

Change in Status of Subsidiaries

YOKOHAMA, May 7, 2010 — At a board meeting held on May 7, 2010, the directors of FANCL CORPORATION (“FANCL”) resolved to change the status of Fantastic Natural Cosmetics Limited (“FNL”) and Fantastic Natural Cosmetics (China) Limited (“FNCCL”), FANCL’s consolidated subsidiaries, to that of affiliated companies under the equity method.

1. Reason for Change

FANCL has positioned 2009 as a year in which to commence globalization and entered into a business and capital alliance with FNL and FNCCL in August 2009.

FANCL entered into exclusive distributorship agreements with FNL and FNCCL, respectively, and has been distributing FANCL products in Hong Kong/Macau through FNL since 1996 and in mainland China through FNCCL since 2004. In September 2009, FANCL acquired 40% of the outstanding shares of FNL and FNCCL and agreed with FNL and FNCCL to implement the same business strategy as business and capital alliance partners with the shared aim of developing the FANCL brand into a global premium brand.

As mentioned above, FANCL acquired 40% of the outstanding shares of FNL and FNCCL. In addition, FANCL has been the sole supplier of the products that FNL and FNCCL distribute under the exclusive distributorship agreements and agreed with FNL and FNCCL to implement the same business strategy with the shared aim. Consequently, FANCL was deemed to be in a “close relationship” with the sole beneficial shareholders of FNL and FNCCL other than FANCL, Mr. Chan Chi Ming, Christopher (“Mr. Ming”), the representative of FNL and FNCCL, and Ms. Ma Mok Lan pursuant to the accounting principles for consolidated financial statements (the “Accounting Principles”). Accordingly, FNL and FNCCL became FANCL’s consolidated subsidiaries under the “substantial control” standards.

Following the alliance, we have been consulting with Mr. Ming and others as to how to achieve the aim of unifying the FANCL brand in domestic and international markets and increasing awareness of additive-free cosmetics globally. However, differences in views on significant issues including individual strategies and tasks between FANCL and Mr. Ming have become prominent during the course of the consultation. Consequently, we were unable to form a unified view on the management policy of FNL and FNCCL and it became difficult to maintain the cooperative relationship for the achievement of the shared aim. Accordingly, FANCL decided to respect the independence of management of FNL and FNCCL hereafter.

FANCL’s shareholding ratio in FNL and FNCCL remains 40% and the existing distributorship agreements with FNL and FNCCL will continue to be effective. Due to the grounds mentioned

above, however, it became difficult for us to implement the same business strategy with the shared aim and the criteria of “close relationship” under the Accounting Principles became unsatisfied. Consequently, the basis of consolidation under the “substantial control” standards has changed and FNL and FNCCL have ceased to be FANCL’s consolidated subsidiaries. Accordingly, FANCL decided to change the status of FNL and FNCCL to that of affiliated companies under the equity method from the fourth (4th) quarter of the fiscal year ended March 2010.

FANCL has been consulting with FNL and FNCCL with regard to the future relationship and will disclose any matter that needs to be disclosed, if any, without delay.

2. Outline of Subsidiaries

FNL

(1)	Name	Fantastic Natural Cosmetics Limited		
(2)	Address	20 th 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)	Date of Incorporation	March 7, 1996		
(7)	Main shareholders and shareholding ratio	FANCL: 40% Botanic Max Investment Limited: 60%		
(8)	Relationship to FANCL			
	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 distributorship agreement for Hong Kong and Macau		
(9)	FNL three-year consolidated operating results and consolidated financial position (millions of yen)			
	Years ended:	March 2007	March 2008	March 2009
	Total equity	3,456	3,972	4,800
	Total assets	4,860	7,356	8,040
	Net assets per share	¥460.80	¥529.80	¥639.72

Net sales	5,820	6,756	8,028
Operating income	612	684	828
Income before income taxes	852	864	1,212
Net income	732	732	1,056
Net income per share	¥97.44	¥97.80	¥141.12
Dividends per share	¥27.36	¥28.80	¥31.20

1. Chan Chi Ming, Christopher and Ma Mok Lan, the shareholders as of August 31, 2009, are scheduled to be paid a dividend of approximately HK \$444.2 million (¥5,330 million).

2. Currency translation calculations assume a rate of HK \$1 to ¥12, based on recent foreign exchange market rates.

FNCCCL

(1)	Name	Fantastic Natural Cosmetics (China) Limited		
(2)	Address	20 th 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		
(6)	Date of Incorporation	January 27, 1999		
(7)	Main shareholders and shareholding ratio	FANCL: 40% CMC China Holdings Limited: 60%		
(8)	Relationship to FANCL			
	Personnel relationship	There are no material personnel relationships between FANCL and FNCCCL, nor are there any material personnel relationships between personnel or companies affiliated with FANCL and personnel or companies affiliated with FNCCCL.		
	Business relationship	Dedicated import and sales of FANCL products through exclusive distributorship agreement for mainland China.		
(9)	FNCCCL three-year consolidated operating results and consolidated financial position (millions of yen)			
	Years ended:	December 2006	December 2007	December 2008
	Total equity	144	852	2,316
	Total assets	672	1,524	3,780
	Net assets per share	¥14,880	¥85,536	¥231,696
	Net sales	1,668	4,464	7,908

Operating income	156	804	1,632
Income before income taxes	168	816	1,728
Net income	139	691	1,414
Net income per share	¥13,908	¥69,132	¥141,444
Dividends per share	¥--	¥--	¥--

1. The above figures are unaudited and were compiled by FNCCL from figures from the auditor's report by accountants of each of the Hong Kong and Chinese subsidiaries.

2. Chan Chi Ming, Christopher and Ma Mok Lan, the shareholders as of August 31, 2009, are scheduled to be paid a dividend of approximately HK \$297 million (¥3,564 million).

3. Currency translation calculations assume a rate of HK \$1 to ¥12, based on recent foreign exchange market rates.

3. Outlook

As a result of such change in the status of FNL and FNCCL to that of affiliated companies under the equity method, FANCL's net sales, operating income and ordinary income for the fiscal year ended March 2010 are expected to decrease by approximately ¥3,000 million, ¥200 million and ¥200 million, respectively, and its net income for the fiscal year ended March 2010 is expected to increase by approximately ¥200 million, on the consolidated basis.

The consolidated financial results for the fiscal year ended March 2010 and the consolidated forecasts for the fiscal year ending March 2011 are scheduled to be disclosed in the summary report on financial results for the fiscal year ended March 2010, which will be announced on May 14, 2010.