ANNUAL REPORT 2003

Nippon Shinyaku

Profile

Founded in the ancient capital Kyoto in 1919, Nippon Shinyaku is an R&D-oriented pharmaceutical company specializing in the development, manufacture, and sale of ethical drugs, particularly for the treatment of "contemporary diseases" such as cardiovascular, gastrointestinal, urological, and inflammatory and allergic diseases. Making good use of its technological know-how accumulated in the field of ethical drugs, the Company began the production of food additives in 1961, later expanding into fields such as functional food ingredients, and since then there has been steady growth in these business areas.

Since its establishment, Nippon Shinyaku has constantly pursued the creation of new top-quality pharmaceutical products and aggressively expanded its R&D activities. Basic research is conducted at our Discovery Research Laboratories in Kyoto and Tsukuba. Our office in Düsseldorf, Germany, and our U.S. subsidiary NS Pharma, Inc., which moved its headquarters to New Jersey in May 2002, are engaged in the promotion of clinical studies and the collection of pharmaceutical information in Europe and the United States, respectively.

The pharmaceuticals formulation plant at our Odawara Central Factory, which has one of the largest floor areas and one of the highest production capacities in Japan, received the Nikkei Superior Trend-Setting Factories and Offices Awards (sponsored by the Nihon Keizai Shimbun) in 2002. The plant employs cutting-edge technology and sophisticated and highly efficient manufacturing systems.

In addition, in 2002 the Chitose Synthesis Plant and the Chitose Foodstuffs Plant were both awarded ISO 14001 certification for conformity of their environmental management systems to international standards, testifying to the progress being made under the Company's ongoing environmental management improvement program.

Our Kyoto Headquarters

Contents

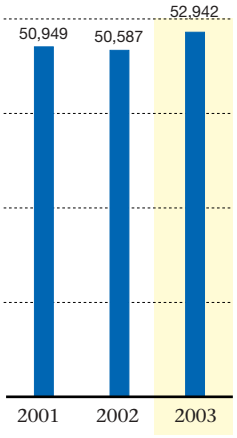
Forward-Looking Statements:
Statements contained in this report concerning plans, predictions, and strategies to improve future performance ("forward-looking statements") are based on information currently available to the Company's management, and inevitably involve a certain element of risk and uncertainties. Actual results may therefore differ from those in the forward-looking statements.

CONSOLIDATED FINANCIAL HIGHLIGHTS

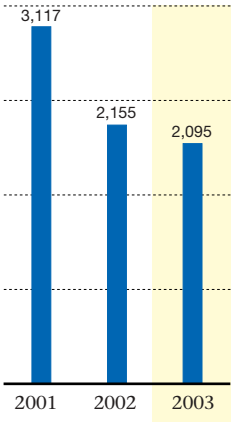
Years ended March 31, 2003 and 2002	Millions of yen		Thousands of U.S. dollars (Note 2)
	2003	2002	**2003**
Net sales	**¥52,942**	¥50,587	**$441,183**
Income before income taxes and minority interests	**4,474**	4,534	**37,283**
Net income	**2,095**	2,155	**17,458**
Amounts per share (in yen and U.S. dollars):			
Net income	**¥ 29.20**	¥ 30.08	**$0.24**
Shareholders' equity (Note 1)	**891.97**	878.97	**7.43**
Total assets	**¥109,549**	¥103,871	**$912,908**
Shareholders' equity	**61,614**	61,770	**513,450**
Investments in plant and equipment	**4,370**	2,959	**36,417**
R&D expenses	**7,885**	7,023	**65,708**

Notes: 1. Calculated on the basis of the average of the balances at the beginning and at the end of the term.
2. U.S. dollar amounts are converted from yen amounts at the rate of U.S.$1=¥120, the approximate exchange rate on March 31, 2003.

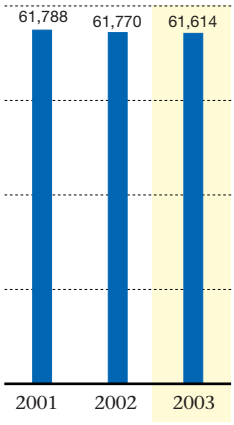
Consolidated Net Sales
(Millions of yen)



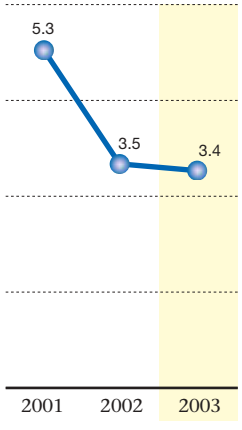
Consolidated Net Income
(Millions of yen)



Consolidated Shareholders' Equity
(Millions of yen)



Consolidated Return on Average Equity
(%)



Kazuto Hatsuyama
President

Japan is now thoroughly characterized as an aged society with fewer children. As a result, the government's finances are in a state of crisis due to rising social security costs, particularly medical expenditure. Consequently, calls have been mounting for a radical reform of Japan's medical system.

In medical treatment, the needs of the patients are, of course, paramount, and in all cases pharmaceutical companies must focus on developing the drugs that patients really need.

The workers on the medical frontline provide pharmaceutical companies with a constant stream of feedback, which is characterized by an unceasing appetite for progress and improvement.

Pharmaceutical companies must not only develop breakthrough drugs, they must also respond to the demands of doctors and paramedics for pharmaceuticals that are effective, easy for patients to take, and have few side-effects. The demands made on pharmaceutical companies are thus multifaceted.

The Company has identified five R&D themes: 1) developing new breakthrough drugs, 2) developing breakthrough drugs on the basis of compounds introduced from other companies, 3) developing improved new drugs through modification of preexisting compounds, 4) addition of new indications to the Company's own products, and 5) improving the formulation of the Company's own products. By following this five-point R&D plan, which we call the "Pentacle Plan," we aim to launch at least one new product on the market every year.

At the same time, I place great importance on the role of medical representatives in liaising between

pharmaceutical companies and their immediate customers – doctors and paramedics. Medical representatives are required not only to provide accurate information about their company's products, as well as information that promotes the acceptance and wider use of new drugs, but also to act as a conduit for data flowing in the opposite direction. Nippon Shinyaku's medical representatives actively collect information from medical staff and make sure that this reaches our researchers and is appropriately reflected in our R&D activities.

For this purpose, we have equipped all our medical representatives with notebook computers offering mobile communications capabilities. This gives them constant access to both information on all Nippon Shinyaku's products and data on sales and other market movements. We are confident that this system enables the constant improvement of the Company's marketing strength and product planning capability.

To raise productivity through higher product quality, we have concentrated our pharmaceutical formulation facilities at the Odawara Central Factory. I believe that the operation of state-of-the-art production equipment will give rise to further refinements in production technology, and that the resulting laborsaving effects and improvements in production efficiency will serve to pull down costs.

Against the background of the rapid progress being made in fully deciphering the human genome, as well as in protein engineering and the computerized analysis of bioactivity, the process of creating revolutionary new drugs is being speeded up. At the same time, however, the costs are reaching massive proportions. In an attempt to overcome this problem via improved efficiency, M&A activity between pharmaceutical companies is being seen on a global scale.

In my opinion, it is precisely because of this environment that Nippon Shinyaku should clarify its market presence and unique strengths. Naturally, our strategy must differ from those of the world's major pharmaceutical companies: we must select those areas of medical treatment to which our abilities are best suited, and focus investment resources on R&D in these areas. This, I am convinced, is the way forward for Nippon Shinyaku.

From here on, too, Nippon Shinyaku will continue to display the innovative, entrepreneurial spirit that has made it a significant presence in the healthcare business, and will remain at the cutting edge of research into drugs that address the most urgent unmet needs in each generation.

The management of Nippon Shinyaku will maintain its focus on earning the trust of the public by providing pharmaceutical products of excellent quality and thereby contributing to the progress of medical treatment. In doing this, we will also fulfill the expectations of our investors by raising our enterprise value.

Kazuto Hatsuyama
President

◆Main Products (Sales and YOY % change)

Nervous and Respiratory Drugs ¥8,983 million ⇩2.1%

Hypen®(etodolac) Non-Steroidal Anti-inflammatory and Analgesic Agent
Cephadol®(difenidol hydrochloride) Antivertigo Agent
Orcl®(actarit) Antirheumatic Agent
Coldrin®(clofedanol hydrochloride) Antitussive Agent

Cardiovascular and Metabolic Drugs ¥8,073 million ⇧0.9%

Selectol®(celiprolol hydrochloride) Remedy for Hypertension and Angina Pectoris
Leftose®(lysozyme hydrochloride) Antihemorrhagic and Anti-inflammatory Enzyme
Glycoran®(metformin hydrochloride) Remedy for Diabetes
Odric®(ACE inhibitor) Anti-hypertensive Agent

Urological Drugs ¥10,652 million ⇩2.4%

Bladderon®(flavoxate hydrochloride) Remedy for Pollakisuria
Eviprostat®(herbal extracts) Remedy for Prostatic Hypertrophy
Urocalun®(quercus salicina extract) Remedy for Urinary Calculus

Gastrointestinal Drugs ¥5,730 million ⇧5.5%

Gaslon N®(irsogladine maleate) Remedy for Gastric Ulcer and Gastritis
Azunol®(sodium gualenate) Remedy for Gastritis and Inflammation of the Oral Cavity
Portolac®(lactitol hydrate) Antihyperammonemia Agent
Azunol® Gargle 4% Mouthwash Agent

Anticancer Drugs ¥5,332 million ⇧14.1%

Cylocide®(cytarabine) Remedy for Acute Leukemia and Solid Cancer
Cylocide®N(cytarabine) Remedy for Acute Leukemia
– Induction therapy for relapse and refractory cases
– Consolidation therapy
Remedy for Malignant Lymphoma
Estracyt®(estramustine sodium phosphate) Remedy for Prostatic Cancer

Others ¥5,013 million ⇧36.0%

Livostin Nasal Spray®(levocabastine hydrochloride)
Remedy for Allergic Rhinitis
Livostin Eye Drops®(levocabastine hydrochloride)
Remedy for Allergic Conjunctivitis

◆Sales by Product (Consolidated)

Years ended March 31, 2003 and 2002 (Millions of yen)

	2003		2002		Change (%)
Pharmaceuticals					
Nervous and respiratory drugs	¥ 8,983	17.0%	¥ 9,180	18.2%	-2.1%
Cardiovascular and metabolic drugs	8,073	15.2%	8,003	15.8%	0.9%
Urological drugs	10,652	20.1%	10,913	21.6%	-2.4%
Gastrointestinal drugs	5,730	10.8%	5,431	10.7%	5.5%
Anticancer drugs	5,332	10.1%	4,673	9.2%	14.1%
Others	5,013	9.5%	3,687	7.3%	36.0%
Royalty income	594	1.1%	10	0.0%	5,553.5%
Subtotal	44,377	83.8%	41,897	82.8%	5.9%
Foodstuffs	8,565	16.2%	8,690	17.2%	-1.4%
Total	¥52,942	100.0%	¥50,587	100.0%	4.7%

Performance

The operating environment for pharmaceutical companies in fiscal 2002, the year ended March 31, 2003, was extremely difficult. Against the background of a severe deficit suffered by the national health insurance system due to the deterioration of the government's financial position, the authorities took further action to restrain medical expenditure, including not only downward revisions in drug prices effective April 2002, but also raising the patient's out-of-pocket contribution ratio to medical charges under the national health insurance system to 30% effective April 2003 from 20% previously.

Sales of the Nippon Shinyaku group for the term under review on a consolidated basis came to ¥52,942 million (US$441,183 thousand), an increase of 4.7% over the previous fiscal year. Despite an increase in the cost of sales stemming from the rise in sales, operating income rose 55.4% year-on-year, to ¥4,269 million (US$35,575 thousand), thanks to a reduction in selling, general and administrative costs and a sharp increase in revenue from industrial property rights. Net income, however, edged down by 2.8% on a year-on-year comparison, owing to a steep decline in gains on the sale of land.

Outlook

Nippon Shinyaku's sales targets for fiscal 2003, the year ending March 31, 2004, on a consolidated basis, are ¥44,700 million (up 0.7% year-on-year) in sales for the pharmaceuticals business, and ¥9,000 million (up 5.1%) for the foodstuffs business, giving a sales total of ¥53,700 million, a year-on-year increase of 1.4%. Net income is projected at ¥2,400 million, an increase of 14.6% from the term under review.

Marketing

(1) Pharmaceuticals

Valuable contributions to sales were made by the newly launched *Azunol® Gargle* (a 4% solution of the gargling agent *Azunol*), and by the ACE inhibitor *Odric®* (an anti-hypertensive agent). We recorded increases in sales of leading products, including *Cylocide® N injection*, for acute leukemia, mainstay anti-allergy agent *Livostin Eye Drops®* (for allergic conjunctivitis), and *Estracyt®* (a remedy for prostatic cancer). However, these were offset by a slight decline in sales of *Hypen®* (a COX II selective anti-inflammatory agent), *Selectol®* (a remedy for hypertension and angina pectoris), and *Gaslon N®* (a remedy for gastritis and gastric ulcer). As a result, overall sales posted a year-on-year increase of 5.9%, to ¥44,377 million (US$369,808 thousand).

(2) Foodstuffs

In foodstuffs operations, steady sales growth was recorded by food additives, but sales of health foods were poor owing to slack demand. Net sales of this segment were down 1.4% from the previous term, at ¥8,565 million (US$71,375 thousand).

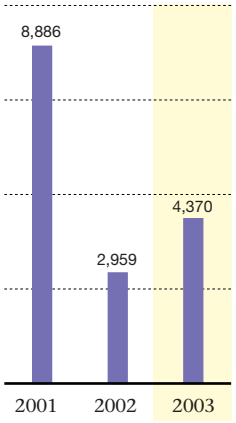
Manufacturing

Operations at the Odawara Central Factory and our synthesis Plant at the Chitose Create Park were as per projections during the term under review. Last November, the Odawara Central Factory was awarded the Nikkei Superior Trend-Setting Factories and Offices Awards for the best plant employing state-of-the-art technology in Japan. The synthesis plant and foodstuffs plant in Chitose Create Park, received ISO 14001 certification last December, and the staff of the Odawara Central Factory are working to achieve the same certification in the near future. The whole Company will continue its efforts to still further lower the environmental load produced by its corporate activities.

Chitose Create Park

Consolidated Investment in Plant and Equipment

(Millions of yen)



Licenses and Joint Developments

May 2003:

– Conclusion of License-in Agreement for Acamprosate (NS-11), a remedy for alcohol dependence

– Joint development Agreement for TRK-091 (Tramadol SR), a new oral sustained-release analgesic

April 2003:

– Marketing of IgA nephropathy animal model (HIGA mouse)

February 2003:

– Conclusion of License-out Agreement for Prulifloxacin, a new quinolone antibacterial agent, in South Korea

December 2002:

– Conclusion of Distribution Agreement for Trisenox Injection, a remedy for refractory or relapsed acute promyelocytic leukemia

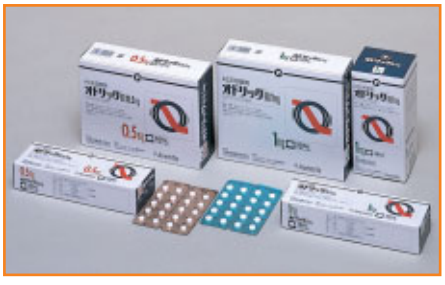
September 2002:

– Conclusion of License-out Agreement for HMN-214, an anticancer drug, in the worldwide territory except Japan and Asia

– Conclusion of License-out Agreement for *Gaslon N*®, a remedy for gastric ulcer and gastritis, in South Korea

August 2002:

– Conclusion of Distribution Agreement for *Odric*® *0.5mg Tablets* and *Odric*® *1mg Tablets*, an ACE inhibitor



Odric®

– Conclusion of License-in Agreement for NS-7201, a remedy for interstitial cystitis

New Products and Additional Indications

December 2002:

– Launch of *SWORD*® *TABLETS100* (Prulifloxacin) from Meiji Seika Kaisha, Ltd.

November 2002:

– Approval of additional indication of malignant lymphoma for *Cylocide*® *N Injection*, a remedy for acute leukemia

October 2002:

– Approval of new quinolone antibacterial agent, Prulifloxacin in Japan

August 2002:

– Launch of *Azunol*® *Gargle 4%*, a new mouthwash agent

Azunol® *Gargle 4%*

Certifications and Awards

December 2002:

– Acquisition of ISO14001 certification for the Synthesis Factory and Foodstuffs Factory at the Chitose Create Park

ISO14001
JAB
EMS Accreditation
RE001
KHK
ISO 14000
02ER-283

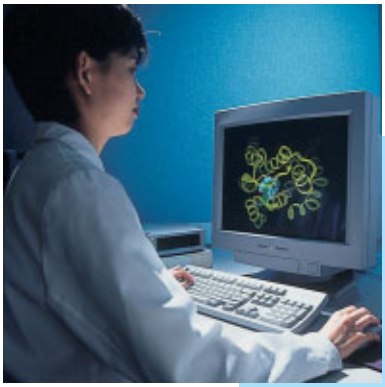
Odawara Central Factory

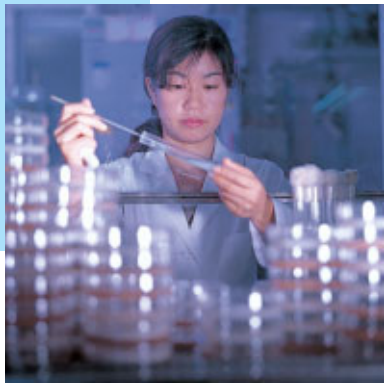
November 2002:

– Odawara Central Factory wins Nikkei Superior Trend-Setting Factories and Offices Awards

Drug Development Policy

Along with the rapid progress in clarification of mechanisms underlying diseases at the gene level, prevention and therapeutics are now expected even for diseases whose causes are unclear, and for which therapeutics were considered difficult. Nippon Shinyaku is conducting research and development activities by incorporating excellent expertise for new drug development obtained in various therapeutic fields and new scientific knowledge and technology. Now that the sequencing of the human genome has been completed and drug development based on utilizing genomic information has begun, the development has been aimed at substantial therapeutics and prevention of the onset of diseases. Nippon Shinyaku is also taking on this challenge, primarily through research conducted at the Discovery Research Laboratories in Tsukuba City, Ibaraki Prefecture, in collaboration with external partners, to prepare and maintain basic technology and to introduce leading-edge technology. Research and development activities have been focused on urology, and also on other therapeutic fields including inflammation and allergies and hematologic malignancies. In these fields, we have targeted diseases for which more effective therapeutic drugs are desired. For originally developed products, clinical studies in overseas countries are being promoted to achieve rapid development and approval.





Results of Activities

Steady progress has been achieved in drugs that are in the clinical development phase. HMN-214, an agent for solid cancer, is being developed under Phase I clinical studies using a clinical research organization (CRO) in the U.S.A., while a licensing agreement has been signed with IDEC Pharmaceuticals Corp., and full-scale clinical development is about to begin overseas. New indications are being added to products currently on the market and new formulations are being developed in response to the requirements of patients and medical personnel. One outcome is the approval of additional indication of malignant lymphomas for cytarabine, an essential drug for treatment of hematologic malignancies.

The search for the next phase of development candidates is well underway, and the license agreements have been concluded to introduce NS-7201, a therapeutic agent for interstitial cystitis, Trisenox, for treating relapsed or refractory acute promyelocytic leukemia, TRK-091, an oral sustained-release analgesic, and NS-11 (acamprosate), for treating alcohol dependence. A distribution agreement has also been concluded for Odric®, an anti-hypertensive drug, and it is now on the market.

In basic research, a spontaneous IgA nephropathy animal model (HIGA mouse), which Nippon Shinyaku developed in cooperation with the Faculty of Medicine, Kyoto University, was launched on the market by Japan SLC Inc. in March 2003. Because the progress of symptoms in the HIGA mouse is very similar to that of human IgA nephropathy, this animal is expected to be useful for researchers in clarifying the mechanisms underlying the occurrence of IgA nephropathy and in studying therapeutics for this disease.

Drug Development Organization and Function

•Domestic Activities

Nippon Shinyaku has a research and development team with a staff of approximately 450 funded by an R&D budget of ¥7.9 billion, or 15% of fiscal 2002 net sales on a consolidated basis. In addition to promoting research and development of new drugs quickly through collaboration between our two research laboratories in Kyoto and Tsukuba and to expanding product pipelines through license-in activities, we aim to utilize genome data by investigating the structure and function of specific proteins in creating new drugs.

Nippon Shinyaku's main research and development activities are conducted in the Kyoto area, where the Company has the Discovery Research Laboratories and the Development Research Laboratories. The laboratories carry out a wide range of research based on the Company's basic drug discovery policies, including searching for and synthesizing new compounds, and conducting pharmacological and toxicity studies. They have succeeded in producing a constant stream of new drug candidates that have subsequently been taken to the clinical stage.

Nippon Shinyaku continues to progress research, with a view to improving existing products in response to the needs of medical professionals, and to finding applications in the development of new pharmaceuticals for the Company's own unique formulation technology. Particularly in relation to pharmaceutical formulation, the Company is striving to achieve further technological improvements using the twin-screw extruder, which makes it possible to simultaneously control mechanical pressure and heating operations, by establishing new formulation technologies for inclusion compounds, wax matrixes, and solid dispersion that do not use organic solvents, and by developing rotary disk extruder technologies as a new manufacturing method for solid dispersion.

In the Discovery Research Laboratories in Tsukuba, new seed compounds are researched by identifying target genes and proteins using technologies including DNA microarray techniques, in combination with high throughput screening (HTS) and combinatorial chemistry.

As part of its efforts to discover new drugs through collaboration with external partners in genomic research, Nippon Shinyaku has taken part in forming a consortium of 22 major pharmaceutical companies, called the Pharmaceutical Consortium for Protein Structure Analysis. The members have jointly funded the construction of a Super Photon Ring 8 GeV beamline, which will permit the detailed analysis of the structure of proteins. We also joined in founding the Reverse Proteomics Research Institute in 2001. This institute, which began operation in 2002, focuses on analysis and evaluation of the interaction between proteins derived from human full-length cDNA and commonly used low molecular weight pharmaceuticals that have been selected for drug development study. Drug development utilizing genomic information will be further promoted through this institute's research.

•International Activities

Nippon Shinyaku has been collecting information on newly-developed drugs and on advanced technology that promises to be of use in our own development of new drugs from major pharmaceutical companies, venture companies and research institutes possessing cutting-edge technology in Western countries. This information is collected by our office in Düsseldorf, Germany, as well as through NS Pharma, Inc., our subsidiary in the U.S.A. The office and the subsidiary are bases for development in Europe and the U.S.A., and play essential roles in clinical trials operated

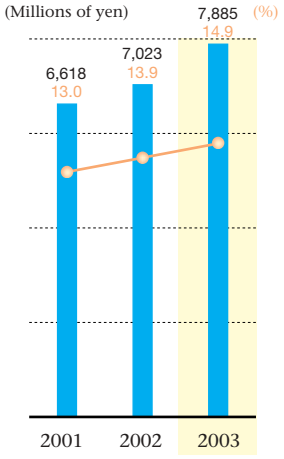
The Düsseldorf Office

NS Pharma, Inc. in New Jersey

exclusively by Nippon Shinyaku in cooperation with CROs for rapid drug development.

As for products licensed out to overseas pharmaceutical companies, IDEC Pharmaceuticals Corp., to whom we have licensed out the anticancer agent, HMN-214, is set to begin full-fledged development soon. Angelini ACRAF S.p.A. of Italy is expected to receive official approval in the near future of its newly developed quinolone antibacterial agent, prulifloxacin. Once approved in Italy, the application for approval will be immediately processed in other European countries. The product has also been licensed out to Yuhan Corporation in South Korea, and clinical trials will commence shortly. *Gaslon N*®, an agent for gastric ulcer and gastritis already on sale in Japan, has been licensed out to Taejoon Pharmaceutical Co., also of South Korea, and development is progressing.

Consolidated R&D Expenses Ratio to Net Sales



Drugs under Development

Nippon Shinyaku's R&D pipeline now has three drugs that are in the pre-registration stage, two under Phase III, three under Phase II, two under Phase I clinical studies, and three in the stage preparatory to clinical studies. Among these drugs, 4 were created exclusively in our research laboratories. If the development of these drugs proceeds smoothly, it is expected that the items will be new principal drugs in Nippon Shinyaku's lineup over the next decade. We aim to launch at least one new drug per year, and are continuing development of these products and their successors.

In the urology area, where Nippon Shinyaku has a strong reputation, "*Urespan*®" (NS-21, temiverine hydrochloride), an agent for pollakiuria and urge incontinence, has been in the pre-registration stage in Japan, and clinical studies have been conducted overseas using CROs.

NS-8, an agent for pollakiuria and urinary incontinence, which exhibits bladder-selective activation of Ca^{2+}-sensitive K^+-channel, is in Phase I clinical study in Japan, whereas Phase II (Proof of Concept) trial has already been conducted overseas, and full global development should soon be started. Clinical trials of NS-7201, a newly licensed-in agent from Seikagaku Corp. for interstitial cystitis, which is a refractory inflammatory disease of the bladder, are scheduled to commence soon.

In the inflammation and allergy areas, clinical studies on a COXII selective anti-inflammation drug, "*Hypen*®" (generic name; etodolac) are now being conducted, aiming at an additional indication of temporomandibular arthrosis in the field of dental medications.

An oral non-narcotic analgesic, NS-315, for treatment of cancer and post-operative pains (generic name: tramadol hydrochloride), is in Phase III trials, and TRK-091, a sustained release tramadol hydrochloride preparation licensed-in from Toray Industries Inc. in March 2003, is in Phase II trials for its indications of chronic pain in the orthopedics field. NS-126, an inhalation steroid agent that is expected to be effective with once-a-day administration, is in Phase II clinical studies for bronchial asthma and allergic rhinitis.

In the field of anticancer drugs, new anticancer agents are being developed actively as successors to Estracyt, for the treatment of prostatic cancer, and cytarabine (*Cylocide*®, *Cylocide*® *N Injection*), for the treatment of leukemia, malignant lymphoma and solid carcinoma. In the United States, HMN-214, an orally active anticancer agent, is in Phase I clinical studies. In addition, Phase I clinical study on NS-9, an agent for liver cancer, has also started. NS-9 is a complex ("lipoplex") of RNA duplex consisting of poly (I): poly (C),

which is a synthetic nucleic acid polymer, and new cationic liposome, and it is a formulation using an efficient drug delivery system that has a high accumulation of active ingredient in the liver. NS-9 exhibits excellent anti-tumor effect by selectively delivering poly (I): poly (C) to cancer cells.

In the field of hematologic malignancies, a registration application has been filed for *Tamibaro*® (tamibarotene), a treatment for acute promyelocytic leukemia, and for Trisenox (licensed-in from Cell Therapeutics Inc.), which targets refractory or relapsed acute promyelocytic leukemia, and early approval of these drugs is expected. Phase I clinical study of NS-101, a treatment for neoplastic meningitis, is also scheduled to commence soon.

In other therapeutic fields, NS-11 (acamprosate), a newly licensed-in agent from Merck Sante S.A.S., is currently being prepared for start of clinical trials for the treatment of alcohol dependence.

◆R&D compounds

(As of July 31, 2003)

< Domestic >

Stage	Product name / Code No. (Generic name)	Therapeutic field	Indications	Development
Pre-registration	Urespan (temiverine hydrochloride)	urological	pollakisuria and urge incontinence	original
Pre-registration	Tamibaro (tamibarotene)	chemotherapeutics	acute promyelocytic leukemia	licensed-in from Toko Pharmaceutical Ind. Co., Ltd.
Pre-registration	Trisenox (arsenic trioxide)	chemotherapeutics	refractory / relapsed acute promyelocytic leukemia	licensed-in from Cell Therapeutics Inc.

Stage	Code No. (Generic name)	Therapeutic field	Indications	Development
Phase III	RAK-591 (etodolac)	inflammation / allergy	temporomandibular arthrosis (new indication)	licensed-in from Wyeth
Phase III	NS-315 (tramadol hydrochloride)	inflammation / allergy	non-narcotic analgesic (postoperative and cancer pain)	licensed-in from Grünenthal
Phase II	TRK-091 (tramadol hydrochloride SR)	inflammation / allergy	non-narcotic analgesic (low back pain)	co-developed with Toray Industries. Inc.
Phase II	NS-126	inflammation / allergy	allegric rhinitis bronchial asthma	co-developed with SS Pharma
Phase I	NS-8	urological	pollakisuria and urge incontinence	original
Preparation for clinical study	NS-7201 (sodium hyaluronate)	urological	interstitial cystitis	co-developed with Seikagaku Corporation
Preparation for Phase I	NS-101 (cytarabine)	chemotherapeutics	neoplastic meningitis	licensed-in from SkyePharma
Preparation for Phase I	NS-11 (acamprosate)		alcohol dependence	licensed-in from Merck Sante S.A.S

< Overseas >

Stage	Code No. (Generic name)	Therapeutic field	Indications	Licensee
Pre-registration	NM441 (prulifloxacin)	chemotherapeutics	bacterial infections	Angelini ACRAF SpA
Phase IIa	NS-8	urological	pollakisuria and urge incontinence	—
Phase I	HMN-214	chemotherapeutics	solid tumor	IDEC Pharmaceuticals Corp.
Phase I	NS-9	chemotherapeutics	hepatic cancer	—

Research and Development in the Foodstuffs Business

Consumer interest in food safety and labeling has risen in the wake of the BSE problem and the label-counterfeiting meat scandal. In the meat processing industry, therefore, more products are being developed that do not use preservatives. Nippon Shinyaku has pushed ahead with the development of spice extract preparations in response to the trend. The Company is also actively engaged in developing shelf life expanders under the brand names of *Restol* and *Sutan* for steamed buns and other new foodstuffs.

In the Chitose Foodstuffs Plant, a new manufacturing line for concentrated fruit and vegetable extracts has been installed, and Nippon Shinyaku has commenced production of high quality melon juice and extracts of pumpkin and mushroom.

In the field of health food ingredients, Nippon Shinyaku was adversely affected by the issue of dietary supplements manufactured in China, but had substantial success with OEM products containing our extracts of *ashwagandha* and *akamegashiwa* (Mallotus japonicus). The ultimate result was therefore a growth in the Company's business in this field, and corporate effort is being devoted to further expansion of OEM supply.

Nippon Shinyaku has launched a new product on the market, extract of *Urajirogashi* (Quercus salicina), which is being manufactured by Company subsidiary, Tajima Syokuhin Kogyo Co., Ltd. The Company is also continuing its work on acquiring approval for "Foods for specified Health Use" that use extract of Garcinia cambogia (HCA).

To ensure a stable supply of safe, secure ingredients, Nippon Shinyaku will continue to search its global information network for plant-based ingredients from around the world, and will use its expertise to expand its product lineup of health food ingredients.

Urajirogashi (Quercus salicina)

Board of Directors and Corporate Auditors

As of June 27, 2003

[Photo]

(Front from left)

Chairman
Hiroshi Ichinose

President
Kazuto Hatsuyama

(Back from left)

Managing Director
Naoki Shimidzu

Managing Director
Yoshiaki Asano

Managing Director
Kouzo Kaneki

Managing Director
Hiroshi Satani

Chairman

Hiroshi Ichinose

President

Kazuto Hatsuyama

Managing Directors

Naoki Shimidzu, Ph. D.
(General Manager, Research & Development Division)

Yoshiaki Asano
(General Manager, Functional Food Division)

Kouzo Kaneki
(General Manager, Tokyo Branch Office)

Hiroshi Satani
(General Manager, Marketing Division)

Directors

Kouichi Ushimaru
(General Manager, Production Division)

Nobuyoshi Sumi, Dr. med. vet.
(General Manager, International Business & Resource Procurement Division)

Yoshihisa Shibata, Ph. D.
(General Manager, Regulatory & Post Marketing Surveillance Division)

Takuji Hata
(General Manager, Corporate Strategy Division)

Corporate Auditors

Tadaaki Tsutsumi

Masahiro Kise, Ph. D.

Teruo Tanabe

Kenji Ohishi

Corporate Officers

Seishiro Harano
(General Manager, Finance & Accounting Dept.)

Akira Miura
(General Manager, Human Resources Dept.)

Tetsuya Yonekawa
(General Manager, Odawara Central Factory)

Junichi Yano, Ph. D.
(General Manager, Discovery Research Laboratories)

Kazushige Itabashi
(General Manager, Licensing & Business Development Dept.)

Toshihiko Sagou
(General Manager, Tokyo Business Office)

Hideo Arai
(General Manager, Nagoya Business Office)

Yoshitake Nakazawa
(General Manager, Osaka Business Office)

	Millions of yen					
Years ended March 31	**2003**	2002	2001	2000	1999	1998
Net sales	**¥52,942**	¥50,587	¥50,949	¥49,127	¥48,177	¥46,350
Income before income taxes and minority interest	**4,474**	4,534	6,245	2,721	6,721	3,995
Net income	**2,095**	2,155	3,117	978	2,418	2,073
Amounts per share (in yen and U.S. dollars):						
Net income	**¥29.20**	¥30.68	¥44.37	¥13.93	¥34.42	¥29.51
Cash dividends applicable to the year	**10.00**	10.00	10.00	10.00	10.00	10.00
Total assets	**¥109,549**	¥103,871	¥110,143	¥98,365	¥90,124	¥88,847
Shareholders' equity	**61,614**	61,770	61,788	55,354	49,966	48,301
Investments in plant and equipment	**4,370**	2,959	8,886	3,190	3,020	2,285
R&D expenses	**7,885**	7,023	6,618	6,735	7,078	7,792

Note: U.S. dollar amounts are converted from yen amounts at the rate of U.S.$1=¥120 the approximate exchange rate on March 31, 2003.

Contents

CONSOLIDATED BALANCE SHEETS

March 31, 2003 and 2002	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 1) 2003
Assets			
Current assets:			
Cash and cash equivalents	**¥ 25,910**	¥ 21,879	**$215,917**
Time deposits	**90**	60	**750**
Marketable securities (Note 3)		1,002	
Notes and accounts receivable:			
Trade notes	**1,556**	2,188	**12,967**
Trade accounts	**24,266**	24,291	**202,217**
Other	**180**	541	**1,500**
Allowance for doubtful receivables and sales returns	**(23)**	(60)	**(192)**
Total notes and accounts receivable, net	**25,979**	26,960	**216,492**
Inventories (Note 4)	**8,543**	8,701	**71,192**
Deferred tax assets (Note 10)	**1,550**	1,335	**12,917**
Other current assets	**1,504**	880	**12,532**
Total current assets	**63,576**	60,817	**529,800**
Property, plant and equipment (Note 5):			
Land	**8,800**	5,744	**73,333**
Buildings and structures	**24,899**	24,900	**207,492**
Machinery and equipment	**11,775**	11,430	**98,125**
Tools, furniture and fixtures	**9,550**	9,686	**79,583**
Construction in progress	**33**	204	**275**
Total	**55,057**	51,964	**458,808**
Accumulated depreciation	**(30,056)**	(28,251)	**(250,467)**
Net property, plant and equipment	**25,001**	23,713	**208,341**
Investments and other assets:			
Investment securities (Notes 3 and 5)	**10,416**	11,626	**86,800**
Long-term prepaid expenses	**3,475**	2,109	**28,958**
Deferred tax assets (Note 10)	**4,168**	2,294	**34,734**
Other assets	**2,913**	3,312	**24,275**
Total investments and other assets	**20,972**	19,341	**174,767**
Total	**¥109,549**	¥103,871	**$912,908**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term borrowings (Note 5)	**¥ 4,250**	¥ 4,250	**$ 35,417**
Current portion of long-term debt (Note 5)	**7,087**	70	**59,058**
Notes and accounts payable:			
Trade notes	**402**	573	**3,350**
Trade accounts	**3,118**	2,864	**25,983**
Construction	**336**	1,441	**2,800**
Total notes and accounts payable	**3,856**	4,878	**32,133**
Income taxes payable	**3,127**	255	**26,058**
Accrued expenses	**5,691**	7,165	**47,425**
Deposits from customers	**248**	662	**2,067**
Other current liabilities	**831**	450	**6,925**
Total current liabilities	**25,090**	17,730	**209,083**
Long-term liabilities:			
Long-term debt (Note 5)	**5,748**	7,477	**47,900**
Liability for retirement benefits (Note 6)	**16,934**	16,717	**141,116**
Negative consolidation goodwill	**17**	34	**142**
Total long-term liabilities	**22,699**	24,228	**189,158**
Minority interests	**146**	143	**1,217**
Contingent liabilities (Note 11)			
Shareholders' equity (Notes 7 and 14):			
Common stock, authorized, 200,000,000 shares; issued 70,251,484 shares	**5,174**	5,174	**43,117**
Additional paid-in capital	**4,439**	4,439	**36,992**
Retained earnings	**50,837**	49,492	**423,641**
Unrealized gain on available-for-sale securities	**1,912**	2,676	**15,933**
Foreign currency translation adjustments	**(3)**	4	**(25)**
Treasury stock – at cost, 1,239,255 shares in 2003 and 23,949 shares in 2002	**(745)**	(15)	**(6,208)**
Total shareholders' equity	**61,614**	61,770	**513,450**
Total	**¥109,549**	¥103,871	**$912,908**

Consolidated Statements of Income

Years ended March 31, 2003 and 2002	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 1) 2003
Net sales (Note 15)	**¥52,942**	¥50,587	**$441,183**
Cost and expenses (Note 15):			
Cost of sales	**23,139**	21,176	**192,825**
Selling, general and administrative expenses (Note 8)	**25,534**	26,664	**212,783**
Total	**48,673**	47,840	**405,608**
Operating income (Note 15)	**4,269**	2,747	**35,575**
Other income (expenses):			
Interest and dividend income	**163**	155	**1,358**
Interest expenses	**(182)**	(175)	**(1,517)**
Gain on sales of land	**460**	1,868	**3,833**
Other – net	**(236)**	(61)	**(1,966)**
Other income (expenses) – net	**205**	1,787	**1,708**
Income before income taxes and minority interests	**4,474**	4,534	**37,283**
Income taxes (Note 10):			
Current	**3,854**	1,413	**32,117**
Deferred	**(1,479)**	957	**(12,325)**
Total	**2,375**	2,370	**19,792**
Minority interests	**4**	9	**33**
Net income	**¥ 2,095**	¥ 2,155	**$ 17,458**

	Yen 2003	Yen 2002	U.S. dollars 2003
Amounts per common share (Notes 2.n and 13):			
Basic net income	**¥29.20**	¥30.08	**$0.24**
Diluted net income	**27.80**	28.65	**0.23**
Cash dividends applicable to the year	**10.00**	10.00	**0.08**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended March 31, 2003 and 2002	Thousands	Millions of yen					
	Number of common shares issued	Common stock	Additional paid-in capital	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance at April 1, 2001	70,251	¥5,174	¥4,439	¥48,103	¥ 4,074	¥(2)	
Net income				2,155			
Cash dividends, ¥10.00 per share				(703)			
Bonuses to directors and corporate auditors				(63)			
Net decrease in unrealized gain on available-for-sale securities					(1,398)		
Net increase in foreign currency translation adjustments						6	
Net increase in treasury stock (23,949 shares)							¥ (15)
Balance at March 31, 2002	70,251	5,174	4,439	49,492	2,676	4	(15)
Net income				**2,095**			
Cash dividends, ¥10.00 per share				**(702)**			
Bonuses to directors and corporate auditors				**(48)**			
Net decrease in unrealized gain on available-for-sale securities					**(764)**		
Net decrease in foreign currency translation adjustments						**(7)**	
Net increase in treasury stock (1,215,306 shares)							**(730)**
Balance at March 31, 2003	**70,251**	**¥5,174**	**¥4,439**	**¥50,837**	**¥1,912**	**¥(3)**	**¥(745)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Additional paid-in capital	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2002	$43,117	$36,992	$412,433	$22,300	$ 33	$ (125)
Net income			**17,458**			
Cash dividends, $0.08 per share			**(5,850)**			
Bonuses to directors and corporate auditors			**(400)**			
Net decrease in unrealized gain on available-for-sale securities				**(6,367)**		
Net decrease in foreign currency translation adjustments					**(58)**	
Net increase in treasury stock						**(6,083)**
Balance at March 31, 2003	**$43,117**	**$36,992**	**$423,641**	**$15,933**	**$(25)**	**$(6,208)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2003 and 2002	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 1) 2003
Operating activities:			
Income before income taxes and minority interests	**¥ 4,474**	¥ 4,534	**$ 37,283**
Adjustments for:			
Income taxes – paid	**(982)**	(2,896)	**(8,183)**
Depreciation and amortization	**3,626**	3,673	**30,217**
Gain on sales of property, plant and equipment	**(460)**	(1,876)	**(3,833)**
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable	**1,018**	(458)	**8,483**
Decrease (increase) in inventories	**158**	(36)	**1,317**
Increase in other current assets	**(629)**	(713)	**(5,242)**
Increase (decrease) in notes and accounts payable	**83**	(387)	**692**
Decrease in other current liabilities	**(381)**	(286)	**(3,175)**
Increase (decrease) in liability for retirement benefits	**217**	(410)	**1,808**
Other, net	**(797)**	10	**(6,642)**
Total adjustments	**1,853**	(3,379)	**15,442**
Net cash provided by operating activities	**6,327**	1,155	**52,725**
Investing activities:			
Proceeds from sales of property, plant and equipment	**611**	1,907	**5,092**
Proceeds from redemption of marketable securities	**1,000**	51	**8,333**
Capital expenditures	**(5,459)**	(5,692)	**(45,492)**
Purchases of investment securities	**(419)**	(835)	**(3,491)**
Decrease (increase) in time deposits	**(30)**	4,767	**(250)**
Purchases of software	**(98)**	(794)	**(817)**
Payment of royalty	**(1,675)**		**(13,958)**
Other, net	**(11)**	(129)	**(92)**
Net cash used in investing activities	**(6,081)**	(725)	**(50,675)**
Financing activities:			
Net decrease in short-term bank loans		(42)	
Proceeds from long-term bank loans	**5,350**	30	**44,583**
Repayments of long-term debt	**(70)**	(68)	**(583)**
Cash dividends paid	**(702)**	(702)	**(5,850)**
Increase of treasury stock	**(730)**	(15)	**(6,083)**
Other, net	**(1)**		**(8)**
Net cash provided by (used in) financing activities	**3,847**	(797)	**32,059**
Foreign currency translation adjustments on cash and cash equivalents	**(62)**	17	**(517)**
Net increase (decrease) in cash and cash equivalents	**4,031**	(350)	**33,592**
Cash and cash equivalents, beginning of year	**21,879**	22,229	**182,325**
Cash and cash equivalents, end of year	**¥25,910**	¥21,879	**$215,917**

See notes to consolidated financial statements.

1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2002 financial statements to conform to the classifications used in 2003.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Nippon Shinyaku 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 ¥120 to $1, the approximate rate of exchange at March 31, 2003. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation — The consolidated financial statements include the accounts of the Company and its significant two domestic and one overseas subsidiaries (together, the "Companies"). Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Companies have the ability to exercise significant influence are accounted for by the equity method.

Investment in one unconsolidated subsidiary is stated at cost. If the equity method of accounting had been applied to the investment in this company, the effect on the accompanying consolidated financial statements would not be material.

The difference between the cost of an acquisition and the fair value of the net assets of the acquired subsidiary at the date of acquisition is reported as negative consolidation goodwill in the accompanying consolidated balance sheets and is being amortized over a period of five years beginning April 1999.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies is 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 and money management funds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

c. Marketable and Investment Securities — Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

i) held-to-maturity debt securities, which management has the positive intent and ability to hold to maturity, are reported at amortized cost and ii) available-for-sale securities, which are those securities not classified as held-to-maturity securities, are reported at fair value, with unrealized gains and losses, net of applicable

taxes, reported as a separate component of shareholders' equity. Realized gains and losses on available-for-sale securities are included in earnings and are calculated by using the moving-average method to determine the cost of securities sold. All other securities are stated at cost, cost being determined principally by the moving-average method. Write-downs are recorded in earnings for securities with a significant decline in value that is considered to be other than temporary.

d. Inventories — Inventories are stated principally at cost determined by the average method.

e. Property, Plant and Equipment — Property, plant and equipment are stated at cost. Depreciation is principally computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1999. The range of useful lives is principally from 15 to 50 years for buildings and structures, from 7 to 9 years for machinery and equipment, and from 4 to 6 years for tools, furniture and fixtures.

f. Retirement and Pension Plans — The Company has non-contributory and contributory defined benefit pension plans and unfunded retirement benefit plan for employees. Consolidated domestic subsidiaries have unfunded retirement benefit plans.

Effective April 1, 2000, the Companies adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. The transitional credit of ¥845 million determined as of April 1, 2000 is being amortized over five years.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if such individuals were to retire at the balance sheet date.

g. Allowance for Doubtful Accounts — The allowance for doubtful accounts is stated at an amount considered to be appropriate based on the Companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

h. Leases — All leases, except those of the overseas subsidiary, are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that are deemed to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated financial statements.

i. 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.

j. Appropriations of Retained Earnings — Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders' approval.

k. Foreign Currency Transactions — All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statement of income to the extent that they are not hedged by forward exchange contracts.

l. Foreign Currency Financial Statements — The balance sheet accounts and revenue and expense accounts of the consolidated overseas subsidiary are translated into Japanese yen at the current exchange rates as of the balance sheet date except for shareholders' equity, which is translated at historical rates. Differences arising from such translation are reported as a separate component of shareholders' equity.

m. Derivative Financial Instruments — The Company uses foreign currency forward contracts as a means of hedging exposure to foreign currency risks related to the procurement of merchandise from overseas suppliers. The Company does not enter into derivatives for trading or speculative purposes. All derivative financial instruments are used for hedging purposes that qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, which are deferred until maturity of the hedged transactions.

n. Per Share Information — Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax. Basic net income and diluted net income per share for the years ended March 31, 2003 and 2002 are computed in accordance with the new standard.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
March 31	**2003**	2002	**2003**
Current:			
Government and corporate bonds		¥ 1,002	
Non-current:			
Equity securities	**¥ 6,706**	¥ 8,110	**$55,883**
Government and corporate bonds	**3,410**	3,216	**28,417**
Trust fund investments	**300**	300	**2,500**
Total	**¥10,416**	¥11,626	**$86,800**

Information regarding each category of securities classified as available-for-sale and held-to-maturity at March 31, 2003 and 2002 were as follows:

	Millions of yen			
March 31, 2003	Cost	Unrealized gain	Unrealized loss	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥3,009	¥3,351	¥112	¥6,248
Debt securities	5	1		6
Held-to-maturity	3,404	57		3,461

	Millions of yen			
March 31, 2002	Cost	Unrealized gain	Unrealized loss	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥3,020	¥4,754	¥144	¥7,630
Debt securities	5	4		9
Held-to-maturity	4,209	51		4,260

	Thousands of U.S. dollars			
March 31, 2003	Cost	Unrealized gain	Unrealized loss	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$25,075	$27,925	$933	$52,067
Debt securities	42	8		50
Held-to-maturity	28,367	475		28,842

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2003 and 2002 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
March 31	**2003**	2002	**2003**
Available-for-sale:			
Equity securities	**¥458**	¥480	**$3,816**
Trust fund investments	**300**	300	**2,500**
Total	**¥758**	¥780	**$6,316**

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars	
March 31, 2003	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Due after one year through five years	¥306	¥3,404	$2,550	$28,367

4. INVENTORIES

Inventories at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
March 31	**2003**	2002	**2003**
Finished products and merchandise	**¥4,335**	¥4,508	**$36,142**
Work in process	**1,601**	1,482	**13,367**
Raw materials	**2,607**	2,711	**21,683**
Total	**¥8,543**	¥8,701	**$71,192**

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings consisted principally of bank overdrafts, due within one year.

The weighted average annual interest rates for short-term bank loans at March 31, 2003 and 2002 were 0.71% and 0.72%, respectively.

Short-term borrowings at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
March 31	**2003**	2002	**2003**
Loans from banks, 0.59% to 1.375% (2003) and 0.6% to 1.375% (2002)	**¥4,000**	¥4,000	**$33,333**
Loans from other financial institutions, 1.375%	**250**	250	**2,084**
Total	**¥4,250**	¥4,250	**$35,417**

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
March 31	**2003**	2002	**2003**
Unsecured 1.6% yen convertible bonds, due March 2004	**¥7,000**	¥7,000	**$ 58,333**
Loan from a financial institution, 0.9% to 2.3% (2003) and 0.9% to 2.3% (2002), due August 2010	**5,827**	547	**48,558**
Capital lease obligations	**8**		**67**
Total	**12,835**	7,547	**106,958**
Less current portion	**(7,087)**	(70)	**(59,058)**
Long-term debt, less current portion	**¥5,748**	¥7,477	**$ 47,900**

Annual maturities of long-term debt at March 31, 2003 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥ 7,087	$ 59,058
2005	1,139	9,492
2006	1,139	9,492
2007	1,137	9,475
2008	1,137	9,475
2009 and thereafter	1,196	9,966
Total	¥12,835	$ 106,958

At March 31, 2003, the following assets were pledged as collateral for certain short-term borrowings and long-term debt (including current portion):

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, net of accumulated depreciation	¥7,655	$63,792
Investment securities	37	308
Total	¥7,692	$64,100
Related liabilities:		
Short-term borrowings	¥3,680	$30,667
Current portion of long-term debt	¥ 85	$ 708
Long-term debt (excluding current portion)	¥5,092	$42,433

The 1.6% unsecured convertible bonds outstanding at March 31, 2003 were convertible into 5,769 thousand shares at the conversion price of ¥1,213.3 per share, subject to antidilutive provisions.

The 1.6% unsecured convertible bonds also provide that, so long as any of such bonds are outstanding, the aggregate amount of payments for cash dividends may not exceed ¥5,500 million plus the cumulative amount of the ordinary income and losses (as defined in the Regulation relating to Financial Statements) less income taxes of the Company subsequent to March 31, 1995.

6. RETIREMENT BENEFITS

Employees of the Company and domestic subsidiaries terminating their employment are entitled to lump-sum severance payments based on the rate of pay at the time of termination, length of service and certain other factors. If the termination is involuntary or caused by death, the employees are entitled to greater payments than in the case of voluntary termination.

The Company has non-contributory and contributory trusteed pension plans which fund a portion of the Company's retirement benefits. The contributory funded defined benefit pension plan, which is established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the Company.

According to the enactment of the Defined Benefit Pension Plan Law in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion of the plan mentioned above. Such Law would permit the Company to account for as follows: a) to recognize a gain resulting from the decrease of the related pension obligations and the transfer of the related plan assets on the date of actual transfer of the plan assets to the government; or b) to recognize such gain on the date of obtaining approval of exemption (before the actual transfer of the related plan assets to the government) on the Company' book. The latter accounting would require the remaining accounting treatment on the date of the actual transfer of the related plan assets to the government.

The Company obtained an approval of exemption from future obligation by the Ministry of Health, Labor and Welfare on February 25, 2003 and adopted the accounting of a) mentioned above for the year ended March 31, 2003.

The Company estimated a gain on such exemption and the effect would increase income before income taxes and minority interests by ¥2,547 million ($21,225 thousand) for the year ended March 31, 2003.

The liability for employees' retirement benefits at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
March 31	**2003**	2002	**2003**
Projected benefit obligation	**¥31,217**	¥31,072	**$260,141**
Fair value of plan assets	**(10,484)**	(10,991)	**(87,367)**
Unrecognized actuarial loss	**(6,561)**	(5,178)	**(54,675)**
Unrecognized transitional credit	**338**	507	**2,817**
Unrecognized prior service cost	**1,736**	766	**14,467**
Prepaid pension cost	**407**	299	**3,391**
Net liability	**¥16,653**	¥16,475	**$138,774**

The components of net periodic benefit costs for the years ended March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
March 31	**2003**	2002	**2003**
Service cost	**¥1,591**	¥1,689	**$13,258**
Interest cost	**773**	846	**6,442**
Expected return on plan assets	**(603)**	(581)	**(5,025)**
Amortization of transitional credit	**(169)**	(169)	**(1,408)**
Recognized actuarial loss	**351**	108	**2,925**
Amortization of prior service cost	**(51)**		**(425)**
Net periodic benefit costs	**¥1,892**	¥1,893	**$15,767**

Assumptions used for the years ended March 31, 2003 and 2002 are set forth as follows:

	2003	2002
Discount rate	**2.5%**	2.5%
Expected rate of return on plan assets	**5.5%**	5.5%
Recognition period of actuarial gain / loss	**15 years**	15 years
Amortization period of transitional credit	**5 years**	5 years
Amortization period of prior service cost	**15 years**	15 years

The liability for retirement benefits at March 31, 2003 and 2002 included ¥281 million ($2,342 thousand) and ¥242 million, respectively, for directors' and corporate auditors' retirement benefits.

7. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital (a component of capital surplus). The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equal 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders, meeting.

The amount of retained earnings available for dividends under the Code was ¥47,089 million ($392,408 thousand) as of March 31, 2003, based on the amount recorded in the Company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

At the general shareholders' meeting held on June 27, 2002, the Company's shareholders authorized the Company to repurchase up to 7 million shares of the Company's common stock (aggregate amount of ¥6,000 million) as treasury stock until the closing of the next general shareholders' meeting in accordance with the revised Code. The Company repurchased 1,022 thousand

shares (aggregate amount of ¥619 million ($5,158 thousand)) of the Company's common stock under this plan for the year ended March 31, 2003. Approval of a successor plan is described in Note 14.

8. RESEARCH AND DEVELOPMENT COSTS

Research and development costs for the years ended March 31, 2003 and 2002 were ¥7,885 million ($65,708 thousand) and ¥7,023 million, respectively. Expenses relating to clinical development of the Company were included in research and development costs effective for the year ended March 31, 2003. Such reclassification increased research and development costs by ¥1,231 million ($10,258 thousand) and had no effects on operation income and income before income taxes and minority interests. Retroactive adjustments have not been made for the year ended March 31, 2002.

9. LEASES

The Companies lease certain vehicles, computer equipment, office space and other assets.

Total rental expenses for the years ended March 31, 2003 and 2002 were ¥1,230 million ($10,250 thousand) and ¥1,187 million, respectively, including ¥24 million ($200 thousand) and ¥21 million of lease payments under finance leases, respectively.

Pro forma information of leased property under 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, 2003 and 2002 was as follows:

Machinery, equipment and vehicles, and tools, furniture and fixtures:

	Millions of yen		Thousands of U.S. dollars
March 31	**2003**	2002	**2003**
Acquisition cost	**¥118**	¥108	**$983**
Accumulated depreciation	**54**	55	**450**
Net leased property	**¥ 64**	¥ 53	**$533**

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
March 31	**2003**	2002	**2003**
Due within one year	**¥22**	¥16	**$183**
Due after one year	**42**	37	**350**
Total	**¥64**	¥53	**$533**

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method was ¥24 million ($200 thousand) and ¥21 million for the years ended March 31, 2003 and 2002, respectively.

The minimum rental commitments under non-cancelable operating leases at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
March 31	**2003**	2002	**2003**
Due within one year	**¥10**	¥4	**$ 83**
Due after one year	**36**		**300**
Total	**¥46**	¥4	**$383**

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes. The overseas subsidiary is subject to income tax of the country in which it operates.

On March 31, 2003, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from 42% to 41%, effective for years beginning April 1, 2004. The effect of this change was to decrease deferred tax assets by ¥101 million ($842 thousand) (the amount after deducting deferred tax liabilities), and increase unrealized gain on available-for-sale securities by ¥32 million ($267 thousand) on the consolidated balance sheet as of March 31, 2003. The effect of this change on deferred taxes in the consolidated statement of income for the year ended March 31, 2003 was ¥133 million ($1,108 thousand).

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Deferred Tax Assets:			
Retirement benefits	**¥5,920**	¥4,659	**$49,333**
Accrued expenses	**887**	757	**7,392**
Property, plant and equipment	**185**	199	**1,542**
Other	**1,169**	891	**9,741**
Deferred tax assets	**¥8,161**	¥6,506	**$68,008**
Deferred Tax Liabilities:			
Unrealized gain on available-for-sale securities	**1,328**	1,938	**11,067**
Deferred gains on sales of property	**982**	865	**8,183**
Other	**133**	74	**1,108**
Deferred tax liabilities	**2,443**	2,877	**20,358**
Net deferred tax assets	**¥5,718**	¥3,629	**$47,650**

A reconciliation between the normal effective statutory tax rates for the years ended March 31, 2003 and 2002 and the actual effective tax rates reflected in the accompanying consolidated statements of income is as follows:

	Year ended March 31,	
	2003	2002
Normal effective statutory tax rate	**42.0%**	42.0%
Expenses not deductible for income tax purposes	**8.9**	9.6
Income not taxable for income tax purposes	**(0.6)**	(0.6)
Effect of tax rate reduction	**3.0**	
Other – net	**(0.2)**	1.3
Actual effective tax rate	**53.1%**	52.3%

11. CONTINGENT LIABILITIES

At March 31, 2003, contingent liabilities were ¥994 million ($8,283 thousand) of loans guaranteed (jointly guaranteed with six unrelated companies) and ¥7 million ($58 thousand) of export bill receivable discounted.

12. DERIVATIVES

The Company has no internal policies which regulate derivative transactions, since the Company's derivative transactions are specific foreign exchange forward contracts. However, it is the Company's basic practice not to use derivatives for trading or speculative purposes. The Company has entered into foreign exchange forward contracts to hedge foreign exchange risk specifically associated with imported merchandise, as requested by customers. Such derivative transactions are entered into to hedge foreign currency exposures incorporated within the Company's business.

Because the counterparties to these derivatives are limited to major financial institutions, the Company does not anticipate any losses arising from credit risk.

Forward exchange contracted amounts which are assigned to associated liabilities and are reflected in the consolidated balance sheets at year-end are not subject to the disclosure of market value information.

13. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2003 and 2002 is as follows:

	Yen in millions	Thousands of shares	Yen	Dollars
	Net income	Weighted average shares	EPS	
For the year ended March 31, 2003:				
Basic EPS				
Net income available to common shareholders	**¥2,039**	**69,865**	**¥29.20**	**$0.24**
Effect of Dilutive Securities				
Convertible bonds	**65**	**5,769**		
Diluted EPS				
Net income for computation	**¥2,105**	**75,634**	**¥27.80**	**$0.23**
For the year ended March 31, 2002:				
Basic EPS				
Net income available to common shareholders	¥2,113	70,244	¥30.08	
Effect of Dilutive Securities				
Convertible bonds	65	5,769		
Diluted EPS				
Net income for computation	¥2,178	76,013	¥28.65	

14. SUBSEQUENT EVENTS

At the general shareholders' meeting held on June 27, 2003, the Company's shareholders approved the following:

a. Payment of a year-end cash dividend of ¥5.00 ($0.04) per share to holders of record at March 31, 2003 for a total of ¥345 million ($2,875 thousand).

b. Payment of bonuses to directors and corporate auditors of ¥56 million ($467 thousand).

c. Repurchase of up to 6 million shares of the Company's common stock (aggregate amount of ¥5,000 million ($41,667 thousand)) as treasury stock until the next general shareholders' meeting, for purposes of retirement by charging the repurchase cost to retained earnings.

15. SEGMENT INFORMATION

Information about industry segments of the Companies for the years ended March 31, 2003 and 2002 is as follows:

Industry Segments

a. Sales and Operating Income

	Millions of yen				Thousands of U.S. dollars			
	2003				2003			
	Pharmaceuticals	Foodstuffs	Eliminations/ Corporate	Consolidated	Pharmaceuticals	Foodstuffs	Eliminations/ Corporate	Consolidated
Sales to customers.....	¥44,377	¥8,565		¥52,942	$369,808	$71,375		$441,183
Intersegment sales	4		¥ (4)		33		$(33)	
Total sales	44,381	8,565	(4)	52,942	369,841	71,375	(33)	441,183
Operating expenses.....	40,225	8,452	(4)	48,673	335,208	70,433	(33)	405,608
Operating income	¥ 4,156	¥ 113	¥Nil	¥ 4,269	$ 34,633	$ 942	$Nil	$ 35,575

b. Assets, Depreciation and Capital Expenditures

	Millions of yen				Thousands of U.S. dollars			
	2003				2003			
	Pharmaceuticals	Foodstuffs	Eliminations/ Corporate	Consolidated	Pharmaceuticals	Foodstuffs	Eliminations/ Corporate	Consolidated
Assets.....	¥62,574	¥6,713	¥40,262	¥109,549	$521,450	$55,942	$335,516	$912,908
Depreciation	3,359	267		3,626	27,992	2,225		30,217
Capital expenditures.....	3,978	392		4,370	33,150	3,267		36,417

a. Sales and Operating Income

	Millions of yen			
	2002			
	Pharmaceuticals	Foodstuffs	Eliminations/ Corporate	Consolidated
Sales to customers.....	¥41,897	¥8,690		¥50,587
Intersegment sales	5		¥ (5)	
Total sales	41,902	8,690	(5)	50,587
Operating expenses.....	39,213	8,632	(5)	47,840
Operating income	¥ 2,689	¥ 58	¥Nil	¥ 2,747

b. Assets, Depreciation and Capital Expenditures

	Millions of yen			
	2002			
	Pharmaceuticals	Foodstuffs	Eliminations/ Corporate	Consolidated
Assets.....	¥58,587	¥6,874	¥38,410	¥103,871
Depreciation	3,444	229		3,673
Capital expenditures.....	2,700	259		2,959

INDEPENDENT AUDITORS' REPORT

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Deloitte Touche Tohmatsu

To the Board of Directors and Shareholders of
Nippon Shinyaku Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Nippon Shinyaku Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Shinyaku Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 27, 2003

Corporate Directory

Founded
October 1919

Date of Incorporation
September 1919

Paid-in Capital
¥5,174 million

Issued and Outstanding Number of Shares
70,251,484

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Nippon Life Insurance Company
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The Kyoto Bank, Limited
The Mitsubishi Trust and Banking Corporation
The Master Trust Bank of Japan, Limited
The Tokio Marine and Fire Insurance Company, Limited
Mitsubishi Corporation
The Daiichi Mutual Life Insurance Company
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(As of March 31, 2003)

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(As of July 2003)

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