

# Summary of Nonconsolidated 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.

<b>FANCL CORPORATION</b>	Stock exchange listings:	Tokyo
URL: <a href="http://www.fancl.co.jp">http://www.fancl.co.jp</a>	Code number:	4921
Representative: Kenji Ikemori (President and Representative Director)	Head office:	Kanagawa Prefecture
Contact: Katsuhiko Matsumoto	Board of Directors' meeting:	October 29, 2002
Director/General Manager,	Use of basic unit of stock:	Yes (100 shares)
General Affairs Department	Interim dividends:	Paid
Phone: +81-45-226-1200	Interim dividends payment date:	December 3, 2002

## 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	34,614	4.8	4,388	13.2	4,979	16.5
Six months ended 9/01	33,038	21.8	3,877	22.1	4,273	16.8
Year ended 3/02	66,302		8,455		8,723	

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)
Six months ended 9/02	2,856	22.0	122.50
Six months ended 9/01	2,341	16.4	120.14
Year ended 3/02	4,794		245.94

Notes:

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

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.

- Changes in accounting methods: No
- Year-on year change for net sales, operating income, ordinary income and net income is based on the previous fiscal year.

### (2) Dividends

	Dividends per share (¥) Interim	Dividends per share (¥) Year-end
Six months ended 9/02	12.50	
Six months ended 9/01	12.50	
Year ended 3/02		25.00

### (3) Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity/total assets (%)	Shareholders' equity per share (¥)
Six months ended 9/02	67,348	58,057	86.2	2,517.46
Six months ended 9/01	64,651	54,569	84.4	2,799.37
Year ended 3/02	67,146	56,762	84.5	2,912.06

Notes:

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

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

- Number of shares of treasury stock at end of period: Six months ended September 30, 2002: 330,424  
Six months ended September 30, 2001: 116

Year ended March 31, 2002: 1,416

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

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)	Annual dividends per share (¥)	
				Year-end	
Year ending 3/03	70,800	9,300	5,300	12.50	25.00

Reference: Estimated earnings per share (full year): ¥ 231.01

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.

## Interim Nonconsolidated Financial Statements and Notes

### Interim Nonconsolidated Balance Sheets

(Millions of yen)

ASSETS	As of September 30, 2002		As of September 30, 2001		As of March 31, 2002	
		Percentage of Total		Percentage of Total		Percentage of Total
<b>Current assets</b>						
Cash and cash equivalents	14,277		11,058		13,574	
Notes receivable	38				14	
Accounts receivable	6,411		6,823		6,564	
Marketable securities	7,731		11,728		7,731	
Inventories	3,795		2,986		3,183	
Deferred tax assets	425		322		338	
Short-term loans to affiliates	503		628		2,314	
Others	604		940		479	
Allowance for doubtful accounts	(44)		(51)		(50)	
<b>Total current assets</b>	<b>33,743</b>	<b>50.1%</b>	<b>34,435</b>	<b>53.3</b>	<b>34,150</b>	<b>50.9%</b>
<b>Fixed assets</b>						
Tangible fixed assets:						
Buildings	7,500		7,920		7,684	
Machinery and equipment	1,570		1,738		1,723	
Land	7,920		7,920		7,920	
Construction in progress	500		44		455	
Others	1,033		1,062		1,122	
<b>Total tangible fixed assets</b>	<b>18,525</b>	<b>27.5</b>	<b>18,686</b>	<b>28.9</b>	<b>18,907</b>	<b>28.2</b>
Intangible fixed assets	1,132	1.7	1,367	2.1	1,245	1.9
Investments and other assets:						
Equity in affiliates	2,173		2,013		1,792	
Long-term loans to affiliates	3,457		2,657		3,744	
Deferred tax assets	447		530		417	
Guaranty money	2,226		2,268		2,182	
Reserve for insurance	1,283		1,256		1,320	
Others	4,372		1,453		3,407	
Allowance for doubtful accounts	(14)		(17)		(20)	
<b>Total investments and other assets</b>	<b>13,947</b>	<b>20.7</b>	<b>10,161</b>	<b>15.7</b>	<b>12,842</b>	<b>19.1</b>
<b>Total fixed assets</b>	<b>33,604</b>	<b>49.9</b>	<b>30,215</b>	<b>46.7</b>	<b>32,995</b>	<b>49.1</b>
<b>Total assets</b>	<b>67,348</b>	<b>100.0%</b>	<b>64,651</b>	<b>100.0%</b>	<b>67,146</b>	<b>100.0%</b>

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	
		Percentage of Total		Percentage of Total		Percentage of Total
<b>Current liabilities:</b>						
Notes and accounts payable	1,831		1,776		1,865	
Current portion of long-term debt	540		811		742	
Accrued liabilities	2,215		2,547		3,058	
Accrued income taxes	2,237		1,824		1,950	
Allowance for bonuses	657		607		621	
Others	461		642		627	
Total current liabilities	7,942	11.8%	8,209	12.7%	8,865	13.2%
<b>Long-term liabilities:</b>						
Long-term debt	150		690		350	
Allowance for retirement bonuses	696		584		639	
Allowance for directors' retirement bonuses	352		327		346	
Other long-term liabilities	150		271		181	
Total long-term liabilities	1,348	2.0	1,872	2.9	1,518	2.3
<b>Total liabilities</b>	<b>9,291</b>	<b>13.8</b>	<b>10,082</b>	<b>15.6</b>	<b>10,384</b>	<b>15.5</b>
<b>Shareholders' equity</b>						
Common stock			10,795	16.7	10,795	16.1
Capital reserve			11,706	18.1	11,706	17.4
Legal reserve			267	0.4	267	0.4
Other retained earnings			31,812	49.2	34,021	50.6
Voluntary reserves			29,100		29,100	
Unappropriated retained earnings at end of period			2,712		4,921	
Net unrealized holding gain on other securities			(11)	(0.0)	(18)	(0.0)
Treasury stock			(0)	(0.0)	(9)	(0.0)
Total shareholders' equity			54,569	84.4	56,762	84.5
Common stock	10,795	16.0				
Capital reserve						
Legal reserve	11,706					
Total capital reserve	11,706	17.4				
Retained earnings						
Legal reserve	267					
Voluntary reserves	33,400					
Unappropriated retained earnings at end of period	3,233					
Total retained earnings	36,901	54.8				
Net unrealized holding gain on other securities	(4)	(0.0)				
Treasury stock	(1,341)	(2.0)				
Total shareholders' equity	58,057	86.2				
Total liabilities and shareholders' equity	67,348	100.0%	64,651	100.0%	67,146	100.0%

Note: Figures below ¥1 million have been truncated.

## Interim Nonconsolidated Statements of Income

(Millions of yen)

	Six months ended September 30, 2002		Six months ended September 30, 2002		Year ended March 31, 2002	
		Percentage of Total		Percentage of Total		Percentage of Total
Net sales	34,614	100.0%	33,038	100.0%	66,302	100.0%
Cost of sales	11,666	33.7	10,694	32.4	21,759	32.8
Gross profit	22,947	66.3	22,344	67.6	44,543	67.2
Selling, general and administrative expenses	18,558	53.6	18,466	55.9	36,088	54.4
Operating income	4,388	12.7	3,877	11.7	8,455	12.8
Non-operating income	769	2.2	583	1.8	861	1.3
Non-operating expenses	178	0.5	187	0.6	592	0.9
Ordinary income	4,979	14.4	4,273	12.9	8,723	13.2
Extraordinary income	14	0.0				
Extraordinary expenses	51	0.1	338	1.0	456	0.7
Income before income taxes	4,942	14.3	3,935	11.9	8,266	12.5
Income taxes	2,214	6.4	1,790	5.4	3,567	5.4
Adjustment for income taxes	(128)	(0.4)	(197)	(0.6)	(94)	(0.1)
Net income	2,856	8.3	2,341	7.1	4,794	7.2
Retained earnings brought forward	377		370		370	
Interim dividends					243	
Unappropriated retained earnings	3,233		2,712		4,921	

Note: Figures below ¥1 million have been truncated.

## Significant Accounting Policies

### 1. Basis and Method for valuation of Assets

#### (1) Securities

- (a) Shares of subsidiaries and affiliates: At cost by the average method
- (b) 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.)

#### (2) Derivatives Market value method

#### (3) 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

- (1) 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 equipment:       | 2–22 years |
| Furniture, tools and fixtures: | 2–20 years |
- (2) 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)
- (3) Long-term prepaid expenses: Straight-line method

### 3. Allowances

- (1) 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.
- (2) Allowance for bonuses: To prepare for future bonus payments to employees, the Company makes provisions in the amount accrued based on the estimated payment.
- (3) 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 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.
- (4) 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

- |   |   |
|---|---|
| (1) 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.  |
| (2) Hedging instruments/targets:                                    | Forward exchange contracts/payables or forecast transactions denominated in foreign currencies.   |
| (3) 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.   |
| (4) Method of assessing hedge effectiveness:                        | As a rule, the Company uses individual forward exchange contracts and thus does not assess hedge effectiveness.   |
| (5) 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. Consumption Tax

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

## 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 financial statements, the "Shareholders' equity" section of the interim balance sheets and the interim statements of retained earnings are prepared in accordance with the revised rules for interim financial statements.

## Notes to Nonconsolidated 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	8,215	6,967	7,579
2. Contingent liabilities	679	873	764

## Notes to Nonconsolidated 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	3,105	4,587	7,698
Sales promotions	3,035	2,461	5,282
Transport	1,774	1,512	3,140
Communications	1,084	1,076	2,213
Fees	2,086	2,347	4,740
Salaries	2,557	2,391	4,872
Depreciation	630	616	1,272
2. R&D expenses included in general and administrative and manufacturing expenses	809	671	1,450
3. Principal components of extraordinary income			
Interest income	43	35	80
Dividend income	120	120	120
4. Principal components of extraordinary expenses			
Interest expense	7	14	26

## Leases

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, 2001	Year ended March 31, 2002
Machinery and transport equipment:			
Purchase cost	1,100	1,100	1,100
Accumulated depreciation	465	282	374
Balance at end of period	634	817	726
Others:			
Purchase cost	918	1,014	973
Accumulated depreciation	529	479	500
Balance at end of period	388	534	472
Total:			
Purchase cost	2,018	2,114	2,074
Accumulated depreciation	995	762	875
Balance at end of period	1,023	1,352	1,198

### 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	341	387	364
More than one year	623	898	812
	965	1,285	1,177



### 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	253	274	454
Depreciation expense	206	208	421
Interest expense	22	15	28

### 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.

### Securities

The Company held no stocks of subsidiaries or affiliates with market value during the interim period of fiscal 2003, the interim period of fiscal 2002, and fiscal 2002.