

LTH

FISCAL YEAR 2007 INTERIM RESULTS

2007.4

LINK THEORY HOLDINGS CO., LTD.

I FYE2007 Interim Earnings Results

Hidetsugu Onishi, Group CFO
Link Theory Holdings Co., Ltd.

■ Consolidated P/L Statement

Interim Sales 29.6 bn(+38.6% YoY)

Interim Operating Income 114 mil(-95.4% YoY)

(Mil. JPY)

	FYE2007 Interim results	FYE2006 Interim results	Change (amount)	against last year (%)
Net Sales	29,610	21,365	8,244	138.6%
Gross Profit	14,748	11,679	3,069	126.3%
(Gross profit margin)	49.8%	54.7%	-	-4.9
Operating Income	114	2,479	-2,365	4.6%
(Operating margin)	0.4%	11.6%	-	-11.2
Ordinary Income	420	2,660	-2,240	15.8%
Net Income	-4,640	1,499	-6,140	-

EBITDA	1,386	3,102	-1,715	44.7%
EBITDA margin	4.7%	14.5%	-	-9.8

■ Interim Sales and Gross Profit

■ Interim sales increased by 8.24 bn (+38.6% YoY) to 29.6 bn

- Rosner consolidated※ 4.15 bn
- US operations 3.18 bn
- Japan operations 1.15 bn

■ Interim gross profit increased by 3.06 bn (+26.3% YoY)

■ Interim gross profit margin 49.8% (last year: 54.7%)

- 6 months consolidation of Rosner, affected by lackluster performance
- Increase of discount sales in Japan & US

※Rosner acquired in November 2005, just 2 months results consolidated in last fiscal year

■ Operating Income

■ Consolidated OP decreased
by 2.37 bn YoY

● US

-0.96 bn

● Japan

-0.6 bn

● Amortization of acquisition premium

(goodwill, trademarks, etc,)

-0.47 bn

(Regional Breakdown of Operating Income)

(100Mil. JPY)

	FYE2007 Interim results	FYE2006 Interim results
Japan (note)	6.3	12.3
US	8.3	17.9
Europe	-4.4	-2.0
Asia	-0.4	0.6
Subtotal	9.8	28.7
Amortization of acquisition premium	-8.6	-3.9
Consolidated Operating Income	1.1	24.8

(Note) Includes Group mgmt exp. (363 mil) in FYE2007 to make it comparable with FYE2006 results

■ Performance by Region (Japan)

Increased discount sales results in lower gross profit margin

(Mil. JPY)

	FYE2007 Interim results	FYE2006 Interim results	against last year (%)	(Ref) FYE2007 Interim results (excl. Group Mgmt. exp.)
Net Sales	11,628	10,474	111.0%	11,628
Gross Profit	5,639	5,582	101.0%	5,639
(Gross profit margin)	48.5%	53.3%	-4.8	48.5%
Operating Income	627	1,227	51.1%	990
(Operating margin)	5.4%	11.7%	-6.3	8.5%
Ordinary Income	783	1,259	62.2%	1,146
Income before taxes	656	1,093	60.0%	1,019

(Note) Includes Group mgmt exp. in LTH, excludes Mgmt fee from net sales paid by subsidiaries since this fiscal year

■ Performance by Region (US)

Sales: wholesale & retail business continued growth

Gross profit margin decreased due to increased discount sales

(Mil. JPY)

	FYE2007 Interim results	FYE2006 Interim results	against last year (%)	Dif. (last year)	Dif.		against last year (dollar base) (%)
					by Forex	other than Forex	
Net Sales	13,695	10,507	130.3%	3,188	322	2,865	127.3%
Gross Profit	7,143	5,630	126.9%	1,513	168	1,345	123.9%
(Gross profit margin)	52.2%	53.6%	-1.4	-	-	-	-1.4
Operating Income	834	1,792	46.5%	-958	19	-977	43.3%
(Operating margin)	6.1%	17.1%	-11.0	-	-	-	-11.3
Ordinary Income	987	1,925	51.3%	-937	90	-1,028	48.1%
Income before taxes	932	1,925	48.4%	-992	89	-1,081	45.3%

(Note) Includes royalty income, excludes amortization of acquisition premium from SG&A, excludes mgmt fee paid to holding co.
since this fiscal year

Exchange rate (JPY) 117.03 114.27

■ Performance by Region (Europe)

Gross profit margin decreased due to increased discount sales
4.73 bn impairment loss for Rosner

(Mil. JPY)

	FYE2007 Interim results	FYE2006 Interim results	against last year (%)	Dif. (last year)	Dif.		against last year (euro base) (%)
					by Forex	other than Forex	
Net Sales	4,805	646	743.3%	4,158	317	3,841	694.2%
Gross Profit	1,879	296	634.5%	1,583	124	1,459	592.6%
(Gross profit margin)	39.1%	45.8%	-6.7	-	-	-	-6.7
Operating Income	-442	-204	-	-237	-29	-208	-
(Operating margin)	-9.2%	-31.7%	22.5	-	-	-	22.5
Ordinary Income	-453	-224	-	-228	52	-281	-
Income before taxes	-5,368	-224	-	-5,143	-271	-4,871	-

(Note) Excludes amortization of acquisition premium from SG&A, just 2 months results was consolidated last year

Exchange rate (JPY) 150.04 140.13

■ Non-Operating & Extraordinary Items (Mil. JPY)

Non-operating income	
Non-Operating Income total	513
(Main items)	
Foreign exchange gain	442
Interest and dividend income	41

Non-operating expenses	
Non-Operating expenses total	207
(Main items)	
Interest expense	195

Extraordinary loss	
Extraordinary loss total	5,098
(Main items)	
Impairment loss	4,734
Allowance for restructuring expense	181

■ Consolidated Balance Sheet

Repaid subsidiaries' debt with funds raised by CB issuance
 Goodwill & trademarks decreased due to Rosner impairment

(Mil. JPY)

	Feb-07	ratio	Aug-06	ratio	Change (%)	Change (amount)
Current assets	21,519	49.0%	29,205	53.3%	73.7%	-7,685
Fixed assets	22,370	51.0%	25,580	46.7%	87.4%	-3,210
Total assets	43,889	100.0%	54,786	100.0%	80.1%	-10,896
Current liabilities	11,122	25.3%	13,274	24.2%	83.8%	-2,151
Long-term liabilities	19,394	44.2%	23,656	43.2%	82.0%	-4,261
Total liabilities	30,516	69.5%	36,930	67.4%	82.6%	-6,413
Net assets	13,372	30.5%	17,855	32.6%	74.9%	-4,482
Total liabilities and net assets	43,889	100.0%	54,786	100.0%	80.1%	-10,896

■ Consolidated Cash Flow

Operating activities: +0.4 bn due to decrease in inventories

Financing activities: -5.6 bn due to repayment of subsidiaries' debt

(Mil. JPY)

	FYE2007 Interim results	FYE2006 Interim results	Change (amount)
Cash flows from operating activities	407	579	-171
Income (loss) before income taxes	-4,676	2,492	-7,168
Impairment loss	4,734	-	4,734
(Increase) decrease in inventories	754	-841	1,596
Income taxes paid	-878	-1,755	877
Cash flows from investing activities	-1,549	-12,920	11,370
Purchases of property and equipment	-1,605	-829	-776
Purchases of its own stock by a subsidiary	-	-6,896	6,896
Purchases of subsidiary's stock resulting in changes in scope of consolidation	-	-5,018	5,018
Cash flows from financing activities	-5,582	6,270	-11,853
Proceeds from long-term debt	-	6,417	-6,417
Repayment of long-term debt	-5,976	-662	-5,313
Net change in cash and cash equivalents	-6,690	-6,049	-641
Cash and cash equivalents at end of fiscal period	7,098	4,769	2,329

■ Consolidated Forecast for FY2007

Operating Income : 50 mil; Net Loss : 6 bn

(Mil. JPY)

	FY2007 revised forecasts	FY2007 original forecasts	Change (amount)	Change from initial forecasts (%)
Net Sales	60,000	61,300	-1,300	97.9%
Gross Profit	30,350	32,975	-2,625	92.0%
(Gross profit margin)	50.6%	53.8%	-	-3.2
SG&A	30,300	29,425	875	103.0%
(% to Net Sales)	50.5%	48.0%	-	2.5
Operating Income	50	3,550	-3,500	1.4%
(Operating margin)	0.1%	5.8%	-	-5.7
Ordinary Income	0	3,450	-3,450	0.0%
Net Income	-6,000	1,650	-7,650	-

■ Consolidated Forecast (by Region)

Net Sales: Japan & Europe expected to come below original forecast

Operating Income: Increased expenses in US

(Mil. JPY)

	Japan	Change (vs original budget)	US	Change (vs original budget)	Europe	Change (vs original budget)	Elimination	Consolidated	Change (vs original budget)
Net Sales	23,321	-850	28,634	801	8,891	-865	-848	60,000	-1,300
Gross Profit	11,477	-1,181	15,228	-42	3,520	-1,075	122	30,350	-2,625
(Gross profit margin)	49.2%	-	53.2%	-	39.6%	-	-	50.6%	-
SG&A	10,662	-140	12,774	1,213	5,123	77	1,739	30,300	874
(% to Net Sales)	45.7%	-	44.6%	-	57.6%	-	-	50.5%	-
Operating Income	814	-1,040	2,454	-1,255	-1,602	-1,152	-1,616	50	-3,500
(Operating margin)	3.5%	-	8.6%	-	-18.0%	-	-	0.1%	-

(Note) Includes royalty income, excludes amortization of acquisition premium from SG&A

II Improvement Initiatives, FY2008 Outlook “Back to the Basics”

Link Theory Holdings Co., Ltd.

Ricky C. Sasaki, President and CEO

■ Improvement Initiatives

Bolster management structure in Japan, US and Europe

■ Europe

- CFO driving initiatives to strengthen management structure
- Focus on turning around Rosner business

■ Japan

- Stringent inventory control
- Theory 10 year anniversary promotion: “Back to the Basics” of Theory philosophy

■ US

- Strict monitoring for inventory and expense controls

■ Operational Update: Japan①

- Retail: March comparable store sales were down 13.6% YoY

➡ Merchandising going back to “Basics” of Theory brands

- Helmut Lang

- Initiate sales in 2007 Spring Summer season
(Open 3 stores in Isetan Shinjuku, Hankyu Umeda and Aoyama roadside store)



(Helmut Lang Aoyama store)

■ Operational Update: Japan②

■ New store format ~ 「PLS+T Gallery」

- Pursue better operating margins through fixed rent and large floor space
- Pursue openings in other metropolitan areas in addition to Nagoya



(PLS+T Gallery Midland Square)

■ US ① Operational Update

- Retail: comparable store sales (Mar.2007 YTD) +2.1% YoY

US retail sales (*)

	Mar-07		Mar-07 YTD	
	Total sales	Comparable store sales	Total sales	Comparable store sales
Retail sales total	152.0%	92.1%	159.0%	102.1%

- Wholesale

Mar.2007 YTD sales +16.4% YoY

Order backlog on track until June end

(*) The above numbers are preliminary and subject to final revision

■ US ② NY Flagship Store

■ NY flagship store

- Steady performance: \$1.6 mil in sales since Nov.2006 opening
- Enhancing Theory brand equity



(New York headquarters & flagship store)

■ US ③ New Initiatives

■ Helmut Lang

- Wholesale business started from 2007 Spring Summer season
- Great feedback from specialty store clients such as Barney's

■ Premise

- Wholesale business started from 2007 Spring Summer season as “Theory luxe” in US
- Great feedback from high-end department store clients such as Bloomingdale's



(Premise in Bloomingdale's)

■ US ④ Licensing

- Initiate licensing of eyewear products to L'Amy group (France)
 - Start distribution from 2008 Spring Summer season
 - Precedent for future licensing in cosmetics, perfume, etc.

(Summary of license agreement)

Licensor	Theory LLC
Licensee	L'Amy Incorporated (US)
Licensed period	5 years until 2012
Licensed products	Licensing Theory brand for ophthalmic glasses and sunglasses worldwide

■ Operational Update: Europe

■ Dedicated to turning around Rosner

- Going back to the original design to cater to the long-term core customers, i.e. women in their 40's
- Continue efforts to streamline expenses through downsizing, etc.

■ Theory: steadily advancing

- Wholesales: going on track
- 1st Theory store opened in March 2007, sales on track



(Theory store in Paris)

■FY2008 Outlook

Expect improved operating margins in Japan, US and Europe

	FY2006 Results	FY2007 Forecast	(100Mil. JPY) FY2008 Plan
Consolidated Net Sales	477	600	660
Operating Income (before goodwill amortization)			
Japan	17	8	11
US	34	24	37
Europe	-6	-16	-13
Asia	0	-1	0
Subtotal	45	16	35
Goodwill Amortization	-12	-15	-13
Consolidated Operating Income	33	0.5	22
(Operating margin)	7.0%	0.1%	3.4%

Appendix.

■ Sales Breakdown by Brand (Interim FY07)

	Japan	US	Europe	Asia	Total
Theory women's	27.3%	38.1%	1.5%	0.7%	67.6%
Theory men's	4.3%	5.5%	0.0%	0.0%	9.7%
Rosner	0.0%	0.0%	14.0%	0.0%	14.0%
Urbanholics	2.5%	0.0%	0.0%	0.0%	2.5%
Proof (Kulson)	2.7%	0.1%	0.0%	0.0%	2.8%
Others	2.3%	0.4%	0.7%	0.0%	3.3%
Total	39.1%	44.0%	16.2%	0.7%	100.0%

(Note) Urbanholics includes sales of 7 For All Mankind, Joie etc.

■ SG&A (Interim FY07)

(Mil. JPY)

	FYE2007 Interim results	FYE2006 Interim results	against last year (%)
Personnel	6,387	4,160	153.5%
Warehouse & Distribution	652	506	128.8%
Selling	2,012	981	205.0%
Advertisement & Promotions	517	332	155.7%
Rent	1,893	1,120	169.0%
Depreciation and amortization	1,271	622	204.3%
Outsourcing	570	541	105.5%
Others	1,327	934	142.1%
SG&A total	14,634	9,199	159.1%

■ Number of Retail Stores

	Number of stores as of Aug.2006	Store openings in FYE2007 1st half		Number of stores as of Feb.2007	Store openings in FYE2007 2nd half		Expeceted number of stores in Aug.2007
			(Net increase)			(Net increase)	
Japan	162	9	2	164	14	11	175
Theory women's	46	2	2	48	2	1	49
Theory men's	28	1	1	29	1	0	29
Theory luxe	31	2	2	33	3	3	36
Theory accessory	7	0	-2	5	0	-1	4
Theory petit	10	0	-1	9	0	0	9
Outlet	8	0	0	8	0	0	8
Helmut Lang	0	0	0	0	3	3	3
Proof (Kulson)	20	0	-4	16	1	1	17
Others	12	4	4	16	4	4	20
US	20	7	7	27	4	4	31
Europe	2	0	0	2	1	1	3
Asia	7	2	1	8	0	-4	4
Total	191	18	10	201	19	12	213

(Note) Japan includes 1 store of Theory Café. 4 stores in Korea&Taiwan has been transferred to local partners in FY2007 2nd half