

KOBAYASHI

PHARMACEUTICAL CO., LTD.

Consolidated Annual Financial Results For the Fiscal Year Ended March 31, 2004

Note: This document has been prepared as a guide to non-Japanese investors and contains forward-looking statements that are based on managements' estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations. This document is a translation of the Japanese language original. All numbers are rounded down to the nearest unit in accordance with standard Japanese practice.

KOBAYASHI PHARMACEUTICAL CO., LTD.

Summary of Consolidated Financial Results for the Year Ended March 31, 2004

Kobayashi Pharmaceutical, Co., Ltd. (4967)

Exchange Listed:	Osaka and Tokyo, First Section
Principal Office:	Osaka, Japan
Homepage:	http://www.kobayashi.co.jp
President and Representative Director:	Kasumasa Kobayashi
Contact:	Masaaki Tanaka, General Manager, Public & Investor Relations Department
Telephone:	+81-6222-0210
Date of the Board of Directors' meeting to approve financial statements:	May 24, 2004
U.S. (GAAP) accounting standard:	Not adopted for the purposes of these statements.

1. Consolidated Financial Results (April 1, 2003 – March 31, 2004)

(1) Consolidated Operating Results

	Millions of Yen - Except Per Share Data and Percents			
	Fiscal Year Ended March 31,			
	2004	%	2003	%
Operating Revenues.....	211,670	0.4	210,922	3.1
Operating Income	16,123	1.7	15,852	16.3
Ordinary Income	14,127	9.1	12,951	7.0
Net Income	6,677	1.1	6,605	0.2
Net Income per Share (yen)	157.25		231.25	
Net Income per Share, Diluted (yen)	--		—	
Return on Equity (ROE).....	12.9%		14.1%	
Return on Assets (ROA).....	11.1%		10.5 %	
Ordinary Income to Operating Revenues Ratio	6.7%		6.1 %	

- Notes:
- Equity in earnings of affiliates and non-consolidated subsidiaries:
Fiscal year ending March 31, 2004: 280 million yen
Fiscal year ending March 31, 2003: 117 million yen
 - Average number of shares outstanding during the period (consolidated):
Fiscal year ended March 31, 2004: 42,196,235 shares
Fiscal year ended March 31, 2003: 28,316,862 shares
 - Changes in accounting policies: Yes
 - Percentages for operating revenues, operating income, ordinary income and net income represent changes compared with the previous period.
 - Stock split (awards 1.5 shares per original share) was effected on November 20, 2003, and net income is computed per stock as per the stock split were performed at the beginning of period.
 - Income per share of 155.52 yen is calculated as the stock split were performed at the beginning of the period.
 - After potential stock adjustment, since there are no potential stocks that have the diluting effect on the net income per share, there is no such information included.

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(2) Consolidated Financial Position

	Millions of Yen - Except Per Share Data and Percents	
	As of March 31,	
	2004	2003
Total Assets	128,326	125,679
Shareholders' Equity	54,454	249,267
Shareholders' Equity Ratio	42.4	39.2%
Shareholders' Equity per Share	1,307.16	1,747.98

- Notes:
- (1) Number of shares outstanding at the end of the year (consolidated):
 As of March 31, 2004: 41,626,403 shares
 As of March 31, 2003: 28,152,274 shares
 - (2) Stock split (awards 1.5 shares per original share) was effected on November 20, 2003, and net income is computed per stock as per the stock split were performed at the beginning of period.
 - (3) The price of capital stock per shareholders' equity is 1,166.69 yen concerning the first half computed by having assumed in that split-ups of stocks were performed in the first half.

(3) Consolidated Cash Flows

	Millions of Yen	
	Fiscal Year Ended March 31,	
	2004	2003
Cash Flows from Operating Activities	6,971	12,046
Cash Flows from Investing Activities	(2,358)	(276)
Cash Flows from Financing Activities	(4,574)	(2,605)
Cash and Cash Equivalents, End of Year	17,663	17,752

(4) Scope of Consolidation and Equity Method:

Number of consolidated subsidiaries:	18
Number of non-consolidated subsidiaries accounted for by the equity method:	0
Number of affiliated companies accounted for by the equity method:	2

(5) Changes in Scope of Consolidation and Equity Method:

Number of consolidated subsidiaries:	(Newly consolidated)	0
	(Excluded)	1
Number of companies for which equity method accounting has been adopted:	(Newly included)	0
	(Excluded)	0

2. Projections for the Year Ending March 31, 2005 (April 1, 2004 – March 31, 2005)

Consolidated	Millions of Yen	
	Full Year	Mid Year
Net Sales	218,000	111,000
Ordinary Income	14,500	7,100
Net Income	4,000	7,400

(Reference) Projected consolidated net income per share for the full year: 174.36 yen

*The projections shown above are prepared based on information available as of the issuing date of this report, and therefore the actual results may differ from the projected figures due to various unknown factors.

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II. Kobayashi Pharmaceutical Group Operation

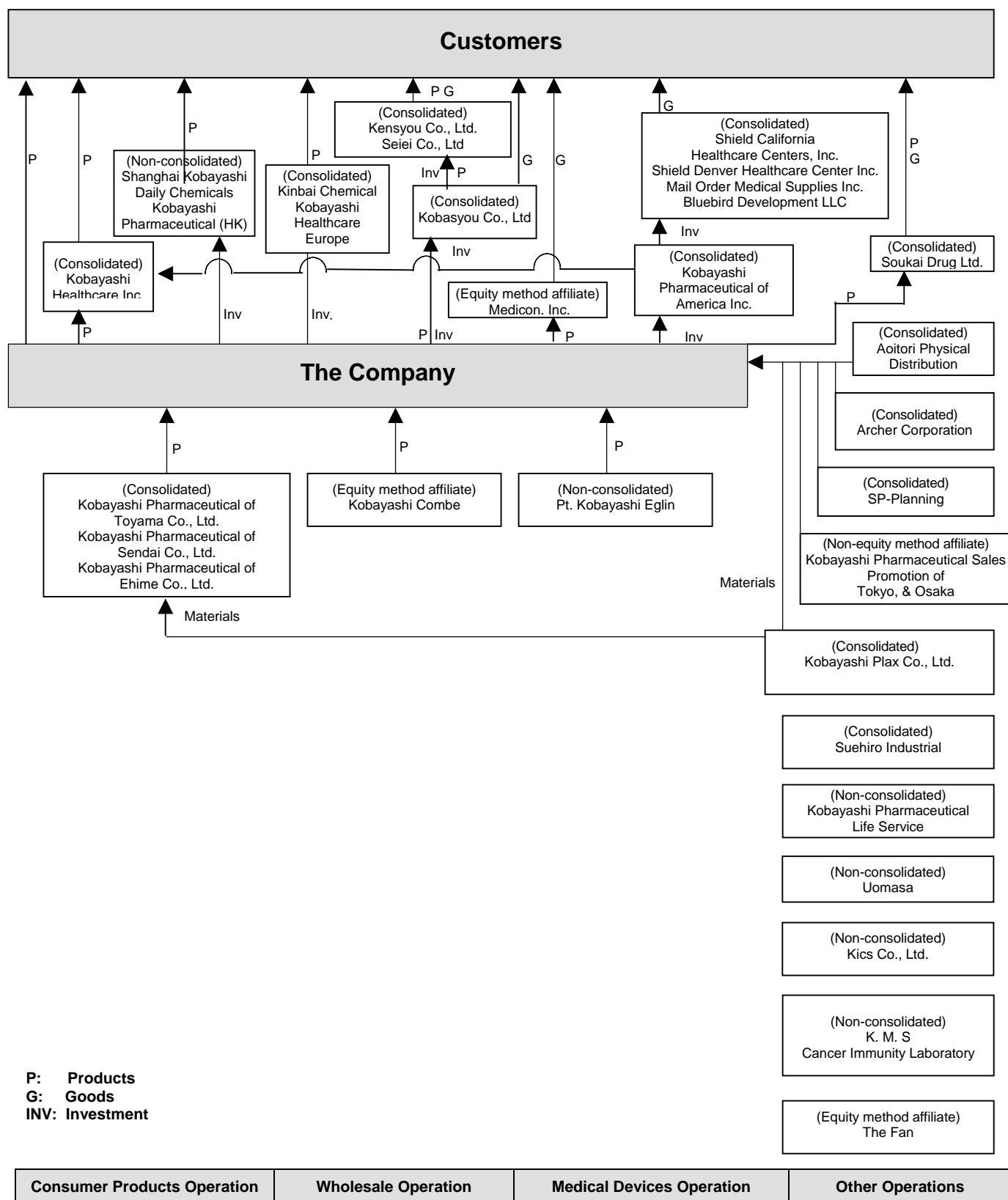
(1) Kobayashi Group Overview

The Kobayashi Group consists of Kobayashi Pharmaceutical, Co., Ltd. and 29 subsidiaries. Its operations are Consumer Products Operation, Wholesale Operation, Medical Devices Operation, and Other Operation. The relationship between the Company and its affiliated companies with regards to these businesses and segments are specified in the following chart:

Products	Type	Main companies
Consumer Product Operation	Pharmaceuticals	Kobayashi Pharmaceutical of Toyama Co., Ltd. Kobayashi Pharmaceutical of Sendai Co. Ltd. Kobayashi Combe
	Oral hygiene products	Kobayashi Pharmaceutical, Co., Ltd. Kobayashi Pharmaceutical of Toyama Co., Ltd. Kobayashi Pharmaceutical of Sendai Co. Ltd. Kobayashi Plax Co., Ltd.
	Deodorizing air fresheners	Kobayashi Pharmaceutical, Co., Ltd. Kobayashi Pharmaceutical of Toyama Co., Ltd. Kobayashi Pharmaceutical of Sendai Co. Ltd. Shanghai Kobayashi Daily Chemicals Co., Ltd. Kobayashi Pharmaceutical (Hong Kong) Co., Ltd.
	Household sundries	Kobayashi Pharmaceutical, Co., Ltd. Kobayashi Pharmaceutical of Toyama Co., Ltd. Kobayashi Pharmaceutical of Ehime Co., Ltd. Kobayashi Pharmaceutical of Sendai Co. Ltd. Kiribai Chemical Co., Ltd. Kobayashi Healthcare Incorporated. Kobayashi Healthcare Europe, Ltd.
Wholesale Operation	Pharmaceuticals	Kensyou Co., Ltd. Kobasyou Co., Ltd. Seiei
	Household sundries, and foods	Kensyou Co., Ltd. Kobasyou Co., Ltd. Seiei
Medical Devices Operation	Importing and Sale of medical devices	Kobayashi Pharmaceutical, Co., Ltd. Medicon, Inc.
	Production and sale of medical devices	Kobayashi Pharmaceutical of Toyama Co., Ltd. Pt. Kobayashi Eglin
	Integration of US affiliated company	Kobayashi Pharmaceuticals of America Incorporated
	Sale of home-use medical devices	Shield California Centers, Inc. Shield Denver Centers, Inc.
	Mail-order business for home-use medical devices	Mail Order Medical Supplies Incorporated.
	Medical Business Research	Bluebird Development LLC.
Other Operations	Transport	Aitori Physical Distribution
	Synthetic resin products manufacturing	Kobayashi Plax Co., Ltd.
	Real estate management	Suehiro Industrial
	Insurance agency	Kobayashi Pharmaceutical Life Service Co., Ltd.
	Advertising, planning and creation	Archer Corporation
	Displays and model production	SP-Planning
	Pharmaceutical products and daily goods, marketing and sales promotional activities	Kobayashi Pharmaceutical Sales Promotion of Tokyo Ltd. Kobayashi Pharmaceutical Sales Promotion of Osaka Ltd. Archer Corporation
	Information services (Sale of POS system and On-Line Ordering system)	Kics Co., Ltd.
	Retail, food business, and Information services	Soukai Drug Ltd. Kics Co., Ltd.

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(2) Kobayashi Group Business Flow



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(3) Kobayashi Group Relationships

Company Name	Address	Capital (Million Yen)	Business Contents	Voting rights ownership ratio	Con-current Officers	Fund support	Business relationship	Lease of Facilities	Business Corporation
Kobayashi Pharmaceutical of Toyama Co., Ltd.	Toyama	100	Pharmaceuticals and other manufacturing	100.0	-	Yes	Manufacturing of the Company's products	Leases of land, buildings, & facilities	-
Kobayashi Pharmaceutical of Sendai Co. Ltd.	Sendai	200	Pharmaceuticals and other manufacturing	100.0	-	-	Manufacturing of the Company's products	Leases of land, buildings, & facilities	-
Kobayashi Pharmaceutical of Ehime Co., Ltd.	Ehime	77	Hygienic and paper goods manufacturing	100.0	-	Yes	Manufacturing of the Company's products	Lease of facilities	-
Kimbai Chemical Co., Ltd.	Osaka	49	Hygienic and paper goods manufacturing	100.0	Yes	-	-	Lease of facilities	-
Kobayashi Plax Co., Ltd.	Toyama	95	Synthetic resin products manufacturing	100.0	-	Yes	Manufacturing of the Company's products, & materials	-	-
Kobasyou Co., Ltd.	Hiroshima	4,297	Pharmaceutical products wholesaling	92.8	Yes	-	Sale of the Company's products	Leases of buildings & facilities	-
Kensyou Co., Ltd.	Tokyo	465	Pharmaceutical products wholesaling	40.9	Yes	-	Sale of the Company's products	-	-
Aoiri Physical Distribution	Osaka	99	Transport	92.8	Yes	-	Transport of the Company's products	-	-
Archer Corporation	Tokyo	10	Advertising, planning and creation	100.0	-	-	Advertising, planning and Marketing	Lease of facilities for employees benefit	-
SP-Planning	Osaka	10	Displays and model production	100.0	Yes	-	Production of the Company's SP tools	-	-
Suehiro Industrial	Osaka	15	Real estate management	100.0	Yes	-	Real estate management of the Company	-	-
Kobayashi Pharmaceuticals of America Incorporated	California USA	US\$ 1	Kobayashi Group U.S. Management	100.0	Yes	-	-	-	-
Shield California Centers, Inc.	California USA	US\$ 20,000	Home healthcare and medical device marketing	100.0	Yes	-	-	-	-
Shield Denver Centers, Inc.	Colorado USA	US\$ 1,000	Home healthcare and medical device marketing	100.0	Yes	-	-	-	-
Mail Order Medical Supplies Inc.	California USA	US\$ 10,000	Home healthcare and medical devices catalog sales	100.0	Yes	-	-	-	-
Bluebird Development LLC.	California USA	US\$ 4,601,009	Medical business research	99.0	Yes	-	Marketing of the Company's products	-	-
Kobayashi Healthcare, Inc.	Pennsylvania USA	US\$ 10,000	Daily goods sales	100.0	Yes	-	Sales of the company's products	-	-
Kobayashi Healthcare Europe, Ltd.	London UK	£ 6,999	Daily goods sales	100.0	-	-	Sales of the company's products	-	-
Medicon, Inc.	Osaka	160	Medical equipment and device import and marketing	50.0	Yes	-	Sales of the company's products	-	-
Kobayashi Combe	Osaka	40	Pharmaceutical import and marketing	50.0	Yes	-	Importing of the company's products	-	-

Notes:

1. Special subsidiary companies are Kobasyou Co., Ltd., Kensyou Co. Ltd., and Bluebird Development LLC.
2. None of the companies listed above issue a securities report.
3. Figures in the "voting rights/ownership ratio" column include indirect ownership ratios.

Consolidated subsidiaries liquidated within in the fiscal year:

Company name	Address	Capital	Business Contents	Voting rights/ ownership ratio	Con-current Officers	Fund support	Business relationship	Lease of Facilities	Business Corporation
Chiba Kobayashi Inc.	Panama	US\$ 50,000	Deodorizing air fresheners	100.0	Yes	Yes	Production	-	-

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III. Management Policy

1. Basic Management Policy

Kobayashi Group's management policy is to provide people and society with wonderful "comfort" as a result of our quest for the new through creativity and innovation. It is our mission to provide all our stakeholders with a "healthy," "comfortable," and "convenient" experience, that is, to "give a shape to desires." In an era of accelerating change and intensifying competition, the driving force for our growth is our unceasing pursuit of "Something New, Something Different," and our development of new products and services that satisfy customer needs. By doing so, we intend to increase the enterprise value so as to deliver greater satisfaction to all our stakeholders.

2. Basic Policy on Profit Distribution

The Company's basic policy on profit distribution is to ensure adequate internal reserves for high-growth-oriented business development and for strengthening the corporate structure, while at the same time maintaining stable dividend payment. Internal reserves will be utilized for M&A to grow the consumer products and the medical devices operations and for vigorous investment in expansion overseas.

3. Policy on Reduction in the Minimum Trading Unit

We recognize that increasing share liquidity, broadening the investor base and increasing the number of shareholders are critical issues for the Company. To this end, the Company reduced the number of shares in a minimum trading unit from 1,000 to 100 shares in July 2000. Additionally, the Company executed a stock split at the rate of 1.5 for 1 on September 30, 2003, the record date. We will continue to consider measures to increase shareholder value, broaden the investor base and enhance share liquidity.

4. Targeted Management Indices

Kobayashi Pharmaceutical aims to achieve a return on equity of 12% and an equity ratio of 50%. The growth strategy for the Consumer Products Operation is based on vigorous development of new products. Our R&D targets are for sales of products commercialized in the last four year to account for at least 35% of total sales, and for new products released in any given fiscal year to account for at least 10% of total sales during that fiscal year. Moreover, with the aim of maximizing shareholder value, we have introduced a new management index, KOVA, that takes the efficiency of capital employed into account, and we will strive to increase KOVA over the long term. Note: KOVA is a management index unique to Kobayashi Pharmaceutical and is calculated by subtracting capital costs from operating income after taxes.

5. Medium- to Long-term Management Strategy

For Kobayashi Pharmaceutical to achieve sustainable growth, we need to address two tasks: strengthening of the product line-up of each operation to satisfy customer needs and expansion of geographical coverage.

More specifically, for the Consumer Products Operation and the Medical Devices Operation, we intend to strengthen the product line-up through vigorous development of new products, M&A and alliances and expand geographical coverage by entering new markets overseas. We have charted a new course for the Wholesale Operation in order to achieve continuing growth, in view of the increasingly drastic restructuring of the industry. Specifically, for the Wholesale Operation, we intend to pursue alliances with other wholesalers and M&A for the purpose of expanding the business in terms of both the range of products handled and geographical coverage.

We aim to achieve annual sales of at least 300 billion yen as soon as possible. Also, in line with our focus on the cost of capital, we will review businesses that yield low returns and vigorously invest in growth businesses offering high returns so as to realize a continuous increase in KOVA.

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6. Issues to Be Addressed

Adhering to our management policy of "Creativity and Innovation," it is our mission to constantly innovate so as to maintain high growth and to establish a robust foundation for the business. To this end, it is crucial for us to bring our new product development capability, which is our core competence, into full play, vigorously promote alliances and mergers that will strengthen the competitiveness of our operations and enhance profitability, and achieve an efficient and robust financial position. Moreover, we intend to develop our business overseas vigorously, reaching out from the domestic market. Since Kobayashi Pharmaceutical provides products and services that are associated with people's health and lives, we will also strive to realize more thorough quality control.

7. Basic Stance on Corporate Governance and Implementation of Measures

Kobayashi Pharmaceutical places enhancement of shareholder value at the heart of its efforts to maximize enterprise value, which is a key objective of management. Accordingly, management is endeavoring to swiftly disclose accurate information and achieve transparency.

The reshaping of management organizations, implemented upon resolution of the general meeting of shareholders held in June 2000, included optimization of the number of directors (seven as of June 2000, six at present), and introduction of the executive officer system (13 officers of whom seven were also directors as of June 2000, 12 officers of whom five are also directors at present) and the in-house company system. The aim is to vitalize the board of directors and put systems and procedures into place that can realize swift decision-making and strengthened functions for the execution of operations. The board of directors meets monthly and also holds extraordinary meetings as necessary, in order to make decisions on issues stipulated by laws and regulations and critical management issues and supervise the execution of operations sequentially.

In accordance with the above-mentioned reshaping, the Company implemented a growth strategy, including the spin-off of the wholesale operation into a separate company in April 2001, the acquisition of Kiribai Chemical Co., Ltd. in June 2001, and the acquisition of goodwill for the medical equipment business from Chugai Pharmaceutical Co., Ltd. in October 2001 and for the health food business from Hitachi Zosen Corp. in December 2002. The Company also withdrew from unprofitable businesses and promoted restructuring. At present, the Company has no non-executive directors because people who have an excellent understanding of the Company's management philosophy and are able to put it into practice are making decisions from their vantage point at the forefront of the business. Meanwhile, the Company is enhancing the auditor system. Of the four auditors, two are external auditors with whom the Company has neither capital nor business relationships.

The Company is requesting Shin Nihon & Co., the accountant auditor, to provide proposals in the course of its auditing that will lead to improvement in operations, through forums such as regular meetings that are held every month. Regarding management and business practices, the Company receives advice from legal counsel and other specialists from time to time that is reflected in the decision-making process.

As a recent development, the Compliance Committee was set up in April 2003 with the aim of thoroughly implementing and reinforcing the principle of legal compliance in the Company's activities. In September 2003, the Company established "Basic Guidelines on Corporate Behavior" and "Standards for the Behavior of Executive Officer and Employees". Going forward, we plan to actively develop these basic guidelines and behavioral standards on a company-wide basis.

Furthermore, in January 2004, we set up the "Employee Consultation Department" as a point of contact for employees seeking advice regarding compliance, and we are also working to collect and action information concerning compliance at an early stage.

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IV. Business Results and Financial Condition

(1.) Overview of Fiscal 2003 (ended March 31, 2004)

(Millions of Yen)

	FY2003, ended March 31, 2004		FY2002, ended March 31, 2003		Change	
	Amount	%	Amount		Amount	%
Net Sales	211,670	100.0	210,922	100.0	748	0.4
Operating Income	16,123	7.6	15,852	7.5	271	1.7
Ordinary Income	14,127	6.7	12,951	6.1	1,176	9.1
Net Income	6,677	3.2	6,605	3.1	72	1.1
Net income per share (yen)	157.25		231.25		(74.00)	(32.0)

Notes:

1) On November 20, 2003, the Company carried out a stock split (at a rate of 1.5 shares to 1.0), and interim net income was calculated on the assumption that the stock split had occurred at the beginning of the fiscal year.

2) Net income per share relating to the previous interim period, which was calculated on the assumption that the stock split had been carried out in the previous term, amounts to Y155.52.

During the fiscal year under review, although the Japanese economy showed indications of a mild recovery on the back of an increase in exports and the revival of private-sector capital investment, the unemployment rate hovered at high levels and personal consumer sentiment continued to be affected by a sense of uncertainty regarding the future, as the future outlook was unpredictable. Furthermore, the climatic factors of a cool summer and mild winter, which had rarely been seen in recent years, had a large impact on corporate earnings in various industries.

In these challenging circumstances, Kobayashi Pharmaceutical Group unleashed the spirit expressed by its management policy of "Creativity and Innovation". We cultivated latent customer needs by introducing new products and services to seed new markets while invigorating existing markets by offering products and services with new added value. At the same time, we aggressively pursued overseas business expansion. As a result, net sales amounted to 211,670 million yen, an increase of 748 million yen, or 0.4% from the previous year.

In terms of profits, the Company cut costs by thoroughly reducing manufacturing costs and carried out a review of sales promotion expenses. As a result, operating income was 16,123 million yen, an increase of 271 million yen, or 1.7%, compared with the previous year. In addition, owing to a decrease in valuation losses on the disposal of inventory and foreign exchange losses, ordinary income was 14,127 million yen, an increase of 1,176 million yen, or 9.1%, over the previous year. As Kobayashi Pharmaceutical Group incurred extraordinary losses, including provision for allowances for doubtful accounts due to an application under the Civil Rehabilitation Law by the client of a group subsidiary and a loss on the liquidation of an affiliated company associated with the closure of the consolidated subsidiary Chiba Kobayashi Inc., net income amounted to 6,677 million yen, a gain of 72 million yen, or 1.1%, compared with the previous year.

(2) Segment Analysis

The following is a summary of performance by business segment during fiscal 2003.

Consumer Products Operation

Product unit prices showed signs of a halt in their decline, but overall consumer spending remained sluggish. Against this backdrop, Kobayashi Pharmaceutical Group launched 15 new products (excluding nutritional supplement food products) in an effort to create new markets and expand existing markets in this business segment. Among these products, *Bran Cologne*, a deodorizing air freshener that can be hung up anywhere without getting in one's way, and *Urinaaru*, an internal medicine to alleviate urination problems, namely, frequent urination and the constant urge to urinate during the night, contributed to sales growth. Moreover, with regard to our marketing organization, we selected 8,300 of the top-ranking stores in terms of sales on a

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nationwide basis as important individual outlets, reinforced our marketing follow-up activities targeted at the stores concerned, and focused our efforts on expanding products sold through retail stores. In the case of nutritional supplement food products, which we sell through our mail order and drug store channels, we further expanded our product line (by launching eight products) and successfully boosted sales. As a result, sales of the Consumer Product Operation increased 1,496 million yen, or 1.7%, from the previous year to 87,055 million yen.

Regarding profits, sales of high-margin pharmaceuticals were weak due to the impact of the cool summer, but as we cut costs by thoroughly reducing manufacturing costs, operating income rose 193 million yen, or 1.3%, from the previous year to 14,631 million yen.

Sales by Category

(Millions of Yen)

	FY2003, ended March 31, 2004		FY2002, ended March 31, 2003		Change	
	Amount	%	Amount		Amount	%
Pharmaceuticals	14,957	17.2	15,757	18.4	(800)	(5.1)
Oral hygiene products	9,891	11.4	9,204	10.8	687	7.5
Sanitary products	13,421	15.4	12,918	15.1	503	3.9
Deodorizing air fresheners	27,258	31.3	27,730	32.4	(472)	(1.7)
Household sundries	5,008	5.7	5,604	6.6	(596)	(10.6)
Nutritional supplement food products	8,416	9.7	6,186	7.2	2,230	36.0
Body warmers	8,104	9.3	8,160	9.5	(5)	(0.7)
Total	87,055	100.0	85,559	100.0	1,496	1.7

Notes:

1) Segment sales include internal sales and transfers among segments; the value of these totaled 19,532 million yen in fiscal 2002 and 20,532 million yen in fiscal 2003.

Wholesale Operation

In addition to sluggish consumer spending and uncertainty regarding the management of customers, the cool summer and mild winter had an adverse impact, but sales of health food products, which are a growing market, increased and Kensyou Co., Ltd., which operates in the Chugoku region, acquired the goodwill of a drug wholesaler in October 2002. As a result, sales of the Wholesale Operation increased 222 million yen, or 0.2% year on year, to 126,080 million yen.

On the profit front, owing to the lowering of the cost of goods sold through economies of scale resulting from an increase in business scale and the thorough reduction of transportation, picking, and other costs, operating income reached 534 million yen, an improvement of 279 million yen, or 109.4%, from the previous year.

Sales by Category

(Millions of Yen)

		FY2003, ended March 31, 2004		FY2002, ended March 31, 2003		Change	
		Amount	%	Amount		Amount	%
Drugs	Products	7,606	0.6	8,047	6.4	(441)	(5.5)
	Merchandising	43,165	34.2	45,082	35.8	(1,917)	(4.3)
Sanitary products	Products	14,594	11.6	13,749	10.9	845	6.1
	Merchandising	60,715	48.2	58,980	46.9	1735	2.9
Total		126,080	100.0	125,858	100.0	222	0.2

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Medical Devices Operation

In Japan, Kobayashi Pharmaceutical Group endeavored to expand product items in the markets it has designated for entry, including orthopedics, operating theaters, neurosurgery, and otorhinolaryngology. From April 2003, to concentrate our efforts on sales of orthopedic products, which are a growing market, we established the Orthopedics Division and carried out marketing activities with a high level of specialization.

Overseas, the three Shield Health Centers suffered a decline in sales due to changes in the California State insurance system, but as they increased the number of customers by purchasing customer lists from other companies, sales grew by \$1,632,000 on a US dollar basis. However, owing to the impact of the stronger yen, sales ultimately declined 504 million yen from the previous year.

As a result, sales of the Medical Devices Operation declined 505 million yen, or 3.1%, year on year to 15,608 million yen, and operating income fell 184 million yen, or 22.2%, to 644 million yen.

The equity in earnings of Medicon Inc., an affiliate to which the equity method is applied, was 279 million yen, compared with 153 million yen in the previous year.

Sales by Category

(Millions of Yen)

	FY2003, ended March 31, 2004		FY2002, ended March 31, 2003		Change	
	Amount	%	Amount		Amount	%
Kobayashi Medical Division	5,937	38.0	5,760	35.8	177	3.1
Shield Healthcare Centers (3 companies)	8,639	55.3	9,143	56.7	(504)	(5.5)
Others	1,032	6.7	1,210	7.5	(178)	(14.7)
Total	15,608	100.0	16,113	100.0	(505)	(3.1)

Other Operations

Other Operations are conducted by Kobayashi Pharmaceutical's subsidiaries in support of the Company's three principal businesses and to contribute to the profits of those businesses. The Group reviewed the transfer values of the materials and services these subsidiaries and affiliates provide.

Sales of Other Operations were 11,859 million yen, an increase of 153 million yen, or 1.3%, from the previous year, and operating income was 153 million yen, a decline of 112 million yen, or 42.3%, compared with the previous year. Segment sales include internal sales and transfers among segments; the value of these totaled 8,783 million yen in fiscal 2002 and 8,401 million in fiscal 2003.

As more than 90% of sales are recorded in Japan, this analysis does not include geographical segment information.

(3). Forecasts for Fiscal 2004 (ended March 31, 2005)

(Millions of Yen)

	FY2004, ended March 31, 2005		FY2003, ended March 31, 2004		Change	
	Amount	%	Amount	%	Amount	%
Net Sales	218,000	100.0	211,670	100.0	6,330	3.0
Operating Income	16,500	7.6	16,123	7.6	377	2.3
Ordinary Income	14,500	6.7	14,127	6.7	373	2.6
Net Income	7,400	3.4	6,677	3.4	723	10.8
Net Income per share (yen)	174.36		157.25		17.11	10.9

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Although stock prices and corporate earnings in Japan are showing signs of a recovery, the Japanese economy is likely to remain in a severe situation, as a full-scale recovery in consumer spending is not expected due to such factors as tough employment conditions.

In this challenging environment, to reinforce its competitiveness so that it is the leader in the fields in which it operates, Kobayashi Pharmaceutical Group will need to implement a strategy aimed at further bolstering existing businesses and existing brands, which are the foundations of the group's management, and at the same time further expand the scope of business operations and carry out a strategy to promote growth.

For fiscal 2004, the Company forecasts consolidated net sales of 218,000 million yen, an increase of 6,330 million yen, or 3.0%, compared with fiscal 2003. In terms of profits, as we will continue to thoroughly reduce costs such as the cost of goods sold, we forecast operating income of 16,500 million yen, an increase of 377 million yen, or 2.3%, ordinary income of 14,500 million yen, an increase of 373 million yen, or 2.6%, and net income of 7,400 million yen, an increase of 723 million yen, or 10.8%, compared with fiscal 2003.

From fiscal 2004, Shanghai Kobayashi Daily Chemicals Co., Ltd. and Kobayashi Pharmaceutical (Hong Kong) Co., Ltd. will be newly included in the scope of consolidation.

The Company's basic policy is to continue providing stable dividends. The next dividend will be 21.00 yen per share as an ordinary allotment.

Kobayashi Pharmaceutical Group's earnings forecasts for its main business segments are as follows.

Consumer Products Operation

We believe that the operating environment will continue to be severe, but in spring 2004, we launched seven new products that will fulfill the latent needs of consumers. These include *Iraraku*, an internal medicine that soothes overwrought nerves and creates a relaxed feeling, *Easy Fiber Water*, in which the food fiber of two lettuces has been dissolved in a single PET bottle, and *Tanryoku*, a powerful deodorizing air freshener based on charcoal that has been burnt using a special manufacturing method. In addition, we will engage in brand selection and concentration to counter a decline in sales of existing brands, and develop brand cultivation plans for the 8,300 priority stores.

As a result of these efforts, we estimate that sales of the Consumer Products Operation will increase 3,945 million yen, or 4.5%, compared with fiscal 2003 to 91,000 million yen. Regarding profits, as we will cut costs by reducing the cost of goods sold and invest effectively in advertising and promotion, we estimate that operating income will increase 369 million yen, or 2.5%, to 15,000 million yen.

(Millions of Yen)				
	FY2004, ended March 31, 2005	FY2003, ended March 31, 2004	Change	
	Amount	Amount	Amount	%
Net sales	91,000	87,055	3,945	4.5
Operating Income	15,000	14,631	369	2.5

Notes:

1) Segment sales include internal sales and transfers among segments; the value of these totaled 20,532 million yen in fiscal 2002 and 22,500 million yen in fiscal 2003.

Wholesale Operation

In addition to the expansion of geographical coverage to cater for the increasingly wide-ranging operations of drug stores, a major customer segment, the Company will reinforce the differentiated health foods and contact lens care-related product lines, which are growing markets, and actively endeavor to develop new categories such as products for babies and the elderly. We estimate that sales will increase 3,920 million yen, or 3.1%, compared with fiscal 2003 to 130,000 million yen.

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(Millions of Yen)

	FY2004, ended March 31, 2005	FY2003, ended March 31, 2004	Change	
	Amount	Amount	Amount	%
Net sales	130,000	126,080	3,920	3.1
Operating Income	550	534	16	3.0

Medical Devices Operation

The Kobayashi Medical Company will further expand product lines in areas such as orthopedics mainly through partnerships with overseas manufacturers and, at the same time, actively pursue the development of the company's own products. The three Shield Healthcare companies that operate in the United States will continue striving to increase the number of customers through the acquisition of customer lists, for example. As a result of these endeavors, we estimate that sales of the Medical Devices Operation will grow 892 million yen, or 5.7%, compared with fiscal 2003, to 16,500 million yen, and operating income will increase 156 million yen or 24.2 %, compared with fiscal 2003, to 800 million yen.

(Millions of Yen)

	FY2004, ended March 31, 2005	FY2003, ended March 31, 2004	Change	
	Amount	Amount	Amount	%
Net sales	16,500	15,608	892	5.7
Operating Income	800	644	156	24.2

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Financial Position

(1). Summary of Cash Flows in Fiscal 2003 (ended March 31, 2004)

(Millions of Yen)

	FY2003, ended March 31, 2004		FY2002, ended March 31, 2003		Change	
	Amount	%	Amount		Amount	%
Cash flows from operating activities	6,971		12,046		(5,075)	42.1
Cash flows from investing activities	(2,358)		(276)		(2,082)	-
Free cash flow	4,613		11,770		(7,157)	60.8
Cash flows from financing activities	(4,574)		(2,605)		(1,969)	-
Term-end balance of cash and cash equivalents	17,669		17,752		(89)	(0.5)

Cash and cash equivalents (hereunder called "net cash") at the end of the fiscal year was 17,663 million yen, a decrease in 89 million yen from the end of the previous fiscal year. Analysis of cash flow and financial position are as follows:

Cash flows from operating activities

Net cash provided by total operating activities decreased by 5,075 million to 6,971 million yen. This was mainly attributable to a decrease in net profit before taxes of 1,014 million yen, and a decrease of 5,754, million yen in accounts receivable, due to an application under the Civil Rehabilitation Law by the client of a group subsidiary.

Cash flows from investing activities

Net cash used in investing activities totaled 2,358 million yen, an increase of 2,082 million yen. This was mainly attributable to an outlay of 3,542 million yen on acquisition of securities, though there was an increase of 2,391 million yen from the sale of fixed assets.

Cash flow from financing operations

Net cash used in financing operations totaled 4,574 million yen, an increase of 1,969 million yen. This was mainly attributable to repayment of long-term debts and purchase of treasury stock for 1,539 million yen.

Note: The following formula was used to calculate free cash flow:

Free cash flow = Cash flows from operating activities + cash flows from investing activities

(2) Fiscal 2004 Forecasts

The operating environment is severe, but we will endeavor to reduce inventories and accounts receivable so as to improve the KOVA (Kobayashi Value Added) management index, which takes the efficiency of capital employed into account.

Although capital investment in connection with product development, which accrues constantly, is expected to be about the same as the figure for the previous year, the funds to be used for capital investment are expected to decrease, because the Company has no other major investment projects.

Regarding financing activities, we intend to repay a part of bank borrowings.

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(3.) Cash Flow Indicator Trends

	As of March 31,			
	2004	2003	2002	2001
Equity Ratio (%)	42.4	39.2	36.8	36.1
Equity Ratio at Market Value Basis (%)	91.8	82.9	99.7	133.2
Debt Repayment Period (years)	0.8	0.7	2.3	0.9
Interest Coverage Ratio (times)	90.5	87.9	20.0	36.0

Notes:

1. Each index is calculated by relevant formulas with financial figures quoted from the consolidated balance sheet.

- Equity Ratio = Shareholder's equity ÷ Total assets
- Equity Ratio at market value basis = Total market value of listed shares ÷ Total assets
- Liability Maturity = Liability with interest ÷ Cash flows from operating activities
- Interest Coverage Ratio = Cash flows from operating activities ÷ interest payment

2. Consolidated financial figures constitute the basis for calculating these indicators.

2. Market a capitalization is calculated by multiplying a closing price of a share at the year-end by the number of shares issued after deduction of own shares at the year-end.

3. Liabilities with interest, liabilities accounted in the consolidated balance sheet, all debts that incur interest payment.

4. For the amount of cash flows from operating activities and interest payment, "Cash flows from operating activities" and "Interest payment" in the consolidated statement of cash flow are used.

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V. Annual Consolidated Financial Statements

1. Consolidated Balance Sheets

	Millions of Yen				
	As of March 31,				
	2004	%	2003	%	Change
Assets					
Current assets:					
Cash and time deposits	17,663		17,762		(98)
Trade notes and accounts receivable	41,771		39,504		2,267
Inventories	14,093		13,985		109
Deferred income taxes	2,453		1,970		483
Other current assets	4,577		4,506		71
Allowance for doubtful accounts	(529)		(412)		(116)
Total current assets	80,030	62.4	77,315	61.5	2,715
Fixed Assets:					
Tangible Fixed Assets:					
Buildings and Structures	11,964		13,185		(1,220)
Machinery and equipment	1,149		1,338		(189)
Land	9,949		11,960		(2,010)
Other	1,504		1,273		231
Total Fixed Assets	24,568	19.1	27,758	22.1	(3,189)
Intangible Assets:					
Goodwill	964		1,393		(428)
Software	875		1,119		(244)
Consolidation Adjustments account	3,759		4,671		(911)
Other	367		382		(14)
Total Intangible Assets	5,967	4.7	7,556	6.0	(1,559)
Investments and Other Assets:					
Investments in securities	9,871		4,946		4,924
Long Term Loans	132		132		0
Deferred Tax Assets	2,460		2,695		(235)
Other Assets	7,738		6,361		1,377
Allowance for investment liability loss	(332)		--		(332)
Allowance for doubtful receivables	(2,110)		(1,096)		(1,014)
Total Investments and Other Assets	17,760	13.8	13,039	10.4	4,721
Total Fixed Assets	48,296	37.6	48,364	38.5	(67)
Total Assets	128,326	100.0	125,679	10.0	2,647
Liabilities					
Current Liabilities:					
Trade notes and accounts payable	41,277		41,111		166
Short-term loans payable	4,512		5,999		(1,486)
Accrued expenses	10,208		9,400		807

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	Millions of Yen				
	As of March 31,				
	2004	%	2003	%	Change
Accrued income taxes	3,479		3,863		(383)
Accrued consumption taxes	709		582		127
Reserve for unsold goods	344		313		31
Allowance for bonus payable	1,852		1,800		51
Other current liabilities	1,912		2,854		(941)
Total Current Liabilities	64,297	50.1	65,925	52.5	(1,628)
Fixed Liabilities					
Long term loans payable	905		1,860		(954)
Provision for retirement benefits	6,320		6,379		(59)
Provision for allowances for directors and corporate auditors	1,157		1,065		92
Other long-term liabilities	710		631		78
Total Long-term Liabilities	9,093	7.1	9,936	7.9	(842)
Total Liabilities	73,391	57.2	75,862	60.4	(2,471)
Shareholders' Equity					
Minority Interests					
Minority interests	480	0.4	549	0.4	(69)
Shareholders' Equity					
Common stock	3,450	2.7	3,450	2.7	--
Capital surplus	4,183	3.2	4,183	3.3	--
Earned Surplus	48,185	37.5	42,141	33.5	6,043
Net unrealized holding gains on securities	1,640	1.3	843	0.7	796
Foreign currency translation adjustments	(688)	(0.5)	(574)	(0.4)	(113)
Cost of treasury stock	(2,317)	(1.8)	(777)	(0.6)	(1,539)
Total Shareholders' Equity	54,454	42.4	49,267	39.2	5,187
Total Liabilities, Minority Interest and Shareholders' Equity	128,326	100.0	125,679	100.0	2,647

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2. Consolidated Annual Statements of Income

	Millions of Yen					
	As of March 31,					
	2004	%	2003	%	Change	%
Net Sales	211,670	100.0	210,922	100.0	747	0.4
Cost of sales	141,387	66.8	141,675	67.2	(287)	(0.2)
Gross profit	70,282	33.2	69,247	32.8	1,035	1.5
Selling, general, & administrative expenses	54,159	25.6	53,394	25.3	764	1.4
Operating Income	16,2123	7.6	15,852	7.5	270	1.7
Other Income and Expenses						
Other Income:						
Interest and dividend income	115		165		(50)	
Royalty income	381		270		11	
Investment income due to equity method	280		117		163	
Income from rents and real estate	240		255		(14)	
Income from other rents	8		7		0	
Miscellaneous income	435		459		(24)	
Other Income	1,461	0.7	1,276	0.6	185	14.5
Other Expenses:						
Interest expenses	72		134		(61)	
Sales Discount	1,025		1,033		(7)	
Unrealized loss on investments	7		29		(22)	
Inventory appraisal loss.....	1,675		1,953		(277)	
Real estate lease expense	10		71		29	
Additional lease expense	40		48		(8)	
Exchange loss expense	47		531		(484)	
Miscellaneous expenses	487		374		112	
Other Expenses	3,456	1.6	4,177	2.0	(720)	(17.2)
Ordinary Income	14,127	6.7	12,951	6.1	1,176	9.1
Extraordinary Gain and Loss:						
Gains on sales of fixed assets	1,310		71		1,239	
Gains on sales of affiliate's equity...	--		3,088		(3,088)	
Goodwill transfer benefit	714		396		318	
Other extraordinary gains.....	72		16		55	
Extraordinary Gains	2,097	1.0	3,573	1.7	(1,475)	(41.3)
Losses on sales and disposal of fixed assets	1,993		219		1,773	
Losses on evaluation of wholesale trade.....	521		839		(318)	
Affiliate Restructuring expenses.....	357		--		357	
Allowance for doubtful receivables transfer amount.....	974		--		974	
Allowance for investment loss liability transfer	332		--		332	
Special pension integration fund	--		1,937		(1,937)	

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	Millions of Yen					
	As of March 31,					
	2004	%	2003	%	Change	%
Other extraordinary losses	221		687		(466)	
Extraordinary Losses.....	4,400	2.1	3,685	1.7	715	19.4
Income Before Provision for Income Taxes	11.825	5.6	12,839	6.1	(1,014)	(7.9)
Corporate Income, Local and Business Taxes.....	5,993	2.8	5,986	2.9	6	0.1
Adjustments to Income Taxes.....	(778)	(0.4)	251	0.1	(1,029)	(410.2)
Minority Interest in Net Income of Consolidated Subsidiaries.	66	0.0	4	0.0	62	
Net Income.....	6,677	3.2	6,605	3.1	71	1.1

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3. Consolidated Statements of Shareholders' Equity

	Millions of Yen	
	Fiscal Year Ended March 31,	
	2004	2003
Capital Surplus		
I. Beginning balance of capital surplus	4,183	4,183
II. Ending balance of capital surplus	4,183	4,183
Earned Surplus		
I. Beginning balance of capital surplus	41,141	36,117
II. Increase in earned surplus		
Net Annual Income	6,677	6,605
III. Decrease in earned surplus	633	582
Cash dividends paid.....	591	524
Directors' bonuses	42	57
IV. Ending balance of earned surplus	48,185	42,141

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4. Consolidated Statements of Cash Flows

	Millions of Yen	
	Fiscal Year Ended March 31,	
	2004	2003
I. Cash flows from operating activities:		
Income before income taxes and minority interests.....	11,825	12,839
Loss on disposal or write off of obsolete inventories.....	2,662	2,793
Losses on depreciation of consolidated adjustment.....	687	687
Provision for allowance of doubtful accounts.....	1,159	739
Accrued severance indemnities, net.....	(59)	(480)
Interest and dividend income.....	(115)	(165)
Interest expenses.....	72	134
Losses on devaluation of equity of affiliates.....	357	--
Equity in earnings of affiliates.....	(280)	(117)
Losses on disposal of inventory evaluation.....	2,197	2,793
Gain (loss) on a change in minority interest.....	--	(16)
Gains on sales of an investment in a subsidiary or affiliate.....	--	(3,088)
Gain on sale of goodwill.....	(714)	(396)
Loss on sales or disposal of property, plant and equipment.....	2,458	219
Exchange gain.....	332	--
(Decrease) increase in trade notes and accounts receivable.....	(3,254)	2,500
Increase (decrease) in inventories.....	(2,355)	(3,280)
(Decrease) increase in trade notes and accounts payable.....	54	(1,310)
Increase (decrease) in consumption taxes payable.....	129	226
Bonuses paid to directors.....	(42)	(57)
Others.....	(1,808)	1,688
Sub Total	13,307	15,709
Interest and dividends received.....	118	171
Interest paid.....	(77)	(137)
Income taxes paid.....	(6,377)	(3,697)
Net cash provided by operating activities	6,971	12,046

II. Cash flows from investing activities:

Increase (decrease) in time deposits	10	24
Purchases of property, plant and equipment	(1,288)	(1,676)
Proceeds from sales of property, plant and equipment.....	2,391	31
Payments for purchases of intangible assets.....	(574)	(1,117)
Increase in investments in securities.....	(3,542)	(19)
Purchase of investments in securities.....	(725)	(564)
Proceeds from sale of securities.....	493	8
Increase in short term loans receivable.....	274	(373)
Purchase of securities of subsidiaries.....	(25)	(18)
Proceeds from long-term receivables.....	25	21

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	Millions of Yen	
	Fiscal Year Ended March 31,	
	2004	2003
Proceeds from sale of investments in affiliates.....	--	3,480
Proceeds from sale of goodwill.....	714	396
Others.....	(112)	(470)
Net cash used in investing activities.....	(2,358)	(276)
III. Cash flows from financing activities:		
Increase (decrease) in short-term loans, net.....	(145)	1,426
Proceeds from long-term debt.....	212	347
Repayment of long-term debt.....	(2,508)	(3,144)
Issuance of stock of subsidiaries to minority shareholders.....	--	67
(Increase) decrease treasury stock.....	(1,539)	(777)
Dividends paid.....	(591)	(524)
Others.....	(2)	--
Net cash used in financing activities.....	(4,574)	(2,605)
IV Effect of exchange rate changes on cash and cash equivalents.....	(127)	(200)
V. Net increase in cash and cash equivalents	(88)	8,965
VI. Cash and cash equivalents at beginning of year	17,752	8,787
VII. Cash and cash equivalents at end of year	17,663	17,752

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VI. Segment Information

1. Segment Information by Business Category

Current Consolidated Fiscal Year (April 1, 2003 - March 31, 2004)

(Millions of Yen)

	Consumer Products Operation	Wholesale Operation	Medical Operation	Other Operations	Total	Eliminations	Consolidated
1. Sales and operating income							
I. Sales to third parties	66,522	126,080	15,608	3,458	211,670	--	211,670
II. Inter-group sales and transfers	20,532	--	--	8,401	28,933	(28,933)	--
Total net sales	87,055	126,080	15,608	11,859	240,603	(28,933)	211,670
III. Operating expense	72,424	125,545	14,964	11,706	224,639	(29,092)	195,546
IV. Operating income	14,631	534	644	153	15,963	159	16,123
2. Assets, depreciation and capital expenditures							
I. Total Assets	51,968	43,319	9,082	7,334	111,704	16,621	128,326
II. Depreciation	1,764	207	408	149	2,530	132	2,662
III. Capital expenditure	1,647	500	172	83	2,404	37	2,441

Previous Consolidated Fiscal Year (April 1, 2002 - March 31, 2003)

(Millions of Yen)

	Consumer Products Operation	Wholesale Operation	Medical Operation	Other Operations	Total	Eliminations	Consolidated
1. Sales and operating income							
I. Sales to third parties	66,027	125,858	16,114	2,923	210,922	--	210,922
II. Inter-group sales and transfers	19,532	1	--	8,783	28,316	(28,316)	--
Total net sales	85,559	125,859	16,114	11,706	239,238	(28,316)	210,922
III. Operating expense	71,121	125,603	15,285	11,441	223,450	(28,381)	195,069
IV. Operating income	14,438	256	829	265	15,788	65	15,853
2. Assets, depreciation and capital expenditures							
I. Total Assets	53,105	41,397	9,200	7,324	111,026	14,654	125,680
II. Depreciation	1,906	255	369	154	2,684	109	2,793

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III. Capital expenditure	2,073	273	197	50	2,593	38	2,631
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(Notes)

1. Method of business classification:
 - Businesses segments are classified into four principle areas: Consumer Products, Wholesale, Medical and Others following the product line, and the markets in which the products are distributed.
2. Main products of each business operation:
 - Consumer Products Operations --- household pharmaceuticals, oral hygiene products, deodorizing air fresheners, household sundries.
 - Wholesale Operation --- household pharmaceuticals, household sundries and foods
 - Medical Devices Operation --- medical devices, medical facilities
 - Other Operation --- transport, synthetic resin products manufacturing, printing, advertising, planning and creation
3. Corporate assets included in "Eliminations (Corporate)" in FY2003 amounted to 33,342 million yen, which consists mainly of the parent company's investment of surplus funds (cash, time deposits and marketable securities) and securities held as investments, as compared with 30,728million yen in fiscal FY2002.
4. Depreciation and capital expenditures include amortization of long-term prepaid expenses.

2. Segment Information by Area

Because the amount of domestic sales and assets are more than 90% of the total amount of all sales of segments and the total amount of all assets of segments, such information is omitted.

3. Overseas Sales

In this term, overseas sales are omitted from this report because this item accounted for less than 10% of consolidated sales.

In the previous term, overseas sales were omitted from this report because this item accounted for less than 10% of consolidated sales.