

KOBAYASHI

PHARMACEUTICAL CO., LTD.

Summary Consolidated Financial Results for the Third Quarter ended December 31, 2004

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

KOBAYASHI PHARMACEUTICAL CO., LTD.

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 Third 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 third 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) 3
 (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 – December 31, 2004)

(1) Consolidated Operating Results

	Millions of Yen - Except Per Share Data and Percents			
	Third Quarter ended December 31, 2004		Year ended March 31,	
	2004	%	2003	2004
Operating Revenues.....	165,003	(1.1)	166,786	211,670
Operating Income	13,141	(6.1)	13,996	16,123
Ordinary Income	12,121	(3.7)	12,584	14,127
Net Income	6,264	11.6	5,611	6,677
Net Income per Share (yen)	150.51		132.94	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.

KOBAYASHI PHARMACEUTICAL CO., LTD.

- 2) A stock split awarding 1.5 shares per original share was effected on November 20, 2003. Accordingly, quarterly net income per share for the third quarter of the fiscal year ended March 2004 and for the fiscal year ended March 2004 is calculated as if the stock split were performed at the beginning of the period.
- 3) As there were no shares with dilutive effect, fully diluted quarterly net income per share is not noted here.

Consolidated Business Results

In the third quarter of fiscal 2005, the prospect of a recovery in consumer spending remained unclear, despite higher corporate revenue, an increase in capital spending and other signs of a recovery in the domestic economy. The unseasonable weather, marked by a record-breaking heat wave, a series of typhoons and a warm winter, also contributed to the severe business environment.

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 165,003 million yen, a decrease of 1.1% from the previous fiscal year, operating income was 13,141 million yen, a decrease of 6.1% from the previous year. Ordinary income was 12,121 million yen, a decrease of 3.7% from the previous year, and net income for the quarter was 6,264 million yen, an increase of 11.6% from the previous year.

Summary of Performance by Business Segment

Consumer Products Operation

In the Consumer Productions Operation, sales of Cura-Heat were sluggish due to the unseasonable weather and undercut levels in the previous year. However, nutritional supplement food products continued to perform well, bolstered by sales of 16 new products (excluding nutritional supplement food products), stronger sales of existing brands and the success of Co-enzyme Q10. As a result, sales stood at 70,547 million yen, a 699 million yen, or 1.0%, increase from the previous year. Due to the lower sales of Cura-Heat and aggressive advertising aimed at boosting brand popularity, operating income decreased 481 million yen, or 3.7 %, from the previous year to 12,437 million yen. Shanghai Kobayashi Daily Chemicals Co., Ltd. and Kobayashi Pharmaceutical (Hong Kong) Co., Ltd. were included in the scope of consolidation from the term under review.

Wholesale Operation

The introduction of a measure stipulating that the total amount of consumption tax be displayed at drug stores, the Group's major customer, coupled with the summer heat wave and warm winter made for a harsh operating environment. Nevertheless, an upgraded lineup of health products and new sales to wholesale businesses in the Shikoku region led to a 974 million yen, or 1.0%, rise in sales to 99,555 million yen. On the profit front, the Group endeavored 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. As a result, operating income in the third quarter rose 251 million yen, or 148.5%, from the previous year to 420 million yen.

Medical Devices Operation

Due to the Group's focus on the orthopedics-related sector in Japan and its acquisition of customer lists to hold on to customers in the US, sales rose 69 million yen, or 0.6%, to 12,021 million yen. However, changes to the insurance system (elimination of insurance amortization) in California, where the US subsidiary is located, led to a 429 million yen, or 74.5%, decline in operating income, to 147 million yen.

KOBAYASHI PHARMACEUTICAL CO., LTD.

(2) Consolidated Financial Position

	Millions of Yen - Except Per Share Data and Ratios		
	As of December 31,		As of March 31,
	2004	2003	2004
Total Assets	139,205	136,805	128,326
Shareholders' Equity	59,572	54,640	54,454
Shareholders' Equity Ratio	42.8%	39.9%	42.4%
Shareholders' Equity per Share (Yen)	1,431.26	1,293.93	1,307.16

Note: A stock split awarding 1.5 shares per original share was effected on November 20, 2003. Accordingly, quarterly net income per share for the third quarter of the fiscal year ended March 2004 and for the fiscal year ended March 2004 is calculated as if the stock split were performed at the beginning of the period.

(3) Consolidated Cash Flows

	Millions of Yen		
	As of December 31,		As of March 31,
	2004	2003	2004
Cash Flows from Operating Activities	6,695	2,551	6,971
Cash Flows from Investing Activities	(2,411)	887	(2,358)
Cash Flows from Financing Activities	(3,510)	(3,168)	(4,574)
Cash and Cash Equivalents, End of Year	18,702	17,954	17,663

Changes in Financial Position

Total assets on a consolidated basis increased 10,879 million yen compared with the end of the previous fiscal year, and the shareholders' equity ratio rose 0.4 points to 42.8% due to a 5,117 million yen increase in shareholders' equity.

The major changes during the quarter were an 8,561 million increase in trade notes and accounts receivable and a 2,086 million yen rise in inventory assets under the category of current assets. In the case of current liabilities, trade notes and accounts payable rose 9,059 million yen. Fixed liabilities decreased 410 million yen due to the repayment of long-term loans.

Cash flows from operating activities

Net cash provided by operating activities totaled 6,695 million yen. This was mainly attributable to the fact that net profit before taxes in the third quarter was 11,799 million yen while income taxes paid were 5,763million yen.

Cash flows from investing activities

Net cash used in investing operations totaled 2,411 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 1,201 million yen and US subsidiaries purchased customer lists.

Cash flows from financing activities

Net cash used in financing operations totaled 3,510 million yen. This was mainly attributable to 1,112 million yen in repayment of long-term debt and 874 million yen in dividends paid.

KOBAYASHI PHARMACEUTICAL CO., LTD.

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

Consolidated	Millions of Yen
	Full Year
Net Sales.....	215,000
Ordinary Income.....	13,400
Net Income	6,700
Net Income per Share (yen)	159.95

Due to the sluggish sales of subsidiary Kiribai Chemical Co., Ltd., caused by the unseasonable weather, the Company will revise the earnings estimates for the fiscal year ending March 31, 2005 initially announced on November 25, 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.

KOBAYASHI PHARMACEUTICAL CO., LTD.

IV. Consolidated Financial Statements (April 1, 2004 – December 31, 2004)

1. Consolidated Balance Sheets

	Millions of Yen					
	As of December 31,				As of March 31,	
	2004	%	2003	%	2004	
Assets						
Current assets:						
Cash and time deposits	18,702		17,954		17,663	
Trade notes and accounts receivable	50,333		52,448		41,771	
Inventories	16,180		14,240		14,093	
Deferred income taxes	2,144		2,154		2,453	
Other current assets	5,370		4,985		4,577	
Allowance for doubtful accounts	(463)		(514)		(529)	
Total current assets	92,268	66.3	91,268	66.7	80,030	62.4
Fixed Assets:						
Tangible Fixed Assets:						
Buildings and Structures	11,780		12,387		11,964	
Land	9,933		10,280		9,949	
Other	2,825		2,370		2,653	
Total Fixed Assets	24,539	17.6	25,038	18.3	24,568	19.1
Intangible Assets:						
Goodwill	1,242		1,077		964	
Software	915		847		875	
Consolidation Adjustments account	3,335		3,900		3,759	
Other	369		372		367	
Total Intangible Assets	5,862	4.2	6,198	4.5	5,967	4.7
Investments and Other Assets:						
Investments in securities	9,111		6,023		9,871	
Deferred Tax Assets	2,313		2,561		2,460	
Other Assets	7,247		7,785		7,871	
Allowance for investment liability loss	(97)		--		(332)	
Allowance for doubtful receivables ...	(2,038)		(2,070)		(2,110)	
Total Investments and Other Assets	16,536	11.9	14,299	10.5	17,760	13.8
Total Fixed Assets	46,937	33.7	45,536	33.3	48,296	37.6
Total Assets	139,205	100.0	136,805	100.0	128,326	100.0

KOBAYASHI PHARMACEUTICAL CO., LTD.

	Millions of Yen					
	As of December 31,				As of March 31,	
	2004	%	2003	%	2004	
Liabilities						
Current Liabilities:						
Trade notes and accounts payable	50,336		48,584		41,277	
Short-term loans payable.....	2,517		4,521		4,512	
Accrued expenses	10,621		11,599		10,208	
Accrued income taxes	3,095		3,236		3,479	
Allowance for bonus payable	945		1,197		1,852	
Reserve for unsold goods	375		369		344	
Other current liabilities.....	2,518		3,229		2,621	
Total Current Liabilities.....	70,410	50.6	72,738	53.2	64,297	50.1
Fixed Liabilities						
Long term loans payable	372		770		905	
Provision for retirement benefits.....	6,211		6,327		6,320	
Provision for allowances for directors and corporate auditors....	1,251		1,134		1,157	
Other long-term liabilities.....	848		668		710	
Total Fixed Liabilities	8,683	6.2	8,900	6.5	9,093	7.1
Total Liabilities	79,094	56.8	81,639	59.7	73,391	57.2
Shareholders' Equity						
Minority Interests						
Minority interests	539	0.4	526	0.4	480	0.4
Shareholders' Equity						
Common stock.....	3,450	2.5	3,450	2.5	3,450	2.7
Capital surplus.....	4,183	3.0	4,183	3.1	4,183	3.2
Earned Surplus.....	53,119	38.2	47,119	34.4	48,185	37.5
Net unrealized holding gains on securities	1,730	1.2	1,306	1.0	1,640	1.3
Foreign currency translation adjustments	(581)	(0.4)	(634)	(0.5)	(688)	(0.5)
Cost of treasury stock.....	(2,330)	(1.7)	(785)	(0.6)	(2,317)	(1.8)
Total Shareholders' Equity.....	59,572	42.8	54,640	39.9	54,454	42.4
Total Liabilities, Minority Interest and Shareholders' Equity.....	139,205	100.0	136,805	100.0	128,326	100.0

KOBAYASHI PHARMACEUTICAL CO., LTD.

2. Consolidated Income Statement

	Millions of Yen					
	As of December 31,				As of March 31,	
	2004	%	2003	%	2004	%
Net Sales	165,003	100.0	166,786	100.0	211,670	100.0
Cost of sales	108,731	65.9	110,860	66.5	141,387	66.8
Gross profit	56,272	34.1	55,926	33.5	70,282	33.2
Selling, general, & administrative expenses	43,131	26.1	41,929	25.1	54,159	25.6
Operating Income	13,141	8.0	13,996	8.4	16,123	7.6
Other Income and Expenses						
Other Income:						
Interest received	54		64		81	
Dividends earned	39		31		33	
Investment income due to equity Method	266		240		280	
Loss on exchange (Loss from fluctuation of foreign exchange rate) ..	51		--		--	
Miscellaneous income	822		714		1,066	
Other Income	1,234	0.7	1,050	0.6	1,461	0.7
Other Expenses:						
Interest expenses	70		56		72	
Sales discount	809		784		1,025	
Losses on disposal of inventory evaluation	1,202		1,228		1,675	
Exchange loss expense	--		54		47	
Miscellaneous expenses	172		339		634	
Other Expenses	2,255	1.4	2,462	1.5	3,456	1.6
Ordinary Income	12,121	7.3	12,584	7.5	14,127	6.7
Extraordinary Gain and Loss:						
Goodwill transfer benefit	735		709		714	
Gains on sales of fixed assets	6		1,265		1,310	
Other extraordinary gains	60		25		72	
Extraordinary Gains	802	0.4	2,000	1.2	2,097	1.0
Losses on sales and disposal of fixed assets	78		1,418		1,993	
Losses on disposal of inventory evaluation	594		295		521	
Allowance for doubtful receivables transfer amount	--		863		974	
Allowance for investment loss liability transfer	98		--		332	
Affiliate restructuring expenses	--		463		357	
Other extraordinary losses	353		666		221	
Extraordinary Losses	1,124	0.7	3,707	2.2	4,400	2.1
Income Before Income Taxes in the Third Quarter of FY 2004	11,799	7.2	10,877	6.5	11,825	5.6

KOBAYASHI PHARMACEUTICAL CO., LTD.

Corporate Income, Local and Business Taxes.....	5,475	3.3	5,286	3.2	5,214	2.5
Minority Interest in Net Income of Consolidated Subsidiaries.	59	0.0	(20)	(0.0)	(66)	(0.1)
Net Income in the Third Quarter of FY 2004	6,264	3.8	5,611	3.4	6,677	3.2

3. Consolidated Statements of Shareholders' Equity

	Millions of Yen		
	Third Quarter ended December 31,		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 third quarter	6,264	5,611	6,677
III. Decrease in earned surplus	1,331	633	633
Cash dividends paid.....	874	591	591
Directors' bonuses	38	42	42
Decrease associated with change in scope of consolidation.....	418	--	--
IV. Ending balance of earned surplus	53,119	47,119	48,185

KOBAYASHI PHARMACEUTICAL CO., LTD.

4. Consolidated Statements of Cash Flows

	Millions of Yen		
	Third Quarter ended March 31,		Year ended March 31,
	2004	2003	2004
I. Cash flows from operating activities:			
Income before income taxes and minority interests.....	11,799	10,877	11,825
Loss on disposal or write off of obsolete inventories.....	1,962	1,948	2,662
Losses on depreciation of consolidated adjustment.....	424	546	687
Provision for allowance of doubtful accounts.....	(146)	1,099	1,159
Accrued severance indemnities, net.....	(109)	(61)	(59)
Interest and dividend income.....	(94)	(95)	(115)
Interest expenses.....	70	56	72
Equity in earnings of affiliates.....	(266)	(240)	(280)
Losses on disposal of inventory evaluation.....	1,797	1,523	2,197
Loss on liquidation of affiliated company.....	--	463	357
Gain on sale of goodwill.....	(735)	(709)	(714)
Loss on sales or disposal of property, plant and equipment.....	78	152	2,458
Provisions for investment losses.....	98	--	332
Increase (decrease) in trade notes and accounts receivable.....	(8,232)	(13,949)	(3,254)
Increase (decrease) in inventories.....	(3,789)	(1,813)	(2,355)
Increase (decrease) in trade notes and accounts payable.....	8,957	7,415	54
Others.....	620	1,633	(1,721)
Sub Total.....	12,434	8,848	13,307
Interest and dividends received.....	94	95	118
Interest paid.....	(70)	(56)	(77)
Income taxes paid.....	(5,763)	(6,336)	(6,377)
Net cash provided by operating activities	6,695	2,551	6,971
II. Cash flows from investing activities:			
Increase (decrease) in time deposits	--	--	10
Purchases of property, plant and equipment	(1,201)	(699)	(1,288)
Proceeds from sales of property, plant and equipment.....	6	2,080	2,391
Payments for purchases of intangible assets.....	(815)	(456)	(574)
Increase in investments in securities.....	(74)	(208)	(3,542)
Purchase of investments in securities.....	(652)	--	(725)
Proceeds from sale of securities.....	116	--	493
Increase in short term loans receivable.....	(188)	201	274
Purchase of securities of subsidiaries.....	(6)	--	(25)
Proceeds from long-term receivables.....	37	--	25
Proceeds from sale of goodwill.....	735	709	714
Others.....	(368)	(739)	(112)
Net cash used in investing activities.....	(2,411)	887	(2,358)

KOBAYASHI PHARMACEUTICAL CO., LTD.

III. Cash flows from financing activities:

Increase (decrease) in short-term loans, net	(1,510)	(78)	(145)
Proceeds from long-term debt	--	--	212
Repayment of long-term debt	(1,112)	(2,488)	(2,508)
Increase (decrease) treasury stock	(14)	(7)	(1,539)
Dividends paid	(874)	(593)	(591)
Others	1	--	(2)
Net cash used in financing activities	(3,510)	(3,168)	(4,574)
IV Effect of exchange rate changes on cash and cash equivalents	34	(68)	(127)
V. Net increase in cash and cash equivalents	(808)	202	(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	230	--	--
VIII. Cash and cash equivalents at end of year	18,702	17,954	17,663

KOBAYASHI PHARMACEUTICAL CO., LTD.

V. Segment Information

1. Segment Information by Business Category

Current Consolidated Third Quarter (April 1, 2004 – December 31, 2004)

(Millions of Yen)

	Consumer Products Operation	Wholesale Operation	Medical Operation	Other Operations	Total	Eliminations	Consolidated
1. Sales and operating income							
I. Sales to third parties	50,590	99,555	12,021	2,835	165,003	--	165,003
II. Inter-group sales and transfers	19,956	--	--	6,494	26,450	(26,450)	--
Total net sales	70,547	99,555	12,021	9,329	191,454	(26,450)	165,003
III. Operating expense	58,109	99,135	11,873	9,135	178,254	(26,392)	151,862
IV. Operating income (loss)	12,437	420	147	194	13,200	(58)	13,141

Previous Consolidated Third Quarter (April 1, 2003 – December 31, 2003)
of Yen)

(Millions

	Consumer Products Operation	Wholesale Operation	Medical Operation	Other Operations	Total	Eliminations	Consolidated
1. Sales and operating income							
I. Sales to third parties	53,543	98,581	11,952	2,709	166,786	--	166,786
II. Inter-group sales and transfers	16,305	--	--	6,669	22,974	(22,974)	--
Total net sales	69,848	98,581	11,952	9,379	189,761	(22,974)	166,786
III. Operating expense	56,929	98,411	11,375	9,114	175,831	(23,041)	152,789
IV. Operating income (loss)	12,918	169	576	264	13,929	66	13,996

Previous Consolidated Fiscal Year (April 1, 2003 – March 31, 2004)

(Millions of Yen)

	Consumer Products Operation	Wholesale Operation	Medical Operation	Other Operations	Total	Eliminations	Consolidated
1. Sales and operating income							
I. Sales to third parties	66,522	126,080	15,608	3,458	211,670	--	211,670
II. Inter-group sales and transfers	20,532	--	--	8,401	28,933	(28,933)	--
Total net sales	87,055	126,080	15,608	11,859	240,603	(28,933)	211,670
III. Operating expense	72,424	125,545	14,964	11,706	224,639	(29,092)	195,546
IV. Operating income (loss)	14,631	534	644	153	15,963	159	16,123

KOBAYASHI PHARMACEUTICAL CO., LTD.

1. Method of business classification:
 - Businesses are categorized based on the product line and similarity of markets.
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, real estate management, and insurance agency business

2. Segment Information by Area

Because the amount of domestic sales more than 90% of the total amount of all sales 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.

KOBAYASHI PHARMACEUTICAL CO., LTD.

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

1. Principles of consolidation

1. Number of consolidated subsidiaries 21 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., Aotiri 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), Kobayashi Pharmaceutical (Hong Kong) Co., Ltd, and Kobayashi Pharmaceutical Life Service Co., Ltd.

2. Names of major non-consolidated subsidiaries

Kobayashi Sales Promotion Co., Ltd., Uomasa Co., Ltd., PT Kobayashi Eglin, Kics Co., Ltd., K.M.S, and Cancer Immunity Information Laboratory

Reason for exclusion from scope of consolidation

All of the six 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., Sokai Drug Ltd. and Seiei co., 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 third-quarter account settlement date differs from the consolidated third-quarter account settlement date, third-quarter financial statements relating to each company's third-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 third-quarter account settlement date of September 30. When preparing third-quarter consolidated financial statements, third-quarter financial statement as of that date were used, and in the case of important

KOBAYASHI PHARMACEUTICAL CO., LTD.

transactions that occurred between that date and the third-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 third-quarter financial statements based on a provisional settlement of accounts that was conducted as of the third-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 third-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 April 1, 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 third-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

KOBAYASHI PHARMACEUTICAL CO., LTD.

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 third-quarter term based on internal regulations.

6. Reserves for investment losses

To prepare for losses in investments in subsidiaries, the Company records an estimated loss amount calculated upon consideration of the subsidiary's financial condition.

(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.

KOBAYASHI PHARMACEUTICAL CO., LTD.

VII. Notes to Consolidated Financial Statements

(Related to quarterly consolidated balance sheet)

End of current consolidated third quarter accounting period (As of December 31, 2004)	End of previous consolidated third quarter accounting period (As of December 31, 2003)	Previous Financial year (As of March 31, 2004)																																																																										
<p>1 Accumulated depreciation of property, plant and equipment amounts to 18,732 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>2,421 million yen</td></tr><tr><td>Other (Equity)</td><td>3 million yen</td></tr></table> <p>3 _____</p> <p>4 The following assets have been provided as security</p> <table><tr><td>Bill receivable</td><td>157 million yen</td></tr><tr><td>Buildings & structures</td><td>1,095 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>3,487 million yen</td></tr></table> <p>(Liabilities corresponding to the above)</p> <table><tr><td>Trade notes and accounts payable</td><td>8,403 million yen</td></tr><tr><td>Short-term loans</td><td>200 million yen</td></tr><tr><td>Long-term loans</td><td>34 million yen</td></tr><tr><td>Total</td><td>8,637 million yen</td></tr></table>	Investment securities (Shares)	2,421 million yen	Other (Equity)	3 million yen	Bill receivable	157 million yen	Buildings & structures	1,095 million yen	Land	2,122 million yen	Investment securities	111 million yen	Total	3,487 million yen	Trade notes and accounts payable	8,403 million yen	Short-term loans	200 million yen	Long-term loans	34 million yen	Total	8,637 million yen	<p>1 Accumulated depreciation of property, plant and equipment amounts to 18,391 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>2,244 million yen</td></tr><tr><td>Other (Equity)</td><td>1,009 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>90 million yen</td></tr><tr><td>Total</td><td>90 million yen</td></tr></table> <p>4 The following assets have been provided as security</p> <table><tr><td>Bill receivable</td><td>131 million yen</td></tr><tr><td>Buildings & structures</td><td>1,157 million yen</td></tr><tr><td>Land</td><td>2,122 million yen</td></tr><tr><td>Investment securities</td><td>87 million yen</td></tr><tr><td>Total</td><td>3,500 million yen</td></tr></table> <p>(Liabilities corresponding to the above)</p> <table><tr><td>Trade notes and accounts payable</td><td>13,129 million yen</td></tr><tr><td>Short-term loans</td><td>300 million yen</td></tr><tr><td>Long-term loans</td><td>41 million yen</td></tr><tr><td>Total</td><td>13,471 million yen</td></tr></table>	Investment securities (Shares)	2,244 million yen	Other (Equity)	1,009 million yen	Shanghai Kobayashi Daily Chemicals Co., Ltd.	90 million yen	Total	90 million yen	Bill receivable	131 million yen	Buildings & structures	1,157 million yen	Land	2,122 million yen	Investment securities	87 million yen	Total	3,500 million yen	Trade notes and accounts payable	13,129 million yen	Short-term loans	300 million yen	Long-term loans	41 million yen	Total	13,471 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> <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> <table><tr><td>Trade notes and accounts payable</td><td>7,071 million yen</td></tr><tr><td>Short-term loans</td><td>350 million yen</td></tr><tr><td>Long-term loans</td><td>39 million yen</td></tr><tr><td>Total</td><td>7,460 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	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	7,071 million yen	Short-term loans	350 million yen	Long-term loans	39 million yen	Total	7,460 million yen
Investment securities (Shares)	2,421 million yen																																																																											
Other (Equity)	3 million yen																																																																											
Bill receivable	157 million yen																																																																											
Buildings & structures	1,095 million yen																																																																											
Land	2,122 million yen																																																																											
Investment securities	111 million yen																																																																											
Total	3,487 million yen																																																																											
Trade notes and accounts payable	8,403 million yen																																																																											
Short-term loans	200 million yen																																																																											
Long-term loans	34 million yen																																																																											
Total	8,637 million yen																																																																											
Investment securities (Shares)	2,244 million yen																																																																											
Other (Equity)	1,009 million yen																																																																											
Shanghai Kobayashi Daily Chemicals Co., Ltd.	90 million yen																																																																											
Total	90 million yen																																																																											
Bill receivable	131 million yen																																																																											
Buildings & structures	1,157 million yen																																																																											
Land	2,122 million yen																																																																											
Investment securities	87 million yen																																																																											
Total	3,500 million yen																																																																											
Trade notes and accounts payable	13,129 million yen																																																																											
Short-term loans	300 million yen																																																																											
Long-term loans	41 million yen																																																																											
Total	13,471 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																																																																											
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	7,071 million yen																																																																											
Short-term loans	350 million yen																																																																											
Long-term loans	39 million yen																																																																											
Total	7,460 million yen																																																																											

KOBAYASHI PHARMACEUTICAL CO., LTD.

<p>5 In order to efficiently procure operating funds, Kobayashi Pharmaceutical and its consolidated subsidiaries have signed overdraft contracts and loan commitment contracts with seven company banks. Based on these contracts, unused credit at the end of the previous third quarter is as follows.</p> <table><tr><td>Overdraft amount and total amount of loan commitment</td><td>33,100 million yen</td></tr><tr><td>Actual amount loaned</td><td>- million yen</td></tr><tr><td>Difference</td><td>33,100 million yen</td></tr></table> <p>6 Notes due at the end of the third quarter are dealt with on the settlement date. However, the following such notes are included under balances for the end of this third quarter as the end of this third quarter coincided with a financial institution holiday.</p> <table><tr><td>Trade notes receivable</td><td>1,227 million yen</td></tr><tr><td>Trade notes payable</td><td>1,179 million yen</td></tr></table> <p>7 The Company has issued 42,525,000 shares of common stock</p> <p>8 The Company holds 902,000 shares of treasury stock</p>	Overdraft amount and total amount of loan commitment	33,100 million yen	Actual amount loaned	- million yen	Difference	33,100 million yen	Trade notes receivable	1,227 million yen	Trade notes payable	1,179 million yen	<p>5 In order to efficiently procure operating funds, Kobayashi Pharmaceutical and its consolidated subsidiaries have signed overdraft contracts and loan commitment contracts with seven company banks. Based on these contracts, unused credit at the end of this third quarter is as follows.</p> <table><tr><td>Overdraft amount and total amount of loan commitment</td><td>26,597 million yen</td></tr><tr><td>Actual amount loaned</td><td>1,230 million yen</td></tr><tr><td>Difference</td><td>25,266 million yen</td></tr></table> <p>6 Notes due at the end of the third quarter are dealt with on the settlement date. However, the following such notes are included under balances for the end of the previous third quarter as the end of the previous third quarter coincided with a financial institution holiday.</p> <table><tr><td>Trade notes receivable</td><td>2,089 million yen</td></tr><tr><td>Trade notes payable</td><td>2,101 million yen</td></tr></table> <p>7 The Company has issued 28,350,000 shares of common stock</p> <p>8 The Company holds 299,000 shares of treasury stock</p>	Overdraft amount and total amount of loan commitment	26,597 million yen	Actual amount loaned	1,230 million yen	Difference	25,266 million yen	Trade notes receivable	2,089 million yen	Trade notes payable	2,101 million yen	<p>5 In order to efficiently procure operating funds, Kobayashi Pharmaceutical and its consolidated subsidiaries have signed overdraft contracts and loan commitment contracts with seven company banks. Based on these contracts, unused credit at the end of the previous fiscal year is as follows.</p> <table><tr><td>Overdraft amount and total amount of loan commitment</td><td>32,300 million yen</td></tr><tr><td>Actual amount loaned</td><td>1,100 million yen</td></tr><tr><td>Difference</td><td>31,200 million yen</td></tr></table> <hr/> <p>5 The Company has issued 42,525,000 shares of common stock</p> <p>6 The Company holds 898,000 shares of treasury stock</p>	Overdraft amount and total amount of loan commitment	32,300 million yen	Actual amount loaned	1,100 million yen	Difference	31,200 million yen
Overdraft amount and total amount of loan commitment	33,100 million yen																											
Actual amount loaned	- million yen																											
Difference	33,100 million yen																											
Trade notes receivable	1,227 million yen																											
Trade notes payable	1,179 million yen																											
Overdraft amount and total amount of loan commitment	26,597 million yen																											
Actual amount loaned	1,230 million yen																											
Difference	25,266 million yen																											
Trade notes receivable	2,089 million yen																											
Trade notes payable	2,101 million yen																											
Overdraft amount and total amount of loan commitment	32,300 million yen																											
Actual amount loaned	1,100 million yen																											
Difference	31,200 million yen																											

(Related to quarterly consolidated statement of Income)

Consolidated third quarter accounting period (April 1, 2004 to December 31, 2004)	Consolidated third quarter accounting period (April 1, 2003 to December 31, 2003)	Previous financial year (April 1 2003 to March 31, 2004)
1 The major components of selling, general & administrative expenses were as follows.	1 The major components of selling, general & administrative expenses were as follows.	1 The major components of selling, general & administrative expenses were as follows.

KOBAYASHI PHARMACEUTICAL CO., LTD.

Sales promotion	3,615 million yen	Sales promotion	3,388 million yen	Sales promotion	4,395 million yen			
Freight & storage	6,269 million yen	Freight & storage	6,125 million yen	Freight & storage	7,741 million yen			
Advertising	9,472 million yen	Advertising	9,031 million yen	Advertising	10,820 million yen			
Salaries & bonuses	8,679 million yen	Salaries & bonuses	8,659 million yen	Salaries & bonuses	11,474 million yen			
Rental charges	2,000 million yen	Rental charges	2,036 million yen	Rental charges	2,717 million yen			
Commissions paid	2,403 million yen	Commissions paid	2,253 million yen	Commissions paid	3,505 million yen			
Research & development	1,809 million yen	Research & development	1,722 million yen	Research & development	2,010 million yen			
2 Within extraordinary gains, gains on the sale of fixed assets comprise the following.			2 Within extraordinary gains, gains on the sale of fixed assets comprise the following.			2 Within extraordinary gains, gains on the sale of fixed assets comprise the following.		
Land	5 million yen	Machinery & equipment	10 million yen	Land	1,299 million yen			
Other	0 million yen	Land	1,254 million yen	Other	10 million yen			
Total	6 million yen	Total	1,265 million yen	Total	1,310 million yen			
Gain on sale of fixed assets	6 million yen	Gain on sale of fixed assets	1,265 million yen	Gain on sale of fixed assets	1,310 million yen			
Total	6 million yen	Total	1,265 million yen	Total	1,310 million yen			
3 Within extraordinary losses, losses on the disposal of fixed assets comprise the following.			3 Within extraordinary losses, losses on the disposal of fixed assets comprise the following.			3 Within extraordinary losses, losses on the disposal of fixed assets comprise the following.		
Buildings & structures	17 million yen	Buildings & structures	52 million yen	Buildings & structures	355 million yen			
Machinery & equipment	46 million yen	Machinery & equipment	34 million yen	Machinery & equipment	99 million yen			
Land	- million yen	Land	832 million yen	Land	1,011 million yen			
Other	14 million yen	Other	471 million yen	Other	527 million yen			
Total	78 million yen	Total	1,418 million yen	Total	1,993 million yen			
Loss on sale & disposal of fixed assets	78 million yen	Loss on sale & disposal of fixed assets	1,418 million yen	Loss on sale & disposal of fixed assets	1,993 million yen			
Total	78 million yen	Total	1,418 million yen	Total	1,993 million yen			
4 R&D expenses included in general, selling & administrative expenses and manufacturing expenses in period			4 R&D expenses included in general, selling & administrative expenses and manufacturing expenses in period			4 R&D expenses included in general, selling & administrative expenses and manufacturing expenses in period		
	1,809 million yen		1,722 million yen		2,010 million yen			

(Related to quarterly consolidated cash flow statement)

Consolidated third quarter accounting period (April 1, 2004 to December 31, 2004)	Consolidated third quarter accounting period (April 1, 2003 to December 31, 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:	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:	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 December 31, 2004)	(As of December 31, 2003)	(As of March 31, 2004)

KOBAYASHI PHARMACEUTICAL CO., LTD.

Cash & time deposits	18,696 million yen	Cash & time deposits	17,954 million yen	Cash & time deposits	17,663 million yen
Time deposits with original maturity of more than 3 months	— million yen	Time deposits with original maturity of more than 3 months	— million yen	Time deposits with original maturity of more than 3 months	— million yen
Cash & cash equivalents	18,696 million yen	Cash & cash equivalents	17,954 million yen	Cash & cash equivalents	17,663 million yen
The assets and liabilities of Shanghai Kobayashi Daily Chemicals Co., Ltd., Kobayashi Pharmaceutical (Hong Kong) Co., Ltd., and Kobayashi Pharmaceutical Life Service Co., Ltd. which became new consolidated subsidiaries in the accounting period, were as follows at the start of consolidation.					
Shanghai Kobayashi Daily Chemicals Co., Ltd					
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				
Kobayashi Pharmaceutical (Hong Kong)Co., Ltd.					
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				
Kobayashi Pharmaceutical Life Service Co., Ltd.					
Current assets	110 million yen				
Fixed assets	3 million yen				
Total assets	113 million yen				
Current liabilities	31 million yen				
Fixed liabilities	- million yen				
Total liabilities	31 million yen				