



ANNUAL REPORT 2005

Nippon Shinyaku

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 and for hematologic malignancies. 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., in New Jersey, are engaged in the promotion of clinical studies and the collection of pharmaceutical and medical 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 at the pharmaceutical industry 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.



Kyoto Headquarters

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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

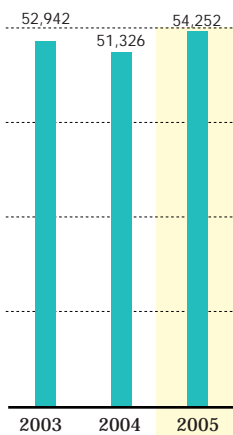
Years ended March 31, 2005 and 2004	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
Net sales	¥ 54,252	¥ 51,326	\$507,028
Income before income taxes and minority interests	9,630	3,262	90,000
Net income	5,639	1,536	52,701
Amounts per share (in yen and U.S. dollars):			
Net income	¥ 81.22	¥ 21.50	\$ 0.76
Shareholders' equity (Note 1)	1,025.26	949.86	9.58
Total assets	¥ 98,910	¥104,008	\$924,393
Shareholders' equity	70,010	65,396	654,299
Investments in plant and equipment	1,745	1,829	16,308
R&D expenses	8,479	8,263	79,243

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=¥107, the approximate exchange rate on March 31, 2005.

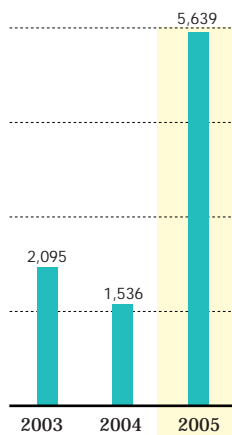
Consolidated Net Sales

(Millions of yen)



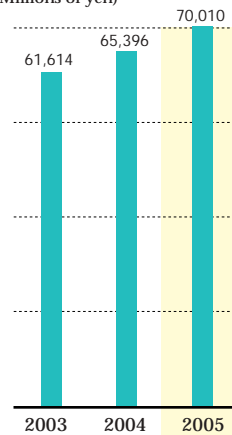
Consolidated Net Income

(Millions of yen)



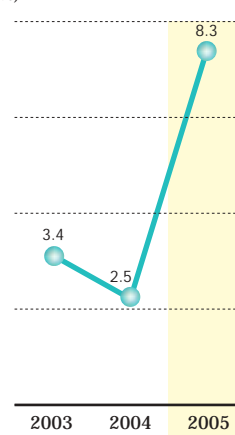
Consolidated Shareholders' Equity

(Millions of yen)



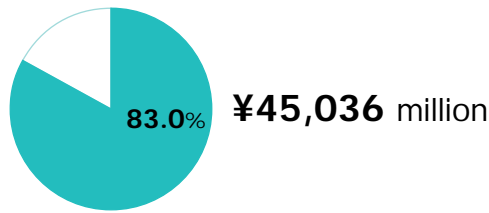
Consolidated Return on Average Equity

(%)

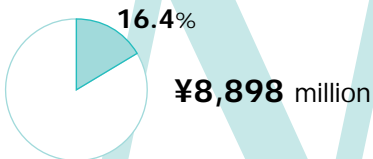


At a Glance

Pharmaceuticals



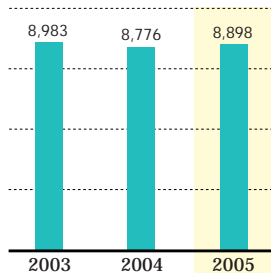
Nervous and Respiratory Drugs



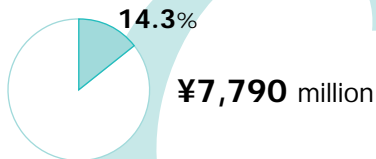
◆ Main Products

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

◆ Sales (Millions of yen)



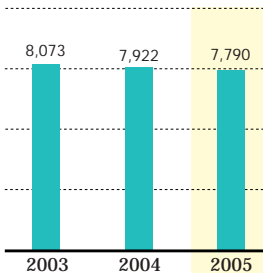
Cardiovascular and Metabolic Drugs



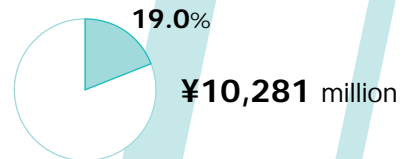
◆ Main Products

- 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

◆ Sales (Millions of yen)



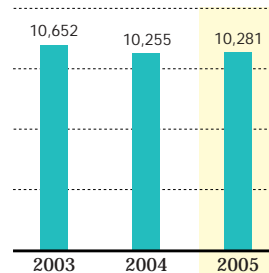
Urological Drugs



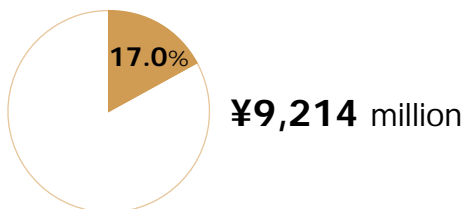
◆ Main Products

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

◆ Sales (Millions of yen)



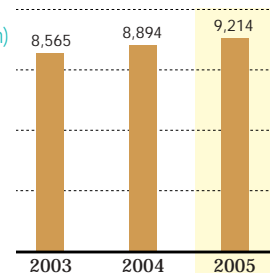
Foodstuffs



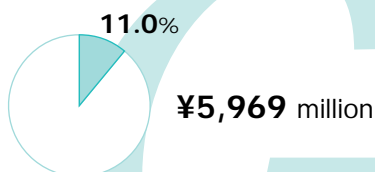
◆ Main Products

- Protein preparations
- Food quality preservatives
- Seasonings & spices
- Health food ingredients

◆ Sales (Millions of yen)



Gastrointestinal Drugs



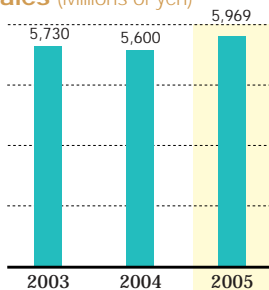
◆ Main Products

Gaslon N[®] (irsogladine maleate)
Remedy for Gastric Ulcer and Gastritis

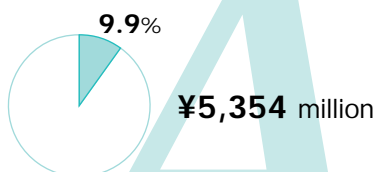
Portolac[®] (lactitol hydrate)
Antihyperammonemia Agent

Azunol[®] Gargle 4%
Mouthwash Agent

◆ Sales (Millions of yen)



Anticancer Drugs



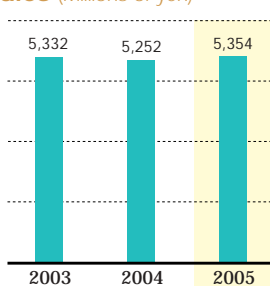
◆ Main Products

Cylocide[®] (cytarabine)
Remedy for Acute Leukemia and Solid Cancer

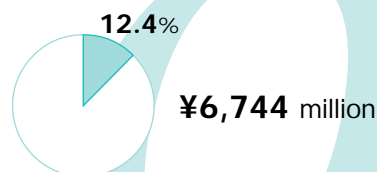
Cylocide[®]N (cytarabine)
Remedy for Acute Leukemia
– Induction therapy for relapse and refractory cases
– Consolidation therapy
Remedy for Malignant Lymphoma

Estracyt[®] (estramustine sodium phosphate)
Remedy for Prostatic Cancer

◆ Sales (Millions of yen)



Others

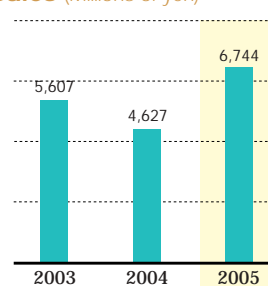


◆ Main Products

Livostin[®] Nasal Spray
(levocabastine hydrochloride)
Remedy for Allergic Rhinitis

Livostin[®] Eye Drops
(levocabastine hydrochloride)
Remedy for Allergic Conjunctivitis

◆ Sales (Millions of yen)



Urajirogashi (*Quercus salicina*)



Akamegashiwa (*Mallotus Japonicus*)

Message from the President



Kazuto Hatsuyama
President

The Japanese population is aging rapidly, prompting debate over how to manage the various social security systems in the future, including pensions, national health insurance, and long-term care insurance. With regard to health and health care that is a major concern for the elderly, the general public is particularly interested in how public finances for healthcare systems will be managed over the long term. Resolving such issues poses a major challenge for the government.

At the same time, the pharmaceutical industry is being pressured to globalize its operations and expands its drug pipeline. Each pharmaceutical company is highly committed to reinforce the operating base through the focus on the development of new products, which meet the global standard employing various strategies.

The pharmaceutical industry is clearly continuing to develop, and I expect to see sustained market growth as companies meet diverse medical needs concerning Quality of Life (QOL), such as enabling longer but healthy lives, supporting healthy lifestyles, and maintaining physiological functions.

Under these circumstances, we believe that the enrichment of our drug development pipeline which aligns with the needs of the medical community and the sustained sales growth and earnings growth through the launch of excellent products are our main management purpose for the future development and expansion of Nippon Shinyaku.

The pharmaceutical industry must prove drug efficacy and safety according to global standards. Businesses are therefore being pressured by a substantial increase in spending on research and development. Individual firms may suffer under the weight of high R&D spending if such product development efforts end in failure. We are working to share such risks through partnerships, industry-government-academia collaborations, and alliances with other business sectors. In this way, we are managing our R&D division to minimize risks if development projects end in failure.

Furthermore, not only are we engaged in the development of innovative new drugs, but we are also devoted to the development of useful products with improved formulation that satisfy the needs of the medical community, are easier to take and have fewer side effects in order to enhance our product value and extend their lifecycles.

For the past several years, Nippon Shinyaku followed the R&D policy featuring five themes. 1) development of innovative new drugs through in-house drug discovery, 2) development of new drugs through in-licensing, 3) development of improved new drugs through the modification of existing active ingredients, 4) additional indications to the Company's own products, and 5) improvement of the formulations of the Company's products. With this policy in mind, we have carried out versatile R&D activities developing useful products with improved formulation along with the development of innovative new drugs.

As a result of these efforts, we have recently launched a series of new products—including a therapeutic agent for refractory/relapsed hematologic malignancies, a smaller tablet formulation for diabetes easy to be swallowed by patients, and a convenient portable gargle—that have contributed to sales growth. We intend to maintain the pace of at least one new product launch each year. In terms of new drug development, we are running large-scale clinical trials to develop drugs for overactive bladder—an area of expertise for our Company—and are also making steady progress in other areas of development, including the start of Phase II clinical trials of a drug to treat neoplastic meningitis in the key field of hematologic malignancies on which we focus the most and a drug to treat alcohol dependence, a medical problem that has wider social implications beyond the affected individual. We also look forward to further progress of the development of a product for dyslipidemia, which is already undergoing full-fledged development by our partner F. Hoffmann-La Roche Ltd. of Switzerland. If successful, this drug could become a major strategic product for Nippon Shinyaku on the global market.

In the functional food business, we are achieving steady growth in health foods and added ingredients used at the food processing stage and look for further business growth in the future.

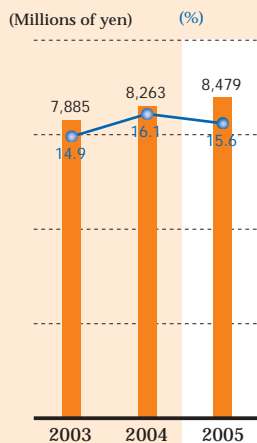
At Nippon Shinyaku, our goal is to develop superior new drugs and to engage in the cutting-edge research

necessary in this day and age, by continuing to display the innovative, entrepreneurial spirit that has been our driving force since the Company was founded. Unlike the pharmaceutical giants, we aim to contribute to healthcare through the provision of distinctive products and are striving to manage our business such that we gain the trust of the general public and meet the expectations of our shareholders.

Research and Development



Consolidated R&D Expenses Ratio to Net Sales



Drug Development Policy

With the rapid progress in understanding diseases at the gene level, we can now expect to develop therapeutic and preventive agents for conditions previously considered difficult to treat because of a lack of understanding of their cause. As well as utilizing our advanced expertise in drug R&D in various therapeutic fields, we are also adopting new findings and technologies in our R&D activities.

With the decoding of the human genome and the start of genomics-based drug discovery, the focus of drug discovery has shifted to the development of complete cures for diseases and the prevention of disease onset. We are becoming involved in genomics-based drug discovery, primarily through research conducted at the Discovery Research Laboratories in Tsukuba City, Ibaraki Prefecture, as well as via external alliances, in order to adopt cutting-edge technologies and to develop our own technology platforms. We continue to target our R&D in the field of urology, as well as in other fields where there are pressing needs for effective drugs, including inflammation/allergy and hematologic malignancies. We are also actively pursuing clinical studies overseas aimed at the rapid development and approval of drugs.

Results of Activities

Fiscal 2004 was a fruitful year for Nippon Shinyaku, when we invested around ¥8.5 billion, or 16% of total sales, in R&D. In December 2004, we launched Trisenox Injection for refractory/relapsed acute promyelocytic leukemia. We also launched Amnolake Tablets for the same indication

in June 2005. We out-licensed the anticancer agent HMN-214 to IVAX Corporation of the U.S. and concluded a partnership agreement with Optimer Pharmaceuticals, Inc. of the U.S. on the quinolone antibacterial agent prulifloxacin. As for Trisenox Injection, we have agreed to transfer its South Korean rights to Jeil-Kirin Pharmaceutical Inc. Moreover, in order to expand our R&D pipeline, we concluded a co-development agreement with Hisamitsu Pharmaceutical Co., Ltd. for HFT-290, a tape for palliative care of cancer pain, and have begun jointly developing this compound in Phase III.

Additional clinical trial on Urespan for overactive bladder is progressing smoothly, and the centrally acting analgesic NS-315 is under preparation for NDA. As to other compounds, TRK-091 is in Phase II trial, NS-126 is in Phase III trial for allergic rhinitis and in Phase II for bronchial asthma, and NS-9 is in Phase I trial in the US for liver cancer. We have completed Phase I trial on NS-101 (DepoCyt[®]) for neoplastic meningitis and NS-11 (acamprosate) for alcohol dependence. We have also concluded a joint development and sales agreement with Janssen Pharmaceutical K.K. for NS-315 in Japan.

Drug Development Organization and Function

Domestic

Nippon Shinyaku employs about 450 R&D staff. Collaborative efforts by our Kyoto and Tsukuba Research Laboratories for the rapid development of in-house compounds and the promotion of the in-licensing activities have enabled us to build up our pipeline. We are also



*Discovery Research Laboratories in Kyoto
(Bldg. No.2)*



*Discovery Research Laboratories in Kyoto
(Bldg. No.1)*



Discovery Research Laboratories in Tsukuba

strengthening our genomics-based drug discovery research, including investigations into protein structure and function.

At the Discovery Research Laboratories in Kyoto, which are Nippon Shinyaku's main R&D facilities, we are exploring and synthesizing novel compounds in line with our drug discovery strategy, and conducting pharmacological and toxicological studies to generate compounds ready for clinical testing. We are working to improve existing formulations by applying our proprietary drug formulation technologies to new drug development so that we can better meet the needs of the healthcare professionals. We are also striving to improve our drug formulation technologies. We have developed solid dispersion methods that do not require organic solvents and use a twin-screw extruder or a rotary disk extruder. We have also established formulation technologies for wax matrixes and inclusion compounds. We are working on a proprietary ultrahigh-pressure emulsification technology for use with manufactured nanoparticles.

At the Discovery Research Laboratories in Tsukuba, we are engaged in cutting-edge drug discovery research, mainly involving research into genomics and novel nucleic acid drugs using proprietary cationic liposomes. In our research conducted in partnership with external organizations, we have been involved in the construction of the specialized beamline facility SPring-8 and the establishment of a protein structural analysis system through a joint project with 21 major pharmaceutical manufacturers. We are also participating in the Reverse Proteomics Research Institute, which is made up of 11 firms. We

intend to further our genomics-based drug discovery by utilizing the results of this Institute's research, which is aimed at investigating and evaluating the interactions between commonly used low molecular weight pharmaceuticals and proteins derived from human full-length cDNA selected for the purposes of drug discovery research.

International

Nippon Shinyaku is working to collect information on the latest drug development technologies and novel development compounds from overseas pharmaceutical majors, venture firms, and research institutions, via our offices in Düsseldorf, Germany and our U.S. subsidiary NS Pharma, Inc., as well as through our headquarters. These overseas operations also act as clinical development bases in Europe and the U.S., and play an important role in Nippon Shinyaku being able to conduct its own clinical trials using CROs. The Phase I trial on NS-9 for liver cancer are currently being driven by NS Pharma, Inc. in the U.S.

Of our originally created compounds out-licensed to overseas firms, the quinolone antibacterial agent prulifloxacin, developed in Europe by Angelini ACRAF S.p.A., was launched in Italy in November 2004 and we await its launch in various other European countries after approval under the European mutual recognition procedure. Clinical trial on prulifloxacin is also underway in South Korea by our licensee Yuhan Corp. F. Hoffmann-La Roche Ltd. has begun Phase I trials on NS-220 to treat dyslipidemia, while Apogepha Arzneimittel GmbH has conducted Phase I trials on NS-8 to treat overactive bladder.

Research and Development



NS Pharma, Inc. in New Jersey



The Düsseldorf Office

Developments in the Foodstuffs Business

In addition to sales of egg white powder, whey protein concentrate, and vital wheat gluten for the processed food industry, in the year under review we began selling soy protein concentrate and soy protein isolate. Through this move, we have achieved a full lineup of protein products for use in processed food products.

Regarding agents that improve the shelf life of food, we have developed a preservative for the freshness of boiled vegetables used in boxed lunches and other ready-to-eat meals sold in convenience stores and supermarkets. Since fiscal 2003, we have been focusing efforts on preservatives for foods with pH factors ranging from neutral to alkaline, and have continued our efforts to develop new preservatives, such as a fungicide for steamed bread products and an agent for fried eggs.

In the health foods segment, we continue to work towards obtaining approval for the lipid metabolism promoter *Garcinia extract (Garcinia cambogia)* as a “Food for Specified Health Use” (FOSHU). We have conducted clinical

cal trials on extracts of *Akamegashiwa (Mallotus japonicus)* for healthy gastrointestinal functions, *Urajirogashi (Quercus salicina)* to prevent edema and *Kuwaba (Morus alba)* for inhibition of starch and sugar absorption.

In the new field of cosmetics raw materials, we have launched Melon Fruit Water.

Drugs under Development

Our goal at Nippon Shinyaku is to manage our drug development such that we can launch at least one new product each year. Including overseas development compounds, we currently have one compound that has been filed, one compound that is being prepared for filing, three compounds at Phase III, one at Phase II, and six at Phase I. Of these, six compounds were originated at our own research laboratories. If development proceeds according to plan, we expect these compounds to become the next generation of mainstay products for Nippon Shinyaku. The following table shows our pipeline compounds, including details of their development stage and expected indication.



Hideo Nakajima (Clinical Development Dept.)

My work involves the clinical development of new drugs, and my group is currently involved in the development of a new steroid-based treatment for allergic complaints. Nothing would give me greater pleasure than to help speedily get effective new treatments into the hands of people suffering from allergies. My longer-term dream is to take advantage of the progressive global standardization of application procedures for new drug approvals to launch pharmaceuticals — backed by precisely scientific clinical data — that will become important weapons in the fight against disease throughout the whole world.

◆ R&D compounds

(As of July 2005)

< Domestic >

Stage	Product name	Generic name	Therapeutic field	Indications	Development
Pre-registration	Urespan	temiverine hydrochloride	urological	overactive bladder	original

Stage	Code No.	Generic name	Therapeutic field	Indications	Development
Preparation for NDA	NS-315	tramadol hydrochloride	inflammation/allergy	non-narcotic analgesic (postoperative and cancer pain)	licensed-in from Grünenthal GmbH co-developed with Janssen Pharmaceutical
Phase II	TRK-091	tramadol hydrochloride SR	inflammation/allergy	non-narcotic analgesic (low back pain)	co-developed with Toray Industries, Inc.
Phase III Phase II	NS-126		inflammation/allergy	allergic rhinitis bronchial asthma	co-developed with Hisamitsu Pharmaceutical Co., Inc.
Phase III	HFT-290	fentanyl citrate		cancer pain	co-developed with Hisamitsu Pharmaceutical Co., Inc.
Phase I	NS-101	cytarabine	chemotherapeutics	neoplastic meningitis	licensed-in from SkyePharma Inc.
Phase I	NS-8		urological	overactive bladder	original
Phase I	NS-11	acamprosate	Others	alcohol dependence	licensed-in from Merck Sante S.A.S.

< Overseas >

Stage	Code No.	Generic name	Therapeutic field	Indications	Licensee
Launched	NM441	prulifloxacin	chemotherapeutics	bacterial infections	Angelini ACRAF SpA
Phase III					Yuhan Corporation
Preparation for clinical study					Optimer Pharmaceuticals, Inc.
Phase I	NS-8		urological	overactive bladder	Apogepha Arzneimittel GmbH
Phase I	HMN-214		chemotherapeutics	solid tumor	IVAX Corporation
Phase I	NS-9		chemotherapeutics	hepatic cancer	
Phase I	NS-220		cardiovascular	dyslipidemia	F.Hoffmann-La Roche Ltd.

Manufacturing



Odawara Central Factory

Nippon Shinyaku has four manufacturing plants: two pharmaceutical plants — the Chitose Synthesis Plant for the production of drug substances and the Odawara Central Factory for solid formulations and injections — and two plants for production of extracts and other food ingredients — the Chitose Foodstuffs Plant and the Morioka Factory.

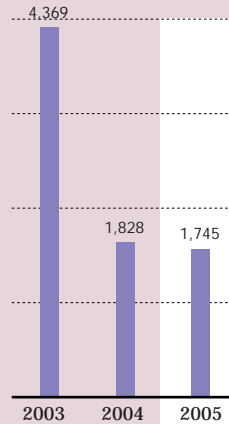
The mainstay Odawara Central Factory is located in the city of Odawara in Kanagawa Prefecture, near such sightseeing spots as Mount Fuji, Hakone, and Izu. The Factory began operating in 1964 and has been refurbished through several generations of new technology to enable higher production volumes and compliance with the increasingly strict GMP regulations. The Factory is currently located on a 54,000-square meter site and boasts a total floor space of 28,000 square meters.

The Factory is equipped with integrated manufacturing facilities for various processes, ranging from raw material

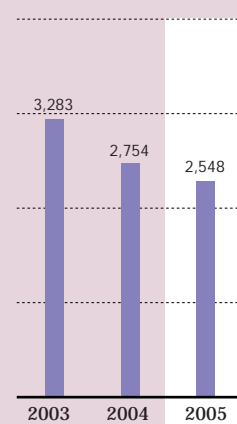
Capital Investment and Depreciation

(consolidated accounts basis; millions of yen)

◆ Capital investment



◆ Depreciation



weighing to final packaging, for injectable formulations as well as tablet, capsule, granule, powder, and other solid formulations. A wide range of products is manufactured in compliance with international-level hygiene and cleanliness standards. The entire production system is computer-controlled, ensuring efficient manufacturing management and advanced quality control systems for the timely and reliable supply of product to the market. We are continually striving to improve our production processes, as they also contribute to improved Company earnings.

We obtained ISO14001 accreditation for the Factory's environmental management systems in August 2004. We aim to reduce our environmental impact, procure environmentally friendly supplies, and improve our local environment, and are building risk-management systems to address issues related to earthquakes and other risks.

Our other pharmaceuticals plant, the Chitose Synthesis Plant, is relatively new, having been completed





*Chitose Synthesis Plant /
Chitose Foodstuffs Plant*



Morioka Factory

in 1999. The Plant was established for the manufacture of drug substance for in-house development compounds from the clinical trial stage, and it meets the standards required for audits by overseas regulatory authorities. It is located within the Chitose Airport Industrial Complex next to the New Chitose International Airport. The Plant produces some drug substances used at the Odawara Central Factory and has also begun manufacturing drug substances for sale to other companies.

Synthesis plants generally have a greater environmental impact than formulation plants, so we emphasized environmental conservation at the Chitose Synthesis Plant from the design stages. We are running our operations with a view to protecting the environment, for example by obtaining ISO14001 accreditation in 2002.

The Chitose Foodstuffs Plant is adjacent to the Chitose Synthesis Plant and began operating in 1990, mainly producing extracts from onions and red pepper. Recently, the

Plant has begun production of concentrated fruit juices using fruit grown locally in Hokkaido, as well as various health food ingredients.

Our other plant involved in foodstuff-related products — the Morioka Factory, in Iwate Prefecture, northern Japan — began operating in 1966 for the manufacture of extracts from various spices and food additives, including agents to improve food shelf lives. The plant has recently diversified into the production of health food ingredients.

We therefore have in place a highly efficient production system through the operation of these four plants, as well as the plant operated by our pharmaceuticals manufacturing subsidiary Sioe Pharmaceutical Co., Ltd. at Amagasaki in Hyogo Prefecture and the foodstuffs plant operated by our subsidiary Tajima Shokuhin Kogyo Co., Ltd., also in Hyogo Prefecture.



Mayumi Higashi (Odawara Central Factory/Quality Control Dept.)

My job involves testing products — taken straight from the production line — for conformity with the Company's quality standards. There are no further checks on finished drugs before they reach the market, and so my role in the entire process is extremely important. As we examine products from a wide variety of perspectives, we need to possess knowledge across a number of disciplines, as well as considerable practical experience. Having worked at Nippon Shinyaku for less than four years, I still come across something new almost every day. I find my job very fulfilling, as it lets me make a valuable contribution to the production of high-quality pharmaceuticals.

The Front Line — Our Medical Representatives



Nippon Shinyaku has 21 sales branch offices across Japan. We have adopted a more horizontal organizational structure at our sales branches, comprising a hierarchy of only three levels — branch manager, section head, and medical representative (MR) — in order to speed up decision making and improve communication. We run a training program for section heads, called Leader Fostering Sessions, and provide Product Promoter Conferences and Level-Based Training Seminars for our MRs in order to share best practice and improve skill levels.

We provide effective sales coverage for medical institutions nationwide in the key therapeutic categories of urology, orthopedic surgery, cardiovascular disease, and hematologic malignancies. We defined these categories

based on the distribution of prescribing physicians and sales breakdown for current products, and analyses of compounds scheduled for launch and market potential.

Our MRs undergo product training each month at the branch offices, enabling them to acquire detailed disease- and product-specific knowledge in their field of specialization. In the field of life-threatening hematological malignancies, we are developing an in-depth training program so our MRs can satisfy the demand for high-level medical information from physicians.

In the future, we plan to improve detailing efficiency and quality, based on market analyses for each MR territory, and to foster the development of MRs that are well trusted by the medical profession.



Tsuyoshi Fujimoto (*Osaka Business Office*)

Being a medical representative, I bear a heavy responsibility. As a representative of the Company, my job entails visiting medical institutions to exchange information about illnesses and products with doctors, who are experts in their specialist fields. I have to draw up my own action plans, and I make extensive use of the Company's in-house sales data system for managing physician data. All Nippon Shinyaku's medical representatives have notebook computers, which make us productive even when on the move. Receiving favorable feedback on our drugs from doctors makes me feel that I am playing a crucial part in supporting the front line of medical treatment: this is my biggest work-related incentive.

Recent Developments at Nippon Shinyaku



Photograph 1:
Trisenox Injection 10 mg for acute promyelocytic leukemia



Photograph 2:
Signing the licensing agreement with Optimer Pharmaceuticals

Licensing and Joint Development

May 2005

Licensing agreement concluded with Jeil-Kirin Pharmaceutical Inc. on Trisenox Injection 10 mg for acute promyelocytic leukemia.

April 2005

Agreement concluded with Hisamitsu Pharmaceutical Co., Inc. on joint development in Japan of a tape for the palliative care of cancer pain (development code: HFT-290; generic name: fentanyl citrate).

February 2005

Joint development agreement concluded with Janssen Pharmaceutical K.K. and Grünenthal GmbH for an oral analgesic (generic name: tramadol hydrochloride).

November 2004

Italian launch of the synthetic antibacterial prulifloxacin that was originated by Nippon Shinyaku.

September 2004

Licensing agreement concluded with US firm IVAX Corporation on an anticancer agent (development code: HMN-214).

June 2004 (Photograph 2)

Licensing agreement concluded with US firm Optimer Pharmaceuticals, Inc. on the manufacturing and sale of the synthetic antibacterial prulifloxacin.

New Products and Additional Indications

June 2005

Launch of Amnolake Tablets 2 mg for refractory/relapsed acute promyelocytic leukemia.

December 2004 (Photograph 1)

Launch of Trisenox Injection 10 mg for refractory/relapsed acute promyelocytic leukemia.

July 2004

Launch of smaller tablet formulation of Glycoran Tablets for diabetes.

Other News

June 2004

ISO14001 accreditation achieved at the Odawara Central Factory.

Corporate Governance: Basic Policy and Implementation

At Nippon Shinyaku, we recognize corporate governance as one of the most important issues facing management. We are working to improve our internal control systems to ensure transparent business administration and effective business functions.

Our Board of Directors comprises seven members: the President, three Managing Directors, and three Directors. The Board is the highest level for corporate decision-making. It decides on key operations as defined in the Board Regulations and supervises operational management. Following approval at the 142nd Ordinary Shareholders' Meeting on June 29, 2005, the term of office for Directors was reduced from two years to one year and the Board of Directors membership was changed from no more than 15 to no more than 10 members. These moves were aimed at further clarifying management responsibilities at the Board of Directors and creating an optimal management structure that can respond flexibly to changes in the operating environment. In addition, the system of executive retirement bonuses was scrapped, replacing the existing system of reimbursement that emphasized deferred payments with an executive reimbursement system more closely linked to earnings and results from each fiscal year. We introduced a Corporate Officer system in 1999 and strengthened our administrative functions at the Board of Directors by clearly

separating corporate decision-making and supervisory functions from operational functions. Nippon Shinyaku also has an auditor system in place. We have four Corporate Auditors, comprising two full-time Auditors and two part-time external Auditors. We are striving to improve the auditing function, for example through auditor participation in Board of Director meetings. As well as supervision by the Auditors, we also have an auditing function that reports directly to the President and conducts operational audits for internal controls in accordance with internal auditing guidelines.

As part of our corporate ethics strategy, we have already defined a Charter of Business Conduct, Rules of Staff Conduct, and Guidelines on Staff Conduct. In addition to these measures, we established Compliance Program Standards in April 2002 and then set up a Compliance Committee and built a company-wide compliance system, through which we are working to educate our staff and ensure our activities comply with ethical guidelines. Over the past year, we have set up a new Corporate Ethics Section effective April 2004, run internal education and training programs, and pursued further corporate ethics programs, in order to support the activities of our Compliance Committee. We established an Internal Reporting System effective April 1, 2005 in a bid to improve our own compliance functions.

Relationships with Staff

We have established systems for, and are achieving results from, our management policy of becoming a company that rewards personal efforts, based on individual job

responsibility and fair staff reviews. In order to realize our corporate vision, management policies, and business plans, all staff members have job targets and are evaluated

on the basis of their performance. We also provide various training opportunities to develop the necessary skills for individuals to realize their full potential.

In terms of employee welfare, we have completed a wide-ranging support system that provides a generous company pension as well as choice in accordance with individual circumstances, to enable our staff to spend

their working years without worrying about their retirement.

We are also complying with the spirit of the Industrial Safety and Health Law, ensuring our staff work in a safe and healthy environment, and are creating a model working environment to support our employees' work activities.



The Environment

Nippon Shinyaku has built environmental management systems under the supervision of the Board of Directors and has established a company-wide Environment Committee as the decision-making body that deals with such key issues as company policies and plans on the environment. We have also set up an Environment Committee at each branch office and are working at the branch level to protect the environment.

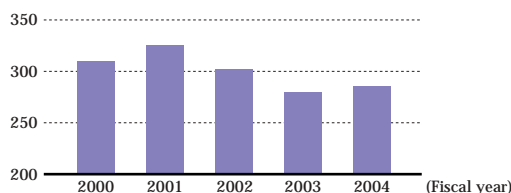
In order to protect the environment, we are striving to minimize our environmental impact in accordance with our Basic Environmental Policy and are also setting voluntary environmental targets as part of our planned activities from fiscal 2005 and beyond.

We have defined eight categories for our voluntary environmental targets, including preventing global warming, reducing waste, managing chemical substances appropriately, and procuring environmentally friendly supplies.

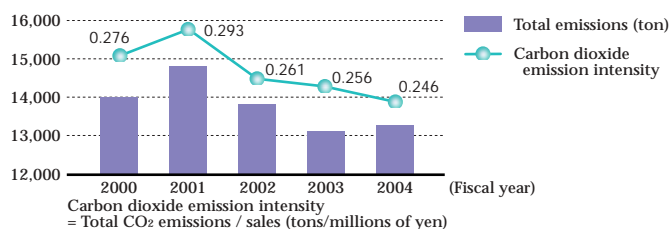
We were awarded ISO14001 accreditation for our environmental management systems at the Chitose Plant in 2002 and the Odawara Central Factory in 2004, and we are working to continually improve these systems.

Our environmental impact is summarized in the graphs right.

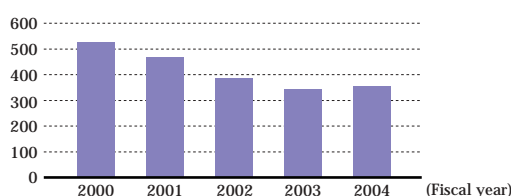
Total energy consumption (thousands GJ)



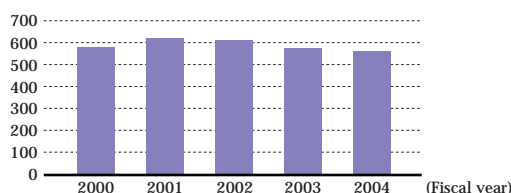
Total CO₂ emissions (ton)



Water used (Unit: 1,000m³)



Waste generated (ton)



Board of Directors and Corporate Auditors

As of June 29, 2005



(Front from left)

Managing Director
Hiroshi Satani

President

Kazuto Hatsuyama

Managing Director
Yoshihisa Shibata

Managing Director
Yoshiaki Asano

(Back from left)

Director

Junichi Yano

Director

Nobuyoshi Sumi

Director

Shigenobu Maekawa

President

Kazuto Hatsuyama

Managing Directors

Yoshihisa Shibata, Ph. D.
(*General Manager, Human Resources Division & Regulatory Division*)

Hiroshi Satani
(*General Manager, Marketing Division*)

Yoshiaki Asano
(*General Manager, Functional Food Division*)

Directors

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

Junichi Yano, Ph. D.
(*General Manager, Research & Development Division*)

Shigenobu Maekawa
(*General Manager, Corporate Planning Division, Finance & Accounting Division, Information Systems Division*)

Corporate Auditors

Youichi Toriyama

Sadayasu Nagai

Kenji Ohishi

Yasuo Tanabe

Corporate Officers

Taro Sakurai
(*General Manager, Finance & Accounting Dept.*)

Akira Miura
(*General Manager, Human Resources Dept.*)

Tetsuya Yonekawa
(*General Manager, Regulatory Affairs Supervision & Assurance Division*)

Kouichi Nakamichi, Ph. D.
(*General Manager, Odawara Central Factory*)

Kichiro Inoue, 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*)

Hiroshi Adachi
(*General Manager, Functional Food Dept.*)

Financial Section Six-Year Summary (Consolidated)

Years ended March 31	Millions of yen					
	2005	2004	2003	2002	2001	2000
Net sales	¥54,252	¥51,326	¥52,942	¥50,587	¥50,949	¥49,127
Income before income taxes and minority interests	9,630	3,262	4,474	4,534	6,245	2,721
Net income	5,639	1,536	2,095	2,155	3,117	978
Amounts per share (in yen):						
Basic net income	¥ 81.22	¥21.50	¥29.20	¥30.68	¥44.37	¥13.93
Cash dividends applicable to the year	15.00	10.00	10.00	10.00	10.00	10.00
Total assets	¥98,910	¥104,008	¥109,549	¥103,871	¥110,143	¥98,365
Shareholders' equity	70,010	65,396	61,614	61,770	61,788	55,354
Investments in plant and equipment	1,745	1,829	4,370	2,959	8,886	3,771
R&D expenses	8,479	8,263	7,885	7,023	6,618	6,735

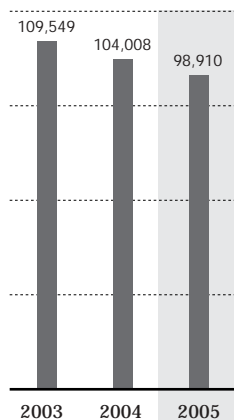
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35	Independent Auditors' Report

Management's Discussion & Analysis

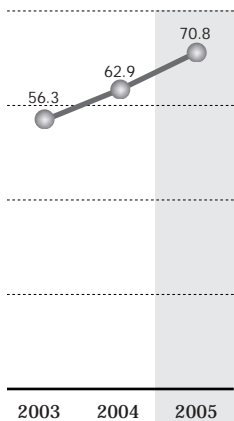
Consolidated Total Assets

(Millions of yen)



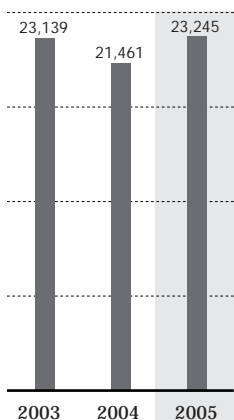
Consolidated Stockholders' Equity Ratio

(%)



Consolidated Cost of Sales

(Millions of yen)



Financial Strategy

The management of Nippon Shinyaku constantly work to improve the Company's competitiveness in research and development through the appropriate allocation of management resources, in response to the continuous appearance of innovative technologies. At the same time, we take steps to ensure the soundness of the Company's financial position by retaining a sufficient level of internal reserves to reinforce our capital base with a view to future business expansion and the ability to invest in R&D whenever necessary. At the same time, the adequate return of profit to our shareholders is also one of our top management priorities. To this end, we follow a fundamental policy of making uninterrupted and stable dividend payments that fairly reflect the Company's performance and the value of its shares.

Liquidity and Capital Resources

Total assets of Nippon Shinyaku at the end of the reporting term stood at ¥98,910 million (US\$924,393 thousand), a decline of ¥5,098 million from the previous term-end. Of this, current assets came to ¥55,023 million (US\$514,234 thousand), a year-on-year decline of ¥2,987 million. The primary cause of this decrease was a fall in cash and cash equivalents as a result of the payment of loans. Noncurrent assets stood at ¥43,887 million (US\$410,159 thousand), a decline of ¥2,111 million, which was due mainly to the decrease in deferred tax assets.

Meanwhile, total liabilities came to ¥28,771 million (US\$268,888 thousand), a decline of ¥9,690 million from the previous year-end. Of this, current liabilities decreased to ¥13,542 million, a fall of ¥3,610 million year-on-year, primarily due to the smaller amount of short-term borrowings. Long-term liabilities were also down, by ¥6,080 million at ¥15,229 million, thanks mainly to a reduced amount posted under liability for retirement benefits as a result of settlement of the Company's account for the Welfare Pension Fund previously operated on the behalf of the Government.

Shareholders' equity rose ¥4,614 million over the previous year-end to ¥70,010 million, in line with a large increase in net income. The equity ratio improved to 70.8%, a 7.9 point rise from the previous year.

Turning to cash flows, net cash provided by operating activities came to ¥2,808 million (US\$26,243 thousand), a ¥1,260 million decline from the previous year. The decline is attributable to a decrease in the liability for retirement benefits and an increase in trade receivables, which more than offset

Consolidated Cash Flows (Millions of yen)

	2003	2004	2005
Net cash provided by operating activities	6,327	4,068	2,808
Net cash used in investing activities	(6,081)	(2,273)	(509)
Net cash provided by (used in) financing activities	3,847	(7,630)	(6,394)
Cash and cash equivalents, end of year	25,910	20,032	15,951

a large increase in income before income taxes. Net cash used in investing activities amounted to only ¥509 million (US\$4,757 thousand), a ¥1,764 million decrease from the previous year. The decline is attributable to the gain on the sale of real estate used for the former Tokyo office. Net cash used in financing activities amounted to ¥6,394 million (US\$59,757 thousand), a ¥1,236 million decrease from the previous year. The amount of loan repayment for the term is smaller than the amount of redemption of convertible bonds for the previous term.

As a result, cash and cash equivalents at the year-end decreased by ¥4,081 million from the previous year-end.

The management of Nippon Shinyaku constantly works to maintain the soundness of the Company's financial position while ensuring sufficient cash liquidity and sources of funds for working capital.

Result of Operations (consolidated)

The domestic business environment of the pharmaceuticals industry remains difficult. This is due to the spreading impact of the ongoing initiative to cut back on medical expenses, namely, reductions in drug prices under the National Health Insurance system averaging 4.2%, enforced in April 2004. Amid this harsh environment, the Nippon Shinyaku Group's steady sales efforts resulted in an increase in sales of 5.7% from the previous year to ¥54,252 million.

At the level of profits, thanks to declines in the cost of sales and general administrative expenses, operating income increased to ¥4,622 million (US\$43,196 thousand), up 33.0% over the previous year. Net income rose 267.1% to ¥5,639 million (US\$52,701 thousand), due to an extraordinary gain on account settlement of the Welfare Pension Fund previously operated on the behalf of the Government, and a gain on the sale of real estate, mainly land.

Earnings by segment

Pharmaceutical business

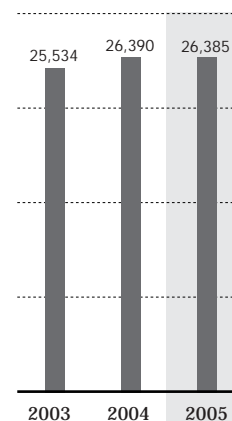
In the pharmaceutical business, sales were boosted by growth in our mainstay products, including the nonsteroidal anti-inflammatory analgesic *Hypen*, *Bladderon* for urinary frequency, the azulene gargle *Azunol Gargle 4%*, and the oral antidiabetes drug *Glycoran*, as well as significant growth by the anti-allergy agents *Livostin eye drops* and *Livostin nose drops* because of sharply higher pollen counts. Sales rose 6.1% year-on-year, to ¥45,037 million, despite rather sluggish sales of *Eviprostat* for benign prostatic hyperplasia, *Selectol* for hypertension and angina, and the *ACE inhibitor Odric* for hypertension.

Food business

In the food business, sales of health foods and added ingredients were rather slow, but the protein product line-up in-licensed from overseas, and vigorous sales campaigns, resulted in sales rising 3.6% year-on-year, to ¥9,215 million.

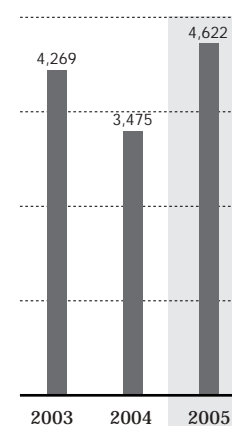
Consolidated Selling, general and administrative expenses

(Millions of yen)



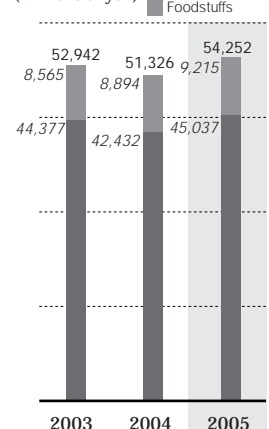
Consolidated Operating Income

(Millions of yen)



Consolidated Sales by Industry Segment

(Millions of yen)



Consolidated Balance Sheets

March 31, 2005 and 2004	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Assets			
Current assets:			
Cash and cash equivalents	¥ 15,951	¥ 20,032	\$ 149,075
Time deposits	100	100	935
Marketable securities (Note 3)	800	2,301	7,477
Notes and accounts receivable:			
Trade notes	1,088	1,253	10,168
Trade accounts	24,693	22,443	230,776
Other	133	92	1,243
Total notes and accounts receivable	25,914	23,788	242,187
Inventories (Note 4)	8,496	8,924	79,402
Deferred tax assets (Note 10)	1,646	1,543	15,383
Other current assets	2,116	1,322	19,775
Total current assets	55,023	58,010	514,234
Property, plant and equipment (Note 5):			
Land	8,351	8,823	78,047
Buildings and structures	25,290	25,102	236,355
Machinery and equipment	11,414	11,614	106,673
Tools, furniture and fixtures	9,541	9,579	89,168
Construction in progress	7	958	65
Total	54,603	56,076	510,308
Accumulated depreciation	(32,272)	(31,620)	(301,607)
Net property, plant and equipment	22,331	24,456	208,701
Investments and other assets:			
Investment securities (Note 3)	15,316	14,124	143,140
Long-term prepaid expenses	3,041	2,679	28,421
Deferred tax assets (Note 10)	61	2,091	570
Other assets	3,138	2,648	29,327
Total investments and other assets	21,556	21,542	201,458
Total	¥ 98,910	¥104,008	\$ 924,393

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term borrowings (Note 5)	¥ 50	¥ 4,030	\$ 467
Current portion of long-term debt (Note 5)	1,299	1,297	12,140
Notes and accounts payable:			
Trade notes	446	417	4,168
Trade accounts	3,252	2,989	30,393
Other payables	3,045	3,031	28,458
Total notes and accounts payable	6,743	6,437	63,019
Income taxes payable	1,174	1,309	10,972
Accrued expenses	3,455	3,222	32,290
Deposits from customers	270	260	2,523
Other current liabilities	551	597	5,150
Total current liabilities	13,542	17,152	126,561
Long-term liabilities:			
Long-term debt (Note 5)	3,671	4,951	34,308
Liability for retirement benefits (Note 6)	11,199	16,357	104,664
Negative goodwill	3	1	28
Deferred tax liability (Note 10)	182		1,701
Other long-term liabilities	174		1,626
Total long-term liabilities	15,229	21,309	142,327
Minority interests	129	151	1,206
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	48,355
Capital surplus	4,439	4,439	41,486
Retained earnings	56,515	51,621	528,178
Unrealized gain on available-for-sale securities	5,218	5,049	48,766
Foreign currency translation adjustments	(11)	(9)	(103)
Treasury stock – at cost, 2,034,407 shares in 2005 and 1,458,891 shares in 2004	(1,325)	(878)	(12,383)
Total shareholders' equity	70,010	65,396	654,299
Total	¥ 98,910	¥104,008	\$924,393

Consolidated Statements of Income

Years ended March 31, 2005 and 2004	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Net sales (Note 15)	¥54,252	¥51,326	\$ 507,028
Cost and expenses (Note 15):			
Cost of sales	23,245	21,461	217,243
Selling, general and administrative expenses (Note 8)	26,385	26,390	246,589
Total	49,630	47,851	463,832
Operating income (Note 15)	4,622	3,475	43,196
Other income (expenses):			
Interest and dividend income	200	168	1,869
Interest expenses	(90)	(220)	(841)
Gain on sales of property, plant and equipment	1,370	2	12,804
Gain on transfer of the substitutional portion of the governmental pension program	3,781		35,336
Other – net	(253)	(163)	(2,364)
Other income (expenses) – net	5,008	(213)	46,804
Income before income taxes and minority interests	9,630	3,262	90,000
Income taxes (Note 10):			
Current	2,013	1,818	18,813
Deferred.....	1,990	(99)	18,598
Total	4,003	1,719	37,411
Minority interests in net income (loss)	(12)	7	(112)
Net income	¥ 5,639	¥ 1,536	\$ 52,701

	Yen		U.S. dollars
Amounts per common share (Notes 2.n and 13):			
Basic net income	¥81.22	¥21.50	\$ 0.76
Cash dividends applicable to the year	15.00	10.00	0.14

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2005 and 2004	Thousands	Millions of yen					
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance at April 1, 2003	69,012	¥5,174	¥4,439	¥50,837	¥1,912	¥ (3)	¥ (745)
Net income				1,536			
Cash dividends, ¥10.00 per share				(690)			
Bonuses to directors and corporate auditors				(62)			
Net increase in unrealized gain on available-for-sale securities					3,137		
Net decrease in foreign currency translation adjustments						(6)	
Repurchase of treasury stock	(220)						(134)
Disposal of treasury stock	1						1
Balance at March 31, 2004	68,793	5,174	4,439	51,621	5,049	(9)	(878)
Net income				5,639			
Cash dividends, ¥15.00 per share				(687)			
Bonuses to directors and corporate auditors				(58)			
Net increase in unrealized gain on available-for-sale securities					169		
Net decrease in foreign currency translation adjustments						(2)	
Repurchase of treasury stock	(579)						(450)
Disposal of treasury stock	3						3
Balance at March 31, 2005	68,217	¥5,174	¥4,439	¥56,515	¥5,218	¥(11)	¥(1,325)

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2004	\$48,355	\$41,486	\$482,439	\$47,187	\$ (84)	\$ (8,205)
Net income			52,701			
Cash dividends, \$0.14 per share			(6,420)			
Bonuses to directors and corporate auditors			(542)			
Net increase in unrealized gain on available-for-sale securities.....				1,579		
Net decrease in foreign currency translation adjustments					(19)	
Repurchase of treasury stock						(4,206)
Disposal of treasury stock						28
Balance at March 31, 2005	\$48,355	\$41,486	\$528,178	\$48,766	\$ (103)	\$ (12,383)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2005 and 2004	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Operating activities:			
Income before income taxes and minority interests	¥ 9,630	¥ 3,262	\$ 90,000
Adjustments for:			
Income taxes – paid.....	(2,243)	(3,637)	(20,963)
Depreciation and amortization	3,016	3,155	28,187
Gain on sales of property, plant and equipment.....	(1,370)	(2)	(12,804)
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable.....	(2,126)	2,214	(19,869)
Decrease (increase) in inventories	428	(381)	4,000
(Increase) decrease in other current assets	(799)	182	(7,467)
Increase (decrease) in notes and accounts payable	292	(114)	2,729
Decrease in other current liabilities	(46)	(234)	(430)
Decrease in liability for retirement benefits	(5,159)	(576)	(48,215)
Other, net	1,185	199	11,075
Total adjustments	(6,822)	806	(63,757)
Net cash provided by operating activities	2,808	4,068	26,243
Investing activities:			
Proceeds from sales of property, plant and equipment	1,569	5	14,664
Proceeds from redemption of marketable securities	2,300		21,495
Capital expenditures	(2,384)	(1,307)	(22,280)
Purchases of investment securities	(1,710)	(696)	(15,981)
Purchases of software	(110)	(48)	(1,028)
Acquisition of the license rights	(265)	(219)	(2,477)
Other, net	91	(8)	850
Net cash used in investing activities	(509)	(2,273)	(4,757)
Financing activities:			
Net decrease in short-term bank loans	(3,980)	(220)	(37,196)
Proceeds from long-term bank loans	20	740	187
Redemption of convertible bonds.....		(7,000)	
Repayments of long-term debt	(1,297)	(324)	(12,122)
Cash dividends paid	(689)	(691)	(6,439)
Increase of treasury stock	(448)	(133)	(4,187)
Other, net		(2)	
Net cash used in financing activities	(6,394)	(7,630)	(59,757)
Foreign currency translation adjustments			
on cash and cash equivalents	14	(43)	131
Net decrease in cash and cash equivalents	(4,081)	(5,878)	(38,140)
Cash and cash equivalents, beginning of year	20,032	25,910	187,215
Cash and cash equivalents, end of year	¥15,951	¥20,032	\$ 149,075

See notes to consolidated financial statements.

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 generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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 2004 financial statements to conform to the classifications used in 2005.

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 ¥107 to \$1, the approximate rate of exchange at March 31, 2005. 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”). Consolidation of the remaining subsidiary would not have a material effect on the accompanying consolidated financial statements. 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 goodwill in the accompanying consolidated balance sheets and is being amortized over a period of five years.

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 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, 1998. 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.

On August 1, 2003, the Company resolved to integrate the corporate portion of its contributory funded defined benefit pension plan established at the discretion of the Company under the Japanese Welfare Pension Insurance Law, non-contributory defined benefit pension plan and part of the unfunded retirement benefit plan to introduce a cash balance pension plan. The employees of the Company were covered by the contributory funded defined benefit pension plan until April 1, 2004 when approval by the Ministry of Health, Labor and Welfare was obtained to transfer the substitutional portion of past pension obligations to the government and the cash balance pension plan was implemented. See Note 6. Under the cash balance pension plan, each participant has an account on which a fixed amount is contributed and interest added which is calculated yearly based on a market-related interest rate with a certain minimum interest rate secured.

On December 1, 2003, the Company introduced a defined contribution pension plan to allow qualified persons aged from 60 to 64 to receive post retirement benefits at their discretion.

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 deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's 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 were shown as "Foreign currency translation adjustments" 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** — 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.
- 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.
- o. New Accounting Pronouncements** — In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No.6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.
- The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.
- The Companies expect to adopt these pronouncements as of April 1, 2005 and is currently in the process of assessing the effect of adoption of these pronouncements.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2005 and 2004 consisted of the following:

March 31	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Current:			
Government and corporate bonds	¥ 800	¥ 2,001	\$ 7,477
Trust fund investments		300	
Total.....	¥ 800	¥ 2,301	\$ 7,477

Non-current:			
Equity securities	¥12,517	¥12,218	\$116,981
Government and corporate bonds	2,700	1,906	25,234
Trust fund investments	99		925
Total.....	¥15,316	¥14,124	\$143,140

Information regarding each category of securities classified as available-for-sale and held-to-maturity at March 31, 2005 and 2004 were as follows:

March 31, 2005	Millions of yen			Fair value
	Cost	Unrealized gain	Unrealized loss	
Securities classified as:				
Available-for-sale:				
Equity securities	¥3,290	¥8,845		¥12,135
Trust fund investments				
	100		¥1	99
Held-to-maturity	3,500	7		3,507

March 31, 2004	Millions of yen			Fair value
	Cost	Unrealized gain	Unrealized loss	
Securities classified as:				
Available-for-sale:				
Equity securities	¥3,205	¥8,572	¥16	¥11,761
Debt securities	5	1		6
Held-to-maturity	3,901	28		3,929

March 31, 2005	Thousands of U.S. dollars			Fair value
	Cost	Unrealized gain	Unrealized loss	
Securities classified as:				
Available-for-sale:				
Equity securities	\$30,748	\$82,663		\$113,411
Trust fund investments				
	935		\$10	925
Held-to-maturity	32,710	66		32,776

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2005 and 2004 were as follows:

March 31	Carrying amount		
	Millions of yen	2004	Thousands of U.S. dollars
Available-for-sale:			
Equity securities	¥382	¥457	\$3,570
Trust fund investments		300	
Total.....	¥382	¥757	\$3,570

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2005 are as follows:

March 31, 2005	Millions of yen		Thousands of U.S. dollars	
	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Due in one year or less		¥ 800		\$ 7,477
Due after one year through five years	¥100	2,700	\$935	25,233
Total	¥100	¥3,500	\$935	\$32,710

4. INVENTORIES

Inventories at March 31, 2005 and 2004 consisted of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Finished products and merchandise.....	¥4,079	¥4,841	\$38,121
Work in process	1,944	1,969	18,168
Raw materials.....	2,473	2,114	23,112
Total.....	¥8,496	¥8,924	\$79,401

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

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

The weighted average annual interest rates for short-term bank loans at March 31, 2005 and 2004 were 0.8% and 0.67%, respectively.

Short-term borrowings at March 31, 2005 and 2004 consisted of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Loans from banks, 0.8% (2005) and 0.59% to 1.375% (2004)	¥50	¥4,030	\$467
Total.....	¥50	¥4,030	\$467

Long-term debt at March 31, 2005 and 2004 consisted of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Loan from financial institutions, 0.86% to 2.3% (2005) and 0.86% to 2.3% (2004), due November 2012.....	¥4,968	¥6,243	\$46,430
Capital lease obligations	2	5	18
Total.....	4,970	6,248	46,448
Less current portion.....	(1,299)	(1,297)	(12,140)
Long-term debt, less current portion	¥3,671	¥4,951	\$34,308

Annual maturities of long-term debt at March 31, 2005 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥1,299	\$12,140
2007	1,247	11,654
2008	1,202	11,234
2009	1,163	10,869
2010	30	280
2011 and thereafter	29	271
Total.....	¥4,970	\$46,448

At March 31, 2005, 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.....	¥6,097	\$56,981
Related liabilities:		
Short-term borrowings.....	¥ 50	\$ 467
Current portion of long-term debt	¥1,149	\$10,738
Long-term debt (excluding current portion)	¥3,237	\$30,252

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 had non-contributory and contributory trustee pension plans which fund a portion of the Company's retirement benefits. The contributory funded defined benefit pension plan, which was established under the Japanese Welfare Pension Insurance Law, covered 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.

In accordance with the Defined Benefit Pension Plan Law enacted in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government upon approval. The Company obtained approval for exemption from the future obligation by the Ministry of Health, Labor and Welfare on February 25, 2003.

In the year ended March 31, 2004, the Company applied for transfer of the substitutional portion of past pension obligations to the government and obtained approval by the Ministry of Health, Labor and Welfare on April 1, 2004. Based upon the above approval in April 2004, the Company recognized a gain on transfer of the substitutional portion of the governmental pension program in the amount of ¥3,769 million (\$35,224 thousand) for the year ended March 31, 2005.

The Company thereafter transferred the substitutional portion of the pension obligations and related assets to the government on August 27, 2004 and recognized ¥12 million (\$112 thousand) as income for the difference between the balance of the retirement benefit liabilities brought forward and the amount actually transferred for the year ended March 31, 2005.

The liability for employees' retirement benefits at March 31, 2005 and 2004 consisted of the following:

March 31	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Projected benefit obligation...	¥25,867	¥34,524	\$241,748
Fair value of plan assets	(8,196)	(11,652)	(76,598)
Unrecognized actuarial loss ...	(6,168)	(7,918)	(57,645)
Unrecognized transitional credit		169	
Unrecognized prior service cost.....	(608)	964	(5,683)
Net liability	¥10,895	¥16,087	\$101,823

The components of net periodic benefit costs for the years ended March 31, 2005 and 2004 are as follows:

March 31	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Service cost.....	¥ 932	¥ 911	\$ 8,710
Interest cost.....	504	789	4,710
Expected return on plan assets	(356)	(575)	(3,327)
Amortization of transitional credit	(525)	(169)	(4,907)
Recognized actuarial loss	436	468	4,075
Amortization of prior service cost	45	(95)	421
Premiums for defined contribution pension plan and other	165	7	1,542
Net periodic benefit costs	1,201	1,336	11,224
Gain on transfer of the substitutional portion of the governmental pension program.....	(3,781)		(35,336)
Total	¥(2,580)	¥1,336	\$ (24,112)

Assumptions used for the years ended March 31, 2005 and 2004 are set forth as follows:

	2005	2004
Discount rate.....	2.0%	2.0%
Expected rate of return on plan assets...	4.0%	4.0%
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, 2005 and 2004 included ¥304 million (\$2,841 thousand) and ¥270 million, respectively, for directors' and corporate auditors' retirement benefits.

7. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code requires that all shares of common stock are 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, which is included in 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 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 equals 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 Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. 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.

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. The amount of retained earnings available for dividends under the Code was ¥52,053 million (\$486,477 thousand) as of March 31, 2005, based on the amount recorded in the Company's general books of account.

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.

8. RESEARCH AND DEVELOPMENT COSTS

Research and development costs for the years ended March 31, 2005 and 2004 were ¥8,479 million (\$79,243 thousand) and ¥8,263 million, respectively.

9. LEASES

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

Total rental expenses for the years ended March 31, 2005 and 2004 were ¥1,195 million (\$11,168 thousand) and ¥1,243 million, respectively, including ¥201 million (\$1,879 thousand) and ¥193 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, 2005 and 2004 was as follows:

Machinery and equipment, and tools, furniture and fixtures:

March 31	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Acquisition cost	¥139	¥139	\$ 1,299
Accumulated depreciation.....	101	77	944
Net leased property.....	¥ 38	¥ 62	\$ 355

Obligations under finance leases:

March 31	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥23	¥25	\$215
Due after one year.....	15	37	140
Total.....	¥38	¥62	\$355

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method was ¥24 million (\$224 thousand) and ¥23 million for the years ended March 31, 2005 and 2004, respectively.

The minimum rental commitments under non-cancelable operating leases at March 31, 2005 and 2004 were as follows:

March 31	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Due within one year	¥10	¥10	\$ 93
Due after one year.....	13	23	122
Total.....	¥23	¥33	\$215

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in aggregate, resulted in a normal effective statutory tax rate of approximately 41% and 42% for the years ended March 31, 2005 and 2004, respectively. The overseas subsidiary is subject to income tax of the country in which it operates.

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from 42% to 41%, effective for years beginning on or after April 1, 2004. The deferred tax assets and liabilities which will realize on or after April 1, 2004 are measured at the effective tax rate of 41% as at March 31, 2004.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Deferred Tax Assets:			
Retirement benefits.....	¥4,266	¥6,068	\$39,869
Accrued expenses	1,149	1,131	10,738
Property, plant and equipment.....	139	163	1,299
Other	960	904	8,972
Deferred tax assets	6,514	8,266	60,878
Deferred Tax Liabilities:			
Unrealized gain on available-for-sale securities....	3,626	3,508	33,888
Deferred gains on sales of property.....	1,263	971	11,804
Other	100	153	934
Deferred tax liabilities.....	4,989	4,632	46,626
Net deferred tax assets	¥1,525	¥3,634	\$14,252

A reconciliation between the normal effective statutory tax rate for the year ended March 31, 2004 and the actual effective tax rates reflected in the accompanying consolidated statements of income is as follows:

	Year ended March 31,
	2004
Normal effective statutory tax rate.....	42.0%
Expenses not deductible for income tax purposes	12.8
Income not taxable for income tax purposes	(0.6)
Effect of tax rate reduction	1.2
Other - net.....	(2.7)
Actual effective tax rate	52.7%

As the difference between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2005 is not more than 5% of the normal effective statutory tax rate, a reconciliation has not been disclosed.

11. CONTINGENT LIABILITIES

At March 31, 2005, contingent liabilities were ¥784 million (\$7,327 thousand) representing loans guaranteed (jointly guaranteed with six unrelated companies) and ¥12 million (\$112 thousand) of export bill receivables discounted and sold to a financial institution for which the Company is contingently liable.

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

Net income per share ("EPS") for the years ended March 31, 2005 and 2004 is as follows:

	Yen in millions	Thousands of shares	Yen	Dollars
	Net income	Weighted average shares	EPS	
For the year ended				
March 31, 2005:				
Basic EPS				
Net income available to common shareholders	¥5,570	68,583	¥81.22	\$0.76
For the year ended				
March 31, 2004:				
Basic EPS				
Net income available to common shareholders	¥1,483	68,958	¥21.50	

Diluted net income per share is not disclosed because there are no dilutive securities outstanding.

14. SUBSEQUENT EVENTS

At the general shareholders' meeting held on June 29, 2005, the Company's shareholders approved the following:

- 1) Payment of a year-end cash dividend of ¥10.00 (\$0.09) per share to holders of record at March 31, 2005 for a total of ¥682 million (\$6,374 thousand).
- 2) Payment of bonuses to directors and corporate auditors of ¥69 million (\$645 thousand).

15. SEGMENT INFORMATION

Information about industry segments of the Companies for the years ended March 31, 2005 and 2004 is as follows:

Industry Segments

a. Sales and Operating Income

	Millions of yen				Thousands of U.S. dollars			
	2005				2005			
	Pharmaceuticals	Foodstuffs	Eliminations/ Corporate	Consolidated	Pharmaceuticals	Foodstuffs	Eliminations/ Corporate	Consolidated
Sales to customers.....	¥45,037	¥9,215		¥54,252	\$420,907	\$86,121		\$507,028
Intersegment sales	4		¥ (4)		37		\$(37)	
Total sales	45,041	9,215	(4)	54,252	420,944	86,121	(37)	507,028
Operating expenses.....	40,475	9,159	(4)	49,630	378,271	85,598	(37)	463,832
Operating income	¥ 4,566	¥ 56	¥Nil	¥ 4,622	\$ 42,673	\$ 523	\$ Nil	\$ 43,196

b. Assets, Depreciation and Capital Expenditures

	Millions of yen				Thousands of U.S. dollars			
	2005				2005			
	Pharmaceuticals	Foodstuffs	Eliminations/ Corporate	Consolidated	Pharmaceuticals	Foodstuffs	Eliminations/ Corporate	Consolidated
Assets.....	¥59,587	¥7,103	¥32,220	¥98,910	\$556,888	\$66,383	\$301,122	\$924,393
Depreciation	2,773	201	42	3,016	25,916	1,878	393	28,187
Capital expenditures.....	928	84	733	1,745	8,673	785	6,850	16,308

a. Sales and Operating Income

	Millions of yen			
	2004			
	Pharmaceuticals	Foodstuffs	Eliminations/ Corporate	Consolidated
Sales to customers.....	¥42,432	¥8,894		¥51,326
Intersegment sales	4		¥ (4)	
Total sales	42,436	8,894	(4)	51,326
Operating expenses.....	39,125	8,730	(4)	47,851
Operating income	¥ 3,311	¥ 164	¥Nil	¥ 3,475

b. Assets, Depreciation and Capital Expenditures

	Millions of yen			
	2004			
	Pharmaceuticals	Foodstuffs	Eliminations/ Corporate	Consolidated
Assets.....	¥59,807	¥6,826	¥37,375	¥104,008
Depreciation	2,907	248		3,155
Capital expenditures.....	1,730	99		1,829

Independent Auditors' Report

Deloitte.

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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, 2005 and 2004, 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 generally accepted 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles 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 29, 2005

Member of
Deloitte Touche Tohmatsu

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

Independent and Certified Public Accountants

Deloitte Touche Tohmatsu
Address: 62, Tsukihoko-cho,
Shinmachi-higashiiru, Shijo-Dori,
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Transfer Agent

The Chuo Mitsui Trust and Banking.
2-21, Kitahama 2-choume, Chuo-ku,
Osaka 541-0041, Japan

Major Shareholders

Meiji Yasuda Life Insurance Company
Nippon Life Insurance Company
The Bank of Tokyo-Mitsubishi,
Limited
Japan Trustee Services Bank, Limited
The Kyoto Bank, Limited
The Master Trust Bank of Japan,
Limited
Tokio Marine & Nichido Fire Insurance
Co., Ltd.
Mitsubishi Corporation
The Daiichi Mutual Life Insurance
Company
Nippon Shinyaku Employees'
Shareholding Association

(As of March 31, 2005)

Service Network

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8-4, Nihonbashi 3-chome, Chuo-ku,
Tokyo 103-0027, Japan
Phone: 03-3241-2151
Fax: 03-5255-2262

Tokyo Business Office

8-4, Nihonbashi 3-chome, Chuo-ku,
Tokyo 103-0027, Japan
Phone: 03-3241-2151
Fax: 03-3241-2262

Osaka Business Office

5-7, Doshomachi 2-chome, Chuo-ku,
Osaka 541-0045, Japan
Phone: 06-6203-3812
Fax: 06-6231-8367

Other Domestic Business Offices

Sapporo, Morioka, Sendai, Takasaki,
Mito, Koshinetsu, Saitama, Chiba,
Yokohama, Nagoya, Kyoto, Kanazawa,
Kobe, Takamatsu, Okayama, Hiroshima,
Fukuoka, Kumamoto, Kagoshima

Research Laboratories

Kyoto
14, Nishinosho-Monguchi-cho,
Kisshoin, Minami-ku,
Kyoto 601-8550, Japan
Phone: 075-321-1111
Fax: 075-321-0678

Tsukuba
3-14-1, Sakura, Tsukuba,
Ibaraki 305-0003, Japan
Phone: 0298-50-6216
Fax: 0298-50-6217

Odawara Central Factory

676-1, Kuwabara,
Odawara 250-0861, Japan

**Chitose Synthesis Plant/
Chitose Foodstuffs Plant**

1007-81, Izumisawa, Chitose,
Hokkaido 066-0051, Japan

Morioka Factory

5-53, Aoyama 2-chome,
Morioka 020-0133, Japan

Overseas Office

Düsseldorf Office
Stresemannstr. 46, 40210 Düsseldorf,
Germany
Phone: 0211-350648
Fax: 0211-161429

(As of July 2005)

Overseas Subsidiary**NS Pharma, Inc.**

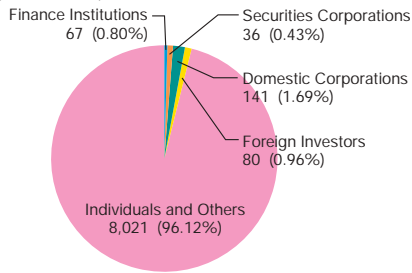
President: Shun Aruga

9 Campus Drive, 3rd Floor
Parsippany, NJ07054, U.S.A.
Phone: 973-285-7010
Fax: 973-267-4240

Distribution of Shareholders and Shares

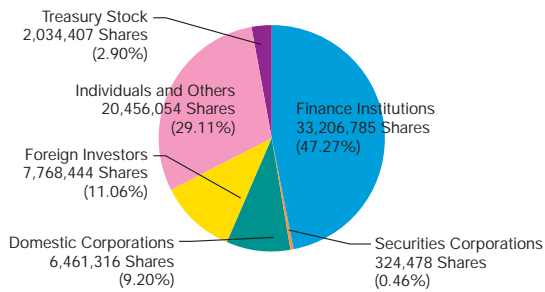
◆ Number of Shareholders

8,345 (100.00%)



◆ Number of Shares Issued

70,251,484 Shares (100.00%)



Stock Price Range

