FANCL

UNPARALLELED VALUE

Annual Report 2008

For the Year Ended March 31, 2008

PROFILE

In 1980, FANCL established a unique presence in the cosmetics industry by creating the first preservative-free cosmetic products. This reputation has earned FANCL the support of a host of loyal customers. Since then, we have made the elimination of uncertainty, inconvenience and other negative issues, along with the pursuit of reliability and confidence, the hallmarks of our corporate philosophy. From this standpoint, we strive to provide absolute value that will satisfy customers, shaping FANCL into a company that creates new value in fields related to health and beauty.

With this history, it is no surprise that dedication to our customers is the mindset underlying all of FANCL's corporate activities. We earn the appreciation and respect of our customers by providing products and services with their perspective in mind, and by creating new value that surpasses all expectations. This mindset in fact has been the cornerstone of our work each day since the moment FANCL was founded. After all, the admiration and happiness of our customers are the forces that drive our continued growth.

In 2008, we formulated a new medium-term management plan. Called *Unparalleled quality=New value 2010*, this plan will see FANCL strive to continue to impress customers by rising to the challenge of creating new value and unparalleled quality as we take steps to further enhance corporate value.

FANCL CORPORATE ACTIVITIES

FANCL PRODUCTS

BEAUTY × HEALTH

UNPARALLELED QUALITY

CUSTOMERS ← FANCL

Impressing customers will drive corporate value higher.

With commitment and innovation, we will continue to create new value and unparalleled quality that impresses our customers.

CONTENTS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made in this annual report with respect to FANCL's current plans, strategies, estimates, and beliefs, as well as other statements that are not historical facts, are forward-looking statements about the future performance of FANCL. These statements are based on management's beliefs in light of information available to it at the time of the writing of this report. The actual performance of the Company could differ significantly from these forward-looking statements as a result of unpredictable factors such as changes in customer preferences, social conditions, and economic conditions. Moreover, FANCL is under no obligation to revise forward-looking statements, irrespective of new data, future events, or other developments. Readers should therefore not place undue reliance on them.

FINANCIAL HIGHLIGHTS

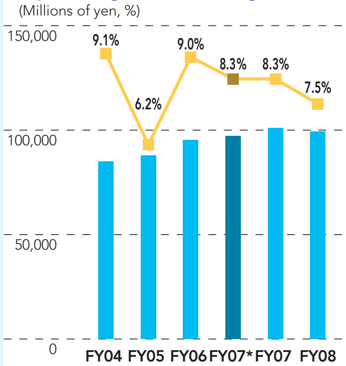
FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2008	2007	2007 (Note 2)	2006	2005	2004	**2008**
For the year:							
Net sales	**¥ 99,350**	¥101,065	¥97,064	¥ 95,322	¥87,937	¥84,957	**$991,614**
Operating income	**7,467**	8,370	8,087	8,575	5,428	7,769	**74,529**
Net income	**3,694**	2,547	2,547	5,184	1,710	3,387	**36,877**
Advertising expenses	**9,876**	9,393	9,393	9,792	11,105	9,865	**98,573**
Sales promotion expenses	**12,509**	13,502	9,784	9,319	9,475	7,998	**124,858**
Net cash provided by operating activities	**7,379**	6,472		9,163	4,638	5,861	**73,653**
Net cash used in investing activities	**(672)**	(1,734)		(10,280)	(4,807)	(4,117)	**(6,709)**
Net cash used in financing activities	**(6,036)**	(2,495)		(22)	(1,090)	(4,533)	**(60,247)**
Net increase in cash and cash equivalents	**650**	2,243		(1,139)	(1,254)	(2,809)	**6,482**
	Yen						U.S. dollars (Note 1)
Per share (Note 3):							
Net income	**¥ 58.4**	¥ 39.6		¥ 80.9	¥ 26.8	¥ 51.5	**$ 0.58**
Equity (Note 4)	**1,141.6**	1,116.6		1,105.7	1,037.1	1,027.5	**11.39**
Cash dividends	**24.0**	24.0		18.3	16.7	14.2	**0.24**
	Millions of yen						Thousands of U.S. dollars (Note 1)
At year-end:							
Total assets	**¥ 85,686**	¥ 86,931		¥ 85,148	¥79,416	¥78,479	**$855,231**
Equity (Note 4)	**69,900**	71,449		71,406	66,203	65,613	**697,671**
Ratio:	%						
Operating income margin (%)	**7.5**	8.3	8.3	9.0	6.2	9.1	
Advertising and sales promotion expenses ratio (%)	**22.5**	22.7	19.8	20.1	23.4	21.0	
ROE (%)	**5.3**	3.6	3.6	7.5	2.6	5.1	

Notes: 1. U.S. dollar amounts are the yen equivalent, calculated, for convenience only, at a rate of ¥100.19 = U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2008.
2. From fiscal 2007, FANCL revised accounting standards regarding its points system for customers. For more details, see page 31.
3. FANCL conducted a 3-for-1 stock split on April 1, 2006. Figures for FY03 through FY06 are calculated as if the stock split had actually taken place at the start of the previous business term.
4. Presented as shareholders' equity until fiscal 2006. Presented as equity from fiscal 2007 due to a change in accounting standards.

Net Sales and Operating Income Margin

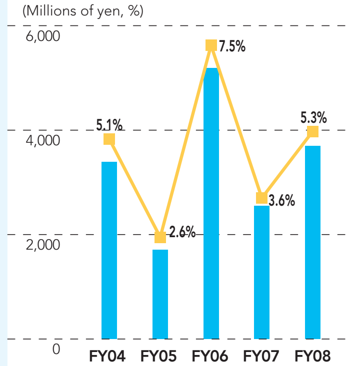
(Millions of yen, %)



Net Sales
Operating Income Margin

Net Income and ROE

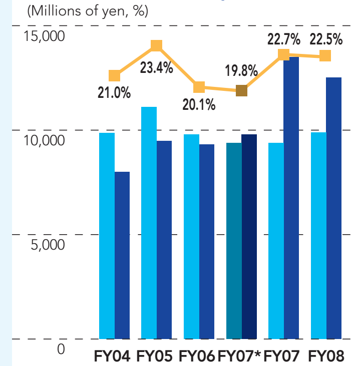
(Millions of yen, %)



Net Income
ROE

Advertising Expenses and Sales Promotion Expenses

(Millions of yen, %)



Advertising Expenses
Sales Promotion Expenses
Advertising and Sales Promotion Expenses Ratio

* In fiscal 2007, FANCL changed its accounting standard for the treatment of customer reward points. Comparisons with the previous fiscal year are based on figures calculated exclusive of this accounting change. Refer to page 31 for more details regarding changes to this accounting standard.

BUSINESS SEGMENTS

▶ Cosmetics

A core business since FANCL's foundation, this business' operations are focused on preservative-free cosmetics.

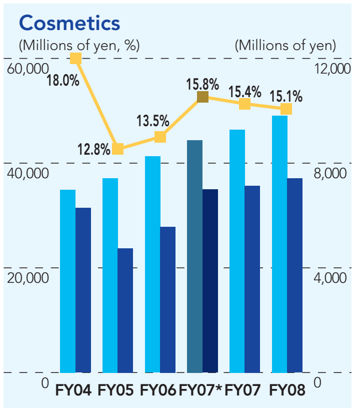
▶ Nutritional Supplements

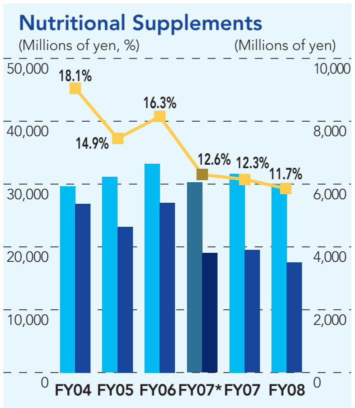
A core business centered on the sale of high-quality, reasonable priced supplements.

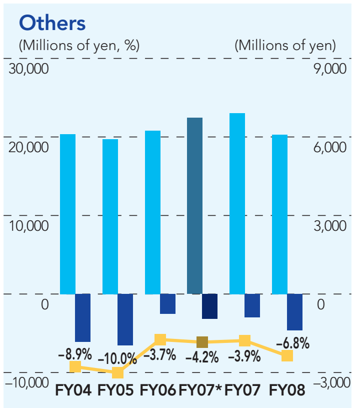
▶ Others

Business based on the provision of germinated brown rice and kale juice for daily health maintenance.

Net Sales, Operating Income and Operating Income Margin:







Net Sales (left)
Operating Income (Loss) (right)
Operating Income (Loss) Margin

SALES CHANNELS

▶ Mail-Order Sales (Including Internet Sales)

Encompassing both catalog and Internet sales, this channel boasts the highest profit margin among FANCL sales channels. In fiscal 2008, sales in this channel accounted for 56.7% of net sales.

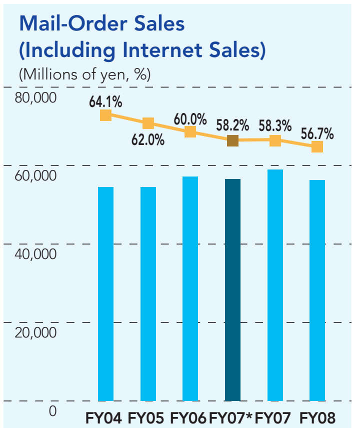
▶ Retail Store Sales

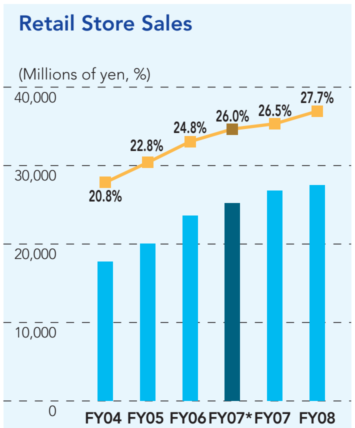
This channel is an important one for answering the needs of customers wanting to physically inspect and test our products. In fiscal 2008, sales in this channel accounted for 27.7% of net sales.

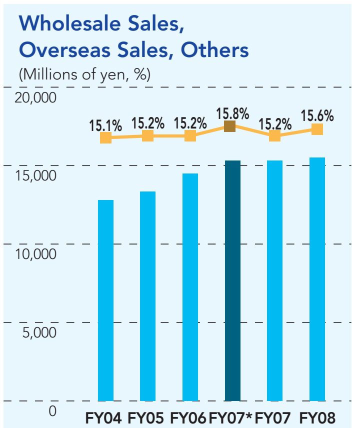
▶ Wholesale Sales, Overseas Sales, Others

This channel revolves around the sale mainly of supplements and health foods to clients (namely convenience stores) who understand the brand value offered by FANCL products. Overseas, FANCL operates in six countries and regions including the U.S. and Asia, most notably mainland China and Hong Kong. In fiscal 2008, this channel accounted for 15.6% of net sales.

Net Sales and Share of Net Sales:







Net Sales
Share of Net Sales

Message From the New C.E.O.: Achieving the Goals of the New Medium-Term Management Plan

On June 15, 2008, I became the new C.E.O. and Representative Director of FANCL. Since my appointment as Senior Executive Officer in April last year, I have been a member of FANCL's senior management team along with my immediate predecessor Kazuyoshi Miyajima and FANCL C.O.O. Tsuyoshi Tatai. I was also responsible for the formulation of *Unparalleled quality=New value 2010*, our new three-year, medium-term management plan enacted at the start of fiscal 2009. In failing to successfully complete our earlier plan, we were ultimately unable to meet shareholders' expectations for FANCL's performance. Learning from this, I recognize that we must do everything in our power to ensure success with this latest plan. My past work at FANCL has included positions in various planning, sales, and manufacturing departments and segments. Given this history, as well as my familiarity with the details of the plan, which I bear the lion's share of responsibility in creating, my predecessor chose to pass on the duty of helming FANCL during this time to me.

FANCL has grown thanks to a strong reputation and loyal support earned from many customers over the years in the creation of unique, preservative-free cosmetics, high-quality and high-performance supplements and health foods, and other products. Unfortunately, our business performance has stagnated somewhat over the last several years.

One reason for this was undoubtedly our relentless pursuit of sales. The decisions to offer more product volume at discounted prices and to market products nearly identical to those sold by other industry names diluted the intrinsic value of FANCL. Ultimately, I believe that this resulted in a loss of support among our customers. To re-empower the FANCL brand, the first thing that we must do is return to FANCL's most fundamental value—the pursuit not of sales, but of customer satisfaction.

YOSHIFUMI NARIMATSU
C.E.O. and Representative Director

Mr. Narimatsu joined FANCL in January 1993. In 1994, he was a driving force behind the launch of the Company's supplements business, helping to make FANCL a major name in supplements in Japan. Tracking FANCL's corporate growth, Mr. Narimatsu has since served in managerial roles in a wide range of fields, most notably in the Company's cosmetics, retail store sales, and customer relations divisions. He was appointed Executive Officer in 1999, followed by appointments as Director in 2000 and Managing Executive Officer and Director in 2002. In June 2005, Mr. Narimatsu was named president of production subsidiary FANCL B&H Co., Ltd., followed by his appointment as Senior Executive Officer and Director, Administration and Research Management, in April 2007. Mr. Narimatsu was appointed C.E.O. and Representative Director of FANCL in June 2008. Years of first-hand experience in sales have given Mr. Narimatsu a keen awareness of the needs of FANCL customers.

In the drive to cement a long-term relationship based on trust with our customers, we are moving boldly under *Unparalleled quality=New value 2010* with steps to improve our employee mindset and FANCL products and services. Our goal in this effort is to forge a more enduring brand than ever before.

Fiscal 2008 Results

Fiscal 2008 was the second year of CC Plan Phase 2, and we recorded firm business performance in FANCL's Cosmetics Business thanks to the successful revamp of core products. However, slumping performances from our Nutritional Supplements and Other businesses caused consolidated net sales to slip 1.7% year on year to ¥99,350 million, and operating income to decline 10.8% to ¥7,467 million. This outcome is all the more regrettable given the sales and earnings growth we initially forecast for the year.

On a more positive note, net income increased 45% over the previous fiscal year to ¥3,694 million. This reflected the fact that although we booked provisions to an allowance for customer reward points for prior periods in the previous fiscal year due to changes in accounting standards for points, no major extraordinary losses were recorded in fiscal 2008. Consequently, the ratio of net income to sales rose 1.2 percentage points year on year to 3.7%.

CC Plan Phase 2, which was scheduled to run from fiscal 2007 to fiscal 2009, was intended to encourage steady sales growth each term while simultaneously enhancing profitability. Unfortunately, we overestimated the business outlook for the Nutritional Supplements and Other businesses, resulting in tough declines in earnings for two consecutive fiscal years. The harsh reality is that the market for nutritional supplements in Japan has now entered a period of adjustment. Upon reflection, we realize that we did not mount a robust enough response given this challenging market environment. In Other Businesses, which we initially projected would end the year in the black, sales volume for germinated brown rice faltered, resulting in even greater losses. Nor did any hit merchandise emerge in our IIMONO OHKOKU Mail-Order Business, which reversed course to end the year in the red. The overall lackluster performance in Other Businesses came despite the first year of profitability in our Kale Juice Business.

Our fiscal 2008 results have served as a harsh wake-up call for FANCL. Under *Unparalleled quality=New value 2010*, our mission will be to pursue customer satisfaction at every turn as we focus on spurring a recovery in business performance.

Unparalleled quality=New value 2010

Strengthening our customer base is a key issue addressed in the *Unparalleled quality=New value 2010 plan*.

"Everything we do is for our customers." This creed has been our guiding principle from the day FANCL was founded. Under the new medium-term plan, we will ensure that this belief permeates our entire organization.

In concrete terms, this has meant the start, since April this year, of a program aimed at creating unparalleled quality by having each employee fundamentally reassess his or her own work from the customer's standpoint. Every product or service, no matter how innovative when first unveiled, loses its edge over time. For this reason, if no other, each employee must be keenly aware of this fact in their work if we hope to deliver products and services that impress our customers by consistently exceeding their expectations.

We have also reformed our organization by introducing a "Company" system centered on products. This configuration, in which everything from R&D to sales is part of a completely integrated organizational framework, is optimal for taking full advantage of FANCL's strengths.

In terms of strategies by business segment, we will strengthen our hand in both the domestic and overseas markets for FANCL products in the Cosmetics Business. Although we anticipate substantial market growth overseas, particularly in China, our goal is to leverage FANCL's distinct edge in preservative-free and highly functional products to stimulate further growth in Japan as well. In the Nutritional Supplements Business, we are likely to continue facing a severe business environment marked by stiff competition and a deteriorating market. Nevertheless, we will move to develop a framework capable of providing lifelong support by responding accurately to the individual health levels of our customers. With this step, we will strive to put this business back on a growth path. Our goal for Other Businesses is profitability within the next three years through sales growth and more efficient management of expenses.

Enhancing Shareholder Value

We intend to give more attention to corporate governance and CSR than ever before to establish FANCL as a company worthy of the trust of its shareholders and all stakeholders. Given the public's growing demands with respect to the environment, we also plan to vigorously pursue initiatives in this area. Where returns to shareholders are concerned, we are committed to devising the best mix of increased dividends, stock splits and share buybacks to meet expectations in this regard. Finally, I believe that when it comes to preventing hostile takeover bids, the best line of defense is a dedication to encouraging more owners of FANCL stock to become long-term shareholders by raising our corporate value.

Above all else, a course of action which demonstrates that at FANCL, "everything we do is for our customers," is the most effective way to enhance the value of the FANCL brand. Over the long term, I believe that this approach will prove beneficial not only to shareholders, but to all FANCL stakeholders. By forging stronger ties with customers, our hope is to reward shareholders by achieving a recovery in business performance.

Yoshifumi Narimatsu.

Yoshifumi Narimatsu
C.E.O. and Representative Director
July 2008

UNPARALLELED QUALITY=NEW VALUE 2010

***UNPARALLELED QUALITY=NEW VALUE 2010*, FANCL's latest three-year, medium-term management plan, is a road map for realigning the Company with its customer-oriented beginnings. Encompassing a range of areas, from reforming the employee mindset to product strategies and retail store development, the plan aims to spark innovation in value and enhance the FANCL brand on every possible front.**

TARGETING 10% OPERATING INCOME MARGIN AND 8% ROE IN FISCAL 2011

For fiscal 2011, the year ending March 31, 2011 and the plan's final year, FANCL is targeting ¥110,000 million in consolidated net sales, operating income of ¥11,000 million, an operating income margin of 10%, and ROE of 8%. These targets will be met by improving customer indices through an extensive drive to enhance customer satisfaction.

[QUANTITATIVE TARGETS]

(Millions of yen)	FY08	▶▶	FY11
Net Sales	¥99,350		**¥110,000**
Cosmetics	49,062		**55,000**
Nutritional Supplements	30,017		**31,100**
Others	20,271		**23,900**
Operating Income	7,467		**11,000**
Cosmetics	7,409		**8,700**
Nutritional Supplements	3,506		**3,500**
Others	(1,385)		**600**
Operating Income Margin	7.5%		**10%**
ROE	5.3%		**8%**

Commercialization Strategies

FANCL is bolstering core businesses and profitability in Other Businesses. In the Cosmetics Business, plans call for encouraging new growth through the launch of competitive products. In Other Businesses, the goal is to attain profitability through sales growth and by managing expenses more efficiently.

▶▶ SEE PAGE 08

Improved Customer Service

FANCL is enacting distribution reforms in a bid to further enhance customer service. The Company is also tackling the challenge of designing next-generation retail stores in ways that will satisfy customers.

▶▶ SEE PAGE 13

PRIORITY MEASURES AND STRATEGIES

COSMETICS BUSINESS

▶ MAYUKO YAMAOKA
Executive Officer and Director; President of Cosmetics Company

Thanks to the success of product revamps over the last several years, we've recorded four consecutive years of sales and earnings growth in the Cosmetics Business. We plan to continue our focus on developing competitive products, with an emphasis on their performance, to further bolster the brand strength of FANCL cosmetics—our commitment to providing safe and dependable preservative-free products. In this way, we're looking to entrench FANCL's position as the undisputed leader in the preservative-free market, and as the only name in the sensitive skin market.

Market Trends

The sensitive skin market in Japan is estimated to be worth roughly ¥240.0 billion—an impressive figure considering that no such market existed prior to FANCL's launch of preservative-free cosmetics. And while the cosmetics industry remains relatively flat overall, the sensitive skin market continues to grow annually, tracking an increase in the number of women with sensitive skin and heightened interest in all-natural products. FANCL cosmetics currently have a steadily growing 15% share of this market.

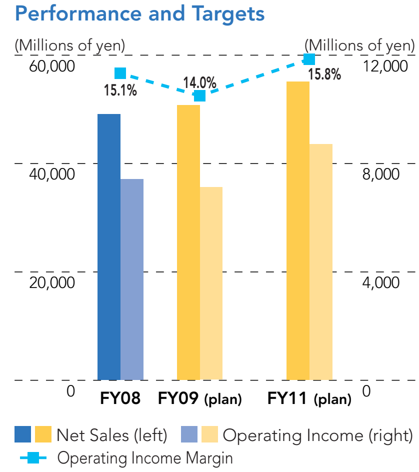
Successful Product Revamps and Upcoming Product Strategies

Safe and dependable preservative-free cosmetics that are absolutely gentle on the skin, yet offer noticeable results, are the hallmarks of FANCL cosmetics.

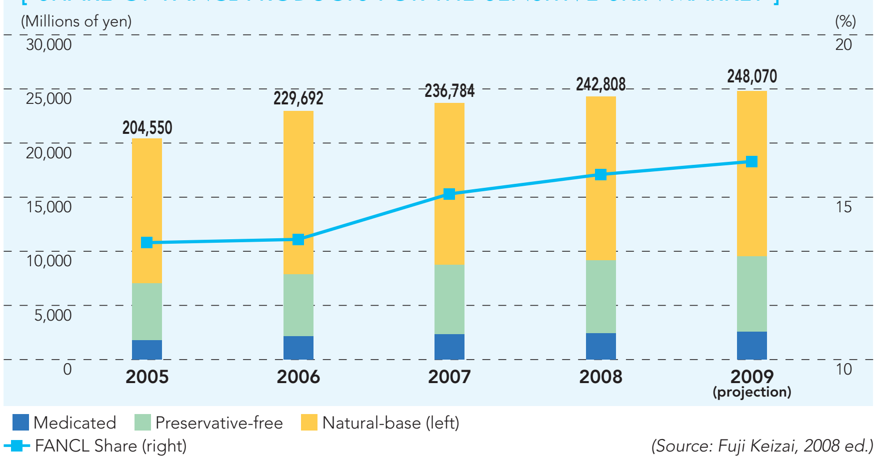
In fiscal 2008, we reinvented our mainstay skin care brands, consolidating both the FENATTY and Evanté brands under the FANCL brand. Maintaining our fundamental commitment to preservative-free cosmetics, we infused FANCL products with sweet pea essence, which the latest research has proven is effective in suppressing skin aging. Aside from improved product performance, narrowing our marketing focus exclusively on the intrinsic benefits of preservative-free products was another major factor in the success of FANCL cosmetics. As a result, sales in FANCL's revamped skin care lineup climbed 16.6% year on year, with customer numbers up 26.7%. These improvements also contributed to a lower cost of sales ratio.

Under the new medium-term plan, we will continue to revamp FANCL's core products. In the plan's inaugural year in fiscal 2009, we will re-launch *Facial Washing Powder* and *Mild Cleansing Oil*; the latter was last revamped in August 2004. Sales have tripled

Cosmetics Business: Performance and Targets



[SHARE OF FANCL PRODUCTS FOR THE SENSITIVE SKIN MARKET]



(Source: Fuji Keizai, 2008 ed.)

in the four years since, with this product continuing to display powerful growth potential today. We intend to stimulate growth in sales and customer numbers by further enhancing product functions.

Stronger CRM Leveraging Sales Channels

Strengthening CRM is another objective. To do this, we intend to leverage the advantages that a multiple-channel approach, one built on catalog, online and retail store sales, has to offer. By reviewing the information we provide and the approach to customer service in each sales channel, as well as by creating products with unparalleled quality, we hope to encourage loyal use of FANCL products by customers for many years to come. Through better and more detailed follow-up service attuned to the age, buying history and needs of each customer, we are determined to boost customer loyalty.

ATTENIR Cosmetics Strategy

ATTENIR is a cosmetics brand offering value beyond its price through a dedicated commitment to high quality. Customer support for this brand grows each year, spurring new highs in both customer numbers and sales. That said, the pace of growth has begun to slow somewhat in the last several years.

The new medium-term plan will see FANCL pursue an intensive strategy to gain customers in order to produce another dramatic leap in growth. Today, ATTENIR brand recognition is just under 50%. However, aggressive marketing in fiscal 2009 and 2010, aimed at boosting this level to 80% in three years, should stimulate growth in both customer numbers and sales. While this is projected to result in lower operating income margins in fiscal 2009 and 2010, this metric is expected to rebound in the final year of the plan. Efforts to revamp core products and more robust and targeted customer marketing programs will also figure prominently in raising brand value.

PRIORITY MEASURES AND STRATEGIES

NUTRITIONAL SUPPLEMENTS BUSINESS

▶ HARUKI MURAKAMI

Executive Officer and Director;
President of Health Foods and Supplements Company

FANCL entered the Nutritional Supplements Business in 1994. Since then, we have leveraged high quality and reasonable prices as distinct advantages to steadily expand results in step with market growth. The market now, however, is leveling off, which is leading to a decline in customer numbers. In this climate, we are once again reviewing products, services and other aspects of this business. The focus is on building a base that will realign the Nutritional Supplements Business with a path for growth, and thereby win support from the most customers possible.

Market Trends

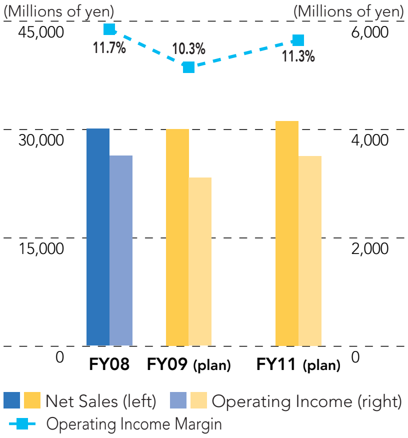
After posting steady growth against a backdrop of heightened health consciousness, Japan's nutritional supplements market has been in a period of readjustment since 2005. However, this trend has not prevented the continued entry of new market players, which has led to more intense competition. Supplement consumption is also being impacted by greater governmental scrutiny regarding product names and expressions used in advertising. With sales flagging for most companies in the industry, companies that possess highly distinctive products and those with clear, targeted marketing programs are distancing themselves from industry peers by posting sales growth.

Reassessing Product Strategies

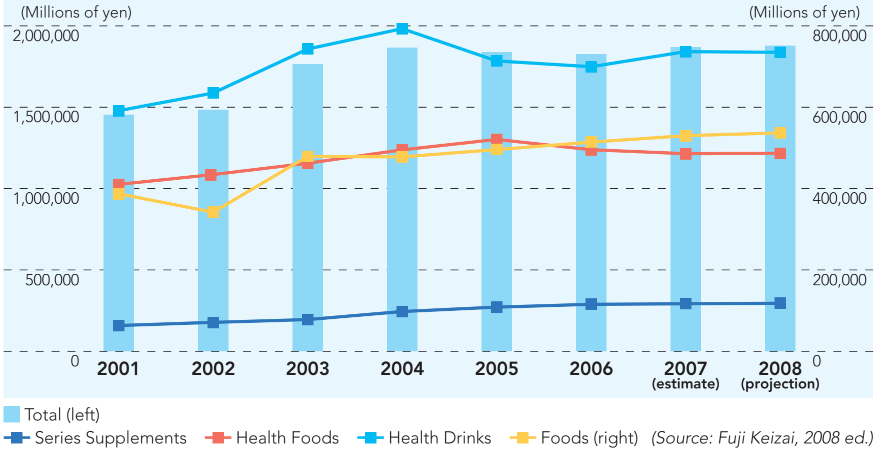
Under CC Plan Phase 2, we took steps to halt declining sales and customer numbers by vigorously launching new products. While this strategy boosted the number of FANCL supplements from 92 in fiscal 2006 to 109 in fiscal 2008, it did little to slow the drop in sales as customer numbers declined. We now recognize that forgetting the approach that has guided FANCL since day one—high-quality product development backed by proven technology, not the pursuit of numbers or quantity—was a critical factor behind the loss of customer support for FANCL supplements.

The new medium-term plan will see FANCL review its entire product lineup and product naming to make choosing the right product easier for customers. Our strategy today is not expansion in the number of products, but to groom highly unique products in our existing supplement lineup into hit products.

Nutritional Supplements Business: Performance and Targets

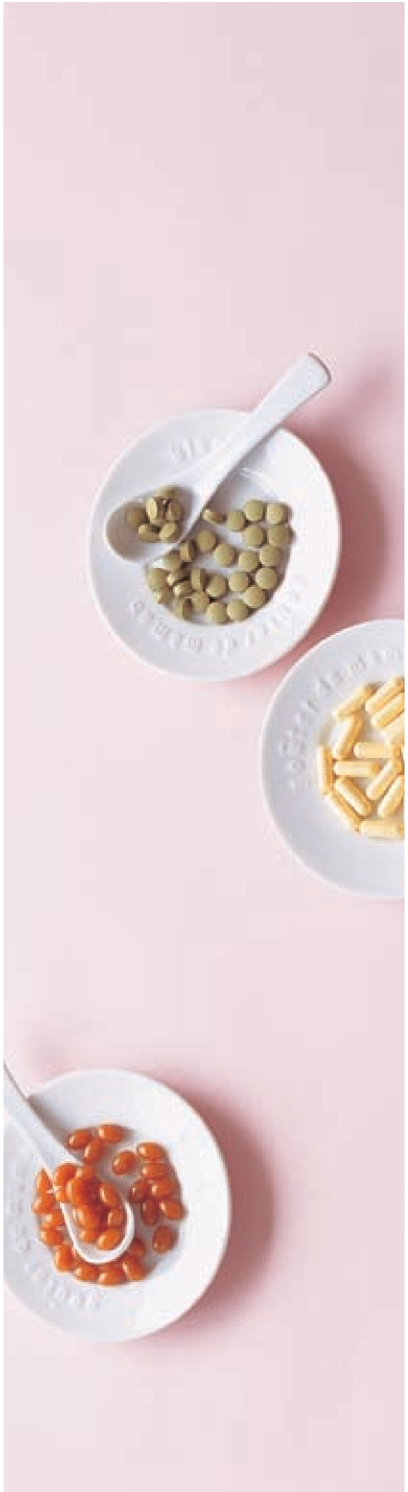


[H&B FOODS MARKET* SALES BY PRODUCT TYPE]



(Source: Fuji Keizai, 2008 ed.)

*H&B Foods Market: This market covers foods and beverages designed for health maintenance, promotion and recovery, or the enhancement of physical beauty.



Reinforcing Beauty & Diet Products and Products for Middle-Aged and Elderly Customers

While sales in the Nutritional Supplements Business are declining overall, beauty supplement sales continue to grow steadily. Over the last several years, more customers, particularly young women, have begun using *HTC Collagen*, a product developed exclusively by FANCL that we are grooming into a hit supplement product.

Beauty and diet products will remain central elements of our strategy under the new medium-term plan, as we conduct vigorous promotion activities in a drive to further expand our customer base.

Preventative medicine, most notably measures to combat metabolic syndrome, has become the focus of much attention today. For this reason, FANCL will take a proactive approach to targeting the middle-aged and elderly consumer market, where growth is anticipated over the medium to long term. Here, we will identify and strengthen marketing around existing products that meet the needs of these consumers.

Services Tailored to Individual Customers

In the past, FANCL has offered high-quality counseling to individuals by establishing health counseling divisions staffed by dieticians and other specialists. Other measures have included the introduction of an SDI (Supplement & Drug Interaction) system for consulting on medicine and supplement combinations. Guided by the new plan, we are preparing to roll out the next wave of new and innovative services that will impress customers.

PRIORITY MEASURES AND STRATEGIES

OTHER BUSINESSES

Direction of Other Businesses

Germinated Brown Rice

In April 2007, FANCL slashed the price of germinated brown rice by 20% as an initiative designed to turn this business around through growth in sales volume. Knowledge of this discount, however, took time to spread. As a result, while customer numbers for mail-order sales and sales for food service use increased in the second half of fiscal 2008, these gains were unable to cover the impact of lower prices. The lower sales, increased marketing costs, and other negative factors led to greater losses on the year.

In a determined push to make this business profitable, the new medium-term plan will see FANCL pursue a vigorous campaign to raise awareness of the highly functional properties of germinated brown rice. The Germinated Brown Rice Business is likely to get a fillip from the start of a health check system in Japan that targets specific ailments, as well as the attention that products for combating metabolic syndrome currently enjoy. Accordingly, we intend to identify demand in the ready-to-eat and food service sectors, and bolster mail-order sales.

Kale Juice

This business ended the year profitably for the first time in fiscal 2008, reflecting more efficient management of expenses. Although revenues from frozen-type products continue to trend lower, sales of powder-type products, where profit margins are greater, have grown steadily thanks to product revamps and other measures.

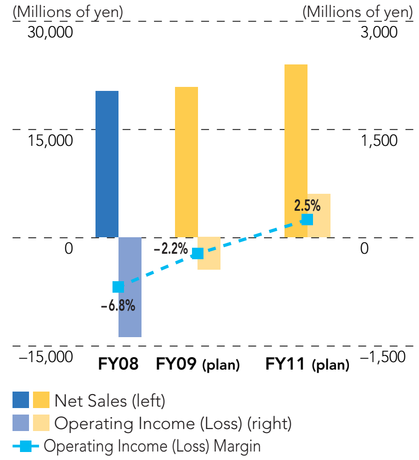
Under the new medium-term plan, the goal is to improve profit margins by enhancing efficiency. Among other actions, this will include promoting the shift towards powder-type kale juice and efforts to improve the production framework for these products to enhance efficiency.

IIMONO OHKOKU Mail-Order Business

Sales of merchandise such as walking shoes and health equipment, which sold briskly in the previous fiscal year, fell sharply in fiscal 2008 as we failed to achieve effective advertisement placement. Reversing its previous course, this business ended in a loss for the year.

Under the new plan, our aim is to transform IIMONO OHKOKU into a mail-order firm specializing in health support through a sharper focus on health-related and metabolic syndrome-fighting merchandise in step with the needs of middle-aged and elderly men. A further goal is to stabilize earnings by aggressively developing products that are bought repeatedly. Through more efficient management of expenses, we will bring this business back into the black from fiscal 2009 forward.

Other Businesses: Performance and Targets



IMPROVING CUSTOMER SERVICE [1]

ENHANCING DELIVERY QUALITY

New Logistics Center
(Owned by Hitachi Transport System)

[MOVING TO A NEW LOGISTICS CENTER]

Increased business complexity and the development of more diverse sales channels by FANCL over the years had prompted the frantic creation of new distribution points to keep pace. This harried effort resulted, however, in a host of serious problems ranging from late shipping to customers, and growing transportation costs between points, to cumbersome warehousing and storage schemes.

Today, FANCL is reforming its distribution network in a bid to enhance the level of customer service and reduce costs. Our eight key distribution points across the Tokyo metropolitan area will be consolidated at a single location—a new logistics center built by Hitachi Transport System, Ltd. in the city of Kashiwa, Chiba Prefecture. This move will give FANCL a distribution framework overseeing the distribution management and shipment of every product we handle, including cosmetics, nutritional supplements, germinated brown rice, kale juice (excluding frozen-type juice), and general merchandise. Shipping operations will be entrusted to Hitachi Transport to ensure optimal distribution management and efficiency.

The new logistics center is outfitted with state-of-the-art shipping lines complete with wireless IC tags, a digital picking system and handy terminal interface. The center is Japan's largest to utilize wireless IC tags (RFID* technology), and is scheduled to begin operations in August 2008.

[NEW LOGISTICS CENTER]

- **Investment in New Logistics Center:**
  ▶ **¥650 million (IT investment only)**
- **Costs and Savings from The New Logistics Center**
  Fiscal 2009 ▶ **Costs up ¥0.3 billion**
  Fiscal 2010 to 2014 ▶ **Cost savings of ¥1.2 billion**
- **Overview of Logistics Center**
  ▶ **Building area 9,737 m²**
  ▶ **Floor area 38,879 m²**
  ▶ **Area used by FANCL 15,647 m²**

The start of operations at the logistics center will enable FANCL to enhance the level of customer service. Previously, the Company's dispersed network of shipping points meant that even products purchased in a single order often had different hours of delivery. The new center eliminates this inconvenience for customers, allowing multiple products from a single order to be delivered at the same time. Another bonus is that the center will boost the rate of same-day-as-order shipment by 13%. POS tracking for all products should also further minimize shipping errors, reducing an already low error rate of 0.04% to 0.005%.

In parallel, FANCL's new distribution framework is expected to promote management-side synergies by lowering distribution costs, encouraging greater precision in distribution cost management in each sales channel, and reducing inventories through more visible inventory and freshness management.

Benefits are also anticipated in terms of environmental conservation, with paperless operations and other measures set to reduce our paper usage by roughly 30 tons per year. Fewer delivery runs, moreover, should lower FANCL's CO_2 emissions by 130 tons annually, equivalent to the amount of CO_2 absorbed by 10,000 cedar trees in a year.

* *RFID (Radio Frequency Identification) refers to a system that uses small wireless chips to identify and manage goods. Originally researched as a technology to replace barcodes for product identification and management in the logistics industry, RFID has since gained attention as a baseline technology that will underpin IT and automation advancement.*

IMPROVING CUSTOMER SERVICE [2]

STORE STRATEGIES AND OVERSEAS STRATEGIES

The Overseas and Store Development Company's mission is to make as many fans of FANCL as we possibly can by using FANCL shops to spread an awareness of and encourage affinity with the Company's values and worldview. Direct contact with customers is a key benefit that only direct management of retail stores affords. Our hope is to use this opportunity to deepen our bonds of trust with customers by communicating with them even more.

▶ KENICHI SUGAMA

Executive Officer and Director; President of Overseas and Store Development Company

Standard Format, FANCL Shop, Amu Plaza Nagasaki Store

Previous Store Expansion Strategies and Problems

We aggressively opened new stores under CC Plan Phase 2, guided by a strategy that sought to grow sales and capture new customers. This decision triggered growth in the number of retail stores (143 in fiscal 2004 to 218 in fiscal 2008) and sales growth. However, the rush to open new stores caused both customer service quality and profitability to suffer. We also saw ALL FANCL-style merchandising cause mismatches between store locations and their intended customer base. Reviewing this strategy thus became an urgent issue.

Next-Generation Retail Store Strategy

The development of a beauty-centric operation, with an emphasis on preservative-free cosmetics and health-centric businesses with a focus on nutritional supplements, is a key component of FANCL's new medium-term management plan. FANCL's beauty-centric next-generation stores will be centered on four clusters to properly match store locations to target customer bases and respond meticulously to customers' diverse needs (See reference diagram below). Pilot tests of this new strategy were under way at nine retail stores as of June 30, 2008. Progress at these test sites will determine the scale and speed at which we renovate stores going forward.

[STORE FORMATS]

Previous Formats

Formats	Role
FANCL House	FANCL House deals in all FANCL brand products, particularly cosmetics, targeting female customers
FANCL House J	FANCL House J deals in all FANCL brand products in both categories of cosmetics and supplements, is equipped with a juice bar, and targets both male and female customers

▶▶

Next-Generation Retail Store Formats

Formats	Role	Location
TOPSTYLE	This store, an advertising and information source on all things FANCL, takes a new tack to customer communication by merging FANCL's online and real-world presences.	City-center areas with extremely high foot traffic
PRESTIGE	This store offers a higher level of counseling than STANDARD format stores, with a store design fitting for department stores.	Department stores
STANDARD	This store emphasizes allowing customers to experience and try FANCL preservative-free cosmetics firsthand.	Rail station complexes, specialty stores in underground shopping malls, roadside stores, etc.
FAMILY	A store incorporating elements that families will enjoy.	Suburban shopping centers

Our high-quality, next-generation retail stores clearly highlight the science of preservative-free cosmetics, and have been designed in every way to facilitate communication with customers. Operated by knowledgeable, skilled and hospitable staffs trained to interact expertly with customers one-on-one, these stores embody the philosophy of unparalleled quality envisioned in the medium-term management plan.

As for our next-generation retail stores with a health-centric approach centered on nutritional supplements, we are preparing to open stores along these lines from fiscal 2009.

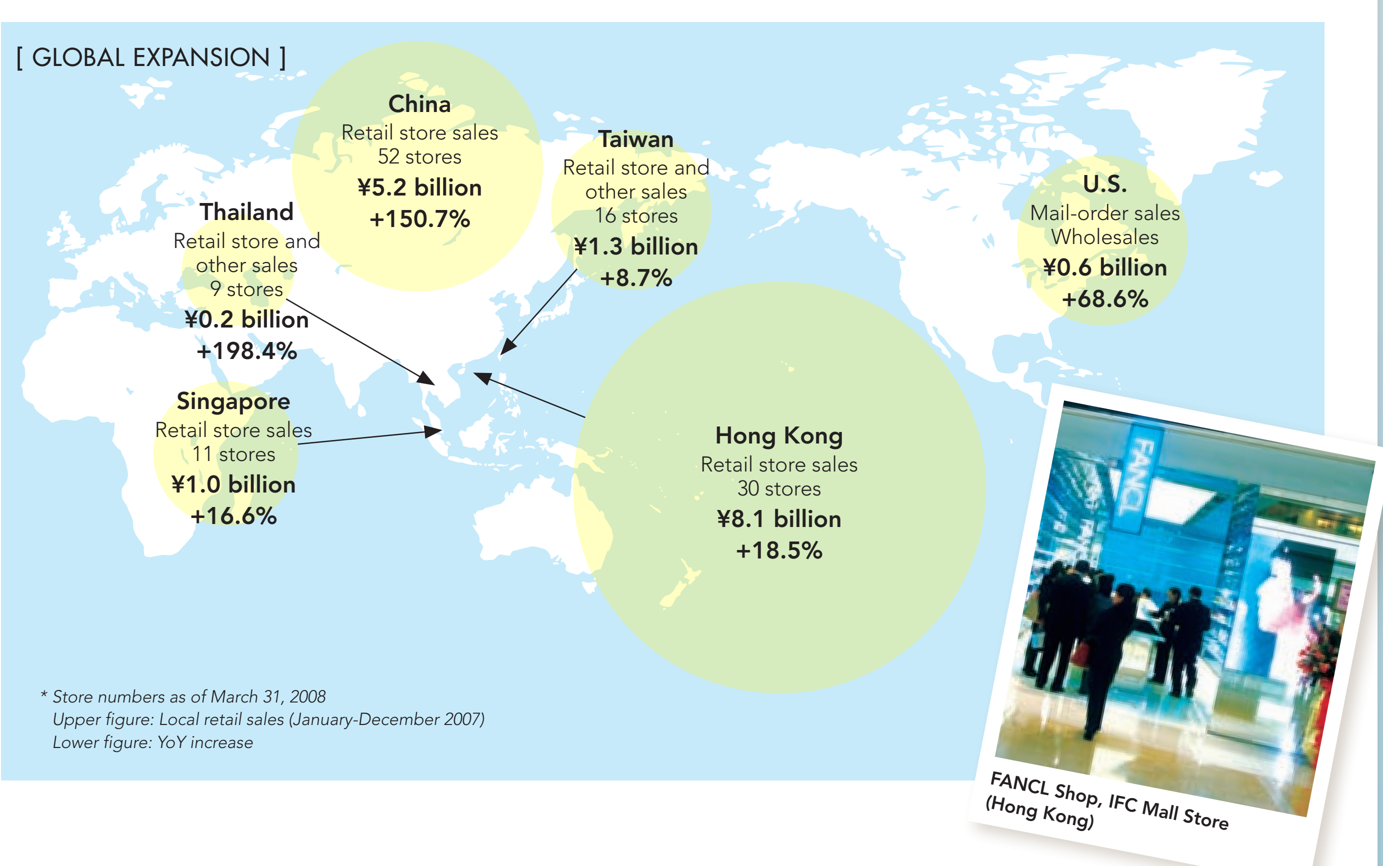
Overseas Strategies

FANCL currently operates in five Asian markets—mainland China, Hong Kong, Taiwan, Singapore and Thailand—and in the United States. FANCL products are sold through sales agents (no capital relationships) in China and Hong Kong, through joint ventures with local firms in Taiwan and Thailand, and via wholly owned subsidiaries in Singapore and the United States. Sales in China are growing rapidly, rising 44.0% on a local retail sales basis to ¥16.3 billion, and 30.5% to ¥5.7 billion on a wholesale sales basis in fiscal 2008.

Under the new medium-term management plan, our focus will be on further developing the market in China, where sales have risen steadily. FANCL's concept of preservative-free cosmetics has struck a chord in China. Sales have been exceptionally brisk in Shanghai and Beijing, for example, where FANCL is the sales leader at cosmetics counters in major department stores. Similar to efforts in Hong Kong, we plan to strengthen our partnership with one of FANCL's most influential sales agents, Fantastic Natural Cosmetics Limited (FNL), in an aggressive move to support future store openings.

In Taiwan, Singapore and Thailand, we plan to review operations from the ground up. Meanwhile, FANCL's exclusive brand for the U.S. market, BOSCIA, is finally on a solid growth footing, with sales improving roughly 70% from the previous fiscal year. Local production is also under way, a move that should enhance profitability.

For fiscal 2011, we are projecting sales of ¥20.0 billion on a local retail sales basis, ¥7.4 billion on a wholesale sales basis, and an operating income margin (versus wholesale sales) of 10%.



FANCL Shop, IFC Mall Store (Hong Kong)

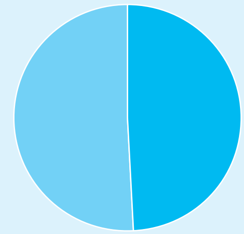
AT A GLANCE

Proportion of Total Net Sales

COSMETICS BUSINESS

Products

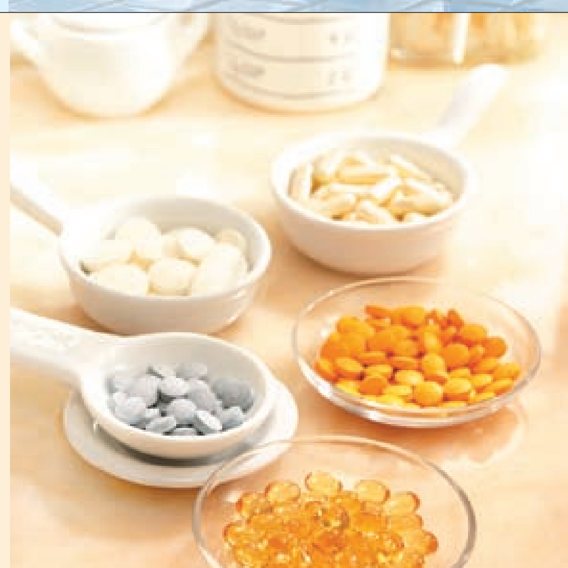
- FANCL cosmetics (Preservative-free cosmetics that contain no ingredients known to cause skin allergies)
- ATTENIR cosmetics (Attractive, quality cosmetics at reasonable prices)



49.4%

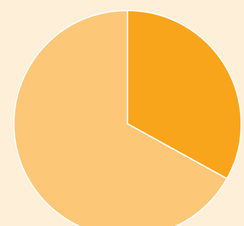
of Total Net Sales

NUTRITIONAL SUPPLEMENTS BUSINESS



Products

- Health supplements (High-quality nutritional supplements at competitive prices)
- Beauty supplements (Nutritional supplements for inner beauty)



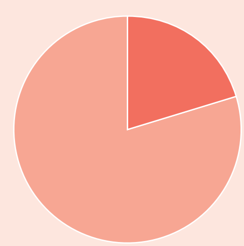
30.2%

of Total Net Sales

OTHER BUSINESSES

Products

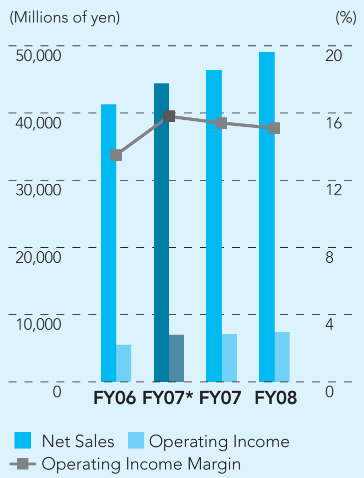
- Germinated brown rice
- Kale juice
- Comfort undergarments
- Health equipment and lifestyle goods

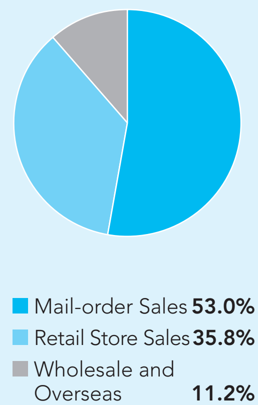


20.4%

of Total Net Sales

Net Sales, Operating Income (Loss) and Operating Income (Loss) Margin	Sales Channel Breakdown	Major Developments During Fiscal 2008 and Strategic Focus for Fiscal 2009



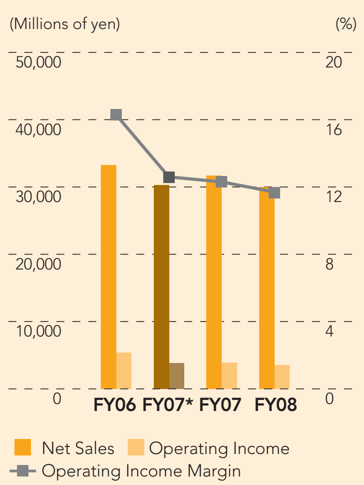


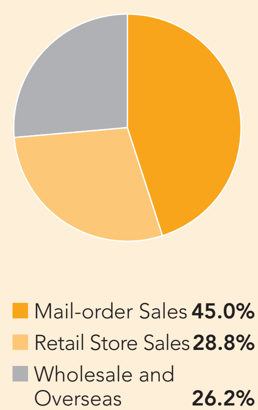
Fiscal 2008 Overview

In addition to benefiting from revamped skin care products, sales grew steadily atop healthy sales of established products such as *Mild Cleansing Oil* and makeup. The ATTENIR brand, meanwhile, posted higher sales on a record number of customers thanks to effective sales promotions.

Strategies for Fiscal 2009

FANCL cosmetics will strive for sales growth by continuing to bolster skin care products revamped in the previous fiscal year. Meanwhile, ATTENIR cosmetics will conduct an aggressive advertising campaign to raise brand recognition in a bid to stimulate growth.



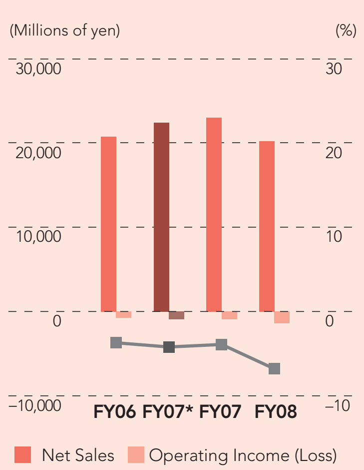


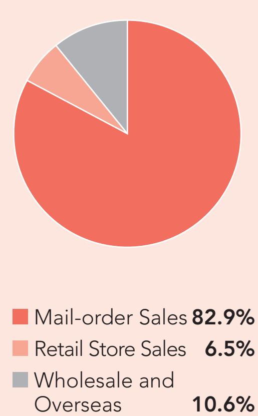
Fiscal 2008 Overview

Beauty supplements performed strongly due to proactive marketing activities. This growth, however, was not enough to cover declines in other products, including herb and *Support* series supplements, which were renamed in line with government-issued guidelines.

Strategies for Fiscal 2009

FANCL will reinforce its customer base through aggressive marketing campaigns for its lineup of supplements for beauty and diet and for middle-aged and elderly consumers. A review of how information is presented and products are categorized is under way to make it easier for customers to select the right products.





Fiscal 2008 Overview

The Kale Juice Business ended the year profitably for the first time in fiscal 2008. In the Germinated Brown Rice Business, a 20% price cut enacted since April failed to translate into higher sales volume. The IIMONO OHKOKU Mail-Order Business ended the year in the red, reflecting a lack of hit merchandise.

Strategies for Fiscal 2009

In the Kale Juice Business, FANCL will look to enhance profitability mainly through a shift to high-margin, powder-type products. In germinated brown rice, we aim to grow sales by raising awareness of the product's functional properties to capture more customers, and by bolstering wholesale sales of rice as a basic food ingredient.

For the IIMONO OHKOKU Mail-Order Business, FANCL will improve profitability by reinventing itself as a mail-order company specializing in health support, as well as through more efficient use of expenses.

Note: From fiscal 2007, FANCL revised accounting standards regarding its points system for customers. For more details, see page 31.

COSMETICS BUSINESS

Cosmetics Business Performance and Targets

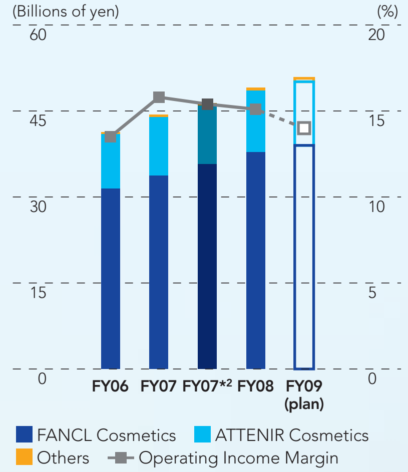
	Millions of yen				
	2009 (plan)	**2008**	2007	2007*[2]	2006
Net sales	***50,700***	**49,062**	46,376	44,366	41,287
FANCL cosmetics	***39,000***	**37,814**	35,692	33,682	31,406
ATTENIR cosmetics	***11,100***	**10,710**	10,283	10,283	9,518
Others	***600***	**538**	401	401	361
Gross profit	***38,600***	**37,276**	34,866	32,856	30,655
Gross profit margin	***76.1%***	**76.0%**	75.2%	74.1%	74.2%
Selling, general and administrative expenses	***31,500***	**29,867**	27,733	25,865	25,087
Advertising expenses	***5,500***	**5,059**	4,527	4,528	5,464
Operating income	***7,100***	**7,409**	7,133	6,991	5,568
Operating income margin	***14.0%***	**15.1%**	15.4%	15.8%	13.5%

	Customers		
Number of active customers*[1] at fiscal year-end:			
FANCL cosmetics (Mail-order and retail store)	**1,404,746**	1,408,423	1,410,016
ATTENIR cosmetics (Mail-order)	**529,259**	490,231	453,290

*[1] *Active customers: Customers making at least one purchase during the preceding seven months.*

*[2] *From fiscal 2007, FANCL revised accounting standards regarding its points system for customers. For more details, see page 31.*

Cosmetics Business Net Sales and Operating Income Margin



1.

2.

3.

1. FANCL
   Skin Care Products
2. FANCL
   Facial Washing Powder
3. ATTENIR
   Whitening Cream EX

Fiscal 2008 Results

Cosmetics sales increased 5.8% compared to the previous year, reaching ¥49,062 million.

Sales of FANCL cosmetics increased 5.9% to ¥37,814 million, on the back of a boom in skin care product sales spurred by product renewals in addition to strong sales of staple products such as *Mild Cleansing Oil* and makeup products.

Sales of ATTENIR cosmetics increased 4.2% to ¥10,710 million, as effective marketing activities helped build a record customer base. Strong sales of skin care products renewed in the previous fiscal year was another factor.

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. Sales through other sales channels increased 27.8% to ¥5,491 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 of sales ratio due to the relaunch of skin care products and other factors. The operating income margin decreased 0.3 of a percentage point to 15.1%.

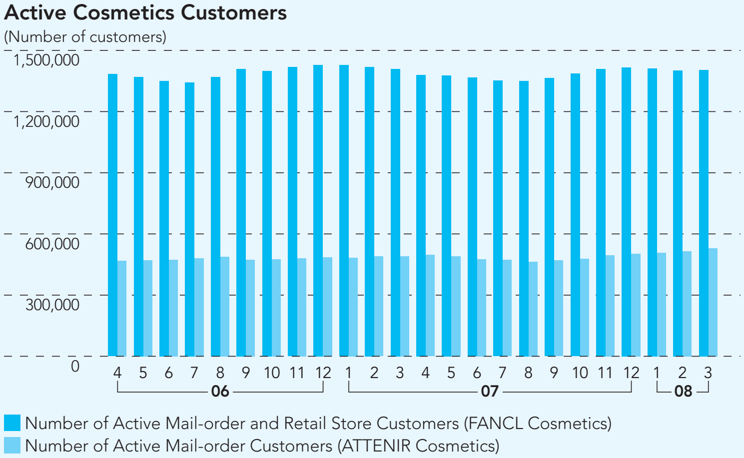
Outlook and Strategies

In the Cosmetics Business, FANCL will continue to pursue the development of highly competitive products with an emphasis on functionality, guided by the Unparalleled quality= New value 2010 plan. Steps will also be taken to improve customer service in a bid to boost customer loyalty.

In fiscal 2009, FANCL cosmetics will likely see the continuation of brisk sales of skin care products revamped in the previous year, leading to sales growth. FANCL also plans to revamp *Facial Washing Powder* and other core products during the year. For ATTENIR cosmetics, an aggressive advertising campaign and the opening of new retail stores will figure prominently in plans to raise the name recognition of this brand. The expected increase in customers from these efforts is likely to support higher sales.

As a result, FANCL is aiming for sales in this business of ¥50.7 billion (up 3.3% year on year) for fiscal 2009. Operating income, however, is projected to decline by 4.2% to ¥7.1 billion, primarily due to increased marketing expenses for ATTENIR cosmetics. The operating income margin is expected to be 14.0%.

Active Cosmetics Customers



NUTRITIONAL SUPPLEMENTS BUSINESS

Nutritional Supplements Business Performance and Targets

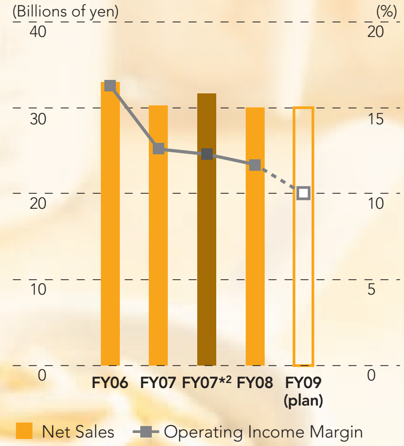
	Millions of yen				
	2009 (plan)	**2008**	2007	2007*2	2006
Net sales	***30,000***	**30,017**	31,666	30,271	33,246
Gross profit	***20,100***	**19,803**	20,708	19,313	20,829
Gross profit margin	***67.0%***	**66.0%**	65.4%	63.8%	62.7%
Selling, general and administrative expenses	***17,000***	**16,297**	16,805	15,509	15,424
Advertising expenses	***2,300***	**2,292**	2,130	2,129	1,835
Operating income	***3,100***	**3,506**	3,903	3,804	5,405
Operating income margin	***10.3%***	**11.7%**	12.3%	12.6%	16.3%

	Customers				
Number of active customers*1 at fiscal year-end:					
Mail-order and retail store		**1,066,018**	1,103,573		1,171,800

*1 *Active customers: Customers making at least one purchase during the preceding seven months.*

*2 *From fiscal 2007, FANCL revised accounting standards regarding its points system for customers. For more details,* *see page 31.*

Nutritional Supplements Business Net Sales and Operating Income Margin



1.

2.

3.

1. HTC* Collagen Drink and Supplement
2. Good Choice (Assort Supplement)
3. Support Series (Beneficial for joints)

* HTC: High Tripeptide Containing

Fiscal 2008 Results

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

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.

Mail order sales decreased 8.7% to ¥13,513 million. Retail store sales decreased 1.4% to ¥8,629 million. Sales through other sales channels decreased 3.0% to ¥7,875 million, as strong overseas sales were negated by poor domestic sales.

Operating Income

Operating income decreased 10.1% to ¥3,506 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 of a percentage point to 11.7%.

Outlook and Strategies

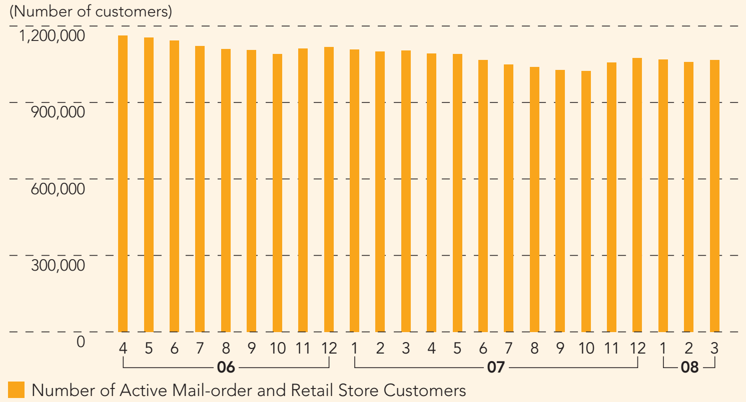
In the Nutritional Supplements Business, FANCL will focus on customers and building long-term relationships based on trust, a key goal of the Unparalleled quality=New value 2010 plan.

In fiscal 2009, FANCL will further reinforce beauty supplements such as *HTC Collagen*, which performed strongly in the previous fiscal year. Steps will also be taken to expand the customer base through more robust marketing efforts targeting middle-aged and elderly consumers. Moreover, to make it easier for customers to choose the products they need, FANCL plans to optimize and better organize its product lineup and categories.

The above measures notwithstanding, the market environment for this business is not yet expected to mount a full-fledged recovery. Consequently, FANCL is projecting sales of ¥30.0 billion (down 0.1% year on year) for fiscal 2009. On the earnings front, due to increased marketing expenses, operating income is forecast to decline by 11.6% to ¥3.1 billion, with an operating income margin of 10.3%.

Active Nutritional Supplements Customers

(Number of customers)



Number of Active Mail-order and Retail Store Customers

OTHER BUSINESSES

Other Businesses Performance and Targets

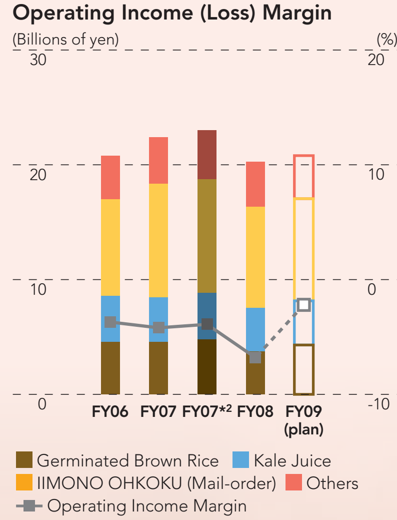
	Millions of yen				
	2009 (plan)	**2008**	2007	2007*[2]	2006
Net sales	***20,800***	**20,271**	23,023	22,427	20,789
Germinated brown rice	***4,300***	**3,744**	4,761	4,561	4,549
Kale juice	***3,850***	**3,762**	4,055	3,873	4,029
IIMONO OHKOKU (Mail-order)	***8,900***	**8,840**	9,940	9,940	8,403
Others	***3,750***	**3,925**	4,267	4,053	3,805
Gross profit	***10,275***	**9,909**	11,595	10,999	10,597
Gross profit margin	***49.4%***	**48.9%**	50.4%	49.0%	51.0%
Selling, general and administrative expenses	***10,725***	**11,294**	12,493	11,939	11,359
Advertising expenses	***2,400***	**2,525**	2,736	2,736	2,492
Operating income (loss)	***(450)***	**(1,385)**	(898)	(940)	(762)
Operating income (loss) margin	***(2.2%)***	**(6.8%)**	(3.9%)	(4.2%)	(3.7%)

		Customers			
Number of active customers*[1] at fiscal year-end:					
Germinated brown rice (Mail-order)		**255,245**	214,833		240,323
Kale juice (Mail-order)		**87,697**	92,155		125,331

*[1] *Active customers: Customers making at least one purchase during the preceding seven months.*

*[2] *From fiscal 2007, FANCL revised accounting standards regarding its points system for customers. For more details,* *see page 31.*

Other Businesses Net Sales and Operating Income (Loss) Margin



1. Germinated Brown Rice
2. Powdered Kale Juice
3. IIMONO OHKOKU Mail-order Catalogs

Fiscal 2008 Results

Sales in Other Businesses decreased 12.0% year on year to ¥20,271 million.

In the Germinated Brown Rice Business, sales decreased 21.3% year on year to ¥3,744 million, as a 20% price reduction in April failed to lift sales volumes. Lower sales were recorded in all sales channels.

In the Kale Juice Business, sales decreased 7.2% to ¥3,762 million, as mail-order sales trended well but wholesale sales failed to grow.

Sales through the IIMONO OHKOKU (Kingdom of Wonderful Things) 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 in fiscal 2008.

Sales at other businesses decreased 8.0% to ¥3,925 million, reflecting sluggish sales of sundries and undergarments.

Operating Income

An operating loss of ¥1,385 million, ¥487 million worse than the previous year, was recorded due to significantly wider operating losses in the Germinated Brown Rice and IIMONO OHKOKU businesses and despite improved operating income in the Kale Juice Business as a result of cost efficiencies.

Outlook and Strategies

The goal for Other Businesses under the Unparalleled quality= New value 2010 plan is to achieve profitability. In fiscal 2009, the plan's first year, FANCL will seek ways to improve the profitability of the Germinated Brown Rice and IIMONO OHKOKU Mail-Order businesses to reduce losses.

In the Germinated Brown Rice Business, the goal will be to end the year profitably through sales growth by promoting greater awareness of the outstanding functionality this product offers. FANCL will also bolster mail-order sales and wholesale sales of germinated brown rice for use in processed foods and food services.

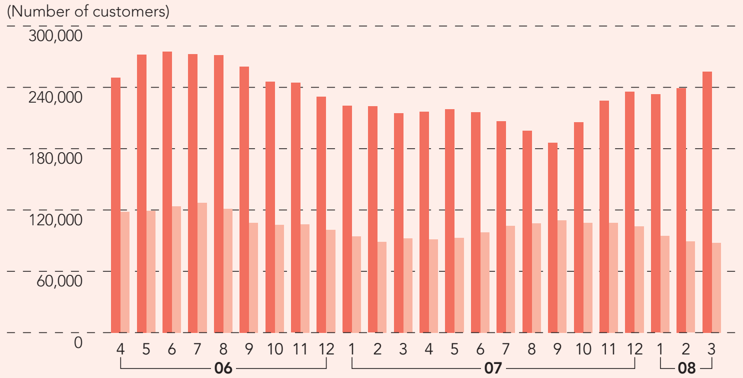
In the Kale Juice Business, which was profitable for the first time in fiscal 2008, FANCL will strive to improve profitability further by continuing to promote a shift toward powder-type products, where profit margins are higher, and consolidating production plants to enhance production efficiency.

For the IIMONO OHKOKU Mail-Order Business, FANCL will work to halt the decline in sales by re-inventing itself in this business as a "health support mail-order company" specializing in products for combating metabolic syndrome. Efforts will also focus on enhancing profitability through more efficient use of expenses.

For Other Businesses as a whole, FANCL is forecasting sales of ¥20.8 billion (up 2.6%) for fiscal 2009, and an operating loss of ¥0.45 billion, an improvement of ¥0.9 billion over the previous year.

Active Germinated Brown Rice and Kale Juice Customers

(Number of customers)



Number of Active Germinated Brown Rice Customers (Mail-order)
Number of Active Kale Juice Customers (Mail-order)

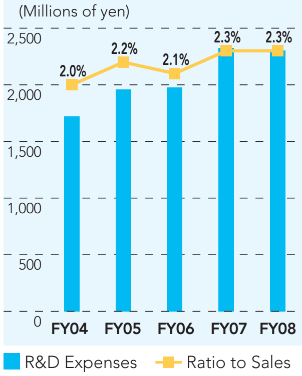
FANCL is known for preservative-free cosmetic products, a new field of cosmetics that we pioneered in Japan. Today, FANCL consistently proposes new value through the development of high-quality cosmetics and nutritional supplements with no additives or other preservatives. FANCL's unequivocal R&D policy and structure are vital supports enabling these value-proposition capabilities.

Basic R&D Approach and R&D Structure

In addition to preservative-free cosmetics, FANCL has actively unveiled new products in the health foods field. Underlying these activities is FANCL's distinct corporate philosophy founded on the elimination of negative issues such as dissatisfaction, uncertainty and inconvenience from the world. This philosophy is the driving force that motivates FANCL as a company heavily centered on R&D activities.

Eliminating negative issues requires that we consistently deliver products of real value to our customers. Defying conventional wisdom with an approach founded on innovative concepts and the latest technology is critical to this aim. Here, the FANCL Research Institute plays a pivotal role. Organizationally, the institute is composed of five research centers: the Cosmetics Research Facility, the Health Foods & Supplements Research Facility, the Fundamental Research Facility, the Safety & Quality Design Research Center, and the Research Promotion Office. These organizations are staffed by roughly 121 researchers, including those with doctorate degrees in fields such as agriculture, pharmaceuticals, engineering and other sciences. Joint research is also conducted with external organizations, including universities and materials companies in other industries. Total R&D expenses in fiscal 2008 amounted to ¥2,302 million, consisting of ¥965 million for Cosmetics, ¥1,251 million for Nutritional Supplements, and ¥86 million for Other Businesses.

R&D Expenses
(Millions of yen)



Unwavering Pursuit of Safety

In a discussion of FANCL's R&D structure, the Safety & Quality Design Research Center deserves special note. Established in April 2006, this center is dedicated to further heightening the safety and quality of products that have become synonymous with the FANCL brand.

The "preservative-free" concept permeates every aspect of R&D. For this reason, FANCL's preservative-free cosmetics are not only free of any previously designated ingredients* that could cause an allergic reaction or dermatitis, but also do not contain any other ingredients known to have such effects.

FANCL selects the roughly 450 ingredients used for its products from among over 10,000 cosmetic agents based on its own safety standards. The Company then conducts repeated and rigorous irritant evaluation trials using the latest three-dimensional skin models based on human skin structure. Final products are then separately evaluated by the Safety & Quality Design Research Center. Operating independently of the other R&D organizations, the center is responsible for developing technology for evaluating safety and quality, as well as for final evaluation of products and materials.

In fiscal 2008, FANCL was first in the world to develop cosmetic products using sweet-pea flower essence. Ultraviolet rays are a major source of skin aging. At an academic conference on the subject, FANCL publicly unveiled findings that demonstrate the effectiveness of sweet-pea flower essence in controlling this damage. Thus, while maintaining a commitment to safety through preservative-free products, FANCL has worked diligently to develop highly functional skin care products.

[R&D-RELATED DATA]

	FY2008	FY2007	FY2006	FY2005	FY2004
R&D Expenses (Millions of yen)	2,302	2,327	1,978	1,959	1,720
Ratio to Sales	2.3%	2.3%	2.1%	2.2%	2.0%
No. of Researchers	121	111	113	114	103
No. of Patent Applications in Japan	42	41	37	50	48

Any of 102 ingredients that could cause dermatitis or other allergic reactions that companies were required to display as product warnings until March 2001. Presently all ingredients—not just these 102—must be displayed on product labels in accordance with government legislation.

CORPORATE GOVERNANCE, COMPLIANCE, AND INVESTOR RELATIONS

FANCL regards the enhancement of corporate governance as an important management issue in gaining the trust of shareholders and other stakeholders. Our basic policy is to achieve business efficiency and transparency through rigorous adherence to corporate ethics and relevant laws, and through enhancements to our internal control system, including risk management.

Corporate Governance Structure:

Executive Officer System

FANCL introduced the executive officer system in June 1999 to ensure the separation of the supervisory and executive functions of management. In 2004, we terminated the system of appointing directors to posts with operational responsibilities, instead appointing executive officers to serve in these posts.

Board of Directors

The Board of Directors consists of 10 directors. The Board's role is to make decisions on important management issues and other statutory matters and to provide management oversight of the operations of FANCL and its subsidiaries on the basis of reports from managers and auditors. To clarify management accountability and enhance management quality, the term of office for directors is one year. No outside directors presently serve on the Board of Directors, which we believe better enables the Company to respond quickly to changes in the business environment. However, plans are on the table to appoint such directors from the upcoming fiscal year in order to further enhance governance.

Corporate Auditors

FANCL has a corporate auditor system anchored by four corporate auditors, three of whom are from outside the Company. These corporate auditors are responsible for monitoring management from an objective and neutral standpoint. The corporate auditors attend all meetings of the Board of Directors, Management Conference and other important meetings, and regularly exchange opinions with senior management to ensure appropriate management oversight. To maintain organizational ties conducive to effective audits, the corporate auditors conduct fact-finding missions aimed at improving corporate governance effectiveness. This extends to mutually sharing reports with and interviewing the six-member Internal Audit Office.

Accounting Auditor

FANCL has appointed Ernst & Young ShinNihon to be its accounting auditor and provide objective advice regarding accounting matters.

Retirement Allowance System for Directors Abolished

In June 2006, as part of reforms to the director compensation system, the Company abolished its retirement allowance system for directors because of its low correlation with Company performance and strong seniority-oriented nature. FANCL has newly replaced the old system with a stock option incentive scheme.

Fiscal 2008 Compensation Packages for Directors and Corporate Auditors

(Millions of yen)

Recipient	Number of recipients	Amount paid
Directors	16	395
(Outside directors)	(2)	(13)
Corporate auditors	4	51
(Outside corporate auditors)	(4)	(51)
Total	20	446

* *"Amount paid" includes compensation from stock options: 14 directors ¥88 million (1 outside director ¥0)*

Internal Control System: Basic Stance and Current Status

In April 2006, FANCL formulated a basic policy regarding the development of a system of internal controls. This was followed by the establishment of an Internal Control Committee, chaired by the president and C.E.O., which enacts initiatives aimed at strengthening the Company's system of internal controls.

Investor Relations

FANCL is committed to disclosing information to shareholders and other investors in a timely, appropriate, and speedy manner to improve management transparency.

1) Promotion of Speedy and Fair Disclosure

In accordance with FANCL's disclosure policy, we disclose monthly sales data in a timely manner and strive to announce financial results as soon as possible after the end of the fiscal year. Information on financial results is uploaded to the IR section of our website as promptly as possible after the official announcement of business results. We are also striving toward fair disclosure to help narrow the information disparity among stakeholders by offering webcasts of information meetings held.

Our IR activities are not limited to the domestic investor base. Top management representatives also make individual calls on European and U.S. investors once a year.

2) Internet-Based Execution of Voting Rights Available

As another example of how we are utilizing the Internet to enhance shareholder convenience, online voting was made available from the June 2004 General Meeting of Shareholders as an alternative to the execution of voting rights by means of conventional mail. To improve the online voting experience, we also began taking part in an e-voting platform from 2007.

For Further Information, Please Contact:

Investor Relations Group
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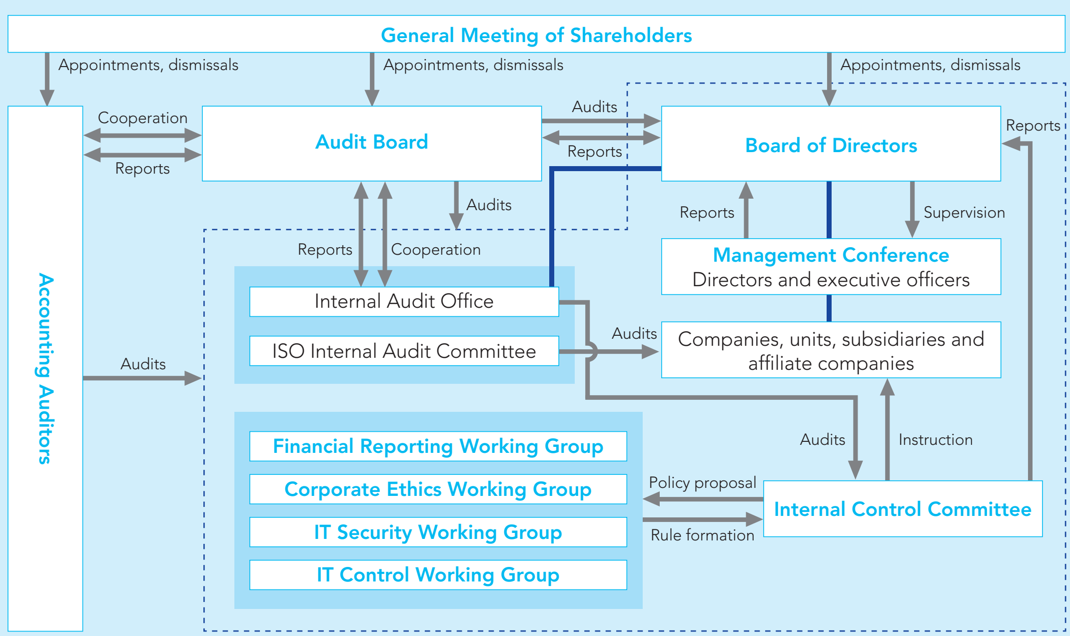
http:// www.fancl.co.jp
e-mail: official@fancl.co.jp

http://www.fancl.co.jp/corporate/index_e.html

[CORPORATE GOVERNANCE SYSTEM]



DIRECTORS AND OFFICERS

(As of June 15, 2008)

Kazuyoshi Miyajima
Chairman and Representative Director

Yoshifumi Narimatsu
C.E.O. and Representative Director

Tsuyoshi Tatai
C.O.O. and Representative Director

Chairman and Representative Director

Kazuyoshi Miyajima

C.E.O. and Representative Director

Yoshifumi Narimatsu

C.O.O. and Representative Director

Tsuyoshi Tatai

Managing Executive Officer and Director

Yukio Ikemori

Executive Officers and Directors

Akira Yajima
Kazuyuki Shimada
Kenichi Sugama
Haruki Murakami
Mayuko Yamaoka

Director

Jyunji Iida

Executive Officers

Katsuhiko Egami
Toru Tsurusaki
Yasushi Sumida

Statutory Auditors

Toshio Shinozawa
Fumiko Ikeda*
Katsunori Koseki*
Akira Tobishima*

*Outside statutory auditors

FANCL was founded on the desire to help women with sensitive skin find the right cosmetics for their needs. Our unique corporate policy of eliminating negatives such as dissatisfaction, uncertainty and inconvenience is the principle that has guided FANCL's interaction with society. We are involved in a range of social contribution and environmental protection activities, from supporting greater independence for disabled persons to encouraging ecological coexistence in local communities. After all, corporate social responsibility (CSR) is a serious and consistent element of every FANCL operation.

Support for People With Disabilities

FANCL SMILE Expands Employment Opportunities for the Intellectually Disabled

In February 1999, FANCL established FANCL SMILE Co., Ltd., a non-consolidated special subsidiary dedicated to promoting the employment of persons with disabilities. At March 31, 2008, the company employed 38 people with intellectual disabilities. While operations revolve mainly around packing work for the FANCL Group, they also include work in sales and customer service. Over the medium to long term, we aim to help this company achieve more stable profit performance, thereby encouraging other firms to employ more persons with intellectual disabilities.

Relationship With *"Homon no Ie"* Social Welfare Corporation

Our relationship with *"Homon no Ie"* now spans 20 years. Founded in Yokohama in 1986 as the first day-care facility of its kind in Japan, *"Homon no Ie"* seeks to help people with severe and multiple disabilities to simply enjoy their youth. From sponsoring banquets to assisting with bazaars and other activities, the scope of our involvement with the facility evolves each year. As part of programs to allow shareholders to join in making a social contribution, we donated ¥4.42 million to the facility on behalf of 1,607 FANCL shareholders in fiscal 2008.

Environmental Protection Activities

Reducing CO_2 Emissions

We are vigorously implementing a host of environmental measures. In January 1997, FANCL introduced a customer-designated delivery service. This system reduces the number of delivery runs by enabling customers to designate alternative delivery locations when not at home, thereby helping to lower CO_2 emissions.

In August 2008, we plan to transfer delivery operations to a new logistics center, a step that will consolidate eight distribution points currently dispersed around the Tokyo metropolitan area into a single location. The substantial reduction in truck deliveries from this move will reduce the Company's annual CO_2 emissions by roughly 130 tons.

We are implementing various measures to reduce CO_2 at each of our factories, including installing gas-powered air conditioning units. Other efforts to further reduce environmental impact include FANCL's participation in an energy conservation campaign promoted by the Ministry of the Environment, co-sponsorship of the city of Yokohama's wind power-generation project, and creation of rooftop gardens.

Designing Environmentally Friendly and Safe Products and Services

FANCL constantly strives to design environmentally friendly products that are extremely safe, easily recycled, and emit no harmful substances even when disposed of as waste. Avoiding unnecessary packaging is a foremost consideration in the design of all FANCL products. Boxes used for cosmetics are made either from recycled paper or paper from non-wood sources. In November 2002, we obtained ISO 14001 certification for our environmental management systems.

Yokohama city wind turbine

FINANCIAL SECTION

ELEVEN-YEAR SUMMARY

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31

	2008	2007	2007*	2006	2005	2004
						Millions of yen
For the year:						
Net sales	**¥ 99,350**	¥101,065	¥97,064	¥95,322	¥87,937	¥84,957
Cosmetics	**49,062**	46,376	44,366	41,287	37,098	34,926
Nutritional supplements	**30,017**	31,666	30,271	33,246	31,132	29,656
Others	**20,271**	23,023	22,427	20,789	19,707	20,375
Net sales, by sales channel						
Mail-order sales	**56,301**	58,921	56,501	57,237	54,544	54,439
Retail store sales	**27,530**	26,815	25,234	23,607	20,067	17,722
Wholesale and overseas	**15,519**	15,329	15,329	14,478	13,326	12,796
Gross profit	**66,988**	67,170	63,169	62,083	57,905	55,696
Gross profit margin (%)	**67.4**	66.5	65.1	65.1	65.8	65.6
Selling, general and administrative expenses	**59,521**	58,800	55,082	53,508	52,477	47,927
Selling, general and administrative expense ratio (%)	**59.9**	58.2	56.7	56.1	59.7	56.4
Operating income (loss)	**7,467**	8,370	8,087	8,575	5,428	7,769
Cosmetics	**7,409**	7,133	6,991	5,568	4,745	6,283
Nutritional supplements	**3,506**	3,903	3,804	5,405	4,638	5,371
Others	**(1,385)**	(898)	(940)	(762)	(1,967)	(1,821)
Operating income margin (%)	**7.5**	8.3	8.3	9.0	6.2	9.1
Net income	**3,694**	2,547	2,547	5,184	1,710	3,387
Net income to net sales (%)	**3.7**	2.5	2.6	5.4	1.9	4.0
ROE (%)	**5.3**	3.6	3.6	7.5	2.6	5.1
Advertising expenses	**¥ 9,876**	¥ 9,393	¥ 9,393	¥ 9,792	¥11,105	¥ 9,865
Sales promotion expenses	**12,509**	13,502	9,784	9,319	9,475	7,998
Research and development expenses	**2,302**	2,327	–	1,978	1,959	1,720
Capital expenditures	**2,317**	3,865	–	2,592	2,257	4,864
Depreciation	**3,020**	2,670	–	2,540	2,463	2,556
Net cash provided by operating activities	**¥ 7,379**	¥ 6,472	–	¥ 9,163	¥ 4,638	¥ 5,861
Net cash used in investing activities	**(672)**	(1,734)	–	(10,280)	(4,807)	(4,117)
Net cash provided by (used in) financing activities	**(6,036)**	(2,495)	–	(22)	(1,090)	(4,533)
Net (decrease) increase in cash and cash equivalents	**650**	2,243	–	(1,139)	(1,254)	(2,809)

	2008	2007	2007*	2006	2005	2004
						Yen
Per share:						
Net income	**¥ 58.4**	¥ 39.6	–	¥ 242.6	¥ 80.3	¥ 154.6
Equity *(Note 2)*	**1,141.6**	1,116.6	–	3,317.0	3,111.2	3,082.4
Cash dividends	**24.0**	24.0	–	55.0	50.0	42.5

	2008	2007	2007*	2006	2005	2004
						Millions of yen
At year-end:						
Total assets	**¥ 85,686**	¥ 86,931	–	¥85,148	¥79,416	¥78,479
Equity *(Note 2)*	**69,900**	71,449	–	71,406	66,203	65,613
Equity ratio (%)	**81.6**	82.2	–	83.9	83.4	83.6
Interest-bearing debt	**–**	–	–	–	–	–
Working capital	**36,049**	36,701	–	33,037	28,622	29,214
Number of stores	**218**	218		208	169	143
Number of consolidated subsidiaries	**7**	6		6	6	6

2003	2002	2001	2000	1999	1998
¥90,026	¥84,657	¥65,418	¥62,980	¥54,475	¥45,429
37,155	36,748	35,669	38,039	35,891	31,095
29,211	28,995	25,408	21,898	17,180	13,056
23,660	18,914	4,341	3,043	1,404	1,279
59,334	56,821	43,360	45,942	43,573	39,491
17,744	17,073	15,632	14,143	10,425	5,278
12,948	10,763	6,426	2,893	474	660
58,982	56,682	47,034	44,969	40,384	32,822
65.5	67.0	71.9	71.4	74.1	72.2
47,456	45,564	38,402	33,426	29,685	25,012
52.7	53.9	58.7	53.1	54.5	55.0
11,526	11,118	8,632	11,543	10,699	7,810
8,099	8,406	8,320	10,712	10,206	8,138
6,879	5,960	4,694	3,587	3,461	2,546
(1,646)	(1,681)	(2,532)	(641)	(631)	(321)
12.8	13.1	13.2	18.3	19.6	17.2
6,429	5,995	4,867	6,723	4,730	3,635
7.1	7.1	7.4	10.7	8.7	8.0
9.8	9.7	8.5	15.3	16.8	17.2
¥ 9,262	¥10,213	¥ 8,896	¥ 6,081	¥ 6,825	¥ 5,071
8,615	8,161	5,810	5,615	5,019	3,664
1,683	1,524	1,294	1,302	764	562
5,397	3,589	2,727	7,138	9,872	6,232
2,268	2,245	2,379	2,424	1,406	1,334
¥ 9,828	¥ 7,426	¥ 6,083	¥ 5,681	–	–
(5,582)	(5,416)	(4,838)	(7,736)	–	–
(5,432)	(2,456)	(1,410)	13,006	–	–
(1,213)	(437)	(162)	10,949	–	–
¥ 279.5	¥ 307.6	¥ 249.8	¥ 459.5	¥ 457.7	¥ 396.9
2,976.3	3,320.2	3,051.4	3,678.9	2,944.0	2,357.0
35.0	25.0	25.0	30.0	25.0	20.0
¥79,804	¥79,026	¥75,481	¥67,657	¥49,399	¥36,833
66,350	64,719	59,482	55,146	32,761	23,335
83.1	81.9	78.8	81.5	66.3	63.4
350	1,092	3,086	2,780	5,052	3,828
29,805	31,082	28,456	29,219	12,934	9,178
144	133	138	85	64	48
6	4	3	2	2	2

Notes:

1. As a service to customers, FANCL operates a points system whereby they are refunded 5% of their mail order or FANCL retail store purchases (inclusive of tax) as reward points. Customers can redeem these points, with 1 point equal to 1 yen, toward future purchases.

   Through fiscal 2006, these points were recognized as a cost when used and deducted from sales as an effective discount. However, from fiscal 2007 points will be booked as selling, general and administrative (SG&A) expenses when they are issued to customers. Accordingly, while amounts related to this points system in fiscal 2006 and prior years were charged as extraordinary losses, amounts associated with this change were booked as SG&A expenses in fiscal 2007.

   Compared to the previous accounting method, this change resulted in increases of ¥4,000 million in net sales, ¥3,717 million in SG&A expenses, and ¥283 million in ordinary income, as well as a decrease of ¥1,849 million in income before income taxes in fiscal 2007.

   As for operating results for fiscal 2007, the impact of the aforementioned change in accounting standards will be excluded from actual changes for line items from net sales through operating income.

   (Reference) An asterisk (*) indicates amounts for which the same accounting standard as in the previous consolidated fiscal year applies.

2. Presented as shareholders' equity until fiscal 2006. Presented as equity from fiscal 2007 due to a change in accounting standards.

QUARTERLY FINANCIAL AND STOCK INFORMATION/MONTHLY SALES DATA

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31

	Millions of yen							
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Net sales	**¥24,930**	¥24,276	**¥23,480**	¥23,704	**¥27,147**	¥26,243	**¥23,793**	¥22,841
Cosmetics	**12,181**	10,848	**11,531**	10,808	**13,291**	11,962	**12,059**	10,748
Nutritional supplements	**7,556**	7,663	**7,373**	7,467	**8,009**	8,027	**7,079**	7,114
Others	**5,193**	5,765	**4,576**	5,429	**5,847**	6,254	**4,655**	4,979
Net sales, by sales channel:								
Mail-order sales	**14,161**	14,333	**12,813**	13,439	**15,922**	15,667	**13,405**	13,062
Retail store sales	**6,960**	6,067	**6,786**	6,279	**7,171**	6,622	**6,613**	6,266
Others	**3,809**	3,876	**3,881**	3,986	**4,054**	3,954	**3,775**	3,513
Operating income	**2,471**	1,261	**890**	1,416	**2,672**	3,073	**1,434**	2,337
Cosmetics	**2,479**	1,506	**892**	977	**2,461**	2,396	**1,577**	2,112
Nutritional supplements	**889**	831	**926**	1,183	**957**	807	**734**	983
Others	**(409)**	(623)	**(455)**	(313)	**(138)**	252	**(383)**	(256)
Net income (loss)	**¥ 1,209**	¥ 818	**¥ 231**	¥ 763	**¥ 1,602**	¥ 2,021	**¥ 653**	¥ (1,055)

	Yen							
Stock Price Range								
High	**¥ 1,835**	¥ 2,470	**¥ 1,868**	¥ 1,861	**¥ 1,493**	¥ 1,805	**¥ 1,452**	¥ 1,936
Low	**1,569**	1,750	**1,466**	1,482	**1,200**	1,497	**1,185**	1,628

Monthly sales

	Millions of yen											
	2007									2008		
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Cosmetics	4,108	3,955	4,118	3,929	3,916	3,686	3,966	4,853	4,472	3,806	3,902	4,351
YoY increase (decrease)	9.2%	1.1%	11.6%	5.8%	5.2%	(5.3%)	3.2%	7.2%	8.5%	6.0%	10.7%	6.8%
Nutritional supplements	2,516	2,439	2,601	2,521	2,531	2,321	2,456	2,710	2,843	2,265	2,385	2,429
YoY decrease	(2.0%)	(8.9%)	(6.6%)	(2.5%)	(1.2%)	(13.2%)	(4.0%)	(3.2%)	(6.2%)	(5.1%)	(1.2%)	(7.4%)
Others	1,670	1,724	1,799	1,669	1,429	1,478	1,802	2,078	1,967	1,523	1,545	1,587
YoY decrease	(5.5%)	(15.2%)	(15.6%)	(18.6%)	(17.4%)	(18.0%)	(6.9%)	(8.3%)	(10.9%)	(8.3%)	(10.7%)	(6.8%)
Total	8,294	8,118	8,518	8,119	7,876	7,485	8,224	9,641	9,282	7,594	7,832	8,367
YoY increase (decrease)	2.5%	(5.9%)	(1.0%)	(2.8%)	(1.7%)	(10.6%)	(1.4%)	0.5%	(0.8%)	(0.6%)	2.1%	(0.4%)

Note: In fiscal 2007, FANCL changed its accounting standard for the treatment of customer reward points at the end of the fiscal year. Accordingly, no changes were made to accounting methods regarding the calculation of points on a monthly or quarterly basis. This has resulted in a discrepancy between monthly and quarterly point totals and point figures for the full year.

Statements of Income

Net Sales

Net sales fell 1.7% year on year to ¥99,350 million. FANCL's core Cosmetics Business performed well, supported by the effect of the renewal of core products, but the Nutritional Supplements Business and Other Businesses were sluggish.

Cosmetics Business sales rose 5.8% to ¥49,062 million, boosted by increased sales of FANCL and ATTENIR cosmetics.

Sales of FANCL cosmetics rose 5.9% to ¥37,814 million due to a boom in the sales of our revamped skin care products, in addition to growing sales of staple products such as *Mild Cleansing Oil* and make-up products. Sales were also higher throughout all sales channels.

In the ATTENIR cosmetics brand sales reached a record high, increasing 4.2% to ¥10,710 million, supported by the success of skin care products. Our marketing activities were also successful, lifting the number of customers at the end of fiscal 2008 to an all-time record.

Sales in the Nutritional Supplements Business declined 5.2% year on year to ¥30,017 million. *HTC Collagen* and other beauty supplements posted strong sales but this was not enough to compensate for the decline in sales in other product groups, including the *Support* series of supplements, which were renamed following government-issued guidelines. Sales were lower throughout all sales channels.

Sales in Other Businesses were lower than last year in all businesses, declining by 12.0% overall to ¥20,271 million.

Sales in the Germinated Brown Rice Business fell by 21.4% to ¥3,744 million, as sales volumes failed to increase despite a 20% price reduction in April.

In the Kale Juice Business, wholesale sales of frozen-type products were sluggish, causing sales to decline by 7.2% to ¥3,762 million.

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.

Gross Profit

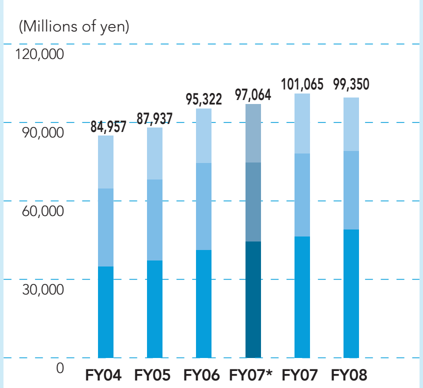
The gross profit margin increased 0.9 of a percentage point year on year to 67.4%, reflecting an increase in the gross profit margin in the Cosmetics Business due to the effect of the renewal of skin care products, and an increase in the percent of total sales accounted for by the Cosmetics Business, which has a high gross profit margin.

In the Cosmetics Business, the gross profit margin increased 0.8 of a percentage point to 76.0% due to the effect of the renewal of skin care products.

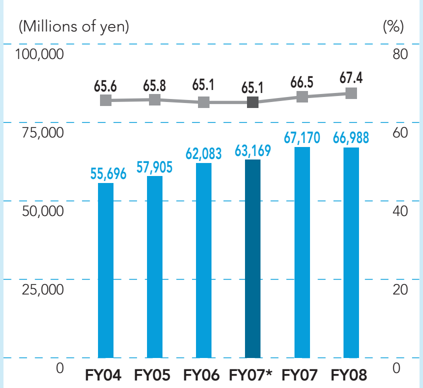
In the Nutritional Supplements Business, the gross profit margin increased 0.6 of a percentage point to 66.0%, mainly due to the revision of raw material costs.

In Other Businesses, the gross profit margin fell 1.5 percentage points to 48.9%. This mainly reflected deterioration in the gross profit margin in the Germinated Brown Rice Business due to the 20% drop in the sales price of germinated brown rice.

Net Sales by Business Segment



Gross Profit and Gross Profit Margin



** Amounts for which the same accounting standard as in the previous consolidated fiscal year applies*

SG&A Expenses

The ratio of selling, general and administrative (SG&A) expenses to net sales increased 1.7 percentage points to 59.9% due to increased personnel costs and outsourcing expenses.

The advertising and sales promotion expenses ratio was virtually unchanged at 22.5%, but outsourcing expenses and depreciation increased due to the introduction of ERP. The increase in personnel costs primarily reflected an increase in directors' compensation.

Operating Income

As a result of the aforementioned factors, operating income decreased 10.8% year on year to ¥7,467 million, and the operating income margin fell 0.8 of a percentage point to 7.5%.

In the Cosmetics Business 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. The operating income margin, however, fell 0.3 of a percentage point to 15.1%.

In the Nutritional Supplements Business, operating income declined 10.2% to ¥3,506 million, as gains from efficiencies in sales promotion and other expenses were not sufficient to cover the drop in revenues. The operating income margin declined 0.6 of a percentage point to 11.7%.

Other Businesses posted an operating loss of ¥1,385 million, ¥487 million more than the previous fiscal year. Although the Kale Juice Business was profitable for the first time since its operations commenced, the Germinated Brown Rice Business ended in a larger loss for the year. The IIMONO OHKOKU Mail-Order Business, also registered in a loss, reversing course from last year.

Other Income (Expenses)

In the previous fiscal year, the Company posted extraordinary losses arising from a change to its accounting standards for its customer reward point system, including an allowance for points from previous fiscal years of ¥2,132 million. However, in the fiscal year under review extraordinary losses were small, helping other income (expenses) to improve by ¥3,048 million year on year.

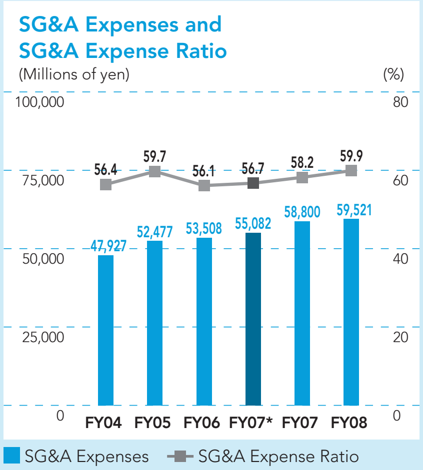
In the fiscal year under review, the Company posted a loss from voluntary product recalls by the IIMONO OHKOKU Mail-Order Business of ¥262 million, and a loss on devaluation of shares in loss-making affiliates overseas of ¥123 million.

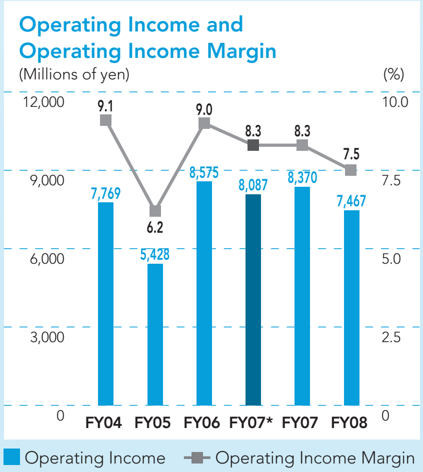
Income Before Income Taxes and Minority Interests

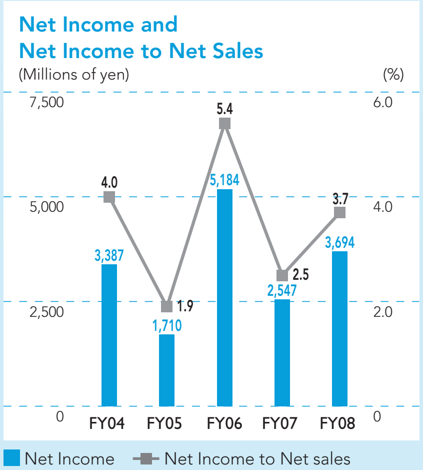
Income before income taxes and minority interests rose 42.5% year on year to ¥7,191 million. Income before income taxes and minority interests as a percentage of net sales was 7.2%, up 2.2 percentage points compared with the previous fiscal year.

Net Income

Net income increased 45.0% year on year to ¥3,694 million, and the ratio of net income to net sales rose 1.2 percentage points to 3.7%.







** Amounts for which the same accounting standard as in the previous consolidated fiscal year applies*

Net income per share was ¥58.42. As of the end of the fiscal year under review FANCL had no outstanding unexercised convertible bonds or equity warrants.

Return on equity (ROE) increased 1.7 percentage points compared with the previous fiscal year to 5.3%, due to the increase in net income and a purchase of treasury stock of ¥4,000 million.

Balance Sheet

Assets

[Current Assets]

Current assets fell by ¥568 million from the previous fiscal year-end to ¥49,003 million, due to lower marketable securities which outweighed increases in cash and bank deposits, and notes and accounts receivable–trade.

Marketable securities decreased by ¥2,787 million, reflecting the redemption of commercial paper among other factors, but cash and bank deposits increased by almost the same amount.

[Property, Plant and Equipment, Net]

Property, plant and equipment, net decreased by ¥469 million from the previous fiscal year-end to ¥24,494 million as the value of investments in production equipment and stores was outweighed by increased depreciation.

[Intangible Fixed Assets]

FANCL gained intangible fixed assets through its acquisition of shares in CHALONE Inc.

[Investments and Other Assets]

Investments and other assets decreased by ¥947 million from the previous fiscal year-end to ¥11,450 million, due to the decline in other assets including fixed deposits, etc.

Liabilities

[Current Liabilities]

Current liabilities increased by ¥85 million to ¥12,954 million. Although the reserve for customer awards declined by ¥353 million, this was not enough to offset the increase in accrued liabilities, etc.

[Noncurrent Liabilities]

Noncurrent liabilities were ¥2,463 million, virtually unchanged from the previous fiscal year.

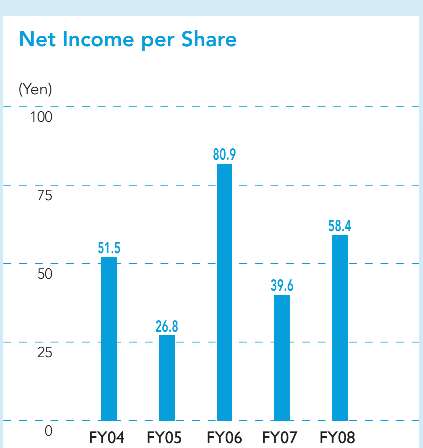
Net Assets

[Total Net Assets]

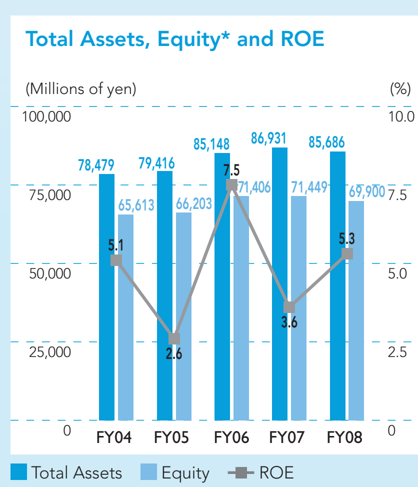
Total net assets were ¥70,269 million, down ¥1,292 million compared with the previous fiscal year-end. Although we posted net income of ¥3,694 million, we also purchased ¥4,000 million of treasury stock.

[Capital Expenditures]

The Company recorded total capital expenditures of ¥2,317 million (receiving basis), used mainly for retail store renovations and IT investments, including the upgrade of ERP software.



* FANCL conducted a 3-for-1 stock split on April 1, 2006. Figures for FY03 through FY06 are calculated as if the stock split had actually taken place at the start of the previous business term.



* Presented as shareholders' equity until fiscal 2006. Presented as equity from fiscal 2007 due to a change in accounting standard.

By business segment, capital expenditures totaled ¥1,471 million in the Cosmetics Business, ¥643 million in the Nutritional Supplements Business, and ¥203 million in Other Businesses.

No major equipment was disposed of or sold during the period.

Cash Flows

Cash and cash equivalents as of March 31, 2008 were ¥24,061 million, ¥650 million higher than at the end of the previous fiscal year. The main contributing factors are detailed below.

[Cash Flows From Operating Activities]

Cash flows from operating activities during the period under review were ¥7,379 million. The primary factors that increased operating cash flow from the previous fiscal year included income before income taxes of ¥7,191 million, and depreciation and amortization expenses of ¥3,091 million. Factors reducing operating cash flow included income taxes paid of ¥3,580 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 purchases of property, plant and equipment such as equipment for new and renovated stores, an outlay of ¥1,025 million for purchases of software and a payment of ¥1,112 million for the acquisition of shares in CHALONE Inc.

[Cash Flows From Financing Activities]

Cash flows used in financing activities during the period under review were ¥6,036 million. This was largely the result of a ¥4,000 million payment for the purchase of treasury stock and ¥1,535 million in distributions made.

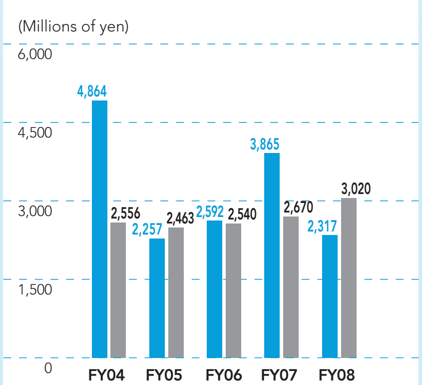
For the next fiscal year, funds for investing activities and financing activities are expected to be included in the scope of the increase in cash flows from operating activities.

Trends in Cash Flow-related Indices

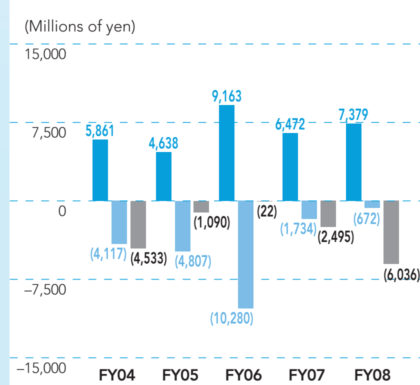
Years ended March 31	2008	2007	2006	2005	2004
Equity ratio (%)	**81.6**	82.2	83.9	83.4	83.6
Equity ratio based on market price (%)	**98.2**	120.3	183.9	110.9	95.7
Debt service coverage (years)	**0.0**	–	–	–	–
Interest coverage ratio (times)	**1,635.2**	–	–	–	–

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 figures in the consolidated financial results.*
2. *Market capitalization = market price on last trading day of period x total shares outstanding at end of period (excluding treasury stock)*
3. *Operating cash flow is the Net Cash Provided by 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.*

Capital Expenditures and Depreciation



Cash Flows



BUSINESS RISKS

1. Product Development and Competitive Environment

In the FANCL Group's product development, the product planning and development division is responsible for formulating and proposing product plans based on customer needs and market research. In collaboration with related departments such as the FANCL Research Institute, it makes final decisions on commercialization. At present, the Group develops cosmetics and nutritional supplements using its own technology, but there is no guarantee that this will result in successful development and new products. Further, in light of the increasing numbers of women with sensitive skin and greater health consciousness, there are more new entrants into the markets of cosmetics for sensitive skin and nutritional supplements and the appearance of similar products could operate to reduce the relative competitiveness of the FANCL lineup and hurt our growth potential and earning capabilities.

2. Product Manufacturing and Quality Assurance

The FANCL Group's cosmetics, nutritional supplements and Germinated Brown Rice are manufactured at five directly managed domestic factories, while kale juice and undergarments production is outsourced to subsidiaries. Departments in charge of procurement manage all aspects of raw materials purchases and, working in cooperation with marketing departments, disperse purchases among multiple suppliers and coordinate purchases with suppliers. Nevertheless, unanticipated conditions due to external factors may make it impossible to procure planned quantities. A quality assurance department has been established to improve product quality. At quality conferences it verifies the quality control situation with respective departments, and strives to maintain quality by conducting on-site plant inspections and other means. If a quality problem arises, it could impact negatively on the Group's operating results.

3. Disasters and Bad Weather

To minimize the effects of fire and natural disasters on its production system, the FANCL Group conducts periodic inspections and checking on all its facilities. Geographic dispersion of plants is intended to reduce risks. Nevertheless, there are no guarantees that the impact of fire or natural disaster can be fully prevented. The harvest volumes of rice and kale, the raw materials for Germinated Brown Rice and kale juice, are subject to the vagaries of the weather. We therefore strive for dispersion of producing areas and raw material stockpiling, but weather factors can cause shortages and higher prices that impact adversely on Group operating results.

4. Limits of Intellectual Property Protection

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

5. Legal Restrictions

The Cosmetic Business is governed by the Pharmaceutical Affairs Law to assure the quality, effectiveness and safety of pharmaceuticals, over-the-counter drugs, cosmetics and medical equipment. It is under this legislation that the FANCL Group manufactures manages its Pharmaceutical Control Division and sells cosmetics, and related products. The Nutritional Supplement Business is subject to the Food Sanitation Law, which prescribes food standards, additives, sanitation surveillance and business permissions. For foods for sale, the Nutrition Improvement Law prescribes standards for display of nutritional elements and caloric values. Those of the Company's supplements that meet certain requirements are also subject to the regulations of the functional foods health system, which enables selection with assurance of foods corresponding to consumers' eating habits.

The Group is also governed by the Specified Commercial Transactions Law, whose objectives are fair conduct of mail-order businesses for protection of consumers, and by the Law for Prevention of Unfair Premiums and Unfair Labeling, intended to prevent customer inducement by those means. The Group has established a Compliance & Legal Division, responsible for compliance and ensuring more thoroughgoing observance of laws and regulations. Notwithstanding this, any violations that occur may adversely affect the Group's operating results.

6. Personal Information

The Group's use of mail order and the Internet as its main sales channels has resulted in possession of personal information about many individuals. The Group strictly observes the "Guidelines for Personal Data Protection" prescribed by the Japan Direct Marketing Association, and has established an all-Company committee to reinforce the information control system. Continuous efforts are also made with regard to employee education in this area. Nevertheless, should there occur leakage of such information outside the Company, a loss of customer trust could reduce sales and subject the Company to losses from payment of liability damages to customers.

CONSOLIDATED BALANCE SHEETS

FANCL CORPORATION and Consolidated Subsidiaries
As of March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 2)
Assets	**2008**	2007	**2008**
Current assets:			
Cash and bank deposits *(Note 15)*	**¥ 16,552**	¥ 14,304	**$ 165,205**
Marketable securities	**13,508**	16,295	**134,829**
Notes and accounts receivable – trade	**10,053**	9,983	**100,346**
Less: Allowance for doubtful accounts	**(159)**	(149)	**(1,592)**
	9,894	9,834	**98,754**
Inventories *(Note 5)*	**6,711**	6,746	**66,978**
Deferred income taxes *(Note 7)*	**1,156**	1,224	**11,535**
Prepaid expenses and other current assets	**1,182**	1,168	**11,803**
Total current assets	**49,003**	49,571	**489,104**
Property, plant and equipment, at cost:			
Land	**10,901**	10,627	**108,805**
Buildings and structures	**21,141**	20,460	**211,007**
Machinery and equipment	**11,144**	10,491	**111,231**
Construction in progress	**74**	61	**741**
	43,260	41,639	**431,784**
Less: Accumulated depreciation	**(18,766)**	(16,676)	**(187,308)**
Property, plant and equipment, net	**24,494**	24,963	**244,476**
Intangible assets:			
Goodwill	**739**	–	**7,371**
Investments and other assets:			
Investment securities:			
Non-consolidated subsidiaries and affiliates	**423**	546	**4,225**
Other investment securities	**1,534**	1,006	**15,307**
	1,957	1,552	**19,532**
Guarantee deposits	**2,681**	2,685	**26,754**
Long-term loans receivable	**447**	656	**4,463**
Deferred income taxes *(Note 7)*	**275**	253	**2,749**
Other assets	**6,514**	7,661	**65,016**
Less: Allowance for doubtful accounts	**(424)**	(410)	**(4,234)**
Total investments and other assets	**11,450**	12,397	**114,280**
Total assets	**¥ 85,686**	¥ 86,931	**$ 855,231**

Liabilities and net assets	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 2) 2008
Current liabilities:			
Notes and accounts payable – trade	¥ 3,600	¥ 3,741	$ 35,927
Accrued income taxes *(Note 7)*	1,866	2,027	18,622
Reserve for customer awards	1,496	1,849	14,932
Other current liabilities	5,992	5,252	59,810
Total current liabilities	12,954	12,869	129,291
Noncurrent liabilities:			
Accrued retirement benefits *(Note 8)*	1,689	1,612	16,859
Other long-term liabilities	774	889	7,724
Total noncurrent liabilities	2,463	2,501	24,583
Contingent liabilities *(Note 13)*			
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized –233,838,000 shares			
Issued –70,176,600 shares in 2008 and 2007	10,795	10,795	107,747
Additional paid-in capital	11,861	11,852	118,388
Retained earnings	58,608	56,452	584,969
Less: Treasury stock: 8,944,863 shares in 2008 and 6,188,080 shares in 2007	(11,387)	(7,700)	(113,658)
Total shareholders' equity	69,877	71,399	697,446
Valuation, translation adjustments and other:			
Net unrealized holding gain on other securities	28	55	274
Translation adjustments	(5)	(5)	(49)
Total valuation, translation adjustments and other	23	50	225
Warrants	275	112	2,745
Minority interests	94	–	941
Total net assets	70,269	71,561	701,357
Total liabilities and net assets	¥ 85,686	¥86,931	$ 855,231

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

FANCL CORPORATION and Consolidated Subsidiaries
As of March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars *(Note 2)*
	2008	2007	**2008**
Net sales	**¥99,350**	¥101,065	**$991,614**
Cost of sales	**32,362**	33,895	**323,008**
Gross profit	**66,988**	67,170	**668,606**
Selling, general and administrative expenses *(Note 9)*	**59,521**	58,800	**594,077**
Operating income	**7,467**	8,370	**74,529**
Other income (expenses):			
Interest and dividend income	**164**	119	**1,642**
Distribution from dissolution of a silent partnership	**–**	633	**–**
Loss on retirement of inventories	**(525)**	(541)	**(5,243)**
Loss on disposal of property, plant and equipment	**(150)**	(164)	**(1,500)**
Loss on impairment of fixed assets	**–**	(981)	**–**
Prior-year adjustment to reserve for customer awards	**–**	(2,132)	**–**
Loss on devaluation of investment securities	**(13)**	(454)	**(130)**
Loss on devaluation of investments in affiliates	**(123)**	–	**(1,225)**
Loss on voluntary recall of products	**(262)**	–	**(2,612)**
Other, net	**633**	196	**6,317**
Income before income taxes and minority interests	**7,191**	5,046	**71,778**
Income taxes *(Note 7)*:			
Current	**3,436**	3,292	**34,297**
Deferred	**65**	(793)	**646**
	3,501	2,499	**34,943**
Minority interests	**4**	–	**42**
Net income	**¥ 3,694**	¥ 2,547	**$ 36,877**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2008 and 2007

	Thousands	Millions of yen								
	Common stock									
	Number of shares	Amount	Additional paid-in capital	Retained earnings	Treasury stock	Net unrealized holding gain on other securities	Translation adjustments	Warrants	Minority interests	Total net assets
March 31, 2006	23,392	¥10,795	¥11,847	¥55,327	¥ (6,625)	¥ 67	¥(5)	¥ –	¥ –	¥71,406
Distributions	–	–	–	(1,422)	–	–	–	–	–	(1,422)
Net income	–	–	–	2,547	–	–	–	–	–	2,547
3-for-1 stock split	46,784	–	–	–	–	–	–	–	–	–
Purchases of treasury stock	–	–	–	–	(1,716)	–	–	–	–	(1,716)
Sale of treasury stock	–	–	5	–	641	–	–	–	–	646
Other net changes during the year	–	–	–	–	–	(12)	–	112	–	100
March 31, 2007	70,176	10,795	11,852	56,452	(7,700)	55	(5)	112	–	71,561
Distributions	–	–	–	(1,538)	–	–	–	–	–	(1,538)
Net income	–	–	–	3,694	–	–	–	–	–	3,694
Purchases of treasury stock	–	–	–	–	(4,000)	–	–	–	–	(4,000)
Sale of treasury stock	–	–	9	–	313	–	–	–	–	322
Other net changes during the year	–	–	–	–	–	(27)	–	163	94	230
March 31, 2008	**70,176**	**¥10,795**	**¥11,861**	**¥58,608**	**¥(11,387)**	**¥ 28**	**¥(5)**	**¥275**	**¥94**	**¥70,269**

	(Thousands of U.S. dollars)								
	Common stock								
	Amount	Additional paid-in capital	Retained earnings	Treasury stock	Net unrealized holding gain on other securities	Translation adjustments	Warrants	Minority interests	Total net assets
March 31, 2007	$107,747	$118,297	$563,445	$ (76,852)	$ 549	$(49)	$1,116	$ –	$714,253
Distributions	–	–	(15,353)	–	–	–	–	–	(15,353)
Net income	–	–	36,877	–	–	–	–	–	36,877
Purchases of treasury stock	–	–	–	(39,925)	–	–	–	–	(39,925)
Sale of treasury stock	–	91	–	3,119	–	–	–	–	3,210
Other net changes during the year	–	–	–	–	(275)	–	1,629	941	2,295
March 31, 2008	**$107,747**	**$118,388**	**$584,969**	**$(113,658)**	**$ 274**	**$(49)**	**$2,745**	**$941**	**$701,357**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2008	2007	**2008**
Cash flows from operating activities			
Income before income taxes and minority interests	**¥ 7,191**	¥ 5,046	**$ 71,778**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**3,091**	2,683	**30,846**
Loss on impairment of fixed assets	**–**	981	**–**
Share-based payments	**182**	119	**1,820**
(Reversal of) provision for reserve for customer awards	**(353)**	1,849	**(3,523)**
Increase in allowance for doubtful accounts	**20**	23	**197**
Accrued retirement benefits, net of payments	**253**	107	**2,521**
Cash surrender value of insurance policies	**436**	17	**4,355**
Loss on devaluation of investment securities	**13**	454	**130**
Income from investment in a silent partnership	**(20)**	(161)	**(205)**
Loss on disposal of property, plant and equipment	**78**	135	**782**
Changes in operating assets and liabilities:			
Notes and accounts receivable – trade	**25**	(1,006)	**252**
Inventories	**71**	(66)	**707**
Other current assets	**248**	(48)	**2,475**
Accounts payable – trade	**(152)**	(266)	**(1,514)**
Other current liabilities	**126**	(118)	**1,260**
Other noncurrent liabilities	**(592)**	(22)	**(5,908)**
Income taxes paid	**(3,580)**	(3,381)	**(35,730)**
Other, net	**342**	126	**3,410**
Net cash provided by operating activities	**7,379**	6,472	**73,653**
Cash flows from investing activities			
Increase in fixed-term deposits	**–**	(190)	**–**
Proceeds from cancellation of fixed-term deposits	**190**	–	**1,897**
Purchases of property, plant and equipment	**(1,087)**	(2,146)	**(10,850)**
Purchases of software	**(1,025)**	(1,829)	**(10,228)**
Purchases of investments in affiliates	**–**	(57)	**–**
Purchases of investments in newly consolidated subsidiaries	**(1,112)**	–	**(11,102)**
Proceeds from collection of long-term loans receivable	**758**	38	**7,566**
Purchases of investment securities	**(16,077)**	(13,010)	**(160,465)**
Disposition of investment securities	**17,497**	13,496	**174,635**
Increase in other investments and other assets	**(148)**	(305)	**(1,476)**
Payment for investment in a silent partnership	**–**	(620)	**–**
Proceeds from dissolution of a silent partnership	**–**	2,701	**–**
Other, net	**332**	188	**3,314**
Net cash used in investing activities	**(672)**	(1,734)	**(6,709)**
Cash flows from financing activities			
Repayments of short-term loans	**(350)**	–	**(3,493)**
Repayments of long-term loans	**(266)**	–	**(2,658)**
Redemption of bonds	**(160)**	–	**(1,597)**
Purchases of treasury stock, net	**–**	(1,076)	**–**
Purchases of treasury stock	**(4,000)**	–	**(39,925)**
Proceeds from sale of treasury stock	**275**	–	**2,743**
Distributions made	**(1,535)**	(1,419)	**(15,317)**
Net cash used in financing activities	**(6,036)**	(2,495)	**(60,247)**
Effect of foreign exchange rate changes on cash and cash equivalents	**(21)**	–	**(215)**
Net increase in cash and cash equivalents	**650**	2,243	**6,482**
Cash and cash equivalents at beginning of year	**23,411**	21,168	**233,670**
Cash and cash equivalents at end of year *(Note 15)*	**¥ 24,061**	¥ 23,411	**$ 240,152**

See notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

(a) Basis of preparation

FANCL CORPORATION (the "Company") and its domestic consolidated subsidiaries maintain their books of account in accordance with accounting standards generally accepted in Japan, and its overseas consolidated subsidiary maintains its book of accounts in conformity with those of its country of domicile. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan. Certain prior-year amounts have been reclassified to conform to the current year's presentation.

(b) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its consolidated subsidiaries (collectively, the "Group") over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in non-consolidated subsidiaries and affiliates (companies over which the Company has the ability to exercise significant influence) are stated at cost because of their immateriality.

All assets and liabilities of the subsidiaries are revalued at their respective fair value upon acquisition, if applicable, and the excess of cost over the underlying net assets at the date of acquisition is amortized over a period based on an estimated useful life on a straight-line basis. However, if such excess is insignificant, it is charged to income when incurred.

(c) Foreign currency translation

All assets and liabilities denominated in foreign currencies of the Company and its domestic consolidated subsidiaries are translated at the current exchange rates in effect at each balance sheet date when not hedged by forward foreign exchange contracts, or at the contracted rates of exchange when hedged by forward foreign exchange contracts. The resulting foreign exchange gain or loss is recognized as other income or expense.

Assets and liabilities of the Company's one overseas consolidated subsidiary are translated at the current exchange rate in effect at each balance sheet date and its revenue and expense accounts are translated at the average rate of exchange in effect during the year.

Differences arising from translation are presented as translation adjustments and minority interests in the consolidated balance sheets.

(d) Cash equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and which are so near maturity that they represent only an insignificant risk of any change in their value attributable to changes in interest rates, are considered cash equivalents.

Under the accounting standard governing statements of cash flows, the definition of cash and cash equivalents in the statement of cash flows and that of cash and bank deposits in the balance sheet differs with respect to certain components. A reconciliation between the cash definitions referred to above is presented in Note 15.

(e) Securities

All securities owned by the Company and its consolidated subsidiaries are considered to be available-for-sale securities and are classified as "other" securities, one of the three categories (trading, held-to-maturity and other) defined in the accounting standard for financial instruments.

Other securities with quoted market prices are carried at fair market value. The difference between the acquisition cost and the carrying value of other securities, net of taxes, is recognized as a component of net assets and is reflected as "Net unrealized holding gain on other securities." The cost of other securities sold is computed by the average method. Other securities without quoted market prices are stated at cost by the average method.

Investment in a silent partnership is stated at an amount accounted for by the equity method based on its net assets at the closing date nearest to the Company's year end.

(f) Inventories

Finished goods, merchandise, work in process and raw materials are stated at cost by the average method. Supplies are stated at cost by the last purchase price method.

(g) Depreciation and amortization

The methods of depreciation of property, plant and equipment of the Group are summarized as follows:

	Buildings	Assets other than buildings
Acquired prior to April 1, 1998	Declining-balance method *(1)	Declining-balance method *(1)
Acquired during the period from April 1, 1998 to March 31, 2007	Straight-line method *(1)	Declining-balance method *(1)
Acquired on or after April 1, 2007	Straight-line method *(2)	Declining-balance method *(2)

*(1) *Represents the methods permitted under the Corporation Tax Law of Japan prior to the revision made to such law which went into effect on April 1, 2007.*

*(2) *Represents the methods permitted under the revised Corporation Tax Law stated in *(1) above.*

The following summarizes the estimated useful lives of property, plant and equipment by major category:

Buildings and structures	3 – 50 years
Machinery and equipment	2 – 22 years

Effective the year ended March 31, 2008, the residual value of property, plant and equipment which were acquired before April 1, 1998 and have been fully depreciated to their respective depreciable limits under the Corporation Tax Law is to be depreciated to nil over a period of five years. The effect of this change was immaterial on net income for the year ended March 31, 2008.

Intangible assets are amortized by the straight-line method. The cost of software intended for internal use is amortized by the straight-line method over an estimated useful life of 5 years.

(h) Leases

Finance leases other than those which transfer the ownership of the leased assets to the lessee are not capitalized but are accounted for by a method similar to that applicable to operating leases.

(i) Research and development expenses

Research and development expenses are charged to income when incurred.

(j) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on the collection of receivables and is determined based on the historical experience with write-offs plus an estimated amount for probable doubtful accounts after a review of the collectibility of individual receivables.

(k) Allowance for employees' bonuses

The allowance for employees' bonuses represents a provision for the future payment of employees' bonuses.

(l) Reserve for customer awards

The reserve for customer awards is provided at an amount which is reasonably estimated to be used in the future based on the historical experience with respect to the usage of customer awards against the unused customer awards at the balance sheet date.

(m) Retirement benefits

The Group has severance benefit plans which entitle its employees upon retirement to either a lump-sum payment or pension annuity payments for life, or a combination of both, based on their length of service, salary at the time of retirement and number of years of participation in the plans.

Accrued retirement benefits for employees have been provided based on an estimate of the retirement benefit obligation and the pension fund assets.

Unrecognized actuarial net gain or loss is amortized by the straight-line method over 5 years, a period which falls within the average remaining years of service of the active participants in the plans, commencing the year following the year in which the gain or loss was incurred.

The domestic consolidated subsidiaries also provide an accrual for retirement allowances for directors and statutory auditors at the full amount which would be required to be paid if all directors and statutory auditors retired at the balance sheet date based on their respective internal regulations.

At the annual general meeting of the shareholders of the Company held on June 17, 2006, the Company adopted a resolution for the abolishment of its lump-sum retirement payment plan for directors and statutory auditors and for the lump-sum retirement payment for each director or statutory auditor to be paid based on his/her length of service with the Company as a director or a statutory auditor up to the date of the resolution. Therefore, effective June 18, 2006, accrued retirement benefits for them have not been recognized. However, the domestic consolidated subsidiaries continue to provide an accrual for retirement allowances for their directors and statutory auditors in the same manner as the Company did prior to the abolishment of its lump-sum retirement payment plan for directors and statutory auditors in accordance with their respective internal regulations.

(n) Stock issuance expenses

Stock issuance expenses are charged to income when incurred.

(o) Deferred income taxes

Deferred income taxes are recognized by the asset and liability method under which deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(p) Derivatives

Derivative financial instruments are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability. Forward foreign exchange contracts which meet certain criteria are accounted for by the allocation method used to hedge against risk arising from fluctuation in foreign exchange rates.

The Group does not make an assessment of the effectiveness of its hedging activities because the relationship between the anticipated cash flows fixed by hedging activities and the avoidance of market risk is so clear that there is no need to evaluate the effectiveness of each hedge against the corresponding underlying hedged item.

(q) Distributions of additional paid-in capital or retained earnings

On May 1, 2006, the Corporation Law of Japan (the "Law") went into effect. With respect to distributions of additional paid-in capital or retained earnings, refer to Note 6.

2. U.S. Dollar Amounts

For the convenience of the reader, the accompanying consolidated financial statements with respect to the year ended March 31, 2008 have been presented in U.S. dollars by translating all yen amounts at ¥100.19 = U.S.$1.00, the exchange rate prevailing on March 31, 2008. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

3. Changes in Methods of Accounting

Effective the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have changed their methods of depreciation for all tangible fixed assets acquired on or after April 1, 2007 to reflect the revisions to the Corporation Tax Law. The effect of this change was immaterial on net income for the year ended March 31, 2008.

Prior to the year ended March 31, 2007, the Group accounted for customer awards which entitle customers to obtain certain discounts on their purchase amounts from their next purchase as sales discounts when such discounts are utilized. Effective the year ended March 31, 2007, the Group changed its method of accounting for customer awards to recognizing them in selling, general and administrative expenses on an accrual basis when incurred due to the fact that the system for making a reasonable estimate of the usage rate of customer awards became ready as a result of the introduction of a new point awards system and because it became clear that the nature of the customer awards is substantively a sales promotion. This change in method of accounting was made in order to facilitate the Group's healthy financial condition and for the matching of profit and loss.

As a result of this change, the related amount incurred for the year ended March 31, 2007 was recorded as a sales promotion expense for such fiscal year and the amounts incurred in prior years were recorded as a special loss in the accompanying consolidated statement of income for the year then ended. The effect of this change was to increase net sales by ¥4,001 million and selling, general and administrative expenses by ¥3,718 million, and to decrease income before income taxes by ¥1,849 million for the year ended March 31, 2007 compared with the corresponding amounts which would have been recorded under the method applied in the previous year.

Effective the year ended March 31, 2007, the Group adopted an accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended March 31, 2007, the Group is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity.

Total shareholders' equity under the previous method of presentation amounted to ¥71,449 million at March 31, 2007.

Effective the year ended March 31, 2007, the Company adopted an accounting standard for share-based payments and the related implementation guidance. The effect of the adoption of this standard was to decrease both operating income and income before income taxes by ¥118 million for the year ended March 31, 2007 from the corresponding amounts which would have been recorded under the method applied in the previous year.

4. Marketable and Investment Securities

Marketable and investment securities with quoted market prices classified as other securities at March 31, 2008 and 2007 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
2008	Acquisition cost	Carrying value	Unrealized gain	Acquisition cost	Carrying value	Unrealized gain
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥66	¥113	¥47	$659	$1,127	$468
Subtotal	66	113	47	659	1,127	468
Securities whose acquisition cost exceeds their carrying value:						
Stock	2	1	(1)	17	10	(7)
Subtotal	2	1	(1)	17	10	(7)
Total	¥68	¥114	¥46	$676	$1,137	$461

2007	Millions of yen Acquisition cost	 Carrying value	 Unrealized gain
Securities whose carrying value exceeds			
their acquisition cost:			
Stock	¥66	¥158	¥92
Total	¥66	¥158	¥92

Other securities without quoted market prices at March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Current assets:			
Bonds	**¥ 2,997**	¥ 1,003	**$ 29,912**
Commercial paper	**2,498**	9,984	**24,930**
Foreign bonds	**6,000**	4,508	**59,885**
Other	**2,014**	800	**20,101**
Noncurrent assets:			
Fiscal investment and loan program (FILP) – Agency Bonds	**500**	–	**4,991**
Unlisted stock (excluding securities traded over-the-counter)	**203**	126	**2,028**
	¥14,212	¥16,421	**$141,847**

The redemption schedule for other securities with maturity dates at March 31, 2008 and 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
2008	Due in one year or less	Due after one year through five years	Due in one year or less	Due after one year through five years
Current assets:				
Bonds	**¥ 2,997**	**¥ –**	**$ 29,912**	**$ –**
Commercial paper	**2,497**	**–**	**24,930**	**–**
Foreign bonds	**6,000**	**–**	**59,885**	**–**
Other	**2,014**	**–**	**20,101**	**–**
Noncurrent assets:				
FILP – Agency Bonds	**–**	**500**	**–**	**4,991**
Total	**¥13,508**	**¥500**	**$134,828**	**$4,991**

	Millions of yen	
2007	Due in one year or less	Due after one year through five years
Current assets:		
Bonds	¥ 1,003	¥ –
Commercial paper	9,984	–
Foreign bonds	4,508	–
Other	800	–
Total	¥16,295	¥ –

5. Inventories

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Merchandise	¥2,658	¥2,489	$26,533
Finished goods	572	317	5,703
Raw materials	3,023	3,044	30,174
Work in process	79	595	784
Supplies	379	301	3,784
	¥6,711	¥6,746	$66,978

6. Shareholders' Equity

The Law provides that amounts from additional paid-in capital and retained earnings may be distributed to the shareholders at any time by resolution of the shareholders or by the Board of Directors if certain provisions are met subject to the extent of the applicable sources of such distributions. The Law further provides that amounts equal to 10% of such distributions be transferred to the capital reserve included in additional paid-in capital or the legal reserve included in retained earnings based on the applicable sources of such distributions until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account.

7. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Accrued enterprise taxes	¥ 165	¥ 155	$ 1,650
Accrued bonuses	423	389	4,218
Allowance for doubtful accounts	163	162	1,623
Reserve for customer awards	600	751	5,990
Accrued retirement benefits	736	653	7,350
Net loss carried forward	728	281	7,269
Loss on devaluation of investment securities	123	45	1,231
Other	284	165	2,831
Gross deferred tax assets	3,222	2,601	32,162
Valuation allowance	(1,218)	(538)	(12,162)
Total deferred tax assets	2,004	2,063	20,000
Deferred tax liabilities:			
Prepaid pension cost	157	151	1,571
Unrealized intercompany profit on land	232	232	2,316
Unrealized revaluation gain on land with respect to acquisition of IIMONO OHKOKU Co., Ltd.	165	165	1,642
Other	19	38	187
Total deferred tax liabilities	573	586	5,716
Net deferred tax assets	¥ 1,431	¥1,477	$ 14,284

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 41% for the years ended March 31, 2008 and 2007.

A reconciliation between the statutory tax rate and the effective tax rates as a percentage of income before income taxes and minority interests for the years ended March 31, 2008 and 2007 is summarized as follows:

	2008	2007
Statutory tax rate	40.64%	40.64%
Additions to (deductions from) income taxes resulting from:		
Permanent nondeductible differences such as entertainment expenses	1.99	1.14
Inhabitants' per capita taxes	1.80	2.59
Permanent differences not recognized for tax purposes such as dividends received	(0.04)	(0.01)
Valuation allowance	6.65	9.59
Tax credits such as for research and development expenses	(2.16)	(2.88)
Differences in effective taxes rates among the Company and its consolidated subsidiaries	(0.83)	(1.21)
Other	0.63	(0.34)
Effective tax rates	48.68%	49.52%

8. Retirement Benefits

The Group has defined benefit pension plans and lump-sum retirement payment plans which cover substantially all employees who terminate their employment. In addition to these plans, the Company and its domestic consolidated subsidiaries (except for one consolidated subsidiary) participate in the multi-employer Welfare Pension Fund Plan (the "Fund") under the Welfare Pension Insurance Law of Japan.

The funded status of the defined benefit pension plans at March 31, 2008 and 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligation	¥(2,290)	¥(2,003)	$(22,853)
Fair value of plan assets	779	751	7,771
Funded status	(1,511)	(1,252)	(15,082)
Unrecognized actuarial net gain	258	234	2,577
Net retirement benefit obligation	(1,253)	(1,018)	(12,505)
Prepaid pension cost	390	371	3,890
Accrued retirement benefits	¥(1,643)	¥(1,389)	$(16,395)

The consolidated subsidiaries applied a simplified method permitted for the calculation of the projected benefit obligation.

Retirement allowances for directors and statutory auditors in the amounts of ¥46 million ($463 thousand) and ¥223 million have been included in accrued retirement benefits in the accompanying consolidated balance sheets at March 31, 2008 and 2007, respectively.

Retirement benefit expenses for the years ended March 31, 2008 and 2007 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Service cost – benefits earned during the year	**¥313**	¥207	**$3,123**
Interest cost on projected benefit obligation	**24**	17	**242**
Expected return on plan assets	**(23)**	(18)	**(231)**
Amortization of unrecognized actuarial net loss	**103**	11	**1,029**
Contributions to the Fund	**295**	272	**2,945**
Retirement benefit expenses	**¥712**	¥489	**$7,108**

In the table above, retirement benefit expenses determined by a simplified method of the consolidated subsidiaries have been included in service cost – benefits earned during the year.

The Company and its consolidated subsidiaries which participated in the Fund have accounted for their contributions to the Fund as retirement benefit expenses. The financial information of the Fund is summarized as follows:

(1) Funded status of the Fund as of March 31, 2007:

	Millions of yen
	2008
Fund's assets	**¥ 6,322**
Projected benefit obligation	**(4,677)**
Funded status	**¥ 1,645**

The funded status above primarily consisted of prior service cost of ¥523 million and a general reserve of ¥1,018 million. Prior service cost in the Fund is amortized by the straight-line method based on the total amount of the principal and interest over a period of 15 years. The Company's group does not make special contributions to the Fund.

(2) The percentage of the contributions paid by the Company's group over total contributions paid by all participants into the Fund was 49.7% for the year ended March 31, 2008. This percentage is not always in agreement with the actual payment responsibility of the Company's group.

The principal assumptions used in the above actuarial calculations for the years ended March 31, 2008 and 2007 were as follows:

	2008	2007
Discount rate	**1.75%**	1.75%
Expected rate of return on plan assets	**3.00%**	3.00%
Actuarial cost method	**Unit credit actuarial cost method**	
Amortization period for actuarial difference	**5 years***	5 years*

* *Amortized by the straight-line method over a period which falls within the estimated average remaining years of service of the active participants in the plans, commencing the year subsequent to the year when the actuarial difference was calculated.*

9. Research and Development Expenses

Research and development expenses charged to income for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Research and development expenses	**¥2,302**	¥2,327	**$22,981**

10. Leases

The Group holds certain machinery and equipment under finance leases which do not transfer ownership to the lessee. These leases are not capitalized, but are accounted for by a method similar to that applicable to operating leases. If such leases had been capitalized, the acquisition costs, accumulated depreciation and accumulated loss on impairment of the leased assets at March 31, 2008 and 2007 would have been as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Machinery and equipment:			
Acquisition costs	**¥5,951**	¥6,364	**$59,392**
Accumulated depreciation	**3,429**	3,205	**34,224**
Accumulated loss on impairment	**603**	603	**6,019**
	¥1,919	¥2,556	**$19,149**

The following table presents the future minimum lease payments subsequent to March 31, 2008 under finance leases which do not transfer ownership:

	2008	
	Millions of yen	Thousands of U.S. dollars
Future minimum lease payments:		
Due within one year	**¥ 833**	$ 8,315
Due after one year	**1,629**	16,259
	¥2,462	$24,574

Lease expenses related to finance leases which do not transfer ownership for the years ended March 31, 2008 and 2007 amounted to ¥752 million ($7,510 thousand) and ¥967 million, respectively. Depreciation related to these leases for the years ended March 31, 2008 and 2007 would have been ¥686 million ($6,845 thousand) and ¥920 million, respectively, if the leases had been capitalized.

For the purpose of presentation of the above *pro forma* amounts, depreciation of the leased assets has been calculated by the straight-line method over the respective lease terms assuming a nil residual value.

11. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the year ended March 31, 2007 consisted of the following:

2007				
Used for	Type of assets	Amount		Place
		Millions of yen	Thousands of U.S. dollars	
Production equipment for germinated brown rice	Buildings and structures	¥347	$2,938	Togyo City, Nagano Prefecture and Mitoyo City, Kagawa Prefecture
	Machinery and vehicles	28	238	
	Tools and equipment	3	28	
	Intangible assets	0	0	
	Leased properties	603	5,108	

Assets of the Group are classified principally into groups based on their business segments as cash-generating units which are defined as the smallest identifiable group of assets which generate cash inflows and which are largely independent of the cash inflows from other assets or groups of assets. Idle assets are classified on an individual asset basis.

The Company deemed the production equipment it uses for the production of Germinated Brown Rice to be impaired and, accordingly, recorded an impairment loss by writing down the book value of such assets and leased assets to their respective recoverable amounts. The recoverable amounts of these assets were measured based on their respective estimated usage value and anticipated future cash flows at a discount rate of 4.9%.

Loss on impairment of fixed assets was recorded as an other expense and amounted to ¥981 million for the year ended March 31, 2007.

12. Stock Option Plans

At March 31, 2008, the Company had the following stock option plans which were approved by its shareholders or the Board of Directors:

Date of approval by shareholders or the Board of Directors	June 28, 1999	June 16, 2002	June 19, 2004	June 17, 2006	November 15, 2006	November 12, 2007
Grantees	5 directors and 50 employees	7 directors, 3 statutory auditors, 11 directors of subsidiaries, 1 statutory auditor of a subsidiary and 800 employees of the Company and subsidiaries	9 directors, 4 statutory auditors, 9 directors of subsidiaries and 1,825 employees of the Company and subsidiaries	10 directors, 9 executive officers, 6 directors of subsidiaries and 1,525 employees of the Company and subsidiaries	9 directors and 9 executive officers	11 directors and 5 executive officers
Type of shares with warrants granted	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares with warrants granted	122,000 shares	494,800 shares	740,000 shares	648,900 shares	62,800 shares	90,700 shares
Option price per warrant	¥5,514	¥1,367	¥1,217	¥1,670	¥1	¥1
Exercisable period	June 29, 2001 – June 28, 2009	July 1, 2004 – June 29, 2007	July 3, 2006 – June 30, 2009	August 11, 2008 – August 10, 2011	December 2, 2006 – December 1, 2036	December 4, 2007 – December 3, 2037

Option prices per warrant are presented after adjustments for stock splits which were made on May 19, 2000 (1.3 shares per 1 share), May 20, 2002 (1.2 shares per 1 share) and April 1, 2006 (3 shares per 1 share).

Effective the year ended March 31, 2007, the Company adopted an accounting standard for share-based payments and the related implementation guidance. In accordance with this standard, the Company has recognized stock option-related expenses by estimating the fair value of unit prices by using the Black-Scholes model.

13. Contingent Liabilities

(1) Contingent liabilities as of March 31, 2008 amounted to ¥1,911 million ($19,074 thousand) and represented guarantees of borrowings incurred by the 16 industrial corporations (including the Company) which are members of the Nagareyama Industrial Cooperative Association (the "Association") for the purposes of financing their purchases of manufacturing and other facilities located in the Nagareyama City area and the land upon which such facilities are situated. The Company has guaranteed such borrowings jointly and severally with the other 15 members of the Association.

In addition to the guarantees stated above, land of ¥592 million ($5,907 thousand) and plant of ¥1,618 million ($16,150 thousand) located in the Nagareyama area were pledged as collateral for the above borrowings as of March 31, 2008.

(2) At March 31, 2008, the Company had guaranteed bank loans totaling $300 thousand (¥30 million) made by FANCL INTERNATIONAL, INC., a non-consolidated subsidiary.

14. Amounts Per Share

In accordance with the accounting standard for earnings per share, basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during each year assuming full dilution of common stock equivalents. Net assets per share is computed based on the weighted-average number of shares of common stock outstanding at each year end.

	Millions of yen		U.S. dollars
	2008	2007	**2008**
Net income:			
– Basic	**¥ 58.42**	¥ 39.59	**$ 0.58**
– Diluted	**58.10**	39.13	**0.58**
Net assets	**1,141.56**	1,116.59	**11.39**

15. Supplementary Cash Flow Information

The following table represents a reconciliation of cash and bank deposits in the accompanying consolidated balance sheets with cash and cash equivalents in the accompanying consolidated statements of cash flows at March 31, 2008 and 2007:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash and bank deposits	¥16,552	¥14,304	$165,205
Marketable securities	13,508	16,295	134,829
Time deposits for periods of more than three months	(1,000)	(190)	(9,981)
Marketable securities pledged as collateral for periods of more than three months	(4,999)	(6,998)	(49,901)
Cash and cash equivalents	¥24,061	¥23,411	$240,152

During the year ended March 31, 2008, CHALONE INC. was newly consolidated as a result of the acquisition of its shares. Refer to Note 16 for details of the cost and expenditure regarding this acquisition.

16. Business Combination

On October 26, 2007, the Company acquired 90% of CHALONE INC.'s common shares and CHALONE INC. became a consolidated subsidiary whose assets and liabilities upon consolidation are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥1,615	$16,124
Noncurrent assets	749	7,474
Goodwill	795	7,938
Current liabilities	(603)	(6,024)
Noncurrent liabilities	(776)	(7,743)
Minority interests	(98)	(983)
Acquisition cost of common shares of CHALONE INC.	1,682	16,786
Cash and cash equivalents	(570)	(5,684)
Expenditure for acquisition of CHALONE INC.	¥1,112	$11,102

Goodwill, which was recognized based on a reasonable estimate of additional profitability in the future, is being amortized over a period of 7 years.

17. Derivatives and Hedging Activities

The Company utilizes derivative financial instruments such as forward foreign exchange contracts for the purpose of hedging its exposure to the risk of adverse fluctuation in foreign currency exchange rates, but does not enter into such transactions for speculative or trading purposes.

The Company has implemented internal regulations under which it will hedge any significant exchange risk.

No specific disclosure for derivatives has been made as the Group did not utilize any derivative instruments for the years ended March 31, 2008 and 2007.

18. Segment Information

Business segments

The Group is primarily engaged in the manufacture and sale of products mainly in Japan in three segments: a cosmetics business in which various cosmetics are sold through wholesalers, retail stores and by mail, a nutritional supplements business in which various supplements are sold through wholesalers, retail stores and by mail, and other businesses which include sales of miscellaneous goods, personal ornaments, underwear, medical and health products, housewares, Germinated Brown Rice, kale juice and so forth. This segmentation has been adopted for internal management purposes.

The business segment information of the Group for the years ended March 31, 2008 and 2007 is summarized as follows:

	Millions of yen					
2008	Cosmetics business	Nutritional supplements business	Other businesses	Total	Eliminations or corporate	Consolidated
I. Sales and operating income (loss):						
Sales to external customers	**¥49,062**	**¥30,017**	**¥20,271**	**¥99,350**	**¥ –**	**¥99,350**
Intersegment sales or transfers	**–**	**–**	**–**	**–**	**–**	**–**
Net sales	**49,062**	**30,017**	**20,271**	**99,350**	**–**	**99,350**
Operating expenses	**41,653**	**26,511**	**21,656**	**89,820**	**2,063**	**91,883**
Operating income (loss)	**¥ 7,409**	**¥ 3,506**	**¥ (1,385)**	**¥ 9,530**	**¥ (2,063)**	**¥ 7,467**
II. Total assets, depreciation and capital expenditures:						
Total assets	**¥32,713**	**¥14,653**	**¥12,481**	**¥59,847**	**¥25,839**	**¥85,686**
Depreciation	**1,696**	**733**	**360**	**2,789**	**62**	**2,851**
Capital expenditures	**1,471**	**643**	**203**	**2,317**	**0**	**2,317**

	Millions of yen					
2007	Cosmetics business	Nutritional supplements business	Other businesses	Total	Eliminations or corporate	Consolidated
I. Sales and operating income (loss):						
Sales to external customers	¥46,376	¥31,666	¥23,023	¥101,065	¥ –	¥101,065
Intersegment sales or transfers	–	–	–	–	–	–
Net sales	46,376	31,666	23,023	101,065	–	101,065
Operating expenses	39,243	27,763	23,921	90,927	1,768	92,695
Operating income (loss)	¥ 7,133	¥ 3,903	¥ (898)	¥ 10,138	¥(1,768)	¥ 8,370
II. Total assets, depreciation, impairment loss and capital expenditures:						
Total assets	¥29,004	¥15,283	¥14,653	¥ 58,940	¥27,991	¥ 86,931
Depreciation	1,408	695	511	2,614	56	2,670
Impairment loss	–	–	981	981	–	981
Capital expenditures	2,155	1,276	434	3,865	–	3,865

2008	Cosmetics business	Nutritional supplements business	Other businesses	Total	Eliminations or corporate	Consolidated
	Thousands of U.S. dollars					
I. Sales and operating income (loss):						
Sales to external customers	$489,688	$299,605	$202,321	$991,614	$ –	$991,614
Intersegment sales or transfers	–	–	–	–	–	–
Net sales	489,688	299,605	202,321	991,614	–	991,614
Operating expenses	415,737	264,616	216,143	896,496	20,589	917,085
Operating income (loss)	$ 73,951	$ 34,989	$ (13,822)	$ 95,118	$ (20,589)	$ 74,529
II. Total assets, depreciation and capital expenditures:						
Total assets	$326,509	$146,252	$124,573	$597,334	$257,897	$855,231
Depreciation	16,925	7,318	3,593	27,836	622	28,458
Capital expenditures	14,684	6,420	2,026	23,130	0	23,130

Unallocatable operating expenses included under "Eliminations or corporate" for the years ended March 31, 2008 and 2007 amounted to ¥2,063 million ($20,589 thousand) and ¥1,768 million, respectively, and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Eliminations or corporate" at March 31, 2008 and 2007 amounted to ¥25,839 million ($257,897 thousand) and ¥27,991 million, respectively, and consisted principally of cash and cash equivalents, short-term investments, land, funds for long-term investments (investment securities and other) and the cash surrender value of certain of the Company's insurance policies.

Geographical segments

As sales and total assets in the Japan segment for the years ended March 31, 2008 and 2007 constituted more than 90% of sales and total assets in all segments, geographical segment information has not been presented.

Overseas sales

Since overseas sales were less than 10% of consolidated sales for the years ended March 31, 2008 and 2007, no disclosure of overseas sales has been presented.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
FANCL CORPORATION

We have audited the accompanying consolidated balance sheets of FANCL CORPORATION and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FANCL CORPORATION and consolidated subsidiaries at March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

[Supplementary information]
As described in Note 3, effective the year ended March 31, 2007, the Company changed its method of accounting for customer awards from deducting customer awards from sales when customers utilize their point awards entitling them to receive sales discounts to recognizing those customer awards in selling, general and administrative expenses when incurred based on an estimate of customers' rate of future usage based on the Company's historical experience of usage of such point awards on an accrual basis.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

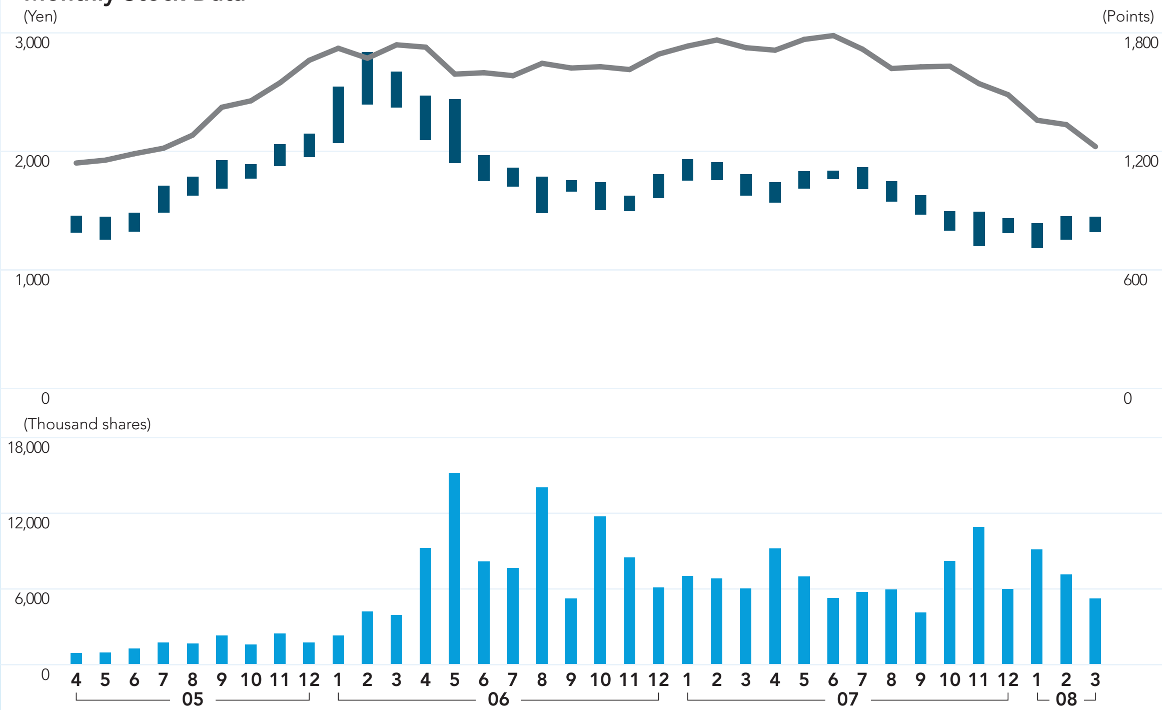
Ernst & Young ShinNihon

June 15, 2008

Market Price Range Per Share of Common Stock, and Trading Volume

	2007									2008		
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
High (¥)	1,739	1,833	1,835	1,868	1,747	1,629	1,493	1,488	1,435	1,393	1,452	1,447
Low (¥)	1,569	1,688	1,766	1,685	1,574	1,466	1,332	1,200	1,310	1,185	1,255	1,320
Trading volume (Thousand shares)	9,197	6,971	5,284	5,747	5,933	4,131	8,209	10,881	5,982	9,130	7,148	5,224

Monthly Stock Data



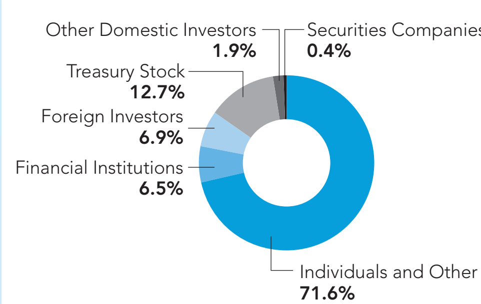
■ Monthly Stock Price Range — TOPIX Close ■ Monthly Trading Volume

Composition of Shareholders

(Percentage of ownership)

	2006		2007		2008
	Mar.	Sep.	Mar.	Sep.	Mar.
Individuals and other	61.4	69.6	69.8	68.8	71.6
Financial institutions	13.7	10.3	9.3	9.1	6.5
Foreign investors	14.3	9.5	9.7	11.1	6.9
Treasury stock	8.0	7.8	8.8	8.5	12.7
Other domestic investors	1.9	1.9	1.8	1.8	1.9
Securities companies	0.7	0.9	0.6	0.7	0.4

As of March 31, 2008



CORPORATE INFORMATION

(As of March 31, 2008)

Head Office

89-1 Yamashita-cho, Naka-ku, Yokohama,
Kanagawa-ken 231-8528, Japan
Tel: 81(45)226-1200

Established

August 1981

Common Stock Listing

Tokyo Stock Exchange, First Section
(Code: 4921)

Common Stock

Authorized Shares:	233,838,000
Outstanding Shares:	70,176,600

Paid-in Capital

¥10,795,161,280

Number of Shareholders

83,990

Number of Full-time Employees

693

Transfer Agent and Registrar

Mizuho Trust & Banking Co., Ltd.
1-2-1 Yaesu, Chuo-ku,
Tokyo 103-8670, Japan
http://www.mizuho-tb.co.jp/daikou/

Annual Meeting of Shareholders

Held in mid-June

Consolidated Subsidiaries

ATTENIR CORPORATION
NICOSTAR Co., Ltd.
IIMONO OHKOKU Co., Ltd.
FANCL Hatsuga Genmai Co., Ltd.
FANCL ASIA (PTE.,) LTD.
FANCL B & H CORPORATION
CHALONE INC.

FANCL

FANCL Corporation

89-1 Yamashita-cho, Naka-ku
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Head Office phone: 81(45)226-1200
http://www.fancl.co.jp/corporate/index_e.html

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