# FANCL Corporation

## Consolidated Financial Statements for the Fiscal Year Ended March 31, 2008

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, 2008

**FANCL CORPORATION** **May 1, 2008**

www.fancl.co.jp Stock code: 4921 Stock exchange listings: Tokyo 1st section
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Date of general shareholders' meeting: June 15, 2008 Scheduled date of payment of dividend: June 16, 2008
Scheduled date of presentation of financial statements: June 16, 2008

## 1. Consolidated results for the fiscal year April 1, 2007 to March 31, 2008

(1) Sales and Income

*Millions of yen, rounded down*

| | FY ended March 31, 2008 | | FY ended March 31, 2007 | |
|---|---|---|---|---|
| | | Change (%) | | Change (%) |
| Net sales | 99,349 | (1.7) | 101,065 | 6.0 |
| Operating income | 7,467 | (10.8) | 8,370 | (2.4) |
| Ordinary income | 7,765 | (7.4) | 8,388 | (8.0) |
| Net income | 3,694 | 45.0 | 2,547 | (50.9) |
| Net income per share (¥) | ¥58.42 | | ¥39.59 | |
| Fully diluted earnings per share (¥) | ¥58.10 | | ¥39.13 | |
| Return on equity | 5.3% | | 3.6% | |
| Ratio of ordinary income to total capital | 9.0% | | 9.7% | |
| Ratio of operating income to net sales | 7.5% | | 8.3% | |

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

Gain from investments in subsidiaries and affiliates accounted for by the equity method:
Fiscal year ended March 31, 2008: ¥--
Fiscal year ended March 31, 2007: ¥--

(2) Consolidated Financial Position

*Millions of yen, rounded down*

| | As of March 31, 2008 | As of March 31, 2007 |
|---|---|---|
| Total assets | 85,685 | 86,931 |
| Shareholders' equity | 70,268 | 71,560 |
| Equity ratio (%) | 81.6% | 82.2% |
| Shareholders' equity per share (¥) | ¥1,141.56 | ¥1,116.59 |

Shareholders' equity at end of period:
FY ended March 2008: ¥69,899 million
FY ended March 2007: ¥71,449 million

(3) Cash Flows

*Millions of yen, rounded down*

| | As of March 31, 2008 | As of March 31, 2007 |
|---|---|---|
| Net cash provided by operating activities | 7,379 | 6,472 |
| Net cash used in investing activities | (672) | (1,733) |
| Net cash used in financing activities | (6,036) | (2,495) |
| Cash and cash equivalents at end of year | 24,060 | 23,411 |

## 2. Dividends

| | Fiscal year ended March 31, 2007 | Fiscal year ended March 31, 2008 | Fiscal year ending March 31, 2009 (forecast) |
|---|---|---|---|
| Interim dividend per share (¥) | 12.00 | 12.00 | 12.00 |
| Year-end dividend per share (¥) | 12.00 | 12.00 | 12.00 |
| Annual dividend per share (¥) | 24.00 | 24.00 | 24.00 |
| Total dividend payment *(millions of yen)* | 1,544 | 1,538 | -- |
| Consolidated dividend payout ratio (%) | 60.6 | 41.1 | 35.0 |
| Dividend to net assets ratio (%) | 2.2 | 2.1 | -- |

## 3. Consolidated forecasts for the fiscal year ending March 31, 2009 (April 1, 2008 to March 31, 2009)

*Millions of yen*

| | Interim period ending September 30, 2008 | | FY Ending March 31, 2009 | |
|---|---|---|---|---|
| | | Change % | | Change % |
| Net sales | 48,900 | 1.0 | 101,500 | 2.2 |
| Operating income | 3,150 | (6.3) | 8,000 | 7.1 |
| Ordinary income | 3,150 | (10.2) | 8,000 | 3.0 |
| Net income | 1,650 | 14.6 | 4,200 | 13.7 |
| Net income per share (¥) | ¥26.95 | -- | ¥68.59 | -- |

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

## 4. Other

**1) Transfer of key subsidiaries during the period** (transfers of certain subsidiaries resulting in changes in the scope of consolidation): Yes.

New Companies: 1 (CHALONE Inc.)

Note: See Group structure on page 8 for detail.

**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 for more detail.

**3) Number of shares outstanding (ordinary shares)**

1. Number of shares outstanding (including treasury shares):
   - As of March 31, 2008: 70,176,600
   - As of March 31, 2007: 70,176,600
2. Number of treasury shares:
   - As of March 31, 2008: 8,944,863
   - As of March 31, 2007: 6,188,080

Note: See Per share information on page 38 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, 2008

**1) Non-consolidated Operating Results**

*Millions of yen, rounded down*

| | Fiscal year ended March 31, 2008 | | Fiscal year ended March 31, 2007 | |
|---|---|---|---|---|
| | | (% change) | | (% change) |
| Sales | 74,917 | (2.2) | 76,574 | 2.6 |
| Operating income | 4,484 | (13.4) | 5,177 | 9.5 |
| Ordinary income | 4,818 | (18.5) | 5,914 | 1.4 |
| Net income | 2,359 | 106.1 | 1,144 | (59.8) |
| Earnings per share (¥) | 37.31 | | 17.79 | |
| Fully diluted earnings per share (¥) | 37.11 | | 17.59 | |

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

**2) Non-Consolidated financial position**

| | As of March 31, 2008 | As of March 31, 2007 |
|---|---|---|
| Total assets *(millions of yen)* | 65,962 | 69,599 |
| Net assets *(millions of yen)* | 55,496 | 58,217 |
| Equity ratio (%) | 83.7% | 83.5% |
| Net assets per share (¥) | ¥901.84 | ¥908.06 |

**Note:** Shareholders' equity:
FY ended March 2008: ¥55,221 million
FY ended March 2007: ¥58,105 million

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, 2009 for information regarding forecasts for the next period.

# 1. Consolidated operating results

## (1) Operating results

### 1. Consolidated fiscal year

In the first half of the fiscal year under review, the domestic economy showed a gradual and continued recovery against a background of expanding exports and investments in facilities. In the second half of the fiscal year, however, concern over the health of the domestic economy grew due to financial worries stemming from the US sub-prime crisis. This lead to a fall in the stock market, with the high price of raw materials droving up prices of consumer goods and undermining consumer sentiment. The yen also strengthened.

As a result, the overall cosmetics industry, continued to trend sideways despite strong sales of cosmetic products driven partly by skin care products offering anti-aging benefits. Meanwhile, the health foods industry continued through a period of market adjustment as government directions over labeling and safety has continued to create challenges and differences among competing companies.

FANCL's cosmetics businesses performed well, supported by the renewal of core products. However, the nutritional supplements businesses and other businesses were sluggish, resulting in consolidated net sales of ¥99,349 million, a decrease of 1.7%. Operating income decreased 10.8% to ¥7,467 million and the operating profit margin decreased 0.8 percentage points to 7.5%. Ordinary income decreased 7.4% to ¥7,765 million and the ordinary income margin decreased 0.5 percentage points to 7.8%.

In the previous fiscal year, following changes to the accounting treatment for loyalty points, extraordinary losses, such as ¥2,132 million in allowance for points were recorded. With no large extraordinary loss occurring this fiscal year, net income increased 45.0% to ¥3,694 million. The net income margin increased 1.2 percentage points to 3.7%.

### 2. Status of operations

**1) Cosmetics Business**

**Sales**

Cosmetics sales increased 5.8% compared to the previous year, reaching ¥49,061 million.

*(Millions of yen)*

| | Fiscal year ended March 31, 2008 | | Fiscal year ended March 31, 2007 | | Change (%) |
|---|---|---|---|---|---|
| | Amount in ¥ million | Percent of total | Amount in ¥ million | Percent of total | |
| FANCL Cosmetics | 37,813 | 77.1 | 35,692 | 76.9 | 5.9 |
| ATTENIR Cosmetics | 10,710 | 21.8 | 10,282 | 22.2 | 4.2 |
| Others | 538 | 1.1 | 401 | 0.9 | 34.2 |
| Totals | 49,061 | 100.0 | 46,376 | 100.0 | 5.8 |

| | Fiscal year ended March 31, 2008 | | Fiscal year ended March 31, 2007 | | Change (%) |
|---|---|---|---|---|---|
| | Amount in ¥ million | Percent of total | Amount in ¥ million | Percent of total | |
| Mail order sales | 25,989 | 53.0 | 25,572 | 55.1 | 1.6 |
| Retail store sales | 17,582 | 35.8 | 16,504 | 35.6 | 6.5 |
| Wholesales and others | 5,490 | 11.2 | 4,298 | 9.3 | 27.7 |
| Totals | 49,061 | 100.0 | 46,376 | 100.0 | 5.8 |

Sales of **FANCL cosmetics** increased 5.9% to ¥37,813 million, from a boom in sales of skin care products benefiting from the effects of products renewals in addition to strong sales of staple products such as *Mild Cleansing Oil* and make-up products.

Sales of **ATTENIR cosmetics** increased 4.2% to ¥10,710 million, as effective marketing activities contributed to building a record number of customers and sales of skin care products renewed in the previous fiscal year were strong.

Results by sales channels were: mail order sales increased 1.6% year on year to ¥25,989 million, retail store sales at existing stores were strong and increased 6.5% to ¥17,582 million, and wholesale sales through other sales channels increased 27.7% to ¥5,490 million, with strong results from overseas sales.

**Operating income**

Operating income increased 3.9% to ¥7,409 million, due to higher revenues and improvements to the cost ratio due to skin care product renewals and other factors. The operating income margin decreased 0.3 percentage points to 15.1%.

### 2) Nutritional Supplements Business

**Sales**

Nutritional supplement sales decreased 5.2% year on year to ¥30,017 million.

*(Millions of yen)*

| | Fiscal year ended March 31, 2008 | | Fiscal year ended March 31, 2007 | | Change (%) |
|---|---|---|---|---|---|
| | Amount in ¥ million | Percent of total | Amount in ¥ million | Percent of total | |
| Mail order sales | 13,513 | 45.0 | 14,799 | 46.8 | (8.7) |
| Retail store sales | 8,629 | 28.8 | 8,748 | 27.6 | (1.4) |
| Wholesales and others | 7,874 | 26.2 | 8,117 | 25.6 | (3.0) |
| Totals | 30,017 | 100.0 | 31,665 | 100.0 | (5.2) |

Sales of actively marketed *HTC Collagen* and other beauty supplements were strong, but sales in other product groups were sluggish and sales of herbal products and support series products, which were renamed following government directions, were also slow.

Results by sales channels were: mail order sales decreased 8.7% to ¥13,513 million, retail store sales decreased 1.4% to ¥8,629 million and wholesale sales through other sales channels decreased 3.0% to ¥7,874 million, supported by strong overseas sales but weighed down by poor domestic sales.

**Operating income**

Operating income decreased 10.2% to ¥3,505 million, as gains from efficiencies in sales promotion and other expenses were not sufficient to cover the drop in revenues. The operating income margin decreased 0.6 percentage points to 11.7%.

### 3) Other Businesses

Sales in Other businesses decreased 12.0% year on year to ¥20,270 million

*(Millions of yen)*

| | Fiscal year ended March 31, 2008 | Fiscal year ended March 31, 2007 | Change (%) |
|---|---|---|---|
| *Hatsuga Genmai* Business | 3,744 | 4,760 | (21.4) |
| Kale juice business | 3,761 | 4,055 | (7.2) |
| IIMONO OHKOKU mail order business | 8,840 | 9,940 | (11.1) |
| Other | 3,924 | 4,267 | (8.0) |
| Totals | 20,270 | 23,023 | (12.0) |

In the Hatsuga Genmai (germinated brown rice) business, sales decreased 21.4% year on year to ¥3,744 million, as volumes did not increase despite a 20% price reduction in April, leading to lower sales in all sales channels.

In the Kale juice business, sales decreased 7.2% to ¥3,761 million, as mail-order sales trended well but wholesale sales failed to grow.

Sales through the IIMONO OHKOKU mail order business decreased 11.1% year on year to ¥8,840 million, as sales of *walking shoes* and health equipment, which boomed last year, were lower this year.

Sales at other businesses decreased 8.0% to ¥3,924 million as sales of sundries and undergarments did not perform well.

Operating income

An operating loss of ¥1,384 million, ¥486 million worse compared to the previous year, was recorded due to a significantly worsened operating loss in the Hatsuga Genmai and IIMONO OHKOKU businesses and despite an improved operating gain in the Kale juice business as a result of cost efficiencies.

**For reference: Sales network**

| | Number of stores as of March 31, 2008 | Change compared to March 31, 2007 |
|---|---|---|
| FANCL Ginza Square | 1 | -- |
| FANCL Shop (Next Generation Store) | 7 | +7 |
| FANCL House | 100 | -7 |
| FANCL House J | 87 | -1 |
| Genki Station | 8 | -- |
| ATTENIR Shop | 11 | +1 |
| Other | 4 | -- |
| Total | 218 | -- |

## (3) Outlook for FY ending March 31, 2009

The overall economic outlook is considered likely to become increasingly unclear as regards the effect of the higher price of crude-oil prices and raw materials on consumption.

In the Cosmetics business, revenues from FANCL cosmetics are expected to increase supported by expected continuing strength in sales of skincare products renewed in the previous fiscal year. Sales of ATTENIR cosmetics are also expected to increase, as a result of an increase in revenues from a rise in the number of customers as a result of active advertising.

In the Nutritional Supplements business, revenues are expected to remain flat as we do not expect a full-fledged market recovery of the business environment. However, we do forecast higher sales of products such as diet- and beauty-related products and products for middle-aged and elderly customers.

In other businesses, increases are expected in the number of mail-order customers for the Hatsuga Genmai business and sales targeting prepared meals for the home and food services. An increase in revenues are expected from the Kale juice business due to forecasted growth in sales of powder-type kale juice which was renewed in the previous fiscal year.

Based on the above, consolidated net sales for the fiscal year ending March 31, 2009 are forecast to increase 2.2% year on year to ¥101,500 million. Benefiting from a forecasted increase in revenues and cost efficiencies, operating income is forecast to increase 7.1% to ¥8,000 million, ordinary income is forecast to increase 3.0% to ¥8,000 million and consolidated net income is forecast to increase 13.7% to ¥4,200 million.

**Financial situation**

Cash and cash equivalents as of March 31, 2008 were ¥24,060 million, ¥649 million higher 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 ¥7,379 million. The primary factors that increased operating cash flow included income before income taxes of ¥7,191 million and depreciation expenses of ¥3,020 million. Factors reducing operating cash flow included tax payments of ¥3,579 million.

Cash flows from investing activities

Cash used in investing activities during the period under review was ¥672 million. This largely reflected outlays of ¥1,087 for acquisitions of tangible fixed assets such as equipment for new and renewed stores, an outlay of ¥1,024 million for the acquisition of intangible assets and a payment of ¥1,112 million for the acquisition of shares in CHALONE Inc.

Cash flows from financing activities

Cash flow used in financing activities during the period under review was ¥6,036 million. This was largely the result of a ¥4,000 million payment for the purchase of treasury shares and ¥1,534 million paid out in dividends.

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

## Trends in Cash Flow-related Indices

| | FY ended March 31, 2004 | FY ended March 31, 2005 | FY ended March 31, 2006 | FY ended March 31, 2007 | FY ended March 31, 2008 |
|---|---|---|---|---|---|
| Equity ratio (%) | 83.6 | 83.4 | 83.9 | 82.2 | 81.6 |
| Equity ratio based on market price (%) | 95.7 | 110.9 | 183.9 | 120.3 | 98.2 |
| Debt service coverage (years) | -- | -- | -- | -- | 0.0 |
| Interest coverage ratio (times) | -- | -- | -- | -- | 1,635.2 |

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, strengthening and broadening our operating foundation. As a part of our policy on retained earnings and in consideration of the Company’s financial status and the share price, the company will determine the most appropriate action, which may include acquisition of treasury shares.

As determined by the Board of Directors, FANCL will pay dividends from retained earnings using September 30 of each year as the record date for payment of the interim dividend. Further, FANCL will pay dividends twice annually—an interim and year-end dividend—from retained earnings.

Based on the above, for the fiscal year ended March 31, 2008, an annual dividend of ¥24.00 (Interim: ¥12 and Year-end: ¥12) per share is proposed. For the fiscal year ending March 31, 2009, an annual dividend of ¥24.00 (Interim: ¥12 and Year-end: ¥12) per share is forecast.

During the current fiscal year, 3,000,000 treasury shares were acquired through the market in order to raise capital efficiency and in accordance with our policy to respond to changing business conditions and to further reward shareholders.

## (2) Group structure

FANCL Group, consists of FANCL CORPORATION, 16 subsidiaries and 3 affiliate companies engaged primarily in the manufacture and sale of cosmetic products and nutritional supplements. Operating activities are conducted through three core sales channels: mail-order sales, retail store sales and wholesale sales.

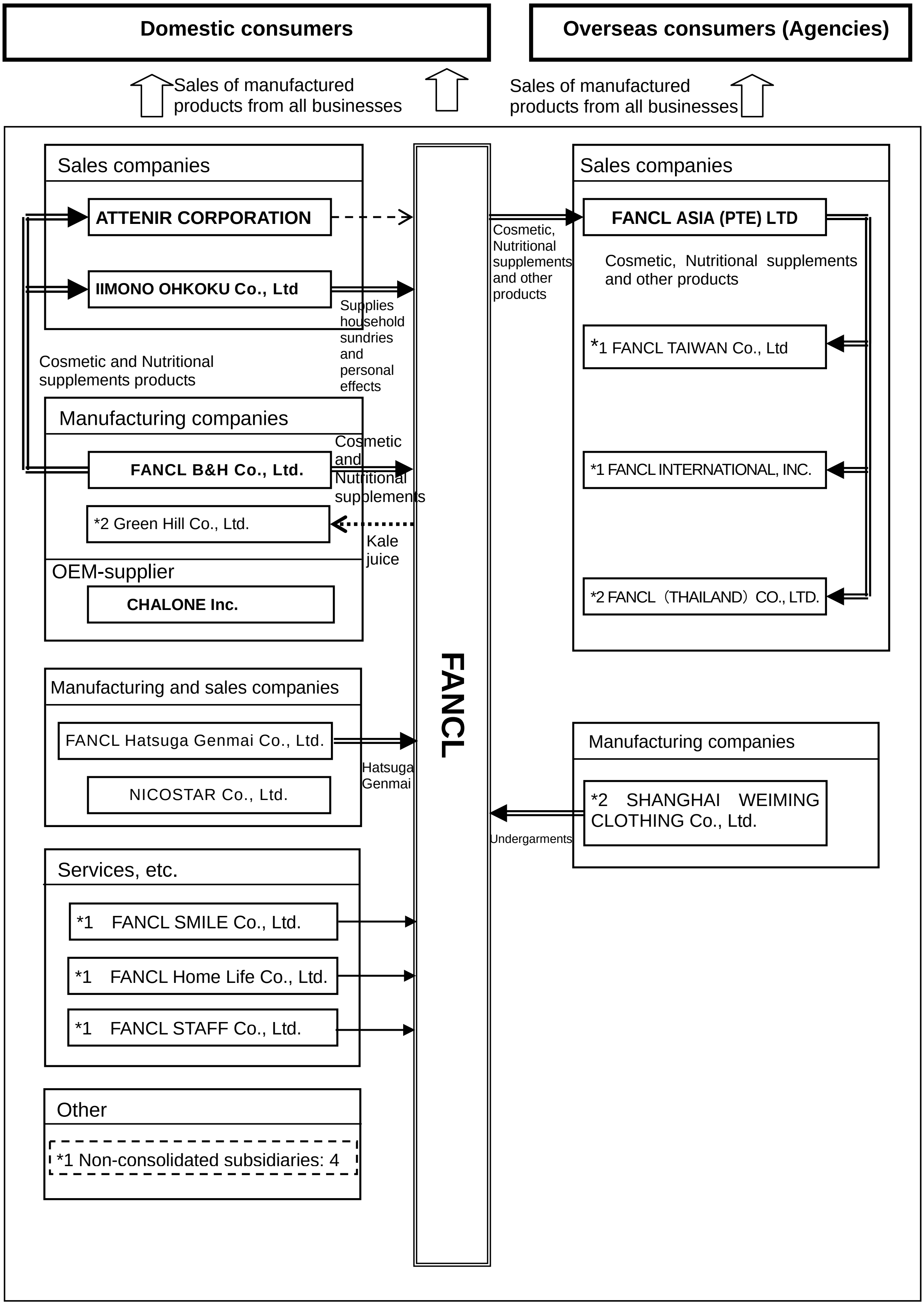
Details on each of the Group companies are as follows:

| Business segments | Group companies |
|---|---|
| Cosmetic businesses | • FANCL B&H CO., Ltd. (consolidated subsidiary) manufactures FANCL cosmetic products, primarily preservative-free products, sold through FANCL Corporation.<br>• ATTENIR CORPORATION sells ATTENIR cosmetic products manufactured by FANCL B&H CO., Ltd.<br>• NICOSTAR Co., Ltd. (consolidated subsidiary) supplies cosmetic products as an OEM and also sells directly.<br>• CHALONE Inc. (consolidated subsidiary) supplies cosmetic products as an OEM. |
| Nutritional supplements businesses | • FANCL B&H CO., Ltd. manufactures nutritional supplement products sold through FANCL Corporation and ATTENIR CORPORATION. |
| Other businesses | • IIMONO OHKOKU CO., Ltd. (consolidated subsidiary) is a mail-order business for health equipment, household sundries, etc.<br>• SHANGHAI WEIMING CLOTHING Co., Ltd. (affiliate company to which the equity method is not applied) manufactures undergarments sold through FANCL Corporation.<br>• FANCL Corporation sells sundries, accessories, etc., purchased from IIMONO OHKOKU CO., Ltd. and ATTENIR CORPORATION sells sundries, accessories, etc., purchased from outside the group.<br>• FANCL Hatsuga Genmai Co., Ltd. (consolidated subsidiary) and FANCL Corporation sell hatsuga genmai manufactured by FANCL Hatsuga Genmai Co., Ltd.<br>• Kale juice is sold through FANCL Corporation and manufactured by Green Hill Co., Ltd (affiliate company to which the equity method is not applied) and by others outside the Group through outsourcing agreements. |

FANCL ASIA (PTE) LTD. (consolidated subsidiary) sells products manufactured by FANCL to the Chinese and Singapore markets, to the US market through FANCL INTERNATIONAL, INC. (non-consolidated subsidiary), to the Taiwanese market through FANCL TAIWAN Co., Ltd. (non-consolidated subsidiary) and to the Thai market through FANCL (THAILAND) CO., LTD. (affiliate company to which the equity method is not applied).

FANCL STAFF Co., Ltd., (non-consolidated subsidiary) provide personnel placement and recruiting services primarily for Group companies. FANCL SMILE Co., Ltd. (non-consolidated subsidiary), as a special purpose subsidiary, promotes employment for the physically disabled through activities such as outsourcing packaging of FANCL Group products. FANCL Home Life Co., Ltd. (non-consolidated subsidiary) provides services focusing on the design and maintenance of Group company buildings.

## Organizational structure



(Note) All companies are consolidated subsidiaries unless noted.
*1 Non-consolidated subsidiaries
*2 Affiliate company to which the equity method is not applied

| | | | |
|---|---|---|---|
| ⇒ | Supplies manufactured goods | → | Service provider |
| ⇢ | Manufacturing outsourced | ⇢ | Operations outsourced |

## Affiliate companies

| Name | Location | Capital | Type of business | Voting rights | | Comments |
|---|---|---|---|---|---|---|
| | | | | Held by FANCL in affiliates | Held by affiliates in FANCL | |
| Consolidated subsidiaries | | | | | | |
| NICOSTAR Co., Ltd. | Sakae-ku, Yokohama | ¥10 million | -Cosmetics business | 100.0 | -- | Seconded directors: 1 |
| ATTENIR CORPORATION | Sakae-ku, Yokohama | ¥150million | -Cosmetics business -Nutritional supplements business | 100.0 | -- | Undertakes research and administrative duties for FANCL<br>Seconded directors: 4 |
| FANCL Hatsuga Genmai Co., Ltd. | Tomi-city, Nagano | ¥95 million | -Other business | 71.6 | -- | Produces FANCL Hatsuga Genmai. Receives loans from FANCL.<br>Seconded directors: 4 |
| FANCL ASIA (PTE) LTD. | Singapore | ¥875 million | -Cosmetics business<br>-Nutritional supplements business<br>-Other business | 100.0 | -- | Sells FANCL cosmetic products, nutritional supplement products, etc.<br>Seconded directors: 2 |
| IIMONO OHKOKU Co.,Ltd | Shibuya-ku, Tokyo | ¥196 million | -Other business | 81.6 | -- | Supplies household sundries and accessories, etc. Receives loans from FANCL.<br>Seconded directors: 2 |
| FANCL B&H Co., Ltd. | Sakae-ku, Yokohama | ¥100 million | -Cosmetics business<br>-Nutritional supplements business | 100.0 | -- | Produces FANCL cosmetic and nutritional supplement products. Receives loans from FANCL.<br>Seconded directors: 5 |
| CHALONE Inc. | Takamatsu city, Kagawa | ¥267 million | -Cosmetics business | 90.0 | -- | Seconded directors: 2 |

Notes:

1. The Type of Business column lists the business segment categories
2. Among the subsidiaries listed above, FANCL B&H Co., Ltd. is a special subsidiary
3. The subsidiaries listed above do not issue security registration statements or financial reports
4. Net sales of ATTENIR CORPORATION exceed 10% of consolidated net sales (excluding reciprocal sales among consolidated subsidiaries). Key performance indicators are as follows:

Key performance indicators *(Millions of yen)*

| Net sales | Ordinary income | Net income | Net assets | Total assets |
|---|---|---|---|---|
| 12,709 | 1,448 | 855 | 8,031 | 9,667 |

5. None of our affiliate companies are burdened with excessive debt

## 3. Management Policy

### (1) Basic management policy

Management policy for the Group operations is aimed at building a structure through which endeavors to eliminate the *negatives* in health and beauty. Today, “dissatisfaction” and “safety concerns” are just some of the negative factors in society. The FANCL Group companies are fully focused on creating new markets and value by eliminating such negatives. Looking forward, we believe that a policy that endeavors to eliminate the negative factors will lead to increased corporate value and long-term profitability for our shareholders.

### (2) Medium-term management strategy and key issues

1) FANCL Change & Challenge Plan Phase 2—FY ended March 2007 to FY ending March 2009

Based on “FANCL Change & Challenge Plan Phase 2”, the Group endeavors to achieve record sales and revenue targets and improve profitability in each period as sales continue to expand. Further, in support of long-term growth, we are focusing on strengthening and improving our operating infrastructure and have introduced and adopted ERP.

As a result, in the cosmetics-related businesses, sales and profits were higher than planned due to the effects of core product renewals, and other factors. However, in the nutritional supplements-related business, we did not reach our planned sales and profit targets due to our delayed response to sudden market changes. Further, forecasted profitability in other businesses was not achieved, and, conversely, our losses expanded. In addition to the challenges faced in meeting our initial plans, achieving the revisions made to the plan as announced on October 25, 2006 will also be difficult, leaving us with a significant management issue.

| | FY ended March 2009 Targets | | FY ended March 2009 Forecast (As of May 1, 2008) |
|---|---|---|---|
| | Initial targets (Announced May 1, 2006) | Revised targets (Announced October 25, 2006) | |
| Consolidated net sales | ¥115.0 billion | ¥110.0 billion | ¥101.5 billion |
| Consolidated ordinary income | ¥15.0 billion | ¥12.0 billion | ¥80 billion |
| Consolidated ordinary income ratio | 13% | 11% | 8% |
| Consolidated net assets to income ratio | 15% | 13% | 9% |
| Consolidated shareholders’ equity to income ratio | 10% | 8% | 6% |

2) *Unparalleled quality = New value 2010*: FY ending March 2009 to FY ending March 2011

As of April 1, 2008, the Group began a new fiscal plan entitled *Unparalleled quality = New value 2010*. In order to achieve long-term and continuous profitability and growth, we are aware that strengthening our customer base is a primary issue. To this end, we aim to continuously generate “new value” through “unparalleled quality” thereby exceeding our customers’ expectations in all categories, including products and services, to generate long-term customer relationships based on trust. By generating a sustainable group of highly loyal customers, we are confident that we can increase our corporate value.

**Target values**

| | Net sales | Consolidated operating income | Consolidated operating income ratio | Consolidated shareholders' equity to income ratio |
|---|---|---|---|---|
| FY ended March 2011 | ¥110.0 billion | ¥11.0 billion | 10% | 8% |

Basic strategy

- Improve brand value and build stronger relations with customers
- Shift towards product-centered management following adoption of Company structure
- Achieve ground-breaking FANCL customer service
- Implement improvements aiming to raise revenues

Strategy for each business

In the cosmetic businesses, we will promote the development of competitive products emphasizing functionality. We will renew core products and aim to be the number one in the preservative-free market and the only provider in the sensitive skin market.

In the nutritional supplement businesses, we will concentrate on our core competencies. Additionally, we will adjust and consolidate our product line-up as well as strengthen products targeting female customers of beauty supplements and middle-aged and elderly customers.

In other businesses, we aim to turn operations into profit-making businesses. In the Hatsuga Genmai business, we aim to achieve profitability by continuing to raise awareness of the products' high functionalities and by expanding sales. In the kale juice business, we aim to achieve profitability by shifting to highly profitable product groups in order to further increase profits. In the IIMONO OHKOKU mail-order business, we will convert anti-metabolic syndrome-related products into a core health-oriented mail-order business and strive for improved profits.

Sales channel strategies

- For mail-order sales, we aim to review the role of information supplements and overall customer services as well as to raise the level of customer service.
- For store sales, we will develop next generation stores specializing in either health or beauty, a departure from the previous "All FANCL" concept.
- For overseas development, we will continue to focus on the development of the Chinese market and undertake a fundamental review of non-profitable areas.

(3) Other important items

Not applicable.

## 4. Consolidated Financial Statements

### Consolidated Balance Sheet

*Millions of yen, rounded down*

|  | As of March 31, 2008 |  | As of March 31, 2007 |  | Change |
|---|---|---|---|---|---|
| **ASSETS** |  | % |  | % |  |
| **I. Current assets:** |  |  |  |  |  |
| Cash and cash equivalents | 16,551 |  | 14,303 |  | 2,248 |
| Notes and accounts receivable | 10,053 |  | 9,983 |  | 70 |
| Marketable securities | 13,508 |  | 16,294 |  | (2,786) |
| Inventories | 6,710 |  | 6,746 |  | (35) |
| Deferred tax assets | 1,155 |  | 1,223 |  | (68) |
| Other current assets | 1,182 |  | 1,168 |  | 14 |
| Allowance for doubtful accounts | (159) |  | (148) |  | (10) |
| Total current assets | 49,003 | 57.2 | 49,570 | 57.0 | (567) |
| **II. Fixed assets:** |  |  |  |  |  |
| Tangible fixed assets |  |  |  |  |  |
| Buildings and structures[3,4] | 21,140 |  | 20,459 |  | 680 |
| Accumulated Depreciation[5] | 10,112 |  | 8,877 |  | 1,234 |
| Machinery and transport equipment | 5,419 |  | 5,154 |  | 265 |
| Accumulated Depreciation [5] | 4,014 |  | 3,640 |  | 373 |
| Furniture, tools and fixtures | 5,724 |  | 5,336 |  | 387 |
| Accumulated Depreciation[5] | 4,639 |  | 4,158 |  | 481 |
| Land[3,4] | 10,901 |  | 10,627 |  | 274 |
| Construction in progress | 74 |  | 61 |  | 12 |
| Total tangible fixed assets | 24,494 | 28.6 | 24,963 | 28.7 | (469) |
| Intangible fixed assets |  |  |  |  |  |
| Goodwill | 738 |  | 13 |  | 725 |
| Other intangible fixed assets | 2,953 |  | 2,748 |  | 205 |
| Total intangible fixed assets | 3,692 | 4.3 | 2,761 | 3.2 | 930 |
| Investments and other assets |  |  |  |  |  |
| Investments securities[1] | 1,240 |  | 830 |  | 409 |
| Long-term loans receivable | 447 |  | 655 |  | (208) |
| Guarantee money | 2,680 |  | 2,684 |  | (4) |
| Long-term prepaid expense | 278 |  | 437 |  | (158) |
| Deferred tax assets | 275 |  | 253 |  | 22 |
| Other investments and other assets[1] | 3,998 |  | 5,184 |  | (1,185) |
| Allowance for doubtful accounts | (424) |  | (410) |  | (14) |
| Total investments and other assets | 8,496 | 9.9 | 9,635 | 11.1 | (1,139) |
| Total fixed assets | 36,682 | 42.8 | 37,360 | 43.0 | (678) |
| **Total assets** | **85,685** | **100.0** | **86,931** | **100.0** | **(1,245)** |

## Consolidated Balance Sheets

*Millions of yen, rounded down*

| | As of March 31, 2008 | | As of March 31, 2007 | | Change |
|---|---|---|---|---|---|
| **LIABILITIES** | | % | | % | |
| I. Current liabilities: | | | | | |
| Notes and accounts payable | 3,599 | | 3,741 | | (142) |
| Accrued liabilities | 3,979 | | 3,313 | | 666 |
| Accrued expenses | 684 | | 641 | | 42 |
| Accrued income taxes | 1,865 | | 2,027 | | (161) |
| Allowance for bonuses | 1,037 | | 952 | | 85 |
| Allowance for points | 1,496 | | 1,849 | | (353) |
| Others | 290 | | 344 | | (54) |
| Total current liabilities | 12,953 | 15.1 | 12,869 | 14.8 | 84 |
| II. Long-term liabilities: | | | | | |
| Allowance for retirement bonuses | 1,642 | | 1,388 | | 253 |
| Allowance for directors’ retirement bonuses | 46 | | 223 | | (176) |
| Others | 773 | | 889 | | (115) |
| Total long-term liabilities | 2,462 | 2.9 | 2,500 | 2.9 | (38) |
| Total liabilities | 15,416 | 18.0 | 15,370 | 17.7 | 46 |
| **NET ASSETS** | | | | | |
| I. Shareholders’ equity: | | | | | |
| 1. Common stock | 10,795 | 12.6 | 10,795 | 12.5 | -- |
| 2. Capital reserve | 11,861 | 13.8 | 11,852 | 13.6 | 9 |
| 3. Retained earnings | 58,608 | 68.4 | 56,451 | 64.9 | 2,156 |
| 4. Treasury stock | (11,387) | (13.2) | (7,699) | (8.9) | (3,687) |
| Total shareholders’ equity | 69,877 | 81.6 | 71,399 | 82.1 | (1,521) |
| II. Valuation and translation gain | | | | | |
| 1. Net unrealized holding gain on other securities | 27 | 0.0 | 54 | 0.1 | (27) |
| 2. Foreign currency translation adjustment | (4) | (0.0) | (4) | (0.0) | -- |
| Total valuation and translation gain | 22 | 0.0 | 50 | 0.1 | (27) |
| III. Share warrants | 275 | 0.3 | 111 | 0.1 | 163 |
| IV. Minority interests | 94 | 0.1 | -- | | 94 |
| Total net assets | 70,268 | 82.0 | 71,560 | 82.3 | (1,291) |
| **Total Liabilities and Net Assets** | 85,685 | 100.0 | 86,931 | 100.0 | (1,245) |

## Consolidated Statements of Income

*Millions of yen, rounded down*

| | Fiscal year ended March 31, 2008 | | Fiscal year ended March 31, 2007 | | Change |
|---|---|---|---|---|---|
| | | % | | % | |
| **Net sales** | 99,349 | 100.0 | 101,065 | 100.0 | (1,715) |
| **Cost of sales**[1] | 32,362 | 32.6 | 33,895 | 33.5 | (1,532) |
| Gross profit | 66,987 | 67.4 | 67,170 | 66.5 | (182) |
| **Selling, general and administrative expenses**[1] | | | | | |
| Sales promotion expenses | 12,509 | | 13,502 | | (992) |
| Packing and transport expenses | 4,108 | | 4,008 | | 99 |
| Advertising expenses | 9,876 | | 9,393 | | 483 |
| Commission fee | 5,697 | | 5,566 | | 130 |
| Communications expenses | 2,111 | | 2,208 | | (96) |
| Directors remuneration | 565 | | 392 | | 172 |
| Salaries and bonuses | 10,181 | | 10,293 | | (112) |
| Provision for accrued bonuses | 1,009 | | 943 | | 65 |
| Provision for accrued pensions | 644 | | 333 | | 310 |
| Provision for retirement benefits for directors and corporate auditors | 12 | | 24 | | (11) |
| Compulsory welfare expenses | 1,080 | | 1,192 | | (111) |
| Welfare expenses | 493 | | 460 | | 32 |
| Stock compensation expense | 75 | | 38 | | 36 |
| Depreciation | 1,868 | | 1,562 | | 306 |
| Research and development expenses | 771 | | 948 | | (117) |
| Rent expenses | 1,349 | | 1,358 | | (9) |
| Provisions for allowance for bad debt | 115 | | 108 | | 6 |
| Other | 7,048 | | 6,461 | | 587 |
| Total selling, general and administrative expenses | 59,520 | 59.9 | 58,800 | 58.2 | 720 |
| Operating income | 7,467 | 7.5 | 8,370 | 8.3 | (903) |
| **Non-operating income** | | | | | |
| Interest income | 161 | | 117 | | 44 |
| Dividend income | 3 | | 1 | | 1 |
| Compensation payments received | 333 | | 54 | | 278 |
| Insurance premiums returned | 280 | | 134 | | 146 |
| Investment return from anonymous associations | 20 | | 161 | | (140) |
| Miscellaneous Income | 195 | | 153 | | 41 |
| Total net operating income | 993 | 1.0 | 621 | 0.6 | 372 |
| **Non-operating expenses** | | | | | |
| Interest expense | 4 | | -- | | 4 |
| Loss on disposal of obsolete inventories | 525 | | 429 | | 95 |
| Miscellaneous expenses | 165 | | 174 | | (8) |
| Total net operating expenses | 695 | 0.7 | 603 | 0.6 | 91 |
| Ordinary income | 7,765 | 7.8 | 8,388 | 8.3 | (622) |

# Consolidated Statements of Income (continued)

*Millions of yen, rounded down*

| | Fiscal year ended March 31, 2008 | | Fiscal year ended March 31, 2007 | | Change |
|---|---|---|---|---|---|
| **Extraordinary income** | | % | | % | |
| Gain from sale of fixed assets[2] | 0 | | 1 | | (1) |
| Funds distributed from liquidation of anonymous... | -- | | 633 | | (633) |
| Reversal of allowance for doubtful accounts | 5 | | -- | | 5 |
| Gain on sale of investments in securities | 6 | | -- | | 6 |
| Other extraordinary income | -- | | 7 | | (7) |
| Total extraordinary income | 12 | 0.0 | 641 | 0.6 | (629) |
| **Extraordinary expenses** | | | | | |
| Loss on disposal of fixed assets[3] | 150 | | 163 | | (13) |
| Impairment loss[4] | -- | | 981 | | (981) |
| Loss on revaluation of marketable securities | 13 | | 453 | | (440) |
| Loss on revaluation of shares in affiliates | 122 | | -- | | 122 |
| Transfer to allowance for doubtful accounts | -- | | 11 | | (11) |
| Loss on disposal of merchandize | -- | | 111 | | (111) |
| Loss from cancellation of lease | -- | | 0 | | (0) |
| 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) |
| Loss from voluntary product recalls | 261 | | -- | | 261 |
| Other extraordinary expenses | 39 | | 11 | | (27) |
| Total extraordinary expenses | 586 | 0.6 | 3,983 | 3.9 | (3,397) |
| Income before income taxes | 7,191 | 7.2 | 5,045 | 5.0 | 2,145 |
| Income taxes | 3,436 | | 3,292 | | 143 |
| Adjustment for income taxes | 64 | | (793) | | 858 |
| Total income before income taxes | 3,500 | 3.5 | 2,498 | 2.5 | 1,002 |
| Minority shareholder income | 4 | 0.0 | -- | -- | 4 |
| **Net income** | **3,694** | **3.7** | **2,547** | **2.5** | **1,147** |

## Changes in shareholders' equity during the period

### April 1, 2007 to March 31, 2008

(Millions of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital | Capital surplus | Retained profit | Treasury stock | Total shareholders' equity |
| Balance as of March 31, 2007 | 10,795 | 11,852 | 56,451 | (7,699) | 71,399 |
| Change during the period | | | | | |
| Surplus dividend | -- | -- | (1,538) | -- | (1,538) |
| Net income | -- | -- | 3,694 | -- | 3,694 |
| Acquisition of treasury stock | -- | -- | -- | (4,000) | (4,000) |
| Sale of treasury stock | -- | 9 | -- | 312 | 321 |
| Changes to items other than shareholders' equity during the period | -- | -- | -- | -- | -- |
| Total change during the period | -- | 9 | 2,156 | (3,687) | (1,521) |
| Balance as of March 31, 2008 | 10,795 | 11,861 | 58,608 | (11,387) | 69,877 |

| | Valuation and differences due to foreign exchange | | | Warrants | Minority interests | Total net assets |
|---|---|---|---|---|---|---|
| | Valuation differences on other marketable securities | Translation adjustment account | Total valuation and translation differences | | | |
| Balance as of March 31, 2007 | 54 | (4) | 50 | 111 | -- | 71,560 |
| Change during the period | | | | | | |
| Surplus dividend | -- | -- | -- | -- | -- | (1,538) |
| Net income | -- | -- | -- | -- | -- | 3,694 |
| Acquisition of treasury stock | -- | -- | -- | -- | -- | (4,000) |
| Sale of treasury stock | -- | -- | -- | -- | -- | 321 |
| Changes to items other than shareholders' equity during the period | (27) | -- | (27) | 163 | 94 | 229 |
| Total change during the period | (27) | -- | (27) | 163 | 94 | (1,291) |
| Balance as of March 31, 2008 | 27 | (4) | 22 | 275 | 94 | 70,268 |

## Changes in shareholders’ equity during the period

### April 1, 2006 to March 31, 2007

(Millions of yen)

| | Shareholders’ equity | | | | |
|---|---|---|---|---|---|
| | Capital | Capital surplus | Retained profit | 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 |
|---|---|---|---|---|---|
| | Valuation differences on other marketable securities | Translation adjustment account | 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 |

## Consolidated Statements of Cash Flows

*Millions of yen*

| | FY ended March 31, 2008 | FY ended March 31, 2007 | Change |
|---|---|---|---|
| **I. Cash flows from operating activities** | | | |
| Income before income taxes | 7,191 | 5,045 | 2,145 |
| Depreciation and amortization | 3,020 | 2,669 | 350 |
| Impairment loss | -- | 981 | (981) |
| Stock compensation plan expense | 182 | 118 | 63 |
| Goodwill | 70 | 13 | 56 |
| Increase (decrease) in allowance for doubtful accounts | 19 | 23 | (3) |
| Increase (decrease) in allowance for bonuses | 83 | 46 | 36 |
| Increase (decrease) in allowance for points | (353) | 1,849 | (2,202) |
| Increase (decrease) in allowance for retirement benefits | 252 | 107 | 145 |
| Increase (decrease) in allowance for directors retirement bonuses | (176) | 34 | (211) |
| Interest and dividend income | (164) | (118) | (45) |
| Interest paid | (4) | -- | (4) |
| Increase (decrease) from foreign exchange | 16 | (9) | 25 |
| Investment gain on anonymous association | (20) | (161) | 140 |
| Funds distributed from liquidation of anonymous associations | -- | (633) | 633 |
| Net refund of insurance premiums | (280) | (134) | (146) |
| Gain from sale of investment security | (6) | -- | (6) |
| Loss from revaluation from investments in securities | 13 | 453 | (440) |
| Loss on revaluation of investments in affiliates | 122 | -- | 122 |
| Gain on sale of tangible fixed assets | (0) | (1) | 1 |
| Loss on sale of tangible fixed assets | 53 | 15 | 38 |
| Loss on disposal of tangible fixed assets | 78 | 134 | (56) |
| Gain from disposal of intangible fixed assets | 7 | -- | 7 |
| Loss from write-off of long-term pre-paid expenses | 10 | 13 | (3) |
| Loss from sale of other investments | 38 | -- | 38 |
| Decrease (increase) in trade receivables | 25 | (1,006) | 1,031 |
| Decrease (increase) in inventories | 70 | (66) | 136 |
| Decrease (increase) in other current assets | 248 | (47) | 295 |
| Decrease (increase) in accounts payable | (151) | (265) | 114 |
| Increase (decrease) in other current liabilities | 126 | (118) | 244 |
| Increase (decrease) in other fixed liabilities | (415) | (56) | (359) |
| Others | (21) | 2 | (24) |
| **Sub-total** | 10,035 | 8,891 | 1,144 |
| Interest and dividends received | 181 | 105 | 75 |
| Interest paid | 4 | -- | 4 |
| Dividends received from anonymous associations | 20 | 704 | (684) |
| Refund received on insurance premiums | 716 | 151 | 565 |
| Income taxes paid | (3,579) | (3,381) | (198) |
| **Net cash provided by (used in) operating activities** | **7,379** | **6,472** | **907** |

## Consolidated Statements of Cash Flows continued

*Millions of yen*

| | FY ended March 31, 2008 | FY ended March 31, 2007 | Change |
|---|---|---|---|
| **II. Cash flows from investing activities** | | | |
| Repayment of fixed-term deposits | -- | (190) | 190 |
| Proceeds from liquidation of fixed-term deposits | 190 | -- | 190 |
| Acquisition of investment marketable securities | (15,477) | (12,988) | (2,488) |
| Proceeds from redemption of marketable securities | 17,480 | 12,695 | 4,784 |
| Payment for purchase of tangible fixed assets | (1,087) | (2,145) | 1,058 |
| Proceeds from sales of tangible fixed assets | 190 | 17 | 173 |
| Payment for purchase of intangible fixed assets | (1,024) | (1,829) | 804 |
| Payment for purchase of investment securities | (600) | (21) | (579) |
| Proceeds from sale and redemption investment securities | 16 | 800 | (783) |
| Payments for purchase of investments in affiliates | -- | (56) | 56 |
| Payments for acquisition of subsidiaries following changes to the scope of consolidation | (1,112) | -- | (1,112) |
| Payments for loans | (14) | -- | (14) |
| Proceeds from collection of loans | 758 | 38 | 719 |
| Payment for investment in anonymous associations | -- | (620) | 620 |
| Proceeds from investment in anonymous associations | -- | 2,701 | (2,701) |
| Payment for purchase of other investments | (147) | (305) | 157 |
| Proceeds from sales of other investments | 150 | 167 | (17) |
| Others | 6 | 2 | 3 |
| **Net cash used in investing activities** | **(672)** | **(1,733)** | **1,061** |
| **III. Cash flows from financing activities** | | | |
| Payments for repayment of short-term debt | (350) | -- | (350) |
| Payments for repayment of long-term debt | (266) | -- | (266) |
| Payments for redemption of bonds | (160) | -- | (160) |
| Net proceeds (payment) for purchase of treasury stock | -- | (1,076) | (2,648) |
| Payment for purchase of treasury stock | (4,000) | -- | (4,000) |
| Proceeds from sale of treasury stock | 274 | -- | 274 |
| Cash dividends paid | (1,534) | (1,418) | (115) |
| **Net cash used in financing activities** | (6,036) | **(2,495)** | **(3,540)** |
| **IV. Effect of exchange rate changes on cash and cash equivalents** | (21) | **--** | **(21)** |
| **V. Net increase in cash and cash equivalents** | 649 | **2,243** | **(1,593)** |
| **VI. Cash and cash equivalents at the beginning of the period** | **23,411** | **21,167** | **2,243** |
| **VII. Cash and cash equivalents at end of period** | **24,060** | **23,411** | **649** |

# Significant items for the Preparation of Consolidated Financial Statements

| Item | Fiscal year ended March 31, 2008 | Fiscal year ended March 31, 2007 |
|---|---|---|
| 1.Scope of Consolidation | 1) Number of consolidated subsidiaries: 7<br>Name of consolidated subsidiaries:<br>ATTENIR CORPORATION<br>NICOSTAR Co., Ltd.<br>IIMONO OHKOKU Co., Ltd<br>FANCL Hatsuga Genmai Co., Ltd.<br>FANCL ASIA (PTE) LTD.<br>FANCL B&H Co., Ltd.<br>CHALONE Inc.<br>During the consolidated fiscal year, CHALONE Inc. was included in the scope of consolidation from the acquisition of shares.<br>2) Main non-consolidated companies:<br>Same as right<br>Reasons for not being included in the scope of consolidation:<br>Same as right | 1) Number of consolidated subsidiaries: 6<br>Name of consolidated subsidiaries:<br>ATTENIR CORPORATION<br>NICOSTAR Co., Ltd.<br>IIMONO OHKOKU Co., Ltd<br>FANCL Hatsuga Genmai Co., Ltd.<br>FANCL ASIA (PTE) LTD.<br>FANCL B&H Co., Ltd.<br>2) Main non-consolidated companies<br>FANCL STAFF Co., Ltd.<br>FANCL Home Life Co., Ltd.<br>Reasons for not being included in the scope of consolidation:<br>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 | 1) Non-consolidated companies accounted for by the equity method:<br>Same as right<br>2) Affiliate companies accounted for by the equity method:<br>Same as right<br>3) Name of main Non-consolidated and affiliate companies accounted for by the equity method:<br>Same as right | 1) Non-consolidated companies accounted for by the equity method:<br>Not applicable<br>2) Affiliate companies accounted for by the equity method:<br>Not applicable<br>3) Name of main non-consolidated and affiliate companies accounted for by the equity method:<br>Non-consolidated:<br>FANCL STAFF Co., Ltd.<br>FANCL Home Life Co., Ltd.<br>Affiliate companies:<br>SHANGHAI WEMMING CLOTHING CO., Ltd.<br>Reasons for not being accounted for by the equity method:<br>Companies not accounted for by the equity method do not have a material effect on items such as net income and retained earnings in the consolidated financial statements and are therefore excluded from application of the equity method. |
| 3. Fiscal Year-End of Consolidated Subsidiaries | Same as right | Among consolidated subsidiaries, the fiscal year 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 prior to the consolidated closing date. |

| Item | Fiscal year ended March 31, 2008 | Fiscal year ended March 31, 2007 |
|---|---|---|
| 4. Accounting Standards<br>(1) Basis and method for valuation of major assets | 1) Other marketable securities:<br>Stocks with no market value:<br>Same as right<br>2) Derivatives:<br>Same as right<br>3) Inventories<br>Same as right | 1) Other marketable securities:<br>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 net capital costing method; cost of disposal is calculated by the moving average method.)<br>Stocks with no market value:<br>At cost by the average method<br>Regarding investments in anonymous associations, the net assets held by the company are calculated based on the most recent reporting period.<br>2) Derivatives:<br>Market value method<br>3) Inventories<br>Finished goods, work in process, raw materials: At cost by the average method<br>Merchandise: At cost by the monthly average method<br>Supplies: At cost by the last purchase price method |
| (2) Depreciation of Fixed Assets | 1) Tangible fixed assets<br>Buildings (not including attached facilities)<br>・ The former declining balance method is used for buildings acquired prior to March 31, 1998<br>・ The former straight-line method is used for buildings acquired between April 1, 1998 and March 31, 2007<br>・ The straight-line method is used for buildings acquired since April 1, 2007<br>Items other than buildings:<br>・ The declining balance method is used for items acquired prior to March 31, 2007<br>・ The declining-balance method is used for buildings acquired since April 1, 2007<br>The estimated useful lives for such assets are as follows:<br>Buildings and structures: 3–50 years<br>Machinery and transport equipment: 2–22 years<br>Furniture, tools and fixtures: 2–20 years<br>Additional information<br>As of the period ended September 30, 2007, for tangible fixed assets acquired since March 31, 2007 that have fully depreciated to their allowable limit of depreciation, the remaining balance will be amortized over 5 years by the straight line method starting from the following year. The effect of this change on operating income, ordinary income and net income before taxes is immaterial.<br>2) Intangible fixed assets:<br>Same as right<br>3) Long-term prepaid expenses:<br>Same as right | 1) Tangible fixed assets:<br>The fixed-amount method is applied to buildings acquired since April 1, 1998 (not including attached structures)<br>The estimated useful lives for such assets are as follows:<br>Buildings and structures: 3–50 years<br>Machinery and transport equipment: 2–22 years<br>Furniture, tools and fixtures: 2–20 years<br>2) Intangible fixed assets:<br>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)<br>3) Long-term prepaid expenses: Straight-line method |

| Item | Fiscal year ended March 31, 2008 | Fiscal year ended March 31, 2007 |
|---|---|---|
| (3) Allowances | 1) Allowance for doubtful accounts:<br>Same as right | 1) Allowance for doubtful accounts:<br>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:<br>Same as right | 2) Allowance for bonuses:<br>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<br>Same as right | 3) Allowance for points<br>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:<br>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.<br>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:<br>For the domestic affiliate companies to prepare for future retirement bonus payments to directors, the necessary provisions are made based on internal regulations. | 5) Allowance for directors' retirement bonuses:<br>For the parent company and domestic affiliate companies to prepare for future retirement bonus payments to directors, the necessary provisions are made based on internal regulations.<br>(Additional Information)<br>Following the passage of a motion at the 26th. Ordinary General Meeting of Shareholders, held June 17, 2006, to abolish the system of retirement allowances for directors, and to pay, instead, a retirement allowance to each resigning board member and corporate auditor corresponding to their term in office, the parent company has reported no reserves for retirement benefits for directors and corporate auditors in the period since.<br>With regard to domestic consolidated subsidiaries, reserves for retirement benefits for directors and corporate auditors necessary for the period have been recorded in line with internal policies. |
| (4) Foreign currency-denominated assets and liabilities | Foreign currency-denominated assets and liabilities:<br>Same as right | Foreign currency-denominated assets and liabilities:<br>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) Lease Accounting | Lease Accounting:<br>Same as right | Lease Accounting:<br>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) Other important items affecting the preparation of these financial statements: | Calculation methods used in relation to consumption tax, etc.<br>Same as right | Calculation methods used in relation to consumption tax, etc.<br>All transactions are posted exclusive of consumption and other taxes. |

| Item | Fiscal year ended March 31, 2008 | Fiscal year ended March 31, 2007 |
|---|---|---|
| 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 goodwill and negative goodwill | Same as right | Goodwill is amortized in equal amounts over five years. However small amounts are amortized in full in the fiscal year in which they arise. |
| 7) 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, 2008 | Fiscal year ended March 31, 2007 |
|---|---|
| ---------------- | Allowance for Points<br>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, ordinary income is higher by ¥283 million and income before income and other taxes is lower by ¥1.849 billion. 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 would have been ¥81 million lower and income before income and other taxes would have been ¥2.213 billion lower.<br>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<br><br>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.<br>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. |

| | |
|---|---|
| Changes to the accounting methods of allowance for deprecation of tangible fixed-assets<br>For acquisitions made on or after April 1, 2007, accounting methods after revisions to the Corporate Law apply.<br>This follows certain revisions made to the Corporate Tax Law ((Certain revisions made to the Income Tax Act by government decree, March 30, 2007 Law Number 6) and (Certain revisions made to the enforcement order of the Corporate Tax Code by government ordinance 83, March 30, 2007).<br>The effects on operating income, ordinary income and net income before taxes as a result of this change are immaterial. | ---------------- |

Change in the method of disclosure

| Fiscal year ended March 31, 2008 | Fiscal year ended March 31, 2007 |
|---|---|
| Consolidated Balance Sheet<br>In accordance with the announcement by the Japanese Institute of Certified Public Accountants, in Audit Document No. 1, Commission report No. 42, April 13, 2007, under the audit of reserve for the Special Taxation Measures Law regarding the allowance and reserve of the Special Act, the amount of reserve for retirement benefits for directors and corporate auditors will be transferred to long-term accounts payable and included in 'Other fixed liabilities'. Following this transfer, and as of March 31, 2008, the balance of the reserve for retirement benefits for directors and corporate auditors in long-term accounts payable was ¥161 million.<br>As regards the bonus system for retiring directors and corporate auditors, at the 26th General Shareholders' Meeting held June 17, 2006, it was decided that retirement bonus for directors and corporate auditors would be abolished and that retirement bonus earned up until June 17, 2006 will not be recorded and will be paid upon retirement. | Consolidated Balance Sheet<br>Items displayed as the "Consolidated Adjustment Account" during the previous consolidated accounting period, will be displayed as "Goodwill" from the present consolidated accounting period. |
| (Consolidated Cash Flow Account)<br>The relative importance of the net amount of 'Net proceeds (payment) for purchase of treasury stock', has increased since fiscal year ended March 31, 2007. As of the current fiscal year, the item has been amount has been classified as 'Payment for purchase of treasury stock' and 'Proceeds from sale of treasury stock'. | (Consolidated Cash Flow Account)<br>Items displayed as "Consolidated Adjustment Account Write Offs," during the previous consolidated accounting period, will displayed as "Goodwill Write Offs" from the present consolidated accounting period. |

| Fiscal year ended March 31, 2008 | Fiscal year ended March 31, 2007 |
|---|---|
| *1　Non-consolidated subsidiaries and affiliates<br>Investment securities (equities): ¥423 million<br>Other investment assets: ¥25 million (investments)<br>*2 The company is a co-guarantor of ¥1,911 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 ¥30 million (US$ 300,000) in respect of our non-consolidated subsidiary FANCL International, Inc.)<br>*3 Assets pledged as collateral<br>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 ¥1,618 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.<br>*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.<br>*5 The amount of accumulated impairment losses is included in accumulated depreciation. | *1　Non-consolidated subsidiaries and affiliates<br>Investment securities (equities): ¥545 million<br>Other investment assets: ¥25 million (investments)<br>*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.)<br>*3 Assets pledged as collateral<br>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.<br>*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.<br>*5 The amount of accumulated impairment losses is included in accumulated depreciation. |

## Notes to consolidated statements of income

<table>
<tr><th>April 1, 2007 to March 31, 2008</th><th>April 1, 2006 to March 31, 2007</th></tr>
<tr><td>*1 Research and development expenses of ¥2,302 million are included in SG&A expenses and production expenses for the period.</td><td>*1 Research and development expenses of ¥2,326 million are included in SG&A expenses and production expenses for the period.</td></tr>
<tr><td>2 Income from the disposal of fixed assets was primarily due to the sale of factory equipment and facilities.</td><td>2 Income from the disposal of fixed assets was primarily due to the sale of land and buildings in Kamakura City, Kanagawa Prefecture.</td></tr>
<tr><td>3 Disposal losses from fixed assets was primarily due to disposals associated with store renovations and closures.</td><td>3 Disposal losses from fixed assets was primarily due to disposals and replacing air-conditioning equipment associated with store renovations and closures.</td></tr>
<tr><td></td><td>4 Impairment losses <i>(Millions of yen)</i>
<table>
<tr><th>Facility</th><th>Type</th><th>Amount</th><th>Location</th></tr>
<tr><td rowspan="5">Factory</td><td>Buildings &. Structures</td><td>346</td><td rowspan="5">Tomi City, Nagano Prefecture<br>&<br>Mitoyo City Kagawa Prefecture</td></tr>
<tr><td>Machinery and Automotive equipment</td><td>28</td></tr>
<tr><td>Equipment and fixtures</td><td>3</td></tr>
<tr><td>Intangible fixed assets</td><td>0</td></tr>
<tr><td>Lease assets</td><td>602</td></tr>
</table>
The FANCL Group mainly conducts asset grouping on a business category basis.<br>Idle assets are grouped on a facility unit basis.<br>The company has accounted for ¥981 million of impairment losses where the recoverable value of assets is less than the book value.<br>The company has calculated the recoverable value of idle assets based on their useful value with future cash flows discounted at 4.9%.</td></tr>
</table>

## Changes to shareholders’ equity during the period April 1, 2007 to March 31, 2008

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

| | Number of shares as of March 31, 2007 | Increase of shares during fiscal year to March 31, 2008 | Decrease of shares during fiscal year to March 31, 2008 | Number of shares as of March 31, 2008 |
|---|---|---|---|---|
| Shares issued | | | | |
| Common shares (note 1) | 70,176,600 | -- | -- | 70,176,600 |
| Total | 70,176,600 | -- | -- | 70,176,600 |
| Treasury stock | | | | |
| Common shares (note 2,3) | 6,188,080 | 3,002,323 | 245,540 | 8,944,863 |
| Total | 6,188,080 | 3,002,323 | 245,540 | 8,944,863 |

Note: 1. The increase of 3,002,323 in treasury stock was due to an increase of 2,323 as a result of purchases of odd lot shares and an increase of 3,000,000 shares from the purchase of our own shares following a decision by the board of directors.

2. The decrease of 245,540 in treasury stock was due to a reduction of 245,300 shares through the exercise of share warrants, and 240 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, 2008 (¥million) |
|---|---|---|---|---|---|---|---|
| | | | FY ending March 31, 2007 | Increase of shares during fiscal year to March 31, 2008 | Decrease of shares during fiscal year to March 31, 2008 | Number of shares at end fiscal year March 31, 2008 | |
| Parent company | Stock option share warrants | — | — | — | — | — | 275 |
| Total | | — | — | — | — | — | 275 |

### 3. Dividends

(1) Amounts paid

| Date confirmed | Type of stock | Total dividends paid | Dividends per share | Dividend record date | Effective date |
|---|---|---|---|---|---|
| May 16, 2007<br>Board of directors’ meeting | Common shares | ¥767 million | ¥12 | March 31, 2007 | June 18, 2007 |
| November 1, 2007<br>Board of directors’ meeting | Common shares | ¥770 million | ¥12 | September 30, 2007 | December 3, 2007 |

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

Decision-making schedule as follows:

| Date to be confirmed | Type of stock | Total Dividends paid | Source of dividends | Dividends per share | Dividend record date | Effective date |
|---|---|---|---|---|---|---|
| May 15, 2008<br>Board of directors’ meeting | Common shares | ¥734 million | Profit reserve | ¥12 | March 31, 2008 | June 16, 2008 |

## 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 3,730,180 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<br>Shareholders’ meeting | Common shares | ¥645 million | ¥30 | March 31, 2006 | June 17, 2006 |
| November 1, 2006<br>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<br>Board of directors’ meeting | Common shares | ¥767 million | Profit reserve | ¥12 | March 31, 2007 | June 18, 2007 |

## Notes to the Consolidated Statements of Cash Flows

*(Millions of yen)*

| April 1, 2007 to March 31, 2008 | | April 1, 2006 to March 31, 2007 | |
|---|---|---|---|
| 1. Relationship of cash and cash equivalents at the period end to amounts recorded in the consolidated balance sheets | | 1. Relationship of cash and cash equivalents at the period end to amounts recorded in the consolidated balance sheets | |
| | As at March 31, 2008 | | As at March 31, 2007 |
| Cash and deposits | 16,551 | Cash and deposits | 14,303 |
| Marketable securities | 13,508 | Marketable securities | 16,294 |
| TOTAL | 30,060 | TOTAL | 30,598 |
| Fixed deposits with maturities exceeding 3 months | (1,000) | Fixed deposits with maturities exceeding 3 months | (190) |
| Marketable securities with maturities exceeding 3 months | (4,999) | Marketable securities with maturities exceeding 3 months | (6,997) |
| Cash and cash equivalents | 24,060 | Cash and cash equivalents | 23,411 |
| 2. Breakdown of assets and liabilities, as well as the value of shares acquired and net payment for the acquisition of CHALONE Inc. at the time of consolidation are as follows: | | ---------- | |
| | *(Millions of yen)* | | |
| Current assets | 1,615 | | |
| Fixed assets | 748 | | |
| Goodwill | 795 | | |
| Current liabilities | (603) | | |
| Fixed liabilities | (775) | | |
| Minority interest | (98) | | |
| Value of CHALONE Inc. shares acquired | 1,681 | | |
| Cash and cash equivalents of CHALONE Inc. | (569) | | |
| Payment for acquisition of CHALONE Inc. | 1,112 | | |

**LEASES** *(Millions of yen)*

<table>
<tr><th>April 1, 2007 to<br>March 31, 2008</th><th>April 1, 2006 to<br>March 31, 2007</th></tr>
<tr><td>1. Finance leases in which the right of ownership is not transferred to the lessee.</td><td>1. Finance leases in which the right of ownership is not transferred to the lessee.</td></tr>
<tr><td>(1) Purchase cost, accumulated depreciation, impairment losses and balance at end of period.</td><td>(1) Purchase cost, accumulated depreciation, impairment losses and balance at end of period.</td></tr>
<tr><td>
<table>
<tr><th></th><th>Purchase cost</th><th>Accumulated depreciation</th><th>Impairment losses</th><th>Balance at end of period</th></tr>
<tr><td>Machinery and transport equipment</td><td>4,855</td><td>2,790</td><td>602</td><td>1,461</td></tr>
<tr><td>Furniture, tools and fixtures</td><td>1,095</td><td>638</td><td>--</td><td>456</td></tr>
<tr><td>Total</td><td>5,950</td><td>3,428</td><td>602</td><td>1,918</td></tr>
</table>
</td><td>
<table>
<tr><th></th><th>Purchase cost</th><th>Accumulated depreciation</th><th>Impairment losses</th><th>Balance at end of period</th></tr>
<tr><td>Machinery and transport equipment</td><td>5,268</td><td>2,735</td><td>602</td><td>1,930</td></tr>
<tr><td>Furniture, tools and fixtures</td><td>1,095</td><td>469</td><td>0</td><td>626</td></tr>
<tr><td>Total</td><td>6,363</td><td>3,204</td><td>602</td><td>2,556</td></tr>
</table>
</td></tr>
<tr><td>
2. Future lease payments
<table>
<tr><td>Within one year</td><td>833</td></tr>
<tr><td>More than one year</td><td>1,629</td></tr>
<tr><td>Total</td><td>2,462</td></tr>
<tr><td>Balance of lease asset impairment account</td><td>452</td></tr>
</table>
</td><td>
2. Future lease payments
<table>
<tr><td>Within one year</td><td>831</td></tr>
<tr><td>More than one year</td><td>2,416</td></tr>
<tr><td>Total</td><td>3,248</td></tr>
<tr><td>Balance of lease asset impairment account</td><td>602</td></tr>
</table>
</td></tr>
<tr><td>
3. Lease payments, impairment loss account write-off, depreciation expenses, interest expenses and impairment losses
<table>
<tr><td>Lease payments</td><td>752</td></tr>
<tr><td>Impairment loss account write-off</td><td>150</td></tr>
<tr><td>Depreciation expenses</td><td>685</td></tr>
<tr><td>Interest expenses</td><td>68</td></tr>
<tr><td>Impairment loss</td><td>--</td></tr>
</table>
</td><td>
3. Lease payments, impairment loss account write-off, depreciation expenses, interest expenses and impairment losses
<table>
<tr><td>Lease payments</td><td>967</td></tr>
<tr><td>Impairment loss account write-off</td><td>--</td></tr>
<tr><td>Depreciation expenses</td><td>920</td></tr>
<tr><td>Interest expenses</td><td>88</td></tr>
<tr><td>Impairment loss</td><td>602</td></tr>
</table>
</td></tr>
<tr><td>4. Method of calculating depreciation and interest expenses<br>Method of calculating depreciation expense<br>Same as right</td><td>4. Method of calculating depreciation and interest expenses<br>Method of calculating depreciation expense<br>Depreciation expense is calculated by the straight -line method over the lease term of the lease asset assuming no residual value.</td></tr>
<tr><td>Method of calculating interest expense<br>Same as right</td><td>Method of calculating interest expense<br>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.</td></tr>
<tr><td>
2. Operating leases<br>Outstanding lease amounts
<table>
<tr><td>Within one year</td><td>2</td></tr>
<tr><td>More than one year</td><td>7</td></tr>
<tr><td>Total</td><td>10</td></tr>
</table>
</td><td>
2. Operating leases<br>Outstanding lease amounts
<table>
<tr><td>Within one year</td><td>1</td></tr>
<tr><td>More than one year</td><td>0</td></tr>
<tr><td>Total</td><td>2</td></tr>
</table>
</td></tr>
</table>

## Value of other securities

### 1. Market Value of Other Marketable Securities

*(Millions of yen)*

| Type | As of March 31, 2008 | | |
|---|---|---|---|
| Other marketable securities Exceeding acquisition cost | Acquisition Cost | Book Value | Unrealized Gain (Loss) |
| 1. Stocks | 66 | 112 | 46 |
| 2. Bonds | -- | -- | -- |
| 3. Others | -- | -- | -- |
| Total | 66 | 112 | 46 |
| Other marketable securities Not exceeding acquisition cost | | | |
| 1. Stocks | 1 | 1 | (0) |
| 2. Bonds | -- | -- | -- |
| 3. Others | -- | -- | -- |
| Total | 1 | 1 | (0) |
| Net total | 67 | 113 | 46 |

### 2. Other marketable securities sold during the period April 1, 2007 to March 31, 2008:

*(Millions of yen)*

| Sale value | Total income from sale | Total loss from sale |
|---|---|---|
| 16 | 6 | ― |

### 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 | 2,996 |
| Commercial paper (CP) | 2,497 |
| Foreign bonds | 5,999 |
| Other | 2,013 |
| (Fixed assets) | |
| Government agency bonds | 500 |
| Unlisted stocks | 203 |
| Total | 14,211 |

### 4. Estimated maturity value of other marketable securities with future maturity dates

1. Other marketable securities

*(Millions of yen)*

| Type | Maturities within one year | Maturities in excess of one year |
|---|---|---|
| Other marketable securities | | |
| (Current assets) | | |
| Bonds | 2,996 | -- |
| Commercial paper (CP) | 2,497 | -- |
| Foreign bonds | 5,999 | -- |
| Other | 2,013 | -- |
| (Fixed assets) | | |
| Government agency bonds | -- | 500 |
| Total | 13,508 | 500 |

## 1. Market Value of Other Marketable Securities

*(Millions of yen)*

| Type | As of March 31, 2007 | | |
|---|---|---|---|
| Other marketable securities<br>Exceeding acquisition cost | Acquisition Cost | Book Value | Unrealized Gain (Loss) |
| 1. Stocks | 65 | 158 | 92 |
| 2. Bonds | -- | -- | -- |
| 3. Others | -- | -- | -- |
| Subtotal | 65 | 158 | 92 |
| Other marketable securities<br>Not exceeding acquisition cost | | | |
| 1. Stocks | 0 | 0 | (0) |
| 2. Bonds | -- | -- | -- |
| 3. Others | -- | -- | -- |
| Subtotal | 0 | 0 | (0) |
| 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, 2006 |
|---|---|
| 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

1. Other marketable securities

*(Millions of yen)*

| 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 | -- |

## SEGMENT INFORMATION

### a. Business Segments

For the fiscal year April 1, 2007 to March 31, 2008 *(Millions of yen)*

| | Cosmetics Business | Nutritional Supplements Business | Other Businesses | Total | Eliminations or Corporate | Consolidated |
|---|---|---|---|---|---|---|
| **1. Sales and operating income:**<br>(1) Sales to external customers | 49,061 | 30,017 | 20,270 | 99,349 | -- | 99,349 |
| (2) Inter-segment sales or transfers | -- | -- | -- | -- | -- | -- |
| Total sales | 49,061 | 30,017 | 20,270 | 99,349 | -- | 99,349 |
| Operating expenses | 41,652 | 26,511 | 21,655 | 89,819 | 2,062 | 91,882 |
| Operating income (loss) | 7,409 | 3,505 | (1,384) | 9,529 | (2,062) | 7,497 |
| **2. Assets, depreciation and capital payments** | | | | | | |
| Assets | 32,713 | 14,652 | 12,480 | 59,846 | 25,838 | 85,685 |
| Depreciation | 1,695 | 733 | 360 | 2,788 | 62 | 2,851 |
| Impairment losses | -- | -- | -- | -- | -- | -- |
| Capital payments | 1,471 | 643 | 202 | 2,317 | -- | 2,317 |

Notes:

1. Segmentation has been adopted for internal management purposes.
2. Segment operations are as follows:
   1. Cosmetic Business: Mail-order and retail sales and wholesaling of a variety of cosmetics products
   2. Nutritional Supplements Business: Mail-order and retail sales and wholesaling of a variety of nutritional supplements
   3. Other businesses: Mail-order of personal sundries, accessories, undergarments, health equipment and household sundries, mail-order and retail sales and wholesales of *Hatsuga Genmai* (germinated brown rice) and Kale Juice, etc.
3. Unallocatable operating expenses of ¥2,062 million included in “Eliminations or Corporate” consist of operating expenses incurred by the Administration Department of the Company and expenses for stock options for directors.
4. Total company assets of ¥25,838 consist of 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.

### a. Business Segments

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:**<br>(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 | -- | 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 | -- | -- | 981 | 981 | -- | 981 |
| 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:
    1. Cosmetic Business: Mail-order and retail sales and wholesaling of a variety of cosmetics products
    2. Nutritional Supplements Business: Mail-order and retail sales and wholesaling of a variety of nutritional supplements
    3. Other businesses: Mail-order of personal sundries, accessories, undergarments, health equipment and household sundries, mail-order and retail sales and wholesales of *Hatsuga Genmai* (germinated brown rice) and Kale Juice, etc.
3. Unallocatable operating expenses of ¥1,768 million included in "Eliminations or Corporate" consist of operating expenses incurred by the Administration Department of the Company.
4. Total company assets of ¥27,991 million consist of 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.

Allowances for Points

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 |

Stock Options

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 previous fiscal year April 1, 2006 to March 31, 2007 and the current fiscal year April 1, 2007 to March 31, 2008, more than 90% of the Company’s sales were in the domestic market. Accordingly, information on sales by geographic area is not included in this report.

### c. Overseas sales

For the previous fiscal year April 1, 2006 to March 31, 2007 and the current fiscal year April 1, 2007to March 31, 2008, sales in overseas markets did not exceed 10% of consolidated net sales. Accordingly, overseas sales information is not included in this report.

Per Share Information

| | FY Ended March 31, 2008 | FY ended March 31, 2007 |
|---|---|---|
| Net assets per share | ¥1,141.56 | ¥1,116.59 |
| Net income per share | ¥58.42 | ¥39.59 |
| Net income per share (diluted) | ¥58.10 | ¥39.13 |
| | | On April 1, 2006 FANCL conducted a 3:1 share split. Assuming the share split occurred at the beginning of the previous fiscal year, per share information would be as follows:<br>FY ending March 31, 2006<br>Net assets per share: ¥1,105.67<br>Net income per share: ¥80.85<br>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, 2008 | FY ended March 31, 2007 |
|---|---|---|
| Net income (loss) (¥ million) | 3,694 | 2,547 |
| Amount not attributable to common shareholders (¥ million) | -- | -- |
| Net income (loss) attributable to common shares (¥ million) | 3,694 | 2,547 |
| Average number of outstanding common shares during the year (1,000 shares) | 63,244,832 | 64,337,850 |
| Breakdown of additional common shares used for calculating net income per share (diluted) (1,000 shares) | 346,803 | 759,760 |
| 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:<br>Number of residual securities: 468,000 | 1 type of subscription rights:<br>Number of residual securities: 468,000 |

Omissions

Due to the immaterial effect of transactions with related parties, deferred tax accounting, retired benefits, stock options, etc., have on the financial statements, these items have been omitted.

## Non-consolidated Balance Sheets

*Millions of yen*

| | As of March 31, 2008 | | As of March 31, 2007 | | Change |
|---|---|---|---|---|---|
| **ASSETS** | | % | | % | |
| **I. Current assets:** | | | | | |
| Cash and cash equivalents | 8,050 | | 7,594 | | 456 |
| Notes receivable | 4 | | 4 | | (0) |
| Accounts receivable | 7,656 | | 7,601 | | 55 |
| Marketable securities | 8,498 | | 12,293 | | (3,794) |
| Merchandise | 2,465 | | 2,590 | | (124) |
| Supplies | 267 | | 218 | | 48 |
| Prepaid expenses | 300 | | 205 | | 95 |
| Deferred tax assets | 984 | | 1,129 | | (145) |
| Income receivable | 143 | | 211 | | (67) |
| Short-term loans to affiliate companies | 405 | | 657 | | (252) |
| Others | 344 | | 329 | | 14 |
| Allowance for doubtful accounts | (23) | | (31) | | 7 |
| Total current assets | 29,097 | 44.1 | 32,804 | 47.1 | (3,706) |
| **II. Fixed assets:** | | | | | |
| Tangible fixed assets | | | | | |
| Buildings | 10,420 | | 10,297 | | 122 |
| Accumulated depreciation | 4,771 | | 4,280 | | 491 |
| Structures | 510 | | 508 | | 1 |
| Accumulated depreciation | 340 | | 317 | | 22 |
| Machinery and fittings | 524 | | 521 | | 3 |
| Accumulated depreciation | 450 | | 425 | | 24 |
| Vehicles | 17 | | 17 | | -- |
| Accumulated depreciation | 13 | | 12 | | 1 |
| Furniture and fixtures | 3,250 | | 3,150 | | 100 |
| Accumulated depreciation | 2,525 | | 2,389 | | 136 |
| Land | 7,167 | | 7,167 | | -- |
| Construction in progress | 64 | | 60 | | 3 |
| Total tangible fixed assets | 13,854 | 21.0 | 14,298 | 20.5 | (444) |
| Intangible fixed assets | | | | | |
| Trademarks | 11 | | 10 | | 0 |
| Software | 2,543 | | 1,312 | | 1,231 |
| Software suspense account | 274 | | 1,247 | | (972) |
| Utility rights | 3 | | 4 | | (1) |
| Telephone subscription rights | 47 | | 47 | | -- |
| Total intangible fixed assets | 2,880 | 4.4 | 2,622 | 3.8 | 258 |
| Investments and other assets | | | | | |
| Investments securities | 814 | | 284 | | 530 |
| Shares in affiliates | 8,669 | | 6,992 | | 1,677 |
| Contribution to capital | 646 | | 650 | | (4) |
| Long-term loans receivable | 93 | | 147 | | (54) |
| Long-term loans to affiliated companies | 6,221 | | 6,091 | | 130 |
| Bankruptcy reclamation, etc. | 54 | | -- | | 54 |
| Long-term prepaid expenses | 144 | | 206 | | (61) |
| Deferred tax assets | 488 | | 503 | | (14) |
| Long-term deposits | 3,000 | | 4,000 | | (1,000) |
| Guarantee money | 2,368 | | 2,438 | | (70) |
| Insurance reserve | 6 | | 299 | | (293) |
| Other investments and assets | 53 | | 53 | | -- |
| Allowance for doubtful accounts | (2,430) | | (1,793) | | (636) |
| Total investments and other assets | 20,130 | 30.5 | 19,873 | 28.6 | 256 |
| Total fixed assets | 36,865 | 55.9 | 36,794 | 52.9 | 70 |
| **Total assets** | **65,962** | **100.0** | **69,599** | **100.0** | **(3,636)** |

## Non-consolidated Balance Sheets (continued)

*Millions of yen*

| | As of March 31, 2008 | | As of March 31, 2007 | | Change |
|---|---|---|---|---|---|
| **LIABILITIES** | | % | | % | |
| I. Current liabilities: | | | | | |
| Accounts payable | 2,152 | | 2,672 | | (520) |
| Accrued liabilities | 3,107 | | 2,369 | | 738 |
| Accrued expenses | 418 | | 393 | | 25 |
| Accrued income taxes | 955 | | 1,776 | | (821) |
| Accrued consumption taxes | 14 | | 167 | | (152) |
| Advances from customers | 6 | | 6 | | (0) |
| Withholdings | 230 | | 203 | | 27 |
| Allowance for bonuses | 792 | | 732 | | 59 |
| Allowance for points | 1,458 | | 1,849 | | (391) |
| Others | 14 | | 10 | | 3 |
| Total current liabilities | 9,149 | 13.9 | 10,180 | 14.7 | (1,031) |
| II. Long-term liabilities: | | | | | |
| Allowance for retirement bonuses | 1,076 | | 906 | | 169 |
| Allowance for directors' retirement bonuses | -- | | 189 | | (189) |
| Others | 240 | | 105 | | 135 |
| Total long-term liabilities | 1,316 | 2.0 | 1,201 | 1.7 | 115 |
| Total liabilities | 10,466 | 15.9 | 11,381 | 16.4 | (915) |
| **Owners' Equity** | | | | | |
| I. Capital | 10,795 | 16.4 | 10,795 | 15.5 | -- |
| II. Capital surplus | | | | | |
| Capital reserve | 11,706 | | 11,706 | | -- |
| Other capital surplus | 155 | | 145 | | 9 |
| Total capital surplus | 11,861 | 18.0 | 11,852 | 17.0 | 9 |
| III. Retained earnings | | | | | |
| Revenue reserve | 267 | | 267 | | -- |
| Other retained earnings | | | | | |
| Special reserve | 40,900 | | 40,900 | | -- |
| Surplus brought forward | 2,757 | | 1,935 | | 821 |
| Total retained earnings | 43,924 | 66.6 | 43,103 | 61.9 | 821 |
| IV. Treasury stock | (11,387) | (17.3) | (7,699) | (11.1) | (3,687) |
| Shareholders' equity total | 55,193 | 83.7 | 58,050 | 83.3 | (2,856) |
| Valuation, translation adjustments, etc. | | | | | |
| I. Unrealized holding gain on securities | 27 | 0.0 | 54 | 0.1 | (27) |
| Total valuation, translation adjustments | 27 | 0.0 | 54 | 0.1 | (27) |
| Share warrants: | 275 | 0.4 | 111 | 0.2 | 163 |
| Total net assets total | 55,496 | 84.1 | 58,217 | 83.6 | (2,721) |
| **Total liabilities and net assets** | 65,962 | 100.0 | 69,599 | 100.0 | (3,636) |

# Non-consolidated Statements of Income

*Millions of yen*

| | Fiscal year ended March 31, 2008 | | Fiscal year ended March 31, 2007 | | Change |
|---|---|---|---|---|---|
| | | % | | % | |
| Net sales | 74,917 | 100.0 | 76,574 | 100.0 | (1,657) |
| Cost of goods sold | | | | | |
| Inventory at start of period | 2,590 | | 2,250 | | 339 |
| Purchases during the year | 25,793 | | 28,291 | | (2,497) |
| Total sales | 28,384 | | 30,541 | | (2,157) |
| Other transfers | 774 | | 1,909 | | (1,134) |
| Inventory at end of period | 2,465 | | 2,590 | | (124) |
| Total of net sale | 49,773 | 66.4 | 50,532 | 66.0 | (759) |
| Selling, general and administrative expenses | | | | | |
| Sales promotion expenses | 8,548 | | 9,609 | | (1,060) |
| Packing and transport expenses | 3,022 | | 2,954 | | 68 |
| Advertising expenses | 6,075 | | 5,784 | | 291 |
| Commission fee | 5,146 | | 5,036 | | 109 |
| Outsourcing expenses | 2,595 | | 2,469 | | 125 |
| Communication expenses | 1,229 | | 1,313 | | (83) |
| Provisions for allowance for bad debt | 25 | | 22 | | 3 |
| Directors' remuneration | 446 | | 320 | | 125 |
| Salaries and bonuses | 7,924 | | 8,150 | | (225) |
| Employee bonuses | 767 | | 714 | | 53 |
| Provision for accrued bonuses | 763 | | 705 | | 58 |
| Provision for accrued pensions | 529 | | 247 | | 282 |
| Provision for retirement benefits for directors and corporate auditors | -- | | 14 | | (14) |
| Welfare expenses | 384 | | 355 | | 29 |
| Compulsory welfare expenses | 950 | | 1,084 | | (133) |
| Stock compensation expenses | 75 | | 38 | | 36 |
| Depreciation | 1,649 | | 1,394 | | 255 |
| Research and development expenses | 750 | | 935 | | (185) |
| Rent expenses | 929 | | 938 | | (9) |
| Other | 3,472 | | 3,264 | | 208 |
| Total of selling, general and administrative expenses | **45,289** | 60.4 | 45,355 | 59.2 | (65) |
| **Operating income** | **4,484** | **6.0** | **5,177** | **6.8** | **(693)** |

## Non-consolidated Statements of Income (continued)

*Millions of yen*

| | Fiscal year ended March 31, 2008 | | Fiscal year ended March 31, 2007 | | Change |
|---|---|---|---|---|---|
| Non operating income | | % | | % | |
| Interest income | 146 | | 138 | | 7 |
| Dividend income | 73 | | 71 | | 1 |
| Income from funded research | 311 | | 236 | | 75 |
| Compensation payments received | 237 | | -- | | 237 |
| Insurance premiums returned | 199 | | 123 | | 76 |
| Investment return from anonymous associations | 20 | | 161 | | (140) |
| Income from lease of facilities | 7 | | 9 | | (1) |
| Income from operations from outsourcing by affiliates | 360 | | 339 | | 20 |
| Other non-operating income | 138 | | 173 | | (34) |
| Total of non operating income | 1,495 | 1.9 | 1,253 | 1.6 | 241 |
| Non operating expenses | | | | | |
| Loss on disposal of obsolete inventories | 418 | | 304 | | 113 |
| Transfer to allowance for bad debt | 644 | | -- | | 644 |
| Impairment losses | 97 | | 212 | | (114) |
| Total of non operating expenses | 1,160 | 1.5 | 517 | 0.7 | 643 |
| **Ordinary income** | **4,818** | **6.4** | **5,914** | **7.7** | **(1,095)** |
| Extraordinary income | | | | | |
| Gain from sale of fixed assets | -- | | 1 | | (1) |
| Gain on sale of investments in affiliated companies | -- | | 2 | | (2) |
| Distributions on dissolution of anonymous associations | -- | | 633 | | (633) |
| Gain from sale of investment securities | 6 | | -- | | 6 |
| Total extraordinary income | 6 | 0.0 | 636 | 0.8 | (630) |
| Extraordinary expenses | | | | | |
| Loss on disposal of fixed assets | 71 | | 116 | | (45) |
| Appraisal loss on investment securities | 13 | | -- | | 13 |
| Transfer of reserve for allowances for doubtful accounts | -- | | 992 | | (992) |
| Loss on disposal of merchandize | -- | | 105 | | (105) |
| Loss on cancellation of leases | -- | | 0 | | (0) |
| 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 | 4 | | 7 | | (2) |
| Total extraordinary income | 88 | 0.1 | 3,453 | 4.5 | (3,364) |
| Income before income taxes | 4,736 | 6.3 | 3,097 | 4.0 | 1,638 |
| Income taxes | 2,197 | | 2,517 | | (319) |
| Adjustment for income taxes | 179 | | (564) | | 743 |
| Total income tax | 2,376 | 3.2 | 1,952 | 2.5 | 423 |
| **Net income** | **2,359** | **3.1** | **1,144** | **1.5** | **1,215** |

## Changes in shareholders’ equity

For the fiscal year April 1, 2007 to March 31, 2008

*Millions of yen*

| | Shareholders’ equity | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital | Capital surplus | | | Retained profit | | | | Treasury stock | Total shareholders’ equity |
| | | Capital reserve | Other capital surplus | Total capital surplus | Earned reserve | Other retained profit | | Total retained profit | | |
| | | | | | | Special reserve | Retained profit carried forward | | | |
| Balance as of March 31, 2007 | 10,795 | 11,706 | 145 | 11,852 | 267 | 40,900 | 1,935 | 43,103 | (7,699) | 58,050 |
| Change during the period | | | | | | | | | | |
| Surplus dividend | -- | -- | -- | -- | -- | -- | (1,538) | (1,538) | -- | (1,538) |
| Net income | -- | -- | -- | -- | -- | -- | 2,359 | 2,359 | -- | 2,359 |
| Acquisition of treasury stock | -- | -- | -- | -- | -- | -- | -- | -- | (4,000) | (4,000) |
| Sale of treasury stock | -- | -- | 9 | 9 | -- | -- | -- | -- | 312 | 321 |
| Changes to items other than shareholders’ equity during the period | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Total change during the period | -- | -- | 9 | 9 | -- | -- | 821 | 821 | (3,687) | (2,856) |
| Balance as of March 31, 2008 | 10,795 | 11,706 | 155 | 11,861 | 267 | 40,900 | 2,757 | 43,924 | (11,387) | 55,193 |

| | 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, 2007 | 54 | 54 | 111 | 58,217 |
| Change during the period | | | | |
| Surplus dividend | -- | -- | -- | (1,538) |
| Net income | -- | -- | -- | 2,359 |
| Acquisition of treasury stock | -- | -- | -- | (4,000) |
| Sale of treasury stock | -- | -- | -- | 321 |
| Changes to items other than shareholders’ equity during the period | (27) | (27) | 163 | 135 |
| Total change during the period | (27) | (27) | 163 | (2,721) |
| Balance as of March 31, 2008 | 27 | 27 | 275 | 55,496 |

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

*Millions of yen*

| | Shareholders' equity | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital | Capital surplus | | | Retained profit | | | | Treasury stock | Total shareholders' equity |
| | | | | | | Other retained profit | | | | |
| | | Capital reserve | Other capital surplus | Total capital surplus | Earned reserve | Special reserve | Retained profit carried forward | Total retained profit | | |
| 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) |
| Sale 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) |
| Sale 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 for the Non-Consolidated Financial Statements

| Item | FY year ended March 31, 2008 | FY ended March 31, 2007 |
|---|---|---|
| 1) Basis and method for valuation of marketable securities | (1) Shares of subsidiaries and affiliates:<br>Same as right<br>(2) Other marketable securities:<br>Same as right | (1) Shares of subsidiaries and affiliates:<br>At cost by the average method<br>(2) Other marketable securities:<br>Stocks with market value:<br>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 net capital costing method; cost of disposal is calculated by the moving average method.)<br>Stocks with no market value:<br>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: | Derivatives:<br>Same as right | Derivatives:<br>Market value method |
| 3) Inventories | (1) Finished goods:<br>Same as right<br>(2) Supplies:<br>Same as right | (1) Finished goods:<br>At cost by the monthly average method<br>(2) Supplies:<br>At cost using LIFO |
| 4) Depreciation of Fixed Assets | (1) Tangible fixed assets<br>Buildings (not including attached facilities)<br>The former declining balance method is used for buildings acquired prior to March 31, 1998.<br>The former straight-line method is used for buildings acquired between April 1, 1998 and March 31, 2007.<br>The straight-line method is used for buildings acquired since April 1, 2007<br>Items other than buildings:<br>The declining balance method is used for items acquired prior to March 31, 2007.<br>The declining-balance method is used for buildings acquired since April 1, 2007.<br>The estimated useful lives for such assets are as follows:<br>Buildings: 3-50 years<br>Machinery and transport equipment: 2–20 years<br>Furniture, tools and fixtures: 2-19 years<br><br>Additional information<br>For tangible fixed assets acquired since March 31, 2007 that have fully depreciated to their allowable limit of depreciation, the remaining balance will be amortized over 5 years by the straight-line method starting from the following year. The effect of this change on operating income, ordinary income and net income before taxes is immaterial.<br><br>(2) Intangible fixed assets:<br>Same as right<br><br>(3) Long-term prepaid expenses:<br>Same as right | (1) Tangible fixed assets:<br>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.<br>The estimated useful lives for such assets are as follows:<br>Buildings: 3–50 years<br>Machinery and transport equipment: 2–20 years<br>Furniture, tools and fixtures: 2-19 years<br><br>(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)<br><br>(3) Long-term prepaid expenses:<br>Straight-line method |

|  |  |  |
|---|---|---|
| 5) Allowances | (1) Allowance for doubtful accounts:<br>Same as right | (1) Allowance for doubtful accounts:<br>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:<br>Same as right | (2) Allowance for bonuses:<br>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<br>Same as right | (3) Allowance for points<br>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:<br>Same as right | (4) Allowance for retirement bonuses:<br>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.<br>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:<br>----------------- | (5) Allowance for directors' retirement bonuses:<br>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.<br>Additional information:<br>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. |
| 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) Other important items affecting the preparation of these financial statements: | Calculation methods used in relation to consumption tax, etc.<br>Same as right | Calculation methods used in relation to consumption tax, etc.<br>All transactions are posted exclusive of consumption and other taxes. |

## Change in accounting treatment

| Fiscal year ended March 31, 2008 | Fiscal year ended March 31, 2007 |
|---|---|
| ----- | Allowance for Points<br>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 ¥4,000 million higher and cost of sales and SG&A expenses are ¥3,717 million higher, while ordinary income and income before income and other taxes are lower by ¥283 million and ¥1,849 million respectively.<br>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 million lower and cost of sales and SG&A expenses ¥2,163 million lower, while ordinary income and income before income and other taxes would have been higher by ¥81 million and ¥2,213 million respectively. |
| ----- | Accounting standards relating to the presentation of net assets on the balance sheet<br>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 ¥58,105 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.<br>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. |

| Fiscal year ended March 31, 2008 | Fiscal year ended March 31, 2007 |
|---|---|
| Changes to accounting treatment of the depreciation method of tangible fixed assets<br>Accounting methods based on the revised Corporate Tax law will apply to items acquired on or after April 1, 2007. This follows revisions made to the Corporate tax law ((Certain revisions made to the Income Tax Act by government decree, March 30, 2007 Law Number 6) and (Certain revisions made to the enforcement order of the Corporate tax code by government ordinance, March 30, 2007, Cabinet ordinance No. 83)).<br>The effect of this change on operating income, ordinary income and net income before taxes is immaterial. | ---------------- |

Changes to method of presentation

| Fiscal year ended March 31, 2008 | Fiscal year ended March 31, 2007 |
|---|---|
| Balance sheet<br>In accordance with the announcement by the Japanese Institute of Certified Public Accountants, in Audit Document No. 1, Commission report No. 42, April 13, 2007, under the audit of reserve for the Special Taxation Measures Law regarding the allowance and reserve of the Special Act, the amount of reserve for retirement benefits for directors and corporate auditors will be transferred to long-term accounts payable and included in ‘Other fixed liabilities’. Following this transfer, and as of March 31, 2008, the balance of the reserve for retirement benefits for directors and corporate auditors in long-term accounts payable was ¥161 million.<br>As regards the bonus system for retiring directors and corporate auditors, at the 26th General Shareholders’ Meeting held June 17, 2006, it was decided that retirement bonus for directors and corporate auditors would be abolished and that retirement bonus earned up until June 17, 2006 will not be recorded and will be paid upon retirement. | ---------------- |
| Income statement<br>In the previous fiscal year, the category ‘Compensation payments received’ (¥23 million yen for the fiscal year ending March 31, 2007) was included in ‘Other, Non-operating income’. Due to the increase in the amount for ‘Compensation payments received’ this fiscal year, it has been listed as a separate item. | ---------------- |