



K O S É

May 14, 2004

**Summary of Financial Results for the Fiscal Year Ended March 31, 2004  
(Consolidated)**

Company name: **KOSÉ Corporation**  
 Stock code: 4922  
 Stock Exchange listing: Tokyo Stock Exchange, First Section  
 Company Domicile: 3-6-2, Nihonbashi, Chuo-ku, Tokyo 103-8251, Japan  
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Date of board meeting for approving financial results: May 14, 2004

Parent company (Stock code): Not applicable

Parent company shareholding: Not applicable

Accounting principle: Japanese GAAP

**1. Financial Results for the Fiscal Year Ended March 2003 (April 1, 2003- March 31, 2004)**

**(1) Financial results**

*Rounded down to million yen*

	Net sales		Operating income		Ordinary income	
	Million yen	YoY change %	Million yen	YoY change %	Million yen	YoY change %
Fiscal year ended March 2004	160,641	4.1	17,923	17.3	17,736	18.3
Fiscal year ended March 2003	154,329	5.1	15,278	21.6	14,995	21.2

	Net income		Net income per share, (basic)	Net income per share, (diluted)
	Million yen	YoY change %	Yen	Yen
Fiscal year ended March 2004	8,941	29.5	194.68	-
Fiscal year ended March 2003	6,906	6.5	149.97	-

	Return on equity	Ratio of ordinary income to total assets	Ratio of ordinary income to net sales
	%	%	%
Fiscal year ended March 2004	11.6	11.4	11.0
Fiscal year ended March 2003	9.9	10.1	9.7

Notes:

1. Equity in earnings of unconsolidated subsidiaries

Fiscal year ended March 2004: -

Fiscal year ended March 2003: -

2. Average number of shares outstanding (consolidated)

Fiscal year ended March 2004: 45,511,298 shares

Fiscal year ended March 2003: 45,517,346 shares

3. Changes in accounting principles applied: None

4. The percentages shown for net sales, operating income, ordinary income, and net income represent changes from the same period in the previous fiscal year.

**(2) Financial position**

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	Million yen	Million yen	%	Yen
As of March 31, 2004	158,092	80,736	51.1	1,772.23
As of March 31, 2003	153,621	72,862	47.4	1,599.17

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

As of March 31, 2004: 45,510,560 shares

As of March 31, 2003: 45,512,583 shares

**(3) Cash flow position**

	Net cash provided by (used in)			Cash and cash equivalents at end of year
	Operating activities	Investing activities	Financing activities	
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended March 2004	9,392	(4,211)	(4,044)	24,030
Fiscal year ended March 2003	11,173	(3,505)	(2,730)	23,044

**(4) The scope of consolidation and the application of the equity method**

Consolidated subsidiaries: 29

Unconsolidated subsidiaries accounted for under the equity method: -

Affiliates accounted for under the equity method: -

**(5) Changes in the scope of consolidation and affiliates accounted for under the equity method**

Consolidated subsidiaries:

Newly added: 1

Excluded: 3

Affiliates accounted for under the equity method:

Newly added: -

Excluded: -

**2. Forecast for the Fiscal Year Ending March 2005 (April 1, 2004- March 31, 2005)**

	Net sales	Ordinary income	Net income
	Million yen	Million yen	Million yen
Interim	82,700	7,500	3,800
Full Year	169,400	18,900	9,800

Reference: Estimated net income per common share for the fiscal year ending March 2005: ¥195.76

Note: The estimated net income per share is calculated based on an estimated number of shares outstanding after taking the stock split scheduled on May 20, 2004 into account.

The above forecasts are based on assumptions and other relevant factors discussed in the section on Supplementary Information. (Pages: 11).

## 1. The KOSÉ Group

The KOSÉ Group includes KOSÉ Corporation and 32 subsidiaries. The principal activities and the relationship of group companies is as follows:

### (1) Manufacturing

Company name		Principal activities
<b>Domestic</b>		
Parent company	KOSÉ Corporation	Manufacture of cosmetics
Consolidated subsidiary	COSME LABO. CO., LTD.	Manufacture of cosmetics
Consolidated subsidiary	ADVANCE CO., LTD.	Manufacture of cosmetics
Consolidated subsidiary	INTERCOSME INC.	Manufacture of plastic and cardboard containers
Consolidated subsidiary	ALBION CO., LTD.	Manufacture of cosmetics
N-cons. Subsidiary accounted for by the equity method	COSMETICS CREATION CO., LTD.	Manufacture of cosmetics
N-cons. Subsidiary accounted for by the equity method	IGNIS CO., LTD.	Manufacture of cosmetics
Consolidated subsidiary	TECHNOLABO CO., LTD.	Manufacture and processing of cosmetics
<b>Overseas</b>		
Consolidated subsidiary	KOSÉ COSMETICS CO., LTD. (CHINA)	Manufacture of cosmetics
Consolidated subsidiary	TAIWAN KOSÉ CO., LTD.	Manufacture, import and marketing of cosmetics

### (2) Marketing and service

Company name		Principal activities
<b>Domestic</b>		
Consolidated subsidiary	KOSÉ SALES CO., LTD.	Wholesale and consigned sale of cosmetics
Consolidated subsidiary	KOSÉ COSMENIENCE CO., LTD.	Wholesaling of cosmetics
Consolidated subsidiary	KOSÉ COSMEPORT CORP	Wholesaling of cosmetics
Consolidated subsidiary	CARTE LABORATORIES INC.	Marketing of cosmetics on consignment
Consolidated subsidiary	COSMEDIC CO., LTD.	Wholesaling of cosmetics
Consolidated subsidiary	CRIE CO., LTD.	Wholesaling of cosmetics
Consolidated subsidiary	Dr. PHIL COSMETICS INC.	Wholesaling of cosmetics
Consolidated subsidiary	KOSÉ COSMEPIA CO., LTD.	Wholesaling of cosmetics
Consolidated subsidiary	BEAUTY WORLD CO., LTD.	Wholesaling of beauty materials
Consolidated subsidiary	BEAUTY SOFT KAIHATU CO., LTD.	Wholesaling of beauty materials
Consolidated subsidiary	KOSÉ INSURANCE SERVICE CO., LTD.	Casualty insurance agency
N-cons. Subsidiary accounted for by the equity method	ALBION H.S. DISTRIBUTION CO., LTD.	Door-to-door sales of cosmetics
Consolidated subsidiary	A.L. DEVELOPMENT CO., LTD.	Real estate brokerage
<b>Overseas</b>		
Consolidated subsidiary	KOSÉ (HONG KONG) CO., LTD.	Import and marketing of cosmetics
Consolidated subsidiary	KOSÉ INTERNATIONAL TRADING (SHANGHAI) CO., LTD.	Import, export and marketing of cosmetics
Consolidated subsidiary	KOSÉ SINGAPORE PTE. LTD.	Import and marketing of cosmetics
Consolidated subsidiary	KOSÉ AMERICA INC.	Import and marketing of cosmetics
Consolidated subsidiary	KOSÉ KOREA CO., LTD.	Import and marketing of cosmetics
Consolidated subsidiary	KOSÉ (THAILAND) CO., LTD.	Import and marketing of cosmetics
Consolidated subsidiary	KOSÉ (MALAYSIA) SDN. BHD.	Import and marketing of cosmetics
Consolidated subsidiary	ALBION COSMETICS (AMERICA) INC.	Import and marketing of cosmetics
Consolidated subsidiary	ALBION COSMETICS (UK) LTD.	Import and marketing of cosmetics
Consolidated subsidiary	SCI KOSÉ CORTAMBERT	Real estate leasing

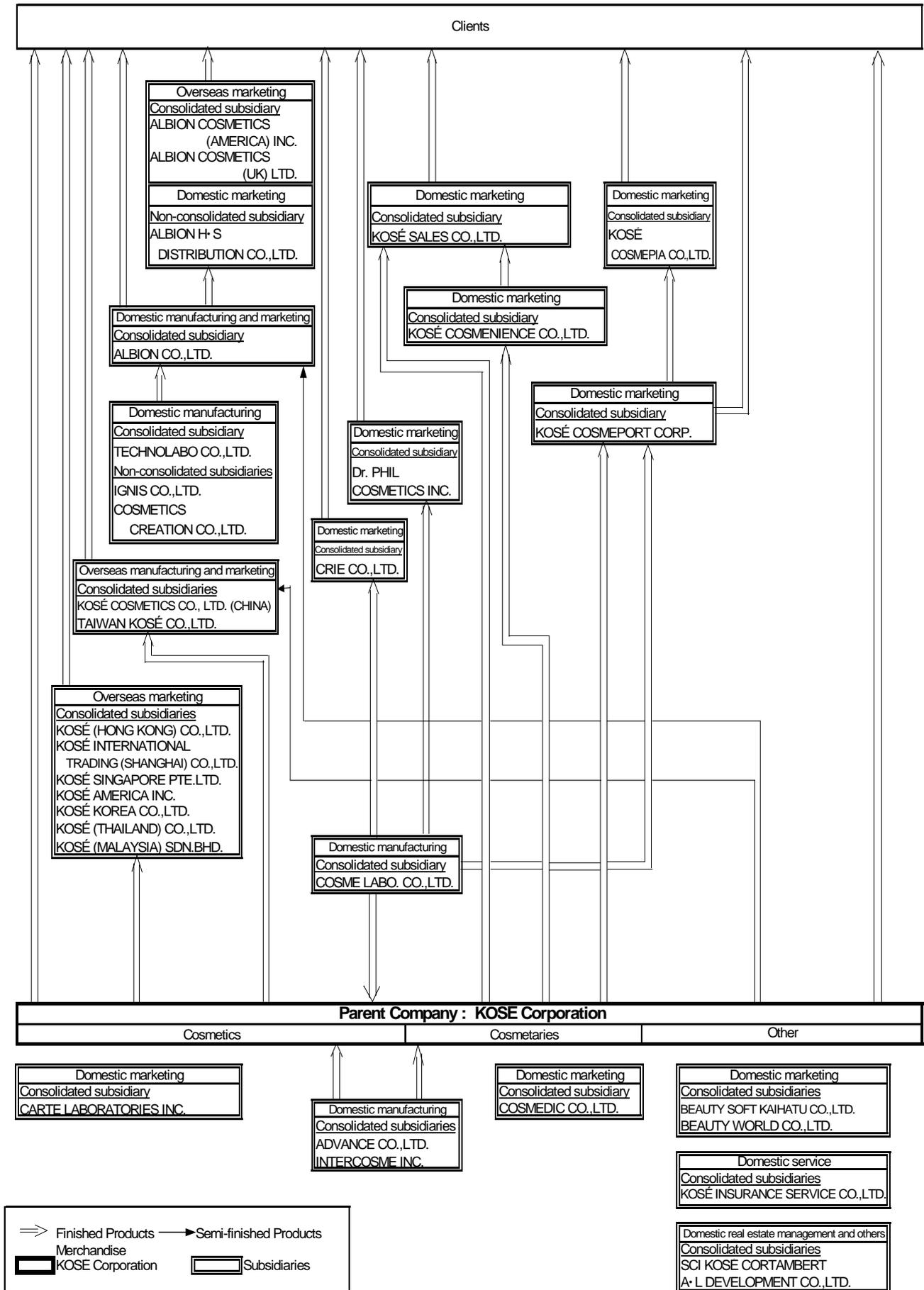
Notes: 1. CHUNSELY CO., LTD. was renamed KOSÉ COSMETICS CO., LTD. (CHINA) on September 1, 2003.

2. PHIL INTERNATIONAL INC. was renamed Dr. PHIL COSMETICS INC. on April 1, 2004.

3. INTERCOSME INC. and TOPAC CO., LTD. merged on October 1, 2003.

4. S&I TOURIST CO., LTD. and KOWASHA CO., LTD. were liquidated.

### (3) Business relationship in group



## **2. Management Policies**

### **1. Fundamental Management Policy**

The nucleus of the KOSÉ Group's management policy is "consistently managing to heighten corporate value" by pursuing growth and greater efficiency. The top priority is the provision of products and services of the highest quality to earn the true satisfaction of customers. The Group conducts a distinctive brand marketing program in which brands that match the needs of consumers are supplied through the most suitable retail channels. These activities are backed by three key components: industry-leading expertise in R&D in such fields of cosmetics as foundation products and beauty care essences; superior manufacturing expertise that draws on highly sophisticated equipment and technology; and the collective strengths of all group companies.

For the purpose of managing the Group to consistently increase corporate value, these strengths are used effectively in order to heighten the value of KOSÉ brands and, through gains in operating efficiency, make the Group even more profitable. At the same time, the Group will fulfill its social responsibilities by further increasing its commitment to strict compliance with laws and regulations and to environmental protection.

### **2. Profit Allocation Policy**

Preserving a stable dividend is the fundamental policy for returning earnings to shareholders. But the Company retains an aggressive posture regarding other measures to return earnings, such as dividend increases, while taking into account the need to retain earnings to fund future growth as well as current financial soundness, operating results and the dividend payout ratio. In consideration of operating results in the past fiscal year, the Company plans to increase the year-end dividend per share by ¥2 to ¥17. As an interim dividend of ¥15 was paid on December 10, 2003, this will make the total dividend per share for the fiscal year ¥32. On March 1, 2004, the Company announced a 1-to-1.1 stock split for shares held by shareholders and beneficial shareholders of record on March 31, 2004. The new shares will be issued on May 20, 2004.

### **3. Goals and Performance Indicators**

The Company is placing priority on improving the operating margin and return on assets (ROA). In terms of concrete targets, KOSÉ aims to raise operating income to 12.0% of net sales and raise the ROA to 12.7% by the fiscal year ending in March 2007.

Note:  $ROA = \frac{\text{Operating income} + \text{Interest and dividends received}}{\text{Total assets (average of assets at beginning and end of year)}} \times 100$

### **4. Medium- and Long-Term Strategies and Important Issues**

Although Japan's economy is rebounding and there are encouraging trends in consumer spending, KOSÉ foresees dramatic changes in the operating environment for the cosmetics industry along with increasingly fierce competition. In this environment, the Group plans to expand all of its business sectors by raising its market share in Japan while growing faster in China and other overseas markets. Another important issue is building a powerful operating framework that can compete successfully as new competitive challenges emerge.

The Group in April 2004 launched a three-year medium-term management plan that carries on three central elements: strengthening brand marketing; achieving aggressive growth in overseas markets; and improving efficiency and profitability. In addition, this new plan has the additional theme of training and fostering talented employees. The entire Group will focus its energy on these four issues.

The first core element of this management plan is reinforcing KOSÉ's distinctive brand marketing activities, which represent the Group's greatest strengths. KOSÉ plans to achieve the optimal brand allocation to support an increasingly diverse range of distribution channels. Additionally, core brands will be developed into brands that are recognized worldwide as sources of significant value.

Moreover, the Group will place priority on establishing a presence in new distribution channels and starting new cosmetics businesses in order to expand into other business domains that involve cosmetics.

The second core element is the aggressive development of overseas markets, especially growing markets in Asia, to increase sales as well as the number of offices outside Japan. The goal is to increase overseas sales to at least 9% of total sales by the fiscal year ending in March 2007. As in Japan, the Company will concentrate on brand marketing.

An International R&D Strategy Dept. has been established to reinforce the R&D structure for China, KOSÉ's strategic market, as well as to oversee the substantial investments that will make to expand overseas business operations.

The third core element is the forceful implementation of structural reforms. The goals here are more gains in productivity and profitability. The Company is assembling a supply chain management system and building a new accounting system. To put these two systems in place, all areas of the Company are working on streamlining their operations and adopting the best possible work practices.

Along with these initiatives, the Group will be concentrating on making progress with regard to an additional theme, improving the cost structure.

The fourth core element is the development of manpower to carry KOSÉ forward in the years ahead. The composition of our staff has undergone noticeable changes in recent years. Furthermore, aggressive expansion into foreign markets is making this task even more urgent. To effectively meet these challenges, KOSÉ is introducing new employee training programs, expanding its training facilities and reviewing its recruiting policies.

Due to the above factors, KOSÉ is targeting net sales of ¥184,000 million, operating income of ¥22,100 million, ordinary income of ¥22,100 million and net income of ¥10,700 million in the fiscal year ending in March 2007.

## **5. Corporate Governance Policies and Actions**

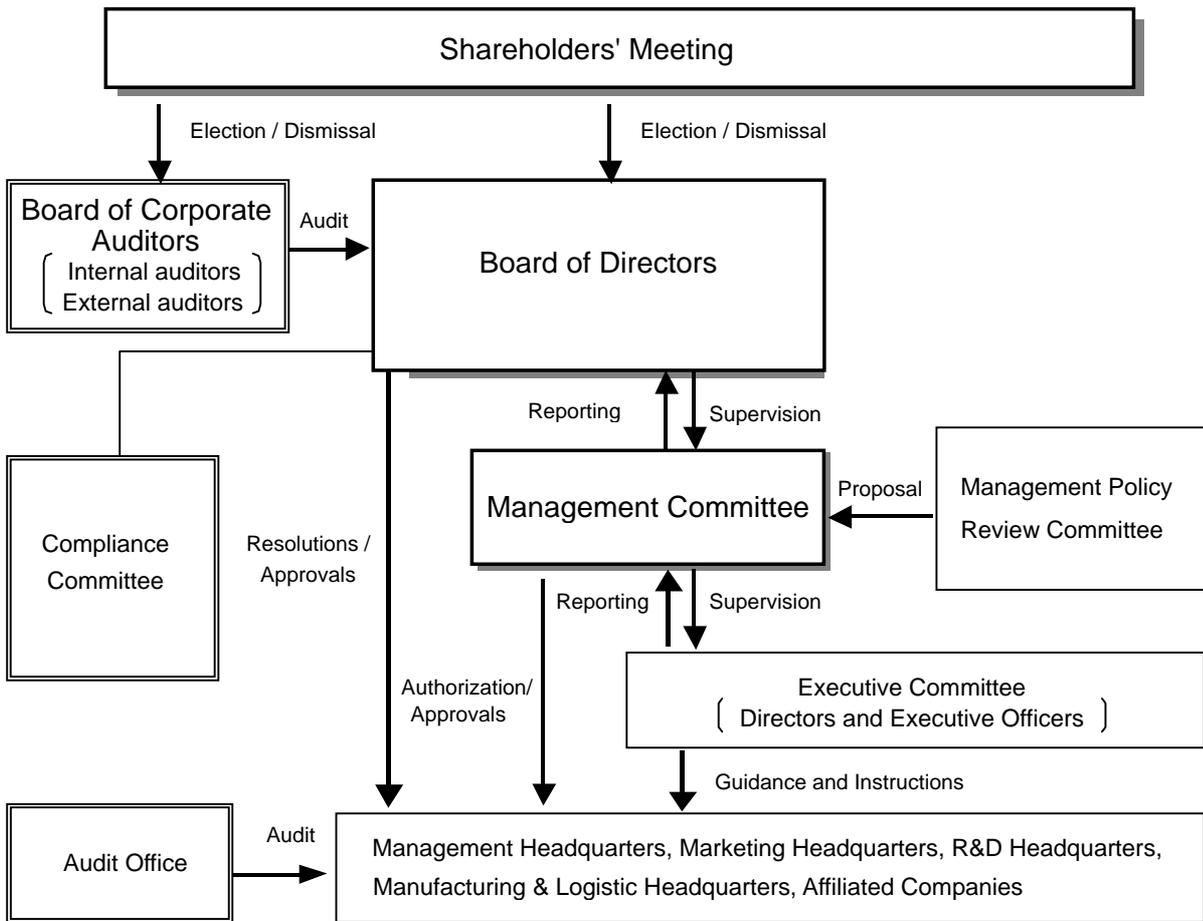
Corporate governance is positioned as one of the highest management priorities from the standpoint of conducting management so as to consistently increase the enterprise value of the KOSÉ Group, the core management policy of the Group. The Group is thus working on establishing the necessary management systems and frameworks as well as on building a framework able to consistently earn the trust of the public. Through the recent establishment of a Compliance Committee, the Group is stepping up risk management, including more effective internal checks and more rigorous compliance programs. The Group is determined to fulfill its social responsibilities by preserving a sound framework for conducting business activities.

KOSÉ has a small Board of Directors to facilitate rapid decision-making. To further strengthen the corporate governance system, directors are given responsibility for specific aspects of operations and the number of executive officers has been increased, thus providing a more effective system for executing business activities.

As of March 31, 2004, there were 10 directors and 10 executive officers. The Company will continue to take steps aimed at raising the effectiveness of the Board of Directors and the efficiency of business execution.

In addition, the Group has adopted the corporate auditor system. Currently, there is one standing corporate auditor and three outside corporate auditors, two of whom are outside auditors having no relationship with the Group involving financial interests.

Shown below is a diagram of the Company's corporate governance system.



### 3. Results of Operations and Financial Condition

#### I. Results of Operations

##### 1. Review of Operations

##### (1) Financial Results

Millions of yen, %

Operating segment	Fiscal year ended March 2003		Fiscal year ended March 2004		Change	
	Amount	% comp.	Amount	% comp.	Amount	% YoY
Cosmetics	116,382	75.4	120,609	75.1	4,227	3.6
Cosmetaries	33,809	21.9	35,975	22.4	2,165	6.4
Other	4,137	2.7	4,056	2.5	(80)	(2.0)
Total net sales	154,329	100.0	160,641	100.0	6,312	4.1

Item	Fiscal year ended March 2003		Fiscal year ended March 2004		Change	
	Amount	% comp.	Amount	% comp.	Amount	% YoY
Operating income	15,278	9.9	17,923	11.2	2,645	17.3
Ordinary income	14,995	9.7	17,736	11.0	2,741	18.3
Net income	6,906	4.5	8,941	5.6	2,035	29.5

In the fiscal year ended March 2004, Japan's economy began to improve against a backdrop of a recovery in corporate earnings and rising stock prices. However, causes for concern remain, notably the sudden appreciation of the yen. Consequently, it appears that the economy is not yet prepared to stage a self-sustaining recovery.

Demand in the cosmetics industry has been relatively strong. According to 2003 statistics of the Japanese Ministry of Economy, Trade and Industry, there was a small increase in total sales, but growth continued in terms of volume.

In this environment, all business sectors of the Company performed well, backed by the use of a separate sales system for each distribution channel and measures to strengthen ties with cosmetics stores as well as drug store chains and other retailing chains. Contributing most to the sales increase were high value-added brands and "self-selection" cosmetics for consumers' on selection which are distributed through wholesalers. Overseas, sales increased only slightly. While KOSÉ was able to meet its goal for sales on a local-currency basis as the effects of SARS dissipated, yen-denominated sales growth was held back by the yen's strength.

Due to these factors, net sales increased 4.1% to ¥160,641 million, an all-time high. Excluding the effect of the yen's appreciation, there was a 4.6% increase in sales outside Japan.

Regarding earnings, growth in sales of luxury cosmetics was largely responsible for a 17.3% increase in operating income to ¥17,923 million, an 18.3% increase in ordinary income to ¥17,736 million and a 29.5% increase in net income to ¥8,941 million. All represent record earnings for the Group.

## (2) Results by Business Segment

### 1. Cosmetics Business

Millions of yen, %

Item	Fiscal year ended March 2003	Fiscal year ended March 2004	Change	
			Amount	% YoY
Sales to third parties	116,382	120,609	4,227	3.6
Intragroup sales and transfers	47	30	-	-
Total net sales	116,429	120,640	-	-
Operating income	14,849	17,023	2,174	14.6
Operating margin	12.8	14.1	-	-

In the cosmetics business, sales of COSME DECORTE brands were flat in the first half of the fiscal year, but sales rebounded in the second half due to the success of new skin care products. Among products bearing the KOSÉ brand, there were a number of new hit products with distinctive features. Two examples are Medicated SEIKISHO WHITENING MASK and MOISTURE SKIN REPAIR. In addition sales generated by brands created specific retail categories, such as cosmetics stores and GMS and drug stores, exceeded the plan for the year.

Sales of luxury cosmetics handled by ALBION CO., LTD. also surpassed the initial plan for the year. Growth was driven mainly by the popularity of skin care products.

In Asia and other overseas markets, results were impacted in the first half by the SARS outbreak, but subsequently recovered because of large-scale sales promotion activities that mainly targeted department stores.

Due to the above factors, net sales in the cosmetics business increased 3.6% to ¥120,609 million. Excluding the effect of the yen's appreciation, overseas sales in this segment rose 4.4%. Operating income was up 14.6% to ¥17,023 million.

Major new products introduced during the fiscal year were as follows:

COSME DECORTE VITAL-SCIENCE (skin-care series)

PRÉDIA MAQUIRÊVE (makeup series)

INFINITY (makeup series)

Medicated SEIKISHO WHITENING MASK

MOISTURE SKIN REPAIR

## 2. Cosmetaries Business

Millions of yen, %

Item	Fiscal year ended March 2003	Fiscal year ended March 2004	Change	
			Amount	% YoY
Sales to third parties	33,809	35,975	2,165	6.4
Intragroup sales and transfers	0	0	-	-
Total sales	33,810	35,975	-	-
Operating income	2,627	2,492	(134)	(5.1)
Operating margin	7.8	6.9	-	-

In the cosmetaries business, KOSÉ introduced a number of new brands, including RELIVE and HAPPY BATH DAY while continuously conducting advertising and sales promotion activities to bolster existing brands. Big contributions to sales were made by the SALON STYLE series of hair care products and the SOFTYMO series of cleansing and face washing products as new products that met market needs were introduced. Sales of products in the STEPHEN KNOLL Collection exceeded the plan for the year mainly because of new products and effective sales promotions.

As a result, net sales in this segment increased 6.4% to ¥35,975 million. However, operating income decreased 5.1% to ¥2,492 million because of growth in the cost of sales.

Major new products introduced during the fiscal year were as follows:

- Hair-care brand "STEPHEN KNOLL Collection"
- SALON STYLE (hair care series)
- HAPPY BATH DAY (hair care and body care series)
- RELIVE (skin-care & makeup series)

## 3. Other Business

Millions of yen, %

Item	Fiscal year ended March 2003	Fiscal year ended March 2004	Change	
			Amount	% YoY
Sales to third parties	4,137	4,056	(80)	(2.0)
Intragroup sales and transfers	2,026	2,248	-	-
Total sales	6,163	6,304	-	-
Operating income	523	828	304	58.3
Operating margin	8.5	13.1	-	-

In this segment, there was a decline in OEM orders for our products. Sales increased slightly in the amenities category. The result was a decrease of 2.0% in net sales to ¥4,056 million, but operating income was up 58.3% to ¥828 million.

## 2. Outlook for Next Fiscal Year

In the fiscal year ending in March 2005, a continuation in the recoveries of the Japanese economy and consumer spending is expected. However, dramatic changes taking place in the operating environment of the cosmetics industry will probably fuel even more intense competition for market share within Japan and in overseas markets.

In this environment, the KOSÉ Group will continue to conduct proprietary brand marketing, serving an increasingly diverse spectrum of markets and customers. The Group will also work on adding new distribution channels and taking other steps to enlarge its business domains. Preparations are under way to launch brands and products created exclusively for sales through convenience stores, which represent a new market for KOSÉ, in an effort to increase sales. Overseas, substantial investments will be made in China and other strategic markets to quickly raise sales and earnings.

With regard to structural reforms, rapid progress is continuing on the adoption of a supply chain management system and a new accounting system. The Group is also working aggressively on reforming its cost structure.

In the fiscal year ending March 2005, the Company is forecasting increases of 5.5% in net sales to ¥ 169,400 million, 5.4% in operating income to ¥18,900 million, 6.6% in ordinary income to ¥18,900 million, and 9.6% in net income to ¥9,800 million.

Millions of yen, %

Operating segment	Fiscal year ended March 2004		Fiscal year ending March 2005		Change	
	Amount	% comp.	Amount	% comp.	Amount	% YoY
Cosmetics	120,609	75.1	125,600	74.1	4,990	4.1
Cosmetaries	35,975	22.4	40,000	23.6	4,024	11.2
Other	4,056	2.5	3,800	2.2	(256)	(6.3)
Total net sales	160,641	100.0	169,400	100.0	8,758	5.5

Item	Fiscal year ended March 2004		Fiscal year ending March 2005		Change	
	Amount	% comp.	Amount	% comp.	Amount	% YoY
Operating income	17,923	11.2	18,900	11.2	976	5.4
Ordinary income	17,736	11.0	18,900	11.2	1,163	6.6
Net income	8,941	5.6	9,800	5.8	858	9.6

Forecasts are based on foreign exchange rates of ¥107 to the U.S. dollar, ¥3.2 to the Taiwan dollar and ¥12.9 to the Chinese yuan.

## II. Financial Position

### Cash Flows

Millions of yen

	Fiscal year ended March 2003	Fiscal year ended March 2004	Change
Net cash provided by operating activities	11,173	9,392	(1,781)
Net cash used in investing activities	(3,505)	(4,211)	(706)
Net cash used in financing activities	(2,730)	(4,044)	(1,313)
Increase in cash and cash equivalents	4,824	986	(3,837)
Cash and cash equivalents at end of fiscal year	23,044	24,030	986

Net cash provided by operating activities was ¥9,392 million, ¥1,781 million less than in the previous fiscal year. Net income before income taxes and minority interests rose ¥3,588 million to ¥18,082 million. Other major components of cash flows were depreciation and amortization of ¥3,738 million, a non-cash expense, a ¥1,804 million decrease in accrued employees' retirement benefits, adjustments for gain on sales of investment in securities of ¥2,147 million and ¥1,381 million from the transfer of intellectual property rights, and income taxes paid of ¥10,246 million.

Net cash used in investing activities was ¥4,211 million. There were payments of ¥4,941 million for purchases of property, plants and equipment, mainly to expand manufacturing facilities and construct a building in Fukuoka, ¥1,325 million for the acquisition of subsidiaries' stock, and ¥2,150 million for the acquisition of intangible assets. There were proceeds of ¥1,477 million from the transfer of intellectual property rights and ¥2,225 million from the sale of shares in Nihon L' Oréal K.K.

Net cash used in financing activities was ¥4,044 million, mainly the result of a net reduction in debt of ¥2,293 million and cash dividend payments of ¥1,742 million.

As a result, cash and cash equivalents were ¥24,030 million, an increase of ¥986 million, or 4.3%, compared with one year earlier.

The following table illustrates the historical movements of certain cash flow indices:

Fiscal year ended March	2000	2001	2002	2003	2004
Shareholders' equity ratio (%) <sup>1</sup>	50.6	44.0	46.6	47.4	51.1
Shareholders equity ratio based on market prices (%) <sup>2</sup>	50.8	106.9	97.0	109.0	109.7
Debt to annual cash flow ratio (year) <sup>3</sup>	1.9	1.4	1.4	0.7	0.6
Interest coverage ratio <sup>4</sup>	36.2	45.8	49.3	73.4	119.2

<sup>1</sup> Shareholders' equity ratio: Shareholders' equity / Total assets

<sup>2</sup> Shareholders equity ratio based on market prices: Market capitalization / Total assets

<sup>3</sup> Debt to annual cash flow: Interest-bearing liabilities / Operating cash flow

<sup>4</sup> Interest coverage ratio:

Operating cash flow (before Interests and Income taxes paid) / Interest payments

Notes:

(1) These indices are calculated on a consolidated basis.

(2) Market capitalization: Closing price of stock on the balance sheet date x Number of shares outstanding at the end of the year on the balance sheet date.

(3) Net cash provided by operating activities on the consolidated statement of cash flows is used as operating cash flow. Interest-bearing liabilities include all liabilities on the consolidated balance sheets that incur interest. Interest paid on the consolidated statement of cash flows is interest expenses.

These materials contain forward-looking statements and statements of this nature based on information current as of May 14, 2004. As such, these projections entail risks and uncertainties resulting from changes in the economic environment. Readers should be aware that actual results and events might differ substantially from these projections.

**Note:** *This is a translation of Japanese kessan Tanshin (including attachments), a summary of financial statements prepared in accordance with accounting principles generally accepted in Japan. This translation is prepared and provided for the purpose of the reader's convenience. All readers are recommended to refer to the original version in Japanese of the report for complete information.*

#### 4. Consolidated Financial Statements

##### (1) Consolidated Balance Sheets

Unit: Millions of yen

Account title	FY 2002 As of March 31, 2003		FY 2003 As of March 31, 2004		Change
	Amount	%	Amount	%	Amount
<b>Assets</b>					
<b>I. Current assets</b>					
Cash and time deposits	15,654		15,390		(263)
Notes and accounts receivable	21,719		23,373		1,653
Short-term investments in securities	18,921		19,524		602
Inventories	16,284		17,845		1,560
Deferred tax assets-current	4,322		4,443		120
Other current assets	4,833		4,052		(781)
Allowance for doubtful accounts	(362)		(385)		(22)
Total current assets	81,373	53.0	84,243	53.3	2,870
<b>II. Fixed Assets</b>					
Property, plant and equipment					
Buildings and structures	11,805		11,346		(458)
Machinery and automotive equip.	3,343		3,156		(186)
Furniture and fixtures	5,798		6,102		304
Land	18,677		17,341		(1,336)
Construction in progress	423		1,028		605
Total property, plant and equipment	40,048	26.1	38,975	24.7	(1,072)
Intangible assets					
Software	966		938		(27)
Software under development	714		2,490		1,775
Other intangible assets	352		272		(80)
Total intangible assets	2,033	1.3	3,701	2.3	1,667
Investments and others					
Investments in securities	11,882		13,323		1,440
Long-term loans receivable	28		35		7
Deferred tax assets-non-current	15,933		15,656		(277)
Others	2,750		2,490		(260)
Allowance for doubtful accounts	(429)		(333)		95
Total investments and others	30,165	19.6	31,171	19.7	1,005
Total fixed assets	72,248	47.0	73,848	46.7	1,600
<b>Total Assets</b>	<b>153,621</b>	<b>100.0</b>	<b>158,092</b>	<b>100.0</b>	<b>4,470</b>

Unit: Millions of yen

Account title	Period	FY 2002 As of March 31, 2003		FY 2003 As of March 31, 2004		Change
		Amount	%	Amount	%	Amount
<b>Liabilities</b>						
<b>I. Current liabilities</b>						
Notes and accounts payable		11,944		12,868		924
Short-term borrowings		4,238		3,539		(698)
Current maturities of bonds with collateral		1,000		-		(1,000)
Current portion of long-term debt		595		1,000		405
Accounts payable-other		6,440		7,458		1,017
Accrued expenses		6,912		7,059		147
Accrued income taxes		5,460		4,199		(1,261)
Accrued consumption taxes		1,023		951		(72)
Reserve for returned goods unsold		924		909		(14)
Other current liabilities		515		662		146
Total current liabilities		39,054	25.4	38,649	24.4	(405)
<b>II. Long-term liabilities</b>						
Long-term debt		2,500		1,500		(1,000)
Accrued employees' retirement benefits		33,641		31,836		(1,805)
Accrued officers' severance benefits		2,468		2,622		154
Other long-term liabilities		149		174		25
Total long-term liabilities		38,759	25.3	36,133	22.9	(2,625)
<b>Total Liabilities</b>		<b>77,814</b>	<b>50.7</b>	<b>74,782</b>	<b>47.3</b>	<b>(3,031)</b>
Minority Interests		2,944	1.9	2,572	1.6	(372)
<b>Shareholders' Equity</b>						
I. Common stock		4,848	3.1	4,848	3.1	-
II. Capital surplus		6,390	4.2	6,390	4.0	0
III. Consolidated retained earnings		60,503	39.4	67,907	43.0	7,404
IV. Net unrealized holdings gains (losses) on other securities		(136)	(0.1)	527	0.3	664
V. Foreign currency translation adjustments		1,297	0.8	1,109	0.7	(187)
VI. Treasury stock		(40)	(0.0)	(47)	(0.0)	(7)
<b>Total Shareholders' Equity</b>		<b>72,862</b>	<b>47.4</b>	<b>80,736</b>	<b>51.1</b>	<b>7,873</b>
<b>Total Liabilities, Minority Interests and Shareholders' Equity</b>		<b>153,621</b>	<b>100.0</b>	<b>158,092</b>	<b>100.0</b>	<b>4,470</b>

## (2) Consolidated Statements of Income

Unit: Millions of yen

Account title	Period		FY 2002		FY 2003		Change	
	Apr.1, 2002 - Mar.31, 2003		Apr.1, 2003 - Mar.31, 2004					
	Amount	%	Amount	%	Amount	%		
<b>Net sales</b>	154,329	100.0	160,641	100.0	6,312	104.1		
Cost of sales	36,766	23.8	38,216	23.8	1,450	103.9		
Gross profit	117,562	76.2	122,425	76.2	4,862	104.1		
SG&A expenses	102,284	66.3	104,501	65.0	2,217	102.2		
<b>Operating income</b>	15,278	9.9	17,923	11.2	2,645	117.3		
Non-operating income								
Interest income	201		178		(22)			
Dividend income	12		209		196			
Rent	53		24		(29)			
Miscellaneous revenue	208		124		(84)			
Total non-operating income	477	0.3	538	0.3	60	112.7		
Non-operating expenses								
Interest expense	255		167		(88)			
Bad debts written-off	19		-		(19)			
Plant removal expense	100		-		(100)			
Foreign exchange losses	180		458		278			
Miscellaneous loss	204		99		(105)			
Total non-operating income	760	0.5	725	0.5	(35)	95.3		
<b>Ordinary income</b>	14,995	9.7	17,736	11.0	2,741	118.3		
Extraordinary income								
Gain on transfer of intellectual property rights	1,381		1,381		0			
Gain on sales of property, plant and equipment	3		1		(1)			
Gain on sale of investments in securities	3,215		2,147		(1,067)			
Gain on change in equity interest in subsidiaries	134		-		(134)			
Gain realized on relinquishment of entrusted portion of governmental Welfare Pension Fund	-		361		361			
Gain on relinquishment of entrusted portion of governmental Welfare Pension Fund	7,024		-		(7,024)			
Other extraordinary income	13		8		(4)			
Total extraordinary income	11,773	7.6	3,901	2.5	(7,871)	33.1		
Extraordinary loss								
Amortization of prior period long-term prepaid expenses	711		-		(711)			
Loss on prior-period earnings adjustment	-		14		14			
Loss on disposal of property, plant and equipment	499		2,171		1,672			
Unrealized holding loss on investments in securities	411		2		(409)			
Provision of allowance for doubtful accounts	121		-		(121)			
Loss on disposal of inventories	390		246		(143)			
Unrealized holding loss on land	-		209		209			
Retirement incentive program	-		104		104			
Lump-sum amortization of consolidation goodwill	-		783		783			
Officers' retirement benefits	17		-		(17)			
Amortization of loss on transition to new pension system	10,093		-		(10,093)			
Other extraordinary loss	28		23		(5)			
Total extraordinary loss	12,273	7.9	3,555	2.2	(8,717)	29.0		
Net income before income taxes and minority interests	14,494	9.4	18,082	11.3	3,588	124.8		
Income taxes-current	9,073	5.9	8,994	5.6	(79)			
Income taxes-deferred	(1,679)	(1.1)	(289)	(0.2)	1,390			
Minority interests	194	0.1	436	0.3	241			
<b>Net income</b>	6,906	4.5	8,941	5.6	2,035	129.5		

**(3) Consolidated Statements of Retained Earnings***Unit: Millions of yen*

Account title	Period	FY 2002 Apr.1, 2002 - Mar.31, 2003		FY 2003 Apr.1, 2003 - Mar.31, 2004	
<b>Capital surplus</b>					
I. Balance at beginning of year			6,390		6,390
II. Increase in capital surplus					
Gain on disposal of treasury stock		-	-	0	0
III. Balance at end of year			6,390		6,390
<b>Retained earnings</b>					
I. Balance at beginning of year			54,801		60,503
II. Increase in retained earnings					
Net income		6,906	6,906	8,941	8,941
III. Decrease in retained earnings					
Cash dividends		1,117		1,456	
Bonuses to officers		87	1,204	80	1,536
IV. Balance at end of year			60,503		67,907

**(4) Consolidated Statements of Cash Flows**

Unit: Millions of yen

Account title	Period	FY 2002 Apr.1, 2002 - Mar.31, 2003	FY 2003 Apr.1, 2003 - Mar.31, 2004
<b>I. Cash flows from operating activities</b>			
Net income before income taxes and minority interests		14,494	18,082
Depreciation		3,547	3,738
Amortization of consolidation goodwill		39	783
Increase (decrease) in provision of allowance for doubtful accounts		(55)	(68)
Increase (decrease) in accrued employees' retirement benefits		3,511	(1,804)
Increase (decrease) in accrued officers' severance benefits for director		183	154
Increase (decrease) in reserve for other allowances		(30)	(14)
Loss (gain) on disposal of property, plant and equipment		495	2,170
Unrealized holding loss on land		-	209
Interest and dividend income		(214)	(388)
Interest expense		255	167
Foreign exchange loss (gain)		37	135
Loss (gain) on change in equity interest in subsidiaries		(134)	-
Loss (gain) on sale of investment in securities		(3,215)	(2,147)
Unrealized holding loss (gain) on investment in securities		411	2
Decrease (increase) in notes and accounts receivable		(257)	(1,802)
Decrease (increase) in inventories		1,439	(1,663)
Increase (decrease) in notes and accounts payable		(1,177)	1,250
Proceeds from transfer of intellectual property rights		(1,381)	(1,381)
Decrease (increase) in other assets		223	831
Increase (decrease) in other liabilities		790	1,246
Officers' remuneration paid		(88)	(85)
Subtotal		18,876	19,414
Interest and dividends received		217	390
Interest paid		(260)	(166)
Income taxes paid		(7,659)	(10,246)
Net cash provided by operating activities		11,173	9,392
<b>II. Cash flows from investing activities</b>			
Payment for time deposits placed		(1,149)	(1,637)
Proceeds from time deposit		228	1,639
Payment for acquisition of short-term investments in securities		(23,089)	(25,894)
Proceeds from sale of short-term investments in securities		26,996	27,691
Payment for loans receivable		-	(13)
Proceeds from collection of loans receivable		23	21
Payment for purchase of property, plant and equipment		(4,708)	(4,941)
Proceeds from sale of property, plant and equipment		123	38
Payment for acquisition of intangible assets		(931)	(2,150)
Payment for acquisition of investments in securities		(5,732)	(1,511)
Proceeds from sale of investments in securities		3,325	2,225
Payment for acquisition of subsidiaries' stock		-	(1,325)
Payment for acquisition of subsidiaries' stock resulting in change in the scope of consolidation		(21)	-
Proceeds from transfer of intellectual property rights		1,477	1,477
Decrease (increase) in other investments		(46)	168
Net cash used in investment activities		(3,505)	(4,211)
<b>III. Cash flows from financing activities</b>			
Increase (decrease) in short-term borrowings		(593)	(698)
Repayment of long-term debt		(1,623)	(595)
Redemption of corporate bonds		-	(1,000)
Net change from purchase and sale of treasury stock		(27)	(7)
Proceeds from issuance of stock to minority interests		694	-
Cash dividends paid		(1,117)	(1,456)
Dividends to minority shareholders		(63)	(286)
Net cash used in financing activities		(2,730)	(4,044)
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>			
		(113)	(149)
<b>V. Increase in cash and cash equivalents</b>			
		4,824	986
<b>VI. Cash and cash equivalents at beginning of year</b>			
		18,220	23,044
<b>VII. Cash and cash equivalents at end of year</b>			
		23,044	24,030