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# Fiscal Year Ending March 2008 First Quarter Earnings Announcement

UNITED ARROWS LTD.

www.united-arrows.co.jp



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II. Progress of Important Tasks, etc.

※ In this material, a fractional sum less than one million yen in disregarded and percentage is calculated from raw data.

[ Cautionary statement ]

Business performance forecasts and objective views stated in this material are based on decisions made from information that UNITED ARROWS LTD. could obtain at present, and therefore include risks and uncertainty. Thus, please refrain from making investment decisions fully depending on this material. Please bear in mind that actual business performance can change largely depending on worldwide economy, market conditions, currency fluctuation, etc.

[ Indication of business in this material ]

\*Abbreviation of each business, structure of business are as below;

Main business pillars = UNITED ARROWS: UA, green label relaxing: GLR, CHROME HEARTS: CH

Small Business Units: S.B.U. = Another Edition: AE, Jewel Changes : JC, Odette é Odile UNITED ARROWS: OEO, DRAWER: DRW, DARJEELING DAYS: DD, Disney Loved By Nature for UNITED ARROWS: DLN

UA Labs = TOKISHIRAZU: TSZ, Liquor,woman&tears: LWT

# I. Overview of Business Results in 1Q

# 1 . P/L Overview (Consolidated/Non-consolidated, 3 months aggregate)

•Consolidated sales ¥16,354 million (123.1% YoY), recurring profit ¥1,725 million (89.7% YoY)

•Net income for the quarter ¥2,474 million (230.1% YoY)

					_						(mill	ion yen)
	Consolidated Results			<cf> cf. Non-consoli</cf>			dated Re	esults	<cf></cf>			
	FYE Mar/08 1Q			Consolidated YoY FYE Mar			ır/08 1Q		Alone YoY			
	Results		+/- YoY		Results		Results		+/- YoY		Results	
	Results	vs Sales		YoY		vs Sales	Results	vs Sales		YoY		vs Sales
Sales	16,354	100.0%	3,072	123.1%	13,281	100.0%	15,660	100.0%	2,977	123.5%	12,683	100.0%
					1							
Gross Profit	9,015	55.1%	1,327	117.3%	7,688	57.9%	8,657	55.3%	1,302	117.7%	7,354	58.0%
SGA Expenses	7,315	44.7%	1,554	127.0%	5,760	43.4%	7,013	44.8%	1,525	127.8%	5,488	43.3%
Operating Profit	1,700	10.4%	▲ 227	88.2%	1,927	14.5%	1,643	10.5%	▲ 222	88.1%	1,865	14.7%
Non Op. P/L	25	0.2%	28	-	▲ 3	0.0%	29	0.2%	25	776.6%	3	0.0%
Recurring Profit	1,725	10.6%	▲ 198	89.7%	1,924	14.5%	1,672	10.7%	▲ 196	89.5%	1,869	14.7%
Extraordinary P/L	2,531	15.5%	2,560	-	▲ 28	-0.2%	2,533	16.2%	2,533	-	0	0.0%
Net Income	2,474	15.1%	1,399	230.1%	1,075	8.1%	2,481	15.9%	1,384	226.2%	1,097	8.6%



# <u>×Summary of P/L</u>

#### ✓ Sales

 $\rightarrow$  Sales were stronger by 2% compared to initial plans due to earlier start of summer bargain sales, etc.

#### ✓ Gross Profit

 $\rightarrow$  Gross profit margin declined by 2.8 points to 55.1% compared to the 1Q in the previous term due to earlier start of summer bargain sales.

→ Gross profit (in amount) was higher than internal projections.

#### ✓ SGA Expenses

 $\rightarrow$  SGA margin was higher than the 1Q in the previous year due to expansion of recruitment of new graduates and opening of new large scale stores.

 $\rightarrow$  SGA expenses (in amount) was lower than internal projections due to expenses carried over to 2Q, etc.

#### ✓ Operating Profit, Recurring Profit

→ Each profit after operating profit was higher than internal projections.

→ However, higher profit result was due to earlier start of summer bargain sales and expenses carried over, thus earnings forecast for the interim and full term are as projected at the beginning of the term.

#### ✓ Net Income for 1Q

 $\rightarrow$  Net income increased by 230.1% YoY due to proceed from sale of fixed assets (approx. ¥2.5 billion) posted as extraordinary profit.

# 2 . Sales Overview (Consolidated/Non-consolidated, 3 months aggregate)

- Non-consolidated sales were 123.5% YoY, 102.3% of initial plan at ¥15,660 million.
- Total business unit sales were 102.8% of initial plan at ¥14,164 million.
- Existing store sales (aggregate 3 months) were 111.0% YoY.

	FYE Mar	<sup>.</sup> ch/08 1Q	(million yen) <cf></cf>				
	Results	YoY +/-	YoY	vs Plan +/	- vs Plan	Previous 1Q	Plan
Consolidated Total Sales	16,354	3,072	123.1%	_	-	13,281	-
UA Alone Total Sales	15,660	2,977	123.5%	344	102.3%	12,683	15,315
Business Unit Total	14,164	2,581	122.3%	383	102.8%	11,583	13,780
UA business	8,246	1,383	120.2%	478	106.2%	6,862	7,767
GLR business	2,950	425	116.9%	▲ 93	96.9%	2,525	3,043
CH business	798	88	112.5%	65	108.9%	710	733
S.B.U. and UA Labs	2,168	683	146.0%	▲ 67	97.0%	1,485	2,236
Outlet	1,496	396	136.0%	▲ 38	97.5%	1,100	1,535
Existing Stores		_	111.0%			98.3%	
UA existing			112.0%			96.6%	
GLR existing		-	105.0%			97.8%	
CH existing		_	112.1%			96.0%	
S.B.U. and UA Labs existing			117.1%			114.9%	

# 3. B/S Overview as of June 30, 2007 (Consolidated/Non-consolidated)

• Consolidated total assets were 111.0% YoY at ¥38,203 million, non-consolidated total assets were 110.8% at ¥37,561 million.

			(million yen)	(million yen)		
	Consolid	ated Results	<cf></cf>	cf: Non-cons	<cf></cf>	
	(FYE M	arch/08 1Q)	Alone 1Q YoY	(FYE M	Alone 1Q YoY	
	Composition	YoY +/-	Composition	Composition	YoY +/-	Composition
	Results	YoY	Results	Results	YoY	Results
	100.0%		100.0%	100.0%		100.0%
Total Assets	38,203	3,787 111.0%	34,416	37,561	3,666 110.8%	33,894
	62.3%		65.3%	59.5%		62.8%
Current Assets	23,789	<b>1,327</b> 105.9%	22,461	22,334	1,039 104.9%	21,294
	37.7%		34.7%	40.5%		37.2%
Fixed Assets	14,414	2,459 120.6%	11,954	15,227	2,627 120.9%	12,600
	15.3%		15.6%	15.2%		15.8%
Tangible Fixed Assets	5,866	488 109.1%	5,377	5,729	<b>381</b> 107.1%	5,348
	7.6%		5.6%	4.9%		1.7%
Intangible Fixed Assets	2,891	954 149.3%	1,937	1,849	<b>1,269</b> 319.0%	579
	14.8%		13.5%	20.4%		19.7%
Investments, etc	5,656	1,016 121.9%	4,640	7,648	976 114.6%	6,672
	40.4%		36.4%	39.4%		35.5%
Current Liabilities	15,421	2,901 123.2%	12,519	14,790	2,758 122.9%	12,032
	7.7%		19.1%	7.8%		19.4%
Fixed Liabilities	2,945	<b>▲ 3,627</b> 44.8%	6,573	2,941	<b>▲ 3,618</b> 44.8%	6,559
Net Assets	51.9%		44.5%	52.8%		45.1%
(Shareholders' Equity)	19,837	4,513 129.5%	15,323	19,830	4,527 129.6%	15,302

# <u> XConsolidated B/S compared to end of 1Q in the previous term</u>

#### ✓ Current Assets

 $\rightarrow$  Cash and deposits decreased by approx. ¥4.2 billion to ¥2.2 billion due to repayment of bank borrowings, investment and increase in purchase, etc.

→ Inventory assets increased by approx. ¥3.5 billion to ¥14.9 billion due to sales expansion.

→ Short term accounts receivable from commercial facilities and credit card companies increased by approx. ¥1.6 billion due to sales expansion.

#### ✓ Tangible/Intangible Fixed Assets and Investments, etc.

→ Increase in tangible fixed assets due to investment in operating facilities by approx. ¥1.0 billion.

→ Land decreased by approx. ¥500 million due to sale of property in April 2007.

 $\rightarrow$  Intangible fixed assets increased by approx. ¥1.0 billion due to purchase of operational surface right in the 2Q of the previous term.

 $\rightarrow$  Guarantee money deposited increased by approx. ¥900 million due to increase of store openings.

#### ✓ Current Liabilities and Fixed Liabilities

 $\rightarrow$  Accounts payable increased by approx. ¥1.8 billion due to expansion of business.

 $\rightarrow$  Short and long term borrowing declined by approx. ¥3.9 billion and balance was approx. ¥6.3 billion as of end of 1Q.

 $\rightarrow$  Income tax payable increased by approx. ¥1.0 billion due to posting of proceeds from sale of fixed assets.

## 4 . Plans of store openings (removal) / transfer / extension (Non-consolidated)

▼NU	mpe		Number of New stores planned				Transfer	※Planned FYE Mar/07	renewals/extensions Planned transfer/renewal/extension		
			Stores	Full term	1H	2H	/Close	Estimate	Full term	1H	2H
		Total	104	36	22	14	_1	139	9	6	3
		UA Biz. Total	31	9	6	3		40	3	2	1
		Existing UA	19					19	3	2	1
Core	UA	UA Label Image Store	5	4	3	1		9			
		New UA	4	3	2	1		7			
		B&Y	3	2	1	1		5			
Biz.		GLR Biz. Total	32	8	5	3		40	2	1	1
	GLR	GLR	27	8	5	3		35	2	1	1
	GLR New Form		5					5			
	СН		3	1		1		4			
		S.B.U. and UA Labs Total	38	18	11	7	1	55	4	3	1
		Another Edition	11	2	1	1		13	2	1	1
		Jewel Changes	3	3	1	2		6			
S.B.U	S.B.U	Odette é Odile	11	6	5	1		17	1	1	
and		DRAWER	4	1	0	1		5	1	1	
JA Labs	5	DARJEELING DAYS	4					4			
		Disney Loved By Nature for UA	2	1		1		3			
		New S.B.U.	0	2	1	1		2			
	UA Lab	TOKISHIRAZU	2	3	3		1	4			
		Liquor,woman&tears	1					1			

\*\* UA Label Image Store = At the beginning of the term (THE SOVEREIGN HOUSE: 1, District UNITED ARROWS: 1, Cath Kidston: 1)

#### FYE March 2008

Full term estimate

- •New stores: 36
- •Close: 1
- •Total stores at term end: 139

#### Changes from previous announcement in May 2007

3 GLR stores to be opened
in first half of the fiscal year
(initial Oct plan changed to Sep)
4 S.B.U. stores to be opened
in the second half of the fiscal
year (initial Sep plan changed to Oct or Nov)

•1 TOKISHIRAZU store to be

additionally opened.

#### Cf. Details of Store Openings/Transfer/Removal (Definite Projects only)

\*Details of Store Openings/Transfer/Removal for FYE March 2008 (Definate Projects only, cell in yellow are newly confirmed openings)

	Business unit	Outline	Timing	Store name	Name of facility	Space (m²)	Opening day (*est)
UA	New UA	new	Apr	MARUNOUCHI	SHIN-MARUNOUCHI BUILDING	total space 536.9	27-Apr-07
		new	Sep	GINZA	MARROINNIER GATE	total space 780.5	1-Sep-07
		new	Sep	ROPPONGI MEN'S STORE	<b>ROPPONGI HILLS</b>	total space approx. 429.0	7-Sep-07
		new	Oct	ΟΜΙΥΑ	LUMINE Omiya	total space 383.8	14-Oct-07
	B&Y	new	Aug	SHIBUYA CAT STREET	former Changes UA	total space 379.2	17-Aug-07
		new	Sep	MACHIDA	LUMINE Machida	total space approx. 429.0	10-Sep-07
		new	Oct	ΟΜΙΥΑ	LUMINE Omiya	total space 408.2	14-Oct-07
	Label Image Store	new	Sep	Cath Kidston Nagoya	Lachic	total space approx. 92.4	7-Sep-07
GLR	GLR General	new	Sep	hoshigaoka	Hoshigaoka Terrace	total space 383.5	Sep-07
	Store	new	Sep	ueno	atré Ueno	total space 263.3	4-Sep-07
		new	Sep	hiroshima	pacela	total space 330.0	Sep-07
		new	Sep	kagoshima	AMU PLAZA KAGOSHIMA	total space approx. 297.0	7-Sep-07
		new	Sep	nagasaki	AMU PLAZA NAGASAKI	total space approx. 198.0	14-Sep-07
		new	Oct	abeno	Ноор	total space approx. 323.4	Early Oct, 2007
		new	Oct	urawa	Urawa PARCO	total space 369.9	Oct-07
		new	Fall	yokohama sotetsu joinus	SOTETSU JOINUS	total space 163.7	Autumn 2007
S.B.U.	Another Edition	new	Sep	Shinsaibashi	SHINSAIBASHI OPA KIREIKAN	total space 132.0	Mid Sep, 2007
and		new	Oct	Yurakucho	Yurakucho area	total space 115.5	Oct-07
UA Lab	Jewel Changes	new	Sep	Nagoya Parco	Nagoya PARCO	total space 118.1	14-Sep-07
		new	Fall	Ginza	Ginza area	total space 135.3	Autumn 2007
	Odette é Odile	new	Apr	marunochi	SHIN-MARUNOUCHI BUILDING	total space 89.8	27-Apr-07
		new	Apr	nagoya lachic	Lachic	total space 127.7	27-Apr-07
		new	Sep	machida	LUMINE Machida	total space approx. 85.8	10-Sep-07
		new	Sep	ginza	MARROINNIER GATE	total space 115.5	1-Sep-07
		new	Sep	kyoto	SHIJO KAWARAMACHI HANKYU	total space 99.0	Sep-07
	SOUNDS GOOD	new	Oct	HARAJUKU	Roadside store	total space 198.7	Oct-07
		new	Sep	SHINJUKU	LUMINE SHINJUKU LUMINE II	total space approx. 165.0	12-Sep-07
	TOKISHIRAZU	new	Apr	NAGOYA	Nagoya PARCO	total space 100.7	20-Apr-07
		new	Jun	HARAJUKU	HARAJUKU'80 BUILDING	total space 74.3	28-Jun-07
		new (not in plan)	Sep	OSAKA	SHINSAIBASHI OPA KIREIKAN	total space 120.1	Mid Sep, 2007
	Outlet	new	Apr	CHITOSE	RERA	total space 543.8	20-Apr-07
UA	Existing UA	extension (annex)	Sep	KYOTO 7th Club	Fujii Daimaru	total space 179.9	14-Sep-07
GLR	GLR General Store	transfer	Oct	machida	MACHIDA TOKYU TWINS	total space approx. 330.0	5-Oct-07
JA Labs	TOKISHIRAZU	removal	Мау	SHIBUYA	Roadside store	store space 37.0	transfer to Harajuku
	GLR S.B.U. and JA Lab UA GLR	B&Y         Label Image Store         GLR       GLR General         Store         S.B.U.       Another Edition         and       Jewel Changes         JA Lab       Jewel Changes         Odette é Odile       SOUNDS GOOD         TOKISHIRAZU       Outlet         UA       Existing UA	Image 	newSep newB&YnewAug newB&YnewAug newnewSep newSepCLabel Image StorenewSepGLRGLR General 	newSepGINZAnewSepROPPONGI MEN'S STOREnewOctOMIYAB&YnewAugB&YnewSepMACHIDAnewOctnewSepMACHIDAnewOctOMIYALabel Image StorenewSepGLRGLR GeneralnewSepStorenewSepNewSephiroshimanewSepkagoshimanewSephiroshimanewSepnagasakinewSepnagasakinewOctabenonewOctabenonewOcturawanewGLRJewel ChangesNALabJewel ChangesnewS.B.U.Another EditionnewandnewSepJA LabJewel ChangesnewGette é OdilenewSepNagoya ParconewnewSepginzanewSepginzanewSepginzanewSepginzanewSepSepSOUNDS GOODnewAprnewMacinitalnewSepSepSOUNDS GOODnewAprnewMacinitalnewMarNAGOYAnewnewMarNAGOYAnewNagoya CarNAGOYAnewMarNAGOYAnew <td>new         Sep         GINZA         MARROINNIER GATE           new         Sep         ROPPONGI MEN'S STORE         ROPPONGI HILLS         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         Jawel Changes</td> <td>Image         Sep         GINZA         MARROINNIER GATE         total space 780.5           new         Sep         ROPPONI MEN'S STORE         ROPPONSI HILLS         total space 378.2           new         Aug         SHIBUYA CAT STREET         former Changes UA         total space 379.2           new         Aug         SHIBUYA CAT STREET         former Changes UA         total space 379.2           new         Aug         SHIBUYA CAT STREET         former Changes UA         total space 379.2           Label Image Store         new         Sep         MACHIDA         LUMINE Machida         total space 379.2           GLR         GLR General         new         Sep         hoshigaoka         Luchio         total space 383.5           Store         new         Sep         hoshigaoka         Hoshigaoka Terrace         total space 383.0           new         Sep         new         Sep         new         Magesaki         AMU PLAZA KAGOSHIMA total space 397.2           Store         new         Sep         new         Sep         new         Sep           new         Sep         nagasaki         AMU PLAZA KAGOSHIMA total space 183.7         total space 183.7           stata         new         Sep         Shinsaibashi</td>	new         Sep         GINZA         MARROINNIER GATE           new         Sep         ROPPONGI MEN'S STORE         ROPPONGI HILLS           new         Oct         OMIYA         LUMINE Omiya           B&Y         new         Aug         SHIBUYA CAT STREET         former Changes UA           new         Sep         MACHIDA         LUMINE Machida           new         Sep         MACHIDA         LUMINE Machida           new         Sep         Cath Kidston Nagoya         Lachic           GLR         GLR General         new         Sep         hoshigaoka         Hoshigaoka Terrace           Store         new         Sep         hiroshima         pacela           new         Sep         new         Sep         nagasaki         AMU PLAZA KAGOSHIMA           new         Sep         new         Sep         nagasaki         AMU PLAZA KAGOSHIMA           new         Sep         nagasaki         AMU PLAZA KAGOSHIMA         new           Another Edition         new         Sep         Sottersu Joinus         SOTETSU JOINUS           S.B.U         Another Edition         new         Sep         Nagoya Parco         Nagoya PARCO           Jawel Changes	Image         Sep         GINZA         MARROINNIER GATE         total space 780.5           new         Sep         ROPPONI MEN'S STORE         ROPPONSI HILLS         total space 378.2           new         Aug         SHIBUYA CAT STREET         former Changes UA         total space 379.2           new         Aug         SHIBUYA CAT STREET         former Changes UA         total space 379.2           new         Aug         SHIBUYA CAT STREET         former Changes UA         total space 379.2           Label Image Store         new         Sep         MACHIDA         LUMINE Machida         total space 379.2           GLR         GLR General         new         Sep         hoshigaoka         Luchio         total space 383.5           Store         new         Sep         hoshigaoka         Hoshigaoka Terrace         total space 383.0           new         Sep         new         Sep         new         Magesaki         AMU PLAZA KAGOSHIMA total space 397.2           Store         new         Sep         new         Sep         new         Sep           new         Sep         nagasaki         AMU PLAZA KAGOSHIMA total space 183.7         total space 183.7           stata         new         Sep         Shinsaibashi

<sup>(</sup>Aug), UNITED ARROWS HARAJUKU FOR MEN (Sep)

X Store space is approximately 80% to 85% of total space.

# cf: New S.B.U. "SOUNDS GOOD"

- "SOUNDS GOOD" is our new sports wear business.
- Products have been sold through various UNITED ARROWS stores from Spring/Summer 2007.
- We have achieved higher than expected sales as customers are becoming more aware of keeping fit and playing sports.

#### ■Store Openings

• Business started up in July 2007. Operation of stores will start from Fall/Winter season.

(Sep: LUMINE SHINJUKU LUMINE II, Oct: roadside store in Harajuku)

• 2 stores are to be opened per season, around 4 stores annually.

#### Products

• At first, balance between private label brands and purchased brands will be around 3:7. Ratio of private label brands will be increased gradually.

• Women's wear will be also in the stores from this fall.

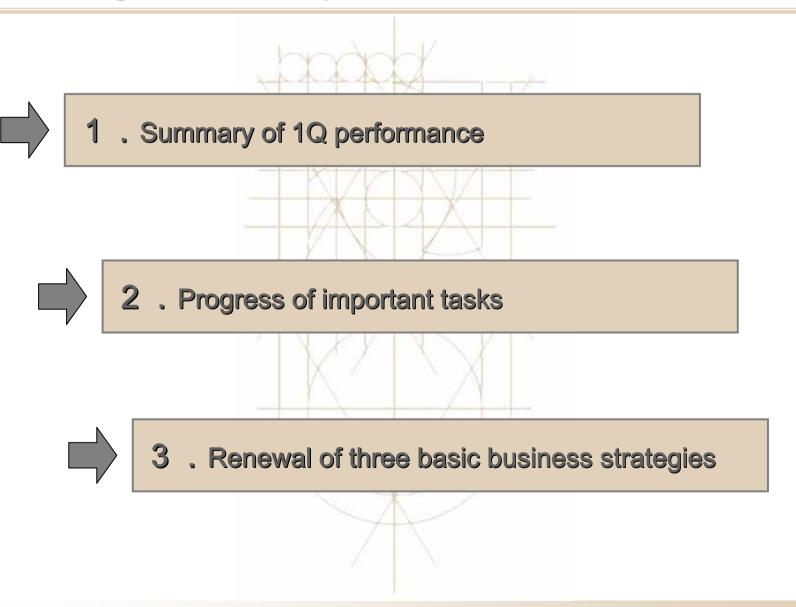








# II. Progress of Important Tasks, etc.

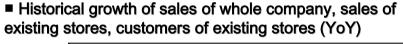


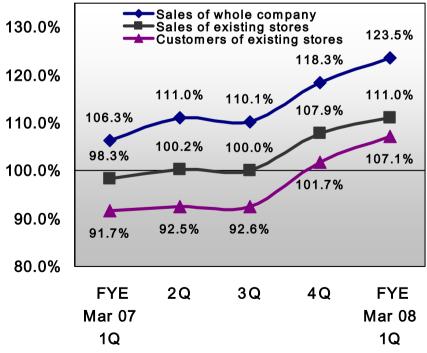
# 1 . Summary of 1Q performance

• Sales increased above plans due to good performance of UA women's section and earlier start of summer bargain sales.

• Consolidated recurring profit declined compared to the previous 1Q but was higher than internal forecasts. Net income soared due to proceeds posted by the sale of fixed assets.

• Interim results are to be in line with initial projections as expenses that were carried over from the 1Q will be used in the 2Q.





		Results (JPY Bn)	YoY	vs Plan
Co	onsolidated Sales	16.3	123.1%	-
UA	Alone Sales	15.6	123.5%	102.3%
	Business Unit Total	14.1	122.3%	102.8%
	Outlet	1.4	136.0%	97.5%
Coi	nsolidated Gross Profit	9.0	117.3%	-
Coi	nsolidated Recurring Profit	1.7	88.2%	-
Coi	nsolidated Net Income	2.4	230.1%	-

#### Summary of 1Q performance

# 2 . Progress of Important Tasks

# cf: Tasks for FYE March 2008

# **OStrengthen Sales Service Section**

- Revise and disseminate basic sales service strategy
- Draft and disseminate basic customer strategy
- Proceed horizontal House Card strategy
- Maximize customer satisfaction by improving employee satisfaction

(Strengthen recruitment of employees by promoting part-time workers to regular workers so that more talented staff will work longer. Additionally, prepare education system.)

# **OStrengthen Merchandise Section**

- Further dissemination of basic product strategy
- Strengthen private label brands and selection of purchased brands
- Establish manufacturing system to make additional orders of core products in the interim
- Find optimum MD balance

# **<u>3Other Important Issues</u>**

- Maintain optimum level of inventory
- Brand management to further proceed strategic diversification strategy
- Strengthen internal control, prepare for J-SOX
- Search for further possibilities of growth, considering new business domains

# **OStrengthen Sales Service Section**

Promotion of House Card Strategy

#### **%**Issues of current House Card strategy

- House Cards cannot be used throughout the group as each business started their own House Cards.
- Merit for customers are limited or unclear, so rate of operation is low despite increase of members
- $\rightarrow$  Shopping record cannot be accumulated in order to proceed one-to-one marketing.
- Infrastructure to use House Card data collected at stores needs to be prepared.



Summary of new House Card strategy

• Introducing House Cards that can be used throughout the UNITED ARROWS group

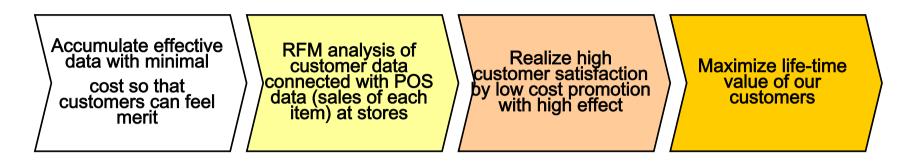
(from August 20, 2007. Excluding CHROME HEARTS and Cath Kidston)

- Introduce new point program FSP\* to maximize marketing effect with minimal cost.
- (By introducing this point system, impact on P/L in terms of cost is estimated to be 0.1% to 0.3% of sales)
- Introduce a system that can analyze RFM\* of customer data base at stores during this fiscal term.

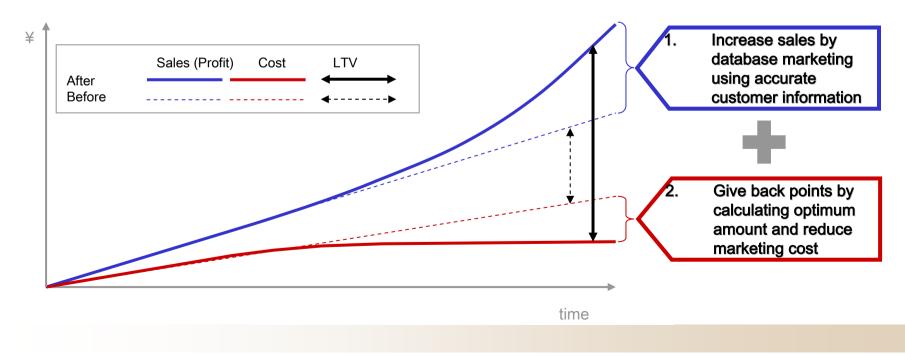
\*FSP (Frequent Shoppers Program): Method to maintain and increase superior customers by providing additional service depending on the amount and frequency of purchases.

\*RFM analysis: Analysis method by using customer data of Recency (most recent day of purchase, final day of purchase), Frequency (accumulated purchase frequency), Monetary (accumulated amount of purchase). By this RFM analysis, more personal service can be provided.

Image of sales growth due to implementation of new House Card strategy



#### Chart: Image of growth of Customer Life Time Value by introducing CRM





# ②. Strengthen Product Section

3. Other important tasks for management, optimum inventory level

Optimum MD balance (proceed internal MD reform)

#### **XIssues at present**

- 52 week MD system has been introduced to major businesses, but operations has not been standardized.
- Head count has not been increased although operation has become heavier due to introduction of new system.
- Sales have increased but have become complex. MD operation needs high-level information support, but necessary support function have not been prepared.
- Visible index for each operation in the merchandise section has not been prepared.

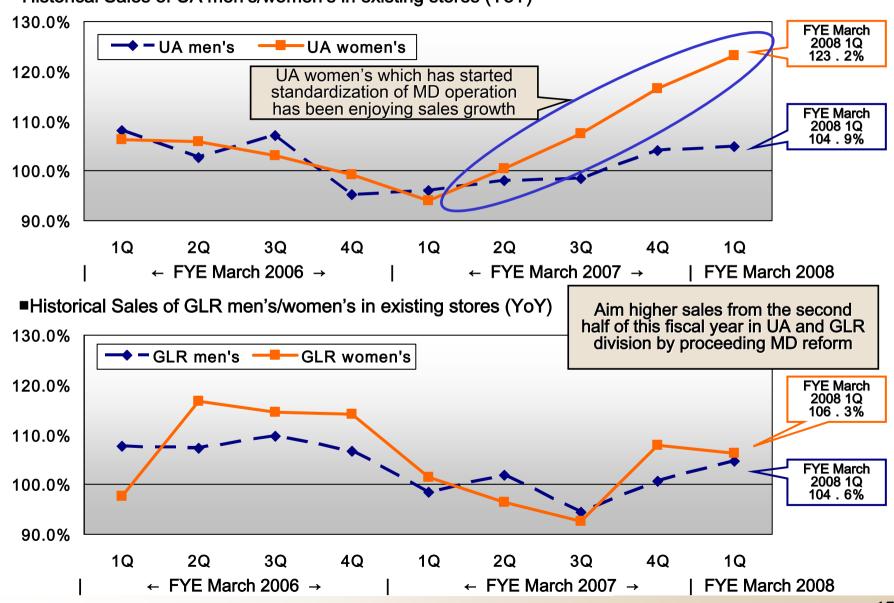
#### <u> XSummary of MD reform</u>

- Establish standard of SPA operational flow (by the MD Supervising Division) and proceed operations following the flow.
- Find optimum head count of merchandise section by job type based on research of other apparel companies and verification by productivity.
- Establish special group to support operations of MD and information support for MD decisions.
- Introduce index to visualize operations and clarify goals (ex. Cash return ratio of products).

• Setting goals of sales ratio of regular-priced products (4 levels) → Achieve high sales of core products by adding optimum products at an optimum timing in the interim, and also satisfy the needs of fashionable customers by selecting a wide variety of interesting products.

• Decrease amount of slow moving products by making appropriate addition according to characteristics of each product area → optimum inventory level

cf1: Historical sales of main business by men's/women's apparel UNITED ARROWS LTD.



Historical Sales of UA men's/women's in existing stores (YoY)

P

# cf2: Projected product purchase and inventory level

• Find Optimum level of inventory from Fall/Winter 2007 products and control inventory on a company-wide basis.

	Sales	Purchase	Term end Inventory	notes
1Q (results)	123.5%	131.9%		<ul> <li>Increase of purchased products for Spring/Summer which have already been ordered in the last term</li> </ul>
2Q (est)	126.4%	125% ~130%	125% ~130%	<ul> <li>Temporary increase of inventory to prepare for new opening stores in autumn</li> </ul>
3Q (est)	128.8%	115% ~120%	115% ~120%	<ul> <li>Improve inventory level by decreasing</li> </ul>
4Q (est)	128.0%	113% ~118%	115% ~120%	slow moving products

# 3 Other Important Issues, entering new business domains

### Establishment of new company

#### **%Summary of new company: PERENNIAL UNITED ARROWS**

•Construct a balanced MD which is presenting an attractive selection of apparel and also absorbing customers' point of view. Mix apparel type management (mainly focusing on planned manufacturing every season) and retail type management (mainly focusing on satisfying customer demand).

•Target customers will be women in their 30s who have grown up shopping in select shops. However, product development will focus on taste rather than age.

•Yoshimi Yokomakura who has long experience in major apparel companies will join the company as chief designer.



In order to expand business from an early stage as a strategic business, the company is going to be a wholly owned subsidiary. Active store openings will start from the next term.

X PERENNIAL=lasting for an indefinitely long time; enduring. Lasting or continuing throughout the entire year, as a stream.

X Please look at press release announced on July 20, 2007 for details of the new company.



# cf: Progress of other important tasks

# ① . Strengthening Sales Service Section

→ Proceeding drafting and renewal of basic customer strategy by adding it into the basic sales strategy. To be completed by the end of the first half of the term.

 $\rightarrow$  Promoting part-time workers to regular workers from August 1, 2007.

 $\rightarrow$  Starting lectures at Tabaya University (an internal organization) from April 2007 so that employees can motivate themselves to study.

# ② . Strengthening Merchandise Section

→ For the basic product strategy revised in the previous term, training programs using presentation materials and DVDs of the founding members presenting the essence of the strategies were prepared. Additionally, there were chances for each of the department managers, merchandisers, buyers and product planners to discuss with the founding members. Further dissemination of the basic strategies on product planning and product purchasing will continue.

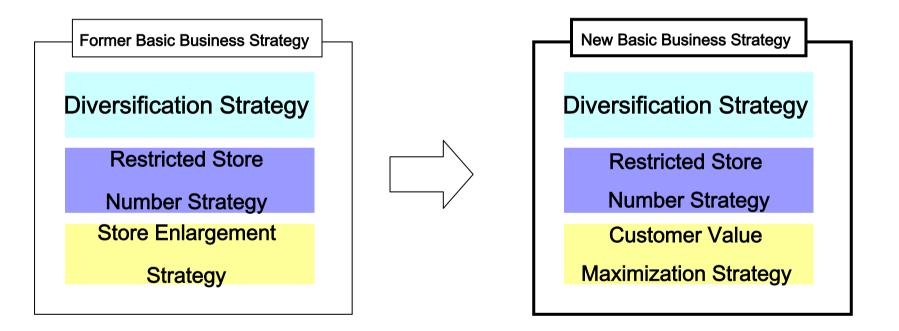
# 3. Other important tasks for management

→ Brand management: Surveys of store brand recognition and image by our customers were carried out. Results of the survey will be used for future brand strategies.

→ Internal control, J-SOX: To be launched from April 2008. Prepare schedule, visualize operational process for related departments and make risk control matrix.

# 3 . Revision of three Basic Business Strategies

- The three Basic Business Strategies announced in 1998 were partially revised.
- The Diversification Strategy and Restricted Store Number Strategy has been revised to evolved versions.
- Customer Value Maximization Strategy has been newly established instead of the Store Enlargement Strategy.



Aim to become an innovative retailer adding value in the multiple businesses it operates by promoting the new basic business strategies.



## Summary of new Basic Business Strategy

#### Diversification Strategy

- Expand new business laterally in order to enhance market coverage.
- Optimum investment according to new business: start business by either ascertaining market (UA Labs), or making strategic investments (ex. PERENNIAL UNITED ARROWS LTD.)

 Regularly make adjustments to business portfolio through multifaceted analysis of profitability, growth and brand images.

#### Restricted Store Number Strategy

• Identify optimum number of stores by making qualitative and quantitative analysis of the potential target market and the environmental characteristics of candidate areas in which to open stores.

• Revise optimum number of stores periodically according the changes in business circumstances.

#### Customer Value Maximization Strategy

• Actively acquire new customers and carry out one-to-one marketing that can provide personalized service to all of our customers by the introduction of House Cards that can be used throughout the UNITED ARROWS group.

• Maximize lifetime value of our groups' customers by implementing above.