

Medium-Term Management Plan SE13

Sanei Evolution 2011 - 2013

SANEI-INTERNATIONAL CO., LTD.

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SANEI's Business Environment

More sophisticated corporate management is required now to cope with slower growth of the economy, sluggish consumer market and changes in the market structure in Japan.

To achieve sustainable growth, it is necessary to expand business domain and markets as well as to increase profitability by improving operational proficiency.

Market environment	Issues to be addressed	
<p>Slower growth of the Japanese economy and sluggish domestic consumption</p> <ul style="list-style-type: none"> Japan's nominal GDP was approx. ¥505 trillion in 2008, with per capita GDP ranked 19th in the world. Household consumption in Japan was approx. ¥284 trillion in 2008. Actual consumption, excluding cost of living, has been on the decline. 	<p>Expand business overseas</p>	<p>Increase profitability through operational improvement of existing businesses</p>
<p>Ongoing deflationary economy</p> <ul style="list-style-type: none"> The core CPI*1, excluding food and energy, has been declining since the late 1990s, with domestic commodity prices on a weakening trend. In short, Japanese economy has not been able to break out of the longstanding deflationary trend. 	<p>Develop new low-priced brands/stores Cut down merchandise procurement costs</p>	
<p>Shift in channels in the retail market</p> <ul style="list-style-type: none"> Annual retail sales is on a declining trend, at approx. ¥135 trillion in 2008. Sales at volume retailers and department stores have decreased dramatically in the past 10 years. Developments of urban and suburban SCs progressed extensively in the past 20 years. 	<p>Develop new brands/stores for urban SCs Develop new brands/stores for suburban SCs Selection of and focus on existing brands</p>	
<p>Stagnant clothing consumption</p> <ul style="list-style-type: none"> The clothing market (including accessories) *2 was worth approx. ¥11 trillion in 2008, declining more sharply compared with the overall retail market. Some retail industries, such as cosmetics, have seen expansion. 	<p>Enter into businesses other than clothing and accessories</p>	

*1 Excluding food (except alcohol) and energy from the CPI.

*2 Total of men's, women's, children's and baby clothing and accessories as well as sportswear, and kimono fabrics and accessories.

SANEI's History and Future Directions

SANEI has achieved growth by constantly capturing changes of the times and developing brands that meet market needs.

We will advance further by creating brands/stores/business models that respond to consumer-led markets more quickly.

	Establishment – Early 1970s	Late 1970s – 1980s	1990s	2000s	From 2010 –
Business domain	Textiles	Clothing & accessories	Clothing & accessories	Clothing & accessories	Overall fashion market
Business model	Wholesale	Wholesale	Apparel maker SPA	Apparel maker SPA	SANEI-style SPA New business model
Leading brand		VIVAYOU Pinky & Dianne	NATURAL BEAUTY BODY DRESSING Deluxe	JILLSTUART NATURAL BEAUTY BASIC	Refer to the next page onward
Main channel	Apparel makers	Marui	Department stores	Department stores Station buildings	Urban SCs Suburban SCs Non-store sales
Market topic	Department stores and volume retailers are the main players in the consumer market.	Designer brand*1 boom Japanese designers*2 appearing in Paris Fashion Week Birth of “Shibu-kaji” (Shibuya casual)	Apparel makers running directly-managed stores*3 Rise of foreign brands*4 Rise of specialty select stores	UNIQLO buzz 109 boom Rise of retail SPA*5 Rush of large-scale SC development	Consumer-led market Expansion of non-apparel, experience-focused consumption style Global SPA's full-scale entry into Japanese market Overseas expansion of Japanese companies

*1 COMME CA, Nicole, BIGI, etc.

*2 Comme des Garçons,
ISSEY MIYAKE and Yohji
Yamamoto

*3 OZOC, BURBERRY BL, etc.

*4 agnès b., PRADA, etc.

*5 Point, Honeys, etc.

Competitive Climate and SANEI's Position

A totally different background: SANEI started apparel business with its own stores from the beginning while other major apparel makers started their business as apparel wholesalers.

SANEI's competitive advantage: We will expand our business domain and improve our operational capability while maintaining our competitive advantage of high fashionability (creativity)



*Based on SANEI's analysis of the industry

Medium-Term Management Plan SE13: Framework

“Transform SANEI from a traditional apparel manufacturer to an innovative fashion enterprise” based on the philosophy of customer value producing (theme of SE13)

First phase of regrowth to lead the industry and become No.1 in terms of both profitability and corporate appeal

Net sales of ¥120 billion and operating income of ¥4.8 billion in 2013

VISION

Become an innovative fashion enterprise who continues to challenge, evolve and carve out a new future of the fashion industry

- Taking on an thus-far impossible challenge of the industry: to achieve both trend-making creativity that goes ahead of the times and the industry-leading profitability -

MISSION

Fashion

Defining overall fashion market, not only the apparel market, as our business domain, we strive to make the fashion market in Japan exciting and enjoyable, by developing high-fashion products, services, brands and stores, utilizing SANEI's core competence, the creativity.

Retailing

Setting creative retailing as a core business model that constantly provide end customers with products and services with the highest fashionability compared with those in the same price range, we transform from an apparel manufacturer into a fashion retailer. In addition, we offer sensational shopping experience through memorable customer service and store presentation that no other firms can imitate.

Innovation

We lead the fashion business by continuing to develop new business models, brands, products and services in the ever-changing market. At the same time, we continue to be an innovative fashion enterprise that can constantly produce customer values that are a step ahead of others.

*1 Specialty store of Selected & Private labeled Apparel

*2 Original private brand products

*3 Internet Specialty store of Private labeled Apparel

STRATEGY

Establishment of new business models

Establish new business models, such as SSPA*1, a store business with optimal product mix of private brand*2 products and purchased products, like FREE'S SHOP and FREE'S MART and ISPA*3, a brand business to be rolled out mainly on the Internet.

Further development of existing business models

Improve the competitiveness of products and switch to point of sales-originated operation style to enhance revenue base, so that the brand SPA business, SANEI's foundation, will evolve into a unique SANEI-style (market-out) SPA business.

Expansion of business areas and markets

Increase revenue base and enhance portfolio-based management through M&A, alliance with firms in different sectors and self-development of new businesses, in order to enter the fashion business domain other than apparel and expand business in overseas markets.

Enhancement of management foundation

Optimize the current business infrastructure (administration, production and logistics) and streamline the management system including corporate governance, in order to stabilize and strengthen management foundation.

Medium-Term Management Plan SE13: Basic Strategy (1)

Establishment of new business models

□ Develop a revenue base for SSPA*1, a store business with optimal product mix of PB*2 products and purchased products

Set future domestic sales target of ¥10 billion for FREE'S SHOP (including menswear) and ¥20 billion for FREE'S MART, and foster the business

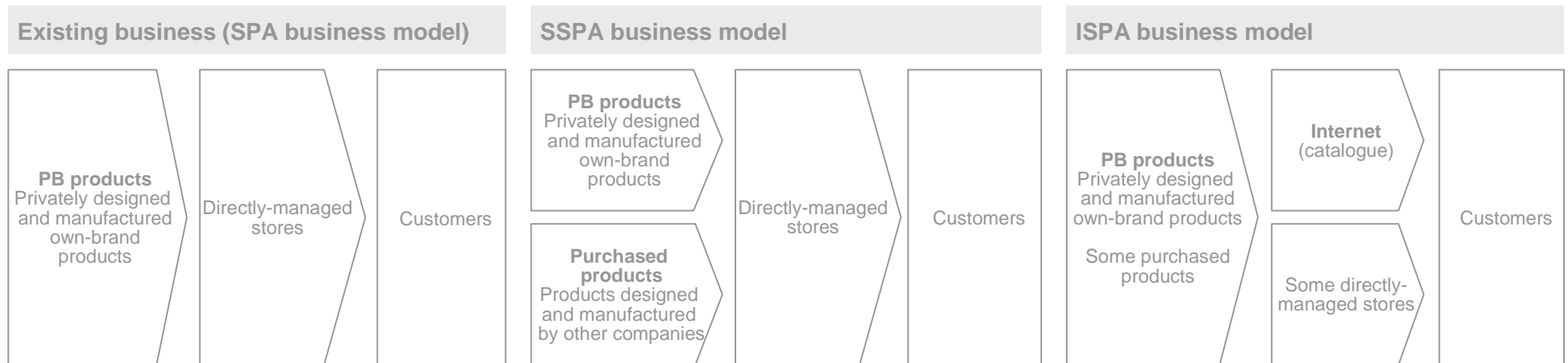
into a core earnings pillar.

□ Introduce ISPA*3, a brand business to be rolled out mainly on the Internet, and build its revenue base

Enter the Internet SPA business with Biancheri tutu (new business) which sells underwear and homewear on the Internet.

□ Expand the e-commerce business dramatically

Formulate growth strategies, including the expansion of Salecsonic, SANEI's industry-leading online shopping site. Achieve sales in the e-commerce business of ¥10 billion in the future.



A manufacturing retail business model in which originally designed, own-brand products are sold at directly-managed stores: Can achieve higher margin profit and realize differentiation

*1 Specialty store of Selected & Private labeled Apparel

*2 Original private brand products

*3 Internet Specialty store of Private labeled Apparel

A manufacturing/purchasing retail business model in which originally designed, own-brand products as well as products designed by other companies and other-companies' brand products are sold: Can attract more customers and provide more susceptible response to the market

A non-store manufacturing retail business model in which originally designed, own-brand products are sold mainly on the Internet (catalogue): Can achieve higher operating margin and realize differentiation

Medium-Term Management Plan SE13: Basic Strategy (2)

Further development of existing business models

□ Open stores proactively in growing channels

Open FREE'S MART, & by P&D and NATURAL BEAUTY BASIC stores aggressively within semi-suburban and suburban SCs, with future channel sales target of ¥30 billion.

□ Establish SANEI-style (market-out) SPA business model

Establish a unique hybrid, product-out, market-in SPA business model, in which information acquired from the market goes through brands' own filter and is then reflected into product planning. In this way, grow out of homogenization.

□ Improve the competitiveness of products and precision of merchandising operations

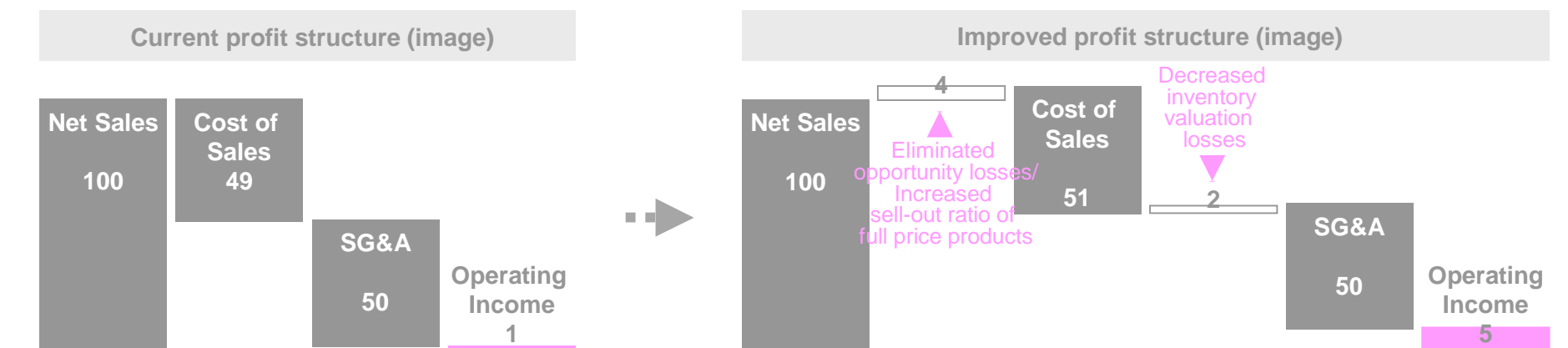
Increase the competitiveness of products by reconfirming the basics of manufacturing through the establishment of a production subsidiary. Improve the sell-out ratio for full price products and eliminate losses (in terms of opportunities and disposal) through thorough management of the 52-week merchandising system.

□ Strengthen store operations capabilities and enhance store profitability

Strengthen store supervising capability by upgrading functions of the Supervisor Sales Management Dept, and store sales capability by introducing a role playing competition. The overriding aim is to increase per store sales and profits.

□ Expand the scale and improve profitability of each business unit through selection and focus approach

Expand the operational scale of each business unit and improve its profitability by reducing product cost ratio and head office operating expense ratio based on economies of scale.



Medium-Term Management Plan SE13: Basic Strategy (3)

Expansion of business areas and markets

□ Expand fashion accessories SPA business

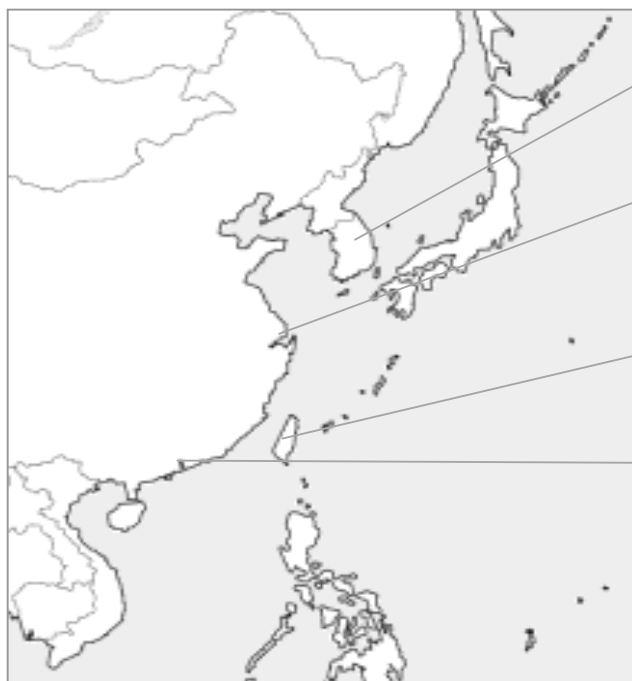
Expand the SPA business by introducing overseas brands, conducting M&A and developing new businesses that leverage SANEI's brand producing capabilities and know-how on SPA within the clothing and accessories market.

□ Enter peripheral fashion business domain

Enter into business domain with high affinity with the apparel business, such as home fashion goods, beauty and health-related products, by introducing overseas brands, establishing a joint venture with companies in different industries that build on SANEI brands, and conducting M&A.

□ Expand business in overseas markets

Expand business in overseas markets, such as in China, in full scale, focusing on JILLSTUART and Callaway Apparel, with future overseas sales target of ¥20 billion.



□ South Korea

- Currently : 18(8) Callaway Apparel stores and 4 PEARLY GATES stores
- Vision : Aggressive expansion measures are under consideration to rebuild the business, with sales target of ¥2 billion.

□ Shanghai and the rest of mainland China

- Currently : (3) JILLSTUART stores, 9 (5) Callaway Apparel stores and 2 other stores
- Vision : Drastic operational reform measures are under consideration, including in the form of a joint venture, with sales target of ¥15 billion.

□ Taiwan

- Currently : 4 JILLSTUART stores and 18 other stores
- Vision : Drastic operational reform measures are under consideration, including forging a new partnership.

□ Hong Kong

- Currently : 5 JILLSTUART stores, 6 (53) Callaway Apparel stores and 9 (1) other stores
- Vision : Expand aggressively centered on strong JILLSTUART stores, with sales target of ¥3 billion.

*Number of stores as of end of Aug., 2010. The numbers in parentheses indicate FC stores and are not included in the total.

Enhancement of management foundation

□ Foster next generation of business leaders

Invest in human resources vigorously, including training, to foster next generation of management team and business unit heads who will lead SANEI in the future, and establish a cycle of generation change within the management.

□ Strengthen business management capabilities

Strengthen organizational capabilities of administrative divisions in order to respond to changes in laws and regulations accurately, such as J-SOX and IFRS, and to ensure smooth business operations.

□ Enhance the functions of production subsidiaries

Lower the product cost ratio and shorten the lead time by eliminating overlapping functions based on partnership with a general trading company. Also, build the China+1 production framework to respond to a stronger yuan.

□ Secure operational speed through SBU* management and improve operational management level

Secure operational speed by abolishing business divisions and creating small business units instead, and by transferring more authorities to business unit heads. Improve and fully implement portfolio management by clarifying management standards.

* Small Business Unit

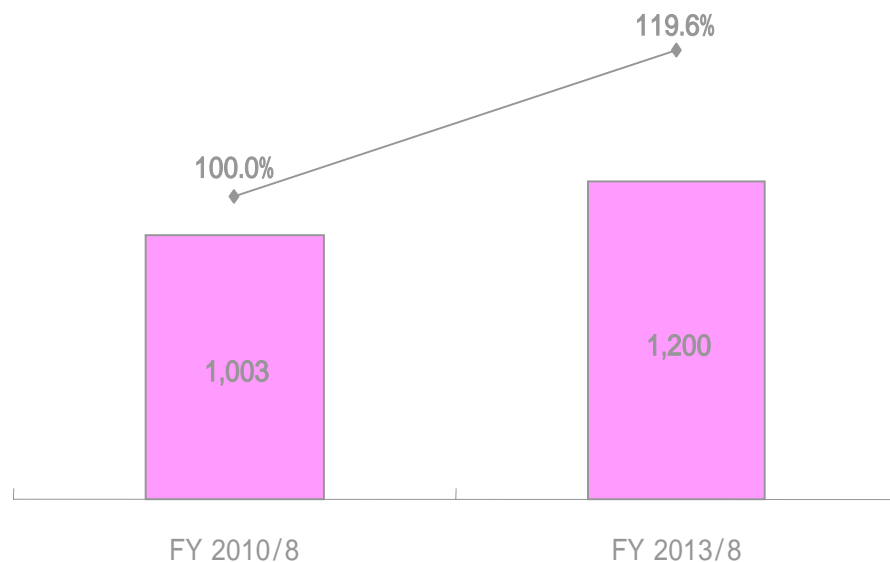
Medium-Term Management Plan SE13: Numerical Targets

Results for FY ending August 31, 2010

Net Sales 100.3 billion yen

Operating Income 0.86 billion yen
(Net sales ratio 0.9%)

Net Sales/Sales Growth Rate (vs. FY 2010/8)

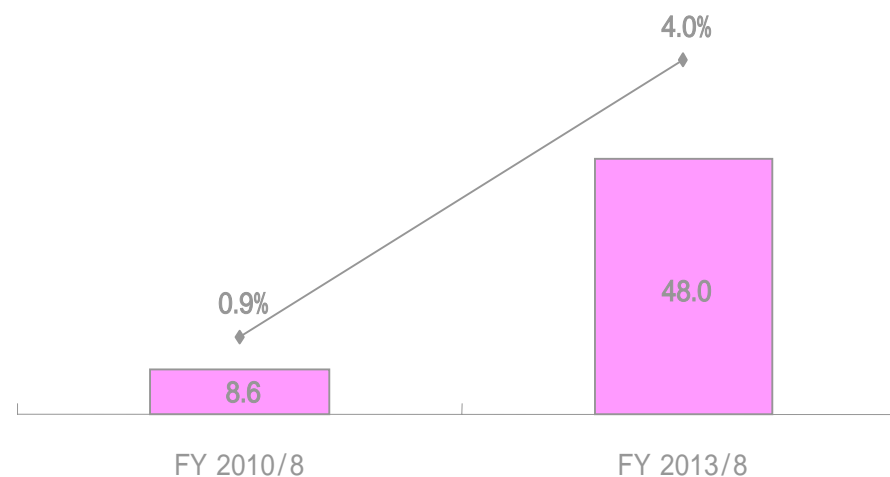


Targets for FY ending August 31, 2013

Net Sales 120 billion yen
(119.6% vs. FY 2010/8)

Operating Income 4.8 billion yen
(Net sales ratio 4.0%)
(556.2% vs. FY 2010/8)

Operating Income/Operating Margin



Medium-Term Management Plan SE13: Breakdown of Numerical Targets

2013 Targets

Net Sales : 120 billion yen
Operating Income : 4.8 billion yen

Sales Component by Channel (Results for FY 2010/8) (billions of yen)	
Urban SC brands	30.1
Suburban/Semi-suburban SC brands	12.8 (Incl. outlets)
Department store brands	49.4
E-commerce/Non-stores/Others*	4.5
International	3.5

Sales Component Image by Channel (Envisioned for FY 2010/8) (billions of yen)	
Urban SC brands	38.0
Suburban/Semi-suburban SC brands	21.5 (Incl. outlets)
Department store brands	47.0
E-commerce/Non-stores/Others*	6.5
International	7.0

*Includes license fee income, etc.

FREE'S MART

□ Fast fashion business originating in Japan that can compete with H&M and Forever 21

Representing Harajuku, the world's leading fashion-sensitive city, develop this business into one of the core businesses that can disseminate real fast fashion information from Tokyo.

□ The only fast fashion specialty store in the world

Global fast fashion companies handle their own brand products only (SPA business). SANEI will differentiate FREE'S MART with multi-brand SSPA business.

□ Plan to achieve profitability in the brand's second year of business

This business is likely to achieve profitability early by maintaining an optimal profit ratio despite the low-price nature of the business, opening stores in favorable locations and realizing low-cost operations.

□ Aim for domestic sales of ¥20 billion and overseas sales of ¥10 billion

Achieve domestic sales of ¥20 billion as early as possible by developing new large-scale stores and opening stores within suburban SCs. Also, open stores overseas in the future in order to grow it into a global business.



Medium-Term Management Plan SE13: Key Business to Achieve the Target (2)

JILL by JILLSTUART

□ Respond adequately to the low-price trend in the market

Roll out a market-responsive brand business with reasonable pricing, utilizing the world-class brand value of JILLSTUART which participates in the New York Collection.

□ Respond to the changes in the structure of channels within the market

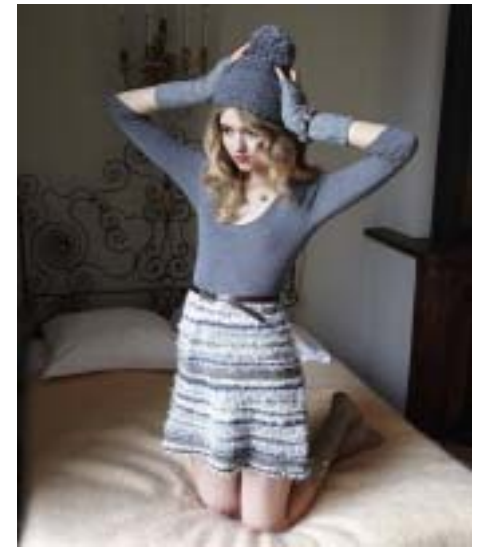
Develop merchandising system for small stores and open stores in semi-suburban SCs to expand the business, in addition to the traditional free standing stores and urban SCs.

□ A very profitable business with no license-related constraints

SANEI can develop a high profitable business with high flexibility as a trademark right holder in Japan and Asia (excluding Korea), with no product-related policy constraints and no license fees to pay.

□ Aim for domestic sales of ¥10 billion

This brand is highly acclaimed in the market, with many developers requesting SANEI to open JILL by JILLSTUART stores. SANEI will take on an aggressive policy to open these stores with a future domestic sales target of ¥10 billion.



NATURAL BEAUTY BASIC

□ Revitalize existing stores through marketing investment

Marketing investment, including TV commercials aired in March last year, resulted in an increasing trend in same-store sales year-on-year.

□ Enhance brand value with N. Natural Beauty Basic

Succeeded in enhancing brand value by converting some of the stores in urban centers into spin-off brand stores, N. Natural Beauty Basic, which responds to the casual trend in the market

□ Make large contributions to company-wide by revitalizing highly profitable businesses performance

With same-stores boasting the highest profitability in SANEI posting increases in sales, SANEI'S highly profitable business can contribute largely to profit without extra head office expenses.

□ Aim for domestic sales of ¥20 billion

Aim for domestic sales of ¥20 billion in future with increases in same-stores sales, opening of stores in new channels (some in suburban SCs), development of new lifestyle-related business and other means.

