



MANDOM Corporation

Annual Report 2004



Profile

Since its inception in December 1927, Mandom Corporation has developed its business with a focus on hair care products. Today's Mandom is the result of a determination to achieve excellence through a process of continuous self-improvement. Management policy positions employees as the company's most important resource and encourages their active involvement in all aspects of the business.

Mandom's pioneering move into overseas markets, mainly Southeast Asia, began in 1958. In that year, we began operations in Manila, the Philippines, becoming the first company in Japan's cosmetics industry to start overseas operations. PT Mandom Indonesia Tbk started operations in 1969, and to this day remains at the heart of Mandom's drive to build a stronger overseas presence. Another milestone on our road into other Asian markets was the November 1996 establishment of our second overseas production base, in Zhongshan City, Guangdong Province, China. This reinforced our base for further expansion across the entire Asia region.

On the product front, July 1978 marked the launch of Gatsby, our flagship brand. The ensuing 26 years have seen Gatsby grow in strength to become an established name in the industry, sustained by strong customer loyalty and support. In July 1984, we took a step in a new direction when we entered the women's cosmetics market, a move taken to widen the scope of our business.

Mandom pursues a unique group strategy in which domestic Group companies focus on specific sales channels and tailor their efforts to the particular needs of each product. Channels covered include retailers, hair salons, beauty salons and consulting sales. Overseas, Mandom is building a network of Group companies covering the entire Asia region, allowing Mandom to exert its collective strengths in these markets.

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Cautionary Statement With Respect to Forward-Looking Statements

This annual report contains forward-looking statements concerning Mandom's current plans, strategies, beliefs and performance. These forward-looking statements include statements other than those based on historical fact and represent the assumptions and beliefs of management based on information currently available. Mandom therefore wishes to caution readers that actual results may differ materially from expectations, and that forward-looking statements are subject to a number of foreseen and unforeseen risks and uncertainties.

All amounts have been rounded to the nearest whole unit.

Financial Highlights

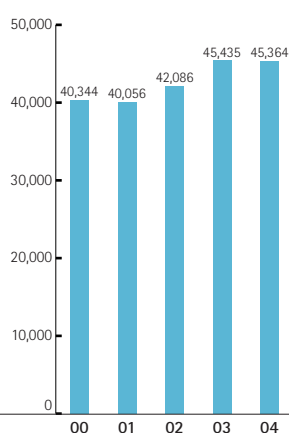
MANDOM Corporation and Consolidated Subsidiaries
Years ended March 31

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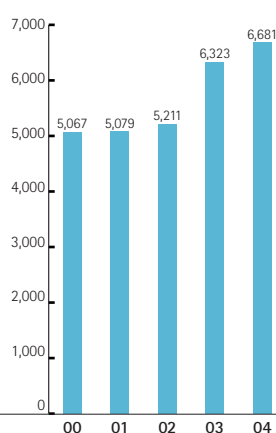
	(Millions of yen, except per share data)				
	2004	2003	2002	2001	2000
Net Sales	¥45,364	¥45,435	¥42,086	¥40,056	¥40,344
Operating Income	6,681	6,323	5,211	5,079	5,067
Net Income	3,254	2,988	2,176	2,024	2,105
Total Assets	45,474	43,869	38,613	39,975	42,668
Total Shareholders' Equity	36,687	34,715	29,376	32,133	33,008
—Return on Equity (ROE) (%)	9.1	9.3	7.1	6.2	7.1
—Earnings per Share (EPS) (¥)	130.83	128.32	92.96	81.59	89.00
—Cash Dividends per Share (¥)	50.00	50.00	40.00	34.00	30.00

Note: Earnings Per Share is calculated based on Accounting Standards Board of Japan Statement No. 2, "Accounting Standard for Earnings per Share," which was adopted on April 1, 2002.

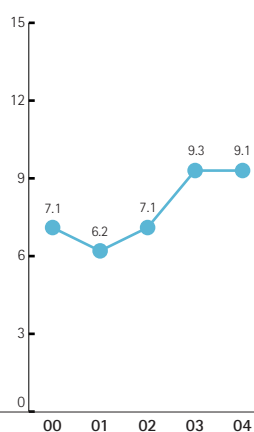
Net Sales
(Millions of yen)



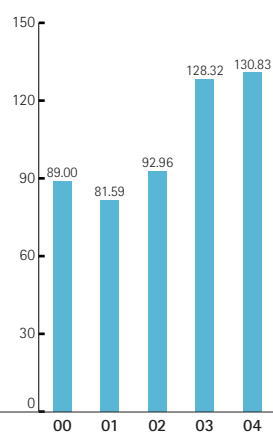
Operating Income
(Millions of yen)



Return on Equity (ROE)
(%)



Earnings per Share (EPS)
(Yen)



Management

● Mandom Group's Management Philosophy

Mission Statement:

Aiming to provide a comfortable lifestyle supported by health and beauty

Philosophy

The shared ideals set forth below, guide our actions toward realizing the Mandom Group's management philosophy, which above all aims to serve and benefit society.

1. Active employee participation

Mandom encourages all employees to take an active role in every facet of operations, blending individual responsibility with the willingness to embrace larger roles than those prescribed by job titles, the organization and the company itself. Our workplace thrives on lively intellectual exchange, and is imbued with a spirit of cooperation, creating a dynamic and progressive organization.

2. Creating lifestyle value with consumers, for consumers

At Mandom, where everything begins and ends with consumers, four key words form the basis of our philosophy: Health, Cleanliness, Beauty and Enjoyment. We begin by ascertaining the needs of consumers and end by creating consumer value. Our goal is to consistently deliver value to people throughout the world.

3. Enhancement of 3 areas: focusing on lifestyle, business partners, and brands

Our fundamental goal is to serve and enhance society through the products and services we supply. To achieve this objective, we constantly strive to deepen our understanding of the changing lifestyles of consumers and the needs of our corporate clients. We also carefully monitor product and service trends, the latest information, technology and consumer preferences.

Philosophy

Quality

● Mandom Quality Philosophy

Responding to real customer satisfaction by raising corporate, product and service quality through active participation by all staff.

Fundamental Quality Policy

- (1) Establish effective quality management systems in Mandom Group companies and continually improve effectiveness.
- (2) Comply with all related regulations and requirements, and strive to eliminate nonconformities and nonconforming products.
- (3) Adopt the challenge toward zero product quality claims.
- (4) Achieve quality objectives based on participation by all staff.
- (5) Conduct our business based entirely upon the consumers' viewpoint.
- (6) Behave in a manner that enhances customer satisfaction by improving processing accuracy and response times.

● Mandom Environmental Philosophy: (Eco-policy)

Mandom is committed to delivering environmentally safe products and services, and protecting the Earth's precious natural environment as a responsible member of society, that contributes to health, cleanliness, beauty and enjoyment.

Fundamental Environmental Policy (Eco-activity Guide)

<Production and Development>

Mandom carries out the 3Rs* in its design and production process and tries to reduce adverse environmental impact.

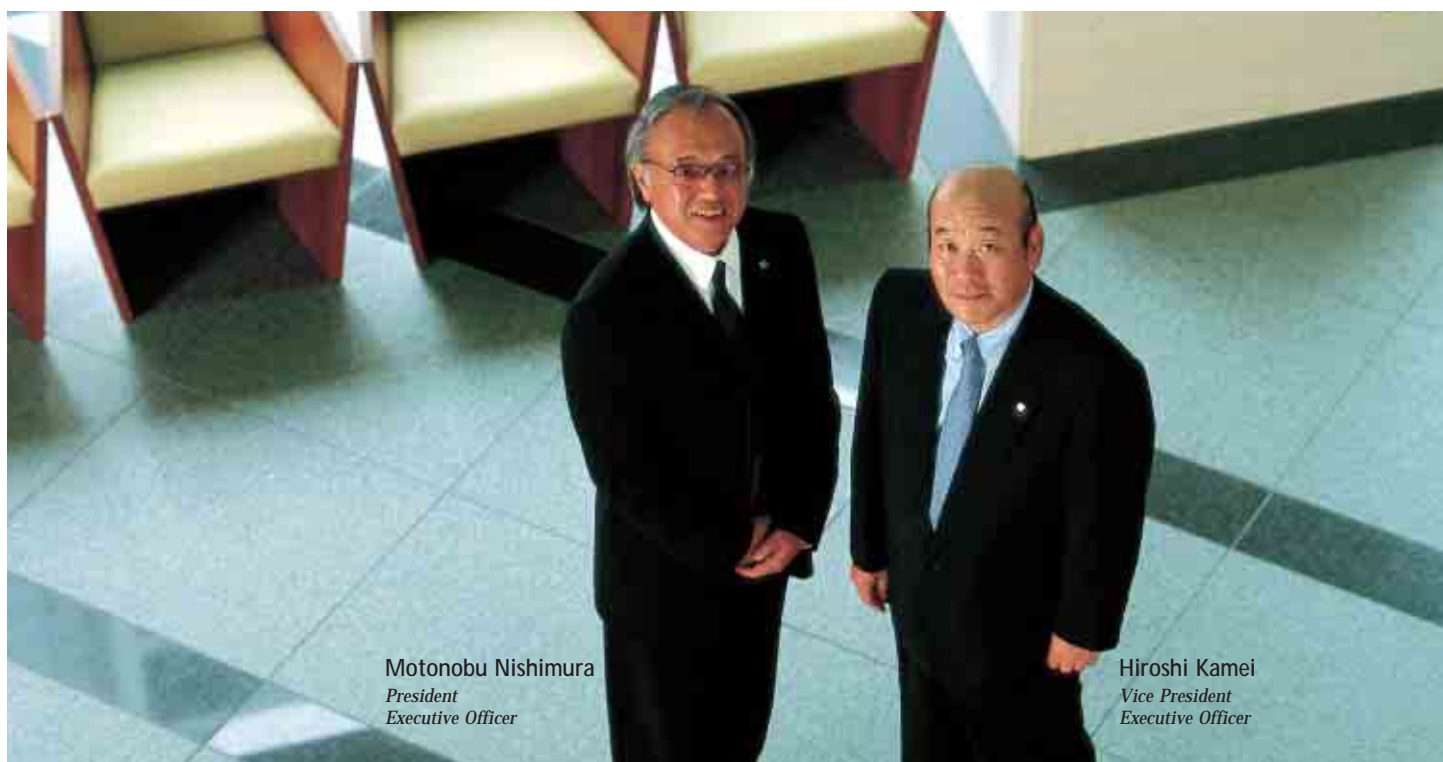
<Total Business Processes>

Mandom collectively adopts the following articles in its manufacturing, marketing, administrative and other processes:

1. Establish an environment management structure and promote active preservation of the environment.
2. Consider the protection of the environment, and use energy and resources carefully.
3. Raise awareness of the environment and contribute to society as a good corporate citizen.

*3Rs: reduce, reuse and recycle

Environmental



Motonobu Nishimura
President
Executive Officer

Hiroshi Kamei
Vice President
Executive Officer

Sound Management Leads to Success

The Year in Review

The Seventh Consecutive Year of Record Operating Income

In the year ended March 31, 2004, there were encouraging signs of recovery in the Japanese economy led by improving performances by companies in the industrial sector. However, there was no widespread improvement in personal consumption and the operating environment in the cosmetics sector remained challenging as retail prices continued to fall, despite a pickup in shipment volumes. Against this backdrop, consolidated net sales slipped 0.2% year on year, to ¥45,364 million, although overseas sales, primarily in Asia, rose 9.9% on the back of successful efforts to raise the visibility of Group brands in key markets. Domestic sales were sluggish in a difficult operating environment, characterized by changes in men's hair coloring fashions that meant consumers used hair color products less. This led to sluggish growth of hair color products in the flagship *Gatsby* range, while sales of deodorants fell 3.8% in an unseasonably cool summer. Despite these weaker sales, consolidated operating income rose 5.7% to ¥6,681 million, a record figure for the seventh fiscal year in a row. This was due to a number of factors: lower cost of sales as more production was transferred to China, efforts to streamline operations, economies of scale due to higher output, and lower raw materials costs due to a stable exchange rate in Indonesia. This combined to push down the cost of sales ratio by 0.2 percentage points to 41.3%. Successful curbs on selling, general and administrative expenses also enhanced profitability. Consequently, consolidated net income rose 8.9% to ¥3,254 million, and earnings per share was a record ¥130.83, up 2.0% year on year.

Returning profits to shareholders is one of Mandom's key management policies, and the Company primarily seeks to distribute earnings in a manner that reflects cash flow conditions. More specifically, Mandom allocates operating cash flow to the payment of cash dividends, capital investment and retained earnings in an equitable manner, while maintaining a stable minimum dividend payout ratio of 40% and dividends on equity (DOE) of at least 3%. For the year under review, in line with initial projections, the Company plans to pay an annual dividend of ¥50 per common share, including a year-end dividend of ¥25 per share. This represents a dividend payout ratio of 42.1% and DOE of 3.2%.

Progress With the Three-year Medium-term Management Plan

Mandom's current medium-term management plan focuses on three key product groups: the men's cosmetic brand *Gatsby*, the women's cosmetic brand *Lúcido L*, and fashion hair dyes. Simultaneously, we are positioning the Asian market as the nucleus for growth and expansion going forward by giving increasing weight to overseas businesses, and continuing to reduce the cost of sales to ensure earnings rise in tandem with sales. In the final year of the plan, we are targeting return on equity (ROE) of 10% and earnings per share of ¥150.

In the fiscal year under review, the second year of the plan, we achieved ROE of 9.1% and earnings per share of ¥130.83. Even in the challenging operating environment, we are generally on course to attaining the plan's targets.

The Year Ahead—The Final Year of our Seventh Medium-term Management Plan

In the final year of the plan, ending March 31, 2005, we will focus on the three following areas:

Ensure growth by concentrating on three key product groups

Hair color products in the *Lúcido L* line did well in the year under review, even as sales in the core *Gatsby* range fell short of targets, primarily due to a shrinking market for hair color products and a cool summer in Japan that impacted on seasonal products. In the next fiscal year, plans call for strengthening the *Gatsby* marketing strategy to reinvigorate growth in core products. Initiatives will include upgrading the lineup of strategic items such as hair color products to meet sales targets.

Strengthening and expanding overseas operations to drive growth

Our overseas business has posted steady growth thanks to aggressive marketing investments that supported the regional development of the *Gatsby* brand. Indonesia-based PT Mandom Indonesia Tbk, an overseas subsidiary that makes a significant contribution to our consolidated results, has recorded strong growth on the back of dynamic marketing campaigns. This company has played an important role in expanding Mandom's overseas business. As a result, overseas sales now account for 23.5% of total Group sales. In the coming year, we will continue to launch core products across Asia, and strengthen and expand our presence in China, a country where we have already started test marketing through our newly opened Shanghai Representative Office.

Further reducing the operating cost base

We will work to bring down the cost of sales and other Group-wide costs by increasing in-house production at our three production bases in Japan, Indonesia and China. One area where we aim to find further cost savings is logistics. Currently, Group logistics are carried out by an in-house distribution center; however, we have now decided to switch to a third-party logistics system. Effective October 2004, Group-wide logistics operations will be outsourced to Nippon Express Co., Ltd., which will provide an integrated 3PL

service covering all aspects of logistics operations. Starting with distribution, we will ultimately extend this contract to cover raw material procurement, the shipment of products from manufacturing sites to distribution channels in Japan and overseas, and the processing of returned goods. With this move, Mandom will become the first cosmetics company in Japan to sign a comprehensive 3PL outsourcing contract, heralding the start of a new business model in the industry.

Other steps will be taken to increase profitability and enhance management efficiency, including improvements to supply chain management that will maximize inventory turnover and boost cash flow, and a reorganization of our manufacturing framework that will bring down costs and realize other benefits that strengthen our competitive position and our ability to respond to changing market needs.

While there are encouraging signs that shipment volumes of cosmetics in the domestic market are recovering, prices are still in decline, and there is little promise of any significant change in the current severe operating environment.

Against this backdrop, we will strive to maintain profitability by channeling resources into *Gatsby*, *Lúcido L* and hair color products, core product groups, and by launching new products that meet consumer needs to reach our sales targets. In Japan, we will focus on reinvigorating the *Gatsby* brand to usher in a phase of renewed growth, while at the same time continuing to cut costs to strengthen our earnings structure. Overseas, we plan to maintain our aggressive marketing approach to achieve double-digit sales growth on a local currency basis. In Indonesia, we will upgrade production facilities to reduce costs, thereby enhancing earnings capabilities.

Effective from the fiscal year ending March 31, 2005, we will convert Mandom Korea Corporation (South Korea) into a consolidated subsidiary, and make Sunwa Marketing Co., Ltd. (Hong Kong) an equity-method affiliate, due to these companies' growing importance to Group operations.

Based on the above strategies and initiatives, we are projecting operating income of ¥6,950 million and ordinary income of ¥6,700 million, on consolidated net sales of ¥46,400 million in the fiscal year ending March 31, 2005. Net income is forecast at ¥3,600 million.

July 2004



Motonobu Nishimura
President Executive Officer



Hiroshi Kamei
Vice President Executive Officer

Corporate Social Responsibility

Corporate Governance

Basic Policy

Mandom aims to win the trust of shareholders with an effective corporate governance system that promotes fair and transparent management.

Supervision and auditing of decision making and executive functions

By giving the Board of Directors a stronger role in the company, Mandom is strengthening decision making and executive functions through their clear separation within the organization.

Mandom employs the corporate auditor system. Based on this system, we are strengthening auditing functions by increasing the number of external auditors to enhance the supervision of decision making and executive functions from the standpoint of shareholders.

Management decision execution

To reinforce executive frameworks at Mandom's business function units, we are increasing mutual supervision of business units, enhancing control over executive actions, and transferring authority to executive officers to increase flexibility in management policy execution.

Compliance

A Code of Conduct Promotion Committee has been established to ensure adherence to all laws and regulations and promote compliance.

Corporate Governance Reform

With the introduction of an executive officer system in July 2001, we separated decision making and supervisory functions from executive functions, and entrusted executive officers with clearly defined responsibilities. Since then, Mandom's corporate governance system has undergone further reform with the introduction of a new management system based on an executive officer system with posts of responsibility in June 2004, in accordance with a resolution approved by the Annual General Meeting of Shareholders and subsequent ratification by the Board of Directors. Based on the corporate auditor system, which maintains and reinforces legal compliance, this unique management system also organically integrates the business unit function system and the executive officer system.

Mandom has also effectively abolished the system of titles for directors that define job responsibilities, such as president, vice president, senior managing director and managing director. All members of the board of directors attend meetings as directors, in order to facilitate discussion and decision making on a more equal basis and to ensure fair decision making. Only the position of Chairman has been retained.

Simultaneously, Mandom introduced a system of executive officers with titles defining job responsibilities such as president executive officer, vice president executive officer and managing director executive

Board of Directors & Executive Officers

(As of June 24, 2004)

President Executive Officer

Motonobu Nishimura

Vice President Executive Officer

(Management Planning Div.)

Hiroshi Kamei

Managing Director Executive Officer

(International Operations Div.)

Yoshikatsu Nishiumi

Managing Director Executive Officer

(Resource Management Integration General Administration Div., Legal Affairs Div., and Secretarial Office)

Kenji Saji

Managing Director Executive Officer

(Manufacturing & Logistics, Purchasing Div, Logistics Center, and MIC Corp. President Executive Officer)

Kenji Yamada

Managing Director Executive Officer

(Marketing/sales Integration Western Japan Sales Div., Sales Planning Div.)

Koji Nozaki

Managing Director Executive Officer

(R&D Integration Customer Relations Div., Quality Assurance Div., Product Planning Div. Central Research Laboratories, E/O Direct Marketing Div. and General Manager)

Masayoshi Momota

Director

Masashi Suzuki ^{*1}

Director

Mitsuo Goto ^{*1}

Corporate Auditor

Toshihito Higuchi

Corporate Auditor

Kanetoyo Matsuyama

Corporate Auditor

Kazuuya Kotera ^{*2}

Corporate Auditor

Susumu Takagi ^{*2}

^{*1} External Director

^{*2} External Auditor

officer, to more clearly define their responsibilities and to promote the devolution of authority.

Only executive officers that head business function units may be appointed as directors. Executive officers with no such position may not sit on the board. This move transfers more authority to executive officers, clearly separates decision making and supervisory functions from executive functions, and creates an environment in which executive officers can channel all their energies into operational duties, thereby increasing the precision of Mandom's executive actions. At the same time, authority has been transferred from executive officers that sit on the board to executive officers without titles, freeing the

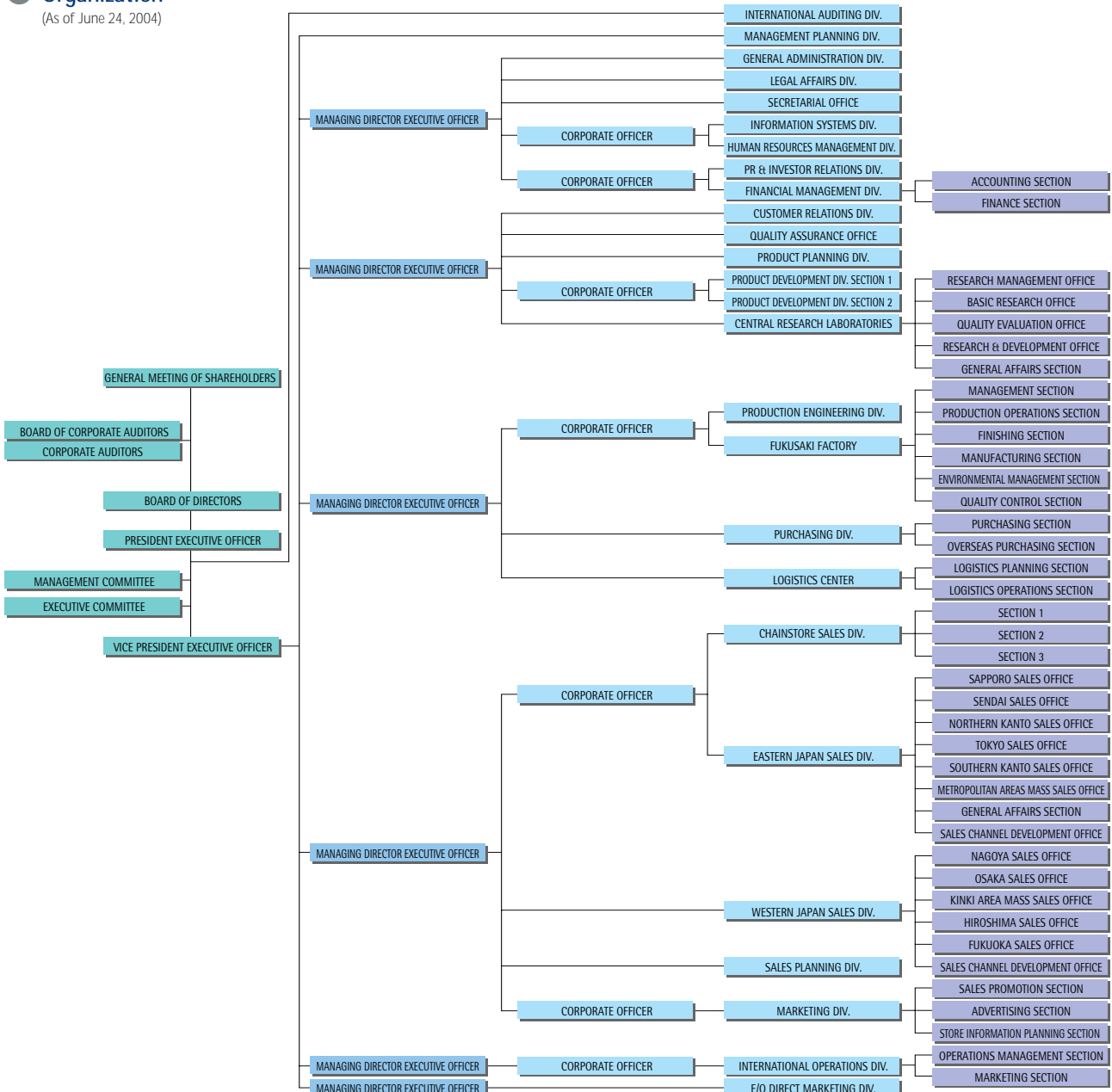
board to concentrate on high-level decision making and supervision from a broader Group perspective. This also ensures flexibility in decision making and policy execution.

As a result of these changes the number of internal directors has been reduced from 10 to seven.

In support of these moves, we have increased the number of external directors from one on the former 11-member board, to two on the new nine-member board. Appointing external directors brings objective opinions into decision making and execution, strengthening supervisory functions. Including two external auditors, this brings the total of external directors to four.

Organization

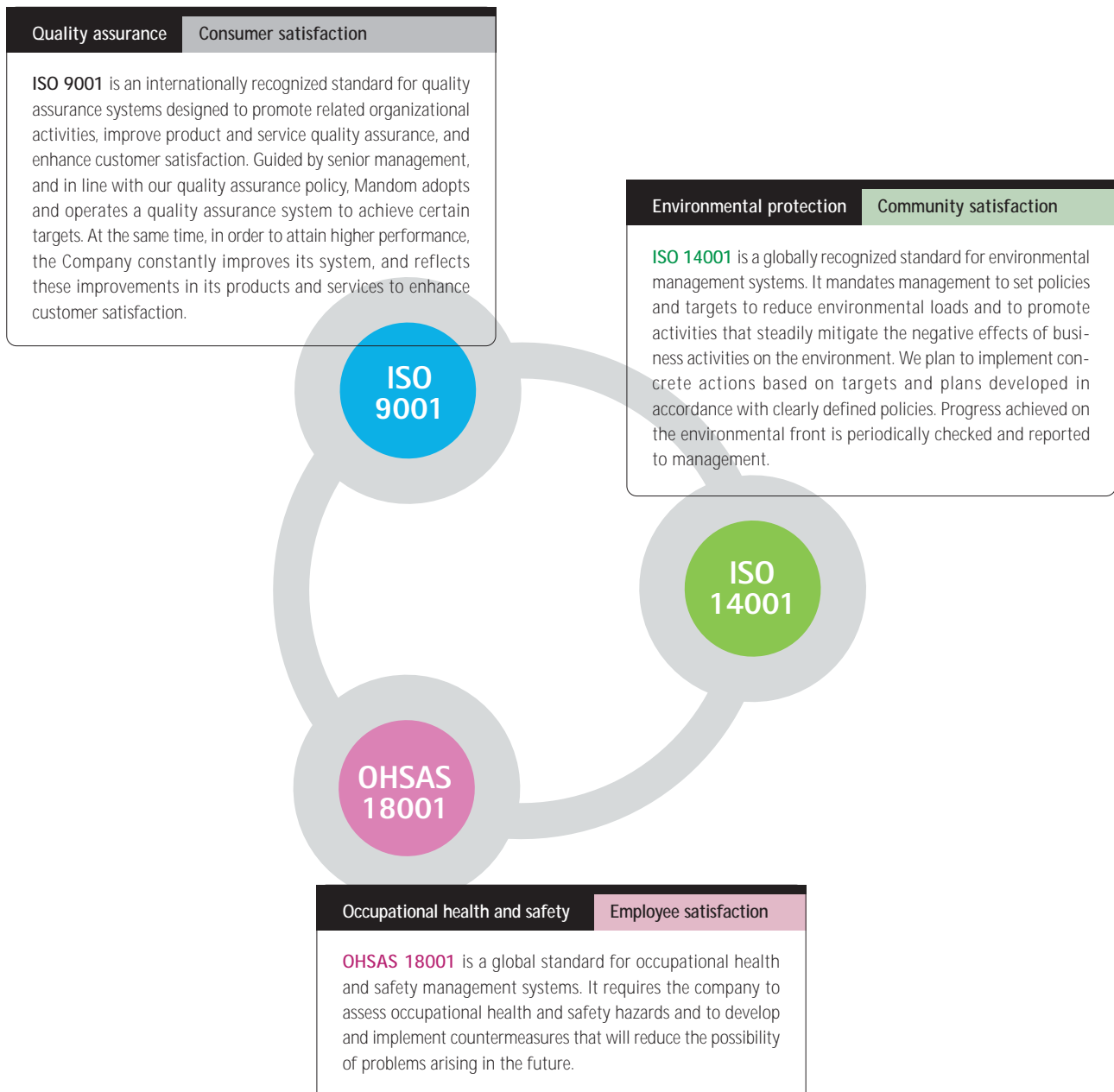
(As of June 24, 2004)



Quality Assurance, Environmental Protection and Occupational Health and Safety – Integral Elements of Management at Mandom

In order to reinforce the quality assurance system for all the Group's products, Mandom established a Quality Assurance Office in April 2004 to promote compliance with ISO 9001 quality management standards and enhance quality and safety product guarantee capabilities. Mandom is equally committed to environmental protection: in 2000 the Head Office obtained ISO 14001 certification, the internationally recognized standard for environmental management, and manufacturing subsidiary, BEAUCOS Corp., received the same certification in September 2003. Going forward, Mandom will remain committed to environmental protection, strengthening environmental management systems throughout the Group while promoting its 3R policy: reduce, reuse and recycle. In the same vein, the Fukusaki Factory was awarded OHSAS 18001 certification—an internationally recognized occupational health and safety management system standard—in October 2003.

Through synergies created by obtaining these three internationally recognized certifications, we will enhance the satisfaction of customers, employees and communities, and promote management that gives due consideration to the needs of consumers, the workforce and society as a whole.



Quality Assurance Initiatives



In 1998, Mandom was the first cosmetics manufacturer in Japan to be certified to ISO 9001, the international standard of quality management systems, for its Head Office, Central Research Laboratories, Fukusaki Factory and Logistics Center.

Environmental Protection Initiatives



In 2000, Mandom was certified to ISO 14001, the international standard of environmental management systems, for the Fukusaki Factory and Logistics Center.

Occupational Health and Safety Initiatives



In 2003, the Fukusaki Factory attained OHSAS 18001 certification, a global standard for occupational health and safety management systems.



Since our establishment in December 1927, hair care products and cosmetics for men in particular have been at the heart of our business development. By efficiently using resources, Mandom has continually launched unique products while positioning men's cosmetics at the core of its business portfolio, with the aim of becoming the "Only One" of its kind in the industry.

The Six Faces of

Gatsby—a powerful brand

Since launching *Gatsby* 26 years ago, we have carefully grown it into the top cosmetics brand for men in Japan. This leading brand gives us a significant advantage in developing and implementing marketing strategy.



We have consistently focused on developing our international business focused on Asia since establishing our first overseas operating base in Manila, the Philippines, in 1958. Thanks to a network that covers all of Asia, we can efficiently use our marketing strengths to maximum effect throughout the entire region. Currently, Mandom has nine marketing bases in eight countries, which together are building a robust position for Mandom in Asia, a market with great growth potential.



● *An innovative database marketing system*

True to the maxim, "Everything begins and ends with the customer," our marketing strategy focuses on the frontline, particularly at points of sale. Database marketing is the defining feature of our sales activities, underpinned by the Mandom Field Navigation System (MAFINAS), which became fully operational in 1997. This system allows us to gather data from retail stores as needed and build a database using information gleaned from point-of-sales (POS) systems. Data we gather is used in marketing activities and a variety of other areas including product planning. In marketing support activities, such data is a valuable tool in designing proposals for optimal sales layouts for large retail chains.

Mandom



● *Innovative product development*

At Mandom, we have consistently launched products in line with the times but that also drive pioneering developments in the industry, illustrated by a number of hit products such as men's hair styling foam, non-fragrance cosmetics, and men's fashion hair dyes. But we take more than functionality into consideration when developing products—creating products with a low environmental impact is also a key element of our R&D.

Mandom's Central Research Laboratories are forging partnerships with tertiary education research institutes and other external institutions, thereby reinforcing our R&D framework.



● *The combined strengths of three manufacturing locations*

Mandom has three manufacturing locations in three different regions: the Fukusaki Factory in Hyogo Prefecture, Japan; an Indonesian location consisting of the Sunter Factory in Jakarta and the Cibitung Factory in Bekasi; and the Zhongshan Factory in Guangdong Province, China. By organically combining the capabilities of all these locations, we are creating an efficient manufacturing system that covers Japan and the rest of Asia.



We have nurtured our flagship *Gatsby* brand over 26 years since its launch in 1978. The development of a stream of products to precisely meet consumer lifestyle preferences is the main reason for its growth into the industry's leading cosmetics brand for men. Mandom's policy of clearly defining the features and functions of each brand in its portfolio has resulted in the successful development of a second and third flagship brand: *Lúcido* for men and *Lúcido L* for women.

Focusing on a handful of powerful brands

Although we carried out full-scale makeovers of the *Gatsby* brand in 1981, 1985, 1988, 1993 and 1996 to accurately respond to changing consumer needs, we have remained loyal to *Gatsby*'s core product qualities. Leveraging this leading brand name, we have launched a raft of new products that have consistently won over consumers. In March 2001, we blazed the trail into a new product segment, using the power of the *Gatsby* name to launch the *Gatsby* Hair Color Series, the industry's first fashion hair dye for men. By continually offering this kind of innovative product, we are working to keep the brand fresh and original.

At Mandom, building a portfolio of numerous brands is not the way we do things; instead, we clearly define the functions and characteristics of a handful of existing products and grow them into flagship brands. This approach is illustrated by two additions to our lineup: in response to demands from men who wanted fragrance-free hair styling cosmetics that did not hide their other fragrances of choice, we introduced fragrance-free *Lúcido* cosmetics in 1989. The brand also underwent complete overhauls in 1994, 2000 and 2003, and in 2003 we added a natural bleach product to the lineup. Our fragrance-free cosmetics were also received



extremely well by women. In 1993, we moved into the women's fragrance-free cosmetics market, launching the *Lúcido L* brand. This brand also underwent extensive updating in 1996 and 2001, when a line of hair-color dyes was added.

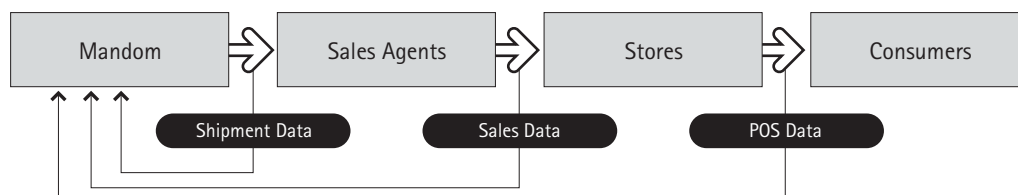
Our policy is clearly geared to ensuring that we are not overly dependent on any one brand. We achieve

this by steadily expanding our lineup through brand development, thus creating a more diversified product portfolio. This effectively hedges the risk of slowdown in sales of certain products while at the same time enabling us to concentrate resources into efficient brand development.

Strategy driven by frontline marketing data

True to the maxim, "Everything begins and ends with the customer," our marketing strategy focuses on the front line, particularly at points of sale. MAFINAS allows us to gather data as needed and analyze sales data related to product deliveries to retail stores, and strategically use this information. Analysis of other shipment data, including POS data gleaned from in-store purchases, enables us to more accurately devise

marketing activities and draw up production plans. Analysis of data collected from consumers, sales agents and retailers at all stages of the product cycle—from manufacturing through to marketing—is reflected in many areas of operations, including right from the product development stage in marketing strategies and sales activities, and the design of best-fit sales layout proposals for retail chains handling Mandom products.





Since beginning operations in Manila, the Philippines, in April 1958, Mandom has consistently positioned Asia as the nucleus for growth and expansion. Overseas, as in Japan, we are committed to the maxim, “Everything begins and ends with the customer.” Product development, marketing and advertising strategies are also firmly focused on the front line, particularly at points of sale. This approach is helping us raise our profile in Asia.

A Presence in Asia

Overseas expansion focused on Asia

Asia is a very promising growth market, given its large population and rapid economic development. The hair and skin characteristics of consumers in the region are also similar to those of the Japanese, meaning Mandom is well positioned to leverage its technology and know-how in hair care product development for the market.

Mandom manufactures in three countries in Asia—Japan, China and Indonesia—and markets its products through nine locations in eight countries (South Korea, Taiwan, China, the Philippines, Thailand, Malaysia, Singapore and Indonesia). In these countries we are expanding our sales reach, centered on *Gatsby*, as well as *Lúcido* and other hair-care product categories. Plans for the coming fiscal year call for launching an advertising campaign called the *Gatsby* Project to enhance brand recognition and loyalty. The campaign will be supported by frontline marketing activities that gather data on consumer needs. This data will be fed back into product development, marketing and advertising activities. The success of this approach, which we have employed in the past, is already evident: overseas sales

of *Gatsby* branded products have topped the 200 million unit mark, while *Gatsby* has achieved nearly 100% brand recognition in the Indonesian market.

Reducing manufacturing costs by setting up production bases in areas where personnel costs are lower is not the main reason we operate overseas. Our international presence is also aimed at ensuring we respond even faster to local consumer needs. Consequently, we are also shifting more product development activities to local markets. In addition to encouraging technology exchanges with Japan, we train and foster local research technicians, and bring local staff to Japan for further training. This approach gives trainees the opportunity to deepen their familiarity with the Mandom Group corporate philosophy, embodied by the maxim “Everything begins and ends with the consumer.”



China (Zhongshan Factory, Guangdong Province)



Japan (Fukusaki Factory, Hyogo Prefecture)



Indonesia (Cibitung Factory, Bekasi),
manufacturing container molds



Indonesia (Sunter Factory, Jakarta),
making cosmetic products

Future overseas strategy

In January 2004, we established a Shanghai Representative Office to strengthen our presence in China. In tandem with this step, we have already commenced test marketing in order to identify consumer needs and raise *Gatsby* brand recognition. In South Korea, we are also working to build greater brand visibility for *Gatsby* and further boost sales based on aggressive marketing activities centered on the *Gatsby* Project.

In logistics, we work from the assumption that Asia is a vast single market. Consequently, we are aiming to establish a hub distribution center in order to ensure efficient logistic support for the entire region.

Going forward, we will remain focused on our philosophy, "Everything begins and ends with the customer," as we step up marketing precisely attuned to local needs, build an optimal logistics network, and set up a manufacturing and marketing system that treats the entire Asian region as a unified market.

Topics



Expanding the Lineup of Hair Color Products

We have steadily expanded our lineup of hair color products for both men and women. In February 2001, we added the *Hair Color* series to the *Gatsby* lineup, our men's brand, and in February 2003 we launched a black hair-coloring product in the *Lúcido L* series. Although the hair-color products market as a whole shrank in 2003, the large market

share that we were able to win illustrates the success of our new products. According to a Mandom survey, in the 12-month period from April 2003 through March 2004, *Gatsby* captured a 17% share of the men's market, while our women's brand *Lúcido L* achieved a 7.4% market share, giving us a combined share of 24.3%. In other developments, we introduced a natural bleach hair color product in our *Lúcido* series for men in August 2003, and a hair-treatment hair color product was added to the *Gatsby* brand in February 2004. All these moves were aimed at further expanding our hair color product lineup.



Fukusaki Factory Achieves Zero Emissions

During the year under review, Mandom's Fukusaki Factory and Logistics Center achieved zero emissions status. Following its ISO 14001 certification on November 17, 2000, the facility redoubled efforts to recycle waste, which was previously disposed off through incineration or in landfills. These efforts resulted in a recycling rate that topped 99% (less than 1% of waste generated disposed of in landfill sites) in October 2003. The next step is to reduce waste generated at source, promote the recycling of different categories of waste matter, and to raise the quality of the recycling process to maintain the current recycling rate of nearly 100%.



Mandom Acquires OHSAS 18001 Certification

As part of our program to make occupational health and safety issues an integral part of management, we received OHSAS 18001 certification on November 28, 2003. By clearly outlining occupational health and safety policies and introducing a PDCA-based evaluation system, OHSAS 18001 aims to prevent accidents to employees and other health hazards. Leveraging synergies derived from three types of certification—OHSAS 18001, ISO 9001 and ISO 14001—we will work to supply products that satisfy consumers, while reducing environmental loads and protecting the environment, to ultimately meet the wider needs of society. And by creating a safe and hygienic workplace environment that raises employee satisfaction, we will promote management that gives due consideration to the needs of consumers, the workforce and society as a whole.



Shanghai Representative Office

On January 5, 2004, we opened a Shanghai Representative Office. As a part of our strategy to strengthen our presence in Asia, a market with huge potential, the new office will play a key role in implementing our medium- to long-term growth strategies for the region.



Actively Promoting *Gatsby* Overseas

Overseas advertising and sales promotion activities are designed to drive forward group management strategy and raise brand recognition in all our key markets. In Indonesia, where we sell hair waxes and other products, we advertise heavily by exclusively sponsoring TV programs, taking out magazine advertisements, and supporting dance events. In Thailand, the marketing focus is on the deodorant product *Gatsby Be Cool*, which is primarily promoted through large-scale promotional events. Our business in Singapore emphasizes waxes and hair color products in the *Very Gatsby* line, and they are mainly promoted at dance events. The main product in South Korea is the *Gatsby Hairstyle Challenge* series of hair waxes, which are advertised through promotional events.

In-house Beauty School

We have opened an in-house beauty school as part of a human-resources development program to strengthen our women's cosmetics business in Japan. The school trains employees in all aspects of the women's cosmetics business—from development and planning to education, sales and technical services. Sixteen students graduated from the first class and were certified as Facial Estheticians or Estheticians by the Japan Esthetic Association. Going forward, we will develop a new business model for the Mandom women's cosmetics business tailored to women's needs, by enhancing communication between all related departments in the company and raising the quality of our operations.



The Mandom Group Network

Japan

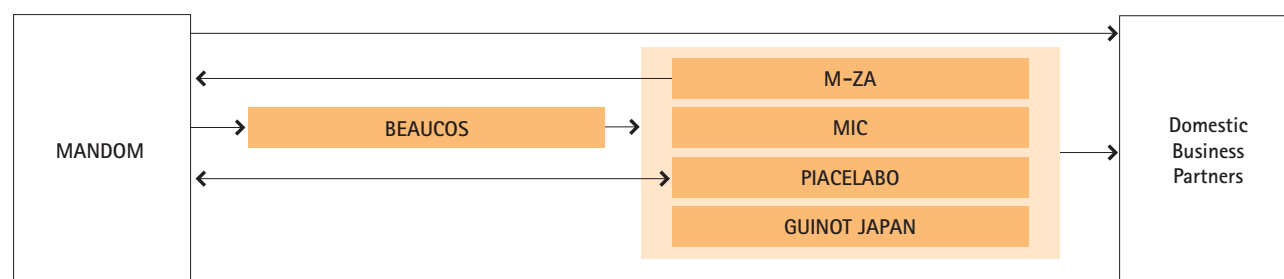
Domestic Group companies are primarily involved in building multiple sales channels in areas of the women's cosmetics market not covered by parent company networks. Market data gathered by these companies is also used to develop new Mandom products, while synergies between subsidiaries play a role in driving forward Groupwide growth strategy.

Domestic Group Companies

Company	Capital or Investment (¥ million)	Major activities	Holding
PIACELABO Corp.	¥200	Supplying beauty parlors and esthetic salons with salon- and home-use products	100.0%
MIC Corp.	300	Counseling sales of premium European cosmetics	100.0%
M-ZA Corp.	450	Selective retailing of cosmetics, mainly make-up products, through variety shops and other outlets	100.0%
GUINOT JAPAN Corp.	100	Sales of the GUINOT brand of French cosmetics.	100.0%
BEUCOS Corp.	100	Manufacture, import and sales of cosmetic products to Group companies and OEM sales	100.0%
MANDOM BUSINESS SERVICE Corp.*	10	Back-office operations, insurance agency services, and Head Office building management and maintenance	100.0%

* Non-consolidated

Corporate Organization



Principal Products Sold by Domestic Group Companies

Products designed around the concept that health is the vital wellspring of beauty. To deliver a deeper level of beauty and comfort, PIACELABO has used sophisticated technologies to create a lineup of professional hair and beauty treatment products that offer supreme sensitivity.

PIACELABO Corp.



Based on exclusive licensing agreements with foreign manufacturers including Valmont, Lierac, Jacques Fath, and THALI'ON, MIC provides premium cosmetics from France and other European countries through counseling sales using a nationwide network of agents called MIC Offices.

MIC Corp.

M-ZA markets imported highly sensitive women's cosmetics such as Courreges and Foud'elle through variety shops using marketing strategies tailored to each brand. Focusing on global cosmetic brands, primarily makeup, M-ZA seeks to satisfy highly developed individual tastes, and is actively working to expand its customer base.

M-ZA Corp.



GUINOT JAPAN imports professional-use products for the beauty salon channel, all developed by top French beauty treatment cosmetics company, GUINOT. The company also offers proprietary salon care technology as well as home-use products. GUINOT is a world-famous, highly rated beauty salon brand with 9,200 salons in 60 countries.

GUINOT JAPAN Corp.

Main Products in the Domestic Market and Sales Promotions

Key Products

GATSBY

Styling Solid
(Ultra Hold)



Styling Wax
(Power Fiber)



Styling Clay
(Ultra Type)



Natural Bleach & Color

Rusty Brown



Standard Beige



Shower Fresh

Aqua Musk



Ocean Citrus



Grand Marine



Suzuzakura



Esthetic Hair Color

Apricot Brown



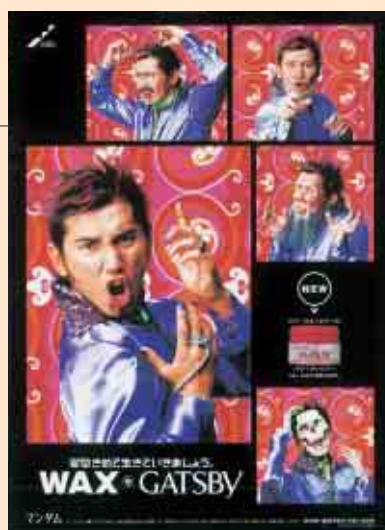
Natural Brown



Ash Brown



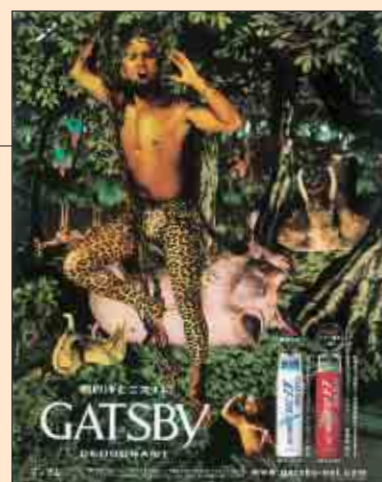
Key Advertising Campaigns



Gatsby Hair Wax Series
(From September 2003)



Gatsby Hair Color Series
(From April 2003)



Gatsby Deodorant Series
(From June 2003)

At Mandom, we value innovation and new ideas and have launched products ahead of industry rivals to meet the need of the times. That approach has generated a number of hit products. The same philosophy applies to advertising and promotions, where the challenge is to leave a lasting impression and to produce products that achieve a close affinity with the consumer.

LÚCIDO

Power
Arrange
Wax



Natural Color

Light Brown



Dark Brown



Natural Black



Natural Styling
Jelly Water



LÚCIDO-L

Sheer Gloss Wax



Prism Magic Hair Color

Cinnamon Natural



Sweet Chai Beige



Prism Magic Hair Bleach

Standard Brown



Soft Beige



Shiny Water



Lúcido Natural Color Series
(From October 2003)



Lúcido Middle Series
(From June 2003)



Lúcido L Prism Magic Hair Color
(From May 2003)

Overseas



In its overseas operations, Mandom has two manufacturing bases in China and Indonesia and 9 sales bases in 8 countries. Overseas operations are also guided by Mandom's philosophy that "Everything begins and ends with the customer."

Overseas Group Companies

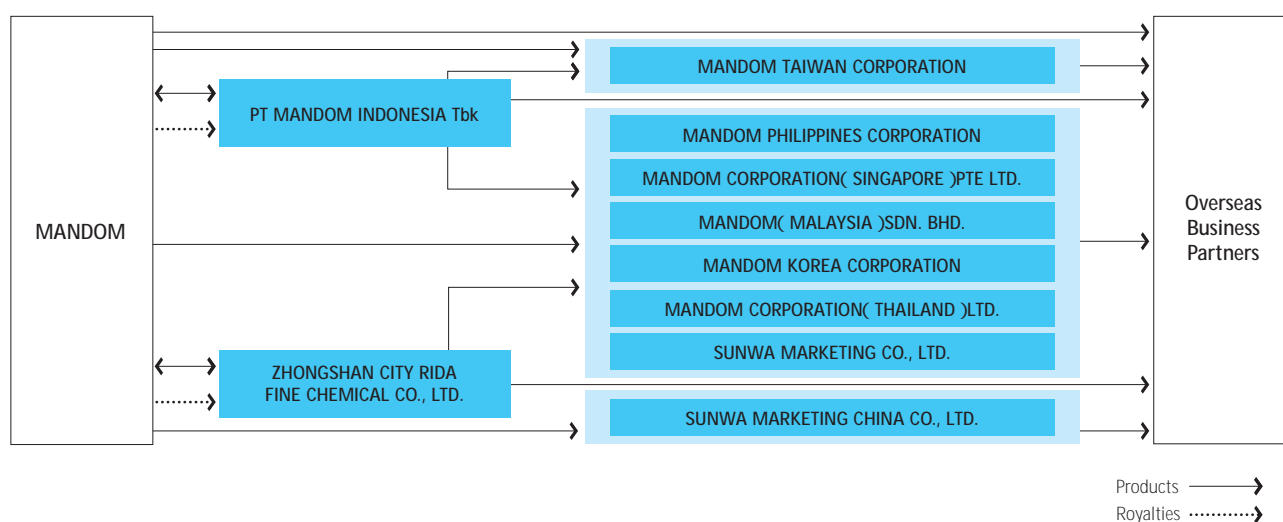
As of June 1, 2004

Country/Location	Company	Investment	Major activities	Voting rights
South Korea	Mandom Korea Corporation	2,500 million won	Marketing cosmetics in South Korea	60.0%
Taiwan	Mandom Taiwan Corporation	NT\$50 million	Marketing cosmetics in Taiwan	100.0%
China*	Zhongshan City Rida Fine Chemical Co., Ltd.	US\$6 million	Production base for Mandom Group companies	58.4%
China (Hong Kong)	Sunwa Marketing Co., Ltd.	HK\$12 million	Marketing cosmetics in China	39.0%
The Philippines	Mandom Philippines Corporation	30 million Philippine pesos	Marketing cosmetics in the Philippines	100.0%
Thailand*	Mandom Corporation (Thailand) Ltd.	50 million Thai bhat	Marketing cosmetics in Thailand	35.0%
Malaysia	Mandom (Malaysia) Sdn. Bhd.	10 million ringgit	Marketing cosmetics in Malaysia	97.2%
Singapore	Mandom Corporation (Singapore) Pte Ltd.	S\$600,000	Marketing cosmetics in Singapore	100.0%
Indonesia	PT Mandom Indonesia Tbk	78,000 million rupias	Manufacturing and marketing cosmetics in Indonesia Production bases for Mandom Group companies. Operates two integrated production facilities in Indonesia: the Sunter factory and the Cibitung factory. The facilities also produce the containers they use.	60.1%

Note: Effective April 1, 2004, Mandom Korea Corporation (South Korea) was included in consolidation and Sunwa Marketing Co., Ltd. (Hong Kong) was included in subsidiaries accounted for by the equity method.

* Non-consolidated subsidiary

Corporate Organization



Overseas Group Companies

South Korea		Mandom Korea Corporation was established in August 1999. Using events like the <i>Gatsby</i> Hairstyle Challenge in October 2003, this company is working to increase the visibility of the <i>Gatsby</i> brand and grow earnings. Aggressive advertising and sales campaigns are already having an impact, helping to boost the popularity of hair wax products in particular. This company will become a consolidated subsidiary in the year ending March 31, 2005.
Taiwan		Mandom Taiwan Corporation was set up in December 1989. This company is restructuring its logistics network as it builds a sound operating base. Taiwan looks to Japan for fashion trends, so products fashionable in Japan often gain popularity in the Taiwanese market at around the same time. Mandom is hoping the same holds true for <i>Gatsby</i> hair color products.
Hong Kong		Sunwa Marketing Co., Ltd. was established in July 1993. Although the SARS outbreak affected results somewhat in the first half of 2003, sales promotions and advertising campaigns helped to drive a recovery in the latter half of the year. The <i>Gatsby</i> brand is gaining ground in Hong Kong in hair color, hair wax and other product categories aimed at younger consumers, illustrated by an increase in its brand awareness to 59.0% in 2002. In 2003, Mandom attracted attention thanks to a local award for its hair color TV commercials, following on from similar success with shaving foam commercials. Sunwa Marketing moved into new offices on its 10th anniversary.
Singapore		Mandom Corporation (Singapore) Pte Ltd. began operations in February 1967. In Singapore, a multicultural city-state with a population of 4 million, Mandom launched a bold promotional campaign in 2003 called <i>Very Gatsby</i> , focusing on hair color and hair wax products. We also teamed up with large retail chains to roll out a dynamic store-based sales campaign. These actions helped to boost <i>Gatsby</i> brand awareness to 95.0%. Echoing success in Hong Kong, our TV commercials attracted attention in Singapore, providing the basis for further growing the <i>Gatsby</i> brand in this market.
Thailand		Mandom Corporation (Thailand) Ltd. was set up in March 1990. Following on from a major <i>Lúcido L</i> sales campaign in 2002, this company launched a sales event called <i>Gatsby Be Cool</i> in 2003 to primarily promote deodorant products, and aggressively invested in advertising. An increase in <i>Gatsby</i> brand awareness from 38.4% to 68.0% illustrated the effectiveness of these initiatives. Against a background of economic recovery in the country after the Asian currency crisis, we aim to win a larger share of the youth grooming product market with the launch of hair color products.
Malaysia		Mandom (Malaysia) Sdn. Bhd. was set up in May 1985. By fiscal 2002, Malaysia had rebounded to its pre-Asian currency crisis GDP growth rate of 4.2%, and is now well-known for a number of landmarks such as the Petronas Twin Towers, among the world's tallest buildings, and Midvalley Megamall, one of Southeast Asia's premier shopping facilities. Taking advantage of a "Japan boom" in the country, we have actively rolled out store-based promotional campaigns, driving sales of hair wax products markedly higher. <i>Gatsby</i> brand awareness has also reached 63.2% in this market.
The Philippines		Our subsidiary, Mandom Philippines Corporation, began operations in 1958 as the first overseas business location in Japan's cosmetics industry. The company moved into new offices in February 2004. With the peso reaching new lows on foreign exchange markets in 2003, and compounded by an unstable environment in the country, the year under review was particularly challenging for this company. Efforts are currently under way to grow the business at local frontline stores centered on <i>Gatsby</i> Water Gloss (Sashe), a product manufactured in Indonesia.
Indonesia		Set up in November 1969, PT Mandom Indonesia Tbk is one of the Mandom Group's three manufacturing bases. The facility operates two factories, one for the production of cosmetics, and the other for container moldings. This company has also built a strong sales base in the country and listed on the Jakarta Stock Exchange in September 1993. In October 2003, PT Mandom Indonesia was awarded the Value Creation Prize by Swasembada, an Indonesian business magazine, in recognition of the company's strong economic value added (EVA) performance.
China		Established in November 1996, Zhongshan City Rida Fine Chemical Co., Ltd. is another of Mandom's three manufacturing bases and we expect it to contribute to a reduction in the Group's cost of sales ratio. This company also carries out sales activities centered on Guangdong Province, and is steadily building a presence in the region with the launch of <i>Lúcido L</i> in November 2003 and a strong performance by the <i>Gatsby</i> brand. Going forward, Zhongshan City Rida Fine Chemical will play an active role in helping Mandom break into the wider Chinese market.

Main Products Sold in Overseas Markets and Sales Promotions

Key Products

Men's Cosmetics Products



Key Advertising Campaigns



Gatsby Wax (South Korea)



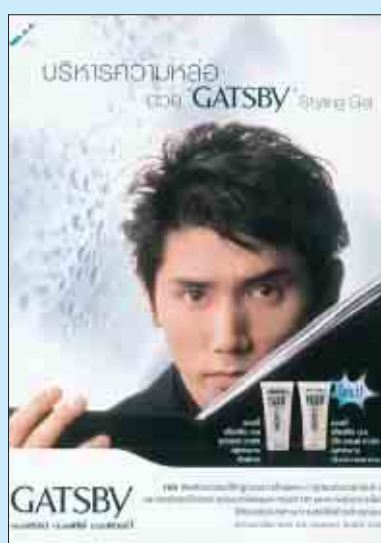
Gatsby Hair Coloring (Hong Kong)

Mandom supplies a range of cosmetic products tailored to the needs of consumers in each of the countries in which it operates. As in Japan, we advertise actively overseas. Our overseas advertisements are attracting attention for their individuality.

● Women's Cosmetic Products



Gatsby (Singapore)



Gatsby Styling Gel (Thailand)



Lovillea (Thailand)

History

- | | | | | |
|------|----|---------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| 1927 | 12 | Established Kintsuru Perfume Corporation | 9 | Commenced sale of <i>Pagliacci</i> through beauty salons throughout Japan |
| 1933 | 4 | Launched <i>Tancho Tique</i> , a hit product which laid the foundation for future success | 1983 | 4 Introduced new CI system. Changed company logo |
| 1949 | 4 | Shinpachiro Nishimura (president) appointed to the chief post of Kinki Cosmetic Industry Association | 1984 | 7 Introduced <i>Pucelle My Lip</i> , the company's first product into the women's cosmetics market |
| 1958 | 4 | Established a factory in Manila, the Philippines, becoming the first Japanese cosmetics company to begin overseas operations | 1985 | 2 Established MIC Corporation |
| 1959 | 4 | Company name was changed to Tancho Corporation | 3 Launched <i>Hi Funk Gatsby Series</i> of men's hair foam and other products | |
| 1961 | 5 | Mr. Hikoji Nishimura appointed president of Tancho Corporation | 5 Established Mandom (Malaysia) Sdn. Bhd. | |
| 1966 | 11 | Chairman Shinpachiro Nishimura passed away on November 3 | 1987 | 4 Commenced new 3-year medium-term management plan |
| 1967 | 2 | Tancho Corporation commenced operations in Singapore | 12 60 th Anniversary | |
| | 12 | 40 th Anniversary | 1988 | 11 Mandom Corporation shares traded on the over-the-counter market |
| 1969 | 11 | Established PT Tancho Indonesia Corporation (Now PT Mandom Indonesia Tbk) | | Issued 500,000 shares, increasing capital |
| 1970 | 4 | Contracted with popular U.S. actor Charles Bronson to promote new product series | 1989 | 3 Received ECO Mark certification from the Japan Environment Association |
| | 6 | Awarded "Excellence in Export Contributions" by the Ministry of Trade and Industry in Japan. The same recognition was received in 1971 and 1972 | 8 Japan Doctor Renault Cosmetics Company changed its name to PIACELABO Corporation | |
| | 7 | Launched the " <i>Mandom Series</i> ," announcing 10 products in 9 categories | 9 Introduced <i>Lúcido</i> , a line of fragrance-free products | |
| 1971 | 4 | Company name was changed to Mandom Corporation. PT Tancho Indonesia Corporation commenced operations | 1990 | 3 Established Mandom Corporation (Thailand) Ltd. |
| 1972 | 10 | Established Japan Doctor Renault Cosmetics Company | 4 Commenced 3 rd 3-year medium-term management plan | |
| 1976 | 3 | Construction of Fukusaki Factory completed. Commenced operations | 7 Prices revised due to abolishment of sales subsidies | |
| 1978 | 5 | Switched from wholesale sales to direct retail sales | 12 Established Costy International Co., Ltd. in Taiwan, now Mandom Taiwan Corporation | |
| | 7 | Launched the new <i>Gatsby</i> and <i>Spalding</i> product lines, the first time in Japan's cosmetics industry two major lines were introduced simultaneously | 1992 | 2 Established Mandom Philippines Corporation |
| 1980 | 4 | Switched from direct retail sales to wholesale sales | 6 Construction completed of tube filling wing at Fukusaki Factory | |
| | 5 | Mr. Hikoji Nishimura appointed chairman of Kinki Cosmetic Industry Association | 10 Established M-ZA Corporation | |
| | 8 | Mr. Ikuo Nishimura appointed president | 1993 | 2 Construction completed on the first stage of new Head Office building. Commenced operations |
| 1981 | 12 | Mandom Corporation's management philosophy confirmed in 5-year medium-term management plan (MP Project) | 4 Commenced 4 th 3-year medium-term management plan | |
| 1982 | 4 | Commenced Mandom Corporation's 1 st 5-year medium-term management plan (MP Project) | Mr. Hikoji Nishimura decorated with Japan's Fourth Class Order of the Rising Sun | |
| | | | 7 Established Sunwa Marketing Co., Ltd. in Hong Kong | |
| | | | 9 Launched <i>Lúcido L</i> fragrance-free products for women. PT Tancho Indonesia listed on the Jakarta Stock Exchange | |
| | | | 10 Established GUINOT JAPAN Corporation | |
| | | | 1994 | 6 Construction completed of the new Head Office on the original site of the company's inauguration |
| | | | 1995 | 6 Mr. Motonobu Nishimura appointed president of Mandom Corporation |



-
- 1996**
- 4 Commenced 5th 3-year medium-term management plan
 - Established BEAUCOS Corporation
 - Launched "Mandom World," the Group's website on the Internet
 - 20th Anniversary of Fukusaki Factory
 - 8 25th Anniversary of PT Tancho Indonesia
 - 11 Established Zhongshan City Rida Fine Chemical Co., Ltd. in China
- 1997**
- 2 Launched *As./s*, a cosmetics line for men
 - 4 Established Konan Service Corporation (Now MANDOM BUSINESS SERVICE Corp.)
 - 12 70th Anniversary of Mandom Corporation
 - Mandom Agency representatives meeting held in Indonesia
- 1998**
- 3 Launched *Michiko London*, a product range sold exclusively through convenience stores
 - 4 Construction completed of a new Logistics Center at Fukusaki Factory site
 - 8 Repurchased 1.7 million shares of own common stock
 - 12 Became the first Japanese cosmetics manufacturer to receive certification of its Head Office, research laboratories, plant and Logistics Center to ISO 9001 standards, the international standard governing quality assurance
- 1999**
- 1 Launched mail-order sales of *System E/O*, a line of skin treatment for women with sensitive skin
 - 3 Achieved ¥10 billion sales of *Gatsby* products, a first in the Japanese cosmetics industry for men's products
 - 4 Commenced 6th 3-year medium-term management plan
 - 8 Established Mandom Korea Corporation
- 2000**
- 1 Received the Japan Management Association Award for Excellence-Incentive Award for the *Gatsby* product line
 - 5 Mr. Ikuo Nishimura, director and advisor of Mandom Corporation, passed away on May 23
 - 6 Dinner held in honor of Ikuo Nishimura at the Rihga Royal Hotel in Osaka
 - 8 Mandom Corporation's share trading unit lowered from 1,000 shares to 100 shares
 - 11 Fukusaki Factory and Logistics Center certified to ISO 14001, the international standard for environmental management systems
- 2001**
- 1 PT Tancho Indonesia company name changed to PT Mandom Indonesia Tbk
- 2002**
- 3 Commenced operations at PT Mandom Indonesia Tbk's Cibitung Factory.
 - Gatsby Hair Color Series* launched
 - 8 Repurchased 2.33 million shares of Mandom common stock on the open market
 - Stepped up presence in the women's cosmetics market with a full revamp of the *Lúcido L* range
 - 10 Began manufacture of the *Gatsby Hair Color Series* at facilities in three countries—Japan (Fukusaki, Hyogo Prefecture), Indonesia (Sunter, Jakarta; Cibitung, Bekasi) and China (Zhongshan City, Guangdong)
 - 1 Listed on the Second Section of the Tokyo Stock Exchange
 - 3 Completed construction of the Mandom Group's Tokyo Nihonbashi Building.
 - Gatsby Hair Color* commercial voted best overall in a survey carried out by CM Databank in the Tokyo metropolitan area
 - 5 *Gatsby* and *Lúcido L* advertising and sales campaign launched throughout Thailand, Hong Kong and South Korea
- 2003**
- 1 Honorary Advisor Hikoji Nishimura passes away on January 25
 - 2 Dinner held in honor of Hikoji Nishimura at the Rihga Royal Hotel in Osaka
 - Launch of *Lúcido L Prism Magic Hair Color Series*
 - 3 Mandom designated for listing on the First Section of the Tokyo Stock Exchange
 - Capital increase effected through public offering of 1.65 million shares
 - 5 Hidemasa Hoshino (sponsored by Mandom) wins the Chunichi Crowns golf tournament for the first time.
 - 7 PT Mandom Indonesia Tbk and GEM PLAZA LLC of the United Arab Emirates sign an agency agreement.
 - 25th anniversary of the *Gatsby* brand
 - 9 Launched men's natural bleach dye in the *Lúcido* brand.
 - Launched *Ribalta*, a new skin care brand (E/O Division)
 - Released the Mandom 2003 Environmental Report
 - 10 Mandom Indonesia wins the EVA Award
 - 11 Mandom partially reforms its retirement benefit plans, introducing the defined-contribution pension plan.
- 2004**
- 1 Mandom Shanghai Representative Office opened.
-



Management's Discussion & Analysis

MANDOM Corporation and Consolidated Subsidiaries
Years ended March 31

	(Millions of yen)					
	2004	2003	2002	2001	2000	1999
For the Year:						
Net Sales	¥45,364	¥45,435	¥42,086	¥40,056	¥40,344	¥35,551
Japan	35,711	36,652	34,789	33,270	34,235	31,016
Asia	9,652	8,782	7,296	6,786	6,109	4,535
Selling, General and Administrative Expenses	19,958	20,267	18,040	17,232	17,429	15,944
Operating Income	6,681	6,323	5,211	5,079	5,067	4,461
Japan	5,257	5,038	4,328	3,999	4,112	3,683
Asia	1,422	1,283	860	1,075	944	630
Net Income	3,254	2,988	2,176	2,024	2,105	1,583
Research and Development	1,576	1,482	1,513	1,524	1,501	1,387
At Year-end						
Total Assets	45,474	43,869	38,613	39,975	42,668	41,598
Total Shareholders' Equity	36,687	34,714	29,376	32,133	33,008	26,641
Per Share Data (Yen):						
Total Shareholders' Equity	1,516.70	1,434.94	1,306.61	1,294.95	1,330.33	1,200.04
Earnings per Share (EPS)	130.83	128.32	92.96	81.59	89.00	69.16
Cash Dividends	50.00	50.00	40.00	34.00	30.00	20.00
Ratio (%):						
Shareholders' Equity Ratio	80.7	79.1	76.1	80.4	77.4	64.0
Return on Equity (ROE)	9.1	9.3	7.1	6.2	7.1	5.9
Dividends Ratio	42.1	45.7	46.1	42.8	40.5	31.6

Note: Earnings per Share is calculated based on Accounting Standards Board of Japan Statement No. 2, "Accounting Standard for Earnings per Share," which was adopted on April 1, 2002.

Segment Information

The Mandom Group conducts business globally, with an emphasis on Japan and the rest of Asia. Given the significant potential of Asia, due to its already large and still growing population, the Mandom Group has strengthened its overseas network by establishing sales bases in eight countries, the most important of which are Indonesia and China. The Mandom Group comprises Mandom Corporation, 13 subsidiaries and three affiliated companies. Of these, 10 are consolidated subsidiaries, five of which operate in the domestic market and five in overseas markets. Effective April 2004, Mandom Korea Corporation, a South Korean subsidiary, was included within the scope of consolidation.

In Japan, Mandom Corporation (the "Company") focuses on cosmetics for men, while the five domestic Group companies—PIACELABO Corp., MIC Corp., M-ZA Corp., GUINOT JAPAN Corp., and BEUCOS Corp.—focus on women's cosmetics. All of these operations seek to increase the visibility of and strengthen the Mandom brand. In addition to manufacturing and sales companies in Indonesia and China, Mandom has sales subsidiaries in South Korea, Taiwan, China (Hong Kong), the Philippines, Malaysia and Singapore.

Operating Environment

In the year ended March 31, 2004, there were encouraging signs of recovery in the Japanese economy led by improving performances by companies in the industrial sector. However, there was no widespread improvement in personal consumption and the operating environment in the cosmetics sector remained challenging as retail prices continued to fall, despite a pickup in shipment volumes.

In Asia, where the Mandom Group is expanding overseas operations, the region's economies resumed growth in the second half, shaking off a slowdown in the early part of the year due to the SARS outbreak in certain areas, lifting personal consumption. This supported continued growth in the region's cosmetics markets.

Operating Results

Mandom posted consolidated net sales of ¥45,364 million, a marginal 0.2% decline from the previous fiscal year. In Japan, despite strong sales of fashion hair dyes for women, a market we entered in the previous fiscal year, sales of men's fashion hair dyes were sluggish in a shrinking market. As a result of these and other factors, sales in Japan were 2.6% lower than in the previous fiscal year. Sales in Asia rose 9.9%, thanks primarily to the steady success of our Group brand strategy, which helped to lift sales of the *Gatsby* cosmetics brand in all markets, particularly Indonesia.

The cost of sales fell from ¥18,845 million to ¥18,725 million, a ¥120 million reduction that surpassed the decline in sales. This was the result of a combination of factors, including lower cost of sales in Japan resulting from the transfer of production to China, reduced materials costs due to a stable exchange rate in Indonesia, benefits from streamlining, and economies of scale resulting from higher output. These all helped to reduce the cost ratio by 1.0% year on year, contributing to a decline in the cost of sales ratio of 0.2 percentage points, to 41.3%.

Selling, general and administrative (SG&A) expenses declined 1.5%, to ¥19,958 million, even on increased investment in research and development. Successful curbs on overall expenses, particularly more efficient use of selling expenses, helped to offset the increased cost of investment in R&D.

Operating income rose 5.7% to ¥6,681 million, marking the seventh straight year of record earnings. In Japan, despite lower sales, earnings increased on the back of cost cutting initiatives that boosted profitability, and efforts to pare back SG&A expenses. Overseas, dynamic marketing campaigns lifted sales. This, combined with cost cutting, resulted in double-digit growth in operating income.

Other expenses—net, totaled ¥376 million, largely unchanged from the ¥346 million recorded in the previous fiscal year. In Japan, an increase in the loss on disposal of inventories was offset by a sharp decline in provision for doubtful accounts and a lower interest burden at subsidiaries.

The Company booked an extraordinary net loss of ¥24 million, an improvement of ¥215 million compared to the ¥239 million in extraordinary losses recorded in the previous fiscal year. This was chiefly due to the absence of any loss on devaluation of land booked in the previous year. The Company recorded a loss on partial transition to a defined-contribution retirement benefit plan in Japanese operations, but the impact on income was insignificant.

As a result of the above and other factors, ordinary income rose 5.5% to ¥6,304 million, and income before income taxes and minority interests increased 9.5% to ¥6,280 million.

Income taxes increased from ¥2,445 million in the previous fiscal year, to ¥2,702 million. The effective tax rate rose slightly from 42.6% to 43.0%, as the tax effect of losses at certain domestic subsidiaries was not recognized.

Minority interest in net income of subsidiaries increased from ¥304 million to ¥324 million, largely due to a stronger contribution from PT Mandom Indonesia Tbk, an Indonesian subsidiary.

Net income increased 8.9% year on year to ¥3,254 million, another record high. The Company increased its capital base through a public offering of common stock at the end of the previous fiscal year, resulting in an increase in the number of shares outstanding. Still, net income per share totaled ¥130.83, up from the ¥128.32 reported in the previous fiscal year, as the rate of increase in net income surpassed the rate of increase in outstanding shares. Management plans to declare a ¥25.0 year-end dividend as planned.

Segment Information

In Japan, although recent declines in industry-wide shipment volume were halted, unit prices continued to fall amid intense competition. In this challenging environment, we launched a range of new products intended to reinvigorate demand, but these measures failed to lift sales to the level in our initial plans.

Sales of fashion hair dyes fell short of forecasts in a market that shrank as a whole, while sales of deodorants were slower due to an unseasonably cool summer. As a result, *Gatsby*, our flagship brand of men's cosmetics, and the *Lúcido L* brand for women, experienced temporary stalls in growth. However, sales of *Lúcido*-branded cosmetics for men were higher, thanks to strong demand for hair wax products. Combined with slower sales of imported cosmetics at domestic subsidiaries, this led to an overall drop in sales in Japan of 2.6%, to ¥35,711 million. Operating income rose 4.3%, to

¥5,257 million, as the progressive shift of production to China and other steps reduced costs that supported continuing improvements in profitability, and SG&A expenses were pared back.

Total sales in Asia rose 9.9% to ¥9,652 million, driven by sharply higher sales of *Gatsby* styling gels and waxes by consolidated Indonesian subsidiary, PT Mandom Indonesia Tbk. Growth was also underpinned by gradual progress in establishing the Group brand throughout the region, the fruits of dynamic brand promotion activities. This coincided with growing strength in Asian economies as the SARS outbreak was brought under control. Operating income climbed 10.9%, to ¥1,422 million, as lower costs at our manufacturing subsidiary in Indonesia absorbed higher SG&A expenses.

Outlook for the Year Ending March 31, 2005

We expect Japan's economy to remain robust in the year ahead, although concerns linger over a possible slowdown in the second half of the period. With uncertainties still clouding the picture, no marked improvement in the employment and income environments is projected, which indicates that a substantial recovery in personal consumption is still some way off. In the cosmetics market, although shipment volumes show signs of recovering, prices are anticipated to continue following a downward trend. In these circumstances, the overall operating environment is expected to remain difficult. In response, Mandom will work to achieve its higher sales targets by channeling management resources into flagship brands, *Gatsby* and *Lúcido L*, and launching products carefully tailored to consumer needs. The focus will be on revamping our flagship *Gatsby* brand to reinvigorate growth, and driving forward continued cost cutting to create a more robust earnings structure.

Overseas, where economic recovery is expected, we will strategically channel resources into marketing to develop and secure new markets. Plans call for double-digit earnings growth or higher on a local currency basis. In Indonesia, local subsidiary PT Mandom Indonesia Tbk, will continue to cut costs by streamlining operations, while at the same time investing in marketing and other activities to reinforce the market position of Mandom products.

Looking at individual product categories, we will continue to focus on fashion hair dyes while strengthening and fostering our flagship brand *Gatsby* throughout Asia. This will support our goal of boosting sales in Southeast Asia to deliver sustained growth.

In Japan, we will concentrate on the development of a supply chain management system. We plan to outsource logistics operations during the year ending March 31, 2005, however, because the contract only begins in the second half of the period, we do not immediately expect to see a significant impact on results. In other moves, effective from the next fiscal year, we will include Mandom Korea Corporation (South Korea) within the scope of consolidation, and make Sunwa Marketing Corporation (Hong Kong) an equity-method affiliate, due to these companies' growing importance to Group operations.

Based on the above, we are projecting operating income of ¥6,950 million, an increase of 4.0% year on year, and ordinary income of ¥6,700 million, up 6.3%, on an increase in net sales of 2.3%, to ¥46,400 million. Net income is projected at ¥3,600 million, up 10.6% year on year.

We plan to distribute an annual dividend of ¥50.0 per common share for the year ending March 31, 2005, subject to achieving the above net income target.

Risk Factors

The Mandom Group hedges risks to which it is exposed during the course of its business activities in several ways, including risk diversification and exchange-rate hedging. However, risks arising from specific events such as major natural disasters, changes in laws and regulations resulting from sudden changes in political systems in the countries where Mandom operates, and fluctuations in economic conditions and currency exchange rates, may affect Mandom's financial position and cause business results to be materially different from those expressed above.

The above forecasts are based on exchange rates of ¥106.5 and 8,800 rupiah to one U.S. dollar, respectively.

Financial Position

Total assets as of March 31, 2004 were ¥45,474 million, an increase of ¥1,605 million from the previous fiscal year-end. Total property, plant and equipment declined by ¥762 million as the Company kept capital investment and systems development costs within the depreciation level. Cash and marketable securities increased by ¥2,279 million, due mainly to an increase in the value of marketable securities held during the fiscal year. Current and long-term deferred tax assets fell by ¥215 million to ¥866 million, as the unrealized holding gain on other securities increased.

Total shareholders' equity increased by ¥1,973 million from the previous fiscal year-end, to ¥36,688 million. This reflected a sharp increase in net income to ¥3,254 million, which more than covered the ¥1,326 million used for the payment of cash dividends. Shareholders' equity per share increased by ¥81.76 from the previous fiscal year-end to ¥1,516.70.

Cash Flows

Net cash provided by operating activities amounted to ¥4,396 million, a decline of ¥1,071 million compared to the previous fiscal year. The principal source of cash was ¥6,280 million in income before income taxes and minority interests, a year-on-year increase of ¥543 million. The main uses of cash were an increase in receivables of ¥375 million, reflecting expansion in business overseas, and an increase in income taxes—paid of ¥785 million. Unlike the previous fiscal year, there were no non-cash transactions, such as casualty losses and losses on devaluation of land. As a result, operating cash flow failed to reach the level of the previous year. Depreciation expenses at ¥1,694 million were virtually unchanged from the previous fiscal year.

Net cash used in investing activities was ¥1,810 million, ¥1,384 million less than in the previous fiscal year. This was mainly attributable to lower capital investment in Japan and a net decline in the purchase of investment securities for fund management. The main component of capital investment was the ¥1,075 million purchase of cosmetics manufacturing equipment in Japan and Indonesia. Net cash used in investing activities also included ¥266 million for the purchase of intangible assets, all for the development of software used in IT systems.

Net cash used in financing activities amounted to ¥1,457 million, almost all of which represented ¥1,456 million in cash dividends, including dividends to minority shareholders.

As a result, cash and cash equivalents as of March 31, 2004 totaled ¥9,767 million, up ¥1,108 million from the end of the previous fiscal year.

Cash Flow Forecasts for the Year Ending March 31, 2005

Mandom is projecting an increase of more than ¥1,000 million in operating cash flow, assuming that the target for income before income taxes and minority interests is met and working capital efficiency is enhanced.

Net cash used in investing activities is expected to exceed the level in the current fiscal year as the Company steps up capital investment in manufacturing equipment and increases R&D spending in Japan and overseas.

In cash flows from financing activities, Mandom does not foresee any significant developments other than the payment of cash dividends.

Consolidated Balance Sheets

MANDOM Corporation and Consolidated Subsidiaries
March 31, 2004 and 2003

	Millions of Yen	
	2004	2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	¥ 9,767	¥ 8,659
Short-term investments (Note 3)	3,252	2,081
Receivables:		
Trade notes and accounts	5,462	5,335
Unconsolidated subsidiaries and associated companies	327	212
Other	168	174
Allowance for doubtful accounts	(55)	(69)
Inventories (Note 4)	4,870	5,047
Deferred tax assets (Note 8)	481	500
Prepaid expenses and other current assets	539	504
Total current assets	24,811	22,443
PROPERTY, PLANT AND EQUIPMENT:		
Land	1,553	1,568
Buildings and structures	16,151	16,145
Machinery and equipment	10,016	9,419
Construction in progress	108	233
Total	27,828	27,365
Accumulated depreciation	(15,070)	(14,019)
Net property, plant and equipment	12,758	13,346
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Note 3)	4,270	3,743
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 5)	767	811
Long-term loans (Note 6)	960	1,141
Deferred tax assets (Note 8)	385	581
Other assets	1,523	1,804
Total investments and other assets	7,905	8,080
TOTAL	¥ 45,474	¥ 43,869

See notes to consolidated financial statements.

	Millions of Yen	
	2004	2003
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Payables:		
Trade notes and accounts	¥ 2,952	¥ 2,963
Associated companies	64	29
Other	11	9
Accrued income taxes (Note 8)	1,217	1,605
Accrued expenses	827	897
Other current liabilities	367	463
Total current liabilities	5,438	5,966
LONG-TERM LIABILITIES:		
Liability for retirement benefits (Note 7)	1,060	1,066
Deferred tax liabilities (Note 8)	4	20
Other long-term liabilities	585	488
Total long-term liabilities	1,649	1,574
MINORITY INTERESTS	1,699	1,614
SHAREHOLDERS' EQUITY (Notes 10 and 13):		
Common stock, authorized, 81,969,700 shares; issued, 24,134,606 shares at March 31, 2004 and 2003	11,395	11,395
Capital Surplus	11,235	11,235
Retained earnings	16,451	14,620
Unrealized gain (loss) on available-for-sale securities	374	(20)
Foreign currency translation adjustments	(2,746)	(2,495)
Total	36,709	34,735
Cost of treasury stock—9,736 shares at March 31, 2004 and 9,081 shares at March 31, 2003	(21)	(20)
Total shareholders' equity	36,688	34,715
TOTAL	¥45,474	¥43,869

Consolidated Statements of Income

MANDOM Corporation and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of Yen	
	2004	2003
NET SALES (Note 12)	¥45,364	¥45,435
COST OF SALES (Note 12)	18,725	18,845
Gross profit	26,639	26,590
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	19,958	20,267
Operating income	6,681	6,323
OTHER INCOME (EXPENSES):		
Interest and dividend income (Note 12)	102	111
Interest expense	(4)	(89)
Purchase discounts	187	202
Loss on disposal of property and equipment	(14)	(12)
Loss on disposal of inventories	(620)	(481)
Loss on devaluation of land		(248)
Provision for doubtful accounts	(9)	(60)
Other—net	(43)	(9)
Other expenses—net	(401)	(586)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	6,280	5,737
INCOME TAXES (Note 8):		
Current	2,746	2,725
Deferred	(44)	(280)
Total income taxes	2,702	2,445
MINORITY INTERESTS IN NET INCOME OF SUBSIDIARIES	324	304
NET INCOME	¥ 3,254	¥ 2,988
	Yen	
PER SHARE OF COMMON STOCK (Note 2.n):		
Net income	¥130.83	¥128.32
Cash dividends applicable to the year	50.00	50.00

Diluted net income per share is not presented because no dilutive securities exist.
See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

MANDOM Corporation and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

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	Millions of Yen						
	Outstanding Number of Shares of Common Stock (Thousands)	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2002	22,483	¥ 9,753	¥ 9,595	¥ 12,608	¥ 57	¥ (2,634)	¥ (2)
Net income				2,988			
Cash dividends, ¥40 per share				(899)			
Bonuses to directors and corporate auditors				(77)			
Increase in treasury stock	(7)						(18)
Issuance of common stock	1,650	1,642	1,640				
Net decrease in unrealized gain on available-for-sale securities					(77)		
Net change in foreign currency translation adjustments						139	
BALANCE, MARCH 31, 2003	24,126	11,395	11,235	14,620	(20)	(2,495)	(20)
Net income				3,254			
Cash dividends, ¥55 per share				(1,327)			
Bonuses to directors and corporate auditors				(96)			
Increase in treasury stock	(1)						(1)
Loss on sales of treasury stocks							
Net increase in unrealized gain on available-for-sale securities					394		
Net change in foreign currency translation adjustments						(251)	
BALANCE, MARCH 31, 2004	24,125	¥11,395	¥11,235	¥16,451	¥374	¥(2,746)	¥(21)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

MANDOM Corporation and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of Yen	
	2004	2003
OPERATING ACTIVITIES:		
Income before income taxes and minority interests	¥ 6,280	¥ 5,737
Adjustments for:		
Income taxes—paid	(3,126)	(2,341)
Depreciation and amortization	1,672	1,720
Provision for retirement benefits	4	(87)
Loss on disposal of property and equipment	14	12
Loss on devaluation of land		248
Loss on devaluation of securities	18	
Loss on sales of securities	17	282
Gain on sales of securities	(48)	(162)
Changes in assets and liabilities:		
Increase in receivables	(392)	(17)
(Increase) decrease in inventories	74	(684)
(Increase) decrease in prepaid expenses and other assets	(98)	229
Increase in payables	253	19
Increase (decrease) in accrued expenses and other liabilities	(176)	182
Other—net	(96)	329
Total adjustments	(1,884)	(270)
Net cash provided by operating activities	4,396	5,467
INVESTING ACTIVITIES:		
Payments for deposits	(21)	(33)
Decrease in time deposits	28	
Acquisition of property and equipment	(1,075)	(1,589)
Proceeds from sales and redemptions of investment securities	2,251	826
Payments for purchases of investment securities	(1,808)	(1,705)
Net decrease in investments in and advances to unconsolidated subsidiaries and associated companies	40	49
Proceeds from sales and redemptions of short-term investments	4,816	1,100
Payments for purchases of short-term investments	(6,300)	(1,600)
Other—net	259	(242)
Net cash used in investing activities	(1,810)	(3,194)

(Continued on following page.)

	Millions of Yen	
	2004	2003
FINANCING ACTIVITIES:		
Proceeds from short-term bank loans	¥ 206	¥ 1,151
Repayments of short-term bank loans	(206)	(1,566)
Proceeds from issuance of common stock		3,282
Payments for purchases of treasury stock—net	(1)	(17)
Dividends paid	(1,456)	(1,005)
Net cash provided by (used in) financing activities	(1,457)	1,845
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS—(FORWARD)	(21)	(14)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,108	4,104
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,659	4,555
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 9,767	¥ 8,659

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

MANDOM Corporation and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2003 financial statements to conform to the classifications used in 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation Policy—The consolidated financial statements include the accounts of MANDOM CORPORATION (the “Company”) and its 10 significant subsidiaries (together, the “Group”).

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

The excess of cost over the net assets of subsidiaries acquired is amortized over a period of five years.

Investments in unconsolidated subsidiaries and associated companies are stated at cost. The Company's equity in earnings or losses of these companies is not significant.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates existing at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement.

c. Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation were shown as “Foreign currency translation adjustments” as a separate component of shareholders' equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

d. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of deposits, commercial paper and mutual funds investing in bonds representing short-term investments, all of which mature or become due within three months of the date of acquisition.

e. Short-term Investments and Investment Securities—Securities included in short-term investments and investment securities are classified and accounted for, depending on management's intent, as follows:

1) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings, 2) held-to-maturity debt securities, in which the company has the positive intent and ability to hold to maturity, are reported at amortized cost and 3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of shareholders' equity. The Group's securities (included in “short-term investments” and “investment securities”) are all classified as available-for-sale.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

Hybrid financial instruments, from which an embedded derivative cannot be separated, are reported at fair value and resulting gains or losses are recognized in the income statement (See Note 3).

The Company utilizes such hybrid financial instruments within specified limits on the amounts, which are purchased to invest the Company's surplus funds. The Company does not enter into derivatives for trading or speculative purposes.

Hybrid financial instruments are exposed to credit-related losses in the event of non-performance by counterparties, but the Company does not anticipate any losses arising from credit risk, as the counterparties are limited to major international financial institutions.

Such transactions have been made in accordance with internal policies which regulate the authorization and credit limit amount. The conditions and results of such transactions are regularly communicated to the Management Committee.

- f. Inventories**—Inventories are stated at average cost.
- g. Property, Plant and Equipment**—Property, plant and equipment are stated at cost. Depreciation of property and equipment of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998.
- The range of useful lives is principally from 25 to 50 years for buildings and structures, and from 4 to 12 years for machinery and equipment.
- The straight-line method is principally applied to the property and equipment of consolidated foreign subsidiaries.
- h. Stock Issue Costs**—Stock issue costs were charged to income as incurred in 2002. During 2003, underwriting commissions were offset against proceeds and stock issue costs other than underwriting commissions were charged to income.
- On March 19, 2003, 1,650,000 new shares were issued and paid for through a public offering. This stock issuance was carried out under an underwriting contract in which underwriters subscribed new shares at the issue price and sold them to public investors at the subscription price exceeding the original issue price. Stock issue costs of ¥28 million were charged to income.
- Although the Company had previously issued new shares by paying underwriting commissions, no additional payment was made to the underwriters for the issuance of new shares on March 19, 2003, because the difference between the subscription price and the issue price was substantially equal to underwriting commissions.
- Had the March 19, 2003 share issuance been structured like the Company's previous share issuance, ¥142 million would have been charged to income as stock issue costs.
- i. Retirement Benefits and Pension Plans**—The Company and certain of its consolidated subsidiaries have non-contributory funded defined benefit pension plans covering substantially all of their employees. The Group accounts for the liability for such pension plans based on the projected benefit obligations and plan assets at the balance sheet date.
- According to the enactment of the Defined Contribution Pension Plan Law in October 2001, the Company and certain domestic subsidiaries transferred a portion of their non-contributory funded defined benefit pension plan to the defined contribution pension plan in November 2003. The Company applied accounting treatments specified in the guidance issued by the Accounting Standard Board of Japan. The effect of this transfer is stated in Note 7.
- Retirement benefits to directors and corporate auditors are provided at the amount which would have been required if they retired at each balance sheet date.
- j. Research and Development Costs**—Research and development costs are charged to income as incurred.
- k. Leases**—Most of our leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.
- l. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.
- m. Bonuses to Directors and Corporate Auditors**—Payments of bonuses to directors and corporate auditors as approved by the shareholders are accounted for as appropriations of retained earnings.
- n. Per Share Information**—Basic net income per share is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding for the period.
- Diluted net income per share is not disclosed because no dilutive securities exist.
- Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.
- o. New Accounting Pronouncements**—In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets", and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets". These new pronouncements are effective for fiscal years beginning

on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

Management believes the adoption of these pronouncements will not have a material impact on the financial position or results of operations of the Company.

3. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen	
	2004	2003
Short-term investments:		
Time deposits other than cash equivalents	¥ 69	¥ 81
Corporate bonds	1,583	1,000
Financing bills	1,000	1,000
Trust certificates	600	
Total	¥3,252	¥2,081
Investment securities:		
Marketable equity securities	¥1,131	¥ 490
Non-marketable equity securities	159	155
Government and corporate bonds	1,599	1,695
Trust fund investments and other	1,381	1,403
Total	¥4,270	¥3,743

Information regarding the securities classified as available-for-sale at March 31, 2004 and 2003 was as follows:

March 31, 2004	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥ 546	¥598	¥ 13	¥1,131
Debt securities	4,184	1	2	4,183
Others	1,980	1		1,981

The hybrid financial instruments of ¥600 million at fair value were included in "Debt securities" in the above table.

March 31, 2003	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥ 572	¥ 78	¥160	¥ 490
Debt securities	3,700	1	6	3,695
Others	1,384	48	29	1,403

The loss on write-down of marketable available-for-sales securities for the year ended March 31, 2004, was ¥18 million.

The carrying amounts of available-for-sale securities whose fair value was not readily determinable as of March 31, 2004 and 2003, were as follows:

	Carrying amount	
	Millions of Yen	
	2004	2003
Equity securities	¥12	¥15

Proceeds from sales of available-for-sale securities for the years ended March 31, 2004 and 2003 were ¥200 million and ¥826 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥46 million and ¥17 million, respectively for the year ended March 31, 2004 and ¥162 million and ¥282 million, respectively, for the year ended March 31, 2003.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2004 were as follows:

	Millions of Yen
Due in one year or less	¥2,584
Due after one year through five years	1,599
Total	¥4,183

4. INVENTORIES

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen	
	2004	2003
Merchandise	¥1,195	¥1,310
Finished products	2,260	2,288
Work in process	87	109
Raw materials and supplies	1,328	1,340
Total	¥4,870	¥5,047

5. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in and advances to unconsolidated subsidiaries and associated companies at March 31, 2004 and 2003 were as follows:

	Millions of Yen	
	2004	2003
Investments	¥758	¥758
Advances	9	53
Total	¥767	¥811

6. LONG-TERM LOANS

The annual interest rates applicable to the long-term loans to employees, representing primarily housing loans to employees, ranged from 0% to 5% and 0% to 3.5% at March 31, 2004 and 2003, respectively.

7. RETIREMENT BENEFITS AND PENSION PLANS

The Company and certain of its consolidated subsidiaries have severance payment plans for employees, directors and corporate auditors.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment and annuity payments from a trustee. In accordance with the enactment of the Defined Contribution Pension Plan Law in October 2001, the Company and certain of its domestic consolidated subsidiaries decided to transfer a portion of its non-contributory funded pension plan to a defined contribution pension plan and a monthly pension plan in November 2003.

The liability for employees' retirement benefits at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen	
	2004	2003
Projected benefit obligation	¥2,200	¥3,206
Fair value of plan assets	(1,566)	(2,017)
Unrecognized actuarial loss	(188)	(813)
Net liability	¥ 446	¥ 376

In November 2003 the Company and certain domestic subsidiaries transferred a portion of their above defined benefit pension plan to a defined contribution pension plan.

The effect of such transfer is summarized as follows:

	Millions of Yen
Decrease in projected benefit obligation	¥ 1,173
Transferred plan assets	(1,020)
Unrecognized actuarial loss	(189)
Decrease in liability for retirement benefits	¥ (36)

The components of net periodic benefit costs for the years ended March 31, 2004 and 2003 are as follows:

	Millions of Yen	
	2004	2003
Service cost	¥250	¥222
Interest cost	70	72
Expected return on plan assets	(50)	(61)
Recognized actuarial loss	168	185
Net periodic benefit costs	438	418
Gain on the termination of the larger lump-sum payment plan		(86)
Loss on transfer to the defined contribution pension plan	44	
Contribution for the multi-employer pension plan	167	159
Contribution for the defined contribution pension plan	30	
Total	¥679	¥491

Assumptions used for the years ended March 31, 2004 and 2003 are set forth as follows:

	2004	2003
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	3.0%	3.0%
Amortization period of prior service cost	7 years	7 years
Recognition period of actuarial gain/loss	7 years	7 years

In addition, the Company and certain of its domestic consolidated subsidiaries participate in a contributory multi-employer pension plan covering substantially all of their employees. The pension fund assets available for benefits under this plan at March 31, 2004 and 2003 were approximately ¥2,571 million and ¥2,385 million, respectively.

The liability balances for retirement benefits at March 31, 2004 and 2003 included accruals for directors and corporate auditors in the amount of ¥614 million and ¥690 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of shareholders.

8. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% for the years ended March 31, 2004 and 2003. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from 42% to 41%, effective for years beginning on or after April 1, 2004. The deferred tax assets and liabilities which will realize on or after April 1, 2004 are measured at the effective tax rate of 41% as at March 31, 2004 and 2003.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003 are as follows:

	Millions of Yen	
	2004	2003
Deferred tax assets :		
Accrued bonuses	¥ 274	¥ 245
Enterprise tax	103	130
Allowance for doubtful accounts	47	80
Inventories	58	78
Pension and severance costs	407	389
Unrealized loss on available-for-sale securities	6	82
Devaluation of investment securities	11	34
Devaluation of land	101	100
Property and equipment	62	62
Other	378	180
Deferred tax assets subtotal	1,447	1,380
Valuation allowance	(44)	
Deferred tax assets	1,403	1,380
Deferred tax liabilities:		
Unrealized gain on available-for-sale securities	262	68
Special reserve for tax-purpose depreciation	23	23
Depreciation	35	47
Undistributed earnings of associated companies	220	180
Other	1	1
Deferred tax liabilities	541	319
Net deferred tax assets	¥ 862	¥1,061

9. RESEARCH AND DEVELOPMENT

Research and development costs charged to income for the years ended March 31, 2004 and 2003 were ¥1,575 million and ¥1,483 million, respectively.

10. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which various amendments have become effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting or by resolution of the Board of Directors provided it is stipulated in an article of incorporation and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

The amount of retained earnings available for dividends under the Code was ¥13,606 million as of March 31, 2004, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

11. LEASES

The Company leases office space, office equipment and certain other assets under operating leases and finance lease arrangements.

Total rental expenses for the years ended March 31, 2004 and 2003 were ¥716 million and ¥706 million, respectively, including ¥123 million and ¥133 million of lease payments under finance leases.

Pro forma information of leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2004 and 2003 was as follows:

	Millions of Yen	
	Machinery and equipment	Machinery and equipment
	2004	2003
Acquisition cost	¥455	¥554
Accumulated depreciation	300	298
Net leased property	¥155	¥256

Obligations under finance leases at March 31, 2004 and 2003 were as follows:

	Millions of Yen	
	2004	2003
Due within one year	¥ 80	¥118
Due after one year	75	138
Total	¥155	¥256

The cost of leased property and obligations under finance leases include imputed interest expense.

Depreciation expense, which is not reflected in the accompanying statements of income, computed by the straight-line method was ¥123 million and ¥133 million for the years ended March 31, 2004 and 2003, respectively.

12. RELATED PARTY TRANSACTIONS

Major transactions with unconsolidated subsidiaries and associated companies for the years ended March 31, 2004 and 2003 were as follows:

	Millions of Yen	
	2004	2003
Sales	¥1,181	¥ 932
Purchases	705	702
Interest and dividend income	28	17
Other expenses—net	(333)	(294)

13. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

The following appropriations of retained earnings of the Company for the year ended March 31, 2004 were approved at the shareholders' meeting held on June 24, 2004:

	Millions of Yen
Cash dividends, ¥25 per share	¥603
Bonuses to directors and corporate auditors	91
Total	¥694

b. Purchase of Treasury Stock

At the general shareholders' meeting held on June 24, 2004, the Company's shareholders approved an amendment of the articles of incorporation. The new articles allow the Company to repurchase its common stock pursuant to a resolution of the Board of Directors.

14. SEGMENT INFORMATION

Information about operations in different industry segments, foreign operations and sales to foreign customers of the Company and consolidated subsidiaries for the years ended March 31, 2004 and 2003 is as follows:

(1) Operations in Different Industries

Sales of cosmetics represent more than 90% of the Companies' operations.

(2) Geographical Segments

The Geographical Segments of the Company and its consolidated subsidiaries for the years ended March 31, 2004 and 2003 are summarized as follows:

	Millions of Yen			
	2004			
	Japan	Asia	Eliminations/ Corporate	Consoli- dated
Sales to customers	¥35,712	¥ 9,652		¥45,364
Inter-area transfer	1,823	420	¥ (2,243)	
Total sales	37,535	10,072	(2,243)	45,364
Operating expenses	32,278	8,650	(2,245)	38,683
Operating income	¥ 5,257	¥ 1,422	¥ 2	¥ 6,681
Assets	¥26,368	¥ 6,447	¥12,659	¥45,474

Corporate assets of ¥13,146 million, included in "Eliminations/Corporate", are principally marketable and investment securities of the Company.

	Millions of Yen			
	2003			
	Japan	Asia	Eliminations/ Corporate	Consoli- dated
Sales to customers	¥36,653	¥8,782		¥45,435
Inter-area transfer	1,657	502	¥(2,159)	
Total sales	38,310	9,284	(2,159)	45,435
Operating expenses	33,272	8,001	(2,161)	39,112
Operating income	¥ 5,038	¥1,283	¥ 2	¥ 6,323
Assets	¥33,042	¥6,124	¥ 4,703	¥43,869

Corporate assets of ¥10,479 million, included in "Eliminations/Corporate", are principally foreign currency translation adjustments and marketable and investment securities of the Company.

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2004 and 2003 amounted to ¥10,670 million and ¥9,593 million, respectively.

To the Board of Directors and Shareholders of
MANDOM CORPORATION:

**Deloitte
Touche
Tohmatsu**

We have audited the accompanying consolidated balance sheets of MANDOM CORPORATION and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MANDOM CORPORATION and consolidated subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Deloitte Touche Tohmatsu

June 25, 2004

Outline of the Company

<p>Company Name MANDOM Corporation</p> <p>Head Office 5-12, Juniken-cho, Chuo-ku, Osaka 540-8530, Japan</p> <p>Established December 23, 1927</p> <p>Number of Employees (As of March 31, 2004) 2,011 (Consolidated) 437 (Non-consolidated)</p> <p>Paid-in Capital (As of March 31, 2004) ¥11,394,817,459</p> <p>Principal Bankers Mizuho Bank, Ltd., Shimanouchi Branch Sumitomo Mitsui Banking Corporation, Uemachi Branch Resona Bank, Limited, Semba Branch UFJ Bank Limited, Uemachi Branch Bank of Tokyo-Mitsubishi, Ltd. Funaba Branch</p> <p>URL: http://www.mandom.co.jp</p>	<p>Key Domestic Business Locations</p> <p>Head Office 5-12, Juniken-cho, Chuo-ku, Osaka 540-8530, Japan</p> <p>Tokyo Building 2-6-3, Shibazono, Narashino-shi, Chiba-ken 275-0023, Japan</p> <p>Mandom Group's Tokyo Nihonbashi Building 2-16-6, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan</p> <p>Fukusaki Factory 290-28, Takahashi, Fukusaki-machi, Kanzaki-gun, Hyogo-ken 679-2216, Japan</p> <p>Logistics Center 290-28, Takahashi, Fukusaki-machi, Kanzaki-gun, Hyogo-ken 679-2216, Japan</p> <p>Sales Bases Sapporo, Sendai, North Kanto, Tokyo, South Kanto, Nagoya, Osaka, Hiroshima, Fukuoka</p>	
<div><div></div><div></div><div></div></div>		
Mandom Group's Tokyo Nihonbashi Building	Head Office Building	Tokyo Building

Stock Information

Shares of Common Stock (As of March 31, 2004)

Issued and Outstanding

24,134,606 shares

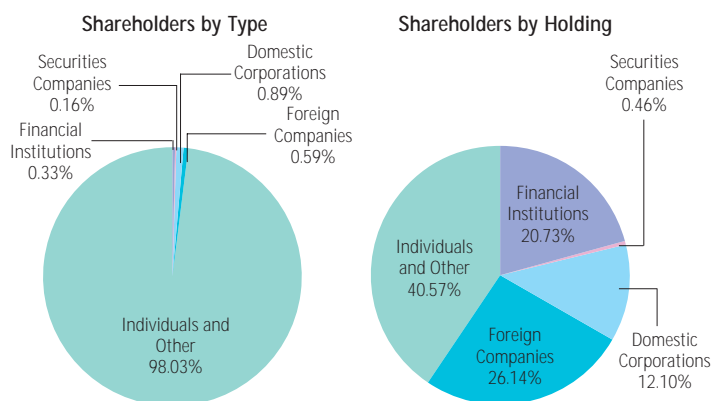
Number of Shareholders (As of March 31, 2004)

16,091

Major Shareholders (As of March 31, 2004)

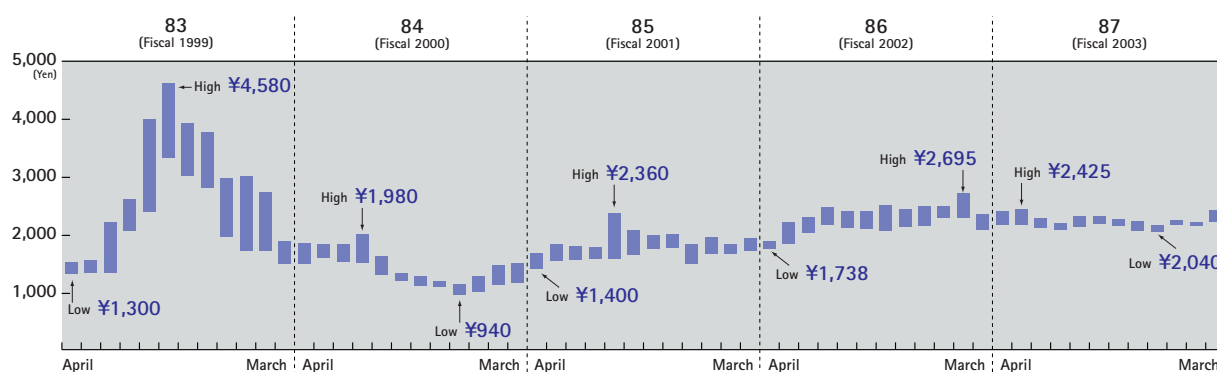
Shareholder	No. of Shares Holdings (Thousands)	(%)
The Nishimura International Scholarship Foundation	1,800	7.46
Japan Trustee Services Bank, Ltd. (trust account)	1,211	5.02
The Master Trust Bank of Japan, Ltd. (trust account)	1,206	5.00
Motonobu Nishimura	1,004	4.16
The Bank of New York Treaty JASDAQ Account	905	3.75
Teruhisa Nishimura	811	3.36
Mandom Employee Shareholding Association	654	2.71
Links Group	512	2.12
The State Street Bank and Trust Company 505041	495	2.05
The Chase Manhattan Bank, NA London SL Omnibus Account	454	1.88

Common Stock Holdings



Stock Price and Transaction Volume

Years ended March 31



mandom corp.

<http://www.mandom.co.jp>



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