

UNITED ARROWS LTD. First Quarter Fiscal 2011 Earnings Announcement Q&A

UNITED ARROWS LTD. held an earnings announcement presentation and undertook conference calls with the mass media, analysts, and institutional investors on August 5, 2010 (Thursday) and August 6, 2010 (Friday). Details of the principal questions received and answers given by category during each session are presented as follows. Certain details have been expanded or modified to provide readers with a deeper understanding of the UNITED ARROWS Group's performance and activities.

Financial and business results as well as activities for the first quarter of fiscal 2011

Q. What are the factors behind the improvement in UNITED ARROWS LTD.'s non-consolidated gross profit (up 1.6 percentage points year on year, to 56.7%)?

A. The improvement in UNITED ARROWS LTD.'s non-consolidated gross profit can largely be attributed to a drop in the cost of goods purchased as well as ongoing progress in reducing markdown items. In addition, favorable results reflect the quick sale of current season merchandise at outlet stores and the larger share of outlet store specialty items.

Q. What is the Company's thoughts and analysis of factors contributing to the decline in UNITED ARROWS LTD.'s non-consolidated SG&A expenses to sales ratio?

A. UNITED ARROWS LTD. was unable to recruit sufficient personnel for its store network, resulting in a shortfall against established personnel plans. This was the principal factor behind the decline in UNITED ARROWS LTD.'s non-consolidated SG&A expenses to sales ratio.

Q. Please tell us about the Group's progress in promoting collaboration between product and sales divisions, a priority issue for management in fiscal 2011.

A. Both the UNITED ARROWS and BEAUTY&YOUTH UNITED ARROWS businesses have entered a period of recovery. While there are concerns that the GLR business is experiencing low quantities of inventory, activities continue to peak. At the same time, efforts by UNITED ARROWS to put in place a framework through which comments and opinions gathered from customers at stores is fed back to the product planning activities appear to be finally taking hold. Despite considerable ongoing waste, BEAUTY&YOUTH UNITED ARROWS is also expected with time to enter a period of renewed growth.

Plans regarding the opening of new stores

Q. The UNITED ARROWS Group has revised a portion of its initial store opening plans. Can you

please provide us with details?

A. The UNITED ARROWS Group has decided to add several stores to its new store opening plans established at the beginning of the period. In specific terms, we intend to add one store to the BY network over and above initial plans, one store to the new development business, and two new stores to the COEN business operated by subsidiary COEN CO., LTD. We are currently not in any position to state whether we will increase the number of new stores to be opened any further. If, however, a prime property or location is identified, we will naturally consider our options within the confines of our predetermined investment limit.

Forecasts for the autumn and winter seasons

Q. Sales and customer numbers are firmly entrenched in a recovery trend. Signs of a change in consumer buying patterns are also beginning to emerge. Taking these external factors into consideration, what are your forecasts for the autumn and winter seasons?

A. Spending trends recovered temporarily last autumn from the period immediately following silver week. This recovery then stalled from October 2009. As a result, we are adopting a cautious approach this year. Frustrated after a prolonged period of penny-pinching, we are now seeing a definite change in purchasing patterns. While high-priced items remain weak, demand for affordable merchandise is on the rise. The UNITED ARROWS Group has worked diligently to review its merchandise mix with an eye to reducing luxury items and products that attract nominal demand. Despite a drop in average merchandise prices, these efforts have led to an upswing in the number of customers. Taking into consideration uncertainties surrounding future economic conditions, we are unable to make any definitive comments at this time. Looking back on operating conditions over the past two years, however, we estimate that external factors have accounted for 30% of the Group's difficulties with internal factors accounting for the remaining 70%. Moving forward, we will endeavor to bolster our business model minimizing the impact of external factors.

Q. What methods will the Group employ to manage its inventory holdings and what are UNITED ARROWS Group's estimates for price per product during the autumn and winter seasons?

A. We plan to reduce inventories by 10% compared with the previous fiscal year. In specific terms, we will be looking to cut back unpopular merchandise by 20% and increase top-selling items by 10%. Each business is currently taking steps to review its pricing range. The Group as a whole will refrain from promoting low-priced merchandise.

The mail-order business

Q. The position of mail-order sales within the fashion sector has steadily changed. What do you believe will be the scale of the market three to five years from now?

A. The mail-order sales channel has indeed changed purchasing patterns as well as the structure of consumption as a whole. The younger generation has grown accustomed to online games and as such has a close affinity with the Internet and mobile communications. Even the baby boomer generation has awoken to the convenience of online purchasing. There are consumers who prefer to purchase merchandise online rather than deal with store personnel. To date, the scale of the market has increased around 30% each year. We are at a loss to provide an accurate assessment of the market's size in the future.

Q. The UNITED ARROWS Group has reached an agreement to share inventories with START TODAY CO., LTD. Are you seeing any benefit emerge?

A. ZOZOTOWN sales have increased 5%. Looking ahead, we will place greater emphasis on the initial allocation of inventories and engage in advance as well as priority orders, taking full advantage of the ZOZOTOWN connection. ZOZOTOWN has a proven track record in handling a large number of brands and is extremely skilled at creating hit as well as popular products. In this context, we are confident of taking a prudent level of risk even to the extent of allowing inventories to accrue.