

Summary of Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2004

July 23, 2003

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

FANCL CORPORATION

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1. Preparation of Summary of Quarterly Report

Differences with accounting methods used in most recent consolidated fiscal year: Yes

(Details)

Method of depreciation of fixed assets:

(1) Tangible fixed assets

Quarterly portion of estimated amount for the year

(2) Intangible fixed assets

Quarterly portion of estimated amount for the year

Standard for stating income taxes:

Calculated using the estimated annual tax rate based on the effective statutory tax rate.

Simplified procedures are used for amounts with an immaterial effect.

Changes in scope of consolidation and application of equity method: None

2. Results for the first quarter of Fiscal 2004 (April 1, 2003 to June 30, 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 (%)
Three months ended 6/03	20,885	(5.0)	3,066	(15.0)	3,046	(15.7)
Three months ended 6/02	21,979	—	3,608	—	3,614	—
(Ref.) Year ended 3/03	90,025		11,526		11,849	

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)
Three months ended 6/03	1,714	(18.1)	76.92	—
Three months ended 6/02	2,093	—	89.49	—
(Ref.) Year ended 3/03	6,428		279.58	—

Note: Year-on-year change for net sales, operating income, ordinary income and net income is the change from the first quarter period of the previous year.

(2) Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity/total assets (%)	Shareholders' equity per share (¥)
Three months ended 6/03	79,439	67,556	85.0	3,030.63
(Ref.) Year ended 3/03	79,804	66,349	83.1	2,976.31

(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)
Three months ended 6/03	30	(1,178)	(486)	24,733
(Ref.) Year ended 3/03	9,828	(5,582)	(5,432)	26,370

3. Projected Results for Fiscal 2004 (April 1, 2003 to March 31, 2004)

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)	Net income per share (¥)
Six months ending 9/03	42,500	4,400	2,600	116.63
Year ending 3/04	92,100	11,300	6,600	296.06

The first quarter ended with net sales, particularly mail-order sales, below original projections. As the difficult operating environment is expected to continue, projected net sales for the first half and the full fiscal year have each been revised downward by ¥3.1 billion from the previously announced figures. Although the decline in sales will be a factor reducing income, the Company intends to offset this by reducing expenses, and therefore has not revised the previously announced figures for income.

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.

Operating Results (Quarterly Summary)

(1) Operating Results

The Japanese economy remained clouded by uncertainty during the quarterly period as personal consumption continued to be sluggish, though capital investment increased slightly.

In the cosmetics industry, the market turned upward slightly amid continued polarization in product prices.

In the nutritional supplements industry, although the market is expanding, competition intensified substantially.

1) Cosmetics Business

For FANCL cosmetics, the Company launched SHAPE DESIGN body lotion on May 21 to revitalize sales of body care products, which had slumped in the previous period. For ATTENIR cosmetics, product renewals and new product introductions focused on whitening products and moisturizer.

Sales

In the Cosmetics Business, sales decreased 7.9% compared with the same period in the previous year to ¥8,854 million.

	Three months ended 6/03		Three months ended 6/02		% change
	Amount	% of total	Amount	% of total	
FANCL cosmetics	¥6,662 million	75.2	¥7,757 milli	80.7	(14.1)
ATTENIR cosmetics	¥2,054 million	23.2	¥1,774 milli	18.5	15.8
Other	¥137 million	1.6	¥80 milli	0.8	71.0
Total	¥8,854 million	100.0	¥9,612 milli	100.0	(7.9)

	Three months ended 6/03		Three months ended 6/02		% change
	Amount	% of total	Amount	% of total	
Mail-order sales	¥5,561 million	62.8	¥5,941 million	61.8	(6.4)
Retail store sales	¥2,670 million	30.2	¥2,856 million	29.7	(6.5)
Other	¥622 million	7.0	¥814 million	8.5	(23.6)
Total	¥8,854 million	100.0	¥9,612 million	100.0	(7.9)

Mail-order sales were ¥5,561 million, a decrease of 6.4% compared with the same period in the previous year.

For FANCL cosmetics, the number of mail-order customers declined due to factors such as a delay in spending on advertising and sales promotions. Although sales of body care products were higher than in the same period in the previous year because of the effect from a new product, sales of skin care products and makeup decreased, resulting in an overall 14.7% decrease in sales to ¥3,620 million.

Sales of ATTENIR cosmetics increased 14.5% compared with the same period in the previous year to ¥1,941 million, as effective advertising campaigns and sales promotions increased the number of customers to a new high (as of June 30), and strong sales of skin care products and makeup continued.

Retail store sales decreased 6.5% compared with the same period in the previous year to ¥2,670 million. Sales at existing stores, which had been recovering, suffered a downturn, despite the opening of FANCL Square on April 4, 2003. As of June 30, 2003, the number of FANCL House shops (including two franchise stores; no stores opened or closed during the quarter) was 119, the number of ATTENIR shops was five (no stores opened or closed during the quarter), and the number of other types of shops was two (no stores opened or closed during the quarter).

In **other sales channels**, sales decreased 23.6% compared with the previous year to ¥622 million, reflecting a decline in daily sales of products at Lawson convenience stores and decreased sales for Hong Kong due to the effect of SARS and other factors.

Operating income

As a result of improvement in the cost of sales ratio and decreases in advertising and sales promotion expenses, the operating margin increased 1.8 percentage points from the same period in the previous year to 24.5%. However, because of the large decrease in sales of FANCL cosmetics, operating income declined 0.8% to ¥2,168 million.

2) Nutritional Supplements Business

In the Nutritional Supplements Business, FANCL introduced two new products on May 21, the SHAPE DESIGN supplement, and MESIMAKOBU, a supplement that was co-developed with Han Kook Sin Yak of Korea and shows promise for effects including boosted immune system function.

Sales

In the Nutritional Supplements Business, sales decreased 5.4% compared with the same period in the previous year, to ¥6,844 million.

	Three months ended 6/03		Three months ended 6/02		% change
	Amount	% of total	Amount	% of total	
Mail-order sales	¥3,899 million	57.0	¥4,105 million	56.8	(5.0)
Retail store sales	¥1,368 million	20.0	¥1,309 million	18.1	4.5
Other	¥1,576 million	23.0	¥1,816 million	25.1	(13.2)
Total	¥6,844 million	100.0	¥7,231 million	100.0	(5.4)

Mail-order sales decreased 5.0% compared with the same period in the previous year to ¥3,899 million. Attracting new customers proved difficult due to heightened competition, and the number of customers declined. By product segment, sales of diet supplements increased, reflecting the introduction of a new product. This increase, however, did not fully compensate for the decline in sales of the Support Series and vitamin and mineral products.

In **retail store sales**, sales at FANCL House shops, which mainly sell cosmetics, were essentially unchanged from the same period in the previous year, but the effect from the opening of a new Genki Station shop and FANCL Square resulted in an increase of 4.5% compared with the same period in the previous year to ¥1,368 million. As of June 30, 2003, the number of Genki Station shops was nine (with one new shop opened during the period) and the number of Genki Net shops was two (with eight shops closed during the period).

In **other sales channels**, sales decreased 13.2% compared with the same period in the previous year to ¥1,576 million, due to lackluster sales at Lawson convenience stores and a decline in sales for Hong Kong reflecting the effect of SARS.

Operating income

The decline in net sales and a sharp rise in the cost of certain raw materials resulted in a steep decline in gross profit. As a result, although advertising expenses and other expenses decreased, operating income fell 25.4% compared with the same period in the previous year to ¥1,289 million, and the operating margin dropped 5.1 percentage points to 18.8%.

3) Other Businesses

Sales

In Other Businesses, sales rose 1.0% compared with the same period in the previous year, to ¥5,186 million.

	Three months ended 6/03	Three months ended 6/02	% change
<i>Hatsuga Genmai</i> Business	¥1,564 million	¥1,445 million	8.2
Kale Juice Business	¥793 million	¥430 million	84.3
NGC mail-order business	¥1,947 million	¥2,543 million	(23.5)
Other	¥881 million	¥714 million	23.3
Total	¥5,186 million	¥5,135 million	1.0

In the **Hatsuga Genmai Business**, solid mail-order sales of economy-size 4-kg and 8-kg packages were solid, and overall sales increased. However, OEM supply to the Japan Rice Millers and Distributors Cooperative and the Hokuren Federation of Agricultural Cooperatives stopped at the level of the same period in the previous year, when sales had grown due to *hatsuga genmai* being featured on popular health information TV programs.

In the **Kale Juice Business**, an increase in the number of annual subscribers to the delivery service resulted in substantial growth in mail-order sales. Wholesale to convenience stores and others was also favorable.

In the mail-order business of **NGC Co., Ltd.**, NGC is undertaking a general reassessment of its businesses, including the contents of the catalog, customer services and product lineup. As a result, sales declined compared with the same period in the previous year.

In **other businesses**, sales of household sundries were firm, and net sales of FANCL Square esthetic salons and other establishments were included for the first time this quarterly period. As a result, sales increased compared with the same period in the previous year.

Operating income

Although income in the *Hatsuga Genmai* and Kale Juice businesses improved, a decrease in profits from the mail-order business of NGC resulted in operating income of ¥127 million, a decrease of 6.3% from the same period in the previous year. The operating margin declined 0.2 percentage points to 2.5%.

As a result, total **net sales** for the first quarter decreased 5.0% compared with same period in the previous year to ¥20,885 million; **operating income** decreased 15.0% to ¥3,066 million; and the operating margin declined 1.7 percentage points to 14.7%.

Net **non-operating income** decreased ¥26 million compared with the same period in the previous year because of a decrease in insurance refunds. **Ordinary income** decreased 15.7% to ¥3,046 million and the ordinary income margin dropped 1.8 percentage points to 14.6%.

Net income fell 18.1% compared with the same period in the previous year to ¥1,714 million, and the ratio of net income to net sales declined 1.3 percentage points to 8.2%.

Consolidated Balance Sheets

(Rounded down to the nearest million yen)

	As of June 30, 2003		As of March 31, 2003		Increase (decrease)
	Amount	Percentage of Total	Amount	Percentage of Total	
Current assets	40,304	50.7%	41,207	51.6%	(903)
Fixed assets	39,135	49.3	38,596	48.4	539
Total assets	79,439	100.0	79,804	100.0	(365)
Current liabilities	9,814	12.4	11,403	14.3	(1,589)
Long-term liabilities	2,068	2.6	2,050	2.6	18
Total liabilities	11,883	15.0	13,454	16.9	(1,571)
Common stock	10,795	13.6	10,795	13.5	—
Capital reserve	11,706	14.7	11,706	14.7	—
Retained earnings	49,239	62.0	48,027	60.2	1,212
Net unrealized holding gain on other securities	(9)	(0.0)	(9)	(0.0)	—
Foreign currency translation adjustment	(5)	(0.0)	(0)	(0.0)	(5)
Treasury stock	(4,168)	(5.2)	(4,168)	(5.2)	—
Total shareholders' equity	67,556	85.0	66,349	83.1	1,207
Total liabilities and shareholders' equity	79,439	100.0%	79,804	100.0%	(365)

Consolidated Statements of Income

(Rounded down to the nearest million yen)

	Three months ended 6/03		Three months ended 6/02		Increase (decrease)	
	Amount	Percentage of Total	Amount	Percentage of Total	Increase (decrease)	Percentage Change
Net sales	20,885	100.0%	21,979	100.0%	(1,094)	(5.0)%
Cost of sales	7,090	33.9	7,246	33.0	(156)	(2.2)
Gross profit	13,794	66.1	14,732	67.0	(938)	(6.4)
Selling, general and administrative expenses	10,728	51.4	11,124	50.6	(396)	(3.6)
Operating income	3,066	14.7	3,608	16.4	(542)	(15.0)
Ordinary income	3,046	14.6	3,614	16.4	(568)	(15.7)
Income before income taxes	3,046	14.6	3,614	16.4	(568)	(15.7)
Income taxes	1,332	6.4	1,521	6.9	(189)	(12.4)
Net income	1,714	8.2%	2,093	9.5%	(379)	(18.1)%

Segment Information

1. Business Segments

Three months ended 6/03

(Millions of yen)

	Cosmetics Business	Nutritional Supplements Business	Other Businesses	Total	Eliminations or Corporate	Consolidated
I. Sales & operating income:						
(1) Sales to external customers	8,854	6,844	5,186	20,885	—	20,885
(2) Intersegment sales or transfers	—	—	—	—	—	—
Total sales	8,854	6,844	5,186	20,885		20,885
Operating expenses	6,686	5,554	5,059	17,300	518	17,818
Operating income (loss)	2,168	1,289	127	3,584	(518)	3,066

Three months ended 6/02

(Millions of yen)

	Cosmetics Business	Nutritional Supplements Business	Other Businesses	Total	Eliminations or Corporate	Consolidated
I. Sales & operating income:						
(1) Sales to external customers	9,612	7,231	5,135	21,979	—	21,979
(2) Intersegment sales or transfers	—	—	—	—	—	—
Total sales	9,612	7,231	5,135	21,979	—	21,979
Operating expenses	7,428	5,503	4,999	17,930	440	18,371
Operating income (loss)	2,184	1,728	135	4,048	(440)	3,608

Nonconsolidated Balance Sheets

(Rounded down to the nearest million yen)

	As of June 30, 2003		As of March 31, 2003		Increase (decrease)
	Amount	Percentage of Total	Amount	Percentage of Total	
Current assets	29,146	43.7%	30,665	45.7%	(1,519)
Fixed assets	37,513	56.3	36,408	54.3	1,105
Total assets	66,659	100.0	67,074	100.0	(415)
Current liabilities	7,113	10.7	8,435	12.6	(1,322)
Long-term liabilities	1,257	1.9	1,221	1.8	36
Total liabilities	8,370	12.6	9,656	14.4	(1,286)
Common stock	10,795	16.2	10,795	16.1	—
Capital reserve	11,706	17.6	11,706	17.5	—
Retained earnings	39,955	59.9	39,084	58.2	871
Net unrealized holding gain on other securities	1	0.0	1	0.0	—
Treasury stock	(4,168)	(6.3)	(4,168)	(6.2)	—
Total shareholders' equity	58,289	87.4	57,418	85.6	871
Total liabilities and shareholders' equity	66,659	100.0%	67,074	100.0%	(415)

Nonconsolidated Statements of Income

(Rounded down to the nearest million yen)

	Three months ended 6/03		Three months ended 6/02		Increase (decrease)	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage Change
Net sales	16,389	100.0%	17,508	100.0%	(1,119)	(6.4)%
Cost of sales	5,790	35.3	5,821	33.2	(31)	(0.5)
Gross profit	10,598	64.7	11,687	66.8	(1,089)	(9.3)
Selling, general and administrative expenses	8,406	51.3	8,847	50.5	(441)	(5.0)
Operating income	2,192	13.4	2,840	16.3	(648)	(22.8)
Ordinary income	2,366	14.4	2,996	17.1	(630)	(21.0)
Income before income taxes	2,366	14.4	2,996	17.1	(630)	(21.0)
Income taxes	993	6.1	1,258	7.2	(265)	(21.1)
Net income	1,372	8.4%	1,738	9.9%	(366)	(21.1)%