Nippon Shikizai, Inc.

October 24, 2006

# Interim Consolidated Financial Results for the Fiscal Year Ending February 2007

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|---|---|
| Name of company listed: | Nippon Shikizai, Inc. |
| Stock code number: | 4920 |
| Stock exchange listing: | JASDAQ |
| Company domicile: | Tokyo |
| President: | Kouji Okumura |
| Contact: | Shinsaku Tsukamoto, Managing Director |
| Telephone: | +81-(0)3-3456-0561 |
| URL: | http://www.shikizai.com |
| Board of Director's meeting for approving: | October 24, 2006 |
| Largest shareholder (voting rights): | Avante Inc. (21.4%) |
| Accounting principle: | Japanese GAAP |

## 1. Interim Consolidated Financial Results (March 1, 2006 – August 31, 2006)

(1) Consolidated results of operations

(Amounts rounded down to million yen)

| | Sales | | Operating income | | Ordinary income | |
|---|---|---|---|---|---|---|
| | Million yen | YoY change (%) | Million yen | YoY change (%) | Million yen | YoY change (%) |
| First half ended Aug. 2006 | 3,456 | 7.2 | 166 | 19.5 | 223 | 185.1 |
| First half ended Aug. 2005 | 3,222 | 0.7 | 139 | 10.5 | 78 | 21.7 |
| Fiscal year ended Feb. 2006 | 6,579 | 0.5 | 232 | (13.7) | 113 | (51.8) |

| | Net income | | Net income per share (basic) | Net income per share (diluted) |
|---|---|---|---|---|
| | Million yen | YoY change (%) | Yen | Yen |
| First half ended Aug. 2006 | (720) | - | (166.93) | - |
| First half ended Aug. 2005 | 24 | 7.4 | 5.74 | - |
| Fiscal year ended Feb. 2006 | 4 | (95.4) | 1.11 | - |

Notes:

1. Equity in earnings of consolidated subsidiaries
   - First half ended Aug. 2006: - million yen
   - First half ended Aug. 2005: - million yen
   - Fiscal year ended Feb. 2006: - million yen
2. Average number of shares outstanding (consolidated)
   - First half ended Aug. 2006: 4,317,444 shares
   - First half ended Aug. 2005: 4,317,711 shares
   - Fiscal year ended Feb. 2006: 4,317,577 shares
3. Change in accounting principle: Yes
4. "YoY change" represents relevant change in percentage compared to the same period of the previous year.

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | Million yen | Million yen | % | Yen |
| As of Aug. 31, 2006 | 7,615 | 1,961 | 25.8 | 454.22 |
| As of Aug. 31, 2005 | 8,392 | 2,768 | 33.0 | 641.16 |
| As of Feb. 28, 2006 | 8,401 | 2,802 | 33.4 | 649.07 |

Note: Number of shares outstanding (consolidated)

As of Aug. 31, 2006: 4,317,444 shares
As of Aug. 31, 2005: 4,317,444 shares
As of Feb. 28, 2006: 4,317,444 shares

(3) Consolidated cash flow position

| | Cash flows from operating activities | Cash flows from investment activities | Cash flows from financial activities | Cash and cash equivalents at end of period |
|---|---|---|---|---|
| | Million yen | Million yen | Million yen | Million yen |
| First half ended Aug. 2006 | 272 | (215) | (86) | 473 |
| First half ended Aug. 2005 | (7) | (174) | 229 | 519 |
| Fiscal year ended Feb. 2006 | 341 | (329) | 11 | 498 |

(4) Scope of consolidation and application of equity method

Consolidated subsidiary: 1
Non-consolidated equity-method subsidiary: -
Equity-method affiliate: -

(5) Changes in consolidation and application of equity method

Consolidation
Newly added: -
Excluded: -
Equity-method
Newly added: -
Excluded: -

## 2. Forecast for the Fiscal Year Ending February 28, 2007 (March 1, 2006 - February 28, 2007)

| | Sales | Ordinary income | Net income |
|---|---|---|---|
| | Million yen | Million yen | Million yen |
| Full year | 6,873 | 216 | (670) |

(Reference) Estimated net income per share (full year): (155.18) yen

*The above forecasts were made by management based on currently available data and information. Please be aware that actual results may turn out different from those forecast as the Company’s business is affected by many factors. Please refer to page 8 for details on the above forecasts.*

## 1. Corporate Group

The Nippon Shikizai group (the Group) is made up of Nippon Shikizai, Inc. (the Company), one subsidiary, and one affiliated company.

The Company manufactures and performs research and development, both under contract for client companies, for cosmetics (including quasi-drugs). Subsidiary THEPENIER PHARMA INDUSTRIE S.A. (Thepenier) primarily manufactures under contract for client companies pharmaceuticals and cosmetics in France.

Avante Inc., an associated company, holds 21.4% of the voting rights of the Company, but has no other relationship (sales, technology, manufacturing, personnel, etc.) with this company other than the sharing of certain directors.

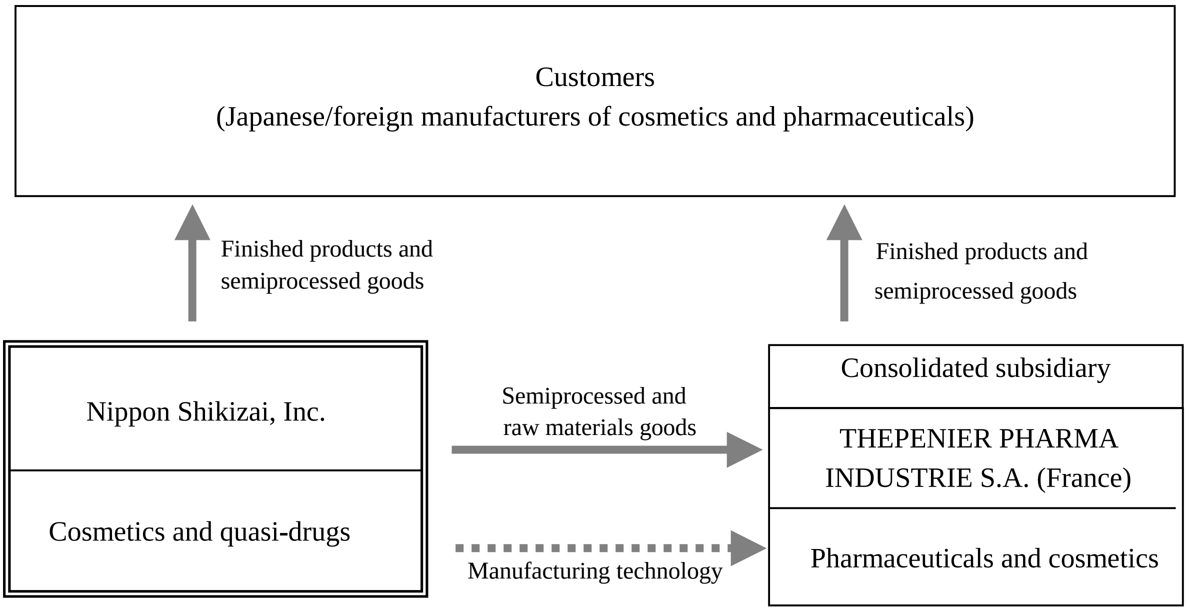
The business activities of the Group and roles of the Company and its subsidiary are as follows.

(1) Cosmetics
Main products are foundation, eye shadow, rouge, lipsticks, lip creams, moisturizers and sunscreen lotions; all are manufactured and sold by the Company and its subsidiary.

(2) Pharmaceuticals and other products
Major products are econazole, medicinal toothpastes, mouthwashes, ear washes and hygiene products; these products are manufactured and sold by the subsidiary.

For some cosmetics products, the Company and a subsidiary sell and purchase raw materials and semiprocessed goods to each other, and these two companies manufacture and sell semiprocessed goods and finished products.

Presented below is a schematic of major business activities within the Group.



## 2. Management Policies

(1) Fundamental Policy

The corporate philosophy is "the high technology product innovation of Nippon Shikizai is being monitored throughout the world." In line with this policy, the Company earns the trust of society as a developer and manufacturer of cosmetics while striving to increase its earnings and enterprise value for the benefit of shareholders.

Furthermore, as an organization specializing in the OEM manufacture of cosmetics and pharmaceuticals that do not bear its own brand, the Group's goal is to use highly sophisticated technology and extensive data resources to supply products that excel in terms of quality and reliability. As a partner for cosmetics manufacturers and other companies, the Group is building an infrastructure capable of performing every step from the formulation of proposals through R&D and the manufacture of finished products.

(2) Fundamental Policy Regarding Allocation of Earnings

The Company regards the return of earnings to shareholders as one of its highest priorities. The fundamental policy is to continuously pay a stable dividend relative to results of operations.

Retained earnings are used to achieve growth, mainly through capital expenditures to upgrade and expand production facilities, raise productivity and develop new products.

However, unfortunately, the Company would like to suspend dividends for the current fiscal year because of a considerable amount of impairment loss reported for the period.

(3) Policy Regarding Reduction in Investment Unit

The Company regards a reduction in the investment unit as an important issue with regard to increasing the number of individual shareholders and raising the trading volume of its stock. The Company plans to take suitable actions regarding the investment unit, such as by lowering the trading unit and conducting stock splits, while closely monitoring the price of its stock.

(4) Medium- and Long-term Management Strategies

Japan's cosmetics market is mature due to the country's slowing population growth. Furthermore, the operating environment has been challenging for some time as the tendency of consumers to purchase lower-priced items in recent years has continued, even though there were indications that the downturn may finally be about to end.

In response to these market conditions in Japan, measures to increase sales and cut costs are important issues for the Company. As one means of accomplishing these two goals, the Company acquired Thepenier, a company located in France in February 2000 and made it a subsidiary.

The Group plans to establish an operating framework with four manufacturing and sales bases: Japan, Europe, Southeast Asia and North America. Management believes this will enable the Group to increase sales as well as become more competitive on a global scale.

"Made in France" cosmetics have an excellent reputation in Japan as well as in the U.S. and elsewhere, enabling the creation of prestigious brands. Furthermore, demand for French cosmetics is strong. For these reasons, the Group will be conducting marketing activities on a global scale.

Moreover, to become still more cost competitive, the Company plans to consider the use of production bases in Southeast Asia.

(5) Key Issues

Important Goals:

The Company and the Group currently faces a challenging operating environment. Based on its medium- and long-term management strategies, important goals are as follows.

1) Increase sales through new products that have clearly defined targets and the development of ties with new customers.

2) Build more powerful profits structure by making the organization/business operations more efficient, and cutting costs.

3) Establish a competitive edge by reinforcing and enhancing the company-wide quality assurance framework.

4) Make the Nippon Shikizai Group more powerful by deepening ties with Thepenier and through other means with the aim of expanding overseas operations, particularly in Europe.

Information Concerning the Rehabilitation Plan for Thepenier:

Sales have been sluggish at Thepenier with the operations remaining to a low level at the factory exclusively for the manufacture of cosmetics since it was completed and began its operations in the fiscal year ended February 2004. To turn around Thepenier early to black ink, the Company, as its parent company, is implementing a rehabilitation plan which includes assistance from the Company to the subsidiary.

For the current interim period, Thepenier reported strong sales of skin care products, which was above the Company's plan, but sales of pharmaceuticals, its mainstay products, remained slow mainly due to inventory adjustments at a certain buyer. As a result, total sales decreased 12.1% year-on-year to 793 million yen. Despite a companywide cost-cutting campaign, the subsidiary fell in loss from profit a year earlier on the following levels; 34 million yen in operating loss from 27 million yen in operation income, 54 million yen in ordinary loss from 6 million yen in ordinary income and 45 million yen in net loss from 5 million yen in net income.

(6) Fundamental Policy and Measures Regarding Corporate Governance

1) Fundamental Policy Regarding Corporate Governance

The Company's fundamental policy regarding corporate governance is to establish a management framework that can respond to market changes with speed and accuracy and a system that ensures strict compliance with laws and regulations.

2) Measures Regarding Corporate Governance

The Company has adopted the corporate auditor system and has a Board of Auditors with three members, one standing auditor and two outside auditor.

The Board of Directors has six members. The board meets once each month and at other times as necessary. At board meetings, each director submits a report on business operations and important matters are debated so that decisions can be reached. As a rule, all corporate auditors attend board meetings. The auditors state their opinions on management and other matters and monitor the performance of the directors and the management of the Group. In addition, the Executive Committee, which is made up of the directors and standing auditor, meets two or three times each month to permit making rapid and accurate responses to sudden changes in the operating environment. Additionally, to address other important corporate matters, such as problems occurring due to other shifts in market conditions, the director in charge puts together project teams whenever necessary to come up with concrete action plans. Overall, the Company is able to operate with considerable speed and agility.

3) Summary of personal, financial, business and other significant relationships between the Company and the external director and outside auditors

Outside auditor Mr. Tomohiro Tohyama is a lawyer and a partner of TMI Associates, which is the advisory law office for the Company. The Company pays this law office attorney and consulting fees based on a consulting contract.

Outside auditor Mr. Yosuke Ema has no significant relationship with the Company.

(7) Items Concerning Parent Company, etc.

1) Name of parent company, etc. and other information

| Name | Relationship | Pct. of the Company voting rights held (%) | Stock exchange listing of shares |
|---|---|---|---|
| Avante Inc. | Associated company | 21.4 | - |

2) Status of parent company, etc.

Avante Inc. is primarily engaged in holding securities and managing investments in securities, and in the casualty insurance agency business.

3) Position of the Company relative to parent company, etc.

Avante Inc. holds 21.4% of the Company's voting rights and one Avante director also serves as a director of the Company. There are no other sales, technology, production, personnel or other significant relationships with the company.

4) Item concerning business transactions with parent company, etc.

Not applicable.

(8) Establishment and Operation of Internal Controls

Please refer to "Report concerning Corporate Governance" filed in accordance with Article 8-3 of the Securities Listing Rules and Article 10 paragraph 3 of the Timely Disclosure Rules.

(9) Other Important Business Matters

Not applicable.

## 3. Results of Operations and Financial Position

(1) Results of Operations

During the current interim period, Japan's economy continued to stage a recovery. One reason was rising capital expenditures fueled by higher corporate earnings and growth. The recovery was also backed by gradual increase in consumer spending due to the improvements in employment and personal income. In the Japanese cosmetics industry, competition is getting intense due to the maturing market and new entrants from other industries. Market conditions are becoming tougher due to ceaselessly heated competition particularly in terms of pricing and margin setting of cosmetics.

Also in Europe, a solid economic upturn was sustained by demands within the bloc, including France, which saw domestic demand growing and consumer spending slowly but steadily increasing.

In this environment, the Group took a number of steps to attract new customers and raise sales. Initiatives included strengthening skills in offering proposals, conducting tightly focused customer development and new product programs, and participating in exhibitions such as the Cosmeeting exhibition in Paris. Furthermore, the Group worked on reducing costs, such as by selecting product ingredients for maximum productivity and making manufacturing activities more efficient.

As a result, consolidated net sales increased 7.2% year-on-year to 3,456 million yen at the Group. Due to increased operating income as well as a foreign exchange profit, ordinary income was up 185.1% to 223 million yen. However, a 873 million yen impairment loss arisen from fixed assets was booked as extraordinary losses, a net loss of 720 million yen was reported down from the net income of 24 million yen a year earlier.

Results by business segment were as follows.

(Cosmetics)

Segment sales increased 13.1% to 2,818 million yen and operating income increased 26.6% to 421 million yen. Sales were higher in the core foundation category and there was a substantial upturn in sales of lipstick, mascara and eye shadow.

(Pharmaceuticals and other products)

Segment sales were down 12.7% to 637 million yen, affected mostly by inventory adjustment at a major buyer. Operating income fell 85.8% to 8 million yen despite cost-cutting efforts.

Sales by geographic region were as follows.

(Japan)

In Japan, as the results benefited from a strong cosmetics market, the Company continued to take actions targeting clearly defined market segments to develop new customers and supply new products. Foundation sales were strong as in the previous fiscal year, and lipstick, mascara and eye shadow were significantly higher. As a result, sales in Japan increased 12.3% to 2,690 million yen, and operating income increased 28.8% to 471 million yen.

(France)

Not only in Japan but in France, strength was seen in the pharmaceuticals and cosmetics markets. Cosmetics sales almost reached the target with promotion cooperation extended by the parent company, but there was a big drop in sales of pharmaceuticals, including econazole. The result was a 11.5% decline in sales to 799 million yen and an operating loss of 37 million yen compared with a 25 million yen income a year earlier.

(2) Financial Position

1) Assets

At the end of the current interim period, assets totaled 7,615 million yen, a decrease of 786 million yen, or 9.4%, over the end of the previous fiscal year.

Current assets decreased 8 million yen to 3,217 million yen. This was due to a 63 million yen increase in inventories and a 25 million yen decrease in cash and deposits.

Fixed assets decreased 778 million yen, or 15.0%, to 4,397 million yen. This was due to impairment accounting applied thereto, resulting in a 641 million yen loss in land and a 162 million yen loss in buildings.

2) Liabilities

Total liabilities were 5,654 million yen at the end of the current interim period, an increase of 54 million yen, or 1.0% over the end of the previous fiscal year.

Current liabilities decreased 150 million yen, or 4.9%, to 2,915 million yen. This was mainly the result of a 221 million yen decrease in short-term borrowings, and a 89 million yen decrease in trade notes and accounts payable.

Long-term liabilities increased 204 million yen, or 8.1%, to 2,738 million yen, mainly the result of a 283 million yen increase in long-term borrowings, and a 65 million yen decrease in corporate bonds.

3) Cash flows

Major components of operating cash flows were increases in non-cash expenses such as depreciation of 133 million yen and impairment losses of 873 million yen on one hand, and decreases of net loss before income taxes of 649 million yen and trade payable of 100 million yen on the other. As a result, net cash provided by operating activities was 272 million yen, 279 million yen higher compared with one year earlier.

Net cash used in investment activities was 215 million yen, 41 million yen higher compared with one year earlier. There were payments of 208 million yen for purchases of tangible fixed assets.

In financial activities, there were proceeds of 650 million yen and repayments of 688 million yen of long-term borrowings, and redemption of corporate bonds of 105 million yen. Due to these and other items, net cash used in financial activities was 86 million yen, 315 million yen decreased from one year earlier.

Due to these items, there was a net decrease of 25 million yen to 473 million yen in cash and cash equivalents during the current interim period.

To provide greater speed and flexibility in funding working capital, the Company on September 29, 2006 established a 1,000 million yen credit facility (valid for one year beginning on September 29, 2006) and a 1,300 million yen term loan agreement (drawdown period from September 29, 2006 through September 28, 2007 for a five-year loan) through a syndication led by Mizuho Bank, Ltd.

Cash flow indices:

| | FY2/05 | Interim FY2/06 | FY2/06 | Interim FY2/07 |
|---|---|---|---|---|
| Shareholders' equity ratio (%) | 34.0 | 33.0 | 33.4 | 25.8 |
| Shareholders' equity ratio based on market prices (%) | 27.1 | 25.3 | 24.7 | 25.1 |
| Years of debt redemption (years) | 5.5 | (518.0) | 10.9 | 13.5 |
| Interest coverage ratio (times) | 7.5 | (0.2) | 3.6 | 6.3 |

Notes: 1. Shareholders' equity ratio: Shareholders' equity / Total assets

2. Shareholders' equity ratio based on market prices: Market capitalization / Total assets

3. Years of debt redemption: Interest-bearing debt / Operating cash flow

4. Interest coverage ratio: Operating cash flow / Interest payments

* Market capitalization: Closing price of stock x Number of shares outstanding (net of treasury stock)

* Operating cash flows are calculated using the figures for operating cash flows in the consolidated statements of cash flows. Interest-bearing debt refers to the total of liabilities shown on the balance sheet on which interest is paid. Interest expenses refer to interest payments as shown in the cash flows statements.

(3) Outlook

Regarding the outlook for the months ahead, economic conditions in Japan and overseas are expected to remain unstable with some concerns continuing to exist despite recovering corporate earnings.

Under these circumstances, the Group will continue to work on strengthening its sales capabilities. One goal is raising sales, outside Japan, mostly in the EU, through actions such as conducting joint exhibition with Thepenier at the Cosmetics Exhibition *(Cosmeeting)* that was held in Paris in September. Another goal is switching to a better profit structure through actions such as boosting profitability by enhancing productivity. Restoring Thepenier to health is one of the priority management issues. The Company plans to achieve this by increasing sales of cosmetics in the EU while streamlining operations, such as by executing cost reductions across the group.

In the fiscal year ending in February 2007, the Company is forecasting consolidated sales of 6,873 million yen, up 4.5%, ordinary income of 216 million yen, up 90.8%, and net loss of 670 million yen (4 million yen in net income one year earlier).

By business segment, cosmetics sales are expected to increase 5.6% to 5,591 million yen and pharmaceuticals and other products sales to decrease 0.1% to 1,281 million yen. By geographic segment, sales in Japan are expected to increase 5.6% to 5,333 million yen and sales in France to decrease 4.2% to 1,581 million yen.

(4) Business Risks

The businesses, operating results and financial condition of the Nippon Shikizai Group are vulnerable to the following risks that may have a significant effect on investment decisions.

The Group is taking actions to prevent these problems, spread out risk exposure, hedge risks and otherwise deal with these risks to minimize their potential effect on business activities.

1) Changes in interest rates and foreign exchange rates

At the end of the current interim period, the Nippon Shikizai Group had debt totaling 3,677 million yen. As a result, changes in interest rates and other trends in financial markets could affect operating performance. In addition, sales, expenses, assets, liabilities and other items denominated in foreign currencies are converted into yen when preparing the interim consolidated and non-consolidated financial statements. Consequently, foreign exchange rates used for this conversion may cause changes in Japanese yen-denominated figures even though there was no change in the corresponding values in local currencies.

2) Laws and regulations

The Nippon Shikizai Group is active in the cosmetics industry, which is governed by the provisions of the Pharmaceutical Affairs Law. Amendments to this law, revisions in standards for its application and other such changes could affect operating results.

3) Interruptions and reductions in business activities due to natural disasters, accidents and other events

Earthquakes, typhoons and other natural disasters could have a serious impact on the Nippon Shikizai Group’s manufacturing bases. Although the Group conducts periodic disaster response drills and inspections of facilities, there is no assurance that the Group will be able to perfectly prevent or mitigate disruptions to operations due to a natural disaster or accident. The Zama Factory, which is the Group’s primary production facility, is located in a region of Japan where Tokai earthquake (an earthquake of a historic magnitude said to take place on in centuries) could occur. Such an earthquake could stop production activities, cause delays in the Group’s ability to supply products and result in other problems that may affect the Group’s operating results and financial condition.

4) Product liability

The Nippon Shikizai Group may at some time supply products that have unexpected defects or that require a recall. The Group is taking every action possible to ensure the quality of its products. However, a major product liability judgment or product recall that entails substantial expenses that are not covered by insurance policies could have a detrimental effect on the reputation of the Group’s products. This loss of trust could affect the Group’s businesses, operating results and financial condition.

5) Performance of overseas subsidiary

Nippon Shikizai subsidiary THEPENIER PHARMA INDUSTRIE S.A. (Thepenier), manufactures and sells pharmaceuticals and cosmetics. Thepenier has been performing poorly since its 2000 acquisition by Nippon Shikizai. In response, Nippon Shikizai began executing a management rebuilding plan in fiscal year 2004 at this subsidiary that includes the provision of substantial assistance for all aspects of Thepenier’s operations and aims to improve this company’s sales and earnings. As of August 31, 2006, loans from Nippon Shikizai to Thepenier totaled 1,014 million yen. Consequently, a further deterioration in the operating results of Thepenier may affect the operating results and financial condition of the Nippon Shikizai Group.

## 4. Interim Consolidated Financial Statements

(1) Interim consolidated balance sheets

(Unit: thousand yen)

| | | As of August 31, 2005 | | | As of August 31, 2006 | | | As of February 28, 2006 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Account | * | Amount | | % | Amount | | % | Amount | | % |
| Assets | | | | | | | | | | |
| I. Current assets | | | | | | | | | | |
| 1. Cash and deposits | *2 | | 802,591 | | | 756,419 | | | 781,744 | |
| 2. Trade notes and accounts receivable | | | 1,361,781 | | | 1,289,694 | | | 1,286,980 | |
| 3. Inventories | | | 855,291 | | | 973,954 | | | 910,316 | |
| 4. Others | | | 203,764 | | | 200,964 | | | 246,866 | |
| 5. Allowances for doubtful accounts | | | - | | | (3,866) | | | - | |
| Total current assets | | | 3,223,428 | 38.4 | | 3,217,165 | 42.2 | | 3,225,908 | 38.4 |
| II. Fixed assets | | | | | | | | | | |
| 1. Tangible fixed assets | *1 | | | | | | | | | |
| (1) Buildings | *2 | | 1,822,622 | | | 1,639,098 | | | 1,801,518 | |
| (2) Land | *2 | | 2,189,254 | | | 1,609,922 | | | 2,251,578 | |
| (3) Others | *2 | | 514,053 | | | 510,870 | | | 487,366 | |
| Total tangible fixed assets | | | 4,525,929 | 53.9 | | 3,759,891 | 49.4 | | 4,540,463 | 54.0 |
| 2. Intangible fixed assets | | | 182,111 | 2.2 | | 198,881 | 2.6 | | 194,102 | 2.3 |
| 3. Investments and other assets | | | | | | | | | | |
| (1) Investment securities | *2 | | 218,416 | | | 236,394 | | | 245,230 | |
| (2) Others | | | 249,541 | | | 212,461 | | | 216,260 | |
| (3) Allowances for doubtful accounts | | | (7,272) | | | (9,641) | | | (19,991) | |
| Total investments and other assets | | | 460,685 | 5.5 | | 439,214 | 5.8 | | 441,499 | 5.3 |
| Total fixed assets | | | 5,168,726 | 61.6 | | 4,397,986 | 57.8 | | 5,176,064 | 61.6 |
| Total assets | | | 8,392,155 | 100.0 | | 7,615,152 | 100.0 | | 8,401,972 | 100.0 |

(Unit: thousand yen)

| | | As of August 31, 2005 | | As of August 31, 2006 | | As of February 28, 2006 | |
|---|---|---|---|---|---|---|---|
| Account | * | Amount | % | Amount | % | Amount | % |
| Liabilities | | | | | | | |
| I. Current liabilities | | | | | | | |
| 1. Trade notes and accounts payable | | 711,223 | | 852,402 | | 941,779 | |
| 2. Short-term borrowings | *2 | 1,788,871 | | 1,066,392 | | 1,288,184 | |
| 3. Current portion of corporate bonds | | 202,000 | | 130,000 | | 170,000 | |
| 4. Accounts-payable | | - | | 449,904 | | - | |
| 5. Others accounts payable | | 715,229 | | 416,708 | | 665,663 | |
| Total current liabilities | | 3,417,323 | 40.7 | 2,915,407 | 38.3 | 3,065,627 | 36.5 |
| II. Long-term liabilities | | | | | | | |
| 1. Corporate bonds | | 595,000 | | 465,000 | | 530,000 | |
| 2. Long-term borrowings | *2 | 1,352,058 | | 2,016,075 | | 1,732,260 | |
| 3. Liabilities for retirement benefits | | 161,174 | | 188,355 | | 191,496 | |
| 4. Others | | 98,441 | | 69,251 | | 80,264 | |
| Total long-term liabilities | | 2,206,674 | 26.3 | 2,738,681 | 35.9 | 2,534,021 | 30.1 |
| Total liabilities | | 5,623,997 | 67.0 | 5,654,088 | 74.2 | 5,599,648 | 66.6 |
| Shareholders' equity | | | | | | | |
| I. Common stock | | 552,749 | 6.6 | - | - | 552,749 | 6.6 |
| II. Capital surplus | | 1,052,539 | 12.6 | - | - | 1,052,539 | 12.5 |
| III. Retained earnings | | 1,118,952 | 13.3 | - | - | 1,098,949 | 13.1 |
| IV. Unrealized holding gain on other securities | | 59,106 | 0.7 | - | - | 74,747 | 0.9 |
| V. Foreign currency translation adjustments | | (14,451) | (0.2) | - | - | 24,076 | 0.3 |
| VI. Treasury stock | | (737) | (0.0) | - | - | (737) | (0.0) |
| Total shareholders' equity | | 2,768,157 | 33.0 | - | - | 2,802,323 | 33.4 |
| Total liabilities and shareholders' equity | | 8,392,155 | 100.0 | - | - | 8,401,972 | 100.0 |
| Net assets | | | | | | | |
| I. Shareholders' equity | | | | | | | |
| 1. Common stock | | - | - | 552,749 | 7.3 | - | - |
| 2. Capital surplus | | - | - | 1,052,539 | 13.8 | - | - |
| 3. Retained earnings | | - | - | 335,084 | 4.4 | - | - |
| 4. Treasury stock | | - | - | (737) | (0.0) | - | - |
| Total shareholders' equity | | - | - | 1,939,634 | 25.5 | - | - |
| II. Valuation and translation adjustments | | | | | | | |
| 1. Unrealized holding gain on other securities | | - | - | 68,967 | 0.9 | - | - |
| 2. Deferred hedge gain (loss) | | - | - | (24,801) | (0.3) | - | - |
| 3. Foreign currency translation adjustments | | - | - | (22,735) | (0.3) | - | - |
| Total valuation and translation adjustments | | - | - | 21,429 | 0.3 | - | - |
| Total net assets | | - | - | 1,961,064 | 25.8 | - | - |
| Total liabilities and net assets | | - | - | 7,615,152 | 100.0 | - | - |

(2) Interim consolidated income statements

(Unit: thousand yen)

| Account | * | From March 1, 2005 to August 31, 2005 Amount | | % | From March 1, 2006 to August 31, 2006 Amount | | % | From March 1, 2005 to February 28, 2006 Amount | | % |
|---|---|---|---|---|---|---|---|---|---|---|
| I. Sales | | | 3,222,756 | 100.0 | | 3,456,198 | 100.0 | | 6,579,397 | 100.0 |
| II. Cost of sales | | | 2,613,598 | 81.1 | | 2,810,611 | 81.3 | | 5,391,740 | 81.9 |
| Gross profits | | | 609,158 | 18.9 | | 645,587 | 18.7 | | 1,187,657 | 18.1 |
| III. SG&A expenses | *1 | | 469,574 | 14.6 | | 478,716 | 13.9 | | 955,490 | 14.6 |
| Operating income | | | 139,584 | 4.3 | | 166,870 | 4.8 | | 232,167 | 3.5 |
| IV. Non-operating income | | | | | | | | | | |
| 1. Interest income | | 92 | | | 120 | | | 184 | | |
| 2. Dividend income | | 5,389 | | | 5,198 | | | 6,599 | | |
| 3. Rent income | | 8,563 | | | 2,347 | | | 11,870 | | |
| 4. Foreign exchange gain | | - | | | 89,456 | | | - | | |
| 5. Others | | 6,832 | 20,878 | 0.6 | 12,423 | 109,546 | 3.2 | 22,340 | 40,995 | 0.6 |
| V. Non-operating expenses | | | | | | | | | | |
| 1. Interest expenses | | 48,679 | | | 43,507 | | | 94,200 | | |
| 2. Bond issue expenses | | 2,100 | | | - | | | 2,100 | | |
| 3. Commissions paid | | - | | | - | | | 37,500 | | |
| 4. Foreign exchange loss | | 22,199 | | | - | | | 10,873 | | |
| 5. Others | | 8,936 | 81,915 | 2.5 | 8,970 | 52,478 | 1.5 | 15,145 | 159,818 | 2.4 |
| Ordinary income | | | 78,547 | 2.4 | | 223,938 | 6.5 | | 113,343 | 1.7 |
| VI. Extraordinary income | | | | | | | | | | |
| 1. Gains on sales of fixed assets | *2 | 17 | | | - | | | 84 | | |
| 2. Prior-year adjustment | | - | 17 | 0.0 | 16,481 | 16,481 | 0.4 | - | 84 | 0.0 |
| VII. Extraordinary losses | | | | | | | | | | |
| 1. Loss on sales of fixed assets | *3 | - | | | - | | | 244 | | |
| 2. Losses on disposal of fixed assets | *4 | 3,192 | | | 16,134 | | | 5,743 | | |
| 3. Losses on valuation of investment securities | | 113 | | | - | | | 113 | | |
| 4. Difference arising from change in retirement benefit accounting | | 14,836 | | | - | | | 29,673 | | |
| 5. Impairment losses | *5 | - | 18,143 | 0.5 | 873,590 | 889,724 | 25.7 | - | 35,776 | 0.5 |
| Income before income taxes | | | 60,421 | 1.9 | | (649,304) | (18.8) | | 77,652 | 1.2 |
| Current income taxes | | 5,676 | | | 97,546 | | | 75,625 | | |
| Deferred income taxes | | 29,966 | 35,643 | 1.1 | (26,160) | 71,386 | 2.1 | (2,749) | 72,876 | 1.1 |
| Net income (loss) | | | 24,778 | 0.8 | | (720,690) | (20.9) | | 4,775 | 0.1 |

(3) Interim consolidated surplus statements and statement of changes in shareholders' equity

Consolidated interim surplus statements

(Unit: thousand yen)

| | | From March 1, 2005 to August 31, 2005 | | From March 1, 2005 to February 28, 2006 | |
|---|---|---|---|---|---|
| Account | * | Amount | | Amount | |
| Capital surplus | | | | | |
| I. Capital surplus, beginning of year | | | 1,052,539 | | 1,052,539 |
| II. Capital surplus, end of period | | | 1,052,539 | | 1,052,539 |
| Retained earnings | | | | | |
| I. Retained earnings, beginning of year | | | 1,137,352 | | 1,137,352 |
| II. Increase in retained earnings | | | | | |
| Net income | | 24,778 | 24,778 | 4,775 | 4,775 |
| Ⅲ. Decrease in retained earnings | | | | | |
| Dividend | | 43,178 | 43,178 | 43,178 | 43,178 |
| IV. Retained earnings, end of period | | | 1,118,952 | | 1,098,949 |

Interim consolidated statement of changes in shareholders' equity

Current interim period (March 1, 2006 - August 31, 2006)

(Unit: thousand yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance as of February 28, 2006 | 552,749 | 1,052,539 | 1,098,949 | (737) | 2,703,499 |
| Changes in the interim period | | | | | |
| Dividend of surplus | | | (43,174) | | (43,174) |
| Net loss | | | (720,690) | | (720,690) |
| Changes (net) in items other than shareholders' equity | | | | | |
| Total changes in the interim period | | | (763,864) | | (763,864) |
| Balance as of August 31, 2006 | 552,749 | 1,052,539 | 335,084 | (737) | 1,939,634 |

| | Valuation and translation adjustments | | | | Total net assets |
|---|---|---|---|---|---|
| | Unrealized holding gain (loss) on other securities | Deferred hedge gain (loss) | Foreign currency translation adjustments | Total valuation and translation adjustments | |
| Balance as of February 28, 2006 | 74,747 | - | 24,076 | 98,824 | 2,802,323 |
| Changes in the current period | | | | | |
| Dividend of surplus | | | | | (43,174) |
| Net loss | | | | | (720,690) |
| Changes (net) in items other than shareholders' equity | (5,780) | (24,801) | (46,812) | (77,395) | (77,395) |
| Total changes in the interim period | (5,780) | (24,801) | (46,812) | (77,395) | (841,259) |
| Balance as of August 31, 2006 | 68,967 | (24,801) | (22,735) | 21,429 | 1,961,064 |

## (4) Interim consolidated cash flow statements

(Unit: thousand yen)

| Account | * | From March 1, 2005 to August 31, 2005 Amount | From March 1, 2006 to August 31, 2006 Amount | From March 1, 2005 to February 28, 2006 Amount |
|---|---|---|---|---|
| I. Cash flows from operating activities | | | | |
| Income (loss) before income taxes | | 60,421 | (649,304) | 77,652 |
| Depreciation | | 131,437 | 133,041 | 282,409 |
| Impairment losses | | - | 873,590 | - |
| Increase (decrease) in liabilities for retirement benefits | | 9,160 | (7,107) | 36,047 |
| Increase (decrease) in allowance for doubtful accounts | | 3,867 | (6,809) | 16,262 |
| Interest and dividend income | | (5,482) | (5,318) | (6,783) |
| Interest expenses | | 48,679 | 43,507 | 94,200 |
| Losses on valuation of investment securities | | 113 | - | 113 |
| Gain on sales of tangible fixed assets | | (17) | - | (84) |
| Losses on sales of tangible fixed assets | | - | - | 244 |
| Losses on disposal of tangible fixed assets | | 3,192 | 16,134 | 5,743 |
| Decrease (increase) in trade receivable | | (14,815) | 3,761 | 67,217 |
| Increase in inventories | | (36,681) | (53,493) | (80,963) |
| Increase (decrease) in trade payable | | (43,998) | (100,230) | 177,730 |
| Increase (decrease) in accrued consumption taxes | | (10,811) | 11,360 | (17,548) |
| Increase in other current liabilities | | 49,159 | 100,717 | 21,159 |
| Others | | (61,964) | (30,331) | (74,009) |
| Subtotal | | 132,261 | 329,520 | 599,392 |
| Interests and dividends received | | 5,475 | 5,287 | 6,791 |
| Interests paid | | (45,593) | (40,648) | (92,736) |
| Income taxes paid | | (99,745) | (21,826) | (172,243) |
| Net cash provided by (used in) operating activities | | (7,601) | 272,332 | 341,203 |
| II. Cash flows from investment activities | | | | |
| Payment for time deposits | | (114,500) | (114,500) | (370,500) |
| Withdrawal of time deposits | | 124,500 | 114,500 | 380,500 |
| Purchases of tangible fixed assets | | (183,661) | (208,266) | (326,939) |
| Proceeds from sales of tangible fixed assets | | 17 | - | 1,429 |
| Purchases of intangible fixed assets | | - | (6,478) | (12,913) |
| Purchases of investment securities | | (850) | (896) | (1,333) |
| Proceeds from collection of long-term loans receivable | | 201 | 213 | 407 |
| Net cash provided by (used in) investment activities | | (174,293) | (215,426) | (329,349) |
| III. Cash flows from financial activities | | | | |
| Net increase (decrease) in short-term borrowing | | 72,000 | 100,000 | (190,000) |
| Proceeds from long-term borrowings | | 700,000 | 650,000 | 1,350,000 |
| Repayment of long-term borrowings | | (512,581) | (688,181) | (1,021,385) |
| Proceeds from corporate bonds issued | | 100,000 | - | 100,000 |
| Redemption of corporate bonds | | (87,000) | (105,000) | (184,000) |
| Acquisition of treasury stock | | (202) | - | (202) |
| Payment of dividends | | (43,178) | (43,174) | (43,178) |
| Net cash provided by (used in) financial activities | | 229,038 | (86,355) | 11,233 |
| IV. Effect of exchange rate changes on cash and cash equivalents | | (4,090) | 3,670 | (720) |
| V. Increase (decrease) in cash and cash equivalents | | 43,052 | (25,779) | 22,367 |
| VI. Cash and cash equivalents at beginning of year | | 476,536 | 498,903 | 476,536 |
| VII. Cash and cash equivalents at end of period | | 519,588 | 473,124 | 498,903 |

## Significant Items in Preparing Interim Consolidated Financial Statements

| | From March 1, 2005<br>to August 31, 2005 | From March 1, 2006<br>to August 31, 2006 | From March 1, 2005<br>to February 28, 2006 |
|---|---|---|---|
| 1. Scope of consolidation | There is a consolidated subsidiary:<br>THEPENIER PHARMA INDUSTRIE S.A. | Same as on the left. | Same as on the left. |
| 2. Subject to equity method | Not applicable. The Company does not have any non-consolidated subsidiaries or affiliates. | Same as on the left. | Same as on the left. |
| 3. Accounting period of consolidated subsidiary | The consolidated subsidiary's interim period ends on June 30. Financial statements of the consolidated subsidiary as of the consolidated subsidiary's balance sheet date are used in the preparation of consolidated financial statements. Appropriate adjustments are made for significant transactions during the periods from the balance sheet date of the consolidated subsidiary and the balance sheet date of the consolidated financial statements. | Same as on the left. | The consolidated subsidiary's fiscal year ends on December 31. Financial statements of the consolidated subsidiary as of the consolidated subsidiary's balance sheet date are used in the preparation of consolidated financial statements. Appropriate adjustments are made for significant transactions during the periods from the balance sheet date of the consolidated subsidiary and the balance sheet date of the consolidated financial statements. |
| 4. Accounting standards | 1. Valuation basis and valuation method of significant assets<br>(1) Securities<br>Other Securities<br>Marketable securities:<br>Market value method on market prices at the closing date.<br>(Unrealized gain or loss is included in shareholders' equity. Cost of securities sold is determined by the moving-average method.)<br>Non-marketable securities:<br>Moving average method.<br>(2) Derivatives<br>Market value method.<br>(3) Inventories<br>Finished products, semiprocessed goods and work in process:<br>Stated at cost, cost being determined by the period-average method.<br>Raw materials:<br>Stated at cost, cost being determined by the monthly-average method.<br>Supplies:<br>Stated at cost, cost being determined by the last purchase price method. | 1. Valuation basis and valuation method of significant assets<br>(1) Securities<br>Other Securities<br>Marketable securities:<br>Market value method on market prices at the closing date.<br>(Unrealized gain or loss is included in net assets. Cost of securities sold is determined by the moving-average method.)<br>Non-marketable securities:<br>Same as on the left.<br>(2) Derivatives<br>Same as on the left.<br>(3) Inventories<br>Finished products, semiprocessed goods and work in process:<br>Same as on the left.<br>Raw materials:<br>Same as on the left.<br>Supplies:<br>Same as on the left. | 1. Valuation basis and valuation method of significant assets<br>(1) Securities<br>Other Securities<br>Marketable securities:<br>Market value method on market prices at the closing date.<br>(Unrealized gain or loss is included in shareholders' equity. Cost of securities sold is determined by the moving-average method.)<br>Non-marketable securities:<br>Same as on the left.<br>(2) Derivatives<br>Same as on the left.<br>(3) Inventories<br>Finished products, semiprocessed goods and work in process:<br>Same as on the left.<br>Raw materials:<br>Same as on the left.<br>Supplies:<br>Same as on the left. |

| | From March 1, 2005 to August 31, 2005 | From March 1, 2006 to August 31, 2006 | From March 1, 2005 to February 28, 2006 |
|---|---|---|---|
| | 2. Depreciation and amortization of significant assets<br>(1) Tangible fixed assets<br>The Company compares depreciation of tangible fixed assets by the declining-balance method. However, depreciation on buildings (excluding attached structures) acquired on and after April 1, 1998 is computed by the straight-line method.<br>Overseas subsidiaries compute depreciation by the straight-line or declining-balance method in accordance with the accounting standards generally accepted in the country of their domicile.<br>Useful life for major item is as follows:<br>Buildings 10 to 47 years | 2. Depreciation and amortization of significant assets<br>(1) Tangible fixed assets<br>Same as on the left. | 2. Depreciation and amortization of significant assets<br>(1) Tangible fixed assets<br>Same as on the left. |
| | (2) Intangible fixed assets<br>The Company computes amortization of intangible fixed assets by the straight-line method. The development costs of software intended for internal use are amortized over an expected useful life of five years by the straight-line method.<br>Overseas subsidiaries compute amortization of intangible fixed assets by the straight-line method in accordance with the accounting standards generally accepted in the country of their domicile. | (2) Intangible fixed assets<br>Same as on the left. | (2) Intangible fixed assets<br>Same as on the left. |
| | (3) Long-term prepaid expenses<br>Straight-line method. | (3) Long-term prepaid expenses<br>Same as on the left. | (3) Long-term prepaid expenses<br>Same as on the left. |
| | 3. Recognition standards for significant reserves<br>(1) Allowances for doubtful accounts<br>To prepare for credit losses on receivables, the Company provides allowances equal to the estimated amount of uncollectible receivables for general receivables based on the historical write-off ratio, and bad receivables based on a case-by-case determination of collectibility. | 3. Recognition standards for significant reserves<br>(1) Allowances for doubtful accounts<br>Same as on the left. | 3. Recognition standards for significant reserves<br>(1) Allowances for doubtful accounts<br>Same as on the left. |

| | From March 1, 2005 to August 31, 2005 | From March 1, 2006 to August 31, 2006 | From March 1, 2005 to February 28, 2006 |
|---|---|---|---|
| | (2) Liabilities for retirement benefits<br>To provide for employees' retirement benefits, the Company books amounts deemed to have accrued at the end of interim period, based on the projected benefit obligation and the pension fund assets as of the end of the current fiscal year.<br>The unrecognized transitional obligation of the Company (148,368 thousand yen) arising from the change in accounting policy is amortized by the straight-line method over five years.<br>Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over a period of ten years which falls within the average remaining years of service of the employees.<br><br>4. Translation of principal foreign currency-denominated assets and liabilities<br>Foreign currency-denominated monetary assets and liabilities are translated into yen at the exchange rate in effect on the balance sheet date. Exchange gain or loss is accounted as income or loss. The balance sheet accounts of overseas subsidiaries are also translated at the exchange rate in effect on the balance sheet date. Translation adjustments are stated as a component of foreign exchange translation adjustment in the shareholders' equity.<br><br>5. Accounting treatment for significant lease transactions<br>Finance leases, other than those which are deemed to transfer the ownership of the leased assets to the lessees, are accounted for by a method similar to that applicable to ordinary finance lease transactions.<br><br>6. Accounting method of significant hedges<br>(1) Hedge accounting<br>Deferred hedge accounting. However, short-cut method is used for currency option contracts in the cases where necessary conditions are met. | (2) Liabilities for retirement benefits<br>To provide for employees' retirement benefits, the Company books amounts deemed to have accrued at the end of interim period, based on the projected benefit obligation and the pension fund assets as of the end of the current fiscal year.<br>Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over a period of ten years which falls within the average remaining years of service of the employees.<br><br>4. Translation of principal foreign currency-denominated assets and liabilities<br>Foreign currency-denominated monetary assets and liabilities are translated into yen at the exchange rate in effect on the balance sheet date. Exchange gain or loss is accounted as income or loss. The balance sheet accounts of overseas subsidiaries are also translated at the exchange rate in effect on the balance sheet date. Translation adjustments are stated as a component of foreign exchange translation adjustment in the net assets.<br><br>5. Accounting treatment for significant lease transactions<br>Same as on the left.<br><br>6. Accounting method of significant hedges<br>(1) Hedge accounting<br>Same as on the left. | (2) Liabilities for retirement benefits<br>To provide for employees' retirement benefit, the Company books amounts based on the projected benefit obligation and the pension fund assets as of the end of the current fiscal year.<br>The unrecognized transitional obligation of the Company (148,368 thousand yen) arising from the change in accounting policy is amortized by the straight-line method over five years.<br>Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over a period of ten years which falls within the average remaining years of service of the employees.<br><br>4. Translation of principal foreign currency-denominated assets and liabilities<br>Foreign currency-denominated monetary assets and liabilities are translated into yen at the exchange rate in effect on the balance sheet date. Exchange gain or loss is accounted as income or loss. The balance sheet accounts of overseas subsidiaries are also translated at the exchange rate in effect on the balance sheet date. Translation adjustments are stated as a component of foreign exchange translation adjustment in the shareholders' equity.<br><br>5. Accounting treatment for significant lease transactions<br>Same as on the left.<br><br>6. Accounting method of significant hedges<br>(1) Hedge accounting<br>Same as on the left. |

| | From March 1, 2005 to August 31, 2005 | From March 1, 2006 to August 31, 2006 | From March 1, 2005 to February 28, 2006 |
|---|---|---|---|
| | (2) Means and objects of hedging<br>Means of hedging:<br>Interest rate swaps, currency options<br>Objects of hedging:<br>Borrowings, foreign currency-denominated monetary liabilities and scheduled foreign currency-denominated monetary transactions.<br>(3) Policy on hedging<br>The Company uses financial derivative transactions to reduce risk from fluctuations in interest rates and risks from fluctuations in foreign currency exchange. All derivative transactions the Company enters into comply with the Company's internal "Rules on Derivative Transactions and Risk Management."<br>(4) Assessing the effectiveness of a hedge<br>The Company primarily assesses the effectiveness for hedging the risk of changes in cash flows resulting from fluctuations in market interest rates on borrowings by rate analysis of the sum total of price fluctuation involving hedging instrument, that is, interest rate swap transactions, and the sum total of interest rate changes on borrowings. Effectiveness is assessed at least once every six months, including the balance sheet date.<br>However, effectiveness of foreign currency options accounted by the short-cut method is not assessed.<br><br>7. Other important accounting items<br>(1) Accounting treatment for consumption tax<br>Consumption tax is accounted by tax-exclusion method.<br>(2) Accounting for deferred assets<br>Bond issue expenses are amortized as accrued. | (2) Means and objects of hedging<br>Means of hedging:<br>Same as on the left.<br><br>Objects of hedging:<br>Same as on the left.<br><br>(3) Policy on hedging<br>Same as on the left.<br><br>(4) Assessing the effectiveness of a hedge<br>Same as on the left.<br><br>7. Other important accounting items<br>(1) Accounting treatment for consumption taxes<br>Same as on the left.<br><br>(2) Accounting for deferred assets<br>Same as on the left. | (2) Means and objects of hedging<br>Means of hedging:<br>Same as on the left.<br><br>Objects of hedging:<br>Same as on the left.<br><br>(3) Policy on hedging<br>Same as on the left.<br><br>(4) Assessing the effectiveness of a hedge<br>Same as on the left.<br><br>7. Other important accounting items<br>(1) Accounting treatment for consumption taxes<br>Same as on the left.<br><br>(2) Accounting for deferred assets<br>Same as on the left. |
| 5. Definition of cash in cash flow statements | For the purpose of interim consolidated cash flow statements, cash and cash equivalents consist of vault cash, deposits that can be withdrawn on demand, and short-term investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and present insignificant risk of change in value. | Same as on the left. | For the purpose of consolidated cash flow statements, cash and cash equivalents consist of vault cash, deposits that can be withdrawn on demand, and short-term investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and present insignificant risk of change in value. |

## Changes in significant accounting policies in the preparation of interim financial statements

| From March 1, 2005 to August 31, 2005 | From March 1, 2006 to August 31, 2006 | From March 1, 2005 to February 28, 2006 |
|---|---|---|
| - | (Accounting Standard for Impairment of Fixed Assets)<br>Effective from the current interim period, the Company has adopted “Accounting Standards for the Presentation of the Impairment of Fixed Assets,” (Business Accounting Council; August 9, 2002) and “Guidance for Accounting Standards for Impairment of Fixed Assets” (ASBJ Guidance No.6: Accounting Standards Board of Japan, October 31, 2003).<br>The effect of this change was to decrease income before income taxes by 869,995 thousand yen.<br>The amounts of impairment losses are directly deducted from the corresponding carrying amounts of assets, in accordance with the revised standards for the interim financial statements. | - |
| - | (Accounting Standard for Presentation of Net Assets on Balance Sheet)<br>Effective from the current interim period, the Company has adopted “Accounting Standard for Presentation of Net Assets on Balance Sheet” (ASBJ Stetement No. 5: Accounting Standards Board of Japan, December 9, 2005) and “Guidance for Presentation of Net Assets on Balance Sheet” (ASBJ Guidance No. 8: Accounting Standards Board of Japan, December 9, 2005).<br>Under the former accounting standard, amounts equivalent to “Total shareholders’ equity” totaled 2,008,601 thousand yen.<br>Due to this revision, net assets in the balance sheet for the current interim period are presented based on the revised standard. | - |

## Reclassifications

| From March 1, 2005 to August 31, 2005 | From March 1, 2006 to August 31, 2006 |
|---|---|
| - | (Consolidated Interim Balance Sheets)<br>Effective from the current interim period, “Other accounts payable” included in “Other current liabilities” in prior periods, is reclassified and presented as a separate line item, given that it now exceeds 5/100 of total assets.<br>In the prior period, “Other accounts payable” amounted to 309,151 thousand yen. |

## Supplementary Information

| From March 1, 2005 to August 31, 2005 | From March 1, 2006 to August 31, 2006 | From March 1, 2005 to February 28, 2006 |
|---|---|---|
| (Pro forma standard tax form)<br>The Accounting Standards Board of Japan released on February 13, 2004 its Practical Response Report No. 12 “Practical handling of the display of the pro forma portion of corporate taxes in income statements.” In line with this report, we have included 7,139 thousand yen from the added value and capital portion of income taxes in selling, general, and administrative expenses, starting from the current interim period. | - | (Pro forma standard tax form)<br>The Accounting Standards Board of Japan released on February 13, 2004 its Practical Response Report No. 12 “Practical handling of the display of the pro forma portion of corporate taxes in income statements.” In line with this report, we have included 11,471 thousand yen from the added value and capital portion of income taxes in selling, general, and administrative expenses, starting from the current fiscal year. |

## Notes

Notes to interim consolidated balance sheets

(Unit: thousand yen)

| As of August 31, 2005 | | As of August 31, 2006 | | As of February 28, 2006 | |
|---|---|---|---|---|---|
| *1. Accumulated depreciation of tangible fixed assets | 5,235,174 | *1. Accumulated depreciation of tangible fixed assets | 5,489,018 | *1. Accumulated depreciation of tangible fixed assets | 5,376,919 |
| *2. Assets pledged as collateral | | *2. Assets pledged as collateral | | *2. Assets pledged as collateral | |
| (1) Assets pledged as collateral are as follows: | | (1) Assets pledged as collateral are as follows: | | (1) Assets pledged as collateral are as follows: | |
| Cash and deposits | 252,500 | Cash and deposits | 252,500 | Cash and deposits | 252,500 |
| Buildings | 1,012,790 | Buildings | 902,623 | Buildings | 979,695 |
| Land | 2,149,665 | Land | 1,534,890 | Land | 2,149,665 |
| Tangible fixed assets, others | 8,319 | Tangible fixed assets, others | 7,220 | Tangible fixed assets, others | 7,730 |
| Investment securities | 165,101 | Investment securities | 179,638 | Investment securities | 182,020 |
| Total | 3,588,375 | Total | 2,876,873 | Total | 3,571,611 |
| (2) Liabilities corresponding to assets pledged as collateral: | | (2) Liabilities corresponding to assets pledged as collateral: | | (2) Liabilities corresponding to assets pledged as collateral: | |
| Short-term borrowings | 1,764,462 | Short-term borrowings | 449,074 | Short-term borrowings | 933,570 |
| Long-term borrowings | 1,302,649 | Long-term borrowings | 853,575 | Long-term borrowings | 1,047,260 |
| Total | 3,067,111 | Total | 1,302,649 | Total | 1,980,830 |
| 3. | - | 3. Syndicated credit facility and term loan agreement<br>For the purpose of obtaining flexibility and stability in the procurement of funds as well as to diversify funding sources, the Company used a syndicate of four banks to establish a credit facility and term loan agreement. Loans outstanding as of August 31, 2006 under these agreements were as follows. | | 3. Syndicated credit facility and term loan agreement<br>For the purpose of obtaining flexibility and stability in the procurement of funds as well as to diversify funding sources, the Company used a syndicate of four banks to establish a credit facility and term loan agreement. Loans outstanding as of February 28, 2006 under these agreements were as follows. | |
| | | Credit facility credit total | 1,000,000 | Credit facility credit total | 1,000,000 |
| | | Credit used | 430,000 | Credit used | 330,000 |
| | | Credit available | 570,000 | Credit available | 670,000 |
| | | Term loan credit limit | 1,300,000 | Term loan credit limit | 1,300,000 |
| | | Credit used | 1,300,000 | Credit used | 650,000 |
| | | Credit available | - | Credit available | 650,000 |

## Notes to interim consolidated income statements

(Unit: thousand yen)

| From March 1, 2005 to August 31, 2005 | From March 1, 2006 to August 31, 2006 | From March 1, 2005 to February 28, 2006 |
|---|---|---|
| *1. Significant components and corresponding amounts of selling, general and administrative expenses<br>Officers' salaries and bonuses 75,409<br>Employees' salaries and allowances 74,223<br>Retirement benefits 6,540<br>Depreciation 13,191<br>Commissions paid 64,260 | *1. Significant components and corresponding amounts of selling, general and administrative expenses<br>Officers' salaries and bonuses 82,046<br>Employees' salaries and allowances 70,205<br>Retirement benefits 6,656<br>Depreciation 9,440<br>Commissions paid 60,425<br>Provision of allowance for doubtful accounts 5,810 | *1. Significant components and corresponding amounts of selling, general and administrative expenses<br>Officers' salaries and bonuses 155,033<br>Employees' salaries and allowances 149,365<br>Employees' bonuses 57,787<br>Retirement benefits 20,549<br>Depreciation 29,507<br>Commissions paid 131,551<br>Provision of allowance for doubtful accounts 13,641 |
| *2. Significant components of gain on sale of fixed assets<br>Tangible fixed assets, others 17 | *2. - | *2. Significant components of gain on sales of fixed assets<br>Tangible fixed assets, others 84 |
| *3. - | *3. - | *3. Significant components of losses on sales of fixed assets<br>Tangible fixed assets, others 244 |
| *4. Significant components of losses on disposal of fixed assets<br>Tangible fixed assets, others 3,192 | *4. Significant components of losses on disposal of fixed assets<br>Buildings 15,057<br>Tangible fixed assets, others 1,076<br>Total 16,134 | *4. Significant components of losses on disposal of fixed assets<br>Buildings 875<br>Tangible fixed assets, others 4,868<br>Total 5,743 |
| *5. - | *5. Impairment losses<br>Impairment losses on fixed assets at the Group for the current interim period as follows. | *5. - |

Nippon Shikizai, Inc

| Location | Use of asset | Account | Impairment loss |
|---|---|---|---|
| Setagaya-ward, Tokyo | Welfare facilities | Land, buildings, etc. | 353,231 thousand yen |
| Kita-Ibaraki-city, Ibaraki prefecture | Pre-construction site of factory | Land, etc | 387,533 thousand yen |

THEPENIER PHARMA INDUSTRIE S.A.

| Location | Use of asset | Account | Impairment loss |
|---|---|---|---|
| Montagne, France | Cosmetic business assets | Land, buildings, etc. | 106,349 thousand yen |
| Montagne, France | Pharma-ceutical business assets | Land | 26,475 thousand yen |

| From March 1, 2005 to August 31, 2005 | From March 1, 2006 to August 31, 2006 | From March 1, 2005 to February 28, 2006 |
|---|---|---|
| | Assets in business use are evaluated collectively based on the grouping used in managerial accounting practices at the Group while idle assets are respectively evaluated.<br>The Company's assets among those listed above are idle with their evaluations considerably deteriorated below the book values. Therefore they were devalued to their collectible amounts after an aggregate variance of 740,765 thousand yen was booked as impairment loss to the account of extraordinary losses pertaining thereto. The above listed assets of Thepenier Pharma Industrie S.A. were devalued to their collectible amounts because their productivity or physical evaluations were well below the book values, and an aggregate variance of 132,825 thousand yen was booked as impairment loss to the account of extraordinary losses pertaining thereto.<br>For information, a collectible amount used above is net proceeds from sale of an asset in question estimated by a real estate appraiser, etc. | |

Notes to interim consolidated statement of changes in shareholders' equity
Current interim period (Mar. 1, 2006 – Aug. 31, 2006)

1. Type and number of outstanding shares and treasury stocks

| | Number of shares as of Feb. 28, 2006 (Shares) | Increase during the current interim period (Shares) | Decrease during the current interim period (Shares) | Number of shares as of Aug. 31, 2006 (Shares) | Remarks |
|---|---|---|---|---|---|
| Outstanding shares | | | | | |
| Common shares | 4,317,444 | - | - | 4,317,444 | |
| | | | | | |
| Treasury stock | | | | | |
| Common shares | 1,000 | - | - | 1,000 | |
| | | | | | |

2. Dividends

(1) Dividends payment

| Resolution | Type of share | Total amount of dividend (Thousand yen) | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Annual General Meeting of shareholders on May 26, 2006 | Common shares | 43,174 | 10 | February 28, 2006 | May 29, 2006 |

(2) Dividends with a record date in the current interim period but an effective date in the following second half period
Not applicable.

Notes to Interim consolidated cash flow statements

(Unit: thousand yen)

| From March 1, 2005 to August 31, 2005 | | From March 1, 2006 to August 31, 2006 | | From March 1, 2005 to February 28, 2006 | |
|---|---|---|---|---|---|
| Reconciliation of balance sheet items to cash and cash equivalents in consolidated cash flows statements: | | Reconciliation of balance sheet items to cash and cash equivalents in consolidated cash flows statements: | | Reconciliation of balance sheet items to cash and cash equivalents in consolidated cash flows statements: | |
| Cash and deposits | 802,591 | Cash and deposits | 756,419 | Cash and deposits | 781,744 |
| Cash and term deposits with maturities longer than three months | (280,500) | Cash and term deposits with maturities longer than three months | (280,500) | Cash and term deposits with maturities longer than three months | (280,500) |
| Special deposit | (2,502) | Special deposit | (2,794) | Special deposit | (2,340) |
| Cash and cash equivalents | 519,588 | Cash and cash equivalents | 473,124 | Cash and cash equivalents | 498,903 |

## Accounting for Leases

(Unit: thousand yen)

| From March 1, 2005 to August 31, 2005 | From March 1, 2006 to August 31, 2006 | From March 1, 2005 to February 28, 2006 |
|---|---|---|
| Finance lease transactions other than those in which the title of the leased property is transferred to the lessee. | Finance lease transactions other than those in which the title of the leased property is transferred to the lessee. | Finance lease transactions other than those in which the title of the leased property is transferred to the lessee. |
| 1. Acquisition cost, accumulated depreciation and period-end balance equivalents of the leased property. | 1. Acquisition cost, accumulated depreciation and period-end balance equivalents of the leased property. | 1. Acquisition cost, accumulated depreciation and period-end balance equivalents of the leased property. |
| Buildings:<br>Acquisition cost 97,972<br>Accumulated depreciation 96,339<br>Period-end balance 1,632 | Tangible fixed assets, others:<br>Acquisition cost 287,414<br>Accumulated depreciation 57,129<br>Period-end balance 230,284 | Tangible fixed assets, others:<br>Acquisition cost 216,958<br>Accumulated depreciation 44,898<br>Period-end balance 172,060 |
| Tangible fixed assets, others:<br>Acquisition cost 103,171<br>Accumulated depreciation 37,682<br>Period-end balance 65,489 | Intangible fixed assets, others:<br>Acquisition cost 18,474<br>Accumulated depreciation 13,643<br>Period-end balance 4,830 | Intangible fixed assets, others:<br>Acquisition cost 18,474<br>Accumulated depreciation 11,795<br>Period-end balance 6,678 |
| Intangible fixed assets, others:<br>Acquisition cost 18,474<br>Accumulated depreciation 9,948<br>Period-end balance 8,525 | Total:<br>Acquisition cost 305,888<br>Accumulated depreciation 70,773<br>Period-end balance 235,115 | Total:<br>Acquisition cost 235,432<br>Accumulated depreciation 56,693<br>Period-end balance 178,738 |
| Total:<br>Acquisition cost 219,618<br>Accumulated depreciation 143,970<br>Period-end balance 75,648 | | |
| Note: Acquisition cost equivalents include amounts applicable to interest since the outstanding balance of lease commitments at period-end are insignificant in the context of tangible fixed assets. | Note: Same as on the left. | Note: Acquisition cost equivalents include amounts applicable to interest since the outstanding balance of lease commitments at period-end are insignificant in the context of tangible fixed assets. |
| 2. Outstanding lease commitments at period-end.<br>Within one year 22,107<br>Over one year 53,540<br>Total 75,648 | 2. Outstanding lease commitments at period-end.<br>Within one year 55,340<br>Over one year 179,775<br>Total 235,115 | 2. Outstanding lease commitments at period-end.<br>Within one year 39,406<br>Over one year 139,331<br>Total 178,738 |
| Note: Outstanding balance of lease commitments at period-end include amounts applicable to interest since the outstanding balance of lease commitments at period-end are insignificant in the context of tangible fixed assets. | Note: Same as on the left. | Note: Outstanding balance of lease commitments at period-end include amounts applicable to interest since the outstanding balance of lease commitments at period-end are insignificant in the context of tangible fixed assets. |
| 3. Lease payments and depreciation equivalents<br>Lease payments 14,117<br>Depreciation equivalents 14,117 | 3. Lease payments and depreciation equivalents<br>Lease payments 21,077<br>Depreciation equivalents 21,077 | 3. Lease payments and depreciation equivalents<br>Lease payments 27,763<br>Depreciation equivalents 27,763 |
| 4. Calculation of depreciation equivalents<br>Depreciation is calculated based on the straight-line method, assuming the lease period to be the useful life and a residual value of zero. | 4. Calculation of depreciation equivalents<br>The same as on the left. | 4. Calculation of depreciation equivalents<br>Same as on the left. |

**Securities**

Previous interim period (As of August 31, 2005)

1. Securities with market value classified as “Other Securities”

(Unit: thousand yen)

| | As of August 31, 2005 | | |
|---|---|---|---|
| | Acquisition cost | Carrying value | Valuation gain/loss |
| Equity | 109,453 | 208,959 | 99,505 |
| Total | 109,453 | 208,959 | 99,505 |

Note: Except for securities whose price is expected to recover, securities whose value has declined by more than 50% from the book value are written down. In the case of securities whose value has declined by 30% to 50% from the book value are written down if their price is not expected to recover.

2. Securities without market quotations

(Unit: thousand yen)

| | As of August 31, 2005 |
|---|---|
| | Carrying value |
| Other securities<br>Unlisted stock | 9,456 |

Note: Securities without market quotations at 113 thousand yen was written down in the current interim period.

Current interim period (As of August 31, 2006)

1. Securities with market value classified as “Other Securities”

(Unit: thousand yen)

| | As of August 31, 2006 | | |
|---|---|---|---|
| | Acquisition cost | Carrying value | Valuation gain/loss |
| Equity | 110,831 | 226,938 | 116,106 |
| Total | 110,831 | 226,938 | 116,106 |

Note: Except for securities whose price is expected to recover, securities whose value has declined by more than 50% from the book value are written down. In the case of securities whose value has declined by 30% to 50% from the book value are written down if their price is not expected to recover.

2. Securities without market quotations

(Unit: thousand yen)

| | As of August 31, 2006 |
|---|---|
| | Carrying value |
| Other securities<br>Unlisted stock | 9,456 |

Previous fiscal year (As of February 28, 2006)

1. Securities with market value classified as “Other Securities”

(Unit: thousand yen)

| | As of February 28, 2006 | | |
|---|---|---|---|
| | Acquisition cost | Carrying value | Valuation gain/loss |
| Equity | 109,936 | 235,774 | 125,838 |
| Total | 109,936 | 235,774 | 125,838 |

Note: Except for securities whose price is expected to recover, securities whose value has declined by more than 50% from the book value are written down. In the case of securities whose value has declined by 30% to 50% from the book value are written down if their price is not expected to recover.

2. Securities without market quotations

(Unit: thousand yen)

| | As of February 28, 2006 |
|---|---|
| | Carrying value |
| Other securities<br>Unlisted stock | 9,456 |

Securities without market quotations at 4,303 thousand yen was written down in the current fiscal year.

## Derivatives

From March 1, 2005 to August 31, 2005
Not applicable since the Company applies the hedge accounting method.

From March 1, 2006 to August 31, 2006
Not applicable since the Company applies the hedge accounting method.

From March 1, 2005 to February 28, 2006
Not applicable since the Company applies the hedge accounting method.

## Segment Information

1.Operating segment information

Operating segment information for previous interim period, current interim period, and previous fiscal year were as follows.

Previous interim period (March 1, 2005 – August 31, 2005)

(Unit: thousand yen)

| | Cosmetics | Pharmaceuticals and other products | Total | Eliminations and corporate | Consolidated |
|---|---|---|---|---|---|
| Sales | | | | | |
| (1) Sales to outside customers | 2,493,073 | 729,683 | 3,222,756 | - | 3,222,756 |
| (2) Sales and transfers – Inter-segment | - | - | - | - | - |
| Total | 2,493,073 | 729,683 | 3,222,756 | - | 3,222,756 |
| Operating expenses | 2,160,069 | 671,292 | 2,831,362 | 251,810 | 3,083,172 |
| Operating income | 333,003 | 58,391 | 391,394 | [251,810] | 139,584 |

Notes:
1. Method of segmentation: Segments are based on the type of products handled.
2. Primary operations of the principal operating segments are as follows:
(1) Cosmetics: Foundation, eye shadow, rouge, lipstick, lip cream, moisturizers and sunscreen lotions
(2) Pharmaceuticals and other products: Econazole, medicinal toothpaste, mouthwash, ear washes and hygiene products
3. Operating expenses (251,810 thousand yen) included in eliminations or corporate consist primarily of expenses related to the administration divisions, including the General Affairs Division and the Accounting Division.

Current interim period (March 1, 2006 – August 31, 2006)

(Unit: thousand yen)

| | Cosmetics | Pharmaceuticals and other products | Total | Eliminations and corporate | Consolidated |
|---|---|---|---|---|---|
| Sales | | | | | |
| (1) Sales to outside customers | 2,818,885 | 637,312 | 3,456,198 | - | 3,456,198 |
| (2) Sales and transfers – Inter-segment | - | - | - | - | - |
| Total | 2,818,885 | 637,312 | 3,456,198 | - | 3,456,198 |
| Operating expenses | 2,397,360 | 629,033 | 3,026,394 | 262,933 | 3,289,327 |
| Operating income | 421,525 | 8,278 | 429,804 | [262,933] | 166,870 |

Notes:
1. Method of segmentation: Segments are based on the type of products handled.
2. Primary operations of the principal operating segments are as follows:
(1) Cosmetics: Foundation, eye shadow, rouge, lipstick, lip cream, moisturizers and sunscreen lotions
(2) Pharmaceuticals and other products: Econazole, medicinal toothpaste, mouthwash, ear washes and hygiene products
3. Operating expenses (262,933 thousand yen) included in eliminations or corporate consist primarily of expenses related to the administration divisions, including the General Affairs Division and the Accounting Division.

Previous fiscal year (March 1, 2005 – February 28, 2006)

(Unit: thousand yen)

| | Cosmetics | Pharmaceuticals and other products | Total | Eliminations and corporate | Consolidated |
|---|---|---|---|---|---|
| Sales | | | | | |
| (1) Sales to outside customers | 5,297,050 | 1,282,347 | 6,579,397 | - | 6,579,397 |
| (2) Sales and transfers – Inter-segment | - | - | - | - | - |
| Total | 5,297,050 | 1,282,347 | 6,579,397 | - | 6,579,397 |
| Operating expenses | 4,599,168 | 1,250,279 | 5,849,447 | 497,782 | 6,347,230 |
| Operating income | 697,881 | 32,067 | 729,949 | [497,782] | 232,167 |

Notes:

1. Method of segmentation: Segments are based on the type of products handled.
2. Primary operations of the principal operating segments are as follows:

(1) Cosmetics: Foundation, eye shadow, rouge, lipstick, lip cream, moisturizers and sunscreen lotions

(2) Pharmaceuticals and other products: Econazole, medicinal toothpaste, mouthwash, ear washes and hygiene products

3. Operating expenses (497,782 thousand yen) included in eliminations or corporate consist primarily of expenses related to the administration divisions, including the General Affairs Division and the Accounting Division.

2. Geographical segment information

Geographical segment information for previous interim period, current interim period, and previous fiscal year were as follows.

Previous interim period (March 1, 2005 – August 31, 2005)

(Unit: thousand yen)

| | Japan | France | Total | Eliminations and corporate | Consolidated |
|---|---|---|---|---|---|
| Sales | | | | | |
| (1) Sales to outside customers | 2,320,110 | 902,646 | 3,222,756 | - | 3,222,756 |
| (2) Sales and transfers – Inter-segment | 75,425 | - | 75,425 | [75,425] | - |
| Total | 2,395,536 | 902,646 | 3,298,182 | [75,425] | 3,222,756 |
| Operating expenses | 2,029,310 | 876,905 | 2,906,215 | 176,956 | 3,083,172 |
| Operating income | 366,226 | 25,741 | 391,967 | [252,382] | 139,584 |

Notes:

1. Geographical segmentation: By locations of manufacturing facilities.
2. Operating expenses (251,810 thousand yen) included in eliminations or corporate consist primarily of expenses related to the administration divisions, including the General Affairs Division and the Accounting Division.

Current interim period (March 1, 2006 – August 31, 2006)

(Unit: thousand yen)

| | Japan | France | Total | Eliminations and corporate | Consolidated |
|---|---|---|---|---|---|
| Sales | | | | | |
| (1) Sales to outside customers | 2,662,562 | 793,635 | 3,456,198 | - | 3,456,198 |
| (2) Sales and transfers – Inter-segment | 28,001 | 5,415 | 33,416 | [33,416] | - |
| Total | 2,690,564 | 799,051 | 3,489,615 | [33,416] | 3,456,198 |
| Operating expenses | 2,218,865 | 836,804 | 3,055,669 | 233,658 | 3,289,327 |
| Operating income (loss) | 471,698 | (37,753) | 433,945 | [267,075] | 166,870 |

Notes:

1. Geographical segmentation: By locations of manufacturing facilities.
2. Operating expenses (262,933 thousand yen) included in eliminations or corporate consist primarily of expenses related to the administration divisions, including the General Affairs Division and the Accounting Division.

Previous fiscal year (March 1, 2005 – February 28, 2006)

(Unit: thousand yen)

| | Japan | France | Total | Eliminations and corporate | Consolidated |
|---|---|---|---|---|---|
| Sales | | | | | |
| (1) Sales to outside customers | 4,934,712 | 1,644,684 | 6,579,397 | - | 6,579,397 |
| (2) Sales and transfers – Inter-segment | 117,840 | 5,686 | 123,526 | [123,526] | - |
| Total | 5,052,553 | 1,650,371 | 6,702,924 | [123,526] | 6,579,397 |
| Operating expenses | 4,282,075 | 1,694,117 | 5,976,193 | 371,037 | 6,347,230 |
| Operating income (loss) | 770,477 | (43,746) | 726,730 | [494,563] | 232,167 |

Notes:

1. Geographical segmentation: By locations of manufacturing facilities.
2. Operating expenses (497,782 thousand yen) included in eliminations or corporate consist primarily of expenses related to the administration divisions, including the General Affairs Division and the Accounting Division.

3. Overseas sales

Overseas sales in the previous interim period, current interim period and previous fiscal year were as follows

Previous interim period (March 1, 2005 – August 31, 2005)

(Unit: thousand yen)

| | Europe | Other areas | Total |
|---|---|---|---|
| Overseas sales | 945,896 | 33,088 | 978,985 |
| Consolidated sales | - | - | 3,222,756 |
| Share of overseas sales in consolidated sales | 29.4% | 1.0% | 30.4% |

Notes:

1. Method of geographical segmentation: Geographical proximity
2. Each segment consists primarily of the following countries or areas
   (1) Europe: France, Italy, Britain, Greece, Germany, Portugal, and Spain.
   (2) Other areas: North America, The Philippines, Taiwan, S. Korea, and Hong Kong.
3. Overseas sales include sales of the Company and its consolidated subsidiaries to customers in countries and areas outside Japan.

Current interim period (March 1, 2006 – August 31, 2006)

(Unit: thousand yen)

| | Europe | Other areas | Total |
|---|---|---|---|
| Overseas sales | 935,488 | 63,300 | 998,789 |
| Consolidated sales | - | - | 3,456,198 |
| Share of overseas sales in consolidated sales | 27.1% | 1.8% | 28.9% |

Notes:

1. Method of geographical segmentation: Geographical proximity
2. Each segment consists primarily of the following countries or areas
   (1) Europe: France, Italy, Britain, Greece, Germany, Portugal, Spain, and Switzerland.
   (2) Other areas: North America, Taiwan, and S. Korea.
3. Overseas sales include sales of the Company and its consolidated subsidiaries to customers in countries and areas outside Japan.

Previous fiscal year (March 1, 2005 – February 28, 2006)

(Unit: thousand yen)

| | Europe | Other areas | Total |
|---|---|---|---|
| Overseas sales | 1,799,352 | 77,085 | 1,876,437 |
| Consolidated sales | - | - | 6,579,397 |
| Share of overseas sales in consolidated sales | 27.3% | 1.2% | 28.5% |

Notes:

1. Method of geographical segmentation: Geographical proximity
2. Each segment consists primarily of the following countries or areas
   (1) Europe: France, Italy, Britain, Greece, Germany, Belgium, Portugal, Switzerland, and Spain.
   (2) Other areas: North America, The Philippines, Taiwan, S. Korea, Hong Kong, and Malaysia.
3. Overseas sales include sales of the Company and its consolidated subsidiaries to customers in countries and areas outside Japan.

**Production, Orders and Sales**

1. Production

Production by operating segment in the current interim period is as follows.

(Unit: thousand yen)

| Operating segment | March 1, 2006 – August 31, 2006 | |
|---|---|---|
| | | YoY change (%) |
| Cosmetics | 2,825,720 | 113.3 |
| Pharmaceuticals and other products | 674,338 | 90.7 |
| Total | 3,500,059 | 108.1 |

Notes:

1. Amounts are based on sales prices.
2. Amounts are exclusive of the consumption taxes.

2. Orders

Orders by operating segment in the current interim period are as follows.

(Unit: thousand yen)

| Operating segment | Orders received | | Order backlog | |
|---|---|---|---|---|
| | | YoY change (%) | | YoY change (%) |
| Cosmetics | 2,893,271 | 103.2 | 1,384,392 | 102.7 |
| Pharmaceuticals and other products | 742,618 | 126.4 | 542,180 | 176.9 |
| Total | 3,635,890 | 107.2 | 1,926,573 | 116.5 |

Notes:

1. Amounts are based on sales prices.
2. Amounts are exclusive of the consumption taxes.

3.Sales

Sales by operating segment in the current interim period are as follows.

(Unit: thousand yen)

| Operating segment | March 1, 2006 – August 31, 2006 | |
|---|---|---|
| | | YoY change (%) |
| Cosmetics | 2,818,885 | 113.1 |
| Pharmaceuticals and other products | 637,312 | 87.3 |
| Total | 3,456,198 | 107.2 |

Notes:

1. Amounts are exclusive of the consumption taxes.
2. Sales by major customer and share of sales by major customer for the two most recent interim period are as follows:

(Unit: thousand yen)

| Customer | March 1, 2005 – August 31, 2005 | | March 1, 2006 – August 31, 2006 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Shu Uemura Cosmetics Inc. | - | - | 402,897 | 11.7 |

Note:

In previous interim period, figures for Shu Uemura Cosmetics Inc. is not presented since it accounted for less than 10/100 of consolidated sales.

**Subsequent Events**

| From March 1, 2005 to August 31, 2005 | From March 1, 2006 to August 31, 2006 | From March 1, 2005 to February 28, 2006 |
|---|---|---|
| The Board of Directors of the Company on September 22, 2005 approved a syndicated loan agreement in order to diversify fund procurement channels and position the Company to implement dynamic and stable fund procurement. The syndicated loan agreement was signed on September 30, 2005.<br>(1) Details of the syndicated loan agreement<br>Syndicated commitment line and a term loans for a specified period.<br>(2) Type of agreement<br>Commitment line: 1.0 billion yen<br>Term loan for specified period: 1.3 billion yen<br>(3) Arranger and agent<br>Mizuho Bank<br>(4) Syndicate members:<br>Shoko Chukin Bank (Co-arranger)<br>UFJ Bank<br>Bank of Tokyo Mitsubishi<br>Sawayaka Shinkin Bank | The Board of Directors of the Company on August 22, 2006 approved a syndicated loan agreement in order to diversify fund procurement channels and position the Company to implement dynamic and stable fund procurement. The syndicated loan agreement was signed on September 29, 2006.<br>(1) Details of the syndicated loan agreement<br>Syndicated commitment line and a term loans for a specified period.<br>(2) Type of agreement<br>Commitment line: 1.0 billion yen<br>Term loan for specified period: 1.3 billion yen<br>(3) Arranger and agent<br>Mizuho Bank<br>(4) Syndicate members:<br>Shoko Chukin Bank (Co-arranger)<br>The Bank of Tokyo-Mitsubishi UFJ, Ltd.<br>Sawayaka Shinkin Bank<br>Mitsubishi UFJ Trust and Banking Corporation | Not applicable. |

October 24, 2006

Nippon Shikizai, Inc.

# Interim Non-consolidated Financial Results for the Fiscal Year Ending February 2007

| | |
|---|---|
| Name of company listed: | Nippon Shikizai, Inc. |
| Stock code number: | 4920 |
| Stock exchange listing: | JASDAQ |
| Company domicile: | Tokyo |
| President: | Kouji Okumura |
| Contact: | Shinsaku Tsukamoto, Managing Director |
| Telephone: | +81-(0)3-3456-0561 |
| URL: | http://www.shikizai.com |
| Board of Directors' meeting for approving: | October 24, 2006 |
| Starting date of interim dividend paid: | Not planned |
| One trading unit: | 1,000 shares |

## 1. Financial Results (March 1, 2006 – August 31, 2006)

(1) Results of operations

(Amounts rounded down to million yen)

| | Sales | | Operating income | | Ordinary income | |
|---|---|---|---|---|---|---|
| | Million yen | YoY change (%) | Million yen | YoY change (%) | Million yen | YoY change (%) |
| First half ended Aug. 2006 | 2,690 | 12.3 | 208 | 82.5 | 269 | 242.6 |
| First half ended Aug. 2005 | 2,395 | 1.2 | 114 | 2.9 | 78 | (2.0) |
| Fiscal year ended Feb. 2006 | 5,052 | 3.4 | 272 | (14.9) | 189 | (39.2) |

| | Net income | | Net income per share (basic) |
|---|---|---|---|
| | Million yen | YoY change (%) | Yen |
| First half ended Aug. 2006 | (687) | - | (159.14) |
| First half ended Aug. 2005 | 24 | (23.6) | 5.62 |
| Fiscal year ended Feb. 2006 | 82 | 56.8 | 19.09 |

Notes:

1. Average number of shares outstanding
   - First half ended Aug. 2006: 4,317,444 shares
   - First half ended Aug. 2005: 4,317,711 shares
   - Fiscal year ended Feb. 2006: 4,317,577 shares
2. Change in accounting principle: Yes
3. "YoY change" represents relevant change in percentage compared to the same period of the previous year.

(2) Financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | Million yen | Million yen | % | Yen |
| As of Aug. 31, 2006 | 7,089 | 1,896 | 26.8 | 439.31 |
| As of Aug. 31, 2005 | 7,778 | 2,583 | 33.2 | 598.44 |
| As of Feb. 28, 2006 | 7,785 | 2,657 | 34.1 | 615.53 |

Notes:

1. Number of shares outstanding

As of Aug. 31, 2006: 4,317,444 shares
As of Aug. 31, 2005: 4,317,444 shares
As of Feb. 28, 2006: 4,317,444 shares

2. Treasury stock

As of Aug. 31, 2006: 1,000 shares
As of Aug. 31, 2005: 1,000 shares
As of Feb. 28, 2006: 1,000 shares

## 2. Forecast for the Fiscal Year Ending February 2007 (March 1, 2006 - February 28, 2007)

| | Sales | Ordinary income | Net income |
|---|---|---|---|
| | Million yen | Million yen | Million yen |
| Full year | 5,333 | 351 | (546) |

(Reference) Estimated net income per share (full year): 126.69 yen

## 3. Dividends

| Dividends by cash | Dividend per share (Yen) | | |
|---|---|---|---|
| | Interim | Year-end | Annual |
| Fiscal year ended Feb. 2006 | - | 10 | 10 |
| Fiscal year ending Feb. 2007 (actual) | - | - | - |
| Fiscal year ending Feb. 2007 (forecast) | - | 0 | 0 |

*The above forecasts were made by management based on currently available data and information. Please be aware that actual results may turn out different from those forecast as the Company’s business is affected by many factors.*