Summary of Financial Results for the Year Ended December 31, 2010

February 14, 2011

These financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan. The following English translation is based on the original Japanese-language document.

POLA ORBIS HOLDINGS INC.
Listing: Tokyo Stock Exchange, First Section
TSE code: 4927 URL: http://www.po-holdings.co.jp/
Representative: Satoshi Suzuki, President
Contact: Naoki Kume, Vice President TEL: +81-3-3563-5517
General Meeting of Shareholders: March 30, 2011 (Plan) Start of cash dividend payment: March 31, 2011 (Plan)
Filing of securities report: March 30, 2011 (Plan)

(Amounts less than one million yen have been rounded down.)

1. Consolidated performance for the fiscal year ended December 31, 2010 (January 1, 2010 – December 31, 2010)
(1) Consolidated operating results

(Percentage figures show year-on-year change.)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal 2010	165,253	1.8	12,270	26.4	12,247	18.1	7,086	74.6
Fiscal 2009	162,332	(5.0)	9,706	(10.7)	10,372	10.7	4,059	(38.1)

	Net income per share	Diluted net income per share	Return on shareholders' equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
Fiscal 2010	137.36	―	4.8	6.6	7.4
Fiscal 2009	79.16	―	2.9	5.7	6.0

(Reference) Equity in losses (earnings) of affiliates: Fiscal 2010 ¥- million Fiscal 2009 ¥(1) million

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Fiscal 2010	187,771	153,104	81.5	2,767.55
Fiscal 2009	181,909	140,890	77.4	2,743.87

(Reference) Equity capital: Fiscal 2010 ¥153,001 million Fiscal 2009 ¥140,716 million

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal 2010	17,906	(40,367)	(2,789)	43,507
Fiscal 2009	12,530	(4,374)	(1,125)	68,817

2. Dividends

	Dividends per share					Total dividends paid (Annual)	Payout ratio (Consolidated)	Dividends to net assets (Consolidated)
	Q1-end	Q2-end	Q3-end	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal 2009	―	0.00	―	20.00	20.00	1,025	25.3	0.7
Fiscal 2010	―	0.00	―	40.00	40.00	2,211	29.1	1.5
Fiscal 2011 (Forecast)	―	20.00	―	25.00	45.00		33.2	

3. Forecast of consolidated performance for the fiscal year ending December 31, 2011
(January 1, 2011 – December 31, 2011)

(Percentage figures show changes to the same period of the previous year.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	81,400	2.0	5,700	6.2	5,700	9.9	2,700	36.0	48.84
Full year	168,100	1.7	12,900	5.1	13,000	6.1	7,500	5.8	135.66

4. Other information

(1) Changes in significant subsidiaries during the period : None

(2) Changes in accounting policies, procedures, presentation methods for the preparation of the consolidated financial statements stated in "Changes to the basis for the preparation of consolidated financial statements."
  1) Changes associated with revision of accounting standards : Yes
  2) Changes other than 1) : None
  Note: For more information, see page 38 "Basis for the preparation of consolidated financial statements."

(3) Number of shares issued and outstanding (common stock)

1) Number of shares issued and outstanding (including treasury stock)	Fiscal 2010	57,284,039 shares	Fiscal 2009	161,592,296 shares
2) Number of treasury stock	Fiscal 2010	2,000,000 shares	Fiscal 2009	110,308,257 shares

Note: Refer to "Per share information" on page 55 for the number of shares that forms basis for calculating net income per share (consolidated basis).

(Reference) Summary of Nonconsolidated financial performance

1. Nonconsolidated financial performance for the fiscal year ended December 31, 2010
(January 1, 2010 – December 31, 2010)

(1) Operating results

(Percentage figures indicate year-on-year change.)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal 2010	5,336	(1.3)	3,109	(0.3)	3,570	0.7	2,330	—
Fiscal 2009	5,406	24.9	3,117	80.7	3,544	65.7	(412)	—

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal 2010	45.17	—
Fiscal 2009	(8.05)	—

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Fiscal 2010	161,032	122,539	76.1	2,216.54
Fiscal 2009	126,626	114,516	90.4	2,232.99

(Reference) Equity capital: Fiscal 2010 ¥122,539 million Fiscal 2009 ¥114,516 million

Explanation of appropriate use of performance projections and other special items

1. This document contains projections of performance and other projections based on information currently available and certain assumptions judged to be reasonable. Actual performance may materially differ from these projections resulting from changes in the economic environment and other risks and uncertainties. For performance projections, see page 6 "1. Operating results (1) Analysis of operating results, Outlook for the fiscal year ending December 31, 2011 (fiscal 2011)."

1. Operating results

(1) Analysis of operating results

(Operating results for the fiscal year ended December 31, 2010 (fiscal 2010))

In the fiscal year ended December 31, 2010, the domestic economy lacked the strength to support a self-sustaining recovery, but it continued to see a moderate recovery owing to an upturn in overseas economies and the benefits of government stimulus measures, with the Nikkei Average regaining the 11,000 level in April. Although there were signs of a pickup in corporate earnings and consumer spending from the third quarter of fiscal 2010, economic recovery remained weak overall due to the continued strong yen, unstable domestic and international political conditions, and a deteriorating employment situation.

The POLA ORBIS Group (the Group) faced a largely mature, saturated domestic market in its mainstay Cosmetics business. According to shipment statistics compiled by the Ministry of Economy, Trade and Industry (METI), shipments of cosmetics in Japan, especially those of skincare cosmetics exceeded the level in the previous year for six consecutive months from April 2010, indicating some positive signs in the market. However, the recovery was limited, with sales of makeup cosmetics remaining weak and the market failing to regain its level prior to the global financial crisis in the second half of 2008. Meanwhile, cosmetics companies with an international presence and that rely on the Asia region as a source of growth to offset weakness in Japan, will probably continue to implement aggressive strategies in Asia.

Against this market backdrop, POLA ORBIS HOLDINGS INC. listed on the first section of the Tokyo Stock Exchange on December 10, 2010. POLA ORBIS is very conscious of its role and responsibility as a public corporation, and guided by the Group philosophy of “Inspire all people and touch their hearts,” it will seek to respond rapidly to changes in the market environment. In fiscal 2010, the Group implemented a range of measures aimed at boosting earnings growth in line with the objectives of its medium-term management plan. As a result, the Company reported higher sales and profits year on year.

As a result of the above, in fiscal 2010, net sales increased 1.8% year on year to ¥165,253 million. Operating income rose 26.4% year on year to ¥12,270 million and ordinary income increased 18.1% year on year to ¥12,247 million, mainly due to cost reductions on the back of active efforts by the Group to boost efficiency. Net income increased 74.6% year on year to ¥7,086 million, primarily reflecting an improvement in extraordinary items and a decline in the tax burden owing to the exclusion of a family concern from the scope of taxation.

Results for each business segment are as follows.

1) Cosmetics business

POLA INC., the core company in the Cosmetics business, is diversifying its distribution channels to match market needs. Specifically, it is expanding its chain of **POLA THE BEAUTY** retail stores, which integrate cosmetics, counseling, and esthetic treatments, and opening outlets in urban department stores, while leveraging the strengths of its existing door-to-door sales structure. At the same time, the company is working to boost customer satisfaction by raising the sales quality and counseling skills of its **POLA LADIES** (sole proprietors and sales partners). Amid a relatively firm skincare cosmetics market, POLA INC.

reported higher sales and profits year on year in the domestic market. This performance mainly reflected robust sales of the ***BA*** series, which was relaunched in September, and continued strong sales from the second quarter of the ***WHITISSIMO*** series, which was relaunched in March. Overseas, POLA INC. steadily expanded its network of perfumeries (boutiques handling luxury cosmetics) in Russia, supporting year-on-year sales growth in that market. Sales also rose year on year in Asia, where the company ran sales promotions in Thailand, China and other markets. However, conditions were difficult in the US and Taiwan, owing to the impact of the economic slowdown and rapid yen appreciation from August. Overall, POLA INC. reported lower sales and profits year on year in the overseas business.

The other core company in the Cosmetics business is ORBIS Inc. Since the previous fiscal year, the company has been implementing measures aimed at not just expanding sales, but also at improving sales efficiency by boosting the amount spent per customer and the ratio of repeat customers. In the mail-order business, benefits from these measures targeting existing customers started to emerge, and the business also steadily attracted new customers. Retail stores also achieved success in attracting customers through sales promotion activities and steps to increase the amount spent per customer by improving customer service, which contributed to strong sales. In terms of products, ***Cleansing Liquid***, which was revamped in July, registered buoyant sales, while the ***Clear*** series, which was relaunched in May, continued to generate strong sales. These products, together with the successful launch of skincare line ***EXCELLENT WHITE***, supported year-on-year improvement in sales. Overseas, ORBIS INC. continued to build up its presence in the Chinese market, while in South Korea and Taiwan, mail-order sales continued to rise and the company made progress in establishing a retail store business model to generate stable profits. Sales overseas exceeded the level in the previous fiscal year, mainly due to performance in Taiwan on the back of an increase in online sales and sales promotion efforts tied in with the redesign of retail stores.

Sales and operating income in other brands increased year on year, reflecting higher sales of products such as the THREE series, which was launched by ACRO INC. in the previous fiscal year, and tighter control of selling, general and administrative expenses at operating companies.

As a result of the above, sales (to external customers) were ¥139,660 million,an increase of 2.5% year on year, and operating income was ¥10,472 million, an increase of 24.4% year on year in the cosmetics business.

2) Fashion business

The Fashion business run by POLA INC. handles products such as women’s lingerie, apparel, jewelry, and kimonos, and these products are sold via catalogs or exhibition sales. In addition to revamping its door-to-door sales approach, POLA INC. has sought to raise customer satisfaction by offering a strong lineup of lifestyle items and health products that go beyond the narrow definition of fashion items. In catalog sales, sales of apparel were strong in the first half of fiscal 2010, but the very hot summer led to weak sales of autumn and winter items, with sales overall declining slightly year on year. In exhibition sales, the slowdown in consumer spending from the previous fiscal year led to a drop in customers and a decline in the amount spent per customer, as consumers held off from making purchases. In fiscal 2010, POLA worked to counter this impact by reducing sales related expenses, primarily exhibition management costs. However, conditions remained difficult, with sales of luxury items such as kimonos, jewelry, bags, and leather goods failing to grow.

The Fashion business managed by ORBIS INC. is aiming to develop its mail-order business centered on women's underwear that emphasizes functionality. In fiscal 2010, the business generated steady sales by implementing measures aimed at boosting the amount spent per customer, such as launching new products and expanding the product lineup.

As a result of the above, sales (to external customers) were ¥13,453 million, a decrease of 4.8% year on year, and operating loss was ¥452 million (compared with an operating loss of ¥347 million in the previous fiscal year)in the fashion business.

3) Pharmaceuticals business

The Pharmaceuticals business run by POLA PHARMA INC. and KAYAKU CO., LTD. leverages the results from the Group's many years of cosmetics dermatological research and research into the formulation of quasi-drugs to develop and sell new drugs for conditions in the dermatological field. To date, the Group has launched two new drugs on the market, ***Lulicon***, an antifungal agent for topical use, and ***DIVIGEL***, a treatment for menopausal disorder. These drug launches have been backed up by separate campaigns to promote their use at universities, hospitals, and medical clinics. In existing pharmaceutical drugs, the business supplied a number of products such as laxative agent ***Alosenn*** to medical facilities nationwide. As a result, in fiscal 2010, sales of new drugs and existing drugs both rose compared with the previous fiscal year. This together with a reduction in selling, general and administrative expenses supported a significant improvement in profitability at the operating income level.

As a result of the above, sales (to external customers) were ¥6,936 million, an increase of 2.8% year on year, and operating loss was ¥349 million (compared with an operating loss of ¥1,384 million in the previous fiscal year) in the pharmaceuticals business.

4) Real Estate business

The Real Estate business run by P.O. REAL ESTATE INC. primarily focuses on office buildings for lease in major cities. The company is working to maintain and increase rents and reduce vacancy rates by ensuring its buildings always offer tenants attractive office environments. Amid falling rents for office buildings in general during fiscal 2010, P.O. REAL ESTATE INC. continued its marketing efforts, which included attracting new tenants, reducing rent free periods (the portion of the term of new leases when no rent is required), and maintaining rent levels. However, despite these efforts, results in the company declined year on year.

Two property projects – the rebuilding of the Osaka Building and the redevelopment of a residential property in Ookurayama, Kanagawa, to make it better suited for families raising children – also progressed according to plan, with the residential property completed and opened in September and the office building finished and opened in October.

As a result of the above, sales (to external customers) were ¥3,102 million, a decrease of 3.5% year on year, and operating income was ¥1,304 million, a decline of 18.4% year on year.in the real estate business.

5) Others businesses

The building maintenance service business operated by P.O. TECHNO SERVICE INC. mainly deals with customers within the Group. However, the company is aware that it needs to increase orders from customers outside the Group and has been strengthening its marketing activities in an effort to secure new customers. In fiscal 2010, against the backdrop of weak construction and real estate sectors, the company endeavored to attract new customers and boost average order prices. This led to an increase in external sales, supporting an overall increase in sales year on year.

The commercial printing business managed by P.O. MEDIA SERVICE INC. primarily deals with internal Group customers, but is aiming to increase sales from external customers by actively implementing proposal-based marketing. In the year under review, P.O. MEDIA SERVICE INC. worked to win new customers and expand business from existing customers, but these efforts failed to offset the impact of a tough operating environment in the printing industry, with both internal and external sales declining year on year.

As a result of the above, sales (to external customers) were ¥2,101 million, an increase of 4.3% year on year, and operating income was ¥399 million, a decrease of 11.8% year on year in the others businesses.

(Outlook for the fiscal year ending December 31, 2011 (fiscal 2011))

Although the Japanese economy has been recovering since deteriorating after the global financial crisis, the economy is currently at a standstill due to the impact of the persistently strong yen and worsening employment conditions. As such, the outlook for the Japanese economy remains unclear.

Against this backdrop, the Group is striving to respond rapidly to shifts in the market environment, implementing the initiatives in its medium-term management plan, and focusing on building an operating structure to support sustained growth over the medium to long term.

POLA ORBIS will work toward attaining its consolidated earnings targets by continuing to implement the Group strategies in its medium-term management plan – “improve the profitability of flagship brands and strengthen multi-brand strategy,” “increase growth potential by selling flagship brands in global markets, “and “reinforce the operating structure”

For fiscal 2011, POLA ORBIS forecasts consolidated net sales of ¥168,100 million, an increase of 1.7% year on year, operating income of ¥12,900 million, an increase of 5.1% year on year, ordinary income of ¥13,000 million, a increase of 6.1% year on year, and net income of ¥7,500 million, an increase of 5.8% year on year.

(2) Analysis of financial position

1) Assets, liabilities, and net assets

As of December 31, 2010, total assets were ¥187,771 million, an increase of ¥5,862 million, or 3.2%, compared with the end of the previous fiscal year. The main increases in assets were ¥1,184 million increase in short-term investment securities and ¥15,514 million increase in investment securities due to the purchase of commercial paper and negotiable certificates of deposit. The main decreases in assets were ¥7,454 million decrease in cash and deposits, and ¥2,132 million decrease in short-term deferred tax assets owing to the utilization for the carryforward of tax losses.

Total liabilities were ¥34,667 million, a decrease of ¥6,352 million, or 15.5%, compared with the end of the previous fiscal year. The main decrease in liabilities was ¥8,246 million decrease in short-term loans payable owing to the repayment of bank loans. The main increases in liabilities were ¥551 million increase in income taxes payable related to a rise in taxable income, ¥381 million increase in other current liabilities owing to an increase in consumption taxes payable, ¥225 million increase in lease obligations and ¥365 million increase in long-term lease obligations related to new store openings.

Total net assets were ¥153,104 million, an increase of ¥12,214 million, or 8.7%, compared with the end of the previous fiscal year. The main increases were net income of ¥7,086 million, ¥4,398 million decrease in treasury stock, and ¥2,376 million increase in capital surplus, of which the latter two arose from disposal of treasury stock. The main decrease was payment of dividends, totaling ¥1,025 million.

2) Cash flows

As of December 31, 2010, the balance of cash and cash equivalents on a consolidated basis stood at ¥43,507 million, a decrease of ¥25,310 million compared with the end of the previous fiscal year.

Cash flow conditions and the main factors behind changes in cash flows during fiscal 2010 are explained below.

Cash flows from operating activities

Operating activities provided net cash of ¥17,906 million, an increase in net cash of 42.9% compared with the previous fiscal year. The main increases in net cash were income before income taxes of ¥12,030 million, depreciation and amortization of ¥5,019 million, and ¥1,454 million decrease in inventories. The main decrease in net cash was income taxes paid of ¥1,049 million,owing to the payment of local taxes and other factors.

Cash flows from investing activities

Investing activities used net cash of ¥40,367 million, an increase in net cash of 822.7% compared with the previous fiscal year. This mainly reflected decreases of ¥34,857 million for the purchase of short-term investment securities, and ¥23,484 million for the purchase of investment securities owing to the start of surplus fund investments in accordance with investment plans, and an increase of ¥22,146 million for proceeds from sales and redemption of short-term investment securities.

Cash flows from financing activities

Financing activities used net cash of ¥2,789 million, an increase in net cash of 147.8% compared with the previous fiscal year. This mainly reflected decreases of ¥8,232 million for short-term loans payable owing to the repayment of bank loans and ¥1,025 million for cash dividends paid, and an increase of ¥6,775 million from proceeds from the disposal of treasury stock related to the Company's listing on the Tokyo Stock Exchange.

(Reference) Cash flow related indicators

	Fiscal 2008	Fiscal 2009	Fiscal 2010
Equity ratio (%)	76.0	77.4	81.5
Equity ratio on market capitalization basis (%)	—	—	49.6
Cash flow / interest-bearing debt ratio (years)	0.6	0.9	0.2
Interest coverage ratio (times)	114.7	128.5	173.5

Equity ratio: equity / total assets

Equity ratio on market capitalization basis: market capitalization / total assets

Cash flow / interest-bearing debt ratio: interest-bearing debt / cash flow

Interest coverage ratio: cash flow / interest payments

Notes: 1. All indicators calculated using consolidated financial figures.

2. Market capitalization calculated based on the number of shares outstanding, excluding treasury stock.
3. Market capitalization not calculated for fiscal 2008 and 2009, as no stock market prices were available.
4. Operating cash flow used for cash flow calculations.
5. Interest-bearing debt is the entire portion of debt shown in the consolidated financial statements on which interest is paid.

(3) Fundamental policy on distribution of profits and dividends for fiscal 2010 and fiscal 2011

Returning profits to shareholders is a key management issue for the Company. As such, the Company's fundamental policy on the distribution of profits is to pay stable and ongoing dividends to all its shareholders.

From fiscal 2011, the Company's basic policy is to distribute retained earnings twice yearly via an interim dividend and a year-end dividend. Based on Article 454-5 of Japan's Companies Act and the Articles of Incorporation of the Company, The General Meeting of Shareholders will be responsible for approving the year-end dividend, while the Board of Directors will be responsible for approving the interim dividend.

Based on its fundamental policy of paying stable and ongoing dividends, the Company plans to use retained earnings to pay a single year-end dividend of ¥40.00 per common share for fiscal 2010. Internal reserves will be invested to reinforce the Group's operating structure and support future business development. For fiscal 2011, based on earnings forecasts and other factors, the Company plans to pay an annual dividend per share of ¥45.00, comprising an interim dividend of ¥20.00 and a year-end dividend of ¥25.00.

(4) Risk factors

For businesses and other aspects of the POLA ORBIS Group, risks that are considered to be critical for investors in making investment decisions are described below. As of the date of this announcement of financial results, future-related matters have been identified by the Group within, unless otherwise noted.

<Business risks>

1) Damage to brand value

The Group has multi-brands such as **POLA** and **ORBIS**. Through conscientious business management and supply of products and services catering to customers' trust, the Group endeavors to protect and enhance the value of each brand. However, the operating results and financial position of the Group may be adversely affected in the event of negative opinions and rumors about the Group's products and services that spread, trust is lost and brand value is impaired.

2) Competition within the Group

In accordance with its multi-brand, multi-channel strategy, the Group develops existing brands by categorizing them by target (demographic base), price bracket, and market channel, preventing competition from occurring between brands. However, the operating results and financial position of the Group may be adversely affected in the event that competition occurs within the Group in the course of maximizing the values of existing brands and accelerating multi-brand evolution in the future as the Group's strategy.

3) Securing sales partners (Sales managers and POLA LADIES (sole proprietors))

POLA INC., the core of the Group's Cosmetics business, operates its business through door-to-door sales based on consignment sales agreements. Securing sales partners based on consignment sales agreements is an important activity for business expansion and is something the Group consistently works on. However, if regulations under the Act on Specified Commercial Transactions are tightened or the working environment changes, sufficient human resources may not be available because implementation of measures for securing them may become difficult and **POLA LADIES** applicants may decrease. As a result, the operating results and financial position of the Group may be adversely affected.

4) Strategic investment activities

The Group plans to make strategic investments for overseas expansion concentrated in China, M&A, and new businesses. For decision-making on strategic investment activities, the Group collects and examines the necessary information. However, the operating results and financial position of the Group may be adversely affected in the event that results initially intended are not achieved due to various unexpected environmental changes, etc.

5) Cosmetic market environment

The domestic cosmetics market has reached maturity and the trend in product shipments has shifted from generally flat to a gradual decline. Against this backdrop, competition has increased due to the reorganization of domestic corporate groups via M&A deals, new competitors have entered the market from different industries, and the influence of distributors and retailers has increased through cooperation/integration. Consequently, the operating results and financial position of the Group may be adversely affected in the event that the Group cannot properly respond to unexpected changes in the competitive environment.

6) Research & Development

R&D is one source of the Group's competitive power and it intends to maintain its investment in this area. To run R&D effectively and efficiently, the Group is implementing activities based on an annual R&D plan. If development of a new product requires a long period, the results may be seen in subsequent years. In some cases, when the results as planned cannot be achieved, extension of the period or an increase in investment may be required, otherwise commercialization may not be achieved as a result. Furthermore even after being commercialized, the product may not necessarily be accepted by customers because it may be met by uncertainty due to various causes.

If the initially intended results of R&D cannot be achieved as such, the operating results and financial position of the Group may be adversely affected.

7) Manufacture and quality assurance

The Group works to secure the necessary volume of raw materials required for the manufacture of products at an appropriate price by using diversified sources of supply and by maintaining favorable relations with suppliers, based on the overall supervision of divisions in the Group responsible for procuring raw materials. However, if an unexpected situation is caused by external factors, troubles may occur in the procurement of necessary raw materials.

Our cosmetics are manufactured at two locations: the Fukuroi Factory (Fukuroi, Shizuoka) and the Shizuoka Factory (Suruga-ku, Shizuoka, Shizuoka) of POLA CHEMICAL INDUSTRIES INC., while pharmaceutical drugs are manufactured at two locations; the Saitama Factory (Fujimino, Saitama) and the Tokorozawa Factory (Tokorozawa, Saitama) of KAYAKU CO., LTD. We are undertaking efforts to verify quality control and quality maintenance. However, should any problem arise in product quality, the operating results and financial position of the Group may be adversely affected.

8) Overseas business activities

The major sales bases of the Group are mainly located in Japan but the Group plans to set up bases in China, other parts of Asia, and Russia where market expansion is expected.

Since these overseas business activities contain the risk of social dislocation due to unexpected economic/political uncertainty, labor problems, terrorism/war, infectious diseases, the operating results and financial position of the Group may be adversely affected.

9) Currency exchange

The Group takes exchange rate risks into consideration for monetary materiality for clearance of foreign currency due to the increase in import/export transactions and loans to foreign subsidiaries as a result of expansion of overseas business activities. Additionally, since the figures denominated in local currency of foreign consolidated subsidiaries are converted to a yen basis when consolidated financial statements are prepared, changes in the exchange rate may affect the operating results and financial position of the Group.

10) Limit of protection for intellectual property rights

Although the Group takes actions to protect its intellectual property rights, third parties may infringe upon intellectual properties through unexpected means. Consequently, the business activities of the Group may be adversely affected by illegal misuse of technologies and the creation of counterfeit goods.

11) Information security

The Group carefully manages the handling of confidential information including personal information and R&D information through the implementation of internal audits, use of an information security system, establishment of internal codes of conduct and education initiatives by the section in charge of CSR and various committees. However, if such information is leaked for any reason, a claim for damage may be filed against the Group or damage to its image may arise. As a result, the businesses of the Group may be adversely affected.

12) Material litigation

Although lawsuits that could seriously affect the Group have not been filed in the consolidated fiscal year under review, the operating results and financial position of the Group may be adversely affected in the event of material lawsuits in the future and judgments disadvantageous to the Group.

13) Disasters

The major production bases of the Group are the Fukuroi Factory and Shizuoka Factory of POLA CHEMICAL INDUSTRIES INC. Lines for manufacturing different products are installed in these factories and the backup manufacturing capacities between the factories are limited. Therefore, product supply may be affected in the event that manufacturing is disabled or production capacity drops at these factories as a result of contingencies such as disasters.

Further, since both factories are close to each other, product supply may be interrupted for a long period in the event of a large-scale earthquake in the Tokai Area.

Similarly, pharmaceutical products are produced in the Saitama Factory and Tokorozawa Factory of KAYAKU CO., LTD. Since both factories are close to each other, product supply may be interrupted for a long period in the event of a large-scale earthquake in the Kanto Area.

14) Spread of infectious diseases

If the spread of infectious diseases resulting in a substantial social impact occurs, service and sales activities must be voluntarily suspended and sales offices must be closed because of the characteristics of daily face-to-face business activities of customers and business partners. Consequently, the operating results of the Group may be adversely affected domestically and overseas.

15) Risks of the Pharmaceuticals business

In the Pharmaceuticals business, since a large amount of R&D investment is required for new pharmaceutical products to be marketed, losses may continue for a long time. At present, the Group is attempting to make investment more efficient to secure earnings at an earlier stage through co-development with an R&D counterparty for investments in new pharmaceutical products. However, various unexpected risks such as abrupt changes in the business environment, delays in new pharmaceutical product development, and changes in the business administration policy of the counterparty may arise. Consequently, if losses increase or are prolonged, the operating results of the Group may be adversely affected.

<Industry risks>

1) Regulatory risk

Cosmetics business and Pharmaceuticals business: Pharmaceutical Affairs Act, Food Sanitation Act, Nutrition Improvement Law, regulatory system for foods with health claims, etc.

Door-to-door sales, mail-order sales: Act on Specified Commercial Transactions, etc.

General: Product Liability Act, Patent Act, Consumer Basic Act, Act against Unjustifiable Premiums and Misleading Representations, etc.

(i) Pharmaceutical Affairs Act

The manufacture and distribution in Japan of cosmetics, quasi-drugs, and pharmaceutical drugs, which is the Group’s main business field, requires authorization to conduct manufacturing / marketing activities and manufacturing activities in accordance with the Pharmaceutical Affairs Act. Companies in the Group that conduct these activities have received such licenses, which must be renewed every five years in conjunction with other necessary procedures as defined by law. The Group strictly complies with the Pharmaceutical Affairs Act and other related laws noted above. However, the Group’s operating results and financial position could be negatively affected in the event that its business activities are restricted because (1) the Group is ordered to halt all or part of its operations, or the Ministry of Health, Labour and Welfare annuls licenses to conduct manufacturing and marketing activities in the Cosmetics business and the Pharmaceuticals business, owing to infringement of Article 75 (annulment of licenses) of the Pharmaceutical Affairs Act, or (2) existing laws are revised, or (3) new laws and regulations are enacted unexpectedly.

(Key licenses secured by Group companies related to the Cosmetics business)

<table>
<tr><th>Company with license</th><th>Name of license</th><th>Expiration date</th><th>Reasons for annulment and current status</th></tr>
<tr><td rowspan="4">POLA INC.</td><td>Cosmetic manufacturing business license</td><td>Jan. 23, 2012</td><td rowspan="12">(Reasons for annulment)
Infringement as defined in Article 75 (Clause 13-4) of the Pharmaceutical Affairs Act.

(Current status)
No items corresponding to the above reasons for annulment.</td></tr>
<tr><td>Quasi-drug manufacturing business license</td><td>Jan. 23, 2012</td></tr>
<tr><td>Cosmetic manufacturing/ marketing business license</td><td>May.13, 2012</td></tr>
<tr><td>Quasi-drug manufacturing/ marketing business license</td><td>May 13, 2012</td></tr>
<tr><td rowspan="2">ORBIS Inc.</td><td>Cosmetic manufacturing/ marketing business license</td><td>Apr. 30, 2014</td></tr>
<tr><td>Quasi-drug manufacturing/ marketing business license</td><td>Apr. 30, 2014</td></tr>
<tr><td rowspan="4">POLA CHEMICAL INDUSTORIES INC.</td><td>Cosmetic manufacturing business license (Shizuoka Factory)</td><td>Oct. 31, 2014</td></tr>
<tr><td>Quasi-drug manufacturing business license (Shizuoka Factory)</td><td>Oct. 31, 2014</td></tr>
<tr><td>Cosmetic manufacturing business license (Fukuroi Factory)</td><td>Oct. 31, 2014</td></tr>
<tr><td>Quasi-drug manufacturing business license (Fukuroi Factory)</td><td>Oct. 31, 2014</td></tr>
<tr><td rowspan="2"></td><td>Cosmetic drug manufacturing/ marketing business license</td><td>Oct. 31, 2014</td></tr>
<tr><td>Quasi-drug manufacturing/ marketing business license</td><td>Oct. 31, 2014</td></tr>
</table>

(ii) Act on Specified Commercial Transactions

The Group strives to comply closely with the Act on Specified Commercial Transactions. However, the

Group's operating results and financial position could be negatively affected in the event of damage to the Group's public reputation or loss of trust owing to conduct by sales partners (sales managers, POLA LADIES) that may violate the Act on Specified Commercial Transactions, or due to severe restrictions on the Group's door-to-door sales activities arising from revisions to the Act on Specified Commercial Transactions.

2) Sharp increases in raw material prices

As mentioned above, the Group works to secure the necessary volume of raw materials required for the manufacture of products at an appropriate price by using diversified sources of supply and by maintaining favorable relations with suppliers, based on the overall supervision of divisions in the Group responsible for procuring raw materials. However, the Group's operating results and financial position could be negatively affected in the event of an increase in procurement prices owing to factors such as the current instability in price trends for crude oil and other raw materials, resulting also in an increase in product manufacturing costs.

<Holding company risk>

POLA ORBIS is a pure holding company that derives the majority of its income from management fees and dividends received from directly owned subsidiaries. Of these two sources of income, dividends received are regulated under certain conditions by Japan's Companies Act, which restricts the amount of dividends that can be paid by a subsidiary to the Company. In addition, the Company may be unable to pay dividends to shareholders in the event that subsidiaries fail to book a sufficient level of profits to pay dividends to the holding company.

<Relationship with the Pola Art Foundation>

The Pola Art Foundation was established in May 1996 by Suzuki Tsuneshi, the former Chairman of the Group, to contribute to the development of art and culture in Japan. Since its establishment, the Group's corporate philosophy has been to "Contribute to society through businesses related to beauty and health." Via the Pola Art Foundation, the Group has conducted activities that are in accordance with this philosophy, including the provision of a wide range of support (donation) guarantees for loans to fund the construction of art museums, personnel support such as temporary assignments for museum curators and other staff, and the entrustment of art objects (gratis), etc). As of the date of submission of this report, all guarantees had been dissolved and the Group had no further plans to provide donations. However, it does plan to continue with other activities, such as the provision of personnel support and the entrustment of art objects (gratis).

In addition, as of the date of submission of this report, the foundation held 19,654,236 shares (voting right ratio of 35.6%) of POLA ORBIS' stock. Satoshi Suzuki, POLA ORBIS' President, is also the head of the Pola Art Foundation. However, the foundation's executive board members who are related parties of the POLA ORBIS Group, including POLA ORBIS' President~~,~~ adhere to a policy of not participating in decisions taken by the foundation related to the exercise of its voting rights.

2. Corporate group

POLA ORBIS Group (the Group) has introduced a pure holding company structure, which comprises POLA ORBIS HOLDINGS INC. and 26 consolidated subsidiaries. The Group is primarily focused on businesses related to beauty and health, such as its Cosmetics business. As the holding company, POLA ORBIS establishes Group strategy, fulfills monitoring functions for management in the Group, and controls the management of Group companies, including the provision of guidance and advice on key management issues.

The table below shows the main businesses of each Group company and their relationship with each business segment.

Note that the below business categorization is the same as in the segment information by business type shown under "4. Consolidated financial statements (8) Notes to consolidated financial statements (Segment information)."

POLA ORBIS HOLDINGS INC. (Pure holdings company)

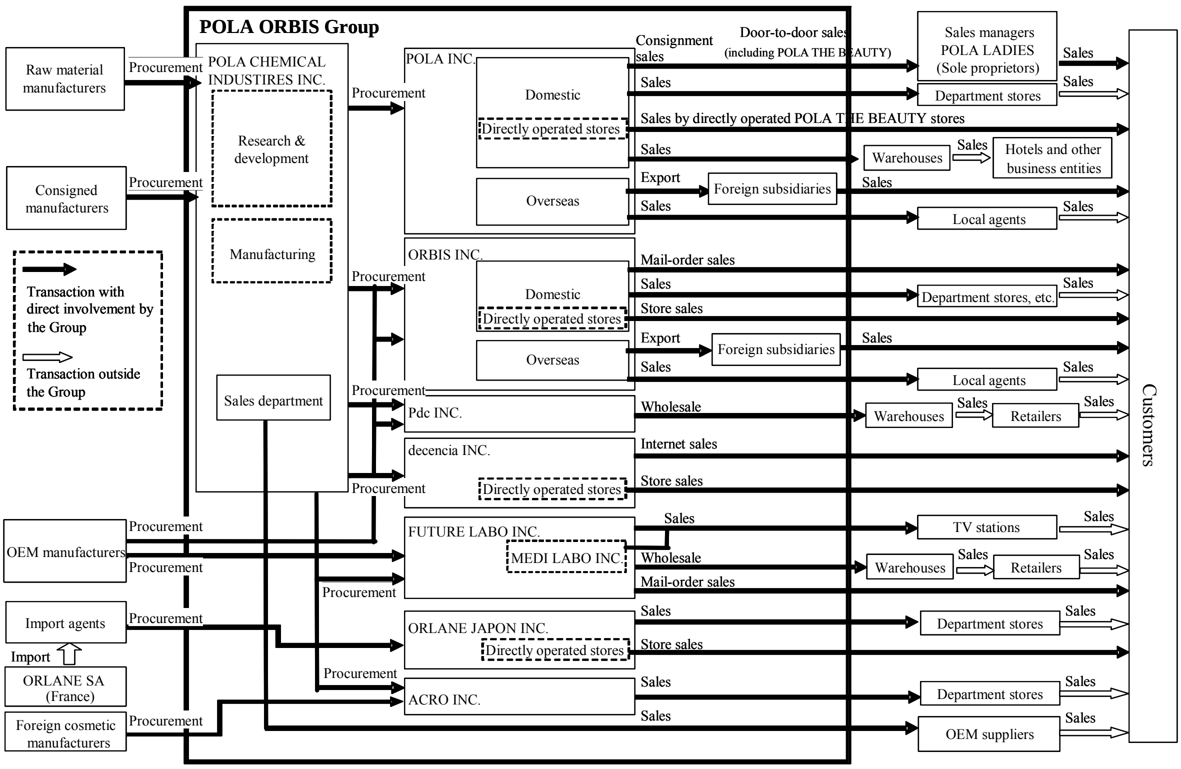
Business segment	Copany name	Description of business
(1) Cosmetics	POLA INC.	Sales of cosmetics products and apparel items
	POLA U.S.A. INC.	Sales of cosmetics products
	POLA COSMETICS (THAILAND) CO., LTD.	Sales of cosmetics products
	POLA COSMETICS (HONGKONG) CO., LTD.	Sales of cosmetics products
	POLA (SHANGHAI) CO., LTD.	Sales of cosmetics products
	POLA TRADING (SHANGHAI) CO., LTD.	Sales of cosmetics products
	POLA LLC	Sales of cosmetics products
	POLA TAIWAN INC.	Sales of cosmetics products
	ORBIS Inc.	Sales of cosmetics products and apparel items
	ORBIS KOREA Inc.	Sales of cosmetics products
	Taiwan ORBIS Inc.	Sales of cosmetics products
	ORBIS Beijing Inc.	Sales of cosmetics products
	ORBIS CHINA HONG KONG LIMITED	Sales of cosmetics products
	pdc INC.	Sales of cosmetics products
	FUTURE LABO INC.	Sales of cosmetics products
	MEDI LABO INC.	Sales of cosmetics products
	ORLANE JAPON INC.	Sales of cosmetics products
	decencia INC.	Sales of cosmetics products
	ACRO INC.	Sales of cosmetics products
	POLA CHEMICAL INDUSTRIES INC.	R&D, sales and manufacture of cosmetics products
	KAYAKU CO., LTD.	Manufacturing of pharmaceutical products and health foods
(2) Fashion	POLA INC.	Sales of cosmetics products and apparel items
	ORBIS Inc.	Sales of cosmetics products and apparel items
(3) Pharmaceuticals	POLA PHARMA INC.	R&D and sales of pharmaceutical products
	KAYAKU CO., LTD.	Manufacturing of pharmaceutical products and health foods
(4) Real estate	P.O. REAL ESTATE INC.	Renting real estate
(5) Others	P.O. MEDIA SERVICE INC.	Commercial printing
	P.O. TECHNO SERVICE INC.	Building maintenance
	SHINOBU INSURANCE SERVICE CO., LTD.	Insurance agent

(1) Cosmetics business

In the Cosmetics business, we develop, manufacture and sell cosmetics products. Our cosmetics products are distributed through different distribution channels for each brand: **POLA** has been rolled out mainly via door-to-door sales based on consignment sales agreements, **ORBIS** has been sold mainly through mail-order and retail store sales channels, and **pdc** has been sold through general retail channels. In recent years, we have been promoting a multi-brand strategy of holding a variety of brands and winning appropriate market shares for each brand in order to respond to diversifying customer values, while staying true to our philosophy, "Inspire all people and touch their hearts." We have been increasing the number of our brands by investing in existing brands and launching new ones.

The chart below shows an overview of the Group's operations in the Cosmetics business.

[Overview of operations]



Characteristics of Group companies in the Cosmetics business

1) POLA INC.

POLA INC. is the core of the Group's Cosmetics business. POLA INC. has been rolling out business with cosmetics products via door-to-door sales based on consignment sales agreements. POLA INC. signs consignment sales agreements with the sales managers (sole proprietors) of the consigned sales offices throughout Japan, and distributes its products via counseling-based sales conducted by sales partners who are directly trained by the company. POLA ORBIS believes this is a key feature of the POLA INC. business (For an overview of our sales system, please refer to the "Outline of the sales system in the door-to-door sales channel" shown below.) In recent years, POLA INC. has also dedicated efforts to the enhancement of beauty treatments and store sales, for example, by deploying 500 **POLA THE BEAUTY** retail stores (as of December 31, 2010) to merge beauty treatments with cosmetics, and increasing the number of outlets in department stores.

POLA focuses on skincare products with whitening and anti-aging effects, which were developed over many years of research and draw on data from approximately 11 million cases accumulated by the company's skin analysis system. Major product lines include the ***BA*** series, the ***APEX-i*** series, and the ***WHITISSIMO*** and ***WHITE SHOT*** series.

POLA INC. also handles products for business use, such as shampoos, etc. for hotels and other facilities.

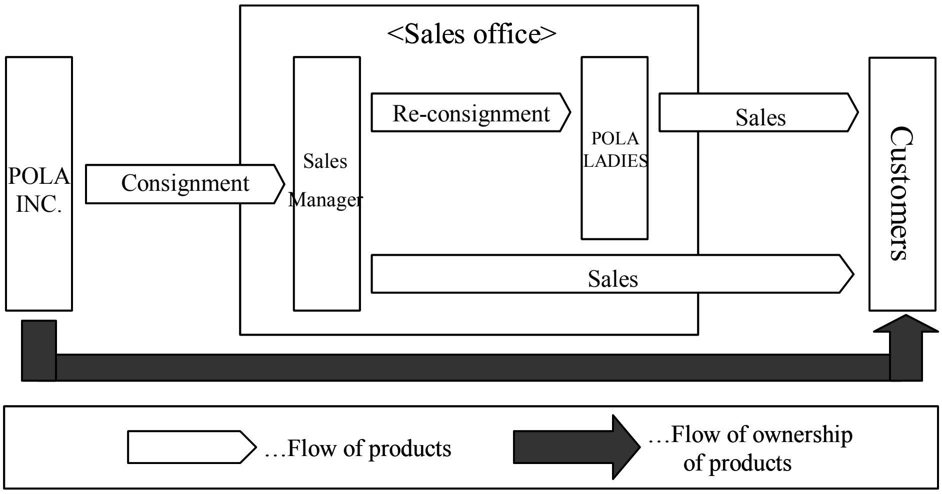
[Outline of the sales system in the door-to-door sales channel]

In the mainstay door-to-door sales channel, POLA INC. conducts counseling-based cosmetics sales via 4,522 nationwide sales offices and 129,144 **POLA LADIES**(sole proprietors and sales partners) (as of December 31, 2010). Our door-to-door sales channel employs a consignment sales system where sales managers to whom POLA INC. consigned the sales of its products, and **POLA LADIES**, who were re-consigned for the sales by the sales managers, sell our products to customers.

The sales of POLA INC. are recognized when sales managers or **POLA LADIES** sell products to customers, and POLA INC. pays sales commissions corresponding to the sales results (Note).

Note: Sales commissions are paid to sales managers based on the sales performance of each sales office (including the sales performance of **POLA LADIES** to whom the sales are re-consigned).

(Outline of dealings based on consignment sales agreements)



Notes:

1. Sales managers and **POLA LADIES** are sole proprietors and sales partners on the basis of consignment sales agreements. Sales offices are organizations independent of the Group.
2. When a **POLA LADY** (sole proprietor) who is a sales partner achieves average monthly sales of at least ¥1.5 million /month together with the staff trained by that **POLA LADY**, she may start an independent sales office upon application. A sales manager is the individual responsible for managing a sales office, with her work including daily sales activities, recruitment, training and management of **POLA LADIES** and also product management.
3. In addition to the above transactions, sales managers and **POLA LADIES** purchase products themselves for their own use.

2) ORBIS Inc.

ORBIS Inc. started its operations with the purpose of developing distribution channels for cosmetic products. ORBIS launched products based on "an oil-free" composition, based on the view that "Oil merely seals moisture in the skin temporarily. What the skin really needs is moisture." ORBIS built a strong position in the mail-order market at an early stage and now plays a central role in the Group.

Compared to POLA INC., which mainly handles cosmetics in a high price range of ¥5,000 or more, ORBIS Inc. sells products in a lower price range of ¥1,000 to ¥3,000. The company conducts business activities centered on mail-order sales utilizing tools such as catalogs, flyers and the internet, as well as via retail stores (**ORBIS THE SHOP**; 111 stores as of December 31, 2010) in commercial facilities such as shopping malls in buildings adjacent to train stations. Its major products are skincare products such as the ***AQUA FORCE*** series, the ***CLEAR*** series, and the ***EXCELLENT*** series.

3) pdc INC.

pdc INC. started its operations with the aim of developing a cosmetics business in the general retail market such as drug stores.

Specializing in skincare products, pdc follows the basic concept of providing articles at reasonable prices. Major products include the ***Pure Natural*** skincare series and the ***CELDIE Face-Wash*** series.

4) FUTURE LABO INC. and MEDI LABO INC.

FUTURE LABO INC. and MEDI LABO INC. are sales companies that market proprietary cosmetics brands primarily through the TV sales channel. Business in the TV sales channel is conducted separately with each TV broadcasting group, so two corporate organizations have been established within the Group to carry out marketing activities. Major products include the ***DERMA QII*** series, the ***White Diamante*** series, and the ***Shine Days*** series.

5) ORLANE JAPON INC.

ORLANE JAPON INC. was founded as a joint venture with ORLANE SA in France in order to sell ORLANE's French brand of luxury cosmetics in Japan. **ORLANE** is a brand of cosmetics with a long history of sixty years, centered on aging-care products. ORLANE JAPON INC. is the exclusive dealer for ORLANE cosmetic products in Japan and markets the brand mainly via department stores in urban areas.

6) decencia INC.

decencia INC. was established in order to provide cosmetics to people suffering from sensitive skin based on the cosmetics technologies accumulated in the Group. Sales are mainly conducted by mail order via the internet.

7) ACRO INC.

ACRO INC. was founded in order to develop multiple brands in the high-price cosmetic market as part of our multi-brand strategy. The company sells the ***THREE*** series mainly via outlets in department stores.

8) POLA CHEMICAL INDUSTRIES INC.

This company conducts R&D and manufacturing functions related to the Group's cosmetics and health food products. Currently, POLA CHEMICAL INDUSTRIES INC. mainly produces cosmetics in the **POLA**, **ORBIS**, **pdc**, **decencia**, **FUTURE LABO** and **ACRO** brand ranges.

Moreover, in an effort to effectively use the resources and technologies owned by the Group and to contribute to sales and profits of the Group, the company works on joint development and manufacturing for other companies' products in OEM projects.

As a general cosmetics manufacturer supporting a multi-brand strategy, POLA CHEMICAL INDUSTRIES mainly supplies highly functional cosmetics with a high added-value based on material and formulation technologies acquired over many years of research, but also manufactures a wide variety of product genres, including skincare, make-up, body care, hair care, fragrances and others.

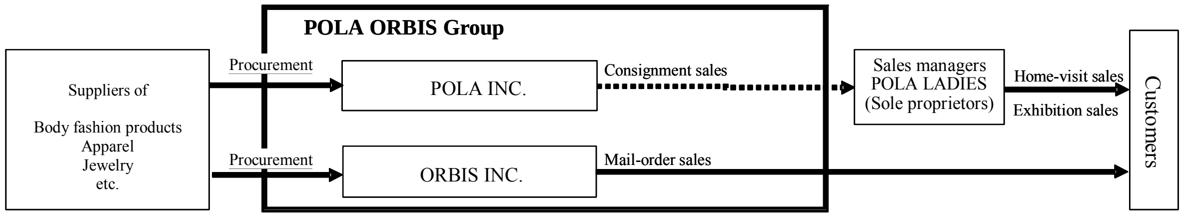
9) KAYAKU CO., LTD.

KAYAKU CO., LTD., a subsidiary of POLA PHARMA INC., manufactures pharmaceutical products and health foods. The company also manufactures health food ***KENBISANSEN*** and other products classified under the Group's cosmetics business segment.

(2) Fashion business

POLA INC. and ORBIS Inc. have expanded their merchandise to include body fashion products (a term that refers primarily to products such as underwear and nightwear), apparel and jewelry in an effort to make efficient use of their distribution channels (ORBIS Inc. only handles body fashion products). At POLA INC., body fashion products and general apparel are sold mainly through catalogs to customers in door-to-door sales, while jewelry, fur and leather as well as other high-class apparel are mainly sold via exhibition sales. ORBIS Inc. sells fashion items via mail order.

[Overview of operations]



Characteristics of Group companies in the Fashion business

1) POLA INC.

POLA INC. has been rolling out its Fashion business, which handles body fashion products, apparel, jewelry and kimonos, in addition to its Cosmetics business, via **POLA LADIES** sales partners that have signed consignment sales agreements with POLA INC. To protect and enhance the high-class, high-quality image that was built up in the Cosmetics business of POLA INC., close attention is paid to ensure that products with high quality and high added-value are also developed and sold in the fashion field. Most products are proprietary brands. Fashion products are sold using catalogs or exhibition sales, as appropriate for the characteristics of the respective item.

(a) Catalog sales (body fashion products, apparel)

Using catalogs, our **POLA LADIES** offer merchandise to customers at home or in stores (sales offices). Our lineup of body fashion products includes comfortable products that are tailored to the needs of various generations and convey our original message. ***Sofical***, for example, targets women over 40, while ***LINEA-ESSE*** was designed for women from about 25 to their thirties. Our apparel products include the ***amian*** label, which targets women in their 50s, and ***Crea + mure***, which targets professional career women aged about 25 to 35.

(b) Exhibition sales (jewelry, high-class apparel)

Exhibition sales for jewelry and high-class apparel are held throughout Japan. At the exhibition venue, the customer is welcomed by a **POLA LADY** who has received full training by the Group and offers the products to the customer. In terms of the characteristics of the merchandise offered, jewelry is centered on the ***LA VIE D'OR*** range, for which we pay utmost attention to original design, brilliance, comfort and to manufacturing itself. High-class apparel offered includes mainly fur and leather products.

2) ORBIS Inc.

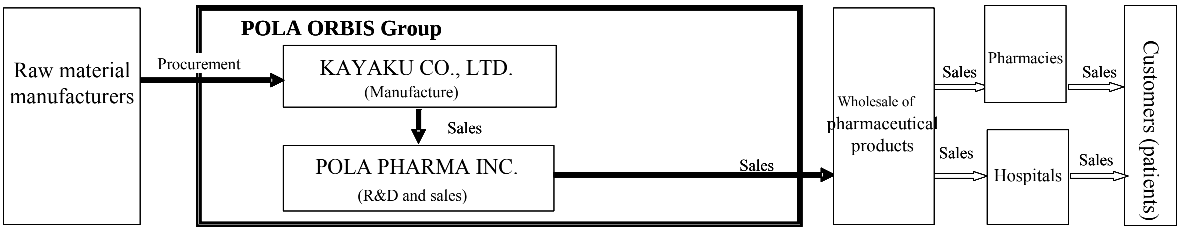
In addition to its cosmetics business, ORBIS INC. operates a fashion business, which supplies fashion items (body fashion products centered on women's underwear, as well as socks) via mail order.

Specific products include the ***Body Refining*** series aimed at women in their late 30s. This series embodies the ORBIS INC. bodywear concept and comprises a range of practical and functional products that support and move in tune with the body. The company also supplies other products such as innerwear and ladies briefs, socks and nightwear that all emphasize functionality and comfort.

(3) Pharmaceuticals business

POLA PHARMA INC. is engaged in R&D and sales of pharmaceutical products, while KAYAKU CO., LTD. is responsible for manufacturing.

[Overview of operations]



Characteristics of Group companies in the Pharmaceuticals business

1) POLA PHARMA INC.

One feature of this company is that it takes advantage of the knowledge and technology regarding skin research and research into the formulation of drugs for topical use resulting from the cosmetics research carried out over many years in the Group, in order to perform R&D specializing in the dermatological field. The company's main products are ***Lulicon*** series, an antifungal agent for topical use, and laxative agent ***Alosenn***, which are used by medical facilities. The company plans to continue developing and selling products that contribute to improving the quality of life of patients in the dermatological field.

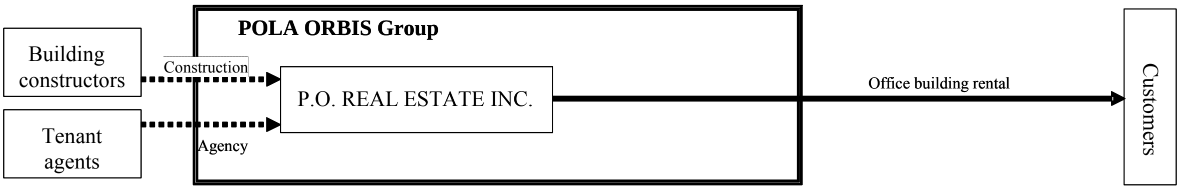
2) KAYAKU CO., LTD.

KAYAKU CO., LTD. is a manufacturing subsidiary of POLA PHARMA INC. The company has two factories -- the Saitama Factory (Fujimino City, Saitama) and the Tokorozawa Factory (Tokorozawa City, Saitama). These plants manufacture pharmaceutical products based on strict inspection standards in each step of the production process in accordance with the Pharmaceutical Affairs Act. In particular, the Saitama Factory produces the major products of POLA PHARMA INC., including mainly solid preparations and drugs for topical use, while the Tokorozawa Factory also provides OEM services mainly for products such as antiseptic agents and injections.

(4) Real Estate business

P.O. REAL ESTATE INC. is engaged in the leasing business of real estate property (Office buildings).

[Overview of operations]



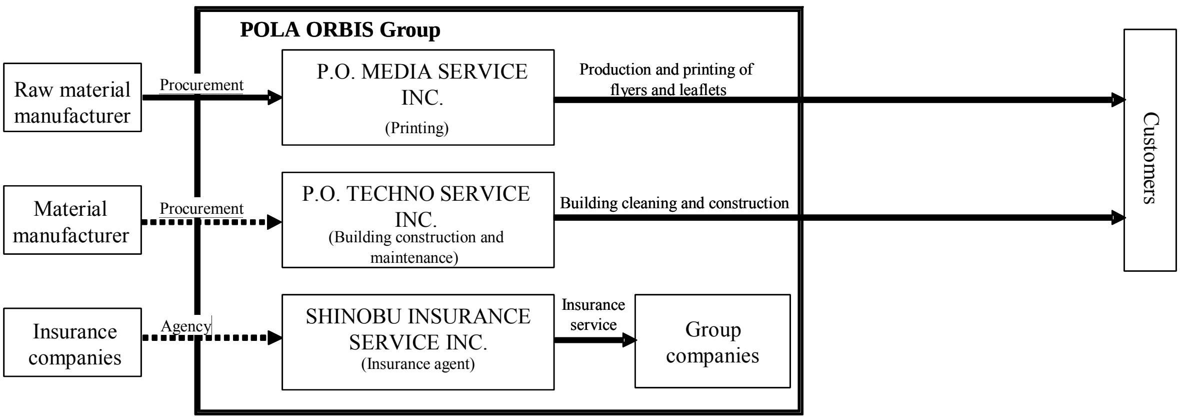
P.O. REAL ESTATE INC. now owns 14 buildings for leasing all over Japan, including 6 buildings in Tokyo. For the management of the buildings, it considers maintaining the grade as a "safe and comfortable building," earning the satisfaction of the leasing customers and winning continued contracts as the most important points. Therefore, the buildings are managed with great attention to daily maintenance and operation management.

For this purpose, POLA GTS K.K. (the present P.O. Techno Service INC.) was established to be in charge for building maintenance as a subsidiary. This was also to establish a system to maintain and manage our buildings with responsibility as the owner. In this way, it strives to maintain a high quality by fine-tuned daily management of each building as well as systematic annual repair and renewal works.

(5) Others businesses

P.O. MEDIA SERVICE INC. is engaged in the commercial printing business, while P.O. TECHNO SERVICE INC. works in the building maintenance business. Both companies offer their services to customers inside and outside of the Group. Further, SHINOBU INSURANCE SERVICE CO., LTD. serves as an insurance agent inside the Group.

[Overview of operations]



3. Management policies

(1) Fundamental management policy

Although respect is given to the independent and autonomous management of each company in the POLA ORBIS Group (the Group), POLA ORBIS HOLDINGS provides direction on overall management policy to Group companies. In line with this management policy, Group companies formulate their own business plans, which are approved by the Board of Directors after discussion within the Group, and then disclosed to the entire Group.

(2) Management indicators

Increasing net income per share is a key management indicator for the Group.

(3) Medium- and long-term management strategy and issues to be resolved

Guided by POLA ORBIS' long-term vision of "becoming a Group with a global presence," the main strategic goals of the Group are to "improve the profitability of flagship brands and strengthen the multi-brand strategy in Japan" and "generate increased profits via steady expansion and revenue growth in Japan and overseas" In order to realize this management vision and these strategies and to achieve sustained business development, the Group is tackling the following issues.

1) Improve the profitability of flagship brands (enhance the stability of the Group's earning base) and strengthen the multi-brand strategy (achieve growth for brands under development) in Japan.

The domestic cosmetics sector, which is the Group's main operating field, has been weak since the global financial crisis in the second half of 2008. While conditions remain challenging, some positive signs have emerged, with aggregate cosmetic shipments rising 2.2% year on year and total skincare cosmetics shipments increasing 4.5% year on year in January-November 2010 (Source: Research and Statistics Department, Ministry of Economy, Trade and Industry).

Against the backdrop of this market environment, the Group has developed a number of unique brands to respond to the diversifying values of consumers and to provide higher levels of value to each customer throughout their lifetimes. POLA ORBIS believes that supplying these brands via appropriate distribution channels and implementing a multi-brand, multi-channel strategy is an effective means of boosting market share. POLA ORBIS has adopted a pure holding company structure to create a platform suited to implementing this strategic approach. The Group believes that the optimum approach is to make maximum use of this type of operating structure to improve the profitability of its flagship **POLA** and **ORBIS** brands, using the profits generated by these brands to invest in brands under development and overseas expansion.

Improving the profitability of flagship brands and strengthening the multi-brand strategy encompasses the following initiatives:

- Shift to a business model that matches the lifestyle needs of **POLA** brand customers.

  In addition to the existing door-to-door sales channel, expand the number of **POLA THE BEAUTY** retail stores and outlets in department stores.

- Work to rebuild **ORBIS** brands

  Boost profitability by targeting a narrower customer segment in the mass market, enhancing communication with customers, and increasing the amount spent per customer
- Reinforce the portfolio of brands under development that are likely to win increased support from consumers

  Reinforce the portfolio of five brands under development ***(pdc, Future Labo, ORLANE JAPON, decencia***, and ***ACRO***) in house or via M&A deals.

Based on these initiatives, the Group aims to achieve steady sales growth and increase profits in the domestic market.

2) Increase the Group’s growth potential by selling flagship brands in global markets

Despite some recent positive signs, the cosmetics market in Japan is maturing. Amid projections of an even tougher environment in the domestic cosmetics market, POLA ORBIS believes it is vital to expand its business overseas while maintaining and reinforcing its competitiveness in the domestic market in order to achieve high rates of growth. In recent years, there has been striking growth in the size of the cosmetics market in Asia, particularly China, and achieving success in the Chinese market is now key to developing a business presence in the global cosmetics market.

POLA ORBIS’ main strategies for building a global presence are as follows:

- Actively roll out the flagship **POLA** and **ORBIS** brands overseas, mainly in China, other markets in Asia, and Russia (build business models anchored by direct marketing and tailored to the characteristics of each country).
- Ramp up development of the Group's presence overseas by utilizing in-house R&D technologies and the results of this research (forge tie-ups with other companies, use OEM, etc.).

  Based on these initiatives, aim to expand the entire Group’s overseas sales. In parallel, create business models that ensure POLA ORBIS wins the support of customers in each market.

3) Reinforce the operating structure

POLA ORBIS needs to further enhance its strengths and use them in its operations to support its global business development and multi-brand strategy, and to help it succeed against competitors. From an organizational perspective, it also needs to build an operating structure to support healthy business expansion based on independent and autonomous management for each Group company. POLA ORBIS aims to actively invest to create this kind of operating structure.

The Group’s main strategies for reinforcing the operating structure are as follows:

- Channel resources into strategic business areas

  Establish criteria for withdrawing from unprofitable businesses and conduct regular monitoring of investments to prevent inefficient investment.
- Pursue rational business decisions

  Establish a results-based approach by creating key performance indicators (KPI) for each business/company of the Group and by thoroughly implementing a framework and evaluation system focused on business processes.

- Train personnel

  Implement an ongoing personnel training program across the Group and cultivate the people needed to support global business development and future managers

- Reinforce R&D capabilities

  Leverage the material development capabilities built up in R&D activities so far and further strengthen R&D capabilities in whitening and anti-ageing cosmetics, which are the Group's strengths.

Based on these initiatives, POLA ORBIS plans to reinforce its management base and develop its business further through greater management efficiency and rational decision making.

4. Consolidated financial statements

(1) Consolidated balance sheets

(Millions of yen)

	Fiscal 2009 (As of December 31, 2009)	Fiscal 2010 (As of December 31, 2010)
Assets		
Current assets		
Cash and deposits	42,132	*2 34,678
Notes and accounts receivable – trade	18,844	19,543
Short-term investment securities	30,984	32,169
Merchandise and finished goods	11,239	9,421
Work in process	1,644	1,644
Raw materials and supplies	4,047	4,276
Deferred tax assets	5,050	2,917
Other	2,174	2,653
Allowance for doubtful accounts	(64)	(74)
Total current assets	116,055	107,230
Fixed assets		
Property, plant and equipment		
Buildings and structures	57,641	58,954
Accumulated depreciation	(42,188)	(41,817)
Buildings and structures, net	15,452	17,136
Machinery, equipment and vehicles	12,543	11,972
Accumulated depreciation	(10,846)	(10,527)
Machinery, equipment and vehicles, net	1,696	1,445
Land	22,314	22,296
Lease assets	819	1,712
Accumulated depreciation	(118)	(434)
Lease assets, net	700	1,278
Construction in progress	1,149	302
Other	20,237	19,029
Accumulated depreciation	(10,659)	(9,837)
Other, net	9,578	9,191
Total property, plant and equipment	50,892	51,651
Intangible assets	4,539	4,140
Investments and other assets		
Investment securities	*1 2,024	17,538
Long-term loans receivable	79	51
Deferred tax assets	4,888	3,748
Other	3,742	3,563
Allowance for doubtful accounts	(311)	(151)
Total investments and other assets	10,422	24,750
Total fixed assets	65,854	80,541
Total assets	181,909	187,771

(Millions of yen)

	Fiscal 2009 (As of December 31, 2009)	Fiscal 2010 (As of December 31, 2010)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	3,285	3,549
Short-term loans payable	10,000	1,753
Lease obligations	199	425
Accounts payable – other	10,804	10,848
Income taxes payable	566	1,118
Provision for bonuses	1,344	1,653
Provision for directors' bonuses	14	41
Provision for sales returns	90	90
Provision for point incentives	1,520	1,700
Provision for loss on business liquidation	39	32
Other	2,030	2,411
Total current liabilities	29,896	23,623
Long-term liabilities		
Lease obligations	509	875
Provision for retirement benefits	7,741	7,306
Provision for directors' retirement benefits	287	325
Provision for environmental measures	—	132
Other	2,585	2,404
Total long-term liabilities	11,123	11,044
Total liabilities	41,019	34,667
Net assets		
Shareholders' equity		
Common stock	10,000	10,000
Capital surplus	203,036	90,718
Retained earnings	48,685	54,746
Treasury stock	(121,293)	(2,199)
Total shareholders' equity	140,429	153,265
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	257	210
Foreign currency translation adjustments	29	(475)
Total valuation and translation adjustments	287	(264)
Minority interests	173	103
Total net assets	140,890	153,104
Total liabilities and net assets	181,909	187,771

(2) Consolidated statements of income

(Millions of yen)

	Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
Net sales	162,332	165,253
Cost of sales	*1, 2 32,843	*1, 2 33,321
Gross profit	129,488	131,932
Selling, general and administrative expenses		
Sales commission	43,390	43,073
Promotion expenses	15,427	16,627
Packing and transportation expenses	4,556	4,562
Advertising expenses	7,496	7,366
Salaries, allowances and bonuses	18,253	17,645
Welfare expenses	2,689	2,764
Retirement benefit expenses	750	754
Provision for bonuses	1,149	1,428
Provision for point incentives	1,520	1,701
Depreciation and amortization	2,833	2,912
Amortization of goodwill	80	80
Other	21,635	20,745
Total selling, general and administrative expenses	*2 119,782	*2 119,661
Operating income	9,706	12,270
Non-operating income		
Interest income	311	380
Dividend income	38	40
Foreign exchange gains	226	—
Other	338	308
Total non-operating income	914	729
Non-operating expenses		
Interest expense	120	103
Equity in losses of affiliates	1	—
Foreign exchange losses	—	410
Taxes and dues	28	—
Office transfer expenses	26	72
Other	72	164
Total non-operating expenses	249	752
Ordinary income	10,372	12,247

(Millions of yen)

	Fiscal 2009 (January 1, 2009 - December 31, 2009)		Fiscal 2010 (January 1, 2010 - December 31, 2010)	
Extraordinary income				
Gain on sales of fixed assets	*3	49	*3	538
Gain on sales of investment securities		37		—
Reversal of provision for loss on business liquidation		15		—
Reversal of foreign currency translation adjustments		—		661
Other		4		126
Total extraordinary income		105		1,327
Extraordinary losses				
Loss on retirement of fixed assets	*4	412	*4	235
Loss on reduction of fixed assets		—	*7	517
Impairment loss	*5	387	*5	172
Loss on valuation of investment securities		848		—
Loss on business liquidation	*6	282		—
Non-recurring depreciation on fixed assets		—	*8	341
Other		90		277
Total extraordinary losses		2,021		1,544
Income before income taxes		8,456		12,030
Income taxes – current		1,538		1,757
Income taxes – deferred		2,945		3,281
Total income taxes		4,483		5,038
Minority interests		(87)		(94)
Net income		4,059		7,086

(3) Consolidated statements of changes in shareholders' equity

(Millions of yen)

	Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
Shareholders' equity		
Common stock		
Balance at the beginning of the period	10,000	10,000
Balance at the end of the period	10,000	10,000
Capital surplus		
Balance at the beginning of the period	203,036	203,036
Changes of items during the period		
Disposal of treasury stock	—	2,376
Retirement of treasury stock	—	(114,695)
Total changes of items during the period	—	(112,318)
Balance at the end of the period	203,036	90,718
Retained earnings		
Balance at the beginning of the period	45,650	48,685
Changes of items during the period		
Dividends from retained earnings	(1,025)	(1,025)
Change of scope of consolidation	1	—
Net income	4,059	7,086
Total changes of items during the period	3,034	6,060
Balance at the end of the period	48,685	54,746
Treasury stock		
Balance at the beginning of the period	(121,293)	(121,293)
Changes of items during the period		
Disposal of treasury stock	—	4,398
Retirement of treasury stock	—	114,695
Total changes of items during the period	—	119,093
Balance at the end of the period	(121,293)	(2,199)
Total shareholders' equity		
Balance at the beginning of the period	137,394	140,429
Changes of items during the period		
Dividends from retained earnings	(1,025)	(1,025)
Change of scope of consolidation	1	—
Net income	4,059	7,086
Disposal of treasury stock	—	6,775
Retirement of treasury stock	—	—
Total changes of items during the period	3,034	12,836
Balance at the end of the period	140,429	153,265
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance at the beginning of the period	(250)	257
Changes of items during the period		
Net changes of items other than shareholders' equity	507	(46)
Total changes of items during the period	507	(46)
Balance at the end of the period	257	210

(Millions of yen)

	Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
Foreign currency translation adjustments		
Balance at the beginning of the period	167	29
Changes of items during the period		
Net changes of items other than shareholders' equity	(137)	(504)
Total changes of items during the period	(137)	(504)
Balance at the end of the period	29	(475)
Total valuation and translation adjustments		
Balance at the beginning of the period	(83)	287
Changes of items during the period		
Net changes of items other than shareholders' equity	370	(551)
Total changes of items during the period	370	(551)
Balance at the end of the period	287	(264)
Minority interests		
Balance at the beginning of the period	253	173
Changes of items during the period		
Net changes of items other than shareholders' equity	(79)	(70)
Total changes of items during the period	(79)	(70)
Balance at the end of the period	173	103
Total net assets		
Balance at the beginning of the period	137,564	140,890
Changes of items during the period		
Dividends from retained earnings	(1,025)	(1,025)
Change of scope of consolidation	1	—
Net income	4,059	7,086
Disposal of treasury stock	—	6,775
Retirement of treasury stock	—	—
Net changes of items other than shareholders' equity	290	(621)
Total changes of items during the period	3,325	12,214
Balance at the end of the period	140,890	153,104

(4) Consolidated statements of cash flows

(Millions of yen)

	Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
Cash flows from operating activities		
Income before income taxes	8,456	12,030
Depreciation and amortization	4,912	5,019
Impairment loss	387	172
Non-recurring depreciation on fixed assets	61	341
Amortization of goodwill	80	80
Loss (gain) on sales of fixed assets	(30)	(20)
Loss on retirement of fixed assets	412	235
Increase (decrease) in allowance for doubtful accounts	(2)	(33)
Increase (decrease) in provision for retirement benefits	(295)	(434)
Increase (decrease) in provision for loss on business liquidation	19	(6)
Increase (decrease) in other provision	(576)	689
Loss (gain) on valuation of investment securities	848	—
Interest and dividend income	(350)	(420)
Interest expense	120	103
Foreign exchange losses (gains)	(142)	307
Equity in losses (earnings) of affiliates	1	—
Reversal of foreign currency translation adjustments	—	(661)
Decrease (increase) in notes and accounts receivable – trade	590	(734)
Decrease (increase) in inventories	314	1,454
Increase (decrease) in notes and accounts payable-trade	(319)	289
Increase (decrease) in consumption taxes payable	(178)	481
Decrease (increase) in other assets	271	(97)
Increase (decrease) in other liabilities	(450)	(155)
Other	7	38
Subtotal	14,137	18,681
Interest and dividends received	352	378
Interest paid	(97)	(103)
Income taxes paid	(1,810)	(1,049)
Other payments	(50)	—
Net cash provided by operating activities	12,530	17,906

(Millions of yen)

	Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
Cash flows from investing activities		
Payments into time deposits	(2,454)	(1,013)
Proceeds from withdrawal of time deposits	4,858	2,315
Purchase of short-term investment securities	(4)	(34,857)
Proceeds from sales and redemption of short-term investment securities	1,402	22,146
Purchase of property, plant and equipment	(6,588)	(4,095)
Proceeds from sales of property, plant and equipment	122	53
Purchase of intangible assets	(1,360)	(1,191)
Purchase of investment securities	—	(23,484)
Proceeds from sales of investment securities	147	25
Payments for retirement of fixed assets	(206)	(104)
Purchase of long-term prepaid expenses	(281)	(85)
Payments for lease and guarantee deposits	(207)	(318)
Proceeds from collection of lease and guarantee deposits	157	179
Other	38	63
Net cash used in investing activities	(4,374)	(40,367)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	—	(8,232)
Cash dividends paid	(1,025)	(1,025)
Cash dividends paid to minority shareholders	—	(3)
Repayments of lease obligations	(99)	(303)
Proceeds from disposal of treasury stock	—	6,775
Net cash used in financing activities	(1,125)	(2,789)
Effect of exchange rate change on cash and cash equivalents	(15)	(60)
Net increase (decrease) in cash and cash equivalents	7,014	(25,310)
Cash and cash equivalents at beginning of period	61,803	68,817
Cash and cash equivalents at end of period	*1 68,817	*1 43,507

(5) Notes on assumptions for going concern

Not applicable.

(6) Basis for the preparation of consolidated financial statements

Item	Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
1. Scope of consolidation	(1) Consolidated subsidiaries: 27 Name of the principal subsidiaries: POLA INC. ORBIS Inc. POLA CHEMICAL INDUSTIRES INC. P.O. REAL ESTATE INC. and 23 other subsidiaries (Newly excluded: 2) POLA AP INC. and RASEL Inc. were liquidated and thus excluded from the scope of consolidation in fiscal 2009. (2) Non-consolidated subsidiaries :1 THAI POLA CO., LTD. The reason for the exclusion of THAI POLA CO., LTD., from the scope of consolidation in fiscal 2009 was that it was in the process of liquidation and its total assets, net sales, net income (loss) (corresponding to the Company's equity), and retained earnings (corresponding to the Company's equity) had no significant influence on the consolidated financial statements.	(1) Consolidated subsidiaries: 26 Name of the principal subsidiaries: POLA INC. ORBIS Inc. POLA CHEMICAL INDUSTIRES INC. P.O. REAL ESTATE INC. and 22 other subsidiaries (Newly included: 1) ORBIS CHINA HONG KONG LIMITED was newly established during fiscal 2010. Therefore, it has been included in the scope of consolidation in fiscal 2010. (Newly excluded: 2) HYUNWOO CO., LTD. and POLA KOREA, INC. were liquidated and thus excluded from the scope of consolidation in fiscal 2010. (2) Non-consolidated subsidiaries: None. THAI POLA CO., LTD., which had been a non-consolidated subsidiary until December 31, 2009, was liquidated in fiscal 2010. ——
2. Application of equity method	(1) Equity method affiliates: None. (Newly excluded: 1) Miu cosmetics, Inc., which had been an equity-method affiliate until December 31, 2008, was excluded from the application of the equity method in fiscal 2009 because a portion of Miu cosmetics' shares owned by the Company were sold.	(1) Equity method affiliates: None. ——

Item	Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
	(2) Non-consolidated subsidiaries not accounted for by the equity method: THAI POLA CO., LTD. (Reasons for not being accounted for by the equity method) THAI POLA CO., LTD. was in the process of liquidation and its net income (loss) (corresponding to the Company’s equity) and retained earnings (corresponding to the Company’s equity) had no significant influence on the consolidated financial statements in fiscal 2009.	(2) Non-consolidated subsidiaries not accounted for by the equity method: None. ――――
3. Accounting periods of consolidated subsidiaries	The accounting periods of all consolidated subsidiaries end as of the end of consolidated fiscal year.	Same as the left column.

Item	Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
4. Accounting standards (1) Valuation standards and methods for significant assets	1) Securities a. Held-to-maturity securities Amortized cost method (the straight-line method) b. Available-for-sale securities <u>Marketable securities</u> Stated at fair value based on the quoted market price at the closing date, with net unrealized gains or losses directly included in net assets. The cost of securities sold is calculated using the moving average method. <u>Non-marketable securities</u> Stated at cost, which is determined by the moving average method. Investments in limited partnerships (investments defined as securities under Article 2.2 of the Financial Instruments and Exchange Act) are stated at net equity based on financial statements for the most recent account closing as provided in the partnership agreement. 2) Derivatives Stated at fair value. 3) Inventories Merchandise, finished goods, work in process, and raw materials are stated at cost, primarily determined by the monthly moving average method (The amount on balance sheets is from the calculation of write down based on its profitability), while values of supplies are assessed primarily based on the last purchase price method. (Changes in accounting policies) Effective from fiscal 2009, the Company and its consolidated subsidiaries have adopted “Accounting Standard for Measurement of Inventories” (Accounting Standards Board of Japan (ASBJ) Statement No. 9, issued on July 5, 2006). The impact of this change on operating income, income before income taxes and net income for fiscal 2009 was immaterial.	1) Securities a. Held-to-maturity securities Same as the left column. b. Available-for-sale securities <u>Marketable securities</u> Same as the left column. <u>Non-marketable securities</u> Same as the left column. 2) Derivatives Same as the left column. 3) Inventories Same as the left column. ———

Item	Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
(2) Method for depreciation of significant fixed assets	1) Property, plant and equipment (excluding lease assets) The Company and its domestic consolidated subsidiaries Declining balance method However, the straight-line method is used for buildings (excluding building fixtures) acquired on or after April 1, 1998. Estimated useful lives are mainly as follows. Buildings and structures 10 – 50 years Machinery, equipment and vehicles 7 – 15 years Fixed assets with acquisition cost greater than ¥100,000 and less than ¥200,000 are depreciated evenly over three years. Foreign consolidated subsidiaries The straight-line method is used based on the local accounting standards of each country. (Additional information) Effective from fiscal 2009, the Company and its domestic consolidated subsidiaries have changed the estimated useful lives of certain machinery based on the revision to the Corporation Tax Act of Japan in 2008 for tangible fixed assets. As a result of this change, operating income, ordinary income, and income before income taxes were ¥38 million less respectively in fiscal 2009 than prior to the change. The impact of this change on business segments is described in segment information for fiscal 2009. 2) Intangible assets (excluding lease assets) Straight-line method Software for internal use is amortised over its estimated useful life of five years, using the straight-line method. 3) Lease assets Finance lease assets that do not transfer ownership are depreciated using the straight-line method over the period of the lease with zero residual value. Finance lease assets that do not transfer ownership and were acquired prior to December 31, 2008 are not capitalized but accounted for by a method similar to that applicable to operating leases.	1) Property, plant and equipment (excluding lease assets) Same as the left column. ――――― 2) Intangible assets (excluding lease assets) Same as the left column. 3) Lease assets Finance lease assets that do not transfer ownership Same as the left column.

Item	Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
(3) Basis for significant allowance	1) Allowance for doubtful accounts The Company and its domestic consolidated subsidiaries provide the allowance for doubtful notes and accounts receivable and loans receivable based on the historic percentage of actual bad debt, while losses against the balance of total receivables and the amount of uncollectible receivables are estimated on an individual basis. Foreign consolidated subsidiaries mainly estimate unrecoverable amounts on an individual basis.	1) Allowance for doubtful accounts Same as the left column.
	2) Provision for bonuses To prepare for the payment of employees' bonuses, an amount corresponding to the fiscal year's portion of the estimated bonus payment is provided.	2) Provision for bonuses Same as the left column.
	3) Provision for directors' bonuses To prepare for the payment of directors' bonuses, an amount corresponding to the fiscal year's portion of the estimated bonus payment is provided.	3) Provision for directors' bonuses Same as the left column.
	4) Provision for sales returns Provisions are set up to cover future losses arising from sales returns based on past return ratios.	4) Provision for sales returns Same as the left column.
	5) Provision for point incentives Provisions are set up to cover future outflows of discounts and commemorative gifts arising from point incentives based on estimates of future outlays.	5) Provision for point incentives Same as the left column.
	6) Provision for loss on business liquidation Losses arising from business terminations are provided for based on estimated loss amounts.	6) Provision for loss on business liquidation Same as the left column.

Item	Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
	7) Provision for retirement benefits Retirement benefits for the employees (including corporate officers) are provided for based on the estimated amount of projected benefit obligation and the fair value of the pension plan assets at the fiscal year end. Prior service cost is amortized using the straight-line method over a certain period (10 years) within the average remaining years of service of the employees.Actuarial gains and losses are amortized from the following fiscal year in which the gain or loss is recognized using a straight-line method over a certain period (10-14 years) within the average remaining years of service of the employees.	7) Provision for retirement benefits Same as the left column. (Changes in accounting policies) Effective from fiscal 2010, the Company and its consolidated subsidiaries have adopted "Partial Amendments to Accounting Standard for Retirement Benefits" (ASBJ Statement No. 19, issued on July 31, 2008). The impact of this change on operating income, ordinary income, income before income taxes and net income for fiscal 2010 was immaterial.
	8) Provision for directors' retirement benefits Directors' retirement benefits are provided for in amounts required at the fiscal year-end based on internal rules on retirement benefits.	8) Provision for directors' retirement benefits Same as the left column.
	――――	9) Provision for environmental measures Provisions for charges are set up to cover outflows for disposal of waste (polychlorinated biphenyl (PCB)).

Item	Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
(4) Basis for translating assets and liabilities denominated in foreign currencies into Japanese yen for the preparation of consolidated financial statements.	Receivables and payables denominated in foreign currencies are translated into Japanese yen using the exchange rate prevailing on the fiscal year-end, and exchange gains or losses are included in the consolidated statements of income. The assets and liabilities of foreign subsidiaries denominated in foreign currencies are translated into Japanese yen using the exchange rate prevailing on the fiscal year-end. All income and expense amounts are translated at the average rates of exchange during the fiscal year. The resulting translation adjustments are included in net assets as foreign currency translation adjustments and minority interests.	Same as the left column.
(5) Other significant basis for the preparation of consolidated financial statements	1) Consumption tax and local consumption tax The tax-exclusion accounting method is applied. 2) Application of the consolidated tax return The consolidated tax return is applied by the Company and its wholly owned domestic consolidated subsidiaries.	1) Consumption tax and local consumption tax Same as the left column. 2) Application of the consolidated tax return Same as the left column.
5. Valuation of assets and liabilities of consolidated subsidiaries	Assets and liabilities of consolidated subsidiaries are evaluated based on the full fair value method.	Same as the left column.
6. Amortization of goodwill and negative goodwill	Goodwill and negative goodwill for which reasonable assessment is possible are amortized using the straight-line method over the estimated years from the fiscal year in which they arise. In other cases, goodwill and negative goodwill are amortized using the straight-line method over four years. Immaterial amounts of goodwill or negative goodwill, however, are recorded as gains or losses in the fiscal year in which they arise.	Same as the left column.
7. Cash and cash equivalents as stated in the consolidated statements of cash flows	Cash and cash equivalents as stated in the consolidated statements of cash flows consist of cash on hand, readily available deposits, and any liquid short-term investments with negligible risk of change in value and maturity dates within three months from the date of acquisition.	Same as the left column.

(7) Changes to the basis for the preparation of consolidated financial statements

Changes in accounting policies

Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
(Practical solution on unification of accounting policies applied to foreign subsidiaries for consolidated financial statements) Effective from fiscal 2009, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ PITF No. 18, issued on May 17, 2006) has been adopted and the necessary adjustments have been made for the preparation of consolidated financial statements. The impact of this change on operating income, income before income taxes and net income for fiscal 2009 was immaterial.	――――
(Accounting standard for lease transactions, etc.) Previously, finance lease assets that do not transfer ownership were accounted for by a method similar to that applicable to operating leases. However, effective from fiscal 2009, the Company and its consolidated subsidiaries have adopted "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13, issued on June 17, 1993 (First Committee of Business Accounting Council), revised on March 30, 2007)) and "Guidance on Accounting Standard for Lease Transactions" (ASBJ Statement No. 16, issued on January 18, 1994 (The Japanese Institute of Certified Public Accountants (JICPA) Accounting System Committee), revised on March 30, 2007). Accordingly, finance lease assets that do not transfer ownership have been treated as capital leases. Finance lease assets that do not transfer ownership and acquired prior to December 31, 2008 are accounted for by a method similar to that applicable to operating leases. The impact of this change on operating income, income before income taxes and net income for fiscal 2009 was immaterial.	――――
(Accounting treatments for revenues from sales of supplies and subcontracted development) Revenues from sales of supplies (cosmetics manufacturing equipment) and subcontracted development were previously recorded as non-operating income. However, beginning with fiscal 2009, such revenues have been recognized as net sales. In addition, expenses related to revenues from sales of supplies (cosmetics manufacturing equipment), which were previously recorded as non-operating expenses, and expenses related to revenues from subcontracted development services, which were previously recorded in selling, general and administrative expenses, have been recorded in cost of sales. These accounting treatments have been changed to present	――――

Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
gains and losses more appropriately. It is because in the three-year medium-term management plan started from the fiscal 2008, leveraging technical expertise to contribute to the profits is one of key operating strategies. In line with this strategy, the costs are able to be ascertained more precisely after the revision of the cost management system. As a result of these changes, consolidated net sales and cost of sales increased by ¥79 million and ¥44 million respectively, and selling, general and administrative expenses decreased by ¥17 million compared to amounts prior to the changes. Operating income, therefore, increased ¥52 million compared to the amounts prior to the changes. The impact of this change on ordinary income, and income before income taxes for fiscal 2009 was immaterial. The impact of this change on business segments is described in segment information for fiscal 2009.	

Changes in presentation methods

Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
(Consolidated statements of income) 1. In fiscal 2008 "Other" under non-operating expenses included "Taxes and dues" (¥5 million). Due to an increase in materiality, however, "Taxes and dues" are presented as a separate item in fiscal 2009. 2. In fiscal 2008 "Reversal of allowance for doubtful accounts"presented as a separate item under extraordinary income, due to a decrease in materiality (¥0 million), however, it is included in "Other" in fiscal 2009. 3. In fiscal 2008 "Other" under extraordinary loss included "Loss on liquidation of business" (¥63 million). Due to an increase in materiality, however, "Loss on liquidation of business" is presented as a separate item in fiscal 2009. 4. In fiscal 2008 "Non-recurring depreciation on fixed assets" presented as a separate item under extraordinary loss., due to a decrease in materiality (¥61 million), however, it is included in "Other" in fiscal 2009. (Consolidated statements of cash flows) 1. In fiscal 2008 "Other" under "cash flows from operating activities" included "Loss (gain) on valuation of investment securities" (¥134 million). Due to an increase in materiality, however, "Loss (gain) on valuation of investment securities" is presented as a separate item in fiscal 2009.	(Consolidated statements of income) 1. In fiscal 2009 "Taxes and dues" presented as a separate item under non-operating expenses,due to a decrease in materiality (¥27 million),however, it is included in "Other" in fiscal 2010. 2. In fiscal 2009 "Gain on sales of investment securities" presented as a separate item under extraordinary income, due to a decrease in materiality (¥5 million), however, it is included in "Other" in fiscal 2010. 3. In fiscal 2009 "Loss on business liquidation " presented as a separate item under extraordinary loss, due to a decrease in materiality (¥80 million), however, it is included in "Other" in fiscal 2010. 4. In fiscal 2009 "Other" under extraordinary loss included "Non-recurring depreciation on fixed assets" (¥61 million). Due to an increase in materiality, however, "Non-recurring depreciation on fixed assets" is presented as a separate item in fiscal 2010. (Consolidated statements of cash flows) 1. In fiscal 2009 "Other" under "cash flows from operating activities" included "Purchase of investment securities" (¥(0) million). Due to an increase in materiality, however, "Purchase of investment securities" is presented as a separate item in fiscal 2010.

Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
2. In fiscal 2008 “Other” under “cash flows from investing activities” included “Purchase of long-term prepaid expenses” (¥(115) million). Due to an increase in materiality, however, “Purchase of long-term prepaid expenses” is presented as a separate item in fiscal 2009.	―

(8) Notes to consolidated financial statements

(Consolidated balance sheets)

<table>
<tr><th>Fiscal 2009
(As of December 31, 2009)</th><th>Fiscal 2010
(As of December 31, 2010)</th></tr>
<tr><td>*1 Investments in non-consolidated subsidiaries and affiliates are as follows.
Investment securities (stocks) ¥0 million</td><td>―</td></tr>
<tr><td>―</td><td>*2 Assets provided as collateral
Assets provided as collateral for operating transactions are as follows.
Cash and deposits ¥27 million</td></tr>
<tr><td>*3 Contingent Liabilities
The following parties’ (individuals) loans procured from financial institutions are guaranteed.
<table>
<tr><th>Guaranteed party</th><th>Amount</th><th>Details</th></tr>
<tr><td>Employees</td><td>¥596 million</td><td>Mortgages, etc.</td></tr>
<tr><td>Pola Art Foundation</td><td>¥375 million</td><td>Equipment loans payable</td></tr>
</table></td><td>*3 Contingent Liabilities
The following party’s (individual) loans procured from financial institutions are guaranteed.
<table>
<tr><th>Guaranteed party</th><th>Amount</th><th>Details</th></tr>
<tr><td>Employees</td><td>¥429 million</td><td>Mortgages, etc.</td></tr>
</table></td></tr>
</table>

(Consolidated statements of income)

Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
*1 Provision for sales returns included in cost of sales in fiscal 2009 Reversal of provision for sales returns ¥197 million Provision for sales returns ¥90 million	*1 Provision for sales returns included in cost of sales in fiscal 2010 Reversal of provision for sales returns ¥90 million Provision for sales returns ¥90 million
*2 R&D expenses included in selling, general and administrative expenses and manufacturing costs in fiscal 2009. ¥4,281 million	*2 R&D expenses included in selling, general and administrative expenses and manufacturing costs in fiscal 2010. ¥3,652 million
*3 Gain on sales of fixed assets consists mainly of ¥44 million for gain on sales of land and ¥3 million for gain on sales of other property, plant and equipment (tools, furniture and fixtures).	*3 Gain on sales of fixed assets consists mainly of ¥300 million for sales of buildings and structures, and ¥237 million for gain on sales of land.
*4 Loss on retirement of fixed assets consists mainly of ¥127 million for retirement of buildings and structures, ¥122 million for retirement of other property, plant and equipment (tools, furniture and fixtures), ¥71 million for retirement of intangible assets (software), and ¥66 million for the withdrawal of office and employee dormitory structures.	*4 Loss on retirement of fixed assets consists mainly of ¥104 million for the withdrawal and demolition of fixed assets, ¥68 million for retirement of buildings and structure,and ¥29 million for retirement of other property, plant and equipment (tools, furniture and fixtures).

Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
*5 Impairment loss	*5 Impairment loss

Fiscal 2009 (January 1, 2009 - December 31, 2009)

*5 Impairment loss

Impairment loss recorded for the assets and asset groups in fiscal 2009 are as follows.

(1) Asset groups and amounts impaired.

Location	Purpose	Type	Amount
Kita Ward, Osaka City (Osaka), Aoba Ward, Sendai City (Miyagi), Kohoku Ward, Yokohama City (Kanagawa), etc.	Stores (Japan)	Buildings and structures, lease assets, other property, plant and equipment, intangible assets, other investments	¥114 million
California (US), etc.	Stores (overseas)	Buildings and structures, other property, plant and equipment, intangible assets	¥38 million
Totsuka Ward, Yokohama City (Kanagawa), etc.	Offices (Japan)	Buildings and structures, other property, plant and equipment, intangible assets, other investments	¥169 million
Seoul (South Korea), etc.	Offices (overseas)	Buildings and structures, other property, plant and equipment, intangible assets	¥65 million
Total			¥387 million

Fiscal 2010 (January 1, 2010 - December 31, 2010)

*5 Impairment loss

Impairment loss recorded for the assets and asset groups in fiscal 2010 are as follows.

(1) Asset groups and amounts impaired.

Location	Purpose	Type	Amount
Nakamura Ward, Nagoya City (Aichi), Kumamoto City (Kumamoto), Shinagawa Ward (Tokyo), etc.	Stores (Japan)	Buildings and structures, other property, plant and equipment, intangible assets, lease assets,	¥84 million
Seoul (South Korea), etc.	Stores (overseas)	Buildings and structures, other property, plant and equipment	¥20 million
Shinagawa Ward (Tokyo)	Office (Japan)	Intangible assets	¥28 million
Shanghai City (China)	Office (overseas)	Buildings and structures, intangible assets	¥1 million
Ashigara Shimo-gun (Kanagawa)	Idle assets	Buildings and structures, other property, plant and equipment, land	¥38 million
Total			¥172 million

<table>
<tr><th>Fiscal 2009
(January 1, 2009 -
December 31, 2009)</th><th>Fiscal 2010
(January 1, 2010 -
December 31, 2010)</th></tr>
<tr><td>(2) Recognition of impairment loss
The book value of an asset group has been written down to the recoverable amount when operating losses had been continuously recorded and total estimated future cash flows are less than book values. The amount of the write-down is recorded under extraordinary losses as impairment loss.

(3) Asset grouping method
Grouping is primarily based on business operations for which profit and loss information has been continuously recorded and is performed on a store or office basis.

(4) Calculation of recoverable amount
Recoverable amount of an asset group for stores and offices is measured by using value-in-use based on future cash flows. For stores and offices scheduled for closure,the recoverable amount is measured by using net sales value based on the expected amount for sale.
Value-in-use is assessed as zero because no future cash flows is expected to arise.

*6 Loss on liquidation of business
Loss on business liquidation related to the liquidation and withdrawals of offices.of foreign consolidated subsidiaries is broken down as follows.
Loss on valuation of inventories ¥79 million
Early extra retirement payments ¥50 million
Lease cancellation penalties related to withdrawals of offices ¥47 million
Provision of allowance for doubtful accounts, etc. ¥105 million
Total ¥282 million

―――――</td>
<td>(2) Recognition of impairment loss
The book value of an asset group has been written down to the recoverable amount when operating losses had been continuously recorded and total estimated future cash flows are less than book values. While the book value of idle assets scheduled for sale has been written down to the recoverable amount. The amount of the write-down is recorded under extraordinary losses as impairment loss.
(3) Asset grouping method
Grouping is primarily based on business operations for which profit and loss information has been continuously recorded and is performed on a store or office basis. Idle assets are grouped on an individual property basis.
(4) Calculation of recoverable amount
Recoverable amount of an asset group for stores and offices is measured by using value-in-use based on future cash flows. For stores and offices scheduled for closure,the recoverable amount is measured by using net sales value based on the expected amount for sale. Recoverable amount of idle assets is measured by using net sales value based on real estate appraisal values.
Value-in-use is assessed as zero because no future cash flows is expected to arise.

―――――

*7 Loss on reduction of fixed assets
Loss on reduction of fixed assets is the amount directly reduced from the acquisition cost of substitute assets..
Buildings and structures ¥318 million
Land ¥198 million
Other property, plant and equipment ¥0 million
Total ¥517 million</td></tr>
</table>

Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
―――――	*8 Non-recurring depreciation on fixed assets Non-recurring depreciation on fixed assets arose after reviewing the useful life of the assets to be retired comprises the following items. Buildings and structures ¥335 million Machinery, equipment and vehicles ¥1 million Other property, plant and equipment ¥3 million Total ¥341 million

(Consolidated statements of changes in net assets)

Fiscal 2009 (January 1, 2009 – December 31, 2009)

1. Type and number of shares issued

Type of shares	Number of shares as of end-fiscal 2008	Increase year on year	Decrease year on year	Number of shares as of end-fiscal 2009
Common stock (shares)	161,592,296	—	—	161,592,296

2. Type and number of treasury stock

Type of shares	Number of shares as of end-fiscal 2008	Increase year on year	Decrease year on year	Number of shares as of end-fiscal 2009
Common stock (shares)	110,308,257	—	—	110,308,257

3. Dividends

(1) Dividends paid

Resolution	Type of shares	Total dividends paid	Dividend per share	Record date	Effective date
General Meeting of Shareholders held on March 30, 2009	Common stock	¥1,025 million	¥20.00	December 31, 2008	March 31, 2009

(2) Of dividends whose record date is included in fiscal 2009, but whose effective date will be after December 31, 2009

Resolution	Type of shares	Source of dividends	Total dividends paid	Dividend per share	Record date	Effective date
General Meeting of Shareholders held on March 30, 2010	Common stock	Retained earnings	¥1,025 million	¥20.00	December 31, 2009	March 31, 2010

Fiscal 2010 (January 1, 2010 – December 31, 2010)

1. Type and number of shares issued

Type of shares	Number of shares as of end-fiscal 2009	Increase year on year	Decrease year on year	Number of shares as of end-fiscal 2010
Common stock (shares)	161,592,296	—	104,308,257	57,284,039

(Major reason for the change)

Major reason for the decrease in the number of shares is shown below.

Decrease due to retirement of treasury stock 104,308,257 shares

2. Type and number of treasury stock

Type of shares	Number of shares as of end-fiscal 2009	Increase year on year	Decrease year on year	Number of shares as of end-fiscal 2010
Common stock (shares)	110,308,257	—	108,308,257	2,000,000

(Major reasons for the change)

Major reasons for the decrease in the number of shares are shown below.

Decrease due to retirement of treasury stock 104,308,257 shares

Decrease due to disposal of treasury stock 4,000,000 shares

3. Dividends

(1) Dividends paid

Resolution	Type of shares	Total dividends paid	Dividend per share	Record date	Effective date
General Meeting of Shareholders held on March 30, 2010	Common stock	¥1,025 million	¥20.00	December 31, 2009	March 31, 2010

(2) Of dividends whose record date is included in fiscal 2010, but whose effective date will be after December 31, 2010

Resolution	Type of shares	Source of dividends	Total dividends paid	Dividend per share	Record date	Effective date
General Meeting of Shareholders held on March 30, 2011	Common stock	Retained earnings	¥2,211 million	¥40.00	December 31, 2010	March 31, 2011

(Consolidated statements of cash flows)

<table>
<tr><th>Fiscal 2009
(January 1, 2009 - December 31, 2009)</th><th>Fiscal 2010
(January 1, 2010 - December 31, 2010)</th></tr>
<tr><td>*1 Reconciliation between year-end balance of cash and cash equivalents and balance of “Cash and deposits” on the consolidated balance sheets

(Millions of yen)
Cash and deposits: 42,132
Short-term investment securities: 30,984
Total: 73,117
Time deposits with maturities exceeding three months: (2,480)
Stocks and bonds with maturities exceeding three months, etc.: (1,819)
Cash and cash equivalents: 68,817

*2 Significant non-cash transactions
Assets and liabilities related to finance lease transactions booked during fiscal 2009 are ¥819 million respectively.</td><td>*1 Reconciliation between year-end balance of cash and cash equivalents and balance of “Cash and deposits” on the consolidated balance sheets

(Millions of yen)
Cash and deposits: 34,678
Short-term investment securities: 32,169
Total: 66,847
Time deposits with maturities exceeding three months: (1,170)
Stocks and bonds with maturities exceeding three months, etc.: (22,169)
Cash and cash equivalents: 43,507

*2 Significant non-cash transactions
Assets and liabilities related to finance lease transactions booked during fiscal 2010 are ¥893 million respectively.</td></tr>
</table>

(Segment information)

1. Business segment information

Fiscal 2009 (January 1, 2009 – December 31, 2009)

(Millions of yen)

	Cosmetics	Fashion	Pharmaceuticals	Real Estate	Others	Total	Elimination or corporate	Consolidated
I Net sales and operating income								
Net sales								
(1) Sales to external customers	136,219	14,137	6,744	3,216	2,014	162,332	—	162,332
(2) Intersegment sales and transfers	7	0	42	474	6,352	6,876	(6,876)	—
Total	136,226	14,137	6,787	3,691	8,366	169,209	(6,876)	162,332
Operating expenses	127,805	14,485	8,172	2,092	7,914	160,470	(7,843)	152,626
Operating income (loss)	8,420	(347)	(1,384)	1,598	452	8,739	966	9,706
II Total assets, depreciation and amortization, impairment loss and capital expenditures:								
Total assets	29,715	8,514	2,352	17,641	4,073	62,297	119,612	181,909
Depreciation and amortization	3,714	168	386	582	71	4,923	50	4,973
Impairment loss	285	—	103	—	—	388	(1)	387
Capital expenditures	6,367	421	437	1,151	43	8,422	216	8,639

Notes: 1. Business segments are classified for internal management purposes.

2. Primary products for each business segment:

(1) Cosmetics: Cosmetics (***BA*** series, ***APEX-i***, ***Aqua Force***, ***Clear, Pure Natural***, ***White Diamante***, ***Sowan Hypnotique***, ***"Tsutsumu"*** Series, ***THREE***), health foods (***KENBISANSEN***)

(2) Fashion: Ladies' underwear (***Sofical***), ladies' apparel (***amian***, ***Crea+mure***), jewelry (***LA VIE D'OR***)

(3) Pharmaceuticals: Pharmaceutical products (***Lulicon Cream 1%***, ***Lulicon Solution 1%***, ***Alosenn***)

(4) Real Estate: Office buildings for lease

(5) Others: Printing, and building maintenance, etc.

3. Operating expenses include unallocable operating expenses (¥1,904 million), under "Elimination or corporate," which mainly consist of the Company's administrative expenses.

4. Assets include corporate assets (¥123,964 million), under "Elimination or corporate," which mainly consist of surplus funds (cash and deposits, short-term investment securities), long-term investments (investment securities), at the Company and assets related to administrative operations.

5. Depreciation and amortization and capital expenditures include amortization and expenditure additions relating to long-term prepaid expenses, respectively.

6. Depreciation and amortization for the Real Estate business include non-recurring depreciation (¥61 million).

7. As discussed under "Changes to the basis for the preparation of consolidated financial statements," revenues from sales of supplies (cosmetics manufacturing equipment) and from subcontracted development were previously recorded as non-operating income. However, beginning with fiscal 2009, such revenues were recognized as net sales. In addition, expenses related to revenues from sales of supplies (cosmetics manufacturing equipment), which were previously recorded as non-operating expenses, and expenses related to revenues from subcontracted development services, which were previously recorded in selling, general and administrative expenses, were recorded in cost of sales.

As a result of these changes, consolidated net sales and operating income for the Cosmetics business increased by ¥79 million and ¥52 million respectively.

8. As discussed under "Changes to the basis for the preparation of consolidated financial statements," useful lives based on the revision to the Corporation Tax Act of Japan in 2008 have been applied for the Company and its domestic consolidated subsidiaries' machinery and equipment for fiscal 2009.

As a result of these changes, operating income is down by ¥29 million for the Cosmetics business, ¥3 million for the Real Estate business, and ¥10 million for the Others business, while operating loss is up by ¥0 million for the Fashion business, and down by ¥4 million for the Pharmaceuticals business.

Fiscal 2010 (January 1, 2010 – December 31, 2010)

(Millions of yen)

	Cosmetics	Fashion	Pharmaceuticals	Real Estate	Others	Total	Elimination or corporate	Consolidated
I Net sales and operating income								
Net sales								
(1) Sales to external customers	139,660	13,453	6,936	3,102	2,101	165,253	—	165,253
(2) Intersegment sales and transfer	50	0	—	673	6,142	6,865	(6,865)	—
Total	139,710	13,453	6,936	3,775	8,243	172,119	(6,865)	165,253
Operating expenses	129,237	13,905	7,286	2,471	7,843	160,743	(7,761)	152,982
Operating income (loss)	10,472	(452)	(349)	1,304	399	11,375	895	12,270
II Total assets, depreciation and amortization impairment loss, and capital expenditures:								
Total assets	39,566	6,514	2,419	16,434	4,420	69,355	118,416	187,771
Depreciation and amortization	4,245	135	259	561	68	5,270	90	5,361
Impairment loss	172	—	—	—	—	172	(0)	172
Capital expenditures	3,716	88	183	2,249	22	6,260	(15)	6,245

Notes: 1. Business segments are classified for internal management purposes.

2. Primary products for each business segment:

(1) Cosmetics: Cosmetics (***BA*** series, ***APEX-i***, ***Aqua Force***, ***Clear, Pure Natural***, ***White Diamante***, ***Sowan Hypnotique***, ***"Tsutsumu"*** Series, ***THREE***), health foods (***KENBISANSEN***)

(2) Fashion: Ladies' underwear (***Sofical***), ladies' apparel (***amian***, ***Crea+mure***), jewelry (***LA VIE D'OR***)

(3) Pharmaceuticals: Pharmaceutical products (***Lulicon Cream 1%***, ***Lulicon Solution 1%***, ***Alosenn***)

(4) Real Estate: Office buildings and residential properties for lease.

(5) Others: Printing, and building maintenance, etc.

3. Operating expenses include unallocable operating expenses (¥1,906 million), under "Elimination or corporate," which mainly consist of the Company's administrative expenses.

4. Assets include corporate assets (¥156,506 million), under "Elimination or corporate," which mainly consist of surplus funds (cash and deposits, and short-term investment securities), long-term investments (investment securities) at the Company, and assets related to administrative operations.

5. Depreciation and amortization and capital expenditures include amortization and expenditure additions of long-term prepaid expenses, respectively.

6. Depreciation and amortization for the Cosmetics business include non-recurring depreciation (¥341 million).

2. Geographical segment information

Fiscal 2009 (January 1, 2009 – December 31, 2009)

Geographical segment information is omitted, as both sales and assets of the domestic segment account for more than 90% of the total sales and assets of all segments.

Fiscal 2010 (January 1, 2010 – December 31, 2010)

Geographical segment information is omitted, as both sales and assets of the domestic segment account for more than 90% of the total sales and assets of all segments.

3. Overseas sales

Fiscal 2009 (January 1, 2009 – December 31, 2009)

Overseas sales are omitted, as overseas sales account for less than 10% of the consolidated net sales.

Fiscal 2010 (January 1, 2010 – December 31, 2010)

Overseas sales are omitted, as overseas sales account for less than 10% of the consolidated net sales.

(Investment and rental property)

Fiscal 2010 (January 1, 2010 - December 31, 2010)

(Additional information)

Effective from fiscal 2010, “Accounting Standard for Disclosures about Fair Value of Investment and Rental Property” (ASBJ Statement No.20, issued on November 28, 2008) and “Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property” (ASBJ Guidance No.23, issued on November 28, 2008) have been adopted.

The Group owns office buildings and residential properties for lease in Tokyo and other areas. In fiscal 2010, net rental income is ¥1,507 million (rental income is recorded under sales and non-operating income, while rental expenses are recorded under cost of sales, selling, general and administrative expenses, and non-operating expenses). Impairment loss of ¥38 million and non-recurring depreciation of ¥341 million are recorded respectively under extraordinary losses from these leasing properties.

The carrying amounts on the consolidated balance sheets, net change during fiscal 2010, the fair value of those properties and the method used for calculating the fair value of investment and rental properties are stated below.

(Millions of yen)

Carrying amount			Fair value at end-of fiscal 2010
Balance at end-of fiscal 2009	Net increase	Balance at end-of fiscal 2010	
23,417	649	24,067	45,348

Notes: 1. The carrying amounts present acquisition cost less accumulated depreciation and accumulated impairment loss.

2. Components of net change

Increase: Acquisition of residential properties for lease: ¥1,393 million

Refurbishment of office buildings: for lease ¥244 million

Decrease: Impairment loss and non-recurring depreciation on idle assets: ¥373 million

Depreciation on office buildings and residential properties for lease ¥588 million

3. Method for calculating fair value

The fair values of the major properties are determined at the amounts using appraisal certificates provided by outside real estate assessors.

For the other properties,however,the fair value of land is determined at the amount adjusted using the indices that are considered to properly reflect market price,.the fair values of depreciable assets such as buildings are determined at the carrying amounts. For the properties acquired in fiscal 2010, the fair values are determined at the carrying amounts due to minimal fluctuation on fair values.

(Per share information)

Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
Net assets per share ¥2,743.87 Net income per share ¥79.16 Diluted net income per share has not been stated because there are no residual securities.	Net assets per share ¥2,767.55 Net income per share ¥137.36 Diluted net income per share has not been stated because there are no residual securities.

Note: Basis for calculation:

1. Net assets per share

Item	Fiscal 2009 (As of December 31, 2009)	Fiscal 2010 (As of December 31, 2010)
Total net assets (millions of yen)	140,890	153,104
Amount deducted from total net assets (millions of yen)	173	103
[Of which, minority interests (millions of yen)]	(173)	(103)
Net assets associated with common stock (millions of yen)	140,716	153,001
Number of shares of outstanding common stock	161,592,296	57,284,039
Number of treasury stock of common stock	110,308,257	2,000,000
Number of shares of common stock used in the calculation of net assets per share	51,284,039	55,284,039

2. Net income per share

Item	Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
Net income (millions of yen)	4,059	7,086
Net income associated with common stock (millions of yen)	4,059	7,086
Amounts not attributable to shareholders of common stock (millions of yen)	—	—
Weighted average number of shares of common stock during the fiscal year	51,284,039	51,591,731

(Significant subsequent events)

Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
(Retirement of treasury stock) On May 26, 2010, the Board of Directors of the Company resolved to retire treasury stock in accordance with Article 178 of the Companies Act, and exercised as follows: 1. Reason for retirement To increase shareholder value through the reduction of the total number of shares issued 2. Method of retirement Reduction from capital surplus 3. Type of shares to be retired Common stock of the Company 4. Number of shares to be retired 104,308,257 shares 5. Retirement procedure completion date May 26, 2010 6. Total number of shares outstanding after the retirement 57,284,039 shares	――――

(Omission of disclosures)

Disclosure of notes to Transactions with related parties, Lease transactions, Fair value of financial instruments, Income taxes, Securities, Derivative transactions and Retirement benefits has been omitted because the significance of disclosing such items in this document is deemed to be low..

5. Nonconsolidated financial statements

(1) Balance sheets

(Millions of yen)

	Fiscal 2009 (As of December 31, 2009)	Fiscal 2010 (As of December 31, 2010)
Assets		
Current assets		
Cash and deposits	2,902	20,081
Short-term investment securities	28,998	31,437
Short-term loans receivable from subsidiaries and affiliates	450	1,000
Prepaid expenses	4	5
Deferred tax assets	2,655	150
Accounts receivable – other	1,468	3,892
Other	9	6
Total current assets	36,488	56,574
Fixed assets		
Property, plant and equipment		
Buildings	73	73
Accumulated depreciation	(4)	(12)
Buildings, net	69	61
Vehicles	2	2
Accumulated depreciation	(2)	(2)
Vehicles, net	0	0
Tools, furniture and fixtures	141	149
Accumulated depreciation	(53)	(85)
Tools, furniture and fixtures, net	87	64
Paintings and art works	7,603	7,603
Total property, plant and equipment	7,760	7,729
Intangible assets		
Right of trademark	4	3
Software	349	259
Other	0	19
Total intangible assets	354	282
Investments and other assets		
Investment securities	1,983	17,525
Stocks of subsidiaries and affiliates	69,739	69,739
Long-term loans receivable from subsidiaries and affiliates	10,700	10,950
Long-term prepaid expenses	0	—
Deferred tax assets	603	431
Other	117	111
Allowance for doubtful accounts	(1,121)	(2,312)
Total investment and other assets	82,023	96,445
Total fixed assets	90,138	104,457
Total assets	126,626	161,032

(Millions of yen)

	Fiscal 2009 (As of December 31, 2009)	Fiscal 2010 (As of December 31, 2010)
Liabilities		
Current liabilities		
Short-term loans payable	10,000	1,500
Short-term loans payable to subsidiaries and affiliates	—	35,116
Accounts payable – other	1,063	775
Income taxes payable	4	5
Provision for bonuses	98	121
Provision for directors' bonuses	5	16
Other	27	31
Total current liabilities	11,198	37,567
Long-term liabilities		
Provision for retirement benefits	868	861
Provision for directors' retirement benefits	43	63
Total long-term liabilities	911	924
Total liabilities	12,110	38,492
Net assets		
Shareholders' equity		
Common stock	10,000	10,000
Capital surplus		
Other capital surplus	203,036	90,244
Total capital surplus	203,036	90,244
Retained earnings		
Legal retained earnings	153	256
Other retained earnings		
Retained earnings brought forward	22,834	24,036
Total retained earnings	22,987	24,292
Treasury stock	(121,775)	(2,207)
Total shareholders' equity	114,249	122,329
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	267	210
Total valuation and translation adjustments	267	210
Total net assets	114,516	122,539
Total liabilities and net assets	126,626	161,032

(2) Statements of income

(Millions of yen)

	Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
Net sales		
Management fee income	2,946	2,844
Dividend income from subsidiaries and affiliates	2,460	2,492
Total net sales	5,406	5,336
Selling, general and administrative expenses		
Directors' compensations	168	179
Salaries, allowances and bonuses	504	551
Provision for bonuses	98	121
Provision for directors' bonuses	5	16
Provision for directors' retirement benefits	25	19
Taxes and dues	15	16
Depreciation and amortization	110	148
Rent expenses	155	147
Contribution	242	176
Business consignment expenses	620	461
Other	342	387
Total selling, general and administrative expenses	2,288	2,226
Operating income	3,117	3,109
Non-operating income		
Interest income	252	259
Interest on securities	128	346
Dividend income	37	40
Interest on refund of income taxes and other	28	—
Other	8	12
Total non-operating income	456	658
Non-operating expenses		
Interest expense	—	119
Going public expenses	—	65
Loss on valuation of investment securities	3	—
Taxes and dues	12	—
Office transfer expenses	10	—
Other	2	12
Total non-operating expenses	29	197
Ordinary income	3,544	3,570

(Millions of yen)

	Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
Extraordinary income		
Gain on sales of golf memberships	—	2
Total extraordinary income	—	2
Extraordinary losses		
Loss on retirement of fixed assets	25	—
Loss on valuation of investment securities	846	—
Loss on valuation of stocks of subsidiaries and affiliates	1,582	—
Provision of allowance for doubtful accounts	957	1,194
Other	0	0
Total extraordinary losses	3,412	1,194
Income before income taxes	132	2,378
Income taxes – current	(1,408)	(2,644)
Income taxes – deferred	1,953	2,693
Total income taxes	544	48
Net income (loss)	(412)	2,330

(3) Statements of changes in net assets

(Millions of yen)

	Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
Shareholders' equity		
Common stock		
Balance at the beginning of the period	10,000	10,000
Balance at the end of the period	10,000	10,000
Capital surplus		
Other capital surplus		
Balance at the beginning of the period	203,036	203,036
Changes of items during the period		
Disposal of treasury stock	—	2,359
Retirement of treasury stock	—	(115,151)
Total changes of items during the period	—	(112,792)
Balance at the end of the period	203,036	90,244
Total capital surplus		
Balance at the beginning of the period	203,036	203,036
Changes of items during the period		
Disposal of treasury stock	—	2,359
Retirement of treasury stock	—	(115,151)
Total changes of items during the period	—	(112,792)
Balance at the end of the period	203,036	90,244
Retained earnings		
Legal retained earnings		
Balance at the beginning of the period	51	153
Changes of items during the period		
Dividends from retained earnings	102	102
Total changes of items during the period	102	102
Balance at the end of the period	153	256
Other retained earnings		
Retained earnings brought forward		
Balance at the beginning of the period	24,374	22,834
Balance at the end of the period		
Dividends from retained earnings	(1,128)	(1,128)
Net income (loss)	(412)	2,330
Total changes of items during the period	(1,540)	1,202
Balance at the end of the period	22,834	24,036
Total retained earnings		
Balance at the beginning of the period	24,426	22,987
Changes of items during the period		
Dividends from retained earnings	(1,025)	(1,025)
Net income (loss)	(412)	2,330
Total changes of items during the period	(1,438)	1,304
Balance at the end of the period	22,987	24,292

(Millions of yen)

	Fiscal 2009 (January 1, 2009 - December 31, 2009)	Fiscal 2010 (January 1, 2010 - December 31, 2010)
Treasury stock		
Balance at the beginning of the period	(121,775)	(121,775)
Changes of items during the period		
Disposal of treasury stock	—	4,415
Retirement of treasury stock	—	115,151
Total changes of items during the period	—	119,567
Balance at the end of the period	(121,775)	(2,207)
Total shareholders' equity		
Balance at the beginning of the period	115,687	114,249
Changes of items during the period		
Dividends from retained earnings	(1,025)	(1,025)
Net income (loss)	(412)	2,330
Disposal of treasury stock	—	6,775
Retirement of treasury stock	—	—
Total changes of items during the period	(1,438)	8,079
Balance at the end of the period	114,249	122,329
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance at the beginning of the period	(229)	267
Changes of items during the period		
Net changes of items other than shareholders' equity	496	(57)
Total changes of items during the period	496	(57)
Balance at the end of the period	267	210
Total valuation and translation adjustments		
Balance at the beginning of the period	(229)	267
Changes of items during the period		
Net changes of items other than shareholders' equity	496	(57)
Total changes of items during the period	496	(57)
Balance at the end of the period	267	210
Total net assets		
Balance at the beginning of the period	115,458	114,516
Changes of items during the period		
Dividends from retained earnings	(1,025)	(1,025)
Net income (loss)	(412)	2,330
Disposal of treasury stock	—	6,775
Retirement of treasury stock	—	—
Net changes of items other than shareholders' equity	496	(57)
Total changes of items during the period	(941)	8,022
Balance at the end of the period	114,516	122,539

(4) Notes on assumptions for going concern

Not applicable.

6. Other

(1) Change in directors

Not applicable

(2) Other

Not applicable