FANCL Corporation

Consolidated Financial Statements for the Fiscal Year Ended 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)

Results for the Fiscal Year Ended March 31, 2006

FANCL CORPORATION **May 1, 2006**

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Representative: Kenji Fujiwara, President and Representative Director

Date of board meeting: May 1, 2006

Use of U.S. accounting standards: No

1) Consolidated results for the period of Fiscal 2006 (April 1, 2005 to March 31, 2006)

(1) Sales and Income

Millions of yen, rounded down

	FY ended March 31, 2006		FY ended March 31, 2005	
		Change (%)		Change (%)
Net sales	95,322	8.4	87,937	3.5
Operating income	8,574	57.9	5,428	(30.1)
Ordinary income	9,113	66.0	5,490	(28.6)
Net income	5,183	203.2	1,709	(49.5)
Net income per share (¥)	¥242.56		¥80.29	
Fully diluted earnings per share (¥)	¥240.78		¥80.23	
Return on equity	7.5%		2.6%	
Ratio of ordinary income to total capital	11.1%		6.9%	
Ratio of ordinary income to net sales	9.6%		6.2%	

Notes:
1. Gain from investments in subsidiaries and affiliates accounted for by the equity method:
   Fiscal year ended March 31, 2006: ¥0
   Fiscal year ended March 31, 2005: ¥0
2. Average number of shares outstanding (consolidated) during the period:
   Fiscal year ended March 31, 2006: 21,370,955 shares
   Fiscal year ended March 31, 2005: 21,282,467 shares
3. There has been no change in accounting methods used
4. 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.

(2) Consolidated Financial Position

Millions of yen, rounded down

	As of March 31, 2006	As of March 31, 2005
Total assets	85,147	79,416
Shareholders' equity	71,405	66,203
Equity ratio (%)	83.9%	83.4%
Shareholders' equity per share (¥)	¥3,317.02	¥3,111.15

Note: Number of shares outstanding (consolidated) at end of periods:
Fiscal year ended March 31, 2006: 21,527,106 shares.
Fiscal year ended March 31, 2005: 21,279,074 shares

(3) Cash Flows

Millions of yen, rounded down

	FY Ended March 31, 2006	FY Ended March 31, 2005
Net cash provided by operating activities	9,162	4,637
Net cash used in investing activities	(10,280)	(4,807)
Net cash used in financing activities	(21)	(1,090)
Cash and cash equivalents at end of year	21,167	22,307

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

Consolidated subsidiaries: 6 Non-consolidated companies accounted for by the equity method: None Equity method affiliates: None

(5) Changes in scope of consolidation and application of the equity method: No changes.

2) Consolidated forecasts for the fiscal year ending March 31, 2007 (April 1, 2006 to March 31, 2007)

Millions of yen

	Interim period ending September 30, 2006	FY Ending March 31, 2007
Net sales	49,000	102,500
Ordinary income	4,700	11,000
Net income	2,600	6,200

Note: Consolidated net income per share forecast for the fiscal year ending March 31, 2007: ¥96.00
Calculations are based on a forecasted 64,581,318 issued shares at year-end after undertaking a 1:3 share split on March 31, 2006.

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. Please refer to page 12,13 for further information.

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.

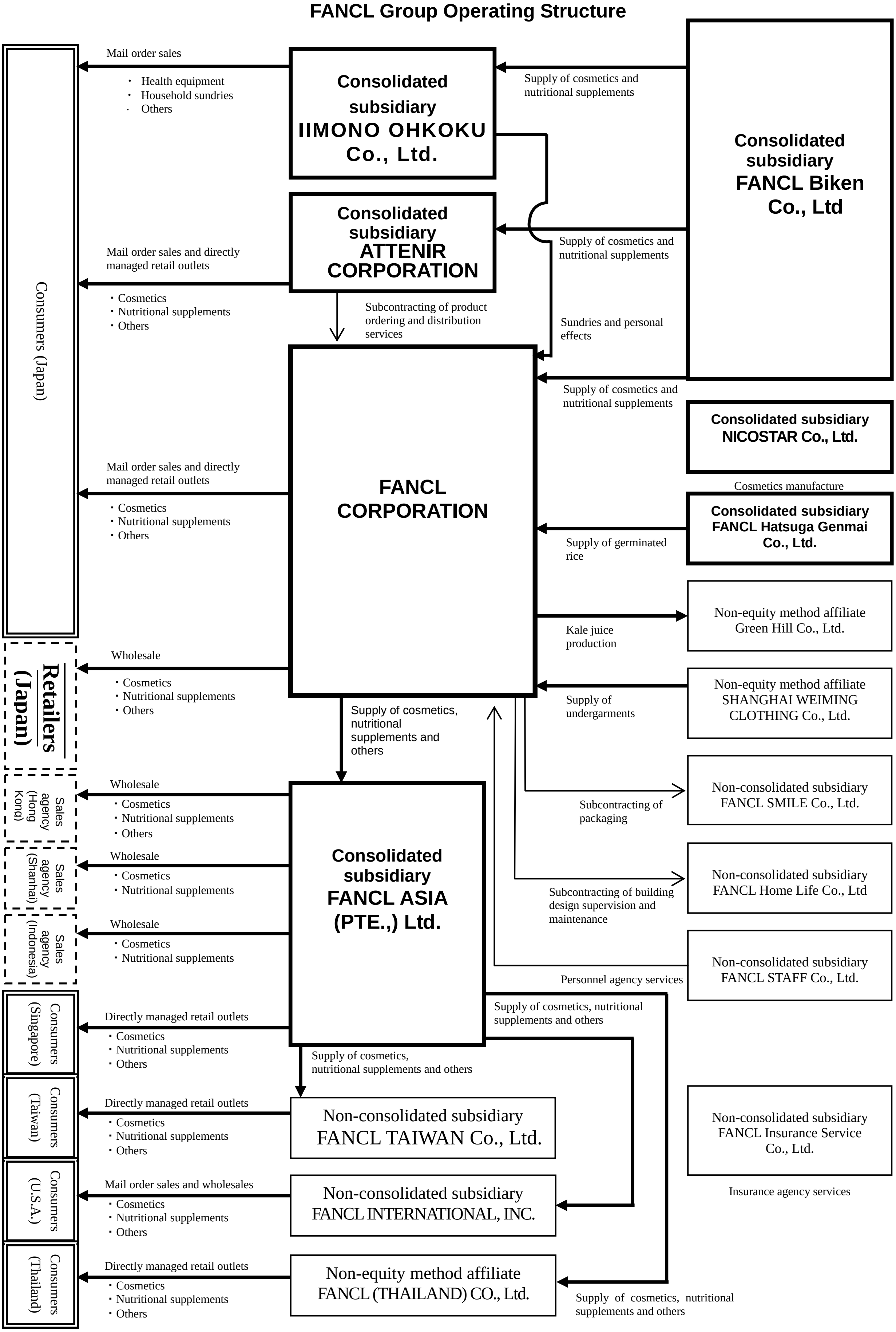
The Group's operations and the business segments in which they operate are as follows:

Cosmetics Business:	The manufacture of preservative-free FANCL cosmetics is conducted by FANCL Biken Co., Ltd., a consolidated subsidiary and sales are handled by FANCL. ATTENIR Cosmetics are manufactured by FANCL Biken and sold by ATTENIR CORPORATION (a consolidated subsidiary). NICOSTAR Co., Ltd. (a 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 sold by FANCL which sources from IIMONO OHKOKU and also sold by ATENIR which sources from external manufacturers. *Hatsuga mai* (germinated 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.

FANCL ASIA (PTE) LTD. (a consolidated subsidiary) markets FANCL products in Singapore, as well as in the United States through FANCL INTERNATIONAL, INC. (a non-consolidated subsidiary), in Taiwan through FANCL TAIWAN Co., Ltd. (a non-consolidated 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 non-consolidated subsidiary) is a personnel agency and introduction business serving mainly Group companies. FANCL SMILE Co., Ltd. (a non-consolidated 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 non-consolidated subsidiary) primarily carries out design supervision and maintenance of buildings for the FANCL group of companies. FANCL INSURANCE SERVICE (a non-consolidated subsidiary) is an insurance agency.

FANCL Group Operating Structure



Affiliates

Company	Location	Paid-In Capital (million yen)	Principal Business	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 officers: 2	(See Note 4)
NICOSTAR Co., Ltd.	Sakae-ku, Yokohama, Japan	10	Cosmetics business	100.0	—	— Seconded officers: 2	—
IIMONO OHKOKU Co., Ltd.	Shibuya-ku, Tokyo, Japan	196	Other businesses	81.6	—	— Seconded officers: 1	(See Note 7)
FANCL Hatsuga Genmai Co., Ltd.	Tomi City, Nagano, Japan	95	Other businesses	84.6	—	Manufactures germinated brown rice Seconded officers: 3	
FANCL ASIA (PTE.,) LTD .	Singapore	875	Cosmetics, nutritional supplements business and other businesses	100.0	—	Sells cosmetics, nutritional supplements and others Seconded officers: 2	—
FANCL Biken Co., Ltd.	Sakae-ku, Yokohama, Japan	100	Cosmetics and nutritional supplements businesses	100.0	—	Manufactures cosmetics and nutritional supplements Seconded directors: 2	(See notes 2, 6)

Notes:
1. Business segment names are shown in the spaces for principal businesses.
2. FANCL Biken Co., Ltd. is a specified subsidiary.
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 for the period under review was as follows:

(Millions of yen)

Principal Operating Results of ATTENIR CORPORATION				
Net Sales	Ordinary Income	Net Income	Net Assets	Total Assets
11,635	1,594	943	6,631	8,086

5. None of FANCL's affiliates currently carries material excessive debt.
6. The capital of FANCL Biken Co., Ltd. was increased ¥25 million through the transfer of the Chiba factory which was separated on April 2005.
7. In June 2005 the capital of IIMONO OHKOKU Co., Ltd. was increased by ¥36 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

FANCL recognizes that ensuring shareholders obtain a fair return on their investment is a key management responsibility. Accordingly, our dividend policy is to maintain stable returns, taking into account funding requirements for business development, increasing dividends or undertaking share splits as appropriate to any improvement in business performance. 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. Retained earnings may also be used to acquire treasury shares.

For the fiscal year ending March 31, 2006, we plan to increase the year-end dividend by ¥5 to ¥55.00 per share (interim dividend of ¥25 and a year-end dividend of ¥30) in gratitude of the support we have received from our shareholders.

(3) Share trading unit

FANCL lowered its share trading unit from 1,000 shares to 100 shares in August 1999. Share splits were also implemented in May 1999 (1 : 1.3), May 2000 (1 : 1.3) , May 2002 (1 : 1.2) and April 2006 (1 : 1.3). Any further share splits will be considered as appropriate with regard to the market price of FANCL shares.

(4) Medium-term business strategy and key management tasks

1) Medium-term Business Plan for the period April 1, 2004 through March 31, 2007: Phase 1

Under CC Phase 1, FANCL has been taking steps to restore growth and profitability by reforming the Company internally, putting in place a new organizational structure, optimizing the allocation of personnel and creating a new corporate culture.

Cosmetics and Nutritional Supplements have been positioned as the Company's core businesses, and sales growth has been pursued through reviewing FANCL's marketing strategy and focusing on the retail store sales channel.

As a result of these initiatives FANCL's business performance has improved considerably, evidenced by results such as a recovery in mail-order customer numbers and 24 consecutive months of sales growth at existing stores (compared with respective months in the previous year) since April 2004. Sales and earnings from Cosmetics and Nutritional Supplements have increased according to plan. Results in Other Businesses, which fell short of targets in the first year, have since recovered to be largely in line with target figures for the second year of the plan, and losses in this business area have been reduced.

2) Medium-term Business Plan for the period April 1, 2007 through March 31, 2009: Phase 2

As we enter fiscal year 2007, we are aiming for steady growth in profitability marking the start Phase 2 of the FANCL Change & Challenge Plan. While we aim for steady expansion of sales in every term, we are also aiming for improved profitability in order to achieve our targets forecast for fiscal year 2009. Additionally, we are focusing our efforts on the enhancement of our management base in order support our long-term growth.

Quantitative consolidated targets

Quantitative consolidated targets for the fiscal year ending March 31, 2009

Net sales	Ordinary income	Ordinary income margin	ROA	ROE
¥115.0 billion	¥15.0 billion	13.0%	15%	10%

Strategy by business segment

- In cosmetics, FANCL will continue developing competitive products with an emphasis on unique functionality. FANCL's skin care cosmetic brands will be revitalized and the Company will aim to increase its share of the market for sensitive skin products.
- In nutritional supplements, FANCL will seek to produce products with high added value. The Company will strengthen its operations in supplements that support beauty while also developing products for older customer groups.
- In other businesses, FANCL will seek to restore profitability. In germinated rice and kale juice the Company will seek to grow sales and return to profit by enhancing the product lineup. In mail-order sales at IIMON OHKOKU the Company will pursue higher earnings margins by improving the product mix and reducing expenses.

Strategy by sales channel

- FANCL will seek to make maximal use of the strengths of each channel and derive clear synergy benefits.
- The Company will strengthen its highly profitable internet sales channel, along with its retail network and overseas development.
- In internet sales, the processing capability will be improved and higher sales targeted through the introduction of new services.
- In the retail store network, initiatives to revitalize existing stores will continue along with the opening of new stores. Our target to expand our network to 300 stores by March 2007 will be rescheduled to March of 2009 in order to preserve the quality of our training including the training of store staff.
- Overseas development will focus on establishing a presence in China.

(5) Matters relating to parent company

FANCL is not a subsidiary of any parent company.

3. Consolidated operating results and financial position

(1) Operating results (consolidated)[1]

The domestic economy showed a mildly improving recovery trend during the period under review and against a backdrop of improved corporate earnings we saw a gradual increase in consumer spending and increased capital investments.

The cosmetics industry showed strong overall growth and exceptional sales of skin care products.

The nutritional supplements industry was characterized by an expanding market and intensifying competition, resulting from a boom in the popularity of *Coenzyme* Q_{10}, *Alpha Lipoic Acid* and other products.

Consolidated net sales during the period under review increased 8.4% to ¥95,322 million. This was largely the result of strong retail store sales in our core businesses of cosmetics and nutritional supplements.

Consolidated ordinary income increased 66.0% to ¥9,113 million, and the ordinary income margin increased 3.4 percentage points to 9.6%. This growth is primarily attributable to steady growth in the high-margin cosmetics businesses, and a more efficient approach to sales and marketing spending.

Consolidated net income for the period under review grew 203.2% to ¥5,183 million, with the net income margin increasing 3.5 percentage points to 5.4%.

1) Cosmetics Business

FANCL cosmetics are developed with an emphasis on increasing their functionality as skincare products, and initiatives in the period under review included a renewal in August 2005 of FANCL's *Facial Washing Powder and* the December launch of the unique *Anti-aging Essence –Beauty Concentrate*. Activities with regard to ATTENIR cosmetics included the renewal of beauty cream *Inner Effector-EX* in March.

Sales

Cosmetics sales increased 11.3% compared to the previous period, reaching ¥41,286 million.

	Fiscal year ended March 31, 2006		Fiscal year ended March 31, 2005		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	31,406	76.1	27,759	74.8	13.1
ATTENIR Cosmetics	9,518	23.0	9,042	24.4	5.3
Others	361	0.9	297	0.8	21.5
Totals	41,286	100.0	37,098	100.0	11.3

	Fiscal year ended March 31, 2006		Fiscal year ended March 31, 2005		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	24,060	58.3	22,829	61.5	5.4
Retail store sales	13,721	33.2	11,491	31.0	19.4
Others	3,504	8.5	2,777	7.5	26.2
Totals	41,286	100.0	37,098	100.0	11.3

Mail order sales increased 5.4% compared to the previous period, reaching ¥24,060 million.

Sales of FANCL cosmetics increased 6.1% to ¥15,319 million, with limited-offer bottle designs contributing to strong sales of *Mild Cleansing Oil*, the renewal of *Facial Washing Powder* and *Beauty Concentrate* and the effects of new products.

Sales of ATTENIR cosmetics increased 4.1% to ¥8,736 million, due to strong sales of skin care products such as the excellent performance of beauty essence.

Retail store sales increased 19.4% to ¥13,721 million, with good performance at existing stores and contribution from new outlets.

Sales through **other sales channels** increased 26.2% to ¥3,504 million, with good results from overseas sales and sales through convenience stores.

Operating income

Operating income increased 17.3% to ¥5,567 million, with higher revenues absorbing increases in advertising and marketing expenses. The operating income margin increased 0.7 percentage points to 13.5%.

[1] Note: All comparisons are with the previous fiscal year, unless otherwise stated.

2) Nutritional Supplements Business

Key initiatives in the nutritional supplements business included efforts to strengthen sales of beauty supplements with the April 2005 launch of *HTC Collagen and* the December 2005 launch of *Bright Age EX* which includes the same anti-aging agents as those found in internal and external beauty aids. Additionally, *Alpha Lipoic Acid* was launched in June 2005*.*

Sales

Nutritional supplement sales increased 6.8% compared to the previous period, reaching ¥33,246 million.

	Fiscal year ended March 31, 2006		Fiscal year ended March 31, 2005		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	16,822	50.6	16,709	53.7	0.7
Retail store sales	8,393	25.2	7,175	23.0	17.0
Others	8,030	24.2	7,246	23.3	10.8
Totals	33,246	100.0	31,131	100.0	6.8

Mail order sales increased 0.7% compared to the previous period, reaching ¥16,822 million. Key factors supporting this increase were the introduction of new products, including *Alpha Lipoic Acid, HTC Collagen* and *Bright Age EX,* and sales of *Coenzyme* Q_{10},

Retail store sales increased 17.0% to ¥8,393 million, supported by an increase in the number of FANCL House J stores, at which nutritional supplements make up a high proportion of sales, and good performance at existing stores.

Sales through **other sales channels** increased 10.8% to ¥8,030 million, supported by an increase in the number of trading partners.

Operating income

Operating income increased 16.5% to ¥5,405 million. Although an increase in the cost of certain raw materials had a negative impact on the gross profit margin, effective measures were taken reduce advertising and marketing expenses. The operating income margin increased 1.4 percentage points to 16.3%.

3) Other Businesses

Sales in Other businesses increased 5.5% to ¥20,789 million.

(Millions of yen)

	Fiscal year ended March 31, 2006	Fiscal year ended March 31, 2005	Change (%)
Hatsuga Genmai Business	4,549	5,026	(9.5)
Kale juice business	4,029	3,524	14.3
IIMONO OHKOKU mail order business	8,403	7,153	17.5
Other	3,805	4,002	(4.9)
Totals	20,789	19,706	5.5

In the **Hatsuga mai business** sales were lower than in the previous comparable period as sales from the launch of Newly Germinated Rice in October were not strong enough to cover lower sales of existing products.

In the **Kale juice business**, sales increased, supported by strong sales of powder-type kale juice with Twintose. *Super Kale Juice Twintose Formula,* a high value-added frozen product, was launched in July.

Sales through the **IIMONO OHKOKU mail order business** were higher than in the previous period as a result of strong sales of walking shoes developed jointly with Mizuno Corporation and heating and health equipment.

Operating income

An operating loss of ¥761 million was recorded, a reduction of ¥1,205 from the loss recorded in the previous period, primarily due to losses recorded in the Hatsuga mai and kale juice businesses due to reduced advertising, and losses from the OHKOKU mail order business.

For reference: Sales network

	Number of stores as of March 31, 2006	Change compared to March 31, 2005
FANCL Ginza Square	1	--
FANCL House	113	+3
FANCL House J	71	+34
Genki Station	9	--
ATTENIR Shop	10	+1
Other	4	+1
Total	208	+39

(2) Consolidated financial position

Cash and cash equivalents as of March 31, 2006 were ¥21,167 million, ¥1,139 million lower than at the end of the previous fiscal year. The main contributing factors are detailed below.

Cash flows from operating activities
Cash flow from operating activities during the period under review was ¥9,162 million. Factors that increased operating cash flow included income before income tax of ¥8,514 million and a depreciation expense of ¥2,540 million. Factors reducing operating cash flow included corporate tax payments of ¥2,813 million.

Cash flows from investing activities
Cash used in investing activities during the period under review was ¥10,280 million. This was largely the result the use of ¥8,703 in time and savings deposits and for the acquisition marketable of securities. Additionally, an investment in facilities of ¥1,410 million was used for the expansion and renewal of stores.

Cash flows from financing activities
Cash flow from financing activities during the period under review was ¥21 million. This was largely the result of ¥1,008 million derived from the sale of treasury shares and ¥1,065 million in dividends paid.

Funds for investing activities and financing activities are planned to be within the scope of increase in cash flows from operating activities as of next term.

Trends in Cash Flow-related Indices

	FY ended March 31, 2002	FY ended March 31, 2003	FY ended March 31, 2004	FY ended March 31, 2005	FY ended March 31, 2006
Equity ratio (%)	81.9	83.1	83.6	83.4	83.9
Equity ratio based on market price (%)	113.5	114.3	95.7	110.9	183.9
Debt service coverage (years)	0.15	0.04	--	--	--
Interest coverage ratio (times)	200.7	756.0	2,930.5	--	--

(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 plans 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, nutritional supplements, hatsuga mai and kale juice 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 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 respective departments, and strives to maintain quality by conducting on-site plant inspections and other means. If a quality problem arises, it could impact the Group's operating results.

3. Disasters and bad weather

To minimize the effects of fire and natural disasters on its production system, the FANCL Group conducts periodic inspections and checking on all its facilities. Geographic dispersion of plants is intended to reduce risks. Nevertheless, there are no guarantees that the impact of fire or natural 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 the Group operating results.

4. Limits of intellectual property protection

The Group is moving forward with securing patents 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

The Cosmetic Businesses is governed by the Pharmaceutical Affairs Law 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 permissions. 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 functional foods health 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 a Compliance & Legal Division, responsible for compliance and ensuring more thoroughgoing observance of laws and regulations. Notwithstanding this, any violations that occur may 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. Continuous efforts are also made with regard to employee education in this area. 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 full year

Certain elements of the economic environment are beginning to show positive signs, and mild recovery is expected to continue.

In the Cosmetics business, revenues from FANCL cosmetics are expected to increase, supported by renewals of makeup and hair-care products, along with new store openings. Sales of ATTENIR cosmetics are also expected to increase, supported by factors such as advertising activities.

In the Nutritional Supplements business, revenues are expected to increase, supported by the renewal of diet products and vitamins, along with new store openings.

In the *Hatsuga mai* business, a rise in revenue is expected over the previous year supported by enhancement of *Newly Germinated Rice*.

In the kale juice business, revenues are expected to increase, supported by sales growth in powder-type kale juice.

Based on the above, consolidated net sales for the fiscal year ending March 31, 2007 are forecast to increase 7.5% year on year to ¥102,500 million.

Ordinary income is forecast to increase 20.7% to ¥11,000 million and consolidated net income for the year is forecast to increase 19.6% year on year to ¥6,200 million as a result of an increase in the proportion of sales of the highly profitably cosmetics-related business and cost reductions with certain raw materials as well as other planned cost reductions.

For the fiscal year ending March 31, 2007 the planned dividend is ¥24.00 per share, including an interim dividend payment of ¥12.00.

4. Consolidated Financial Statements

Consolidated Balance Sheet

Millions of yen, rounded down

	As of March 31, 2006	%	As of March 31, 2005	%	Change
ASSETS		%		%	
I. Current assets:					
Cash and cash equivalents	19,247		17,380		1,866
Notes and accounts receivable	8,977		8,713		263
Marketable securities	8,625		4,926		3,698
Inventories	6,680		5,663		1,016
Deferred tax assets	524		484		39
Others	1,046		2,060		(1,014)
Allowance for doubtful accounts	(134)		(150)		15
Total current assets	44,965	52.8	39,079	49.2	5,885
II. Fixed assets:					
Tangible fixed assets					
Buildings and structures	20,085		19,419		666
Accumulated depreciation	7,598		6,637		961
Machinery and transport equipment	4,754		4,899		(144)
Accumulated depreciation	3,261		3,231		30
Furniture, tools and fixtures	4,810		4,632		177
Accumulated depreciation	3,690		3,469		220
Land[3] [4]	10,636		10,916		(280)
Construction in progress	57		4		52
Total tangible fixed assets	25,793	30.3	26,533	33.4	(740)
Intangible fixed assets					
Goodwill	26		299		(272)
Others	1,490		923		566
Total intangible fixed assets	1,516	1.8	1,222	1.5	293
Investments and other assets					
Investments securities[1]	2,026		1,954		72
Long-term loans receivable	696		659		37
Guarantee money	2,715		2,526		188
Long-term prepaid expenses	542		673		(131)
Deferred tax assets	150		593		(443)
Others[1]	7,155		6,623		531
Allowance for doubtful accounts	(414)		(451)		36
Total investments and other assets	12,871	15.1	12,579	15.9	292
Total fixed assets	40,182	47.2	40,336	50.8	(154)
Total Assets	**85,147**	**100.0**	**79,416**	**100.0**	**5,731**

Consolidated Balance Sheets

Millions of yen, rounded down

	As of March 31, 2006		As of March 31, 2005		Change
LIABILITIES		%		%	
I. Current liabilities:					
Notes and accounts payable	4,007		3,049		958
Accrued liabilities	3,918		3,985		(67)
Accrued expenses	566		494		72
Accrued income taxes	2055		1,914		141
Allowance for bonuses	905		781		124
Others	476		233		242
Total current liabilities	11,929	14.0	10,457	13.2	1,471
II. Long-term liabilities:					
Allowance for retirement bonuses	1,281		1,194		86
Allowance for directors' retirement bonuses	188		1,117		(929)
Others	342		442		(100)
Total long-term liabilities	1,812	2.1	2,754	3.4	(942)
Total liabilities	13,742	16.1	13,212	16.6	529
SHAREHOLDERS' EQUITY					
I. Common stock	10,795	12.7	10,795	13.6	--
II. Capital reserve	11,846	13.9	11,706	14.8	140
III. Retained earnings	55,326	65.0	51,172	64.4	4,153
IV. Net Unrealized holding gain on other securities	66	0.1	26	0.0	40
V. Foreign currency translation adjustment	(4)	(0.0)	(4)	(0.0)	--
VI. Treasury stock	(6,624)	(7.8)	(7,492)	(9.4)	867
Total shareholders' equity	71,405	83.9	66,203	83.4	5,202
Total Liabilities and Shareholders' Equity	**85,147**	**100.0**	**79,416**	**100.0**	**5,731**

Consolidated Statements of Income

Millions of yen, rounded down

	Fiscal year ended March 31, 2006		Fiscal year ended March 31, 2005		Change
Net sales	95,332	100.0	87,937	100.0	7,385
Cost of sales	33,239	34.9	30,031	34.2	3,208
Gross profit	62,082	65.1	57,905	65.8	4,177
Selling, general and administrative expenses					
Sales promotion expenses	9,319		9,475		(155)
Packing and transport expenses	4,214		4,240		(26)
Advertising expenses	9,792		11,105		(1,313)
Commission fee	5,577		4,780		796
Communications expenses	2,205		2,199		6
Directors remuneration	305		376		(71)
Salaries and bonuses	9,480		7,974		1,505
Provision for accrued bonuses	757		704		52
Provision for accrued pensions	428		358		70
Provision for retirement benefits for directors and corporate auditors	56		56		0
Compulsory welfare expenses	911		749		162
Welfare expenses	453		464		(11)
Depreciation	1,440		1,450		(9)
Research and development expenses	708		617		90
Rent expenses	1,137		1,093		43
Provisions for allowance for bad debt	61		41		19
Others	6,657		6,786		(129)
Total selling, general and administrative expenses	53,507	56.1	52,476	59.7	1,031
Operating income	8,574	9.0	5,428	6.2	3,145
Net operating income					
Interest income	70		45		24
Dividend income	7		11		(3)
Compensation payments received	149		107		41
Insurance premiums returned	360		272		87
Investment return from anonymous associations	161		159		1
Other non-operating income	274		173		100
Total net operating income	1,023	1.1	770	0.9	253
Net operating expenses					
Loss on disposal of obsolete inventories	402		681		(278)
Other non-operating expenses	82		27		54
Total Net operating expenses	485	0.5	709	0.8	(224)
Ordinary income	9,113	9.6	5,490	6.2	3,623

Consolidated Statements of Income continued

Millions of yen, rounded down

	Fiscal year ended March 31, 2006		Fiscal year ended March 31, 2005		Change
Extraordinary income					
Gain from sale of fixed assets	24		--		24
Gain on sale of investment securities	--		57		(57)
Total extraordinary income	24	0.0	57	0.1	(33)
Extraordinary expenses					
Loss on disposal of fixed assets	130		335		(204)
Impairment loss	237		--		237
Loss on revaluation of marketable securities	25		--		25
Directors' retirement benefit expenses	71		39		31
Transfer of reserve for allowances for doubtful accounts	--		129		(129)
Valuation loss on inventories	--		103		(103)
Loss on disposal of inventories	101		--		101
Loss on cancellation of leases	55		434		(379)
Special retirement benefit	--		139		(139)
Total special retirement benefit	622	0.7	1,181	1.3	(558)
Income before income taxes	**8,514**	**8.9**	**4,366**		**4,148**
Income taxes	2,954		2,532		421
Adjustment for income taxes	376		124		252
Total income before income taxes	3,331	3.5	2,657	3.0	674
Net income	**5,183**	**5.4**	**1,709**	**1.9**	**3,474**

Consolidated Statements of Retained Earnings

Millions of Yen, rounded down

	Fiscal year ended March 31, 2006	Fiscal year ended March 31, 2005	Change (%)
Capital Reserve			
Balance at beginning of the period			
Additional paid-in capital at beginning of the period	11,706	11,706	**--**
Increase in retained earnings			
Gain on disposal of treasury stock....	140	0	140
Balance at end of the period...............	11,846	11,706	140
Retained earnings			
Balance at beginning of the period.....	51,172	50,528	644
Increase in retained earnings			
Net income	5,183	1,709	3,474
Increase in capital from minority shareholders....................................	36	--	36
Total increase in retained earnings........	5,219	1,709	3,510
Decrease in retained earnings			
Dividends...	1,605	1,604	1
Bonuses to directors........................	--	1	0
Balance at end of the period...............	**55,326**	**51,172**	**4,153**

Consolidated Statements of Cash Flows

Millions of yen

	Fiscal year ended March 31, 2006	Fiscal year ended March 31, 2005	Change
I. Cash flows from operating activities			
Income before income taxes	8,514	4,366	4,148
Depreciation and amortization	2,540	2,464	76
Impairment loss	237	--	237
Amortization in excess of investment cost over equity in net assets of consolidated subsidiaries	272	272	--
Increase (decrease) in allowance for bonuses	124	17	106
Increase (decrease) in allowance for directors retirement bonuses	(929)	--	(929)
Increase (decrease) in allowance for doubtful accounts	(34)	131	(166)
Increase (decrease) in allowance for retirement benefits	86	(1)	88
Interest and dividend income	(78)	(56)	(21)
Increase (decrease) from foreign exchange	(9)	(7)	(1)
Investment gain on anonymous association	(161)	(159)	(1)
Net refund of insurance premiums	(358)	(266)	(92)
Loss on revaluation of investments in securities	25	--	25
Gain on sale of investments in securities	--	(57)	57
Gain on sale of property and equipment	(24)	--	(24)
Loss on sale of tangible fixed assets	4	92	(88)
Loss on disposal of tangible fixed assets	79	520	(441)
Loss on elimination of intangible fixed assets	43	12	30
Decrease (increase) in trade receivables	(263)	(899)	635
Decrease (increase) in inventories	(1,016)	(191)	(824)
Decrease (increase) in other current assets	1,028	(338)	1,366
Decrease (increase) in accounts payable	958	(122)	1,080
Increase (decrease) in other current liabilities	(119)	(342)	223
Increase (decrease) in other fixed liabilities	(100)	(67)	(32)
Bonuses to directors or corporate auditors	--	(1)	1
Others	6	18	(12)
Sub-total	10,827	5,384	5,442
Interest and dividends received	74	57	16
Refund on insurance premiums	1,074	705	369
Income taxes paid	(2,813)	(1,510)	(1,303)
Net cash provided by (used in) operating activities	**9,162**	**4,637**	**4,524**
II. Cash flows from investing activities			
Repayment of fixed-term deposits	(1,000)	(1,500)	500
Acquisition of investment securities	(7,703)	--	(7,703)
Proceeds from redemption of marketable securities	999	--	999
Payment for purchase of tangible fixed assets	(1,410)	(1,703)	292
Proceeds from sales of tangible fixed assets	129	10	119
Payment for purchase of intangible fixed assets	(881)	(238)	(643)
Proceeds from sales of intangible fixed assets	--	0	(0)
Payment for purchase of investment securities	(800)	(840)	40
Proceeds from sales of investment securities	800	115	684
Payments for purchase of investments in affiliates	(30)	(226)	196
Lending of loans	(76)	(219)	143
Proceeds from collection of loans	42	34	8
Payment for purchase of other investments	(376)	(441)	65
Proceeds from sales of other investments	27	111	(83)
Proceeds from capital decrease of affiliated companies	--	90	(90)
Net cash used in investing activities	(10,280)	(4,807)	(5,472)

Consolidated Statements of Cash Flows continued

Millions of yen

	Fiscal year ended March 31, 2006	Fiscal year ended March 31, 2005	Change
III. Cash flows from financing activities			
Payment for purchase of treasury stock	1,008	(26)	1,034
Cash dividends paid	(1,065)	(1,063)	(2)
Proceeds from capital increase by minority shareholders	36	--	36
Net cash used in financing activities	(21)	(1,090)	1,068
IV. Effect of exchange rate changes on cash and cash equivalents	--	5	(5)
V. Net increase in cash and cash equivalents	(1,139)	(1,253)	114
VI. Cash and cash equivalents at the beginning of the period	22,307	23,561	(1,253)
VII. Cash and cash equivalents at end of period	21,167	22,307	(1,139)

Significant items for the Preparation of Consolidated Financial Statements

Item	Fiscal year ended March 31, 2006	Fiscal year ended March 31, 2005
1.Scope of Consolidation	1) Number of consolidated subsidiaries: 6 Name of consolidated subsidiaries: Same as right 2) Main Non-Consolidated companies: Same as right	1) Number of consolidated subsidiaries: 6 Name of consolidated subsidiaries: ATTENIR CORPORATION NICOSTAR Co., Ltd. IIMONO OHKOKU Co., Ltd FANCL Hatsuga Genmai Co., Ltd. FANCL ASIA (PTE.,) LTD. FANCL Biken Co., Ltd. 2) Main Non-Consolidated companies FANCL STAFF Co., Ltd. FANCL Home Life Co., Ltd. Reasons for not being included in the scope of consolidation: Non-consolidated subsidiaries are not included in the scope of consolidation because they are small-sized companies and their respective total assets, (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	Same as right	1) Non-consolidated companies accounted for by the equity method: Not applicable 2) Affiliate companies accounted for by the equity method: Not applicable 1) Name of main Non-consolidated and affiliate companies accounted for by the Equity Method: Non-consolidated: FANCL STAFF Co., Ltd. FANCL Home Life Co., Ltd. Affiliate companies: SHANGHAI WEMMING CLOTHING CO., Ltd. Reasons for not being accounted for by the equity method: Companies not accounted for by the equity method do not have a material effect on items such as net income and retained earnings and are therefore excluded from application of the equity method.
3. Fiscal Year-End of Consolidated Subsidiaries	Same as right	Among consolidated subsidiaries, the period 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.

Item	Fiscal year ended March 31, 2006	Fiscal year ended March 31, 2005
4. Accounting Standards (1) Basis and method for valuation of major assets	1) Other marketable securities: Stocks with market value: Same as right Stocks with no market value: Same as right 2) Derivatives: Same as right 3) Inventories: Finished goods: Same as right Merchandise: Same as right Supplies: Same as right	1) 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 2) Derivatives: Market value method 3) Inventories Finished goods, work in process, raw materials: At cost by the average method Merchandise: At cost by the monthly average method Supplies: At cost by the last purchase price method
(2) Depreciation of Fixed Assets	1) Tangible fixed assets: Same as right 2) Intangible fixed assets: Same as right	1) Tangible fixed assets: 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 2) Intangible fixed assets: Straight-line method, with the exception of software intended for internal use, which is amortized by the straight-line method over its estimated useful life (five years) Long-term prepaid expenses: Straight-line method
(3) Allowances	1) Allowance for doubtful accounts: Same as right 2) Allowance for bonuses: Same as right 3) Allowance for retirement bonuses: Same as right 4) Allowance for directors' retirement bonuses: Same as right	1) Allowance for doubtful accounts: The Company makes provisions against estimated uncollectible receivables sufficient to cover possible losses on the collection of receivables based on a review of the potential for recovery of individual receivables. 2) Allowance for bonuses: To prepare for future bonus payments to employees, the Company makes provisions in the amount accrued based on the estimated payment. 3) Allowance for retirement bonuses: To prepare for future retirement benefit payments to employees, the Company makes provisions in the amount recognized as accruing at the end of the 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. 4) Allowance for directors' retirement bonuses: To prepare for future retirement bonus payments to directors, the Company makes the necessary provisions at the end of the fiscal year based on internal regulations.

Item	Fiscal year ended March 31, 2006	Fiscal year ended March 31, 2005
(4) Foreign currency-denominated assets and liabilities	Same as right	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	Same as right	Finance leases other than those which transfer the right of ownership to the lessee are accounted for in the same manner as ordinary operating lease transactions.
(6) Hedge accounting	1) Hedge accounting policy: Same as right 2) Hedging instruments/targets: Same as left 3) Policy regarding use of hedging: Same as right 4) Method of assessing hedge effectiveness: Same as right 5) Other risk management information relevant to hedge accounting: Same as right	1) Hedge accounting policy: Derivative instruments are accounted for using deferral hedge accounting. Forward exchange contracts meeting the appropriate criteria are accounted for using the allocation method. 2) Hedging instruments/targets: Forward exchange contracts/payables or forecast transactions denominated in foreign currencies. 3) Policy regarding use of hedging: The Company enters into forward exchange and interest rate swap contracts in the normal course of its business to manage currency and interest rate exposure. 4) Method of assessing hedge effectiveness: As a rule, the Company uses individual forward exchange contracts and thus does not assess hedge effectiveness. 5) Other risk management information relevant to hedge accounting: The Company has formulated standards to govern its use of derivatives. The use of derivatives in daily business is managed by the Accounting Department, which reports to the Board of Directors on the progress of transactions. Consolidated subsidiaries do not engage in derivative transactions.
(7) Others	Same as right	All transactions are posted in amounts prior to deduction of consumption and other taxes.
5) Evaluation of assets and liabilities of consolidated subsidiaries	Same as right	Evaluation of assets and liabilities of consolidated subsidiaries are valued based on market prices.
6) Items related to the depreciation of the consolidated adjustment account	Same as right	Items related to the depreciation of the consolidated adjustment account
7) Appropriation of earnings and related items	Same as right	In the consolidated statement of retained earnings, the consolidated companies appropriation of earnings are decided during the fiscal year and are based on appropriation of earnings
8) Scope of Cash and Cash Equivalents	Same as right	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.

Fiscal year ended March 31, 2006	Fiscal year ended March 31, 2005
Accounting standards for impairment of fixed assets: Accounts have been prepared in accordance with Accounting Standards for Impairment of Fixed Assets (issued by the Accounting Standards Board of Japan on August 9, 2002) and the Financial Accounting Standards Implementation Guidance No. 6, "Implementation Guidance for Accounting Standards for Impairment of Fixed Assets" (issued by the Accounting Standards Board of Japan on October 31, 2003). In accordance with the adoption of these standards and implementation guidance, impairment losses of ¥237 million on land and buildings have been recorded as an extraordinary loss. Compared to the former accounting standard, this resulted in a decrease in net income before taxes and other adjustments for the period of ¥237 million. The land and buildings referred to above were disposed of during the fiscal year.	―――

Change in the method of disclosure

Fiscal year ended March 31, 2006	Fiscal year ended March 31, 2005
Consolidated Statements of Cash Flows As of this fiscal year, Increase (decrease) in bonuses for directors (which was –¥92 million last fiscal year) has been separated from Increase (decrease) in other fixed liabilities found in the Cash Flow from operating activities section.	―――

Additional information

Fiscal year ended March 31, 2006	Fiscal year ended March 31, 2005
―――	Pro forma standard taxation Following the promulgation of 'Treatment of the tax based on business size portion of corporate taxes in the Statements of Income' (February 13, 2004, Corporate Accounting Standards Committee Practice Report 12), from this accounting period the proportionate amounts of corporation tax on value added and capital have been included in Selling, General and Administrative expenses. As a result Selling, General and Administration expenses increased by ¥67.

5. Segment Information

1. Business Segments

Fiscal year ended March 31, 2006 (Millions of yen)

	Cosmetics Business	Nutritional Supplements Business	Other Businesses	Total	Eliminations or Corporate	Consolidated
1. Sales and operating income: (1) Sales to external customers	41,286	33,246	20,789	95,322	--	95,322
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	41,286	33,246	20,789	95,322	--	95,322
Operating expenses	35,718	27,841	21,551	85,111	1,636	86,747
Operating income (loss)	5,567	5,405	(761)	10,211	(1,636)	8,574
2. Assets, depreciation and amortization and capital investments Assets	26,589	15,918	14,136	56,644	28,503	85,147
Depreciation and amortization	1,262	694	524	2,481	59	2,540
Capital investments	1,303	1,005	280	2,589	1	2,591

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

	Cosmetics Business	Nutritional Supplements Business	Other Businesses	Total	Eliminations or Corporate	Consolidated
1. Sales and operating income: (1) Sales to external customers	37,098	31,131	19,706	87,937	--	87,937
(2) Inter-segmental 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
2. Assets, depreciation and amortization and capital investments 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 investments	1,008	498	749	2,256	--	2,256

Notes:

1. Segmentation has been adopted for internal management purposes.
2. Segment operations are as follows:
   Cosmetic 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 of personal sundries, accessories, undergarments, health equipment and household sundries, mail-order and retail sales and wholesales of *Hatsuga mai* (germinated 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. Total company assets are the amounts for items mentioned in Eliminations and Corporate and are composed of the Cash and cash equivalents, Marketable securities, Land, Investment securities and Insurance premiums of the parent company.

2. Geographic Area

Domestic sales for fiscal year ended March 31, 2006 and fiscal year ended March 31, 2005 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 percent of consolidated net for fiscal year ended March 31, 2006 and fiscal year ended March 31, 2005. Accordingly, overseas sales information is not provided.