

UNITED ARROWS LTD. Second 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 November 5, 2010 (Friday) and November 8, 2010 (Monday). 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.

Business results forecasts for fiscal 2011

Q. Results for the first half of the fiscal year under review are firm. What are your reasons for leaving forecasts for the full fiscal year unchanged?

A. There is still a sense of uncertainty surrounding future economic conditions. There is also the possibility that we will fail to reach our established monthly and other targets. As a result, we have decided to adopt a cautious approach toward our business performance. We plan to use TV commercials while employing other advertising methods, taking into consideration our sales performance during the second half. Recognizing that future top-line sales remain uncertain and the possible need to undertake expenditures in line with sales trends, UNITED ARROWS LTD. has decided to defer any change to its existing forecasts.

Prospects during the autumn and winter seasons and unit price trends

Q. The number of customers has risen on a year-on-year basis. Average spending per customer, on the other hand, has declined. What measures do you plan to take to lift average spending per customer?

A. Among a host of initiatives, the UNITED ARROWS Group is working to ensure an optimal merchandise balance, upgrading and expanding its lineup of affordable volume zone merchandise, and minimizing sales opportunity loss by ensuring that merchandise remains readily available. Despite the resulting drop in average spending per customer, we have seen an upswing in the number of customers as well as sales. Promoting a policy that entails reducing merchandise prices is not our intention and we have no plans to cut prices in the future.

Q. Are you contemplating increasing prices by adding value?

A. Clearly the purchase of high-priced items is not a prominent trend. Tired of a prolonged period of penny-pinching, certain customers do appear to be willing to purchase items that offer quality. The UNITED ARROWS Group is most sincere in its manufacturing endeavors and is keen to promote the appeal and value of fashion items. Our aspirations are to invigorate Japan's consumption market. In

establishing this trend, we hope to weaken consumers' price-oriented focus. In this regard, we plan to take all necessary steps from the second half of fiscal 2011 and beyond.

Q. While future economic conditions remain uncertain, what are your thoughts on the upcoming autumn and winter seasons?

A. Sales at existing stores declined compared with the previous year in September due largely to the record-breaking heat wave. From the latter half of the month, however, sales began to recover. Forecasts indicate a harsher than usual winter this year. We therefore have a positive outlook toward wool, down, and other outer wear items that are easily affected by temperature conditions. Acknowledging that our performance is susceptible to economic trends, we have adopted a conservative approach toward plans. We remain, however, reasonably confident with respect to sales.

New sales channels

Q. What progress have you seen in THE AIRPORT STORE UNITED ARROWS LTD. business?

A. The original premise behind opening airport stores in July was to provide customers with a mix of wide-ranging miscellaneous items including multiple-brand merchandise together with original goods offered only at airport stores. Having now commenced operations, we are finding that apparel items are selling well. On this basis, we are currently reviewing our product lineup. With very few commercial facilities located in the areas immediately surrounding major airports, purchases by local residents and airport employees are prominent. Purchases are also of relatively higher priced items including the RIMOWA and Felisi brands.

Q. Can you explain to us your thoughts on opening new stores utilizing the department store sales channel?

A. Department stores are generally situated in prime locations and are distinguished by their ability to attract large numbers of customers. The challenge we face is how best to match these attributes with the Group's capabilities and functions. Outlet stores for the most part offer the Group's entire brand range, which in turn generates significant customer satisfaction. With this in mind, we are considering stores that serve a cross-selling function offering composite brands. The UNITED ARROWS Group is not contemplating launching a new brand specifically for department stores.

Q. Opportunities will undoubtedly arise for the consignment of operations to other companies including franchising as well as the opening of overseas stores. What do you consider are the merits and demerits?

A. Since the Company's founding and opening of the Asahikawa and Oita stores, UNITED ARROWS has not contemplated franchising. However, when taking into consideration medium-sized regional urban

areas, we recognized the potential to form relationships with business partners that were deeply rooted in their respective local community and that shared our philosophies and values. On the understanding that any relationship would be based on an unwavering store loyalty to the UNITED ARROWS LTD. banner and brand, we opened BEAUTY&YOUTH UNITED ARROWS KANEZAWA in September. From a domestic franchise business model perspective, we are confident of securing optimal operations, customer services, and store loyalty through close-knit discussions with business partners.

Turning to operations overseas, we have the options of directly opening and operating stores or opening stores in cooperation with partner companies. A significant hurdle to overcome is the ability to fully promote an understanding of the Group's concepts of quality assurance and customer service. In September, we sold certain merchandise on a wholesale basis to i.t. apparels Limited a major select shop company based in Hong Kong. i.t. apparels Limited has subsequently opened and is operating stores under the BY and Another Edition trade names. The relationship we maintain with i.t. apparels Limited differs from your normal franchise agreement. Our relationship is based on the understanding that i.t. apparels Limited truly comprehends our philosophies and policies, that we follow a common goal and direction, and that i.t. apparels Limited will not in any way damage the UNITED ARROWS LTD. brand. Having said this, however, the potential for additional store openings on this basis is low.

Whether it is a franchise business model or the opening of a new store overseas, maintaining loyalty is an extremely important factor in selecting a business partner.

Q. In addition to its online sales activities, the UNITED ARROWS Group is expanding into TV sales. While this has the benefit of broadening the Group's customer base, are there any concerns that this might also dilute brand value through mass marketing?

A. TV sales will be restricted to broadcasts where UNITED ARROWS LTD. has input into program production. The first broadcast will be from the UNITED ARROWS HARAJUKU head office store, which was recently reopened in October following extensive renewal. By broadcasting the store's ambiance and environment, we are confident of showcasing the enjoyment and appeal of the shopping experience, thereby generating loyalty.

Opening new stores

Q. What is the rationale behind increasing the number of stores in the second half compared with initially established plans?

A. Improvements in our internal organization and operations are beginning to bear fruit. On this basis, we have obtained approval for initiatives with a high priority within the confines of predetermined

investment limits outside initial budgets. We are taking steps to determine new stores to be opened in February and March next year and will push forward prime property opportunities on a priority basis.

Q. How should we evaluate the pace at which the Group will open new stores moving forward?

A. As we have explained in the past, UNITED ARROWS green label relaxing and COEN will drive the opening of new stores during fiscal 2012. BY, which is showing improvement since entering the fiscal year under review, will also open new stores during the next fiscal year. At this stage, we do not envisage any major increase in fiscal 2012 from the number of stores opened during fiscal 2011. The number will therefore remain essentially unchanged at around 22 plus.

Overseas manufacturing

Q. Issues regarding delivery and costs appear to have arisen with respect to manufacturing in China. How is this affecting the Company, and what countermeasures do you have in mind?

A. We have experienced delays in the delivery of certain casual items since around August this year. As a result, we are reassessing overseas manufacturing activities and its position within our overall production platform. We are placing every emphasis on identifying factories with which we can build deep and stable relationships and to quickly secure reliable manufacturing capacity. Rather than engage in fragmented ordering for each brand, we will consolidate orders on a Group-wide basis. At the same time, we will pursue increased cost efficiency by improving operating rates during off-season periods. Through these means, we anticipate reaping product benefits from around autumn and winter.

Recognizing that factories engaged in large volume manufacturing run the risk of competing for volume orders from Europe and the United States, the UNITED ARROWS Group focuses on building relationships with factories that are attuned to the Group's creative *monozukuri* beliefs. In this context, we take steps to provide domestic market information, conduct presentations on high demand merchandise, and hold quality control meetings in an effort to promote a deeper understanding of the Group's *monozukuri* concept.

Q. Please tell us about the Group's "China Plus One" strategy and efforts to cultivate manufacturing bases outside China.

A. The China Plus One strategy entails cultivating factories across inland China, building a manufacturing platform in South Asia including Vietnam and Myanmar, and evaluating the potential for manufacturing in Japan. Currently, approximately 45% of the Group's entire portfolio is comprised of private label products. Of this portion, around 60% is manufactured in China, of which 10% is earmarked for a possible shift to other manufacturing bases. While merchandise manufactured in South Asia offer

cost benefits, it is important that we maintain the appropriate level of quality. With this in mind, we are adopting a cautious approach. The UNITED ARROWS Group is not contemplating a major shift in its existing manufacturing activities in China in the short term.

Q. Has the Group's operations been affected by appreciation in the value of the yen?

A. Over the first half of fiscal 2011, the values of the U.S. dollar and euro have depreciated 7% and 15%, respectively, compared with the previous year against the yen. Of the Group's total procurements, the ratio of imported items currently stands at around 50%. Rough estimates therefore indicate procurement costs have fallen approximately ¥800 million.

TOB and treasury stock retirement methods

Q. How does the Company intend to account for share acquired through takeover bids (TOBs)?

A. We have several options available to us with respect to the handling of treasury stock acquired through TOB. Treasury stock can be held by parties with whom we can generate positive synergies, and we can continue to hold treasury stock in our own right or undertake other measures such as their retirement. We are yet to determine a definitive policy. Details will be disclosed as and when determined.