Summary of Consolidated Financial Statements for the Fiscal Year Ended March 31, 2004

April 27, 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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Stock exchange listings: Tokyo
Code number: 4921
Head office: Kanagawa Prefecture
Board of Directors' meeting: April 27, 2004
Use of U.S. accounting standards: No

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

(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 2004	84,956	(5.6)	7,769	(32.6)	7,686	(35.1)
Fiscal 2003	90,025	6.3	11,526	3.7	11,849	7.7

	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 2004	3,387	(47.3)	154.61	—	5.1	9.7	9.0
Fiscal 2003	6,428	7.2	279.58	—	9.8	14.9	13.2

Notes:
1. Equity in earnings of affiliates: ¥ — million (Fiscal 2003: ¥ — million)
2. Average number of shares outstanding (consolidated): 21,909,287 shares (Fiscal 2003: 22,994,582 shares)
3. Changes in accounting methods: No
4. Year-on-year change for net sales, operating income, ordinary income and net income is based on the previous fiscal period.

(2) Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity/total assets (%)	Shareholders' equity per share (¥)
Fiscal 2004	78,479	65,613	83.6	3,082.47
Fiscal 2003	79,804	66,349	83.1	2,976.31

Note: Number of shares outstanding at end of period (consolidated): 21,285,958 shares (Fiscal 2003: 22,292,672 shares)

(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)
Fiscal 2004	5,861	(4,118)	(4,532)	23,561
Fiscal 2003	9,828	(5,582)	(5,432)	26,370

(4) Scope of consolidation and application of the equity method
Consolidated subsidiaries: 6 companies
Nonconsolidated 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

2. Projected Results for Fiscal 2005 (April 1, 2004 to March 31, 2005)

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)
Fiscal 2005 Interim	42,950	1,300	500
Fiscal 2005	93,000	5,200	2,700

Reference: Estimated earnings per share (fiscal 2005): ¥126.84

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. Please see page 9 of the attached materials for more information on the projections.

1. FANCL Group

The FANCL Group comprises FANCL CORPORATION, 12 subsidiaries and three affiliates, and is primarily engaged in the manufacture and sales of cosmetics and nutritional supplements. Sales activities are principally conducted through mail order, directly managed retail outlets, and wholesale distribution. The Group's operations and the business segments in which they operate are as follows:

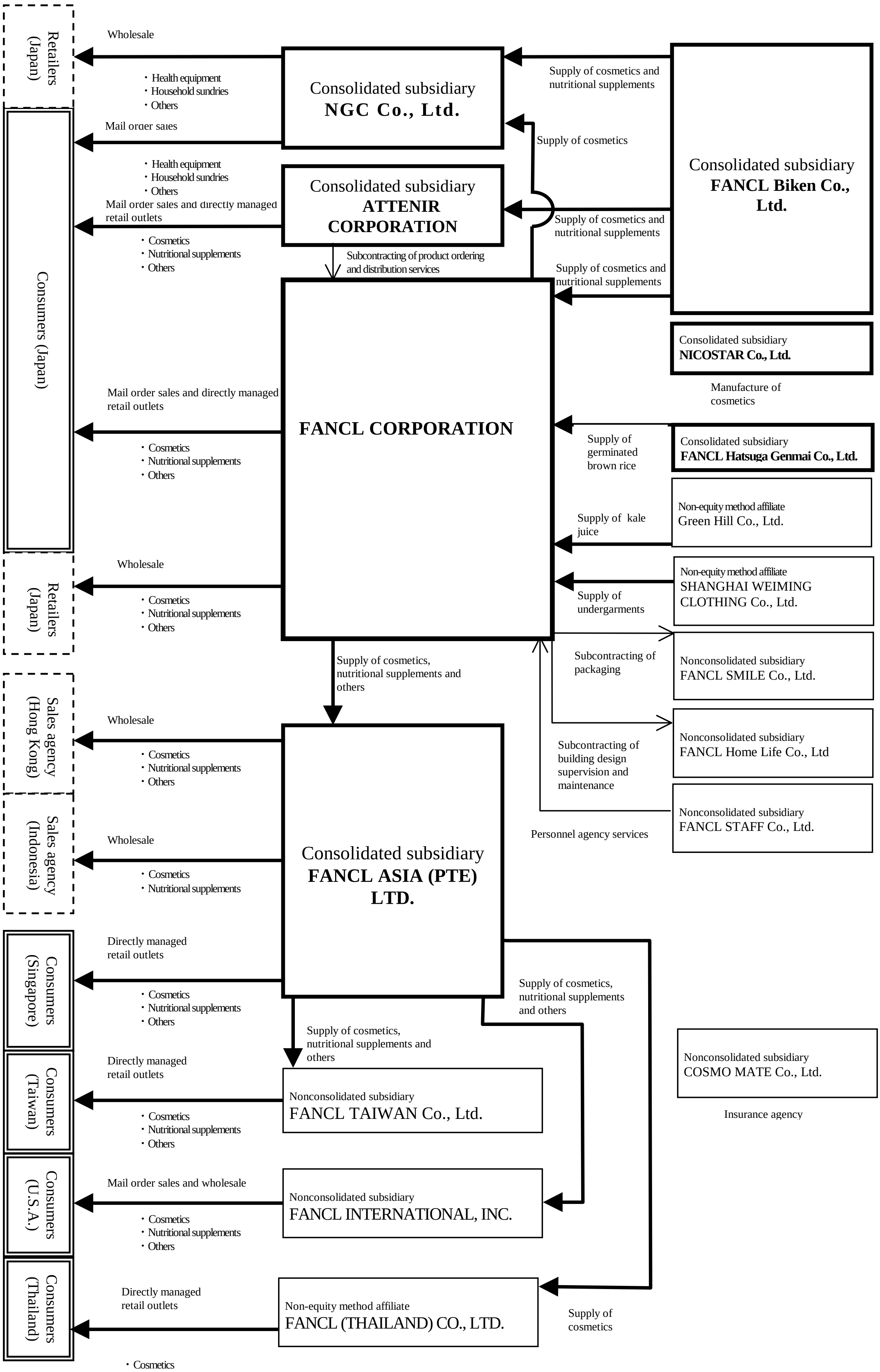
Business Segments	Positioning in FANCL Group Businesses	Relevant Notes
Cosmetics Business	The manufacture of preservative-free FANCL Cosmetics is conducted by FANCL and FANCL Biken Co., Ltd. (a consolidated subsidiary) and sales are conducted by FANCL. ATTENIR Cosmetics are manufactured by FANCL Biken Co., Ltd. and sold by ATTENIR CORPORATION (a consolidated subsidiary).	1
Nutritional Supplements Business	Nutritional supplements are manufactured by FANCL Biken Co., Ltd. and sold by FANCL and ATTENIR CORPORATION.	1
Other Businesses	NGC Co., Ltd. (a consolidated subsidiary) is engaged in mail-order sales of health equipment and household sundries. *Kaiteki Hadagi* (comfort undergarments) products are manufactured primarily by SHANGHAI WEIMING CLOTHING Co., Ltd. (an affiliate not accounted for by the equity method) and sold by FANCL. General merchandise and accessories for women are sourced from external manufacturers and sold by FANCL and ATTENIR. *Hatsuga Genmai* (germinated brown rice) is manufactured by FANCL Hatsuga Genmai Co., Ltd. (a consolidated subsidiary) and sold by FANCL. Kale juice is manufactured on consignment by Green Hill Co., Ltd. (an affiliate not accounted for by the equity method) and external manufacturers and sold by FANCL.	2

Notes:
1. Manufacture of cosmetics and nutritional supplements was transferred from NICOSTAR Co., Ltd. to FANCL Biken Co., Ltd.
2. NGC Co., Ltd. is scheduled to change its corporate name to IIMONO OKOKU Co., Ltd. in May 2004.

FANCL ASIA (PTE) LTD. (a consolidated subsidiary) markets FANCL products in Singapore, as well as in the United States through FANCL INTERNATIONAL, INC. (a nonconsolidated subsidiary), in Taiwan through FANCL TAIWAN Co., Ltd. (a nonconsolidated subsidiary), and in Thailand through FANCL (THAILAND) CO., LTD. (an affiliate not accounted for by the equity method), respectively.

In Japan, FANCL STAFF Co., Ltd. (a nonconsolidated subsidiary) is a personnel agency and introduction business serving Group companies. FANCL SMILE Co., Ltd. (a nonconsolidated subsidiary), established as a special corporation in line with legislation in Japan aimed at promoting employment opportunities for disabled persons, packages FANCL products. FANCL Home Life Co., Ltd. (a nonconsolidated subsidiary) primarily carries out design supervision and maintenance of buildings for the FANCL group of companies. COSMO MATE Co., Ltd. (a nonconsolidated subsidiary) is an insurance agency.

FANCL Group Operating Structure



Affiliates

Company	Location	Paid-In Capital (Millions of Yen)	Principal Businesses	Percentage of Voting/ Nonvoting Stock Held		Relationship with FANCL	Relevant Notes
				Voting	Nonvoting		
ATTENIR CORPORATION	Sakae-ku, Yokohama, Japan	¥150	Cosmetics and nutritional supplements business	100.0	—	Subcontracts product ordering and distribution services Seconded directors: 3	4
NICOSTAR Co., Ltd.	Sakae-ku, Yokohama, Japan	¥10	Cosmetics and nutritional supplements business	100.0	—	— Seconded directors: 3	2
NGC Co., Ltd.	Shibuya-ku, Tokyo, Japan	¥160	Other businesses	100.0	—	Sells cosmetics Seconded directors: 3	—
FANCL Hatsuga Genmai Co., Ltd.	Chiisagata-gun, Nagano, Japan	¥ 95	Other businesses	84.6	—	Manufactures germinated brown rice Seconded directors: 2	2
FANCL ASIA (PTE) LTD	Singapore	S$9,369 thousand	Cosmetics, nutritional supplements business and other businesses	100.0	—	Sells cosmetics, nutritional supplements and others Seconded directors: 4	—
FANCL Biken Co., Ltd.	Sakae-ku, Yokohama, Japan	¥75	Cosmetics and nutritional supplements business	100.0	—	Manufactures cosmetics and nutritional supplements Seconded directors: 3	2

Notes:
1. FANCL segment names are used to describe the principal businesses of affiliates.
2. NICOSTAR Co., Ltd., FANCL Hatsuga Genmai Co., Ltd. and FANCL Biken Co., Ltd.are specified subsidiaries.
3. None of FANCL's affiliates prepares *yuka shoken todokedesho* (securities registration statements) or *yuka shoken hokokusho* (reports of registered securities).
4. ATTENIR CORPORATION accounts for more than 10% of FANCL's consolidated net sales, excluding intersegment transactions. The company's principal results of operations in the year ended March 31, 2004 were as follows:

(Millions of yen)

Principal Operating Results of NGC Co., Ltd.				
Net Sales	Ordinary Income	Net Income	Net Assets	Total Assets
¥9,778	¥1,042	¥603	¥4,975	¥6,342

5. None of FANCL's affiliates currently carries excessive debt.

2. Management Policy

(1) Basic Management Policy

The FANCL Group's basic management policy is to cultivate a core competence based on "beauty" and "health," and centered on an ability to resolve negative issues. Consumers often have negative feelings—such as dissatisfaction and uneasiness or concern—about the products they use. FANCL's ongoing goal as a company is to maximize sensitivity and creativity to transcend accepted norms, thereby continuing to create new markets and offer new value. Our aim is to expand into new areas that will enhance our ability to resolve negative issues. These efforts also reflect our recognition that no business lasts forever, and that to increase corporate value and ensure stable, long-term returns to shareholders we must constantly work to identify new market needs and seek ways to resolve related negative issues.

(2) Management Indicator Targets

Ordinary income margin: 15%

Ratio of ordinary income to total assets: 16%

The FANCL Group will work to increase corporate value by focusing on profitability and asset efficiency.

(3) Policy Regarding the Allocation of Earnings

FANCL recognizes ensuring shareholders a fair return on their investment as a key management responsibility. Accordingly, our dividend policy is to maintain stable returns in the form of dividends and stock splits, while at the same time ensuring payouts are in keeping with our fiscal results, provisions to support future business development and business prospects. Retained earnings will be applied to capital investment, research and development and investment in new businesses, with the aim of reinforcing and broadening our operating foundation, and are also used to purchase treasury stock. During the year ended March 31, 2004, the Company acquired 1,000,000 shares of treasury stock on the market.

We had been planning to pay an annual dividend of ¥35.00 per share (comprising interim and year-end dividends of ¥17.50 each) for the fiscal year ended March 31, 2004, but have decided to increase the annual dividend by ¥7.50 to ¥42.50 per share (interim dividend of ¥17.50 and year-end dividend of ¥25.00) to thank shareholders for their support.

(4) Philosophy and Policy Regarding Lowering the Trading Unit

FANCL lowered its stock trading unit from 1,000 shares to 100 shares in August 1999. In addition, the Company declared stock splits in May 1999, May 2000 and May 2002. The stock trading unit may be adjusted again if considered necessary based on stock price conditions.

(5) Principal Medium-Term Tasks and Business Strategies

The FANCL Change&Challenge Plan, a three year medium-term management plan that began in the year ending March 31, 2005, aims to restore growth and profitability by (1) clarifying the positioning and orientation of each business and (2) optimizing products and sales channels.

[Target Figures]

	Consolidated net sales	Consolidated ordinary income	Consolidated ordinary income margin	Consolidated ordinary income/total assets
Year ending March 31, 2007	¥120 billion	¥16 billion	13%	16%

[Business Positioning]

Cosmetics Business, Nutritional Supplements Business: Core businesses (aiming for profitability)

Hatsuga Genmai Business, Kale Juice Business: Growth businesses (aiming for growth)

[Products and Sales Channels]

In the Cosmetics Business, FANCL will clearly position FANCL cosmetics as the main product, and continue product development focused on functionality. Backed by the main mail-order sales channel, FANCL will expand retail sales through aggressive development of new stores.

In the Nutritional Supplement Business, FANCL will clarify the main products, focus a diverse product lineup, and make research and development the foundation in introducing high value-added products that use original materials. Backed by the main mail-order channel, FANCL will strengthen retail and wholesale sales.

FANCL aims to bring the *Hatsuga Genmai* Business and Kale Juice Business into the black by ensuring superior quality and improving profitability through expanded sales and more efficient distribution. Backed by the main wholesale sales channel, FANCL will strengthen mail-order sales.

(6) Basic Policy on Corporate Governance and Status of Implementation of Measures

1. Basic stance

The Group positions corporate governance as an important management issue and takes measures to preserve and enhance the transparency of management from the standpoint of stakeholders as well as to ensure strict compliance with all laws and regulations.

2. Measures and initiatives

1) Status of management structure for decision-making, execution of business activities and audits and other corporate governance systems

a. The Group has adopted the corporate auditor system. All three corporate auditors are from outside the Group. The corporate auditors attend all meetings of the board of directors, management conferences and other important meetings, as well as periodically exchange opinions with senior management. This provides a system for the fair supervision of management practices. In addition, the Group plans to increase by one the number of external corporate auditors at the annual shareholders meeting scheduled for June 19, 2004.

b. At this same shareholders meeting, the Company's first external director is to be elected. Through the involvement of an external director in the execution of the Group's business operations, the Group will gain an even more powerful system for the supervision of management.

c. Shareholders meetings are not scheduled for the same dates as those of other companies, but instead held on Saturdays or Sundays so that shareholders can more easily attend these meetings.

d. The Group has a proactive disclosure stance, releasing monthly sales data and announcing financial results as quickly as possible.

e. The Group has earned ISO9001 certification for its quality management system and ISO14001 certification for its environmental management system. Furthermore, the Group will continue to take actions to improve its quality management system as well as to make its activities more environmentally sensitive and to ensure strict compliance with all laws and regulations.

2) Personal, financial and trading relationships between the Company and external corporate auditors

There are no beneficial relationships of note between the Company and the external corporate auditors.

3) Measures during past year to improve corporate governance

In February 2004, a unit responsible for compliance was established within the Corporate Strategic Headquarters for the purpose of strengthening the framework for ensuring that corporate activities comply with all laws and regulations. In addition, a Consumer Center overseen directly by the president was placed to gather and analyze opinions and requests from consumers regarding company activities and policies. This center works with the compliance unit to facilitate the rapid identification of key issues and formulation of decisions regarding these issues.

3. Operating Results and Financial Position

(1) Operating Results

Economic conditions in Japan during the year ended March 31, 2004 remained hampered by continuing sluggishness in consumer spending, as no improvements were seen in the income and employment environments, despite favorable exports, an upward trend in capital investment and other factors that led to signs of a pickup in the third quarter.

In the cosmetics industry, the market as a whole was flat despite strong performance of skin care products and other product groups.

In the nutritional supplements industry, the market continued to expand amid rising health consciousness, and competition intensified substantially with the diversification of sales channels and the entrance of new market participants.

1) Cosmetics Business

In FANCL cosmetics, FANCL conducted major renewals of the Belmeil line of preservative-free makeup on September 19, 2003 and of Clevance point makeup on January 21, 2004 in order to revitalize makeup, which sold poorly in the fiscal year ended March 31, 2003. In ATTENIR cosmetics, ATTENIR conducted renewals and new product introductions primarily in skin whitening products and beauty lotions.

Sales

In the Cosmetics Business, sales decreased 6.0% compared with the previous year to ¥34,925 million.

	Year ended March 31, 2004		Year ended March 31, 2003		% change
	Amount	% of total	Amount	% of total	
FANCL cosmetics	¥26,370 million	75.5	¥29,683 million	79.9	(11.2)
ATTENIR cosmetics	¥8,147 million	23.3	¥7,078 million	19.0	15.1
Other	¥407 million	1.2	¥394 million	1.1	3.3
Total	¥34,925 million	100.0	¥37,155 million	100.0	(6.0)

	Year ended March 31, 2004		Year ended March 31, 2003		% change
	Amount	% of total	Amount	% of total	
Mail-order sales	¥21,869 million	62.6	¥22,961 million	61.8	(4.8)
Retail store sales	¥10,608 million	30.4	¥11,554 million	31.1	(8.2)
Other	¥2,448 million	7.0	¥2,639 million	7.1	(7.2)
Total	¥34,925 million	100.0	¥37,155 million	100.0	(6.0)

Mail-order sales decreased 4.8% compared with the previous year to ¥21,869 million.

In FANCL cosmetics, sales of skin care products, particularly of the FENATTY skin care series, declined compared with the previous year, due to a failure to achieve clear differentiation from competitors. Total mail-order sales decreased 12.3% compared with the previous year to ¥14,234 million, as an increase in sales of makeup after the renewal of makeup products was unable to cover the decline in sales of skin care products.

On the other hand, sales of ATTENIR cosmetics increased 13.4% compared with the previous year to ¥7,628 million due to favorable sales of skin care products and makeup products, new customer acquisition activities that increased the customer base to a record high level as of March 31, 2004, and success in raising the effectiveness of marketing activities centered on seasonal and value themes.

Retail store sales decreased 8.2% compared with the previous year to ¥10,608 million. Despite the opening of FANCL Square on April 4, 2003, renovation of existing stores (including transformations) and strengthening of store staff training, sales at existing stores failed to recover. As of March 31, 2004, the number of FANCL House shops (including two franchise stores) was 114 (with three openings and eight closures during the period); the number of FANCL Style shops was 10 (with nine openings during the period); the number of ATTENIR shops was six (with one opening during the period); and the number of other shops was one (no openings or closures during the period).

In **other sales channels**, sales decreased 7.2% compared with the previous year to ¥2,448 million. Exports to Hong Kong were flat as a result of SARS, and daily sales at convenience stores decreased.

Operating income

Operating income declined 22.4% compared to the previous year to ¥6,283 million and the operating margin fell 3.8 percentage points to 18.0%, due to an increase in the cost of sales ratio brought on by increased fixed expenses from the operation of the Shiga Factory, and a decrease in sales of skin care products, whose cost of sales ratio is relatively low, as well as aggressive investment in advertising in the second half.

2) Nutritional Supplements Business

In the Nutritional Supplements Business, FANCL phased out 16 products from June to August 2003 as part of a review of its product lineup aimed at shifting courses from price appeal to high added value. FANCL also launched the new beauty drink Tense Up Ex on November 21, 2003 and White Advance on March 21, 2004 as high-value-added products that use original materials.

Sales

In the Nutritional Supplements Business, sales increased 1.5% compared with the previous year to ¥29,655 million.

	Year ended March 31, 2004		Year ended March 31, 2003		% change
	Amount	% of total	Amount	% of total	
Mail-order sales	¥16,439 million	55.4	¥17,123 million	58.6	(4.0)
Retail store sales	¥5,994 million	20.2	¥5,524 million	18.9	8.5
Other	¥7,221 million	24.4	¥6,563 million	22.5	10.0
Total	¥29,655 million	100.0	¥29,210 million	100.0	1.5

Mail-order sales decreased 4.0% compared with the previous year to ¥16,439 million, as intensifying competition decreased the customer base. Increases in sales of diet supplements, beauty supplements and herbal supplements could not cover the decrease in sales of the Support Series and other products.

Retail store sales increased 8.5% compared with the previous year to ¥5,994 million, due to an increase in sales of diet supplements and herbal supplements at FANCL House shops, which primarily sell cosmetics, and the opening of FANCL Square. As of March 31, 2004, the number of Genki Station shops was nine (two openings and one closure during the period) and the number of Genki Net shops was two (eight closures during the period).

In **other sales channels**, sales increased 10.0% compared with the previous year to ¥7,221 million, with an increase in sales at convenience stores and supermarkets offsetting a decline in exports to Hong Kong due to SARS.

Operating income

Operating income decreased 21.9% compared with the previous year to ¥5,371 million and the operating margin fell 5.5 percentage points to 18.1%, due to an increase in the cost of sales ratio brought on by a rise in the price of certain raw materials, an increase in the percentage of sales of products with relatively high cost of sales ratios, and aggressive investment in advertising.

3) Other Businesses

Sales

In Other Businesses, sales declined 13.9% compared with the previous year to ¥20,375 million.

	Year ended March 31, 2004	Year ended March 31, 2003	% change
Hatsuga Genmai Business	¥5,383 million	¥6,844 million	(21.3)
Kale juice Business	¥2,985 million	¥2,501 million	19.3
NGC mail-order business	¥8,270 million	¥10,936 million	(24.4)
Other	¥3,736 million	¥3,376 million	10.7
Total	¥20,375 million	¥23,659 million	(13.9)

In the ***Hatsuga Genmai* Business**, the number of mail-order customers declined. Sales in all sales channels declined compared to the previous year despite efforts to strengthen sales activities for OEM supply to the Japan Rice Millers and Distributors Cooperative and the Hokuren Federation of Agricultural Cooperatives in conjunction with television commercials.

In the **Kale Juice Business**, sales increased in all sales channels, as both frozen type and powder type sales were strong.

In the mail-order business of **NGC Co., Ltd**., sales did not meet expectations, despite an overall business review including revisions of catalogue contents, customer services and the product lineup.

In **other businesses**, sales of household sundries were strong, and net sales from FANCL Square esthetic salons and other shops were recorded in this segment starting from the year ended March 31, 2004. As a result, sales exceeded the level recorded during the previous year.

Operating income

Significant improvement in revenues in the Kale Juice Business could not cover the growing operating loss in the mail-order business of NGC Co., Ltd. and other businesses. Consequently, operating loss increased ¥175 million compared to the same period of the previous year to ¥1,820 million.

As a result of the above factors, total net sales for the year decreased 5.6% to ¥84,956 million, operating income decreased 32.6% to ¥7,769 million, and the operating margin fell 3.7 percentage points to 9.1%.

Due to reduction in income from investment in an anonymous association and loss on disposal of products as a measure to deal with bovine spongiform encephalopathy (BSE), net non-operating income declined ¥407 million from the previous year, ordinary income decreased 35.1% to ¥7,686 million and the ordinary income margin fell 4.2 percentage points to 9.0%. As a result of extraordinary losses, including a loss recorded on the transfer of the reserve for directors' retirement bonuses from the previous year in connection with a change in the regulations, net income decreased 47.3% compared with the previous year to ¥3,387 million and the ratio of net income to net sales decreased 3.1 percentage points to 4.0%.

(2) Cash Flows

Cash and cash equivalents ("net cash") at the end of the fiscal year decreased ¥2,808 million from the end of the previous year to ¥23,561 million. Cash flows and factors are as appear below.

(Cash flows from operating activities)

Net cash provided by operating activities amounted to ¥5,861 million, due to factors including ¥6,213 million in income before income taxes, ¥2,556 million in depreciation and amortization, and ¥4,954 million in income taxes paid.

(Cash flows from investing activities)

Net cash used in investing activities totaled ¥4,118 million, due primarily to ¥3,341 million in payment for acquisition of equipment and other capital investment at the Shiga Factory and other factories.

(Cash flows from financing activities)

Net cash used in financing activities was ¥4,532 million, due to a ¥3,297 million payment for purchase of treasury stock, and ¥884 million in cash dividends paid.

FANCL plans to use the increase in cash flows from operating activities to cover cash used in investing and financing activities, and therefore forecasts a slight increase in cash flows for the year ending March 31, 2005.

Trends in cash flow indicators for the FANCL Group

	Year ended March 31, 2000	Year ended March 31, 2001	Year ended March 31, 2002	Year ended March 31, 2003	Year ended March 31, 2004
Shareholders' equity ratio	81.5	78.8	81.9	83.1	83.6
Shareholders' equity ratio on market value basis	371.8	163.5	113.5	114.3	95.7
Debt repayment period (Years)	0.49	0.51	0.15	0.04	—
Interest coverage ratio	80.0	152.1	200.7	756.0	2,930.5

Notes:

Shareholders' equity ratio = Shareholder equity/Total assets

Shareholders' equity ratio on a market value basis: Total market value of stock/Total assets

Debt repayment period: Interest-bearing liabilities/Cash flows from operating activities

Interest coverage ratio: Cash flows from operating activities/Interest expense

1. All indicators are calculated based on consolidated financial figures.
2. Total market value of stock is calculated by multiplying the closing price at the end of the period by the number of shares issued and outstanding at the end of the period (excluding the number of treasury shares).
3. Cash flows from operating activities are as stated on the consolidated statements of cash flows. Interest-bearing liabilities includes all debt stated on the consolidated balance sheets on which interest is paid. For interest expenses, cash paid for interest in the consolidated statements of cash flows is used.

(3) Outlook

Looking at the economic situation, the business environment in which the Company operates is expected to remain challenging, despite the emergence of some positive signs.

In the Cosmetics Business, a renewal and new product development centered on core skin care products, together with aggressive advertising for FANCL cosmetics are expected to lead to increased revenue. Furthermore, a continued increase in revenues is expected for ATTENIR cosmetics.

In the Nutritional Supplements Business, the introduction of renewals and new products that use original materials such as Twintose is expected to increase revenue.

In the *Hatsuga Genmai* Business, the introduction of *Hatsuga Mai*, a new product manufactured through a new production process, is expected to lead to increased revenues.

In the Kale Juice Business, revenues are expected to increase, due to the construction of a stable production system and expansion of sales channels.

As a result, based on these projections, we forecast net sales for the fiscal year ending March 31, 2005 to increase 9.5% year-on-year to ¥93,000 million.

We project ordinary income of ¥5,200 million, a 32.3% decrease year-on-year, due to aggressive investment in advertising and an increase in expenses related to store openings, and net income of ¥2,700 million, a 20.3% decrease year-on-year, due to a loss on cancellation of lease recorded in the course of changing to a new production method for *Hatsuga Genmai*.

We intend to pay an annual dividend of ¥50.00 per share, comprising interim and year-end dividends of ¥25.00 each.

4. Consolidated Financial Statements and Notes

Consolidated Balance Sheets

(Millions of yen)

ASSETS	As of March 31, 2004		As of March 31, 2003		Increase (decrease)
	Amount	Percentage of Total	Amount	Percentage of Total	
I Current assets:					
Cash and cash equivalents	15,828		18,638		(2,810)
Notes and accounts receivable	7,814		8,220		(406)
Marketable securities	7,732		7,731		1
Inventories	5,472		5,103		369
Deferred tax assets	683		767		(84)
Others	1,888		919		969
Allowance for doubtful accounts	(182)		(173)		(9)
Total current assets	39,236	50.0%	41,207	51.6%	(1,971)
II Fixed assets:					
1. Tangible fixed assets:					
Buildings and structures	12,701		11,198		1,503
Equipment and vehicles	1,995		1,679		316
Tools and fixtures	1,160		1,000		160
Land	10,847		10,202		645
Construction in progress	62		2,028		(1,966)
Total tangible fixed assets	26,767	34.1	26,109	32.7	658
2. Intangible fixed assets:					
Software	810		960		(150)
Goodwill	571		843		(272)
Others	254		231		23
Total intangible fixed assets	1,636	2.1	2,036	2.6	(400)
3. Investments and other assets:					
Investment securities	1,083		947		136
Long-term loans	1,007		1,010		(3)
Guaranty money	2,502		2,464		38
Deferred tax assets	756		357		399
Others	5,776		5,950		(174)
Allowance for doubtful accounts	(287)		(279)		(8)
Total investments and other assets	10,839	13.8	10,450	13.1	389
Total fixed assets	39,242	50.0	38,596	48.4	646
Total assets	78,479	100.0%	79,804	100.0%	(1,325)

Note: Figures below ¥1 million have been truncated.

LIABILITIES AND SHAREHOLDERS' EQUITY	As of March 31, 2004		As of March 31, 2003		Increase (decrease)
	Amount	Percentage of Total	Amount	Percentage of Total	
LIABILITIES					
I Current liabilities:					
Notes and accounts payable	3,172		3,341		(169)
Current portion of long-term debt	—		350		(350)
Accrued liabilities	4,273		3,277		996
Accrued expenses	430		457		(27)
Accrued income taxes	1,105		2,772		(1,667)
Allowance for bonuses	763		823		(60)
Others	277		381		(104)
Total current liabilities	10,022	12.8%	11,403	14.3%	(1,381)
II Long-term liabilities:					
Allowance for retirement bonuses	1,196		1,118		78
Allowance for directors' retirement bonuses	1,210		370		840
Others	437		561		(124)
Total long-term liabilities	2,843	3.6	2,050	2.6	793
Total liabilities	12,866	16.4	13,454	16.9	(588)
SHAREHOLDERS' EQUITY					
I Common stock	10,795	13.7	10,795	13.5	—
II Capital reserve	11,706	14.9	11,706	14.7	—
III Retained earnings	50,528	64.4	48,027	60.2	2,501
IV Net unrealized holding gain on other securities	54	0.1	(9)	(0.0)	63
V Foreign currency translation adjustment	(4)	(0.0)	(0)	(0.0)	(4)
VI Treasury stock	(7,466)	(9.5)	(4,168)	(5.2)	(3,298)
Total shareholders' equity	65,613	83.6	66,349	83.1	(736)
Total liabilities and shareholders' equity	78,479	100.0%	79,804	100.0%	(1,325)

Note: Figures below ¥1 million have been truncated.

Consolidated Statements of Income

(Millions of yen)

	Year ended March 31, 2004		Year ended March 31, 2003		Increase (Decrease)	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage Change
Net sales	84,956	100.0%	90,025	100.0%	(5,069)	(5.6)%
Cost of sales	29,260	34.4	31,044	34.5	(1,784)	(5.7)
Gross profit	55,696	65.6	58,981	65.5	(3,285)	(5.6)
Selling, general and administrative expenses	47,926	56.4	47,455	52.7	471	0.9
Operating income	7,769	9.1	11,526	12.8	(3,757)	(32.6)
Non-operating income:	701	0.8	891	1.0	(190)	(21.3)
Interest and dividend income	40		44		(4)	
Other non-operating income	661		847		(186)	
Non-operating expenses:	784	0.9	567	0.6	217	38.3
Interest expense	2		13		(11)	
Other non-operating expenses	781		553		228	
Ordinary income	7,686	9.0	11,849	13.2	(4,163)	(35.1)
Extraordinary income:	0	0.0	7	0.0	(7)	(100.0)
Gain on sale of fixed assets	0		0		(0)	
Reserve for allowance for doubtful receivables	—		6		(6)	
Extraordinary expenses:	1,472	1.7	778	0.9	694	89.2
Loss on disposal of fixed assets	340		629		(289)	
Valuation loss on investment securities	89		66		23	
Valuation loss on golf club memberships	7		1		6	
Special service bonuses for directors	299		63		236	
Allowance for directors' retirement benefits	735		—		735	
Loss on sale of stocks of affiliated companies	—		17		(17)	
Income before income taxes	6,213	7.3	11,078	12.3	(4,865)	(43.9)
Income taxes	3,153	3.7	5,001	5.6	(1,848)	
Adjustment for income taxes	(326)	(0.4)	(351)	(0.4)	25	
Net income	3,387	4.0	6,428	7.1	(3,041)	(47.3)

Note: Figures below ¥1 million have been truncated.

Consolidated Statements of Retained Earnings

(Millions of yen)

	Year ended March 31, 2004		Year ended March 31, 2003	
(Capital reserve)				
I Balance at beginning of the period				
1. Additional paid-in capital at beginning of the period	11,706	11,706	11,706	11,706
II Balance at end of the period		11,706		11,706
(Retained earnings)				
I Balance at beginning of the period				
1. Consolidated retained earnings at beginning of the period	48,027	48,027	42,245	42,245
II Increase in retained earnings				
1. Net income	3,387	3,387	6,428	6,428
III Decrease in retained earnings				
1. Dividends	885		531	
2. Bonuses to directors	1		—	
3. Decrease in retained earnings due to increase in consolidated subsidiaries	—	886	114	646
IV Balance at end of the period		50,528		48,027

Note: Figures below ¥1 million have been truncated.

Consolidated Statements of Cash Flows

(Millions of yen)

	Year ended March 31, 2004	Year ended March 31, 2003
Cash flows from operating activities:		
Income before income taxes	6,213	11,078
Depreciation and amortization	2,556	2,268
Amortization in excess of investment cost over equity in net assets of consolidated subsidiaries	272	259
Increase (decrease) in allowance for bonuses	(60)	57
Increase (decrease) in allowance for doubtful accounts	8	(7)
Increase (decrease) in allowance for retirement benefits	77	114
Interest and dividend income	(40)	(44)
Interest expenses	2	13
Exchange loss	19	12
Valuation loss on investment securities	89	66
Investment gain on anonymous association	(151)	(268)
Valuation loss on golf club memberships	7	1
Net refund of insurance premiums	(267)	(283)
Gain on sale of tangible fixed assets	(0)	(0)
Loss on sale of tangible fixed assets	13	11
Loss on disposal of tangible fixed assets	157	603
Loss on disposal of intangible fixed assets	168	14
Decrease (increase) in trade receivables	406	86
Decrease (increase) in inventories	(369)	399
Decrease (increase) in other current assets	(228)	1,068
Decrease in trade payables	(168)	(316)
Increase (decrease) in other current liabilities	811	(530)
Decrease in other fixed liabilities	696	(161)
Other extraordinary loss	—	17
Bonuses to directors	(1)	—
Others	—	(8)
Subtotal	10,216	14,451
Interest and dividends received	37	44
Interest paid	(1)	(15)
Refund on insurance premiums	563	461
Income taxes paid	(4,954)	(5,114)
Net cash provided by operating activities	5,861	9,828
Cash flows from investing activities:		
Payment for deposits	—	(1,500)
Proceeds from termination of deposits	—	500
Payment for purchase of tangible fixed assets	(3,341)	(4,170)
Proceeds from sales of tangible fixed assets	27	12
Proceeds from disposal of tangible fixed assets	—	(19)
Payment for purchase of intangible fixed assets	(584)	(386)
Payment for purchases of investment securities	—	(20)
Proceeds from sales of investment securities	2	50
Payments for purchase of investments in subsidiaries	—	(60)
Payments for purchase of investments in affiliates	(118)	(5)
Lending of loans	(13)	(50)
Proceeds from collection of loans	61	121
Payment for purchase of other investments	(379)	(416)
Proceeds from sales of other investments	171	105
Proceeds from investment in anonymous association	—	141
Proceeds from reduced-value entry for land	57	115
Net cash used in investing activities	(4,118)	(5,582)

(continued on following page)

Cash flows from financing activities:		
Repayment of long-term debt	(350)	(742)
Payment for purchase of treasury stock	(3,297)	(4,159)
Cash dividends paid	(884)	(530)
Net cash used in financing activities	(4,532)	(5,432)
Effect of exchange rate changes on cash and cash equivalents	(20)	(27)
Net increase in cash and cash equivalents	(2,808)	(1,213)
Cash and cash equivalents at beginning of year	26,370	27,535
Reconciliation of cash and cash equivalents related to change in scope of consolidation	—	48
Cash and cash equivalents at end of year	23,561	26,370

Preparation of the Consolidated Financial Statements

1. Scope of Consolidation

Principal affiliated companies described in “1. FANCL Group.”

Number of consolidated subsidiaries ………………………. 6 companies

Number of nonconsolidated subsidiaries ……………………. 6 companies

Nonconsolidated subsidiaries are unconsolidated because they are small-sized companies and their respective total assets, net sales, net income (in proportion to equity) and retained earnings (in proportion to equity) would not have a significant effect on the consolidated financial statements.

2. Application of the Equity Method

The Company’s nonconsolidated subsidiaries (6 companies) mentioned above and affiliated companies (3 companies) did not significantly influence the net income or retained earnings of the Company and are thus accounted for using the cost method, rather than the equity method.

3. Fiscal Year-End of Consolidated Subsidiaries

Among consolidated subsidiaries, the year-end closing date of FANCL ASIA (PTE) LTD is December 31. The financial statements as of the closing date are used in preparing the consolidated financial statements. Consolidation adjustments are made as necessary for significant transactions occurring until the consolidated closing date.

4. Accounting Standards

(1) Basis and method for valuation of major assets

(a) Securities

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.)

Stocks with no market value: At cost by the average method

(b) Derivatives: Market value method

(c) 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

(a) 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 transport equipment:	2–22 years
Furniture, tools and fixtures:	2–20 years

(b) 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)

(c) Long-term prepaid expenses: Straight-line method

(3) Allowances

(a) Allowance for doubtful accounts: The Company makes provisions against estimated uncollectible receivables sufficient to cover possible losses on the collection of receivables as of the year-end closing date based on a review of the potential for recovery of individual receivables.

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

(c) 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 consolidated 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.

(d) 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

(a) 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.

(b) Hedging instruments/targets: Forward exchange contracts/payables or forecast transactions denominated in foreign currencies.

(c) 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.

(d) Method of assessing hedge effectiveness: As a rule, the Company uses individual forward exchange contracts and thus does not assess hedge effectiveness.

(e) 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 General Affairs Department, which reports to the Board of Directors on the progress of transactions.

(7) Others

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

5. Valuation of Assets and Liabilities of Consolidated Subsidiaries

The assets and liabilities of consolidated subsidiaries are valued using the full mark-to-market method.

6. Amortization of Goodwill

Goodwill is amortized on a straight-line basis, generally averaged over a five-year period.

7. Treatment of Profit Distribution Items, etc.

The consolidated statements of retained earnings are prepared on the basis of profit distributions decided during the consolidated fiscal year.

8. Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows consist primarily of cash on hand, cash deposits and short-term, highly liquid investments with original maturities of three months or less which are readily convertible into cash with insignificant risk of change in value.

Notes to Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2004	As of March 31, 2003
1. Accumulated depreciation of tangible fixed assets	12,306	10,821
2. Contingent liabilities	2,948	1,872

Notes to Consolidated Statements of Income

(Millions of yen)

	Year ended March 31, 2004	Year ended March 31, 2003
1. Principal components of selling, general and administrative expenses		
Advertising	9,864	9,261
Sales promotions	7,997	8,615
Transport	3,995	4,366
Communications	2,430	2,939
Fees	4,373	4,535
Salaries	6,481	6,072
Depreciation	1,674	1,427
2. R&D expenses included in general and administrative and manufacturing expenses	1,627	1,683

Notes to Consolidated Statements of Cash Flows

Relationship between the ending balance of cash and cash equivalents and the category names used in the consolidated balance sheets

(Millions of yen)

	As of March 31, 2004	As of March 31, 2003
Cash and deposits account	15,828	18,638
Securities account	7,732	7,731
Total	23,561	26,370
Deposits with maturities of less than three months	—	—
Cash and cash equivalents	23,561	26,370

Leases

1. 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)

	As of March 31, 2004	As of March 31, 2003
Machinery and transport equipment:		
Purchase cost	4,362	4,357
Accumulated depreciation	1,699	1,105
Balance at end of period	2,662	3,252
Furniture, tools and fixtures:		
Purchase cost	693	872
Accumulated depreciation	404	513
Balance at end of period	288	359
Total:		
Purchase cost	5,055	5,229
Accumulated depreciation	2,103	1,618
Balance at end of period	2,951	3,611

(2) Future lease payments

(Millions of yen)

	As of March 31, 2004	As of March 31, 2003
Within one year	692	736
More than one year	2,283	2,874
Total	2,975	3,610

(3) Outstanding lease payments and depreciation

(Millions of yen)

	As of March 31, 2004	As of March 31, 2003
Outstanding lease payments	834	827
Depreciation expense	773	778
Interest expense	86	92

(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.

2. Operating leases

Future lease payments

(Millions of yen)

	As of March 31, 2004	As of March 31, 2003
Within one year	0	0
More than one year	2	3
Total	3	4

Tax-Effect Accounting

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

(Millions of yen)

	As of March 31, 2004	As of March 31, 2003
Deferred tax assets		
Accrued enterprise taxes	109	277
Reserve for bonuses	311	280
Accrued expenses	33	—
Allowance for doubtful receivables	139	161
Unrealized gain on inventories	32	13
Loss on discarding of inventory	—	1
Unrecognized loss on disposal of fixed assets	107	—
Reserve for retirement benefits	436	381
Reserve for special service bonuses for directors	491	152
Loss carryforwards	160	154
Depreciation and amortization	52	57
Valuation loss on investment securities	81	—
Valuation loss on golf club memberships	10	21
Others	71	97
Subtotal	2,041	1,597
Valuation reserve	(76)	—
Total deferred tax assets	1,964	1,597
Deferred tax liabilities		
Unrealized gain on land	232	232
Gain on valuation of land	164	165
Prepaid pension expenses	90	75
Others	37	0
Total tax liabilities	524	473
Net deferred tax assets	1,439	1,123

Retirement Benefits

1. Description of Retirement Benefit System Used

The Company has a defined benefit system comprising a qualified pension plan, a contributory pension plan and a lump-sum retirement plan.

One of the Company's consolidated subsidiaries uses a contributory pension plan and a lump-sum retirement plan.

2. Retirement Benefit Obligation (as of March 31, 2004)

Prepaid pension expenses	¥224 million
Reserve for retirement benefits	¥1,196 million

Note: The consolidated subsidiary uses the simplified method of calculating retirement benefit obligation.

3. Retirement Benefit Expenses (year ended March 31, 2004)

Retirement benefit expenses	¥417 million

4. Items Related to Basis of Calculation of Retirement Benefit Obligation

(1) Discount rate	1.75%
(2) Expected rate of return	3.00%
(3) Method of period allocation for estimated retirement benefits	Straight-line basis
(4) Years over which net actuarial gain and losses are amortized	5 years (expensed from the period following the occurrence of proportional amounts on a straight-line basis over the fixed number of years within the average remaining service time in each period when obligations arise)
(5) Years over which net obligation is amortized	Amortized as a lump-sum expense in the fiscal year in which it occurs

5. Segment Information

1. Business Segments

Year ended March 31, 2004

(Millions of yen)

	Cosmetics Business	Nutritional Supplements Business	Other Businesses	Total	Eliminations or Corporate	Consolidated
I. Sales & operating income:						
(1) Sales to external customers	34,925	29,655	20,375	84,956	—	84,956
(2) Intersegment sales or transfers	—	—	—	—	—	—
Total sales	34,925	29,655	20,375	84,956	—	84,956
Operating expenses	28,642	24,283	22,195	75,122	2,064	77,187
Operating income (loss)	6,283	5,371	(1,820)	9,834	(2,064)	7,769
II. Total assets, depreciation and amortization, and capital expenditures						
Total assets	24,732	11,887	13,467	50,087	28,391	78,479
Depreciation and amortization	1,241	606	599	2,446	109	2,556
Capital expenditures	3,826	559	296	4,681	182	4,864

Year ended March 31, 2003

(Millions of yen)

	Cosmetics Business	Nutritional Supplements Business	Other Businesses	Total	Eliminations or Corporate	Consolidated
I. Sales & operating income:						
(1) Sales to external customers	37,155	29,210	23,659	90,025	—	90,025
(2) Intersegment sales or transfers	—	—	—	—	—	—
Total sales	37,155	29,210	23,659	90,025	—	90,025
Operating expenses	29,056	22,332	25,305	76,693	1,806	78,499
Operating income (loss)	8,099	6,878	(1,645)	13,332	(1,806)	11,526
II. Total assets, depreciation and amortization, and capital expenditures						
Total assets	23,016	11,172	9,200	43,388	36,415	79,804
Depreciation and amortization	1,218	596	375	2,190	77	2,268
Capital expenditures	2,474	349	373	3,197	2,199	5,396

Notes:

1. Segmentation has been adopted for internal management purposes.
2. Segment operations are as follows:
   Cosmetics business: Mail-order and retail sales and wholesaling of a variety of cosmetics products
   Nutritional supplements business: Mail-order and retail sales and wholesaling of a variety of nutritional supplements
   Other businesses: Mail-order sales of personal sundries, accessories, undergarments, health equipment and household sundries, mail-order and retail sales of germinated brown rice and kale juice, etc.
3. Unallocatable operating expenses included in “Eliminations or Corporate” consist of operating expenses incurred by the Administration Department of the Company.
4. Corporate assets listed under “Eliminations or Corporate” include cash and cash equivalents, marketable securities, land, investment securities and insurance reserve.

2. Geographic Segments

During the year ended March 31, 2004, sales in Japan accounted for more than 90 percent of total net sales. Therefore, segment information by geographic area is not provided.

3. Overseas Sales

Sales in overseas markets accounted for less than 10% of consolidated net sales in the fiscal years ended March 31, 2004 and 2003, respectively. Accordingly, overseas sales information is not provided.

6. Production, Orders and Sales

1. Actual Production

(Millions of yen)

	Year ended March 31, 2004	Year ended March 31, 2003
Cosmetics	36,961	40,004
Nutritional supplements	30,199	30,175
Others	8,585	12,880
Total	75,746	83,060

Notes:
1. Amounts represent sales prices.
2. Amounts are prior to the deduction of national and regional consumption taxes.

2. Orders

Production is conducted based on sales forecasts. Accordingly, order information is not available.

3. Sales by Product Category

(Millions of yen)

	Year ended March 31, 2004	Year ended March 31, 2003
Cosmetics	34,925 (41.1%)	37,155 (41.3%)
Nutritional supplements	29,655 (34.9%)	29,210 (32.4%)
Others	20,375 (24.0%)	23,659 (26.3%)
Total	84,956 (100.0%)	90,025 (100.0%)

Notes:
1. Others includes sales of undergarments, germinated brown rice, kale juice, sundries and other products.
2. Amounts are prior to the deduction of national and regional consumption taxes.

7. Securities

1. Market Value of Other Marketable Securities

(Millions of yen)

	As of March 31, 2004			As of March 31, 2003		
	Acquisition Cost	Book Value	Unrealized Gain (Loss)	Acquisition Cost	Book Value	Unrealized Gain (Loss)
1. Stocks	124	216	92	189	107	(81)
2. Bonds						
National/Local Government	—	—	—	—	—	—
Corporate	—	—	—	—	—	—
Others	—	—	—	—	—	—
3. Others	—	—	—	—	—	—
Total	124	216	92	189	107	(81)

2. Securities for which Market Value is Not Calculated

(Millions of yen)

	As of March 31, 2004	As of March 31, 2003
Other marketable securities:	Book Value	
Current assets:		
Money management funds (MMF)	4,726	4,725
Free financial funds (FFF)	3,006	3,006
Fixed assets:		
Unlisted stocks (excluding over-the-counter stocks)	90	182
Total	7,823	7,914

8. Derivatives

As of March 31, 2004
No pertinent derivative transactions were undertaken during the year ended March 31, 2004.
The Company did undertake forward exchange contracts during the period, but these are accounted for using hedge accounting and are therefore not indicated herein.

As of March 31, 2003
No pertinent derivative transactions were undertaken during the year ended March 31, 2003.
The Company did undertake forward exchange contracts during the period, but these are accounted for using hedge accounting and are therefore not indicated herein.