

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

January 29, 2004

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 Results

(1) 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.

(2) Changes in scope of consolidation and application of equity method: None

## 2. Results for the Third Quarter of Fiscal 2004 (April 1, 2003 to December 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 (%)
Nine months ended 12/03	64,107	(6.5)	8,130	(14.5)	8,388	(16.2)
Nine months ended 12/02	68,528	—	9,513	—	10,012	—
(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) (¥)
Nine months ended 12/03	4,057	(27.3)	183.80	—
Nine months ended 12/02	5,578	—	240.80	—
(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 third quarter period of the previous year.

### (2) Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity/total assets (%)	Shareholders' equity per share (¥)
Nine months ended 12/03	80,636	67,491	83.7	3,112.54
(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)
Nine months ended 12/03	4,158	(3,231)	(3,159)	24,133
(Ref.) Year ended 3/03	9,828	(5,582)	(5,432)	26,370

(4) Scope of consolidation and application of the equity method

Consolidated subsidiaries: 6 companies

Non-consolidated 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) None (Eliminated) None

Equity method: (New) None (Eliminated) None

### 3. Projected Results for the Year Ending March 31, 2004

The following are unchanged from the announcement of interim results on November 4, 2003.

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)
Year ending 3/04	85,200	7,700	3,700

Reference: Estimated earnings per share (full year): ¥168.86

Reference: Projected non-consolidated results for the year ending March 31, 2004

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)
Year ending 3/04	67,200	5,500	2,600

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.

**Operating Results (Summary of Third Quarter)**  
**(April 1, 2003 to December 31, 2003)**

Improved conditions among exporting businesses and a rebound in the stock market led to indications of recovery in certain sectors, but the Japanese economy remained uncertain during the third quarter due to factors including prolonged deflation and a stagnant employment environment.

In the cosmetics industry, despite some growth in the skin care sector, the overall market was flat.

In the nutritional supplements industry, although the market is expanding, competition has been intensifying substantially.

1) Cosmetics Business

*Sales*

In the Cosmetics Business, sales decreased 8.1% compared with the same period in the previous year to ¥26,343 million.

	Nine months ended 12/03		Nine months ended 12/02		% change
	Amount	% of total	Amount	% of total	
FANCL cosmetics	¥19,906 million	75.6	¥23,089 milli	80.5	(13.8)
ATTENIR cosmetics	¥6,109 million	23.2	¥5,346 milli	18.6	14.3
Other	¥327 million	1.2	¥242 milli	0.9	34.9
Total	¥26,343 million	100.0	¥28,678 milli	100.0	(8.1)

	Nine months ended 12/03		Nine months ended 12/02		% change
	Amount	% of total	Amount	% of total	
Mail-order sales	¥16,571 million	62.9	¥17,751 million	61.9	(6.7)
Retail store sales	¥8,024 million	30.5	¥8,715 million	30.4	(7.9)
Other	¥1,748 million	6.6	¥2,211 million	7.7	(21.0)
Total	¥26,343 million	100.0	¥28,678 million	100.0	(8.1)

**Mail-order sales** were ¥16,571 million, a decrease of 6.7% compared with the same period in the previous year.

For FANCL cosmetics, sales of FENATTY and other skin care products fell short of levels in the same period of the previous year due to a decrease in the number of customers. Increased makeup sales following a renewal in September were insufficient to cover the drop in skin care products, resulting in an overall 14.4% decrease in sales compared with the same period of the previous year to ¥10,833 million.

Sales of ATTENIR cosmetics increased 12.7% compared with the same period in the previous year to ¥5,733 million, as effective advertising and sales promotions led to a record high number of customers (as of December 31), and strong sales of skin care products and makeup continued.

**Retail store sales** decreased 7.9% compared with the same period of the previous year to ¥8,024 million. Although FANCL Square opened in April 4, 2003, sales at existing stores continued to decline. As of December 31, 2003, the number of FANCL House shops (including two franchise stores) was 115 (with four closures during the period); the number of FANCL Style shops was seven (six openings during the period); the number of ATTENIR shops was five (no openings or closures during the period), and the number of other shops was one (no openings or closures during the period).

In **other sales channels**, sales decreased 21.0% compared with the same period of the previous year to ¥1,748 million, reflecting sluggish daily sales of products at Lawson convenience stores and a decrease in exports to Hong Kong as a result of SARS and other factors.

*Operating income*

Despite a higher cost of sales ratio due to the larger proportion of sales accounted for by makeup products, which have a relatively high cost ratio, the operating margin increased 0.3 percentage points from the same period of the previous year to 22.6%, supported by a decrease in advertising and communications expenses compared with the same period of the previous year, in which television advertisements were deployed aggressively. However, because of the large decrease in sales of FANCL cosmetics, operating income declined 6.8% to ¥5,950 million.

2) Nutritional Supplements Business

*Sales*

In the Nutritional Supplements Business, sales increased 1.1% compared with the same period of the previous year to ¥22,150 million.

	Nine months ended 12/03		Nine months ended 12/02		% change
	Amount	% of total	Amount	% of total	
Mail-order sales	¥12,281 million	55.5	¥12,908 million	58.9	(4.9)
Retail store sales	¥4,413 million	19.9	¥4,033 million	18.4	9.4
Other	¥5,455 million	24.6	¥4,967 million	22.7	9.8
Total	¥22,150 million	100.0	¥21,909 million	100.0	1.1

**Mail-order sales** decreased 4.9% compared with the same period of the previous year to ¥12,281 million. Increased sales of diet supplements and herbal supplements could not cover the decrease in sales of the Support Series, minerals and other products. The number of customers has been in a trend of recovery since November.

In **retail store sales**, sales increased 9.4% compared with the same period of the previous year to ¥4,413 million, due to increased sales of diet supplements, beauty supplements and herbal supplements at FANCL House shops, which focus on sales of cosmetics, and the opening of FANCL Square. As of December 31, 2003, the number of Genki Station shops was eight (with one opening and one closure during the period) and the number of Genki Net shops was two (with eight closures during the period).

In **other sales channels**, sales increased 9.8% compared with the same period of the previous year to ¥5,455 million. A decrease in exports to Hong Kong as a result of SARS was offset by increased sales at convenience stores and supermarkets.

#### *Operating income*

Operating income fell 19.4% compared with the same period of the previous year to ¥4,359 million, and the operating margin dropped 5.0 percentage points to 19.7%, as a result of a higher cost of sales ratio due to a jump in the cost of certain raw materials and increased advertising and sales promotion expenses to attract new customers.

### 3) Other Businesses

#### *Sales*

In Other Businesses, sales fell 13.0% compared with the same period of the previous year to ¥15,613 million.

	Nine months ended 12/03	Nine months ended 12/02	% change
<i>Hatsuga Genmai Business</i>	¥4,203 million	¥5,101 million	(17.6)
<b>Kale Juice Business</b>	¥2,470 million	¥1,763 million	40.1
NGC mail-order business	¥6,284 million	¥8,622 million	(27.1)
Other	¥2,654 million	¥2,452 million	8.2
Total	¥15,613 million	¥17,939 million	(13.0)

In the **Hatsuga Genmai Business**, mail-order sales fell below the level for the same period of the previous year, due to a decline in the number of mail-order customers. Despite aggressive sales activities for OEM supply to the Japan Rice Millers and Distributors Cooperative and the Hokuren Federation of Agricultural Cooperatives, there was no growth in the number of stores handling the product, and sales decreased compared with the same period of the previous year.

In the **Kale Juice Business**, sales increased in every sales channel. Frozen type and powdered type sales were strong.

In the mail-order business of **NGC Co., Ltd.**, sales declined compared with the same period of the previous year, due to revisions of the catalogue contents, distribution list and product lineup in connection with the ongoing business model restructuring.

In **other businesses**, sales of household sundries were strong, and net sales of FANCL Square esthetic salons and other shops were included in the nine months ending December 31, 2003. As a result, sales exceeded the level recorded during the same period of the previous year.

#### *Operating income*

As a result of substantially improved earnings in the Kale Juice Business, operating loss was ¥596 million, an improvement of ¥424 million from the same period of the previous year.

As a result, total **net sales** for the third quarter decreased 6.5% compared with same period of the previous year to ¥64,107 million; **operating income** decreased 14.5% to ¥8,130 million; and the operating margin declined 1.2 percentage points to 12.7%.

Net **non-operating loss** decreased ¥241 million compared with the same period of the previous year due to factors including a decrease in income from investment in an anonymous association. **Ordinary income** decreased 16.2% to ¥8,388 million and the ordinary income margin dropped 1.5 percentage points to 13.1%. As a result of extraordinary losses including a loss recorded on the transfer of the reserve directors' retirement bonuses from the previous year in connection

with a change in the regulations, **net income** fell 27.3% compared with the same period of the previous year to ¥4,057 million, and the ratio of net income to net sales declined 1.8 percentage points to 6.3% .

## Consolidated Balance Sheets

(Rounded down to the nearest million yen)

	As of December 31, 2003		As of March 31, 2003		Increase (decrease)
	Amount	Percentage of Total	Amount	Percentage of Total	
<b>Current assets</b>	40,851	50.7%	41,207	51.6%	(356)
<b>Fixed assets</b>	39,784	49.3	38,596	48.4	1,188
Total assets	80,636	100.0	79,804	100.0	832
<b>Current liabilities</b>	10,301	12.8	11,403	14.3	(1,102)
<b>Long-term liabilities</b>	2,843	3.5	2,050	2.6	793
Total liabilities	13,145	16.3	13,454	16.9	(309)
<b>Common stock</b>	10,795	13.4	10,795	13.5	—
<b>Capital reserve</b>	11,706	14.5	11,706	14.7	—
<b>Retained earnings</b>	51,198	63.5	48,027	60.2	3,171
<b>Net unrealized holding gain on other securities</b>	18	0.0	(9)	(0.0)	27
<b>Foreign currency translation adjustment</b>	(20)	(0.0)	(0)	(0.0)	(20)
<b>Treasury stock</b>	(6,205)	(7.7)	(4,168)	(5.2)	(2,037)
Total shareholders' equity	67,491	83.7	66,349	83.1	1,142
Total liabilities and shareholders' equity	80,636	100.0%	79,804	100.0%	832

## Consolidated Statements of Income

(Rounded down to the nearest million yen)

	Nine months ended December 31, 2003		Nine months ended December 31, 2002		Increase (decrease)	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage Change
<b>Net sales</b>	64,107	100.0%	68,528	100.0%	(4,421)	(6.5)%
<b>Cost of sales</b>	22,048	34.4	23,332	34.0	(1,284)	(5.5)
<b>Gross profit</b>	42,058	65.6	45,196	66.0	(3,138)	(6.9)
<b>Selling, general and administrative expenses</b>	33,928	52.9	35,682	52.1	(1,754)	(4.9)
<b>Operating income</b>	8,130	12.7	9,513	13.9	(1,383)	(14.5)
<b>Ordinary income</b>	8,388	13.1	10,012	14.6	(1,624)	(16.2)
<b>Income before income taxes</b>	7,161	11.2	9,458	13.8	(2,297)	(24.3)
<b>Income taxes</b>	3,104	4.9	3,880	5.7	(776)	(20.0)
<b>Net income</b>	4,057	6.3%	5,578	8.1%	(1,521)	(27.3)%

## Segment Information

### 1. Business Segments

Nine months ended December 31, 2003

(Millions of yen)

	Cosmetics Business	Nutritional Supplements Business	Other Businesses	Total	Eliminations or Corporate	Consolidated
Sales:						
(1) Sales to external customers	26,343	22,150	15,613	64,107	—	64,107
(2) Intersegment sales or transfers	—	—	—	—	—	—
Total sales	26,343	22,150	15,613	64,107		64,107
Operating expenses	20,393	17,790	16,209	54,394	1,582	55,976
Operating income (loss)	5,950	4,359	(596)	9,713	(1,582)	8,130

Nine months ended December 31, 2002

(Millions of yen)

	Cosmetics Business	Nutritional Supplements Business	Other Businesses	Total	Eliminations or Corporate	Consolidated
Sales:						
(1) Sales to external customers	28,678	21,909	17,939	68,528	—	68,528
(2) Intersegment sales or transfers	—	—	—	—	—	—
Total sales	28,678	21,909	17,939	68,528	—	68,528
Operating expenses	22,292	16,499	18,961	57,752	1,262	59,015
Operating income (loss)	6,386	5,410	(1,021)	10,776	(1,262)	9,513

Reference

## Nonconsolidated Balance Sheets

(Rounded down to the nearest million yen)

	As of December 31, 2003		As of March 31, 2003		Increase (decrease)
	Amount	Percentage of Total	Amount	Percentage of Total	
<b>Current assets</b>	29,576	43.9%	30,665	45.7%	(1,089)
<b>Fixed assets</b>	37,737	56.1	36,408	54.3	1,329
Total assets	67,313	100.0	67,074	100.0	239
<b>Current liabilities</b>	7,636	11.3	8,435	12.6	(799)
<b>Long-term liabilities</b>	2,086	3.1	1,221	1.8	865
Total liabilities	9,723	14.4	9,656	14.4	67
<b>Common stock</b>	10,795	16.0	10,795	16.1	—
<b>Capital reserve</b>	11,706	17.4	11,706	17.5	—
<b>Retained earnings</b>	41,281	61.3	39,084	58.2	2,197
<b>Net unrealized holding gain on other securities</b>	13	0.0	1	0.0	12
<b>Treasury stock</b>	(6,205)	(9.2)	(4,168)	(6.2)	(2,037)
Total shareholders' equity	57,590	85.6	57,418	85.6	172
Total liabilities and shareholders' equity	67,313	100.0%	67,074	100.0%	239

## Nonconsolidated Statements of Income

(Rounded down to the nearest million yen)

	Nine months ended December 31, 2003		Nine months ended December 31, 2002		Increase (decrease)	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage Change
<b>Net sales</b>	50,319	100.0%	53,671	100.0%	(3,352)	(6.2)%
<b>Cost of sales</b>	18,150	36.1	18,334	34.2	(184)	(1.0)
<b>Gross profit</b>	32,169	63.9	35,336	65.8	(3,167)	(9.0)
<b>Selling, general and administrative expenses</b>	26,335	52.3	28,164	52.5	(1,829)	(6.5)
<b>Operating income</b>	5,834	11.6	7,171	13.3	(1,337)	(18.6)
<b>Ordinary income</b>	6,409	12.7	7,919	14.8	(1,510)	(19.1)
<b>Income before income taxes</b>	5,171	10.3	7,881	14.7	(2,710)	(34.4)
<b>Income taxes</b>	2,089	4.2	3,348	6.2	(1,259)	(37.6)
<b>Net income</b>	3,082	6.1%	4,533	8.4%	(1,451)	(32.0)%