

Second Quarter Financial Results
For the Six Months Ended January 31, 2010 — Consolidated

March 15, 2010

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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 Filing of quarterly financial report: March 16, 2010
 Start of cash dividend payments: —

(Amounts rounded down to the nearest million yen)

1. Consolidated Financial Results for the Six Months Ended January 31, 2010
(August 1, 2009 to January 31, 2010)

(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	%
Second quarter ended January 31, 2010	15,077	25.2	4,278	76.4	4,268	78.2	2,402	89.9
Second quarter ended January 31, 2009	12,038	—	2,425	—	2,394	—	1,265	—

	Net income per share	Diluted net income per share
	yen	yen
Second quarter ended January 31, 2010	8,880.17	8,871.34
Second quarter ended January 31, 2009	4,641.80	4,627.74

(2) Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	million yen	million yen	%	yen
Second quarter ended January 31, 2010	17,767	13,445	75.7	49,688.37
FY ended July 31, 2009	15,252	11,779	77.2	43,540.94

(Reference) Shareholders' equity: Second quarter ended January 31, 2010: 13,445 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 ended July 31,2010	—	—			
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
FY ending July 31,2010	30,800	18.9	7,500	38.8	7,500	39.1	4,150	36.2	15,339.29

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 5.

(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

January 31,2010 : 280,400

July 31,2009 : 280,348

Treasury stock

January 31,2010 : 9,813

July 31,2009 : 9,813

Average shares issued

January 31,2010 : 270,553

January 31,2009 : 272,606

※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 5.

Qualitative Information / Financial Statements

1. Qualitative Information Regarding the Consolidated Management Performance

The domestic economic environment for the 2nd quarter of the consolidated fiscal year has been hostile to the corporate sector. Weak consumer spending and other factors have contributed to a deterioration in corporate profits and employment, alongside deflation and the continued rise of the yen. Despite these conditions, we targeted the Dr. Ci:Labo brand at the over-40 bracket of customers, centered on the Aqua-Collagen-Gel Enrich-Lift-EX product, in order to expand sales in existing products. Also, new and limited-run products were released within the GENOMER, Labo Labo, and dr. brandt line of products, aiming to fully engage in product development.

Business for all sales channels remained solid. Within mail order sales, sales increased as measures to promote the acquisition of new customers through cross media marketing that combined TV infomercial, newspaper and web advertisements that proved successful, along with the continued success of activities to encourage repeat purchases. Mail order sales increased by 31.4% yoy due to several factors: we reinforced product promotion functions within the call center, promoted counseling forms, and reinforced the e-commerce section, which contributed to a growth in sales.

In face-to-face retail, we aimed to increase profits by opening 6 new stores, while closing 2 stores that showed unsatisfactory profitability. For existing stores, we aimed to increase customer satisfaction by reinforcing the acquisition of customer charts, and actively engaged in training our retail staff. As a result, face-to-face retail sales increased by 6.1% yoy.

For wholesale distribution, in addition to increasing the number of drugstores that handle the Dr. Ci:Labo brand by 400, we have forged a new sales channel by expanding into a co-op, aiming to expand retail channels. Also, measures linked to television and WEB activities designed to draw customers into stores proved successful, with strong sales in the overall wholesale distribution channel, resulting in a growth of 26.8% yoy.

Overseas, the US and Hong Kong market environments are still unfavorable, with limited growth for sales in Hong Kong and with a slight decline in the US. Taiwan, however seems on course for a gradual recovery, while Singapore and Malaysian sales are on a steady rise. As a result, overseas sales have increased by 9.9% yoy. Profit margin increased greatly, mainly due to several factors, including strong sales and a drop in advertising expenses for various mediums thanks to the active expansion of cross media marketing. We also reduced the unit price for the membership magazine and direct mail delivery costs, and streamlined call center outsourcing costs, which also contributed to the increase in profits.

Overall, sales increased by 25.2% to 15.077 bn yen, operating profits increased by 76.4% yoy to 4.278 bn yen, recurring profits increased by 78.2% to 4.268 bn yen with the net profit for the quarter up by 89.9% to 2.402 bn yen .

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

<Cosmetics Business>

For cosmetic products, we aimed to increase sales of existing products, with sales expansion focused on the Aqua-Collagen-Gel series in the Dr. Ci:Labo brand. The acquisition of new customers for Aqua-Collagen-Gel Enrich-Lift-EX was successful, contributing to growth in sales. The 200g sized medicated Aqua-Collagen-Gel Super Moisture and Aqua-Collagen-Gel Enrich-Lift-EX products were released for a limited time through mail order retail, face-to-face retail, and parts of wholesale distribution, and showed strong sales in their respective sales channels. The release of grab-bags, designed to meet the needs of price-conscious customers, not only contributed to an increase in sales, but also brought new awareness towards our secondary products. We continue to expand the Labo Labo brand into drugstores, and aim to raise the bottom line of brands through the sale of new and limited-run products. For the GENOMER brand, we have forged a new customer base by introducing make-up base items, which has contributed to a growth in sales. With dr.brandt, we have introduced 6 new items, while continuing to place our efforts into raising awareness, aiming to steadily increase growth.

Overall, sales for the cosmetics business increased by 23.3% yoy to 14.490 bn yen.

<Health Foods Division >

For health foods, we increased the number of subscribers by actively advertising our regular delivery service and promoting the service to our customers, which successfully contributed to a rise in sales.

Overall, sales for health foods increased by 56.9% yoy to 363 mn yen.

<Equipment and Other businesses>

For machines and others, we were able to boost sales through the retail of moderately priced beauty equipment and cosmetic product packages, such as Aqua Sonia and Ionical EX.

As a result, sales for machines and others increased by 287.8% yoy to 223 mn yen.

<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 2.514 bn yen, in comparison to the previous consolidated fiscal year end. This was mainly due to brisk performance that increased cash and cash equivalents by 2.425 bn yen.

(Liabilities)

Total liabilities increased by 848 mn yen compared to the previous consolidated fiscal year end. This was mainly due to two factors: 1) an increase of 128 mn yen in account payables that was the result of brisk performance due to a rise in production, and 2) an increase of 466 mn yen in income tax payments resulting from improved profits.

(Net Assets)

The total net asset increased by 1.665 bn yen compared to the previous consolidated fiscal year end. While the 2nd Quarter Consolidated Profits totaled 2.402 bn yen, retained earnings increased by 1.672 bn yen due to 730 mn yen in dividend payments.

(2) Cash Flow

Cash and cash equivalents (hereafter referred to as “cash”) as of the end of the 2nd Quarter Consolidated Fiscal Period saw an increase of 2.425 bn yen compared to the previous consolidated fiscal year end to 7.756 bn yen.

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

(Cash Flow from Operating Activities)

Operating cash flows totaled 3.310 bn yen. While the pre-tax adjustment quarterly net profit totaled 4.260 bn yen, capital decreased by 1.397 bn yen due to income tax payments.

(Cash Flow from Investment Activities)

157 mn yen was expended on investment activities. This was mainly due to the 66 mn yen spent on the acquisition of PP&E, and 90 mn yen spent on intangibles.

(Cash Flow from Financial Activities)

Capital expended in financial activities totaled 720 mn yen. This was mainly due in part to payment on dividends totaling 722 mn yen.

3. Qualitative Information Regarding the Consolidated Performance Forecast

We revised our guidance, released on September 11, 2009, in “Notice Regarding Amendments to Performance Forecasts” posted on January 25, 2010. For more details, please see the document in question. The performance forecasts noted above were created using materials available as of the date of the announcement. Due to various factors, the actual performance may differ from forecast.

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 second 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.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Thousands of yen)

	Second quarter ended January 31, 2010	FY ended July 31,2009
Assets		
Current assets		
Cash and time deposits	7,756,479	5,330,500
Accounts receivable-trade	3,748,248	3,634,243
Securities	290,728	290,561
Products	—	1,446,908
Merchandise	—	58,558
Products and merchandise	1,513,086	—
Raw materials and stored goods	835,253	768,044
Other	467,693	457,443
Allowance for doubtful accounts	△76,098	△56,282
Total current assets	14,535,390	11,929,978
Noncurrent assets		
Tangible fixed assets		
Buildings	199,862	200,319
Accumulated depreciation	△103,633	△94,385
Buildings(Net)	96,228	105,934
Tools, furniture and fixture	951,730	899,342
Accumulated depreciation	△656,792	△603,593
Tools, furniture and fixture(Net)	294,938	295,749
Total tangible fixed assets	391,167	401,683
Intangible fixed assets		
Software	752,710	850,865
Other	56,665	32,371
Total intangible fixed assets	809,375	883,237
Investments and other assets		
Investment real estate	1,653,289	1,653,289
Accumulated depreciation	△79,684	△75,123
Investment real estate(Net)	1,573,604	1,578,166
Other	457,577	459,414
Total investments and other assets	2,031,182	2,037,580
Total noncurrent assets	3,231,725	3,322,501
Total assets	17,767,116	15,252,480

(Thousands of yen)

	Second quarter ended January 31, 2010	FY ended July 31,2009
Liabilities		
Current liabilities		
Accounts payable-trade	652,465	524,117
Accounts payable-other	1,237,182	1,125,518
Income taxes payable	1,915,545	1,449,332
Reserve for bonuses	68,029	55,909
Allowance for bonus points redemption	80,492	43,564
Other	316,669	229,899
Total current liabilities	4,270,383	3,428,342
Long-term liabilities		
Reserve for retirement benefits	40,446	37,493
Other	11,258	7,296
Total long-term liabilities	51,705	44,789
Total liabilities	4,322,089	3,473,131
Net assets		
Shareholders' capital		
Common stock	1,163,049	1,162,198
Additional paid-in capital	1,640,449	1,639,598
Retained earnings	12,382,105	10,709,996
Treasury stock	△1,669,873	△1,669,873
Total shareholders' capital	13,515,729	11,841,920
Valuation and translation adjustments		
Net unrealized gains (losses) on available-for-sale securities	2,820	3,127
Foreign currency translation adjustments	△73,523	△65,699
Total valuation and translation adjustments	△70,702	△62,571
Total net assets	13,445,027	11,779,348
Total liabilities and net assets	17,767,116	15,252,480

(2) Consolidated Statement of Income(FY10 2nd Quarter Consolidated Cumulative Period)

(Thousands of yen)

	Second quarter ended January 31, 2009	Second quarter ended January 31, 2010
Net sales	12,038,376	15,077,448
Cost of sales	2,198,417	2,777,049
Gross profit	9,839,959	12,300,398
Selling, general and administrative expenses	7,414,249	8,021,676
Operating income	2,425,710	4,278,721
Non-operating revenues		
Interest income	5,325	350
Dividends received	—	903
Commissions	7,783	7,511
Other	5,725	1,558
Total non-operating revenues	18,834	10,324
Non-operating expenses		
Foreign exchange losses	41,842	11,514
Depreciation and Amortization	5,247	9,115
Other	2,642	38
Total non-operating expenses	49,732	20,668
Ordinary income	2,394,811	4,268,378
Extraordinary losses		
Loss on disposal of fixed assets	86,623	7,674
Valuation loss on investment securities	24,840	—
Total extraordinary losses	111,463	7,674
Net income before taxes	2,283,347	4,260,703
Income taxes	1,017,964	1,858,150
Net income	1,265,383	2,402,552

(3) Consolidated Statements of Cash Flows

(Thousands of yen)

	Second quarter ended January 31, 2009	Second quarter ended January 31, 2010
Cash flows from operating activities		
Income before income taxes	2,283,347	4,260,703
Depreciation and amortization	253,481	244,961
Amortization of long-term prepaid expenses	13,668	12,234
Increase(decrease) in allowance for doubtful accounts	△5,240	21,478
Increase(decrease) in reserve for employees' bonuses	2,313	12,119
Increase (decrease) in allowance for bonus points redemption	△218,262	36,928
Increase(decrease) in reserve for retirement benefits	5,432	2,953
Interest and dividend income	△5,517	△1,254
Interest expense	933	—
Loss on disposal of fixed assets	86,623	7,674
Valuation loss on investment securities	24,840	—
Increase(decrease) in trade receivables	△550,791	△117,316
Increase (decrease)in inventories	△68,012	△78,406
Increase (decrease) in trade payables	30,101	130,974
Increase (decrease) in accounts payable-other	105,842	103,291
Increase (decrease) in consumption tax payable	2,374	56,451
Increase (decrease) in changes in deposits received	34,233	38,289
Other	23,609	△23,764
Sub total	2,018,978	4,707,319
Interest and dividends received	5,309	1,045
Interest expense	△933	—
Income taxes paid	△1,013,336	△1,397,441
Net cash provided by (used in) operating activities	1,010,017	3,310,923

Cash flows from investing activities		
Acquisition of securities	△290,000	—
Acquisition of tangible fixed assets	△85,068	△66,369
Income from sale of tangible fixed assets	1,154	—
Acquisition of intangible fixed assets	△106,155	△90,181
Payment of lease/guarantee deposits	△4,602	△2,840
Proceeds from collection of lease/guarantee deposits	27,609	1,800
Net cash provided by (used in) investing activities	△457,062	△157,590
Cash flows from financing activities		
Repayment of long-term borrowings	△112,000	—
Proceeds from share issuance	7,172	1,701
Dividend payment	△833,283	△722,393
Net cash provided by (used in) financing activities	△938,111	△720,692
Effect of exchange rate changes on cash and cash equivalents	△46,163	△6,661
Decrease in cash and cash equivalents	△431,319	2,425,978
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	4,199,933	7,756,479

(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.

6. Other information

None.