

KOBAYASHI

PHARMACEUTICAL CO., LTD.

Summary Consolidated Financial Results for the First Half ended September 30, 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.

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:	Yutaka Kobayashi
Contact:	Masaaki Tanaka, General Manager, Public & Investor Relations Department
Telephone:	+81-6-6222-0084
Date of the Board of Directors' meeting to approve financial statements:	November 25, 2004
U.S. (GAAP) accounting standard:	Not adopted for the purposes of these statements.

I. Consolidated Financial Results (April 1, 2004 – September 30, 2004)

(1) Consolidated Operating Results

	Millions of Yen - Except Per Share Data and Percents				
	First Half ended September 30, 2004		Year ended March 31,		
	2004	%	2003	%	2004
Operating Revenues.....	109,907	1.4	108,386	1.4	211,670
Operating Income	7,824	(0.2)	7,838	(4.4)	16,123
Ordinary Income	7,046	0.5	7,011	12.8	14,127
Net Income	3,732	11.2	3,357	(0.6)	6,677
Net Income per Share (yen)	89.66		79.51		157.25
Net Income per Share, diluted (yen).....	--		--		--

- Notes:
- 1) Equity in earnings of affiliates and non-consolidated subsidiaries:

First half ended September 30, 2004:	140 million yen
First half ended September 30, 2003:	140 million yen
Fiscal year ended March 31, 2004:	280 million yen
 - 2) Average number of shares outstanding during the period (consolidated):

First half ended September 30, 2004:	41,623,572 Shares
First half ended September 30, 2003:	42,228,330 Shares
Fiscal year ended March 31, 2004:	42,196,235 Shares
 - 3) Changes in accounting policies:
 - 4) Percentages for operating revenues, operating income, ordinary income and net income represent changes compared with the previous interim period.
 - 5) Stock split (awards 1.5 shares per original share) was effected on November 20, 2003, and net income per share at the end of the previous interim period and at the end of fiscal year was computed per stock as per the stock split were performed at the beginning of period.
 - 6) 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.

KOBAYASHI PHARMACEUTICAL CO., LTD.

(2) Consolidated Financial Position

	Millions of Yen - Except Per Share Data and Ratios		
	As of September 30,		As of March 31,
	2004	2003	2004
Total Assets	135,079	134,407	128,326
Shareholders' Equity.....	56,740	52,367	54,454
Shareholders' Equity Ratio	42.0%	39.0%	42.4%
Shareholders' Equity per Share (yen)	1,363.21	1,240.10	1,307.16

Notes: (1) Number of shares outstanding at the end of the year (consolidated):

As of September 30, 2004:	41,622,453 shares
As of September 30, 2003:	42,228,294 shares
As of March 31, 2004:	41,626,403 shares

(2) Stock split (awards 1.5 shares per original share) was effected on November 20, 2003, and Shareholders' equity per share at the end of the previous interim period and at the end of previous fiscal year was computed per stock as per the stock split were performed at the beginning of period.

(3) Consolidated Cash Flows

	Millions of Yen		
	As of September 30,		As of March 31,
	2004	2003	2004
Cash Flows from Operating Activities.....	798	(718)	6,971
Cash Flows from Investing Activities	(1,664)	1,201	(2,358)
Cash Flows from Financing Activities.....	(1,590)	(41)	(4,574)
Cash and Cash Equivalents, End of Year	15,386	18,187	17,663

(4) Scope of Consolidation and Equity Method:

Number of consolidated subsidiaries:	20
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) 2
	(Excluded) 0
Number of companies for which equity method accounting has been adopted:	0
	(Newly included) 0
	(Excluded) 0

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

Consolidated	Millions of Yen	
	Full Year	
Net Sales	217,000	
Ordinary Income	13,800	
Net Income	6,800	
Net Income per Share (yen)	162.35	

KOBAYASHI PHARMACEUTICAL CO., LTD.

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.

KOBAYASHI PHARMACEUTICAL CO., LTD.

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, 13 officers of whom five are also directors at present) and the in-house company system. Further, the Company introduced a business consolidation headquarters system in April 2004 to create a system that would further vitalize the board of directors, facilitate decision-making and strengthen 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.

Under this system, 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, 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 formation of a partnership with Kobashou Co., Ltd., Mitsubishi Corporation and Ryoshoku Ltd. in March 2004, and the conclusion of a capital and business tie-up with Kobashou and Suzuken Co., Ltd. in September 2004. The Company also withdrew from unprofitable businesses and promoted restructuring.

At present, the Company has not appointed any non-executive directors because executive directors who have a better understanding of the Company's management philosophy and are able to put it into practice are making decisions from their vantage point within the company. 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.

Shin Nihon & Co., the Company's accountant auditor, shares information that will lead to improvement in operations through forums such as the regular meetings that are held every month. The Company receives advice on management and daily operations from legal counsel and other specialists that is reflected in the decision-making process.

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 Officers and Employees." Going forward, we plan to actively develop these basic guidelines and behavioral standards on a company-wide basis. Further, in January 2003 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 act on information concerning compliance at an early stage.

KOBAYASHI PHARMACEUTICAL CO., LTD.

IV. Business Results and Financial Condition

(1) Overview of First Half (ended September 30, 2004)

(Millions of Yen)

	First Half, ended September 30, 2004		First Half, ended September 30, 2003		Change	
	Amount	%	Amount		Amount	%
Net Sales	109,907	100.0	108,386	100.0	1,521	1.4
Operating Income	7,824	7.1	7,838	7.2	(13)	(0.2)
Ordinary Income	7,046	6.4	7,011	6.5	34	0.5
Net Income	3,732	3.4	3,357	3.1	374	11.2
Net Income per share (yen)	89.66		79.51		10.15	12.8

Note:

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

During the interim period under review, despite signs of recovery spurred by the increase in exports to Asia and the revival of capital investment, the growth in consumer spending was modest and the future outlook remained unpredictable.

In these conditions, Kobayashi Pharmaceutical Group (Kobayashi, consolidated subsidiaries and equity-method affiliates) unleashed the spirit expressed by its management policy of "Creativity and Innovation." We cultivated latent customer needs by introducing new products and services to cultivate new markets while invigorating existing markets by offering products and services with new added value. As a result, sales amounted to 109,907 million yen, an increase of 1,521 million yen, or 1.4%, from the previous interim period. In terms of profits, the Company cut costs by thoroughly reducing manufacturing costs, but due to the harsh market environment affecting the three Shield Health Centers, affiliates in the US, operating profit was 7,824 million yen, a decrease of 13 million yen, or 0.2%, compared with the previous interim period. On the other hand, ordinary income was 7,046 million yen, an increase of 34 million yen, or 0.5% over the previous interim period. As Kobayashi Pharmaceutical Group incurred 1,067 million yen in extraordinary losses in the previous interim period due to the liquidation of an affiliated company and the provision for allowances for doubtful accounts due to an application under the Civil Rehabilitation Law, income before taxes for this interim period amounted to 6,878 million yen, a gain of 539 million yen, or 8.5%, compared with the previous interim period, and net income amounted to 3,732 million yen, an increase of 374 million yen or 11.2%, compared with the previous interim period.

Shanghai Kobayashi Daily Chemicals Co., Ltd. and Kobayashi Pharmaceutical (Hong Kong) Co., Ltd. were newly included in the scope of consolidation this interim period.

(2) Segment Analysis

The following is a summary of performance by business segment during this interim period.

Consumer Products Operation

With no recovery in consumer spending, business conditions remained harsh. Against this backdrop, Kobayashi Pharmaceutical Group launched seven new products (excluding nutritional supplement food products) in an effort to create new markets and expand existing markets in this business segment. These new products included *Keshimin Cream*, which contains vitamins that are effective in preventing freckles and spots caused by sunburn, and *Shoshu Garden*, an aromatic odor-eliminating agent that emanates a fresh floral scent and creates the sense of a European garden. These additions helped to spur sales growth. Due in part to stronger health consciousness, we further expanded our product line of nutritional supplement food products sold through our mail order and drug store channels. As a result, sales in the Consumer Product Operation increased 722 million yen, or 1.7%, from the previous interim period, to 43,833 million yen.

Thorough cuts in manufacturing costs and the effective utilization of sales promotion costs boosted operating income 72 million yen, or 1.0% from the previous interim period, to 7,043 million yen.

KOBAYASHI PHARMACEUTICAL CO., LTD.

Sales by Category

(Millions of Yen)

	First Half, ended September 30, 2004		First Half, ended September 30, 2003		Change	
	Amount	%	Amount	Amount	%	
Pharmaceuticals	7,787	17.8	8,001	18.6	(214)	(2.7)
Oral hygiene products	5,329	12.2	5,260	12.2	69	1.3
Sanitary products	6,234	14.2	6,162	14.3	72	1.2
Deodorizing air fresheners	15,318	34.9	15,103	34.9	215	1.4
Household sundries	2,494	5.7	2,699	6.3	(205)	(7.6)
Food products	5,410	12.3	4,733	11.0	677	14.3
Body warmers	1,261	2.9	1,153	2.7	108	9.4
Total	43,833	100.0	43,111	100.0	722	1.7

Notes:

- 1) Segment sales include internal sales and transfers among segments; the value of these totaled 10,724 million yen in the previous interim period in 2003 and 11,132 million yen in this interim period.
- 2) The name of the "Nutritional supplement food products" segment has been changed to "food products" since the previous interim period. Accordingly, sales of some oral hygiene products (*Easy Fiber*, *Tochucha* and others), 811 million yen have been shifted to the "food products" segment.

Wholesale Operation

The business environment was harsh, with the introduction of a new law making it mandatory for all stores, including drugstores, Kobayashi's key customer, to include the consumption tax on the prices shown on price tags and unseasonable weather such as the record-high summer temperatures and repeated typhoons. However, due to an increase in wholesales in the Shikoku region, an increase in sales of 1,215 million yen, or a 1.8% was realized in the Wholesale Operation with total sales of 67,383 million yen.

Owing to lower costs due to bulk purchases of products from manufacturers capitalizing on economies of scale and a reduction in sales expenses, operating income reached 321 million yen, an improvement of 142 million yen, or 79.3%, from the previous year.

On September 22, 2004, Kobayashi Pharmaceutical and Suzuken agreed that Suzuken would transfer its drug wholesale operation (with sales of approximately 30 billion yen a year) to Kobashou and that Suzuken will invest in Kobashou.

Sales by Category

(Millions of Yen)

		First Half, ended September 30, 2004		First Half, ended September 30, 2003		Change	
		Amount	%	Amount	Amount	%	
Drugs	Products	4,397	6.5	4,332	6.5	65	1.5
	Merchandising	24,543	36.4	23,156	35.0	1,387	6.0
Sanitary products	Products	8,192	12.2	7,930	12.0	262	3.3
	Merchandising	30,250	44.9	30,749	46.5	(499)	(1.6)
Total		67,383	100.0	66,168	100.0	1,215	1.8

KOBAYASHI PHARMACEUTICAL CO., LTD.

Medical Devices Operation

In Japan (Kobayashi Medical Company), sales rose 242 million yen, or 8.2%, to 3,209 million yen, due to reinforced marketing skills in the Orthopedics Division, an enhanced product lineup and the launch of the Company's first proprietary products in April.

In the US, the Shield Health Centers, US affiliates that sell medical devices for home use endeavored to increase the number of customers by purchasing customer lists from other companies. However, changes in the California state insurance system and the stronger yen decreased sales 464 million yen from the previous year, or 10.2%, to 4,091 million yen.

Due to this decline in sales of the US affiliate, operating income declined 193 million yen, or 43.5%, to 251 million yen.

The equity in earnings of Medicon Inc., an affiliate to which the equity method is applied, was 133 million yen, compared with 150 million yen in the previous interim period.

Sales by Category

	(Millions of Yen)					
	First Half, ended September 30, 2004		First Half, ended September 30, 2003		Change	
	Amount	%	Amount		Amount	%
Kobayashi Medical Division	3,209	40.4	2,697	36.6	242	8.2
Shield Healthcare Centers (3 companies)	4,091	51.6	4,555	56.1	(464)	(10.2)
Others	632	8.0	589	7.3	43	7.3
Total	7,932	100.0	8,111	100.0	(179)	(2.2)

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, although each is intended to be self-supporting. The Group reviewed the transfer values of the materials and services these subsidiaries provide.

As a result, sales totaled 6,166 million yen. Segment sales include internal sales and transfers among segments; the value of these amounted to 4,486 million yen in the previous interim period and 4,276 million yen in the current interim period.

Because the amount of domestic sales is more than 90% of the total amount of all sales of segment, such information is omitted.

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

	(Millions of Yen)					
	FY2005, ended March 31, 2005		FY2004, ended March 31, 2004		Change	
	Amount	%	Amount	%	Amount	%
Net Sales	217,000	100.0	211,670	100.0	5,330	2.5
Operating Income	15,800	7.3	16,123	7.6	(323)	(2.0)
Ordinary Income	13,800	6.4	14,127	6.7	(327)	(2.3)
Net Income	6,800	3.1	6,677	3.2	123	1.8
Net Income per share (yen)	162.35		157.25		5.1	3.2

Note:

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

KOBAYASHI PHARMACEUTICAL CO., LTD.

The Japanese economy is likely to remain in a severe situation, due to the effect that the sharp rise in oil prices has had on the domestic economy and the uncertain prognosis for the US and Chinese economies that have driven Japan's economy.

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 business and existing brands that form 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 year 2004, the Company forecasts sales of 217,000 million yen, an increase of 5,330 million yen, or 2.5%, compared with fiscal year 2003. Due to thorough reductions in costs such as original costs, we forecast operating income of 15,800 million yen, a decrease of 323 million yen, or 2.0%, ordinary income of 13,800 million yen, a decrease of 327 million yen, or 2.3%, and net income of 6,800 million yen, an increase of 123 million yen, or 1.8%, compared with fiscal year 2003.

The Company's basic policy is to continue providing stable dividends. The dividend for this fiscal year is forecast to 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 nine new products that will fulfill the latent needs of consumers. These include the Chinese herbal remedy *Nightmin*, which uses five pharmaceutical elements to soothe stress and other physical and mental exhaustions that make it difficult to sleep; *Toire no Animaru Shoshugen*, a deodorizing air freshener that is decorated with cute animals; balsamic vinegar manufactured as a health drink with Italian ingredients with almost 3 times the polyphenol; and Purunpoi, a processing agent that solidifies the smell and oil from grilling fish without dirtying the user's hands. In addition, we will endeavor to expand and reinforce existing brands.

As a result of these efforts, we estimate that sales of the Consumer Products Operation will increase 2,445 million yen, or 2.8%, compared with fiscal year 2003, to 89,500 million yen. We estimate that cuts in costs such as original costs and more effective use of sales promotion costs will lead to 14,400 million yen in operating income, a decrease of 231 million yen, or 1.6%.

(Millions of Yen)

	FY2005, ended March 31, 2005	FY2004, ended March 31, 2004	Change	
	Amount	Amount	Amount	%
Net sales	89,500	87,055	2,445	2.8
Operating Income	14,400	14,631	(231)	(1.6)

Note:

Segment sales include internal sales and transfers among segments; the value of these totaled 20,532 million yen in the previous interim period and 22,000 million yen in the current interim period.

KOBAYASHI PHARMACEUTICAL CO., LTD.

Wholesale Operation

In addition to the expansion of geographical coverage for the increasingly wide-ranging operations of drug stores, a major customer segment, the Company will reinforce the differentiated health food product line, which is a growing market, and actively endeavor to expand the line of products for babies and the elderly. Accordingly, we estimate that sales will increase 3,920 million yen, or 3.1%, to 130,000 million yen, and operating income will rise 16 million yen, or 3.0%, to 550 million yen compared to fiscal year 2003.

	(Millions of Yen)			
	FY2005, ended March 31, 2005	FY2004, 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 and surgical units and, at the same time, actively pursue the development of the company's own products. The three Shield Healthcare companies that operate in the US will strive to expand the number of customers by acquiring customer lists, integrate its product lineup and cut business cuts by raising the efficiency of operations. The Company anticipates that these endeavors will raise sales of the Medical Devices Operation 892 million yen, or 5.7%, compared with fiscal year 2003, to 16,500 million yen, and operating income will increase 6 million yen or 0.9%, compared with fiscal year 2003, to 650 million yen.

	(Millions of Yen)			
	FY2005, ended March 31, 2005	FY2004, ended March 31, 2004	Change	
	Amount	Amount	Amount	%
Net sales	16,500	15,608	892	5.7
Operating Income	650	644	6	0.9

KOBAYASHI PHARMACEUTICAL CO., LTD.

Financial Position

(1) Summary of Cash Flows in Fiscal 2003 (ended March 31, 2004)		(Millions of Yen)	
	First Half, ended September 30, 2004	First Half, ended September 30, 2003	Change
	Amount	Amount	Amount
Cash flows from operating activities	798	(718)	1,516
Cash flows from investing activities	(1,664)	1,201	(2,865)
Free cash flow	(865)	482	(1,347)
Cash flows from financing activities	(1,590)	(41)	(1,549)
Term-end balance of cash and cash equivalents	15,386	18,187	(2,801) (15.4)

Cash and cash equivalents (hereunder called "net cash") at the end of the current interim period was 15,386 million yen, a decrease of 2,801 million yen from the end of the previous interim period. Analysis of cash flow and financial position are as follows:

Cash flows from operating activities

Net cash provided by total operating activities increased 1,516 million yen to 798 million yen compared to the previous interim period. This was primarily attributable to a 539 million yen increase in net income before taxes for this interim period, in addition to a decrease in corporate taxes paid due to lower taxes on an increase of special exemptions on experiment and research expenses.

Cash flows from investing activities

Net cash used in investing activities totaled 1,664 million yen, an increase of 2,865 million yen. This was mainly due to the purchase of dies for new product development and to the acquisition of customer lists by US affiliates. In the previous interim period, the Company posted 1,500 million yen in gains from the sale of tangible fixed assets such as land.

Cash flow from financing operations

Net cash used in financing activities totaled 1,590 million yen, an increase of 1,549 million yen. This was mainly due to repayment of long-term debts and a 281 million yen increase in dividend payments caused by a real increase in dividends per share.

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 strive 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.

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

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

KOBAYASHI PHARMACEUTICAL CO., LTD.

(3) Cash Flow Indicator Trends

	First Half, ended September 30,	As of March 31,		
		2004	2004	2003
Equity Ratio (%)	42.0	42.4	39.2	36.8
Equity Ratio at Market Value Basis (%)	83.7	91.8	82.9	99.7
Debt Repayment Period (years)	--	0.8	0.7	2.3
Interest Coverage Ratio (times)	--	90.5	87.9	20.0

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.

KOBAYASHI PHARMACEUTICAL CO., LTD.

V. Consolidated Financial Statements (April 1, 2004 – September 30, 2004)

1. Consolidated Balance Sheets

	Millions of Yen					
	As of September 30,				As of March 31,	
	2004	%	2003	%	2004	
Assets						
Current assets:						
Cash and time deposits	15,386		18,197		17,663	
Trade notes and accounts receivable.....	48,874		47,245		41,771	
Investment securities	1,000		--		--	
Inventories	15,930		15,321		14,093	
Deferred income taxes	2,290		2,390		2,453	
Other current assets	4,822		4,553		4,577	
Allowance for doubtful accounts.....	(507)		(525)		(529)	
Total current assets	87,797	65.0	87,183	64.9	80,030	62.4
Fixed Assets:						
Tangible Fixed Assets:						
Buildings and Structures	11,991		12,624		11,964	
Land	9,949		10,472		9,949	
Other	2,873		2,612		2,653	
Total Fixed Assets	24,815	18.4	25,709	19.1	24,568	19.1
Intangible Assets:						
Goodwill	1,324		1,222		964	
Software.....	872		1,030		875	
Consolidation Adjustments account .	3,476		4,042		3,759	
Other	362		375		367	
Total Intangible Assets	6,036	4.4	6,671	5.0	5,967	4.7
Investments and Other Assets:						
Investments in securities	8,763		5,675		9,871	
Deferred Tax Assets.....	2,572		2,815		2,460	
Other Assets	7,229		8,023		7,871	
Allowance for investment liability loss.....	(91)		--		(332)	
Allowance for doubtful receivables ...	(2,044)		(1,671)		(2,110)	
Total Investments and Other Assets	16,429	12.2	14,843	11.0	17,760	13.8
Total Fixed Assets	47,281	35.0	47,224	35.1	48,296	37.6
Total Assets	135,079	100.0	134,407	100.0	128,326	100.0

KOBAYASHI PHARMACEUTICAL CO., LTD.

	Millions of Yen					
	As of September 30,		As of March 31,			
	2004	%	2003	%	2004	
Liabilities						
Current Liabilities:						
Trade notes and accounts payable	45,943		45,756		41,277	
Short-term loans payable.....	3,885		7,619		4,512	
Accrued expenses	9,829		10,846		10,208	
Accrued income taxes	4,051		3,787		3,479	
Reserve for adjustment of returned goods.....	1,993		1,969		1,852	
Allowance for bonus payable	293		223		344	
Other current liabilities.....	2,524		2,412		2,621	
Total Current Liabilities.....	68,520	50.7	72,614	54.0	64,297	50.1
Fixed Liabilities						
Long term loans payable	924		780		905	
Provision for retirement benefits.....	6,343		6,364		6,320	
Provision for allowances for directors and corporate auditors....	1,204		1,097		1,157	
Other long-term liabilities.....	813		651		710	
Total Fixed Liabilities	9,285	6.9	8,893	6.6	9,093	7.1
Total Liabilities	77,806	57.6	81,507	60.6	73,391	57.2
Shareholders' Equity						
Minority Interests						
Minority interests	532	0.4	532	0.4	480	0.4
Shareholders' Equity						
Common stock.....	3,450	2.5	3,450	2.6	3,450	2.7
Capital surplus	4,183	3.1	4,183	3.1	4,183	3.2
Earned Surplus.....	50,514	37.4	44,863	33.4	48,185	37.5
Net unrealized holding gains on securities	1,618	1.2	1,146	0.9	1,640	1.3
Foreign currency translation adjustments	(697)	(0.5)	(498)	(0.4)	(688)	(0.5)
Cost of treasury stock.....	(2,329)	(1.7)	(777)	(0.6)	(2,317)	(1.8)
Total Shareholders' Equity.....	56,740	42.0	52,367	39.0	54,454	42.4
Total Liabilities, Minority Interest and Shareholders' Equity	135,079	100.0	134,407	100.0	128,326	100.0

KOBAYASHI PHARMACEUTICAL CO., LTD.

2.Consolidated Income Statement

	Millions of Yen					
	As of September 30,				As of March 31,	
	2004	%	2003	%	2004	%
Net Sales.....	109,907	100.0	108,386	100.0	211,670	100.0
Cost of sales.....	73,891	67.2	72,721	67.1	141,387	66.8
Gross profit.....	36,015	32.8	35,665	32.9	70,282	33.2
Selling, general, & administrative expenses	28,191	25.7	27,827	25.7	54,159	25.6
Operating Income	7,824	7.1	7,838	7.2	16,123	7.6
Other Income and Expenses						
Other Income:						
Interest received	37		43		81	
Dividends earned.....	23		19		33	
Loyalty received.....	167		156		381	
Investment income due to equity Method.....	140		141		280	
Loss on exchange (Loss from fluctuation of foreign exchange rate) ..	38		--		--	
Miscellaneous income	319		395		684	
 Other Income	726	0.6	757	0.7	1,461	0.7
Other Expenses:						
Interest expenses	46		37		72	
Sales discount	479		489		1,025	
Loss on disposal or write-offs of inventories	759		792		1,675	
Exchange loss expense.....	--		37		47	
Miscellaneous expenses	218		228		634	
 Other Expenses	1,504	1.3	1,584	1.4	3,456	1.6
Ordinary Income.....	7,046	6.4	7,011	6.5	14,127	6.7
Extraordinary Gain and Loss:						
Gains on sales of fixed assets.....	0		929		1,310	
Goodwill transfer benefit.....	735		709		714	
Other extraordinary gains.....	54		24		72	
 Extraordinary Gains	791	0.7	1,664	1.5	2,097	1.0
Losses on sales and disposal of fixed assets.....	26		905		1,993	
Loss on disposal or write-offs of inventories	532		228		521	
Loss on liquidation of affiliated companies	--		463		357	
Allowance for doubtful receivables transfer amount	--		604		974	
Allowance for investment loss liability transfer.....	91		--		332	
Other extraordinary losses	308		134		221	
 Extraordinary Losses	958	0.8	2,335	2.1	4,400	2.1

KOBAYASHI PHARMACEUTICAL CO., LTD.

	Millions of Yen					
	As of September 30,			As of March 31,		
	2004	%	2003	%	2004	%
Income Before Income Taxes	6,878	6.3	6,339	5.9	11,825	5.6
Corporate Income, Local and Business Taxes	3,320	3.0	3,875	3.6	5,993	2.8
Adjustments to Income Taxes	(226)	(0.2)	(876)	(0.8)	(778)	(0.3)
Minority Interest in Net Income of Consolidated Subsidiaries	52	0.1	(17)	(0.0)	(66)	0.1
Net Income	3,732	3.4	3,357	3.1	6,677	3.2

3. Consolidated Statements of Shareholders' Equity

	Millions of Yen		
	First Half ended September 30,		Year ended March 31,
	2004	2003	2004
Capital Surplus			
I. Beginning balance of capital surplus	4,183	4,183	4,183
II. Earnings from disposal of Treasury stock	0	--	--
III. Ending balance of capital surplus	4,183	4,183	4,183
Earned Surplus			
I. Beginning balance of capital surplus	48,185	42,141	42,141
II. Increase in earned surplus			
Net Income for the first half	3,732	3,357	6,677
III. Decrease in earned surplus	1,403	635	633
Cash dividends paid.....	874	593	591
Directors' bonuses	38	42	42
Decrease associated with change in scope of consolidation.....	490	--	--
IV. Ending balance of earned surplus	50,514	44,863	48,185

KOBAYASHI PHARMACEUTICAL CO., LTD.

4. Consolidated Statements of Cash Flows

	Millions of Yen		
	First Half ended March 31,		Year ended March 31, 2004
	2004	2003	
I. Cash flows from operating activities:			
Income before income taxes and minority interests.....	6,878	6,339	11,825
Depreciation.....	1,271	1,295	2,662
Amortization of consolidation adjustment account.....	282	404	687
Provision for allowance of doubtful accounts.....	(91)	687	1,159
Accrued severance indemnities, net.....	23	(14)	(59)
Interest and dividend income.....	(60)	(63)	(115)
Interest expenses.....	46	37	72
Equity in earnings of affiliates.....	(140)	(41)	(280)
Losses on disposal of inventory evaluation.....	1,291	1,021	2,197
Loss on liquidation of affiliated companies	—	463	357
Gain on sale of goodwill.....	(735)	(709)	(714)
Gain on sale of fixed assets.....	0	(929)	--
Loss on sales or disposal of property, plant and equipment.....	26	905	2,458
Provision for investment losses.....	91	—	332
Increase (decrease) in trade notes and accounts receivable.....	(6,838)	(8,807)	(3,254)
Increase (decrease) in inventories.....	(3,045)	(2,357)	(2,355)
Increase (decrease) in trade notes and accounts payable.....	4,506	4,648	54
Others.....	98	332	(1,721)
Sub Total	3,603	3,209	13,307
Interest and dividends received.....	60	63	118
Interest paid.....	(46)	(40)	(77)
Income taxes paid.....	(2,818)	(3,952)	(6,377)
Net cash provided by operating activities	798	(718)	6,971
II. Cash flows from investing activities:			
Purchases of property, plant and equipment	(947)	(495)	(1,288)
Proceeds from sales of property, plant and equipment.....	0	1,500	2,391
Payments for purchases of intangible assets.....	(681)	(97)	(574)
Increase in investments in securities.....	(60)	(525)	(3,542)
Increase in short term loans receivable.....	(147)	240	274
Proceeds from sale of goodwill.....	735	709	714
Others.....	(563)	(131)	(333)
Net cash used in investing activities	(1,664)	1,201	(2,358)

KOBAYASHI PHARMACEUTICAL CO., LTD.

	Millions of Yen		
	First Half ended March 31,		Year ended March 31, 2004
	2004	2003	
III. Cash flows from financing activities:			
Increase (decrease) in short-term loans, net	392	1,840	(145)
Proceeds from long-term debt	—	—	212
Repayment of long-term debt	(1,096)	(1,288)	(2,508)
Increase (decrease) treasury stock.....	(11)	—	(1,539)
Dividends paid.....	(874)	(593)	(591)
Others	—	(0)	(2)
Net cash used in financing activities.....	(1,590)	(41)	(4,574)
IV Effect of exchange rate changes on cash and cash equivalents.....			
	15	(6)	(127)
V Net increase in cash and cash equivalents			
	(2,440)	434	(88)
VI Cash and cash equivalents at beginning of period			
	17,663	17,752	17,752
VII Beginning of period adjustment associated with change in scope of consolidation.....			
	164	—	--
VIII. Cash and cash equivalents at end of period	15,386	18,187	17,663

KOBAYASHI PHARMACEUTICAL CO., LTD.

VI. Notes to Consolidated Financial Statements

(Related to consolidated balance sheet)

End of current consolidated first half accounting period (As of September 30, 2004)	End of previous consolidated first half accounting period (As of September 30, 2003)	Previous Financial year (As of March 31, 2004)
1 Accumulated depreciation of property, plant and equipment amounts to 18,501 million yen.	1Accumulated depreciation of property, plant and equipment amounts to 18,286 million yen.	1Accumulated depreciation of property, plant and equipment amounts to 17,887 million yen
2	2 Contingent liabilities for guarantees of bank loans The Company has provided a guarantee for a loan from a financial institution to a company that is not a consolidated subsidiary. Shanghai Kobayashi Daily Chemicals Co., Ltd. 26 million yen Total 26 million yen	2 Contingent liabilities for guarantees of bank loans The Company has provided a guarantee for a loan from a financial institution to a company that is not a consolidated subsidiary. Shanghai Kobayashi Daily Chemicals Co., Ltd. 184 million yen Total 184 million yen
3 The following assets have been provided as security	3 The following assets have been provided as security	3 The following assets have been provided as security
Bill receivable 164 million yen		Bill receivable 109 million yen
Buildings & structures 1,110 million yen	Buildings & structures 1,174 million yen	Buildings & structures 1,141 million yen
Land 2,122 million yen	Land 2,122 million yen	Land 2,122 Million yen
Investment securities 110 million yen	Investment securities 91 million yen	Investment securities 98 million yen
Total 3,508 million yen	Total 3,388 million yen	Total 3,472 million yen
(Liabilities corresponding to the above)	(Liabilities corresponding to the above)	(Liabilities corresponding to the above)
Trade notes and accounts payable 7,864 million yen	Trade notes and accounts payable 7,269 million yen	Trade notes and accounts payable 7,071 Million yen
Short-term loans 200 million yen	Short-term loans 150 million yen	Short-term loans 350 million yen
Long-term loans 35 million yen	Long-term loans 42 million yen	Long-term loans 39 Million yen
Total 8,100 million yen	Total 7,461 million yen	Total 7,460 million yen

KOBAYASHI PHARMACEUTICAL CO., LTD.

(Related to consolidated statement of Income)

Consolidated first half accounting period (April 1, 2004 to September 30, 2004)	Consolidated first half accounting period (April 1, 2003 to September 30, 2003)	Previous financial year (April 1 2003 to March 31, 2004)
1 The major components of selling, general & administrative expenses were as follows. Freight & storage 4,027 million yen Advertising 6,086 million yen Salaries & bonuses 5,826 million yen Allowance for retirement 386 million yen	1 The major components of selling, general & administrative expenses were as follows. Freight & storage 4,023 million yen Advertising 5,681 million yen Salaries & bonuses 5,908 million yen Allowance for retirement 404 million yen	1 The major components of selling, general & administrative expenses were as follows. Freight & storage 7,741 million yen Advertising 10,820 million yen Salaries & bonuses 11,474 million yen Allowance for retirement 752 million yen
2 Within extraordinary gains, gains on the sale of fixed assets comprise the following. Other 0 million yen <hr/> Total 0 million yen	2 Within extraordinary gains, gains on the sale of fixed assets comprise the following. Land 919 million yen Other 10 million yen <hr/> Total 929 million yen	2 Within extraordinary gains, gains on the sale of fixed assets comprise the following. Land 1,299 million yen Other 10 million yen <hr/> Total 1,310 million yen
3 Within extraordinary losses, losses on the disposal of fixed assets comprise the following. Buildings & structures 15 million yen Machinery & equipment 2 million yen Tools and fixtures 7 million yen Other 1 million yen <hr/> Total 26 million yen	3 Within extraordinary losses, losses on the disposal of fixed assets comprise the following. Buildings & structures 33 million yen Machinery & equipment 20 million yen Land 826 million yen Other 24 million yen <hr/> Total 905 million yen	3 Within extraordinary losses, losses on the disposal of fixed assets comprise the following. Buildings & structures 355 million yen Machinery & equipment 99 million yen Land 1,011 million yen Other 527 million yen <hr/> Total 1,993 million yen

(Related to semiannually consolidated cash flow statement)

Consolidated first half accounting period (April 1, 2004 to September 30, 2004)	Consolidated first half accounting period (April 1, 2003 to September 30, 2003)	Previous financial year (April 1 2003 to March 31, 2004)
1 A reconciliation of cash and time deposits in the consolidated interim balance sheets to the balance of cash and cash equivalents in the statements of cash flows at the end of the first half is as follows: (As of September 30, 2004) Cash & time deposits 15,386 million yen Time deposits with original maturity of more than 3 months —million yen Cash & cash equivalents 15,386 million yen	1 A reconciliation of cash and time deposits in the consolidated interim balance sheets to the balance of cash and cash equivalents in the statements of cash flows at the end of the first half is as follows: (As of September 30, 2003) Cash & time deposits 18,197 million yen Time deposits with original maturity of more than 3 months (10) million yen Cash & cash equivalents 18,187 million yen	1 A reconciliation of cash and time deposits in the consolidated interim balance sheets to the balance of cash and cash equivalents in the statements of cash flows at the end of the first half is as follows: (As of March 31, 2004) Cash & time deposits 17,663 million yen Time deposits with original maturity of more than 3 months —million yen Cash & cash equivalents 17,663 million yen

KOBAYASHI PHARMACEUTICAL CO., LTD.

VII. Segment Information

1. Segment Information by Business Category

Current Consolidated First Half (April 1, 2004 – September 30, 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	32,701	67,383	7,932	1,890	109,907	--	109,907
II. Inter-group sales and transfers	11,132	--	--	4,276	15,408	(15,408)	--
Total net sales	43,833	67,383	7,932	6,166	125,316	(15,408)	109,907
III. Operating expense	36,789	67,062	7,681	6,071	117,604	(15,604)	102,083
IV. Operating income (loss)	7,043	321	251	95	7,711	112	7,824
Previous Consolidated First Half (April 1, 2003 – September 30, 2003)							
	Consumer Products Operation	Wholesale Operation	Medical Operation	Other Operations	Total	Eliminations	Consolidated
1. Sales and operating income							
I. Sales to third parties	32,386	66,168	8,111	1,719	108,386	--	108,386
II. Inter-group sales and transfers	10,724	--	--	4,486	15,211	(15,211)	--
Total net sales	43,111	66,168	8,111	6,206	123,598	(15,211)	108,386
III. Operating expense	36,140	65,988	7,667	6,023	115,820	(15,271)	100,548
IV. Operating income (loss)	6,971	179	444	184	7,777	60	7,838
Previous Consolidated Fiscal Year (April 1, 2003 – March 31, 2004)							
	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 (loss)	14,631	534	644	153	15,963	159	16,123

KOBAYASHI PHARMACEUTICAL CO., LTD.

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

2. Segment Information by Area

Because the amount of domestic sales is 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.