

## CONTENTS

<a href="#"><u>Brief Announcement of Business Performance for the year Ended March 31, 2005 (Non-Consolidated)</u></a>	1
<a href="#"><u>Performance of Fiscal 2005 ended March (from April 1, 2004 to March 31, 2005)</u></a>	2
<a href="#"><u>1, Status of the corporate group</u></a>	4
<a href="#"><u>2, Management Policy</u></a>	4
<a href="#"><u>3, Operating Results and Financial Condition</u></a>	8
<a href="#"><u>(1) Overview of operating results of the current fiscal year</u></a>	8
<a href="#"><u>(2) Status of cash flows for the current fiscal year</u></a>	11
<a href="#"><u>(3) Major issues to be solved and Overview of the whole business year</u></a>	12
<a href="#"><u>4, Financial Statements</u></a>	13
<a href="#"><u>(1) Balance Sheets</u></a>	13
<a href="#"><u>(2) Statement of Income</u></a>	15
<a href="#"><u>(3) Statement of Cash Flows</u></a>	17
<a href="#"><u>(References) Sales for the Term Period ended March 31, 2005</u></a>	20

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**Brief Announcement of Business Performance  
for the Year Ended March 31, 2005\*  
(Non-Consolidated)**

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Corporate Name:	UNITED ARROWS LTD.
Code Number:	7606
URL:	<a href="http://www.united-arrows.co.jp/">http://www.united-arrows.co.jp/</a>
Securities Traded	The Tokyo Stock Exchange, First Section
Location of Headquarters:	Tokyo
Contact:	Representative; Tetsuya Iwaki, President and COO Yuko Sajima, Finance and Accounting Group Manager
Telephone:	+81-3-6418-0803
Date of the Board of Directors Meeting for Closing of Accounts:	May 11, 2005
Date of the Annual Shareholders Meeting:	June 23, 2005
Payment System of Mid-term Dividend:	Presence
Dividend day:	June 24, 2005
Adoption of Unit Share System:	Presence (100 shares/ unit)

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\*The “Brief Announcement of Business Performance for the Year Ended March 31, 2005” is an English translation of the original Japanese. If any doubts arise as to the interpretation of this English version, the Japanese version shall take precedence.

# 1. Business Result of Fiscal 2005 ended March (from April 1, 2004 to March 31, 2005)

## (1) Business Performance

Note: A fractional sum less than one million yen is discarded.

	Sales		Operating income		Ordinary income	
	¥ million	%	¥ million	%	¥ million	%
Fiscal 2005 ended March	46,330	(8.0)	6,080	(16.0)	6,037	(14.5)
Fiscal 2004 ended March	42,903	(21.6)	5,241	(8.6)	5,270	(10.1)

	Net income		Net income per share	Net income per share after adjusting dilutive shares	Return on equity	Ratio of ordinary income to capital	Ratio of ordinary income to sales
	¥ million	%	yen	yen	%	%	%
Fiscal 2005 ended March	3,476	(20.8)	154.90	153.32	20.2	23.3	13.0
Fiscal 2004 ended March	2,877	(12.3)	258.97	256.76	20.2	23.4	12.3

Notes: 1. Gains and losses on investment by equity method

Fiscal 2005 ended March ¥ -million,

Fiscal 2004 ended March ¥ -million

2. The average number of shares during the fiscal period

Fiscal 2005 ended March 21,994,681 shares,

Fiscal 2004 ended March 10,945,121 shares

3. Change of accounting method none

4. % in columns of sales, operating income, ordinary income, and net income indicates increase/decrease compared with the previous period, respectively .

5. A share of the common stock was divided into 2 shares effective on May 20, 2004. Net income per share and Net income per share after adjusting dilutive shares for the fiscal year are calculated on the assumption that the share division took place at beginning of the fiscal year ended March 31, 2005.

6. On the assumption that the share was divided at the beginning of the previous fiscal year, the net income per share will be 129.48 yen and the net income per share after adjusting dilutive shares will be 128.38 yen for the fiscal year ended March 31, 2004.

## (2) Dividend

	Annual dividend per share			Total amount of dividend (per annum)	Payout ratio	Dividend rate on equity
	yen	Interim yen	Year end yen			
Fiscal 2005 ended March	16.00	5.00	11.00	¥million 352	% 10.3	% 1.9
Fiscal 2004 ended March	26.50	10.00	16.50	290	10.2	1.9

## (3) Financial situation

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	¥ million	¥ million	%	yen
Fiscal 2005 ended March	27,648	18,812	68.0	851.00
Fiscal 2004 ended March	24,125	15,603	64.7	1,416.68

Notes: 1. The total number of stocks issued at the end of the fiscal period

Fiscal 2005 ended March 22,024,600 shares,

Fiscal 2004 ended March 10,983,900 shares

2. The total number of treasury stocks at the end of the fiscal period

Fiscal 2005 ended March 1,825,400 shares,

Fiscal 2004 ended March 941,100 shares

3. A share of the common stock was divided into 2 shares effective on May 20, 2004.

4. On the assumption that the share was divided at the beginning of the previous fiscal year, the shareholder's equity per share will be 708.34 yen for the fiscal year ended March 31 2004.

#### (4) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of period
	¥ million	¥ million	¥ million	¥ million
Fiscal 2005 ended March	4,122	-738	-1,180	3,827
Fiscal 2004 ended March	1,876	-2,311	589	1,623

#### 2. Projection for the performance of Fiscal 2006 ended March (from April 1, 2005 to March 31, 2006)

	Sales	Ordinary income	Net income	Annual dividend per share		
				Interim	Year end	
	¥ million	¥ million	¥ million	yen	yen	yen
Interim	22,901	2,131	1,115	5.00	-	-
Full fiscal year	51,796	6,851	3,841	-	12.00	17.00

Reference: Projected net income per share (in the full fiscal year): 172.94yen

- \* The projected net income per share was calculated in consideration of the number of shares issued after stock options are exercised.
- \* The above projection was made based on the information available at the present moment. Please note in advance that potential risks and uncertainties are included. The actual figures might differ from the above due to any possible factors. Please refer to the attached documents starting from page 4 for the preconditions and further information for the above projection.

. Status of the corporate group

The corporate group (the company concerned and its newly consolidated entity) is composed of the following two companies: the company concerned and Complice (investment ratio is 50%).

Status of consolidated entity

The following company has been established as newly consolidated entity in order to secure a new "groundwork for production" for a new business "DARJEELING DAYS" started in March 2005.

(Name of the company) Complice LTD.

(Address) Shibuya-ku, Tokyo

(Capital) 10 million yen

(Business outline) Produce, sales, export and import of apparel and accessories

(Percentage of voting right owned by the company concerned) 50.0%

(Information concerned) Four interlocking directors, Lending of operating fund

. Management Policy

1. Basic policy of management

At the time when this company was established in October 1989, we declared our "resolution" as follows:

"We aim to contribute to society by improving living standards, culture and society through the development of products and the environment." This reflects not only our business purposes, but also our strong will to continue to establish and pursue a proper sense of value that would serve as a model for Japanese lifestyle and culture through our business.

Under such resolution, we set our goal in "creating five kinds of value", : "the value for customers", "the value for the employees", "the value for trading partners", "the value for the community", and "the value for the shareholders", and we intend to be a company that continues to create the value to stakeholders, shareholders and the community, all of which are related to us.

We make all-out efforts to create these 5 values, and at the same time we as a public institution intend to contribute to improving Japanese lifestyle and culture.

2. Basic policy concerning profit sharing

Recognizing that maximizing the value for the shareholders is a matter of a great importance for the management, we intend to return profits to our shareholders by such means as increased dividend payments and stock splits. We also have an intention to enhance our reputation on the stock market and increase our market capitalization to the greatest extent in order to increase the value for the shareholders.

In addition, considering the status of the business environment and the achievement, we will pay careful attention to the balance between the investment for development of new stores as well as the capital expenditures for growing business in future and the retained earnings required, and we will also improve the profit distribution to our shareholders keeping the profit level and the dividend ratio in mind.

Under this policy, our performance showed remarkable result in this fiscal period with an increase of the net income for this fiscal period over than the Company's initial estimate, the year-end dividend will be 11 yen, by an increase of 1 yen.

A share of the common stock was divided into 2 shares effective on May 20, 2004.

### 3. Mid- and long-term management strategy

Our basic business strategy consists of the following three factors:

Multi-business-centered strategy with UNITED ARROWS business chain at its core

Strategy of restricting the number of stores per business chain in order to maintain the royalty held by each store high

Long-term strategy to expand the size of stores in order to maximize the sales of each store

The above strategies are aimed at operating different types of business of high royalty through limiting the number of stores, centering on “UNITED ARROWS”, our current main business, and at the same time to maximize the sales of each store by expanding its sales floor space respectively.

In addition, we aim to cover all “from downstream range to upstream range” concurrently with higher dimension as mid-term goals, which will include 1) “customer service and sales”, 2) “purchase of merchandises (selection of merchandises)”, and 3) “product planning (creation of merchandises)”. This is what we call the “Super SPA (\*) concept”.

We have an intention to grow a “high value-added, multi-business-centered, innovative retailer” by developing the above strategies. We will also strive to achieve the sales of 100 billion yen for the fiscal year of ending March, 2011, and the ratio of Ordinary income to sales of 15% or more, by constant aware of Return on equity ratio of 20% and more, as a mid-term management indicator. We will aim for the indicator by continuing to invest the stockholders’ equity efficiently and keep growing.

\*SPA = Specialty store retailer of Private label Apparel, which means a retail business with integrated management including original product planning, logistics, and sales.

### 4. Fundamental Idea and Performance of Measures about Corporate Governance

#### (1) Fundamental Idea about Corporate Governance

As stated above, we set our goal in “creating five kinds of value”, “the value for customers”, “the value for the employees”, “the value for trading partners”, “the value for the community”, and “the value for the shareholders”, and we as a public institution intend to contribute to improving Japanese lifestyle and culture.

Due to this, we have a basic policy of information disclosure to build a system to improve the efficiency and the soundness of the management, and to keep providing the unbiased information timely, continuously and voluntarily. We are making an effort to improve the transparency of the business management by introducing the proactive IR activities such as the periodic briefing session for each sector of investors (analyst and private investor), and e-mail delivery of monthly sales data, various press releases, and disclosure of statements on a timely basis.

#### (2) Performance of Measures about Corporate Governance

##### Internal organizations

We adopt a system of corporate auditors. Our board of auditors consists of four auditors, that will decide the audit policy based on the rules of board of auditors, and prepare the auditor’s report based on the report of each auditor, director, and the accounting auditor. Furthermore, all of four corporate auditors come from outside the Company. They secure transparency of management and play a roll of supervising and auditing the whole organization.

A board of directors meeting consisting of six directors is held once a month in principle. The directors and the auditors will attend the board of directors meeting to make decision on any issues required by ordinances as well as any

important issues defined by the rules of the board of directors and audit/manage the status of business administration. Also, we have been holding an extraordinary board whenever it is required, as well as a temporary management committee by directors and the officials in order to organize the system that will realize the effective business administration.

Moreover, we have been holding the management meetings as required. The directors and any parties concerned will attend the management meetings in order to examine any important issues in advance and confirm the intention for the management and business administration to be decided in the board of directors in addition to the decision making on the issues entrusted by the board of directors. As a result, we maintain the system that can provide prompt business administration.

#### Maintenance status of the system for internal control and risk management

In terms of the internal audit, an independent supervising organization directly reporting to the president, “Audit office” will execute the periodic audit on the ordinances, internal rules, and compliance of the rules. The internal audit in the Company aims to properly inspect the situations of preservation of assets held by the Company and business activities from a viewpoint of running a diagnostic check on management at all times. And at the same time, it intends to promote sound development of the Company by nipping illegal activities in the bud, and through rationalization and improvement of efficiency of the Company.

In terms of the risk management system, we have established “Risk Compliance Committee”. In order to play the role of the supervising function of the risk management activity as well as the compliance activity, we have been driving the continuous implementation of the management cycle including the maintenance of rules and standards concerned, the evaluation of the risk and control (controlling system), and the implementation of the ethical education.

Moreover, we have established “In-house reporting system” so that we will foster the corporate culture not to overlook even a smallest fraudulence or scandal, and protect any informants.

When the situation requests for a legal judgment, we are timely advised from a corporate lawyer.

#### Auditing company

We select Chuo Aoyama Audit Corporation. The Company executes a contract with this auditors group and provides correct information regarding management as well as it maintains an environment to enable these auditors to inspect from a fair and impartial position.

The compensation related to the audit certificate based on the audit contract that we have concluded with Chuo Aoyama Audit Corporation is 15 million yen. There is no other compensation other than the above-mentioned compensation.

(3) Overview of the human relationship, capital relationship, business connections or other interests among the Company, the outside director and outside auditors of the Company

Nothing falls under the above matters.

#### (4) Performance of measures for fulfillment of corporate governance in the year

##### Annual shareholders meeting

The Company held the 15th Annual shareholders meeting on June 28, 2004. The date was selected to avoid the concentration date for Annual shareholders meeting of companies settling closing accounts at March-end, and 67 persons were present. As series of measures taken for open Annual shareholders meeting, the Company held a “Management Report Meeting” that looked at corporate business strategy in the future and so on for the attended shareholders after the Annual shareholders meeting.

##### Launching of special section and organization

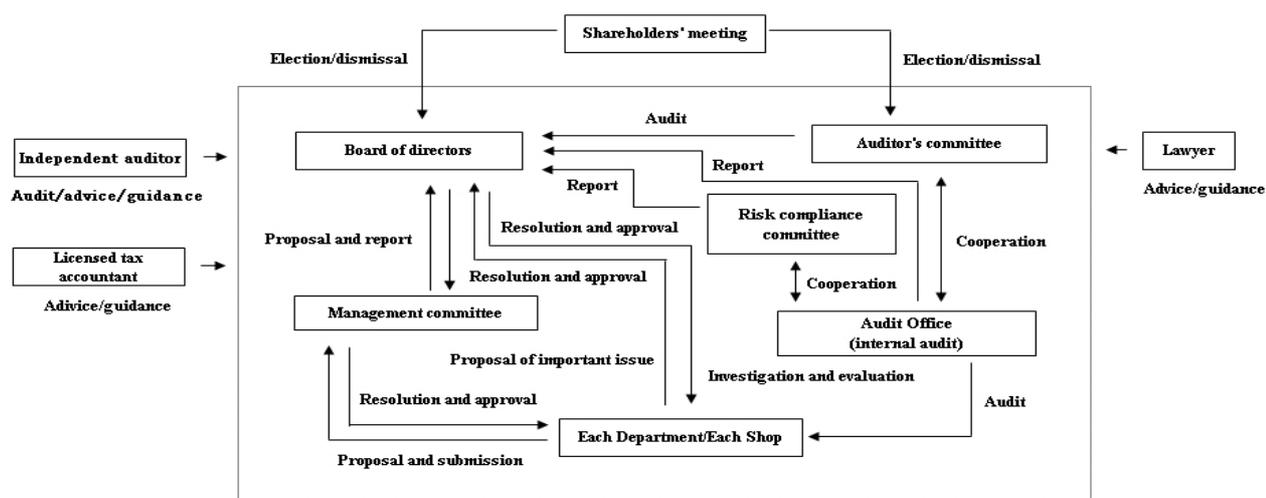
In August 2004, we have newly established the “Risk Compliance Committee” as a supervisor of function to pursue the risk management activity and the compliance activity. Moreover, we have newly established “Customer Consulting Support Office” in January 2005 as a special section for any contacts to reflect the inquiries and requests from the customers in our product planning and our customer service, to enhance our customers’ satisfaction and to improve the quality of management and the administration system.

##### Issues related to individual information

In preparation for the enforcement of the “Law concerning the protection of the personal data”, we have newly organized “Protection Policy on Personal Information” and various relevant rules in November 2004 in order to maintain and improve the control level, provide security to the information source and improve the satisfaction. This policy and the rules have been formulated based on the law concerning the protection of personal information and JISQ15001 (requirements by the compliance program concerning the protection of individual information).

In addition, along with the formulation of the policy and the rules, the Risk Compliance Committee has been holding individual briefing sessions for all stores including each section of the headquarters and franchise stores handling personal information, so that we can strengthen the control system and provide awareness on the protection of individual information.

Our corporate governance system can be illustrated as follows.



#### (5) Holding company

Nothing falls under the above matters.

. Operating Results and Financial Condition

1. Overview of operating results of the current fiscal year

(In million of yen, %)

	Fiscal Year ended March 2004		Fiscal Year ended March 2005		Growth ratio (%)
Sales	42,903	100.0	46,330	100.0	+8.0
Gross profit	22,722	53.0	24,636	53.2	+8.4
Operating expenses	17,481	40.8	18,555	40.1	+6.1
Operating income	5,241	12.2	6,080	13.1	+16.0
Ordinary income	5,270	12.3	6,037	13.0	+14.5
Net income	2,877	6.7	3,476	7.5	+20.8

Japanese economy in this fiscal year, against the backdrop of the economic recovery and growth in U.S. and China, and the ceaseless efforts including the structural reform of each domestic corporation, we have undergone the transition by catching up the strength partially. For example, the corporate profits have improved, and the capital expenditure which is one of the indications of economic recovery, has increased.

On the other hand, in terms of the consumer mind, the improvement of corporate profits was not enough to influence positively on the household income yet. It is getting clearer that the consumption sentiment is polarized and selective, and the overall sentiment has been alternatively in the stronger and weaker ranges.

In the retail industry such as apparel, generally speaking, this year has extremely been a tough year. Unseasonable weather including the lingering summer heat and the warm winter influenced the consumer's sense of the season. In addition to the slow demand for the merchandise for the early autumn and winter, especially the change of the hot items along with the moving fashion trend has been extremely drastic in comparison to regular years.

Under the circumstances, we have launched the "Total Planning Intelligence Office" and "Research & Development Group" in order to pursue the enhancement of the information gathering and analytical ability of materials, design, and trends, etc., as well as to improve the accuracy of the project planning. Also, in the product department of the main line, which is the UNITED ARROWS business chain, we have been working on plans to realize the concept of the fundamental organization suitable for the "Super SPA concept, and we have been making an effort to stabilize the sales by organizing various businesses to achieve the improvement of the product planning as well as the planning ability, and closely examining the management tool, etc.

Furthermore, in order to evolve the corporate restructuring undertaken for these years, we are pursuing the stable expansion of the sales and the quantitative enhancement of the business management by launching projects to target at

The improvement of gross profit margin    The reduction of the operating expenses    The optimization of inventory level .

In this fiscal year, the Company's accomplishments in store opening and others for each business chain or operation were as follows.

**UNITED ARROWS (UA) business chain**

We opened a new UNITED ARROWS stores in Tachikawa (in Tachikawa-shi, Tokyo), as 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 owns 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.

### **Green Label Relaxing (GLR) business chain**

We opened a new Green Label Relaxing stores in Sendai (Aoba-ku, Sendai) 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 LUMINE Shinjuku store (Shinjuku-ku, Tokyo) during September 2004.

In our GLR business chain, we have proactively promoted an increasing of store number. Our store network became to 21 stores by the end of March 2005, with sales increasing 9.4% year-on-year to 8,163 million yen.

### **CHROME HEARTS (CH) business chain**

Regarding CHROME HEARTS 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 increasing with the rising brand recognition by consumers.

As a result, 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.

(S.B.U. means small business units targeting an increasing the number of stores for future growth)

### **Another Edition (AE) business**

We opened new Another Edition stores in MyCity 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 AE Kyoto store (Shimogyo-ku, Kyoto) in February 2005.

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

### **DARJEELING DAYS (DD) business**

DARJEELING DAYS business, which we newly launched in this fiscal period, mainly targets the customers in their mid-40s to around 60s. This is our first effort to cater to this age group and the concept of DD products encompasses “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 (test-marketing store)**

In the UA Labs business, TOKISHIRAZU and DRAWER business 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 business 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%).

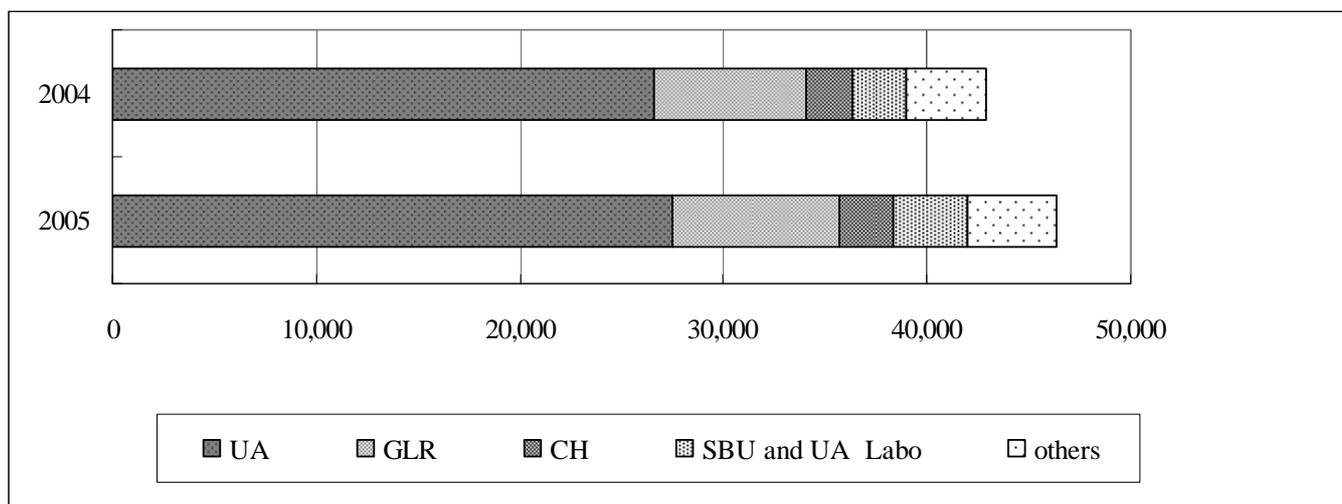
Moreover, as for the improvement of various management indexes that we have been addressed company-wide, the

gross profit margin has been improved by 0.2% year-on-year, resulting in 53.2% and the ratio of operating expenses to sales has been improved in comparison to the previous fiscal year and reached 40.1%.

We could control the inventories at the increase level of 6.5% year-on-year, which started to emerge as a result of the corporate restructuring that we have been addressing up to now.

In consequence, the company total sales of this fiscal period reached 46,330 million yen (increased 8.0 by the previous period), the ordinary income of 6,037 million yen (increased 14.5% by the same), and the net income of 3,476 million yen (increased 20.8% by the same). We achieved consecutive increase both in the sales and the profit from established.

Reference: Sales compared to the same month of last year by Business Unit (¥ million)



Reference: Number of stores at the end of the fiscal period

(Number of stores)

	Fiscal 2004 ended March	Fiscal 2005 ended March	Growth		
				Relocation and Increase	Renewal
Total	56	67	+11	4	2
UA	22	23	+1	2	-
GLR	18	21	+3	1	1
CH	2	3	+1	-	1
S.B.U.	6	10	+4	1	-
UA labs	8	10	+2	-	-

## 2. Status of cash flows for this fiscal year

(In million of yen, %)

	Year ended March 2004	Year ended March 2005	Growth
Cash flows from operating activities	1,876	4,122	2,245
Cash flows from investing activities	-2,311	-738	1,572
Cash flows from financing activities	589	-1,180	-1,769
Increase in cash and cash equivalents	155	2,203	2,048
Cash and cash equivalents at end of the year	1,623	3,827	2,203

Cash and cash equivalents (hereinafter referred to as “Cash”) in this fiscal year was 3,827 million yen at the end of this fiscal period, increased 2,203 million yen by the previous fiscal year of the 1,623 million yen.

The cash flows for the this fiscal year were as follows:

### (Cash flows from operating activities)

Cash gained from operating activities in this fiscal period amounted to 4,122 million yen (increased 119.7% by the previous period). It was mainly due to net income before taxes of 5,909 million yen, amortization of tangible fixed assets of 525 million yen, and increase in accounts payable of 80 million yen, despite increase in inventories of 622 million yen and 2,274 million yen of payment of income taxes.

### (Cash flows from investing activities)

Cash used for investing activities in this fiscal period was 738 million yen (decreased 68.0% by the previous period). This was largely attributable to decrease of 60 million yen in guarantee deposits paid for partial stores, despite expenditure of 575 million yen on purchase of tangible fixed assets and 117 million yen on purchase of intangible fixed assets accompanying new store openings and renovations etc., of stores, investment in newly consolidated entity of 5 million yen and increase in consolidated entity loan receivables of 75 million yen.

### (Cash flows from financing activities)

Cash used for financing activities in this fiscal period was 1,180 million yen (gain of 589 million yen by the previous period). This was attribute to 300 million yen of net decrease in short-term borrowings, 656 million yen of payments for repayment of long-term debt and the dividend payments of 290 million yen.

The indicators of our cash flows are as follows:

	Year ended March 2002	Year ended March 2003	Year ended March 2004	Year ended March 2005
Shareholders' equity ratio (%)	68.5	62.0	64.7	68.0
Shareholders' equity ratio at market value (%)	207.6	158.0	278.8	245.8
Debt redemption period (number of years)	-	1.9	1.1	0.3
Interest coverage ratio	64,062.5	193.9	170.2	422.0

Notes: Ratio of shareholders' equity = Shareholders' equity / Total assets

Ratio of shareholders' equity at market value = Total amount of shares at market value / Total assets

Debt redemption period = Interest-bearing liabilities / Cash flows from operating activities

Interest coverage ratio = Cash flows from operating activities / Interest payment

1. Each indicator was calculated based on financial figures on a non-consolidated basis.
2. The total amount of shares at market value was calculated by multiplying the final share price at the end of the fiscal year by the

total number of shares issued at the end of the fiscal year.

3. Cash flows from operating activities mean the cash flows from operating activities recorded on statements of cash flows. The interest-bearing liabilities mean the total interest-bearing liabilities recorded on a balance sheet. The interest payment means the amount of payment for interest recorded on a cash flow statement.

### 3. Major issues to be solved and Overview of the whole business year

(In million of yen, %)

	Year ended March 2005	Year ended March 2006	Growth	Growth ratio (%)
Sales	46,330	51,796	5,465	+11.8
Ordinary income	6,037	6,851	814	+13.5
Net income	3,476	3,841	364	+10.5
Net income per share	154.90	172.94	18.04	+11.6

In the retail industry of the apparel and its related goods industry, the competition among others in the same industry is getting severer at an accelerating pace, and we believe that it is our urgent responsibility to achieve further evolution both in products and sale.

Given the situation, we will put emphasize on the improvement of the management quality, not only the products and sales, by creating a flexible organization, expanding the corporate scale, and reviewing and reforming all aspects of the internal structure in order to realize the “Super SPA concept” continuously.

In order to do so, we will reform the S.B.U. as well as UA Labs to make them as the sources of our growth and expansion in the long run, and invest aggressively in any business of these store-brands that we can expect higher growth.

Concretely, as for the three businesses including “Changes UNITED ARROWS”, “Odette & Odile” and “DRAWER”, which belonged to “UA Labs” historically, we have determined them as the areas where we can expect long-term growth emerging because of the potential market size and we will try to realize the concentration of the investment on these.

Moreover, in addition to these, we have been aggressively opening new stores of “Another Edition” and “DARJEELING DAYS”, which are of the existing S.B.U., to aim at the expansion of the smaller-size business in the earlier stage.

Furthermore, as our efforts to pursue the quality improvement of the management, we have announced the priority issues continuously from the previous fiscal year, which are “improvement of the gross profit margin”, “reduction of the ratio of operating expenses to sales”, and “optimization of inventory level”, and we will drive each project powerfully.

Under such condition, we estimate for the full business year sales of 51,796 million yen (increased 11.8% by the previous period), ordinary income of 6,851 million yen (increased 13.5% by the same), and net income of 3,841million yen (increased 10.5% by the same).

Based on our dividend policy of profit sharing, we plan to distribute annual dividend of 17 yen per share consisting of interim dividend of 5 yen per share and year-end dividend of 12 yen per share.

## 4. Financial Statements

### (1) Balance Sheets

(In thousand of yen)

	The 15 <sup>th</sup> Term (As of March 31, 2004)		The 16 <sup>th</sup> Term (As of March 31, 2005)	
	Amount	%	Amount	%
<b>Assets:</b>				
<b>I Current assets</b>				
1. Cash and cash equivalents	1,633,461		3,827,164	
2. Notes and accounts receivable-trade	84,205		57,875	
3. Product inventories	9,570,407		10,159,082	
4. Other inventories	23,646		57,725	
5. Advance payments	35,529		61,036	
6. Prepaid expenses	124,362		148,468	
7. Deferred tax assets	432,603		461,677	
8. Notes and accounts receivable-other	2,747,274		3,106,982	
9. Other	8,871		121,398	
<b>Total current assets</b>	<b>14,660,363</b>	<b>60.8</b>	<b>18,001,412</b>	<b>65.1</b>
<b>II Fixed assets</b>				
<b>1. Tangible fixed assets</b>				
(1) Buildings	4,568,299		5,008,567	
Accumulated depreciation	1,099,345	3,468,953	1,438,067	3,570,499
(2) Structures	9,005		9,317	
Accumulated depreciation	2,749	6,256	3,849	5,467
(3) Furniture and fixtures	889,641		1,076,682	
Accumulated depreciation	422,244	467,397	564,019	512,662
(4) Lands		1,082,072		1,082,072
(5) Construction in progress		372		58,438
<b>Total tangible fixed assets</b>	<b>5,025,052</b>	<b>20.8</b>	<b>5,229,140</b>	<b>18.9</b>
<b>2. Intangible fixed assets</b>				
(1) Lease tenant rights		138,165		138,165
(2) Trademarks		2,872		1,229
(3) Software		346,985		338,507
(4) Telephone subscriptions		20,294		20,294
<b>Total intangible fixed assets</b>		<b>508,318</b>		<b>498,197</b>
<b>2.1</b>				<b>1.8</b>
<b>3. Investments and other assets</b>				
(1) Investment securities		-		5,000
(2) Long-term loans receivable to employees		406		80
(3) Long-term prepaid expenses		384,847		423,511
(4) Deferred tax assets		99,563		104,145
(5) Long-term lease deposits		3,447,213		3,386,650
(6) Long-term accounts receivable		64,676		64,676
(7) Allowance for doubtful accounts		(64,676)		(64,676)
<b>Total investments and other assets</b>		<b>3,932,030</b>		<b>3,919,387</b>
<b>Total fixed assets</b>		<b>9,465,401</b>		<b>9,646,724</b>
<b>Total assets</b>		<b>24,125,764</b>		<b>27,648,137</b>
		<b>100.0</b>		<b>100.0</b>

	The 15 <sup>th</sup> Term		The 16 <sup>th</sup> Term	
	(As of March 31, 2004)		(As of March 31, 2005)	
	Amount	%	Amount	
<b>Liabilities:</b>				
<b>I Current liabilities</b>				
1. Note and accounts payable-trade	3,329,967		3,410,586	
2. Short-term borrowings	300,000		-	
3. Current portion of long-term debt	656,000		656,000	
4. Notes and accounts payable-other	938,175		1,662,946	
5. Accrued expenses	39,548		28,463	
6. Income taxes payable	1,183,863		1,462,413	
7. Deposits received	72,231		88,001	
8. Unearned income	9,700		10,162	
9. Accrued bonus	421,695		469,305	
10. Consumption taxes payable	150,614		235,669	
11. Other	1,999		36,925	
<b>Total current liabilities</b>	7,103,795	29.4	8,060,474	
<b>Long-term liabilities</b>				
1. Long-term borrowings	1,180,000		524,000	
2. Accrued retirement benefits for directors	117,139		130,326	
3. Long-term guarantee deposits received	120,961		120,961	
<b>Total long-term liabilities</b>	1,418,100	5.9	775,287	
<b>Total liabilities</b>	8,521,895	35.3	8,835,761	
<b>Shareholders' equity:</b>				
<b>Commonstock, no par value</b>	3,030,000	12.6	3,030,000	
<b>Capital surplus</b>				
1. Additional paid-in capital	4,095,600		4,095,600	
<b>Total Capital surplus</b>	4,095,600	17.0	4,095,600	
<b>Retained earnings</b>				
1. Legal reserve	31,035		31,035	
2. Unappropriated retained earnings for the term	11,073,843		14,203,086	
<b>Total retained earnings</b>	11,104,878	46.0	14,234,121	
<b>Treasury stock</b>	(2,626,610)	(10.9)	(2,547,345)	
<b>Total shareholders' equity</b>	15,603,868	64.7	18,812,375	
<b>Total Liabilities and shareholders' equity</b>	24,125,764	100.0	27,648,137	

## (2) Statement of Income

(In thousand of yen)

	The 15 <sup>th</sup> Term		The 16 <sup>th</sup> Term	
	(From April 1, 2003 to March 31, 2004)		(From April 1, 2004 to March 31, 2005)	
	Amount	%	Amount	%
<b>Sales</b>	42,903,183	100.0	46,330,400	100.0
<b>Cost of sales</b>				
1. Beginning product inventories	7,669,415		9,570,407	
2. Purchases	22,271,246		22,532,700	
Total	29,940,662		32,103,107	
3. Amount transferred to other accounts	189,946		250,041	
4. Ending product inventories	9,570,407	20,180,308	10,159,082	21,693,984
Gross profit	22,722,874	53.0	24,636,416	53.2
<b>Operating expenses</b>				
1. Packing and distribution expenses	917,709		995,511	
2. Advertising expenses	768,436		683,006	
3. Selling and promotional expenses	140,838		126,246	
4. Officer compensation	183,921		180,618	
5. Salaries	3,756,587		4,253,208	
6. Employee bonuses	560,248		496,821	
7. Transfer to allowance for employee bonuses	421,695		469,305	
8. Retirement benefit expenses	69,800		79,865	
9. Transfer to allowance for officer severance	13,488		13,187	
10. Welfare expenses	737,768		693,809	
11. Traveling expenses	308,509		308,114	
12. Commissions	1,635,798		1,632,851	
13. Facilities rental expenses	4,455,054		4,821,816	
14. Consumable expenses	486,803		479,312	
15. Maintenance and repair expenses	630,226		681,848	
16. Depreciation	462,776		517,194	
17. Charges	669,766		738,883	
18. Miscellaneous expenses	1,262,199	17,481,627	1,384,043	18,555,647
<b>Operating income</b>	5,241,246	12.2	6,080,769	13.1
<b>Other income</b>				
1. Interest income	180		173	
2. Exchange gains	14,133		-	
3. Product rental income	13,672		15,422	
4. Lease income	93,631		122,024	
5. Miscellaneous income	35,944	157,562	37,863	175,483
<b>Other expenses</b>				
1. Interest expense	11,242		9,680	
2. Stock issue expenses	-		3,192	
3. Exchange Losses	-		1,965	
4. Lease expenses	84,371		106,818	
5. Donation	22,376		85,877	
6. Miscellaneous expenses	10,133	128,123	11,590	219,125
<b>Ordinary income</b>	5,270,685	12.3	6,037,127	13.0

<b>Extraordinary income</b>						
1. Gain on sale of fixed assets	401				<b>2,049</b>	
2. Reversal of allowance for doubtful accounts	<u>22,724</u>	23,125	0.0	-	<b>2,049</b>	<b>0.0</b>
<b>Extraordinary losses</b>						
1. Loss on sale of fixed assets	8,892			-		
2. Loss on disposal of fixed assets	253,787			<b>130,134</b>		
3. Others	<u>2,684</u>	<u>265,363</u>	0.6	-	<b>130,134</b>	<b>0.3</b>
Net income before taxes		5,028,446	11.7		<b>5,909,041</b>	<b>12.7</b>
Income taxes – Current *	2,198,126			<b>2,466,082</b>		
Income taxes – Deferred	<u>(47,280)</u>	<u>2,150,846</u>	5.0	<b>(33,656)</b>	<b>2,432,426</b>	<b>5.2</b>
Net income		<u>2,877,600</u>	6.7		<b>3,476,615</b>	<b>7.5</b>
Retained earnings beginning balance		8,332,527			<b>10,849,445</b>	
Losses on treasury stock transactions		26,917			<b>12,978</b>	
Interim dividend		<u>109,367</u>			<b>109,995</b>	
<b>Unappropriated retained earnings for the year</b>		<u>11,073,843</u>			<b>14,203,086</b>	

\* Income taxes - Current consists of corporate income tax (national), enterprise tax (local), and resident income taxes (local).

## (3) Statements of Cash Flows

	(In thousand of yen)	
	The 15 <sup>th</sup> Term	The 16 <sup>th</sup> Term
	(From Apr. 1, 2003 to Mar. 31, 2004)	(From Apr. 1, 2004 to Mar. 31, 2005)
	Amount	Amount
<b>Cash flows from operating activities</b>		
Net income before taxes	5,028,446	5,909,041
Depreciation	470,065	525,868
Amortization of intangible fixed assets	155,750	148,796
Amortization of long-term prepaid expenses	53,968	57,197
Increase / (decrease) in accrued bonuses	(86)	47,610
Increase in accrued retirement benefits	13,488	13,187
Decrease in allowance for doubtful accounts	(22,724)	-
Interest and dividend income	(180)	(173)
Loss on sale of securities	2,684	-
Interest expenses	11,242	9,680
Loss on disposal of tangible fixed assets	167,790	65,377
Loss on sale of tangible fixed assets	8,892	-
Gain on sale of tangible fixed assets	(401)	(2,049)
Loss on disposal of intangible fixed assets	31,084	-
Loss on disposal of long-term prepaid expenses	6,433	41,680
Increase in accounts receivable	(33,992)	(309,717)
Increase in inventories	(1,914,293)	(622,753)
Decrease / (increase) in other current assets	(18,620)	(75,731)
Increase in accounts payable	248,222	80,618
Increase / (decrease) in other current liabilities	(201,016)	561,945
Increase / (decrease) in other long-term liabilities	65,044	-
Bonuses to directors	(51,229)	(43,164)
Subtotal	<u>4,020,569</u>	<u>6,407,416</u>
Receipt of interest and dividends	178	31
Payment of interest	(11,025)	(9,769)
Payment of income taxes	(2,132,825)	(2,274,962)
<b>Net cash from operating activities</b>	<u>1,876,896</u>	<u>4,122,716</u>
<b>Cash flows from investing activities</b>		
Transfer to time deposits	(10,033)	-
Drawing from time deposits	10,029	10,033
Investment in newly consolidated entity	-	(5,000)
Increase in consolidated entity loan receivables	-	(75,000)
Proceeds from sale of securities	4,091	-
Proceeds from sale of tangible fixed assets	8,825	2,500
Purchase of tangible fixed assets	(1,649,678)	(575,241)
Purchase of intangible fixed assets	(213,202)	(117,192)
Purchase of long-term prepaid expense	(103,891)	(39,830)
Guarantee deposits paid	(357,382)	60,562
Decrease in other investment	220	326
<b>Net cash from (used in) investing activities</b>	<u>(2,311,021)</u>	<u>(738,842)</u>

<b>Cash flows from financing activities</b>		
Increase in short-term borrowings	(600,000)	(300,000)
Proceeds from long-term debt	2,000,000	-
Payments for repayment of long-term debt	(664,000)	(656,000)
Exercise of stock options	137,472	66,285
Dividends paid	(284,153)	(290,422)
<b>Net cash used in financing activities</b>	<b>589,319</b>	<b>(1,180,136)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>-</b>	<b>-</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>155,193</b>	<b>2,203,736</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>1,468,234</b>	<b>1,623,427</b>
<b>Cash and cash equivalents at end of the year</b>	<b>1,623,427</b>	<b>3,827,164</b>

(4) Appropriation of retained earnings	(In thousand of yen)	
	The 15 <sup>th</sup> Term	The 16 <sup>th</sup> Term
	(Year ended March 31, 2004)	(Year ended March 31, 2005)
	Amount	Amount
<b>Unappropriated retained earnings for the year</b>	11,073,843	<b>14,203,086</b>
<b>Appropriation of retained earnings</b>		
1. Dividends	181,234	<b>242,270</b>
2. Bonuses of directors	43,164	<b>69,532</b>
<b>Earnings retained forward to the next year</b>	<u>10,849,445</u>	<u><b>13,891,283</b></u>

(References) Sales for the Term Period ended March 31, 2005

The 15th Term: (from April 1, 2003 to March 31, 2004)

The 16th Term: (from April 1, 2004 to March 31, 2005)

#### Total Sales

(In million of yen, %)

	The 15th Term (A)	The 16th (B)	Increase or Decrease (B)-(A)	Growth
Total Sales	42,903	46,330	3,427	8.0

#### Sales by Chain

(In million of yen, %)

	The 15th Term (A)	The 16th (B)	Increase or Decrease (B)-(A)	Growth
UA	26,635	27,507	871	3.3
GLR	7,459	8,163	704	9.4
CH	2,209	2,641	431	19.5
*S.B.U.&UA Labs	2,696	3,681	984	36.5
Retail	39,001	41,993	2,992	7.7
*Others	3,902	4,336	434	11.1

\*1. S.B.U. =Small Business Unit

\*2. "Others" includes the sales of wholesale, outside shops, formal wear rental, café (until FY 2004), outlets, mail-order.

#### Sales by Category of Merchandise(Retail)

(In million of yen, %)

	The 15th Term (A)	The 16th (B)	Increase or Decrease (B)-(A)	Growth
Men's	19,576	20,443	866	4.4
Women's	14,814	16,371	1,556	10.5
*Silver & Leather	3,142	3,490	347	11.1
Miscellaneous	1,467	1,688	220	15.1

\* "Siver & Leather" means the silver accessories and leather outfits of CHROME HEARTS brand.

#### Sales of Existing stores (The 16th Term, Retail, YOY)

(%)

	Sales Growth Ratio	Number of Customer Growth Ratio	Ave. Spending per Customer Growth Ratio
UA	2.3	0.3	2.6
GLR	5.4	9.1	4.1
CH	15.8	20.3	3.7
S.B.U.&UA Labs	11.0	3.5	7.2
Retail	1.0	2.0	1.0