UNITED ARROWS LTD.

UNITED ARROWS LTD.
2-31-12 Jingumae, Shibuya-ku, Tokyo 150-0001
TEL. +81-3-6418-0803
URL. http://www.united-arrows.co.jp/

Printed in Japan

ANNUAL REPORT 2003

UNITED ARROWS LTD.

UNITED ARROWS LTD.

Philosophy of UNITED ARROWS Group

MAKE YOUR REAL STYLE

The UNITED ARROWS Group
creates standards of Japanese lifestyle and culture.

UNITED ARROWS LTD. was established in Tokyo, in 1989, as a company that continues to set new standards for Japanese lifestyle and culture through the planning and sale of men's and women's apparel, accessories, and general merchandise. United Arrows pursues a value represented by a globally accepted international concept, achieved by combining of Japanese culture and traditions with those from the West. We would like to continue devoting ourselves to creating this value in our ever continuing evolution.

Forward-Looking Statements

This annual report contains forward-looking statements related to management's expectations about future business conditions. Actual business conditions may differ significantly from management's expectations and accordingly affect the Company's sales and profitability. Actual results may differ as a result of factors over which the Company has no control, including unexpected changes in competitive and economic conditions, government regulations, technology and other factors.

Contents

Financial Highlights

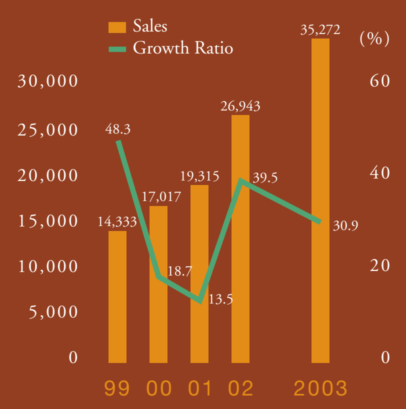
UNITED ARROWS LTD.

Years ended March 31, 2003 and 2002	Millions of Yen		Thousands of U.S. Dollars (Note)
	2003	2002	2003
Sales	¥ 35,272	¥ 26,943	$ 298,912
Operating Income	4,824	3,965	40,882
Net Income before Taxes	4,500	4,021	38,139
Net Income	2,562	2,318	21,709
Total Assets	20,837	19,645	176,584
Total Shareholders' Equity	12,924	13,456	109,527
Net Income per Share (in Yen and U.S. Dollars)	215.01	194.41	1.8
Shareholders' Equity per Share (in Yen and U.S. Dollars)	1,178.30	1,128.41	10.0

Note : Calculations are based on the exchange rate of U.S. $1=¥118.00 (March 31, 2003).

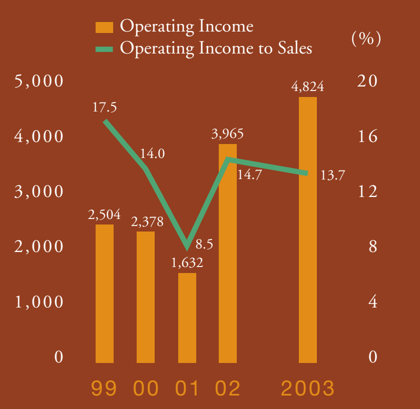
Sales and Growth Ratio

(Millions of Yen)



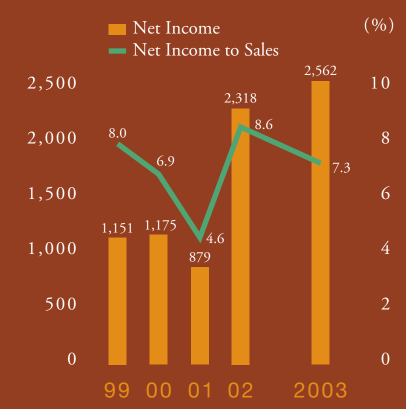
Operating Income and Operating Income to Sales

(Millions of Yen)



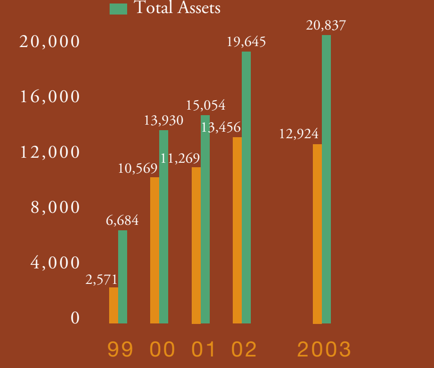
Net Income and Net Income to Sales

(Millions of Yen)



Total Shareholders' Equity and Total Assets

(Millions of Yen)



I would like to extend my best wishes to all of you, and also express our great appreciation for your exceptional support, at the completion of our 14th term (April 1, 2002 to March 31, 2003). I am pleased to announce that our stock was approved for listing in the First Section of the Tokyo Stock Exchange, as from March 3, 2003. All of our directors and employees are committed to expanding and developing our business to meet your expectations, aiming at the "continuous creation of value that sets new standards for Japanese lifestyle and culture."

I sincerely appreciate your continued support for our future efforts.

June 2003

Osamu Shigematsu
President and CEO

To Our Shareholders

Could you comment on the Company's achievement of posting historically high net income for two consecutive years? Where do you see the strengths of UNITED ARROWS that has been growing steadily amid overall sluggish consumer spending?

We are proud of our steady growth and the resulting increase in our sales and profits at a rate exceeding our projection, especially given the sluggish apparel market in Japan, since the burst of the Japanese bubble economy in the early 1990s.

In fact, our sales stalled once about three years ago. At that time, we implemented various reform measures, which we then modified based on our careful examination after each season in preparation for the next. By diligently repeating this process, we succeeded in gradually sharpening the precision required for every aspect of our business operation. I have no doubt that the favorable results we achieved over the previous term were essentially achieved due to these accumulated efforts.

In addition, we started implementing "full-scale structural reforms — drastic revision of every business operation within the Company" in the latter half of the year. These reform measures were primarily intended to (1) streamline our business operation or allocate additional staff in the area where they were most needed by clarifying every business process flow in a manner fully comprehensible to our employees, and (2) promote understanding and cooperation across business units by increasing pan-departmental projects to realize a collaborative procurement, sales and product management. Currently, managers are playing a key role in advancing our structural reforms, but hopefully all of our employees will become involved in this effort soon. This is crucial to our future, since I believe that the more employees participate in the reform process, the more we will benefit from reform promoters with an innovative spirit for the next generation.

When I think of our strengths, what I am positive about is that no corporation enjoys the privilege of "unchanging, ever lasting strengths." In my opinion, you gradually accumulate your strengths by continuing to evolve what you have identified as the most important contributor to your business.

I always believe in three essentials for any retailer's success: first "person (sales and customer service)," second "product (merchandise)," and third "ambience (store)." We cannot make it if any one of them is unsatisfactory in order to receive full customer support. Recognizing that only our steady, continuous efforts to "evolve" these essentials to match the current market needs can guarantee us long-term customer support, we have promoted our improvements and reforms, focusing on these three essentials. We still have a way to go, but I would say that a good balance between them has generated our strength today.

Person, product, and ambience — these are clear-cut keywords. Could you elaborate on them individually?

"Person (sales and customer service)" here refers to customer assisting service, sales and other activities requiring communication. We have made great efforts to enhance the basic communication skills of our sales staff to ensure high customer satisfaction. In particular, we introduced and improved our educational/training programs focusing on "basic manners" and "basic knowledge about products" among other issues. I always expect our sales staff to sincerely assist our customers from their point of view, trying to find answers to questions like "what does this customer search for in our store?" "How can I help this customer in a truly useful way?" or "How can I please this customer?" This kind of customer service is deeply rooted in corporate culture and employee conviction, not such "knowledge or technique" learned from textbooks. Revision of our corporate philosophy two years ago has contributed to fostering our customer-oriented spirit. Nonetheless, we are still learning everyday from our customers' positive and critical opinions. We will continue to make our efforts to evolve our "person" (as defined earlier) by promoting our structural reforms.

As for "product (merchandise)," our steady and extensive reform measures appear to have been gradually enhancing our product value over the last two years, as mentioned in the previous annual report. We closely scrutinized all activities in the Merchandise Department and allocated additional staff in the areas where they were most needed. As a result, we succeeded in establishing a more precise and reliable hypothesis-verification-adjustment process, with tighter-knit hypotheses as well as subsequent adjustments to the initial plan or carrying out the latter plan for follow-ups. Moreover, by reviewing the timing of our initial product introduction and subdividing our timetable (within the season) for product marketing, we strived to ensure ample product availability to guarantee our customers an opportunity to purchase "what they want, when they want it." We have also been making sure that our customers' wants and needs, clearly understood by our sales staff, are forwarded to the Merchandise Department for review at the weekly meeting, so that our customers' voices will be reflected in our supplemental plan for the current season and the product planning for the coming season. Those of our retail stores where we can directly communicate with our customers on a daily basis are a treasure trove of information for all our questions. Since our establishment, we have taken a store-oriented business approach. Based on our own experience, we know that any product planning that neglects retail stores or ignores customers' voices will result in failure. Our success today is not attributable to any extraordinary accomplishment, but is rather the sum total of our daily activities that are steadily being improved.

As for "ambience (store)" specifically for the United Arrows business chain, we have invested in enlarging or remodeling the existing stores, so that we can continue offering our customers exciting and comfortable stores. We always spend pleasant time reviewing the location and the interior, as well as the exterior design of each new store to guarantee customer satisfaction in all our stores, including the UA Labs (test-marketing stores.) Along with "person" and "product," "ambience" is an important part of our business, as it can provide our customers with a sense of comfort and satisfaction during their shopping. Therefore, it is essential for us to continue our active investment in stores in order to achieve steady and long-term growth.

I believe that any corporation have things that need to be changed, as well as things that should not be changed. In our case, we should never try to change these three essentials as our primary focus. However, it does not mean we should maintain the status quo. We must continue our efforts to evolve (revise and update) each of these essentials to meet the needs for the period, so as not to lose our customer support in the future.

You must feel pressured to achieve good business results again for the coming year, after experiencing favorable results over the past two years. Where is your main focus in the coming fiscal year (the 15th term) ending in March 2004?

I always have a certain sense of crisis, but not pressure. It is important for us to be the way we are. We would like to steadily advance ourselves, maintaining a broad perspective and being attentive towards all possibilities.

One of our biggest projects for this term is a large-scale renovation of our United Arrows Harajuku store. This is our flagship store and it plays a crucial role in maintaining and enhancing customer loyalty toward our other stores, as well as our company. It is a worldwide tendency that retailers boasting high store loyalty operate very attractive flagship stores, and significantly invest in erecting and maintaining them. A decade has already passed since we opened our Harajuku store. Considering our ideal level of store loyalty and even corporate loyalty for the next decade, we decided to substantially invest in renovating our flagship store. We are confident that this renovation will contribute to our earnings in the long run.

Also, we will further advance the structural reforms that I mentioned at the beginning. Although our business has been steadily growing, we cannot afford to discontinue our efforts by simply being contented with the current conditions. Indeed, we still have many pending issues that we need to work on. In addition, the structural reforms underway

have revealed the gap between our goal and the reality. We should make sure that we build a foundation for our business for the next generation, involving all our employees in this reform process. "UNITED ARROWS will have no future without succeeding in its structural reforms" — that was my resolution statement as President and CEO of the Company, when we initially implemented our structural reforms. Now, I am even more firmly determined to complete this crucial step for the future.

Our agenda for this term is steady earnings growth, in addition to successful renovation of the Harajuku store and further implementation of structural reforms. We will gather our spirit and resources to truly become "united arrows" to steadily continue our growth. We sincerely ask for everyone's continued support.

Interview with COO

“He navigates, I drive.”

In our organizational reform as of February 1, Tetsuya Iwaki, a former Managing Director, was appointed as Executive Vice President and COO of the Company. Consequently, Mr. Iwaki took over responsibility for the Company’s business operation from President Shigematsu. These two leaders will work together to lead the UNITED ARROWS Group (hereinafter “UA”) from now on, while fulfilling clearly defined individual responsibilities.

“There should be no fundamental change in my duties, or ultimate goals, with me now responsible for the entire UA business operation. I will devote myself to achieving further prosperity for the Company, keeping myself alert but calm at all times.”

The above statement is Iwaki’s resolution upon taking office as Executive Vice President and COO of the Company. At the beginning of this interview, he affirmed his conviction to meet the shareholders’ expectations, following this resolution. We are pleased to introduce him here by presenting his message to the shareholders, as well as his comments on questions as to “how he came to know President Shigematsu” and “his hopes for UA’s future.”

Encounter with Osamu Shigematsu

I came to know Osamu Shigematsu when I was working part-time at the first BEAMS store. He was a store manager and buyer, while I, then 23 years old, was a sales attendant. In those days, you could hardly imagine that a buyer, a star player in the apparel business, would entrust even a part of his work to a mere sales attendant. Mr. Shigematsu was different. He delegated a part of his ordering work to me — particularly important among his other responsibilities as a buyer. He has always been the type of person who does not hesitate to appoint work to somebody whom he thinks capable. I was fortunate to be given the opportunities to work on various new assignments, thanks to his generosity, while I employed at that store for about ten years.

I cannot express in words how much this encounter with Osamu Shigematsu has changed my life.

UA Inauguration to Present

In 1989, Mr. Shigematsu and I left BEAMS, along with Koichi Mizunoya and Hirofumi Kurino (both serving as Directors of the Company at present.) As Mr. Shigematsu had decided to establish a lifestyle-oriented store, we wanted to assist him in accomplishing this fascinating plan. That was the beginning of UA, an enterprise founded by these four original members, with five others joining subsequently.

When we opened our first store in Shibuya, we were focusing on high-end imported items in our merchandising. Then, in cooperation with outsourcing companies, we gradually started developing our own original products that better suited Japanese consumers. This new strategy, which reinforced our product planning capability, contributed not only to the Company’s first positive business results in the fifth year after its establishment, but also to eliminating the accumulated debt in the subsequent year.

Since then, we have been steadily growing, except for a brief lapse immediately after the IPO in the JASDAQ market when we experienced stagnating sales. In order to overcome this situation, I took the initiative of creating the Merchandising Control Department and became its general manager.

We focused on maintaining the fresh appeal of our stores, ensuring product diversification, and expanding our basic product line — three main concepts supporting our product policy. Moreover, as the first step in this effort, we reviewed our product portfolio based on a factor analysis, and created a diagram for better understanding.

We also stepped up our efforts to train our employees in the Merchandising Procurement Division, so that they could fully understand the basics of our product policy, instead of simply learning how to carry out new measures. I believe these efforts enhanced each employee’s ability to understand and take decisive action, as is required for self-motivated conduct and behavior.

Our business started to recover about one year after taking these new measures, around the same time as my successor took over my position as general manager.

“You can do it. Of course, you can do it. You can always do it, if you have the will to do so. Do it now. Do not fail to do it. Do it until you succeed.”

This is my favorite slogan, which I have been incessantly telling all our employees. Through my 29-year-experience in the retail apparel industry, I gradually deepened my understanding of the retail business and customer satisfaction. My accumulated know-how in this field is all based on my own experience in helping customers at the store.

All the measures we have implemented are aimed at satisfying our customers. I consider shopping to be a compensatory act to make up for something insufficient or unsatisfactory in one’s life. Customers and staff at the store (sales attendants) cannot stand on an equal footing, as the essence of a retail business is to continuously provide services to respond to any customer dissatisfaction.

This is the underlying idea for our business. We should always remember to sincerely meet customer needs, in a humble manner.

There is no shortcut for time-consuming projects. The future of UA largely depends on our steady, everyday efforts toward its goal. Keeping us on our toes to keep up with our rapidly changing environment with agility, I hope each small bit of progress will continue changing UA.

Pressing issues include further promotion of profit-oriented thinking and enhancement of productivity awareness. In fact, in the structural reforms underway, we are working hard to enhance all our employees’ profit and cost awareness, and speed up implementation of all necessary actions. I have no intention, however, to rush everyone toward these goals. I would rather encourage our employees to make steady progress at a reasonable pace, followed by sufficient preparation.

Let me compare UA to a bus with 1,000 passengers on board. I am going to drive this bus, based on strict adherence to the following three principles for the next few years.

(1) Total health
(2) Following the basics
(3) Agility

Our success will depend on how much we, as a group of 1,000 passengers, can implement these principles on the way to our destination.

In the past, Mr. Shigematsu served both as the navigator (selecting a proper course) and driver. From now on, he will determine the course, looking far ahead with his binoculars, and I will be driving the bus. I am committed to driving safely, checking the engine condition from time to time, but maintaining a good speed with gradual acceleration, so that we can retain our leading position.

Tetsuya Iwaki

Tetsuya Iwaki
Executive Vice President and COO

Personal History

- **October 1953** Born in Tokyo
- **1974** Part-time sales attendant at Miura & Son’s*
- **1976** Part-timer at the first BEAMS store
- **April 1977** Full-time employee of BEAMS. Organized opening of a new retail store in Shibuya
- **1978** Store manager of BEAMS F
- **1981** Director of International Gallery BEAMS
- **March 1989** Director of Kansai Headquarters
- **August 1989** Left BEAMS
- **October 1989** Participated in establishing a new company — UNITED ARROWS LTD. Managing Director; General Manager, Merchandising Development Dept.
- **April 1991** Managing Director; General Manager, Merchandise Dept.
- **April 2000** Managing Director; General Manager, Green Label Relaxing Dept. and Chrome Hearts Dept.
- **December 2000** Managing Director; General Manager, Merchandising Control Dept.
- **July 2001** Managing Director, General Manager, Merchandising Control Dept. and Marketing Dept.
- **February 2002** Managing Director; General Manager, Marketing Dept.
- **February 2003** Appointed as Executive Vice President and COO

* Former “Ships,” and an original model for the now popular speciality stores with bought-in labels in Japan (meaning retail stores offering variety of items selected and imported based on the owner/buyer’s taste.)

Board of Directors

In order to create value that sets new standards for Japanese lifestyle and culture, we are dedicating our efforts and resources towards implementing structural reforms, as well as evolving our "person, product, and ambience," while fostering both our Japanese spirit and a broad global perspective.

(seated, from left) Osamu Shigematsu and Tetsuya Iwaki
(standing, from left) Hiroshi Takanashi, Koichi Mizunoya, Hirofumi Kurino and Hirotoshi Hatasaki

Osamu Shigematsu

President and CEO

As CEO since the Company's beginning, he leads the UNITED ARROWS Group, creating management policies and a long-term corporate vision.

Three Measures to Ensure the Company's Long-Term Steady Growth

(1) Renovation/expansion of our Harajuku store to enhance customer loyalty toward our stores as well as our company;
(2) Proactive promotion of structural reforms to accomplish our goal to become a super SPA (specialty store retailer of private label apparel); and
(3) Proactive promotion of our diversified business axes strategy, while reinforcing our ability to develop new business.

Tetsuya Iwaki

Executive Vice President and COO

As newly appointed Executive Vice President & COO (since February 2003), he supervises the entire business operation.

"I promise prompt decision-making and action, following the basics, as a leader who values good teamwork. I will devote all my efforts to greater customer satisfaction by reinforcing both our product value and sales ability, as well as promoting collaboration between the two. I am determined to accomplish our structural reforms, or walk away."

Koichi Mizunoya

Managing Director
General Manager, Human Development Department

Responsible for creating a corporate environment that can provide our customers with maximum satisfaction, while managing human resources in the Company.

"I will create a pleasant working environment which brings a smile to everyone's face, while advancing structural reforms to resolve any customer dissatisfaction and respond for optimal employee motivation."

Hirofumi Kurino

Creative Director

Supervises product planning, sales promotion, along with shop interior and exterior design. Exploring themes that are actually a step ahead of time from both a true marketer's and creative director's point of view. The key executive in building the image of UNITED ARROWS.

"Thailand never fails to impress me with its well-preserved tradition and historic culture, along with its citizens' courtesy and kindness, in spite of its rapidly progressing transformation to a modern and economically developed country. Following this example, we will continue to "evolve" UNITED ARROWS, while cherishing the rich, cultural heritage of Japan."

Hiroshi Takanashi

Managing Director
General Manger, Administration Division

Leads the Administration Division established in October 2001, assuming a wide range of responsibilities, including management of capital funding policies, financial affairs, as well as IR activities. Striving to promote organizational reform from an administrative standpoint to establish a solid foundation for the Company's stable business growth.

"The domestic apparel retail market (fashion business industry) in Japan has been facing increasingly severe conditions. Apparel makers who give in and discontinue efforts to improve themselves will be forced out of the market. We are determined to overcome every adverse change, in order to continuously achieve steady growth for the future."

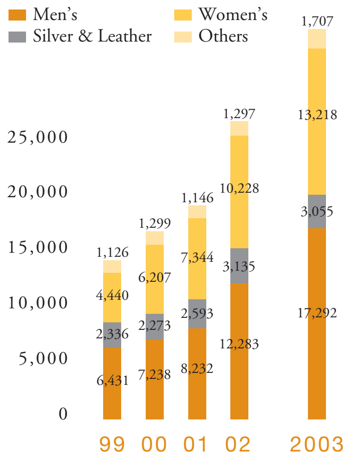
Hirotoshi Hatasaki

Director

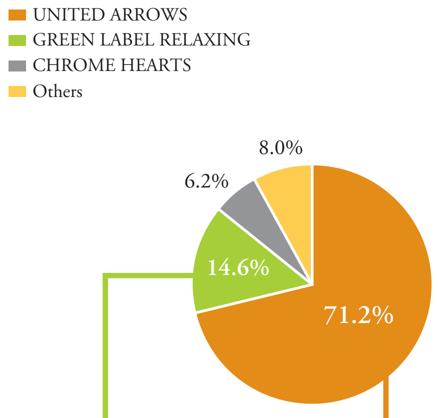
Engages actively in promoting the fashion industry in Kobe, garnering support for new ventures and businesses, developing sports and other community revitalization projects. Continues to make the best use of his abundant experience and human network in the fashion industry in his capacity as director of the Company.

Financial Data

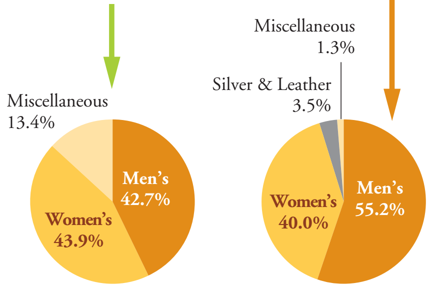
Sales by Category



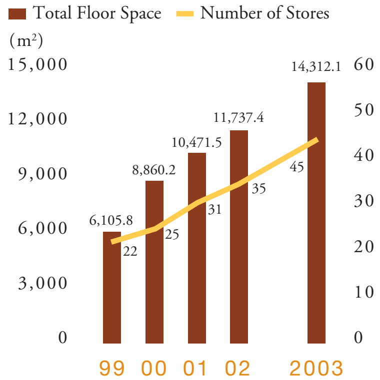
Sales by Chain *1, 5



Sales by Category



Total Floor Space and Number of Stores



Number of Customer Ratio (by chain) (%) *1, 2

	2002 1st half	2002 2nd half	2002 total	2003 1st half	2003 2nd half	2003 total
UNITED ARROWS	131.4	152.2	**141.5**	133.6	115.4	**124.1**
GREEN LABEL RELAXING	199.4	166.5	**180.8**	170.1	216.9	**194.4**
CHROME HEARTS	180.7	144.4	**160.0**	99.9	100.6	**100.3**

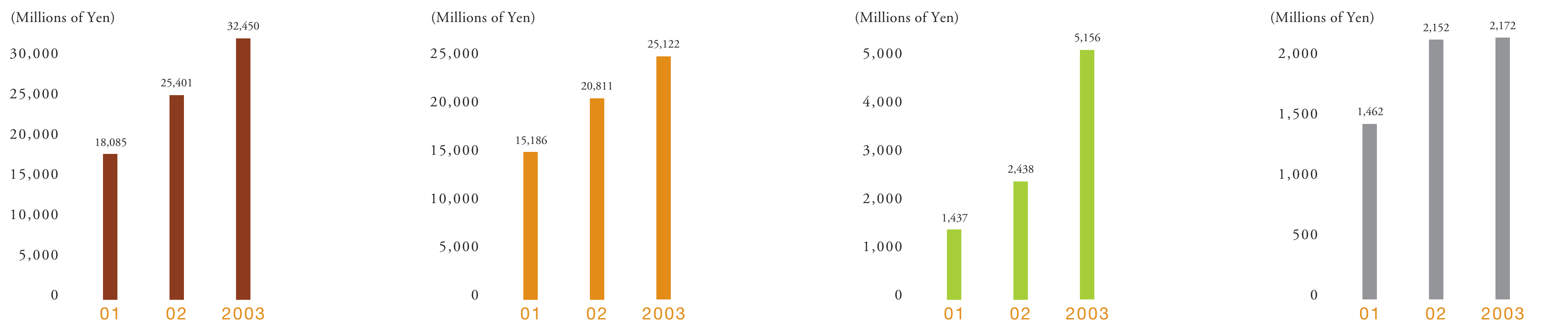
Average spending per Customer Ratio (by chain) (%) *1, 2

	2002 1st half	2002 2nd half	2002 total	2003 1st half	2003 2nd half	2003 total
UNITED ARROWS	97.4	94.9	**96.9**	94.6	101.0	**97.2**
GREEN LABEL RELAXING	94.7	94.6	**93.8**	106.1	108.3	**108.8**
CHROME HEARTS	91.9	92.7	**92.0**	102.1	99.5	**100.7**

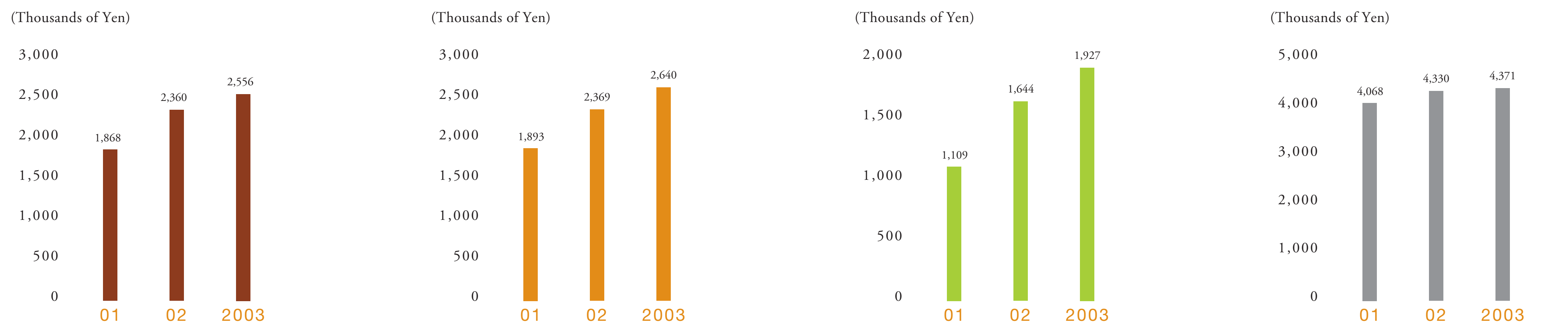
Note* : 1. "UNITED ARROWS" includes the sales of S.B.U. and UA Labs. (S.B.U. means Small Business Units (ANOTHER EDITION and THE SOVEREIGN HOUSE))
2. Green Label Relaxing and Chrome Hearts were launched in September 1999 and in December 1999.
3. Number of employees in an average term.
4. "Sales per 1m²" and "Sales per Employee" are calculated from the sales of direct management stores.
5. "Others" includes wholesale sales and outside shop and café sales.

RETAIL	UNITED ARROWS	GREEN LABEL RELAXING	CHROME HEARTS

Sales *1

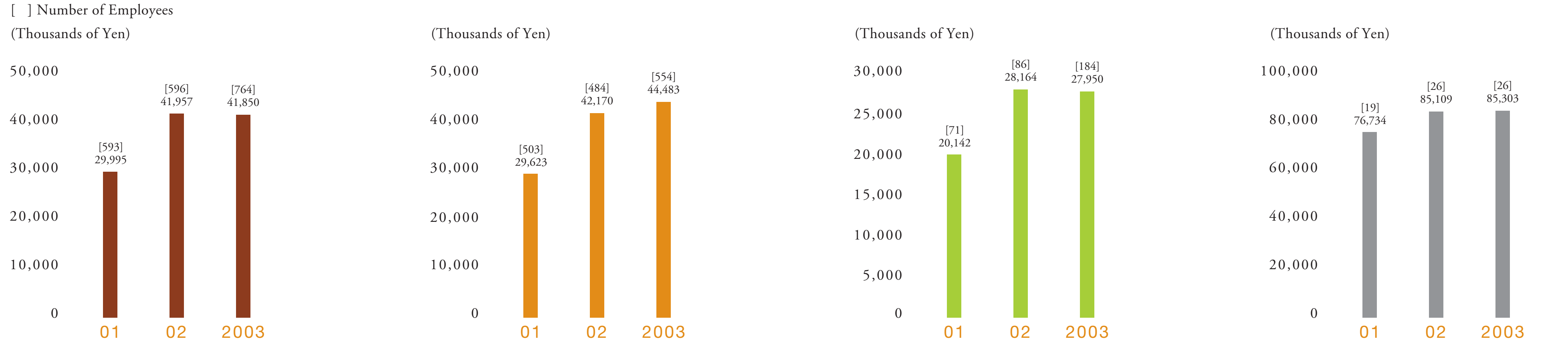


Sales per 1m² *1, 4



Sales per Employee *1, 3, 4

[ ] Number of Employees



UA News

Announcement of Awards

The 5th Annual (2002) "Bestseller Award," "Desirable Tenant (*Propose*) Award," and "5th Anniversary Commemorative Award."

We are very honored to have received the "Bestseller Award," the "Desirable Tenant Award," and the "5th Anniversary Commemorative Award" in the "Developers' Best Tenant Award" competition, for which Senken Shimbun (a Japanese daily fashion trade newspaper) collects data and conducts questionnaires on leading developers* or consulting firms nationwide, and gives awards to the companies with the highest scores.

"Bestseller Award"

Our United Arrows chain received this award for its high sales growth and efficient space utilization, among other things.

"Desirable Tenant *(Propose)* Award"

Our Green Label Relaxing chain received this award (the first one awarded to Green Label Relaxing in this competition), in recognition of its being one of "the most desirable tenants for commercial facilities."

"5th Anniversary Commemorative Award"

United Arrows Ltd. was honored with this award, based on its outstanding performance in the past (the "Best Tenant Award" for 1998 and 2001; the "Bestseller Award" for 1998; the "Desirable Tenant Award" for 1999 and 2000.)

* Developers means enterprises managing commercial facilities.

The "Medal with Dark Blue Ribbon" from the Japanese government for its longtime, charitable contribution to the Japanese Red Cross Society.

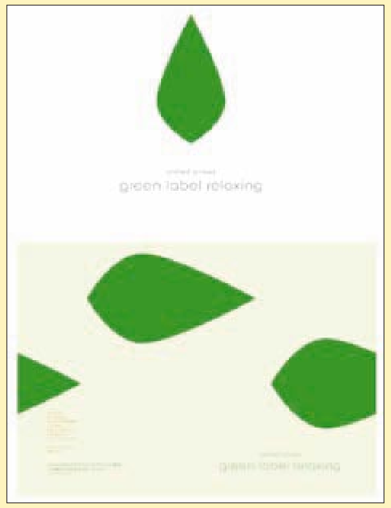
In September 2002, we were honored to receive the "Medal with Dark Blue Ribbon" from the Prime Minister of Japan for its longtime charity to the Japanese Red Cross Society.

We have been actively engaged in "activities to create new value for local communities" since the institution's incorporation, based on the belief that our extensive contribution to local communities including the surrounding environment, and even further afield the world, will fuel our continuous growth.

We will continuously distribute part of our profits to local communities as a token of gratitude.

* The "Medal with Dark Blue Ribbon" is awarded by the Japanese government to parties who make outstanding contributions that benefits the public.

Our Green Label Relaxing trademark & logo received the "2003 Tokyo TDC (Type Directors Club) Members Award."



Mr. Kaoru Kasai from SUN-AD Company Limited, the designer of our Green Label Relaxing trademark and logo, as well as magazine/newspaper ads and a series of posters featuring this logo as a part of the design, received the "2003 Tokyo TDC Members Award" in the "Tokyo TDC Award" contest sponsored by the Tokyo Type Directors Club, one of the few international design competitions held in Japan. The new logo, launched last year, was highly rated for its ability to deliver a delicate and heartwarming feeling unique to the Green Label Relaxing brand in a design that is expressive and has a strong impact.

The Company received the "2002 IR Best Company Award."

We received the "2002 IR Best Company Award (in the section of recently listed companies)" from JIRA (the Japan Investor Relations Association) in November 2002.

We are committed to continuing our IR activities, in order to promote interactive communication with our shareholders and investors, under our IR policy focusing on the delivery of "fair, timely, and transparent information that is easy to understand."

United Arrows is supporting Jubilo Iwata, as an official supplier of outfits .

As an official supplier for Jubilo Iwata — a professional soccer team belonging to the Japanese premiere Soccer League (J-League), United Arrows has been providing the players, manager, and other staff with "Su Misura" (pattern/order made) suits, shirts and neckties to wear at official events around the world.

Both Jubilo Iwata and United Arrows are facing the global challenge, and have unique characteristics that differentiate us from our competitors. We both enjoy the enthusiastic support from our fans and customers.

Jubilo Iwata's strong will to win, shared by its supporters and hometown community with its slogan of "becoming a world-class team," coincides with our corporate philosophy that supports our continuous efforts to offer a comfortable and prosperous lifestyle for the next generation, based on our close communication with our customers, and the trust they place in us.

We are supporting Jubilo Iwata, a team whose members, supporters and management are all working hard together to improve the team to come closer to their ambitious goal.

Financial Section

Contents

5-year Summary

UNITED ARROWS LTD.

Years ended March 31, 2003, 2002, 2001, 2000 and 1999	Millions of Yen					Thousands of U.S. Dollars (Note)
	2003	2002	2001	2000	1999	**2003**
Sales	**¥ 35,272**	¥ 26,943	¥ 19,315	¥ 17,017	¥ 14,333	**$ 298,912**
Operating Income	**4,824**	3,965	1,632	2,378	2,504	**40,882**
Net Income	**2,562**	2,318	879	1,175	1,151	**21,709**
Total Assets	**20,837**	19,645	15,054	13,930	6,684	**176,584**
Total Shareholders' Equity	**12,924**	13,456	11,269	10,569	2,571	**109,527**
Number of Shares Issued (Shares)	**11,925,000**	11,925,000	11,925,000	7,950,000	7,050,000	
Treasury Stock (Shares)	**1,000,000**	—	—	—	—	
Net Income per Share (Yen)	**215**	194	74	153	180	**1.8**
Shareholders' Equity per Share (Yen)	**1,178**	1,128	945	1,329	365	**10.0** (in U.S. Dollars)
Capital Expenditures	**952**	484	1,112	3,636	894	**8,066** (in U.S. Dollars)
Number of Stores	**45**	35	31	25	22	
(including number of UA Labs)	**(10)**	(6)	(5)	(3)	(5)	
Total Floor Space (m²)	**14,312**	11,737	10,472	8,860	6,106	
Number of Employees	**581**	441	358	342	248	
Net Income						
to Total Assets (ROA) (%)	**12.7**	13.4	6.1	11.4	19.3	
Return on Equity (%)	**19.4**	18.8	8.1	17.9	57.9	
Shareholders' Equity Ratio (%)	**62.0**	68.5	74.9	75.9	38.5	
Total Asset Turnover (Times)	**1.7**	1.4	1.3	1.2	2.1	
Inventory Turnover (Times)	**2.4**	2.7	2.9	2.9	3.7	
Current Ratio (%)	**161.0**	195.6	178.9	203.5	90.2	
Fixed Asset Ratio (%)	**64.6**	58.3	76.6	71.2	120.6	

Note : Calculations are based on the exchange rate of U.S. $1=¥118.00 (March 31, 2003).

Operating and Financial Review

1. Business Environment

During fiscal 2003 (April 1, 2002 to March 31, 2003), the Japanese economy continued to experience severe conditions, leaving great uncertainties as to its future course. Despite signs of a recovery in corporate revenues, primarily supported by individual companies' efforts to downsize, there are some fundamental underlying issues in the troubled Japanese economy, including the shaky financial institutions, sluggish capital investment, and a lack of growth in employment opportunities and individual income.

The business climate in our retail apparel and related goods industry remained harsh, significantly affected by consumers' reluctance to spend on clothing amid the prolonged recession, although overall consumer spending appeared to be resilient. Under these circumstances, some companies actually succeeded in enhancing their product planning ability, so as to launch clearly differentiated products. Along with other reform measures including cost reductions and the closing of unprofitable retail stores, these companies have started to recover their sales or even achieve rapid growth by gaining customer trust.

2. Operating Performance

Sales during fiscal 2003 reached 35,272 million yen, an increase of 8,328 million yen (+30.9%) over fiscal 2002 (April 1, 2001 to March 31, 2002). Operating income amounted to 4,824 million yen, a year-on-year increase of 859 million yen (+21.7%). As a result, net income totaled 2,562 million yen, a year-on-year increase of 243 million yen (+10.5%).

We have been proactively promoting the following "four structural reforms," in order to gain superior skills for creating attractive stores that can offer clearly differentiated products, as well as new products that appeal to our customers, with the ultimate goal of becoming a dominant market leader:

1) Improving product-customer satisfaction (CS in terms of our products): Structural reform, aiming at improving precision in procurement, manufacturing, inventory management and the planning of our products;
2) Improving sales-customer satisfaction (CS in terms of our sales activities): Structural reform of our overall sales activities, including sales promotion and store design;
3) Improving corporate culture: Structural reform of our corporate culture, organizational climate, and human resources development in a comprehensive manner;
4) Improving business administration: Structural reform to be implemented from a managerial point of view for the Company's long-term steady growth.

We started implementing these four structural reforms, based on our strong belief that we cannot set new standards for Japanese lifestyle and culture without undergoing this process. Efforts to advance these reforms have raised our employees' awareness of the need to work together on company-wide issues transcending departmental boundaries, thereby enhancing mutual understanding among them, as well as the quality of our business. We are pleased with our progress so far, which is exceeding our initial expectations.

As for our sales and promotion activities, we have endeavored to achieve a systematic, collaborative process of "product planning – product procurement – sales promotion – store design – and customer services," in order to ensure that our customers find what they like and want, whenever they visit our stores. Moreover, it is worth noting that (1) the upgraded infrastructure throughout the organization has contributed to improving the precision of our product planning, as well as procurement, (2) active sales promotion represented by more frequent exposure of our products in magazines and other types of media has led to a soaring number of customers visiting our stores, and (3) scientific store design, based on research on customers' behavior inside the store, has enabled us to create an efficiently organized sales space, and to display our products in an effective manner.

With regard to our capital structure, we have successfully achieved our target by purchasing all 1 million shares of our own stock (= treasury stock, accounting for 8.38% of the total number of outstanding shares) via a public offering announced in December 2002, aimed at more flexible creation and implementation of our capital funding policy, given the need to promptly respond to a constantly changing business environment.

The United Arrows ("UA") business chain has expanded the floor space of several of its stores, including Umeda, Yokohama, Nagoya and Shinjuku stores, under the "enlarging existing stores strategy," one of our three basic business strategies. Moreover, a new "ANOTHER EDITION" store has now opened in Shinjuku at the old UA Shinjuku store site.

The Green Label Relaxing ("GLR") business chain has accelerated the pace of its new store openings, expanding its business to large cities outside the Tokyo metropolitan area. There are now six new GLR stores in Umeda, Kyoto, Marunouchi, Hakata, Nagoya and Sapporo.

In addition, we have opened "Odette é Odile UNITED ARROWS" stores — as part of our new project to create UA Labs (test marketing stores) specializing in women's shoes and bags — in Shinjuku, Nagoya and Sapporo.

The Chrome Hearts ("CH") business chain has been steadily preparing for its third store opening, finalizing its new store plan that is expected to enhance the CH brand value, and clarifying its unique design concept to attract more customers.

With the opening of these new stores, the Company owns a total of 45 stores, as of the end of March 2003. The breakdown by business chain is as follows: 20 UA stores, 13 GLR stores, 2 CH stores, and 10 UA Lab stores.

We will continue to open new stores and expand the floor space in every business chain throughout the first quarter of fiscal 2004 (April 1 to June 30, 2003). We have already opened a UA store in Sendai, a GLR store in Kokura, and a S.B.U. store*1 (ANOTHER EDITION) in Fukuoka during April 2003.

3. Performance by Business Segment

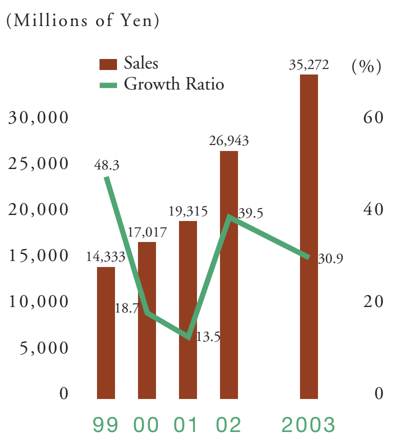
As for sales by business segment, each showed steady growth, posting year-on-year increases as follows: 20.7% in the UA business, 111.5% in the GLR business, and 1.0% in the CH business. In the UA business chain, silver and leather products declined by 10.3%, but men's and women's clothing posted increases of 28.0% and 15.6%, respectively, contributing to overall steady sales growth. Meanwhile, the GLR business chain grew significantly in all areas with year-on-year sales increases of 127.0% in men's clothing, 99.8% in women's clothing, and 106.2% in other merchandise. Sales of the CH business chain, on the other hand, stayed on a par with the previous year, with a marginal year-on-year increase of 1.0%.

As for sales by product category, both men's and women's apparel, which together account for 86.5% of the total, achieved satisfactory growth with year-on-year increases of 40.8% and 29.2%, respectively.

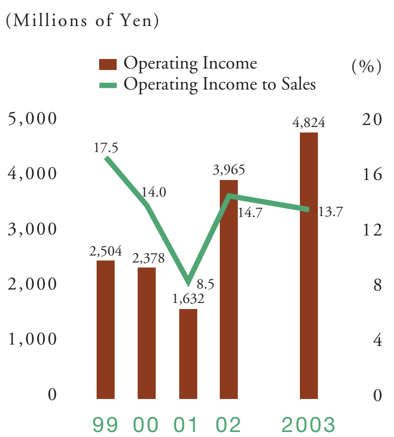
4. Operating Results

Sales

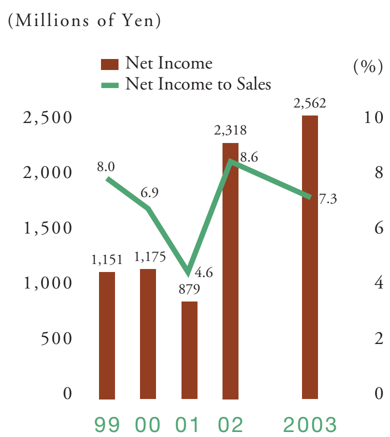
Sales during fiscal 2003 reached 35,272 million yen, a year-on-year increase of 8,328 million yen (+30.9%). This sales increase is primarily due to favorable results achieved by existing stores, with a year-on-year increase of 17.0%, as well as



Sales and Growth Ratio



Operating Income and Operating Income to Sales



Net Income and Net Income to Sales

Sales by Chain

Millions of Yen

	2001			2002			2003		
	amounts	%	YOY	amounts	%	YOY	amounts	%	YOY
UNITED ARROWS	¥ 15,186	78.6	101.5	¥ 20,811	77.2	137.0	**¥ 25,122**	**71.2**	**120.7**
GREEN LABEL RELAXING	1,437	7.4	284.5	2,438	9.1	169.6	**5,156**	**14.6**	**211.5**
CHROME HEARTS	1,462	7.6	330.8	2,152	8.0	147.2	**2,172**	**6.2**	**101.0**
Others	1,230	6.4	110.9	1,542	5.7	125.5	**2,822**	**8.0**	**182.9**
Total	¥ 19,315	100.0	113.5	¥ 26,943	100.0	139.5	**¥ 35,272**	**100.0**	**130.9**

Note* : 1. "UNITED ARROWS" includes the sales of S.B.U. and UA Labs. (S.B.U. means Small Business Units (ANOTHER EDITION and THE SOVEREIGN HOUSE))
2. "Others" includes wholesale sales and outside shop and café sales.

additional revenue from our new stores.

Gross profit amounted to 18,855 million yen, a year-on-year increase of 4,416 million yen (+30.6%). As a result, the gross profit ratio came to 53.5%, 0.1 points lower than the 53.6% of last year.

Operating Income

Operating expenses totaled 14,031 million yen, a year-on-year increase of 3,557 million yen (+34.0%). Consequently, the ratio of operating expenses to sales increased 0.9 points to 39.8%. This rise in operating expenses is attributable to (1) increased variable expenses, accompanied by overall sales growth, (2) increased rent payments due to new store openings, and (3) a rise in personnel expenses resulting from the hiring of new staff. As a result, operating income during this term increased by 859 million yen (+21.7%), year-on-year, to 4,824 million yen.

Other Income (Expenses)

Other income decreased by 379 million yen, year-on-year, to a negative 324 million yen, (i.e. other expenses) due to a significant drop in other income. While recording rental income (including outfit leasing) and foreign exchange gains as the primary source of other income, we posted significant other expenses over this term, including rents, donations, a loss on the disposal of fixed assets, and an appraisal loss on sample products.

Consequently, net income before taxes increased by 480 million yen (+11.9%), year-on-year, to 4,500 million yen.

Net Income

Income taxes during this term totaled 1,939 million yen, a year-on-year increase of 236 million yen (+13.9%), due to increases in corporate income tax, resident income taxes and enterprise tax, accompanied by a decline in deferred income tax. The aggregate total of corporate, residents, and enterprise taxes rose by 181 million yen to 2,068 million yen, which was simply due to increased net income before taxes. Deferred corporate tax declined by 56 million yen, resulting in a loss of 129 million yen, primarily due to an increase in accrued bonuses, as well as the appraisal loss on sample products.

Consequently, net income over fiscal 2003 increased by 243 million yen (+10.5%) year-on-year, to 2,562 million yen.

5. Financial Position

Assets

Total assets at the end of fiscal 2003 (as of March 31, 2003) reached 20,837 million yen, a year-on-year increase of 1,192 million yen (+6.1%).

Current Assets

Current assets amounted to 12,482 million yen, a year-on-year increase of 688 million yen (+5.8%); a significant increase in inventories, as well as notes and accounts receivable offset a sharp decline in cash and cash equivalents. Cash and cash equivalents fell 2,022 million yen to 1,468 million yen, owing mainly to the purchase of treasury stock. Inventories increased by 2,252 million yen to 7,680 million yen. This substantial rise is attributable to increased overall sales, as well as implementation of our new product policy aimed at reducing opportunity loss. Notes and accounts receivable also rose by 288 million yen to 2,729 million yen, due to increased sales at existing stores, in addition to a higher number of receivables related to our new stores.

Fixed Assets

Tangible fixed assets amounted to 4,233 million yen, a year-on-year increase of 174 million yen (+4.3%); an increase resulting from new store openings, floor-space expansion or renovation of existing stores (663 million yen), largely offset by the disposal/sale (126 million yen) and depreciation (372 million yen) of other items. Meanwhile, intangible fixed assets totaled 535 million yen, a year-on-year increase of 32 million yen (+6.4%); investment in new software (186 million yen) could not exert a full effect to an increase in intangible fixed assets, due to removal of our old system (26 million yen), as well as depreciation (127 million yen). Investments and other assets reached 3,587 million yen, a year-on-year increase of 298 million yen (+9.1%), primarily owing to increased long-term lease deposits relating to the opening of new stores.

Liabilities

Current and long-term liabilities totaled 7,913 million yen, a year-on-year increase of 1,724 million yen (+27.9%). Most of this increase is attributable to current liabilities.

Current Liabilities

Current liabilities increased by 1,724 million yen (+28.6%), year-on-year, to 7,753 million yen; an increase in short-term borrowings, as well as notes and accounts payable offset the positive effect of decreased income taxes payable. Short-term borrowings amounting to 1,400 million yen, that were initiated during this term, funded a considerable part of our purchase of treasury stock. Notes and accounts payable amounted to 3,082 million yen, a year-on-year increase of 453 million yen (+17.2%), mainly due to increased overall sales, as well as a higher volume of product purchasing to accommodate our new product policy. Income taxes payable decreased by 422 million yen (-27.4%), year-on-year, to 1,119 million yen, a significant drop from the previous year when a substantial increase in net income before taxes was recorded.

Long-term Liabilities

Long-term liabilities amounted to 160 million yen, staying on a par with the previous year (+0.1%), as there was little change in the account of accrued retirement benefits for directors, as the increases and decreases (in connection with retired employees) canceled each other out. The current ratio in fiscal 2003 fell 34.6 points, year-on-year, to 161.0%, while the fixed asset ratio rose by 6.3 points, year-on-year, to 64.6%.

6. Cash Flows

Cash and cash equivalents (hereinafter, "cash") at the end of fiscal 2003 (as of March 31, 2003) fell 2,022 million yen, year-on-year, to 1,468 million yen. We posted an inflow of net income before taxes of 4,500 million yen (a year-on-year increase of 480 million yen [+11.9%]), as well as additional revenue from short-term borrowings, while recording an outflow of expenses in connection with the buyback of treasury stock, increased inventories, and the purchase of tangible fixed assets.

Details of the cash flows during fiscal 2003 are as follows:

Cash Flows from Operating Activities

Cash flows from operating activities amounted to 741 million yen, a year-on-year decrease of 1,167 million yen (-61.2%).

We recorded an inflow of net income before taxes of 4,500 million yen, depreciation and amortization of tangible fixed assets of 544 million yen, and an increase in accounts payable of 453 million yen due to a higher volume of product procurement, with an outflow of tax payments of 2,490 million yen, an increase in accounts receivable of 319 million yen as a result of our business expansion, and an increase in inventories worth 2,252 million yen.

Cash Flows from Investing Activities

Cash flows used in investing activities totaled 1,116 million yen (840 million yen for the previous fiscal year).

This result is primarily attributable to expenditures arising from the acquisition of tangible fixed assets for new store openings and renovation of existing stores (592 million yen), guarantee deposits paid (291 million yen), and the acquisition of intangible assets (146 million yen).

Cash Flows from Financing Activities

Cash flows from financial activities showed an outflow of 1,646 million yen, significantly higher spending than the previous year, with a year-on-year increase of 1,517 million yen (+1,175.1%).

This soaring cash outflow is attributable to the buyback of treasury stock (2,791 million yen), as well as dividends paid based on our dividend policy (255 million yen) — not covered by the additional 1,400 million yen from short-term borrowings.

7. Cash Dividends

The year-end dividend for fiscal 2003 was 23.00 yen per share (interim dividend: 7 yen per share), an increase of 3.50 yen over last year.

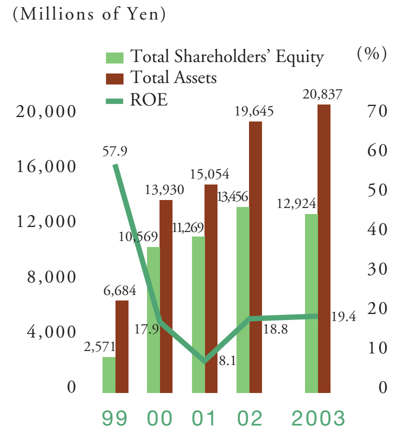
In addition, the Company's stock, which had been listed in the Second Section of the Tokyo Stock Exchange since March 2002, was approved for listing in the First Section of the Tokyo Stock Exchange, as from March 3, 2003.

Sales by Category of Merchandise

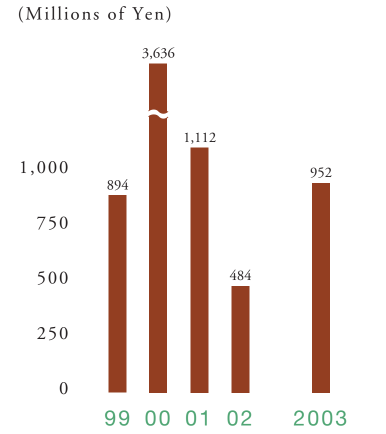
Millions of Yen

	2001			2002			2003		
	amounts	%	YOY	amounts	%	YOY	amounts	%	YOY
Men's clothes	¥ 8,232	42.6	113.7	¥ 12,283	45.6	149.2	**¥ 17,292**	**49.0**	**140.8**
Women's clothes	7,344	38.0	118.3	10,228	38.0	139.3	**13,218**	**37.5**	**129.2**
Silver & Leather	2,593	13.4	114.1	3,135	11.6	120.9	**3,055**	**8.7**	**97.5**
Miscellaneous	338	1.8	177.4	647	2.4	191.7	**1,045**	**2.9**	**161.6**
Others	808	4.2	72.9	650	2.4	80.5	**662**	**1.9**	**101.8**
Total	¥ 19,315	100.0	113.5	¥ 26,943	100.0	139.5	**¥ 35,272**	**100.0**	**130.9**

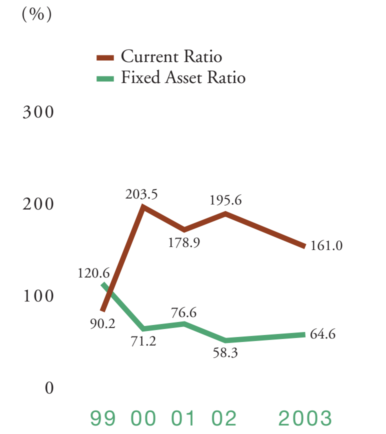
Note : "Others" includes wholesale sales and outside shop and café sales.



Total Shareholders' Equity, ROE and Total Assets



Capital Expenditures



Current Ratio and Fixed Asset Ratio

Balance Sheets

UNITED ARROWS LTD.

March 31, 2003 and 2002

	Thousands of Yen 2003	Thousands of Yen 2002	Thousands of U.S. Dollars (Note 1) 2003
ASSETS			
Current Assets:			
Cash and cash equivalents	**¥ 1,468,234**	¥ 3,490,125	**$ 12,443**
Time deposits	**10,030**	10,010	**85**
Notes and accounts receivable-			
Trade	**78,444**	78,747	**665**
Other	**2,729,211**	2,441,065	**23,129**
Inventories (Note 4)	**7,679,760**	5,427,949	**65,083**
Deferred tax assets (Note 7)	**372,261**	244,589	**3,154**
Others	**144,411**	102,131	**1,224**
Total current assets	**12,482,351**	11,794,616	**105,783**
Fixed Assets:			
Tangible Fixed Assets-			
Land	**1,082,072**	1,082,072	**9,170**
Buildings and structures	**3,848,031**	3,452,295	**32,610**
Furniture and fixtures	**662,862**	624,711	**5,618**
Construction-in-progress	**8,954**	5,253	**76**
Accumulated depreciation	**(1,369,367)**	(1,105,549)	**(11,605)**
Total tangible fixed assets	**4,232,552**	4,058,782	**35,869**
Intangible Fixed Assets-			
Software	**372,186**	338,216	**3,154**
Lease tenant rights	**138,166**	138,166	**1,171**
Other	**24,976**	26,785	**212**
Total intangible fixed assets	**535,328**	503,167	**4,537**
Investments and Other Assets:			
Investment securities (Note 3)	**6,776**	11,301	**57**
Long-term lease deposits	**3,089,831**	2,798,583	**26,185**
Long-term prepaid expenses	**376,805**	332,365	**3,193**
Deferred tax assets (Note 7)	**112,626**	111,422	**955**
Other	**88,026**	105,667	**746**
Allowance for doubtful accounts	**(87,400)**	(71,100)	**(741)**
Total investments and other assets	**3,586,664**	3,288,238	**30,395**
Total assets	**¥ 20,836,895**	¥ 19,644,803	**$ 176,584**

The accompanying notes are an integral part of these financial statements.

	Thousands of Yen 2003	Thousands of Yen 2002	Thousands of U.S. Dollars (Note 1) 2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Notes and accounts payable-			
Trade	**¥ 3,081,745**	¥ 2,629,139	**$ 26,117**
Other	**1,455,400**	1,334,400	**12,334**
Short-term borrowings (Note 6)	**1,400,000**	—	**11,864**
Income taxes payable (Note 7)	**1,118,563**	1,540,919	**9,479**
Consumption tax payable	**128,357**	126,659	**1,088**
Accrued bonuses	**421,782**	308,804	**3,575**
Accrued expenses	**34,149**	19,883	**289**
Other	**113,140**	69,314	**959**
Total current liabilities	**7,753,136**	6,029,118	**65,705**
Long-Term Liabilities:			
Accrued retirement benefits for directors	**103,651**	103,429	**878**
Other	**55,916**	55,926	**474**
Total long-term liabilities	**159,567**	159,355	**1,352**
Total liabilities	**7,912,703**	6,188,473	**67,057**
Shareholders' Equity (Note 9, 10):			
Common stock, no par value-	**3,030,000**	3,030,000	**25,678**
Authorized: 47,700,000 shares			
Issued: 11,925,000 shares at March 31, 2002			
11,925,000 shares at March 31, 2003			
Additional paid-in-capital	**4,095,600**	4,095,600	**34,709**
Legal reserve	**31,035**	31,035	**263**
Retained earnings	**8,558,557**	6,299,695	**72,530**
Treasury stock, at cost	**(2,791,000)**	—	**(23,653)**
Shares: 1,000,000 shares at March 31, 2003			
Total shareholders' equity	**12,924,192**	13,456,330	**109,527**
Total liabilities and shareholders' equity	**¥ 20,836,895**	¥ 19,644,803	**$ 176,584**

Statements of Income

UNITED ARROWS LTD.

Years ended March 31, 2003 and 2002

	Thousands of Yen 2003	Thousands of Yen 2002	Thousands of U.S. Dollars (Note 1) 2003
Sales	¥ 35,271,577	¥ 26,943,208	$ 298,912
Cost of sales	16,416,934	12,504,552	139,127
Gross profit	18,854,643	14,438,656	159,785
Operating expenses	14,030,603	10,473,568	118,903
Operating income	4,824,040	3,965,088	40,882
Other income (expenses):			
Interest income	485	1,392	4
Interest expense	(3,822)	(30)	(32)
Exchange gains	11,228	—	95
Exchange losses	—	(32,870)	—
Dividend income	—	12,903	—
Rental income, net	18,939	22,819	160
Donations	(58,110)	(53,483)	(493)
Additional treasury stock expense	(18,475)	—	(157)
Gain (loss) on sale or disposal of fixed assets, net	(143,488)	215,812	(1,216)
Loss on disposal of supplies	—	(88,224)	—
Impairment of value of securities	(4,525)	(38,112)	(38)
Loss on sample products	(90,563)	—	(767)
Settlement on cancellation of contracts	—	47,784	—
Allowance for doubtful accounts	(16,300)	—	(138)
Reversal of retirement benefits for directors	—	31,272	—
Loss on cancellation of leases	—	(52,654)	—
Other, net	(19,035)	(11,034)	(161)
	(323,666)	55,575	(2,743)
Net income before taxes:	4,500,374	4,020,663	38,139
Income taxes (Note 7)-			
Current	2,067,636	1,887,092	17,522
Deferred	(128,876)	(184,815)	(1,092)
	1,938,760	1,702,277	16,430
Net income	2,561,614	2,318,386	21,709
Retained earnings-beginning balance	6,080,418	4,040,934	51,529
Interim dividend paid	(83,475)	(59,625)	(708)
Unappropriated retained earnings for the year	¥ 8,558,557	¥ 6,299,695	$ 72,530

	In exact Yen 2003	In exact Yen 2002	In exact U.S. Dollars 2003
Per share:			
Net income	¥ 215.01	¥ 194.41	$ 1.822
Cash dividends (Note 10)	23.00	19.50	0.195

The accompanying notes are an integral part of these financial statements.

Statements of Shareholders' Equity

UNITED ARROWS LTD.

Years ended March 31, 2003 and 2002

Thousands of Yen

	Number of common stock shares	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Treasury stock, at cost
Balance at March 31, 2001:	11,925,000	¥3,030,000	¥4,095,600	¥ 23,880	¥4,119,639	¥ —
Net income for the year 2002	—	—	—	—	2,318,386	—
Prior year year-end appropriation-						
Cash dividends	—	—	—	—	(71,550)	—
Transfer to legal reserve	—	—	—	7,155	(7,155)	—
Current year interim appropriation-						
Cash dividends	—	—	—	—	(59,625)	—
Balance at March 31, 2002:	11,925,000	3,030,000	4,095,600	31,035	6,299,695	—
Net income for the year 2003	—	—	—	—	2,561,614	—
Prior year year-end appropriation-						
Cash dividends	—	—	—	—	(172,912)	—
Bonuses to directors	—	—	—	—	(46,365)	—
Current year interim appropriation-						
Cash dividends	—	—	—	—	(83,475)	—
Purchase of common stock	(1,000,000)	—	—	—	—	(2,791,000)
Balance at March 31, 2003	10,925,000	¥3,030,000	¥4,095,600	¥ 31,035	¥8,558,557	(¥2,791,000)

Thousands of U.S. Dollars

	Number of common stock shares	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Treasury stock, at cost
Balance at March 31, 2002:	11,925,000	$ 25,678	$ 34,709	$ 263	$ 53,387	$ —
Net income for the year 2003	—	—	—	—	21,709	—
Prior year year-end appropriation-						
Cash dividends	—	—	—	—	(1,465)	—
Bonuses to directors	—	—	—	—	(393)	—
Current year interim appropriation-						
Cash dividends	—	—	—	—	(708)	—
Purchase of common stock	(1,000,000)	—	—	—	—	(23,653)
Balance at March 31, 2003	10,925,000	$ 25,678	$ 34,709	$ 263	$ 72,530	($ 23,653)

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

UNITED ARROWS LTD.

Years ended March 31, 2003 and 2002	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
Cash flows from operating activities:			
Net income before taxes	**¥ 4,500,374**	¥ 4,020,663	**$ 38,139**
Depreciation	**371,579**	373,768	**3,149**
Amortization of intangible fixed assets	**128,322**	128,943	**1,088**
Amortization of long-term prepaid expenses	**44,537**	34,237	**377**
Increase (decrease) in accrued bonuses	**112,977**	104,607	**958**
(Decrease) increase in accrued retirement benefits	**222**	(20,302)	**2**
Increase in allowance for doubtful accounts	**16,300**	—	**138**
Interest and dividend income	**(485)**	(14,295)	**(4)**
Interest expense	**3,822**	30	**32**
Impairment of value of securities	**4,525**	38,112	**38**
Loss on disposal of tangible fixed assets	**117,923**	62,252	**999**
(Gain) loss on sale of tangible fixed assets	**36**	(323,839)	**0**
Loss on disposal of intangible fixed assets	**25,529**	45,775	**216**
Settlement on cancellation of contracts	**—**	(47,784)	**—**
Loss on cancellation of insurance reserve fund	**5,123**	—	**43**
Increase in accounts receivable	**(318,524)**	(762,757)	**(2,699)**
(Increase) decrease in inventories	**(2,251,811)**	(2,262,690)	**(19,083)**
Decrease (increase) in other current assets	**10,264**	86,466	**87**
Increase in accounts payable	**452,606**	593,490	**3,836**
Increase in other current liabilities	**57,330**	489,391	**486**
Decrease in other long-term liabilities	**(10)**	(14,742)	**(0)**
Bonuses to directors	**(46,365)**	—	**(393)**
Subtotal	**3,234,274**	2,531,325	**27,409**
Receipt of interest and dividends	**485**	14,295	**4**
Payment of interest	**(3,822)**	(30)	**(32)**
Payment of income taxes	**(2,489,992)**	(637,807)	**(21,102)**
Net cash from operating activities	**740,945**	1,907,783	**6,279**
Cash flows from investing activities:			
Decrease (increase) in time deposits	**(20)**	263,000	**(0)**
Increase in staff loans	**489**	—	**4**
Guarantee deposits paid	**(291,248)**	(190,276)	**(2,468)**
Purchase of intangible assets	**(146,234)**	—	**(1,239)**
Payment of long-term prepaid expenses	**(110,769)**	—	**(939)**
Decrease (increase) in other investments	**15,229**	(85,434)	**129**
Proceeds from sale of tangible fixed assets	**8,220**	1,118,230	**70**
Purchase of tangible fixed assets	**(592,032)**	(265,651)	**(5,017)**
Net cash from (used in) investing activities	**(1,116,365)**	839,869	**(9,460)**
Cash flows from financing activities:			
Increase in short-term borrowings	**1,400,000**	—	**11,864**
Purchase of treasury stocks	**(2,791,000)**	—	**(23,653)**
Dividends paid	**(255,471)**	(129,128)	**(2,164)**
Net cash used in financing activities	**(1,646,471)**	(129,128)	**(13,953)**
Net increase (decrease) in cash and cash equivalents	**(2,021,891)**	2,618,524	**(17,134)**
Cash and cash equivalents at beginning of the year	**3,490,125**	871,601	**29,577**
Cash and cash equivalents at end of the year	**¥ 1,468,234**	¥ 3,490,125	**$ 12,443**

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

UNITED ARROWS LTD.

For the years ended March 31, 2003 and 2002

1. Major Policies Adopted in Preparation of Financial Statements

The accompanying financial statements, which are a translation of those issued in Japan after modification to enhance the understanding of readers outside Japan, are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards. In addition, the notes to the financial statements include financial information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The Company maintains its accounting records in yen. The dollar amounts included in the financial statements and notes thereto represent the arithmetical result of translating yen to dollars on the basis of ¥118.00 = US$1, the approximate current rate of exchange prevailing on March 31, 2003. The inclusion of such amounts is solely for the convenience of readers and is not intended to imply that Japanese yen amounts have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

2. Significant Accounting Policies

(1) Cash and cash equivalents -
Cash and cash equivalents included in the financial statements comprise cash in hand, bank deposits capable of being withdrawn on demand, and highly liquid investments with initial maturities of three months or less which represent a low risk of fluctuation in value.

(2) Translation of foreign currencies -
Foreign currency transactions have been translated using the foreign exchange rates prevailing at the respective transaction dates. All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, have been translated at the foreign exchange rates prevailing at the respective balance sheet dates.

(3) Marketable securities and investment securities -
Securities are classified into four categories, i.e. 'trading', 'held-to-maturity debt', 'securities of subsidiaries and affiliates', and 'other securities'. Securities held by the Company are classified as 'other securities'.

The Company has followed the Japanese accounting standard in calculating the carrying value of its securities. Securities designated as 'available-for-sale', whose fair values are readily determinable, are carried at fair value at the balance sheet date using the moving-average method with unrealized gains or losses being included as a separate component of shareholders' equity, net of applicable taxes.

(4) Inventories -
"Inventories" consist of merchandise and supplies. Merchandise is stated at cost based on the weighted average method, while supplies are stated at cost based on the last invoice method.

(5) Property and equipment -
Depreciation of property and equipment, except for buildings, is computed using the declining-balance method at rates based on the estimated useful lives of the respective assets.

Depreciation of buildings is computed using the straight-line method over the buildings' estimated useful lives.

The useful lives of major asset categories are as follows:

Buildings	3-50 years
Structures	7-20 years
Furniture & fixtures	2-20 years

(6) Intangible assets and other assets -
Intangible assets mainly consist of software for internal use. Intangible assets are amortized on a straight-line basis. Software for internal use is amortized over 5 years.
Long-term prepaid expenses are amortized on a straight-line basis over 5 to 10 years.

(7) Allowance for doubtful accounts -
The allowance for doubtful accounts consists of a general reserve and a specific reserve. The general reserve is provided based upon past loss experience. The specific reserve is provided to cover estimated losses on specific doubtful accounts.

(8) Accrued retirement benefits -
The Company established a new Employee Retirement Regulation on February 1, 2002 and adopted a defined contribution benefit plan. There was no projected benefit obligation as of March 31, 2003 under the new Employee Retirement Regulation.

The obligation for severance indemnity benefits in connection with the directors' pension plan is provided for through accruals at 100% of the pension obligation, on the assumption that all directors retire at the respective balance sheet dates.

(9) Income taxes -
Deferred income taxes are recorded to reflect the expected future tax consequences of temporary differences between the tax basis of assets and liabilities and that reported in the financial statements, and are measured by applying currently enacted tax law.

(10) Consumption tax -
Consumption tax is imposed at a flat rate of 5% on all domestic consumption of goods and services (with certain exemptions).

Consumption taxes paid on purchases and consumption tax withheld from sales are excluded from the respective expense and sales amounts. Instead, net consumption tax payable (receivable) is recorded as a current liability (asset) respectively.

(11) Accounting for hedges -
All derivatives are stated at fair value, with changes in fair value being included in the net profit or loss of the period in which the changes arise, except for derivatives designated as 'hedging instruments'.

Gains or losses arising from changes in the fair value of those derivatives designated as 'hedging instruments' are deferred as an asset or liability and are included in the net profit or loss in the same period in which the gains and losses on the hedged items or transactions are recognized.

Derivatives designated as 'hedging instruments' by the Company are principally coupon swaps (interest rate swaps) and forward exchange contracts. The related hedged items are accounts payable.

The Company has a policy to utilize the above hedging instruments to reduce the Company's exposure to the risk of foreign currency exchange rate fluctuation. Thus, the Company's purchase of hedging instruments is limited to, at maximum, the amount of the hedged items and the instruments are not used for speculation or dealing purposes.

The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on its hedging instruments and the related hedged items from the commencement of the hedges.

(12) Accounting for leases -
Finance leases, other than those under which ownership of the leased assets is transferred to the lessee, are accounted for as ordinary operating leases.

(13) Accounting for treasury stock -
Effective from the fiscal year beginning April 1, 2002, the Company adopted Financial Accounting Standard No.1: 'Accounting for Treasury Stock and Reduction of Legal Reserves'. Adoption of this new standard had an immaterial impact on the Company's results of operations and financial position.

(14) Earnings per share -
Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year. Cash dividends per share shown for each year in the statements of income represent dividends declared as applicable to each respective period.

3. Marketable Securities and Investment Securities

The following is a summary of securities classified as 'other securities' at March 31, 2003:

	Thousands of Yen				
Other securities	Cost	Gross unrealized gains	Gross unrealized losses	Impairment	Book value (estimated fair value)
Stocks	¥ 11,301	—	—	¥ 4,525	¥ 6,776
	¥ 11,301	—	—	¥ 4,525	¥ 6,776

	Thousands of U.S Dollars				
Other securities	Cost	Gross unrealized gains	Gross unrealized losses	Impairment	Book value (estimated fair value)
Stocks	$ 96	—	—	$ 39	$ 57
	$ 96	—	—	$ 39	$ 57

4. Inventories

"Inventories" as of March 31, 2003 and 2002 consisted of the following:

March 31	Thousands of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Men's wear	¥ 3,440,677	¥ 2,465,351	$ 29,158
Women's wear	2,753,936	1,725,474	23,338
Silver & Leather	1,283,117	1,075,945	10,874
Other	191,685	154,784	1,625
Supplies	10,345	6,395	88
	¥ 7,679,760	¥ 5,427,949	$ 65,083

5. Derivative Financial Instruments

The Company uses coupon swaps to hedge against the exchange rate risk associated with monetary payables, contract balances for import transactions and anticipated transactions denominated in foreign currencies.

The Company is exposed to certain market risks arising from coupon swaps. The Company is also exposed to the risk of credit loss in the event of non-performance by counterparties. However, the Company does not anticipate non-performance by any of these counterparties, as all of them are financial institutions with high credit ratings.

The disclosure of fair value information for derivatives at March 31, 2003 and 2002 has been omitted since all derivatives have been accounted for as hedges.

6. Short-Term Borrowings

"Short-term borrowings" at March 31, 2003 and 2002 consisted of the following:

March 31	Thousands of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Unsecured:			
Bank loans	¥ 900,000	¥ —	$ 7,627
Loans from a life insurance company	500,000	—	4,237
	¥ 1,400,000	¥ —	$ 11,864

7. Income Taxes

The income taxes in Japan applicable to the Company for the years ended March 31, 2003 and 2002 consist of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

For the years ended March 31	Rate on taxable income	
	2003	2002
Standard rates:		
Corporate income tax	30.0%	30.0%
Enterprise tax	10.0%	10.0%
Resident income tax	20.6%	20.6%
Effective statutory tax rate (reflecting deduction of enterprise tax on payment)	42.0%	42.0%

Deferred tax assets and deferred tax liabilities (both current and non-current) consisted of the following:

March 31	Thousands of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred Tax Assets arising from:			
Non-deductible officers' retirement allowances	¥ 42,176	¥ 43,440	$ 357
Depreciation in excess of tax limit	32,696	25,042	277
Non-deductible enterprise tax payable	95,464	138,498	809
Accrued bonuses in excess of tax limit	153,934	86,141	1,305
Allowance for doubtful accounts in excess of tax limit	34,017	26,903	288
Loss on sample products in excess of tax limit	62,515	—	530
Other	64,084	35,986	543
Total deferred tax assets	¥ 484,886	¥ 356,010	$ 4,109

Due to an amendment to the local tax law, effective from the fiscal year beginning April 1, 2004, the statutory tax rate used for the calculation of deferred tax assets has been changed.
The Company has therefore applied the statutory tax rate in force prior to the amendment to temporary differences which will be resolved on or before March 31, 2004 and has applied the new rate to those which will be resolved on or after April 1, 2004. Adoption of this new rate had no material impact on the Company's results of operations or financial position.

8. Leases

The Company uses certain furniture, fixtures and software under finance lease contracts. As all such finance lease contracts do not transfer ownership of the leased property to the lessee, they are accounted for as ordinary operating leases. Proforma information regarding leased property for the years ended March 31, 2003 and 2002 is as follows:

March 31, 2003	Thousands of Yen			Thousands of U.S. Dollars
	Cost	Accumulated Depreciation	Carrying Amount	Carrying Amount
Furniture and fixtures	¥ 384,566	¥ 172,859	¥ 211,707	$ 1,794
Software	104,285	102,385	1,900	16
	¥ 488,851	¥ 275,244	¥ 213,607	$ 1,810

March 31, 2002	Thousands of Yen		
	Cost	Accumulated Depreciation	Carrying Amount
Furniture and fixtures	¥ 384,808	¥ 250,456	¥ 134,352
Software	137,787	123,519	14,268
	¥ 522,595	¥ 373,975	¥ 148,620

March 31	Thousands of Yen		Thousands of U.S. Dollars
	2003	2002	2003
The scheduled maturities of future lease payments, on such lease contracts were as follows:			
Due within one year	¥ 105,888	¥ 94,838	$ 897
Due over one year	109,962	60,073	932
	¥ 215,850	¥ 154,911	$ 1,829
Lease rental expenses for the year	¥ 129,822	¥ 139,655	$ 1,100

The amounts shown above for acquisition cost and future minimum lease payments under finance leases include the imputed interest expense portion.

Depreciation expenses, which are not reflected in the accompanying statements of income, if computed using the straight-line method, would be ¥124,808 thousand ($1,058 thousand) and ¥132,067 thousand for the years ended March 31, 2003 and 2002, respectively.

9. Stock-Based Compensation Plan

In June 2001, the Company's shareholders approved a stock option plan for the directors and selected employees, and under the plan, authorized the granting of 211,700 shares to purchase United Arrows' common stock. The number of ungranted options at March 31, 2002 and March 31, 2003 was 194,200 and 186,400, respectively. No exercise of these options had actually occurred as of March 31, 2003.

The new stock option plan was approved at the shareholders' meeting held on June 27, 2003.
The condition of the warrants is as follows:

Type of shares:	Common stock
Number of shares:	Less than 160,000 shares in total
Grant price:	1.025 multiplied by the higher of the average market price in the month prior to the grant date, or the market price on the day before the grant date.
Effective period:	June 28, 2005 to June 26, 2013

This stock option plan will distribute warrants to the directors and selected employees without charge.

10. Retained Earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings (including year-end cash dividend payments) proposed by the Board of Directors should be approved at the shareholders' meeting that must be held within three months of the end of each financial year.

The following proposed appropriation plan was approved at the shareholders' meeting held on June 27:

	Thousands of Yen	Thousands of U.S. Dollars
Unappropriated retained earnings for the year	¥ 8,558,557	$ 72,530
Appropriation of retained earnings:		
Transfer to dividends	174,800	1,481
Bonuses to directors	51,229	434
	226,029	1,915
Unappropriated retained earnings carried forward to the next year	¥ 8,332,528	$ 70,615

Report of Independent Accountants

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Kasumigaseki Bldg., 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku
Tokyo 100-6088, Japan

Report of Independent Accountants

June 27, 2003

To the Board of Directors and Shareholders of
UNITED ARROWS LTD.

In our opinion, the accompanying balance sheets and related statements of income, shareholder's equity and cash flows present fairly, in all material respects, the financial position of UNITED ARROWS LTD. at March 31, 2003 and 2002, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in Japan. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in Japan which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying financial statements.

PricewaterhouseCoopers

Tokyo, Japan

(Notice to readers)

The accompanying financial statements are not intended to present the financial position, results of operations or cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. Accordingly the accompanying balance sheets and the related statements of income, shareholders' equity and cash flows, and their utilization, are not designed for those who are not informed about Japanese accounting principles, procedures and practices.

The standards, procedures and practices utilized in Japan to audit such financial statements may differ from those generally accepted in countries and jurisdictions other than Japan.

Corporate Data

(as of March 31, 2003)

Official Name	UNITED ARROWS LTD.
Headquarters	2-31-12 Jingumae, Shibuya-ku, Tokyo 150-0001, Japan
Telephone	+81-3-6418-0803
URL	http://www.united-arrows.co.jp/
Established	October 2, 1989
Capital	¥3,030 million
President and CEO	Osamu Shigematsu
Number of Employees	581
Average Age of Employees	28.9
Business Outline	Planning and Sales of Men's and Women's Apparel, Accessories and Other Products
Independent Auditor	ChuoAoyama Audit Corporation
Sales Composition	Men's 49.0% Women's 37.5% Silver&Leather 8.7% Miscellaneous 2.9% *Others 1.9%

* "Others" includes wholesale sales and outside shop and café sales.

Board of Directors and Corporate Auditors

President and CEO	Osamu Shigematsu
Executive Vice President and COO	Tetsuya Iwaki
Managing Director	Koichi Mizunoya
Creative Director	Hirofumi Kurino
Managing Director	Hiroshi Takanashi
Director	Hirotoshi Hatasaki
Standing Corporate Auditor	Ryosaku Nishiwaki
Corporate Auditor	Sadaaki Kitagawa
Corporate Auditor	Tadakatsu Sakuragi
Corporate Auditor	Mitsuo Aikawa
	(as of June 27, 2003)

New Stores Information (as of March 31, 2003)

NEW OPEN

UNITED ARROWS

UNITED ARROWS BLUE LABEL STORE SHINJUKU
Flags 4F, 3-37-1 Shinjuku, Shinjuku-ku, Tokyo 160-0022

RASSLIN' (For the limited time only)
1F 2-18-11 Jingumae, Shibuya-ku, Tokyo 150-0001

NAGOYA
Nova 1F, 3-4-5 Sakae, Naka-ku, Nagoya-shi, Aichi 460-0008

SAPPORO
SAPPORO STELLAR PLACE East B1F, Nishi-2chome 5-Banchi, Kita-5jo, Chuo-ku, Sapporo-shi, Hokkaido 060-0005

GREEN LABEL RELAXING

UMEDA
5-5100 Diamor Osaka, 1-chome Umeda, Kita-ku, Osaka-shi, Osaka 530-0001

KYOTO
Shijo-Kawaramachi Hankyu Store B1F, 68 Shin-cho Shijo Kawara-machi, Higashi-iru, Shimogyo-ku, Kyoto 600-8510

MARUNOUCHI
Marunouchi Building 3F, 2-4-1 Marunouchi, Chiyoda-ku,Tokyo 100-6303

HAKATA
Hakata Izutsuya 1F, 1-1 Hakataeki-chuogai, Hakata-ku, Fukuoka 812-8678

UA LABO

Odette é Odile UNITED ARROWS Shinjuku
LUMINE Shinjuku LUMINE I 3F, 1-1-5 Nishi-Shinjuku, Shinjuku-ku, Tokyo 106-0023

Odette é Odile UNITED ARROWS Nagoya
Nagoya PARCO West 2F, 3-29-1 Sakae, Naka-ku, Nagoya-shi, Aichi 460-0008

Odette é Odile UNITED ARROWS Sapporo
SAPPORO STELLAR PLACE Center 2F, Nishi-2chome 5-Banchi, Kita-5jo, Chuo-ku, Sapporo-shi, Hokkaido 060-0005

ANOTHER EDITION Shinjuku
Flags 4F, 3-37-1 Shinjuku, Shinjuku-ku, Tokyo 160-0022

RENEWAL OPEN

UNITED ARROWS

YOKOHAMA
LUMINE Yokohama B1F, 2-16-1 Takashima, Nishi-ku, Yokohama-shi, Kanagawa 220-0011

OITA
Garage Building B, 3-7-26 Funai-cho Oita-shi, Oita 870-0021

ENLARGEMENT & RELOCATIONS

UNITED ARROWS

UMEDA
E-MA 1•2F, 1-12-16 Umeda, Kita-ku, Osaka-shi, Osaka 530-0001

NAGOYA
Nagoya Mitsukoshi Sakae 1•2F, 3-5-1 Sakae, Naka-ku, Nagoya-shi, Aichi 460-8669

SHINJUKU
LUMINE Shinjuku LUMINE I B1•1F, 1-1-5 Nishi-Shinjuku, Shinjuku-ku, Tokyo 160-0023

Our IR website includes all our stores' information.

Shareholder Information

(as of March 31, 2003)

Total authorized shares
47,700,000

Shares of common stock issued
11,925,000

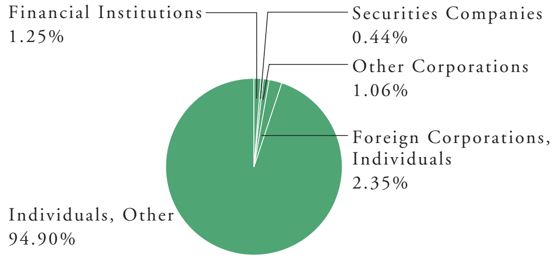
Shareholders
2,729

Major shareholders

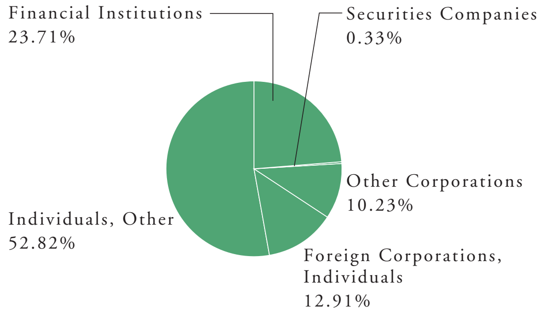
	Number of shares held	Ratio of voting rights (%)
Osamu Shigematsu	1,100,000	10.06
World. Co., Ltd.	1,081,000	9.89
Hirotoshi Hatasaki	1,000,000	9.15
The Master Trust Bank of Japan, Ltd.	921,900	8.43
Tetsuya Iwaki	563,000	5.15
Hirofumi Kurino	563,000	5.15
Koichi Mizunoya	543,000	4.97
Japan Trustee Services Bank, Ltd.	520,700	4.76
UFJ Trust Bank Limited	341,900	3.12
The Bank of New York (Luxembourg) S.A.	285,500	2.61

Note : 1. Control ratios are rounded down to the nearest two decimal places.
2. The figures above do not include our 1,000,000 shares of treasury stock.

Distribution by owners of shares



Distribution by number of shares



Stock Performance