

KOBAYASHI

PHARMACEUTICAL CO., LTD.

Consolidated Annual Financial Results for the Fiscal Year Ended March 31, 2007

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

KOBAYASHI PHARMACEUTICAL CO., LTD.

Summary of Consolidated Financial Results for the Full Year Ended March 31, 2007

Kobayashi Pharmaceutical, Co., Ltd. (4967)

Exchange Listed:	Osaka and Tokyo, First Section
Principal Office:	Osaka, Japan
Homepage:	http://www.kobayashi.co.jp
President and COO:	Yutaka Kobayashi
Contact:	Satoshi Yamane, General Manager Group Corporate Business Headquarters
Telephone:	+81-6222-0084
Date of the Board of Directors' meeting to approve financial statements:	May 14, 2006
U.S. (GAAP) accounting standard:	Not adopted for the purposes of these statements.

1. Consolidated Financial Results (April 1, 2006 – March 31, 2007)

(1) Consolidated Operating Results

	Millions of Yen - Except Per Share Data and Percents			
	Fiscal Year Ended March 31,			
	2007	%	2006	%
Net Sales	257,022	4.1	246,852	14.4
Operating Income	18,029	6.8	16,879	7.5
Ordinary Income	15,012	(0.9)	15,151	7.0
Net Income	8,297	11.0	7,474	11.1
Net Income per Share (yen)	200.77		179.17	
Net Income per Share, Diluted (yen)	200.47		179.01	
Return on Equity (ROE)	11.7		11.8%	
Return on Assets (ROA)	9.5		10.6%	
Ordinary Income to Operating Revenues Ratio	7.0		6.8%	

Notes:	Equity method investment profit and loss:	
	Fiscal year ending March 31, 2007:	187 million yen
	Fiscal year ending March 31, 2006:	458 million yen

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(2) Consolidated Financial Position

	Millions of Yen - Except Per Share Data and Percents	
	Fiscal Year Ended March 31,	
	2007	2006
Total Assets	164,555	151,945
Shareholders' Equity	77,236	66,811
Shareholders' Equity Ratio	45.2	44.0
Shareholders' Equity per Share	1,799.87	1,617.10

Note: Equity:

Fiscal year ending March 31, 2007: 74,429 million yen
 Fiscal year ending March 31, 2006: - million yen

(3) Consolidated Cash Flows

	Millions of Yen	
	Fiscal Year Ended March 31,	
	2007	2006
Cash Flows from Operating Activities	8,833	13,159
Cash Flows from Investing Activities	(11,803)	(6,414)
Cash Flows from Financing Activities	(2,433)	(1,419)
Cash and Cash Equivalents, End of Year	19,090	24,436

2. Dividend Status

Consolidated	Yen		
	Fiscal Year Ended March 31,		
	2007	2006	2008 (forecast)
Dividend per share			
End of interim period	--	--	27.00
End of current consolidated period	50.00	38.00	27.00
Fiscal year	50.00	38.00	54.00
Total dividend (fiscal year, Millions of Yen)	2,067	1,569	--
Dividend payout (consolidated)	24.9	21.2	25.5
Ratio of net assets to dividends (consolidated)	2.9	2.5	--

3. Projections for the Year Ending March 31, 2008

(April 1, 2007 – March 31, 2008)

Consolidated	Millions of Yen			
	Mid Year		Full Year	
	Amount	Change %	Amount	Change %
Net Sales	132,000	1.0	265,000	3.1
Operating Income	8,300	(9.1)	18,500	2.6
Ordinary Income	7,200	(10.1)	16,000	6.6
Net Income	4,000	(18.0)	8,750	5.5
Net Income per Share (yen)	96.73		211.60	

(Reference) Projected consolidated net income per share for the full year: 211.60 yen

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

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4. Other

(1) Changes in Scope of Consolidation

Number of consolidated subsidiaries	
Newly consolidated	3
Excluded	2

Note: For details please refer to "Kobayashi Group Overview" on pages 4-8.

(2) Changes in principles, procedures and presentation of accounting treatment in preparing interim consolidated financial statements (changes described in "important items that are fundamental to preparation of interim consolidated financial statements")

(1) Changes resulting from revisions to accounting standards, etc.	Yes
(2) Changes other than (1)	None

Note: Please refer to "Important items that are fundamental to the preparation of interim consolidated financial statements" on page 30 for more details.

(3) Number of shares issued (common shares)

	Shares	
	Fiscal Year Ended March 31,	
	2007	2006
Number of shares issued end of fiscal period (including treasury stock)	42,525,000	42,525,000
Number of treasury shares at end of period	1,172,506	1,234,262

Note: Please refer to "Per Share Information" on page 38 for the number of shares used as the basis for calculating net income (consolidated) per share for the interim period.

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I. Kobayashi Pharmaceutical Group Operation

(1) Kobayashi Group Overview

The Kobayashi Group consists of Kobayashi Pharmaceutical, Co., Ltd. 38 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
Consumer Product Operation	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 LLC. Kobayashi Healthcare Europe, Ltd. Kobayashi Healthcare Germany, GmbH HEATMAX Inc. MEDHEAT Inc. THERMOMAX Inc. Shanghai Kobayashi Daily Chemicals Co., Ltd. Kobayashi Pharmaceutical (Hong Kong) Co., Ltd. (14 companies)
	Integration of US affiliated company	Kobayashi Healthcare of America Inc. (1 company)
Wholesale Operation	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)
Medical Devices Operation	Importing and sale of medical devices	Kobayashi Pharmaceutical Co., Ltd. Medicon, Inc. (2 companies)
	Production and sale of medical devices	Toyama Kobayashi Pharmaceutical Co., Ltd. Pt. Kobayashi Eglin Shanghai Kobayashi Daily Chemicals Co., Ltd. eVent Medical Ltd (4 companies)
	Sale of medical devices	eVent Medical Inc. eMed Ltd. (2 companies)
	Integration of US affiliated company	Kobayashi Medical America LLC (1 company)

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	Medical Business Research	Kobayashi Pharmaceuticals of America Incorporated Kobayashi Medical America LLC (2 companies)
Other Operations	Transport	Aoitari Physical Distribution Kobayashi Pharmaceutical Physical Distribution Co., Ltd. (2 companies)
	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 and Information services	Soukai Drug Ltd. Suehiro Industrial Other 4 companies (6 companies)

Notes:

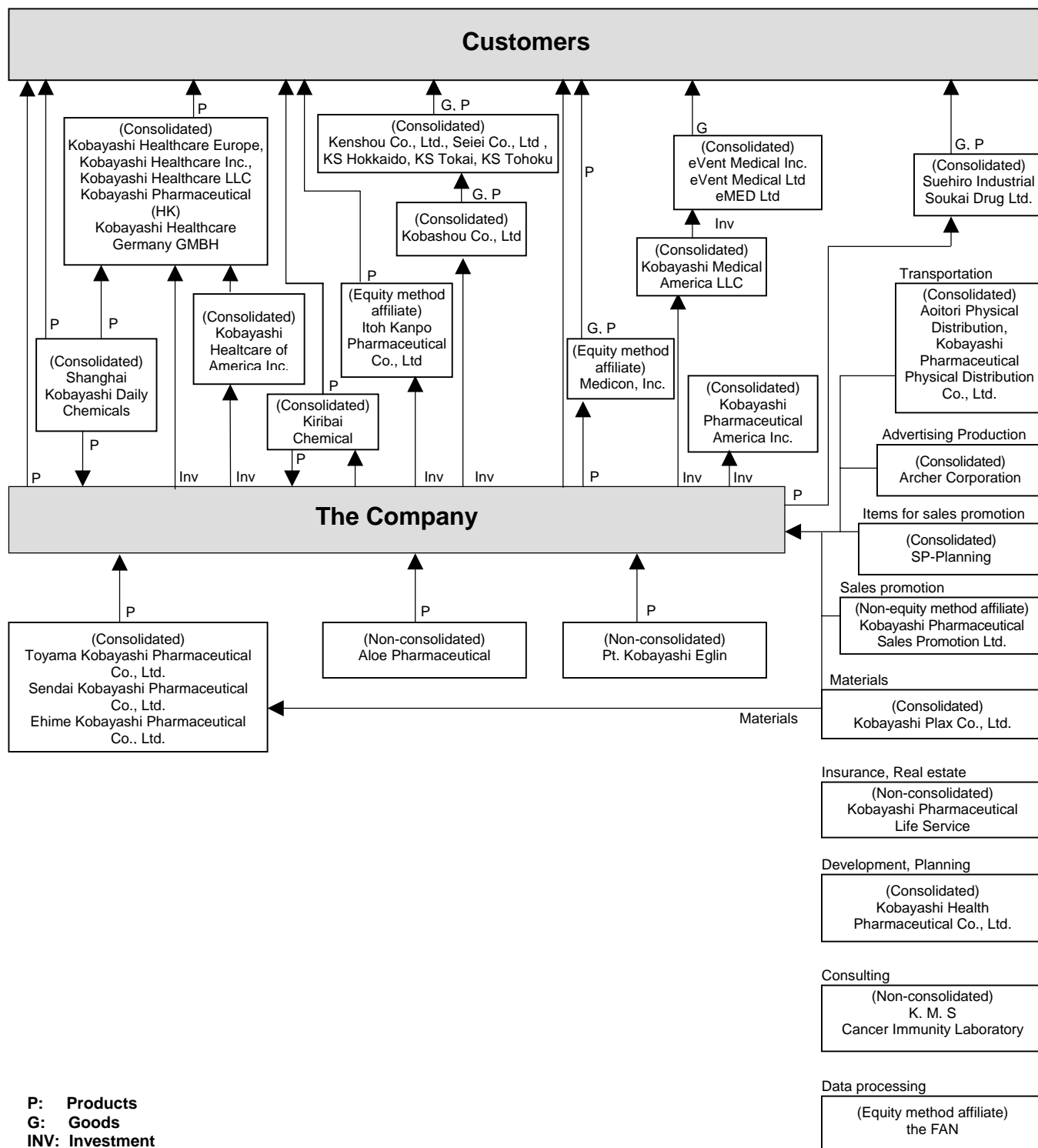
KS Tohoku, Kobayashi Medical America LLC, Kobayashi Health Pharmaceutical Co., Ltd., Kobayashi Healthcare of America LLC, eVent Medical Inc., eMED Ltd., eVent Medical Ltd, eMED Ltd., HEATMAX Inc., MEDHEAT Inc., THERMOMAX Inc., Kobayashi Pharmaceutical Physical Distribution Co., Ltd. became affiliates in the current consolidated fiscal year.

Shield California Healthcare Centers, Inc., Shield Denver Healthcare Centers, Inc., and Shield Distribution Incorporated are no longer Kobayashi Group subsidiaries as the Company's shareholdings in these companies were transferred. Bluebird Development LLC and Kobayashi Healthcare Incorporated are also no longer Group subsidiaries as these companies have been liquidated.

Aoitari Physical Distribution Co., Ltd. was split off into Aoitari Physical Distribution Co., Ltd. and Kobayashi Pharmaceutical Distribution Co., Ltd in January 2007. Subsequently, Aoitari Physical Distribution Co., Ltd. merged with Kobasyo in April 2007.

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(2) Kobayashi Group Business Flow



Consumer Products Operation

Wholesale Operation

Medical Devices Operation

Other Operations

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(3) Kobayashi Group Relationships

Company Name	Address	Capital (Million Yen)	Business Contents	Voting rights ownership ratio	Con-current Officers	Fund support	Business relationship	Lease of Facilities	Business Corporation
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	10	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	-	-
Aoirori 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	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	-	-	-
Kobayashi Medical America LLC	California USA	US\$ 23,000,000	Medical business research	100.0 (100.0)	Yes	-	Marketing 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	£ 14,081	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., Ltd.	Shanghai	RMB 141,428,621	Daily goods manufacturing and sales	100.0	Yes	-	Manufacturing and sales of the Company's 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	-	-
Kobayashi Pharmaceutical Physical Distribution Co., Ltd.	Osaka	10	Transport	100.0	Yes	Yes	Transport and storage of the Company's products	-	-

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(Continued)

Company Name	Address	Capital (Million Yen)	Business Contents	Voting rights ownership ratio	Con-current Officers	Fund support	Business relationship	Lease of Facilities	Business Corporation
Kobayashi Healthcare of America Inc.	Georgia USA	US\$ 6,100	Kobayashi Group U.S. Management	100.0	Yes	-	-	-	-
eVent Medical Ltd	Galway Ireland	EUR 2,666	Manufacture and sales of respirators	100.0	-	-	-	-	-
eMED Ltd.	Galway Ireland	EUR 127	Medical equipment sales	100.0	-	-	-	-	-
eVent Medical Inc.	California USA	US\$ 100	Medical equipment sales	100.0	Yes	-	-	-	-
HEATMAX Inc.	Georgia USA	US\$ 1,230,000	Manufacture and sales of daily goods	100.0	Yes	-	-	-	-
MEDHEAT Inc.	Georgia USA	US\$ 10	Manufacture and sales of daily goods	100.0	-	-	-	-	-
THERMOMAX Inc.	Georgia USA	US\$ 0	Manufacture and sales of daily goods	100.0	-	-	-	-	-
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, Kobayashi Health Pharmaceutical Co., Ltd., Kobayashi Healthcare of America LLC, eVent Medical Inc., eMED Ltd., eVent Medical Ltd, eMED Ltd., HEATMAX Inc., MEDHEAT Inc., THERMOMAX Inc., Kobayashi Pharmaceutical Physical Distribution Co., Ltd. became affiliates in the current consolidated fiscal year.
5. Shield California Healthcare Centers, Inc., Shield Denver Healthcare Centers, Inc., and Shield Distribution Incorporated are no longer Kobayashi Group subsidiaries as the Company's shareholdings in these companies were transferred. Bluebird Development LLC and Kobayashi Healthcare Incorporated are also no longer Group subsidiaries as these companies have been liquidated. Aoitari Physical Distribution Co., Ltd. was split off into Aoitari Physical Distribution Co., Ltd. and Kobayashi Pharmaceutical Distribution Co., Ltd in January 2007. Subsequently, Aoitari Physical Distribution Co., Ltd. merged with Kobasyo in April 2007.

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II. Management Policy

1. Basic Management Policy

Kobayashi Group's management policy is to provide people and society with wonderful "comfort" as a result of its quest for the new through creativity and innovation. It is the Company's mission to provide all its 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 the Company's growth is its unceasing pursuit of "Something New, Something Different," and its development of new products and services that satisfy customer needs. By doing so, the Company intends to increase the enterprise value so as to deliver greater satisfaction to all its stakeholders.

2. 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 stockholder value.

3. Medium- to Long-term Management Strategy

For Kobayashi Pharmaceutical to achieve sustainable growth, the Company needs 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, the Company intends 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. The Company 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, it intends 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. The Company aims to be the central distribution of the health and beauty-care industry.

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.

4. Issues to Be Addressed

Adhering to the Company's management policy of "Creativity and Innovation," its mission is 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 the Company to bring new product development, one of its core capabilities, into full play, vigorously promote mergers and acquisitions that will enhance profitability, and achieve an efficient and robust financial position. Moreover, the Company intends to develop its business overseas vigorously, reaching out from the domestic market. Since Kobayashi Pharmaceutical as a total health care corporation provides products and services that are associated with people's health and lives, it will also strive to realize more thorough quality control.

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III. Business Results and Financial Position

Business Results

(1) Overview of Fiscal Year Ended March 31, 2007

(Millions of Yen)

	Full Year ended March 31, 2007		Full Year ended March 31, 2006		Change	
	Amount	%	Amount		Amount	%
Net sales	257,022	100.0	246,852	100.0	10,169	4.1
Operating Income	18,029	7.0	16,879	6.8	1,149	6.8
Ordinary Income	15,012	5.8	15,151	6.1	(138)	(0.9)
Net Income	8,297	3.2	7,474	3.0	822	11.0
Net Income per share (yen)	200.77		179.17		21.60	12.1

The Group cultivated latent customer needs by introducing new products and services and seeding new markets while invigorating existing markets by offering products and services with new added value. Alongside these measures, Kobayashi engaged proactively in forming new partnerships, acquiring new companies and pursuing overseas business expansion. As a result, sales rose 4.1 % to 257,022 million yen, 10,169 million yen higher than in the previous consolidated fiscal year.

The Group invested extensively in advertising to build up its brands, but this was offset by sales growth in product categories with high profit margins, in addition to cost cutting accomplished with far-reaching reductions in the cost of production and an overhaul of sales promotion costs. As a result, operating income rose 1,149 million yen (6.8 %) over the previous year to 18,029 million yen.

Equity in earnings of affiliates fell, however, while losses on the revaluation and retirement of inventory valuation due to product returns and product upgrades increased. As a result, ordinary income dropped 138 million yen (-0.9 %) to 15,012 million yen. Net income was 8,297 million yen, up 822 million yen or 11.0% higher than the previous period. This sharp rise can be attributed to 1,655 million yen in impairment losses posted in the previous period.

(2) Segment Analysis

The following is a summary of performance by business segment during the fiscal year ended March 31, 2007.

Consumer Products Operation

The Kobayashi Pharmaceutical Group launched 35 new products, excluding nutritional supplement food products, creating new markets and expanding existing markets in this business segment. Sales of *Nicitol 85*, a diet pill for reducing abdominal fat, *Cleair*, an air freshener that eliminates unpleasant household odors by releasing ions, and *Shoshu Shabon*, a deodorizing air freshener that gives rooms a refreshing clean scent made particular contributions to sales growth. Sales of body warmers slackened this year due to the record-breaking warm winter, but the body warmer business is gaining ground overseas and sales improved for the "amazing socks that keep feet warm."

As a result, sales in the Consumer Products division improved 8.2% to 102,503 million yen, an increase of 7,726 million yen over the previous period.

Sales growth in product categories with high profit margins as well as cost-cutting achieved by drastic reductions in the cost of production cost succeeded in boosting operating income to 16,560 million yen up 1,113 million yen or 7.2 % higher than the previous fiscal period.

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Sales by Category

(Millions of Yen)

	Full Year ended March 31, 2007		Full Year ended March 31, 2006		Change	
	Amount	%	Amount		Amount	%
Pharmaceuticals	19,799	19.3	16,434	17.3	3,365	20.5
Oral hygiene products	11,811	11.5	10,741	11.3	1,070	10.0
Sanitary products	13,796	13.5	13,256	14.0	540	4.1
Deodorizing air fresheners	30,020	29.3	28,307	29.9	1,713	6.1
Household sundries	4,501	4.4	4,517	4.8	(16)	(0.4)
Food products	11,186	10.9	11,421	12.0	(235)	(2.1)
Body warmers	11,388	11.1	10,099	10.7	1,289	12.8
Total	102,503	100.0	94,776	100.0	7,726	8.2

Notes:

1) Segment sales include internal sales and transfers among segments; the value of these totaled 25,907 million yen in previous fiscal year (ended March 31, 2006) and 30,785 million yen in the current fiscal year (ended March 31, 2007).

Wholesale Operation

Wholesale Operations were marked by disappointing sales of seasonal products to drugstores, our principal customers, and a slump in the market for health foods, due to unseasonable weather. Nevertheless, the Company acquired all outstanding shares in KS Tohoku Co., Ltd. (the former Sowa Co., Ltd.), on April 1, 2006, and sales rose 5.0% to 164,840 million yen, an increase of 7,905 million yen on the previous term.

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 112 million yen, or 25.8% compared to the previous fiscal period, to 323 million yen.

Sales by Category

(Millions of Yen)

		Full Year ended March 31, 2007		Full Year ended March 31, 2006		Change	
		Amount	%	Amount	%	Amount	%
Drugs	Products	13,901	8.4	10,459	6.7	3,442	32.9
	Merchandising	62,851	38.1	56,210	35.8	6,641	11.8
Sanitary products	Products	20,680	12.6	19,493	12.4	1,187	6.1
	Merchandising	67,406	40.9	70,772	45.1	(3,366)	(4.8)
Total		164,840	100.0	156,934	100.0	7,905	5.0

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Medical Devices Operation

The Kobayashi Medical Division faced a difficult environment due to the reduction in NHI reimbursement prices, but concentrated sales efforts in the orthopedic field, where demand is expected to increase, and in surgical products, such as electronic scalpels. Sales were strong for proprietary brand products that have been actively promoted.

The three Shield Healthcare Centers in the US succeeded in raising profit margins by introducing new customer management systems and reducing back-office costs. However, we do not anticipate synergies with existing businesses, so in November 2006 we transferred our shareholdings in these three companies to Dharma Ventures Group, Inc., a special purposes company established by the Shield management team.

Accordingly, Sales for Medical Devices Operations fell 630 million yen, or 3.7%, to 16,496 million yen, while operating income declined by 21 million yen, or 3.6%, to 561 million yen. Equity in earnings of Medicon, Inc., an equity-method affiliate, declined 57.8% to 110 million yen.

Sales by Category

(Millions of Yen)

	Full Year ended March 31, 2007		Full Year ended March 31, 2006		Change	
	Amount	%	Amount	%	Amount	%
Kobayashi Medical Company	8,072	48.9	7,544	44.1	528	7.0
Shield Healthcare Centers (3 companies)	7,262	44.0	8,586	50.1	(1,323)	(15.4)
Others	1,161	7.1	996	5.8	165	16.6
Total	16,496	100.0	17,126	100.0	(630)	(3.7)

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 rose 1.0%, or 136 million yen, to 13,112 million yen. Operating income declined slightly to 390 million yen, by 12 million yen, or 3.0% less than the previous fiscal period. Segment sales, including internal sales and transfers between segments, rose to 9,142 million yen in the term from 9,053 million yen in the previous period.

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(3) Forecasts for Fiscal Year Ending March 31, 2008

(Millions of Yen)

	Full Year ending March 31, 2008		Full Year ended March 31, 2007		Change	
	Amount	%	Amount	%	Amount	%
Net Sales	265,000	100.0	257,022	100.0	7,978	3.1
Operating Income	18,500	7.0	18,029	7.0	471	2.6
Ordinary Income	16,000	6.0	15,012	5.8	988	6.6
Net Income	8,750	3.3	8,297	3.2	453	5.5
Net Income per Share (yen)	211.60		200.77		10.83	5.4

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 the following fiscal year, the Company forecasts sales of 265,000 million yen, an increase of 7,978 million yen or 3.1%, compared to the previous fiscal year. Due to additional major cost-cutting in unit costs and other costs, we forecast operating income of 18,500 million yen, an increase of 471 million yen or 2.6%; ordinary income of 16,000 million yen, an increase of 988 million yen or 6.6%, and net income of 8,750 million yen, an increase of 453 million yen or 5.5%, compared with the previous fiscal year. In line with our basic policy to continue providing stable dividends, the annual dividend for the following fiscal year is expected to be 54 yen per share (an interim dividend of 27 yen and a year-end dividend of 27 yen) as an ordinary allotment.

Consumer Products Operation

Kobayashi Pharmaceutical took advantage of this business environment characterized by stable prices by launching 15 new products this spring to meet customers' latent needs. These products included *Tamushiru*, an athlete's foot medication combining the properties of a fungicide and an anti-itch medication, *Tochugenha*, a special health food product made entirely of *Eucommia ulmoides* leaf that is suitable for people with high blood pressure, *Keshimin pen*, a medicated treatment that conceals age spots while controlling melanin production. The Company also worked aggressively to sell existing brands in line with the marketing plans established for each brand. At the same time, we endeavored to create new markets overseas, particularly for body warmers. We forecast that these efforts will pay off with 111,000 million yen in sales, up 8,497 million yen, or 8.3%, 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 8.7%, or 1,440 million yen, to 18,000 million yen.

The US-based Heatmax, Inc., whose shares we acquired in November 2006, will become a consolidated subsidiary from this next consolidated fiscal year.

(Millions of Yen)

	Full Year ending March 31, 2008		Full Year ended March 31, 2007		Change	
	Amount		Amount		Amount	%
Net Sales	111,000		102,503		8,497	8.3
Operating Income	18,000		16,560		1,440	8.7

Notes:

1) Segment sales include internal sales and transfers among segments; the value of these totaled 30,785 million yen in the fiscal year ended March 31, 2007 and is forecasted at 33,400 million yen in the next fiscal year ending March 31, 2008.

KOBAYASHI PHARMACEUTICAL CO., LTD.

Wholesale Operation

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 actively endeavor to develop new categories of products such as doctors' cosmetics. Accordingly, we estimate that sales will increase 7,160 million yen, or 4.3%, to 172,000 million yen, and operating income will grow 277 million yen, or 85.8%, to 277 million yen compared to the previous fiscal year.

	(Millions of Yen)			
	Full Year ending March 31, 2008	Full Year ended March 31, 2007	Change	
	Amount	Amount	Amount	%
Net Sales	172,000	164,840	7,160	4.3
Operating Income	600	323	277	85.8

Medical Devices Operation

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 acquired shares in eVent Medical Ltd. in November 2006, and will also promote global sales of its artificial ventilators and develop new products. The three Shield Healthcare companies are no longer included within the scope of consolidation, and thus the Company anticipates that sales in the Medical Devices Operation will fall 5,196 million yen, or 31.5%, compared with 11,300 million yen in the end of the previous fiscal year, to 400 million yen, and that operating losses will worsen by 400 million yen amount to 961 million yen.

	(Millions of Yen)			
	Full Year ending March 31, 2008	Full Year ended March 31, 2007	Change	
	Amount	Amount	Amount	%
Net Sales	11,300	16,496	(5,196)	(31.5)
Operating Income	(400)	561	(961)	-

KOBAYASHI PHARMACEUTICAL CO., LTD.

Financial Position

(1) Full Year Overview

Consolidated Financial Position

(Millions of Yen)

	Millions of Yen - Except Per Share Data and Ratios		
	As of March 31,		Change
	2007	2006	
Total Assets	164,555	151,945	12,610
Shareholders' Equity	77,236	66,811	10,424
Shareholders' Equity Ratio	45.2%	44.0%	1.2%
Shareholders' Equity per Share (Yen)	1,799.87	1,617.10	182.77

Summary of Cash Flows in Fiscal Year Ended March 31, 2006

(Millions of Yen)

	Full Year ended March 31, 2007	Full Year ended March 31, 2006	Change
	Amount	Amount	Amount
Cash flows from operating activities	8,833	13,159	(4,325)
Cash flows from investing activities	(11,803)	(6,414)	(5,388)
Free cash flow	(2,969)	6,744	(9,713)
Cash flows from financing activities	(2,433)	(1,419)	(1,013)
Term-end balance of cash and cash equivalents	19,090	24,436	(5,346)

Total assets increased 12,610 million yen compared with the end of the previous fiscal year. This was primarily due to an increase of 3,637 million yen in trade notes and accounts receivable and 2,323 million yen in inventories as current assets.

In terms of current liabilities, trade notes and accounts payable increased 2,138 million yen. In addition, retained earnings as a part of net assets increased 6,689 million yen.

Cash flows from operating activities

Net cash provided by total operating activities decreased 4,325 million yen to 8,833 million yen compared to the previous fiscal period. This was primarily because net income before taxes and other adjustments increased 2,028 million yen, but business tax payments increased 1,376 million yen and trade payable fell 4,996 million yen.

Cash flows from investing activities

Net cash used in investing activities totaled 11,803 million yen, an increase of 5,388 million yen over the previous fiscal period. This was mainly due to 9,062 million yen in payments to acquire shares in an overseas subsidiary.

KOBAYASHI PHARMACEUTICAL CO., LTD.

Cash flow from financing activities

Net cash used in financing operations totaled 2,433 million yen, an increase of 1,013 million yen compared to the previous fiscal period. This was mainly due to an increase in the payment of dividends in this fiscal period.

Accordingly, the term-end balance of cash and cash equivalents decreased 5,346 million yen over the previous fiscal period to 19,090 million yen

* The following formula was used to calculate free cash flow: Free cash flow = Cash flow from operating activities + cash flow from investing activities

(2) Fiscal Year Ending March 31, 2008 Forecasts

The operating environment remains severe, but we will strive to reduce inventories and accounts receivable so as to improve efficiency of the investment capital. Stable investments in plants and equipment for product development are expected to average those of the previous fiscal year. We do not anticipate any large investments other than capital spending, and as a result, we expect cash flows from investing activities to decrease 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 March 31,				
	2007	2006	2005	2004	2003
Equity Ratio (%)	45.2	44.0	44.7	42.4	39.2
Equity Ratio at Market Value Basis (%)	112.3	113.9	90.5	91.8	82.9
Debt Repayment Period (years)	0.4	0.1	0.3	0.8	0.7
Interest Coverage Ratio (times)	125.1	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 = Net Asset / Gross Asset
- Equity Ratio on Value = Gross Aggregate Market Price / Gross Asset
- Debt Redemption Schedule = Debt with Interest / Operating Cash Flow
- Interest Coverage Ratio = Operating Cash Flow / Interest Payment

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 by the number of shares issued after deduction of own shares at the year-end.

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

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

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(4) Profit Distribution and Fiscal 2007 and 2008 Dividends

Kobayashi Pharmaceutical regards the distribution of profits to shareholders as one of the Company's 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.

Based on this policy, the common dividend is expected to be 50.00 yen per share in the fiscal year ended March 2007 and 54.00 yen per share in the fiscal year ending March 2008 (an interim dividend of 27 yen and a year-end dividend of 27 yen per share).

KOBAYASHI PHARMACEUTICAL CO., LTD.

IV. Annual Consolidated Financial Statements

1. Consolidated Balance Sheets

	Millions of Yen				
	As of March 31,				
	2007	%	2006	%	Change
Assets					
Current assets:					
Cash and time deposits	18,091		24,436		(6,345)
Trade notes and accounts receivable	51,340		47,702		3,637
Securities	3,795		1,502		2,293
Inventories	19,846		17,523		2,323
Deferred income taxes	2,953		2,819		134
Other current assets	6,261		5,492		769
Allowance for doubtful accounts	(186)		(569)		383
Total Current Assets	102,102	62.0	98,906	65.1	3,195
Fixed Assets:					
Tangible Fixed Assets:					
Buildings and Structures	11,214		11,444		(229)
Machinery and equipment	1,272		1,319		(47)
Land	8,667		8,487		180
Other	1,124		1,536		(411)
Total Fixed Assets	22,279	13.5	22,788	15.0	(508)
Intangible Assets:					
Trading rights	-		1,052		(1,052)
Goodwill	11,870		-		11,870
Trademark	1,251		1,414		(163)
Software	1,178		1,162		16
Consolidation Adjustments account	-		2,597		(2,597)
Other	302		293		8
Total Intangible Assets	14,602	8.9	6,520	4.3	8,082
Investments and Other Assets:					
Investments in securities	17,965		15,609		2,356
Long Term Loans	397		372		25
Deferred Tax Assets	1,767		2,291		(524)
Other Assets	6,706		7,052		(345)
Allowance for investment liability loss	(289)		(252)		(37)
Allowance for doubtful receivables	(976)		(1,343)		367
Total Investments and Other Assets	25,571	15.6	23,730	15.6	1,841
Total Fixed Assets	62,453	38.0	53,038	34.9	9,414
Total Assets	164,555	100.0	151,945	100.0	12,610

KOBAYASHI PHARMACEUTICAL CO., LTD.

	Millions of Yen				
	As of March 31,				
	2007	%	2006	%	Change
Liabilities					
Current Liabilities:					
Trade notes and accounts payable	51,359		49,221		2,138
Short-term loans payable	3,205		1,371		1,833
Accrued expenses.....	12,437		11,950		486
Accrued income taxes	4,505		4,664		(158)
Accrued consumption taxes	594		628		(34)
Reserve for unsold goods	902		616		286
Allowance for bonus payable	2,109		2,082		26
Other current liabilities.....	1,912		1,503		408
Total Current Liabilities.....	77,028	46.8	72,040	47.4	4,987
Fixed Liabilities:					
Long term loans payable	207		261		(53)
Provision for retirement benefits.....	7,559		7,065		494
Provision for allowances for directors and corporate auditors	1,399		1,358		41
Other long-term liabilities.....	1,124		1,490		(366)
Total Fixed Liabilities	10,291	6.3	10,175	6.7	115
Total Liabilities	87,319	53.1	82,215	54.1	5,103
Shareholders' Equity					
Minority Interests:					
Minority interests	--	--	2,917	1.9	(2,917)
Shareholders' Equity:					
Common stock.....	--	--	3,450	2.3	(3,450)
Capital surplus.....	--	--	4,191	2.8	(4,191)
Earned Surplus.....	--	--	60,086	39.5	(60,086)
Net unrealized holding gains on securities	--	--	2,856	1.9	(2,856)
Foreign currency translation adjustments	--	--	(293)	(0.2)	293
Cost of treasury stock.....	--	--	(3,480)	(2.3)	3,480
Total Shareholders' Equity.....	--	--	66,811	44.0	(66,811)
Total Liabilities, Minority Interest and Shareholders' Equity.....	--	--	151,945	100.0	(151,945)

KOBAYASHI PHARMACEUTICAL CO., LTD.

	Millions of Yen				
	As of March 31,				
	2007	%	2006	%	Change
Net Assets					
Stockholders' Equity:					
Common stock.....	3,450	2.1	--	--	3,450
Capital surplus.....	4,206	2.5	--	--	4,206
Retained earnings	66,775	40.6	--	--	66,775
Treasury stock	(3,331)	(2.0)	--	--	(3,331)
Total Stockholders' Equity.....	71,120	43.2	--	--	71,120
Appraisal and Translation Differences:					
Unrealized gains on securities	2,815	1.7	--	--	2,815
Profit/loss on deferred hedge	291	0.2	--	--	291
Foreign currency translation adjustments	201	0.1	--	--	201
Total Appraisal and Translation Differences	3,308	2.0	--	--	3,308
Minority interests	2,806	1.7	--	--	2,806
Total Net Assets	77,236	46.9	--	--	77,236
Total Liabilities and Net Assets	164,555	100.0	--	--	164,555

2. Consolidated Annual Statements of Income

	Millions of Yen					
	As of March 31,					
	2007	%	2006	%	Change	%
Net Sales.....	257,022	100.0	246,852	100.0	10,169	4.1
Cost of sales	172,304	67.0	167,239	67.7	5,065	3.0
Gross income.....	84,717	33.0	79,613	32.3	5,104	6.4
Selling, general, & administrative expenses	66,688	26.0	62,734	25.5	3,954	6.3
Operating Income.....	18,029	7.0	16,879	6.8	1,149	6.8
Other Income and Expenses						
Other Income:						
Interest and dividend income.....	177		156		21	
Royalty income	539		544		(4)	
Investment gains from companies accounted for by the equity method	187		458		(271)	
Income from rents and real estate..	86		212		(125)	
Income from other rents	1		8		(7)	
Miscellaneous income	605		518		87	
Other Income.....	1,597	0.6	1,897	0.8	(299)	(15.8)

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	Millions of Yen					
	As of March 31,					
	2007	%	2006	%	Change	%
Other Expenses:						
Interest expenses	70		93		(22)	
Sales Discount.....	1,260		1,117		143	
Losses on disposal of inventory evaluation	3,018		2,105		913	
Real estate lease expense	58		110		(52)	
Additional lease expense	0		10		(10)	
Translation loss	92		21		71	
Miscellaneous expenses	113		166		(53)	
Other Expenses	4,613	1.8	3,625	1.5	988	27.3
Ordinary Income	15,012	5.8	15,151	6.1	(138)	(0.9)
Extraordinary Gain and Loss:						
Gains on sales of fixed assets.....	1,183		53		1,129	
Goodwill transfer benefit.....	1,127		1,065		62	
Reimbursement of allowance for doubtful debt.....	265		220		45	
Gains on the sale of subsidiaries ...	220		--		220	
Proceeds from transfer of building lease rights	--		242		(242)	
Other extraordinary gains	32		190		(158)	
Extraordinary Gains	2,829	1.1	1,771	0.7	1,057	59.7
Losses on disposal of fixed assets.....	407		133		273	
Losses on sale of investment securities	120		--		120	
Losses on disposal of inventory evaluation	583		654		(70)	
Loss on shares of subsidiary evaluation	405		--		405	
Losses on liquidation of subsidiaries.....	--		25		(25)	
Allowance for investment loss Liability transfer	37		64		(27)	
Impairment loss.....	123		1,655		(1,532)	
Other extraordinary losses	126		380		(253)	
Extraordinary Losses.....	1,804	0.7	2,913	1.1	(1,109)	(38.1)
Income Before Provision for Income Taxes.....	16,038	6.2	14,009	5.7	2,028	14.5
Corporate Income, Local and Business Taxes.....	7,452	2.9	7,240	2.9	211	2.9
Adjustments to Income Taxes.....	408	0.1	(959)	(0.3)	1,367	(142.5)
Minority Interest in Net Income of Consolidated Subsidiaries.	(119)	(0.0)	253	0.1	(373)	
Net Income	8,297	3.2	7,474	3.0	822	11.0

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3. Consolidated Statements of Retained Earnings

	Millions of Yen
	Fiscal Year Ended March 31, 2007
Capital Surplus	
I. Beginning balance of capital surplus.....	4,183
III. Increase in capital surplus.....	8
Gain or loss on disposal of treasury stock	8
III. Ending balance of capital surplus	4,191
Earned Surplus	
I. Beginning balance of earned surplus	53,585
II. Increase in earned surplus	7,972
Net income	7,474
Difference due to change in equity.....	497
III. Decrease in earned surplus	1,470
Cash dividends paid	1,373
Directors' bonuses.....	44
Decrease in adjustment associated with change in scope of consolidation.....	52
IV. Ending balance of earned surplus	60,086

KOBAYASHI PHARMACEUTICAL CO., LTD.

4. Consolidated Statements of Changes to Shareholders' Equity

	(Millions of Yen)				
	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 current consolidated fiscal year					
Dividends*			(1,569)		(1,569)
Directors' bonuses*			(40)		(40)
Net income			8,297		8,297
Acquisition of treasury stock				(10)	(10)
Disposal of treasury stock		14		179	194
Fluctuations other than shareholders' equity in the consolidated fiscal year (net)					
Total fluctuation in the consolidated fiscal year	—	14	6,688	169	6,872
Balance at end of period	3,450	4,206	66,775	(3,311)	71,120

	(Millions of Yen)					
	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 consolidated fiscal year						
Dividends*						(1,569)
Directors' bonuses*						(40)
Net income						8,297
Acquisition of treasury stock						(10)
Disposal of treasury stock						194
Fluctuations other than shareholders' equity in the consolidated fiscal year (net)	(41)	291	495	745	(110)	634
Total fluctuation in the consolidated fiscal year	(41)	291	495	745	(110)	7,506
Balance at end of period	2,815	291	201	3,308	2,806	77,236

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

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5. Consolidated Statements of Cash Flows

	Millions of Yen	
	Fiscal Year Ended March 31,	
	2007	2006
I. Cash flows from operating activities		
Income before income taxes and minority interests	16,038	14,009
Depreciation or amortization	2,782	2,813
Impairment loss	405	1,655
Provision for investment loss carried over	37	64
Depreciation of consolidated adjustment account	--	599
Provision for allowance of doubtful accounts	592	--
Accrued severance indemnities, net	(773)	(531)
Interest and dividend income	494	591
Interest expenses	(177)	(156)
Losses on requisition of affiliated companies	70	93
Proceeds from investment by equity method	--	25
Proceeds from transfer of building lease rights	(187)	(458)
Loss on sales or disposal of property, plants and equipment	3,602	2,759
Loss on sale of investment securities	(1,127)	(1,065)
Gain on transfer of property lease rights	--	(242)
Loss on valuation of investment securities	407	133
(Decrease) increase in trade notes and accounts receivable	332	(1,190)
Increase (decrease) in inventories	(4,762)	(4,417)
(Decrease) increase in trade notes and accounts payable	(1,053)	3,943
Increase (decrease) in consumption taxes payable	(33)	239
Bonuses paid to directors	(40)	(44)
Other	(116)	660
Sub Total	16,490	19,483
Interest and dividends received	177	156
Interest paid	(70)	(93)
Income taxes paid	(7,763)	(6,387)
Net cash provided by operating activities	8,833	13,159

KOBAYASHI PHARMACEUTICAL CO., LTD.

	Millions of Yen	
	Fiscal Year Ended March 31,	
	2007	2006
II. Cash flows from investing activities		
Purchases of securities	(4,092)	--
Proceeds from redemption of securities	2,800	--
Purchases of property, plants and equipment	(1,478)	(1,391)
Proceeds from sales of property, plants and equipment	1,490	300
Purchases of intangible assets	(469)	(894)
Purchases of investment securities	(2,021)	(6,489)
Proceeds from redemption of investment securities	--	1,005
Purchases of intangible assets	(1,355)	(437)
Proceeds from sales of investments and other assets	--	214
Increase in short-term loans receivable	0	139
Disbursement for long-term loans payable	(62)	(23)
Proceeds from collection of long term loan	36	35
Proceeds from acquisition of shares of newly consolidated Subsidiaries	--	47
Proceeds from sale of goodwill	1,127	1,065
Payment for acquisition of shares of newly consolidated subsidiaries with change in scope of consolidation	(9,062)	--
Proceed from acquisition of shares of newly consolidated subsidiaries with change in scope of consolidation	933	--
Others	349	14
Net cash used in investing activities	(1,1803)	(6,414)
III. Cash flows from financing activities		
Increase (decrease) in short-term loans, net	(556)	(930)
Repayment of long-term loans	(494)	(629)
Income from minority interests	--	2,650
Payment for purchase of treasury stock	(8)	(1,219)
Proceeds from purchase of treasury stock	194	83
Dividends paid	(1,569)	(1,373)
Net cash used in financing activities	(2,433)	(1,419)
IV Effect of exchange rate changes on cash and cash equivalents	56	76
V. Net increase in cash and cash equivalents	5,346	5,401
VI. Cash and cash equivalents at beginning of year	24,436	19,035
VII. Beginning of period adjustment associated with change in scope of consolidation	--	--
VIII. Cash and cash equivalents at end of year	19,090	24,436

KOBAYASHI PHARMACEUTICAL CO., LTD.

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

1. Principles of consolidation

- (1) Number of subsidiaries: 32 companies

Names of major consolidated subsidiaries

Kobashou Co., Ltd., Toyama Kobayashi Pharmaceutical Co., Ltd., Sendai Kobayashi Pharmaceutical Co., Ltd., Ehime Kobayashi Pharmaceutical Co., Ltd., Kobayashi Plax Co., Ltd., Aitori Physical Distribution, Suehiro Industrial, Archer Corporation, SP-Planning, Kiribai Chemical Co., Ltd., Kenshou Co., Ltd., KS Hokkaido, KS Tokai, KS Tohoku, Seiei, Kobayashi Health Pharmaceutical Co., Ltd., eVent Medical Ltd, eVent Medical Inc., eMed Ltd., Kobayashi Medical America LLC, Kobayashi Healthcare LLC, HEATMAX Inc., MEDHEAT Inc., THERMOMAX Inc., Kobayashi Healthcare of America Inc., Kobayashi Healthcare Europe, Ltd., Kobayashi Healthcare Germany GMBH, Kobayashi Pharmaceutical of America Inc., Shanghai Kobayashi Daily Chemicals Co., Ltd., Kobayashi Pharmaceutical (Hong Kong) Co., Ltd., Kobayashi Pharmaceutical Life Service Co., Ltd., Kobayashi Pharmaceutical Physical Distribution Co., Ltd.

(Notes)

KS Tohoku, Kobayashi Medical America LLC, Kobayashi Health Pharmaceutical Co., Ltd., Kobayashi Healthcare of America LLC, eVent Medical Inc., eMED Ltd., eVent Medical Ltd, eMED Ltd., HEATMAX Inc., MEDHEAT Inc., THERMOMAX Inc., Kobayashi Pharmaceutical Physical Distribution Co., Ltd. are established and Kobayashi Pharmaceutical Physical Distribution Co., Ltd. was split off and established in the current consolidated fiscal year.

Shield California Healthcare Centers, Inc., Shield Denver Healthcare Centers, Inc., and Shield Distribution Incorporated are no longer Kobayashi Group subsidiaries as the Company's shareholdings in these companies were transferred. Bluebird Development LLC and Kobayashi Healthcare Incorporated are also no longer Group subsidiaries as these companies have been liquidated.

Aitori Physical Distribution Co., Ltd. was split off into Aitori Physical Distribution Co., Ltd. and Kobayashi Pharmaceutical Distribution Co., Ltd in January 2007. Subsequently, Aitori Physical Distribution Co., Ltd. merged with Kobasyo in April 2007.

- (2) Names of major non-consolidated subsidiaries

Kobayashi Sales Promotion, Pt Kobayashi Eglin, KMS, Sokai Drug Ltd., Cancer Immunity Information Research Center.

Reason for exclusion from scope of consolidation

All of the six non-consolidated subsidiaries are small companies, and their combined total assets, sales, net income (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

Medicon Inc. Itoh Kanpo Pharmaceutical Co., Ltd.

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

Pt Kobayashi Eglin, the FAN, Sokai Drug Ltd.

- (3) Reason why the equity method is not applied

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

3. Fiscal years of consolidated subsidiaries

Among the consolidated companies, eVent Medical Ltd, eMed Ltd., Kobayashi Medical America LLC, Kobayashi Healthcare LLC, HEATMAX Inc., MEDHEAT Inc., THERMOMAX Inc., Kobayashi Healthcare of America Inc., Kobayashi Healthcare Europe, Ltd., Kobayashi Healthcare Germany GMBH, Kobayashi

KOBAYASHI PHARMACEUTICAL CO., LTD.

Pharmaceutical of America Inc., and Shanghai Kobayashi Daily Chemicals Co., Ltd. have a full year consolidated account settlement date of December 31. When preparing the consolidated financial statements, financial statement as of that date were used, and in the case of important transactions that occurred between that date and the full year 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, the Company used the full year consolidated financial statements based on a provisional settlement of accounts that was conducted as of the full year consolidated account settlement date.

4. Accounting standards

(1) Valuation criteria and valuation methods for major assets

1) Marketable securities

Other marketable securities

With fair market value ...Market value method based on quoted market price on first-half 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) Derivatives...Market value method

3) Inventories

Commodities and raw materials ...Principally stated at cost determined by the moving average method

Finished goods, work in process and supplies ...Principally stated at cost determined by the total average 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) Intangible 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) Long-term expenses

Depreciation is computed by the amortized uniformity method.

Remaining useful lives are accounted for with the same methods as income taxes.

(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 uncollectable amounts from certain specific doubtful receivables is provided.

Overseas consolidated subsidiaries post an estimate of uncollectable 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 some domestic consolidated subsidiaries post an estimated amount of sales return losses to provide for sales return losses.

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4) Reserve for retirement allowances

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

5) Provision for directors' retirement allowances

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

6) Reserve for losses on investments in subsidiaries

Estimated losses based on the financial status of each subsidiary are recorded to prepare for losses on investments in subsidiaries.

(4) Method of accounting for major lease transactions

Finance leases, except for those that 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.

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5. Valuation of consolidated subsidiaries' assets and liabilities

Full fair value valuation methods are used.

6. Amortization of goodwill

Goodwill will be amortized in equal portions over a 20 year period after its acquisition, reflecting the time period during which the investment will be effective. However, goodwill with a low value will be amortized in a lump sum in the fiscal year in which it was acquired.

7. Amortization of consolidation adjustment accounts

The consolidation adjustment accounts are amortized over ten years in the case of Kiribai Chemical Co., Ltd., whereas Seiei's consolidation adjustment accounts are depreciated all at once in the consolidated fiscal year.

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VI. Important Matters in the Preparation of Consolidated Financial Statements

Current Fiscal Year (April 1, 2006 to March 31, 2007)	Previous Fiscal Year (April 1, 2005 to March 31, 2006)
<hr/>	<p>Accounting standards related to impairment losses in fixed assets</p> <p>Accounting standards related to impairment losses in fixed assets: "Opinion Concerning the Establishment of Accounting Standards for Fixed Asset Gain/Losses" (Business Accounting Council, August 09, 2002) and "Guidelines for Adopting Accounting Standards for Fixed Asset Gains/Losses" (Guidelines for Adopting Business Accounting Standards No.6, October 31, 2003) have been adopted since the start of the current consolidated fiscal year.</p> <p>Due to these changes, income before income tax and minority interests decreased by 1,655 thousand yen.</p> <p>Accumulated impairment losses are deducted directly from the amount of each asset, based on revised consolidated financial statement regulations.</p>
<p>Accounting standards related to presentation of net Assets on balance sheet</p> <p>Beginning in the current consolidated fiscal year, CyberAgent has prepared its balance sheet in accordance with the 'Accounting Standard for Presentation of Net Assets on the Balance Sheet' (ASB Accounting Standard No. 5, Dec 9, 2005) and 'Guidance on Accounting Standard for Presentation of Net Assets on the Balance Sheet' (ASB Guidance No. 8, Dec 9, 2005).</p> <p>Under the previous standard, total net assets would have amounted to 74,137 million yen.</p> <p>The Company has prepared net assets on the consolidated balance sheet of the current consolidated fiscal year after the revision.</p>	<hr/>
<p>Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements</p> <p>The Company has adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" from the current consolidated fiscal year (Accounting Standards Board of Japan, May 17, 2006, Practical Solution No. 18). As a result, operating income, ordinary income and net income before taxes each decreased 31 million yen.</p>	<hr/>

Current Fiscal Year (April 1, 2006 to March 31, 2007)	Previous Fiscal Year (April 1, 2005 to March 31, 2006)
Balance sheet	
Trade rights and consolidated adjustment accounts are added together and presented as “goodwill” beginning in the current consolidated fiscal year under review due to revisions to regulations governing interim consolidated financial statements.	
Consolidated cash flow statement	
The part of “amortization of consolidation adjustment account” and “allowance for depreciation” that was classified as amortization of trade rights in the previous consolidated fiscal year will be posted as “goodwill reserve” from the current consolidated fiscal year.	

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VIII. Notes to Consolidated Financial Statements

(Related to consolidated balance sheet)

Current Fiscal Year (As of March 31, 2007)	Previous Fiscal Year (As of March 31, 2006)																																														
<p>1 Accumulated depreciation of property, plant and equipment amounts to 18,943 million yen.</p> <p>2. Assets and liabilities of non-consolidated subsidiaries and affiliates is as follows</p> <table> <tr> <td>Investment and other assets</td><td></td></tr> <tr> <td>Investment securities (Stocks)</td><td>8,460 million yen</td></tr> </table> <p>3 The following assets have been provided as security</p> <table> <tr> <td>Buildings & structures</td><td>988 million yen</td></tr> <tr> <td>Land</td><td>2,122 million yen</td></tr> <tr> <td>Investment securities</td><td>170 million yen</td></tr> <tr> <td>Total</td><td>3,282 million yen</td></tr> </table> <p>(Liabilities corresponding to the above)</p> <table> <tr> <td>Trade notes and accounts payable</td><td>8,535 million yen</td></tr> <tr> <td>Short-term loans</td><td>350 million yen</td></tr> <tr> <td>Long-term loans</td><td>18 million yen</td></tr> <tr> <td>Total</td><td>8,951 million yen</td></tr> </table> <p>4. Bills at maturity Regarding bills at maturity at the end of the previous consolidated fiscal year, the maturity date was a bank holiday, but accounts were settled as though the settlement was held on the maturity date. Bills reaching maturity at the end of the current consolidated fiscal year are as follows:</p> <table> <tr> <td>Bills receivable</td><td>1,229 million yen</td></tr> <tr> <td>Bills payable</td><td>1,604 million yen</td></tr> </table>	Investment and other assets		Investment securities (Stocks)	8,460 million yen	Buildings & structures	988 million yen	Land	2,122 million yen	Investment securities	170 million yen	Total	3,282 million yen	Trade notes and accounts payable	8,535 million yen	Short-term loans	350 million yen	Long-term loans	18 million yen	Total	8,951 million yen	Bills receivable	1,229 million yen	Bills payable	1,604 million yen	<p>1 Accumulated depreciation of property, plant and equipment amounts to 19,026 million yen</p> <p>2. Assets and liabilities of non-consolidated subsidiaries and affiliates is as follows</p> <table> <tr> <td>Investment and other assets</td><td></td></tr> <tr> <td>Investment securities (Stocks)</td><td>7,869 million yen</td></tr> <tr> <td>Other (Capital)</td><td>3 million yen</td></tr> </table> <p>3 The following assets have been provided as security</p> <table> <tr> <td>Buildings & structures</td><td>1,021 million yen</td></tr> <tr> <td>Land</td><td>2,122 million yen</td></tr> <tr> <td>Investment securities</td><td>166 million yen</td></tr> <tr> <td>Total</td><td>3,311 million yen</td></tr> </table> <p>(Liabilities corresponding to the above)</p> <table> <tr> <td>Trade notes and accounts payable</td><td>8,740 million yen</td></tr> <tr> <td>Short-term loans</td><td>-- million yen</td></tr> <tr> <td>Long-term loans</td><td>24 million yen</td></tr> <tr> <td>Total</td><td>8,765 million yen</td></tr> </table> <p>4. Bills at maturity</p> <hr/>	Investment and other assets		Investment securities (Stocks)	7,869 million yen	Other (Capital)	3 million yen	Buildings & structures	1,021 million yen	Land	2,122 million yen	Investment securities	166 million yen	Total	3,311 million yen	Trade notes and accounts payable	8,740 million yen	Short-term loans	-- million yen	Long-term loans	24 million yen	Total	8,765 million yen
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KOBAYASHI PHARMACEUTICAL CO., LTD.

(Related to consolidated statement of income)

Current Fiscal Year (April 1, 2006 to March 31, 2007)	Previous Fiscal Year (April 1, 2005 to March 31, 2006)																																																																																																				
<p>1 The major components of selling, general & administrative expenses were as follows.</p> <table><tr><td>Sales promotion</td><td>5,720 million yen</td></tr><tr><td>Freight & storage</td><td>10,976 million yen</td></tr><tr><td>Advertising</td><td>13,128 million yen</td></tr><tr><td>Salaries & bonuses</td><td>13,114 million yen</td></tr><tr><td>Rent</td><td>3,102 million yen</td></tr><tr><td>Fees for payments</td><td>4,612 million yen</td></tr><tr><td>R&D</td><td>2,476 million yen</td></tr></table> <p>2 Within extraordinary gains, gains on the sale of fixed assets comprise the following.</p> <table><tr><td>Land</td><td>1,174 million yen</td></tr><tr><td>Other</td><td>8 million yen</td></tr><tr><td>Total</td><td>1,183 million yen</td></tr></table> <p>3 Within extraordinary losses, losses on the disposal of fixed assets comprise the following.</p> <table><tr><td>Buildings & structures</td><td>345 million yen</td></tr><tr><td>Machinery & equipment</td><td>21 million yen</td></tr><tr><td>Tools and equipment</td><td>25 million yen</td></tr><tr><td>Other</td><td>14 million yen</td></tr><tr><td>Total</td><td>133 million yen</td></tr></table> <p>4. R&D included selling, general & administrative expenses, and production cost in the current consolidated fiscal year</p> <p style="text-align: right;">2,476 million yen</p> <p>5. Impairment loss The Group registers impairment losses of the following property groups.</p> <table><tr><th>Location</th><th>Category</th><th>Application</th><th>Impairment loss</th></tr><tr><td>Osaka, and other</td><td>Machinery and equipment</td><td>Manufacturing facility</td><td>36</td></tr><tr><td>Same as above</td><td>Lease</td><td>Same as above</td><td>86</td></tr><tr><td></td><td></td><td>Total</td><td>123</td></tr></table> <p>The Group's assets for each business division are grouped as the company's basic units as the smallest units generating cash flow. Further, the headquarters and distribution centers are shared assets. There is little chance of manufacturing facilities being used in the future, the book value was reduced to the collectible amount and the amount reduced was recorded as an impairment loss (123 million yen) under extraordinary losses. Other assets are valued according to its utility value.</p>	Sales promotion	5,720 million yen	Freight & storage	10,976 million yen	Advertising	13,128 million yen	Salaries & bonuses	13,114 million yen	Rent	3,102 million yen	Fees for payments	4,612 million yen	R&D	2,476 million yen	Land	1,174 million yen	Other	8 million yen	Total	1,183 million yen	Buildings & structures	345 million yen	Machinery & equipment	21 million yen	Tools and equipment	25 million yen	Other	14 million yen	Total	133 million yen	Location	Category	Application	Impairment loss	Osaka, and other	Machinery and equipment	Manufacturing facility	36	Same as above	Lease	Same as above	86			Total	123	<p>1 The major components of selling, general & administrative expenses were as follows.</p> <table><tr><td>Sales promotion</td><td>5,288 million yen</td></tr><tr><td>Freight & storage</td><td>9,927 million yen</td></tr><tr><td>Advertising</td><td>12,371 million yen</td></tr><tr><td>Salaries & bonuses</td><td>12,887 million yen</td></tr><tr><td>Rent</td><td>3,110 million yen</td></tr><tr><td>Fees for payments</td><td>4,011 million yen</td></tr><tr><td>R&D</td><td>2,377 million yen</td></tr></table> <p>2 Within extraordinary gains, gains on the sale of fixed assets comprise the following.</p> <table><tr><td>Land</td><td>43 million yen</td></tr><tr><td>Other</td><td>10 million yen</td></tr><tr><td>Total</td><td>53 million yen</td></tr></table> <p>3 Within extraordinary losses, losses on the disposal of fixed assets comprise the following.</p> <table><tr><td>Buildings & structures</td><td>21 million yen</td></tr><tr><td>Machinery & equipment</td><td>49 million yen</td></tr><tr><td>Tools and equipment</td><td>28 million yen</td></tr><tr><td>Other</td><td>35 million yen</td></tr><tr><td>Total</td><td>133 million yen</td></tr></table> <p>4. 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As the land price of leased assets and idle land fell significantly, and there is little chance of manufacturing facilities being used in the future, the book value was reduced to the collectible amount and the amount reduced was recorded as an impairment loss (1,655 million yen) under extraordinary losses. The collectible amount for land is calculated using the net sales price and assessed on the basis of the valuation provided by a real estate assessor. Other assets are valued according to its utility value.</p>	Sales promotion	5,288 million yen	Freight & storage	9,927 million yen	Advertising	12,371 million yen	Salaries & bonuses	12,887 million yen	Rent	3,110 million yen	Fees for payments	4,011 million yen	R&D	2,377 million yen	Land	43 million yen	Other	10 million yen	Total	53 million yen	Buildings & structures	21 million yen	Machinery & equipment	49 million yen	Tools and equipment	28 million yen	Other	35 million yen	Total	133 million yen	Location	Category	Application	Impairment loss	Osaka, and other	Machinery and equipment	Manufacturing facility	66	Same as above	Lease	Same as above	151	Osaka	Land		1,075	Miyagi pref.	Land	Idle asset	362			Total	1,655
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KOBAYASHI PHARMACEUTICAL CO., LTD.

(Related to semiannually consolidated cash flow statement)

Current Fiscal Year (April 1, 2006 to March 31, 2007)	Previous Fiscal Year (April 1, 2005 to March 31, 2006)																																																												
<p>1. A reconciliation of cash and time deposits in the consolidated interim balance sheets to the balance of cash and cash equivalents in the statements of cash flows at the end of the first half is as follows:</p> <p style="text-align: right;">(As of March 31, 2007)</p> <table> <tr> <td>Cash & deposits</td><td>18,091 million yen</td></tr> <tr> <td>Time deposits with original maturity of more than 3 months</td><td>999 million yen</td></tr> <tr> <td>Cash & cash equivalents</td><td>19,090 million yen</td></tr> </table> <p>2. Assets and liabilities of company made a new consolidated subsidiary due to share acquisition</p> <p>(1) KS Tohoku was made a new consolidated subsidiary with the acquisition of its shares.</p> <p style="text-align: right;">(As of April 1, 2006)</p> <table> <tr> <td>Current assets</td><td>4,478 million yen</td></tr> <tr> <td>Fixed assets</td><td>966 million yen</td></tr> <tr> <td>Total assets</td><td>5,445 million yen</td></tr> <tr> <td>Current liabilities</td><td>5,222 million yen</td></tr> <tr> <td>Fixed liabilities</td><td>417 million yen</td></tr> <tr> <td>Total liabilities</td><td>5,639 million yen</td></tr> </table> <p>(2) HEATMAX Inc. was made a new consolidated subsidiary with the acquisition of its shares. Its assets and liabilities at the time of consolidation are outlined below.</p> <p>HEATMAX Inc. includes Kobayashi Pharmaceutical Co., Ltd., MEDHEAT Inc., and THERMOMAX Inc.</p> <p style="text-align: right;">(As of November 30, 2006)</p> <table> <tr> <td>Current assets</td><td>1,601 million yen</td></tr> <tr> <td>Fixed assets</td><td>7,815 million yen</td></tr> <tr> <td>Total assets</td><td>9,417 million yen</td></tr> <tr> <td>Current liabilities</td><td>494 million yen</td></tr> <tr> <td>Fixed liabilities</td><td>10 million yen</td></tr> <tr> <td>Total liabilities</td><td>504 million yen</td></tr> </table> <p>(3) eVent Medical Ltd was made a new consolidated subsidiary with the acquisition of its shares. Its assets and liabilities at the time of consolidation are outlined below.</p> <p>eVent Medical Ltd includes Kobayashi Pharmaceutical Co., Ltd., eMed Ltd., and eVent Medical Inc.</p> <p style="text-align: right;">(As of November 3, 2006)</p> <table> <tr> <td>Current assets</td><td>100 million yen</td></tr> <tr> <td>Fixed assets</td><td>70 million yen</td></tr> <tr> <td>Total assets</td><td>171 million yen</td></tr> <tr> <td>Current liabilities</td><td>791 million yen</td></tr> <tr> <td>Fixed liabilities</td><td>-- million yen</td></tr> <tr> <td>Total liabilities</td><td>791 million yen</td></tr> </table>	Cash & deposits	18,091 million yen	Time deposits with original maturity of more than 3 months	999 million yen	Cash & cash equivalents	19,090 million yen	Current assets	4,478 million yen	Fixed assets	966 million yen	Total assets	5,445 million yen	Current liabilities	5,222 million yen	Fixed liabilities	417 million yen	Total liabilities	5,639 million yen	Current assets	1,601 million yen	Fixed assets	7,815 million yen	Total assets	9,417 million yen	Current liabilities	494 million yen	Fixed liabilities	10 million yen	Total liabilities	504 million yen	Current assets	100 million yen	Fixed assets	70 million yen	Total assets	171 million yen	Current liabilities	791 million yen	Fixed liabilities	-- million yen	Total liabilities	791 million yen	<p>1. A reconciliation of cash and time deposits in the consolidated interim balance sheets to the balance of cash and cash equivalents in the statements of cash flows at the end of the first half is as follows:</p> <p style="text-align: right;">(As of March 31, 2006)</p> <table> <tr> <td>Cash & deposits</td><td>24,436 million yen</td></tr> <tr> <td>Time deposits with original maturity of more than 3 months</td><td>-- million yen</td></tr> <tr> <td>Cash & cash equivalents</td><td>24,436 million yen</td></tr> </table> <p>2. Assets and liabilities of company made a new consolidated subsidiary due to share acquisition</p> <p>(1) Seiei was made a new consolidated subsidiary with the acquisition of its shares.</p> <p style="text-align: right;">(As of September 30, 2005)</p> <table> <tr> <td>Current assets</td><td>1,943 million yen</td></tr> <tr> <td>Fixed assets</td><td>76 million yen</td></tr> <tr> <td>Total assets</td><td>2,020 million yen</td></tr> <tr> <td>Current liabilities</td><td>1,902 million yen</td></tr> <tr> <td>Fixed liabilities</td><td>10 million yen</td></tr> <tr> <td>Total liabilities</td><td>1,912 million yen</td></tr> </table>	Cash & deposits	24,436 million yen	Time deposits with original maturity of more than 3 months	-- million yen	Cash & cash equivalents	24,436 million yen	Current assets	1,943 million yen	Fixed assets	76 million yen	Total assets	2,020 million yen	Current liabilities	1,902 million yen	Fixed liabilities	10 million yen	Total liabilities	1,912 million yen
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(Continued)

Current Fiscal Year (April 1, 2006 to March 31, 2007)	Previous Fiscal Year (April 1, 2005 to March 31, 2006)												
<p>3. Assets and liabilities of company split off the subsidiary due to transferred of its shares</p> <p>(1) Shield California Healthcare Centers, Inc. was split off consolidated subsidiary transferred of its shares</p> <p>Shield California Healthcare Centers, Inc. includes Kobayashi Pharmaceutical Co., Ltd., Shield Denver Healthcare Centers, Inc., and Shield Distribution Incorporated.</p> <p style="text-align: right;">(As of November 1, 2006)</p> <table> <tr> <td>Current assets</td><td>2,794 million yen</td></tr> <tr> <td>Fixed assets</td><td>909 million yen</td></tr> <tr> <td>Total assets</td><td>3,704 million yen</td></tr> <tr> <td>Current liabilities</td><td>597 million yen</td></tr> <tr> <td>Fixed liabilities</td><td>312 million yen</td></tr> <tr> <td>Total liabilities</td><td>910 million yen</td></tr> </table>	Current assets	2,794 million yen	Fixed assets	909 million yen	Total assets	3,704 million yen	Current liabilities	597 million yen	Fixed liabilities	312 million yen	Total liabilities	910 million yen	
Current assets	2,794 million yen												
Fixed assets	909 million yen												
Total assets	3,704 million yen												
Current liabilities	597 million yen												
Fixed liabilities	312 million yen												
Total liabilities	910 million yen												

KOBAYASHI PHARMACEUTICAL CO., LTD.

IX. Segment Information

1. Segment Information by Business Category

Current Consolidated Fiscal Year (April 1, 2006 - March 31, 2007)

(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	71,717	164,838	16,496	3,969	257,022	--	257,022
II. Inter-group sales and transfers	30,785	1	--	9,142	39,929	(39,929)	--
Total net sales	102,503	164,840	16,496	13,112	296,952	(39,929)	257,022
III. Operating expense	85,942	164,516	15,934	12,721	279,115	(40,122)	238,992
IV. Operating income	16,560	323	561	390	17,836	193	18,092
2. Assets, depreciation and capital expenditures							
I. Total Assets	66,653	57,975	14,674	7,998	147,301	17,254	164,555
II. Depreciation	1,989	241	295	165	2,692	90	2,782
III. Impairment loss	36	--	--	--	36	--	36
IV. Capital expenditure	1,646	310	76	124	2,157	72	2,229

Previous Consolidated Fiscal Year (April 1, 2005 - March 31, 2006)

(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	68,869	156,934	17,126	3,923	246,852	--	246,852
II. Inter-group sales and transfers	25,907	0	--	9,053	34,961	(34,961)	--
Total net sales	94,776	156,933	17,126	12,976	281,814	(34,961)	246,852
III. Operating expense	79,330	156,498	16,543	12,573	264,916	(34,973)	229,973
IV. Operating income	15,446	435	582	402	16,867	11	16,879
2. Assets, depreciation and capital expenditures							
I. Total Assets	59,095	51,953	9,878	7,728	128,655	23,290	151,945
II. Depreciation	2,023	196	325	172	2,717	96	2,813
III. Impairment loss	580	--	--	--	580	1,075	1,655
III. Capital expenditure	1,915	261	262	109	2,548	248	2,797

KOBAYASHI PHARMACEUTICAL CO., LTD.

(Notes)

1. Method of business classification:
 - Businesses segments are classified into four principle areas: Consumer Products, Wholesale, Medical and Others following the product line, and the markets in which the products are distributed.
2. Main products of each business operation:
 - Consumer Products Operations --- household pharmaceuticals, oral hygiene products, deodorizing air fresheners, household sundries.
 - Wholesale Operation --- household pharmaceuticals, household sundries and foods
 - Medical Devices Operation --- medical devices, medical facilities
 - Other Operation --- transport, synthetic resin products manufacturing, printing, advertising, planning and creation
3. Corporate assets included in "Eliminations (Corporate)" in the fiscal year ended March 31, 2007 amounted to 37,436 million yen, which consists mainly of the parent company's investment of surplus funds (cash, time deposits and marketable securities) and securities held as investments, as compared with 41,074 million yen in the previous fiscal year ended March 31, 2006.
4. Depreciation and capital expenditures include amortization of long-term prepaid expenses.

2. Segment Information by Area

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

3. Overseas Sales

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

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

XI. Omissions

Notes related to lease transactions, derivative transactions and stock options as well as business combinations are omitted as the Company did not feel that they were needed in a flash report on interim financial statements.

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XII. Per Share Information

	Millions of Yen	
	Fiscal Year Ended March 31,	
	2007	2006
Shareholders' Equity Ratio (yen)	1,799.87	1,617.10
Net Income per Share (yen)	200.77	179.17
Net Income per Share, Diluted	200.47	179.01
Net Income during fiscal period	8,297	7,474
Amount not attributed to common shares	--	40
(Of which bonuses for directors paid by appropriating earnings)	(--)	(40)
Net income related to common shares	8,297	7,434
Average number of shares during fiscal period (1,000 shares)	41,328	41,491
Net Income per Share, Diluted (yen)	200.47	179.01
Profit adjustment during fiscal period	--	--
Increase in number of common shares (1,000 shares)	62	38
(of which new stock options)	(62)	(38)

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XIII. Overview of production, orders and sales

1. Production Achievement

	Millions of Yen	
	Fiscal Year Ended March 31, 2007	
	Current consolidated period	Y to Y changes (%)
Consumer Products Operation	107,105	105.9
Wholesale Operation	--	--
Medical Devices Operation	1,471	148.5
Other Operations	2,472	93.6
Total	111,049	106.0

Notes: These prices are indicated manufacture price (sales price), not included consumption tax and so.

2. Order Achievement

(1) Order status

This is not applicable as the Kobayashi Group projects production levels.

(2) Product purchases

	Millions of Yen	
	Fiscal Year Ended March 31, 2007	
	Current consolidated period	Y to Y changes (%)
Consumer Products Operation	18	40.6
Wholesale Operation	154,064	106.5
Medical Devices Operation	8,060	99.0
Other Operations	1,134	99.9
Amount of purchase or transfer between the segments	(30,785)	118.8
Total	132,491	103.4

Notes: These prices are not included consumption tax and so.

KOBAYASHI PHARMACEUTICAL CO., LTD.

3. Sales Achievement

	Millions of Yen	
	Fiscal Year Ended March 31, 2007	
	Current consolidated period	Y to Y changes (%)
Consumer Products Operation	102,503	108.2
Wholesale Operation	164,840	105.0
Medical Devices Operation	16,496	96.3
Other Operations	13,112	101.0
Amount of purchase or transfer between the segments	(39,929)	114.2
Total	257,022	104.1

Notes: These prices are not included consumption tax and so.

XIV. Subsequent Event

Not applicable.