

News conference bulletin:

**FAST RETAILING CO., LTD. ties up with The Daiei, Inc. to develop new brand**

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Participants:

Mr. Yasuyuki Higuchi      President & COO, The Daiei, Inc.  
Mr. Keiji Nakamae        Director General Manager(General Merchandising Store Business),  
The Daiei, Inc.  
Mr. Tadashi Yanai        Chairman, President & CEO, FAST RETAILING CO., LTD.  
Mr. Masahiro Shimizu    Director of Business Development, FAST RETAILING CO., LTD.

-----      **Opening address**      -----

**Mr. Masahiro Shimizu, Director of Business Development, FAST RETAILING**

Thank you all for attending today's conference. I would first like to give a brief explanation of the decision announced today.

For some time now, FAST RETAILING has been studying the possibility of developing a new brand of casual clothes to compliment its mainstay UNIQLO brand. And now we are able to announce the decision taken at today's extraordinary board meeting to use the expertise acquired over many years of UNIQLO operations to establish a new brand of casual clothing to be marketed at a cheaper price than the current UNIQLO range. This new brand will be managed by a fully owned subsidiary to be set up specifically for this purpose. In addition, today's FR board also agreed and signed a basic business cooperation agreement with The Daiei, Inc. who will assist us in the development of this new brand.

Now, let me give you a brief outline of what we envisage the new brand will be.

1. The new brand's mission will be to offer mainly casual clothes for family-oriented customers. The clothes will include ranges for children through adults. The new brand will be priced more cheaply than the current UNIQLO range. The new brand concept keyword will be fun. And the idea is to make shopping enjoyable for the wearing public. Even though the price is cheap, the brand will offer a rich sense of design, fashion, color, pattern and character.
2. We plan to develop a full lineup of clothes under the new brand name from outerwear to innerwear.
3. We intend to manage the full range of activities from design through manufacture and retail as a true specialty retailer or SPA.
4. We still have not decided on a name for the new brand but we will let you know as soon as one is finalized.

Next, let me briefly explain about the business tie up that we have entered into with The Daiei, Inc. or Daiei for short.

1. Through this business tie up, Daiei will assist FAST RETAILING in ensuring a stable but strong growth for the new brand as soon as possible. The cooperation will cover mainly the provision and development of store space.
2. In terms of the launch date for the new brand, our current thinking is to time this to fit in with the refurbishment schedule for Daiei's GMS stores. That would mean we could expect to see the first stores opened during the autumn/winter season of 2006.

That completes what I have to say. Thank you.

**Mr. Tadashi Yanai, Chairman, President & CEO, FAST RETAILING CO., LTD.**

Thank you. My name is Tadashi Yanai. Personally, I am very excited to be able to make this announcement to you today. I am sure that I will learn much during this quest to create a new brand in addition to the current UNIQLO line, to conduct a different type of business and to be able to work with Daiei, and in particular with Daiei's president, Mr. Higuchi.

So what will be the exact differences between our new brand of casual clothes and the current UNIQLO brand? With the UNIQLO brand, I want to aim for the "ultimate quality", whereas with the new brand, I want to market the low-price feature of the clothes more strongly, and, as we explained earlier, capture and fulfill the new concept of fun. The new brand will offer a wider choice of clothes when compared to UNIQLO's basic lines. And we want to get the customer's excited about buying casual clothes by really pursuing the very best and core concept that is casual clothing. And the other exciting challenge is to develop a new type of business operation so far not seen in Japan.

**Mr. Yasuyuki Higuchi, President & COO, The Daiei, Inc.**

I am Yasuyuki Higuchi, and I would like to thank you all for coming here today despite your very busy schedules. As you have already heard, we are here today to announce the signing of a basic agreement between FAST RETAILING and Daiei, the content of which details our agreement that the outlets marketing the newly developed brand of casual clothing will be located within Daiei's GMS stores.

We are delighted to be able to cooperate with FAST RETAILING in its challenge to develop a new brand. Mr. Yanai talked earlier about having much to learn from the launch of this new brand. But really, I feel that it is we at Daiei who will benefit from the opportunity to learn much from our new associates in business.

As we have indicated in the documents, Daiei is currently focusing its core energies on its original strength in retail according to our determined business revitalization plan. We are taking a whole range of revolutionary measures to reinforce our sales strength, open new stores in new business areas, reform and restructure our stores, strengthen our food business, invest more in store IT, and renew our corporate slogan and logo, etc. Many people within Daiei are working hard to reconstruct our shop floors. But our revitalization plan also places particular importance on participating in active partnerships with strong external companies so that we can benefit from their high level of expertise.

With FAST RETAILING's development of a new brand of casual clothes, Daiei will be able to begin housing tenant outlets in our stores. I feel that this is a really good opportunity for us in many senses. We will be able to increase the overall attractiveness of our GMS stores, liven up our own clothes displays, and attract more customers by increasing our total value.

I understand that FAST RETAILING's new casual clothes brand will be targeted at families from children to adults and offer value in terms of price. And FAST RETAILING already has a super track record for creating a complete business model that covers the design, manufacture through retail of casual clothes. I am confident that this move will help us better develop our stores and help satisfy a broad range of customers.

We plan to launch the first outlet for the new brand within a Daiei store some time in the autumn. Currently, we have plans to refurbish our stores one by one, and as we do so we can offer space to the new brand. That should make it possible to create a speedy sales base for the new brand. I am also convinced that this partnership will benefit our respective corporate value. We at Daiei are united in our commitment to revitalize our company and increase our future sales power. And we ask for your continued support and cooperation.

## ----- Summary of Q&A session -----

Question 1: I would like to ask Mr Higuchi. I think that you will be giving FAST RETAILING's new brand a considerably large floor space to display a wide range of garments. What do you plan to do with your own Daiei existing clothes space and how will the new brand stores fit in all of this?

Mr. Higuchi: Up until now, it is understandable to think that direct-run store sales would fall when an outside tenant comes in for example. However, the problem was that we had not really viewed the situation from the perspective of considering what the customers are really looking for, or what we should be doing to ensure the maturity of the total store as a whole. There could be times when this move results in local cannibalization, or sales of the direct-run outlets fall. But taken in total, I fundamentally believe that this will generate merits for the customer thus boosting our ability to attract customers. So I feel that we should consider this as a win-win relationship. Having said that, I do plan to continue strengthening our own clothing segments by concentrating on more practical clothes in the direct-run stores or by concentrating on our operations, VMD, staff training and links with clients. Over and above that, I also plan to join up with strong partners wherever possible.

Question 2: I would like to ask Mr. Yanai why he picked Daiei?

Mr. Yanai: First, on why we joined with Daiei. They have attractive retail locations, and also the Daiei management is eager to reconstruct the company and keenly aware of the need to start from scratch to create a new Daiei. From our perspective, if we are going to create a new brand, then we have to start from the very beginning and consider such issues as what should clothes actually be, or how should GMS stores evolve going forward. In that sense, I felt that Daiei was a company that we could work together with and that was prepared to start from scratch.

Question 3: I would like to ask Mr. Yanai about the widening income gap that we are supposedly experiencing today, and whether he decided to develop the new brand with this potential demand for low-cost goods in mind?

Mr. Yanai: First of all, I don't believe that high-class people will not buy goods because they are low in price. I feel that there is a strong demand for low-priced clothing even in the world's developed nations. In that sense, I think we can say that there is much less of a range of choice in Japan. So, I would like us to be able to provide one more option, and create a brand that can offer new value.

Question 4: I would like to ask Mr. Yanai for his views on how the new brand sales outlets and Daiei's existing clothes floors will fit together?

Mr. Yanai: It is not for me to actually decide what to do here rather I would like to discuss various options with Daiei to ensure that our new brand will sell. I would like us to be able to put our heads together and consider what GMS clothes should be and how to sell them, as opposed to always discussing this and that about our new brand.

Question 5: Mr. Yanai, could you tell us in more detail just how the new brand will differ from your existing UNIQLO brand? For instance, how much cheaper will the new brand be?

Mr. Yanai: I can't say exactly how much percent cheaper the new brand will be compared to clothes in other mass retailers including GMS. However, I want the brand to be known as the cheapest on the block. UNIQLO has its concept of basic clothes, but the new brand will be created around the concept of it's fun to shop.

Question 6: Mr. Yanai, I think that this new brand will be compared to Gap's OLD NAVY. Are you considering a similar method in terms of the growth process for specialty apparel stores?

Mr. Yanai: I feel that there is very little choice available to the consumer who wants to buy casual clothes, in particular every day casual clothes in Japan. So I would to operate a business that increases that range of choice. In the end, the business model might end up similar to that of the OLD NAVY. But, outside of Japan, particularly in the US, retailers such as Walmart and Target do sell low-priced casual clothes, and I think there is a similar considerable demand here as well. We would like to be able to provide some kind of Japanese version.

Question 7: I'd like to ask roughly how many stores you think you can open or would like to open within Daiei outlets? And what of the potential to open similar stores outside of Daiei?

Mr. Shimizu, FR: We are currently discussing this with Daiei and at present all of Daiei's GMS stores are potential options for our new brand. I do think that there are various other locations across the country that would be feasible and we would like to consider that separately at a later date. Ultimately, we would like to see a store network comparable in size and spread to our current UNIQLO operation.

Question 8: I would like to ask both Mr. Higuchi and Mr. Yanai if they feel the adoption of an SPA, all encompassing retail structure is vital for the recovery of GMS stores?

Mr. Higuchi: Yes, you do sometimes hear people say that the GMS era is over and a recovery is impossible. However, I have never felt that the GMS structure is a thing of the past. I feel it still has a place among the many retail models from department stores, shopping centers, general supermarkets, food supermarkets or convenience stores. However there are some stores that have had trouble establishing a strong foothold due to their location. And those stores are being closed.

It is true that trading areas are smaller than they once were and that the family strata has shrunk as our society experiences a lower birth rate and an ageing population. Against that background, we have taken the approach of improving our overall stores by adjusting the floor space dedicated particularly to non-food items, introducing partners and joining forces with outside players. Within that model, I feel that private brands, which can provide customers with the casual clothes that they want, are essential to boasting the overall appeal of our stores. They are not the be all and end all, but they are an extremely important element.

Mr. Yanai: I think this is a case whereby the environment has changed compared to when GMS stores were first introduced. I feel that it is necessary to try and redefine what a GMS store should aim for in the future, and, if GMS stores are to sell clothes, then just what type of clothes they should sell. If you look at the current GMS shop floors, they all look different, but in actual fact they are all far too similar. If they cannot create their own value and display their own values, then I feel it will be difficult to generate a steady and stable growth or profit.

Question 9: Mr. Yanai, do you have any ideas on the scale and estimated area for the new brand stores?

Mr. Yanai: It is difficult for me to respond to this at this current point in time since we have not yet decided anything in terms of the scale or SKU for the stores.

Question 10: A question to Mr. Higuchi. In terms of providing an attractive location for the FR new brand within your stores, would you place it on the GMS clothing floors, or since Mr. Yanai discussed earlier the idea of starting from scratch, would you consider placing the brand in your prime location such as where the food stuff has always been located?

Mr. Higuchi: In terms of the in-store location, I would decide that based on what is best for today's shopping environment and today's customers and would not be bound by former considerations. However, we wouldn't be looking to place the new FR clothing brand right in the middle of the food floor or anything as drastic as that. We will determine the location as we go along in discussions with FAST RETAILING. Mr. Nakamae can explain the specific structure of our contract.

Question 11: Does the agreement specify a flat rent?

Mr. Nakamae, Daiei: We are currently discussing the details of FR becoming a tenant customer, so the format of the contract is still under discussion.

Question 12: Will the new brand be second to the UNIQLO brand?

Mr. Yanai: I want to target the new brand as a mainstay second brand.

Question 13: Mr. Yanai, is it reasonable to assume that your decision to aim for absolute quality on the UNIQLO brand mean that UNIQLO prices are likely to go up somewhat?

Mr. Yanai: I do not intend to essentially boost UNIQLO prices. I feel that UNIQLO is valued because it offers really good quality at current prices. I also feel that it would not be so highly valued if it offered the same good quality at a higher price. Therefore, I would look to maintain current prices for UNIQLO.

Question 14: Mr. Yanai, is it right to assume that you are currently looking to develop the new brand only in Daiei's GMS stores for the time being? Or could you envisage opening outlets in other stores such as Ito-Yokado or AEON in the future? People often say that Daiei has many old stores, but do you personally rank Daiei highly in terms of store location and its potential?

Mr. Yanai: The fact that we have entered into a business agreement with Daiei means that I wanted to conduct this project in their stores over any other. I think that Daiei has many excellently located stores in key areas such as in and around railway stations. Yes, I do think that some of the facilities and the business model itself are rather old. But if that can be resolved, then I think Daiei can successfully revitalize its business. Therefore, I have no concerns in terms of store location.