FANCL

Annual Report 2001

Year Ended March 31, 2001

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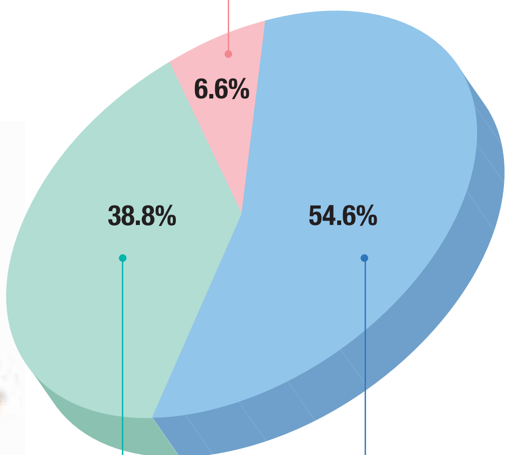
FANCL at a Glance



Other Businesses

- Comfortable Lifestyle Business
- Germinated Brown Rice Business
- Kale Juice Business
- Business Targeting Seniors

Nutritional Supplements Business

- **Health Supplements**
  High quality nutritional supplements at reasonable prices
- **Beauty Supplements**
  Nutritional supplements that make you beautiful from the inside

Cosmetics Business

- **FANCL Cosmetics**
  Preservative-free Cosmetics
- **ATTENIR Cosmetics**
  High quality cosmetics at reasonable prices

FANCL Group

- Manufacture and sales of FANCL cosmetics
- Sales of nutritional supplements
- Other businesses

FANCL CORPORATION

ATTENIR CORPORATION

- Sales of ATTENIR cosmetics

NICOSTAR Co., Ltd.

- Manufacture of ATTENIR cosmetics
- Manufacture of nutritional supplements

NGC Co., Ltd.

- Mail-order sales of clothing and other goods

Results for the Fiscal Year Under Review

In representing the FANCL Group, I, Kenji Ikemori, would like to report to you the following statement of consolidated financial results for the fiscal year ended March 31, 2001.

In this fiscal year, we increased sales to ¥65,418 million, which was a 3.9% increase from the previous year. Our operating income was ¥8,632 million, a 25.2% decrease from the previous year, while our net income was ¥4,867 million, a 27.6% decrease from the previous year. The results were well below our initial target of gains in both sales and income. Taking the responsibility for this matter, I, as president, took a 20% reduction in compensation, while two representative directors gave up their representative rights.

While the decrease in income was mainly due to our aggressive investment in advertising implemented as part of our growth strategy, we must admit that it also was due to the decline in the competitiveness of our Group's core business, Cosmetics Business. While the market environment for this business deteriorated and sales were down partly as a result of customers stocking up products during the discount sales campaign held at the end of the previous fiscal year, our competitors also engaged in a battle to grab younger customers. As a result, the number of our mail-order customers declined and sales at our existing stores decreased. To emerge from this situation, we introduced a promotional "Point-up Service" to attract and retain more customers. We also put a temporary freeze on new store openings in our attempt to revitalize our existing stores. We plan to improve our products, develop cosmetics geared toward young consumers as well as toward senior consumers, expanding our market with a glamorous line up of products.

The market for nutritional supplements, on the other hand, is growing as we have experienced favorable growth in all of our sales channels: mail-order sales, store sales and wholesale disribution. Sales of our original products, such as Diet Supplements, Beauty Supplements and the Support Series products are increasing. We plan to continue developing highly original products through our cutting-edge research and development system. In addition, we will further strengthen our channels for store sales and wholesale distribution so that our customers will be able to purchase our products anywhere in Japan.

In Other Businesses, sales of Kaiteki Hadagi, or Comfort Undergarment, continued to grow. Our two new businesses, Hatsuga Genmai, or Germinated Brown Rice, and Kale Juice, took a net loss that grew this fiscal year because of aggressive spending on advertisement. They, however, are promising businesses for which we plan to promptly establish production and sales systems. We hope to develop them into our next core businesses following our Cosmetics and Nutritional Supplements Businesses.

Core Competence

A significant factor of FANCL Group's core competence is the ability to identify market needs and our research-and-development ability to create the products to meet those needs. I call the ability to identify market needs "the ability to resolve negative issues." Let me explain my philosophy. Once you look at products from the point of view of the customer, you notice some inconvenience, dissatisfaction, uneasiness or discomfort regarding products. If you find a way of resolving those negative issues, it could be a fine business. It does not matter whether the related industry is mature or not. In fact, I believe the business opportunity is greater when you challenge a mature industry that is content with their status quo. I founded FANCL, a maker of preservative-free cosmetics in 1980, when the cosmetic industry was already regarded as a mature industry. But I saw that skin problems caused by the preservatives in cosmetics had surfaced as a public concern. I asked myself then what I could to make the cosmetic products free of those preservatives. The result was the cosmetics I developed, packaged in small containers so that they could be used up quickly while still fresh, thus requiring no preservatives. I had changed women's uneasiness over using cosmetics on troubled skin into reassurance. The business, which I started single-handedly, won great support from many women and has been expanding rapidly.

In 1994, we started our Nutritional Supplements Business. Our aim was to change consumer's dissatisfaction over the price of nutritional supplements into satisfaction. To do so, we purchased carefully selected raw materials from throughout the world and manufactured our products at our own factory facilities. By minimizing money paid to intermediaries, we have succeeded in creating high-quality products at reasonable prices.

At present, the FANCL Group is trying to resolve more negative issues. We are doing so through our businesses in Germinated Brown Rice and Kale Juice, as well as businesses catered to the upcoming aging society. If one continues to cling to a single successful business, the grip will sooner or later weaken. The FANCL Group thus aims to continue developing new markets and creating new values by constantly identifying and resolving negative issues.

Kenji Ikemori

President
Kenji Ikemori

Cosmetics Business

This fiscal year, sales in the cosmetics industry continued to grow by volume but decreased in value for the third consecutive year due to a continued decline in product unit prices.

In Cosmetics Business, FANCL cosmetics developed products founded on its brand image of "safe and gentle." We improved and developed whitening cosmetics, and reduced the price of the popular Mild Cleansing Oil by 30%. ATTENIR started full-scale sales of Bonage, its product for individual types of skin.

Our marketing strategies included the September 2000 introduction of the "Point-up Service" to attract and retain our customers. We also started selling some of our face-wash products at all Lawson convenience stores. During this fiscal year, we opened 39 FANCL House shops, including two franchised shops, making the total number of shops 121 at the end of the fiscal year. We also opened four new ATTENIR shops, which made the total number of shops at the end of the fiscal year five.

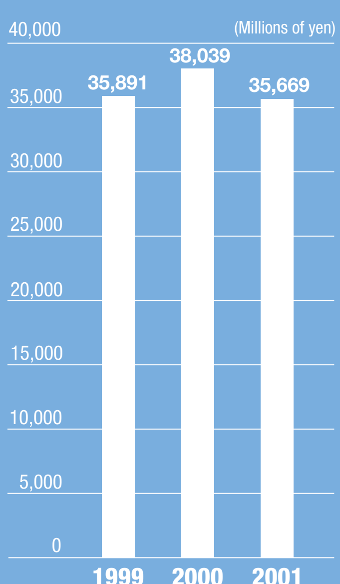
Despite such efforts, net sales from Cosmetics Business this fiscal year decreased by 6.2% from the previous year to ¥35,669 million. This was due to customers stocking up at the discount sales campaign we implemented at the end of the last fiscal year, which, consequently, led to a decrease in the number of mail-order customers this year. Existing stores also did not do well in sales.

Meanwhile, gross profit margin remained at about the same level as the previous fiscal year.

To put a stop to the decline in the number of our customers, we aggressively invested in advertising, particularly in the latter half of the fiscal year. As a result, the percentage of advertising expenses to sales went up from 8.5% to 12.2%, a 3.7-point increase. It became a major factor in the 4.5-point increase in selling, general and administrative expenses ratio to net sales.

Consequently, operating income this fiscal year came to ¥8,320 million, a 22.3% decline from the previous year. Operating income margin decreased 4.9 points to 23.3%.

Net Sales



	Millions of yen				Percent change
	2001		2000		
		% to net sales		% to net sales	2001/2000
Net sales	¥ 35,669	100.0 %	¥ 38,039	100.0 %	-6.2 %
Gross profit	27,792	77.9	29,783	78.3	
Selling, general and administrative expenses	19,472	54.6	19,070	50.1	2.1
Operating income	8,320	23.3	10,712	28.2	-22.3

Mild Cleansing Oil

White Essence

White Repair Cream

Bonage Series

Nutritional Supplements Business

The nutritional supplements industry this fiscal year saw an intensified competition because major companies, including food companies, joined the market at full force. The market size, however, continued to grow steadily along with the public awareness on health.

In Nutritional Supplements Business, we developed products based on our theme of "Beauty and Health," backed by our cutting-edge research and development system. In May 2000, we marketed the improved diet supplements Perfect Slim and Calolimit, and in August 2000, we started sales of Multi-Vitamins.

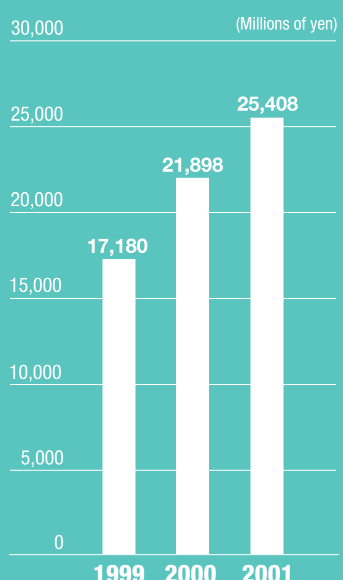
In October 2000, we started selling value-priced packages of nearly all of our products; three-month supplies at 15% off the regular price. We also started selling Beauty Supplements at the 7-Eleven convenience stores. During this fiscal year, we opened five Genki Station shops to make their total seven at the end of the fiscal year.

The number of our customers also grew steadily. Owing to the increased sales of our original products such as the Support Series, Diet Supplements and Beauty Supplements, net sales from Nutritional Supplements Business this fiscal year came to ¥25,408 million, a 16% increase from the previous year.

While wholesale distribution, which has higher sales costs, increased this fiscal year, the percentage of sales for original products, which have high gross margins, also grew. As a result, gross profit margin came to 69%, improving 2.3 points from the previous year's 66.7%.

Selling, general and administrative expenses ratio to net sales, meanwhile, remained at about the same level as the previous year. Consequently, operating income came to ¥4,694 million, a 30.8% increase over the previous year. Operating income margin grew 2.1 points to 18.5%.

Net Sales



	Millions of yen				Percent change
	2001		2000		
		% to net sales		% to net sales	2001/2000
Net sales	¥ 25,408	100.0 %	¥ 21,898	100.0 %	16.0 %
Gross Profit	17,532	69.0	14,615	66.7	
Selling, general and administrative expenses	12,839	50.5	11,028	50.3	16.4
Operating income	4,694	18.5	3,587	16.4	30.8

Diet Supplement

Multi-Vitamins

Value-priced package

Other Businesses

Sales of FANCL Kaiteki Hadagi, or Comfort Undergarment that resolves problems involving undergarments moved favorably mainly among existing FANCL customers.

In Hatsuga Genmai, or Germinated Brown Rice, Business, we enhanced wholesale distribution in addition to mail-order sales, cultivating the market among general merchandise stores and supermarkets nationwide.

Net sales of Germinated Brown Rice grew from January 2001 as its nutritional effects were also introduced in the media.

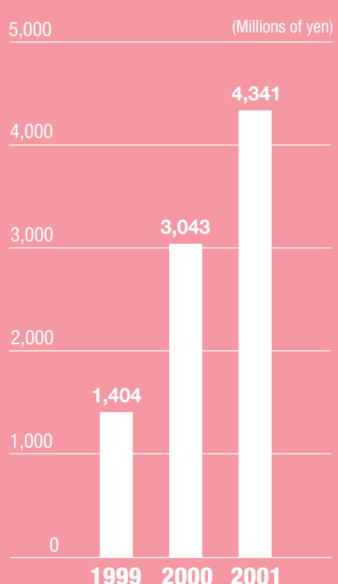
After test sales started January 2000, Kale Juice Business launched sales of the juice in August 2000 at all Three-F convenience stores. We also strove to increase product visibility by airing commercials on TV from February to March 2001.

In Publications Business, we worked on expanding circulation of our lifestyle magazine "Mainichi Ga Hakken (Everyday a New Discovery)" for the elderly and retired.

Consequently, net sales from Other Businesses grew 42.6% to ¥4,341 million.

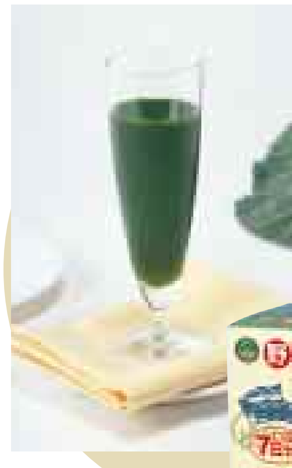
Due to expenses required for launching Germinated Brown Rice and Kale Juice businesses, and strategic investments on advertising on the two new businesses to expand them full-scale starting the next fiscal year, operating loss came to ¥2,532 million.

Net Sales



	Millions of yen				Percent change
	2001		2000		
		% to net sales		% to net sales	2001/2000
Net sales	¥ 4,341	100.0 %	¥ 3,043	100.0 %	42.6 %
Gross Profit	1,708	39.3	572	18.8	
Selling, general and administrative expenses	4,240	97.6	1,212	39.8	249.8
Operating income	(2,532)	-58.3	(641)	-21.0	–

Germinated Brown Rice



Kale Juice

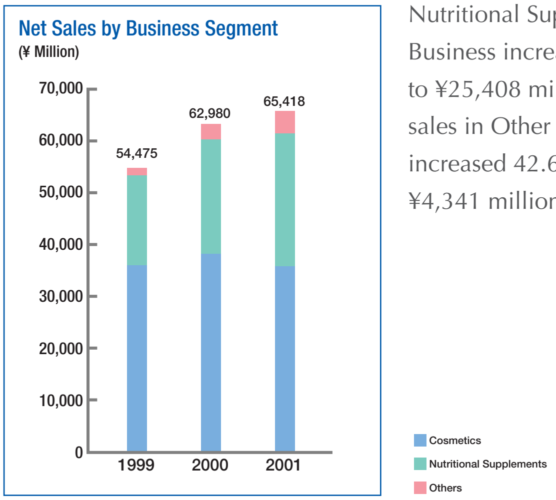
Kaiteki Hadagi (Comfort Undergarment)

Mainichi Ga Hakken (Everyday A New Discovery)

Income Analysis

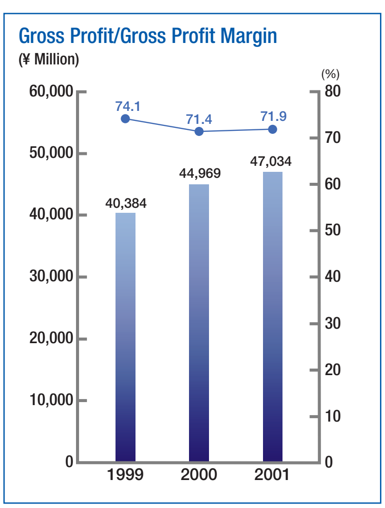
Net Sales

Net sales increased 3.9% from the previous fiscal year to ¥65,418 million. By business segment, sales in Cosmetics Business decreased 6.2% to ¥35,669 million while sales in Nutritional Supplements Business increased 16% to ¥25,408 million and sales in Other Businesses increased 42.6% to ¥4,341 million.



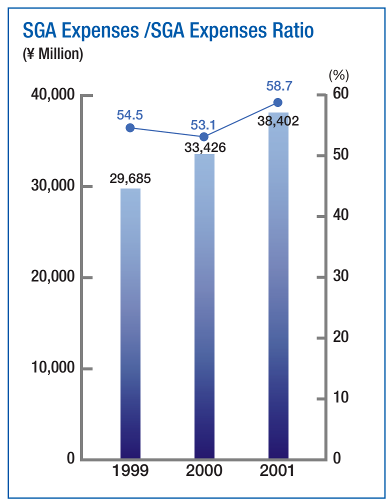
Gross Profit

Gross profit margin increased 0.5 point from the previous fiscal year to 71.9%. Despite gross profit margin being on a downward trend due to the increased percentage of sales from Nutritional Supplements Business and Other Businesses, both of which have a higher sales cost ratio than Cosmetics Business, we were able to increase gross profit margin by 0.5% this fiscal year. This was a result of the 2.3-point improvement in gross profit margin in Nutritional Supplements Business.



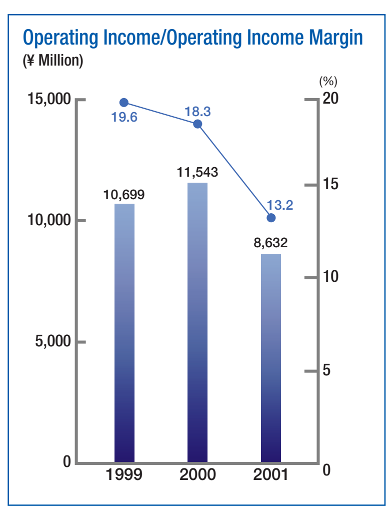
Selling, General and Administrative Expenses

Selling, general and administrative expenses ratio to net sales rose 5.6 points to 58.7%. The reasons for the increase are the rise in advertisement expenses and handling fees. We aggressively invested in advertisement in Cosmetics Business and Other Businesses. We did so to put a stop to the decline in the number of our customers in Cosmetics Business and to expand promising, new Germinated Brown Rice and Kale Juice businesses full-scale for the coming fiscal year and thereon afterwards. Advertising expenses came to ¥8,895 million while advertising expenses ratio to sales increased 3.9 points to 13.6%. Handling fees increased as we out-sourced the handling of information system and telemarketing operation. The handling fees ratio to sales increased 1.1 percentage points from the previous fiscal year.



Operating Income

Operating income this fiscal year declined 25.2% from the previous year to ¥8,632 million. Operating income margin declined 5.1 points to 13.2%, due to the increase in selling, general and administrative expenses ratio to net sales.



Other Income and Expenses

Interest and dividend income increased ¥48 million to ¥75 million, due to the increase in interests earned from the increased amount of loans to non-consolidated subsidiaries and affiliates. Interests paid decreased ¥30 million to ¥41 million, due to having repaid off debts.

Net other income and expenses improved ¥145 million from the previous year's expense of ¥93 million to income of ¥52 million. This improvement was due to the increase in other income.

Other income increased ¥160 million over the previous year to ¥811 million. The increase was due to insurance refunds, increased anonymous association investment income and the difference of ¥66 million that generated at the time of transition to the new accounting standards for retirement benefits.

Other expenses increased ¥14 million from the previous year to ¥759 million. Despite increased losses from disposal of fixed assets and evaluated loss of ¥70 million in golf memberships, the increase in other expenses remained at ¥14 million due to the stock issue expenses not generating this fiscal year when the previous year, they generated at ¥133 million.

Income before Income Taxes

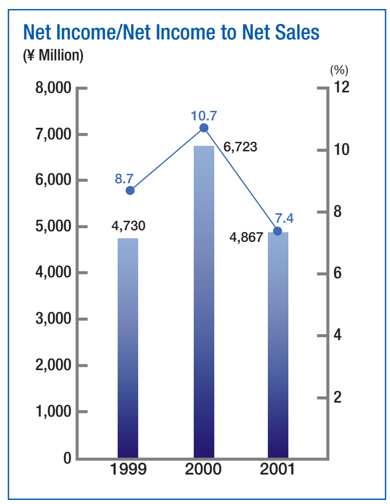
Income before income taxes decreased 23.6% from the previous year to ¥8,718 million. Its percentage to net sales decreased 4.8 points to 13.3%. The reason for this 4.8 points decline in this percentage despite the operating income margin decreasing 5.1 points was because net interest expense and "other, net" improved.

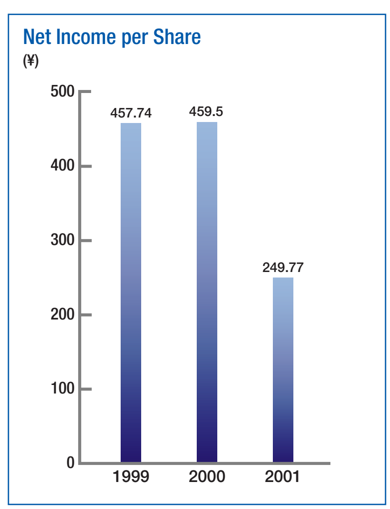
Net Income

Consequently, net income this fiscal year decreased 27.6% from the previous year to ¥4,867 million, while net-income-to-net-sales ratio decreased 3.3 points to 7.4%.

Basic net income per share this fiscal year was ¥249.77. As of the end of this fiscal year, we did not have any outstanding unexercised convertible bonds or debt equity warrants.

Return on equity decreased 6.8% from the previous fiscal year to 8.5%. This was due to the above-mentioned 27.6% decrease in net income and the 7.9% increase in shareholders' equity.





Financial Position and Capital Resources

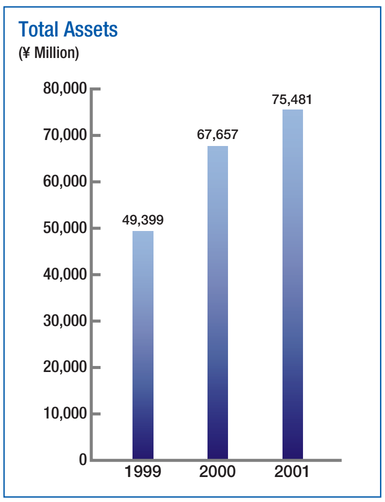
From this fiscal year, we have a new consolidated subsidiary, NGC Co., Ltd. ("NGC"). Consolidating NGC affected total assets and total liabilities and shareholders' equity by ¥4,196 million.

Assets

Current Assets

Current assets increased ¥3,479 million from the previous year to ¥41,701 million. The actual increase without the effect of having NGC is ¥1,041 million yen.

This increase is due to the increase in inventories and other current assets. Among inventories, raw materials for Nutritional Supplements Business increased along with the increase in sales. Other current assets also increased due to increased loans to affiliated companies such as FANCL Hatsuga Genmai Co., Ltd.



Property, Plant and Equipment

Property, plant and equipment increased ¥814 million from the previous year to ¥23,057 million. The actual increase without the effect of having NGC is ¥298 million.

Because most of capital investment this fiscal year was replacement investment, depreciation expenses exceeded the newly acquired property, plant and equipment decreasing the book value at year-end, construction in progress increased, due to investment on production facilities for the dry type of Germinated Brown Rice.

Intangible Assets

In intangible assets, by having NGC, goodwill of ¥1,424 million generated. We plan on amortizing the amount evenly in five years.

Investments and Other Assets

Investments and other assets increased ¥2,105 million from the previous fiscal year to ¥9,299 million. The actual increase without the effect of having NGC is ¥2,286 million. The increase was primarily due to increased investments in, and long-term loans to, non-consolidated subsidiaries and affiliates. Investments in non-consolidated subsidiaries and affiliates increased due to having established a sales company in Singapore, as well as a company to manage our Web site geared toward seniors. Long-term loans increased as we implemented a loan to FANCL Hatuga Genmai Co., Ltd. as factory construction funds for the dry type of Germinated Brown Rice.

Liabilities

Current Liabilities

Current liabilities increased ¥4,242 million from the previous fiscal year to ¥13,245 million. The actual increase without the effect of having NGC is ¥357 million. The increase is due to increased accounts payable for the increase in raw material purchases in Nutritional Supplements Business.

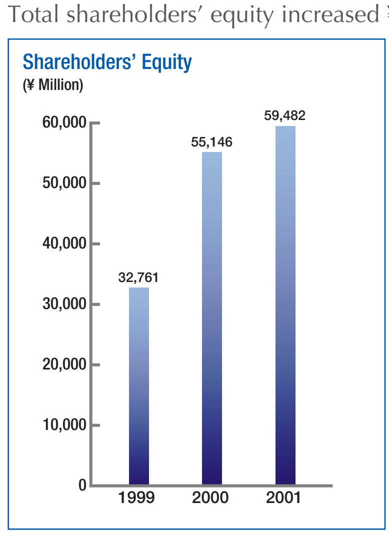
Noncurrent Liabilities

Noncurrent liabilities decreased ¥754 million from the previous fiscal year to ¥2,754 million. The actual decrease without the effect of having NGC is ¥1,064 million. The decrease is due to having repaid long-term debts.

Shareholders' Equity

Total Shareholders' Equity

Total shareholders' equity increased ¥4,335 million from the previous fiscal year to ¥59,482 million. The actual increase without the effect of having NGC is ¥4,334 million. The increase is due to posting this fiscal year's net income.



Capital Investment

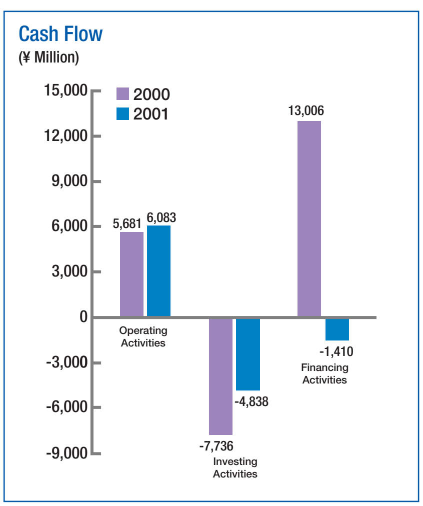
During this fiscal year, we implemented ¥2,695 million of capital investment.

By product segment, Cosmetics Business invested ¥226 million in Chiba Factory's machinery and metal molds and ¥253 million in establishing new shops; Nutritional Supplements Business invested ¥162 million in Food Yokohama Factory's machinery and ¥112 million in establishing new shops; and Other Businesses invested ¥126 million in Kale Juice Factory's production facilities and ¥1,167 million on Germinated Brown Rice Factory's production facilities.

No major equipment was eliminated or sold during this fiscal year.

Cash Flow

This fiscal year, while cash flows from operating activities and investing activities grew, cash and cash equivalents decreased by 161 million from the previous fiscal year to ¥27,947 million, due to a decrease in cash flow from financing activities.



Cash Flows from Operating Activities

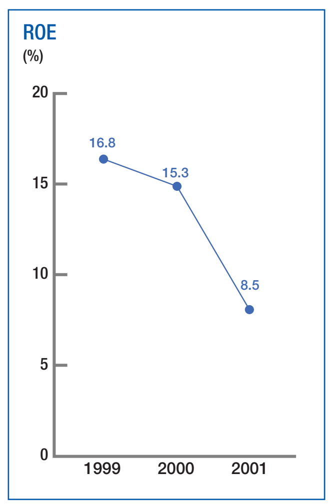
Although net income before income taxes decreased, cash flows from operating activities this fiscal year increased ¥402 million from the previous year to ¥6,083 million, due to an increase in accounts payable.

Cash Flows from Investing Activities

This fiscal year, there was no major investment in property as the previous fiscal year's major investment in the acquisition of property for the construction of Tokyo office. Thus, despite increased cash outflow due to loans receivable, cash flows used in investing activities this year came to ¥4,838 million, an increase of ¥2,897 million from the previous year.

Cash Flows from Financing Activities

In the previous fiscal year, we issued 500,000 shares of the common stock at market price. This fiscal year, however, we did not procure funds. Thus, cash flows used in financing activities came to ¥1,410 million, a decrease of ¥14,416 million from the previous fiscal year.



Consolidated Balance Sheets

FANCL Corporation and Consolidated Subsidiaries
As of March 31, 2001 and 2000

Assets	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 2) 2001
Current assets:			
Cash and cash equivalents (Note 5)	**¥ 27,947**	¥ 28,109	**$ 225,561**
Short-term investments	**–**	19	**–**
Notes and accounts receivable – trade	**7,968**	5,480	**64,310**
Less: Allowance for doubtful accounts	**(420)**	(28)	**(3,390)**
	7,548	5,452	**60,920**
Inventories (Note 3)	**4,759**	3,917	**38,410**
Deferred tax assets (Note 7)	**446**	416	**3,600**
Prepaid expenses and other current assets (Note 8)	**1,001**	308	**8,080**
Total current assets	**41,701**	38,221	**336,571**
Property, plant and equipment, at cost (Note 5):			
Land	**9,716**	9,274	**78,418**
Buildings and structures	**12,674**	12,274	**102,292**
Machinery and equipment	**7,287**	6,984	**58,814**
Construction in progress	**1,191**	32	**9,613**
	30,868	28,564	**249,137**
Less: Accumulated depreciation	**(7,811)**	(6,322)	**(63,043)**
Property, plant and equipment, net	**23,057**	22,242	**186,094**
Intangible assets:			
Goodwill	**1,424**	–	**11,493**
Investments and other assets:			
Investment securities (Note 5):			
Non-consolidated subsidiaries and affiliates	**969**	298	**7,821**
Other	**763**	723	**6,158**
	1,732	1,021	**13,979**
Long-term loans receivable	**1,585**	671	**12,793**
Deferred tax assets (Note 7)	**189**	170	**1,525**
Other assets	**5,825**	5,349	**47,013**
Less: Allowance for doubtful accounts	**(32)**	(17)	**(258)**
Total investments and other assets	**9,299**	7,194	**75,052**
Total assets	**¥ 75,481**	¥ 67,657	**$ 609,210**

Liabilities and shareholders' equity	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 2) 2001
Current liabilities:			
Short-term bank loans (Notes 4 and 5)	**¥ 1,170**	¥ –	**$ 9,443**
Current portion of long-term debt (Note 5)	**824**	864	**6,651**
Accounts payable – trade	**7,450**	4,643	**60,129**
Accrued income taxes	**2,305**	2,324	**18,604**
Other current liabilities	**1,496**	1,171	**12,074**
Total current liabilities	**13,245**	9,002	**106,901**
Noncurrent liabilities:			
Long-term debt (Note 5)	**1,092**	1,916	**8,814**
Deferred tax liabilities (Note 7)	**79**	–	**638**
Accrued retirement benefits (Note 8)	**1,250**	990	**10,089**
Other long-term liabilities	**333**	603	**2,688**
Total noncurrent liabilities	**2,754**	3,509	**22,229**
Contingent liabilities (Note 11)			
Shareholders' equity (Notes 6 and 15):			
Common stock, ¥50 par value:			
Authorized - 57,876,000 shares in 2001 and 2000			
Issued - 19,493,500 shares in 2001			
- 14,989,800 shares in 2000	**10,795**	10,791	**87,127**
Additional paid-in capital	**11,706**	11,702	**94,479**
Retained earnings	**36,978**	32,654	**298,450**
Net unrealized holding gain on other securities	**5**	–	**40**
Less: Treasury stock	**(2)**	(1)	**(16)**
Total shareholders' equity	**59,482**	55,146	**480,080**
Total liabilities and shareholders' equity	**¥ 75,481**	¥ 67,657	**$ 609,210**

See notes to consolidated financial statements.

Consolidated Statements of Income

FANCL Corporation and Consolidated Subsidiaries
For the years ended March 31, 2001 and 2000

	Millions of yen		*Thousands of U.S. dollars (Note 2)*
	2001	2000	**2001**
Net sales	**¥65,418**	¥ 62,980	**$ 527,990**
Cost of sales	**18,384**	18,011	**148,378**
Gross profit	**47,034**	44,969	**379,612**
Selling, general and administrative expenses (Note 9)	**38,402**	33,426	**309,943**
Operating income	**8,632**	11,543	**69,669**
Other income (expenses):			
Interest and dividend income	**75**	26	**605**
Interest expense	**(41)**	(72)	**(331)**
Other, net	**52**	(93)	**420**
Income before income taxes	**8,718**	11,404	**70,363**
Income taxes (Note 7):			
Current	**3,751**	4,789	**30,274**
Deferred	**100**	(108)	**807**
	3,851	4,681	**31,081**
Net income (Note 12)	**¥ 4,867**	¥ 6,723	**$ 39,282**

See notes to consolidated financial statements

Consolidated Statements of Shareholders' Equity

FANCL Corporation and Consolidated Subsidiaries
For the years ended March 31, 2001 and 2000

	Common stock		Millions of yen				
	Number of shares	Amount	Additional paid-in capital (Note 6)	Retained earnings (Notes 6 and 15)	Net unrealized holding gain on other securities	Treasury stock	Total shareholders' equity
	(Thousands of shares)			*(Millions of yen)*			
March 31, 1999	11,128	¥ 2,977	¥ 3,888	¥25,896	¥ –	¥ –	¥32,761
1.3-for-1 stock split	3,338	–	–	–	–	–	–
Issuance of common shares	500	7,797	7,797	–	–	–	15,594
Exercise of warrants	23	17	17	–	–	–	34
Cumulative effect of initial adoption of interperiod tax allocation	–	–	–	478	–	–	478
Cash dividends	–	–	–	(423)	–	–	(423)
Directors' and statutory auditors' bonuses	–	–	–	(20)	–	–	(20)
Net income	–	–	–	6,723	–	–	6,723
Purchase of treasury stock	–	–	–	–	–	(1)	(1)
March 31, 2000	14,989	10,791	11,702	32,654	–	(1)	55,146
1.3-for-1 stock split	4,497	–	–	–	–	–	–
Exercise of warrants	7	4	4	–	–	–	8
Cash dividends	–	–	–	(543)	–	–	(543)
Net income	–	–	–	4,867	–	–	4,867
Purchase of treasury stock	–	–	–	–	–	(1)	(1)
Net unrealized holding gain on other securities	–	–	–	–	5	–	5
March 31, 2001	19,493	¥10,795	¥11,706	¥36,978	¥ 5	¥ (2)	¥59,482

	Thousands of U.S. dollars (Note 2)					
March 31, 2000	$87,095	$94,447	$263,551	$ –	$ (8)	$445,085
1.3-for-1 stock split	–	–	–	–	–	–
Exercise of warrants	32	32	–	–	–	64
Cash dividends	–	–	(4,383)	–	–	(4,383)
Net income	–	–	39,282	–	–	39,282
Purchase of treasury stock	–	–	–	–	(8)	(8)
Net unrealized holding gain on other securities	–	–	–	40	–	40
March 31, 2001	$87,127	$94,479	$298,450	$ 40	$(16)	$480,080

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

FANCL Corporation and Consolidated Subsidiaries
For the years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2001	2000	**2001**
Cash flows from operating activities:			
Income before income taxes	**¥ 8,718**	¥ 11,404	**$ 70,363**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	**2,379**	2,424	**19,201**
Allowance for doubtful accounts	**25**	7	**202**
Accrued retirement benefits, net of payments	**2**	0	**16**
Interest and dividend income	**(74)**	(26)	**(597)**
Interest expense	**40**	71	**323**
Loss on disposal of property, plant and equipment	**125**	67	**1,009**
Changes in operating assets and liabilities, net of effects of the purchase of NGC Co., Ltd.:			
Notes and accounts receivable - trade	**(1,401)**	(1,060)	**(11,308)**
Inventories	**(698)**	(1,170)	**(5,634)**
Other current assets	**(147)**	401	**(1,186)**
Other noncurrent assets	**271**	82	**2,187**
Accounts payable - trade	**538**	85	**4,342**
Other current liabilities	**131**	(785)	**1,057**
Other noncurrent liabilities	**29**	–	**234**
Interest and dividends received	**76**	26	**613**
Interest paid	**(39)**	(69)	**(315)**
Income taxes paid	**(3,980)**	(5,696)	**(32,122)**
Other, net	**88**	(80)	**711**
Net cash provided by operating activities	**6,083**	5,681	**49,096**
Cash flows from investing activities:			
Purchases of property, plant and equipment	**(2,385)**	(5,439)	**(19,249)**
Proceeds from sale of property, plant and equipment	**11**	–	**89**
Purchases of software	**(643)**	(494)	**(5,190)**
Purchase of stock of affiliates	**(652)**	–	**(5,262)**
Acquisition of NGC Co., Ltd., net of cash acquired (Note 13)	**1,137**	–	**9,177**
Purchases of other investment securities	**(161)**	(218)	**(1,299)**
Additions to long-term loans receivable	**(1,611)**	(787)	**(13,002)**
Collections of long-term loans receivable	**123**	–	**993**
Increase in lease deposits	**(546)**	(381)	**(4,407)**
Other	**(111)**	(417)	**(898)**
Net cash used in investing activities	**(4,838)**	(7,736)	**(39,048)**
Cash flows from financing activities:			
Decrease in short-term bank loans	**–**	(39)	**–**
Repayment of long-term debt	**(864)**	(2,234)	**(6,973)**
Proceeds from issuance of common stock	**7**	15,628	**56**
Purchases of treasury stock	**(138)**	(692)	**(1,114)**
Proceeds from sale of treasury stock	**126**	764	**1,017**
Cash dividends paid	**(541)**	(421)	**(4,366)**
Net cash (used in) provided by financing activities	**(1,410)**	13,006	**(11,380)**
Effect of foreign exchange rate changes on cash and cash equivalents	**3**	(2)	**24**
Net increase in cash and cash equivalents	**(162)**	10,949	**(1,308)**
Cash and cash equivalents at beginning of year	**28,109**	17,160	**226,869**
Cash and cash equivalents at end of year	**¥ 27,947**	¥ 28,109	**$ 225,561**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

FANCL Corporation and Consolidated Subsidiaries

Note 1: Summary of Significant Accounting Policies

(a) Basis of preparation

FANCL CORPORATION (the "Company") and its consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted in Japan. The accompanying consolidated financial statements have been prepared from the financial statements prepared by the Company as required by the Securities and Exchange Law of Japan and in conformity with accounting principles and practices generally accepted in Japan. Accordingly, the consolidated financial position, results of operations and cash flows presented in the accompanying financial statements may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan. For the purposes of this document, certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2000 financial statements to conform them to the 2001 presentation.

(b) Basis of consolidation

In accordance with the accounting standard for consolidation issued by the Business Accounting Deliberation Council, effective April 1, 1999, the accompanying consolidated financial statements include the accounts of the Company and all its subsidiaries over which substantial control is exerted through either majority ownership of voting stock and/or by other means. The adoption of this standard did not have any impact on the consolidated financial statements for the year ended March 31, 2000. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in non-consolidated subsidiaries and affiliates (companies over which the Company has the ability to exercise significant influence) are stated at cost because of their immateriality.

(c) Foreign currency translation

Effective the year ended March 31, 2001, the Company adopted a revised accounting standard for foreign currency translation ("Opinion Concerning Establishment of Accounting Standard for Foreign Currency Transactions") issued by the Business Accounting Deliberation Council on October 22, 1999.

At March 31, 2001, all assets and liabilities denominated in foreign currencies of the Company and the consolidated subsidiaries are translated at the current exchange rates in effect at each balance sheet date when not hedged by forward foreign exchange contracts, or at the contracted rates of exchange when hedged by forward exchange contracts. Noncurrent assets and liabilities denominated in foreign currencies of the Company and the consolidated subsidiaries were translated into yen at their historical rates at March 31, 2000.

The effect of adoption of this revised standard was immaterial.

(d) Cash equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in their value attributable to changes in interest rates, are considered cash equivalents.

(e) Securities

Effective the year ended March 31, 2001, the Company and consolidated subsidiaries adopted a new accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments") issued by the Business Accounting Deliberation Council on January 22, 1999.

This accounting standard for financial instruments requires the Company and consolidated subsidiaries to classify their securities into one of the following three categories: trading, held-to-maturity and other. At the beginning of the year, the Company and consolidated subsidiaries reviewed the classification of all their securities. Based on this classification, other securities with a maturity of less than one year have been included in current assets. All other securities have been included in investment securities - other as noncurrent assets.

Other securities with quoted market prices are carried at fair market value. The difference between the acquisition cost and the carrying value of other securities, including unrealized holding gain or loss is recognized as a component of shareholders' equity under "Net unrealized holding gains on other securities." The cost of other securities sold has been computed based on the average method, whereas in prior this was stated at the lower of cost (determined by the average method) or market. Other securities without quoted market prices are stated at cost based on the average method.

The effect of this change was to decrease income before income taxes by ¥71 million ($573 thousand), and to decrease securities in current assets by ¥50 million ($404 thousand) and increase investment securities in noncurrent assets by the same amount compared with the amounts which would have been recorded if the method applied in the previous year had been followed.

(f) Inventories

Finished goods, merchandise, work in process and raw materials are stated at cost by the average method. Supplies are stated at cost by the last purchase price method.

(g) Depreciation and amortization

Depreciation of property, plant and equipment of the Company and consolidated subsidiaries is calculated primarily by the declining-balance method based on the estimated useful lives of the respective assets. However, effective the year ended March 31, 1999, buildings (excluding structures attached to the buildings) acquired on and after April 1, 1998 by the Company and consolidated subsidiaries have been depreciated by the straight-line method.

Intangible assets are amortized by the straight-line method. The cost of software intended for internal use is amortized by the straight-line method over an estimated useful life of 5 years.

(h) Leases

Finance leases other than those which transfer the ownership of the leased assets to the lessee are not capitalized, but are accounted for by a method similar to that applicable to operating leases.

(i)Research and development expenses

Research and development expenses are charged to income when incurred.

(j) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on the collection of receivables, and has been determined based on historical write-off experience plus an estimated amount for probable doubtful accounts based on a review of the collectibility of individual receivables.

(k) Allowance for employees' bonuses

The allowance for employees' bonuses represents a provision for the future payment of employees' bonuses.

(l)Retirement benefits

Employees with three years or more of service are generally entitled to receive a lump-sum payment upon termination of employment with the Company, the amount of which is determined by reference to their basic rate of pay, length of service and the conditions under which the termination occurs.

The Company participates in a contributory defined benefit pension plan which entitles employees of the Company upon retirement at age 60 or more to either a lump-sum payment or pension annuity payments for life, or a combination of both, based on length of service, salary at the time of retirement and number of years of participation in the plan.

Effective the year ended March 31, 2001, the Company adopted a new accounting standard for retirement benefits ("Opinion Concerning the Establishment of Accounting Standard for Retirement Benefits") issued by the Business Accounting Deliberation Council on June 16, 1998. In accordance with this standard, the allowance for retirement benefits for employees has been provided based on an estimate of the retirement benefit obligation and the pension fund assets. In prior years, retirement allowances were provided at 100% of the retirement benefits which would have been required to be paid at the year end if all eligible employees who terminated their services voluntarily.

The effect of this change for the year ended March 31, 2001 was to decrease retirement benefit expenses by ¥144 million and to increase operating income and income before income taxes by ¥77 million ($621 thousand) and ¥143 million ($1,154 thousand), respectively, compared with the amounts which would have been recorded if the method applied in the prior year had been followed.

The transition difference of ¥66 million ($533 thousand) resulting from the initial adoption of the new accounting standard has been charged to income as other income for the year ended March 31, 2001.

Unrecognized actuarial net loss is amortized by the straight-line method over 5 years as a period within the average remaining service period of active employees when incurred commencing the following year.

The Company also provides an accrual for retirement allowances for directors and statutory auditors at the full amount which would be required to be paid if all directors and statutory auditors retired at the balance sheet date based on the Company's internal regulations.

(m) Stock issuance expenses

Stock issuance expenses are charged to income when incurred.

(n) Income taxes

Current income taxes are principally calculated on taxable income and charged to income on an accrual basis.

Effective April 1, 1999, in accordance with a new accounting standard issued by the Business Accounting Deliberation Council, the Company and consolidated subsidiaries adopted accounting for interperiod tax allocation and provided deferred income taxes for timing differences arising between financial and tax reporting. As a result, as reported under "Cumulative effect of initial adoption of interperiod tax allocation," retained earnings increased by ¥478 million for the year ended March 31, 2000 over the amount which would have been calculated under the previous method.

(o) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Note 15.

Note 2: U.S. Dollar Amounts

For the convenience of the reader, the accompanying financial statements with respect to the year ended March 31, 2001 have been presented in U.S. dollars by translating all yen amounts at ¥123.90 = US$1.00, the exchange rate prevailing on March 31, 2001. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

Note 3: Inventories

Inventories at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2001	2000	**2001**
Merchandise	**¥ 194**	¥ 85	**$ 1,566**
Finished goods	**1,438**	1,272	**11,606**
Raw materials	**2,476**	1,865	**19,984**
Work in process	**442**	513	**3,567**
Supplies	**209**	182	**1,687**
	¥ 4,759	¥ 3,917	**$ 38,410**

Note 4: Short-Term Bank Loans

At March 31, 2001, short-term bank loans consisted mainly of unsecured and secured loans payable to banks at interest rates ranging from 1.5% to 2.5% per annum.

Note 5: Long-Term Debt

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2001	2000	**2001**
Loans from banks, insurance companies and others, due 2004 at rates from 1.5% to 1.9%	**¥ 1,916**	¥ 2,761	**$ 15,465**
Bond with warrants, due 2001 at 6-month TIBOR plus 1.2%	**–**	19	**–**
Total long-term debt	**1,916**	2,780	**15,465**
Less: Current portion	**824**	864	**6,651**
	¥ 1,092	¥ 1,916	**$ 8,814**

At March 31, 2001, deposits included in cash and cash equivalents in the amount of ¥300 million ($2,421 thousand), investment securities of ¥58 million ($468 thousand), buildings and structures of ¥1,398 million ($11,283 thousand) and land of ¥1,804 million ($14,560 thousand) were pledged as collateral for short-term bank loans of ¥1,170 million ($9,443 thousand) and long-term debt of ¥1,916 million ($15,465 thousand) including the current portion. In addition, buildings and structures of ¥2,097 million ($16,925 thousand) and land of ¥592 million ($4,778 thousand) were pledged as collateral for the indebtedness of others.

The aggregate annual maturities of long-term debt subsequent to March 31, 2001 are summarized as follows:

	Millions of yen	*Thousands of U.S. dollars*
Year ending March 31,		
2002	¥ 824	**$ 6,651**
2003	742	**5,989**
2004	350	**2,825**
	¥ 1,916	**$ 15,465**

Note 6: Legal Reserve and Additional Paid-in Capital

In accordance with the Commercial Code of Japan, the Company has provided a legal reserve as an appropriation of retained earnings. The Code provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. Retained earnings in the accompanying consolidated financial statements include the legal reserve of ¥243 million ($1,961 thousand) as of March 31, 2001.

Note 7: Income Taxes

Income taxes applicable to the Company and consolidated subsidiaries comprise corporation tax, inhabitants' taxes and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of approximately 42% for 2001 and 2000. The effective tax rates reflected in the accompanying consolidated statements of income differ from the statutory tax rate primarily due to the effect of permanent nondeductible expenses for tax purposes.

The significant components of deferred tax assets and liabilities at March 31, 2001 and 2000 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2001	2000	**2001**
Deferred tax assets:			
Accrued enterprise taxes	**¥ 203**	¥ 240	**$ 1,638**
Accrued bonuses	**128**	137	**1,033**
Accrued severance benefits	**426**	327	**3,438**
Depreciation	**63**	75	**508**
Other	**171**	39	**1,380**
	991	818	**7,997**
Deferred tax liabilities:			
Unrealized intercompany profit on land	**232**	232	**1,872**
Unrealized revaluation gain on land with respect to acquisition of NGC Co., Ltd.	**170**	–	**1,372**
Other	**33**	–	**266**
	435	232	**3,510**
Net deferred tax assets	**¥ 556**	¥ 586	**$ 4,487**

Note 8: Retirement Benefits

The Company and two consolidated subsidiaries have defined benefit pension plans and lump-sum retirement payment plans which cover substantially all employees who terminate their employment with the Company and these two consolidated subsidiaries. In addition, an employee, if eligible, may receive additional payments under the plans. In addition to these plans, the Company and the two consolidated subsidiaries have established a multi-employer welfare pension fund pursuant to the Welfare Pension Insurance Law of Japan.

The funded status of the defined benefit pension plans for employees in accordance with the new accounting standard for retirement benefits for the year ended March 31, 2001 is summarized as follows:

March 31, 2001	*Millions of yen*	*Thousands of U.S. dollars*
Projected benefit obligation	¥ 1,131	$ 9,128
Fair value of plan assets	(244)	(1,969)
Funded status	887	7,159
Unrecognized actuarial net loss	(73)	(589)
Net retirement benefit obligation	814	6,570
Prepaid pension cost	70	565
Accrued retirement benefits	¥ 884	$ 7,135

The consolidated subsidiaries have adopted a simplified method permitted for the calculation of the projected benefit obligation.

Retirement allowances for directors and statutory auditors in the amount of ¥366 million ($2,954 thousand) and ¥338 million ($2,728 thousand) were included in accrued retirement benefits in the consolidated balance sheets at March 31, 2001 and 2000, respectively.

Retirement benefit expenses for the year ended March 31, 2001 were composed of the following:

Year ended March 31, 2001	*Millions of yen*	*Thousands of U.S. dollars*
Service cost - benefits earned during the year	¥ 118	$ 952
Interest cost on projected benefit obligation	20	162
Expected return on plan assets	(4)	(32)
Amortization of net retirement benefit obligation at transition	(66)	(533)
Extraordinary additional severance benefits	73	589
Contributions to welfare pension fund	163	1,316
Retirement benefit expenses	¥ 304	$ 2,454

Retirement benefit expenses determined at the simplified method by the consolidated subsidiaries have been included in service cost - benefits earned during the year in the above table.

The Company and two consolidated subsidiaries established a multiemployer welfare pension fund (the "Fund") pursuant to the Welfare Pension Insurance Law of Japan and accounted for the contributions to the Fund as retirement benefit expenses. This accounting treatment is permitted under the accounting standard for retirement benefits because it is difficult for the Company and the two subsidiaries to reasonably calculate the value of the pension assets based on their contributions.

The assumptions used in the actuarial calculation other than those stated above for the year ended March 31, 2001 were principally as follows:

Discount rate:	3.0% per annum
Expected rate of return on plan assets:	3.0% per annum

Note 9: Research and Development Expenses

Research and development expenses charged to income for the years ended March 31, 2001 and 2000 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2001	2000	**2001**
Research and development expenses	**¥ 1,294**	¥ 1,302	**$ 10,444**

Note 10: Leases

The Company and consolidated subsidiaries hold certain machinery and equipment under finance leases which do not transfer the ownership to the lessee. These leases are not capitalized, but are accounted for by a method similar to that applicable to operating leases. If such leases had been capitalized, the acquisition costs and accumulated depreciation of the leased assets at March 31, 2001 and 2000 would have been as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2001	2000	**2001**
Machinery and equipment	**¥ 2,183**	¥ 1,356	**$ 17,619**
Accumulated depreciation	**858**	464	**6,925**
	¥ 1,325	¥ 892	**$ 10,694**

The following presents the future minimum lease payments subsequent to March 31, 2001 under finance leases which do not transfer ownership:

March 31, 2001	*Millions of yen*	*Thousands of U.S. dollars*
Minimum lease payments:		
Due within one year	¥ 396	$ 3,196
Due after one year	929	7,498
	¥ 1,325	$ 10,694

Lease expenses related to finance leases which do not transfer ownership for the years ended March 31, 2001 and 2000 amounted to ¥322 million ($2,599 thousand) and ¥369 million, respectively. Depreciation expense related to these leases for the years ended March 31, 2001 and 2000 would have been ¥322 million ($2,599 thousand) and ¥369 million, respectively, if the leases had been capitalized.

For the purpose of presentation of the above pro forma amounts, depreciation of the leased assets has been calculated by the straight-line method over the lease terms assuming a nil residual value.

Note 11: Contingent Liabilities

Contingent liabilities as of March 31, 2001 amounted to ¥982 million ($7,926 thousand) and represented guarantees of borrowings incurred by the twenty-three industrial corporations (including the Company) which are members of the Nagareyama Industrial Cooperative Association (the "Association") for the purposes of financing their purchases of manufacturing and other facilities located in the Nagareyama City area and the land upon which such facilities are situated. The Company has guaranteed such borrowings jointly and severally with the other twenty-two members of the Association.

Note 12: Amounts Per Share

The computation of basic net income and net assets per share is based on the weighted average number of shares of common stock outstanding during each year and the number of shares outstanding at each balance sheet date, respectively. Diluted net income per share is computed assuming that the warrants issued and outstanding at each balance sheet date were fully exercised as of the beginning of the year or the date of issuance, whichever is later. Since there were no potentially dilutive convertible bonds or warrants as of March 31, 2001, diluted net income per share has not been presented.

	yen		*U.S. dollars*
	2001	2000	**2001**
Net income			
- Basic	**¥ 249.77**	¥ 459.50	**$ 2.02**
- Diluted	**–**	459.35	**–**
Net assets	**¥ 3,051.42**	¥ 3,678.94	**$ 24.63**

Note 13: Supplementary Cash Flow Information

With respect to the stock purchase of NGC Co., Ltd. ("NGC"), the following is a summary of the assets and liabilities of NGC at the date of the initial consolidation and a reconciliation between the purchase price and the net cash inflows as a result of the purchase.

	Millions of yen	*Thousands of U.S. dollars*
Current assets	¥ 2,536	$ 20,468
Fixed assets	552	4,455
Goodwill	1,434	11,574
Current liabilities	(4,235)	(34,181)
Noncurrent liabilities	(247)	(1,994)
Purchase price of common shares of stock of NGC	40	322
Cash and cash equivalents held by NGC	(1,177)	(9,499)
Net cash inflows as a result of the purchase	¥ (1,137)	$ (9,177)

Note 14: Segment Information

The Company and consolidated subsidiaries are primarily engaged in the manufacture and sales of products mainly in Japan in three segments: a cosmetics business in which various cosmetics are sold through stores and by mail, a nutritional supplements business in which various supplements are sold through stores and by mail, and other business which includes publishing and sales of miscellaneous goods, personal ornaments, herbs and herbal products, underwear and unmilled sprouted rice. This segmentation has been adopted for internal management purposes.

The business segment information of the Company and consolidated subsidiaries for the years ended March 31, 2001 and 2000 is summarized as follows:

Business Segments

Year ended March 31, 2001	Cosmetics business	Nutritional supplements business	Other businesses	Total	Eliminations or corporate	Consoli-dated
	Millions of yen					
I.Sales and operating income						
Sales to external customers	¥ 35,669	¥ 25,408	¥ 4,341	¥ 65,418	¥ –	¥ 65,418
Intersegment sales or transfers	–	–	–	–	–	–
Total sales	35,669	25,408	4,341	65,418	–	65,418
Operating expenses	27,349	20,714	6,873	54,936	1,850	56,786
Operating income (loss)	¥ 8,320	¥ 4,694	¥ (2,532)	¥ 10,482	¥ (1,850)	¥ 8,632
II.Total assets, depreciation and capital expenditures						
Total assets	¥ 23,419	¥ 10,677	¥ 6,004	¥ 40,100	¥ 35,381	¥ 75,481
Depreciation	1,552	661	92	2,305	74	2,379
Capital expenditures	896	474	1,357	2,727	–	2,727

Year ended March 31, 2000	Cosmetics business	Nutritional supplements business	Other businesses	Total	Eliminations or corporate	Consoli-dated
	Millions of yen					
I.Sales and operating income						
Sales to external customers	¥ 38,039	¥ 21,898	¥ 3,043	¥ 62,980	¥ –	¥ 62,980
Intersegment sales or transfers	–	–	–	–	–	–
Total sales	38,039	21,898	3,043	62,980	–	62,980
Operating expenses	27,327	18,311	3,684	49,322	2,115	51,437
Operating income (loss)	¥ 10,712	¥ 3,587	¥ (641)	¥ 13,658	¥ (2,115)	¥ 11,543
II.Total assets, depreciation and capital expenditures						
Total assets	¥ 24,928	¥ 7,933	¥ 902	¥ 33,763	¥ 33,894	¥ 67,657
Depreciation	1,703	567	67	2,337	87	2,424
Capital expenditures	1,399	738	41	2,178	4,960	7,138

Year ended March 31, 2001	Cosmetics business	Nutritional supplements business	Other businesses	Total	Eliminations or corporate	Consoli-dated
	Thousands of U.S. dollars					
I.Sales and operating income						
Sales to external customers	$287,885	$205,069	$ 35,036	$527,990	$ –	$527,990
Intersegment sales or transfers	–	–	–	–	–	–
Total sales	287,885	205,069	35,036	527,990	–	527,990
Operating expenses	220,735	167,183	55,472	443,390	14,931	458,321
Operating income (loss)	$ 67,150	$ 37,885	$(20,436)	$ 84,600	$(14,931)	$ 69,669
II.Total assets, depreciation and capital expenditures						
Total assets	$189,016	$ 86,174	$ 48,459	$323,649	$285,561	$609,210
Depreciation	12,526	5,335	743	18,604	597	19,201
Capital expenditures	7,232	3,826	10,952	22,010	–	22,010

Unallocatable operating expenses included under "Eliminations or corporate" for the years ended March 31, 2001 and 2000 amounted to ¥1,850 million ($14,931 thousand) and ¥2,115 million, respectively, and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Eliminations or corporate" for the years ended March 31, 2001 and 2000 amounted to ¥35,381 million ($285,561 thousand) and ¥33,894 million, respectively, and consisted principally of cash and cash equivalents, short-term investments, land and funds for long-term investments (investment securities and other) of the Company.

Effective the year ended March 31, 2001, the Company and consolidated subsidiaries adopted a new accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments") issued by the Business Accounting Deliberation Council on January 22, 1999.

The effect of this change by business segment as compared with the amounts which would have been recorded under the method applied in the previous year is summarized as follows:

Business segment	Increase (decrease) Operating expense	Operating income	Total assets	Operating expense	Operating income	Total assets
	(Millions of yen)			(Thousands of U.S. dollars)		
Cosmetics business	¥ 10	¥ (10)	¥ (10)	$ 81	$ (81)	$ (81)
Nutritional supplements business	10	(10)	(10)	81	(81)	(81)
Other businesses	1	(1)	(1)	8	(8)	(8)
Eliminations or corporate	–	–	49	–	–	395

Effective the year ended March 31, 2001, the Company and consolidated subsidiaries adopted a new accounting standard for retirement benefits ("Opinion Concerning the Establishment of Accounting Standard for Retirement Benefits") issued by the Business Accounting Deliberation Council on June 16, 1998.

The effect of this change by business segment as compared with the amounts which would have been recorded under the method applied in the previous year is summarized as follows:

Business segment	Increase (decrease) Operating expense	Operating income	Total assets	Operating expense	Operating income	Total assets
	(Millions of yen)			(Thousands of U.S. dollars)		
Cosmetics business	¥ (34)	¥ 33	¥ 30	$ (274)	$ 266	$ 242
Nutritional supplements business	(21)	20	19	(169)	161	153
Other businesses	(7)	7	7	(56)	56	56
Eliminations or corporate	(15)	15	13	(121)	121	105

Geographical segments

Since none of the Company's consolidated subsidiaries or branches were located in countries or regions other than Japan for either of the years ended March 31, 2001 and 2000, geographical segment information has not been presented.

Overseas sales

Since overseas sales were less than 10% of consolidated sales for the years ended March 31, 2001 and 2000, no disclosure of overseas sales has been presented.

Note 15: Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the consolidated financial statements for the year ended March 31, 2001, were approved at a meeting of the shareholders held on June 23, 2001:

	Millions of yen	*Thousands of U.S. dollars*
Cash dividends (¥12.25 = U.S.$0.10 per share)	¥ 243	$1,961
Transfer to legal reserve	24	194

Report of Independent Certified Public Accountants

The Board of Directors
FANCL CORPORATION

We have audited the accompanying consolidated balance sheets of FANCL CORPORATION and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of FANCL CORPORATION and subsidiaries at March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 1, FANCL CORPORATION and subsidiaries have adopted new accounting standards for foreign currency translation, financial instruments and retirement benefits effective the year ended March 31, 2001, and for consolidation and interperiod tax allocation effective the year ended March 31, 2000 in the preparation of their consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2001 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

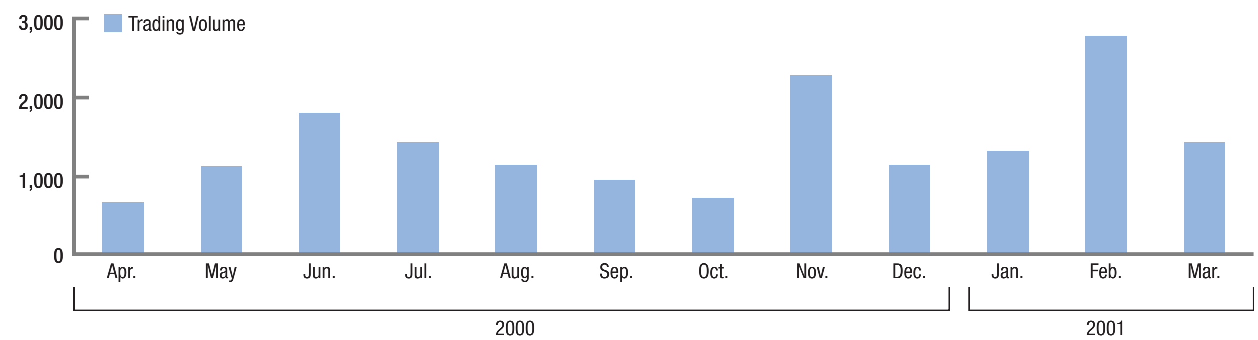
Century Ota Showa & Co.

June 23, 2001

See Note 1 which explains the basis of preparation of the consolidated financial statements of FANCL CORPORATION and subsidiaries under Japanese accounting principles and practices.

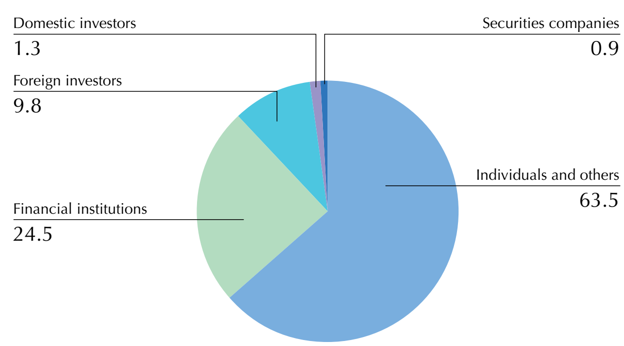
Market Price per Common Stock and Trading Volume

	2000									2001		
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
High (¥)	17,500	17,000	10,700	12,300	10,830	9,290	8,880	7,100	3,760	3,890	5,250	6,360
Low (¥)	12,900	9,850	8,600	8,300	8,470	8,460	6,500	3,210	3,100	2,750	3,930	4,200
Trading Volume (Thousand shares)	656	1,113	1,797	1,442	1,131	944	712	2,272	1,134	1,309	2,769	1,417



Composition of Shareholders (Percentage of ownership)

	1999		2000		2001
	Mar.	Sep.	Mar.	Sep.	Mar.
Individuals and others	69.3	69.9	58.7	61.4	63.5
Financial institutions	13.7	15.6	23.4	24.5	24.5
Foreign investors	15.9	13.3	16.1	11.5	9.8
Domestic investors	0.7	0.8	1.3	1.3	1.3
Securities companies	0.4	0.4	0.5	1.3	0.9



Mar. 2001

Directors and Officers (As of June 23, 2001)

President and Representative Director	KENJI IKEMORI
Senior Managing Director and Representative Director	HISASHI YAMAMOTO TSUYOSHI TATAI
Vice Chairman and Director	MASAHARU IKEMORI
Managing Director	TAKAO KOKUBU
Directors	YOSHIFUMI NARIMATSU KATSUHIKO MATSUMOTO KAZUYOSHI MIYAJIMA KOICHI FUJITA TAKAYOSHI OKADA
Statutory Auditors	TSUNEHARU MOCHIZUKI YOSHITAKA KANBAYASHI KATSUNORI KOSEKI
Corporate Executive Officers	KENICHI ISHIWATA TAKAO ISHIDA NAOHISA YODA SHUJI MIYAHARA

Investor Information (As of March 31, 2001)

Head Office	109-1 Iijima-Cho, Sakae-ku, Yokohama, Kanagawa-ken 247-8577, Japan Tel: 81(45)894-1111
Established	August 1981
Common Stock Listing	Tokyo Stock Exchange, the First Section (Code: 4921)
Paid-in Capital	¥10,795,161,280
Number of Shareholders	16,710
Common Stock	Authorized Shares: 77,946,000 Outstanding Shares: 19,493,500
Number of Full-time Employees	597
Transfer Agent and Registrar	The Toyo Trust and Banking Co., Ltd. 10-11, Higashisuna, 7-chome, Koto-ku, Tokyo 137-8082, Japan Tel: 81(3)5683-5111
Annual Meeting of Shareholders	At the end of June in Kanagawa
Consolidated Subsidiaries	ATTENIR CORPORATION NICOSTAR Co., Ltd. NGC Co., Ltd.

Investor Relations	For further information, please contact: Investor Relations Department Tel: 81(45)890-1630 http://www.fancl.co.jp/

FANCL CORPORATION

109-1 Iijima-Cho, Sakae-ku
Yokohama, Kanagawa-ken 247-8577, Japan
Head Office Phone: 81 (45) 894-1111
http://www.fancl.co.jp/

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