

KOBAYASHI

PHARMACEUTICAL CO., LTD.

Summary Consolidated Financial Results for the First Quarter ended June 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. (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

I. Items Relating to the Preparation of the Summary First Quarter Business Performance

Basis of preparation for quarterly consolidated financial statements:	Basis of preparation for semi-annual consolidated financial statements.
Differences in the accounting method from the previous fiscal year:	Yes
The value of inventory for the first quarter is not based on physical inventory, but rather calculated in accordance with book inventory, using physical inventory value relating to the end of the previous consolidated fiscal year.	
Changes in the scope of consolidated and equity method:	Yes
Number of consolidated subsidiaries: (Newly consolidated)	2
(Excluded)	0
Number of companies for which equity method accounting has been adopted:	
(Newly included)	0
(Excluded)	0
Audit involvement:	No

II. Consolidated Financial Results (April 1, 2004 – June 30, 2004)

(1) Consolidated Operating Results

	Millions of Yen - Except Per Share Data and Percents			
	First Quarter ended June 30, 2004		Year ended March 31,	
	2004	%	2003	2004
Operating Revenues.....	53,470	1.1	52,880	211,670
Operating Income	2,870	(17.0)	3,459	16,123
Ordinary Income	2,488	(17.0)	3,032	14,127
Net Income	1,680	(2.7)	1,727	6,677
Net Income per Share (yen)	39.45		61.37	157.25
Net Income per Share, diluted (yen).....	-		-	-

- Notes: 1) Percentages for operating revenues, operating income, ordinary income and net income represent changes compared with the previous period.
 2) A stock split awarding 1.5 shares per original share was effected on November 20, 2003.
 3) Net income per share of 40.91 yen as of the end of the fiscal year ended March 2004 is calculated as the stock split were performed at the beginning of the period.

Consolidated Business Results

In the first quarter of fiscal 2005, although the Japanese economy continued to recover gradually on the back of an improvement in corporate earnings and increased private-sector capital investment, the future outlook remained unpredictable as the rally in consumer spending came to a halt.

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.

As a result, net sales amounted to 53,470 million yen, an increase of 1.1% from the previous fiscal year, operating income was 2,870 million yen, a decrease of 17.0% from the previous year. Ordinary income was 2,488 million yen, a decrease of 17.9% from the previous year, and net income for the quarter was 1,680 million yen, a decrease of 2.7% from the previous year.

Summary of Performance by Business Segment

Consumer Products Operation

Kobayashi Pharmaceutical Group launched seven new products (excluding nutritional supplement food products), and they contributed to sales growth. Oral hygiene products and nutritional supplement food products continued to perform well, but sanitary products, which suffered from fiercer competition, and pharmaceuticals, which were adversely affected by a delay in the launch of summer products, receded slightly.

As a result, sales of the Consumer Product Operation declined 308 million yen, or 1.5%, from the previous year to 20,618 million yen.

Regarding profits, as we carried out aggressive advertising investment centered on new products for this spring, operating income decreased 394 million yen, or 12.8%, from the previous year to 2,680 million yen. However, Shanghai Kobayashi Daily Chemicals Co., Ltd. and Kobayashi Pharmaceutical (Hong Kong) Co., Ltd. were newly included in the scope of consolidation from the term under review.

Wholesale Operation

Owing to a slump in sales caused by the display of the total amount of consumption tax at drug stores, the group's major customer, and inventory reduction measures, the operating environment made it difficult to increase sales, but the posting of sales at non-consolidated companies made a positive contribution, leading sales to increase in the first quarter to 876 million yen, or 2.7% over the previous year, to 33,496 million yen.

On the profit front, the group strove to cut costs by purchasing products on a lump-sum basis from manufacturers that have made use of economies of scale and by reducing selling, general and administrative expenses. However, operating income in the first quarter declined 13 million yen from the previous year to 34 million yen.

Medical Devices Operation

As Kobayashi Pharmaceutical Group focused its efforts on the orthopedics-related sector in Japan and held on to customers overseas by purchasing customer lists, sales of the Medical Devices Operation showed a favorable performance. However, owing to the impact of a drop in the value of the sales of US subsidiaries caused by the stronger yen, sales fell 88 million yen, or 2.7%, compared with the previous year to 33,496 million yen.

In terms of profits, as the group made investments such as an increase in personnel and the allocation of sales promotion expenses stemming from the introduction of new products, operating income declined 94 million yen, or 66.1%, compared to the previous year to 94 million yen.

(2) Consolidated Financial Position

	Millions of Yen - Except Per Share Data and Ratios		
	As of June 30,		As of March 31,
	2004	2003	2004
Total Assets	132,193	127,741	128,326
Shareholders' Equity	54,950	50,506	54,454
Shareholders' Equity Ratio	41.6%	39.6%	42.4%
Shareholders' Equity per Share (Yen)	1,319.26	1,794.03	1,307.16

Notes: 1) A stock split awarding 1.5 shares per original share was effected on November 20, 2003.

2) Shareholders' equity per share for the first quarter of the fiscal year ended March 31, 2004, was 1,196.02 yen, when calculated on the assumption that the stock split had been performed at the start of the previous fiscal year.

(3) Consolidated Cash Flows

	Millions of Yen		
	As of June 30,		As of March 31,
	2004	2003	2004
Cash Flows from Operating Activities	(82)	488	6,971
Cash Flows from Investing Activities	(340)	236	(2,358)
Cash Flows from Financing Activities	(1,523)	(2,594)	(4,574)
Cash and Cash Equivalents, End of Year	14,540	15,882	17,663

Changes in Financial Position

Kobayashi Pharmaceutical Group's financial position in the first quarter of fiscal 2004 was as follows. Compared with the end of the previous fiscal year, total assets on a consolidated basis increased 3,866 million yen, but as shareholders' equity rose only 495 million yen, the shareholders' equity ratio dropped 0.8 points.

The major changes during the quarter were the fact that, in the case of current assets, cash and cash equivalents decreased 3,122 million yen while trade notes and accounts receivable increased 5,426 million yen. In the case of intangible fixed assets, goodwill rose 427 million yen due to the acquisition of customer lists by the Shield Healthcare subsidiaries in the US. In the case of current liabilities, trade notes and accounts payable increased 5,499 million yen.

Cash flows from operating activities

Net cash provided by operating activities totaled 82 million yen. This was mainly attributable to the fact that net profit before taxes in the first quarter was 3,171 million yen while income taxes paid were 2,735 million yen.

Cash flows from investing activities

Net cash used in investing operations totaled 340 million yen. This is mainly due to the fact that proceeds from sale of goodwill amounted to 735 million yen while purchases of property, plant & equipment amounted to 469 million yen and US subsidiaries purchased customer lists.

Cash flows from financing activities

Net cash used in financing operations totaled 1,523 million yen. This was mainly attributable to 1,073 million yen in repayment of long-term debt and 874 million yen in dividends paid.

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

Consolidated	Millions of Yen	
	Full Year	Interim
Net Sales	218,000	111,000
Ordinary Income	14,500	7,100
Net Income	7,400	4,000
Net Income per Share (yen)	174.36	--

In the first quarter of fiscal 2005, results fell slightly short of our initial targets, but they were roughly in line with our projections. Therefore, we have not revised the interim or full-year earnings projections that we announced on May 24, 2004.

*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.

IV. Consolidated Financial Statements (April 1, 2004 – June 30, 2004)

1. Consolidated Balance Sheets

	Millions of Yen					
	As of June 30,				As of March 31,	
	2004	%	2003	%	2004	
Assets						
Current assets:						
Cash and time deposits	14,540		15,882		17,663	
Trade notes and accounts receivable	47,198		44,125		41,771	
Inventories	15,851		15,018		14,093	
Deferred income taxes	2,208		2,052		2,453	
Other current assets	4,474		3,619		4,577	
Allowance for doubtful accounts	(518)		(438)		(529)	
Total current assets	83,755	63.4	80,260	62.8	80,030	62.4
Fixed Assets:						
Tangible Fixed Assets:						
Buildings and Structures	12,185		12,928		11,964	
Land	9,949		10,883		9,949	
Other	2,674		2,603		2,653	
Total Fixed Assets	24,809	18.8	26,415	20.7	24,568	19.1
Intangible Assets:						
Goodwill	1,392		1,312		964	
Software	874		1,081		875	
Consolidation Adjustments account	3,618		4,499		3,759	
Other	364		379		367	
Total Intangible Assets	6,249	4.7	7,272	5.7	5,967	4.7
Investments and Other Assets:						
Investments in securities	10,149		5,319		9,871	
Deferred Tax Assets	2,367		2,812		2,460	
Other Assets	6,961		6,660		7,871	
Allowance for investment liability loss	--		--		(332)	
Allowance for doubtful receivables	(2,099)		(1,000)		(2,110)	
Total Investments and Other Assets	17,379	13.1	13,792	10.8	17,760	13.8
Total Fixed Assets	48,437	36.6	47,480	37.2	48,296	37.6
Total Assets	132,193	100.0	127,741	100.0	128,326	100.0

	Millions of Yen					
	As of June 30,			As of March 31,		
	2004	%	2003	%	2004	
Liabilities						
Current Liabilities:						
Trade notes and accounts payable	46,776		45,217		41,277	
Short-term loans payable.....	3,986		5,046		4,512	
Accrued expenses	9,929		10,059		10,208	
Accrued income taxes	2,145		2,553		3,479	
Allowance for bonus payable	2,858		2,757		1,852	
Reserve for unsold goods	205		182		344	
Other current liabilities.....	1,802		2,034		2,621	
Total Current Liabilities.....	67,705	51.2	67,851	53.1	64,297	50.1
Fixed Liabilities						
Long term loans payable	881		795		905	
Provision for retirement benefits.....	6,321		6,325		6,320	
Provision for allowances for directors and corporate auditors....	1,098		1,071		1,157	
Other long-term liabilities.....	752		630		710	
Total Fixed Liabilities	9,053	6.8	8,822	6.9	9,093	7.1
Total Liabilities	76,759	58.0	76,674	60.0	73,391	57.2
Shareholders' Equity						
Minority Interests						
Minority interests	483	0.4	560	0.4	480	0.4
Shareholders' Equity						
Common stock.....	3,450	2.6	3,450	2.7	3,450	2.7
Capital surplus.....	4,183	3.2	4,183	3.3	4,183	3.2
Earned Surplus.....	48,598	36.8	43,239	33.8	48,185	37.5
Net unrealized holding gains on securities	1,790	1.4	979	0.8	1,640	1.3
Foreign currency translation adjustments	(745)	(0.6)	(569)	(0.4)	(688)	(0.5)
Cost of treasury stock.....	(2,326)	(1.8)	(777)	(0.6)	(2,317)	(1.8)
Total Shareholders' Equity.....	54,950	41.6	50,506	39.6	54,454	42.4
Total Liabilities, Minority Interest and Shareholders' Equity.....	132,193	100.0	127,741	100.0	128,326	100.0

2. Consolidated Income Statement

	Millions of Yen					
	As of June 30,			As of March 31,		
	2004	%	2003	%	2004	%
Net Sales	53,470	100.0	52,880	100.0	211,670	100.0
Cost of sales.....	36,363	68.0	35,648	67.4	141,387	66.8
Gross profit.....	17,107	32.0	17,232	32.6	70,282	33.2
Selling, general, & administrative expenses.....	14,236	26.6	13,772	26.1	54,159	25.6
Operating Income	2,870	5.4	3,459	6.5	16,123	7.6
Other Income and Expenses						
Other Income:						
Interest received.....	16		20		81	
Dividends earned.....	20		12		33	
Investment income due to equity Method.....	54		15		280	
Loss on exchange (Loss from fluctuation of foreign exchange rate) ..	19		--		--	
Miscellaneous income.....	222		218		1,066	
Other Income	332	0.6	267	0.5	1,461	0.7
Other Expenses:						
Interest expenses.....	17		18		72	
Sales discount.....	227		230		1,025	
Inventory appraisal loss.....	370		354		1,675	
Exchange loss expense.....	--		1		47	
Miscellaneous expenses.....	99		89		634	
Other Expenses	714	1.3	694	1.3	3,456	1.6
Ordinary Income	2,488	4.7	3,032	5.7	14,127	6.7
Extraordinary Gain and Loss:						
Goodwill transfer benefit.....	735		714		714	
Gains on sales of fixed assets.....	--		110		1,310	
Other extraordinary gains.....	3		24		72	
Extraordinary Gains	739	1.3	850	1.6	2,097	1.0
Losses on sales and disposal of fixed assets.....	5		15		1,993	
Gain on sale of fixed assets.....	--		352		--	
Losses on evaluation of wholesale trade.....	40		136		521	
Allowance for doubtful receivables transfer amount.....	--		--		974	
Allowance for investment loss liability transfer.....	--		--		332	
Affiliate restructuring expenses.....	--		--		357	
Other extraordinary losses.....	10		66		221	
Extraordinary Losses	56	0.1	570	1.0	4,400	2.1
Income Before Income Taxes in the First Quarter of FY 2004	3,171	5.9	3,312	6.3	11,825	5.6

Corporate Income, Local and Business Taxes.....	1,399	2.6	1,989	3.8	5,993	2.8
Adjustments to Income Taxes.....	88	0.2	(415)	(0.8)	(778)	(0.4)
Minority Interest in Net Income of Consolidated Subsidiaries.....	3	0.0	10	0.0	(66)	0.0
Net Income in the First Quarter of FY 2004	1,680	3.1	1,727	3.3	6,677	3.2

3. Consolidated Statements of Shareholders' Equity

	Millions of Yen		
	First Quarter ended June 30,		Year ended March 31,
	2004	2003	2004
Capital Surplus			
I. Beginning balance of capital surplus	4,183	4,183	4,183
II. 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 quarter	1,680	1,727	6,677
III. Decrease in earned surplus	1,268	629	633
Cash dividends paid.....	874	591	591
Directors' bonuses	38	38	42
Decrease associated with change in scope of consolidation.....	355	--	--
IV. Ending balance of earned surplus	48,598	43,239	48,185

4. Consolidated Statements of Cash Flows

	Millions of Yen		
	First Quarter ended March 31,		Year ended March 31,
	2004	2003	2004
I. Cash flows from operating activities:			
Income before income taxes and minority interests.....	3,171	3,312	11,825
Loss on disposal or write off of obsolete inventories.....	618	631	2,662
Losses on depreciation of consolidated adjustment.....	141	171	687
Provision for allowance of doubtful accounts.....	(19)	(71)	1,159
Accrued severance indemnities, net.....	1	(63)	(59)
Interest and dividend income.....	(36)	(32)	(115)
Interest expenses.....	17	18	72
Equity in earnings of affiliates.....	(54)	(15)	(280)
Losses on disposal of inventory evaluation.....	410	490	2,197
Gain on sale of goodwill.....	(735)	(714)	(714)
Loss on sales or disposal of property, plant and equipment.....	5	367	2,458
Increase (decrease) in trade notes and accounts receivable.....	(5,253)	(4,459)	(3,254)
Increase (decrease) in inventories.....	(2,099)	(1,523)	(2,355)
Increase (decrease) in trade notes and accounts payable.....	5,094	4,087	54
Others.....	1,371	1,579	(1,031)
Sub Total.....	2,632	3,777	13,307
Interest and dividends received.....	36	32	118
Interest paid.....	(17)	(22)	(77)
Income taxes paid.....	(2,735)	(3,299)	(6,377)
Net cash provided by operating activities	(82)	488	6,971
II. Cash flows from investing activities:			
Increase (decrease) in time deposits	--	--	10
Purchases of property, plant and equipment	(469)	(144)	(1,288)
Proceeds from sales of property, plant and equipment.....	--	110	2,391
Loss resulting from disposal of fixed assets	--	(367)	--
Payments for purchases of intangible assets.....	(601)	(40)	(574)
Increase in investments in securities.....	(35)	--	(3,542)
Purchase of investments in securities.....	(48)	(456)	(725)
Proceeds from sale of securities.....	23	--	493
Increase in short term loans receivable.....	(75)	742	274
Purchase of securities of subsidiaries.....	(2)	--	(25)
Proceeds from long-term receivables.....	4	--	25
Proceeds from sale of goodwill.....	735	714	714
Others.....	127	(321)	(112)
Net cash used in investing activities.....	(340)	236	(2,358)

III. Cash flows from financing activities:			
Increase (decrease) in short-term loans, net	432	(744)	(145)
Proceeds from long-term debt	--	--	212
Repayment of long-term debt	(1,073)	(1,258)	(2,508)
Increase (decrease) treasury stock	(9)	--	(1,539)
Dividends paid.....	(879)	(591)	(591)
Others	0	--	(2)
Net cash used in financing activities	(1,523)	(2,594)	(4,574)
IV Effect of exchange rate changes on cash and cash equivalents	21	0	(127)
V. Net increase in cash and cash equivalents	(1,925)	(1,869)	(88)
VI. Cash and cash equivalents at beginning of year	17,663	17,752	17,752
VII. Beginning of period adjustment associated with change in scope of consolidation	(1,196)	--	--
VIII. Cash and cash equivalents at end of year	14,540	15,882	17,663

V. Segment Information

1. Segment Information by Business Category

Current Consolidated First Quarter (April 1, 2004 – June 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	15,228	33,496	3,804	940	53,470	--	53,470
II. Inter-group sales and transfers	5,389	--	--	2,142	7,532	(7,532)	--
Total net sales	20,618	33,496	3,804	3,083	61,002	(7,532)	53,470
III. Operating expense	17,938	33,531	3,709	2,995	58,174	(7,574)	50,599
IV. Operating income (loss)	2,680	(34)	94	88	2,827	42	2,870

Previous Consolidated First Quarter (April 1, 2003 – June 30, 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	15,534	32,620	3,893	832	52,880	--	52,880
II. Inter-group sales and transfers	5,392	--	--	2,231	7,623	(7,623)	--
Total net sales	20,926	32,620	3,893	3,063	60,503	(7,623)	52,880
III. Operating expense	17,851	32,640	3,615	2,939	57,047	(7,626)	49,420
IV. Operating income (loss)	3,074	(20)	277	124	3,456	3	3,459

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 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.

VI. Important Items Forming the Basis for Preparation of Quarterly Consolidated Financial Statements

1. Principles of consolidation

1. Number of consolidated subsidiaries 20 companies

Names of major consolidated subsidiaries

Kobayashi Co., Ltd., Kobayashi Pharmaceutical of Toyama Co., Ltd., Kobayashi Pharmaceutical of Sendai Co., Ltd., Kobayashi Pharmaceutical of Ehime Co., Ltd., Kobayashi Plax Co., Ltd., Aoitari Physical Distribution, Suehiro Industrial, Archer Corporation, SP-Planning, Kiribai Chemical Co., Ltd., Kensyou Co., Ltd., Shield California Healthcare Centers, Inc., Shield Denver Healthcare Centers, Inc., Mail Order Medical Supplies Inc., Bluebird Development LLC., Kobayashi Healthcare, Inc., Kobayashi Healthcare Europe, Ltd., Kobayashi Pharmaceuticals of America Incorporated, Shanghai Kobayashi Daily Chemicals Co., Ltd.(China), and Kobayashi Pharmaceutical (Hong Kong) Co., Ltd.

2. Names of major non-consolidated subsidiaries

Kobayashi Sales Promotion Co., Ltd., Kobayashi Pharmaceutical Life Service Co., Ltd., Uomasa Co., Ltd., PT Kobayashi Eglin, Kics Co., Ltd., K.M.S, Sokai Drug Ltd., and Cancer Immunity Information Laboratory

Reason for exclusion from scope of consolidation

All of the eight non-consolidated subsidiaries are small companies, and their combined total assets, sales, net profit (amount corresponding to equity holding) and retained earnings (amount corresponding to equity holding) all have no important impact on consolidated financial statements.

2. Application of equity method

1. Number of companies accounted for by equity method 2 companies

Names of major companies

Kobayashi Medicon Ltd., and Kobayashi Combe Ltd.,

2. Names of non-consolidated subsidiaries and major affiliated companies not accounted for by the equity method

PT Kobayashi Eglin, Kics Co., Ltd., The Fan Ltd., and Sokai Drug Ltd.

3. Reason why the equity method is not applied

Companies not accounted for by the equity method have been excluded from the application of the equity method because they have minimal impact on consolidated net earnings and consolidated retained earnings, and have little importance in terms of overall group earnings.

4. Among the companies accounted for by the equity method, when the first-quarter account settlement date differs from the consolidated first-quarter account settlement date, first-quarter financial statements relating to each company's first-quarter accounting period were used.

3. Fiscal years of consolidated subsidiaries

Consolidated subsidiaries, such as Shield California Healthcare Centers, Inc., Shield Dember Healthcare Center, Inc., Mail Order Medical Supplies Inc., Bluebird Development LLC, Kobayashi Healthcare Inc., Kobayashi Healthcare Europe, Ltd., Kobayashi Pharmaceuticals of America Inc., Shanghai Kobayashi Daily Chemicals Co., Ltd.(China), and Kobayashi Pharmaceutical (Hong Kong) Co., Ltd. have a first-quarter account settlement date of March 31. When preparing first-quarter consolidated financial statements, first-quarter financial statement as of that date were used, and in the case of important transactions that occurred between that date and the first-quarter consolidated account settlement date, necessary adjustments were made on a consolidated basis.

In addition, as the account settlement date of the consolidated subsidiary Kiribai Chemical Co., Ltd. is September 30, we used first-quarter financial statements based on a provisional settlement of accounts that was conducted as of the first-quarter consolidated account settlement date.

4. Accounting standards

(1) Valuation criteria and valuation methods for major assets

1. Inventories

- a) Commodities and raw materials ... Stated principally at cost determined by the moving average method
- b) Finished goods, work in process and supplies ... Principally stated at cost determined by the total average method

2. Marketable securities

Other marketable securities

With fair market value ... Market value method based on quoted market price on first-quarter consolidated account settlement date

(Unrealized holding gain or loss is directly charged or credited to shareholders' equity and cost of securities sold is principally computed by the moving average method.)

Without fair market value ... Principally stated at cost determined by the total cost method

(2) Methods of depreciation for major depreciable assets

1. Property, plant and equipment

The Company and its domestic consolidated subsidiaries compute depreciation by the declining balance method. Overseas consolidated subsidiaries use the straight-line method. However, the Company and some domestic consolidated subsidiaries apply the straight-line method to buildings acquired after March 31, 1998 (excluding equipment belonging to buildings).

2. Investments and other assets

Depreciation is computed by the straight-line method.

However, in the case of software used by the Company itself, the straight-line method based on the period of possible use within the Company (5 years) is adopted.

(3) Criteria for appropriation of important reserves

1. Allowance for doubtful accounts

The Company and its domestic consolidated subsidiaries provide for doubtful accounts principally at an amount computed based on the historical bad debt ratio. In addition, an estimate of uncollectible amounts from certain specific doubtful receivables is provided.

Overseas consolidated subsidiaries post an estimate of uncollectible amounts in accordance with the actual state of loans.

2. Allowance for bonuses

The Company and its domestic consolidated subsidiaries post an estimated allowance to provide for the payment of bonuses to employees.

3. Reserve for sales returns

The Company and three domestic consolidated subsidiaries post an estimated amount of sales return losses to provide for sales return losses.

4. Reserve for retirement allowances

To provide for employees' accrued retirement benefits, the Company and two of its domestic consolidated subsidiaries charged to income the amount recognized as having been incurred at the end of the first-quarter consolidated accounting period based on the projected amounts of the liability for accrued retirement benefit liabilities and pension assets at the end of the consolidated accounting fiscal year. Other domestic consolidated subsidiaries posted 100% of the payment amount required at term-end. In addition, some overseas consolidated subsidiaries have adopted defined contribution pension plans. Actuarial differences are amortized on a straight-line basis over a period which falls within the average estimated remaining years of service (ten years) of the participants commencing the year following.

5. Provision for directors' retirement allowances

To provide for the provision of retirement allowances for directors, the Company and one domestic consolidated subsidiary posted a payment amount required at the end of the consolidated first-quarter term based on internal regulations.

(4) Method of accounting for major lease transactions

Finance leases, except for those which transfer the legal title of the underlying property from the lessor to the lessee at the end of the lease term, are accounted for as operating leases.

(5) Derivatives and hedging activities

1. Hedge accounting methods

The Company uses deferral hedge accounting. In the case of forward foreign exchange contracts, if conditions for appropriation are fulfilled, appropriation treatment is adopted, and in the case of interest-rate swaps, if special accounting treatment conditions are met, special accounting treatment is adopted.

2. Hedging measures and hedged items

Hedging instruments

Forward foreign exchange contracts, interest-rate swaps

Hedged items

Foreign currency-denominated liabilities and foreign currency-denominated options, loans

3. Hedging policy

In the case of foreign currency option contracts, the Company's policy is to hedge the foreign exchange fluctuation risk by attaching forward foreign exchange agreements.

In the case of interest-rate swaps, the Company's policy is to hedge within the range of the applicable liability in order to reduce the interest rate risk.

4. Method of evaluating effectiveness of hedging

In the case of currency-related transactions, the Company evaluates the effectiveness of hedging by comparing the accumulated gain or loss on each hedging instrument and on the related hedged item from the commencement of the hedge.

The Company does not evaluate the effectiveness of hedging interest-rate swaps.

(6) Other important items forming the basis for preparation of consolidated financial statements

Method of accounting for consumption tax, etc: The Company adopts the tax exclusion method.

5 . Amortization of consolidation adjustment accounts

The consolidation adjustment accounts are amortized over ten years in the case of Kiribai Chemical Co., Ltd. and over five years in other cases by the straight-line method.

6 . Scope of funds in consolidated cash flow statements

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits available for withdrawal on demand and highly liquid, short-term investments with a maturity of three months or less that can be readily converted into cash and which represent a minor risk of fluctuations in value.

VII. Notes to Consolidated Financial Statements

(Related to quarterly consolidated balance sheet)

End of current consolidated first quarter accounting period (As of June 30, 2004)	End of previous consolidated first quarter accounting period (As of June 30, 2003)	Previous Financial year (As of March 31, 2004)																												
<p>1 Accumulated depreciation of property, plant and equipment amounts to 18,195 million yen.</p> <p>2 The main assets and liabilities relating to non-consolidated subsidiaries and affiliated companies are as follows.</p> <p>Investments and other assets</p> <table> <tr> <td>Investment securities (Shares)</td> <td>2,330 million yen</td> </tr> <tr> <td>Other (Equity)</td> <td>3 million yen</td> </tr> </table> <p>3 _____</p>	Investment securities (Shares)	2,330 million yen	Other (Equity)	3 million yen	<p>1 Accumulated depreciation of property, plant and equipment amounts to 18,337 million yen.</p> <p>2 The main assets and liabilities relating to non-consolidated subsidiaries and affiliated companies are as follows.</p> <p>Investments and other assets</p> <table> <tr> <td>Investment securities (Shares)</td> <td>2,112 million yen</td> </tr> <tr> <td>Other (Equity)</td> <td>1,010 million yen</td> </tr> </table> <p>3 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.</p> <table> <tr> <td>Shanghai Kobayashi Daily Chemicals Co., Ltd.</td> <td>29 million yen</td> </tr> <tr> <td>Total</td> <td>29 million yen</td> </tr> </table>	Investment securities (Shares)	2,112 million yen	Other (Equity)	1,010 million yen	Shanghai Kobayashi Daily Chemicals Co., Ltd.	29 million yen	Total	29 million yen	<p>1 Accumulated depreciation of property, plant and equipment amounts to 17,887 million yen</p> <p>2 The main assets and liabilities relating to non-consolidated subsidiaries and affiliated companies are as follows.</p> <p>Investments and other assets</p> <table> <tr> <td>Investment securities (Shares)</td> <td>2,309 million yen</td> </tr> <tr> <td>Other (Equity)</td> <td>1,008 million yen</td> </tr> </table> <p>3 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.</p> <table> <tr> <td>Shanghai Kobayashi Daily Chemicals Co., Ltd.</td> <td>184 million yen</td> </tr> <tr> <td>Total</td> <td>184 million yen</td> </tr> </table>	Investment securities (Shares)	2,309 million yen	Other (Equity)	1,008 million yen	Shanghai Kobayashi Daily Chemicals Co., Ltd.	184 million yen	Total	184 million yen								
Investment securities (Shares)	2,330 million yen																													
Other (Equity)	3 million yen																													
Investment securities (Shares)	2,112 million yen																													
Other (Equity)	1,010 million yen																													
Shanghai Kobayashi Daily Chemicals Co., Ltd.	29 million yen																													
Total	29 million yen																													
Investment securities (Shares)	2,309 million yen																													
Other (Equity)	1,008 million yen																													
Shanghai Kobayashi Daily Chemicals Co., Ltd.	184 million yen																													
Total	184 million yen																													
<p>4 The following assets have been provided as security</p> <table> <tr> <td>Bill receivable</td> <td>114 million yen</td> </tr> <tr> <td>Buildings & structures</td> <td>1,126 million yen</td> </tr> <tr> <td>Land</td> <td>2,122 million yen</td> </tr> <tr> <td>Investment securities</td> <td>111 million yen</td> </tr> <tr> <td>Total</td> <td>3,474 million yen</td> </tr> </table> <p>(Liabilities corresponding to the above)</p>	Bill receivable	114 million yen	Buildings & structures	1,126 million yen	Land	2,122 million yen	Investment securities	111 million yen	Total	3,474 million yen	<p>4 The following assets have been provided as security</p> <table> <tr> <td>Buildings & structures</td> <td>743 million yen</td> </tr> <tr> <td>Land</td> <td>1,148 million yen</td> </tr> <tr> <td>Investment securities</td> <td>88 million yen</td> </tr> <tr> <td>Total</td> <td>1,981 million yen</td> </tr> </table> <p>(Liabilities corresponding to the above)</p>	Buildings & structures	743 million yen	Land	1,148 million yen	Investment securities	88 million yen	Total	1,981 million yen	<p>4 The following assets have been provided as security</p> <table> <tr> <td>Bill receivable</td> <td>109 million yen</td> </tr> <tr> <td>Buildings & structures</td> <td>1,141 million yen</td> </tr> <tr> <td>Land</td> <td>2,122 Million yen</td> </tr> <tr> <td>Investment securities</td> <td>98 million yen</td> </tr> <tr> <td>Total</td> <td>3,472 million yen</td> </tr> </table> <p>(Liabilities corresponding to the above)</p>	Bill receivable	109 million yen	Buildings & structures	1,141 million yen	Land	2,122 Million yen	Investment securities	98 million yen	Total	3,472 million yen
Bill receivable	114 million yen																													
Buildings & structures	1,126 million yen																													
Land	2,122 million yen																													
Investment securities	111 million yen																													
Total	3,474 million yen																													
Buildings & structures	743 million yen																													
Land	1,148 million yen																													
Investment securities	88 million yen																													
Total	1,981 million yen																													
Bill receivable	109 million yen																													
Buildings & structures	1,141 million yen																													
Land	2,122 Million yen																													
Investment securities	98 million yen																													
Total	3,472 million yen																													

Trade notes and accounts payable	6,632 million yen	Trade notes and accounts payable	5,738 million yen	Trade notes and accounts payable	7,071 Million yen
Short-term loans	237 million yen	Short-term loans	194 million yen	Short-term loans	389 Million yen
Total	6,870 million yen	Total	5,933 million yen	Total	7,460 million yen
5 The Company has issued 41,623,000 shares of common stock		5 The Company has issued 28,350,000 shares of common stock		5 The Company has issued 41,623,000 shares of common stock	
6 The Company holds 901,000 shares of treasury stock		6 The Company holds 197,000 shares of treasury stock		6 The Company holds 898,000 shares of treasury stock	

(Related to quarterly consolidated statement of Income)

Consolidated first quarter accounting period (April 1, 2004 to June 30, 2004)	Consolidated first quarter accounting period (April 1, 2003 to June 30, 2003)	Previous financial year (April 1 2003 to March 31, 2004)																																										
<p>1 The major components of selling, general & administrative expenses were as follows.</p> <table> <tr><td>Sales promotion</td><td>1,100 million yen</td></tr> <tr><td>Freight & storage</td><td>2,008 million yen</td></tr> <tr><td>Advertising</td><td>3,581 million yen</td></tr> <tr><td>Salaries & bonuses</td><td>2,922 million yen</td></tr> <tr><td>Rental charges</td><td>647 million yen</td></tr> <tr><td>Commissions</td><td>777 million yen</td></tr> <tr><td>Research & development</td><td>510 million yen</td></tr> </table>	Sales promotion	1,100 million yen	Freight & storage	2,008 million yen	Advertising	3,581 million yen	Salaries & bonuses	2,922 million yen	Rental charges	647 million yen	Commissions	777 million yen	Research & development	510 million yen	<p>1 The major components of selling, general & administrative expenses were as follows.</p> <table> <tr><td>Sales promotion</td><td>1,177 million yen</td></tr> <tr><td>Freight & storage</td><td>1,928 million yen</td></tr> <tr><td>Advertising</td><td>3,141 million yen</td></tr> <tr><td>Salaries & bonuses</td><td>2,886 million yen</td></tr> <tr><td>Rental charges</td><td>677 million yen</td></tr> <tr><td>Commissions</td><td>738 million yen</td></tr> <tr><td>Research & development</td><td>476 million yen</td></tr> </table>	Sales promotion	1,177 million yen	Freight & storage	1,928 million yen	Advertising	3,141 million yen	Salaries & bonuses	2,886 million yen	Rental charges	677 million yen	Commissions	738 million yen	Research & development	476 million yen	<p>1 The major components of selling, general & administrative expenses were as follows.</p> <table> <tr><td>Sales promotion</td><td>4,395 million yen</td></tr> <tr><td>Freight & storage</td><td>7,741 million yen</td></tr> <tr><td>Advertising</td><td>10,820 million yen</td></tr> <tr><td>Salaries & bonuses</td><td>11,474 million yen</td></tr> <tr><td>Rental charges</td><td>2,717 million yen</td></tr> <tr><td>Commissions</td><td>3,505 million yen</td></tr> <tr><td>Research & development</td><td>2,010 million yen</td></tr> </table>	Sales promotion	4,395 million yen	Freight & storage	7,741 million yen	Advertising	10,820 million yen	Salaries & bonuses	11,474 million yen	Rental charges	2,717 million yen	Commissions	3,505 million yen	Research & development	2,010 million yen
Sales promotion	1,100 million yen																																											
Freight & storage	2,008 million yen																																											
Advertising	3,581 million yen																																											
Salaries & bonuses	2,922 million yen																																											
Rental charges	647 million yen																																											
Commissions	777 million yen																																											
Research & development	510 million yen																																											
Sales promotion	1,177 million yen																																											
Freight & storage	1,928 million yen																																											
Advertising	3,141 million yen																																											
Salaries & bonuses	2,886 million yen																																											
Rental charges	677 million yen																																											
Commissions	738 million yen																																											
Research & development	476 million yen																																											
Sales promotion	4,395 million yen																																											
Freight & storage	7,741 million yen																																											
Advertising	10,820 million yen																																											
Salaries & bonuses	11,474 million yen																																											
Rental charges	2,717 million yen																																											
Commissions	3,505 million yen																																											
Research & development	2,010 million yen																																											
<p>2 _____</p>	<p>2 Within extraordinary gains, gains on the sale of fixed assets comprise the following.</p> <table> <tr><td>Machinery & equipment</td><td>6 million yen</td></tr> <tr><td>Land</td><td>104 million yen</td></tr> <tr><td>Total</td><td>110 million yen</td></tr> <tr><td>Gain on sale of fixed assets</td><td>110 million yen</td></tr> <tr><td>Total</td><td>110 million yen</td></tr> </table>	Machinery & equipment	6 million yen	Land	104 million yen	Total	110 million yen	Gain on sale of fixed assets	110 million yen	Total	110 million yen	<p>2 Within extraordinary gains, gains on the sale of fixed assets comprise the following.</p> <table> <tr><td>Land</td><td>1,299 million yen</td></tr> <tr><td>Other</td><td>10 million yen</td></tr> <tr><td>Total</td><td>1,310 million yen</td></tr> <tr><td>Gain on sale of fixed assets</td><td>1,310 million yen</td></tr> <tr><td>Total</td><td>1,310 million yen</td></tr> </table>	Land	1,299 million yen	Other	10 million yen	Total	1,310 million yen	Gain on sale of fixed assets	1,310 million yen	Total	1,310 million yen																						
Machinery & equipment	6 million yen																																											
Land	104 million yen																																											
Total	110 million yen																																											
Gain on sale of fixed assets	110 million yen																																											
Total	110 million yen																																											
Land	1,299 million yen																																											
Other	10 million yen																																											
Total	1,310 million yen																																											
Gain on sale of fixed assets	1,310 million yen																																											
Total	1,310 million yen																																											
<p>3 Within extraordinary losses, losses on the disposal of fixed assets comprise the following.</p> <table> <tr><td>Buildings & structures</td><td>- million yen</td></tr> <tr><td>Machinery & equipment</td><td>5 million yen</td></tr> <tr><td>Land</td><td>- million yen</td></tr> <tr><td>Other</td><td>- million yen</td></tr> <tr><td>Total</td><td>5 million yen</td></tr> <tr><td>Loss on sale & disposal of fixed assets</td><td>5 million yen</td></tr> <tr><td>Total</td><td>5 million yen</td></tr> </table>	Buildings & structures	- million yen	Machinery & equipment	5 million yen	Land	- million yen	Other	- million yen	Total	5 million yen	Loss on sale & disposal of fixed assets	5 million yen	Total	5 million yen	<p>3 Within extraordinary losses, losses on the disposal of fixed assets comprise the following.</p> <table> <tr><td>Buildings & structures</td><td>8 million yen</td></tr> <tr><td>Machinery & equipment</td><td>3 million yen</td></tr> <tr><td>Land</td><td>352 million yen</td></tr> <tr><td>Other</td><td>1 million yen</td></tr> <tr><td>Total</td><td>367 million yen</td></tr> <tr><td>Loss on sale & disposal of fixed assets</td><td>367 million yen</td></tr> <tr><td>Total</td><td>367 million yen</td></tr> </table>	Buildings & structures	8 million yen	Machinery & equipment	3 million yen	Land	352 million yen	Other	1 million yen	Total	367 million yen	Loss on sale & disposal of fixed assets	367 million yen	Total	367 million yen	<p>3 Within extraordinary losses, losses on the disposal of fixed assets comprise the following.</p> <table> <tr><td>Buildings & structures</td><td>355 million yen</td></tr> <tr><td>Machinery & equipment</td><td>99 million yen</td></tr> <tr><td>Land</td><td>1,011 million yen</td></tr> <tr><td>Other</td><td>527 million yen</td></tr> <tr><td>Total</td><td>1,993 million yen</td></tr> <tr><td>Loss on sale & disposal of fixed assets</td><td>1,993 million yen</td></tr> <tr><td>Total</td><td>1,993 million yen</td></tr> </table>	Buildings & structures	355 million yen	Machinery & equipment	99 million yen	Land	1,011 million yen	Other	527 million yen	Total	1,993 million yen	Loss on sale & disposal of fixed assets	1,993 million yen	Total	1,993 million yen
Buildings & structures	- million yen																																											
Machinery & equipment	5 million yen																																											
Land	- million yen																																											
Other	- million yen																																											
Total	5 million yen																																											
Loss on sale & disposal of fixed assets	5 million yen																																											
Total	5 million yen																																											
Buildings & structures	8 million yen																																											
Machinery & equipment	3 million yen																																											
Land	352 million yen																																											
Other	1 million yen																																											
Total	367 million yen																																											
Loss on sale & disposal of fixed assets	367 million yen																																											
Total	367 million yen																																											
Buildings & structures	355 million yen																																											
Machinery & equipment	99 million yen																																											
Land	1,011 million yen																																											
Other	527 million yen																																											
Total	1,993 million yen																																											
Loss on sale & disposal of fixed assets	1,993 million yen																																											
Total	1,993 million yen																																											

4 R&D expenses included in general, selling & administrative expenses and manufacturing expenses in period 510 million yen	4 R&D expenses included in general, selling & administrative expenses and manufacturing expenses in period 476 million yen	4 R&D expenses included in general, selling & administrative expenses and manufacturing expenses in period 2,010 million yen
---	---	---

(Related to quarterly consolidated cash flow statement)

Consolidated first quarter accounting period (April 1, 2004 to June 30, 2004)	Consolidated first quarter accounting period (April 1, 2003 to June 30, 2003)	Previous financial year (April 1 2003 to March 31, 2004)																								
<p>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:</p> <p style="text-align: center;">(As of June 30, 2004)</p> <table> <tr> <td>Cash & time deposits</td> <td style="text-align: right;">14,540 million yen</td> </tr> <tr> <td>Time deposits with original maturity of more than 3 months</td> <td style="text-align: right;">- million yen</td> </tr> <tr> <td>Cash & cash equivalents</td> <td style="text-align: right;">14,540 million yen</td> </tr> </table>	Cash & time deposits	14,540 million yen	Time deposits with original maturity of more than 3 months	- million yen	Cash & cash equivalents	14,540 million yen	<p>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:</p> <p style="text-align: center;">(As of June 30, 2003)</p> <table> <tr> <td>Cash & time deposits</td> <td style="text-align: right;">15,882 million yen</td> </tr> <tr> <td>Time deposits with original maturity of more than 3 months</td> <td style="text-align: right;">- million yen</td> </tr> <tr> <td>Cash & cash equivalents</td> <td style="text-align: right;">15,882 million yen</td> </tr> </table>	Cash & time deposits	15,882 million yen	Time deposits with original maturity of more than 3 months	- million yen	Cash & cash equivalents	15,882 million yen	<p>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:</p> <p style="text-align: center;">(As of March 31, 2004)</p> <table> <tr> <td>Cash & time deposits</td> <td style="text-align: right;">17,663 million yen</td> </tr> <tr> <td>Time deposits with original maturity of more than 3 months</td> <td style="text-align: right;">- million yen</td> </tr> <tr> <td>Cash & cash equivalents</td> <td style="text-align: right;">17,663 million yen</td> </tr> </table>	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						
Cash & time deposits	14,540 million yen																									
Time deposits with original maturity of more than 3 months	- million yen																									
Cash & cash equivalents	14,540 million yen																									
Cash & time deposits	15,882 million yen																									
Time deposits with original maturity of more than 3 months	- million yen																									
Cash & cash equivalents	15,882 million yen																									
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																									
<p>The assets and liabilities of Shanghai Kobayashi Daily Chemicals Co., Ltd. and Kobayashi Pharmaceutical (Hong Kong) Co., Ltd., which became new consolidated subsidiaries in the accounting period, were as follows at the start of consolidation.</p> <p>Shanghai Kobayashi Daily Chemicals Co., Ltd</p> <table> <tr> <td>Current assets</td> <td style="text-align: right;">225 million yen</td> </tr> <tr> <td>Fixed assets</td> <td style="text-align: right;">284 million yen</td> </tr> <tr> <td>Total assets</td> <td style="text-align: right;">510 million yen</td> </tr> </table> <table> <tr> <td>Current liabilities</td> <td style="text-align: right;">229 million yen</td> </tr> <tr> <td>Fixed liabilities</td> <td style="text-align: right;">- million yen</td> </tr> <tr> <td>Total liabilities</td> <td style="text-align: right;">229 million yen</td> </tr> </table> <p>Kobayashi Pharmaceutical (Hong Kong)Co., Ltd.</p> <table> <tr> <td>Current assets</td> <td style="text-align: right;">229 million yen</td> </tr> <tr> <td>Fixed assets</td> <td style="text-align: right;">4 million yen</td> </tr> <tr> <td>Total assets</td> <td style="text-align: right;">234 million yen</td> </tr> </table> <table> <tr> <td>Current liabilities</td> <td style="text-align: right;">211 million yen</td> </tr> <tr> <td>Fixed liabilities</td> <td style="text-align: right;">- million yen</td> </tr> <tr> <td>Total liabilities</td> <td style="text-align: right;">211 million yen</td> </tr> </table>	Current assets	225 million yen	Fixed assets	284 million yen	Total assets	510 million yen	Current liabilities	229 million yen	Fixed liabilities	- million yen	Total liabilities	229 million yen	Current assets	229 million yen	Fixed assets	4 million yen	Total assets	234 million yen	Current liabilities	211 million yen	Fixed liabilities	- million yen	Total liabilities	211 million yen		
Current assets	225 million yen																									
Fixed assets	284 million yen																									
Total assets	510 million yen																									
Current liabilities	229 million yen																									
Fixed liabilities	- million yen																									
Total liabilities	229 million yen																									
Current assets	229 million yen																									
Fixed assets	4 million yen																									
Total assets	234 million yen																									
Current liabilities	211 million yen																									
Fixed liabilities	- million yen																									
Total liabilities	211 million yen																									