# Summary of Consolidated Financial Statements for the Fiscal Year Ended March 31, 2005

April 27, 2005

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


| | | | |
|---|---|---|---|
| **FANCL CORPORATION** | | Stock exchange listings: | Tokyo |
| URL: | http://www.fancl.co.jp | Code number: | 4921 |
| Representative: | Kenji Fujiwara, President and Representative Director | Head office: | Kanagawa Prefecture |
| Contact: | Shoji Shiba, Managing officer of Administrative Headquarters | Board of Directors' Meeting: | April 27, 2005 |
| Phone: | +81-45-226-1200 | Use of U.S. accounting standards: | No |


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

(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 2005 | 87,937 | 3.5 | 5,428 | (30.1) | 5,490 | (28.6) |
| Fiscal 2004 | 84,956 | (5.6) | 7,769 | (32.6) | 7,686 | (35.1) |

| | 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 2005 | 1,709 | (49.5) | 80.29 | 80.23 | 2.6 | 6.9 | 6.2 |
| Fiscal 2004 | 3,387 | (47.3) | 154.57 | — | 5.1 | 9.7 | 9.0 |

Notes:

1. Earnings on investments in equity-method affiliates: Year ended March 31, 2005: ¥ — million
   Year ended March 31, 2004: ¥ — million
2. Average number of shares outstanding (consolidated): Year ended March 31, 2005: 21,282,467 shares
   Year ended March 31, 2004: 21,909,287 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 2005 | 79,416 | 66,203 | 83.4 | 3,111.15 |
| Fiscal 2004 | 78,479 | 65,613 | 83.6 | 3,082.42 |

Note: Number of shares outstanding at end of period (consolidated): Year ended March 31, 2005: 21,279,074 shares
Year ended March 31, 2004: 21,285,958 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 2005 | 4,637 | (4,807) | (1,090) | 22,307 |
| Fiscal 2004 | 5,861 | (4,118) | (4,532) | 23,561 |

(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 2006 (April 1, 2005 to March 31, 2006)

| | Net sales (¥ million) | Ordinary income (¥ million) | Net income (¥ million) |
|---|---|---|---|
| Fiscal 2006 Interim | 44,000 | 2,500 | 1,300 |
| Fiscal 2006 | 93,000 | 8,000 | 4,200 |

Reference: Estimated earnings net income per share (fiscal 2006): ¥197.38

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 12 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:

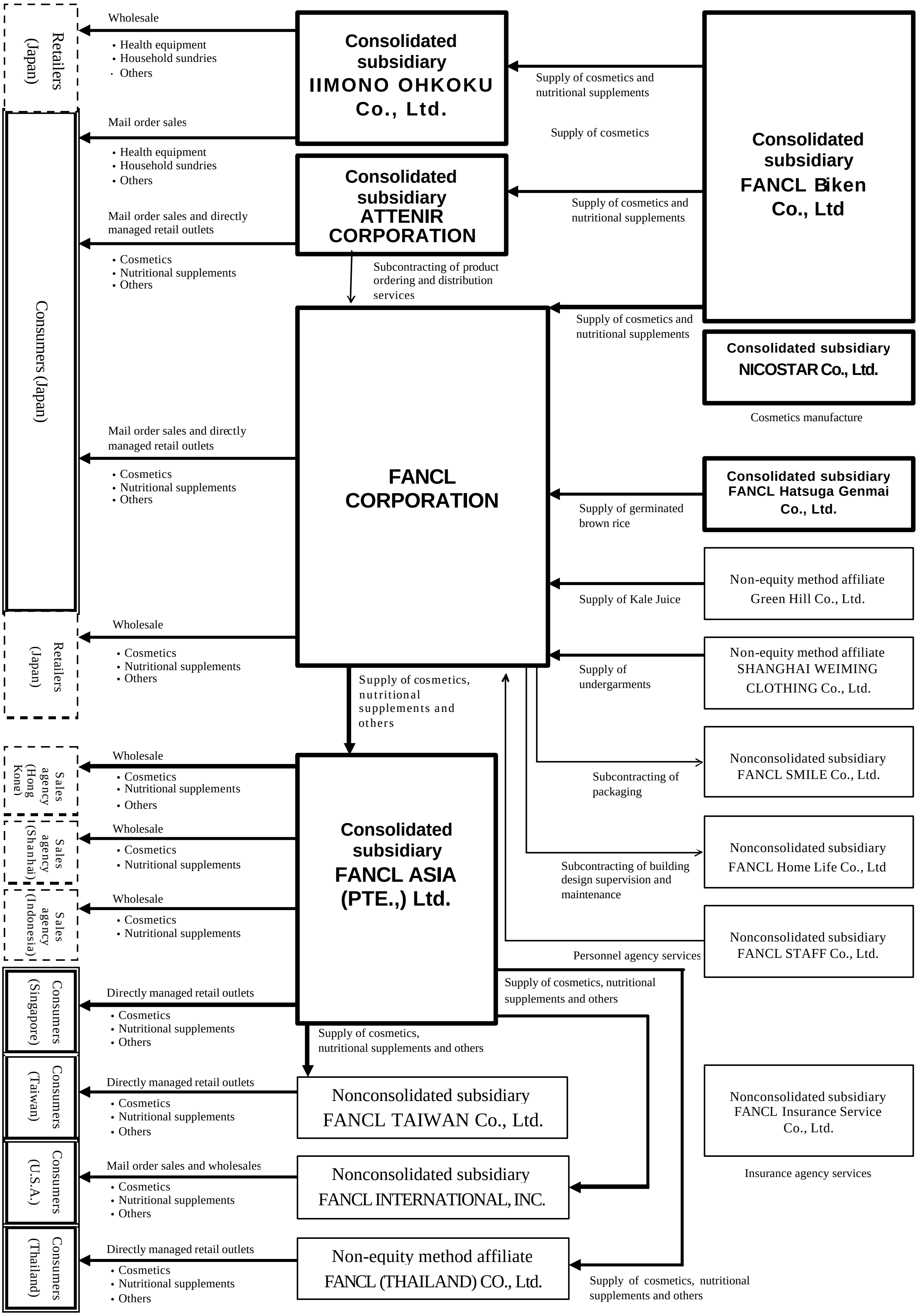
| | |
|---|---|
| Cosmetics Business: | The manufacture of preservative-free FANCL cosmetics is conducted by FANCL and the consolidated subsidiary FANCL Biken Co., Ltd., and sales are handled by FANCL.<br><br>ATTENIR Cosmetics are manufactured by FANCL Biken and sold by ATTENIR CORPORATION (a consolidated subsidiary).<br><br>NICOSTAR Co., Ltd. (consolidated subsidiary) supplies cosmetics on an OEM basis. |
| Nutritional Supplements Business | Nutritional supplements are manufactured by FANCL Biken, and sold by FANCL and ATTENIR. |
| Other Businesses: | IIMONO OHKOKU 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. |

Note: As of the April 1, 2005, the company's Chiba Factory, which manufactures cosmetics and nutritional supplements, was spun off as FANCL Biken Co., Ltd., a wholly owned subsidiary of the company.

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 mainly 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 group products. FANCL Home Life Co., Ltd. (a nonconsolidated subsidiary) primarily carries out design supervision and maintenance of buildings for the FANCL group of companies. FANCL INSURANCE SERVICE (a nonconsolidated subsidiary renamed in June 2004 from COSMO MATE Co., Ltd) is an insurance agency.

## FANCL Group Operating Structure



## Affiliates

| Company | Location | Paid-In Capital | Principal Businesses | Percentage of Voting/ Nonvoting Stock Held | | Relationship with FANCL | Relevant Notes |
|---|---|---|---|---|---|---|---|
| | | | | Voting (%) | Nonvoting (%) | | |
| ATTENIR CORPORA-TION | Sakae-ku, Yokohama, Japan | ¥150 million | Cosmetics and nutritional supplements business | 100.0 | — | Subcontracts product ordering and distribution services Seconded officers: 3 | (See Note 4) |
| NICOSTAR Co., Ltd. | Sakae-ku, Yokohama, Japan | ¥10 million | Cosmetics business | 100.0 | — | — Seconded officers: 4 | — |
| IIMONO OHKOKU Co., Ltd. | Shibuya-ku, Tokyo, Japan | ¥160 million | Other businesses | 100.0 | — | — Seconded officers: 3 | — |
| FANCL Hatsuga Genmai Co., Ltd. | Ueda City, Nagano, Japan | ¥95 million | Other businesses | 84.6 | — | Manufactures germinated brown rice Seconded officers: 2 | (See Note 2) |
| FANCL ASIA (PTE.,) LTD . | Singapore | ¥875 million | Cosmetics, nutritional supplements business and other businesses | 100.0 | — | Sells cosmetics, nutritional supplements and others Seconded officers: 4 | (See Note 6) |
| FANCL Biken Co., Ltd. | Sakae-ku, Yokohama, Japan | ¥75 million | Cosmetics and nutritional supplements businesses | 100.0 | — | Manufactures cosmetics and nutritional supplements Seconded directors: 5 | (See Note 2) |

Notes:

1. Business segment names are shown in the spaces for principal businesses.
2. 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 profit/loss information was as follows:

(Millions of yen)

| Principal Operating Results of ATTENIR CORPORATION | | | | |
|---|---|---|---|---|
| Net Sales | Ordinary Income | Net Income | Net Assets | Total Assets |
| 10,920 | 1,427 | 855 | 5,757 | 7,113 |

5. None of FANCL's affiliates currently carries material excessive debt.
6. May 2004 – FANCL ASIA (PTE.,) LTD.'s capital increased with an additional investment of ¥226 million.

## 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 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) Policy Regarding Allocation of Earnings

Returning profits to stockholders is perceived as an important management issue, and with maintenance of stable dividends as key, the policy is to use internal reserves while remaining conscious of future business development, seeking profit restoration in an organic combination of profit improvement-based dividend increases and stock splits. Retained earnings will be applied flexibly to capital investment, research and development, new business investment and other reinforcements and expansion of our operating foundation, as well as buybacks of treasury stock.

In the term under review, the interim dividend was increased by ¥7.50, and the annual dividend of ¥50 per share (¥25 each, interim and year-end).

(3) Philosophy and Policy Regarding Lowering the Trading Unit

In August 1999, the Company lowered its round lot stock trading unit from 1,000 shares to 100 shares, and implemented stock splits in May 1999, May 2000 and May 2002. Going forward, investment unit reductions will be carried out appropriately in light of the Company's share price level.

(4) Medium-term Management Plan and issues to be resolved

The "FANCL Change & Challenge Plan," three year Medium-term Management Plan unveiled on November 4, 2003 and starting in the March 2005 fiscal year, aims at a recovery in growth potential and earning capabilities. In that initial year, however, sales of the *Hatsuga Genmai* Business and the IIMONO OHKOKU mail-order Business did not meet expectations, and overall sales came in at ¥87.9 billion, ¥5billion short of the target.

Sales of our core Cosmetics and Nutritional Supplements Business are trending close to targets, but the IIMONO OHKOKU mail-order Business and *Hatsuga Genmai* Business are both forecast to report sales and profits significantly below plans. Numerical targets, therefore, have been revised as shown below.

Despite the revisions, there is no change in the three-year plan's basic policy of change and challenge. We believe the record high sales and profits targeted for the year ending March 31, 2007 are attainable.

[Target Figures (Year ending March 31, 2007)]

| | Consolidated net sales | Consolidated ordinary income | Consolidated ordinary income margin | Consolidated ordinary income / total assets |
|---|---|---|---|---|
| Revised targets | ¥105 billion | ¥12 billion | 11.4% | 13.5% |
| Previous targets (as of November 4, 2003) | ¥120 billion | ¥16 billion | 13% | 16% |

[Business strategies]

① Core Businesses

Targets are reinforcement of the earnings foundation and expansion of sales.

In the Cosmetics business, FANCL is moving forward with product development stressing functionality. Mail-order is the core sales channel, and we are moving aggressively to grow retail sales by establishing new shops.

In the Nutritional Supplements Business, we are bringing out high-value-added products using original materials. Mail order is the core sales channel, and we are reinforcing retail sales and wholesale sales.

② Other Businesses

Plans call for their conversion to profitable businesses.

In the *Hatsuga Genmai* Business, we are looking to move into profitability by cultivating new customers, reinforcing rice for processed foods and improving factory operating rates.

In the Kale juice Business, a shift to high-margin high-added-value products is to improve profitability and move into the black.

In the IIMONO OHKOKU mail-order business, product capability reinforcement and cost reductions are intended to build a structure enabling stable profits.

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

1. Basic policy

With a view to becoming a corporation trusted by stockholders and all other stakeholders, management has positioned corporate governance as an important issue, seeking to deepen corporate ethics and observance of the law, prepare internal regulatory and risk management systems and assure management transparency as its basic policy.

2. Status of Implementation of Measures

1) Status of management control organization and other corporate governance systems related to decision-making, execution of business activities and audit

FANCL has adopted the corporate auditor system. With a view to separation of surveillance and execution functions, the Company introduced the executive officer system in June 1999, and in June 2004 abolished the titles of president, senior managing director, managing director and others, substituting for each the names of executive officers.

The Board of Directors comprises nine directors, one from outside the Company. They decide on the execution of important operations and other legal matters, receive reports on operations of the Company and subsidiaries and conduct oversight.

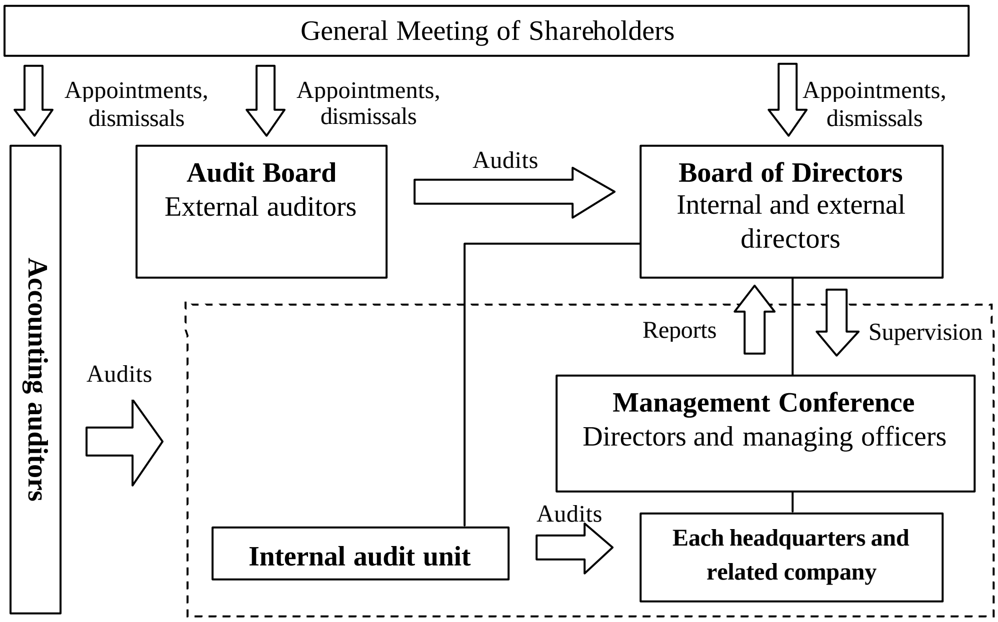
The Management Conference comprises directors and executive officers. They review in advance matters for resolution by the Board, as well as important management matters within their competence referred by the Board.

The four corporate auditors are all from outside the Company. They are present at all meetings of the Board of Directors, as well as at those of the Management Conference and other important meetings. They periodically exchange views with top management, and have a system of fair management oversight.

The auditors will continue to examine such important issues as the propriety of transfer to committees and other established companies, but for the time being FANCL desires to deal with corporate governance reinforcement based on the corporate auditor system.

2) Preparation of internal regulatory and risk management systems

The internal audit unit reporting directly to the president oversees execution of each division's operations and the officer in charge of headquarters compliance plays a center roll in preparing internal regulations and implementing education and awareness campaign to assure law observance and morality of corporate activity.




3) Officer and auditor compensation

Officer compensation: Annual director compensation: 12 persons ¥241 million
(including 3 director appointed during the term, and excluding an amount equivalent to the salary of an employee serving concurrently as a director)
Annual auditor compensation: 4 persons ¥40 million

Auditor compensation: compensation related to audit attestation based on audit contract
¥20 million
Compensation other than the above ¥1million

3. Summary of personal, capital, business and other interest relations between the Company and its external directors and auditors

There are no such relations in particular.

4. Implementation of arrangements in the past one year for filling out corporate governance

With a view to improving the transparency of the Board of Directors and strengthening auditor functions, one external director was appointed, and the number of external auditors increased by one (to four) at the general shareholder meeting convened on June 19, 2004

In April 2005, the “CSR Promotion Committee” was established and the internal regulatory system, including the risk management system, is to be reinforced on an all-company basis.

(6) Matters related to the parent company

The Company has no parent company.

## 3. Operating results and financial condition

(1) Operating results

Japan's economy in the term under review was in recovery mode, backed by growth in exports, improved corporate profits and associated capital investment expansion. But consumer spending did not show a full-scale recovery, and continued in an uncertain condition.

In the cosmetics industry, strong products included sunblockers and beauty fluids, with some increases in foundation products, but the overall tendency was flat.

Backed by rising health consciousness and Co-enzyme $Q_{10}$ and other booms, the nutritional supplements industry saw ongoing expansion in the market scale, but new entrants notably stiffened competition.

In this environment the FANCL Group sought to reinforce its customer base in line with its three-year medium-term management plan, "FANCL Change & Challenge Plan," and for this purpose committed ¥20,581 million (+¥2,718 million YoY) to advertising and promotion, as well as revamping its retail outlets and establishing new ones.

As a result, sales of the mainstay Cosmetics Business and Nutritional Supplement Business recovered, with total sales coming in at ¥87,937 million (+3.5% YoY). But operating income declined by 30.1% to ¥5,428 million and the operating income margin by 2.9 points to 6.2%, with ordinary income down by 28.6% to ¥5,490 million and the ordinary income margin by 2.8 points to 6.2%.

Net income declined by 49.5% to ¥1,709 million and its margin by 2.1 points to 1.9%, due to posting of lease cancellation losses in connection with introduction of new production methods for *Hatsuga Genmai* (germinated brown rice).

### 1) Cosmetics Business

FANCL cosmetics are developed with a view to their functionality in activating foundation cosmetics. On August 20 we undertook renewal of "Mild Cleansing Oil" and on September 21 of the "FENATTY" mainstay skin care series. ATTENIR Cosmetics carried out makeup product-centered renewal, and on September 22 began marketing its "NIGHT WHITE CC" high function whitening liquid.

**Sales**

Cosmetics sales rose by 6.2% YoY to ¥37,098 million.

| | Year ended March 31, 2005 | | Year ended March 31, 2004 | | % change |
|---|---|---|---|---|---|
| | Amount | % of total | Amount | % of total | |
| FANCL Cosmetics | ¥27,759 million | 74.8 | ¥26,370 million | 75.5 | 5.3 |
| ATTENIR Cosmetics | ¥9,042 million | 24.4 | ¥8,147 million | 23.3 | 11.0 |
| Others | ¥297 million | 0.8 | ¥407 million | 1.2 | (27.1) |
| Totals | ¥37,098 million | 100.0 | ¥34,925 million | 100.0 | 6.2 |

| | Year ended March 31, 2005 | | Year ended March 31, 2004 | | % change |
|---|---|---|---|---|---|
| | Amount | % of total | Amount | % of total | |
| Mail order sales | ¥22,829 million | 61.5 | ¥21,869 million | 62.6 | 4.4 |
| Retail store sales | ¥11,491 million | 31.0 | ¥10,608 million | 30.4 | 8.3 |
| Others | ¥2,777 million | 7.5 | ¥2,448 million | 7.0 | 13.5 |
| Totals | ¥37,098 million | 100.0 | ¥34,925 million | 100.0 | 6.2 |

**Mail-order** sales rose by 4.4% to ¥22,829 million.

In FANCL cosmetics, renewal effects sent up sales of the FENATTY brand and Mild Cleansing Oil products, while makeup and seasonal products also trended strongly. Mail order sales rose by 1.4% to ¥14,432 million.

ATTENIR Cosmetics mail order sales, meanwhile, gained by 10.0% to 8,392 million, as the numbers of customers (as of March 31, 2005) reached the highest record as a result of effective advertising and promotion activities and new and renewed products were favorably sold .

**Retail store** sales were up by 8.3% to ¥11,491 million, driven by reinforced staff training, revamp of employment terms, improvements in store operations and redecoration of stores, sending existing store sales up, as well as the effects of new store openings. As of March 31, 2005, FANCL House shops totaled 110 (including 2 franchise stores; 14 new stores were opening, 1 closed and 17 changed to the FANCL House J shops during the period,) FANCL House J shops (formerly FANCL Style shops) 37 (10 new openings, 17 converted from the FANCL House shops during the period,) ATTENIR Shop 9 (3 new openings during the period) and others one (no openings or closures during the period).

In **other sales channels**, convenience store sales declined YoY while Hong Kong-centered overseas sales trended strongly, resulting in a 13.5% increase to ¥2,777 million.

**Operating income**

Operating income declined by24.5% to ¥4,745 million, and its margin by 5.2 points to 12.8%. This derived from higher expenses for Shiga Factory operation and shop workforce increases, as well as aggressive spending on advertising and promotion activities in conjunction with product renewal.

## 2) Nutritional Supplements Business

Jointly developed with Hokkaido University and Nippon Beet Sugar Manufacturing Co., Ltd., the new compound "TWINTOSE," containing four minerals, was successfully marketed on April 21 and May21.

**Sales**

The Nutritional Supplements Business's sales rose by 5.0% to ¥31,131 million.

| | Year ended March 31, 2005 | | Year ended March 31, 2004 | | % change |
|---|---|---|---|---|---|
| | Amount | % of total | Amount | % of total | |
| Mail order sales | ¥16,709 million | 53.7 | ¥16,439 million | 55.4 | 1.6 |
| Retail store sales | ¥7,175 million | 23.0 | ¥5,994 million | 20.2 | 19.7 |
| Others | ¥7,246 million | 23.3 | ¥7,221 million | 24.4 | 0.3 |
| Totals | ¥31,131 million | 100.0 | ¥29,655 million | 100.0 | 5.0 |

**Mail order** sales were up by 1.6% to ¥16,709 million. Co-enzyme $Q_{10}$, featured on health information TV programs and boosted by price reductions, turned in record sales for a single product. TWINTOSE-combined mineral products also trended strongly.

In **retail store** sales, sales of the cosmetics-centered FANCL House shops were good. Increases in the number of FANCL House J shops, which handle more nutritional supplements than the FANCL House shops, led to a 19.7% gain to ¥7,175 million. At the end of the term, Genki Station had nine shops (no openings or closures during the period) and other configurations had two (mo changes during the period).

In **other sales channels**,, sales at convenience stores and supermarkets fell below year-ago levels due to stiffening competition, but those to Hong Kong and other overseas locations rose, sending these channels' sales up by 0.3% to ¥7,246 million.

**Operating income**

Revisions of procurement costs and other factors improved the cost price ratio, improved the cost price ratio, but due to advertising outlays to promote name and efficacy of TWINTOSE, operating income declined by 13.6% to ¥4,638 million and its margin by 3.2 points to 14.9%.

### 3) Other Business

**Sales**

In other businesses, sales declined by 3.3% to ¥19,706 million.

| | Year ended March 31, 2005 Amount | Year ended March 31, 2004 Amount | % change |
|---|---|---|---|
| *Hatsuga Genmai* Business | ¥5,026 million | ¥5,383 million | (6.6) |
| Kale juice Business | ¥3,524 million | ¥2,985 million | 18.1 |
| IIMONO OHKOKU mail-order business | ¥7,153 million | ¥8,270 million | (13.5) |
| Others | ¥4,002 million | ¥3,736 million | 7.1 |
| Totals | ¥19,706 million | ¥20,375 million | (3.3) |

***Hatsuga Genmai* Business**, with its vastly improved taste, smell and texture derived from new production methods, went on sale by mail order and stores on June 18, and in supermarkets and others in early September. But mail order customer numbers have continued declining and supermarket sales have not recovered fully, causing the product's sales to fall below year-ago levels.

In the **Kale juice Business**, sales, both of frozen types and the TWINTOSE-combined powdered type that went on sale on July 21, trended strongly and sales increased in all sales channels.

Sales of the **IIMONO OHKOKU mail-order business (formerly the NGC mail-order business)** fell short of year-ago levels due to weak catalog sales in the wake of a major revamp.

In **Other businesses**, sales rose due to strong trends in undergarments and household sundries.

Operating income

Although a recovery tendency was seen in the term's second half, losses grew in the IIMONO OHKOKU mail-order business and led to an operating loss of ¥1,967 million, greater by ¥146 million YoY.

(2) Financial condition (Cash flows)

Cash and cash equivalents ("net cash") at the end of the consolidated fiscal year totaled ¥22,307 million, down by ¥1,253 million YoY. The cash flow situations and their operative factors were as follows.

(Cash flows from operating activities)

Net cash provided by operating activities increased to ¥4,637 million, mainly broken down as ¥4,366 million in Income before income taxes and ¥2,463 million in depreciation and amortization, while ¥1,510 million in income taxes paid represented a decline.

(Cash flows from investing activities)

Net cash used in investing activities declined to ¥4,807 million, due mainly to expenditures of ¥1,941 million for acquisition of new and revamped shop facilities.

(Cash flows from financial activities)

Net cash used in financial activities declined to ¥1,090 million, due mainly to cash dividends paid of ¥1,063 million.

In the year ending March 31, 2006, expectations are that cash used in investing and financial activities will be undertaken within the scope of the increase in cash flows from operating activities.

Trends in the FANCL Group's cash flow indicators are as follows.

| | Year ended March 31, 2001 | Year ended March 31, 2002 | Year ended March 31, 2003 | Year ended March 31, 2004 | Year ended March 31, 2005 |
|---|---|---|---|---|---|
| Shareholders' equity ratio (%) | 78.8 | 81.9 | 83.1 | 83.6 | 82.3 |
| Shareholders' equity ratio on market value basis (%) | 163.5 | 113.5 | 114.3 | 95.7 | 109.6 |
| Debt repayment period (Years) | 0.51 | 0.15 | 0.04 | - | - |
| Interest coverage ratio | 152.1 | 200.7 | 756.0 | 2,930.5 | - |

Notes:
Shareholders' equity ratio = Shareholders' equity / Total assets
Shareholders' equity ratio on 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 share price on the final day of the period by the number of shares issued and outstanding on the final day of the period, excluding treasury stock.
3. Cash flows from operating activities are as stated on the consolidated statements of cash flows. Interest-bearing liabilities include all debt on which interest is paid, within the liabilities section of the consolidated balance sheets. Interest expense uses the interest payment amount on the consolidated statements of cash flows.

### (3) Business risks

① Product development and competitive environment

In the FANCL Group's product development, the product planning and development division is responsible for formulating and proposing product planning documents based on customer needs and market research. In collaboration with related departments such as the Central Research Center, it makes final decisions on commercialization. At present, the Group develops cosmetics and nutritional supplements using its own technology, but there is no guarantee that this will result in successful development and new products.

Further, in light of the increasing numbers of women with sensitive skin and greater health consciousness, there are more new entrants into the markets of cosmetics for sensitive skin and nutritional supplements and the appearance of similar products could operate to reduce the relative competitiveness of the FANCL lineup and hurt our growth potential and earning capabilities.

② Product manufacturing and quality assurance

The FANCL Group's cosmetics, nutritional supplements and germinated brown rice are manufactured at five directly managed domestic factories, while kale juice and undergarments production is outsourced to subsidiaries.

Departments in charge of procurement manage all aspects of raw materials purchases and, working in cooperation with marketing departments, disperse purchases among multiple suppliers and coordinate purchases with suppliers. Nevertheless, unanticipated conditions due to external factors may make it impossible to procure planned quantities.

A quality assurance department has been established to improve product quality. At quality conferences it verifies the quality control situation with the cognizant departments, and strives to maintain quality by conducting on-site plant inspections and other means. If a quality problem arises, it could impact negatively on the Group's operating results.

③ Disasters and bad weather

To minimize the effects of fire and disasters on its production system, the FANCL Group conducts periodic inspections and checking on all its facilities. Dispersion of its plants is intended to reduce risks. Nevertheless, there are no guarantees that the impact of fire and disaster can be fully prevented.

The harvest volumes of rice and kale, the raw materials for germinated brown rice and kale juice, are subject to the vagaries of the weather. We therefore strive for dispersion of producing areas and raw material stockpiling, but weather factors can cause shortages and higher prices that impact adversely on Group operating results.

④ Limits of intellectual property protection

The Group is moving forward with securing patent and other rights to its accumulated technology and other intellectual property, but this is an area in which the legal basis is not fully prepared and cannot cover all business development domains. And because it takes at least a year and a half from patent application to publication, there is the possibility that there may be development investment in technology for which other companies have already sought patents. In future, after commercialization other companies' patents could be published and involve the Company in patent infringement cases.

⑤ Legal restrictions

In the Cosmetic Businesses, there is the Pharmaceutical Affairs Law necessary to assure the quality, effectiveness and safety of pharmaceuticals, over-the-counter drugs, cosmetics and medical equipment. It is under this legislation that the FANCL Group manufactures and sells cosmetics and related products.

The Nutritional Supplement Business is subject to the Food Sanitation Law, which prescribes food standards, additives, sanitation surveillance and business permission. For foods for sale, the Nutrition Improvement Law prescribes standards for display of nutritional elements and caloric values. Those of the Company's supplements that meet certain requirements are also subject to the regulations of the health function food system, which enables selection with assurance of foods corresponding to consumers' eating habits.

The Group is also governed by the Specified Commercial Transactions Law, whose objectives are fair conduct of mail-order businesses for protection of consumers, and by the Law for Prevention of Unfair Premiums and Unfair Labeling, intended to prevent customer inducement by those means.

The Group has established in its administrative headquarters a department responsible for compliance and more thoroughgoing observance of laws and regulations. Should violations occur, they may adversely affect the Group's operating results.

⑥ Personal information

The Group's use of mail-order and the Internet as its main sales channels has resulted in possession of personal information about many individuals.

The Group strictly observes the “Guidelines for Personal Data Protection” prescribed by the Japan Direct Marketing Association, and has established an all-Company committee to reinforce the information control system, and moving toward more thoroughgoing employee education. Nevertheless, should there occur leakage of such information outside the Company, a loss of customer trust could reduce sales and subject the Company to losses from payment of liability damages to customers.

(4) Outlook for the next term

The corporate environment is expected to remain difficult.

Higher sales are forecasted for FANCL Cosmetics, driven by renewal and new product development for basic skin care and aggressive new store establishment. Sales of ATTENIR Cosmetics are also expected to gain, on the back of stable increases in customer numbers.

In the Nutritional Supplement Business, the rollout of TWINTOSE and other high added value products using proprietary materials and technology, together with new store establishments as in the Cosmetics Business, is expected to increase sales.

The *Hatsuga Genmai* Business is expected to increase its sales by adding supermarkets and other wholesale customers and developing processed products.

Strong trends in powdered types point to higher sales of the Kale Juice Business.

Accordingly, net sales for the fiscal year ending March 31, 2006 are estimated to rise by 5.8% to ¥93,000 million.

The increase in store numbers will also boost labor and other costs, but greater efficiency in advertising expenses and reduction of other costs support estimates of ¥8,000 million (+45.7% YoY) for ordinary income and ¥4,200 million (+145.7% YoY) for net income.

A per-share annual dividend of ¥50 (¥25 each, interim and year-end) is expected.

# 4. Consolidated Financial Statements and Notes

## Consolidated Balance Sheets

(Millions of yen)

| | As of March 31, 2005 | | As of March 31, 2004 | | Increase (decrease) |
|---|---|---|---|---|---|
| | Amount | Percentage of Total | Amount | Percentage of Total | |
| (ASSET) | | % | | % | |
| **I Current assets** | | | | | |
| Cash and cash equivalents | 17,380 | | 15,828 | | 1,552 |
| Notes and accounts receivable | 8,713 | | 7,814 | | 899 |
| Marketable securities | 4,926 | | 7,732 | | (2,806) |
| Inventories | 5,663 | | 5,472 | | 191 |
| Deferred tax assets | 484 | | 683 | | (198) |
| Others | 2,060 | | 1,888 | | 172 |
| Allowance for doubtful accounts | (150) | | (182) | | 32 |
| Total current assets | 39,079 | 49.2 | 39,236 | 50.0 | (156) |
| **II Fixed assets** | | | | | |
| 1. Tangible fixed assets | | | | | |
| Buildings and structures | 12,781 | | 12,701 | | 79 |
| Machinery and transport equipment | 1,667 | | 1,995 | | (327) |
| Furniture, tools and fixtures | 1,162 | | 1,160 | | 2 |
| Land | 10,916 | | 10,847 | | 69 |
| Construction in progress | 4 | | 62 | | (57) |
| Total tangible fixed assets | 26,533 | 33.4 | 26,767 | 34.1 | (233) |
| 2. Intangible fixed assets | | | | | |
| Software | 775 | | 810 | | (34) |
| Goodwill | 299 | | 571 | | (272) |
| Others | 148 | | 254 | | (105) |
| Total intangible fixed assets | 1,222 | 1.5 | 1,636 | 2.1 | (413) |
| 3. Investments and other assets | | | | | |
| Investment securities | 1,954 | | 1,083 | | 870 |
| Long-term loans | 659 | | 1,007 | | (347) |
| Guaranty money | 2,526 | | 2,502 | | 23 |
| Deferred tax assets | 593 | | 756 | | (163) |
| Others | 7,296 | | 5,776 | | 1,520 |
| Allowance for doubtful accounts | (451) | | (287) | | (164) |
| Total investments and other assets | 12,579 | 15.9 | 10,839 | 13.8 | 1,739 |
| Total fixed assets | 40,336 | 50.8 | 39,242 | 50.0 | 1,093 |
| Total assets | 79,416 | 100.0 | 78,479 | 100.0 | 936 |

Note: Figures below ¥1 million have been truncated.

(Millions of yen)

| | As of March 31, 2005 | | As of March 31, 2004 | | Increase (decrease) |
|---|---|---|---|---|---|
| | Amount | Percentage of Total | Amount | Percentage of Total | |
| (LIABILITIES) | | % | | % | |
| **I Current liabilities** | | | | | |
| Notes and accounts payable | 3,049 | | 3,172 | | (122) |
| Accrued liabilities | 3,985 | | 4,273 | | (288) |
| Accrued expenses | 494 | | 430 | | 63 |
| Accrued income taxes | 1,914 | | 1,105 | | 809 |
| Allowance for bonuses | 781 | | 763 | | 17 |
| Others | 233 | | 277 | | (44) |
| Total current liabilities | 10,457 | 13.2 | 10,022 | 12.8 | 435 |
| **II Long-term liabilities** | | | | | |
| Allowance for retirement bonuses | 1,194 | | 1,196 | | (1) |
| Allowance for directors' retirement bonuses | 1,117 | | 1,210 | | (92) |
| Others | 442 | | 437 | | 4 |
| Total long-term liabilities | 2,754 | 3.4 | 2,843 | 3.6 | (88) |
| Total liabilities | 13,212 | 16.6 | 12,866 | 16.4 | 346 |
| (SHAREHOLDERS' EQUITY) | | | | | |
| **I Common stock** | 10,795 | 13.6 | 10,795 | 13.7 | — |
| **II Capital reserve** | 11,706 | 14.8 | 11,706 | 14.9 | 0 |
| **III Retained earnings** | 51,172 | 64.4 | 50,528 | 64.4 | 644 |
| **IV Net unrealized holding gain on other securities** | 26 | 0.0 | 54 | 0.1 | (28) |
| **V Foreign currency translation adjustment** | (4) | (0.0) | (4) | (0.0) | 0 |
| **VI Treasury stock** | (7,492) | (9.4) | (7,466) | (9.5) | (26) |
| Total shareholders' equity | 66,203 | 83.4 | 65,613 | 83.6 | 590 |
| Total liabilities and shareholders' equity | 79,416 | 100.0 | 78,479 | 100.0 | 936 |

Note: Figures below ¥1 million have been truncated.

## Consolidated Statements of Income

(Millions of yen)

| | Year ended March 31, 2005 | | Year ended March 31, 2004 | | Increase (Decrease) | |
|---|---|---|---|---|---|---|
| | Amount | Percentage of Total | Amount | Percentage of Total | Amount | Percentage of Total |
| | | % | | % | | % |
| **Net sales** | 87,937 | 100.0 | 84,956 | 100.0 | 2,980 | 3.5 |
| **Cost of sales** | 30,031 | 34.2 | 29,260 | 34.4 | 771 | 2.6 |
| **Gross profit** | 57,905 | 65.8 | 55,696 | 65.6 | 2,209 | 4.0 |
| **Selling, general and administrative expenses** | 52,476 | 59.7 | 47,926 | 56.4 | 4,549 | 9.5 |
| **Operating income** | 5,428 | 6.2 | 7,769 | 9.1 | (2,340) | (30.1) |
| **Non-operating income** | 770 | 0.9 | 701 | 0.8 | 69 | 9.9 |
| Interest and dividend income | 56 | | 40 | | 16 | |
| Other non-operating income | 713 | | 661 | | 52 | |
| **Non-operating expenses** | 709 | 0.8 | 784 | 0.9 | (75) | (9.6) |
| Interest expense | - | | 2 | | (2) | |
| Loss on disposal of obsolete inventories | 681 | | 404 | | 276 | |
| Other non-operating expenses | 27 | | 376 | | (349) | |
| **Ordinary income** | 5,490 | 6.2 | 7,686 | 9.0 | (2,195) | (28.6) |
| **Extraordinary income** | 57 | 0.1 | 0 | 0.0 | 57 | |
| Gain on sale of fixed assets | — | | 0 | | (0) | |
| Gain on sale of investment securities | 57 | | — | | 57 | |
| **Extraordinary expenses** | 1,181 | 1.3 | 1,472 | 1.7 | (291) | (19.8) |
| Loss on disposal of fixed assets | 335 | | 340 | | (5) | |
| Valuation loss on investment securities | — | | 89 | | (89) | |
| Valuation loss on golf club memberships | — | | 7 | | (7) | |
| Special service bonuses for directors | 39 | | 176 | | (136) | |
| Transfer of reserve for retirement allowances for directors | — | | 858 | | (858) | |
| Transfer of reserve for allowances for doubtful accounts | 129 | | — | | 129 | |
| Valuation loss on inventories | 103 | | — | | 103 | |
| Loss on cancellation of leases | 434 | | — | | 434 | |
| Special retirement benefit | 139 | | — | | 139 | |
| **Income before income taxes** | 4,366 | 5.0 | 6,213 | 7.3 | (1,847) | (29.7) |
| Income taxes | 2,532 | 2.9 | 3,153 | 3.7 | (620) | |
| Adjustment for income taxes | 124 | 0.1 | (326) | (0.4) | 450 | |
| **Net income** | 1,709 | 1.9 | 3,387 | 4.0 | (1,677) | (49.5) |

Note: Figures below ¥1 million have been truncated.

## Consolidated Statements of Retained Earnings

(Millions of yen)

| | Year ended March 31, 2005 | | Year ended March 31, 2004 | |
|---|---|---|---|---|
| **(Capital reserve)** | | | | |
| **I Balance at beginning of the period** | | | | |
| 1. Additional paid-in capital at beginning of the period | | 11,706 | | 11,706 |
| **Ⅱ Increase in retained earnings** | | | | |
| 1. Gain on disposal of treasury stock | 0 | 0 | — | — |
| **III Balance at end of the period** | | 11,706 | | 11,706 |
| **(Retained earnings)** | | | | |
| **I Balance at beginning of the period** | | 50,528 | | 48,027 |
| **II Increase in retained earnings** | | | | |
| 1. Net income | 1,709 | 1,709 | 3,387 | 3,387 |
| **III Decrease in retained earnings** | | | | |
| 1. Dividends | 1,064 | | 885 | |
| 2. Bonuses to directors | 1 | | 1 | |
| | | 1,065 | | 886 |
| **IV Balance at end of the period** | | 51,172 | | 50,528 |

Note: Figures below ¥1 million have been truncated.

## Consolidated Statements of Cash Flows

(Millions of yen)

| | Year ended March 31, 2005 | Year ended March 31, 2004 |
|---|---|---|
| | Amount | Amount |
| I Cash flows from operating activities | | |
| Income before income taxes | 4,366 | 6,213 |
| Depreciation and amortization | 2,464 | 2,556 |
| Amortization in excess of investment cost over equity in net assets of consolidated subsidiaries | 272 | 272 |
| Increase (decrease) in allowance for bonuses | 17 | (60) |
| Increase (decrease) in allowance for doubtful accounts | 131 | 8 |
| Increase (decrease) in allowance for retirement benefits | (1) | 77 |
| Interest and dividend income | (56) | (40) |
| Interest expenses | - | 2 |
| Exchange loss | (7) | 19 |
| Valuation loss on investment securities | - | 89 |
| Gain on sale of investment securities | (57) | - |
| Investment gain on anonymous association | (159) | (151) |
| Valuation loss on golf club memberships | - | 7 |
| Net refund of insurance premiums | (266) | (267) |
| Gain on sale of tangible fixed assets | - | (0) |
| Loss on sale of tangible fixed assets | 92 | 13 |
| Loss on disposal of tangible fixed assets | 520 | 157 |
| Loss on disposal of intangible fixed assets | 12 | 168 |
| Decrease (increase) in trade receivables | (899) | 406 |
| Decrease (increase) in inventories | (191) | (369) |
| Decrease (increase) in other current assets | (338) | (228) |
| Increase (decrease) in trade payables | (122) | (168) |
| Increase (decrease) in other current liabilities | (342) | 811 |
| Increase (decrease) in other fixed liabilities | (67) | 696 |
| Bonuses to directors | (1) | (1) |
| Others | 18 | - |
| Subtotal | 5,384 | 10,216 |
| Interest and dividends received | 57 | 37 |
| Interest paid | - | (1) |
| Refund on insurance premiums | 705 | 563 |
| Income taxes paid | (1,510) | (4,954) |
| Net cash provided by operating activities | 4,637 | 5,861 |

| | | |
|---|---|---|
| II Cash flows from investing activities | | |
| Payment for deposits | (1,500) | - |
| Payment for purchase of tangible fixed assets | (1,703) | (3,341) |
| Proceeds from sales of tangible fixed assets | 10 | 27 |
| Payment for purchase of intangible fixed assets | (238) | (584) |
| Proceeds from sales of intangible fixed assets | 0 | - |
| Payment for purchase of investment securities | (840) | - |
| Proceeds from sales of investment securities | 115 | 2 |
| Payments for purchase of investments in affiliates | (226) | (118) |
| Lending of loans | (219) | (13) |
| Proceeds from collection of loans | 34 | 61 |
| Payment for purchase of other investments | (441) | (379) |
| Proceeds from sales of other investments | 111 | 171 |
| Proceeds from capital decrease of affiliated companies | 90 | - |
| Proceeds from reduced-value entry of land | - | 57 |
| Net cash used in investing activities | (4,807) | (4,118) |
| III Cash flows from financing activities | | |
| Repayment of long-term debt | - | (350) |
| Payment for purchase of treasury stock | (27) | (3,297) |
| Proceeds from sales of treasury stock | 1 | - |
| Cash dividends paid | (1,063) | (884) |
| Net cash used in financing activities | (1,090) | (4,532) |
| IV Effect of exchange rate changes on cash and cash equivalents | 5 | (20) |
| V Net increase in cash and cash equivalents | (1,253) | (2,808) |
| VI Cash and cash equivalents at beginning of period | 23,561 | 26,370 |
| Ⅶ Cash and cash equivalents at end of period | — | — |
| Ⅶ Cash and cash equivalents at end of period | 22,307 | 23,561 |

# Preparation of the Consolidated Financial Statements

1. Scope of Consolidation

Principal affiliated companies are described in 1. FANCL Group.

| | |
|---|---|
| Number of consolidated subsidiaries | 6 |
| Number of nonconsolidated subsidiaries | 6 |

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

2. Application of the Equity Method

The Company's six nonconsolidated subsidiaries mentioned above and three affiliated 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 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) ) Tangible fixed assets: 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 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 consolidated 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

| | |
|---|---|
| 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. |
| Hedging instruments/targets: | Forward exchange contracts/payables or forecast transactions denominated in foreign currencies. |
| 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. |
| Method of assessing hedge effectiveness: | As a rule, the Company uses individual forward exchange contracts and thus does not assess hedge effectiveness. |

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. Consolidated subsidiaries do not engage in derivative 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, 2005 | As of March 31, 2004 |
|---|---|---|
| 1. Accumulated depreciation of tangible fixed assets | 13,338 | 12,306 |
| 2. Contingent liabilities | 2,481 | 2,948 |

## (Notes to Consolidated Statements of Income)

(Millions of yen)

| | Year ended March 31, 2005 | Year ended March 31, 2004 |
|---|---|---|
| 1. Principal components of selling, general and administrative expenses | | |
| Advertising | 11,105 | 9,864 |
| Sales promotions | 9,475 | 7,997 |
| Transport | 4,240 | 3,995 |
| Communications | 2,199 | 2,430 |
| Fees | 4,780 | 4,373 |
| Salaries | 7,444 | 6,481 |
| Depreciation | 1,450 | 1,674 |
| 2. R&D expenses included in general and administrative and manufacturing expenses | 1,958 | 1,720 |

## (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, 2005 | As of March 31, 2004 |
|---|---|---|
| Cash and deposits account | 17,380 | 15,828 |
| Securities account | 4,926 | 7,732 |
| Total | 22,307 | 23,561 |
| Deposits with maturities of more than three months | — | — |
| Cash and cash equivalents | 22,307 | 23,561 |

## (Leases)

1. Finance leases in which the right of ownership is not transferred to the lessee

(Millions of yen)

| | As of March 31, 2005 | As of March 31, 2004 |
|---|---|---|
| Machinery and transport equipment: | | |
| Purchase cost | 4,515 | 4,362 |
| Accumulated depreciation | 1,589 | 1,699 |
| Balance at end of period | 2,926 | 2,662 |
| Furniture, tools and fixtures: | | |
| Purchase cost | 1,027 | 693 |
| Accumulated depreciation | 448 | 404 |
| Balance at end of period | 579 | 288 |
| Total: | | |
| Purchase cost | 5,550 | 5,055 |
| Accumulated depreciation | 2,043 | 2,103 |
| Balance at end of period | 3,507 | 2,951 |

(2) Future lease payments

(Millions of yen)

| | As of March 31, 2005 | As of March 31, 2004 |
|---|---|---|
| Within one year | 745 | 692 |
| More than one year | 2,790 | 2,283 |
| Total | 3,535 | 2,975 |

(3) Outstanding lease payments and depreciation

(Millions of yen)

| | | |
|---|---|---|
| Outstanding lease payments | 910 | 834 |
| Depreciation expense | 840 | 773 |
| Interest expense | 89 | 86 |

(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, 2005 | As of March 31, 2004 |
|---|---|---|
| Within one year | 1 | 0 |
| More than one year | 3 | 2 |
| Total | 5 | 3 |

## (Tax-effect Accounting)

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

(Millions of yen)

| | As of March 31, 2005 | As of March 31, 2004 |
|---|---|---|
| Deferred tax assets | | |
| Accrued enterprise taxes | 169 | 109 |
| Nondeductible Reserve for bonuses | 318 | 311 |
| Accrued expenses | 43 | 33 |
| Nondeductible allowance for doubtful receivables | 128 | 139 |
| Unrealized gain on inventory | 24 | 32 |
| Loss on discarding of inventory | 42 | - |
| Unrecognized loss on disposal of fixed assets | - | 107 |
| Reserve for retirement benefits | 460 | 436 |
| Reserve for special service bonuses for directors | 454 | 491 |
| Loss carryforwards | 592 | 160 |
| Depreciation and amortization | 66 | 52 |
| Valuation loss on investment securities | 81 | 81 |
| Valuation loss on golf club memberships | 12 | 10 |
| Others | - | 71 |
| Subtotal | 2,395 | 2,041 |
| Valuation reserve | △ 790 | △ 76 |
| Total deferred tax assets | 1,604 | 1,964 |

| | | |
|---|---|---|
| Deferred tax liabilities | | |
| Unrealized gain on land | 232 | 232 |
| Gain on valuation of land | 164 | 164 |
| Prepaid pension expenses | 111 | 90 |
| Others | 18 | 37 |
| Total deferred tax liabilities | 526 | 524 |
| Net deferred tax assets | 1,078 | 1,439 |

## (Retirement Benefit)

1. Description of Retirement Benefit System Used

The Company and the Company's consolidated subsidiaries have 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 31,2005)

| | |
|---|---|
| Prepaid pension expenses | ¥273 million |
| Reserve for retirement benefits | ¥1,194 million |

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

3 Retirement Benefit Expenses (As of March 31,2005)

| | |
|---|---|
| Retirement benefit expenses | ¥425 million |

4. Item 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 for posting of difference due to mathematical calculation | 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 for posting of difference due to change of the accounting standard | Amortized as a lump-sum expenses in the fiscal year in which it occurs |

# 5. Segment Information

## 1. Business Segments

Fiscal year ended March 31, 2005 (Millions of yen)

| | Cosmetics Business | Nutritional Supplements Business | Other Businesses | Total | Eliminations or Corporate | Consolidated |
|---|---|---|---|---|---|---|
| I Sales & Operating income | | | | | | |
| Sales | | | | | | |
| (1) Sales to external customers | 37,098 | 31,131 | 19,706 | 87,937 | — | 87,937 |
| (2) Intersegment sales or transfers | — | — | — | — | — | — |
| Total sales | 37,098 | 31,131 | 19,706 | 87,937 | — | 87,937 |
| Operating expenses | 32,352 | 26,493 | 21,674 | 80,520 | 1,988 | 82,508 |
| Operating income (loss) | 4,745 | 4,638 | (1,967) | 7,417 | (1,988) | 5,428 |
| II Total assets, depreciation and amortization and capital expenditures | | | | | | |
| Total assets | 26,174 | 13,383 | 14,198 | 53,756 | 25,659 | 79,416 |
| Depreciation and amortization | 1,322 | 522 | 526 | 2,371 | 92 | 2,464 |
| Capital expenditures | 1,008 | 498 | 749 | 2,256 | — | 2,256 |

Fiscal year ended March 31, 2004 (Millions of yen)

| | Cosmetics Business | Nutritional Supplements Business | Other Businesses | Total | Eliminations or Corporate | Consolidated |
|---|---|---|---|---|---|---|
| I Sales & Operating income | | | | | | |
| Sales | | | | | | |
| (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 |

Note：

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 and wholesales of *Hatsuga Genmai* (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 Area

During the fiscal year ended March 31, 2005 and the fiscal 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 year ended March 31, 2005 and the fiscal year ended March 31, 2004. Accordingly, overseas sales information is not provided.

# 6. Production, Orders and Sales

## 1. Production

Actual Production (Millions of yen)

| Item \ Term | As of March 31, 2005 | As of March 31, 2004 |
|---|---|---|
| Cosmetics | 40,130 | 36,961 |
| Nutritional supplements | 31,797 | 30,199 |
| Others | 9,155 | 8,585 |
| Total | 81,082 | 75,746 |

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

Sales by Product Category (Millions of yen)

| Item \ Term | As of March 31, 2005 | As of March 31, 2004 |
|---|---|---|
| Cosmetics | 37,098<br>( 42.2%) | 34,925<br>( 41.1%) |
| Nutritional supplements | 31,131<br>( 35.4%) | 29,655<br>( 34.9%) |
| Others | 19,706<br>( 22.4%) | 20,375<br>( 24.0%) |
| Total | 87,937<br>( 100.0%) | 84,956<br>( 100.0%) |

Notes:
1. Others includes sales of Hatsuga Genmai (germinated brown rice), Kale Juice, undergarments, 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)

| Type | As of March 31, 2005 | | | As of March 31, 2004 | | |
|---|---|---|---|---|---|---|
| | Acquisition Cost | Book Value | Unrealized Gain (Loss) | Acquisition Cost | Book Value | Unrealized Gain (Loss) |
| 1. Stocks | 66 | 111 | 45 | 124 | 216 | 92 |
| 2. Bonds | | | | | | |
| National/Local Government | - | - | - | - | - | - |
| Corporate | - | - | - | - | - | - |
| Others | - | - | - | - | - | - |
| 3. Others | - | - | - | - | - | - |
| 計 | 66 | 111 | 45 | 124 | 216 | 92 |

2. Securities for which Market Value is Not Calculated (Millions of yen)

| Type | As of March 31, 2005 | As of March 31, 2004 |
|---|---|---|
| | Book Value | Book Value |
| Other marketable securities | | |
| (Current assets) | | |
| Money management funds (MMF) | 3,926 | 4,726 |
| Free financial funds (FFF) | - | 3,006 |
| Commercial paper (CP) | 999 | - |
| (Fixed assets) | | |
| Unlisted stocks (excluding over-the-counter stocks) | 130 | 90 |
| Unlisted foreign claimable assets | 800 | - |
| Total | 5,857 | 7,823 |

# 8. Value of Derivative Contracts, Market Value and Valuation Gains and Losses

As of March 31, 2005
No pertinent derivative transactions were undertaken during the interim period ended September 30, 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.

As of March 31, 2004
No pertinent derivative transactions were undertaken during the fiscal 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.