Summary of Consolidated Financial Statements for the Six Months Ended September 30, 2002

October 29, 2002

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan.

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Stock exchange listings: Tokyo
Code number: 4921
Head office: Kanagawa Prefecture
Board of Directors' meeting: October 29, 2002
Use of U.S. accounting standards: No

1. Results for the six months from April 1, 2002 to September 30, 2002

(1) Sales and Income

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
Six months ended 9/02	43,538	5.2	5,591	14.1	5,929	15.6
Six months ended 9/01	41,382	36.2	4,901	32.2	5,129	28.7
Year ended 3/02	84,657		11,118		11,002	

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)
Six months ended 9/02	3,077	11.9	131.99	—
Six months ended 9/01	2,749	25.8	141.03	—
Year ended 3/02	5,995		307.55	—

Notes:

1. Average number of shares outstanding (consolidated): Six months ended September 30, 2002: 23,315,393 shares
   Six months ended September 30, 2001: 19,493,314 shares
   Year ended March 31, 2002: 19,493,070 shares

   On May 20, 2002, the Company made a 1.2-for-1 stock split for all shareholders of record as of March 31, 2002. The average number of shares outstanding for the six months ended September 30, 2002 is calculated as if the stock split had taken place at the beginning of the period.
2. Changes in accounting methods: No
3. Year-on-year change for net sales, operating income, ordinary income and net income is based on the previous interim period.

(2) Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity/total assets (%)	Shareholders' equity per share (¥)
Six months ended 9/02	78,859	66,100	83.8	2,866.24
Six months ended 9/01	76,076	61,731	81.1	3,166.81
Year ended 3/02	79,026	64,718	81.9	3,320.23

Note: Number of shares outstanding at end of period (consolidated): Six months ended September 30, 2002: 23,061,776 shares
Six months ended September 30, 2001: 19,493,384 shares
Year ended March 31, 2002 : 19,492,084 shares

On May 20, 2002, the Company made a 1.2-for-1 stock split for all shareholders of record as of March 31, 2002.

(3) Cash Flows

	Net cash provided by operating activities (¥ million)	Net cash used in investing activities (¥ million)	Net cash used in financing activities (¥ million)	Cash and cash equivalents at end of period (¥ million)
Six months ended 9/02	3,283	(2,094)	(1,977)	26,747
Six months ended 9/01	2,038	(1,297)	(927)	27,779
Year ended 3/02	7,425	(5,416)	(2,456)	27,535

(4) Scope of consolidation and application of the equity method
Consolidated subsidiaries: 5 companies
Nonconsolidated subsidiaries accounted for by the equity method: None
Affiliates accounted for by the equity method: None

(5) Changes in scope of consolidation and application of the equity method:
Consolidation: (New) 1 company (Eliminated) None
Equity method: (New) None (Eliminated) None

2. Projected results for the year ending March 31, 2003

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)
Year ending 3/03	90,000	11,300	6,200

Reference: Estimated earnings per share (full year): ¥270.24 (Estimate based on average number of shares outstanding for the year)

Note: The above projections were made based on information available to the Company at the time of publication of these materials. Actual results may differ depending on a number of factors including but not limited to economic conditions. Please see page 9 of the attached materials for more information on the projections.

1. FANCL Group

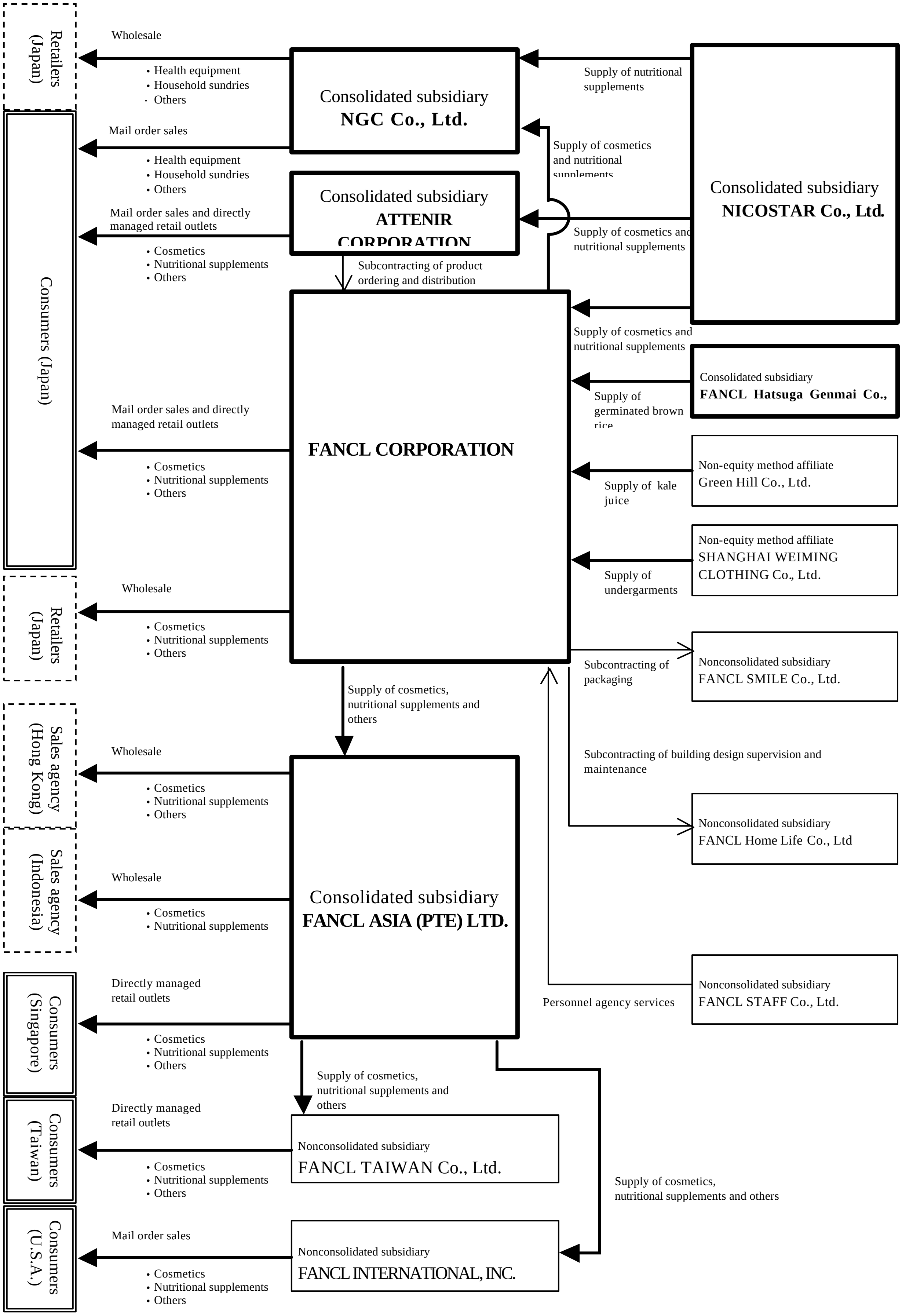
The FANCL Group comprises FANCL CORPORATION, 10 subsidiaries and three affiliates, and is primarily engaged in the manufacture and sales of cosmetics and nutritional supplements. Sales activities are principally conducted through mail order, directly managed retail outlets, and wholesale distribution. The Group's operations and the business segments in which they operate are as follows:

Cosmetics Business:	The manufacture and sales of preservative-free FANCL Cosmetics are conducted by FANCL. ATTENIR Cosmetics are manufactured by NICOSTAR Co., Ltd. (a consolidated subsidiary) and sold by ATTENIR CORPORATION (a consolidated subsidiary).
Nutritional Supplements Business:	Nutritional supplements are manufactured by NICOSTAR Co., Ltd. and sold by FANCL and ATTENIR.
Other Businesses:	NGC Co., Ltd. (a consolidated subsidiary) is engaged in mail-order sales of health equipment and household sundries. *Kaiteki Hadagi* (comfort undergarments) products are manufactured primarily by SHANGHAI WEIMING CLOTHING Co., Ltd. (an affiliate not accounted for by the equity method) and sold by FANCL. General merchandise and accessories for women are sourced from external manufacturers and sold by FANCL and ATTENIR. *Hatsuga Genmai* (germinated brown rice) is manufactured by FANCL Hatsuga Genmai Co., Ltd. (a consolidated subsidiary) and sold by FANCL. Kale juice is manufactured consignment by Green Hill Co., Ltd. (an affiliate not accounted for by the equity method) and external manufacturers and sold by FANCL.

FANCL ASIA (PTE) LTD. (a consolidated subsidiary) markets FANCL products in Singapore, as well as in the United States through FANCL INTERNATIONAL, INC. (a nonconsolidated subsidiary) and in Taiwan through FANCL TAIWAN Co., Ltd. (a nonconsolidated subsidiary) respectively.

In Japan, FANCL STAFF Co., Ltd. (a nonconsolidated subsidiary) is a personnel agency and introduction business serving Group companies. FANCL SMILE Co., Ltd. (a nonconsolidated subsidiary), established as a special corporation in line with legislation in Japan aimed at promoting employment opportunities for disabled persons, packages FANCL products. FANCL Home Life Co., Ltd. (a nonconsolidated subsidiary) primarily carries out design supervision and maintenance of buildings for the FANCL group of companies.

FANCL Group Operating Structure



Affiliates

Company	Location	Paid-In Capital (Millions of Yen)	Principal Businesses	Percentage of Voting/ Nonvoting Stock Held		Relationship with FANCL	Relevant Notes
				Voting	Nonvoting		
ATTENIR CORPORA-TION	Sakae-ku, Yokohama, Japan	¥150	Cosmetics and nutritional supplements business	100.0	—	Subcontracts product ordering and distribution services Seconded directors: 2	—
NICOSTAR Co., Ltd.	Sakae-ku, Yokohama, Japan	¥100	Cosmetics and nutritional supplements business	100.0	—	Manufactures cosmetics and nutritional supplements Seconded directors: 2	2
NGC Co., Ltd.	Shibuya-ku, Tokyo, Japan	¥160	Other businesses	81.2	—	Sells cosmetics and nutritional supplements Seconded directors: 1	4
FANCL Hatsuga Genmai Co., Ltd.	Ueda, Nagano, Japan	¥ 95	Other businesses	77.6	—	Manufactures germinated brown rice Seconded directors: 1	2
FANCL ASIA (PTE) LTD	Singapore	S$7,600 thousand	Cosmetics, nutritional supplements business and other businesses	100.0	—	Sells cosmetics, nutritional supplements and others Seconded directors: 4	5

Notes:

1. FANCL segment names are used to describe the principal businesses of affiliates.
2. NICOSTAR Co., Ltd. and FANCL Hatsuga Genmai Co., Ltd. are specified subsidiaries.
3. None of FANCL's affiliates prepares *yuka shoken todokesho* (securities registration statements) or *yuka shoken hokokusho* (reports of registered securities).
4. NGC Co., Ltd. accounts for more than 10% of FANCL's consolidated net sales, excluding intersegment transactions. The company's principal results of operations in the year ended March 31, 2002 were as follows:

(Millions of yen)

Principal Operating Results of NGC Co., Ltd.				
Net Sales	Ordinary Income	Net Income	Net Assets	Total Assets
¥5,173	¥135	¥77	¥(1,035)	¥2,249

5. FANCL ASIA (PTE) LTD was newly consolidated in the six months ended September 30, 2002.
6. None of FANCL's affiliates currently carries excessive debt.

2. Management Policy

(1) Basic Management Policy

FANCL's basic management policy is to cultivate a core competence centered on an ability to resolve negative issues. Consumers often have negative feelings—such as dissatisfaction and uneasiness or concern—about the products they use. FANCL's ongoing goal as a company is to maximize sensitivity and creativity to transcend accepted norms, thereby continuing to create new markets and offer new value. Our mainstay businesses at present are cosmetics and nutritional supplements. Our aim is to expand into new areas that will enhance our ability to resolve negative issues. At the same time, we will continue taking decisive measures that will enable us to achieve an ordinary income margin of 15%. These efforts also reflect our recognition that no business lasts forever, and that to increase corporate value and ensure stable, long-term returns to shareholders we must constantly work to identify new market needs and seek ways to resolve related negative issues.

(2) Policy Regarding the Allocation of Earnings

FANCL recognizes ensuring shareholders a fair return on their investment as a key management responsibility. Accordingly, our dividend policy is to maintain stable returns in the form of dividends and stock splits, while at the same time ensuring payouts are in keeping with our fiscal results, provisions to support future business development and business prospects. Retained earnings are applied to capital investment, research and development and investment in new businesses, with the aim of reinforcing and broadening our operating foundation, and are also used to purchase treasury stock. During the interim period, the Company acquired 317,700 shares of treasury stock on the market.

We intend to pay dividends of ¥25.00 per share—comprising interim and year-end dividends of ¥12.50—for the fiscal year ending March 31, 2002.

(3) Philosophy and Policy Regarding Lowering the Trading Unit

FANCL implemented a stock split at the ratio of 1:1.2 to shareholders listed in the register of shareholders at the close of March 31, 2002. We will also move toward lowering the stock trading unit in order to expand our shareholder base and increase the liquidity of our stock.

(4) Principal Medium-Term Tasks and Business Strategies

The principal medium-term management tasks facing the FANCL Group are to strengthen the foundation of its cosmetics business and nutritional supplements business and to bring new businesses to profitability as quickly as possible.

Regarding strategies to deal with management issues in each business, the Cosmetics Business will develop a philosophy of "Inner and Outer Beauty" that aims to create ideal skin based on cosmetic science and food science. For FANCL cosmetics, we have renewed information magazine *Espoir* as *FANCL Life*, a beauty information magazine based on this philosophy, and will work to secure sales by emphasizing the concept of "Inner and Outer Beauty" in each of our sales channels, including mail-order sales, sales at retail stores and wholesale sales.

In the Nutritional Supplements Business, we will focus on developing highly original products backed by food science, such as the world's first plant-derived hard capsule, while adding sales channels through such efforts as developing new types of stores and strengthening online sales.

In the *Hatsuga Genmai* (germinated brown rice) Business, we will focus on increasing our market share to make it a core business of the FANCL Group. In the future, we will work to further strengthen our superiority in quality, price and supply. We are striving to cultivate new markets and increase sales through a sales strategy of focusing the mail-order sales channel on individual customers and the wholesale sales channel on OEM supply.

In the Kale Juice Business, we will reduce costs and implement policies designed to strengthen sales in order to achieve profitability.

In overseas markets, we aim to expand sales in Asia by establishing new sales offices, strengthening the training of marketing staff and expanding the range of products we sell. We also plan to commence test-marketing of the new BOSCIA brand for the U.S. market.

FANCL Square, scheduled to open in Ginza, Tokyo in spring 2003, will offer customers the highest level of service. In addition to selling FANCL products, FANCL Square will also contain an esthetic salon and a restaurant/café.

FANCL delivers products to customers as soon as they are manufactured in order to keep inventory to a minimum. Accordingly, because an earthquake or other natural disaster would greatly disrupt the supply chain, we are considering decentralizing our production facilities.

FANCL strives to be an environment-friendly company, and will work to achieve ISO 14001 certification for its environmental management system.

(5) Measures to Create a Management Supervisory System (Enhancing Corporate Governance)

FANCL ensures that all three corporate auditors are outside auditors in order to create a highly transparent management review system that benefits from the experience and common sense of external professionals.

In addition, we have established a Customer Committee made up of 180 customers from around the country, to gather ideas from our customers' viewpoint and use them in developing and improving products and services.

3. Operating Results and Financial Position

(1) Operating Results

Economic conditions in Japan remained severe during the six months ended September 30, 2002. Despite indications of an improvement in exports and production, capital investment declined, while personal consumption continued its slump due to job insecurity and a decrease in overtime hours worked.

The cosmetics industry remained sluggish due to declining product prices, despite an increase in sales volume.

In the nutritional supplements industry, although the market is expanding, price competition intensified with the entry of new competitors into the market.

1) Cosmetics Business

Sales

In the Cosmetics Business, sales increased 1.7% compared with the same period of the previous year, to ¥18,509 million.

	Six months ended September 30, 2002	Six months ended September 30, 2001	% change
Mail-order sales	¥11,301 million	¥11,330 million	-0.3%
Retail sales	¥5,761 million	¥5,713 million	+0.8%
Other	¥1,447 million	¥1,156 million	+25.1%
Total	¥18,509 million	¥18,200 million	+1.7%

Mail-order sales totaled ¥11,301 million, a decrease of 0.3% compared with the same period of the previous year. Sales of FANCL cosmetics were ¥8,139 million, a decrease of 4.3% compared with the same period of the previous year, and sales of ATTENIR cosmetics totaled ¥3,161 million, an increase of 11.8% compared with the same period of the previous year.

FANCL cosmetics are developed from the perspective of “Inner and Outer Beauty,” and following the launch of the new FENATTY skin care series in the fiscal year ended March 31, 2002, the Company introduced Evante in April 2002 and CLEARTUNE in June 2002. However, although sales of skin care products were higher than the same period of the previous year, they did not achieve the expected level due to insufficient notification of the switch to the new series, which caused confusion among customers. Sales of makeup, hair care and body care products were also down; as a result, mail-order sales decreased compared to the same period of the previous year.

However, sales of ATTENIR cosmetics increased compared to the same period of the previous year, due to effective advertising campaigns that increased the customer base and product renewals in February and September that were well-received by customers.

Retail sales increased 0.8% compared with the same period of the previous year, to ¥5,761 million. Sales at existing stores, which had been steadily declining, recovered to the level of the same period of the previous year due to the success of measures to revitalize sales. As of September 30, 2002, the number of FANCL House shops (including two franchise stores) was 119 (with five new shops opened and no closures during the period) and the number of ATTENIR shops was five (no openings or closures during the period).

In **other sales channels**, sales increased 25.1% compared with the same period of the previous year, to ¥1,447 million, as the number of products sold at Lawson convenience stores increased from five to 16 in June with the start of the “Inner and Outer Beauty” promotion.

Operating income

Although advertising expenses decreased, the cost of sales ratio rose. There were also increases in costs associated with opening new shops and promotional expenses due to the start of the “Inner and Outer Beauty” promotion at Lawson convenience stores. As a result, operating income decreased 0.7%, compared with the same period of the previous year to ¥4,022 million and the operating margin fell 0.5 percentage points to 21.7%.

2) Nutritional Supplements Business

Sales

In the Nutritional Supplements Business, sales fell 0.4% compared with the same period of the previous year, to ¥14,217 million.

	Six months ended September 30, 2002	Six months ended September 30, 2001	% change
Mail-order sales	¥8,258 million	¥8,926 million	-7.5%
Retail sales	¥2,635 million	¥2,792 million	-5.6%
Other	¥3,322 million	¥2,555 million	+30.0%
Total	¥14,217 million	¥14,274 million	-0.4%

Mail-order sales decreased 7.5% compared with the same period of the previous year, to ¥8,258 million, as the number of customers decreased due to heightened competition. By product segment, sales of the Support Series were strong, but this was insufficient to compensate for the decline in sales of diet supplements, which had posted growth during the previous period.

In **retail sales**, sales at Genki Station shops were healthy, but sales of nutritional supplements were down at FANCL House shops, which focus on sales of cosmetics. As a result, sales at retail stores decreased 5.6% compared with the same period of the previous year, to ¥2,635 million. As of September 30, 2002, the number of Genki Station shops was nine and the number of Genki Net shops was two. One new Genki Station shop and one new Genki Net shop were opened during the period.

In **other sales channels**, sales increased 30.0% compared with the same period of the previous year, to ¥3,322 million, the result of the start of sales of 15 products at Lawson convenience stores in June.

Operating income

Although the cost of sales ratio increased, mainly due to the introduction of a plant-based hard capsule, advertising expenses declined. As a result, operating income increased 14.5% compared with the same period of the previous year, to ¥3,155 million, and the operating margin rose 2.9 percentage points to 22.2%.

3) Other Businesses

Sales

In Other Businesses, sales rose 21.4% compared with the same period of the previous year, to ¥10,811 million.

	Six months ended September 30, 2002	Six months ended September 30, 2001	% change
Hatsuga Genmai Business	¥3,176 million	¥1,509 million	+110.4%
Kale juice Business	¥1,035 million	¥515 million	+100.9%
NGC mail-order business	¥5,173 million	¥5,252 million	-1.5%
Other	¥1,425 million	¥1,630 million	-12.5%
Total	¥10,811 million	¥8,907 million	+21.4%

In the ***Hatsuga Genmai* Business**, a trial set generated a steady increase in new customers, and mail-order sales increased substantially. The product was featured on a popular health information television program, and OEM supply to the Japan Rice Millers and Distributors Cooperative and the Hokuren Federation of Agricultural Cooperatives rose steadily.

In the **Kale Juice Business**, sales in all sales channels were higher. Effective advertising contributed to an increase in the number of mail-order customers, and wholesale sales were also favorable, due to an increase in the number of stores carrying the product with the introduction of a three-pack for convenience stores in June.

In the mail-order business of **NGC Co., Ltd.** there was an increase in sales of electronic foot massagers and other products. However, there was no year-on-year increase in sales of cooling equipment, which sold favorably in the previous year. As a result, sales declined compared with the same period of the previous year.

In **other businesses**, sales of *Kaiteki Hadagi* (comfort undergarments) were strong, but sales of household sundries and *Mainichi ga Hakken*, a magazine for middle-aged and senior readers, declined. As a result, sales fell short of the level recorded during the same period of the previous year.

Operating income

Due to efforts to reduce losses in the *Hatsuga Genmai* Business, operating loss decreased ¥398 million compared to the same period of the previous year, to ¥644 million.

As a result of the above factors, total **net sales** for the interim period increased 5.2% to ¥43,538 million, **operating income** rose 14.1% to ¥5,591 million, and the operating margin improved 1.0 percentage point to 12.8%.

Net non-operating income rose ¥109 million over the same period of the previous year, due to an increase in insurance maturity repayments and a decrease in interest expense. Consequently, **ordinary income** increased 15.6% to ¥5,929 million and the ordinary income margin increased 1.2 percentage points to 13.6%.

Although the Company posted losses on the disposal of equipment at the former Nagano factory of FANCL Hatsuga Genmai Co., Ltd., **net income** increased 11.9% to ¥3,077 million and the ratio of net income to net sales rose 0.5 percentage points to 7.1%.

(2) Cash Flows

Although net cash provided by operating activities increased, increases in both cash used by investing activities and cash used by financing activities led to a ¥788 million decrease in cash and cash equivalents from the beginning to the end of the interim period, to ¥26,747 million.

Net cash provided by operating activities amounted to ¥3,283 million, an increase of ¥1,245 million over the same period of the previous year, due to factors including ¥5,395 million in income before income taxes, ¥1,086 million in depreciation and amortization, a ¥1,050 million increase in inventories, and ¥2,912 million in income taxes paid.

Net cash used in investing activities totaled ¥2,094 million, an increase of ¥797 million compared to the same period of the previous year, due to factors including a ¥1,530 million payment for deposits and ¥711 million in payment for purchase of fixed assets.

Net cash used in financing activities was ¥1,977 million, an increase of ¥1,050 million compared to the same period of the previous year. Factors included a ¥1,331 million payment for purchase of treasury stock, the repayment of long-term debt totaling ¥402 million, and ¥242 million in cash dividends paid.

(3) Outlook

Looking at the economic situation, the business environment in which the Company operates is expected to remain challenging.

In the Cosmetics Business, increased revenue is forecast due to a major renewal of ATTENIR Cosmetics as well as efforts to further develop the “Inner and Outer Beauty” philosophy and strengthen advertising.

In the Nutritional Supplements Business, revenues are expected to decline as growth slows in the number of new customers amid further intensifying competition among manufacturers.

In Other Businesses, sales of the *Hatsuga Genmai* Business and the Kale Juice Business are expected to grow as awareness of these products spreads.

As a result, based on these projections, we forecast consolidated net sales for the fiscal year ending March 31, 2003 to increase 6.3% year-on-year to ¥90,000 million. We project ordinary income of ¥11,300 million, a 2.7% increase, net income of ¥6,200 million, a 3.4% increase, and an ordinary income ratio of 12.6%.

(4) Appropriation of Procured Funds

On December 7, 1999, FANCL offered shares for public subscription at market price, raising funds of ¥15,460 million. The fund investment plan and actual fund appropriation were as follows.

1. Investment Plan at Time of Issuance

Of the ¥15,460 million raised, ¥7,916 million was earmarked for investment in plant and equipment, ¥3,055 million for repayment of debt, ¥3,100 million for investments in and loans to subsidiaries, and ¥1,389 for working capital.

2. Actual Fund Appropriation

Of the ¥15,460 million raised, ¥14,404 million (¥5,930 million for investment in plant and equipment, ¥2,365 million for repayment of debt, ¥3,100 million for investments in and loans to subsidiaries, ¥1,389 million for working capital, and ¥1,620 million to cover part of our investment in a special-purpose company established to purchase an office building using a real estate trust) was appropriated as of September 30, 2002, generally in accordance with the original plan. The remaining ¥1,056 million is scheduled to be appropriated by March 2003 as capital investment funds for FANCL Square, which is under construction in Ginza, Tokyo.

4. Interim Consolidated Financial Statements and Notes

Interim Consolidated Balance Sheets

(Millions of yen)

ASSETS	As of September 30, 2002		As of September 30, 2001		As of March 31, 2002	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
Current assets:						
Cash and cash equivalents	19,460		16,050		19,804	
Notes and accounts receivable	8,178		8,464		8,298	
Marketable securities	7,731		11,728		7,731	
Inventories	6,551		5,137		5,483	
Deferred tax assets	718		468		514	
Others	925		1,209		1,906	
Allowance for doubtful accounts	(172)		(202)		(176)	
Total current assets	43,393	55.0%	42,856	56.3%	43,561	55.1%
Fixed assets:						
Tangible fixed assets:						
Buildings and structures	9,578		9,159		9,836	
Equipment and vehicles	1,792		2,317		2,271	
Tools and fixtures	975		885		984	
Land	10,317		10,317		10,317	
Construction in progress	500		362		643	
Total tangible fixed assets	23,165	29.4	23,042	30.3	24,053	30.4
Intangible fixed assets:						
Software	1,114		1,313		1,235	
Goodwill	906		1,165		1,036	
Others	81		134		82	
Total intangible fixed assets	2,102	2.7	2,613	3.5	2,354	3.0
Investments and other assets:						
Investment securities	1,020		1,417		1,183	
Long-term loans	1,031		1,183		1,122	
Guaranty money	2,408		2,411		2,349	
Deferred tax assets	313		446		257	
Others	5,686		2,366		4,427	
Allowance for doubtful accounts	(263)		(263)		(284)	
Total investments and other assets	10,198	12.9	7,562	9.9	9,055	11.5
Total fixed assets	35,465	45.0	33,219	43.7	35,464	44.9
Total assets	78,859	100.0%	76,076	100.0%	79,026	100.0%

Note: Figures below ¥1 million have been truncated.

(Millions of yen)

LIABILITIES AND SHAREHOLDERS' EQUITY	As of September 30, 2002		As of September 30, 2001		As of March 31, 2002	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
Current liabilities:						
Notes and accounts payable	3,401		3,543		3,638	
Short-term loans	—		920		—	
Current portion of long-term debt	540		811		742	
Accrued liabilities	2,801		3,063		3,737	
Accrued expenses	236		247		284	
Accrued income taxes	2,591		2,336		2,850	
Allowance for bonuses	814		759		766	
Others	324		451		459	
Total current liabilities	10,709	13.6%	12,132	16.0%	12,479	15.8%
Long-term liabilities:						
Long-term debt	150		640		350	
Deferred tax liabilities	—		83		—	
Allowance for retirement bonuses	1,072		944		1,004	
Allowance for directors' retirement bonuses	352		327		346	
Others	473		216		126	
Total long-term liabilities	2,048	2.6	2,211	2.9	1,828	2.3
Total liabilities	12,758	16.2	14,344	18.9	14,308	18.1
Shareholders' equity						
Common stock	—	—	10,795	14.2	10,795	13.7
Additional paid-in capital	—	—	11,706	15.4	11,706	14.8
Consolidated retained earnings	—	—	39,242	51.5	42,245	53.4
Net unrealized holding gain on other securities	—	—	(11)	(0.0)	(18)	(0.0)
Treasury stock	—	—	(0)	(0.0)	(9)	(0.0)
Total shareholders' equity	—	—	61,731	81.1	64,718	81.9
Common stock	10,795	13.7	—	—	—	—
Capital reserve	11,706	14.8	—	—	—	—
Retained earnings	44,963	57.0	—	—	—	—
Net unrealized holding gain on other securities	(13)	(0.0)	—	—	—	—
Foreign currency translation adjustment	(9)	(0.0)	—	—	—	—
Treasury stock	(1,341)	(1.7)	—	—	—	—
Total shareholders' equity	66,100	83.8	—	—	—	—
Total liabilities and shareholders' equity	78,859	100.0%	76,076	100.0%	79,026	100.0%

Note: Figures below ¥1 million have been truncated.

Interim Consolidated Statements of Income

(Millions of yen)

	Six months ended September 30, 2002		Six months ended September 30, 2001		Year ended March 31, 2002	
		Percentage of Total		Percentage of Total		Percentage of Total
Net sales	43,538	100.0%	41,382	100.0%	84,657	100.0%
Cost of sales	14,641	33.6	13,594	32.9	27,975	33.0
Gross profit	28,896	66.4	27,788	67.1	56,682	67.0
Selling, general and administrative expenses	23,304	53.6	22,887	55.3	45,563	53.9
Operating income	5,591	12.8	4,901	11.8	11,118	13.1
Non-operating income:	525	1.2	443	1.1	636	0.8
Interest and dividend income	19		24		46	
Other non-operating income	506		419		590	
Non-operating expenses:	188	0.4	215	0.5	753	0.9
Interest expense	8		25		37	
Other non-operating expenses	180		189		715	
Ordinary income	5,929	13.6	5,129	12.4	11,002	13.0
Extraordinary income:	19	0.0	7	0.0	0	0.0
Gain on sale of fixed assets	0		—		—	
Reserve for allowance for doubtful receivables	19		7		—	
Other extraordinary income	—		0		0	
Extraordinary expenses:	553	1.2	352	0.9	458	0.5
Loss on disposal of fixed assets	499		25		143	
Equity write-offs of affiliated companies	—		258		—	
Loss on liquidation of affiliated companies	—		—		258	
Loss on doubtful receivables	—		53		53	
Valuation loss on investment securities	32		—		—	
Valuation loss on golf club memberships	—		2		1	
Special service bonuses for directors	21		0		0	
Other extraordinary expenses	—		11		—	
Income before income taxes	5,395	12.4	4,784	11.5	10,544	12.5
Income taxes	2,585	5.9	2,295	5.5	4,745	5.6
Adjustment for income taxes	(267)	(0.6)	(259)	(0.6)	(195)	(0.2)
Net income	3,077	7.1	2,749	6.6	5,995	7.1%

Note: Figures below ¥1 million have been truncated.

Interim Consolidated Statements of Retained Earnings

(Millions of yen)

	Six months ended September 30, 2002		Six months ended September 30, 2001		Year ended March 31, 2002	
Balance of consolidated retained earnings at beginning of the period		—		36,977		36,977
Decrease in consolidated retained earnings						
Dividends	—		243		487	
Decrease in consolidated retained earnings due to increase in consolidated subsidiaries	—		3		3	
Decrease in consolidated retained earnings due to change in equity in earnings resulting from third-party offering by consolidated subsidiary	—	—	237	483	237	727
Net income		—		2,749		5,995
Balance of consolidated retained earnings at end of the period		—		39,242		42,245
(Capital reserve)						
Balance at beginning of the period						
Additional paid-in capital at beginning of the period	11,706	11,706	—	—	—	—
Balance at end of the period		11,706		—		—
(Retained earnings						
Balance at beginning of the period						
Consolidated retained earnings at beginning of the period	42,245	42,245	—	—	—	—
Increase in retained earnings						
Net income	3,077	3,077	—	—	—	—
Decrease in retained earnings						
Dividends	243		—		—	
Decrease in retained earnings due to increase in consolidated subsidiaries	114	358	—	—		—
Balance at end of the period		44,963		—	—	—

Note: Figures below ¥1 million have been truncated.

Interim Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended September 30, 2002	Six months ended September 30, 2001	Year ended March 31, 2002
Cash flows from operating activities:			
Income before income taxes	5,395	4,784	10,544
Depreciation and amortization	1,086	1,101	2,245
Amortization in excess of investment cost over equity in net assets of consolidated subsidiaries	129	129	259
Increase (decrease) in allowance for bonuses	47	(25)	(18)
Increase (decrease) in allowance for doubtful accounts	(23)	7	1
Increase (decrease) in allowance for retirement benefits	67	59	119
Interest and dividend income	(19)	(24)	(46)
Interest expenses	8	25	37
Exchange loss	12	10	(12)
Loss on sale of treasury stock	—	0	(1)
Valuation loss on investment securities	32	—	0
Investment gain on anonymous association	(183)	—	—
Equity write-offs of affiliated companies	—	258	—
Loss on liquidation of affiliated companies	—	—	258
Valuation loss on golf club memberships	—	2	1
Net refund of insurance premiums	(173)	(118)	(126)
Gain on sale of tangible fixed assets	0	—	—
Loss on disposal of tangible fixed assets	499	25	145
Decrease (increase) in trade receivables	121	(525)	(359)
Increase in inventories	(1,050)	(346)	(692)
Decrease (increase) in other current assets	1,056	(653)	(1,306)
Decrease in other fixed assets	8	—	8
Decrease in trade payables	(249)	(170)	(28)
Decrease in other current liabilities	(818)	(321)	537
Decrease in other fixed liabilities	(78)	(150)	(225)
Others	(8)	—	0
Subtotal	5,859	4,069	11,343
Interest and dividends received	19	25	39
Interest paid	(9)	(22)	(37)
Refund on insurance premiums	325	228	247
Income taxes paid	(2,912)	(2,262)	(4,166)
Net cash provided by operating activities	3,283	2,038	7,425
Cash flows from investing activities:			
Payment for deposits	(1,530)	(500)	(500)
Proceeds from termination of deposits	100	—	—
Payment for purchase of tangible fixed assets	(540)	(1,363)	(3,561)
Proceeds from sales of tangible fixed assets	1	1,167	1,390
Payment for purchase of intangible fixed assets	(171)	(347)	(699)
Payment for purchases of investment securities	—	(0)	(0)
Proceeds from sales of investment securities	—	—	0
Payments for purchase of investments in affiliates	—	(381)	(381)
Proceeds from liquidation of affiliated company	—	—	221
Proceeds from collection of loans	45	25	61
Proceeds from investment on anonymous association	141	—	—
Payment for purchase of other investments	(187)	(149)	(2,390)
Proceeds from sales of other investments	47	252	442
Net cash used in investing activities	(2,094)	(1,297)	(5,416)

(Continued on following page)

Cash flows from financing activities:			
Repayment of short-term loans	—	(262)	(1,170)
Repayment of long-term debt	(402)	(452)	(823)
Minority interests	—	30	30
Payment for purchase of treasury stock	(1,331)	(16)	(23)
Proceeds from sales of treasury stock	—	17	17
Cash dividends paid	(242)	(242)	(487)
Net cash used in financing activities	(1,977)	(927)	(2,456)
Effect of exchange rate changes on cash and cash equivalents	(20)	(8)	9
Net increase in cash and cash equivalents	(808)	(194)	(437)
Cash and cash equivalents at beginning of period	27,535	27,947	27,947
Reconciliation of cash and cash equivalents related to change in scope of consolidation	20	25	25
Cash and cash equivalents at end of period	26,747	27,779	27,535

Preparation of the Consolidated Financial Statements

1. Scope of Consolidation

Of the ten subsidiaries, five companies are consolidated subsidiaries: ATTENIR CORPORATION, NICOSTAR Co., Ltd., NGC Co., Ltd., FANCL Hatsuka Genmai Co., Ltd. and FANCL ASIA (PTE) LTD.

FANCL ASIA (PTE) LTD is included in the scope of consolidation starting from the interim period ended September 30, 2002 because its importance has increased.

Five companies – FANCL INTERNATIONAL, INC., FANCL STAFF Co., Ltd., FANCL SMILE Co., Ltd., FANCL Home Life Co., Ltd., and FANCL TAIWAN Co., Ltd. – are unconsolidated because they are small-sized companies and their respective total assets, net income (in proportion to equity) and retained earnings (in proportion to equity) would not have a significant effect on the interim consolidated financial statements.

2. Application of the Equity Method

The Company's five nonconsolidated subsidiaries mentioned above and three affiliated companies did not significantly influence the net loss or retained earnings of the Company and are thus accounted for using the cost method, rather than the equity method.

3. Fiscal Year-End of Consolidated Subsidiaries

Among consolidated subsidiaries, the interim closing date of FANCL ASIA (PTE) LTD is June 30. The interim financial statements as of the interim closing date are used in preparing the interim consolidated financial statements. Consolidation adjustments are made as necessary for significant transactions occurring until the interim consolidated closing date.

Because FANCL ASIA (PTE) LTD changed its fiscal year during this interim period, its interim results were calculated for the three-month period from April 1 to June 30, 2002. However, the effect of this was insignificant.

4. Accounting Standards

(1) Basis and method for valuation of major assets

(a) Securities

Other marketable securities: Stocks with market value: At lower of cost or market by the moving average method, based on the market closing price on the last day of the period. (Valuation gains and losses resulting are calculated by the full capital costing method; cost of disposal is calculated by the moving average method.)

Stocks with no market value: At cost by the average method

(b) Derivatives: Market value method

(c) Inventories

Finished goods, work in process, raw materials:	At cost by the average method
Merchandise:	At cost by the monthly average method
Supplies:	At cost by the last purchase price method

(2) Depreciation of Fixed Assets

Property and equipment: Declining balance method based on estimated useful life, with the exception of buildings (excluding attached structures) acquired on or after April 1, 1998, which are depreciated by the straight-line method. The estimated useful lives for such assets are as follows:

Buildings and structures:	3–50 years
Machinery and transport equipment:	2–22 years
Furniture, tools and fixtures:	2–20 years

Intangible fixed assets: Straight-line method, with the exception of software intended for internal use, which is amortized by the straight-line method over its estimated useful life (five years)

Long-term prepaid expenses: Straight-line method

(3) Allowances

Allowance for doubtful accounts: The Company makes provisions against estimated uncollectible receivables sufficient to cover possible losses on the collection of receivables based on a review of the potential for recovery of individual receivables.

Allowance for bonuses: To prepare for future bonus payments to employees, the Company makes provisions in the amount accrued based on the estimated payment.

Allowance for retirement bonuses: To prepare for future retirement benefit payments to employees, the Company makes provisions in the amount recognized as accruing at the end of the consolidated interim period, based on the estimated retirement benefit obligation and pension assets at the end of the fiscal year.

Actuarial gains and losses are charged to income on a straight-line basis over a certain number of years (five years) within the average remaining years of service starting from the year after the gain or loss arises.

Allowance for directors' retirement bonuses: To prepare for future retirement bonus payments to directors, the Company makes the necessary provisions at the end of the fiscal year based on internal regulations.

(4) Foreign currency-denominated assets and liabilities

Assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the balance sheet date and differences are accounted for as income or losses. Foreign currency-denominated assets and liabilities hedged by forward exchange contracts are translated at the contracted rate of exchange.

(5) Leases

Finance leases other than those which transfer the right of ownership to the lessee are accounted for in the same manner as ordinary operating lease transactions.

(6) Hedge accounting

Hedge accounting policy: Derivative instruments are accounted for using deferral hedge accounting. Forward exchange contracts meeting the appropriate criteria are accounted for using the allocation method.

Hedging instruments/targets: Forward exchange contracts/payables or forecast transactions denominated in foreign currencies.

Policy regarding use of hedging: The Company enters into forward exchange and interest rate swap contracts in the normal course of its business to manage currency and interest rate exposure.

Method of assessing hedge effectiveness: As a rule, the Company uses individual forward exchange contracts and thus does not assess hedge effectiveness.

Other risk management information relevant to hedge accounting: The Company has formulated standards to govern its use of derivatives. The use of derivatives in daily business is managed by the Accounting Department, which reports to the Board of Directors on the progress of transactions.

(7) Others

All transactions are posted in amounts prior to deduction of consumption and other taxes.

5. Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows consist primarily of cash on hand, cash deposits and short-term, highly liquid investments with original maturities of three months or less which are readily convertible into cash with insignificant risk of change in value.

Supplemental Information

(Accounting for Treasury Stock and Reversal of Legal Reserve, etc.)

Effective from the interim period of fiscal 2003, "Accounting Standards for Treasury Stock and Reversal of Legal Reserve, etc." (Corporate Accounting Standards, No. 1) are applied.

Due to the revision of rules for interim consolidated financial statements, the “Shareholders’ equity” section of the interim consolidated balance sheets and the interim consolidated statements of retained earnings are prepared in accordance with the revised rules for interim consolidated financial statements.

Notes to Interim Consolidated Balance Sheets

(Millions of yen)

	As of September 30, 2002	As of September 30, 2001	As of March 31, 2002
1. Accumulated depreciation of tangible fixed assets	10,128	8,834	9,574
2. Contingent liabilities	679	873	764

Notes to Interim Consolidated Statements of Income

(Millions of yen)

	Six months ended September 30, 2002	Six months ended September 30, 2001	Year ended March 31, 2002
1. Principal components of selling, general and administrative expenses			
Advertising	4,220	5,813	10,212
Sales promotions	4,427	3,709	8,160
Transport	2,130	1,804	3,781
Communications	1,439	1,247	2,800
Fees	2,235	2,528	5,110
Salaries	3,025	2,872	5,828
Depreciation	733	670	1,388
2. R&D expenses included in general and administrative and manufacturing expenses	843	691	1,524

Notes to Interim Consolidated Statements of Cash Flows

Relationship between the ending balance of cash and cash equivalents and the category names used in the consolidated balance sheets

(Millions of yen)

	Six months ended September 30, 2002	Six months ended September 30, 2001	Year ended March 31, 2002
Cash and deposits account	19,460	16,050	19,804
Securities account	7,731	11,728	7,731
Total	27,192	27,779	27,535
Deposits with maturities of less than three months	445	—	—
Cash and cash equivalents	26,747	27,779	27,535

Leases

1. Finance leases in which the right of ownership is not transferred to the lessee

(1) Purchase cost, accumulated depreciation and balance at end of period

(Millions of yen)

	Six months ended September 30, 2002	Six months ended September 30, 2002	Year ended March 31, 2002
Machinery and transport equipment:			
Purchase cost	4,401	2,608	2,598
Accumulated depreciation	854	414	598
Balance at end of period	3,547	2,194	1,999
Furniture, tools and fixtures:			
Purchase cost	1,050	1,140	1,110
Accumulated depreciation	632	559	604
Balance at end of period	417	581	506
Total:			
Purchase cost	5,452	3,749	3,708
Accumulated depreciation	1,487	973	1,202
Balance at end of period	3,965	2,775	2,506

(2) Future lease payments

(Millions of yen)

	As of September 30, 2002	As of September 30, 2001	As of March 31, 2002
Within one year	758	600	573
More than one year	3,148	2,093	1,899
	3,907	2,693	2,473

(3) Outstanding lease payments and depreciation

(Millions of yen)

	As of September 30, 2002	As of September 30, 2001	As of March 31, 2002
Outstanding lease payments	435	372	681
Depreciation expense	375	300	627
Interest expense	46	27	58

(4) Method of calculating depreciation and interest expenses

Depreciation expense is calculated by the straight-line method over the lease term of the lease asset assuming no residual value. Interest expense is calculated by the interest method, whereby the difference between total lease payment and purchase cost is distributed in equal installments over the term of the lease.

2. Operating leases

Future lease payments

(Millions of yen)

	As of September 30, 2002	As of September 30, 2001	As of March 31, 2002
Within one year	0	—	—
More than one year	3	—	—
	4	—	—

5. Segment Information

1. Business Segments

Six months ended September 30, 2002

(Millions of yen)

	Cosmetics Business	Nutritional Supplements Business	Other Businesses	Total	Eliminations or Corporate	Consolidated
1. Sales & operating income:						
(1) Sales to external customers	18,509	14,217	10,811	43,538	—	43,538
(2) Intersegment sales or transfers	—	—	—	—	—	—
Total sales	18,509	14,217	10,811	43,538	—	43,538
Operating expenses	14,487	11,061	11,456	37,004	941	37,946
Operating income (loss)	4,022	3,155	(644)	6,533	(941)	5,591

Six months ended September 30, 2001

(Millions of yen)

	Cosmetics Business	Nutritional Supplements Business	Other Businesses	Total	Eliminations or Corporate	Consolidated
1. Sales & operating income:						
(1) Sales to external customers	18,200	14,274	8,907	41,382	—	41,382
(2) Intersegment sales or transfers	—	—	—	—	—	—
Total sales	18,200	14,274	8,907	41,382	—	41,382
Operating expenses	14,149	11,519	9,950	35,619	861	36,481
Operating income (loss)	4,050	2,755	(1,042)	5,763	(861)	4,901

Year ended March 31, 2002

(Millions of yen)

	Cosmetics Business	Nutritional Supplements Business	Other Businesses	Total	Eliminations or Corporate	Consolidated
1. Sales & operating income:						
(1) Sales to external customers	36,748	28,995	18,913	84,657	—	84,657
(2) Intersegment sales or transfers	—	—	—	—	—	—
Total sales	36,748	28,995	18,913	84,657	—	84,657
Operating expenses	28,341	23,034	20,594	71,971	1,567	73,538
Operating income (loss)	8,406	5,960	(1,680)	12,686	(1,567)	11,118

Notes:

1. Segmentation has been adopted for internal management purposes.
2. Segment operations are as follows:
   Cosmetics business: Mail-order and retail sales and wholesaling of a variety of cosmetics products
   Nutritional supplements business: Mail-order and retail sales and wholesaling of a variety of nutritional supplements
   Other businesses: Mail-order sales of personal sundries, accessories, undergarments, health equipment and household sundries, publishing operations, mail-order and retail sales of germinated brown rice and kale juice, etc.
3. Unallocatable operating expenses included in "Eliminations or Corporate" consist of operating expenses incurred by the Administration Department of the Company.

2. Geographic Area

During the six months ended September 30, 2002, sales in Japan accounted for more than 90 percent of total net sales. Therefore, segment information by geographic area is not provided.

The Company had no consolidated subsidiaries or branches based in countries other than Japan in the interim period ended September 30, 2001or the fiscal year ended March 31, 2002. Accordingly, segment information by geographic area is not provided.

3. Overseas Sales

Sales in overseas markets accounted for less than 10% of consolidated net sales in the interim periods ended September 30, 2001 and 2002 and the fiscal year ended March 31, 2002. Accordingly, overseas sales information is not provided.

6. Production, Orders and Sales

1. Actual Production

(Millions of yen)

	As of September 30, 2002	As of September 30, 2001	As of March 31, 2002
Cosmetics	22,597	21,887	43,107
Nutritional supplements	15,237	14,870	29,921
Others	6,189	3,822	6,397
Total	44,024	40,580	79,426

Notes:

1. Amounts represent sales prices.
2. Amounts are prior to the deduction of national and regional consumption taxes.

2. Orders

Production is conducted based on sales forecasts. Accordingly, order information is not available.

3. Sales by Product Category

(Millions of yen)

	As of September 30, 2002	As of September 30, 2001	As of March 31, 2002
Cosmetics	18,509	18,200	36,748
Nutritional supplements	14,217	14,274	28,995
Others	10,811	8,907	18,913
Total	43,538	41,382	84,657

Notes:

1. Others includes sales of undergarments, germinated brown rice, kale juice, sundries and other products.
2. Amounts are prior to the deduction of national and regional consumption taxes.

7. Securities

Six months ended September 30, 2002

1. Market Value of Other Marketable Securities

(Millions of yen)

	Acquisition Cost	Book Value	Unrealized Gain (Loss)
1. Stocks	182	145	(36)
2. Bonds	50	50	0
3. Others	—	—	—
Total	232	196	(35)

7. Securities for which Market Value is Not Calculated

(Millions of yen)

	Book Value
Other marketable securities:	
Current assets:	
Money management funds (MMF)	4,725
Free financial funds (FFF)	3,006
Fixed assets:	
Unlisted stocks (excluding over-the-counter stocks)	163
Total	7,895

Six months ended September 30, 2001

1. Market Value of Other Marketable Securities

(Millions of yen)

	Acquisition Cost	Book Value	Unrealized Gain (Loss)
4. Stocks	124	104	(19)
5. Bonds	50	50	0
6. Others	—	—	—
Total	174	155	(19)

2. Securities for which Market Value is Not Calculated

(Millions of yen)

	Book Value
Other marketable securities:	
Current assets:	
Money management funds (MMF)	8,723
Free financial funds (FFF)	3,005
Fixed assets:	
Unlisted stocks (excluding over-the-counter stocks)	222
Total	11,950

Year ended March 31, 2002

1. Market Value of Other Marketable Securities

(Millions of yen)

	Acquisition Cost	Book Value	Unrealized Gain (Loss)
3. Stocks	124	91	(32)
4. Bonds	50	50	0
5. Others	—	—	—
Total	174	142	(32)

2. Securities for which Market Value is Not Calculated

(Millions of yen)

	Book Value
Other marketable securities:	
Current assets:	
Money management funds (MMF)	4,725
Free financial funds (FFF)	3,006
Fixed assets:	
Unlisted stocks (excluding over-the-counter stocks)	222
Total	7,953

8. Derivatives

As of September 30, 2002
No pertinent derivative transactions were undertaken during the interim period ended September 30, 2002.
The Company did undertake forward exchange contracts during the period, but these are accounted for using hedge accounting and are therefore not indicated herein.

As of September 30, 2001
No pertinent derivative transactions were undertaken during the interim period ended September 30, 2001.

As of March 31, 2002
No pertinent derivative transactions were undertaken during the year ended March 31, 2002.
The Company did undertake forward exchange contracts during the period, but these are accounted for using hedge accounting and are therefore not indicated herein.