ANNUAL REPORT 2001

UNITED ARROWS

UNITED ARROWS

UNITED ARROWS LTD.
2-31-12 Jingumae, Shibuya-ku, Tokyo 150-0001
TEL. +81-3-3479-8192
URL. http://www.united-arrows.co.jp/

Printed in Japan

UNITED ARROWS

What is Your Style?

Contents

Philosophy of UNITED ARROWS Group

MAKE YOUR REAL STYLE

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

To Our Shareholders

Osamu Shigematsu
President and CEO

I am pleased to present our annual report for fiscal 2001, which ended on March 31, 2001.

First, I wish to take this opportunity to thank our customers and shareholders for their support during the past year, during which we celebrated the 10th anniversary of the first United Arrows store in Shibuya, Tokyo in 1990, which opened one year after United Arrows Ltd. was established.

It was an exciting first decade, one in which we made great progress. At times we worked to solidify our position, at other times we forged into new territory.

Our aim is to continue achieving significant progress in the new century, guided by a new United Arrows' philosophy that reflects both where we have come from and where we are heading.

Make Your Real Style

Under our new philosophy — Make Your Real Style — we are continuing to create value that sets new standards of Japanese style. This value is derived from Japanese culture and tradition and internationally viable through a fusion of Japanese and western culture.

In fiscal 2002, the new business year, we will follow this philosophy to provide our customers with what they truly seek, namely, styles that are both exciting and relevant. Stores will be operated with a keen awareness for what customers want and a sense of urgency in fulfilling these needs. We will also appeal to our customers' aesthetic tastes by maximizing the attractiveness of our merchandise and store environments.

June 2001

Osamu Shigematsu
President and CEO

How would you summarize the business year that ended in March 2001?

Simply put, it was our most challenging year ever.

From June 1999, sales in existing stores not only stopped growing, but actually began to decline. Realizing that we needed drastic changes to reverse the situation, we devised a plan for fiscal 2001 that emphasized business attire and designs differentiated from the competition, we also decided to suspend opening new stores in markets where we already have a presence to avoid internal competition. Instead, we placed priority, additing stores in new regional markets. Moreover, we limited expanding the floor space in existing stores. Unfortunately, the plan did not produce the expected results right away and the situation grew worse, forcing us in October 2000 to announce a downward revision of our original forecast.

Thereafter, however, our strategies began to pay off and we achieved a moderate recovery. We halted a downturn in the number of customers, monthly existing stores sales began to show year-to-year growth and our new Green Label Relaxing and Chrome Hearts chains performed well.

As a result, we were able to revise the forecast upward twice, and we achieved an increase in total sales for the year. Other results, however, including a decline of 746 million yen in operating income, were generally disappointing. Nevertheless, the experience of going into a crisis mode and successfully turning sales around in a short period should prove to be an invaluable lesson as we move forward.

The retail clothing industry has evolved into a one-horse race for the highly successful Uniqlo brand. What kind of impact has this had on your fashion business?

Japan's consumer retail market shrank from 11.7 trillion yen in 1994 to 10.9 trillion yen in 1999, a decline of 800 billion yen over a five-year period. The data for 2000 is not final, but it will probably show a further contraction of between 100 and 200 billion yen.

The reason for this is decreased consumer spending. According to government statistics, consumer spending has fallen for the past seven consecutive years since 1993. Conditions have been especially difficult in the apparel market, where spending has decreased every year since 1991. This contrasts sharply with the trend in Japan's IT market, for example, where the rapid proliferation of personal computers and a boom in mobile communications have enabled this market to attract more consumer spending. We expect such conditions to persist in the foreseeable future.

Meanwhile, Fast Retailing Co., Ltd., the operator of Uniqlo casual clothing stores, forecast sales of 400 billion yen in fiscal 2001. Compared to sales of 83 billion yen in fiscal 1998, this would be an increase of more than 300 billion yen in just a three-year period. Moreover, it would account for approximately 3% of the retail market for apparel and related goods. Unlike consumer products such as automobiles and beer, it is difficult to command a large share of the retail market for apparel and related goods, so there is no question that Uniqlo's increased market share has had an effect. Even casual wear specialty stores, which have enjoyed explosive growth from the late 1990s, have been unable to compete with Uniqlo in the volume market in which we do not directly compete with (see the diagram on p.13 on top), resulting in lower sales and major declines in profits.

We realized that Uniqlo was having a large impact on United Arrows, particularly in terms of price deflation in basic casual wear, so we responded by introducing a wide range of new designs to better differentiate our products. However, the unexpected result was that customer numbers declined. In other words, our attempt to avoid competition with Uniqlo was causing us to lose share to our traditional competitors of other Specialty Stores selecting labels. Fortunately, we quickly realized this trend and modified our merchandising strategy, which resulted in our sales recovering from the spring-summer 2001 season.

Although final numbers for fiscal 2001 are not in yet, the market for Specialty Stores expanded in inverse proportion to the overall market for retail apparel and related goods, which continued to slowly contract. Sales of the top five Specialty Stores, including United Arrows, have roughly tripled in the five-year period ending in fiscal 2001. I am convinced that this market, which is now worth about 100 billion yen, has solid prospects for continued growth. Moreover, I believe United Arrows and other Specialty Stores will not be seriously affected by Uniqlo, because we target more upscale customers.

You completely revised your corporate philosophy, didn't you?

It was a return to our origins, rather than a 'revision.'

When we established our company, our philosophy was to further Japanese lifestyle, culture and society by advancing the life environment through the developing valued-added merchandise, offering value of such a high level that it established new standards of Japanese style as our contribution to the society.

Thereafter, we set a goal of becoming an 'established company with progressive ideas,' which means a company that merits the kind of trust normally reserved for long-established companies, yet has the creativity and courage to be a trendsetter. In the years that followed, however, we let the organization digress into multiple chains, which led us away from our founding principles because not all of these chains were in tune with our original philosophy.

So we decided to return to the core philosophy that defines the United Arrows' chain. The result is a United Arrows group geared for the 21st century, led by the philosophy "Make Your Real Style" together with the mission: "The UNITED ARROWS group creates standards of Japanese lifestyle and culture."

A corporate philosophy states a company's reason for being, describes how it intends to contribute to society and explains what its employees are working for. As such, it serves an extremely important purpose by providing employees with a foundation upon which to make decisions, be they related to customer relationships, corporate matters or whatever.

Of course, our philosophy is centered on the idea of supporting our customers to find a real style but it also asks of our employees, "What do you do at UNITED ARROWS, our company?" I believe our new philosophy brings us even more closely together, like "united arrows," if you will, targeted at the company's further goals.

What have you resolved to accomplish in fiscal 2002?

In the first several months of this year, the Japanese economic outlook has gradually deteriorated from 'recovering moderately' to 'performing weakly.' This combined with sluggish household incomes and job insecurity due to increased corporate bankruptcies and growing unemployment, leads to the unavoidable conclusion is that personal spending will remain low in fiscal 2002.

There is no question that the retail market for apparel and related goods is facing very difficult conditions. A gap develops between the industry's haves and the have-nots in one year, and I also believe a clear polarization of winners and losers lies ahead.

Although the 2001 business year was extremely difficult for United Arrows, a rebound in existing store sales in the second half, combined with the strong performance by our new chains, helped to put us on a recovery footing. This momentum has carried into the next fiscal year, so I believe fiscal 2002 is quite promising.

This year we will make a particularly strong effort with our women's lines. We launched our company with a heavy emphasis on men's apparel and have concentrated on the men's side ever since, but from the second half of last year we have also been expanding our women's lines. The market for women's apparel is double the size of that for men, so a full-fledged launch into this sector will create opportunities for us to capture a larger slice of the total market. Accordingly, we intend to accelerate our growth through men's and women's products alike.

Looking Back while Moving Forward

After more than 10 years of growth and evolution, United Arrows has returned to its original philosophy. More than ever before, the Company is like a group of arrows advancing together in dynamic flight, each arrow offering individual value, but united by the new philosophy of "Make Your Real Style". By reaffirming the value of our original aspirations, we have established a firm foundation from which to launch the United Arrows group forward.

Front, from left

Osamu Shigematsu

President and CEO

CEO since the company's founding. Presides over Sales Section as well. Guided recent consolidation. "The idea of offering superior products and in-store services for improved customer satisfaction must be nurtured among all staff to realize an enthusiastic, company-wide effort."

Tetsuya Iwaki

Executive Director

In charge of merchandising control and sales promotion. Also guides basic product strategy as head of Customer Satisfaction — Products (established in April 2001). Key player in developing merchandising that reflects United Arrows' product strategies. Values health, simplicity and speed. Focuses on factors that motivates visitors to buy and enjoy United Arrows' products.

Back, from left

Hiroshi Takanashi

Director

Newest director. Guides investor relations and Intelligence Management Dept., the latter involving the adoption of information systems for marketing. Intends to manage consistently strong investor relations program regardless of company performance. Making every effort to maximize corporate value for shareholders!

Koichi Mizunoya

Executive Director

Head of Personnel Dept. and Customer Satisfaction — Services; as head of latter post (established in April 2001), aims to maximize conditions for satisfying customer needs fully and quickly. Also responsible for company-wide personnel operations. Strengthening the corporate environment to promote more individualized services and enhanced enthusiasm among employees.

Hirofumi Kurino

Executive Director

As Creative Director, involves in variety of internal/external programs, including serving as judge for Antwerp Royal Academy of Fine Art graduate show. Until the previous fiscal year, has pursued broad-based background "to learn how to analyze what things are and, how things could be. Aiming to create deliberate, strategically focused plan for fiscal 2002 under newly consolidated business structure.

Katsuhito Sugioka

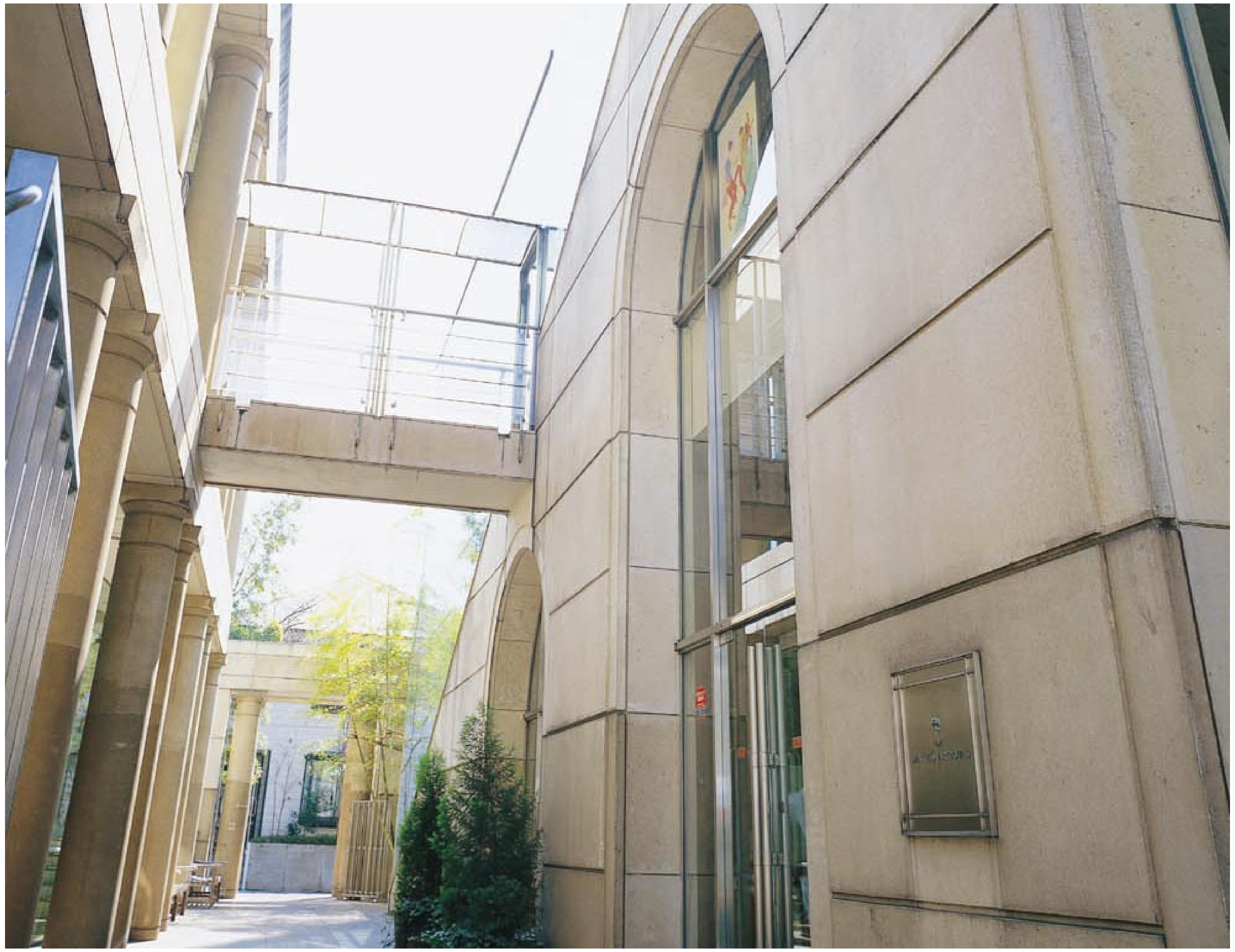
Director

In charge of store development, including overall strategy, opening new stores and converting existing ones. With Green Label Relaxing performing extremely well, looking to opening new stores in this chain in urban areas. Also working to develop the chain balanced with United Arrows' philosophy and business model, which resulting in its assured success.

Hirotoshi Hatasaki

Director

Year in Review



Although the Japanese economy in fiscal 2001 (April 1, 2000 to March 31, 2001) produced some bright spots, such as a continuing boom in the information technology sector, concerns about jobs and personal incomes continued to restrain spending by consumers, the key to Japan's economic recovery. With the economy demonstrating no sign of generating a self-sustained recovery, it proved to be a different year for companies in Japan.

Sales of the retail apparel and related goods continued their steady decline due to reduced spending on clothing, as consumers shifted purchases to areas such as information technology. In addition an upsurge in high-volume production since the end of 1999, cost advantages for certain producers, enabling them to dominate the market with low-priced clothing. Consequently, the market was more competitive and challenging than ever before in fiscal 2001.

Faced with these conditions, the Company began the year by enhancing product development, upgrading stores and improving customer services to differentiate itself from traditional rivals.

The United Arrows chain added a store in Chuo-ku, Sapporo in August 2000 and three UA Labos, test-marketing stores, in Tokyo's busy Shibuya area: "District UNITED ARROWS" (September 2000), "Changes UNITED ARROWS" (February 2001) and "ANOTHER EDITION" (February 2001).

The Green Label Relaxing chain opened two locations in Chiba Prefecture, just outside Tokyo: "Green Label RELAXING Funabashi" in April 2000 and "Green Label RELAXING IKSPIARI" (near Disneyland) in July 2000. The decision was made, however, to spend more time studying candidate sites for new stores, thereby delaying openings originally planned for the third and fourth quarters until fiscal 2002 at the earliest. In the meantime, greater emphasis was placed on strengthening existing stores.

The Chrome Hearts chain made solid progress. In its first full year of operation, the "CHROME HEARTS TOKYO" store (Minato-ku, Tokyo) raised its name recognition and surpassed performance targets. The chain's second store, "CHROME HEARTS OSAKA" (Chuo-ku, Osaka), opened in January 2001.

The Company's nationwide retail network as of the end of fiscal 2001 totaled nineteen United Arrows stores, five Green Label Relaxing stores and two Chrome Hearts stores, plus five UA Labos, test-marketing stores,.

Business was quite difficult in the beginning of the fiscal year, with monthly existing stores sales declining in year-on-year terms. The fall-winter product line was hurt by record-breaking heat in the summer of 2000, forcing the company to announce a sizable downward revision in its forecasts. With the onset of winter, however, real demand for fall-winter merchandise began to take off. Green Label Relaxing and Chrome Hearts, the two new chains we launched in fiscal 2000, also turning good performance.

A change in the Company's product strategy produced quick results in sales of men's casual wear, which had been sluggish for some time, giving total sales a strong boost. The recovery was not strong enough for us to attain to our initial targets, but after considerably downgrading our forecast in the first half, we reversed course and upgraded the forecast twice in the second half.

Fiscal 2001 sales rose 13.5% from previous year to 19,314 million yen. Operating income, however, fell 31.4% to 1,631 million yen, and net income dropped 25.1% to 879 million yen.

Business Segments

The following is a recap of the major developments in the Company's three chains in fiscal 2001. The United Arrows chain performed solidly thanks to a rebound in men's sportswear sales, while the Green Label Relaxing and Chrome Hearts chains, both launched in the previous fiscal year, produced robust growth.

UNITED ARROWS

UNITED ARROWS

Sales in the United Arrows chain were on solid footing, thanks to a recovery in the long-anemic men's sportswear and solid expansion of our women's lines.

Having identified the women's market as a particularly important new sector, we instituted a number of changes in this area of our business. We renovated the "UNITED ARROWS Yurakucho" store in Tokyo, with an enhanced line of women's fashions based on the "You Are So Beautiful" theme. We also turned our Shibuya Cat Street store into a store for UA Labo, women's-only merchandise under the name "Changes UNITED ARROWS", and we opened another new UA Labo called "ANOTHER EDITION".

"Changes UNITED ARROWS" offers current-season apparel with an emphasis on femininity. "ANOTHER EDITION", a label we originally wholesaled to department stores and specialty stores beginning in 1998, was finally established as a directly managed store. Once we fulfill our test-marketing objectives with these two stores, we eventually plan to establish each store as a new chain to further strengthen our presence in the women's market.

We reorganized and regrouped all of our stores based on the United Arrows' core models for store management and profitability. In addition, to better meet the needs of specific customer segments, we created three United Arrows divisions. The first is targeted at young adults, the second at young adults plus people with relatively larger budgets for apparel, and the third including the former group and highly trend-conscious people who dress in the latest fashions to differentiate oneself from others.

Additionally, we plan to open a "UNITED ARROWS Hiroshima" as the chain's 20th location in autumn 2001.

Green Label RELAXING

Green Label RELAXING

The Green Label Relaxing chain achieved, broad-based growth thanks to stronger name recognition and a shift in emphasis away from brand differentiation and toward women's lines.

Existing stores sales were robust. Format of the "Green Label RELAXING Shinjuku", the chain's model store for urban areas, have been sharply increasing compared to the previous year.

Targeting the huge demand developing from the offspring of baby-boomers and new families, many fashion business enterprises are participating in the market.

"Green Label RELAXING Funabashi" and "Green Label RELAXING IKSPIARI" were opened in the first half of the fiscal year, giving the chain five stores, each one with its own personalized character. By studying the customers at each store and developing a better grasp of their specific needs and wants, product development, marketing and store expansion strategies were all strengthened.

We continued to experiment with new ways to enhance the quality of customer service, merchandising and store environments, striving to deliver true satisfaction to a larger base of customers.

CHROME HEARTS

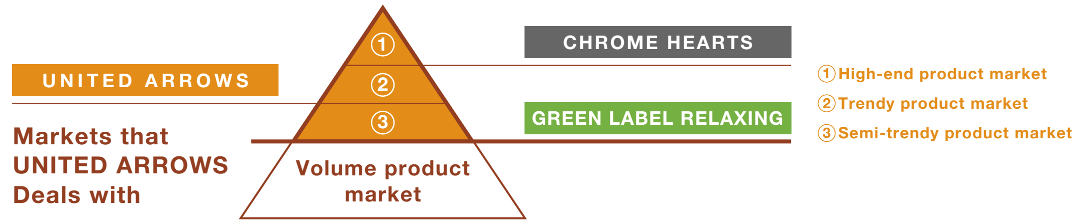
Chrome Hearts' first store opened, Tokyo, in December 1999. Although positioned in an upscale area of town, the store was given a low-profile location to allow it develop gradually on a solid footing. Roughly one year later, in the third quarter of fiscal 2001, the chain began to produce favorable sales after its name recognition skyrocketed.

"CHROME HEARTS OSAKA" was launched in January 2001 with a chic interior of ebony offset by tastefully coordinated black décor. Customers love to visit this luxurious, one-of-a-kind Chrome Hearts to shop for silver accessories, leatherwear, bags and smaller items in knits and denim.

The chain will expand at the rate of one new store every two years, moving into major cities nationwide with stand-alone shops.

CHROME HEARTS

Our Three Core Chains



UNITED ARROWS

The United Arrows is a chain of "Specialty Stores" retailing both original and select domestic and imported lines of fashionable clothing, accessories and other merchandise. Established in 1989, the chain is the main pillar of United Arrows Ltd.

United Arrows is a leader among Japan's Specialty Stores, a segment that has continued to achieve stready growth at a time when sales of clothing in general have suffered greatly from weak consumer spending. The chain has earned great popularity among trend-conscious people interested in dressing nicely, in the latest fashions, which we call the "Trendy product market." Focused originally on lines of business attire and casual wear for men, in recent years, United Arrows has expanded its lines for women, including clothing, bags and shoes, which have attracted great attention. United Arrows will increasingly expand its women's lines, which represent a market twice the size of that for men.

Over the medium term, the company intends to diversify the United Arrows chain by strengthening its original lines and establishing separate retail channels for each of the lines.

Green Label RELAXING

Green Labels Relaxing was set up in September 1999 to serve customers not directly targeted by the United Arrows chain. Its main focus encompasses moderately trendy business attire and casual wear for males and females in a broad range of age and consumer groups, even including children of fashion-conscious families, maternity wear, accessories and pet goods.

Green Label Relaxing offers a wide variety of basic yet fashionable, high-quality merchandise at reasonable prices. Original labels comprise about 75% of total merchandise. In addition, a carefully selected range of other trendy labels help to distinguish the Green Label Relaxing chain from competitors.

Five stores in the Kanto area centered on Tokyo make up the current chain. Despite the challenges of today's economic environment, locations are presently under consideration for new store openings.

CHROME HEARTS

The Chrome Hearts chain opened its first store in Tokyo's upscale Minami Aoyama district in December 1999. Prior to the opening, the exceptional quality of Chrome Hearts, an imported label, was promoted through extensive test marketing. A second store, "CHROME HEARTS OSAKA", opened in January 2001.

In addition, to fine silver accessories and leather products, the chain is adding other lines of quality merchandise, including jewelry and furniture. There are also plans to launch Chrome Hearts apparel in the foreseeable future, will eventually creating an entire Chrome Hearts world of fine products with high brand awareness and strong competitiveness in quality, design and service.

Financial Section

Contents

5-year Summary

Years ended March 31, 2001, 2000, 1999, 1998 and 1997

	Millions of Yen					Thousands of U.S. Dollars
	2001	2000	1999	1998	1997	2001
Sales	¥ 19,314	¥ 17,016	¥ 14,333	¥ 9,662	¥ 7,955	$ 155,891
Operating Income	1,631	2,378	2,503	1,051	823	13,170
Net Income	879	1,174	1,150	559	412	7,098
Total Assets	15,053	13,930	6,683	5,241	3,956	121,497
Shareholders' Equity	11,269	10,568	2,571	1,404	844	90,953
Number of Shares Issued (Share)	11,925,000	7,950,000	7,050,000	1,920	1,920	
Net Income per Share (Yen)	73	153	179	291,299	250,975	0.6 (in U.S. Dollars)
Shareholders' Equity per Share (Yen)	944	1,329	364	731,400	440,101	7.6 (in U.S. Dollars)
Capital Expenditures	1,111	3,638	894	731	464	8,972
Number of Stores	31	25	22	18	15	
(including number of UA Labos)	(5)	(3)	(5)	(3)	(1)	
Total store Area (m^2)	10,564	8,936	6,160	5,022	3,608	
Number of Employees	358	342	248	193	153	
Net Income						
to Total Assets (ROA) (%)	6.1	11.4	19.3	12.2	12.5	
Return on Equity (%)	8.1	17.9	57.9	49.7	80.8	
Shareholders' Equity Ratio (%)	74.9	75.9	38.5	26.8	21.3	
Total Assets Turnover (times)	1.3	1.2	2.1	1.8	2.0	
Inventory Turnover (times)	2.9	2.9	3.7	3.7	4.1	
Current Ratio (%)	178.9	203.5	90.2	74.5	75.0	
Fixed Assets Ratio (%)	76.6	71.2	120.6	179.3	192.2	

Note : Calculation based on the exchange rate of U.S. $1=¥123.9 (March 31, 2001).

Financial Review

Operating Results

(based on Japanese accounting standards)

Sales in fiscal 2001 (April 1, 2000 to March 31, 2001) came to 19,314 million yen, a year-on-year increase of 2,298 million yen (+13.5%). Although intensified competition and record-breaking summer heat coinciding with the launch of the fall-winter product line led to a 5.3% decline in existing-store sales, overall sales increased thanks to the opening of new stores in the UNITED ARROWS, Green Label RELAXING and CHROME HEARTS chains. Gross profit was 10,189 million yen, an increase of 746 million yen (+7.9%), although the gross profit ratio fell 2.7 points to 52.8%.

Operating expenses amounted to 8,557 million yen, up 1,492 million yen (+21.1%). The ratio of operating expenses to sales increased by 2.8 points to 44.3%. Although progress was made in the reduction of general administration expenses, sales fell short of expectations and did not keep pace with increased costs of opening new stores. As a result, operating income fell 746 million yen (-31.4%) to 1,631 million yen.

Net income before taxes came to 1,543 million yen, a decline of 532 million yen (-25.7%). Other expenses (net) of 88 million yen included exchange losses of 24 million yen, losses on sale and disposal of fixed assets of 33 million yen, and provision of allowance for doubtful accounts of 62 million yen.

Net income came to 879 million yen, a decline of 295 million yen (-25.1%). This was due to a 173 million yen reduction in current income taxes and a 64 million yen decline in deferred income taxes.

The company aims at a consistent dividend payout ratio of 10%, the annual dividend was set at 11 yen per share. Total current year dividends of 131 million yen included interim payment of 59 million yen and final payment of 71 million yen which was not paid at March 31, 2001.

Financial Position

Total assets as of March 31, 2001 stood at 15,053 million yen, an increase of 1,123 million yen (+8.1%).

Total current assets amounted to 6,421 million yen, an increase of 11 million yen (+0.2%). Among major current assets, time deposits declined by 185 million yen (-40.5%) and marketable securities fell by 301 million yen (-33.4%), but notes and accounts receivable-other increased by 535 million yen (+45.1%). This was partly to due a bank holiday falling on the last day of the fiscal year, which delayed the collection of receivables due at the end of the month.

Total tangible fixed assets came to 4,934 million yen, an increase of 287 million yen (+6.2%), which was the result of opening new stores and expanding existing stores. Total intangible fixed assets amounted to 627 million yen, an increase of 65 million yen (+11.7%), due to the acquisition of software. The 759 million yen (+32.9%) increase in investments and other assets was mainly due to increase in long-term lease deposits for new store open, existing store expansions and relocation headquarters.

Current liabilities totaled to 3,590 million yen, an increase of 439 million yen (+14.0%). A major factor was increase in trade notes and accounts payable of 481 million yen (+31.0%), because payments were delayed by the year-end bank holiday. Notes and accounts payable-other declined by 343 million yen (-33.4%), reflecting unpaid expenses for new store construction held at the end of the previous fiscal year. Another factor was an increase of 159 million yen in accrued consumption taxes (the balance was zero at the end of the previous year due to tax refunds).

Total long-term liabilities amounted to 194 million yen, a decline of 16 million yen (-7.9%) from the previous year-end.

Total equity came to 11,269 million yen, an increase of 700 million yen (+6.6%), due to net income of 879 million yen and a 178 million yen reduction in profit appropriation.

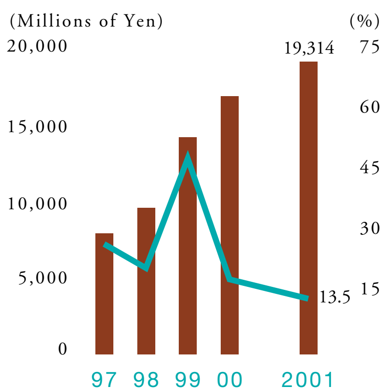
Cash Flows

Cash flows from operating activities totaled 1,737 million yen. Inflows included net income before taxes of 1,543 million yen, depreciation of 349 million yen, amortization of intangible fixed assets and long-term prepaid expenses amounting to 134 million yen. Outflows mainly included income tax payments of 721 million yen.

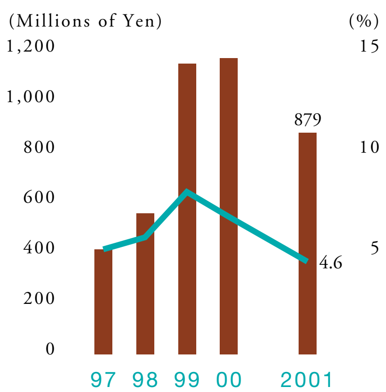
Looking at cash flow from investing activities, total capital investment for the year produced a cash outflow of 1,904 million yen. New store openings and existing store expansions resulted in outflows of 1,088 million yen for the purchase of tangible fixed assets and 565 million yen for guarantee deposits. Acquisition of other assets, including software, produced a cash outflow of 386 million yen. A reduction of time deposits produced a cash inflow of 185 million yen.

Cash flows from financing activities showed a net outflow of 178 million yen for dividends payments.

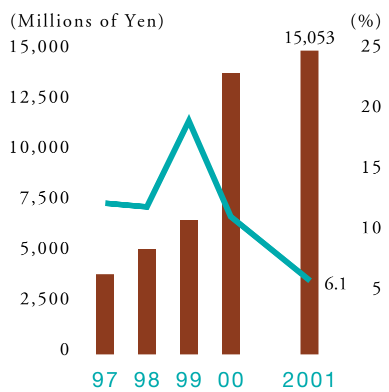
Cash and cash equivalents at end of the year stood at 871 million yen, a reduction of 346 million yen from the previous year-end.



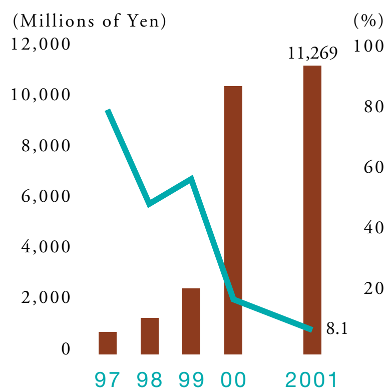
Sales and Growth Ratio



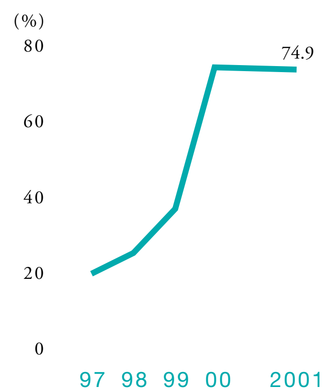
Net Income and Net Income to Sales



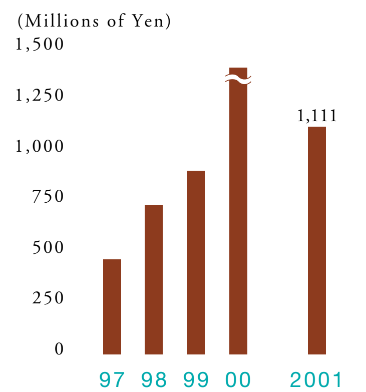
Total Assets and Net Income to Total Assets



Shareholders' Equity and Return on Equity



Shareholders' Equity Ratio



Capital Expenditures

Balance Sheets

March 31, 2001 and 2000

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001
ASSETS			
Current Assets			
Cash and deposits	¥ 271,601	¥ 316,657	$ 2,192
Time deposits	273,009	459,000	2,203
Marketable securities (Note 4)	600,000	901,378	4,843
Notes and accounts receivable-			
Trade	89,300	138,324	721
Other	1,725,505	1,189,558	13,927
Allowance for doubtful accounts	—	(7,819)	—
Inventories (Note 5)	3,165,258	3,244,719	25,547
Deferred tax assets (Note 7)	70,914	54,372	572
Others	225,752	113,885	1,822
Total current assets	6,421,343	6,410,076	51,827
Fixed Assets			
Tangible Fixed Assets			
Lands	1,454,684	1,454,684	11,741
Buildings and structures	3,734,427	3,287,239	30,141
Furniture and fixtures	608,955	422,345	4,915
Vehicles	267	267	2
Construction in progress	—	15,527	—
Accumulated depreciation	(863,684)	(532,441)	(6,971)
Total tangible fixed assets	4,934,649	4,647,620	39,828
Intangible Fixed Assets			
Software	460,780	395,544	3,719
Lease tenant rights	138,165	138,165	1,115
Others	28,253	27,674	228
Total intangible fixed assets	627,199	561,383	5,062
Investments and Other Assets:			
Investments in securities (Note 4)	49,412	—	399
Long-term lease deposits	2,608,306	2,042,427	21,052
Long-term prepaid expenses	288,353	107,309	2,327
Deferred tax assets (Note 7)	100,280	56,495	809
Others	95,094	105,291	768
Allowance for doubtful accounts	(71,100)	(581)	(574)
Total investment and other assets	3,070,347	2,310,942	24,781
Total assets	¥ 15,053,539	¥ 13,930,023	$ 121,497

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

Amounts under one thousand yen have been rounded down.

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Notes and accounts payable-			
Trade	¥ 2,035,649	¥ 1,554,193	$ 16,430
Other	684,383	1,028,288	5,524
Income taxes payable	291,634	288,544	2,354
Consumption tax payable	159,776	—	1,290
Accrued bonus	204,197	214,173	1,648
Accrued expenses	19,464	17,137	157
Others	194,916	48,016	1,573
Total current liabilities	3,590,022	3,150,352	28,975
Long-Term Liabilities:			
Accrued retirement benefit	123,730	111,788	999
Long-term deferred revenue	—	12,972	—
Others	70,668	86,301	570
Total long-term liabilities	194,398	211,061	1,569
Total liabilities	3,784,420	3,361,413	30,544
Shareholders' Equity:			
Common stock: ¥50 per share (Note 10)	3,030,000	3,030,000	24,455
Authorized: 28,200,000 shares			
Issued: 7,950,000 shares at March 31, 2000			
11,925,000 shares at March 31, 2001			
Additional paid-in-capital	4,095,600	4,095,600	33,056
Legal reserve	23,880	5,992	193
Retained earnings	4,119,638	3,437,016	33,250
Total shareholders' equity	11,269,118	10,568,609	90,953
Total liabilities and shareholders' equity	¥ 15,053,539	¥ 13,930,023	$ 121,497

Statements of Income

Years ended March 31, 2001 and 2000

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001
Sales	**¥ 19,314,895**	¥ 17,016,842	**$ 155,891**
Cost of sales	**9,125,293**	7,573,618	**73,650**
Gross profit	**10,189,601**	9,443,223	**82,241**
Operating expenses	**8,557,793**	7,065,176	**69,070**
Operating income	**1,631,808**	2,378,047	**13,170**
Other income (expenses):			
Interest income	**2,812**	5,268	**23**
Interest expense	**(2,110)**	(3,108)	**(17)**
Exchange losses	**(24,119)**	(100,479)	**(195)**
Dividends income	**12,160**	3,323	**98**
Rental income, net	**19,608**	14,212	**158**
Gain (loss) on sale and disposal of fixed assets, net	**(33,716)**	(66,850)	**(272)**
Reversal (provision) of allowance for doubtful accounts	**(62,700)**	942	**(506)**
Reversal (provision) of retirement benefit expenses	**18,120**	(99,852)	**146**
Others, net	**(18,370)**	(55,200)	**(148)**
	(88,314)	(301,745)	**(713)**
Net income before taxes	**1,543,493**	2,076,302	**12,458**
Income taxes (Note 7)			
- Current	**724,436**	897,816	**5,847**
- Deferred	**(60,327)**	3,937	**(487)**
	664,109	901,754	**5,360**
Net income	**879,384**	1,174,548	**7,098**
Retained earning beginning balance	**3,305,841**	2,147,663	**26,682**
Prior year adjustment for deferred taxes	**—**	114,805	**—**
Interim dividend payment	**(59,625)**	—	**(481)**
Interim Legal reserve	**(5,962)**	—	**(48)**
Unappropriated retained earnings for the year	**¥ 4,119,638**	¥ 3,437,016	**$ 33,250**

Amounts under one thousand yen have been rounded down.

	In exact Yen		In exact U.S. Dollars
Per share:			
Net income	**¥ 73.74**	¥ 153.43	**$ 0.595**
Cash dividends (Note 8)	**11.00**	15.00	**0.089**

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

Statements of Changes in Shareholders' Equity

Years ended March 31, 2001 and 2000

	Number of common stock	Thousands of Yen: Common stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance at March 31, 1999	7,050,000	¥ 352,500	¥ 5,100	¥ —	¥ 2,213,581
Net income for the year 2000	—	—	—	—	1,174,548
Effect of retroactive recognition of deferred tax	—	—	—	—	114,805
New share issued	900,000	2,677,500	4,090,500	—	—
Prior year final appropriation					
-Cash dividends	—	—	—	—	(59,925)
-Addition in legal reserve	—	—	—	5,992	(5,992)
Balance at March 31, 2000	7,950,000	3,030,000	4,095,600	5,992	3,437,016
Net income for the year 2001	—	—	—	—	879,384
Stock split (Note 10)	3,975,000	—	—	—	—
Prior year final appropriation					
-Cash dividends	—	—	—	—	(119,250)
-Addition in legal reserve	—	—	—	11,925	(11,925)
Current year interim appropriation					
-Cash dividends	—	—	—	—	(59,625)
-Addition in legal reserve	—	—	—	5,962	(5,962)
Balance at March 31, 2001	11,925,000	¥ 3,030,000	¥ 4,095,600	¥ 23,880	¥ 4,119,638

Amounts under one thousand yen have been rounded down.

	Number of common stock	Thousands of U.S. Dollars: Common stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance at March 31, 2000	7,950,000	$ 24,455	$ 33,056	$ 48	$ 27,740
Net income for the year 2001	—	—	—	—	7,098
Stock split (Note 10)	3,975,000	—	—	—	—
Prior year final appropriation					
-Cash dividends	—	—	—	—	(962)
-Addition in legal reserve	—	—	—	96	(96)
Current year interim appropriation					
-Cash dividends	—	—	—	—	(481)
-Addition in legal reserve	—	—	—	48	(48)
Balance at March 31, 2001	11,925,000	$ 24,455	$ 33,056	$ 193	$ 33,250

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

Statements of Cash Flows

Years ended March 31, 2001 and 2000

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001
Cash flows from operating activities:			
Net income before taxes	**¥ 1,543,493**	¥ 2,076,302	**$ 12,458**
Depreciation	**349,822**	227,525	**2,823**
Amortization of intangible fixed assets	**113,083**	33,479	**913**
Amortization of long-term prepaid expenses	**21,837**	6,199	**176**
(Decrease)/increase in accrued bonuses	**(9,975)**	41,355	**(81)**
Increase in accrued retirement benefit	**11,941**	111,788	**96**
Increase/(decrease) in allowance for doubtful accounts	**62,700**	(942)	**506**
Interest and dividend income	**(14,973)**	(8,591)	**(121)**
Interest expense	**2,110**	3,108	**17**
Loss on disposal of tangible fixed assets	**33,716**	71,958	**272**
Loss/(gain) on sale of tangible fixed assets	**380**	(595)	**3**
Increase in accounts receivable	**(410,635)**	(155,061)	**(3,314)**
Decrease/(increase) in inventories	**79,460**	(1,292,692)	**641**
Increase in other current assets	**(67,811)**	(66,438)	**(547)**
Increase in accounts payable	**481,455**	184,485	**3,886**
Increase/(decrease) in other current liabilities	**254,682**	(21,198)	**2,056**
Decrease in other long-term liabilities	**(5,552)**	(42,820)	**(45)**
Subtotal	**2,445,736**	1,167,862	**19,740**
Receipt of interest and dividend	**14,973**	8,591	**121**
Payment of interest	**(2,110)**	(5,270)	**(17)**
Payment of income taxes	**(721,347)**	(1,618,570)	**(5,822)**
Net cash from/(used in) operating activities	**1,737,251**	(447,387)	**14,021**
Cash flows from investing activities:			
Deposit to time deposits	**(213,009)**	(459,000)	**(1,719)**
Draw from time deposits	**399,000**	10,000	**3,220**
Increase of staff loan	**(316)**	(340)	**(3)**
Purchase of securities	**(49,412)**	—	**(399)**
Net guarantee deposits paid	**(565,879)**	(1,047,731)	**(4,567)**
Purchase of other investments	**(386,350)**	(621,672)	**(3,118)**
Proceeds from sale of tangible fixed assets	**13**	1,700	**0**
Purchase of tangible fixed assets	**(1,088,856)**	(2,781,113)	**(8,788)**
Net cash used in investing activities	**(1,904,811)**	(4,898,158)	**(15,374)**
Cash flows from financing activities:			
Decrease in short-term borrowings	**—**	(600,000)	**—**
Proceeds from issuance of stock	**—**	6,768,000	**—**
Dividends paid	**(178,875)**	(59,925)	**(1,444)**
Net cash (used in)/from financing activities	**(178,875)**	6,108,075	**(1,444)**
Effect of exchange rate changes on cash and cash equivalents	**—**	—	**—**
Net (decrease)/increase in cash and cash equivalents	**(346,434)**	762,529	**(2,796)**
Cash and cash equivalents at beginning of the year	**1,218,035**	455,506	**9,831**
Cash and cash equivalents at end of the year (Note 3)	**¥ 871,601**	¥ 1,218,035	**$ 7,035**

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

Amounts under one thousand yen have been rounded down.

Notes to Financial Statements

Years ended March 31, 2000 and 2001

1. Major Policies in Preparing Financial Statements

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

The Company maintains its accounting records in yen. The dollar amounts included in the financial statements and notes thereto represent the arithmetical results of translating yen to dollars on a basis of ¥123.9 = U.S.$1, the approximate current rate of exchange prevailing on March 31, 2001. The inclusion of such amounts is solely for the convenience of readers outside Japan and not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at the given rate or any other rate.

2. Significant Accounting Policies

(1) Cash and cash equivalents

Cash and cash equivalents included in statements of cash flows are composed of cash in hand, bank deposits able to be withdrawn on demand and highly liquid investments purchased with initial maturities of three months or less and which represent low risk of fluctuation in value.

(2) Translation of foreign currencies

In prior year, the foreign currency transactions were translated using foreign exchange rates prevailing at the respective transaction dates. Long-term receivable and payables denominated in foreign currencies were generally translated at the historical rates prevailing at the transaction dates. Foreign currencies and short-term receivables and payables denominated in foreign currencies were translated into yen at the current exchange rate prevailing at the respective balance sheet dates. Resulting translation gains or losses were included in net income for the year.

In current year, the Company adopted the new Japanese accounting standard for the translation of foreign currency. Under the new accounting standard, all monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated at the foreign exchange rates prevailing at the respective balance sheet dates.

(3) Marketable securities and Investments in securities

All securities with or without quoted market values are stated at cost by the moving-average method.

(4) Inventories

Inventories consist of merchandise and supplies. Merchandise are stated at cost based on the moving average method, while supplies are stated at cost based on the last invoice method.

(5) Property and Equipment

Depreciation of property and equipment except for building is computed by the declining-balance method at rates based on the estimated useful lives of assets.

Depreciation of building is computed by the straight-line method over the estimated useful lives of the assets.

Useful lives of major categories are as follows:

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

(6) Intangible assets and Other assets

Intangible assets mainly consist of "software for internal use". Intangible assets are amortized on straight-line basis. Especially, "software for internal use" is amortized over 5 years.

Long-term prepaid expenses are amortized on straight-line basis. Stock issuance expenses are charged to expense as incurred.

(7) Allowance for doubtful accounts

The balance of allowance for doubtful accounts consists of general reserve and specific reserve. General reserve is provided upon past loss experience. Specific reserve is provided to cover estimated losses of specific doubtful accounts.

(8) Accrued retirement benefit

The Company had two kinds of pension plans for employees and officers respectively at March 31, 2000.

Concerning the employees' pension plan, the pension fund- 'World Pension Fund' was liquidated on March 23, 2001, and related plan assets would be allocated to all plan participants. The Company further decided that current pension plan for employees would be terminated on the same date. As a result, current year employee's retirement expense of ¥134,846 thousand, which had been previously recorded was reversed, no accrued retirement benefit for employees existed at March 31, 2001.

Concerning the officers' pension plan, the obligation for the severance indemnity benefits is provided for through accruals, which is recorded at 100% of pension obligation, on assumption that all officers had retired at the respective balance sheet dates.

(9) Income taxes

Deferred income taxes are recorded to reflect the expected future tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, and are measured by applying currently enacted tax laws.

(10) Consumption tax

The consumption tax is imposed at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions).

The consumption taxes paid for purchase and consumption tax withheld from sales are excluded from expenses and sales amount. Net consumption tax payable (receivable) is recorded as current liabilities (assets).

(11) Accounting for hedge

Effective from the year ended March 31, 2001, the Company adopted the new Japanese accounting standard for financial instruments, which is effective for periods beginning on or after April 1, 2000.

Under the new standard, all derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments".

Concerning accounting for hedge, gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

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

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

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

(12) Accounting for leases

Finance leases other than those, under which ownership of the leased assets is regarded being transferred to lessee, are accounted for as ordinary operating leases.

(13) Impact of changes in accounting standards

As a result of change in evaluation method of securities, calculation of allowance for doubtful accounts, and accounting for hedge, comparing with the prior year, loss before taxes increased by ¥29,700 thousand.

Especially, concerning evaluation method of securities, the Company states all securities at cost, which is an admitted alternative accounting treatment for current year, the transitional period, according to new Japanese accounting standard. If fair value had been adopted in evaluation of those securities with market quotation available, an evaluation loss of ¥5,735 thousand and deferred tax assets of ¥4,153 thousand should have been recorded.

(14) Net Income and Dividends 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, appropriately adjusted for subsequent stock split effects. Cash dividends per share shown for each year in the statements of income represent dividends declared as applicable to the respective period.

3. Cash flow information

Cash and cash equivalents at March 31, 2001 and 2000 consist of:

March 31,	Thousands of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Cash and deposits	¥ 271,601	¥ 316,657	$ 2,192
Marketable securities	600,000	901,378	4,843
Cash and cash equivalents	¥ 871,601	¥ 1,218,035	$ 7,035

4. Marketable Securities and Investments in Securities

Marketable securities represent investment trust of ¥600,000 thousand ($4,843 thousand) at March 31, 2001. Investments in securities represent stock of ¥49,412 thousand ($399 thousand) as of March 31, 2001.

5. Inventories

Inventories as of March 31, 2000 and 2001 consist of the following:

March 31,	Thousands of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Men's wear	¥ 1,349,128	¥ 2,178,953	$ 10,889
Women's wear	957,551	941,786	7,728
Silver & Leather	742,340	—	5,991
Others	104,886	117,480	847
Supplies	11,351	6,499	92
	¥ 3,165,258	¥ 3,244,719	$ 25,547

6. Derivative Financial Instruments

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

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

The derivative transactions of the Company for the years ended March 31, 2001 and 2000 are all for hedge purposes. Derivative transactions as of March 31, 2000 are as follows:

(1) Forward contract

For the year ended March 31, 2000	Thousands of Yen		
	Notional Amount	Market Value	Unrealized Gain (loss)
To buy U.S. dollars	¥ 11,631	¥ 11,722	¥ 91

(2) Coupon swap

For the year ended March 31, 2000	Thousands of Yen		
	Notional Amount	Market Value	Unrealized Gain (loss)
Receive U.S. dollars, pay Yen	¥ 1,761,750	¥ (476,807)	¥ (476,807)
Notional U.S. dollars principal	($60 million)		
Notional Yen principal	(¥8,743 million)		

7. Income taxes

Income taxes in Japan applicable to the Company for the years ended March 31, 2001 and 2000 consist of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

For the year ended March 31,	Rate on taxable income	
	2001	2000
Standard rates:		
Corporate income tax	30.0%	30.0%
Enterprise tax	10.0%	10.0%
Resident income tax	20.6%	20.6%
Statutory tax rate in effect to reflect deduction of enterprise tax on payment	42.0%	42.0%

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

March 31,	Thousands of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Deferred Tax Assets arising from:			
Non-deductible officers' retirement allowance	¥ 51,966	¥ 46,951	$ 419
Depreciation in excess of tax limit	22,001	23,743	178
Non-deductible enterprise tax payable	23,981	22,999	194
Accrued bonus in excess of tax limit	41,744	12,837	337
Allowance for doubtful accounts in excess of tax limit	26,257	—	212
Others	5,243	4,336	42
	171,194	110,867	1,382
Less: valuation reserve	—	—	
Total deferred tax assets	¥ 171,194	¥ 110,867	$ 1,382

8. Appropriation of Retained Earnings and Legal Reserve

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

The approved appropriation plan at shareholders' meeting on June 23, 2001 is as follows:

Year ended March 31,	Thousands of Yen	Thousands of U.S. Dollars
	2001	2001
Unappropriated retained earnings for the year	¥ 4,119,638	$ 33,250
Appropriation of retained earnings	78,705	635
Transfer to legal reserve	7,155	58
Transfer to dividends	71,550	577
Earnings carry-forward to the next year	¥ 4,040,933	$ 32,614

9. Leases

The Company uses certain furniture, fixtures and software under finance lease contracts. As all such finance lease contracts do not transfer the ownership of the leased property to the lessee, they are accounted for as ordinary operating leases. Pro forma information regarding the leased property for the years ended March 31, 2001 and 2000 were as follows:

March 31, 2001	Thousands of Yen			Thousands of U.S. Dollars
	Costs	Accumulated Depreciation	Carrying Amount	Carrying Amount
Furniture and fixtures	¥ 454,676	¥ 238,853	¥ 215,822	$ 1,742
Software	146,177	106,779	39,398	318
	¥ 600,853	¥ 345,632	¥ 255,220	$ 2,060

March 31, 2000	Thousands of Yen		
	Costs	Accumulated Depreciation	Carrying Amount
Furniture and fixtures	¥ 477,086	¥ 277,641	¥ 199,445
Software	181,947	114,766	67,181
	¥ 659,034	¥ 392,408	¥ 266,626

March 31,	Thousands of Yen		Thousands of U.S. Dollars
	2001	2000	2001
The scheduled maturities of future lease payments, on such lease contracts were as follows:			
Due within one year	¥ 135,508	¥ 113,852	$ 1,094
Due over one year	132,022	166,999	1,066
	¥ 267,530	¥ 280,851	$ 2,159
Lease rental expenses for the year	¥ 147,325	¥ 123,267	$ 1,189

The amounts of acquisition costs and future minimum lease payments under finance leases included the imputed interest expense portion.

Depreciation expenses, which are not reflected in the accompanying statements of income, computed by the straight-line method, would be ¥138,990 thousand ($1,122 thousand) and ¥113,116 thousand for the years ended March 31, 2001 and 2000, respectively.

10. Stock Split

The Company split up of one stock to 1.5 stocks on May 22, 2000. As a result, the number of issued shares increased from 7,950,000 on March 31, 2000 to 11,925,000 on March 31, 2001.

11. Subsequent Events

(1) Increase of Authorized Shares

On June 23, 2001, the Shareholders' meeting passed a resolution in modification of Articles of Corporation, to increase the number of authorized shares from 28,200,000 to 47,700,000.

(2) Stock Option Plan

On May 17, 2001, the Board of Directors' meeting passed a resolution to terminate the existing stock option plan, which was introduced on June 24, 2000 by Shareholders' meeting resolution.

On June 23, 2001, the Shareholders' meeting passed a resolution to introduce a new stock option plan.

No exercise of option actually occurred under both two plans.

Summary of the new stock option plan is as follows:

Type of share:	Common stock
Number of share:	100 to 5,000 share per person; Less than 211,700 share in total
Grant price:	1.025 multiplied by the higher of average market price of the previous month of the grant date, or, the market price on the grant date.
Effective period:	July 1, 2003 to June 30, 2006

(3) Sales of the Former Headquarters Building

On June 14, 2001, the Board of Directors' meeting passed a resolution to sell land, building and structures of the former headquarters.

According to the real property transfer agreement entered on June 14, 2001, the transfer of title was scheduled on September 5, 2001. The real property would be sold on an amount of ¥1,141 million, which would result in non-operating gain of ¥325 million in the year ended March 31, 2002.

Report of Independent Accountants

PRICEWATERHOUSECOOPERS

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

Report of Independent Accountants

June 25, 2001

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

In our opinion, the accompanying balance sheets and the related statements of income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of UNITED ARROWS LTD. at March 31, 2001 and 2000, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in Japan. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in Japan which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

As described in Note 2, the Company has adopted its method of translation of foreign currencies, classification and evaluation of securities in the year ended March 31, 2001, according to new Japanese Accounting Standards effective for the year ended March 31, 2001.

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

PricewaterhouseCoopers

Tokyo, Japan

(Notice to readers)

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

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

Corporate Data

(as of March 31, 2001)

Official Name	UNITED ARROWS LTD.
Headquarters	2-31-12 Jingumae, Shibuya-ku, Tokyo, Japan 150-0001
Telephone	+81-3-3479-8192
URL	http://www.united-arrows.co.jp/
Established	October 2, 1989
Capital	¥3,030 million
President and CEO	Osamu Shigematsu
Number of Employees	358
Average Age of Employees	28.7
Business Outline	Planning and Sales of Men's and Women's Apparel, Accessories and Other Products
Auditor	ChuoAoyama Audit Corporation
Sales Composition	Men's 42.6% Women's 38.0% Silver&Leather 13.4% *Miscellaneous 1.8% Others 4.2%

*including kitchenware, linen goods and so on.

<Board of Directors and Corporate Auditors>

President and CEO	Osamu Shigematsu
Executive Director	Tetsuya Iwaki
Executive Director	Koichi Mizunoya
Executive Director	Hirofumi Kurino
Director	Katsuhito Sugioka
Director	Hiroshi Takanashi
Director	Hirotoshi Hatasaki
Standing Corporate Auditor	Toshifumi Kusunoki
Corporate Auditor	Sadaaki Kitagawa
Corporate Auditor	Sunao Onuma
Corporate Auditor	Hirohisa Tanaka

(as of June 23, 2001)

Corporate History

Oct. 1989
Founded UNITED ARROWS LTD. in Tokyo.

July 1990
Opened Shibuya Store, UNITED ARROWS' first store, in Tokyo.

Nov. 1990
Opened UNITED ARROWS Fukuoka Store in southern Japan city of Fukuoka, to begin nationwide expansion.

Oct. 1992
Opened UNITED ARROWS Harajuku Store in Tokyo as the flagship store.

Mar. 1993
Opened UNITED ARROWS Shinsaibashi Store in Osaka.

July 1998
Built and moved into new HQ.

Feb. 1999
Opened UNITED ARROWS Yokohama Store.

July 1999
Listed stock over the counter.

Sept. 1999
Launched Green Label RELAXING and opened Shinjuku and Machida stores in downtown Tokyo and Tokyo suburb, respectively.

Dec. 1999
Launched CHROME HEARTS and opened Tokyo Store in Minami Aoyama district.

Mar. 2000
Opened UNITED ARROWS Ikebukuro Store in Tokyo and Green Label RELAXING Kohoku Store in Yokohama.

Apr. 2000
Opened Green Label RELAXING Funabashi Store in Tokyo suburb.

July 2000
Green Label RELAXING opened new store in IKSPIARI, a commercial establishment of Urayasu, Chiba Prefecture.

Aug. 2000
Opened UNITED ARROWS Sapporo Store in Hokkaido.

Jan. 2001
CHROME HEARTS opened second store in this business chain, CHROME HEARTS OSAKA, in downtown Osaka.

Feb. 2001
Moved to new address to place all headquarters functions under one roof.

Shareholders' Information

(as of March 31, 2001)

Total authorized shares
28,200,000

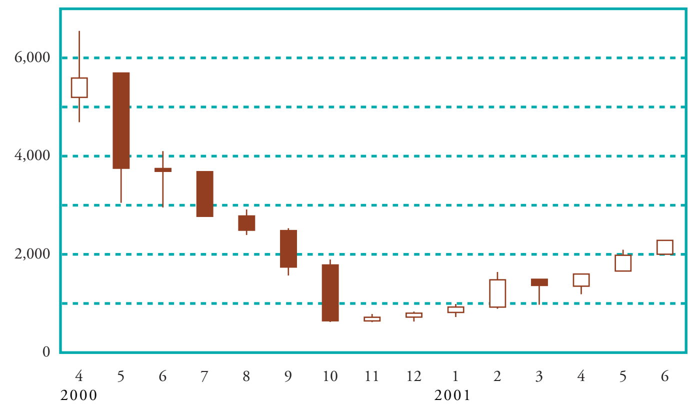
Shares of common stock issued
11,925,000

Shareholders
1,587

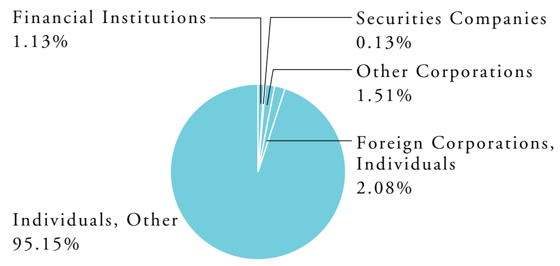
Major shareholders

	Number of shares held	Ratio of total shares outstanding (%)
World. Co., Ltd.	3,178,500	26.65
Hirotoshi Hatasaki	2,003,500	16.80
Osamu Shigematsu	1,150,500	9.64
Tetsuya Iwaki	573,000	4.80
Koichi Mizunoya	573,000	4.80
Hirofumi Kurino	573,000	4.80
Katsuhito Sugioka	573,000	4.80
Japan Trustee Services Bank, Ltd.	445,800	3.73
State Street Bank and Trust Company	270,700	2.27
The Chase Manhattan Bank, N.A. London	150,200	1.25

Stock Prices



Breakdown of Shareholders



Breakdown of Shareholders by Size