Financial Results for the Fiscal Year Ended February 28, 2010

April 16, 2010

Name of company listed: Nippon Shikizai, Inc. Stock exchange listing: JASDAQ

Stock code number: 4920 URL: http://www.shikizai.com

Representative: Kouji Okumura (President)

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Scheduled date of annual general meeting of shareholders: May 27, 2010

Scheduled date of filing of Annual Securities Report: May 28, 2010

Planned Commencement Date of Dividend Payment: May 28, 2010

1. Consolidated Financial Results (March 1, 2009 – February 28, 2010)

(1) Performance

(¥ millions, rounded down, % figures denote year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Net Income	
Fiscal year ended Feb. 2010	6,579	(2.8)%	244	−%	133	−%	50	−%
Fiscal year ended Feb. 2009	6,766	(12.4)%	(114)	−%	(382)	−%	(203)	−%

	Net Income per Share (¥)	Diluted Net Income Per Share (¥)	Return on equity	Ordinary income to total assets	Operating income to sales
Fiscal year ended Feb. 2010	11.63	−	3.6	1.9	3.7
Fiscal year ended Feb. 2009	(47.19)	−	(13.5)	(5.2)	(1.7)

Reference: Equity in earnings of non-consolidated subsidiaries Feb. 2010: - million yen Feb. 2009: - million yen

(2) Financial Position

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets Per Share (¥)
At February 28, 2010	7,373	1,455	19.7	337.15
At February 28, 2009	6,944	1,356	19.5	314.39

Reference: Equity: 1.455 million yen (At February 28, 2010); 1.356 million yen (At February 28, 2009)

(3) Consolidated cash flow position

	Cash flow from operating activities	Cash flows from investing activities	Cash flow from financing activities	Cash and Cash Equivalents at the End of the Period
Fiscal year ended Feb. 2010	(130)	(63)	45	310
Fiscal year ended Feb. 2009	154	(355)	118	457

2. Cash Dividends

	Cash Dividends per Share (¥)					Total dividends (annual)	Dividend payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q	2Q	3Q	Year-end	Full-year			
Year Ended February 28, 2009	−	0.00	−	0.00	0.00	−	−	−
Year Ended February 28, 2010	−	0.00	−	10.00	10.00	43	86.0	3.1
Year Ending February 28, 2011 (Forecast)	−	0.00	−	10.00	10.00		33.3	

3. Forecast for the Fiscal Year Ending February 28, 2011 (March 1, 2010 – February 28, 2011)

(Percentage represents relevant change in percentage compared to the same period of the previous year)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share (¥)
First half	3,192	3.5%	75	10.2%	32	114.7%	18	-%	4.27
Full year	6,826	3.7%	319	30.5%	226	69.3%	129	158.2%	30.04

4. Other

(1) Changes in material subsidiaries during the period (changes in specific subsidiaries affecting the scope of consolidation): No

Newly added (Company name: －), Excluded (Company name: －)

(2) Changes in accounting principles, processes, presentation methods, etc., related to the preparation of quarterly consolidated financial statements (recorded in changes to important items that form the basis for preparation of quarterly consolidated financial statements)

1) Changes due to revisions to accounting standards, etc.: Yes

2) Changes other than 1): No

(Note) For details, please see page 20, "Changes in key items that form the basis of preparing consolidated financial statements."

(3) Number of outstanding shares (ordinary shares)

1) Number of shares outstanding at term-end (including treasury shares)

Year ended February 28, 2010:4,318,444

Year ended February 28, 2009: 4,318,444

2) Number of treasury shares at term-end

Year ended February 28, 2010: 2,599

Year ended February 28, 2009: 2,599

(Note) For details about share numbers that form the basis for calculations of (consolidated) current net income per share, please see page 35, "Per-share information."

(Reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results (March 1, 2009 – February 28, 2010)

(1) Non-consolidated performance

	Sales		Operating Income		Ordinary Income		Net Income	
Fiscal year ended Feb. 2010	5,597	1.1%	287	99.8%	180	－%	83	－%
Fiscal year ended Feb. 2009	5,537	(9.0) %	144	(47.9) %	(101)	－%	(80)	－%

	Net Income per Share (¥)	Diluted Net Income Per Share (¥)
Fiscal year ended Feb. 2010	19.27	－
Fiscal year ended Feb. 2009	(18.77)	－

(2) Non-consolidated financial position

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets Per Share (¥)
Fiscal year ended Feb. 2010	6,851	1,428	20.9	331.05
Fiscal year ended Feb. 2009	6,595	1,317	20.0	305.26

Reference: Equity: 1.428 million yen (At February 28, 2010); 1.317 million yen (At February 28, 2009)

2. Non-consolidated Forecast for the Fiscal Year Ending February 28, 2011 (March 1, 2010 – February 28, 2011)

(Percentage represents relevant change in percentage compared to the same period of the previous year)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share (¥)
First half	2,624	(0.7) %	58	(49.5) %	14	(76.1) %	1	(95.4) %	0.26
Full year	5,742	2.6%	303	5.4%	211	17.5%	114	37.7%	26.54

* Explanations for the appropriate use of earnings forecast, and remarks

1. The above earnings forecast is based on the information that was available as of the release date of this document. The actual business performance may differ from the forecast due to various factors.

1. Qualitative Information and Financial Statements, etc.

(1) Qualitative information on consolidated operating results

In this fiscal year, against a backdrop of steady economic growth in developing countries in Asia, demand for Japanese exports was steady, but despite signs of recovery in some industries due to government-led policies for stimulating consumption, overall domestic consumption demand was weak, as severe conditions surrounding employment conditions and corporate performance persisted.

Amidst such a severe market environment, there was a notable slump in personal spending in Japan's cosmetics industry, with conservative purchasing and shifts towards low- and mid-priced items. In comparison with previous year's levels, sales for 2009 decreased in terms of both volume and value, and according to the Ministry of Economy, Trade and Industry's shipping statistics, shipments for 2009 (in terms of monetary value) fell by 7.9 percent from the previous fiscal year.

Despite such a severe business environment, our company globally developed our proposal-based business approach, which makes use of our capabilities in product development and technology, and also worked to expand our sales to foreign cosmetics makers and companies in other industries (such as pharmaceutical companies).

Furthermore, given the severe earnings environment, in addition to working together as a group to reduce costs, our company also worked to enhance group governance and to improve group synergy. In order to improve the performance of our consolidated subsidiary in France, Thepenier Pharma Industrie S.A.S. (hereafter 'Thepenier'), we changed our subsidiary corporate form to one in which the President of the parent company (i.e. Nippon Shikizai Inc.) holds the position of the president of the new company. Thepenier, and we also enhanced the business and technological physical support systems that are related to our cosmetics business.

As a result of the above, although sales for this fiscal year came to 6,579 million yen (2.8% decrease from the previous year), with operating income of 244 million yen (against an operating loss of 114 million yen in the previous year), ordinary income of 133 million yen (against an ordinary loss of 382 million in the previous year) and net income of 50 million yen (against a current net loss of 203 million yen in the previous year), we managed to record a net profit for the first time in four years.

The business performance in each segment is as follows:

Cosmetics

Although the market environment remained severe due to the global financial crisis, our company's success in acquiring new products aimed at companies in different industries, such as pharmaceutical companies, and the recovery in orders for new products from existing customers both paid off, and enabled us to cover for the slump in UV-related products caused by seasonal factors and the high value of the yen. Our French subsidiary, Thepenier, also contributed greatly by acquiring new projects for skin lotion from new local customers, and our current consolidated sales are now up from last year's level. Furthermore, in terms of profits, our group-wide efforts to reduce costs have been successful, and we have seen an increase in profits for this fiscal year.

As a result of the above, sales for this fiscal year came to 5,945 million yen (3.2% increase from the previous year) and operating income came to 757 million yen (36.3% increase from the previous year).

Pharmaceuticals and other products

Against a backdrop of protracted economic stagnation and sluggish personal spending in Europe, our pharmaceuticals and other business, which is conducted by our French subsidiary, performed weakly overall, with our athlete's foot treatment – one of our leading products – declining dramatically. However, due to full contributions from the series of earnings recovery strategies that we implemented two years ago, such as bad-debt write-offs and personnel reductions, our operating loss has been reduced significantly from the previous fiscal year's level.

As a result of the above, sales for this fiscal year came to 634 million yen (36.7% decrease from the previous year) and operating loss came to 38 million yen (against an operating loss of 134 million in the previous year).

The business performance in each country is as follows:

Japan

During the first half of this fiscal year, domestic sales of cosmetics were below levels for the same term last year, as a result of sluggish personal spending and the fact that sales of UV products decreased due to unseasonable weather and the high value of the yen, but from the second half of the year, with the success of our sales efforts such as acquiring both new products from companies in other industries, including pharmaceutical companies, and spring-release products from existing customers, we were able to cover the decline in sales during the first half of the year. Furthermore, in terms of profits, with the success of cost-reduction policies that have been implemented across the whole company since two years ago, both sales and profits rose from levels for the previous fiscal year.

As a result of the above, sales for this fiscal year came to 5,597 million yen (1.1% increase from the previous year) and operating income came to 765 million yen (12.5% increase from the previous year).

At present we are not conducting pharmaceuticals and other business in Japan.

France

While the business environment was extremely severe as declined personal spending and customer inventory adjustments progressed due to the protracted stagnation in the European economy, in the cosmetics sector, although revenue increased as a result of acquiring new projects in skin lotion aimed at new local customers, because order operations for medical products and quasi drugs struggled, including our leading athlete's foot treatment, overall revenue fell significantly in comparison with the level for the previous fiscal year. However, in terms of profits, because business improvement strategies that had been implemented since two years ago, such as personnel reductions, bad-debt write-offs and financial aid strategies such as dead equity swapping by new companies, fully contributed to earnings, our operating loss was reduced significantly from the previous fiscal year.

As a result of the above, sales for this fiscal year came to 1,040 million yen (21.4% decrease from the previous year) and operating loss came to 50 million yen (against an operating loss of 258 million yen for the previous year).

Outlook for next term

The Japanese economy is beginning to show signs of recovering as it is supported by the steady economic growth of the Asian economy, centered around China, but as there remain many unclear factors for our company, such as the slow pace of recovery in the U.S. and European economies, we anticipate that a full recovery will not occur until some time from the second half of the year.

Based on such an outlook, while also further enhancing group governance, our group will set increasing profitability and enhancing financial strength as its top priority business goals, and will press forward with global business activities targeting both the domestic and overseas markets, as well as with efforts to develop new customers and acquire new products based on fully utilizing our strengths in R&D, technology and providing proposals.

At the current point in time, our full-year earnings forecasts are for net sales of 6,826 million yen (3.7% increase from the previous year), operating income of 319 million yen (30.5% increase from the previous year), ordinary income of 226 million yen (69.3% increase from the previous year) and current net income of 129 million yen (158.2% increase from the previous year).

(2) Qualitative information regarding consolidated financial conditions

1) Financial situation

Current assets

The balance on current assets at the end of this fiscal year came to 3,502 million yen (against 2,834 million yen at the end of the previous year), resulting in an increase of 667 million yen from the level at the end of the previous fiscal year. This was mainly due to the fact that trade notes and accounts receivable increased by 841 million yen, while cash and deposits decreased by 146 million yen.

Fixed assets

The balance on fixed assets at the end of this fiscal year came to 3,870 million yen (against 4,110 million yen at the end of the previous year), resulting in a decrease of 239 million yen from the level at the end of the previous fiscal year. This was mainly due to the fact that tangible fixed assets and deferred tax assets decreased by 166 million yen and 79 million yen, respectively.

Current liabilities

The balance on current liabilities at the end of this fiscal year came to 4,008 million yen (against 3,428 million yen at the end of the previous year), resulting in an increase of 580 million yen from the level at the end of the previous fiscal year. This was mainly due to the fact that trade notes and accounts payable, short-term borrowings and other current liabilities increased by 246 million, 349 million and 144 million, respectively, while our current portion of corporate bonds decreased by 190 million yen.

Long-term liabilities

The balance on long-term liabilities at the end of this fiscal year came to 1,909 million yen (against 2,159 million yen at the end of the previous year), resulting in a decrease of 250 million yen from the level at the end of the previous fiscal year. This was mainly due to the fact that long-term borrowings decreased by 552 million yen, while corporate bonds increased by 350 million yen.

Net assets

The balance on net assets at the end of this fiscal year came to 1,455 million yen (against 1,356 million yen at the end of the previous year), resulting in an increase of 98 million yen from the level at the end of the previous fiscal year. In addition to the recording of a current net income of 50 million yen, this was mainly due to an increase of 48 million yen in marketable securities variation difference and conversion difference. As a result, our equity ratio came to 19.7% (against 19.5% at the end of the previous fiscal year).

2) Cash flow situation

At the end of this fiscal year cash and cash equivalents (hereafter ‘funds’) totaled 310 million yen, resulting in a decrease of 146 million yen from the level at the end of the previous fiscal year. Cash flow situations and their respective causes were as outlined below:

Cash flow from operating activities

The decrease in funds resulting from operating activities came to 130 million yen. This was mainly due to increases in the form of 101 million yen in net income before taxes and other adjustments, 318 million yen in depreciation costs and a 241 million yen increase in accounts payable, as well as a reduction caused by an increase of 834 million yen in accounts receivable.

Cash flows from investing activities

The decrease in funds resulting from investing activities came to 63 million yen. This was due mainly to replacement of machinery and equipment in order to boost production efficiency.

Cash flow from financing activities

The increase in funds resulting from financing activities came to 45 million yen. This was mainly due to a net increase of 177 million yen in short-term borrowings, 650 million yen in earnings from long-term borrowings and an outlay of 1,030 million yen in repayments on long-term loans, 490 million yen in earnings from issuance of corporate bonds and an outlay of 340 million yen in redemption of bonds, as well as 126 million yen in other increases.

【Reference】Cash flow index trends

	FY 2006 Ended February	FY 2007 Ended February	FY 2008 Ended February	FY 2009 Ended February	FY 2010 Ended February
Equity ratio (%)	33.4	28.1	21.4	19.5	19.7
Equity ratio (market value basis) (%)	24.7	23.7	22.7	10.4	11.4
Cash flow to interest-bearing liabilities (years)	10.9	6.5	—	25.4	—
Interest coverage ratio (times)	3.6	5.7	—	1.4	—

Notes:

1. Equity ratio: Shareholders' equity/total assets
2. Equity ratio (market value basis): Market capitalization/total assets
3. Dept repayment multiple: Interest-bearing debt/operating cash flow
4. Interest coverage ratio: Operating cash flow/interest payment

* For the fiscal year ended February 2008, and the fiscal year ended February 2010, because cash flow from operating activities was negative, our ratio for cash flow to dept repayment multiple and our interest coverage ratio were not displayed.

(3) Basic Policy Concerning Profit Allocation and Dividends for the Current and Next Terms

Our company recognizes profit returns to shareholders as a key business issue, and makes profit allocations according to the state of business expansion, with the basic idea of continually providing stable dividends.

Regarding retained funds, these are devoted to the expansion of business, and are primarily used for capital investment aimed at things such as enhancing production equipment, boosting production efficiency and strengthening product development capability.

For the current term, we anticipate dividends of ten yen per share.

For the next term, we plan to continue to provide dividends based on the policies stated above, and anticipate annual dividends of ten yen per share.

(4) Risk Factors

The following items represent risk factors for our group's performance and financial situation, and may significantly affect the decisions of investors.

By taking prevention, dispersion and risk-hedging measures against the various risks and uncertainties surrounding business, our group aims to lessen their effects towards corporate activity to the maximum possible extent.

1) Interest rates and exchange rate fluctuations

Our group's balance on loans and interest-bearing debt at the end of this fiscal year was 3,876 million yen, and it is possible that interest situations and other fluctuations in the financial market may affect performance. Also, our group's sales, expenses, assets and liabilities in foreign currency are converted into yen for the sake of preparing consolidated financial statements and financial statements, and even if there are no fluctuations in value on a local currency basis due to exchange rates at the time of conversion, this may affect value after conversion into yen.

2) Legal regulations

The pharmaceuticals and cosmetics industries to which our group belongs are legally regulated by laws such as the Pharmaceutical Affairs Act. Due to this, our group's performance and financial situation may be affected by revisions to the Act, or by changes in the criteria for its application.

3) Suspension and restraints on business activity caused by disasters and accidents

Our group's production base may incur serious damage as a result of natural disasters like earthquakes and typhoons. Our group regularly conducts disaster prevention activities and equipment inspections, but there is no guarantee that these will completely prevent or relieve the effects of disasters. In particular, our Zama plant is our company's main factory, and if a large-scale earthquake were to occur in the Tokai region, this may affect our group's performance and financial situation due to suspension of business activities and delays in product supply.

4) Product liability

With the products that our group supplies, there is the risk that unexpected defects may arise, and that recalls may be issued. Our group makes every possible effort to secure optimum quality, but in cases involving large-scale product liability compensation or recalls, where such costs cannot be covered by insurance, in addition to substantial payments arising, the reliability and reputation of our group's products may be adversely affected. As a result, our group's performance and financial situation may be affected.

5) Thepenier

Our company's subsidiary, Thepenier Pharma Industrie S.A.S. (Thepenier), manufactures and sells pharmaceuticals, quasi drugs and cosmetics. Since their buyout in 2000, Thepenier has continually performed poorly, but with our company's full support, they are aiming to improve their business performance. The amount invested into Thepenier by the end of this fiscal year (in shares) was 632 million yen, but should Thepenier's performance deteriorate dramatically in future, our group's performance and financial situation may be affected by impairment of the subsidiary's tangible fixed assets, or by impairment of our company's subsidiaries.

6) Term-loan contracts through the syndication system

With the aim of securing mobility and stability in fund procurement, as well as diversification in procurement methods, our company entered into term-loan contracts through the syndication method on September 30, 2005, September 29, 2006 and September 28, 2007.

In these contracts, financial covenants were attached, which had the monetary amounts for the net assets sections of balance sheets at the final day of each fiscal year's settlement term, and ordinary income in income statements during each year's settlement term, as criteria. Where conflict arises with these provisions, the benefits of the term will be lost, and obligation must be borne for immediately making a bulk payment before the deadline, and this may affect our group's performance and financial situation.

7) Deferred tax assets

Our group complies with all accounting standards, and records all deferred tax assets that can be recognized as collectable. Calculation of deferred tax assets is based on various predictions and assumptions concerning future taxable income, and actual results may differ from the predictions and assumptions that are used.

Where it is determined that an entire or partial collection of deferred tax assets is not possible, deferred tax assets will be reduced, and this may affect our group's performance and financial situation.

2. State of the Corporate Group

Our company's corporate group is comprised of Nippon Shikizai Inc. (our company), its subsidiary and one other affiliated company.

Our company's main line of business is contract manufacturing and contract research development, while the main line of business for its subsidiary, Thepenier Pharma Industrie S.A.S. (Thepenier), is contract manufacturing pharmaceuticals, quasi drugs and cosmetics in France.

Its other affiliate, Quatre Saisons, owns 28.9% of the total number of shares issued by our company, but apart from being a joint board member and shareholder, it is not involved with our company in any other way (such as in the areas of sales, technology, production or personnel).

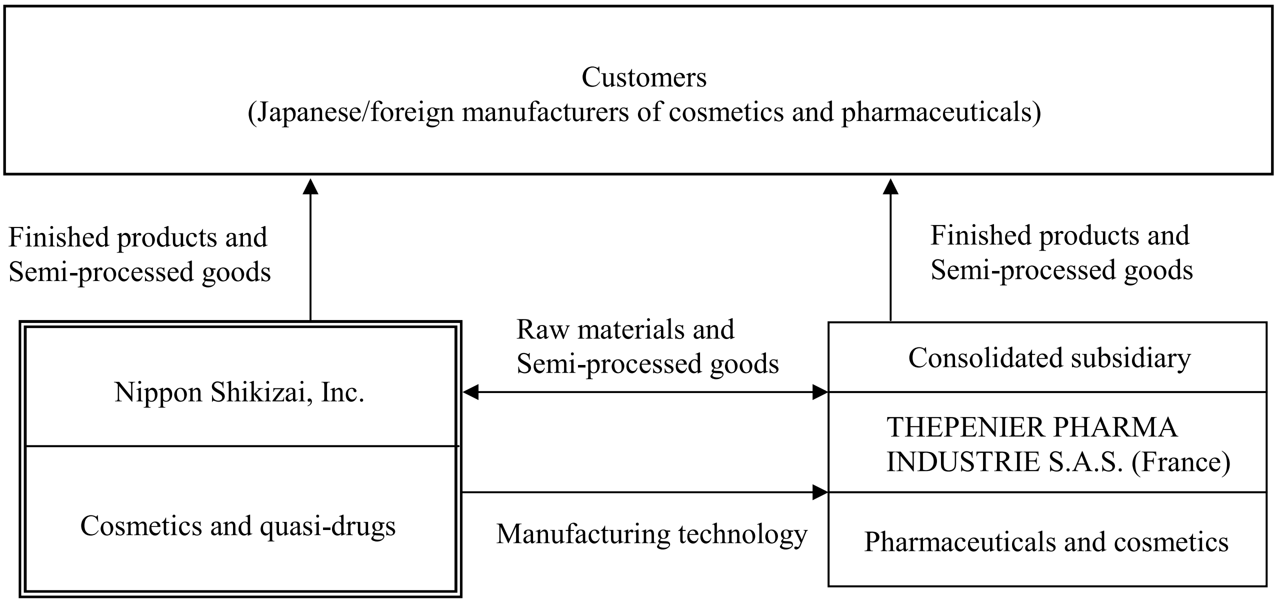
Rankings within the business of our group, and the business of our company and its subsidiary, are as outlined below.

(1) Cosmetics – Major products include foundation, eye shadow, cheek, lipstick, lip cream, beauty lotion a UV cream, and our company and its subsidiary engage in manufacturing and sales of these.

(2) Pharmaceuticals and other products – Major products include athlete's foot treatment, medicinal toothpaste, mouthwash, ear cleaner and health products, and our company's subsidiary engages in manufacturing and sales of these.

With some cosmetic products, our company and its subsidiary sell and purchase raw processing materials and semi-finished products to and from each other, before manufacturing and selling them as semi-finished and finished products.

The main systematic diagram for our group's business is illustrated below.



3. Management Policy

(1) Basic company management policy

Our company's corporate philosophy is to "contribute to the enhancement of lifestyles and culture by creating beauty and health," and as well as meeting the community's trust through our development and manufacturing of cosmetics, pharmaceuticals and quasi drugs, we strive to increase our profitability and corporate value in order to return profits to all shareholders.

Also, as a specialist OEM manufacturer of cosmetics and pharmaceuticals with no own brand, our group (our company and its consolidated subsidiary, hereafter the same) aims to provide high-quality, reliable products that are backed up with our high-level specialist technology and wealth of information power, and as a good partner of the customer, we have established systems, including projects proposals, that can consistently be relied on for everything from R&D through to manufacturing of finished products.

(2) Target management indicators

Our group sees improving profitability and enhancing its financial position as being top priority business goals. It aims to achieve efficient management with high profitability, based on its competitive R&D and technological capabilities, and hopes to increase its recurring profit margin and its equity ratio.

(3) Our company's mid-term management strategies

At our group, as well as focusing on developing high value-added products based on the cosmetic development technology that we have cultivated over many years, we will expand our global business activities targeting domestic and overseas markets.

As well as striving to reduce costs and expand sales, and working together as a group to regain profitability, we will also promote business structure reforms aimed at medium- to long-term growth.

Regarding cosmetics business in overseas subsidiaries, our group's consolidated business has been enhanced through the switch to subsidiary corporate form that was carried out in September last year (a switch to S.A.S., an abbreviation of "Societe par Actions Simplifiees" under the French Law), and with rock-solid backup covering technological, R&D and business aspects, we will aim to further enhance and expand our business base.

(4) Issues for our company to address

On the back of economic recovery in countries in Asia, the world economy is now seeing a phase of gradual recovery, but the cosmetics market is still faced with a severe market environment due to the protracted decline in personal spending.

Although faced with such a severe business environment, for our group, the establishment of a muscular earnings structure capable of continually and steadily producing profits, through cost reductions and sales expansion based on medium- to long-term business strategies, is a pressing issue.

Specifically, viewing the following points as key issues, once we have formulated concrete measures for these, we will aim to increase corporate value by actively tackling them.

- Drafting and implementing short-term earnings recovery program
- Planning medium- to long-term growth strategies
- Achieving low-cost operation through cost reduction
- Enhancing global business strategies in the cosmetics division
- Sales expansion and development of new products utilizing technological and R&D capabilities
- Enhancing group synergy through integrated management of subsidiaries
- Maintaining quality assurance systems
- Further enhancing compliance with internal control systems

(5) Other important management issues for our company

Not applicable

4. Consolidated Financial Statement
(1) Consolidated Balance Sheets

(Thousands of yen)

	At February 28, 2009	At February 28, 2010
ASSETS		
Current Assets		
Cash and deposit	716,552	569,559
Trade notes and accounts receivable	1,051,349	1,892,726
Inventories	908,385	-
Merchandise and finished goods	-	443,431
Work in process	-	40,520
Raw materials and supplies	-	379,146
Deferred tax assets	63,578	80,692
Others	105,737	97,171
Allowance for doubtful accounts	(10,722)	(624)
Total Current Assets	**2,834,881**	**3,502,624**
Fixed Assets		
Tangible Fixed Assets		
Buildings and structures	4,373,462	4,430,532
Accumulated depreciation	(2,939,466)	(3,085,532)
Buildings and structures - net	1,433,996	1,344,999
Machinery and vehicles	2,514,228	2,577,348
Accumulated depreciation	(2,074,571)	(2,193,200)
Machinery and vehicles - net	439,657	384,147
Tools, furniture and fixtures	560,134	560,002
Accumulated depreciation	(479,093)	(501,653)
Tools, furniture and fixtures - net	81,040	58,348
Land	1,328,473	1,328,760
Construction in progress	1,125	1,125
Total Tangible Fixed Assets	**3,284,292**	**3,117,380**
Intangible Fixed Assets	**198,265**	**202,862**
Investments and Other Assets		
Investment securities	143,800	171,662
Deferred tax assets	356,326	276,916
Others	179,331	158,442
Allowance for doubtful accounts	(52,003)	(56,782)
Total Investments and Other Assets	**627,455**	**550,238**
Total Fixed Assets	**4,110,013**	**3,870,481**
Total Assets	**6,944,894**	**7,373,106**

(Thousands of yen)

	At February 28, 2009	At February 28, 2010
LIABILITIES		
Current Liabilities		
Trade notes and accounts payable	769,761	1,015,852
Short-term borrowings	1,867,832	2,217,792
Current portion of corporate bonds	290,000	100,000
Accounts payable-other	246,495	269,210
Income tax payable	185	15,806
Contingent loss reserve	11,807	3,193
Others	242,208	386,686
Total Current Liabilities	**3,428,290**	**4,008,541**
Long-Term Liabilities		
Corporate bonds	-	350,000
Long-term borrowings	1,761,417	1,208,911
Deferred tax liabilities	2,990	-
Allowance for retirement benefits	133,368	117,821
Allowance for directors' retirement benefits	215,550	172,910
Others	46,406	59,842
Total Long-Term Liabilities	**2,159,732**	**1,909,486**
Total Liabilities	**5,588,023**	**5,918,028**
NET ASSETS		
Shareholder's Equity		
Common stock	552,749	552,749
Capital surplus	862,847	781,854
Retained earnings	(51,230)	79,968
Treasury stock	(1,436)	(1,436)
Total Shareholders' Equity	**1,362,928**	**1,413,135**
Valuation and Translation Adjustments		
Unrealized holding gain (loss) on other securities	5,138	22,832
Deferred hedge gain (loss)	(20,842)	(10,410)
Foreign currency translation adjustment	9,645	29,520
Total Valuation and Translation Adjustments	**(6,057)**	**41,942**
Total Net Assets	**1,356,871**	**1,455,078**
Total Liabilities and Net Assets	**6,944,894**	**7,373,106**

(2) Consolidated Statements of Income

(Thousands of yen)

	Fiscal year ended February 28, 2009	Fiscal year ended February 28, 2010
Sales	**6,766,967**	**6,579,989**
Cost of sales	**5,728,608**	**5,418,364**
Gross profit	**1,038,359**	**1,161,625**
SG&A expenses	**1,153,021**	**917,071**
Operating income (loss)	**(114,661)**	**244,553**
Non-operating income		
Interest income	1,449	791
Dividend income	7,054	5,213
House rent income	5,555	3,546
Others	17,584	14,408
Total Non-operating Income	**31,644**	**23,959**
Non-operating expenses		
Interest expense	107,080	114,870
Corporate bond issue costs	-	9,500
Commission fee	16,750	3,000
Foreign exchange loss	158,999	-
Others	16,272	7,235
Total Non-operating Expenses	**299,103**	**134,606**
Ordinary Income (loss)	**(382,120)**	**133,907**
Extraordinary Income:		
Reversal of provision for directors' retirement benefits	132,240	-
Land sales contract cancellation penalty	31,352	-
Reversal of allowance for doubtful accounts	-	2,728
Proceed from adjustment of loss on disposal of fixed assets on prior year	-	2,469
Reversal of special retirement expenses	-	15,582
Others	11,989	-
Total Extraordinary Income	**175,581**	**20,780**
Extraordinary Loss:		
Losses on disposal of fixed assets	46,266	11,453
Loss on valuation of investment securities	3,123	992
Special retirement expenses	31,481	-
Impairment loss	190,322	-
Provision for contingent loss	8,298	-
Loss on valuation of inventories	-	38,295
Others	26	2,168
Total Extraordinary Loss	**279,519**	**52,909**
Income (loss) before Income Taxes (loss)	**(486,057)**	**101,777**
Income Taxes	7,821	10,599
Adjustment for Corporate Tax	**(290,228)**	40,971
Total Corporate Income Tax	**(282,407)**	**51,570**
Net Income (loss)	**(203,650)**	**50,206**

(3) Statement of Changes in Consolidated Shareholders' Equity

(Thousands of yen)

	Fiscal year ended February 28, 2009	Fiscal year ended February 28, 2010
Shareholders' equity		
Capital stock		
Balance at the end of previous period	552,749	552,749
Changes during the period		
Total changes during the period	—	—
Balance at the end of current period	**552,749**	**552,749**
Capital surplus		
Balance at the end of previous period	1,052,539	862,847
Changes during the period		
Reversal of legal capital surplus	(189,691)	(80,992)
Total changes during the period	**(189,691)**	**(80,992)**
Balance at the end of current period	**862,847**	**781,854**
Retained earnings		
Balance at the end of previous period	(37,272)	(51,230)
Changes during the period		
Reversal of legal capital surplus	189,691	80,992
Net income (loss)	(203,650)	50,206
Total changes during the period	**(13,958)**	**131,198**
Balance at the end of current period	**(51,230)**	**79,968**
Treasury stock		
Balance at the end of previous period	(1,117)	(1,436)
Changes during the period		
Acquisition of treasury stock	(319)	—
Total changes during the period	**(319)**	**—**
Balance at the end of current period	**(1,436)**	**(1,436)**
Total shareholders' equity		
Balance at the end of previous period	1,566,898	1,362,928
Changes during the period		
Reversal of legal capital surplus	—	—
Net income (loss)	(203,650)	50,206
Acquisition of treasury stock	(319)	—
Total changes during the period	**(203,969)**	**50,206**
Balance at the end of current period	**1,362,928**	**1,413,135**

(Thousands of yen)

	Fiscal year ended February 28, 2009	Fiscal year ended February 28, 2010
Valuation / translation gain (loss)		
Valuation difference on other marketable securities		
Balance at the end of previous period	50,891	5,138
Changes during the period		
Changes in items other than shareholders equity (net)	(45,752)	17,693
Total changes during the period	**(45,752)**	**17,693**
Balance at the end of current period	**5,138**	**22,832**
Gain (loss) on deferred hedges		
Balance at the end of previous period	(31,745)	(20,842)
Changes during the period		
Changes in items other than shareholders equity (net)	10,903	10,431
Total changes during the period	**10,903**	**10,431**
Balance at the end of current period	**(20,842)**	**(10,410)**
Foreign currency translation adjustment		
Balance at the end of previous period	78,721	9,645
Changes during the period		
Changes in items other than shareholders equity (net)	(69,075)	19,875
Total changes during the period	**(69,075)**	**19,875**
Balance at the end of current period	**9,645**	**29,520**
Total valuation / translation gain (loss)		
Balance at the end of previous period	97,866	(6,057)
Changes during the period		
Changes in items other than shareholders equity (net)	(103,924)	48,000
Total changes during the period	**(103,924)**	**48,000**
Balance at the end of current period	**(6,057)**	**41,942**
Total net assets		
Balance at the end of previous period	1,664,765	1,356,871
Changes during the period		
Reversal of legal capital surplus	―	―
Net income (loss)	(203,650)	50,206
Acquisition of treasury stock	(319)	―
Changes in items other than shareholders equity (net)	(103,924)	48,000
Total changes during the period	**(307,894)**	**98,206**
Balance at the end of current period	**1,356,871**	**1,455,078**

(4) Consolidated Statements of Cash Flows

(Thousands of yen)

	Fiscal year ended February 28, 2009	Fiscal year ended February 28, 2010
Cash Flows from Operating Activities:		
Income (loss) before income taxes	(486,057)	101,777
Depreciation	337,905	318,779
Impairment loss	190,322	-
Increase (decrease) in contingent loss reserve	(16,471)	(8,837)
Increase (decrease) in allowance for retirement benefits	(4,410)	(17,875)
Increase (decrease) in allowance for directors' retirement benefits	(132,240)	(42,640)
Increase (decrease) in allowance for doubtful accounts	60,370	(7,120)
Interest and dividend income	(8,504)	(6,004)
Interest expenses	107,080	114,870
Corporate bond issue costs	-	9,500
Foreign exchange losses (gains)	141,651	-
Loss (gain) on sales of investment securities	(11,989)	-
Loss (gain) on valuation of investment securities	3,123	992
Loss on retirement of tangible fixed assets	46,266	11,453
Land sales contract cancellation penalty	(31,352)	-
Decrease (increase) in trade receivable	287,268	(834,428)
Decrease (increase) in inventories	212,391	49,621
Increase (decrease) in trade payable	(152,182)	241,406
Increase (decrease) in accrued consumption taxes	(3,659)	55,283
Increase (decrease) in other current liabilities	(176,717)	(19,069)
Others	(124,243)	25,696
Subtotal	**238,552**	**(6,593)**
Interest and dividends received	8,558	6,179
Interest paid	(103,642)	(130,718)
Amount received as land sales contract cancellation penalty	31,352	-
Income taxes refund (paid)	(20,338)	596
Net Cash Provided by Operating Activities	**154,481**	**(130,536)**
Cash Flows from Investing Activities:		
Payment for time deposits	(297,500)	(302,500)
Withdrawal of time deposits	320,500	302,500
Purchases of tangible fixed assets	(392,669)	(56,489)
Purchases of intangible fixed assets	(16,584)	(6,834)
Purchase of investment securities	(947)	-
Proceeds from sales of investment securities	31,137	-
Collection of long-term loans receivable	219	-
Net Cash Used in Investing Activities	**(355,844)**	**(63,323)**

(Thousands of yen)

	Fiscal year ended February 28, 2009	Fiscal year ended February 28, 2010
Cash Flows from Financing Activities:		
Net increase (decrease) in short-term borrowings	520,000	177,800
Proceeds from long-term borrowings	571,250	650,000
Repayment of long-term borrowings	(912,150)	(1,030,345)
Proceeds from corporate bonds issue	-	490,500
Redemption of corporate bonds	(60,000)	(340,000)
Purchase of treasury stock	(319)	-
Repayment of lease debt	-	(29,081)
Others	-	126,433
Net Cash Provided by Financing Activities	**118,780**	**45,306**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(33,815)**	**1,871**
Increase (Decease) in Cash and Cash Equivalents	**(116,398)**	**(146,683)**
Cash and Cash Equivalents at Beginning of Year	**573,916**	**457,518**
Cash and Cash Equivalents at End of the Year	**457,518**	**310,835**

Segment Information

a. Performance by Business Segment

Year Ended February 28, 2009 (March 1, 2008, to February 28, 2009) (Thousands of yen)

	Cosmetics	Pharmaceuticals and other products	Total	Eliminations or corporate	Consolidated
I. Sales and operating income (loss) Sales					
(1) Sales to outside customers	5,763,520	1,003,447	6,766,967	-	6,766,967
(2) Sales and transfer-Inter-segment	-	-	-	-	-
Total	5,763,520	1,003,447	6,766,967	-	6,766,967
Operating expenses	5,207,347	1,137,812	6,345,160	536,469	6,881,629
Operating income (loss)	556,172	(134,365)	421,807	(536,469)	(114,661)
II. Assets, depreciation, impairment Loss and capital expenditures					
Assets	4,877,066	603,404	5,480,471	1,464,422	6,944,894
Depreciation	291,622	41,433	333,056	4,849	337,905
Impairment loss	190,322	-	190,322	-	190,322
Capital expenditures	205,444	27,340	232,784	153,283	386,068

Notes

1. Method for business segmentation: According to the kinds of products
2. Main product names in each business

(1) Cosmetics

Foundation, eye shadow, rouge, lipsticks, lip balm, skin milk, and sunscreen, etc.

(2) Pharmaceuticals and other products

Athlete's foot remedies, medicated toothpaste, mouthwash, ear washing agents, and hygiene products, etc.

3. Among operating expenses, the total value of unclassifiable operating expenses included in "Elimination and Corporate" was 536,469 thousand yen, and this was mainly comprised of costs incurred by the Company's Administrative Departments such as General Affairs Department and Accounting Department.
4. Among assets, the total value of corporate assets included in "Elimination and Corporate" was 1,464,422 thousand yen, and this was mainly comprised of surplus funds (cash, deposits and securities), and fixed assets relating to industrial land and the Administration Department.
5. Additional information

   As stated in 4. (2) of "Changes in key items that form the basis of preparing consolidated financial statements," in accordance with revisions made to the Corporate Tax Act, for assets acquired prior to March 31, 2007, the Company recorded these including depreciation costs, with the difference between the 5% equivalent of the acquisition cost and the memorandum value averaged out over a five-year period from the fiscal year following that in which depreciation costs reached 5% of the acquisition cost after applying a depreciation method based on the Corporate Tax Act prior to its being revised. Due to the change, in comparison with the case where a method the same as to the conventional one was used operating costs for our cosmetics business in this fiscal year increased by 21,124 thousand yen, while elimination and corporate expenses increased by 21,124 thousand yen, and operating income decreased by the same amount.

Year Ended February 28, 2010 (March 1, 2009, to February 28, 2010) (Thousands of yen)

	Cosmetics	Pharmaceuticals and other products	Total	Eliminations or corporate	Consolidated
I. Sales and operating income (loss) Sales					
(1) Sales to outside customers	5,945,269	634,720	6,579,989	-	6,579,989
(2) Sales and transfer-Inter-segment	-	-	-	-	-
Total	5,945,269	634,720	6,579,989	-	6,579,989
Operating expenses	5,187,418	673,193	5,860,612	474,823	6,335,435
Operating income (loss)	757,851	(38,473)	719,377	(474,823)	244,553
II. Assets, depreciation, impairment Loss and capital expenditures					
Assets	5,391,778	638,596	6,030,374	1,342,731	7,373,106
Depreciation	251,951	61,812	313,764	5,015	318,779
Capital expenditures	63,144	8,254	71,398	122	71,520

Notes

1. Method for business segmentation: According to the kinds of products
2. Main product names in each business

(1) Cosmetics

Foundation, eye shadow, rouge, lipsticks, lip balm, skin milk, and sunscreen, etc.

(2) Pharmaceuticals and other products

Athlete's foot remedies, medicated toothpaste, mouthwash, ear washing agents, and hygiene products, etc.

3. Among operating expenses, the total value of unclassifiable operating expenses included in "Elimination and Corporate" was 474,823 thousand yen, and this was mainly comprised of costs incurred by the Company's Administrative Department such as General Affairs Department and Accounting Department.
4. Among assets, the total value of corporate assets included in "Elimination and Corporate" was 1,342,731 thousand yen, and this was mainly comprised of surplus funds (cash, deposits and securities), and fixed assets relating to industrial land and the Administration Department.
5. Changes to the Accounting Method

(Accounting standards for inventory appraisals)

As stated in "Changes in key items that form the basis of preparing consolidated financial statements," with inventories held for the usual purpose of sale, finished and partly-finished products have heretofore been calculated through a cost approach based on the gross average method, and raw materials through a cost approach based on the monthly average method, but from this fiscal year on, in accordance with the application of "Accounting standards for inventory appraisals" (Corporate Accounting Standards, vol. 9, published July 5, 2006), finished and semi-finished products will be calculated through a cost approach based on the gross average method (a thin-value depreciation method based on declines in profitability will be used for balance sheet values), and raw materials through a cost approach based on the monthly average method (a thin-value depreciation method based on declines in profitability will be used for balance sheet values). As a result of this, in comparison with the conventional scenario, operating income and ordinary income have decreased by 36,133 thousand yen, while current net income before taxes and other adjustments has decreased by 74,428 thousand yen.

6. Additional Information

As stated in 4. (2) of "Changes in key items that form the basis of preparing consolidated financial statements," up until now, the service life for the Company's machinery and equipment has been nine years, but in accordance with revisions made to the Corporate Tax Act in 2008 concerning the service life of depreciating assets, after revising its service life for machinery and equipment, the Company has changed the period to eight years from this fiscal year. As a result of this, in comparison with the conventional scenario, operating income, ordinary income and current net profit before taxes and other adjustments have decreased by 10,259 thousand yen.

b. Performance by Geographic Region

Year Ended February 28, 2009 (March 1, 2008, to February 28, 2009) (Thousands of yen)

	Japan	France	Total	Eliminations or corporate	Consolidated
I. Sales and operating income (loss)					
Sales					
(1) Sales to outside customers	5,447,976	1,318,990	6,766,967	-	6,766,967
(2) Sales and transfer-Inter-segment	89,547	4,230	93,778	(93,778)	-
Total	5,537,524	1,323,221	6,860,745	(93,778)	6,766,967
Operating expenses	4,856,936	1,581,803	6,438,740	442,888	6,881,629
Operating income (loss)	680,587	(258,582)	422,005	(536,667)	(114,661)
II. Assets	4,461,853	1,033,649	5,495,502	1,449,391	6,944,894

Notes

1. Method of geographical segmentation: By locations of manufacturing facilities.
2. Among operating expenses, the total value of unclassifiable operating expenses included in “Elimination and Corporate” was 536,469 thousand yen, and this was mainly comprised of costs incurred by the Company’s Administrative Departments, such as General Affairs Department and Accounting Department.
3. Among assets, the total value of corporate assets included in “Elimination and Corporate” was 1,464,422 thousand yen, and this was mainly comprised of surplus funds (cash, deposits and securities), and fixed assets relating to industrial land and the Administration Department.
4. Additional information
   As stated in 4. (2) of “Changes in key items that form the basis of preparing consolidated financial statements,” in accordance with revisions made to the Corporate Tax Act, for assets acquired prior to March 31, 2007, the Company recorded these including depreciation costs, with the difference between the 5% equivalent of the acquisition cost and the memorandum value averaged out over a five-year period from the fiscal year following that in which depreciation costs reached 5% of the acquisition cost after applying a depreciation method based on the Corporate Tax Act prior to its being revised. Due to the change, in comparison with the case where a method the same as to the conventional one was used operating costs for our domestic business in this fiscal year increased by 21,124 thousand yen, while elimination and corporate expenses increased by 21,124 thousand yen, and operating income decreased by the same amount.

Year Ended February 28, 2010 (March 1, 2009, to February 28, 2010) (Thousands of yen)

	Japan	France	Total	Eliminations or corporate	Consolidated
I. Sale and operating income (loss)					
Sales					
(1) Sales to outside customers	5,539,591	1,040,398	6,579,989	-	6,579,989
(2) Sales and transfer-Inter-segment	57,573	-	57,573	(57,573)	-
Total	5,597,165	1,040,398	6,637,563	(57,573)	6,579,989
Operating expenses	4,831,384	1,091,085	5,922,469	412,965	6,335,435
Operating income (loss)	765,781	(50,687)	715,093	(470,539)	244,553
II. Assets	4,870,879	1,169,100	6,039,980	1,333,125	7,373,106

Notes

1. Method of geographical segmentation: By locations of manufacturing facilities.
2. Among operating expenses, the total value of unclassifiable operating expenses included in “Elimination and Corporate” was 474,823 thousand yen, and this was mainly comprised of costs incurred by the Company’s Administrative Departments, such as General Affairs Department and Accounting Department.
3. Among assets, the total value of corporate assets included in “Elimination and Corporate” was 1,342,731 thousand yen, and this was mainly comprised of surplus funds (cash, deposits and securities), and fixed assets relating to industrial land and the Administration Department.
4. Changes to the Accounting Method
   (Accounting standards for inventory appraisals)
   As stated in “Changes in key items that form the basis of preparing consolidated financial statements,” with inventories held for the usual purpose of sale, finished and partly-finished products have heretofore been calculated through a cost approach based on the gross average method, and raw materials through a cost approach based on the monthly average method, but from this fiscal year on, in accordance with the application of “Accounting standards for inventory appraisals” (Corporate Accounting Standards, vol. 9, published July 5, 2006), finished and semi-finished products will be calculated through a cost approach based on the gross average method (a thin-value depreciation method based on declines in profitability will be used for balance sheet values), and raw materials through a cost approach based on the monthly average method (a thin-value depreciation method based on declines in profitability will be used for balance sheet values). As a result of this, in comparison with the conventional scenario, operating income and ordinary income have decreased by 36,133 thousand yen, while current net income before taxes and other adjustments has decreased by 74,428 thousand yen.
5. Additional Information
   As stated in 4. (2) of “Changes in key items that form the basis of preparing consolidated financial statements,” up until now, the service life for the Company’s machinery and equipment has been nine years, but in accordance with revisions made to the Corporate Tax Act in 2008 concerning the service life of depreciating assets, after revising its service life for machinery and equipment, the Company has changed the period to eight years from this fiscal year. As a result of this, in comparison with the conventional scenario, operating income, ordinary income and current net profit before taxes and other adjustments have decreased by 10,259 thousand yen.

c. Oversea Sales

Year Ended February 28, 2009 (March 1, 2008, to February 28, 2009) (Thousands of yen)

	Europe	Other Areas	Total
Overseas sales	1,407,728	510,868	1,918,596
Consolidated net sales	-	-	6,766,967
Share of overseas sales in consolidated net sales (%)	20.8	7.5	28.4

Notes:

1. Method of geographical segmentation: Geographical proximity.
2. Major countries and regions.
   (1) Europe: France, Italy, Britain, Greece, Germany, Belgium, Portugal and Switzerland.
   (2) Other Areas: North America, Taiwan, Korea, Hong Kong, Malaysia, Singapore and China
3. Overseas sales refer to sales in countries or regions outside of Japan reported by the Company and its consolidated subsidiaries.

Year Ended February 28, 2010 (March 1, 2009, to February 28, 2010) (Thousands of yen)

	Europe	Other Areas	Total
Overseas sales	1,053,415	195,974	1,249,390
Consolidated net sales	-	-	6,579,989
Share of overseas sales in consolidated net sales (%)	16.0	3.0	19.0

Notes:

1. Method of geographical segmentation: Geographical proximity.
2. Major countries and regions.
   (1) Europe: France, Italy, Britain, Greece, Germany, Belgium, Switzerland, Netherlands and Poland
   (2) Other Areas: North America, Taiwan, Korea, Hong Kong, Malaysia and China
3. Overseas sales refer to sales in countries or regions outside of Japan reported by the Company and its consolidated subsidiaries.

** This financial report is sorely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English Translation.*