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

Philosophy of UNITED ARROWS Group

MAKE YOUR REAL STYLE

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

I sincerely appreciate your continued support for our future efforts.

June 2003

Osamu Shigematsu
President and CEO

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

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

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

In addition, we started implementing “full-scale structural reforms — drastic revision of every business operation within the Company” in the latter half of the year. These reform measures were primarily intended to (1) streamline our business operation or allocate additional staff in the area where they were most needed by clarifying every business process flow in a manner fully comprehensible to our employees, and (2) promote understanding and cooperation across business units by increasing pan-departmental projects to realize a collaborative procurement, sales and product management.

Currently, managers are playing a key role in advancing our structural reforms, but hopefully all of our employees will become involved in this effort soon. This is crucial to our future, since I believe that the more employees participate in the reform process, the more we will benefit from reform promoters with an innovative spirit for the next generation.

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

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

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

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

As for ”product (merchandise),” our steady and extensive reform measures appear to have been gradually enhancing our product value over the last two years, as mentioned in the previous annual report. We closely scrutinized all activities in the Merchandise Department and allocated additional staff in the areas where they were most needed. As a result, we succeeded in establishing a more precise and reliable hypothesis-verification-adjustment process, with tighter-knit hypothesizes as well as subsequent adjustments to the initial plan or carrying out the latter plan for follow-ups. Moreover, by reviewing the timing of our initial product introduction and subdividing our timetable (within the season) for product marketing, we strived to ensure ample product availability to guarantee our customers an opportunity to purchase ”what they want, when they want it.” We have also been making sure that our customers’ wants and needs, clearly understood by our sales staff, are forwarded to the Merchandise Department for review at the weekly meeting, so that our customers’ voices will be reflected in our supplemental plan for the current season and the product planning for the coming season. Those of our retail stores where we can directly communicate with our customers on a daily basis are a treasure trove of information for all our questions. Since our establishment, we have taken a store-oriented business approach. Based on our own experience, we know that any product planning that neglects retail stores or ignores customers’ voices will result in failure. Our success today is not attributable to any extraordinary accomplishment, but is rather the sum total of our daily activities that are steadily being improved. As for ”ambience (store)” specifically for the United Arrows business chain, we have invested in enlarging or remodeling the existing stores, so that we can continue offering our customers exciting and comfortable stores. We always spend pleasant time reviewing the location and the interior, as well as the exterior design of each new store to guarantee customer satisfaction in all our stores, including the UA Labs (text-marketing store). Along with ”person” and ”product,” ”ambience” is an important part of our business, as it can provide our customers with a sense of comfort and satisfaction during their shopping. Therefore, it is essential for us to continue our active investment in stores in order to achieve steady and long-term growth.

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

You must feel pressured to achieve good business results again for the coming year, after experiencing favorable results over the past two years. Where is your main focus in the coming fiscal year (the 15th term) ending in March 2004? I always have a certain sense of crisis, but not pressure. It is important for us to be the way we are. We would like to steadily advance ourselves, maintaining a broad perspective and being attentive towards all possibilities. One of our biggest projects for this term is a large-scale renovation of our United Arrows Harajuku store. This is our flagship store and it plays a crucial role in maintaining and enhancing customer loyalty toward our other stores, as well as our company. It is a worldwide tendency that retailers boasting high store loyalty operate very attractive flagship stores, and significantly invest in erecting and maintaining them. A decade has already passed since we opened our Harajuku store. Considering our ideal level of store loyalty and even corporate loyalty for the next decade, we decided to substantially invest in renovating our flagship store. We are confident that this renovation will contribute to our earnings in the long run.

Also, we will further advance the structural reforms that I mentioned at the beginning. Although our business has been steadily growing, we cannot afford to discontinue our efforts by simply being contented with the current conditions. Indeed, we still have many pending issues that we need to work on. In addition, the structural reforms underway have revealed the gap between our goal and the reality. We should make sure that we build a foundation for our business for the next generation, involving all our employees in this reform process. “UNITED ARROWS will have no future without succeeding in its structural reforms” — that was my resolution statement as President and CEO of the Company, when we initially implemented our structural reforms. Now, I am even more firmly determined to complete this crucial step for the future.

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

“He navigates, I drive.”

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

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

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

Encounter with Osamu Shigematsu

I came to know Osamu Shigematsu when I was working part-time at the first BEAMS store. He was a store manager and buyer, while I, then 23 years old, was a sales attendant. In those days, you could hardly imagine that a buyer, a star player in the lifestyle-oriented store, we wanted to assist and learn from.

In 1981, Mr. Shigematsu and I left BEAMS, along with Keiichi Minoura and Hirofumi Kurino (both serving as Directors at present). As Mr. Shigematsu had decided to establish a new company, we were working part-time at the first BEAMS store. He was a store manager and buyer, while I, then 23 years old, was a sales attendant. In those days, you could hardly imagine that a buyer, a star player in the lifestyle-oriented store, we wanted to assist and learn from.

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Interview with COO

October 1953

Born in Tokyo

April 1974

Part-time sales attendant at Miura & Son’s

April 1977

Full-time employee of BEAMS

Organized opening of a new retail store in Shibuya

1981

Director of International Gallery BEAMS

1989

August

Left BEAMS

October 1989

Participated in establishing a new company — UNITED ARROWS LTD.

Managing Director; General Manager, Merchandising Development Dept.

April 2000

Managing Director; General Manager, Merchandising Control Dept.

February 2002

Managing Director; General Manager, Marketing Dept.

February 2003

Appointed as Executive Vice President and COO

Tetsuya Iwaki

Executive Vice President and COO

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

(1) Total health

(2) Following the basics

(3) Agility

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

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

Tetsuya Iwaki

Executive Vice President and COO

Personal History

1974

Part-time sales attendant of Miura & Son’s

1976

Part-timer at the first BEAMS store

1977

April

Store manager of BEAMS F

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

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

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

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

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

That was the beginning of UA: an enterprise founded by these four original members, with five others joining subsequently.

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

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

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

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

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

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

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

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

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Participated in establishing a new company — UNITED ARROWS LTD.

Managing Director; General Manager, Merchandising Development Dept.

April 2000

Managing Director; General Manager, Merchandising Control Dept.

July 2001

Managing Director; General Manager, Merchandising Control Dept., and Marketing Dept.

February 2002

Managing Director; General Manager, Marketing Dept.

February 2003

Appointed as Executive Vice President and COO

Tetsuya Iwaki

Executive Vice President and COO
Osamu Shigematsu
President and CEO
As CEO since the Company’s beginning, he leads the UNITED ARROWS Group, creating management policies and a long-term corporate vision.

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

Koichi Mizunoya
Managing Director, General Manager, Human Development Department
Responsible for creating a corporate environment that can provide our customers with maximum satisfaction, while managing human resources in the Company.

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

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

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

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

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

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

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

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

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

Sales by Category

(Millions of Yen)
- Men's
- Silver & Leather
- Women's
- Others

Sales by Chain *1, 5

- UNITED ARROWS
- GREEN LABEL RELAXING
- CHROME HEARTS
- Others

Sales by Category

(*%)  
- Miscellaneous 1.3%
- Silver & Leather 3.5%
- Men's 43.2%
- Women's 46.8%

Total Floor Space and Number of Stores

- Total Floor Space: Number of Stores (m2)
- Men's
- Women's
- Silver & Leather
- Miscellaneous

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

2002 2003
- 1st half 2nd half total 1st half 2nd half total

UNITED ARROWS 131.4 152.2 141.5 133.6 115.4 124.1
GREEN LABEL RELAXING 199.4 166.5 180.8 170.1 216.9 194.4
CHROME HEARTS 180.7 144.4 160.0 99.9 100.6 100.5

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

2002 2003
- 1st half 2nd half total 1st half 2nd half total

UNITED ARROWS 97.4 94.9 96.9 94.6 101.0 97.2
GREEN LABEL RELAXING 94.7 94.6 93.8 106.1 108.5 108.8
CHROME HEARTS 91.9 92.7 92.0 102.1 99.5 100.7

Note*1: "UNITED ARROWS" includes the sales of S.B.U. and UA Labs. (S.B.U. means Small Business Units (ANOTHER EDITION and THE SOVEREIGN HOUSE))
- Green Label Relaxing and Chrome Hearts were launched in September 1999 and in December 1999.
- Number of employees in an average term.
- "Sales per 1m2" and "Sales per Employee" are calculated from the sales of direct management stores.
- "Others" includes wholesale sales and outside shop and café sales.
Our Green Label Relaxing trademark & logo received the “2003 Tokyo TDC (Type Directors Club) Members Award.”

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

The Company received the “2002 IR Best Company Award.”

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

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

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

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

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

Jubilo Iwata’s strong will to win, shared by its supremers and hometown community with its legacy of “becoming a world-class team” is the next generation, based on our close communication with our customers, and the trust they place in us.

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

Financial Section

5-year Summary
UNITED ARROWS LTD.


Millions of Yen Thousands of U.S. Dollars (Note)

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<tbody>
<tr>
<td>Sales</td>
<td>¥ 35,272</td>
<td>¥ 26,943</td>
<td>¥ 19,315</td>
<td>¥ 17,017</td>
<td>¥ 14,333</td>
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<td>Operating Income</td>
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<td>3,965</td>
<td>1,632</td>
<td>2,378</td>
<td>2,504</td>
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<td>Net Income</td>
<td>2,562</td>
<td>2,318</td>
<td>879</td>
<td>1,175</td>
<td>1,151</td>
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<td>Total Assets</td>
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<td>19,645</td>
<td>15,054</td>
<td>13,930</td>
<td>6,684</td>
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<td>Total Shareholders’ Equity</td>
<td>12,924</td>
<td>13,456</td>
<td>11,269</td>
<td>10,569</td>
<td>2,571</td>
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<td>Number of Shares Issued (Shares)</td>
<td>11,925,000</td>
<td>11,925,000</td>
<td>11,925,000</td>
<td>7,950,000</td>
<td>7,050,000</td>
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<td>Treasury Stock (Shares)</td>
<td>1,000,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
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<tr>
<td>Net Income per Share (Yen)</td>
<td>215</td>
<td>194</td>
<td>74</td>
<td>153</td>
<td>180</td>
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<tr>
<td>Shareholders’ Equity per Share (Yen)</td>
<td>1,178</td>
<td>1,128</td>
<td>945</td>
<td>1,329</td>
<td>365</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>952</td>
<td>484</td>
<td>1,112</td>
<td>3,616</td>
<td>894</td>
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<tr>
<td>Number of Shares</td>
<td>45</td>
<td>35</td>
<td>31</td>
<td>25</td>
<td>22</td>
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<tr>
<td>(including number of UA Labs)</td>
<td>(10)</td>
<td>(6)</td>
<td>(5)</td>
<td>(3)</td>
<td>(5)</td>
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<tr>
<td>Total Floor Space (m²)</td>
<td>14,312</td>
<td>11,737</td>
<td>10,472</td>
<td>8,860</td>
<td>6,106</td>
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<tr>
<td>Number of Employees</td>
<td>581</td>
<td>441</td>
<td>358</td>
<td>342</td>
<td>248</td>
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<tr>
<td>Net Income to Total Assets (ROA) (%)</td>
<td>12.7</td>
<td>13.4</td>
<td>6.1</td>
<td>11.4</td>
<td>19.3</td>
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<tr>
<td>Return on Equity (%)</td>
<td>19.4</td>
<td>18.8</td>
<td>8.1</td>
<td>17.9</td>
<td>57.9</td>
</tr>
<tr>
<td>Shareholders’ Equity Ratio (%)</td>
<td>62.0</td>
<td>68.5</td>
<td>74.9</td>
<td>75.9</td>
<td>38.5</td>
</tr>
<tr>
<td>Total Asset Turnover (Times)</td>
<td>1.7</td>
<td>1.4</td>
<td>1.3</td>
<td>1.2</td>
<td>2.1</td>
</tr>
<tr>
<td>Inventory Turnover (Times)</td>
<td>2.4</td>
<td>2.7</td>
<td>2.9</td>
<td>2.9</td>
<td>5.7</td>
</tr>
<tr>
<td>Current Ratio (%)</td>
<td>161.0</td>
<td>193.6</td>
<td>178.9</td>
<td>203.5</td>
<td>90.2</td>
</tr>
<tr>
<td>Fixed Asset Ratio (%)</td>
<td>64.6</td>
<td>58.3</td>
<td>76.6</td>
<td>71.2</td>
<td>126.6</td>
</tr>
</tbody>
</table>

Note: Calculations are based on the exchange rate of U.S.$ 1=¥114.00 (March 31, 2003).
Operating and Financial Review

1. Business Environment

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

The business climate in our retail apparel and related goods industry remained harsh, significantly affected by consumers’ reluctance to spend on clothing amid the prolonged recession, although overall consumers spending appeared to be improving. Under these circumstances, some companies actually succeeded in enhancing their product planning ability, so as to launch clearly differentiated products, as well as new products that appeal to our customers, with the ultimate goal of becoming a dominant market leader:
1) Improving product/customer satisfaction (CS in terms of our products): Structural reform, aiming at improving precision in procurement, manufacturing, inventory management and the planning of our products.
2) Improving sales/customer satisfaction (CS in terms of our sales activities): Structural reform of our overall sales activities, including sales promotion and store design.
3) Improving corporate culture:
   a) Improving customer trust.
   b) Improving corporate culture, organizational climate, and human resources development in a comprehensive manner.
   c) Improving business administration: Structural reform to be implemented from a managerial point of view for the Company’s long-term steady growth.

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

As for our sales and promotion activities, we have endeavored to achieve a systematic, collaborative process of “product planning – product procurement – sales promotion – store design – and customer services,” in order to ensure that our customers find what they like and want, whenever they visit our stores. Moreover, it is worth noting that the upgraded infrastructure throughout the organization has contributed to improving the precision of our product planning, as well as procurement.

2. Operating Performance

Sales during fiscal 2003 reached 35,272 million yen, an increase of 8,328 million yen (+30.9%) over fiscal 2002 (April 1, 2001 to March 31, 2002). Operating income amounted to 4,824 million yen, a year-on-year increase of 859 million yen (+21.7%). As a result, net income totaled 2,562 million yen, a year-on-year increase of 245 million yen (+10.5%).

We have been proactively following the “four structural reforms,” in order to gain superior performance for creating attractive stores that can offer clearly differentiated products, as well as new products that appeal to our customers,

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We have been proactively following the “four structural reforms,” in order to gain superior performance for creating attractive stores that can offer clearly differentiated products, as well as new products that appeal to our customers, with the ultimate goal of becoming a dominant market leader:
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(2) active sales promotion represented by more frequent exposure of our products in magazines and other types of media has led to a soaring number of customers visiting our stores, and (3) scientific store design, based on research on customers’ behavior inside the store, has enabled us to create an efficiently organized sales space, and to display our products in an effective manner.

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

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

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

In addition, we have opened “Odette & Ollie UNITED ARROWS” stores — as part of our new project to create UA Labs (test marketing stores) specializing in women’s shoes and bags — in Shinjuku, Nagoya and Sapporo. The Christian Hearts (“CH”) business chain has been steadily preparing for its third store opening, finalizing its new store plan that is expected to enhance the CH brand value, and clarifying its unique design concept to attract more customers.

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

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

4. Operating Results

Sales during fiscal 2003 reached 35,272 million yen, a year-on-year increase of 8,328 million yen (+30.9%). This sales increase is primarily due to favorable results achieved by existing stores, with a year-on-year increase of 17.0%, as well as...
additional revenue from our new stores. Gross profit amounted to 18,855 million yen, a year-on-year increase of 4,416 million yen (+30.6%). As a result, the gross profit ratio came to 53.5%; 0.1 points lower than the 53.6% of last year.

Operating Income
Operating expenses totaled 14,031 million yen, a year-on-year increase of 3,557 million yen (+34.0%). Consequently, the ratio of operating expenses to sales increased 0.9 points to 39.8%. This rise in operating expenses is attributable to (1) increased variable expenses, accompanied by overall sales growth, (2) increased rent payments due to new store openings, and (3) a rise in personnel expenses resulting from the hiring of new staff. As a result, operating income during this term increased by 859 million yen (+21.7%), year-on-year, to 4,235 million yen (+17.2%), mainly due to increased overall sales, as well as a higher volume of product purchasing to accommodate our new product policy. Income taxes payable decreased by 422 million yen (-27.4%), year-on-year, to 1,119 million yen, a significant drop from the previous year when a substantial increase in net income before taxes was recorded.

Long-term Liabilities
Long-term liabilities amounted to 160 million yen, staying on a par with the previous year (+0.1%), as there was little change in the account of accrued retirement benefit deposits. Shares purchased during this term increased 4,500 million yen, an increase in accounts payable of 543 million yen due to a higher volume of product procurement, with an increase in accounts payable of 519 million yen as a result of our new business expansion, and an increase in inventories worth 2,252 million yen.

Net Income
Income taxes during this term totalled 1,939 million yen, a year-on-year increase of 236 million yen (+13.9%), due to increases in corporate income tax, resident income tax and enterprise tax, accompanied by a decline in deferred income tax. The aggregate total of corporate, residents, and enterprise taxes rose by 181 million yen to 2,068 million yen, which was simply due to increased net income tax. Deferred corporate tax declined by 56 million yen, resulting in a loss of 129 million yen, primarily due to an increase in accrued bonuses, as well as the appraisal loss on sample products. Consequently, net income over fiscal 2003 increased by 243 million yen (+10.5%) year-on-year, to 2,562 million yen.

5. Financial Position
Assets
Total assets at the end of fiscal 2003 (as of March 31, 2003) reached 20,837 million yen (+6.1%). This rise in operating expenses is attributable to (1) increased variable expenses, accompanied by overall sales growth, (2) increased rent payments due to new store openings, and (3) a rise in personnel expenses resulting from the hiring of new staff. As a result, operating income during this term increased by 859 million yen (+21.7%), year-on-year, to 4,235 million yen (+17.2%), mainly due to increased overall sales, as well as a higher volume of product purchasing to accommodate our new product policy. Income taxes payable decreased by 422 million yen (-27.4%), year-on-year, to 1,119 million yen, a significant drop from the previous year when a substantial increase in net income before taxes was recorded.
<table>
<thead>
<tr>
<th>LIABILITIES AND SHAREHOLDERS’ EQUITY</th>
<th>2003</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes and accounts payable-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>¥ 3,081,745</td>
<td>¥ 2,629,139</td>
<td>$ 26,117</td>
</tr>
<tr>
<td>Other</td>
<td>1,455,400</td>
<td>1,334,400</td>
<td>12,334</td>
</tr>
<tr>
<td>Short-term borrowings (Note 6)</td>
<td>1,400,000</td>
<td>—</td>
<td>11,864</td>
</tr>
<tr>
<td>Income taxes payable (Note 7)</td>
<td>1,118,563</td>
<td>1,540,919</td>
<td>9,479</td>
</tr>
<tr>
<td>Consumption tax payable</td>
<td>128,357</td>
<td>126,659</td>
<td>1,088</td>
</tr>
<tr>
<td>Accrued bonuses</td>
<td>421,782</td>
<td>308,804</td>
<td>3,575</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>34,149</td>
<td>19,883</td>
<td>289</td>
</tr>
<tr>
<td>Other</td>
<td>113,140</td>
<td>69,314</td>
<td>959</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>7,753,136</td>
<td>6,029,118</td>
<td>65,705</td>
</tr>
<tr>
<td><strong>Long-Term Liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued retirement benefits for directors</td>
<td>103,651</td>
<td>103,429</td>
<td>878</td>
</tr>
<tr>
<td>Other</td>
<td>55,916</td>
<td>55,926</td>
<td>474</td>
</tr>
<tr>
<td><strong>Total long-term liabilities</strong></td>
<td>159,567</td>
<td>159,355</td>
<td>1,352</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>7,912,703</td>
<td>6,188,473</td>
<td>67,057</td>
</tr>
<tr>
<td><strong>Shareholders’ Equity (Note 9, 10):</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock, no par value-</td>
<td>3,030,000</td>
<td>3,030,000</td>
<td>25,678</td>
</tr>
<tr>
<td>Authorized: 47,700,000 shares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued: 11,925,000 shares at March 31, 2002</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11,925,000 shares at March 31, 2003</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional paid-in-capital</td>
<td>4,095,600</td>
<td>4,095,600</td>
<td>34,709</td>
</tr>
<tr>
<td>Legal reserve</td>
<td>31,035</td>
<td>31,035</td>
<td>263</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>8,558,557</td>
<td>6,299,695</td>
<td>72,530</td>
</tr>
<tr>
<td>Treasury stock, at cost</td>
<td>(2,791,000)</td>
<td>—</td>
<td>(23,653)</td>
</tr>
<tr>
<td>Shares: 1,000,000 shares at March 31, 2003</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td>12,924,192</td>
<td>13,456,350</td>
<td>109,527</td>
</tr>
<tr>
<td><strong>Total liabilities and shareholders’ equity</strong></td>
<td>¥ 20,836,895</td>
<td>¥ 19,644,803</td>
<td>$ 176,584</td>
</tr>
</tbody>
</table>

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

**UNITED ARROWS LTD.**

**Statements of Income**

**Years ended March 31, 2003 and 2002**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>¥ 35,271,577</td>
<td>¥ 26,945,208</td>
<td>$ 298,912</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>16,316,934</td>
<td>12,504,552</td>
<td>139,127</td>
</tr>
<tr>
<td>Gross profit</td>
<td>18,954,643</td>
<td>14,438,656</td>
<td>159,785</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>14,030,605</td>
<td>10,475,568</td>
<td>118,903</td>
</tr>
</tbody>
</table>

**Operating income**

|                      | 4,824,040   | 3,965,088   | 40,882       |

**Other income (expenses):**

- **Interest income:** 485
- **Interest expense:** (3,822)
- **Exchange gains:** 11,228
- **Exchange losses:** — (32,870)
- **Dividend income:** — 12,903
- **Rental income, net:** 18,959
- **Donations:** (58,110)
- **Additional treasury stock expense:** (18,475)
- **Gain (loss) on sale or disposal of fixed assets, net:** (143,488)
- **Loss on disposal of supplies:** — (88,224)
- **Impairment of value of securities:** (4,525)
- **Loss on sample products:** (90,563)
- **Settlement on cancellation of contracts:** — 47,784
- **Allowance for doubtful accounts:** (16,300)
- **Reversal of retirement benefits for directors:** — 31,272
- **Loss on cancellation of leases:** — (52,654)
- **Other, net:** (19,035)

**Net income before taxes:**

|                      | 4,500,374   | 4,020,663   | 38,139       |

**Income taxes (Note 7)-**

- **Current:** 2,067,636
- **Deferred:** (128,876)

**Net income**

|                      | 1,931,760   | 1,791,787   | 16,430       |

**Unappropriated retained earnings for the year:**

|                      | ¥ 8,558,557 | ¥ 6,299,695 | $ 72,530     |

### Statements of Shareholders' Equity

**UNITED ARROWS LTD.**

**Statements of Shareholders' Equity**

**Years ended March 31, 2003 and 2002**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at March 31, 2001:</td>
<td>11,925,000</td>
<td>¥3,030,000</td>
<td>¥4,095,600</td>
</tr>
</tbody>
</table>

- **Net income for the year 2002:** — — — $ 2,318,386 —
- **Prior year year-end appropriation:**
  - **Cash dividends:** — — — (71,550)
  - **Transfer to legal reserve:** — — — 7,155 (7,155)
- **Current year interim appropriation:**
  - **Cash dividends:** — — — (59,625)

**Balance at March 31, 2002:**

|                      | 11,925,000 | 3,030,000 | 4,095,600 | 31,035 | 6,299,695 | $ — |

- **Net income for the year 2003:** — — — 2,561,614 —
- **Prior year year-end appropriation:**
  - **Cash dividends:** — — — (172,912)
  - **Bonuses to directors:** — — — (46,365)
- **Current year interim appropriation:**
  - **Cash dividends:** — — — (83,475)
- **Purchase of common stock:** (1,000,000)

**Balance at March 31, 2003:**

|                      | 10,925,000 | 3,030,000 | 4,095,600 | 31,035 | ¥8,538,557 | ¥2,791,000 |

- **Net income for the year 2003:** $ 25,678 $ 34,709 $ 263 $ 53,387 $ —
- **Prior year year-end appropriation:**
  - **Cash dividends:** — — — (1,465)
  - **Bonuses to directors:** — — — (393)
- **Current year interim appropriation:**
  - **Cash dividends:** — — — (708)
  - **Purchase of common stock:** (1,000,000)

**Balance at March 31, 2003:**

|                      | 10,925,000 | 25,678 | 34,709 | 263 | 72,530 | $ 23,653 |

- **Preferred stock:** 21,709
- **Common stock:** 31,035
- **Additional paid-in capital:** 6,299,695
- **Legal reserve:** 51,529
- **Retained earnings:** 51,529
- **Treasury stock at cost:** 7,155

**Common stock:** 3,030,000

**Additional paid-in capital:** 4,095,600

**Legal reserve:** 1,465

**Retained earnings:** 1,465

**Treasury stock:** 708

**Number of common stock shares:** 4,095,600

**In exact Yen**

|                      | 212,010 | 194,41 | $ 1,822 |

**In exact U.S. Dollars**

|                      | 23.00 | 19.50 | 0.195 |

**Per share:**

- **Net income:** ¥ 215.01
- **Cash dividends (Note 10):** ¥ 23.00

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

### Statements of Cash Flows

**UNITED ARROWS LTD.**

**Years ended March 31, 2003 and 2002**

<table>
<thead>
<tr>
<th>2003</th>
<th>2002</th>
<th>Adjusted 2003*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income before taxes</td>
<td>¥ 4,500,374</td>
<td>¥ 4,020,663</td>
</tr>
<tr>
<td>Depreciation</td>
<td>371,579</td>
<td>375,768</td>
</tr>
<tr>
<td>Amortization of intangible fixed assets</td>
<td>128,322</td>
<td>128,943</td>
</tr>
<tr>
<td>Amortization of long-term prepaid expenses</td>
<td>44,537</td>
<td>34,237</td>
</tr>
<tr>
<td>Increase (decrease) in accrued bonuses</td>
<td>112,977</td>
<td>104,607</td>
</tr>
<tr>
<td>Decrease in accrued retirement benefits</td>
<td>222</td>
<td>(20,302)</td>
</tr>
<tr>
<td>Increase in allowance for doubtful accounts</td>
<td>16,300</td>
<td></td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>4,625</td>
<td>38,112</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(485)</td>
<td>(14,295)</td>
</tr>
<tr>
<td>Impairment of value of securities</td>
<td>36</td>
<td>(325,859)</td>
</tr>
<tr>
<td>Loss on disposal of tangible fixed assets</td>
<td>117,923</td>
<td>62,252</td>
</tr>
<tr>
<td>(Gain) loss on sale of tangible fixed assets</td>
<td>36</td>
<td>45,775</td>
</tr>
<tr>
<td>Loss on disposal of intangible fixed assets</td>
<td>25,529</td>
<td>—</td>
</tr>
<tr>
<td>Settlement on cancellation of contracts</td>
<td>—</td>
<td>(47,784)</td>
</tr>
<tr>
<td>Loss on cancellation of insurance reserve fund</td>
<td>5,123</td>
<td>(762,757)</td>
</tr>
<tr>
<td>Increase in accounts receivable</td>
<td>(318,524)</td>
<td>(762,690)</td>
</tr>
<tr>
<td>(Increase) decrease in inventories</td>
<td>10,264</td>
<td>86,466</td>
</tr>
<tr>
<td>Decrease (increase) in other current assets</td>
<td>452,606</td>
<td>595,490</td>
</tr>
<tr>
<td>Decrease in accounts payable</td>
<td>57,330</td>
<td>489,391</td>
</tr>
<tr>
<td>Decrease in other current liabilities</td>
<td>(10)</td>
<td>(14,742)</td>
</tr>
<tr>
<td>Bonuses to directors</td>
<td>(46,365)</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>3,234,274</td>
<td>2,531,325</td>
</tr>
<tr>
<td>Receipt of interest and dividends</td>
<td>485</td>
<td>14,295</td>
</tr>
<tr>
<td>Payment of interest</td>
<td>(3,822)</td>
<td>(50)</td>
</tr>
<tr>
<td>Payment of income taxes</td>
<td>(2,489,992)</td>
<td>(637,807)</td>
</tr>
<tr>
<td><strong>Net cash from operating activities</strong></td>
<td>740,945</td>
<td>1,987,783</td>
</tr>
</tbody>
</table>

**Cash flows from investing activities:**

| | | |
| Decrease (increase) in time deposits | (20) | 263,000 | 0 |
| Increase in staff loans | 489 | | 4 |
| Guarantee deposits paid | (291,248) | (190,276) | (2,468) |
| Purchase of intangible assets | 146,234 | — | (1,239) |
| Payment of long-term prepaid expenses | 110,769 | (85,454) | (939) |
| Decrease (increase) in other investments | 15,229 | | 129 |
| Proceeds from sale of tangible fixed assets | 8,220 | 1,118,230 | 70 |
| Purchase of tangible fixed assets | (592,032) | (265,653) | (5,017) |
| **Net cash from (used in) investing activities** | (1,116,365) | 839,800 | (9,460) |

**Cash flows from financing activities:**

| | | |
| Increase in short-term borrowings | 1,400,000 | | 11,864 |
| Purchase of treasury stocks | (2,791,000) | | (23,653) |
| Dividends paid | (255,471) | (129,128) | (2,164) |
| **Net cash used in financing activities** | (1,046,471) | (129,128) | (15,993) |

| | | |
| Net increase (decrease) in cash and cash equivalents | (2,021,891) | 2,618,524 | (17,134) |
| Cash and cash equivalents at the beginning of the year | 3,490,125 | 871,601 | 29,577 |
| **Cash and cash equivalents at the end of the year** | ¥ 1,468,234 | ¥ 3,490,125 | $ 12,443 |

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

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### Notes to the Financial Statements

**UNITED ARROWS LTD.**

For the years ended March 31, 2003 and 2002

1. **Major Policies Adopted in Preparation of Financial Statements**

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

   The Company maintains its accounting records in yen. The dollar amounts included in the financial statements and notes thereto represent the arithmetical result of translating yen amounts to dollars at the rate of ¥118.90 ¥1 USD as of March 31, 2003. The inclusion of such amounts is solely for the convenience of readers and is not intended to imply that Japanese yen amounts have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

   The Company uses the straight-line method over the buildings' estimated useful lives.

   The useful lives of major asset categories are as follows:

   - **Buildings**: 5-50 years
   - **Structures**: 7-20 years
   - **Furniture & fixtures**: 2-20 years

2. **Significant Accounting Policies**

   (1) **Cash and cash equivalents**

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

   (2) **Translation of foreign currencies**

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

   (3) **Marketable securities and investment securities**

   Securities are classified into four categories, i.e. ‘trading’, ‘hold-to-maturity debt’, ‘securities of subsidiaries and affiliates’, and ‘other securities’. Securities held by the Company are classified as ‘other securities’.

   The Company has followed the Japanese accounting standard in calculating the carrying value of its securities. Securities designated as ‘available-for-sale’, whose fair values are readily determinable, are carried at fair value at the balance sheet date using the moving-average method with unrealized gains or losses being included as a separate component of shareholders’ equity, not of applicable taxes.

   (4) **Inventories**

   “Inventories” consist of merchandise and supplies. Merchandise is stated at cost based on the weighted average method, while supplies are stated at cost based on the last-in, first-out method.

   (5) **Property and equipment**

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

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

3. **Intangible assets and other assets**

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

4. **Translation and Disclosure**

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

5. **Accruals**

   The Company established a new Employee Retirement Regulation on February 1, 2002 and adopted a defined contribution benefit plan. There was no projected benefit obligation as of March 31, 2003 under the new Employee Retirement Regulation.
The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on its hedging instruments and the related hedged items from the commencement of the hedges.

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

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

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

3. Marketable Securities and Investment Securities

The following is a summary of securities classified as ‘other securities’ as March 31, 2003:

<table>
<thead>
<tr>
<th>Security</th>
<th>Cost</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Fair Value (at end of period)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks</td>
<td>$ 11,301</td>
<td>—</td>
<td>$ 6,525</td>
<td>$ 6,776</td>
</tr>
<tr>
<td>Treasury Bonds</td>
<td>$ 13,501</td>
<td>—</td>
<td>$ 6,525</td>
<td>$ 6,776</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Security</th>
<th>Cost</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Fair Value (at end of period)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks</td>
<td>$ 56</td>
<td>—</td>
<td>$ 39</td>
<td>$ 57</td>
</tr>
<tr>
<td>Treasury Bonds</td>
<td>$ 56</td>
<td>—</td>
<td>$ 39</td>
<td>$ 57</td>
</tr>
</tbody>
</table>

4. Inventories

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

<table>
<thead>
<tr>
<th>March 31</th>
<th>Thousands of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003</td>
<td>2002</td>
</tr>
<tr>
<td>March 31</td>
<td>$ 6,480,677</td>
<td>$ 6,465,751</td>
</tr>
<tr>
<td>Women’s wear</td>
<td>2,753,936</td>
<td>2,725,876</td>
</tr>
<tr>
<td>Silver &amp; Leather</td>
<td>1,283,317</td>
<td>1,267,945</td>
</tr>
<tr>
<td>Other</td>
<td>1,683,405</td>
<td>1,656,784</td>
</tr>
<tr>
<td>Supplies</td>
<td>10,365</td>
<td>6,595</td>
</tr>
<tr>
<td>Total</td>
<td>$ 6,470,780</td>
<td>$ 6,457,140</td>
</tr>
</tbody>
</table>

5. Derivative Financial Instruments

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

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

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

6. Short-Term Borrowings

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

<table>
<thead>
<tr>
<th>March 31</th>
<th>Thousands of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003</td>
<td>2002</td>
</tr>
<tr>
<td>Loans to a life insurance company</td>
<td>$ 400,000</td>
<td>$ 7,207</td>
</tr>
<tr>
<td>Total</td>
<td>$ 400,000</td>
<td>$ 7,207</td>
</tr>
</tbody>
</table>

7. Income Taxes

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

For the year ended March 31

<table>
<thead>
<tr>
<th>Rate or smaller income</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate income tax</td>
<td>30.0%</td>
<td>30.0%</td>
</tr>
<tr>
<td>Enterprise tax</td>
<td>10.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Resident income tax</td>
<td>20.0%</td>
<td>20.0%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>March 31</th>
<th>Thousands of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003</td>
<td>2002</td>
</tr>
<tr>
<td>Deferred Tax Assets arising from: Non-deductible expenses</td>
<td>$ 42,176</td>
<td>$ 49,448</td>
</tr>
<tr>
<td>Depreciation in excess of tax limit</td>
<td>$ 32,966</td>
<td>$ 25,042</td>
</tr>
<tr>
<td>Non-deductible rental costs of a lease</td>
<td>$ 51,044</td>
<td>$ 13,458</td>
</tr>
<tr>
<td>Accrued bonuses in excess of tax limit</td>
<td>$ 153,994</td>
<td>$ 86,141</td>
</tr>
<tr>
<td>Allowance for doubtful accounts in excess of tax limit</td>
<td>$ 34,057</td>
<td>$ 26,593</td>
</tr>
<tr>
<td>Loss on sale proceeds in excess of tax limit</td>
<td>$ 62,515</td>
<td>$ 538</td>
</tr>
<tr>
<td>Other</td>
<td>$ 84,084</td>
<td>$ 35,984</td>
</tr>
<tr>
<td>Total Deferred tax assets</td>
<td>$ 489,886</td>
<td>$ 328,710</td>
</tr>
</tbody>
</table>

Deferred tax liabilities (reflecting deduction of corporate tax on payment) |

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

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

<table>
<thead>
<tr>
<th>Furniture and fixtures</th>
<th>Software</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥ 294,808</td>
<td>¥ 730,975</td>
</tr>
<tr>
<td>£ 20,073</td>
<td>£ 14,703</td>
</tr>
</tbody>
</table>

### 9. Stock-Based Compensation Plan

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

The new stock option plan was approved at the shareholders’ meeting held on June 27, 2003.

The condition of the warrants is as follows:

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

### 10. Retained Earnings

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

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

- **Unappropriated retained earnings for the year**: ¥ 8,558,557
- **Transfer to dividends**: ¥ 174,800
- **Bonuses to directors**: ¥ 51,235
- **Unappropriated retained earnings carried forward to the next year**: ¥ 8,332,528

### Depreciation expenses

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

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**Report of Independent Accountants**

June 27, 2003

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

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

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

PricewaterhouseCoopers

Kawaguchi Bldg., 2nd Floor
3-2-3, Kawaguchiko, Chiyoda-ku
Tokyo 102-0093, Japan

Tokyo, Japan
**New Stores Information** (as of March 31, 2003)

<table>
<thead>
<tr>
<th>UNITED ARROWS</th>
<th>NEW OPEN</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Arrows Blue Label Store Shinjuku</td>
<td>Flags 4F, 3-37-1 Shinjuku, Shinjuku-ku, Tokyo 160-0022</td>
</tr>
</tbody>
</table>

**GREEN LABEL RELAXING**

**UMEDA**

5-5100 Daimon Osaka, 1-chome Umeda, Kita-ku, Osaka-shi, Osaka 550-0001

**KYOTO**

Shijo-Kawaramachi Hankyu Store B1F, 68 Shion-cho Shijo Kawaramachi, Higashiyama-ku, Kyoto 600-4510

**MARUNOUCHI**

Marunouchi Building 3F, 2-4-1 Marunouchi, Chiyoda-ku, Tokyo 100-6305

**HAKATA**

Hakata Irumaya 1F, 1-1 Hakata-ku, Fukuoka 812-8678

**NAGOYA**

Nagaoya 1F, 3-4-5 Sakae, Naka-ku, Nagoaya-shi, Aichi 460-0008

**SAPPORO**

Sapporo Sapporo Stellar Place East B1F, Nishi-Zerocho 5-Banchi, Kita-ku, Sapporo, Sapporo-shi, Hokkaido 060-0005

**UA LABO**

Odette é Odile United Arrows Shinjuku LUMINE Shinjuku LUMINE I 2F, 1-1-5 Nishi-Shinjuku, Shinjuku-ku, Tokyo 106-0025

<table>
<thead>
<tr>
<th>Odaiba é Odile United Arrows Shinjuku LUMINE Shinjuku LUMINE I 2F, 1-1-5 Nishi-Shinjuku, Shinjuku-ku, Tokyo 106-0025</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Arrows NEW ENLARGEMENT &amp; RELOCATIONS</td>
</tr>
<tr>
<td>NAGOYA</td>
</tr>
</tbody>
</table>

**Stock Performance**

![Graph showing stock performance over time]

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

| Shareholder Information (as of March 31, 2003) |
|---|---|
| Total authorized shares | 47,700,000 |
| Shares of common stock issued | 11,925,000 |

**Distribution by owners of shares**

- Financial Institutions: 1.25%
- Securities Companies: 0.41%
- Foreign Corporations, Individuals: 2.35%

**Distribution by number of shares**

- Financial Institutions: 23.71%
- Securities Companies: 0.33%
- Other Corporations: 10.23%
- Foreign Corporations, Individuals: 52.82%

**Corporate Data**

- **Official Name**: UNITED ARROWS LTD.
- **Headquarters**: 2-31-12 Jingumae, Shibuya-ku, Tokyo 150-0001, Japan
- **Telephone**: +81-3-6418-0803
- **URL**: [http://www.united-arrows.co.jp](http://www.united-arrows.co.jp)
- **Established**: October 2, 1989
- **Capital**: ¥3,030 million
- **Number of Employees**: 581
- **President and CEO**: Osamu Shigematsu
- **Shareholders**: 2,729
  - Major shareholders:
    - Osamu Shigematsu: 1,100,000 shares, 10.06% of voting rights
    - World Co., Ltd.: 1,081,000 shares, 9.89% of voting rights
    - Hirotsuki Hatsuzaki: 1,000,000 shares, 9.15% of voting rights
    - The Master Trust Bank of Japan: 921,900 shares, 8.43% of voting rights
    - Tetsuya Iwaki: 563,000 shares, 5.15% of voting rights
    - Hirofumi Kurino: 563,000 shares, 5.15% of voting rights
    - Koichi Mizuno: 543,000 shares, 4.97% of voting rights
    - Japan Trustee Services Bank, Ltd.: 520,700 shares, 4.76% of voting rights
    - UFJ Trust Bank Limited: 341,900 shares, 3.12% of voting rights
    - The Bank of New York (Luxembourg) S.A.: 285,500 shares, 2.61% of voting rights

**Board of Directors and Corporate Auditors**

- **President and CEO**: Osamu Shigematsu
- **Executive Vice President and CEO**: Tetsuya Iwaki
- **Managing Director**: Koichi Mizuno
- **Creative Directors**: Hirofumi Kurino, Hiroshi Takanashi, Hirokazu Haratsuki, Byousuke Nishimura, Sadakei Kitagawa, Tadakatu Sakaguchi, Mitsuo Akawa

**Sales Composition**

- *Men’s* 49.0%
- *Women’s* 37.5%
- *Other Products* 10.0%
- *Silver & Leather* 8.7%
- *Others* 1.9%

**Other Products**

- Men’s Apparel, Accessories and Planning and Sales of Men’s and Women’s Apparel, Accessories and Other Products

**New Open Stores**

- **NEW OPEN**
  - **NAGOYA**
    - Flags 4F, 3-57-1 Shinjuku, Shinjuku-ku, Tokyo 160-0022
  - **SAPPORO**
    - Sapporo Sapporo Stellar Place East B1F, Nishi-Zerocho 5-Banchi, Kita-ku, Sapporo, Sapporo-shi, Hokkaido 060-0005
  - **UA LABO**
    - Odette é Odile United Arrows Shinjuku LUMINE Shinjuku LUMINE I 2F, 1-1-5 Nishi-Shinjuku, Shinjuku-ku, Tokyo 106-0025

**Corporate Auditor**

- ChuoAoyama Audit Corporation

**Financial Institutions**

- The Bank of New York
- UFJ Trust Bank
- Services Bank, Ltd.
- Japan Trustee Services Bank, Ltd.
- The Master Trust Bank of Japan, Ltd.
- The Bank of New York (Luxembourg) S.A.