

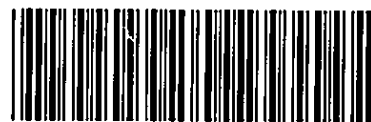
FC 024668

FINANCIAL STATEMENTS

2006

e'quipe,LTD.

SATURDAY



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Balance Sheet

As of December 31, 2006

e'quipe LTD.

ASSETS			LIABILITIES		
		Yen			Yen
I Current Assets	[	<u>7,101,735,724</u>]	I Current Liabilities	[	<u>2,560,657,108</u>]
1 Quick Assets	(	<u>5,829,163,821</u>)	Notes payable		535,688,899
Cash in hand		0	Accounts payable-trade		617,597,664
Cash in banks		96,751,282	Short-term borrowings		0
Notes receivable		0	Accounts payable-other		759,850,289
Accounts receivable-trade		1,547,999,132	Accrued expenses		603,110,167
Accounts receivable-other		59,666,033	Advances received		0
Advances		128,941	Deposits received		5,923,624
Short-term loans receivable		3,900,042,586	Suspense receipts		0
Advances paid		0	Employee savings		3,693,071
Prepaid expenses		106,883,896	Reserve for returned good		31,846,394
Suspense payments		19,302,485	Accrued bonuses		2,947,000
Allowance for doubtful accounts		0	Reserve for structural improvement		0
Deferred tax assets (current)		98,389,466	Deferred tax liabilities (current)		0
			Other current liabilities		0
2 Inventories	(	<u>1,272,571,903</u>)	II Non-current Liabilities	[	<u>18,895,128</u>]
Merchandise		972,584,637	Long-term loans payable		0
Raw materials		0	Reserve for retirement benefits		13,865,128
Work in process		22,119,841	Reserve for retirement benefits for directors		5,030,000
Merchandise in transit		0	Deferred tax liabilities (non-current)		0
Merchandise on consignment		277,867,425	Other non-current liabilities		0
Stock		0			
Cost variance		0			
II Non-current Assets	[	<u>414,090,017</u>]	Total Liabilities		2,579,552,236
1 Plant, Property & Equipment	(	<u>243,159,107</u>)	SHAREHOLDERS' EQUITY		
Buildings		30,287,035	I Capital	[	<u>300,000,000</u>]
Structures		0	Capital		300,000,000
Machinery & equipment		0	II Capital Surplus	[	<u>0</u>]
Vehicles & transport equipment		0	1 Additional paid-in capital		0
Tools, furniture & fixtures		212,872,072	2 Other additional capital surplus	(	<u>0</u>)
Land		0	(1) Gain on capital reduction		0
2 Intangible Assets	(	<u>18,429,032</u>)	(2) Gain on disposal of treasury stock		0
Goodwill		0	III Retained Earnings	[	<u>4,636,273,505</u>]
Telephone rights		183,000	1 Earned surplus reserve		0
Right to use facilities		0	2 Voluntary reserve		0
Software products		18,246,032	3 Unappropriated retained earning		4,636,273,505
3 Investment & Other Assets	(	<u>152,501,878</u>)	IV Land revaluation differenc	[	<u>0</u>]
Investment securities		0	V Net unrealized holding gain (loss) on securities	[	<u>0</u>]
Investment in capital		0	VI Treasury Stock	[	<u>0</u>]
Long-term loans receivable		0	Total Shareholders' Equity		4,936,273,505
Long-term prepaid expense		0	Total Liabilities & Shareholders' Equity		7,515,825,741
Other investment		106,798,073			
Deferred tax assets (non-current)		45,703,805			
III Deferred Assets	[	<u>0</u>]			
Other deferred assets		0			
Total Assets		7,515,825,741			

Income Statement

From January 1, 2006 to December 31, 2006

e'quipe LTD.

Item	Amount	
	Subtotal	Total
Ordinary profit/loss	Yen	Yen
Operating profit/loss		
Sales	12,182,227,702	
Total operating revenue		12,182,227,702
Cost of sales	2,386,612,383	
Operating expenses	7,315,061,863	
Total operating expenses		9,701,674,246
Operating income		2,480,553,456
Nonoperating profit/loss		
Regional incentives	0	
Sales promotion grants	0	
Interest earned	18,570,102	
Reversal of allowance for doubtful accounts	0	
Reversal of reserve for returned goods	0	
Miscellaneous income	22,518,105	
Total nonoperating revenue		41,088,207
Sales incentives	0	
Interest paid	21,449	
Provision of allowance for doubtful accounts	555,395	
Provision for returned goods		
Miscellaneous loss		
Total nonoperating expenses		576,844
Ordinary income		2,521,064,819
Extraordinary gains		33,783,167
Extraordinary losses		0
Net income before tax		2,554,847,986
Income, inhabitant and business taxes		959,451,512
Income tax adjustment		△ 97,489,069
Net income		1,497,907,405

Statement of Changes in Shareholders' Equity, etc.
From January 2006 to December 2006

e'quipe, LTD		Shareholders equity										valuation and currency translation		(Unit yen)	
		Capital surplus					Earned surplus					Total shareholders' equity	Net unrealized gain (loss) on securities		Total net assets
Capital stock	Capital reserve	Other capital surplus	Total capital surplus	Earned surplus reserve	Reserve for advanced depreciation	General reserve	Unappropriated retained earnings carried forward	Total earned surplus							
Balance as of the end of the period	300 000 000			0			3 138 366 100	3 138 366 100				3 438 366 100		3 438 366 100	
Changes during the period				0				0						0	
Issuance of new stocks				0				0				0		0	
Net income				0			1 497 907 405	1 497 907 405				1 497 907 405		1 497 907 405	
Amount of capital decrease				0				0				0		0	
Acquisition of treasury stock (others)				0				0				0		0	
Decrease in treasury stock (others)				0				0				0		0	
Changes of items other than shareholders' equity												0			
Total amount of changes during the period	0	0	0	0	0	0	1 497 907 405	1 497 907 405				1 497 907 405	0	1 497 907 405	
Balance as of the end of the period	300 000 000	0	0	0	0	0	4 636 273 505	4 636 273 505				4 936 273 505	0	4 936 273 505	

(Note)
Matters concerning the types and number of shares of shares outstanding and treasury stock

(Unit: share)					Remarks	
	Number of shares at the end of the period	Number of increased shares	Number of decreased shares	Number of shares at the end of the period		
Outstanding shares						
Common stock	590 000	0	0	590 000		
Preferred dividend stock (Type A stock)				0		
Total	590 000	0	0	590 000		

Notes to Financial Statements

1 Notes pertaining to significant accounting policies

(1) Valuation standards and valuation methods of securities

Stocks of subsidiaries and affiliates	Valued at cost using the moving average cost method
Other securities	
Stocks with market value	Market value accounting based on the market price as of the closing date (Net unrealized gains or losses on the securities are included in the shareholders' equity. Cost of securities sold is calculated by the moving average cost accounting method)
Stocks without market value	Valued at cost using the moving average cost method

(2) Valuation standards and valuation methods of inventories

Merchandise, raw materials, products in progress	Valued at cost using the periodic average method
Supplies	Valued at cost using the moving average cost method

(3) Method of depreciation (amortization)

Plant, property and equipment	Declining-balance method
Intangible fixed assets	Straight-line method

(4) To prepare for losses from the return of merchandise sold, a reserve for returned goods is provided in the amount that is equivalent to the sum of the sales revenue on the estimated amount of returns and the amount equivalent to the loss on disposals

(5) To prepare for the payment of bonuses to employees, accrued bonuses are provided in the amount deemed to fall under the current fiscal year based on amounts of future bonus payments

(6) To prepare for the payment of retirement benefits to employees, a reserve for retirement benefits is provided in the amount deemed to be required at the end of the current fiscal year based on the estimated amount of benefit obligations and pension assets at the end of the current fiscal year. Actuarial differences will be accounted for as expenses beginning in the following fiscal year based on the straight-line method for a fixed period of time (11 years) within the average remaining service period of the employees

(7) Finance lease transactions that do not involve the transfer of ownership of the leased assets to lessee are accounted for in a manner as if they were regular operating leases

(8) Accounting for consumption taxes, etc. Amounts recorded in the financial statements do not include consumption taxes

2 Changes in accounting policies

(1) Presentation of net assets in the balance sheet

Net assets in the balance sheet, which had formerly been presented as "Shareholders' Equity," has been changed to "Net Assets" and the relevant presentation category and presentation item in the balance sheet are changed, in accordance with the "Accounting Standards for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan, ASBJ Statement No. 5, December 9, 2005) and the "Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan, ASBJ Guidance No. 8, December 9, 2005), both of which are to come into force from the fiscal year ending after the effective date of the Company Law (Law No. 86, July 26, 2005). There are no effects of this change on the total amount of net assets of the Company. The amount equivalent to the shareholders' equity under the former method of presentation is 4,936,273,505 yen

3 Notes to the Balance Sheet

- (1) Short-term loan receivables to the controlling shareholder 3,900,000,000 yen
Short-term borrowings to the controlling shareholder 373,864,276 yen
- (2) In addition to the fixed assets recorded in the balance sheet, the Company uses such assets as information systems equipment through lease agreements
- (3) In terms of accounting for matured bills at the final date of the fiscal year, matured bills are settled as of the date of bill clearing.

4 Notes to the Income Statement

- (1) Volume of sales to the controlling shareholder 0 yen
- (2) Volume of purchases from the controlling shareholder 1,051,845,087 yen
- (3) Volume of transactions other than operating transactions with the controlling shareholder 23,173,523 yen
- (4) Net income per share 2,538.82 yen

5 Notes to the Statement of Changes in Shareholders' Equity

(1) Number of shares outstanding

at the end of the current fiscal year

590,000 shares

6 Notes to Tax Effect Accounting

(1) Major factors leading to the occurrence of deferred tax assets

Excess of transfer amount of reserve for bonuses over deductible limit	2,947,000 yen
Non-recognition of loss on revaluation of merchandise (products)	26,386,450 yen
Accrued expenses (directors' bonuses)	805,484 yen
Accrued legal welfare expenses (employee bonuses)	391,000 yen
Accrued expenses (estimated rewards)	77,100,000 yen
Accrued business office tax	6,441,000 yen
Reserve for returned goods	7,876,146 yen
Accrued enterprise tax	119,834,300 yen
Excess of depreciation and amortization over deductible limit	68,719,014 yen
Excess of amortization of deferred assets over deductible limit	21,046,658 yen
Telephone subscription rights	3,651,316 yen
Reserve for retirement benefits	13,865,128 yen
Reserve for retirement benefits for directors	5,030,000 yen
Total deferred tax assets (40.69% of the above)	144,093,271 yen

7 Notes pertaining to the use of fixed assets through lease agreements

Amount equivalent to the acquisition amount of leased assets as of the end of the current fiscal year	406,563,720 yen
Amount equivalent to amount of cumulative depreciation of leased assets as of the end of the current fiscal year	168,150,110 yen
Amount equivalent to the amount of unearned lease payments of leased assets as of the end of the current fiscal year	238,416,610 yen

8 Transactions with related parties

Attributes	Name of Entity	Address	Ratio of Voting rights etc	Contents of relationship		Contents of Transactions	Transaction Amount (million yen)	Account Title	End of term Balance (million yen)
				Concurrent directors etc	Actual relationship				
Parent Company	Kanebo Cosmetics Inc	Minato-ku	Ownership	Yes	Purchase of raw materials, etc	Purchase of raw materials, etc	1,052	Short-term loan	3,900
	Cosmetics	Tokyo	100%	2 directors	Loans	Interest income	25	Accounts receivable-other	3
					Purchase of sales promotion items	Sales promotion expenses	1	Accounts payable-trade	374

								Accrued expenses	6
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9 Notes to Per Share Information

(1) Net assets per share	8,366.56 yen
(2) Net income per share	2,538.83 yen

10 Others

(1) Matters pertaining to retirement benefit obligations

1) Retirement benefit obligations	15,213,054 yen
2) Unrecognized actuarial differences	▲ 1,347,926 yen
3) Reserve for retirement benefits 1) + 2)	13,865,128 yen

(2) Matters pertaining to retirement benefit expenses

1) Service cost	4,433,179 yen
2) Interest expenses	1,013,233 yen
3) Expected returns on investments	▲ 13,560 yen
4) Actuarial differences recognized as expense	2,189,020 yen
5) Retirement benefit expenses 1) + 2) + 3) + 4)	7,621,872 yen

(3) Matters pertaining to the basis for calculations of retirement benefit obligations, etc

1) Discount rate	2.0%
2) Method of allocation of expected retirement benefits to each term	Equal amounts to each term
3) Period for processing actuarial differences	10 years

Audit Report

February 23, 2007

I hereby report on the audit conducted on the execution of duties by the Directors during the 37th Fiscal Year, from January 1, 2006 to December 31, 2006, as follows

1 Method and contents of audit

I conducted this audit by attending Board Meetings and other material meetings, receiving reports and as necessary explanations from the directors and the employees on the execution of their duties, inspecting material approval documents, etc and investigating the state of operations and assets at the head office and at the significant business offices of the Company, while maintaining the appropriate environment for information gathering and audit through close communications with the directors and the employees of the Company. Based on the above method, I examined the relevant business report and supporting schedules for the fiscal year.

I further conducted investigations into the accounting books and other relevant materials and examined the statutory statements (balance sheet, income statement, statement of changes in shareholders' equity and notes) and supporting schedules for the fiscal year under review.

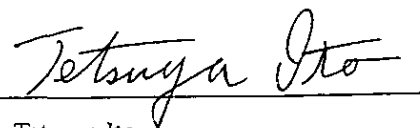
2 Audit results

(1) Result of the audit of the business report, etc

- 1 I confirmed that the business report and supporting schedules provide an accurate representation of the state of the Company in accordance with relevant laws and the Articles of Incorporation.
- 2 I confirmed that there has been no wrongful act or material violation of relevant laws or the Articles of Incorporation regarding the execution of duties by the directors.

(2) Result of the audit of the statutory statements and supporting schedules

I confirmed that the statutory statements and supporting schedules provide an appropriate representation of the state of the Company's assets and profit/loss in all material respects.



Tetsuya Ito

Corporate Auditor e'quipe, LTD