



ANNUAL REPORT 2008

**Nippon Shinyaku**



Kyoto Headquarters

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 hematology (hematologic malignancies) and urology. 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. Our subsidiary Shioe Pharmaceutical Co., Ltd., in Amagasaki, mainly engages in manufacture of pharmacopoeia-admitted drugs.

In the functional food business, Nippon Shinyaku is involved in the development, production and sale of functional food ingredients that meet 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 two production bases – 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.

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### Forward-Looking Statements:

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

# Consolidated Financial Highlights

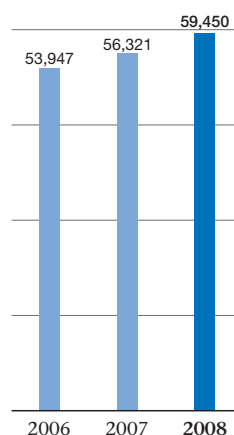
Years ended March 31, 2008 and 2007	Millions of yen		Thousands of U.S. dollars (Note 2)
	2008	2007	2008
Net sales.....	¥ <b>59,450</b>	¥ 56,321	<b>\$ 594,500</b>
Operating income .....	<b>6,461</b>	4,851	<b>64,610</b>
Net income .....	<b>4,031</b>	2,900	<b>40,310</b>
Amounts per share (in yen and U.S. dollars):			
Basic net income.....	¥ <b>59.57</b>	¥ 42.73	<b>\$ 0.59</b>
Net assets per share (Note 1).....	<b>1,135.40</b>	1,123.56	<b>11.35</b>
Cash dividend .....	<b>16</b>	12	<b>0.16</b>
Total assets.....	¥ <b>103,116</b>	¥ 104,873	<b>\$1,031,160</b>
Equity .....	<b>76,804</b>	76,070	<b>768,040</b>
Capital Investment.....	<b>1,650</b>	1,409	<b>16,500</b>
R&D expenses.....	<b>7,898</b>	8,200	<b>78,980</b>
ROE (%) .....	<b>5.3</b>	3.8	<b>5.3</b>

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 = ¥100, the approximate exchange rate on March 31, 2008.

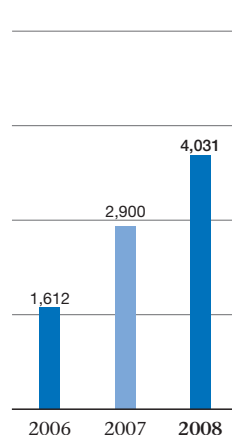
## Net Sales

(Millions of yen)



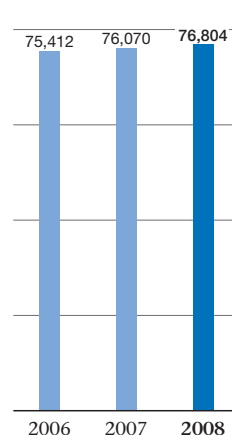
## Net Income

(Millions of yen)



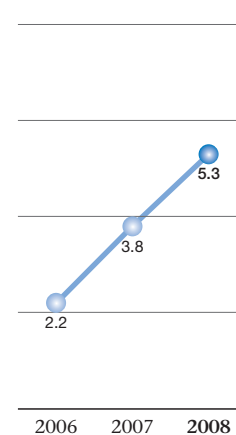
## Equity

(Millions of yen)



## Return on Equity

(%)



# Message from the President



## Operating Environment

In the year under review the Japanese economy continued to expand moderately on improved corporate earnings and capital expenditure, but future prospects became increasingly cloudy as rising crude and raw material prices combined with chaos in financial markets and slumping stock markets in the wake of the US subprime crisis.

The pharmaceutical industry in Japan had a good year overall, with increased sales of lifestyle disease and cancer agents, and launches of new products with great market potential. But with health insurance finances creaking under the strain of the rapidly rising population of senior citizens, questions are being asked about future approaches to pension, medical, welfare and care issues as well as the overall social security system. Health and medical care have become matters of popular concern, and designing a sustainable, adequately funded, sustainable health insurance is now a political priority in Japan.

In the pharmaceutical business, our operating environment remains severe, mainly due to the lowering of NHI (national health insurance) 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.

## Topics

### ◆ July 2007 ◆

Orally disintegrating (OD) tablet version of gastric ulcer and gastritis remedy Gaslon N® launched



### ◆ November 2007 ◆

Azunol® Gargle 4%, a gargling solution containing azulene, launched in a 10ml bottle



### ◆ January 2008 ◆

Film-coated Glycoran (metformin hydrochloride) tablets go on sale

## 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 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 2005, and are finally beginning to see results. Our nucleic acid research business, started two years ago, has seen steady progress. We believe the fruits of its research can be parlayed into out-licensing and new joint R&D businesses.

In research activities, we are focusing on hematology (hematological malignancies) and our traditional priority field, urology. We are also developing agents for alcoholism, a severe social problem, for palliative care of cancer pain, and for pulmonary arterial hypertension. During the current term, we aim to boost sales through two new launches, LUNABELL® tablets for period pain from endometriosis, and Eviprostat® DB tablets for prostatic hypertrophy.

Our Functional Foods business saw steady growth in sales

of soy protein and other food processing ingredients. We plan to further expand sales with the addition of newly launched nutritional products.

## 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.



Shigenobu Maekawa  
President

### ◆ April 2008 ◆

License agreement signed with Swiss company Actelion Ltd. on novel PGL<sub>2</sub> receptor agonist for treatment of PAH

### ◆ June 2008 ◆

License agreement signed with Yoo Young Pharmaceutical Co., Ltd. of South Korea on a treatment for allergic rhinitis

### ◆ July 2008 ◆

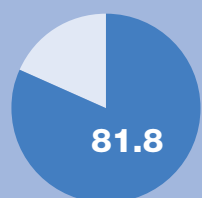
- Sales launched of LUNABELL® tablets for treatment of dysmenorrhea accompanying endometriosis
- Eviprostat® herbal extract for treatment of benign prostatic hypertrophy launched



# At a Glance

## Sales breakdown

Net sales **¥59,450** million



**Pharmaceuticals** **¥48,659** million (81.8%)

19.7%

### Drugs for Urological Diseases

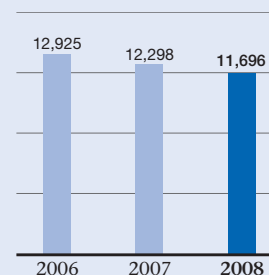


**¥11,696** million

#### 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)



23.8%

### Drugs for Inflammation and Allergy

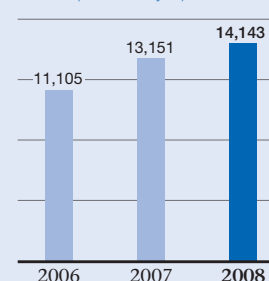


**¥14,143** million

#### 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)



4.6%

### Drugs for Hematologic Malignancies

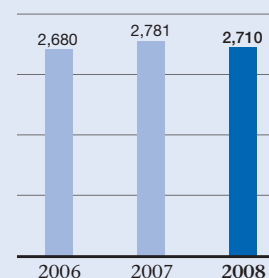


**¥2,710** million

#### 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)



8.3%

### Drugs for Cardiovascular and Metabolic Diseases

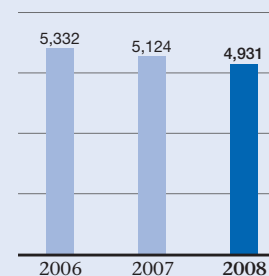


**¥4,931** million

#### 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)





¥4,815 million

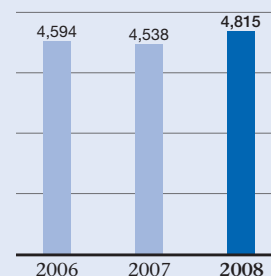
## Drugs for Gastrointestinal Disorders



### Main Products

- **Gaslon N<sup>®</sup>** (irsogladine maleate)  
Remedy for Gastric Ulcer and Gastritis
- **Portolac<sup>®</sup>** (lactitol hydrate)  
Remedy for Hyperammonaemia

### Sales (Millions of yen)



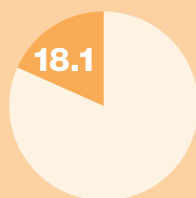
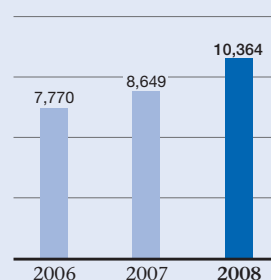
¥10,364 million

## Others (Including the Proceeds from Intellectual Property Rights)

### Main Products

- **Cephadol<sup>®</sup>** (difenidol hydrochloride)  
Remedy for Vertigo
- **Iodocoat**  
Remedy for Decubital Ulcer and Skin Ulcer
- **Prulifloxacin**  
Synthetic Antibacterial Agent

### Sales (Millions of yen)



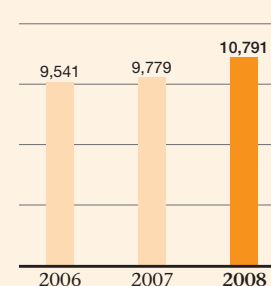
**Functional Food** ¥10,791 million (18.1%)



### Main Products

- Protein preparations
- Preservatives
- Seasonings and spices
- Health food materials

### Sales (Millions of yen)



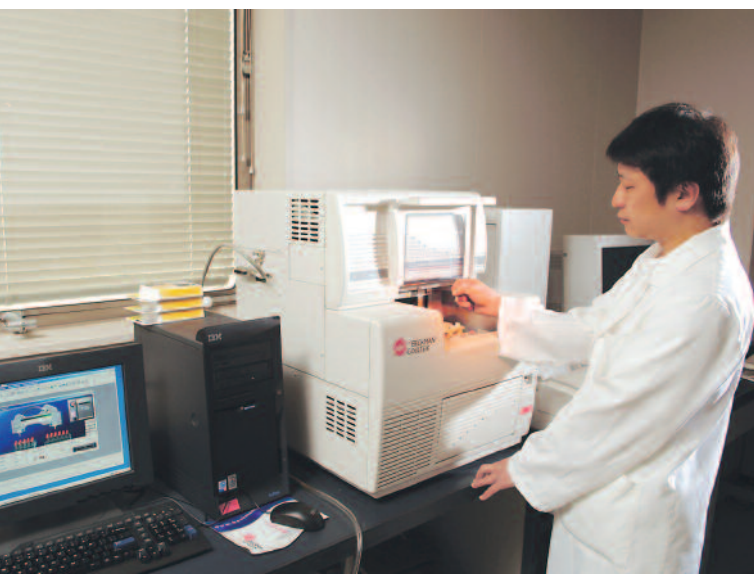
Uruirogashi (*Quercus salicina*)



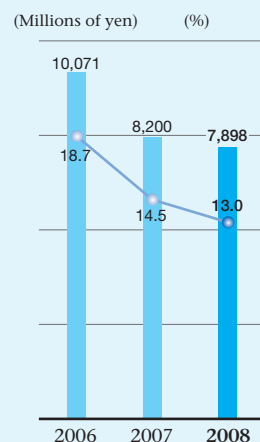
Akamegashiwa (*Mallotus Japonicus*)

Product names followed by <sup>®</sup> represent trademarks registered in Japan.

# Research and Development



## Consolidated R&D Expenses Ratio to Net Sales



## 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 pharmaceutical company, Nippon Shinyaku aims at meeting unmet needs, avoiding competition with pharmaceutical majors, through development of drugs that are outstandingly safe, and effective, or which improve the quality of life of patients.

To make most effective use of R&D expenses and resources, we focus on specialist areas such as hematology, in particular hematologic malignancies, and traditional strengths such as urology. Through the fruits of this research we aim to expand our business and contribute to a healthier society. 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. Based on mass synthesis technologies for nucleic acids and nucleic acid delivery technologies developed at our laboratories, we aim to create new nucleic acid drugs, supply platforms for development of new drugs and commercialize the synthesis and supply of analytical reagents and medications based on nucleic acids. We are also seeking possible partners in Japan and overseas.

## RESULTS OF ACTIVITIES

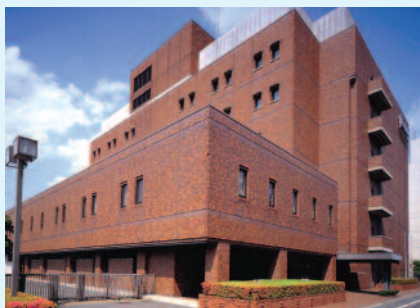
In the domain of hematologic malignancies, NS-187, a drug for the treatment of chronic myelogenous leukemia which we licensed out to the U.S. company Innovive Pharmaceuticals, Inc. (Phase II in preparation), and NS-17 (azacitidine, Vidaza®), a remedy for myelodysplastic syndrome in-licensed from U.S. company Pharmion in 2007 (Phases I and II trials ongoing) 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. In June 2008, this agent was licensed out to Yoo Yang of South Korea. We are preparing an application regarding NS-315 for cancer pain relief.

NS-11 (acamprosate), an agent for the treatment of alcohol dependency, is in the Phase II trial. Angelini ACRAF S.p.A launched our quinolone antibacterial agent prulifloxacin in Portugal, following its launch in Italy, in January 2007, and in Greece in October 2007. Yuhan Corp., a South Korean company to which this product has been licensed out, obtained approval in December 2007. The Phase III trial of prulifloxacin is being conducted by Optimier in U.S.

Phase I trials are ongoing in Japan for NS-304, cardiovascular pulmonary hypertension preparation, and in





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



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



Discovery Research Laboratories in Tsukuba

Europe Phase II trials have begun. We licensed this product out to Actelion Pharmaceuticals Ltd. of Switzerland in April 2008. In future, we will jointly develop NS-304 in the Japanese market in partnership with Actelion Pharmaceuticals, which will assume sole responsibility for its overseas marketing.

R&D expenses in fiscal 2007 reached around ¥7.9 billion (approximately 13% of total sales).

## DRUG DEVELOPMENT ORGANIZATION AND FUNCTION

### Domestic

Nippon Shinyaku employs around 340 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 have participated in the Functional RNA Project funded since 2005 by Japan's New Energy and Industrial Technology Development Organization, and are developing new technologies in the field of nucleic acid drugs through partnerships in industry and academia.

### 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.

# 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, one Phase III products, three Phase II products and two Phase I products. 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 May 2008)

#### Domestic

Stage	Code No.	Generic name	Therapeutic field	Indications	Development
Pre-registration	NS-126		inflammation/allergy	allergic rhinitis	
Preparation for Application	NS-315	tramadol hydrochloride	inflammation/allergy	non-narcotic analgesic (cancer pain)	licensed-in from Grünenthal GmbH
Phase II	NS-126		inflammation/allergy	bronchial asthma	
Phase II	NS-11	acamprosate	others	alcohol dependence	licensed-in from Merck Serono
Phase I/II	NS-17	azacitidine	chemotherapeutics	myelodysplastic syndrome	licensed-in from Pharmion Corporation
Phase I	NS-304		cardiovascular	pulmonary hypertension	co-development with Actelion Japan

#### Overseas

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



## Research & Development

Junichi Yano, Ph. D.

Director: General Manager,  
Research & Development Division

The mission guiding our research and development activities is developing new medicines for unmet medical needs and supplying them to hospitals and clinics as soon as possible to alleviate the patient suffering. What makes us distinct from pharmaceutical majors is our new-drug development. We target areas that are neglected by the majors, and focus on developing treatments for illnesses which have become urgent social issues and for lesser frequently encountered illnesses. Our goal is to

put on the market at least one distinctive new medicine in terms of effectiveness, safety and enhancement of patient quality of life. Achievement of these targets earns us the trust of society and gives meaning to our work. Finally, it should be noted that we have been involved in RNA research for a long time. Based on the expertise and in-house technologies that we have developed, I am confident of further success in developing new RNA medical products.

# Manufacturing

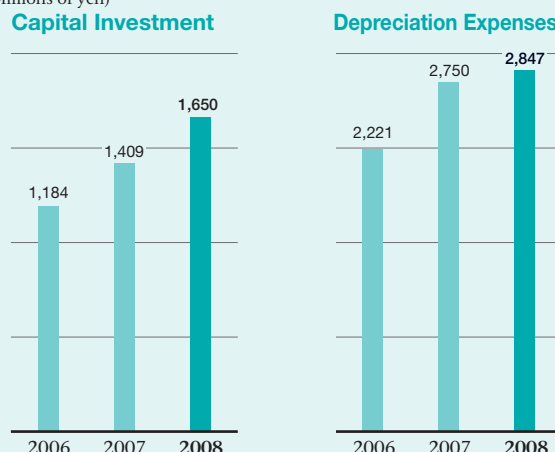


Odawara Central Factory

Nippon Shinyaku has five manufacturing plants. The three pharmaceutical plants are the Chitose Synthesis Plant for the production of drug bulk substances, the Odawara Central Factory for the production of pharmaceutical products such as solid formulations, injections, etc, and our subsidiary Shioe Pharmaceutical Co., Ltd., which mainly engages in manufacture of pharmacopoeia-admitted drugs. Two other plants are involved in production of extracts and other food ingredients — the Chitose Functional Food Plant in Chitose in Hokkaido, and the plant of our subsidiary Tajima Syokuhin Kogyo Co., Ltd. in Toyooka, Hyogo Prefecture.

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.

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



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.



Chitose Synthesis Plant / Chitose Functional Food Plant

# Manufacturing

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 Chitose Plant manufactures some of the drug bulk substances used at the Odawara Central Factory, and has also begun manufacturing bulk substances for sale to other drug makers in Japan and overseas.

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

### Tsugio Tanaka, M.S. Pharmacy

Director: General Manager, Resource Procurement,  
Production & Assurance 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 ISO14001 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.

Looking ahead, we will encourage all production employees to show initiative and raise their competence levels, enabling us to ensure a stable supply of high-quality, high-value products and evolve into a highly regarded company that makes important contributions to human health.



# Our Medical Representatives

As of October, 2008, Nippon Shinyaku plans a staff of about 560 medical representatives based at 15 branch offices and 7 sales offices nationwide. These medical representatives collect and provide information about all our products in the main therapeutic areas of urology, inflammation and allergies, as well as hematologic malignancies. For that purpose, we have established a training center with specialist staff. One of the disadvantages of the system of dedicated medical representatives adopted by most pharmaceutical companies is that medical institutions need to arrange meetings with a different representative from the same company in the case of multiple applications in different therapeutic fields. This causes valuable time to be channeled into meetings instead of the institutions' primary tasks. Nippon Shinyaku has earned the trust

of medical institutions because our representatives can attend to all the needs of the physicians and pharmacists at institutions in their charge.

Our medical representatives not only communicate drug information to front-line professionals, but also actively collect information about their needs. Based on this information, we aim to introduce a lineup of new products to satisfy unfulfilled market and therapeutic needs where there is substantive patient demand that major companies have not addressed. The supply chain management system that we have recently introduced has enabled us to meet the needs of patients by providing superior products, thanks to a supply system that is more efficient and reliable than hitherto.



## 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.

During the current business term, we will enter the

therapeutic field of gynecology with a treatment for endometriosis. This drug shows significant potential, and is in considerable demand from medical institutions and patients alike. Consequently, so we intend to expand this market right from the outset. As in the year ended March 2008, we will strive to achieve growth in earnings as well as revenues by concentrating our activities on profitable products with high growth potential.

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.

# Functional Food Company



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

A feature of fiscal 2007 was entry into new nutritional food businesses through our takeover of Dutch company DMV International's nutrition business in Japan. Our nutrition business markets whey proteins used in concentrated liquid foods and orally administered nutritional supplements for medical and care facilities. We regard this as a future growth field.

In the health foods segment, traditional items such as garcinia extract performed poorly, but sales were strong for new products such as hyaluronic acid.

In the protein agent business, sales were sharply up for soybean protein introduced to strengthen product lineups. In

future, we plan to market a new soybean 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.

This company also offer lines of flavorings, condiments and environmental-hygiene sanitation products.

Companies across the processed food sector have raise prices in response to soaring raw material costs, though it will take some time for these to be passed on to the consumer. Rising prices for raw materials also affected the health foods market, amid a toughened regulatory environment. However, the Functional Food Company enjoyed steady growth and expansion of sales.



## Functional Food Company

**Hiroshi Adachi**

Director: COO, Functional Food Company

The food industry in Japan continues to face a severe business environment due to soaring raw materials prices. In such circumstances, the key to robust growth at the Functional Food Company is a focus of resources on more profitable, high value-added fields and products, and an organizational restructuring with adoption of business approaches better adapted to changing markets.

By drawing on our sophisticated manufacturing technology and quality management know-how built up in medical products over many years, we will create new ingredients for

functional foods, with an emphasis on safety and reliability, through research into natural materials.

By developing original nutritional and other functional food ingredients that meet changing tastes, and by supplying them to the processed and health food sectors, our goal is to contribute to human health and prosperity.

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 President, Managing Director, and five 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.

The Company has established a Group Charter of Business Conduct and a Group Compliance Code as part of efforts to ensure awareness of and respect for corporate ethics. Centered on our internal control center, we are strengthening internal controls including risk management across the board.

At the Board of Directors meeting held on May 14, 2007, the board decided to introduce measures to prevent a hostile takeover through large-scale 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

Nippon Shinyaku is engaged in a range of community contribution activities, beginning with cleanliness campaigns at all its business locations. 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. Every spring and autumn, the Company urges employees and temporary staff at our headquarters and plants to donate blood.

In addition, we also contribute to projects such as the biotope project to save the Class-II endangered Odawara *medaka* killifish in Kanagawa Prefecture.

### 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 regard our employees as important stakeholders, and have compiled a Nippon Shinyaku Group code of conduct summarizing our compliance measures aimed at raising the level of trust enjoyed by the Company in society. 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.



## 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.

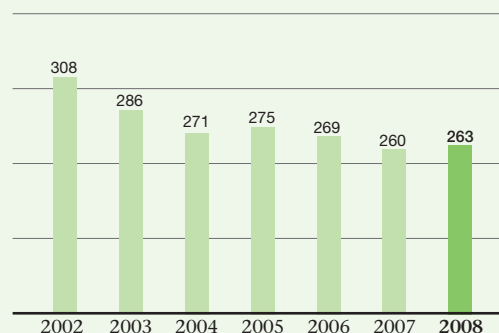
As a company based in the city where the Kyoto Protocol was signed, we are actively working to cut our carbon dioxide emissions in accordance with the Kyoto City Global Warming Provisions and the Kyoto Prefecture Global Warming Provisions, which went into effect in April 2005 and April 2006, respectively.

ISO14001 environmental accreditation was renewed after inspection at Odawara Central Factory in June 2007 and again renewed at Chitose Synthesis Plant and Chitose Functional Food Plant in November 2007.

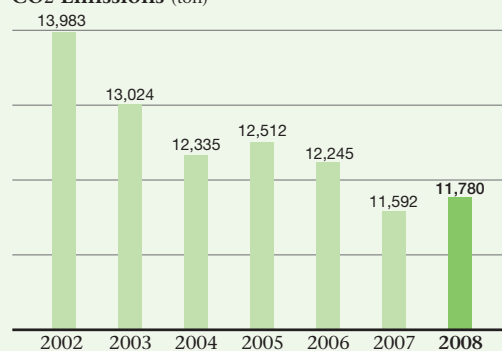
In fiscal 2007, Tsukuba-based Research Laboratories were awarded Triple A/L, the highest ranking, by Ibaraki Prefecture's environmental assessors for business locations.

For our Environmental Report 2007, see at [http://www.nippon-shinyaku.co.jp/company\\_profile/pdf/kankyoreport2007.pdf](http://www.nippon-shinyaku.co.jp/company_profile/pdf/kankyoreport2007.pdf)

**Total Energy Consumption** (1,000 GJ)

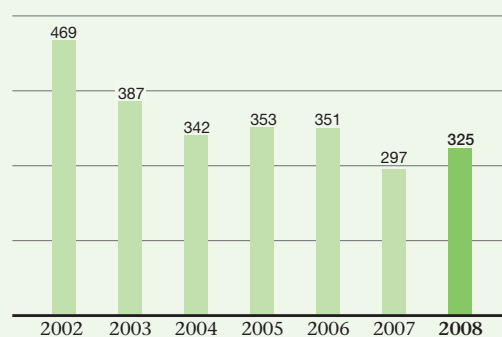


**CO<sub>2</sub> Emissions** (ton)

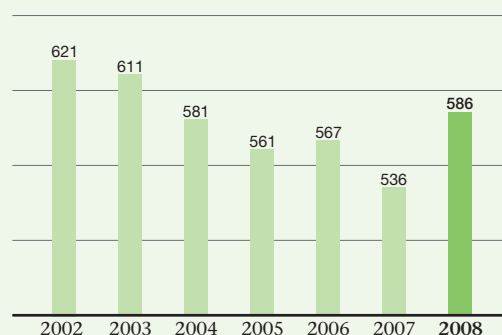


Carbon dioxide emission intensity  
= Total CO<sub>2</sub> emissions / sales (tons/millions of yen)

**Water Used** (1,000m<sup>3</sup>)



**Waste Generated** (ton)



# Board of Directors and Corporate Auditors

As of June 27, 2008



	Director Yoshiro Yura	Director Kazuo Fukushima	Director Tsugio Tanaka	
Director Hiroshi Adachi		Managing Director Toshihiko Sago		President Shigenobu Maekawa
				Director Junichi Yano

## President

Shigenobu Maekawa

## Managing Director

Toshihiko Sago  
(General Manager, Marketing Division)

## Directors

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

Hiroshi Adachi  
(COO, Functional Food Company)

Kazuo Fukushima  
(General Manager, Corporate Planning Division)

Yoshiro Yura  
(General Manager, CSR & Human Resource Division)

Tsugio Tanaka  
(General Manager, Resource Procurement, Production & Assurance Division)

## Corporate Auditors

Youichi Toriyama

Yojiro Ukai

Yasuo Tanabe

Hajime Nishikawa

## Corporate Officers

Kazushige Itabashi  
(General Manager, Business Development & Licensing Division)

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

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

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

Takeshi Nomura  
(General Manager, Osaka Business Office)

Toru Sakata  
(General Manager, Tokyo Business Office)

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

Akira Matsuura, Ph. D.  
(General Manager, Discovery Research Laboratories)

Kiyotaka Konno, Ph. D.  
(General Manager, Clinical Development Division)

Yoshinori Sato  
(General Manager, Nagoya Business Office)

## Financial Section Six-Year Summary (Consolidated)

Years ended March 31	Millions of yen					
	2008	2007	2006	2005	2004	2003
Net sales .....	<b>¥59,450</b>	¥56,321	¥53,947	¥54,252	¥51,326	¥52,942
Income before income taxes and minority interests .....	<b>6,879</b>	5,290	3,285	9,630	3,262	4,474
Net income .....	<b>4,031</b>	2,900	1,612	5,639	1,536	2,095
Amounts per share (in yen):						
Basic net income .....	<b>¥59.57</b>	¥42.73	¥22.84	¥81.22	¥21.50	¥29.20
Cash dividends applicable to the year .....	<b>16.00</b>	12.00	10.00	15.00	10.00	10.00
Total assets .....	<b>¥103,116</b>	¥104,873	¥104,899	¥98,910	¥104,008	¥109,549
Equity .....	<b>76,804</b>	76,070	75,412	70,010	65,396	61,614
Capital Investment .....	<b>1,650</b>	1,409	1,184	1,745	1,829	4,370
R&D expenses .....	<b>7,898</b>	8,200	10,071	8,479	8,263	7,885

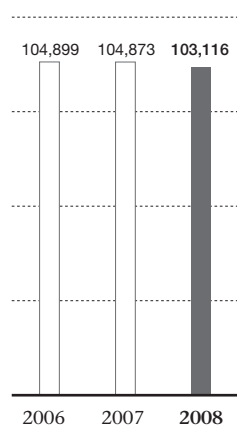
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# Management's Discussion and Analysis

## Consolidated Total Assets

(Millions of yen)



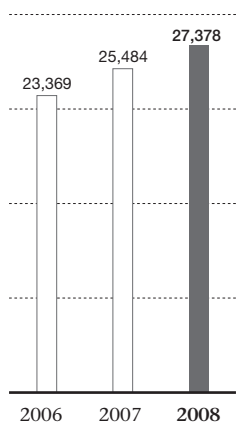
## Consolidated Equity Ratio

(%)



## Consolidated Cost of Sales

(Millions of yen)



## Financial Strategy

Based on a policy of maximizing enterprise value, the Company builds up its research and development capabilities and strengthens its development pipeline, while reinforcing its fundamentals by maintaining a sufficient level of retained earnings to position it to withstand intensifying competition.

To ensure an appropriate level of return to shareholders, our payout ratio target is about 30% (on a consolidated basis), depending on our business performance, under a basic policy of continuous and stable annual dividend payment of at least ¥10 per share.

## Liquidity and Capital Resources

Total assets declined ¥1,757 million from the previous term-end to ¥103,116 million (US\$1,031,160 thousand). Increases in marketable securities, inventories and cash and cash equivalents were more than offset by declines in investment securities and trade receivables.

Liabilities shrank ¥2,494 million from the previous term-end to ¥26,165 million (US\$261,650 thousand). An increase in trade payables and other current liabilities was outweighed by declines in long-term debt, deferred tax liability and other long-term liabilities.

Total equity stood at ¥76,951 million at the end of the term.

The equity ratio increased 2.0 percentage points from the previous term to 74.5%.

Net cash provided by operating activities totaled ¥7,347 million (US\$73,470 thousand). The chief factors in cash inflows were income before income taxes, depreciation and amortization expenses, a decrease in trade receivables and an increase in trade payables. Major outflows were income tax payments and increased inventories.

Net cash used in investing activities totaled ¥1,070 million (US\$10,700 thousand). A major factor in cash inflows was redemption of marketable securities, with acquisition of property, plant and equipment accounting for major outflows.

Net cash used in financing activities totaled ¥2,150 million (US\$21,500 thousand). The chief factors were repayment of short-term bank loans, dividend payments and acquisition of own shares to increase shares in treasury.

As a result, cash and cash equivalents at the term-end increased ¥3,841 million year-on-year ¥15,154 million.

The Company will continue to prioritize a sound financial position,

## Consolidated Cash Flows (Millions of yen)

	2006	2007	2008
Net cash provided by operating activities	3,403	4,201	<b>7,347</b>
Net cash used in investing activities	(3,330)	(4,259)	<b>(1,070)</b>
Net cash used in financing activities	(2,392)	(2,448)	<b>(2,150)</b>
Cash and cash equivalents, end of year	13,753	11,313	<b>15,154</b>



appropriate levels of liquidity and availability of necessary funding for business activities.

### Results of Operations (consolidated)

Systemic change was the keynote of the Japanese pharmaceutical industry during the reporting term, with rising patient shares in treatment costs, falling NHI (national health insurance) drug prices, growing use of generics and further measures to curb healthcare costs against a demographic background of falling birth rates and increasing numbers of elderly. With the cost of research and development now impinging on the bottom line, we expect business conditions facing the industry in Japan to remain very difficult.

In the functional food industry, we expect further consumer pressure over food safety. We plan to expand this business by leveraging sophisticated technologies developed over the years in the pharmaceutical business and our rigorous product management expertise, to focus resources on increasingly value-added products.

Against this backdrop, the Company and Group companies increased sales by 5.6% year-on-year to ¥59,450 million (US\$594,500 thousand). Operating and ordinary\* income respectively increased by 33.2% to ¥6,461 million (US\$64,610 thousand) and 29.7% to ¥6,860 million (US\$68,600 thousand). Net income rose 39.0% year-on-year to ¥4,031 million (US\$40,310 thousand).

\* Ordinary income does not appear on the income statements. See Note 1 to the Consolidated Statements.

### Earnings by Segment

#### Pharmaceutical business

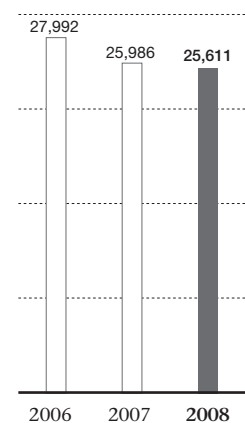
In the pharmaceutical business, rival products held back sales growth for Eviprostat<sup>®</sup> remedy for benign prostatic hypertrophy and Bladderon<sup>®</sup> for pollakisuria, but we booked significant growth in our Hypen<sup>®</sup> non-steroidal analgesic and anti-inflammatory agent. Sales were also good for Gaslon N<sup>®</sup>, for gastric ulcers and gastritis, released in oral-disintegrant tablet form in July 2007. Strong sales contributions also came from Azunol<sup>®</sup> Gargle solution containing Azulene, released in a new 10 milliliter bottle in November 2007, to better meet patient needs, and our Baynas<sup>®</sup> remedy for allergic rhinitis, sold exclusively by us in Japan since January 2008. Revenue from licensing of industrial property rights also grew strongly, and Prulifloxacin, a synthetic antibacterial agent, saw a rise in bulk drug sales. Overall, segment sales rose 4.5% to ¥48,659 million (US\$486,590 thousand).

#### Functional Food business

With both the processed and health food industries, our main customer segment, facing difficult business conditions, health food ingredients posted lackluster sales growth. But segment sales rose 10.3% year-on-year to ¥10,791 million (US\$107,910 thousand) as a result of a good performance by agents for improving food shelf life and efforts to strengthen our lineup of protein agents.

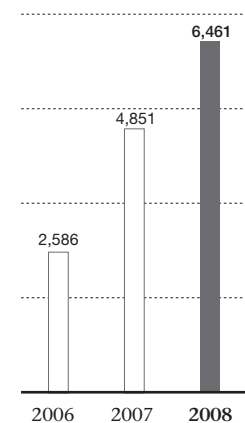
### Consolidated Selling, General and Administrative Expenses

(Millions of yen)



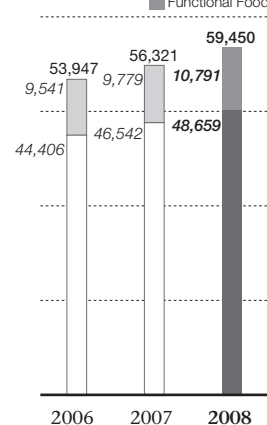
### Consolidated Operating Income

(Millions of yen)



### Consolidated Sales by Industry Segment

(Millions of yen)



## Consolidated Balance Sheets

March 31, 2008 and 2007	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents .....	¥ 15,154	¥ 11,313	\$ 151,540
Time deposits .....	80	80	800
Marketable securities (Note 3) .....	600	700	6,000
Notes and accounts receivable:			
Trade notes .....	253	344	2,530
Trade accounts .....	26,783	27,850	267,830
Other.....	229	305	2,290
<b>Total notes and accounts receivable.....</b>	<b>27,265</b>	<b>28,499</b>	<b>272,650</b>
Inventories (Note 4) .....	10,596	8,770	105,960
Deferred tax assets (Note 10) .....	1,743	1,559	17,430
Other current assets .....	843	928	8,430
<b>Total current assets .....</b>	<b>56,281</b>	<b>51,849</b>	<b>562,810</b>
<b>Property, plant and equipment (Note 5):</b>			
Land .....	8,172	8,173	81,720
Buildings and structures .....	24,884	25,333	248,840
Machinery and equipment .....	11,961	11,761	119,610
Tools, furniture and fixtures .....	9,009	9,062	90,090
Construction in progress .....	229	55	2,290
<b>Total .....</b>	<b>54,255</b>	<b>54,384</b>	<b>542,550</b>
Accumulated depreciation .....	(33,950)	(33,458)	(339,500)
<b>Net property, plant and equipment .....</b>	<b>20,305</b>	<b>20,926</b>	<b>203,050</b>
<b>Investments and other assets:</b>			
Investment securities (Note 3) .....	19,212	24,131	192,120
Long-term prepaid expenses.....	4,527	5,314	45,270
Deferred tax assets (Note 10) .....	56	50	560
Other assets .....	2,735	2,603	27,350
<b>Total investments and other assets .....</b>	<b>26,530</b>	<b>32,098</b>	<b>265,300</b>
<b>Total .....</b>	<b>¥103,116</b>	<b>¥104,873</b>	<b>\$1,031,160</b>

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
<b>Liabilities and Equity</b>			
<b>Current liabilities:</b>			
Short-term borrowings (Note 5) .....	¥ 30	¥ 30	\$ 300
Current portion of long-term debt (Note 5) .....	1,163	1,203	11,630
Notes and accounts payable:			
Trade notes .....	820	774	8,200
Trade accounts .....	4,241	3,274	42,410
Other payables .....	404	656	4,040
<b>Total notes and accounts payable</b> .....	<b>5,465</b>	<b>4,704</b>	<b>54,650</b>
Income taxes payable .....	1,649	1,382	16,490
Accrued expenses .....	6,054	6,084	60,540
Deposits from customers .....	263	254	2,630
Other current liabilities .....	447	472	4,470
<b>Total current liabilities</b> .....	<b>15,071</b>	<b>14,129</b>	<b>150,710</b>
<b>Long-term liabilities:</b>			
Long-term debt (Note 5) .....	59	1,224	590
Liability for retirement benefits (Note 6) .....	8,537	9,364	85,370
Negative goodwill .....	1	2	10
Deferred tax liability (Note 10) .....	2,207	3,628	22,070
Other long-term liabilities .....	290	312	2,900
<b>Total long-term liabilities</b> .....	<b>11,094</b>	<b>14,530</b>	<b>110,940</b>
<b>Contingent liabilities (Note 11)</b>			
<b>Equity (Notes 7 and 14):</b>			
Common stock, authorized, 200,000,000 shares; issued 70,251,484 shares ....	5,174	5,174	51,740
Capital surplus .....	4,441	4,441	44,410
Retained earnings .....	62,271	59,120	622,710
Unrealized gain on available-for-sale securities .....	6,822	9,168	68,220
Deferred gain on derivatives under hedge accounting .....		1	
Foreign currency translation adjustments .....	(4)		(40)
Treasury stock – at cost, 2,606,466 shares in 2008 and 2,547,279 shares in 2007 .....	(1,900)	(1,834)	(19,000)
<b>Total</b> .....	<b>76,804</b>	<b>76,070</b>	<b>768,040</b>
<b>Minority interests</b> .....	<b>147</b>	<b>144</b>	<b>1,470</b>
<b>Total equity</b> .....	<b>76,951</b>	<b>76,214</b>	<b>769,510</b>
<b>Total</b> .....	<b>¥103,116</b>	<b>¥104,873</b>	<b>\$1,031,160</b>

## Consolidated Statements of Income

Years ended March 31, 2008 and 2007	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
<b>Net sales</b> (Note 15) .....	<b>¥59,450</b>	¥56,321	<b>\$594,500</b>
<b>Cost and expenses</b> (Note 15):			
Cost of sales .....	<b>27,378</b>	25,484	<b>273,780</b>
Selling, general and administrative expenses (Note 8) .....	<b>25,611</b>	25,986	<b>256,110</b>
<b>Total</b> .....	<b>52,989</b>	51,470	<b>529,890</b>
<b>Operating income</b> (Note 15) .....	<b>6,461</b>	4,851	<b>64,610</b>
<b>Other income (expenses):</b>			
Interest and dividend income .....	<b>403</b>	335	<b>4,030</b>
Interest expenses .....	<b>(28)</b>	(42)	<b>(280)</b>
Gain on sales of property, plant and equipment .....	<b>19</b>		<b>190</b>
Other – net .....	<b>24</b>	146	<b>240</b>
<b>Other income – net</b> .....	<b>418</b>	439	<b>4,180</b>
<b>Income before income taxes and minority interests</b> .....	<b>6,879</b>	5,290	<b>68,790</b>
<b>Income taxes</b> (Note 10):			
Current .....	<b>2,510</b>	1,969	<b>25,100</b>
Deferred.....	<b>335</b>	413	<b>3,350</b>
<b>Total income taxes</b> .....	<b>2,845</b>	2,382	<b>28,450</b>
<b>Minority interests in net income</b> .....	<b>3</b>	8	<b>30</b>
<b>Net income</b> .....	<b>¥ 4,031</b>	¥ 2,900	<b>\$ 40,310</b>

	Yen	U.S. dollars
<b>Amounts per common share</b> (Notes 2.q and 13):		
Basic net income .....	<b>¥59.57</b>	¥42.73
Cash dividends applicable to the year .....	<b>16.00</b>	12.00

See notes to consolidated financial statements.



## Consolidated Statements of Changes in Equity

	Thousands	Millions of yen									
Years ended March 31, 2008 and 2007	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
<b>Balance, April 1, 2006</b> .....	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)
<b>Balance, March 31, 2007</b> .....	67,704	¥5,174	¥4,441	¥59,120	¥9,168	¥1	Nil	¥(1,834)	¥76,070	¥144	¥76,214
Net income .....				4,031					4,031		4,031
Cash dividends, ¥13.00 per share .....				(880)					(880)		(880)
Purchase of treasury stock .....	(61)							(68)	(68)		(68)
Disposal of treasury stock .....	2							2	2		2
Net change in the year .....					(2,346)	(1)	(4)		(2,351)	3	(2,348)
<b>Balance, March 31, 2008</b> .....	67,645	¥5,174	¥4,441	¥62,271	¥6,822	Nil	¥(4)	¥(1,900)	¥76,804	¥147	¥76,951

	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
<b>Balance, March 31, 2007</b> .....	\$51,740	\$44,410	\$591,200	\$91,680	\$10		\$(18,340)	\$760,700	\$1,440	\$762,140
Net income .....			40,310					40,310		40,310
Cash dividends, \$0.13 per share .....			(8,800)					(8,800)		(8,800)
Purchase of treasury stock .....							(68)	(680)		(680)
Disposal of treasury stock .....							20	20		20
Net change in the year .....				(23,460)	(10)	(40)		(23,510)	30	(23,480)
<b>Balance, March 31, 2008</b> .....	\$51,740	\$44,410	\$622,710	\$68,220	Nil	\$(40)	\$(19,000)	\$768,040	\$1,470	\$769,510

See notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Years ended March 31, 2008 and 2007	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
<b>Operating activities:</b>			
Income before income taxes and minority interests .....	<b>¥ 6,879</b>	¥ 5,290	<b>\$ 68,790</b>
Adjustments for:			
Income taxes – paid .....	<b>(2,240)</b>	(995)	<b>(22,400)</b>
Depreciation and amortization .....	<b>2,848</b>	2,750	<b>28,480</b>
Gain on sales of property, plant and equipment .....			
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable .....	<b>1,233</b>	(3,347)	<b>12,330</b>
(Decrease) increase in inventories .....	<b>(1,826)</b>	441	<b>(18,260)</b>
Decrease in other current assets .....	<b>104</b>	83	<b>1,040</b>
(Decrease) increase in notes and accounts payable .....	<b>1,012</b>	(27)	<b>10,120</b>
Decrease in other current liabilities .....	<b>(25)</b>	(86)	<b>(250)</b>
Decrease in liability for retirement benefits .....	<b>(827)</b>	(616)	<b>(8,270)</b>
Other – net .....	<b>189</b>	708	<b>1,890</b>
<b>Total adjustments .....</b>	<b>468</b>	(1,089)	<b>4,680</b>
<b>Net cash provided by operating activities .....</b>	<b>7,347</b>	4,201	<b>73,470</b>
<b>Investing activities:</b>			
Proceeds from redemption of marketable securities .....	<b>700</b>	500	<b>7,000</b>
Capital expenditures .....	<b>(1,778)</b>	(1,409)	<b>(17,780)</b>
Purchases of investment securities .....	<b>(2,126)</b>	(1,610)	<b>(21,260)</b>
Proceeds from redemption and sales of investment securities .....	<b>2,290</b>	1,519	<b>22,900</b>
Purchases of software .....	<b>(154)</b>	(53)	<b>(1,540)</b>
Acquisition of the license rights .....	<b>(210)</b>	(3,346)	<b>(2,100)</b>
Other – net .....	<b>208</b>	140	<b>2,080</b>
<b>Net cash used in investing activities .....</b>	<b>(1,070)</b>	(4,259)	<b>(10,700)</b>
<b>Financing activities:</b>			
Repayments of long-term debt .....	<b>(1,205)</b>	(1,243)	<b>(12,050)</b>
Cash dividends paid .....	<b>(879)</b>	(747)	<b>(8,790)</b>
Increase of treasury stock .....	<b>(66)</b>	(458)	<b>(660)</b>
<b>Net cash used in financing activities .....</b>	<b>(2,150)</b>	(2,448)	<b>(21,500)</b>
Foreign currency translation adjustments on cash and cash equivalents .....	<b>(286)</b>	66	<b>(2,860)</b>
<b>Net increase (decrease) in cash and cash equivalents .....</b>	<b>3,841</b>	(2,440)	<b>38,410</b>
<b>Cash and cash equivalents, beginning of year .....</b>	<b>11,313</b>	13,753	<b>113,130</b>
<b>Cash and cash equivalents, end of year .....</b>	<b>¥15,154</b>	¥11,313	<b>\$151,540</b>

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 Financial Instruments and Exchange Law (the Japanese Securities and Exchange Law) and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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

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 ¥100 to \$1, the approximate rate of exchange at March 31, 2008. 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, 2008 include the accounts of the Company and its significant three (two in 2006) domestic and one overseas subsidiaries (together, the “Companies”). Consolidation of the remaining subsidiary would not have a material effect on the accompanying consolidated financial statements.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Companies have the ability to exercise significant influence are accounted for by the equity method.

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

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

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies is eliminated.

- b. Cash Equivalents** — Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of 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. Non-marketable available for sale 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** — Prior to April 1, 2007, inventories were stated principally at cost, determined by the average method. On July 5, 2006, the Accounting Standards Board of Japan (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 Company adopted the new accounting standard for measurement of inventories in the year ended March 31, 2008. The effect of adoption of this accounting standard was to decrease income before income taxes and minority interests for the year ended March 31, 2008 by ¥204 million (\$2,040 thousand).

**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** — 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 2008 and 2007.

**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 or assets, as the case may be, 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 was effective for fiscal years ending on or after May 1, 2006. The balances of such items as of March 31, 2006 were reclassified as separate components of equity as of April 1, 2006 in the consolidated statement of changes in equity.

**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 —**

Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

- 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. 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.

- n. 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.

- o. 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.

- p. 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.

**q. New Accounting Pronouncements —**

*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. 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.

*Lessee*

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 recognizing lease assets and lease obligations in the balance sheet.

*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 its foreign subsidiaries which have been 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 standard 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, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Current:			
Government and corporate bonds .....	¥ 600	¥ 700	\$ 6,000
Non-current:			
Equity securities .....	¥17,516	¥21,738	\$175,160
Government and corporate bonds .....	1,399	2,098	13,990
Trust fund investments.....	297	295	2,970
Total .....	¥19,212	¥24,131	\$192,120

Information regarding each category of securities classified as available-for-sale and held-to-maturity at March 31, 2008 and 2007 were as follows:

	Millions of yen			
	Cost	Unrealized gain	Unrealized loss	Fair value
<b>March 31, 2008</b>				
Securities classified as:				
Available-for-sale:				
Equity securities.....	¥5,904	¥11,253		¥17,157
Government and corporate bonds.....	100		¥ 1	99
Trust fund investments .....	300		3	297
Held-to-maturity .....	1,899		20	1,879

	Millions of yen			
	Cost	Unrealized gain	Unrealized loss	Fair value
March 31, 2007				
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

	Thousands of U.S. dollars			
	Cost	Unrealized gain	Unrealized loss	Fair value
<b>March 31, 2008</b>				
Securities classified as:				
Available-for-sale:				
Equity securities.....	\$59,040	\$112,530		\$171,570
Government and corporate bonds .....	1,000		\$ 10	990
Trust fund investments .....	3,000		30	2,970
Held-to-maturity .....	18,990		200	18,790

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2008 and 2007 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Available-for-sale:			
Equity securities .....	¥359	¥368	\$3,590

Proceeds from sales of available-for-sale securities for the year ended March 31, 2008 was ¥170 million (\$1,700 thousand). Gross realized gains on these sales, computed on the moving average cost basis, was ¥147 million (\$1,470 thousand) for the year ended March 31, 2008.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2008 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 .....	¥	600		\$ 6,000
Due after one year through five years.....	¥297	1,299	\$2,970	12,990
Total .....	¥297	¥1,899	\$2,960	\$18,990

#### 4. INVENTORIES

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	2008	
Finished products and merchandise ...	¥ 6,348	¥4,799	\$ 63,480	
Work in process .....	1,233	1,361	12,330	
Raw materials.....	3,015	2,610	30,150	
Total .....	¥10,596	¥8,770	\$105,960	

#### 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 1.2% at March 31, 2008 and 0.9% at March 31, 2007.

Short-term borrowings at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Loans from banks, 1.2% (0.9% at 2007) .....	¥30	¥30	\$300

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Loans from financial institutions, 0.90% to 2.0% , due serially to November 2012 .....	¥1,222	¥2,427	\$12,220
Less current portion.....	(1,163)	(1,203)	(11,630)
Long-term debt, less current portion...	¥ 59	¥1,224	\$ 590

Annual maturities of long-term debt at March 31, 2008 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009.....	¥1,163	\$11,630
2010.....	31	310
2011.....	10	100
2012.....	10	100
2013.....	8	80
Total.....	¥1,222	\$12,220

At March 31, 2008, 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 .....	¥5,177	\$51,770
Related liabilities:		
Short-term borrowings .....	30	300
Current portion of long-term debt ...	1,023	10,230
Long-term debt (excluding current portion).....	59	590

## 6. RETIREMENT BENEFITS

The liability for employees' retirement benefits at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligation .....	¥25,700	¥25,786	\$257,000
Fair value of plan assets .....	(11,235)	(11,564)	(112,350)
Unrecognized actuarial loss .....	(5,456)	(4,341)	(54,560)
Unrecognized prior service cost .....	(472)	(517)	(4,720)
Net liability .....	¥ 8,537	¥ 9,364	\$ 85,370

The components of net periodic benefit costs for the years ended March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost .....	¥ 883	¥ 904	\$ 8,830
Interest cost .....	512	507	5,120
Expected return on plan assets .....	(460)	(408)	(4,600)
Recognized actuarial loss .....	420	419	4,200
Amortization of prior service cost ...	45	45	450
Premiums for defined contribution pension plan and other .....	43	53	430
Net periodic benefit costs .....	¥1,443	¥1,520	\$14,430

Assumptions used for the years ended March 31, 2008 and 2007 are set forth as follows:

	2008	2007
Discount rate .....	2.0%	2.0%
Expected rate of return on plan assets .....	4.0%	4.0%
Recognition period of actuarial gain/loss .....	15years	15 years
Amortization period of prior service cost ....	15years	15 years

## 7. EQUITY

Since May 1, 2006, Japanese companies have been subject to a new corporate law of Japan (the "Corporate Law") which reformed and replaced the Commercial Code of Japan. The significant provisions 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, 2008 and 2007 were ¥7,898 million (\$78,980 thousand) and ¥8,200 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, 2008 and 2007 were ¥1,019 million (\$10,190 thousand) and ¥1,052 million, respectively, including ¥7 million (\$70 thousand) and ¥9 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, 2008 and 2007 was as follows:

Machinery and equipment, and tools, furniture and fixtures:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Acquisition cost .....	¥15	¥64	\$150
Accumulated depreciation.....	5	53	50
Net leased property.....	¥10	¥11	\$100

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year .....	¥ 3	¥ 6	\$ 30
Due after one year .....	7	5	70
Total .....	¥10	¥11	\$100

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method was ¥7 million (\$70 thousand) and ¥9 million for the years ended March 31, 2008 and 2007, respectively.

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

	Millions of yen
	2007
Due within one year .....	¥5
Total .....	¥5

There are no non-cancelable operating leases outstanding at March 31, 2008.



## 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, 2008 and 2007. 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, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred Tax Assets:			
Retirement benefits.....	¥3,497	¥3,838	\$34,970
Accrued expenses.....	1,177	1,154	11,770
Property, plant and equipment ....	97	104	970
Other.....	1,111	996	11,110
Less valuation allowance .....	(450)	(291)	(4,500)
Deferred tax assets .....	5,432	5,801	54,320
Deferred Tax Liabilities:			
Unrealized gain on available-for-sale securities .....	4,427	6,372	44,270
Deferred gains on sales of property.....	1,334	1,343	13,340
Other.....	79	105	790
Deferred tax liabilities .....	5,840	7,820	58,400
Net deferred tax liabilities .....	¥ (408)	¥(2,019)	\$ (4,080)

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, 2008 and 2007 is as follows:

	2008	2007
Normal effective statutory tax rate .....	41.0%	41.0%
Expenses not deductible for income tax purposes .....	4.7	6.3
Income not taxable for income tax purposes .....	(0.7)	(0.8)
Increase in valuation allowance.....	2.3	5.5
Tax credits for research and development costs .....	(5.6)	(5.4)
Other – net .....	(0.4)	(1.6)
Actual effective tax rate.....	41.3%	45.0%

## 11. CONTINGENT LIABILITIES

At March 31, 2007, contingent liabilities were ¥469 million (\$4,690 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, ¥50 million (\$500 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 Companies do not enter into derivative for speculative purposes. The Company's derivative transactions are specific foreign exchange forward contracts. 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, 2008 and 2007 is as follows:

	Yen in millions	Thousands of shares	Yen	Dollars
	Net income	Weighted average shares	EPS	
<hr/>				
For the year ended March 31, 2008:				
Basic EPS				
Net income available to common shareholders.....	¥4,031	67,667	¥59.57	\$0.59
<hr/>				
For the year ended March 31, 2007:				
Basic EPS				
Net income available to common shareholders.....	¥2,900	67,866	¥42.73	
<hr/>				

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

### 14. SUBSEQUENT EVENTS

At the general shareholders' meeting held on June 27, 2008, the Company's shareholders approved the following:

Payment of a year-end cash dividend of ¥9.00 (\$0.09) per share to holders of record at March 31, 2008 for a total of ¥608 million (\$6,080 thousand).

## 15. SEGMENT INFORMATION

Information about industry segments of the Companies for the years ended March 31, 2008 and 2007 is as follows:

### Industry Segments

#### Year ended March 31, 2008

##### a. Sales and Operating Income

	Millions of yen				Thousands of U.S. dollars			
	Pharmaceuticals	Functional food	Eliminations/Corporate	Consolidated	Pharmaceuticals	Functional food	Eliminations/Corporate	Consolidated
Sales to customers .....	¥48,659	¥10,791		¥59,450	\$486,590	\$107,910		\$594,500
Intersegment sales .....	2		¥(2)		20		\$(20)	
Total sales .....	48,661	10,791	(2)	59,450	486,610	107,910	(20)	594,500
Operating expenses .....	42,219	10,772	(2)	52,989	422,190	107,720	(20)	529,890
Operating income .....	¥ 6,442	¥ 19	Nil	¥ 6,461	\$ 64,420	\$ 190	Nil	\$ 64,610

##### b. Assets, Depreciation and Capital Expenditures

	Millions of yen				Thousands of U.S. dollars			
	Pharmaceuticals	Functional food	Eliminations/Corporate	Consolidated	Pharmaceuticals	Functional food	Eliminations/Corporate	Consolidated
Assets .....	¥60,047	¥8,635	¥34,434	¥103,116	\$600,470	\$86,350	\$344,340	\$1,031,160
Depreciation .....	2,651	159	38	2,848	26,510	1,590	380	28,480
Capital expenditures .....	1,397	253		1,650	13,970	2,530		16,500

#### Year ended March 31, 2007

##### a. Sales and Operating Income

	Millions of yen			
	Pharmaceuticals	Functional food	Eliminations/Corporate	Consolidated
Sales to customers .....	¥46,542	¥ 9,779		¥56,321
Intersegment sales .....	3		¥ (3)	
Total sales .....	46,545	9,779	(3)	56,321
Operating expenses .....	41,419	10,054	(3)	51,470
Operating income .....	¥ 5,126	¥ (275)	Nil	¥ 4,851

##### b. Assets, Depreciation and Capital Expenditures

	Millions of yen			
	Pharmaceuticals	Functional food	Eliminations/Corporate	Consolidated
Assets .....	¥62,335	¥7,188	¥35,350	¥104,873
Depreciation .....	2,544	165	41	2,750
Capital expenditures .....	1,351	58		1,409

#### Notes:

As discussed in Note 2.d., the Company adopted the new accounting standard for measurement of inventories in the year ended March 31, 2008. The effect of adoption of this accounting standard was to decrease operating income of Pharmaceuticals by ¥165 million (\$1,650 thousand) and operating income of Functional food by ¥39 million (\$390 thousand), respectively for the year ended March 31, 2008.

# Independent Auditors' Report

# Deloitte.

**Deloitte Touche Tohmatsu**  
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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. (the "Company") and consolidated subsidiaries as of March 31, 2008 and 2007, 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, 2008 and 2007, 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.

As discussed in Note 2.d., effective April 1, 2007, the consolidated financial statements have been prepared with the new accounting standard for measurement of inventories.

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 30, 2008

*Deloitte Touche Tohmatsu*

Member of  
Deloitte Touche Tohmatsu

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Phone: +1-201-986-3860

Facsimile: +1-201-986-3865





## Founded

October 1919

## Date of Incorporation

September 1919

## Paid-in Capital

¥5,174 million

## Issued and Outstanding Number of Shares

70,251,484

## Independent and Certified Public Accountants

Deloitte Touche Tohmatsu  
Address: 62, Tsukihoko-cho,  
Shinmachi-higashiiru, Shijo-Dori,  
Shimogyo-ku, Kyoto 600-8492, Japan

## Transfer Agent

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

## Major Shareholders

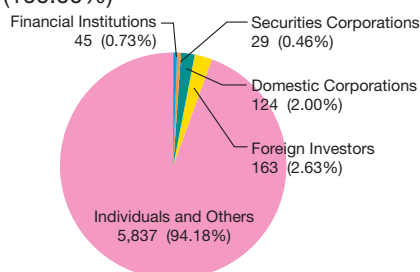
Meiji Yasuda Life Insurance Company  
Japan Trustee Services Bank, Limited  
Nippon Life Insurance Company  
The Bank of Tokyo-Mitsubishi UFJ, Ltd.  
The Kyoto Bank, Limited  
Tokio Marine & Nichido Fire Insurance Co., Ltd.  
Mitsubishi Corporation  
The Master Trust Bank of Japan, Limited  
Pursing Division of Donaldson, Lufkin & Jenrette Sec. Corporation  
Nippon Shinyaku Employees' Stockholding

# Investor Information

## Distribution of Shareholders and Shares

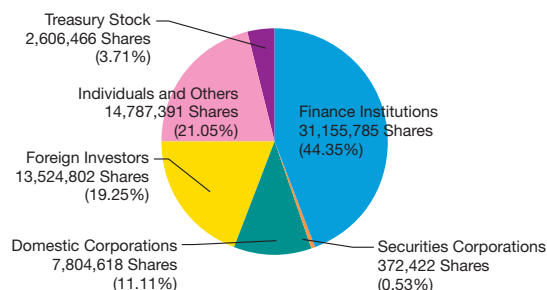
### Number of Shareholders

6,198 (100.00%)

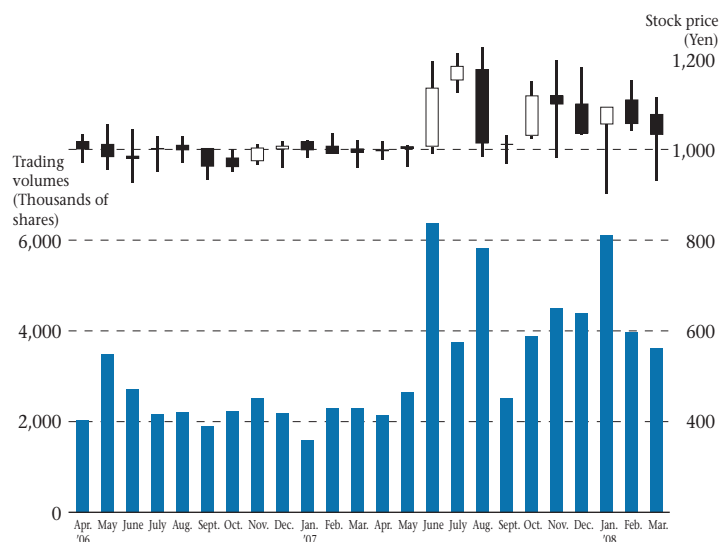


### Number of Shares Issued

70,251,484 Shares (100.00%)



## Stock Price Range





<http://www.nippon-shinyaku.co.jp/>



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was produced using  
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