

First Quarter Financial Results
For the Three Months Ended October 31, 2009 — Consolidated

December 10, 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/>
 Representative: Tomomi Ishihara, President and COO
 Contact: Hiroyuki Kosugi, Executive Officer and General Manager of Financial Department
 Phone: +81-3-6419-2500
 Filing of quarterly financial report: December 11, 2009
 Start of cash dividend payments: —

(Amounts rounded down to the nearest million yen)

1. Consolidated Financial Results for the Three Months Ended October 31, 2009
(August 1, 2009 to October 31, 2009)

(1) Operating Results

(Percentage figures denote year-on-year change)

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
First quarter ended October 31, 2009	6,473	36.5	1,932	773.8	1,929	831.1	1,070	837.3
First quarter ended October 31, 2008	4,741	—	221	—	207	—	114	—

	Net income per share	Diluted net income per share
	yen	yen
First quarter ended October 31, 2009	3,956.69	3,952.76
First quarter ended October 31, 2008	419.36	417.47

(2) Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	million yen	million yen	%	yen
First quarter ended October 31, 2009	15,142	12,106	79.9	44,749.33
FY ended July 31, 2009	15,252	11,779	77.2	43,540.94

(Reference) Shareholders' equity: First quarter ended October 31, 2009: 12,106 million yen
 Fiscal year ended July 31, 2009: 11,779 million yen

2. Dividends per share

Period	First Quarter	Second Quarter	Third Quarter	Year-end	Annual
	yen	yen	yen	yen	yen
FY ended July 31,2009	—	—	—	2,700.00	2,700.00
FY ending July 31,2010 (forecast)	—	—	—	2,800.00	2,800.00

Note: Revision to quarterly dividend forecast: None

3. Forecast of Earnings for the Year Ending July 31, 2010 (August 1, 2009 to July 31, 2010)

(Percentage figures denote year-on-year change)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Second Quarter ending January 31,2010	14,400	19.6	2,600	7.2	2,600	8.6	1,470	16.2	5,433.68
FY ending July 31,2010	30,200	16.6	6,000	11.0	6,000	11.3	3,400	11.6	12,567.69

Note: Revision to consolidated earnings forecast during period under review: None

4. Other Information

- (1) Changes affecting the status of significant subsidiaries during the period (scope of consolidation): None
- (2) Use of simplified accounting methods: yes
Note: For details, see “4.Other Matters” section (2) beginning on page 6.
- (3) Changes in accounting principles, procedures and presentation methods for quarterly financial statements
(Changes in key accounting standards for quarterly financial reporting.)

Changes resulting from revisions to accounting standards: None

Others: None

- (4) Shares issued (common stock)

Shares issued (including treasury stock) at end of term

October 31,2009 : 280,356

July 31,2009 : 280,348

Treasury stock

October 31,2009 : 9,813

July 31,2009 : 9,813

Average shares issued

October 31,2009 : 270,537

October 31,2008 : 272,318

※Appropriate use of business forecasts • other special items

The above forecasts are based on information currently available. Actual results may differ from the above forecasts due to a range of factors. For matters relating to performance forecasts, see 3.

Qualitative information regarding consolidated performance forecast in [Qualitative Information • Financial Statements] on page 6.

Qualitative Information / Financial Statements

1. Qualitative Information Regarding the Consolidated Management Performance

The outlook for the domestic economy during the first quarter of the consolidated fiscal year remains unclear, despite signs of a partial recovery due to a revival in exports and production thanks to inventory adjustments and the impact of economic measures employed by foreign countries. A decline in corporate earnings has led to a capital expenditure reduction, while the employment situation continues to deteriorate, both on the heels of an already difficult business environment.

Amid these conditions the Group has sought sales growth through stronger sales of existing products (mainly those released in the previous fiscal period) while at the same time developing measures to meet the needs of existing customers. Analysis of each sales channel's performance is detailed below.

Measures to promote repeat purchases by existing mail order customers proved successful, and business remained solid. Our aim was to achieve sales growth and efficiency by combining two different types of product promotion: product samples via television commercials, and direct product purchases through infomercials. Also, we enacted measures encouraging repeat purchases, such as point campaigns, intended to increase sales which resulted in a growth of 41.3% year on year.

Face-to-face retail began a relatively solid upward trend with six new department store counters. By reinforcing our customer's record and establishing measures to encourage repeat visits, we successfully increased the number of repeat existing customers. Also, results were promising with a positive outlook for future growth based on a gradual rise in new clients after September, fueled by GMS's successful ability to attract customers. Based on these factors, sales increased by 20.9% year on year.

For wholesale distribution, existing and new products showed steady growth due to reinforced store promotions designed to bring customers to drugstores and GMS self-service stores. Meanwhile, television shopping and specialty store sales channels continue to perform well, with strong sales in the overall wholesale distribution channel, resulting in growth of 42.8% year on year. As regards overseas business, the sales situation is severe due to unfavorable economic circumstances permeating the host regions. As such, a focus has been placed on Asia to revive sales through the commencement of TV shopping sales channels in Taiwan as well as reinforcement of Internet-based sales. However, growth was unable to be obtained in department store centric sales routes and the North American region, resulting in a decline of 8.9% year on year.

Profits greatly increased mainly due to a decrease of 254 million yen in advertisement expenses compared to the same period of the previous fiscal year, which was the result of both strong trends in sales and selective use of advertising mediums. Overall, sales increased by 36.5% to 6,473 million yen, operating profit increased by 773.8% year on year to 1,932 million yen, current profit increased by 831.1% to 1,929 million yen, with net profit for the quarter up by 837.3% to 1,070 million yen.

For a review of each business segment, see the following.

<Cosmetics Business>

Concerning cosmetics products, focus has been placed on reinforcing sales in existing products for the Dr. Ci:Labo brand. Due to a rising demand in anti-aging products within the cosmetics market, Aqua-Collagen-Gel Enrich-Lift-EX was targeted towards customers 40 years and older, resulting in strong sales of the product and sales growth. Also, active promotion was carried out on products released last fiscal year, Super White 377 and BB Perfect Cream, which continue to perform well. Sales growth was targeted through the rollout of Labo Labo brand products as staple drugstore products, together with reinforced lineups including the release of items such as Super-Keana Clay Pack and Super-Keana Gel Mask. With regards to the Genomer brand, a new foundation product was released, together with skin care and makeup products, aiming to raise the bottom line. Two new products were released under the dr.brandt. The steady reinforcement of retail stores is also being implemented with a new store opened in the Hankyu Department Store's flagship store in Umeda in September. Overall, the cosmetics business experienced an increase in sales by 35.2% year on year to 6,215 million yen.

<Health Foods Division >

For health foods business, increased customer awareness regarding mail order sales successfully contributed to a rise in sales thanks to regular delivery of advertisements directed at customers. Also, efforts have been made in reinforcing product renewals. Overall, sales for health foods increased by 32.4% year on year to 159 million yen.

<Equipment and Other businesses>

For equipment and other businesses, sales rose due to special retail campaigns and sets of packaged beauty equipment. As a result, sales for machines and others increased by 327.3% year on year to 98 million yen.

<Investment>

During the First 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 decreased by 109 million yen in comparison to the previous consolidated fiscal year end. This was due mainly in part to brisk sales of products which caused a reduction in product inventory by 68 million yen, together with software depreciation of about 56 million yen.

(Liabilities)

Total liabilities decreased by 436 million yen compared to the previous consolidated fiscal year end. This was mainly due in part to income tax payments, which reduced tax liabilities by 564 million yen.

(Net Assets)

The total net asset increased 327 million yen compared to the previous consolidated fiscal year end. While there was a 730 million yen decrease in retained earnings resulting from appropriation of surplus from dividends, overall retained earnings rose due to the relatively strong performance of operations, which resulted in a quarterly net profit of 1,070 million yen.

(2) Cash Flow

Cash and cash equivalents (hereafter referred to as “cash”) for the first quarter of the consolidated fiscal year saw an increase of 469 million yen year on year to 5,800 million yen. While income tax payments totaled 1,395 million yen with 512 million yen in dividend payments, the increase was due in large part to the pre-tax adjustment quarterly net profit which totaled 1,924 million yen, which resulted from strong sales operations and 432 million yen in collected accounts receivables.

The status of each cash flow and the principal factors are described below.

(Cash Flow from Operating Activities)

Operating cash flows totaled 1,086 million yen (compared to outflows of 162 million yen in the same period of the previous fiscal year). Lower account payables reduced cash by 206 million yen while lower inventory and account receivables increased cash by 102 million yen and 432 million yen respectively. The pretax adjusted quarterly net profit was 1,924 million yen.

(Cash Flow from Investment Activities)

Cash flows used by investment activities totaled 93 million yen (compared to 56 million yen in the same period of the previous fiscal year.) This was mainly due to 45 million yen spent on acquisition of tangible fixed assets such as opening of new stores, etc., and 49 million yen expended on intangibles such as system investment, etc.

(Cash Flow from Financial Activities)

Cash flows used by financing activities totaled 512 million yen (compared to 702 million yen in the same period of the previous fiscal year). This was mainly due in part to payment of dividends totaling 512 million yen.

3. Qualitative Information Regarding the Consolidated Performance Forecast

While performance for the first consolidated quarter of the fiscal year roughly followed our forecasts, no change is being announced with regards to the targets for the second quarter of fiscal 2009 announced on Sept. 11, 2009 in the “Financial results for the year ended July 31, 2009 (Consolidated).”

4. Other Matters

(1) Changes affecting the status of significant subsidiaries during the period (scope of consolidation)
None.

(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
None.

Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Thousands of yen)

	First quarter ended October 31, 2009	FY ended July 31,2009
Assets		
Current assets		
Cash and time deposits	5,800,429	5,330,500
Accounts receivable-trade	3,220,478	3,634,243
Securities	290,648	290,561
Products	—	1,446,908
Merchandise	—	58,558
Products and merchandise	1,436,588	—
Raw materials and stored goods	728,529	768,044
Other	446,452	457,443
Allowance for doubtful accounts	△56,186	△56,282
Total current assets	11,866,941	11,929,978
Noncurrent assets		
Tangible fixed assets		
Building	198,871	200,319
Accumulated depreciation	△98,428	△94,385
Buildings(Net)	100,442	105,934
Tools, furniture and fixture	936,439	899,342
Accumulated depreciation	△625,128	△603,593
Tools, furniture and fixture(Net)	311,310	295,749
Total tangible fixed assets	411,753	401,683
Intangible fixed assets		
Software	794,243	850,865
Other	40,239	32,371
Total intangible fixed assets	834,483	883,237
Investments and other assets		
Investment real estate	1,653,289	1,653,289
Accumulated depreciation	△77,403	△75,123
Investment real estate(Net)	1,575,885	1,578,166
Other	453,826	459,414
Total investments and other assets	2,029,712	2,037,580
Total noncurrent assets	3,275,948	3,322,501
Total assets	15,142,890	15,252,480

(Thousands of yen)

	First quarter ended October 31, 2009	FY ended July 31,2009
Liabilities		
Current liabilities		
Accounts payable-trade	545,313	524,117
Accounts payable-other	910,216	1,125,518
Income taxes payable	884,701	1,449,332
Reserve for bonuses	139,774	55,909
Allowance for bonus points redemption	57,200	43,564
Other	451,737	229,899
Total current liabilities	2,988,943	3,428,342
Long-term liabilities		
Reserve for retirement benefits	39,234	37,493
Other	8,094	7,296
Total long-term liabilities	47,329	44,789
Total liabilities	3,036,272	3,473,131
Net assets		
Shareholders' capital		
Common stock	1,162,585	1,162,198
Additional paid-in capital	1,639,985	1,639,598
Retained earnings	11,049,984	10,709,996
Treasury stock	△1,669,873	△1,669,873
Total shareholders' capital	12,182,682	11,841,920
Valuation and translation adjustments		
Net unrealized gains (losses) on available-for-sale securities	4,593	3,127
Foreign currency translation adjustments	△80,657	△65,699
Total valuation and translation adjustments	△76,064	△62,571
Total net assets	12,106,617	11,779,348
Total liabilities and net assets	15,142,890	15,252,480

(2) Consolidated Statement of Income

(Thousands of yen)

	First quarter ended October 31, 2008	First quarter ended October 31, 2009
Net sales	4,741,486	6,473,411
Cost of sales	924,414	1,144,435
Gross profit	3,817,072	5,328,976
Selling, general and administrative expenses	3,595,894	3,396,434
Operating income	221,177	1,932,541
Non-operating revenues		
Interest income	5,103	326
Dividends received	—	803
Commissions	3,908	3,950
Other	1,265	1,101
Total non-operating revenues	10,277	6,182
Non-operating expenses		
Foreign exchange losses	20,619	7,183
Depreciation and Amortization	2,623	2,280
Other	997	—
Total non-operating expenses	24,241	9,464
Ordinary income	207,213	1,929,259
Extraordinary losses		
Loss on disposal of fixed assets	4,162	4,516
Total extraordinary losses	4,162	4,516
Net income before taxes	203,050	1,924,743
Income taxes	88,851	854,311
Net income	114,199	1,070,432

(3) Consolidated Statements of Cash Flows

(Thousands of yen)

	First quarter ended October 31, 2008	First quarter ended October 31, 2009
Cash flows from operating activities		
Income before income taxes	203,050	1,924,743
Depreciation and amortization	127,197	123,927
Amortization of long-term prepaid expenses	5,572	4,300
Increase(decrease) in allowance for doubtful accounts	△23,295	1,560
Increase(decrease) in reserve for employees' bonuses	79,549	83,864
Increase (decrease) in allowance for bonus points redemption	△150,132	13,635
Increase(decrease) in reserve for retirement benefits	2,714	1,741
Interest and dividend income	△5,103	△1,130
Interest expense	625	—
Loss on disposal of fixed assets	4,162	4,516
Increase(decrease) in trade receivables	494,066	432,962
Increase (decrease)in inventories	△35,482	102,016
Increase (decrease) in trade payables	△72,926	25,666
Increase (decrease) in accounts payable-other	203,072	△206,162
Increase (decrease) in consumption tax payable	△79,478	△1,158
Increase (decrease) in changes in deposits received	81,702	83,442
Other	10,417	△112,715
Sub total	845,714	2,481,210
Interest and dividends received	5,103	1,043
Income taxes paid	△1,012,833	△1,395,749
Net cash provided by (used in) operating activities	△162,016	1,086,504
Cash flows from investing activities		
Acquisition of tangible fixed assets	△37,243	△45,055
Income from sale of tangible fixed assets	510	—
Acquisition of intangible fixed assets	△41,615	△49,005
Payment of lease/guarantee deposits	△3,705	△39
Proceeds from collection of lease/guarantee deposits	25,751	320
Net cash provided by (used in) investing activities	△56,302	△93,780

(Thousands of yen)

	First quarter ended October 31, 2008	First quarter ended October 31, 2009
Cash flows from financing activities		
Repayment of long-term borrowings	△56,000	—
Proceeds from share issuance	6,200	774
Dividend payment	△653,049	△512,786
Net cash provided by (used in) financing activities	△702,849	△512,012
Effect of exchange rate changes on cash and cash equivalents	△10,789	△10,782
Decrease in cash and cash equivalents	△931,957	469,928
Cash and cash equivalents at the beginning of the period	4,645,168	5,330,500
Net decrease in cash and cash equivalents associated with exclusion From scope of consolidation	△13,915	—
Cash and cash equivalents at the end of the period	3,699,295	5,800,429

(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.