



Ryohin Keikaku Co., Ltd.

Annual Report 2010

March 1, 2009 – February 28, 2010

Message from the President

“Back to our origins, into the future”

This year we celebrate the 30th anniversary of MUJI, and it is a symbolic opportunity for us to review our starting point and take a serious look at the future with the aim of improving ourselves as a global company.



MUJI is the main brand of Ryohin Keikaku: MUJI was developed to promote low price and high value products under the catch phrase: “Lower price for a reason.” Our aim was to create merchandise that is fundamental, practical and really necessary in daily life; we reviewed our materials and designs, streamlined time and labor in the manufacturing process and simplified packaging. We make simple, elegant and beautiful products that transcend eras, generations and cultures, and we have earned the support of numerous customers around the world. And thanks to them we are now able to welcome the 30th year since the birth of MUJI.

The world economy suffered a blow due to the Lehman Shock of 2008, and there are now signs of recovery. Against such a background we feel that a new era has started in which people seek a rich spiritual abundance rather than the material. We, who have celebrated this turning point, must once again take time to reflect upon our starting point, carefully review the essence, refine and change ourselves, and in this way renew our purpose to improve ourselves as one of the world’s global companies.

We will implement a management policy with the following four key points.

1. To establish a range of merchandise that our customers understand and appreciate
2. To improve our ability to communicate our concepts and sell our products
3. To develop an infrastructure with a target of 40 billion yen overseas sales
4. To implement actions in harmony with our vision, and activities to standardize our operations

MUJI thinks that when the trinity of Good Merchandise, Good Environment, and Good Information is well-balanced, this will naturally create a strong relationship with our customers. The slogan “Back to our origins, into the future” acknowledges our history; it is important for each one of us to engage in meaningful work and increase profit, and for the entire staff to work in harmony to create a company that is beneficial to society.

In addition, last year we established MUJI Laboratory for Living where in collaboration with all the businesses and people related to MUJI we constantly consider monozukuri (creation of useful items) and lifestyle. MUJI Laboratory for Living fulfills the following role through interactive communication with stakeholders, mainly via the WEB, to shape the future direction of Ryohin Keikaku, and communicate information on new projects and initiatives.

Ryohin Keikaku will continue to have MUJI at its heart and aims to develop MUJI by seeking to make available a simple, elegant and comfortable lifestyle that transcends fashions and cultures.

We would be grateful if, as shareholders and investors, you continue to support us.

Masaaki Kanai
President and Representative Director

A handwritten signature of Masaaki Kanai in black ink, written in a cursive style.

Business Information

MUJI MUJI business in Japan

Operating revenue (YOY): 142,721 million yen (98.1%)

Sales share: clothing and sundries 34.6%, housewares 54.6%, food 9.2%

Number of stores: 339 (-5)



In December 1980, MUJI started as a private brand of The Seiyu, Ltd. (currently Seiyu GK) with only 40 products, using the slogan “Lower priced for a reason.” The MUJI business was spun off from Seiyu into Ryohin Keikaku Co., Ltd. in 1989 and became a manufacturer/retailer for the planning, development, production, distribution and sale of “MUJI products,” which include diverse necessities such as clothes, household articles and food (MUJI now offers more than 7,000 items).

For the MUJI sales business in Japan during FY2009, we reinforced product development, promoting distinctive products with improved texture and functionality, using the catchphrase, “Naruhodo (‘indeed’) MUJI.” Having selected 73 items for strategic marketing prioritization, we were able to improve our sales force by combining advertisement & sales promotions with shop floor development. However, while products sold at revised prices enjoyed strong sales, our LFL stores suffered poor sales results particularly in terms of the core product lines, as we failed to offer competitive prices overall. On the other hand, the September launch of a TV commercial to attract more customers proved effective over time, leading to an upward trend in year-on-year rates of customer traffic at LFL stores since December and resulting in a year-on-year sales increase at LFL stores in January. In terms of new store openings, we strived to develop a small-store-based business style, which involves the opening of MUJI.com, with the theme of “A quick shop for daily items at your local store on your local street”; MUJI Beauty, offering mainly skincare goods, cosmetics and small articles for young adult women; and MUJI to GO, opening at stations and airports throughout the world based on the concept of “Travel & Mobile” (Pack and Go). In FY2010, 24 stores, including three small outlets, are to be opened. (One store is to be closed.)

MUJI MUJI Overseas Marketing Business

Operating revenue (YOY): 21,352 million yen (125.6%)

*including an affiliate in Taiwan accounted for using the equity method

Sales share: clothing and sundries 37.6%, housewares 56.7%, food 5.7%

Number of stores: 115 (+17)



The expansion of MUJI stores overseas started in Europe and Asia in 1991. By the end of FY2009, the number of stores totaled 115, in 17 countries and regions around the world. Across Europe in FY2009, we saw many stores including wholesalers suffer due to the declining economic environment, although in Britain, where LFL stores were refurbished, we enjoyed increased sales in the second half of the year. In Asia, while new store openings forced neighboring LFL stores to struggle in Hong Kong and Taiwan, our aggressive store openings in China contributed to increased sales. In terms of product categories, the percentage of gross profit decreased due to an increase in clothing and sundries inventories to be cleared, but sales of housewares did well thanks to strong sales of small articles in general. In addition, we began to sell food products in China. A total of 20 stores were opened during FY2009, including our first store opening in Indonesia. Above all, we accelerated in the rapidly growing Chinese market, where we opened 8 stores (13 stores as of the end of the fiscal year). We are making company-wide efforts to raise awareness of our brand in China. As a result, China now has the most stores in Asia after Taiwan. We will continue to expand in FY2010, with plans to open 33 stores a year (with two to be closed), including our first store to be opened in Poland (Warsaw).

Café&Meal MUJI The Café&Meal MUJI Business

Operating revenue (YOY): 1,587 million yen (107.3%)

Number of stores: 13 (+1)



The Café&Meal MUJI Business Department, established in 2000, operates Café MUJI and Meal MUJI, with the concept of “simple food”. In FY2009, we experienced strong sales as new stores were opened in response to the relocation and renewal of MUJI Futako-tamagawa in October 2009. In FY2010, we are planning in March to open Café MUJI Atrévie Sugamo adjacent to the small MUJI.com Atrévie Sugamo store.



MUJI Campsite Operation

Operating revenue (YOY): 165 million yen (112.2%)
Number of campsites: 3



Under the slogan of “No extra service but nature is abundant,” MUJI operates three campsites: Tsunan Campsite (opened in 1995 in Tsunan-machi, Niigata Prefecture), Minami-Norikura Campsite (opened in 1996 in Takayama, Gifu Prefecture) and Campagna Tsumagoi Campsite (opened in 2004 in Tsumagoi-mura, Gunma Prefecture). The number of registered customers at present is about 120,000. Managing 231 hectares of forest (combining the three campsites), we operate the campgrounds so that they take root in their local communities. For example, we run outdoor classrooms during the Golden Week holiday period and summer vacation, inviting lecturers from the local community. We view this campsite operation as a significant business operation that can contribute to society.



Flower Business (Hana-Ryohin Co., Ltd.)

Operating revenue (YOY): 752 million yen (88.6%)
Number of stores: 12



Under the theme of “Living with greenery and flowers,” Hana-Ryohin operates the “Hanayoshi” florists, Hana-Ryohin, and the Internet-based Flower MUJI, aiming to bring people closer to greenery and flowers. To enhance our profitability and achieve new growth, we are currently focused on online sales and developing new products such as floor-sized plants with foliage.

MUJI House Housing Business (MUJI.net Co., Ltd.)

Operating revenue (YOY): 1,396 million yen (97.2%)
Number of model houses: 22



The Living Space Planning Division of MUJI.net proposes a lifestyle based on the MUJI concept of living in a MUJI house, which is constructed in a way so that everyone feels safe and free, and which is durable. MUJI houses are designed by separating the building into two parts: a “skeleton” exterior, which is a very durable box, and the interior “infill”, which can be modified to satisfy various lifestyles. Partitions can be easily moved to match family lifestyles. To meet our customers’ needs, we are currently running sales promotions at 21 model houses installed nationwide, with the focus on three particular products: “Ki no ie (‘house of wood’),” which won a good design award in 2006; “Mado no ie (‘house of windows’),” which won a 2008 good design award gold prize; and “Asa no ie (‘morning house’),” which won a 2009 good design award. In 2010, our business was designated as a “leading model project providing long-term good housing”. We expect that preferential tax treatment as well as the Eco Points program for housing will enable further sales increases.

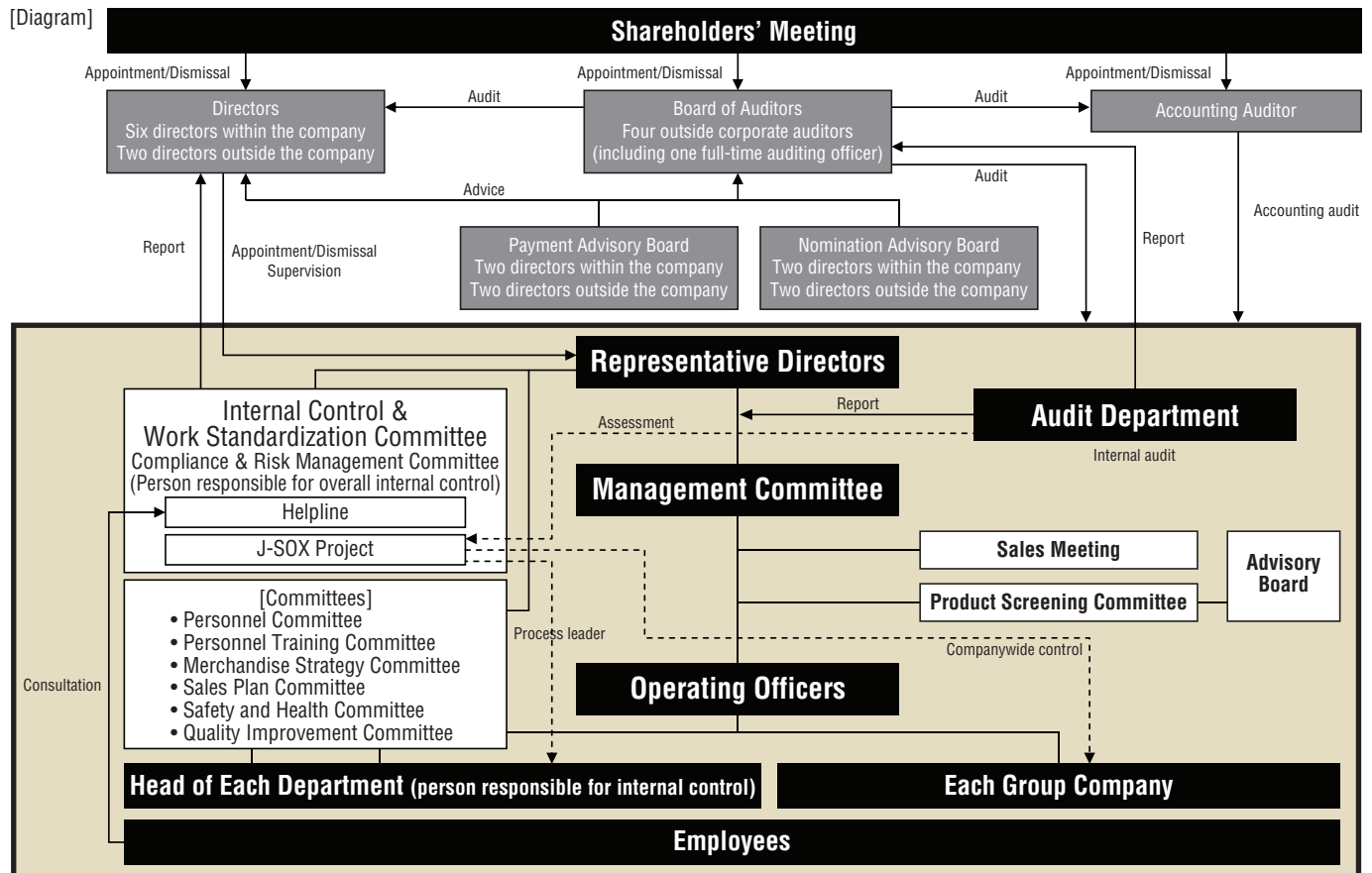
IDÉE IDÉE (IDÉE Co., Ltd.)

Operating revenue (YOY): 1,531 million yen (89.1%)
Number of stores: 5



IDÉE Co., Ltd. is active in the home furnishing business, planning, manufacturing and selling home furniture, interiors and other items. The company is well experienced in manufacturing furniture of its own design as well as furniture devised by product designers. Besides retailing products including its original furniture and sundries, antiques, curtains and rugs, IDÉE engages in space-related production, design and consultation. It also has various other lines of business including restaurants and a flower business. IDÉE proposes comprehensive lifestyles. Our benefit structure was improved in FY2009, thanks to a cost-saving relocation of headquarters as well as increased sales at LFL stores.

Corporate Governance



1. Basic Policy on Corporate Governance

We aim to establish good relationships with all stakeholders (shareholders, customers, client companies, employees and society), to differentiate ourselves from other companies and win an overwhelming presence and the trust of customers to enhance our corporate value. We have therefore been making improvements in manufacturing, sales, and customer service in order to enhance our reputation and strengthen the “MUJI (Mujirushi Ryohin)” brand image. We pledge to make fair and transparent disclosures to shareholders by developing proactive IR activities, and we will demonstrate our reliability by improving our business performance and increasing returns to shareholders. In our relationships with employees, we guide them toward achieving our company’s goals and establish an open and stimulating corporate culture so that employees can realize their full potential. Our organizational management processes ensure constant self-reflection and self-discipline, based on the lessons learned from a spate of corporate scandals seen in recent years.

2. Current status of Corporate Governance System for financial decision-making, and of Managerial Organization for execution of decisions and supervision

- 1) Currently, taking into account the size of our company and staff mobility, the Board consists of six directors within the company (six directors doubling as operating officers) and two directors outside the company. The supervisory functions and managerial responsibility of the Board of Directors are clearly stipulated, and we also promote delegation of authority, including reviews of the board system and decision-making systems as appropriate, in order to speed up implementation processes.
- 2) Our company adopts an audit system. Currently, the Board of Auditors consists of four members (including one full-time auditing officer). All four members are outside corporate auditors. The Board of Auditors audits the directors’ exercise of their duties by attending Board meetings and checking important documents. In addition, the Board of Auditors regularly liaises with the Audit Department, which conducts internal audits, and with the accounting auditor.
- 3) The Payment Advisory Board (consisting of two directors outside the company (including one chairperson), and two directors within the company) advises the Board of Directors on the payment of directors. The Nomination Advisory Board (consisting of two directors outside the company (including one chairperson), and two directors within the company) advises the Board of Directors on the nomination of directors.
- 4) The Audit Department (currently consisting of three members) conducts internal audits. The Department performs audits to determine whether business operations in stores and headquarters are being appropriately and correctly performed.
- 5) Accounting audits of our company are conducted by a team consisting of two certified public accountants with KPMG AZSA & Co., eight assistant certified public accountants, and twelve other members. Thus an environment for fair auditing is established. If a legal judgment is required, we consult lawyers who specialize in the relevant law.

CSR Activities

Five principles for coexistence with the earth

— Five principles of Ryohin Keikaku from the aspects of “the environment” and “society” —

1. We comply with Japanese and overseas laws in all of our activities.
2. We restrict the use of substances which may have a significant impact on people or the environment, and we will publish information in case of their use.
3. We endeavor to make natural materials traceable.
4. We reduce waste by standardizing modules, facilitating disassembly and by reducing packaging.
5. We communicate with all of the people involved in Ryohin Keikaku.

Programs to materialize the five principles

1. We include Ryohin Keikaku's stipulations concerning the environment, labor and safety management (the code of conduct for business partners) in basic contracts for the assignment of manufacturing. This ensures that there is mutual understanding with our business partners, which enables them to act according to the same principles followed by Ryohin Keikaku. We sent a questionnaire to all of our business partners in the latter half of FY2009 to confirm that they agree to act according to these principles. In the same questionnaire, we also confirmed the background of wood materials used in production.

2. Setting of major materials not used or controlled

Major materials include vinyl chloride resin (to which we do not add phthalic acid esters as a plasticizing agent in the manufacture of products for children or for products which come into direct contact with users' lips), formaldehyde (controlled in accord with JAS and JIS standards), forest resources (use of wood from illegal felling prohibited), stevia and sorbic acid (prohibited).

* Please refer to: <http://ryohin-keikaku.jp/csr/material.html>

3. MUJI stationery standards

MUJI stationery satisfies at least one of the following conditions:

- 1) Recycled materials (including recycled paper) are used.
- 2) Expendables are sold separately for replacement or refill.
- 3) Vinyl chloride is not used.
- 4) Wood pulp from illegal felling is not used.

* Covers of appointment books that were released for sale in February 2009 used vinyl chloride, hence these are being recalled and recycled.

4. Recycling

As a manufacturer and retailer, MUJI pays special attention to what happens to products after they have fulfilled their function. We therefore offer products that embody recycling principles, minimizing waste and reducing the strain placed on resources.

- 1) Participation in the FUKU-FUKU Project for textile recycling

About 90% of MUJI textile goods are made from cotton fibers. The FUKU-FUKU Project, which is a collaboration of companies from various industries, aims at 100% recycling of clothes primarily through the use of a new technology that regenerates bio-ethanol from cotton textiles. Ryohin Keikaku was one of the leading members of the experimental collection project supported by Japan's Ministry of Economy, Trade and Industry and the Organization for Small & Medium Enterprises and Regional Innovation, which was implemented for one year beginning in March 2009. We contributed to the experimental collection of customers' surplus clothing (carried out in designated areas twice during FY2009), the systematization of collection operations and the design of characters to represent the project. Since June 1, 2010, this project has been established as a business by JEPLAN Co., Ltd. While continuing to participate in this business, we are also planning to launch a campaign during the “MUJI Week” periods (held four times every year) for the collection of textile goods produced by our company.



2) Recycling recyclable materials

Certain items made from water-repellent nylons are collected at the store to be chemically recycled by our contract manufacturer.

3) Recycling of appointment book covers

Removable diary covers that are made from vinyl chloride and from textiles are collected at the store. These types of covers will be recycled to manufacture products in the recycling system at each contract manufacturer (but not to be used in MUJI products).

5. Fair Trade products

Fair Trade aims to facilitate fair trade practices for the benefit of farm workers in developing countries. We commenced sales of Fair Trade coffee in October 2006.

In 2007, we replaced all the three types of regular tea bags with products carrying Fair Trade certification labels. In 2009, our Flower MUJI subsidiary commenced sales of Fair Trade flowers. Also, prior to World Fair Trade Day in spring 2010, we held a Fair Trade Exhibition at MUJI Yurakucho in an effort to improve public awareness of the fair trade cause.

* Fair Trade was initiated to support small and impoverished farmers in developing nations. For more information, please visit the relevant page on our website.



6. Contributing to society

MUJI makes important contributions to society through its business. Ideas are generated within the company and activities are led mainly by staff in charge of product development. Our main activities are as follows.

1) Pink Ribbon Campaign

In 2007, we started making contributions to the Pink Ribbon Campaign to raise awareness of early detection of breast cancer, donating one yen from the sale of each camisole with bra cups (not including certain items), which is one of our core products on sale from March through August every year. Also in March every year, our corporate website provides information to promote early detection of breast cancer.

2) "My bag" - featuring pictures drawn by children

Every October since 2008, we have supported the activities of an NPO called Kids Earth Fund by putting on sale bags featuring pictures drawn by children and owned by the NPO, so as to donate a part of our sales proceeds to the organization. Since 2009, at Café & Meal MUJI, we have installed a permanent exhibition of children's pictures rented from the NPO. In spring 2010, we embarked on a new endeavor through which we donated to the NPO pictures drawn at school by the children of cotton farmers, launched the sale of bags featuring those pictures, and then donated a part of the sales proceeds to Kids Earth Fund.



3) Launch of charity bags to commemorate reopening of MUJI Ikebukuro Seibu

To commemorate the reopening of MUJI Ikebukuro Seibu on September 18, 2009, we launched a limited range of textile bags bearing original printed illustrations. The design of these bags involved a total of 34 prominent world-class product designers, architects, interior designers and illustrators. We donated the full sales proceeds of approximately 1.5 million yen to the Creative Conservation Club (CCC), a group of writers who volunteer to work for the protection and recovery of the natural environment because they enjoy their writing work in the natural environment and are strongly concerned about the issue of environmental destruction.

7. Activities at MUJI campsites

We operate three campsites (at Tsunan Town in Niigata Prefecture, Takayama City in Gifu Prefecture, and Tsumagoi Village in Gunma Prefecture) and manage 231 hectares of forest. We operate these campgrounds so that they take root in their local communities. For example, we run outdoor classrooms during the Golden Week holiday period and summer vacation, inviting lecturers from the local community. In addition, we support activities for children such as the popular "Kids' Summer Camp", and since 2008, staff volunteers have been recruited from within the company to participate.



Financial Status

1. Major management indicators and other items

1) Consolidated financial index and other items

Term	27th term	28th term	29th term	30th term	31st term
Month, FY	Feb FY06	Feb FY07	Feb FY08	Feb FY09	Feb FY10
Operating revenue (million yen)	140,890	157,063	162,840	163,757	164,341
Ordinary profit (million yen)	15,653	16,931	18,666	17,358	14,608
Net income (million yen)	9,344	9,313	10,689	6,936	7,506
Net assets (million yen)	53,922	61,582	69,936	71,528	77,066
Total assets (million yen)	69,447	78,831	89,115	92,000	99,381
Net assets per share (yen)	1,951.49	2,207.68	2,438.55	2,522.54	2,718.43
Earning per share (yen)	338.44	336.79	385.23	249.80	270.31
Fully diluted net income per share (yen)	336.46	335.58	384.71	249.49	269.83
Capital adequacy ratio (%)	77.6	77.5	76.0	76.1	76.0
Earnings on equity (%)	18.8	16.2	16.6	10.1	10.3
Price earnings ratio (times)	25.97	24.05	14.46	13.89	13.76
Cash flows from operating activities (million yen)	11,174	11,448	14,971	11,321	11,546
Cash flows from investing activities (million yen)	△3,282	△10,513	△10,296	△10,845	△5,135
Cash flows from financing activities (million yen)	△974	△1,861	△1,035	△3,104	△2,779
Cash and cash equivalents at end of year (million yen)	24,063	23,414	26,748	22,222	26,108
Number of employees [Others: average number of temporary staff members] (people)	1,586 [2,967]	1,762 [3,228]	2,115 [3,290]	2,471 [3,676]	2,331 [3,991]

(Notes)

- Operating revenue includes sales and operating income.
- In calculating net assets, “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (ASBJ Statement No. 5) and “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” (ASBJ Guidance No. 8) have been applied since February 2007.
- Operating revenue mentioned above does not include either consumption tax or local consumption tax.

2) The submitting company's management indicators and others

Term	27th term	28th term	29th term	30th term	31st term
Month, FY	Feb FY06	Feb FY07	Feb FY08	Feb FY09	Feb FY10
Operating revenue (million yen)	127,495	139,350	142,845	145,448	142,721
Ordinary profit (million yen)	15,121	16,327	17,583	16,807	13,161
Net income (million yen)	8,862	9,083	10,037	6,538	6,840
Share capital (million yen)	6,766	6,766	6,766	6,766	6,766
Total number of issued stock (shares)	28,078,000	28,078,000	28,078,000	28,078,000	28,078,000
Net assets (million yen)	52,963	52,485	66,077	69,972	74,461
Total assets (million yen)	66,783	73,557	81,450	87,761	93,299
Net assets per share (yen)	1,916.77	2,147.44	2,376.59	2,514.73	2,674.46
Dividend per share (yen)	80.00	90.00	97.00	110.00	110.00
(Including interim dividend per share) (yen)	(35.00)	(45.00)	(47.00)	(55.00)	(55.00)
Earning per share (yen)	322.40	328.48	361.74	235.48	246.36
Fully diluted net income per share (yen)	319.02	327.30	361.25	235.19	245.92
Capital adequacy ratio (%)	79.3	80.8	81.0	79.6	79.6
Earnings on equity (%)	18.1	16.2	16.0	9.6	9.5
Price earnings ratio (times)	27.26	24.66	15.40	14.74	15.10
Dividend payout ratio (%)	24.9	27.4	26.8	46.7	44.7
Number of employees [Others: average number of temporary staff members] (people)	863 [2,720]	919 [2,844]	1,064 [3,039]	1,155 [3,202]	1,217 [3,302]

(Notes)

1. Operating revenue includes sales and operating income.
2. In calculating net assets, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Statement No. 5) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8) have been applied since February 2007.
3. Operating revenue mentioned above does not include either consumption tax or local consumption tax.

2. Business Overview

1) Business results

Japan's economy in the current consolidated fiscal year has seen a slowdown in the real economy triggering unemployment adjustments, which resulted in increased unemployment rates and other problems. And as declining personal income has caused consumption to slow down, deflation is becoming more likely.

Furthermore, in contrast to low-end retailers enjoying increased sales, department stores and general merchandise stores have been struggling. Under such circumstances, total consumption remains sluggish.

Under these circumstances, our company group (Ryohin Keikaku Co., Ltd., our consolidated subsidiaries and affiliated companies accounted for using the equity method) has implemented policies focusing on the development of highly distinctive products, the reinforcement of its sales force, advertisements and sales promotions, aggressive expansion of its overseas business, and the strengthening of our corporate structure by standardizing business practices. Unfortunately, however, despite these efforts, we are suffering bleak business conditions, mainly at LFL stores, due to the sluggish sales of core products caused by a decline in sales prices, as well as a drop in the percentage of gross profit owing to price cuts including inventory adjustments.

Thus, for this consolidated fiscal year, revenue from operations amounted to 164,341 million yen (up 0.4 percent from the previous year), ordinary profit was 14,608 million yen (down 15.8 percent), and net income was 7,506 million yen (up 8.2 percent).

Here are the results reported on a regional basis.

(Japan)

For the MUJI sales business in Japan, we reinforced product development, promoting distinctive products with improved texture and functionality, using the catchphrase, "Naruhodo ('indeed') MUJI." Having selected 73 items for strategic marketing prioritization, we were able to improve our sales force by combining advertisement & sales promotions with shop floor development. However, while products sold at revised prices enjoyed strong sales, customers are increasingly attracted by low-end products and our LFL stores suffered poor sales results particularly in terms of the core product lines, as we failed to offer competitive prices overall.

In addition, despite cost-cutting efforts such as increased direct purchases from overseas manufacturers, the percentage of gross profit declined as a consequence of aggressive clearance of seasonal goods, aimed at increasing sales and reducing inventories.

On the other hand, the September launch of a TV commercial to attract more customers proved effective over time, leading to an upward trend in year-on-year rates of customer traffic at LFL stores since December and resulting in a year-on-year sales increase at LFL stores in January.

In terms of product categories, and "wear" products (our main line of clothing and sundries) in particular, we were able to sustain stable sales in womenswear by improving the products' texture and keeping prices down, but the sales of menswear suffered, especially in regular items such as shirts and cut-and-sewn products.

In terms of housewares, the "aroma diffuser," a product in the health and beauty line, achieved significantly larger sales than planned because it was reasonably priced in relation to its quality. While the aroma diffuser and furniture products, which also enjoyed good sales owing to price reductions, combined to contribute to sustained sales, overall sales were down due to the stagnant sales of linens and interior goods, which are core products.

With regard to food products, sales of processed foods including self-cooking products have increased, contributing to good results at LFL stores in the second half of the year, when sales exceeded results from the previous year. Valentine goods in particular made a great contribution to the overall sales increase.

In terms of sales channels, we posted poor results in supply sales due to the closure of Seiyu stores, sluggish business at LFL stores, and the insufficient expansion of products and lack of price-competitiveness at FamilyMart stores.

As for the online store, sales have been increasing but the growth is minimal due to the stagnant sales of high-end products.

With regard to store openings and closures, we opened a total of 24 new stores (of which 22 are directly managed stores), including two "MUJI to GO" stores, new small-store businesses opened at Kansai International Airport and Central Japan International Airport, and one "MUJI.com" store opened at Hakata Station. We also refurbished 11 stores (including three directly managed stores) either by expanding or contracting the floor area for the purpose of improving operational efficiency. A total of 29 stores including 18 Seiyu stores (of which seven are directly managed stores) were replaced or closed. As a consequence, the total number of stores (except for Café&Meal MUJI and campsites) as of February 28, 2010 is 339 stores (including 212 directly managed stores) and the total shop floor area is 249,197m² (166,981m² for directly managed stores).

Thus, revenue from operations in Japan was 146,818 million yen (down 2.1 percent from the previous year) and operating profit was 13,265 million yen (down 20.1 percent).

(Europe)

Across Europe, we saw many stores including wholesalers suffer due to the declining economic environment, although in Britain, where LFL stores were refurbished, we enjoyed increased sales in the second half of the year. In terms of product categories, while some individual items of clothing and sundries achieved good sales as promotions started after completion of a review of development systems, we struggled in differentiating ourselves from our competitors in terms of the setting of prices for the selling-off period.

Housewares, including storage goods and Christmas items, which normally share a large percentage of sales in the Christmas season, showed strong sales, contributing to sales growth.

In terms of store openings, we opened a total of four new stores: one in France (directly managed), one in Germany (directly managed), one in Sweden (supplier) and one in Turkey (supplier). Meanwhile, three stores were closed: two in Sweden (suppliers) and one in Norway (supplier).

Thus, revenue from operations in Europe totaled 8,031 million yen (up 20.3 percent from the previous year), while operating profit totaled 345 million yen (up 12.9 percent).

(Asia)

In Asia, while internal competition made LFL stores struggle in Hong Kong and Taiwan, aggressive store openings in China contributed to increased sales.

In terms of product categories, while an increase in inventories to be cleared in clothing and sundries affected the percentage of gross profit, housewares saw increased sales owing to strong sales of sundries. We also started to sell food products in China.

In terms of store openings, we launched a total of 16 new stores: one in Hong Kong (directly managed), one in Singapore (directly managed), one in South Korea (directly managed), eight in China (directly managed), three in Taiwan (suppliers), one in Thailand (supplier) and the first store to be opened in Indonesia (supplier). Also, we had one store in Taiwan (supplier) refurbished.

Thus, revenue from operations in Asia totaled 8,630 million yen (up 33.0 percent from the previous year), while operating profit totaled 742 million yen (up 71.7 percent).

(Other regions)

In the United States, business conditions still remain severe.

Thus, revenue from operations in other regions totaled 861 million yen (up 24.9 percent from the previous year), while operating profit totaled 126 million yen (up 10 million yen from the previous year).

“Asia” was previously classified as being part of “Other regions.” However, since the significance of revenue from operations in “Asia” has increased, from this consolidated fiscal year on we will describe “Asia” as being separate from “Other regions.”

Regional business results

Regions	Operating revenue (Million yen)	YOY (%)	Operating profit or Operating loss (△) (Million yen)	YOY (%) or YOY margin (Million yen)
Japan	146,818	97.9	13,265	79.9
Europe	8,031	120.3	345	112.9
Asia	8,630	133.0	742	171.7
Other regions	861	124.9	△126	(△10)

Notes

1. “Operating profit” in the regional business results reflects the figures calculated before consolidated elimination. The amount after consolidated elimination was 93 million yen less.
2. The YOY percentage and YOY margin are based on comparison with the figures for the previous consolidated fiscal year, which were converted in accordance with the revised segments.

2) Cash flow status

(Cash flows from operating activities)

The amount of capital gained from operating activities was 11,546 million yen (up 225 million yen from the previous year).

These cash flows were mainly generated from 12,781 million yen in net income before tax adjustments, a decrease of 1,115 million yen in trade account payable and 5,583 million yen for corporate tax payment.

(Cash flows from investing activities)

The amount of capital used as a result of investing activities was 5,135 million yen (down 5,710 million yen from the previous year).

These cash flows were mainly generated from 3,176 million yen for the acquisition of business properties including stores and 1,709 million yen in expenditures including deposit payments for store openings.

(Cash flows from financing activities)

The amount of capital lost as a result of financing activities was 2,779 million yen (down 324 million yen from the previous year).

These cash flows were mainly generated from 3,049 million yen for dividend payments.

As a result of the above, the balance of cash and cash equivalents at the end of this consolidated fiscal year was 26,108 million yen, an increase of 3,885 million yen compared to the previous consolidated fiscal year.

3. Consolidated Financial Statements

1) Balance sheet (consolidated)

(Unit: Million yen)

	Previous consolidated fiscal year (February 28, 2009)	Current consolidated fiscal year (February 28, 2010)
Assets		
Current assets		
Cash on hand and in banks	12,246	16,196
Notes and accounts receivable	6,033	6,218
Marketable securities	9,996	11,998
Inventories	15,340	—
Products	—	15,180
Work in process	—	43
Supplies	—	43
Deferred tax assets	423	370
Accounts receivable - other	4,320	4,565
Other items	2,149	1,651
Allowance for doubtful accounts	△25	△21
Total current assets	50,486	56,246
Fixed assets		
Tangible fixed assets		
Buildings and structures	17,776	19,578
Accumulated depreciation	△9,286	△10,394
Buildings and structures (net value)	8,489	9,184
Machinery, equipment and vehicles	1,561	1,684
Accumulated depreciation	△1,140	△1,285
Machinery, equipment and vehicles (net value)	421	399
Equipment	8,809	9,968
Accumulated depreciation	△6,643	△7,717
Equipment (net value)	2,165	2,251
Land	1,038	1,038
Lease assets	—	34
Accumulated depreciation	—	△20
Lease assets (net value)	—	13
Construction in progress	768	158
Other	1	—
Total tangible fixed assets	12,884	13,046
Intangible fixed assets		
Goodwill	90	1
Other	3,483	3,423
Total intangible fixed assets	3,574	3,424
Investments and other assets		
Investment securities	*1 9,675	*1 10,740
Guarantee deposits	3,653	—
Lease deposits	9,526	—
Lease and guarantee deposits	—	14,314

(Unit: Million yen)

	Previous consolidated fiscal year (February 28, 2009)	Current consolidated fiscal year (February 28, 2010)
Deferred tax assets	1,996	1,595
Other	223	535
Allowance for doubtful accounts	△20	△523
Total investments and other assets	25,056	26,663
Total fixed assets	41,514	43,135
Total assets	92,000	99,381
Liabilities		
Current liabilities		
Accounts payable	12,526	11,607
Short-term loans payable	—	276
Accrued expenses	3,589	3,539
Lease liabilities	—	7
Income taxes payable	2,514	2,358
Reserve for bonuses	111	135
Reserve for directors' bonuses	32	30
Reserve for loss on closing of stores	77	167
Other	1,194	3,201
Total current liabilities	20,046	21,332
Long-term liabilities		
Lease liabilities	—	5
Reserve for directors' retirement benefits	148	137
Reserve for loss on non-cancelable lease contracts	—	463
Other	277	375
Total long-term liabilities	426	982
Total liabilities	20,472	22,314
Net assets		
Shareholders' equity		
Capital stock	6,766	6,766
Capital surplus	10,122	10,122
Earned surplus	57,030	61,474
Treasury stock	△963	△964
Total shareholders' equity	72,955	77,398
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	△1,322	△673
Translation adjustment	△1,586	△1,240
Total valuation and translation adjustments	△2,908	△1,913
Stock acquisition rights	142	197
Minority interests	1,338	1,383
Total net assets	71,528	77,066
Total liabilities and net assets	92,000	99,381

2) Consolidated income statements

(Unit: Million yen)

	Previous consolidated fiscal year (March 1, 2008 – February 28, 2009)	Current consolidated fiscal year (March 1, 2009 – February 28, 2010)
Net sales	162,814	163,733
Cost of sales	88,890	*1 89,776
Gross profit	73,923	73,956
Operating revenue	943	608
Operating profit before S.G.A.	74,866	74,565
Selling, general and administrative expenses		
Advertising expenses	3,262	3,739
Distribution and transportation expenses	6,551	6,627
Employees' salaries and bonuses	15,311	16,101
Provision of reserve for directors' bonuses	32	30
Leasehold and office rents	15,547	16,818
Depreciation	3,003	3,268
Provision of allowance for doubtful accounts	37	4
Other	*2 13,897	*2 13,840
Total selling, general and administrative expenses	57,643	60,431
Operating profit	17,223	14,134
Non-operating income		
Interest income	138	39
Dividends income	181	280
Co-sponsor fee	11	12
Equity in earnings of affiliates	96	134
Other	138	82
Total non-operating income	566	548
Non-operating expenses		
Interest expenses	10	7
Foreign exchange losses	351	41
Loss on disposal of goods	—	12
Other	69	13
Total non-operating expenses	432	74
Ordinary profit	17,358	14,608
Extraordinary income		
Gain on prior period adjustment	—	20
Gain on sales of investment securities	1	—
Reversal of allowance for doubtful accounts	9	—
Reversal of reserve for loss on closing of stores	—	12
Other	33	12
Total extraordinary income	43	45

(Unit: Million yen)

	Previous consolidated fiscal year (March 1, 2008 – February 28, 2009)	Current consolidated fiscal year (March 1, 2009 – February 28, 2010)
Extraordinary losses		
Loss on retirement of fixed assets	*3 277	*3 126
Loss on valuation of goods	—	*1 231
Loss on valuation of investment securities	4,446	—
Impairment loss	*4 301	*4 255
Amortization of goodwill	—	142
Provision of reserve for loss on closing of stores	77	168
Provision of allowance for doubtful accounts	—	497
Provision of reserve for loss on non-cancelable lease contracts	—	322
Other	181	127
Total extraordinary losses	5,285	1,871
Income before income taxes	12,117	12,781
Income taxes - current	6,102	5,368
Income taxes - deferred	△826	8
Total income taxes	5,276	5,376
Minority interests in loss (△)	△95	△101
Net income	6,936	7,506

3) Consolidated statements of changes in net assets

(Unit: Million yen)

	Previous consolidated fiscal year (March 1, 2008 – February 28, 2009)	Current consolidated fiscal year (March 1, 2009 – February 28, 2010)
Shareholders' equity		
Capital stock		
Balance at end of previous term	6,766	6,766
Changes of items during term		
Total changes of items during term	—	—
Balance at end of term	6,766	6,766
Capital surplus		
Balance at end of previous term	10,123	10,122
Changes of items during term		
Disposal of treasury stock	△1	—
Total changes of items during term	△1	—
Balance at end of term	10,122	10,122
Retained earnings		
Balance at end of previous term	53,009	57,030
Effect of changes in accounting policies applied to foreign subsidiaries	—	△7
Changes of items during term		
Dividends from surplus	△2,915	△3,054
Net income	6,936	7,506
Total changes of items during term	4,020	4,451
Balance at end of term	57,030	61,474
Treasury stock		
Balance at end of previous term	△969	△963
Changes of items during term		
Purchase of treasury stock	△2	△0
Disposal of treasury stock	7	—
Total changes of items during term	5	△0
Balance at end of term	△963	△964
Total shareholders' equity		
Balance at end of previous term	68,929	72,955
Effect of changes in accounting policies applied to foreign subsidiaries	—	△7
Changes of items during term		
Dividends from surplus	△2,915	△3,054
Net income	6,936	7,506
Purchase of treasury stock	△2	△0
Disposal of treasury stock	6	—
Total changes of items during term	4,025	4,450
Balance at end of term	72,955	77,398

(Unit: Million yen)

	Previous consolidated fiscal year (March 1, 2008 – February 28, 2009)	Current consolidated fiscal year (March 1, 2009 – February 28, 2010)
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance at end of previous term	△1,535	△1,322
Changes of items during term		
Net changes of items other than shareholders' equity (net value)	213	649
Total changes of items during term	213	649
Balance at end of term	△1,322	△673
Translation adjustment		
Balance at end of previous term	314	△1,586
Changes of items during term		
Net changes of items other than shareholders' equity (net value)	△1,901	346
Total changes of items during term	△1,901	346
Balance at end of term	△1,586	△1,240
Total valuation and translation adjustments		
Balance at end of previous term	△1,220	△2,908
Changes of items during term		
Net changes of items other than shareholders' equity (net value)	△1,687	995
Total changes of items during term	△1,687	995
Balance at end of term	△2,908	△1,913
Stock acquisition rights		
Balance at end of previous term	88	142
Changes of items during term		
Net changes of items other than shareholders' equity (net value)	54	54
Total changes of items during term	54	54
Balance at end of term	142	197
Minority interests		
Balance at end of previous term	2,138	1,338
Changes of items during term		
Net changes of items other than shareholders' equity (net value)	△800	45
Total changes of items during term	△800	45
Balance at end of term	1,338	1,383

(Unit: Million yen)

	Previous consolidated fiscal year (March 1, 2008 – February 28, 2009)	Current consolidated fiscal year (March 1, 2009 – February 28, 2010)
Total net assets		
Balance at end of previous term	69,936	71,528
Net changes of items other than shareholders' equity	—	△7
Changes of items during term		
Dividends from surplus	△ 2,915	△ 3,054
Net income	6,936	7,506
Purchase of treasury stock	△ 2	△ 0
Disposal of treasury stock	6	—
Net changes of items other than shareholders' equity (net value)	△ 2,433	1,094
Total changes of items during term	1,591	5,545
Balance at end of term	71,528	77,066

4) Cash flow statements

(Unit: Million yen)

	Previous consolidated fiscal year (March 1, 2008 – February 28, 2009)	Current consolidated fiscal year (March 1, 2009 – February 28, 2010)
Net cash provided by operating activities		
Income before income taxes	12,117	12,781
Depreciation	2,616	2,840
Depreciation of software	602	649
Amortization of goodwill	127	238
Increase (decrease) in allowance for doubtful accounts (Δ =decrease)	9	498
Increase (decrease) in reserve for directors' bonuses (Δ =decrease)	Δ 17	Δ 1
Increase (decrease) in reserve for retirement benefits and directors' retirement benefits (Δ =decrease)	2	Δ 12
Increase (decrease) in reserve for loss on closing of stores (Δ =decrease)	77	89
Increase (decrease) in reserve for loss on non-cancelable lease contracts (Δ =decrease)	—	463
Interest and dividends income	Δ 320	Δ 319
Interest expenses	10	7
Foreign exchange losses (gains) (Δ =gains)	4	Δ 9
Loss (gain) on sales of investment securities (Δ =gain)	Δ 3	—
Equity in (earnings) losses of affiliates (Δ =earnings)	Δ 96	Δ 134
Loss on retirement of property, plant and equipment	205	—
Loss on retirement of intangible fixed assets	72	—
Loss on retirement of fixed assets	—	147
Gain on sales of fixed assets	Δ 0	Δ 3
Loss on sales of fixed assets	0	0
Impairment loss	301	255
Loss (gain) on valuation of investment securities (Δ =gain)	4,446	—
Loss (gain) on sales of marketable and investment securities (Δ =gain)	Δ 1	—
Loss (gain) on sales of stocks of affiliates (Δ =gain)	—	2
Decrease (increase) in notes and accounts receivable-trade (Δ =increase)	Δ 1,846	Δ 461
Decrease (increase) in inventories (Δ = increase)	Δ 3,807	181
Increase (decrease) in notes and accounts payable-trade (Δ =decrease)	4,336	Δ 1,115
Decrease (increase) in other assets (Δ = increase)	Δ 454	417
Increase (decrease) in other liabilities (Δ = decrease)	183	111
Stock acquisition rights	59	51
Other	Δ 30	68
Subtotal	18,595	16,745
Interest and dividend income received	410	391
Interest expenses paid	Δ 10	Δ 7
Income tax paid	Δ 7,673	Δ 5,583
Net cash provided by operating activities	11,321	11,546

(Unit: Million yen)

	Previous consolidated fiscal year (March 1, 2008 – February 28, 2009)	Current consolidated fiscal year (March 1, 2009 – February 28, 2010)
Net cash used in investment activities		
Payments into time deposits	△ 23	△ 63
Proceeds from withdrawal of time deposits	139	—
Proceeds from sales of marketable securities	32	—
Purchase of property, plant and equipment	△ 4,609	△ 3,176
Proceeds from sales of property, plant and equipment	36	4
Leasehold right on stores and lease deposits	△ 1,007	△ 1,709
Proceeds from collection of lease deposits for stores	229	560
Purchase of intangible fixed assets	△ 323	△ 709
Repayments of guarantee deposits received	△ 40	△ 5
Proceeds from guarantee deposits received	3	6
Purchase of investment securities	△ 5,290	—
Proceeds from sales of investment securities	8	100
Purchase of stocks of affiliates	—	△ 161
Proceeds from sales of stocks of affiliates	—	18
Net cash used in investment activities	△ 10,845	△ 5,135
Net cash used in financing activities		
Increase (decrease) in short-term loans payable (△=decrease)	△ 191	280
Repayments of lease obligations	—	△ 10
Proceeds from stock issuance to minority shareholders	—	0
Purchase of treasury stock	△ 2	△ 0
Proceeds from sales of treasury stock	0	—
Cash dividends paid	△ 2,910	△ 3,049
Net cash used in financing activities	△ 3,104	△ 2,779
Effect of exchange rate change on cash and cash equivalents	△ 1,897	253
Increase (decrease) in cash and cash equivalents (△=decrease)	△ 4,525	3,885
Cash and cash equivalents, beginning of period	26,748	22,222
Cash and cash equivalents, end of period	* 22,222	* 26,108

Corporate Information

Company name	Ryohin Keikaku Co., Ltd.
Location	4-26-3 Higashi-Ikebukuro, Toshima-ku, Tokyo, 170-8424
Establishment	June 1989 (registration: May 1979)
Capital	¥6,766,250,000 (at end Feb. 2008)
Accounts settlement date	Last day of February every year
Annual turnover	¥142,721 million (operating revenue for fiscal year ending Feb. 2010)
Number of employees	4,680 (including 3,462 part-timers, at end Feb. 2010)
Number of Stores	Japan Directly operated Stores: 212, outlets supplied: 127 (at end Feb. 2010)
Overseas	UK: 14, France: 8, Italy: 5, Germany: 4, Ireland: 1, Sweden: 6, Norway: 7, Spain: 4, Turkey: 2, U.S.A.: 4, Hong Kong: 9, Singapore: 4, Korea: 9, China: 13, Taiwan: 17, Thailand: 7, Indonesia: 1 Total: 115 stores (at end Feb. 2010)
Major business	Operation of exclusive stores of MUJI / product planning / development / production / wholesale / retail

History

MUJI was established as a private brand of The Seiyu, Ltd. (currently Seiyu GK) in December 1980, and was spun off from Seiyu in June 1989 and established as Ryohin Keikaku Co., Ltd. so as to form an operational basis for the “MUJI” company and increase the size and scope of its business operations.

In September 1992, for the purpose of changing the par value of shares, Ryohin Keikaku was merged with Uoriki Co., Ltd. (whose trade name was changed to Ryohin Keikaku Co., Ltd. in September 1992), which was established in May, 1979 but had been virtually dormant. Therefore, the statements in this “financial statement report,” unless otherwise stated, are recorded as those of the company’s predecessor (the former Ryohin Keikaku Co., Ltd.), which has been the de facto surviving company.

Our company’s history, from its establishment to the present, is as follows.

Year	Month	History
1989	June	Toshima-ku, Tokyo: Ryohin Keikaku Co., Ltd. established with initial capital of 100 million yen to commence wholesale business.
	July	Basic Agreement on Product Transactions concluded with The Seiyu Ltd. (currently Seiyu GK) with regard to the trading of MUJI.
1990	March	“MUJI” sales operations assumed from The Seiyu Ltd. (currently Seiyu GK) in order to commence retail business (directly managed stores).
1991	July	Partnership contract concluded with Liberty Plc. First overseas MUJI store opened in London.
1992	September	Merged with Uoriki Co., Ltd to change par value of shares; at the same time, trade name changed to Ryohin Keikaku Co., Ltd.
1993	March	Basic Agreement on Product Transactions concluded with FamilyMart Co., Ltd. with regard to the trading of “MUJI”.
	March	Toshima-ku, Tokyo: RK Trucks CO., LTD. established as a subsidiary to mainly engage in distribution and distribution processing.
1994	November	Establishment of MUJI Tsunan Campground in Tsunan-machi, Naka-Uonuma Gun, Niigata Prefecture finalized as a new business operation.
1995	August	Stock registered with Japan Securities Dealers Association as an over-the-counter stock.
1997	May	Partnership contract with Liberty Plc. terminated; sales operations transferred to RYOHIN KEIKAKU EUROPE LTD. subsidiary.
	December	Became first Japanese retailer to obtain ISO 9001 certificate.
	December	“MUJI” Product Transaction Agreement with FamilyMart Co., Ltd. terminated; new Product Transaction Agreement concluded with Nishino Corporation.
1998	April	RYOHIN KEIKAKU FRANCE S.A.S. established
	December	Stocks listed in Second Section of Tokyo Stock Exchange.
1999	May	Became responsible for MUJI (HONG KONG) CO., LTD., transferred from RK Trucks CO., LTD.
	August	Trilateral business collaboration agreement concluded with East Japan Kiosk Corporation and East Japan Railway Company in regard to a new business operation (MUJI com KIOSK).
2000	May	MUJI. net Co., Ltd. established
	August	Stocks listed in First Section of Tokyo Stock Exchange.
	September	“MUJI. net Co., Ltd.” established as online shop available via the Internet and fax transmission.
	September	“MUJI Card” reward points system launched.
2001	February	HANA-RYOHIN CO., LTD. established
	March	MUJI (HONG KONG) CO., LTD. established
2003	January	MUJI (SINGAPORE) PRIVATE LTD. established
	August	MUJI TAIWAN Co. LTD. established
2004	September	MUJI ITALIA S.p.A. established
	December	MUJI Korea Co., Ltd. established
2005	May	MUJI (SHANGHAI) CO.LTD. established
	July	MUJI Deutschland GmbH. established
2006	April	MUJI Global Sourcing Private Limited. established
	August	NEW IDÉE CO., LTD. established (trade name changed to IDÉE CO., LTD.)
	October	MUJI U.S.A. Limited. established
2007	January	MUJI EUROPE HOLDINGS LIMITED. established
2008	January	MUJI (BEIJING) CO., LTD. established
	January	RK Systems INC. established
	March	“MUJI to GO” launched (shop redesigned to feature small articles convenient for travel).
2009	October	MGS (SHANGHAI) TRADING CO., LTD. established