April 28, 2004

Nippon Shikizai, Inc.

Consolidated Financial Results for the Fiscal Year ended February 2004

Name of Company Listed:	Nippon Shikizai, Inc.
Stock Code Number:	4920
Stock Exchange listing:	JASDAQ
Company Domicile:	Tokyo
President:	Kouji Okumura
Contact:	Shinsaku Tsukamoto, Managing Director
Telephone:	+81-(0)3-3456-0561
URL:	http://www.shikizai.com
Board of meeting for approving:	April 28, 2004
Accounting principle:	Japanese GAAP

1. Financial Results (March 1, 2003 – February 29, 2004)

(1) Results of operations

(Amounts rounded down to million yen)

	Sales		Operating income		Ordinary income	
	Million yen	YoY change (%)	Million yen	YoY change (%)	Million yen	YoY change (%)
Fiscal year ended Feb. 2004	6,111	16.7	72	75.2	297	(39.7)
Fiscal year ended Feb. 2003	5,238	2.0	41	(12.0)	494	170.8

	Net income		Net income per share (basic)	Net income per share (diluted)
	Million yen	YoY change (%)	Yen	Yen
Fiscal year ended Feb. 2004	165	-	38.22	-
Fiscal year ended Feb. 2003	12	-	2.87	-

	Return on equity	Ordinary income to total assets	Ordinary income to sales
	%	%	%
Fiscal year ended Feb. 2004	6.4	3.6	4.9
Fiscal year ended Feb. 2003	0.5	6.3	9.4

(Notes) 1. Equity in earnings of consolidated subsidiaries
Fiscal year ended Feb. 2004: None
Fiscal year ended Feb. 2003: None

2. Average number of shares outstanding
Fiscal year ended Feb. 2004: 4,317,961 shares
Fiscal year ended Feb. 2003: 4,318,044 shares

3. Change in accounting principle during the year: None
4. “YoY change” represents relevant change in percentage compared to the same period of the previous year.

(2) Financial position

	Total assets	Shareholders' equity	Shareholders' equity to total assets ratio	Shreholders' equity per share
	Million yen	Million yen	%	Yen
As of Feb. 29, 2004	8,466	2,654	31.3	614.70
As of Feb. 28, 2003	8,093	2,525	31.2	584.79

(Notes) Number of shares outstanding

As of Feb. 29, 2004: 4,317,844 shares

As of Feb. 28, 2003: 4,318,044 shares

(3) Cash flows position

	Cash flows from operating activities	Cash flows from investment activities	Cash flows from financial activities	Cash and cash equivalents at end of year
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended Feb. 2004	(309)	(73)	195	343
Fiscal year ended Feb. 2003	185	(503)	405	518

(4) Consolidated and equity-method affiliates:

Consolidated subsidiaries: 1

Non-consolidated equity-method affiliates: None

Equity-method affiliates: None

(5) Changes in consolidated and equity-method affiliates:

Consolidated subsidiaries

Newly added: None

Excluded: None

Equity-method affiliates

Newly added: None

Excluded: None

2. Forecast for the fiscal year ending February 2005 (March 1, 2004 - February 28, 2005)

	Sales	Ordinary income	Net income
	Million yen	Million yen	Million yen
First half	3,072	12	(107)
Full year	6,200	196	46

(Reference) Estimated net income per share (full year): 10.65 yen

(Note) Forecasts for FY 2/05 were made by management based on currently available data and information. Please be aware that actual results may turn out different from those forecast as our company's business is affected by many factors. Please reference pages 7 for details on the above forecasts.

1. Corporate Group

The Nippon Shikizai group (the Group) is made up of Nippon Shikizai, Inc. (the Company) and one subsidiary.

The Company is engaged manufactures and performs research and development, both under contract for client companies, for cosmetics (including quasi-drugs). Subsidiary THEPENIER PHARMA INDUSTRIE S.A. (Thepenier) is primarily manufactures under contract for client companies pharmaceuticals and cosmetics in France.

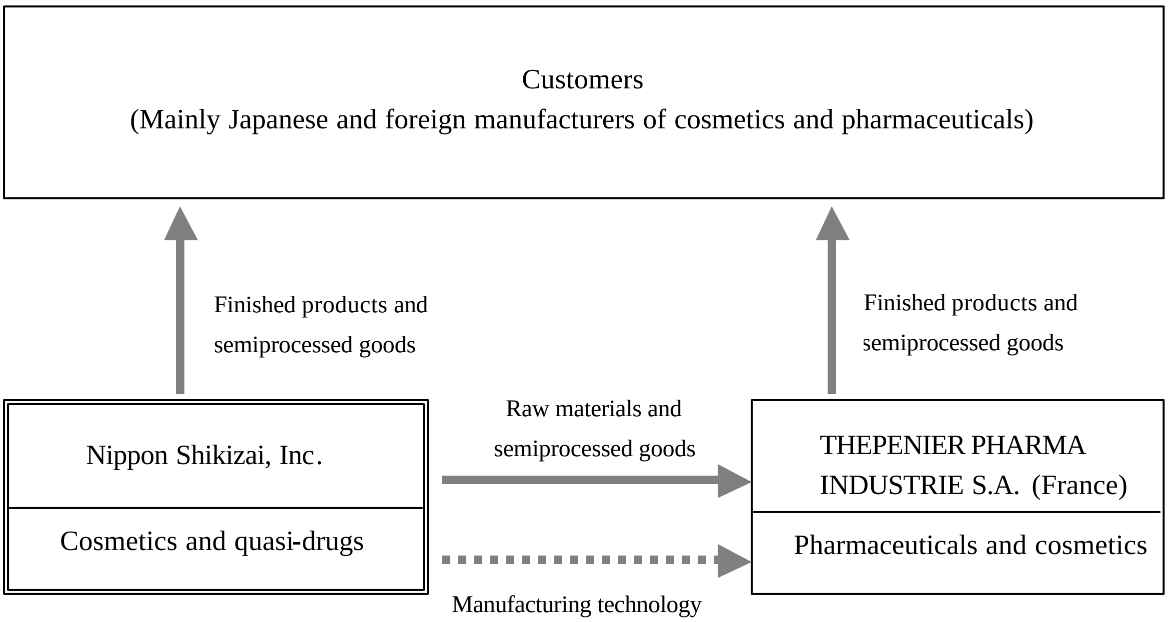
The business activities of the Group and roles of the Company and its subsidiary are as follows.

(1) Cosmetics:
Main products are foundation, eye shadow, rouge, lipstick, lip cream, moisturizers and sunscreen lotions; all are manufactured and sold by the Company and its subsidiary.

(2) Pharmaceuticals and other products:
Major products are medicinal toothpaste, mouthwash, ear washes and feminine hygiene products; these products are manufactured and sold by the subsidiary.

For some cosmetics products, the Company sells raw materials and semiprocessed goods to the subsidiary, which then manufactures and sells semiprocessed goods and finished products.

Presented below is a schematic of major business activities within the Group.



2. Management Policies

(1) Fundamental Policy

The corporate philosophy is "the high technology product innovation of Nippon Shikizai is being monitored throughout the world." In line with this policy, the Company earns the trust of society as a developer and manufacturer of cosmetics while striving to increase its earnings and enterprise value for the benefit of shareholders.

Furthermore, as an organization specializing in the OEM manufacture of cosmetics and pharmaceuticals that do not bear its own brand, the Group's goal is to use highly sophisticated technology and extensive data resources to supply products that excel in terms of quality and reliability. As a partner for cosmetics manufacturers and other companies, the Group is building an infrastructure capable of performing every step from the formulation of proposals through R&D and the manufacture of finished products.

(2) Fundamental Policy Regarding Allocation of Earnings

The Company regards the return of earnings to shareholders as one of its highest priorities. The fundamental policy is to continuously pay a stable dividend, allocating earnings in a manner that takes into consideration the dividend payout ratio relative to results of operations.

Retained earnings are used to achieve growth, mainly through capital expenditures to upgrade and expand production facilities, raise productivity and develop new products.

In the past fiscal year, the Company assisted subsidiary Thepenier return to financial soundness by abandoning claims and adding to reserves for doubtful accounts. Due to these actions, the Company reported a net loss for the year and regrettably plans to pay no dividend.

(3) Medium- and Long-Term Management Strategies

Japan's cosmetics market is mature due to the country's slowing population growth. Furthermore, the operating environment has been challenging for some time as the tendency of consumers to purchase lower-priced items in recent years has continued, even though there were indications that the downturn may finally be about to end.

In response to these market conditions in Japan, measures to increase sales and cut costs are important issues for the Company. As one means of accomplishing these two goals, the Company on February 2000 acquired Thepenier, a company located in France.

The Group plans to establish an operating framework with four manufacturing and sales bases: Japan, Europe, Southeast Asia and North America. Management believes this will enable the Group to increase sales as well as become more competitive on a global scale.

"Made in France" cosmetics have an excellent reputation in Japan as well as in the U.S. and elsewhere, enabling the creation of prestigious brands. Furthermore, demand for French cosmetics is strong. For these reasons, the Group will be conducting marketing activities on a global scale.

Moreover, to become still more cost competitive, the Company plans to consider the use of production bases in Southeast Asia.

(4) Fundamental Policy and Measures Regarding Corporate Governance

The Company regards as an important issue the establishment of a management framework capable of responding to changes in market conditions with speed and accuracy and a system to ensure strict compliance with laws and regulations.

The Company has adopted the corporate auditor system and has a Board of Auditors with three members, one standing auditor and two auditors from outside the Group.

The Board of Directors has six members. The board meets once each month and at other times as necessary. At board meetings, each director submits a report on business operations important matters are debated so that decisions can be reached. As a rule, all corporate auditors attend board meetings. The auditors state their opinions on management and other matters and monitor the performance of the directors and the management of the Group. In addition, the Executive Committee, which is made up of the directors and standing corporate auditor, meets two or three times each month to permit making rapid and accurate responses to sudden changes in the operating environment. Additionally, to address other important corporate matters, such as problems occurring due to other shifts in market conditions, the director in charge puts together project teams whenever necessary to come up with concrete action plans. Overall, the Company is able to operate with considerable speed and agility.

(5) Key Issues

Important Goals

The Group currently faces a challenging operating environment. Based on its medium- and long-term management strategies, important goals are as follows.

1) Increase sales through new products that have clearly defined targets and the development of ties with new customers.
2) Build a more powerful profit structure by making the organization and business operations more efficient and cutting costs.
3) Upgrade and enhance the company-wide quality assurance system to establish superiority over competitors.
4) Use the newly completed specialized cosmetics factory at Thepenier to expand in Europe and other markets outside Japan.

On November 28, 2003, all sections of the Company received ISO 9001:2000 (JIS Q 9001:2000) certification for quality management systems.

Information Concerning the Rehabilitation Plan for Thepenier

During the past fiscal year, Thepenier completed construction of a factory exclusively for the manufacture of cosmetics and began operations at this facility. For a number of years, this company has been reporting poor results due to deteriorating profit margins and productivity. To return this company to financial soundness, the Company, which is Thepenier's parent company, has formulated a three-year management rehabilitation plan that began in January 2004.

The main elements of this plan are as follows. Both companies are committed to making steady progress in line with this plan.

1) Cut costs by combining the Paris head office with the Mortagne factory and reducing the workforce.
2) Improve the profit structure by capturing orders for value-added products, cutting the cost of raw materials and boosting productivity.
3) Improve the financial position through debt forgiveness by the Company and the extension of financial support; send key employees to Thepenier extend support that includes technological assistance.

In line with item 3) above, the Company abandoned its claim on receivables from Thepenier totaling 358 million yen and added 297 million yen to its reserve for doubtful accounts.

3. Results of Operations and Financial Position

(1) Overview of the Fiscal Year

During the past fiscal year, Japan's economy staged a gradual rebound backed by rising earnings due to streamlining programs, mainly at large corporations, and by strength in capital expenditures and exports. In the cosmetics industry, market conditions remained difficult because of stagnant consumer spending. However, their were signs of the long-awaited end to the decline in prices, leading to upturns in both monetary sales and sales volumes.

The economy in the EU also staged a slow recovery that was led by exports amid generally lackluster domestic demand, including flat consumer spending. Furthermore, favorable conditions in the French pharmaceutical and cosmetics markets continued in the past fiscal year.

In this environment, the Group focused on developing new products that offer outstanding functions and original characteristics. In addition, to increase sales, the sales system was reviewed to raise efficiency while tightly targeted customer development and product proposal programs were conducted. At Thepenier, production began at a newly completed cosmetics factory as this company began sales activities aimed at capturing orders for make-up products. Due to these actions, both the cosmetics and pharmaceuticals businesses were able to post higher sales. Regarding expenses, the organization and business operations were closely examined and revised to raise efficiency, inventories were reduced and other steps taken to build a more profitable operating framework. However, the cost of raw materials increased, productivity improvements at Thepenier did not meet expectations and there was growth in labor expenses.

Due to the above factors, the Group reported a substantial increase in consolidated sales, which rose 16.7% to 6,111 million yen. Non-operating income declined due to lower income from a partnership income and other factors, ordinary income fell 39.7% to 297 million yen. However, net income was up 1,230.8% to 165 million yen.

Results by business segment were as follows.

(Cosmetics)

In the cosmetics segment, there were substantial increases of sales in the core foundation category as well as in sun-protection products, moisturizers and other basic cosmetics. However, there were sharp declines in sales of lipstick and lip creams. The result was a 13.4% increase in sales to 5,057 million yen and an 8.3% increase in operating income to 657 million yen.

(Pharmaceuticals and other products)

There was a big increase in sales of econazole (skin medication) and sales of mouthwash and insect repellents continued to be strong. As a result, sales of pharmaceuticals and other products rose 35.3% to 1,053 million yen. However, higher personnel and other operating expenses resulted in an operating loss of 107 million yencompared with the previous fiscal year's loss of 91 million yen.

Sales by geographic region were as follows.

(Japan)

In Japan, emphasis was placed on setting clearly defined targets for the development of new customers and ideas for new products as the decline in cosmetics prices showed signs of ending. As a result, sales increased 12.9% to 4,783 million yen and operating income increased 7.8% to 727 million yen.

(France)

In France, conditions remained favorable in the pharmaceuticals and cosmetics markets. As a result, sales were higher, particularly of econazole (skin medication) and other pharmaceuticals. In addition, there was a sharp increase in sales of foundation and other cosmetics following the completion of a cosmetics factory.

Overall, sales in France were up 37.9% to 1,405 million yen. Earnings were impacted by higher raw material, labor and other operating costs as well as by a lack of progress in boosting productivity. The result was an operating loss of 178 million yen compared with a loss of 156 million yen in the previous fiscal year.

(2) Cash Flows

Operating activities used net cash of 309 million yen, a difference of 494 million yen compared with net cash provided in the previous fiscal year. Major sources of cash were income before income taxes of 203 million yen, a 173 million yen increase in trade payables, and depreciation and amortization of 282 million yen. However, trade receivables increased 511 million yen as the end of the fiscal year fell on a bank holiday and due to other factors. In addition, there was partnership income of 212 million yen and income taxes paid of 353 million yen.

Investing activities used net cash of 73 million yen, 430 million yen more than cash used one year earlier. There were payments of 795 million yen for time deposits and proceeds of 856 million yen from time deposits. Payments for tangible fixed assets totaled 174 million yen.

Financing activities provided net cash of 195 million yen, 210 million yen less than one year earlier. There was a net decrease of 624 million yen in short-term borrowings, proceeds of 1,413 million yen from long-term borrowings and payments of 767 million yen for the repayment of these borrowings, and proceeds of 300 million yen from the issuance of bonds and payments of 82 million yen for the redemption of bonds.

Due to these items, there was a net decrease of 175 million yen in cash and cash equivalents during the fiscal year to 343 million yen.

(3) Outlook for Next Fiscal Year

The outlook for Japan's economy continues to require caution. On the positive side, concerns about financial instability and deflation are gradually receding and there are hopes for a rebound in consumer spending. However, there are many causes for concern, including continuing weakness in employment and personal income and the directions of exchange rates and interest rates. The EU economy is expected to be stagnant as the outlook is clouded by weakening consumer spending and the impact of a strong euro on exports.

The Group will respond to these challenges by continuing to bolster sales capabilities with the aim of raising sales on a global scale. At the same time, measures will be taken to strengthen the profit structure. At Thepenier, plans call for more gains in streamlining operations and bolstering profitability in line with the management rehabilitation plan. In addition, aggressive sales activities will target cosmetics manufacturers in France and elsewhere in Europe.

In the fiscal year ending in February 2005, the Group is forecasting consolidated sales of 6,200 million yen, up 1.5%, but a 34.0% decrease in ordinary income to 196 million yen because of a decline from partnership income. In addition, an extraordinary loss of 112 million yen is expected mainly due to expenses associated with the rehabilitation of Thepenier. As a result, net income is expected to fall 72.1% to 46 million yen.

By business segment, cosmetics sales are expected to increase 0.6% to 5,086 million yen and pharmaceuticals and other products sales to increase 5.8% to 1,114 million yen. By geographic segment, sales in Japan are expected to increase 1.5% to 4,855 million yen and sales in France to increase 5.8% to 1,486 million yen.

4. Consolidated Financial Statements

(1) Consolidated balance sheets

(Unit: thousand yen)

Item / Period	As of February 29, 2004 Amount		%	As of February 28, 2003 Amount		%	Difference
Assets							
I. Current assets							
1. Cash and deposits		586,073			823,111		
2. Trade notes and accounts receivable		1,507,518			989,691		
3. Securities		39,996			69,987		
4. Inventories		869,728			890,719		
5. Deferred tax assets		69,576			66,080		
6. Others		237,933			94,236		
7. Allowances for doubtful accounts		(1,374)			(2,096)		
Total current assets		3,309,453	39.1		2,931,731	36.2	377,722
II. Fixed assets							
1. Tangible fixed assets							
(1) Buildings and structures	4,576,842			4,475,527			
Accumulated depreciation	2,672,370	1,904,472		2,537,364	1,938,163		
(2) Machinery and vehicles	2,215,839			2,136,433			
Accumulated depreciation	1,851,975	363,864		1,748,367	388,065		
(3) Tools, furniture, and fixtures	577,089			536,955			
Accumulated depreciation	450,912	126,176		416,116	120,839		
(4) Land		2,189,277			2,186,718		
(5) Constriction in progress		2,111			6,288		
Total tangible fixed assets		4,585,903	54.1		4,640,074	57.3	(54,171)
2. Intangible fixed assets		183,370	2.2		189,767	2.4	(6,396)
3. Investments and other assets							
(1) Investment securities		168,631			152,110		
(2) Deferred tax assets		34,238			28,971		
(3) Others		188,524			153,891		
(4) Allowances for doubtful accounts		(3,575)			(3,349)		
Total investments and other assets		387,819	4.6		331,624	4.1	56,195
Total fixed assets		5,157,092	60.9		5,161,466	63.8	(4,373)
Total assets		8,466,546	100.0		8,093,197	100.0	373,348

(Unit: thousand yen)

Item / Period	As of February 29, 2004		As of February 28, 2003		Difference
	Amount	%	Amount	%	
Liabilities					
I. Current liabilities					
1. Trade notes and accounts payable	762,257		575,709		
2. Short-term borrowings	1,756,013		2,158,420		
3. Current portion of corporate bonds	134,000		50,000		
4. Accrued income taxes	-		229,864		
5. Others	635,774		546,147		
Total current liabilities	3,288,045	38.9	3,560,141	44.0	(272,095)
II. Long-term liabilities					
1. Corporate bonds	334,000		200,000		
2. Long-term borrowings	1,945,416		1,522,144		
3. Partnership liabilities	-		90,519		
4. Deferred tax liabilities	15,727		17,633		
5. Liabilities for retirement benefits	101,272		77,784		
6. Others	127,903		99,836		
Total long-term liabilities	2,524,319	29.8	2,007,918	24.8	516,400
Total liabilities	5,812,365	68.7	5,568,060	68.8	244,304
Shareholders' equity					
I. Common stock	552,749	6.5	552,749	6.8	-
II. Capital surplus	1,052,539	12.5	1,052,539	13.0	-
III. Retained surplus	1,034,154	12.2	912,297	11.3	121,856
IV. Unrealized gains or losses on other securities	27,976	0.3	18,596	0.2	9,379
V. Foreign exchange translation adjustment	(12,702)	(0.2)	(10,582)	(0.1)	(2,120)
VI. Treasury stock	(535)	(0.0)	(463)	(0.0)	(72)
Total shareholders' equity	2,654,180	31.3	2,525,136	31.2	129,044
Total liabilities and shareholders' equity	8,466,546	100.0	8,093,197	100.0	373,348

(2) Consolidated income statements

(Unit: thousand yen)

Item / Period	From March 1, 2003 to February 29, 2004 Amount		%	From March 1, 2002 to February 28, 2003 Amount		%	Difference
I. Sales		6,111,110	100.0		5,238,102	100.0	873,007
II. Cost of sales		5,115,810	83.7		4,304,899	82.2	810,910
Gross profits		995,299	16.3		933,202	17.8	62,097
III. SG&A expenses		922,556	15.1		891,687	17.0	30,868
Operating income		72,743	1.2		41,514	0.8	31,228
IV. Non-operating income							
1. Interest income	1,156			276			
2. Dividend income	5,045			4,126			
3. Partnership income	212,978			429,621			
4. Rent income	23,981			23,676			
5. Foreign exchange gain	81,263			-			
6. Others	26,267	350,693	5.7	86,151	543,852	10.3	(193,159)
V. Non-operating expenses							
1. Interest expenses	89,007			73,144			
2. Bond issue expenses	15,750			-			
3. Others	20,892	125,650	2.0	18,177	91,322	1.7	34,327
Ordinary income		297,786	4.9		494,045	9.4	(196,259)
VI. Extraordinary income							
Gains on sales of fixed assets	30	30	0.0	1,795	1,795	0.0	(1,765)
VII. Extraordinary losses							
1. Losses on sale of fixed assets	296			189			
2. Losses on disposal of fixed assets	1,827			1,285			
3. Losses on valuation of investment securities	-			1,522			
4. Difference arising from change in retirement benefit accounting	29,673			29,673			
5. Directors' retirement benefits	18,610			11,633			
6. Business restructuring expenses	44,052			-			
7. One-time amortization through goodwill	-	94,460	1.6	151,295	195,600	3.7	(101,140)
Income before income taxes		203,356	3.3		300,240	5.7	(96,884)
Current income taxes	54,862			281,606			
Deferred income taxes	(16,542)	38,319	0.6	6,232	287,839	5.5	(249,519)
Net income		165,036	2.7		12,401	0.2	152,635

(3) Consolidated surplus statements

(Unit: thousand yen)

Item \ Period	From March 1, 2003 to February 29, 2004 Amount		From March 1, 2002 to February 28, 2003 Amount	
Capital surplus				
I. Capital surplus beginning of year				
Additional paid-in capital beginning of year	1,052,539	1,052,539	1,052,539	1,052,539
II. Capital surplus end of year		1,052,539		1,052,539
Retained surplus				
I. Retained surplus beginning of year				
Retained earnings beginning of year	912,297	912,297	943,076	943,076
II. Increase in retained surplus				
Net income	165,036	165,036	12,401	12,401
III. Decrease in retained surplus				
Dividend	43,180	43,180	43,180	43,180
IV. Retained surplus end of year		1,034,154		912,297

(4) Consolidated cash flows statements

(Unit: thousand yen)

Item / Period	From March 1, 2003 to February 29, 2004	From March 1, 2002 to February 28, 2003
	Amount	Amount
I. Cash flows from operating activities		
Income before income taxes	203,356	300,240
Depreciation	282,854	252,550
Amortization of goodwill	-	151,295
Increase in liabilities for retirement benefits	21,539	5,905
Decrease in allowance for doubtful accounts	(727)	(2,913)
Interest and dividend income	(6,202)	(4,402)
Interest expenses	89,007	73,144
Partnership income	(212,978)	(429,621)
Losses on valuation of investment securities	-	1,522
Gains on sales of tangible fixed assets	(30)	(1,795)
Losses on sales of tangible fixed assets	296	189
Losses on disposal of tangible fixed assets	1,827	1,285
Decrease (increase) in trade receivable	(511,540)	78,511
Decrease in inventories	34,688	14,191
Increase in trade payable	173,645	38,588
Increase in accrued consumption taxes	3,490	3,702
Increase in other current liabilities	84,484	1,423
Others	(48,254)	(96,782)
Subtotal	115,457	387,036
Interests and dividends received	6,194	4,421
Interest paid	(77,018)	(74,029)
Income taxes paid	(353,741)	(131,598)
Net cash provided by operating activities	(309,108)	185,829
II. Cash flows from investment activities		
Outflow from placement of time deposits	(795,500)	(391,000)
Withdrawal of time deposits	856,500	392,500
Redemption of securities	30,000	5,042
Purchases of tangible fixed assets	(174,447)	(720,610)
Proceeds from sales of tangible fixed assets	408	6,793
Purchases of intangible fixed assets	(449)	(2,226)
Proceeds from sales of intangible fixed assets	-	520
Purchases of investment securities	(1,166)	(1,057)
Payments for investments in capital	(7,000)	(9,000)
Proceeds from sales of golf memberships	-	12,469
Proceeds from collection of long-term loans	369	351
Proceeds from share in partnership income	17,850	202,391
Net cash used in investment activities	(73,435)	(503,825)
III. Cash flows from financial activities		
Increase (decrease) in short-term borrowing-net	(624,964)	375,577
Proceeds from long-term borrowings	1,413,060	600,000
Repayment of long-term borrowings	(767,826)	(777,098)
Proceeds from corporate bonds issued	300,000	250,000
Redemption of corporate bonds	(82,000)	-
Acquisition of treasury stock	(72)	-
Payment of dividends	(43,180)	(43,180)
Net cash provided by (used in) financial activities	195,016	405,298
IV. Effect of exchange rate changes on cash and cash equivalents	11,785	13,691
V. Increase (decrease) in cash and cash equivalents	(175,742)	100,993
VI. Cash and cash equivalents at beginning of year	518,750	417,756
VII. Cash and cash equivalents at end of year	343,008	518,750

Significant items in preparing financial statements

1. Scope of consolidation

There is a consolidated subsidiary: THEPENIER PHARMA INDUSTRIE S.A.

2. Subject to equity method

Not applicable.

3. Accounting year of consolidated subsidiary

The consolidated subsidiary's fiscal year ends on December 31. Financial statements of the consolidated subsidiary as of the consolidated subsidiary's balance sheet date are used in the preparation of consolidated financial statements. Appropriate adjustments are made for significant transactions during the periods from the balance sheet date of the consolidated subsidiary and the balance sheet date of the consolidated financial statements.

4. Accounting standards

(1) Valuation basis and valuation method of significant assets

1) Securities

Held-to-maturity securities:

Amortized cost method (Straight-line method)

Other Securities

Marketable securities:

Market value method on market prices at the closing date. (Unrealized gain or loss is included in shareholders' equity. Cost of securities sold is determined by the moving-average method.)

Non-marketable securities:

Moving average method.

2) Derivatives

Market value method.

3) Inventories

Finished products, semi-processed goods and work in process:

Inventories are stated at cost, cost being determined by the period-average method.

Raw materials:

Inventories are stated at cost, cost being determined by the monthly-average method.

Supplies:

Inventories are stated at cost, cost being determined by the last purchase price method.

(2) Depreciation and amortization of significant assets

1) Tangible fixed assets

Depreciation at the Company is computed, except on buildings (excluding attached structures) acquired on and after April 1, 1998 by the declining-balance method. Depreciation on buildings acquired on and after April 1, 1998 is computed by the straight-line method. Overseas subsidiaries compute depreciation (straight-line or declining-balance method) in accordance with the accounting standards generally accepted in the country of their domicile.

Useful life for major items is as follows:

Buildings and structures:	10 to 47 years
Machinery and vehicles:	4 to 9 years
Tools, furniture, and fixtures:	5 to 15 years

2) Intangible fixed assets

The Company computes amortization of software intended for internal use by the straight-line method. The development costs of software intended for internal use are amortized over an expected useful life of 5 years by the straight-line method. Overseas subsidiaries computes amortization in accordance with the accounting standards generally accepted in the country of their domicile.

3) Long-term prepaid expenses

Straight-line method.

(3) Accounting for deferred assets

Bond issue expenses are amortized as accrued.

(4) Recognition standards for significant reserves

1) Allowances for doubtful accounts

To prepare for credit losses on accounts receivable, the Company provides allowances equal to the estimated amount of uncollectible receivables for general receivables based on the historical write-off ratio, and bad receivables based on a case-by-case determination of collectibility.

2) Liabilities for retirement benefits

Accrued employees' retirement benefits are provided at an amount calculated based on the projected benefit obligation and the fair value of pension fund assets as of the end of the current consolidated fiscal year. The unrecognized transitional obligation (148,368 thousand yen) arising from the change in accounting policy is amortized by the straight-line method over five years. Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over a period of ten years which falls within the average remaining years of service of the employees.

(5) Translation of principal foreign currency-denominated assets and liabilities

Foreign currency-denominated monetary assets and liabilities are translated into yen at the exchange rate in effect on the balance sheet date. Exchange gain or loss is accounted as income or loss. The balance sheet accounts of overseas subsidiaries are also translated at the exchange rate in effect on the balance sheet date. Translation adjustments are stated as a component of foreign exchange translation adjustment in the shareholders' equity.

(6) Accounting treatment for significant lease transactions

Finance leases, other than those which are deemed to transfer the ownership of the leased assets to the lessees, are accounted for by a method similar to that applicable to ordinary finance lease transactions

(7) Accounting method of significant hedges

1) Hedge accounting

Deferred hedge accounting.

2) Means and objects of hedging

Means of hedging: Interest rate swaps

Objects of hedging: Borrowings

3) Policy on hedging

The Company uses financial derivative transactions to reduce risk from fluctuations in interest rates. All derivative transactions the Company enters into comply with the Company's internal "Rules on Derivative Transactions and Risk Management."

4) Assessing the effectiveness of a hedge

The Company primarily assesses the effectiveness for hedging the risk of changes in cash flows resulting from fluctuations in market interest rates on borrowings by rate analysis of the sum total of price fluctuation involving hedging instrument, that is, interest rate swap transactions, and the sum total of interest rate changes on borrowings. Effectiveness is assessed at least once every six months, including the balance sheet date.

(8) Accounting for investment in leveraged lease partnership

In January 1987, the Company invested in a leveraged lease partnership (period: 17 years) specifically set up for the purchase and leasing (leveraged lease) of aircraft. The investment (200,000 thousand yen) was recorded at cost at the time it was made. The Company accounts net assets of the partnership in proportion to its share in this partnership resulting from changes in the financial condition and cash distributions from the partnership as credit or debit with respect to the partnership. The partnership's profit or loss for the current fiscal year proportional to the Company's shares is recorded as profit or loss on investment. The partnership agreement was terminated in the current fiscal year upon liquidation of the partnership in accordance with the partnership agreement. The amount of cash distribution resulting from the liquidation of the partnership due at the end of the fiscal year is included in "Others" under current assets since the fiscal year end was a bank holiday.

(9) Accounting treatment for consumption taxes

Revenue is recorded excluding collected consumption taxes.

5. Asset and liability valuations of consolidated subsidiaries

Asset and liability valuations of consolidated subsidiaries are based on the whole market value method.

6. Treatment of profit appropriation and other items

The consolidated surplus statements is made for profit appropriation of the consolidated companies, based on the appropriation determined during the fiscal year.

7. Definition of cash in cash flows statements

For the purpose of consolidated cash flows statements, cash and cash equivalents consist of vault cash, deposits that can be withdrawn on demand, and short-term investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and present insignificant risk of change in value.

Reclassifications

From March 1, 2003 to February 29, 2004	From March 1, 2002 to February 28, 2003
1. Effective the current consolidated fiscal year, "Foreign exchange gain", included in "Other" under "Non-operating income," has been reclassified and presented as a separate line item, given that it now represents more than 10/100 of non-operating income. Foreign exchange gain in the previous consolidated fiscal year was 53,677 thousand yen.	-
2. Effective the current consolidated fiscal year, "Bond issue expenses," included in "Other" under "Non-operating expenses," has been reclassified and presented as a separate line item, given that it now represents more than 10/100 of non-operating expense. Bond issue expenses in the previous fiscal year totaled 7,400 thousand yen.	-

Notes

Notes to consolidated balance sheets

(Unit: thousand yen)

As of February 29, 2004		As of February 28, 2003	
1. Assets pledged as collateral		1. Assets pledged as collateral	
(1) Assets pledged as security are as follows:		(1) Assets pledged as security are as follows:	
Cash and deposits	212,500	Cash and deposits	160,000
Securities	39,996	Securities	69,987
Buildings and structures	1,070,078	Buildings and structures	1,151,984
Land	2,149,665	Land	2,149,665
Investment securities	123,480	Investment securities	115,552
Total	3,595,720	Total	3,647,189
In addition to the above, all the Company's claims (right of pledge) against the anonymous association established for engaging in leveraged lease transactions are pledged as collateral.		In addition to the above, all the Company's claims (right of pledge) against the anonymous association established for engaging in leveraged lease transactions are pledged as collateral.	
(2) Liabilities corresponding to assets pledged as collateral:		(2) Liabilities corresponding to assets pledged as collateral:	
Short-term borrowings	1,731,221	Short-term borrowings	2,133,932
Long-term borrowings	1,861,592	Long-term borrowings	1,521,914
Total	3,592,813	Total	3,655,846
2. Accounting treatment of trade notes receivable/payable at consolidated year-end. Trade notes receivable/payable maturing at year-end are treated as if they were settled at the clearing date of notes. Consequently, as the fiscal year-end date was a bank holiday, the following notes receivable/payable maturing at year-end were included in the ending balance of notes receivable/payable of the fiscal year.		2.	
Trade notes receivable	124,657		
3. Shares issued and outstanding: 4,318,444 common shares.		3. Same as on the left.	
4. Treasury stock: 600 common shares		4. Treasury stock: 400 common shares	

Notes to consolidated income statements

(Unit: thousand yen)

March 1, 2003 - February 29, 2004		March 1, 2002 - February 28, 2003	
1. Significant components and corresponding amounts of selling, general and administrative expenses		1. Significant components and corresponding amounts of selling, general and administrative expenses	
Officers' salaries and bonuses	145,030	Officers' salaries and bonuses	159,543
Employees' salaries and allowances	153,305	Employees' salaries and allowances	192,978
Employees' bonuses	52,921	Employees' bonuses	51,112
Retirement benefits	17,933	Retirement benefits	10,328
Depreciation	26,845	Depreciation	27,859
Commission paid	162,711	Commission paid	130,360
2. Total R&D expenses	380,310	2. Total R&D expenses	348,088
3. Significant components of gain on sale of fixed assets		3. Significant components of gain on sale of fixed assets	
Machinery and vehicles	30	Buildings and structures	1,061
		Machinery and vehicles	733
		Total	1,795
4. Significant components of losses on sale of fixed assets		4. Significant components of losses on sale of fixed assets	
Machinery and vehicles	296	Machinery and vehicles	189
5. Significant components of losses on disposal of fixed assets		5. Significant components of losses on disposal of fixed assets	
Buildings and structures	1,116	Buildings and structures	203
Machinery and vehicles	261	Machinery and vehicles	188
Tools, furniture and fixtures	449	Tools, furniture and fixtures	892
Total	1,827	Total	1,285
6.		6. One-time amortization through goodwill is related to THEPENIER PHARMA INDUSTRIE S.A.	
7.The business restructuring expense is a part of the cost of a 3-year restructuring program at THEPENIER PHARMA INDUSTRIE S.A., scheduled to start from the next fiscal year. Major item is the cost of an add-on retirement allowance.			

Notes to consolidated cash flows statements

(Unit: thousand yen)

March 1, 2003 - February 29, 2004		March 1, 2002 - February 28, 2003	
Reconciliation of balance sheet items to cash and cash equivalents in consolidated cash flows statements:		Reconciliation of balance sheet items to cash and cash equivalents in consolidated cash flows statements:	
Cash and deposits	586,073	Cash and deposits	823,111
Cash and term deposits with maturities longer than 3 months	(240,500)	Cash and term deposits with maturities longer than 3 months	(301,500)
Special deposit	(2,565)	Special deposit	(2,860)
Cash and cash equivalents	343,008	Cash and cash equivalents	518,750

Accounting for Leases

(Unit: thousand yen)

March 1, 2003 - February 29, 2004		March 1, 2002 - February 28, 2003	
Finance lease transactions other than those in which the title of the leased property is transferred to the lessee.		Finance lease transactions other than those in which the title of the leased property is transferred to the lessee.	
1. Acquisition cost, accumulated depreciation and period-end balance equivalents of the leased property.		1. Acquisition cost, accumulated depreciation and period-end balance equivalents of the leased property.	
Buildings and structures		Buildings and structures	
Acquisition cost	98,031	Acquisition cost	91,696
Accumulated depreciation	86,594	Accumulated depreciation	74,885
Period-end balance	11,436	Period-end balance	16,810
Machinery and vehicles		Machinery and vehicles	
Acquisition cost	65,898	Acquisition cost	6,347
Accumulated depreciation	9,394	Accumulated depreciation	1,360
Period-end balance	56,503	Period-end balance	4,987
Tools, furniture and fixtures		Tools, furniture and fixtures	
Acquisition cost	74,006	Acquisition cost	57,723
Accumulated depreciation	51,498	Accumulated depreciation	39,060
Period-end balance	22,507	Period-end balance	18,663
Intangible assets etc.		Intangible assets etc.	
Acquisition cost	167,916	Acquisition cost	167,916
Accumulated depreciation	141,734	Accumulated depreciation	107,843
Period-end balance	26,181	Period-end balance	60,072
Total		Total	
Acquisition cost	405,852	Acquisition cost	323,683
Accumulated depreciation	289,222	Accumulated depreciation	223,149
Period-end balance	116,630	Period-end balance	100,534
Note: Acquisition cost equivalents include amounts applicable to interest since the outstanding balance of lease commitments at period-end are insignificant in the context of tangible fixed assets.		Note: Same as on the left.	
2. Outstanding lease commitments at period-end.		2. Outstanding lease commitments at period-end.	
Within one year	42,887	Within one year	52,977
Over one year	73,743	Over one year	47,557
Total	116,630	Total	100,534
Note: Outstanding balance of lease commitments at period-end include amounts applicable to interest since the outstanding balance of lease commitments at period-end are insignificant in the context of tangible fixed assets.		Note: Same as on the left.	
3. Lease payments and depreciation equivalents		3. Lease payments and depreciation equivalents	
Lease payments	60,306	Lease payments	51,177
Depreciation	60,306	Depreciation	51,177
4. Calculation of accumulated depreciation equivalents		4. Calculation of accumulated depreciation equivalents	
Depreciation is calculated based on the straight-line method, assuming the lease period to be the useful life and a residual value of zero.		Same as on the left.	

Securities

Securities

1. Securities with market value classified as “Other Securities”

(Unit: thousand yen)

	Security	As of February 29, 2004			As of February 28, 2003		
		Acquisition cost	Carrying value	Valuation gain/loss	Acquisition cost	Carrying value	Valuation gain/loss
Securities whose carrying value exceeds their acquisition cost	(1) Equity	105,882	153,541	47,658	103,740	135,927	32,186
	(2) Other	-	-	-	-	-	-
	Subtotal	105,882	153,541	47,658	103,740	135,927	32,186
Securities whose acquisition cost exceeds their carrying value	(1) Equity	1,570	1,330	(240)	2,546	2,423	(123)
	(2) Other	-	-	-	-	-	-
	Subtotal	1,570	1,330	(240)	2,546	2,423	(123)
Total		107,453	154,871	47,418	106,287	138,350	32,063

Note

As of February 29, 2004	As of February 28, 2003
Except for securities whose price is expected to recover, securities whose value has declined by more than 50% from the book value are written down. In the case of securities whose value has declined by 30% to 50% from the book value are written down if their price is not expected to recover.	In the current fiscal year, securities were written down by 1,522 thousand yen for impairment loss. Except for securities whose price is expected to recover, securities whose value has declined by more than 50% from the book value are written down. In the case of securities whose value has declined by 30% to 50% from the book value are written down if their price is not expected to recover.

2. Securities without market quotations classified as “Other Securities”

(Unit: thousand yen)

Security	As of February 29, 2004	As of February 28, 2003
	Carrying value	Carrying value
(1) Held to maturity securities		
Discount debentures	39,996	69,987
(2) Other securities		
Unlisted stock (excluding OTC stock)	13,760	13,760

3.The redemption schedule for securities with maturity dates classified as “Other Securities”

(Unit: thousand yen)

Security	As of February 29, 2004				As of February 28, 2003			
	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Debt securities								
Discount debentures	39,996	-	-	-	69,987	-	-	-
Total	39,996	-	-	-	69,987	-	-	-

Derivatives

March 1, 2003 - February 29, 2004	March 1, 2002 - February 28, 2003
1. Financial derivative transactions (1) Description of transactions The derivative transactions the Company uses include interest rate swap transactions.	1. Financial derivative transactions (1) Description of transactions Same as on the left.
(2) Transaction policy The Company uses interest rate derivatives to reduce its exposure to market risks from fluctuations in interest rates. The Company does not hold or issue financial derivative instruments for trading purposes.	(2) Transaction policy Same as on the left.
(3) Purpose of derivative transactions The Company uses interest rate derivatives to its exposure to market risks from fluctuations in interest rates. The transactions are accounted by the hedge accounting method. 1) Hedging instrument and risk hedged Hedging instrument: Interest rate swaps Risk hedged: Borrowings 2) Policy on hedging The Company uses financial derivative transactions to reduce risk from fluctuations in interest rates. All derivative transactions the Company enters into comply with the Company's internal "Rules on Derivative Transactions and Risk Management." 3) Assessing the effectiveness of a hedge The Company primarily assesses the effectiveness for hedging the risk of changes in cash flows resulting from fluctuations in market interest rates on borrowings by rate analysis of the sum total of price fluctuation involving hedging instrument, that is, interest rate swap transactions, and the sum total of interest rate changes on borrowings. Effectiveness is assessed at least once every six months, including the balance sheet date.	(3) Purpose of derivative transactions Same as on the left.
(4) Transaction risk The Company considers that there is no significant risk arising from counter party default. The Company's counter parties are major domestic banks with high credit ratings.	(4) Transaction risk Same as on the left.
(5) Risk management All derivative transactions are executed and managed in accordance with internal rules on derivative transactions which define transaction authority and position limit. The department in charge of executing and managing derivative transactions must obtain prior approval of the executive authorized to approve such transactions.	(5) Risk management Same as on the left.
2. Information on market values Information on contract values and notional principal amounts is not presented since the Company applies the hedge accounting method to account for interest rate swap transactions.	2. Information on market values Same as on the left.

Retirement Benefits

1. Retirement benefit plans

The Company has defined-benefit plans, that is, a tax-qualified pension plan. The Company also offers an add-on retirement package to employees meeting certain requirements. In addition to the above, the Company also participates in the Tokyo Cosmetics Industry Employees' Pension Fund (a multi-employer pension plan) and the Kinki Cosmetics Industry Employees' Pension Fund (a multi-employer pension plan).
Overseas subsidiaries have defined-benefit plan, that is, lump-sum pension plans.

2. Projected benefit obligations and its principal components

(Unit: thousand yen)

	As of February 29, 2004	As of February 28, 2003
(1) Projected benefit obligation	(507,337)	(477,395)
(2) Plan assets at fair value	275,583	237,246
(3) Unfunded retirement benefit obligation (1)+(2)	(231,753)	(240,149)
(4) Actuarial difference at transition	59,347	89,021
(5) Unrecognized actuarial gain or loss	71,133	73,343
(6) Retirement benefit obligation carried on consolidated balance sheets (3)+(4)+(5)	(101,272)	(77,784)
(7) Liabilities for retirement benefits	(101,272)	(77,784)

(As of Feb. 29, 2004)

Note: In addition to the above pension fund assets, plan assets proportional to the Company's contribution to multi-employer pension plan totaled 632,585 thousand yen.

(As of Feb. 28, 2003)

Note: In addition to the above pension fund assets, plan assets proportional to the Company's contribution to multi-employer pension plan totaled 559,640 thousand yen.

3. Retirement benefit expenses

(Unit: thousand yen)

	March 1, 2003 - February 29, 2004	March 1, 2002 - February 28, 2003
Retirement benefit expenses	127,834	114,968
(1) Service cost	40,550	41,121
(2) Interest cost	6,711	7,488
(3) Expected rate of return	-	(6,940)
(4) Amortization of actuarial difference at transition	29,673	29,673
(5) Amortization of actuarial differences	7,671	3,374
(6) Contribution to multi-employer pension plan	43,226	40,250

4. Assumptions used in accounting for the above plans

	As of February 29, 2004	As of February 28, 2003
(1) Discount rate	1.4%	1.5%
(2) Expected return on assets	0.0%	3.0%
(3) Distribution of estimated retirement benefit obligations	Straight line.	Same as on the left.
(4) Amortization of actuarial differences	10 years	10 years
(5) Amortization of difference at transition	5 years	5years

Deferred Tax Accounting

(Unit: thousand yen)

As of February 29, 2004		As of February 28, 2003	
1. Significant components of deferred tax assets and liabilities		1. Significant components of deferred tax assets and liabilities	
Deferred tax assets, current		Deferred tax assets, current	
Accrued bonuses in excess of the maximum amount allowed for inclusion in expenses	65,374	Accrued bonuses in excess of the maximum amount allowed for inclusion in expenses	45,688
Unrealized business place tax payable	240	Unrealized business place tax and enterprise tax payable	18,285
Unearned income	2,409	Unearned income	2,117
Accrued social insurance premiums	8,700	Other	1,813
Other	714	Subtotal deferred tax assets, current	67,904
Subtotal deferred tax assets, current	77,439	Valuation reserve	(1,813)
Valuation reserve	(714)	Total deferred tax assets, current	66,091
Total deferred tax assets, current	76,725	Deferred tax liabilities, current	
Deferred tax liabilities, current		Allowance for doubtful accounts-adjustment	(10)
Enterprise tax refund-receivable	(7,134)	Total deferred tax liabilities, current	(10)
Allowance for doubtful accounts-adjustment	(14)	Net deferred tax assets, current	66,080
Total deferred tax liabilities, current	(7,148)		
Net deferred tax assets, current	69,576		
Deferred tax assets, non-current		Deferred tax assets, non-current	
Unrealized valuation loss on investment securities	13,156	Unrealized valuation loss on investment securities	13,477
Unrealized valuation loss on golf club memberships	9,933	Unrealized valuation loss on golf club memberships	10,175
Liabilities for retirement benefits in excess of the maximum amount allowed for inclusion in expenses	29,870	Liabilities for retirement benefits in excess of the maximum amount allowed for inclusion in expenses	19,449
Other	994	Other	605
Total deferred tax assets, non-current	53,954	Total deferred tax assets, non-current	43,707
Deferred tax liabilities, non-current		Deferred tax liabilities, non-current	
Unrealized gain or loss on other securities	(19,441)	Unrealized gain or loss on other securities	(13,466)
Allowance for doubtful accounts-adjustment	(275)	Allowance for doubtful accounts-adjustment	(1,269)
Total deferred tax liabilities, non- current	(19,716)	Total deferred tax liabilities, non- current	(14,735)
Net deferred tax assets, non- current	34,238	Net deferred tax assets, non- current	28,971
Deferred tax assets, non-current		Deferred tax assets, non-current	
Liabilities for retirement benefits in excess of the maximum amount allowed for inclusion in expenses	8,958	Liabilities for retirement benefits in excess of the maximum amount allowed for inclusion in expenses	9,977
Deficit brought forward	47,889	Deficit brought forward	103,751
Other	478	Subtotal deferred tax assets, non-current	113,728
Subtotal deferred tax assets, non-current	57,325	Valuation reserve	(103,129)
Valuation reserve	(45,994)	Total deferred tax assets, non-current	10,599
Total deferred tax assets, non-current	11,331	Deferred tax liabilities, non-current	
Deferred tax liabilities, non-current		Land at fair value	(7,772)
Land at fair value	(8,309)	Building at fair value	(20,460)
Buildings at fair value	(18,749)	Total deferred tax liabilities, non-current	(28,232)
Total deferred tax liabilities, non-current	(27,058)	Net deferred tax liabilities, non-current	(17,633)
Net deferred tax liabilities, non-current	(15,727)		

As of February 29, 2004

2. Significant components of difference between statutory and effective tax rates.

Effective tax rate (Japan)	42.0%
(Adjustments)	
Entertainment expenses and other items not be included in expenses indefinitely	2.9%
Dividends income and other items not to be included in income indefinitely	(0.3%)
Per-capita resident tax	3.8%
Tax on retained funds	1.3%
Special deduction on R&D expenses	(3.2%)
Special deduction for expropriation	(0.7%)
Write-down of deferred tax assets at year end due to changes in tax rates	0.6%
Loss on relinquishment of claims	(76.3%)
Net loss at subsidiary	39.9%
Difference in tax rates of overseas consolidated subsidiaries	10.1%
Other	(1.3%)
Effective tax rate	18.8%

3. ―――――

4. The statutory tax rate employed for calculating deferred tax assets and deferred tax liabilities for the current year was changed from 42.0% applied in the previous year to 41.0% (only for items to be realized after March 1, 2005) in compliance with the Partial Revision of the Local Finance Act (Law No. 9 of 2003) that became effective on March 31, 2003.
The effect of this change was to decrease deferred tax assets by 841 thousand yen, increase deferred income taxes by 1,315 thousand yen and increase unrealized gain on securities by 474 thousand yen, compared to the amounts that would have been reported if the previous method had been applied consistently.

As of February 28, 2003

2. Significant components of difference between statutory and effective tax rates.

Effective tax rate (Japan)	42.0%
(Adjustments)	
Entertainment expenses and other items not be included in expenses indefinitely	2.2%
Dividends income and other items not to be included in income indefinitely	(0.4%)
Per-capita resident tax	2.6%
Tax on retained funds	4.6%
Net loss at subsidiary	17.6%
Amortization of goodwill	21.2%
Difference in tax rates of overseas consolidated subsidiaries	4.7%
Other	1.4%
Effective tax rate	95.9%

3. Changes in tax rates after the balance sheet date
Effective the fiscal year starting April 1, 2004, A business scale tax will be applied to the Enterprise Tax in compliance with the Partial Revision of the Local Finance Act (Law No. 9 of 2003) that became effective on March 31, 2003. As a result, the Income tax rate will change.
Regarding the temporary differences expected to amortized in the fiscal year beginning April 1, 2004, the statutory tax rate to be employed for calculating deferred tax assets and deferred tax liabilities has been changed from 42.0% to 41.0%.
The effect of this change on the difference between deferred tax assets and deferred tax liabilities is 720 thousand yen.
The deferred tax to be accounted on the debit side of the balance sheet for the next fiscal year is 1,040 thousand yen.

4. ―――――

Segment Information

1.Operating segment information

Operating segment information for the two most recent consolidated fiscal years is as follows:

Current fiscal year (March 1, 2003 – February 29, 2004)

(Unit: thousand yen)

	Cosmetics	Pharmaceuticals and other products	Total	Eliminations and corporate	Consolidated
I. Sales and operating income					
Sales					
(1) Sales to outside customers	5,057,393	1,053,716	6,111,110	-	6,111,110
(2) Sales and transfers – Inter-segment	-	-	-	-	-
Total	5,057,393	1,053,716	6,111,110	-	6,111,110
Operating expenses	4,399,666	1,160,863	5,560,530	477,836	6,038,367
Operating income	657,726	(107,147)	550,579	(477,836)	72,743
II. Assets, depreciation and capital expenditures					
Assets	5,416,759	763,726	6,180,486	2,286,059	8,466,546
Depreciation	226,331	39,698	266,030	16,824	282,854
Capital expenditures	136,591	26,575	163,167	1,348	164,515

Notes: 1. Method of segmentation: Segments are based on the type of products handled.

2. Primary operations of the principal operating segments are as follows:

(1) Cosmetics: Foundation, eye shadow, rouge, lipstick, lip cream, moisturizers and sunscreen lotions

(2) Pharmaceuticals and other products: Medicinal toothpaste, mouthwash, ear washes and feminine hygiene products

3. Operating expenses (477,836 thousand yen) included in eliminations or corporate consist primarily of expenses related to the administration divisions, including the General Affairs Division and the Accounting Division.

4. Assets (2,286,059 thousand yen) included in eliminations and corporate consist primarily of surplus funds under management (cash and deposits and securities) at the Company, land for factory and fixed assets of the administration division.

5. Depreciation and capital expenditures include long-term prepaid expenses and their amortization.

Previous fiscal year (March 1, 2002 – February 28, 2003)

(Unit: thousand yen)

	Cosmetics	Pharmaceuticals and other products	Total	Eliminations and corporate	Consolidated
I. Sales and operating income					
Sales					
(1) Sales to outside customers	4,459,033	779,068	5,238,102	-	5,238,102
(2) Sales and transfers – Inter-segment	-	-	-	-	-
Total	4,459,033	779,068	5,238,102	-	5,238,102
Operating expenses	3,851,711	870,490	4,722,201	474,385	5,196,587
Operating income	607,322	(91,421)	515,900	(474,385)	41,514
II. Assets, depreciation and capital expenditures					
Assets	5,192,863	617,985	5,810,848	2,282,349	8,093,197
Depreciation	202,399	31,257	233,656	18,893	252,550
Capital expenditures	664,793	45,620	710,414	7,335	717,749

Notes: 1. Method of segmentation: Segments are based on the type of products handled.

2. Primary operations of the principal operating segments are as follows:

(1) Cosmetics: Foundation, eye shadow, rouge, lipstick, lip cream, moisturizers and sunscreen lotions

(2) Pharmaceuticals and other products: Medicinal toothpaste, mouthwash, ear washes and feminine hygiene products

3. Operating expenses (474,385 thousand yen) included in eliminations or corporate consist primarily of expenses related to the administration divisions, including the General Affairs Division and the Accounting Division.

4. Assets (2,282,349 thousand yen) included in eliminations and corporate consist primarily of surplus funds under management (cash and deposits and securities) at the Company, land for factory and fixed assets of the administration division.

5. Depreciation and capital expenditures include long-term prepaid expenses and their amortization.

6. As noted in the section on the Basis of Financial Statements and Summary of Significant Accounting Policies, effective the current consolidated fiscal year, the oversea consolidated subsidiaries changed the valuation basis and valuation method for inventories. As a result of this change, operating expenses of the cosmetics, the pharmaceuticals and others products business for the current consolidated fiscal year decreased by 2,213 thousand yen and 7,687 thousand yen respectively and operating income increased by equivalent amounts compared to the amounts that would have been reported if the previous methods had been applied consistently.

2. Geographical Segment Information

Geographical segment information for the two most recent consolidated fiscal years is as follows.

Current fiscal year (March 1, 2003 – February 29, 2004)

(Unit: thousand yen)

	Japan	France	Total	Eliminations and corporate	Consolidated
I. Sales and operating income					
Sales					
(1) Sales to outside customers	4,705,749	1,405,361	6,111,110	-	6,111,110
(2) Sales and transfers – Inter-segment	77,571	-	77,571	(77,571)	-
Total	4,783,320	1,405,361	6,188,681	(77,571)	6,111,110
Operating expenses	4,055,555	1,583,685	5,639,241	399,125	6,038,367
Operating income	727,764	(178,324)	549,439	(476,696)	72,743
II. Assets	4,648,002	1,538,221	6,186,223	2,280,322	8,466,546

Notes: 1. Geographical segmentation: By locations of manufacturing facilities.

2. Operating expenses (477,836 thousand yen) included in eliminations or corporate consist primarily of expenses related to the administration divisions, including the General Affairs Division and the Accounting Division.

3. Assets (2,286,059 thousand yen) included in eliminations and corporate consist primarily of surplus funds under management (cash and deposits and securities) at the Company, land for factory and fixed assets of the administration division.

Previous fiscal year (March 1, 2002 – February 28, 2003)

(Unit: thousand yen)

	Japan	France	Total	Eliminations and corporate	Consolidated
I. Sales and operating income					
Sales					
(1) Sales to outside customers	4,219,262	1,018,840	5,238,102	-	5,238,102
(2) Sales and transfers – Inter-segment	18,716	-	18,716	(18,716)	-
Total	4,237,978	1,018,840	5,256,818	(18,716)	5,238,102
Operating expenses	3,562,672	1,174,980	4,737,652	458,934	5,196,587
Operating income	675,306	(156,140)	519,166	(477,651)	41,514
II. Assets	4,295,743	1,520,369	5,816,113	2,277,084	8,093,197

Notes: 1. Geographical segmentation: By locations of manufacturing facilities.

2. Operating expenses (474,385 thousand yen) included in eliminations or corporate consist primarily of expenses related to the administration divisions, including the General Affairs Division and the Accounting Division.

3. Assets (2,282,349 thousand yen) included in eliminations and corporate consist primarily of surplus funds under management (cash and deposits and securities) at the Company, land for factory and fixed assets of the administration division.

4. As noted in the section on the Basis of Financial Statements and Summary of Significant Accounting Policies, effective the current consolidated fiscal year, the oversea consolidated subsidiaries changed the valuation basis and valuation method for inventories. As a result of this change, operating expenses in France for the current consolidated fiscal year decreased by 9,901 thousand yen and operating income increased by equivalent amounts compared to the amounts that would have been reported if the previous methods had been applied consistently.

3. Overseas sales

Overseas sales for the two most recent fiscal years are as follows.

Current fiscal year (March 1, 2003 – February 29, 2004)

(Unit: thousand yen)

	Europe	Other areas	Total
Overseas sales	1,429,828	66,104	1,495,932
Consolidated sales	-	-	6,111,110
Share of overseas sales in consolidated sales	23.4%	1.1%	24.5%

Notes: 1. Method of geographical segmentation: Geographical proximity

2. Each segment consists primarily of the following countries or areas

(1) Europe: France, Italy, Britain, Greece, Germany, Belgium, Portugal, and Monaco

(2) Other areas: North America, Malaysia, The Philippines, Taiwan, and S. Korea

3. Overseas sales include sales of the Company and its consolidated subsidiaries to customers in countries and areas outside Japan.

Previous fiscal year (March 1, 2002 – February 28, 2003)

(Unit: thousand yen)

	Europe	Other areas	Total
Overseas sales	1,082,924	49,074	1,131,998
Consolidated sales	-	-	5,238,102
Share of overseas sales in consolidated sales	20.7%	0.9%	21.6%

Notes: 1. Method of geographical segmentation: Geographical proximity

2. Each segment consists primarily of the following countries or areas

(1) Europe: France, Italy, Britain, Greece, Germany, Belgium, and Portugal

(2) Other areas: North America, Malaysia, The Philippines, Taiwan, Thailand, S. Korea, and Morocco

3. Overseas sales include sales of the Company and its consolidated subsidiaries to customers in countries and areas outside Japan.

Production, Orders and Sales

(1) Production
Production by operating segment in the current fiscal year is as follows.

(Unit: thousand yen)

Operating segment	March 1, 2003 - February 29, 2004	
		YoY change (%)
Cosmetics	4,980,134	111.7
Pharmaceuticals and other products	1,071,790	137.1
Total	6,051,924	115.5

Notes: 1. Amounts are based on sales prices.
2. Amounts are exclusive of the consumption taxes.

(2) Orders
Orders by operating segment in the current fiscal year is as follows:

(Unit: thousand yen)

Operating segment	Orders		Order backlog	
		YoY change (%)		YoY change (%)
Cosmetics	5,226,929	115.8	1,099,485	118.9
Pharmaceuticals and other products	1,173,258	137.3	482,906	147.1
Total	6,400,187	119.2	1,582,392	126.3

Notes: 1. Amounts are based on sales prices.
2. Amounts are exclusive of the consumption taxes.

(3) Sales
Sales by operating segment in the current fiscal year is as follows:

(Unit: thousand yen)

Operating segment	March 1, 2003 - February 29, 2004	
		YoY change (%)
Cosmetics	5,057,393	113.4
Pharmaceuticals and other products	1,053,716	135.3
Total	6,111,110	116.7

Notes: 1. Amounts are exclusive of the consumption taxes.
2. Sales by major customer and share of sales by major customer for the two most recent fiscal years are as follows:

(Unit: thousand yen)

Customer	March 1, 2003 - February 29, 2004		March 1, 2002 - February 28, 2003	
	Amount	%	Amount	%
Shu Uemura Cosmetics Inc.	1,057,797	17.3	794,018	15.2
ARSOA HONSHA CORPORATION	-	-	671,933	12.8

Sales to ARSOA HONSHA CORPORATION and its share of total sales are not presented since it accounted for less than 10/100 of consolidated sales.

Related Party Transactions

Current fiscal year (March 1, 2003 - February 29, 2004)
Directors and major individual shareholders

(Unit: thousand yen)

Relationship	Name of related party	Address	Paid in capital or capital	Description of business or occupation	Voting rights (Owned)
Director and immediate relative	Kouji Okumura	-	-	Shikizai President and Representative Director	(Owned) Direct: 15.5%
Director and immediate relative	Tomohiro Tohyama	-	-	Shikizai Auditor and Lawyer of TMI Legal Office	-

Relationship	Name of related party	Relationship		Description of transactions	Transaction amount	Account	Account balance
		Joint directorship etc.	Business relationship				
Director and immediate relative	Kouji Okumura	-	-	Leasing of Osaka factory (Note 1)	6,960	-	-
Director and immediate relative	Tomohiro Tohyama	-	-	Legal fees and legal counsel fees (Note 2)	4,621	Account-payable	2,093

(Unit: thousand yen)

Relationship	Name of related party	Address	Paid in capital or capital	Description of business or occupation	Voting rights (Owned)
Company with majority voting rights owned by director or his immediate relatives	Quatre Saison (Note 3)	Minato-ku, Tokyo	10,200	Casualty insurance agency	(Owned) Direct: 7.6%
Company with majority voting rights owned by director or his immediate relatives	Keiichi Okumura Office (Note 5)	Minato-ku, Tokyo	10,000	Construction design and construction supervision	-

Relationship	Name of related party	Relationship		Description of transactions	Transaction amount	Account	Account balance
		Joint directorship etc.	Business relationship				
Company with majority voting rights owned by director or his immediate relatives	Quatre Saison (Note 3)	Joint directors: 2	Insurance-related transactions	Payment of insurance premiums (Note 4)	9,264	Prepaid expenses	3,239
Company with majority voting rights owned by director or his immediate relatives	Keiichi Okumura Office (Note 5)	-	Outsourcing of construction design and construction supervision	Construction design outsourcing fees and advisory fees (Note 6)	3,089	Accounts-payable	498

Notes: Transaction terms or method of determining transaction terms:

1. Rent is reviewed every two years on the basis of assessment by a real estate appraiser.
2. Legal fees and legal counsel fees are based on the Rules on Compensation of Lawyers established by First Tokyo Lawyers Association and a review of services provided.
3. Quatre Saison is a company wholly and directly owned by President Kouji Okumura and his immediate family.
4. Casualty insurance premiums are based on the insurance premium table.
5. Keiichi Okumura Office is a company with majority voting rights owned by an immediate relative of Shikizai president and representative director Kouji Okumura.
6. Construction design and supervision fees are based on “codes on business responsibility and fees for an architect” established by the Japan Institute of Architects and the work outsourced.
7. The above amounts do not include consumption taxes but year-end balances include consumption taxes.

Previous fiscal year (March 1, 2002 - February 28, 2003)
Directors and major individual shareholders

(Unit: thousand yen)

Relationship	Name of related party	Address	Paid in capital or capital	Description of business or occupation	Voting rights (Owned)
Director and immediate relative	Kouji Okumura	-	-	Shikizai President and Representative Director	(Owned) Direct: 14.9%
Director and immediate relative	Tomohiro Tohyama	-	-	Shikizai Auditor and Lawyer of TMI Legal Office	-

Relationship	Name of related party	Relationship		Description of transactions	Transaction amount	Account	Account balance
		Joint directorship etc.	Business relationship				
Director and immediate relative	Kouji Okumura	-	-	Leasing of Osaka factory (Note 1)	6,960	-	-
Director and immediate relative	Tomohiro Tohyama	-	-	Legal fees and legal counsel fees (Note 2)	6,119	Account-payable	435

(Unit: thousand yen)

Relationship	Name of related party	Address	Paid in capital or capital	Description of business or occupation	Voting rights (Owned)
Company with majority voting rights owned by director or his immediate relatives	Quatre Saison (Note 3)	Minato-ku, Tokyo	10,200	Casualty insurance agency	(Owned) Direct: 7.6%
Company with majority voting rights owned by director or his immediate relatives	Keiichi Okumura Office (Note 5)	Minato-ku, Tokyo	10,000	Construction design and construction supervision	-

Relationship	Name of related party	Relationship		Description of transactions	Transaction amount	Account	Account balance
		Joint directorship etc.	Business relationship				
Company with majority voting rights owned by director or his immediate relatives	Quatre Saison (Note 3)	Joint directors: 2	Insurance-related transactions	Payment of insurance premiums (Note 4)	9,716	-	-
Company with majority voting rights owned by director or his immediate relatives	Keiichi Okumura Office (Note 5)	-	Outsourcing of construction design and construction supervision	Construction design outsourcing fees and advisory fees (Note 6)	14,766	Accounts-payable	53

Notes: Transaction terms or method of determining transaction terms:

1. Rent is reviewed every two years on the basis of assessment by a real estate appraiser.
2. Legal fees and legal counsel fees are based on the Rules on Compensation of Lawyers established by First Tokyo Lawyers Association and a review of services provided.
3. Quatre Saison is a company wholly and directly owned by President Kouji Okumura and his immediate family.
4. Casualty insurance premiums are based on the insurance premium table.
5. Keiichi Okumura Office is a company with majority voting rights owned by an immediate relative of Shikizai president and representative director Kouji Okumura.
6. Construction design and supervision fees are based on “codes on business responsibility and fees for an architect” established by the Japan Institute of Architects and the work outsourced.
7. The above amounts do not include consumption taxes but year-end balances include consumption taxes.

JASDAQ

April 28, 2004

Nippon Shikizai, Inc.

Non-consolidated Financial Results for the Fiscal Year ended February 2004

Name of Company Listed:	Nippon Shikizai, Inc.
Stock Code Number:	4920
Stock Exchange listing:	JASDAQ
Company Domicile:	Tokyo
President:	Kouji Okumura
Contact:	Shinsaku Tsukamoto, Managing Director
Telephone:	+81-(0)3-3456-0561
URL:	http://www.shikizai.com
Board of meeting for approving:	April 28, 2004
Annual shareholders' meeting:	May 27, 2004
Interim dividend paid:	Yes
One trading unit:	1000 shares

1. Financial Results (March 1, 2003 – February 29, 2004)

(1) Results of operations

(Amounts rounded down to million yen)

	Sales		Operating income		Ordinary income	
	Million yen	YoY change (%)	Million yen	YoY change (%)	Million yen	YoY change (%)
Fiscal year ended Feb. 2004	4,783	12.9	251	25.4	482	(26.1)
Fiscal year ended Feb. 2003	4,237	1.5	200	52.9	652	130.7

	Net income		Net income per share (basic)	Net income per share (diluted)
	Million yen	YoY change (%)	Yen	Yen
Fiscal year ended Feb. 2004	(137)	-	(31.94)	-
Fiscal year ended Feb. 2003	(28)	-	(6.68)	-

	Return on equity	Ordinary income to total assets	Ordinary income to sales
	%	%	%
Fiscal year ended Feb. 2004	(5.3)	6.1	10.1
Fiscal year ended Feb. 2003	(1.1)	8.5	15.4

(Notes) 1. Average number of shares outstanding

Fiscal year ended Feb. 2004: 4,317,961 shares

Fiscal year ended Feb. 2003: 4,318,044 shares

2. Change in accounting principle during the year: None

3. “YoY change” represents relevant change in percentage compared to the same period of the previous year.

(2) Dividends

	Dividend per share for the year		
	Total	Interim	Year-end
	Yen	Yen	Yen
Fiscal year ended Feb. 2004	0.00	0.00	0.00
Fiscal year ended Feb. 2003	10.00	0.00	10.00

	Total dividends during the year	Payout ratio	Dividend on shareholders’ equity
	Million yen	%	%
Fiscal year ended Feb. 2004	-	-	-
Fiscal year ended Feb. 2003	43	-	1.6

(3) Financial position

	Total assets	Shareholders’ equity	Shareholders’ equity to total assets ratio	Shareholders’ equity per share
	Million yen	Million yen	%	Yen
As of Feb. 29, 2004	7,875	2,519	32.0	583.42
As of Feb. 28, 2003	7,914	2,690	34.0	623.18

(Notes) 1.Number of shares outstanding

As of Feb. 29, 2004: 4,317,844 shares

As of Feb. 28, 2003: 4,318,044 shares

2. Treasury stock

As of Feb. 29, 2004: 600 shares

As of Feb. 28, 2003: 400 shares

2. Forecast for the fiscal year ending February 2005 (March 1, 2004 - February 28, 2005)

	Sales	Ordinary income	Net income	Dividend per share for the year		
				Interim	Year-end	Total
	Million yen	Million yen	Million yen	Yen	Yen	Yen
First half	2,324	79	31	0.00	-	-
Full year	4,855	356	184	-	10.00	10.00

(Reference) Estimated net income per share (full year): 42.79 yen

(Note) Forecasts for FY 2/05 were made by management based on currently available data and information. Please be aware that actual results may turn out different from those forecast as our company’s business is affected by many factors.