

BUSINESS REPORT

24th

Mac-House

**Business
Report for the
24th Term**
March 1, 2013 to
February 28, 2014

FOR CASUAL LIFE
Mac-House
JASDAQ
Securities Code: 7603

To Our Shareholders

I am pleased to present Mac-House's business report for the 24th term from March 1, 2013 to February 28, 2014. I would like to take this opportunity to extend our deepest gratitude for your continued support for us.

In the casual apparel market in which we operate, we are witnessing increasingly intensifying competition as more and more new outlets of major foreign-affiliated retailers and Japanese retail giants are opened. In addition, the apparel retail industry in general is facing challenging business conditions. With increased purchase costs due to the weaker yen and sluggish sales of seasonal products due to unusual weather patterns, many businesses in this industry are having a hard time. To overcome such a difficult business environment and thrive, at Mac-House we aim to achieve growth in same store sales. To reach this key business target, we will strive to attract new customers and strengthen relationships with existing customers. Specifically, we will expand our merchandise offerings in the non-seasonal category, which is usually immune to the weather. As a major pillar of our growth strategy, we will also nurture Navy Store, which is already operating within some select existing stores, into a lifestyle product brand offering both apparel and lifestyle goods in an integrated manner.

While working to implement these and other initiatives, as we move forward we look forward to your continued support for Mac-House.



May 2014

Takashi Shiratsuchi
President & CEO

Overview of the 24th Term Ended February 28, 2014

In the fiscal year ended February 28, 2014 (FY 2013, the 24th Term), Mac-House posted net sales of 36,749 million yen, a gross margin ratio of 46.5%, operating income of 1,140 million yen, ordinary income of 1,251 million yen, and net income of 549 million yen.

Product-related highlights of FY 2013 include the expansion of our merchandise made from functional materials to better meet customers' needs, including spring and summer products using SA•RA•RI Cool, a material with sweat-absorbent, quick-drying, anti-bacterial and anti-odor features, as well as fall and winter products using MAC HEAT, a material with enhanced heat retention functions. We also released our RUN DENIM jeans with excellent stretch, and this new jeans series is enjoying great customer popularity. We also developed other highly functional and attention-grabbing products, including our Mahou No Bikyaku skinny pants, which can retain heat and moisture well, and our Light Quilt Jacket, a lightweight and warm outerwear, and these products as our sales focus.

Key sales promotion initiatives we conducted to turn around sales include more frequent distribution of store flyers, expansion of promotional discounts, and strengthening of bargain products for kids and others featured in store flyers. To increase mass promotion, Mac-House placed newspaper advertisements offering promotional discounts in the East Japan areas, and ran two rounds of TV commercials, one in 1H and the other in 2H, to promote our sales focus products. We also continued to publish nana STYLE, our free magazine for female customers, which is well-received for its fashion coordinates ideas. As a result of our continued in-store efforts, our mobile members continued to expand to exceed 1.4 million at the end of FY 2013.

During FY 2013, Mac-House opened 31 new outlets inside shopping centers and closed 25 stores, bringing the total number

to 482 stores at the end of the fiscal year, a net increase of six outlets from a year earlier. In addition, 19 stores were remodeled, including those for store format conversion.

Issues for the Company to Address

We will focus our efforts on the following to build a powerful business model for growth:

1. Transformation into a retailer of lifestyle products

To attract new customers and strengthen relationships with existing customers, we will work to become more than a seller of jeans casual wear; we aim to transform ourselves into a new type of retailer of casual apparel and miscellaneous household items that proposes a new lifestyle for consumers.

2. Development of attractive merchandise

We will develop a distinct functional private label and other products and focus our sales efforts on mainstay products to achieve sales growth.

3. Provision of an assortment of convenient items

We will strengthen our assortment of products which customers wear or use often in their everyday lives so that customers will visit us more often and buy a greater number of items per visit.

4. Enhancing our service quality for customer satisfaction

We will continue to offer excellent service to meet and exceed customers' expectations. As part of these efforts, we will continue to offer our "jeans advisor" qualification system to improve our staff's customer service skills.

While we are working hard on these initiatives, we will continue to build closer relationships with our business partners and strive for a further improvement in our performance.

Highlights

Net Sales:  Down **4.9%** year-on-year

Net sales declined during FY 2013. Although the number of stores increased by six outlets, comparable sales decreased by 4.9%.

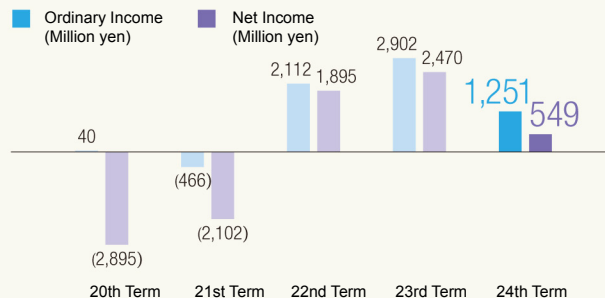
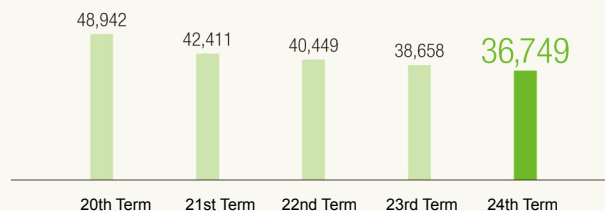
Ordinary Income:  Down **56.9%** year-on-year

Ordinary income declined due to lower net sales and a lower gross profit margin affected by more discount sales and inventory clearance sales.

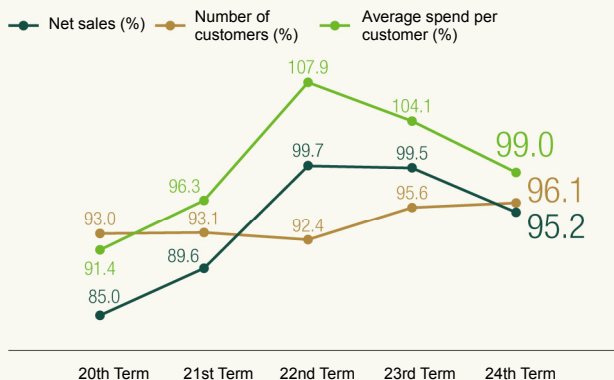
Net Income:  Down **77.8%** year-on-year

Net profit decreased due to lower ordinary income.

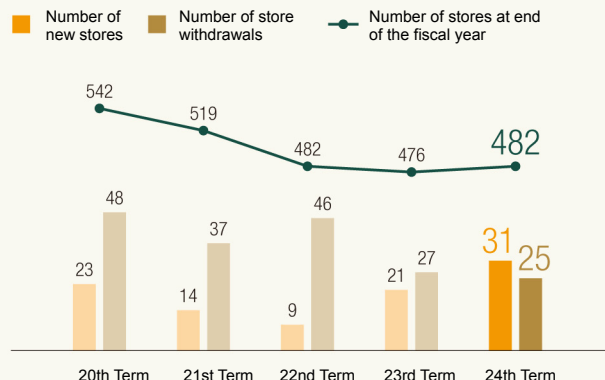
■ Net Sales (Million yen)



Trend at Existing Stores



Trend in the status of the opening and closing of stores



[Basic strategy] Transformation into a retailer of lifestyle products

Increase in comparable sales per store*

* FY 2014 target: a 5% increase.



Evolving from a traditional jeans casual wear retailer

Transformation into a retailer of lifestyle products centered around casual apparel

[Integration of apparel and miscellaneous household items that propose a new lifestyle]

- (1) Attracting new customers, in particular new female customers
- (2) Increasing the number of items purchased
- (3) Increasing the frequency of store visits

Improve and expand apparel products

1 Develop a wide range of products (excellent design aesthetics and functionality)

We will promote the development of various products, focusing both on fashionable designs and great functionality. We will also identify our sales focus products and offer fewer select products to improve our sales efficiency.

- RUN DENIM, a new type of jeans
- Navy x David & Goliath, a US designer brand
- Color leggings and many more



2 Expand non-seasonal products including innerwear and legwear

We will significantly expand our offerings of non-seasonal products (such as underwear, socks, room wear, etc.), sales of which are unlikely to be affected by the weather. In FY 2014, we are planning to achieve a 150% year-on-year increase in this category.

- Navy 365, innerwear with a temperature adjustment feature
- SA•RA•RI Cool, innerwear made from comfortable materials



Launch lifestyle products

1 Launch the Navy Store brand

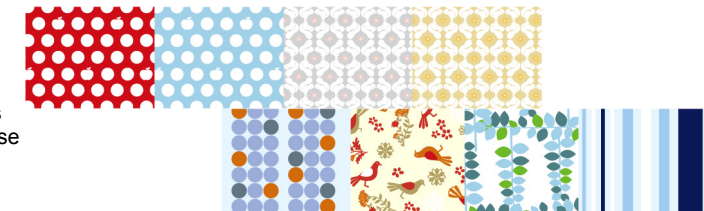
- A dedicated section (approx. 50 square meters) for household goods will be created within existing stores.
- Initially, about 320 existing stores will carry the new brand (the phase-in process starts on March 1 and will be complete on March 19, 2014).
- In May, two flagship Navy Store shops will be opened in Yokohama and Kawagoe.

2 Navy Store's product categories

- Bath & fragrance
- Kitchen items
- Living room items
- Bedding
- Leisure goods
- Travel items
- Stationary
- Rain gear

3 Navy Store's private brand

- We will develop some household products using fabrics as our private brand items and thereby offer merchandise featuring our original design patterns.



Topics

Rolling out Navy RUN DENIM

Born from completely new, innovative ideas, free from conventional thinking, RUN DENIM was designed to achieve remarkable stretch and recovery and a distinctive wearer's experience. This new type of jeans allow you to move exactly how you want without feeling stressed—in other words, they make you feel like running for joy. This is what the name RUN DENIM represents.

Product features:

- Using 360° stretch knit denim, an original lightweight and soft fabric that Mac-House and its partner manufacturer developed jointly with meticulous attention paid to the details of the threads, and the dyeing and weaving processes.
- Contains platinum nano colloid, which is made using state-of-the-art technology, to give excellent anti-bacterial and anti-odor properties, which makes the product stay clean for longer.



Men's Tapered Denim



Ladies' Tapered Denim



Men's Trouser Denim



Ladies' Trouser Denim

Human resources strategy: Greater participation by women

1 Greater participation by women

In the first half of FY 2013, we appointed many female employees as corporate headquarters staff (in the merchandising division and in the marketing office). Women employees also play a leading role in the development of our lifestyle products.

2 Promotion of part-time workers

We actively promote high-performing part-time workers to full-time contract employees or permanent employees, including those as corporate headquarters staff who are judged qualified to assume the positions. In the first half of FY 2013, 38 part-time workers were promoted to full-time contract employees and five full-time contract employees were promoted to permanent employees.



Increase the vibrancy and motivation in the workplace and strengthen sales capabilities



Attract and retain part-time employees

Improving customer service skills through jeans advisors' sales skills contest

In our internal sales skills contest, our jeans advisors across Japan compete against each other with their product knowledge and skill at making recommendations. Through this annual event, excellent sales knowhow can be shared, which contribute to improving the sales capabilities of our employees across the company.

Selected contestants from stores across Japan

The 4th B↔JA Sales Skills Contest

No. of jeans advisors: 672 (102 men and 570 women)

Total number of part-time workers: Approx. 2,400

Number of employees with jeans advisor qualification: 28%
(as of Feb 28, 2014)



Marketing strategies: Ads featuring TV celebrities

We have appointed Ami Kikuchi, who is popular for her appearance on TV variety shows, and Seiya, who is also popular for his appearance on an educational program, as the new faces of Mac-House. Our newspaper and magazine ads and e-shopping website feature them to appeal to a wide range of customers and potential customers, and improve the image and name recognition of Mac-House.

We have selected Yuko Ogura as the new spokesperson for our main private brand Navy®. The brand ambassador, who is enjoying popularity among a broad range of people of various ages, is a great fit for the brand concept of Navy®, which is transforming itself into a lifestyle product brand that enriches its adult customers' everyday life with fashionable and comfortable products.

Mac-House



Ami Kikuchi and Seiya, brand ambassadors for Mac-House

Navy®



Yuko Ogura, brand ambassador for Navy

Our Stores

Rendering upcoming New Store shops



Yokohama Store, the first flagship Navy Store shop, will be opened on Saturday, May 24, 2014.



Renderings of Yokohama Store

Launching Navy Store within existing stores

Mac-House Odawara City Mall Store
On Thursday, March 20, this former Outlet J store was re-launched as a Mac-House store.



Apparel section



Lifestyle goods section



Innerwear and legwear section

Mac-House Sonoda Hankyu Plaza Store, the first MH store located within a station building

On Thursday, March 27, Mac-House Sonoda Hankyu Plaza Store was opened on the first floor of the station building of Hankyu Kobe Line's Sonoda Station.

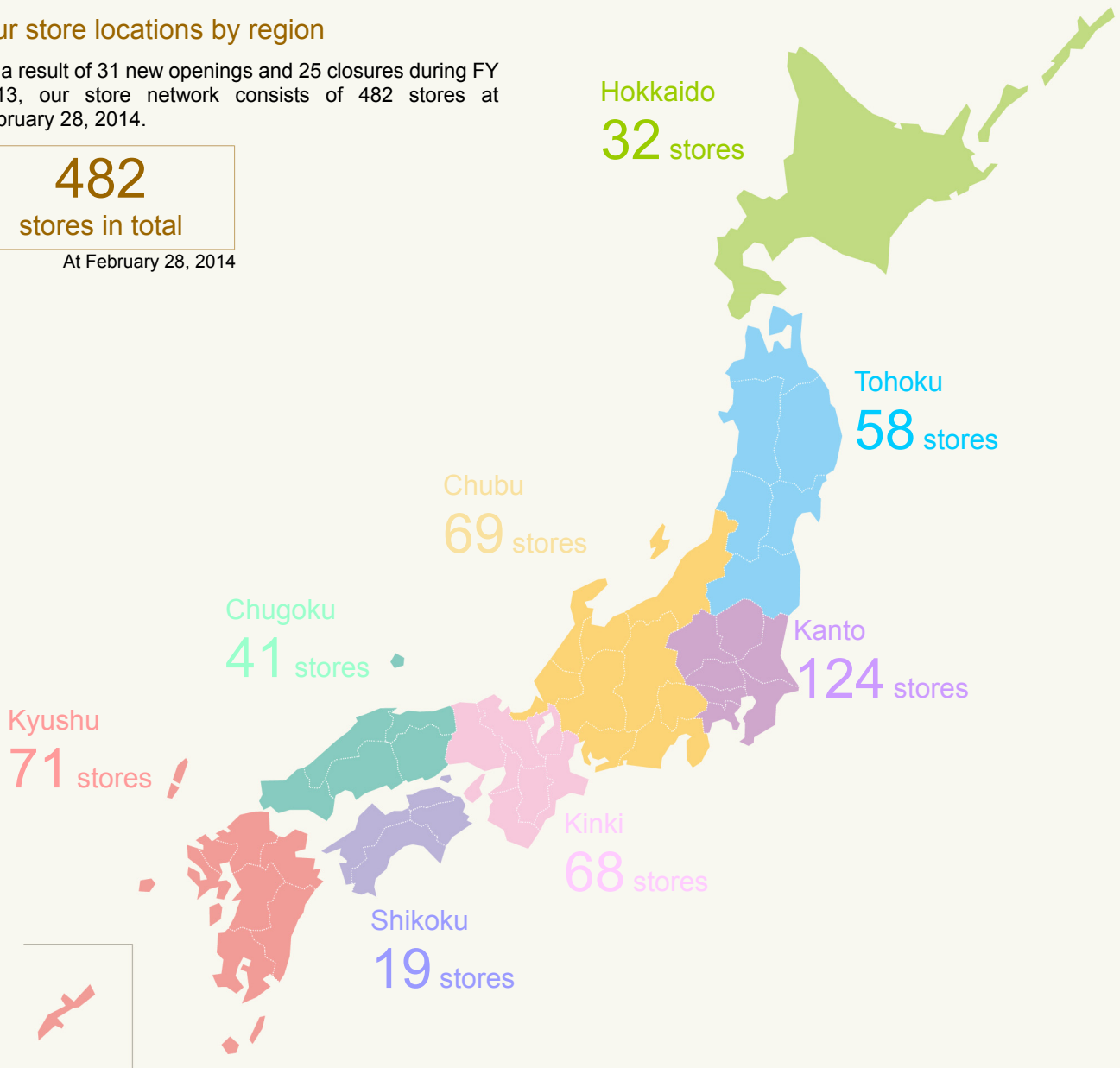


Our store locations by region

As a result of 31 new openings and 25 closures during FY 2013, our store network consists of 482 stores at February 28, 2014.

482
stores in total

At February 28, 2014



Financial Statements

Balance Sheets (Condensed)

(Million yen)

Accounting items	As of the end of the fiscal year under review (February 28, 2014)	As of the end of the previous fiscal year (February 28, 2013)
Assets:		
Current Assets	20,277	21,847
Noncurrent Assets	7,737	8,001
Property, plant and equipment	1,559	1,384
Intangible assets	195	113
Investments and other assets	5,983	6,503
Total Assets	28,015	29,849
Liabilities:		
Current Liabilities	9,391	10,676
Noncurrent Liabilities	2,642	2,979
Total Liabilities	12,033	13,656
Net Assets:		
Shareholders' Equity		
Capital stock	1,617	1,617
Capital surplus	5,299	5,299
Retained earnings	9,209	9,428
Treasury stock	(152)	(163)
Total Shareholders' Equity	15,974	16,182
Subscription rights to shares	9	9
Total Net Assets	15,981	16,192
Total Liabilities and Net Assets	28,015	29,849

Note: Figures are rounded down to the nearest million yen.

Current Assets:

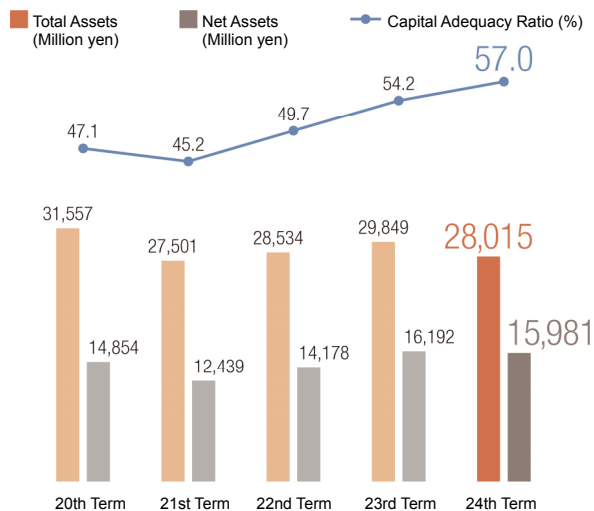
Total current assets decreased by ¥1,569 million from a year earlier, primarily as a result of a decrease in cash and deposits of ¥2,075 million and an increase in merchandise of ¥374 million.

Noncurrent Assets:

Total noncurrent assets decreased by ¥264 million from the previous year, primarily due to a decrease in lease and guarantee deposits of ¥378 million.

Total Assets, Net Assets and Capital Adequacy Ratio

Total assets decrease by ¥211 million from a year earlier, mainly as a result of the net income of ¥549 million and dividends of ¥766 million. The capital adequacy ratio to total assets improved by 2.8 percentage point from the previous year to 57.0%..



Statements of Income (Condensed) (Million yen)

Accounting item	FY 2013 (March 1, 2013 to February 28, 2014)	FY 2012 (March 1, 2012 to February 28, 2013)
Net sales	36,749	38,658
Cost of sales	19,643	20,112
Gross profit	17,105	18,545
Selling, general and administrative expenses	15,965	15,830
Operating income	1,140	2,715
Non-operating income	473	585
Non-operating expenses	362	398
Ordinary income	1,251	2,902
Extraordinary income	13	128
Extraordinary loss	138	81
Income before income taxes	1,126	2,949
Income taxes-current	407	995
Income taxes-deferred	168	(516)
Net income	549	2,470

Note: Figures are rounded down to the nearest million yen.

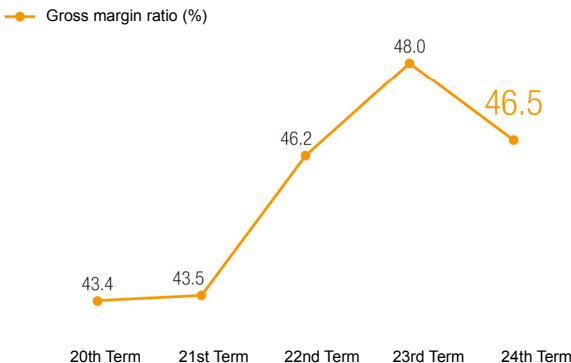
Statements of Cash Flows (Condensed) (Million yen)

Accounting item	FY 2013 (March 1, 2013 to February 28, 2014)	FY 2012 (March 1, 2012 to February 28, 2013)
Net cash provided by operating activities	(817)	1,563
Net cash used in investing activities	(352)	(736)
Net cash used in financing activities	(904)	(602)
Net increase in cash and cash equivalents	(2,075)	224
Cash and cash equivalents at beginning of period	11,218	10,994
Cash and cash equivalents at end of period	9,143	11,218

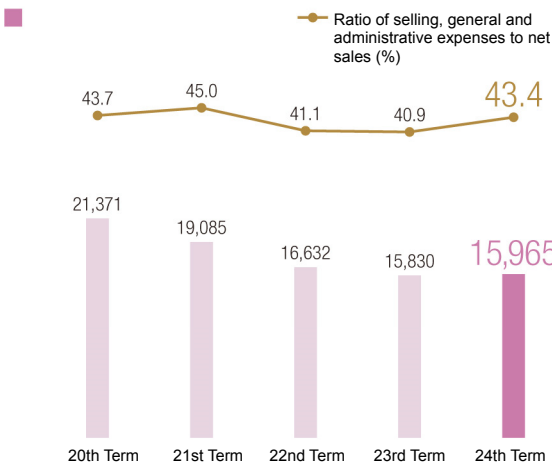
Note: Figures are rounded down to the nearest million yen.

Gross Margin Ratio

Gross margin ratio declined due to more discount sales for addressing sluggish sales performance, disposal of slow-moving inventory, and other factors.



Selling, General and Administrative Expenses



Corporate Profile/Status of Shares

Corporate Profile

(As of February 28, 2014)

Trade name:	Mac-House Co., Ltd.
Address of the Head Office:	Shin-Koenji Twin Building, 1-7-7, Umesato, Suginami-ku, Tokyo
Establishment:	June 1, 1990
Capital:	1,617,850,000 yen
Number of employees:	367
Principal business:	Operation of chain stores nationwide focusing mainly on the retail of clothing.

Management

(As of May 21, 2014)

President & CEO (Representative Director):	Takashi Shiratsuchi
Director and Advisor:	Masao Funahashi
Director:	Yoshio Kazami
Director:	Koshiro Sugiura
Director:	Hisami Kitahara
Director:	Ai Ishizuka
Standing Auditor:	Kiyohiko Suzuki
Auditor:	Isao Noguchi
Auditor:	Shinichi Miura
Auditor:	Kiyoshi Yamamoto

Notes:

Of the directors listed above, Ai Ishizuka is an outside director, the definition of which is specified by Article 2-15 of the Companies Act.

Of the auditors listed above, Isao Noguchi, Shinichi Miura, and Kiyoshi Yamamoto are outside company auditors, the definition of which is specified by Article 2-16 of the Companies Act.

Introduction to the Shareholder Special Benefit Plan

Mac-House presents shareholders with "Shareholder Special Benefit" vouchers as one way of returning profits to our shareholders, in the hope that as many shareholders as possible can use our merchandise and services and become fans of Mac-House.

Shareholders holding 100 shares or more and less than 500 shares	A voucher equivalent to 1,000 yen
Shareholders holding 500 shares or more and less than 1,000 shares	A voucher equivalent to 3,000 yen
Shareholders holding 1,000 shares or more	A voucher equivalent to 5,000 yen

* The base date for the allocation of the vouchers is the end of February; to be sent once a year in late May.

Memorandum for Our Shareholders:

Fiscal year:

From March 1 to the end of February of the following year

Ordinary general meeting of shareholders:

Held in May of each year.

Record date:

End of February of each year

(If necessary, we will make a public notice in advance.)

(Record date for shareholders entitled to receive dividends):

Year-end dividend: End of February of each year

Interim dividend: August 31 of each year

Shareholder registry administrator and account management organization of special accounts:

Mitsubishi UFJ Trust and Banking Corporation; 4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo

Payment Handling Bank:

Transfer Agent Dept., Mitsubishi UFJ Trust and Banking Corporation; 4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo

(Mailing address):

Transfer Agent Dept., Mitsubishi UFJ Trust and Banking Corporation; 10-11, Higashisuna 7-chome, Koto-ku, Tokyo 137-8081

Telephone: 0120-232-711 (Toll free)

Number of shares in one unit: 100

Securities exchange on which the shares are listed:

Tokyo Stock Exchange

Method of providing public notice:

Public notices shall be provided electronically. However, if the public notices cannot be provided electronically due to unavoidable reasons, such notices shall be posted in the *Nihon Keizai Shimbun*.

For our public notices, please visit the following website:

<http://www.mac-house.co.jp>

Notes:

- As a result of the transition to dematerialization of stock certificates, procedures relating to change of address, share purchase demand, etc. from shareholders, shall be handled by the account management organizations (securities firms, etc.), in principle, with which shareholders hold accounts. Shareholders are kindly requested to contact the securities firms, etc. in which accounts are held. Please note that the shareholder registry administrator (Mitsubishi UFJ Trust and Banking Corporation) is not entitled to handle the above-mentioned procedures.
- With respect to the procedures relating to the shares recorded for special accounts, please contact the above-mentioned special account management organization (Mitsubishi UFJ Trust and Banking Corporation) as account management organization. The domestic branches of Mitsubishi UFJ Trust and Banking Corporation may mediate the procedures.
- Unpaid dividends shall be paid at branches or the head office of Mitsubishi UFJ Trust and Banking Corporation.

FOR CASUAL LIFE

Mac-House

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