

# KOBAYASHI

## PHARMACEUTICAL CO., LTD.

### **Summary of Consolidated Financial Results for the First Half Ended September 30, 2006**

*Note: This document has been prepared as a guide for 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:	Tokyo and Osaka, First Section
Principal Office:	Osaka, Japan
Homepage:	<a href="http://www.kobayashi.co.jp">http://www.kobayashi.co.jp</a>
President and Representative Director:	Yutaka Kobayashi
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Date of the Board of Directors' meeting to approve financial statements:	November 13, 2006
U.S. (GAAP) accounting standard:	Not adopted for the purposes of these statements

## I. Consolidated Financial Results (April 1, 2006 – September 30, 2006)

### 1. Consolidated Operating Results

	Millions of Yen - Except Per Share Data and Percents				
	First Half ended September 30,		Year ended March 31,		
	2006	%	2005	%	2006
Net Sales .....	130,721	4.5	125,076	13.8	246,852
Operating Income .....	9,133	5.4	8,664	10.7	16,879
Ordinary Income .....	8,006	0.4	7,978	13.2	15,151
Net Income .....	4,881	37.2	3,558	(4.7)	7,474
Net Income per Share (yen) .....	118.16		85.49		179.17
Net Income per Share, diluted (yen).....	117.98		85.48		179.01

Notes:	1) Equity in earnings of affiliates and non-consolidated subsidiaries:	
	First half ended September 30, 2006 .....	107 million yen
	First half ended September 30, 2005 .....	191 million yen
	Fiscal year ended March 31, 2006 .....	458 million yen
	2) Average number of shares outstanding during the period (consolidated):	
	First half ended September 30, 2006 .....	41,313,214 shares
	First half ended September 30, 2005 .....	41,620,617 shares
	Fiscal year ended March 31, 2006 .....	41,494,207 shares
	3) Changes in accounting policies: .....	None
	4) Percentages for operating revenues, operating income, ordinary income and net income represent changes compared with the previous interim period.	

# KOBAYASHI PHARMACEUTICAL CO., LTD.

## 2. Consolidated Financial Position

	Millions of Yen - Except Per Share Data and Ratios		
	As of September 30,		As of March 31,
	2006	2005	2006
Total Assets .....	166,269	154,453	151,945
Shareholders' Equity .....	73,480	63,331	66,811
Shareholders' Equity Ratio .....	42.4%	40.8%	44.0%
Shareholders' Equity per Share (yen) .....	1,705.79	1,521.62	1,617.10

Note:	Number of shares outstanding at end of period (consolidated):		
	First half ended September 30, 2006	.....	41,355,007 shares
	First half ended September 30, 2005	.....	41,620,927 shares
	Fiscal year ended March 31, 2006	.....	41,290,738 shares

## 3. Consolidated Cash Flows

	Millions of Yen		
	As of September 30,		As of March 31,
	2006	2005	2006
Cash Flow from Operating Activities .....	1,723	1,127	13,159
Cash Flow from Investing Activities .....	999	(4,882)	(6,414)
Cash Flow from Financing Activities .....	(3,911)	3,339	(1,419)
Cash and Cash Equivalents at End of Year .....	23,235	18,645	24,436

## 4. Scope of Consolidation and Application of Equity Method:

Number of consolidated subsidiaries:	28
Number of non-consolidated subsidiaries accounted for by the equity method:	0
Number of affiliated companies accounted for by the equity method:	2

## 5. Changes in Scope of Consolidation and Application of Equity Method:

Number of consolidated subsidiaries:	(Newly consolidated)	3
	(Excluded)	1
Number of companies for which equity method accounting has been adopted:	(Newly included)	0
	(Excluded)	0

## II. Projections for the Year Ending March 31, 2007 (April 1, 2006 – March 31, 2007)

Consolidated	Millions of Yen
	Full Year
Net Sales .....	268,000
Ordinary Income .....	16,000
Net Income .....	8,600
Net Income per Share (yen) .....	208.06

Note: Projections are based on information available at the time of writing and contain risks and uncertain factors, leading actual results to differ materially from the projections. Please consult pages 14-17 for further information.

# KOBAYASHI PHARMACEUTICAL CO., LTD.

## III. Kobayashi Pharmaceutical Group Operation

### 1. Kobayashi Group Overview

The Kobayashi Group consists of Kobayashi Pharmaceutical, Co., Ltd. 34 subsidiaries and 3 affiliates. Its operations are Consumer Products Operations, Wholesale Operations, Medical Devices Operations and Other Operations. The relationship between the Company and its affiliates with regards to these businesses and segments are specified in the following chart:

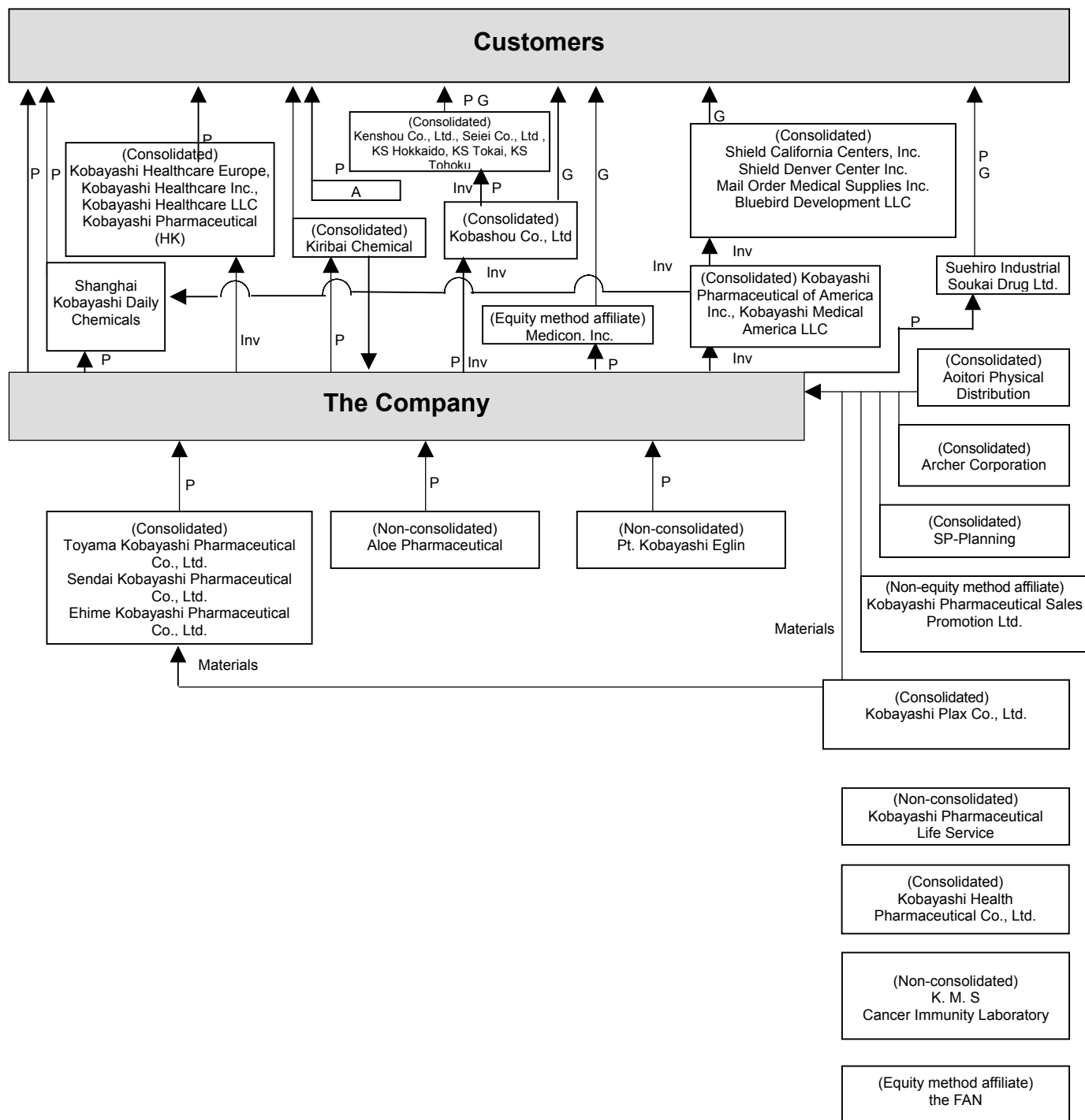
Products	Type	Main companies
<b>Consumer Products Operations</b>	Pharmaceuticals	Kobayashi Pharmaceutical, Co., Ltd. Toyama Kobayashi Pharmaceutical Co., Ltd. Sendai Kobayashi Pharmaceutical Co. Ltd. Itoh Kanpo Pharmaceutical Co.,Ltd. Kobayashi Healthcare LLC Aloe Pharmaceutical (6 companies)
	Oral hygiene products	Kobayashi Pharmaceutical, Co., Ltd. Toyama Kobayashi Pharmaceutical Co., Ltd. Sendai Kobayashi Pharmaceutical Co. Ltd. Kobayashi Plax Co., Ltd. (4 companies)
	Deodorizing air fresheners	Kobayashi Pharmaceutical, Co., Ltd. Toyama Kobayashi Pharmaceutical Co., Ltd. Sendai Kobayashi Pharmaceutical Co. Ltd. Shanghai Kobayashi Daily Chemicals Co., Ltd. Kobayashi Pharmaceutical (Hong Kong) Co., Ltd. (5 companies)
	Household sundries	Kobayashi Pharmaceutical, Co., Ltd. Toyama Kobayashi Pharmaceutical Co., Ltd. Ehime Kobayashi Pharmaceutical Co., Ltd. Sendai Kobayashi Pharmaceutical Co. Ltd. Kiribai Chemical Co. Ltd. Itoh Kanpo Pharmaceutical Co.,Ltd Kobayashi Healthcare Incorporated. Kobayashi Healthcare LLC. Kobayashi Healthcare Europe, Ltd. Kobayashi Healthcare Germany, GmbH Shanghai Kobayashi Daily Chemicals Co., Ltd. Kobayashi Pharmaceutical (Hong Kong) Co., Ltd. (12 companies)
<b>Wholesale Operations</b>	Pharmaceuticals	Kenshou Co., Ltd. Kobashou Co., Ltd. Seiei KS Hokkaido KS Tokai KS Tohoku (6 companies)
	Household sundries, and foods	Kenshou Co., Ltd. Kobashou Co., Ltd. Seiei KS Hokkaido KS Tokai KS Tohoku (6 companies)
<b>Medical Devices Operations</b>	Importing and sale of medical devices	Kobayashi Pharmaceutical of America, Inc. Medicon, Inc. (2 companies)
	Production and sale of medical devices	Toyama Kobayashi Pharmaceutical Co., Ltd. Pt. Kobayashi Eglin Shanghai Kobayashi Daily Chemicals Co., Ltd. (3 companies)
	Integration of US affiliated company	Kobayashi Pharmaceuticals of America Incorporated Kobayashi Medical America LLC (2 companies)
	Sale of home-use medical devices	Shield California Centers, Inc. Shield Denver Centers, Inc. (2 companies)

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	Mail-order business for home-use medical devices	Shield Distribution, Inc. (1 company)
	Medical business research	Kobayashi Pharmaceuticals of America Incorporated Kobayashi Medical America LLC (2 companies)
<b>Other Operations</b>	Transport	Aoitari Physical Distribution (1 company)
	Manufacturing and sales of plastic containers	Kobayashi Plax Co., Ltd. (1 company)
	Insurance agency	Kobayashi Pharmaceutical Life Service Co., Ltd. (1 company)
	Advertising, planning and creation	Archer Corporation (1 company)
	Displays and model production	SP-Planning (1 company)
	Pharmaceutical products and daily goods, marketing and sales promotional activities	Kobayashi Pharmaceutical Sales Promotion of Ltd. Archer Corporation (2 companies)
	Retail, food business, and information services	Soukai Drug Ltd. Suehiro Industrial 3 other companies (5 companies)

# KOBAYASHI PHARMACEUTICAL CO., LTD.

## 2. Kobayashi Group Business Flow



## KOBAYASHI PHARMACEUTICAL CO., LTD.

## 3. Kobayashi Group Relationships

Company Name	Address	Capital (Million Yen)	Business Content	Voting Rights Ownership Ratio	Con-current Officers	Fund Support	Business Relationship	Lease of Facilities	Business Corporation
Toyama Kobayashi Pharmaceutical Co., Ltd.	Toyama	100	Pharmaceuticals and other manufacturing	100.0	Yes	Yes	Manufacturing of the Company's products	Leases of land, buildings, & facilities	-
Sendai Kobayashi Pharmaceutical Co. Ltd.	Sendai	200	Pharmaceuticals and other manufacturing	100.0	Yes	Yes	Manufacturing of the Company's products	Leases of land, buildings, & facilities	-
Ehime Kobayashi Pharmaceutical Co., Ltd.	Ehime	77	Hygienic and paper goods manufacturing	100.0	Yes	Yes	Manufacturing of the Company's products	-	-
Kiribai Chemical Co., Ltd.	Osaka	49	Manufacturing sales of heating pad	100.0	Yes	-	-	-	-
Kobayashi Plax Co., Ltd.	Toyama	95	Synthetic resin products manufacturing	100.0	Yes	Yes	Manufacturing of the Company's products, & materials	-	-
Kobashou Co., Ltd.	Tokyo	4,297	Pharmaceutical products wholesaling	74.2	Yes	-	Sale of the Company's products	Leases of land & buildings	-
Kenshou Co., Ltd.	Tokyo	465	Pharmaceutical products wholesaling	44.1 (44.1)	-	-	Sale of the Company's products	-	-
KS Hokkaido	Sapporo	10	Pharmaceutical products wholesaling	100.0 (100.0)	-	-	Sale of the Company's products	-	-
KS Tokai	Nagoya	10	Pharmaceutical products wholesaling	100.0 (100.0)	-	-	Sale of the Company's products	-	-
KS Tohoku	Sendai	726	Pharmaceutical products wholesaling	100.0 (100.0)	-	-	Sale of the Company's products	-	-
Seiei	Kagawa	300	Pharmaceutical products wholesaling	100.0 (100.0)	-	-	Sale of the Company's products	-	-
Aoiri Physical Distribution	Osaka	99	Transport	100.0 (100.0)	Yes	-	Transport and storage of the Company's products	Leases of buildings & facilities	-
Archer Corporation	Tokyo	10	Advertising, planning and creation	100.0	Yes	-	Advertising, planning and Marketing	-	-
SP-Planning	Osaka	10	SP tools production	100.0	Yes	-	Production of the Company's SP tools	Leases of buildings	-
Suehiro Industrial	Osaka	15	Retail sales of daily necessities etc.	100.0	Yes	-	Sale of the Company's products	Leases of buildings	-
Kobayashi Pharmaceutical Life Service Co., Ltd.	Osaka	10	Insurance agency and real estate management	100.0	Yes	Yes	Real estate management	Leases of buildings	-
Kobayashi Pharmaceuticals of America Incorporated	California USA	US\$ 1	Kobayashi Group U.S. Management	100.0	Yes	Yes	-	-	-
Shield California Centers, Inc.	California USA	US\$ 20,000	Home healthcare and medical device marketing	100.0 (100.0)	Yes	-	-	-	-
Shield Denver Centers, Inc.	Colorado USA	US\$ 1,000	Home healthcare and medical device marketing	100.0 (100.0)	Yes	-	-	-	-
Shield Distribution Inc..	California USA	US\$ 10,000	Home healthcare and medical devices catalog sales	100.0 (100.0)	Yes	-	-	-	-
Kobayashi Medical America LLC	California USA	US\$ 1,600,000	Medical business research	100.0 (100.0)	Yes	-	Marketing of the Company's products	-	-
Kobayashi Healthcare, Inc.	Pennsylvania USA	US\$ 10,000	Daily goods sales	100.0 (100.0)	-	-	Sales of the company's products	-	-
Kobayashi Healthcare LLC	Pennsylvania USA	US\$ 5,110,000	Daily goods sales	100.0	-	-	Sales of the company's products	-	-
Kobayashi Healthcare Europe, Ltd.	London UK	£ 12,415	Daily goods sales	100.0	-	-	Sales of the company's products	-	-
Kobayashi Healthcare Germany GMBH	Dusseldorf Germany	EUR 974,000	Daily goods sales	100.0	-	-	Sales of the company's products	-	-
Shanghai Kobayashi Daily Chemicals Co.,	Shanghai	RMB 111,523,153	Daily goods manufacturing and sales	100.0	Yes	-	Manufacturing and sales of the Company's	-	-

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Ltd.							products		
Kobayashi Pharmaceutical (Hong Kong) Co., Ltd.	Hong Kong	HK\$1,570,000	Daily goods sales	100.0	-	-	Manufacturing and sales of the Company's products	-	-
Kobayashi Health Pharmaceutical Co., Ltd.	Osaka	100	Manufacturing and sales of health foods	51.0	Yes	-	Manufacturing and sales of the Company's products	-	-
Medicon, Inc.	Osaka	160	Medical equipment and device import and marketing	50.0	Yes	-	Sales of the company's products	-	-
Itoh Kanpo Pharmaceutical Co. Ltd.	Osaka	2,085	Daily goods sales	33.4	Yes	-	-	-	-

Notes:

1. Special subsidiary companies are Kobashou Co., Ltd., Kenshou Co. Ltd., Bluebird Development LLC. and Shanghai Kobayashi Daily Chemicals Co., Ltd.
2. None of the companies listed above issue a securities report.
3. Figures in the "voting rights/ownership ratio" column include indirect ownership ratios.
4. KS Tohoku, Kobayashi Medical America LLC and Kobayashi Health Pharmaceutical Co., Ltd. became affiliates in the current consolidated interim period.



# KOBAYASHI PHARMACEUTICAL CO., LTD.

## IV. Management Policies

### 1. Basic Management Policy

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

### 2. Basic Policy on Profit Distribution

Our company regards the recovery of earnings for our shareholders as one of our most important management policies, and will continue to focus on strengthening this area.

For this reason, we ensure that adequate internal reserves for high-growth-oriented business development and strengthening the corporate structure are preserved. At the same time, the Company intends to promote a dividend policy that will reflect consolidated results while maintaining a basic policy of providing stable dividend payments. Internal reserves will be utilized for M&A to grow the consumer products and the medical devices operations and for vigorous investment in expansion overseas.

The common dividend is expected to be 38.00 yen per share by the end of March 2007 (the dividend in March 2006 was 38.00 per share).

### 3. Policy on Reduction of Minimum Trading Unit

We recognize that increasing share liquidity, broadening the investor base and increasing the number of shareholders are critical issues for the Company. To this end, the Company reduced the number of shares in a minimum trading unit from 1,000 to 100 shares in July 2000. Additionally, the Company executed a stock split at the rate of 1.5 for 1 on September 30, 2003, the record date, and part of the shares (3 million shares) that the founding family had was sold in April 2006. The Company will continue to consider measures to increase shareholder value, broaden the investor base and enhance share liquidity.

### 4. Targeted Management Indices

Kobayashi Pharmaceutical aims to achieve a return on assets of 12%. The growth strategy for the Consumer Products Operation is based on vigorous development of new products. The Company's R&D targets are for sales of products commercialized in the last four year to account for at least 35% of total sales, and for new products released in any given fiscal year to account for at least 10% of total sales during that fiscal year. Moreover, in order to maximize shareholder value, the Company considers venture capital efficiency and tries to increase long-term shareholder value.

### 5. Medium- to Long-term Management Strategy

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

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

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The Company aims to achieve annual sales of at least 300 billion yen as soon as possible. Also, in line with its focus on the cost of capital, it will review businesses that yield low returns and vigorously invest in growth businesses offering high returns so as to realize a continuous increase in corporate value.

## **6. Issues to Be Addressed**

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

## **7. Issues Regarding the Parent Company**

Not applicable.

# KOBAYASHI PHARMACEUTICAL CO., LTD.

## IV. Business Results and Financial Position

### Business Results

#### 1. Overview of First Half (ended September 30, 2006)

(Millions of Yen)

	First Half Ended September 30, 2006		First Half Ended September 30, 2005		Change	
	Amount	%	Amount		Amount	%
Net Sales	130,721	100.0	125,076	100.0	5,644	4.5
Operating Income	9,133	7.0	8,664	6.9	468	5.4
Ordinary Income	8,006	6.1	7,978	6.4	28	0.4
<b>Net Income</b>	<b>4,881</b>	<b>3.7</b>	<b>3,558</b>	<b>2.8</b>	<b>1,323</b>	<b>37.2</b>

During the interim period under review, the Japanese economy experienced a gradual recovery driven by improvements in corporate earnings and strong personal spending. However, there are still uncertainties over a slowdown in the US economy and a prolonged period of runaway growth in oil prices.

In these conditions, Kobayashi Pharmaceutical Group fully unleashed the spirit expressed by its management policy of "Creativity and Innovation." It cultivated latent customer needs by introducing new products and services that would create new markets, while invigorating existing markets by offering products and services with new added value. At the same time, vigorous promotion of business partnerships and overseas development resulted in sales totaling 130,721 million yen, an increase of 5,644 million yen, or 4.5%, over the previous interim period.

In terms of profits, the Company made significant investments in advertising to build up our brand in Japan and overseas, but also cut costs by heavily reducing the cost of production and overhauling promotional costs. As a result, operating income stood at 9,133 million yen, up 486 million yen, or 5.4%, over the previous interim period, while ordinary income amounted to 8,006 million yen, an increase of 28 million yen, or 0.4%, over the previous interim period. Net income was 4,881 million yen, 1,323 million yen, or 37.2%, higher than the previous interim period. This sharp rise can be attributed to 1,632 million yen in impairment losses posted in the previous interim period.

#### 2. Segment Analysis

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

##### Consumer Products Operations

Kobayashi Pharmaceutical Group launched 18 new products (excluding nutritional supplement food products), its most ever, in an effort to create new markets and expand existing markets in this business segment. Of these, sales of Nicitol 85, a diet pill for reducing abdominal fat, and Cleair, an air freshener that eliminates unpleasant household odors by releasing ions, made particularly high contributions to sales growth. In addition, efforts to further promote the Shoyo brand of oral hygiene products paid off, with sales totaling 49,500 million yen, up 3,637 million yen, or 7.9%, over the previous interim period.

In addition to sales gains, cost-cutting achieved by drastic reductions in the cost of production and other measures succeeded in boosting operating income to 8,438 million yen, 340 million yen, or 4.2%, higher than the previous interim period.

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## Sales by Category

(Millions of Yen)

	First Half Ended September 30, 2006		First Half Ended September 30, 2005		Change	
	Amount	%	Amount		Amount	%
Pharmaceuticals	9,760	19.7	7,961	17.3	1,799	22.6
Oral hygiene products	6,096	12.3	5,458	11.9	638	11.7
Sanitary products	6,914	14.0	7,022	15.3	(108)	(1.5)
Deodorizing air fresheners	16,449	33.2	15,346	33.5	1,103	7.2
Household sundries	2,258	4.6	2,350	5.1	(92)	(3.9)
Food products	5,376	10.9	5,762	12.6	(386)	(6.7)
Body warmers	2,647	5.3	1,964	4.3	683	34.8
<b>Total</b>	<b>49,500</b>	<b>100.0</b>	<b>45,863</b>	<b>100.0</b>	<b>3,637</b>	<b>7.9</b>

Note: Segment sales include internal sales and transfers among segments; the value of these totaled 13,432 million yen in the previous interim period and 15,522 million yen in the current interim period.

## Wholesale Operations

Wholesale Operations experienced a harsh business environment marked by disappointing sales of summer products in drugstores, our principal customers, due to the unseasonable weather, and a slump in the market for health foods. Nevertheless, the Company acquired all outstanding shares in KS Tohoku Co., Ltd. (the former Sowa Co., Ltd.), on April 1, 2006, and sales rose 3,533 million yen, or 4.3%, to 86,019 million yen.

With regard to profits, while the expanded business scale did allow the Company to take advantage of the economies of scale by purchasing products in bulk from manufacturers, there were delays in improving the profit ratio due to the stock take-over. As a result, operating income declined by 900 million yen, or 4.6% compared to the previous interim period, to 197 million yen.

## Sales by Category

(Millions of Yen)

		First Half Ended September 30, 2006		First Half Ended September 30, 2005		Change	
		Amount	%	Amount		Amount	%
Drugs	Products	6,912	8.0	5,087	6.2	1,825	35.9
	Merchandising	32,041	37.3	29,313	35.5	2,728	9.3
Sanitary products	Products	10,307	12.0	9,872	12.0	435	4.4
	Merchandising	36,758	42.7	38,213	46.3	(1,455)	(3.8)
<b>Total</b>		<b>86,019</b>	<b>100.0</b>	<b>82,485</b>	<b>100.0</b>	<b>3,533</b>	<b>4.3</b>

## Medical Devices Operations

Kobayashi Medical Division concentrated sales efforts in the orthopedic field, where demand is expected to increase, and surgery room products, such as electronic scalpels. Sales of a femoral head prosthesis, developed in-house and launched in January, have been strong.

The three Shield Healthcare Centers in the US succeeded in raising their profit margin by introducing new customer management systems and reducing back-office costs.

As a result, sales totaled 8,705 million yen, an increase of 653 million yen, or 8.1%, over the previous interim period. Operating income increased 248 million yen, or 361.4%, to 317 million yen.

Equity in earnings of Medicon, Inc., an equity-method affiliate, was 115 million yen (compared to 191 million yen in the previous interim period).

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## Sales by Category

(Millions of Yen)

	First Half Ended September 30, 2006		First Half Ended September 30, 2005		Change	
	Amount	%	Amount	Amount	%	Amount
Kobayashi Medical Division	3,809	43.8	3,529	43.8	280	7.9
Shield Healthcare Centers (3 companies)	4,362	50.1	4,079	50.7	283	6.9
Others	532	6.1	444	5.5	89	20.3
<b>Total</b>	<b>8,705</b>	<b>100.0</b>	<b>8,052</b>	<b>100.0</b>	<b>653</b>	<b>8.1</b>

## Other Operations

Other Operations (transportation, sales promotion, market research, etc.) are conducted on a financially independent basis by Kobayashi Pharmaceutical's subsidiaries in support of the Company's three principal businesses and to contribute to the profits of those businesses. The Group reviewed the transfer values of the materials and services these operations provide.

As a result, sales of Other Operations fell 0.2%, or 10 million yen, to 6,647 million yen, and operating income stood at 167 million yen, 108 million yen, or 39.4%, lower than the previous interim period. Segment sales include internal sales and transfers between segments, the value of which totaled 4,550 million yen in the previous interim period and 4,628 million yen in the current interim period.

## 3. Projections for Fiscal Year 2006 (ending March 31, 2007)

(Millions of Yen)

	Fiscal Year Ending March 31, 2007 (Forecast)		Fiscal Year Ended March 31, 2006 (Actual)		Change	
	Amount	%	Amount	%	Amount	%
Net Sales	268,000	100.0	246,852	100.0	21,148	8.6
Operating Income	17,800	6.6	16,879	6.8	921	5.5
Ordinary Income	16,000	6.0	15,151	6.1	849	5.6
Net Income	8,600	3.2	7,474	3.0	1,126	15.1
<b>Net Income per Share (yen)</b>	<b>208.06</b>		<b>179.17</b>		<b>28.89</b>	<b>16.1</b>

The Japanese economy is expected to continue to recover, supported by sustained improvements in corporate earnings and firm personal spending.

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

For fiscal year 2006, the Company forecasts sales of 268,000 million yen, an increase of 21,148 million yen, or 8.6%, compared to fiscal year 2005. Due to additional major cost-cutting in unit costs and other costs, we forecast operating income of 17,800 million yen, an increase of 921 million yen, or 5.5%; ordinary income of 16,000 million yen, an increase of 849 million yen, or 5.6%, and net income of 8,600 million yen, an increase of 1,126 million yen, or 15.1%, compared with fiscal year 2005. In line with our basic policy to continue providing stable dividends, the dividend for this fiscal year is expected to be 38.00 yen per share as an ordinary allotment.

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## Consumer Products Operations

Kobayashi Pharmaceutical took advantage of this business environment characterized by stable prices by launching 17 new products this fall to meet customers' latent needs. These products included its series of aloe products such as Mamiya Aloe Nanko, a topical cream that uses aloe to relieve chapped and cracked skin, and the deodorizing air fresher Shoshu Shabon, which gives rooms a refreshing clean scent. The Company also worked aggressively to sell existing brands in line with the marketing plans established for each brand. We forecast that these efforts will pay off with 101,500 million yen in sales, up 6,724 million yen, or 7.1%, compared to the previous fiscal period. We estimate that cuts in costs such as unit costs and aggressive investment in advertising to enhance our brands will boost operating income by 6.8%, or 1,054 million yen, to 16,500 million yen.

(Millions of Yen)

	Fiscal Year Ending March 31, 2007 (Forecast)	Fiscal Year Ended March 31, 2006 (Actual)	Change	
	Amount	Amount	Amount	%
Net Sales	101,500	94,776	6,724	7.1
<b>Operating Income</b>	<b>16,500</b>	<b>15,446</b>	<b>1,054</b>	<b>6.8</b>

Note: Segment sales include internal sales and transfers among segments; the value of these totaled 25,907 million yen in the previous interim period and 28,500 million yen in the current interim period.

## Wholesale Operations

In addition to promoting and enhancing the effectiveness of affiliations with other companies to expand our geographical coverage to adapt to the increasingly wide-ranging operations of drug stores, a major customer segment, the Company will reinforce the differentiated product line, which is an expected market to grow, and actively endeavor to develop new categories of products such as doctors' cosmetics. Accordingly, we estimate that sales will increase 16,066 million yen, or 10.2%, to 173,000 million yen, and operating income will fall 35 million yen, or 8%, to 400 million yen compared to fiscal year 2005.

(Millions of Yen)

	Fiscal Year Ending March 31, 2007 (Forecast)	Fiscal Year Ended March 31, 2006 (Actual)	Change	
	Amount	Amount	Amount	%
Net Sales	173,000	156,934	16,066	10.2
<b>Operating Income</b>	<b>400</b>	<b>435</b>	<b>(35)</b>	<b>(8.0)</b>

## Medical Devices Operations

The Kobayashi Medical Company will further expand product lines from overseas manufacturers in areas such as surgical operating rooms orthopedics and, at the same time, actively pursue the development of the company's own Kobamed brand of products. The Company anticipates that these endeavors will raise sales of the Medical Devices Operation 74 million yen, or 0.4%, compared with fiscal year 2005, to 17,200 million yen. However, we forecast that operating income will decrease 82 million yen, or 14.1%, compared with fiscal year 2005, to 500 million yen due to the impact of a decline in NHI reimbursement prices.

The three Shield Healthcare companies are no longer included within the scope of consolidation as the Company transferred all of its shares in November.

(Millions of Yen)

	Fiscal Year Ending March 31, 2007 (Forecast)	Fiscal Year Ended March 31, 2006 (Actual)	Change	
	Amount	Amount	Amount	%
Net Sales	17,200	17,126	74	0.4
<b>Operating Income</b>	<b>500</b>	<b>582</b>	<b>(82)</b>	<b>(14.1)</b>

## KOBAYASHI PHARMACEUTICAL CO., LTD.

## Financial Position

## 1. Summary of Cash Flows in the First Half (FY2006, ending March 31, 2007)

## Consolidated Financial Position

(Millions of Yen)

	First Half Ended September 30, 2006	Fiscal Year Ended March 31, 2006	Change
	Amount	Amount	Amount
Total Assets	166,269	151,945	14,323
Shareholders' Equity	73,480	66,811	6,669
Equity Ratio (%)	42.4%	44.0%	(1.6%)
Shareholders' Equity per Share (yen)	1,705.79	1,617.10	88.69

## Consolidated Cash Flows

(Millions of Yen)

	First Half Ended September 30, 2006	Fiscal Year Ended March 31, 2006	Change
	Amount	Amount	Amount
Cash Flow from Operating Activities	1,723	1,127	595
Cash Flow from Investing Activities	999	(4,882)	5,882
Free Cash Flow	2,722	(3,754)	6,477
Cash Flow from Financing Activities	(3,911)	3,339	(7,251)
<b>Balance of Cash and Cash Equivalents At End of Period</b>	23,235	18,645	4,589

An analysis of Kobayashi Group's financial position for the current interim period is as follows.

Total assets increased 14,323 million yen compared with the end of the previous fiscal year, primarily due to an increase of 11,177 million yen in notes receivable and accounts receivable among circulating assets resulting from the formation of new parent-subsidary consolidations, and an increase of 2,348 million yen in inventories. Under current liabilities, notes payable and accounts payable increased by 8,822 million yen. Shareholders' equity including the minority shareholders' portion increased 3,751 million yen compared to the end of fiscal 2005. As a result, the shareholders' equity ratio fell by 1.6 points.

## Cash Flow from Operating Activities

Net cash provided by total operating activities increased 595 million yen to 1,723 million yen compared to the previous interim period. This was primarily attributable to a 2,759 million yen increase in net income before taxes and other adjustments.

## Cash Flow from Investing Activities

Net cash used in investing activities totaled 999 million yen, an increase of 5,882 million yen over the previous interim period. This was mainly due to 5,267 million yen in payments to acquire investments in securities in the previous interim period and 1,100 million yen in revenue from the sale of the Tokyo branch during this interim period.

## Cash Flow from Financing Activities

Net cash resulting from financing operations totaled 3,911 million yen, an increase of 7,251 million yen compared to the previous interim period. This was mainly because, although the Company received 2,650 million yen in revenue from payments made by minority shareholders during the previous interim period,



# KOBAYASHI PHARMACEUTICAL CO., LTD.

repayments on short-term borrowing by subsidiaries and the payment of dividends increased in this interim period.

Accordingly, the term-end balance of cash and cash equivalents increased 4,589 million yen over the previous interim period to 23,235 million yen.

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

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

## 2. Full Year Forecast (FY2006, ending March 31, 2007)

Although the economy continues to recover, the operating environment remains severe. Accordingly, we will strive to reduce inventories and accounts receivable so as to improve efficiency of the investment capital.

Stable investments in plants and equipment are expected to average those of the previous fiscal year. Expenses other than capital spending are anticipated to increase over the previous year due to active corporate takeovers aimed at expanding business. As a result, we expect cash flows from investing activities to increase compared to the previous fiscal year.

Cash flow from financing activities is forecast to remain level with the previous fiscal year.

## 3. Cash Flow Indicator Trends

	As of Sept. 30,	As of March 31,			
	2006	2006	2005	2003	2002
Equity Ratio (%)	42.4	44.0	44.7	42.4	39.2
Equity Ratio at Market Value Basis (%)	112.1	113.9	90.5	91.8	82.9
Debt Repayment Period (years)	—	0.1	0.3	0.8	0.7
Interest Coverage Ratio (times)	—	140.6	96.7	90.5	87.9

Notes:

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

- Equity ratio = (Shareholder's equity – minority shareholders' portion) ÷ total assets
- Equity ratio at market value basis = Total market value of listed shares ÷ total assets
- Liability maturity = Interest-bearing debt ÷ cash flows from operating activities (No information for the interim period)
- Interest coverage ratio = Cash flows from operating activities ÷ interest payment (No information for the interim period)

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

3. Market capitalization is calculated by multiplying a closing price of a share at the year-end (end of interim period) by the number of shares issued after deduction of own shares at the year-end (end of interim period).

3. Cash flow from operating activities uses the figures for cash flow from operating activities in the consolidated (consolidated interim) cash flow statement. Interest-bearing debt includes all debts that incur interest payments out of the liabilities accounted for in the consolidated balance sheet. "Interest payment" in the consolidated (consolidated interim) statement of cash flow is used.



# KOBAYASHI PHARMACEUTICAL CO., LTD.

## Risk Factors

### 1. Highly Competitive Business Environment

The Kobayashi Pharmaceutical Group aims to differentiate itself from rival companies by developing new products and services that satisfy customer needs. This is crucial as the Group's main products target retail consumers. However, we are susceptible to intensifying price-based competition triggered by the launch of competing products by rivals. In response, we may have to increase development costs for new products, or advertising and sales promotion expenses to stimulate demand. These and other factors could affect the Group's operating results and financial position.

### 2. Highly Susceptible to Sales of New Products

The Group pursues aggressive product development activities as part of its strategy for spurring growth, launching new products every year in the spring and fall. However, delays in developing or bringing new products to market, sales of competing products, and other factors may have an impact on sales of the Group's new products, which could in turn affect the Group's operating results and financial position.

### 3. Risk Concerning Inability to Reap Anticipated Benefits of Mergers or Alliances

While enhancing product lineups through M&As and business alliances, the Group is striving to expand sales regions in pursuit of a broader range of new markets both in Japan and overseas. However, these M&As and alliances are subject to uncertainties. The Group may be unable to reap the anticipated benefits of M&As and alliances or may be forced to change its business strategies, due to unforeseen post-merger or alliance events. This could affect the Group's operating results and financial position.

### 4. Legal Constraints

The Group's businesses are subject to the Pharmaceutical Affairs Law as well as other relevant laws and regulations. The Medical Devices Operation is particularly susceptible to reductions in NHI reimbursement prices. These and other factors could affect the Group's operating results and financial position.

### 5. Changes in Raw Material Prices

The Group's Consumer Products Operation is exposed to the risk of changes in raw material prices. Despite ongoing cost reductions, the Group's operating results and financial condition may be affected by a sharp rise in raw material prices triggered by surging crude oil prices and other factors.

### 6. Impact of Inclement Weather

Sales of some of the Group's products, such as body warmers, hay fever-related products, and cold remedies, are highly susceptible to seasonal factors, such as temperatures and airborne pollen counts, which could have a large impact on sales. Trends in sales of these products could therefore affect the Group's operating results and financial position.

### 7. Overseas Business Risk

The Group's trading transactions, principally the import of medical devices, are subject to fluctuations in exchange rates. However, the Group reduces their impact on operating results mainly by hedging foreign currency risk through forward exchange transactions. The Group does not engage in derivative transactions for speculative purposes. Line items denominated in foreign currencies, including the sales, expenses, assets and liabilities, of overseas subsidiaries, are converted into yen for the purpose of preparing consolidated financial statements. In the event of a large change in the prevailing exchange rate on the conversion date, there will be a substantial corresponding change in the yen value of such line items. The Group is also exposed to the risk of changes in regulations by foreign governments, as well as economic conditions. These and other factors could affect the Group's operating results and financial position.

# KOBAYASHI PHARMACEUTICAL CO., LTD.

## **8. Information Management and System Risk**

The Group holds large volumes of information mainly as part of its mail-order shopping businesses, including personal information. For this reason, the Group has established an internal information management system in conjunction with enhancing in-house training programs and information management. However, the Group's operating results and financial position could be affected by a loss of public trust caused by a leak of information.

## **9. Intellectual Property Risk**

Third-party infringement of intellectual property rights, including the Group's brands and related trademarks, may result in large damages to the Group. Furthermore, the inadvertent infringement of the intellectual property rights of a third party by the Group may also have adverse consequences. These and other factors could impact the Group's operating results and financial position.

## KOBAYASHI PHARMACEUTICAL CO., LTD.

## V. Consolidated Financial Statements

(April 1, 2006 – September 30, 2006)

## 1. Consolidated Balance Sheets

	Millions of Yen					
	As of September 30,				As of March 31,	
	2006	%	2005	%	2006	
<b>Assets</b>						
<b>Current Assets</b>						
Cash and time deposits .....	23,235		18,645		24,436	
Trade notes and accounts receivable .....	58,879		55,117		47,702	
Investment securities.....	1,199		1,002		1,502	
Inventories.....	19,871		18,348		17,523	
Deferred income taxes .....	2,558		2,473		2,819	
Other current assets.....	7,529		6,157		5,492	
Allowance for doubtful accounts.....	(607)		(516)		(569)	
<b>Total Current Assets .....</b>	<b>112,666</b>	<b>67.8</b>	<b>101,228</b>	<b>65.5</b>	<b>98,906</b>	<b>65.1</b>
<b>Fixed Assets:</b>						
<b>Tangible Assets</b>						
Buildings and Structures .....	11,159		11,630		11,444	
Land .....	8,665		8,487		8,487	
Other .....	2,846		2,859		2,856	
<b>Total Tangible Assets .....</b>	<b>22,672</b>	<b>13.6</b>	<b>22,976</b>	<b>14.9</b>	<b>22,788</b>	<b>15.0</b>
<b>Intangible Assets</b>						
Business rights .....	—		1,116		1,052	
Goodwill .....	3,228		—		—	
Trademark.....	1,333		1,492		1,414	
Software.....	1,121		960		1,162	
Consolidated adjustment accounts...	—		2,945		2,597	
Other .....	300		294		293	
<b>Total Intangible Assets .....</b>	<b>5,983</b>	<b>3.6</b>	<b>6,809</b>	<b>4.4</b>	<b>6,520</b>	<b>4.3</b>
<b>Investments and Other Assets</b>						
Investments in securities .....	17,191		14,972		15,609	
Deferred tax assets .....	1,836		2,788		2,291	
Other assets .....	7,151		7,505		7,424	
Allowance for investment liability loss .....	(287)		(225)		(252)	
Allowance for doubtful receivables.....	(944)		(1,602)		(1,343)	
<b>Total Investments and Other Assets .....</b>	<b>24,947</b>	<b>15.0</b>	<b>23,438</b>	<b>15.2</b>	<b>23,730</b>	<b>15.6</b>
<b>Total Fixed Assets .....</b>	<b>53,602</b>	<b>32.2</b>	<b>53,225</b>	<b>34.5</b>	<b>53,038</b>	<b>34.9</b>
<b>Total Assets .....</b>	<b>166,269</b>	<b>100.0</b>	<b>154,453</b>	<b>100.0</b>	<b>151,945</b>	<b>100.0</b>

## KOBAYASHI PHARMACEUTICAL CO., LTD.

	Millions of Yen					
	As of September 30,				As of March 31,	
	2006	%	2005	%	2006	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Trade notes and accounts payable .....	58,044		53,721		49,221	
Short-term loans payable .....	1,268		4,723		1,371	
Accrued expenses .....	13,007		10,586		11,950	
Accrued income taxes .....	4,809		4,329		4,664	
Allowance for bonus payable .....	2,162		2,145		2,082	
Reserve for adjustment of returned goods .....	670		429		616	
Other current liabilities .....	2,626		2,789		2,132	
<b>Total Current Liabilities .....</b>	<b>82,589</b>	<b>49.7</b>	<b>78,726</b>	<b>51.0</b>	<b>72,040</b>	<b>47.4</b>
<b>Fixed Liabilities</b>						
Long term loans payable .....	209		308		261	
Provision for retirement benefits .....	7,286		6,980		7,065	
Provision for allowances for directors and corporate auditors .....	1,351		1,310		1,358	
Other long-term liabilities .....	1,351		908		1,490	
<b>Total Fixed Liabilities .....</b>	<b>10,199</b>	<b>6.1</b>	<b>9,507</b>	<b>6.1</b>	<b>10,175</b>	<b>6.7</b>
<b>Total Liabilities .....</b>	<b>92,788</b>	<b>55.8</b>	<b>88,234</b>	<b>57.1</b>	<b>82,215</b>	<b>54.1</b>
<b>Shareholders' Equity</b>						
<b>Minority Interests</b>						
Minority interests .....	—	—	2,888	1.9	2,917	1.9
<b>Shareholders' Equity</b>						
Common stock .....	—	—	3,450	2.2	3,450	2.3
Capital surplus .....	—	—	4,185	2.7	4,191	2.8
Earned surplus .....	—	—	56,170	36.4	60,086	39.5
Unrealized holding gains on other securities .....	—	—	2,351	1.5	2,856	1.9
Foreign currency translation adjustments .....	—	—	(489)	(0.3)	(293)	(0.2)
Cost of treasury stock .....	—	—	(2,335)	(1.5)	(3,480)	(2.3)
<b>Total Shareholders' Equity .....</b>	<b>—</b>	<b>—</b>	<b>63,331</b>	<b>41.0</b>	<b>66,811</b>	<b>44.0</b>
<b>Total Liabilities, Minority Interests and Shareholders' Equity .....</b>	<b>—</b>	<b>—</b>	<b>154,453</b>	<b>100.0</b>	<b>151,945</b>	<b>100.0</b>

## KOBAYASHI PHARMACEUTICAL CO., LTD.

	Millions of Yen					
	As of September 30,				As of March 31,	
	2006		2005		2006	
	Amount	%	Amount	%	Amount	%
<b>Net Assets</b>						
<b>Shareholders' Equity</b>						
Common stock .....	3,450	2.1	—	—	—	—
Capital surplus.....	4,203	2.5	—	—	—	—
Earned surplus .....	63,359	38.1	—	—	—	—
Treasury stock .....	(3,357)	(2.0)	—	—	—	—
<b>Total Shareholders' Equity .....</b>	<b>67,655</b>	<b>40.7</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Appraisal and Translation Differences</b>						
Unrealized holding gains on other securities .....	2,881	1.7	—	—	—	—
Gain/ loss on deferred hedge .....	341	0.2	—	—	—	—
Foreign currency translation adjustments .....	(369)	(0.2)	—	—	—	—
<b>Total Appraisal and Translation Differences.....</b>	<b>2,853</b>	<b>1.7</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Minority Interests .....</b>	<b>2,971</b>	<b>1.8</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total Net Assets.....</b>	<b>73,480</b>	<b>44.2</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total Liabilities and Net Assets .....</b>	<b>166,269</b>	<b>100.0</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

## KOBAYASHI PHARMACEUTICAL CO., LTD.

## 2. Consolidated Income Statement

	Millions of Yen					
	First Half Ended September 30,				Year Ended March 31,	
	2006	%	2005	%	2006	%
<b>Net Sales</b> .....	<b>130,721</b>	<b>100.0</b>	<b>125,076</b>	<b>100.0</b>	<b>246,852</b>	<b>100.0</b>
Cost of sales .....	88,285	67.5	85,672	68.5	167,239	67.7
Gross profit .....	42,435	32.5	39,404	31.5	79,613	32.3
Selling, general, & administrative expenses .....	33,301	25.5	30,739	24.6	62,734	25.5
<b>Operating Income</b> .....	<b>9,133</b>	<b>7.0</b>	<b>8,664</b>	<b>6.9</b>	<b>16,879</b>	<b>6.8</b>
<b>Other Income and Expenses:</b>						
<b>Other Income</b>						
Interest received .....	58		36		83	
Dividends earned .....	44		33		72	
Loyalty received .....	202		211		544	
Investment income due to equity method .....	107		191		458	
Gain on foreign exchange .....	—		14		—	
Miscellaneous income .....	354		381		738	
<b>Total Other Income</b> .....	<b>767</b>	<b>0.6</b>	<b>869</b>	<b>0.7</b>	<b>1,897</b>	<b>0.8</b>
<b>Other Expenses</b>						
Interest expenses .....	36		43		93	
Sales discount .....	576		510		1,117	
Loss on disposal or write-off of inventories .....	1,124		868		2,105	
Loss on foreign exchange .....	57		—		21	
Miscellaneous expenses .....	100		132		287	
<b>Total Other Expenses</b> .....	<b>1,894</b>	<b>1.5</b>	<b>1,555</b>	<b>1.2</b>	<b>3,625</b>	<b>1.5</b>
<b>Ordinary Income</b> .....	<b>8,006</b>	<b>6.1</b>	<b>7,978</b>	<b>6.4</b>	<b>15,151</b>	<b>6.1</b>
<b>Extraordinary Gain and Loss</b>						
Gain on sales of fixed assets .....	917		46		53	
Gain on transfer of goodwill .....	1,127		1,065		1,065	
Other extraordinary gains .....	181		3		653	
<b>Extraordinary Gains</b> .....	<b>2,226</b>	<b>1.7</b>	<b>1,115</b>	<b>0.9</b>	<b>1,771</b>	<b>0.7</b>
Losses on sales and disposal of fixed assets .....	340		70		133	
Loss on disposal or write-offs of inventories .....	274		289		654	
Loss on liquidation of affiliated companies .....	—		—		25	
Allowance for investment loss liability transfer .....	35		37		64	
Impairment loss .....	33		1,632		1,655	
Other extraordinary losses .....	36		310		380	
<b>Extraordinary Losses</b> .....	<b>719</b>	<b>0.5</b>	<b>2,340</b>	<b>1.9</b>	<b>2,913</b>	<b>1.1</b>

## KOBAYASHI PHARMACEUTICAL CO., LTD.

	Millions of Yen					
	First Half Ended September 30,				Year Ended March 31,	
	2006	%	2005	%	2006	%
<b>Income Before Income Taxes .....</b>	<b>9,513</b>	<b>7.3</b>	<b>6,753</b>	<b>5.4</b>	<b>14,009</b>	<b>5.7</b>
<b>Corporate Income, Local and Business Taxes....</b>	<b>3,987</b>	<b>3.1</b>	<b>3,994</b>	<b>3.2</b>	<b>7,240</b>	<b>2.9</b>
<b>Adjustments to Income Taxes .....</b>	<b>601</b>	<b>0.5</b>	<b>(888)</b>	<b>(0.7)</b>	<b>(959)</b>	<b>(0.3)</b>
<b>Minority Interest in Net Income of Consolidated Subsidiaries.....</b>	<b>42</b>	<b>0.0</b>	<b>88</b>	<b>0.1</b>	<b>253</b>	<b>0.1</b>
<b>Net Income.....</b>	<b>4,881</b>	<b>3.7</b>	<b>3,558</b>	<b>2.8</b>	<b>7,474</b>	<b>3.0</b>

**3. Consolidated Statement of Surplus**

	Millions of Yen	
	First Half Ended September 30,	Year Ended March 31,
	2005	2006
<b>Capital Surplus</b>		
<b>I. Beginning balance of capital surplus .....</b>	4,183	4,183
<b>II. Earnings from disposal of treasury stock.....</b>	1	8
<b>III. Ending balance of capital surplus .....</b>	4,185	4,191
<b>Earned Surplus</b>		
<b>I. Beginning balance of earned surplus .....</b>	53,585	53,585
<b>II. Increase in earned surplus</b>	4,055	7,972
Net income for the first half .....	3,558	7,474
Difference from change in equity .....	497	497
<b>III. Decrease in earned surplus.....</b>	1,470	1,470
Cash dividends paid .....	1,373	13,373
Directors' bonuses .....	44	44
Decrease associated with change in scope of consolidation.....	52	52
<b>IV. Ending balance of earned surplus .....</b>	<b>56,170</b>	<b>60,086</b>

## KOBAYASHI PHARMACEUTICAL CO., LTD.

## 4. Consolidated Statements of Changes to Shareholders' Equity

(Millions of Yen)

	Shareholders' Equity				
	Common stock	Capital surplus	Earned surplus	Treasury stock	Total shareholders' equity
Balance at start of period	3,450	4,191	60,086	(3,480)	64,248
Fluctuations in the interim period					
Dividends*			(1,569)		(1,569)
Directors' bonuses*			(40)		(40)
Interim net income			4,881		4,881
Acquisition of treasury stock				(12)	(12)
Disposal of treasury stock		11		135	147
Fluctuations other than shareholders' equity in the interim period (net)					
Total fluctuation in the interim period	—	11	3,272	123	3,406
Balance at end of period	3,450	4,203	63,359	(3,357)	67,655

	Appraisal and Translation Differences				Minority interests	Total net assets
	Unrealized holding gains on other securities	Gain/ loss on deferred hedge	Foreign exchange translation adjustments	Total appraisal and translation differences		
Balance at start of period	2,856	—	(293)	2,562	2,917	69,729
Fluctuations in the interim period						
Dividends*						(1,569)
Directors' bonuses*						(40)
Interim net income						4,881
Acquisition of treasury stock						(12)
Disposal of treasury stock						147
Fluctuations other than shareholders' equity in the interim period (net)	24	341	(75)	290	54	344
Total fluctuation in the interim period	24	341	(75)	290	54	3,751
Balance at end of period	2,881	341	(369)	2,853	2,971	73,480

\* Note: These figures refer to disposal of profit at the General Shareholders' Meeting held in June 2006.



## KOBAYASHI PHARMACEUTICAL CO., LTD.

## 5. Consolidated Statement of Cash Flows

	Millions of Yen		
	First Half Ended September 30,		Year Ended March 31,
	2006	2005	2006
<b>I. Cash flow from operating activities:</b>			
Income before income taxes and minority interests .....	9,513	6,753	14,009
Depreciation .....	1,198	1,386	2,813
Impairment losses .....	33	1,632	1,655
Amortization of consolidated adjustment accounts.....	—	251	599
Amortization of goodwill .....	406	—	—
Provision for allowance of doubtful accounts.....	(380)	(301)	(531)
Accrued severance indemnities, net .....	221	506	591
Interest and dividend income .....	(102)	(69)	(156)
Interest expenses .....	36	43	93
Equity in earnings of affiliates .....	(107)	(191)	(458)
Losses on disposal of inventory evaluation .....	1,399	1,157	2,759
Loss on liquidation of affiliated companies .....	—	—	25
Gain on sale of goodwill .....	(1,127)	(1,065)	(1,065)
Gain on transfer of property lease rights.....	—	—	(242)
Loss on sales of investment securities .....	340	70	133
Gain on sale of fixed assets .....	(917)	—	—
Provision for investment losses.....	35	37	64
Increase (decrease) in trade notes and accounts receivable ..	(8,094)	(9,038)	(1,190)
Increase (decrease) in inventories .....	(3,292)	(3,692)	(4,417)
Increase (decrease) in trade notes and accounts payable .....	5,937	8,490	3,943
Others.....	382	(1,508)	856
<b>Subtotal .....</b>	<b>5,480</b>	<b>4,461</b>	<b>19,483</b>
Interest and dividends received .....	102	69	156
Interest paid .....	(36)	(43)	(93)
Income taxes paid .....	(3,823)	(3,359)	(6,387)
<b>Net cash provided by operating activities .....</b>	<b>1,723</b>	<b>1,127</b>	<b>13,159</b>
<b>II. Cash flow from investing activities:</b>			
Payments for purchases of securities .....	(699)	—	—
Proceeds from redemption of securities .....	1,502	—	—
Payments for purchases of investment securities .....	(1,905)	(5,267)	(6,489)
Proceeds from redemption of investment securities.....	—	—	1,005
Payments for purchases of property, plant and equipment ...	(642)	(635)	(1,391)
Proceeds from sales of property, plant and equipment .....	1,108	300	300
Payments for purchases of intangible assets .....	(160)	(489)	(894)
Payments for investments and other assets .....	(288)	(117)	(437)
Proceeds from sales of investments and other assets .....	187	107	214
Increase in short term loans receivable .....	(136)	74	139
Disbursement for long term loans payable .....	(27)	(22)	(23)
Proceeds from collection of long term loans .....	25	29	35
Proceed from acquisition of shares of newly consolidated subsidiaries .....	871	47	47

## KOBAYASHI PHARMACEUTICAL CO., LTD.

	Millions of Yen		
	First Half Ended September 30,		Year Ended March 31,
	2006	2005	2006
Proceeds from sale of goodwill .....	1,127	1,065	1,065
Others .....	36	24	14
<b>Net cash used in investing activities .....</b>	<b>999</b>	<b>(4,882)</b>	<b>(6,414)</b>

	Millions of Yen		
	First Half Ended September 30,		Year Ended March 31,
	2006	2005	2006
<b>III. Cash flow from financing activities:</b>			
Increase (decrease) in short-term loans, net .....	(2,064)	1,885	(930)
Proceeds from long-term debt .....	(418)	(46)	(629)
Proceeds from shareholders of minority interests .....	—	2,650	2,650
Proceeds from sales of treasury stock .....	147	—	83
Payments for purchase of treasury stock .....	(6)	(10)	(1,219)
Dividends paid .....	(1,569)	(1,373)	(1,373)
Others .....	—	234	—
<b>Net cash used in financing activities .....</b>	<b>(3,911)</b>	<b>3,339</b>	<b>(1,419)</b>
<b>IV. Effect of exchange rate changes on cash and cash equivalents .....</b>	<b>(12)</b>	<b>25</b>	<b>76</b>
<b>V. Net increase in cash and cash equivalents .....</b>	<b>(1,201)</b>	<b>(389)</b>	<b>5,401</b>
<b>VI. Cash and cash equivalents at beginning of period</b>	<b>24,436</b>	<b>19,035</b>	<b>19,035</b>
<b>VII. Cash and cash equivalents at end of period .....</b>	<b>23,235</b>	<b>18,645</b>	<b>24,436</b>