

ANNUAL REPORT 2004

Change & Challenge

FANCL CORPORATION



CORPORATE PROFILE

At the time of FANCL's establishment 24 years ago, many women suffered from chronic skin problems caused by preservatives, disinfectants, and other additives contained in cosmetics. Aiming to be of service and provide joy, FANCL launched its first preservative-free cosmetics in a market characterized by widespread use of preservatives and other additives. Today, FANCL is strongly identified with preservative-free cosmetics, which have gained widespread popularity among consumers.

FANCL's basic management philosophy is to eliminate the need for consumers to use products that have negative qualities and consequences in terms of safety, satisfaction, convenience, and pleasure. To fulfill people's desire for "beauty through health," the Company is expanding the sphere of its operations. Today, FANCL is carving out a unique position as a specialist in both inner and outer beauty, contributing to outer beauty and health through its cosmetics and to inner beauty and health through its nutritional supplements, germinated brown rice, and kale juice.

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Cautionary note regarding forward-looking statements

Statements made in this annual report with respect to FANCL's current plans, strategies, estimates, and beliefs, as well as other statements that are not historical facts, are forward-looking statements about the future performance of FANCL. These statements are based on management's beliefs in light of information available to it at the time of the writing of this report. The actual performance of the Company could differ significantly from these forward-looking statements as a result of unpredictable factors such as changes in customer preferences, social conditions, and economic conditions. Moreover, FANCL is under no obligation to revise forward-looking statements, irrespective of new data, future events, or other developments. Readers should therefore not place undue reliance on them.

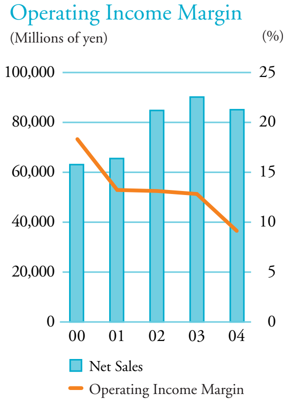
FINANCIAL HIGHLIGHTS

FANCL CORPORATION and Consolidated Subsidiaries

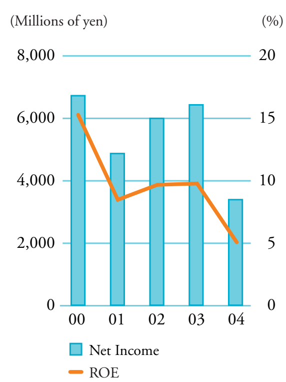
Years ended March 31	Millions of yen					Thousands of U.S. dollars
	2004	2003	2002	2001	2000	**2004**
FOR THE YEAR:						
Net sales	**¥ 84,957**	¥ 90,026	¥ 84,657	¥ 65,418	¥ 62,980	**$803,832**
Cosmetics	**34,926**	37,155	36,748	35,669	38,039	**330,457**
Nutritional supplements	**29,656**	29,211	28,995	25,408	21,898	**280,594**
Others	**20,375**	23,660	18,914	4,341	3,043	**192,781**
Operating income (loss)	**7,769**	11,526	11,118	8,632	11,543	**73,507**
Cosmetics	**6,283**	8,099	8,406	8,320	10,712	**59,447**
Nutritional supplements	**5,371**	6,879	5,960	4,694	3,587	**50,819**
Others	**(1,821)**	(1,646)	(1,681)	(2,532)	(641)	**(17,230)**
Net income	**3,387**	6,429	5,995	4,867	6,723	**32,046**
AT YEAR-END:						
Total assets	**78,479**	79,804	79,026	75,481	67,657	**742,540**
Shareholders' equity	**65,613**	66,350	64,719	59,482	55,146	**620,806**
	Yen					U.S. dollars
PER SHARE:						
Net income	**¥ 154.57**	¥ 279.54	¥ 307.55	¥ 249.77	¥ 459.50	**$ 1.46**
Shareholders' equity	**3,082.42**	2,976.31	3,320.23	3,051.42	3,678.94	**29.16**
Cash dividends	**42.50**	35.00	25.00	25.00	30.00	**0.40**
RATIOS:						
Operating income margin (%)	**9.1**	12.8	13.1	13.2	18.3	
ROE (%)	**5.1**	9.8	9.7	8.5	15.3	
Equity ratio (%)	**83.6**	83.1	81.9	78.8	81.5	

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥105.69=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2004.

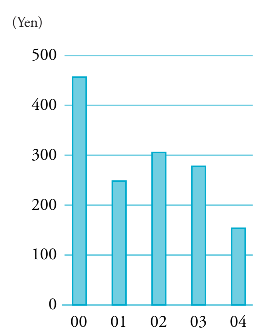
Net Sales/
Operating Income Margin



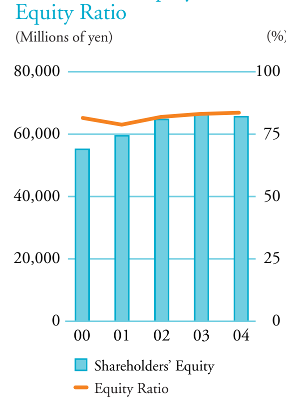
Net Income/ROE



Net Income per Share



Shareholders' Equity/
Equity Ratio



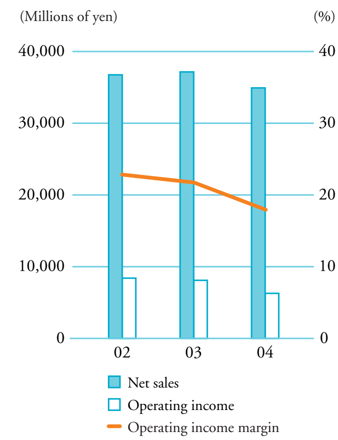
AT A GLANCE

	PRODUCTS	NET SALES AND OPERATING INCOME (LOSS)

COSMETICS BUSINESS

41.1%
of total net sales

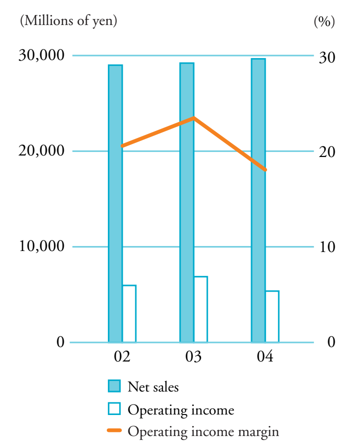
- FANCL cosmetics
  (Preservative-free cosmetics that contain no ingredients known to cause skin allergies)
- ATTENIR cosmetics
  (Attractive, quality cosmetics at reasonable prices)



NUTRITIONAL SUPPLEMENTS BUSINESS

34.9%
of total net sales

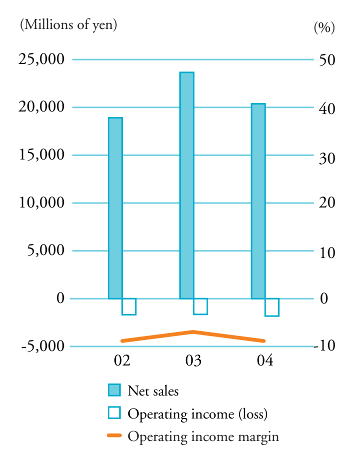
- Health supplements
  (High-quality nutritional supplements at competitive prices)
- Beauty supplements
  (Nutritional supplements for inner beauty)



OTHER BUSINESSES

24.0%
of total net sales

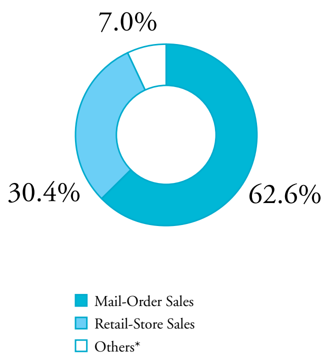
- Germinated brown rice
- Kale juice
- Comfort undergarments
- Health equipment and lifestyle goods



SALES CHANNEL BREAKDOWNS

MAJOR DEVELOPMENTS DURING FISCAL 2004 AND STRATEGIC FOCUS FOR FISCAL 2005

Sales Breakdown by Sales Channel
for the year ended March 31, 2004



*Others: Others denote wholesale and overseas sales

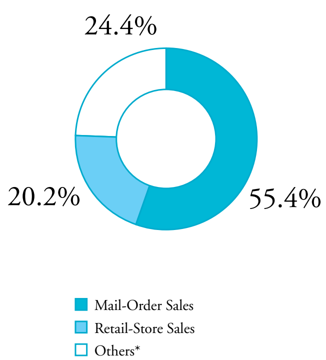
Major developments during fiscal 2004

- We carried out a major renewal of FANCL cosmetics to revitalize sales of makeup and body care products, which had been sluggish in the fiscal year ended March 31, 2003.
- FANCL cosmetics sales were down year on year. Despite growth in makeup products after renewals were completed, sales of FENATTY and other skincare products fell substantially.
- In retail-store sales, existing-store sales decreased, reversing their previous recovery trend.
- ATTENIR cosmetics attracted a record number of customers and continued the previous term's favorable performance, supported by advertising and other sales promotion activities.

Strategic focus for fiscal 2005

- We will renew our core FENATTY skincare line to differentiate it from competing products.

Sales Breakdown by Sales Channel
for the year ended March 31, 2004



*Others: Others denote wholesale and overseas sales

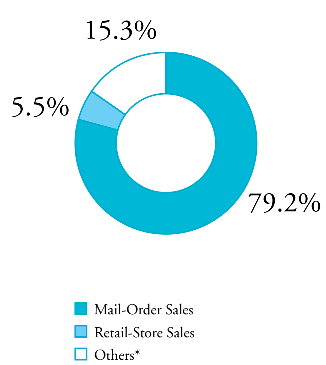
Major developments during fiscal 2004

- We introduced high-value-added products incorporating original materials to support our strategic shift from price-based appeal to value-based appeal.
- After reviewing our product lineup, we terminated sales of 16 products.
- Mail-order sales were down year on year due to a decline in customer numbers caused by intensified competition.
- In the retail-store and wholesale channels, diet supplements and beauty supplements sold well.

Strategic focus for fiscal 2005

- We are making a strategic shift to products that appeal on the basis of added value, such as those with the new functional ingredient TWINTOSE.

Sales Breakdown by Sales Channel
for the year ended March 31, 2004



*Others: Others denote wholesale and overseas sales

Major developments during fiscal 2004

- For germinated brown rice, customer numbers were down and both mail-order and OEM sales decreased year on year.
- Both the frozen and powdered types of kale juice performed strongly, with higher sales in all channels.
- Despite a complete revision of the NGC mail-order business, including catalog contents, customer service, and product lineup, sales were down year on year.
- We commenced the esthetic business at FANCL Square.

Strategic focus for fiscal 2005

- We will improve the taste of germinated brown rice to enhance its market penetration.

PROMOTING CUSTOMER SATISFACTION

A MESSAGE FROM THE CHAIRMAN

Since its foundation, FANCL's basic management philosophy has been to eliminate the need for consumers to use products that have negative qualities and consequences in terms of safety, satisfaction, convenience, and pleasure. While maintaining this fundamental management stance, the time has now come for all of us at FANCL to carry out the Company's "second foundation," which will support the next stage of FANCL's growth.

Kenji Ikemori,
Chairman and Director

TRANSFORMING THE UNTHINKABLE INTO COMMON SENSE

Japan's total cosmetics market is worth roughly ¥3 trillion on a retail basis. Within this market, natural cosmetic products are worth approximately ¥300 billion, where FANCL has grown to hold a market share of about 10%. Despite the fact that cosmetics was a typical mature industry, dominated by giant, highly competitive corporations, FANCL managed to achieve rapid growth in this industry owing to its highly successful line of preservative-free cosmetics. In order to offer cosmetics containing no preservatives, a cause of skin problems for many women, FANCL 24 years ago introduced a market-making innovation: a hermetically sealed ampoule containing a week's worth of product, the amount usable before deteriorating. Thousands of women rallied around this concept, and the notion of preservative-free cosmetics, which had previously been unthinkable, became common sense. This was FANCL's first success in eliminating a negative quality.

Remaining focused on the realm of beauty and health, the Company next took on the nutritional supplements industry, where high prices prevailed. FANCL purchased quality raw materials at low prices, eliminated the middleman by undertaking direct sales, and simplified product packaging. In these ways, the Company established a market for high-quality nutritional supplements at prices consistent with international standards, thereby enabling daily consumption of nutritional supplements for the average consumer. Thus, the Company eliminated another negative quality—in this case, prohibitive cost.

As a result of repeatedly eliminating negative qualities and transforming the unthinkable into common sense, FANCL today is poised to achieve ¥100 billion in annual sales, in addition to boasting an excellent workforce and significant accumulated R&D expertise.

GOING ALL OUT IN PURSUIT OF CUSTOMER SATISFACTION

Innovative products are not FANCL's only strength. Our goal is to provide, along with our products, the kind of service that makes customers feel truly important. For example, we perform detailed self-evaluations throughout the entire customer-interface process, from order receipt by phone to product delivery by hand. We make sure that interactions with customers are courteous at all times. We note what first catches a customer's attention when he or she takes delivery of a product. We also constantly search out ways to improve customer convenience by, for example, simplifying the removal of products and accompanying documentation from containers. Simply put, FANCL is devoted to providing thoroughly customer-centered service. This mindset has yielded a variety of value-added service options, including toll-free telephone consultation services, customer-designated delivery service, and an unlimited return/exchange guarantee system. FANCL's future growth hinges on providing this kind of service.

NO BUSINESS IS LIKELY TO GROW FOREVER

FANCL has come up against a major barrier. This does not discourage me, however, particularly in view of the fact that no business is guaranteed to grow forever. I have long believed that rather than becoming satisfied with the status quo, we must regularly formulate and implement new ideas and concepts for turning today's profits into tomorrow's prosperity. Fortunately, FANCL's basic philosophy of eliminating negative qualities implies that our business opportunities will never be exhausted. By achieving rapid growth in the cosmetics industry, which was considered by most to be mature, FANCL has proven that it can establish a growth market even in a mature industry.

Moreover, FANCL has built a firm financial foundation thanks to debt-free management and keen attention to cash flow. I therefore believe that we can attain a higher stage of growth if FANCL's excellent employees continuously challenge themselves to venture further forward.

CUSTOMER SATISFACTION IS THE SOURCE OF FANCL'S PROFITS

Seeing things through the eyes of the customer must always take precedence over seller's logic. So long as the Company continues to consistently make customers happy, they will reward FANCL with more purchases and, ultimately, greater profits. In other words, eliminating negative qualities has direct and positive effects on our business results. We must continue to place top priority on eliminating negative qualities, not on sales techniques, and have the far-sightedness to avoid selling products that are not beneficial to consumers. In addition, we must not imitate others but rather create new markets from scratch by coming up with products and providing services never seen or thought of before. This is the FANCL DNA that has driven our growth to date.

I pledge to preserve and pass on this DNA, the source of FANCL's prosperity. At the same time, I am committed to helping build FANCL's "second foundation," which with the efforts of our excellent employees will positively transform our Company, now 24 years old and counting.

Kenji Ikemori

Kenji Ikemori, Chairman and Director

June 2004

TO OUR SHAREHOLDERS, CUSTOMERS, AND EMPLOYEES

A MESSAGE FROM THE PRESIDENT

Under the strong leadership of Kenji Ikemori, the Company's founder, FANCL achieved unprecedentedly rapid growth in a mature industry. The Company has now reached the limits of growth attainable on a corporate structure dependent on the founder. My most important mission is to receive and nurture FANCL's DNA and, by enhancing the synergistic effects of the Company's organizational strength, create a new corporate structure that will prepare the ground for a new stage of growth. To that end, I am currently undertaking creative destruction in order to build FANCL's second foundation.

Kenji Fujiwara,
President and Representative Director

FISCAL 2004 CONSOLIDATED RESULTS

In fiscal 2004, the year ended March 31, 2004, signs of a turnaround in the Japanese economy were visible in the third quarter, thanks to continued robust exports and a recovery trend in capital expenditure. However, income and job conditions showed no sign of improvement, with the result that consumer spending remained stagnant.

Amid these conditions, FANCL's consolidated sales fell 5.6% to ¥84,957 million, operating income declined 32.6% to ¥7,769 million, and the operating margin decreased 3.7 percentage points to 9.1%, compared with the previous fiscal year. The Company recorded an extraordinary loss due to the recognition of past years' portion of the allowance for retirement benefits of directors following a review of the relevant rules. As a result, net income slipped 47.3% to ¥3,387 million year over year. Thus, in fiscal 2004 earnings fell sharply from the record highs achieved in fiscal 2003, and net income per share declined ¥124.97 to ¥154.57. Moreover, fiscal 2004 marked the first time in the Company's history that both sales and profits declined, an unfortunate outcome.

A sales decrease in the high-margin cosmetics business was the chief cause of the decline in profits in fiscal 2004. Although sales of ATTENIR cosmetics increased, sales of FANCL cosmetics, which accounted for 79.9% of total cosmetics sales in fiscal 2003, fell 11.2%. The slump in demand for FANCL cosmetics is

Factor Analysis of the ¥5.1 Billion Decline in Net Sales

Positive Factors	
ATTENIR cosmetics	+¥1.1 billion
Nutritional supplements	+¥0.4 billion
Kale juice	+¥0.5 billion
Others	+¥0.4 billion
Negative Factors	
FANCL cosmetics	-¥3.3 billion
Germinated brown rice	-¥1.5 billion
NGC	-¥2.7 billion

Factor Analysis of the ¥3.8 Billion Decline in Operating Income

Positive Factors	
Lower sales promotion expenses	+¥0.6 billion
Improved earnings from kale juice	+¥0.5 billion
Lower communications expenses	+¥0.4 billion
Negative Factors	
Higher advertising expenses	-¥0.6 billion
Decline in gross profit due to lower cosmetics sales and worsening of product mix	-¥1.7 billion
Decline in gross profit due to sharp rise in nutritional supplement raw materials prices	-¥0.3 billion
Worsening of earnings from germinated brown rice	-¥0.6 billion
Depreciation and operating expenses of the Shiga Factory	-¥0.5 billion
Increase in expenses due to opening of FANCL Square	-¥0.5 billion
Worsening of profits from NGC mail-order business	-¥1.1 billion

attributable to the increased difficulty the Company had in differentiating FANCL cosmetics on their preservative-free properties alone, amid increased competition and aggressive marketing activities by other companies.

Other factors exerting downward pressure on profits included NGC (a mail-order business handling lifestyle products) becoming unprofitable and costs related to the start-up of the Shiga Factory and the opening of FANCL Square.

FANCL'S ENVIRONMENT

Just as FANCL was on the verge of ¥100 billion in consolidated sales, a slowdown in sales growth over the past few years has become increasingly apparent. We now acknowledge that, despite fueling the Company's growth thus far, our mainstay cosmetics and nutritional supplements businesses no longer promise high growth if we depend on our conventional competitiveness. In the preservative-free cosmetics market and the low-price nutritional supplements market, both pioneered by FANCL, the number of competitors has increased in line with expansion in the size of these markets. Our competitors, meanwhile, have stepped up efforts to appeal to consumers on the basis both of functionality and of value. In the cosmetics industry, in particular, consumers constantly demand new functionality, and we can no longer maintain an advantage through the preservative-free aspect of our products alone. Moreover, in the nutritional supplements market prices in general have fallen, putting pressure on us either to compete further on price or to appeal on the uniqueness of our products. It was never our strategy to compete solely on price; rather, our business model entails providing value-added products at a reasonable price. Accordingly, our basic policy is to shift from a strategy of price-based appeal to one of value-based appeal as reasonable prices prevail throughout the market.

TOWARD A SECOND FOUNDATION

Sharing a New Vision

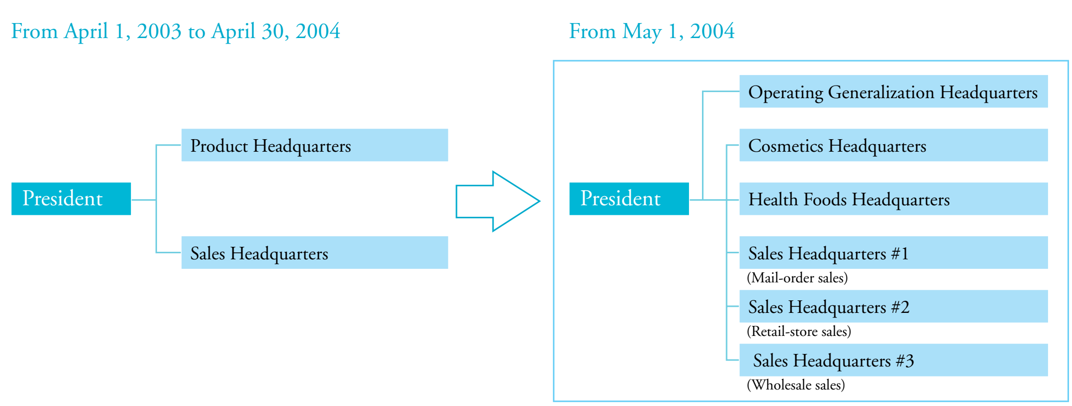
With this sort of change in strategy approaching, I believe all of us at FANCL must now share a new vision, one that will enable the Company to completely shed its current structure in order to break away from the heavy dependence on the Company's founder. Up to this point, the founder alone has envisioned FANCL's future and the steps needed to achieve that vision. Now, however, we are at the point where all employees must together work to determine FANCL'S future direction and transform the Company if it is to have a future. This new vision, formulated with the participation of the entire workforce, is embodied in FANCL's new three-year medium-term management plan, the FANCL Change & Challenge Plan, which started in fiscal 2005.

Implementing Structural Reform

To assure the success of this plan, a venturesome spirit that emboldens all employees to think and act for themselves must be combined with teamwork across business segments to rebuild the Company's monolithic organizational structure. The plan calls for a complete change in organizational structure. Specifically, the plan lays out a six-headquarter system. Two of these headquarters are involved with manufacturing functions—the Cosmetics Headquarters and the Health Foods Headquarters—while three are devoted to sales functions—the Sales Headquarters #1 (mail-orde sales), the Sales Headquarters #2 (retail-store sales), and the Sales Headquarters #3 (wholesale sales). The Operating Generalization Headquarters, under the direct supervision of the president, is set up to organically link the manufacturing and sales functions.

While the new organizational structure ensures the independence of each product and sales channel, the Operating Generalization Headquarters acts as a coordinator, linking departments responsible for product and sales channels. Thus, the new organizational structure enables rapid feedback when problems arise. In retail-store sales and wholesale sales, where FANCL's experience is relatively brief and its expertise limited, the Company will strengthen its personnel front by aggressively hiring specialists from outside companies.

In the past, the Company's strategies tended to be formulated according to the needs of mail-order sales operations. To correct this, one of the goals of the organizational reform is to enable each business to fully face its relevant market, and at the same time allow the Company to quickly implement strategies optimally formulated to unify the focus of the whole Company. In addition, this new organizational structure is tightly linked to a revamped R&D system geared to actively developing new functionality and new materials.



Increased R&D Investment

Based on the theme of "inner and outer beauty," which takes into account beauty and health on both the inside and the outside, FANCL has developed a unique research approach that blends the study of dermatology (cosmetics) and food science (nutritional supplements). This research has already yielded a wealth of unique and effective new compounds that provide new functionality. As the competitiveness of FANCL's existing businesses wanes, we believe striving on a daily basis to achieve research results and make new discoveries at our Central Research Center is a matter of urgency. For that reason, we are substantially increasing R&D spending as a percentage of sales, to a target of 3% from 2% currently. In addition, the Company plans to expand its industry-government-academia research network through collaborations with external research organizations, such as universities and public-sector agencies. We also plan to bring our unique R&D capabilities to the fore like we never have before, and proactively launch differentiated high-value-added products that reflect our technological strength.

Aggressive Retail-Store Network Expansion

Japanese consumers usually buy products in retail stores, not by mail order. With cosmetics, in particular, the vast majority of consumers want to see and try the actual product before buying. FANCL has a network of 145 retail-stores nationwide at present, but in terms of making direct contact with customers the store network is still not large enough. The Company is therefore accelerating its retail-store network expansion, aiming for 300 stores, or slightly more than double the present number, in three years. We believe there is significant potential for retail-store sales, as opening stores in regional areas, where consumer awareness of FANCL is still low, is likely to increase the effectiveness of the Company's advertising.

At FANCL stores, salespeople provide assistance and advice only when individual customers request it. With this hands-off sales approach, FANCL endeavors to create an atmosphere in which customers feel free to examine and try products by themselves. Our products, services, and sales methods all reflect a customer orientation, and as a result FANCL stores are constantly busy. While mail-order sales remain the mainstay of FANCL's business, the Company is actively opening new stores and striving to maximize synergies between mail-order sales and retail-store sales.

Aiming for ¥120 Billion in Sales in Three Years

The FANCL Change & Challenge Plan assumes that these measures will be implemented and thus positions fiscal 2005, the Plan's initial year, as a "year of change and structure," projecting higher sales and lower profits; fiscal 2006 as a "year of structure and progress," projecting higher sales and higher profits; and for fiscal 2007 targets consolidated sales of ¥120 billion and operating income of ¥16 billion, with an operating margin of 13%. By product segment, fiscal 2007 consolidated sales targets are ¥48.6 billion for cosmetics, ¥36.1 billion for nutritional supplements, ¥13.0 billion for germinated brown rice, ¥7.0 billion for kale juice, and ¥15.3 billion for other products. The Company forecasts a decline in profits in fiscal 2005 due to plans to temporarily increase advertising and sales promotion spending from the usual 20–21% range to 25%, in an effort to more aggressively promote the FANCL brand name. We expect these efforts to bear fruit in fiscal 2006 and thereafter.

The specific direction outlined in the FANCL Change & Challenge Plan entails the Company's core businesses of cosmetics and nutritional supplements returning to growth trajectories, and the germinated brown rice and kale juice businesses, which FANCL intends to nurture into a third core business, attaining profitability. To achieve this, in the cosmetics business the Company will launch a new product concept, "aid cosmetics," focusing on three core functions: protection, reduction, and restoration. At the same time, we will continue to promote the preservative-free aspect of the Company's products. We aim to increase cosmetics sales by developing new products with an emphasis on improved functionality and by renewing existing products. In the nutritional supplements business, the Company will work to bolster value appeal both by clarifying main products through a streamlining of the product lineup and by launching new high-value-added products. In addition, by fully deploying its R&D capabilities, which rank among the industry's best, the Company will work to clearly differentiate its products from those of the competition. In the germinated brown rice and kale juice businesses, the Company will focus on wholesale sales to supermarkets and convenience stores, and step up OEM supply and processed-product development efforts.

SHAREHOLDER RETURNS

FANCL has raised its annual dividend by ¥7.5 for fiscal 2004, to ¥42.5. Although the Company recorded declines in both sales and profits for the first time in its history in fiscal 2004, we raised the dividend in accordance with our emphasis on shareholder returns and in light of the Company's financial health—the shareholders' equity ratio exceeds 80%—and the fact that it remains profitable. The Company's shareholder return policy aims to maintain stable dividends while achieving an optimal mix of internal reserves (to support future business expansion), dividend increases, stock splits (based on the state of earnings), and share buy-backs.

CORPORATE GOVERNANCE

FANCL considers corporate governance to be an important management issue and strives to maintain and improve management transparency and adhere to the letter and spirit of the law. As specific measures to that end, the Company established a Compliance Office within its Corporate Strategic Headquarters in February 2004. In addition, the Consumer Center, which garners and analyzes the opinions and requests of consumers, was placed under the direct supervision of the president. Working in collaboration with the Consumer Center, the Compliance Office strives to speed up decision-making when problems arise. Moreover, the Company reviewed its managing officer system to clarify the separation between supervisory and operating functions, and to strengthen its management oversight system, appointed its first-ever outside director.

IN CONCLUSION

What supports FANCL's profit base is its strong repeat business. The number of heavy mail-order users rose a robust 6.3% in fiscal 2004. I believe this illustrates the level of customer trust enjoyed by FANCL.

All of us at FANCL take the downturn in fiscal 2004 seriously, and we are doing our utmost to implement improvement measures. Through the FANCL Change & Challenge Plan, the Company has formulated a strategy for breaking through ¥100 billion in sales, which has proven to be a formidable barrier. However, I do not at all believe that we should put sales first, at the expense of seeing things through the eyes of the customer. This is because I believe that, at root, sales growth is based on understanding the customer and on increasing customer satisfaction. Everything we do is premised on trying to ascertain what we must do to encourage the customer to use FANCL's products and services over the long haul.

Finally, I would like to extend my deepest appreciation to all our shareholders and customers for their support, as well as express my hope that this Annual Report 2004 proves useful and sufficiently informative. Last but not least, I thank all of FANCL's employees for their devoted commitment and look forward to their continuing efforts to stimulate the Company's future growth.

Kenji Fujiwara

Kenji Fujiwara, President and Representative Director

June 2004

SPECIAL FEATURE:
NEW THREE-YEAR MEDIUM-TERM MANAGEMENT PLAN (FISCAL 2005–2007)
—FANCL CHANGE & CHALLENGE PLAN—

In formulating the FANCL Change & Challenge Plan, the Company's executives shared their thoughts with each other and collected opinions from the workplace through direct communication with employees. The formulation of this strategy, with the participation of all employees, is an important first step toward FANCL's "second foundation."

Quantitative Targets

	Fiscal 2007 (Plan)	Fiscal 2004 (Actual)
Consolidated net sales	¥120 billion	¥84.9 billion
Consolidated operating income	¥16 billion	¥7.7 billion
Operating income margin	13.0%	9.1%

Landmarks in FANCL's Growth

1981	Start of mail-order sales of preservative-free cosmetics, products without additives such as preservatives, a cause of skincare problems
1989	Launch of ATTENIR cosmetics, reasonably priced, high-quality cosmetics designed to eliminate customer dissatisfaction with high-priced cosmetics
1994	Start of mail-order sales of nutritional supplements, making it possible to purchase high-quality supplements at a price that enables everyday consumption
1995	Start of directly managed store network expansion through the opening of FANCL House
1996	Introduction of unlimited return/exchange guarantee system Start of overseas operations (launch of cosmetics and supplements sales in Hong Kong)
1997	Introduction of customer-designated delivery service
1999	Cosmetics Research Center and Food Science Research Center consolidated into the Central Research Center to promote research based on the theme of "inner and outer beauty," blending dermatology and food science Start of wholesale sales to convenience stores and other mass retailers
2000	Start of germinated brown rice sales, promoted as the "staple food of tomorrow" Start of kale juice sales, promoted as not having the high price and foul taste usually associated with kale juice

FANCL CHANGE & CHALLENGE PLAN

Through the FANCL Change & Challenge Plan, the Company aims to recover growth in sales and profitability by (1) clarifying the position and direction of each business, and (2) optimizing sales channels for each product.

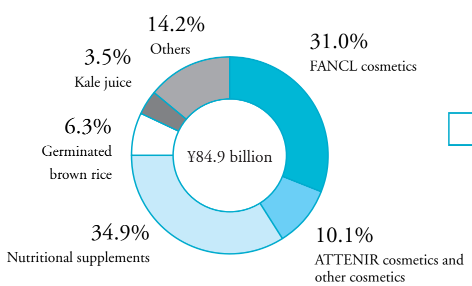
Outline of FANCL Change & Challenge Plan

Position of business		**Direction of business**	**Revision of marketing and sales channel policy**
Core businesses (Emphasis on profitability)	Cosmetics	– FANCL cosmetics to clarify its mainstay products, development to emphasize product functionality	– Organizational reforms to be conducted laterally (organically), encompassing marketing, sales strategy, product development, and sales channel strategy – Strengthening of advertising and sales promotion (¥24 billion to be invested in the first year of the Plan) – More aggressive expansion of retail-store network (150+ new stores in three years)
	Nutritional supplements	– Along with clarification of mainstay products, lineup of products to be streamlined – Based on FANCL's R&D strength, high-value-added products with unique ingredients to be introduced	
Growth businesses (Emphasis on growth)	Germinated brown rice Kale juice	– Profitability to be improved while maintaining product quality through expansion of sales and streamlining of distribution	– Shift in germinated brown rice and kale juice sales from high-cost mail-order to wholesale sales; strengthening of sales to supermarkets and other mass retailers

Net Sales Breakdown, by Product

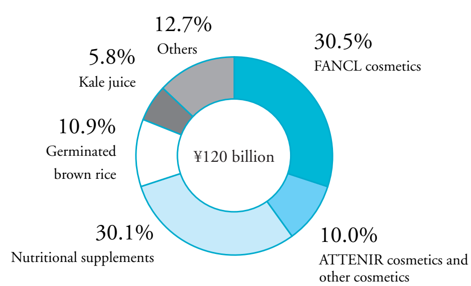
Actual

For the year ended March 31, 2004 (Actual)



Target

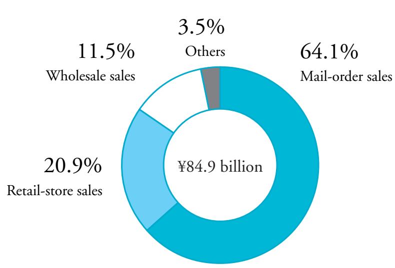
For the year ending March 31, 2007 (Plan)



Net Sales Breakdown, by Sales Channel

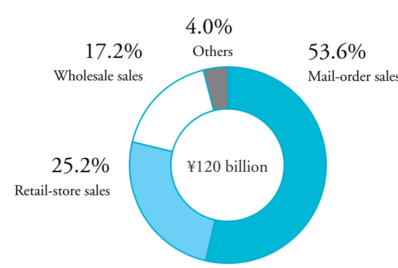
Actual

For the year ended March 31, 2004 (Actual)



Target

For the year ending March 31, 2007 (Plan)



Revisions of Sales Channel Strategy, by Product

As FANCL's operations have grown, its range of products has increased. At the same time, its sales channels have expanded, now comprising mail-order, retail-store, and wholesale sales. The Company has not expanded in a strategic manner, however, taking into account the suitability of products and sales channels. This has dispersed management resources and engendered inefficiencies. The Company has therefore revised its sales channel strategy, based on each product's characteristics and cost of goods sold (CoGS) ratio.

Looking at product characteristics, sales counseling is required for cosmetics and nutritional supplements, so retail-store sales are essential even if mail-order is the core sales channel for these businesses. In contrast, we are aiming for a quantitative increase in sales of germinated brown rice and kale juice as foodstuffs for everyday consumption, and wholesale sales to mass marketers such as supermarkets and convenience stores, has to be the main sales channel. Turning to the CoGS ratio, for cosmetics and nutritional supplements this is approximately 20–35%, while that for germinated brown rice and kale juice is around 50%. Thus, it is difficult to achieve profits on germinated brown rice and kale juice if sold via mail-order sales, which are characterized by a high SG&A ratio.

Hence, the Company will pursue sales channel reforms aimed at (1) strengthening retail-store sales, which are expected to create synergies with the core sales channel of mail-order, and (2) making wholesale sales to supermarkets and convenience stores the main sales channel for germinated brown rice and kale juice.

Sales Ratios of Channels, by Product

For the fiscal year ended March 31, 2004	Mail-order	Retail-store	Wholesale
Cosmetics	25.7%	12.5%	0.8%
Nutritional supplements	19.3%	7.1%	7.3%
Germinated brown rice	3.8%	0.3%	2.2%
Kale juice	1.7%	0.5%	1.3%

Note: Sales ratio = For each channel, product sales divided by total sales

CoGS Ratios

For the fiscal year ended March 31	**2004**	2003	2002
Cosmetics	**24.4%**	23.5%	23.7%
Nutritional supplements	**35.8%**	34.4%	31.9%
Others	**49.7%**	51.8%	53.0%

Note: Others = "Others" includes germinated brown rice, kale juice, health equipment and lifestyle goods, and other commodities.

Results Targets

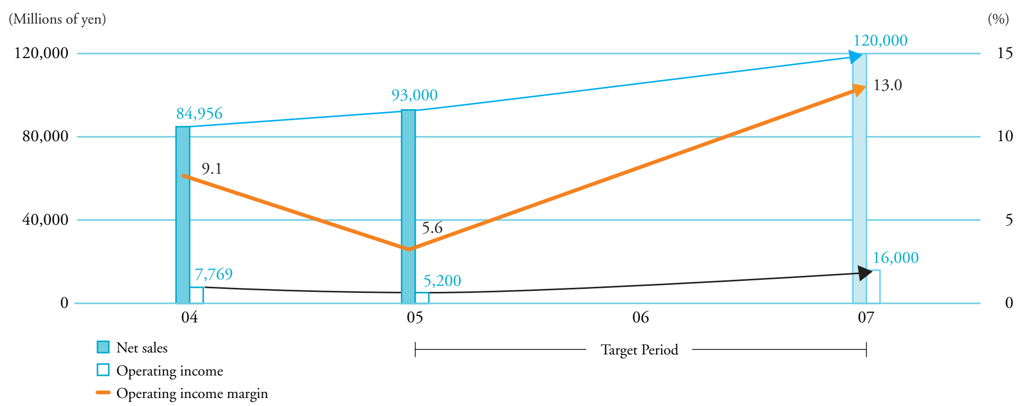
In fiscal 2005, we expect the operating margin to decline temporarily as the Company makes forward investments in structural reforms and marketing activities. However, we believe sales and profits will both start increasing substantially in fiscal 2006. In fiscal 2007, the final year of the plan, we aim for record-high profits as benefits start to accrue from the revision of the sales channel strategy and the drastic measures taken with regard to unprofitable products, and we project sales of ¥120 billion and operating income of ¥16 billion.

Three-Year Medium-Term Target Scenario

Fiscal 2005: Higher sales, lower profits

Fiscal 2006: Higher sales, higher profits

Fiscal 2007: ¥120 billion in net sales, ¥16 billion in operating income, 13% operating income margin

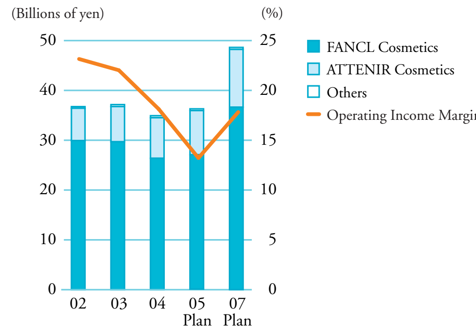


BUSINESS OVERVIEW AND STRATEGY, BY SEGMENT

COSMETICS BUSINESS

- Mainstay FANCL cosmetics sales down; ATTENIR cosmetics sales up; mail-order customer numbers reach record high
- Fiscal 2005 focus on renewing FENATTY, a key FANCL cosmetics line

Cosmetics Business Net Sales and Operating Income Margin



FISCAL 2004 RESULTS

Sales

Cosmetics Business sales totaled ¥34,926 million, a decrease of 6.0% compared with the previous fiscal year. Although the cosmetics market was flat overall, changes were seen in some areas, including an upturn in skincare cosmetics. In order to revitalize sales of FANCL cosmetics, which had been sluggish in the previous term, we launched major renewals of the BELMEIL line of preservative-free makeup in September 2003, and of the CLEVANCE line of point makeup in January 2004.

Sales, by Brand

Sales of FANCL cosmetics fell 11.2% year on year to ¥26,370 million, owing to a failure to sufficiently differentiate them from competing products. Fueled by the renewal of existing products and the introduction of new skin-lightening products and beauty lotions, ATTENIR cosmetics sales grew 15.1% year on year to ¥8,147 million.

Sales, by Sales Channel

Mail-order sales totaled ¥21,869 million, a 4.8% decrease compared with the previous fiscal year. Within this, FANCL cosmetics sales fell 12.3% year on year to ¥14,234 million, as the positive effects of makeup product renewals were insufficient to offset the large downturn in skincare cosmetics, the FENATTY line, in particular. In contrast, ATTENIR cosmetics sales increased 13.4% year on year to ¥7,628 million. Sales campaigns emphasizing ATTENIR cosmetics' good value and seasonality succeeded in attracting new customers, resulting in a record-high number of mail-order customers.

Retail-store sales were down 8.2% year on year to ¥10,608 million, reflecting a reversal in the recent recovery in existing-store sales. The opening of FANCL Square, our flagship store that serves as a central provider of information for the FANCL Group, and the revamping of existing stores, some of which were reopened as different types of stores, failed to offset the decline.

Cosmetics Business P&L and CC Plan (Targets)

	Millions of yen				
	2007 (Plan)	*2005 (Plan)*	**2004**	2003	2002
Net sales	*48,600*	*36,300*	**34,926**	37,155	36,748
FANCL cosmetics	*36,600*	*27,050*	**26,370**	29,683	29,929
ATTENIR cosmetics	*11,600*	*8,900*	**8,147**	7,078	6,489
Others	*400*	*350*	**407**	394	329
Gross profit	*35,600*	*27,300*	**26,394**	28,407	28,038
Selling, general and administrative expenses	*27,000*	*22,500*	**20,111**	20,308	19,632
Advertising expenses	*4,300*	*5,350*	**3,932**	3,328	3,673
Operating income	*8,600*	*4,800*	**6,283**	8,099	8,406
Operating income margin	*17.7%*	*13.2%*	**18.0%**	21.8%	22.9%
	Customers				
Number of active customers* at fiscal year-end:					
FANCL cosmetics (Mail-order and retail-store)			**1,041,054**	1,128,785	1,122,346
ATTENIR cosmetics (Mail-order)			**372,679**	306,327	278,290

*Active customers: Customers making at least one purchase during the preceding seven months.
Sundries customers are included in the number of FANCL cosmetics' active customers in 2002 and 2003, but not in 2004.

1...FANCL Cosmetics
Skincare series
FENATTY

2...FANCL Cosmetics
Makeup series
BELMEIL

3...ATTENIR Cosmetics
Skincare products

Other channel sales (wholesale and overseas) fell 7.2% to ¥2,448 million, negatively affected by a decrease in daily sales at convenience stores and by the slump in Hong Kong sales resulting from the SARS outbreak.

Profit and Loss

Operating income declined 22.4% to ¥6,283 million, and the operating income margin fell 3.8 percentage points to 18.0%. This can be attributed to a rise in the cost of goods sold (CoGS) stemming from (1) a higher fixed cost ratio brought about by higher fixed costs associated with the start-up of the Shiga Factory, and (2) a decrease in sales of skincare cosmetics with a relatively low CoGS. Also, aggressive spending for advertising during the second half of the fiscal year contributed to the operating income decrease.

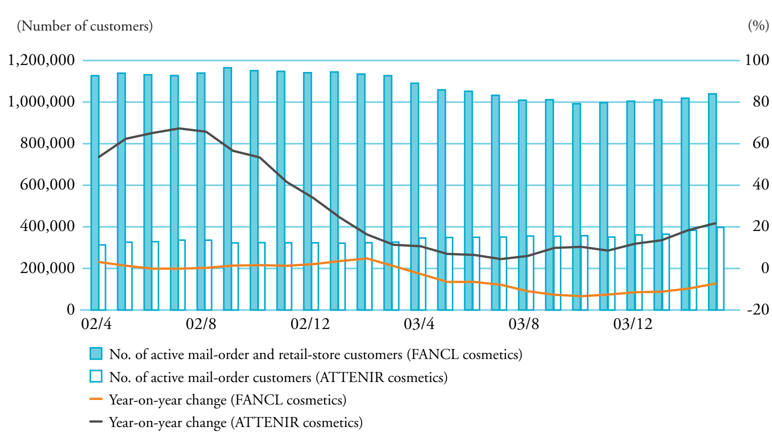
PRODUCT STRATEGY LOOKING FORWARD

Our highest priority in terms of marketing is to renew the FENATTY line of FANCL cosmetics, with an emphasis on differentiating it from the competition. In general, we are revitalizing the FANCL cosmetics brand by focusing the brand message on the FENATTY line.

Over the medium term, we will continue to improve our preservative-free cosmetics by developing products with enhanced functionality. We believe that in order to revitalize FANCL cosmetics we must emphasize the creation of preservative-free cosmetics featuring original materials and added functionality.

We aim to expand annual Cosmetics Business sales to ¥48.6 billion in three years, supported by our differentiation strategy featuring preservative-free cosmetics with added functionality as well as by solid growth in ATTENIR cosmetics.

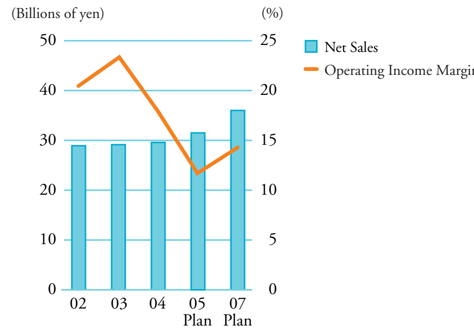
Active Customers of Cosmetics



NUTRITIONAL SUPPLEMENTS BUSINESS

- Strategy shift from price-based appeal to value-based appeal
- Blockbuster product TWINTOSE introduced in fiscal 2005

Nutritional Supplements Business
Net Sales and Operating Income Margin



FISCAL 2004 RESULTS

Sales

Nutritional Supplements Business sales grew 1.5% year on year to ¥29,656 million, supported by increases in retail-store sales and wholesale sales. While the size of the market continues to expand in line with heightened health-consciousness, sales channel diversification and the entry of new major players have intensified competition in the nutritional supplements business. In response, we shifted our product strategy from price-based appeal to value-based appeal by streamlining our product lineup and launching high-value-added products employing original materials, including TenseUp DX collagen drink in November 2003 and White Advance skin-lightening supplement in March 2004.

Sales, by Sales Channel

Mail-order sales decreased 4.0% year on year to ¥16,439 million owing to a decline in customer numbers brought about by intensified competition. Growth in diet supplements, beauty supplements, and herbal supplements was insufficient to offset the sales decline in our Health Support Series.

Retail-store sales totaled ¥5,994 million, an increase of 8.5% compared with the previous fiscal year. Contributing to this result were increases in diet and herbal product sales at FANCL House stores, traditionally strong in cosmetics sales, and the effect of the FANCL Square opening.

Other channel sales increased 10.0% year on year to ¥7,221 million. Growth in convenience store and supermarket sales more than offset the decline in Hong Kong sales caused by the SARS outbreak.

Nutritional Supplements Business P&L and CC Plan (Targets)

	Millions of yen				
	2007 (Plan)	*2005 (Plan)*	**2004**	2003	2002
Net sales	*36,100*	*31,500*	**29,656**	29,211	28,995
Gross profit	*22,900*	*20,200*	**19,047**	19,161	19,747
Selling, general and administrative expenses	*17,700*	*16,500*	**13,676**	12,282	13,787
Advertising expenses	*3,300*	*4,150*	**2,501**	1,825	2,560
Operating income	*5,200*	*3,700*	**5,371**	6,879	5,960
Operating income margin	*14.4%*	*11.7%*	**18.1%**	23.5%	20.6%
	Customers				
Number of active customers* at fiscal year-end:					
Mail-order and Retail-store			**1,066,078**	1,109,821	1,067,898

*Active customers: Customers making at least one purchase during the preceding seven months.

1...TenseUp DX collagen drink

2...Shape Design and Perfect Slim diet supplements

3...TWINTOSE mineral absorption series

1...

2...

3...

Profit and Loss

Operating income fell 21.9% year on year to ¥5,371 million, and the operating income margin decreased 5.4 percentage points to 18.1%. This decline resulted mainly from higher prices of certain materials and an increase in sales of products with a relatively high CoGS. A further factor was aggressive spending for advertising.

PRODUCT STRATEGY LOOKING FORWARD

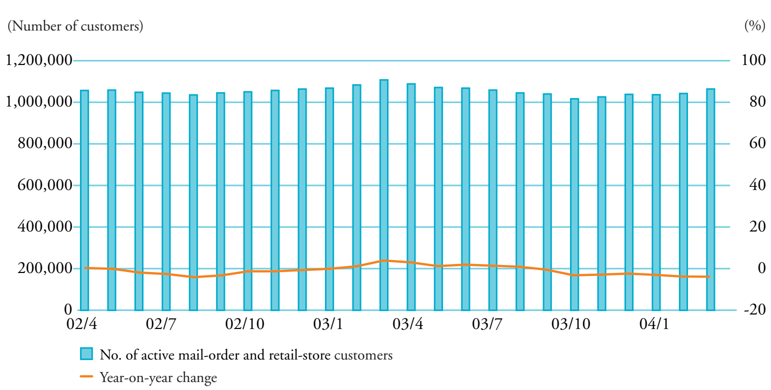
In fiscal 2005, we began to aggressively introduce new products and renewal products employing original materials such as TWINTOSE, which boosts the body's capacity to absorb minerals. By incorporating TWINTOSE in our current line of mineral supplements, we have made an important step forward in terms of functionality. We expect TWINTOSE to be a major driving force in our Nutritional Supplements Business.

Looking forward, we will promote a product strategy that completely shifts the emphasis of our customer appeal from price to added value by developing original products with high functionality. We are targeting annual Nutritional Supplements Business sales of ¥36.1 billion in three years, leveraging our peerless R&D capabilities to develop promising new materials in the TWINTOSE tradition.

TWINTOSE, A REVOLUTION IN MINERAL ABSORPTION

In a joint project with Hokkaido University and Nippon Beet Sugar Manufacturing Co., Ltd., FANCL conducted research on TWINTOSE, which promotes the absorption of minerals such as calcium, magnesium, iron, and zinc. In addition to discovering TWINTOSE's functionality, we developed the world's first technology for mass-producing it. TWINTOSE holds great promise as a next-generation material. In particular, it has been shown to promote bone development by boosting the body's normal retention rate of calcium by approximately six times.

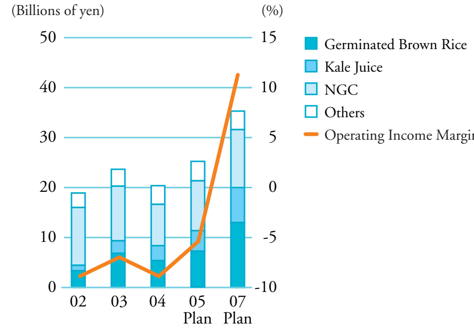
Active Customers of Nutritional Supplements



OTHER BUSINESSES

- Germinated Brown Rice Business sales down, reflecting issues such as taste; Kale Juice Business sales up in all sales channels
- Germinated brown rice with improved taste introduced in fiscal 2005

Other Businesses Net Sales and Operating Income Margin



FISCAL 2004 RESULTS

Sales

Other Businesses sales totaled ¥20,375 million, a decrease of 13.9% compared with the previous fiscal year. As consumer health-consciousness continues to rise, we renewed our processed germinated brown rice products and powdered kale juice products.

Sales, by Category

Germinated Brown Rice Business sales fell 21.3% year on year to ¥5,383 million. In addition to a decrease in the number of mail-order sales customers for germinated brown rice, OEM supply to the Japan Rice Millers and Distributors Cooperative and the Hokuren Federation of Agricultural Cooperatives fell short of the previous fiscal year's level, despite joint efforts with TVCF to bolster sales promotion.

Kale Juice Business sales increased 19.3% year on year to ¥2,985 million. Frozen and powdered versions both performed strongly, and sales were up in all sales channels. Due to unseasonable weather, however, supplies were temporarily halted from mid-February 2004, a clear indication that improvements to our crop procurement system are needed.

NGC Mail-Order Business sales, mainly of fitness equipment and household sundries, were down 24.4% year on year to ¥8,270 million, in spite of our ongoing efforts to restructure this business by revamping the catalog contents, customer service, and product lineup.

Other Related Businesses sales increased 10.7% year on year to ¥3,736 million, supported by strong sundries sales and by the inclusion from fiscal 2004 of FANCL Square's Esthetic Salon sales results.

Other Businesses P&L and CC Plan (Targets)

	Millions of yen				
	2007 (Plan)	*2005 (Plan)*	**2004**	2003	2002
Net sales	*35,300*	*25,200*	**20,375**	23,660	18,914
Germinated brown rice	*13,000*	*7,200*	**5,383**	6,844	3,339
Kale juice	*7,000*	*4,100*	**2,985**	2,501	1,105
NGC	*11,600*	*10,000*	**8,270**	10,936	11,567
Others	*3,700*	*3,900*	**3,736**	3,376	2,900
Gross profit	*18,800*	*13,100*	**10,254**	11,413	8,895
Selling, general and administrative expenses	*14,800*	*14,450*	**12,075**	13,059	10,574
Advertising expenses	*3,900*	*4,500*	**3,430**	4,107	3,979
Operating income (loss)	*4,000*	*(1,350)*	**(1,821)**	(1,646)	(1,681)
Operating income margin	*11.3%*	*(5.4%)*	**(8.9%)**	(7.0%)	(8.9%)
	Customers				
Number of active customers* at fiscal year-end:					
Germinated brown rice (Mail-order)			**340,764**	464,264	226,514
Kale juice (Mail-order)			**113,775**	116,146	49,357

*Active customers: Customers making at least one purchase during the preceding seven months.

1...Germinated brown rice products

2...Frozen and powdered kale juice

3...NGC mail-order catalogs

1...

2...

3...

Profit and Loss

Despite strong improvement in the Kale Juice Business, the decrease in Germinated Brown Rice Business sales coupled with the losses in the NGC Mail-Order Business resulted in a ¥1,821 operating loss, which is ¥175 million larger than the previous fiscal year's loss.

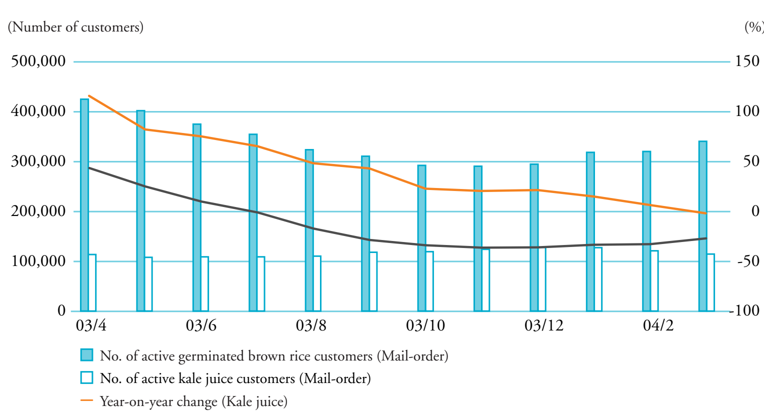
PRODUCT STRATEGY LOOKING FORWARD

Compared with white rice, germinated brown rice contains nearly four times as much dietary fiber and 10 times as much GABA (gamma-amino butyric acid). Based on these data, we are positioning germinated brown rice as the "staple food of tomorrow." We anticipate a strong sales recovery in fiscal 2005 on the introduction of a new germinated brown rice product with improved taste. In the Kale Juice Business, we aim to stabilize the supply situation by expanding the acreage of land contracted for crop cultivation. We are aggressively introducing wholesale kale products for use in processed food products. Also, we are working on further improving the taste of our kale juice. We aim to break even in the Germinated Brown Rice and Kale Juice businesses in two years and achieve an operating income margin of approximately 10% in three years.

In the NGC Mail-Order Business, we are making strenuous efforts to rebuild sales by restructuring the business model. In May 2004, we renamed our NGC subsidiary IIMONO OHKOKU (Kingdom of Wonderful Things).

Through these efforts, we are targeting annual sales of ¥35.3 billion in Other Businesses in three years.

Active Customers of Germinated Brown Rice and Kale Juice



MARKETING STRATEGIES, BY SALES CHANNEL

FANCL's multiple-channel sales system comprises mail-order, retail-store, and wholesale sales. While mail-order sales accounted for 64% of total sales in fiscal 2004, our CC Plan emphasizes selecting the most appropriate channel for each product, in addition to expanding and improving our retail-store network, where much room for growth still exists.

MAIL-ORDER SALES: THE FOUNDATION OF OUR TOTAL PRESERVATIVE-FREE APPROACH

FANCL is able to offer preservative-free cosmetics by using small, air-tight containers clearly stamped with the date of manufacture and expiration date. The entire container contents can be used before product deterioration becomes a problem. We selected the mail-order sales channel for these products because it ensures timely, direct delivery to customers. Inventory considerations and the high probability of repeat business are additional factors that make mail-order the most appropriate channel for preservative-free cosmetics. The mail-order sales channel, where we have accumulated know-how for handling repeat business, is also our main channel for nutritional supplements, which are typically taken on a daily basis.

Preventing the Loss of Light and Medium Users*

FANCL offers a number of original mail-order sales services, including a waiver of the signature of receipt, a customer-designated delivery service, and an unlimited return/exchange guarantee system.

Since we introduced these original services, heavy users* (customers making 40 or more purchases since their first purchase), who are the main contributors to sales and profit, have remained on a rising trend. In addition, more than half of our heavy users have crossed over to make purchases from two or more of our product categories, which include cosmetics, nutritional supplements, germinated brown rice, and kale juice. One of our major strengths is our ability to maintain a steady level of heavy users who incorporate FANCL products and services into their daily lives.

From calendar 2003, a decline in the overall number of active customers* became apparent. The main reason for this decline was a drop-off in light users (four or fewer purchases) and medium users (from five to 39 purchases).

*For marketing purposes, we define "users" (light, medium, and heavy) or "active customers" as customers who have made at least one purchase during the preceding seven-month period.

EMPHASIZING MAIL-ORDER SALES

Strengthening Our Customer Activation Program

In order to stem the loss of light and medium users, all relevant areas must be strengthened. Here, we are focusing on developing products and upgrading services in ways that fully reflect customer comments and requests, as well as creating highly appealing publications. To ensure that our efforts in this regard are strategically effective, we are investing in a system that "tests" our marketing strategies by scientifically analyzing customer attributes using the accumulated data in our extensive database. At the same time, we have implemented a customer activation program whereby we educate customers in detail about the value of FANCL products through systematically timed direct mailings and publications segmented according to customer attributes. We are also developing a purchase-point system for boosting the loyalty of light and medium users.

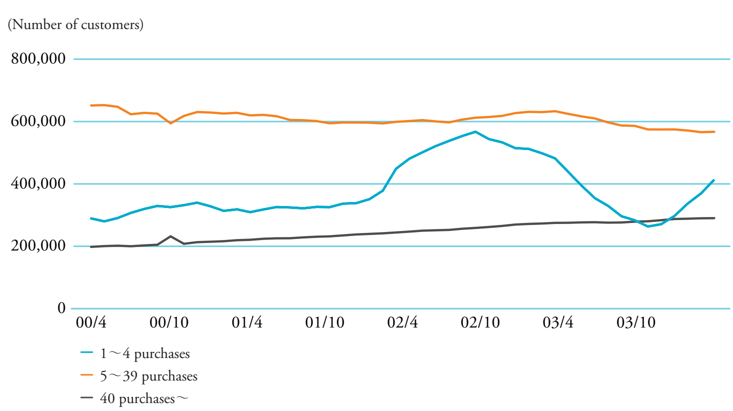
Increasing the Percentage of Heavy Users by Promoting Cross-Category Sales

FANCL offers a variety of products in four categories: cosmetics, nutritional supplements, germinated brown rice, and kale juice. All of these products are based on the concept of inner and outer beauty—providing beauty and health inside the body (nutritional supplements, germinated brown rice, and kale juice) as well as outside the body (cosmetics). This business model implies synergies stemming from cross-category sales. Indeed, in our mail-order sales business about 40% of our cosmetics customers also purchase supplements, and about 30% of our customers for supplements also buy germinated brown rice. To increase the percentage of heavy users of our products, we intend to emphasize the concept of inner and outer beauty that unifies all of our products and then stress the benefits of using several FANCL products simultaneously, in addition to providing information that helps users understand the practical benefits of beauty and health in their lives.

Aggressive Advertising: Attracting New Customers

Another major factor behind the decline in customer numbers is stagnant growth in new customers resulting from intensified competition. In order to attract new customers, it is of course essential to develop and offer appealing products. In addition, we attach great importance to broadening customer recognition of the FANCL brand through aggressive advertising activities, including television commercials, brochure distribution, and magazine advertisements.

Number of Active Mail-Order Customers, by Purchase Frequency



RETAIL-STORE SALES

Targeting a 300-Store Network for Retail-Store Sales, Our Second-Largest Sales Channel

In response to persistent requests from customers and retailers for a FANCL retail presence, we began retail-store sales in 1995. Initially, we adopted a subdued approach, positioning retail-store sales as a supplementary channel to mail-order sales. Since then, retail-store sales have rapidly grown in importance and are now our No. 2 sales channel, after mail-order sales. Retail stores are useful in attracting new customers who would be difficult to reach through mail-order sales. Moreover, mail-order customers have reacted positively to our retail stores, using them as places to try out new products and receive advice on how to best use them. Retail-store sales and mail-order sales thus have great potential to be mutually complementary channels.

Accordingly, our CC Plan lays out a radically revised retail-store strategy that prioritizes a rapid doubling of the current number of retail stores as well as an extensive renovation of existing stores. In principle, we directly manage our retail stores. We plan to invest ¥6.7 billion over the next three years in an expansion of our directly managed retail-store network, from 142 stores as of March 31, 2004, to 300 stores. During the

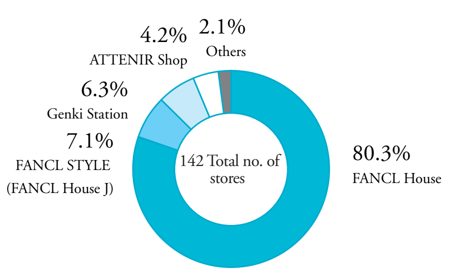
Retail-Store Expansion

Years ended March 31	*2005 (Plan)*	**2004**	2003	2002	2001	2000
FANCL House	*129*	**114**	119	114	121	82
FANCL STYLE (FANCL House J)	*27*	**10**	1	—	—	—
Genki Station	*9*	**9**	8	8	7	2
ATTENIR Shop	*9*	**6**	5	5	5	1
Others	*3*	**3**	11	6	5	1
Total	*177*	**142**	144	133	138	86

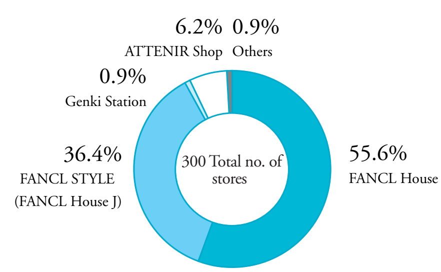
FANCL House deals in all FANCL brand products, particularly cosmetics, targeting female customers.
FANCL STYLE deals in all FANCL brand products in both categories of cosmetics and supplements, is equipped with a juice stand bar, and targets both male and female customers.
Genki Station specializes in sales of supplements, germinated brown rice and kale juice, and is equipped with a juice stand bar.
ATTENIR Shop deals in ATTENIR brand products.

Retail-Store Composition, by Store Model

As of March 31, 2004 (Actual)



Target for March 31, 2007 (Plan)





same three-year period, we plan to invest ¥2.0 billion in a complete renovation of existing stores. As a result of the increased number of newly opened stores, we estimate that retail-store sales as a percentage of total sales will increase from 20.9% in fiscal 2004 to 25.2% in three years' time.

REVISED RETAIL-STORE STRATEGY

Clarifying Policies for New-Store Openings in the Major Metropolitan Areas, Designing Stores with an Eye to Their Surroundings, and Reinforcing Staff Education

The goal of our new retail-store strategy is not only to expand our metropolitan and regional coverage by increasing the number of stores, but also to establish a coherent approach to new-store openings with regard to store location and design.

In terms of store location, our strategy emphasizes a dominant presence in major metropolitan areas, as well as advancement to districts within local areas where we currently have no or only a few retail stores. Additionally, we intend to boost our presence in key regional cities around the country. In terms of store design, our strategy calls for a new distinctive look that clearly reflects the established FANCL brand image, while at the same time allowing for store-to-store variations to ensure that each individual storefront blends harmoniously with its surroundings. In addition, we intend to use a consistent style of product display at all of our stores. In line with this strategy, we have already created FANCL House J, which integrates design features of cosmetics-oriented FANCL House with those of supplements-oriented Genki Station. FANCL House J is expected to boost sales efficiency by not only appealing to a broad range of ages but also attracting male customers, all the while maintaining an emphasis on inner and outer beauty. Moving forward, we basically intend to use the FANCL House store model for department-store locations and the FANCL House J model for other venues, with design variations in each store to ensure optimal visual contextuality.

Other important issues include reinforcing staff training and maintaining staff motivation. To minimize the deterioration of staff quality as store openings accelerate and to ensure that service is carefully tailored to the types of customer attracted to each style of store, we have established an in-house qualification system for inner and outer beauty advisers, who provide counseling to customers for cosmetics and for nutritional supplements. We are also fostering high-quality professionalism in our retail-store staff by employing area-based retailing advisors. In addition, we are enhancing retail-store management by revamping our store supervisor system.

WHOLESALE SALES

Beginning with our commencement of nutritional supplement wholesale sales to Seven-Eleven in 1999, we have made it a policy to sign wholesale contracts only with general merchandise stores and convenience stores that understand the value of the FANCL brand and accurately reflect it in their handling of our products.

Currently, our main wholesale clients are Lawson for cosmetics; Seven-Eleven, Lawson, Ito-Yokado, and regional supermarkets for nutritional supplements; general merchandise stores and supermarkets for germinated brown rice; and convenience stores for kale juice.

Wholesale Positioned as Main Sales Channel for germinated brown rice and kale juice

To date, we have neglected to develop a concrete strategy for aggressively expanding sales via the wholesale channel, limiting our wholesale clients and lines of business. We are now, however, clarifying the position of the wholesale sales channel for each product. This channel is optimal when we pursue large-volume sales. As consumers are quite familiar with these wholesale clients' stores and do shopping conveniently there, we can expect a nationwide exposure of our products through their chain stores. For these reasons, we are now positioning wholesale sales as the main channel for aggressively promoting sales of germinated brown rice and kale juice. At the same time, we are expanding target applications of germinated brown rice and kale juice to encompass professional-use products, including processed foods.

Because counseling is required for sales of cosmetics and nutritional supplements, for those two product categories we are positioning wholesale as a supplementary channel to mail-order and retail stores. In our selection of new wholesale clients, we will continue choosing only those who show a strong dedication to prioritizing FANCL brand value.

By basing wholesale sales expansion efforts on germinated brown rice and kale juice, we expect the percentage of total sales accounted for by wholesale sales to increase from 11.5% in fiscal 2004 to 17.2% in fiscal 2007.

Aggressively Hiring Wholesale Specialists and Strengthening Sales Promotion Activities

From the start, our specialty has been mail-order sales. In the wholesale area, we remain on a learning curve in terms of personnel and business know-how. We are rapidly strengthening our sales force and accumulating business expertise in this underdeveloped area of our business by aggressively hiring specialists who bring to the job broad experience and tactical acumen in wholesaling.

Looking ahead, we plan to bolster wholesale sales by organically linking them to sales promotion activities and through television commercials.

OVERSEAS DEVELOPMENT

Increasing Store Openings in Asia

FANCL's overseas business started with distributor sales in Hong Kong in October 1996. Currently, we are expanding our business in Hong Kong, Singapore, Taiwan, Indonesia, Thailand, and the United States, mainly through our Singapore-based subsidiary, FANCL ASIA (PTE) LTD. Overseas sales for fiscal 2004 totaled ¥2.4 billion (wholesale basis), accounting for 2.8% of our total sales. The local retail value of these sales, on a yen basis, was ¥7.0 billion.

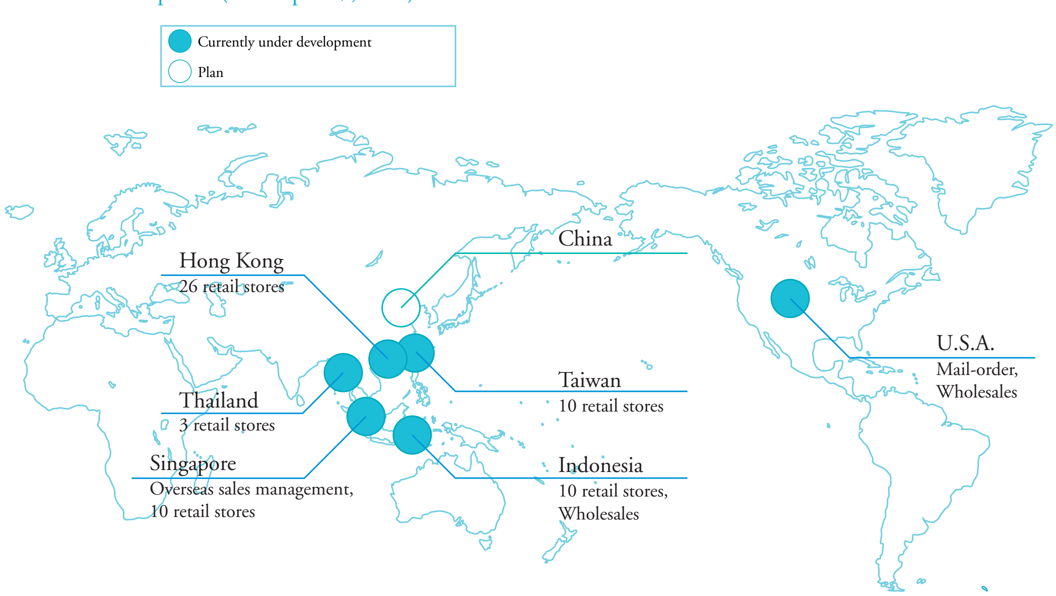
Building on a base of 26 retail stores in Hong Kong, we are steadily expanding our retail-store network in Asia. Many Asian women tend to not use much makeup until they reach adulthood, taking great care of the natural beauty of their skin. This suggests enormous latent demand for FANCL's preservative-free cosmetics. Accordingly, we will continue to strengthen our store openings in Asia, and are also considering opening stores in China.

Overseas, FANCL has earned a strong reputation not only for product quality but also for retail-store service. In Hong Kong, we have won a number of awards, including the Service Industry Leader 2003 award in the Mystery Shopper Program, sponsored by the Hong Kong Retail Management Association, and the Best Counter Service Award, sponsored by the Hong Kong edition of *Cosmopolitan* magazine.

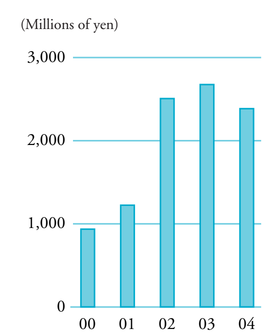
Building a Presence in the U.S. Market

After commencing mail-order sales in the United States in 1997, we quickly determined that it would be difficult to expand sales with the same products as we sell in Japan. In 2001 we developed boscia, a cosmetic intended to appeal to American women preferring products with natural ingredients. We are currently conducting trial sales in leading U.S. department stores, with Henry Bendel and Nordstrom already carrying boscia. Going forward, we plan to increase our retail sales channels in preparation for full-scale expansion in the U.S. market.

Overseas Development (As of April 27, 2004)



Overseas Sales



RESEARCH AND DEVELOPMENT

FANCL's Central Research Center carries out research and development related to the theme of "inner and outer beauty." In all of our product development activities, we make full use of the Company's YAHOO system, an extensive database of customer opinions and requests.

MAIN RESEARCH THEMES, BY PRODUCT

In the cosmetics business, while remaining strongly committed to developing products that are "preservative-free, comforting, safe, and gentle," we are currently focusing on products that offer cutting-edge functionality in addition to enhanced feeling on the skin. In the nutritional supplements business, in our development of easy-to-take, low-cost products we are combining existing ingredients with new, groundbreaking materials and ingredients. With regard to germinated brown rice and kale juice, we are focusing on improving quality, taste, and efficacy.

ORGANIZATIONAL RESTRUCTURING

In the past, our Central Research Center comprised separate product development divisions for cosmetics, nutritional supplements, germinated brown rice and kale juice, and new materials. Recently, we have taken steps to bolster our basic research. In April 2003, we set up a Research Planning and Support Office with the aim of improving our system for receiving feedback from the Company's various retail divisions. In addition, recognizing that future growth depends largely on the success of our efforts to develop and commercialize differentiated materials developed in-house, we have elevated our basic research group to division status and increased the number of researchers.

We also remain mindful of the importance of alliances with external research institutions for speedy and efficient R&D. Accordingly, we are expanding our joint R&D network with universities, government agencies, and other corporations.

Our Central Research Center currently employs 103 researchers, including 11 Ph.D. holders in agriculture, medicine, pharmacology, and other fields of science. With approximately 300 registered patents, our Central Research Center is arguably one of the finest in the country, with particular strengths in the area of nutritional supplements.

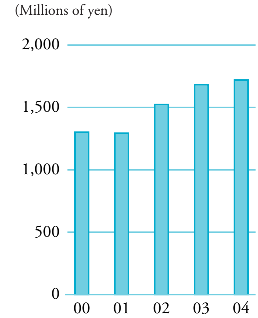
Similar to our recent commercialization of TWINTOSE, the Company's accumulated study results are poised to begin bearing fruit in the form of new materials and ingredients. Peerless R&D capabilities are indispensable to developing and executing a product strategy based on added value. To further strengthen our R&D system, therefore, we are increasing the number of researchers and plan to boost the ratio of R&D expenses to net sales from the current 2% to 3% within three years.

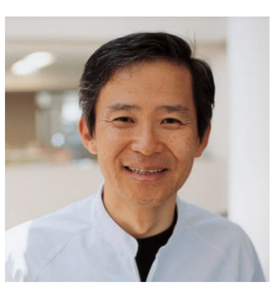
R&D-Related Data

	2004	2003	2002	2001	2000
R&D expenses (Millions of yen)	**1,720**	1,683	1,524	1,294	1,302
Researchers	**103**	94	84	75	62
Patents registered	**51**	97	94	63	50

R&D expenses

(Millions of yen)





CORPORATE SOCIAL RESPONSIBILITY

As a responsible corporate citizen, FANCL engages in various community service and environmental conservation activities. These activities reflect FANCL's founding philosophy of "providing happiness, peace of mind, and tenderness to people."

COMMUNITY SERVICE ACTIVITIES

FANCL SMILE Promoting Independence of Mentally Handicapped Persons

In February 1999, FANCL established FANCL SMILE Co., Ltd., a nonconsolidated special subsidiary devoted to the idea of promoting the social independence of mentally handicapped persons. FANCL SMILE is engaged mainly in product packaging. Efforts to motivate employees at FANCL SMILE have been extremely successful. Several successfully passed a forklift operating license exam after only a short period of study. Thus, we are steadily and surely fostering valuable assets able to make significant contributions to FANCL. FANCL SMILE receives governmental subsidies, and its business results have been improving. Although FANCL SMILE remains slightly in the red after factoring in the labor costs of employees dispatched from the parent company, we aim to move the company into the black, thereby giving it a leading role in widening the circle of employment opportunities for mentally handicapped persons throughout Japan.

Exchange with *Tomo*, a Social Welfare Organization for Severely Handicapped Persons

For the past 16 years, FANCL has engaged in exchanges with *Tomo*, a social welfare organization founded under the Social Welfare Law. *Tomo* provides day-care services for severely handicapped persons. Beginning with a visit to *Tomo* by FANCL's founder, Kenji Ikemori, the entire Company now engages in exchanges with *Tomo*. Recent and ongoing activities include the donation of bathing facilities and pick-up minibuses, as well as providing makeup services on Coming-of-Age Day. In addition, FANCL has hosted lunch parties for *Tomo* members and employees, and also offers assistance in running bazaars.

ENVIRONMENTAL CONSERVATION ACTIVITIES

Environmental Management System

The FANCL Group attained ISO14001 certification in November 2002. We have been promoting environmentally conscious operations by focusing on distribution accuracy in order to minimize the additional fuel consumption and exhaust gases resulting from resending products as well as wastes associated with sales projection errors. In addition, we are proactively incorporating the concept of environmental conservation throughout the entire product lifecycle, from production to usage to final disposal, including environmentally friendly product design and the selection of business partners in line with green purchasing guidelines.

Introduction of Wet AS Shredders at FANCL SMILE

FANCL SMILE, which handles batch processing of waste paper collected from companies in the FANCL Group, has introduced Wet AS Shredders that have been altered by the Hitachi Group for ease of handling by handicapped employees. The Wet AS method enables 100% recycling of waste paper into raw material for high-quality paper without heavily damaging fibers. Information cannot be reproduced from the post-treatment waste paper, thus ensuring the confidentiality of customers' personal information. We are also working on a paper recycling system whereby various kinds of recycled paper can be reused within the FANCL Group.

CORPORATE GOVERNANCE

FANCL considers corporate governance to be an important management issue. The Company has recently taken steps to clarify the separation between supervisory and operating functions, while at the same time strengthening both functions.

STRENGTHENING THE MANAGEMENT OVERSIGHT SYSTEM

At the June 2004 Annual Meeting of Shareholders, the Company appointed its first-ever outside director. At the same meeting, an additional outside auditor was also appointed.

The Company employs an auditor system to ensure a fair and objective management oversight system. Four outside auditors attend all meetings of the Board of Directors and other important meetings such as management conferences, thus ensuring regular opportunities for exchanging opinions with top management. Furthermore, to strengthen the management oversight system we also have employed an outside director who is not involved in the Company's day-to-day business operations. In addition, we have reviewed our managing officer system to clarify the separation between supervisory and operating functions. As a result of this review, we have increased the number of managing officers from five to 16.

ESTABLISHMENT OF MANAGEMENT COUNCIL

As part of a decision to clarify the roles of the president, who is the top management decision-maker, and of the chairman, who acts in a supporting role to the president, we established the Management Council in June 2004. Comprising the president, the chairman, and the outside director, who is expected to provide frank, objective opinions, the Management Council will meet four times a year to exchange opinions with respect to important management issues concerning investment, financial strategies, new businesses, and M&A activities, and then report back to management. We believe that the Management Council will contribute to swifter and more effective business execution.

STRENGTHENING THE COMPLIANCE SYSTEM

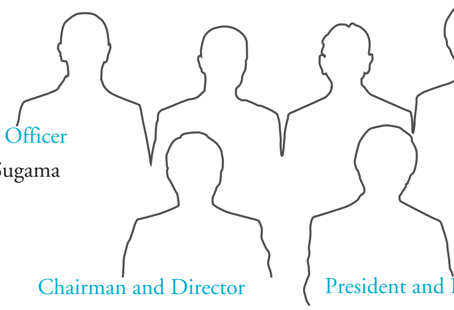
In February 2004, we set up a Compliance Office within the Corporate Strategic Headquarters to ensure that all FANCL's corporate activities adhere to the letter and spirit of the law. In addition, the Consumer Center, which garners and analyzes the opinions and requests of consumers, was placed under the direct supervision of the president. In collaboration with the Consumer Center, the Compliance Office strives to speed up decision-making when problems arise.

DISCLOSURE SYSTEM

FANCL is taking a proactive approach to information disclosure in order to improve management transparency. Specifically, we now make timely disclosures of monthly sales information and have begun offering a video of earnings results meetings, including the presentation of management strategies, on our Internet site. As another example of how we are utilizing the Internet to enhance shareholder convenience, on-line voting will be available from the June 2004 Annual Meeting of Shareholders as an alternative to the execution of voting rights by means of conventional posting.

DIRECTORS AND OFFICERS

(As of June 19, 2004)



Chairman
Kenji Ikemori**

President
Kenji Fujiwara*

Senior Executive Managing Officer
Yasuyuki Yogoro

Executive Managing Officers
Yoshifumi Narimatsu**
Kazuyoshi Miyajima**
Takayoshi Okada**
Sumiya Nakajima**
Yoshinori Harigae

Yoshiharu Hayakawa**

Managing Officers
Hisashi Yamamoto**
Kenichi Ishiwata**
Kenichi Sugama**
Katsumi Maruyama
Shoji Shiba
Tomoko Tsuji
Noburou Katase
Akira Yajima
Yutaka Hirano

Statutory Auditors
Taiji Yamada
Fumiko Ikeda
Katsunori Koseki
Michihiro Yoneda

*Representative Director
**Director

SIX-YEAR SUMMARY

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31

	Millions of yen					
	2004	2003	2002	2001	2000	1999
FOR THE YEAR:						
Net sales	**¥ 84,957**	¥ 90,026	¥ 84,657	¥ 65,418	¥ 62,980	¥ 54,475
Cosmetics	**34,926**	37,155	36,748	35,669	38,039	35,891
Nutritional supplements	**29,656**	29,211	28,995	25,408	21,898	17,180
Others	**20,375**	23,660	18,914	4,341	3,043	1,404
Net sales, by sales channel:						
Mail-order sales	**54,439**	59,334	56,821	43,360	45,942	43,573
Retail-store sales	**17,722**	17,744	17,073	15,632	14,143	10,425
Others	**12,796**	12,948	10,763	6,426	2,893	474
Gross profit	**55,696**	58,982	56,682	47,034	44,969	40,384
Gross profit margin (%)	**65.6**	65.5	67.0	71.9	71.4	74.1
Selling, general and administrative expenses	**47,927**	47,456	45,564	38,402	33,426	29,685
Selling, general and administrative expense ratio (%)	**56.4**	52.7	53.9	58.7	53.1	54.5
Operating income	**7,769**	11,526	11,118	8,632	11,543	10,699
Cosmetics	**6,283**	8,099	8,406	8,320	10,712	10,206
Nutritional supplements	**5,371**	6,879	5,960	4,694	3,587	3,461
Others	**(1,821)**	(1,646)	(1,681)	(2,532)	(641)	(631)
Operating income margin (%)	**9.1**	12.8	13.1	13.2	18.3	19.6
Net income	**3,387**	6,429	5,995	4,867	6,723	4,730
Net income to net sales (%)	**4.0**	7.1	7.1	7.4	10.7	8.7
ROE (%)	**5.1**	9.8	9.7	8.5	15.3	16.8
Advertising expenses	**¥ 9,865**	¥ 9,262	¥ 10,213	¥ 8,896	¥ 6,081	¥ 6,825
Sales promotion expenses	**7,998**	8,615	8,161	5,810	5,615	5,019
Research and development expenses	**1,720**	1,683	1,524	1,294	1,302	764
Capital expenditures	**4,864**	5,397	3,589	2,727	7,138	9,872
Depreciation	**2,556**	2,268	2,245	2,379	2,424	1,406
Net cash provided by operating activities	**5,861**	9,828	7,426	6,083	5,681	—
Net cash used in investing activities	**(4,117)**	(5,582)	(5,416)	(4,838)	(7,736)	—
Net cash (used in) provided by financing activities	**(4,533)**	(5,432)	(2,456)	(1,410)	13,006	—
Net (decrease) increase in cash and cash equivalents	**(2,809)**	(1,213)	(437)	(162)	10,949	—

	Yen					
PER SHARE:						
Net income	**¥ 154.57**	¥ 279.54	¥ 307.55	¥ 249.77	¥ 459.50	¥ 457.74
Shareholders' equity	**3,082.42**	2,976.31	3,320.23	3,051.42	3,678.94	2,944.00
Cash dividends	**42.50**	35.00	25.00	25.00	30.00	25.00

	Millions of yen					
AT YEAR-END:						
Total assets	**¥ 78,479**	¥ 79,804	¥ 79,026	¥ 75,481	¥ 67,657	¥ 49,399
Shareholders' equity	**65,613**	66,350	64,719	59,482	55,146	32,761
Equity ratio (%)	**83.6**	83.1	81.9	78.8	81.5	66.3
Interest-bearing debt	**-**	350	1,092	3,086	2,780	5,052
Working capital	**29,214**	29,805	31,082	28,456	29,219	12,934

Number of stores	**142**	144	133	138	86	65
Number of consolidated subsidiaries	**6**	6	4	3	2	2

QUARTERLY FINANCIAL AND STOCK INFORMATION/MONTHLY SALES DATA

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

	Millions of yen							
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
Net sales	**¥20,885**	¥21,979	**¥20,313**	¥21,559	**¥22,908**	¥24,989	**¥20,849**	¥21,497
Cosmetics	**8,854**	9,612	**8,099**	8,896	**9,389**	10,169	**8,581**	8,476
Nutritional supplements	**6,844**	7,231	**7,386**	6,985	**7,919**	7,692	**7,505**	7,300
Others	**5,186**	5,135	**4,826**	5,676	**5,599**	7,127	**4,762**	5,719
Net sales, by sales channel:								
Mail-order sales	**13,465**	14,203	**12,715**	14,054	**14,929**	17,063	**13,327**	14,012
Retail-store sales	**4,315**	4,281	**4,332**	4,403	**4,635**	4,526	**4,438**	4,533
Others	**3,103**	3,494	**3,265**	3,101	**3,343**	3,400	**3,082**	2,951
Operating income (loss)	**3,066**	3,608	**1,822**	1,983	**3,240**	3,921	**(360)**	2,012
Cosmetics	**2,168**	2,184	**1,495**	1,837	**2,286**	2,364	**332**	1,712
Nutritional supplements	**1,289**	1,728	**1,382**	1,427	**1,687**	2,255	**1,012**	1,467
Others	**127**	135	**(534)**	(780)	**(189)**	(377)	**(1,223)**	(624)
Net income (loss)	**¥ 1,714**	¥ 2,093	**¥ 517**	¥ 984	**¥ 1,825**	¥ 2,501	**¥ (669)**	¥ 850

	Yen							
Stock Price Range								
High	**¥ 4,020**	¥ 4,950	**¥ 3,760**	¥ 4,500	**¥ 3,480**	¥ 3,940	**¥ 3,600**	¥ 4,180
Low	**3,420**	4,030	**3,300**	3,450	**2,755**	3,150	**2,870**	3,620

MONTHLY SALES

	Millions of yen											
	2003									2004		
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Cosmetics	2,809	2,970	3,074	2,812	2,432	2,854	2,996	3,125	3,267	2,577	2,805	3,198
YoY increase (decrease)	(6.4%)	(8.2%)	(9.0%)	(7.1%)	(17.1%)	(2.7%)	(6.9%)	(3.2%)	(12.2%)	(3.8%)	5.2%	2.1%
Nutritional Supplements	2,166	2,250	2,426	2,543	2,167	2,676	2,617	2,264	3,036	2,332	2,251	2,922
YoY increase (decrease)	(6.0%)	(8.1%)	(1.8%)	7.5%	(5.0%)	14.1%	7.1%	(0.9%)	2.5%	5.1%	1.1%	2.3%
Others	1,703	1,829	1,654	1,770	1,432	1,623	1,831	1,806	1,960	1,726	1,433	1,602
YoY increase (decrease)	10.2%	(6.1%)	0.7%	(4.5%)	(22.6%)	(17.5%)	(21.6%)	(26.7%)	(15.7%)	(15.9%)	(24.6%)	(9.3%)
Total	6,680	7,049	7,155	7,126	6,031	7,154	7,446	7,197	8,264	6,636	6,490	7,723
YoY increase (decrease)	(2.5%)	(7.6%)	(4.5%)	(1.7%)	(14.6%)	(1.3%)	(6.9%)	(9.8%)	(8.3%)	(4.5%)	(4.5%)	(0.4%)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31

NET SALES

Net sales decreased 5.6% year on year to ¥84,957 million. By business segment, sales in the Nutritional Supplements Business rose slightly, while sales in our core Cosmetics Business decreased owing to a weak performance by the FANCL cosmetics brand. Sales in Other Businesses were also down as a result of revenue declines in both the Germinated Brown Rice Business and the NGC Mail-Order Business.

Cosmetics Business sales fell 6.0% year on year to ¥34,926 million. Sales of FANCL cosmetics decreased 11.2% to ¥26,370 million, while sales of ATTENIR cosmetics rose 15.1% to ¥8,147 million. As a result, the FANCL brand's share of total cosmetics sales fell from 79.9% in the previous fiscal year to 75.5% in the year under review. The ATTENIR brand's share of total cosmetics sales, conversely, grew from 19.0% to 23.3%.

In the FANCL cosmetics brand, sales growth stemming from the renewal of makeup products was not vigorous enough to offset declines in sales and customer numbers in basic skincare products, particularly with regard to the FENATTY line. With the recent recovery trend in existing-store sales at FANCL House retracting during the period, all sales channels saw lower sales of FANCL cosmetics during the year. In the ATTENIR cosmetics brand, on the other hand, effective advertising campaigns and other sales promotion activities attracted a record number of customers by the end of the fiscal year. As a result, ATTENIR cosmetics sales, strong in both mail-order and retail-store channels, were up compared with the previous fiscal year.

In the Nutritional Supplements Business, sales grew 1.5% year on year to ¥29,656 million. As part of a product line revision, we terminated sales of 16 products and launched new and renewal products incorporating original ingredients with a view to shifting from a strategy of price-based appeal to one of value-based appeal. As a result, retail-store sales and wholesale sales increased. Despite a decrease in mail-order sales compared with the previous year, customer numbers showed a recovery trend.

Other Businesses sales fell 13.9% year on year to ¥20,375 million. Sales growth in the Kale Juice Business was more than offset by sales declines in the Germinated Brown Rice Business and the NGC Mail-Order Business.

Germinated Brown Rice Business sales dropped 21.3% year on year to ¥5,383 million owing to weaker mail-order sales stemming from a decline in customer numbers and to a decrease in OEM supply to the Japan Rice Millers and Distributors Cooperative and the Hokuren Federation of Agricultural Cooperatives.

Kale Juice Business sales increased 19.3% year on year to ¥2,985 million, supported by growth in all sales channels, with both frozen and powdered types performing strongly.

NGC Mail-Order Business sales fell 24.4% year on year to ¥8,270 million despite extensive efforts to refocus this business, including a thorough revision of the catalog contents, improved customer service, and a streamlined product lineup.

Other Related Businesses sales grew 10.7% year on year to ¥3,736 million, buoyed by strong sundries sales as well as by the inclusion of FANCL Square's Esthetic Salon sales beginning from the fiscal year under review.

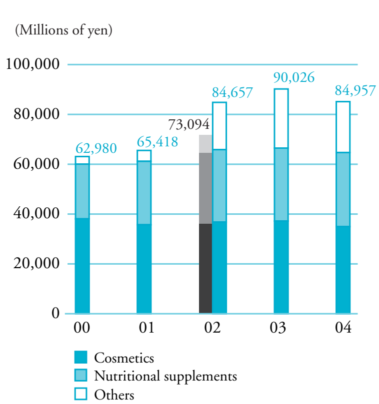
GROSS PROFIT

The gross profit margin increased 0.1 percentage point year on year to 65.6%. Although gross profit margins fell in the higher-margin Cosmetics Business and Nutritional Supplements Business, the overall gross profit margin remained basically unchanged from the previous fiscal year. This result was due to a decrease in the percentage of total sales accounted for by the lower-margin Other Businesses.

In the Cosmetics Business, the gross profit margin deteriorated 0.9 percentage point year on year to 75.6% owing to reduced sales of higher-margin basic skincare products and to additional expenses stemming from the start-up of the Shiga Factory.

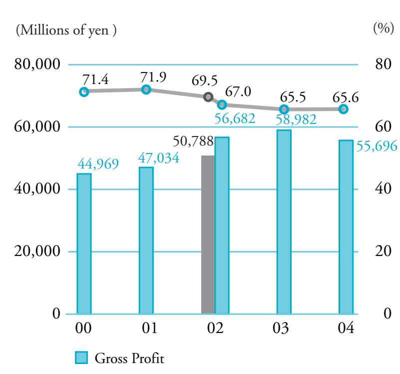
In the Nutritional Supplements Business, the gross profit margin shrank 1.4 percentage points to 64.2% owing to higher prices

Net Sales, by Business Segment



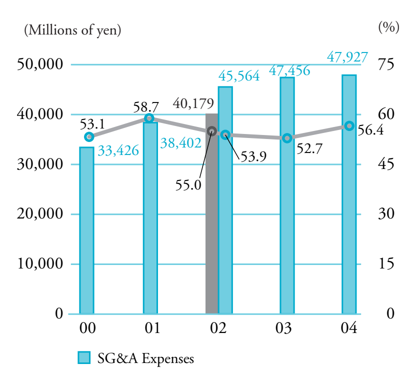
* Gray column: excluding the results of newly consolidated NGC and FHG.

Gross Profit/Gross Profit Margin



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

SG&A Expenses/SG&A Expense Ratio



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

for certain raw materials and to a larger percentage of sales accounted for by products with a relatively high cost of goods sold.

In Other Businesses, the gross profit margin rose 2.1 percentage points year on year to 50.3%, boosted by improved gross profit margins in the Kale Juice Business and the NGC Mail-Order Business.

SG&A EXPENSES

The ratio of selling, general and administrative (SG&A) expenses to net sales rose 3.7 percentage points to 56.4%, reflecting the decline in net sales as well as an increase in expenses related to the opening of FANCL Square despite reductions in communications expenses, mainly. Advertising expenses remained at the previous year's level.

The ratio of advertising expenses to net sales increased 1.3 percentage points to 11.6% owing to aggressive spending in the second half aimed at bolstering the customer base for the CC Plan beginning in fiscal year 2005. As a result, the ratio of marketing costs (advertising and sales promotion expenses) to net sales rose 1.1 percentage points to 21.0%.

The ratio of communications expenses to net sales shrank 0.4 percentage point to 2.9%, a result of reduced costs accompanying a change in subcontractor.

Expenses related to personnel, depreciation, and others increased as a result of the FANCL Square opening on April 4, 2003.

OPERATING INCOME

Reflecting the aforementioned factors, operating income decreased 32.6% year on year to ¥7,769 million, and the operating income margin declined 3.7 percentage points to 9.1%.

In the Cosmetics Business, operating income fell 22.4% year on year to ¥6,283 million, and the operating income margin shrank 3.8 percentage points to 18.0%, reflecting the strong impact of the sales decline in higher-margin basic skincare products.

In the Nutritional Supplements Business, operating income decreased 21.9% year on year to ¥5,371 million, and the operating income margin slipped 5.4 percentage points to 18.1%. This result stemmed from lower gross profit margins brought about by higher prices for certain raw material, as well as from an increase in marketing expenses.

Other Businesses posted an operating loss of ¥1,821 million, which was ¥175 million larger than the previous fiscal year's result despite a major reduction in the Kale Juice Business's loss, reflecting mainly the NGC Mail-Order Business's slide from profit into loss.

OTHER INCOME (EXPENSES)

Interest and dividend income totaled ¥40 million, basically flat compared with the previous fiscal year. Interest expense was ¥3 million, ¥11 million lower than the previous fiscal year's figure owing to the repayment of debt during the period.

Other, net expenses were ¥1,593 million, ¥1,115 million higher than the previous fiscal year's ¥478 million. This deterioration is attributable to (1) retroactive provisioning for prior years in line with a revision to the directors' retirement benefits rules, (2) a BSE-related disposal loss, and (3) reduced income from investment in an anonymous association.

INCOME BEFORE INCOME TAXES

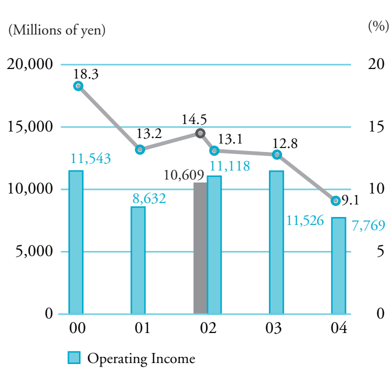
Income before income taxes decreased 43.9% year on year to ¥6,213 million. Income before income taxes as a percentage of net sales was 7.3%, down 5.0 percentage points compared with the previous fiscal year.

NET INCOME

As a result, net income fell 47.3% year on year to ¥3,387 million, and the ratio of net income to net sales fell 3.1 percentage points to 4.0%.

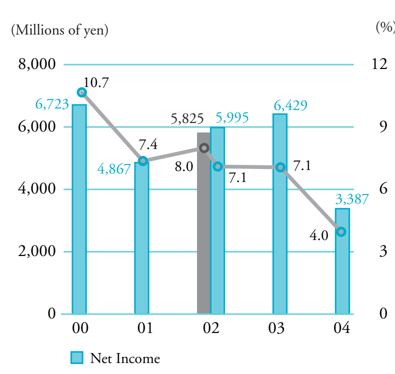
Net income per share was ¥154.57. As of the end of the fiscal year under review, FANCL had no outstanding unexercised convertible bonds or debt equity warrants.

Operating Income/Operating Income Margin



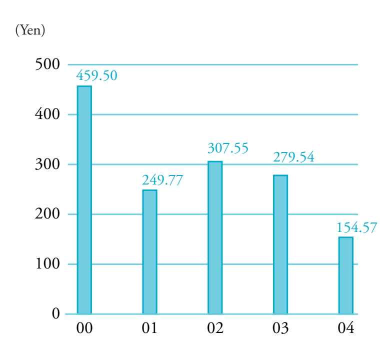
* Gray column: excluding the results of newly consolidated NGC and FHG.

Net Income/Net Income to Sales



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

Net Income per Share



Although the Company made purchases of treasury stock in the amount of ¥3,298 million during the period, ROE fell 4.7 percentage points compared with the previous fiscal year to 5.1%, reflecting the decrease in net income.

(Balance Sheet)

ASSETS

Current Assets

Current assets decreased ¥1,972 million to ¥39,236 million, reflecting declines in cash and cash equivalents and in notes and accounts receivable. Cash and cash equivalents decreased ¥2,809 million owing to purchases of treasury stock, and notes and accounts receivable fell ¥416 million on weaker sales. Inventories rose ¥369 million, reflecting an increase in stock of new nutritional supplement products to be launched in fiscal year 2005. Prepaid expenses and other current assets increased ¥968 million owing to temporary payments related to the leaseback of manufacturing equipment.

Property, Plant, and Equipment

Property, plant, and equipment was up ¥658 million year on year to ¥26,767 million owing to purchases of buildings and machinery associated with the start-up of the Shiga Factory in September 2003. The bulk of property, plant, and equipment purchases related to the Shiga Factory were posted as construction in progress in the previous fiscal year.

Intangible Assets

Mainly due to the consolidation of NGC Co., Ltd., the Company posted additional goodwill, which is being amortized on a straight-line basis over a period of five years.

Investments and Other Assets

Investments and other assets increased ¥261 million to ¥11,904 million, reflecting capital increases in nonconsolidated subsidiaries and affiliates and an increase in lease deposits accompanying rental contracts for additional store openings.

LIABILITIES

Current Liabilities

Current liabilities decreased ¥1,381 million to ¥10,022 million owing to a reduction in long-term debt with payments due within one year, as well as to a decrease in outstanding corporate taxes resulting from lower net income.

Noncurrent Liabilities

Noncurrent liabilities rose ¥793 million to ¥2,844 million, a result of the retroactive provisioning for prior years in line with the revision of directors' retirement benefits rules.

SHAREHOLDERS' EQUITY

Total Shareholders' Equity

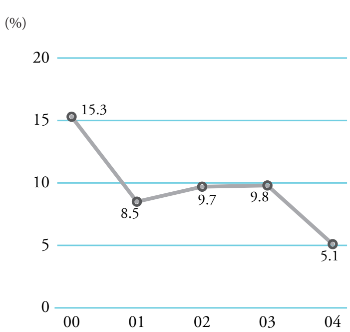
Total shareholders' equity was ¥65,613 million, down ¥737 million compared with the previous year, reflecting net income of ¥3,387 million and purchases of treasury stock in the amount of ¥3,298 million.

Capital Investment

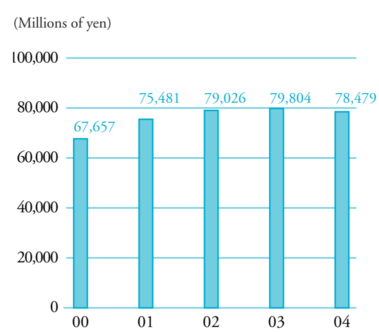
Capital investment during the fiscal year under review totaled ¥4,864 million. Major investments included the Shiga Factory building and software.

In the Cosmetics Business, capital investment totaled ¥3,826 million, mainly for land, buildings, and machinery for the Shiga Factory. In the Nutritional Supplements Business, the total was ¥559 million, most of which was used to purchase research equipment. In Other Businesses, ¥296 million was invested in germinated brown rice production equipment. No major equipment was disposed of or sold during the period.

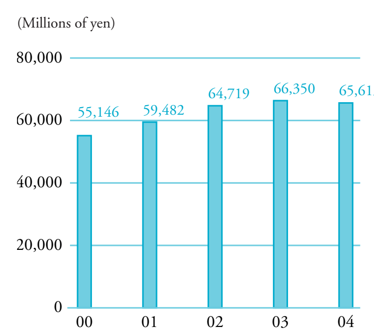
ROE



Total Assets



Shareholders' Equity



CASH FLOWS

Cash and cash equivalents (“net cash”) as of March 31, 2004, were ¥23,561 million, down ¥2,809 million from the figure as of the previous fiscal year-end.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥5,861 million, a decrease of ¥3,967 million compared with the previous year’s figure. The main cash inflows were ¥6,213 million in income before income taxes and ¥2,828 million in depreciation and amortization, while ¥4,954 million in income taxes paid was the major cash outflow related to operating activities.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥4,117 million, a decrease of ¥1,464 million compared with the previous year’s figure. The main cash outflow related to investing activities was ¥3,341 million spent for purchases of equipment and other capital investment at the Shiga Factory and other production facilities.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥4,533 million, a decline of ¥900 million compared with the previous year’s figure. Purchases of treasury stock in the amount of ¥3,298 million and ¥885 million in cash dividends paid were the major cash outflows related to financing activities.

For the fiscal year currently under way, FANCL anticipates an increase in net cash provided by operating activities and plans to contain cash outflows related to investing and financing activities within net cash provided by operating activities. Accordingly, we forecast that cash and cash equivalents as of March 31, 2005, will be slightly higher than the figure as of March 31, 2004.

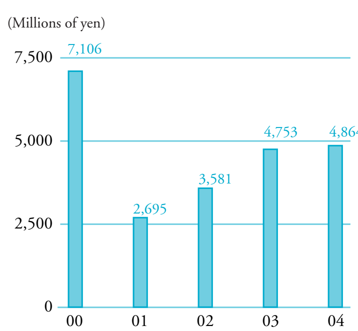
CASH FLOW INDICATORS

Years ended March 31	2004	2003	2002	2001	2000
Shareholders’ equity ratio (%)	**83.6**	83.1	81.9	78.8	81.5
Shareholders’ equity ratio, market-value basis (%)	**95.7**	114.3	113.5	163.5	371.8
Debt repayment period (Years)	**—**	0.04	0.15	0.51	0.49
Interest coverage ratio	**2,930.5**	756.0	200.7	152.1	80.0

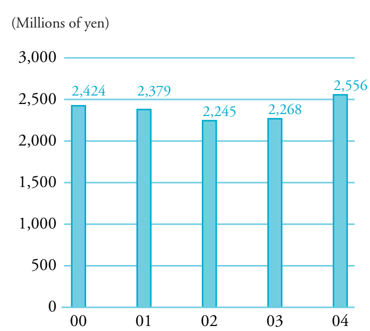
Shareholders’ equity ratio: Shareholders’ equity/Total assets
Shareholders’ equity ratio, market-value basis: Total market value of stock/Total assets
Debt repayment period: Interest-bearing liabilities/Cash flows from operating activities
Interest coverage ratio: Cash flows from operating activities/Interest expense

Notes: 1. All indicators are calculated based on consolidated financial figures.
2. Total market value of stock is calculated by multiplying the closing share price on the final day of the period by the number of shares issued and outstanding on the final day of the period, excluding treasury stock.
3. Cash flows from operating activities are as stated on the consolidated statements of cash flows. Interest-bearing liabilities include all debt stated on the consolidated balance sheets on which interest is paid. For interest expense, cash paid for interest on the consolidated statements of cash flows is used.

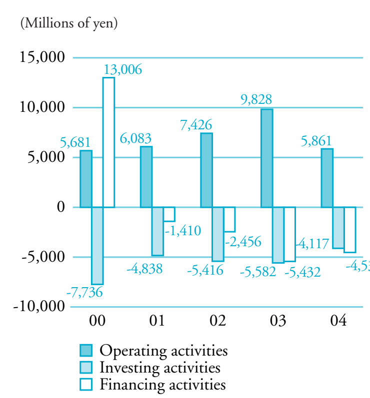
Capital Investment



Depreciation



Cash Flows



CONSOLIDATED BALANCE SHEETS

FANCL CORPORATION and Consolidated Subsidiaries
As of March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 2)
ASSETS	2004	2003	2004
Current assets:			
Cash and cash equivalents (Note 3)	¥ 23,561	¥26,370	$ 222,926
Notes and accounts receivable — trade	7,814	8,221	73,933
Less: Allowance for doubtful accounts	(182)	(173)	(1,722)
	7,632	8,048	72,211
Inventories (Note 4)	5,472	5,103	51,774
Deferred taxes (Note 8)	683	767	6,462
Prepaid expenses and other current assets	1,888	920	17,864
Total current assets	39,236	41,208	371,237
Property, plant and equipment, at cost (Note 5)**:**			
Land	10,848	10,202	102,640
Buildings and structures	18,463	16,129	174,690
Machinery and equipment	9,700	8,570	91,778
Construction in progress	62	2,029	587
	39,073	36,930	369,695
Less: Accumulated depreciation	(12,306)	(10,821)	(116,435)
Property, plant and equipment, net	26,767	26,109	253,260
Intangible assets:			
Goodwill	572	844	5,412
Investments and other assets:			
Investment securities:			
Nonconsolidated subsidiaries and affiliates	762	642	7,210
Other	322	306	3,047
	1,084	948	10,257
Long-term loans receivable	1,007	1,011	9,528
Deferred taxes (Note 8)	757	357	7,162
Other assets	9,344	9,607	88,409
Less: Allowance for doubtful accounts	(288)	(280)	(2,725)
Total investments and other assets	11,904	11,643	112,631
Total assets	¥ 78,479	¥79,804	$ 742,540

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2003	2004
Current liabilities:			
Current portion of long-term debt (Note 5)	¥ —	¥ 350	$ —
Notes and accounts payable — trade	3,172	3,341	30,013
Accrued income taxes (Note 8)	1,105	2,772	10,455
Other current liabilities	5,745	4,940	54,357
Total current liabilities	10,022	11,403	94,825
Noncurrent liabilities:			
Accrued retirement benefits (Note 9)	2,406	1,490	22,765
Other long-term liabilities	438	561	4,144
Total noncurrent liabilities	2,844	2,051	26,909
Contingent liabilities (Note 12)			
Shareholders' equity (Notes 6, 7 and 16):			
Common stock, with no par value:			
Authorized— 77,946,000 shares in 2004 and 2003			
Issued — 23,392,200 shares in 2004 and 2003	10,795	10,795	102,138
Additional paid-in capital	11,706	11,706	110,758
Retained earnings	50,529	48,027	478,087
Net unrealized holding gain (loss) on other securities	54	(10)	511
Translation adjustments	(5)	—	(47)
Less: Treasury stock	(7,466)	(4,168)	(70,641)
Total shareholders' equity	65,613	66,350	620,806
Total liabilities and shareholders' equity	¥78,479	¥79,804	$742,540

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2003	**2004**
Net sales	**¥84,957**	¥90,026	**$803,832**
Cost of sales	**29,261**	31,044	**276,857**
Gross profit	**55,696**	58,982	**526,975**
Selling, general and administrative expenses (Note 10)	**47,927**	47,456	**453,468**
Operating income	**7,769**	11,526	**73,507**
Other income (expenses):			
Interest and dividend income	**40**	44	**378**
Interest expense	**(3)**	(14)	**(28)**
Other, net	**(1,593)**	(478)	**(15,072)**
Income before income taxes	**6,213**	11,078	**58,785**
Income taxes (Note 8)**:**			
Current	**3,153**	5,001	**29,833**
Deferred	**(327)**	(352)	**(3,094)**
	2,826	4,649	**26,739**
Net income	**¥ 3,387**	¥ 6,429	**$ 32,046**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

	Millions of yen							
	Common stock		Additional paid-in capital (Note 6)	Retained earnings (Notes 6 and 16)	Net unrealized holding (loss) gain on other securities	Translation adjustments	Treasury stock	Total shareholders' equity
	Number of shares Thousands	Amount						
March 31, 2002	19,493	¥10,795	¥11,706	¥42,245	¥(18)	¥—	¥ (9)	¥64,719
Decrease resulting from initial consolidation of subsidiaries		—	—	(115)				(115)
1.2-for-1 stock split	3,899	—	—	—	—	—	—	—
Cash dividends		—	—	(532)	—	—	—	(532)
Net income		—	—	6,429	—	—	—	6,429
Purchase of treasury stock		—	—	—	—	—	(4,159)	(4,159)
Net unrealized holding gain on other securities		—	—	—	8	—	—	8
March 31, 2003	23,392	10,795	11,706	48,027	(10)	—	(4,168)	66,350
Cash dividends		—	—	**(885)**	—	—	—	**(885)**
Net income		—	—	**3,387**	—	—	—	**3,387**
Purchase of treasury stock		—	—	—		—	**(3,298)**	**(3,298)**
Translation adjustments		—	—	—	—	**(5)**	—	**(5)**
Net unrealized holding gain on other securities		—	—	—	**64**	—	—	**64**
March 31, 2004	**23,392**	**¥10,795**	**¥11,706**	**¥50,529**	**¥ 54**	**¥(5)**	**¥(7,466)**	**¥65,613**

	Thousands of U.S. dollars (Note 2)						
	Common stock	Additional paid-in capital (Note 6)	Retained earnings (Notes 6 and 16)	Net unrealized holding (loss) gain on other securities	Translation adjustments	Treasury stock	Total shareholders' equity
	Amount						
March 31, 2003	$102,138	$110,758	$454,414	$ (95)	$ —	$(39,436)	$627,779
Cash dividends	—	—	**(8,373)**	—	—	—	**(8,373)**
Net income	—	—	**32,046**	—	—	—	**32,046**
Purchase of treasury stock	—	—	—		—	**(31,205)**	**(31,205)**
Translation adjustments	—	—	—	—	**(47)**	—	**(47)**
Net unrealized holding gain on other securities	—	—	—	**606**	—	—	**606**
March 31, 2004	**$102,138**	**$110,758**	**$478,087**	**$511**	**$(47)**	**$(70,641)**	**$620,806**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2003	**2004**
Cash flows from operating activities:			
Income before income taxes	**¥ 6,213**	¥11,078	**$ 58,785**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	**2,828**	2,527	**26,758**
Accrued retirement benefits, net of payments	**916**	114	**8,667**
Cash surrender value, net of payments	**296**	178	**2,801**
Loss on disposal of property, plant and equipment	**325**	617	**3,075**
Changes in operating assets and liabilities:			
Notes and accounts receivable — trade	**406**	86	**3,841**
Inventories	**(369)**	399	**(3,491)**
Other current assets	**(228)**	1,068	**(2,157)**
Accounts payable — trade	**(168)**	(316)	**(1,590)**
Other current liabilities	**811**	(530)	**7,673**
Other noncurrent liabilities	**(142)**	(161)	**(1,343)**
Income taxes paid	**(4,954)**	(5,114)	**(46,873)**
Other, net	**(73)**	(118)	**(691)**
Net cash provided by operating activities	**5,861**	9,828	**55,455**
Cash flows from investing activities:			
Payment of fixed-term deposits	**—**	(1,500)	**—**
Proceeds from fixed-term deposits	**—**	500	**—**
Purchases of property, plant and equipment	**(3,341)**	(4,170)	**(31,611)**
Proceeds from sale of property, plant and equipment	**27**	12	**255**
Purchases of software	**(584)**	(386)	**(5,526)**
Purchases of stock of affiliates	**(118)**	(5)	**(1,116)**
Collection of long-term loans receivable	**61**	121	**577**
Increase in other investments and other assets	**(208)**	(311)	**(1,968)**
Other, net	**46**	157	**435**
Net cash used in investing activities	**(4,117)**	(5,582)	**(38,954)**
Cash flows from financing activities:			
Repayment of long-term debt	**(350)**	(743)	**(3,312)**
Purchases of treasury stock	**(3,298)**	(4,159)	**(31,204)**
Cash dividends paid	**(885)**	(530)	**(8,373)**
Net cash used in financing activities	**(4,533)**	(5,432)	**(42,889)**
Effect of foreign exchange rate changes on cash and cash equivalents	**(20)**	(27)	**(189)**
Net decrease in cash and cash equivalents	**(2,809)**	(1,213)	**(26,577)**
Cash and cash equivalents at beginning of year	**26,370**	27,535	**249,503**
Cash and cash equivalents of newly consolidated subsidiaries at beginning of year	**—**	48	**—**
Cash and cash equivalents at end of year	**¥23,561**	¥26,370	**$222,926**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

FANCL CORPORATION (the "Company") and its consolidated subsidiaries (collectively the "Group") 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.

All assets and liabilities of the subsidiaries are revaluated at fair value on acquisition, if applicable, and the excess of cost over underlying net assets at the date of acquisition is amortized over a period of five years on a straight-line basis.

(C) FOREIGN CURRENCY TRANSLATION

All assets and liabilities denominated in foreign currencies of the Company and the domestic 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. The resulting foreign exchange gain or loss is recognized as other income or expense.

Assets and liabilities of a foreign consolidated subsidiary are translated at the current exchange rates in effect at each balance sheet date and revenue and expense accounts are translated at the average rate of exchange in effect during the year. Translation adjustments are presented as a component of shareholders' equity in the accompanying consolidated financial statements.

(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

All securities owned by the Company and consolidated subsidiaries are classified into other (available-for-sale) securities which is one of three categories (trading, held-to-maturity and other) defined by the accounting standard for financial instruments.

Other securities with quoted market prices are carried at fair market value. The difference between the acquisition cost and the carrying value of other securities, including unrealized holding gain or loss, is recognized as a component of shareholders' equity under "Net unrealized holding gain (loss) on other securities." The cost of other securities sold has been computed based on the average method. Other 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 years

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.

Accrued retirement benefits for employees have been provided based on an estimate of the retirement benefit obligation and the pension fund assets.

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) ACCOUNTING STANDARD FOR TREASURY STOCK AND REDUCTION OF LEGAL RESERVE

Effective the year ended March 31, 2003, the Company and consolidated subsidiaries adopted a new accounting standard for treasury stock and the reduction of legal reserves (Accounting Standard No. 1 issued by the Accounting Standards Board of Japan; "ASBJ") which took effect on April 1, 2002. The effect of the adoption of this new standard was immaterial.

(Q) 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 16.

2. U.S. DOLLAR AMOUNTS

For the convenience of the reader, the accompanying financial statements with respect to the year ended March 31, 2004 have been presented in U.S. dollars by translating all yen amounts at ¥105.69 = US$1.00, the exchange rate prevailing on March 31, 2004. 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. MARKETABLE AND INVESTMENT SECURITIES

Information regarding marketable and investment securities with quoted market prices classified as other securities at March 31, 2004 and 2003 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2004	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	**¥124**	**¥216**	**¥92**	**$1,173**	**$2,044**	**$871**
Total	**¥124**	**¥216**	**¥92**	**$1,173**	**$2,044**	**$871**

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2003	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose acquisition cost exceeds their carrying value:						
Stock	¥189	¥108	¥(81)	$1,788	$1,022	$(766)
Total	¥189	¥108	¥(81)	$1,788	$1,022	$(766)

Other securities without quoted market prices at March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
Carrying value	**2004**	2003	**2004**
Current assets:			
Money management funds	**¥4,726**	¥4,725	**$44,715**
Free financial funds	**3,006**	3,006	**28,442**
Noncurrent assets:			
Unlisted stocks (excluding over-the-counter traded securities)	**91**	183	**861**
	¥7,823	¥7,914	**$74,018**

4. INVENTORIES

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Merchandise	**¥ 478**	¥ 371	**$ 4,523**
Finished goods	**2,051**	1,876	**19,406**
Raw materials	**2,168**	2,192	**20,513**
Work in process	**491**	434	**4,645**
Supplies	**284**	230	**2,687**
	¥5,472	¥5,103	**$ 51,774**

5. LONG-TERM DEBT

Long-term debt at March 31, 2003 consisted of the following:

	Millions of yen
	2003
Loans from banks, insurance companies and others, due 2004 at rates from 1.45% to 1.88%	¥350
Less: Current portion	350
	¥ —

At March 31, 2004, buildings and structures of ¥1,274 million ($12,054 thousand) and land of ¥1,422 million ($13,454 thousand) remained pledged as collateral for current portion of long-term debt of ¥350 million while all debts were fully repaid at March 31, 2004.

6. SHAREHOLDERS' EQUITY

The Commercial Code of Japan 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.

7. 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 45 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 174,720 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 235 employees in accordance with the Commercial Code of Japan. Under the plan, a maximum of 101,880 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.

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 441,300 shares were granted to the individuals referred to above.

The price was set at ¥4,100 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, 2004 to June 29, 2007.

8. INCOME TAXES

Income taxes applicable to the Company and consolidated subsidiaries comprise corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 42% for 2004 and 2003. 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, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets:			
Accrued enterprise taxes	**¥ 109**	¥ 277	**$ 1,031**
Accrued bonuses	**311**	280	**2,942**
Allowance for doubtful accounts	**121**	161	**1,145**
Accrued severance benefitss	**927**	533	**8,771**
Depreciation	**52**	57	**492**
Net loss carried forward	**—**	154	**—**
Other	**412**	134	**3,898**
	1,932	1,596	**18,279**
Deferred tax liabilities:			
Unrealized intercompany profit on land	**232**	232	**2,195**
Unrealized revaluation gain on land with respect to acquisition of NGC Co., Ltd.	**170**	165	**1,608**
Other	**90**	76	**852**
	492	473	**4,655**
Net deferred tax assets	**¥1,440**	¥1,123	**$13,624**

9. 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 to these plans, the Company and consolidated subsidiaries except for a consolidated subsidiary have established a multi-employer welfare pension fund (the "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, 2004 and 2003 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Projected benefit obligation	**¥1,566**	¥1,517	**$14,817**
Fair value of plan assets	**(492)**	(394)	**(4,655)**
Funded status	**1,074**	1,123	**10,162**
Unrecognized actuarial net loss	**(102)**	(186)	**(965)**
Net retirement benefit obligation	**972**	937	**9,197**
Prepaid pension cost	**224**	181	**2,119**
Accrued retirement benefits	**¥1,196**	¥1,118	**$11,316**

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 ¥1,210 million ($11,449 thousand) and ¥371 million were included in accrued retirement benefits in the consolidated balance sheets at March 31, 2004 and 2003, respectively.

Retirement benefit expenses for the year ended March 31, 2004 and 2003 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Service cost - benefits earned during the year	**¥185**	¥188	**$1,751**
Interest cost on projected benefit obligation	**18**	16	**170**
Expected return on plan assets	**(8)**	(7)	**(76)**
Amortization of unrecognized actuarial net loss	**47**	40	**445**
Contributions to welfare pension fund	**175**	178	**1,656**
Retirement benefit expenses	**¥417**	¥415	**$3,946**

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 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, 2004 and 2003 were principally as follows:

	2004	2003
Discount rates	1.75%	1.75%
Expected rate of return	3.00%	3.00%
Actuarial cost method	Unit credit actuarial cost method	
Amortization period for actuarial differences	5 years *	5 years *

* Amortized by the straight-line method over a certain period, which falls within the estimated average remaining years of service of the active participants, commencing the year subsequent to the period when the actuarial difference was calculated.

10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Research and development expenses	¥1,720	¥1,683	$16,274

11. LEASES

The Group holds 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, 2004 and 2003 would have been as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Machinery and equipment	¥5,055	¥5,229	$47,828
Accumulated depreciation	2,104	1,618	19,907
	¥2,951	¥3,611	$27,921

The following presents the future minimum lease payments subsequent to March 31, 2004 under finance leases which do not transfer ownership:

March 31, 2004	Millions of yen	Thousands of U.S. dollars
Minimum lease payments:		
Due within one year	¥ 692	$ 6,547
Due after one year	2,283	21,601
	¥2,975	$28,148

Lease expenses related to finance leases which do not transfer ownership for the years ended March 31, 2004 and 2003 amounted to ¥834 million ($7,891 thousand) and ¥827 million, respectively. Depreciation related to these leases for the years ended March 31, 2004 and 2003 would have been ¥773 million ($7,314 thousand) and ¥778 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.

12. CONTINGENT LIABILITIES

Contingent liabilities as of March 31, 2004 amounted to ¥ 2,853 million ($ 26,994 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.

13. AMOUNTS PER SHARE

In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year assuming full dilution of common stock equivalents. Net assets per share is also computed based on the weighted average number of shares of common stock outstanding during each year. Since there were no potentially dilutive convertible bonds or warrants outstanding as of March 31, 2004 and 2003, diluted net income per share has not been presented.

	Yen		U.S. dollars
	2004	2003	**2004**
Net income			
— Basic	**¥ 154.57**	¥ 279.54	**$ 1.46**
— Diluted	**—**	—	**—**
Net assets	**¥3,082.42**	¥2,976.31	**$29.16**

14. 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.

15. 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 wholesalers and stores and by mail, a nutritional supplements business in which various supplements are sold through wholesalers and stores and by mail, and other business which includes sales of miscellaneous goods, personal ornaments, underwear, medical and health products, housewares, germinated brown rice, kale juice and etc. 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, 2004 and 2003 is summarized as follows:

BUSINESS SEGMENTS

	Millions of yen					
Year ended March 31, 2004	Cosmetics business	Nutritional supplements business	Other businesses	Total	Eliminations or corporate	Consolidated
I. Sales and operating income						
Sales to external customers	**¥34,926**	**¥29,656**	**¥20,375**	**¥84,957**	**¥ —**	**¥84,957**
Intersegment sales or transfers	**—**	**—**	**—**	**—**	**—**	**—**
Total sales	**34,926**	**29,656**	**20,375**	**84,957**	**—**	**84,957**
Operating expenses	**28,643**	**24,285**	**22,196**	**75,124**	**2,064**	**77,188**
Operating income (loss)	**¥ 6,283**	**¥ 5,371**	**¥ (1,821)**	**¥ 9,833**	**¥ (2,064)**	**¥ 7,769**
II. Total assets, depreciation and capital expenditures						
Total assets	**¥24,733**	**¥11,887**	**¥13,468**	**¥50,088**	**¥28,391**	**¥78,479**
Depreciation	**1,241**	**606**	**600**	**2,447**	**109**	**2,556**
Capital expenditures	**3,826**	**559**	**297**	**4,682**	**182**	**4,864**

	Millions of yen					
Year ended March 31, 2003	Cosmetics business	Nutritional supplements business	Other businesses	Total	Eliminations or corporate	Consolidated
I. Sales and operating income						
Sales to external customers	¥37,155	¥29,211	¥23,660	¥90,026	¥ —	¥90,026
Intersegment sales or transfers	—	—	—	—	—	—
Total sales	37,155	29,211	23,660	90,026	—	90,026
Operating expenses	29,056	22,332	25,306	76,694	1,806	78,500
Operating income (loss)	¥8,099	¥ 6,879	¥ (1,646)	¥13,332	¥ (1,806)	¥11,526
II. Total assets, depreciation and capital expenditures						
Total assets	¥23,017	¥11,172	¥ 9,200	¥43,389	¥36,415	¥79,804
Depreciation	1,218	597	375	2,190	78	2,268
Capital expenditures	2,475	349	374	3,198	2,199	5,397

	Thousands of U.S. dollars					
Year ended March 31, 2004	Cosmetics business	Nutritional supplements business	Other businesses	Total	Eliminations or corporate	Consolidated
I. Sales and operating income						
Sales to external customers	**$330,457**	**$280,594**	**$192,781**	**$803,832**	**$ —**	**$803,832**
Intersegment sales or transfers	**—**	**—**	**—**	**—**	**—**	**—**
Total sales	**330,457**	**280,594**	**192,781**	**803,832**	**—**	**803,832**
Operating expenses	**271,010**	**229,775**	**210,011**	**710,796**	**19,529**	**730,325**
Operating income (loss)	**$ 59,447**	**$ 50,819**	**$ (17,230)**	**$ 93,036**	**$ (19,529)**	**$ 73,507**
II. Total assets, depreciation and capital expenditures						
Total assets	**$234,016**	**$112,470**	**$127,429**	**$473,915**	**$268,625**	**$742,540**
Depreciation	**11,742**	**5,734**	**5,667**	**23,143**	**1,031**	**24,184**
Capital expenditures	**36,200**	**5,289**	**2,810**	**44,299**	**1,722**	**46,021**

Unallocatable operating expenses included under "Eliminations or corporate" for the years ended March 31, 2004 and 2003 amounted to ¥2,064 million ($19,529 thousand) and ¥1,806 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, 2004 and 2003 amounted to ¥28,391 million ($268,625 thousand) and ¥36,415 million, respectively, and consisted principally of cash and cash equivalents, short-term investments, land, funds for long-term investments (investment securities and other) and cash surrender value of insurance premiums 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, 2004 and 2003, 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, 2004 and 2003, no disclosure of overseas sales has been presented.

16. 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, 2004, were approved at a meeting of the shareholders held on June 16, 2004:

March 31, 2004	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥25=U.S.$0.24 per share)	**¥ 532**	**$ 5,034**

On June 19, 2004, the shareholders of the Company approved a stock option plan to grant warrants to purchase shares of the Company's common stock to directors and employees of the Company and its subsidiaries in accordance with the Commercial Code of Japan. Under the plan, a maximum of 740,000 shares were granted to the individuals referred to above.

The stock option price is to be determined by multiplying the higher of the average price of the final prices per share of the Company's common stock traded on the Tokyo Stock Exchange in the month prior to the date of the granting of the options or the final price per share on the day prior to the date of the granting of the options.

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 3, 2006 to June 30, 2009.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
FANCL CORPORATION

We have audited the accompanying consolidated balance sheets of FANCL CORPORATION and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FANCL CORPORATION and consolidated subsidiaries at March 31, 2004 and 2003, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 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 to the consolidated financial statements.

Shin Nihon & Co.

June 21, 2004

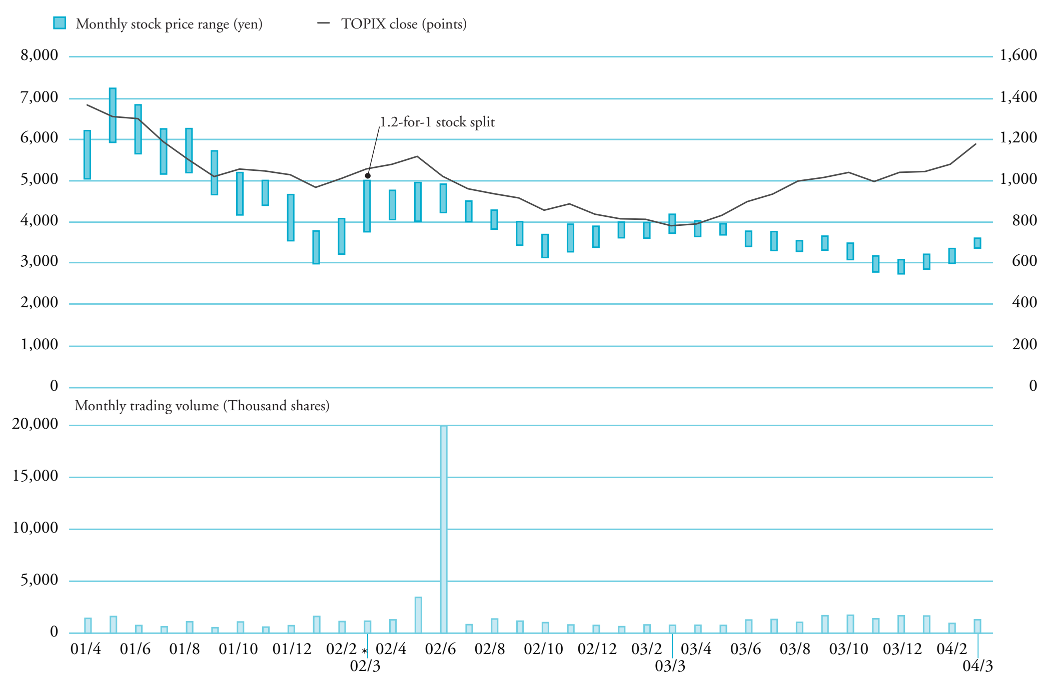
See Note 1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of FANCL CORPORATION and consolidated subsidiaries under Japanese accounting principles and practices.

CORPORATE DATA

MARKET PRICE RANGE PER SHARE OF COMMON STOCK, AND TRADING VOLUME

	2003									2004		
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
High (¥)	4,020	3,950	3,770	3,760	3,540	3,650	3,480	3,170	3,080	3,210	3,350	3,600
Low (¥)	3,660	3,700	3,420	3,320	3,300	3,330	3,100	2,800	2,755	2,870	3,010	3,380
Trading volume (Thousand shares)	764	750	1,270	1,320	1,045	1,682	1,727	1,386	1,680	1,655	941	1,294

Monthly Stock Data



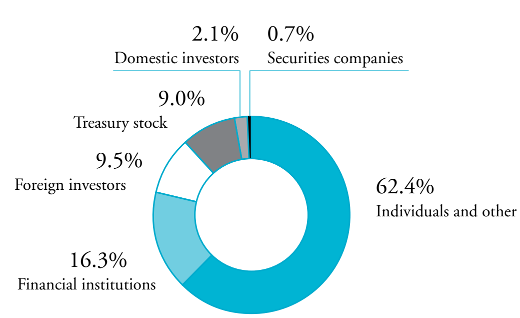
*Stock prices have been adjusted to reflect the 1.2-for-1 stock split completed on March 31, 2002

COMPOSITION OF SHAREHOLDERS

(Percentage of ownership)

	2002		2003		2004
	Mar.	Sep.	Mar.	Sep.	Mar.
Individuals and other	61.7	62.6	61.6	62.7	62.4
Financial institutions	24.4	23.0	21.8	19.4	16.3
Foreign investors	12.0	11.1	10.5	9.5	9.5
Treasury stock	0.0	1.4	4.7	6.3	9.0
Domestic investors	0.9	0.8	0.7	0.7	2.1
Securities companies	1.0	1.1	0.7	1.4	0.7

As of March 31, 2004



INVESTOR INFORMATION

(As of March 31, 2004)

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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)

Common Stock
Authorized Shares:	77,946,000
Outstanding Shares:	23,392,200

Paid-in Capital
¥10,795,161,280

Number of Shareholders
24,105

Number of Full-Time Employees
612

Transfer Agent and Registrar
UFJ Trust Bank Limited
10-11, Higashisuna, 7-chome, Koto-ku,
Tokyo 137-8081, Japan
Tel: 81(3)5683-5111

Annual Meeting of Shareholders
Held in mid-June in Kanagawa

Consolidated Subsidiaries
ATTENIR CORPORATION
NICOSTAR Co., Ltd.
NGC Co., Ltd.*
FANCL Hatsuga Genmai Co., Ltd.
FANCL ASIA (PTE) LTD
FANCL Biken Co., Ltd.

*Name changed to IIMONO OHKOKU Co., Ltd., as of May 2004.

Investor Relations
For further information, please contact:
Investor Relations Department
Tel: 81(45)226-1470
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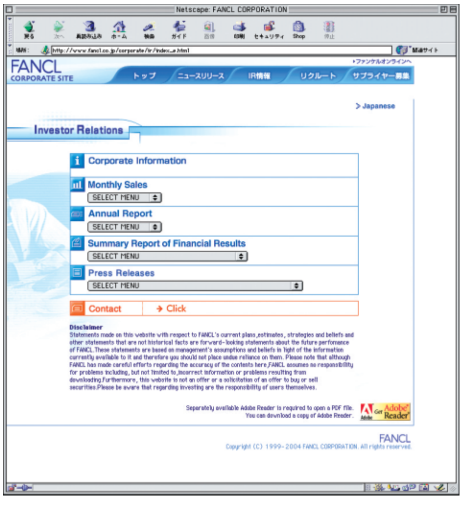
http://www.fancl.co.jp/
e-mail: official@fancl.co.jp



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

FANCL
CORPORATION

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