

Financial Results
For the Year Ended July 31, 2008—Consolidated

September 12, 2008

Company name:	Dr. Ci:Labo Co., Ltd.
Listings:	First Section of the Tokyo Stock Exchange
Security code:	4924
URL:	http://www.ci-labo.com/
Representative:	Tomomi Ishihara, President and COO
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Scheduled date of annual shareholders' meeting:	October 23, 2008
Scheduled date of dividend payment:	October 24, 2008
Scheduled submission date of financial statements:	October 24, 2008

**1. Consolidated Financial Results for the Year Ended July 31, 2008
(August 1, 2007 to July 31, 2008)**

Due to a change in fiscal year dates, figures for the fiscal period ended July 31, 2007, are based on an irregular six-month accounting period. The previous fiscal period (February 1 – July 31, 2007), therefore, does not correspond to the same calendar period as the current fiscal year (August 1, 2007 – July 31, 2008), and a comparison of these figures is therefore not presented.

(1) Operating Results

(Amounts rounded down to the nearest million yen)

	Net sales	Operating income	Ordinary income	Net income
	(million yen)	(million yen)	(million yen)	(million yen)
Year ended July 31, 2008	21,618	3,817	3,823	2,104
Year ended July 31, 2007	9,077	1,161	1,147	563

	Net income per share	Net income per share, fully diluted	Return on equity	Ordinary income/ total assets	Operating income/ net sales
	(yen)	(yen)	%	%	%
Year ended July 31, 2008	7,677.49	7,621.88	22.6	30.4	17.7
Year ended July 31, 2007	2,051.06	2,032.19	6.6	9.5	12.8

Note: Investment gains or losses under the equity method:
Year ended July 31, 2008: - million yen
Year ended July 31, 2007: - million yen

(2) Financial Position

	Total assets (million yen)	Net assets (million yen)	Shareholders' equity ratio (%)	Net assets per share (yen)
Year ended July 31, 2008	13,262	10,026	75.6	36,898.97
Year ended July 31, 2007	11,860	8,636	72.8	31,428.32

Note: Shareholders' equity:
 Year ended July 31, 2008: 10,026 million yen
 Year ended July 31, 2007: 8,636 million yen

(3) Cash Flows

	Cash flows from operating activities (million yen)	Cash flows from investing activities (million yen)	Cash flows from financing activities (million yen)	Cash and cash equivalents at the end of the period (million yen)
Year ended July 31, 2008	3,070	(572)	(1,741)	4,645
Year ended July 31, 2007	748	(392)	(780)	3,952

2. Dividends

	Dividend per share			Total dividends paid (Full year) (million yen)	Payout ratio (Consolidated) (%)	Dividends/ net assets (Consolidated) (%)
	Interim (yen)	Year-end (yen)	Full year (yen)			
Year ended July 31, 2007	-	600.00	600.00	164	29.3	1.9
Year ended July 31, 2008	-	3,100.00	3,100.00	842	40.4	9.1
Year ending July 31, 2009 (Forecast)	-	2,700.00	2,700.00		29.3	

Note: Breakdown of year-end dividend for July 31, 2008:
 Ordinary dividend: 2,100 yen
 Special dividend: 1,000 yen

3. Forecast of Consolidated Earnings for the Year Ending July 31, 2009 (August 1, 2008 to July 31, 2009)

(Percentage figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	(million yen)	%	(million yen)	%	(million yen)	%	(million yen)	%	(yen)
Interim	13,430	25.2	2,325	(1.8)	2,325	(0.9)	1,170	5.0	4,306.28
Full year	26,100	20.7	4,500	17.9	4,500	17.7	2,500	18.8	9,201.46

4. Other information

(1) Changes affecting the status of significant subsidiaries (scope of consolidation): Yes

Removed: One (Dr.Ci:Labo Hawaii Inc.)

(2) Changes in accounting principles and procedures and methods of disclosure used in the preparation of financial results for the year under review

- 1) Changes in accordance with amendments to accounting standards: None
- 2) Changes other than the above: None

(3) Number of shares issued and outstanding (common stock)

1) Number of shares issued at end of period (treasury stock included):

Year ended July 31, 2008: 278,916 shares

Year ended July 31, 2007: 277,988 shares

2) Number of shares held in treasury at end of period:

Year ended July 31, 2008: 7,198 shares

Year ended July 31, 2007: 3,198 shares

Reference: Overview of Financial Results on Non-Consolidated basis

1. Non-Consolidated Financial Results for the Year Ended July 31, 2008 (August 1, 2007 to July 31, 2008)

(1) Operating Results

(Amounts rounded down to the nearest million yen)

	Net sales	Operating income	Ordinary income	Net income
	(million yen)	(million yen)	(million yen)	(million yen)
Year ended July 31, 2008	20,918	3,819	3,859	1,907
Year ended July 31, 2007	8,746	1,218	1,207	526

	Net income per share	Net income per share fully diluted
	(yen)	(yen)
Year ended July 31, 2008	6,957.28	6,906.88
Year ended July 31, 2007	1,917.07	1,899.43

(2) Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	(million yen)	(million yen)	(%)	(yen)
Year ended July 31, 2008	13,335	10,189	76.4	37,501.67
Year ended July 31, 2007	12,078	8,967	74.2	32,632.22

Note: Shareholders' equity

Year ended July 31, 2008: 10,189 million yen
Year ended July 31, 2007: 8,967 million yen

**2. Forecast of Non-Consolidated Earnings for the Year Ending July 31, 2009
(August 1, 2008 to July 31, 2009)**

(Percentage figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	(million yen)	%	(million yen)	%	(million yen)	%	(million yen)	%	(yen)
Interim	12,870	24.8	2,290	(3.3)	2,290	(2.4)	1,108	11.2	4,078.09
Full year	25,100	20.0	4,450	16.5	4,450	15.3	2,400	25.9	8,833.40

* The above forecasts are based on information currently available. Actual results may differ from the above forecasts due to changes in economic conditions and the business environment.

1. Review of operating results

(1) Analysis of operating results

1) Overview of operating results

In fiscal 2008, the Japanese economy faced headwinds in the form of precipitous yen appreciation, a US economic slowdown triggered by subprime mortgage woes, and persistently high crude oil prices, from which ensued soaring raw material prices and rising distribution costs. In the face of such headwinds, hitherto robust corporate earnings growth stalled. Consumer spending likewise slowed as the economic outlook turned increasingly uncertain. Amid such an environment, we pursued business expansion through initiatives focused predominantly on strengthening our brands and expanding our customer base in accord with our second Mid-Term Business Plan, initiated in fiscal 2008.

Domestically, we achieved sales growth by rolling out new products, further developing sales channels, and implementing sales promotions to expand our customer base. We also aggressively pursued improvement in profit margins, largely through intensive efforts to boost the efficiency of our advertising expenditures, our biggest expense. We achieved a profit margin of 17.7% on the ordinary income line.

By sales channel, mail order customers increased by virtue of initiatives to gain new customers and increase existing customers' frequency of repeat purchases. Such initiatives included new product launches, sales promotions targeted at prospective new customers, operation of an online community site, and the Step Up discount program to stimulate repeat purchases. We also took aggressive action to increase online sales. For example, we began distributing an email beauty newsletter, Medical Weather Report. We also launched products available exclusively online, which were developed based on customer input on our community website. By virtue of such initiatives, mail order sales grew briskly.

In the consultative sales channel, we opened 10 new in-store shops (7 in department stores and 3 in general merchandise stores) and one outlet shop. At existing shops, efforts to increase sales were predominantly focused on promoting our Genomer brand of high-value-added anti-aging products. We also implemented programs to improve shops' operating efficiency and upgrade their sales personnel's consultative sales skills.

Wholesale sales via the TV shopping channel grew substantially in response to proactive initiatives such as limited-edition product offers targeted at the TV shopping channel's core customer demographic. On the downside, we failed to grow sales of Labo Labo brand products, which are in the midst of a sales channel switch from convenience stores to drugstores. Progress in gaining distribution through drugstores fell short of expectations.

Overseas sales remained buoyant, bolstered by three newly opened stores in Taiwan. Hong Kong operations achieved profitability in the fiscal second half through a restructuring program

favoring highly cost-efficient stores over stores with promising sales prospects. US operations are likewise undergoing restructuring. In the US as in Hong Kong, we aim to expedite profitability by placing priority on efficiency over sales growth in allocating management resources among sales channels.

All told, the Group earned ordinary income of ¥3,823 million and net income of ¥2,104 million on sales of ¥21,618 million in fiscal 2008.

At our eighth annual shareholders general meeting held on April 24, 2007, shareholders approved an amendment to our Articles of Incorporation changing our fiscal year-end from January 31 to July 31. As a result, fiscal 2007 was a 6-month accounting period from February 1 through July 31, 2007. We have consequently omitted comparisons between fiscal 2007 and 2008 results.

2) Operating results by segment

Cosmetics

In the cosmetics segment, we ran sales promotions targeted at women over 40 in addition to our core customer demographic of women in their mid-30s. Through such efforts, we gained new customers outside of our previous target demographic. We also rolled out and aggressively promoted a succession of new products targeted at the over-40 demographic. Such new products made a strong contribution to sales. Aqua-In-Derm DN-Essence, which we launched in September 2007 as a follow-up to Aqua-Collagen-Gel Super Moisture, our core product, had been selling briskly from the outset, but its sales accelerated sharply from March in response to intensification of sales promotions. Such promotions led to increased sales of other products in combination with Aqua-In-Derm DN Essence, contributing to overall sales growth.

The cosmetics segment's sales totaled ¥21,076 million in fiscal 2008.

Health foods

In the health foods segment, we launched two new products, Rose Charge and Karada-mint (Etiquette Supplement), both of which originated from customer requests received via our community website, one component of our program to strengthen our online sales channel. We also strengthened our beverage lineup of Aojiru green vegetable juice and Collagen Drink EX.

Fiscal-2008 health food sales totaled ¥272 million.

Appliances and other products

The appliance and other product segment's fiscal-2008 operations mainly revolved around sales of our Aqua Sonia and Ionical EX skincare appliances marketed in conjunction with our cosmetics, but the segment's sales failed to grow.

The appliance and other product segment's fiscal-2008 sales totaled ¥269 million.

Investment

The investment segment had no revenues in fiscal 2008.

3) Fiscal-2009 forecast

With the domestic economy at risk of recession and consumer spending expected to retrench, we anticipate an adverse market environment in fiscal 2009, the second year of our current Mid-Term Business Plan. Amid such an environment, we aim to pursue earnings growth by continuing to expand our customer base and proactively strengthen our brands through such means as product renewal. Products slated for renewal most notably include Aqua-Collagen-Gel Super Moisture and Super Photo-White-C, one of our most distinctive products. We plan to relaunch the former as a medicated moisturizer and the latter as Photo-White-C Laser Plus. In conjunction with such product renewals, we are planning aggressive promotions to expand sales. We will also place priority on increasing sales of Aqua-In-Derm DN Essence, our second core product. Meanwhile, we remain committed to controlling costs and maintaining profit margins. We forecast fiscal-2009 sales of ¥26,100 million (20.7% growth from fiscal 2008), operating income of ¥4,500 million (17.9% growth), ordinary income of ¥4,500 million (17.7% growth), and net income of ¥2,500 million (18.8% growth).

(2) Analysis of financial position

We ended fiscal 2008 with total assets of ¥13,262 million, an increase of ¥1,401 million from a year earlier. This growth was mainly attributable to a ¥555 million increase in cash and time deposits and a ¥647 million increase in accounts receivable.

Total liabilities at fiscal year-end were ¥3,236 million, an ¥11 million increase from a year earlier. The major changes in liability accounts during fiscal 2008 were a ¥142 million increase in trade accounts payable, ¥144 million increase in other accounts payable, ¥548 million increase in income taxes payable, and ¥974 million decrease in long-term borrowings. Net assets grew ¥1,389 million on the year to end fiscal 2008 at ¥10,026 million, the net result of a ¥1,939 million increase in retained earnings offset by ¥621 million in newly acquired treasury stock.

Fiscal-2008 cash flows and their major contributing factors are summarized as follows.

Cash flow from operating activities

Operating activities generated positive cash flow of ¥3,070 million. This cash flow was chiefly attributable to net income before income taxes of ¥3,520 million, offset by income tax payments of ¥956 million and incremental trade and other accounts payable of ¥142 million and ¥238 million, respectively.

Cash flow from investing activities

Investing activities generated negative cash flow of ¥572 million, mainly due to ¥532 million in

expenditures to acquire intangible fixed assets, including IT system investment in conjunction with business-critical system development.

Cash flow from financing activities

Financing activities generated negative cash flow ¥1,741 million, stemming mainly from ¥974 million in long-term debt repayment and ¥621 million in expenditures to acquire treasury stock.

Group cash flow metrics are tabulated as follows.

	FY06 (ended 1/31/07)	FY07 (ended 7/31/07)	FY08 (ended 07/31/08)
Shareholders' equity ratio (%)	69.0%	72.8%	75.6%
Shareholders' equity ratio at market value (%)	377.5%	396.2%	327.4%
Ratio of debt to operating CF (= years required to repay debt from operating CF)	0.5	1.5	0.0
Interest coverage ratio (times)	172.3	90.1	323.3

Shareholders' equity ratio: shareholders' equity / total assets

Shareholders' equity ratio at market value: market capitalization / total assets

Ratio of debt to operating CF: interest-bearing debt / operating cash flow

Interest coverage ratio: operating cash flow / interest payments

*All ratios were calculated with consolidated-basis financial data.

*Market capitalization was calculated based on shares issued and outstanding net of treasury stock.

*Cash flow data are operating cash flows.

*Interest-bearing debt is all debt on the consolidated balance sheet on which interest is payable.

(3) Dividend policy and fiscal 2008-09 dividends

We currently place priority on strengthening our business model and retaining ample earnings for the sake of future business expansion. At the same time, we also recognize that returning profits to shareholders is another key management priority. We aim to return about 30% of our net profits to shareholders as dividends. Our basic policy is to meet shareholders' expectations with a policy of paying dividends commensurate with our earnings performance and financial condition.

In accord with the above policy, we have decided to pay a fiscal-2008 regular dividend of ¥2,100 per share plus a special dividend of ¥1,000 per share to commemorate that our core Aqua-Collagen-Gel product line's cumulative sales recently surpassed 10 million units.

(4) Risks

The Group faces a number of potential risks, both operationally and otherwise. Following is a

discussion of what we consider to be the Group's major risk factors.

Recognizing that the risk scenarios discussed below could occur, we aim to avert their occurrence and, if any should occur, to respond effectively. In making investment decisions, we believe that the following risks must be carefully considered, together with any relevant factors discussed elsewhere in this document.

Forward-looking statements are based on our judgment as of this document's filing date.

Product development

Our product line originated with skincare cosmetics that aim to tap into the body's natural healing powers, but since incorporating in February 1999, we have broadened our product line to encompass makeup cosmetics, health foods, and skincare appliances. Our product development and marketing is predominantly conducted by in-house R&D and marketing staff. These staff draft and finalize product plans and specifications and also review and refine product proposals submitted to us by contract manufacturers and other parties.

We currently offer a diverse product line ranging from cosmetics to health foods and skincare appliances. These products have taken from several months to several years to plan, develop, and commercialize. If developing a new product takes longer than initially planned, our earnings could be adversely affected.

Although the Japanese cosmetics market is already saturated, demand for cosmetics for sensitive skin and cosmetics that are gentle on the skin is growing as consumers become increasingly conscious of health and natural ingredients. Since our inception, we have achieved earnings growth by positioning our products as medical cosmetics¹ and promoting their quality to consumers with sensitive skin or a preference for gentle cosmetics, in addition to cosmetics consumers in general. Looking ahead, however, we expect that competition from new entrants to our market segment will continue to increase. If our products' relative competitiveness is eroded by the advent of similar competing products, our earnings could be adversely affected.

Note 1. Medical cosmetics

The Japanese term for "medical cosmetics" is a registered trademark of the Group, but when mentioned in the media, "medical cosmetics" are defined as skincare products developed by or in collaboration with a domestic or foreign dermatologist or other specialist physician with expertise in dermatology. A synonym sometimes used in the media is "doctors' cosmetics." Most medical cosmetics are developed for users with sensitive skin and are therefore advertised as hypoallergenic and gentle on the skin. Such cosmetics can generally be characterized as cosmetics for sensitive skin or gentle cosmetics. We go one step further to define medical cosmetics as cosmetics used therapeutically in a medical setting or used in conjunction with such medical treatment.

Contract manufacturing

We acquired our own manufacturing facility in Tatebayashi, Gunma Prefecture, in December 2004, but have since continued to outsource production of pre-existing products. In the case of some products, the contract manufacturer to which we have outsourced production has re-outsourced production to a subcontractor. In such cases, we have entered into tripartite contracts with the contract manufacturer and its subcontractor.

To maintain the quality of our products, our R&D department conducts on-site inspections of contract manufacturers and their subcontractors, using a supplier evaluation form and GMP (Good Manufacturing Practices²) checklist, to ensure that their manufacturing and quality controls comply with GMP for cosmetics.

In addition to such oversight of contract manufacturers and subcontractors, we have been endeavoring to mitigate risk by acquiring our own manufacturing facility and becoming licensed to manufacture and sell pharmaceutical products effective from April 1, 2005. In the unlikely event of sudden termination of a contract with one of our contract manufacturers or their subcontractors, or damage to production facilities from a natural disaster or other such unforeseen event, the supply of our products could be disrupted. In such an event, our earnings could be adversely affected.

Notes 2. GMP

The International Organization for Standardization (ISO) issued ISO 22716 (Cosmetics – Good Manufacturing Practices (GMP) – Guidelines on Good Manufacturing Practices, First Edition) on November 15, 2007. Previously, Japanese cosmetics manufacturers had been endeavoring to ensure product quality through compliance with the Japan Cosmetic Industry Association's voluntary standard, Technical Guidelines for Cosmetics Manufacturing and Quality Control, issued on June 30, 1988. The Japan Cosmetic Industry Association has adopted ISO 22716 as its new voluntary standard and scrapped said Technical Guidelines.

GMP for cosmetics are technical guidelines for cosmetics manufacturing and quality controls that meet international standards. GMP prescribe manufacturing and quality controls and rules for supplying high-quality pharmaceuticals, quasi-pharmaceuticals, medical devices, and cosmetics that consumers can use with confidence.

Regulatory risks

We are committed to rigorous compliance with the laws and regulations discussed below. In the unlikely event that we were to violate any of them, we would be subject to punitive action by the regulatory authorities. In such an event, our operating results could be adversely affected.

1) Pharmaceutical Affairs Law

The Pharmaceutical Affairs Law prescribes regulations required to ensure the quality, efficacy, and safety of pharmaceuticals, quasi-pharmaceuticals, cosmetics, and medical devices. It also aims to promote improvement in public health and hygiene through measures necessary to expedite development of drugs and medical devices for which the medical need is particularly urgent.

Our products have received regulatory approval as quasi-pharmaceuticals pursuant to the Pharmaceutical Affairs Law. The Pharmaceutical Affairs Law requires cosmetics to be labeled with all of their ingredients.

2) Regulation of foods with health claims

On April 1, 2001, Japan established a system for regulating food with health claims, pursuant to the Food Sanitation Law and Nutrition Improvement Law. It did so in the interest of providing consumers with adequate information to confidently select foods in accord with their dietary needs and preferences.

Among so-called health foods, food products that meet government-prescribed standards for safety and health benefits are called "foods with health claims." Food products that have not received regulatory approval as foods with health claims are prohibited from being misleadingly named to convey the impression of being foods with health claims and from being labeled with claims of health benefits or nutrient functionality. The health-foods regulatory regime was reformed effective February 1, 2005, resulting in a stricter delineation between foods and pharmaceuticals.

We sell health food products that are regulated pursuant to the Food Sanitation Law and Nutrition Improvement Law.

3) Law Concerning Specified Commercial Transactions

The Law Concerning Specified Commercial Transactions aims to protect consumers by ensuring fair dealing in certain commercial transactions (i.e., transactions involving door-to-door sales, mail order sales, telemarketing, or multilevel marketing; sales of certain continuing services; and sales transactions induced by the promise of employment or business opportunities). It requires that such transactions comply with certain consumer protections (e.g., cooling-off period).

Given that we mainly sell our products by mail order, we are subject to this law's provisions.

4) Law Against Unjustifiable Premiums and Misleading Representations

The Law Against Unjustifiable Premiums and Misleading Representations regulates commercial misrepresentation and sales activities involving unreasonable premiums. The Japan Fair Trade

Commission defines premiums as goods, monetary payments, or other economic benefits offered by a business to customers in conjunction with the sale of goods or services to directly or indirectly induce customers to purchase the goods or services.

Because we distribute free samples to customers and award points exchangeable for gifts as part of our sales strategy, we are subject to this law's provisions.

Additionally, our sales promotion activities include advertising, which we have found to be an effective means of generating large responses from consumers. Our advertising provides information about our company and products to consumers and induces consumers to use our products. Our advertisements' informational content consequently must be accurate and easily understandable to consumers. We are abundantly careful to avoid factual inaccuracies and exaggerations in our advertisements and to comply with Article 4 of the Law Against Unjustifiable Premiums and Misleading Representations. Our marketing department periodically consults with the Tokyo Bureau of Social Welfare and Public Health's regulatory staff regarding our advertising media, seeking thorough guidance to ensure legal compliance.

Overseas operations

We operate overseas as part of our business expansion strategy. We established Dr. Ci:Labo Company Limited in Hong Kong in November 2003, Dr. Ci:Labo Co., Ltd., in Taiwan in May 2004, and Ci:Labo USA, Inc in New York State in January 2005. In expanding overseas, we make cautious decisions after researching local market trends, the local regulatory regime, and other relevant matters. Despite such caution, overseas operations entail various risks, including unforeseen changes in laws or regulations, political instability, labor problems, infrastructural deficiencies, and social unrest (e.g., in response to terrorism). Additionally, our consolidated earnings could be adversely affected if we rapidly expand our overseas store network or if our overseas expansion progresses more slowly than initially planned.

Trademarks

We apply to register the trademarks that we use on our products after conducting a trademark search to confirm that no similar trademarks have already been registered. However, we begin using trademarks while the application is still pending, before completion of the examination process, which takes about six months from the trademark application's submission until its publication. Due to this time lag, we could conceivably infringe another company's trademark while launching a new product.

Custody of customer information

Because we sell our products mainly by mail order, we currently possess a large volume of

customers' personal information. We tightly restrict access to the servers that store the personal information of customers that contact our call centers, shop at our stores, and use our website. These servers are also physically remote from our corporate intranet. Employees consequently cannot access customers' personal information unless authorized to do so as part of their work duties.

We have also implemented thorough safeguards to ensure compliance with the Personal Information Protection Law, including an employee training program. If, despite such precautions, our customers' personal information is somehow leaked, our operations could be adversely affected by loss of trust, claims for damages, or other such repercussions.

Consolidated Financial Statements

Consolidated Balance Sheets

(Thousands of yen)

	As of July 31, 2007		As of July 31, 2008	
	Amount	%	Amount	%
Assets				
Current assets				
Cash and time deposits	4,090,048		4,645,168	
Accounts receivable-trade	2,224,553		2,871,712	
Inventories	1,560,104		1,692,803	
Short term loans to affiliates	60,000		-	
Prepaid expenses	70,495		131,893	
Deferred tax assets	234,372		321,041	
Other	31,323		63,717	
Allowance for doubtful accounts	(30,288)		(17,920)	
Total current assets	8,240,608	69.5	9,708,416	73.2
Noncurrent assets				
Tangible fixed assets				
Buildings	179,769		202,397	
Accumulated depreciation	82,089	97,679	72,875	129,521
Vehicles	5,328		-	
Accumulated depreciation	4,893	434	-	-
Tools, furniture and fixture	711,592		803,452	
Accumulated depreciation	405,308	306,283	491,549	311,902
Total tangible fixed assets		404,397		441,424
Intangible fixed assets				
Software		590,717		956,813
Suspense account for software		334,654		93,229
Trade marks		22,895		23,650
Other		311		269
Total intangible fixed assets		948,578		1,073,963
Total intangible fixed assets				
Total intangible fixed assets				8.1
Investments and other assets				
Investment securities		254,557		160,416
Equity investments in affiliates		5,000		5,000
Long-term prepaid expenses		75,532		34,882
Leasehold and guarantee deposits		245,353		221,279
Deferred tax assets		80,451		22,756
Investment real estate	1,653,289		1,653,289	
Accumulated depreciation	51,569	1,601,720	64,629	1,588,660
Other		4,365		5,457
Total investments and other assets		2,266,980		2,038,452
Total noncurrent assets		3,619,956		3,553,840
Total noncurrent assets				26.8
Total assets		11,860,565		13,262,256
Total assets				100.0

(Thousands of yen)

	As of July 31, 2007		As of July 31, 2008	
	Amount	%	Amount	%
Liabilities				
Current liabilities				
Accounts payable-trade	430,839		554,967	
Current portion of long-term borrowings	974,000		164,000	
Accounts payable-other	841,499		986,299	
Income taxes payable	500,279		1,049,082	
Consumption tax payable	22,600		117,394	
Advances received	18,600		627	
Deposits received	33,165		28,812	
Reserve for bonuses	30,114		51,810	
Allowance for bonus points redemption	144,558		218,262	
Deferred tax liabilities	50		591	
Other	40,896		35,788	
Total current liabilities	3,036,604	25.6	3,207,638	24.2
Long-term liabilities				
Long-term borrowings	164,000		-	
Deferred tax liabilities	5,461		4,934	
Reserve for retirement benefits	13,963		23,375	
Other	4,345		195	
Total long-term liabilities	187,770	1.6	28,505	0.2
Total liabilities	3,224,375	27.2	3,236,143	24.4
Net assets				
Shareholders' capital				
Common stock	1,145,840	9.7	1,157,099	8.7
Additional paid-in capital	1,623,440	13.7	1,634,699	12.3
Retained earnings	6,569,023	55.4	8,508,571	64.1
Treasury stock	(648,554)	(5.5)	(1,269,884)	(9.5)
Total shareholders' capital	8,689,750	73.3	10,030,486	75.6
Valuation and translation adjustments				
Net unrealized gains (losses) on available-for-sale securities	(82,404)	(0.7)	(1,832)	0.0
Foreign currency translation adjustments	28,844	0.2	(2,539)	0.0
Total valuation and translation adjustments	(53,560)	(0.5)	(4,372)	0.0
Total net assets	8,636,190	72.8	10,026,113	75.6
Total liabilities and net assets	11,860,565	100.0	13,262,256	100.0

Consolidated Statements of Operations

(Thousands of yen)

	Year ended July 31, 2007		Year ended July 31, 2008	
	Amount	%	Amount	%
Net sales	9,077,864	100.0	21,618,423	100.0
Cost of sales	1,743,926	19.2	3,943,990	18.2
Gross profit	7,333,938	80.8	17,674,433	81.8
Selling, general and administrative expenses	6,172,164	68.0	13,857,337	64.1
Operating income	1,161,773	12.8	3,817,096	17.7
Non-operating revenues				
Interest income	5,486		12,219	
Dividends received	472		466	
Incentives for shop renovation received	3,219		13,396	
Compensation for merchandise breakage	220		745	
Consignment revenue	-		3,485	
Other	1,955	11,355	14,076	44,390
		0.1		0.2
Non-operating expenses				
Interest expenses	8,314		10,446	
Foreign exchange losses	2,992		11,794	
Commissions	2,000		-	
Loss on investment partnership	1,302		2,572	
Depreciation and Amortization	7,538		13,060	
Other	3,434	25,582	436	38,310
		0.3		0.2
Ordinary income		1,147,546	12.6	3,823,176
Extraordinary profits				
Gain on sale of fixed assets	-	-	229	229
				0.0
Extraordinary losses				
Loss on disposal of fixed assets	33,850		75,896	
Valuation loss on inventory	18,036		-	
Valuation loss on investment securities	-		226,880	
Other	355	52,241	239	303,017
		0.6		1.4
Net Income before taxes		1,095,304	12.0	3,520,389
Income tax, inhabitants tax and enterprise tax	482,870		1,500,304	
Income tax adjustments	49,078	531,948	(84,337)	1,415,967
		5.8		6.6
Net income		563,356	6.2	2,104,422
				9.7

Consolidated Statement of Changes in Shareholders' Capital
(February 1, 2007 to July 31, 2007)

(Thousands of yen)

	Shareholders' capital				Total shareholders' capital
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	
Balance as of January 31, 2007	1,138,361	1,615,961	6,444,979	(648,554)	8,550,748
Changes during period					
Issuance of new shares	7,479	7,479			14,958
Cash dividends			(439,312)		(439,312)
Net income			563,356		563,356
Net change in items other than shareholders' capital during period					
Total changes during period	7,479	7,479	124,044	-	139,002
Balance as of July 31, 2007	1,145,840	1,623,440	6,569,023	(648,554)	8,689,750

	Valuation and translation adjustments			Total net assets
	Unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Total valuation and translation adjustments	
Balance as of January 31, 2007	(23,433)	11,282	(12,151)	8,538,597
Changes during period				
Issuance of new shares				14,958
Cash dividends				(439,312)
Net income				563,356
Net change in items other than shareholders' capital during period	(58,970)	17,561	(41,409)	(41,409)
Total changes during period	(58,970)	17,561	(41,409)	97,593
Balance as of July 31, 2007	(82,404)	28,844	(53,560)	8,636,190

(August 1, 2007 to July 31, 2008)

(Thousands of yen)

	Shareholders' capital				Total shareholders' capital
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	
Balance as of July 31, 2007	1,145,840	1,623,440	6,569,023	(648,554)	8,689,750
Changes during period					
Issuance of new shares	11,259	11,259			22,518
Cash dividends			(164,874)		(164,874)
Net income			2,104,422		2,104,422
Acquisition of treasury shares				(621,330)	(621,330)
Net change in items other than shareholders' capital during period					
Total changes during period	11,259	11,259	1,939,548	(621,330)	1,340,735
Balance as of July 31, 2008	1,157,099	1,634,699	8,508,571	(1,269,884)	10,030,486

	Valuation and translation adjustments			Total net assets
	Unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Total valuation and translation adjustments	
Balance as of July 31, 2007	(82,404)	28,844	(53,560)	8,636,190
Changes during period				
Issuance of new shares				22,518
Cash dividends				(164,874)
Net income				2,104,422
Acquisition of treasury shares				(621,330)
Net change in items other than shareholders' capital during period	80,571	(31,383)	49,187	49,187
Total changes during period	80,571	(31,383)	49,187	1,389,923
Balance as of July 31, 2008	(1,832)	(2,539)	(4,372)	10,026,113

Consolidated Statements of Cash Flows

(Thousands of yen)

	Year ended July 31, 2007	Year ended July 31, 2008
	Amount	Amount
Cash flows from operating activities		
Income before income taxes	1,095,304	3,520,389
Depreciation and amortization	197,593	504,202
Amortization for long-term prepaid expenses	15,174	28,244
Increase (decrease) in allowance for doubtful accounts	3,452	(12,222)
Increase in reserve for employees' bonuses	6,296	21,696
Increase in allowance for bonus points redemption	13,265	73,704
Increase in reserve for retirement benefits	4,042	9,694
Interest and dividend income	(5,959)	(12,686)
Interest expense	8,314	10,446
Gain on sale of fixed assets	-	(229)
Loss on disposal of fixed assets	33,850	75,896
Valuation loss on investment securities	-	226,880
(Increase) decrease in trade receivables	195,984	(657,432)
Increase in inventories	(8,505)	(143,761)
Increase in trade payables	116,523	142,712
Increase (decrease) in accounts payable-other	(31,788)	168,342
Increase (decrease) in consumption tax payable	(86,874)	95,369
Decrease in consumption tax receivable	281	-
Other	2,019	(27,179)
Subtotal	1,558,976	4,024,069
Interest and dividend received	3,965	12,686
Interest paid	(7,825)	(9,498)
Income taxes paid	(806,170)	(956,647)
Net cash provided by (used in) operating activities	748,945	3,070,609
Cash flows from investing activities		
Acquisition of tangible fixed assets	(43,257)	(237,596)
Proceeds from sale of tangible fixed assets	-	600
Acquisition of intangible fixed assets	(207,603)	(532,855)
Payment of leasehold and guarantee deposits	(12,151)	(18,888)
Proceeds from collection of leasehold and guarantee deposits	8,976	18,443
Deposits into time deposit accounts	(138,033)	-
Withdrawals from time deposit accounts	-	138,033
Payment of loans to affiliates	-	(20,000)
Proceeds from collection of loans to affiliates	-	80,000
Net cash provided by (used in) investing activities	(392,068)	(572,265)
Cash flows from financing activities		
Repayment of long-term borrowings	(362,000)	(974,000)
Proceeds from share issuance	14,958	22,518
Payment for treasury shares	-	(621,330)
Cash dividends paid	(433,925)	(168,770)
Net cash provided by (used in) financing activities	(780,967)	(1,741,583)
Effect of exchange rate changes on cash and cash equivalents	17,459	(63,608)
Increase in cash and cash equivalents	(406,632)	693,153
Cash and cash equivalents at the beginning of the period	4,358,647	3,952,015
Cash and cash equivalents at the end of the period	3,952,015	4,645,168

Non-Consolidated Financial Statements

Non-Consolidated Balance Sheets

(Thousands of yen)

	As of July 31, 2007		As of July 31, 2008	
	Amount	%	Amount	%
Assets				
Current assets				
Cash and time deposits	3,477,034		4,215,039	
Accounts receivable-trade	2,236,457		2,905,373	
Finished goods	755,636		1,001,908	
Merchandise	75,815		64,929	
Supplies	663,998		543,795	
Prepaid expenses	63,215		92,815	
Deferred tax assets	276,412		236,431	
Short-term loans to affiliates	128,540		5,027	
Other	33,471		56,632	
Allowance for doubtful accounts	(47,968)		(41,379)	
Total current assets	7,662,614	63.4	9,080,574	68.1
Noncurrent assets				
Tangible fixed assets				
Buildings	145,051		194,123	
Accumulated depreciation	60,533	84,518	68,997	125,125
Vehicles	5,328		-	
Accumulated depreciation	4,893	434	-	-
Tools, furniture and fixture	678,363		776,308	
Accumulated depreciation	390,601	287,762	475,199	301,108
Total tangible fixed assets		372,715		426,234
Intangible fixed assets				
Software		585,599		954,577
Suspense account for software		334,654		93,229
Trade marks		22,895		23,650
Other		311		269
Total intangible fixed assets		943,461		1,071,727
Total tangible fixed assets		372,715	3.1	426,234
Total intangible fixed assets		943,461	7.8	1,071,727
Investments and other assets				
Investment securities		103,000		33,516
Equity investments in affiliates		1,168,256		630,775
Investment securities of affiliates		208,812		177,337
Long term loans to affiliates		8,285		2,482
Long term prepaid expenses		62,893		30,538
Leasehold deposits		210,617		204,516
Investment real estate	1,653,289		1,653,289	
Accumulated depreciation	51,569	1,601,720	64,629	1,588,660
Deferred tax assets		79,586		83,682
Other		4,365		5,457
Allowance for investment losses		(347,557)		-
Total investments and other assets		3,099,981	25.7	2,756,965
Total noncurrent assets		4,416,157	36.6	4,254,927
Total assets		12,078,772	100.0	13,335,501

(Thousands of yen)

	As of July 31, 2007		As of July 31, 2008	
	Amount	%	Amount	%
Liabilities				
Current liabilities				
Accounts payable-trade	392,673		560,257	
Current portion of long-term borrowings	974,000		164,000	
Accounts payable-other	814,736		938,541	
Accrued expenses	11,349		5,699	
Income taxes payable	488,164		1,035,420	
Consumption tax payable	19,582		115,099	
Advances received	18,581		-	
Deposits received	32,048		27,570	
Reserve for bonuses	30,114		51,810	
Allowance for bonus points redemption	140,808		215,396	
Other	12,859		9,454	
Total current liabilities	2,934,918	24.3	3,123,249	23.4
Long-term liabilities				
Long-term borrowings	164,000		-	
Reserve for retirement benefits	12,846		22,375	
Total long-term liabilities	176,846	1.5	22,375	0.2
Total liabilities	3,111,764	25.8	3,145,624	23.6
Net assets				
Shareholders' capital				
Common stock	1,145,840	9.5	1,157,099	8.7
Additional paid-in capital				
Capital reserve	1,623,440		1,634,699	
Total additional paid-in capital	1,623,440	13.4	1,634,699	12.2
Retained earnings				
Legal reserve	535		535	
Voluntary reserve				
General reserve	4,700,000		5,080,000	
Retained earnings carried forward	2,226,888		3,589,024	
Total retained earnings	6,927,423	57.4	8,669,559	65.0
Treasury stock	(648,554)	(5.4)	(1,269,884)	(9.5)
Total shareholders' capital	9,048,150	74.9	10,191,474	76.4
Valuation and translation adjustments				
Net unrealized gains (losses) on available-for-sale securities	(81,142)	(0.7)	(1,597)	0.0
Total valuation and translation adjustments	(81,142)	(0.7)	(1,597)	0.0
Total net assets	8,967,007	74.2	10,189,877	76.4
Total liabilities and net assets	12,078,772	100.0	13,335,501	100.0

Non-Consolidated Statements of Operations

(Thousands of yen)

	Year ended July 31, 2007		Year ended July 31, 2008		
	Amount	%	Amount	%	
Net sales					
Sales of finished goods	8,578,539		20,491,451		
Sales of merchandise	168,149	8,746,689	426,873	20,918,325	100.0
Cost of sales					
Beginning inventory - finished goods	808,550		755,636		
Cost of finished goods during period	1,890,434		4,145,755		
Transfer from other accounts	262,028		235,749		
Ending inventory - finished goods	755,636		1,001,908		
Sub total	1,681,320		3,663,733		
Beginning inventory - merchandise	69,635		75,815		
Merchandise purchased during period	118,674		288,173		
Transfer from other accounts	21,598		16,606		
Ending inventory - merchandise	75,815		64,929		
Sub total	90,894	1,772,214	282,453	3,946,187	18.9
Gross profit		6,974,474		16,972,138	81.1
Selling, general and administrative expenses					
Directors' remuneration	43,240		103,685		
Employees' salaries	700,939		1,443,177		
Employees' bonuses	47,213		171,430		
Legal welfare expenses	105,105		227,399		
Provision for bonuses	30,114		51,810		
Retirement benefits expense	5,802		10,231		
Expenses for temporary staff dispatched	266,531		451,918		
Advertising expense	1,569,878		3,361,315		
Sales promotion expense	783,273		1,723,369		
Supplies expense	59,323		167,931		
Rent expense	168,048		343,792		
Lease payments	73,717		136,645		
Depreciation	173,698		467,308		
Provision for doubtful accounts	21,924		10,028		
Provision for bonus points redemption	64,153		215,396		
Telecommunication expense	319,394		797,353		
Transportation expense	347,347		1,034,510		
Fees	40,228		57,071		
Commissions	545,637		1,558,727		
Research & development expenses	48,064		111,901		
Other	342,554	5,756,189	708,039	13,153,046	62.8
Operating income		1,218,285	13.9	3,819,092	18.3

	Year ended July 31, 2007			Year ended July 31, 2008		
	Amount		%	Amount		%
Non-operating revenues						
Interest income	3,775			9,745		
Dividend income	472			44,066		
Incentives for shop renovation received from department stores	3,219			13,396		
Compensation for merchandise breakage	220			745		
Consignment revenue	2,285			3,485		
Miscellaneous revenue	740	10,714	0.1	15,805	87,243	0.4
Non-operating expenses						
Interest expense	7,487			9,437		
Share issuance expense	167			248		
Commissions	2,000			-		
Depreciation and amortization	7,538			13,060		
Foreign exchange losses	2,914			21,239		
Loss on investment partnership	1,258			2,572		
Other	34	21,400	0.2	14	46,571	0.2
Ordinary income		1,207,599	13.8		3,859,764	18.5
Extraordinary profits						
Gain on sale of fixed assets	-	-	-	229	229	0.0
Extraordinary losses						
Loss on disposal of fixed assets	2,014			65,255		
Provision for investment losses	110,693			-		
Valuation loss on equity Investment in affiliates	117,735			189,923		
Valuation loss on Investment securities	-	230,444	2.6	224,040	479,219	2.3
Net Income before taxes		977,155	11.2		3,380,774	16.2
Income tax, inhabitants tax and enterprise tax	471,937			1,492,009		
Income tax adjustments	(21,336)	450,601	5.2	(18,245)	1,473,764	7.1
Net income		526,553	6.0		1,907,010	9.1

Cost of Production

	Year ended July 31, 2007		Year ended July 31, 2008	
	Amount	%	Amount	%
Material cost	602,739	31.0	1,135,305	26.4
Finished goods purchased during period	1,339,263	68.9	3,159,726	73.5
Other expense	1,795	0.1	2,362	0.1
Total cost of production	1,943,798	100.0	4,297,393	100.0
Transfers to other accounts	53,363		151,639	
Cost of finished goods during period	1,890,434		4,145,755	

- Note:
1. Costs are calculated based on the actual cost method as applied to individual products.
 2. The Company is engaged in mainly planning and development of new products. Manufacturing of products planned by the Company is outsourced, and the Company purchases the finished goods. Part of materials are procured by the Company and supplied to the outsourcing manufacturing companies.
 3. Other expense represents depreciation expenses for fixed assets used in manufacturing.
 4. Transfers to other accounts represent the amount of material transferred to sales promotion expense and other.

Non-Consolidated Statement of Changes in Shareholders' Capital

(February 1, 2007 to July 31, 2007)

(Thousands of yen)

	Shareholders' capital						
	Common stock	Additional paid-in capital		Legal reserve	Retained earnings		
		Capital reserve	Total additional paid-in capital		Other		Total retained earnings
					General reserve	Retained earnings carried forward	
Balance as of January 31, 2007	1,138,361	1,615,961	1,615,961	535	3,800,000	3,039,646	6,840,181
Changes during period							
Provision for general reserve					900,000	(900,000)	-
Issuance of new shares	7,479	7,479	7,479				
Cash dividends						(439,312)	(439,312)
Net income						526,553	526,553
Net change in items other than shareholders' capital during period							
Total changes during period	7,479	7,479	7,479	-	900,000	(812,758)	87,241
Balance as of July 31, 2007	1,145,840	1,623,440	1,623,440	535	4,700,000	2,226,888	6,927,423

	Shareholders' capital		Valuation and translation adjustments		Total net assets
	Treasury stock	Total shareholders' capital	Unrealized gains (losses) on available-for-sale securities	Total valuation and translation adjustments	
Balance as of January 31, 2007	(648,554)	8,945,950	(23,433)	(23,433)	8,922,516
Changes during period					
Provision for general reserve		-			-
Issuance of new shares		14,958			14,958
Cash dividends*		(439,312)			(439,312)
Net income		526,553			526,553
Net change in items other than shareholders' capital during period			(57,708)	(57,708)	(57,708)
Total changes during period	-	102,199	(57,708)	(57,708)	44,490
Balance as of July 31, 2007	(648,554)	9,048,150	(81,142)	(81,142)	8,967,007

(August 1, 2007 to July 31, 2008)

(Thousands of yen)

	Shareholders' capital						
	Common stock	Additional paid-in capital		Legal reserve	Retained earnings		
		Capital reserve	Total additional paid-in capital		Other		Total retained earnings
					General reserve	Retained earnings carried forward	
Balance as of July 31, 2007	1,145,840	1,623,440	1,623,440	535	4,700,000	2,226,888	6,927,423
Changes during period							
Provision for general reserve					380,000	(380,000)	-
Issuance of new shares	11,259	11,259	11,259				
Cash dividends						(164,874)	(164,874)
Net income						1,907,010	1,907,010
Acquisition of treasury shares							
Net change in items other than shareholders' capital during period							
Total changes during period	11,259	11,259	11,259	-	380,000	1,362,136	1,742,136
Balance as of July 31, 2008	1,157,099	1,634,699	1,634,699	535	5,080,000	3,589,024	8,669,559

	Shareholders' capital		Valuation and translation adjustments		Total net assets
	Treasury stock	Total shareholders' capital	Unrealized gains (losses) on available-for-sale securities	Total valuation and translation adjustments	
Balance as of July 31, 2007	(648,554)	9,048,150	(81,142)	(81,142)	8,967,007
Changes during period					
Provision for general reserve		-			-
Issuance of new shares		22,518			22,518
Cash dividends		(164,874)			(164,874)
Net income		1,907,010			1,907,010
Acquisition of treasury shares	(621,330)	(621,330)			(621,330)
Net change in items other than shareholders' capital during period			79,545	79,545	79,545
Total changes during period	(621,330)	1,143,323	79,545	79,545	1,222,869
Balance as of July 31, 2008	(1,269,884)	10,191,474	(1,597)	(1,597)	10,189,877