UNITED ARROWS LTD.

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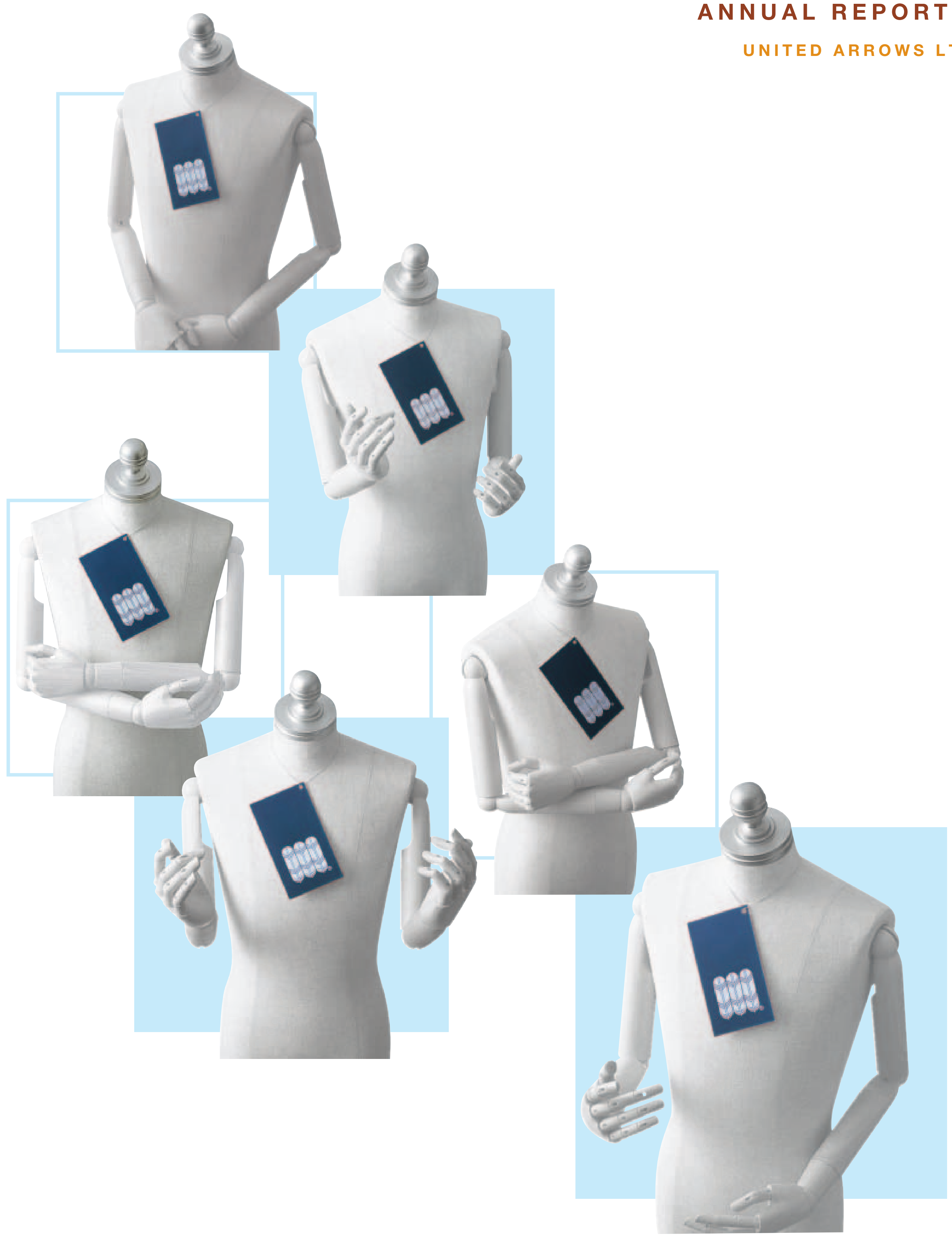
ANNUAL REPORT 2005

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 of 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, and achieved by combining 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.

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Financial Highlights

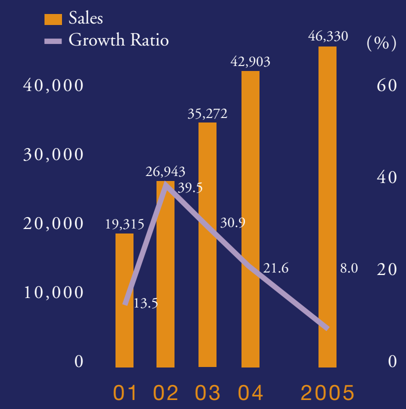
UNITED ARROWS LTD.

Years ended March 31, 2005 and 2004	Millions of Yen		Thousands of U.S. Dollars (Note)
	2005	2004	2005
Sales	¥ 46,330	¥ 42,903	$ 432,388
Operating Income	6,081	5,241	56,750
Net Income before Taxes	5,909	5,028	55,147
Net Income	3,477	2,878	32,446
Total Assets	27,648	24,126	258,032
Total Shareholders' Equity	18,812	15,604	175,571
Net Income per Share (in Yen and U.S. Dollars)	154.90	258.97	1.446
Shareholders' Equity per Share (in Yen and U.S. Dollars)	851.00	1,416.68	7.942

Note : Calculations are based on the exchange rate of U.S. $1=¥107.15 (March 31, 2005.)

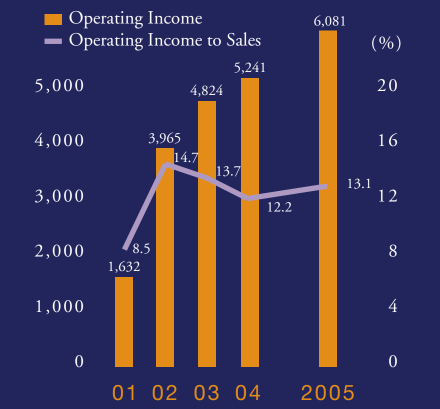
Sales and Growth Ratio

(Millions of Yen)



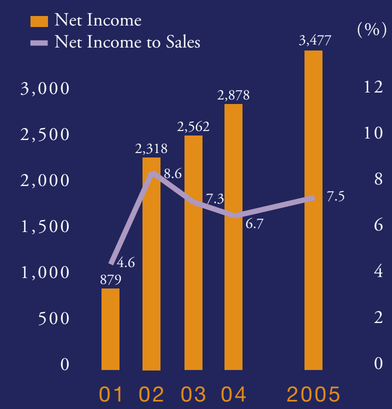
Operating Income and Operating Income to Sales

(Millions of Yen)



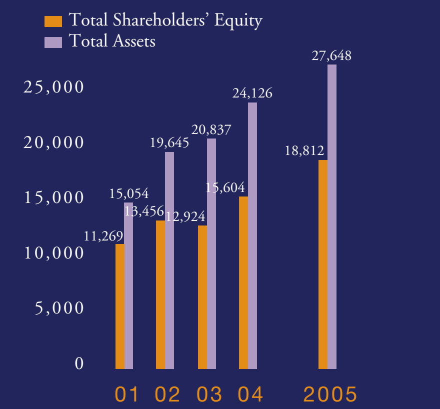
Net Income and Net Income to Sales

(Millions of Yen)



Total Shareholders' Equity and Total Assets

(Millions of Yen)



To Our Shareholders

MAKE YOUR REAL STYLE

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

I would like to extend my best wishes to all of you, and also express our greatest appreciation for your exceptional support, on the occasion of the release of our report for the 16th term (April 1, 2004 to March 31, 2005) of United Arrows Group.

I sincerely appreciate your continued support for our future efforts.

June 2005

Osamu Shigematsu
Chairman and CEO

Tetsuya Iwaki
President and COO

Interview with the President

We are striving to qualitatively improve our corporate management towards achieving our medium-term target of 100 billion yen in sales and 15 billion yen in ordinary income* by the end of the fiscal year ending March 2011.

How did the Company perform in the fiscal year ended March 2005?

Unseasonable weather and temperatures had some impact on sales, but we successfully achieved a profit that exceeded our original expectations. This is a result of corporate restructuring, which we have been promoting since 2002. The restructuring enabled us to control costs flexibly, building a business infrastructure that ensures targeted profits without being overly affected by fluctuating sales. In addition, we focused on enhancing the quality of our corporate management by seeking to improve various management benchmarks such as profit margin and inventory turnover while staying on our growth and expansion track during fiscal year 2005. The results of the above efforts have started to show in specific financial data such as gross profit margin and inventory level. As for measures to enhance our product lineup, we have been engaged in revamping the merchandise department of our UNITED ARROWS ("UA") business chain since the first half of fiscal year 2005 by seeking to improve our capabilities in planning and developing our own original products, in addition to setting up the "Research & Development Group" and the "Total Planning Intelligence Office" as departments to gather and analyze information. We believe that these efforts led to the improvement in sales in the fourth quarter and beyond.

**Ordinary income is one of the most important performance indicators in Japan. Due to reclassification in line with accepted international practices, however, ordinary income does not appear on the statements of income.*

All photos taken at UA HARAJUKU for Men

What specific efforts are you making for the fiscal year ending March 2006?

When I became president in June 2004, I set three intra-company targets for achieving qualitative corporate management improvements: a higher gross profit margin, a lower ratio of operating expenses to sales and the optimization of inventory level. In order to achieve these targets, each department in the Company established very high targets to be achieved within three years. I believe that great accomplishments can only be achieved by facing difficult challenges head on, even if the targets seem difficult to meet. To achieve these targets, various project teams have been assembled since the second half of fiscal year 2005. These project teams report to the management weekly on their progress. It is due to the continued activities of these projects across departments throughout the entire company that some of these endeavors are coming to fruition. We will further enhance these efforts during fiscal year 2006. Specifically, we will focus on further reducing the percentage ratio of procurement costs in terms of sales and increasing the percentage ratio of products sold at stores in order to improve our gross profit margin. In addition, we will examine options for more efficient labor supervision at stores and implement the resultant decisions in order to reduce the ratio of operating expenses to sales. Moreover, we will optimize the number of product items stocked to enhance inventory turnover. Through these efforts, we will strive to expand the size of our business and enhance the quality of our corporate management.

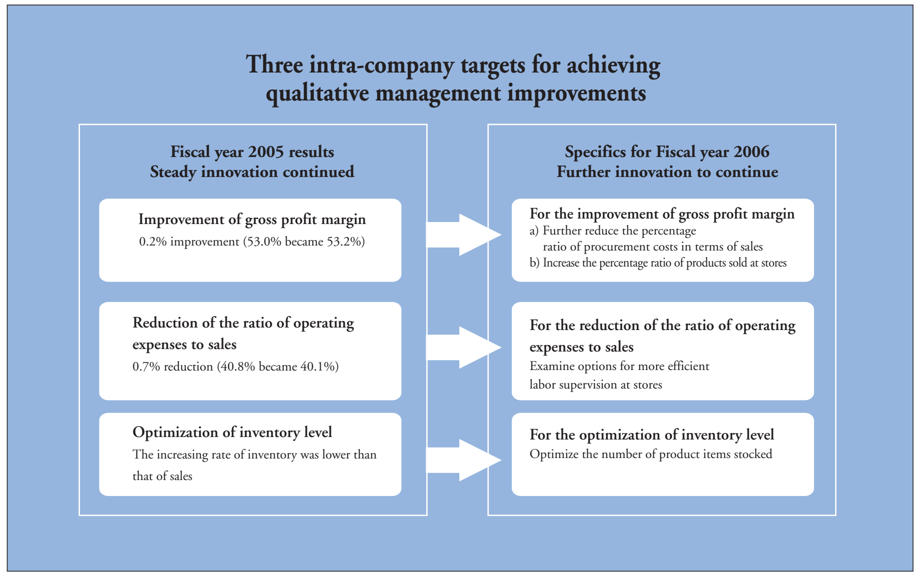
Seeing that S.B.U. business has been performing especially well, can you tell us your future strategy for this business?

We operated "Changes UNITED ARROWS," launched in 2001, "Odette é Odile," established in 2002 and "DRAWER," started in 2003, as UA Labs (test marketing business to explore the possibility of future business expansion). Given the steady growth of earnings and the consistent support from customers for these businesses, however, we have upgraded them to Small Business Units (S.B.U.) so as to actively promote the development of more stores from April 2005. We will actively invest in these three businesses to grow them into ventures that will be supported by a broader customer base. In addition, "DARJEELING DAYS," a new business that was launched in March 2005 and targets customers in their mid-40s to around 60s, has started to expand by opening new stores in department stores. Since we are anticipating substantial demand for "DARJEELING DAYS," we positioned the business as an S.B.U. from the outset, plan to set up new stores and expand the business aggressively. Although these businesses still lag far behind our mainstream business chain such as "UNITED ARROWS" and "GREEN LABEL RELAXING" in terms of sales, they have good potential on the back of strong market potential. We can look forward to the growth of such S.B.U. in the future.

How do you feel now that sales have reached almost 50 billion yen?

For fiscal year 2006, the 17th year since the company was established, we aim to achieve sales exceeding 50 billion yen. Sales of 50 billion yen are only halfway point to 100 billion yen, our medium-term target, but also a very significant "turning point" for the Company. From there on, we will enter a new stage and it is clear that the qualitative improvement of our corporate management is essential to our progress. For this reason, we have examined our entire corporate structure, with a view to extensive restructuring; in fact, we have been making an all-out effort to devise a business model to ensure that we remain a winner in the apparel industry despite the intensifying competition. All apparel companies started either as retailers or wholesalers, and they have been growing and expanding depending on the inherent advantages and disadvantages of their specific heritage. Companies that started as retailers are generally good at sales and serving customers and creating an ambience for the retail space, and companies that originated as wholesalers are more experienced in product planning ; the latter generally has the opposite advantages and disadvantages compared to the former. Our target business model, the "Super SPA*" concept, aims at building a company that combines the strengths of both company types, and all of our efforts go towards achieving this business model. In fiscal year 2011, which is our medium-term target year, we aim to achieve sales of 100 billion yen and an ordinary income of 15 billion yen as we develop "the ultimate form for the first stage" of this concept. We have been expanding the size of business for the eventual purpose of becoming a retail company that can offer its customers more excitement. We believe that our mission is to continue to benefit our shareholders, as well as society as a whole, for many years to come by achieving this goal.

Tetsuya Iwaki, President and COO



**SPA = Specialty store retailer of Private label Apparel (apparel companies that have integrated manufacturing and retail functions)*

Board of Directors

We are striving to improve the quality of our corporate management and achieve our "Super SPA" concept by further promoting corporate restructuring, as well as ongoing progress from the human perspective of "Person," "Product" and "Ambience"; in order to persue the contemporary standards of Japanese lifestyle and culture.

Osamu Shigematsu

Chairman and CEO

Chairman and CEO since June 2004.
Osamu Shigematsu, founder of UNITED ARROWS LTD. assumed the post of Chairman and CEO in June 2004. His focus is developing business strategies and medium and long-term management plans.

The following are various key measures that "the Super SPA" concept seeks to implement for steady long-term growth:

1) Revamping the UA Merchandise department for enhancing product development capability
2) Early realization of inventory efficiency improvement
3) Fostering an awareness for the need of affirmative action
4) Driving the management philosophy home

As Chairman and CEO, I will devote all my energy to strengthening our corporate foundation to be a company capable of continuing to grow and develop in the future.

Tetsuya Iwaki

President and COO

Tetsuya Iwaki assumed the post of President and COO in June 2004.
He is focused on disseminating the management philosophy to employees, as well as presenting corporate management policy and executing operations.

We are aiming to create stores that allow customers to enjoy shopping and consistently provide products that they will find useful in their life. What I mean by this is to develop stores that customers can totally rely on and we are committed to reliability. All of us at United Arrows will strive to continuously create such stores.

Hirofumi Kurino

Managing Director, Chief Creative Officer, and General Manager of Total Planning and Intelligence Office

Mr. Kurino extensively communicates information on fashion and product trends to the domestic and overseas markets from the viewpoint of a marketer and creator, as he supervises product planning and sales promotion activities across the company.

We have launched "DARJEELING DAYS," which is our first brand that targets male adult customers in their mid 40s to around 60s, and opened the flagship shop in Marunouchi, Tokyo. We must make this brand success for United Arrows Group to grow as a true manufacturing retail company.

Koichi Mizunoya

Managing Director, General Manager of UA Division, General Manager in Sales of UA Division and General Manager of Audit Office

Mr. Mizunoya coordinates the Manufacturing, Sales and Sales Promotion Division. He is constantly pursuing a "high-level of satisfaction for each customer" while marketing on improve the corporate environment to better motivate staff.

I believe that one of the missions of the UA business chain, our mainstream business, is to fulfill a leadership role for the other businesses of the company as well as to remain a leader in the fashion industry. We will continue to progress by sharing an appreciation for the need of affirmative action and "corporate improvement" as keywords; in addition to focusing on improving the corporate environment to cultivate human resources, our most significant corporate asset.

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 network in the fashion industry in his capacity as director of the Company.

Hiroshi Takanashi

Managing Director and General Manager of Business Management Division

As General Manager of Business Management Division, Mr. Takanashi is engaged in a broad range of activities, such as developing corporate management plans and capital strategies as well as investor relations. He also promotes corporate restructuring from the business management vantage point to contribute to building a stable corporate management foundation.

The current fiscal year is a very important years for us to numerically present the results of our corporate restructuring that we have been promoting for the past three years. Therefore, the entire board of directors is determined to advance toward further improvement of profitability and financial positions in a spirit of mutual cooperation.

Launched "DARJEELING DAYS"

In March 2005, "DARJEELING DAYS" made its debut as a new business of UNITED ARROWS Group. This is a new brand with which the Company targets, for the first time, mature well-to-do customers in their mid-40s to around 60s. In this feature, we will introduce the DARJEELING DAYS business from the perspective of "Person," "Product" and "Ambience."

Origin of the brand name

The brand name "DARJEELING DAYS" originates from "tea culture." Through this brand, we offer sophisticated apparel that permeates our lifestyle for the affluent life that is comparable to a tea that has matured over a long time.

Target customers

We target customers who are willing to invest money, time and effort in such activities as dining, travel, reading, music, movies, theater and art; mature adults who know how to spend their leisure time with a relaxed attitude and who have a true appreciation for sophisticated luxury. We primarily focus on consumers in their mid-40s to around 60s who cannot find suitable and comfortable clothing to wear because they have a taste for excellent material and true quality.

Store information

DARJEELING DAYS SHINJUKU
DARJEELING DAYS NAGOYA
DARJEELING DAYS MARUNOUCHI

For details please refer to the following website:
http://www.united-arrows.co.jp/corp/shop.html

Ambience (store) of DARJEELING DAYS

We organized the store space based on the theme "relaxed luxury wear" by envisioning hotels with a resort atmosphere that are situated in an urban setting. Sophisticated store counters have been designed to resemble reception desks and a well-placed sofa and carpet effectively to create the relaxed atmosphere of exquisite hotel lobbies. "DARJEELING DAYS" stores were designed by Masamichi Katayama of Wonderwall Inc., who also designed UNITED ARROWS NAGOYA, DRAWER AOYAMA and DRAWER NIHOMBASHI MITSUKOSHI.

"Product (merchandise)" of DARJEELING DAYS

We create "DARJEELING DAYS" products with "travel" as a major underlying concept. Therefore, "DARJEELING DAYS" products are made for use in various types of travel situations from overseas travel for leisure to business trips. In addition, the following four categories are integral to the concept:

"Short Travel"	products that can be categorized as casual items used for travel situations
"Office"	products that can be categorized as dressy items suitable for business venues
"Society"	products that are categorized as semi-formal to be used at various social venues such as parties
"At Home"	products that are used to relax in the home or at a hotel

By developing products in these four categories, "DARJEELING DAYS" offers versatile products that can be used in various situations by customers, i.e. on "grand travel"including business and leisure

"Person (sales and customer service)" of DARJEELING DAYS

Hisashi Takayama
General Manager, Merchandiser
of DARJEELING DAYS Division

United Arrows is aiming to create a new Japanese standard. With "DARJEELING DAYS," we will try to create a standard for people who are over 45. In order to secure the lasting support of our target customers, we will make efforts to keep developing the business in all aspects of product range, quality, price, service, as well as store ambience and image.

Kazumi Machida
Shop Manager of DARJEELING DAYS NAGOYA

At "DARJEELING DAYS" stores, we must offer not only clothing but also hospitality reminiscent of concierges and the energy to go the extra mile. This new brand matches my notion of the ideal sales person and I have a special affection for "DARJEELING DAYS." I will try to create a warm ambience in this shop, where we feel, interact and personify what can be tangibly felt by customers; and also offer a service that comes from the heart.

Takuji Morita
Chief Production Controller, Assistant Planner of DARJEELING DAYS Division

In launching "DARJEELING DAYS," we have leveraged our expertise in planning, textile and production of apparel from the viewpoint of creating products; in addition to being versatile and inspired by the exquisite materials of United Arrows. We aim to supply merchandise that factories and customers are satisfied with, and improve our brand value to grow the brand into a world-class Japanese standard by always asking ourselves "what is product value?" and "what is the world-class standard?"

Sadahiro Kobayashi
Operating Manager of
DARJEELING DAYS Division

In participating in the launch of "DARJEELING DAYS," I am working on this project from the standpoint of controlling the store operation, with the intention of making this business express a sense of "wholeheartedness and appreciation." These are keywords to which we will always adhere as the basis for recommending lifestyle to customers in their mid-40s to around 60s, and which have kept me going until now. In the future, we aim to advance stage by stage through encounters with various people to create the top shops for the mature market segment.

Masamichi Katayama
Wonderwall Inc.

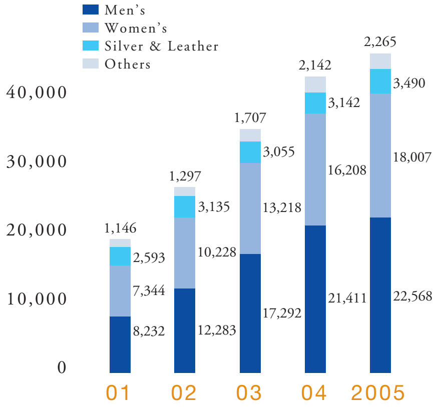
The concept behind the store design of "DARJEELING DAYS" was to create a captivating environment while respecting the existing surroundings. My focus was also to design a space which would foster a different kind of experience for the customer, so that a visit to "DARJEELING DAYS" is more than just going to a luxury based store. It was also important for me that the store would have an inviting sense of space, like a favorite neighborhood store.

Please note that the shareholders benefit plan is not available at DARJEELING DAYS SHINJUKU. However, NAGOYA and MARUNOUCHI are available.

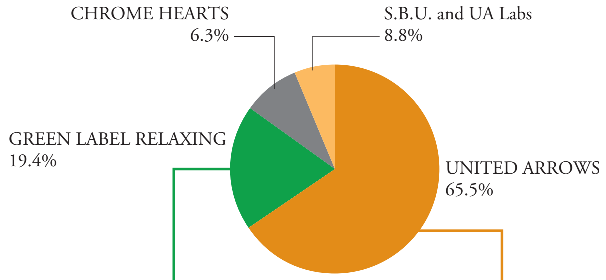
Financial Data

Sales by Category *1

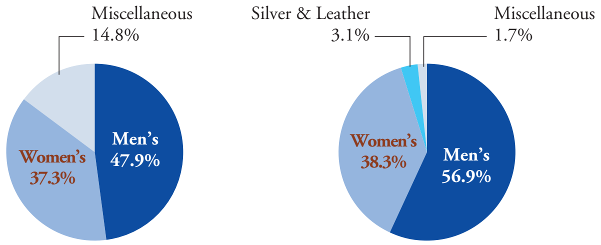
(Millions of Yen)



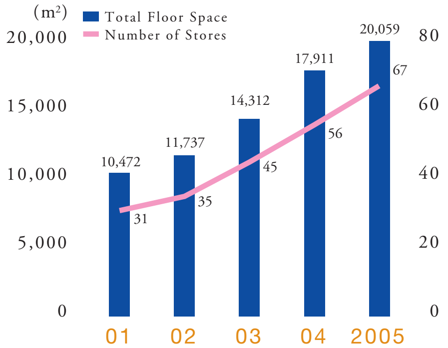
Sales by Chain



Sales by Category



Total Floor Space and Number of Stores



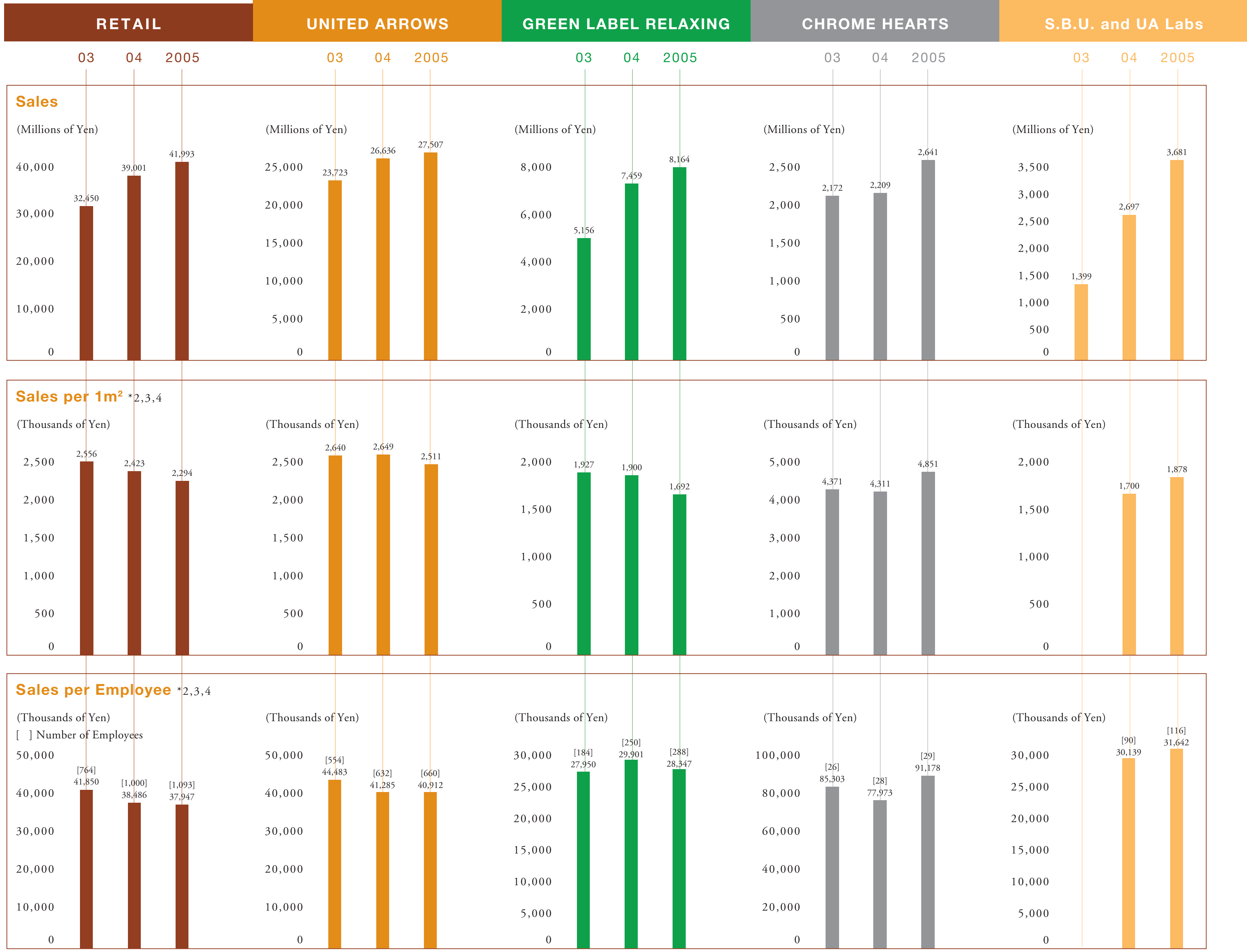
Number of Customer Ratio (by chain) (%)

	2004			2005		
	1st half	2nd half	total	1st half	2nd half	total
UNITED ARROWS	105.0	107.8	**106.3**	103.5	105.8	**104.7**
GREEN LABEL RELAXING	163.4	130.3	**144.2**	108.2	104.3	**106.2**
CHROME HEARTS	109.1	115.7	**112.5**	122.1	124.5	**123.4**
S.B.U. and UA Labs	246.9	213.4	**228.0**	130.5	121.3	**125.7**

Average spending per Customer Ratio (by chain) (%)

	2004			2005		
	1st half	2nd half	total	1st half	2nd half	total
UNITED ARROWS	107.6	103.7	**105.6**	99.5	97.8	**98.7**
GREEN LABEL RELAXING	103.9	99.9	**100.3**	103.4	103.2	**103.1**
CHROME HEARTS	92.0	89.0	**90.4**	94.6	98.9	**96.9**
S.B.U. and UA Labs	82.8	86.7	**84.5**	105.4	111.8	**108.6**

Note* : 1. "Others" includes the sales of miscellaneous, wholesale, outside shop, and café (until fiscal year 2004) and formal wear rental.
2. "Sales per 1m²" and "Sales per Employee," are calculated from the sales of direct management stores.
3. From fiscal year 2004 accounting period, the sales of "S.B.U. and UA Labs" were separated from the sales of "UNITED ARROWS." ("S.B.U." means Small Business Units; ("Another Edition," "THE SOVEREIGN HOUSE" and "DARJEELING DAYS").) For "Sales per 1m²," "Sales per Employee," and sales of S.B.U. and UA Labs were included in those of "UNITED ARROWS" until fiscal year 2003.
4. Figures for sales floor space and the number of employees are averages for the entire fiscal term. Employees include part-timers (8 hours per employee per day).



Retail Business of UNITED ARROWS Group

11 store-brands with 67 stores (as of the end of March 2005)

Women's	Men's

Core businesses (3 businesses with 47 stores)

UNITED ARROWS (23 stores)
UNITED ARROWS stores target people of every age who are highly fashion conscious and strongly committed to fashion. With the basic concept of UA Traditional Mind, merchandise includes men's and women's dress, casual wear, accessories and miscellaneous lifestyle goods.

UNITED ARROWS GREEN LABEL RELAXING (21 stores)
UNITED ARROWS GREEN LABEL RELAXING stores have their core customers in their mid-20s to mid-30s. The stores are based on the concept of "relaxing hearts" and offering a simple and high quality lifestyle. Products include business suits, casual wear, kids clothing, maternity and miscellaneous lifestyle goods and toys.

CHROME HEARTS (3 stores)
CHROME HEARTS stores, a brand name chain specializing in products made by CHROME HEARTS of the U.S., offer an entire lineup of lifestyle items, including a range of accessories, leather products, bags, small leather or silver articles, furniture and home wear.

Small Business Units (S.B.U.) (3 businesses with 10 stores)

Another Edition (7 stores)
Targeting young women, Another Edition stores offer original items with the overall concept of "My favorite things," ranging from seasonal products to basic merchandise, and goods selected within and outside of Japan.

THE SOVEREIGN HOUSE (1 store)
At THE SOVEREIGN HOUSE store, the focus is primarily on male adults in their mid-20s through 50s with uncompromising tastes in clothes. Its merchandise consists of original "SOVEREIGN" labels, highest-end men's dress, and men's wear carrying high qualified brands.

DARJEELING DAYS (2 stores)
DARJEELING DAYS offers relaxing casual and luxury wear apparel for adults in their mid-40s to around 60s with a penchant for sophisticated luxury.

UA Labs (5 businesses with 10 stores)

Changes UNITED ARROWS (2 stores)
Changes UNITED ARROWS stores target women who enjoy being women and dressing fashionably; these stores offer selected in seasons designers' items for a lifestyle full of originality.

Odette é Odile UNITED ARROWS (3 stores)
Odette é Odile UNITED ARROWS stores primarily focus on highly fashion-conscious and career-minded women who go shopping in specialty stores with bought-in labels. The merchandise includes shoes, bags and miscellaneous items that uniquely express the femininity, intellect and "joie de vivre" of women.

DRAWER (2 stores)
Targeting women fitting the market segments we refer to as "Mother and Daughter in the 21st Century" and "Opinion Leaders in the Fashion Field," DRAWER deals in merchandise that attracts customers of different generations. Products include items with a slight hint of the latest fashion and other aspects that are standard yet offer high quality.

District UNITED ARROWS (1 store)
District UNITED ARROWS stores target men who are highly fashion conscious and have uncompromising tastes in clothes with the overall concept of creativity and craftsmanship.

TOKISHIRAZU (2 stores)
TOKISHIRAZU stores target men who like clothes but are not so brand-minded. At TOKISHIRAZU, emphasis is placed on products that the customer can wear for a long time by prioritizing sturdy textile material and sewing quality.

UA NEWS

We Support unicef

Donated 5% of the sales of 15th anniversary commemorative goods to UNICEF

UNITED ARROWS LTD. celebrated its 15th anniversary on October 2, 2004. Taking this opportunity, we released 15th anniversary commemorative goods as a token of our appreciation to all stakeholders including customers, shareholders, business partners, the local community and our employees. Our original snow dome, released by our GREEN LABEL RELAXING business chain (see photo), was created with an image of many people watching the earth hand-in-hand indicates the importance of the bonds between people in general, parents and children in particular while emphasizing the significance of the global environment in which we live (sold until the end of June 2005). We have donated 1,951,800 yen (as of the end of March 2005) or about 5% of the sales of all commemorative products sold by all our businesses to UNICEF. This donation will be used to help the welfare of children around the world. (We will continue to sell the 15th anniversary commemorative goods until the end of September 2005. However, please note that some of the products are already sold out.)

Financial Section

Contents

5-year Summary

UNITED ARROWS LTD.

Years ended March 31,2005, 2004, 2003, 2002 and 2001	Millions of Yen					Thousands of U.S. Dollars (Note)
	2005	2004	2003	2002	2001	2005
Sales	**¥ 46,330**	¥ 42,903	¥ 35,272	¥ 26,943	¥ 19,315	**$ 432,388**
Operating Income	**6,081**	5,241	4,824	3,965	1,632	**56,750**
Net Income	**3,477**	2,878	2,562	2,318	879	**32,446**
Total Assets	**27,648**	24,126	20,837	19,645	15,054	**258,032**
Total Shareholders' Equity	**18,812**	15,604	12,924	13,456	11,269	**175,571**
Number of Shares Issued (Shares)	**23,850,000**	11,925,000	11,925,000	11,925,000	11,925,000	
Treasury Stock (Shares)	**1,825,400**	941,100	1,000,000	—	—	
Net Income per Share (Yen)	**155**	259	215	194	74	**1.446** (in U.S. Dollars)
Shareholders' Equity per Share (Yen)	**851**	1,417	1,178	1,128	945	**7.942** (in U.S. Dollars)
Capital Expenditures	**1,072**	1,685	952	484	1,112	
Number of Stores	**67**	56	45	35	31	
(including number of S.B.U. and UA Labs)	**(20)**	(14)	(10)	(6)	(5)	
Total Floor Space (m^2)	**20,059**	17,911	14,312	11,737	10,472	
Number of Employees	**752**	685	581	441	358	
Net Income						
to Total Assets (ROA) (%)	**13.4**	12.8	12.7	13.4	6.1	
Return on Equity (%)	**20.2**	20.2	19.4	18.8	8.1	
Shareholders' Equity Ratio (%)	**68.0**	64.7	62.0	68.5	74.9	
Total Asset Turnover (Times)	**1.7**	1.8	1.7	1.4	1.3	
Inventory Turnover (Times)	**2.2**	2.3	2.4	2.7	2.9	
Current Ratio (%)	**223.3**	206.4	161.0	195.6	178.9	
Fixed Asset Ratio (%)	**51.3**	60.7	64.6	58.3	76.6	

Note : Calculations are based on the exchange rate of U.S. $1=¥107.15 (March 31, 2005.)

Operating and Financial Review

1. Business Environment

During fiscal year 2005 (April 1, 2004 to March 31, 2005), the Japanese economy appeared to partially have regained its momentum. This can be attributed to the economic recovery and growth in the U.S. and China, as well as continuous efforts of Japanese corporations to restruct, which helped raise corporate earnings and capital expenditures (one of the yardsticks of economic recovery).

However, improvements in corporate earnings have not necessarily had a positive impact on household income. The tendency of consumers to become increasingly polarized and selective has become more apparent, leading to fluctuations in overall consumer spending.

Under these circumstances, our retail apparel and related goods industry experienced a tough overall business climate since the sales fluctuations for hot-sellers such fashion goods were more drastic than usual. This was exacerbated by inclement weather such as a long hot summer and an unusually warm winter that adversely affected consumers' perception of season, leading to slow starting demand, especially, for early autumn and winter clothing.

Therefore, we newly established a "Total Planning Intelligence Office" and a "Research & Development Group" in order to enhance our ability to accumulate and analyze information regarding materials, designs and trends, as well as improve the accuracy of product planning. As for UNITED ARROWS ("UA"), our core business chain, we worked on realizing a basic organizational concept that is suitable for the "Super SPA" concept and stabilizing sales by such means as streamlining various operations following the improvement in product planning capabilities and examining management tools carefully. In order to continue restructuring in more tangible ways, we launched a project with the following objectives: 1) improvement of gross profit margin, 2) reduction of the ratio of operating expenses to sales, 3) optimization of inventory level. Moreover, we have been striving for qualitative improvement in corporate management and stable sales growth.

2. Operating Performance

Sales during fiscal year 2005 reached 46,330 million yen, an increase of 3,427 million yen (+8.0%) over fiscal 2004 (April 1, 2003 to March 31, 2004). Operating income amounted to 6,081 million yen, a year-on-year increase of 840 million yen (+16.0%). As a result, net income totaled 3,477 million yen, a year-on-year increase of 599 million yen (+20.8%).

The following is the status of new store openings and ongoing businesses during fiscal year 2005.

UA

We opened a new UNITED ARROWS ("UA") store in Tachikawa (in Tachikawa-shi, Tokyo), the ninth UA store in Tokyo, in September 2004. In addition, we have completed the enlargement of the Kyoto store (in Shimogyo-ku, Kyoto) and both the relocation and enlargement of the Nagoya store (in Naka-ku, Nagoya) in March 2005.

As a result, the Company owned a total of 23 UA stores as of the end of March 2005, with sales increasing 3.3% year-on-year to 27,507 million yen.

GLR

We opened 3 new GREEN LABEL RELAXING ("GLR") stores in Sendai (Sendai-shi, Miyagi) and Shinjuku Mitsukoshi (Shinjuku-ku, Tokyo) in October 2004, as well as Kumamoto (Kumamoto-shi, Kumamoto) in March 2005. In addition, we completed the total renovation of the LUMINE Shinjuku store (Shinjuku-ku, Tokyo) during September 2004.

In our GLR business chain, we have proactively promoted the multi-store strategy to increase our store network to 21 stores by the end of March 2005, with sales increasing 9.4% year-on-year to 8,164 million yen.

CH

Regarding the CHROME HEARTS ("CH") business chain, we renovated the "CH TOKYO ANNEX," making it an independent CH store with an impressive ambience. It opened its doors as the "CH HARAJUKU" in April 2004, as a result of which the number of customers is increasing with the rising brand recognition.

As a result of this, our CH business chain owned 3 stores as of the end of March 2005, with sales increasing by 19.5% year-on-year to 2,641 million yen.

Small Business Units (S.B.U.)

The following is the status of new store openings for S.B.U. (Note: S.B.U. means small business units targeting a multi-store strategy for future growth):

AE

We opened new Another Edition ("AE") stores in My City Shinjuku (Shinjuku-ku, Tokyo) in October 2004 and in Yokohama (Nishi-ku Yokohama) in March 2005. In addition, we relocated and expanded the sales floor of the AE Kyoto store (Shimogyo-ku, Kyoto) in February 2005.

As a result, we owned 7 AE stores as of the end of March 2005.

DD

DARJEELING DAYS ("DD") business, which we newly launched in fiscal year 2005, targets customers in their mid-40s to around 60s. This is our first effort to cater to this age group. The concept of DD products encompass "relaxed luxury wear."

In the meantime, we laid the foundation for future growth of our DD business by consecutively opening our DD SHINJUKU store (Shinjuku-ku, Tokyo) and DD NAGOYA store (Naka-ku, Nagoya) in March 2005.

UA Labs

In the UA Labs (test marketing stores) business of the "TOKISHIRAZU" and the DRAWER businesses each opened their second store: SHIBUYA TOKISHIRAZU (Shibuya-ku, Tokyo) in August 2004 and DRAWER NIHOMBASHI MITSUKOSHI (Chuo-ku, Tokyo) in October 2004.

As a result, the Company owned 20 stores of 8 store-brands falling under the S.B.U. and UA Labs businesses as of the end of March 2005, with sales increasing 36.5% year-on-year to 3,681 million yen.

With the opening of the new stores described above, the Company owned a total of 67 stores as of the end of March 2005, with total sales reaching 41,993 million yen (+7.7%).

With respect to the improvements in our various financial data, gross profit margin increased 0.2% year-on-year to 53.2% and the ratio of operating expenses to sales was reduced to 40.1%.

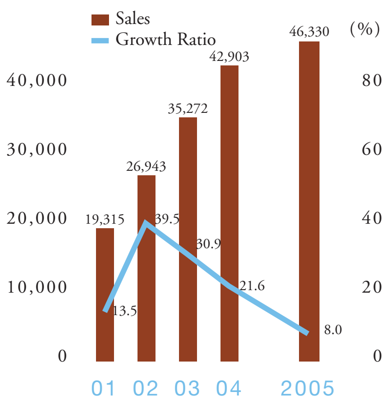
In the meantime, we have successfully managed to contain our inventories increase at 6.5% year-on-year, which is the first indication that our corporate restructuring is taking hold.

3. Sales by Category of Merchandise

For fiscal year 2005, sales by merchandise category were as follows: 22,568 million yen (+5.4%) for men's clothing and 18,007 million yen (+11.1%) for women's clothing; silver and leather goods were up 11.1% year-on-year to 3,490 million yen, miscellaneous rose 15.1% year-on-year to 1,735 million yen and sales of other products fell 16.4% to 530 million yen, showing steady sales growth for the core men's and women's clothing.

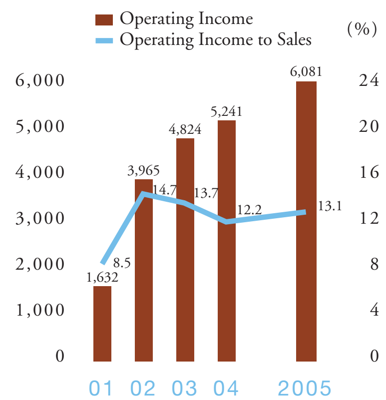
In the UA business chain, sales of silver and leather goods decreased 9.5% year-on-year. However men's and women's clothing, which together accounts for nearly 95% of sales, showed steady growth with an increase of 2.3% and 5.1%, respectively. Sales

(Millions of Yen)



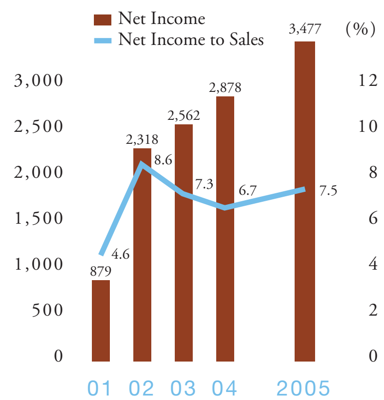
Sales and Growth Ratio

(Millions of Yen)



Operating Income and Operating Income to Sales

(Millions of Yen)



Net Income and Net Income to Sales

Sales by Chain

Millions of Yen

	2003			2004			2005		
	amounts	%	YOY	amounts	%	YOY	amounts	%	YOY
UNITED ARROWS	¥ 23,723	67.2	119.3	¥ 26,636	62.1	112.3	**¥ 27,507**	**59.4**	**103.3**
GREEN LABEL RELAXING	5,156	14.6	211.5	7,459	17.4	144.7	**8,164**	**17.6**	**109.4**
CHROME HEARTS	2,172	6.2	101.0	2,209	5.1	101.7	**2,641**	**5.7**	**119.6**
S.B.U. and UA Labs	1,399	4.0	150.7	2,697	6.3	192.7	**3,681**	**7.9**	**136.5**
Others	2,822	8.0	182.9	3,902	9.1	138.3	**4,337**	**9.4**	**111.1**
Total	¥ 35,272	100.0	130.9	¥ 42,903	100.0	121.6	**¥ 46,330**	**100.0**	**108.0**

Note: "Others" includes the sales of outlet, wholesale, outside shops, mail-order, café (until fiscal year 2004) and formal wear rental.

of miscellaneous also increased 25.1% year-on-year. In the GLR business chain, all categories of merchandise showed robust growth: men's apparel increased 12.8%, women's rose 4.7% and miscellaneous increased 11.5%. For the S.B.U. and UA Labs, sales of women's clothing showed strong growth (+48.6%), with sales of men's clothing increasing by a comparatively modest 8.3%.

4. Operating Results

Sales

Sales during fiscal year 2005 reached 46,330 million yen, a year-on-year increase of 3,427 million yen (+8.0%). This increase in sales was primarily due to favorable results achieved by newly opened stores, as well as the 12.8% increase in sales at existing stores that underwent enlargement or relocation.

Gross profit amounted to 24,636 million yen, a year-on-year increase of 1,914 million yen (+8.4%). As a result, gross profit margin amounted to 53.2%, 0.2 points higher than the 53.0% of the previous year.

Operating Income

Operating expenses totaled 18,556 million yen, a year-on-year increase of 1,074 million yen (+6.1%). However, the ratio of operating expenses to sales decreased 0.7% to 40.1%. The rise in operating expenses is attributable to (1) an increase in 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 hiring new staff. As a result, operating income increased by 840 million yen (+16.0%), year-on-year, to 6,081 million yen.

Other Income (Expenses)

Other income (expenses) improved by 41 million yen, year-on-year, to a still negative 172 million yen, primarily due to a decline in the aggregate amount of other expenses. While recording rental income (including outfit leasing) as the primary source of other income, we posted other expenses over this term primarily for rents, donations, losses on disposal of fixed assets and interest expense.

Consequently, net income before taxes increased by 881 million yen (+17.5%), year-on-year, to 5,909 million yen.

Net income

Income taxes during this period totaled 2,432 million yen, a year-on-year increase of 282 million yen (+13.1%). This was due to increases in corporate income tax, resident income tax and enterprise tax; accompanied by a decline in deferred income taxes. The aggregate total of corporate, resident and enterprise taxes rose by 268 million yen to 2,466 million yen, due to increased net income before taxes. Deferred income taxes declined by 14 million yen. This resulted in a loss of 34 million yen, primarily due to an increased amount exceeding the tax-deductible limits as an expense related to accrued bonuses.

Consequently, net income for fiscal year 2005 increased by 599 million yen (+20.8%), year-on-year, to 3,477 million yen.

5. Financial Position

Assets

Total assets at the end of fiscal year 2005 (as of March 31, 2005) reached 27,648 million yen, a year-on-year increase of 3,522 million yen (+14.6%).

Current Assets

Current assets amounted to 18,001 million yen, a year-on-year increase of 3,341 million yen (+22.8%); primarily due to an increase in cash and cash equivalents, inventories and notes and accounts receivable, other. Inventories rose by 623 million yen to 10,217 million yen largely due to higher overall sales. Notes and accounts receivable, other, increased by 360 million yen to 3,107 million yen, which was mainly the result of an increase in current receivables from credit card companies because of increased overall sales.

Fixed Assets

Tangible fixed assets amounted to 5,229 million yen, a year-on-year increase of 204 million yen (+4.1%). An increase (796 million yen) resulting from new store openings sales, sales floor space expansion and renovation of existing stores was somewhat offset by the disposal/sale (66 million yen) of tangible fixed assets and depreciation (526 million yen). Meanwhile, intangible fixed assets totaled 498 million yen, a year-on-year decrease of 10 million yen (-2.0%). Investment in new software (139 million yen) was not sufficient to effect an increase in intangible fixed assets, due to depreciation (149 million yen).

Sales by Category of Merchandise

Millions of Yen

	2003			2004			2005		
	amounts	%	YOY	amounts	%	YOY	amounts	%	YOY
Men's clothes	¥ 17,292	49.0	140.8	¥ 21,411	49.9	123.8	**¥ 22,568**	**48.7**	**105.4**
Women's clothes	13,218	37.5	129.2	16,208	37.8	122.6	**18,007**	**38.9**	**111.1**
Silver & Leather	3,055	8.7	97.5	3,142	7.3	102.9	**3,490**	**7.5**	**111.1**
Miscellaneous	1,045	2.9	161.6	1,508	3.5	144.4	**1,735**	**3.8**	**115.1**
Others	662	1.9	101.8	634	1.5	95.7	**530**	**1.1**	**83.6**
Total	¥ 35,272	100.0	130.9	¥ 42,903	100.0	121.6	**¥ 46,330**	**100.0**	**108.0**

Note : "Others" includes the sales of wholesale, outside shop, café (until fiscal year 2004) and formal wear rental.

Investments and other assets totaled 3,919 million yen, a year-on-year decrease of 13 million yen (-0.3%), primarily owing to increased long-term lease deposits relating to the opening of new stores which was offset by a decrease in guarantee money deposits following redemption.

Liabilities

Current and long-term liabilities totaled 8,836 million yen, a year-on-year increase of 314 million yen (+3.7%). Most of this increase is attributable to current liabilities.

Current Liabilities

Current liabilities amounted to 8,060 million yen, a year-on-year increase of 957 million yen (+13.5%). This was primarily due to an increase in notes and accounts payable-trade and notes and accounts payable-other. Notes and accounts payable-trade, increased 81 million yen (+2.4%), year-on-year, to 3,411 million yen. This is mainly attributable to the higher product procurement volume following our business expansion. Notes and accounts payable, other, increased 725 million yen (+77.3%), year-on-year, to 1,663 million yen; owing primarily to the increased accrued expenses related to capital expenditures on new store openings.

Long-term Liabilities

Long-term liabilities decreased 643 million yen (-45.3%), year-on-year, to 775 million yen, primarily due to the decreased long-term debt.

The current ratio in fiscal year 2005 rose by 16.9 points, year-on-year, to 223.3%, while the fixed ratio fell 9.4 points, year-on-year, to 51.3%.

6. Cash Flows

Cash and cash equivalents (hereinafter, "Cash") at the end of fiscal year 2005 reached 3,827 million yen, a year-on-year increase of 2,204 million yen from the previous year's 1,623 million yen.

Details of the cash flows during fiscal year 2005 are as follows:

Cash Flows from Operating Activities

Cash flows from operating activities increased 4,123 million yen (+119.7%, year-on-year.)

This was primarily attributable to an inflow of net income before taxes of 5,909 million yen, depreciation of tangible fixed assets of 526 million yen, and an increase in notes and accounts payable of 81 million yen; with outflow made up of an increase in inventories of 623 million yen and payments of income taxes of 2,275 million yen.

Cash Flows from Investing Activities

Cash flows used in investing activities decreased by 739 million yen (-68.0%, year-on-year.)

This significant decrease was primarily attributable to expenditures arising from the purchase of tangible fixed assets in the context of new store openings and renovations of existing stores (575 million yen), purchase of intangible fixed assets (117 million yen), purchase of investments in affiliates (5 million yen) and payment for loans receivable in affiliates (75 million yen); with a decrease in long-term lease deposits (61 million yen) to same-store.

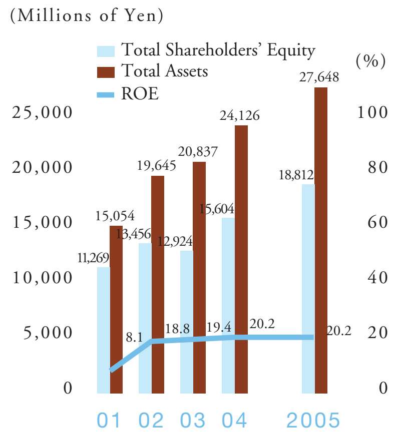
Cash Flows from Financing Activities

Cash flows from financing activities showed an outflow of 1,180 million yen, compared to an inflow of 589 million yen recorded in the previous year.

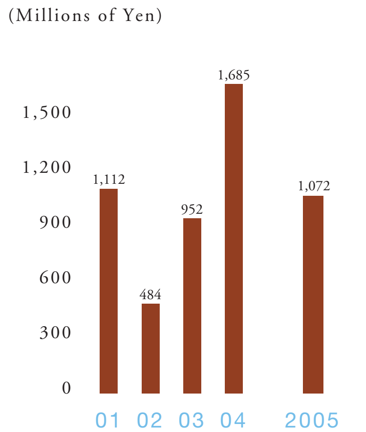
This was primarily attributable to a net decrease in short-term borrowings (300 million yen), repayment of long-term debt (656 million yen) and cash of dividends (290 million yen).

7. Cash Dividends

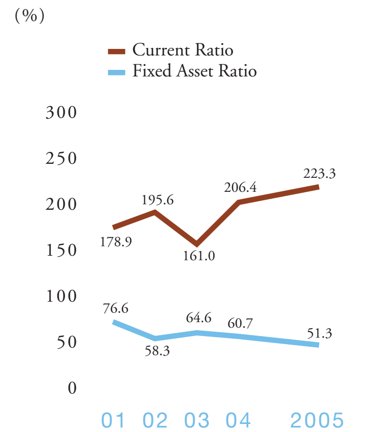
The year-end dividend for the fiscal year ending March 2005 was 16.00 yen per share (interim dividend: 5 yen per share). This is a virtuall dividend increase as we executed a two-for-one common stock split as of May 20, 2004.



Total Shareholders' Equity, ROE and Total Assets



Capital Expenditures



Current Ratio and Fixed Asset Ratio

Balance Sheets

UNITED ARROWS LTD.

March 31, 2005 and 2004	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
ASSETS			
Current Assets:			
Cash and cash equivalents	¥ 3,827,165	¥ 1,623,428	$ 35,718
Time deposits	—	10,034	—
Notes and accounts receivable -			
Trade	57,876	84,206	540
Other	3,106,982	2,747,274	28,997
Inventories (Note 3)	10,216,808	9,594,054	95,350
Deferred tax assets (Note 6)	461,678	432,603	4,309
Other	330,903	168,764	3,088
Total current assets	18,001,412	14,660,363	168,002
Fixed Assets:			
Tangible Fixed Assets -			
Land	1,082,072	1,082,072	10,099
Buildings and structures	5,017,885	4,577,305	46,831
Furniture and fixtures	1,076,682	889,642	10,048
Construction-in-progress	58,439	372	545
Accumulated depreciation	(2,005,937)	(1,524,339)	(18,721)
Total tangible fixed assets	5,229,141	5,025,052	48,802
Intangible Fixed Assets -			
Software	338,508	346,986	3,159
Lease tenant rights	138,165	138,165	1,290
Other	21,524	23,167	201
Total intangible fixed assets	498,197	508,318	4,650
Investments and Other Assets -			
Investment securities -			
Affiliates	5,000	—	47
Long-term lease deposits	3,386,651	3,447,214	31,607
Long-term prepaid expenses	423,511	384,848	3,952
Deferred tax assets (Note 6)	104,145	99,563	972
Other	64,756	65,082	604
Allowance for doubtful accounts	(64,676)	(64,676)	(604)
Total investments and other assets	3,919,387	3,932,031	36,578
Total assets	¥ 27,648,137	¥ 24,125,764	$ 258,032

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Notes and accounts payable -			
Trade	¥ 3,410,586	¥ 3,329,967	$ 31,830
Other	1,662,947	938,175	15,520
Short-term borrowings (Note 5)	—	300,000	—
Current portion of long-term debt (Note 5)	656,000	656,000	6,122
Income taxes payable (Note 6)	1,462,413	1,183,863	13,648
Consumption tax payable	235,669	150,615	2,199
Accrued bonuses	469,306	421,695	4,380
Accrued expenses	28,464	39,549	266
Other	135,089	83,931	1,261
Total current liabilities	8,060,474	7,103,795	75,226
Long-Term Liabilities:			
Long-term debt (Note 5)	524,000	1,180,000	4,890
Accrued retirement benefits for directors	130,326	117,139	1,216
Other	120,961	120,961	1,129
Total long-term liabilities	775,287	1,418,100	7,235
Total liabilities	8,835,761	8,521,895	82,461
Commitments and Contingent Liabilities			
Shareholders' Equity (Notes 8, 9, 10):			
Common stock, no par value -	3,030,000	3,030,000	28,278
Authorized: 47,700,000 shares			
Issued: 11,925,000 shares at March 31, 2004			
23,850,000 shares at March 31, 2005			
Additional paid-in-capital	4,095,600	4,095,600	38,223
Legal reserve	31,035	31,035	290
Retained earnings	14,203,087	11,073,844	132,553
Treasury stock, at cost	(2,547,346)	(2,626,610)	(23,773)
Shares: 941,100 shares at March 31, 2004			
1,825,400 shares at March 31, 2005			
Total shareholders' equity	18,812,376	15,603,869	175,571
Total liabilities and shareholders' equity	¥ 27,648,137	¥ 24,125,764	$ 258,032

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

Statements of Income

UNITED ARROWS LTD.

Years ended March 31, 2005 and 2004

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Sales	**¥ 46,330,400**	¥ 42,903,183	**$ 432,388**
Cost of sales	**21,693,984**	20,180,308	**202,464**
Gross profit	**24,636,416**	22,722,875	**229,924**
Operating expenses	**18,555,647**	17,481,628	**173,174**
Operating income	**6,080,769**	5,241,247	**56,750**
Other income (expenses):			
Interest income	**173**	180	**1**
Interest expense	**(9,681)**	(11,242)	**(90)**
Exchange gains	**—**	14,133	**—**
Exchange losses	**(1,966)**	—	**(18)**
Rental income, net	**30,629**	22,933	**286**
Donations	**(85,877)**	(22,376)	**(802)**
Gain (loss) on sale or disposal of fixed assets, net	**(128,085)**	(262,279)	**(1,195)**
Reversal of allowance for doubtful accounts	**—**	22,724	**—**
Other, net	**23,080**	23,127	**215**
	(171,727)	(212,800)	**(1,603)**
Net income before taxes:	**5,909,042**	5,028,447	**55,147**
Income taxes (Note 6) -			
Current	**2,466,083**	2,198,127	**23,015**
Deferred	**(33,657)**	(47,280)	**(314)**
	2,432,426	2,150,847	**22,701**
Net income	**3,476,616**	2,877,600	**32,446**
Retained earnings - opening balance	**10,849,445**	8,332,528	**101,255**
Interim cash dividends	**(109,995)**	(109,367)	**(1,027)**
Exercise of stock options	**(12,979)**	(26,917)	**(121)**
Unappropriated retained earnings for the year	**¥ 14,203,087**	¥ 11,073,844	**$ 132,553**

	In exact Yen		In exact U.S. Dollars
Per share:			
Net income	**¥ 154.90**	¥ 258.97	**$ 1.446**
Cash dividends	**16.00**	26.50	**0.149**

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

Statements of Shareholders' Equity

UNITED ARROWS LTD.

Years ended March 31, 2005 and 2004

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, 2003:	10,925,000	¥3,030,000	¥4,095,600	¥ 31,035	¥ 8,558,557	(¥2,791,000)
Net income for the year 2004	—	—	—	—	2,877,600	—
Prior year-end appropriation -						
Cash dividends	—	—	—	—	(174,800)	—
Bonuses to directors	—	—	—	—	(51,229)	—
Current year interim appropriation -						
Cash dividends	—	—	—	—	(109,367)	—
Exercise of stock options	58,900	—	—	—	(26,917)	164,390
Balance at March 31, 2004:	10,983,900	3,030,000	4,095,600	31,035	11,073,844	(2,626,610)
Net income for the year 2005	—	—	—	—	3,476,616	—
Stock split (Note 9)	10,983,900	—	—	—	—	—
Prior year-end appropriation -						
Cash dividends	—	—	—	—	(181,235)	—
Bonuses to directors	—	—	—	—	(43,164)	—
Current year interim appropriation -						
Cash dividends	—	—	—	—	(109,995)	—
Exercise of stock options	56,800	—	—	—	(12,979)	79,264
Balance at March 31, 2005	22,024,600	¥3,030,000	¥4,095,600	¥ 31,035	¥14,203,087	(¥2,547,346)

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, 2004:	10,983,900	$ 28,278	$ 38,223	$ 290	$ 103,349	($ 24,513)
Net income for the year 2005	—	—	—	—	32,446	—
Stock split (Note 9)	10,983,900	—	—	—	—	—
Prior year-end appropriation -						
Cash dividends	—	—	—	—	(1,691)	—
Bonuses to directors	—	—	—	—	(403)	—
Current year interim appropriation -						
Cash dividends	—	—	—	—	(1,027)	—
Exercise of stock options	56,800	—	—	—	(121)	740
Balance at March 31, 2005	22,024,600	$ 28,278	$ 38,223	$ 290	$ 132,553	($ 23,773)

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

Statements of Cash Flows

UNITED ARROWS LTD.

Years ended March 31, 2005 and 2004	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Cash flows from operating activities:			
Net income before taxes	**¥ 5,909,042**	¥ 5,028,447	**$ 55,147**
Depreciation	**525,868**	470,066	**4,908**
Amortization of intangible fixed assets	**148,797**	155,750	**1,389**
Amortization of long-term prepaid expenses	**57,198**	53,968	**534**
Increase (decrease) in accrued bonuses	**47,611**	(87)	**444**
Increase in accrued retirement benefits for directors	**13,187**	13,488	**123**
Decrease in allowance for doubtful accounts	**—**	(22,724)	**—**
Interest and dividends income	**(173)**	(180)	**(1)**
Loss on sale of investment securities	**—**	2,684	**—**
Interest expense	**9,681**	11,242	**90**
Loss on disposal of tangible fixed assets	**65,377**	167,791	**610**
(Gain) loss on sale of tangible fixed assets	**(2,049)**	8,491	**(19)**
Loss on disposal of intangible fixed assets	**—**	31,084	**—**
Loss on disposal of long-term prepaid expenses	**41,681**	6,433	**389**
Increase in notes and accounts receivable	**(309,718)**	(33,992)	**(2,890)**
Increase in inventories	**(622,754)**	(1,914,293)	**(5,812)**
Increase in other current assets	**(75,731)**	(18,621)	**(707)**
Increase in notes and accounts payable	**80,619**	248,223	**752**
Increase (decrease) in other current liabilities	**561,945**	(201,016)	**5,245**
Increase in other long-term liabilities	**—**	65,045	**—**
Bonuses to directors	**(43,164)**	(51,229)	**(403)**
Subtotal	**6,407,417**	4,020,570	**59,799**
Receipt of interest and dividends	**31**	179	**0**
Payment of interest	**(9,770)**	(11,026)	**(91)**
Payment of income taxes	**(2,274,962)**	(2,132,826)	**(21,232)**
Net cash from operating activities	**4,122,716**	1,876,897	**38,476**
Cash flows from investing activities:			
Purchase of investments in affiliates	**(5,000)**	—	**(46)**
Payment for loans receivable in affiliates	**(75,000)**	—	**(700)**
Proceeds from sale of tangible fixed assets	**2,500**	8,825	**23**
Purchase of tangible fixed assets	**(575,242)**	(1,649,678)	**(5,368)**
Purchase of intangible fixed assets	**(117,193)**	(213,202)	**(1,094)**
Payment of long-term prepaid expenses	**(39,830)**	(103,892)	**(372)**
Decrease (increase) in long-term lease deposits	**60,563**	(357,382)	**565**
Other, net	**10,360**	4,307	**97**
Net cash used in investing activities	**(738,842)**	(2,311,022)	**(6,895)**
Cash flows from financing activities:			
Net decrease in short-term borrowings	**(300,000)**	(600,000)	**(2,800)**
Proceeds from long-term debt	**—**	2,000,000	**—**
Repayment of long-term debt	**(656,000)**	(664,000)	**(6,122)**
Proceeds from exercise of stock options	**66,285**	137,473	**619**
Cash dividends	**(290,422)**	(284,154)	**(2,711)**
Net cash from (used in) financing activities	**(1,180,137)**	589,319	**(11,014)**
Net increase in cash and cash equivalents	**2,203,737**	155,194	**20,567**
Cash and cash equivalents at beginning of the year	**1,623,428**	1,468,234	**15,151**
Cash and cash equivalents at end of the year	**¥ 3,827,165**	¥ 1,623,428	**$ 35,718**

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, 2005 and 2004

1. Major Policies Adopted in Preparation of the Financial Statements:

The accompanying financial statements of UNITED ARROWS LTD. are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards; and are compiled from the financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. In addition, the notes to the financial statements include financial information which is not required under accounting principles generally accepted in Japan; however 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 ¥107.15 = US$1, the approximate current rate of exchange prevailing on March 31, 2005. 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) Investments securities -
Securities are classified into four categories; 'trading', 'held-to-maturity debt', 'securities of subsidiaries and affiliates', and 'other securities'. Securities held by the Company are classified as 'securities of subsidiaries and affiliates'.

Investments in affiliates are stated at cost based on the moving-average method.

(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) Tangible fixed assets -
Depreciation of tangible fixed assets, 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	3-39 years
Structures	7-20 years
Furniture and fixtures	2-20 years

(6) Intangible fixed assets and long-term prepaid expenses -
Intangible fixed assets mainly consist of software for internal use. Intangible fixed 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 bonuses -
Accrued bonuses to employees are provided for based on the estimated amounts which the Company is obliged to pay to employees after the fiscal year-end based on services provided during the current period.

(9) 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, 2005 or 2004 under the new Employee Retirement Regulation.

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

(10) 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 that are reported in the financial statements, and are measured by applying tax law currently in force.

(11) 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.

(12) 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. They 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 forward exchange contracts.

The Company has a policy of utilizing the above hedging instruments to reduce the Company's exposure to the foreign currency exchange rate fluctuation risk of accounts payable. 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.

(13) 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.

(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.

(15) Accounting standard for impairment of fixed assets -
On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of the impaired asset or group of assets to the recoverable amount to be measured as the higher of the net selling price and value in use. The standard shall be effective for fiscal years beginning on April 1, 2005. However, earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005.
The Company has not applied "Accounting Standard for Impairment of Fixed Assets" as of March 31, 2005.

3. Inventories:
"Inventories" as of March 31, 2005 and 2004 consisted of the following:

March 31	Thousands of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Men's wear	¥ 4,543,463	¥ 4,433,164	$ 42,403
Women's wear	3,992,690	3,644,365	37,262
Silver & leather	1,312,407	1,178,071	12,248
Other	310,523	314,807	2,898
Supplies	57,725	23,647	539
	¥10,216,808	¥ 9,594,054	$ 95,350

4. Derivative Financial Instruments:
The Company uses forward exchange contracts 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 forward exchange contracts. 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, 2005 and 2004 has been omitted since all derivatives have been accounted for as hedges.

5. Short-Term Borrowings and Long-Term Debt:
"Short-term borrowings" at March 31, 2005 and 2004 consisted of the following:

March 31	Thousands of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Unsecured:			
Bank loans with interest rates ranging from 0.35% to 0.37%	¥ —	¥ 300,000	$ —
	¥ —	¥ 300,000	$ —

"Long-term debt" at March 31, 2005 and 2004 consisted of the following:

March 31	Thousands of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Unsecured:			
Loans from a life insurance company with interest rates ranging from 0.44% to 0.69%	¥ 1,180,000	¥ 1,836,000	$ 11,012
Less, portion due within one year	(656,000)	(656,000)	(6,122)
	¥ 524,000	¥ 1,180,000	$ 4,890

The aggregate annual maturities of long-term debt outstanding at March 31, 2005 were as follows:

	Thousands of Yen	Thousands of U.S. Dollars
For the year ending March 31, 2005:		
2006	¥ 656,000	$ 6,122
2007	524,000	4,890
Total	¥ 1,180,000	$ 11,012

6. Income Taxes:
Income taxes applicable to the Company include corporation, enterprise and inhabitant taxes which, in the aggregate, result in a statutory tax rate in Japan of approximately 40.7% for the years ended March 31, 2005 and 2004, respectively.

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
	2005	2004	2005
Deferred tax assets arising from:			
Non-deductible directors' retirement allowances	¥ 53,030	¥ 47,664	$ 495
Depreciation in excess of tax limit	43,127	45,214	403
Non-deductible enterprise tax payable	109,798	104,489	1,025
Accrued bonuses in excess of tax limit	190,960	171,588	1,782
Allowance for doubtful accounts	26,518	26,518	247
Revaluation of sample products	84,888	69,901	792
Other	57,502	66,792	537
Total deferred tax assets	¥ 565,823	¥ 532,166	$ 5,281

7. Leases:
The Company uses certain furniture and fixtures under finance lease contracts. None of these finance lease contracts transfer ownership of the leased property to the lessee, and such lease transactions are allowed to be accounted for as ordinary operating leases in Japan. Proforma information regarding leased property for the years ended March 31, 2005 and 2004 is as follows:

March 31, 2005	Thousands of Yen			Thousands of U.S. Dollars
	Cost	Accumulated Depreciation	Carrying Amount	Carrying Amount
Furniture and fixtures	¥ 293,807	¥ 153,863	¥ 139,944	$ 1,306

March 31, 2004	Thousands of Yen		
	Cost	Accumulated Depreciation	Carrying Amount
Furniture and fixtures	¥ 425,086	¥ 203,458	¥ 221,628

March 31	Thousands of Yen		Thousands of U.S. Dollars
	2005	2004	2005
The scheduled maturities of future lease payments, on such lease contracts were as follows:			
Due within one year	¥ 82,821	¥ 128,659	$ 773
Due over one year	58,344	95,055	544
	¥ 141,165	¥ 223,714	$ 1,317
Lease rental expenses for the year	¥ 130,501	¥ 141,815	$ 1,218

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 ¥127,275 thousand ($1,188 thousand) and ¥137,536 thousand for the years ended March 31, 2005 and 2004, respectively.

8. 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, 2004 and March 31, 2005 was 124,400 shares and 185,000 shares, respectively. Options to purchase 56,800 had been exercised occurred as of March 31, 2005. These rights are exercisable from July 1, 2003 to June 30, 2006. The exercise price is ¥1,167 per share.

Additionally, in June 2003, the Company's shareholders approved a stock option plan for the directors and selected employees, and under the plan, authorized the granting of 160,000 shares to purchase United Arrow's common stock. The number of ungranted options at March 31, 2004 and March 31, 2005 was 160,000 shares and 320,000 shares, respectively. None of these options had actually been exercised as of March 31, 2005. These rights are exercisable from June 28, 2005 to June 26, 2013. The exercise price is ¥1,651 per share.

The Company halved its stock to 2 stocks on May 20, 2004. As a result, the number of ungranted options and the exercise price have been adjusted.

9. Stock Split:

The Company halved its stock to 2 stocks on May 20, 2004. As a result, the number of issued shares increased from 11,925,000 to 23,850,000. Treasury stocks are not deducted from these issued shares.

10. Subsequent Events:

Retained Earnings:

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

The following proposed appropriation was approved at the shareholders' meeting held on June 23, 2005:

	Thousands of Yen	Thousands of U.S. Dollars
Unappropriated retained earnings for the year	¥14,203,087	$132,553
Appropriation of retained earnings:		
Cash dividends (¥11.00 per share)	242,271	2,261
Bonuses to directors	69,532	649
	311,803	2,910
Unappropriated retained earnings carried forward to the next year	¥13,891,284	$129,643

Report of Independent Auditors

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

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

Report of Independent Auditors

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

We have audited the accompanying balance sheets of UNITED ARROWS LTD. as of March 31, 2005 and 2004, and the related statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. 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 in accordance with auditing standards generally accepted in Japan. Those standards 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UNITED ARROWS LTD. as of March 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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.

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan

June 23, 2005

Corporate Data

(as of March 31, 2005)

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
Chairman and CEO	Osamu Shigematsu
President and COO	Tetsuya Iwaki
Number of Employees	752
Average Age of Employees	29.7
Business Outline	Planning and Sales of Men's and Women's Apparel, Accessories and Other Products
Independent Auditor	ChuoAoyama PricewaterhouseCoopers
Sales Composition	Men's 48.7% Women's 38.9% Silver&Leather 7.5% Miscellaneous 3.8% Others 1.1%*

* "Others" includes the sales of wholesale, outside shops and formal wear rental.

Board of Directors and Corporate Auditors

Chairman and CEO	Osamu Shigematsu
President and COO	Tetsuya Iwaki
Managing Director	Koichi Mizunoya
Chief Creative Officer	Hirofumi Kurino
Managing Director	Hiroshi Takanashi
Director	Hirotoshi Hatasaki
Standing Corporate Auditor	Ryosaku Nishiwaki
Standing Corporate Auditor	Yukari Nakajima
Corporate Auditor	Tadakatsu Sakuragi
Corporate Auditor	Mitsuo Aikawa

(as of June 23, 2005)

New Stores Information (as of March 31, 2005)

NEW OPEN

UNITED ARROWS

UA TACHIKAWA	September 23, 2004

GREEN LABEL RELAXING

GLR sendai	October 7, 2004
GLR shinjuku mitsukoshi	October 30, 2004
GLR kumamoto	March 3, 2005

S.B.U.

Another Edition MYCITY Shinjuku	October 1, 2004
Another Edition Yokohama	March 18, 2005
DARJEELING DAYS SHINJUKU	March 16, 2005
DARJEELING DAYS NAGOYA	March 17, 2005
DRAWER NIHONBASHI MITSUKOSHI	October 11, 2004
SHIBUYA TOKISHIRAZU	August 20, 2004

ENLARGEMENT/RELOCATIONS

UNITED ARROWS

UA KYOTO	March 5, 2005
UA NAGOYA	March 9, 2005

GREEN LABEL RELAXING

GLR lumine shinjuku	September 2, 2004

CHROME HEARTS

CH HARAJUKU	April 29, 2004

S.B.U.

Another Edition Kyoto	February 25, 2005

Our IR website includes all our stores' information.

History

October 1989	Established UNITED ARROWS LTD. in Shibuya-ku (Jingumae 2-chome), Tokyo
July 1990	Opened UNITED ARROWS' first store, SHIBUYA store, in Shibuya-ku (Jingumae 6-chome), Tokyo
October 1992	Opened UNITED ARROWS HARAJUKU, store, in Shibuya-ku (Jingumae 3-chome), Tokyo
July 1999	Listed stocks on the Japan Securities Dealers Association
September 1999	Upgraded UA Labs "GREEN LABEL RELAXING" to GLR business chain
December 1999	Upgraded UA Labs "CHROME HEARTS" to CH business chain
March 2002	Listing of stocks on the Second Section of the TSE
March 2003	Designated stocks on the First Section of the TSE
September 2003	Expanded and renewed UNITED ARROWS HARAJUKU store
June 2004	Osamu Shigematsu appointed as Chairman and CEO and Tetsuya Iwaki appointed as President and COO

Shareholder Information

(as of March 31, 2005)

Total authorized shares

47,700,000

At the 16th General Meeting of Shareholders on June 23, 2005, it was resolved to amend the Articles of Incorporation and subsequently, the new total number of shares outstanding is 95,400,000.

Shares of common stock issued

23,850,000

Shareholders

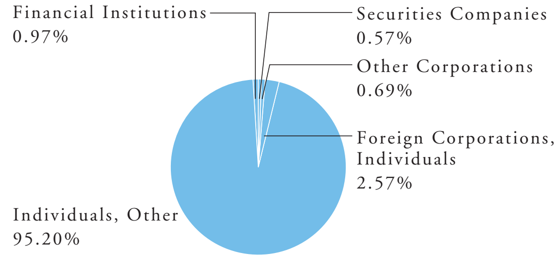
4,047

Major shareholders

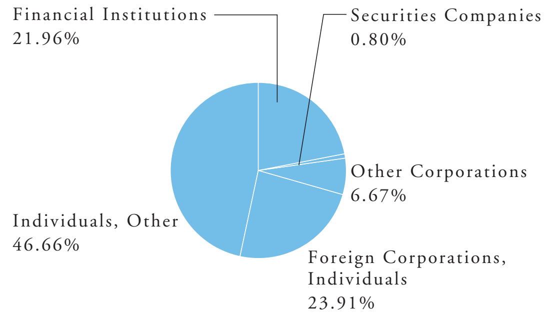
	Number of shares held	Ratio of total shares issued and outstanding (%)
Osamu Shigematsu	2,160,000	9.05
The Master Trust Bank of Japan, Ltd.	2,158,000	9.04
Hirotoshi Hatasaki	2,000,000	8.38
World. Co., Ltd.	1,550,600	6.50
Hirofumi Kurino	1,126,000	4.72
Tetsuya Iwaki	1,106,000	4.63
Koichi Mizunoya	1,086,000	4.55
Japan Trustee Services Bank, Ltd.	1,075,000	4.50
The Bank of New York (Luxembourg) S.A.	988,600	4.14
Morgan Stanley & Co. INC	635,431	2.66

Note : 1. Control ratios are rounded down to the nearest two decimal places.
2. The figures above do not include our 1,825,400 shares of treasury stock.

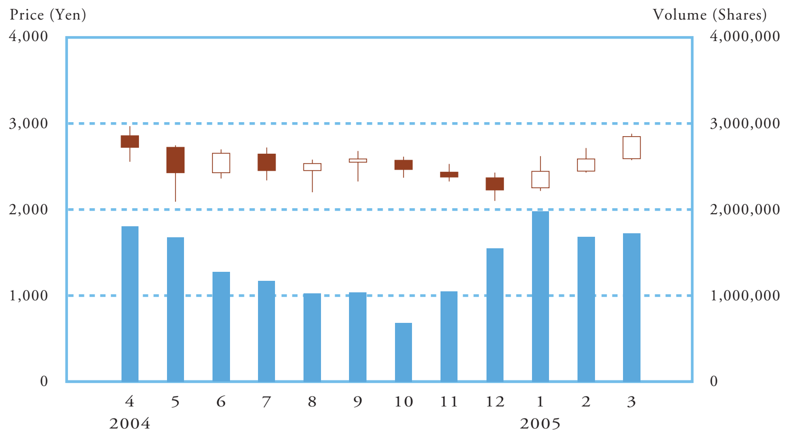
Distribution by owners of shares



Distribution by number of shares



Stock Performance



The two clothing on back of front page are special products celebrated the enlargement and the renewal open of UA YOKOHAMA store in September 2005. Sales clerks for men's dress clothing in UA YOKOHAMA store played a central part and selected fabric from several themes set by everyday customer's requests and associated with the image of "Yokohama." The products are Chinese hand-made suits using Italian made fabric.