

Second Quarter Financial Results
For the Six Months Ended January 31, 2009 — Consolidated

March 13, 2009

Company name: **Dr. Ci:Labo Co., Ltd.**
 Shares listed on: The First Section of the Tokyo Stock Exchange
 Security code: 4924
 URL: <http://www.ci-labo.com/>
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1. Consolidated Financial Results for the Six Months Ended January 31, 2009
(August 1, 2008 to January 31, 2009)

(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
Six months ended January 31, 2009	12,038	2,425	2,394	1,265
Six months ended January 31, 2008	10,730	2,368	2,347	1,114

	Net income per share	Diluted net income per share
	yen	yen
Six months ended January 31, 2009	4,641.80	4,627.74
Six months ended January 31, 2008	4,053.01	4,018.97

(2) Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	million yen	million yen	%	yen
AS of January 31, 2009	13,310	10,276	77.2	37,642.51
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

3. Forecast of Earnings for the Year Ending July 31, 2009 (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
Full year	24,820	4,530	4,510	2,500	9,157.84

4. 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 page6.
- (2) Use of simplified accounting methods: Yes
For details, see “Other Matters” section (2) beginning on page6.
- (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 page6.
- (4) Shares issued (common stock)
Shares issued (including treasury stock) at end of term
January 31,2009 : 280,188
July 31,2008 : 278,916
- Treasury stock
January 31,2009 : 7,198
July 31,2008 : 7,198
- Average shares issued
January 31,2009 : 272,606
January 31,2008 : 278,251

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.

Qualitative Information / Financial Statements

1. Qualitative Information Regarding the Consolidated Management Performance

During the consolidated second quarter, financial uncertainties triggered by the global financial crisis began to exert a grave impact on the Japanese economy and deterioration in corporate performance and employment as well as the stagnating personal consumption became obvious and the recessionary trend of the economy became even more pronounced.

Under such conditions the Group strengthened sales activities of Medicated Aqua Collagen Gel Super Moisture, and at the same time, through the introduction of distinctive new products such as BB Perfect Cream and Super 100 Series as well as promoting limited edition products, enhanced differentiation of the product offering to expand sales.

By distribution channel, mail-order sales showed a strong performance.

In the first quarter, intensive advertising and sales promotion activities had the desired effect with successful results in acquisition of new customers, and coupled with new product introductions and time limited product sales, made major contributions to the growth in sales. In addition, measures taken to enhance repeat purchases by existing customers have begun to show their effects and in spite of the stagnation in overall personal consumption, the Group was able to achieve a 28% increase in cumulative sales in the 1st and 2nd quarters over the same period the previous year.

On the other hand, in wholesale and counseling type sales through retail store outlets, sales were affected by sluggish personal consumption resulting in less than stellar performance.

In the wholesale channel, sales through variety stores remained sluggish and the severe conditions continued. The rollout of the Labo Labo brand to drug stores made good progress and in Doctor CiLabo brand, sales continued to be strong in the mail order sales and specialty cosmetic retailer channels, which combined to result in a 7.3% increase in sales compared with the same period the previous year.

In counseling type sales through retail stores, compared with the 1st quarter the situation showed improvement, however, this channel continues to be the hardest hit by the recessionary economy. Sales measures suited to customer needs such as sales of 'Fukubukuro (lucky bag)' appropriate to the region and size of the store were undertaken, but acquisition of new customers was difficult and the expansion of sales was not able to be achieved, and as a result the sales from this segment contracted to 92.5% of the same period the previous year.

In overseas markets, Taiwan was impacted by the economic recession experienced by the overall market and sales through existing stores remained sluggish and the sales situation has become even more severe. In Hong Kong, having moved the primary sales channel to space saving outlets resulted in reduction in sales but an improved efficiency has been achieved and profitability has improved. In the United States, as a result of the serious deterioration in the US domestic economy and Marukai Pacific store in Los Angeles being closed in November, sales have experienced a significant decline. In addition, with the yen appreciating against all of the local currencies of the countries in which we operate, the yen equivalent sales are on a declining trend. With the combination of the above factors, cumulative performance through the 2nd quarter was 69.5% of the level achieved during the same period the previous year.

On the profitability side, in addition to the mail order sales being strong, after the concentrated advertising and sales promotion activities undertaken in the 1st quarter, the expenditures for advertising in the 2nd quarter were controlled and system related expenses and outsourcing expenses were reduced, which combined with expansion of sales of high margin products, led to a steady profit performance. The sales for the quarter totaled ¥12,038 million (12.2% increase over the same quarter year earlier), operating profit of ¥2,425 million (2.4% increase over the same quarter year earlier), current profit of ¥2,394 million (2% increase over the same quarter year earlier) and a quarterly net profit of ¥1,265 million which was a 13.5% improvement.

A segment overview based on respective divisions is as follows:

<Cosmetics Division >

In the cosmetics business, measures toward brand enhancement and expansion of the customer base continue. In the Dr. CiLabo brand, sales were expanded with a focus on the Aqua Collagen Gel series. In both mail order sales and counseling type counter retail sales, a 200 gram package of Medicated Aqua Collagen Gel Super Moisture was introduced on a limited time basis and achieved strong sales in every channel. In addition, limited volume sales of Aqua Collage Gel Royal Platinum and rebranded Aqua Collagen Gel Enriched Lift were rolled out providing items that met the various needs of customers and achieved success in customer retention. Further, the sales of distinctive products such as BB Perfect Cream and Super 100 series not only contributed to lifting the overall strength of the brand but also contributed to the growth in sales. Rollout of the Labo Labo brand into the drug store segment has been continuing and has shown smooth progress. For Genomer brand, sales did not increase as counseling type retail stores, which is its primary sales channel, focused on the sales of Dr. CiLabo brand instead for the 2nd quarter. For the dr.brandt brand, we enhanced the product line up, such as the introduction of “r3P Eye”, an eye cream as well as continued to work on gaining higher recognition to achieve a steady sales increase. With the above, the sales of the cosmetics business totaled ¥11,749 million, a 12.7% increase over the same quarter, the year earlier.

<Health Foods Division >

In the health foods business, sales of Rose Charge and Karada Mint, which were developed in response to requests on the community forum in the Company’s website, showed strong performance, and at the same time, our regular delivery service has taken root and higher sales were achieved. The sales for this segment were ¥231 million, a 70.5% increase over the same quarter, the year earlier.

< Beauty Appliances & Other Division >

With respect to beauty appliances and other businesses, the Group engages in the sales of beauty appliances including “Aqua Sonia” and “Ionical EX” but the sales are handled as supplemental activity in support of cosmetics products and active sales promotion is not being undertaken, thus, no expansion in sales was achieved. The total sales in this segment for the quarter were ¥57 million, a 65.6% decline over the same quarter, the year earlier.

<Investment>

During the second quarter, there was no investment business activity that was recorded in sales.

2. Qualitative Information Regarding the Consolidated Financial Statements

(1) Changes in the Financial Position

(Assets)

Total assets increased by ¥47 million from the end of the previous consolidated accounting year end. The increase was composed of a ¥513 million increase in sales claims, ¥290 million acquisition of securities offset by payment of corporate income taxes and dividends, resulting in a decline in cash and cash equivalents of ¥445 million and a ¥163 million reduction in intangible fixed assets, primarily through the amortization of software and the like and a ¥74 million reduction in investments and other assets composed of amortization of long term prepaid expenses.

(Liabilities)

Total liabilities, in comparison with the end of the previous consolidated accounting year, showed a ¥202 million reduction. This was mainly due to the increase in accrued payments by ¥96 million for advertising expenses offset by a ¥112 million reduction in long term borrowings through repayments and a reduction in the point service reserves by ¥218 million associated with the restructuring of the point system.

(Net Assets)

As a result, net assets increased by ¥249 million over the end of the previous consolidated accounting year. This was composed of a ¥1,265 million increase representing the net profit for the quarter under review offset by a ¥842 million reduction in the surplus due to dividends paid and the like and a ¥81 million reduction due to the fluctuation in the foreign exchange conversion adjustment account (relating principally to the foreign exchange conversion of net assets of overseas consolidated subsidiaries).

(2) Cash Flow

The balance of cash and cash equivalents (hereinafter, the “Funds”) as of the end of the current consolidated 2nd quarter stood at ¥4,199 million, a ¥445 million reduction over the end of the previous consolidated year end. The status of each cash flow and the principal factors are described below.

(Cash Flow from Operating Activities)

Funds obtained as a result of business activities for the quarter were ¥1,010 million. This was a result of quarterly profit before tax adjustment of ¥2,283 million and an increase in Funds due to an increase in accrued payments of ¥105 million. These were offset by an increase in sales claims by ¥550 million and a reduction in Funds due to the payments of corporate income taxes and the like totaling ¥1,013 million.

(Cash Flow from Investment Activities)

Funds expended in investment activities were ¥457 million. This was composed of expenditure of ¥290 million for the acquisition of securities, ¥85 million for the acquisition of tangible fixed assets and ¥106 million for the acquisition of intangible fixed assets.

(Cash Flow from Financial Activities)

Funds expended in financial activities were ¥938 million. This was primarily composed of payment of dividends totaling ¥833 million and ¥112 million for the repayment of long term borrowings.

3. Qualitative Information Regarding the Consolidated Performance Forecast

With respect to the consolidated performance forecast announced on September 12, 2008, revisions have been made, which are contained in the “Notice Regarding Amendments to Performance Forecasts” announced February 20, 2009. For details refer to the said notice.

Further, the above performance forecast has been prepared based on the information available as of the day of announcement of the notice and the actual performance may vary in the future from the forecasted figures due to various 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.

The Company was in the process of liquidation and as of November 2008, the liquidation has been concluded.

(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 January 31, 2009	As of July 31, 2008
	Amount	Amount
Assets		
Current assets		
Cash and time deposits	4,199,933	4,645,168
Accounts receivable-trade	3,385,198	2,871,712
Securities	290,172	—
Inventories	1,732,911	1,692,803
Other	424,293	516,651
Allowance for doubtful accounts	△45,763	△17,920
Total current assets	9,986,745	9,708,416
Noncurrent assets		
Tangible fixed assets		
Buildings	199,680	202,397
Accumulated depreciation	△81,729	△72,875
Buildings(Net)	117,950	129,521
Tools, furniture and fixture	871,041	803,452
Accumulated depreciation	△540,908	△491,549
Tools, furniture and fixture(Net)	330,132	311,902
Othes	570	—
Total tangible fixed assets	448,653	441,424
Intangible fixed assets		
Software	832,611	956,813
Other	78,275	117,149
Total intangible fixed assets	910,887	1,073,963
Investments and other assets		
Investment real estate	1,653,289	1,653,289
Accumulated depreciation	△69,876	△64,629
Other	398,368	449,792
Allowance for doubtful accounts	△18,054	—
Total investments and other assets	1,963,726	2,038,452
Total noncurrent assets	3,323,267	3,553,840
Total assets	13,310,013	13,262,256
Liabilities		
Current liabilities		
Accounts payable-trade	551,033	554,967
Current portion of long-term borrowings	52,000	164,000
Accounts payable-other	1,083,241	986,299
Income taxes payable	1,038,936	1,049,082
Reserve for bonuses	54,124	51,810
Allowance for bonus points redemption	—	218,262
Other	222,835	183,215
Total current liabilities	3,002,171	3,207,638
Long-term liabilities		
Reserve for retirement benefits	27,807	23,375
Other	4,006	5,129
Total long-term liabilities	31,813	28,505
Total liabilities	3,033,985	3,236,143
Net assets		
Shareholders' capital		
Common stock	1,160,785	1,157,099
Additional paid-in capital	1,638,185	1,634,699
Retained earnings	8,839,990	8,508,571
Treasury stock	△1,269,884	△1,269,884
Total shareholders' capital	10,369,076	10,030,486
Valuation and translation adjustments		
Net unrealized gains (losses) on available-for-sale securities	△9,342	△1,832
Foreign currency translation adjustments	△83,706	△2,539
Total valuation and translation adjustments	△93,049	△4,372
Total net assets	10,276,027	10,026,113
Total liabilities and net assets	13,310,013	13,262,256

(2) Consolidated Statement of Income

(In thousand yen)

	Six months ended January 31, 2009
	Amount
Net sales	12,038,376
Cost of sales	2,198,417
Gross profit	9,839,959
Selling, general and administrative expenses	7,414,249
Operating income	2,425,710
Non-operating revenues	
Interest income	5,325
Commissions	7,783
Others	5,725
Total non-operating revenues	18,834
Non-operating expenses	
Foreign exchange losses	41,842
Depreciation and Amortization	5,247
Others	2,642
Total non-operating expenses	49,732
Ordinary income	2,394,811
Extraordinary losses	
Loss on disposal of fixed assets	86,623
Valuation loss on investment securities	24,840
Total extraordinary losses	111,463
Net income before taxes	2,283,347
Income taxes	1,017,964
Net income	1,265,383

(3) Consolidated Statements of Cash Flows

(In thousand yen)

	Six months ended January 31, 2009
	Amount
Cash flows from operating activities	
Income before income taxes	2,283,347
Depreciation and amortization	267,149
Increase(decrease) in allowance for doubtful accounts	△5,240
Increase(decrease) in reserve for employees' bonuses	2,313
Increase (decrease) in allowance for bonus points redemption	△218,262
Increase(decrease) in reserve for retirement benefits	5,432
Interest and dividend income	△5,517
Interest expense	933
Loss on disposal of fixed assets	86,623
Valuation loss on investment securities	24,840
Increase(decrease) in trade receivables	△550,791
Increase (decrease)in inventories	△68,012
Increase (decrease) in trade payables	30,101
Increase (decrease) in accounts payable-other	105,842
Increase (decrease) in consumption tax payable	2,374
Other	57,842
Sub total	2,018,978
Interest and dividends received	5,309
Interest expense	△933
Income taxes paid	△1,013,336
Net cash provided by (used in) operating activities	1,010,017
Cash flows from investing activities	
Acquisition of securities	△290,000
Acquisition of tangible fixed assets	△85,068
Income from sale of tangible fixed assets	1,154
Acquisition of intangible fixed assets	△106,155
Payment of lease/guarantee deposits	△4,602
Proceeds from collection of lease/guarantee deposits	27,609
Net cash provided by (used in) investing activities	△457,062
Cash flows from financing activities	
Repayment of long-term borrowings	△112,000
Proceeds from share issuance	7,172
Dividend payment	△833,283
Net cash provided by (used in) financing activities	△938,111
Effect of exchange rate changes on cash and cash equivalents	△46,163
Decrease in cash and cash equivalents	△431,319
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
Cash and cash equivalents at the end of the period	4,199,933

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.