FANCL

Building on Our Strengths

Annual Report 2007

For the Year Ended March 31, 2007

In the Active Pursuit of Comfort

In 1980, FANCL established a unique presence in the cosmetics industry by creating the first preservative-free cosmetic products. Since then, we have made the elimination of uncertainty, inconvenience and other negative issues, along with the pursuit of reliability and safety, the hallmarks of our corporate philosophy as we create new value in fields related to health and beauty.

While cosmetics remain a core business, FANCL today offers a range of products and services designed with customers in mind, including nutritional supplements and health foods, which have earned the support of many who have used them.

In staying atop of diversifying needs and bringing satisfaction to customers, the "pursuit of comfort" will be our new focus as we move beyond the "elimination" phase of our corporate philosophy to develop the company in ways that befit the FANCL name.

CONTENTS

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

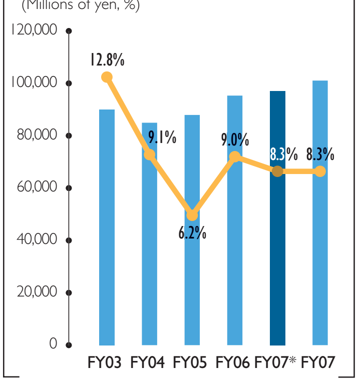
FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2007	2007(Note 2)	2006	2005	2004	2003	2007
FOR THE YEAR:							
Net sales	¥101,065	¥97,064	¥ 95,322	¥ 87,937	¥ 84,957	¥90,026	$856,121
Operating income	8,370	8,087	8,575	5,428	7,769	11,526	70,902
Net income	2,547	2,547	5,184	1,710	3,387	6,429	21,578
Advertising expenses	9,393	9,393	9,792	11,105	9,865	9,262	79,568
Sales promotion expenses	13,502	9,784	9,319	9,475	7,998	8,615	114,376
Net cash provided by operating activities	6,472		9,163	4,638	5,861	9,828	54,825
Net cash used in investing activities	(1,734)		(10,280)	(4,807)	(4,117)	(5,582)	(14,684)
Net cash used in financing activities	(2,495)		(22)	(1,090)	(4,533)	(5,432)	(21,138)
Net decrease in cash and cash equivalents	2,243		(1,139)	(1,254)	(2,809)	(1,213)	19,003
	Yen						U.S. dollars (Note 1)
PER SHARE (Note 3):							
Net income	¥ 39.6		¥ 80.9	¥ 26.8	¥ 51.5	¥ 93.2	$ 0.34
Equity (Note 4)	1,116.6		1,105.7	1,037.1	1,027.5	992.1	9.46
Cash dividends	24.0		18.3	16.7	14.2	11.7	0.20
	Millions of yen						Thousands of U.S. dollars (Note 1)
AT YEAR-END:							
Total assets	¥ 86,931		¥ 85,148	¥ 79,416	¥ 78,479	¥79,804	$736,395
Equity (Note 4)	71,449		71,406	66,203	65,613	66,350	605,244
RATIO:	%						
Operating income margin (%)	8.3	8.3	9.0	6.2	9.1	12.8	
Advertising and sales promotion expenses ratio (%)	22.7	19.8	20.1	23.4	21.0	19.9	
ROE (%)	3.6	3.6	7.5	2.6	5.1	9.8	

Note: 1. U.S. dollar amounts are the yen equivalent, calculated, for convenience only, at a rate of ¥118.05 = U.S. $1, the approximate Tokyo foreign exchange market rate as of March 31, 2007.
2. From fiscal 2007, FANCL revised accounting standards regarding its points system for customers. For more details, see page 33.
3. FANCL conducted a 3-for-1 stock split on April 1, 2006. Figures for FY03 through FY06 are calculated as if the stock split had actually taken place at the start of the previous business term.
4. Presented as shareholders' equity until fiscal 2006. Presented as equity from fiscal 2007 due to a change in accounting standards.

NET SALES AND OPERATING INCOME MARGIN

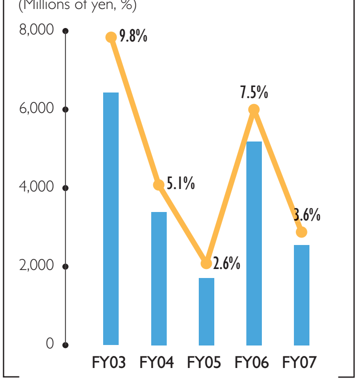
(Millions of yen, %)



Net Sales
Operating Income Margin

NET INCOME AND ROE

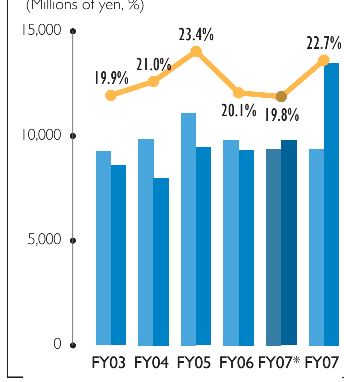
(Millions of yen, %)



Net Income
ROE

ADVERTISING EXPENSES AND SALES PROMOTION EXPENSES

(Millions of yen, %)



Advertising Expenses
Sales Promotion Expenses
Advertising and Sales Promotion Expenses Ratio

* In fiscal 2007, FANCL changed its accounting standard for the treatment of customer reward points. Comparisons with the previous fiscal year are based on figures calculated exclusive of this accounting change. Refer to page 33 for more details regarding changes to this accounting standard.

TO OUR SHAREHOLDERS AND OTHER STAKEHOLDERS

MESSAGE FROM THE NEW C.E.O.

On March 1, 2007, I became C.E.O. and Representative Director of FANCL.

Let me begin by saying that FANCL has completed successive reforms during the past four years under the FANCL Change & Challenge (CC) Plan spearheaded by my predecessor, Kenji Fujiwara. Designed to help FANCL transition from a system dependent on the strong leadership of its founder to one built on organizational management, these management reforms have strengthened our organizational capacity, changed the mindset of our employees, and improved our workforce, among other changes. As a follow-up to this period of change, the next phase of the plan will be defined by "challenge." Here, my predecessor has entrusted me with helping FANCL to step ahead to a new stage of growth. Through three key policies—further boosting brand value, a proactive spirit of challenge, and human resource training—I am determined to push the evolution of FANCL's unique strengths forward.

FISCAL 2007 RESULTS

In fiscal 2007, consolidated net sales increased 1.8% year on year to ¥101,065 million, while operating income declined 5.7% to ¥8,370 million. Although sales in our core Cosmetics Business were in line with targets, sales in the Nutritional Supplements Business fell sharply, mainly due to rapid deterioration in the market environment for these products. Net income, meanwhile, fell 50.9% year on year to ¥2,547 million, as we booked impairment losses for germinated brown rice production equipment and posted an allowance for past fiscal years

▶ KAZUYOSHI MIYAJIMA

C.E.O. and Representative Director

In 1973, Mr. Miyajima joined The Daiei, Inc., Japan's largest retailer at the time. Following a 25-year stint as secretary to Daiei founder Isao Nakauchi, he was appointed Managing Director in 1999.

In 2001, Mr. Miyajima joined FANCL, serving in a support capacity to founding President Kenji Ikemori and President Kenji Fujiwara, who Mr. Miyajima would later replace. In 2004, he was appointed Managing Executive Officer and Director, and was named C.E.O. and Representative Director in March 2007. President Miyajima brings with him extensive personal and professional networks spanning the public and financing sectors. He is 57 years old.

following changes to the accounting method for customer reward points. The purpose of these actions in particular was to put FANCL on a sounder financial footing as we go forward. Reasons aside, the undeniable fact is that we were unable to report the higher sales and earnings we forecast at the start of the term.

Another fact is that the slump in the Nutritional Supplements Business stemmed from the severe impact of a sharp drop-off in sales of *Co-enzyme Q_{10}* and *Alpha Lipoic Acid*. Despite an unprecedented boom in demand for these products in Japan in fiscal 2006, their popularity cooled from the start of fiscal 2007. That said, I believe that internal issues were the real culprit behind this result. After all, even given our weak points as a company, it is clear that sufficient steps to avoid this outcome were simply not taken.

In Other Businesses too, where we expected losses to shrink substantially, losses actually increased as our aggressive marketing activities failed to spur sales growth. FANCL's performance this term has been a wake-up call for us, and is why we will put everything possible into measures to improve performance.

OUR PERFORMANCE IN FISCAL 2007

[FACTORS AFFECTING SALES]

Consolidated sales increase
¥1.7 billion (1.8%) year on year

(Billions of yen)

Positive factors

• FANCL cosmetics:	+2.3
• ATTENIR cosmetics:	+0.8
• IIMONO OHKOKU:	+1.5
• Sundries, undergarments and others:	+0.2

Negative factors

• Nutritional supplements:	–3.0
• Kale juice:	–0.1

[FACTORS AFFECTING OPERATING INCOME]

Operating income decrease
¥0.5 billion (-5.7%) year on year

(Billions of yen)

Positive factors by business segment

• FANCL cosmetics:	+1.4
• IIMONO OHKOKU:	+0.2

Negative factors by business segment

• Nutritional supplements:	–1.6
• Germinated brown rice:	–0.1
• Kale juice:	–0.2
• Sundries, undergarments and others:	–0.2

Positive and negative factors

• Earnings growth from higher sales:	+0.9
• Improved gross profit in Nutritional Supplements:	+0.3
• Lower Nutritional Supplements earnings from lower sales:	–0.8
• Increase in ERP*-related expenses:	–0.4
• Increase in personnel costs:	–0.5

* Enterprise Resource Planning

Kazuyoshi Miyajima

Kazuyoshi Miyajima
C.E.O. and Representative Director
July 2007

INTERVIEW WITH THE C.E.O.

Building on Our Strengths

Fiscal 2007 saw the launch of FANCL Change & Challenge Plan Phase 2 (CC Plan Phase 2), FANCL's second 3-year medium-term management plan running through fiscal 2009.

In this interview, we asked President Miyajima to discuss FANCL's policies going forward, as well as views from senior management on the company's strengths.

Q.1 Can you give us a brief overview of the Phase 2 plan?

The goal of the new plan is to achieve steady earnings growth. For fiscal 2009, the plan's final year, we set an ambitious target of achieving a record ¥15.0 billion in operating income.

Yet just six months into Phase 2, the sharp departure in the Nutritional Supplements Business from our initial targets has forced us to lower our sales and earnings figures for the plan's final year. Japan's nutritional supplements market, which until recently had seen growth soar, has now entered a period of adjustment marked by tougher competition. From a strategic standpoint, our most urgent task is to quickly switch from an emphasis on price to an emphasis on value. Here, stronger product development capabilities and opening the middle-aged consumer market will help fuel the turnaround in our business performance.

On a more positive note, performance in the Cosmetics Business remains firm thanks to our success with revamped products. We expect performance to improve further as we similarly revamp our core preservative-free skin care products in fiscal 2008.

Establishing FANCL as a ¥100-billion firm was one of former President Fujiwara's crowning achievements. I want to infuse this solid operating base with the "spirit of challenge" that lives in FANCL's corporate DNA to spark a V-shaped recovery in performance. In fiscal 2009, the plan's final year, our goal is to produce record sales and earnings, with consolidated net sales of ¥110 billion, operating income of ¥12 billion, ROA of 13%, and ROE of 8%.

[CC PLAN PHASE 2 STRATEGY TARGETS]

(Millions of yen)

	FY07		FY09 (plan)		
	Initial Plan	Results	Initial Plan	Revised Plan	Increased amount
[Net Sales]					
Cosmetics	47,300	46,376	50,000	50,000	–
Nutritional Supplements	37,000	31,666	40,000	35,000	(5,000)
Others	22,400	23,023	25,000	25,000	–
Total	106,700	101,065	115,000	110,000	(5,000)
[Operating Income (Loss)] (Millions of yen)					
Cosmetics	6,700	7,133	8,900	8,900	–
Nutritional Supplements	5,600	3,903	7,000	4,000	(3,000)
Others	(100)	(898)	1,000	1,000	–
Total	10,500	8,370	15,000	12,000	(3,000)
[Operating Income (Loss) Margin] (%)					
Cosmetics	14.2	15.4	17.8	17.8	–
Nutritional Supplements	15.1	12.3	17.5	11.4	(6.1)
Others	(0.4)	(3.9)	4.0	4.0	–
Total	9.8	8.3	13.0	11.0	(2.0)

Initial Plan: Announced May 2006, Revised Plan: Announced October 2006

Q.2 What are the key measures of the Phase 2 plan?

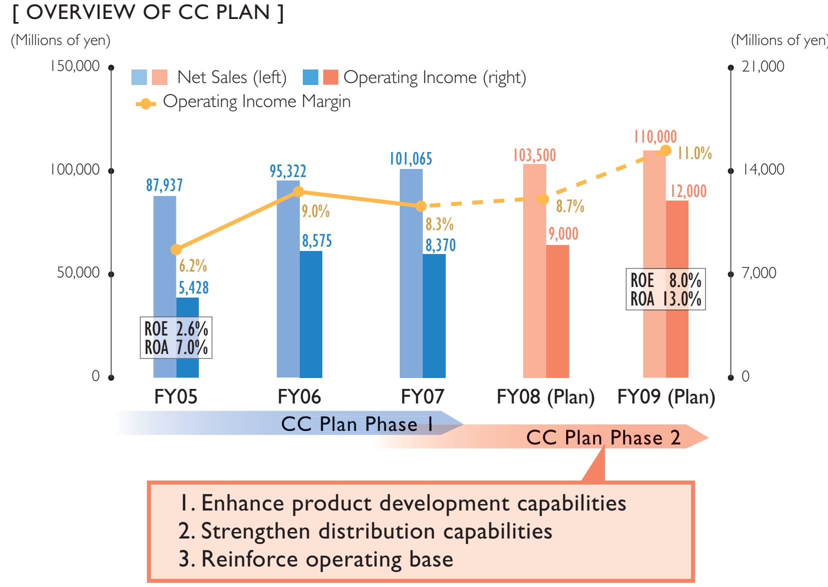
In Phase 1, we focused on bolstering sales capabilities mainly in our retail sales channels and pursuing aggressive marketing activities to achieve a turnaround in sales and customer figures. While doing this, in the background we were pushing ahead with the development of a host of competitive products. In Phase 2, this research work is about to finally pay off. We expect particularly great things from our preservative-free skin care products that will debut this fall. In cosmetics, in fact, our successful research has enabled us to create the first product using a compound made from one of our own high-performance ingredients. My hope is to draw together our research, production, sales, and marketing efforts in a unified push to make the revamp of our cosmetics line a complete success.

On the sales front, we will strengthen mail-order sales (including Internet sales), as well as sales at retail stores and overseas. Over the years, we have introduced groundbreaking services, including a designated parcel delivery service and an unlimited warranty service for product returns or exchanges. Similarly, with the FANCL "spirit of challenge" firmly in mind, I want us to develop new services to satisfy our customers.

As we look to further reinforce our operating base in the drive toward sustainable growth, we will work to introduce and entrench an ERP (Enterprise Resource Planning) system at FANCL. Doing so will make operations more efficient by optimizing supply-chain management (SCM), distribution points and other operational areas.

Fiscal 2007 was a rough start for Phase 2. Nevertheless, I am convinced that through operations founded on clear business strategies, we can make a fresh start on the path to sales and earnings growth.

[OVERVIEW OF CC PLAN]



Q.3 You have said that you want to develop the company in ways that befit the FANCL name. What do you mean by that?

For me, that would be to view things from the customer's viewpoint no matter what, rather than through a corporate mindset. That means focusing primarily on raising the level of customer satisfaction, from which sales growth is sure to follow. If FANCL can continue to please its customers, its customers will make FANCL profitable. I am convinced that our past growth has rested on what I call the FANCL spirit. This dedication has seen us create a new market from scratch and unveil exclusive products and services with a single goal in mind—to make our customers happy. My aim is to enhance the brand that FANCL has cultivated for nearly three decades by taking its evolution even further.

Q.4 What are your thoughts on introducing measures to counter unsolicited buyout bids?

When it comes to stock purchases clearly aimed at purchasing a large number of shares in FANCL, I believe that how we respond is a decision that should be made by our shareholders. We have not yet adopted any specific measures to prevent buyouts. But we will put in place a system for implementing what we consider to be the most appropriate steps within the confines of our authority should any party attempting to purchase a substantial stake in FANCL emerge. In deciding whether or not countermeasures are warranted, our goal is to take the actions most conducive to FANCL's corporate value and that are in the best interest of our shareholders.

Q.5 What do you consider to be your responsibility to FANCL's stakeholders?

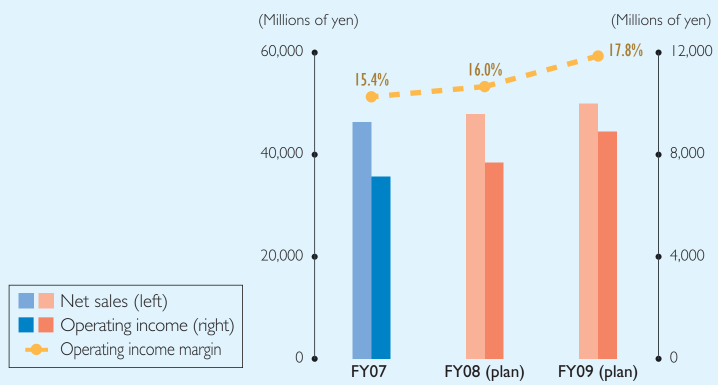
Being a company that shareholders and all other stakeholders can trust is important, which is why we give corporate governance and corporate social responsibility (or CSR) the attention they deserve.

For shareholders, I am determined to reward them with record earnings in fiscal 2009. In addition, we are busy contemplating the best mix for enhancing shareholder value between raising dividends, conducting stock splits, buying back our shares, and other options.

Today, FANCL has embarked on the first step towards new growth. I ask for your continued support and understanding as we move forward in this endeavor.

COSMETICS

[COSMETICS BUSINESS: PERFORMANCE AND FY2009 TARGETS]



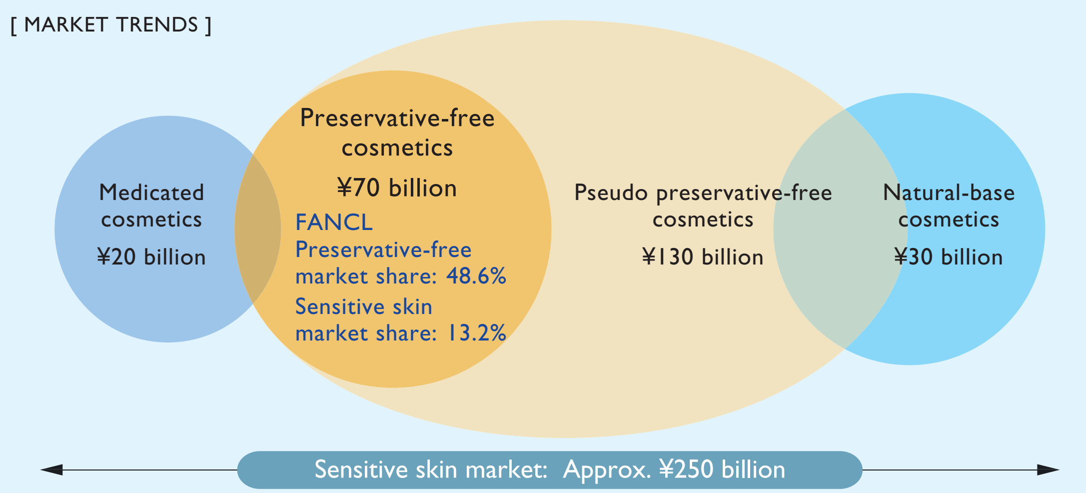
ESTABLISHING A "SKIN EMPOWERING" FANCL BRAND

In the Cosmetics Business, FANCL preservative-free cosmetics are in the process of building an unrivaled level of brand power. To this end, FANCL will revamp its core skin care brand in fiscal 2008. Centered on the concept of "Fresh, vibrant and preservative-free," we will expand FANCL's share of the preservative-free market through a re-envisioned lineup of high-performance skin care products that are gentle on the skin and include ingredients unique to FANCL.

Sales of FENATTY, EVANTÈ, and other mainstay skin care products, which together comprise 25% of FANCL cosmetic products increased the last time the line was revamped in fiscal 2003. But this growth proved temporary, and sales of these products have been virtually flat ever since. This happened because we failed to make clear how our products differed from those of other companies. In revamping the lineup this time, we will not only display the manufacture date on every product, but will underscore the fact that our products contain no additives or preservatives, are packaged in small, airtight containers, and boast other differences when compared to rival additive-free products. FENATTY and other product brands will also be integrated with the FANCL brand. A similar integration of FANCL's facial washing powder brands took place in fiscal 2005. The fact that sales since integration are 1.5 times higher than before suggests that this is definitely a step in the right direction.

In ATTENIR cosmetics, sales in the skin care product line we revamped in fiscal 2007 have climbed 1.5 times higher to a new record high. This success notwithstanding, we aim to press on with our aggressive marketing efforts to spark further growth in these products.

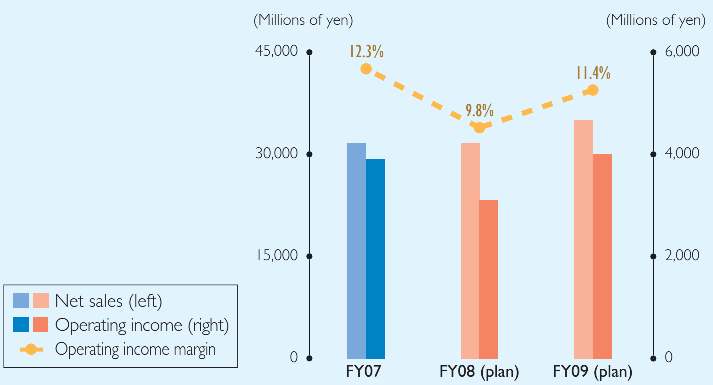
[MARKET TRENDS]



Based on 2006 estimates calculated by Fuji-Keizai

NUTRITIONAL SUPPLEMENTS

[NUTRITIONAL SUPPLEMENTS: PERFORMANCE AND FY2009 TARGETS]



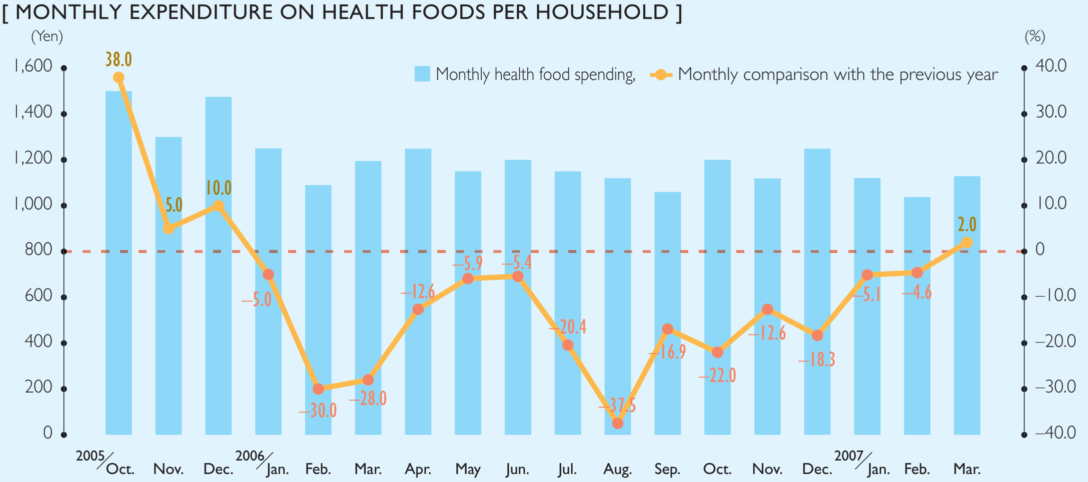
VALUE-ADDED STRATEGIES TARGETING MIDDLE-AGED CONSUMERS

When FANCL entered the Nutritional Supplements Business in 1994, retailers were charging exorbitant prices for supplements. This environment proved a major factor in helping differentiate FANCL's affordably priced, yet high-quality, products. Today, however, with price-based competition on the rise, achieving growth by offering reasonably priced supplements alone is not enough.

In this climate, FANCL is bolstering its product development capabilities in order to make the switch to high-value-added strategies. Fiscal 2007 saw us launch 16 new products as we sped up product development. Sales fell sharply, however, on lower sales performance in product lines outside of beauty- and diet-related products. In fiscal 2008 and beyond, we will develop, upgrade and enhance our currently strong-selling beauty and diet products targeting young women, as well as high-value-added products for middle-aged consumers, differentiated by FANCL's use of select ingredients. At the same time, we will promote a vigorous marketing program in an effort to expand and bolster our customer base.

At present, conditions remain exceptionally tough as the market enters a period of adjustment. Nevertheless, we believe that much more growth is on the horizon for the Japanese market over the medium and long term, as attention turns to preventive medicine as a means to combat metabolic syndrome and other health issues. Backed by advanced R&D capabilities, and leveraging high-value-added products made from scientifically proven proprietary ingredients, we will work to clearly distance FANCL from its competitors in the drive towards a recovery in sales and earnings performance.

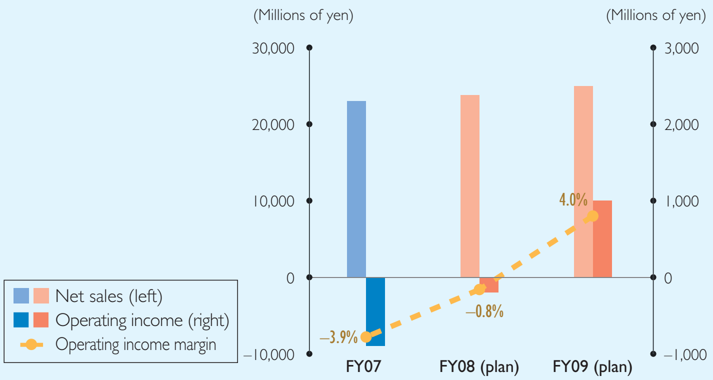
[MONTHLY EXPENDITURE ON HEALTH FOODS PER HOUSEHOLD]



Source: Household expenditure survey conducted by the Ministry of Internal Affairs and Communications

OTHER BUSINESSES

[OTHER BUSINESSES: PERFORMANCE AND FY2009 TARGETS]



RAPIDLY MAKE THE JUMP TO PROFITABILITY

FANCL launched the Germinated Brown Rice Business in 1999, with high hopes of shaping it into a third core business behind Cosmetics and Nutritional Supplements. As a superior food product with outstanding nutritional value, it was believed that this product would contribute heavily to health maintenance in rapidly aging Japan. Since the start of operations, however, this business has yet to turn a profit as harsh market conditions persist. In fiscal 2007, we booked roughly ¥1.0 billion in impairment losses on expectations that all of our investments in this business would be unrecoverable. This has made us keenly aware of the need to quickly turn the corner to profitability in this business.

As a step in this direction, we lowered product prices by 20% in April 2007, in a bid to build a new customer base among those that earlier pricing might have discouraged from purchases. As higher sales volume boosts utilization rates at our factories, we will take steps to find the right balance in marketing expenses. Together, this should improve earnings.

In the Kale Juice Business, where sales had grown steadily since operations commenced in 2000, sales declined for the first time in fiscal 2007 mainly due to increased competition. And as with Germinated Brown Rice, this business too continues to post operating losses. For fiscal 2008 and beyond, the aim is to achieve profitability through production-side rationalization and other cost improvements, since no sharp growth in sales is forthcoming. This business was profitable in the second half of fiscal 2007, which suggests that continued efforts to boost efficiency in production systems and distribution will likely lead to further improvements in earnings.

The IIMONO OHKOKU (Kingdom of Wonderful Things) Mail-Order Business, meanwhile, has posted profits since the second half of fiscal 2005 following benefits gained from major restructuring. In fiscal 2007, sales and earnings grew on robust sales of health-related products, including walking shoes developed jointly with Mizuno Corporation. The number of customers also increased, as did repeat business. Looking ahead, we will continue to spotlight our health-related products as we work to sustain the underpinnings for stable sales and earnings growth.

Sales Channel Strategies

FANCL has three distinct sales channels: mail-order, retail store, and wholesale. Synergies are generated by leveraging the characteristics unique to each in a complementary manner.

MAIL-ORDER SALES (Including Internet Sales)

The unique strengths of FANCL products shine through in this channel, which boasts the highest profit margin among sales channels. Phase 2 will seek to enhance Internet sales.

Divided into catalog and Internet sales, mail-order sales boast the highest profit margin among FANCL's sales channels. In fiscal 2007, sales from this channel accounted for 58.3% of net sales. As the largest sales channel, mail-order sales trends can substantially impact overall earnings.

Mail-order sales in fiscal 2007 declined 1.3% year on year to ¥58,921 million, with sales pulled lower by a slump in nutritional supplements.

FANCL's preservative-free cosmetics are produced under sterile factory conditions, with the manufacture date printed on every product. As a means of allowing FANCL to deliver just-made, fresh products to its customers, the mail-order sales channel is perfectly suited to the distinctive features of FANCL products. Moreover, the sheer convenience of this channel is expected to stimulate further growth in demand. Another key strength of this channel is access to massive customer purchase history data, an advantage not available to major cosmetics firms that sell through sales companies.

Under the Phase 2 plan, FANCL will focus on strengthening mail-order sales, particularly via the Internet. Internet sales have undergone rapid growth in recent years and plans call for them to account for a rising share of mail-order sales, from 32.6% in fiscal 2007, to 35% in fiscal 2009. To achieve this, we will put in place infrastructure designed to strengthen capacity for Internet transactions, security and other areas. We will also raise the level of customer satisfaction by offering skin and health examinations, digital catalogs and other services. Together, these actions will help to support net sales growth.

In catalog sales, the goal is to expand our customer base. This will be achieved by using in-depth analysis of customer data to bolster a customer follow-up system aligned with customer characteristics, taking full advantage of information magazines.

RETAIL STORE SALES

This channel aspires to transcend its role as a showcase for FANCL products to join mail-order sales as a key sales channel. Phase 2 will introduce steps to ensure proper personnel placement and enhance training.

Fancl House J, Yumetown Saga Store

For FANCL, which got its start in mail-order sales, retail stores were first viewed as little more than a channel to complement mail-order sales by showcasing FANCL products. However, this channel has become an exceptionally vital one for FANCL, particularly for cosmetics sales, accounting for 26.5% of net sales in fiscal 2007. By answering the needs of customers wanting to physically inspect and test our products, retail store sales serve as a powerful channel for developing a customer base that mail-order sales cannot.

FANCL strives to create an atmosphere at its retail stores that allows customers to pick up and try products at their own pace, with a relaxed sales approach whereby the sales staff offers advice to customers only when needed.

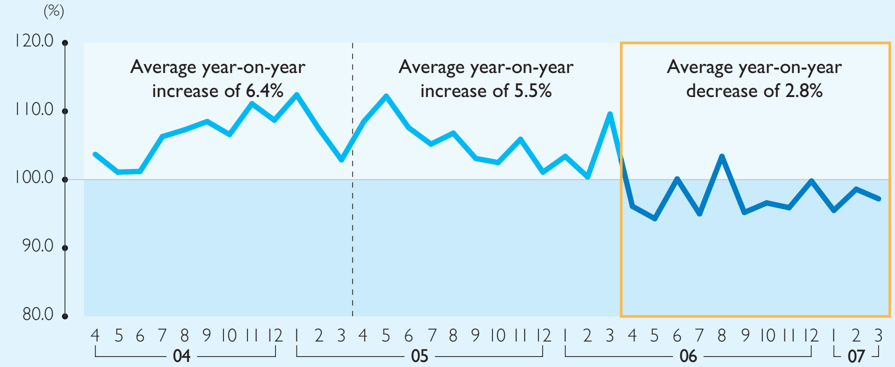
In Phase 1, we sought to expand sales through a focus on strengthening new store expansion and revitalizing existing stores. Through efforts to enhance store visuals and layouts, coupled with the adoption of a new pay structure and a supervisor system, existing stores posted growth on a monthly basis for 24 consecutive months.

The retail sales channel generated sales of ¥26,815 million in fiscal 2007, up 6.9% from the previous fiscal year due to store expansion and other factors. However, sales at existing stores continued to decline year on year, reflecting the sharp drop in sales of nutritional supplements. Lackluster sales at existing stores, in turn, hampered earnings.

One goal of the Phase 2 plan is to enhance profitability in the retail store business. This will entail boosting work productivity through proper personnel placement and other concrete measures. At the same time, we will reinforce customer service and hospitality skills by training a proficient staff with a high degree of specialist knowledge.

As of March 31, 2007, FANCL had 218 retail stores, 10 more than at the end of the previous fiscal year. We will take a careful and deliberate approach to future store openings, with a close eye kept on progress training staff, as we emphasize the opening of high-quality retail stores.

[YEAR-ON-YEAR PERFORMANCE AT EXISTING RETAIL STORES]



Existing retail stores: open for 13 months or longer, including stores that have changed format or been refurbished.

WHOLESALE SALES

Centered on supplements and health foods, this channel is expanding its sales to convenience stores, general merchandise stores and supermarkets, drug stores, and other clients.

Wholesale sales represent FANCL's newest sales channel. Since the launch of sales to convenience stores (CVS) in 1999, this channel has expanded to include general merchandise stores (GMS), supermarkets (SM), and drug stores among its clients.

Buoyed by growth in the number of wholesale clients, sales decreased 1.6% to ¥10,224 million in fiscal 2007, accounting for 10.1% of net sales.

Wholesale sales involve the sale mainly of supplements and health foods to clients already familiar with the brand value of FANCL products. This channel, in fact, is critical to maintaining sales volumes for FANCL vitamins, which are widely recognized for their effectiveness, as well as germinated brown rice and kale juice. Given the evolution of our business based primarily on mail-order sales, we recognize our lack of know-how in the highly competitive wholesale market. To rectify this, we have focused on rapidly gaining strategic capabilities by hiring wholesale specialists and giving more attention to personnel training.

OVERSEAS SALES

Overseas Sales encompass the sale of FANCL products in markets outside of Japan, such as Hong Kong, mainland China, Singapore, Taiwan, the United States, and Thailand.

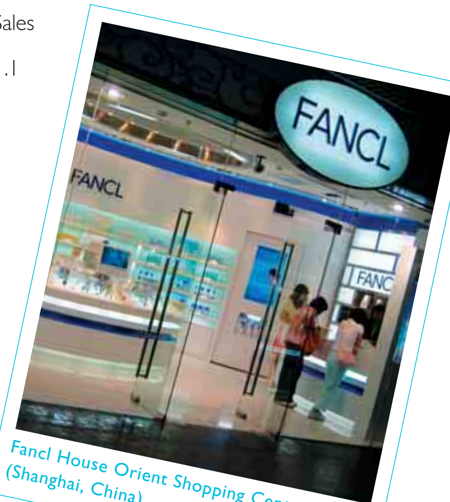
From Hong Kong to the United States, FANCL operates in six countries and regions in Southeast Asia and beyond. In fiscal 2007, sales were roughly ¥11.0 billion on a local retail basis, and are expected to reach ¥16.0 billion in fiscal 2009. Because FANCL operates through sales agents in Hong Kong and mainland China, which make up the bulk of overseas sales, sales in this channel are included on a wholesale basis.

Overseas sales in fiscal 2007 were ¥5,105 million. This represents a year-on-year increase of 24.9% and accounts for 5.1% of net sales.

By region, FANCL's presence is growing in Southeast Asia, where consumer skin is similar to that seen in Japan. This trend reflects greater trust in the concept of preservative-free cosmetics as well as of Japanese product brands.

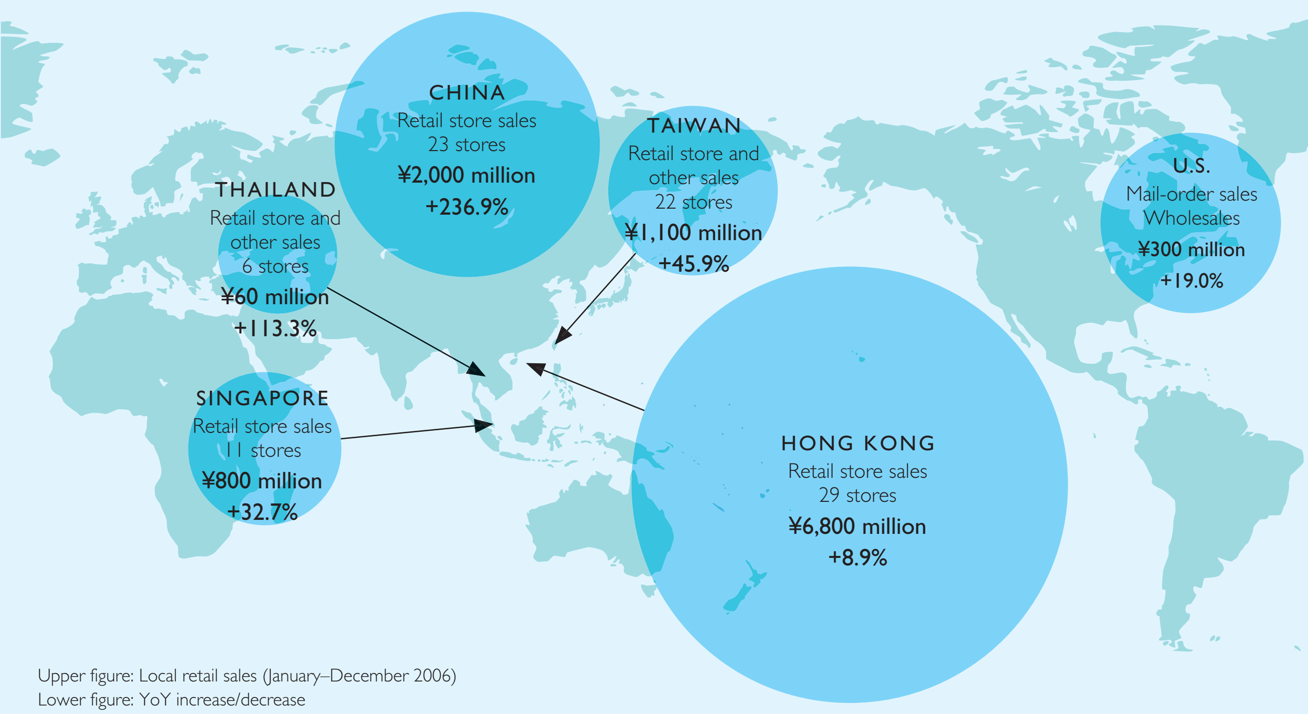
In Asia, China in particular is playing a leading role. As of March 31, 2007, FANCL had opened 25 retail stores since first entering China in September 2004. In department stores in Shanghai and Beijing, home to cosmetics counters that sell some of the world's best-known brands, FANCL House is ranked among the five top-selling brands. Sales are exceptionally firm, with average monthly sales topping ¥1.1 million per store. Plans call for building a network of 50 such stores in China by fiscal 2009.

In the United States, FANCL is promoting BOSCIA as an exclusive brand for the U.S. market. Sales are growing steadily thanks to the positive media attention garnered by the brand. Looking ahead, FANCL will seek to renew its focus on sales and to reduce the cost of sales ratio by promoting local production.



Fancl House Orient Shopping Centre Store (Shanghai, China)

[GLOBAL EXPANSION]



Upper figure: Local retail sales (January–December 2006)
Lower figure: YoY increase/decrease

* Fancl dissolved its distribution agreement in Indonesia in May 2006.

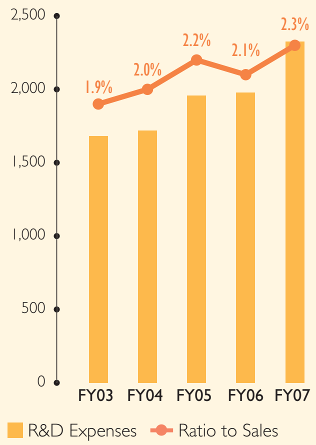
Harnessing the Power of Innovation

FANCL pioneered a new cosmetics market in Japan with the creation of preservative-free cosmetic products. Similarly, we have strived since FANCL was established to propose products built on concepts that defy conventional wisdom with an approach founded on the latest technology. Today, in addition to preservative-free cosmetics, FANCL is marketing a range of other products, from high-quality, yet reasonably priced, supplements to mild-flavored kale juice, and germinated brown rice that can be cooked like white rice.

Underpinning these activities is our corporate philosophy to eliminate negative issues such as dissatisfaction, uncertainty and inconvenience from the world. Developing products that embody this philosophy is the essence of R&D at FANCL, and is the driving force behind FANCL's strengths.

[R&D EXPENSES]

(Millions of yen)



R&D STRUCTURE

FANCL Research Institute functions as the Company's core R&D facility, conducting activities ranging from the search for new materials and product components, to basic research based on a medical perspective and product development aimed at commercialization.

FANCL's R&D structure is composed of roughly 110 researchers, including those with doctorate degrees in fields such as agriculture, pharmaceuticals and other sciences. Joint research is also conducted with external organizations, including universities and materials companies in other industries. Going forward, we intend to hire additional researchers and enact other measures in an effort to further enhance this structure.

Organizationally, FANCL's R&D structure is composed of three research centers: the Cosmetics Faculty, the Health Foods & Supplements Faculty, and the Fundamental Research Faculty. These are joined by a fourth center, the Quality & Safety Research Center, which operates independently of the other three. Newly established in April 2006, the Quality & Safety Research Center is dedicated to further heightening the safety and quality of products that have become synonymous with the FANCL brand.

Concerning intellectual property, FANCL has taken initiatives aimed at strategically acquiring intellectual property, including joining forces with the Intellectual Property Division to establish a Patent Strategy Committee.

Total R&D expenses in fiscal 2007 amounted to ¥2,327 million, consisting of ¥983 million for Cosmetics, ¥1,020 million for Nutritional Supplements, and ¥324 million for Other Businesses.

A PIONEER IN PRESERVATIVE-FREE COSMETICS

"Preservative-free cosmetics" is the general term for cosmetics that do not contain any ingredients known to cause skin allergies, such as preservatives, antibacterial agents, petroleum-based surfactants, perfumes, or mineral oils.

FANCL selects the roughly 450 ingredients used for its products from among over 10,000 cosmetic agents based on its own safety standards. These unique standards are one of the secrets behind the safety and high functionality characteristic of FANCL products.

FANCL conducts repeated and rigorous irritant evaluation trials using the latest three-dimensional skin models based on human skin structure, ultimately culminating in human clinical trials. Through an unwavering commitment to the concept of "preservative free," whereby only formulations that pass these stringent tests can become products, FANCL is dedicated to developing absolutely safe cosmetics.

[R&D-RELATED DATA]

	FY2007	FY2006	FY2005	FY2004	FY2003
R&D Expenses (Millions of yen)	2,327	1,978	1,958	1,720	1,683
Ratio to Sales	2.3%	2.1%	2.2%	2.0%	1.9%
No. of Researchers	111	113	114	103	94
No. of Patent Applications in Japan	41	37	50	48	47

Eliminating Negative Issues in Health and Beauty

▶ Tomoko Tsuji
Executive Officer and Director, General Manager of FANCL Research Institute

PURSUING RESEARCH ON INNER AND OUTER BEAUTY

One of the main features of the FANCL Research Institute is that it simultaneously conducts R&D into both cosmetics and health foods, with a view to promoting inner and outer beauty.

By adopting a two-faceted approach to human beauty that encompasses cosmetic use in parallel with nutritional supplements, germinated brown rice and kale juice, the center pursues research into both inner and outer beauty, striving for better all-around health and attractiveness.

NEW SKIN CARE

September 2007 will witness the launch of new FANCL skin care products. The technology driving these new products is a "moisture holding formula" with two key functional materials added: sweet-pea flower essence and fresh collagen.

Our use of sweet-pea flower essence will mark the first time this material has ever been used as a raw material for cosmetics. One of the major causes of skin aging is exposure to ultraviolet rays. In 2002, the Integrated Research Institute began searching for natural ingredients able to control the damage done by these rays. Sweet-pea flower essence was the outcome of this search. The blossoming and vibrant image that flowers bring to mind was also a perfect match for the eventual use of this material in cosmetics. The results of this research were also announced at academic conferences.

The other new material, "fresh, moist collagen," is another material developed exclusively by FANCL. Collagen is commonly used as a cosmetic ingredient and is found in beauty-enhancing foods. Its beautifying effects come from its role in the structural makeup of human skin. However, FANCL research showed that the molecular structure of collagen begins to break down when repeatedly heated, frozen or melted, detracting from its beneficial effects when applied to the skin.

Rather than refining and freezing collagen immediately after extraction, our solution to this problem was to refrigerate it, preserving the collagen in a state resembling that found in the skin. This innovation enabled us to successfully incorporate the preserved collagen into FANCL's cosmetic products.

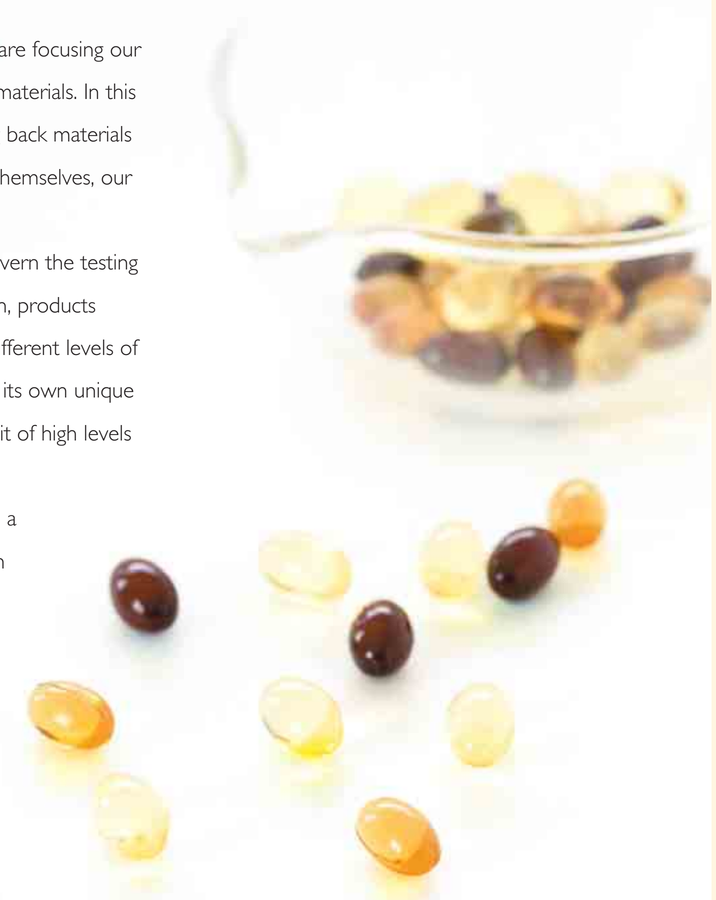
Lastly, there is FANCL's proprietary "moisture holding formula" that uses lecithin to hold in moisturizers and emollients, resulting in long-lasting moisturizing effects.

As these examples attest, our new skin care products are the culmination of a host of distinctive FANCL technologies and research. Without comprising our commitment to safety by avoiding the use of preservative, we are achieving a high degree of functionality. And this is a result that I am sure will satisfy our customers.

NUTRITIONAL SUPPLEMENTS

In the drive to develop original materials for use in supplements, we are focusing our search on never-before-used natural resources as well as traditional materials. In this task, it is not unusual for us to dispatch researchers overseas to bring back materials identified by local tradition for research. In addition to the materials themselves, our emphasis here is on safety and assured quality.

In contrast to pharmaceuticals, Japan presently has no laws that govern the testing of supplements, which is left up to each manufacturer. For this reason, products ostensibly designed to have the same effect may in fact have vastly different levels of effectiveness and safety. This situation prompted FANCL to develop its own unique standards and testing methods, which we strictly evaluate. This pursuit of high levels of safety and functionality is another one of FANCL's strengths.



Specifically, our goal is safety assurance for all FANCL products on a level equivalent to that required when applying for official designation as a product for specified health use in Japan. In addition, we have developed proprietary methods for detecting the mouthfeel of our products, as well as the level of issues like nausea, stomach irritation, or bloating they might cause. We also conduct research to develop new standards and testing methods unique to FANCL by sponsoring medical lectures on biological safety and other topics as part of a pro bono lecture series.

In addition to safety, we also pay close attention to formulation design.* How a supplement is formulated can lead to differences in how it is absorbed internally, even for supplements containing the same ingredients and taken in the same manner. Right now, we are researching formulation designs that allow continuous internal absorption, even when taken in the same amounts, as a form of added value.

** Refers to design of the best form factor (pill, etc.) for promoting internal absorption of active ingredients.*

IMPLEMENTING IDEALS

If FANCL can be thought of as a ship, I see our research centers as the company's bow. As researchers, our task is to look straight ahead to where the company is headed, always keeping the mindset that has defined FANCL since its founding. Going forward, we will continue to propose dependable, safe, and unique products that perfectly mesh with our customers' needs.

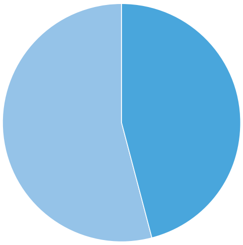
AT A GLANCE

PROPORTION OF TOTAL NET SALES

COSMETICS BUSINESS

PRODUCTS

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

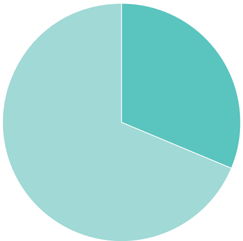


45.9% of Total Net Sales

NUTRITIONAL SUPPLEMENTS BUSINESS

PRODUCTS

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

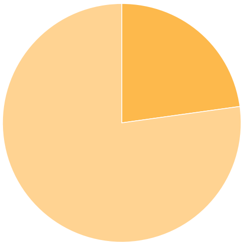


31.3% of Total Net Sales

OTHER BUSINESSES

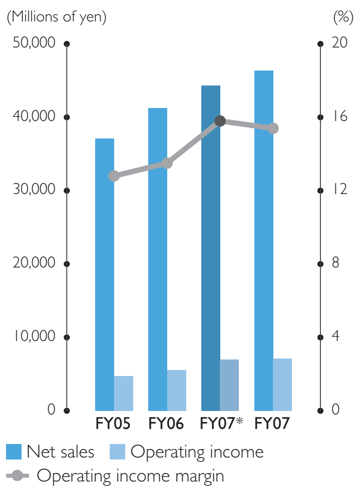
PRODUCTS

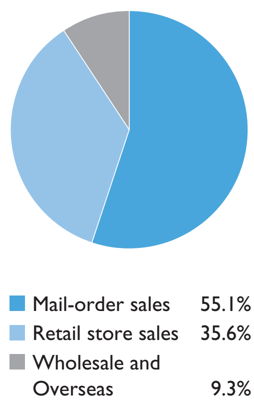
- Germinated brown rice
- Kale juice
- Comfort undergarments
- Health equipment and lifestyle goods



22.8% of Total Net Sales

NET SALES, OPERATING INCOME (LOSS) AND OPERATING INCOME (LOSS) MARGIN	SALES CHANNEL BREAKDOWN	MAJOR DEVELOPMENTS DURING FISCAL 2007 AND STRATEGIC FOCUS FOR FISCAL 2008



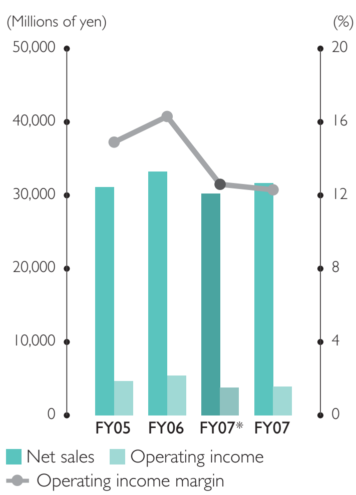


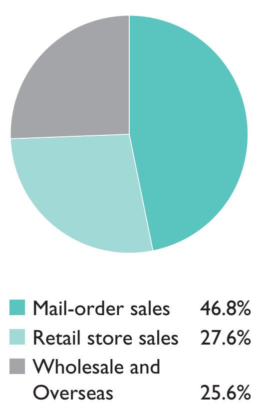
FISCAL 2007 OVERVIEW

FANCL recorded healthy sales of *Mild Cleansing Oil*, *Facial Washing Powder*, and its revamped line of makeup. Meanwhile, the number of customers reached a record high in the ATTENIR brand of reasonable priced, high-quality cosmetics.

STRATEGIES FOR FISCAL 2008

Under the theme, "Preservative-free to Empower Your Skin," FANCL cosmetics will revamp its skin care brand in September 2007. Meanwhile, ATTENIR cosmetics will continue to pursue aggressive marketing activities.



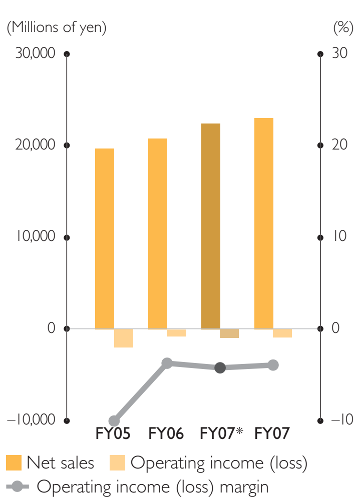


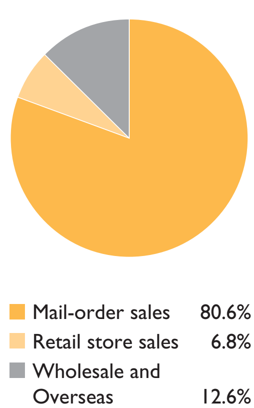
FISCAL 2007 OVERVIEW

Gaps between firms widened as the market entered a period of adjustment. While sales of beauty and diet supplements were strong, they were unable to cover declines in sales of *Co-enzyme* Q_{10} and other products.

STRATEGIES FOR FISCAL 2008

FANCL will reinforce its lineup of supplements for beauty, diet, and middle-aged consumers, and also plans to introduce eight products in this line. May and June will see a revamping of the *Support* series of supplements, and marketing activities by age cohort will also be enhanced.





FISCAL 2007 OVERVIEW

Losses in the Germinated Brown Rice and Kale Juice businesses increased as marketing-related costs grew. Impairment losses of ¥981 million were booked for germinated brown rice production equipment. Meanwhile, the IIMONO OHKOKU (Kingdom of Wonderful Things) mail-order business continued to deliver sales and earnings growth.

STRATEGIES FOR FISCAL 2008

In the Germinated Brown Rice Business, prices were cut by 20% in April 2007 in a bid to spur sales growth. In the Kale Juice Business, FANCL will raise efficiency in the production system and use of distribution costs to enhance profitability. These and other efforts will target a reduced loss overall in Other Businesses.

Note: From fiscal 2007, FANCL revised accounting standards regarding its points system for customers. For more details, see page 33.

COSMETICS BUSINESS

1. FANCL
   Mild Cleansing Oil
2. FANCL
   Make up products
3. ATTENIR
   Moisture Lotion


1.


2.


3.

[COSMETICS BUSINESS PERFORMANCE AND TARGETS]

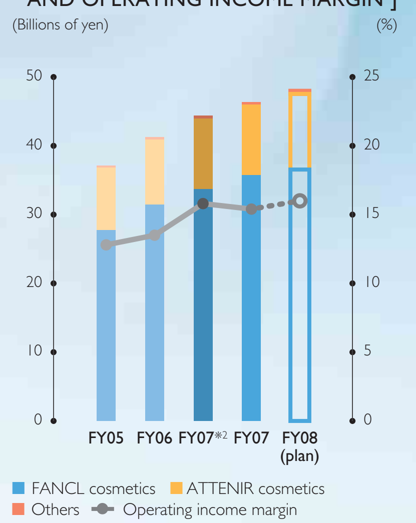
	Millions of yen				
	2008 (plan)	2007	2007*2	2006	2005
Net sales	*48,000*	**46,376**	44,366	41,287	37,098
FANCL cosmetics	*36,550*	**35,692**	33,682	31,406	27,759
ATTENIR cosmetics	*11,000*	**10,283**	10,283	9,518	9,042
Others	*450*	**401**	401	361	297
Gross profit	*36,300*	**34,866**	32,856	30,655	27,592
Gross profit margin	*75.6%*	**75.2%**	74.1%	74.2%	74.4%
Selling, general and administrative expenses	*28,600*	**27,733**	25,865	25,087	22,847
Advertising expenses	*5,100*	**4,527**	4,528	5,464	5,073
Operating income	*7,700*	**7,133**	6,991	5,568	4,745
Operating income margin	*16.0%*	**15.4%**	15.8%	13.5%	12.8%

	Customers		
Number of active customers*1 at fiscal year-end:			
FANCL cosmetics (Mail-order and retail store)	**1,408,423**	1,410,016	1,157,014
ATTENIR cosmetics (Mail-order)	**490,231**	453,290	432,200

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

*2 *From fiscal 2007, FANCL revised accounting standards regarding its points system for customers. For more details, see page 33.*

[COSMETICS BUSINESS NET SALES AND OPERATING INCOME MARGIN]



FISCAL 2007 RESULTS

Cosmetics sales increased 7.5% compared to the previous fiscal year, reaching ¥46,376 million.

Sales of FANCL cosmetics increased 7.2% to ¥35,692 million, supported by continued strength in sales of skin care products such as *Mild Cleansing Oil, Facial Washing Powder*, and *Beauty Concentrate*, along with sales increases resulting from the renewal of makeup products in August.

Sales of ATTENIR cosmetics increased 8.0% to ¥10,283 million, with positive results from the renewal of skin care products, and good sales of makeup products and body care products resulting from new product launches. Active marketing activities contributed to a steady increase in customer numbers.

Sales increased through all sales channels. Mail order sales increased 1.9% year on year, reaching ¥25,573 million. Retail store sales increased 13.3% to ¥16,504 million, supported by the opening of new stores. Sales through other sales channels increased 22.7% to ¥4,299 million, with good results from overseas sales.

Operating income increased 25.6% to ¥7,133 million, due to higher revenues and the effect of measures to boost efficiency with regard to advertising and marketing costs. The operating income margin increased 2.3 percentage points to 15.4%.

OUTLOOK AND STRATEGIES

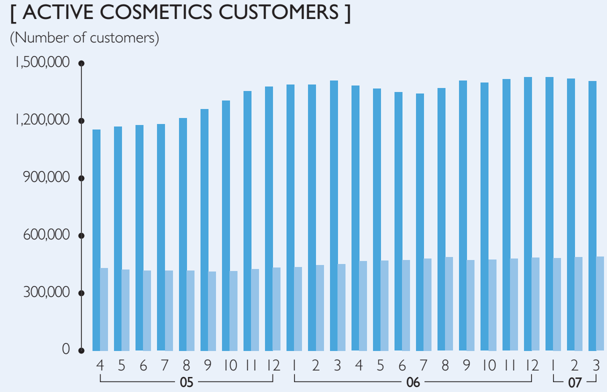
In the Cosmetics Business, FANCL will give more attention to the development of competitive products with enhanced functionality, guided by CC Plan Phase 2. To this end, FANCL cosmetics will revamp its core skin care brand in fiscal 2008. Using a unique formula of fresh, active ingredients, the brand will be redefined as a preservative-free line of products that empower the skin and have an effectiveness that customers can actually feel. The number of customers and sales are expected to increase as FANCL bolsters marketing activities in tandem with this brand restructuring.

For ATTENIR cosmetics, higher sales are likely atop the continued healthy growth expected in sales of skin care products revamped in the previous year.

In terms of income, the operating income margin is projected to rise mainly in line with anticipated growth in high-margin skin care products in the overall sales mix.

As a result, FANCL is aiming for sales in this business of ¥48.0 billion (up 3.5% year on year), operating income of ¥7.7 billion, and an operating income margin of 16.0% for fiscal 2008.

[ACTIVE COSMETICS CUSTOMERS]



Number of active mail-order and retail store customers (FANCL cosmetics)
Number of active mail-order customers (ATTENIR cosmetics)

NUTRITIONAL SUPPLEMENTS BUSINESS

1. HTC* Collagen
2. Calorie Limit
3. Blackened Garlic

* HTC:
High Tripeptide Containing

1.

2.

3.

[NUTRITIONAL SUPPLEMENTS BUSINESS PERFORMANCE AND TARGETS]

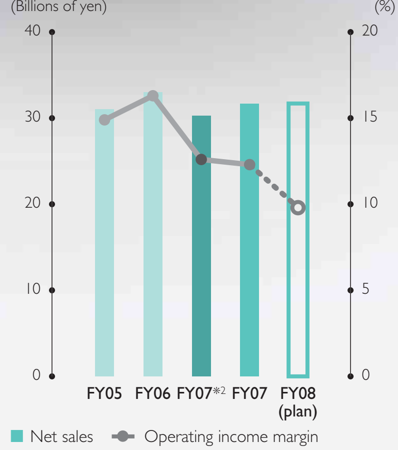
	Millions of yen				
	2008 (plan)	2007	2007*2	2006	2005
Net sales	*31,700*	31,666	30,271	33,246	31,132
Gross profit	*21,100*	20,708	19,313	20,829	20,623
Gross profit margin	*66.6%*	65.4%	63.8%	62.7%	66.2%
Selling, general and administrative expenses	*18,000*	16,805	15,509	15,424	15,985
Advertising expenses	*2,700*	2,130	2,129	1,835	3,291
Operating income	*3,100*	3,903	3,804	5,405	4,638
Operating income margin	*9.8%*	12.3%	12.6%	16.3%	14.9%

		Customers			
Number of active customers*1 at fiscal year-end:					
Mail-order and retail store		1,103,573		1,171,800	1,114,282

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

*2 *From fiscal 2007, FANCL revised accounting standards regarding its points system for customers. For more details, see page 33.*

[NUTRITIONAL SUPPLEMENTS BUSINESS NET SALES AND OPERATING INCOME MARGIN]



FISCAL 2007 RESULTS

Nutritional supplement sales decreased 9.0% year on year to ¥31,666 million.

Sales of *HTC Collagen* and other beauty supplements were strong, as were sales of diet-related products such as *Perfect Slim* α and *Calorie Limit*. However, this was not sufficient to compensate for the fall in sales of *Co-enzyme* Q_{10} and *Alpha Lipoic Acid*, which in the previous year had achieved record sales levels. In addition, sales of herbal products and support series products were sluggish, impacted by the circulation of market rumors.

Mail order sales decreased 17.2% to ¥14,800 million. Retail store sales decreased by 2.0% to ¥8,749 million. Sales through other sales channels increased 1.1% to ¥8,117 million, supported by strong overseas sales.

Operating income decreased 29.6% to ¥3,903 million, due to the large decline in sales through the high-margin mail order sales channel. The operating income margin decreased 3.7 percentage points to 12.3%.

OUTLOOK AND STRATEGIES

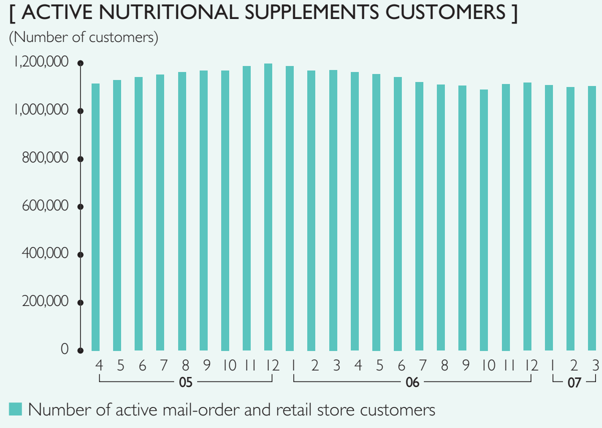
Severe market conditions are likely to persist in fiscal 2008, exacerbated by stiffening competition and government-issued guidelines.

In line with CC Plan Phase 2, FANCL will bolster the development of premium, high-value-added products targeting customers over 40, a customer segment where FANCL's share of the Nutritional Supplements Business' market is currently low. At the same time, FANCL will reinforce its presently strong-selling beauty- and diet-related products targeting young women. The number of customers in this business is expected to increase as FANCL pursues in-depth marketing activities tailored to specific age cohorts.

In terms of income, while the cost of sales ratio will fall due to the switch to domestically produced raw materials for use in *Co-enzyme* Q_{10}, earnings are likely to decline as a result of higher marketing costs.

For this business, FANCL is aiming for sales of ¥31.7 billion (up 0.1% year on year), operating income of ¥3.1 billion, and an operating income margin of 9.8%.

[ACTIVE NUTRITIONAL SUPPLEMENTS CUSTOMERS]



OTHER BUSINESSES

1. Germinated Brown Rice
2. Kale Juice
3. IIMONO OHKOKU mail-order catalogs

1.

2.

3.

[OTHER BUSINESSES PERFORMANCE AND TARGETS]

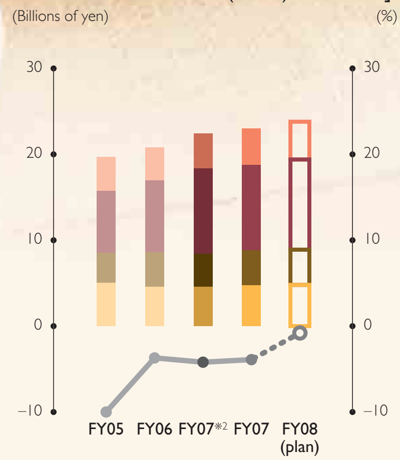
	Millions of yen				
	2008 (plan)	2007	2007*2	2006	2005
Net sales	*23,800*	23,023	22,427	20,789	19,707
Germinated brown rice	*4,800*	4,761	4,561	4,549	5,026
Kale juice	*4,100*	4,055	3,873	4,029	3,524
IIMONO OHKOKU (Mail-order)	*10,500*	9,940	9,940	8,403	7,153
Others	*4,400*	4,267	4,053	3,805	4,002
Gross profit	*11,800*	11,595	10,999	10,597	9,689
Gross profit margin	*49.6%*	50.4%	49.0%	51.0%	49.2%
Selling, general and administrative expenses	*12,000*	12,493	11,939	11,359	11,656
Advertising expenses	*2,500*	2,736	2,736	2,492	2,740
Operating income (loss)	*(200)*	(898)	(940)	(762)	(1,967)
Operating income (loss) margin	*(0.8%)*	(3.9%)	(4.2%)	(3.7%)	(10.0%)

	Customers				
Number of active customers*1 at fiscal year-end:					
Germinated brown rice (Mail-order)		214,833		240,323	236,304
Kale juice (Mail-order)		92,155		125,331	99,564

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

*2 *From fiscal 2007, FANCL revised accounting standards regarding its points system for customers. For more details, see page 33.*

[OTHER BUSINESSES NET SALES AND OPERATING INCOME (LOSS) MARGIN]



FISCAL 2007 RESULTS

Sales in Other Businesses increased 7.9% year on year to ¥23,023 million.

In the Germinated Brown Rice Business sales increased 0.2 % year on year to ¥4,761 million, with strong sales in the first half driven in part by publicity on health-related television shows, but poor sales in the second half of the year. In the Kale Juice Business, sales decreased 3.9% to ¥4,055 million, with sales of both frozen and powder-type kale juice declining despite active marketing efforts. Sales through the IIMONO OHKOKU Mail-Order Business increased 18.3% year on year to ¥9,940 million, supported by continued strong sales of walking shoes developed jointly with Mizuno Corporation, along with good sales of golfing equipment. Sales at other businesses, such as household goods and clothing, increased 6.5% to ¥4,267 million.

An operating loss of ¥898 million was recorded, ¥178 million more than in the previous year, primarily due to increased losses in the Germinated Brown Rice and Kale Juice businesses.

OUTLOOK AND STRATEGIES

Under the CC Plan Phase 2, FANCL's eventual goal is to achieve profitability in Other Businesses.

In fiscal 2008, the second year of CC Plan Phase 2, FANCL aims to reduce losses by taking steps to improve profitability in the Germinated Brown Rice and Kale Juice businesses.

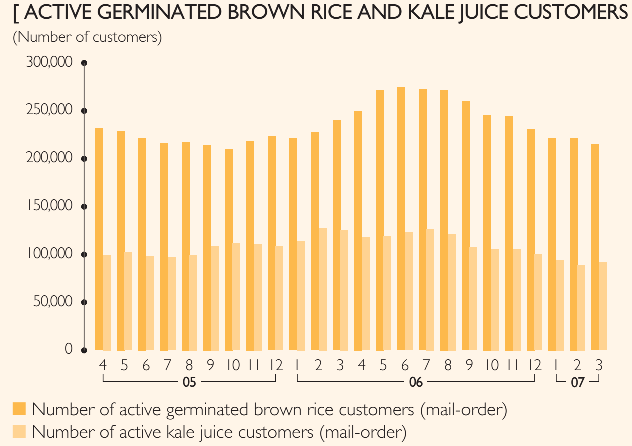
In the Germinated Brown Rice Business, FANCL lowered sales prices by 20% in April 2007 in a bid to grow sales for use in processed foods and food services, where previous pricing had proven a barrier to expansion. Although capacity utilization rates at factories in this business were at 50% prior to this price reduction, these rates are set to rise atop the anticipated increase in sales volume. The business is expected to break-even in fiscal 2008 due to the absence of impairment losses of ¥981 million posted in fiscal 2007 and curbing of marketing costs.

In the Kale Juice Business, profitability is expected due to improved efficiency in production and distribution. FANCL will also bolster sales of powder-type products.

In the IIMONO OHKOKU Mail-Order Business, FANCL will strive to enhance its product line and customer base, as well as increase sales. Efforts will also be made to improve profit margins to ensure a sustainable turn to profitability.

For Other Businesses as a whole, FANCL is forecasting sales in fiscal 2008 of ¥23.8 billion (up 3.4% year on year), and an operating loss of ¥0.2 billion in light of losses from FANCL Square in Ginza, Tokyo, and other factors.

[ACTIVE GERMINATED BROWN RICE AND KALE JUICE CUSTOMERS]



FANCL regards the enhancement of corporate governance as an important management issue in gaining the trust of shareholders and other stakeholders. Our basic policy is to achieve business efficiency and transparency through rigorous adherence to corporate ethics and relevant laws, and through the establishment of an internal control system, including risk management.

Corporate Governance Structure:

EXECUTIVE OFFICER SYSTEM

FANCL introduced the executive officer system in June 1999 to ensure the separation of the supervisory and executive functions of management. In 2004, we terminated the system of appointing directors to posts with operational responsibilities, instead appointing executive officers to serve in these posts. In 2005, the term of office of a director was shortened to one year from two years to create an optimal management structure capable of responding flexibly to changes in the business environment.

BOARD OF DIRECTORS

The Board of Directors consists of 14 directors, including 2 outside directors. The Board's role is to make decisions on important operating issues and other statutory matters and to provide management oversight of the operations of FANCL and its subsidiaries on the basis of reports from managers and auditors.

MANAGEMENT CONFERENCE

Comprising directors and executive officers, the Management Conference screens matters to be decided by the Board of Directors in advance and deliberates on important management issues within the bounds of authority determined by the Board of Directors.

CORPORATE AUDITORS

FANCL has adopted a corporate auditor system anchored by 4 corporate auditors, all of whom are from outside the Company. The corporate auditors attend all meetings of the Board of Directors, Management Conference and other important meetings, and regularly exchange opinions with senior management to ensure appropriate management oversight.

ACCOUNTING AUDITOR

FANCL has appointed Ernst & Young ShinNihon to be its accounting auditor and provide objective advice regarding accounting matters.

RETIREMENT ALLOWANCE SYSTEM FOR DIRECTORS ABOLISHED

In June 2006, as part of reforms to the director compensation system, the Company abolished its retirement allowance system for directors because of its low correlation with company performance and strong seniority-oriented nature. FANCL has just replaced the old system with a stock option incentive scheme.

ACTIVITIES OF OUTSIDE DIRECTORS (FY2007)

Yoshiharu Hayakawa

Attended 14 of the 21 meetings of the Board of Directors held during the fiscal year; primarily offered objective statements grounded in specialist knowledge gained as a management consultant and CPA, and his extensive experience as a director and corporate auditor.

Masakazu Iwakura

Of the 21 meetings of the Board of Directors held during the fiscal year, attended all 16 meetings convened after his election as director; primarily offered statements that reflect specialist knowledge from his years as a lawyer.

FISCAL 2007 COMPENSATION PACKAGES FOR DIRECTORS AND CORPORATE AUDITORS

(¥ millions)

Type of recipient	Number of recipients	Amount paid
Directors (Outside directors)	11 (2)	270 (10)
Corporate Auditors (Outside auditors)	4 (4)	47 (47)
Total	15	318

* *"Amount paid" includes Compensation from stock options : 9 directors ¥58 million (2 outside directors: ¥0)*

Internal Control System: Basic Stance and Current Status

BASIC STANCE

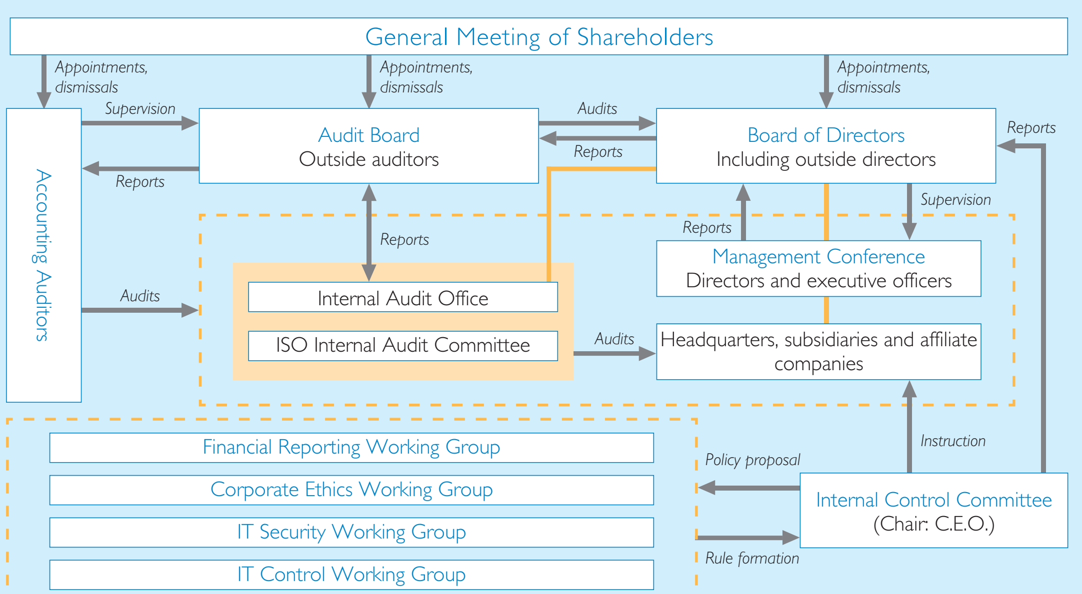
In April 2006, FANCL formulated a basic policy regarding the development of a system of internal controls. This was followed by the establishment of an Internal Control Committee, chaired by the president and CEO, which enacts initiatives aimed at strengthening the Company's system of internal controls.

CURRENT STATUS

Four working groups were established under the Internal Control Committee—Financial Reporting, Corporate Ethics, IT Security and IT Control. These working groups are promoting stronger corporate governance mainly by building up FANCL's system of internal controls.

FANCL has also formulated the FANCL Group Standards of Conduct, a code of conduct observed by all employees and aimed at ensuring thorough legal and regulatory compliance. Furthermore, the Company has introduced a "helpline" system to assist in the early discovery and

[CORPORATE GOVERNANCE SYSTEM]



correction of any conduct that may violate regulations and laws.

The Internal Audit Office and members of the ISO Internal Audit Committee work together in auditing business execution in the Company's divisions. Audit findings and the status of improvement based on recommendations are reported to the corporate auditors.

INVESTOR RELATIONS

FANCL is committed to disclosing information to shareholders and other stakeholders in a timely, appropriate, and speedy manner to improve management transparency.

1) PROMOTION OF SPEEDY AND FAIR DISCLOSURE

In accordance with FANCL's disclosure policy, we disclose monthly sales data in a timely manner and strive to announce financial results as soon as possible after the end of the fiscal year. Our goal in doing so is to preserve both the trust that investors have placed in FANCL, as well as the fair and transparent disclosure of company data. Information on financial results is uploaded to the IR section of our website as promptly as possible after official announcement of business results. We are also striving toward fair disclosure to help narrow the information disparity among stakeholders by, among other measures, offering webcasts of information meetings held for analysts and institutional investors.

Our IR activities are not limited to the domestic investor base. Top management representatives make individual calls on European and U.S. investors once a year.

2) INTERNET-BASED EXECUTION OF VOTING RIGHTS AVAILABLE

As another example of how we are utilizing the Internet to enhance shareholder convenience, online voting was made available from the June 2004 General Meeting of Shareholders as an alternative to the execution of voting rights by means of conventional mail.

FOR FURTHER INFORMATION, PLEASE CONTACT:

INVESTOR RELATIONS GROUP
Tel: +81(45)226-1470
Fax: +81(45)226-1202
http://www.fancl.co.jp
e-mail:official@fancl.co.jp

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

DIRECTORS AND OFFICERS

(As of June 17, 2007)

▶ KENJI FUJIWARA
Chairman and Director

▶ KAZUYOSHI MIYAJIMA
C.E.O. and Representative Director

▶ TSUYOSHI TATAI
C.O.O. and Representative Director

▶ YOSHIFUMI NARIMATSU
Senior Executive Officer and Director

Chairman and Director

Kenji Fujiwara

C.E.O. and Representative Director

Kazuyoshi Miyajima

C.O.O. and Representative Director

Tsuyoshi Tatai

Senior Executive Officer and Director

Yoshifumi Narimatsu

Managing Executive Officers and Directors

Yukio Ikemori
Mitsuru Nishikawa

Executive Officers and Directors

Toshinori Ryuchi
Akira Yajima
Kazuyuki Shimada
Tomoko Tsuji
Kenichi Sugama

Director

Jyunji Iida

Outside Directors

Yoshiharu Hayakawa
Masakazu Iwakura

Executive Officers

Haruki Murakami
Noburou Katase
Tomochika Yamaguchi
Takahiro Kase
Minako Yamaoka

Outside Statutory Auditors

Taiji Yamada
Fumiko Ikeda
Katsunori Koseki
Akira Tobishima

CORPORATE SOCIAL RESPONSIBILITY

From supporting the independence of people with mental disabilities to living in partnership with local communities, FANCL is actively involved in a variety of activities that contribute to society and protect the natural environment. In implementing these programs, our commitment to meeting FANCL's corporate social responsibility (or CSR) is always foremost in mind.

SUPPORT FOR PEOPLE WITH DISABILITIES

FANCL SMILE Expands Employment Opportunities for Persons With Intellectual Disabilities

In February 1999, FANCL established FANCL SMILE Co., Ltd., a non-consolidated special subsidiary dedicated to promoting the employment of persons with disabilities. At March 31, 2007, the company employed 35 people with intellectual disabilities. While operations revolved mainly around packaging work for products up through fiscal 2006, this scope was expanded to include work in sales and customer service during fiscal 2007. Over the medium to long term, we aim to steadily improve this company's performance, helping to encourage other firms to employ more persons with intellectual disabilities.

Relationship With "Homon no Ie" Social Welfare Corporation

Our 20-year relationship with "Homon no Ie," Japan's first day care facility for people with severe and multiple disabilities, nearly spans FANCL's existence as a company. From sponsoring banquets to assisting with bazaars and other activities, the scope of our involvement with the facility evolves each year. As part of programs to allow shareholders to join in making a social contribution, we donated ¥1.08 million to the facility on behalf of 108 FANCL shareholders in fiscal 2007.

CONTRIBUTING TO COMMUNITIES

Makeup Seminar Promotes Exchange With Local Communities

To bring FANCL technology to life in local communities, our staff traveled to facilities for the elderly and schools for the disabled to offer free lectures on cosmetics, makeup and other topics. In fiscal 2007, 70 employees took part in seminars attended by some 400 people.

Contributing to the Local Community Through Wind Power Generation

FANCL is involved in the wind power business proposed as part of environmental measures by the city of Yokohama. The wind power generation project is just one initiative the city has taken to encourage the use of natural energy and to combat global warming. Launched in March 2007, the business generates roughly 300kW of electricity a year, enough to power around 860 average households.

ENVIRONMENTAL PROTECTION ACTIVITIES

Designing Environmentally Friendly Products and Services

Avoiding unnecessary packaging is a foremost consideration in the design of all FANCL products. Boxes used for cosmetics are made either from recycled paper or paper from non-wood sources. In November 2002, we obtained ISO 14001 certification for our environmental management systems. And in fiscal 2007, we worked to better conserve energy by making our manufacturing processes more efficient, and took steps to reduce waste through improvements to product containers.

Reducing CO_2 Emissions

We are implementing various measures to reduce CO_2 at each of our factories. In fiscal 2007, we installed air conditioning units with superior running costs at the Yokohama Factory, a move that will enable us to cut annual CO_2 emissions by 26 tons. Other efforts to further reduce environmental impact include FANCL's participation in an energy conservation campaign promoted by the Ministry of the Environment, and the creation of rooftop gardens.

FINANCIAL SECTION

TEN-YEAR SUMMARY

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31

	Millions of yen					
	2007	2007*	2006	2005	2004	2003
For the year:						
Net sales	¥101,065	¥97,064	¥ 95,322	¥87,937	¥84,957	¥90,026
Cosmetics	46,376	44,366	41,287	37,098	34,926	37,155
Nutritional supplements	31,666	30,271	33,246	31,132	29,656	29,211
Others	23,023	22,427	20,789	19,707	20,375	23,660
Net sales, by sales channel						
Mail-order sales	58,921	56,501	57,237	54,544	54,439	59,334
Retail store sales	26,815	25,234	23,607	20,067	17,722	17,744
Wholesale and overseas	15,329	15,329	14,478	13,326	12,796	12,948
Gross profit	67,170	63,169	62,083	57,905	55,696	58,982
Gross profit margin (%)	66.5	65.1	65.1	65.8	65.6	65.5
Selling, general and administrative expenses	58,800	55,082	53,508	52,477	47,927	47,456
Selling, general and administrative expense ratio (%)	58.2	56.7	56.1	59.7	56.4	52.7
Operating income (loss)	8,370	8,087	8,575	5,428	7,769	11,526
Cosmetics	7,133	6,991	5,568	4,745	6,283	8,099
Nutritional supplements	3,903	3,804	5,405	4,638	5,371	6,879
Others	(898)	(940)	(762)	(1,967)	(1,821)	(1,646)
Operating income margin (%)	8.3	8.3	9.0	6.2	9.1	12.8
Net income	2,547	2,547	5,184	1,710	3,387	6,429
Net income to net sales (%)	2.5	2.6	5.4	1.9	4.0	7.1
ROE (%)	3.6	3.6	7.5	2.6	5.1	9.8
Advertising expenses	¥ 9,393	¥ 9,393	¥ 9,792	¥11,105	¥ 9,865	¥ 9,262
Sales promotion expenses	13,502	9,784	9,319	9,475	7,998	8,615
Research and development expenses	2,327	–	1,978	1,959	1,720	1,683
Capital expenditures	3,865	–	2,592	2,257	4,864	5,397
Depreciation	2,670	–	2,540	2,463	2,556	2,268
Net cash provided by operating activities	¥ 6,472	–	¥ 9,163	¥ 4,638	¥ 5,861	¥ 9,828
Net cash used in investing activities	(1,734)	–	(10,280)	(4,807)	(4,117)	(5,582)
Net cash provided by (used in) financing activities	(2,495)	–	(22)	(1,090)	(4,533)	(5,432)
Net (decrease) increase in cash and cash equivalents	2,243	–	(1,139)	(1,254)	(2,809)	(1,213)

	Yen					
Per share:						
Net income	¥ 39.6	–	¥ 242.6	¥ 80.3	¥ 154.6	¥ 279.5
Equity *(Note 2)*	1,116.6	–	3,317.0	3,111.2	3,082.4	2,976.3
Cash dividends	24.0	–	55.0	50.0	42.5	35.0

	Millions of yen					
At year-end:						
Total assets	¥ 86,931	–	¥ 85,148	¥79,416	¥78,479	¥79,804
Equity *(Note 2)*	71,449	–	71,406	66,203	65,613	66,350
Equity ratio (%)	82.2	–	83.9	83.4	83.6	83.1
Interest-bearing debt	–	–	–	–	–	350
Working capital	36,701	–	33,037	28,622	29,214	29,805
Number of stores	218		208	169	143	144
Number of consolidated subsidiaries	6		6	6	6	6

2002	2001	2000	1999	1998
¥84,657	¥65,418	¥62,980	¥54,475	¥45,429
36,748	35,669	38,039	35,891	31,095
28,995	25,408	21,898	17,180	13,056
18,914	4,341	3,043	1,404	1,279
56,821	43,360	45,942	43,573	39,491
17,073	15,632	14,143	10,425	5,278
10,763	6,426	2,893	474	660
56,682	47,034	44,969	40,384	32,822
67.0	71.9	71.4	74.1	72.2
45,564	38,402	33,426	29,685	25,012
53.9	58.7	53.1	54.5	55.0
11,118	8,632	11,543	10,699	7,810
8,406	8,320	10,712	10,206	8,138
5,960	4,694	3,587	3,461	2,546
(1,681)	(2,532)	(641)	(631)	(321)
13.1	13.2	18.3	19.6	17.2
5,995	4,867	6,723	4,730	3,635
7.1	7.4	10.7	8.7	8.0
9.7	8.5	15.3	16.8	17.2
¥10,213	¥ 8,896	¥ 6,081	¥ 6,825	5,071
8,161	5,810	5,615	5,019	3,664
1,524	1,294	1,302	764	562
3,589	2,727	7,138	9,872	6,232
2,245	2,379	2,424	1,406	1,334
¥ 7,426	¥ 6,083	¥ 5,681	–	–
(5,416)	(4,838)	(7,736)	–	–
(2,456)	(1,410)	13,006	–	–
(437)	(162)	10,949	–	–

¥ 307.6	¥ 249.8	¥ 459.5	¥ 457.7	¥ 396.9
3,320.2	3,051.4	3,678.9	2,944.0	2,357.0
25.0	25.0	30.0	25.0	20.0

¥79,026	¥75,481	¥67,657	¥49,399	¥36,833
64,719	59,482	55,146	32,761	23,335
81.9	78.8	81.5	66.3	63.4
1,092	3,086	2,780	5,052	3,828
31,082	28,456	29,219	12,934	9,178

133	138	85	64	48
4	3	2	2	2

NOTES:

1. As a service to customers, FANCL operates a points system whereby they are refunded 5% of their mail order or FANCL retail store purchases (inclusive of tax) as reward points. Customers can redeem these points, with 1 point equal to 1 yen, toward future purchases.

   Through fiscal 2006, these points were recognized as a cost when used and deducted from sales as an effective discount. However, from fiscal 2007 points will be booked as selling, general and administrative (SG&A) expenses when they are issued to customers. Accordingly, while amounts related to this points system in fiscal 2006 and prior years were charged as extraordinary losses, amounts associated with this change were booked as SG&A expenses in fiscal 2007.

   Compared to the previous accounting method, this change resulted in increases of ¥4,000 million in net sales, ¥3,717 million in SG&A expenses, and ¥283 million in ordinary income, as well as a decrease of ¥1,849 million in income before income taxes in fiscal 2007.

   As for operating results for fiscal 2007, the impact of the aforementioned change in accounting standards will be excluded from actual changes for line items from net sales through operating income.

   (Reference) An asterisk (*) indicates amounts for which the same accounting standard as in the previous consolidated fiscal year applies.

2. Presented as shareholders' equity until fiscal 2006. Presented as equity from fiscal 2007 due to a change in accounting standards.

QUARTERLY FINANCIAL AND STOCK INFORMATION/MONTHLY SALES DATA

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31

	Millions of yen							
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2007	2006	2007	2006	2007	2006	2007	2006
Net sales	¥24,276	¥22,960	¥23,704	¥22,806	¥26,243	¥26,284	¥22,841	¥23,272
Cosmetics	10,848	9,992	10,808	9,745	11,962	11,293	10,748	10,257
Nutritional supplements	7,663	8,233	7,467	8,291	8,027	8,954	7,114	7,768
Others	5,765	4,735	5,429	4,770	6,254	6,037	4,979	5,247
Net sales, by sales channel:								
Mail-order sales	14,333	14,056	13,439	13,253	15,667	16,199	13,062	13,729
Retail store sales	6,067	5,621	6,279	5,753	6,622	6,226	6,266	6,007
Others	3,876	3,283	3,986	3,800	3,954	3,859	3,513	3,536
Operating income	1,261	3,288	1,416	884	3,073	3,409	2,337	994
Cosmetics	1,506	2,069	977	292	2,396	2,230	2,112	977
Nutritional supplements	831	1,652	1,183	1,129	807	1,550	983	1,074
Others	(623)	18	(313)	(157)	252	62	(256)	(685)
Net income (loss)	¥ 818	¥ 1,878	¥ 763	¥ 455	¥ 2,021	¥ 2,175	¥(1,055)	¥ 676

	Yen							
Stock Price Range								
High	¥ 2,470	¥ 1,483	¥ 1,861	¥ 1,923	¥ 1,805	¥ 2,150	¥ 1,936	¥ 2,837
Low	1,750	1,257	1,482	1,483	1,497	1,773	1,628	2,070

Monthly sales

	Millions of yen											
	2006									2007		
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Cosmetics	¥3,602	¥3,728	¥3,518	¥3,547	¥3,547	¥3,714	¥3,672	¥4,347	¥3,943	¥3,449	¥3,383	¥3,916
YoY increase	9.5%	8.9%	7.4%	9.5%	11.5%	11.7%	8.8%	9.3%	0.1%	10.3%	3.0%	1.9%
Nutritional supplements	2,460	2,550	2,653	2,467	2,445	2,555	2,439	2,685	2,903	2,283	2,312	2,519
YoY decrease	(8.9%)	(4.2%)	(7.7%)	(10.1%)	(4.6%)	(14.4%)	(15.3%)	(6.7%)	(9.2%)	(11.1%)	(4.0%)	(9.7%)
Others	1,721	1,975	2,069	1,990	1,684	1,755	1,884	2,214	2,156	1,621	1,692	1,666
YoY increase (decrease)	14.1%	25.6%	25.1%	20.3%	9.2%	11.5%	5.5%	0.1%	5.8%	(5.5%)	(6.5%)	(3.4%)
Total	7,783	8,253	8,240	8,004	7,676	8,024	7,995	9,246	9,002	7,353	7,387	8,101
YoY increase (decrease)	3.8%	7.8%	5.6%	4.8%	5.4%	1.8%	(0.6%)	2.0%	(1.9%)	(0.8%)	(1.5%)	(3.1%)

(Note) In fiscal 2007, FANCL changed its accounting standard for the treatment of customer reward points at the end of the fiscal year. Accordingly, no changes were made to accounting methods regarding the calculation of points on a monthly or quarterly basis. This has resulted in a discrepancy between monthly and quarterly point totals and point figures for the full year.

Changes to Accounting Standards

From fiscal 2007, FANCL revised accounting standards regarding its points system for customers. For more details, see page 33.

In the Management's Discussion and Analysis of operating results for fiscal 2007 that follows, the impact of the aforementioned change in accounting standards will be excluded from actual changes for line items from net sales through operating income.

Statements of Income

NET SALES

Net sales rose 1.8% year on year to ¥101,065 million due mainly to increased sales in FANCL's core Cosmetics Business and Other Businesses.

Cosmetics Business sales rose 7.5% to ¥46,376 million, boosted by increased sales of FANCL and ATTENIR cosmetics.

Sales of FANCL cosmetics rose 7.2% to ¥35,692 million. In addition to firm sales of *Mild Cleansing Oil*, *Facial Washing Powder*, *Beauty Concentrate* and other skin care products, this result reflected sales growth in FANCL's revamped line of makeup. Sales were also higher throughout all sales channels.

In the ATTENIR cosmetics brand, sales reached a record high, supported by the success of a revamped line of skin care products. The number of customers at the end of fiscal 2007 was also a record.

Sales in the Nutritional Supplements Business declined 9.0% year on year to ¥31,666 million. While strong sales were posted for *HTC Collagen* and other beauty supplements and diet supplements such as *Perfect Slim* α, these performances were overshadowed by lower sales of *Co-enzyme* Q_{10} and *Alpha Lipoic Acid*, the former of which saw record-high sales in the previous fiscal year. By sales channel, while sales in the "others" sales channel increased atop robust sales to markets outside Japan, sales were lower in the mail-order and retail store channels.

Sales in Other Businesses rose 7.9% to ¥23,023 million, reflecting sales growth in the IIMONO OHKOKU Mail-Order Business and sundries and underwear.

Germinated Brown Rice sales were virtually unchanged, edging up 0.2% year on year to ¥4,761 million.

Kale Juice Business sales fell 3.9% to ¥4,055 million, as sales declined for both frozen and powder-type products. This was the first time that sales in this business have fallen below previous-year levels since the start of this business.

IIMONO OHKOKU Mail-order Business sales grew 18.3% year on year to ¥9,940 million on the back of buoyant sales of walking shoes jointly developed with Mizuno Corporation and golfing equipment.

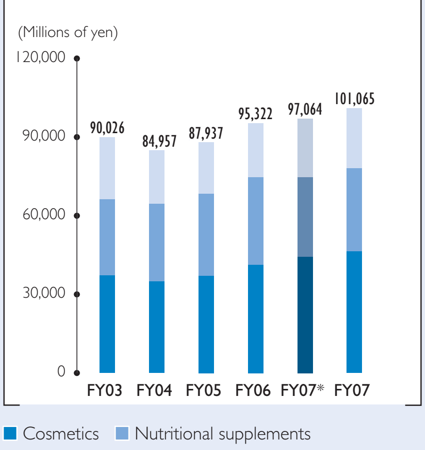
GROSS PROFIT

The gross profit margin was unchanged year on year, at 66.5%. Although the gross profit margin in the Nutritional Supplements Business was higher, this was countered by a higher share of net sales from Other Businesses, where the gross profit margin is lower.

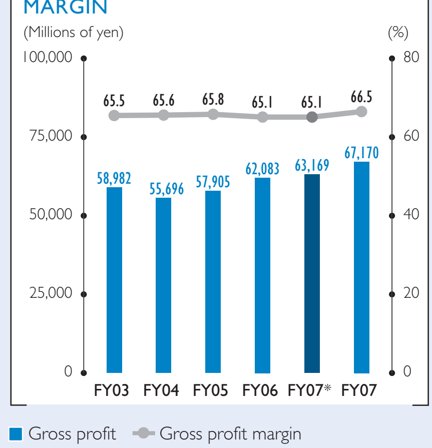
In the Cosmetics Business, the gross profit margin remained almost flat at 75.2%.

In the Nutritional Supplements Business, the gross profit margin increased 1.1 percentage points to 65.4%, mainly due to the switch to domestically produced raw materials for use in *Co-enzyme* Q_{10}.

NET SALES BY BUSINESS SEGMENT



GROSS PROFIT AND GROSS PROFIT MARGIN



* Amounts for which the same accounting standard as in the previous consolidated fiscal year applies

In Other Businesses, the gross profit margin fell 2.0 percentage points to 50.4%, largely reflecting a higher cost of sales ratio in the Germinated Brown Rice Business due to rising raw material prices.

SG&A EXPENSES

The ratio of selling, general and administrative (SG&A) expenses to net sales increased 0.7 of a percentage point to 58.2%, due to increased personnel costs.

The ratio of marketing costs (advertising and sales promotion expenses) to net sales was virtually unchanged at 22.7%.

The ratio of personnel costs to net sales increased 1.0 percentage point to 13.5%, primarily reflecting a rise in staffing numbers at retail stores and in all business segments.

OPERATING INCOME

As a result of the aforementioned factors, operating income decreased 5.7% year on year to ¥8,370 million, and the operating income margin fell 0.7 of a percentage point to 8.3%.

In the Cosmetics Business, the effect of higher sales and more efficient use of advertising expenses lifted operating income 25.6% to ¥7,133 million. The operating income margin rose 2.3 percentage points to 15.4%.

In the Nutritional Supplements Business, operating income declined 29.6% to ¥3,903 million, tracking a substantial drop in mail-order sales, which have high profit margins. The operating income margin decreased 3.7 percentage points to 12.3%.

Other Businesses posted an operating loss of ¥898 million, ¥178 million less than the previous fiscal year. This loss was mainly attributable to increased losses in the Germinated Brown Rice Business and the Kale Juice Business.

OTHER INCOME (EXPENSES)

The Company posted extraordinary losses as described below in an effort to further enhance the soundness of its financial position. As a result, net other expenses increased year on year to ¥3,264 million.

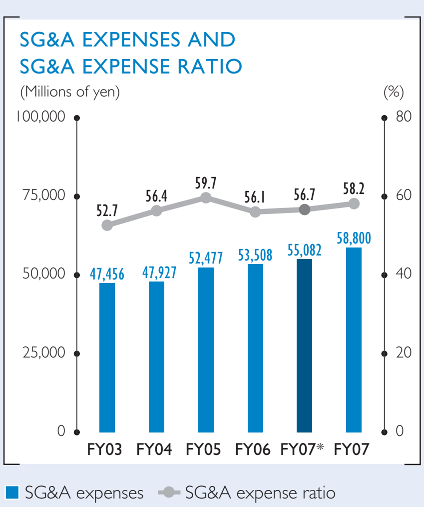
Reflecting changes to accounting standards for its reward point system enacted from fiscal 2007, the Company booked provisions to an allowance for points for prior periods of ¥2,132 million.

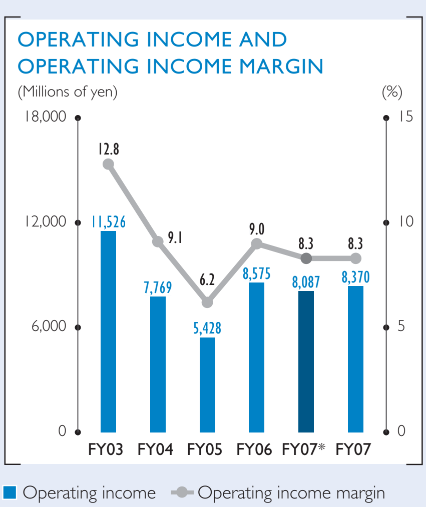
The Company also booked impairment losses of ¥981 million for writing down to recoverable value the book value of production equipment and leased assets in the Germinated Brown Rice Business, which has continued to operate at a loss since operations first commenced. The Company also posted a loss on write-down of investment securities of ¥454 million related to shares held in a loss-making sub-subsidiary.

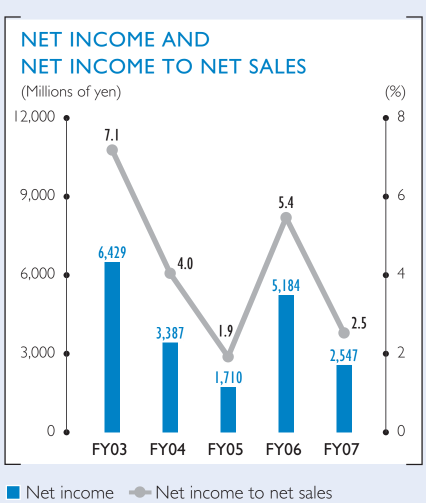
The Company used a special purpose company (SPC) in acquiring its head office. Following a change in the Company's stake in this SPC, the Company booked ¥633 million as extraordinary income for funds distributed from liquidation of anonymous associations.

INCOME BEFORE INCOME TAXES

Income before income taxes fell 40.7% year on year to ¥5,046 million. Income before income taxes as a percentage of net sales was 5.0%, down 3.9 percentage points compared with the previous fiscal year.







* Amounts for which the same accounting standard as in the previous consolidated fiscal year applies

NET INCOME

Net income declined 50.9% year on year to ¥2,547 million, and the ratio of net income to net sales fell 2.9 percentage points to 2.5%.

Net income per share was ¥39.59. As of the end of the fiscal year under review, FANCL had no outstanding unexercised convertible bonds or equity warrants.

Return on equity (ROE) declined 3.9 percentage points compared with the previous fiscal year to 3.6%, due to the decrease in net income.

Balance Sheet

ASSETS

[CURRENT ASSETS]

Current assets rose by ¥4,605 million from the previous fiscal year-end to ¥49,571 million, mainly due to increases in marketable securities and notes and accounts receivable–trade, which outweighed lower cash and bank deposits.

Marketable securities increased by ¥7,670 million, reflecting the acquisition of commercial paper and foreign bonds. Notes and accounts receivable-trade increased by ¥1,006 million, tracking higher sales.

[PROPERTY, PLANT AND EQUIPMENT, NET]

Property, plant and equipment, net, decreased by ¥831 million from the previous fiscal year-end to ¥24,963 million. This result was mainly attributable to impairment losses related to germinated brown rice production equipment.

[INVESTMENTS AND OTHER ASSETS]

Investments and other assets decreased by ¥1,964 million from the previous fiscal year-end to ¥12,397 million. The main factors behind this decline were write-downs at a sub-subsidiary, a decrease in investment following a review of the Company's stake in an SPC related to the acquisition of its head office, and decreases due to the redemption of corporate bonds.

LIABILITIES

[CURRENT LIABILITIES]

Current liabilities increased by ¥940 million to ¥12,869 million, largely due to the posting of an allowance for points of ¥1,849 million.

[NONCURRENT LIABILITIES]

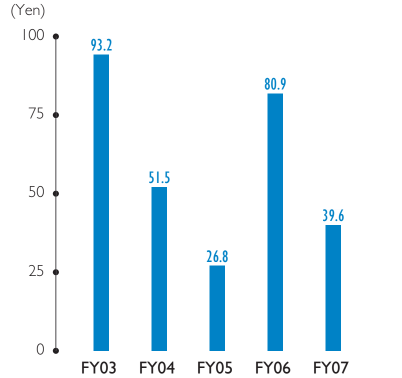
Noncurrent liabilities increased by ¥688 million to ¥2,501 million, primarily reflecting the booking of an impairment loss of ¥603 million on leased assets related to germinated brown rice production equipment.

NET ASSETS

[TOTAL NET ASSETS]

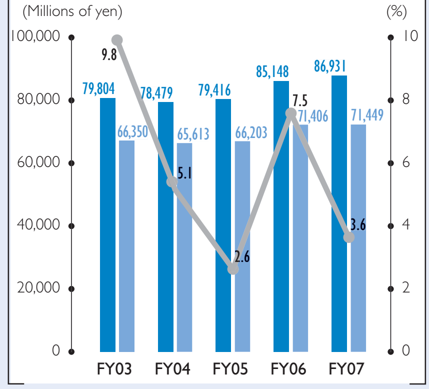
Total net assets were ¥71,561 million, up ¥155 million compared with the previous fiscal year-end. Notwithstanding the acquisition of ¥1,105 million in treasury stock, the modest increase was mainly attributable to the net income of ¥2,547 million.

NET INCOME PER SHARE



* FANCL conducted a 3-for-1 stock split on April 1, 2006. Figures for FY03 through FY06 are calculated as if the stock split had actually taken place at the start of the previous business term.

TOTAL ASSETS, EQUITY AND ROE



* Presented as shareholders' equity until fiscal 2006. Presented as equity from fiscal 2007 due to a change in accounting standard.

[CAPITAL EXPENDITURES]

Capital expenditures during the fiscal year under review totaled ¥3,865 million, mainly for the acquisition of production and sales management software.

By business segment, capital expenditures totaled ¥2,155 million in the Cosmetics Business, ¥1,276 million in the Nutritional Supplements Business, and ¥434 million in Other Businesses.

No major equipment was disposed of or sold during the period.

CASH FLOWS

Cash and cash equivalents as of March 31, 2007 were ¥23,411 million, ¥2,243 million higher than at the end of the previous fiscal year. The main contributing factors are detailed below.

[CASH FLOWS FROM OPERATING ACTIVITIES]

Cash flows from operating activities during the period under review were ¥6,472 million. Factors that increased operating cash flows included income before income taxes of ¥5,046 million, depreciation and amortization expenses of ¥2,683 million, and a points allowance of ¥1,849 million. Factors reducing operating cash flows included changes in accounts receivable of ¥1,006 million, and tax payments of ¥3,381 million.

[CASH FLOWS FROM INVESTING ACTIVITIES]

Cash used in investing activities during the period under review was ¥1,734 million. This largely reflected outlays of ¥2,146 for the acquisition of capital equipment for new stores, and outlays of ¥1,829 million for the acquisition of intangible assets.

[CASH FLOWS FROM FINANCING ACTIVITIES]

Cash used in financing activities during the period under review was ¥2,495 million. This was largely the result of ¥1,419 million paid out in dividends and ¥1,076 million in net outlays from the purchase and sale of treasury shares.

For the next fiscal year, funds for investing activities and financing activities are expected to be covered by the scope of increase in cash flows from operating activities.

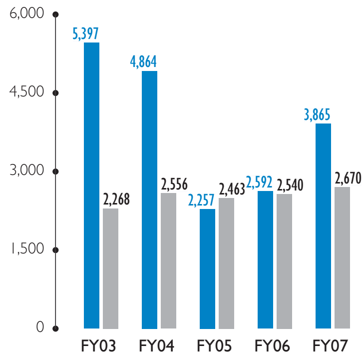
TRENDS IN CASH FLOW-RELATED INDICES

Years ended March 31	2007	2006	2005	2004	2003
Equity ratio (%)	82.2	83.9	83.4	83.6	83.1
Equity ratio based on market price (%)	120.3	183.9	110.9	95.7	114.3
Debt service coverage (years)	–	–	–	–	0.04
Interest coverage ratio (times)	–	–	–	2,930.5	756.0

Notes:
All indices are calculated from consolidated financial results figures.
- Equity ratio based on market price: Market capitalization/Total assets
  Market capitalization: Market price on last trading day of period x Total shares outstanding at end of period (excluding treasury shares)
- Debt service coverage: Interest-bearing debt/Operating cash flow
  Interest coverage ratio: Operating cash flow/Interest paid
- Operating cash flow is the Net Cash Provided From Operating Activities figure in the consolidated statements of cash flows. Interest bearing debt includes all debt on which interest is paid recorded in the liabilities section of the consolidated balance sheet. Interest paid is the Interest Paid figure in the consolidated statements of cash flows.

CAPITAL EXPENDITURES AND DEPRECIATION

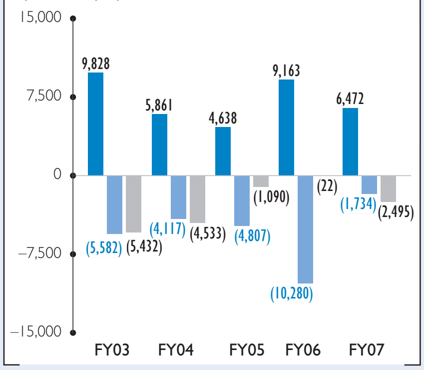
(Millions of yen)



■ Capital expenditures ■ Depreciation

CASH FLOWS

(Millions of yen)



■ Operating activities ■ Investment activities
■ Financing activities

BUSINESS RISKS

1. PRODUCT DEVELOPMENT AND COMPETITIVE ENVIRONMENT

In the FANCL Group's product development, the product planning and development division is responsible for formulating and proposing product plans based on customer needs and market research. In collaboration with related departments such as the FANCL Research Institute, it makes final decisions on commercialization. At present, the Group develops cosmetics and nutritional supplements using its own technology, but there is no guarantee that this will result in successful development and new products. Further, in light of the increasing numbers of women with sensitive skin and greater health consciousness, there are more new entrants into the markets of cosmetics for sensitive skin and nutritional supplements and the appearance of similar products could operate to reduce the relative competitiveness of the FANCL lineup and hurt our growth potential and earning capabilities.

2. PRODUCT MANUFACTURING AND QUALITY ASSURANCE

The FANCL Group's cosmetics, nutritional supplements and germinated brown rice are manufactured at five directly managed domestic factories, while kale juice and undergarments production is outsourced to subsidiaries. Departments in charge of procurement manage all aspects of raw materials purchases and, working in cooperation with marketing departments, disperse purchases among multiple suppliers and coordinate purchases with suppliers. Nevertheless, unanticipated conditions due to external factors may make it impossible to procure planned quantities. A quality assurance department has been established to improve product quality. At quality conferences it verifies the quality control situation with respective departments, and strives to maintain quality by conducting on-site plant inspections and other means. If a quality problem arises, it could impact negatively on the Group's operating results.

3. DISASTERS AND BAD WEATHER

To minimize the effects of fire and natural disasters on its production system, the FANCL Group conducts periodic inspections and checking on all its facilities. Geographic dispersion of plants is intended to reduce risks. Nevertheless, there are no guarantees that the impact of fire or natural disaster can be fully prevented. The harvest volumes of rice and kale, the raw materials for germinated brown rice and kale juice, are subject to the vagaries of the weather. We therefore strive for dispersion of producing areas and raw material stockpiling, but weather factors can cause shortages and higher prices that impact adversely on Group operating results.

4. LIMITS OF INTELLECTUAL PROPERTY PROTECTION

The Group is moving forward with securing patents and other rights to its accumulated technology and other intellectual property, but this is an area in which the legal basis is not fully prepared and cannot cover all business development domains. And because it takes at least a year and a half from patent application to publication, there is the possibility that there may be development investment in technology for which other companies have already sought patents. In future, after commercialization, other companies' patents could be published and involve the Company in patent infringement cases.

5. LEGAL RESTRICTIONS

The Cosmetics Business is governed by the Pharmaceutical Affairs Law to assure the quality, effectiveness and safety of pharmaceuticals, over-the-counter drugs, cosmetics and medical equipment. It is under this legislation that the FANCL Group manufactures manages its Pharmaceutical Control Division and sells cosmetics and related products. The Nutritional Supplement Business is subject to the Food Sanitation Law, which prescribes food standards, additives, sanitation surveillance and business permissions. For foods for sale, the Nutrition Improvement Law prescribes standards for display of nutritional elements and caloric values. Those of the Company's supplements that meet certain requirements are also subject to the regulations of the functional foods health system, which enables selection with assurance of foods corresponding to consumers' eating habits.

The Group is also governed by the Specified Commercial Transactions Law, whose objectives are fair conduct of mail-order businesses for protection of consumers, and by the Law for Prevention of Unfair Premiums and Unfair Labeling, intended to prevent customer inducement by those means.

The Group has established a Compliance & Legal Division, responsible for compliance and ensuring more thoroughgoing observance of laws and regulations. Notwithstanding this, any violations that occur may adversely affect the Group's operating results.

6. PERSONAL INFORMATION

The Group's use of mail order and the Internet as its main sales channels has resulted in possession of personal information about many individuals. The Group strictly observes the "Guidelines for Personal Data Protection" prescribed by the Japan Direct Marketing Association, and has established an all-Company committee to reinforce the information control system. Continuous efforts are also made with regard to employee education in this area. Nevertheless, should there occur leakage of such information outside the Company, a loss of customer trust could reduce sales and subject the Company to losses from payment of liability damages to customers.

CONSOLIDATED BALANCE SHEETS

FANCL CORPORATION and Consolidated Subsidiaries
As of March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 2)
ASSETS	2007	2006	2007
Current assets:			
Cash and bank deposits	¥ 14,304	¥ 19,247	$ 121,165
Marketable securities	16,295	8,625	138,034
Notes and accounts receivable – trade	9,983	8,977	84,568
Less: Allowance for doubtful accounts	(149)	(134)	(1,262)
	9,834	8,843	83,306
Inventories *(Note 5)*	6,746	6,680	57,147
Deferred taxes *(Note 7)*	1,224	525	10,366
Prepaid expenses and other current assets	1,168	1,046	9,896
Total current assets	49,571	44,966	419,914
Property, plant and equipment, at cost:			
Land	10,627	10,637	90,022
Buildings and structures	20,460	20,086	173,316
Machinery and equipment	10,491	9,565	88,870
Construction in progress	61	57	520
	41,639	40,345	352,728
Less: Accumulated depreciation	(16,676)	(14,551)	(141,266)
Property, plant and equipment, net	24,963	25,794	211,462
Intangible assets:			
Goodwill	–	27	–
Investments and other assets:			
Investment securities:			
Non-consolidated subsidiaries and affiliates	546	928	4,625
Other	1,006	3,812	8,523
	1,552	4,740	13,148
Guarantee deposits	2,685	2,715	22,743
Long-term loans receivable	656	697	5,556
Deferred taxes *(Note 7)*	253	150	2,145
Other assets	7,661	6,474	64,901
Less: Allowance for doubtful accounts	(410)	(415)	(3,474)
Total investments and other assets	12,397	14,361	105,019
Total assets	¥ 86,931	¥ 85,148	$ 736,395

LIABILITIES AND NET ASSETS	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 2) 2007
Current liabilities:			
Notes and accounts payable – trade	¥ 3,741	¥ 4,007	$ 31,695
Accrued income taxes *(Note 7)*	2,027	2,056	17,171
Reserve for customer awards	1,849	–	15,663
Other current liabilities	5,252	5,866	44,488
Total current liabilities	12,869	11,929	109,017
Noncurrent liabilities:			
Accrued retirement benefits *(Note 8)*	1,612	1,471	13,655
Other long-term liabilities	889	342	7,531
Total noncurrent liabilities	2,501	1,813	21,186
Contingent liabilities *(Note 13)*			
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized –233,838,000 shares			
Issued –70,176,600 shares in 2007 and 23,392,200 shares in 2006	10,795	10,795	91,446
Additional paid-in capital	11,852	11,847	100,400
Retained earnings	56,452	55,327	478,200
Less: Treasury stock 6,188,080 shares in 2007 and 1,865,094 shares in 2006	(7,700)	(6,625)	(65,225)
Total shareholders' equity	71,399	71,344	604,821
Valuation, translation adjustments and other:			
Net unrealized holding gain on other securities	55	67	466
Translation adjustments	(5)	(5)	(42)
Total valuation, translation adjustments and other	50	62	424
Warrants	112	–	947
Total net assets	71,561	71,406	606,192
Total liabilities and net assets	¥86,931	¥85,148	$736,395

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars *(Note 2)*
	2007	2006	2007
Net sales	¥101,065	¥95,322	$856,121
Cost of sales	33,895	33,239	287,124
Gross profit	67,170	62,083	568,997
Selling, general and administrative expenses *(Note 9)*	58,800	53,508	498,095
Operating income	8,370	8,575	70,902
Other income (expenses):			
Interest and dividend income	119	79	1,006
Distribution from dissolution of a silent partnership	633	–	5,362
Loss on retirement of inventories	(541)	(505)	(4,586)
Loss on disposal of property, plant and equipment	(164)	(131)	(1,388)
Loss on impairment of fixed assets	(981)	(238)	(8,312)
Prior-year adjustment to reserve for customer awards	(2,132)	–	(18,060)
Loss on devaluation of investment securities	(454)	–	(3,843)
Other, net	196	735	1,662
Income before income taxes	5,046	8,515	42,743
Income taxes *(Note 7)*:			
Current	3,292	2,954	27,890
Deferred	(793)	377	(6,725)
	2,499	3,331	21,165
Net income	¥ 2,547	¥ 5,184	$ 21,578

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2007 and 2006

	Thousands	Millions of yen							
	Common stock								
	Number of shares	Amount	Additional paid-in capital	Retained earnings	Treasury stock	Net unrealized holding gain on other securities	Translation adjustments	Warrants	Total net assets
March 31, 2005	23,392	¥10,795	¥ 11,706	¥ 51,173	¥ (7,493)	¥ 27	¥ (5)	¥ –	¥ 66,203
Cash dividends	–	–	–	(1,066)	–	–	–	–	(1,066)
Net income	–	–	–	5,184	–	–	–	–	5,184
Sale of treasury stock	–	–	141	–	868	–	–	–	1,009
Change in interest in investment in a subsidiary	–	–	–	36	–	–	–	–	36
Other net changes during the year	–	–	–	–	–	40	–	–	40
March 31, 2006	23,392	10,795	11,847	55,327	(6,625)	67	(5)	–	71,406
Distributions	–	–	–	(1,422)	–	–	–	–	(1,422)
Net income	–	–	–	2,547	–	–	–	–	2,547
3-for-1 stock split	46,784	–	–	–	–	–	–	–	–
Purchase of treasury stock	–	–	–	–	(1,716)	–	–	–	(1,716)
Sale of treasury stock	–	–	5	–	641	–	–	–	646
Other net changes during the year	–	–	–	–	–	(12)	–	112	100
March 31, 2007	70,176	¥10,795	¥ 11,852	¥ 56,452	¥ (7,700)	¥ 55	¥ (5)	¥112	¥ 71,561

	Thousands of U.S. dollars							
	Common stock Amount	Additional paid-in capital	Retained earnings	Treasury stock	Net unrealized holding gain on other securities	Translation adjustments	Warrants	Total net assets
March 31, 2006	$91,446	$100,355	$468,672	$(56,118)	$ 567	$(42)	$ –	$604,880
Distributions	–	–	(12,050)	–	–	–	–	(12,050)
Net income	–	–	21,578	–	–	–	–	21,578
3-for-1 stock split	–	–	–	–	–	–	–	–
Purchase of treasury stock	–	–	–	(14,536)	–	–	–	(14,536)
Sale of treasury stock	–	45	–	5,429	–	–	–	5,474
Other net changes during the year	–	–	–	–	(101)	–	947	846
March 31, 2007	$91,446	$100,400	$478,200	$(65,225)	$ 466	$(42)	$947	$606,192

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2007	2006	2007
Cash flows from operating activities:			
Income before income taxes	¥ 5,046	¥ 8,515	$ 42,743
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	2,683	2,812	22,728
Loss on impairment of fixed assets	981	237	8,312
Share-based payments	119	–	1,004
Provision for reserve for customer awards	1,849	–	15,663
Increase (decrease) in allowance for doubtful accounts	23	(34)	198
Accrued retirement benefits, net of payments	107	86	908
Cash surrender value of insurance policies	17	716	148
Loss on devaluation of investment securities	454	–	3,843
Income from investment in a silent partnership	(161)	(161)	(1,364)
Loss on disposal of property, plant and equipment	135	123	1,143
Changes in operating assets and liabilities:			
Notes and accounts receivable–trade	(1,006)	(263)	(8,522)
Inventories	(66)	(1,016)	(560)
Other current assets	(48)	1,028	(405)
Accounts payable – trade	(266)	958	(2,252)
Other current liabilities	(118)	(119)	(1,003)
Other noncurrent liabilities	(22)	(1,029)	(184)
Income taxes paid	(3,381)	(2,813)	(28,645)
Other, net	126	123	1,070
Net cash provided by operating activities	6,472	9,163	54,825
Cash flows from investing activities:			
Increase in fixed-term deposits	(190)	(1,000)	(1,610)
Purchases of property, plant and equipment	(2,146)	(1,411)	(18,176)
Purchases of software	(1,829)	(882)	(15,496)
Purchases of shares of affiliates	(57)	(30)	(481)
Decrease (increase) in long-term loans receivable	38	(34)	323
Purchases of investment securities	(13,010)	(8,504)	(110,205)
Disposition of investment securities	13,496	1,800	114,323
Increase in other investments and other assets	(305)	(376)	(2,585)
Payment for investment in a silent partnership	(620)	–	(5,252)
Proceeds from dissolution of a silent partnership	2,701	–	22,884
Other, net	188	157	1,591
Net cash used in investing activities	(1,734)	(10,280)	(14,684)
Cash flows from financing activities:			
Change in interest in investments in a subsidiary	–	36	–
Sale (purchases) of treasury stock, net	(1,076)	1,008	(9,118)
Distributions made	(1,419)	(1,066)	(12,020)
Net cash used in financing activities	(2,495)	(22)	(21,138)
Net increase (decrease) in cash and cash equivalents	2,243	(1,139)	19,003
Cash and cash equivalents at beginning of year	21,168	22,307	179,314
Cash and cash equivalents at end of year *(Note 15)*	¥ 23,411	¥ 21,168	$ 198,317

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2007 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

FANCL CORPORATION (the "Company") and its domestic consolidated subsidiaries maintain their books of account in accordance with accounting standards generally accepted in Japan, and its overseas consolidated subsidiary maintains its books of accounts in conformity with those of its country of domicile. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan. Certain amounts from prior years have been reclassified to conform to the current year's presentation.

(B) BASIS OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and all its subsidiaries (collectively, the "Group") 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 revalued at their respective fair value upon acquisition, if applicable, and the excess of cost over the 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 one overseas consolidated subsidiary are translated at the current exchange rate in effect at each balance sheet date and its 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 net assets 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 which 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.

Under the accounting standard governing statements of cash flows, the definition of cash and cash equivalents in the statement of cash flows and that of cash and bank deposits in the balance sheet differs with respect to certain components. A reconciliation between the cash definitions referred to above is presented in Note 15.

(E) SECURITIES

All securities owned by the Company and consolidated subsidiaries are considered available-for-sale securities and are classified as "other" securities, one of the three categories (trading, held-to-maturity and other) defined in 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, net of taxes, is recognized as a component of net assets and is reflected as "Net unrealized holding gain on other securities." The cost of other securities sold has been computed by the average method. Other securities without quoted market prices are stated at cost by the average method.

Investment in a silent partnership is stated at an amount accounted for by the equity method based on its net assets at the nearest closing date.

(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, buildings (excluding structures attached to the buildings) acquired on or after April 1, 1998 by the Company and the consolidated subsidiaries are 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 is determined based on the historical experience with write-offs 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 gain or loss is amortized by the straight-line method over 5 years, a period which falls within the average remaining years of service of the active participants in the plan, commencing the year following the year in which the gain or loss was incurred.

The Company and the domestic consolidated subsidiaries also provide 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.

At the annual general meeting of the shareholders of the Company held on June 17, 2006, the Company adopted a resolution for the abolishment of its lump-sum retirement payment plan for directors and statutory auditors and for the lump-sum retirement payment for each director or statutory auditor to be paid based on his/her length of service with the Company as a director or a statutory auditor up to the date of the resolution. Therefore, effective June 18, 2006, accrued retirement benefits for them have not been recognized. However, the domestic consolidated subsidiaries continue to provide an accrual for retirement allowances for their directors and statutory auditors in the same manner as the Company did prior to the abolishment of its lump-sum retirement payment plan for directors and statutory auditors in accordance with their respective internal regulations.

(M) STOCK ISSUANCE EXPENSES

Stock issuance expenses are charged to income when incurred.

(N) DEFERRED INCOME TAXES

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

(O) DERIVATIVES

Derivative financial instruments are carried at fair value with any changes in unrealized gain or loss charged or credited to income, 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 which meet certain criteria are accounted for by the allocation method used to hedge against risk arising from fluctuation in foreign exchange rates.

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

(P) APPROPRIATION OF RETAINED EARNINGS

Under the Commercial Code of Japan (the "Code"), the appropriation of retained earnings with respect to a given financial period was made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period did not, therefore, reflect such appropriations.

On May 1, 2006, the new Corporation Law of Japan (the "Law"), which superseded the Code, went into effect. With respect to distributions of additional paid-in capital or retained earnings, see Note 6.

2. U.S. DOLLAR AMOUNTS

For the convenience of the reader, the accompanying consolidated financial statements with respect to the year ended March 31, 2007 have been presented in U.S. dollars by translating all yen amounts at ¥118.05=US$1.00, the exchange rate prevailing on March 31, 2007. 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. CHANGES IN METHOD OF ACCOUNTING

In prior years, the Company accounted for customer awards which entitle customers to obtain certain discounts on their purchase amounts from their next purchase as sales discounts when such discounts are utilized. Effective the year ended March 31, 2007, the Company has changed its method of accounting for customer awards to recognizing them in selling, general and administrative expenses on an accrual basis when incurred due to the fact that the system for making a reasonable estimate of the usage rate of customer awards became ready as a result of the introduction of a new point awards system and it became clear that the nature of the customer awards is substantively a sales promotion. This change in method of accounting was made in order to facilitate its healthy financial condition and the matching of profit and loss.

As a result of this change, the related amount incurred in the current year was recorded as a sales promotion expense and the amounts incurred in prior years were recorded as a special loss in the income statement for the current year. The effect of this change was to increase net sales by ¥4,001 million ($33,891 thousand) and selling, general and administrative expenses by ¥3,718 million ($31,494 thousand) and to decrease income before income taxes by ¥1,849 million ($15,663 thousand) for the year ended March 31, 2007 compared with the amounts which would have been recorded under the method applied in the previous year.

Effective the year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheet as of March 31, 2006 and the consolidated statement of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

Total shareholders' equity under the previous method of presentation amounted to ¥71,449 million ($605,244 thousand) at March 31, 2007.

Effective the year ended March 31, 2007, the Company has adopted a new accounting standard for share-based payments and the related implementation guidance. The effect of the adoption of this new standard was to decrease both operating income and income before income taxes by ¥118 million ($1,004 thousand) from the amounts which would have been recorded under the method applied in the previous year.

Effective April 1, 2005, the Group adopted an accounting standard for the impairment of fixed assets. This standard requires that tangible and intangible fixed assets be carried at cost less depreciation and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Group is required to recognize an impairment loss in the statement of income if certain indicators of asset impairment exist and if the book value of the fixed assets exceeds the undiscounted sum of their future cash flows.

The effect of the adoption of this standard was to recognize an impairment loss of ¥237 million. However, the fixed assets on which the impairment loss was recognized were subsequently sold to third parties during the year ended March 31, 2006.

4. MARKETABLE AND INVESTMENT SECURITIES

Information regarding marketable and investment securities with quoted market prices classified as other securities at March 31, 2007 and 2006 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2007	Acquisition cost	Carrying value	Unrealized gain	Acquisition cost	Carrying value	Unrealized gain
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥66	¥158	¥92	$561	$1,344	$783
Total	¥66	¥158	¥92	$561	$1,344	$783

	Millions of yen		
As of March 31, 2006	Acquisition cost	Carrying value	Unrealized gain
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥66	¥179	¥113
Total	¥66	¥179	¥113

Other securities without quoted market prices at March 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
Carrying value	2007	2006	2007
Current assets:			
Commercial paper	¥ 9,984	¥6,697	$ 84,572
Bonds	1,003	1,006	8,499
Foreign bonds	4,508	–	38,184
Money management funds	–	922	–
Other	800	–	6,779
Noncurrent assets:			
Unlisted stock (excluding securities traded over-the-counter)	126	104	1,068
Unlisted foreign bonds	–	800	–
	¥16,421	¥9,529	$139,102

5. INVENTORIES

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Merchandise	¥2,489	¥1,400	$21,080
Finished goods	317	1,411	2,689
Raw materials	3,044	2,965	25,785
Work in process	595	653	5,041
Supplies	301	251	2,552
	¥6,746	¥6,680	$57,147

6. SHAREHOLDERS' EQUITY

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

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that amounts from additional paid-in capital and retained earnings may be distributed to the shareholders at any time by resolution of the shareholders or by the Board of Directors if certain provisions are met subject to the extent of the applicable sources of such distributions. The Law further provides that amounts equal to 10% of such distributions be transferred to the capital reserve included in additional paid-in capital or the legal reserve included in retained earnings based on the applicable sources of such distributions until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account.

7. INCOME TAXES

The significant components of deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Accrued enterprise taxes	¥ 155	¥ 194	$ 1,309
Accrued bonuses	389	370	3,291
Allowance for doubtful accounts	162	165	1,375
Accrued severance benefits	653	594	5,528
Depreciation	3	19	24
Net loss carried forward	281	399	2,385
Reserve for customer awards	751	–	6,365
Other	207	163	1,756
Gross deferred tax assets	2,601	1,904	22,033
Valuation allowance	(538)	(652)	(4,560)
Total deferred tax assets	2,063	1,252	17,473
Deferred tax liabilities:			
Unrealized intercompany profit on land	232	232	1,966
Unrealized revaluation gain on land with respect to acquisition of IIMONO OHKOKU Co., Ltd.	165	164	1,394
Other	189	181	1,602
Total deferred tax liabilities	586	577	4,962
Net deferred tax assets	¥1,477	¥ 675	$12,511

A reconciliation between the statutory tax rate and the effective tax rate as a percentage of income before income taxes for the year ended March 31, 2007 is summarized as follows, and the corresponding reconciliation for the year ended March 31, 2006 has been omitted as permitted since the difference between the statutory tax rate and the effective tax rate was less than 5% of the statutory tax rate.

	2007
Statutory tax rate	40.64%
Additions to (deductions from) income taxes resulting from:	
Permanent nondeductible differences such as entertainment expenses	1.14
Inhabitants' per capita taxes	2.59
Permanent differences not recognized for tax purposes such as dividends received	(0.01)
Valuation allowance	9.59
Tax credits such as for research and development expenses	(2.88)
Differences in effective taxes rates among the Company and its consolidated subsidiaries	(1.21)
Other	(0.34)
Effective tax rate	49.52%

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 41% for the years ended March 31, 2007 and 2006. 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.

8. RETIREMENT BENEFITS

The Company and consolidated subsidiaries have defined benefit pension plans and lump-sum retirement payment plans which cover substantially all employees who terminate their employment. In addition to these plans, the Company and its consolidated subsidiaries (except for one consolidated subsidiary) participate in the multi-employer Welfare Pension Fund Plan (the "Fund") under the Welfare Pension Insurance Law of Japan.

The funded status of the defined benefit pension plans for the years ended March 31, 2007 and 2006 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligation	¥2,003	¥1,563	$16,972
Fair value of plan assets	(751)	(638)	(6,365)
Funded status	1,252	925	10,607
Unrecognized actuarial net loss (gain)	234	(27)	1,983
Net retirement benefit obligation	1,018	952	8,624
Prepaid pension cost	371	330	3,141
Accrued retirement benefits	¥1,389	¥1,282	$11,765

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

Retirement allowances for directors and statutory auditors in the amount of ¥223 million ($1,890 thousand) and ¥189 million have been included in accrued retirement benefits in the consolidated balance sheets at March 31, 2007 and 2006, respectively.

Retirement benefit expenses for the years ended March 31, 2007 and 2006 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost–benefits earned during the year	¥207	¥219	$1,754
Interest cost on projected benefit obligation	17	16	148
Expected return on plan assets	(18)	(15)	(157)
Amortization of unrecognized actuarial net loss	11	28	96
Contributions to the Fund	272	267	2,301
Retirement benefit expenses	¥489	¥515	$4,142

In the table above, retirement benefit expenses determined by a simplified method of the consolidated subsidiaries have been included in service cost–benefits earned during each 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, 2007 and 2006 were principally as follows:

	2007	2006
Discount rate	1.75%	1.75%
Expected rate of return on plan assets	3.00%	3.00%
Actuarial cost method	Unit credit actuarial cost method	
Amortization period for actuarial difference	5 years*	5 years*

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

9. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Research and development expenses	¥2,327	¥1,978	$19,708

10. LEASES

The Group holds certain machinery and equipment under finance leases which do not transfer 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, 2007 and 2006 would have been as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Machinery and equipment	¥6,364	¥6,422	$53,907
Accumulated depreciation	3,205	2,580	27,146
Accumulated loss on impairment	603	–	5,108
	¥2,556	¥3,842	$21,653

The following presents the future minimum lease payments subsequent to March 31, 2007 under finance leases which do not transfer ownership:

March 31, 2007	Millions of yen	Thousands of U.S. dollars
Minimum lease payments:		
Due within one year	¥ 832	$ 7,047
Due after one year	2,416	20,470
	¥3,248	$27,517

Lease expenses related to finance leases which do not transfer ownership for the years ended March 31, 2007 and 2006 amounted to ¥967 million ($8,192 thousand) and ¥967 million, respectively. Depreciation related to these leases for the years ended March 31, 2007 and 2006 would have been ¥920 million ($7,796 thousand) and ¥884 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 respective lease terms assuming a nil residual value.

11. LOSS ON IMPAIRMENT OF FIXED ASSETS

For the year ended March 31, 2007

Used for	Type of assets	Amount		Place
		Millions of yen	Thousands of U.S. dollars	
Production equipment for germinated brown rice	Building and structure	¥347	$2,938	Togyo City, Nagano Prefecture and Mitoyo City, Kagawa Prefecture
	Machinery and vehicle	28	238	
	Tools and equipment	3	28	
	Intangible assets	0	0	
	Leased properties	603	5,108	

For the year ended March 31, 2006

Used for	Type of assets	Amount	Place
		Millions of yen	
Office	Building	¥ 39	Sakae Ward, Yokohama City
	Land	198	

Assets of the Group are classified principally into groups based on their business segments as cash-generating units which are defined as the smallest identifiable group of assets which generate cash inflows and which are largely independent of the cash inflows from other assets or groups of assets. Idle assets are classified on an individual asset basis.

The Company has recognized an impairment of the production equipment for germinated brown rice and recorded an impairment loss by writing down the book value of its own assets and leased assets to their respective recoverable amounts. The respective recoverable amounts of these assets were measured based on their usage value and future cash flows at a discount rate of 4.9%.

Loss on impairment of fixed assets was recorded as an other expense and amounted to ¥981 million ($8,312 thousand) for the year ended March 31, 2007.

The Company recognized a loss on impairment of idle assets amounting to ¥237 million where their recoverable value was less than their carrying value for the year ended March 31, 2006. Their recoverable value was measured based on their net realizable value which was calculated using the appraisal value.

12. STOCK OPTION PLANS

At March 31, 2007, the Company had the following stock option plans which were approved by its shareholders or the Board of Directors:

Date of approval by shareholders or the Board of Directors	June 28, 1999	June 16, 2002	June 19, 2004	June 17, 2006	November 15, 2006
Grantees	5 directors and 50 employees	7 directors, 3 statutory auditors, 11 directors of subsidiaries, 1 statutory auditor of a subsidiary and 800 employees of the Company and subsidiaries	9 directors, 4 statutory auditors, 9 directors of subsidiaries and 1,825 employees of the Company and subsidiaries	10 directors, 9 executive officers, 6 directors of subsidiaries and 1,525 employees of the Company and subsidiaries	9 directors and 9 executive officers
Type of shares with warrants granted	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares with warrants granted	122,000 shares	494,800 shares	740,000 shares	648,900 shares	62,800 shares
Option price per warrant	¥5,514	¥1,367	¥1,217	¥1,670	¥1
Exercisable period	June 29, 2001 – June 28, 2009	July 1, 2004 – June 29, 2007	July 3, 2006 – June 30, 2009	August 11, 2008 – August 10, 2011	December 2, 2006 – December 1, 2036

Option prices per warrant are presented after adjustments for stock splits which were made on May 19, 2000 (1.3 shares per 1 share), May 20, 2002 (1.2 shares per 1 share) and April 1, 2006 (3 shares per 1 share).

Effective the year ended March 31, 2007, the Company has adopted a new accounting standard for share-based payments and the related implementation guidance. In accordance with this standard, the Company has recognized expenses by estimating the fair value of unit prices by using the Black-Scholes model.

13. CONTINGENT LIABILITIES

(1) Contingent liabilities as of March 31, 2007 amounted to ¥2,065 million ($17,490 thousand) and represented guarantees of borrowings incurred by the twenty 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 15 members of the Association.

In addition to the guarantees stated above, the land of ¥592 million ($5,013 thousand) and the plant of ¥1,680 million ($14,227 thousand) located in the Nagareyama area were pledged as collateral for the above borrowings.

(2) At March 31, 2007, the Company had guaranteed bank loans totaling $100 thousand (¥11 million) made by FANCL INTERNATIONAL, INC., a non-consolidated subsidiary.

14. AMOUNTS PER SHARE

In accordance with the accounting standard for earnings per share, 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 computed based on the weighted-average number of shares of common stock outstanding at each year end.

	Yen		U.S. dollars
	2007	2006	2007
Net income:			
– Basic	¥ 39.59	¥ 242.56	$0.34
– Diluted	39.13	240.78	0.33
Net assets	¥1,116.59	¥3,317.02	$9.46

15. SUPPLEMENTARY CASH FLOW INFORMATION

The following table represents a reconciliation of cash and bank deposits with cash and cash equivalents at March 31, 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars
Year ended March 31,	2007	2006	2007
Cash and bank deposits	¥14,304	¥19,247	$121,165
Marketable securities	16,295	8,625	138,034
Time deposits for a period more than three months	(190)	–	(1,610)
Marketable securities pledged as collateral for a period more than three months	(6,998)	(6,704)	(59,272)
Cash and cash equivalents	¥23,411	¥21,168	$198,317

16. DERIVATIVES AND HEDGING ACTIVITIES

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

The Company has implemented internal regulations under which it will hedge any significant exchange risk.

No specific disclosure for derivatives has been made as all the Company's open positions principally met the criteria for deferral hedge accounting.

17. SEGMENT INFORMATION

The Company and consolidated subsidiaries are primarily engaged in the manufacture and sale of products mainly in Japan in three segments: a cosmetics business in which various cosmetics are sold through wholesalers, retail stores and by mail, a nutritional supplements business in which various supplements are sold through wholesalers, retail stores and by mail, and other businesses which includes sales of miscellaneous goods, personal ornaments, underwear, medical and health products, housewares, germinated brown rice, kale juice, 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, 2007 and 2006 is summarized as follows:

BUSINESS SEGMENTS

	Millions of yen					
Year ended March 31, 2007	Cosmetics business	Nutritional supplements business	Other businesses	Total	Eliminations or corporate	Consolidated
I. Sales and operating income						
Sales to external customers	¥46,376	¥31,666	¥23,023	¥101,065	¥ –	¥101,065
Intersegment sales or transfers	–	–	–	–	–	–
Net sales	46,376	31,666	23,023	101,065	–	101,065
Operating expenses	39,243	27,763	23,921	90,927	1,768	92,695
Operating income (loss)	¥ 7,133	¥ 3,903	¥ (898)	¥ 10,138	¥(1,768)	¥ 8,370
II. Total assets, depreciation, impairment loss and capital expenditures:						
Total assets	¥29,004	¥15,283	¥14,653	¥ 58,940	¥27,991	¥ 86,931
Depreciation	1,408	695	511	2,614	56	2,670
Impairment loss	–	–	981	981	–	981
Capital expenditures	2,155	1,276	434	3,865	–	3,865

	Millions of yen					
Year ended March 31, 2006	Cosmetics business	Nutritional supplements business	Other businesses	Total	Eliminations or corporate	Consolidated
I. Sales and operating income						
Sales to external customers	¥41,287	¥33,246	¥20,789	¥ 95,322	¥ –	¥ 95,322
Intersegment sales or transfers	–	–	–	–	–	–
Net sales	41,287	33,246	20,789	95,322	–	95,322
Operating expenses	35,719	27,841	21,551	85,111	1,636	86,747
Operating income (loss)	¥ 5,568	¥ 5,405	¥ (762)	¥ 10,211	¥(1,636)	¥ 8,575
II. Total assets, depreciation, impairment loss and capital expenditures:						
Total assets	¥26,590	¥15,918	¥14,137	¥ 56,645	¥28,503	¥ 85,148
Depreciation	1,262	694	525	2,481	59	2,540
Impairment loss	–	–	–	–	238	238
Capital expenditures	1,304	1,006	280	2,590	2	2,592

Year ended March 31, 2007	Thousands of U.S. dollars Cosmetics business	Nutritional supplements business	Other businesses	Total	Eliminations or corporate	Consolidated
I. Sales and operating income						
Sales to external customers	$392,851	$268,241	$195,029	$856,121	$ –	$856,121
Intersegment sales or transfers	–	–	–	–	–	–
Net sales	392,851	268,241	195,029	856,121	–	856,121
Operating expenses	332,423	235,182	202,636	770,241	14,978	785,219
Operating income (loss)	$ 60,428	$ 33,059	$ (7,607)	$ 85,880	$ (14,978)	$ 70,902
II. Total assets, depreciation, impairment loss and capital expenditures:						
Total assets	$245,693	$129,466	$124,121	$499,280	$237,115	$736,395
Depreciation	11,926	5,885	4,330	22,141	474	22,615
Impairment loss	–	–	8,312	8,312	–	8,312
Capital expenditures	18,252	10,811	3,678	32,741	–	32,741

Unallocatable operating expenses included under "Eliminations or corporate" for the years ended March 31, 2007 and 2006 amounted to ¥1,768 million ($14,978 thousand) and ¥1,636 million, respectively, and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Eliminations or corporate" at March 31, 2007 and 2006 amounted to ¥27,991 million ($237,115 thousand) and ¥28,503 million, respectively, and consisted principally of cash and cash equivalents, short-term investments, land, funds for long-term investments (investment securities and other) and the cash surrender value of certain of the Company's insurance policies.

Changes in method of accounting

(1) As described in Note 3, effective the year ended March 31, 2007, the Company has changed its method of accounting for customer awards and recorded a reserve for customer awards in the accompanying consolidated statement of income for the year then ended. The effect of this change on segment information is summarized as follows:

Year ended March 31, 2007	Millions of yen			Thousands of U.S. dollars		
	Cosmetics business	Nutritional supplements business	Other businesses	Cosmetics business	Nutritional supplements business	Other businesses
Sales	¥2,010	¥1,395	¥596	$17,022	$11,817	$5,052
Operating expenses	1,868	1,296	554	15,818	10,981	4,695
Operating income	¥ 142	¥99	¥ 42	$ 1,204	$ 836	$ 357

(2) As described in Note 3, effective the year ended March 31, 2007, the Company has adopted a new accounting standard for share-based payments and the related implementation guidance. The effect of this adoption was to increase operating expenses in "Eliminations or corporate" by ¥118 million ($1,004 thousand) and to decrease operating income by the same amount from the amount which would have been recorded under the method applied in the previous year.

GEOGRAPHICAL SEGMENTS

Since sales of the Company and its domestic consolidated subsidiaries for the years ended March 31, 2007 and 2006 constituted more than 90% of consolidated sales, 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, 2007 and 2006, no disclosure of overseas sales has been presented.

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, 2007 and 2006, and the related consolidated statements of income, changes in net assets, 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 express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

[Supplementary information]
As described in Note 3, effective the year ended March 31, 2007, the Company has changed its method of accounting for customer awards from deducting customer awards from sales when customers utilize their point awards entitling them to receive sales discounts to recognizing those customer awards in selling, general and administrative expenses when incurred based on an estimate of customers' rate of future usage based on the Company's historical experience of usage of such point awards on an accrual basis.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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.

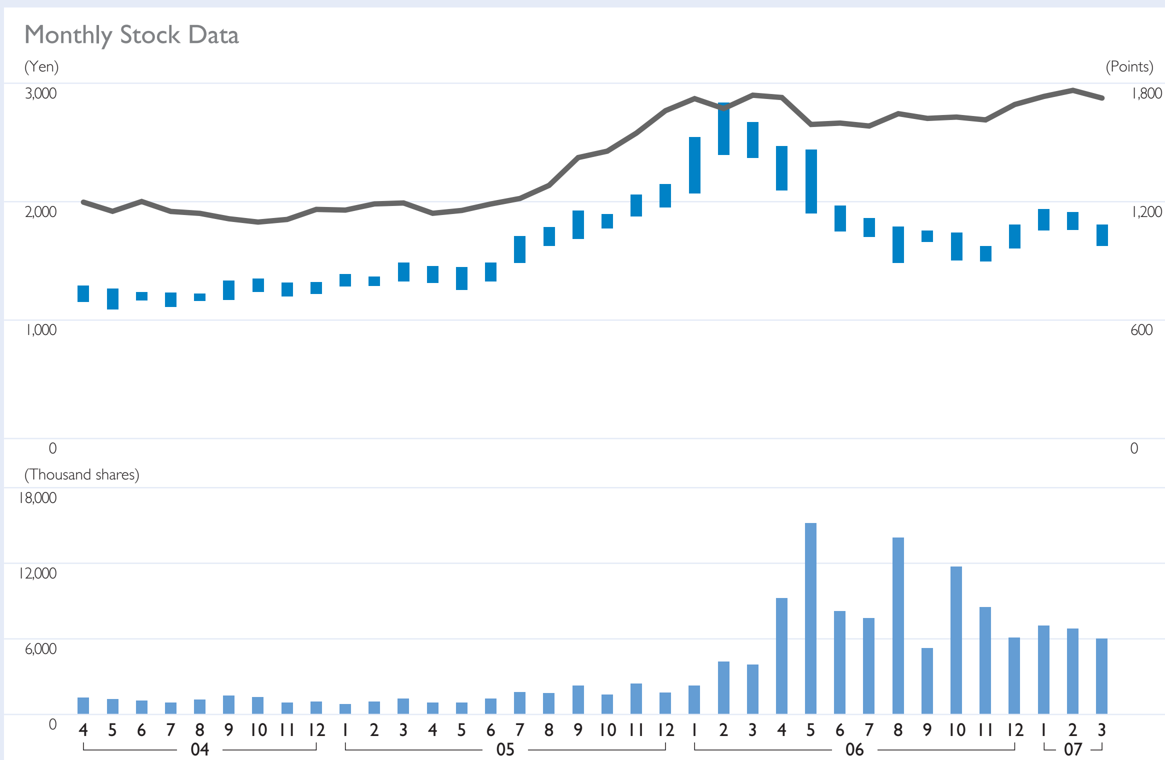
Ernst & Young Shinnihon

June 17, 2007

SHAREHOLDER INFORMATION

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

	2006									2007		
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
High (¥)	2,470	2,440	1,969	1,861	1,788	1,757	1,740	1,624	1,805	1,936	1,910	1,809
Low (¥)	2,095	1,901	1,750	1,703	1,482	1,661	1,504	1,497	1,605	1,756	1,761	1,628
Trading volume (Thousand shares)	9,213	15,156	8,170	7,630	14,006	5,238	11,720	8,489	6,099	7,030	6,796	6,006

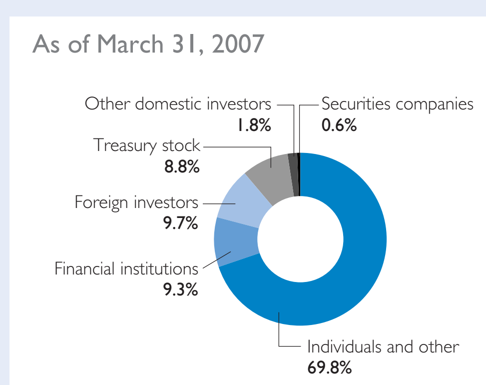


■ Monthly stock price range — TOPIX close ■ Monthly trading volume

COMPOSITION OF SHAREHOLDERS

(Percentage of ownership)

	2005		2006		2007
	Mar.	Sep.	Mar.	Sep.	Mar.
Individuals and other	58.2	56.2	61.4	69.6	69.8
Financial institutions	18.0	16.9	13.7	10.3	9.3
Foreign investors	12.5	15.5	14.3	9.5	9.7
Treasury stock	9.0	8.7	8.0	7.8	8.8
Other domestic investors	2.0	1.8	1.9	1.9	1.8
Securities companies	0.3	0.9	0.7	0.9	0.6



CORPORATE INFORMATION

(As of March 31, 2007)

HEAD OFFICE

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

ESTABLISHED

August 1981

COMMON STOCK LISTING

Tokyo Stock Exchange, First Section
(Code: 4921)

COMMON STOCK

Authorized Shares: 233,838,000
Outstanding Shares: 70,176,600

PAID-IN CAPITAL

¥10,795,161,280

NUMBER OF SHAREHOLDERS

68,597

NUMBER OF FULL-TIME EMPLOYEES

691

TRANSFER AGENT AND REGISTRAR

Mizuho Trust & Banking Co., Ltd.
1-2-1 Yaesu, Chuo-ku,
Tokyo 103-8670, Japan
http://www.mizuho-tb.co.jp/daikou/

ANNUAL MEETING OF SHAREHOLDERS

Held in mid-June

CONSOLIDATED SUBSIDIARIES

ATTENIR CORPORATION
NICOSTAR Co., Ltd.
IIMONO OHKOKU Co., Ltd.
FANCL Hatsuga Genmai Co., Ltd.
FANCL ASIA (PTE.,) LTD.
FANCL B & H CORPORATION

FANCL

FANCL Corporation

89-1 Yamashita-cho, Naka-ku
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Head Office phone: 81(45)226-1200
http://www.fancl.co.jp/corporate/ir/index.html

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