



**Fiscal Year Ended March 2007**

# **Interim Ended September 2006 Earnings Announcement**

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**UNITED ARROWS LTD.**



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In this material, a fractional sum less than one million yen is 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 could get in hand at present, and therefore include risk 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 units in this material]

Abbreviation of each business unit, structure of business are as below;

U A = UNITED ARROWS, G L R = UNITED ARROWS GREEN LABEL RELAXING, C H = CROME HEARTS, S.B.U. = Small Business Unit  
(Another Edition, Changes UNITED ARROWS, Odette é Odile UNITED ARROWS, DRAWER, DARJEELING DAYS)

U A Labs = TOKISHIRAZU, Liquor, woman & tears

# .Overview of Business Performance in the Interim

## 1 — . P/L Overview (Consolidated)

- Consolidated total sales shifted as initially planned at the beginning of the term
- UA and Figo both overwhelmed profitability at each stage as initially planned at the beginning of the term

(unit: million yen)

	Consolidated actual (FYE Mar/07 Interim)		<cf> Planned Figures	
	Actual	vs Sales	vs Plan +/-	
			Plan	vs Sales
Sales	26,754	100.0%	▲ 27	99.9%
Gross Profit	14,809	55.4%	157	101.1%
SGA	12,105	45.3%	▲ 129	98.9%
Operating Profit	2,703	10.1%	287	111.9%
Non Op. Exp.	▲ 10	0.0%	20	-
Ordinary Profit	2,693	10.1%	307	112.9%
Extraordinary Profit / Loss	▲ 478	-1.8%	▲ 99	126.2%
Net Income	1,228	4.6%	102	109.1%
			1,125	4.2%

Figo Co., Ltd. was consolidated in October 2006, thus there are no consolidated actual figures for the previous year to compare.

# 1 — . P/L Overview (Non-consolidated)

- Total sales 108.7% YoY (99.5% of initial plan) at ¥25,689 million
- Despite profit decline, figures of operating profit and ordinary profit overwhelmed initial plans for the first half of the fiscal year (due to increase of one-time expense of office transfer and concentration of store opening)
- Loss on disposal of fixed assets and impairment loss was posted as extraordinary losses, but net income shifted higher than initial plan

(unit: million yen)

	cf: UA non-consolidated actual (FYE March 2007 Interim)						<cf>		YoY		Planned Figures	
	Actual		YoY +/-		vs Plan +/-		YoY actual		vs Sales		Plan	
	vs Sales		YoY		vs Plan		vs Sales		vs Sales		vs Sales	
Sales	<b>25,689</b>	100.0%	2,048	108.7%	▲ 124	99.5%	23,641	100.0%	25,813	100.0%		
Gross Profit	<b>14,198</b>	55.3%	1,457	111.4%	105	100.7%	12,740	53.9%	14,093	54.6%		
SGA	<b>11,557</b>	45.0%	1,730	117.6%	-110	99.1%	9,827	41.6%	11,668	45.2%		
Operating Profit	<b>2,640</b>	10.3%	▲ 272	90.6%	215	108.9%	2,913	12.3%	2,424	9.4%		
Non Op. Exp.	<b>0</b>	0.0%	▲ 10	-	28	1.8%	9	0.0%	▲ 29	-0.1%		
Ordinary Profit	<b>2,640</b>	10.3%	▲ 282	90.3%	244	110.2%	2,922	12.4%	2,395	9.3%		
Extraordinary Profit / Loss	<b>▲ 450</b>	-1.8%	▲ 77	120.6%	-71	118.8%	▲ 373	-1.6%	▲ 379	-1.5%		
Net Income	<b>1,270</b>	4.9%	▲ 223	85.0%	80	106.7%	1,494	6.3%	1,189	4.6%		

## 2 . Overview of Sales (Consolidated/Non-consolidated)

- Consolidated sales of the interim was 99.9% of plan at ¥26,754 million.
- Sales of UA alone was 108.7% YoY (99.5% of plan) at ¥25,689 million.
- Sales of existing stores was 99.2% YoY.

	FYE March 2007 Interim					(unit: million yen)	
	Actual	YoY +/-		vs Plan +/-		<cf>	
			YoY		vs Plan		
Consolidated Total Sales	26,754	-	-	▲ 27	99.9%	-	26,782
UA Alone Total Sales	25,689	2,048	108.7%	▲ 124	99.5%	23,641	25,813
Business Unit Total	23,452	1,831	108.5%	▲ 370	98.4%	21,620	23,823
UA unit	13,995	327	102.4%	▲ 120	99.1%	13,667	14,115
GLR unit	5,059	623	114.1%	▲ 255	95.2%	4,435	5,314
CH unit	1,490	▲ 32	97.9%	24	101.7%	1,522	1,465
S.B.U. and UA Labs	2,907	912	145.7%	▲ 20	99.3%	1,995	2,927
Outlet	2,237	216	110.7%	246	112.4%	2,020	1,990
Existing Stores			99.2%			107.9%	100.8%
space unchanged			99.0%			106.6%	100.5%
space changed			101.1%			119.6%	103.0%
UA existing			98.2%			106.4%	100.1%
GLR existing			98.1%			105.6%	99.7%
CH existing			97.9%			124.3%	96.3%
S.B.U. and UA Labs existing			109.9%			112.1%	111.8%

Changes UNITED ARROWS Tokyo and Nagoya transformed business, thus is included in actual figures of UA business and actual figures of the previous fiscal year are retroactively calculated.

### 3 . BS Overview at the end of the Interim (Consolidated/Non-consolidated)

- Consolidated total assets was ¥37,493 million, non-consolidated total assets was ¥36,981 million (121.8% YoY)
- Non-consolidated: main increase in assets were inventory assets, stocks of affiliated companies and investment in tangible / intangible operating facilities. Main increase in liabilities was treasury stocks and long and short term borrowings for share purchase of Figo Co., Ltd. Main decrease of net assets was due to decline in shareholders' equity caused by repurchase of treasury stocks.

(unit: million yen)				
	Consolidated actual YE March 2007 Interim end	cf: UA alone actual (FYE March 2007 Interim end)		<cf> alone YoY
	composition ratio Actual	composition ratio Actual	YoY +/- vs YoY	composition ratio Actual
Total Assets	100.0% 37,493	100.0% 36,981	6,628 121.8%	100.0% 30,353
Current Assets	62.8% 23,530	60.3% 22,300	1,793 108.7%	67.6% 20,507
Fixed Assets	37.2% 13,963	39.7% 14,680	4,834 149.1%	32.4% 9,846
Tangible Assets	15.7% 5,875	15.8% 5,846	517 109.7%	17.6% 5,329
Intangible Assets	8.0% 2,987	4.6% 1,710	1,232 358.2%	1.6% 477
Investments, etc.	13.6% 5,100	19.3% 7,124	3,084 176.4%	13.3% 4,039
Current Liabilities	43.7% 16,368	42.9% 15,865	6,024 161.2%	32.4% 9,841
Fixed Liabilities	15.1% 5,651	15.3% 5,642	5,204 1288.9%	1.4% 437
Total Net Assets (Shareholders' Equity)	41.3% 15,474	41.8% 15,473	▲ 4,600 77.1%	66.1% 20,074

## cf. Trend of Inventory Assets (UA alone)

• Inventory assets of UA alone in the interim was 115.7%, ¥13,745 million

Sales of spring/summer and some late summer products were stagnant, thus inventory increased

Increase of forward products due to increase of store openings this autumn/winter season (September, October)

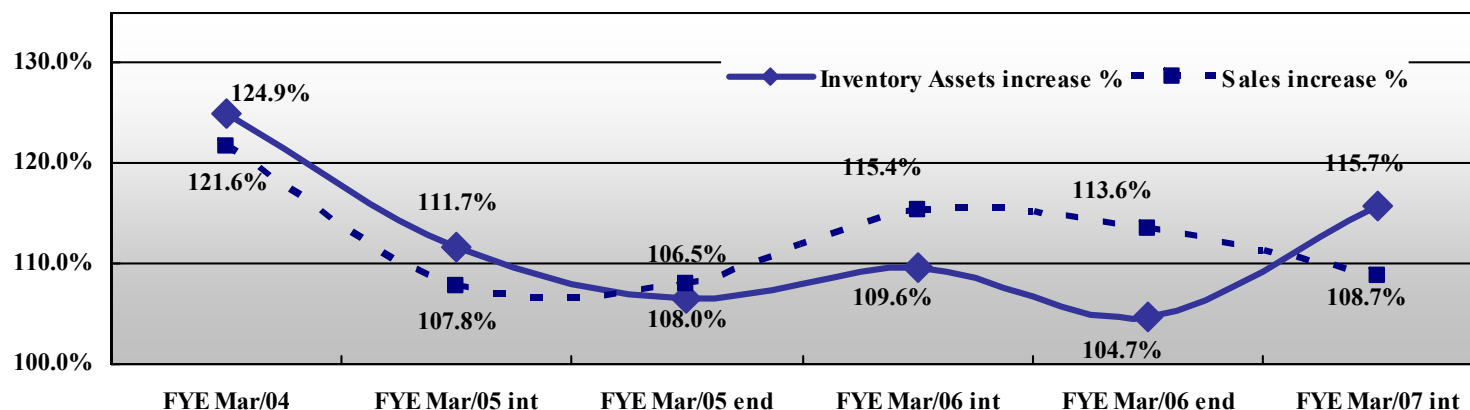
(When autumn/winter store openings finished, floor space was approx. 112% comparing end of October YoY)

Change in Inventory Assets (product inventory + stored goods)

(unit: million yen)

	FYE Mar/04	FYE Mar/05 int	FYE Mar/05 end	FYE Mar/06 int	FYE Mar/06 end	FYE Mar/07 int
Total Inventory Assets term end	9,594	10,842	10,216	11,879	10,694	13,745
+/- YoY	124.9%	111.7%	106.5%	109.6%	104.7%	115.7%
cf Sales +/- YoY	121.6%	107.8%	108.0%	115.4%	113.6%	108.7%

### cf: Change of increase in Inventory Assets and Sales (YoY)



## 4 . Overview of FYE March 2007 Full Year Plans (Consolidated/Non-consolidated)

·No change in plans for consolidated and non-consolidated forecast

(unit: million yen)

	Consolidated full year plans FYE March 2007			cf: Non-consolidated full year plans FYE March 2007		
	Plan	vs Sales	YoY +/- YoY	Plan	vs Sales	YoY +/- YoY
Total Sales	<b>60,845</b>	<b>100.0%</b>	7,032 113.1%	<b>58,676</b>	<b>100.0%</b>	6,066 111.5%
Gross Profit	<b>33,579</b>	<b>55.2%</b>	4,560 115.7%	<b>32,313</b>	<b>55.1%</b>	4,014 114.2%
SGA	<b>25,616</b>	<b>42.1%</b>	4,260 120.0%	<b>24,480</b>	<b>41.7%</b>	3,668 117.6%
Operating Profit	<b>7,963</b>	<b>13.1%</b>	300 103.9%	<b>7,833</b>	<b>13.3%</b>	346 104.6%
Non Op. Exp.	<b>▲ 53</b>	<b>-0.1%</b>	▲ 28 219.9%	<b>▲ 57</b>	<b>-0.1%</b>	▲ 12 127.4%
Ordinary Profit	<b>7,910</b>	<b>13.0%</b>	271 103.5%	<b>7,776</b>	<b>13.3%</b>	333 104.5%
Extraordinary Profit & Loss	<b>▲ 531</b>	<b>-0.9%</b>	31 94.3%	<b>▲ 523</b>	<b>-0.9%</b>	47 91.6%
Net Income	<b>4,214</b>	<b>6.9%</b>	137 103.4%	<b>4,279</b>	<b>7.3%</b>	246 106.1%

Subsidiary Figo Co., Ltd. was consolidated in October 2005, thus actual figures of 5 months is included in the previous term.



## 5 . Plans of Store Opening (and Closing)/Removal/Extension (UA Alone)

- This term: store opening 34, store closing due to re-branding 4. Number of stores at term end is planned to be 109.
- Changes in plans from announcement in 1Q
  - GLR new business form noted as new SBU (last time + 1 store increase)
  - Another Edition: store openings in 2H, 0 1
  - Odette é Odile: store openings in 2H, 4 3 (to be opened at beginning of next term)
  - Drawer: store openings in 2H, 1 2

By Business, new openings of stores in number							Planned renewals/extensions					
		number of stores	new stores planned			Transformation Cost	FYE Mar/07 estimate	store space at opening (m²)	removal/renewal/expansion planned			
			full year	1Q+2Q	3Q+4Q				full year	1Q+2Q	3Q+4Q	
		Total	79	34	18	16	4	109		3	2	1
Core biz.	UA	Existing UA	23				4	19	-	2	0	2
		UA Label Image Store	4	1	1			5				
		New UA	0	5	3	2		5	198 ~ 462			
		B&Y	0	4	2	2		4	165 ~ 330			
	GLR	GLR	24	4	1	3		28	264 ~ 330			
		GLR new form	3	2	1	1		5	83 ~ 99			
	CH	CH	3					3	-			
	SBU	Another Edition	7	4	3	1		11	83 ~ 116	1	1	
Changes		1	2	2			3	-				
Oditte é Odile		6	7	4	3		13	50 ~ 66				
DRAWER		2	2		2		4	approx. 165				
DARJEELING DAYS		4					4	-				
New SBU		0	2		2		2	-				
Labs	TOKISHIRAZU	2					2	-				
	Liquor, woman & tears	0	1	1			1	approx. 50				

UA Label Image Store = (THE SOVEREIGN HOUSE×1, District UNITED ARROWS×1, Changes UNITED ARROWS×2, Cath Kidston×1)

2 stores of Change UNITED ARROWS transformed business from SBU to Label Image Store from the second half of the fiscal year. Above reflects change as if in 1



## cf: Details of store opening/removal/extension (definite projects only)

form	biz	business unit	outline	timing	store name	name of facility	space (m²)	opening day	reference
New Openings	UA	New UA	transfer	Sep	Kobe Motomachi	roadside store	floor space 490	1-Sep	
			removal	Sep	Fukuoka	VIORO (new facility)	floor space 574	15-Sep	
			transfer	Sep	Yurakucho	Yurakucho SEIBU	floor space 423	9-Sep	
		B & Y UA	new	Sep	Fukuoka	roadside store	floor space 445	15-Sep	
			new	Sep	Yurakucho	Yurakucho SEIBU	floor space 212	9-Sep	
		UA label image store	new	Sep	Cath Kidston Daikanyama	roadside store	floor space 109	16-Sep	
	GLR	GLR general store	new	Sep	Kawasaki	LAZO NA Kawasaki Plaza	floor space 412	28-Sep	
		GLR new biz form store	new	Sep	FACADE Fukuoka SOLARIA PLAZA	SOLARIA PLAZA	floor space 86	9-Sep	
	S.B.U.	Another Edition	new	Apr	Shibuya	Shibuya PARCO	floor space 79	14-Apr	
			new	Apr	Sapporo	STELLA PLACE	floor space 112	29-Apr	
			new	Sep	Machida	near Machida Station	floor space 106	28-Sep	
		Jewel Changes	new	Sep	Fukuoka SOLARIA PLAZA	SOLARIA PLAZA	floor space 100	9-Sep	
			new	Sep	Roppongi Hills	ROPPONGI HILLS	floor space 126	15-Sep	
		Odette é Odile	new	Apr	Ikebukuro	Ikebukuro PARCO	floor space 69	27-Apr	
			new	Sep	Fukuoka	VIORO (new facility)	floor space 88	15-Sep	
			new	Sep	Namba MARUI	Namba MARUI	floor space 80	22-Sep	
			new	Sep	Yurakucho Hankyu	Yurakucho HANKYU	floor space 51	6-Sep	
		UA labs	Liquor, woman and tears	new	Sep	Liquor, woman and tears	Minami-Aoyama (roadside)	floor space 66	1-Sep
Transfer	S.B.U.	Another Edition	transfer	Sep	Fukuoka	SOLARIA PLAZA	floor space 89	9-Sep	

### Details of store opening/removal/extension in 2H (definite projects only, possibility of opening at beginning of next term)

form	biz	business unit	outline	timing	store name	name of facility	space (m <sup>2</sup> )	opening day	reference
New Openings	UA	New UA	new	Oct	Kobe Sannomiya	M-INT KOBE	total space 241	4-Oct	completed
			transfer	Spring	Niigata	BILLBOARD PLACE	total space 231	next spring	
			new	Spring	Marunouchi	SHIN-MARUNOUCHI BUILDING	total space 545	next spring	
		B & Y UA	new	Oct	Kobe Sannomiya	M-INT KOBE	total space 354	4-Oct	completed
			new	Spring	Niigata	Niigata City	total space 274	next spring	
	GLR	GLR general store	new	Nov	Kanazawa	Kanazawa FORUS	total space 333	2-Nov	completed
			new	Spring	LaLaport YOKOHAMA	LaLaport YOKOHAMA	total space 418	next spring	
			new	Mar	Shibuya	Shibuya district	total space 266	next March	
		GLR new biz form store	new	Oct	FACADE Shinjuku MYLORD	Shinjuku MYLORD	total space 53	13-Oct	completed
		Another Edition	new	Spring	Omiya	Omiya-ku, Saitama	total space 139	next spring	
			new	Spring	Niigata	Niigata City	total space 101	next spring	
			new	Spring	Marunouchi	SHIN-MARUNOUCHI BUILDING	total space 92	next spring	
		Drawer	new	Oct	Shinsaibashi	roadside store	total space 167	19-Oct	completed
			new	Spring	Fukuoka	roadside store	total space 173	next spring	
	Outlet		new	Nov	Minami Osawa	LA FETE TAMA	total space 231	16-Nov	completed
			new	Spring	Chitose	Rera	total space 493	next spring	
			new	Spring	(under negotiation)	(under negotiation)	-	next spring	
Renewal	UA	Existing UA	renewal	Spring	Futagotamagawa	Tamagawa Takashimaya S. C	total space 405	next spring	

Total space is indicated for undecided floor spaces. Floor spaces are approximately 80% to 85% of total space.

# .Summary of 1H and Plans in 2H and onwards

## 1 . Summary of first half of the fiscal year

### Overall business performance

- Consolidated sales landed at planned level, profit at each level overwhelmed initial plans
- Business unit sales of UNITED ARROWS LTD. alone did not reach planned goals but gross profit and profit at each level overwhelmed plans
- Sales and profitability of subsidiary Figo Co., Ltd. overwhelmed plans and performed well

### 1H overall business performance

	Actual (Bn yen)	YoY	vs plan
Consolidated sales	26.7	-	99.9%
UA alone sales	25.6	108.7%	99.5%
Business unit total	23.4	108.5%	98.4%
Outlet	2.2	110.7%	112.4%
Consolidated gross profit	14.8	-	101.1%
Consolidated ordinary profit	2.6	-	112.9%
Consolidated net profit	1.2	-	109.1%

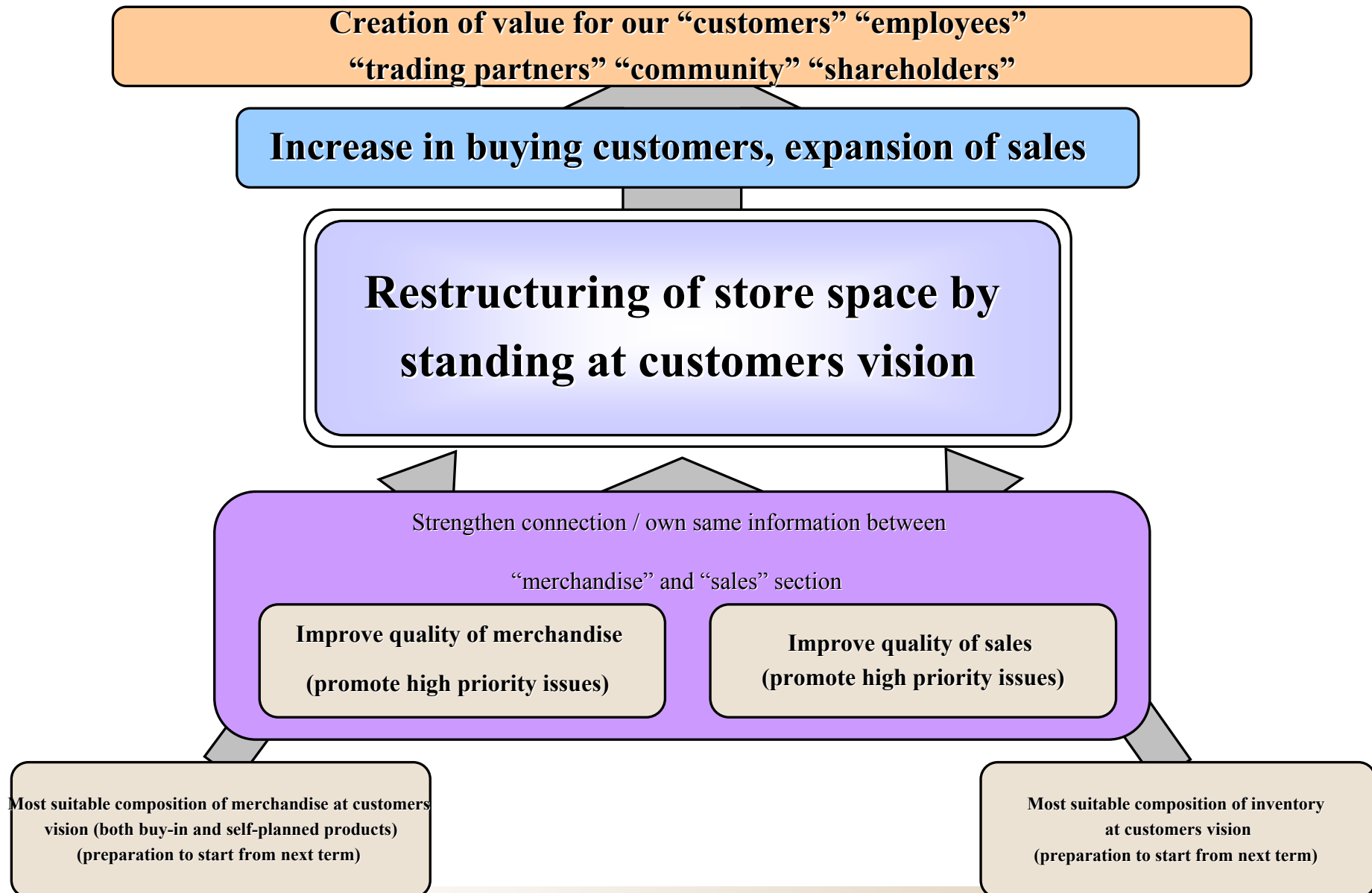
## Points of Management in 1H

- **Strengthening board members and staff section**
- **Strengthening line section, particularly UA division**
- **Start re-branding of UA business store brand to meet diversifying customer needs**
- **Promote high priority issues (strengthen “sales” and “merchandise” section) for the future**
- **Improve gross profit margin by continuing to control purchase cost**

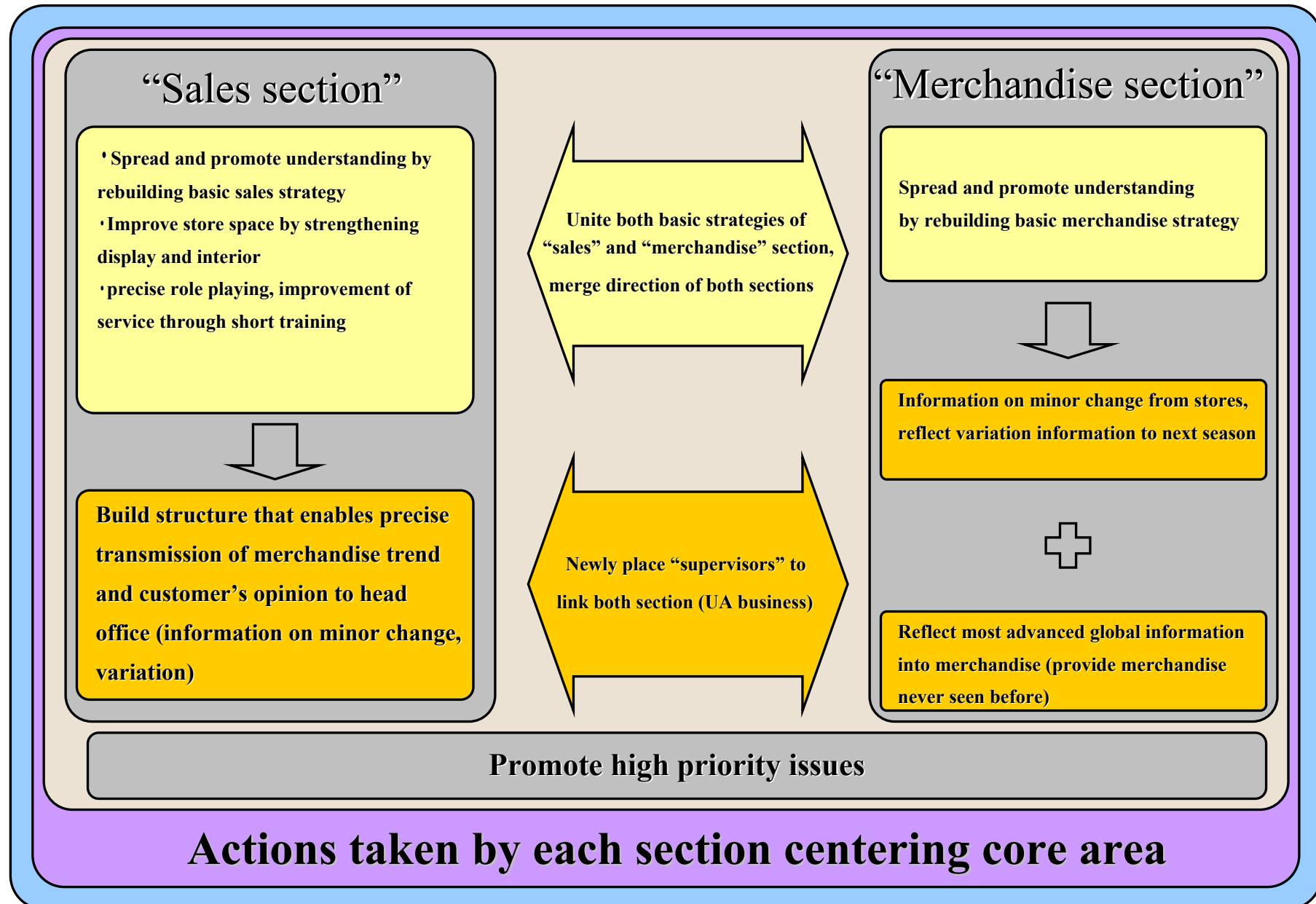
## Tasks in 1H

- **Business unit sales did not meet goals (vs plan 98.4%) and sales of existing stores were short of previous year (existing store sales 99.2% YoY)**
- **Number of customers buying at existing stores moved negative YoY (1H accumulated 92.1%)**

## 2 . Summary of strategies for 2H and onwards considering 1H issues



### 3 . Main Points of Issues (Core Area)



## Main points of issue (strengthening each section centering core area)

### **UA business**

- Supply insufficiency of merchandise caused by re-branding of store brand
- Modify interior design of BEAUTY & YOUTH UNITED ARROWS
- Improve acknowledgement of re-branding

**Core area  
(previous page)**

### **GLR business**

- Settle fashion director (Men's/Women's) to realize solid merchandize planning (in November)
- Evolve store environment and strengthen sales promotion by placing market planning division (in October)
- Service training by department manager (namely Fujisawa-juku), strengthen employment

### **Strengthen service of staff section**

- Support business department and strengthen forecast function (business forecast) by placing business management department (in November)
- Examine human resource system to improve ES (employee satisfaction)
- Examine store opening strengthened by cooperation among departments

### **Start planning new mid to long term strategy**

- Building new mid to long term strategies by strengthening members of board, business department and indirect business departments from all directions

## For reference: progress of high priority issues

### **Promotion of 52-Weeks Merchandizing**

- GLR business: product planning reflecting S/S 2006 (wholeness, by time difference, etc.)
- UA business: building weekly product plan and action plan for S/S 2007

### **Strengthening CRM using house cards as a start point**

- Build special division to prepare promotion throughout the company (as of Oct 1), preparation to create management plan and introduce analyzing tool
- GLR business: introduce house cards in all stores from end of September
  - introduction in all three main businesses
  - Total card holders throughout the company at end of September: approx 26 million people

### **Strengthening self-planned products**

- UA business: Placing apparel experienced manager as head of men's merchandise division. Proceed apparel type operation in both men's and women's merchandise
  - A certain level of results were seen in women's F/W 2006.
- GLR business: placing fashion director and strengthening product planning reflecting S/S 2006.

### **Improving efficiency of store front services**

- sufficient pre-education to registered short time workers
  - immediate sales force
  - additional effect: cover lack of part time workers with talented short time workers by promotion to part time workers (cf. working hours of short time workers: average 5 to 6 hours, part time workers: average 8 hours)
- Improve efficiency of incidental store operation: classify incidental operation into 85 different categories. Start service system registration and making process manual