

## Balance Sheet

As of December 31, 2007

(Unit: Yen)

(Assets)		(Liabilities)	
<b>Current Assets</b>	8,033,627,797	<b>Current Liabilities</b>	2,208,063,875
Cash and deposits	125,503,192	Notes payable	449,387,871
Accounts receivable-trade	1,663,570,831	Accounts payable-trade	465,159,206
Finished goods	797,009,924	Accounts payable-other	968,714,453
Raw materials	0	Accrued expenses	268,102,499
Work in process	13,304,077	Advances received	0
Stores	226,050,931	Deposits received	14,780,879
Short-term loans receivable	4,996,738,602	Reserve for bonuses	2,583,000
Accounts receivable-other	51,186,601	Reserve for sales return	39,335,967
Advances	41,152	Reserve for business losses	0
Prepaid expenses	73,693,883	<b>Fixed Liabilities</b>	19,800,366
Deferred tax assets	75,588,734	Reserve for retirement benefits	19,800,366
Others	10,939,870	Others	
<b>Fixed Assets</b>	515,900,450		
Plant, property & equipment	342,675,524		
Buildings	29,426,034		
Structures	0		
Machinery & equipment	0		
Vehicles & transportation equi	0		
Tools, furniture & fixtures	313,249,490		
Land	0		
Construction in progress	0		
Intangible Fixed Assets	13,854,844		
Software	13,671,844		
Others	183,000		
Investments & Other Assets	159,370,082		
Investment securities	0		
Stocks of subsidiarites and affiliates	0		
Investment in capital	0		
Investment in equity of subsidiarites and affiliates	0		
Long-term loans receivable	0		
Long-term prepaid expenses	0		
Deferred tax assets	32,596,639		
Others	126,773,443		
Allowance for doubtful accounts	0		
<b>Total Assets</b>	<b>8,549,528,247</b>	<b>Total Liabilities</b>	<b>2,227,804,241</b>
		<b>(Net Assets)</b>	
		<b>Shareholders' Equity</b>	6,321,664,006
		Capital Stock	300,000,000
		Retained earnings	6,021,664,006
		Other retained earnings	6,021,664,006
		Retained earnings brought forward	6,021,664,006
		<b>Total Net Assets</b>	<b>6,321,664,006</b>
		<b>Total Liabilities &amp; Net Assets</b>	<b>8,549,528,247</b>

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# Income Statement

(From January 1, 2007 to December 31, 2007)

(Unit: Yen)

<b>Sales</b>		13,357,575,496
Cost of sales		2,707,277,871
<b>Gross profit on sales</b>		10,650,297,625
Selling, general & administrative expenses		8,301,828,573
<b>Operating income</b>		2,348,469,052
Non-operating income		
Interest income	34,775,289	
Others	1,621,807	36,397,096
Non-operating expenses		
Interest expenses	19,479	
Others	2,845,401	2,864,880
<b>Ordinary income</b>		2,382,001,268
Extraordinary gains		
Gain on sales of fixed assets		
Gain from dissolution of employees' pension fund		
Reversal of allowance for doubtful accounts		
Others		0
Extraordinary losses		
Loss on the previous-year adjustment		
Loss on sales of fixed assets		
Loss on disposal of fixed assets	10,377,023	
Loss on devaluation of investment in subsidiaries and affiliates		
Loss on liquidation of subsidiaries and affiliates		10,377,023
<b>Income before tax</b>		2,371,624,245
Income taxes- current		950,325,846
Income taxes- deferred		35,907,898
<b>Net income</b>		1,385,390,501

**Statement of Changes in Shareholders' Equity, etc.**  
**From January 2007 to December 2007**

**e'quipe, LTD.**

(Unit: yen)

	Shareholders' equity									Valuation and currency translation		Total net assets		
	Capital surplus				Earned surplus					Total shareholders' equity	Net unrealized gain (loss) on securities			
					Capital reserve	Other capital surplus	Total capital surplus	Earned surplus reserve	Other earned surplus					
									Reserve for advanced depreciation				General reserve	Unappropriated retained earnings carried forward
Capital stock														
300,000,000				0				4,636,273,505	4,636,273,505	4,936,273,505		4,936,273,505		
Changes during the period				0					0			0		
Issuance of new stocks				0					0	0		0		
Net income				0				1,385,390,501	1,385,390,501	1,385,390,501		1,385,390,501		
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	0		0		
Total amount of changes during the period	0	0	0	0	0	0	0	1,385,390,501	1,385,390,501	1,385,390,501	0	1,385,390,501		
Balance as of the end of the current period	300,000,000	0	0	0	0	0	0	6,021,664,006	6,021,664,006	6,321,664,006	0	6,321,664,006		

(Note)

Matters concerning the types and number of shares of shares outstanding and treasury stock

(Unit: share)

	Number of shares at the end of the previous period	Number of increased shares during the current period	Number of decreased shares during the current period	Number of shares at the end of the current period	Remarks
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. Notes to the Balance Sheet

- (1) Short-term loan receivables to the controlling shareholder 4,996,738,602 yen  
    Short-term borrowings to the controlling shareholder 375,771,831 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.

### 3. Notes to the Income Statement

- (1) Volume of sales to the controlling shareholder 0 yen
- (2) Volume of purchases from the controlling shareholder 961,469,818 yen
- (3) Volume of transactions other than operating transactions with the controlling shareholder 200,726,509 yen
- (4) Net income per share 234,812 yen

### 4. 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

### 5. 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 2,583,000 yen

Non-recognition of loss on revaluation of merchandise (products)	15,263,930 yen
Accrued expenses (executive remuneration)	911,935 yen
Accrued legal welfare expenses (employee bonuses)	333,000 yen
Accrued expenses (estimated rewards)	48,180,000 yen
Accrued business office tax	8,058,700 yen
Reserve for returned goods	10,922,684 yen
Accrued enterprise tax	99,514,100 yen
Excess of depreciation and amortization over deductible limit	45,932,642 yen
Excess of amortization of deferred assets over deductible limit	14,376,698 yen
Reserve for retirement benefits	19,800,366 yen
Total deferred tax assets (40.69% of the above)	108,185,373 yen

6. 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	360,222,840 yen
Amount equivalent to amount of cumulative depreciation of leased assets as of the end of the current fiscal year	201,566,610 yen
Amount equivalent to the amount of unearned lease payments of leased assets as of the end of the current fiscal year	158,656,230 yen

7. 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	933	Accounts payable- trade	254
	Cosmetics	Tokyo	100%	2 directors	Purchase of sales promotion items, etc.	Payment of expenses	21	Accounts payable-other	4
					Loans	Interest income	-33	Accrued expenses Short-term loan receivables Accounts receivable- other	108 4,860 4
Parent Company	Kao Corporation	Tokyo	Parent Company shares	Yes	Purchase of raw materials, etc	Purchase of raw materials, etc	28	Accounts payable- trade	5
Shareholder		Sumida-ku	100%	1 director	Use of trademark, etc.	Payment of expenses	214	Accounts payable-other Short-term loan receivables	5 137
					Loans	Interest income	-1		

8. Notes to Per Share Information

(1) Net assets per share	1,071,468 yen
(2) Net income per share	234,812yen

9. Others

(1) Matters pertaining to retirement benefit obligations

1) Retirement benefit obligations	22,670,573 yen
2) Unrecognized actuarial differences	▲2,870,207 yen
3) Reserve for retirement benefits 1) + 2)	5,935,238 yen

(2) Matters pertaining to retirement benefit expenses

1) Service cost	2,296,681 yen
2) Interest expenses	768,350 yen
3) Actuarial differences recognized as expense	2,870,207 yen
4) Retirement benefit expenses 1) + 2) + 3)	5,935,238 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

I, hereby, report on the audit conducted on the execution of duties by the Directors during the 38<sup>th</sup> Fiscal Year, from January 1, 2007 to December 31, 2007, 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

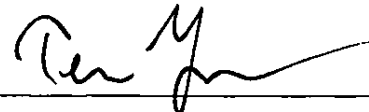
#### (1) Result of the audit of the business report, etc.

1. I confirmed that the business report provides 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 aspects.

February 24, 2008



TERUO YAMAMOTO

Corporate Auditor e'quipe, LTD