

First Quarter Financial Results
For the Three Months Ended October 31, 2008 — Consolidated

December 11, 2008

Company name: **Dr. Ci:Labo Co., Ltd.**
 Shares listed on: The First Section of the Tokyo Stock Exchange
 Security code: 4924
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1. Consolidated Financial Results for the Three Months Ended October 31, 2008
(August 1, 2008 to October 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
Three months ended October 31, 2007	4,741	221	207	114
Three months ended October 31, 2008	4,325	471	467	189

	Net income per share	Diluted net income per share
	yen	yen
Three months ended October 31, 2008	419.36	417.47
Three months ended October 31, 2007	689.12	683.00

(2) Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	million yen	million yen	%	yen
AS of October 31, 2008	11,658	9,162	78.6	33,572.99
AS of July 31, 2008	13,262	10,026	75.6	36,898.97

2. Dividends per share

Period	Interim	Year-end	Annual
	yen	yen	yen
FY ended July 31, 2008	—	3,100	3,100
FY ending July 31, 2009 (forecast)	—	2,700	2,700

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

	Net sales	Operating income	Ordinary income	Net income	Net income per share
	million yen	million yen	million yen	million yen	yen
Interim	13,430	2,325	2,325	1,170	4,306.28
Full year	26,100	4,500	4,500	2,500	9,201.46

3. Other Information

- (1) Changes affecting the status of significant subsidiaries during the period (scope of consolidation): Yes
Removed: 1 (DR. CI: LABO KOREA)
For details, see "Other Matters" section (1) beginning on page5.
- (2) Use of simplified accounting methods: Yes
For details, see "Other Matters" section (2) beginning on page5.
- (3) Changes in accounting principles, procedures and presentation methods for quarterly financial statements (Changes I key accounting standards for quarterly financial reporting.)
Changes resulting from revisions to accounting standards: yes
Others: None
For details, see "Other Matters" section (3) beginning on page5.
- (4) Shares issued (common stock)
Shares issued (including treasury stock) at end of term
October 31,2008 : 280,116
July 31,2008 : 278,916

Treasury stock
October 31,2008 : 7,198
July 31,2008 : 7,198

Average shares issued
October 31,2008 : 272,318
July 31,2008 : 274,807

The above forecasts are based on information currently available. Actual results may differ from the above forecasts due to a range of factors.

AS of the current consolidated fiscal year, Accounting Standards for Quarterly Reporting (Accounting Standards Board of Japan Article 12) and Application Guidelines related to Accounting Standards for Quarterly Report (Accounting Standards Board of Japan Article 14) will be applied. Further, in accordance with the Regulation for Consolidated Quarterly Reporting, a quarterly consolidated financial report will be prepared.

Commentary on Results

1. Operating results (Consolidated)

In the Japanese economy for this first quarter consolidated accounting period, the trend in declining business conditions became more significant. This was a result of the financial crisis started from the sub-prime loan issue in the U.S.A. and spread throughout the world. This confusion in the financial market started to affect the actual economy in Japan.

Under such circumstances, our group focused on rebranding of existing products and developing of new sales channels to continuously reinforce our brand and build up sales channels.

According to respective sales channels, mail order sales continued to perform well. Measures and policies to promote customers' repeat purchases, such as step-up discounts or a monthly magazine introduced from last year, took effect and we could reach strong sales increased by 40% year-on-year. On the other hand, sales channels for over-the-counter sales, such as wholesale distribution or counseling-type sales had a hard time. In wholesale distribution, sales from the TV shopping sales channel continued to perform well, while sales from cosmetic specialty shops underwent a favorable transition. However, sales at variety shops, the main sales channel for wholesale distribution, were decreased by 4% year on year. In counseling-type sales, we opened five new shops in department stores and six new shops in GMS. However, due to the fact that consumer confidence dropped at the time, we couldn't make advances in gaining new customers. Therefore, the amount of sales was decreased by 18% year-on-year.

As for overseas sales, in Hong Kong, we made the transition to handle a sales channel which could make a profit even in small-scale sales as the main channel, instead of sales expansion. In the U.S.A., we carried out restructuring such as reducing the number of distributors whose profit rates were not favorable. Therefore, the overall amount of sales decreased. In addition, in Taiwan, due to factors such as a recession in the market itself, the amount of sales didn't increase. Based on these results, in overall sales channels for overseas and others, the amount of sales was decreased by 28% year-on-year.

As for profits, in order to greatly increase the amount of sales in the second quarter consolidated accounting period, when we expect the biggest demand season for the year, we increased promotion expenses exclusively in October in time for the rebranding of main products. Therefore, the profit level was low compared with the same period the previous year.

As a result of the factors noted above, consolidated net sales for the period under review increased 9.6% to ¥4,741 million and operating income decreased 53.0% to ¥221 million. Ordinary income decreased 55.7% to ¥207 million and net income decreased 39.7% to ¥114 million.

A segment overview based on respective divisions is as follows:

<Cosmetics Division>

The Cosmetics Division worked on the rebrand of existing products to further reinforce our brands. We released Super Photo White C Laser Plus in August and Medicated Aqua Collagen Gel Super Moisture in September. In addition, we conducted rebranding in basic-line products such as Super Washing Foam and Super Cleansing Gel to improve the products' appeal points. Particularly for the release of Medicated Aqua Collagen Gel Super Moisture, we undertook active promotions to gain new customers and improve the repeating rates of existing customers. Also, we improved sales of whole product line by focusing on expanding sales of Aqua In-Derm DN Essence which had seen ongoing favorable sales conditions from the prior term. For respective brands, the Dr. Ci:Labo brand has been continuously taking measures to focus on relatively older customers, mainly in the mail order category, to improve its brand strength. For the Labo Labo brand, the transition of its main sales channel to drug stores started to produce sound financial results, and we are expecting further development. The Genomer brand has been undergoing a relatively steady transition, although other counseling-type sales have been having a hard time trying to increase their sales. For dr.brandt, its recognition has been expanding through the impact of PR and other activities, and we will continue to work on gaining a higher recognition rate.

<Health Foods Division>

The Health Foods Division maintained its sales by developing periodic mail order delivery services while focusing on selling beverages such as Aojiru and Collagen Drink EX similarly to the prior term.

<Appliances & Other Division>

The Appliances & Other Division sold products supplementing cosmetics. However, no active promotional activities were conducted and the sales remained unchanged.

<Investment>

The investment segment had no revenues in this period.

2. Financial Situation

Financial Position

Collective assets decreased by ¥1,603 million from the prior consolidated accounting year-end. The main factors behind this decrease were that our cash equivalents declined by ¥945 million for payments of corporate tax and cash dividends and that accounts receivables decreased by ¥497 million due to the payment of said item from the prior consolidated accounting year-end.

Total liabilities decreased by ¥740 million from the prior consolidated accounting year-end. The main factor behind this decrease was that the liabilities of corporate tax decreased by ¥934 million due to the corporate tax payments, in spite of an increase of ¥218 million in unpaid advertisement expenses.

Total net assets decreased by ¥863 million from the prior consolidated accounting year-end. The main factor behind this decrease was the fall in surplus by ¥816 million due to surplus disposals for dividends.

Cash Flow

Cash and cash equivalents (hereinafter called 'funds') in this first quarter consolidated accounting period were ¥3,699 million, a decrease by ¥945 million from the prior consolidated accounting year-end. This fall resulted from a ¥1,012 million decrease in corporate tax payments and from a ¥653 million decrease in dividend payments, in spite of a ¥494 million increase from collections of accounts receivables.

Cash flows and the main factors affecting cash flows are as follows:

Funds dispended for operations were ¥162 million. This was mainly because of the following four results. These are an addition of quarterly net profits before tax adjustments by ¥203 million, a decrease in accounts receivables by ¥494 million, an increase of liabilities by ¥203 million, and a decrease in funds by ¥1,012 million from corporate tax payments.

Funds dispended for investment activities were ¥56 million. This was mainly because of payments of ¥37 million from the acquisitions of tangible fixed assets such as new shops and of ¥41 million from the acquisitions of intangible fixed assets such as system investments.

Funds dispended for financial activities were ¥702 million. This was mainly because of payments of ¥653 million for dividends and of ¥56 million for repayment of long-term borrowings.

3. Review of Consolidated Earnings Forecast

Results for the first quarter were largely in line with plans, and there are no changes from the consolidated earnings forecast released on September 12, 2008.

Earnings forecasts are based on information available as of the date of the release of these materials. Actual results may differ from forecasts due to a range of factors.

4. Other Matters

(1) Changes affecting the status of significant subsidiaries during the period (scope of consolidation)

Dr. Ci:Labo Korea is currently in liquidation, and the value of our equity interests in its total assets, sales, net income, and retained earnings do not have a material impact on our consolidated financial statements. We therefore removed it from the scope of consolidated results.

(2) Use of simplified accounting and/or accounting procedures specific to preparation of quarterly consolidated financial statements

(i) Calculation of tax expenses

We calculate tax expense by determining a reasonable estimate of our effective tax rate after applying tax-effect accounting to pretax net income for the fiscal year, which includes the first quarter under review, and multiplying quarterly pretax net income by said estimated effective tax rate. Income taxes are reported inclusive of income tax adjustments.

(3) Changes in accounting principles, procedures, and/or presentation methods used in the preparation of quarterly consolidated financial statements

(i) From the fiscal year ending July 31, 2009, we have adopted the *Accounting Standard for Quarterly Financial Reporting* (ASBJ Statement No. 12) and its accompanying *Guidance on Accounting Standard for Quarterly Financial Reporting* (ASBJ Guidance No. 14). We prepare quarterly consolidated financial statements in accord with the Regulations on Quarterly Consolidated Financial Statements.

(ii) Previously, inventories held for sale in the ordinary course of business were primarily valued with the weighted-average cost method. Since the adoption of the *Accounting Standard for Measurement of Inventories* (ASBJ Statement No. 9; July 5, 2006), we have switched to primarily valuing inventories using a cost method based on the weighted-average cost method with write-downs of the book value of inventories made to reflect declines in their profitability. This change does not impact operating income, ordinary income, or pretax net profit.

(iii) From the three months ended October 31, 2008, we have adopted the *Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements* (ASBJ PITF No. 18; May 17, 2006) and made the necessary adjustments to consolidated results. This change's impact on operating income, ordinary income, and pretax net profit is immaterial.

Consolidated Financial Statements
(1) 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	3,699,295	4,645,168
Accounts receivable-trade	2,374,526	2,871,712
Inventories	1,718,137	1,692,803
Other	433,331	516,651
Allowance for doubtful accounts	(40,151)	(17,920)
Total current assets	8,185,141	9,708,416
Noncurrent assets		
Tangible fixed assets		
Buildings	198,692	202,397
Accumulated depreciation	(76,148)	(72,875)
Buildings(Net)	122,543	129,521
Tools, furniture and fixture	853,929	803,452
Accumulated depreciation	(511,205)	(491,549)
Tools, furniture and fixture(Net)	342,724	311,902
Total tangible fixed assets	465,268	441,424
Intangible fixed assets		
Software	899,762	956,813
Other	121,470	117,149
Total intangible fixed assets	1,021,233	1,073,963
Investments and other assets		
Investment real estate	1,653,289	1,653,289
Accumulated depreciation	(67,253)	(64,629)
Other	401,023	449,792
Total investments and other assets	1,987,059	2,038,452
Total noncurrent assets	3,473,561	3,553,840
Total assets	11,658,702	13,262,256
Liabilities		
Current liabilities		
Accounts payable-trade	464,516	554,967
Current portion of long-term borrowings	108,000	164,000
Accounts payable-other	1,204,738	986,299
Income taxes payable	114,867	1,049,082
Reserve for bonuses	131,360	51,810
Allowance for bonus points redemption	68,130	218,262
Other	375,677	183,215
Total current liabilities	2,467,291	3,207,638
Long-term liabilities		
Reserve for retirement benefits	25,089	23,375
Other	3,647	5,195
Total long-term liabilities	28,737	28,505
Total liabilities	2,496,028	3,236,143
Net assets		
Shareholders' capital		
Common stock	1,160,299	1,157,099
Additional paid-in capital	1,637,699	1,634,699
Retained earnings	7,688,805	8,508,571
Treasury stock	(1,269,884)	(1,269,884)
Total shareholders' capital	9,216,920	10,030,486
Valuation and translation adjustments		
Net unrealized gains (losses) on available-for-sale securities	(22,617)	(1,832)
Foreign currency translation adjustments	(31,628)	(2,539)
Total valuation and translation adjustments	(54,245)	(4,372)
Total net assets	9,162,674	10,026,113
Total liabilities and net assets	11,658,702	13,262,256

(2) Consolidated Statement of Income

(In thousand yen)

	Three months ended
	October 31, 2008
	Amount
Net sales	4,741,486
Cost of sales	924,414
Gross profit	3,817,072
Selling, general and administrative expenses	3,595,894
Operating income	221,177
Non-operating revenues	
Interest income	5,103
Commissions	3,908
Others	1,265
Total non-operating revenues	10,277
Non-operating expenses	
Foreign exchange losses	20,619
Depreciation and Amortization	2,623
Others	997
Total non-operating expenses	24,241
Ordinary income	207,213
Extraordinary losses	
Loss on disposal of fixed assets	4,162
Total extraordinary losses	4,162
Net income before taxes	203,050
Income taxes	88,851
Net income	114,199

(3) Consolidated Statements of Cash Flows

(In thousand yen)

	Three months ended
	October 31, 2008
	Amount
Cash flows from operating activities	
Income before income taxes	203,050
Depreciation and amortization	127,197
Amortization of long-term prepaid expenses	5,572
Increase(decrease) in allowance for doubtful accounts	(23,295)
Increase(decrease) in reserve for employees' bonuses	79,549
Increase (decrease) in allowance for bonus points redemption	(150,132)
Increase(decrease) in reserve for retirement benefits	2,714
Interest and dividend income	(5,103)
Interest expense	625
Loss on disposal of fixed assets	4,162
Increase(decrease) in trade receivables	494,066
Increase (decrease) in inventories	(35,482)
Increase (decrease) in trade payables	(72,926)
Increase (decrease) in accounts payable-other	203,072
Increase (decrease) in consumption tax payable	(79,478)
Other	92,119
Sub total	845,714
Interest and dividends received	5,103
Income taxes paid	(1,012,833)
Net cash provided by (used in) operating activities	(162,016)
Cash flows from investing activities	
Acquisition of tangible fixed assets	(37,243)
Income from sale of tangible fixed assets	510
Acquisition of intangible fixed assets	(41,615)
Payment of lease/guarantee deposits	(3,705)
Proceeds from collection of lease/guarantee deposits	25,751
Net cash provided by (used in) investing activities	(56,302)
Cash flows from financing activities	
Repayment of long-term borrowings	(56,000)
Proceeds from share issuance	6,200
Dividend payment	(653,049)
Net cash provided by (used in) financing activities	(702,849)
Effect of exchange rate changes on cash and cash equivalents	(10,789)
Decrease in cash and cash equivalents	(931,957)
Cash and cash equivalents at the beginning of the period	4,645,168
Net decrease in cash and cash equivalents associated with exclusion	(13,915)
From scope of consolidation	
Cash and cash equivalents at the end of the period	3,699,295

AS of the current consolidated fiscal year, Accounting Standards for Quarterly Reporting (Accounting Standards Board of Japan Article 12) and Application Guidelines related to Accounting Standards for Quarterly Report (Accounting Standards Board of Japan Article 14) will be applied. Further, in accordance with the Regulation for Consolidated Quarterly Reporting, a quarterly consolidated financial report will be prepared.

(4) Notes on the going-concern assumption

None.

(5) Segment information

Segment information by type of business

Our consolidated group operates in the following business segments: cosmetics, health foods, appliances and other products, and investment. The sales and operating income of the cosmetics segment both account for more than 90 percent of the combined total sales and total operating income, respectively, of all segments. Segment information by type of business is therefore omitted from this document.

Segment information by geographic location

Our consolidated group operates in the following geographic locations: Japan, Asia, and North America. Sales in Japan account for more than 90 percent of the combined total sales of all segments. Segment information by geographic location is therefore omitted from this document.

Overseas sales

Overseas sales account for less than 10 percent of total consolidated sales. Information on overseas sales is therefore omitted from this document.

(6) Notes on material changes in shareholders' capital

None.