

KOBAYASHI

PHARMACEUTICAL CO., LTD.

Summary Consolidated Financial Results for the First Half ended September 30, 2005

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

KOBAYASHI PHARMACEUTICAL CO., LTD.

Kobayashi Pharmaceutical, Co., Ltd. (4967)

Exchange Listed: Osaka and Tokyo, First Section

Principal Office: Osaka, Japan

Homepage: <http://www.kobayashi.co.jp>

President and Representative Director: Yutaka Kobayashi

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Date of the Board of Directors' meeting to approve financial statements: November 14, 2005

U.S. (GAAP) accounting standard: Not adopted for the purposes of these statements.

I. Consolidated Financial Results (April 1, 2005 – September 30, 2005)

(1) Consolidated Operating Results

	Millions of Yen - Except Per Share Data and Percents				
	First Half ended September 30,		Year ended March 31,		
	2005	%	2004	%	2005
Net Sales	125,076	13.8	109,907	1.4	215,708
Operating Income	8,664	10.7	7,824	(0.2)	15,698
Ordinary Income	7,978	13.2	7,046	0.5	14,159
Net Income	3,558	(4.7)	3,732	11.2	6,730
Net Income per Share (yen).....	85.49		89.66		160.64
Net Income per Share, diluted (yen)	85.48		—		—

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

First half ended September 30, 2005:	191 million yen
First half ended September 30, 2004:	140 million yen
Fiscal year ended March 31, 2005:	391 million yen
 - Average number of shares outstanding during the period (consolidated):

First half ended September 30, 2005:	41,620,617 Shares
First half ended September 30, 2004:	41,623,572 Shares
Fiscal year ended March 31, 2005:	41,622,832 Shares
 - Changes in accounting policies: None
 - Percentages for operating revenues, operating income, ordinary income and net income represent changes compared with the previous interim period.
 - Since there are no potential stocks that have the diluting effect on the net income per share, there is no such information included in first half ended September 2004, and full year ended March 2005.

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(2) Consolidated Financial Position

	Millions of Yen - Except Per Share Data and Ratios		
	As of September 30,		As of March 31,
	2005	2004	2005
Total Assets	154,453	135,079	134,629
Shareholders' Equity	63,065	56,740	60,116
Shareholders' Equity Ratio	40.8%	42.0%	44.7%
Shareholders' Equity per Share (yen)	1,515.24	1,363.21	1,443.30

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

As of September 30, 2005:	41,620,927 shares
As of September 30, 2004:	41,622,453 shares
As of March 31, 2004:	41,621,423 shares

(3) Consolidated Cash Flows

	Millions of Yen		
	As of September 30,		As of March 31,
	2005	2004	2005
Cash Flows from Operating Activities	1,127	798	8,364
Cash Flows from Investing Activities	(4,882)	(1,664)	(3,936)
Cash Flows from Financing Activities	3,339	(1,590)	(3,369)
Cash and Cash Equivalents, End of Year	18,645	15,386	19,035

(4) Scope of Consolidation and Equity Method:

Number of consolidated subsidiaries:	26
Number of non-consolidated subsidiaries accounted for by the equity method:	0
Number of affiliated companies accounted for by the equity method:	2

(5) Changes in Scope of Consolidation and Equity Method:

Number of consolidated subsidiaries:	(Newly consolidated)	4
	(Excluded)	0
Number of companies for which equity method accounting has been adopted:	(Newly included)	1
	(Excluded)	0

II. Projections for the Year Ending March 31, 2006 (April 1, 2005 – March 31, 2006)

Consolidated	Millions of Yen
	Full Year
Net Sales	250,000
Ordinary Income	14,900
Net Income	7,100
Net Income per Share (yen)	169.52

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II. Kobayashi Pharmaceutical Group Operation

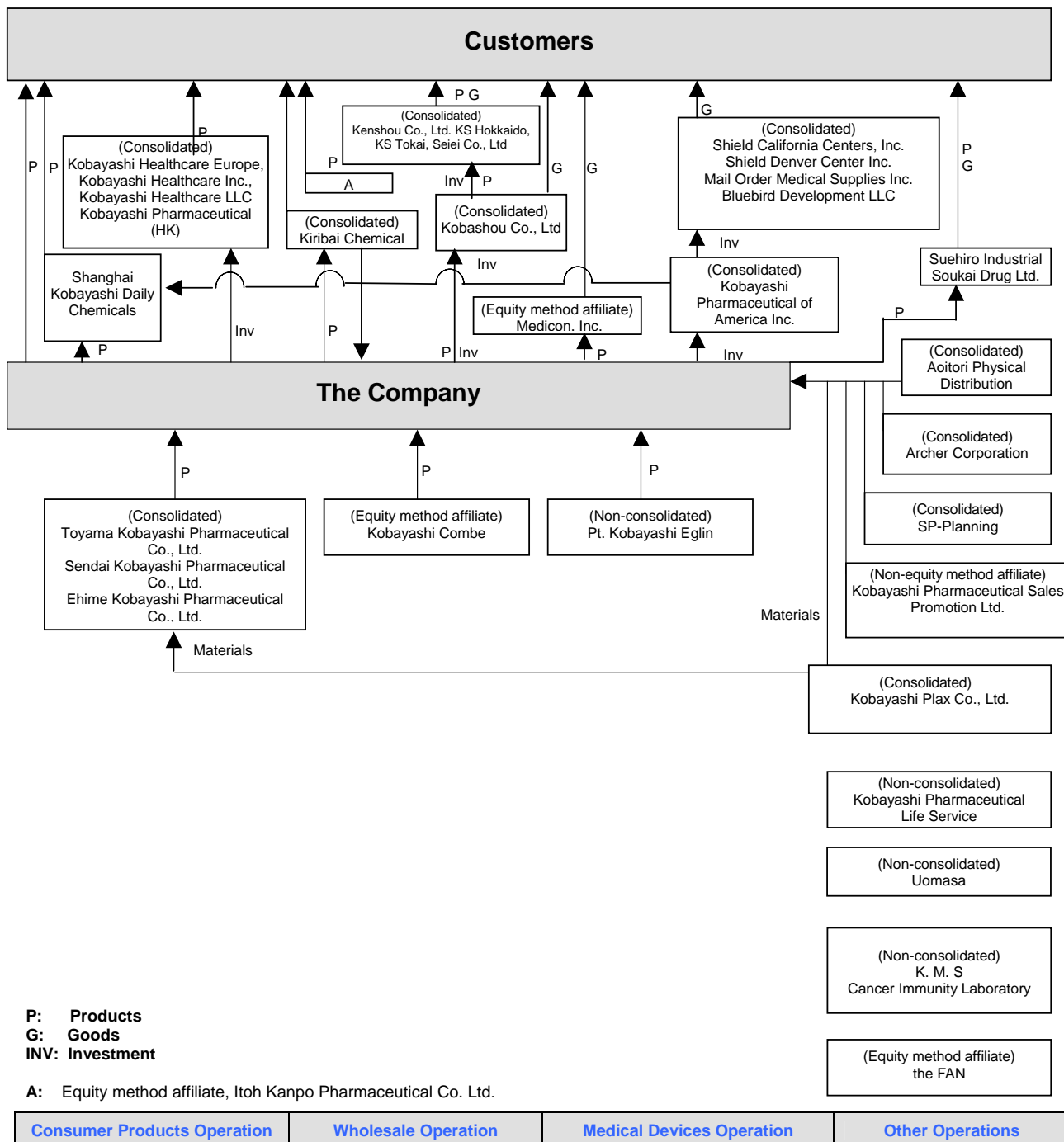
(1) Kobayashi Group Overview

The Kobayashi Group consists of Kobayashi Pharmaceutical, Co., Ltd. 31 subsidiaries and 4 affiliates. Its operations are Consumer Products Operation, Wholesale Operation, Medical Devices Operation, and Other Operation. The relationship between the Company and its affiliated companies 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. Kobayashi Combe
	Oral hygiene products	Kobayashi Pharmaceutical, Co., Ltd. Toyama Kobayashi Pharmaceutical Co., Ltd. Sendai Kobayashi Pharmaceutical Co. Ltd. Kobayashi Plax Co., Ltd.
	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.
	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 Pharmacutocal Co.,Ltd Kobayashi Healthcare Incorporated. Kobayashi Healthcare LLC. Kobayashi Healthcare Europe, Ltd. Shanghai Kobayashi Daily Chemicals Co., Ltd. Kobayashi Pharmaceutical (Hong Kong) Co., Ltd.
Wholesale Operation	Pharmaceuticals	Kenshou Co., Ltd. Kobashou Co., Ltd. Seiei KS Hokkaido KS Tokai
	Household sundries, and foods	Kenshou Co., Ltd. Kobashou Co., Ltd. Seiei KS Hokkaido KS Tokai
Medical Devices Operation	Importing and Sale of medical devices	Kobayashi Pharmaceutical, Co., Ltd. Medicon, Inc.
	Production and sale of medical devices	Toyama Kobayashi Pharmaceutical Co., Ltd. Pt. Kobayashi Eglin Shanghai Kobayashi Daily Chemicals Co., Ltd.
	Integration of US affiliated company	Kobayashi Pharmaceuticals of America Incorporated
	Sale of home-use medical devices	Shield California Centers, Inc. Shield Denver Centers, Inc.
	Mail-order business for home-use medical devices	Mail Order Medical Supplies Incorporated.
	Medical Business Research	Bluebird Development LLC.
Other Operations	Transport	Aoitari Physical Distribution
	Manufacturing and sales of plastic containers	Kobayashi Plax Co., Ltd.
	Insurance agency	Kobayashi Pharmaceutical Life Service Co., Ltd.
	Advertising, planning and creation	Archer Corporation
	Displays and model production	SP-Planning
	Pharmaceutical products and daily goods, marketing and sales promotional activities	Kobayashi Pharmaceutical Sales Promotion of Ltd. Archer Corporation
	Retail, food business, and Information services	Soukai Drug Ltd. Suehiro Industrial Other 4 companies

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(2) Kobayashi Group Business Flow



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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	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	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	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	Manufacturing of the Company's products, & materials	-	-
Kobashou Co., Ltd.	Tokyo	4,297	Pharmaceutical products wholesaling	92.8	Yes	-	Sale of the Company's products	Leases of land & buildings	-
Kenshou Co., Ltd.	Tokyo	465	Pharmaceutical products wholesaling	40.9	-	-	Sale of the Company's products	-	-
KS Hokkaido	Sapporo	10	Pharmaceutical products wholesaling	74.2 (74.2)	-	-	Sale of the Company's products	-	-
KS Tokai	Nagoya	10	Pharmaceutical products wholesaling	74.2 (74.2)	-	-	Sale of the Company's products	-	-
Seiei	Kagawa	300	Pharmaceutical products wholesaling	74.2 (74.2)	-	-	Sale of the Company's products	-	-
Aitori Physical Distribution	Osaka	99	Transport	92.8	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	Displays and model 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	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	-	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	Yes	-	-	-	-
Shield Denver Centers, Inc.	Colorado USA	US\$ 1,000	Home healthcare and medical device marketing	100.0	Yes	-	-	-	-
Mail Order Medical Supplies Inc.	California USA	US\$ 10,000	Home healthcare and medical devices catalog sales	100.0	Yes	-	-	-	-
Bluebird Development LLC.	California USA	US\$ 4,601,009	Medical business research	99.0	Yes	-	Marketing of the Company's products	-	-
Kobayashi Healthcare, Inc.	Pennsylvania USA	US\$ 10,000	Daily goods sales	100.0	-	-	Sales of the company's products	-	-
Kobayashi Healthcare LLC	USA	US\$ 10,000	Daily goods sales	100.0 (100.0)	-	-	Sales of the company's products	-	-
Kobayashi Healthcare Europe, Ltd.	London UK	£ 6,999	Daily goods sales	100.0	-	-	Sales of the company's products	-	-
Shanghai Kobayashi Daily Chemicals Co., Ltd.	Shanghai	RMB 76,537,998	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	Yes	-	Manufacturing and sales of the Company's products	-	-

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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 Combe	Osaka	40	Pharmaceutical import and marketing	100.0	Yes	Yes	Importing 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.

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III. Management Policy

1. Basic Management Policy

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

2. Basic Policy on Profit Distribution

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 33.00 yen per share by the end of March 2006 (the dividend in March 2005 was 33.00 per share).

3. Policy on Reduction in the Minimum Trading Unit

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

4. Targeted Management Indices

Kobayashi Pharmaceutical aims to achieve a return on assets of 12% and an equity ratio of 50%. The growth strategy for the Consumer Products Operation is based on vigorous development of new products. Our R&D targets are for sales of products commercialized in the last four year to account for at least 35% of total sales, and for new products released in any given fiscal year to account for at least 10% of total sales during that fiscal year. Moreover, with the aim of maximizing shareholder value, we have introduced a new management index, KOVA, that takes the efficiency of capital employed into account, and we will strive to increase KOVA over the long term. Note: KOVA is a management index unique to Kobayashi Pharmaceutical and is calculated by subtracting capital costs from operating income after taxes.

5. Medium- to Long-term Management Strategy

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

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

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We aim to achieve annual sales of at least 300 billion yen as soon as possible. Also, in line with our focus on the cost of capital, we will review businesses that yield low returns and vigorously invest in growth businesses offering high returns so as to realize a continuous increase in KOVA.

6. Issues to Be Addressed

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

7. Basic Stance on Corporate Governance and Implementation of Measures

Kobayashi Pharmaceutical places enhancement of shareholder value at the heart of its efforts to maximize enterprise value, which is a key objective of management. Accordingly, management is endeavoring to swiftly disclose accurate information and achieve transparency.

The reshaping of management organizations, implemented upon resolution of the general meeting of shareholders held in June 2000, included optimization of the number of directors (seven as of June 2000, six at present) and introduction of the executive officer system (13 officers of whom seven were also directors as of June 2000, 13 of whom five are also directors at present) and the in-house company system. Further, the Company created a system that would further vitalize the board of directors, facilitate quick decision-making, and strengthen functions for the execution of operations.

In April 2004 the Company brought the Manufacturing and Sales Operation Headquarters, Wholesale Operation Headquarters, and Medical Devices Operations Headquarters into a consolidated group headquarters, where executive officers supervise the execution of operations under the CEO and COO. On the other hand, the board of directors, which appoints the CEO as its chairman, bears the supervisory function of management. The board of directors meets monthly and also holds extraordinary meetings as necessary, in order to make decisions on issues stipulated by laws and regulations and critical management issues and supervise the execution of operations sequentially.

At present, the Company has not appointed any non-executive directors because executive directors who have a better understanding of the Company's management philosophy and are able to put it into practice are making decisions, and the Company is enhancing its auditor system. Of the four auditors, two are external auditors with whom the Company has neither capital nor business relationships. Furthermore, an internal audit section coordinates with the auditors and strives to improve effectiveness in such areas as the auditing of executive functions.

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

The Compliance Committee was set up in April 2003 with the aim of implementing and reinforcing the principle of legal compliance in the Company's activities. In September 2003, the Company established "Basic Guidelines on Corporate Behavior" and "Standards for the Behavior of Executive Officers and Employees." Going forward, we plan to actively develop these basic guidelines and behavioral standards on a company-wide basis. Further, in January 2003 we set up the "Employee Consultation Department" as a point of contact for employees, and we are also working to collect and act on information at an early stage.

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The Company also fosters a positive environment in which anyone can feel free to voice an opinion, including the freedom to actively speak their minds directly to management. We believe that maintaining and developing such Company traditions are effective measures for assuring corporate governance.

8. Issues regarding a Parent Company

Not applicable

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IV. Business Results and Financial Position

Business Results

(1) Overview of First Half (ended September 30, 2005)

	(Millions of Yen)					
	First Half, ended September 30, 2005		First Half, ended September 30, 2004		Change	
	Amount	%	Amount		Amount	%
Net Sales	125,076	100.0	109,907	100.0	15,169	13.8
Operating Income	8,664	6.9	7,824	7.1	840	10.7
Ordinary Income	7,978	6.4	7,046	6.4	932	13.2
Net Income	3,558	2.8	3,732	3.4	(173)	(4.7)

During the interim period under review, Japan's economy saw loose signs of recovery and appeared to be breaking out of its stagnation as evidenced by rising investments in plants and equipment against a backdrop of improved corporate earnings and by improvements in personal consumption.

In these conditions, Kobayashi Pharmaceutical Group fully unleashed the spirit expressed by its management policy of "Creativity and Innovation." We cultivated latent customer needs by introducing new products and services to cultivate new markets while invigorating existing markets by offering products and services with new added value. At the same time, vigorous promotion of brand item buyouts, business partnerships, and overseas development resulted in sales of 125,076 million yen, an increase of 15,169 million yen, or 13.8%, over the previous interim period.

In terms of profits, the Company cut costs by thoroughly reducing manufacturing costs, employing more efficient and effective sales promotions, and other measures, leading to an operating income of 8,664 million yen, an increase of 840 million yen, or 10.7%, compared to the previous interim period. Ordinary income also rose to 7,978 million yen, an increase of 932 million yen, or 13.2%, over the previous interim period owing to good performance at our equity-method affiliate Medicon Inc. Impairment losses of land added up to 1,632 million yen, resulting in a net income of 3,558 million yen, a decrease of 173 million yen, or 4.7%, from the previous interim period.

(2) Segment Analysis

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

Consumer Products Operation

This spring, Kobayashi Pharmaceutical Group launched seven new products (excluding nutritional supplement food products) in an effort to create new markets and expand existing markets in this business segment. In addition to favorable sales of *Shoshu Gen*, a major brand of aromatic deodorizer, and *Keshimin Cream*, which went on the market last spring, we further expanded our product line of nutritional supplement food products sold through our mail order and drug store channels. These additions helped to spur sales growth. Moreover, the acquisition of sole distributorship of the female menopausal relief supplement *Inochi-no-Haha A* from Sasaoka Yakuhin Corp. contributed significantly to sales growth. As a result, sales amounted to 45,863 million yen, an increase of 2,030 million yen, or 4.6%, compared to the previous interim period.

In terms of profits, operating income was 8,097 million yen, an increase of 1,054 million yen, or 15.0%, over the previous interim period owing to a high profit ratio from a boost in sales of brand name items and an overall overhead reduction resulting from a decrease in manufacturing costs.

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Sales by Category

(Millions of Yen)

	First Half, ended September 30, 2005		First Half, ended September 30, 2004		Change	
	Amount	%	Amount		Amount	%
Pharmaceuticals	7,961	17.4	7,787	17.8	174	2.2
Oral hygiene products	5,458	11.9	5,329	12.2	129	2.4
Sanitary products	7,022	15.3	6,234	14.2	788	12.6
Deodorizing air fresheners	15,346	33.5	15,318	34.9	28	0.2
Household sundries	2,350	5.1	2,494	5.7	(144)	(5.8)
Food products	5,762	12.6	5,410	12.3	352	6.5
Body warmers	1,964	4.3	1,261	2.9	703	55.7
Total	45,863	100.0	43,833	100.0	2,030	4.6

Note: Segment sales include internal sales and transfers among segments; the value of these totaled 11,132 million yen in the previous interim period in 2004 and 13,432 million yen in this interim period.

Wholesale Operation

With the acquisition of the over-the-counter medication business from Suzuken Co., Ltd. on April 1st, sales in this business segment amounted to 82,485 million yen, an increase of 15,103 million yen, or 22.4%, compared with the previous interim period.

With regard to profits, while there were improvements in the profit ratio resulting from bulk purchases of products from manufacturers capitalizing on economies of scale, the combined effects of inheriting this business have not yet been reflected fully in the business results, and operating income decreased to 207 million yen, a drop of 114 million yen, or 35.5%, over the previous interim period.

On September 29th, 2005, our subsidiary Kobashou Inc. acquired 100% of the stock of Seiei Co., Ltd.

Sales by Category

(Millions of Yen)

		First Half, ended September 30, 2005		First Half, ended September 30, 2004		Change	
		Amount	%	Amount		Amount	%
Drugs	Products	5,087	6.2	4,397	6.5	690	15.7
	Merchandising	29,313	35.5	24,543	36.4	4,770	19.4
Sanitary products	Products	9,872	12.0	8,192	12.2	1,680	20.5
	Merchandising	38,213	46.3	30,250	44.9	7,963	26.3
Total		82,485	100.0	67,383	100.0	15,103	22.4

Medical Devices Operation

In Japan, the Company endeavored to boost its product line by entering into such specialized segments as orthopedics, surgery, neurosurgery, and otolaryngology. In particular, we concentrated operations and enhanced our product lineup in the field of orthopedics.

Overseas, our three Shield Health Centers increased their numbers of customers through the purchase of customer lists, but the development of this segment this interim period was affected by changes in the California state insurance system.

As a result, sales amounted to 8,052 million yen, an increase of 120 million yen, or 1.5% over the previous interim period, and operating income fell to 68 million yen, a decrease of 183 million yen, or 72.9%, compared to that of the previous interim period.

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Equity in earnings at the equity-method affiliate Medicon Inc. amounted to 191 million yen, an increase of 58 million yen, or 43.6%, over the previous interim period.

Sales by Category

(Millions of Yen)

	First Half, ended September 30, 2005		First Half, ended September 30, 2004		Change	
	Amount	%	Amount		Amount	%
Kobayashi Medical Division	3,529	43.8	3,209	40.4	320	10.0
Shield Healthcare Centers (3 companies)	4,079	50.7	4,091	51.6	(12)	(0.3)
Others	444	5.5	632	8.0	(188)	(29.7)
Total	8,052	100.0	7,932	100.0	120	1.5

Other Operations

Other operations such as Transportation, Sales Promotion, and Market Research are conducted in support of the three businesses listed above and contribute to the profits of those businesses, although each is intended to be self-supporting. The Group reviewed the transfer values of the materials and services these subsidiaries provide.

As a result, sales totaled 6,658 million yen, an increase of 492 million yen, or 8.0% over the previous interim period, and operating income rose to 276 million yen, an increase of 181 million yen, or 190.5%, over the previous interim period. Segment sales include internal sales and transfers among segments; the value of these amounted to 4,276 million yen in the previous interim period and 4,550 million yen in the current interim period.

(3) Forecasts for Fiscal Year 2005 (ended March 31, 2006)

(Millions of Yen)

	FY2005, ended March 31, 2006 (Forecast)		FY2004, ended March 31, 2005 (Actual)		Change	
	Amount	%	Amount	%	Amount	%
Net Sales	250,000	100.0	215,708	100.0	34,292	15.9
Operating Income	16,500	6.6	15,698	7.3	802	5.1
Ordinary Income	14,900	6.0	14,159	6.6	741	5.2
Net Income	7,100	2.8	6,730	3.1	370	5.5
Net Income per share (yen)						

Although loose signs of recovery have fueled expectations of a turnaround in the Japanese economy, the effects of personal consumption on rising crude oil prices, tax increases resulting from tax reform, and other variables continue to perpetuate uncertainty.

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

For fiscal year 2005, the Company forecasts sales of 250,000 million yen, an increase of 34,292 million yen, or 15.9%, compared to fiscal year 2004. Due to further reductions in costs such as original costs, we forecast operating income of 16,500 million yen, an increase of 802 million yen, or 5.1%; ordinary income of 14,900 million yen, an increase of 741 million yen, or 5.2%; and net income of 7,100 million yen, an increase of 370 million yen, or 5.5%, compared with fiscal year 2004.

The dividend for this fiscal year is forecast to be 33.00 yen per share as an ordinary allotment.

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Kobayashi Pharmaceutical Group's earnings forecasts for its main business segments are as follows.

Consumer Products Operation

In the fall 2005 we launched seven new products that will fulfill the latent needs of customers. These include *Eyebon Trolly Megusuri Dry Eye*, eye drops that can be applied to the corneas while wearing contact lenses; *Hippa Wrinkle*, facial pads equipped with a device to smooth out "crow's eye" wrinkles around the eyes; *Mukumi Cure*, socks that massage the lymph nodes to relieve swollen feet; and *Liquid Bluelet Oku Dake W Liquid*, a toilet bowl cleanser consisting of two exclusive liquids combining powerful cleansing action with a high-quality scent. The acquisition of *Inochi-no-Haha A* and *Ashi no Hienai Fushigi na Kutsushita* leg-warming socks also contributed to sales. As a result of these efforts, we estimate that sales of the Consumer Products Operation will increase 3,727 million yen, or 4.2%, compared with fiscal year 2004, to 93,000 million yen. We estimate that cuts in costs such as original costs and increasing efficiency in the Manufacturing Division at our tie-up Itoh Kampo Pharmaceutical Co., Ltd. will lead to 15,200 million yen in operating income, an increase of 708 million yen, or 4.9%, over the previous interim period.

(Millions of Yen)				
	FY2005, ended March 31, 2006 (Forecast)	FY2004, ended March 31, 2005 (Actual)	Change	
	Amount	Amount	Amount	%
Net sales	93,000	89,273	3,727	4.2
Operating Income	15,200	14,492	708	4.9

Note: Segment sales include internal sales and transfers among segments; the value of these totaled 21,748 million yen in the previous interim period and 24,000 million yen in the current interim period.

Wholesale Operation

In addition to the expansion of geographical coverage for the increasingly wide-ranging operations of drug stores, a major customer segment, the Company will reinforce the differentiated health food product line, which is a growing market, and actively endeavor to develop new categories of products for the elderly. Accordingly, we estimate that sales will increase 32,644 million yen, or 25.4%, to 161,000 million yen, and operating income will fall 299 million yen, or 37.4%, to 500 million yen compared to fiscal year 2004.

(Millions of Yen)				
	FY2005, ended March 31, 2006 (Forecast)	FY2004, ended March 31, 2005 (Actual)	Change	
	Amount	Amount	Amount	%
Net sales	161,000	128,356	32,644	25.4
Operating Income	500	799	(299)	(37.4)

Medical Devices Operation

The Kobayashi Medical Company will further expand product lines from overseas manufacturers in areas such as orthopedics and, at the same time, actively pursue the development of the company's own *Kobamed* brand of products. The three Shield Healthcare companies that operate in the US will strive to expand the number of customers by acquiring customer lists and thoroughly cutting business costs. The Company anticipates that these endeavors will raise sales of the Medical Devices Operation 944 million yen, or 5.9%, compared with fiscal year 2004, to 17,000 million yen, and operating income will increase 211 million yen, or 111.6%, compared with fiscal year 2004, to 400 million yen.

(Millions of Yen)				
	FY2005, ended March 31, 2006 (Forecast)	FY2004, ended March 31, 2005 (Actual)	Change	
	Amount	Amount	Amount	%
Net sales	17,000	16,056	944	5.9
Operating Income	400	189	211	111.6

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Financial Position

(1) Summary of Cash Flows in Fiscal 2005 (ending March 31, 2006)

Consolidated Financial Position		(Millions of Yen)	
	First Half ended September 30, 2005	First Half ended September 30, 2004	Change
	Amount	Amount	Amount
Total Assets	154,453	134,629	19,824
Shareholders' equity	63,065	60,116	2,949
Equity ration (%)	40.8%	44.7%	(3.9%)
Shareholders' Equity per Share (yen)	1,515.24	1,443.30	71.94

(Consolidated Cash Flows)		(Millions of Yen)	
	First Half ended September 30, 2005	First Half ended September 30, 2004	Change
	Amount	Amount	Amount
Cash flows from operating activities	1,127	798	329
Cash flows from investing activities	(4,882)	(1,664)	(3,218)
Free cash flow	(3,754)	(865)	(2,889)
Cash flows from financing activities	3,339	(1,590)	4,929
Term-end balance of cash and cash equivalents	18,645	15,386	3,259

An analysis of the financial position for this interim period is as follows.

Although total assets increased 19,824 million yen compared with the end the previous fiscal year, the shareholders' equity ratio fell by 3.9 points due to the peaking of shareholders' equity at 2,788 million yen.

The greatest differences were an increase of 10,980 million yen in notes receivable and accounts receivable among circulating assets resulting from the formation of new parent-subsidiary consolidations, and an increase of 2,565 million yen in inventories. Similarly, notes payable and accounts payable among circulating assets increased by 10,189 million yen. Earned surplus also increased by 2,263 million yen.

Cash flows from operating activities

Net cash provided by total operating activities increased 329 million yen to 1,127 million yen compared to the previous interim period. This was primarily attributable to impairment losses without cash outlays, although net income before taxes and other adjustments fell 125 million yen.

Cash flows from investing activities

Net cash used in investing activities totaled 4,882 million yen, an increase of 3,218 million yen over the previous interim period. This was mainly due to the acquisition of investments in securities through capital tie-ups, the purchase of metallic molds for new product development, and other activities.

Cash flows from financing operations

Net cash resulting from financing operations totaled 3,339 million yen. This was mainly due to short-term borrowing and the receipt of investments in the subsidiary Kobashou, although dividend payments increased.

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Accordingly, the term-end balance of cash and cash equivalents increased 3,259 million yen over the previous interim period to 18,645 million yen.

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

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

(2) Fiscal Year 2005 Forecasts

The operating environment is severe, but we will strive to reduce inventories and accounts receivable so as to improve the KOVA (Kobayashi Value Added) management index, which takes the efficiency of capital into account.

Among cash flows from operating activities, net earnings before taxes are expected to increase over the previous fiscal year.

Regarding cash flows from investing activities, stable investments in plants and equipment are expected to average those of the previous fiscal year owing to stable investments in plants and equipment. Expenses are anticipated to increase over the previous year due to the acquisition this interim period of investments in securities through capital tie-ups.

Cash flow from financing activities is forecast to increase over the previous fiscal year resulting from short-term borrowing and the receipt of investments in our subsidiary Kobashou.

(3) Cash Flow Indicator Trends

	As of Sept. 30,	As of March 31,			
	2005	2005	2004	2003	2002
Equity Ratio (%)	40.8	44.7	42.4	39.2	36.8
Equity Ratio at Market Value Basis (%)	103.5	90.5	91.8	82.9	99.7
Debt Repayment Period (years)	—	0.3	0.8	0.7	2.3
Interest Coverage Ratio (times)	—	96.7	90.5	87.9	20.0

Notes:

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

- Equity Ratio = Shareholder's equity ÷ Total assets
- Equity Ratio at market value basis = Total market value of listed shares ÷ Total assets
- Liability Maturity = 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 by the number of shares issued after deduction of own shares at the year-end. Interest-bearing debt, liabilities accounted in the consolidated balance sheet, all debts that incur interest payment. "Interest payment" in the consolidated statement of cash flow is used.

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V. Consolidated Financial Statements (April 1, 2005 – September 30, 2005)

1. Consolidated Balance Sheets

	Millions of Yen					
	As of September 30,				As of March 31,	
	2005	%	2004	%	2005	
Assets						
Current assets:						
Cash and time deposits.....	18,645		15,386		19,035	
Trade notes and accounts receivable.....	55,117		48,874		44,137	
Investment securities	1,002		1,000		1,000	
Inventories	18,348		15,930		15,783	
Deferred income taxes	2,473		2,290		2,417	
Other current assets.....	6,157		4,822		4,976	
Allowance for doubtful accounts	(516)		(507)		(647)	
Total current assets	101,228	65.5	87,797	65.0	86,704	64.4
Fixed Assets:						
Tangible Fixed Assets:						
Buildings and Structures	11,630		11,991		12,234	
Land	8,487		9,949		9,928	
Other	2,859		2,873		2,840	
Total Fixed Assets	22,976	14.9	24,815	18.4	25,002	18.6
Intangible Assets:						
Goodwill	1,116		1,324		1,148	
Trademark.....	1,492		68		1,423	
Software.....	960		872		910	
Consolidation Adjustments account .	2,945		3,476		3,099	
Other	294		293		294	
Total Intangible Assets	6,809	4.4	6,036	4.4	6,877	5.1
Investments and Other Assets:						
Investments in securities	14,972		8,763		8,758	
Deferred Tax Assets	2,788		2,572		2,329	
Other Assets	7,505		7,229		6,900	
Allowance for investment liability loss	(225)		(91)		(188)	
Allowance for doubtful receivables ...	(1,602)		(2,044)		(1,756)	
Total Investments and Other Assets	23,438	15.2	16,429	12.2	16,044	11.9
Total Fixed Assets	53,225	34.5	47,281	35.0	47,924	35.6
Total Assets	154,453	100.0	135,079	100.0	134,629	100.0

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	Millions of Yen					
	As of September 30,				As of March 31,	
	2005	%	2004	%	2005	
Liabilities						
Current Liabilities:						
Trade notes and accounts payable	53,721		45,943		43,532	
Short-term loans payable	4,723		3,885		2,692	
Accrued expenses	10,586		9,829		10,321	
Accrued income taxes	4,329		4,051		3,790	
Reserve for adjustment of returned goods	2,145		1,993		1,879	
Allowance for bonus payable	429		293		499	
Other current liabilities	2,789		2,524		2,291	
Total Current Liabilities	78,726	51.0	68,520	50.7	65,007	48.3
Fixed Liabilities						
Long term loans payable	308		924		341	
Provision for retirement benefits	6,980		6,343		6,474	
Provision for allowances for directors and corporate auditors ...	1,310		1,204		1,263	
Other long-term liabilities	908		813		880	
Total Fixed Liabilities	9,507	6.1	9,285	6.9	8,959	6.6
Total Liabilities	88,234	57.1	77,806	57.6	73,966	54.9
Shareholders' Equity						
Minority Interests						
Minority interests	3,153	2.1	532	0.4	546	0.4
Shareholders' Equity						
Common stock	3,450	2.2	3,450	2.5	3,450	2.6
Capital surplus	4,185	2.7	4,183	3.1	4,183	3.1
Earned Surplus	56,009	36.3	50,514	37.4	53,585	39.8
Net unrealized holding gains on securities	2,246	1.4	1,618	1.2	1,851	1.4
Foreign currency translation adjustments	(489)	(0.3)	(697)	(0.5)	(622)	(0.5)
Cost of treasury stock	(2,335)	(1.5)	(2,329)	(1.7)	(2,331)	(1.7)
Total Shareholders' Equity	63,065	40.8	56,740	42.0	60,116	44.7
Total Liabilities, Minority Interest and Shareholders' Equity	154,453	100.0	135,079	100.0	134,629	100.0

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2. Consolidated Income Statement

	Millions of Yen					
	As of September 30,				As of March 31,	
	2005	%	2004	%	2005	%
Net Sales	125,076	100.0	109,907	100.0	215,708	100.0
Cost of sales.....	85,672	68.5	73,891	67.2	143,912	66.7
Gross profit.....	39,404	31.5	36,015	32.8	71,795	33.3
Selling, general, & administrative expenses	30,739	24.6	28,191	25.7	56,096	26.0
Operating Income	8,664	6.9	7,824	7.1	15,698	7.3
Other Income and Expenses						
Other Income:						
Interest received	36		37		75	
Dividends earned.....	33		23		55	
Loyalty received.....	211		167		440	
Investment income due to equity Method	191		140		391	
Loss on exchange (Loss from fluctuation of foreign exchange rate) ..	14		38		79	
Miscellaneous income	381		319		663	
Other Income	869	0.7	726	0.6	1,705	0.8
Other Expenses:						
Interest expenses	43		46		86	
Sales discount	510		479		1,027	
Loss on disposal or write-offs of inventories	868		759		1,835	
Miscellaneous expenses.....	132		218		296	
Other Expenses	1,555	1.2	1,504	1.3	3,245	1.5
Ordinary Income	7,978	6.4	7,046	6.4	14,159	6.6
Extraordinary Gain and Loss:						
Gains on sales of fixed assets	46		0		6	
Goodwill transfer benefit	1,065		735		735	
Other extraordinary gains	3		54		105	
Extraordinary Gains	1,115	0.9	791	0.7	847	0.4
Losses on sales and disposal of fixed assets.....	70		26		118	
Loss on disposal or write-offs of inventories	289		532		874	
Loss on liquidation of affiliated companies	—		—		277	
Allowance for investment loss liability transfer.....	91		37		188	
Impairment losses.....	1,632		—		—	
Other extraordinary losses.....	310		308		779	
Extraordinary Losses	2,340	1.9	958	0.8	2,237	1.1

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	Millions of Yen					
	As of September 30,				As of March 31,	
	2005	%	2004	%	2005	%
Income Before Income Taxes	6,753	5.4	6,878	6.3	12,769	5.9
Corporate Income, Local and Business Taxes.....	3,994	3.2	3,320	3.0	6,024	2.8
Adjustments to Income Taxes	(888)	(0.7)	(226)	(0.2)	(56)	(0.0)
Minority Interest in Net Income of Consolidated Subsidiaries.....	88	0.1	52	0.1	70	0.0
Net Income	3,558	2.8	3,732	3.4	6,730	3.1

3. Consolidated Statements of Shareholders' Equity

	Millions of Yen		
	First Half ended September 30,		Year ended March 31,
	2005	2004	2005
Capital Surplus			
I. Beginning balance of capital surplus	4,183	4,183	4,183
II. Earnings from disposal of Treasury stock	1	0	0
III. Ending balance of capital surplus	4,185	4,183	4,183
Earned Surplus			
I. Beginning balance of capital surplus	53,585	48,185	48,185
II. Increase in earned surplus	3,894	3,732	6,802
Net Income for the first half	3,558	3,732	6,730
Increase associated with change in scope of consolidation.....	—	—	72
Deference associated with change in portion	336	—	—
III. Decrease in earned surplus	1,470	1,403	1,403
Cash dividends paid	1,373	874	874
Directors' bonuses	44	38	38
Decrease associated with change in scope of consolidation.....	52	490	490
IV. Ending balance of earned surplus	56,009	50,514	53,585

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4. Consolidated Statements of Cash Flows

	Millions of Yen		
	First Half ended March 31,		Year ended March 31,
	2005	2004	2005
I. Cash flows from operating activities:			
Income before income taxes and minority interests.....	6,753	6,878	12,769
Depreciation.....	1,386	1,271	2,735
Impairment losses.....	1,632	—	—
Amortization of consolidation adjustment account.....	251	282	502
Provision for allowance of doubtful accounts.....	(301)	(91)	(232)
Accrued severance indemnities, net.....	506	23	149
Interest and dividend income.....	(69)	(60)	(131)
Interest expenses.....	43	46	86
Equity in earnings of affiliates.....	(191)	(140)	(391)
Losses on disposal of inventory evaluation.....	1,157	1,291	2,709
Loss on liquidation of affiliated companies	—	—	277
Gain on sale of goodwill.....	(1,065)	(735)	(735)
Loss on sales of investment securities	70	26	118
Gain on sale of fixed assets.....	—	—	227
Provision for investment losses.....	37	91	188
Increase (decrease) in trade notes and accounts receivable.....	(9,038)	(6,838)	(1,503)
Increase (decrease) in inventories.....	(3,692)	(3,045)	(4,174)
Increase (decrease) in trade notes and accounts payable.....	8,490	4,506	2,044
Others.....	(1,508)	98	(599)
Sub Total	4,461	3,603	14,042
Interest and dividends received.....	69	60	131
Interest paid.....	(43)	(46)	(86)
Income taxes paid.....	(3,359)	(2,818)	(5,722)
Net cash provided by operating activities	1,127	798	8,364
II. Cash flows from investing activities:			
Purchases of property, plant and equipment	(635)	(947)	(2,256)
Proceeds from sales of property, plant and equipment.....	300	0	25
Payments for purchases of intangible assets.....	(489)	(681)	(2,322)
Payments for investments in securities.....	(5,267)	(60)	(177)
Payments for investments and other assets.....	(117)	—	(400)
Proceeds from sales of investment securities.....	107	—	174
Increase in short term loans receivable.....	74	(147)	62
Disbursement for long term loans payable.....	(22)	—	(9)
Proceeds from collection of long term loans.....	29	—	22
Proceed from acquisition of shares of newly consolidated subsidiaries.....	47	—	—
Proceeds from sale of goodwill.....	1,065	735	735
Others.....	24	(563)	208
Net cash used in investing activities.....	(4,882)	(1,664)	(3,936)

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	Millions of Yen		
	First Half ended March 31,		Year ended March 31,
	2005	2004	2005
III. Cash flows from financing activities:			
Increase (decrease) in short-term loans, net	1,885	392	(1,336)
Proceeds from long-term debt	(46)	(1,096)	(1,143)
Proceeds from shareholders of minority interests	2,650	—	—
Payments for purchase of treasury stock	(10)	(11)	(16)
Dividends paid	(1,373)	(874)	(874)
Others	234	—	2
Net cash used in financing activities	3,339	(1,590)	(3,369)
IV Effect of exchange rate changes on cash and cash equivalents	25	15	(41)
V. Net increase in cash and cash equivalents	(389)	(2,440)	1,099
VI. Cash and cash equivalents at beginning of period	19,035	17,663	17,663
VII. Beginning of period adjustment associated with change in scope of consolidation	—	164	272
VIII. Cash and cash equivalents at end of period	18,645	15,386	19,035

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

1. Principles of consolidation

(1) Number of subsidiaries: 26 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., Aoitori Physical Distribution, Suehiro Industrial, Archer Corporation, SP-Planning, Kiribai Chemical Co., Ltd., Kenshou Co., Ltd., KS Hokkaido, KS Tokai, Seiei, Shield California Centers, Inc., Shield Denver Centers, Inc., Mail Order Medical Supplies Incorporated, Bluebird Development LLC., Kobayashi Healthcare Inc., Kobayashi Healthcare Europe, Ltd., Kobayashi Pharmaceuticals of America Incorporated, Shanghai Kobayashi Daily Chemicals Co., Ltd., Kobayashi Pharmaceutical (Hong Kong) Co., Ltd.

(2) Names of major non-consolidated subsidiaries

Kobayashi Sales Promotion, Uomasa, 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.

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

3. Fiscal years of consolidated subsidiaries

Among the consolidated companies, Shield California Health Centers, Inc., Shield Denver Health Centers, Inc., Mail Order Medical Supplies Incorporated, Bluebird Development LLC., Kobayashi Healthcare Inc., Kobayashi healthcare Europe, Ltd., Kobayashi Pharmaceuticals of America Incorporated, Shanghai Kobayashi Daily Chemicals Co., Ltd., Kobayashi Pharmaceutical (Hong Kong) Co., Ltd. have a first-half account settlement date of June 30. When preparing first-half consolidated financial statements, first-half financial statement as of that date were used, and in the case of important transactions that occurred between that date and the first-half consolidated account settlement date, necessary adjustments were made on a consolidated basis.

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

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4. Accounting standards

(1) Valuation criteria and valuation methods for major assets

1) Inventories

Commodities and raw materials ... Stated principally 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) 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

Derivatives ... Market value 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) Criteria for appropriation of important reserves

1) Allowance for doubtful accounts

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

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

2) Allowance for bonuses

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

3) Reserve for sales returns

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

4) Reserve for retirement allowances

To provide for employees' accrued retirement benefits, the Company and two of its domestic consolidated subsidiaries charged to income the amount recognized as having been incurred at the end of the first-half 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 four domestic consolidated subsidiaries posted a payment amount required at the end of the consolidated first-half term based on internal regulations.

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(4) Method of accounting for major lease transactions

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

(5) Derivatives and hedging activities

1) Hedge accounting methods

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

2) Hedging measures and hedged items

Hedging instruments

Forward foreign exchange contracts, interest-rate swaps

Hedged items

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

3) Hedging policy

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

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

4) Method of evaluating effectiveness of hedging

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

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

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

Method of accounting for consumption tax, etc.

The Company adopts the tax exclusion method.

5. Amortization of consolidation adjustment accounts

The consolidation adjustment accounts are amortized over ten years in the case of Kiribai Chemical Co., Ltd.

6. Scope of funds in consolidated cash flow statements

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

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VII. Notes to Consolidated Financial Statements

(Related to consolidated balance sheet)

End of current consolidated first half accounting period (As of September 30, 2005)	End of previous consolidated first half accounting period (As of September 30, 2004)	Previous Financial year (As of March 31, 2005)
<p>1 Accumulated depreciation of property, plant and equipment amounts to 18,479 million yen.</p> <p>2 The following assets have been provided as security</p> <p>Bill receivable 109 million yen</p> <p>Buildings & structures 992 million yen</p> <p>Land 2,122 million yen</p> <p>Investment securities 114 million yen</p> <p>Total 3,368 million yen</p> <p>(Liabilities corresponding to the above)</p> <p>Trade notes and accounts payable 7,533 million yen</p> <p>Short-term loans 60 million yen</p> <p>Long-term loans 28 million yen</p> <p>Total 7,621 million yen</p> <p>3. Commitment line Contracts In order to provide access to a stable and effective source of operating capital, the company has entered into commitment-line contracts with fifteen trading banks. The balance of un-realized debt based on these contracts at the end of the current first half consolidated reporting period is as shown below.</p> <p>Total debt commitment 32,112 million yen</p> <p>Realized debt balance 450 million yen</p> <p>Balance 31,662 million yen</p>	<p>1 Accumulated depreciation of property, plant and equipment amounts to 18,501 million yen.</p> <p>2 The following assets have been provided as security</p> <p>Bill receivable 164 million yen</p> <p>Buildings & structures 1,110 million yen</p> <p>Land 2,122 million yen</p> <p>Investment securities 110 million yen</p> <p>Total 3,508 million yen</p> <p>(Liabilities corresponding to the above)</p> <p>Trade notes and accounts payable 7,864 million yen</p> <p>Short-term loans 200 million yen</p> <p>Long-term loans 35 million yen</p> <p>Total 8,100 million yen</p> <p>3. Commitment line Contracts In order to provide access to a stable and effective source of operating capital, the company has entered into commitment-line contracts with fifteen trading banks. The balance of un-realized debt based on these contracts at the end of the current first half consolidated reporting period is as shown below.</p> <p>Total debt commitment 33,300 million yen</p> <p>Realized debt balance 1,200 million yen</p> <p>Balance 32,100 million yen</p>	<p>1 Accumulated depreciation of property, plant and equipment amounts to 18,876 million yen</p> <p>2 The following assets have been provided as security</p> <p>Bill receivable 137 million yen</p> <p>Buildings & structures 1,079 million yen</p> <p>Land 2,122 Million yen</p> <p>Investment securities 124 million yen</p> <p>Total 3,464 million yen</p> <p>(Liabilities corresponding to the above)</p> <p>Trade notes and accounts payable 8,312 Million yen</p> <p>Short-term loans 180 million yen</p> <p>Long-term loans 32 million yen</p> <p>Total 8,524 million yen</p> <p>3. Commitment line Contracts In order to provide access to a stable and effective source of operating capital, the company has entered into commitment-line contracts with fifteen trading banks. The balance of un-realized debt based on these contracts at the end of the current first half consolidated reporting period is as shown below.</p> <p>Total debt commitment 33,103 million yen</p> <p>Realized debt balance 450 million yen</p> <p>Balance 32,653 million yen</p>

KOBAYASHI PHARMACEUTICAL CO., LTD.

(Related to consolidated statement of Income)

(related to consolidated statement of income)

Consolidated first half accounting period (April 1, 2005 to September 30, 2005)	Consolidated first half accounting period (April 1, 2004 to September 30, 2004)	Previous financial year (April 1 2004 to March 31, 2005)																																																																						
<p>1 The major components of selling, general & administrative expenses were as follows.</p> <table><tr><td>Freight & storage</td><td>4,920 million yen</td></tr><tr><td>Advertising</td><td>5,929 million yen</td></tr><tr><td>Salaries & bonuses</td><td>6,351 million yen</td></tr><tr><td>Allowance for retirement</td><td>461 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>46 million yen</td></tr><tr><td>Other</td><td>0 million yen</td></tr><tr><td>Total</td><td>46 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>16 million yen</td></tr><tr><td>Machinery & equipment</td><td>35 million yen</td></tr><tr><td>Tools and fixtures</td><td>14 million yen</td></tr><tr><td>Other</td><td>3 million yen</td></tr><tr><td>Total</td><td>70 million yen</td></tr></table>	Freight & storage	4,920 million yen	Advertising	5,929 million yen	Salaries & bonuses	6,351 million yen	Allowance for retirement	461 million yen	Land	46 million yen	Other	0 million yen	Total	46 million yen	Buildings & structures	16 million yen	Machinery & equipment	35 million yen	Tools and fixtures	14 million yen	Other	3 million yen	Total	70 million yen	<p>1 The major components of selling, general & administrative expenses were as follows.</p> <table><tr><td>Freight & storage</td><td>4,027 million yen</td></tr><tr><td>Advertising</td><td>6,086 million yen</td></tr><tr><td>Salaries & bonuses</td><td>5,826 million yen</td></tr><tr><td>Allowance for retirement</td><td>386 million yen</td></tr></table> <p>2 Within extraordinary gains, gains on the sale of fixed assets comprise the following.</p> <table><tr><td>Other</td><td>0 million yen</td></tr><tr><td>Total</td><td>0 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>15 million yen</td></tr><tr><td>Machinery & equipment</td><td>2 million yen</td></tr><tr><td>Land</td><td>7 million yen</td></tr><tr><td>Other</td><td>1 million yen</td></tr><tr><td>Total</td><td>26 million yen</td></tr></table>	Freight & storage	4,027 million yen	Advertising	6,086 million yen	Salaries & bonuses	5,826 million yen	Allowance for retirement	386 million yen	Other	0 million yen	Total	0 million yen	Buildings & structures	15 million yen	Machinery & equipment	2 million yen	Land	7 million yen	Other	1 million yen	Total	26 million yen	<p>1 The major components of selling, general & administrative expenses were as follows.</p> <table><tr><td>Freight & storage</td><td>8,059 million yen</td></tr><tr><td>Advertising</td><td>11,494 million yen</td></tr><tr><td>Salaries & bonuses</td><td>11,571 million yen</td></tr><tr><td>Allowance for retirement</td><td>780 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>5 million yen</td></tr><tr><td>Other</td><td>0 million yen</td></tr><tr><td>Total</td><td>6 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>18 million yen</td></tr><tr><td>Machinery & equipment</td><td>62 million yen</td></tr><tr><td>Land</td><td>2 million yen</td></tr><tr><td>Other</td><td>35 million yen</td></tr><tr><td>Total</td><td>118 million yen</td></tr></table>	Freight & storage	8,059 million yen	Advertising	11,494 million yen	Salaries & bonuses	11,571 million yen	Allowance for retirement	780 million yen	Land	5 million yen	Other	0 million yen	Total	6 million yen	Buildings & structures	18 million yen	Machinery & equipment	62 million yen	Land	2 million yen	Other	35 million yen	Total	118 million yen
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(Related to semiannually consolidated cash flow statement)

(Related to semiannual consolidated cash flow statement)

Consolidated first half accounting period (April 1, 2005 to September 30, 2005)	Consolidated first half accounting period (April 1, 2004 to September 30, 2004)	Previous financial year (April 1 2004 to March 31, 2005)																		
<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>(As of September 30, 2005)</p> <table><tr><td>Cash & time deposits</td><td>18,645 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>18,645 million yen</td></tr></table>	Cash & time deposits	18,645 million yen	Time deposits with original maturity of more than 3 months	— million yen	Cash & cash equivalents	18,645 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>(As of September 30, 2004)</p> <table><tr><td>Cash & time deposits</td><td>15,386 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>15,386 million yen</td></tr></table>	Cash & time deposits	15,386 million yen	Time deposits with original maturity of more than 3 months	- million yen	Cash & cash equivalents	15,386 million yen	<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>(As of March 31, 2005)</p> <table><tr><td>Cash & time deposits</td><td>19,035 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>19,035 million yen</td></tr></table>	Cash & time deposits	19,035 million yen	Time deposits with original maturity of more than 3 months	— million yen	Cash & cash equivalents	19,035 million yen
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KOBAYASHI PHARMACEUTICAL CO., LTD.

VIII. Segment Information

1. Segment Information by Business Category

Current Consolidated First Half (April 1, 2005 – September 30, 2005)

(Millions of Yen)

	Consumer Products Operation	Wholesale Operation	Medical Operation	Other Operations	Total	Eliminations	Consolidated
1. Sales and operating income							
I. Sales to third parties	32,431	82,485	8,052	2,108	125,076	—	125,076
II. Inter-group sales and transfers	13,432	—	—	4,550	17,982	(17,982)	—
Total net sales	45,863	82,485	8,052	6,658	143,059	(17,982)	125,076
III. Operating expense	37,765	82,278	7,983	6,381	134,409	(17,997)	116,411
IV. Operating income (loss)	8,097	207	68	276	8,650	14	8,664

Previous Consolidated First Half (April 1, 2004 – September 30, 2004)

(Millions of Yen)

	Consumer Products Operation	Wholesale Operation	Medical Operation	Other Operations	Total	Eliminations	Consolidated
1. Sales and operating income							
I. Sales to third parties	32,701	67,383	7,932	1,890	109,907	—	109,907
II. Inter-group sales and transfers	11,132	—	—	4,276	15,408	(15,408)	—
Total net sales	43,833	67,383	7,932	6,166	125,316	(15,408)	109,907
III. Operating expense	36,789	67,062	7,681	6,071	117,604	(15,521)	102,083
IV. Operating income (loss)	7,043	321	251	95	7,711	112	7,824

Previous Consolidated Fiscal Year (April 1, 2004 – March 31, 2005)

(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	67,524	128,356	16,056	3,770	215,708	—	215,708
II. Inter-group sales and transfers	21,748	—	—	8,434	30,182	(30,182)	—
Total net sales	89,273	128,356	16,056	12,205	245,891	(30,182)	215,708
III. Operating expense	74,780	127,556	15,866	12,064	230,269	(30,259)	200,009
IV. Operating income (loss)	14,492	799	189	140	15,621	76	15,698

KOBAYASHI PHARMACEUTICAL CO., LTD.

Notes:

1. Method of business classification:
 - Businesses segments are classified into four principle areas: Consumer Products, Wholesale, Medical and Others following the product line, and the markets in which the products are distributed.
2. Main products of each business operation:
 - Consumer Products Operations --- household pharmaceuticals, oral hygiene products, deodorizing air fresheners, household sundries.
 - Wholesale Operation --- household pharmaceuticals, household sundries and foods
 - Medical Devices Operation --- medical devices, medical facilities
 - Other Operation --- transport, synthetic resin products manufacturing, printing, advertising, planning and creation

2. Segment Information by Area

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

3. Overseas Sales

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