquisition price exceeds value posted in consolidated balance sheets	9,922	—	1,010	8,912
Other	806	—	132	674
	\$12,219	\$613	\$1,142	\$11,690

Available-for-sale securities whose fair value was not readily determinable at March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Equity securities	¥63	¥59	\$758

5. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

The Company has applied hedge accounting for interest rate swap contracts to hedge risks of changes of floating interest rate on long-term debt. The contract amount is ¥4,637 million (\$55,767 thousand) and the amount of the contracts which term is more than one year is ¥2,977 million (\$35,803 thousand). Interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed. Therefore, the fair value of long-term debt includes the fair value of the interest swap contracts.

6. LONG-TERM DEBTS

Long-term debts at March 31, 2011 and 2010, comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Corporate bonds	¥ 1,575	¥ 1,585	\$ 18,942
Long-term loans	8,396	9,028	100,974
Total long-term debts	9,971	10,613	119,916
Less: current portion	(3,065)	(2,931)	(36,861)
	¥ 6,906	¥ 7,682	\$ 83,055

Corporate bonds at March 31, 2011 and 2010, comprised the following:

Balance at March 31			Millions of yen		Thousands of U.S. dollars	Interest rate	Maturity
Issued by	Type	Issue date	2011	2010	2011	(%)	
Nippon Chemiphar Co., Ltd.	2 nd unsecured bonds	Sept. 15, 2005	¥ —	¥ 30	\$ —	0.68	Sep. 15, 2010
	3 rd unsecured bonds	Dec. 29, 2005	—	60	—	0.91	Dec. 29, 2010
	4 th unsecured bonds	Dec. 29, 2006	100	200	1,203	1.30	Dec. 29, 2011
	5 th unsecured bonds	Mar. 31, 2009	300	400	3,608	1.10	Mar. 31, 2014
	6 th unsecured bonds	Dec. 30, 2009	400	500	4,810	0.71	Dec. 30, 2014
	7 th unsecured bonds	Sep. 30, 2010	450	—	5,412	0.57	Sep. 30, 2015
	Nihon Pharmaceutical Industry Co. Ltd.	3 rd unsecured bonds	Oct 31, 2007	325	395	3,909	1.40
Total			¥1,575	¥1,585	\$18,942		

Note: Balance at March 31, 2011, includes current portion amounting to ¥470 million (\$5,652 thousand).

The aggregated annual maturities of bonds are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2012	¥470	\$5,652
2013	370	4,450
2014	370	4,450
2015	270	3,247
2016	95	1,143

Long-term loans at March 31, 2011 and 2010 comprised the following:

Balance at March 31	Millions of yen		Thousands of U.S. dollars	Interest rate	Repayment
	2011	2010	2011	(%)	Term
Current portion of long-term loans	¥2,596	¥2,471	\$ 31,221	1.4	—
Long-term loans	5,801	6,557	69,766	1.5	2012–2016
Total	¥8,397	¥9,028	\$100,987		

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2013	¥2,216	\$26,651
2014	1,705	20,505
2015	714	8,587
2016	165	1,984

The long-term loans include syndicate loan agreements amounting to ¥3,600 million (\$43,295 thousand) and ¥4,800 million at March 31, 2011 and 2010, 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, 2011, was as follows:

	Millions of yen	Thousands of U.S. dollars
Aggregated commitment amounts	¥3,000	\$36,079
Used	—	—
Unused balance	¥3,000	\$36,079

7. PROVISION FOR RETIREMENT BENEFITS

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

The Company changed its qualified retirement pension system to a defined benefit pension system on October 1, 2009.

The liability for employees' retirement benefits at March 31, 2011 and 2010, comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Projected benefit obligation	¥(4,958)	¥(4,493)	\$(59,627)
Fair value of plan assets	3,367	3,402	40,493
Funded status	(1,591)	(1,091)	(19,134)
Unrecognized actuarial net loss	1,094	667	13,157
Unrecognized prior service cost	(181)	(198)	(2,177)
Reserve for employees' retirement benefits	¥ (678)	¥ (622)	\$ (8,154)

The components of net periodic retirement benefit costs for the years ended March 31, 2011 and 2010, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Service cost	¥388	¥367	\$4,666
Interest cost	105	108	1,263
Expected return on plan assets	(85)	(75)	(1,022)
Recognized actuarial loss	101	125	1,215
Amortization of prior service cost	(17)	(6)	(205)
Net periodic retirement benefit costs	¥492	¥519	\$5,917

Assumptions used for the years ended March 31, 2011 and 2010, were set forth as follows:

	2011	2010
Discount rate	1.6%	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

As of April 1, 2010, the Company applied a discount rate of 2.50%. However, after reconsidering the impact of changes in the discount rate on the liability for employees' retirement benefits, the Company revised the discount rate to 1.60% as of March 31, 2011.

8. STOCK OPTIONS

The stock option-related expense recognized and included in selling, general and administrative expenses for the year ended March 31, 2011, is ¥1 million (\$12 thousand).

Following are details of the stock options the Company has as of March 31, 2011.

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 (\$6.21)
Fair value at grant date	¥146 (\$1.76)

9. 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 Companies Act (the Act), 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 Act, 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 Act.

10. LEASE TRANSACTIONS

The Group leases certain equipment and other assets. Total lease payments for the years ended March 31, 2011 and 2010, were ¥125 million (\$1,503 thousand) and ¥158 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, 2011 and 2010, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Acquisition cost:			
Machinery, equipment and vehicles	¥130	¥134	\$1,564
Tools, furniture and fixtures	229	442	2,754
Other (software, etc.)	151	158	1,816
Total acquisition cost	510	734	6,134
Accumulated depreciation	406	504	4,883
Net leased property	¥104	¥230	\$1,251

The above acquisition cost includes related interest expenses as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Obligations under finance leases:			
Due within one year	¥ 82	¥126	\$ 986
Due after one year	22	104	265
Total	¥104	¥230	\$1,251

The above obligations under financed leases included related interest expenses.

Lease obligations at March 31, 2011 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Lease obligations	¥411	\$4,943
Less current portion	(86)	(1,034)
Less obligations, less current portion	¥325	\$3,909

The future minimum payments required at March 31, 2011, were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2013	¥84	\$1,010
2014	73	878
2015	53	637
2016	44	529

11. 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, 2011 and 2010.

The tax effects of significant temporary differences and tax loss carry forwards which resulted in deferred tax assets and liabilities at March 31, 2011 and 2010, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Accrued enterprise tax	¥ 57	¥ 36	\$ 685
Accrued bonuses	256	249	3,079
Allowance for doubtful accounts	21	26	253
Provision for sales promotion expenses	126	119	1,515
Provision for retirement benefits	276	253	3,319
Provision for directors' retirement benefits	113	103	1,359
Unrealized loss on available-for-sale securities	21	124	253
Other	554	323	6,663
Subtotal	1,424	1,233	17,126
Less valuation allowance	(399)	(277)	(4,799)
Total	1,025	956	12,327
Deferred tax liabilities:			
Deferred tax liabilities on revaluation of land	1,589	1,589	19,110
Total	1,589	1,589	19,110
Net deferred tax liabilities	¥ (564)	¥ (633)	\$ (6,783)

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, 2011 and 2010, were as follows:

	2011	2010
Normal effective statutory tax rate	40.7%	40.7%
Expenses not deductible for income tax purposes	8.4	20.8
Per capita inhabitant tax	3.0	5.3
Change in valuation allowance	8.0	4.1
Research and development cost tax credit	(11.0)	(13.8)
Other—net	4.8	(9.1)
Actual effective tax rate	53.9	48.0

12. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major components of selling, general and administrative expenses for the years ended March 31, 2011 and 2010, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Advertising expenses	¥ 249	¥ 220	\$ 2,995
Sales promotion expenses	3,083	3,029	37,078
Traveling expenses	476	483	5,725
Salaries and allowances	3,725	3,574	44,799
Commissions	766	864	9,212
Research and development costs	1,879	1,722	22,598

13. LOSS ON DISASTER

The amount of loss on disaster was primarily a result of expenses for repairs to plant and equipment of certain consolidated subsidiaries damaged in the Great East Japan Earthquake.

14. AMOUNTS PER SHARE

Net assets per share at March 31, 2011 and 2010, and basic net income per share for the years then ended were as follows:

	Yen		U.S. dollars
	2011	2010	2011
Net assets	¥212.92	¥185.22	\$2,5607
Basic net income	13.95	7.10	0.1678

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, 2011 and 2010, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Net income	¥ 573	¥ 271	\$6,891
Net income available for distribution to shareholders of common stock	573	271	6,891
Weighted average number of shares of common stock outstanding (thousand shares)	41,094	38,125	

15. CASH AND CASH EQUIVALENTS

(1) 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
	2011	2010	2011
Cash and time deposits	¥5,068	¥3,906	\$60,950
Time deposits maturing over three months	(59)	(56)	(709)
Cash and cash equivalents	¥5,009	¥3,850	\$60,241

(2) Major breakdown of assets and liabilities of company that is previously accounted for by the equity method and is newly included in the consolidated financial statements for the year ended March 31, 2010 due to the acquisition of shares.

Acquisition of shares of Nihon Pharmaceutical Industry Co., Ltd. for the year ended March 31, 2010

The following table summarizes the breakdown of Nihon Pharmaceutical Industry Co., Ltd.'s assets and liabilities when it was initially consolidated following the acquisition of all of the shares, the acquisition cost, cash and cash equivalents held by Nihon Pharmaceutical Industry Co., Ltd., and net cash and cash equivalents decreased by the acquisition of the shares of Nihon Pharmaceutical Industry Co., Ltd.:

	Millions of yen
	2010
Current assets	¥ 2,929
Non-current assets	1,177
Goodwill	449
Current liabilities	(1,093)
Non-current liabilities	(668)
Minority interests	(781)
Subtotal	2,013
Value of shares as listed in the consolidated balance sheets after applying the equity method and until gaining controlling interest	(413)
Acquisition cost of Nihon Pharmaceutical Industry Co., Ltd.'s shares at gaining controlling interest	1,600
Cash and cash equivalents held by Nihon Pharmaceutical Industry Co., Ltd.	(732)
Net cash and cash equivalents decreased by the acquisition of Nihon Pharmaceutical Industry Co., Ltd.'s shares	¥ 868

16. COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following commitments and contingent liabilities at March 31, 2011 and 2010:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Guarantee of bank loans	¥ 3	¥ 10	\$ 36
Trade notes discounted	994	2,148	11,954
Securities borrowed	—	102	—

17. COMPREHENSIVE INCOME

“Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25, issued June 30, 2010) became effective for consolidated financial statements for the fiscal years ending on or after March 31, 2011. Accordingly, the Company has applied this standard and presents “Valuation and transaction adjustments” and “Total valuation and transaction adjustments” as of and for the fiscal year ended March 31, 2010 as “Accumulated other comprehensive income” and “Total accumulated other comprehensive income” as of and for the fiscal year ended March 31, 2011, respectively.

Comprehensive income for the year ended March 31, 2010 comprises as follows:

	Millions of yen
	2010
Comprehensive income attributable to shareholders of the parents	¥ 332
Comprehensive income attributable to minority interests	19
Total	¥ 351

Other comprehensive income for the year ended March 31, 2010 comprises as follows:

	Millions of yen
	2010
Valuation difference on available-for-sale securities	¥ 62
Total	¥ 62

18. SEGMENT INFORMATION

(1) Overview of reporting segments

The Companies' reporting segments are composed of those individual business units for which separate financial information is available, about which the Board of Directors makes decisions regarding the allocation of management resources and for which operating performance can be evaluated, allowing them to be examined periodically.

The Company locates its operating division at its headquarters, formulates overall strategies for the products handled by the divisions and promotes the expansion of its operations. Accordingly, the Company has established “Pharmaceutical product business”, the operating division comprising its core segment, as its reporting division. The division of “Pharmaceutical product business” is engaged primarily in the manufacture and sale of pharmaceutical products.

(2) Methods of calculating sales, income or losses, assets, liabilities and other items by reporting segment

Methods of accounting for reported business segments are in principal the same as those indicated in Note 2 “Summary of Significant Accounting Policies”. Income or losses of reporting statements are based on ordinary income. Income or losses between segments and transfer amounts are based on market prices.

(3) Reporting segments information of sales, profit(loss), assets, liabilities and other items for the Companies as of and for the years ended March 31, 2011 and 2010 is summarized as follows:

	Millions of yen				
	2011				
	Pharmaceutical product business	Other business	Total	Adjustment	Consolidated
Sales:					
Sales to customers	¥26,205	¥1,156	¥27,361	¥ —	¥27,361
Intersegment sales	14	164	178	(178)	—
Total sales	26,219	1,320	27,539	(178)	27,361
Segment profit (loss)	2,010	(11)	1,999	—	1,999
Segment asset	¥24,295	¥2,203	¥26,498	¥4,288	¥30,786
Other:					
Depreciation	719	57	776	—	776
Amortization of goodwill	152	—	152	—	152
Investments in affiliates	18	—	18	—	18
Increase in property, plant and equipment and intangible assets	549	35	584	—	584

	Thousands of U.S. dollars				
	2011				
	Pharmaceutical product business	Other business	Total	Adjustment	Consolidated
Sales:					
Sales to customers	\$315,153	\$13,903	\$329,056	\$ —	\$329,056
Intersegment sales	169	1,972	2,141	(2,141)	—
Total sales	315,322	15,875	331,197	(2,141)	329,056
Segment profit (loss)	24,173	(132)	24,041	—	24,041
Segment assets	\$292,183	\$26,494	\$318,677	\$51,569	\$370,246
Other:					
Depreciation	8,647	686	9,333	—	9,333
Amortization of goodwill	1,828	—	1,828	—	1,828
Investment in affiliates	216	—	216	—	216
Increase in property, plant and equipment and intangible assets	6,602	421	7,023	—	7,023

	Millions of yen				
	2010				
	Pharmaceutical product business	Other business	Total	Adjustment	Consolidated
Sales:					
Sales to customers	¥22,907	¥1,075	¥23,982	¥ —	¥23,982
Intersegment sales	3	124	127	(127)	—
Total sales	22,910	1,199	24,109	(127)	23,982
Segment profit (loss)	780	(13)	767	—	767
Segment assets	¥23,656	¥2,415	¥26,071	¥3,530	¥29,601
Other:					
Depreciation	614	81	695	—	695
Amortization of goodwill	22	—	22	—	22
Purchases of subsidiary company	14	—	14	—	14
Capital expenditures	658	23	681	—	681

Additional information

The Companies have applied “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Statement No. 17, issued on March 27, 2009) and “Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Guidance No. 20, issued on March 21, 2008) from the fiscal year ended March 31, 2011.

(4) Information about products and services

This information is omitted, as the sale of individual categories of products and services to outside customers accounts for more than 90% of net sales in the consolidated statements of income.

(5) Information about geographical areas

This information of sales by geographical areas is omitted, as sales to outside Japanese customers account for more than 90% of net sales in the consolidated statements of income. There is no property, plant and equipment outside Japan, so this information is omitted.

(6) Information about major customers

Name of customer	Related segments	Millions of yen	Thousands of U.S. dollars (Note 1)
		2011	2011
Mediceo corporation	Pharmaceutical product business	¥5,613	\$67,505
Alfresa corporation	Pharmaceutical product business	¥5,320	\$63,981
Toho Pharmaceutical Co., Ltd.	Pharmaceutical product and other business	¥3,283	\$39,483

(7) Amortization of goodwill and unamortized balances by reporting segment

Millions of yen				
2011				
	Pharmaceutical product business	Other business	Adjustment	Total
Unamortized balances of goodwill	¥693	—	—	—

Thousands of U.S. dollars				
2011				
	Pharmaceutical product business	Other business	Adjustment	Total
Unamortized balances of goodwill	\$8,334	—	—	—

As the information of amortization of goodwill is reported with segment information, it has been omitted here.

19. RELATED PARTY TRANSACTIONS

The related party transactions for the years ended March 31, 2011 and 2010, and the related account balances at each fiscal year end are as follows:

		Millions of yen		Thousands of U.S. dollars
		2011	2010	2011
Japan Sopharchim Co., Ltd.	Purchase of merchandise and raw materials	¥2,228	¥1,421	\$26,795
	Notes and accounts payable	1,067	596	12,832
Nippon Pharmaceutical Industry Co., Ltd.	Purchase of merchandise	—	1,857	—
	Notes and accounts payable	—	—	—

At March 31, 2011, the Company has 5% of voting rights in Japan Sopharchim Co., Ltd., which has 15.6% (10.8% at March 31 2011) of voting rights in the Company.

In addition, the representative director of the Company has 67.5% of the voting rights in the Company.

The Company owned 100% of Nihon Pharmaceutical Industry Co., Ltd.

20. RENTAL PROPERTY

Effective April 1, 2009, the Company and its consolidated subsidiaries adopted ASBJ Statement No. 20, "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" and ASBJ Guidance No.23, "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property," issued by the Accounting Standards Board of Japan on November 28, 2008.

The Company owns available-for-lease facilities in Tokyo and other areas. During the year ended March 31, 2011 and 2010, rental income on this real estate amounted to loss of ¥5 million (\$60 thousand) and ¥17

million, respectively. Rental income is recorded in net sales, whereas leasing expenses are principally recorded as cost of sales.

Pursuant to the new accounting standard, information about fair value of rental property is disclosed as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Carrying value at the beginning of year	¥750	¥763	\$ 9,020
Decrease of book value during the year	(8)	(13)	(96)
Carrying value at end of year	742	750	8,924
Fair value at end of year	573	595	6,891

- (1) The carrying value represents the acquisition cost less accumulated depreciation.
- (2) Fair values as of March 31, 2011 and 2010, for principal properties are primarily real estate appraisal values as determined by an outside real estate appraiser. For other properties, fair values are determined by the Company based on appraisal amounts and indices that are judged to reflect market values.

21. BUSINESS COMBINATIONS

For the year ended March 31, 2010

Nothing to be reported.

For the year ended March 31, 2011

Jointly Controlled Transactions

Conversion of Nihon Pharmaceutical Industry Co., Ltd. to a wholly owned subsidiary through a share exchange

- (1) Names and businesses of companies involved in merger, method of corporate merger, name of post-merger entity and overview of transaction, including the purpose of the transaction
 - a. Names and businesses of merging companies
Nihon Pharmaceutical Industry Co., Ltd. - Manufacture and sale of pharmaceutical products
 - b. Effective date of business combinations
July 1, 2011
 - c. Method of corporate merger
A share exchange with Nihon Pharmaceutical Industry Co., Ltd. as the wholly owned subsidiary and Nippon Chemiphar as the wholly owning parent.
 - d. Name of post-merger entity
No changes were made to the names of Nihon Pharmaceutical Industry Co., Ltd.
 - e. Overview of transaction, including the purpose of the transaction
The Company judges that to reinforce its consolidated operating structure and bolster the flexibility of its Group management, a radical restructuring of the Group's business would further enhance corporate value. Accordingly, the Company has resolved to carry through this share exchange as a preceding stage to accelerate decision-making and procedural implementation.

(2) Overview of accounting method used

This share exchange was handled as a jointly controlled transaction, based on “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, revised on December 26, 2008) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, revised on December 26, 2008).

(3) Acquisition of additional shares in subsidiaries

a. Acquisition price and details

Consideration for acquisition - ¥1,297 million (\$15,598 thousand)

Expense amount owing directly to acquisition - ¥10 million (\$120 thousand)

Cost of acquisition - ¥1,307million (\$15,718 thousand)

b. Exchange ratio, method of calculation and number of shares delivered, by type of stock

(i) Allocations of common shares related to this share exchange

The Company (Wholly owning parent company in share exchange): 1

Nihon Pharmaceutical Industry Co., Ltd. (Wholly owned subsidiary in share exchange):
38.4

(ii) Calculation basis of share exchange ratio

To ensure the fairness of the share exchange ratio, the Company retained an independent third party, Daiwa Securities Capital Markets Co., Ltd. (Daiwa Securities). Daiwa Securities assessed the value of the Company (listed company) shares based on market share price analysis, and the value of Nihon Pharmaceutical Industry Co., Ltd. (unlisted company) shares based on discounted cash flow (DCF) analysis and comparable companies analysis. The Company and Nihon Pharmaceutical Industry Co., Ltd. carefully reviewed the results and, taking into consideration the price at which it had bought back shares from Ranbaxy Laboratory Limited on December 8, 2009, they decided on a share exchange ratio.

(iii) Number of shares newly issued

4,091,904

c. Amount of goodwill generated, its sources, and its amortization method and term

(i) Amount of goodwill generated

¥424 million (\$5,099 thousand)

(ii) Sources of goodwill

The reason was that the acquisition price of Nihon Pharmaceutical Industry Co., Ltd., from minority owners exceeded the decrease in minority interests.

(iii) Goodwill amortization method and term

Straight-line method over 5 years

Separation of business of Ibaraki plant through company split

(1) Names and businesses of companies involved in merger, method of corporate merger, name of post-merger entity and overview of transaction, including the purpose of the transaction

- a. Names of merging companies
Combined into: Nihon Pharmaceutical Industry Co., Ltd.
Split from: Nippon Chemipharm Co., Ltd.
- b. Businesses of merging companies
Business related to the manufacture of pharmaceuticals, diagnostic agents and healthcare products by the Ibaraki plant
- c. Effective date of business combinations
October 1, 2010
- d. Method of corporate merger
A simplified separation of business with Nihon Pharmaceutical Industry Co., Ltd., the consolidated subsidiary, as the succeeding company and Nippon Chemipharm Co., Ltd. as the splitting company.
- e. Name of post-merger entity
Nihon Pharmaceutical Industry Co., Ltd.
- f. Overview of transaction, including the purpose of the transaction
Through this transaction, Nihon Pharmaceutical Industry Co., Ltd. will integrate its knowledge of the generic drug production function that is core to the Group to enhance the Company's Ibaraki factory. As a result, the factory will be reorganized into a production facility that has a high degree of market competitiveness in the generic drug business that goes beyond its own drug discovery, enabling centralized management of the Group's production function, promoting an optimal allocation of resources, including capital investment, and further raising management efficiency from the standpoint of integration of the production bases over the medium term, thereby striving to further enhance corporate value.

(2) Overview of accounting method used

This separation of business was handled as a jointly controlled transaction, based on "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, revised on December 26, 2008) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, revised on December 26, 2008).

(3) Acquisition of additional shares in subsidiaries

- a. Acquisition price and details
Common stocks of Nihon Pharmaceutical Industry Co., Ltd. - ¥1,582 million (\$19,026 thousand)

	Millions of yen	Thousands of U.S. dollars
Assets:		
Current assets	¥ 221	\$ 2,658
Non-current assets	1,449	17,426
Total assets	¥1,670	\$20,084
Liabilities:		
Current liabilities	¥ 55	\$ 661
Non-current liabilities	32	385
Total liabilities	¥ 87	\$ 1,046

b. Number of shares newly issued

Nihon Pharmaceutical Industry Co., Ltd. issued 145,160 shares of common stocks, all of which shall be allotted to the Company.

22. SUBSEQUENT EVENTS

Reduction in the capital reserve

A resolution introduced at the Board of Directors meeting on May 24, 2011, to reduce the Company's capital reserve was approved at the general meeting of shareholders on June 29, 2011.

1. Amount, purpose and overview of reduction in the capital reserve

The capital reserve is to be reduced in accordance with the provisions of Paragraph 1, Article 448, of the Companies Act, in order to enable the Company to formulate expeditious and strategic capital policies. The entire amount is to be transferred to other capital surplus.

(1) Reserve category to be reduced and its amount

The entire capital reserve amount of ¥1,297 million (\$15,598 thousand)

(2) Surplus category to be increased and its amount

Other capital surplus - ¥1,297 million (\$15,598 thousand)

2. Expected schedule for reduction of capital reserve

(1) Resolution by the Board of Directors - May 24, 2011

(2) Resolution by the general meeting of shareholders - June 29, 2011

(3) Final date for creditor objections - August 8, 2011

(4) Effective date - August 11, 2011

Corporate Data

(As of March 31, 2011)

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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: 711 (Consolidated)

Subsidiaries:

Nihon Pharmaceutical Industry Co., Ltd.

Safety Research Institute for Chemical Compounds Co., Ltd.

Shapro Inc.

Affiliated Company:

Japan Sopharchim Co., Ltd.

Securities Exchange: Tokyo Stock Exchange (First Section)

Authorized Number of Shares: 154,000,000

Shares of Common Stock Issued: 42,614,205

Number of Stockholders: 7,273



Nippon Chemiphar Co., Ltd.

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