



MANDOM CORPORATION
Annual Report 2005

Year Ended March 31, 2005

**Construct the Foundation
for Next Growth**





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: Lifestyle focus, Business Partner focus, and Brands focus

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.

Financial Highlights

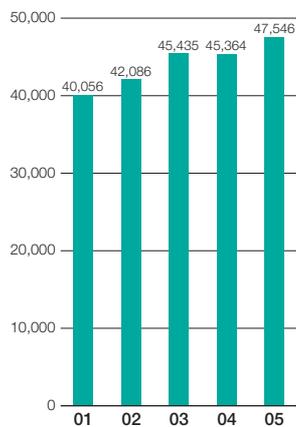
MANDOM CORPORATION and Consolidated Subsidiaries
Years ended March 31

	(Millions of yen, except per share data)				
	2005	2004	2003	2002	2001
Net Sales	47,546	45,364	45,435	42,086	40,056
Operating Income	6,701	6,681	6,323	5,211	5,079
Net Income	3,211	3,254	2,988	2,176	2,024
Total Assets	47,398	45,474	43,869	38,613	39,975
Total Shareholders' Equity	38,169	36,688	34,714	29,376	32,133
—Return on Equity (ROE) (%)	8.6	9.1	9.3	7.1	6.2
—Earnings per Share (EPS) (¥)	128.73	130.83	128.32	92.96	81.59
—Cash Dividends per Share (¥)	55.00	50.00	50.00	40.00	34.00

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.

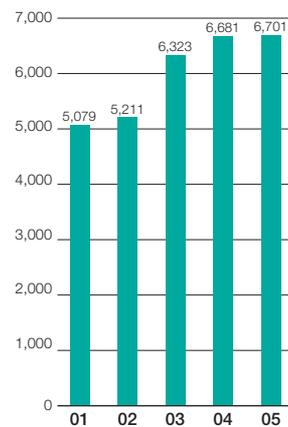
Net Sales

(Millions of yen)



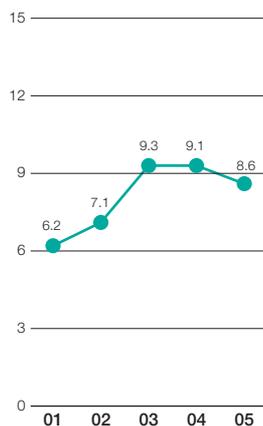
Operating Income

(Millions of yen)



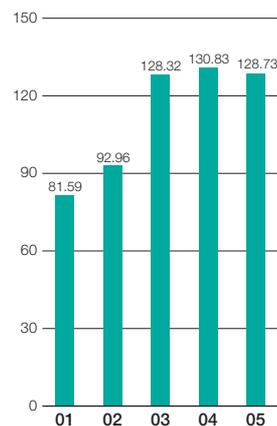
Return on Equity (ROE)

(%)



Earnings per Share (EPS)

(Yen)



A Message to Our Stakeholders

Underpinned by stable results and high growth in overseas markets, the Mandom Group posted record consolidated operating income for the eighth consecutive year during fiscal 2005.



Motonobu Nishimura,
Representative Director
President Executive Officer

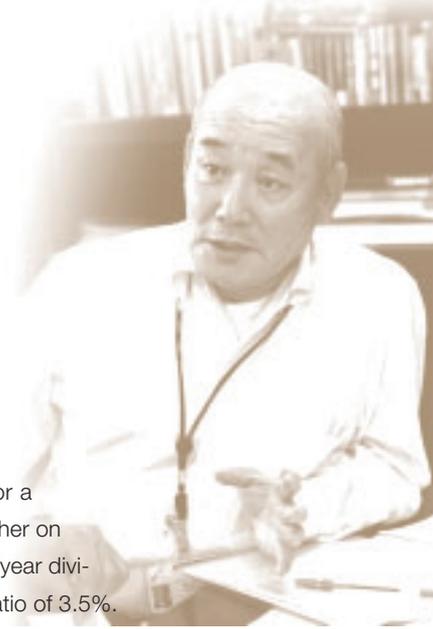
Hiroshi Kamei,
Representative Director
Vice President Executive Officer

Results for the fiscal year ended March 2005

In 2004, business conditions remained harsh for the cosmetics industry in Japan, as consumer spending failed to recover completely. Although consumer spending was stable in Asian markets outside Japan, the overall economy in the region became more unstable and growth was hampered due to surging oil prices.

In this environment, domestic net sales declined 0.2% to ¥35,636 million from the previous fiscal year, as lower sales in the hair color and women's cosmetics fields cancelled out a significant increase in sales of *Gatsby* summer products. Overseas net sales jumped 23.4% to ¥11,910 million. This increase was supported by substantially stronger sales of *Gatsby* products, thanks to enhanced marketing activities, and strong demand for products of Overseas Customized Brands. As a result, consolidated net sales for the year under review increased 4.8% to ¥47,546 million.

Operating income edged up 0.3% year on year to ¥6,701 million, reflecting a decline of 0.4 of a percentage point in the cost of sales ratio, which offset higher selling, general and administrative (SG&A) expenses due to increases in marketing and R&D costs. This marked the eighth straight year of record operating income. Ordinary income fell 0.4% to ¥6,281 million, mainly due to a drop in other income arising from the abolition of purchase discounts in Japan. Extraordinary losses on sales of shares in a domestic subsidiary and on the disposal of property and



equipment resulted in a decline of 1.3% in net income to ¥3,211 million. Overall, we recorded slightly lower profits on increased sales.

In order to return more profits to shareholders, Mandom has set targets for a payout ratio of 40% or higher and a dividend on equity (DOE) ratio of 3% or higher on a consolidated basis. For the year under review, the Company increased its full-year dividend by ¥5.0 to ¥55 per share, achieving a payout ratio of 42.7% and a DOE ratio of 3.5%.

Overview of our seventh Middle-range Planning

The year under review marked the final year of our seventh Middle-range Planning, which began in April 2002. In this section, we look back at the last three years and assess the progress made. The plan was designed to boost Mandom's growth and profitability, and started new management targets for 1. net sales, 2. return on equity (ROE), and 3. earnings per share (EPS) under the overarching theme of promoting consolidated management.

Below is an overview of the performance under the plan. First, centered on sales, we look at growth and profitability of three Strategic Product Units—*Gatsby*, *Lúcido L*, and hair color products—and the Strategic Marketing Unit—the overseas area. Second, centered on profit, we summarize the plan's performance with respect to ROE and EPS.

Looking at the sales by products unit, firstly, Group-wide sales of *Gatsby* products increased ¥3,840 million, representing a growth rate of 20% during the period covered by the plan. This was achieved thanks to a major contribution from Mandom's overseas businesses, which significantly boosted *Gatsby* brand recognition by increasing the number of stores that deal with *Gatsby* products and reinforcing sales promotion activities. Secondly, Group-wide sales of the entire *Lúcido L* grew ¥1,240 million, representing a growth rate of 41% over the three years. This increase is attributable to moves into new East Asian markets and other factors, despite a challenging market for *Lúcido L* hair color products. Finally, Group-wide sales of hair color products recorded an increase of ¥1,050 million during the plan, a growth rate of 22%. Although this product segment was affected by the shrinking market for hair coloring products (for black hair) due to changes in coloring trends, Mandom's success in securing 26% of the entire market helped to support this sales increase. Mandom has also entered the field of hair color products for gray hair, a major market, and we expect demand from this area to underpin growth going forward.

Looking at sales by area over the last three years—the domestic sales increased ¥846 million, representing a growth rate of 2%, and the overseas sales also increased ¥4,613 million, representing a growth rate of 63%, respectively. The increase in overseas sales reflected dramatic growth of *Gatsby* products and a number of hit products specifically customized for overseas market. Overseas sales now account for approximately 25% of consolidated net sales.

All our three Strategic Product Units therefore posted double-digit growth during the three years of the management plan, while overseas operations also recorded strong growth. However, although *Gatsby* attained its sales target, *Lúcido L*, hair color products, and sales in the domestic area all fell short of achieving their goals. Consequently, Mandom missed its target of consolidated net sales of ¥50,000 million by 5%, posting net sales of ¥47,546 million in the year under review.

Turning to profitability, Mandom achieved double-digit growth in consolidated net sales, operating income, and net income under the plan. Profitability improved because the rate of growth in operating income and net income exceeded that of consolidated net sales. A significant contributing factor was a reduction of 3.9 percentage points in the cost of sales ratio over the last three years, primarily due to an improvement in manufacturing costs in Japan and Indonesia.

However, Mandom fell short of its final-year targets of 10% or higher in ROE, and ¥150 or higher in EPS, attaining 8.6% and ¥128.73, respectively. This was mainly due to significantly lower net income at Mandom

on a non-consolidated basis compared to the plan, reflecting extraordinary losses on the sale of shares in a domestic subsidiary and on the disposal of property, plant and equipment, related to restructuring in the women's cosmetics business in the last year of the management plan.

Although we can point to some success with our seventh Middle-range Planning—we achieved increases in consolidated net sales of ¥5,459 million and net income of ¥1,034 million over the last three years, representing growth rates of 13% and 47.5%, respectively—these figures were still below our targets. Consequently, we failed to attain our ROE and EPS goals. In light of these results, delivering consistent improvement in growth will be a key theme for Mandom. We will also aim to further boost profitability by shifting the subject for cost-reduction from cost of goods itself to the entire scope of our operations. Based on these efforts, we remain fully committed to improving ROE and EPS further by resetting performance targets and boosting net income consecutively.

Embarking on the eighth Middle-range Planning

The primary objective of our next management plan, launched in April 2005 and running through March 2008, is to boost growth—in other words, increase the size of Mandom's business. We believe that expanding profits by focusing on growth will provide the basis for stable profits, helping us to raise returns on capital and shareholder value per share. We also plan to return profits to shareholders through dividends that accurately reflect shareholder value. (For more details on this, please refer to the next section of this report, "Eighth Middle-range Planning: Mandom moves into the next stage of growth").

Every Mandom employee also has to grow as an individual if we are to realize our management goal of delivering stronger growth. In order to leverage the full potential of the Mandom Group in a changing operating environment, our employees need to demonstrate the ability, above all others, to effect change themselves from a global perspective. Mandom will train employees so that they can acquire this skill, and in support of this, create a conducive working environment that fully utilizes human resources so that our people can make the most of their talents.

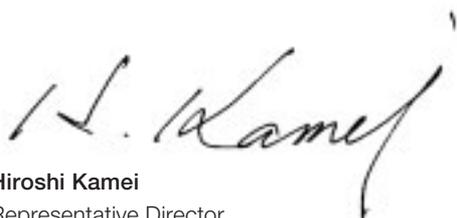
Based on these efforts, every Mandom Group manager and employee will work to fulfill the Group Mission of "aiming to provide a comfortable lifestyle supported by health and beauty," as well as contribute to the development of society in parallel with achieving business growth.

As ever, your continued support and understanding will be a vital part of our efforts.

July 2005



Motonobu Nishimura
Representative Director
President Executive Officer



Hiroshi Kamei
Representative Director
Vice President Executive Officer



Eighth Middle-range Planning: Mandom moves into the next stage of growth

Following the completion of our seventh Middle-range Planning in the year under review, we began implementing our next plan, which will run until March 2008.

Middle-range Planning to date

After experiencing a crisis in its business, Mandom formulated a management philosophy and encouraged all employees to participate in the management planning process. This also coincided with the launch of the Company's first Middle-range Planning in 1982. Since then, each plan identified and addressed specific internal issues and defined strategies to quickly accommodate changes in society and the Company's operating environment. This process has helped Mandom realize stable management and achieve sustained growth.

The earlier plans aimed to rebuild the Company's business by focusing on sound management. Specifically, this meant creating a robust financial base and restructuring sales channels. After attaining these goals between April 1999 and March 2002, the period covered by the sixth Middle-range Planning, Mandom shifted its focus to boosting growth and raising profitability. The main objective of the seventh plan, implemented between April 2002 and March 2005, was to enhance the growth of the entire Mandom Group by moving away from the past focus on non-consolidated operations in management plans, to aggressively promote management at the consolidated level. With the eighth plan, launched in April 2005, we will actively tackle new challenges as we strive to take Mandom to the next stage of growth.

Overview of the eighth Middle-range Planning

Our objective with this plan is to further boost growth and profitability. We will increase growth by focusing on two themes: core products and key operating areas.

In core products, we will strengthen the cosmetries (cosmetics & toiletries) business and build a stronger foundation in the women's cosmetics business.

The cosmetries business is centered on hair care and body care products for daily fashion and grooming needs, Mandom's main areas of operation. This segment covers two brands, *Gatsby* for men, *Lúcido L* for women, and two product categories, hair color products and face & body products, a new addition. These comprise the Mandom Group's four Strategic Product Units and will be strengthened further.

The women's cosmetics business mainly comprises skin care and make-up products. To ensure this business drives future growth, we will build a stronger operating foundation in fields such as technology, development, manufacturing and marketing.

In key operating areas, the overseas area will remain an important Strategic Marketing Unit for the Group. Using our existing retailing assets in Asia to full effect, we plan to create a stronger presence for the strategic products in the region as we work to raise the ratio of overseas sales to one-third or higher of total Group sales.

In order to increase profitability, we will strive to reduce existing costs in procurement and manufacturing. Additionally, as the first phase, we are outsourcing logistics operations to third-party logistics (3PL) in order to convert fixed logistics costs into variable costs. Finally, we will use supply chain management (SCM) initiatives to optimize all processes in the entire product cycle, from production to final delivery.

By targeting stronger growth and further improving profitability, we aim to generate stable profits, raise returns on capital, and boost value per share. We also plan to return profits to shareholders commensurate with the higher value per share.

● Middle-range Planning



[Eighth Middle-range Planning: performance indicators and sales plans (final year)]

- Performance indicators**
- ① Group sales: ¥68 billion or higher
 - ② Group net income: ¥5 billion or higher
 - ③ Consolidated ROE: 10% or higher
 - ④ Consolidated EPS: ¥160 or higher
 - ⑤ Payout ratio: 40% or higher
 - ⑥ DOE: 3% or higher

[Strategic Product Units]

«Gatsby» Build an Asian global brand generating overseas sales of ¥10 billion and Group sales of ¥30 billion.

«Lúcido L» Strengthen the range of styling products capable of responding to changing fashion trends; bolster the simultaneous launch of products in Japan, ASIA NIES, and China; and attain Group sales of ¥5 billion.

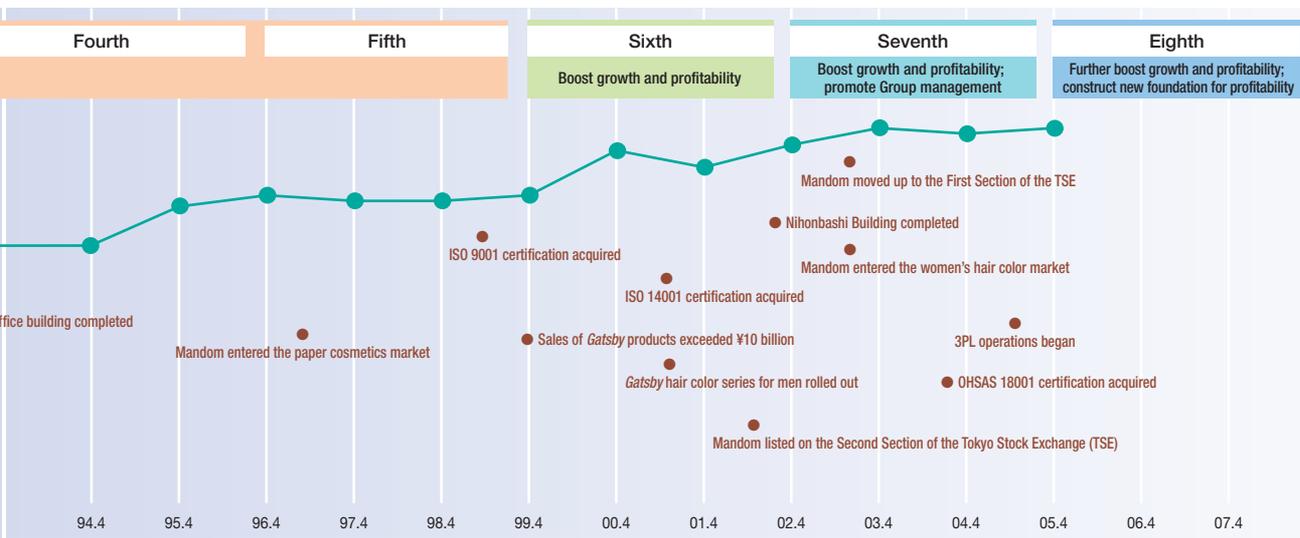
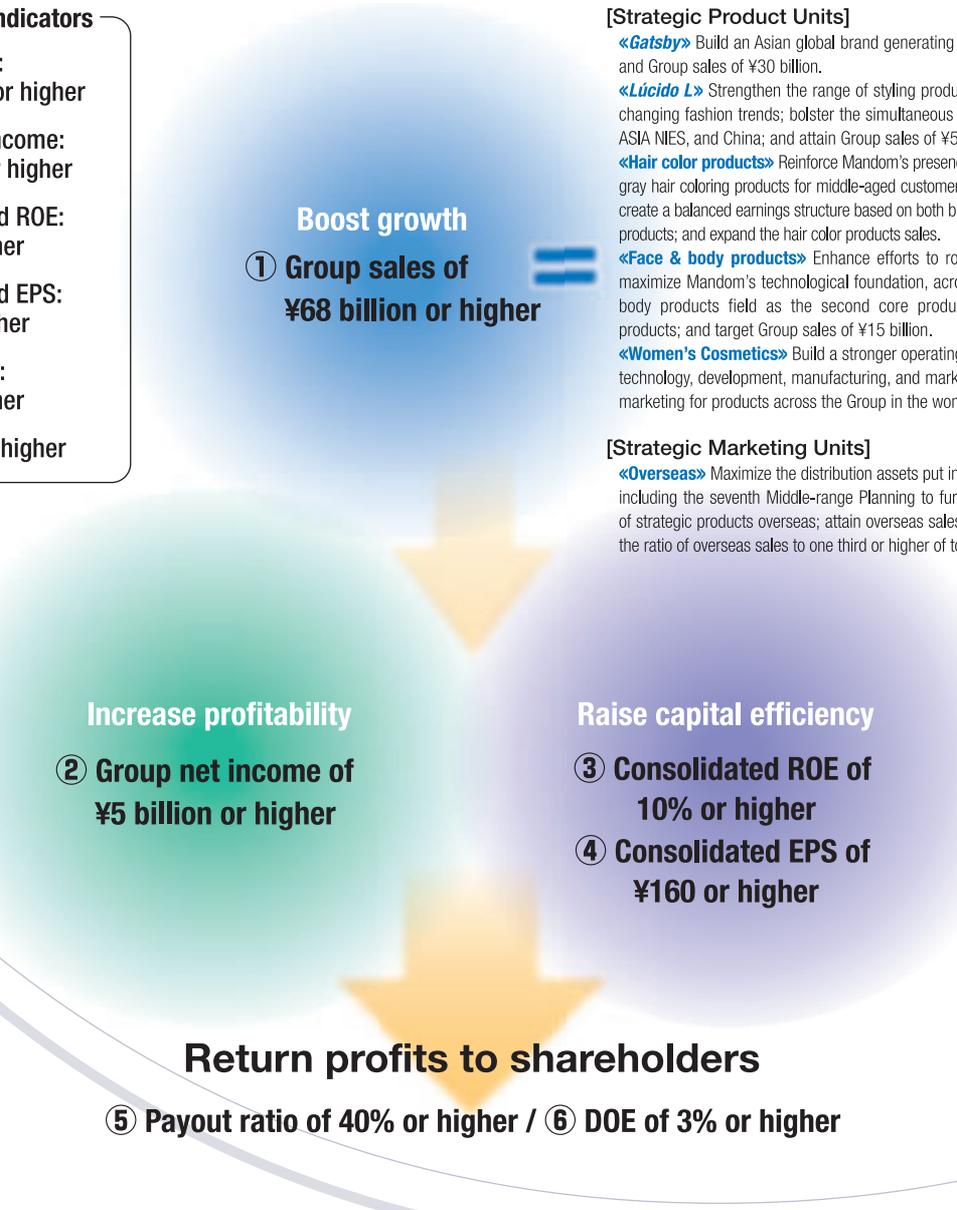
«Hair color products» Reinforce Mandom's presence in the market by developing gray hair coloring products for middle-aged customers to generate stable earnings; create a balanced earnings structure based on both black hair and gray hair coloring products; and expand the hair color products sales.

«Face & body products» Enhance efforts to roll out these products, which maximize Mandom's technological foundation, across Asia; cultivate the face & body products field as the second core product segment after hair care products; and target Group sales of ¥15 billion.

«Women's Cosmetics» Build a stronger operating foundation in areas such as technology, development, manufacturing, and marketing to enable simultaneous marketing for products across the Group in the women's cosmetics field.

[Strategic Marketing Units]

«Overseas» Maximize the distribution assets put in place in the period up to and including the seventh Middle-range Planning to further strengthen the presence of strategic products overseas; attain overseas sales of ¥20 billion; then increase the ratio of overseas sales to one third or higher of total Group sales.



The Mandom Way

We at the Mandom Group

aim to provide a **“comfortable lifestyle supported by health and beauty.”**

Our Mission Statement underpins all Mandom Group companies worldwide—to constantly focus on how we can satisfy customers through our business activities.

Harness **Group resources**



Explore **Mandom's uniqueness**



Contribute to society



Product development that **creates lifestyle value with consumers, for consumers**



Research activities that deliver **comfort** in product quality



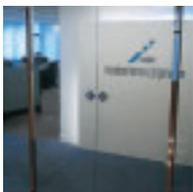
Further enhance **competitiveness**



Harness Group resources

Mandom Group Mission Statement and strategy underpin our management promotion. Mandom divides the Asian region into four strategic areas: JAPAN, ASIA NIES, ASEAN 4, and CHINA, and the Mandom Group conducts business activities in a way that is in tune with the characteristics of markets and local societies, respectively. We believe that Mandom's strengths can be harnessed by allowing Group companies to develop business with a spirit of self-reliance, while working flexibly with one another, based on the Mission Statement and the strategy.

ASIA NIES



Singapore

**MANDOM CORPORATION
(SINGAPORE) PTE LTD** (consolidated subsidiary)

- Started a joint venture in 1988
- Sells cosmetic products
- Core products: cosmetics, toiletries, and skin care products
- Distribution channels: distributors and direct sales

Taiwan

MANDOM TAIWAN CORPORATION (consolidated subsidiary)

- Started a joint venture in 1989
- Sells cosmetic products
- Core products: cosmetics
- Distribution channels: distributors and direct sales

Hong Kong

SUNWA MARKETING CO., LTD. (equity-method affiliate)

- Started a joint venture in 1993
- Sells cosmetic products
- Core products: cosmetics, toiletries, and make-up products
- Distribution channel: direct sales

Korea

MANDOM KOREA CORPORATION (consolidated subsidiary)

- Started a joint venture in 1999
- Sells cosmetic products
- Core products: cosmetics and toiletries
- Distribution channels: distributors and direct sales

CHINA

China

ZHONGSHAN CITY RIDA FINE CHEMICAL CO., LTD.
(non-consolidated subsidiary)

- Established in 1996
- Manufactures and sells cosmetic products
- Manufactures and supplies products to markets in China, Japan, and overseas Group companies
- Annual production volume: 11,475 thousand units
- Owns sales bases in the coastal area: Beijing, Shanghai and Guangzhou
- Core products: cosmetics
- Distribution channels: distributors and direct sales



Zhongshan Factory (Guangdong Province, China)

Japan

MANDOM CORPORATION

(parent company)

- Established in 1927
- Manufactures and sells cosmetic products
- Owns the Fukusaki Factory, the core factory of the three Group production sites
- Annual production volume: 97,790 thousand units
- Core products: cosmetries
- Distribution channel: distributors



Osaka Head Office Building



Fukusaki Factory (Hyogo Prefecture)

PIACELABO CORPORATION

(consolidated subsidiary)

- Established in 1972
- Sells cosmetic products
- Core products: cosmetics for hair and esthetic salons
- Distribution channel: distributors

GUINOT JAPAN CORPORATION (consolidated subsidiary)

- Established in 1993
- Sells cosmetic products
- Core products: GUINOT cosmetics for esthetic salons
- Distribution channel: direct sales

BEUCOS CORPORATION (consolidated subsidiary)

- Established in 1996
- Imports and processes products handled by domestic Group companies

MANDOM BUSINESS SERVICE CORPORATION

(non-consolidated subsidiary)

- Established in 1997
- Provides life and non-life insurance, staffing, and general services (e.g., building maintenance and operation, back-office services, and environmental maintenance)



Mandom Group

Mission Statement:

“Aiming to provide a comfortable lifestyle supported by health and beauty.”

Strategy:

Middle-range Planning

JAPAN



Sunter Factory (Jakarta, Indonesia)



Cibitung Factory (Bekasi, Indonesia)

Indonesia

PT MANDOM INDONESIA Tbk (consolidated subsidiary)

- Established in 1969
- Manufactures and sells cosmetic products
- Listed on the Jakarta Stock Exchange in 1993
- Manufactures and supplies products to markets in Indonesia and the Middle East, and overseas Group companies. Owns integrated production facilities that perform throughout production procedures from the production of plastic containers to the production of contents, filling and packaging products.
- Annual production volume: 454,014 thousand units
- Number of employees: 3,932
- Core products: cosmetries, make-up and skin care products
- Distribution channel: distributors

Thailand

MANDOM CORPORATION (THAILAND) LTD. (non-consolidated subsidiary)

- Started a joint venture in 1990
- Sells cosmetic products
- Core products: cosmetries, toiletries, and skin care products
- Distribution channels: distributors and direct sales

The Philippines

MANDOM PHILIPPINES CORPORATION (consolidated subsidiary)

- Started a joint venture in 1992
- Sells cosmetic products
- Core products: cosmetries
- Distribution channel: distributors

Malaysia

MANDOM (MALAYSIA) SDN. BHD.

(consolidated subsidiary)

- Started a joint venture in 1997
- Sells cosmetic products
- Core products: cosmetries, toiletries, and skin care products
- Distribution channels: distributors and direct sales



ASEAN 4

Explore **Mandom's uniqueness**

The Mandom Group's operations are grounded on the belief that it can grow only if its employees also grow. Guided by this thinking, Mandom aims to become an excellent company that demonstrates fairness and transparency and fosters and builds on the expertise and vitality of its employees.

We believe that people are our greatest assets. By leveraging both Mandom's organizational strengths and the individual abilities of employees, we will make a concerted effort to serve and bring satisfaction and joy to customers. Mandom is confident that this approach will create an invigorating corporate culture.

Strive to become **an excellent company**



12

Compliance has a central position in Mandom's business activities. We practice effective corporate governance as a corporate responsibility to ensure greater fairness and transparency in management. All Mandom employees participate in this process.

Corporate governance initiatives

Mandom aims to be an excellent company that is managed in a way so that it wins the equal trust and approval of all stakeholders, not just shareholders. Firstly, we introduced the corporate auditor system and to this end, we are working to promote fair and transparent management by taking a step-by-step approach to enhance management decision-making and oversight, and to clarify responsibilities for and increase flexibility in management policy execution. These will be realized through the corporate auditor system.

Initiatives in compliance and risk management

Mandom has formulated the Mandom Group Code of Conduct and established a Code of Conduct Promotion Committee to enhance legal compliance, fairness, and corporate ethics in the corporate activities of the Group as a whole.

In terms of risk management, a Helpline System operated by the Code of Conduct Promotion Committee works to prevent, avoid, and minimize risks. The system also functions to detect risks early on. In addition, a Group-wide risk management framework is currently under development. We are thus engaged in risk management that works seamlessly to support and not impede business activities.

Enhance management decision-making and oversight functions

- ◆ Imposed restrictions on directors serving concurrently as corporate officers (June 2004)
- ◆ Appointed external auditors before it became mandatory (January 1986)
- ◆ Appointed external directors before it became mandatory (June 2001)
- ◆ Reduced the terms of directors (June 2003)
- ◆ Established a Compensation Committee (April 2004)
- ◆ Abolished retirement allowances for directors and corporate auditors (June 2005)

Strengthen compliance and risk management

- ◆ Established a Code of Conduct Promotion Committee (December 2002)
- ◆ Introduced a Helpline System (December 2002)

Clarify responsibility for and increase flexibility in management policy execution

- ◆ Introduced a corporate officer system (June 2001)
- ◆ Set the term for corporate officers at one year (April 2003)
- ◆ Imposed restrictions on corporate officers serving concurrently as directors (June 2004)
- ◆ Established an Executive Committee (July 2000)

Foster the growth of employees

We regard people as vital assets and believe in their infinite potential. To spur corporate growth and value, we harness human resources to the fullest extent possible.

Mandom's people and corporate culture

The Mandom Group aims to nurture passionate and motivated employees who can think and act independently while sharing wisdom and cooperating with others based on the Mission Statement that applies to all employees alike, newly hired or at the management level. For this, we believe it is crucial to create opportunities for employees to assimilate Mandom's management



Mission Statement and philosophy, to build a framework for developing their professional skills, and to create an environment conducive to work. We increase passionate and motivated employees as much as possible across the globe to stimulate intellectual exchange across the Group and cultivate a corporate culture that is energetic and creative.

Create an environment to leverage employees' abilities

The makeup of the Mandom Group's workforce is becoming more diverse in terms of nationality as Mandom expands throughout the developing business region, while the number of employees increases every year. To nurture employees that can think and act in accordance with a set of the shared principle and philosophy it is imperative to create opportunities and a framework for Group employees to learn and familiarize themselves with Mandom's corporate culture, as well as to develop their professional skills. By doing so, all Mandom employees will work toward common goals in their everyday work.

Provide an environment conducive to work

A business must provide an environment that makes it easy for employees to work and is rewarding and challenging. Mindful of changing social trends and conditions, Mandom offers various programs, benefits, and options that allow employees to balance work and family life. We believe this will ultimately improve productivity and enable employees to maximize their potential.



Contribute to society

Mandom is a cosmetics manufacturer and has been developing its overseas business in the Asia region from early on.

Mandom endeavors to “fulfill its social responsibility as a manufacturer through its products,” and “make a contribution to the Asia region,” a source of its growth and business development. These are our ongoing commitments to society.

Social responsibility as a manufacturer

The Mandom Group produces over 500 million units of cosmetic products annually. Therefore, we recognize the importance of incorporating environmental considerations in product design, including with respect to raw materials, containers and packaging, as well as in production. As a manufacturer, we consider this one of our most fundamental corporate responsibilities and essential to satisfying customers.

In April 2005, we established the Environmental Initiatives Division at our head office to reinforce the framework for promoting environmental education to employees and environmental activities. Going forward, Mandom will work to reduce its environmental impact at the head office and in our marketing activities, based on its Environmental Philosophy and Fundamental Environmental Policy at the head office and in our marketing activities, mainly with respect to product design and production. As a responsible corporate citizen, Mandom is committed to undertaking activities to protect the earth’s precious environment.

Environmental considerations in product development

Mandom is focusing not only on ensuring quality such as safety and effectiveness in product development, but also on reducing environmental impact by creating eco-friendly raw materials, containers, and packaging. This is a long-standing commitment at Mandom. In 1988, for example, Mandom led the way in eliminating the use of chlorofluorocarbons (CFCs) from its aerosol products. The following year, the Company was first in the industry to receive an Eco Mark certification. Currently, we are basing new product development and the improvement of existing products on the concept of the 3Rs (Reduce, Reuse, and Recycle).

Eco-friendly manufacturing

At the Fukusaki Factory, Mandom has been treating wastewater, conserving energy, and reducing and recycling general waste such as returned products in manufacturing activities. The factory acquired ISO 14001 certification in 2000 and has achieved zero emission status since October 2003 by recycling over 99% of waste.



Contribution to the Asia region

Scholarships for the youth of Asia

In 1958, Mandom became the first Japanese company in the industry to expand overseas. With our overseas operations, we are not simply trying to improve operational efficiency or boost profits. Rather, our objective is also to establish operations that are firmly in touch with local communities so that we can play some part in supporting them. We also believe that by deepening exchange with various people and industries in each country and region in Asia, we have been able to overcome differences in language, social values, culture, and daily customs, allowing us to deepen mutual understanding and foster collaboration on a wide range of levels. Based on the conviction that the Mandom Group's expansion in Asia owes a great deal to these developments, the Nishimura International Scholarship Foundation was established in 1999 as a token of appreciation to the region.

Launched with an endowment from Ikuo Nishimura, the first president of P.T. TANCHO INDONESIA (now PT MANDOM INDONESIA Tbk), the Nishimura International Scholarship Foundation provides scholarships to students to help fund their studies in Japan. The foundation, which awarded scholarships to 15 students in its first year, has now supported a total of 151 young students across Asia, including 34 students in 2004, the sixth year of the program. We hope that the students, once they graduate, will build on the educational opportunities made possible by Mandom to contribute to the development of their home countries and help foster friendly relations with Japan.

In addition to the foundation, Mandom conducts a range of unique activities to support local communities in each country. In these ways, we will continue to make our best contributions based on respect for the local societies that have helped us to prosper.



Ikuo Nishimura

Founder, Nishimura International Scholarship Foundation

When I visited the countries of Southeast and East Asia around forty years ago, both Japan and the rest of Asia were still developing. As years passed, I had the opportunity to interact more with local people in the industry, and as trade increased, I witnessed the Asian region grow steadily. Touched by their people, traditions, culture, and history, I spent much of my career in Asian countries, where I had some of the most fulfilling times of my life. Because I am deeply attached to this part of the world, I have always thought of ways to give back to its people.

These are the reasons why I established a foundation to encourage young people in Southeast and East Asia to become more familiar with Japanese people, traditions, culture, and history. By giving them opportunities to study about Japan, my desire was to help in some way to develop future leaders who, with knowledge of Japanese culture, could contribute to the development of their countries. Given the increasingly globalizing world, I believe that furthering exchange with Asian countries, which possess great potential, is extremely important to Japan, itself part of Asia.

(An excerpt from comments made by Mr. Nishimura marking the establishment of the foundation in 1999.)



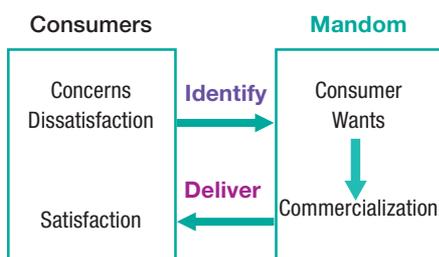
Product development that **creates lifestyle value with consumers, for consumers**

One of Mandom’s philosophies, “creates lifestyle value with consumers, for consumers,” provides the foundation for our business, especially for our product development and marketing activities. We endeavor to expand our product lineup and other areas for customers’ benefit with Mandom products, both domestic and overseas.

We mean giving full consideration to customer “wants” and market changes in both Japan and overseas, reflecting the trend and wants to our products, while delivering them to customers in a timely manner. This is the philosophy.



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Creates lifestyle value with consumers, for consumers

In developing products, whether for the domestic or overseas market, Mandom always conducts the same procedures; Mandom begins by identifying customer concerns and dissatisfaction, works to address these issues and offer solutions by reflecting them in our own products, and ensures its products provide value that satisfies customers. Mindful of potential wants and even the slightest signs of change in lifestyles and consumer thinking, Mandom works relentlessly to deliver products in the knowledge that we will gain total customer satisfaction based on a rigorous evaluation process.



The Mandom Group's product development encompasses five categories in Japan and overseas

Domestic Product Development

Cosmetries

Sold through distributors, cosmetries are products for daily grooming and looking good, and constitute Mandom's core business. The main brands are *Gatsby*, *Lúcido*, and *Lúcido L*. Looking ahead, Mandom will continue to renew core products as well as focus on hair coloring and face and body products, which leverage its technologies.

Women's Cosmetics

In this category, we offer beauty products that enrich women's lives, mainly high-functional skin care, make-up and body care products. These products are sold at selected outlets through distributors. Because women's cosmetics promise to drive the Group's growth, we will construct a foundation to enhance performance in this segment, including technology, development, production, and marketing.

Products for Professional Use

Mandom offers a lineup of products for customers who want stylish hair and to receive advanced skin treatment at hair and esthetic salons. These products, their technologies, and services, which are offered through esthetic salons are a crucial source for enhancing the Group's cosmetries and women's cosmetics businesses. We will endeavor to develop products by utilizing synergies among these three categories.

Overseas Product Development

Group Brands (Marketed simultaneously in Japan and Overseas)

Mainly *Gatsby* and *Lúcido L* are marketed overseas in parallel with products originating in Japan and ones satisfying local customers' wants. Moving forward, we will bolster the lineup to penetrate markets more with Group brands and reinforce marketing activities to improve brand recognition.

Overseas Customized Brands (Marketed Overseas Only)

Manufactured primarily in Indonesia, Overseas Customized Brands reflect the unique wants of local consumers and the characteristics of each market. For the future, we aim to expand the lineup of Overseas Customized Brands, tailoring them to reflect the changing fashion trends of each region, mainly women's cosmetics, such as fragrances, body care products, and make-up cosmetics which are distributed through a variety of channels.

Domestic Product Development

● Cosmetics



Gatsby

The *Gatsby* series of basic grooming products for young men was launched in 1978. Over 100 products are marketed, including hair styling, hair color, face care, body care, and fragrance products. Five brand image renewals to reflect changing consumer needs have kept *Gatsby* a fresh and long-selling brand.

Lucido

Lucido was launched in 1989 as the industry's first fragrance-free personal care product line for men. The high-quality, universal brand image of *Lucido* has won acceptance from all age groups. The lineup of *Lucido* products includes hair styling and skin care products, and hair color products for gray hair for all generations, from men in their twenties to the middle aged and the elderly.

Lucido L

Lucido L was first sold in 1993 as the "woman's version" of *Lucido*. The first product line was a series of fragrance-free hair styling products. *Lucido L* is now positioned as a "hair make-up" product brand offering various colors, styles, and textures for women in their twenties based on the main concept of making them feel trendy and fashionable.

● Women's Cosmetics



courrèges

Sales started in 1992 of this lineup of cosmetics based on the themes of "the universe, nature, freedom, light, and color" proposed by French designer Mr. Andre Courrèges, the creator of miniskirts.

Dr Renaud

Launched in 1972, *Dr Renaud* is a lineup of skin care products based on the formula developed in 1946 by Dr. Renaud, M.D./Ph.D., that uses natural plant extracts. It is a pioneering brand in the esthetic salon industry in Japan. The *Dr Renaud* finger-applied lift-up series has an established reputation in the facial treatment field.

GUINOT

Launched in 1993, *GUINOT* boasts a top market share in the French beauty salon industry and was developed in 1965 by French scientist Mr. Renee Guinot. When used in combination with *Hydradermie*, electric beauty equipment, the *GUINOT* series of cosmetics offers advanced beauty treatment for the face and body.

Hair care products

Since entering the hair salon market in 1982, Mandom has offered a lineup of products, including hair perming products based on advanced hair science, hair treatment products, and hair color and hair styling products that are geared to cutting-edge hair styling. Core brands include *Formulate*, *ARISTIA*, and *DIRECTION Refilia*.

● Products for Professional Use



Overseas Product Development

● Group Brands



Gatsby

The *Gatsby* series of fashionable grooming products, including hair styling, facial care, and body care products, caters to the needs of young men. Mandom introduces product lineups matched to the local preferences of each overseas region. Full-scale marketing of *Gatsby* products began in 2002, encompassing markets in both Japan and overseas.

Lúcido L

Lúcido L hair styling and care products target fashion-conscious women in their twenties and can be applied to create the most popular hair styles. Full-scale marketing of *Lúcido L* products began overseas in 2002, encompassing markets in both Japan and overseas with a focus on ASIA NIES where fashion trends are disseminated almost in real time with Japan.

● Overseas Customized Brands



Pixy

Launched in 1987, *Pixy* is a general cosmetics brand for active women in their twenties. The lineup consists of three series: (1) skin care products, (2) cosmetics products for face such as foundation, and (3) other cosmetics products such as lipsticks and nail polish. In October 2004, the last two of these three *Pixy* product categories were renewed to give them a fresh look. Customer support has been strong.

Pucelle

Launched in 1992, *Pucelle* targets teenage girls who are starting to take an interest in fashion and beauty, and comprises mainly fragrance products. The lineup includes three types of light fragrance products, as well as deodorants and body care products.

Miratone

Miratone is a hair color product brand for beauty-conscious women, both young and middle-aged, were first sold in 2002. The versatile lineup covers from products for black hair to ones for gray hair.

Johnny Andr an

This brand of hair care and hair styling products was launched in 1999 in collaboration with Mr. Johnny Andr an, a famous Indonesian stylist. It is a perfect fit for women who love stylish hair.

Research activities that deliver **comfort** in product quality

The Mandom Group boasts unique technical expertise in its core products, including men's cosmetics, and hair styling and coloring products. This not only reflects the excellence of Mandom's research on "hair and skin," but also its tireless efforts to study the "mind and motivation" of the consumer. Why do certain products attract and satisfy consumers? We believe that the development of products from the standpoint of consumers is key to "comfort" in product quality.

Mandom's R&D policy is centered on two themes: enhancing proprietary technology and reinforcing basic technology for developing women's skin care products. To these ends, Mandom will reinforce its research environment.

Hair styling
Hair coloring
Hair care
Men's skin care
Men's body care

Enhance proprietary technologies

The Mandom Group has long researched men's cosmetics. The application of this research has created many outstanding core technologies. These include polymers used in wax and other hair styling and coloring products, as well as microorganism control technologies for use in deodorants, skin care and other products. Such outstanding technologies have established a reputation for superior quality in the marketplace. In addition, the Mandom Group has won considerable trust and high acclaim for its presentations at academic conferences and joint seminars at the Japan Advanced Institute of Science and Technology, Hokuriku. Mandom will further refine these technological strengths to innovate core products.





Women's skin care

Reinforce basic technology and R&D environment

A key theme in the context of Mandom's future growth is the reinforcement of its technological foundation for women's skin care products. To this end, Mandom will promote collaboration with public research institutes, including universities in Japan and overseas, and other companies in Japan. The aim is to establish a technological base for formulating and producing women's skin care products in-house. This base will include technologies for skin physiology analysis, developing materials and product formulae, evaluating quality, and sensory analysis. The aim is to establish a technological foundation for formulating and producing products in-house. Furthermore, we plan to complete the construction of a new R&D building in the fall of 2006, which will serve to enhance our R&D activities as our women's cosmetics business and overseas businesses expand.

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Designing products to attract and satisfy consumers

Safety

Reliability

Comfort in use

Effectiveness



Rendering of the new R&D building

Further enhance competitiveness

Endeavoring to offer quality products at reasonable prices, the Mandom Group has been implementing cost-cutting measures in production, logistics, and sales. Going forward, Mandom knows it must boost the efficiency of all its operations by optimizing all processes from procurement and production to the delivery of products to consumers. Specifically, we will create an efficient production framework covering the Asia region and realign our logistics framework. We believe these steps will enhance the competitiveness of the Mandom Group.



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Logistics

In order to deliver better products to consumers on a timely basis and at a reasonable price, we must streamline the various distribution networks that link Mandom and its customers. In the past, Mandom has focused on optimizing and boosting the efficiency of procurement, production, logistics, and sales activities independently of each other. Going forward, we must pursue greater efficiency and competitiveness by linking each of these phases and optimizing them as a whole.

To this end, in October 2004, Mandom began implementing an integrated logistics system based on a third-party logistics (3PL) outsourcing contract with Nippon Express Co., Ltd. This system covers everything from procurement, sales, and merchandise returns. In April 2005, full-scale sales distribution (both domestic and overseas), part of this integrated logistics system, got under way. Through these efforts, Mandom could convert “fixed expenses” arising from in-house distribution operations, such as those related to distribution facilities, equipment, depreciation, and personnel, as “variable expenses” that are determined by the number of shipments.

Looking ahead, we will work to further integrate procurement and merchandise returns and build a 3PL system tailored to Mandom’s own business framework. In addition to improving management efficiency and competitiveness, this will help us to incorporate demand forecasting into business plans for procurement, production, and sales, and optimize each distinct phase as a part of an integrated whole. In this way, we hope to share the benefits with business partners at each stage of the logistics process and end users.



Production

The Mandom Group currently carries out production at three manufacturing bases in Asia (located in Japan, Indonesia, and China). As Mandom's core manufacturing facility, the Fukusaki Factory in Japan has conducted supervisory and management activities to improve product quality and reduce costs. As a result, the consolidated cost of sales ratio declined 2.9 percentage points over six years under two Middle-range Planning, close to the maximum reduction possible using existing methods.

Improving quality, boosting efficiency and cutting costs with proprietary production and automation

Mandom's three production bases largely serve to manufacture (1) products for local markets where factories are based, (2) Group products (for export), and (3) products designed for overseas markets (for trading). In line with this approach, Mandom has built a production system tailored to each country's market characteristics and customer needs. Today, with Mandom's consolidated net sales close to ¥50 billion, we have to standardize quality on a global level across the Mandom Group and promote complete proprietary manufacturing and automation for volume production activities from the standpoint of the Group if we want to grow further and meet local wants. This strategy must also be formulated from the standpoint of standardizing quality on a global level across the Mandom Group. Mandom is also working to introduce a framework in which all three production bases manufacture products to the same level of quality, allowing it to mitigate risks such as a natural disaster affecting production in one country. Led by the Fukusaki Factory, all Mandom's factories will collaborate closely to realize these goals, allowing the Company to enhance its competitiveness in each market and reduce costs further. This will ultimately benefit customers in the Asian region.



Fukusaki Factory (Hyogo Prefecture, Japan)

The Fukusaki Factory, which began operations in 1976, is the leading production and logistics base among the Group's three manufacturing sites. Its cutting-edge production technology and management system enable the manufacture of high-quality, low-cost items. The factory is also one of the few in the industry to carry out manufacturing operations completely in-house for products such as aerosols, hair color products and paper-cosmetics, as well as paper packaging for refills. Furthermore, in 2000, the factory acquired ISO 14001 certification and achieved "zero emission" status in 2003.



Zhongshan Factory (Guangdong Province, China)

Zhongshan Factory began operations in 1997, which is strategically positioned to take advantage of the expanding Chinese market. The factory exploits its proximity to the Guangzhou area to supply Mandom products across China. In addition to hair styling products, facial care products, paper-cosmetics and fragrances geared to the Chinese market, the factory also manufactures a large number of products for export to Japan and Southeast Asian countries where the Mandom Group operates. The factory acquired ISO 9001 certification in 2002.



Sunter Factory (Jakarta, Indonesia; top) Cibitung Factory (Bekasi, Indonesia; bottom)

The Sunter Factory began operations in 1971, followed by the Cibitung Factory in 2001 as business expanded. The latter manufactures plastic containers and prints labels, while the former manufactures and fills contents. This integrated production system enables Mandom to offer superior quality products and compete on price. Both factories are fully equipped to manufacture a variety of products, including hair styling and hair care products, fragrances, skin care products, make-up and body care products. In May 2005, PT MANDOM INDONESIA Tbk acquired Cara Pembuatan Kosmetik yang Baik (CPKB) certification, a cosmetics production and quality management standard in Indonesia.



Management's Discussion & Analysis

MANDOM CORPORATION AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31

	Millions of yen					
	2005	2004	2003	2002	2001	2000
For the Year:						
Net Sales	¥ 47,546	¥ 45,364	¥ 45,435	¥ 42,086	¥ 40,056	¥ 40,344
Japan	35,636	35,712	36,652	34,789	33,270	34,235
Asia	11,910	9,652	8,782	7,296	6,786	6,109
Selling, General and Administrative Expenses	21,397	19,958	20,267	18,040	17,232	17,429
Operating Income	6,701	6,681	6,323	5,211	5,079	5,067
Japan	4,936	5,256	5,038	4,328	3,999	4,112
Asia	1,762	1,422	1,283	860	1,075	944
Net Income	3,211	3,254	2,988	2,176	2,024	2,105
Research and Development	1,888	1,575	1,482	1,513	1,524	1,501
At Year-end						
Total Assets	47,398	45,474	43,869	38,613	39,975	42,668
Total Shareholders' Equity	38,169	36,688	34,714	29,376	32,133	33,008
Per Share Data (Yen):						
Total Shareholders' Equity	1,577.94	1,516.70	1,434.94	1,306.61	1,294.95	1,330.33
Earnings per Share (EPS)	128.73	130.83	128.32	92.96	81.59	89.00
Cash Dividends	55.00	50.00	50.00	40.00	34.00	30.00
Ratio (%):						
Shareholders' Equity Ratio	80.5	80.7	79.1	76.1	80.4	77.4
Return on Equity (ROE)	8.6	9.1	9.3	7.1	6.2	7.1
Dividends Ratio	50.0	42.1	45.7	46.1	42.8	40.5

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, 11 subsidiaries, and three affiliated companies. Of these, nine are consolidated subsidiaries, three of which operate in the domestic market and six in overseas markets.

On February 1, 2005, M-ZA CORPORATION merged with Mandom, while on March 28, 2005, Mandom sold all the shares in MIC CORPORATION.

In Japan, MANDOM CORPORATION (the "Company") focuses on cosmetics for men, while three domestic Group companies—PIACELABO CORPORATION, GUINOT JAPAN CORPORATION, and BEAUCOS CORPORATION—focus on women's cosmetics. All of these operations seek to bolster the visibility and power of the Mandom brand. In addition to manufacturing and sales companies in Indonesia and China, Mandom has sales subsidiaries in Korea, Taiwan, China (Hong Kong), the Philippines, Thailand, Malaysia, and Singapore.

Operating Environment

At the start of the year under review, ended March 31, 2005, improved consumer spending led by stronger corporate performance put the Japanese economy on the recovery track. However, as economic conditions took a downturn from summer onward, consumer spending failed to pick up, creating a difficult operating environment for the cosmetics industry.

In Asia, where the Mandom Group is expanding its overseas operations, consumer spending generally showed stable growth as living conditions improved, despite a slowdown in exports that had led economic recovery. Meanwhile, the overall outlook for the region's economy is becoming more uncertain due to soaring oil prices.

Despite this environment, the Mandom Group expanded sales by strengthening and developing Group brands and promoting product development that quickly responds to diversifying consumer needs.

Operating Results

Mandom posted net sales of ¥47,546 million, an increase of 4.8%, or ¥2,182 million, from the previous fiscal year. In Japan, sales of the core *Gatsby* cosmetics brand were strong, which generated higher earnings generally in line with targets, thanks to favorable performance of products for the summer season. However, sales of hair dyes declined and women's cosmetics were sluggish. As a result, sales in Japan were 0.2% lower than the previous fiscal year. Overseas sales rose by a substantial 23.4%, thanks primarily to the success of efforts to raise awareness of the *Gatsby* brand in Southeast Asia, leading to rapid sales growth of hair wax and other hair styling cosmetics, Mandom's core products.

The cost of sales rose 3.9%, or ¥722 million, to ¥19,448 million in line with the big increase in sales. The cost of sales ratio declined 0.4 of a percentage point to 40.9%. This was achieved due to recovering unit sales prices and ongoing efforts to cut costs in Japan, as well as increased automation and new manufacturing processes at Mandom's production sites in Indonesia.

Selling, general, and administrative (SG&A) expenses increased ¥1,439 million to ¥21,397 million, mainly reflecting aggressive marketing expenses (i.e., sales promotion and incentives) to expand sales, and higher R&D expenses.

As a result, operating income rose 0.3%, or ¥20 million, to ¥6,701 million from the previous fiscal year. Despite only a marginal rise, this marked the eighth consecutive fiscal year of increases posted by the Company.

Other expenses—net increased ¥42 million to ¥419 million, a slight deterioration from the previous year. The main contributing factor was the termination of purchase discounts in Japanese operations.

The Company booked an extraordinary net loss of ¥412 million, an increase of ¥388 million from ¥24 million recorded in the previous fiscal year. This was chiefly due to losses on sales of shares in Japanese subsidiaries, as well as losses on the sale and disposal of unnecessary fixed assets in Japan and overseas.

As a result of the above, ordinary income declined 0.4%, or ¥22 million from the previous fiscal year, to ¥6,281 million, and income before income taxes and minority interests dropped 6.5%, or ¥411 million, to ¥5,868 million.

Income taxes decreased 17.3%, or ¥468 million, to ¥2,234 million. This occurred because Mandom merged with Japanese subsidiaries holding losses carried forward, while the introduction of pro forma standard taxation in Japan also substantially reduced corporate taxes.

Minority interests in net income of subsidiaries sharply increased from ¥324 million to ¥423 million, due to improved results at a subsidiary in Indonesia (PT MANDOM INDONESIA Tbk), as well as Korea (MANDOM KOREA CORPORATION), which was included in our consolidated results for the first time.

Net income dropped 1.3% from ¥3,254 million to ¥3,211 million. During the year under review, the Company further enhanced its existing dividend policy, aiming to pay dividends more in line with consolidated results. Accordingly, Mandom decided to pay a year-end dividend of ¥30.0 per share, up ¥5.0.

In summary, for the fiscal year ended March 31, 2005, the Company posted consolidated net sales of ¥47,546 million, up 4.8% year on year. Operating income was ¥6,701 million, up 0.3%. Ordinary income was ¥6,281 million, down 0.4%, and net income was ¥3,211 million, down 1.3%.

Operating Results by Region

In Japan, the cosmetics market remained almost at the same level as the previous fiscal year. Nonetheless, due to sustained and harsh competition, the Company fell slightly short of its sales targets, despite aggressively launching new products.

Gatsby, our flagship brand, posted an increase in sales to ¥17,600 million. In addition, we introduced new *Lúcido* products in the skin care market, one of the few growing business fields, achieving double-digit growth. However, sales of *Lúcido L* failed to reach initial targets, due to the impact of the shrinking market for hair color products for black hair. Combined with slower sales of imported brands in women's cosmetics, this resulted in an overall drop in sales in Japan of 0.2% to ¥35,636 million. Moreover, although the Company achieved a higher gross profit margin, this could not cover increased expenses related to sales promotion, aggressive investments in R&D, and logistics costs. Consequently, operating income in Japan dropped 6.1% to ¥4,936 million.

Total sales in Asia rose 23.4% to ¥11,910 million, supported by stable growth in the overall cosmetics market and a dramatic performance by hair styling products, attributable to the greater penetration of *Gatsby* products. Mandom subsidiaries, including Indonesia-based PT MANDOM INDONESIA Tbk, also achieved double-digit sales growth across all Southeast Asian markets. Operating income climbed 23.9% to ¥1,762 million. This was underpinned by an improvement in selling costs at consolidated manufacturing subsidiaries in Indonesia, which covered costs related to aggressive marketing activities (sales promotion, sales incentive, and advertising expenses).

Outlook for the Year Ending March 31, 2006

Although the Japanese economy is likely to remain sluggish, there are indications of solid capital investment and some improvement in employment. Nonetheless, the Company expects to continue facing a challenging operating environment, with no anticipated increase in overall demand for cosmetics. On a positive note, in Asia, we expect strong growth in consumer spending on the back of stable economic growth, despite uncertainties due to higher oil prices.

In this environment, we will take steps to boost sales in Japan by tapping market demand and expand businesses in Asia. To these ends, we will further bolster the power of the *Gatsby* and *Lúcido* brands by developing products that respond to the unique needs of the market. In particular, we will focus on skin care products, including face care and body care. In the struggling area of women's cosmetics, we will restructure our business framework and strengthen infrastructure focusing on the development of proprietary products.

Going forward, we will place top priority on improving infrastructure in domestic operations, followed by overseas business expansion. In particular, we plan to continue investing in new product development and aggressive marketing as a countermeasure to the effects of faltering Southeast Asian currencies. Still, we expect double-digit growth in sales and operating income on a local currency basis in all Asian countries, including Indonesia, where the Company's rate of growth is accelerating.

Based on the above, we are projecting net sales of ¥49,000 million, an increase of 3.1% year on year, and operating income of ¥6,800 million, up 1.5%. Ordinary income is forecast at ¥6,540 million, up 4.1%, and net income at ¥3,330 million, up 3.7%.

In addition, we plan to pay an annual dividend of ¥60.0 per share for the year ending March 31, 2006, subject to achieving the above net income target.

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 projections are based on the currency rates of ¥108 per U.S. dollar and Rp. 9,550 per U.S. dollar.

Financial Position

Total assets as of March 31, 2005 were ¥47,398 million, an increase of ¥1,923 million from the previous fiscal year-end. While total current assets declined by ¥1,098 million, total property, plant, and equipment rose by ¥3,021 million. This was attributable to the removal of deposit guarantees by Japanese banks, prompting the Company to reduce its current assets by investing in longer-term bonds, and making capital investments that run higher than the level of depreciation. Current and long-term deferred tax assets fell by ¥153 million to ¥712 million.

Total shareholders' equity increased by ¥1,481 million from the previous fiscal year-end to ¥38,169 million. This largely reflected retained earnings from net income during the fiscal year under review.

Cash Flows

Net cash provided by operating activities amounted to ¥6,061 million. Although income before income taxes and minority interests dropped by ¥411 million to ¥5,868 million, this was offset largely by a ¥324 million decrease in receivables (versus an increase of ¥392 million in the previous fiscal year) and a ¥467 million decline in income taxes—paid.

Net cash used in investing activities was ¥6,919 million. This was largely due to the acquisition of investment securities in accordance with the Company's new policy of using its domestic financial assets to invest in bonds and securities.

Net cash used in financing activities was ¥1,346 million, reflecting ¥1,338 million in cash dividends, including dividends to minority shareholders, a decrease of ¥118 million from the previous year.

As a result, cash and cash equivalents as of March 31, 2005 totaled ¥7,662 million, down ¥2,105 million from the end of the previous fiscal year.

Cash Flow Forecasts for the Year Ending March 31, 2006

Mandom is projecting a slight drop in operating cash flow compared to fiscal 2005. Although income before income taxes and minority interests is expected to increase, the Company is projecting a sharp decline in losses from non-cash transactions. Moreover, receivables and inventories are unlikely to decrease substantially due to business expansion.

Net cash used in investing activities is expected to exceed ¥3,000 million, as the Company steps up its capital investment in manufacturing equipment for cosmetics in Japan and Indonesia and increases R&D spending in Japan.

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, 2005 AND 2004

ASSETS	Millions of Yen	
	2005	2004
CURRENT ASSETS:		
Cash and cash equivalents	¥ 7,662	¥ 9,767
Short-term investments (Note 3)	4,700	3,252
Receivables:		
Trade notes and accounts	5,227	5,462
Unconsolidated subsidiaries and associated companies	112	327
Other	202	168
Allowance for doubtful accounts	(18)	(55)
Inventories (Note 4)	4,842	4,870
Deferred tax assets (Note 8)	475	481
Prepaid expenses and other current assets	511	539
Total current assets	23,713	24,811
PROPERTY, PLANT AND EQUIPMENT:		
Land	1,889	1,553
Buildings and structures	15,940	16,151
Machinery and equipment	10,128	10,016
Construction in progress	96	108
Total	28,053	27,828
Accumulated depreciation	(15,464)	(15,070)
Net property, plant and equipment	12,589	12,758
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Note 3)	7,831	4,270
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 5)	676	767
Long-term loans (Note 6)	765	960
Deferred tax assets (Note 8)	237	385
Other assets	1,587	1,523
Total investments and other assets	11,096	7,905
TOTAL	¥47,398	¥45,474

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen	
	2005	2004
CURRENT LIABILITIES:		
Payables:		
Trade notes and accounts	¥ 3,617	¥ 2,952
Associated companies	44	64
Other	11	11
Accrued income taxes (Note 8)	714	1,217
Accrued expenses	993	827
Other current liabilities	368	367
Total current liabilities	5,747	5,438
LONG-TERM LIABILITIES:		
Liability for retirement benefits (Note 7)	1,096	1,060
Deferred tax liabilities (Note 8)	3	4
Other long-term liabilities	484	585
Total long-term liabilities	1,583	1,649
MINORITY INTERESTS	1,899	1,699
SHAREHOLDERS' EQUITY (Notes 10 and 13):		
Common stock, authorized, 81,969,700 shares; issued, 24,134,606 shares at March 31, 2005 and 2004	11,395	11,395
Capital Surplus	11,235	11,235
Retained earnings	18,451	16,451
Unrealized gain on available-for-sale securities	318	374
Foreign currency translation adjustments	(3,201)	(2,746)
Total	38,198	36,709
Cost of treasury stock—12,771 shares at March 31, 2005 and 9,736 shares at March 31, 2004	(29)	(21)
Total shareholders' equity	38,169	36,688
TOTAL	¥47,398	¥45,474

CONSOLIDATED STATEMENTS OF INCOME

MANDOM CORPORATION AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2005 AND 2004

	Millions of Yen	
	2005	2004
NET SALES (Note 12)	¥47,546	¥45,364
COST OF SALES (Note 12)	19,448	18,725
Gross profit	28,098	26,639
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	21,397	19,958
Operating income	6,701	6,681
OTHER INCOME (EXPENSES):		
Interest and dividend income (Note 12)	82	102
Loss on disposal of property and equipment	(147)	(14)
Loss on disposal of inventories	(551)	(620)
Loss on sale of investment in subsidiary (Note 14)	(295)	
Other—net	78	131
Other expenses—net	(833)	(401)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	5,868	6,280
INCOME TAXES (Note 8):		
Current	2,057	2,746
Deferred	177	(44)
Total income taxes	2,234	2,702
MINORITY INTERESTS IN NET INCOME OF SUBSIDIARIES	423	324
NET INCOME	¥ 3,211	¥ 3,254
		Yen
PER SHARE OF COMMON STOCK (Note 2.m):		
Net income	¥128.73	¥130.83
Cash dividends applicable to the year	55.00	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, 2005 AND 2004

	Outstanding Number of Shares of Common Stock (thousands)	Millions of Yen					
		Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 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)
Net income				3,211			
Cash dividends, ¥50 per share				(1,206)			
Bonuses to directors and corporate auditors				(97)			
Adjustment of retained earnings for newly consolidated subsidiaries				22			
Adjustment of retained earnings for associated company newly accounted for by the equity method				70			
Increase in treasury stock	(3)						(8)
Gain on sales of treasury stocks			0				
Net decrease in unrealized gain on available-for-sale securities					(56)		
Net change in foreign currency translation adjustments						(455)	
BALANCE, MARCH 31, 2005	24,122	¥11,395	¥11,235	¥18,451	¥ 318	¥(3,201)	¥(29)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

MANDOM CORPORATION AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2005 AND 2004

	Millions of Yen	
	2005	2004
OPERATING ACTIVITIES:		
Income before income taxes and minority interests	¥ 5,868	¥ 6,280
Adjustments for:		
Income taxes—paid	(2,659)	(3,126)
Depreciation and amortization	1,610	1,672
Provision for retirement benefits	91	4
Loss on disposal of property and equipment	145	14
Loss on devaluation of securities		18
Loss on sales of securities	1	17
Gain on sales of securities	(52)	(48)
Loss on sale of investment in subsidiary	295	
Changes in assets and liabilities, net of effects from consolidating previously unconsolidated subsidiary:		
(Increase) decrease in receivables	324	(392)
(Increase) decrease in inventories	(203)	74
Decrease in prepaid expenses and other assets	(58)	(98)
Increase in payables	147	253
Increase (decrease) in accrued expenses and other liabilities	703	(176)
Other—net	(151)	(96)
Total adjustments	193	(1,884)
Net cash provided by operating activities	6,061	4,396
INVESTING ACTIVITIES:		
Payments for deposits	(75)	(21)
Decrease in time deposits	62	28
Acquisition of property and equipment	(1,666)	(1,075)
Proceeds from sales and redemptions of investment securities	6,984	2,251
Payments for purchases of investment securities	(5,049)	(1,808)
Net (increase) decrease in investments in and advances to unconsolidated subsidiaries and associated companies	(29)	40
Proceeds from sales and redemptions of short-term investment securities	1,135	4,816
Payments for purchases of short-term investment securities	(8,100)	(6,300)
Payments for acquisition of additional shares of associated company	(2)	
Decrease of cash and cash equivalents resulted from the sale of investment in subsidiary (Note 14)	(171)	
Other—net	(8)	259
Net cash used in investing activities	(6,919)	(1,810)
FINANCING ACTIVITIES:		
Proceeds from short-term bank loans		206
Repayments of short-term bank loans		(206)
Payments for purchases of treasury stock—net	(8)	(1)
Dividends paid	(1,338)	(1,456)
Net cash used in financing activities	(1,346)	(1,457)
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS		
	16	(21)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,188)	1,108
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARY, BEGINNING OF YEAR	83	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,767	8,659
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 7,662	¥ 9,767
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Assets increased by consolidation of subsidiary previously unconsolidated	¥ 46	

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MANDOM CORPORATION AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2005 AND 2004

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 and rearrangements 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 2004 financial statements to conform to the classifications used in 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation Policy—The consolidated financial statements as of March 31, 2005 include the accounts of MANDOM CORPORATION (the “Company”) and its 9 significant (10 in 2004) subsidiaries (together, the “Group”). The Company newly consolidated 1 subsidiary, while it merged 1 subsidiary and sold 1 subsidiary in 2005. Investment in 1 associated company is accounted for by the equity method. Investments in the remaining 2 unconsolidated subsidiaries and 2 associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

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

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 15 to 50 years for buildings and structures, 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. 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 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.

At the Board of Directors held on May 13, 2005, the Company approved the termination of the plan for retirement benefits to directors and corporate auditors on June 24, 2005. Pension obligation incurred until June 24, 2005 will be paid when they retire.

i. Research and Development Costs—Research and development costs are charged to income as incurred.

j. Leases—Most of 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.

k. 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.

l. 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.

m. 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.

n. 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, 2005 and 2004 consisted of the following:

	Millions of Yen	
	2005	2004
Short-term investments:		
Time deposits other than cash equivalents	¥ 100	¥ 69
Government, corporate and other bonds	2,000	1,583
Financing Bills	2,200	1,000
Trust certificates	400	600
Total	¥4,700	¥3,252
Investment securities:		
Marketable equity securities	¥1,428	¥1,131
Non-marketable equity securities	19	159
Government and corporate bonds	4,803	1,599
Trust fund investments and other	1,581	1,381
Total	¥7,831	¥4,270

Information regarding the securities classified as available-for-sale at March 31, 2005 and 2004 were as follows:

March 31, 2005	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥ 928	¥521	¥21	¥1,428
Debt securities	8,991	13	1	9,003
Others	1,954	30	3	1,981

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

“Debt securities” in the above table includes the hybrid financial instruments at fair value of ¥401 million and ¥600 million for the years ended March 31, 2005 and 2004, respectively.

The loss on write-down of other 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, 2005 and 2004, were as follows:

	Carrying amount	
	Millions of Yen	
	2005	2004
Equity securities	¥12	¥12

Proceeds from sales of available-for-sale securities for the years ended March 31, 2005 and 2004 were ¥129 million and ¥200 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥52 million and ¥1 million, respectively for the year ended March 31, 2005 and ¥46 million and ¥17 million, respectively, for the year ended March 31, 2004.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2005 were as follows:

	Millions of Yen
Due in one year or less	¥4,200
Due after one year through five years	4,803
Total	¥9,003

4. INVENTORIES

Inventories at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen	
	2005	2004
Merchandise	¥1,362	¥1,195
Finished products	1,986	2,260
Work in process	216	87
Raw materials and supplies	1,278	1,328
Total	¥4,842	¥4,870

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

Investments in and advances to unconsolidated subsidiaries and associated companies at March 31, 2005 and 2004 were as follows:

	Millions of Yen	
	2005	2004
Investments	¥647	¥758
Advances	29	9
Total	¥676	¥767

6. LONG-TERM LOANS

The annual interest rates applicable to the long-term loans to employees represent primarily housing loans to employees ranged from 0% to 3.5% and 0% to 5% at March 31, 2005 and 2004, 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, 2005 and 2004 consisted of the following:

	Millions of Yen	
	2005	2004
Projected benefit obligation	¥ 2,302	¥ 2,200
Fair value of plan assets	(1,666)	(1,566)
Unrecognized actuarial loss	(183)	(188)
Net liability	¥ 453	¥ 446

The components of net periodic benefit costs for the year ended March 31, 2005 and 2004 are as follows:

	Millions of Yen	
	2005	2004
Service Cost	¥155	¥250
Interest Cost	70	70
Expected return on plan assets	(44)	(50)
Recognized actuarial loss	52	168
Subtotal	233	438
Loss on transfer to the defined contribution pension plan		44
Contribution for the multiemployer pension plan	217	167
Contribution for the defined contribution pension plan	74	30
Total	¥524	¥679

Assumptions used for the years ended March 31, 2005 and 2004 are set forth as follows:

	2005	2004
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 multiemployer pension plan covering substantially all of their employees. The pension fund assets available for benefits under this plan at March 31, 2005 and 2004 were approximately ¥2,788 million and ¥2,571 million, respectively.

The liability balances for retirement benefits at March 31, 2005 and 2004 included accruals for directors and corporate auditors in the amount of ¥643 million and ¥614 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 40.64% for the years ended March 31, 2005 and 2004. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004 are as follows:

	Millions of Yen	
	2005	2004
Deferred Tax Assets:		
Accrued bonuses	¥ 276	¥ 274
Enterprise tax	59	103
Allowance for doubtful accounts	48	47
Inventories	119	58
Pension and severance costs	423	407
Unrealized loss on available-for-sale securities	10	6
Devaluation of investment securities	11	11
Devaluation of land	101	101
Property and equipment	62	62
Other	195	378
Deferred tax assets subtotal	1,304	1,447
Valuation allowance	(15)	(44)
Deferred tax assets	1,289	1,403

	Millions of Yen	
	2005	2004
Deferred Tax Liabilities:		
Unrealized gain on available-for-sale securities	228	262
Special reserve for tax-purpose depreciation	22	23
Depreciation	39	35
Undistributed earnings of associated companies	282	220
Other	9	1
Deferred tax liabilities	580	541
Net deferred tax assets	¥ 709	¥ 862

Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2005 is as follows:

	2005
Normal effective statutory tax rate	40.64%
Expenses not deductible for income tax purposes	1.70
Tax credits	(4.14)
Taxation on per capita basis	0.41
Other—net	(0.54)
Actual effective tax rate	38.07%

9. RESEARCH AND DEVELOPMENT

Research and development costs charged to income for the years ended March 31, 2005 and 2004 were ¥1,888 million and ¥1,575 million, respectively.

10. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code requires that all shares of common stock are 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 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 Code allows Japanese companies to repurchase treasury stock 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 dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the shareholders meeting.

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. The amount of retained earnings available for dividends under the Code was ¥14,989 million as of March 31, 2005, based on the amount recorded in the parent company's general books of account.

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, 2005 and 2004 were ¥824 million and ¥716 million, respectively, including ¥83 million and ¥123 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, 2005 and 2004 was as follows:

	Millions of Yen	
	Machinery and equipment	Machinery and equipment
	2005	2004
Acquisition cost	¥260	¥455
Accumulated depreciation	178	300
Net leased property	¥ 82	¥155

Obligations under finance leases at March 31, 2005 and 2004 were as follows:

	Millions of Yen	
	2005	2004
Due within one year	¥40	¥ 80
Due after one year	42	75
Total	¥82	¥155

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 ¥83 million and ¥123 million for the years ended March 31, 2005 and 2004, respectively.

12. RELATED PARTY TRANSACTIONS

Major transactions with unconsolidated subsidiaries and associated companies for the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen	
	2005	2004
Sales	¥758	¥1,181
Purchases	742	705
Interest and dividend income	30	28
Other expenses—net	(331)	(333)

13. SUBSEQUENT EVENTS

(1) Appropriations of Retained Earnings

The following appropriations of retained earnings of the Company for the year ended March 31, 2005 were approved at the shareholders' meeting held on June 24, 2005:

	Millions of Yen
Cash dividends, ¥30 per share	¥724
Bonuses to directors and corporate auditors	100
Total	¥824

14. SUPPLEMENTARY CASH FLOW INFORMATION

The following is a summary of the assets and liabilities of subsidiary that were excluded from consolidation upon sale of their stock for the year ended March 31, 2005:

	Millions of Yen
Current assets	¥477
Non-current assets	50
Current liabilities	(86)
Non-current liabilities	(126)
Loss on sales of investments in subsidiaries	(295)
Sales price of shares of consolidated subsidiary	20
Uncollected amount of the above sales price	(7)
Cash and cash equivalent of subsidiary	(184)
Net decrease of cash and cash equivalents	¥171

15. 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, 2005 and 2004 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, 2005 and 2004 are summarized as follows:

	Millions of Yen			
	2005			Consolidated
	Japan	Asia	Eliminations/ Corporate	
Sales to customers	¥35,636	¥11,910		¥47,546
Inter-area transfer	2,639	544	¥ (3,183)	
Total sales	38,275	12,454	(3,183)	47,546
Operating expenses	33,339	10,692	(3,186)	40,845
Operating income	¥ 4,936	¥ 1,762	¥ 3	¥ 6,701
Assets	¥22,074	¥ 7,111	¥18,213	¥47,398

Corporate assets of ¥18,779 million, included in "Eliminations/Corporate", are principally marketable and investment securities of the Company.

	Millions of Yen			
	2004			Consolidated
	Japan	Asia	Eliminations/ Corporate	
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 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, 2005 and 2004 amounted to ¥12,494 million and ¥10,670 million, respectively.

INDEPENDENT AUDITORS' REPORT

Deloitte.

Deloitte Touche Tohmatsu

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To the Board of Directors and Shareholders of
MANDOM CORPORATION:

We have audited the accompanying consolidated balance sheets of MANDOM CORPORATION and consolidated subsidiaries as of March 31, 2005 and 2004, 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.

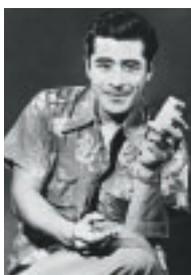
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MANDOM CORPORATION and consolidated subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.



June 27, 2005

History

- 1927 12 Established KINTSURU PERFUME CORPORATION
- 1933 4 Launched *Tancho Tique*, a hit product which laid the foundation for future success
- 1949 4 Shinpachiro Nishimura (president) appointed to the chief post of Kinki Cosmetic Industry Association
- 1958 4 KINTSURU PERFUME formed a technical tie-up with a local company in Manila, the Philippines, and began operations. This marked the first step in overseas expansion.
- 1959 4 Company name was changed to TANCHO CORPORATION
- 1961 5 Mr. Hikoji Nishimura appointed president of Tancho Corporation
- 1966 11 Chairman Shinpachiro Nishimura passed away on November 3
- 1969 11 Started a joint venture P.T. TANCHO INDONESIA in Jakarta, Indonesia (now consolidated subsidiary PT MANDOM INDONESIA Tbk)
- 1970 6 Awarded "Excellence in Export Contributions" by the Ministry of Trade and Industry in Japan. The same recognition was received in 1971 and 1972
- 7 Launched the "*Mandom Series*," announcing 10 products in 9 categories
Featured a Hollywood star (Mr. Charles Bronson) for the first time in Japanese advertisement
- 1971 4 Company name was changed to MANDOM CORPORATION.
- 1972 10 Established Japan Doctor Renault Cosmetics Company (now consolidated subsidiary PIACELABO CORPORATION)
- 1976 3 Construction of Fukusaki Factory completed. Commenced operations
- 1978 5 Switched from distributors to direct sales
7 Launched the new *Gatsby* and *Spalding* product lines, the first time in Japan's cosmetics industry two major lines were introduced simultaneously
- 1980 4 Switched from direct sales to distributors
5 Mr. Hikoji Nishimura appointed chairman of Kinki Cosmetic Industry Association
8 Mr. Ikuo Nishimura appointed president
- 1982 4 Commenced MANDOM CORPORATION's 1st 5-year Middle-range Planning (MP Project)
9 Commenced sale of *Pagliacci* lineup through beauty salons throughout Japan
- 1983 4 Introduced new CI system. Changed company logo
- 1984 7 Introduced *Pucelle My Lip*, the company's first product geared to the women's cosmetics market
- 1985 2 Established MIC CORPORATION
- 3 Launched *Hi Funk Gatsby* series of men's hair foam and other products
- 1986 9 Completed construction of a factory specializing in aerosol products at the Fukusaki Factory
- 1987 4 Commenced 2nd 3-year Middle-range Planning
12 60th Anniversary
- 1988 2 Started a joint venture in Singapore (now consolidated subsidiary MANDOM CORPORATION (SINGAPORE) PTE LTD)
11 MANDOM CORPORATION shares traded on the over-the-counter market
Issued 500,000 shares, increasing capital
- 1989 3 Received ECO Mark certification to foam products from the Japan Environment Association
9 Introduced *Lucido*, a lineup of fragrance-free men's cosmetics products, unprecedented in the industry
12 Started a joint venture in Taiwan (now consolidated subsidiary MANDOM TAIWAN CORPORATION)
- 1990 3 Started a joint venture in Thailand (MANDOM CORPORATION (THAILAND) LTD.)
4 Commenced 3rd 3-year Middle-range Planning
7 Prices revised due to abolishment of sales subsidies
- 1992 2 Started a joint venture in the Philippines (now consolidated subsidiary MANDOM PHILIPPINES CORPORATION)
6 Construction completed of tube filling wing at Fukusaki Factory
10 Established M-ZA CORPORATION, a company with cosmetics procured through selective distribution
- 1993 2 Construction completed on the first stage of new Head Office building. Commenced operations in the new building
4 Commenced 4th 3-year Middle-range Planning
Mr. Hikoji Nishimura decorated with Japan's Fourth Class Order of the Rising Sun
7 Started a joint venture in Hong Kong (now an equity-method affiliate SUNWA MARKETING CO., LTD.)
9 Launched *Lucido L*, a lineup of fragrance-free products for women
P.T. Tancho Indonesia listed on the Jakarta Stock Exchange
10 Established GUINOT JAPAN CORPORATION (consolidated subsidiary), a sales company that distributes French cosmetics for esthetic salons
- 1994 6 The second phase of the construction of a new head office ended, completing the construction of the building



- 1995** 6 Mr. Motonobu Nishimura appointed president of MANDOM CORPORATION
- 1996** 4 Commenced 5th 3-year Middle-range Planning
Established BEAUCOS CORPORATION (consolidated subsidiary), that imports and processes cosmetics for group companies
Launched "Mandom World," the Group's website on the Internet
- 11 Established ZHONGSHAN CITY RIDA FINE CHEMICAL CO., LTD., a joint venture in China
- 1997** 1 Started a joint venture in Malaysia (now consolidated subsidiary MANDOM (MALAYSIA) SDN. BHD.)
4 Established KONAN SERVICE CORPORATION (now MANDOM BUSINESS SERVICE CORPORATION)
- 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 MANDOM 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 *System E/O*, a line of skin treatment for women with sensitive skin through mail-order sales
3 Achieved ¥10 billion sales of *Gatsby* products, a first in the Japanese cosmetics industry for men's products
4 Commenced 6th 3-year Middle-range Planning
8 Started a joint venture in Korea (now consolidated subsidiary MANDOM KOREA CORPORATION)
- 2000** 5 Mr. Ikuo Nishimura, Director and Corporate Advisor of MANDOM CORPORATION, passed away on May 23
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** 3 Commenced operations at PT MANDOM INDONESIA Tbk's Cibitung Factory
Launched *Gatsby Hair Color* series, developing a market for men's hair color products
8 Repurchased 2.33 million shares of MANDOM common stock on the open market
A full revamp of the *Lúcido L* range
- 10 Began manufacture of hair color products at facilities in three countries—Japan (Fukusaki, Hyogo Prefecture), Indonesia (Sunter, Jakarta; Cibitung, Bekasi) and China (Zhongshan City, Guangdong)
- 2002** 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
4 Commenced 7th 3-year Middle-range Planning
5 Started marketing *Gatsby* and *Lúcido L* simultaneously overseas
- 2003** 1 Honorary Advisor Hikoji Nishimura passed away on January 25
2 Launched *Lúcido L Prism Magic Hair Color* series, entering the market for women's hair color products
3 Designated for listing on the First Section of the Tokyo Stock Exchange
Capital increase effected through public offering of 1.65 million shares
9 Launched men's hair color for gray hair in the *Lúcido* brand.
10 Achieved "zero emission" status at the Fukusaki Factory
PT MANDOM INDONESIA Tbk won the Economic Value Added (EVA) Award in Indonesia
11 MANDOM partially reformed its retirement benefit plans, introducing the defined-contribution pension plan.
- 2004** 1 MANDOM Shanghai Representative Office opened.
2 Recalled *Gatsby Ex Hi-Bleach*, a MANDOM product, due to a burn injury accident (a first recall in the Company's history)
3 Acquired Occupational Health and Safety Management System (OHSAS 18001) certification at the Fukusaki Factory, Logistics Center, and Production Engineering Division
10 Outsourced logistics operations to NIPPON EXPRESS CO., LTD.
12 PT MANDOM INDONESIA Tbk won the Economic Value Added (EVA) Award for the second consecutive year
- 2005** 2 Acquired M-ZA CORPORATION, a wholly owned subsidiary
3 Transferred all the stocks of MIC CORPORATION, a wholly owned subsidiary, to BHL SA.



Outline of the Company (As of March 31, 2005)

Company Name

MANDOM CORPORATION

Head Office

5-12, Juniken-cho, Chuo-ku,
Osaka 540-8530, Japan

Established

December 23, 1927

Number of Employees

2,074 (Consolidated)
494 (Non-consolidated)

Paid-in Capital

¥11,394,817,459

Principal Bankers

Mizuho Bank, Ltd.
Minami Semba Branch
Sumitomo Mitsui Banking Corporation,
Uemachi Branch
Resona Bank, Limited, Semba Branch
UFJ Bank Limited, Uemachi Branch
Bank of Tokyo-Mitsubishi, Ltd.
Semba Branch

URL:

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

Key Domestic Business Locations

Head Office

5-12, Juniken-cho, Chuo-ku,
Osaka 540-8530, Japan

Tokyo Building

2-6-3, Shibazono, Narashino-shi,
Chiba-ken 275-0023, Japan

Mandom Group's Tokyo Nihonbashi Building

2-16-6, Nihonbashi, Chuo-ku,
Tokyo 103-0027, Japan

Fukusaki Factory

290-28, Takahashi, Fukusaki-machi,
Kanzaki-gun,
Hyogo-ken 679-2216, Japan

Logistics Center

1714-14, Saiji (NIPPON EXPRESS CO.,
LTD.), Fukusaki-machi, Kanzaki-gun,
Hyogo-ken 679-2216, Japan

Sales Bases

Sapporo, Sendai, North Kanto, Tokyo,
South Kanto, Nagoya, Osaka,
Hiroshima, Fukuoka

Board of Directors & Executive Officers

(As of June 24, 2005)

**Representative Director
President Executive Officer**
Motonobu Nishimura

**Representative Director
Vice President Executive Officer**
Hiroshi Kamei

**Director
Senior Managing Executive Officer**
Yoshikatsu Nishiumi

**Director
Managing Executive Officer**
Kenji Yamada

**Director
Managing Executive Officer**
Koji Nozaki

**Director
Managing Executive Officer**
Masayoshi Momota

**Director
Managing Executive Officer**
Yoshiaki Saito

Director
Mitsuo Goto *1

Corporate Auditor
Toshihito Higuchi

Corporate Auditor
Kazuo Tomita

Corporate Auditor
Kazuya Kotera *2

Corporate Auditor
Susumu Takagi *2

*1 External Director

*2 External Auditor



Head Office Building

Stock Information (As of March 31, 2005)

Shares of Common Stock

Issued and Outstanding

24,134,606 shares

Number of Shareholders

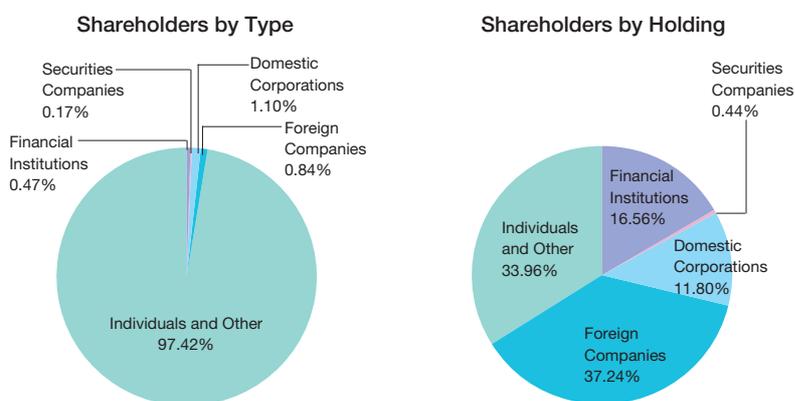
11,854

Major Shareholders

Shareholder	No. of Shares (Thousands)	Holding (%)
Nishimura International Scholarship Foundation	1,800	7.46
The Bank of New York Treaty JASDAQ Account	1,682	6.97
Japan Trustee Services Bank, Ltd. (trust account)	1,023	4.24
Motonobu Nishimura	1,005	4.16
The Master Trust Bank of Japan, Ltd. (trust account)	967	4.01
Teruhisa Nishimura	811	3.36
State Street Bank and Trust Company	682	2.83
Mandom Employee Shareholding Association	635	2.63
Mellon Bank ABN AMRO Global Custody NV	589	2.44
BNP Paribas Securities Service London/JASDEC/UK Residents/Agency Lending	582	2.41

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Common Stock Holdings



Stock Price and Transaction Volume

Years ended March 31





mandom corp.

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



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