Annual Report 2002

Year Ended March 31, 2002

FANCL CORPORATION

Why FANCL?

Because we create value for all

Founded in 1980, FANCL is a pioneer in preservative-free beauty products. Although a young company compared with our peers, we have a proven track record of innovation and success. Indeed, we were instrumental in breathing new life into Japan's mature cosmetics industry with refreshingly new, customer-centric approaches and products.

These and other achievements stem from adherence to a simple mantra— anticipate and fulfill customer needs. It is a mantra we continue to uphold as we enhance our product lineups in our mainstay Cosmetics and Nutritional Supplements businesses and work to develop new, growth fields. With this commitment to the customer and, above all, a willingness to innovate, FANCL is changing the face of health and beauty in Japan.

Contents

>> Sales Diversification

A manufacturer of cosmetics and nutritional supplements, FANCL uses multiple sales channels to distribute its products: its own mail-order sales operations, a network of directly managed stores, and wholesale distribution. This multi-channel approach is one of the Group's core strengths. FANCL's own sales channels are an invaluable source of customer feedback, helping the Group to improve its products and services. At the same time, wholesale distribution, through convenience stores and general merchandise stores (GMS), offers even more ways for customers to purchase FANCL products.

Sales Diversification

Brand Building

Product Innovation

FANCL CORPORATION

>> Brand Building

Despite being a relatively late entrant, FANCL has carved out an impressive position in the cut-throat Japanese cosmetics market. This success was initially built on high-quality, preservative-free cosmetic products that alleviated the concerns of women experiencing skin problems. Since then, FANCL has built a trusted reputation for technological expertise and quality. The Group has leveraged this brand image to diversify into other markets— nutritional supplements, germinated brown rice and kale juice. A FANCL hallmark since its establishment, our quality commitment underpins the FANCL brand today.

>> Product Innovation

R&D is a key factor in the strength of FANCL's trusted reputation for technological expertise and quality. Testimony to this dedication to R&D is the more than 200 patent applications filed, and a 90-member research team that includes 10 researchers with PhDs. FANCL's R&D capabilities are particularly strong in the fields of preservative-free cosmetics and nutritional supplements, where researchers have been taking a parallel approach for the last five years— developing new products in pursuit of both inner & outer beauty. This will be an ongoing theme in the coming years.

A Message From the President

OVERVIEW

In fiscal 2002, ended March 31, 2002, consolidated net sales climbed 29.4%, year on year, to ¥84,657 million, operating income jumped 28.8% to ¥11,118 million, and net income advanced 23.2% to ¥5,995 million. The inclusion of newly consolidated subsidiaries NGC Co., Ltd. and FANCL Hatsuga Genmai Co., Ltd. were partly responsible for the improved results. Excluding the results of these two companies, net sales effectively rose 11.7% to ¥73,094 million, and operating income increased 22.9% to ¥10,609 million.

By segment, the Cosmetics Business recorded net sales of ¥36,748 million, a rise of 3.0% on the previous period, the Nutritional Supplements Business achieved a 14.1% increase in net sales to ¥28,995 million, and net sales in Other Businesses surged 335.7% to ¥18,914 million. The sizeable increase in net sales in Other Businesses was attributable to stronger sales of germinated brown rice and kale juice products and the consolidation of the two subsidiaries. Excluding the effect of these consolidations, net sales in Other Businesses rose 69.3% to ¥7,349 million.

THE KEY ISSUE FACING FANCL: RESTRUCTURING EXISTING BUSINESSES

Based on our management philosophy that companies have to evolve to survive, we are actively developing new businesses to sustain growth. It is vital to start and get new businesses on track while core existing businesses are still strong. This approach has already been successful: when FANCL cosmetic products were growing, we started our ATTENIR cosmetics business; when ATTENIR was roaring ahead, we moved into the nutritional supplements market. This incremental approach to business growth has brought us to where we are today, and we are using it to drive further expansion by fostering our Germinated Brown Rice Business and Kale Juice Business. The common thread linking all our businesses is the development of products that resolve negative consumer issues.

President
Kenji Ikemori

FANCL also faces a new challenge. Our core Cosmetics Business, until now the Group's main growth driver and biggest source of earnings, is losing momentum. It is vital that we have stable earnings provided by existing businesses to expand into new markets. Our most pressing issue, then, is to restore vitality to our Cosmetics Business. Concurrently, we must strengthen our Nutritional Supplements Business and put our Germinated Brown Rice and Kale Juice Businesses on a firm footing. We now are implementing a range of initiatives toward these goals.

INNER & OUTER BEAUTY: GENERATING SYNERGIES BETWEEN COSMETICS AND NUTRITIONAL SUPPLEMENTS

The cosmetics industry is experiencing difficult times, with the market shrinking for four straight years. FANCL's Cosmetics Business still generates impressive returns thanks to distinctive products. This is founded on world-leading technological expertise in the development of preservative-free cosmetic products. Even so, after reaching a peak in the year ended March 2000, sales in our Cosmetics Business have stalled. To revitalize sales and capture synergies in our Cosmetics Business and Nutritional Supplements Business, we embarked on an all-encompassing drive six years ago to develop new products in pursuit of both inner & outer beauty. The aim is to further differentiate the FANCL brand and put it back on the path to growth.

Based on research that weds the fields of dermatology and nutritional science, FANCL launched a range of beauty supplements in August 1996. These moves were based on the thinking that physical health and skin condition are intrinsically linked, and that there are limits to attaining beauty merely through the application of cosmetics. The natural progression of this concept was to offer customers nutritional supplements for inner beauty in combination with cosmetic products for outer beauty. In March 2002, this culminated in the launch of our FENATTY series of cosmetic and supplement products.

With a view to further developing our concept of inner & outer beauty, we reorganized our R&D structure at our Central Research Center in May 2002. This facility plays a key role in the development of all our products. The existing product-specific structure consisting of separate research groups for cosmetics, nutritional supplements, and other products was abolished in favor of research groups that target particular themes such as skin blemishes and wrinkling. In a related move, we have undertaken a major review of catalogs and store displays, and are retraining telephone counselors and store personnel to equip them with the skills for a new role as Inner & Outer Beauty Consultants. This is part of our drive to offer customers advice on both cosmetics and supplements.

ENHANCING SAFETY IN NUTRITIONAL SUPPLEMENTS

Competition is intensifying in the nutritional supplement industry, as leading food manufacturers enter the fray. In response, FANCL is working to strengthen its core business as a leading nutritional supplements company by building on its trusted reputation for technological expertise and quality. In April 2002, we were first in the industry to successfully develop hard-capsule nutritional supplement products using pullulan plant extract. These products were launched the following month. Although existing capsule products using cow-derived gelatine have been found to be safe and free of any risk of carrying the BSE agent, we took the proactive step of launching plant extract-derived capsules to allay any customer concerns. In doing so, we demonstrated our superior R&D capabilities. Looking ahead, we plan to differentiate FANCL further in the industry by using this extract for all hard-capsule products. Furthermore, underpinned by FANCL's high levels of R&D expertise, we will continue to build a unique range of highly original products.

PUTTING NEW BUSINESSES ON A FIRM FOOTING

We harbor great hopes for our Germinated Brown Rice and Kale Juice Businesses as future growth drivers. In our Germinated Brown Rice Business, started in 1999, we had some initial manufacturing and sales hiccups to contend with. But now, with the remarkable health effects of germinated brown rice becoming better known, the number of customers buying products through mail-order sales is rising steadily. In fact, the Germinated Brown Rice Business is on the verge of becoming a viable business, as leading food manufacturers increasingly select this rice as an ingredient for beverages and breads. Although the market for germinated brown rice is still only estimated at around ¥10 billion, we are convinced it will see growth as health awareness increases and word of the health benefits of the rice spread. We plan to tap emerging demand for germinated brown rice through our own sales network, centered on mail-order operations, and by boosting supplies to the foodservice industry. Based on these efforts to shape and expand the market, we are targeting a future operating income margin in our Germinated Brown Rice Business of 15%.

Kale juice can be another growth driver. However, we need to implement a wide-reaching promotional campaign to boost sales if we are to take full advantage of the competitiveness of our product in terms of price and its almost odorless quality—the strong odor of existing products has put many consumers off. Future sales strategies include actively encouraging customers to make regular purchases via mail order and the start of a full-scale, door-to-door sales campaign.

Financial Highlights

FANCL CORPORATION and Consolidated Subsidiaries

	Millions of yen		% Change	Thousands of U.S. dollars
	2002	2001	2002/2001	2002
For the year:				
Net sales	¥84,657	¥65,418	29.4%	$635,325
Operating income	11,118	8,632	28.8	83,437
Income before income taxes	10,545	8,718	20.9	79,137
Net income	5,995	4,867	23.2	44,991
	Yen		% Change	U.S. dollars
Per Share Data:				
Net income	¥307.55	¥249.77	–	$2.31
Cash dividends	25.00	25.00	–	0.19
	Millions of yen		% Change	Thousands of U.S. dollars
At year-end:				
Shareholders' equity	¥64,719	¥59,482	–	$485,696
Total assets	79,026	75,481	–	593,066

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥133.25=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2002.

DIVERSIFYING SALES CHANNELS

To make it easier for customers to buy our products, we are expanding our sales channels. In recent years, the ratio of FANCL products sold through wholesale distribution is gradually increasing in comparison with the mail-order sales channel and our directly managed stores. Behind this trend is our drive to capitalize fully on our strengths. Our formula is simple—establish a solid business base through mail-order sales and then expand business through store sales and wholesale distribution. Building brand recognition through mail-order sales puts us in a stronger position when negotiating with wholesale distributors to sell our products. Although there is a common perception that store sales and wholesale distribution generate lower returns than mail-order sales, this is not necessarily the case. In fact, with sales via wholesale distribution expanding, we have seen a steady improvement in earnings from this channel, to the point where profitability is now on a par with the high profit-margin mail-order sales channel.

We plan to further strengthen our own sales channels—mail-order sales and directly managed stores—while actively working to take advantage of any opportunities for capturing economies of scale in wholesale distribution and OEM manufacturing.

THE WELLSPRING OF CONTINUED GROWTH: POWERFUL R&D

The lifeblood of our growth is, undeniably, our powerful R&D capabilities. Investments and upgrades at our Central Research Center, the Group's key R&D facility, have yielded a substantial increase in the number of patent applications we have filed. As of May 2002, we had filed 110 patents for cosmetic products, 110 for nutritional supplements and 18 for germinated brown rice products. This is an impressive number compared with our industry rivals. And we are seeing the benefits of these efforts in other areas: as our reputation for innovative R&D programs becomes more well-known outside the company, more external organizations are eager to participate in joint R&D efforts with the FANCL Group. The result: major companies are increasingly selecting FANCL as their first choice OEM partner. Put another way, using our powerful R&D capabilities to develop distinctive products, we are forging a unique place for ourselves in the market, which is in turn translating into growing popularity for FANCL branded products and increased sales. This creates a virtuous cycle. Moreover, our underlying strengths in R&D have helped to create a brand image for trusted technological expertise and quality. To ensure we hold onto our position as an innovator and price leader in the industry, it is vital that we maintain our superior levels of product quality and this trusted reputation. In achieving this, our lifeline in the industry, FANCL's commitment to R&D will be crucial.

REASSESSING AND STRENGTHENING ADVERTISING ACTIVITIES

At FANCL, we have actively promoted business diversification. However, with each of our businesses responsible for their own advertising campaigns, we have not been able to project a unified corporate image. To solve this problem and create more focused marketing strategies and advertising campaigns, we established a Business Strategy Planning Room in May 2002. Responsible for planning and developing marketing strategies for the entire Group, the Room will spearhead our efforts to rebuild Group marketing strategy and roll out new advertising campaigns that seek to project a more unified corporate image that raises the value of the FANCL brand.

REINFORCING OUR OVERSEAS BUSINESS

The FANCL Group is currently active in two main overseas markets—Asia and the United States. In Asia, outside Japan, we have a presence in Hong Kong, Taiwan, Singapore and Indonesia, we are making steady progress in each country. We have made considerable progress in Hong Kong, in particular. There, we already have a network of 24 franchised stores, and a leading market position in skincare cosmetics and nutritional supplements. In the future, we plan to consolidate all our Asian operations under one company in Singapore to oversee the active expansion of FANCL product sales throughout Asia.

In the Untied States, we began sales in June 1997 via mail order and the Internet. American tastes, styles and thinking regarding cosmetics differ to those in Japan, causing us some difficulties breaking into the market. In response, the Central Research Center is now working on new cosmetic formulas specifically for the United States market. We are also looking into ways of expanding our sales channels.

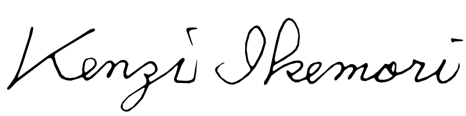
FANCL'S MANAGEMENT PHILOSOPHY

As responsible members of society, corporations have a duty to fulfill commitments to their stakeholders. To carry out this mission, we must balance the interests of all stakeholders while continuously enhancing the corporate value of the Group.

Our operating environment is shifting at incomparable speed. To continue to generate corporate value in this climate, we have to be alert and responsive, and institute far-reaching reforms that create a company capable of rapidly responding to changes in our operating environment. One step in this direction was the organizational reform implemented in April 2002 to shore up our management base. As a result, FANCL now consists of four main headquarters, which have been handed the authority necessary to allow them to make faster decisions, and the President's Supervisory Division. Lines of responsibility have also been clearly demarcated. Furthermore, to allow greater flexibility in management of the Group's capital resources, we made the decision to repurchase up to 1,500,000 shares of FANCL treasury stock, to a maximum value of ¥5.0 billion, by June 2003.

Drawing on perceptive power and creative thinking unrestricted by the conventional way of doing things, FANCL always takes up the challenge of addressing consumer concerns. I am convinced that by successfully resolving even just one negative consumer issue, we will boost the corporate value of the FANCL Group and sustain earnings over the long term for shareholders.

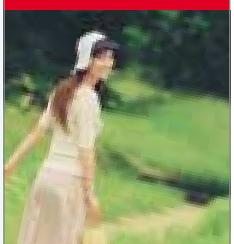
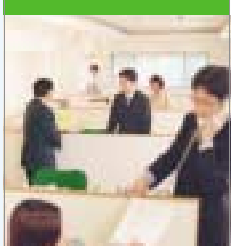
In closing, I would like to ask for your continued support and understanding as we seek to achieve our goals.



Kenji Ikemori
President

July 2002

At a Glance

	Products and Services	Mail-Order Sales	Retail Store Sales	Others *
Cosmetics Business 	■ FANCL cosmetics (Preservative-free cosmetics that contain no ingredients known to cause skin allergies) ■ ATTENIR cosmetics (Attractive, quality cosmetics at reasonable prices)	27.2% ¥23,066 million	13.4% ¥11,336 million	2.8% ¥2,346 million
Nutritional Supplements Business 	■ Health supplements (High-quality nutritional supplements at competitive prices) ■ Beauty supplements (Nutritional supplements for inner beauty)	21.3% ¥17,987 million	6.5% ¥5,512 million	6.5% ¥5,496 million
Other Businesses 	■ Germinated brown rice ■ Kale juice ■ Comfort undergarments ■ Health equipment and lifestyle goods ■ Publications targeted at middle-aged and senior readers	18.6% ¥15,768 million	0.3% ¥225 million	3.4% ¥2,921 million
Total		67.1% ¥56,821 million	20.2% ¥17,073 million	12.7% ¥10,763 million

Major Developments During the Year	Total
■ Based on the philosophy of offering women both inner & outer beauty, we reinforced our FANCL cosmetics brand with the launch of the FENATTY series of skincare cosmetics that incorporate beauty supplements. ■ A full revamp of ATTENIR cosmetics. ■ A slight fall in mail-order sales was more than offset by growing sales in the wholesale distribution channel, particularly in the Hong Kong market. This led to an overall rise in sales. ■ As part of our store refurbishment program, we gave a makeover to 17 FANCL House stores.	43.4% ¥36,748 million
■ Sales of highly original products such as Perfect Slim, a diet supplement, and the functional Support Series, which give consumers clear choices for nutritional supplements, grew. ■ Wholesale distribution sales, particularly through the convenience store operator 7-Eleven, saw a rise. ■ We opened another new Genki Station store, bringing the number of stores in that network to 8.	34.3% ¥28,995 million
■ We replaced our wet-type germinated brown rice product with a vastly improved dry-type formulation. Mail-order sales and supplies for the OEM segment were strong. ■ Mail-order sales of kale juice were started, reinforcing existing sales through wholesale distributors. ■ The newly consolidated mail-order business NGC Co., Ltd. recorded healthy sales of gardening supplies and cooling and heating products.	22.3% ¥18,914 million

* “Others” denotes wholesale and overseas sales

1. A new FANCL skincare series FENATTY
2. A new FANCL skincare series Evanté
3. ATTENIR Makeup Cosmetics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Cosmetics Business

Our Cosmetics Business is built on two brands—FANCL preservative-free cosmetics, and high-quality ATTENIR cosmetics that offer women value for money. Although the Japanese cosmetics market has contracted for four successive years, and prices continue to slide, we see some exciting opportunities ahead. As more women enter the workforce, their lifestyles are changing, exposing them to tougher environments. As a result, we are seeing a rise in the number of women with sensitive skin, and consequently, growing interest in cosmetics that are kinder on the skin.

In our FANCL mail-order sales channel in March 2003, we launched the FENATTY series of products for inner & outer beauty, although this could not prevent mail-order sales from declining year on year. We also increased the number of times we publish information magazines from 8 per year to 12, and carried out seasonal gift campaigns in an effort to boost sales. Sales of mail-order FANCL cosmetics, however, fell below last year's levels. Meanwhile in the ATTENIR mail-order channel, a review of product catalog layouts and content, and the roll out of effective advertising campaigns, led to a steady increase in demand. These moves, and a revamp for the ATTENIR makeup line in February 2002, helped to revive the ATTENIR mail-order segment, bringing an end to recent declines and lifting sales above the previous year.

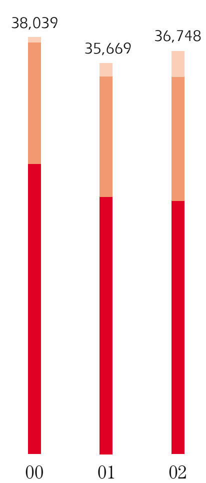
In retail store sales, new stores opened in the previous year contributed to higher year-on-year sales. We also refurbished 17 stores in an effort to revitalize sales at existing outlets. At the end of March 2002, our network consisted of 114 FANCL House stores, including 2 franchise stores—1 new store was opened and 8 closed during the year—and 5 ATTENIR Shops (no shops were opened or closed during the year).

Sales via other channels, including the convenience store operator Lawson, Inc., and in the Hong Kong market, were also strong.

Consequently, the Cosmetics Business increased net sales 3.0%, year on year, to ¥36,748 million. With our customer loyalty "Point-up Service," which offers customers 5% off the regular price of cosmetic products, and a higher ratio of sales from the wholesale distribution channel contributing to an increase in the cost of sales ratio, we took steps to reduce communications and other sales costs. Although these efforts saw some benefits during the year, operating income rose 1.0% to ¥8,406 million, and the operating income margin declined 0.4 of a percentage point to 22.9%.

Looking ahead, we plan to develop new products in FANCL cosmetics suited to ageing skin and other skin conditions troubling consumers. Continuing to pursue our core theme of creating preservative-free cosmetics, we will also establish and develop our concept of inner & outer beauty that combines cosmetics with supplements. Key to this approach will be maximizing the R&D capabilities of the FANCL Group. In ATTENIR cosmetics, we will continue to revamp our skincare cosmetic products to further increase customer satisfaction.

Net Sales
(¥ Million)



Others
Retail store sales
Mail-order sales

	Millions of yen						% change
	2002		2001		2000		2002/2001
		% of net sales		% of net sales		% of net sales	
Net sales	¥36,748	100.0%	¥35,669	100.0%	¥38,039	100.0%	3.0%
Gross profit	28,038	76.3	27,792	77.9	29,783	78.3	
Selling, general and administrative expenses	19,632	53.4	19,472	54.6	19,070	50.1	0.8
Operating income	8,406	22.9	8,320	23.3	10,712	28.2	1.0

1. The Support Series and Beauty Supplements
2. Multi-Vitamins & Multi-Minerals
3. Diet Supplements

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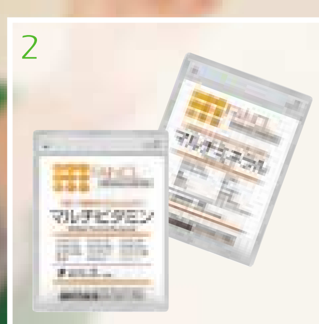

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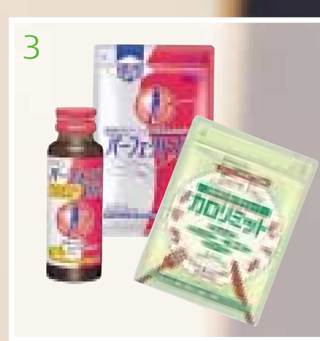


Nutritional Supplements Business

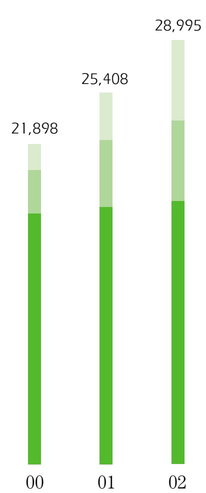
As health consciousness increases in Japan, nutritional supplements are attracting greater attention from the media, particularly television, helping to drive growth in this market. The downside is that competition is growing, as more food manufacturers and others seek to tap this emerging demand. FANCL's approach is to offer nutritional supplements of the highest quality at reasonable prices.

During fiscal 2002, we worked to expand sales of our range of highly original products. These included diet supplements such as Perfect Slim, launched in May 2001, nutritional products such as Multi-Vitamins and Multi-Minerals, and the functional Support Series, including Vision Support and Memory Support that give customers clear choice for nutritional supplements.

In mail-order sales, we came up against stiff competition from food manufacturers and other new entrants, resulting in slower sales in the latter half of the year. In contrast, sales at wholesale distributors, 7-Eleven convenience stores and in the Hong Kong market held up well. During the year, we opened 1 new Genki Station store, bringing the total to 8 as of March 2002. We also started an experimental store program with the opening of the first Genki Net store in February 2002. Genki Net stores are small-scale versions of the Genki Station format, designed to be profitable on lower customer volumes. As a result, the Nutritional Supplements Business recorded a 14.1% increase in net sales, to ¥28,995 million. On the earnings front, operating income climbed 27.0% to ¥5,960 million, reflecting the previously mentioned strong sales at 7-Eleven, and the start of sales at leading regional supermarkets and stores that boosted sales in other sales channels, helping to raise profitability. The operating income margin improved 2.1 percentage points to 20.6%.

Moving ahead, we plan to launch a wide variety of new and improved products to further set us apart in the market. These include FANCL-developed, hard-capsule nutritional supplement products using pullulan plant extract—the first in the global health food industry. We are also enhancing our lineup of single-ingredient supplements in response to growing demand. These will complement our existing lineup of multiple-ingredient supplements that offer high synergistic health effects, as found in our Support Series.

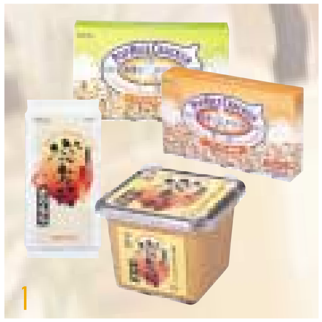
Net Sales
(¥ Million)



Others
Retail store sales
Mail-order sales

	Millions of yen						% change
	2002		2001		2000		2002/2001
		% of net sales		% of net sales		% of net sales	
Net sales	¥28,995	100.0%	¥25,408	100.0%	¥21,898	100.0%	14.1%
Gross profit	19,747	68.1	17,532	69.0	14,615	66.7	
Selling, general and administrative expenses	13,787	47.5	12,839	50.5	11,028	50.3	7.4
Operating income	5,960	20.6	4,694	18.5	3,587	16.4	27.0

1. Germinated Brown Rice Products
2. Kale Juice
3. NGC Mail-order Catalogs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Other Businesses

In our Germinated Brown Rice Business, we discontinued sales of wet-type rice in April 2001, subsequently launching a vastly improved dry-type rice product. This move was supported by an aggressive marketing campaign, including a series of television commercials and efforts to strengthen sales through wholesale distribution channels such as nationwide supermarket chains. However, this failed to completely resolve certain profitability issues in the business. Consequently, we withdrew sales of our germinated brown rice from wholesale distribution. From January 2002, we switched to OEM supply for the Japan Rice Millers and Distributors Cooperative and the Hokuren Federation of Agricultural Cooperatives. We have also started supplying trial packs of rice through our mail-order sales channel, helping to win a steady stream of new customers. These efforts lifted net sales to ¥3,339 million, a 205.4% increase on the previous year.

We are now looking to upgrade our range of rice-based products for home use, including sterilized packs of cooked rice and rice porridge, *mochi*, or glutinous rice cakes, and pop rice sticks. At the same time, we have started supplies to food processing companies and school canteens. An upsurge in demand for germinated brown rice prompted us to start operations at a second factory in Nagano in May 2002.

In the Kale Juice Business, the start of mail-order sales in June 2001, augmenting wholesale distribution centered on convenience stores, and the launch of two new powdered versions of our kale juice in September 2001, spurred a 387.7% year-on-year increase in sales to ¥1,105 million. Moving forward, we plan to fuel demand via mail-order channels and the start of door-to-door sales.

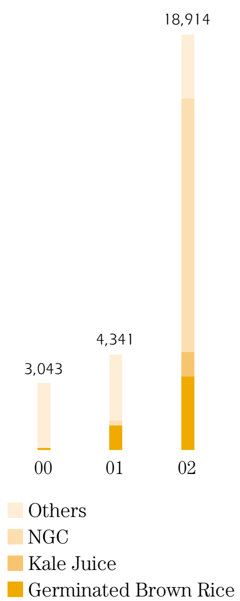
In our Comfortable Lifestyle Business, mail-order sales of lifestyle goods were strong, helping to lift sales above the previous year's level. During the year, we began construction on a new comfort undergarments factory in Shanghai, China, to expand production.

Our Publications Business recorded lower year-on-year sales, mainly due to a drop in subscribers for our lifestyle magazine for the middle-aged and the elderly—*Mainichi Ga Hakken* (Everyday a New Discovery).

NGC Co., Ltd., a mail-order business added to this segment for the first time this year, performed well on strong demand for gardening supplies, and cooling and heating products. Consequently, net sales were ¥11,564 million.

As a result of the above, net sales in Other Businesses during surged 335.7% to ¥18,914 million. Excluding the results of newly consolidated subsidiaries NGC and FANCL Hatsuga Genmai Co., Ltd. (FHG), net sales rose 69.3%, to ¥7,349 million. Owing to expenses for advance advertising for germinated brown rice and kale juice, Other Businesses recorded an operating loss of ¥1,681 million. Excluding the results of NGC and FHG, the operating loss was ¥2,447 million, on a par with last year's performance.

Net Sales
(¥ Million)



	Millions of yen						% change
	2002		2001		2000		2002/2001
		% of net sales		% of net sales		% of net sales	
Net sales	¥18,914	100.0%	¥4,341	100.0%	¥3,043	100.0%	335.7%
Gross profit	8,895	47.0	1,708	39.3	572	18.8	
Selling, general and administrative expenses	10,575	55.9	4,240	97.6	1,212	39.8	149.4
Operating income (loss)	(1,681)	-8.9	(2,532)	-58.3	(641)	-21.0	–

Manufacturing the FANCL Way

Selecting Ingredients

FANCL preservative-free cosmetic products are founded on world-class technology. Carefully selecting the best ingredients available is also vital in maintaining the highest levels of safety and trust in our products. At FANCL, we are ensuring this with our in-house FANCL Safety Standard (FSS). Based on this system, we use only 200-300 carefully chosen ingredients in our products, substantially fewer than at our competitors.

Quality Assurance

In the manufacture of preservative-free cosmetic products, stringent levels of quality control, akin to those in the pharmaceutical industry, are required to prevent bacteria and microorganisms from contaminating products. When we constructed a new manufacturing facility at our Chiba Factory in February 1999, clean rooms were provided for both the manufacturing and container filling processes. Clean booths were also placed around machines filling cosmetic containers. The result is a closed system with germ-free hygiene, on the same level required to manufacture sterilized products used in the health industry. After the manufacturing process, cosmetics are packaged in a sealed space, preventing any exposure to the outside environment. And, sterilization is being raised to another level with the introduction of the Cleaning-In-Place (CIP) and the Sterilize-In-Place (SIP) systems. These two systems allow us to perform all production line cleaning and sterilization steps without moving any manufacturing equipment. Using these two systems, we are aiming to totally eliminate microorganisms from the production line, bringing the goal of totally germ-free cosmetics closer to reality.

Testimony to our efforts in this area, and the consistently high level of quality in our products, was the Chiba Factory's achievement, in June 1999, in gaining ISO 9002 certification, the international standard for quality assurance management. This was followed, in November 2000, by the FANCL Group gaining ISO 9001 certification for its quality management system across its entire operations, specifically for the design, development, manufacture and sale of its products and services. Based on this system, we are ensuring we offer customers the highest level of quality in our products.

Inventory Control

To be certain that our products are shipped to customers in the freshest possible condition, all cosmetics are stamped with the date of manufacture. This goes hand in hand with efforts to keep product inventories to an absolute minimum. For FANCL, the optimum level of inventory is equivalent to 5-6 days of sales, and we are achieving this through production planning on a weekly basis and small-lot manufacturing. Locating distribution centers next to our plants means we can rapidly ship products to customers.

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1. Closed-system manufacturing
2. The container filling process
3. The Chiba Factory

3


FANCL's Commitments to the Environment and Disabled Persons

The Environment

Our everyday lives and business activities rely on the Earth's wealth of resources and energy. But at a time when the concept of protecting the global environment is at the fore, the role companies have in supporting the throwaway consumer society is seriously in question. Consequently, more companies are implementing policies that reduce the environmental impact of their operations—using limited resources and energy more efficiently, eliminating the generation of waste wherever possible, and preventing pollution. FANCL is fully aware that protecting the environment is a common issue for humanity, and this is reflected in our operations.

In January 1999, NICOSTAR Co., Ltd., a FANCL subsidiary, attained ISO 14001 status, the international standard for environmental management. The FANCL Group itself is currently working toward attaining ISO 14001 certification by November 2002.

Employing Disabled Persons

In February 1999, FANCL established a subsidiary, FANCL SMILE Co., Ltd., in line with legislation in Japan aimed at promoting employment opportunities for disabled persons. By performing certain tasks for other FANCL Group companies, FANCL SMILE steadily enhances the working capabilities of disabled persons, helping them to play a fuller role in society.

The company is engaged in a number of activities, including preparing product catalogs, sorting documents, shipping products and making business cards. From April 2001, we started introducing a wet-type AS paper shredder, which disabled persons can operate safely and easily, to recycle paper. Using this device, FANCL SMILE employees handle waste paper for the FANCL Group. This system means we have integrated the processing of all paper-based material and recycling activities in one facility; another benefit being increased security surrounding customer and FANCL corporate data. Each employee is also looking for ways to become a full member of society. Two employees have, for example, gained forklift operator qualifications.

The thinking behind the establishment of FANCL SMILE as a profitable company in its own right was not to create a legal framework to merely provide work for disabled persons, but to enhance their working capabilities and create more job opportunities. We hope that our example will prompt other companies to actively open more doors for disabled persons in the job market.

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1. Work in progress at FANCL SMILE
2. FANCL SMILE employees receiving feedback
3. NICOSTAR was awarded ISO 14001 in January 1999

3


Financial Section

Contents

Five-Year Summary

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2002	2001	2000	1999	1998	2002
For the year:						
Net sales	¥84,657	¥65,418	¥62,980	¥54,475	¥45,429	$635,325
Cosmetics	36,748	35,669	38,039	35,891	31,095	275,782
Nutritional supplements	28,995	25,408	21,898	17,180	13,056	217,599
Others	18,914	4,341	3,043	1,404	1,279	141,944
Net sales by sales channels:						
Mail-order sales	56,821	43,360	45,942	43,573	39,491	426,424
Retail store sales	17,073	15,632	14,143	10,425	5,278	128,131
Others	10,763	6,426	2,893	474	660	80,770
Gross profit	56,682	47,034	44,969	40,384	32,822	425,381
Gross profit margin (%)	67.0	71.9	71.4	74.1	72.2	
Selling, general and administrative expenses	45,564	38,402	33,426	29,685	25,012	341,944
Selling, general and administrative expense ratio (%)	53.9	58.7	53.1	54.5	55.0	
Operating income	11,118	8,632	11,543	10,699	7,810	83,437
Cosmetics	8,406	8,320	10,712	10,206	8,138	63,084
Nutritional supplements	5,960	4,694	3,587	3,461	2,546	44,728
Others	(1,681)	(2,532)	(641)	(631)	(321)	(12,615)
Operating income margin (%)	13.1	13.2	18.3	19.6	17.2	
Net income	5,995	4,867	6,723	4,730	3,635	44,991
Net income to net sales (%)	7.1	7.4	10.7	8.7	8.0	
ROE (%)	9.7	8.5	15.3	16.8	17.2	
Research and development expenses	1,524	1,294	1,302	764	562	11,437
Capital expenditures	3,589	2,727	7,138	9,872	6,232	26,934
Depreciation	2,245	2,379	2,424	1,406	1,334	16,848
Net cash provided by operating activities	7,426	6,083	5,681	–	–	55,729
Net cash used in investing activities	(5,416)	(4,838)	(7,736)	–	–	(40,645)
Net cash (used in) provided by financing activities	(2,456)	(1,410)	13,006	–	–	(18,432)
Net (decrease) increase in cash and cash equivalents	(437)	(162)	10,949	–	–	(3,280)
	Yen					Dollars
Per share:						
Net income	¥ 307.55	¥ 249.77	¥ 459.50	¥ 457.74	¥ 396.94	$ 2.31
Shareholders' equity	3,320.23	3,051.42	3,678.94	2,944.00	2,357.04	24.92
Cash dividends	25.00	25.00	30.00	25.00	20.00	0.19
	Millions of yen					Thousands of U.S. dollars
At year-end:						
Total assets	¥79,026	¥75,481	¥67,657	¥49,399	¥36,833	$593,066
Shareholders' equity	64,719	59,482	55,146	32,761	23,335	485,696
Equity ratio (%)	81.9	78.8	81.5	66.3	63.4	
Interest-bearing debt	1,092	3,086	2,780	5,052	3,828	8,195
Working capital	31,082	28,456	29,219	12,934	9,178	233,261
Number of stores:						
FANCL HOUSE	114	121	82	62	46	
Genki Station	8	7	2	1	1	
Genki Net	1	–	–	–	–	
ATTENIR Shop	5	5	1	1	1	
Number of consolidated subsidiaries	4	3	2	2	2	

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥133.25=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2002.

Management's Discussion and Analysis

Income Analysis

For the fiscal year ended March 31, 2002, the results of NGC Co., Ltd. and FANCL Hatsuga Genmai Co., Ltd. (FHG) were included within the scope of consolidation.

Net Sales

Net sales increased 29.4% year on year to ¥84,657 million, boosted by the results of NGC and FHG. Net sales excluding these companies grew 11.7% to ¥73,094 million.

By business segment, sales in the Cosmetics Business rose 3.0% to ¥36,748 million and sales in the Nutritional Supplements Business increased 14.1% to ¥28,995 million. Sales in Other Businesses soared 335.7% to ¥18,914 million, while they rose 69.3%, to ¥7,349 million, excluding the results of NGC and FHG.

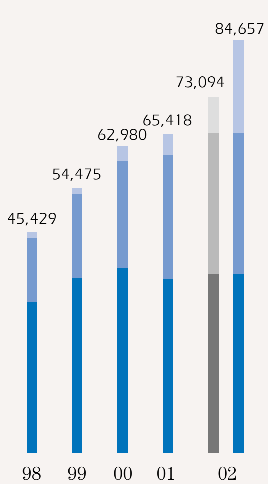
Gross Profit

Gross profit margin decreased 4.9 percentage points from the previous fiscal year to 67.0%. Excluding the results of NGC and FHG, the gross profit margin fell 2.4 percentage points to 69.5%. This decline was primarily a result of three factors. First, wholesale sales grew. Second, the Nutritional Supplements Business and Other Businesses, which have low gross profit margins compared with the Cosmetics Business, accounted for a greater share of total sales. Third was the introduction in September 2000 of a promotional "Point-up Service," whereby FANCL offered a 5% discount on mail-order and store sales.

Selling, General and Administrative Expenses

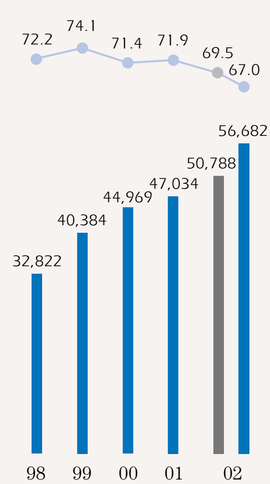
The ratio of selling, general and administrative expenses to net sales declined 4.8 percentage points to 53.9%. Excluding the results of NGC and FHG, the ratio declined 3.7 percentage points to 55.0%. This fall was chiefly due to two factors. First was an increase in wholesale sales, which have a low ratio of administrative expenses to sales, compared with mail-order and store sales. Second, advertising and communications expenses decreased. In the previous fiscal year, we aggressively invested in advertising in the Cosmetics Business and Other Businesses. In the fiscal year under review, we sought to spend advertising money more wisely, such as by using highly effective, but low-cost, media. As a result of these efforts, we reduced advertising expenses by 2.7% to ¥8,651 million, while the ratio of advertising expenses to effective sales decreased 1.8 percentage points to 11.8%. Previously, most of our communications expenses comprised the cost of sending mail-order magazines to existing customers. This fiscal year we switched from a postal mail service to a carrier service, reducing these expenses by 10.8% to ¥2,581 million. The ratio of communications expenses to effective sales decreased by 0.9 of a percentage point to 3.5%.

Net Sales by Business Segment
(¥ Million)



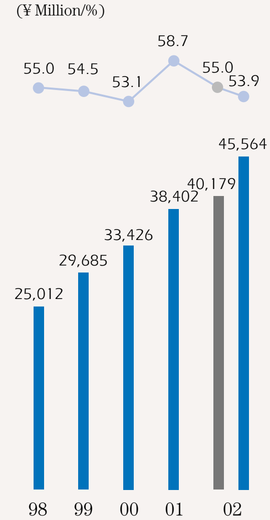
Others
Nutritional Supplements
Cosmetics
* Gray column: excluding the results of newly consolidated NGC and FHG.

Gross Profit/ Gross Profit Margin
(¥ Million/%)



Gross Profit
Gross Profit Margin
* Gray column: excluding the results of newly consolidated NGC and FHG.

SGA Expenses/ SGA Expense Ratio
(¥ Million/%)



SGA Expenses
SGA Expense Ratio
* Gray column: excluding the results of newly consolidated NGC and FHG.

Operating Income

Operating income this fiscal year increased 28.8% to ¥11,118 million, while the operating income margin declined by 0.1 of a percentage point to 13.1%. Excluding the results of NGC and FHG, operating income rose 22.9%, to ¥10,609 million, and the operating income margin rose 1.3 percentage points to 14.5%.

Other Income and Expenses

Interest and dividend income decreased ¥30 million to ¥45 million, as interest from FHG was eliminated on consolidation. Interest expense decreased ¥4 million to ¥37 million due to the repayment of debt.

Net other income and expenses deteriorated ¥633 million from the previous year's income of ¥52 million to an expense of ¥581 million. This deterioration was due to a ¥220 million decrease in other income and a ¥413 million increase in other expenses.

Other income decreased ¥220 million to ¥592 million due to lower insurance refunds and lower anonymous association investment income.

Other expenses increased ¥413 million to ¥1,174 million due to three factors: a loss on disposal associated with product renewal, losses of ¥258 million on the liquidation of the subsidiary Mainichi Ga Hakken.com and a bad debt loss of ¥53 million on accounts receivable to MYCAL Corporation.

Income before Income Taxes

Income before income taxes increased 20.9% from the previous year to ¥10,545 million, while income before income taxes as a percentage of net sales was 12.5%, down by 0.8 of a percentage point from the previous year. Excluding the results of NGC and FHG, income before income taxes rose 15.3% to ¥10,054 million, while income before income taxes as a percentage of net sales improved 0.5 of a percentage point to 13.8%. Despite the increase of 1.3 percentage points in the operating income margin, this slight 0.5 percentage point improvement reflected a deterioration in "Other, net."

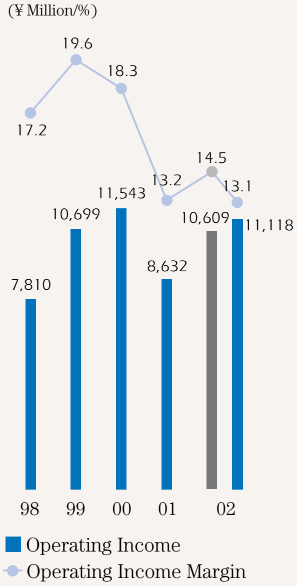
Net Income

Net income increased 23.2% to ¥5,995 million, while the net-income-to-net-sales ratio decreased 0.3 of a percentage point to 7.1%. Excluding the results of NGC and FHG, net income rose 19.7% to ¥5,825 million, while the net-income-to-net-sales ratio increased 0.6 of a percentage point to 8.0%.

Basic net income per share was ¥307.55. As of the end of this fiscal year, we did not have any outstanding unexercised convertible bonds or debt equity warrants.

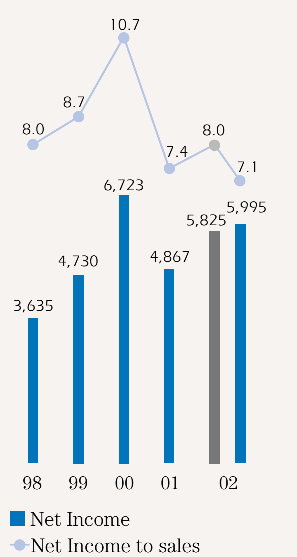
Return on equity increased 1.2 percentage points from the previous fiscal year to 9.7% due to the higher net income.

Operating Income/
Operating Income Margin
(¥ Million/%)



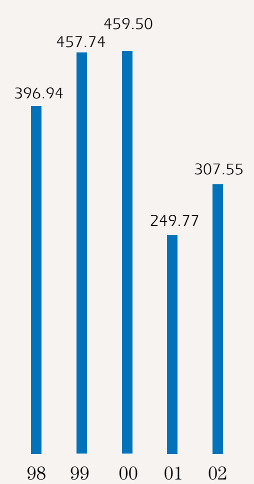
* Gray column: excluding the results of newly consolidated NGC and FHG.

Net Income/
Net Income to Sales
(¥ Million/%)



* Gray column: excluding the results of newly consolidated NGC and FHG.

Net Income per Share
(¥)



Financial Position and Capital Resources

Assets

Current Assets

Current assets increased ¥1,860 million from the previous year to ¥43,561 million. This reflected higher notes and accounts receivable and inventories, which accompanied the increase in sales.

Property, Plant and Equipment

Property, plant and equipment increased ¥997 million from the previous year to ¥24,054 million. Buildings and structures, machinery and equipment and land increased due to the construction of a second factory for production of No.2 Germinated Brown Rice in Nagano Prefecture. We also capitalized expenditures related to the construction of FANCL Square in Ginza, Tokyo, which is now under construction and slated to open in April 2003.

Intangible Assets

Goodwill was generated by the consolidation of NGC. Intangible assets fell by ¥387 million due to the company's plan to amortize the amount evenly over five years.

Investments and Other Assets

Investments and other assets rose ¥1,075 million from the previous fiscal year to ¥10,375 million. Other assets increased due to the investment of ¥2,000 million in a real estate investment trust (REIT) for the acquisition of FANCL's Head Office building, as well as other factors. Meanwhile, investment securities in nonconsolidated subsidiaries and affiliates declined due to the previously mentioned liquidation of Mainichi Ga Hakken.com. And long-term loans receivable fell as a loan to FHG was offset on consolidation of this company.

Liabilities

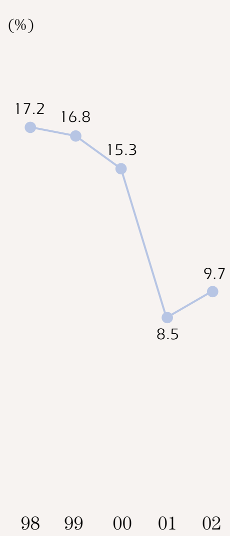
Current Liabilities

Current liabilities decreased ¥765 million to ¥12,479 million due to the repayment of short-term bank loans.

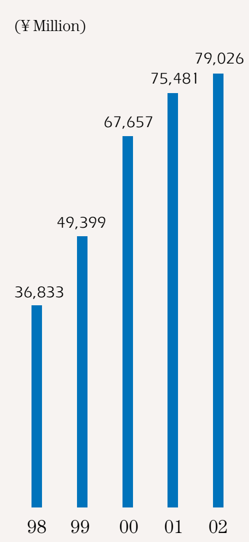
Noncurrent Liabilities

Noncurrent liabilities declined ¥926 million from the previous fiscal year to ¥1,828 million due to the repayment of long-term debt.

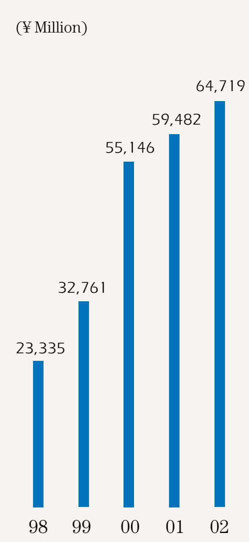
ROE



Total Assets



Shareholders' Equity



Shareholders' Equity

Total Shareholders' Equity

Total shareholders' equity increased ¥5,236 million to ¥64,719 million, reflecting the net income for the year.

Capital Investment

During this fiscal year, capital investment was ¥3,581 million.

By product segment, the Cosmetics Business invested ¥343 million in machinery and metal molds at the Chiba Factory. The Nutritional Supplements Business invested ¥131 million in machinery at the Yokohama Food Factory. Other Businesses invested ¥1,735 million for the construction of a second Germinated Brown Rice factory in Nagano. The company also invested ¥451 million as part of the construction cost of FANCL Square in Ginza, Tokyo.

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

Cash Flows

Despite a growth in cash flows from operating activities, cash flows from investing and financial activities decreased. As a result, cash and cash equivalents decreased by ¥412 million to ¥27,535 million.

Cash Flows from Operating Activities

Income before income taxes increased by ¥1,826 million. As a result of this and other factors, net cash from operating activities this fiscal year rose ¥1,341 million to ¥7,426 million.

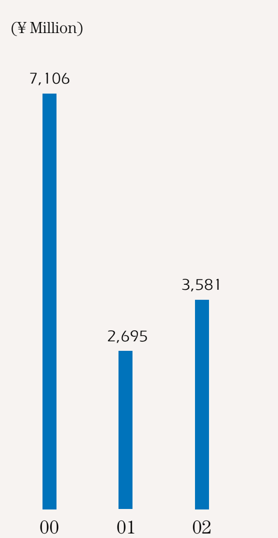
Cash Flows from Investing Activities

Investing activities used net cash of ¥5,416 million, ¥577 million more than in the previous fiscal year. A leaseback of machinery and equipment at a germinated brown rice factory in Kagawa provided cash of ¥1,167 million. However, cash of ¥4,261 million was used to build a second plant for the production of germinated brown rice in Nagano. We also invested ¥2,390 million in an REIT to acquire our Head Office building.

Cash Flows from Financing Activities

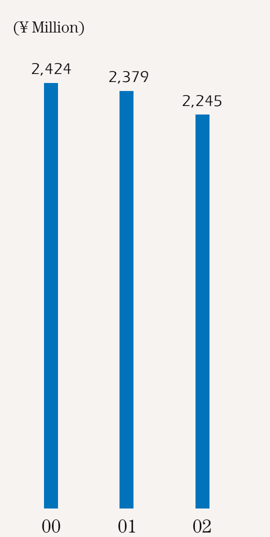
Net cash used in financing activities came to ¥2,456 million, an increase of ¥1,046 million from the previous fiscal year. This mainly reflected cash of ¥1,170 million used to repay short-term bank loans.

Capital Investment



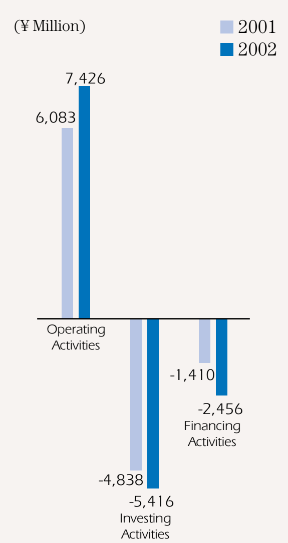
* Consolidated data for capital investment was not prepared prior to fiscal 2000.

Depreciation



* Consolidated data for depreciation was not prepared prior to fiscal 2000.

Cash Flows



Consolidated Balance Sheets

FANCL CORPORATION and Consolidated Subsidiaries
As of March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 2)
Assets	2002	2001	2002
Current assets:			
Cash and cash equivalents	¥27,535	¥27,947	$206,642
Notes and accounts receivable – trade	8,298	7,968	62,274
Less: Allowance for doubtful accounts	(176)	(420)	(1,321)
	8,122	7,548	60,953
Inventories *(Note 3)*	5,483	4,759	41,148
Deferred taxes *(Note 7)*	514	446	3,857
Prepaid expenses and other current assets	1,907	1,001	14,311
Total current assets	43,561	41,701	326,911
Property, plant and equipment, at cost *(Note 4)*:			
Land	10,317	9,716	77,426
Buildings and structures	14,074	12,674	105,621
Machinery and equipment	8,593	7,287	64,488
Construction in progress	643	1,191	4,826
	33,627	30,868	252,361
Less: Accumulated depreciation	(9,573)	(7,811)	(71,842)
Property, plant and equipment, net	24,054	23,057	180,519
Intangible assets:			
Goodwill	1,036	1,424	7,775
Investments and other assets:			
Investment securities:			
Non-consolidated subsidiaries and affiliates	795	969	5,966
Other	388	763	2,912
	1,183	1,732	8,878
Long-term loans receivable	1,122	1,585	8,420
Deferred taxes *(Note 7)*	257	189	1,929
Other assets	8,097	5,825	60,765
Less: Allowance for doubtful accounts	(284)	(32)	(2,131)
Total investments and other assets	10,375	9,299	77,861
Total assets	¥79,026	¥75,481	$593,066

Liabilities and shareholders' equity	Millions of yen 2002	2001	Thousands of U.S. dollars (*Note 2*) 2002
Current liabilities:			
Short-term bank loans *(Note 4)*	¥ –	¥ 1,170	$ –
Current portion of long-term debt *(Note 4)*	742	824	5,568
Accounts payable – trade	7,376	7,450	55,355
Accrued income taxes *(Note 7)*	2,850	2,305	21,388
Other current liabilities	1,511	1,496	11,340
Total current liabilities	12,479	13,245	93,651
Noncurrent liabilities:			
Long-term debt *(Note 4)*	350	1,092	2,627
Deferred taxes *(Note 7)*	–	79	–
Accrued retirement benefits *(Note 8)*	1,350	1,250	10,131
Other long-term liabilities	128	333	961
Total noncurrent liabilities	1,828	2,754	13,719
Contingent liabilities *(Note 11)*			
Shareholders' equity *(Notes 5, 6 and 15)*:			
Common stock:			
Authorized – 77,946,000 shares in 2002 and 2001			
Issued – 19,493,500 shares in 2002 and 2001	10,795	10,795	81,013
Additional paid-in capital	11,706	11,706	87,850
Retained earnings	42,245	36,978	317,036
Net unrealized holding (loss) gain on other securities	(18)	5	(135)
Less: Treasury stock	(9)	(2)	(68)
Total shareholders' equity	64,719	59,482	485,696
Total liabilities and shareholders' equity	¥79,026	¥75,481	$593,066

See notes to consolidated financial statements.

Consolidated Statements of Income

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars *(Note 2)*
	2002	2001	2002
Net sales	¥84,657	¥65,418	$635,325
Cost of sales	27,975	18,384	209,944
Gross profit	56,682	47,034	425,381
Selling, general and administrative expenses *(Note 9)*	45,564	38,402	341,944
Operating income	11,118	8,632	83,437
Other income (expenses):			
Interest and dividend income	45	75	338
Interest expense	(37)	(41)	(278)
Other, net	(581)	52	(4,360)
Income before income taxes	10,545	8,718	79,137
Income taxes *(Note 7)*:			
Current	4,745	3,751	35,610
Deferred	(195)	100	(1,464)
	4,550	3,851	34,146
Net income	¥ 5,995	¥ 4,867	$ 44,991

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2002 and 2001

	Thousands	Millions of yen					
	Common stock						
	Number of shares	Amount	Additional paid-in capital *(Note 6)*	Retained earnings *(Notes 6 and 15)*	Net unrealized holding (loss) gain on other securities	Treasury stock	Total shareholders' equity
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
Decrease resulting from initial consolidation of subsidiaries	–	–	–	(3)	–	–	(3)
Decrease resulting from decrease in interest in subsidiaries after allocation of new shares to a third party	–	–	–	(238)	–	–	(238)
Cash dividends	–	–	–	(487)	–	–	(487)
Net income	–	–	–	5,995	–	–	5,995
Purchase of treasury stock	–	–	–	–	–	(7)	(7)
Net unrealized holding loss on other securities	–	–	–	–	(23)	–	(23)
March 31, 2002	19,493	¥10,795	¥11,706	¥42,245	¥(18)	¥(9)	¥64,719

	Thousands of U.S. dollars *(Note 2)*					
	Common stock Amount	Additional paid-in capital *(Note 6)*	Retained earnings *(Notes 6 and 15)*	Net unrealized holding (loss) gain on other securities	Treasury stock	Total shareholders' equity
March 31, 2001	$81,013	$87,850	$277,508	$ 38	$(15)	$446,394
Decrease resulting from initial consolidation of subsidiaries	–	–	(22)	–	–	(22)
Decrease resulting from decrease in interest in subsidiaries after allocation of new shares to a third party	–	–	(1,786)	–	–	(1,786)
Cash dividends	–	–	(3,655)	–	–	(3,655)
Net income	–	–	44,991	–	–	44,991
Purchase of treasury stock	–	–	–	–	(53)	(53)
Net unrealized holding loss on other securities	–	–	–	(173)	–	(173)
March 31, 2002	$81,013	$87,850	$317,036	$(135)	$(68)	$485,696

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars *(Note 2)*
	2002	2001	2002
Cash flows from operating activities:			
Income before income taxes	¥10,545	¥ 8,718	$ 79,137
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	2,504	2,379	18,792
Accrued retirement benefits, net of payments	119	2	893
Loss on devaluation of investment securities	258	–	1,936
Return from insurance fund, net of payments	121	271	908
Loss on disposal of property, plant and equipment	145	125	1,088
Changes in operating assets and liabilities, net of effect of purchase of NGC Co., Ltd.:			
Notes and accounts receivable – trade	(359)	(1,401)	(2,694)
Inventories	(692)	(698)	(5,193)
Other current assets	(1,305)	(147)	(9,794)
Accounts payable – trade	(28)	538	(210)
Other current liabilities	537	70	4,030
Other noncurrent liabilities	(225)	29	(1,689)
Income taxes paid	(4,166)	(3,980)	(31,265)
Other, net	(28)	177	(210)
Net cash provided by operating activities	7,426	6,083	55,729
Cash flows from investing activities:			
Purchase of certificate of deposit	(500)	–	(3,752)
Purchases of property, plant and equipment	(3,560)	(2,385)	(26,717)
Proceeds from sale of property, plant and equipment	1,390	11	10,432
Purchases of software	(699)	(643)	(5,246)
Purchases of stock of affiliates	(381)	(652)	(2,859)
Acquisition of NGC Co., Ltd., net of cash acquired	–	1,137	–
Purchases of other investment securities	–	(161)	–
Addition to long-term loans receivable	–	(1,611)	–
Proceeds from liquidation of a subsidiary	221	–	1,658
Collection of long-term loans receivable	61	123	458
Increase in other investments and other assets	(1,948)	(657)	(14,619)
Net cash used in investing activities	(5,416)	(4,838)	(40,645)
Cash flows from financing activities:			
Repayment of short-term bank loans	(1,170)	–	(8,781)
Repayment of long-term debt	(823)	(864)	(6,176)
Contributions from minority shareholders	30	–	225
Proceeds from issuance of common stock	–	7	–
Purchases of treasury stock	(23)	(138)	(173)
Proceeds from sale of treasury stock	17	126	128
Cash dividends paid	(487)	(541)	(3,655)
Net cash used in financing activities	(2,456)	(1,410)	(18,432)
Effect of foreign exchange rate changes on cash and cash equivalents	9	3	68
Net decrease in cash and cash equivalents	(437)	(162)	(3,280)
Cash and cash equivalents at beginning of year	27,947	28,109	209,734
Cash and cash equivalents of newly consolidated subsidiaries at beginning of year	25	–	188
Cash and cash equivalents at end of year	¥27,535	¥27,947	$206,642

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2002 and 2001

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 compiled 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 and applied 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. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

(b) Basis of consolidation

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. 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 the Establishment of an Accounting Standard for Foreign Currency Transactions") issued by the Business Accounting Deliberation Council on October 22, 1999. The effect of adoption of this revised standard was immaterial.

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 foreign exchange contracts.

(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 the Establishment of an Accounting Standard for Financial Instruments") issued by the Business Accounting Deliberation Council on January 22, 1999.

This accounting standard requires the Company and consolidated subsidiaries to classify their securities into one of the following three categories: trading, held-to-maturity and other (available-for-sale). At April 1, 2000, the Company and consolidated subsidiaries reviewed the classification of all their securities. Based on this classification, available-for-sale 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.

Available-for-sale securities with quoted market prices are carried at fair market value. The difference between the acquisition cost and the carrying value of available-for-sale 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 available-for-sale securities sold has been computed based on the average method. Available-for-sale securities without quoted market prices are stated at cost based on the average method.

(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. The following summarizes the estimated useful lives of property, plant and equipment by major category:

Buildings and structures	3 – 50 years
Machinery and equipment	2 – 22

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 after 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 their 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 an Accounting Standard for Retirement Benefits") issued by the Business Accounting Deliberation Council on June 16, 1998. In accordance with this standard, an accrued 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 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 and ¥143 million, respectively, compared with the amounts which would have been recorded if the method applied for the year ended March 31, 2000 had been followed.

The transition difference of ¥66 million resulting from the initial adoption of the new accounting standard referred to above 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

Deferred income taxes are recognized by the liability method. Under the liability method, deferred tax assets and liabilities are determined based on the difference between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(o) Derivative financial instruments

Derivative financial instruments are carried at fair value with any changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability. Forward foreign exchange contracts that meet certain criteria are accounted for by the allocation method, which is utilized to hedge against risk arising from fluctuations in foreign exchange rates.

The Group does not make an assessment of the effectiveness of its hedging activities because the relationship between the anticipated cash flows fixed by hedging activities and the avoidance of market risk is so clear that there is no need to evaluate the effectiveness of each hedge against the respective underlying hedged item.

(p) 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.

(q) Reclassifications

In addition, certain reclassifications have been made to the prior year's financial statements to conform them to the current year's presentation.

2. U.S. DOLLAR AMOUNTS

For the convenience of the reader, the accompanying financial statements with respect to the year ended March 31, 2002 have been presented in U.S. dollars by translating all yen amounts at ¥133.25 = US$1.00, the exchange rate prevailing on March 31, 2002. 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.

3. INVENTORIES

Inventories at March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Merchandise	¥ 305	¥ 194	$ 2,289
Finished goods	1,957	1,438	14,687
Raw materials	2,494	2,476	18,717
Work in process	508	442	3,812
Supplies	219	209	1,643
	¥5,483	¥4,759	$41,148

4. LONG-TERM DEBT

Long-term debt at March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Loans from banks, insurance companies and others, due 2004 at rates from 1.45% to 1.88%	¥1,092	¥1,916	$8,195
Less: Current portion	742	824	5,568
	¥ 350	¥1,092	$2,627

At March 31, 2002, buildings and structures of ¥1,325 million ($9,944 thousand) and land of ¥1,422 million ($10,762 thousand) were pledged as collateral for long-term debt of ¥1,092 million ($8,195 thousand) including the current portion. In addition, buildings and structures of ¥2,021 million ($15,167 thousand) and land of ¥591 million ($4,435 thousand) were pledged as collateral for the indebtedness of others.

The aggregate annual maturities of long-term debt subsequent to March 31, 2002 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2003	¥ 742	$5,568
2004	350	2,627
	¥1,092	$8,195

5. SHAREHOLDERS' EQUITY

On October 1, 2001, an amendment (the "Amendment") to the Commercial Code of Japan (the "Code") became effective. The Amendment eliminates the stated par value of the Company's outstanding shares, which resulted in all outstanding shares having no par value as of October 1, 2001. The Amendment also provides that all share issuances after September 30, 2001 will be of shares with no par value. Prior to the date on which the Amendment came into effect, the Company's shares of common stock had a par value of ¥50 per share.

The Code provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until such reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

The retained earnings account in the accompanying consolidated financial statements at March 31, 2002 included the legal reserve of ¥300 million ($2,251 thousand).

On March 6, 2002, the Board of Directors approved a 1.2-for 1 stock split effective May 20, 2002. The Company's stated capital was not affected by this stock split. The number of shares in issue as of May 20, 2002 increased by 3,898,700 shares to 23,392,200 shares.

6. STOCK OPTION PLANS

On June 28, 1999, the shareholders approved a stock option plan to grant warrants to purchase shares of the Company's common stock to the 5 directors and 47 employees of the Company in accordance with the Commercial Code of Japan. Under the plan, 6,240 shares per director and from 1,560 shares to 4,680 shares per employee (for an aggregate number of 154,440 shares) were granted.

The price was set at ¥16,540 per stock option.

As outlined in the Company's stock option plan, this exercise price will be adjusted in accordance with a specified formula for stock splits, reverse stock splits or for other cases.

The stock options will become exercisable during the period from June 29, 2001 to June 28, 2009.

On June 24, 2000, the shareholders approved a stock option plan to grant warrants to purchase shares of the Company's common stock to 264 employees in accordance with the Commercial Code of Japan. Under the plan, a maximum of 113,400 shares were granted to the employees of the Company, which will be allocated in a range of 360 shares to 1,200 shares per employee.

The price was set at ¥13,667 per stock option.

As outlined in the Company's stock option plan, this exercise price will be adjusted in accordance with a specified formula for stock splits, reverse stock splits or for other cases.

The stock options will become exercisable during the period from July 1, 2002 to June 30, 2005.

7. INCOME TAXES

Income taxes applicable to the Company and consolidated subsidiaries comprise corporation tax, inhabitants' tax and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 42% for 2002 and 2001. 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, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Deferred tax assets:			
Accrued enterprise taxes	¥ 267	¥203	$2,004
Accrued bonuses	208	128	1,561
Accrued severance benefits	457	426	3,430
Depreciation	56	63	420
Other	242	171	1,816
	1,230	991	9,231
Deferred tax liabilities:			
Unrealized intercompany profit on land	232	232	1,741
Unrealized revaluation gain on land with respect to acquisition of NGC Co., Ltd.	170	170	1,276
Other	57	33	428
	459	435	3,445
Net deferred tax assets	¥ 771	¥556	$5,786

8. RETIREMENT BENEFITS

The Company and consolidated subsidiaries have defined benefit pension plans and lump-sum retirement payment plans which cover substantially all employees who terminate their employment. In addition, an employee, if eligible, may receive additional payments under the plans. In addition to these plans, the Company and 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 the year ended March 31, 2002 and 2001 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Projected benefit obligation	¥1,388	¥1,131	$10,417
Fair value of plan assets	(328)	(244)	(2,462)
Funded status	1,060	887	7,955
Unrecognized actuarial net loss	(191)	(73)	(1,433)
Net retirement benefit obligation	869	814	6,522
Prepaid pension cost	135	70	1,013
Accrued retirement benefits	¥1,004	¥ 884	$ 7,535

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 ¥346 million ($2,596 thousand) and ¥366 million were included in accrued retirement benefits in the consolidated balance sheets at March 31, 2002 and 2001, respectively.

Retirement benefit expenses for the year ended March 31, 2002 and 2001 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Service cost – benefits earned during the year	¥152	¥118	$1,141
Interest cost on projected benefit obligation	23	20	173
Expected return on plan assets	(5)	(4)	(38)
Amortization of unrecognized actuarial net loss	15	(66)	113
Additional severance benefit payments	–	73	–
Contributions to welfare pension fund	169	163	1,268
Retirement benefit expenses	¥354	¥304	$2,657

In the table above, retirement benefit expenses determined by a simplified method at the consolidated subsidiaries have been included in service cost – benefits earned during the year.

The Company and consolidated subsidiaries established a multiemployer welfare pension fund (the "Fund") pursuant to the Welfare Pension Insurance Law of Japan and have 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 consolidated subsidiaries to reasonably calculate the value of the pension plan assets based on their contributions.

The assumptions used in the actuarial calculation other than those stated above for the years ended March 31, 2002 and 2001 were principally as follows:

	2002	2001
Discount rate:	1.75%	3.00%
Expected rate of return on plan assets:	3.00%	3.00%

9. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Research and development expenses	¥1,524	¥1,294	$11,437

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, 2002 and 2001 would have been as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Machinery and equipment	¥3,708	¥2,183	$27,827
Accumulated depreciation	1,202	858	9,020
	¥2,506	¥1,325	$18,807

The following presents the future minimum lease payments subsequent to March 31, 2002 under finance leases which do not transfer ownership:

March 31, 2002	Millions of yen	Thousands of U.S. dollars
Minimum lease payments:		
Due within one year	¥ 573	$ 4,300
Due after one year	1,900	14,259
	¥2,473	$18,559

Lease expenses related to finance leases which do not transfer ownership for the years ended March 31, 2002 and 2001 amounted to ¥681 million ($5,111 thousand) and ¥322 million, respectively. Depreciation related to these leases for the years ended March 31, 2002 and 2001 would have been ¥627 million ($4,705 thousand) and ¥322 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.

11. CONTINGENT LIABILITIES

Contingent liabilities as of March 31, 2002 amounted to ¥764 million ($5,734 thousand) and represented guarantees of borrowings incurred by the nineteen 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 eighteen members of the Association.

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 outstanding as of March 31, 2002 and 2001, diluted net income per share has not been presented.

	Yen		U.S. dollars
	2002	2001	2002
Net income			
– Basic	¥ 307.55	¥ 249.77	$ 2.31
– Diluted	–	–	–
Net assets	¥3,320.23	¥3,051.42	$24.92

13. DERIVATIVE AND HEDGING ACTIVITIES

The Company utilizes derivative financial instruments such as forward exchange contracts for the purpose of hedging its exposure to adverse fluctuations in foreign currency exchange rates, but does not enter into such transactions for speculative or trading purposes.

The Company may from time to time enter into forward exchange contracts in order to manage certain risks arising from adverse fluctuations in the exchange transactions. The Company has implemented internal regulations under which they will so hedge any significant exchange risks.

No specific disclosure for derivatives has been made as the Company's derivatives principally have only positions which meet the criteria for deferral hedge accounting.

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, 2002 and 2001 is summarized as follows:

Business segments

	Millions of yen					
Year ended March 31, 2002	Cosmetics business	Nutritional supplements business	Other businesses	Total	Eliminations or corporate	Consolidated
I. Sales and operating income						
Sales to external customers	¥36,748	¥28,995	¥18,914	¥84,657	¥ –	¥84,657
Intersegment sales or transfers	–	–	–	–	–	–
Total sales	36,748	28,995	18,914	84,657	–	84,657
Operating expenses	28,342	23,035	20,595	71,972	1,567	73,539
Operating income (loss)	¥ 8,406	¥ 5,960	¥ (1,681)	¥12,685	¥(1,567)	¥11,118
II. Total assets, depreciation and capital expenditures						
Total assets	¥21,229	¥12,049	¥10,229	¥43,507	¥35,519	¥79,026
Depreciation	1,293	632	239	2,164	81	2,245
Capital expenditures	1,057	634	1,898	3,589	–	3,589

Year ended March 31, 2001	Millions of yen					
	Cosmetics business	Nutritional supplements business	Other businesses	Total	Eliminations or corporate	Consolidated
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, 2002	Thousands of U.S. dollars					
	Cosmetics business	Nutritional supplements business	Other businesses	Total	Eliminations or corporate	Consolidated
I. Sales and operating income						
Sales to external customers	$275,782	$217,599	$141,944	$635,325	$ –	$635,325
Intersegment sales or transfers	–	–	–	–	–	–
Total sales	275,782	217,599	141,944	635,325	–	635,325
Operating expenses	212,698	172,871	154,559	540,128	11,760	551,888
Operating income (loss)	$ 63,084	$ 44,728	$(12,615)	$ 95,197	$(11,760)	$ 83,437
II. Total assets, depreciation and capital expenditures						
Total assets	$159,317	$ 90,424	$ 76,766	$326,507	$266,559	$593,066
Depreciation	9,703	4,743	1,794	16,240	608	16,848
Capital expenditures	7,932	4,758	14,244	26,934	–	26,934

Unallocatable operating expenses included under “Eliminations or corporate” for the years ended March 31, 2002 and 2001 amounted to ¥1,567 million ($11,760 thousand) and ¥1,850 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, 2002 and 2001 amounted to ¥35,519 million ($266,559 thousand) and ¥35,381 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.

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, 2002 and 2001, 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, 2002 and 2001, no disclosure of overseas sales has been presented.

15. SUBSEQUENT EVENTS

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, 2002, were approved at a meeting of the shareholders held on June 16, 2002:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥12.50 = U.S.$0.09 per share)	¥243	$1,824
Transfer to legal reserve		

On June 16, 2002, the shareholders of the Company approved a stock option plan to grant warrants to purchase shares of the Company's common stock to directors, statutory auditors and employees of the Company and its subsidiaries in accordance with the Commercial Code of Japan. Under the plan, a maximum of 500,000 shares were granted to the individuals referred to above.

The stock option price is to be determined by multiplying the higher of ¥4,060 or the final price per share of the Company's common stock traded on the Tokyo Stock Exchange on the day prior to the date of the granting of the options, by a factor of 100.

As outlined in the Company's stock option plan, this exercise price will be adjusted in accordance with a specified formula for stock splits, reverse stock splits or for other cases.

The stock options will become exercisable during the period from July 1, 2004 to June 29, 2007.

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, 2002 and 2001, 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, 2002 and 2001, 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 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, 2002 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.

June 17, 2002 Shin Nihon & Co.

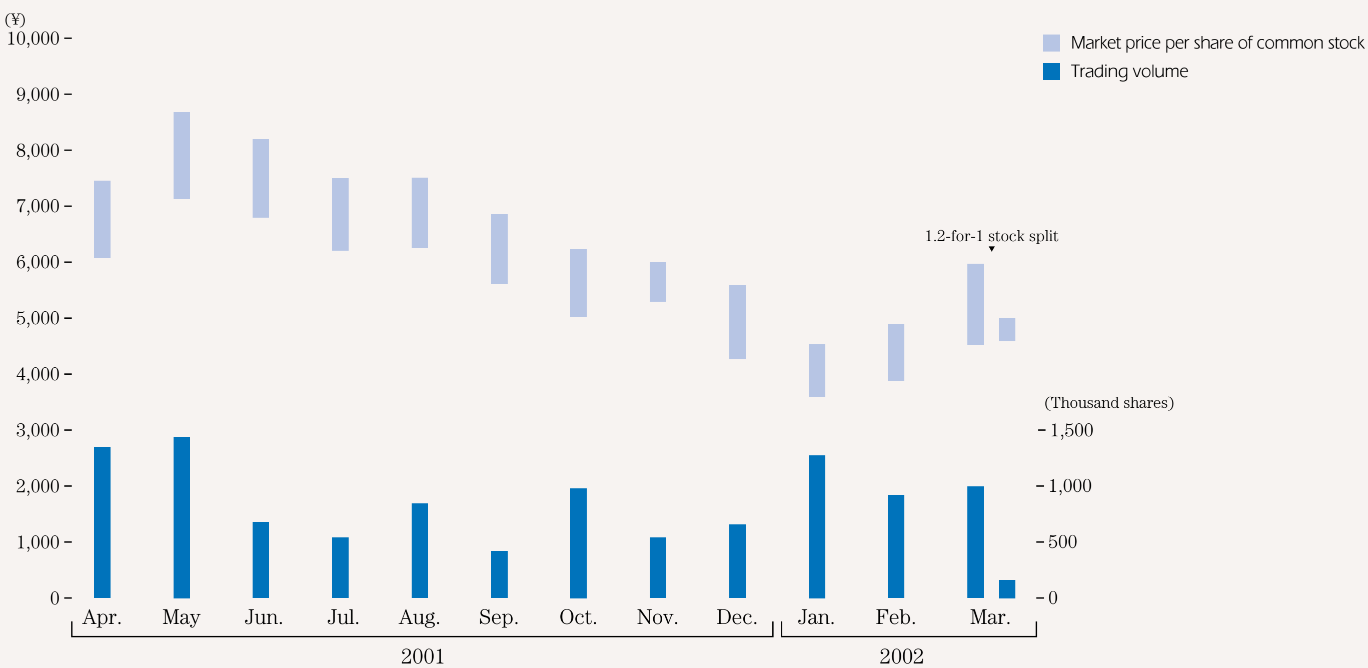
See Note 1 which explains the basis of preparation of the consolidated financial statements of FANCL CORPORATION and subsidiaries under Japanese accounting principles and practices.

Corporate Data

Market Price per Share of Common Stock and Trading Volume

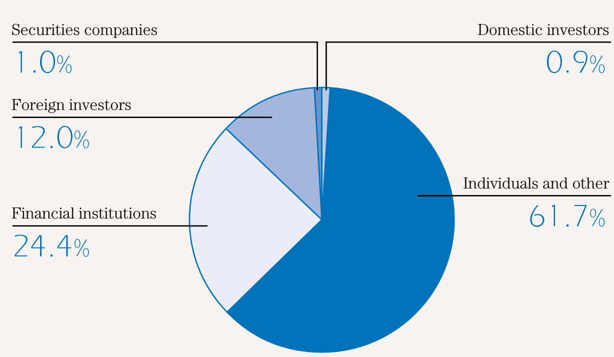
	2001									2002			
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	
High (¥)	7,450	8,680	8,200	7,500	7,510	6,860	6,230	6,000	5,590	4,530	4,890	5,970	5,000*
Low (¥)	6,070	7,130	6,800	6,210	6,250	5,610	5,020	5,300	4,270	3,600	3,880	4,530	4,590*
Trading Volume (Thousand shares)	1,347	1,440	676	540	842	419	979	538	654	1,274	919	995	159*

* A 1.2-for-1 stock split was carried out on March 25, 2002.



Composition of Shareholders (Percentage of ownership)

	2000		2001		2002
	Mar.	Sep.	Mar.	Sep.	Mar.
Individuals and other	58.7	61.4	63.5	60.1	61.7
Financial institutions	23.4	24.5	24.5	26.0	24.4
Foreign investors	16.1	11.5	9.8	11.9	12.0
Domestic investors	1.3	1.3	1.3	1.0	0.9
Securities companies	0.5	1.3	0.9	1.0	1.0



Mar. 2002

Directors and Officers

(As of June 16, 2002)

President and Representative Director
Kenji Ikemori

Senior Managing Director and Representative Director
Hisashi Yamamoto
Tsuyoshi Tatai

Vice Chairman and Director
Masaharu Ikemori

Managing Directors
Takao Kokubu
Yoshifumi Narimatsu

Directors
Katsuhiko Matsumoto
Kazuyoshi Miyajima
Koichi Fujita
Takayoshi Okada

Statutory Auditors
Michihiro Yoneda
Fumiko Ikeda
Katsunori Koseki

Corporate Executive Officers
Kenichi Ishiwata
Takao Ishida
Naohisa Yoda
Shuji Miyahara
Masayoshi Koike
Noburou Katase
Kenichi Sugama

Investor Information

(As of March 31, 2002)

Head Office
89-1 Yamashita-Cho, Naka-ku,
Yokohama, Kanagawa-ken 231-8528,
Japan
Tel: 81(45)226-1200

Established
August 1981

Common Stock Listing
Tokyo Stock Exchange, First Section
(Code: 4921)

Paid-in Capital
¥10,795,161,280

Number of Shareholders
16,461

Common Stock
Authorized Shares: 77,946,000
Outstanding Shares: 19,493,500
(After a stock split on May 20, 2002, issued and outstanding shares stood at 23,392,200.)

Number of Full-time Employees
603

Transfer Agent and Registrar
UFJ Trust Bank Limited
10-11, Higashisuna, 7-chome, Koto-ku,
Tokyo 137-8082, Japan
Tel: 81(3)5683-5111

Annual Meeting of Shareholders
In the middle of June in Kanagawa

Consolidated Subsidiaries
ATTENIR CORPORATION
NICOSTAR Co., Ltd.
NGC Co., Ltd.
FANCL Hatsuga Genmai Co., Ltd.

Investor Relations
For further information, please contact:
Investor Relations Department
Tel: 81(45)226-1230
http://www.fancl.co.jp/

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FANCL
CORPORATION

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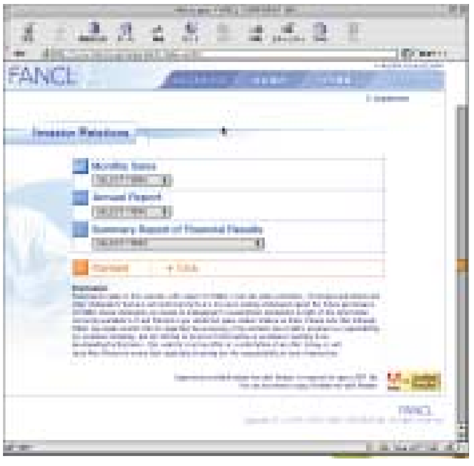
Yokohama, Kanagawa-ken 231-8528, Japan
Head Office phone: 81(45)226-1200

http://www.fancl.co.jp/corporate/ir/index_e.html



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