FANCL Corporation

Consolidated Financial Statements for the Fiscal Year Ended March 31, 2007

SUMMARY OF FINANCIAL STATEMENTS (consolidated)

Results for the Fiscal Year Ended March 31, 2007

FANCL CORPORATION **May 1, 2007**

www.fancl.co.jp Stock code: 4921 Stock exchange listings: Tokyo 1st section

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Date of general shareholders' meeting: June 17, 2007 Scheduled date of payment of dividend: June 18, 2007

Scheduled date of presentation of financial statements: June 18, 2007

1. Consolidated results for the fiscal year April 1, 2006 to March 31, 2007

(1) Sales and Income

Millions of yen, rounded down

	FY ended March 31, 2007		FY ended March 31, 2006	
		Change (%)		Change (%)
Net sales	101,065	6.0	95,322	8.4
Operating income	8,370	(2.4)	8,574	57.9
Ordinary income	8,388	(8.0)	9,113	66.0
Net income	2,547	(50.9)	5,183	203.2
Net income per share (¥)	¥39.59		¥242.56	
Fully diluted earnings per share (¥)	¥39.13		¥240.78	
Return on equity	3.6%		7.5%	
Ratio of ordinary income to total capital	9.7%		11.1%	
Ratio of ordinary income to net sales	8.3%		9.0%	

Notes: Gain from investments in subsidiaries and affiliates accounted for by the equity method:
Fiscal year ended March 31, 2007: ¥0
Fiscal year ended March 31, 2006: ¥0

(2) Consolidated Financial Position

Millions of yen, rounded down

	As of March 31, 2007	As of March 31, 2006
Total assets	86,931	85,147
Shareholders' equity	71,560	71,405
Equity ratio (%)	82.2%	83.9%
Shareholders' equity per share (¥)	¥1,116.59	¥3,317.02

Note: Shareholders' equity at end of period: FY ended March 2007: ¥71,449 million; FY ended March 2006: ¥71,405 million

(3) Cash Flows

Millions of yen, rounded down

	FY Ended March 31, 2007	FY Ended March 31, 2006
Net cash provided by operating activities	6,472	9,162
Net cash used in investing activities	(1,733)	(10,280)
Net cash used in financing activities	(2,495)	(21)
Cash and cash equivalents at end of year	23,411	21,167

2. Dividends

	Fiscal year ended March 31, 2007	Fiscal year ended March 31, 2006	Fiscal year ending March 31, 2008 (forecast)
Interim dividend per share (¥)	12.00	25.00	12.00
Year-end dividend per share (¥)	12.00	30.00	12.00
Annual dividend per share (¥)	24.00	55.00	24.00
Total dividend payment *(millions of yen)*	1,544	1,179	--
Consolidated dividend payout ratio (%)	60.6	22.7	30.7
Dividend to net assets ratio (%)	2.2	1.7	--

3. Consolidated forecasts for the fiscal year ending March 31, 2008 (April 1, 2007 to March 31, 2008)

Millions of yen

	Interim period ending September 30, 2007		FY Ending March 31, 2008	
		Change %		Change %
Net sales	49,600	3.4	103,500	2.4
Operating income	3,500	30.7	9,000	7.5
Ordinary income	3,400	20.3	8,800	4.9
Net income	2,000	26.5	5,000	96.3
Net income per share (¥)	31.26		78.14	

4. Other

1) Transfer of key subsidiaries during the period (transfers of certain subsidiaries resulting in changes in the scope of consolidation): None

2) Changes in accounting methods, procedures and presentation in the making of these financial statements (key items mentioned in Significant Items for the Preparation of Consolidated Financial Statements):

1. Changes following revisions to accounting standards: Yes
2. Other changes: Yes

Note: See Significant Items for the Preparation of Consolidated Financial Statements on page 21,22 for more detail.

3) Number of shares outstanding (ordinary shares)

1. Number of shares outstanding at end of the fiscal year (including treasury shares):
   March 31, 2007: 70,176,600; March 31, 2006: 23,392,200
2. Number of treasury shares at end of the fiscal year: March 31, 2007: 6,188,080; March 31, 2006: 1,865,094

Note: See Per share information on page 36 for detail on the number of outstanding shares used for the basis of calculations for net income per share

Reference: Outline of non-consolidated financial results

1. Non-Consolidated Operating Results for the fiscal year ended March 31, 2007

1) Non-Consolidated Operating Results

Millions of yen, rounded down

Percentage figures for sales, operating income, etc. represent changes compared to the previous fiscal year

	Fiscal year ended March 31, 2007		Fiscal year ended March 31, 2006	
		(% change)		(% change)
Sales	76,574	2.6	74,628	7.9
Operating income	5,177	9.5	4,727	50.6
Ordinary income	5,914	1.4	5,833	49.3
Net income	1,144	(59.8)	2,848	53.2
Earnings per share (¥)	17.79		133.30	
Fully diluted earnings per share (¥)	17.59		132.32	

2) Non-Consolidated Financial Position	As of March 31, 2007	As of March 31, 2006
Total assets	69,599	68,554
Net assets	58,217	59,464
Equity ratio (%)	83.5%	86.7%
Net assets per share (¥)	¥908.06	¥2,762.32

Note: Shareholders' equity: FY ended March 2007: ¥58,105 million; FY ended March 2006: ¥59,464 million

For reference: Recalculation of earnings per share to reflect stock split

Fancl Corporation implemented a three-for-one stock split on April 1, 2006. For reference only, following is a recalculation of earnings-per-share for the previous fiscal year to create a like-for-like comparison with the year under review:

Consolidated	Fiscal year ended March 31, 2007	Fiscal year ended March 31, 2006
Earnings per share (¥)	39.59	80.85
Fully diluted earnings per share (¥)	39.13	80.26
Net assets per share (¥)	1,116.59	1,105.67
Non-consolidated		
Earnings per share (¥)	17.79	44.43
Fully diluted earnings per share (¥)	17.59	44.11
Net assets per share (¥)	908.06	920.77

Forecasts and forward-looking statements in this document are 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 economic conditions, legislative and regulatory developments, delay in new product or service launches, and pricing and product initiatives of competitors. Please see Page 4, Operating results and Page 6, Outlook for FY ending March 31, 2008 for information regarding forecasts for the next period.

1. Consolidated operating results

(1) Operating results

1. Consolidated fiscal year

The domestic economy continued to improve steadily during the period under review. The cosmetics industry grew only slightly, despite a boom in sales of anti-aging products and some other new materials. In the health foods industry, meanwhile, difficult conditions remained as the market entered a period of adjustment, and differences began to emerge among competing companies.

Note: For the fiscal year ended March 31, 2007, the accounting method used to record points[1] has been changed so that points are recorded as an expense at time of issue. Previously, points were recognized as a cost at time of use. For reference in the following section (including the charts), like-for-like comparative figures are provided in brackets and marked with an asterisk to show the year-on-year changes in net sales and ordinary income if the figures for the year under review are calculated using the previous accounting standard.

Consolidated net sales during the period under review increased 6.0% (*1.8%) to ¥101,065 million. This was largely the result of strong sales in our cosmetics businesses and our mail order business IIMONO OHKOKU.

Consolidated operating income decreased 2.4% (*5.7%) to ¥8,370 million, as a result of a decrease in revenues in our highly profitable nutritional supplements business, expanded losses in other businesses and other factors. The operating profit margin decreased 0.7 percentage points to 8.3%. Consolidated ordinary income decreased 8.0% (*11.1%) to ¥8,388 million. The ordinary income margin decreased 1.3 percentage points (*1.6 percentage points) to 8.3% (*8.0).

Consolidated net income for the period under review decreased 50.9% to ¥2,547 million, due to impairment losses recorded on *Hatsuga genmai* facilities, the recording of an allowance for points in the previous year, and other factors. The net income margin decreased 2.9 percentage points to 2.5%.

2. Status of operations

1) Cosmetics Business

Sales

Cosmetics sales increased 12.3% (*7.5%) compared to the previous period, reaching ¥46,376 million.

	Fiscal year ended March 31, 2007		Fiscal year ended March 31, 2006		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	35,692 [*33,683]	76.9 [*75.9]	31,406	76.1	13.6 [*7.2]
ATTENIR Cosmetics	10,282	22.2 [*23.2]	9,518	23.0	8.0
Others	401	0.9 [*0.9]	361	0.9	11.1
Totals	46,376 [*44,366]	100.0	41,286	100.0	12.3 [*7.5]

	Fiscal year ended March 31, 2007		Fiscal year ended March 31, 2006		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	25,572 [*24,525]	55.1 [*55.3]	24,060	58.3	6.3 [*1.9]
Retail store sales	16,504 [*15,542]	35.6 [*35.0]	13,721	33.2	20.3 [*13.3]
Others	4,298	9.3 [*9.7]	3,504	8.5	22.7
Totals	46,376 [*44,366]	100.0	41,286	100.0	12.3 [*7.5]

Sales of **FANCL cosmetics** increased 13.6% (*7.2%) to ¥35,692 million, supported by continued strength in sales of skin care products such as *Mild Cleansing Oil, Facial Washing Powder*, and *Beauty Concentrate*, along with sales increases resulting from the renewal of make-up products in August.

[1] Points system: FANCL customers are awarded approximately 5% of their purchases in points redeemable at 1 yen per point at the time of their next purchase.

Sales of **ATTENIR cosmetics** increased 8.0% to ¥10,282 million, with positive results from the renewal of skin care products, and good sales of make-up products and body care products resulting from new product launches. Active marketing activities contributed to a steady increase in customer numbers.

Sales increased through all sales channels. **Mail order sales** increased 6.3% (*1.9%) year on year, reaching ¥25,572 million. **Retail store sales** increased 20.3% (*13.3%) to ¥16,504 million, supported by the opening of new stores. Sales through **other sales channels** increased 22.7% to ¥4,298 million, with good results from overseas sales.

Operating income

Operating income increased 28.1% (*25.6%) to ¥7,133 million (*¥6,991 million), due to higher revenues and the effect of measures to boost efficiency with regard to advertising and marketing expenses. The operating income margin increased 1.9 percentage points (*2.3 percentage points) to 15.4% (*15.8%).

2) Nutritional Supplements Business

Sales

Nutritional supplement sales decreased 4.8% (*9.0%) year on year to ¥31,665 million.

	Fiscal year ended March 31, 2007		Fiscal year ended March 31, 2006		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	14,799 [*13,927]	46.7 [*46.0]	16,822	50.6	(12.0) [*minus 17.2]
Retail store sales	8,748 [*8,225]	27.6 [*27.2]	8,393	25.2	4.2 [*2.0]
Others	8,117	25.6 [*26.8]	8,030	24.2	1.1
Totals	31,665 [*30,270]	100.0	33,246	100.0	(4.8) [*minus 9.0]

Sales of *HTC Collagen* and other beauty supplements were strong, as were sales of diet-related products such as *Perfect Slim α* and *Calorie Limit*. However, this was not sufficient to compensate for the fall in sales of Coenzyme Q_{10} and *Alpha Lipoic Acid*, which in the previous year had achieved record sales levels. In addition, sales of herbal products and support series products were sluggish, impacted by the circulation of market rumors.

Mail order sales decreased 12.0% (*17.2%) to ¥14,799 million. **Retail store sales** increased 4.2% (*decreased by 2.0%) to ¥8,748 million. Sales through **other sales channels** increased 1.1% to ¥8,117 million, supported by strong overseas sales.

Operating income

Operating income decreased 27.8% (*29.6%) to ¥3,902 million (*¥3,803 million), due to the large decline in sales through the high-margin mail order sales channel. The operating income margin decreased 4.0 percentage points (*3.7 percentage points) to 12.3% (*12.6%).

3) Other Businesses

Sales in Other businesses increased 10.7% (*7.9%) year on year to ¥23,023 million.

(Millions of yen)

	Fiscal year ended March 31, 2007	Fiscal year ended March 31, 2006	Change (%)
Hatsuga Genmai Business	4,760 [*4,560]	4,549	4.6 [*0.2]
Kale juice business	4,055 [*3,872]	4,029	0.6 [*minus 3.9]
IIMONO OHKOKU mail order business	9,940	8,403	18.3
Other	4,267 [*4,053]	3,805	12.1 [*6.5]
Totals	23,023 [*22,426]	20,789	10.7 [*7.9]

In the **Hatsuga Genmai** (germinated brown rice) **business** sales increased 4.6% (*0.2) year on year to ¥4,760 million, with strong sales in the first half driven in part by publicity on health-related television shows, but poor sales in the second half of the year. In the **Kale juice business**, sales increased 0.6% (*decreased 3.9%) to ¥4,055 million, will sales of both frozen and powder-type kale juice declining despite active marketing efforts. Sales through the **IIMONO OHKOKU**(Kingdom of Wonderful Things) **mail order business** increased 18.3% year on year to ¥9,940 million, supported by continued strong sales of walking shoes developed jointly with Mizuno Corporation, along with good sales of golfing equipment. Sales at **other businesses**, such as household goods and clothing, increased 12.1% (*6.5%) to ¥4,267 million.

Operating income

An operating loss of ¥897 million (*¥940 million) was recorded, representing widening of the operating loss by ¥135 million (*¥178 million) compared to the loss recorded in the previous year, primarily due to increased losses recorded in the Hatsuga Genmai and kale juice businesses.

For reference: Sales network

	Number of stores as of March 31, 2007	Change compared to March 31, 2006
FANCL Ginza Square	1	--
FANCL House	107	-6
FANCL House J	88	+17
Genki Station	8	-1
ATTENIR Shop	10	--
Other	4	--
Total	218	+10

(3) Outlook for FY ending March 31, 2008

The overall economic outlook is considered likely to remain favorable.

In the Cosmetics business, revenues from FANCL cosmetics are expected to increase, supported by renewals of skincare. Sales of ATTENIR cosmetics are also expected to increase, supported by ongoing sales growth arising from renewal of skincare products.

In the Nutritional Supplements business, revenues are expected to remain flat, with the business environment expected to continue to worsen despite plans to introduce added-value products for middle-aged and elderly customers along with new diet- and beauty-related products.

In other businesses, revenues at IIMONO OHKOKU are expected to increase on the back of continued strength.

Based on the above, consolidated net sales for the fiscal year ending March 31, 2008 are forecast to increase 2.4% year on year to ¥103,500 million. Operating income is forecast to increase 7.5% to ¥9,000 million, driven by factors such as a rise in revenues in highly profitable cosmetics businesses. Ordinary income is forecast to increase 4.9% to ¥8,800 million and consolidated net income for the year is forecast to increase 96.3% year on year to ¥5,000 million.

FINANCIAL SITUATION

Cash and cash equivalents as of March 31, 2007 were ¥23,411 million, ¥2,243 million higher than at the end of the previous fiscal year. The main contributing factors are detailed below.

<u>Cash flows from operating activities</u>

Cash flow from operating activities during the period under review was ¥6,474 million. Factors that increased operating cash flow included income before income taxes of ¥5,045 million, depreciation and amortization expenses of ¥2,669 million, and a points allowance of ¥1,849 million. Factors reducing operating cash flow included changes in accounts receivable of ¥1,006 million, and tax payments of ¥3,381 million.

<u>Cash flows from investing activities</u>

Cash used in investing activities during the period under review was ¥1,735 million. This largely reflected outlays of ¥2,145 for the acquisition of capital equipment for new stores, and outlays of ¥1,829 million for the acquisition of intangible assets.

<u>Cash flows from financing activities</u>

Cash flow used in financing activities during the period under review was ¥2,495 million. This was largely the result of ¥1,418 million paid out in dividends and ¥1,076 million in net outlays from the purchase and sale of treasury shares.

For the next fiscal year, funds for investing activities and financing activities are expected to be covered by the scope of increase in cash flows from operating activities.

Trends in Cash Flow-related Indices

	FY ended March 31, 2003	FY ended March 31, 2004	FY ended March 31, 2005	FY ended March 31, 2006	FY ended March 31, 2007
Equity ratio (%)	83.1	83.6	83.4	83.9	82.2
Equity ratio based on market price (%)	114.3	95.7	110.9	183.9	120.3
Debt service coverage (years)	--	--	--	--	--
Interest coverage ratio (times)	--	--	--	--	--

Notes:
Equity ratio based on market price: Market capitalization/Total assets
Debt service coverage: Interest-bearing debt/Operating cash flow
Interest coverage ratio: Operating cash flow/interest paid

1. All indices are calculated from consolidated financial results figures.
2. Market capitalization = market price on last trading day of period x total shares outstanding at end of period (excluding treasury shares)
3. Operating cash flow is the Net Cash Provided From Operating Activities figure in the consolidated statements of cash flows.

Interest bearing debt includes all debt on which interest is paid recorded in the liabilities section of the consolidated balance sheet. Interest paid is the Interest Paid figure in the consolidated statements of cash flows.

(3) Policy Regarding Allocation of Earnings and Proposed Dividends

FANCL recognizes that ensuring shareholders obtain a fair return on their investment is a key management responsibility. Accordingly, Company 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, and during the year under review the Company bought back 1,105,600 shares.

For the fiscal year ended March 31, 2007, an annual dividend of ¥24.00 (Interim: ¥12 and Year-end: ¥12) per share is proposed. For the fiscal year ending March 31, 2008, an annual dividend of ¥24.00 (Interim: ¥12 and Year-end: ¥12) per share is forecast.

(2) Group structure

There has been no material change to Group structure, main business activities or affiliated companies since the release of FANCL's *Yukahokokushoken* business report on June 19, 2006.

(3) Management Policy

There has been no material change to the following items, as previously described in the consolidated financial statements for the fiscal year ended March 31, 2007, announced on November 1, 2006:

1) Management policy
2) Management target indices, medium-term business strategy, and key management tasks.

This information may be accessed at the following website:
http://www.fancl.co.jp/corporate/ir/tanshindata/t_0611_te.pdf

4. Consolidated Financial Statements

1 Consolidated Balance Sheet

Millions of yen, rounded down

	As of March 31, 2007		As of March 31, 2006		Change
ASSETS		%		%	
I. Current assets:					
Cash and cash equivalents	14,303		19,247		(4,943)
Notes and accounts receivable	9,983		8,977		1,006
Marketable securities	16,294		8,625		7,669
Inventories	6,746		6,680		66
Deferred tax assets	1,223		524		699
Other current assets	1,168		1,046		122
Allowance for doubtful accounts	(148)		(134)		(14)
Total current assets	49,570	57.0	44,965	52.8	4,605
II. Fixed assets:					
Tangible fixed assets					
Buildings and structures[3] [4]	20,459		20,085		374
Accumulated depreciation[7]	8,877		7,598		1,278
	11,582		12,486		
Machinery and transport equipment	5,154		4,754		399
Accumulated depreciation[7]	3,640		3,261		379
	1,513		1,493		
Furniture, tools and fixtures	5,336		4,810		526
Accumulated depreciation[7]	4,158		3,690		468
	1,178		1,119		
Land[3] [4]	10,627		10,636		(9)
Construction in progress	61		57		4
Total tangible fixed assets	24,963	28.7	25,793	30.3	(830)
Intangible fixed assets					
Consolidated adjustment account	--		26		(26)
Goodwill	13		--		13
Other intangible fixed assets	2,748		1,490		1,258
Total intangible fixed assets	2,761	3.2	1,516	1.8	1,245
Investments and other assets					
Investments securities[1]	830		2,026		(1,195)
Long-term loans receivable	655		696		(40)
Guarantee money	2,684		2,715		(30)
Long-term prepaid expenses	437		542		(105)
Deferred tax assets	253		150		102
Other investments and other assets[1]	5,184		7,155		(1,971)
Allowance for doubtful accounts	(410)		(414)		4
Total investments and other assets	9,635	11.1	12,871	15.1	(3,235)
Total fixed assets	37,360	43.0	40,182	47.2	(2,821)
Total Assets	**86,931**	**100.0**	**85,147**	**100.0**	**1,783**

Consolidated Balance Sheets

Millions of yen, rounded down

	As of March 31, 2007	%	As of March 31, 2006	%	Change
LIABILITIES					
I. Current liabilities:					
Notes and accounts payable	3,741		4,007		(265)
Accrued liabilities	3,313		3,918		(604)
Accrued expenses	641		566		75
Accrued income taxes	2,027		2,055		(28)
Allowance for bonuses	952		905		46
Allowance for points	1,849		--		1,849
Others	344		476		(131)
Total current liabilities	12,869	14.8	11,929	14.0	940
II. Long-term liabilities:					
Allowance for retirement benefits	1,388		1,281		107
Allowance for directors' retirement bonuses	223		188		34
Others	889		342		546
Total long-term liabilities	2,500	2.9	1,812	2.1	688
Total liabilities	15,370	17.7	13,742	16.1	1,628
SHAREHOLDERS' EQUITY					
I. Common stock	--	--	10,795	12.7	--
II.Capital reserve	--	--	11,846	13.9	--
III. Retained earnings	--	--	55,326	65.0	--
IV. Net Unrealized holding gain on other securities	--	--	66	0.1	--
V. Foreign currency translation adjustment	--	--	(4)	(0.0)	--
VI. Treasury stock	--	--	(6,624)	(7.8)	--
Total shareholders' equity	--	--	71,405	83.9	--
Total Liabilities and Shareholders' Equity	**--**	**--**	**85,147**	**100.0**	--
NET ASSETS					
Common stock	10,795	12.5	--		--
Capital reserve	11,852	13.6	--		--
Retained earnings	56,451	64.9	--		--
Treasury stock	(7,699)	(8.9)	--		--
Total shareholders' equity	71,399	82.1	--		--
Net Unrealized holding gain on other securities	54	0.1			
Foreign currency translation adjustment	(4)	(0.0)	--		--
Translation adjustments	50	0.1	--		--
Warrants for new shares	111	0.1	--		--
Total net assets	71,560	82.3	--		--
Total Liabilities and net assets	86,931	100.0	--		--

2 Consolidated Statements of Income

Millions of yen, rounded down

	Fiscal year ended March 31, 2007		Fiscal year ended March 31, 2006		Change
Net sales	101,065	100.0	95,332	100.0	5,742
Cost of sales	33,895	33.5	33,239	34.9	655
Gross profit	67,170	66.5	62,082	65.1	5,087
Selling, general and administrative expenses					
Sales promotion expenses	13,502		9,319		4,182
Packing and transport expenses	4,008		4,214		(205)
Advertising expenses	9,393		9,792		(399)
Commission fee	5,566		5,577		(10)
Communications expenses	2,208		2,205		2
Directors remuneration	386		305		80
Salaries and bonuses	10,293		9,480		813
Provision for accrued bonuses	943		757		186
Provision for accrued retirement benefits	333		428		(94)
Provision for retirement benefits for directors and corporate auditors	24		56		(32)
Compulsory welfare expenses	1,192		911		280
Welfare expenses	460		453		7
Depreciation	1,562		1,440		121
Research and development expenses	948		708		240
Rent expenses	1,358		1,137		221
Provisions for allowance for bad debt	108		61		47
Others	6,507		6,657		(150)
Total selling, general and administrative expenses	58,800	58.2	53,507	56.1	5,292
Operating income	8,370	8.3	8,574	9.0	(204)
Net operating income					
Interest income	117		70		46
Dividend income	1		7		(6)
Compensation payments received	54		149		(94)
Insurance premiums returned	134		360		(226)
Investment return from anonymous associations	161		161		0
Other non-operating income	153		274		(121)
Total net operating income	621	0.6	1,023	1.1	(402)
Net operating expenses					
Loss on disposal of obsolete inventories	429		402		26
Other non-operating expenses	174		82		91
Total Net operating expenses	603	0.6	485	0.5	118
Ordinary income	8,388	8.3	9,113	9.6	(725)

Consolidated Statements of Income continued

Millions of yen, rounded down

	Fiscal year ended March 31, 2007		Fiscal year ended March 31, 2006		Change
Extraordinary income					
Gain from sale of fixed assets[2]	1		24		(23)
Funds distributed from liquidation of anonymous associations	633		--		633
Other extraordinary income	7				7
Total extraordinary income	641	0.6	24	0.0	617
Extraordinary expenses					
Loss on disposal of fixed assets[3]	163		130		33
Impairment loss[4]	981		237		743
Loss on revaluation of marketable securities	453		25		427
Directors' retirement benefit expenses	--		71		(71)
Transfer of reserve for allowances for doubtful accounts	11		--		11
Loss on disposal of merchandize	111		101		10
Loss on cancellation of leases	0		55		(54)
Compensation for overtime in the previous fiscal year	60		--		60
Loss on revision of purchase amounts at affiliated companies in the previous fiscal year	33		--		33
Allowance for points for the previous fiscal year	2,132		--		2,132
Allowance for directors retirement bonuses in the previous fiscal year brought forward	24		--		24
Other extraordinary expenses	11		--		11
Total extraordinary expenses	3,983	3.9	622	0.7	3,361
Income before income taxes	**5,045**	**5.0**	**8,514**	**8.9**	**(3,469)**
Income taxes	3,292		2,954		337
Adjustment for income taxes	(793)		376		(1,170)
Total income before income taxes	2,498	2.5	3,331	3.5	(832)
Net income	**2,547**	**2.5**	**5,183**	**5.4**	**(2,636)**

3 Consolidated Statements of Retained Earnings

Millions of Yen, rounded down

	Fiscal year ended March 31, 2006
Capital Reserve	
Balance at beginning of the period	
Additional paid-in capital at beginning of the period	11,706
Increase in retained earnings	
Gain on disposal of treasury stock.....	140
Balance at end of the period.................	11,846
Retained earnings	
Balance at beginning of the period......	51,172
Increase in retained earnings	
Net income	5,183
Increase in capital from minority shareholders.....................................	36
Total increase in retained earnings.........	5,219
Decrease in retained earnings	
Dividends..	1,605
Balance at end of the period.................	**55,326**

Changes in consolidated shareholders' equity

For the fiscal year April 1, 2006 to March 31, 2007 *Millions of yen*

	Shareholders' equity				
	Common stock	Capital reserve	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2006	10,795	11,846	55,326	(6,624)	71,343
Change during the period					
Surplus dividend (note)	--	--	(645)	--	(645)
Surplus dividend	--	--	(776)	--	(776)
Net income	--	--	2,547	--	2,547
Acquisition of treasury stock	--	--	--	(1,715)	(1,715)
Sale of treasury stock	--	5	--	640	646
Changes to items other than shareholders' equity during the period	--	--	--	--	--
Total change during the period	--	5	1,124	(1,075)	55
Balance as of March 31, 2007	10,795	11,852	56,451	(7,699)	71,399

	Valuation and differences due to foreign exchange			Warrants	Total net assets
	Net Unrealized holding gain on other securities	Translation adjustments	Total valuation and translation differences		
Balance as of March 31, 2006	66	(4)	61	--	71,405
Change during the period					
Surplus dividend (note)	--	--	--	--	(645)
Surplus dividend	--	--	--	--	(776)
Net income	--	--	--	--	2,547
Acquisition of treasury stock	--	--	--	--	(1,715)
Sale of treasury stock	--	--	--	--	646
Changes to items other than shareholders' equity during the period	(11)	--	(11)	111	99
Total change during the period	(11)	--	(11)	111	154
Balance as of March 31, 2007	54	(4)	50	111	71,560

Note: Items are appropriations of earnings from the general shareholders' meeting held in June 2006

4 Consolidated Statements of Cash Flows

Millions of yen

	Fiscal year to March 31, 2007	Fiscal year to March 31, 2006	Change
I. Cash flows from operating activities			
Income before income taxes	5,045	8,514	(3,469)
Depreciation and amortization	2,669	2,540	129
Impairment loss	981	237	743
Stock compensation plan expense	118	--	118
Amortization in excess of investment cost over equity in net assets of consolidated subsidiaries	--	272	(272)
Goodwill	13	--	13
Increase (decrease) in allowance for doubtful accounts	23	(34)	58
Increase (decrease) in allowance for bonuses	46	124	(77)
Increase (decrease) in allowance for points	1,849	--	1,849
Increase (decrease) in allowance for retirement benefits	107	86	20
Increase (decrease) in allowance for directors retirement bonuses	34	(929)	963
Interest and dividend income	(118)	(78)	(40)
Increase (decrease) from foreign exchange	(9)	(9)	(0)
Investment gain on anonymous association	(161)	(161)	0
Funds distributed from liquidation of anonymous associations	(633)	--	(633)
Net refund of insurance premiums	(134)	(358)	224
Loss on revaluation of investments in securities	453	25	427
Gain on sale of tangible fixed assets	(1)	(24)	23
Loss on sale of tangible fixed assets	15	4	10
Loss on disposal of tangible fixed assets	134	79	55
Loss on elimination of intangible fixed assets	--	43	(43)
Loss on elimination of long-term prepaid expenses	13	--	13
Decrease (increase) in trade receivables	(1,006)	(263)	(742)
Decrease (increase) in inventories	(66)	(1,016)	950
Decrease (increase) in other current assets	(47)	1,028	(1,075)
Decrease (increase) in accounts payable	(265)	958	(1,223)
Increase (decrease) in other current liabilities	(118)	(119)	0
Increase (decrease) in other fixed liabilities	(56)	(100)	44
Others	2	6	(4)
Sub-total	8,891	10,827	(1,936)
Interest and dividends received	105	74	31
Refund on liquidation of anonymous associations	704	--	704
Refund on insurance premiums	151	1,074	(923)
Income taxes paid	(3,381)	(2,813)	(567)
Net cash provided by (used in) operating activities	**6,472**	**9,162**	**(2,690)**
II. Cash flows from investing activities			
Repayment of fixed-term deposits	(190)	(1,000)	810
Acquisition of investment securities	(12,988)	(7,703)	(5,285)
Proceeds from redemption of marketable securities	12,695	999	11,696
Payment for purchase of tangible fixed assets	(2,145)	(1,410)	(734)
Proceeds from sales of tangible fixed assets	17	129	(112)
Payment for purchase of intangible fixed assets	(1,829)	(881)	(947)
Payment for purchase of investment securities	(21)	(800)	779
Proceeds from sales of investment securities	800	800	0
Payments for purchase of investments in affiliates	(56)	(30)	(26)
Lending of loans	--	(76)	76
Proceeds from collection of loans	38	42	(4)
Payment for investment in anonymous associations	(620)	--	(620)
Proceeds from investment in anonymous associations	2,701	--	2,701
Payment for purchase of other investments	(305)	(376)	70
Proceeds from sales of other investments	167	27	140
Other	2	--	2
Net cash used in investing activities	(1,733)	(10,280)	8,546

Consolidated Statements of Cash Flows continued

	Millions of yen		
	Fiscal year ended March 31, 2007	Fiscal year ended March 31, 2006	Change
III. Cash flows from financing activities			
Net proceeds (payment) for purchase of treasury stock	(1,076)	1,008	(2,084)
Cash dividends paid	(1,418)	(1,065)	(353)
Proceeds from capital increase by minority shareholders	--	36	(36)
Net cash used in financing activities	(2,495)	(21)	(2,473)
IV. Effect of exchange rate changes on cash and cash equivalents	--	--	--
V. Net increase in cash and cash equivalents	2,243	(1,139)	(3,382)
VI. Cash and cash equivalents at the beginning of the period	21,167	22,307	(1,139)
VII. Cash and cash equivalents at end of period	23,411	21,167	2,243

Significant Items for the Preparation of Consolidated Financial Statements

Item	Fiscal year ended March 31, 2007	Fiscal year ended March 31, 2006
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, 2007	Fiscal year ended March 31, 2006
4. Accounting Standards (1) Basis and method for valuation of major assets	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 net capital asset costing method; cost of disposal is calculated by the moving average method.) 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) Reserve for points The Company will base reserve calculations for the future use of points by comparing the balance of unused points with the historical use of points by customers to forecast likely usage. 4) Allowance for retirement benefits: Same as right 5) Allowance for directors' retirement bonuses: To prepare for future retirement bonus payments to directors, the Company and its affiliates and subsidiaries make the necessary provisions at the end of the fiscal year based on internal regulations.	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) Reserve for points --------------------------- 4) Allowance for retirement benefits: 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. 5) 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, 2007	Fiscal year ended March 31, 2006
	(Additional information) The 26th Ordinary General Meeting of Shareholders held on June 17, 2006, resolved to abolish the retirement allowance system for board members, and to pay instead a retirement allowance to each resigning and corporate auditor corresponding to their term in office, and as a result, no reserve for retirement benefits for directors and corporate auditors has been accounted for since that date.	
(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 right 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	The exclusion method is applied to consumption and other taxes.
5) Evaluation of assets and liabilities of consolidated subsidiaries	Same as right	All assets and liabilities of consolidated subsidiaries are valued using the market price method.
6) Amortization of the consolidated adjustment account	----------------------------	The consolidation adjustment account is amortized in equal amounts over five years. However small amounts are amortized in full in the fiscal year in which they arise.
7) Amortization of goodwill and negative goodwill	Goodwill is amortized in equal amounts over five years. However small amounts are amortized in full in the fiscal year in which they arise.	---------------------------

8) Appropriation of earnings and related items	---------------------	The consolidated statement of retained earnings is prepared based on appropriations of earnings by consolidated subsidiaries that are confirmed during the consolidated fiscal year.
9) 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.

Changes in accounting treatment

Fiscal year ended March 31, 2007	Fiscal year ended March 31, 2006
———	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. The land and buildings referred to above were disposed of during the fiscal year.
Allowance for Points Previously points were recognized as a cost at the time of use. However, as the introduction of a new points system has allowed the rational estimation of the usage rate of points and in order to achieve the timely recognition of profits and losses and sounder finances, from the fiscal year under review, the amount of the Allowance for Points is calculated and accounted for as the difference between actual past usage rates and estimated future usage rates applied to the balance of unused points. As the new system is considered as sales promotion, the Allowance for Points is now accounted for as a cost of sales or as an SG&A expense, compared to its previous treatment as an extraordinary loss. As a result of this change, compared to the previous method, sales are ¥4 billion higher and cost of sales and SG&A expenses are ¥3.717 billion higher, while ordinary income and income before income and other taxes are lower by ¥283 million and ¥1.849 billion respectively. As the actual usage rate could be rationally estimated only from the second half of the fiscal year, at the interim period the former method was employed. If the new method had been used for the interim period of the current fiscal year sales would have been ¥2.082 billion higher and cost of sales and SG&A expenses ¥2.163 billion higher, while ordinary income and income before income and other taxes would have been lower by ¥81 million and ¥2.213 billion respectively. For the effects of this change on segmental results please see the Segmental Results section.	---------
Accounting standards relating to the presentation of net assets on the balance sheet From the fiscal year ending March 31, 2007, the 'Statement Regarding the Presentation of Net Assets on the Balance Sheet' (Business Accounting Council, December 9, 2005, Article No. 5) and ''Guidelines for the Application of Accounting Policies for the Presentation of Net Assets on the Balance Sheet' (Guidelines for the Application of Business Accounting Polices, Article 8; Business Accounting Council, December 9, 2005) have been applied. The equivalent amount previously recorded as 'Capital' is ¥71,449 million. Following changes to the regulations on financial statements, net assets on the balance sheet have been recorded in accordance with the revised regulations.	--------

Accounting Standards relating to stock options, etc. From the fiscal year ending March 31, 2007 the 'Accounting Standard for Share-based Payment" (ASBJ Statement No.8, issued on December 27, 2005) and 'Guidance on Accounting Standard for Share-based Payment" (ASBJ Guidance No.11, issued on May 31, 2006) have been applied. As a result, operating income, ordinary income and income before income and other taxes were each lower by ¥118 million.	---------

Change in the method of disclosure

Fiscal year ended March 31, 2007	Fiscal year ended March 31, 2006
Consolidated balance sheet Items recorded in the "Consolidated adjustment account" in the previous consolidated accounting period, have been recorded as "Goodwill" in the fiscal year under review.	_____
_____	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' in 'Cash flow from operating activities.

Fiscal year ended March 31, 2007	Fiscal year ended March 31, 2006
*1 Non-consolidated subsidiaries and affiliates Investment securities (equities): ¥545 million Other investment assets: ¥25million (investments) *2 The company is a co-guarantor of ¥2,064 million in borrowings by the Nagareyama Industrial Park from the Chiba Prefectural SHOKOCHUKIN Bank along with the other 15 co-partners in the industrial park. The company also guarantees bank borrowings of ¥11 million (US$ 100,000) in respect of our non-consolidated subsidiary FANCL International, Inc.) *3 Assets pledged as collateral Land located in Nagareyama City, Chiba prefecture associated with the Chiba factory and Chiba logistics center (with a book value at the end of the period of ¥591 million,) and buildings (with a book value at the end of the period of ¥1,679 million) have been pledged as collateral against borrowings from the Chiba Prefectural SHOKOCHUKIN Bank as part of the collectivized factory business operations, implemented by the Nagareyama Industrial Park Cooperative. *4 The accounts contain advanced depreciation allowances of ¥23 million for buildings and ¥173 million for land as a result of the company receiving state subsidies, and amounts reported in the balance sheet have been deducted to account for this advanced depreciation allowance. *5 ---------- *6 ---------- *7 The amount of accumulated impairment losses is included in accumulated depreciation.	*1 Non-consolidated subsidiaries and affiliates Investment securities (equities): ¥942 million Other investment assets: ¥25million (investments) *2 The company is a co-guarantor of ¥2,218 million in borrowings by the Nagareyama Industrial Park from the Chiba Prefectural SHOKOCHUKIN Bank along with the other 19 co-partners in the industrial park. The company also guarantees bank borrowings of ¥33 million (US$ 280,000) in respect of our non-consolidated subsidiary FANCL International, Inc.) *3 Assets pledged as collateral Land located in Nagareyama City, Chiba prefecture associated with the Chiba factory and Chiba logistics center (with a book value at the end of the period of ¥591 million,) and buildings (with a book value at the end of the period of ¥1,742 million) have been pledged as collateral against borrowings from the Chiba Prefectural SHOKOCHUKIN Bank as part of the collectivized factory business operations, implemented by the Nagareyama Industrial Park Cooperative. *4 The accounts contain advanced depreciation allowances of ¥23 million for buildings and ¥173 million for land as a result of the company receiving state subsidies, and amounts reported in the balance sheet have been deducted to account for this advanced depreciation allowance. *5 The Company's issued shares comprise 23,392,000 common shares. *6 Treasury stock held by consolidated subsidiaries is 1,865,094 shares.

Notes to consolidated statements of income

(Millions of yen)

April 1, 2006 to March 31, 2007	April 1, 2005 to March 31, 2006
*1 Research and development expenses of ¥2,326 million are included in SG&A expenses and cost of sales for the period.	*1 Research and development expenses of ¥1,978 million are included in SG&A expenses and cost of sales for the period.
2 Income from the disposal of fixed assets was primarily due to the sale of land and buildings in Kamakura City, Kanagawa Prefecture.	2 Income from the disposal of fixed assets was primarily due to the sale of land and buildings in Sakae-ku, Yokohama.
3 Disposal losses from fixed assets was primarily due to disposals associated with store renovations and closures, and air conditioner in factory.	3 Disposal losses from fixed assets was primarily due to disposals associated with store renovations.
4 Impairment losses (millions of yen)	4 Impairment losses (millions of yen)

April 1, 2006 to March 31, 2007

Facility	Type	Amount	Location
Factory	Buildings &. Structures	346	
	Machinery and Automotive equipment	28	Tomi City, Nagano Prefecture &
	Equipment and fixtures	3	Mitoyo City Kagawa Prefecture
	Intangible fixed assets	0	
	Lease assets	602	

The FANCL Group mainly conducts asset grouping on a business category basis.
Idle assets are grouped on a facility unit basis.
The company has accounted for ¥981 million of impairment losses where the recoverable value of assets is less than the book value.
The company has calculated the recoverable value of idle assets as the use value, The cash flow that will be generated in the future is discounted by 4.9%.

April 1, 2005 to March 31, 2006

Facility	Type	Amount	Location
Office	Buildings	39	Sakae-ku. Yokohama City
	Land	198	

The FANCL Group mainly conducts asset grouping on a business category basis.
Idle assets are grouped on a facility unit basis.
The company has accounted for ¥237 million of impairment losses where the recoverable value of idle assets is less than the book value.
The company has calculated the recoverable value of idle assets as the net sale value, and used the appraisal value to calculate fair market value.

Changes to shareholders' equity during the period April 1, 2006 to March 31, 2007

1. Number and type of common shares issued and treasury stock

	Number of shares as of March 31, 2006	Increase of shares during fiscal year to March 31, 2007	Decrease of shares during fiscal year to March 31, 2007	Number of shares as of March 31, 2007
Shares issued				
Common shares (note 1)	23,392,200	46,784,400	—	70,176,600
Total	23,392,200	46,784,400	—	70,176,600
Treasury stock				
Common shares (note 2,3)	1,865,094	4,838,034	515,048	6,188,080
Total	1,865,094	4,838,034	515,048	6,188,080

Note: 1. The increase of 46,784,400 in total outstanding common shares was due to a stock split of 3:1 ordinary shares executed on April 1, 2006.

2. The increase of 4,838,034 in treasury stock was due to an increase of 3,730,188 shares through a stock split of 3:1 common shares executed on April 1, 2006; an increase of 2,246 shares as a result of purchases of odd lot shares and an increase of 1,105,600 shares from the purchase of our own shares

3. The decrease of 515,048 in treasury stock was due to a reduction of 514,600 shares through the exercise of share warrants, and 448 shares as a result of applications to purchase odd lot shares.

2. Share warrants and treasury share warrants

Type	Breakdown of share warrants	Type of shares for share warrants	Number of shares resulting from share warrants (Thousands of shares)				Balance as of March 31, 2007 (¥million)
			FY ending March 31, 2006	Increase of shares during fiscal year to March 31, 2007	Decrease of shares during fiscal year to March 31, 2007	Number of shares at end fiscal year March 31, 2007	
Parent company	Stock option share warrants	—	—	—	—	—	111
Total		—					111

3. Dividends

(1) Amounts paid

Date confirmed	Type of stock	Total dividends paid	Dividends per share	Dividend record date	Effective date
June 17, 2006 Shareholders' meeting	Common shares	¥645 million	¥30	March 31, 2006	June 17, 2006
November 1, 2006 Board of directors' meeting	Common shares	¥776 million	¥12	September 30, 2006	December 4, 2006

(2) Dividends for which the effective date is in the following fiscal year

Date confirmed	Type of stock	Total Dividends paid	Source of dividends	Dividends per share	Dividend record date	Effective date
May 16, 2007 Board of directors' meeting	Common shares	¥767 million	Retained earnings	¥12	March 31, 2007	June 18, 2007

Notes to the Consolidated Statements of Cash Flows

(Millions of yen)

April 1, 2006 to March 31, 2007		April 1, 2005 to March 31, 2006	
Relationship of cash and cash equivalents at the period end to amounts recorded in the consolidated balance sheets		Relationship of cash and cash equivalents at the period end to amounts recorded in the consolidated balance sheets	
	As at March 31, 2007		As at March 31, 2006
Cash and deposits	14,303	Cash and deposits	19,247
Marketable securities	16,294	Marketable securities	8,625
TOTAL	30,598	TOTAL	27,872
Fixed deposits with maturities exceeding 3 months	(190)	Marketable securities with maturities exceeding 3 months	(6,704)
Marketable securities with maturities exceeding 3 months	(6,997)	Cash and cash equivalents	21,167
Cash and cash equivalents	23,411		

LEASES

(Millions of yen)

April 1, 2006 to March 31, 2007	April 1, 2005 to March 31, 2006
1. Finance leases in which the right of ownership is not transferred to the lessee	1 Finance leases in which the right of ownership is not transferred to the lessee
1. Purchase cost, accumulated depreciation, impairment losses and balance at end of period	1. Purchase cost, accumulated depreciation and balance at end of period

April 1, 2006 to March 31, 2007

	Purchase cost	Accumulated depreciation	Impairment losses	Balance at end of period
Machinery and transport equipment	5,268	2,735	602	1,930
Furniture, tools and fixtures	1,095	469	0	626
Total	6,363	3,204	602	2,556

April 1, 2005 to March 31, 2006

	Purchase cost	Accumulated depreciation	Balance at end of period
Machinery and transport equipment	5,510	2,284	3,225
Furniture, tools and fixtures	912	295	616
Total	6,422	2,580	3,841

2. Future lease payments

	April 1, 2006 to March 31, 2007	April 1, 2005 to March 31, 2006
Within one year	831	839
More than one year	2,416	3,049
Total	3,248	3,889
Balance of lease asset impairment account	602	

3. Lease payments, impairment loss account write-off, depreciation expenses, interest expenses and impairment losses (2006–2007) / Lease payments, impairment loss account write-off, depreciation expenses and interest expenses (2005–2006)

	April 1, 2006 to March 31, 2007	April 1, 2005 to March 31, 2006
Lease payments	967	967
Impairment loss account write-off	--	
Depreciation expenses	920	884
Interest expenses	88	100
Impairment loss	602	

April 1, 2006 to March 31, 2007	April 1, 2005 to March 31, 2006
4. Method of calculating depreciation and interest expenses Same as right	4. Method of calculating depreciation and interest expenses Method of calculating depreciation expense Depreciation expense is calculated by the straight -line method over the lease term of the lease asset assuming no residual value.
Method of calculating interest expense Same as right	Method of calculating interest expense 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

Outstanding lease amounts

	April 1, 2006 to March 31, 2007	April 1, 2005 to March 31, 2006
Within one year	1	1
More than one year	0	2
Total	2	3

SECURITIES

1. Market Value of Other Marketable Securities (Millions of yen)

Type	As of March 31, 2006		
Other marketable securities Exceeding acquisition cost	Acquisition Cost	Book Value	Unrealized Gain
1. Stocks	66	178	112
2. Bonds	--	--	--
3. Others	--	--	--
Total	66	178	112
Other marketable securities Not exceeding acquisition cost			
1. Stocks	--	--	--
2. Bonds	--	--	--
3. Others	--	--	--
Total	--		
Net total	66	178	112

2. Other marketable securities sold during the period April 1, 2005 to March 31, 2006: None

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

Type	As of March 31, 2006
Other marketable securities	Book Value
(Current assets)	
Money management funds (MMF)	921
Commercial paper (CP)	6,697
Bonds	1,006
(Fixed assets)	
Unlisted stocks	104
(excluding over-the-counter stocks)	
Unlisted foreign bonds	800
Total	9,529

4. Estimated maturity value of other marketable securities with maturity dates after the end of the consolidated financial period ended March 31, 2006

1. Other marketable securities (Millions of yen)

Type	Maturities within one year	Maturities between one and five years
Other marketable securities		
(Current assets)		
Commercial paper (CP)	6,697	--
Bonds	1,006	--
(Fixed assets)		
Unlisted foreign bonds	--	800
Total	7,703	800

Type	As of March 31, 2007		
Other marketable securities Exceeding acquisition cost	Acquisition Cost	Book Value	Unrealized Gain (Loss)
1. Stocks	65	158	92
2. Bonds	--	--	--
3. Others	--	--	--
Total	65	158	92
Other marketable securities Not exceeding acquisition cost			
1. Stocks	0	0	(0)
2. Bonds	--	--	--
3. Others	--	--	--
Total	0	0	(0)
Net total	66	158	92

2. Other marketable securities sold during the period April 1, 2006 to March 31, 2007: None

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

Type	As of March 31, 2007
Other marketable securities	Book Value
(Current assets)	
Bonds	1,003
Commercial paper (CP)	9,983
Foreign bonds	4,507
Other	800
(Fixed assets)	
Unlisted stocks	126
Total	16,421

4. Estimated maturity value of other marketable securities with maturity dates after the end of the consolidated financial period ended March 31, 2007

Type	Maturities within one year	Maturities over one year
Other marketable securities		
(Current assets)		
Bonds	1,003	--
Commercial paper (CP)	9,983	--
Foreign bonds	4,507	--
Other	800	--
Total	16,294	--

DERIVATIVE TRANSACTIONS

Fiscal year ended March 31, 2007	Fiscal year ended March 31, 2006
1 Status of transactions (1) Type of transactions As at right. (2) Transaction policy As at right. (3) Purpose of transactions As at right. (4) Transaction risks As at right. (5) Transaction risk management systems As at right. 2 Market value of transactions As at right.	1 Status of transactions (1) Type of transactions Forward exchange contracts derivatives. (2) Transaction policy Derivative transactions are undertaken to reduce the risk of future changes in currency exchange rates and interest rates, and as a matter of policy are not undertaken for the purposes of speculation. (3) Purpose of transactions Derivative transactions are for the purpose of reducing the risk of currency exchange rate changes affecting foreign denominated bonds, and are undertaken with the aim of securing stability of profit levels. (4) Transaction risks Forward exchange contracts carry the risk of changes in foreign exchange markets. Because such contracts are formed with highly creditworthy domestic banks, the risk of transaction partner default is considered negligible. (5) Transaction risk management systems Derivative transactions are implemented and controlled in accordance with transaction authorities, transaction limits and other such internal rules, and are carried out by the controlling department with the approval of the head of settlements. 2 Market value of transactions Although forward exchange contracts are undertaken, the use of hedge accounting means that this item is not within the scope of the notes to financial statements.

DEFERRED INCOME TAXES (TAX EFFECT ACCOUNTING)

Fiscal year ended March 31, 2007

1. Breakdown of main components of deferred tax assets and liabilities

Deferred tax assets: (Unit: million yen)

1. Current assets	
Unpaid corporate tax	¥154
Provision for bonuses	¥388
Provision for bad debts	¥5
Provision for points	¥751
Loss on appraisal of inventories	¥3
Depreciation of petty items	¥1
Unrealized loss on inventory assets	¥61
Other	¥58
Offset of deferred current tax liabilities	(¥151)
Valuation allowances	(¥49)
Total	¥1,223
2. Long-term assets	
Depreciation of petty items	¥0
Depreciation	¥1
Employee pension and retirement benefits	¥561
Directors' retirement benefits	¥90
Provision for bad debts	¥156
Unrecognized appraisal loss on golf club memberships	¥3
Unrecognized loss on investment securities	¥45
Losses brought forward	¥281
Other	¥35
Valuation allowances	(¥488)
Offset of deferred long-term tax liabilities	(¥434)
Total	¥253
Total deferred tax assets	¥1,476

Deferred tax liabilities: (Unit: million yen)

1. Current liabilities	
Unrecognized prepaid pension expenses	(¥151)
Offset of deferred current tax assets	¥151
Total	¥--
2. Long-term liabilities	
Unrealized losses on land	(¥232)
Appraisal losses on land	(¥164)
Other	(¥37)
Offset of deferred long-term tax assets	¥434
Total	¥--
Total deferred tax liabilities	¥--
Total deferred tax assets	¥1,476

Fiscal year ended March 31, 2006

1. Breakdown of main components of deferred tax assets and liabilities

Deferred tax assets: (Unit: million yen)

1. Current assets	
Unpaid corporate tax	¥194
Provision for bonuses	¥369
Provision for bad debts	¥7
Loss on appraisal of inventories	¥14
Losses brought forward	¥135
Depreciation of petty items	¥15
Unrealized loss on inventory assets	¥49
Other	¥50
Offset of deferred current tax liabilities	(¥134)
Valuation allowances	(¥178)
Total	¥524
2. Long-term assets	
Depreciation of petty items	¥0
Depreciation	¥3
Employee pension and retirement benefits	¥517
Directors' retirement benefits	¥76
Provision for bad debts	¥157
Unrecognized appraisal loss on golf club memberships	¥3
Unrecognized loss on investment securities	¥45
Losses brought forward	¥263
Valuation allowances	(¥474)
Offset of deferred long-term tax liabilities	(¥442)
Total	¥150
Total deferred tax assets	¥675

Deferred tax liabilities: (Unit: million yen)

1. Current liabilities	
Unrecognized prepaid pension expenses	(¥134)
Offset of deferred current tax assets	¥134
Total	¥--
2. Long-term liabilities	
Unrealized losses on land	(¥232)
Appraisal losses on land	(¥164)
Other	(¥45)
Offset of deferred long-term tax assets	¥442
Total	¥--
Total deferred tax liabilities	¥--
Total deferred tax assets	¥675

SEGMENT INFORMATION

a. Business Segments

For the fiscal year April 1, 2005 to 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 capital payments						
Assets	26,589	15,918	14,136	56,644	28,503	85,147
Depreciation	1,262	694	524	2,481	59	2,540
Impairment losses	--	--	--	--	237	237
Capital payments	1,303	1,005	280	2,589	1	2,591

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.
5. As outlined in “Significant items for the preparation of consolidated financial statements”, from this period Standards for Impairment Accounting of Fixed Assets have been adopted.

For the fiscal year April 1, 2006 to March 31, 2007 (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	46,376	31,665	23,023	101,065	--	101,065
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	46,376	31,665	23,023	101,065	0	101,065
Operating expenses	39,242	27,763	23,921	90,926	1,768	92,695
Operating income (loss)	7,133	3,902	(897)	10,138	(1,768)	8,370
2. Assets, depreciation and capital payments						
Assets	29,004	15,283	14,652	58,940	27,991	86,931
Depreciation	1,407	694	511	2,613	55	2,669
Impairment losses	--	--	378	378	--	378
Capital payments	2,154	1,276	434	3,865	--	3,865

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.
5. As outlined in "Significant items for the preparation of consolidated financial statements", from this period Standards for Impairment Accounting of Fixed Assets have been adopted.

Change in Accounting Treatment

<u>Allowances for Points</u>

As outlined in "Significant items for the preparation of consolidated financial statements", from the period under review a Points Allowance is being recorded. The impact of this change on each business segment is as follows:

(Millions of yen)

	Cosmetics Business	Nutritional Supplements Business	Other Businesses
Sales	2,009	1,394	596
Operating expenses	1,867	1,296	554
Operating income (loss)	142	98	42

<u>Stock Options</u>

As outlined in "Significant items for the preparation of consolidated financial statements", from the fiscal year ending March 31, 2007, the 'Accounting Standard for Share-based Payment" (ASBJ Statement No.8, issued on December 27, 2005) and 'Guidance on Accounting Standard for Share-based Payment" (ASBJ Guidance No.11, issued on May 31, 2006) have been applied. As a result, operating expenses under Eliminations or Corporate increased by ¥118 million, and operating income decreased by the same amount.

b. Geographic area

For the fiscal year April 1, 2006 to March 31, 2007 and for the fiscal year April 1, 2005 to March 31, 2006 more than 90% of the Company's sales were in the domestic market in Japan. Accordingly, information on sales by geographic area is not included in this report.

c. Overseas sales

For the fiscal year April 1, 2006 to March 31, 2007 and for the fiscal year April 1, 2005 to March 31, 2006 sales in overseas markets did not exceed 10% of consolidated net sales. Accordingly, overseas sales information is not included in this report.

Transactions with related parties

Transactions with directors, major shareholders or others from April 1, 2005 to March 31, 2006

		Companies, including subsidiaries, in which major individual shareholder or close relative holds majority of voting rights
Company name		KI Group
Address		Minato-ku, Tokyo
Capital or paid-in amounts		¥100 million
Main business or job		Real estate operations
Percentage of voting rights held		--
Nature of relationship	Joint directorships, etc.	--
	Business relationship	--
Nature of transaction		Rental of building
Amount of transaction		¥54 million
Classification		Pre-paid expenses
Balance at end of period		¥4 million

Notes:
1. Transaction amounts do not include consumption tax. End of period balances do include consumption tax.
2. Policy with regard to transaction conditions and decision-making process: Conditions relating to rental fees and other transaction conditions are set in accordance with similar transactions carried out with persons or companies having no relation to the Company.

Transactions with directors, major shareholders or others from April 1, 2006 to March 31, 2007

		Companies, including subsidiaries, in which major individual shareholder or close relative holds majority of voting rights
Company name		KI Group
Address		Minato-ku, Tokyo
Capital or paid-in amounts		¥100 million
Main business or job		Real estate operations
Percentage of voting rights held		--
Nature of relationship	Joint directorships, etc.	--
	Business relationship	--
Nature of transaction		Rental of building
Amount of transaction		¥58 million
Classification		Pre-paid expenses
Balance at end of period		--

Notes:
1. Transaction amounts do not include consumption tax.
2. Policy with regard to transaction conditions and decision-making process: Conditions relating to rental fees and other transaction conditions are set in accordance with similar transactions carried out with persons or companies having no relation to the Company.

Per Share Information

	FY ended March 31, 2007	FY ended March 31, 2006
Net assets per share	1,116.59	3,317.02
Net income per share	39.59	242.56
Net income per share (diluted)	39.13	240.78
	On April 1, 2006 FANCL conducted a 3:1 share split. Assuming the share split occurred at the begging of the previous fiscal year, per share information would be as follows: FY ending 03/2006 Net assets per share ¥1,105.67 Net income per share ¥80.85 Earnings per share (diluted) ¥80.26	

Note: The basis for the calculation of net income (loss) per share and the net income per share after adjustment for residual securities is as follows:

	FY ended March 31, 2007	FY ended March 31, 2006
Net income (loss) (¥ million)	2,547	5,183
Amount not attributable to common shareholders (¥ million)	--	--
Net income (loss) attributable to common shares	2,547	5,183
Average number of outstanding common shares during the year (1,000 shares)	64,337,850	21,370,956
Breakdown of additional common shares used for calculating Interim net income per share (diluted) (Shares） Stock options	759,760	158,096
Residual securities not included in the calculation of the net income after adjustment for residual securities due to the fact that these securities had no dilutive effect.	1 type of subscription rights: Number of residual securities: 468,000	1 type of subscription rights: Number of residual securities: 163,800

Non-consolidated Balance Sheets

Millions of yen

	As of March 31, 2007	%	As of March 31, 2006	%	Change
ASSETS		%		%	
I. Current assets:					
Cash and cash equivalents	7,594		7,861		(266)
Notes receivable	4		5		(0)
Accounts receivable	7,601		7,703		(102)
Marketable securities	12,293		8,625		3,667
Merchandise	2,590		2,250		339
Supplies	218		202		15
Prepaid expenses	205		278		(73)
Deferred tax assets	1,129		346		783
Income receivable	211		103		107
Short-term loans to affiliate companies	657		894		(237)
Others	329		307		22
Allowance for doubtful accounts	(31)		(32)		1
Total current assets	32,804	47.1	28,546	41.6	4,258
II. Fixed assets:					
Tangible fixed assets					
Buildings	10,297		10,026		
Accumulated depreciation	4,280		3,732		
	6,017		6,293		(276)
Structures	508		508		
Accumulated depreciation	317		292		
	191		215		(24)
Machinery and fittings	521		553		
Accumulated depreciation	425		407		
	96		145		(49)
Transport equipment	17		17		
Accumulated depreciation	12		10		
	5		7		(2)
Furniture and fixtures	3,150		2,940		
Accumulated depreciation	2,389		2,130		
	760		810		(49)
Land	7,167		7,176		(9)
Construction in progress	60		57		3
Total tangible fixed assets	14,298	20.5	14,706	21.5	(408)
Intangible fixed assets					
Trademarks	10		11		(1)
Software	1,312		871		441
Software suspense account	1,247		381		865
Utility rights	4		6		(1)
Telephone subscription rights	47		47		--
Total intangible fixed assets	2,622	3.8	1,317	1.9	1,304
Investments and other assets					
Investments securities	284		1,083		(798)
Shares in affiliates	6,992		6,939		52
Investments	650		2,643		(1,992)
Long-term loans receivable	147		160		(13)
Long-term loans to affiliated companies	6,091		6,224		(133)
Long-term prepaid expenses	206		216		(10)
Deferred tax assets	503		714		(210)
Long-term deposits	4,000		4,000		--
Guarantee money	2,438		2,437		0
Insurance reserve	299		266		33
Other investments and assets	53		61		(8)
Allowance for doubtful accounts	(1,793)		(764)		(1,028)
Total investments and other assets	19,873	28.6	23,983	35.0	(4,109)
Total fixed assets	36,794	52.9	40,007	58.4	(3,213)
Total Assets	**69,599**	**100.0**	**68,554**	**100.0**	**1,045**

Non-consolidated Balance Sheets (continued)

Millions of yen

	As of March 31, 2007		As of March 31, 2006		Change
LIABILITIES		%		%	
I. Current liabilities:					
Accounts payable	2,672		2,588		84
Accrued liabilities	2,369		2,979		(609)
Accrued expenses	393		362		30
Accrued income taxes	1,776		1,100		676
Accrued consumption taxes	167		176		(9)
Advances	6		7		(0)
Witholdings	203		114		88
Allowance for bonuses	732		683		49
Allowance for points	1,849		--		1,849
Others	10		6		3
Total current liabilities	10,180	14.7	8,018	11.7	2,162
II. Long-term liabilities:					
Allowance for retirement bonuses	906		820		85
Allowance for directors' retirement bonuses	189		188		0
Others	105		60		44
Total long-term liabilities	1,201	1.7	1,070	1.6	130
Total liabilities	11,381	16.4	9,089	13.3	2,292
Shareholders' Equity					
I. Common stock	--	--	10,795	15.7	--
II. Capital reserve					
Additional paid-in capital	--		11,706		--
Other capital reserve					
Gain on sale of treasury stock	--		140		--
Total capital reserve	--	--	11,846	17.2	--
III. Retained earnings					
Legal reserve	--		267		--
Voluntary reserve					
Contingent reserve	--		39,400		--
Unappropriated retained earnings	--		3,713		--
Total retained earnings	--	--	43,380	63.3	--
IV. Net Unrealized holding gain on	--	--	66	0.1	--
V. Treasury stock	--	--	(6,624)	(9.6)	--
Total shareholders' equity	--	--	59,464	86.7	--
Total Liabilities and Shareholders' Equity	--	--	**68,554**	**100.0**	**--**
1 Shareholders' Equity					
I. Common stock	10,795	15.5	--	--	--
II. Capital reserve					--
Capital reserve	11,706		--		--
Other capital reserve	145		--		--
Total capital reserve	11,852	17.0	--	--	--
III. Retained earnings					
Revenue reserve	267				--
Other retained earnings					
Special reserve	40,900		--		--
Surplus brought forward	1,935				--
Total retained earnings	43,103	62.0	--		--
IV. Treasury stock	(7,699)	(11.1)			--
Shareholders' equity total	58,050	83.4	--	--	--
2.Valuation, translation adjustments, etc					
Unrealized holding gain on securities	54	0.1	--	--	--
Total valuation, translation adjustments	54	0.1	--	--	--
3.Share warrants:	111	0.2			--
Total net assets total	58,217	83.6	--	--	--
Total liabilities and net assets	**69,599**	**100.0**	--	--	--

Non-consolidated Statements of Income

Millions of yen

	Fiscal year ended March 31, 2007		Fiscal year ended March 31, 2006		Change
Net sales		%		%	
Total of net sale	76,574	100.0	74,628	100.0	1,946
Cost of sales					
Total cost of sales	26,042	34.0	27,814	37.3	(1,772)
Gross profit	50,532	66.0	46,813	62.7	3,719
Selling, general and administrative expenses					
Sales promotion expenses	9,609		6,118		3,491
Packing and transport expenses	2,954		3,280		(325)
Advertising expenses	5,784		7,077		(1,293)
Commission fee	5,036		5,144		(107)
Outsourcing expenses	2,469		2,438		30
Communication expenses	1,313		1,388		(75)
Provisions for allowance for bad debt	22		16		5
Directors' remuneration	314		200		113
Salaries and bonuses	8,150		7,350		799
Employee bonuses	714		827		(113)
Provision for accrued bonuses	705		660		44
Provision for accrued retirement benefits	247		353		(106)
Provision for retirement benefits for directors and corporate auditors	14		56		(41)
Welfare expenses	355		354		1
Compulsory welfare expenses	1,084		813		270
Depreciation	1,394		1,277		116
Research and development expenses	935		681		254
Rent expenses	938		759		179
Other	3,310		3,286		23
Total of Selling, general and administrative expenses	45,355	59.2	42,086	56.4	3,268
Operating income	**5,177**	**6.8**	**4,727**	**6.3**	**450**

Non-consolidated Statements of Income (continued)

Millions of yen

	Fiscal year ended March 31, 2007		Fiscal year ended March 31, 2006		Change
Non operating income					
Interest income	138		118		20
Dividend income	71		77		(6)
Income from funded research	236		238		(2)
Insurance premiums returned	123		323		(199)
Investment return from anonymous associations	161		161		(0)
Income from lease of facilities	9		11		(2)
Income from operations from outsourcing by affiliates	339		370		(31)
Other non-operating income	173		156		17
Total of non operating income	1,253	1.6	1,458	2.0	(204)
Non operating expenses					
Loss on disposal of obsolete inventories	304		304		0
Other non-operating expenses	212		48		164
Total of non operating expenses	517	0.7	352	0.5	164
Ordinary income	**5,914**	**7.7**	**5,833**	**7.8**	**81**
Extraordinary income					
Gain from sale of fixed assets	1		24		(23)
Gain on sale of investments in related companies	2		--		2
Distributions on dissolution of anonymous associations	633		--		633
Total extraordinary income	636	0.8	24	0.0	612
Extraordinary expenses					
Loss on disposal of fixed assets	116		113		3
Impairment loss	--		237		(237)
Appraisal loss on investment securities	--		25		(25)
Directors' retirement benefit expenses	--		71		(71)
Allowances for doubtful accounts	992		717		275
Loss on disposal of merchandize	105		80		25
Loss on cancellation of leases	0		55		(54)
Compensation for overtime in the previous fiscal year	55		--		55
Loss on revision of purchase amounts at affiliated companies in the previous fiscal year	42		--		42
Allowance for points for the previous fiscal year	2,132		--		2,132
Other extraordinary expenses	7		--		7
Total extraordinary expenses	3,453	4.5	1,301	1.7	2,151
Income before income taxes	3,097	4.0	4,555	6.1	(1,458)
Income taxes	2,517		1,566		950
Adjustment for income taxes	(564)		140		(704)
Total income tax	1,952	2.5	1,707	2.3	245
Net income	**1,144**	**1.5**	**2,848**	**3.8**	**(1,703)**

Statements of Appropriation of Retained Earnings

Millions of yen

	Fiscal year ended March 31, 2006
Unappropriated retained earnings at end of the period	3,713
Dividends	645
Voluntary reserve Special reserve	1,500
Balance carried forward	1,567

Changes in shareholders' equity

For the fiscal year April 1, 2006 to March 31, 2007

Millions of yen

	Shareholders' equity									
		Capital surplus			Retained profit					
						Other retained profit				
	Capital	Capital reserve	Other capital surplus	Total capital surplus	Earned reserve	Special reserve	Retained profit carried forward	Total retained profit	Treasury stock	Total shareholders' equity
Balance as of March 31, 2006	10,795	11,706	140	11,846	267	39,400	3,713	43,380	(6,624)	59,397
Change during the period	--	--	--	--	--	--	--	--	--	--
Surplus dividend (note)	--	--	--	--	--	--	(645)	(645)	--	(645)
Surplus dividend	--	--	--	--	--	--	(776)	(776)	--	(776)
Special reserve (note)	--	--	--	--	--	1,500	(1,500)	--	--	--
Net income	--	--	--	--	--	--	1,144	1,144	--	1,144
Acquisition of treasury stock	--	--	--	--	--	--	--	--	(1,715)	(1,715)
Disposal of treasury stock	--	--	5	5	--	--	--	--	640	646
Changes to items other than shareholders' equity during the period	--	--	--	--	--	--	--	--	--	--
Total change during the period	--	--	5	5	--	1,500	(1,777)	(277)	(1,075)	(1,347)
Balance as of March 31, 2007	10,795	11,706	145	11,852	267	40,900	1,935	43,103	(7,699)	58,050

	Valuation and differences due to foreign exchange		Warrants	Total net assets
	Valuation differences on other marketable securities	Total valuation and translation differences		
Balance as of March 31, 2006	66	66	--	59,464
Change during the period	--			--
Surplus dividend (note)	--	--	--	(645)
Surplus dividend	--	--	--	(776)
Special reserve	--			--
Net income	--	--	--	1,144
Acquisition of treasury stock	--	--	--	(1,715)
Disposal of treasury stock	--	--	--	646
Changes to items other than shareholders' equity during the period	(11)	(11)	111	100
Total change during the period	(11)	(11)	111	(1,247)
Balance as of March 31, 2007	54	54	111	58,217

Note: Items of appropriations of earnings at the general shareholders' meeting held in June 2006

Significant Accounting Policies

Item	FY year ended March 31, 2007	FY ended March 31, 2006
1) Basis and method for valuation of marketable securities	(1) Shares of subsidiaries and affiliates: Same as right (2) Other marketable securities: Same as right	(1) Shares of subsidiaries and affiliates: At cost by the average method (2) Other marketable securities: Stocks with market value: At market price 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. However, the valuation of investments in anonymous associations are based on the Company's proportional equity in the net assets of the association at its most recent balance date.**
2) Derivatives:	Same as right	**Market value method**
3) Inventories	**(1) Finished goods:** **Same as right** (2) Supplies: Same as right	**(1) Finished goods:** **At cost by the monthly average method** (2) Supplies: At cost by the last purchase price method
4) Depreciation of Fixed Assets	**(1) Tangible fixed assets:** Same as right (2) Intangible fixed assets: Same as right (3) Long-term prepaid expenses: Same as right	**(1) 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: 3–50 years Machinery and fittings: 2–20 years Furniture and fixtures: 2–19 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) (3) Long-term prepaid expenses: Straight-line method

5) Allowances	(1) Allowance for doubtful accounts: 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: Same as right	(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 points [--]	(3) Allowance for points The Company bases reserve calculations for the future use of points by comparing the balance of unused points with the historical use of points by customers to forecast likely usage.
	(4) Allowance for retirement bonuses: Same as right	(4) 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.
	(5) 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. Additional information: The 26th Ordinary General Meeting of Shareholders held on June 17, 2006, resolved to abolish the retirement allowance system for board members, and to pay instead a retirement allowance to each resigning and corporate auditor corresponding to their term in office, and as a result, no reserve for retirement benefits for directors and corporate auditors has been accounted for since that date.	(5) 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.
6) 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.

7) Hedge accounting	(1) Hedge accounting policy: Same as right (2) Hedging instruments/targets: Same as right 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.
8) Other important items affecting the preparation of these financial statements:	Calculation methods used in relation to consumption tax, etc. Same as right	Calculation methods used in relation to consumption tax, etc. All transactions are posted exclusive of consumption and other taxes.

Change in accounting treatment

Fiscal year ended March 31, 2007	Fiscal year ended March 31, 2006
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Allowance for Points Previously points were recognized as a cost at the time of use. However, as the introduction of a new points system has allowed the rational estimation of the usage rate of points and in order to achieve the timely recognition of profits and losses and sounder finances, from the fiscal year under review, the amount of the Allowance for Points is calculated and accounted for as the difference between actual past usage rates and estimated future usage rates applied to the balance of unused points. As the new system is considered as sales promotion, the Allowance for Points is now accounted for as a cost of sales or as an SG&A expense, compared to its previous treatment as an extraordinary loss. As a result of this change, compared to the previous method, sales are ¥4 billion higher and cost of sales and SG&A expenses are ¥3.717 billion higher, while ordinary income and income before income and other taxes are lower by ¥283 million and ¥1.849 billion respectively. As the actual usage rate could be rationally estimated only from the second half of the fiscal year, at the interim period the former method was employed. If the new method had been used for the interim period of the current fiscal year sales would have been ¥2.082 billion higher and cost of sales and SG&A expenses ¥2.163 billion higher, while ordinary income and income before income and other taxes would have been lower by ¥81 million and ¥2.213 billion respectively. For the effects of this change on segmental results please see the Segmental Results section.	-----
Accounting standards relating to the presentation of net assets on the balance sheet From the fiscal year ending March 31, 2007, the ‘Statement Regarding the Presentation of Net Assets on the Balance Sheet’ (Business Accounting Council, December 9, 2005, Article No. 5) and ‘’Guidelines for the Application of Accounting Policies for the Presentation of Net Assets on the Balance Sheet’ (Guidelines for the Application of Business Accounting Polices, Article 8; Business Accounting Council, December 9, 2005) have been applied. The equivalent amount previously recorded as ‘Capital’ is ¥71,449 million. Following changes to the regulations on financial statements, net assets on the balance sheet have been recorded in accordance with the revised regulations.	-----
Accounting Standards relating to stock options, etc. From the fiscal year ending March 31, 2007 the ‘Accounting Standard for Share-based Payment” (ASBJ Statement No.8, issued on December 27, 2005) and ‘Guidance on Accounting Standard for Share-based Payment” (ASBJ Guidance No.11, issued on May 31, 2006) have been applied. As a result, operating income, ordinary income and income before income and other taxes were each lower by ¥118 million.	-----