

9. Summary of Nonconsolidated Financial Statements for the Fiscal Year Ended March 31, 2003

April 24, 2003

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

FANCL CORPORATION	Stock exchange listings:	Tokyo
URL: http://www.fancl.co.jp	Code number:	4921
Representative: Kenji Ikemori (President and Representative Director)	Head office:	Kanagawa Prefecture
Contact: Katsuhiko Matsumoto, Director/Manager of Administrative Headquarters	Board of Directors' meeting:	April 24, 2003
Phone: +81-45-226-1200	General Meeting of Shareholders:	June 15, 2003
	Use of basic unit of stock:	Yes (100 shares)
	Interim dividends:	Paid

1. Results for Fiscal 2003 (April 1, 2002 to March 31, 2003)

(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 (%)
Fiscal 2003	70,733	6.7	8,707	3.0	9,523	9.2
Fiscal 2002	66,302	12.7	8,455	9.3	8,723	6.2

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)	Return on equity (%)	Ordinary income/total assets (%)	Ordinary income/net sales (%)
Fiscal 2003	5,327	11.1	231.68	—	9.3	14.2	13.5
Fiscal 2002	4,794	6.0	245.94	—	8.8	13.3	13.2

Notes:

- Average number of shares outstanding: Year ended March 31, 2003: 22,994,582 shares
Year ended March 31, 2002: 19,493,070 shares
Average number of shares outstanding for fiscal 2003 does not include treasury stock.
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 fiscal 2003 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

	Annual dividends per share (¥)		Total dividends (annual) (¥ million)	Payout ratio (%)	Dividend rate for shareholders' equity (%)
	Interim	Year-end			
Fiscal 2003	35.00	12.50	789	14.8	1.4
Fiscal 2002	25.00	12.50	487	10.2	0.9

(3) Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity/total assets (%)	Shareholders' equity per share (¥)
Fiscal 2003	67,074	57,418	85.6	2,575.65
Fiscal 2002	67,146	56,762	84.5	2,912.06

Notes:

- Number of shares outstanding at end of period: Year ended March 31, 2003: 22,292,672 shares
Year ended March 31, 2002: 19,492,084 shares
Number of shares outstanding at end of period does not include treasury stock.
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: Year ended March 31, 2003: 1,099,528 shares
Year ended March 31, 2002: 1,416 shares

2. Projected results for the year ending March 31, 2004

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)	Annual dividends per share (¥)		
				Interim	Year-end	
Fiscal 2004 Interim	37,000	3,800	2,200	17.50	—	—
Fiscal 2004	76,700	9,400	5,400	—	17.50	35.00

Reference: Estimated earnings per share (fiscal 2004): ¥ 242.23

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.

Nonconsolidated Financial Statements and Notes

Nonconsolidated Balance Sheets

(Millions of yen)

	As of March 31, 2003		As of March 31, 2002		Increase (decrease)
	Amount	Percentage of Total	Amount	Percentage of Total	
ASSETS					
Current assets					
Cash and cash equivalents	12,041		13,574		(1,533)
Notes and accounts receivable	6,430		6,578		(148)
Marketable securities	7,731		7,731		—
Inventories	2,989		3,183		(194)
Deferred tax assets	471		338		133
Short-term loans to affiliates	495		2,314		(1,819)
Others	542		479		63
Allowance for doubtful accounts	(37)		(50)		13
Total current assets	30,665	45.7%	34,150	50.9%	(3,485)
Fixed assets					
Tangible fixed assets:					
Buildings	9,163		7,684		1,479
Machinery and equipment	1,399		1,723		(324)
Land	7,920		7,920		—
Construction in progress	6		455		(449)
Others	1,198		1,122		76
Total tangible fixed assets	19,687	29.4	18,907	28.2	780
Intangible fixed assets:					
Software	922		1,180		(258)
Others	215		65		150
Total intangible fixed assets	1,137	1.7	1,245	1.8	(108)
Investments and other assets:					
Equity in affiliates	1,932		1,792		140
Long-term loans to affiliates	5,145		3,744		1,401
Guaranty money	2,286		2,182		104
Deferred tax assets	486		417		69
Investment securities	249		304		(55)
Others	5,499		4,423		1,076
Allowance for doubtful accounts	(16)		(20)		4
Total investments and other assets	15,583	23.2	12,842	19.1	2,741
Total fixed assets	36,408	54.3	32,995	49.1	3,413
Total assets	67,074	100.0%	67,146	100.0%	(72)

Note: Figures below ¥1 million have been truncated.

(Millions of yen)

	As of March 31, 2003		As of March 31, 2002		Increase (decrease)
	Amount	Percentage of Total	Amount	Percentage of Total	
LIABILITIES					
Current liabilities:					
Notes and accounts payable	1,845		1,865		(20)
Current portion of long-term debt	350		742		(392)
Accrued liabilities	2,673		3,058		(385)
Accrued income taxes	2,330		1,950		380
Allowance for bonuses	665		621		44
Others	570		627		(57)
Total current liabilities	8,435	12.6%	8,865	13.2%	(430)
Long-term liabilities:					
Long-term debt	—		350		(350)
Allowance for retirement bonuses	737		639		98
Allowance for directors' retirement bonuses	370		346		24
Accrued long-term liabilities	55		124		(69)
Other long-term liabilities	57		57		—
Total long-term liabilities	1,221	1.8	1,518	2.3	(297)
Total liabilities	9,656	14.4	10,384	15.5	(728)
SHAREHOLDERS' EQUITY					
Common stock	—	—	10,795	16.1	—
Capital reserve	—	—	11,706	17.4	—
Legal reserve	—	—	267	0.4	—
Other retained earnings					
Voluntary reserves	—	—	29,100		—
Unappropriated retained earnings at end of period	—	—	4,921		—
Total other retained earnings	—	—	34,021	50.6	—
Net unrealized holding gain on other securities	—	—	(18)	(0.0)	—
Treasury stock	—	—	(9)	(0.0)	—
Total shareholders' equity	—	—	56,762	84.5	—
Total liabilities and shareholders' equity	—	—	67,146	100.0%	—
Common stock	10,795	16.1	—	—	—
Capital reserve					
Additional paid-in capital	11,706		—	—	—
Total capital reserve	11,706	17.5	—	—	—
Retained earnings					
Legal reserve	267		—	—	—
Voluntary reserves	33,400		—	—	—
Unappropriated retained earnings at end of period	5,416		—	—	—
Total retained earnings	39,084	58.2	—	—	—
Net unrealized holding gain on other securities	1	0.0	—	—	—
Treasury stock	(4,168)	(6.2)	—	—	—
Total shareholders' equity	57,418	85.6	—	—	—
Total liabilities and shareholders' equity	67,074	100.0%	—	—	—

Note: Figures below ¥1 million have been truncated.

Nonconsolidated Statements of Income

(Millions of yen)

	Year ended March 31, 2003		Year ended March 31, 2002		Increase (decrease)	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
Net sales	70,733	100.0%	66,302	100.0%	4,431	6.7%
Cost of sales	24,520	34.7	21,759	32.8	2,761	12.7
Gross profit	46,212	65.3	44,543	67.2	1,669	3.7
Selling, general and administrative expenses	37,505	53.0	36,088	54.4	1,417	3.9
Operating income	8,707	12.3	8,455	12.8	252	3.0
Non-operating income:	1,235	1.7	861	1.3	374	43.4
Interest and dividend income	208		201		7	
Other non-operating income	1,026		659		367	
Non-operating expenses:	419	0.6	592	0.9	(173)	(29.2)
Interest expense	12		26		(14)	
Other non-operating expenses	407		566		(159)	
Ordinary income	9,523	13.5	8,723	13.2	800	9.2
Extraordinary income:	16	0.0	—	—	16	—
Gain on retirement and sale of fixed assets	0		—		0	
Reserve for allowance for doubtful receivables	16		—		16	
Extraordinary expenses	354	0.5	456	0.7	(102)	(22.4)
Loss on sale and retirement of fixed assets	97		143		(46)	
Valuation loss on investment securities	66		—		66	
Loss on liquidation of affiliated company	—		258		(258)	
Loss on sale of stock of affiliated companies	190		—		190	
Loss on doubtful receivables	—		53		(53)	
Special service bonuses for directors	0		0		—	
Income before income taxes	9,185	13.0	8,266	12.5	919	11.1
Income taxes	4,075	5.8	3,567	5.4	508	
Adjustment for income taxes	(217)	(0.3)	(94)	(0.1)	(123)	
Net income	5,327	7.5	4,794	7.2	533	11.1
Retained earnings brought forward	377		370		7	
Interim dividends	288		243			
Unappropriated retained earnings	5,416		4,921		495	

Note: Figures below ¥1 million have been truncated.

Statements of Appropriation of Retained Earnings

(Millions of yen)

	Year ended March 31, 2003	Year ended March 31, 2002
Unappropriated retained earnings at the end of the year	5,416	4,921
Appropriations		
Legal reserve	—	—
Dividends*	501	243
General reserve	4,600	4,300
Balance to be carried forward	315	377
Total	5,416	4,921

*Dividends Fiscal 2003: Interim period ¥12.50
End of period ¥12.50

Fiscal 2002 Interim period ¥12.50
End of period ¥22.50
[Regular dividend ¥12.50]
[Special dividend ¥10.00]

Significant Accounting Policies

1. Basis and Method for Valuation of Securities

Shares of subsidiaries and affiliates: At cost by the average method

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 moving average method.)

Stocks without market value: At cost by the 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

4. 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

(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

5. 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 fiscal year, 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.

6. 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.

7. 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.

8. 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. |

9. Other Major Items Pertaining to the Basis for Preparation of the Financial Statements

- (1) Consumption tax: All transactions are posted in amounts prior to deduction of consumption and other taxes.
- (2) Accounting Standards for Treasury Stock and Reversal of Legal Reserve, etc.
Effective from the year-ended March 31, 2003, "Accounting Standards for Treasury Stock and Reversal of Legal Reserve, etc." (Corporate Accounting Standards Committee, February 21, 2002, Corporate Accounting Standards, No. 1) are applied. The effect of this change on profit and loss is insignificant.
Due to the revision of rules for financial statements, the "Shareholders' equity" section of the balance sheets and the statements of retained earnings are prepared in accordance with the revised rules for financial statements.
- (3) Accounting Standards for Earnings per Share
Effective from the year ended March 31, 2003, "Accounting Standards for Earnings per Share" (Corporate Accounting Standards Committee, September 25, 2002, Corporate Accounting Standards No. 2) and "Guidelines for Application of Accounting Standards for Earnings per Share" (Corporate Accounting Standards Committee, September 25, 2002, Corporate Accounting Standards No. 4) are applied.
There is no effect on earnings per share in connection with the accounting standards and guidelines for application mentioned above.

Notes to Nonconsolidated Balance Sheets

(Millions of yen)

	As of March 31, 2003	As of March 31, 2002
1. Accumulated depreciation of tangible fixed assets	8,769	7,579
2. Contingent liabilities	1,872	764

Notes to Nonconsolidated Statements of Income

(Millions of yen)

	Year ended March 31, 2003	Year ended March 31, 2002
1. Principal components of selling, general and administrative expenses		
Advertising	6,688	7,698
Sales promotions	5,800	5,282
Transport	3,635	3,140
Communications	2,246	2,213
Fees	4,213	4,740
Salaries	5,102	4,872
Depreciation	1,279	1,272
2. R&D expenses included in general and administrative and manufacturing expenses	1,610	1,450

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)

	Year ended March 31, 2003	Year ended March 31, 2002
Machinery and transport equipment:		
Purchase cost	1,100	1,100
Accumulated depreciation	557	374
Balance at end of period	542	726
Furniture, tools and fixtures:		
Purchase cost	720	933
Accumulated depreciation	378	477
Balance at end of period	342	455
Vehicles and carriers:		
Purchase cost	15	40
Accumulated depreciation	6	23
Balance at end of period	8	17
Total:		
Purchase cost	1,836	2,074
Accumulated depreciation	942	875
Balance at end of period	893	1,198

2. Future lease payments

(Millions of yen)

	As of March 31, 2003	As of March 31, 2002
Within one year	336	364
More than one year	541	812
Total	878	1,177

3. Outstanding lease payments and depreciation

(Millions of yen)

	As of March 31, 2003	As of March 31, 2002
Outstanding lease payments	400	454
Depreciation expense	386	421
Interest expense	32	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.

Tax-Effect Accounting

Breakdown of major factors giving rise to deferred tax assets and liabilities.

(Millions of yen)

	As or March 31, 2003	As or March 31, 2002
Deferred tax assets		
Accrued enterprise taxes	235	182
Nondeductible reserve for bonuses	228	175
Unrecognized loss on discarding of inventory	1	10
Nondeductible reserve for retirement benefits	246	186
Nondeductible reserve for special service bonuses for directors	152	145
Nondeductible depreciation and amortization	51	54
Nondeductible allowance for doubtful receivables	17	17
Valuation loss on golf club memberships	18	18
Others	73	14
Total deferred tax assets	1,025	804
Deferred tax liabilities		
Prepaid pension expenses	66	48
Others	0	—
Total tax liabilities	67	48
Net deferred tax assets	958	755

Note: Due to the application of "Handling the Application of Tax-Effect Accounting upon Implementation of a Pro Form Standard Tax System for Corporate Enterprise Taxes" (Japan Association of Certified Public Accountants, March 25, 2003), the effective tax rate used in calculating deferred tax assets and liabilities was mainly 42% for the year ended March 31, 2002, mainly 42% for current assets and liabilities in the year ended March 31, 2003 and mainly 41% for fixed assets and liabilities in the year ended March 31, 2003. As a result, deferred tax assets decreased by ¥11 million, and adjustments for corporate taxes listed under expenses increased by the same amount in the year ended March 31, 2003.

10. Change in Directors

(As of June 15, 2003)

1. Change of Representative Directors

No change

2. Change of Directors

New Director Candidates

Director, Sumiya Nakajima

Former Director, Executive Vice President, General Manager,
General Affairs Office, Lawson, Inc.

Note: Changes of directors other than those listed above have already been announced in the news releases “Notice Regarding Changes in Representative Directors” and “Notice Regarding Organizational and Personnel Changes,” both dated February 19, 2003.