

FANCL Corporation

Consolidated Financial Statements for the Third
Quarter of the Fiscal Year Ending
March 31, 2006

This document has been translated from the original Japanese as a guide for non-Japanese investors. It contains forward-looking statements based on a number of assumptions and beliefs made by management in light of information currently available. Actual financial results may differ materially depending on a number of factors, including changing economic conditions, legislative and regulatory developments, delay in new product launches, and pricing and product initiatives of competitors.

SUMMARY OF FINANCIAL STATEMENTS (consolidated)

Third quarter results for the Fiscal Year Ending March 31, 2006

FANCL CORPORATION

January 31, 2006

www.fancl.co.jp

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 Director

1) Notes to preparation of these financial statements

(1) Use of simplified accounting methods: Yes

Details

Method of depreciation of fixed assets:

1. Tangible fixed assets Nine-month portion of estimated amount for the year
2. Intangible fixed assets Nine-month portion of estimated amount for the year

Standard for stating income taxes: Calculated using the estimated annual tax rate based on the effective statutory tax rate

Simplified procedures are used for amounts with an immaterial effect

- (1) Changes from accounting methods used in most recent consolidated fiscal year: None
- (2) Changes in scope of consolidation and application of equity method None

2) Consolidated results for the third quarter of Fiscal 2006 (April 1, 2005 to December 31, 2005)

Millions of yen, rounded down

(1) Sales and Income	Nine months ended December 31, 2005		Nine months ended December 31, 2004		Year ended March 31, 2005
		Change %		Change %	
Net sales	72,050	8.8	66,251	3.3	87,937
Operating income	7,580	100.4	3,783	(53.5)	5,428
Ordinary income	8,015	101.4	3,979	(52.6)	5,490
Net income	4,507	214.2	1,434	(64.6)	1,709
Earnings per share (¥)	¥211.30		¥67.40		¥80.29
Earnings per share (diluted) (¥)	¥209.29		--		¥80.23

Note: Year-on-year change for net sales, operating income, ordinary income and net income reflects a comparison with the same period in the previous fiscal year.

Millions of yen, rounded down

(2) Consolidated Financial Position	As of December 31, 2005	As of December 31, 2004	As of March 31, 2005
Total assets	83,611	78,245	79,416
Shareholders' equity	70,375	65,931	66,203
Shareholders' equity/total assets (%)	84.2%	84.3%	83.4%
Shareholders' equity per share (¥)	¥3,281.58	¥3,098.15	¥3,111.15

Millions of yen, rounded down

(3) Cash Flows	Nine months ended December 31, 2005	Nine months ended December 31, 2004	Year ended March 31, 2005
Net cash provided by (used in) operating activities	5,318	1,198	4,637
Net cash used in investing activities	(3,723)	(1,617)	(4,807)
Net cash used in financing activities	(305)	(1,027)	(1,090)
Cash and cash equivalents at end of period	23,596	22,120	22,307

3) Consolidated forecasts for the fiscal year ending March 31, 2006 (April 1, 2005 to March 31, 2006)

Millions of yen

	FY ending March 31, 2006
Net sales	95,000
Ordinary income	9,000
Net income	4,700

Note: Consolidated net income per share forecast for the fiscal year ending March 31, 2006: ¥220.04

This forecast contains forward-looking statements that are based on management's estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations.

Qualitative information regarding this results forecast

Performance in largely in line with expectations and there are no changes to the forecast made in the interim report dated November 1, 2005.

Consolidated operating results¹

The domestic economy in the period under review has been gradually recovering due to such factors as improved corporate earnings and an increase in corporate expenditure, however a full-fledged recovery in consumer spending has yet to occur.

In the cosmetics industry there was continued strength, with sales of skincare products performing well.

In the nutritional supplements industry, a boom in products such as *Co-enzyme Q₁₀* and *Alpha Lipoic Acid* resulted in both market expansion and a sharp increase in competition.

Net Sales

Consolidated net sales increased 8.8% to ¥72,050 million. This was largely the result of strong sales in our core businesses of cosmetics and nutritional supplements primarily through our retail sales channel.

Ordinary Income

Consolidated ordinary income increased 101.4% to ¥8,015 million, and the ordinary income margin increased 5.1 percentage points to 11.1%.

Net Income

Consolidated net income for the period under review increased 214.2% to ¥4,507 million, and net income margin increased 4.2 percentage points to 6.3%.

Consolidated financial position

Cash and cash equivalents as of December 31, 2005 were ¥23,596 million, an increase of ¥1,289 million over the end of the previous fiscal year. The main contributing factors are detailed below.

Cash flow from operating activities

Cash flow from operating activities during the nine-month period under review was ¥5,318 million. Main contributing factors included income before income taxes of ¥7,565 million and an increase of ¥1,851 million in depreciation and amortization, while factors reducing operating cash flow included a ¥2,020 million increase in accounts receivable and corporate tax payments of ¥2,840 million.

Cash flow from investing activities

Cash flow used in investing activities during the period under review was ¥3,723 million. This was largely the result of ¥1,755 million used to open and renovate retail stores.

Cash flow from financing activities

Cash flow from financing activities during the period under review was ¥305 million. This was largely due to an outflow of ¥1,018 million for the distribution of dividends and an inflow of ¥676 million from the sale of treasury stock.

¹ Note: All comparisons are with the first nine months of the previous fiscal year, unless otherwise stated.

1. Consolidated Third Quarter Financial Statements

Consolidated Third Quarter Balance Sheets						
<i>Millions of yen, rounded down</i>						
	As of December 31, 2005	%	As of December 31, 2004	%	As of March 31, 2005	%
ASSETS						
I. Current assets:						
Cash and cash equivalents.....	19,169		14,386		17,380	
Notes and accounts receivable.....	10,734		9,524		8,713	
Marketable securities.....	6,129		7,733		4,926	
Inventories.....	7,169		6,180		5,663	
Others.....	1,502		2,409		2,395	
Total current assets.....	44,705	53.5	40,234	51.4	39,079	49.2
II. Fixed assets:						
Tangible fixed assets						
Buildings and structures.....	12,477		12,403		12,781	
Land.....	10,720		10,847		10,916	
Others.....	2,654		2,947		2,835	
Total tangible fixed assets.....	25,852	30.9	26,198	33.5	26,533	33.4
Intangible fixed assets	1,299	1.6	1,280	1.6	1,222	1.5
Investments and other assets						
Investments securities.....	1,977		1,107		1,954	
Long-term loans receivable.....	683		985		659	
Guarantee money.....	2,673		2,475		2,526	
Others.....	6,419		5,963		7,439	
Total investments and other assets.....	11,754	14.0	10,531	13.5	12,579	15.9
Total fixed assets.....	38,906	46.5	38,010	48.6	40,336	50.8
Total Assets.....	83,611	100.0	78,245	100.0	79,416	100.0
LIABILITIES						
I. Current liabilities:						
Notes and accounts payable.....	4,171		3,725		3,049	
Accrued liabilities.....	3,679		3,080		3,985	
Accrued income taxes.....	1,839		1,278		1,914	
Others.....	1,706		1,513		1,509	
Total current liabilities.....	11,397	13.6	9,598	12.2	10,457	13.2
II. Long-term liabilities:						
Allowance for retirement bonuses.....	1,264		1,120		1,194	
Allowance for directors' retirement bonuses.....	177		1,108		1,117	
Others.....	397		485		442	
Total long-term liabilities.....	1,838	2.2	2,714	3.5	2,754	3.4
Total liabilities.....	13,236	15.8	12,313	15.7	13,212	16.6
SHAREHOLDERS' EQUITY						
I. Common stock.....	10,795	12.9	10,795	13.8	10,795	13.6
II. Capital reserve.....	11,806	14.1	11,706	15.0	11,706	14.8
III. Retained earnings.....	54,650	65.4	50,897	65.1	51,172	64.4
IV. Net Unrealized holding gain on other securities.....	43	0.1	22	0.0	26	0.0
V. Foreign currency translation adjustment.....	(4)	(0.0)	(4)	(0.0)	(4)	(0.0)
VI. Treasury stock.....	(6,915)	(8.3)	(7,484)	(9.6)	(7,492)	(9.4)
Total shareholders' equity.....	70,375	84.2	65,931	84.3	66,203	83.4
Total Liabilities and Shareholders' Equity..	83,611	100.0	78,245	100.0	79,416	100.0

Consolidated Third Quarter Statements of Income

Millions of yen, rounded down

	April 1 to December 31, 2005		April 1 to December 31, 2004		FY ended March 31, 2005	
Net sales.....	72,050	100.0	66,251	100.0	87,937	100.0
Cost of sales	24,811	34.4	22,643	34.2	30,031	34.2
Gross profit	47,238	65.6	43,607	65.8	57,905	65.8
Selling, general and administrative expenses	39,658	55.1	39,824	60.1	52,476	59.7
Operating income.....	7,580	10.5	3,783	5.7	5,428	6.2
Net operating income	652	0.9	546	0.8	770	0.9
Interest and dividend income.....	43		34		56	
Other non-operating income	609		512		713	
Net operating expenses	217	0.3	350	0.5	709	0.8
Loss on disposal of obsolete inventories	161		328		681	
Other non-operating expenses	55		21		27	
Ordinary income.....	8,015	11.1	3,979	6.0	5,490	6.2
Extraordinary income	3	0.0	57	0.1	57	0.1
Extraordinary expenses	453	0.6	505	0.8	1,181	1.3
Impairment loss	237		--		--	
Loss on disposal of fixed assets	83		204		335	
Directors' retirement benefit expenses	71		18		39	
Other extraordinary expenses	61		282		806	
Income before income taxes.....	7,565	10.5	3,531	5.3	4,366	5.0
Income taxes	3,058	4.2	2,096	3.2	2,657	3.1
Net income	4,507	6.3	1,434	2.1	1,709	1.9

Consolidated Statements of Cash Flows

Millions of yen

	April 1 to December 31, 2005	April 1 to December 31, 2004	FY ended March 31, 2005
I. Cash flows from operating activities			
Income before income taxes	7,565	3,531	4,366
Depreciation and amortization	1,851	1,815	2,464
Impairment loss.....	237	--	--
Increase (decrease) in allowance for bonuses.....	(168)	(289)	17
Increase (decrease) in allowance for retirement benefits	69	(75)	(1)
Interest and dividend income	(43)	(34)	(56)
Gain on sale of investment securities	--	(57)	(57)
Loss on disposal of tangible fixed assets.....	36	121	613
Decrease (increase) in trade receivables.....	(2,020)	(1,710)	(899)
Decrease (increase) in inventories.....	(1,505)	(708)	(191)
Decrease (increase) in other current assets	959	(218)	(338)
Increase (decrease) in trade payables.....	1,122	553	(122)
Increase (decrease) in other current liabilities	132	(859)	(342)
Others	(1,190)	(67)	(66)
Sub-total	7,046	2,000	5,384
Interest and dividends received	43	39	57
Income taxes paid.....	(2,840)	(1,520)	(1,510)
Others	1,069	679	705
Net cash provided by (used in) operating activities	5,318	1,198	4,637
II. Cash flows from investing activities			
Payment for purchase of investment securities	(1,702)	--	--
Payment for purchase of tangible fixed assets	(1,248)	(1,115)	(1,703)
Payment for purchase of intangible fixed assets	(506)	(163)	(238)
Payment for purchase of investment securities	(800)	--	(840)
Proceeds from sales of investment securities.....	800	115	115
Payment for purchase of other investments.....	(277)	(542)	(441)
Others	11	88	(1,700)
Net cash used in investing activities	(3,723)	(1,617)	(4,807)
III. Cash flows from financing activities			
Net payment from purchase and sale of treasury stock	676	(18)	(26)
Cash dividends paid.....	(1,018)	(1,008)	(1,063)
Proceeds from capital increase by minority shareholders	36	--	--
Net cash used in financing activities.....	(305)	(1,027)	(1,090)
IV. Effect of exchange rate changes on cash and cash equivalents	--	5	5
V. Net increase in cash and cash equivalents	1,289	(1,441)	(1,253)
VI. Cash and cash equivalents at the beginning of the period	22,307	23,561	23,561
VII. Cash and cash equivalents at end of period ...	23,596	22,120	22,307

4. Segment Information

Business Segments

April 1 to December 31, 2005

(Millions of yen)

	Cosmetics Business	Nutritional Supplements Business	Other Businesses	Total	Eliminations or Corporate	Consolidated
Sales:						
(1) Sales to external customers	31,029	25,478	15,541	72,050	--	72,050
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	31,029	25,478	15,541	72,050	--	72,050
Operating expenses	26,438	21,148	15,618	63,205	1,264	64,469
Operating income (loss)	4,590	4,330	76	8,845	(1,264)	7,580

April 1 to December 31, 2004

(Millions of yen)

	Cosmetics Business	Nutritional Supplements Business	Other Businesses	Total	Eliminations or Corporate	Consolidated
Sales:						
(1) Sales to external customers	28,028	23,157	15,064	66,251	--	66,251
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	28,028	23,157	15,064	66,251	--	66,251
Operating expenses	24,403	19,887	16,608	60,899	1,567	62,467
Operating income (loss)	3,625	3,269	(1,544)	5,351	(1,567)	3,783

Operating Results by Segment²

1) Cosmetics Business

Product development of FANCL cosmetics has been centered on ingredient functionality in an effort to revitalize core products. Meanwhile, *Facial Washing Powder* was renewed in August and *Anti-aging Essence –Beauty Concentrate* was launched in December. For ATTENIR cosmetics, Micro Collagen-based essence *Lift Wrinkle Serum* was launched in October.

SALES

Sales in the cosmetics business increased 10.7% over the same period last year, to ¥31,029 million.
(Millions of yen)

	April 1 to December 31, 2005		April 1 to December 31, 2004		% change
	Amount	% of total	Amount	% of total	
FANCL Cosmetics	23,482	75.7	20,946	74.7	12.1
ATTENIR Cosmetics	7,279	23.4	6,901	24.6	5.5
Other	267	0.9	180	0.7	48.9
Total	31,029	100.0	28,028	100.0	10.7

(Millions of yen)

	April 1 to December 31, 2005		April 1 to December 31, 2004		% change
	Amount	% of total	Amount	% of total	
Mail-order sales	18,292	58.9	17,417	62.1	5.0
Retail store sales	10,142	32.7	8,565	30.6	18.4
Other	2,594	8.4	2,045	7.3	26.9
Total	31,029	100.0	28,028	100.0	10.7

Mail-order sales

Mail-order sales increased 5.0% to ¥18,292 million. Sales of FANCL Cosmetics increased 5.4% to ¥11,602 million, primarily due to a boom in sales of *FENATTY*, *Mild Cleansing Oil*, and *Facial Washing Powder* as a result of renewals made over the previous and current reporting period. Customer numbers have also been trending upwards and as of December 31, 2005 had recovered to the record levels of FANCL cosmetic sales achieved in fiscal year ending March 2000.

Sales of ATTENIR Cosmetics increased 4.3% to ¥6,685 million due to the effects of new products and effective sales promotion activities.

Retail store sales

Retail store sales grew 18.4% to ¥10,142 million, with continued strong sales at existing stores along with a contribution from new store openings.

Other sales channels

Sales in other channels increased 26.9% to ¥2,594 million. This was the result of strong performance from overseas and convenience store sales.

OPERATING INCOME

Operating income in this segment increased 26.6% to ¥4,590 million due to a large increase in revenues, despite an increase in expenditure on sales and advertising. The operating income margin increased 1.9 percentage points to 14.8%.

² Note: All comparisons are with the first nine months of the previous fiscal year, unless stated otherwise.

2) Nutritional Supplements Business

In the Nutritional Supplements Business, new products such as *HTC Collagen* with its unique ingredients and *Bright-age Ex* with its anti-aging ingredient were launched in April and December respectively, and efforts to enhance beauty supplement foods were also undertaken. Additionally, in June the highly anticipated *Alpha Lipoic Acid* product was launched.

SALES

Sales in the nutritional supplements business increased 10.0% to ¥25,478 million.

(Millions of yen)

	April 1 to December 31, 2005		April 1 to December 31, 2004		% change
	Amount	% of total	Amount	% of total	
Mail-order sales	13,015	51.1	12,364	53.4	5.3
Retail store sales	6,328	24.8	5,309	22.9	19.2
Other	6,134	24.1	5,483	23.7	11.9
Total	25,478	100.0	23,157	100.0	10.0

Mail-order sales

Mail-order sales grew 5.3% to ¥13,015 million, due to strong sales of *Co-enzyme Q₁₀* and new products such as *Alpha Lipoic Acid* and *HTC Collagen*.

Retail store sales

Retail store sales grew 19.2% to ¥6,328 million, supported by an increase in the number of new and converted FANCL House J stores (which generate a high proportion of their sales from nutritional supplements), and strong sales at existing stores.

Other sales channels

Sales in other channels increased 11.9% to ¥6,134 million due to an expansion of the customer base.

OPERATING INCOME

Operating income in this segment increased 32.4% to ¥4,330 million, with a decrease in gross margin from an increase in the price of materials more than offset by efficiencies achieved in areas such as sales and advertising expenses. The operating income margin increased 2.9 percentage points to 17.0%.

3) Other businesses

SALES

Sales in Other business increased 3.2% to ¥15,541 million.

(Millions of yen)

	April 1 to December 31, 2005	April 1 to December 31, 2004	% change
<i>Hatsuga Genmai</i> business	3,388	3,945	(14.1)
Kale juice business	2,996	2,613	14.7
IIMONO OHKOKU mail-order business	6,280	5,447	15.3
Other related businesses	2,875	3,057	(5.9)
Total	15,541	15,064	3.2

Hatsuga Genmai business

Mail order and wholesale sales were lower despite the launch of *Newly Germinated Rice*, which is a product produced by removing half of the husk to create a similar item to white rice.

Kale juice business

Sales of *Super Kale Juice Twintose* Formula, a high value-added frozen product, began in July. Sales increased due to strong sales of powder-type kale juice with Twintose.

IIMONO OHKOKU Co., Ltd. mail-order business

Sales increased supported by strong sales in seasonal products and sales of *Walking Shoes*.

Other related businesses

Sales declined, due to poor sales of household sundries.

OPERATING INCOME

Operating income in this segment was ¥76 million with a ¥1,467 million reduction in operating losses due to the return to profitability of the Kale juice and the IIMONO OHKOKU mail order business.

Number of stores by business type

	As of December 31, 2005	Compared with March 31, 2005
FANCL House	109	- 1
FANCL House J	60	+ 23
Genki Station	9	-
ATTENIR Shop	10	+ 1
Other	3	-
Total	191	+ 23

Reference:

Non-consolidated Third Quarter Balance Sheets						
<i>Millions of yen, rounded down</i>						
	As of December 31, 2005		As of December 31, 2004		As of March 31, 2005	
		%		%		%
ASSETS						
I. Current assets:						
Cash and cash equivalents	9,480		6,041		8,250	
Notes and accounts receivable	8,829		7,884		7,107	
Marketable securities	6,129		7,733		4,926	
Inventories	2,925		3,585		3,047	
Others	1,904		2,878		2,928	
Total current assets	29,269	42.6	28,124	43.1	26,260	39.9
II. Fixed assets:						
Tangible fixed assets						
Buildings and structures	6,381		9,143		8,847	
Land	7,260		8,048		8,048	
Others	951		1,939		2,090	
Total tangible fixed assets	14,592	21.2	19,131	29.3	18,986	28.8
Intangible fixed assets	1,016	1.5	686	1.1	708	1.1
Investments and other assets						
Investments securities	1,078		208		1,041	
Long-term loans receivable	6,876		6,831		6,858	
Guarantee money	2,393		2,188		2,242	
Others	13,462		8,042		9,749	
Total investments and other assets	23,811	34.7	17,271	26.5	19,891	30.2
Total fixed assets	39,420	57.4	37,089	56.9	39,586	60.1
Total Assets	68,690	100.0	65,213	100.0	65,847	100.0
LIABILITIES						
I. Current liabilities:						
Notes and accounts payable	3,305		2,483		2,010	
Accrued liabilities	2,678		2,734		2,895	
Accrued income taxes	1,100		712		1,217	
Others	1,400		1,146		1,012	
Total current liabilities	8,485	12.4	7,076	10.9	7,136	10.8
II. Long-term liabilities:						
Allowance for retirement bonuses	805		875		899	
Allowance for directors' retirement bonuses ..	177		1,108		1,117	
Others	90		79		60	
Total long-term liabilities	1,073	1.5	2,063	3.2	2,078	3.2
Total liabilities	9,558	13.9	9,139	14.0	9,214	14.0
SHAREHOLDERS' EQUITY						
I. Common stock	10,795	15.7	10,795	16.6	10,795	16.4
II. Capital reserve	11,806	17.2	11,706	18.0	11,706	17.8
III. Retained earnings	43,401	63.2	41,035	62.9	41,597	63.2
IV. Net Unrealized holding gain on other securities						
	43	0.1	21	0.0	26	0.0
V. Treasury stock	(6,915)	(10.1)	(7,484)	(11.5)	(7,492)	(11.4)
Total shareholders' equity	59,131	86.1	56,073	86.0	56,633	86.0
Total Liabilities and Shareholders' Equity ..	68,690	100.0	65,213	100.0	65,847	100.0

Non-consolidated Third Quarter Statements of Income

Millions of yen, rounded down

	April 1 to December 31, 2005		April 1 to December 31, 2004		FY ended March 31, 2005	
Net sales.....	56,525	100.0	52,021	100.0	69,170	100.0
Cost of sales.....	20,748	36.7	18,226	35.0	24,176	35.0
Gross profit.....	35,776	63.3	33,794	65.0	44,994	65.0
Selling, general and administrative expenses.....	31,393	55.5	31,824	61.2	41,856	60.5
Operating income.....	4,383	7.8	1,970	3.8	3,138	4.5
Net operating income.....	1,061	1.9	1,000	1.9	1,394	2.0
Interest and dividend income.....	144		200		236	
Other non-operating income.....	917		799		1,157	
Net operating expenses.....	187	0.3	320	0.6	625	0.9
Loss on disposal of obsolete inventories.....	140		299		599	
Other non-operating expenses.....	46		21		25	
Ordinary income.....	5,257	9.3	2,649	5.1	3,907	5.6
Extraordinary income.....	2	0.0	--	--	--	--
Extraordinary expenses.....	450	0.8	409	0.8	679	1.0
Income before income taxes.....	4,809	8.5	2,240	4.3	3,227	4.7
Income taxes.....	1,939	3.4	942	1.8	1,367	1.9
Net income.....	2,869	5.1	1,297	2.5	1,860	2.7