

## **Transfer of treasury shares by third-party allotment concomitant with business and capital alliance and change of main shareholders**

**YOKOHAMA, August 25, 2009** – At a board meeting held today, the directors of FANCL CORPORATION (“FANCL”) resolved to undertake a third-party allotment of treasury shares concomitant with a business and capital alliance. As a result, a change is expected in the main shareholders of FANCL. Details are as follows.

### **1. Transfer of treasury shares**

#### **1. 1. Outline**

(1) Date of transfer	September 25, 2009
(2) Number of shares	3,600,000 ordinary shares
(3) Transfer price	¥1,150 per share
(4) Total amount	¥4,140,000,000
(5) Transfer method	Allocation to third party
(6) Recipient	CMC Holdings Limited

#### **2. Rationale for transaction**

As part of an expansion into overseas markets that began in 1996, FANCL formed exclusive agency agreements with Fantastic Natural Cosmetics Limited (“FNL”) and Fantastic Natural Cosmetics (China) Limited (“FNCCL”). Since forming these agreements these two agencies have steadily expanded their operations in Hong Kong, Macau and mainland China, and they now operate more than 100 sales branches.

Having entered the 21<sup>st</sup> century, FANCL is aiming to increase its enterprise value by increasing the penetration of the FANCL brand and expanding business outside of Japan, particularly in the rapidly growing markets of Asia. Accordingly, FANCL has formed a memorandum of understanding with the aim of building on the strong relationship with FANCL, extensive experience and excellent track records of FNL and FNCCL and their managers, Chan Chi Ming Christopher and Ma Mok Lan (collectively referred to hereafter as “Messrs C & M”). Under the terms of the business and capital alliance memorandum, FANCL will make a third-party allocation of treasury shares to CMC Holdings Limited (“CMC”), an investment company wholly owned by Messrs C &

M, who are the 100% owners of FNL. The main points of the memorandum are as follows.

- FANCL and Messrs C & M will establish a joint venture company with exclusive FANCL agency rights for Asia excluding mainland China, Hong Kong, Macau and Japan
- FANCL will acquire 40% of FNL and FNCCL, the companies owned by Messrs C & M, for a consideration of ¥9.8 billion
- CMC will acquire 3,600,000 ordinary shares in FANCL through a third-party allocation of treasury shares held by FANCL
- The parties to the agreement will aim to strengthen their relationship through placing directors on their respective boards and other such measures

Based on the memorandum, details of a specific contract will be mutually agreed following further discussions by the parties. Also of note, Messrs C & M have advised that Kenji Ikemori, the founder of FANCL, is expected to sell them 2,950,000 FANCL shares by September 25, 2009.

Details of the company structures and relationships prior to and after the planned transactions are provided in attached supplementary material.

Schedule:

- |                    |  |
|--------------------|--|
| August 25, 2009    | - Resolution by the board of directors of FANCL to transfer treasury shares concomitant with business and capital alliance |
|                    | - Execution of memorandum with Messrs C & M regarding the business and capital alliance                                    |
| September 10, 2009 | - Resolution by the board of directors of FANCL regarding the business and capital alliance with C&M                       |
|                    | - Execution of FNL and FNCCL share purchase agreement  |
| September 24, 2009 | - Planned date of acquisition of FNL and FNCCL shares  |
| September 25, 2009 | - Planned date for transfer of treasury shares   |

3. Amount, intended use and schedule of funds procured

(1) Amount procured (estimated amount net of expenses)

Total amount:	¥4,140,000,000
Estimated expenses:	¥40,000,000
Estimated net after expenses:	¥4,100,000,000

## (2) Intended use of funds

It is intended that funds procured from the transfer of treasury stock will be applied to the acquisition of a portion of FNL and FNCCL shares. Since payment for the FNL and FNCCL share acquisitions will predate receipt of funds procured through the transfer of treasury stock, actual payment for the share acquisition will be made from FANCL's current cash and deposits.

Use of funds	Amount (million yen)	Payment schedule
FNL and FNCCL share acquisition	¥4,140million	September 2009

Note: Funds will be held in bank savings until execution of payment

## 4. Rationale for use of funds

FANCL believes that the use of funds in the proposed manner is a fair and reasonable means of contributing to the aims and operational management of the transaction.

## 5. Rationale for terms of transaction, etc.

### (1) Rationale and basis for terms of transaction

A share price of ¥1,150 per share (representing 0.97 of the closing price of ¥1,185 on the Tokyo Stock Exchange for each common share of FANCL Corporation on August 24, 2009) was determined in consideration of the average closing price of ¥1,147 (rounded down to the nearest yen) for FANCL common shares on the Tokyo Stock Exchange (1<sup>st</sup> section) during the three-month period (May 25, 2009 to August 24, 2009) ended one day prior to the meeting of the board of directors held with respect to this transaction. An average price for the most recent three-month period was employed as it was judged to be a reasonable amount of time to eliminate any special or arbitrary factors.

The auditors expressed the following opinion with regard to the legality of the share price in terms of whether it offers particular advantage to the transferee:

All three auditors (two of which are external auditors) expressed an opinion confirming the legality of the transfer price per share as determined by the board of directors

### (2) Rationale and basis for number of shares transferred and scale of share dilution

The number of treasury shares to be transferred in the planned transaction represents 5.52% of shares issued and outstanding. The board has deemed that in consideration of the potential to enhance enterprise value arising from stronger relationships with the

transferee, the amount of dilution is reasonable and will have only minimal impact on the secondary market.

#### 6. Basis for selection of transferee

##### (1) Outline of transferee

(1)	Name	CMC Holdings Limited
(2)	Address	20 <sup>th</sup> Floor, Sun Life Tower The Gateway, Harbour City Tsimshatsui, Kowloon Hong Kong
(3)	Representative	Chan Chi Ming Christopher
(4)	Main business	Investment holding
(5)	Amount of capital	HK\$2
(6)	Established	August 5, 2009
(7)	Number of shares issued	2 shares
(8)	Financial year end	Not determined
(9)	No. of staff	-
(10)	Main clients	Not determined
(11)	Main bank	Not determined
(12)	Main shareholders and holdings	Chan Chi Ming Christopher: 50% Ma Mok Lan: 50%
(13)	Relationship between FANCL and CMC	
	Capital relationship	There is no material capital relationship between FANCL and CMC, nor is there any material capital relationship between personnel or companies affiliated with FANCL and personnel or companies affiliated with CMC.
	Personnel relationship	There are no material personnel relationships between FANCL and CMC, nor are there any material personnel relationships between personnel or companies affiliated with FANCL and personnel or companies affiliated with CMC.
	Business relationship	There is no material business relationship between FANCL and CMC, nor is there any material business relationship between personnel or companies affiliated with FANCL and personnel or companies affiliated with CMC.
	Status of related parties	CMC is not an affiliate of FANCL and no CMC related parties or affiliate companies are affiliated parties to FANCL.

Note: The transferee has attested that neither the directors nor any main shareholders (main

investors) of the transferee company have any relationships with crime syndicates or other antisocial bodies and has submitted a report confirming this matter to the Tokyo Stock Exchange.

(2) Reasons for selection of transferee

In 1996, FANCL formed an exclusive agency agreement with FNL for the Hong Kong market with the aim of expanding overseas sales, and subsequently formed an exclusive agency agreement with FNCCL to develop sales in China. In looking to further expand overseas sales and develop the FANCL brand, management has deemed it essential to further develop and support the strong relationships and ten-year sales performance and experience of FNL and FNCCL.

Accordingly, in line with the capital and business alliance memorandum of agreement, FANCL has selected CMC, of which Messrs C & M are the shareholders, as the transferee for treasury shares.

(3) Transferee's policy on holding shares

CMC, the transferee, has advised its intention to hold FANCL's shares continuously and for the long term. FANCL intends to request a written commitment from CMC that if, at any time during a two-year period commencing on the date of payment for the transfer of treasury shares (September 25, 2009), CMC transfers all or part of the shares in FANCL acquired through this transaction, CMC will promptly advise FANCL of the recipients name, title, number of shares and other such details. FANCL will report these details to the Tokyo Stock Exchange and also disclose them publicly.

(4) Confirmation of sufficient funds at transferee

FANCL will pay ¥9.8 billion to the transferee shareholders Messrs C & M as payment for the acquisition of FNL and FNCCL shares. FANCL has received confirmation from the transferee of the transferee's intention to receive from Messrs C & M a portion, corresponding to the amount required for payment, of the total acquisition amount received by Messrs C & M, and to allocate this amount as funds for payment. FANCL therefore believes it deemed confirmed that the transferee has sufficient funding for the transaction.

## 7. Major shareholders and shareholder ratios after transfer

Before transfer (as of March 31, 2009)		After transfer	
Kenji Ikemori	13.39%	KI Co., Ltd.	13.05%
KI Co., Ltd.	13.05%	CMC Holdings Limited	10.05%
Hiromitsu Miyajima	4.62%	Kenji Ikemori	8.86%
Masaharu Ikemori	3.71%	Hiromitsu Miyajima	4.62%
Japan Trustee Services Bank, Ltd. (Accounting in trust 4G)	3.00%	Ikemori Masaharu	3.71%
Akiko Miyajima	2.82%	Japan Trustee Services Bank, Ltd. (Accounting in trust 4G)	3.00%
Yukio Ikemori	2.08%	Akiko Miyajima	2.82%
M•H•Project Co., Ltd.	1.86%	Yukio Ikemori	2.08%
Japan Trustee Services Bank, Ltd. (Accounting in trust)	1.71%	M•H•Project Co., Ltd.	1.86%
The Master Trust Bank of Japan, Ltd. (Accounting in trust)	1.48%	Japan Trustee Services Bank, Ltd. (Accounting in trust)	1.71%

Note 1. Before the transfer (as of March 31, 2009) FANCL held 3,896,949 treasury shares (5.98% of the total number of issued shares). This is not included in the above table of major shareholders.

2. The major shareholders and shareholder ratio after transfer are based on those as of March 31, 2009.

3. The major shareholders and shareholder ratios after transfer reflects the shares to be transferred from Kenji Ikemori to CMC.

## 8. Outlook

The effect of the above-mentioned treasury stock transfer on results for the fiscal year ended March 31, 2010 is currently being assessed and will be disclosed promptly when available.

### *Procedures relating to Corporate Code of Conduct*

#### ■ Items in procedures relating to Corporate Code of Conduct

The above-mentioned third party allocation (i) involves a dilution ratio of less than 25%, and (ii) does not involve a change in controlling shareholders (the controlling shareholders are not expected to change even in the event of an exercise of new share subscription rights or acquisition rights). Procedures for procurement of opinion from an independent third party or consent of shareholders, as defined in article 432 of the TSE listing rules, are not therefore required.

As of March 31, 2009, the number of shareholder voting rights was 608,633. The percentage of voting rights pertaining to the treasury shares transferred in this transaction, calculated after completion of the transfer, is 5.58%.

## 9. Three-year summary and equity finance overview

### (1) Three-year summary (consolidated)

Millions of yen

Years ended:	March 31, 2007	March 31, 2008	March 31, 2009
Net sales	101,065	99,349	98,004
Operating income	8,370	7,467	6,666
Ordinary income	8,388	7,765	6,938
Net income	2,547	3,694	2,662
Net income per share (yen)	39.59	58.42	43.46
Dividend per share (yen)	24.00	24.00	34.00
Net assets per share (yen)	1,116.59	1,141.56	1,155.74

### (2) Issued shares and potential shares of common stock (as of March 31, 2009)

Type	Number of shares	Ratio to issued shares
Total number of issued shares	65,176,600	100.00%
Total number of potential shares of common stock at current conversion price (exercise price)	-	-
Total number of potential shares of common stock at minimum conversion price (exercise price)	-	-
Total number of potential shares of common stock at maximum conversion price (exercise price)	-	-

### (3) Recent share price trends (yen)

#### (i) Past three years

Years ended:	March 31, 2007	March 31, 2008	March 31, 2009
Opening	2,415	1,625	1,360
High	2,470	1,868	1,432
Low	1,482	1,185	1,030
Closing	1,635	1,374	1,116

(ii) Past six months

2009	February	March	April	May	June	July
Opening	1,161	1,110	1,108	1,120	1,125	1,155
High	1,170	1,188	1,163	1,168	1,175	1,197
Low	1,057	1,062	1,100	1,116	1,115	1,125
Closing	1,122	1,116	1,126	1,123	1,175	1,142

(iii) Day prior to decision to transfer shares

	August 24, 2009
Opening	1,179
High	1,189
Low	1,174
Closing	1,185

(4) Three-year summary of equity finance

No relevant items

10. Outline of transfer

- (1) Number of shares: 3,600,000 ordinary shares  
(2) Transfer price: ¥1,150 per share  
(3) Total amount: ¥4,140,000,000  
(4) Method of disposal: Third-party allotment to CMC  
(5) Transfer date: September 15, 2009 (Thursday) to September 24, 2009 (Thursday)  
(6) Payment date: September 25, 2009 (Friday)

**II. Expected changes to major shareholders**

1. Outline of shareholders subject to change

Shareholder that, having previously been the largest shareholder, will cease to be the largest shareholder:

- (1) Name: Mr. Kenji Ikemori  
(2) Address: 2-5-1 Shinbashi, Minato-ku, Tokyo



Shareholder that will become the largest shareholder:

- (1) Company name: KI Corporation
- (2) Address: 2-5-1 Shinbashi, Minato-ku, Tokyo
- (3) Representative: Mr. Kenji Ikemori
- (4) Position of representative: Representative director
- (5) Business: Real estate rental
- (6) Capital: 100 million yen

Shareholders that are not currently major shareholders but are expected to become major shareholders:

- (1) Company name: CMC Holdings Limited
- (2) Address: 20<sup>th</sup> Floor, Sun Life Tower The Gateway, Harbour City Tsimshatsui, Kowloon Hong Kong
- (3) Representative director: Chan Chi Ming Christopher
- (4) Position of representative: Managing director
- (5) Business: Investment
- (6) Capital: HK\$2

2. Number of shares held by relevant shareholders (number of shareholder voting rights) and ratio of total number of shareholder voting rights

(1) Mr. Kenji Ikemori

	Number of shareholder voting rights (Number of shares held)	Ratio of total number of shareholder voting rights*	Position among major shareholders
Before transfer (as of March 31, 2009)	87,258 (8,725,880 shares)	14.3%	1
After transfer	57,758 (5,775,880 shares)	9.0%	3

(2) KI Corporation

	Number of shareholder voting rights (Number of shares held)	Ratio of total number of shareholder voting rights*	Position among major shareholders
Before transfer (as of March 31, 2009)	85,075 (8,507,500)	14.0%	2
After transfer	85,075 (8,507,500 shares)	13.2%	1

(3) CMC Holdings Limited

	Number of shareholder voting rights (Number of shares held)	Ratio of total number of shareholder voting rights*	Position among major shareholders
Before transfer (as of March 31, 2009)	0 (0 shares)	0.0%	-
After transfer	65,500 (6,550,000 shares)	10.2%	2

Note:

Total shares outstanding excluding those without voting rights:	4,313,300
Total shares outstanding as of March 31, 2009:	65,176,600

3. Outlook

Each shareholder has stated an intention to hold shares for the long term.

## Appendix 1

### 1. Outline of FNL

(1)	Name	Fantastic Natural Cosmetics Limited
(2)	Address	20 <sup>th</sup> Floor, Sun Life Tower The Gateway, Harbour City Tsimshatsui, Kowloon Hong Kong
(3)	President	Managing Director, Chan Chi Ming, Christopher
(4)	Main business	Import and sale of cosmetics and health food products
(5)	Capital	HK \$7.5 million
(6)	Established	March 7, 1996
(7)	Number of shares issued	7,500,000 shares
(8)	Financial year end	March 31
(9)	Number of staff	391 staff (consolidated)
(10)	Main client	FANCL
(11)	Main bank	Standard Chartered Bank
(12)	Main shareholders and shareholder ratio	Christopher Chan Chi Ming: 70% Ma Mok Lan: 30% (estimated as of end August 2009)
(13)	Relationship to FANCL	
	Capital relationship	There is no material capital relationship between FANCL and FNL, nor is there any material capital relationship between personnel or companies affiliated with FANCL and personnel or companies affiliated with FNL.
	Personnel relationship	There are no material personnel relationships between FANCL and FNL, nor are there any material personnel relationships between personnel or companies affiliated with FANCL and personnel or companies affiliated with FNL.
	Business relationship	Dedicated import and sales of FANCL products through exclusive agency contract for Hong Kong and Macau
	Related parties	FNL is not an affiliate of FANCL and no FNL related or affiliate companies are affiliated parties to FANCL.

(14) Three-year operating results and financial position			(million HK\$)
Years ended:	March 2007	March 2008	March 2009
Total equity	288	331	396
Total assets	405	613	640
Net assets per share (HK\$)	\$38.40	\$44.15	\$52.81
Consolidated sales	485	563	669
Operating profit	172	193	205
Net profit before tax	71	72	101
Profit for the year	61	61	84
Net income per share (HK\$)	\$8.12	\$8.15	\$11.26
Dividends per share (HK\$)	\$2.28	\$2.40	\$2.60

Figures for fiscal 2007 and 2008 are from an auditors report by accountants in Hong Kong.  
Figures for fiscal 2009 are unaudited.

## 2. Outline of FNCCL

(1) Name	Fantastic Natural Cosmetics (China) Limited
(2) Address	20 <sup>th</sup> Floor, Sun Life Tower The Gateway, Harbour City Tsimshatsui, Kowloon Hong Kong
(3) President	Managing Director, Chan Chi Ming, Christopher
(4) Main business	Import (sale) of cosmetics and health food products
(5) Capital	HK \$10,000
(6) Established	January 27, 1999
(7) Number of shares issued	10,000 shares
(8) Financial year end	December 31
(9) Number of staff	787 staff (consolidated)
(10) Main client	FANCL
(11) Main bank	Standard Chartered Bank
(12) Main shareholders and shareholder ratio	Chan Chi Ming, Christopher: 50% Ma Mok Lan: 50%
(13) Relationship to FANCL	
Capital relationship	There is no material capital relationship between FANCL and FNCCL, nor is there any material capital relationship between personnel or

	companies affiliated with FANCL and personnel or companies affiliated with FNCCL.
Personnel relationship	There are no material personnel relationships between FANCL and FNCCL, nor are there any material personnel relationships between personnel or companies affiliated with FANCL and personnel or companies affiliated with FNCCL.
Business relationship	Dedicated import and sales of FANCL products through exclusive agency contract for mainland China.
Related parties	FNCCL is not an affiliate of FANCL and no FNCCL related or affiliate companies are affiliated parties to FANCL.

(14) Three-year operating results and financial position (million HK\$)			
Years ended:	FY ended December 2006	FY ended December 2007	FY ended December 2008
Total equity	12	71	193
Total assets	56	127	315
Net assets per share (HK\$)	\$1,240	\$7,128	\$19,308
Consolidated sales	139	372	659
Operating profit	36	116	223
Net profit before tax	14	68	144
Profit for the year	11.6	57.6	117.9
Net income per share (HK\$)	\$1,159	\$5,761	\$11,787
Dividends per share (HK\$)	-	-	-

\*The above figures are unaudited and were compiled by FNCCL from figures from the auditors report by accountants of each of the Hong Kong and Chinese subsidiaries.

### 3. Joint venture

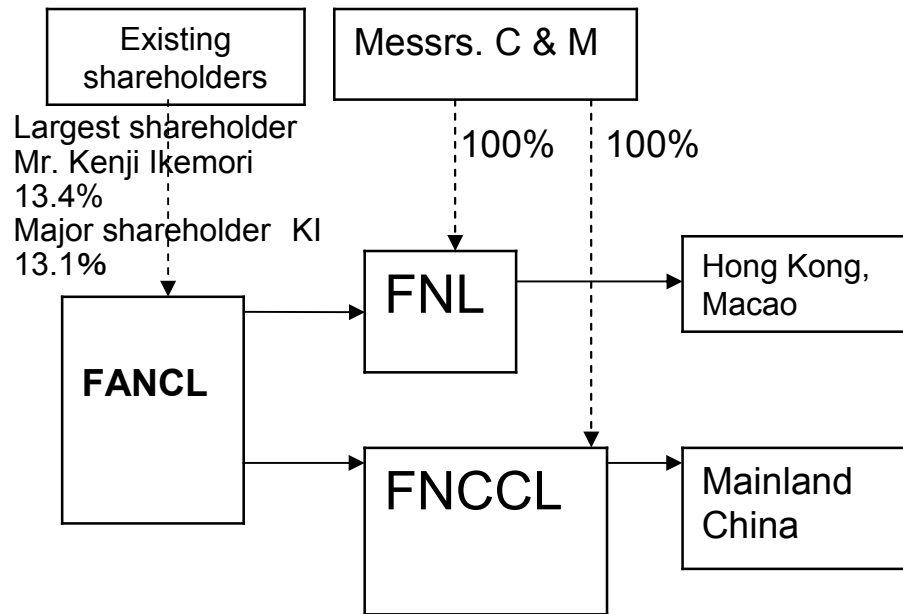
(1)	Name	EASE VENTURES LIMITED (name subject to change)
(2)	Address	20 <sup>th</sup> Floor, Sun Life Tower The Gateway, Harbour City Tsimshatsui, Kowloon Hong Kong
(3)	President	Managing Director, Chan Chi Ming, Christopher
(4)	Main business	Import and sale of cosmetics and health food products
(5)	Capital	HK \$10,000 (planned)
(6)	Established	August 5, 2009
(7)	Number of shares issued	10,000 shares
(8)	Financial year end	To be determined
(9)	Number of staff	To be determined
(10)	Main client	FANCL
(11)	Main bank	To be determined
(12)	Main shareholders and shareholder ratio	CMC: 60% FANCL: 40% (planned)
(13)	Relationship to FANCL	
	Capital relationship	FANCL is scheduled to have a 40% capital relationship with EASE VENTURES
	Personnel relationships	There are no material personnel relationships between FANCL and EASE VENTURES, nor are there any material personnel relationships between personnel or companies affiliated with FANCL and personnel or companies affiliated with EASE VENTURES.
	Business relationships	Dedicated import and sales of FANCL products through exclusive agency contract for the Asian region excluding Japan, Hong Kong, Macau and mainland China.
	Related parties	EASE VENTURES is expected to become an affiliate of FANCL.

# Appendix 2

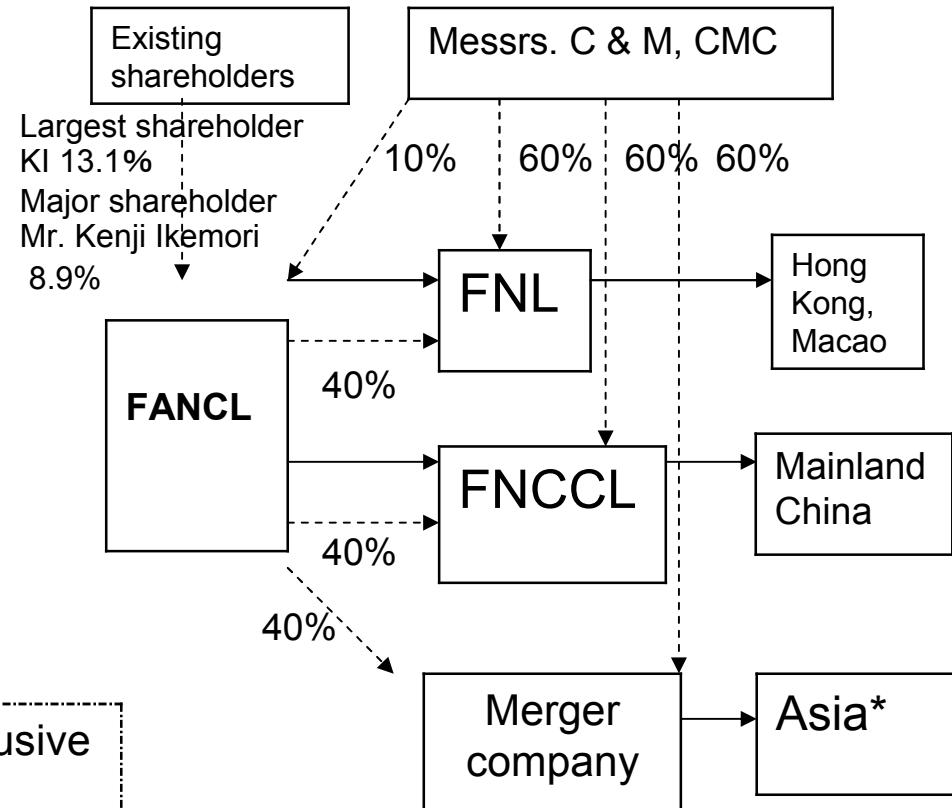
## Diagram of business and capital relationship before and after transfer

—→ Transactions  
 - - - - -→ Shareholdings

### Before transfer



### After transfer



Messrs. C & M, previously managers of exclusive FANCL agencies, will become capital and business partners of FANCL. FNL and FNCCL will change from agencies to become affiliated companies.

\*Excludes Japan, Hong Kong, Macao, mainland China