ANNUAL REPORT 2007

Nippon Shinyaku

NIPPON SHINYAKU CO., LTD.

Profile

Founded in Japan's ancient capital of Kyoto in 1919, Nippon Shinyaku is an R&D-oriented pharmaceutical company specializing in the development, manufacture, and sale of ethical drugs. In addition, since 1961 the Company's Food Division (now the Functional Food Company, a semi-autonomous division) has been engaged in the development, production, and sale of functional food ingredients such as protein preparations, agents for improving food shelf life, and health food ingredients. This new business has made optimum use of the proprietary technology and expertise in quality control that the Company has perfected through its mainline business of ethical pharmaceuticals.

Since its establishment, Nippon Shinyaku's goal in the pharmaceutical business has been to develop unique, original pharmaceutical products. It has been consistently committed to original research and development to create new products that improve patients' quality of life. At our two Discovery Research Laboratories in Kyoto and Tsukuba, we are currently focusing on the therapeutic areas of urology, inflammation and allergy, and hematologic malignancies. At our Tsukuba Discovery Research Laboratory, we are devoting our energies to nucleic acid research, particularly RNA synthesis technology. Overseas, our Düsseldorf Office in Germany and our U.S. subsidiary NS Pharma in New Jersey collect pharmaceutical information in Europe and the United States, respectively.

On the production front, the pharmaceuticals formulation plant at our Odawara Central Factory has one of the largest floor areas and highest production capacities in the Japanese pharmaceutical industry, while our Chitose Synthesis Plant specializes in manufacturing drug bulk substances.

In the functional food business, Nippon Shinyaku is involved in the development, manufacture and sale of functional food ingredients that match the requirements of processed food manufacturers and health food manufacturers. Research is being conducted by our Food Development Research Laboratory in Kyoto, and recently we have been making a particular effort in the research and development of health food ingredients that help maintain and improve public health. We have three production bases – the Morioka Factory, the Chitose Functional Food Plant, and our subsidiary Tajima Syokuhin Kogyo Co., Ltd. in Toyooka. The majority of our customers are major Japanese food manufacturers.

Through the supply of pharmaceuticals and functional foods, Nippon Shinyaku hopes to make people's increasingly long lives more productive, more healthy, and more vigorous.

Kyoto Headquarters

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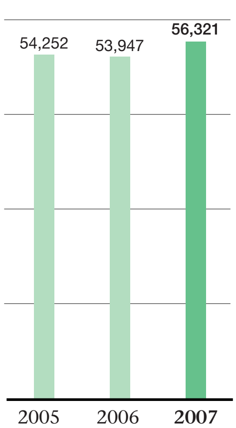
Consolidated Financial Highlights

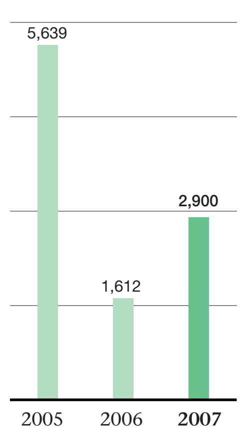
Years ended March 31, 2007 and 2006	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 2) 2007
Net sales	**¥ 56,321**	¥ 53,947	**$477,297**
Income before income taxes and minority interests	**5,290**	3,285	**44,831**
Net income	**2,900**	1,612	**24,576**
Amounts per share (in yen and U.S. dollars):			
Basic net income	**¥ 42.73**	¥ 22.84	**$ 0.36**
Net assets per share (Note 1)	**1,123.56**	1,105.56	**9.52**
Total assets	**¥ 104,873**	¥ 104,899	**$888,754**
Equity	**76,070**	75,412	**644,661**
Capital Investment	**1,409**	1,184	**11,932**
R&D expenses	**8,200**	10,071	**69,492**

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=¥118, the approximate exchange rate on March 31, 2007.

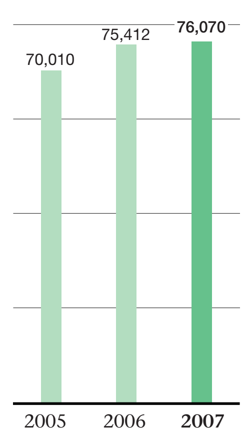
Net Sales
(Millions of yen)



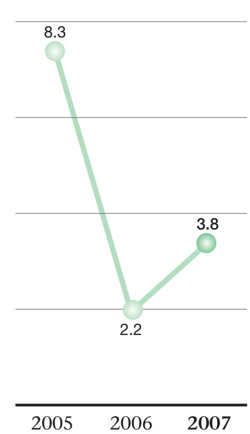
Net Income
(Millions of yen)



Equity
(Millions of yen)



Return on Equity
(%)

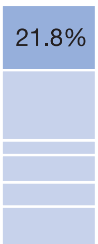


At a Glance

Sales breakdown

Net sales ¥56,321 million

Pharmaceuticals ¥46,542 million (82.6%)



Drugs for Urological Diseases

¥12,298 million

Main Products

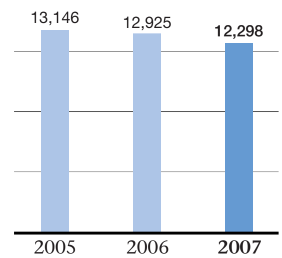
Eviprostat®(herbal extracts)
Remedy for Benign Prostatic Hypertrophy

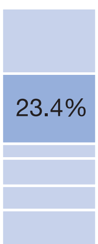
Bladderon®(flavoxate hydrochloride)
Remedy for Pollakisuria

Estracyt (estramustine sodium phosphate)
Remedy for Prostate Cancer

Urocalun (quercus salicina extract)
Remedy for Urinary Calculus

Sales (Millions of yen)





Drugs for Inflammation and Allergy

¥13,151 million

Main Products

Hypen®(etodolac)
Non-Steroidal Analgesic and Anti-inflammatory Agent

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

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

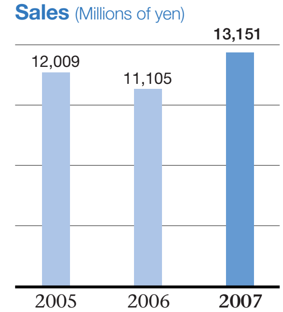
Azunol® Gargle 4%
A Gargling Solution Containing Azulene

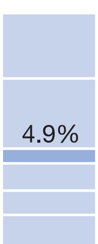
Leftose®(lysozyme hydrochloride preparation)
Anti-inflammatory Enzyme Treatment to Control Bleeding

Orcl (actarit)
Antirheumatic Agent

Baynas®
Remedy for Allergic Rhinitis

Sales (Millions of yen)





Drugs for Hematologic Malignancies

¥2,781 million

Main Products

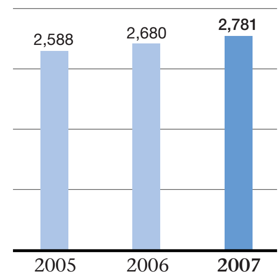
Cylocide (cytarabine)
Remedy for Acute Leukemia and Solid Cancer

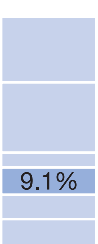
Cylocide N (cytarabine)
Remedy for Relapsed and Refractory Acute Leukemia and Malignant Lymphoma

Trisenox®
Remedy for Relapsed and Refractory Acute Promyelocytic Leukemia

Amnolake®
Remedy for Relapsed and Refractory Acute Promyelocytic Leukemia

Sales (Millions of yen)





Drugs for Cardiovascular and Metabolic Diseases

¥5,124 million

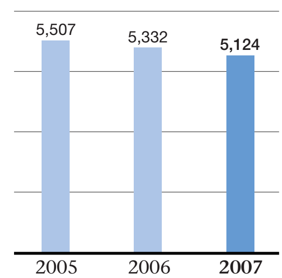
Main Products

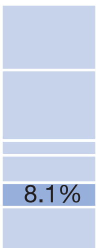
Selectol (celiprolol hydrochloride)
Remedy for Hypertension and Angina Pectoris

Glycoran (metformin hydrochloride)
Remedy for Diabetes

Odric®(ACE inhibitor)
Remedy for Anti-hypertension

Sales (Millions of yen)





Drugs for Gastrointestinal Disorders

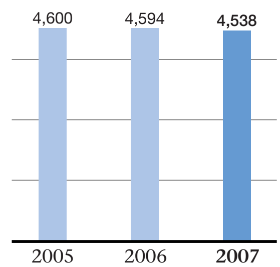
¥4,538 million

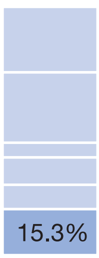
Main Products

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

Portolac®(lactitol hydrate)
Remedy for Hyperammonaemia

Sales (Millions of yen)





Others (Including the Proceeds from Intellectual Property Rights)

¥8,649 million

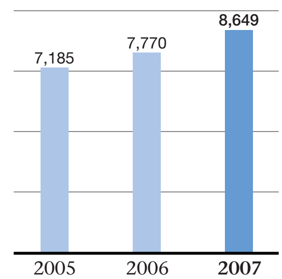
Main Products

Cephadol®(difenidol hydrochloride)
Remedy for Vertigo

Iodocoat
Remedy for Decubital Ulcer and Skin Ulcer

Prulifloxacin
Synthetic Antibacterial Agent

(Millions of yen)

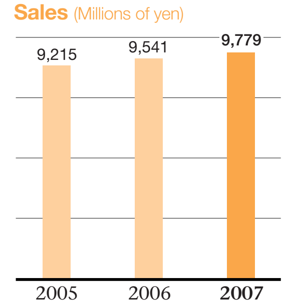


Functional Food ¥9,779 million(17.4%)

Main Products

Protein preparations
Preservatives
Seasonings and spices
Health food materials

Sales (Millions of yen)



Urajirogashi (Quercus salicina)

Akamegashiwa (Mallotus Japonicus)

Product names followed by ® represent trademarks registered in Japan.

Message from the President

It gives me great pleasure to address our stakeholders in my capacity as President of Nippon Shinyaku. I took over from former President Kazuto Hatsuyama, who assumed the post of Chairman, in June 2007. I look forward to serving you, and appreciate your continuing support.

Operating Environment

The Japanese economy experienced a moderate recovery, as evidenced by increased capital investment in line with strong corporate earnings. Other contributory factors included improvements in the employment and income environment. Thanks to the contribution of new products, the pharmaceutical industry reported a slight growth in market scale from the previous year, despite a downward revision in NHI (national health insurance) drug prices.

Japan is facing the prospect of a severe impact from its declining birthrate, as well as a population aging with a momentum unprecedented in the world. Amid growing concern over the limited financial resources of the social welfare system, intense debate surrounds the issues of pensions, national health insurance, and nursing care. Concern among the citizens of Japan is particularly strong regarding their health, and the medical care system that supports it. The question of how to design a sustainable medical care system backed by sound finances is becoming a major political issue.

In the pharmaceutical business, our operating environment remains severe, mainly due to the lowering of NHI drug prices and the government's encouragement of the use of generic pharmaceuticals with the aim of reducing medical expenditures. The operating environment in the food products industry is also becoming increasingly severe as a result of rising raw materials prices, intensifying price competition in an oversaturated market, and a simultaneous tightening of regulations on health food products and a shortening of their life cycles.

Medium- and Long-Term Management Strategies

Amid these circumstances, Nippon Shinyaku is working to pinpoint the needs of consumers in the pharmaceutical and health food industries. Our overarching management goal — tied to our future progress and expansion — is to achieve a

Topics

July 2006

Baynas® Tablets, a remedy for allergic rhinitis, put on sale

November 2006

- Concluded a licensing agreement with Pharmion Corporation of the United States regarding Vidaza®, the first FDA-approved therapy for myelodysplastic syndrome (MDS)
- Displayed our RNA synthesis technology at the EuroTIDES 2006 exhibition

December 2006

Business operations commenced by Laplus Pharma Co., Ltd., a subsidiary of the Company engaged in health food mail-order sales steady and sustained sales growth and to secure profit, through the efficient development and regular launching of superior new products.

As we are required to demonstrate the efficacy and safety of our drug candidates based on global standards, our R&D expenses will inevitably increase. This is likely to pose a strain on our management resources. In this situation, we must efficiently manage the direction of our research and development. Nippon Shinyaku plans to diversify R&D — related risks through development partnerships with other pharmaceutical companies and with companies in different industrial sectors. In addition, we have been participating in joint research conducted by industry, government and academia since the year before last, and are finally beginning to see results. We are making steady progress in the nucleic acid drugs business, which we started up last year, and plan to commence full-scale operations during the current fiscal year.

While we are concentrating management resources on the areas of urology and inflammatory/allergic diseases in our development of new drugs, we are also licensing-in and developing new agents for the treatment of intractable hematologic malignancies and alcoholism, which has a potential social impact reaching well beyond the affected individual. In terms of new formulation of our products, within this fiscal year, we plan to film coat the tablet for diabetes, which was launched as a smaller-sized tablet last year. We have launched a new formulation, oral disintegrant tablets, which can be taken without water, for the treatment of gastric ulcer and gastritis. We expect such products to contribute significantly to the growth of our sales.

As for our functional food business, soybean protein and other additives used at the food processing stage have shown a steady growth in sales. In addition, we expanded our sales channels through the establishment of a health food mail-order company, Laplus Pharma Co., Ltd. We also have great expectations of expanding our functional food business.

Further Enhancing Our Enterprise Value

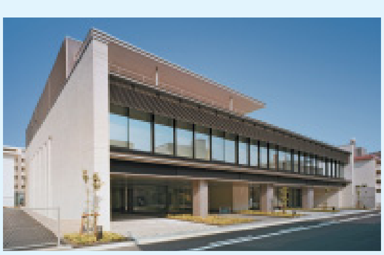
With the aim of becoming a strong and competitive company, Nippon Shinyaku is making unceasing efforts to develop innovative, unique pharmaceutical and functional food products that will contribute to the improvement of people's health and the quality of their lives. To this end, we not only provide high-quality products, but also believe it absolutely necessary to create a highly profitable company, with quality human resources and a flexible organization. I will do my best to ensure that Nippon Shinyaku makes a significant social contribution as a provider of high-quality products, winning the trust of the public; that we conduct management in a way that meets the expectations of our investors; and that we simultaneously undertake corporate activities to raise the Company's enterprise value.

S. Maekawa

Shigenobu Maekawa
President

February 2007

Completion of new premises for the Company's Nagoya Business Office



April 2007

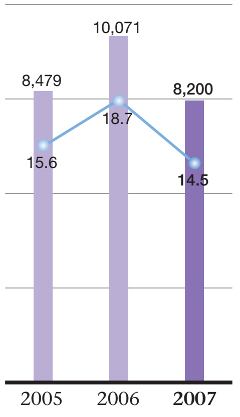
Company announces development of method of synthesizing world's longest RNA oligomers

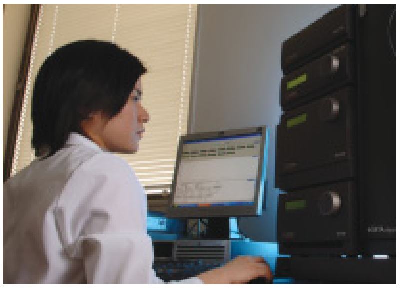
May 2007

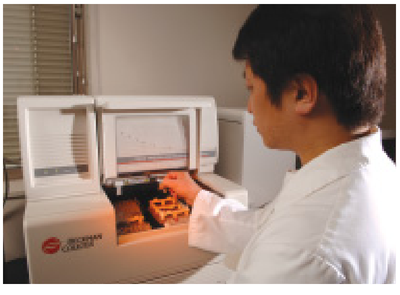
Method of synthesizing nucleic acid demonstrated at the TIDES 2007 international conference on nucleic acid technology

Research and Development

Consolidated R&D Expenses
Ratio to Net Sales
(Millions of yen) (%)







DRUG DEVELOPMENT POLICY

As the hurdles facing drug approval grow higher each year, and R&D expenses continue to increase, Nippon Shinyaku is using its cutting-edge technological expertise in the field of drug discovery to move forward with research and development for the discovery of entirely new categories of drugs. As a medium-sized company, Nippon Shinyaku aims to be a specialty pharmaceutical company that focuses on the development of new drugs for highly specialized niche markets commensurate with its corporate scale.

To make efficient use of R&D expenses and resources, we are concentrating on three areas, urological disorders, allergic/inflammatory disorders, and hematologic malignancies. All R&D activities are carried out with the purpose of discovering, developing and providing unique pharmaceuticals to patients as early as possible. For our original products, we establish development strategies, which include overseas business development plans. At the same time, when we discover drugs that could have indications outside the scope of our own focus areas, we look for the possibility of jointly developing these drugs with other companies or licensing them out, to maximize their value. In our research on nucleic acid drugs based on the mass synthesis technologies of nucleic acids established in our research laboratories, besides the discovery and production of new drugs, we are aiming to quickly establish new business based on our nucleic research. This would include the provision of a drug discovery platform, as well as the synthesis and supply of pharmaceutical and nucleic acid reagents.

RESULTS OF ACTIVITIES

NS-187, a drug for the treatment of chronic myelogenous leukemia which we licensed-out to the U.S. company Innovive Pharmaceuticals, Inc. in December 2005 (Phase I trials have been started in the U.S. and EU), and NS-17 (azacitidine, Vidaza®), a remedy for myelodysplastic syndrome in-licensed from U.S. company Pharmion in 2007 (preparations for Phase I trials have begun) are in the development stage. With Amnolake® and Trisenox®, which are used in the treatment of refractory/relapsed acute promyelocytic leukemia, and Cylocide and Cylocide N, remedies for leukemia and malignant lymphoma, being already on the market, we are aiming to further expand our product lineup in the area of hematologic malignancies.

We filed an application for approval of NS-126, a new steroid inhaler for the treatment of allergic rhinitis in December 2006, and are conducting a Phase III trial of NS-315 for cancer pain. NS-11(acamprosate), an agent for the treatment of alcohol dependency, is in the Phase II trial. In January 2007 Angelini ACRAF S.p.A launched our quinolone antibacterial agent prulifloxacin in Portugal, following its launch in Italy. The Phase III trial of prulifloxacin is being conducted by the U.S. company Optimer, and our licensee in South Korea, Yuhan Corp. has completed clinical trials of the drug and filed an application for approval.

R&D expenses in fiscal 2006 reached around ¥8.2 billion (approximately 15% of total sales).

DRUG DEVELOPMENT ORGANIZATION AND FUNCTION

Domestic

Nippon Shinyaku employs around 350 R&D staff. Collaborative efforts by our Kyoto and Tsukuba Research Laboratories for the development of in-house compounds have enabled us to build up our pipeline and to conduct clinical trials for our own original products and in-licensed/jointly developed products. We are putting particular effort into genomics-based drug discovery research, including investigations into the structure and function of proteins and nucleic acids, and into the commercialization of nucleic acid drugs.

At the Discovery Research Laboratories in Kyoto, which are Nippon Shinyaku's main R&D facilities, we are synthesizing and exploring novel compounds in line with our basic R&D strategy, and conducting pharmacological, toxicological, pharmacokinetic, and formulation studies to generate new drug candidates. We are working to improve existing formulations by applying our proprietary drug formulation technologies.

At our Tsukuba-based Discovery Research Laboratories, we are conducting cutting-edge drug discovery research into new nucleic acid drugs, based on our proprietary long-chain RNA synthesis technology and cationic liposomes, which are excellent RNA drug carriers. We have established the RNA Drug and Technology Business Dept. aimed at early commercialization of our nucleic acid drugs, and are coordinating our efforts with other companies and institutes.

In the interests of efficient research, we are actively promoting coordination efforts with various organizations. Through joint operation with 20 pharmaceutical enterprises, we have constructed a specialized beamline in the Harima synchrotron radiation facility, Spring-8, and are applying protein structure analysis to drug discovery. We are also investing and participating in Reverse Proteomics Research Institute (REPRORI), an organization made up of 11 pharmaceutical companies. We intend to further our genomics-based drug discovery, such as the search for new drug targets and analysis of drug mechanism, using the results of this institute's research, which is aimed at investigating and evaluating the interactions between proteins derived from human full-length cDNA and commonly used low molecular weight pharmaceuticals.

International

Nippon Shinyaku established an overseas office in Düsseldorf, Germany in 1991, and opened a New York office in 1997. In 1999, we upgraded the New York Office to a subsidiary, NS Pharma, Inc. (later moving its base of operations to Parsippany, and now in Paramus, New Jersey). These overseas operations focus on licensing activities and the collection of the latest information on new drug development technologies and newly developed drug candidates from the major pharmaceutical companies, venture firms, and research institutions in Europe and the U.S. They play an important role in our global development activities.

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

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

Discovery Research Laboratories in Tsukuba

Research and Development

DRUGS UNDER DEVELOPMENT

In recent years, to ensure the efficient investment of limited R&D resources, we have re-examined our development pipeline primarily from the perspective of marketability and probability of success. As a result, at present we have one product awaiting approval, two Phase III products, three Phase II products and two Phase I products (including products in the preparation stage). Of these, three products were discovered in-house. Provided the development of these products proceeds smoothly, we anticipate they will become Nippon Shinyaku's next-generation core products. The following table shows our pipeline compounds, including details of their development stage and expected indications.

R&D compounds

(As of July 2007)

Domestic

Stage	Code No.	Generic name	Therapeutic field	Indications	Development
Pre-registration	NS-126		inflammation/allergy	allergic rhinitis	licensed-in from Hisamitsu Pharmaceutical Co., Inc.
Phase III	NS-315	tramadol hydrochloride	inflammation/allergy	non-narcotic analgesic (cancer pain)	licensed-in from Grünenthal GmbH
Phase II	NS-126		inflammation/allergy	bronchial asthma	licensed-in from Hisamitsu Pharmaceutical Co., Inc.
Phase II	NS-11	acamprosate	others	alcohol dependence	licensed-in from Merck Sante S.A.S.
Preparation for Phase I	NS-17	azacitidine	chemotherapeutics	myelodysplastic syndrome	licensed-in from Pharmion Corporation

Overseas

Stage	Code No.	Generic name	Therapeutic field	Indications	Licensee
Pre-registration	NM441	prulifloxacin	chemotherapeutics	bacterial infections	Yuhan Corporation
Phase III					Optimer Pharmaceuticals, Inc.
Preparation for Phase II	NS-304		cardiovascular	pulmonary hypertension	
Phase I	NS-187		chemotherapeutics	chronic myelogenous leukemia	INNOVIVE Pharmaceuticals, Inc.

Research & Development

Junichi Yano, Ph.D

Director: General Manager, Research & Development Division

Our target for the current term are to speed up the drug R&D process right up to application for approval and to enrich our current R&D pipelines. In the field of new drug discovery, we are investing management resources in a particularly focused manner in the therapeutic areas of urology, and inflammation/allergies. In addition, we are working to license-in new drugs from other companies in the aforementioned two therapeutic areas as well as in blood malignancy. Regarding in-house-developed drugs that are competitive in overseas markets, we will be making efforts to market such drugs in various countries through the licensing-out as well as joint development.

To realize these goals, we will selectively focus management resources on the most promising drug candidates and target areas, and will work to appropriately and efficiently allocate management resources on a priority basis. We will also adopt a more rigorous approach than hitherto to the evaluation of R&D candidates, as well as risk management and schedule management.

We are planning to set up a nucleic acid-based pharmaceutical business utilizing our own technology, based on our recent successes in RNA interference (RNAi) drug discovery research. During the current business term, we will be offering our services to other pharmaceuticals companies on a consignment basis in the production of RNA synthesis and the production of bulk RNA synthetic materials as well as drug delivery system. With these activities at the core, we hope to develop a commercially feasible nucleic acid-based pharmaceutical business.

Our Medical Representatives

With our focus on the therapeutic areas of urology, inflammation and allergy and hematological malignancies, we are able to make efficient calls on medical institutions throughout Japan. The area of urology in particular is the franchise area in which we have the longest history. Eviprostat®, a remedy for prostatic hypertrophy, has been on the market for 40 years and is still one of our top products. Bladderon®, a pioneer medication to treat symptoms of overactive bladder, has also been on the market almost 30 years and has carved out a firm position for itself in the market.

Recently, the market has seen the arrival of a string of competitor drugs to treat prostatic hypertrophy and overactive bladder. In response, we are conducting basic and clinical research into the efficacy of Eviprostat® and Bladderon® from a new perspective, and are providing doctors with suggestions on better use. We are also examining new drug standards and new formulations that are easier to take.

To further consolidate the position that senior medical representatives have established for Nippon Shinyaku in the urology field, our medical representatives will continue their vigorous marketing activities, targeting all urology specialists to earn higher levels of trust.

In the inflammation and allergy area, in addition to the localized allergy drugs Livostin® Nasal Spray and Livostin® Eye Drops, in July 2006 we obtained the marketing rights to Baynas®, an oral remedy for allergic rhinitis, from Bayer Yakuhin, Ltd. We are expanding our lineup in this area and further increasing our market presence, in preparation for the forthcoming launch of NS-126.

Marketing

Toshihiko Sago

Managing Director: General Manager, Marketing Division

Nippon Shinyaku's marketing is highly dependent on the professional skills of its medical representatives, all of whom are very capable of thinking for themselves and take a proactive approach to developing the Company's business in the territories for which each of them are solely responsible, based on our marketing policies. We constantly urge them to further deepen their background knowledge regarding the pharmaceutical products they market to healthcare professionals, and to visit all the doctors on their lists more frequently. The training of medical representatives is an important part of the duties of our marketing managers, and they are required to accompany each medical representative under their authority on calls on doctors, so as to demonstrate directly how to effectively communicate with the Company's primary customers.

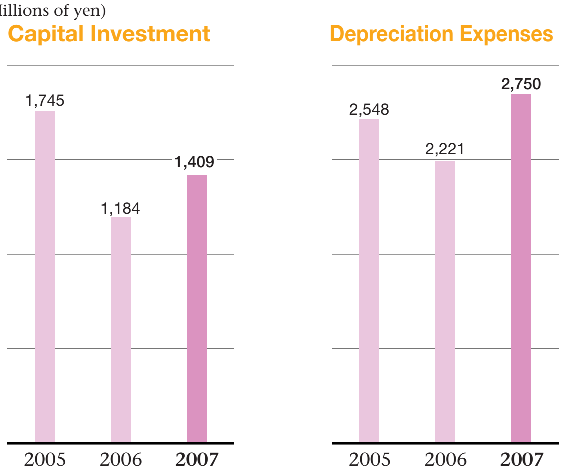
Our particular strategy during the current term is to raise profitability by focusing our marketing efforts on drugs with high profit margins that are also expected to sell strongly. We have drawn up action plans covering our principal products, and made exhaustive and detailed presentations of important points to the doctors on whom our medical representatives pay calls, which are used as guidelines for medical representatives.

The Japanese authorities are constantly tightening their rules and guidelines to curtail medical expenses under the national health insurance system, but there is no magic formula that we in the marketing division can use to bypass this problem. All our staff must maintain a sense of urgency and unity in their work, and continue to faithfully observe the fundamentals of marketing.

Manufacturing

Odawara Central Factory

Capital Investment and Depreciation Expenses in Last 3 Years
(consolidated)
(Millions of yen)



Chitose Synthesis Plant / Chitose Functional Food Plant

Nippon Shinyaku has four manufacturing plants: two pharmaceutical plants — the Chitose Synthesis Plant for the production of drug bulk substances and the Odawara Central Factory for the production of pharmaceutical products such as solid formulations, injections, etc. — and two plants for production of extracts and other food ingredients — the Chitose Functional Food 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 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. In March 2004, we began contract manufacturing of other companies' products. We are continually striving to improve our production processes, as we 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 in 1999 within the Chitose Airport Industrial Complex near the New Chitose International Airport. The Plant was established for the manufacture of drug bulk substances for in-house development compounds from the clinical trial stage, and it meets the standards required for audits by overseas regulatory authorities. The Plant produces some drug bulk substances used at the Odawara Central Factory and has also begun manufacturing drug bulk 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.

Production

Nobuyoshi Sumi, Dr. med. vet.

Director: General Manager, International Business Division, Resource Procurement Division & Production Division

Every day, the staff of Nippon Shinyaku's Production Division devote their efforts to the manufacture of products of a guaranteed high quality level, to minimize the adverse impact of the Company's production operations on the natural environment and to contribute to the economic and cultural development of regional community in which we operate.

To ensure high product quality, we observe current good manufacturing practices (cGMP), and continually invest management resources toward introducing leading-edge equipment and facilities, as well as training employees. We are also constantly mindful of the need for effort to preserve the global environment, to which end we will take all necessary measures to obtain regular updating of our ISO 14001 environmental management systems certification (which we first acquired in 2004) for our flagship Odawara Central Factory.

We encourage our employees to volunteer for neighborhood cleanup initiatives, which has the additional positive effect of strengthening ties with the communities in which our plants and offices are located, which leads to the contribution to the economic and cultural development of each regional community in which we operate.

To ensure that Nippon Shinyaku never loses its reputation for trustworthiness among the wider community, all the staff of the Production Division are working and studying to improve themselves as employees and as responsible members of society with pride in the community in which they work.

Functional Food Company

The Functional Food Company's main activities are the manufacture and sale of processed food ingredients, including health foods, protein preparations, and agents for improving food shelf life.

We sell mainly to major Japanese food manufacturers, and research is being conducted by our Food Development Research Laboratory in Kyoto.

We have three production bases — the Morioka Factory, the Chitose Functional Food Plant, and our subsidiary Tajima Syokuhin Kogyo Co., Ltd. in Toyooka.

We plan to transfer operations hitherto carried out at our Morioka Factory to Tajima Syokuhin Kogyo Co., Ltd., to reduce production costs and increase competitiveness.

In fiscal 2006, the health foods segment registered brisk sales of evidence-based health foods such as extract of Urajirogashi (Quercus salicina) and garcinia extract. We also launched hyaluronic acid on the market.

In April, we established Laplus Pharma Co., Ltd. to sell health foods to general consumers, and in December we began using television mail-order and Internet sales to market the health food "Bellfemina," whose main ingredient is extract of Akamegashiwa (Mallotus Japonica).

In the protein preparation segment, in 2004, to reinforce our existing product lineup of egg white powder, whey protein concentrate and wheat gluten, we began selling soy protein concentrate and soy protein isolate, and have since been working to expand sales of these products. We also launched a new soy protein isolate for use in ham.

As regards agents for improving food shelf life segment, we have devoted ourselves to developing and improving products to meet the requirements of each particular industry, including the ham and sausage industry, the bread industry, the convenience store industry and the cream industry.

We also have a line-up of sanitation products, and are proud to be making a significant contribution to Japan's processed food industry.

Functional Food Company

Hiroshi Adachi

Director: COO, Functional Food Company

Because of the saturation of the processed food market, we are operating in an environment where, in spite of rising raw materials costs, cutthroat price competition is endemic. With short shelf-life products and strict regulations, the health food industry is no place for the faint-hearted.

In this environment, I believe that, for the healthy development of the Functional Food Company, it is essential to recreate a more highly rationalized organization that is more suited to the times.

Nippon Shinyaku's goal is to be an excellent company. As a division of Nippon Shinyaku, we will also play our part in this by (1) focusing on the areas of health food ingredients, protein preparations and agents for improving food shelf life, (2) rationalizing our production system, (3) expanding our customer base, (4) increasing our R&D activities, (5) intensifying central administrative control, and (6) getting our new health food sales subsidiary Laplus Pharma Co., Ltd. off to a good start.

The Functional Food Company will endeavor to improve its results through activities that inspire trust and confidence within society with the aim of becoming a presence that could take the lead within Nippon Shinyaku.

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.

The Company's Board of Directors comprises seven members: the Chairman of the Board, the President, two Managing Directors, and three Directors, all of whom play a role as members of the supreme decision-making body. In principle, the Board convenes once a month to decide on matters of primary business as defined in the Board Regulations, and to ascertain the state of affairs of our business operations.

Aiming at further clarifying the management responsibilities of the Board of Directors and creating an optimal management structure that can respond flexibly to changes in the operating environment, we have adopted a one-year term for directors. To clearly separate day-to-day business functions from management supervisory functions, we have adopted a corporate officer system.

Instead of introducing a committee-based auditing system, we maintain the conventional statutory auditor system. Our Board of Auditors is composed of four statutory auditors, two of whom are full-time auditors, the other two being part-time external auditors. Corporate Auditors attend all Board meetings, where they fulfill their management oversight function as the Board of Auditors as a whole. Our Corporate Auditors, through regular meetings with accounting auditors, keep in close contact and make efforts to mutually improve the effectiveness of the audits and overall audit efficiency. Corporate Auditors also maintain close contact with the Company's internal auditing staff so as to exchange opinions on their audit plans and the results of audits.

In addition to audits by the Corporate Auditors, we also have an auditing department that reports directly to the President and conducts operational audits for internal controls in accordance with internal auditing guidelines.

Nippon Shinyaku's overriding principle is respect for human dignity, and we strive to conduct ourselves according to high ethical standards, always keeping our contribution to society in mind. We recognize that such conduct is closely associated with the improvement of our enterprise value. An internal control system is one of our means to that end, and it is a process implemented by all Company staff. We do all we can to ensure full compliance with laws and regulations, and seek effectiveness and efficiency in our business affairs. It is our duty to ensure the accuracy of our financial reports.

Our Board of Directors passed a resolution to establish an internal control system, and is currently implementing measures to strengthen internal controls.

We have also drafted a "Charter of Business Conduct," "Compliance Program Standards," and other important documents. In April 2007, we established an internal controls center to reinforce our internal control framework under unified control. Currently, the center is responsible for companywide risk management, in addition to corporate ethics promotion and internal control.

At the Board of Directors meeting held on May 14, 2007, the board decided to introduce measures to prevent a hostile takeover through large-lot purchases of the Company's shares. These measures were approved at the shareholders' meeting held on June 28, 2007. This move is aimed at raising the Company's enterprise value and securing common profit for all existing shareholders. The newly established rule will be applied to large-scale share purchases aimed at acquiring more than 20% of total voting rights.

Corporate Social Responsibility

CSR Initiatives

1. Social Contribution Activities

To fulfill the expectations of our stakeholders, including business partners and members of the local community, we conduct numerous social contribution activities in the communities where our plants and other facilities are located. For example, we actively encourage tours by educational institutions and other groups, as well as members of the local community of our research laboratories, our plants, and the Nippon Shinyaku Institute for Botanical Research by educational institutions and other groups, as well as members of the local community. We also support initiatives undertaken by individual employees. Our employees actively participate — together with local residents — in volunteer clean-up events in the vicinity of our business premises.

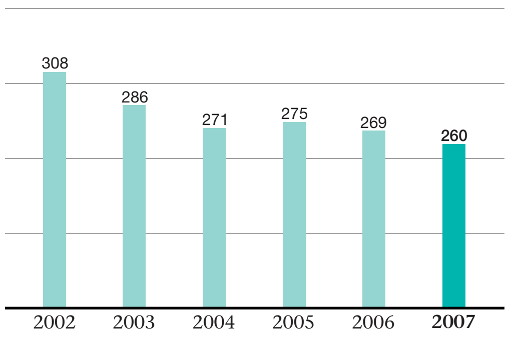
2. Relations with Customers

Pharmaceutical products are effective only when used with a full understanding of the conditions of their application. The desired effect of a pharmaceutical product is realized only when adequate attention is given to intended effects, recommended dosages, mechanism of action and adverse side-effects, and when the correct amount of the drug is prescribed. We have set up a dedicated section to handle inquiries regarding our drugs from doctors and pharmacists. In answering these inquiries, our first concern is to ensure that our pharmaceutical products are used correctly. In addition, we receive a wide range of inquiries from individual patients, and do our best to provide them with explanations that are precise and easy to understand.

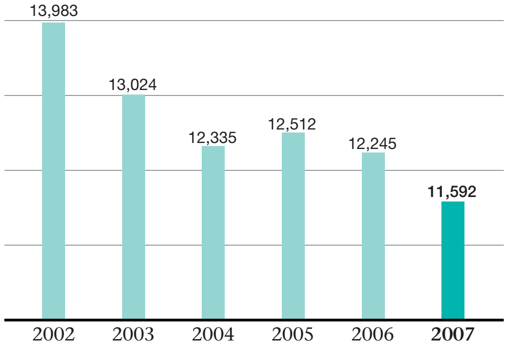
3. Relations with Employees

We consider our employees to be very important stakeholders. We have created an internal compliance system to help us realize our objectives of managing the Company in such a way as to gain the trust of the general public and meet the expectations of our shareholders. With regard to the introduction of the new law to protect personal information, we have drawn up a list of rules to ensure adequate protection in the collection, storage and use of personal information, and are adhering to these rules in our daily operations. In addition, we are implementing measures companywide to ensure that safety and hygiene standards are maintained, as well as measures to prevent sexual harassment and abuses of authority, and to promote mental health.

Total Energy Consumption (1,000 GJ)

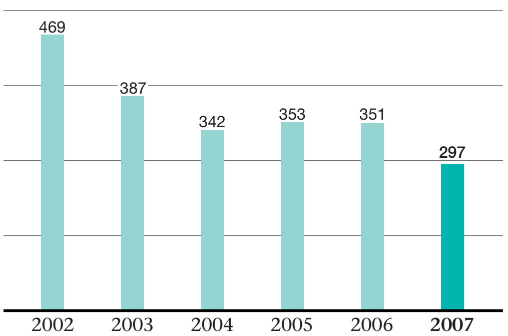


CO_2 Emissions (ton)

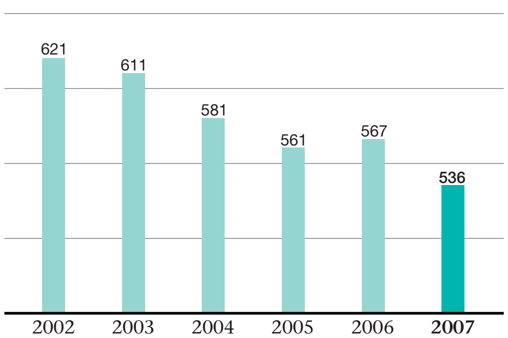


Carbon dioxide emission intensity
= Total CO_2 emissions / sales (tons/millions of yen)

Water Used (1,000m^3)



Waste Generated (ton)



Environmental Initiatives

Under the Board of Directors, Nippon Shinyaku has established a corporate-level Environment Committee to deal with key environmental issues across the Company. We have also set up an environmental committee at each factory, branch office and laboratory.

To protect the environment, we seek to minimize the impact of our business activities in accordance with our Basic Environmental Policy. We have voluntarily set environmental preservation targets to ensure the systematic promotion of our environmental initiatives. We have chosen eight items in our drive to protect the environment, including cutting carbon dioxide emissions, reducing waste generated, more effective management of chemical substances, and the promotion of environmental preservation and social contribution activities. Specific measures include maintaining air conditioning and heating temperatures at appropriate levels, lowering the final disposal rate, reducing the evaporation of halogen compounds, and contributing to the local community through participation in volunteer activities.

As a company based in the city where the Kyoto Protocol was signed, we are actively working to cut our carbon dioxide emissions in accordance with the Kyoto City Global Warming Provisions and the Kyoto Prefecture Global Warming Provisions, which went into effect in April 2005 and April 2006, respectively.

We remain ISO14001 accredited for the environmental management systems at our Odawara Central Factory, Chitose Synthesis Plant, and Chitose Functional Food Plant.

We are planning to introduce our environmental management systems at our consolidated subsidiary Sioe Pharmaceutical Company Limited, located in Amagasaki City, Hyogo Prefecture. Our environmental impact is shown in the graphs at left.

Board of Directors and Corporate Auditors

As of June 28, 2007

Director Junichi Yano · *Director* Nobuyoshi Sumi · *Director* Hiroshi Adachi

Managing Director Yoshihisa Shibata · *Chairman* Kazuto Hatsuyama · *President* Shigenobu Maekawa · *Managing Director* Toshihiko Sago

Chairman

Kazuto Hatsuyama

President

Shigenobu Maekawa

Managing Directors

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

Toshihiko Sago
(General Manager, Marketing 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)

Hiroshi Adachi
(COO, Functional Food Company)

Corporate Auditors

Youichi Toriyama

Sadayasu Nagai

Yasuo Tanabe

Hajime Nishikawa

Corporate Officers

Kazushige Itabashi
(General Manager, IP & Licensing Division)

Hideo Arai
(General Manager, Nagoya Business Office)

Kichiro Inoue, Ph. D.
(General Manager, R&D Center)

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

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

Yojiro Ukai, Ph. D.
(General Manager, R&D Administration Division)

Takeshi Nomura
(General Manager, Osaka Business Office)

Toru Sakata
(General Manager, Tokyo Business Office)

Kazuo Fukushima
(General Manager, Corporate Planning Dept.)

Yoshio Konno
(General Manager, Regulatory Affairs Supervision & Assurance Division)

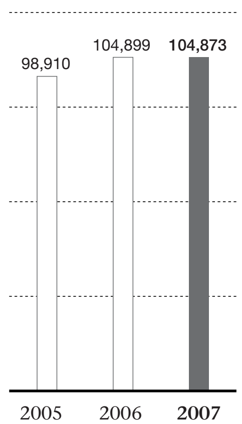
Financial Section Six-Year Summary (Consolidated)

	Millions of yen					
Years ended March 31	**2007**	2006	2005	2004	2003	2002
Net sales	**¥ 56,321**	¥53,947	¥54,252	¥51,326	¥52,942	¥50,587
Income before income taxes and minority interests	**5,290**	3,285	9,630	3,262	4,474	4,534
Net income	**2,900**	1,612	5,639	1,536	2,095	2,155
Amounts per share (in yen):						
Basic net income	**¥ 42.73**	¥22.84	¥81.22	¥21.50	¥29.20	¥30.68
Cash dividends applicable to the year	**12.00**	10.00	15.00	10.00	10.00	10.00
Total assets	**¥104,873**	¥104,899	¥98,910	¥104,008	¥109,549	¥103,871
Equity	**76,070**	75,412	70,010	65,396	61,614	61,770
Capital Investment	**1,409**	1,184	1,745	1,829	4,370	2,959
R&D expenses	**8,200**	10,071	8,479	8,263	7,885	7,023

Contents

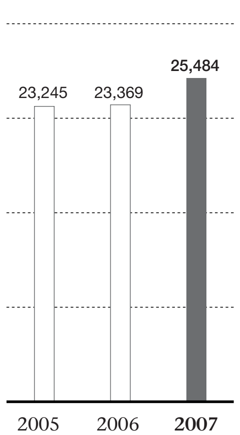
Management's Discussion and Analysis

Consolidated Total Assets
(Millions of yen)



Consolidated Equity Ratio
(%)

Consolidated Cost of Sales
(Millions of yen)



Financial Strategy

The Company maintains a sufficient level of retained earnings to reinforce its financial position while channeling management resources into commercially promising fields to improve competitiveness in the fast-evolving arena of pharmaceutical research and development. At the same time, we remain committed to adequate return of profit to our shareholders as a priority, our payout ratio target is about 30% depending on our business performance, under a basic policy of continuous and stable dividend payment of at least ¥10 per year.

Liquidity and Capital Resources

Total assets of the Company at the end of the reporting term stood at ¥104,873 million (US$888,754 thousand), a year-on-year decrease of ¥26 million. Increases in trade receivables and long-term prepaid expenses were more than offset by decreases in cash and cash equivalents, time deposits, and investment securities.

Total liabilities decreased ¥691 million year-on-year to ¥28,659 million (US$242,873 thousand). Increases in current liabilities such as notes and accounts payable and income taxes payable were outweighed by decreases in long-term debt and liability for retirement benefits.

Total equity amounted to ¥76,214 million (US$645,881 thousand). The equity ratio rose 0.6 percentage point year-on-year to 72.5%

Turning to cash flows, net cash provided by operating activities rose to ¥4,201 million (US$35,602 thousand). Increases in income before income taxes and depreciation and amortization outweighed an increase in notes and accounts receivable.

Net cash used in investing activities rose to ¥4,259 million (US$36,093 thousand), due mainly to acquisition of licensing rights and purchases of investment securities.

Net cash used in financing activities amounted to ¥2,448 million (US$20,746 million), due mainly to repayments of long-term debt, payment of cash dividends and an increase in shares in treasury.

As a result of the foregoing, cash and cash equivalents at the term-end decreased by ¥2,440 million year-on-year to ¥11,313 million (US$95,873 thousand).

The Company is committed to maintaining the soundness of its financial position, while ensuring sufficient cash liquidity and funding for business operations.

Consolidated Cash Flows (Millions of yen)

	2005	2006	**2007**
Net cash provided by operating activities	2,808	3,403	**4,201**
Net cash used in investing activities	(509)	(3,330)	**(4,259)**
Net cash used in financing activities	(6,394)	(2,392)	**(2,448)**
Cash and cash equivalents, end of year	15,951	13,753	**11,313**

Results of Operations (consolidated)

The pharmaceutical industry in Japan saw moderate growth thanks to the contribution of new products which came on market despite the lowering of the NHI (national health insurance) drug prices by an average of 6.7% in April 2006. The business environment in Japan, however, remains challenging as government measures to curb medical costs into the long-term are due to be strengthened. Debate over the need to reform the national health insurance system is intensifying in the face of increasing social welfare funding problems as the population grows older in line with the declining birthrate in Japan.

The food products industry continues to face a difficult operating environment, with consumption anemic and raw-material prices for processed foods rising. Functional foods are in a similar position, due to the strengthening of regulations and shortening of product life.

Against this backdrop, the Company and Group companies turned in a robust performance. Sales increased 4.4% year-on-year to ¥56,321 million (US$477,297 thousand). Operating and ordinary income respectively surged to ¥4,851 million (US$41,110 thousand), an 87.6% increase, and ¥5,290 million (US$44,831 thousand), up 61.0%. Net income soared 79.9% to ¥2,900 million (US$24,576 thousand).

Earnings by Segment

Pharmaceutical business

In the pharmaceutical business, growth was recorded in mainstay products such as non-steroidal analgesic and anti-inflammatory agent Hypen®, Livostin® Eye Drops, our remedy for allergic conjunctivitis, and Azunol® Gargle 4%, a gargling solution containing Azulene. However, our remedy for benign prostatic hypertrophy, Eviprostat®, and Bladderon® for pollakisuria suffered from competitive rival products coming on market. On a positive note, the effects of drug price revision in April 2006 were mitigated by higher sales of a remedy for allergic agent Baynas®, for which the Company acquired the marketing license rights from Bayer Yakuhin, Ltd. in July 2006.

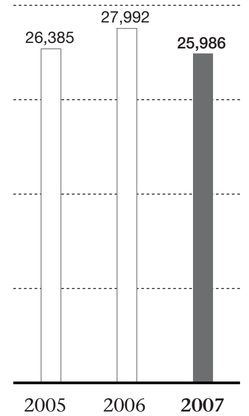
Outside the prescription drugs sector, falling sales of the synthetic antibacterial agent Prulifloxacin were countered by growing revenues from intellectual property rights. As a result of the above, segment sales increased 4.8% year-on-year to ¥46,542 million (US$394,424 thousand).

Functional Food business

In the functional food business, health food ingredients posted lackluster sales amid a still-difficult environment in both processed and health food categories. However, agents for improving food shelf life performed robustly. In addition, protein agents saw sales growth on the back of a strengthened of product lineup. As a result, segment sales posted a 2.5% increase from the previous term to ¥9,779 million (US$82,873 thousand).

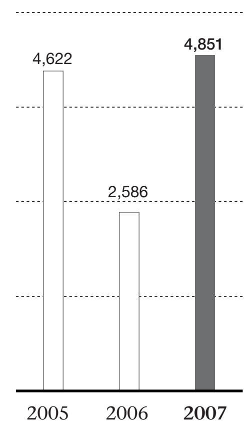
Consolidated Selling, General and Administrative Expenses

(Millions of yen)



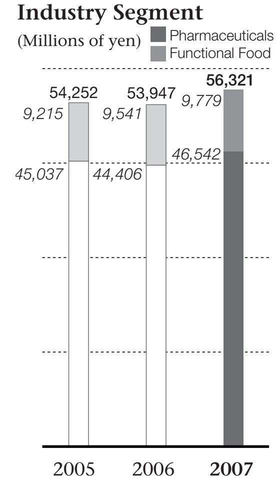
Consolidated Operating Income

(Millions of yen)



Consolidated Sales by Industry Segment

(Millions of yen)



Consolidated Balance Sheets

March 31, 2007 and 2006	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007
Assets			
Current assets:			
Cash and cash equivalents	**¥ 11,313**	¥ 13,753	**$95,873**
Time deposits	**80**	120	**678**
Marketable securities (Note 3)	**700**	500	**5,932**
Notes and accounts receivable:			
Trade notes	**344**	280	**2,915**
Trade accounts	**27,850**	24,566	**236,017**
Other	**305**	306	**2,585**
Total notes and accounts receivable	**28,499**	25,152	**241,517**
Inventories (Note 4)	**8,770**	9,211	**74,322**
Deferred tax assets (Note 10)	**1,559**	1,620	**13,212**
Other current assets	**928**	1,074	**7,864**
Total current assets	**51,849**	51,430	**439,398**
Property, plant and equipment (Note 5):			
Land	**8,173**	8,237	**69,263**
Buildings and structures	**25,333**	25,094	**214,686**
Machinery and equipment	**11,761**	11,454	**99,669**
Tools, furniture and fixtures	**9,062**	9,106	**76,797**
Construction in progress	**55**	39	**466**
Total	**54,384**	53,930	**460,881**
Accumulated depreciation	**(33,458)**	(32,515)	**(283,542)**
Net property, plant and equipment	**20,926**	21,415	**177,339**
Investments and other assets:			
Investment securities (Note 3)	**24,131**	26,406	**204,500**
Long-term prepaid expenses	**5,314**	2,825	**45,034**
Deferred tax assets (Note 10)	**50**	45	**424**
Other assets	**2,603**	2,778	**22,059**
Total investments and other assets	**32,098**	32,054	**272,017**
Total	**¥104,873**	¥104,899	**$888,754**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Liabilities and Equity			
Current liabilities:			
Short-term borrowings (Note 5)	**¥ 30**	¥ 30	**$ 254**
Current portion of long-term debt (Note 5)	**1,203**	1,247	**10,195**
Notes and accounts payable:			
Trade notes	**774**	735	**6,559**
Trade accounts	**3,274**	3,341	**27,746**
Other payables	**656**	661	**5,559**
Total notes and accounts payable	**4,704**	4,737	**39,864**
Income taxes payable	**1,382**	404	**11,712**
Accrued expenses	**6,084**	5,429	**51,559**
Deposits from customers	**254**	272	**2,153**
Other current liabilities	**472**	558	**4,000**
Total current liabilities	**14,129**	12,677	**119,737**
Long-term liabilities:			
Long-term debt (Note 5)	**1,224**	2,424	**10,373**
Liability for retirement benefits (Note 6)	**9,364**	9,980	**79,356**
Negative goodwill	**2**	3	**17**
Deferred tax liability (Note 10)	**3,628**	3,950	**30,746**
Other long-term liabilities	**312**	316	**2,644**
Total long-term liabilities	**14,530**	16,673	**123,136**
Minority interests		137	
Contingent liabilities (Note 11)			
Equity (Notes 7 and 14):			
Common stock, authorized, 200,000,000 shares; issued 70,251,484 shares	**5,174**	5,174	**43,847**
Capital surplus	**4,441**	4,440	**37,636**
Retained earnings	**59,120**	57,027	**501,017**
Unrealized gain on available-for-sale securities	**9,168**	10,148	**77,695**
Deferred gain on derivatives under hedge accounting	**1**		**8**
Foreign currency translation adjustments		(1)	
Treasury stock – at cost, 2,547,279 shares in 2007 and 2,088,792 shares in 2006	**(1,834)**	(1,376)	**(15,542)**
Total	**76,070**	75,412	**644,661**
Minority interests	**144**		**1,220**
Total equity	**76,214**	75,412	**645,881**
Total	**¥104,873**	¥104,899	**$888,754**

Consolidated Statements of Income

Years ended March 31, 2007 and 2006	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007
Net sales (Note 15)	**¥56,321**	¥53,947	**$477,297**
Cost and expenses (Note 15):			
Cost of sales	**25,484**	23,369	**215,966**
Selling, general and administrative expenses (Note 8)	**25,986**	27,992	**220,221**
Total	**51,470**	51,361	**436,187**
Operating income (Note 15)	**4,851**	2,586	**41,110**
Other income (expenses):			
Interest and dividend income	**335**	235	**2,839**
Interest expenses	**(42)**	(57)	**(356)**
Gain on sales of property, plant and equipment		292	
Other – net	**146**	229	**1,238**
Other income – net	**439**	699	**3,721**
Income before income taxes and minority interests	**5,290**	3,285	**44,831**
Income taxes (Note 10):			
Current	**1,969**	1,279	**16,687**
Deferred	**413**	386	**3,500**
Total income taxes	**2,382**	1,665	**20,187**
Minority interests in net income	**8**	8	**68**
Net income	**¥ 2,900**	¥ 1,612	**$ 24,576**

	Yen		U.S. dollars
Amounts per common share (Notes 2.q and 13):			
Basic net income	**¥42.73**	¥22.84	**$0.36**
Cash dividends applicable to the year	**12.00**	10.00	**0.10**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

	Thousands	Millions of yen									
Years ended March 31, 2007 and 2006	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities	Deferred gain on derivatives under hedge accounting	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total Equity
Balance, April 1, 2005	68,217	¥5,174	¥4,439	¥56,515	¥5,218		¥(11)	¥(1,325)	¥70,010		¥70,010
Net income				1,612					1,612		1,612
Cash dividends, ¥15.00 per share				(1,023)					(1,023)		(1,023)
Bonuses to directors and corporate auditors				(77)					(77)		(77)
Net increase in unrealized gain on available-for-sale securities					4,930				4,930		4,930
Net increase in foreign currency translation adjustments							10		10		10
Repurchase of treasury stock	(59)							(54)	(54)		(54)
Disposal of treasury stock	5		1					3	4		4
Balance, March 31, 2006	68,163	5,174	4,440	57,027	10,148		(1)	(1,376)	75,412		75,412
Reclassified balance as of March 31, 2006 (Note 2.i)										**¥137**	**137**
Net income				**2,900**					**2,900**		**2,900**
Cash dividends, ¥11.00 per share				**(747)**					**(747)**		**(747)**
Bonuses to directors and corporate auditors				**(60)**					**(60)**		**(60)**
Purchase of treasury stock	**(460)**							**(459)**	**(459)**		**(459)**
Disposal of treasury stock	**1**		**1**					**1**	**2**		**2**
Net change in the year					**(980)**	**1**	**1**		**(978)**	**7**	**(971)**
Balance, March 31, 2007	**67,704**	**¥5,174**	**¥4,441**	**¥59,120**	**¥9,168**	**¥1**	**¥Nil**	**¥(1,834)**	**¥76,070**	**¥144**	**¥76,214**

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities	Deferred gain on derivatives under hedge accounting	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total Equity
Balance, March 31, 2006	$43,847	$37,627	$483,280	$86,000		$ (8)	$(11,661)	$639,085		$639,085
Reclassified balance as of March 31, 2006 (Note 2.i)									**$1,161**	**1,161**
Net income			**24,576**					**24,576**		**24,576**
Cash dividends, $0.09 per share			**(6,331)**					**(6,331)**		**(6,331)**
Bonuses to directors and corporate auditors			**(508)**					**(508)**		**(508)**
Purchase of treasury stock							**(3,890)**	**(3,890)**		**(3,890)**
Disposal of treasury stock		**9**					**9**	**18**		**18**
Net change in the year				**(8,305)**	**8**	**8**		**(8,289)**	**59**	**(8,230)**
Balance, March 31, 2007	**$43,847**	**$37,636**	**$501,017**	**$77,695**	**$8**	**$Nil**	**$(15,542)**	**$644,661**	**$1,220**	**$645,881**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2007 and 2006	Millions of yen 2007	2006	Thousands of U.S. dollars (Note 1) 2007
Operating activities:			
Income before income taxes and minority interests	**¥ 5,290**	¥ 3,285	**$ 44,831**
Adjustments for:			
Income taxes – paid	**(995)**	(2,001)	**(8,432)**
Depreciation and amortization	**2,750**	2,692	**23,305**
Gain on sales of property, plant and equipment		(292)	
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	**(3,347)**	762	**(28,364)**
(Decrease) increase in inventories	**441**	(715)	**3,737**
Decrease in other current assets	**83**	1,039	**703**
(Decrease) increase in notes and accounts payable	**(27)**	378	**(229)**
(Decrease) increase in other current liabilities	**(86)**	7	**(729)**
Decrease in liability for retirement benefits	**(616)**	(1,219)	**(5,220)**
Other – net	**708**	(533)	**6,000**
Total adjustments	**(1,089)**	118	**(9,229)**
Net cash provided by operating activities	**4,201**	3,403	**35,602**
Investing activities:			
Proceeds from sales of property, plant and equipment		344	
Proceeds from redemption of marketable securities	**500**	800	**4,237**
Capital expenditures	**(1,409)**	(885)	**(11,941)**
Purchases of investment securities	**(1,610)**	(3,434)	**(13,644)**
Proceeds from redemption and sales of investment securities	**1,519**	201	**12,873**
Purchases of software	**(53)**	(64)	**(449)**
Acquisition of the license rights	**(3,346)**	(242)	**(28,356)**
Other – net	**140**	(50)	**1,187**
Net cash used in investing activities	**(4,259)**	(3,330)	**(36,093)**
Financing activities:			
Net decrease in short-term bank loans		(20)	
Repayments of long-term debt	**(1,243)**	(1,298)	**(10,534)**
Cash dividends paid	**(747)**	(1,023)	**(6,331)**
Increase of treasury stock	**(458)**	(50)	**(3,881)**
Other – net		(1)	
Net cash used in financing activities	**(2,448)**	(2,392)	**(20,746)**
Foreign currency translation adjustments on cash and cash equivalents	**66**	121	**559**
Net decrease in cash and cash equivalents	**(2,440)**	(2,198)	**(20,678)**
Cash and cash equivalents, beginning of year	**13,753**	15,951	**116,551**
Cash and cash equivalents, end of year	**¥11,313**	¥13,753	**$ 95,873**

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.

On December 27, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan and has been renamed "the statement of changes in equity" in the current fiscal year.

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 2006 financial statements to conform to the classifications used in 2007.

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 ¥118 to $1, the approximate rate of exchange at March 31, 2007. 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 as of March 31, 2007 include the accounts of the Company and its significant three (two in 2006) domestic and one overseas subsidiaries (together, the "Companies"). Laplus Pharma Co., Ltd., established on April 3, 2006, is newly consolidated for the year ended March 31, 2007. 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 commercial paper, 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 not

classified as held-to-maturity securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of 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 seven to nine years for machinery and equipment, and from four to six years for tools, furniture and fixtures.

f. Long-lived Assets — In August 2002, the Business Accounting Council (BAC) issued a Statement of Opinion, *Accounting for Impairment of Fixed Assets*, and in October 2003 the Accounting Standards Board of Japan (ASBJ) issued ASBJ Guidance No.6, *Guidance for Accounting Standard for Impairment of Fixed Assets*. These new pronouncements were 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 Companies adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

The Companies review their long-lived assets for impairment whenever events or changes in circumstance indicate 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. No impairment loss was recognized in 2007 and 2006.

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

The Company has a cash balance pension plan, under which 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. The Company also has an unfunded retirement benefit plan for employees and a defined contribution pension plan to allow qualified persons aged from 60 to 64 to receive post retirement benefits at their discretion. Consolidated domestic subsidiaries have unfunded retirement benefit plans.

h. 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.

i. Presentation of Equity — On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

j. 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.

k. **Bonuses to directors and corporate auditors** — Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors", which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

The Company adopted the new accounting standard for bonuses to directors and corporate auditors from the year ended March 31, 2007. The effect of adoption of this accounting standard was to decrease income before income taxes and minority interests for the year ended March 31, 2007 by ¥91 million ($771 thousand).

l. **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.

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

n. **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 consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

o. **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 equity, which is translated at historical rates. Differences arising from such translation were shown as "Foreign currency translation adjustments" as a separate component of equity.

p. **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.

q. **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.

r. New Accounting Pronouncements —

Measurement of Inventories

Under generally accepted accounting principles in Japan ("Japanese GAAP"), inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No.9, "Accounting Standard for Measurement of Inventories", which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting

On March 30, 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions", which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements".

The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Current:			
Government and corporate bonds	**¥ 700**	¥ 500	**$ 5,932**
Non-current:			
Equity securities	**¥21,738**	¥22,913	**$184,220**
Government and corporate bonds	**2,098**	2,696	**17,780**
Trust fund investments	**295**	797	**2,500**
Total	**¥24,131**	¥26,406	**$204,500**

Information regarding each category of securities classified as available-for-sale and held-to-maturity at March 31, 2007 and 2006 were as follows:

	Millions of yen			
March 31, 2007	Cost	Unrealized gain	Unrealized loss	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥5,824**	**¥15,546**		**¥21,370**
Government and corporate bonds	**100**		**¥ 2**	**98**
Trust fund investments	**300**		**5**	**295**
Held-to-maturity	**2,700**		**12**	**2,688**

	Millions of yen			
March 31, 2006	Cost	Unrealized gain	Unrealized loss	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 5,318	¥ 17,207		¥ 22,525
Government and corporate bonds	100		¥ 3	97
Trust fund investments	801		4	797
Held-to-maturity	3,099		35	3,064

	Thousands of U.S. dollars			
March 31, 2007	Cost	Unrealized gain	Unrealized loss	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	**$49,356**	**$131,746**		**$181,102**
Government and corporate bonds	**847**		**$17**	**830**
Trust fund investments	**2,542**		**42**	**2,500**
Held-to-maturity	**22,881**		**101**	**22,780**

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2007 and 2006 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Available-for-sale:			
Equity securities	**¥368**	¥388	**$3,119**

Proceeds from sales of available-for-sale securities for the year ended March 31, 2006 was ¥13 million. Gross realized gains on these sales, computed on the moving average cost basis, was ¥5 million for the year ended March 31, 2006.

The Companies disposed of corporate bonds which were classified as held-to-maturity for the year ended March 31, 2006. The management decided to dispose of these corporate bonds because the rating of the bond issuer was lowered.

Proceeds from this sale of held-to-maturity debt securities and realized loss on this sale were ¥188 million and ¥12 million for the year ended March 31, 2006, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2007 are as follows:

	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		**¥ 700**		**$ 5,932**
Due after one year through five years	**¥293**	**1,999**	**$2,483**	**16,941**
Total	**¥293**	**¥2,699**	**$2,483**	**$22,873**

4. INVENTORIES

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Finished products and merchandise	**¥4,799**	¥4,850	**$40,669**
Work in process	**1,361**	1,533	**11,534**
Raw materials	**2,610**	2,828	**22,119**
Total	**¥8,770**	¥9,211	**$74,322**

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

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

The weighted average annual interest rate for short-term bank loans was 0.9% at March 31, 2007 and 0.8% at March 31, 2006.

Short-term borrowings at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Loans from banks, 0.9% (0.8% at 2006)	**¥30**	¥30	**$254**

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Loans from financial institutions, 0.90% to 2.0% (0.86% to 2.3% at 2006), due serially to November 2012	**¥2,427**	¥3,670	**$20,568**
Capital lease obligations		1	
Total	**2,427**	3,671	**20,568**
Less current portion	**(1,203)**	(1,247)	**(10,195)**
Long-term debt, less current portion	**¥1,224**	¥2,424	**$10,373**

Annual maturities of long-term debt at March 31, 2007 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥1,203	$10,195
2009	1,165	9,873
2010	31	263
2011	10	85
2012	10	85
2013 and thereafter	8	67
Total	¥2,427	$20,568

At March 31, 2007, 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	¥5,337	$45,229
Related liabilities:		
Short-term borrowings	¥ 30	$ 254
Current portion of long-term debt	¥1,045	$ 8,856
Long-term debt (excluding current portion)	¥1,084	$ 9,186

6. RETIREMENT BENEFITS

The liability for employees' retirement benefits at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Projected benefit obligation	**¥25,786**	¥25,524	**$218,525**
Fair value of plan assets	**(11,564)**	(10,238)	**(98,000)**
Unrecognized actuarial loss	**(4,341)**	(4,743)	**(36,788)**
Unrecognized prior service cost	**(517)**	(563)	**(4,381)**
Net liability	**¥9,364**	¥ 9,980	**¥79,356**

The components of net periodic benefit costs for the years ended March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Service cost	**¥ 904**	¥ 938	**$7,661**
Interest cost	**507**	514	**4,297**
Expected return on plan assets	**(408)**	(326)	**(3,458)**
Recognized actuarial loss	**419**	482	**3,551**
Amortization of prior service cost	**45**	45	**381**
Premiums for defined contribution pension plan and other	**53**	54	**449**
Net periodic benefit costs	**¥1,520**	¥1,707	**$12,881**

Assumptions used for the years ended March 31, 2007 and 2006 are set forth as follows:

	2007	2006
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 prior service cost	**15 years**	15 years

7. EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law") which reformed and replaced the Commercial Code of Japan (the "Code") with various revisions that are, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below;

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

8. RESEARCH AND DEVELOPMENT COSTS

Research and development costs for the years ended March 31, 2007 and 2006 were ¥8,200 million ($69,492 thousand) and ¥10,071 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, 2007 and 2006 were ¥1,052 million ($8,915 thousand) and ¥1,065 million, respectively, including ¥183 million ($1,551 thousand) and ¥196 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, 2007 and 2006 was as follows:

Machinery and equipment, and tools, furniture and fixtures:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Acquisition cost	**¥64**	¥121	**$542**
Accumulated depreciation	**53**	106	**449**
Net leased property	**¥11**	¥ 15	**$ 93**

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Due within one year	**¥ 6**	¥ 9	**$51**
Due after one year	**5**	6	**42**
Total	**¥11**	¥15	**$93**

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method was ¥9 million ($76 thousand) and ¥23 million for the years ended March 31, 2007 and 2006, respectively.

The minimum rental commitments under non-cancelable operating leases at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Due within one year	**¥5**	¥11	**$42**
Due after one year		4	
Total	**¥5**	¥15	**$42**

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% for the years ended March 31, 2007 and 2006. The overseas subsidiary is subject to income tax of the country in which it operates.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred Tax Assets:			
Retirement benefits	**¥3,838**	¥4,086	**$32,525**
Accrued expenses	**1,154**	1,107	**9,780**
Property, plant and equipment	**104**	119	**881**
Other	**996**	1,098	**8,441**
Less valuation allowance	**(291)**	(154)	**(2,466)**
Deferred tax assets	**5,801**	6,256	**49,161**
Deferred Tax Liabilities:			
Unrealized gain on available-for-sale securities	**6,372**	7,052	**54,000**
Deferred gains on sales of property	**1,343**	1,254	**11,381**
Other	**105**	235	**890**
Deferred tax liabilities	**7,820**	8,541	**66,271**
Net deferred tax liabilities	**¥(2,019)**	¥(2,285)	**$(17,110)**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the year ended March 31, 2007 and 2006 is as follows:

	2007	2006
Normal effective statutory tax rate	**41.0%**	41.0%
Expenses not deductible for income tax purposes	**6.3**	11.0
Income not taxable for income tax purposes	**(0.8)**	(0.9)
Increase in valuation allowance	**5.5**	4.7
Tax credits for research and development costs	**(5.4)**	(5.8)
Other – net	**(1.6)**	0.7
Actual effective tax rate	**45.0%**	50.7%

11. CONTINGENT LIABILITIES

At March 31, 2007, contingent liabilities were ¥574 million ($4,864 thousand) representing loans guaranteed (jointly guaranteed with six unrelated companies). There is an agreement between the seven companies to equally share liability.

In addition to above, ¥58 million ($492 thousand) of export bill receivables were discounted with a financial institution for which the Company is contingently liable at March 31, 2007.

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, 2007 and 2006 is as follows:

	Yen in millions	Thousands of shares	Yen	Dollars
	Net income	Weighted average shares	EPS	
For the year ended March 31, 2007:				
Basic EPS				
Net income available to common shareholders	**¥2,900**	**67,866**	**¥42.73**	**$0.36**
For the year ended March 31, 2006:				
Basic EPS				
Net income available to common shareholders	¥1,558	68,193	¥22.84	

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

For the year ended March 31, 2006, bonuses to be paid to directors and corporate auditors of ¥54 million were deducted from net income in consolidated statements of income for the purposes of EPS calculation.

14. SUBSEQUENT EVENTS

At the general shareholders' meeting held on June 28, 2007, the Company's shareholders approved the following:

Payment of a year-end cash dividend of ¥6.00 ($0.05) per share to holders of record at March 31, 2007 for a total of ¥406 million ($3,441 thousand).

15. SEGMENT INFORMATION

Information about industry segments of the Companies for the years ended March 31, 2007 and 2006 is as follows:

Industry Segments

a. Sales and Operating Income

	Millions of yen				Thousands of U.S. dollars			
	2007				2007			
	Pharmaceuticals	Functional food	Eliminations/ Corporate	Consolidated	Pharmaceuticals	Functional food	Eliminations/ Corporate	Consolidated
Sales to customers	**¥46,542**	**¥9,779**		**¥56,321**	**$394,424**	**$82,873**		**$477,297**
Intersegment sales	**3**		**¥ (3)**		**25**		**$(25)**	
Total sales	**46,545**	**9,779**	**(3)**	**56,321**	**394,449**	**82,873**	**(25)**	**477,297**
Operating expenses	**41,419**	**10,054**	**(3)**	**51,470**	**351,008**	**85,204**	**(25)**	**436,187**
Operating income	**¥ 5,126**	**¥ (275)**	**¥Nil**	**¥ 4,851**	**$ 43,441**	**$(2,331)**	**$Nil**	**$ 41,110**

b. Assets, Depreciation and Capital Expenditures

	Millions of yen				Thousands of U.S. dollars			
	2007				2007			
	Pharmaceuticals	Functional food	Eliminations/ Corporate	Consolidated	Pharmaceuticals	Functional food	Eliminations/ Corporate	Consolidated
Assets	**¥62,335**	**¥7,188**	**¥35,350**	**¥104,873**	**$528,263**	**$60,915**	**$299,576**	**$888,754**
Depreciation	**2,544**	**165**	**41**	**2,750**	**21,559**	**1,398**	**348**	**23,305**
Capital expenditures	**1,351**	**58**		**1,409**	**11,449**	**492**		**11,941**

a. Sales and Operating Income

	Millions of yen			
	2006			
	Pharmaceuticals	Functional food	Eliminations/ Corporate	Consolidated
Sales to customers	¥44,406	¥9,541		¥53,947
Intersegment sales	4		¥ (4)	
Total sales	44,410	9,541	(4)	53,947
Operating expenses	41,969	9,396	(4)	51,361
Operating income	¥ 2,441	¥ 145	¥Nil	¥ 2,586

b. Assets, Depreciation and Capital Expenditures

	Millions of yen			
	2006			
	Pharmaceuticals	Functional food	Eliminations/ Corporate	Consolidated
Assets	¥57,845	¥7,162	¥39,892	¥104,899
Depreciation	2,487	161	44	2,692
Capital expenditures	938	246		1,184

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, 2007 and 2006, and the related consolidated statements of income, changes in 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, 2007 and 2006, 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.

June 28, 2007

Deloitte Touche Tohmatsu

Member of
Deloitte Touche Tohmatsu

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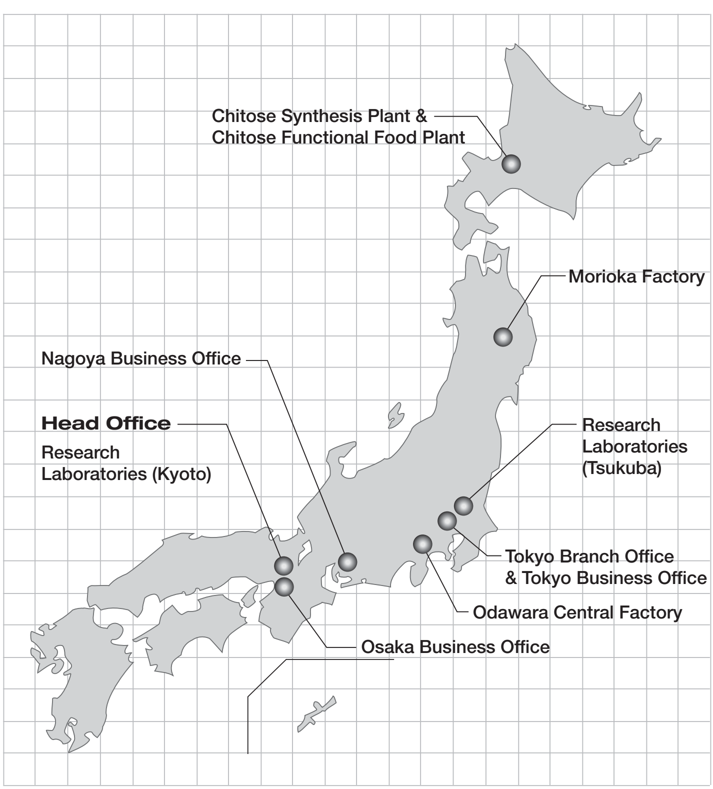

Corporate Data

As of March 31, 2007

Founded
October 1919

Date of Incorporation
September 1919

Paid-in Capital
¥5,174 million

Issued and Outstanding Number of Shares
70,251,484

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Transfer Agent
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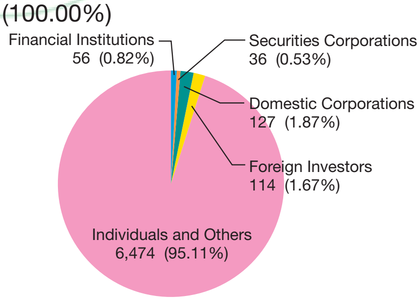
2-21, Kitahama 2-choume, Chuo-ku, Osaka 541-0041, Japan

Major Shareholders
Meiji Yasuda Life Insurance Company
Nippon Life Insurance Company
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
The Kyoto Bank, Limited
Japan Trustee Services Bank, Limited
The Master Trust Bank of Japan, Limited
Tokio Marine & Nichido Fire Insurance Co., Ltd.
Mitsubishi Corporation
Nippon Shinyaku Employees' Stockholding
State Street Bank and Trust Company

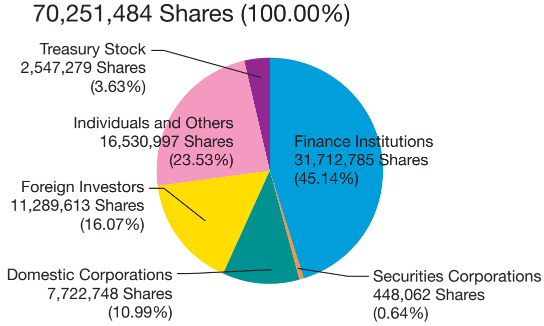
Investor Information

Distribution of Shareholders and Shares

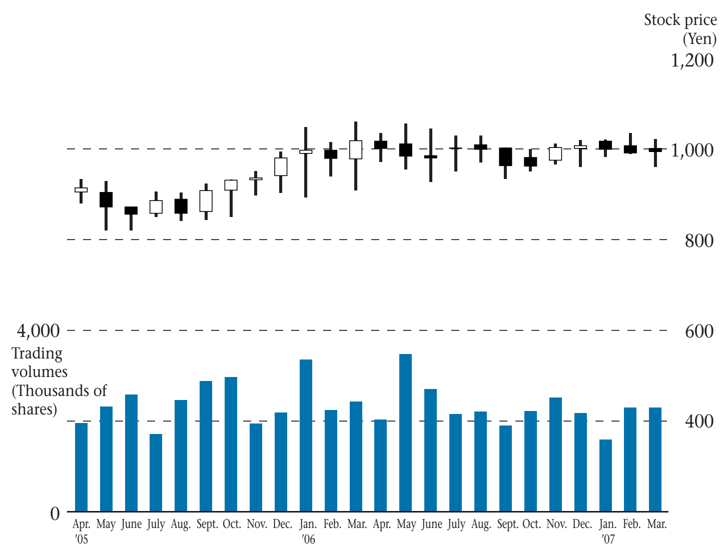
Number of Shareholders
6,807 (100.00%)



Number of Shares Issued
70,251,484 Shares (100.00%)



Stock Price Range



NIPPON SHINYAKU CO.,LTD.

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