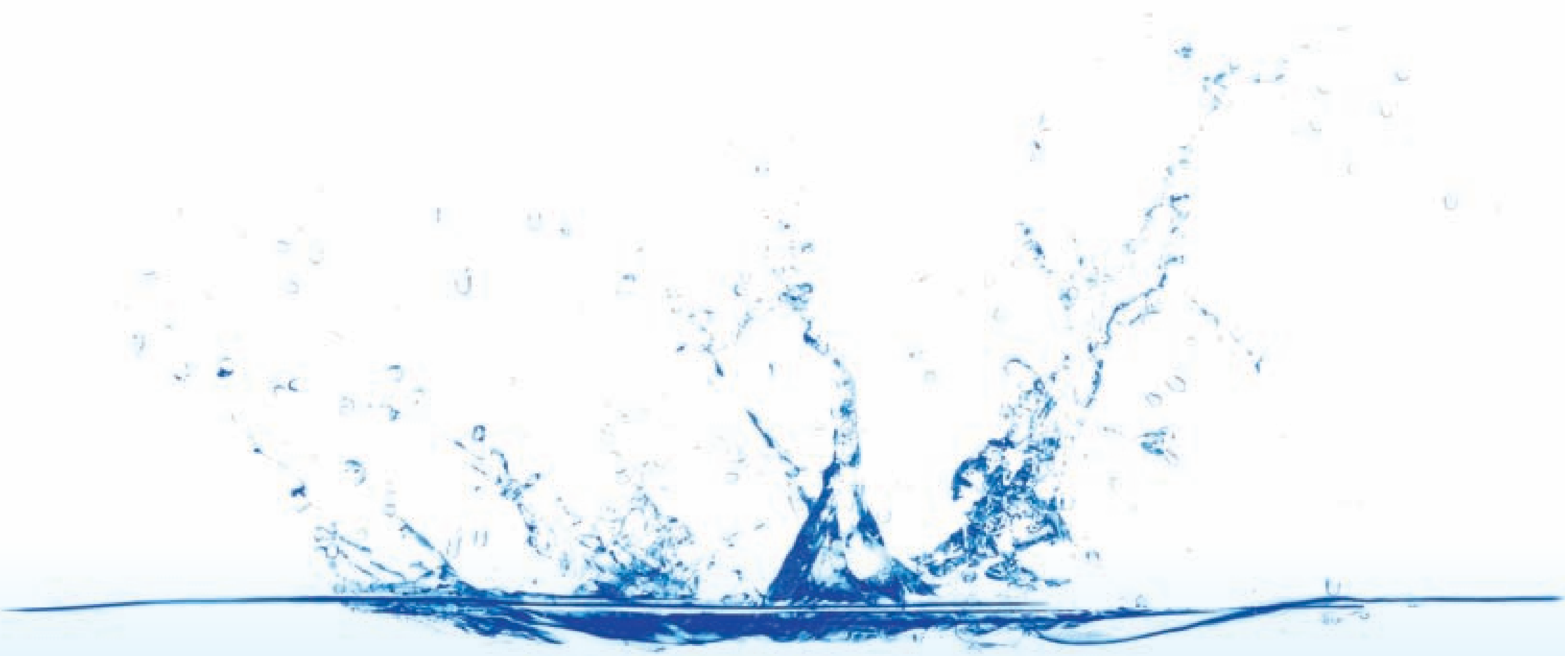
FANCL

Regenerating Growth

Annual Report 2010

For the Year Ended March 31, 2010



Profile

In 1980, FANCL was first in the cosmetics industry to launch a distinct lineup of preservative-free cosmetic products. This milestone has earned FANCL the support of a host of loyal customers. Since then, eliminating uncertainty, inconvenience and other negative issues have become the hallmarks of FANCL's corporate philosophy. From this standpoint, we strive to provide absolute value in fields related to health and beauty that will delight customers, shaping FANCL into a company with value found nowhere else.

During fiscal 2010, FANCL celebrated its third decade in business. To mark the occasion, we offered a variety of special products and services throughout the year to build stronger bonds and relationships of trust with customers. As the negative issues that customers face evolve, FANCL will work vigorously to eliminate these and strive to enhance corporate value, with the long-term profitability of its shareholders in mind.

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

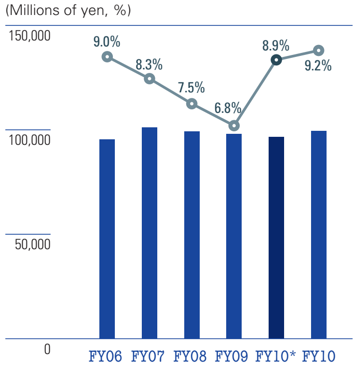
FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2010	2010 (Note 2)	2009	2008	2007	2006	**2010**
For the year:							
Net sales	**¥99,537**	¥96,548	¥98,004	¥99,350	¥101,065	¥ 95,322	**$1,069,827**
Operating income	**9,159**	8,600	6,666	7,467	8,370	8,575	**98,437**
Net income	**4,307**	4,617	2,663	3,694	2,547	5,184	**46,290**
Advertising expenses	**7,971**		8,963	9,876	9,393	9,792	**85,674**
Sales promotion expenses	**11,461**		12,434	12,509	13,502	9,319	**123,183**
Net cash provided by operating activities	**10,532**		6,005	7,379	6,472	9,163	**113,196**
Net cash used in investing activities	**(3,555)**		(1,518)	(672)	(1,734)	(10,280)	**(38,212)**
Net cash provided by (used in) financing activities	**432**		(1,770)	(6,036)	(2,495)	(22)	**4,643**
Net increase (decrease) in cash and cash equivalents	**7,670**		2,672	650	2,243	(1,139)	**82,433**
	Yen						U.S. dollars (Note 1)
Per share (Note 3):							
Net income	**¥ 68.3**		¥ 43.5	¥ 58.4	¥ 39.6	¥ 80.9	**$ 0.73**
Equity (Note 4)	**1,188.3**		1,155.7	1,141.6	1,116.6	1,105.7	**12.77**
Cash dividends	**34.0**		34.0	24.0	24.0	18.3	**0.37**
	Millions of yen						Thousands of U.S. dollars (Note 1)
At year-end:							
Total assets	**¥92,983**		¥85,309	¥85,686	¥ 86,931	¥ 85,148	**$ 999,392**
Equity (Note 4)	**77,137**		70,823	69,900	71,449	71,406	**829,076**
	%						
Ratio:							
Operating income margin (%)	**9.2**	8.9	6.8	7.5	8.3	9.0	
Advertising and sales promotion expenses ratio (%)	**19.5**		21.8	22.5	22.7	20.1	
ROE (%)	**5.8**	6.2	3.8	5.3	3.6	7.5	

Notes: 1. U.S. dollar amounts are the yen equivalent, calculated, for convenience only, at a rate of ¥93.04 = U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2010.
2. Based on the scope of consolidation during the fiscal year ended March 31, 2009, prior to the consolidation of Fantastic Natural Cosmetics Limited (FNL) and Fantastic Natural Cosmetics (China) Limited (FNCCL).
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

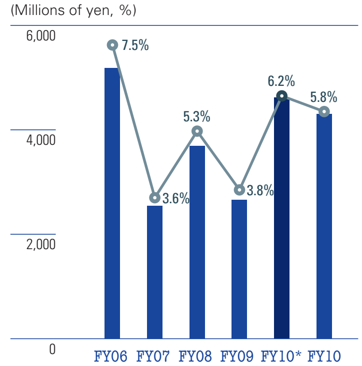
(Millions of yen, %)



Net Sales
Operating Income Margin

Net Income and ROE

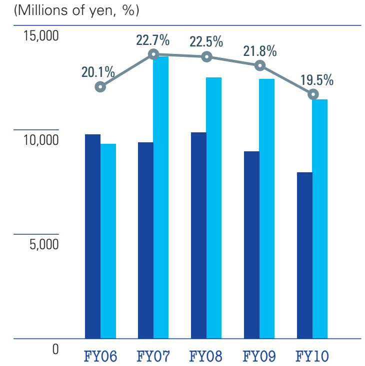
(Millions of yen, %)



Net Income
ROE

Advertising Expenses and Sales Promotion Expenses

(Millions of yen, %)



Advertising Expenses
Sales Promotion Expenses
Advertising and Sales Promotion Expenses Ratio

* In September 2009, FANCL converted two sales agents, one in Hong Kong and another in mainland China, into consolidated subsidiaries. However, with the start of the fourth quarter of fiscal 2010, both companies were converted into affiliates accounted for by the equity method. Consequently, although the companies and their three consolidated subsidiaries were included under consolidation in the statements of income for the third quarter of fiscal 2010, they were accounted for as equity-method affiliates from the start of the fourth quarter.

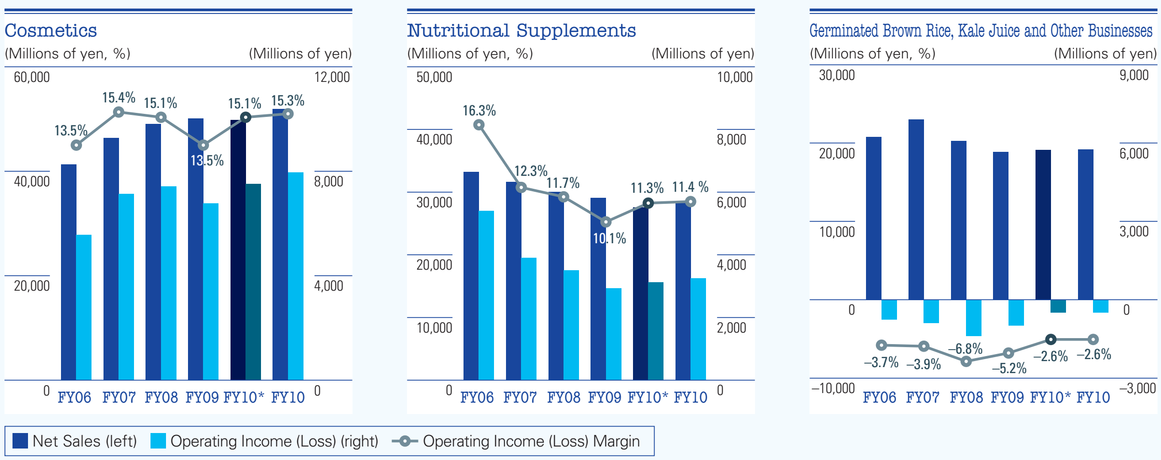
Business Segments

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

▸ Nutritional Supplements
A core business centered on the sale of high-quality, reasonably priced supplements.

▸ Germinated Brown Rice, Kale Juice and Other Businesses
Business based on the provision of germinated brown rice and kale juice for daily health maintenance.

[Net Sales, Operating Income and Operating Income Margin]



Sales Channels

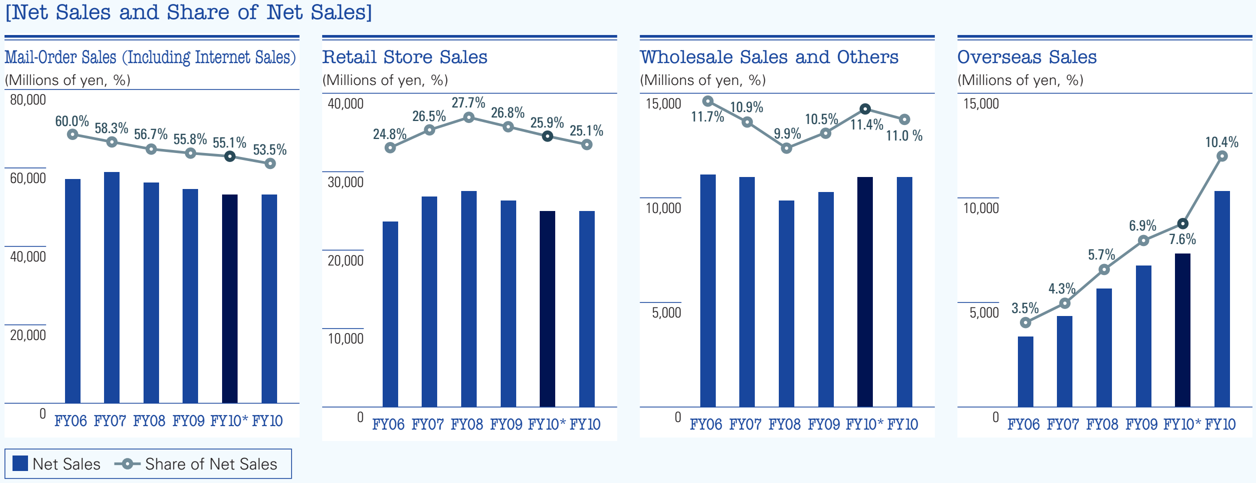
▸ Mail-Order Sales (Including Internet Sales)
Encompassing both catalog and Internet sales, this channel boasts the highest profit margin among FANCL sales channels. In fiscal 2010, sales in this channel accounted for 53.5% of net sales.

▸ Retail Store Sales
This channel is key to meeting the needs of customers who want to test products before purchasing. In fiscal 2010, sales in this channel accounted for 25.1% of net sales.

▸ Wholesale Sales, Others
This channel mainly revolves around the sale of supplements and health foods to clients (particularly convenience stores) who understand the brand value offered by FANCL products. In fiscal 2010, this channel accounted for 11.0% of net sales.

▸ Overseas Sales
Overseas, FANCL operates in six countries and regions including Asia, most notably in mainland China and Hong Kong. In fiscal 2010, this channel accounted for 10.4% of net sales.

[Net Sales and Share of Net Sales]



Creating a FANCL That Offers Value for Every Customer

In fiscal 2010, the FANCL Group took concerted action to bolster our transition to a high-profit structure, resulting in substantial earnings growth. As we continue to strengthen profitability, we will promote the global advancement of the FANCL brand, and will pursue business in health and beauty backed by meticulous attention to the needs of every customer. Through these steps, we will put FANCL on track for new growth.

Yoshifumi Narimatsu.

Yoshifumi Narimatsu
C.E.O. and Representative Director
July 2010

Fiscal 2010 in Review

In fiscal 2009, the lingering effects of the global recession resulted in lower sales for all cosmetics firms, and FANCL was no exception. This outcome confirmed my earlier prediction that sales would struggle for the year due to sluggish consumer spending. Given this adverse climate, I chose to view fiscal 2010 as an opportunity to transform FANCL into a more resilient organization able to secure higher profits, if not growth in sales. To this end, I set the task of hastening our transition to a high-profit structure as the key theme for fiscal 2010, as the Group came together during the year to focus on extensive cost management and more efficient use of expenses.

First, we embarked on a mission to transform our profit structure through a sweeping drive to manage costs and by reassessing our work approaches. We then conducted a rigorous cost-cutting drive where we sought to boost efficiency around marketing expenses, checking monthly achievement rates for each department and expense category for the first time. For the Germinated Brown Rice Business, which had posted repeated losses, we raised profitability substantially through production plant consolidations and other efficiency measures, putting this business on solid ground for future earnings growth. We took a similar tack in the IIMONO OHKOKU Mail-Order Business, which is also poised for profitability going forward. Through initiatives of this type, we successfully established a high-profit structure and recorded robust profit growth for the FANCL Group.

Future Growth Opportunities

Top: FANCL Shop Xin Dong Fang Plaza Specialty Store (Beijing, China)
Bottom: FANCL Shop Queensway Plaza Store (Hong Kong)

In addition to weak consumer spending, Japan's population demographics show that the domestic cosmetics market is already saturated. In contrast, if we look at overseas markets, FANCL's preservative-free skin care products have earned a strong reputation in mainland China and Hong Kong, where sales are growing steadily. Prompted by our success in these two markets, we will move in Japan as well to offer new value propositions around a "preservative-free" concept to reinitialize growth in our cosmetics business in Japan.

Whether it be in health- or beauty-related operations, our policy going forward is to pursue a meticulous approach designed to raise customer satisfaction and rates of continued use among each and every one of our customers. Optimally leveraging FANCL's mail-order sales channels will be a vital component here. In the process, we will develop new avenues for communicating with customers, and promote various initiatives centered on responding to them in a personalized way.

FANCL is committed to enhancing value in health- and beauty-related operations, backed by meticulous attention to the needs of every customer.

OUR VALUE_01

Global Premium Brand Built on the Pure Value of Preservative-Free

Today, FANCL's preservative-free skin care products are gaining a strong reputation in mainland China and Hong Kong. With sales prices around 1.6 times higher than in Japan, FANCL is carving out a position as a premium brand in these markets. Our success in mainland China and Hong Kong persuasively demonstrates that the preservative-free concept is viable worldwide. Accordingly, our policy is to further embed the value proposition of preservative-free products to develop the name FANCL as a premium global brand.

In concrete terms, this will entail thoroughly entrenching in both Japan and markets abroad an understanding that FANCL preservative-free skin care products are not only gentle to the skin, but are highly functional and offer the fastest route to obtaining beautiful skin. Close communication with individual customers will be essential to this end, and we will work at length to ensure that customers correctly grasp the value that our preservative-free products deliver. For example, through upgraded store counseling

and the introduction of preservative-free beauty spa treatments by NEUES, K.K., which joined the Group last year, we hope to propose preservative-free value of real merit to customers.

While FANCL's core target is currently women in their 30s and 40s, we are seeking to convey the value of the preservative-free concept to customers of all ages. Our efforts will focus on creating tangible ways to link our brand strategies and marketing strategies together. Examples will include developing products with anti-aging properties for more mature customers over the age of 40, and developing marketing methods for effectively targeting customers in their 20s.

Beauty Booster Program

Global Advancement of Preservative-Free Science Through Development of Specialized Cosmetics for Intensive One-Month Counseling Programs

These products were developed specifically for women confronting multiple issues with their skin due to unbalanced living environments or stress. Development was jointly carried out by staff from Japan and across Asia, culminating in the start of well-received advance sales in Hong Kong in November 2009. Test marketing in Japan began in May 2010. For the Japanese market, we positioned these products as specialized cosmetics available for sale only through counseling offered at department store counters. Future plans call for expanding the number of participating stores where these products are sold. Our intent is to provide a month-long, intensive skin beautifying regimen personalized for the individual customer, based on an analysis of lifestyle and skin care condition, skin measurements, and subsequent counseling. FANCL has also for the first time opted for common global pricing, and will develop this line as flagship products for FANCL as a global premium brand.

Beauty Booster Program Moisturizing

Personalized Products and Services With High Value for Every Customer

In the Japanese market, FANCL is proud to be the leading company in the nutritional supplements industry, having established the concept of high-quality, low-price supplements and encouraged the daily use of supplements to enhance nutrition. There are a number of manufacturers in Japan's supplements market today. One of my biggest concerns now is whether this is an environment that allows customers to gain a good grasp of their own health status, and then properly select and use the supplements that they need.

Given this concern, my attention is now focused on how supplements are used. Specifically, I want us to transition away from where we are today, with customers essentially choosing products on their own, to an era where we safely provide each customer with optimal supplements. As Japan's leading company in this area, I believe that FANCL has a responsibility to spearhead this change.

As an initial step in this direction, in September 2009 we created the FANCL Health Institute. This institute analyzes each individual customer's health status, dispenses the must suitable supplements and instructions on how to take them, and devises mechanisms for enabling each customer to preserve their quality of life. We plan to promote various initiatives in this vein, like responding more personally to customers in our mail-order and retail store channels, preparing optimal supplements based on an individual's health status, and eventually providing supplements tailored specifically to the individual customer.

CLINICAiD lineup

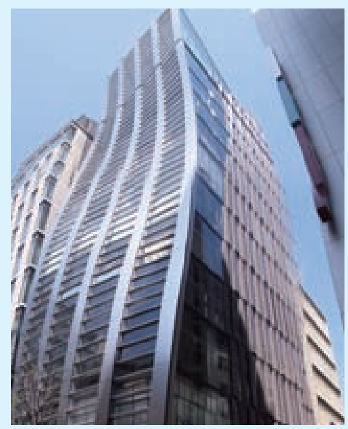
In Japan, which is fast becoming an aged society, we intend to look for ways to encourage regular use of supplements as a means to curb the risk of disease onset or prevent disease. Here, FANCL already has the *CLINICAiD* lineup of supplements for medical institutions. We will move in tandem to fortify both this lineup and our supplements business on the frontlines of medicine, where reliability is an imperative, as we push for qualitative improvements in the supplements market.

FANCL Health Institute

Providing Individually Tailored Supplements Based on a Preventive Medicine Approach

Japan is well-known for having one of the longest life expectancies in the world. However, many elderly people spend their final years bedridden or troubled by serious illness. As Japanese society ages, the extent to which people can maintain their quality of life has become a vital concern. But while today there are hospitals to serve people once they fall ill, there are no facilities to regularly visit while still healthy that allow people to maintain their health while assessing their risk of certain diseases. FANCL defines facilities of this kind, which healthy people can visit to maintain their good health, as "health institutes." With the opening of the FANCL Health Institute, a place now exists that provides answers to many people who have health concerns.

The FANCL Health Institute has various programs on hand that take advantage of our insight and expertise in health maintenance and supplements amassed in health food operations. These same programs are also based on a distinctive logic derived from incorporating the latest in anti-aging medicine. To give an example, health counselors at the institute, who hold qualifications as pharmacists and registered dieticians, provide customers with individually tailored supplements. These supplements include the nutritional elements that customers need and are customized in line with personal test results. Possible interactions with medications customers are currently taking are also considered, allowing for safe and comfortable supplement use.



FANCL Health Institute (Tokyo)

HOW TO UTILIZE THE FANCL HEALTH INSTITUTE

The FANCL Health Institute has the latest medical technology and information to support your efforts at disease prevention.

MAKE A RESERVATION	STEP 1: HEALTH EXAM	STEP 2 : COUNSELING	STEP 3 : PROGRAM
Make a reservation by phone. As a reservation-based, members-only system, strict measures are taken to safeguard privacy.	An entering health exam is conducted upon the initial visit to the institute. The exam consists of genetic and blood tests and an exam to determine physical age based on motor dexterity and bodily function.	Based on exam results, members receive a variety of custom-tailored advice concerning matters such as specific disease risk and ways to improve lifestyle and habits.	Drawing on the advice given, the institute offers members essential and ongoing support. This includes supplying supplements prefaced on the concept of prevention via improvement from at-risk health status.

"Personalized" Customer Relations Strategy

Catalogs *(ESPOIR/Genki Seikatsu)*

Online shopping site

FANCL's main sales channel is its mail-order catalog. Nevertheless, sales via the Internet have also expanded rapidly in recent years, with this route set to become one of our key channels. While mail-order remains a central sales route, we are also developing a chain of directly operated retail stores across Japan, which offer the advantage of serving as direct points of frequent contact with customers. We intend to leverage this strength to develop an optimal channel and marketing mix, and create a business model unique to FANCL. I have dubbed this move our "Personalized Customer Relations Strategy," and we will move forward in implementing it. In step with this strategy, we made changes internally to our sales organization, creating a system that allows for close control of each channel. This will allow us to guide Internet mail-order customers to product counseling at our retail stores, have them directly experience the benefits that the preservative-free concept has to offer, then opt to use the mail-order channel to order products. In this way, our goal is to have customer convenience dictate our communication with them. Furthermore, we hope to develop an integrated platform for managing the mail-order and retail store customer data that FANCL possesses. Analyzing individual customer attributes, buying history and behavioral characteristics will allow FANCL to provide customers with more personalized information. In this manner, we will boost customer retention rates and cultivate more loyal FANCL customers as we strive to further enhance profitability.

Optimally Leverage the Wholesale Sales Channel

▶ CATALOG SALES:

Establish an optimal approach between e-mail magazines and paper-based media

▶ INTERNET SALES:

Develop services that take advantage of the speed and cost efficiency enabled by online shopping

▶ RETAIL STORE SALES:

Let customers experience firsthand the value of the "preservative-free" concept through direct counseling

Create new modes of communication that merge online, retail store and other sales channels

MAIL-ORDER (CATALOGS)

INTERNET

- Offers outstanding convenience for customers
- Optimal channel for customers familiar with the benefits of preservative-free products
- Make counseling available for mail-order customers

→ **MAIL-ORDER TO RETAIL STORES**

Direct those in search of hands-on counseling to retail stores

→ **RETAIL STORE SALES**

Use in-store counseling to demonstrate the benefits of preservative-free products

↙ **RETAIL STORE SALES TO MAIL-ORDER** ↖

Give customers the option of ordering via mail-order after experiencing the benefits of preservative-free products in stores

FANCL GINZA SQUARE

Towards Greater Growth

For fiscal 2011, we are projecting lower sales due to the conversion into equity-method affiliates of sales agents in Hong Kong and mainland China that were previously consolidated subsidiaries. In terms of income, while we remain committed to efforts to shore up profitability, earnings will likely be lower mainly due to critical investments for reinitializing growth in our businesses. However, while sales and earnings may dip temporarily, the aim of our vigorous investment is to restart growth for the FANCL Group.

In specific terms, we plan to invest some ¥1.6 billion mainly as marketing expenses targeting businesses and themes that FANCL should be focused on. For our Germinated Brown Rice and IIMONO OHKOKU operations, we will stay the course toward profitability while taking steps to stimulate growth in both businesses. With an eye to long-term growth, we will establish the New Business Development Department to strengthen the launch of new businesses in the fields of health and beauty.

Spreading the Distinctiveness of FANCL Worldwide and Returning Profits to Shareholders

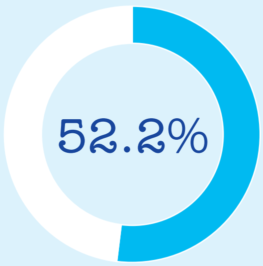
The social value of FANCL's business is always in mind when I make management decisions. I believe it is essential to further convey to shareholders that FANCL's management policy involves much more than simply the pursuit of profit. Our core operations—preservative-free skin care products, supplements, germinated brown rice and the like—are businesses that FANCL has decided that there is social value in providing. The ability for FANCL itself to conduct development, manufacturing, sales and after-sales services backed by the distinctive "preservative-free" concept constitutes a unique and robust strength. More than ever before, FANCL will continue to bring its advantages to the fore, encouraging the global spread of the value offered by this concept to bring joy to customers everywhere. We will return the profits generated in the process to our shareholders, thereby meeting their expectations as well. Our continued aims are to pay out 40% or more of consolidated net income, conduct share buybacks as and when necessary, and retire treasury stock amounting to 10% or more of total shares outstanding.

Going forward, I ask for your continued support and understanding of FANCL and our business operations.

At a Glance

Cosmetics Business

Proportion of Total Net Sales

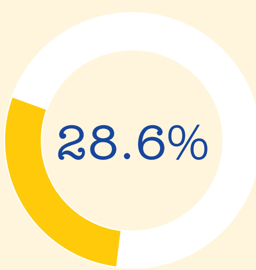


Products

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

Nutritional Supplements Business

Proportion of Total Net Sales

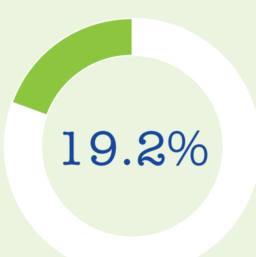


Products

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

Germinated Brown Rice, Kale Juice and Other Businesses

Proportion of Total Net Sales

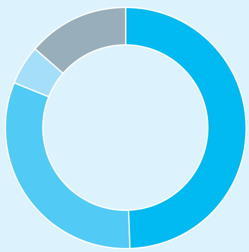


Products

- Germinated Brown Rice
- Kale Juice
- Comfort Undergarments
- Health Equipment and Lifestyle Goods

Sales Channel Breakdown

Major Developments During Fiscal 2010

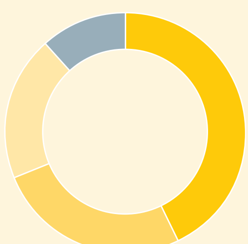


Mail-Order Sales	49.6%
Retail Store Sales	31.7%
Wholesale and Others	5.2%
Overseas	13.5%

Sales of FANCL Cosmetics grew year on year, largely due to healthy sales of *Mild Cleansing Oil*. In ATTENIR cosmetics, sales were lower as contraction in customer numbers detracted from the impact of sales of limited edition products and a campaign commemorating the 20th anniversary of the line.

By sales channel, mail-order sales decreased 1.5% year on year to ¥25,755 million, retail stores sales decreased 4.5% to ¥16,432 million, and wholesale sales through other sales channels increased 18.7% to ¥2,716 million, with overseas sales up 57.6% to ¥7,000 million. As a result, Cosmetics Business sales rose 3.6% year on year to ¥51,902 million.

Operating income climbed 17.5% year on year to ¥7,946 million, reflecting more efficient use of marketing expenses and progress on bolstering management of fixed costs.

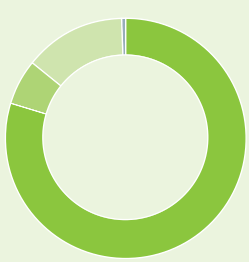


Mail-Order Sales	42.9%
Retail Store Sales	26.0%
Wholesale and Others	19.7%
Overseas	11.4%

Overall sales declined year on year, as brisk sales of health and beauty supplements aimed at middle-aged and elderly consumers failed to cover declines in the sale of vitamins, minerals, and other product groups.

By sales channel, mail-order sales decreased 6.1% year on year to ¥12,223 million, retail store sales decreased 6.9% to ¥7,401 million, and wholesale sales through other sales channels decreased 4.7% to ¥5,609 million, with overseas sales up 45.2% to ¥3,259 million. As a result, sales in the Nutritional Supplements Business declined 2.1% year on year to ¥28,492 million.

Operating income climbed 10.9% year on year to ¥3,250 million, reflecting more efficient use of marketing expenses.



Mail-Order Sales	79.8%
Retail Store Sales	6.1%
Wholesale and Others	13.8%
Overseas	0.3%

Although the Germinated Brown Rice Business recorded brisk sales particularly for *Germinated Brown Rice Soup Rice*, a limited-time-only product, and other processed foods, overall sales were lower as demand from the convenience store sector for commercial-use products stagnated.

In the Kale Juice Business, sales rose atop growth in fresh squeezed kale juice and powdered kale juice products, such as the newly released *Beauty Green*.

Sales in the IIMONO OHKOKU Mail-Order Business were lower year on year, as sales of winter merchandise suffered due to warm winter temperatures. Sales were also negatively impacted by cutbacks in the volume of newspaper advertising in this business, made from the viewpoint of profitability.

In additional businesses, sales increased from the consolidation of NEUES, K.K., a company involved in the beauty salon business, within the FANCL Group. As a result, overall sales for Other Businesses rose 1.6% year on year to ¥19,142 million.

The operating loss in this business was ¥488 million, representing an improvement of ¥493 million from the previous fiscal year. Among the factors leading to this contraction was improved profitability in the Kale Juice Business, coupled with lower operating costs in the Germinated Brown Rice Business from plant consolidations.

Cosmetics Business

Cosmetics Business

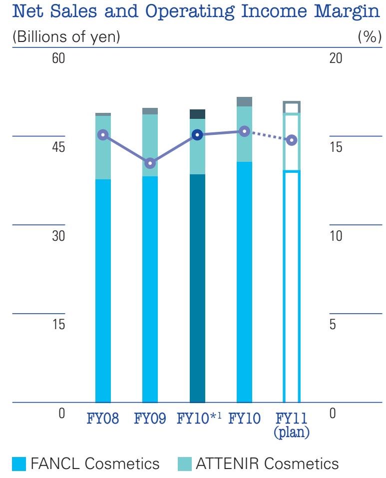
Performance and Targets

	Millions of yen				
	2011 (plan)	**2010**	2010*1	2009	2008
Net sales	***50,800***	**51,902**	49,821	50,081	49,062
FANCL cosmetics	***39,050***	**40,780**	38,699	38,394	37,814
ATTENIR cosmetics	***9,700***	**9,469**	9,469	10,489	10,710
Others	***2,050***	**1,653**	1,653	1,197	538
Gross profit	***37,020***	**38,315**	36,126	37,051	37,276
Gross profit margin	***72.9%***	**73.8%**	72.5%	74.0%	76.0%
Selling, general and administrative expenses	***29,500***	**30,369**	28,608	30,290	29,867
Advertising expenses	***3,900***	**4,064**	3,856	(4,897)	5,059
Operating income	***7,520***	**7,946**	7,518	6,762	7,409
Operating income margin	***14.8%***	**15.3%**	15.1%	13.5%	15.1%
			Customers		
Number of active customers*2 at fiscal year-end:					
FANCL cosmetics (Mail-order and retail store)		**1,303,977**	–	1,327,556	1,404,746
ATTENIR cosmetics (Mail-order)		**462,211**	–	472,784	529,259

*1 *Based on the scope of consolidation during the fiscal year ended March 31, 2009, prior to the consolidation of Fantastic Natural Cosmetics Limited (FNL) and Fantastic Natural Cosmetics (China) Limited (FNCCL).*

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

Net Sales and Operating Income Margin



Outlook and Strategies

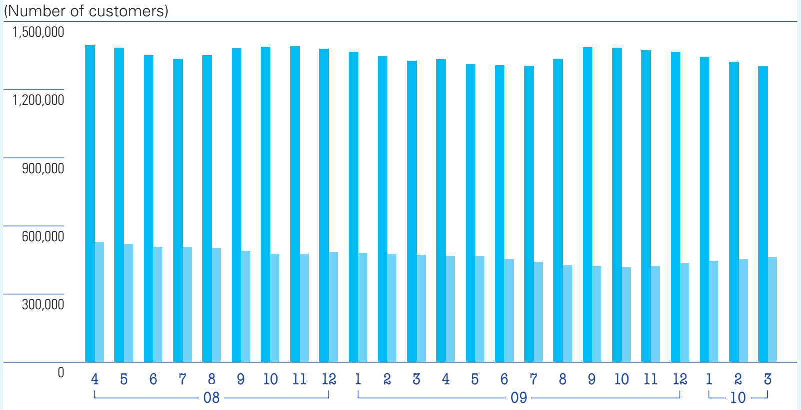
In the Cosmetics Business, FANCL has positioned fiscal 2011 as a time to prepare for its transformation into a global premium brand. Along with redefining the value of preservative-free cosmetics as a shared global commitment, we will pursue strategic brand management that serves as a link between customers and the value offered by preservative-free products. By incorporating this approach into business and product strategies, FANCL will deliver both shared value and a common worldview.

To expand sales and the number of highly loyal customers, FANCL will strive for further improvements in customer satisfaction and to attract new customers by enhancing the functionality of its skin care brands and bolstering product capabilities.

As a result, FANCL is aiming for sales in this business of ¥50.8 billion (down 2.1% year on year; up 2.0% based on the former standard*) for fiscal 2011. Operating income is projected to decrease by 5.4% (0.0% based on the former standard*) to ¥7.5 billion, due to strategic expense outlays for brand restructuring.

* Please note: Calculation of the "former standard" is based on the scope of consolidation during the fiscal year ended March 31, 2009, prior to the consolidation of Fantastic Natural Cosmetics Limited (FNL) and Fantastic Natural Cosmetics (China) Limited (FNCCL).

Active Cosmetics Customers



Introduction to FANCL Products

Launch of Newly Revamped *Preservative-Free FDR*

Developed ten years ago under the supervision of a dermatologist, *Preservative-Free FDR* has won the support of many customers with dry, sensitive skin. In revamping this product, FANCL paid close attention to moisture retention and skin protection, further enhancing its capacity to protect the skin from outside irritation. Because some long-time users of the original product are anxious about trying new cosmetic products for the first time, FANCL sent out advance samples and information on the revamp process. As a result, the reformulated *Preservative-Free FDR* was extremely well received among customers. Going forward, FANCL will conduct awareness campaigns among dermatologists and offer introductory product sets in an assertive drive to attract new customers.

Nutritional Supplements Business

Nutritional Supplements Business

Performance and Targets

	Millions of yen				
	2011 (plan)	**2010**	2010*[1]	2009	2008
Net sales	***27,300***	**28,492**	27,589	29,089	30,017
Gross profit	***18,280***	**19,420**	18,441	19,167	19,803
Gross profit margin	***67.0%***	**68.2%**	66.8%	65.9%	66.0%
Selling, general and administrative expenses	***16,030***	**16,170**	15,320	16,237	16,297
Advertising expenses	***2,550***	**2,110**	2,012	2,215	2,292
Operating income	***2,250***	**3,250**	3,121	2,929	3,506
Operating income margin	***8.2%***	**11.4%**	11.3%	10.1%	11.7%

	Customers				
Number of active customers*[2] at fiscal year-end:					
Mail-order and retail store		**896,959**	–	965,433	1,066,018

*[1] *Based on the scope of consolidation during the fiscal year ended March 31, 2009, prior to the consolidation of Fantastic Natural Cosmetics Limited (FNL) and Fantastic Natural Cosmetics (China) Limited (FNCCL).*

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

Net Sales and Operating Income Margin

Outlook and Strategies

In the Nutritional Supplements Business, FANCL will work vigorously to develop completely novel products and services, while simultaneously striving for expansion in existing businesses.

Based on personalized counseling with customers, we will promote the development of individually tailored supplements that offer both optimized supplements and the best form of intake. We will also create the mechanisms that support this development approach.

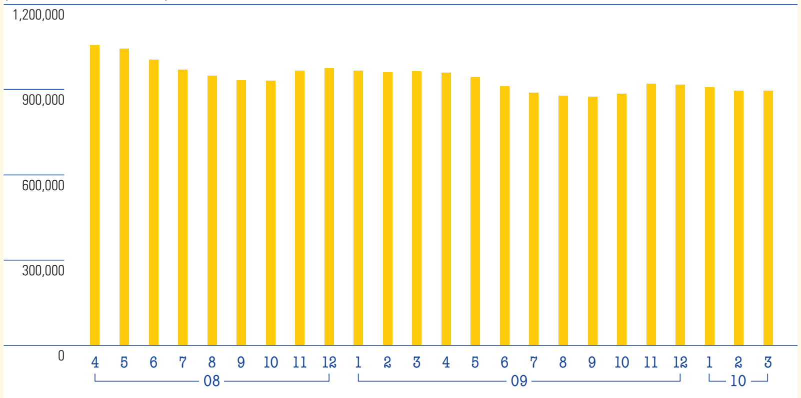
FANCL will pursue expansion of existing businesses by strengthening product lines targeting the rapidly growing middle-aged and elderly market, developing new products that utilize innovative materials and ingredients, and aggressively enhancing beauty and dietary supplement products.

However, the health food market is stagnating, and competition with rival companies is also intensifying. Consequently, FANCL is projecting sales of ¥27.3 billion in fiscal 2011, down 4.2% year on year (down 1.0% based on the former standard*). Operating income is forecast to decline by 30.8% (27.9% based on the former standard*) to ¥2.3 billion, due to increased marketing expenses targeting middle-aged and elderly customers, a consumer base among which FANCL is making inroads.

* Please note: Calculation of the "former standard" is based on the scope of consolidation during the fiscal year ended March 31, 2009, prior to the consolidation of Fantastic Natural Cosmetics Limited (FNL) and Fantastic Natural Cosmetics (China) Limited (FNCCL).

Active Nutritional Supplements Customers

(Number of customers)



Introduction to FANCL Products

Launch of Newly Revamped *White Advance*

The secret to maintaining a beautiful, fair complexion is not simply to control the type of melanin that causes dark spots, but to increase the melanin that contributes to one's own natural skin tone. At FANCL, our approach also involved the use of a new compound, oleuropein, to sustain the potency of skin lightening ingredients. The result is an innovative beauty supplement that makes skin more translucent from the inside out.

Germinated Brown Rice, Kale Juice

Germinated Brown Rice, Kale Juice and Other Businesses

Performance and Targets

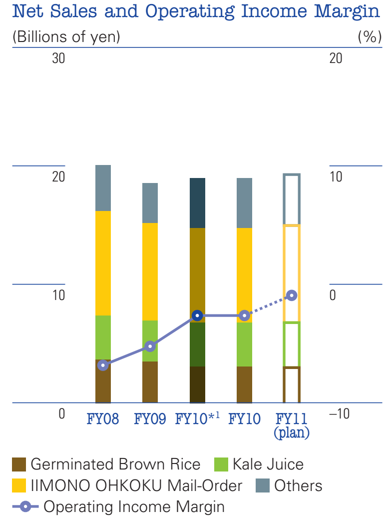
	Millions of yen				
	2011 (plan)	**2010**	2010*1	2009	2008
Net sales	***19,400***	**19,142**	19,138	18,834	20,271
Germinated brown rice	***3,050***	**3,105**	3,104	3,571	3,744
Kale juice	***3,850***	**3,783**	3,781	3,593	3,762
IIMONO OHKOKU Mail-order	***8,200***	**8,016**	8,016	8,226	8,840
Others	***4,300***	**4,237**	4,237	3,442	3,925
Gross profit	***9,130***	**8,718**	8,712	9,062	9,909
Gross profit margin	***47.1%***	**45.5%**	45.5%	48.1%	48.9%
Selling, general and administrative expenses	***9,300***	**9,206**	9,201	10,043	11,294
Advertising expenses	***2,340***	**1,797**	1,796	1,850	2,525
Operating income (loss)	***(170)***	**(488)**	(489)	(981)	(1,385)
Operating income (loss) margin	***(0.9%)***	**(2.6%)**	(2.6%)	(5.2%)	(6.8%)

	Customers			
Number of active customers*2 at fiscal year-end:				
Germinated brown rice (Mail-order)	**204,079**	–	206,279	255,245
Kale juice (Mail-order)	**103,060**	–	93,576	87,697

*1 *Based on the scope of consolidation during the fiscal year ended March 31, 2009, prior to the consolidation of Fantastic Natural Cosmetics Limited (FNL) and Fantastic Natural Cosmetics (China) Limited (FNCCL).*

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

Net Sales and Operating Income Margin



and Other Businesses

Outlook and Strategies

In the Germinated Brown Rice Business, FANCL will revamp the 10 existing products in its range to reflect their respective consumer bases, with the goal of increasing both the number of customers and sales. Furthermore, to boost opportunities to experience germinated brown rice, we will also enhance our processed food lineup to make this healthy grain easier to consume. In this way, FANCL will attract new customers and put the Germinated Brown Rice Business on track for growth.

In the Kale Juice Business, we will continue to bolster our already strong-selling line of powdered kale juice products, with the aim of achieving greater profitability.

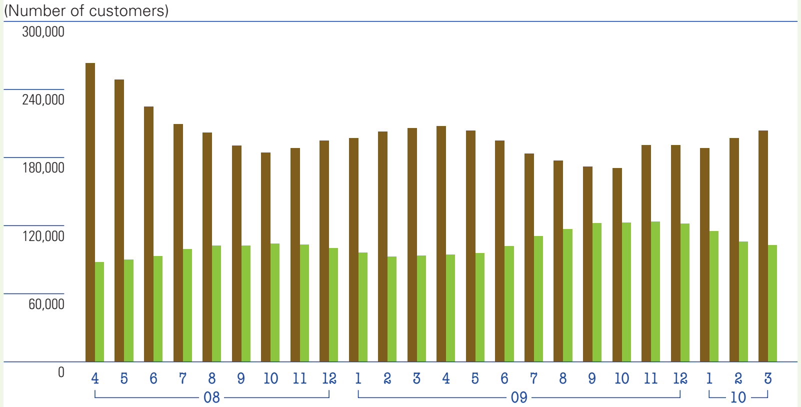
In the IIMONO OHKOKU Mail-Order Business, with profitability now in view, FANCL will seek to upgrade its lineup of repeatedly high-selling products to usher in a new growth stage for this business.

For fiscal 2011, while FANCL is projecting lower sales for the Germinated Brown Rice Business, sales growth appears likely for both the Kale Juice and IIMONO OHKOKU Mail-Order Businesses.

As a result, for Other Businesses as a whole, FANCL is forecasting sales of ¥19.4 billion (up 1.3% year on year; up 1.4% based on the former standard*) for fiscal 2011. The operating loss, meanwhile, is expected to be ¥0.2 billion, an improvement of ¥0.3 billion (¥0.3 billion based on the former standard*). This smaller loss should reflect plant consolidations in the Germinated Brown Rice Business and improved profitability in the Kale Juice Business.

* Please note: Calculation of the "former standard" is based on the scope of consolidation during the fiscal year ended March 31, 2009, prior to the consolidation of Fantastic Natural Cosmetics Limited (FNL) and Fantastic Natural Cosmetics (China) Limited (FNCCL).

Active Germinated Brown Rice and Kale Juice Customers



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

Introduction to FANCL Products

New Release of *Beauty Green*

The popularity of fresh juice stands in Japan today shows that interest in vegetable juice is rising, both as a way to eat more vegetables and to improve health. FANCL for years has researched kale and revealed the beauty-enhancing properties of this leafy green. Thus it is fitting that FANCL has developed *Beauty Green*, a kale juice product that supplements beauty and tastes great. FANCL has added a compound of beautifying ingredients *HTC® Collagen* and ceramides to the main ingredient, nutrition-rich kale, to powerfully support women who want to be both healthy and pretty. The results of pre-release monitoring showed roughly 80% of users experienced benefits for their skin. In terms of flavor, monitors praised *Beauty Green* as tasting similar to fruit juice and being easy to drink. Going forward, FANCL is determined to groom this product into a long-selling favorite among its customers.

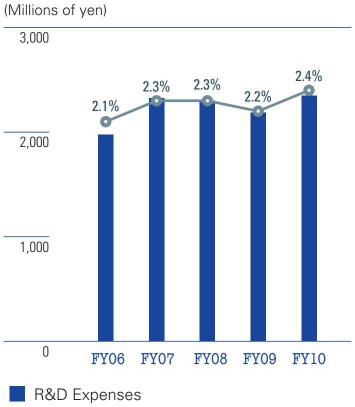
FANCL is known for preservative-free cosmetic products, a new field of cosmetics that we pioneered in Japan. Today, FANCL consistently proposes new value through the development of high-quality cosmetics and nutritional supplements with no additives or other preservatives. Underpinning these value proposition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

Basic R&D Approach and R&D Structure

In addition to preservative-free cosmetics, FANCL has actively launched 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.

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 six research centers: the Cosmetics Research Facility, the Health Foods & Supplements Research Facility, the Safety & Quality Design Research Center, the Preventive Medicine Research Center, the Research Promotion Office, and the Academic Research Office. These organizations are staffed by roughly 134 researchers, including scientists with doctorate degrees in fields such as agriculture, pharmaceuticals, engineering, and other fields. Joint research is also conducted with external organizations, including universities and materials companies in other industries. Total R&D expenses in fiscal 2010 (including personnel costs for research staff) amounted to ¥2,351 million, consisting of ¥1,112 million for Cosmetics, ¥1,088 million for Nutritional Supplements, and ¥152 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, since product safety and quality are the essence of the FANCL brand. Established in April 2006, this center operates as an independent R&D division, and is responsible for developing technology to evaluate safety and quality, as well as for the final evaluation of products and materials.

FANCL's preservative-free cosmetics not only omit all of the designated ingredients* that could cause an allergic reaction or dermatitis, but also do not contain any other ingredients known to have such effects. This demonstrates our total commitment to the preservative-free ethos.

FANCL selects the roughly 450 ingredients used for its products from among over 10,000 cosmetic agents based on its own safety evaluation standard, known as "FSS" (FANCL Safety Standard). The Company then conducts repeated and rigorous irritant evaluation trials using the latest three-dimensional skin models based on human skin structure. The Company has formulated a similar quality guarantee standard for health foods. Known as "FSQ" (FANCL Standard of Quality), this standard is designed to enable customers to feel confident and secure in using FANCL products, offering an integrated system of assurance covering everything from the selection of raw materials to after-sales service. Final products are then evaluated by the Safety & Quality Design Research Center.

In fiscal 2010, FANCL revamped two products. The first, *FANCL Preservative-Free FDR*, is a series of skincare products that block the irritation of dry and sensitive skin and promote outstanding moisture retention, helping restore skin to the condition necessary to stave off irritation. The other is *White Essence*, a medicinal whitening liquid made from a compound of olive leaf extract and vitamin C that supports the skin's ability to retain its whiteness.

[R&D-Related Data]

	FY2010	FY2009	FY2008	FY2007	FY2006
R&D expenses (Millions of yen)	2,351	2,189	2,302	2,327	1,978
Ratio to sales	2.4%	2.2%	2.3%	2.3%	2.1%
No. of researchers	134	128	121	111	113
No. of patent applications in Japan	55	62	42	41	37

** Any of the 102 ingredients that could cause dermatitis or other allergic reactions that companies were required to include on package labeling until March 2001. Current laws require all ingredients—including these 102—to be displayed on product labels.*

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, including one outside director. 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. FANCL has also appointed an outside director in order to 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 Conferences 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 verify the facts reported by the six-member Internal Audit Office during interviews and reports in order to improve the effectiveness of corporate governance.

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 based compensation scheme.

Fiscal 2010 Compensation Packages for Directors and Corporate Auditors

(Millions of yen)

Recipient	Number of recipients	Amount paid
Directors (Outside director)	10 (1)	290 (6)
Corporate auditors (Outside corporate auditors)	5 (4)	38 (26)
Total	15	328

** "Amount paid" includes compensation from stock options: 9 directors ¥77 million*

Internal Control System

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

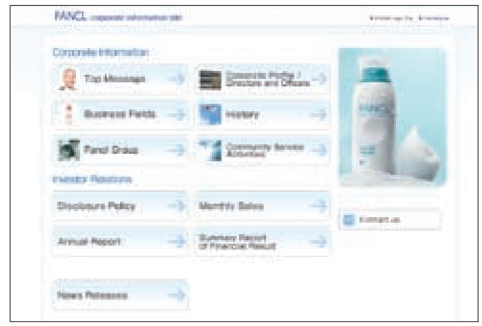
In accordance with FANCL's disclosure policy, we disclose monthly sales data in a timely manner and strive to announce financial results as soon as possible after the end of the fiscal year. Information on financial results as well as streaming coverage of the investors' meeting are uploaded to the IR 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.

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.

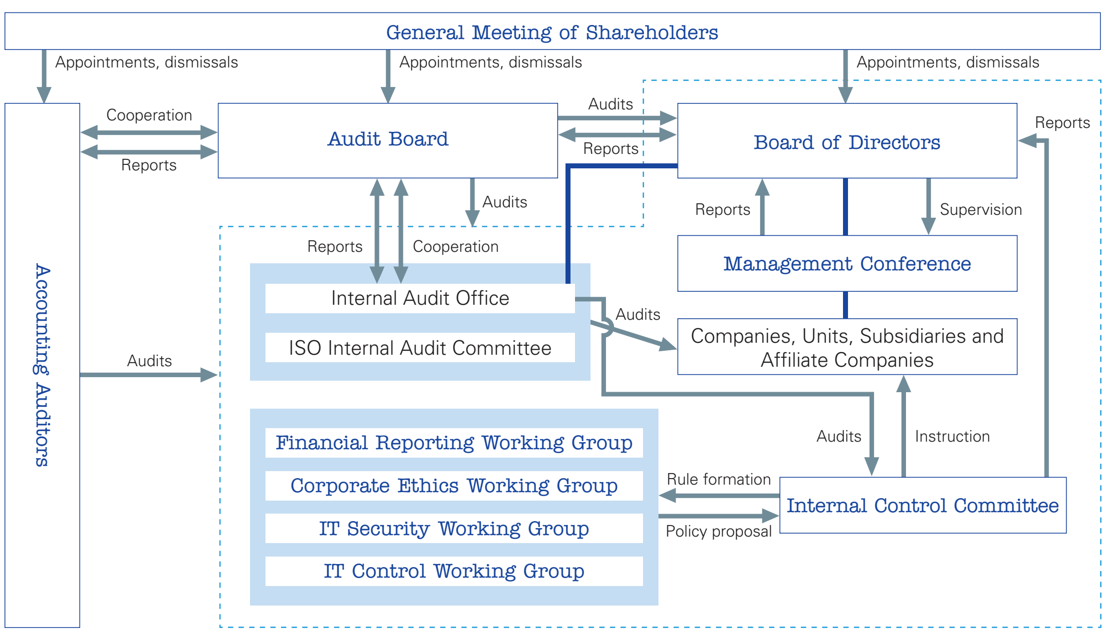
For Further Information, Please Contact:

Investor Relations Group
Tel : +81(45)226-1470
Fax : +81(45)226-1442
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 19, 2010)

Chairman and Representative Director	Kazuyoshi Miyajima	
C.E.O. and Representative Director	Yoshifumi Narimatsu	
Executive Officers and Directors	Kazuyuki Shimada Haruki Murakami Toru Tsurusaki	Kenichi Sugama Mayuko Yamaoka
Directors	Jyunji Iida Norito Ikeda*1	Akihiro Yanagisawa
Executive Officers	Yasushi Sumida Yoshihisa Hosaka Mitsuko Yazaki	Norihiro Shigematsu Yoshiyuki Nishi
Statutory Auditors	Toshio Shinozawa Katsunori Koseki*2	Akira Tobishima*2 Masako Maeda*2

*1 Outside director
*2 Outside statutory auditors

Corporate Social Responsibility

FANCL was founded on the desire to help women with sensitive skin find the right cosmetics for their needs. Through our products, we strive to eliminate negatives such as inconvenience, dissatisfaction and uncertainty. We are also 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, 2010, the company employed 39 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 throughout Japan to employ more persons with intellectual disabilities.

Relationship With "Homon no Ie" Social Welfare Corporation

Our relationship with "Homon no Ie" now spans over 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 ¥1.2 million to the facility on behalf of 690 FANCL shareholders in fiscal 2009.

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.

Furthermore, FANCL has formulated and conducted environmental measures under the "FANCL Eco Plan," which sets environmental targets for each business site. In fiscal 2010, we reduced carbon emissions by 1,105 tons across the FANCL Group. We also sought to reduce environmental impact through the operation of a new logistics center. This move has significantly reduced truck deliveries by consolidating distribution points, and has also been accompanied by reductions in paper usage, thanks to adoption of a paperless system.

Along the same lines, notable benefits have emerged from "FANCL Eco-Challenge," a program designed to reduce carbon emissions in the homes of FANCL employees. Going forward, in addition to the "FANCL Eco Plan" serving as an environmental business plan for the FANCL Group, FANCL will formulate medium-term environmental plans for each Group company and actively invest in the environment in order to promote environmentally conscious business activities.

Reducing the Environmental Impact of Products and Services

FANCL constantly strives to design environmentally friendly products and services that are extremely safe, easily recycled, and emit no harmful substances even when disposed of as waste. Avoiding unnecessary packaging, meanwhile, 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. Furthermore, FANCL's mail-order catalogs *ESPOIR* and *Genki Seikatsu* are produced in an environmentally friendly manner. Among other eco-features, both catalogs are printed on FSC*-certified paper with soy-based ink. Beginning with the August 2009 issue of *ESPOIR*, FANCL reviewed the thickness of the mailing sleeve for the catalog and the number of colors used. Similarly, FANCL reviewed the weight of the paper used from the May 2009 issue of *Genki Seikatsu*, reducing average monthly paper usage by 41% year on year.

* Forest Stewardship Council

Yokohama city wind turbine

Financial Section

Eleven-Year Summary

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31

						Millions of yen
	2010	2010 (Note 3)	2009	2008	2007	2006
For the year:						
Net sales	**¥99,537**	¥96,548	¥98,004	¥99,350	¥101,065	¥ 95,322
Cosmetics	**51,902**	49,821	50,081	49,062	46,376	41,287
Nutritional supplements	**28,492**	27,589	29,089	30,017	31,666	33,246
Others	**19,142**	19,138	18,834	20,271	23,023	20,789
Net sales, by sales channel						
Mail-order sales	**53,259**	53,259	54,680	56,301	58,921	57,237
Retail store sales	**24,992**	24,992	26,307	27,530	26,815	23,607
Wholesale and overseas	**21,286**	18,298	17,017	15,519	15,329	14,478
Gross profit	**66,453**	63,279	65,281	66,988	67,170	62,083
Gross profit margin (%)	**66.8**	65.5	66.6	67.4	66.5	65.1
Selling, general and administrative expenses	**57,294**	54,679	58,615	59,521	58,800	53,508
Selling, general and administrative expense ratio (%)	**57.6**	56.6	59.8	59.9	58.2	56.1
Operating income (loss)	**9,159**	8,600	6,666	7,467	8,370	8,575
Cosmetics	**7,946**	7,518	6,762	7,409	7,133	5,568
Nutritional supplements	**3,250**	3,121	2,929	3,506	3,903	5,405
Others	**(488)**	(489)	(981)	(1,385)	(898)	(762)
Operating income margin (%)	**9.2**	8.9	6.8	7.5	8.3	9.0
Net income	**4,307**	4,617	2,663	3,694	2,547	5,184
Net income to net sales (%)	**4.3**	4.8	2.7	3.7	2.5	5.4
ROE (%)	**5.8**	6.2	3.8	5.3	3.6	7.5
Advertising expenses	**¥ 7,971**	–	¥ 8,963	¥ 9,876	¥ 9,393	¥ 9,792
Sales promotion expenses	**11,461**	–	12,434	12,509	13,502	9,319
Research and development expenses	**2,351**	–	2,189	2,302	2,327	1,978
Capital expenditures	**1,511**	–	3,905	2,317	3,865	2,592
Depreciation	**3,158**	–	3,167	3,020	2,670	2,540
Net cash provided by operating activities	**¥10,532**	–	¥ 6,005	¥ 7,379	¥ 6,472	¥ 9,163
Net cash used in investing activities	**(3,555)**	–	(1,518)	(672)	(1,734)	(10,280)
Net cash provided by (used in) financing activities	**432**	–	(1,770)	(6,036)	(2,495)	(22)
Net increase (decrease) in cash and cash equivalents	**7,670**	–	2,672	650	2,243	(1,139)

						Yen
Per share:						
Net income	**¥ 68.3**	–	¥ 43.5	¥ 58.4	¥ 39.6	¥ 242.6
Equity (Note 2)	**1,188.3**	–	1,155.7	1,141.6	1,116.6	3,317.0
Cash dividends	**34.0**	–	34.0	24.0	24.0	55.0

						Millions of yen
At year-end:						
Total assets	**¥92,983**	–	¥85,309	¥85,686	¥ 86,931	¥ 85,148
Equity (Note 2)	**77,137**	–	70,823	69,900	71,449	71,406
Equity ratio (%)	**83.0**	–	83.0	81.6	82.2	83.9
Interest-bearing debt	**–**	–	–	–	–	–
Working capital	**35,262**	–	36,669	36,049	36,701	33,037
Number of stores	**194**		197	218	218	208
Number of consolidated subsidiaries	**8**		7	7	6	6

2005	2004	2003	2002	2001	2000
¥87,937	¥84,957	¥90,026	¥84,657	¥65,418	¥62,980
37,098	34,926	37,155	36,748	35,669	38,039
31,132	29,656	29,211	28,995	25,408	21,898
19,707	20,375	23,660	18,914	4,341	3,043
54,544	54,439	59,334	56,821	43,360	45,942
20,067	17,722	17,744	17,073	15,632	14,143
13,326	12,796	12,948	10,763	6,426	2,893
57,905	55,696	58,982	56,682	47,034	44,969
65.8	65.6	65.5	67.0	71.9	71.4
52,477	47,927	47,456	45,564	38,402	33,426
59.7	56.4	52.7	53.9	58.7	53.1
5,428	7,769	11,526	11,118	8,632	11,543
4,745	6,283	8,099	8,406	8,320	10,712
4,638	5,371	6,879	5,960	4,694	3,587
(1,967)	(1,821)	(1,646)	(1,681)	(2,532)	(641)
6.2	9.1	12.8	13.1	13.2	18.3
1,710	3,387	6,429	5,995	4,867	6,723
1.9	4.0	7.1	7.1	7.4	10.7
2.6	5.1	9.8	9.7	8.5	15.3
¥11,105	¥ 9,865	¥ 9,262	¥10,213	¥ 8,896	¥ 6,081
9,475	7,998	8,615	8,161	5,810	5,615
1,959	1,720	1,683	1,524	1,294	1,302
2,257	4,864	5,397	3,589	2,727	7,138
2,463	2,556	2,268	2,245	2,379	2,424
¥ 4,638	¥ 5,861	¥ 9,828	¥ 7,426	¥ 6,083	¥ 5,681
(4,807)	(4,117)	(5,582)	(5,416)	(4,838)	(7,736)
(1,090)	(4,533)	(5,432)	(2,456)	(1,410)	13,006
(1,254)	(2,809)	(1,213)	(437)	(162)	10,949
¥ 80.3	¥ 154.6	¥ 279.5	¥ 307.6	¥ 249.8	¥ 459.5
3,111.2	3,082.4	2,976.3	3,320.2	3,051.4	3,678.9
50.0	42.5	35.0	25.0	25.0	30.0
¥79,416	¥78,479	¥79,804	¥79,026	¥75,481	¥67,657
66,203	65,613	66,350	64,719	59,482	55,146
83.4	83.6	83.1	81.9	78.8	81.5
–	–	350	1,092	3,086	2,780
28,622	29,214	29,805	31,082	28,456	29,219
169	143	144	133	138	85
6	6	6	4	3	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.

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

3. Based on the scope of consolidation during the fiscal year ended March 31, 2009, prior to the consolidation of Fantastic Natural Cosmetics Limited (FNL) and Fantastic Natural Cosmetics (China) Limited (FNCCL).

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	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Net sales	**¥24,064**	¥24,753	**¥23,619**	¥23,828	**¥28,979**	¥26,636	**¥22,875**	¥22,787
Cosmetics	**12,786**	12,578	**12,126**	12,231	**15,229**	13,282	**11,761**	11,990
Nutritional supplements	**6,767**	7,466	**6,761**	7,025	**8,321**	8,020	**6,644**	6,578
Others	**4,511**	4,709	**4,732**	4,572	**5,429**	5,334	**4,470**	4,219
Net sales, by sales channel								
Mail-order sales	**13,446**	13,719	**12,636**	13,006	**14,778**	15,259	**12,399**	12,696
Retail store sales	**6,335**	6,757	**6,347**	6,667	**6,364**	6,809	**5,946**	6,074
Wholesale and others	**2,532**	2,623	**2,891**	2,443	**2,913**	2,918	**2,640**	2,276
Overseas sales	**1,751**	1,656	**1,745**	1,712	**4,924**	1,651	**1,890**	1,740
Operating income	**1,803**	2,248	**1,324**	7,214	**3,586**	1,900	**2,446**	1,797
Cosmetics	**1,791**	2,241	**1,280**	7,890	**3,089**	1,879	**1,786**	1,853
Nutritional supplements	**705**	940	**631**	742	**793**	542	**1,121**	706
Others	**(194)**	(264)	**(203)**	(273)	**16**	(118)	**(107)**	(327)
Net income	**¥ 971**	¥ 1,145	**¥ 572**	¥ 201	**¥ 1,522**	¥ 1,038	**¥ 1,242**	¥ 279

	Yen							
Stock price range								
High	**¥ 1,175**	¥ 1,432	**¥ 1,464**	¥ 1,357	**¥ 1,815**	¥ 1,307	**¥ 1,898**	¥ 1,204
Low	**1,100**	1,198	**1,125**	1,199	**1,404**	1,030	**1,664**	1,057

Monthly sales

	Millions of yen											
	2009									2010		
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Cosmetics	4,312	4,266	4,208	3,881	4,362	3,882	3,964	4,851	4,188	3,824	3,836	4,101
YoY increase (decrease)	1.8%	2.0%	1.1%	(6.0%)	7.9%	(4.3%)	3.2%	(1.3%)	(7.5%)	1.3%	6.5%	(11.0%)
Nutritional supplements	2,277	2,255	2,236	2,186	2,199	2,376	2,384	2,453	2,516	2,067	2,100	2,477
YoY increase (decrease)	(10.8%)	(8.2%)	(9.0%)	(8.1%)	0.0%	(2.9%)	(5.5%)	(11.5%)	(7.7%)	(6.4%)	(4.8%)	14.4%
Others	1,419	1,465	1,628	1,584	1,252	1,896	1,914	1,929	1,582	1,512	1,521	1,437
YoY increase (decrease)	(4.9%)	(6.4%)	(1.5%)	(11.1%)	(5.1%)	28.9%	12.0%	0.7%	(7.4%)	6.3%	9.8%	1.7%
Total	8,008	7,986	8,071	7,652	7,814	8,153	8,261	9,233	8,286	7,403	7,457	8,014
YoY increase (decrease)	(3.3%)	(2.6%)	(2.4%)	(7.7%)	3.3%	2.2%	2.4%	(3.9%)	(7.5%)	(0.1%)	3.7%	(2.1%)

Management's Discussion and Analysis

In September 2009, FANCL converted two sales agents, one in Hong Kong and another in mainland China, into consolidated subsidiaries. However, with the start of the fourth quarter of fiscal 2010, both companies were converted into affiliates accounted for by the equity method. Consequently, although the companies and their three consolidated subsidiaries were included under consolidation in the statements of income for the third quarter of fiscal 2010, they were accounted for as equity-method affiliates from the start of the fourth quarter.

Statements of Income

Net Sales

Net sales rose 1.6% year on year to ¥99,537 million, as brisk sales in the Cosmetics Business offset sluggish performance in the Nutritional Supplements and IIMONO OHKOKU Mail-Order Businesses.

Cosmetics Business net sales rose 3.6% to ¥51,902 million.

Net sales of FANCL cosmetics rose 6.2% to ¥40,780 million due to healthy sales of *Mild Cleansing Oil*, as well as the consolidation within the Group of sales agents in Hong Kong and mainland China. By channel, while sales declined in the mail-order and retail store sales channels, sales were higher in the wholesale sales and overseas sales channels.

In the ATTENIR cosmetics brand, sales decreased 9.7% to ¥9,469 million, as contraction in customer numbers detracted from the benefits of sales of limited edition products and a campaign commemorating the 20th anniversary of this line.

Net sales in the Nutritional Supplements Business declined 2.1% year on year to ¥28,492 million.

Overall sales declined year on year, as brisk sales of health and beauty supplements aimed at middle-aged and elderly consumers failed to cover declines in the sale of vitamins, minerals, and other product groups.

By sales channel, although sales were higher in the overseas sales channel, declines were noted in all other channels.

Net sales in Other Businesses increased by 1.6% overall to ¥19,142 million. While sales were lower in the Germinated Brown Rice and IIMONO OHKOKU Mail-Order Businesses, sales were lifted by the Kale Juice Business and the consolidation of beauty salon operator NEUES, K.K.

Net sales in the Germinated Brown Rice Business fell by 13.0% to ¥3,105 million. This result came as stagnation in demand for commercial-use products, mainly sales to convenience stores, outweighed healthy sales of *Germinated Brown Rice Soup Rice*, a limited-time-only product, and other processed foods.

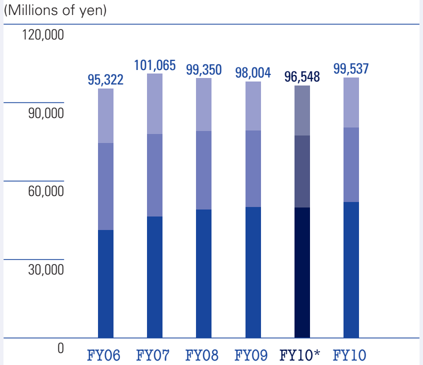
In the Kale Juice Business, net sales rose 5.3% to ¥3,783 million, due to robust sales of powder-type products.

Net sales through the IIMONO OHKOKU Mail-Order Business decreased 2.6% year on year to ¥8,016 million, reflecting a slump in winter merchandise due to warm winter temperatures.

Gross Profit

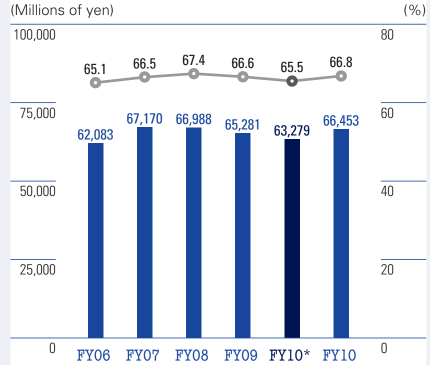
The gross profit margin improved 0.2 of a percentage point year on year to 66.8%, primarily from plant consolidations in the Germinated Brown Rice Business and the consolidation of authorized sales agents in Hong Kong and mainland China.

Net Sales by Business Segment



Cosmetics Nutritional Supplements
Others

Gross Profit and Gross Profit Margin



Gross Profit Gross Profit Margin

* Based on the scope of consolidation during the fiscal year ended March 31, 2009, prior to the consolidation of Fantastic Natural Cosmetics Limited (FNL) and Fantastic Natural Cosmetics (China) Limited (FNCCL).

In the Cosmetics Business, the gross profit margin decreased 0.2 of a percentage point to 73.8%.

In the Nutritional Supplements Business, the gross profit margin improved 2.3 percentage points to 68.2%, due primarily to a review of procurement costs for raw materials and ingredients.

In Other Businesses, the gross profit margin fell 2.6 percentage points to 45.5%, mainly from the consolidation of NEUES, K.K., a company involved in the beauty salon business, which has a high cost to sales ratio.

In the Nutritional Supplements Business, operating income climbed 10.9% to ¥3,250 million, as more efficient use of marketing expenses covered declines in profits caused by lower sales. The operating income margin increased 1.3 percentage points to 11.4%.

Other Businesses posted an operating loss of ¥488 million, an improvement of ¥493 million over the previous fiscal year. This outcome owed to improved profit from the Kale Juice Business and lower operating costs from plant consolidations in the Germinated Brown Rice Business.

SG&A Expenses

The ratio of selling, general and administrative (SG&A) expenses to net sales declined 2.2 percentage points year on year, to 57.6%. While goodwill increased in line with new consolidation, this was offset by reductions in advertising and sales promotion expenses and other costs, as the Company conducted a review of head office costs and moved to utilize marketing expenses more efficiently.

Operating Income

As a result of the aforementioned factors, operating income increased 37.4% year on year to ¥9,159 million, and the operating income margin improved 2.4 percentage points to 9.2%.

In the Cosmetics Business, operating income increased 17.5% to ¥7,946 million, the result of brisk sales of FANCL cosmetics. The operating income margin rose 1.8 percentage points to 15.3%.

Other Income (Expenses)

Other income (expenses) improved by ¥783 million year on year. Although the Company posted an impairment loss for goodwill associated with consolidated subsidiary NICOSTAR BEAUTECH Co., Ltd., this was offset by the absence of impairment losses accompanying the closure of germinated brown rice factories and the closure of retail stores recorded in the previous fiscal year.

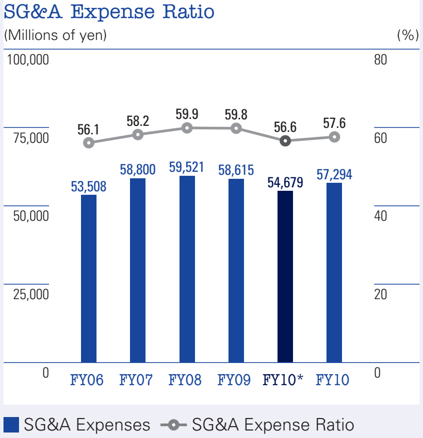
Income Before Income Taxes and Minority Interests

Income before income taxes and minority interests increased 52.6% year on year to ¥8,776 million. Income before income taxes and minority interests as a percentage of net sales was 8.8%, up 2.9 percentage points compared with the previous fiscal year.

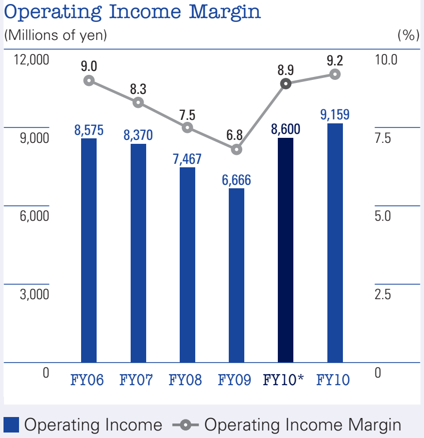
Net Income

Net income increased 61.7% year on year to ¥4,307 million, and the ratio of net income to net sales improved 1.6 percentage points to 4.3%.

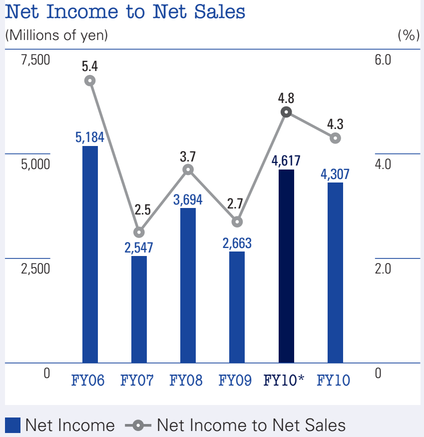
SG&A Expenses and SG&A Expense Ratio



Operating Income and Operating Income Margin



Net Income and Net Income to Net Sales



* Based on the scope of consolidation during the fiscal year ended March 31, 2009, prior to the consolidation of Fantastic Natural Cosmetics Limited (FNL) and Fantastic Natural Cosmetics (China) Limited (FNCCL).

Net income per share was ¥68.3. 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 2.0 percentage points compared with the previous fiscal year to 5.8%, due to the increase in net income.

Balance Sheet

Assets

[Current Assets]

Current assets amounted to ¥48,027 million, virtually unchanged from the previous fiscal year.

[Property, Plant and Equipment, Net]

Property, plant and equipment, net totaled ¥23,797 million, down ¥633 million from the previous fiscal year-end due to ongoing depreciation.

[Intangible Fixed Assets]

Intangible fixed assets declined ¥860 million year on year to ¥3,114 million, due to an impairment loss booked for goodwill associated with subsidiary NICOSTAR BEAUTECH Co., Ltd.

[Investments and Other Assets]

Investments and other assets increased by ¥9,267 million from the previous fiscal year-end to ¥18,045 million, as investment securities increased in line with the acquisition of shares in Fantastic Natural Cosmetics Limited and Fantastic Natural Cosmetics (China) Limited.

Liabilities

[Current Liabilities]

Current liabilities rose ¥1,305 million to ¥12,765 million, due mainly to an increase in accrued income taxes.

[Non-Current Liabilities]

Non-current liabilities amounted to ¥2,622 million, largely unchanged from the previous fiscal year.

Net Assets

[Total Net Assets]

Total net assets were ¥77,596 million, up ¥6,353 million compared with the previous fiscal year-end. In addition to growth in retained earnings, this result was mainly due to the sale of treasury stock.

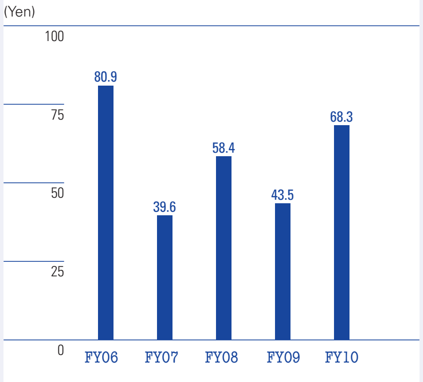
[Capital Expenditures]

Capital expenditures for the fiscal year under review totaled ¥1,511 million (including intangible fixed assets), and consisted mainly of capital expenditures in new consolidated subsidiary NEUES and investments in in-house systems, including the adoption of ERP modules.

By product segment, capital expenditures in the Cosmetics Business amounted to ¥930 million, ¥450 million in the Nutritional Supplements Business, and ¥131 million in Other Businesses.

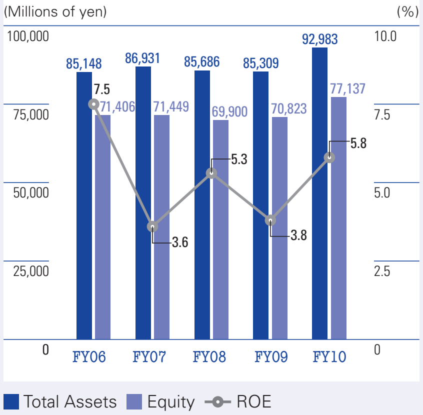
There were no major disposals or sales of major facilities during the year.

Net Income per Share



* 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.

Total Assets, Equity* and ROE



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

Cash Flows

Cash and cash equivalents as of March 31, 2010 were ¥25,011 million, ¥1,722 million lower than at the end of the previous fiscal year. The main contributing factors were as follows:

[Cash Flows From Operating Activities]

Cash provided by operating activities during the period under review was ¥10,532 million. The primary factors that increased operating cash flow included income before income taxes and minority interests of ¥8,776 million and depreciation and amortization expenses and goodwill of ¥3,736 million. Factors reducing operating cash flow included income taxes paid of ¥3,087 million.

[Cash Flows From Investing Activities]

Cash used in investing activities during the period under review was ¥3,555 million. This was largely the result of outlays such as ¥1,227 million for the purchase of property, plant and equipment, mainly for new and revamped stores and facilities for factories, a ¥671 million payment for acquisition of intangible fixed assets, ¥530 million in payments for acquisition of shares in affiliates, and ¥1,210 million in payments for acquisition of shares in subsidiaries following changes to the scope of consolidation.

[Cash Flows From Financing Activities]

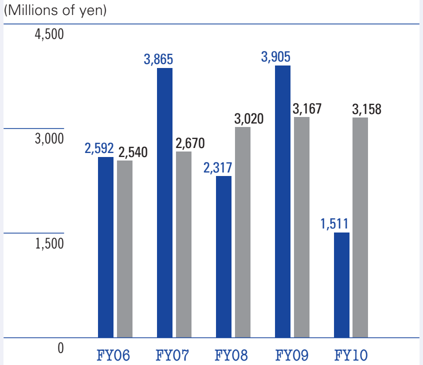
Cash provided by financing activities during the period under review was ¥432 million. This was largely the result of ¥4,145 million in proceeds from the disposal of treasury stock, partially offset by ¥2,079 million in cash dividends paid and ¥1,159 million in dividend payments to minority investors.

Trends in Cash Flow-Related Indices

Years ended March 31	**2010**	2009	2008	2007	2006
Equity ratio (%)	**83.0**	83.0	81.6	82.2	83.9
Equity ratio based on market price (%)	**123.7**	80.2	98.2	120.3	183.9
Debt service coverage (%)	**–**	–	0	–	–
Interest coverage ratio (times)	**1,182.3**	34,577.9	1,635.2	–	–

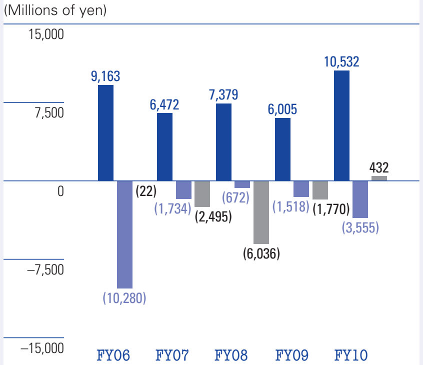
Notes:
Equity ratio: Shareholders' equity/Total assets
Equity ratio based on market price: Market capitalization/Total assets
Debt service coverage: Interest-bearing debt/Operating cash flow
Interest coverage ratio: Operating cash flow/Interest paid
1. Calculations based on consolidated financial results figures.
2. Market capitalization = market price on last trading day of period x total shares outstanding at end of period (excluding treasury shares)
3. Operating cash flow is the Net Cash Provided From Operating Activities figure in the consolidated statements of cash flows.
4. Interest bearing debt includes all debt on which interest is paid recorded in the liabilities section of the consolidated balance sheet.

Capital Expenditures and Depreciation



■ Capital Expenditures ■ Depreciation

Cash Flows



■ Operating Activities ■ Investing Activities
■ Financing Activities

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. Furthermore, 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 six 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 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.

7. Risk From Fluctuations in Currency Exchange Rates

The transactions of FANCL Group subsidiaries and affiliates based outside of Japan are denominated in non-yen currencies.

Furthermore, the financial statements of subsidiaries and affiliates based outside of Japan are converted into yen for the purpose of creating the consolidated financial statements.

Consequently, fluctuations in currency exchange rates could potentially have a significant impact on the operating results and financial position of the FANCL Group.

Consolidated Balance Sheets

FANCL CORPORATION and Consolidated Subsidiaries
As of March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 2)
Assets	**2010**	2009	**2010**
Current assets:			
Cash and bank deposits *(Notes 4 and 15)*	**¥ 19,505**	¥ 16,210	**$ 209,641**
Marketable securities *(Notes 4 and 5)*	**10,005**	13,520	**107,538**
Notes and accounts receivable—trade *(Notes 4 and 18)*	**10,241**	9,967	**110,067**
Less: Allowance for doubtful accounts *(Note 4)*	**(234)**	(157)	**(2,514)**
	10,007	9,810	**107,553**
Merchandise and products	**3,049**	3,060	**32,770**
Work in progress	**41**	69	**440**
Raw materials and supplies	**3,104**	3,041	**33,361**
Deferred income taxes *(Note 7)*	**1,190**	1,007	**12,786**
Other current assets	**1,127**	1,411	**12,112**
Total current assets	**48,027**	48,128	**516,201**
Property, plant and equipment, at cost *(Note 11)*:			
Land	**10,971**	10,971	**117,918**
Buildings and structures	**22,332**	21,650	**240,024**
Machinery and equipment	**11,502**	11,347	**123,627**
Lease asset	**264**	194	**2,835**
Construction in progress	**83**	52	**894**
	45,152	44,214	**485,298**
Less: Accumulated depreciation	**(21,355)**	(19,784)	**(229,525)**
Property, plant and equipment, net	**23,797**	24,430	**255,774**
Intangible assets:			
Goodwill	**511**	898	**5,495**
Other intangible fixed assets	**2,603**	3,075	**27,976**
Intangible assets, net	**3,114**	3,974	**33,471**
Investments and other assets:			
Investment securities *(Notes 4 and 5)*:			
Non-consolidated subsidiaries and affiliates	**10,752**	400	**115,568**
Other investment securities	**1,176**	675	**12,642**
	11,929	1,075	**128,211**
Guarantee deposits *(Note 4)*	**2,556**	2,138	**27,477**
Long-term loans receivable *(Note 4)*	**899**	440	**9,667**
Deferred income taxes *(Note 7)*	**541**	474	**5,810**
Other assets	**2,480**	4,922	**26,653**
Less: Allowance for doubtful accounts	**(360)**	(272)	**(3,871)**
Total investments and other assets	**18,045**	8,777	**193,946**
Total assets	**¥ 92,983**	¥ 85,309	**$ 999,392**

Liabilities and net assets	Millions of yen 2010	2009	Thousands of U.S. dollars (Note 2) 2010
Current liabilities:			
Notes and accounts payable – trade *(Note 4)*	**¥ 3,358**	¥ 3,206	**$ 36,092**
Accounts payable—other *(Note 4)*	**2,997**	3,399	**32,208**
Accrued income taxes *(Notes 4 and 7)*	**2,315**	1,478	**24,878**
Reserve for customer awards	**1,352**	1,354	**14,531**
Other current liabilities	**2,744**	2,023	**29,491**
Total current liabilities	**12,765**	11,459	**137,200**
Noncurrent liabilities:			
Accrued retirement benefits *(Note 8)*	**2,027**	1,878	**20,920**
Other long-term liabilities	**595**	729	**7,264**
Total noncurrent liabilities	**2,622**	2,607	**28,184**
Contingent liabilities *(Note 13)*			
Net assets:			
Shareholders' equity *(Note 6)*:			
Common stock:			
Authorized—233,838,000 shares in 2010 and 2009			
Issued — 65,176,600 shares in 2010 and 2009	**10,795**	10,795	**116,027**
Additional paid-in capital	**11,706**	11,706	**125,819**
Retained earnings	**55,065**	53,288	**591,847**
Less: Treasury stock 263,985 shares in 2010 and 3,896,949 shares in 2009	**(336)**	(4,961)	**(3,612)**
Total shareholders' equity	**77,231**	70,828	**830,081**
Valuation, translation adjustments and other:			
Net unrealized holding gain on other securities	**10**	(0)	**109**
Translation adjustments	**(104)**	(5)	**(1,115)**
Total valuation, translation adjustments and other	**(94)**	(5)	**(1,006)**
Warrants	**342**	311	**3,679**
Minority interests	**117**	109	**1,253**
Total net assets (Note 14)	**77,596**	71,243	**834,008**
Total liabilities and net assets	**¥92,983**	¥85,309	**$999,392**

See notes to consolidated financial statements.

Consolidated Statements of Income

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars *(Note 2)*
	2010	2009	**2010**
Net sales *(Note 18)*	**¥99,537**	¥98,004	**$1,069,827**
Cost of sales	**33,084**	32,723	**355,589**
Gross profit	**66,453**	65,281	**714,238**
Selling, general and administrative expenses *(Note 9)*	**57,294**	58,615	**615,801**
Operating income	**9,159**	6,666	**98,437**
Other income (expenses):			
Interest and dividend income	**100**	163	**1,079**
Loss on devaluation of investment securities	**(29)**	(95)	**(315)**
Loss on devaluation of investments in affiliates	**–**	(60)	**–**
Impairment loss *(Note 11)*	**(225)**	(482)	**(2,419)**
Loss on store closures	**(77)**	(344)	**(824)**
Other, net	**(152)**	(97)	**(1,633)**
Income before income taxes and minority interests	**8,776**	5,751	**94,325**
Income taxes *(Note 7)*:			
Current	**4,032**	2,940	**43,337**
Deferred	**(277)**	133	**(2,975)**
	3,755	3,073	**40,362**
Minority interests	**(714)**	(15)	**(7,673)**
Net income *(Note 14)*	**¥4,307**	¥2,663	**$46,290**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2010 and 2009

	Thousands	Millions of yen								
	Common stock									
	Number of shares	Amount	Additional paid-in capital	Retained earnings	Treasury stock	Net unrealized holding (loss) gain on other securities	Translation adjustments	Warrants	Minority interests	Total net assets
March 31, 2008	70,176	¥10,795	¥11,861	¥58,608	¥(11,387)	¥ 28	¥ (5)	¥275	¥ 94	¥70,269
Cash dividends	–	–	–	(1,777)	–	–	–	–	–	(1,777)
Net income	–	–	–	2,663	–	–	–	–	–	2,663
Purchase of treasury stock	–	–	–	–	(2)	–	–	–	–	(2)
Sale of treasury stock	–	–	4	(0)	63	–	–	–	–	67
Retirement of treasury stock	(5,000)	–	(159)	(6,206)	6,365	–	–	–	–	–
Other net changes during the year	–	–	–	–	–	(28)	–	36	15	23
March 31, 2009	65,176	10,795	11,706	53,288	(4,961)	(0)	(5)	311	109	71,243
Cash dividends	**–**	**–**	**–**	**(2,084)**	**–**	**–**	**–**	**–**	**–**	**(2,084)**
Net income	**–**	**–**	**–**	**4,307**	**–**	**–**	**–**	**–**	**–**	**4,307**
Purchase of treasury stock	**–**	**–**	**–**	**–**	**(3)**	**–**	**–**	**–**	**–**	**(3)**
Sale of treasury stock *(Note 18)*	**–**	**–**	**–**	**(445)**	**4,628**	**–**	**–**	**–**	**–**	**4,182**
Other net changes during the year	**–**	**–**	**–**	**–**	**–**	**10**	**(99)**	**32**	**7**	**(49)**
March 31, 2010	**65,176**	**¥10,795**	**¥11,706**	**¥55,065**	**¥ (336)**	**¥ 10**	**¥(104)**	**¥342**	**¥117**	**¥77,596**

	Thousands of U.S. dollars (Note 2)								
	Common stock								
	Amount	Additional paid-in capital	Retained earnings	Treasury stock	Net unrealized holding (loss) gain on other securities	Translation adjustments	Warrants	Minority interests	Total net assets
March 31, 2009	$109,897	$119,171	$542,482	$(50,503)	$ (4)	$ (50)	$3,160	$1,111	$725,264
Cash dividends	**–**	**–**	**(22,399)**	**–**	**–**	**–**	**–**	**–**	**(22,399)**
Net income	**–**	**–**	**46,290**	**–**	**–**	**–**	**–**	**–**	**46,290**
Purchase of treasury stock	**–**	**–**	**–**	**(32)**	**–**	**–**	**–**	**–**	**(32)**
Sale of treasury stock *(Note 18)*	**–**	**–**	**(4,787)**	**49,740**	**–**	**–**	**–**	**–**	**44,953**
Other net changes during the year	**–**	**–**	**–**	**–**	**114**	**(1,062)**	**343**	**80**	**(525)**
March 31, 2010	**$116,027**	**$125,819**	**$591,847**	**$ (3,612)**	**$109**	**$(1,115)**	**$3,679**	**$1,253**	**$834,008**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2010	2009	**2010**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 8,776**	¥ 5,751	**$ 94,325**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**3,158**	3,167	**33,940**
Loss on impairment of fixed assets	**225**	482	**2,419**
Share-based payments	**96**	107	**1,036**
Amortization of goodwill	**578**	160	**6,211**
(Reversal of) provision for reserve for customer awards	**(2)**	(142)	**(22)**
Increase (decrease) in allowance for doubtful accounts	**164**	(154)	**1,764**
Accrued retirement benefits, net of payments	**128**	175	**1,377**
Loss on devaluation of investment securities	**29**	95	**315**
Income from investment in a silent partnership	**(22)**	(22)	**(233)**
Loss on disposal of fixed assets	**38**	64	**410**
Loss on store closures	**77**	344	**824**
Changes in operating assets and liabilities:			
Notes and accounts receivable—trade	**(101)**	84	**(1,080)**
Inventories	**(235)**	628	**(2,521)**
Other current assets	**122**	(173)	**1,306**
Other fixed assets	**221**	–	**2,371**
Accounts payable—trade	**565**	(395)	**6,070**
Other current liabilities	**3**	(703)	**36**
Other noncurrent liabilities	**(105)**	(336)	**(1,130)**
Income taxes paid	**(3,087)**	(3,317)	**(33,181)**
Other, net	**(97)**	190	**(1,040)**
Net cash provided by operating activities	**10,532**	6,005	**113,196**
Cash flows from investing activities:			
Payment by receipt of time deposit	**–**	(1,000)	**–**
Proceeds from cancellation of time deposits	**1,500**	1,000	**16,122**
Purchases of property, plant and equipment	**(1,227)**	(1,849)	**(13,190)**
Purchases of software	**(671)**	(929)	**(7,211)**
Purchases of investments in newly consolidated subsidiaries	**(1,210)**	–	**(13,005)**
Proceeds from collection of long-term loans receivable	**218**	33	**2,346**
Purchases of investment securities	**(5,496)**	(9,983)	**(59,077)**
Disposition of investment securities	**4,997**	11,997	**53,713**
Purchase of investment securities	**(1,015)**	–	**(10,904)**
Proceeds from sale and redemption of investment securities	**507**	–	**5,446**
Purchase of shares in affiliates	**(530)**	–	**(5,691)**
Payments for loans receivable	**(662)**	–	**(7,110)**
Payment of businesses combination	**–**	(1,316)	**–**
Other, net	**32**	529	**349**
Net cash used in investing activities	**(3,555)**	(1,518)	**(38,212)**
Cash flows from financing activities:			
Proceeds from short-term borrowings	**408**	–	**4,390**
Repayments of short-term loans	**(474)**	–	**(5,094)**
Repayments of long-term loans	**(155)**	(48)	**(1,666)**
Redemption of bonds	**(180)**	–	**(1,935)**
Purchases of treasury stock	**(3)**	(2)	**(32)**
Proceeds from sale of treasury stock	**4,145**	3	**44,555**
Cash dividends paid	**(2,079)**	(1,772)	**(22,343)**
Cash dividends paid to minority interests	**(1,159)**	–	**(12,459)**
Other, net	**(72)**	49	**(773)**
Net cash provided by (used in) financing activities	**432**	(1,770)	**4,643**
Effect of foreign exchange rate changes on cash and cash equivalents	**261**	(45)	**2,805**
Net increase in cash and cash equivalents	**7,670**	2,672	**82,433**
Cash and cash equivalents at beginning of year	**26,733**	24,061	**287,323**
Decrease in cash and cash equivalents following changes to scope of consolidation	**(9,392)**	–	**(100,941)**
Cash and cash equivalents at end of year *(Note 15)*	**¥25,011**	¥26,733	**$ 268,815**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2010 and 2009

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 two affiliates are stated at equity method. However, investments in non-consolidated subsidiaries and other affiliates 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.

In case of decrease in profitability, the book-value-reduction method is used.

(g) Depreciation and amortization

	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	2 – 50 years
Machinery and equipment	2 – 22 years

Effective the year ended March 31, 2009, the residual value of property, plant and equipment which were acquired before April 1, 2007 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.

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

The Company and its consolidated subsidiaries lease certain equipment under non-cancelable lease agreements referred to as finance leases.

Finance leases other than those which transfer the ownership of the leased assets to the lessee are depreciated to nil over the period of the lease term. Finance leases conducted before the year applicable to the change of lease accounting 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) Amortization of goodwill

Goodwill is amortized equally over its estimated useful life. In case of its immateriality, goodwill is amortized at lump-sum basis 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, 2010 have been presented in U.S. dollars by translating all yen amounts at ¥93.04 = U.S.$1.00, the exchange rate prevailing on March 31, 2010. 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

Changes to evaluation standards and the evaluation method of important assets (Inventories)

Inventories held for normal sales were primarily calculated using the gross average method based on the acquisition cost method. For the fiscal year ended March 31, 2009, "Accounting Standards for Inventory Valuation" (Accounting Standards No. 9, July 5, 2006) has been applied. Inventories are primarily calculated using the gross average method based on the acquisition cost method. (In cases of decrease in profitability, the book-value-reduction method is used).

Following the application of the above in the fiscal year, loss on disposal of inventories, which was previously recorded as a non-operating expense, was included in the cost of sales.

In the fiscal year, operating income decreased by ¥408 million, ordinary income decreased by ¥8 million and income before income taxes and minority interests decreased by ¥43 million as a result of this change in comparison to the former method used.

The effect on segment information is discussed in the applicable section of this report.

Application of current accounting methods for foreign subsidiaries in the creation of the consolidated balance sheet

For the fiscal year ended March 31, 2009, "Application of current accounting methods for foreign subsidiaries in the preparation of the consolidated financial statements" (Accounting Standards Board of Japan ("ASBJ"), May 17, 2006, Report No. 18) has been applied.

There was no material impact on operating income, ordinary income or income before income taxes and minority interests, etc. as a result of this change.

Application of accounting standards for lease transactions

The following accounting standards have been applied for the fiscal year ended March 31, 2009, "Accounting standards for lease transactions" (Accounting Standards No. 13, June 17, 1993 (Accounting Board Committee 1), revised March 30, 2007) and "Guidelines to the application of standards for lease transactions" (Guidelines to the application of standards for lease transactions No. 16, January 18, 1994 (JICPA Accounting Standards Committee), revised March 30, 2007).

There was no material impact on operating income, ordinary income or income before income taxes and minority interests, etc. as a result of this change.

(Application of Partial Amendments to Accounting Standard for Retirement Benefits (Part 3))

Effective from the fiscal year ended March 31, 2010, the Company has applied "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19, July 31, 2008).

There is no material impact on operating income, ordinary income or income before income taxes and minority interests as a result of this change.

Consolidated Balance Sheet

Finished goods, work in progress and raw materials, which had been included in inventories in the previous fiscal year, were recorded separately for the fiscal year ended March 31, 2009, following application of "Certain revisions to Cabinet Office Regulations for Financial Statements" (August 7, 2008, Cabinet Office regulation No. 50).

In the previous fiscal year, merchandise and products of ¥3,229 million, work in process of ¥78 million and raw materials of ¥3,402 million were all included in inventories.

Consolidated Income Statements

For the fiscal year ended March 31, 2009, loss on foreign exchange, which (¥26 million in the previous fiscal year) was included in miscellaneous expenses, was recorded separately due to its increased materiality.

4. Financial Instruments

From the fiscal year ended March 31, 2010, the Company has applied "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, March 10, 2008) and issued "Guidance on Accounting Standard for Financial Instruments and Related Disclosures" (ASBJ Guidance No. 19, March 10, 2008).

1. Matters relating to financial instruments

(1) Basic policy on treating financial instruments

With respect to managing funds, the Group limits such management to short-term deposits and highly safe financial assets, based on internal regulations governing fund management.

With regard to derivatives, the Group's policy is to avoid speculative transactions. As such, the Group had no derivative transactions during the fiscal year ended March 31, 2010.

(2) Description, risks and risk management framework regarding financial instruments

Notes and accounts receivable, which are operating receivables, are exposed to the credit risk of counterparties. In confronting such risk, the Group, in line with internal regulations for managing credit exposure, manages the accounts and remaining balances for each customer at the appropriate closing date. The Group also has a system for assessing the credit status of major customers on an annual basis.

Shares, which are investment securities, are exposed to the risk from fluctuations in market prices. These shares, however, consist mainly of those of holdings in companies for business purposes, with fair value periodically assessed and reported to the Board of Directors.

Deposits and guarantee money set aside for rental properties are exposed to the credit risk of corporate counterparties. To mitigate this risk, the Group researches the credit standing of corporate counterparties—the parties covered under guarantees—at the time that the FANCL Group opens stores.

(3) Supplementary explanation to matters regarding fair values of financial instruments

Fair values of financial instruments are based on market price. If market price is not available, other reasonable valuation techniques are used. Such techniques include variable factors and the results of valuation may change depending on the assumptions used.

2. Matters regarding fair values of financial instruments

The following table represents the amounts of financial instruments recorded in the consolidated balance sheet as of March 31, 2010 and their fair values, as well as the differences between the balance sheet amounts and the fair values. Financial instruments whose fair values are deemed extremely difficult to assess are not included (refer to "Note ii" below).

	Millions of yen		
	Carrying value	Fair value	Unrealized gain (loss)
(1) Cash and bank deposits	**¥19,505**	**¥19,505**	**¥ –**
(2) Notes and accounts receivable	**10,241**		
Allowance for doubtful accounts	**(233)**		
	10,007	**10,007**	**–**
(3) Marketable securities	**10,005**	**10,005**	**–**
(4) Investment securities			
Other securities	**1,176**	**1,176**	**–**
(5) Deposits and guarantee money			
Store deposits and guarantee money	**2,159**	**2,071**	**(88)**
(6) Long-term loans receivable	**899**	**564**	**(335)**
Total assets	**¥43,752**	**¥43,329**	**¥(424)**
(1) Notes and accounts payable	**¥ 3,358**	**¥ 3,358**	**¥ –**
(2) Accounts payable	**2,997**	**2,997**	**–**
(3) Accrued income taxes	**2,315**	**2,315**	**–**
Total liabilities	**¥ 8,669**	**¥ 8,669**	**¥ –**

(Note i) Methods for calculating fair value of financial instruments and matters regarding marketable securities and derivatives

Assets

(1) Cash and bank deposits and (2) notes and accounts receivable

Due to short-term settlement, the fair value for these items is largely the same as their book value. As such, the book value represents the fair value.

Notes and accounts receivable are deducted by the relating allowance for doubtful accounts.

(3) Marketable securities

For marketable securities, the fair value of bonds is based largely on the price quoted by the financial institution involved in the transaction.

(4) Investment securities

For investment securities, the fair value of shares is the market price. For bonds, fair value is based largely on the price quoted by the financial institution involved in the transaction.

For notes on marketable securities owned for holding purposes, refer to Note 5 "Investment Securities."

(5) Deposits and guarantee money

Fair value for deposits and guarantee money accompanying store openings is calculated using a reasonable discount rate based on the average number of years before store closure typically occurs.

(6) Long-term loans receivable

Fair value is measured as present value calculated by discounting the combined total of principal and interest by an assumed interest rate for similar new borrowings.

Regarding potentially doubtful receivables, the estimated amount considered doubtful is calculated based on the estimated amount deemed recoverable. Since the value derived after deduction of the amount presently deemed doubtful from the carrying value listed on the balance sheet is nearly the same as fair value, this amount is used to represent the fair value.

Liabilities

(1) Notes and accounts payable, (2) accounts payable and (3) accrued income taxes

Due to short-term settlement, the fair value of these items is largely the same as their book value. As such, the book value represents the fair value.

(Note ii) Financial instruments whose fair values are deemed extremely difficult to assess

	Millions of yen
Category	Carrying value
① Unlisted equity securities *1	**¥10,752**
② Other deposits and guarantee money *2	**398**

*1 *The fair value of unlisted equity securities is not disclosed because their market prices are not available and future cash flows cannot be estimated, making their fair values extremely difficult to assess.*

*2 *"Other deposits and guarantee money," included under "Deposits and guarantee money," is not disclosed because market prices are not available, and because of the extreme difficulty of estimating both the actual deposit period from the time that a store opens until its eventual closure, as well as any reasonable cash flows, making the value difficult to assess.*

(Note iii) Projected redemption amounts for monetary receivables and securities with maturity after account closing date

	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and bank deposits	**¥19,456**	**¥ –**	**¥ –**	**¥ –**
Notes and accounts receivable	**10,241**	**–**	**–**	**–**
Marketable and investment securities				
Other securities held to maturity:				
(1) Bonds (corporate bonds)	**5,500**	**–**	**1,000**	**–**
(2) Others	**4,506**	**–**	**–**	**–**
Long-term loans receivable*	**29**	**586**	**45**	**198**
Total	**¥39,732**	**¥586**	**¥1,045**	**¥198**

** Excluded an amount of ¥70 million considered unredeemable.*

(Note iv) Projected repayment amounts for corporate bonds, long-term loans, lease obligations and other interest-bearing debt after the account closing date

Refer to Notes 5 and 10 for information regarding corporate bonds, long-term loans, lease obligations, and other interest-bearing liabilities.

5. Investment Securities

Information regarding investment securities with quoted market prices classified as other securities at March 31, 2010 and 2009 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2010	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stocks	**¥ 46**	**¥ 58**	**¥12**	**$ 489**	**$ 619**	**$130**
Bonds	**1,014**	**1,022**	**8**	**10,894**	**10,981**	**88**
Subtotal	**1,059**	**1,079**	**20**	**11,383**	**11,601**	**218**
Securities whose acquisition cost exceeds their carrying value:						
Stocks	**100**	**97**	**(3)**	**1,077**	**1,042**	**(35)**
Subtotal	**100**	**97**	**(3)**	**1,077**	**1,042**	**(35)**
Total	**¥1,159**	**¥1,176**	**¥17**	**$12,460**	**$12,643**	**$183**

	Millions of yen		
As of March 31, 2009	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stocks	¥19	¥26	¥7
Subtotal	19	26	7
Securities whose acquisition cost exceeds their carrying value:			
Stocks	48	41	(7)
Subtotal	48	41	(7)
Total	¥67	¥67	¥0

Accounting for the impairment in securities (from April 1, 2009 to March 31, 2010)

"Acquisition cost" in the above chart is recognized at book value after impairment treatment. Impairment losses on other securities of ¥29 million ($312 thousand) were recognized in this consolidated fiscal year.

When the market value of the securities at year-end declines by more than 50% of the acquisition cost, the Company deems market value to be irrecoverable and recognizes impairment treatment for such securities.

In cases when market value declines by more than 30% but by less than 50% of the acquisition cost at year-end, the Company does not recognize impairment treatment, apart from in cases when market value declines due to the factors of downturns in business and others.

For the year ended March 31, 2010, the Company sold other securities (Bonds) and recognized gain on the sale of other securities (Bonds) of ¥999 million ($10,737 thousand).

Other securities without quoted market prices at March 31, 2009 were summarized as follows:

2009	Millions of yen
Current assets:	
Bonds	¥ 5,995
Commercial paper	–
Foreign bonds	3,000
Other	4,525
Noncurrent assets:	
Fiscal investment and loan program (FILP)—Agency Bonds	500
Unlisted stock (excluding securities traded over-the-counter)	108
Total	¥14,128

The redemption schedule for other securities with maturity dates at March 31, 2009 was summarized as follows:

	Millions of yen	
2009	Due in one year or less	Due after one year through five years
Current assets:		
Bonds	¥ 5,995	¥–
Commercial paper	–	–
Foreign bonds	3,000	–
Other	4,525	–
Noncurrent assets:		
FILP—Agency Bonds	500	–
Total	¥14,020	¥0

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.

The Company may make dividend payments as the appropriation of retained earnings by a resolution of the Board of Directors pursuant to the provisions of Article 459, Paragraph 1 of The Law.

The amount of year-end cash dividends per share and half-year cash dividends per share, which the Company paid to the shareholders of record as at the respective period-ended for the years ended March 31, 2010 and 2009, were as follows:

	Yen		U.S. dollars
	2010	2009	**2010**
Year-end	**¥17.00**	¥12.00	**$0.18**
Half-year	**17.00**	17.00	**0.18**

The effective dates of the distribution for year-end and half-year cash dividends, which were paid during the year ended March 31, 2010, were June 22, 2009 and December 7, 2009, respectively.

The cash dividends of retained earnings of the Company for the year ended March 31, 2010 approved at a meeting of the Board of Directors, which was held on May 14, 2010, were as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends	**¥1,104**	**$11,861**

	Yen	U.S. dollars
Cash dividends per share	**¥17.00**	**$0.18**

7. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deferred tax assets:			
Accrued enterprise taxes	**¥ 88**	¥ 116	**$ 947**
Accrued bonuses	**428**	416	**4,605**
Allowance for doubtful accounts	**167**	147	**1,795**
Reserve for customer awards	**542**	544	**5,820**
Accrued retirement benefits	**860**	780	**9,240**
Net loss carried forward	**1,198**	1,152	**12,878**
Loss on devaluation of investment securities	**130**	211	**1,396**
Impairment loss	**430**	204	**4,617**
Other	**496**	315	**5,330**
Gross deferred tax assets	**4,338**	3,884	**46,628**
Valuation allowance	**(2,208)**	(1,992)	**(23,735)**
Total deferred tax assets	**2,130**	1,892	**22,894**
Deferred tax liabilities:			
Prepaid pension cost	**160**	177	**1,724**
Unrealized intercompany profit on land	**232**	232	**2,494**
Gain on valuation of land	**247**	248	**2,652**
Other	**7**	1	**79**
Total deferred tax liabilities	**647**	658	**6,950**
Net deferred tax assets	**¥ 1,483**	¥ 1,234	**$ 15,944**

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, 2010 and 2009.

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, 2010 and 2009 is summarized as follows:

	2010	2009
Statutory tax rate	**40.63%**	40.64%
Additions to (deductions from) income taxes resulting from:		
Permanent nondeductible difference such as entertainment expenses	**1.08**	3.22
Inhabitants' per capital taxes	**1.49**	2.24
Permanent difference not recognized for tax purposes such as dividends received	**(0.05)**	(0.01)
Valuation allowance	**2.15**	8.67
Tax credits such as for research and development expenses	**(1.56)**	(2.37)
Difference in effective tax rates among the Company and its consolidated subsidiaries	**(3.35)**	(0.42)
Amortization of goodwill	**1.93**	0.51
Other	**0.47**	0.96
Effective tax rate	**42.79%**	53.44%

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, 2010 and 2009 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Projected benefit obligation	**¥(2,698)**	¥(2,505)	**$(28,997)**
Fair value plan assets	**908**	784	**9,755**
Funded status	**(1,790)**	(1,721)	**(19,242)**
Unrecognized actuarial net loss	**237**	338	**2,551**
Net retirement benefit obligation	**(1,553)**	(1,383)	**(16,691)**
Prepaid pension cost	**393**	435	**4,229**
Accrued retirement benefits	**¥(1,946)**	¥(1,818)	**$(20,920)**

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 ¥81 million ($867 thousand) and ¥60 million have been included in accrued retirement benefits in the accompanying consolidated balance sheets at March 31, 2010 and 2009, respectively.

Retirement benefit expenses for the years ended March 31, 2010 and 2009 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Service cost-benefits earned during the year	**¥254**	¥281	**$2,733**
Interest cost on projected benefit obligation	**30**	27	**322**
Expected return on plan assets	**(18)**	(26)	**(189)**
Amortization of unrecognized actuarial net loss	**93**	46	**995**
Contributions to welfare pension fund	**323**	301	**3,472**
Retirement benefit expenses	**¥682**	¥629	**$7,334**

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 principal assumptions used in the above actuarial calculations for the years ended March 31, 2010 and 2009 were as follows:

	2010	2009
Discount rate	**1.75%**	1.75%
Expected rate of return	**3.00%**	3.00%
Actuarial cost method	**Unit credit actuarial cost method**	Unit credit actuarial cost method
Amortization period for actuarial differences	**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, commencing the year subsequent to the period when the actuarial difference was calculated.*

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

(1) Funded status of the Fund as of March 31, 2010 and 2009:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Fund's assets	**¥4,877**	¥6,038	**$52,415**
Projected benefit obligation	**5,391**	5,242	**57,945**
Funded status	**¥ (515)**	¥ 796	**$ (5,530)**

The funded status above primarily consisted of unamortized prior service cost of ¥461 million, additional asset appraisal value of ¥749 million and a general reserve of ¥695 million.

For the fiscal year ended March 31, 2009, prior service cost in the Fund was amortized by the straight-line method based on the total amount of the principal and interest over a period of 15 years. The 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 52.1% for the year ended March 31, 2010. This percentage is not always in agreement with the actual payment responsibility of the Company's group.

9. Research and Development Expenses

Research and development expenses charged to income for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Research and development expenses	**¥2,351**	¥2,189	**$25,270**

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 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, 2010 and 2009 would have been as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Machinery and equipment:	**¥3,513**	¥4,069	**$37,760**
Accumulated depreciation	**2,744**	2,672	**29,494**
Accumulated loss on impairment	**400**	400	**4,303**
	¥ 369	¥ 997	**$ 3,963**

The following table represents the future minimum lease payments subsequent to March 31, 2010 under finance leases which do not transfer ownership.

	Millions of yen	Thousands of U.S. dollars
	2010	**2010**
Minimum lease payments:		
Due within one year	**¥330**	**$3,543**
Due after one year	**475**	**5,102**
	804	**8,645**
Accumulated loss on impairment	**134**	**1,443**

Lease expenses related to finance leases which do not transfer ownership for the years ended March 31, 2010 and 2009 amounted to ¥583 million ($6,266 thousand) and ¥732 million, respectively. Depreciation related to these leases for the years ended March 31, 2010 and 2009 would have been ¥540 million ($5,806 thousand) and ¥655 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, 2010 consisted of the following:

2010				
Used for	Type of assets	Amount		Place
		Millions of yen	Thousands of U.S. dollars	
Production equipment for germinated brown rice	Building and structures	**¥ 0**	**$ 4**	Tomi City, Nagano Prefecture
	Leased assets	**16**	**176**	
Cosmetics business	Goodwill	**194**	**2,080**	Ouragun, Gunma Prefecture
Store equipment	Buildings and structures	**13**	**139**	Kanto Area
	Tools and equipment	**2**	**20**	
Total		**¥225**	**$2,419**	

Outline of impairment loss recognition

(1) For equipment at production plants for germinated brown rice, the book value for production equipment projected to go unused in the future was reduced to the value deemed recoverable, resulting in a reduction of ¥17 million booked as an impairment loss in other expenses.

(2) For goodwill pertaining to consolidated subsidiary NICOSTAR BEAUTECH Co., Ltd., a charge of ¥194 million for unamortized goodwill at the fiscal year-end was booked as an impairment loss in other expenses. This reflected a projected shortfall in realizing earnings in line with figures put forth in the business plan at the time of the subsidiary's acquisition.

(3) For facilities for retail stores, following the decision to close certain stores, the book value for store assets was reduced to the value deemed recoverable, resulting in a reduction of ¥15 million booked as an impairment loss in other expenses.

Grouping method:

The FANCL Group primarily groups assets by type of operation. Idle assets are grouped by facility.

Method for calculating recoverable value

1. The recoverable value of equipment for germinated brown rice production plants is calculated from estimated net sale values; applicable assets with no prospects of being repurposed or sold are calculated as zero.
2. The recoverable value of goodwill is calculated based on future business plans.
3. The recoverable value of stores are calculated from estimated net sale values. Assets without other applications are recorded as zero since there is the possibility that they will not be sold.

12. Stock Option Plans

At March 31, 2010, 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 19, 2004	June 17, 2006	November 15, 2006	November 12, 2007	November 14, 2008	November 12, 2009
Grantees	5 directors and 50 employees	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	9 directors and 3 executive officers	7 directors and 3 executive officers
Type of shares with warrants granted	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares with warrants granted	122,000 shares	740,000 shares	648,900 shares	62,800 shares	90,700 shares	78,200 shares	44,900 shares
Option price per warrant	¥5,514	¥1,217	¥1,670	¥1	¥1	¥1	¥1
Exercisable period	June 29, 2001 –June 28, 2009	July 3, 2006 –June 30, 2009	August 11, 2008 –August 10, 2011	December 2, 2006 –December 1, 2036	December 4, 2007 –December 3, 2037	December 2, 2008 –December 1, 2038	December 2, 2009 –December 1, 2039

Option price per warrant is 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

Contingent liabilities as of March 31, 2010 amounted to ¥1,699 million ($18,260 thousand) and represented guarantees of borrowings incurred by the 16 industrial corporations (including FANCL B&H CORPORATION) 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. FANCL B&H CORPORATION 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 ($6,361 thousand) and plant of ¥1,499 million ($16,111 thousand) located in the Nagareyama area were pledged as collateral for the above borrowings as of March 31, 2010.

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 of common stock 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.

	Yen		U.S. dollars
	2010	2009	**2010**
Net income:			
– Basic	**¥ 68.26**	¥ 43.46	**$ 0.73**
– Diluted	**68.11**	43.35	**0.73**
Net assets	**1,188.32**	1,155.74	**12.77**

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, 2010 and 2009:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Cash and bank deposits	**¥19,505**	¥16,210	**$209,641**
Marketable securities	**10,005**	13,520	**107,538**
Time deposits for periods of more than three months	**(1,000)**	–	**(10,748)**
Marketable securities pledged as collateral for periods of more than three months	**(3,500)**	(2,997)	**(37,616)**
Cash and cash equivalents	**¥25,011**	¥26,733	**$268,815**

The following tables represent a breakdown of assets and liabilities at the time of consolidations due to share acquisitions and the relation between acquisition cost and expenditures (net) resulting from the acquisition or proceeds (net) from the acquisition.

Fantastic Natural Cosmetics Limited and its consolidated subsidiaries, and Fantastic Natural Cosmetics (China) Limited and its consolidated subsidiaries:

	Millions of yen	Thousands of U.S. dollars
	2010	**2010**
Current assets	**¥ 11,538**	**$124,006**
Noncurrent assets	**712**	**7,655**
Goodwill	**9,861**	**105,988**
Current liabilities	**(11,815)**	**(126,993)**
Minority interests	**(261)**	**(2,801)**
Share acquisition cost	**10,035**	**107,855**
Cash and cash equivalents of the acquired company	**(8,825)**	**(94,849)**
Less: Expenditure for acquisition	**¥ 1,210**	**$ 13,005**

NEUES, K.K.:

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Current assets	¥ 630	$ 6,767
Noncurrent assets	771	8,285
Goodwill	76	818
Current liabilities	(915)	(9,833)
Noncurrent liabilities	(305)	(3,277)
Share acquisition cost	257	2,759
Cash and cash equivalents of the acquired company	(435)	(4,680)
Less: Proceeds from acquisition	¥(179)	$(1,920)

The following table represents a breakdown of assets and liabilities of companies converted to equity-method affiliates following exclusion from the scope of consolidation.

Fantastic Natural Cosmetics Limited and its consolidated subsidiaries, and Fantastic Natural Cosmetics (China) Limited and its consolidated subsidiaries:

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Current assets	¥11,810	$126,935
Noncurrent assets	701	7,538
Total assets	12,511	134,472
Current liabilities	11,805	126,878
Total liabilities	¥11,805	$126,878

16. Business Combination

Purchasing Method

1. Name and Business Lines of Acquired Company; Reasons for, Date and Legal Format of Business Combination; Name and Voting Rights Held in Company Following Corporate Combination
   (1) Name and Business Lines of Acquired Company
   Name of acquired company: NEUES, K.K.
   Business lines: Cosmetics-related business, nutritional supplements-related business, other businesses
   (2) Main Reasons for Business Combination
   The purpose of the share acquisition was to beneficially integrate the Company's strengths in preservative-free technologies with NEUES, K.K.'s practical services to allow opportunities for more customers to experience how preservative-free skin beautification works.
   (3) Date of Combination
   July 1, 2009
   (4) Legal Format of the Business Combination and Name After Combination
   Legal format of the business combination: Share acquisition
   Name of company after combination: NEUES, K.K.
   (5) Voting Rights Acquired
   100%
2. Period of Inclusion of Operating Results of Acquired Company in the accompanying Consolidated Financial Statements
   From June 1, 2009 to February 28, 2010
3. Total Acquisition Cost of Acquired Company and Cost Breakdown

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Initial acquisition cost: Common stock of NEUES, K.K.	¥250	$2,687
Expenses directly related to acquisition: Advisory expenses, etc.	7	72
Total acquisition cost	¥257	$2,759

4. Value of Goodwill Resulting from Acquisition, Reasons for Occurrence, and Amortization Method and Period
   (1) Value of goodwill resulting from acquisition
       ¥76 million
   (2) Reasons for occurrence
       Goodwill resulted from reasonable estimates of future excess earnings capacity of the acquired company as a result of anticipated business development.
   (3) Amortization method and period
       Lump-sum amortization was carried out for the fiscal year.
5. Amounts and Breakdown of Major Assets and Liabilities Received in Conjunction with the Business Combination

	Millions of yen	Thousands of U.S. dollars
	2010	**2010**
Current assets	**¥ 630**	**$ 6,767**
Noncurrent assets	**771**	**8,285**
Total assets	**1,400**	**15,052**
Current liabilities	**915**	**9,833**
Noncurrent liabilities	**305**	**3,277**
Total liabilities	**¥1,220**	**$13,110**

6. Estimated Effect on the Consolidated Statements of Income for the fiscal year Assuming Completion of Business Combination at beginning of fiscal year

	Millions of yen	Thousands of U.S. dollars
	2010	**2010**
Net sales	**¥ 458**	**$ 4,921**
Operating income	**(7)**	**(75)**
Ordinary income	**(8)**	**(87)**
Income before income taxes and minority interests	**(26)**	**(275)**
Net income	**(26)**	**(275)**
Net income per share	**¥(0.41)**	**$(0.0044)**

(Method for Calculating Estimated Effect and Important Assumptions)
The estimated effect was calculated as the difference noted upon comparison of the net sales and income data calculated on the assumption that the business combination was completed at the beginning of the consolidated fiscal year with actual net sales and income data of the acquired company for the fiscal year.
The estimated effect stated in this note is unaudited.

17. Segment Information

Business Segment Information

The Company and its subsidiaries operate principally in three business segments:

Business Segment	Major Products
Cosmetics	Mail-order sales, retail store sales and wholesale of cosmetics
Nutritional supplements	Mail-order sales, retail store sales and wholesale of nutritional supplements
Other	Mail-order sales of comfort undergarments, health equipment, lifestyle goods, germinated brown rice, kale juice, etc.

Business segment information for the Company and its subsidiaries for the years ended March 31, 2010 and 2009 is presented below:

	Millions of yen					
Year ended March 31, 2010	Cosmetics business	Nutritional supplements business	Other businesses	Total	Eliminations or corporate	Consolidated
I. Sales and operating income						
Sales to external customers	**¥51,902**	**¥28,492**	**¥19,142**	**¥99,537**	**¥ –**	**¥99,537**
Intersegment sales or transfers	**–**	**–**	**–**	**–**	**–**	**–**
Total sales	**51,902**	**28,492**	**19,142**	**99,537**	**–**	**99,537**
Operating expenses	**43,956**	**25,242**	**19,630**	**88,829**	**1,549**	**90,378**
Operating income (loss)	**¥ 7,946**	**¥ 3,250**	**¥ (488)**	**¥10,708**	**¥ (1,549)**	**¥ 9,159**
II. Total assets, depreciation and capital expenditures						
Total assets	**¥34,098**	**¥14,137**	**¥12,554**	**¥60,788**	**¥32,195**	**¥92,983**
Depreciation	**1,920**	**823**	**353**	**3,096**	**49**	**3,145**
Impairment Loss	**203**	**5**	**17**	**225**	**–**	**225**
Capital expenditures	**930**	**450**	**131**	**1,511**	**–**	**1,511**

	Millions of yen					
Year ended March 31, 2009	Cosmetics business	Nutritional supplements business	Other businesses	Total	Eliminations or corporate	Consolidated
I. Sales and operating income						
Sales to external customers	¥50,081	¥29,089	¥18,834	¥98,004	¥ –	¥98,004
Intersegment sales or transfers	–	–	–	–	–	–
Total sales	50,081	29,089	18,834	98,004	–	98,004
Operating expenses	43,319	26,160	19,815	89,294	2,044	91,338
Operating income (loss)	¥ 6,762	¥ 2,929	¥ (981)	¥ 8,710	¥ (2,044)	¥ 6,666
II. Total assets, depreciation and capital expenditures						
Total assets	¥33,752	¥13,949	¥11,701	¥59,402	¥25,907	¥85,309
Depreciation	1,818	747	384	2,949	61	3,010
Impairment Loss	3	1	300	304	178	482
Capital expenditures	2,565	859	435	3,859	46	3,905

	Thousands of U.S. dollars					
Year ended March 31, 2010	Cosmetics business	Nutritional supplements business	Other businesses	Total	Eliminations or corporate	Consolidated
I. Sales and operating income						
Sales to external customers	**$557,850**	**$306,239**	**$205,738**	**$1,069,827**	**$ –**	**$1,069,827**
Intersegment sales or transfers	**–**	**–**	**–**	**–**	**–**	**–**
Total sales	**557,850**	**306,239**	**205,738**	**1,069,827**	**–**	**1,069,827**
Operating expenses	**472,447**	**271,306**	**210,984**	**954,738**	**16,652**	**971,390**
Operating income (loss)	**$ 85,402**	**$ 34,933**	**$ (5,246)**	**$ 115,089**	**$ (16,652)**	**$ 98,437**
II. Total assets, depreciation and capital expenditures						
Total assets	**$366,488**	**$151,942**	**$134,927**	**$ 653,357**	**$346,035**	**$ 999,392**
Depreciation	**20,637**	**8,844**	**3,796**	**33,277**	**522**	**33,799**
Impairment Loss	**2,183**	**49**	**188**	**2,419**	**–**	**2,419**
Capital expenditures	**9,992**	**4,835**	**1,410**	**16,237**	**–**	**16,237**

Unallocatable operating expenses included under "Eliminations or corporate" for the years ended March 31, 2010 and 2009 amounted to ¥1,549 million ($16,552 thousand) and ¥2,033 million, respectively, and consisted of operating expenses incurred in the Administration Department of the Company and stock options. Corporate assets included under "Eliminations or corporate" at March 31, 2010 and 2009 amounted to ¥32,195 million ($346,035 thousand) and ¥25,907 million, respectively, and consisted principally of cash and cash equivalents, short-term investments, land and funds for long-term investments (investment securities and other) of the Company.

Geographical Segment Information

Geographical segment information for the year ended March 31, 2010 is presented below:

	Millions of yen				
	Japan	Asia	Total	Eliminations or corporate	Consolidated
I. Sales and operating income					
Net sales					
(1) Sales to external customers	¥89,227	¥10,310	¥ 99,537	¥ –	¥99,537
(2) Inter-segment sales or transfers	6,332	–	6,332	(6,332)	–
Total	95,559	10,310	105,869	(6,332)	99,537
Operating expenses	87,229	9,473	96,703	(6,325)	90,378
Operating income	¥ 8,330	¥ 836	¥ 9,166	¥ (7)	¥ 9,159
II. Assets	¥81,480	¥13,796	¥ 95,276	¥(2,293)	¥92,983

Overseas Sales Information

Overseas sales information for the year ended March 31, 2010 is presented below:

	Asia	Other regions	Total
I. Overseas sales (Millions of yen)	¥10,196	¥114	¥10,310
II. Consolidated sales (Millions of yen)	¥ –	¥ –	¥99,537
III. Overseas sales as a percentage of consolidated sales (%)	10.2	0.1	10.4

18. Related Parties

Related parties transactions for the years ended March 31, 2010 and 2009 were principally summarized as follows:

Year ended March 31,		Millions of yen		Thousands of U.S. dollars
Name of company	Detail of transaction	2010	2009	2010
Nagareyama Industrial Park	Debt guarantees	¥1,698	¥1,757	$18,260
CMC Holdings Limited	Sale of treasury stock	4,140	–	44,497
Fantastic Natural Cosmetics Limited	Sale of products	1,155	–	12,418

Balance of related parties as of March 31, 2010 was principally summarized as follows:

		Millions of yen	Thousands of U.S. dollars
Name of company	Description	2010	2010
Fantastic Natural Cosmetics Limited	Accounts receivable	¥1,377	$14,805

19. Subsequent Events

At a meeting of the Board of Directors held on May 20, 2010, the Company drafted a resolution to adopt a definitive policy regarding any attempted large-scale acquisition of its shares (Takeover Defense Measures). The purpose of the Takeover Defense Plan is to preserve and enhance the Company's corporate value and the common interests of shareholders. This resolution regarding the Plan was later approved at the General Meeting of Shareholders held on June 19, 2010.

Additional details can be found on the Company's corporate website:
http://www.fancl.co.jp/corporate/index_e.html

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, 2010 and 2009, 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, 2010 and 2009, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 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.

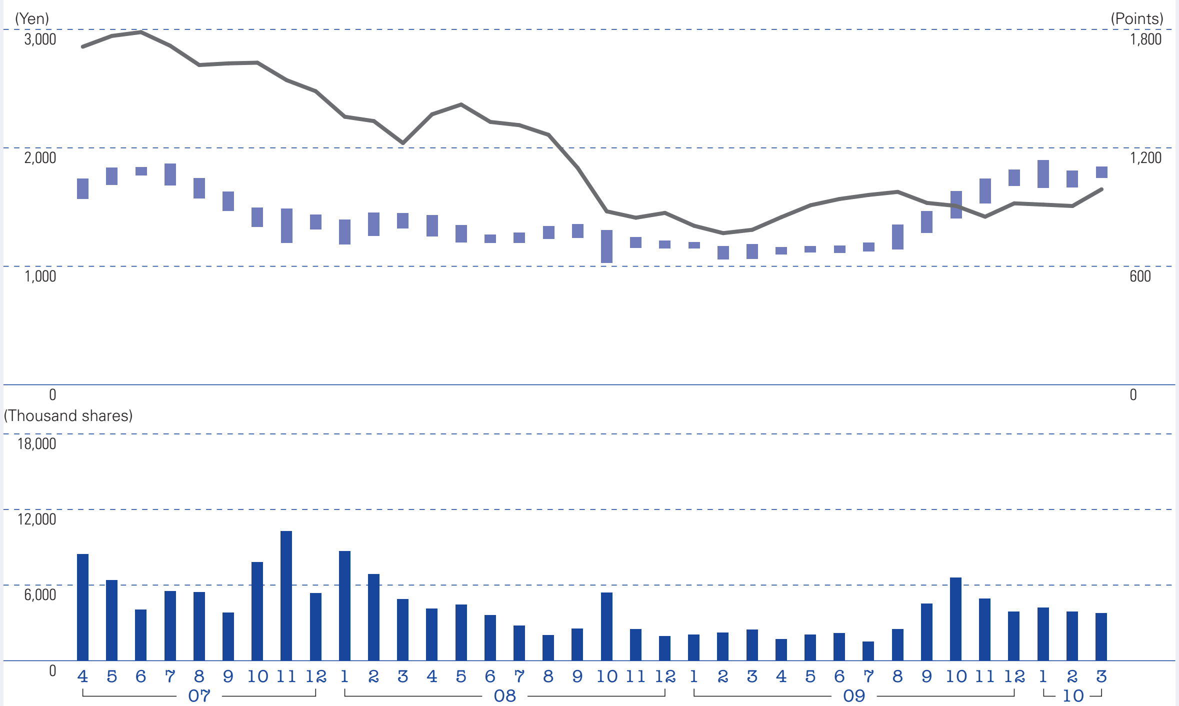
Ernst & Young ShinNihon LLC

June 19, 2010

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

	2009									2010		
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
High (¥)	1,163	1,168	1,175	1,197	1,350	1,464	1,633	1,741	1,815	1,898	1,810	1,840
Low (¥)	1,100	1,116	1,115	1,125	1,141	1,281	1,404	1,530	1,677	1,664	1,668	1,745
Trading volume (Thousand shares)	1,731	2,056	2,186	1,504	2,515	4,524	6,595	4,905	3,892	4,210	3,888	3,783

Monthly Stock Data



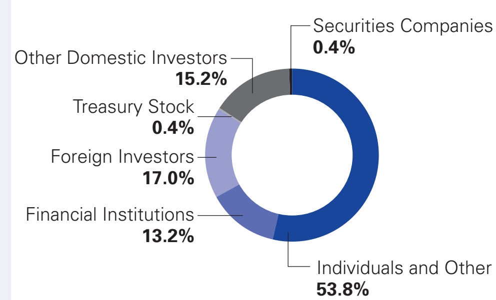
■ Monthly Stock Price Range — TOPIX Close ■ Monthly Trading Volume

Composition of Shareholders

(Percentage of ownership)

	2008		2009		2010
	Mar.	Sep.	Mar.	Sep.	Mar.
Individuals and other	71.6	70.6	63.1	61.1	53.8
Financial institutions	6.5	7.1	8.9	9.4	13.2
Foreign investors	6.9	7.5	6.4	7.3	17.0
Treasury stock	12.7	12.7	6.0	5.9	0.4
Other domestic investors	1.9	1.5	15.4	15.4	15.2
Securities companies	0.4	0.6	0.2	0.9	0.4

As of March 31, 2010



Corporate Information

(As of March 31, 2010)

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: 65,176,600

Paid-in Capital

¥10,795,161,280

Number of Shareholders

75,269

Number of Full-time Employees

714

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

FANCL

FANCL Corporation

89-1 Yamashita-cho, Naka-ku
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