

# Summary of Nonconsolidated Financial Statements for the Six Months Ended September 30, 2003

November 4, 2003

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

## FANCL CORPORATION

URL: <http://www.fancl.co.jp>

Representative: Kenji Fujiwara, President and Representative Director

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Director/ Manager of Administrative Headquarters

Phone: +81-45-226-1200

Stock exchange listings: Tokyo

Code number: 4921

Head office: Kanagawa Prefecture

Board of Directors' meeting: November 4, 2003

Use of basic unit of stock: Yes (100 shares)

Interim dividends: Paid

Interim dividends payment date: December 2, 2003

## 1. Results for the six months from April 1, 2003 to September 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 (%)
Six months ended 9/03	32,509	(6.1)	3,465	(21.0)	4,018	(19.3)
Six months ended 9/02	34,614	4.8	4,388	13.2	4,979	16.5
Year ended 3/03	70,733	6.7	8,707	3.0	9,523	9.2

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)
Six months ended 9/02	1,718	(39.8)	77.39
Six months ended 9/01	2,856	22.0	122.50
Year ended 3/02	5,327	11.1	231.68

Notes:

- Average number of shares outstanding: Six months ended September 30, 2003: 22,201,275  
Six months ended September 30, 2002: 23,315,393 Year ended March 31, 2003: 22,994,582
- 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 9/03	17.50	—
Six months ended 9/02	12.50	—
Year ended 3/03	—	35.00

### (3) Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity/total assets (%)	Shareholders' equity per share (¥)
Six months ended 9/03	66,811	57,313	85.8	2,615.60
Six months ended 9/02	67,348	58,057	86.2	2,517.46
Year ended 3/03	67,074	57,418	85.6	2,575.65

Notes:

- Number of shares outstanding at end of period: Six months ended September 30, 2003: 21,912,076  
Six months ended September 30, 2002: 23,061,776 Year ended March 31, 2003: 22,292,672
- Number of shares of treasury stock at end of period: Six months ended September 30, 2002: 1,480,124  
Six months ended September 30, 2002: 330,424 Year ended March 31, 2002: 1,099,528

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

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)	Annual dividends per share (¥)	
				Year-end	
Year ending 3/04	67,200	5,500	2,600	17.50	35.00

Reference: Estimated earnings per share (full year): ¥ 118.66

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, 2003		As of September 30, 2002		As of March 31, 2003	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
<b>I Current assets</b>						
Cash and cash equivalents	10,185		14,277		12,041	
Notes and accounts receivable	6,116		6,450		6,430	
Marketable securities	7,732		7,731		7,731	
Inventories	2,844		3,795		2,989	
Deferred tax assets	411		425		471	
Short-term loans to affiliates	530		503		495	
Others	923		604		542	
Allowance for doubtful accounts	(43)		(44)		(37)	
Total current assets	28,701	43.0%	33,743	50.1%	30,665	45.7%
<b>II Fixed assets</b>						
1. Tangible fixed assets:						
Buildings	8,953		7,500		9,163	
Machinery and equipment	1,299		1,570		1,399	
Land	7,920		7,920		7,920	
Construction in progress	3		500		6	
Others	1,224		1,033		1,198	
Total tangible fixed assets	19,402	29.0	18,525	27.5	19,687	29.4
2. Intangible fixed assets	1,317	1.9	1,132	1.7	1,137	1.7
3. Investments and other assets:						
Equity in affiliates	2,038		2,173		1,932	
Long-term loans to affiliates	6,746		3,457		5,201	
Deferred tax assets	865		447		486	
Guaranty money	2,219		2,226		2,286	
Reserve for insurance	1,152		1,283		1,331	
Others	4,386		4,372		4,362	
Allowance for doubtful accounts	(18)		(14)		(16)	
Total investments and other assets	17,390	26.0	13,947	20.7	15,583	23.2
Total fixed assets	38,110	57.0	33,604	49.9	36,408	54.3
Total assets	66,811	100.0%	67,348	100.0%	67,074	100.0%

Note: Figures below ¥1 million have been truncated.

(Millions of yen)

LIABILITIES AND SHAREHOLDERS' EQUITY	As of September 30, 2003		As of September 30, 2002		As of March 31, 2003	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
<b>LIABILITIES</b>						
<b>I Current liabilities:</b>						
Notes and accounts payable	1,884		1,831		1,845	
Current portion of long-term debt	150		540		350	
Accrued liabilities	2,613		2,215		2,673	
Accrued income taxes	1,489		2,237		2,330	
Allowance for bonuses	704		657		665	
Others	634		461		570	
Total current liabilities	7,476	11.2%	7,942	11.8%	8,435	12.6%
<b>II Long-term liabilities:</b>						
Long-term debt	—		150		—	
Allowance for retirement bonuses	753		696		737	
Allowance for directors' retirement bonuses	1,155		352		370	
Other long-term liabilities	112		150		112	
Total long-term liabilities	2,022	3.0	1,348	2.0	1,221	1.8
<b>Total liabilities</b>	<b>9,498</b>	<b>14.2</b>	<b>9,291</b>	<b>13.8</b>	<b>9,656</b>	<b>14.4</b>
<b>SHAREHOLDERS' EQUITY</b>						
<b>I Common stock</b>	10,795	16.2	10,795	16.0	10,795	16.1
<b>II Capital reserve</b>						
Legal reserve	11,706		11,706		11,706	
Total capital reserve	11,706	17.5	11,706	17.4	706	17.5
<b>III Retained earnings</b>						
Legal reserve	267		267		267	
Voluntary reserves	38,000		33,400		33,400	
Unappropriated retained earnings at end of period	2,033		3,233		5,416	
Total retained earnings	40,300	60.3	36,901	54.8	39,084	58.2
<b>IV Net unrealized holding gain on other securities</b>	13	0.0	(4)	(0.0)	1	0.0
<b>V Treasury stock</b>	(5,502)	(8.2)	(1,341)	(2.0)	(4,168)	(6.2)
Total shareholders' equity	57,313	85.8	58,057	86.2	57,418	85.6
Total liabilities and shareholders' equity	66,811	100.0%	67,348	100.0%	67,074	100.0%

Note: Figures below ¥1 million have been truncated.

## Interim Nonconsolidated Statements of Income

(Millions of yen)

	Six months ended September 30, 2003		Six months ended September 30, 2002		Year ended March 31, 2003	
	Total	Percentage of Total	Total	Percentage of Total	Total	Percentage of Total
<b>Net sales</b>	32,509	100.0%	34,614	100.0%	70,733	100.0%
<b>Cost of sales</b>	11,692	36.0	11,666	33.7	24,520	34.7
<b>Gross profit</b>	20,816	64.0	22,947	66.3	46,212	65.3
<b>Selling, general and administrative expenses</b>	17,350	53.3	18,558	53.6	37,505	53.0
<b>Operating income</b>	3,465	10.7	4,388	12.7	8,707	12.3
<b>Non-operating income:</b>	711	2.2	769	2.2	1,235	1.7
Interest and dividend income	167		163		208	
Other non-operating income	543		605		1,026	
<b>Non-operating expenses:</b>	158	0.5	178	0.5	419	0.6
Interest expense	2		7		12	
Other non-operating expenses	155		170		407	
<b>Ordinary income</b>	4,018	12.4	4,979	14.4	9,523	13.5
<b>Extraordinary income:</b>	—	—	14	0.0	16	0.0
Gain on sale of fixed assets	—		0		0	
Reserve for allowance for doubtful receivables	—		—		16	
Other extraordinary income	—		14		—	
<b>Extraordinary expenses:</b>	1,143	3.6	51	0.1	354	0.5
Loss on disposal of fixed assets	11		4		97	
Valuation loss on investment securities	89		32		66	
Valuation loss on golf club memberships	7		—		—	
Special service bonuses for directors	178		0		0	
Transfer of reserve for retirement allowances for directors	856		—		—	
Valuation loss on stocks of affiliates	—		—		190	
Other extraordinary expenses	—		14		—	
<b>Income before income taxes</b>	2,875	8.8	4,942	14.3	9,185	13.0
Income taxes	1,485	4.5	2,214	6.4	4,075	5.8
Adjustment for income taxes	(327)	(1.0)	(128)	(0.4)	(217)	(0.3)
<b>Net income</b>	1,718	5.3	2,856	8.3	5,327	7.5
Retained earnings brought forward	315		377		377	
Interim dividends	—		—		288	
Unappropriated retained earnings	2,033		3,233		5,416	

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
- (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.

## Notes to Nonconsolidated Balance Sheets

(Millions of yen)

	As of September 30, 2003	As of September 30, 2002	As of March 31, 2003
1. Accumulated depreciation of tangible fixed assets	9,422	8,215	8,769
2. Contingent liabilities	1,633	679	1,872

## Notes to Nonconsolidated Statements of Income

(Millions of yen)

	Six months ended September 30, 2003	Six months ended September 30, 2002	Year ended March 31, 2003
1. Principal components of selling, general and administrative expenses			
Advertising	2,609	3,105	6,688
Sales promotions	2,465	3,035	5,800
Transport	1,575	1,774	3,635
Communications	941	1,084	2,246
Fees	1,971	2,086	4,213
Salaries	2,617	2,557	5,102
Depreciation	763	630	1,279
Transfer of reserve for doubtful accounts	17	—	—
2. R&D expenses included in general and administrative and manufacturing expenses	837	809	1,610

## 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, 2003	Six months ended September 30, 2002	Year ended March 31, 2003
Machinery and transport equipment:			
Purchase cost	1,100	1,100	1,100
Accumulated depreciation	649	465	557
Balance at end of period	450	634	542
Others:			
Purchase cost	634	918	735
Accumulated depreciation	377	529	384
Balance at end of period	257	388	350
Total:			
Purchase cost	1,735	2,018	1,836
Accumulated depreciation	1,026	995	942
Balance at end of period	708	1,023	893

### 2. Future lease payments

(Millions of yen)

	As of September 30, 2003	As of September 30, 2002	As of March 31, 2003
Within one year	306	341	336
More than one year	343	623	541
Total	649	965	878



### 3. Outstanding lease payments and depreciation

(Millions of yen)

	As of September 30, 2003	As of September 30, 2002	As of March 31, 2003
Outstanding lease payments	225	253	400
Depreciation expense	167	206	386
Interest expense	16	22	32

### 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.