



Annual Report 2003

For the year ended January 31, 2003

PIGEON CORPORATION

At a Glance

Products Handled		Business Environment																		
Baby and Child Care	Breast-feeding-related products Baby bottles, baby bottle nipples, baby bottle cleansers and sterilizers, disinfecting equipment, baby bottle cleaning brushes, sterilization tongs, breast pads, breast pumps	<p>Pigeon’s child-rearing support business covers the full range of baby-related products, including breast-feeding- and weaning-related items, diapers, and skincare products, as well as maternity-related products. This is a core business that accounts for around 85% of Pigeon’s revenues. We are the industry leader in Japan in this category, and the Pigeon brand has earned a reputation for safety, peace of mind, and reliability.</p> <table><tr><td>Pigeon Home Products Co., Ltd.</td><td>¥488 million</td></tr><tr><td>Pigeon Will Co., Ltd.</td><td>¥100 million</td></tr><tr><td>Pigeon Kids World Co., Ltd.</td><td>¥30 million</td></tr><tr><td>PHP Hyogo Co., Ltd.</td><td>¥240 million</td></tr><tr><td>Fukuyo Ibaraki, Co., Ltd.</td><td>¥360 million</td></tr><tr><td>Pigeon Singapore Pte. Ltd.</td><td>SGD1,670 thousand</td></tr><tr><td>Pigeon (Shanghai) Co., Ltd.</td><td>US\$400 thousand</td></tr><tr><td>Pigeon Industries (Thailand) Co., Ltd.</td><td>THB144 million</td></tr><tr><td>Thai Pigeon Co., Ltd.</td><td>THB122 million</td></tr></table>	Pigeon Home Products Co., Ltd.	¥488 million	Pigeon Will Co., Ltd.	¥100 million	Pigeon Kids World Co., Ltd.	¥30 million	PHP Hyogo Co., Ltd.	¥240 million	Fukuyo Ibaraki, Co., Ltd.	¥360 million	Pigeon Singapore Pte. Ltd.	SGD1,670 thousand	Pigeon (Shanghai) Co., Ltd.	US\$400 thousand	Pigeon Industries (Thailand) Co., Ltd.	THB144 million	Thai Pigeon Co., Ltd.	THB122 million
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Weaning-related products Baby mugs, cooking equipment, feeding accessories, bibs, baby food, baby beverages																				
Comfort and hygiene products Soaps, shampoos, oils, lotions, sunscreens, powders, baby wipes, wet tissues, cotton swabs, toothbrushes, nail clippers, cooling blankets, cooling sheets																				
“Edutainment” products Pacifiers, teething products, learning toys, bath toys																				
Others Children’s pharmaceuticals, digital thermometers, thermometer/barometers, scales, bathwater thermometers, child-safety goods, child car seats, child-rearing and educational services																				
Nursing Care	Adult disposable diapers, incontinence pads and pants, diaper covers, waterproof sheets, pillows, abdominal wipes, body wipes, urine and fecal containers, shampoos, sterilizers, deodorizers, crockery, bibs, oral hygiene products, walkers	<p>Nursing care is an important part of Pigeon’s “three-generation marketing” strategy. In this segment, we provide adult diapers and incontinence products.</p> <table><tr><td>Pigeon Home Products Co., Ltd.</td><td>¥488 million</td></tr><tr><td>Pigeon Manaka Co., Ltd.</td><td>¥10 million</td></tr><tr><td>PHP Hyogo Co., Ltd.</td><td>¥240 million</td></tr></table>	Pigeon Home Products Co., Ltd.	¥488 million	Pigeon Manaka Co., Ltd.	¥10 million	PHP Hyogo Co., Ltd.	¥240 million												
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Others	Dietary supplements, herbal teas, wet tissues, disinfectant sprays	<p>This segment mainly covers dietary supplements and herbal teas, focusing primarily on the specific needs of women from maternity to middle age and beyond. It also covers such products as general-use</p> <table><tr><td>Pigeon Quality of Life Co., Ltd.</td><td>¥30 million</td></tr></table>	Pigeon Quality of Life Co., Ltd.	¥30 million																
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In this document, statements other than historical facts are forward-looking statements that reflect Pigeon Corporation’s plans and expectations. These forward-looking statements involve risks, uncertainties, and other factors that may cause actual results and achievements to differ from those anticipated in these statements.

and Group Companies

Main Products

We were quick to establish an overseas presence, setting up a subsidiary in Singapore in 1978. Since then, we have formed manufacturing companies in Thailand and Indonesia, enabling us to provide products that reflect the specific cultural attributes of each country in various regions. Today, we are steadily increasing sales to Asia, the Middle East, and Europe. This segment is becoming a central driver of growth for the Pigeon Group.

100.0%	Manufacture of toiletry products
100.0%	Sales of maternity and infant products
100.0%	Provision of day-care and child-minding services
100.0%	Manufacture of Pigeon-brand non-woven fabric products
86.5%	Manufacture of Pigeon-brand wet tissues
100.0%	Manufacture and sale of Pigeon's trademark maternity and infant products
100.0%	Manufacture and sale of Pigeon's trademark maternity and infant products
97.5%	Manufacture of Pigeon's trademark maternity and infant products
53.0%	Manufacture of Pigeon's trademark infant products



Baby and Child Care



We believe that this business will become a key pillar in the Corporation's operations given the rapid growth of the nursing-care market.

100.0%	Manufacture of toiletry products
67.0%	Sale of the Corporation's nursing-care products
100.0%	Manufacture of Pigeon-brand non-woven fabric products



Nursing Care

wet tissues and sterilization spray. Utilizing Pigeon's accumulated know-how, we are working to cultivate new markets.

100.0%	Product planning and sale of the Corporation's health foods
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Others

To Our Shareholders

Based on our corporate commitment, “providing the gift of love to all,” we are mobilizing our child-rearing business to support the lifestyles of families everywhere.

Message from the Management

We are leveraging the Pigeon brand and the quality of our management to build a high corporate profile that is recognized worldwide.

Results

The Pigeon Group's main businesses—baby and child care, and nursing care—have been affected by falling market prices in recent years, especially in the consumable goods category. In the fiscal year ended January 31, 2003, this trend showed signs of bottoming out. Nevertheless, the operating environment remained very difficult throughout the period.

Faced with these challenges, we actively launched new products and cut overall costs. The success of these actions was reflected in our performance, which saw improvements in both revenues and earnings.

It was the first year of Corporate Value Creation 21, our medium-term management plan for the three years to January 2005. Thanks to strategies implemented under the plan so far, we reported generally favorable results.

Consolidated net sales for the year amounted to ¥33,057 million, up 4.1% from the preceding term. Operating income jumped 67.9%, to ¥2,497 million, and the Group reported net income of ¥849 million, compared with a net loss of ¥342 million in the previous year.

Outlook

Pigeon's original “three-generation marketing” strategy targets babies, mothers, and the elderly. Guided by this strategy, we will take full advantage of synergies derived from our baby and child care businesses and our child-rearing support operations. In the process, we intend to raise our market profile and solidify our competitive position.

Consolidated Results (years ended January 31)

(¥ millions, %)				
Segment	2003	2002	Change	% change
Baby and child care	28,535	27,585	949	3.4
Nursing care	3,739	3,535	204	5.8
Others	782	619	162	26.3
Total	33,057	31,740	1,317	4.1

Nonconsolidated Results (years ended January 31)

(¥ millions, %)				
Segment	2003	2002	Change	% change
Baby and child care	25,505	24,852	652	2.6
Nursing care	3,486	3,345	141	4.2
Others	511	602	-91	-15.2
Total	29,503	28,800	702	2.4



Seiichi Matsumura
President and Chief Operating Officer

From August 1, 2003, our child-rearing support business will operate as an independent company, enabling us to better manifest the strengths we have acquired to date. Overseas, we are placing particular emphasis on the rapidly growing Chinese market, where we will work to raise recognition of the Pigeon brand.

The domestic elderly care market continues to expand. Here, we will further reinforce cost competitiveness while implementing sales strategies designed to ensure steady market gains in the future.

In our other businesses, we will try to boost revenues by enhancing product recognition of our dietary supplements and herbal beverages, including a herbal tea developed especially for pregnant women.

In the year ahead, we expect that cost-cutting measures, centering on production and distribution, will make a significant contribution to our financial performance.

We anticipate that the actions described above will enable us to further build on the earnings recovery we achieved in the year under review. For the fiscal year to January 2004, the Corporation projects consolidated net sales of ¥35,030 million, up 6.0%. We also forecast a 6.5% increase in operating income, to ¥2,660 million, and a 36.6% jump in net income, to ¥1,160 million.

We look forward to your continuing support and cooperation as the Pigeon Group embraces the challenges ahead.

June 2003

Pigeon's Growth Strategies

Three-Generation Marketing: The Corporate Value Creation 21 Plan

Amid a rapidly changing business environment, characterized by low birth rates and an aging population, the Pigeon Group has formulated a medium-term management plan designed to build a framework for sustained revenues and earnings increases in the future. Entitled Corporate Value Creation 21, the plan covers the three-year period from February 2002 to January 2005 and focuses on “three-generation marketing” and reinforcement of our overseas business strategies. The year under review was the first year of the plan, and the Group made a solid start toward achieving the plan's financial targets for the fiscal year ending January 2005, summarized below.

Targets of Corporate Value Creation 21 plan	
Nonconsolidated net sales:	¥31.5 billion
Consolidated net sales:	¥38.2 billion
Consolidated operating income ratio:	8%
Consolidated ROA (ratio of ordinary income to total assets):	8%

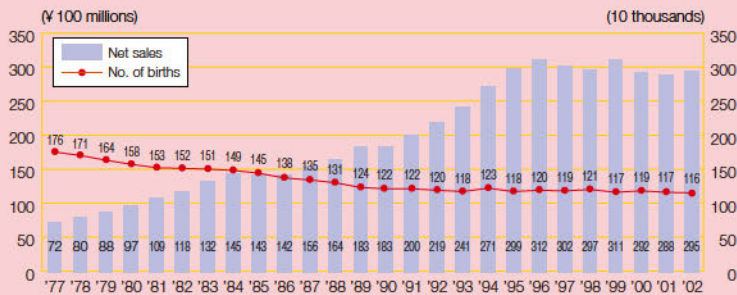
The success of Corporate Value Creation 21 will revolve around Pigeon's “three-generation marketing” strategy targeting babies, mothers, and the elderly. The three main initiatives outlined under the plan are as follows.

1. Expand child-rearing support business
2. Broaden overseas operations
3. Improve business efficiency

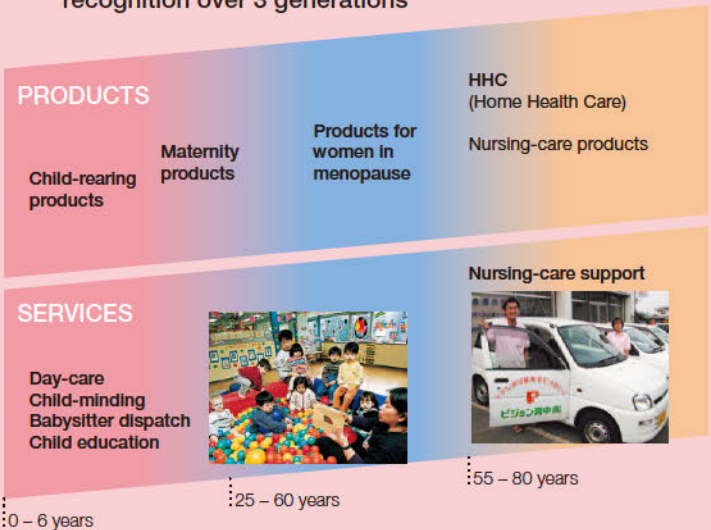
Instilling the “Three-Generation Marketing” Concept

Three-generation marketing, the core element of our medium-term plan, calls for the Pigeon Group to reinforce brand loyalty by providing peace of mind and safe, reliable products. Specifically, we will develop offerings for three generations—babies, mothers, and the elderly—while targeting deeper market penetration to enhance recognition of the Pigeon name.

●●● No. of births, Pigeon's net sales (nonconsolidated)



●●● Expanding our business: Raising Pigeon-brand recognition over 3 generations



1. Expand Child-Rearing Support Business

Market Overview

The low-birthrate situation in Japan shows no sign of recovering. While this does not bode well for our domestic baby and child care business, we are optimistic about trends in related areas. For example, the national government has introduced a number of deregulatory measures designed to alleviate the low-birthrate problem. These measures are having a dramatic effect on the child-rearing support business, which includes child-minding, day-care, and babysitting services.

A closer look at the low-birthrate situation reveals a number of interesting facts. For instance, the growing trend toward having only one child means that spending per child on rearing and education is also increasing. This shows that the business environment is not completely dominated by negative factors.

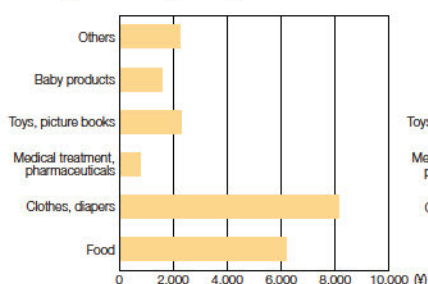
The Pigeon Difference

Our most valuable asset and distinguishing feature is the "Pigeon" corporate brand. Supporting this brand is a proven record of results and reliability built up over many years of working with children, parents, and doctors, as well as specialists in various related areas.

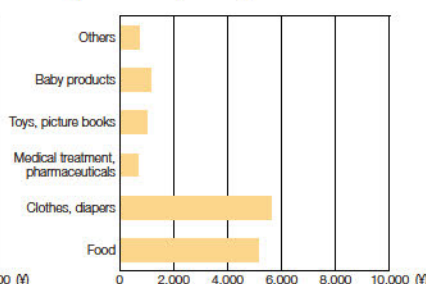
Backed by our strong corporate brand, we are dramatically raising our market presence by taking advantage of synergies arising from our activities in two areas: our core business in selling baby and child care products, and our child-rearing support operations. Our basic policy is to further capitalize on these synergies and thus consolidate our competitive position.

On August 1, 2003, we plan to transfer the operations of three businesses currently handled by the parent company—child-minding, day-care, and babysitter-dispatch services—to Pigeon Kids World Co., Ltd., a consolidated subsidiary. By concentrating on these

●●● Total monthly spending (1st child): ¥21,271



●●● Total monthly spending (2nd child): ¥14,301



●●● Average monthly expenditures per infant

Segment	1996	1997	1998	1999	2000	2001	2002
Powdered milk	1,797	2,010	1,827	1,813	1,711	1,836	1,798
Baby food	998	949	907	886	962	915	785
Cow's milk	977	709	747	658	609	557	514
Snacks	1,053	835	838	789	831	749	718
Other food	2,739	2,382	2,374	2,173	2,250	2,087	1,876
Subtotal (food)	7,564	6,885	6,693	6,319	6,363	6,144	5,691
Clothes (under, outer), shoes, etc.	4,987	4,628	4,115	3,937	3,685	3,741	3,435
Cloth diapers, diaper covers/liners, etc.	180	142	103	121	99	189	156
Disposable diapers	3,582	3,693	3,496	3,446	3,345	3,184	3,267
Cloth diaper rental	56	43	25	19	28	31	33
Subtotal (clothes, diapers)	8,805	8,506	7,738	7,523	7,157	7,145	6,891
Medical treatment, pharmaceuticals	1,345	981	1,165	931	1,047	781	748
Toys	1,560	1,511	1,367	1,237	1,281	1,270	1,235
Picture books	520	438	736	387	423	403	440
Subtotal (toys, picture books)	2,080	1,949	2,103	1,625	1,705	1,673	1,675
Breastfeeding/weaning crockery	235	229	205	247	241	284	308
Bathing/hygiene accessories	1,062	972	975	901	1,127	1,103	1,122
Subtotal (breastfeeding, weaning, bathing, hygiene)	1,297	1,201	1,180	1,148	1,368	1,387	1,431
Outdoor, furniture, beds, etc.	1,636	1,721	1,775	1,632	1,686	2,304	1,432
Total	22,728	21,242	20,654	19,176	19,326	19,434	17,869

businesses, Pigeon Kids World will proceed to develop its operations as a rejuvenated entity.

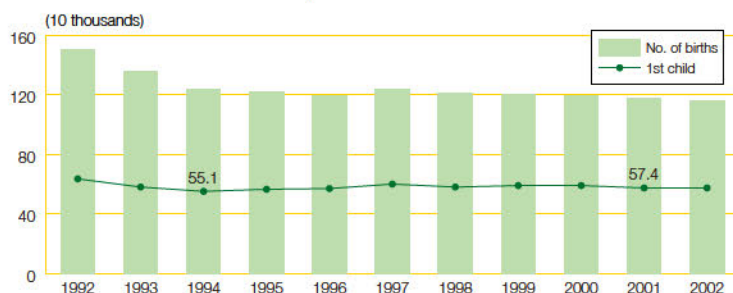
Demonstrating the strengths we have built up over the years, we are seeking to establish a dominant position in the child-rearing support business. Key factors in this endeavor are the quality of our child-minding, day-care, and babysitter-dispatch services, as well as the scope of our business. Although we will transfer the bulk of these operations to Pigeon Kids World, the parent company will continue operating the directly managed Pigeon Land group of child-minding centers, for which we are targeting ¥50 billion in annual revenues by the fiscal year to January 2008.

In April 2002, we had the honor of becoming the first shareholder-owned company to receive official permission to

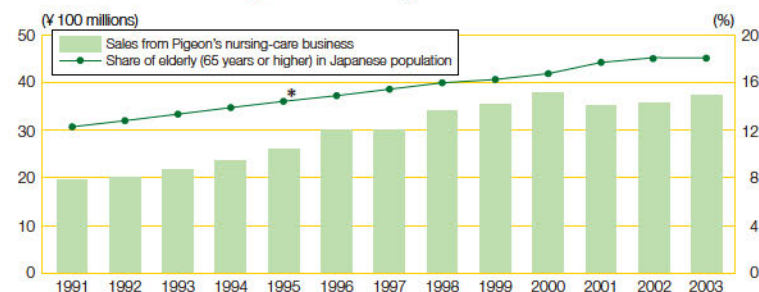
operate a child-minding operation in Ibaraki Prefecture, when the local government authorized our Pigeon Land Josso center.

We also operate in-company child-minding centers on behalf of various large firms. In our babysitter business, meanwhile, we have broadened our service territory to include Nagoya City and vicinity, in addition to the current Tokyo metropolitan and Osaka areas. Both businesses continue to post improved year-on-year results.

●●● Total no. of births ; No. of 1st child births



●●● Share of elderly in Japanese population; Sales from Pigeon's nursing-care business



*Source: Report on population trends compiled by Statistics Bureau, Ministry of Public Management, Home Affairs, Posts and Telecommunications (figures for 1995 derived from national censuses)



Pigeon Land Josso child-minding center

●●● Size of Japanese market for home healthcare products (value of units shipped)

Segment	Related products	2000	2001	(2001/2000) %
Food-related	Nursing-care foods	47,400	48,850	103.1
	Aprons	520	630	121.2
	Medicine containers	310	330	106.5
	Crockery, cutlery	1,520	1,660	109.2
Mobility-related	Wheelchairs	4,870	5,200	106.8
	Walkers	180	220	122.2
	Walk-assisters	1,350	1,500	111.1
	Walking sticks	15	20	133.3
Sleeping-related	Electric wheelchairs	380	480	126.3
	Nursing-care mattresses	925	980	105.9
	Inflatable mattresses	375	400	106.7
	Waterproof sheets (disposable)	260	300	115.4
Skincare-related	Waterproof sheets (reusable)	600	600	100.0
	Bottom wipes	890	910	102.2
	Sterilizers, skin-care items	24,900	25,720	103.3
	Flat type	7,630	7,500	98.3
Disposable diapers	Shorts type	17,200	17,350	100.9
	Adhesive-stop type	11,250	10,980	97.6
	Urine-absorbent pads	12,220	14,120	115.5
	In continence pads	2,720	3,050	112.1

Note: Above figures are rounded down to the nearest million yen.

2. Broaden Overseas Operations

Market Overview

At first glance, prospects for our overseas business may not seem bright, as the world continues to feel the effects of global recession and the threat of terrorism. Nevertheless, Pigeon has made steady progress in exporting its products to South Korea, China, and the Middle East. We are particularly interested in China, with its population of 1.2 billion and rapidly expanding economy. We feel that China will present significant opportunities for business growth in the future.

The Pigeon Difference

Through many years as a manufacturer, we have earned a reputation for reliability, and this reputation is our greatest strength and feature in the eyes of overseas customers. Many of our products continue to attract strong demand, including baby bottles, breast feeding-related products, pacifiers, and toys. To meet burgeoning demand in North America, Pigeon Industries (Thailand) Co., Ltd., a manufacturing subsidiary, has beefed up its operations and now has a stable product supply system in place. In the future, we hope to increase overseas sales of Wet Nappu wipes and Fit-Up breast-feeding pads in an effort to cultivate these brands into strategic global products.

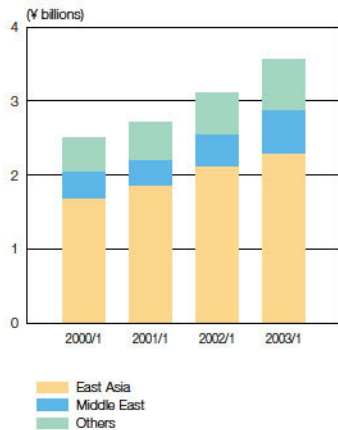
Targeting full-scale penetration of the Chinese market, in April 2002 we established Pigeon (Shanghai) Co., Ltd. We now have a solid base for securing a firm share of that nation's sharply growing market.

Thanks to successful marketing, the Pigeon name has become widely recognized in China as a high-quality brand. Our products are sold in top-end department stores and, despite being relatively expensive in comparison with local wages, have become enormously popular, selling out in many cases.

Going forward, we will strengthen our focus on China by raising recognition of the Pigeon brand. Specifically, we will actively launch new products, provide free samples to maternity hospitals, and advertise in local baby-related magazines.



●●● Consolidated overseas sales



Pigeon Industries (Thailand) Co., Ltd.



Shanghai Pacific Department Store

3. Improve Business Efficiency

Market Overview

In recent years, prices of our mainstay Oshiri Nappu baby wipes, both over-the-counter and wholesale, have been falling, but the rate of decline has begun to slow. In this period of prolonged deflation, however, consumers are expected to remain very price-sensitive. In response, we are working to further improve operating efficiency and curtail production costs.

The Pigeon Difference

In Japan, drugstore chains continue to make progress in broadening and dominating their business domains. To better serve such important customers, our Marketing Department has divided the nation into four blocks: North Japan, Tokyo Metropolitan Area, Central Japan, and West Japan. Within the Tokyo Metropolitan Area block, we have set up a marketing group to promote individual strategies for each drugstore chain.

We also established the Retail Support Group, charged with helping retail customers reinforce over-the-counter sales. Meanwhile, our Product Development Department is working to further raise product value while speeding up development of products that perfectly

match market needs. That department is divided into the R&D Center, which undertakes long-term product development stemming from basic research, and the CRP (Consumer Research Planning) Center, which formulates swift new-product proposals based on in-depth research into consumer behavior.

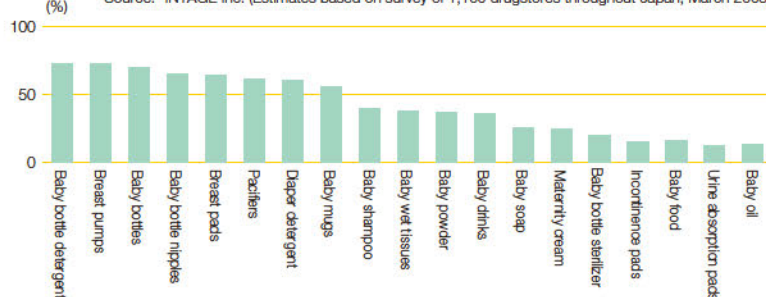
On the production side, we made PHP Hyogo Co., Ltd., into a wholly owned subsidiary in August 2002. This move has already brought the benefits we expected, such as low materials costs for nonwoven products and reduced transportation costs. We anticipate that PHP Hyogo will make an even stronger contribution to increased earnings in the future.

Pigeon is currently implementing a number of specific strategies to lower its distribution costs. We have clearly outlined the distribution cost ratio that we wish to achieve by January 2005, and we are undertaking various types of internal and external reforms in order to attain this objective.

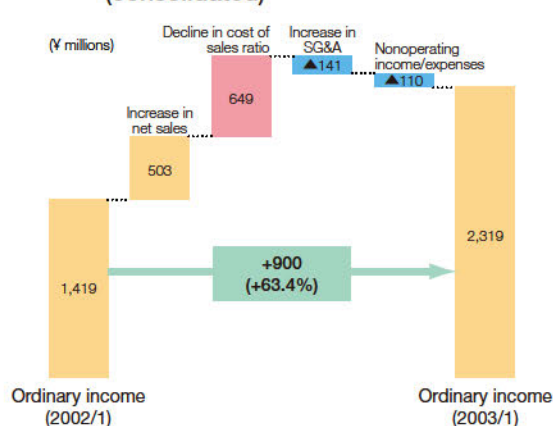
At the same time, we are actively building a framework to facilitate seamless cooperation between the purchasing and product development departments. In addition to raising product quality, we hope that closer interface between the two groups will lead to faster product development and lower purchasing costs.

Domestic market share of Pigeon's main products

Source: INTAGE Inc. (Estimates based on survey of 1,100 drugstores throughout Japan, March 2003)



Causes for ordinary income increases (consolidated)



Bird's-eye view of PHP Hyogo Co., Ltd.

Management's Discussion and Analysis of Operations

Performance

In the fiscal year ended January 31, 2003, Pigeon Corporation reported consolidated net sales of ¥33,057 million, up 4.1% from the preceding year. Domestic sales grew 3.3%, to ¥29,497 million, boosted by the launch of appealing new products. Overseas sales rose 12.2%, to ¥3,560 million, owing to increased sales of OEM products for Wal-Mart, the largest retail chain in the United States, as well as healthy sales of baby bottles, breast-feeding-related products, pacifiers, toys, and other items.

Operating income jumped 67.9%, to ¥2,497 million. In addition to the net sales increase, contributing factors included a 2.0-point improvement in the cost-to-sales ratio, as well as a 0.9-point decline in the ratio of selling, general, and administrative expenses to net sales owing to rationalization of production and distribution systems. The operating income ratio, therefore, rose to 7.6%, from 4.7%.

Return on equity (ROE) for the year was 4.8%, compared with minus 1.9% in the preceding term. The equity ratio slipped 1.4 points, to 55.1%.

Net income for the year amounted to ¥849 million, compared with a net loss of ¥342 million in the previous fiscal year. Net income per share was ¥43.02, up from a net loss per share of ¥17.07.

The Company paid a year-end cash dividend of ¥8.00 per share. This brought total annual dividends to ¥16.00 per share after adding the ¥8.00 interim dividend.

Baby and Child Care

In the fiscal year under review, sales in this segment amounted to ¥28,535 million, up 3.4% from the previous term.

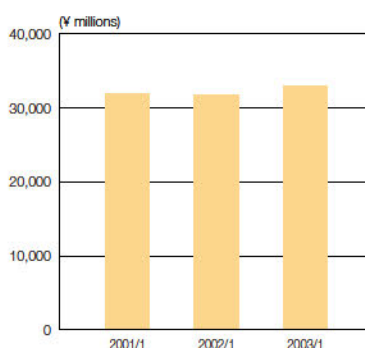
The prices of many of our products in this segment, especially consumables, have been falling, but the rate of decline has begun to level out. Nevertheless, the operating environment remained very difficult.

In response, Pigeon launched a number of new baby food products, such as steamed bread that can be easily heated in a microwave, and a line of carton-packed drinks for babies with optimal quantity and ingredients. We also introduced a foam-based baby soap for the whole body. Another new offering, a baby bottle with a nipple that closely resembles the real thing, was the result of many years of research into breast feeding. These and other products earned the confidence of customers and contributed to segment revenues.

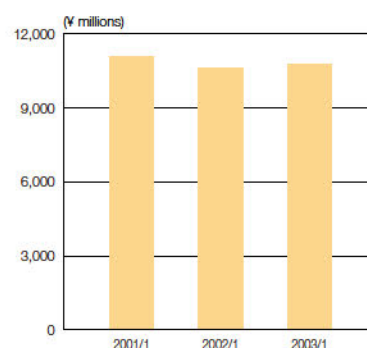
In child-rearing support services, Pigeon Land Joso, a directly managed child-minding center, in April 2002 became the first company-operated center in Ibaraki Prefecture to receive official government approval. In December 2002, Pigeon Land Yukigaya obtained official authorization to operate in Tokyo's Ota Ward. Both centers receive funding from their respective local government bodies, which we report as segment sales. We expect these operations to greatly boost the profitability of our child-rearing support services.

Meanwhile, we are expanding in-company child-minding center operations on behalf of large corporations, such as Nippon Yusen K.K., Mazda Motor Corp., and Denso Corporation. We have also expanded the territory covered by our babysitter dispatch services to include Nagoya City and surrounding areas. Both operations generated improved revenues in the year under review.

●●● Net sales



●●● Selling, general, and administrative expenses



During the year, we opened Pigeon Kids World day-care operations within railway stations owned and operated by Hankyu Corporation and Keihan Electric Railway Co., Ltd. As a result, Pigeon Kids World Co., Ltd., posted increased revenues and became profitable for the first time.

Overseas, we reported healthy sales of baby bottles, breast-feeding-related products, pacifiers, and toys, thanks to solid exports to South Korea, China, and the Middle East. Pigeon Industries (Thailand) Co., Ltd., set up a new production line for Wet Nappu wipes and expanded its production line for Fit-It breast pads. As a result, that company is now positioned to provide a stable supply of products to the rapidly expanding North American market. We intend to expand sales of Wet Nappu and Fit-It as strategic global lines in the future. In April 2002, we established Pigeon (Shanghai) Co., Ltd., a wholly owned subsidiary charged with spearheading our full-scale entry into the Chinese market. In forming the new company, we have built a foundation for securing a major share of that important market.

As illustrated by the various actions described above, we have continued making good progress in preparing a growth-oriented infrastructure—covering product planning, procurement, production, and sales—to support our overseas business.

Nursing Care

Revenues from nursing-care services grew 5.8%, to ¥3,739 million.

Our core business in this segment derives from sales of incontinence pads. These products are also positioned as mainstay items by our retail customers, although price competition has remained fierce. Seeking to expand our market share and boost segment revenues, we undertook aggressive sales activities in the year under review. As a result, sales of incontinence-related products and toiletries exceeded previous-year levels.

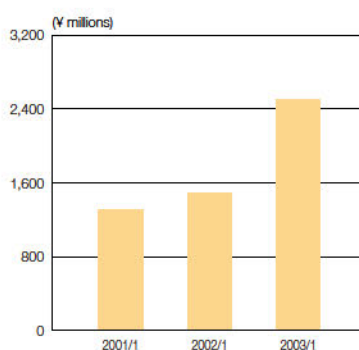
Pigeon Manaka Co., Ltd., which provides nursing-care dispatch services, is committed to establishing close ties with its local communities. In July 2002, Pigeon Manaka opened its third center in Tochigi Prefecture and looks set to turn a profit in the current fiscal period, its third year of operation.

Others

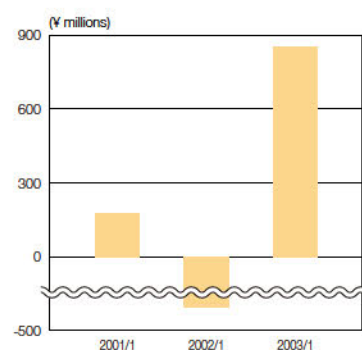
Sales from other operations jumped 26.3%, to ¥782 million.

In August 2002, we launched new dietary supplements and herbal teas containing natural ingredients to “sooth the body and soul.” We also modified the packaging of these lines to make them easier to identify and purchase, and we stepped up marketing to drugstore chains throughout Japan. However, sales of supplements and herbal teas failed to reach the levels of the previous year.

Operating income



Net income



Management's Discussion and Analysis of Operations

Projections

In the current fiscal year, ending January 31, 2004, the Pigeon Group projects consolidated net sales of ¥35,030 million, up 6.0%. We also forecast a 6.5% gain in operating income, to ¥2,660 million, and a 36.6% increase in net income, to ¥1,160 million.

Cash Flows

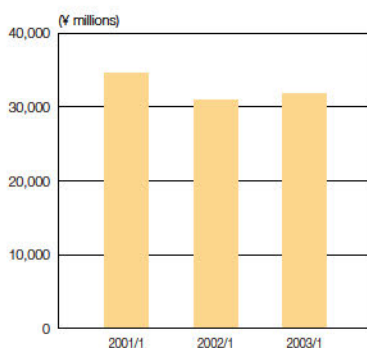
Net cash provided by operating activities amounted to ¥3,312 million, up 38.0%. Principal factors contributing to this gain included a solid pretax income figure of ¥1,828 million (up ¥2,201 million) and depreciation of ¥1,334 million (up 0.5%).

Net cash used in investing activities totaled ¥961 million (down 24.9%). Positive cash-flow factors included ¥110 million in net proceeds from purchases and sales of investment securities (down 11.0%). Negative factors included ¥1,201 million in purchases of tangible and intangible fixed assets (down 41.9%).

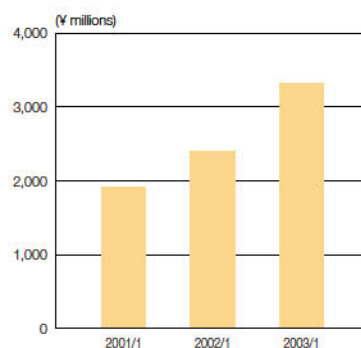
Net cash used in financing activities was ¥3,375 million (up 157.4%). Boosting cash flows was ¥1,211 million in net proceeds from short-term borrowings and repayments (up ¥1,467 million). Primary negative factors were ¥1,843 million in repayment of long-term loans (up 356.9%), ¥1,600 million in bond redemptions (up from zero), and ¥757 million in purchases of treasury stock (up 177.5%).

Despite a ¥279 million increase in cash due to the inclusion of new companies into the scope of consolidation, cash and cash equivalents at the end of the year under review amounted to ¥3,137 million, down 19.0%, or ¥735 million, from a year earlier.

●●● Total assets



●●● Cash flows from operating activities



Financial Data

●●● Consolidated Balance Sheets

(January 31, 2002 and 2003)

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
ASSETS			
Current Assets:			
Cash and time deposits	¥ 3,873	¥ 3,137	\$ 26,355
Notes and accounts receivable	7,281	7,508	63,071
Marketable securities	0	0	0
Inventories	2,821	2,791	23,445
Other current assets	445	489	4,112
Total current assets	14,422	13,927	116,986
Tangible Fixed Assets:			
Buildings	3,920	4,601	38,651
Land	5,229	5,876	49,365
Others	2,364	3,220	27,052
Intangible Fixed Assets	581	604	5,079
Investments and Other Assets	4,453	3,603	30,266
Total fixed assets	16,549	17,906	150,413
Total Assets	¥ 30,972	¥ 31,833	\$ 267,399
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Notes and accounts payable	¥ 4,492	¥ 5,268	\$ 44,252
Short-term bank loans	12	1,212	0
Accrued amount payable	834	1,026	8,622
Other current liabilities	4,418	2,869	24,103
Total current liabilities	9,757	10,376	87,164
Long-Term Liabilities:			
Long-term borrowings	2,072	2,106	17,690
Other long-term liabilities	892	932	7,835
Total long-term liabilities	2,965	3,038	25,525
Total Liabilities	12,723	13,415	112,688
Minority Interests	763	865	7,266
Shareholders' Equity:			
Capital stock	5,199	5,199	43,676
Additional paid-in capital	5,133	5,133	43,121
Consolidated retained earnings	7,697	8,033	67,481
Unrealized losses on available-for-sale securities, net of tax	0	(175)	0
Adjustment on foreign currency statement translation	(273)	(341)	(2,869)
Treasury stock, at cost	(272)	(296)	(2,491)
Total shareholders' equity	17,485	17,553	147,444
Total Liabilities and Shareholders' Equity	¥ 30,972	¥ 31,833	\$ 267,399

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥119.05=U.S.\$1.00.

Financial Data

●●● Consolidated Statements of Income

(For the years ended January 31, 2002 and 2003)

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Net Sales	¥ 31,740	¥ 33,057	\$ 277,675
Operating Costs and Expenses:			
Cost of sales	19,617	19,782	166,170
Selling, general and administrative expenses	10,635	10,777	90,528
Operating Income	1,487	2,497	20,977
Other Income	395	385	3,241
Other Expenses	462	563	4,735
Ordinary Income	1,419	2,319	19,483
Extraordinary Income	406	6	56
Extraordinary Loss	2,198	497	4,177
Income (Loss) before Income Taxes	(373)	1,828	15,361
Income Taxes	415	792	6,660
Adjustment for Corporate Tax	(613)	(17)	(146)
Less: Minority Interest in Net Income of Consolidated Subsidiaries	166	203	1,707
Net Income (Loss)	¥ (342)	¥ 849	\$ 7,140

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥119.05=U.S.\$1.00.

●●● Consolidated Retained Earnings

(For the years ended January 31, 2002 and 2003)

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Balance at Beginning of the Term	¥ 8,392	¥ 7,697	\$ 64,660
Deferred tax-effect adjustment	—	—	0
Decrease in Consolidated Retained Earnings	351	514	4,319
Cash dividends paid	322	312	2,628
Bonuses to directors and corporate auditors	29	2	24
Net Income (Loss)	(342)	849	7,140
Balance at End of the Term	¥ 7,697	¥ 8,033	\$ 67,481

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥119.05=U.S.\$1.00.

●●● Consolidated Statement of Cash Flows

(For the years ended January 31, 2002 and 2003)

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Cash Flows from Operating Activities	¥ 2,400	¥ 3,312	\$ 27,827
Cash Flows from Investing Activities	(1,279)	(961)	(8,078)
Cash Flows from Financing Activities	(1,311)	(3,375)	(28,354)
Translation Gain (Loss) Related to Cash and Cash Equivalents	12	9	76
Net Change in Cash and Cash Equivalents	(177)	(1,015)	(8,529)
Cash and Cash Equivalents at Beginning of Year	4,050	3,873	32,536
Net Change in Cash and Cash Equivalents Due to Newly Consolidated Companies	—	279	2,351
Cash and Cash Equivalents at End of Year	¥ 3,873	¥ 3,137	\$ 26,358

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥119.05=U.S.\$1.00.

Corporate Information

Corporate Data

(As of January 31, 2003)

Date of Establishment	August 15, 1957
Paid-in Capital	¥5,199,597,000
Number of Shares	Authorized: 60,000,000 Issued: 20,275,581
Number of Shareholders	13,979

Stock Listing

Tokyo Stock Exchange, First Section (Code 7956)

Transfer Agent and Registrar

Mitsubishi Trust and Banking Corporation

Consolidated Subsidiaries

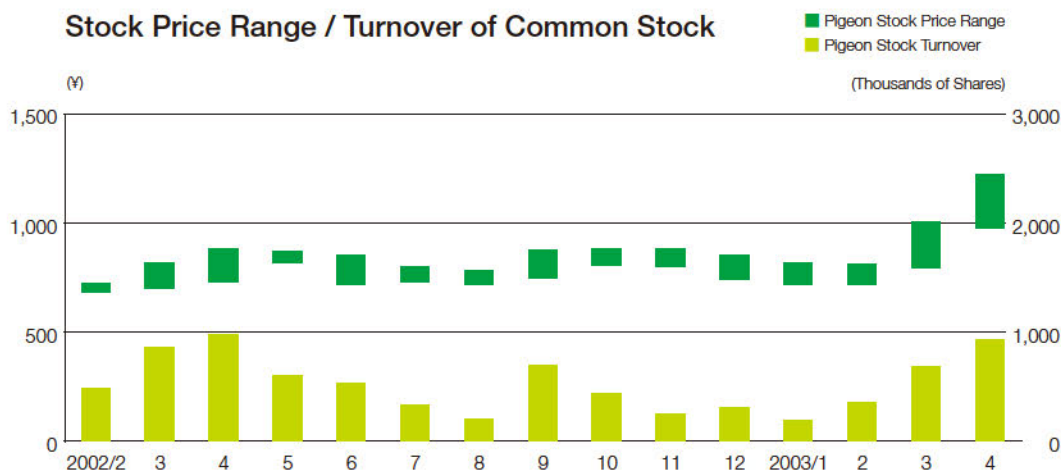
Pigeon Home Products Co., Ltd.
Pigeon Will Co., Ltd.
Pigeon Kids World Co., Ltd.
Pigeon Quality of Life Co., Ltd.
PHP Hyogo Co., Ltd.
Pigeon Manaka Co., Ltd.
Fukuyo Ibaraki Co., Ltd.
Pigeon Singapore Pte. Ltd.
Pigeon (Shanghai) Co., Ltd.
Pigeon Industries (Thailand) Co., Ltd.
Thai Pigeon Co., Ltd.

Board of Directors and Auditors

(As of April 25, 2003)

Chairman and Chief Executive Officer	Yoichi Nakata
President and Chief Operating Officer	Seiichi Matsumura
Senior Managing Director	Tetsuo Ogawa
Managing Director	Hiroko Shimada
Directors	Yoshio Toyoda Takashi Kurashima Mitsugu Takahashi
Standing Auditors	Akiyoshi Ushiki Hiroshi Ota
Statutory Auditors	Shigeru Sugino Shigeru Nishiyama
Senior Managing Officer	Hisashi Katsuki
Managing Officers	Akio Ohkoshi Yasushi Takashima Shigeru Sato Tatsuya Sugo Kimiyoichi Tanaka Akira Nagasaka Harumi Yamamoto Kazuhiko Ota

Stock Price Range / Turnover of Common Stock



PIGEON CORPORATION

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Tel: +81-3-3252-4111

+81-3-3252-4113 (Investor Relations)

Fax: +81-3-3252-9105

Office

Ami-machi, Inashiki-gun, Ibaraki

Distribution center

Ami-machi, Inashiki-gun, Ibaraki

Hitachiota-shi, Ibaraki

Kanzakicho, Kanzaki-gun, Hyogo

Research center

Yawaharamura, Tsukuba-gun, Ibaraki

Domestic sales offices

Sapporo, Sendai, Saitama, Tokyo, Yokohama,
Nagoya, Osaka, Hiroshima, Takamatsu, Fukuoka

Child-minding centers

5 (directly managed)

28 (consignment contract)

28 (Kids World franchises)

URL http://www.pigeon.co.jp/
