Financial Overview for the Interim Period

Fiscal Year ending March 31, 2003

KOBAYASHI PHARMACEUTICAL CO., LTD.

President and Representative Director,CEO

Kazumasa Kobayashi

November 22, 2002

Overview

- **New product development aiming to be “a big fish in a niche pond”**

  ¥4,900 million, 113% compared to budget (March-September) New products launched in spring
  ¥900 million, 102% compared with budget (September-October) New products launched in autumn

- **Expanding of share by emphasizing over-the-counter-sales at individual shops**

  Competing at 8,500 shop counters

- **Thorough reduction of manufacturing costs**

  Cost reduction targeting 1.3 % of sales, ¥500 million

- **Effects by reorganizing of affiliated companies**

  Aquarius Medical Corp. liquidated
  Special profit of ¥3,400 million gained by sales of shares incident to dissolution of joint venture, etc.

- **Withdrawal from the Osaka Pharmaceutical Industry Welfare Pension Fund (September 30)**

  Special loss of ¥1,900 million incurred by expenditures for special installment

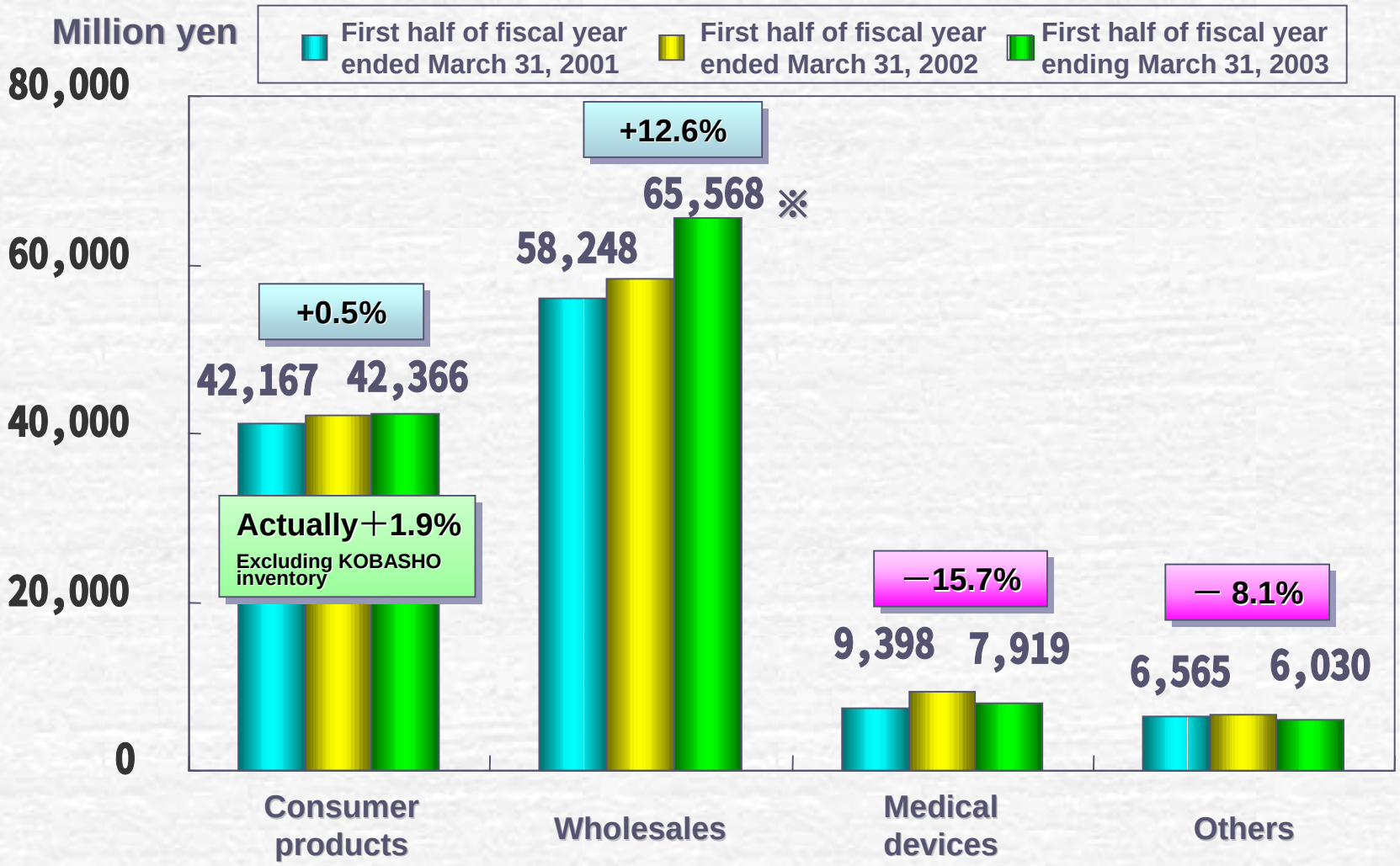
Highlights of closing of accounts

Consolidated

	First half of fiscal year ended March 31, 2002		First half of fiscal year ending March 31, 2003		Increase/decrease	
	Amount	Profit rate	Amount	Profit rate	Amount	Increase/ decrease rate
	Million Yen	%	Million Yen	%	Million Yen	%
Sales	100,796	–	106,895	–	6,099	6.1
Operating profit	6,927	6.9	8,194	7.7	1,266	18.3
Ordinary profit	6,074	6.0	6,217	5.8	143	2.4
Interim net profit	2,743	2.7	3,379	3.2	636	23.2
EPS (yen)	96.8	–	119.2	–	22.4	23.2

Transition of sales per operation

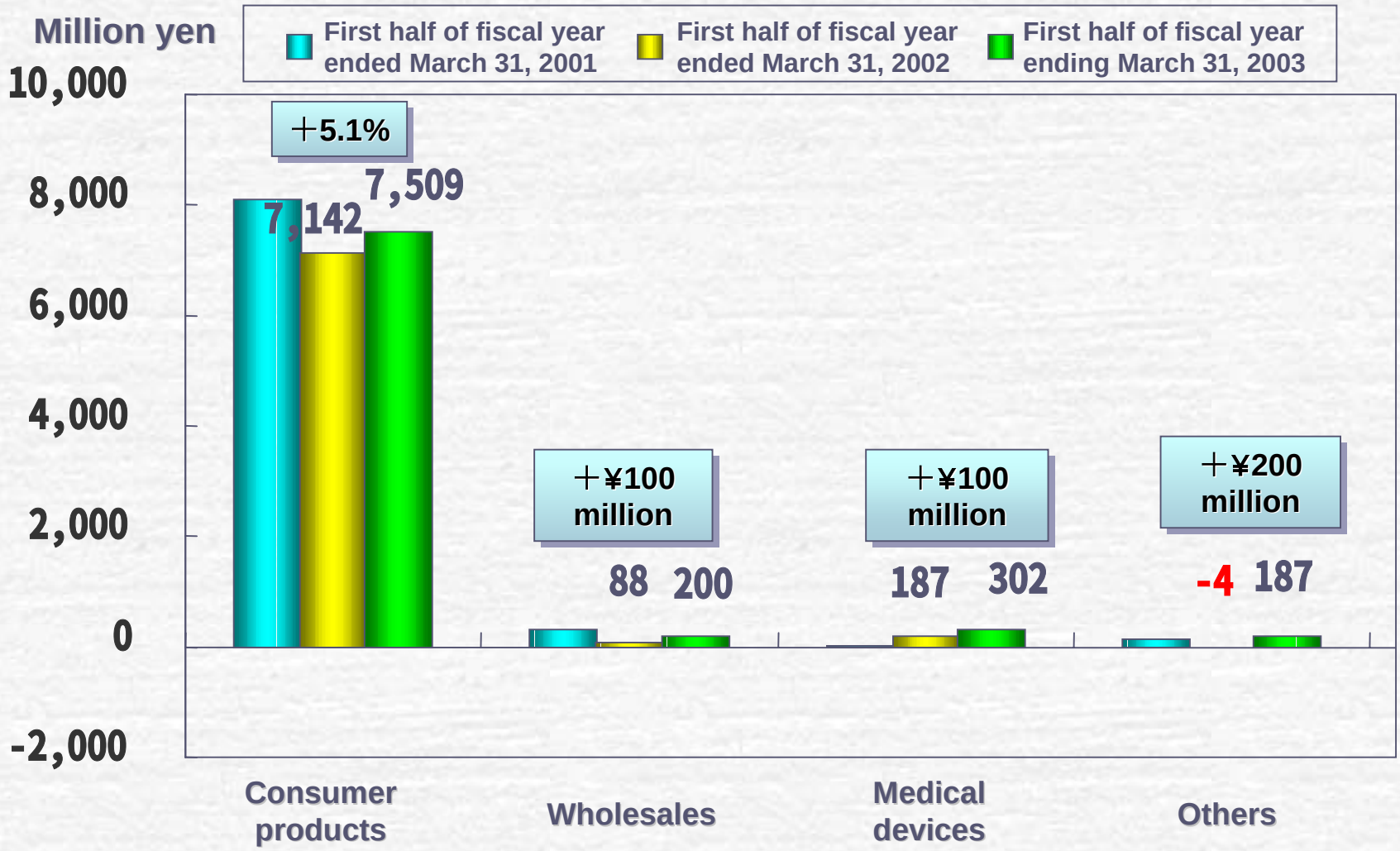
Consolidated



※Kensho ¥5,510 million

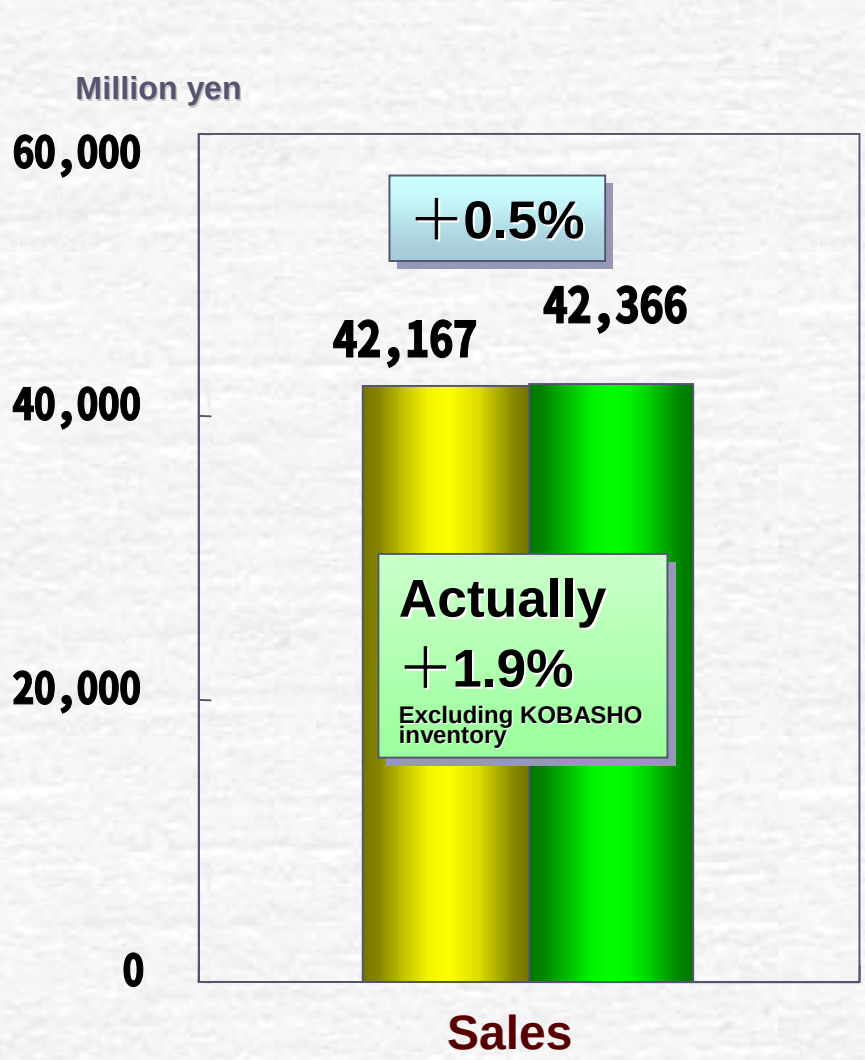
Transition of operating profits by operation

Consolidated

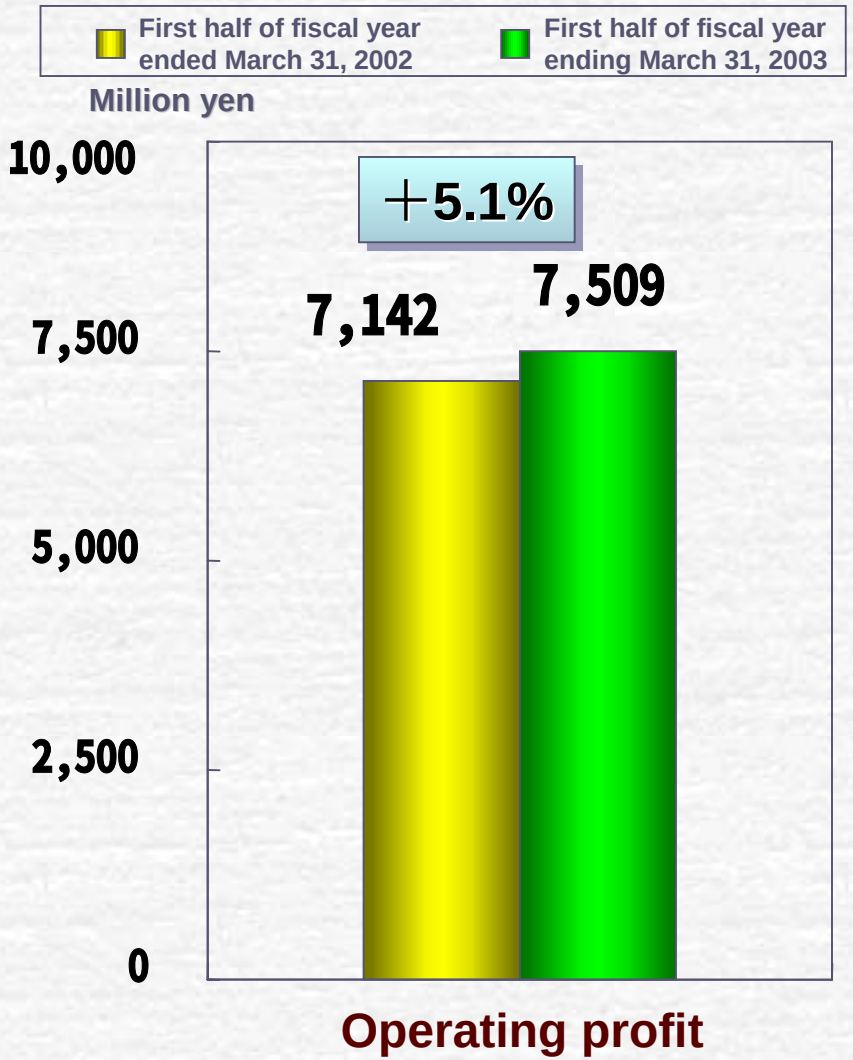


Consumer products operation of the first half of the fiscal year ending March 31, 2003

Sales, operating profit



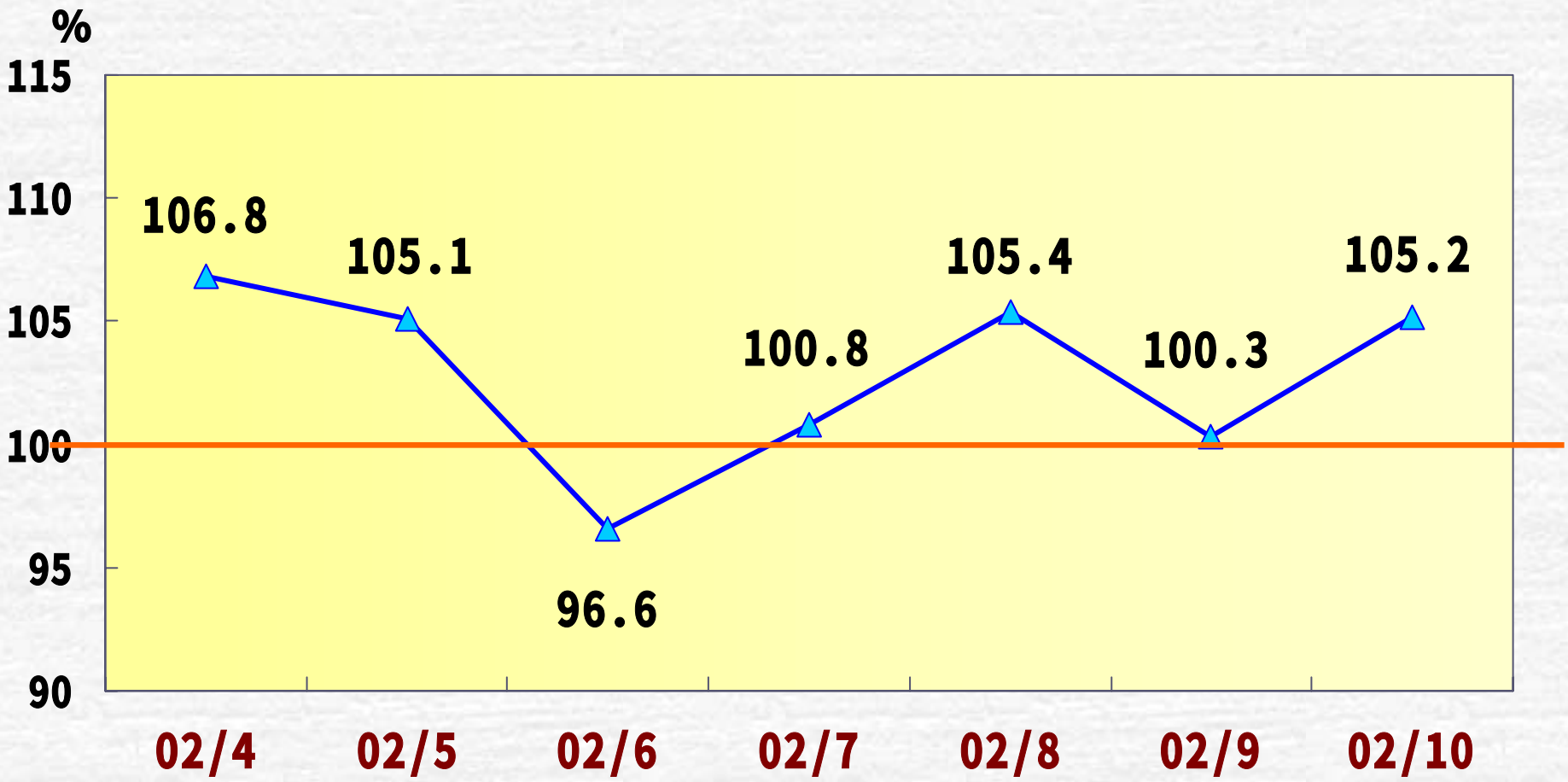
Sales



Operating profit

Monthly sales of Product Division

Non-consolidated



※Sales by shipment basis

Situation on new products launched in spring

As for the initial year sales target of ¥7,600million/16items, favorable progress is seen with sales of ¥4,900 million as of end of October.

113% of the period target of ¥4,300 million achieved from the time of launching of sales to end October

A joint product with a company in alliance

Keshimin ¥760 million

Wafuka, ¥750 million

Toilet no *Shoshugen* Super Spray ¥590 million

Kess for Toilet ¥470 million

Mild acidic Sarasarty ¥410 million

1-2 Drop Breath-Care, ¥310 million

※Sales records from the date of launching up to end October

Strategy for securing prime shelf space

Spring New Product Fair

Strategy for securing prime shelf space

Aromatic deodorant campaign

Kobayashi Pharmaceutical Co., Ltd.

Strategy for securing prime shelf space

Oral care product campaign

Kobayashi Pharmaceutical Co., Ltd.

Strategy for securing prime shelf space

Breath Care series

Kobayashi Pharmaceutical Co., Ltd.

Strategy for securing prime shelf space

Netsusama Sheet campaign

Strategy for securing prime shelf space

Nutritional supplementary food

Kobayashi Pharmaceutical Co., Ltd.

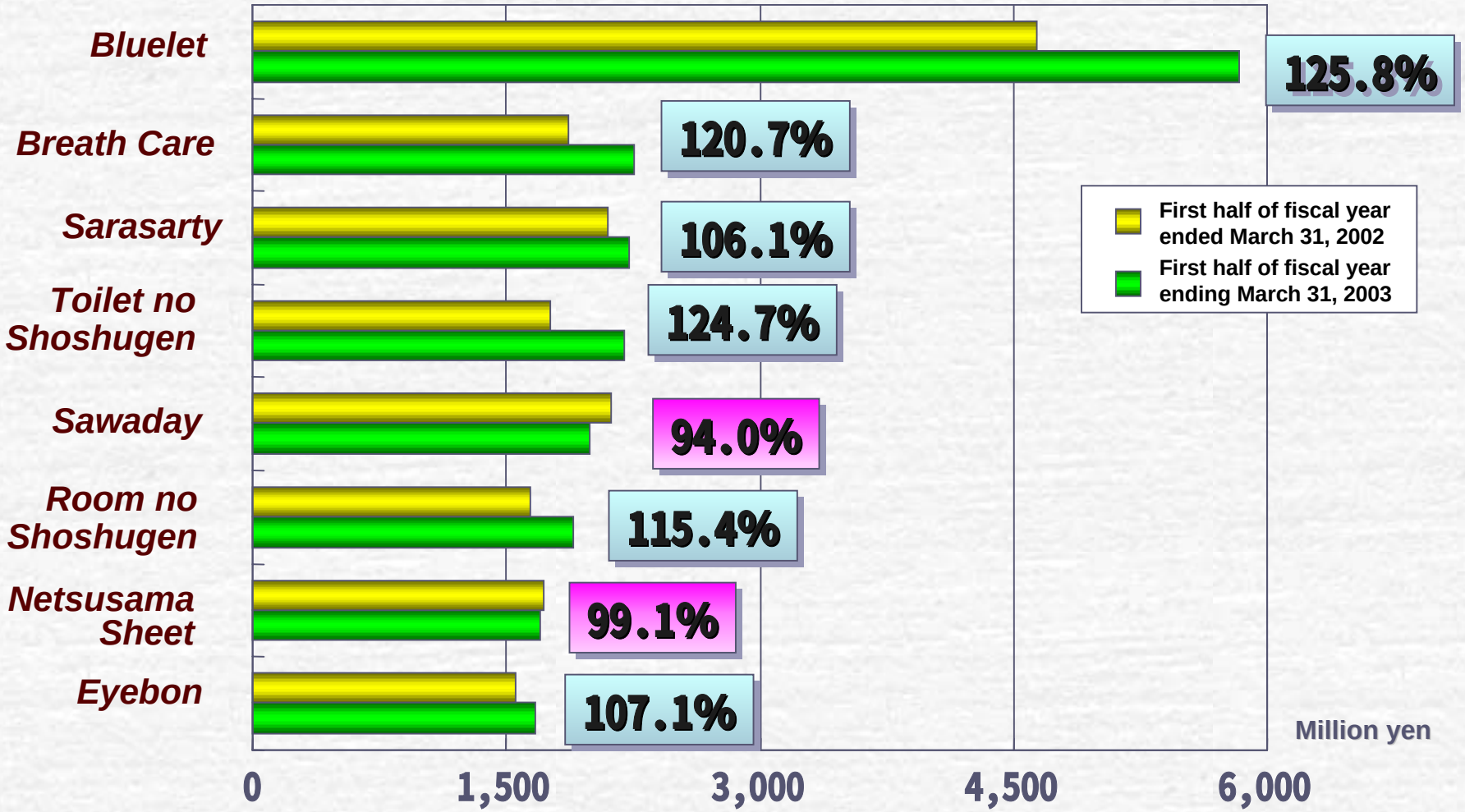
Strategy for securing prime shelf space

Medical devices campaign

Situation on top ranking brands by sales

Non-consolidated

(Those more than ¥1,500 million)

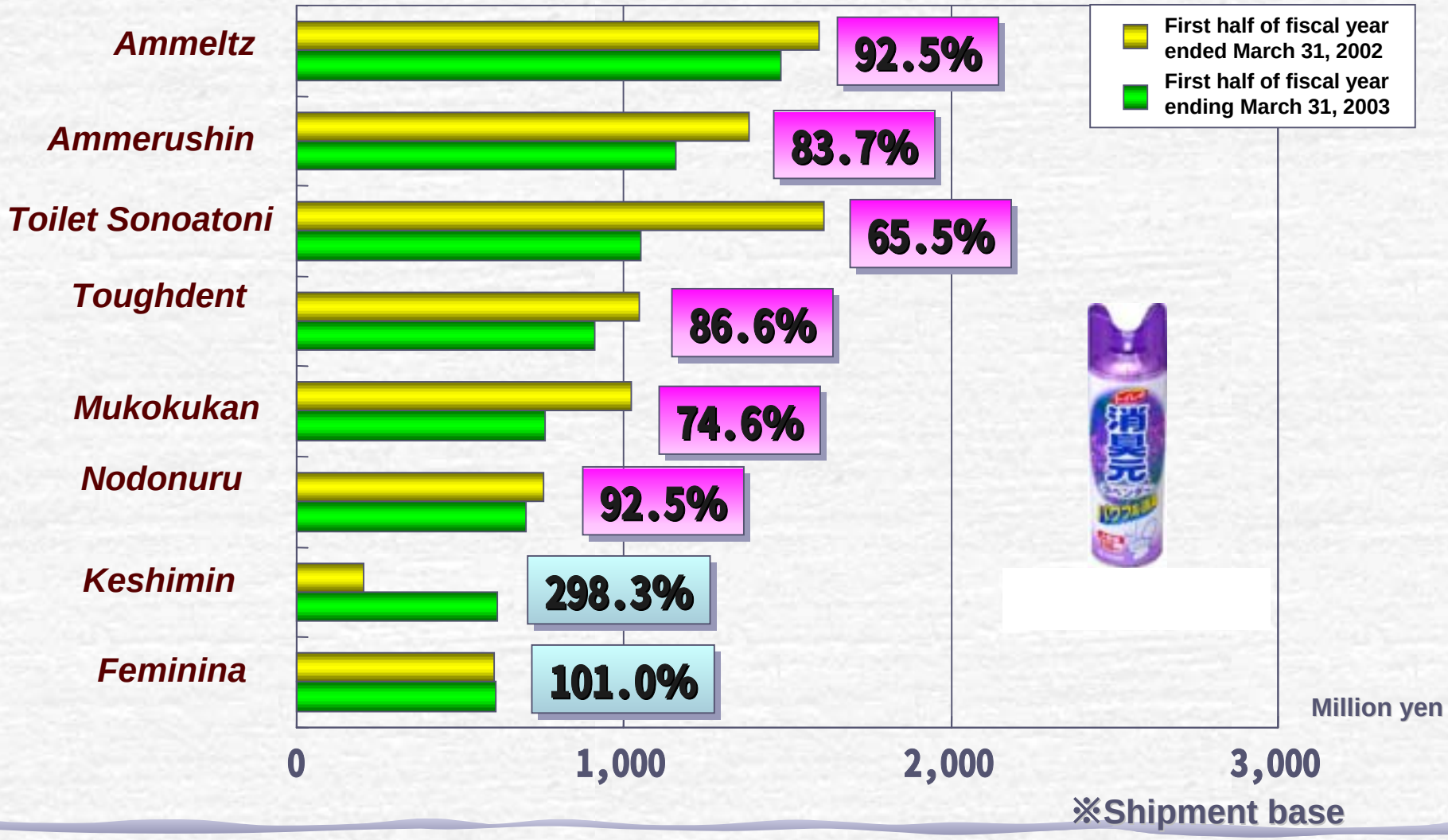


※Shipment base

Situation on top ranking brands by sales

Non-consolidated

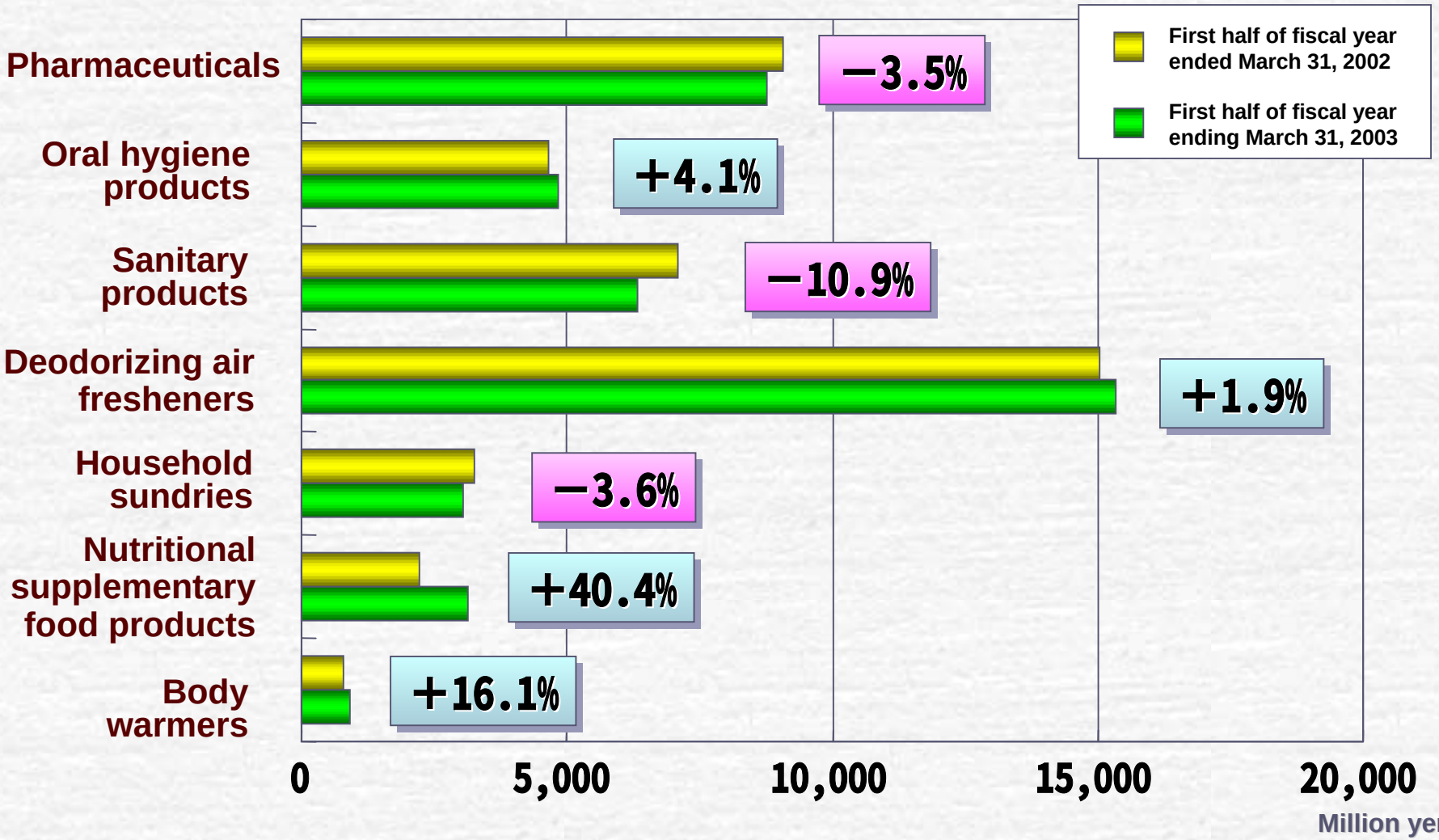
(More than ¥600 million)



※Shipment base

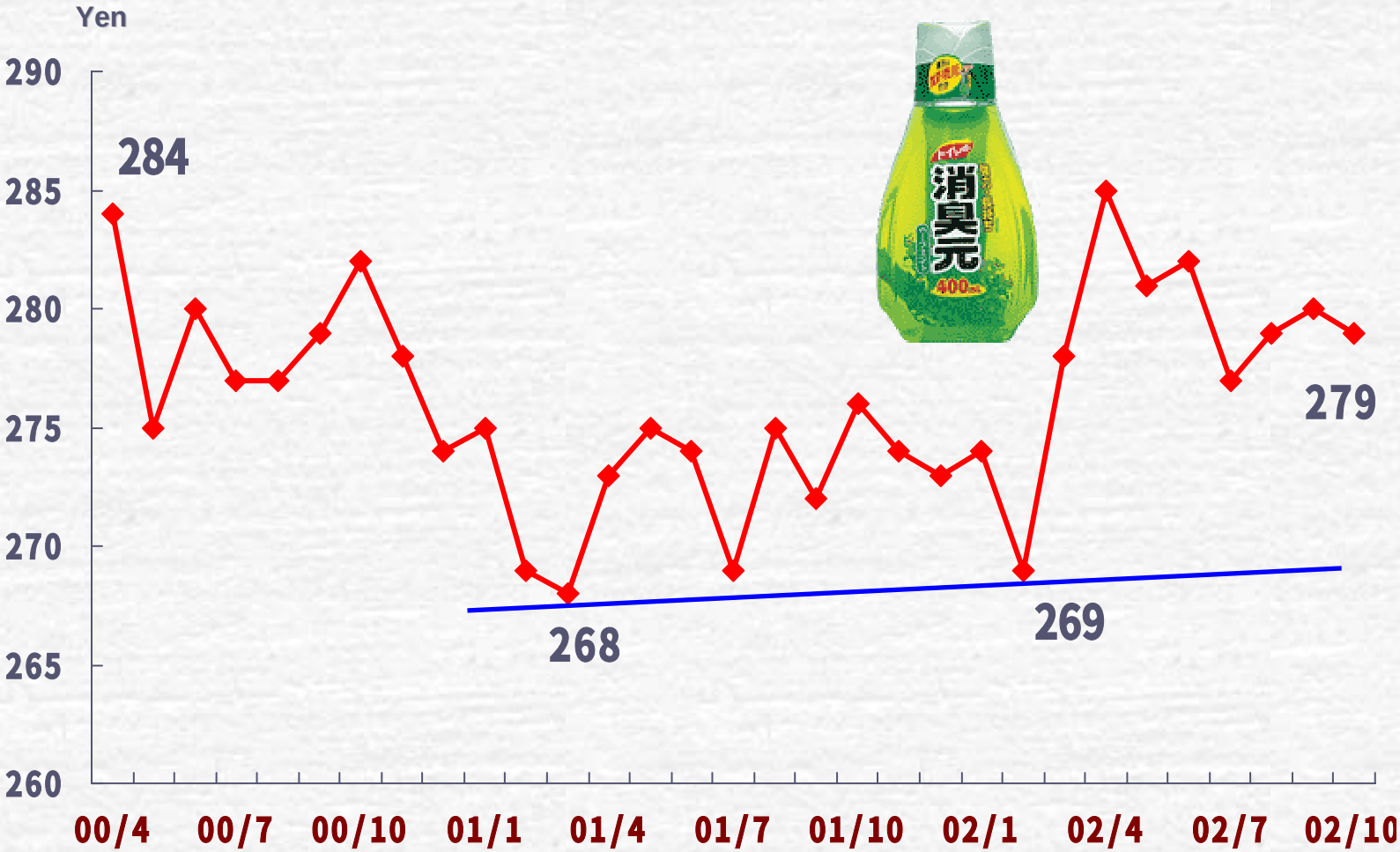
Consolidated

Transition of sales in the first half by category



Ceasing of price downtrend

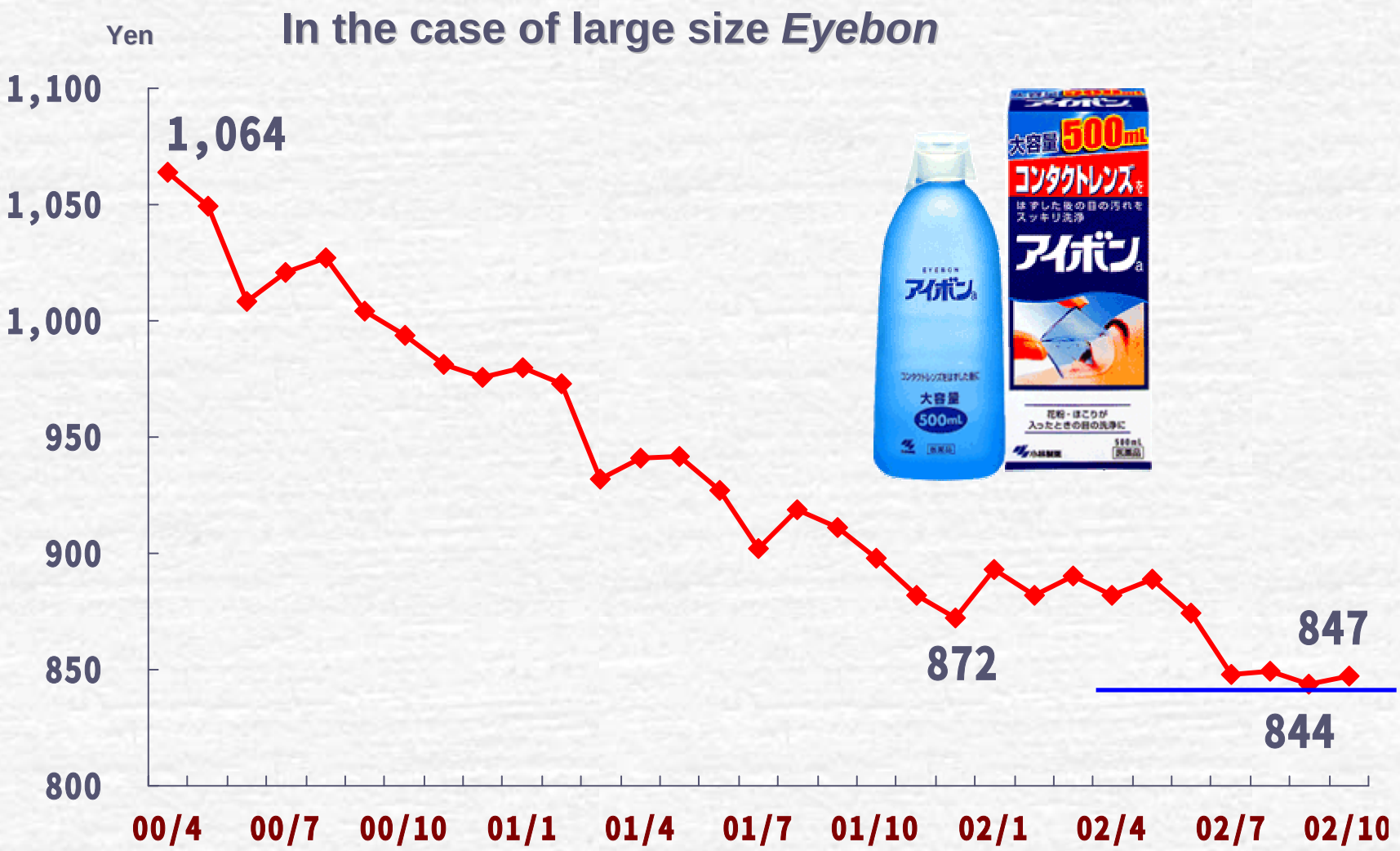
In the case of *Toilet no Shoshugen Super Spray*



Ceasing of price downtrend

In the case of *Netsusama Sheet for adults, 12 + 4 sheets*

Price downtrend continues



Thorough reduction of manufacturing costs

Amount of cost reduction

Consolidated base ¥500 million (1.3% of sales amount)

- **Changing and centralizing manufacturing locations**

  ***Toilet Sonoatoni* , *Pretty* (keratinous skin layer removal cream)**

- **Specification changes (abolishing of inner packing,etc.)**

  Kess for Toilet*, *Bikokukan Value Toku Pack

- **Change to in-house manufacturing**

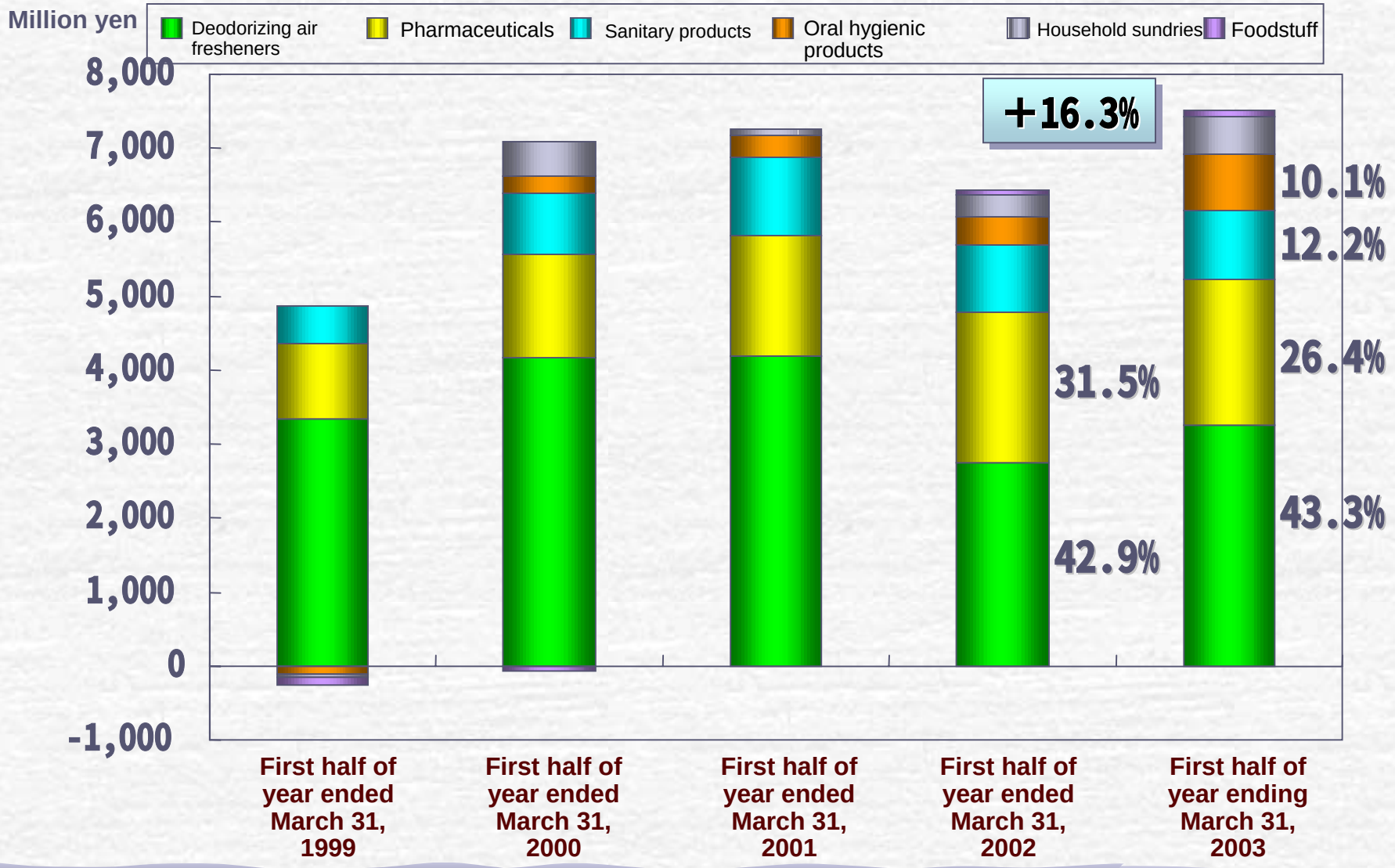
  ***1 - 2 Drop Breath Care*, Nutritional Supplementary Foods**

- **Change in working system and changing to sub-contract part-time workers**

  Netsusama Sheet, Bluelet Dobon **and so on...**

Transition of ordinary profit by category

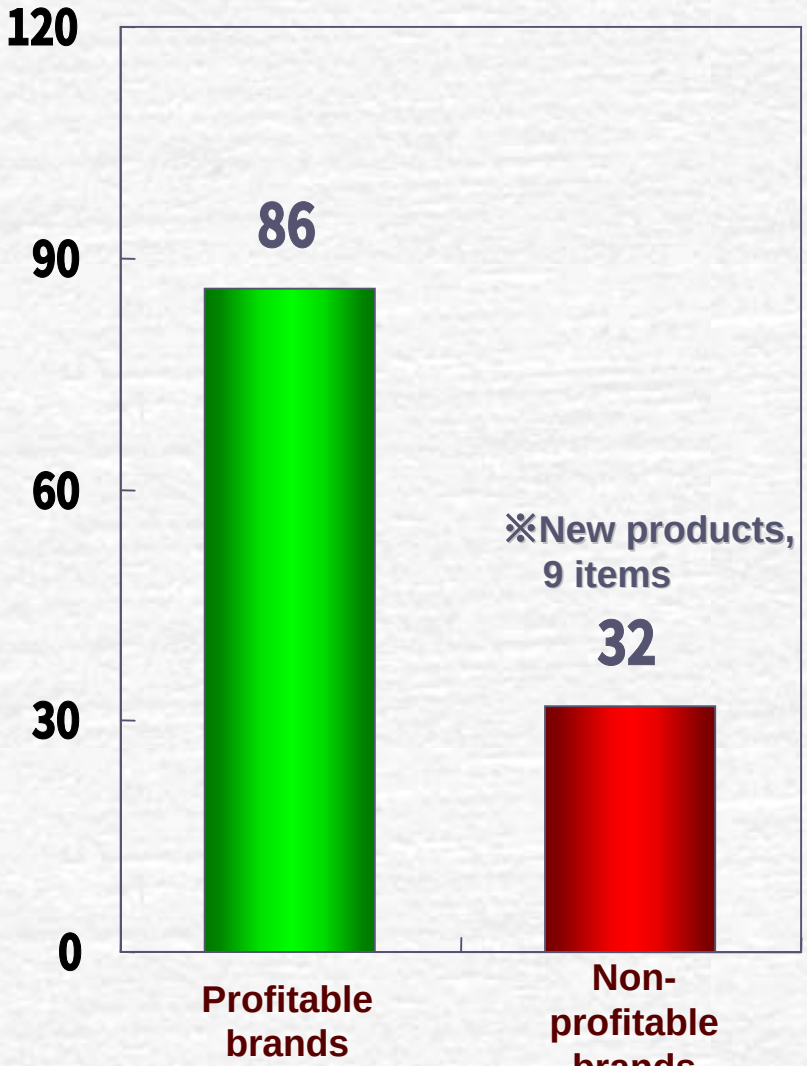
Non-consolidated



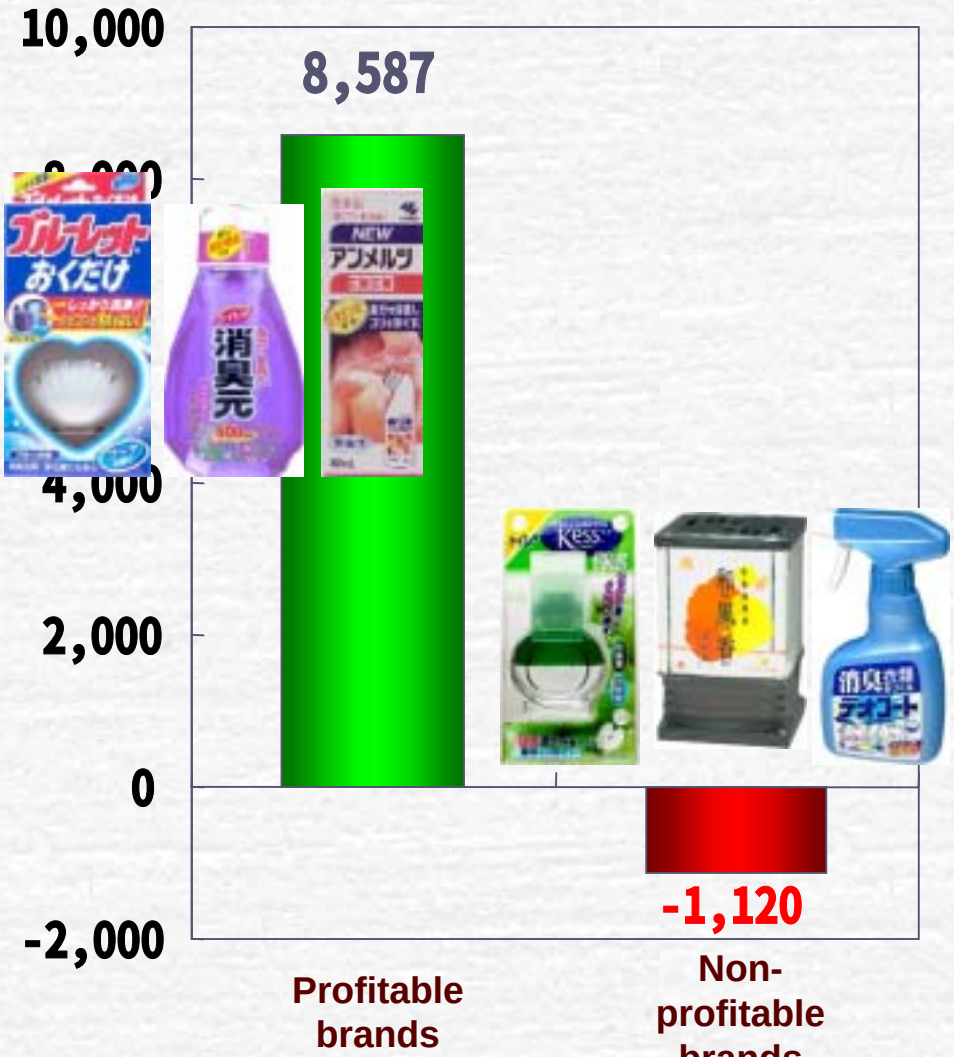
Profit structure of brand products

Non-consolidated

Number of brands



Million yen



Narrowing down of brands

Non-consolidated

- **Narrowing down of new products being launched**

	Spring of '00	Autumn of '00	Spring of '01	Autumn of '01	Spring of '02	Autumn of '02
Number of items launched	18	16	16	12	16	7
		34		28		23

- **Review of existing items**

143 brands ⇒ 118 brands

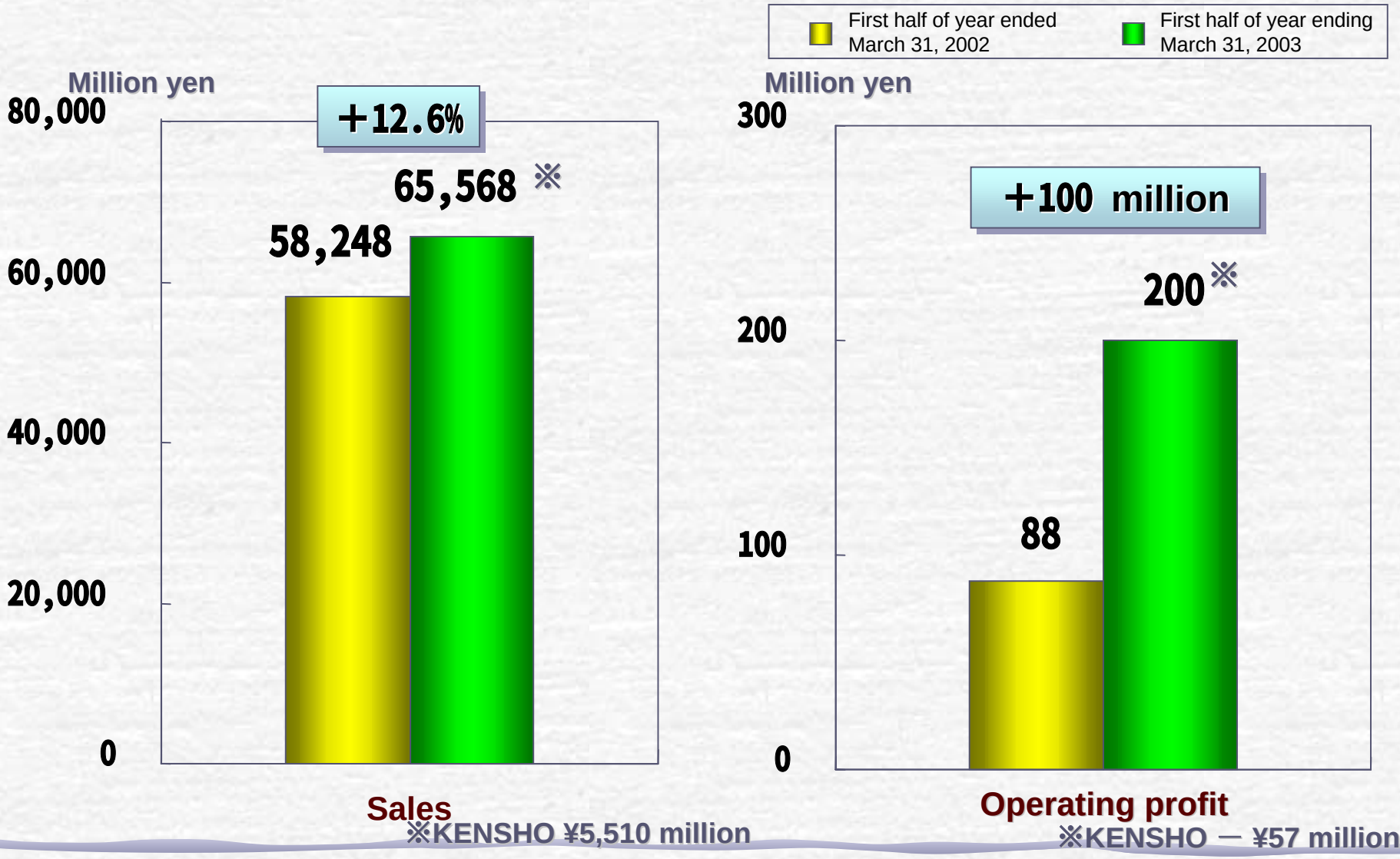
(At end March, 2002) (At end Sept. 2002)

- **Advertised brands**

47 brands (of which 13 are new brands)

Wholesale operations of first half of year ending March 31, 2003

Items of sales/operating profits

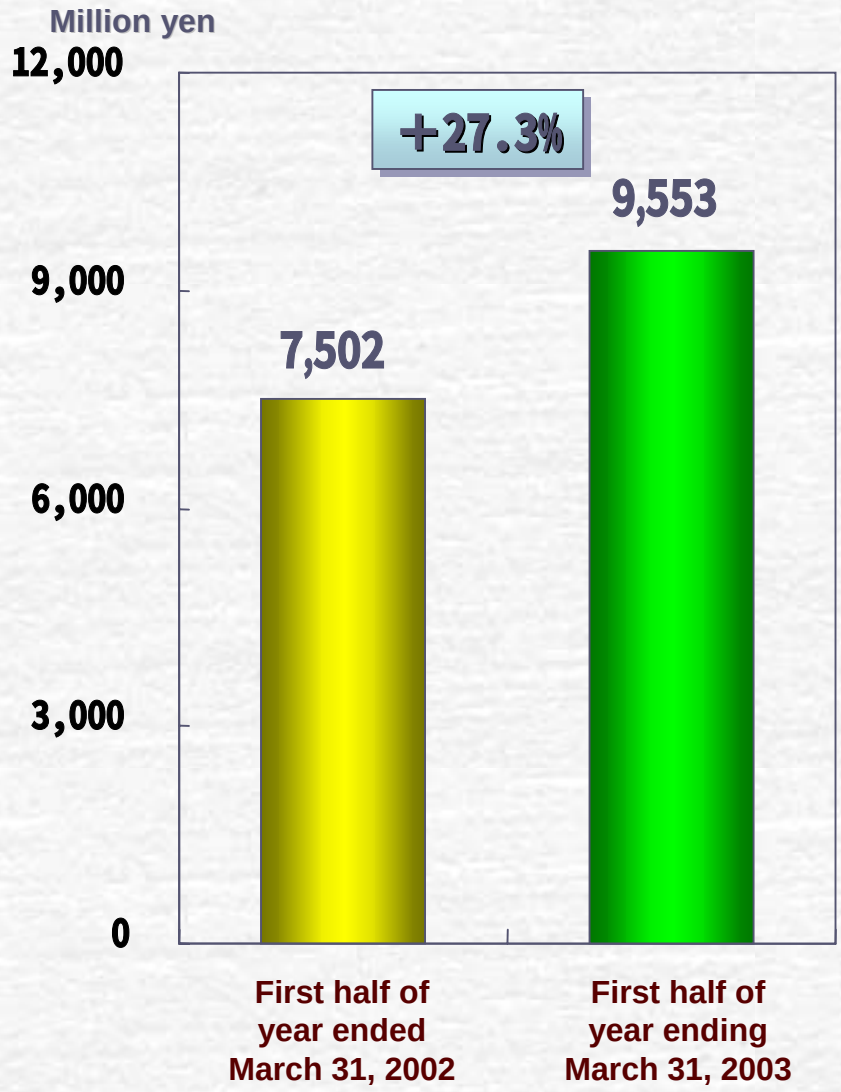


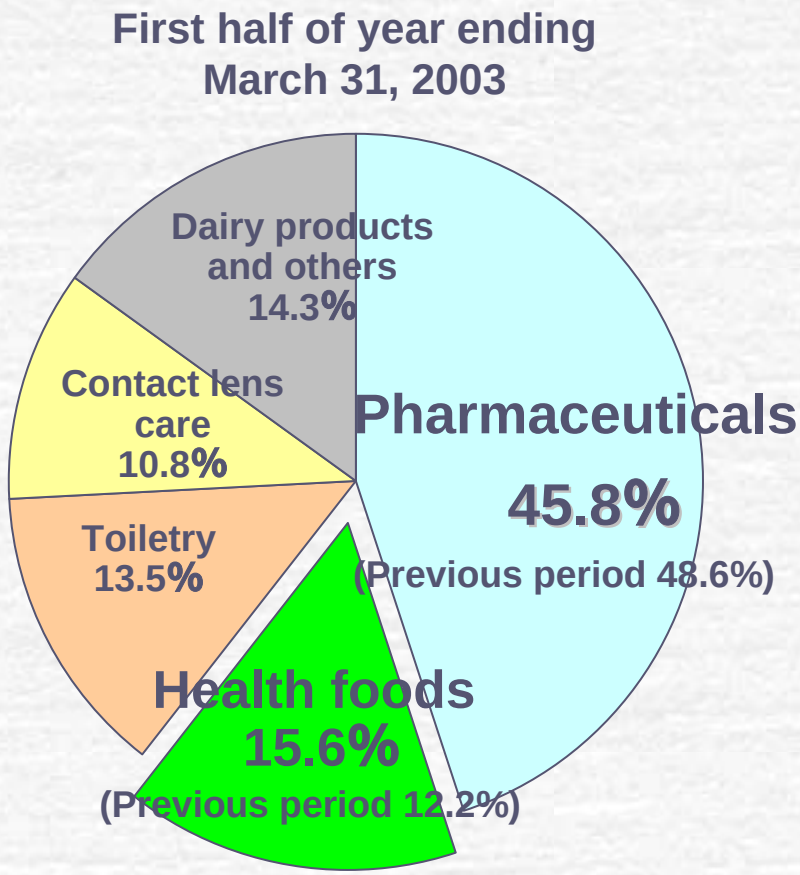
Core category - Health foods

With health as the concept, zoning effected by theme

Core category - Health foods

KOBASHO

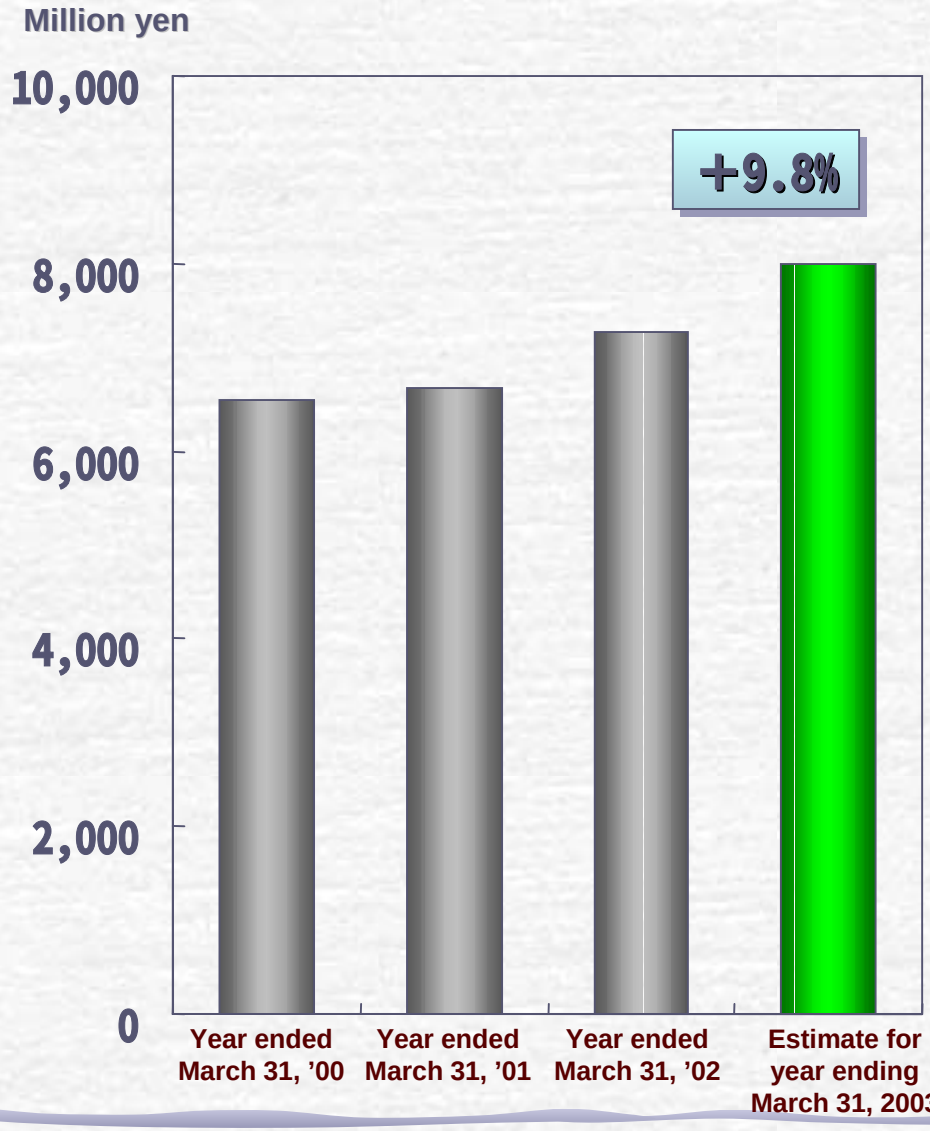


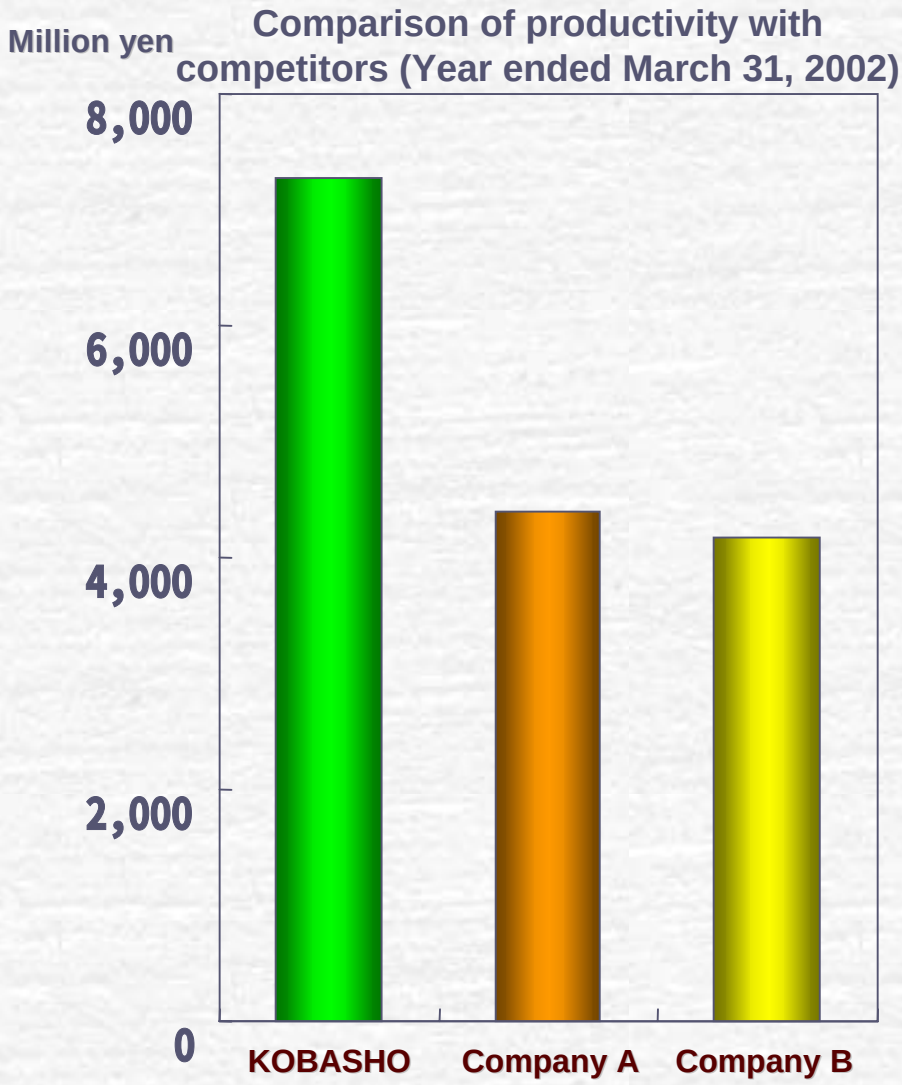


Composition ratio by category

Productivity of sales

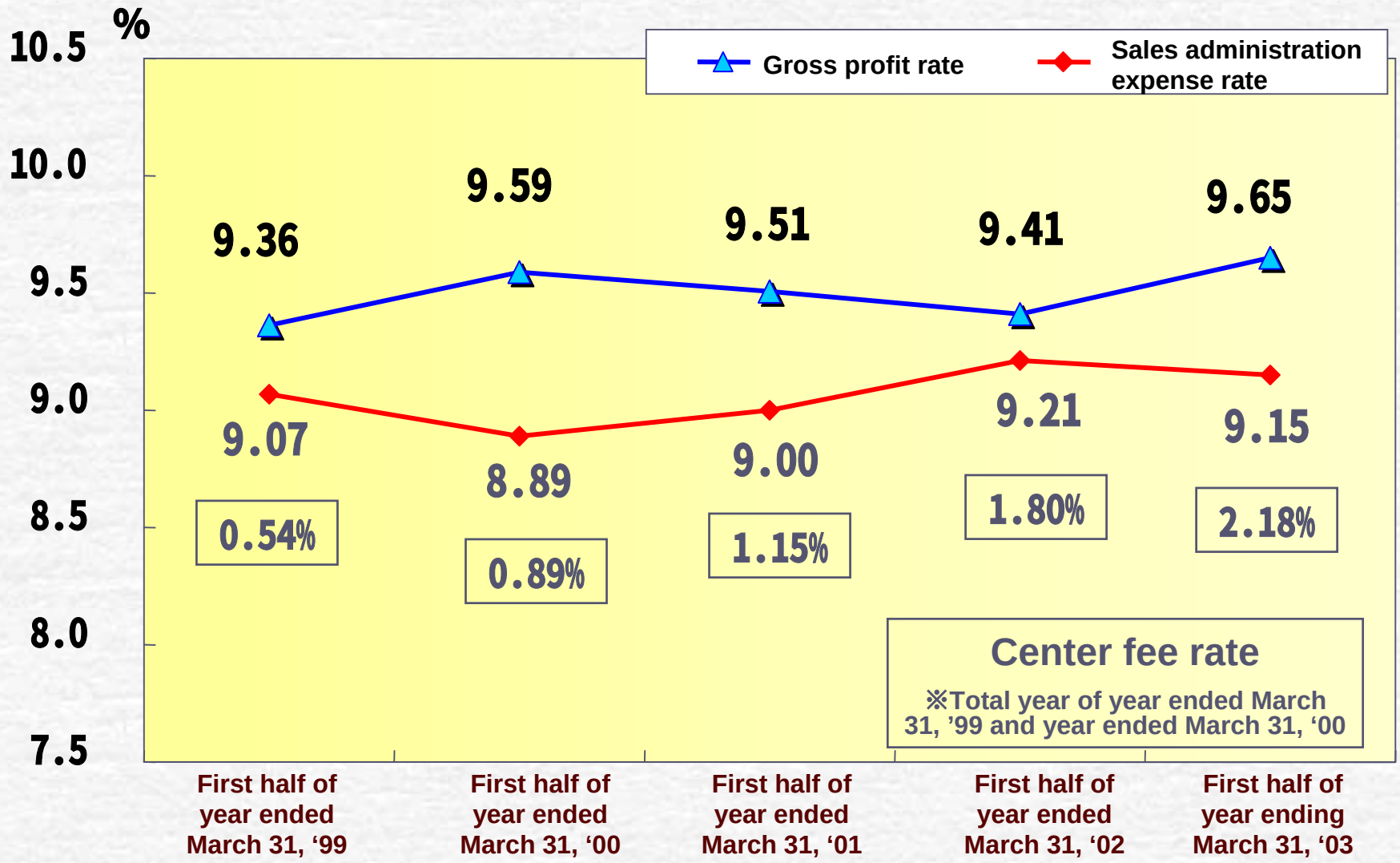
KOBASHO





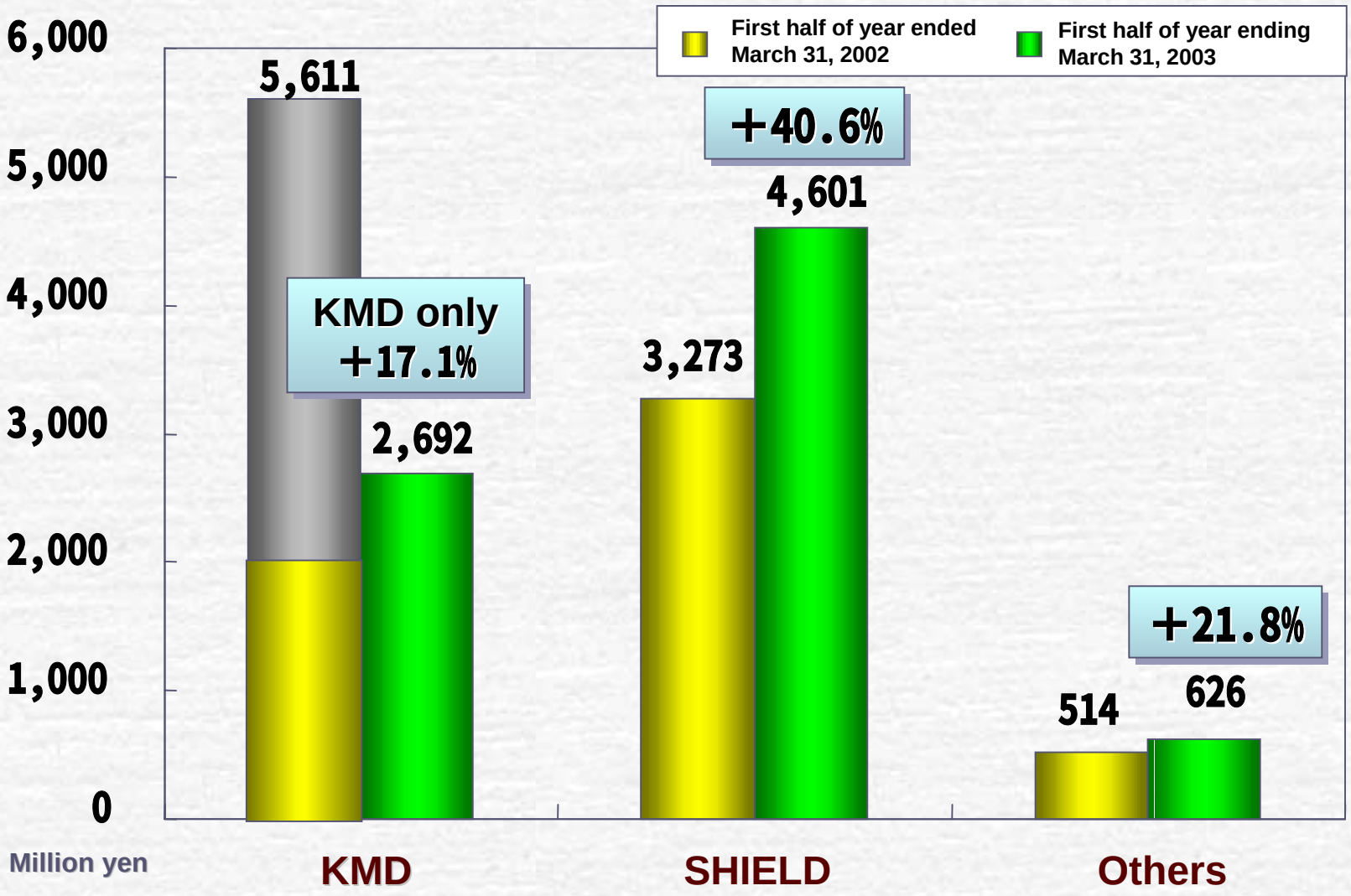
Gross profit rate and sales administration expenses

KOBASHO



Medical Devices Operations of the first half of the year ending March 31, 2003

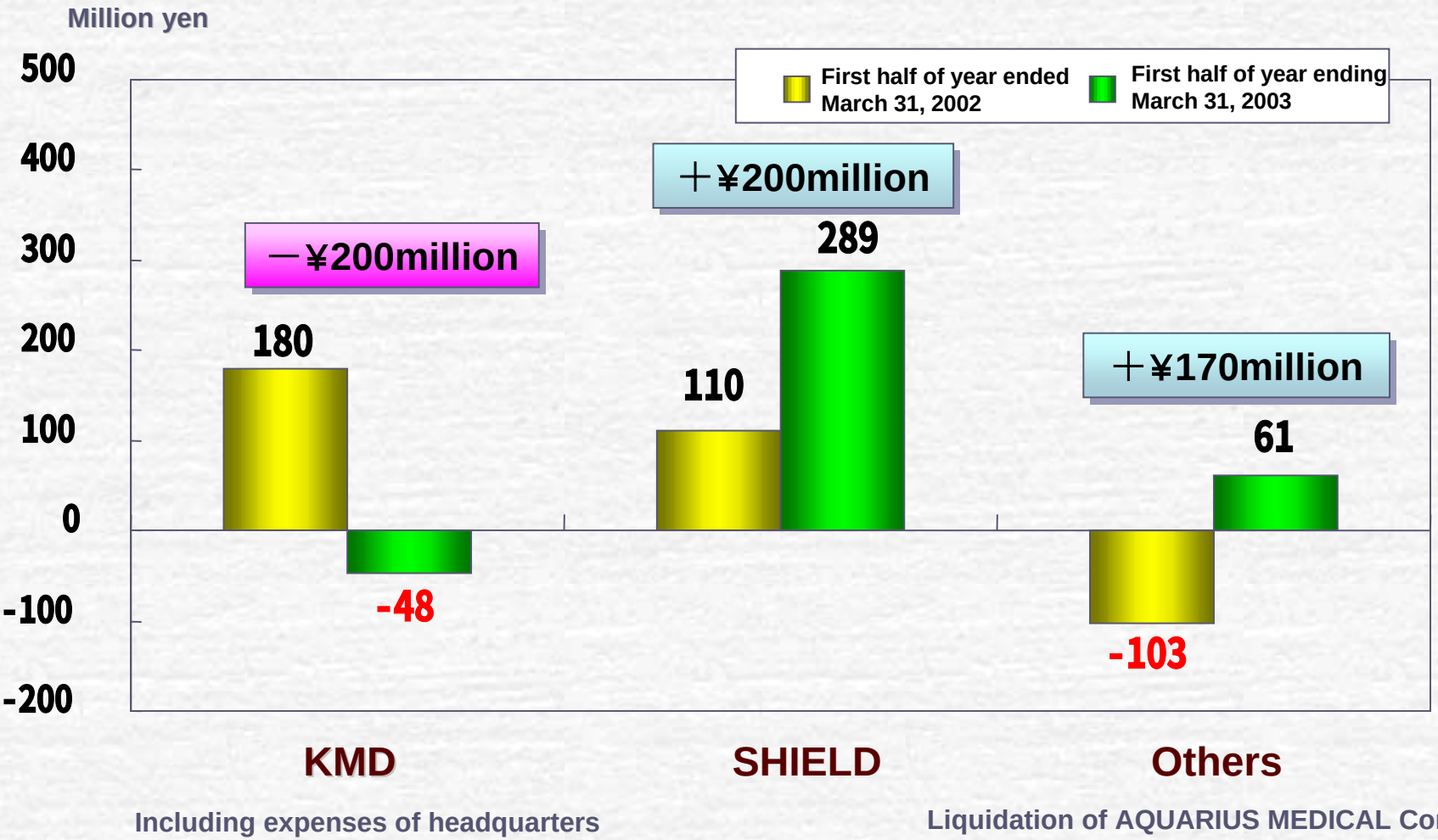
Items of sales



UROBAG

Items of operating profits

Consolidated



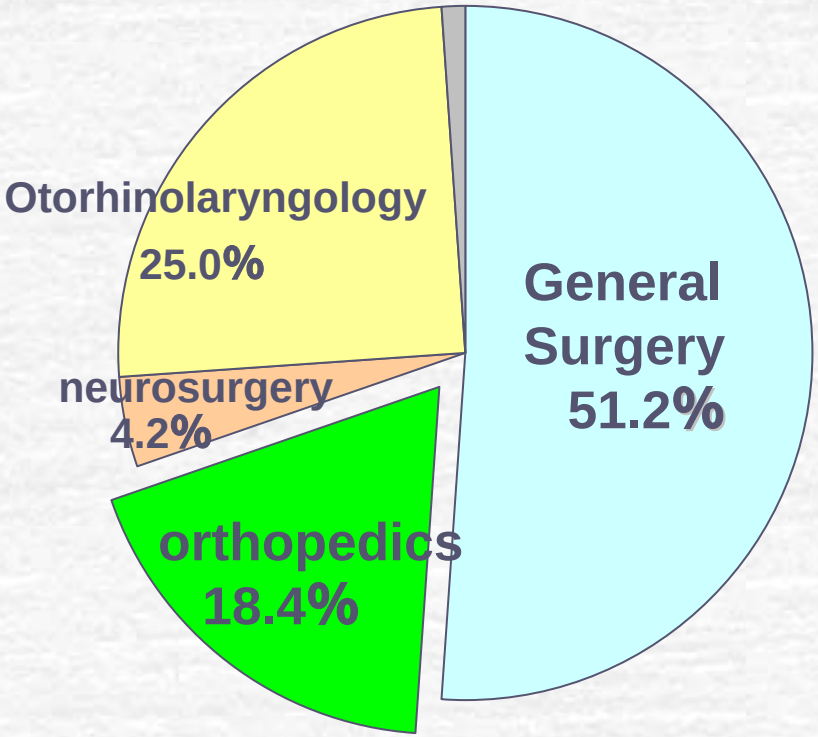
Including expenses of headquarters

Liquidation of AQUARIUS MEDICAL Corp.

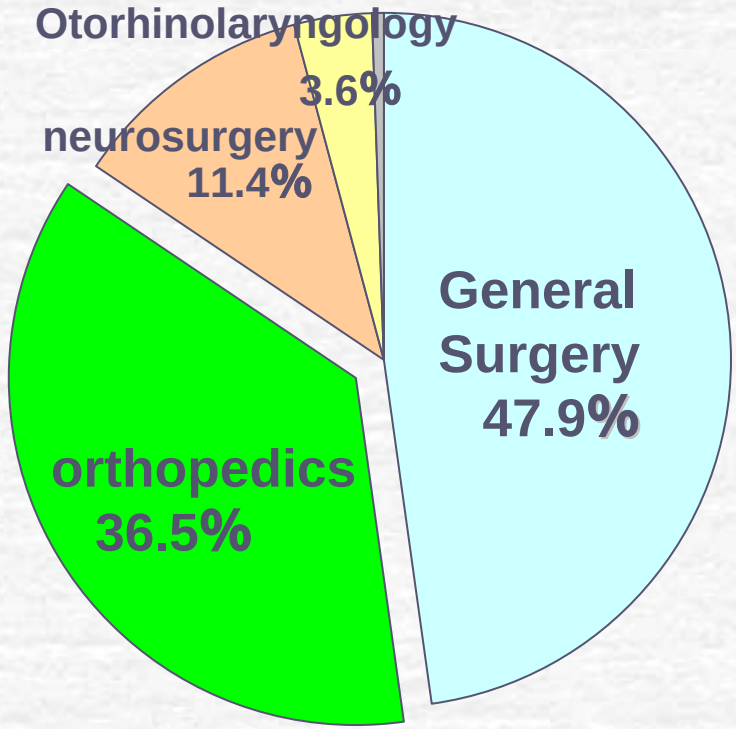
Sales structure in participating fields

KMD

April - September 2001

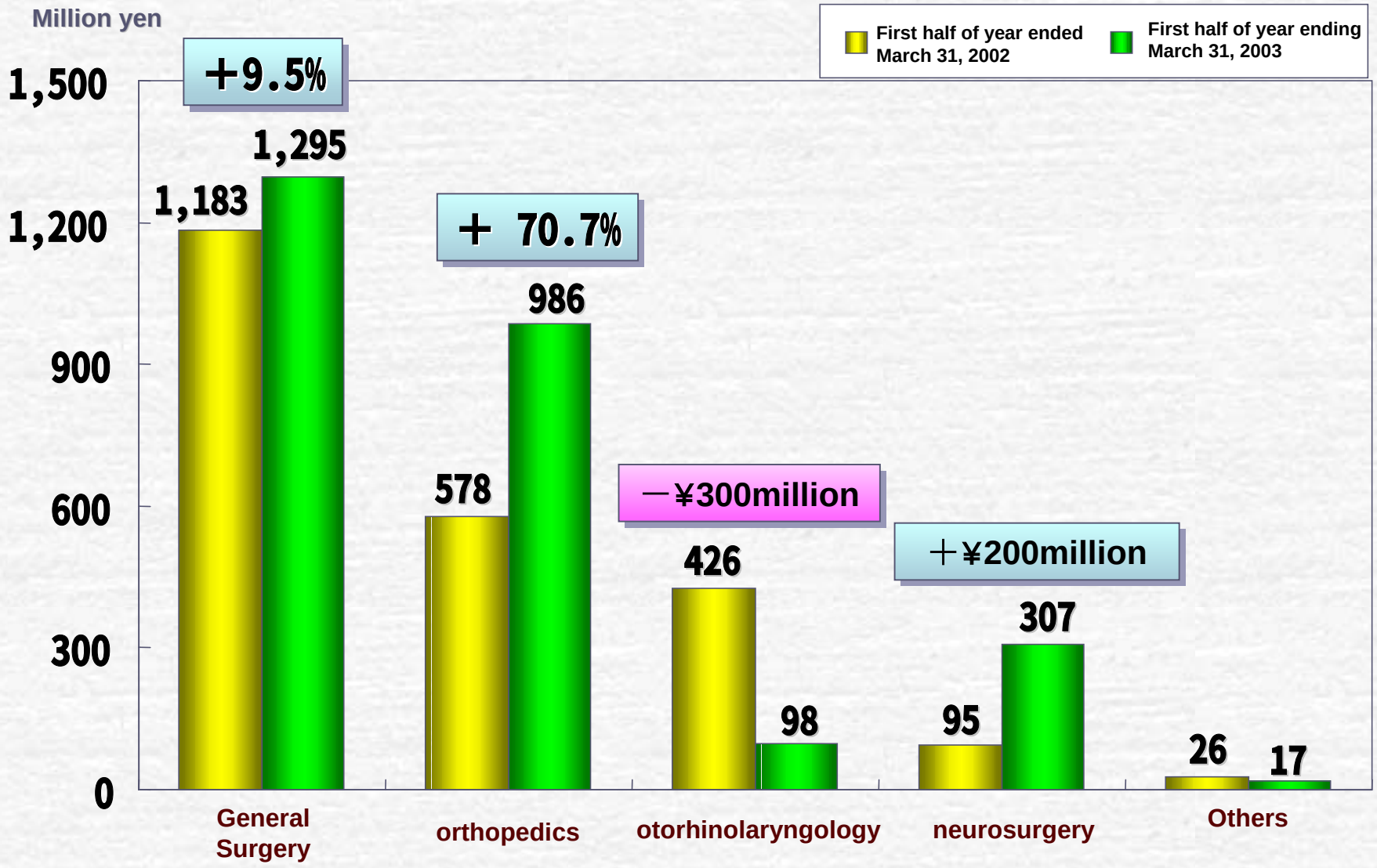


April - September 2002



Transition of sales in participating fields

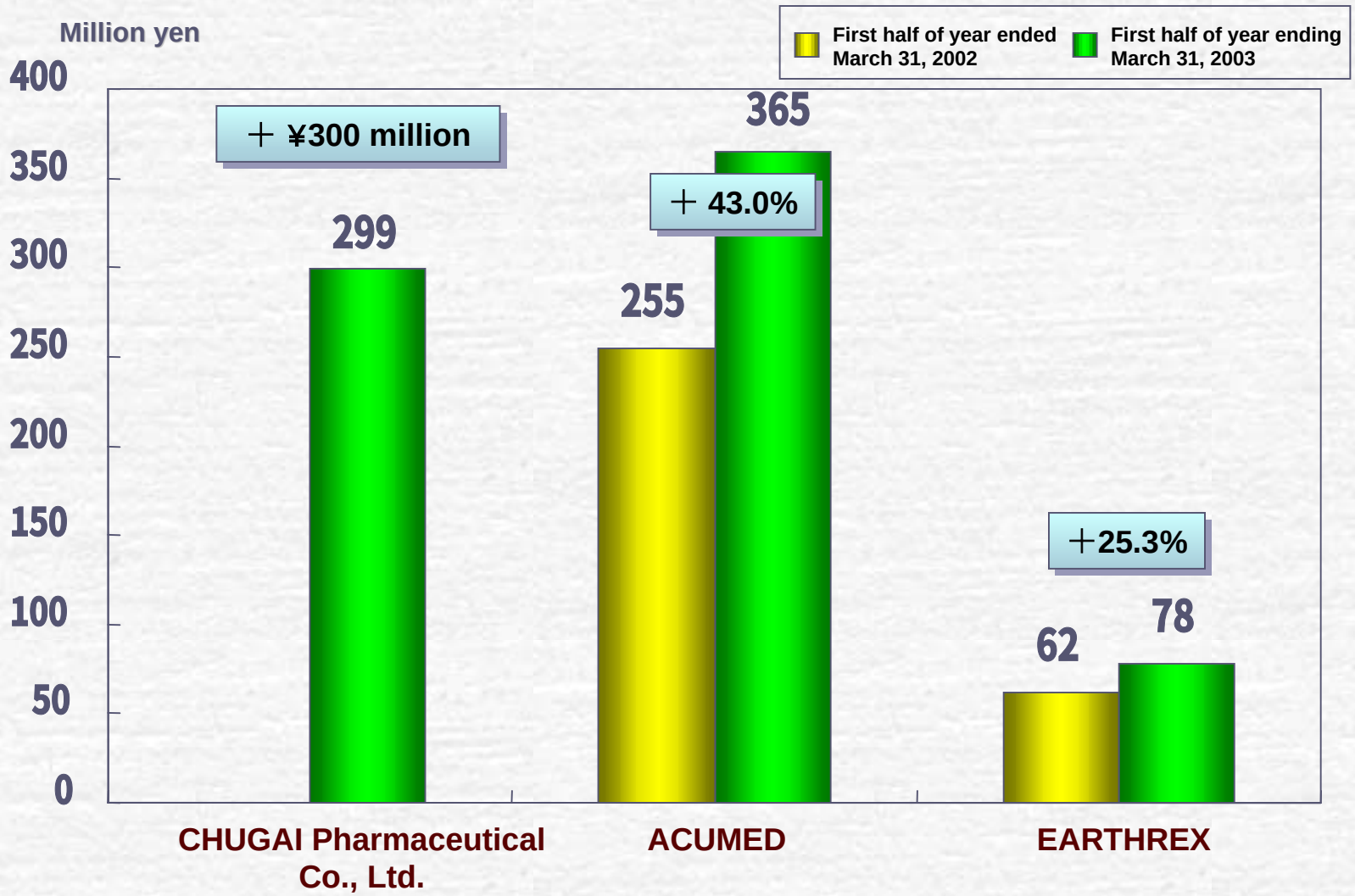
KMD



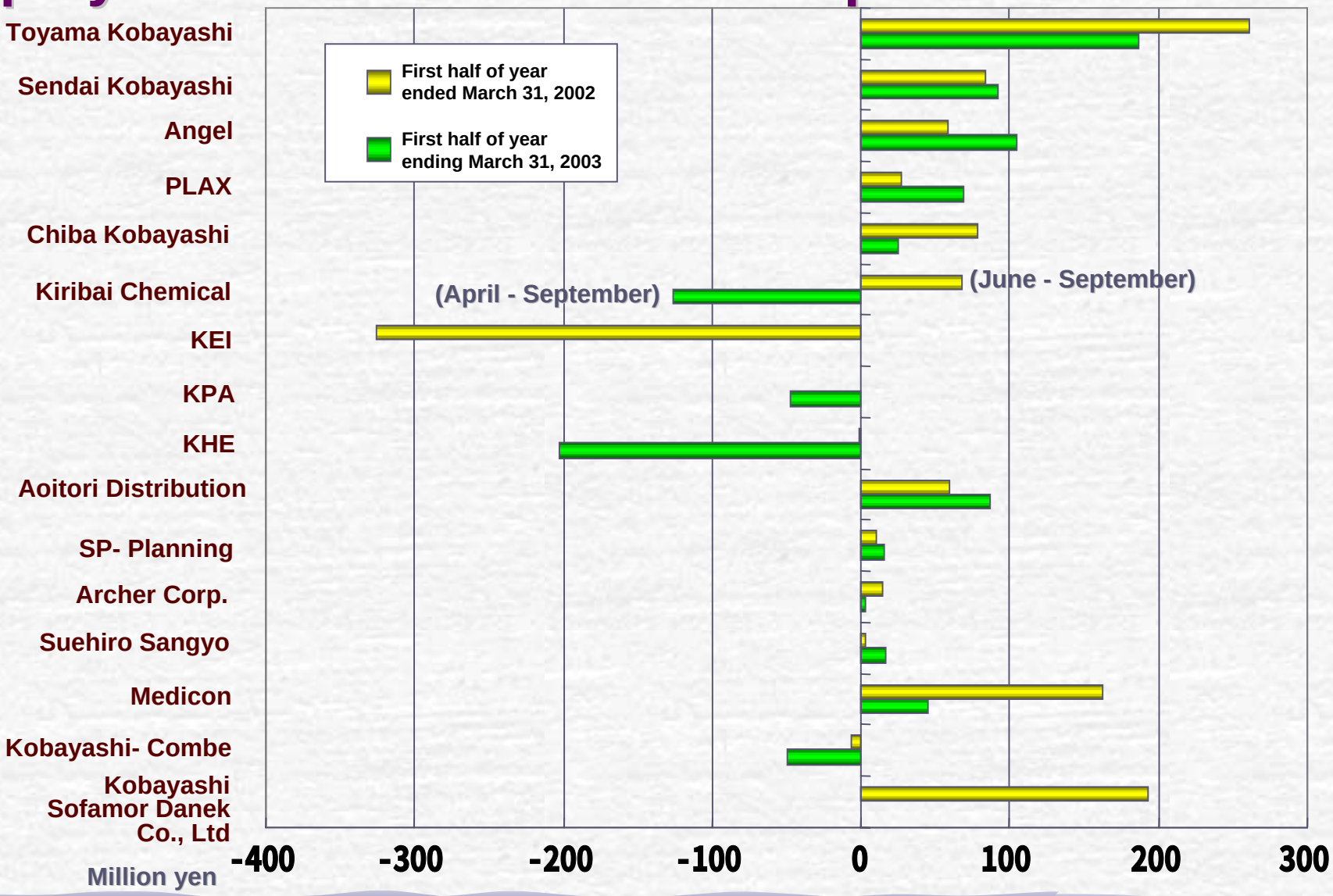
ZEOMED ⇒GIRAS
Kobayashi Pharmaceutical Co., Ltd.

Maximum efforts put into orthopedics related fields

KMD



Operating profits and investment profits by equity methods of affiliated companies



Estimated business record for the entire year ending March 31, 2003

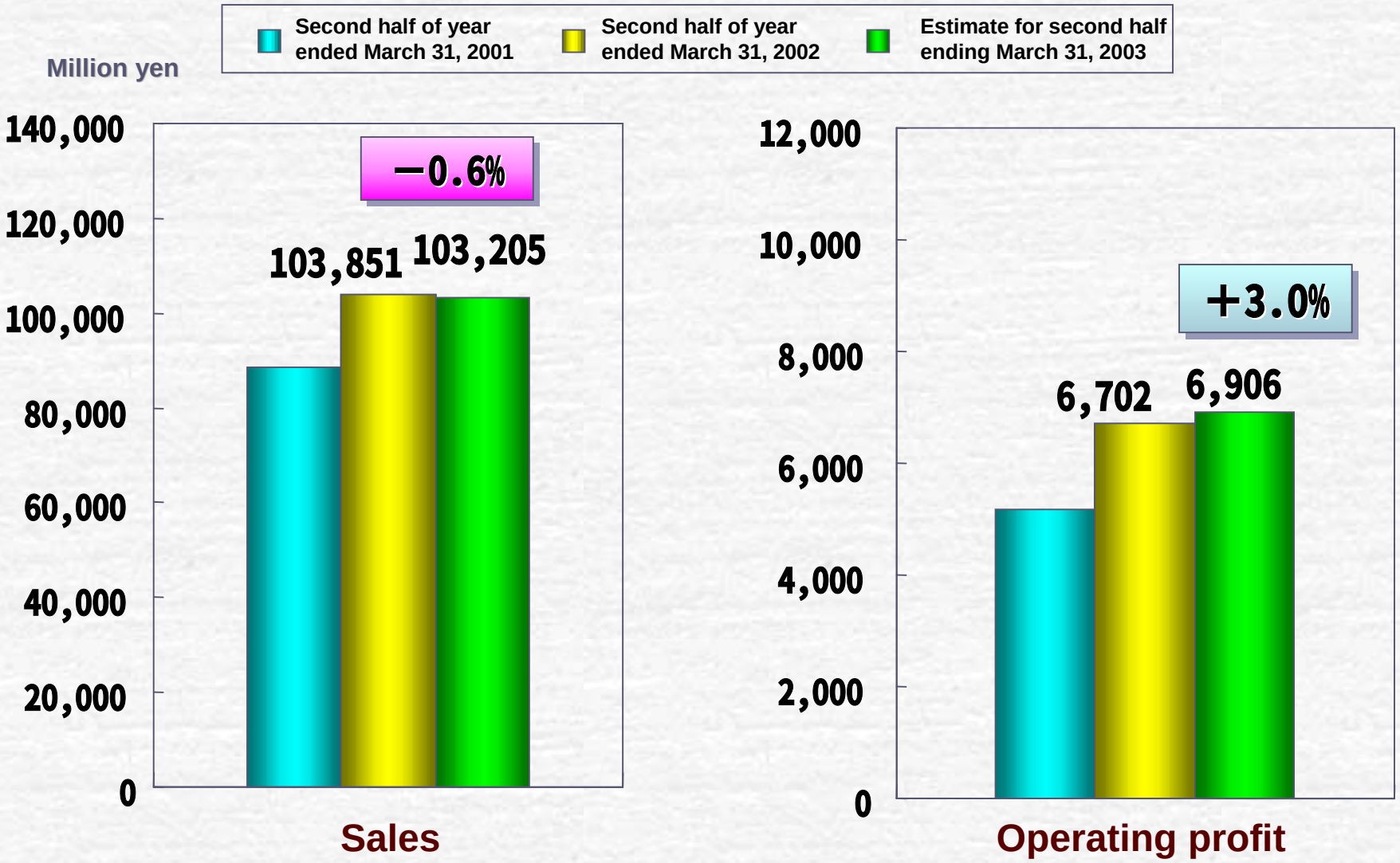
Highlights of closing of accounts

Consolidated

	Year ended March 31, 2002		Year ended March 31, 2003		Increase/decrease	
	Amount	Profit rate	Amount	Profit rate	Amount	Increase/ decrease rate
	Million Yen	%	Million Yen	%	Million Yen	%
Sales	204,647	–	210,100	–	5,453	2.7
Operating profit	13,629	6.7	15,100	7.2	1,471	10.8
Ordinary profit	12,103	5.9	12,200	5.8	97	0.8
Net profit for the current term	6,595	3.2	6,600	3.1	5	0.1
EPS (yen)	232.6	–	232.8	–	7.3	0.1

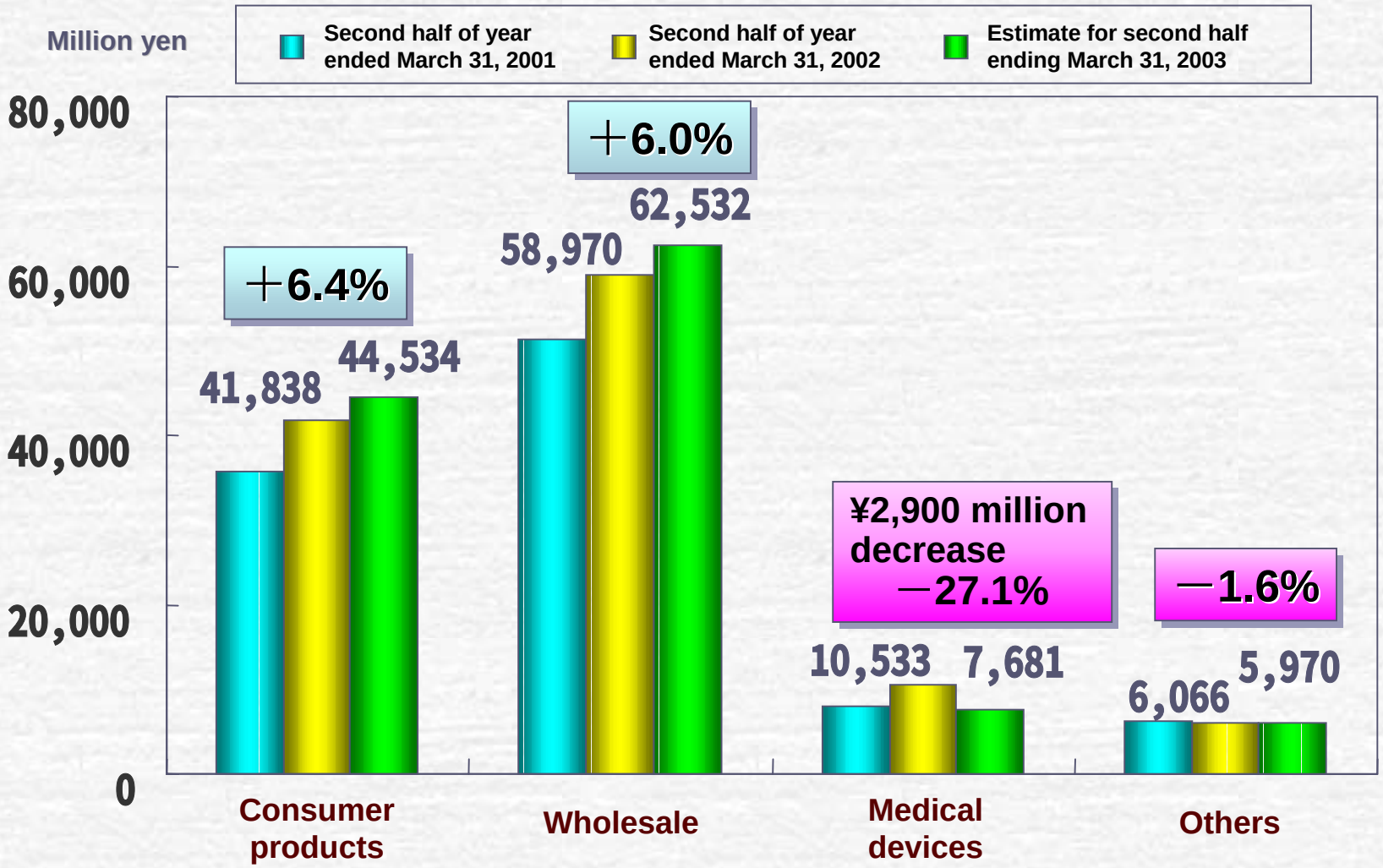
Estimated business record for the second half

Consolidated



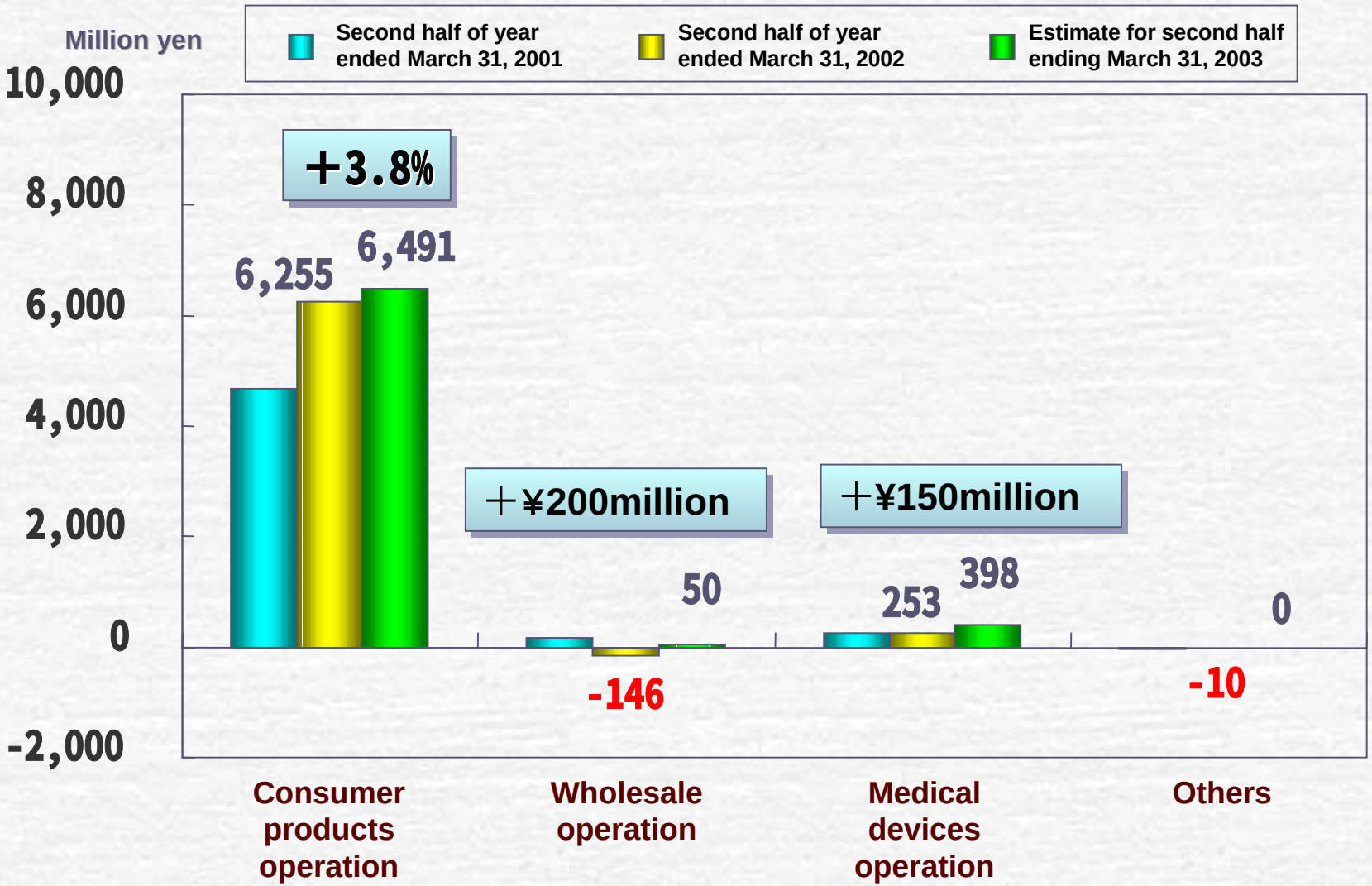
Estimates of sales in the second half by operations

Consolidated



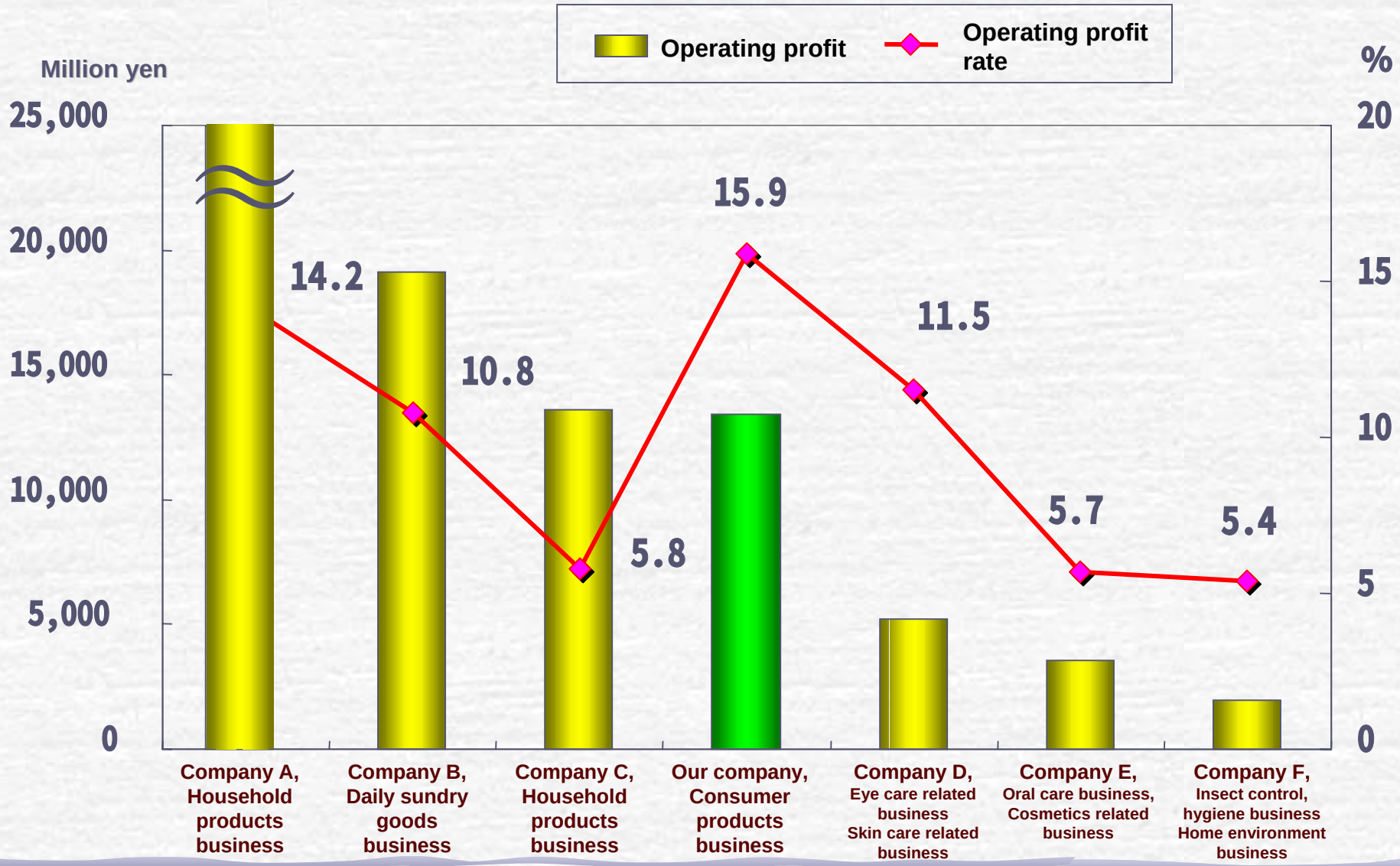
Estimates of sales in the second half by operations

Consolidated



Comparison of operating profit ratio with competitors

Toiletries



Source: Brief report segment information of the latest closing of accounts of the respective companies

Points for maintaining of high profit rates

- **Aim for niche market and become the No. 1 brand there.**
- **Do not launch products with low GP rate on the market.**

  Medical devices 61%, Outside items, cosmetics, foodstuff 58%, Sundry goods 53%
- **Strong cost consciousness embedded in the company system**

  Administered by respective sales, research and development, and manufacturing companies.
- **Invest in research and development, market, and manufacturing that produce results and effects but not in those of the head office, sales offices, etc. preferring “appearance that meets the eye”.**

Introduction of new products

Initial year sales target, ¥4,000 million by 7 items

Sawaday in chinaware ¥1,200 million

Mokufuka, ¥800 million

Pregan, ¥700 million

Natural Air, ¥500 million

Miton-de-fukifuki ¥400 million

I shaped *Interdentium Brush* ¥300 million

Test market

Nutritional supplementary food, 3 items, ¥100 million

Toilet Paper-de-Choifuki, Kyushu, Okinawa

Ammeltz Korihogusu, Chukyo region

Citric Acid Senjochu, Chugoku, Shikoku

Feminina Nameraka Jelly, Hokkaido

Feminina Nameraka Lotion Hokkaido, Chukyo

Developed under alliance with other companies

Marketing Dept.

Research and Development Dept.

Engineering Development Dept.

+

Advertising agency
Design company

Container company, etc.

The first launching

Pursuing “Wa (Japanese aesthetics)” in all aspects of fragrance, material, and design

Wakufuka

The re-launch

Texture of natural wood material and the fragrance of wood.

Mokufuka

Measures to activate sales of products already on the market

Presenting of the seasons by Deodorizing air fresheners

Launching of products sold in limited seasons

Yuki, theOheyanoShoshugen
Launched on Nov. 27

Wafuka, the year of the sheep
Launched on December 4.

Nutritional supplementary food products

Development of new products, total 72 items (As of October 22)

Mail orders, ¥2,100 million, 130% compared with the previous year

Over-the-counter sales ¥1,000 million, 182% compared with the previous year

Items sold over-the-counter are limited to 34 items

Launched on the market in April, 2002

Top ranking items by sales (From April - 2 September, 2002)

Ranking	Items	Ranking	Items
1	*Agaricus*	6	*Collagen*
2	*Kensetsu-help*	7	*Nokogiriyashi*
3	*Blueberry*	8	*AEN*(Zinc)
4	*Multi-vitamins*	9	*DHA*
5	*Dansei-help*	10	*Chondroitin Sulfuric acid*

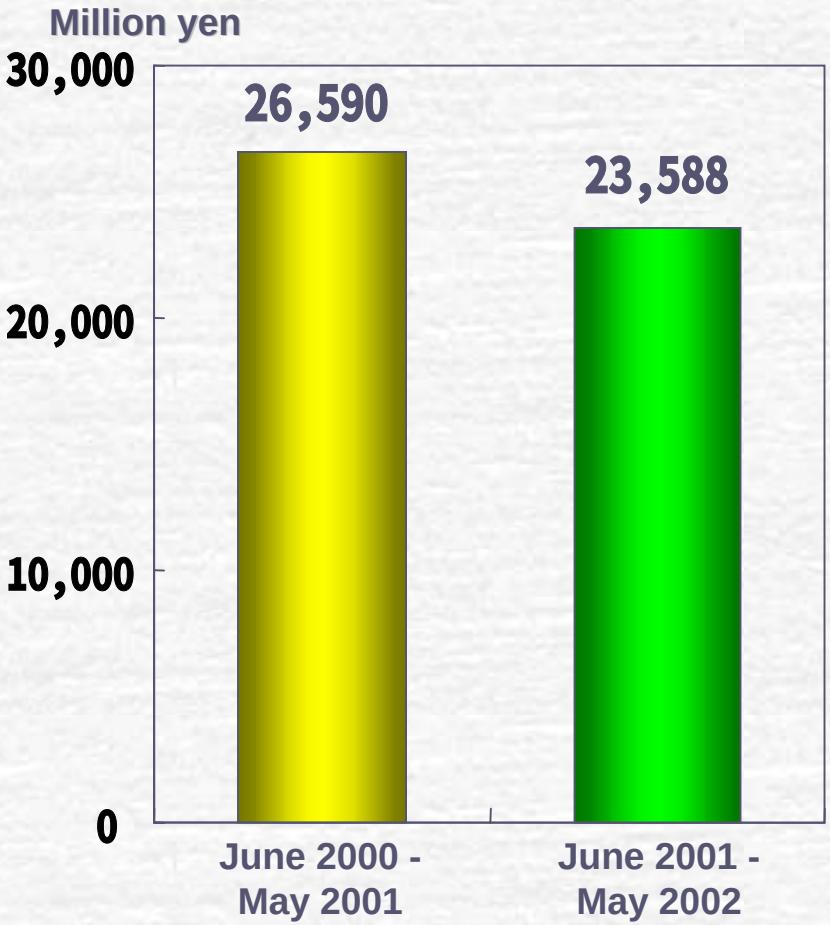
Launched on the market in October, 2002

Kobayashi Pharmaceutical Co., Ltd.

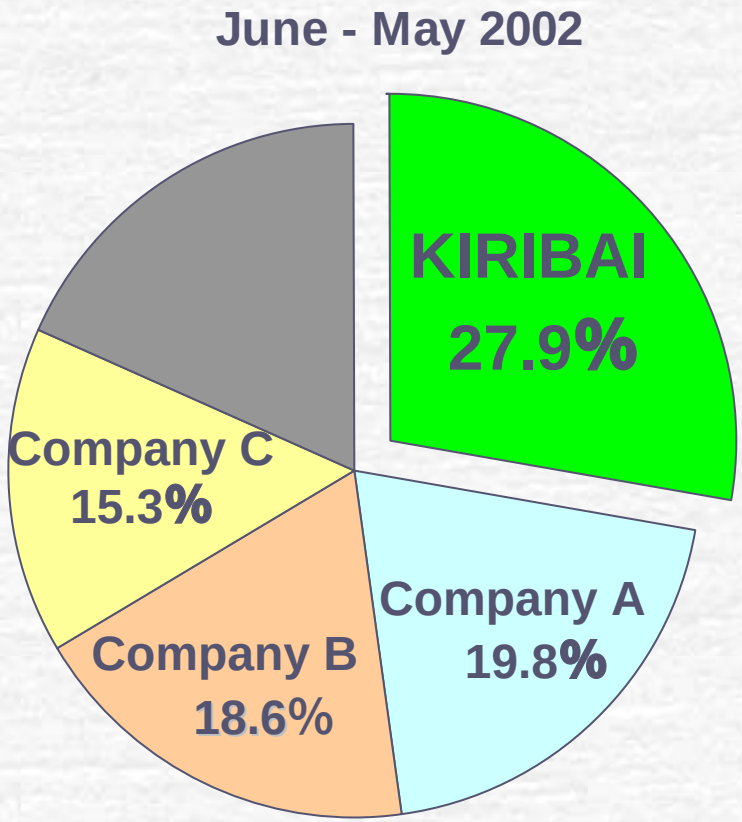
Advertisements in newspapers

Advertisement of Kogenryoku, undiluted agaricus solution

New market: body warmers

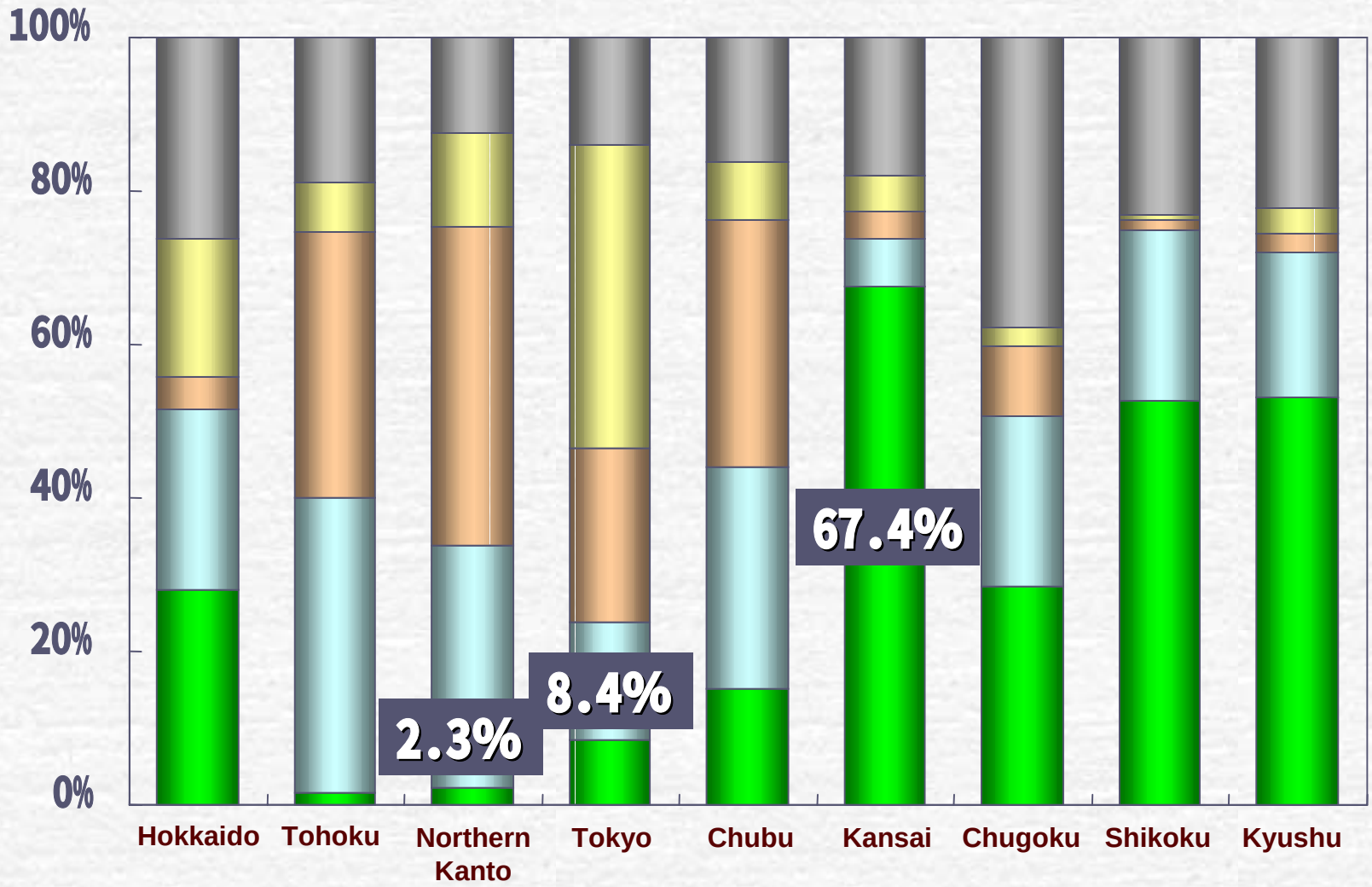


Scale of the body warmer market



Market share by manufacturers

Makers' shares by area



New product development by Kiribai Chemicals

Development of new value-added products to beat the competition

Haru-jiki hogusu
¥100 million

Features

- Bamboo charcoal, a natural material combined for the first time
- Additional warmth by minus ions + far infrared rays
- Package projects an image of effectiveness, using a picture of a charcoal fire

Chikutan ¥800 million

Introducing new products to overseas markets

England (KHE)

- Market expansion by addition of items

KOOL'n'SOOTHE Migraine
£112,000

China (Shanghai Kobayashi)

- Proactive marketing with autonomous investments
- Addition of Aromatic deodorant brands

Kokyogen
2,280,000 Yuan

United States (KHI)

- Growing a body warmer market

Cura-Heat $796,000

Kobayashi Pharmaceutical Co., Ltd.