FAST RETAILING CO., LTD.

Annual Report 2005

Year ended August 31, 2005

UNIQUE QLOTHING

contents

WAREHOUSE

It all started here

The origin of our "anybody, anywhere, everyday" concept

At UNIQLO, our goal is to offer casual wear that can be worn by anybody, anywhere, everyday. This basic concept has guided our actions since the birth of our very first store. When UNIQLO first opened its doors in a corner of a busy shopping district in central Hiroshima on June 2, 1984, it was six o'clock in the morning! The store opened early in the morning so that people could shop before going to work or school. To encourage people to drop in and browse around as they would in a bookshop or music store, we devised a store layout with the casual atmosphere of a warehouse. The second shop, launched in a suburban location, gained popularity as a casual-clothing shop that attracted people of all ages. This feature continues to be a mark of UNIQLO stores today.

1984

expansion

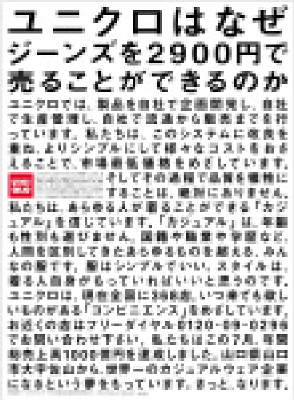
Famous for fleece

Innovation in casual wear earns us national recognition

In the early years, UNIQLO stores did not specialize in original clothing items. However, we believed that to offer customers truly excellent casual wear at astonishingly low prices, it was necessary to maintain close control over every aspect of the business, from product planning, the development and procurement of fabrics and clothing design all the way through to manufacturing, distribution and sales. Over the years, we have developed a system to accomplish exactly that.

That effort paid off handsomely with explosive sales during the “fleece boom” that began in 1998 when UNIQLO took a new, lightweight and warm polyester fabric known only to a few people and made it available to everyone. Through this experience, UNIQLO learned the ins and outs of creating new demand by developing latent needs with product concepts that exceed customer expectations. We subsequently applied this experience to the marketing of clothing made of other hit fabrics, for instance cashmere and our unique “Dry” summer fabric.

1998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売ることができるのか
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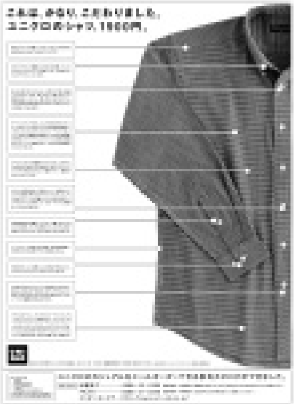


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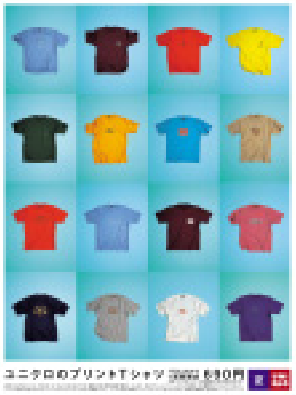

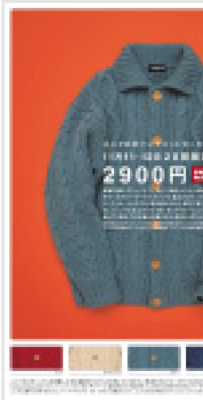

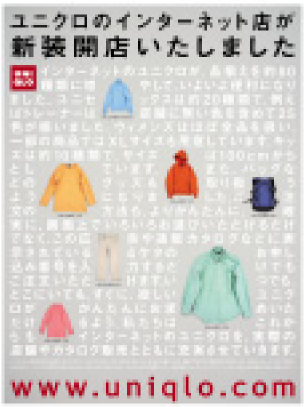
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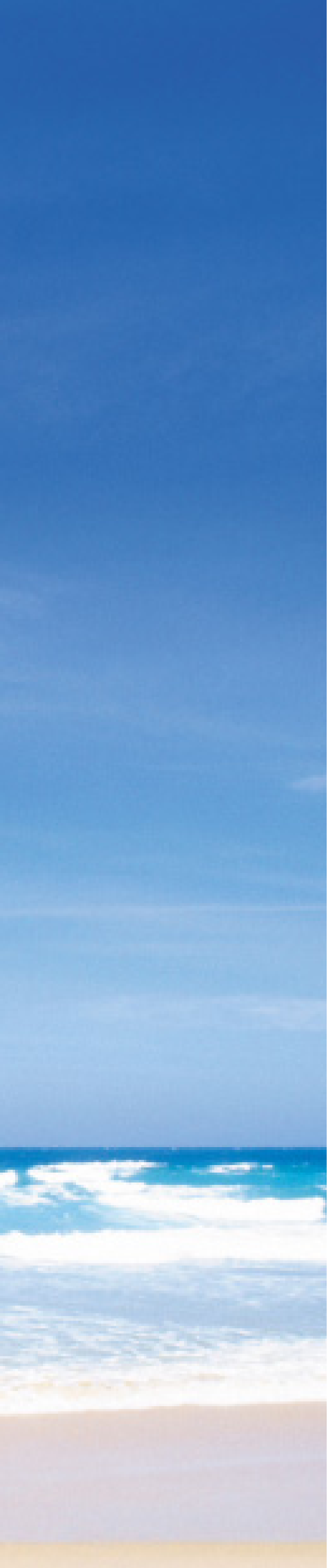


world

Taking our show on the road

Making our first steps as a global retailer

The world of fashion knows no national boundaries. That's why, from the very beginning, we set our sights on overseas markets and thought that someday we would operate on a global scale. That vision became a reality in September 2001, when we first ventured overseas with a store in London, England. A year later, we opened a store in Shanghai, China. These marked our acceptance of a new challenge—to expand the UNIQLO business around the world. In another development, in January 2004 the FAST RETAILING Group made steady progress in its globalization program by taking an equity stake in the owner of the U.S. contemporary apparel brand Theory.

2001

A message from the Chairman, President & CEO **Tadashi Yanai**

2005 transformation

Cutting a new pattern for greater growth

Those of you who have read my letters over the years know how I feel about growth, and I'll say it again, "A company is as well as dead without growth." Fiscal 2006 is to be the first year of a complete, top-to-bottom business structure transformation. We will rejuvenate our entrepreneurial spirit and continue to grow as a truly global company. We are committed to become the world's No. 1 casual clothing retailer. To this end, we will not accept the *status quo*, but will be constantly thinking about how we can excel on the world stage as we transform the Company's organization and system.

2006—A year of business structure transformation

I regret to report that FAST RETAILING posted lower earnings on higher revenues in fiscal 2005, the year ended August 31, 2005. Although the Company achieved consolidated net sales of ¥383.9 billion, an increase of 12.9% year on year, ordinary income decreased by 8.7% to ¥58.6 billion. Revenue increase would have boosted our earnings, but it was not sufficient to make up for the shortcomings in operational control in the Group's core domestic UNIQLO business.

Our immediate aim in fiscal 2006 is to achieve growth in sales and profit through business structure transformation. We intend to refine our main business, which is UNIQLO, by reevaluating every aspect of our past success, and we will continue our drive into new business by means of merger and acquisition (M&A) activities and business alliances.

Transition to a holding company

In November 2005, FAST RETAILING adopted a holding company structure as a major step toward business structure transformation. One important objective behind the change was a clear separation of the management roles of supervision and business execution to achieve stronger Group-level governance. It was also essential that we categorically reject the big-company mindset that had become conspicuous in recent years by refocusing ourselves on entrepreneurial values. We recognized the need to make a radical change in the way our directors, operating officers and employees approach their work. Finally, we began to seek out excellent businesses and business managers around the world, engage in M&A activities and accelerate the Group's growth worldwide.

There are two elements of our name, "fast" and "retailing." By building mechanisms and structures that enhance and emphasize our speed, I want us to return to speedy management and the systematic achievement of unprecedented growth.

Strengthening corporate governance

To strengthen corporate governance by ensuring transparency, innovation and speed in management, we have introduced the entrusted operating officer system and the external director system. Under the entrusted operating officer system, when employees become corporate officers, they do not retain their employee status; rather, they resign from the Company and are installed as corporate officers on a contract basis that clearly spells out their assignment.

This system ensures that corporate officers have a stronger sense of responsibility toward their duties and engage in management with specialization and a sense of urgency. At the same time, we introduced the external director system. This system enhances the corporate governance structure and strengthens management checks and balances and supervision by engaging the services of external experts who bring a wealth of management experience and in-depth specialized knowledge to the Board of Directors.

UNIQLO Ginza Store
(Opened in October 2005)

Strengthening the UNIQLO business

We intend to reinforce the Group's core UNIQLO business and promote a return to growth by means of three growth engines.

- Organizational Reform
- Location and Store-format Development
- Product Development

In organizational reform initiatives in addition to the introduction of the entrusted corporate officer system, we will review our personnel, evaluation and compensation systems, radically change employees' approach to work and convert to a corporate structure that promotes innovative results.

The UNIQLO Ginza Store opens in Tokyo's fashion center

On October 7, 2005, the UNIQLO Ginza Store opened near the Ginza 4-chome crossing, in the heart of Ginza, Tokyo's most prestigious and fashionable shopping district. Ever since it opened, this large-format store, which boasts sales floor space of about 1,500 square meters on five floors, has been a customer magnet that has attracted the attention of many shoppers.

Our new flagship store offers a pleasant shopping experience for people of all ages, from fashion-conscious young women to practical seniors. Attractions include new merchandise categories such as the most trendy women's products and accessories, a store layout that showcases coordinated outfit suggestions, merchandise displays featuring different color schemes for different floors and a new service by which service attendants offer information and assistance to customers.

Diversifying location and store-format development

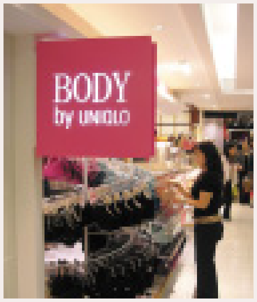
With regard to store location and store-format development, in search of new growth we are going to take the UNIQLO store opening strategy in Japan and turn it around 180 degrees. Until now, UNIQLO has expanded the store network by deploying a standard format of suburban freestanding roadside stores with a sales floor area of 700 square meters. However, it is now clear that adhering to this standard store format would lead to an ultimate saturation point of about 1,000 stores and sales of ¥500 billion in the domestic market. This store format is a contributing factor to the recent leveling off (or stability, to put it positively) of UNIQLO in Japan.

Realizing that the *status quo* is an obstacle to achieving greater growth, we have decided to shift the store strategy. We have already changed the fixed ideas about store location, store size and merchandise mix that we have made standard practice and begun developing new store formats, such as large-format stores with sales floor space ranging from about 1,600 to 3,000 square meters and specialized small-format stores with sales floor space of from about 30 to 160 square meters. We are also actively developing new store locations, opening stores at large shopping centers and department stores, promising sites that until now we have left nearly untapped.

In store development during the past year, in the autumn of 2004, we opened the Shinsaibashisuji Store, our first large-format store. We subsequently opened stores in suburban shopping centers and tenant shops in general merchandise stores: the Kuzuha Mall Store, the Ito-Yokado Musashisakai Store and the LALA Garden Tsukuba Store. UNIQLO operates six large-format stores as of October 2005, and this store format is beginning to deliver solid results. We intend to position such large stores as a future driver of the UNIQLO business and establish a format that can be operated as a large chain to pave the way to opening around 200 large-format stores nationwide.

Moving product development beyond mass marketing and fashion

In product development, we intend to create a complete collection suitable for stores with sales floor space varying from about 30 to 3,300 square meters. To that end, we have set up a product development organization consisting of five divisions: men's wear, women's wear, children's wear, bags/accessories and undergarments. We will recruit diverse human resources to staff product development bases centered on the Tokyo and New York R&D Centers and raise the level of our product development. The R&D Centers are far more than design units. They also play the crucial role of directly obtaining from around the



BODY by UNIQLO
Mosaic Ginza Hankyu Store
(Opened in September 2005)

BODY by UNIQLO

Autumn 2005 saw the opening of three BODY by UNIQLO specialty women's undergarment stores. These stores of about 60 to 100 square meters are situated in downtown department stores and other excellent locations. BODY by UNIQLO offers coordinated products and design-oriented merchandise that reflect the latest trends in keeping with its specialty store image. These stores strive to express femininity through careful attention to interior décor and distinctive touches, such as marble floors.

UNIQLO KIDS
Marui Kinshicho Store
(Opened in October 2005)

UNIQLO KIDS

In October 2005, two UNIQLO KIDS stores opened. They specialize in products for children and infants and are located in urban department stores and shopping centers with sales floor areas of about 130 square meters. The stores' puzzle motif encourages customers to mix and match merchandise to create original combinations. Original products available only at UNIQLO KIDS account for about a third of the merchandise mix, and the product selection is more extensive than that of ordinary UNIQLO stores.

world up-to-the-minute information on the latest trends: customer needs and lifestyles, fabrics, and clothing functions. A big part of their job is to independently analyze and compile that information on behalf of the Group.

We intend to offer merchandise distinctive to UNIQLO created on the basis of concepts compiled at the R&D Centers. By the term "concept" I mean "the customers' reason to buy." UNIQLO will discover these concepts and crystallize them into products. We will not simply sell these products, but will also enhance them with information and image.

To put things in perspective, first-generation SPAs (specialty store retailers of private label apparel) achieved rapid growth through high-volume sales of low-cost single items by uniting manufacturing and sales. Second-generation SPAs grew rapidly by emphasizing fashion and trends.

Today, UNIQLO aims to become a third-generation SPA, a goal no other player has yet to accomplish. On the basis of the original concepts developed from cutting-edge sources around the world, we will manufacture and sell best-quality products and serve as sources of a wide variety of information. UNIQLO's next ambition is to become an information-driven visionary, with much more to offer its customers.

Aiming to achieve Group sales of ¥1 trillion in 2010

"A company is as well as dead without growth." FAST RETAILING's vision is "To achieve sales of ¥1 trillion and ordinary income of ¥150 billion and become the world's leading casual apparel corporate group in 2010." In March 2005, FAST RETAILING acquired ONEZONE CORPORATION, a company that operates shoe store chains in Japan, and made it a wholly owned subsidiary. In May 2005, we acquired management control of NELSON FINANCES S.A.S., a French company that developed the COMPTOIR DES COTONNIERS brand. Future plans call for active M&A activities to accelerate growth for the Group. We will pursue an M&A strategy focused on sectors from which synergy with the UNIQLO business can be expected even as we sustain the Group's high profitability.

For the fiscal year ended August 31, 2005, the Company paid a cash dividend of ¥130 per share, which represents a dividend payout ratio of 39.0%. While maintaining balance between growth and profitability, the FAST RETAILING Group will continue to evolve toward the next growth stage.

November 2005

Chairman, President & CEO Tadashi Yanai

our group

The FAST RETAILING Group

Pursuing high profit and high growth through the synergy of distinctive, high-potential Group companies

FAST RETAILING CO., LTD.

UNIQLO CO., LTD.
UNIQLO(U.K.)LTD.
FAST RETAILING (JIANGSU) APPAREL CO., LTD.
UNIQLO USA, Inc.
FRL Korea Co., Ltd.
UNIQLO HONG KONG, LIMITED

UNIQLO

NELSON FINANCES S.A.S.
(Operating company: Créations Nelson S.A.)
COMPTOIR DES COTONNIERS JAPAN CO., LTD.

COMPTOIR DES COTONNIERS

ONEZONE CORPORATION

FOOT PARK

ASPESI

ASPESI Japan Co., Ltd.

ASPESI

national standard

National Standard Inc.

national standard

LTH

LINK THEORY HOLDINGS CO.,LTD.
Listed its shares on the MOTHERS market of the Tokyo Stock Exchange. (Equity-method affiliate)

Theory

FOOT PARK

UNI
QLO

theory

COMPTOIR DES COTONNIERS

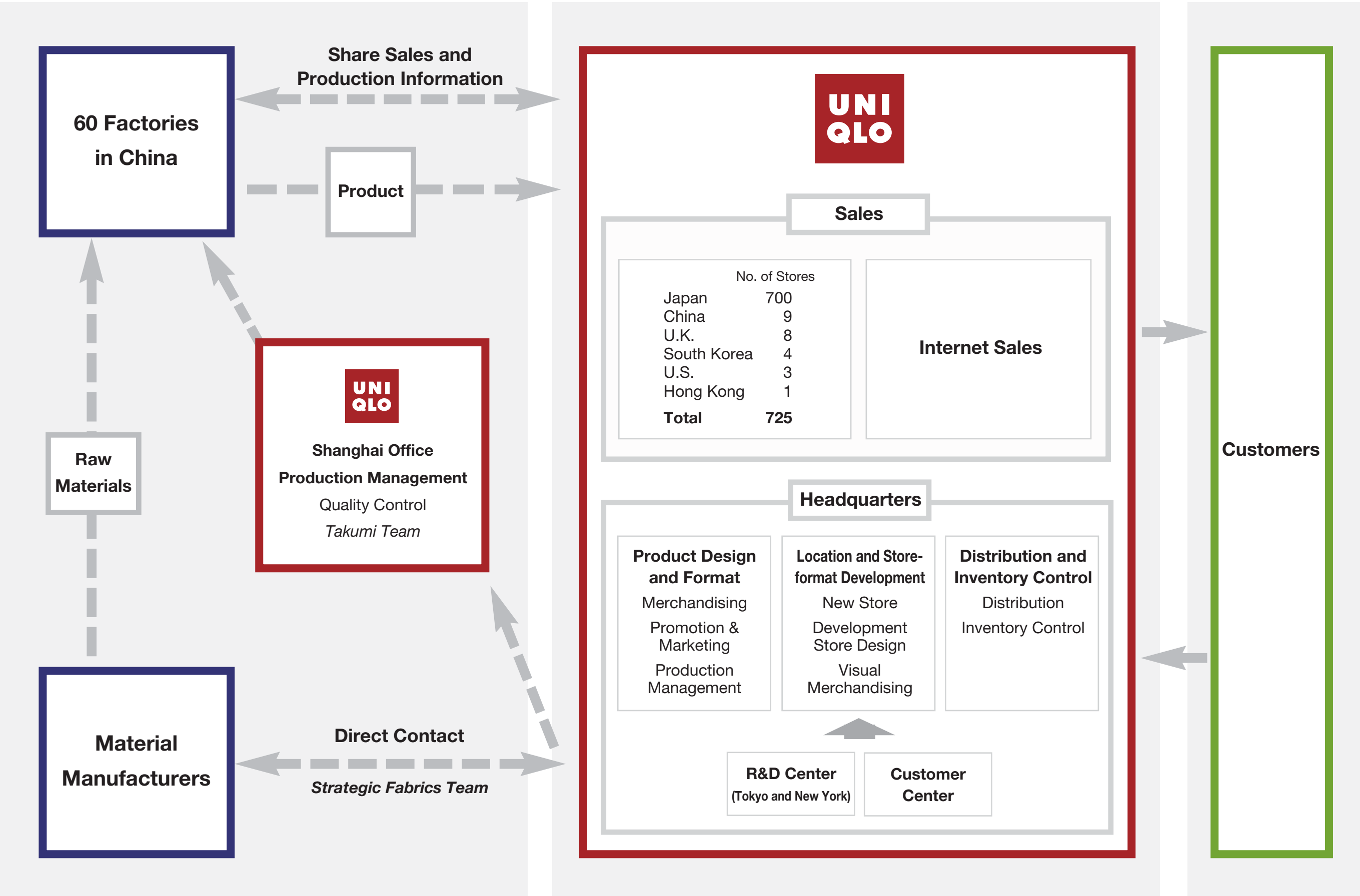
national standard

ASPESI

business model

Always providing high-quality casual wear at reasonable prices

The mission and vision of UNIQLO is to continuously offer fashionable, high-quality, basic casual clothing that everyone can wear at reasonable prices. The mechanism for unifying and connecting production bases in China and other countries and UNIQLO stores in more than 700 far-flung locations around the world is the cornerstone of the UNIQLO business model devised to accomplish this mission.



*As of November 30, 2005

The business model that underpins UNIQLO's high profitability

- Devotion to low-cost management and the direct coupling of production and sales at the fastest possible speed and lowest possible cost. The Company directly engages in all product planning, production, quality control, distribution, sales and sales promotion activities.
- Complete assumption of raw material and inventory risk. The Company operates on the principle "The full assumption of risk sets us apart from competitors. Risk creates profit."

Operating Income = **Net Sales** (1. standard prices - 2. discounts) - **Purchasing Costs** (3. raw material costs + 4. sewing and processing costs + other purchasing costs) - **SG&A Expenses** (5. personnel + 6. rents + other SG&A expenses)

1. standard prices Most prices are set at ¥1,000, ¥1,990 or ¥2,990, which we seek to maintain as our standard prices. For example: T-shirts, ¥1,000; fleece jackets, ¥1,990; chino pants, ¥2,990.

2. discounts Standard prices are discounted through two types of sales.
Limited-period sales are price reductions for the purpose of attracting customers. These discounts are offered for specified periods, such as weekends only. After the discount period, prices return to standard.
Clearance sales are price reductions aimed at reducing slow-moving inventories. We assume 100% of the risk for products we order from factories. However, our flexible production management system allows us to increase or decrease output levels to reflect timely sales information. Consequently, we are able to minimize reliance on clearance sales and the deterioration of the gross profit margin that results.

3. raw material costs We are able to hold down raw material costs through the economies of scale afforded by our 700-store network in Japan—the largest in the industry. We receive additional discounts by guaranteeing 100% purchase of raw materials ordered. As an example of the scale by which we operate, by industry standards, sales of 100,000 items for one product would be classified as a major hit product. However, this figure is not large for FAST RETAILING. For us, 100,000 items is less than 10 items per store on an SKU (Stock Keeping Unit) basis.

Furthermore, our size enables us to negotiate prices directly with major international fabric manufacturers. It also allows us to aggressively pursue joint development of new materials, such as highly functional Heat Tech material.

4. sewing and processing costs We minimize sewing and processing costs by taking on 100% of the risk for production at partner factories and working with them to improve efficiency. We actively transfer advanced textile production technology to partner factories in China, which we view as long-term relationships. The Takumi Team at the Shanghai office is a group of veteran Japanese technical experts with over 30 years' experience in such areas as sewing and plant management. The team goes directly to partner factories and passes on their expertise to young Chinese technicians. Through such close partnerships we are making a long-term investment in product quality and plant efficiency.

5. personnel Part-time employees at stores account for the bulk of personnel expenditure. Standardized store operations stemming from uniform store layouts, displays, shelving, and fitting rooms and our limited store formats allow us to run UNIQLO stores effectively with smaller staffs.

6. rents Since 65% of our stores are freestanding, roadside outlets in suburban areas, the ratio of rents to sales is kept low. And, when we open stores in urban areas or in shopping centers, we conduct detailed preliminary sales simulations to avoid excessive rent burdens.

UNIQLO

products

Excellent casual clothing for anybody, anywhere, everyday

UNIQLO has brought down, one after another, barriers to the enjoyment of casual fashion. Time and again, we have astonished the market by introducing things that make people think, "That's just what I've been looking for." Making excellent casual clothing available for anybody, anywhere, everyday—That's the UNIQLO vision. To that end, we will gather the latest information and the finest materials from around the world and continue to create new value and markets through innovation.

BODY TECH—Clothing that infuses sports with science In the summer of 2005, UNIQLO launched BODY TECH, its first line of sportswear, developed jointly with Keio University by scientifically verifying the motor functions of bodies in motion. It is a new strategic product appropriate for use in both casual activities and demanding professional sports.

STYLE-UP PANTS—Show off beautiful legs and shapely hips In the autumn of 2005, UNIQLO launched STYLE-UP PANTS, slacks that reflect an exhaustive review of silhouette and pattern from every angle based on the concept "Beautiful legs and shapely hips." This product line features figure-flattering coordinates appropriate for both work and casual styles.

DENIM PLUS—Emphasis on the processed look UNIQLO sells nine million pairs of jeans a year (2004 results). In 2005, we began offering Denim Plus, a line of women's jeans emphasizing damaged denim, painted denim and other processed-denim looks previously unavailable in our best-selling basic jeans line.

Did you know?

Sweaters made of the luxury fabric cashmere Since UNIQLO began selling cashmere sweaters in the autumn of 2003, cashmere clothing has become a mainstay UNIQLO product. UNIQLO offers cashmere sweaters at attractive prices ranging from ¥4,990 to ¥9,990. In the 2005 autumn-winter season, we added new lines, such as the fine-gauge cashmere cardigans and cashmere sweaters created in collaboration with a women's magazine—giving more people more ways to pamper themselves with cashmere.

production

Controlling every step—from planning, to manufacture, to sales

UNIQLO products are inspired and shaped by a great variety of information such as customer opinions and market trends around the world. They are conceived and designed at the UNIQLO R&D Centers in Tokyo and New York and manufactured at our partner factories in China. At factories closely tied to UNIQLO by strong relationships of trust, the Takumi Team of technical experts, veterans in the textile industry in Japan with more than 30 years of experience, provides technical guidance that ensures world-class manufacturing quality. Our Material Development Team builds close relationships with the leading fabric manufacturers around the world and actively engages in the development of new materials.

Fully 90% of UNIQLO products are made in China UNIQLO trades with 60 factories operated by 50 companies in China and other Asian countries. The staff at UNIQLO Shanghai closely monitors production and accurately tracks progress at these factories in weekly visits to maintain a high level of quality even when producing millions of garments.

The Takumi Team of technical specialists underpins high quality The 14-member Takumi Team of textile experts is based in the Shanghai Office and instructs our partner factories in China in the advanced techniques of Japan's textile industry, including spinning, dyeing, knitting, sewing and factory management. This powerful support for production partners is an important element of UNIQLO's high quality.

UNIQLO procures the finest-quality fabrics from across the globe A system for global raw material procurement is the reason we can offer unprecedentedly low prices for clothing made using precious cashmere. The Material Development Team directly negotiates with the world's leading manufacturers to procure the finest materials available anywhere.

Did you know?

R&D Centers gather information from around the world The Tokyo R&D Center and the newly opened one in New York have a combined staff of 100 creative directors, designers, patterners and other creative personnel that will double in a year's time. The R&D Centers gather and analyze information from around the world and compile concepts from a unique perspective. They will make basic merchandise, UNIQLO's strength, more stylish and women's wear more reflective of current trends.

stores

One-to-one communication: we regard stores as an invaluable interface

Today, the UNIQLO store network in Japan consists of more than 700 stores, mainly freestanding roadside stores and stores in shopping centers. All UNIQLO stores are familiar, welcoming places where the entire family can enjoy shopping. In the autumn of 2004 we began opening large-format stores with sales floor space of about 1,600 square meters, and in the autumn of 2005, we introduced specialty stores for women's undergarments and for children's wear. In the coming years, we will continue to develop wide-ranging store formats suitable for every location and every type of customer.

Families are UNIQLO's core customers Typical UNIQLO stores offer a comprehensive selection of men's wear, women's wear and clothing for children and infants, making them the ideal spot for families and people of all ages to shop. Our suburban roadside stores enjoy the patronage of a particularly diverse customer base.

The percentage of female customers is on the rise UNIQLO enjoys strong support from women of all ages, especially those in their thirties. In fiscal 2005, products for women, including undergarments, accounted for approximately 40% of total sales. We intend to further increase the number of female customers by sharpening our focus on fashion trends.

Large inventory always on display UNIQLO is short for "Unique Clothing Warehouse," and a distinctive feature of our stores is voluminous displays of products. We believe such abundance stimulates sales, and our objective is to always have available in our stores appropriate quantities of the products that customers want in all colors and sizes.

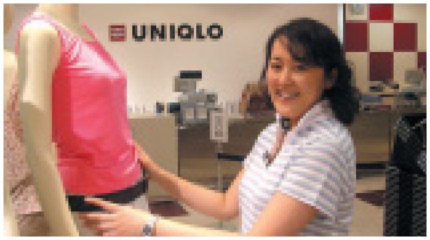
Did you know?

Some 65% of UNIQLO stores are in roadside locations The standard UNIQLO store format is a suburban free-standing roadside store with a sales floor area of about 700 square meters and parking for approximately 50 cars. Despite increasing the number of stores in major shopping centers during the past year or two, even now about 65% of our stores are roadside stores. We are replacing smaller stores of around 500 square meters with larger stores through an active scrap-and-build program.

people

Making the most of precious human resources, with fairness and respect

UNIQLO fairly evaluates each employee's ability and performance regardless of age, gender, race or nationality. We aim to maintain an organization in which each store manager, supervisor, merchandiser and head-office employee functions as a consummate professional, demonstrating the commitment of an independent entrepreneur. It is our people who provide customers with the ultimate merchandise and service, and we place high importance on employee development.



A new employee franchise system The UNIQLO employee franchise system was inaugurated in October 2002 to enable employees to operate their own independent UNIQLO franchise stores. Since the system was introduced, there have been eight new franchises and ownership of an employee franchise has become an important career objective for store managers.

UNIQLO delegates authority to "superstar" store managers "Superstars" and "stars" are store managers who have been given greater authority, for instance, the authority to order store inventory. These managers are motivated by the prospect of receiving higher compensation based on their stores' business performance. There are now about 40 superstar and star store managers.

Women store managers contribute to UNIQLO's success Women employees make an important contribution at UNIQLO, and about 120 UNIQLO store managers out of 700 are women. In May 2004, we launched the Woman Store Manager Project to create an environment that supports women in their career development.

development outside of japan

Clothing for everyone, that rises above national, ethnic and geographic constraints

Since the autumn of 2005, FAST RETAILING has been engaged in full-scale expansion of the overseas UNIQLO store network. We have operated stores in the United Kingdom and China for some time, and in the autumn of 2005, we opened our first stores in South Korea, the United States and Hong Kong. We recently expanded and renovated our store on Regent Street, making it the flagship store in London. We aim to achieve overseas sales for UNIQLO of ¥100 billion in 2010.

South Korea In September 2005, FRL Korea Co., Ltd., a joint-venture company with Lotte Shopping Co., Ltd., opened a total of three stores in Lotte Shopping Center and Lotte Mart stores. Through this partnership with South Korea's largest retailer, we aim for a stable, secure market share in this market.

The United States The September 2005 opening of three stores in shopping malls in New Jersey marked UNIQLO's first challenge in the U.S., the true home of casual wear and a fiercely competitive market. As a careful first step, we have launched our U.S. operation with a small number of stores.

The United Kingdom Four years have passed since we opened the first overseas UNIQLO stores in September 2001. Name recognition in the U.K. has increased, and we have gradually expanded the store network through a scrap-and-build strategy. We currently operate eight stores in the U.K. (as of November 30, 2005).

M&A strategy

FAST RETAILING's merger and acquisition strategy

Globally seeking out winning concepts and excellent management talent

A coherent merger and acquisition (M&A) strategy is critically important for FAST RETAILING, which aims to achieve Group sales of ¥1 trillion and ordinary income of ¥150 billion in 2010.

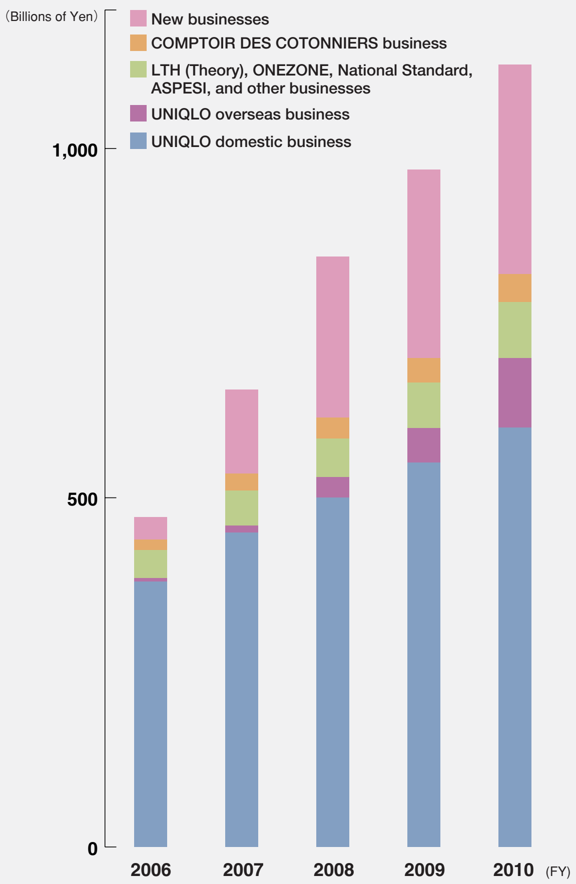
The size of Japan's apparel market is estimated at ¥10 trillion, and FAST RETAILING's ¥380 billion represents only 4% of the market. The world market is ten times bigger than the domestic market, which gives us a mere 0.4% global share. The remaining 99.6% is untapped, leaving FAST RETAILING abundant opportunities. Expanding into this market will require businesses based on winning concepts and the efforts and talent of many excellent business managers. The Company believes that an M&A strategy is necessary for acquiring such businesses and managers.

Mergers and acquisitions can be expected to offer significant benefits in the form of far greater competitive advantage and growth potential for the companies that come to participate in the FAST RETAILING Group. Group companies enjoy access to the successful business platform we have developed in the UNIQLO business that involves production bases in China, global materials procurement, store operation expertise, inventory control, distribution and other systems.

Specifically, we plan to consider as M&A targets fashion-related companies with global potential able to eventually deliver sales of ¥100 billion or higher and a ratio of ordinary income to sales of 10% or higher.

In the coming years, FAST RETAILING intends to achieve high growth by investing between ¥300 billion and ¥400 billion, aggressively engaging in M&A activities, and pursuing global business operations together with excellent business managers.

**FAST RETAILING GROUP
SALES SCENARIO 2006–2010**



Note: Figures in this graph provide a scenario for achieving sales of ¥1 trillion in 2010. These figures do not represent the Group's consolidated business result forecasts.

COMPTOIR DES COTONNIERS

Comptoir des Cotonniers is a brand of women's apparel highly popular in France. Introduction of the brand in Japan is planned for the spring of 2006.

Comptoir des Cotonniers is a creative brand, which lauds personal relationships and a sense of heart to heart. It encapsulates and nurtures the close bond between mother and daughter.

It started from a small shop in 1995 in France as a collection brand. Comptoir des Cotonniers has become the leading French collection brand, much loved by French women as the creative collection wearable everyday. It offers a very original combination of classic style and fashionable design details. The collection is based on 100% French design, natural fabrics and a strong sense of the latest trends.

COMPTOIR DES COTONNIERS

NELSON FINANCES S.A.S. (Operating company: Créations Nelson S.A.)

http://www.comptoirdescotonniers.com

In May 2005, FAST RETAILING acquired management control of NELSON FINANCES S.A.S., the company that produces and sells the COMPTOIR DES COTONNIERS brand. COMPTOIR DES COTONNIERS is specialty retail clothing brand of original products created by in-house designers and manufactured at production bases that are primarily in Europe. The store network as of October 2005 consisted of 205 stores, primarily in France, and sales of ¥12.0 billion are forecast for the current fiscal year. The company enjoys high profitability achieved by means of efficient management.

COMPTOIR DES COTONNIERS stores (60 square meters) are in urban (high-street) locations or exclusive department stores such as Galeries Lafayette and Printemps. Currently, stores are operated in France, Spain, Belgium and Germany, and future plans call for expansion to the U.K., Switzerland and other European countries.

Each season, a fashion show at which clothes are modeled by mother and daughter pairs selected from among more than 10,000 customers from across France attracts great public attention.

COMPTOIR DES COTONNIERS JAPAN CO., LTD.

Established in September 2005 with the aim of compiling a 2006 spring/summer collection to launch the Comptoir des Cotonniers brand into the Japanese market. Beginning with department store outlets in Japan's major urban areas, the company will aim to systematically expand the store network nationwide over time.

Restoring profitability by transplanting the retail expertise of UNIQLO

The FOOT PARK concept is to propose fashionable footwear suited to a free and comfortable family life. The brand encompasses a range of footwear geared to today's lifestyles at reasonable prices. Store interiors are brimming with activity and an at-home atmosphere, providing a comfortable place where families can enjoy leisurely shopping.

FOOT PARK

ONEZONE CORPORATION

http://www.onezone.jp

In March 2005, FAST RETAILING entered the shoe retailing industry by acquiring ONEZONE CORPORATION as a wholly owned subsidiary. As of October 2005, ONEZONE was ranked as the fourth-largest shoe retailer in Japan (based on forecast annual sales of ¥25.0 billion for fiscal 2006). It operates 328 stores nationwide under such names as FOOT PARK and SASAN.

Although the impact of the disposal of obsolete inventory led to losses in the year ended August 2005, ONEZONE plans to achieve improved business results by applying retail expertise FAST RETAILING honed in the UNIQLO business, including product development, store operation and inventory control. In fiscal 2006, the company aims to increase revenue and earn an operating profit by completing inventory adjustments, lowering product purchase costs, increasing efficiency in store operation and achieving a store remodeling effect.

The name ONEZONE is a combination of "one" and "zenith," suggesting the power to help each company member to reach his or her full potential.

LTH

LINK THEORY HOLDINGS listed in
Tokyo in June 2005

Theory

LINK THEORY HOLDINGS CO.,LTD.

Equity-method affiliate

http://www.link-theory.com

Theory caters to the needs of contemporary women who are looking for everyday clothing that is comfortable, modern and sexy. Theory began as a merchandising brand in New York in 1997. Theory's NEW BASIC silhouette incorporates comfortable, simple and unpretentious trends and is much loved by sophisticated women living and working in the city. Perfect fitting pants and sexy shirts made from top quality stretch fabric have become a trademark of Theory.

Theory Aoyama

In January 2004 FAST RETAILING took an equity stake in LINK THEORY HOLDINGS CO.,LTD. (LTH), the company that produces and markets the Theory brand in the United States and Japan. The Theory brand was created in New York in 1997 and launched in Japan in 1998. The brand has proved highly popular among career women in the U.S. and Japan, demonstrating excellent growth in both markets.

LINK THEORY HOLDINGS successfully listed its shares on the MOTHERS market of the Tokyo Stock Exchange in June 2005, strengthening its financial position. The company has steadily improved its business results; consolidated sales in the fiscal year ended August 31, 2005 were ¥35.6 billion (an increase of 42.1% year on year), and ordinary income was ¥4.6 billion (an increase of 103.5%).

In Japan, the company has sustained stable growth by aggressively opening Theory stores and Theory Luxe stores (which offer size extensions of Theory clothing). In October 2005, LTH announced the acquisition of Schleicher Holding GmbH, the company that owns Rosner, a famous German brand, thus establishing a foothold in the European market. Future plans call for rolling out Theory beyond the U.S. and Japan to European markets with the aim of achieving further growth as a global brand.

corporate social responsibility

Corporate social responsibility at FAST RETAILING

The Company is owned by its shareholders, but it also belongs to the public. FAST RETAILING believes that it cannot achieve sustainable growth without attaining harmony with the interests of its various stakeholders: customers, suppliers, employees, host community residents, NPOs and society as a whole.

To accommodate the interests of diverse stakeholders, it is necessary to engage in a variety of activities Group wide, establishing corporate governance with proper internal control functions, instilling a law-abiding spirit and sincere work methods, undertaking fair trade, assuming environmental responsibility, creating workplaces where employees can engage in meaningful work and contributing to local communities and society at large. In this section we focus on the FAST RETAILING Group's involvement in a few of those activities.

Community activities at UNIQLO

The basic principle behind UNIQLO's community contribution and environmental activities is to "start from what we can do to help." While we are fully committed to business, we aim to be a trusted and admired company in the eyes of customers and society.

Photograph provided by Japanese Red Cross Society.

Disaster relief activities

In response to the Niigata Chuetsu Earthquake of October 2004, we donated 44,000 items, mainly outerwear such as Outlast fleece and Air Tech jackets. Through the Japan Red Cross, we donated funds to victims of the Sumatra Offshore Earthquake in December 2004. We will continue to mount a rapid response when disaster strikes.

Photograph provided by SONA.

Support for the Special Olympics

UNIQLO supports the Special Olympics, the international sports body for mentally challenged people. We donated official uniforms for the 160 members of the Japanese team and 17,800 uniforms for the volunteers and staff at the 2005 Special Olympics World Winter Games in Nagano. UNIQLO employees also volunteer to participate in running the Games.

Corporate governance

FAST RETAILING has separated the management role of supervision from that of business execution under its holding company structure with the introduction of the entrusted operating officer system. Under the new structure, the Board of Directors bears responsibility for management supervision, while entrusted operating officers are responsible for business execution. The Company has also introduced an external director system, strengthening management checks and balances. Through these changes, we hope to construct a management system with more sophisticated operational control, clarified responsibilities and improved transparency. We will continue to engage in management reform to strengthen corporate governance.

Compliance

To strengthen the Group's legal compliance function, in 2004 FAST RETAILING established the FAST RETAILING Group Code of Conduct and established the Code of Conduct Committee with the aim of ensuring that all employees comply with the Code of Conduct as well as with the law. UNIQLO rigorously ensures compliance, and all corporate officers, regular employees and temporary workers sign a pledge of compliance after reading and understanding the Code of Conduct. We also conduct training to enhance understanding of the Code of Conduct, and maintain a compliance hotline to prevent behavior and language in conflict with the Code. We are sequentially introducing the Code of Conduct at all Group companies.

Strengthening relations with business partners

FAST RETAILING believes that corporate growth depends on the trust and cooperation of suppliers, and in 2004 UNIQLO established the Business Ethics Committee with the aim of constructing sound business relationships with its business partners. We incorporate an objective point of view by having an outside auditor chair the committee. We also periodically conduct key UNIQLO supplier questionnaire surveys covering matters including business practices, coerced entertainment, examining and monitoring trading relationships on the basis of the survey results. The Business Ethics Committee discusses the results of this examination and monitoring and engages in supervision and guidance when problems occur.

Partners in the workplace

UNIQLO actively hires persons with disabilities, who currently make up 7.66% of our staff, as of March 2005 (630 workers), far in excess of the legally required 1.8%. UNIQLO aims to employ at least one person with disabilities at each store in order to promote a spirit of mutual assistance and teamwork among store staff.

UNIQLO proactively promotes female employees and in May 2004 launched the Woman Store Manager Project, to nurture and support female career development; in December 2004, we established the Women's Career Promotion Office and in July 2005 participated in the International Conference for Women in Business as a main sponsor.

Fleece recycling program

Since August 2001, UNIQLO has recycled our fleece products that customers no longer need. We believe that recycling is an important task for a company that engages in end-to-end product planning, production, distribution and sales, and are expanding this effort. As of November 30, 2005 we had collected 288,380 fleece articles at UNIQLO stores since the start of the program.

Setouchi Olive Foundation

The Setouchi Olive Foundation seeks to plant one million olive trees (a very hardy species) to begin restoring flora on Teshima, an island damaged through illegal dumping of toxic industrial waste. Since 2001, UNIQLO has matched donations made by customers in donation boxes at all UNIQLO stores. As of November 2005, 43,915 trees had been planted for the benefit of future generations.

corporate history

Mar. 1949
Men's Shop Ogori Shoji founded as a private enterprise in Ube City, Yamaguchi Prefecture.

May 1963
Ogori Shoji Co., Ltd. established, with capital of ¥6 million, as a successor to the original business.

Jun. 1984
The first UNIQLO store specializing in casual clothing opened in Hiroshima City (UNIQLO Fukuromachi store; closed in August 1991).

Jun. 1985
The first UNIQLO roadside store opened. Following immediate success, the format was adopted as the new standard.

Sep. 1991
The Company's name changed from Ogori Shoji to FAST RETAILING, a name that succinctly expresses its business philosophy.

Jul. 1994
The Company's stock listed on the Hiroshima Stock Exchange.

Nov. 1996
Tokyo Office opened in Shibuya, Tokyo, to reinforce the Company's in-house product planning and development capabilities.

Feb. 1998
Head Office constructed in Yamaguchi Prefecture, to further enhance central management functions and operational efficiency.

Oct. 1998
The ¥1,900 fleece campaign attracted great public attention.

Nov. 1998
The first downtown store opened in the fashionable Harajuku district of Tokyo.

Feb. 1999
The Company's stock listed on the First Section of the Tokyo Stock Exchange.

Apr. 1999
Shanghai Office established to further enhance production management operations.

Apr. 2000
Headquarters functions moved to Tokyo to promote merchandising and marketing and to carry out operations more efficiently.

Oct. 2000
Internet online sales business launched to foster new sales channels and improve customer convenience.

Sep. 2001
First four UNIQLO overseas stores opened in London, U.K.

Apr. 2002
UNIQLO Design Studio established as an independent organization with over 50 designers and pattern makers.

Sep. 2002
Began operations in China by opening two UNIQLO stores in Shanghai.

Nov. 2002
Started food business under the SKIP brand name.
Tadashi Yanai named Chairman and CEO, and Genichi Tamatsuka named President and COO.

Oct. 2003
The cashmere campaign stimulated high consumer interest.

Jan. 2004
The Company took an equity stake in Link International Co.,Ltd. (now LINK THEORY HOLDINGS CO.,LTD.), marketer of the Theory apparel brand.

Feb. 2004
National Standard Inc., marketer of the national standard women's apparel brand, became a consolidated subsidiary.

Oct. 2004
The first megastore, UNIQLO PLUS, opened in the Shinsaibashi district of Osaka.

Dec. 2004
Established UNIQLO Design Studio, New York, Inc. design subsidiary to help strengthen R&D function.

Mar. 2005
Footwear retail chain ONEZONE CORPORATION (FOOT PARK, etc.) became a consolidated subsidiary.

May 2005
Obtained management control of NELSON FINANCES S.A.S., developer of Europe-focused COMPTOIR DES COTONNIERS brand.

Sep. 2005
Established COMPTOIR DES COTONNIERS JAPAN CO., LTD., which is preparing to open stores in spring 2006.

Sep. 2005
ASPESI Japan Co., Ltd. set up as a consolidated subsidiary to market the Italian ASPESI brand in Japan.

Sep. 2005
Opened first UNIQLO store in South Korea (Seoul).

Sep. 2005
Opened first store in U.S. (New Jersey).

Sep. 2005
Opened first store in Hong Kong (Tsim Sha Tsui shopping district).

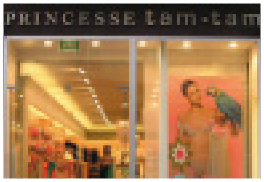
Sep. 2005
Opened first women's underwear specialty store, BODY by UNIQLO, in Tokyo's Ginza shopping district.

Oct. 2005
Opened UNIQLO flagship store in Ginza, Tokyo.

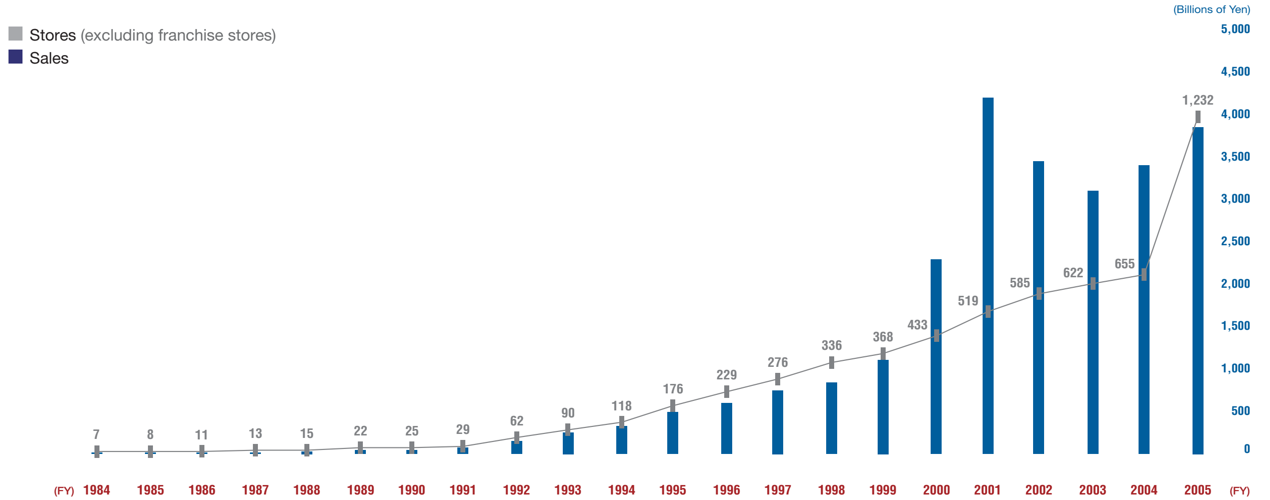
Oct. 2005
Opened first UNIQLO KIDS store.

Nov. 2005
Shifted to a holding company structure to strengthen UNIQLO operations and drive new business expansion.

Dec. 2005
Announced share purchase and acquisition of Petit Vehicule S.A., developer of leading French lingerie brand PRINCESSE tam.tam.



SALES AND STORES OF FAST RETAILING GROUP



Note: In fiscal 2005, there was a sharp increase in the number of stores due to the inclusion of ONEZONE CORPORATION and NELSON FINANCES S.A.S. on a consolidated basis.

Six-Year Financial Summary

FAST RETAILING CO., LTD. and consolidated subsidiaries
Fiscal years ended August 31

	Millions of yen except per share data and other data					
	2005	2004	2003	2002	2001	2000
For the year:						
Net sales	**¥383,973**	¥339,999	¥309,789	¥344,171	¥ 418,561	¥ 228,986
Operating income	**56,692**	63,954	41,308	50,418	102,081	60,628
Net income	**33,884**	31,365	20,933	27,851	59,192	34,514
ROE (%)	**19.7%**	20.8%	15.9%	23.2%	65.3%	70.2%
Per share data (yen):						
Net income	**¥ 331.99**	¥ 304.92	¥ 203.05	¥ 269.54	¥1,119.28	¥1,303.35
Shareholders' equity	**1,791.61**	1,583.67	1,378.58	1,215.43	2,203.45	2,446.34
Cash dividends:						
Adjusted	**130.00**	115.00	55.00	55.00	60.00	37.50
Unadjusted	**130.00**	115.00	55.00	90.00	120.00	150.00
Dividend payout ratio (%)	**39.0%**	37.7%	27.1%	20.4%	10.7%	11.5%
Net cash provided by (used in) operating activities	**¥ 15,398**	¥ 44,120	¥ 35,768	¥ (19,361)	¥ 80,581	¥ 68,790
Net cash used in investing activities	**(16,823)**	(20,730)	(10,118)	(9,927)	(13,199)	(5,085)
Net cash used in financing activities	**(14,854)**	(8,677)	(10,179)	(20,431)	(10,955)	(3,766)
Depreciation and amortization	**3,681**	2,737	2,364	1,942	1,571	805
Capital expenditures	**11,649**	11,220	11,633	11,020	13,474	6,218
At year-end:						
Cash and cash equivalents	**¥121,061**	¥136,461	¥123,733	¥107,263	¥ 157,379	¥ 99,670
Total assets*	**272,846**	240,897	219,855	210,922	249,766	151,607
Total shareholders' equity*	**182,349**	161,434	140,505	123,632	116,476	64,755
Equity ratio (%)	**66.8%**	67.0%	63.9%	58.6%	46.6%	42.7%
Interest-bearing debt	**6,185**	52	—	5,809	7,000	10,000
Debt-equity ratio (%)	**3.4%**	0.0%	—	4.7%	6.0%	15.4%
Other data:						
Number of shares outstanding	**106,073,656**	106,073,656	106,073,656	106,073,656	53,036,828	26,518,414
Total number of stores	**1,232**	655	622	585	519	433
Direct-run stores in Japan	**[775]**	[635]	[582]	[558]	[507]	[421]
Direct-run stores overseas	**[157]**	[9]	[26]	[15]	[—]	[—]
Franchise stores	**[300]**	[11]	[14]	[12]	[12]	[12]
Total sales floor space (m^2)	**437,196m^2**	363,901m^2	335,849m^2	305,504m^2	263,713m^2	186,801m^2
Number of full-time employees	**2,668**	1,782	1,776	1,853	1,598	1,265

*Due to changes in regulations relating to financial statements, treasury stock, which was recorded in "Investments and other assets" in the balance sheets until the fiscal year ended August 31, 2001, is recorded as a deduction item in "Shareholders' equity."

Management's Discussion and Analysis

STORE NETWORK DEVELOPMENT

At the fiscal 2005 year-end, the FAST RETAILING Group operated a network of 1,232 stores (including 932 direct-run stores) consisting of 679 UNIQLO stores in Japan, 14 UNIQLO stores overseas, 329 FOOT PARK and other shoe stores (operated by ONEZONE), 200 COMPTOIR DES COTONNIERS stores (operated by NELSON FINANCES) and 10 National Standard stores (operated by National Standard). The acquisition of ONEZONE and NELSON FINANCES resulted in a sharp increase in the number of Group stores compared to the previous fiscal year-end (655 stores).

In the core domestic UNIQLO business, we are aggressively opening new stores with the aim of establishing a network of 1,000 stores in Japan in the coming years. In our pursuit of store network expansion we adhere to rigorous internal store-opening standards, avoiding the haphazard opening of stores. For new store locations, we target geographical areas with minimum competition from other UNIQLO stores and areas served by small-scale UNIQLO stores (sales floor space of about 500 square meters). Specifically, this means areas targeted for scrap-and-build development in line with our store scale expansion strategy. In fiscal 2005, we opened 69 direct-run UNIQLO stores and closed 31 stores.

Freestanding stores in suburban roadside locations account for about 65% of UNIQLO stores. These suburban stores attract customers by inserting flyers aimed at family shoppers each week in newspapers distributed in store catchment areas. They publicize products offered at special weekend-only prices. Flyers and TV commercials account for the majority of UNIQLO's advertising and promotion spending (5.3% of net sales in fiscal 2005 on a non-consolidated basis).

Newly opened stores are standard-format stores with a floor space of about 700 square meters, and we are replacing existing small-scale stores with standard-format stores. About 300 small-scale stores remain, which we intend to continue to aggressively replace with larger stores under our scrap-and-build program.

In October 2004, we opened the Shinsaibashisuji Store in Osaka, the first large-format UNIQLO store with a sales floor area from 1,600 to 3,300 square meters. We subsequently opened the Kuzuha Mall Store (Osaka), the Ito-Yokado Musashisakai Store (Tokyo), the LALA Garden Tsukuba Store (Ibaraki), the Ginza Store (Tokyo) and the Mina Tenjin Store (Fukuoka), bringing the total of large-format stores to six as of October 31, 2005. At our large-format stores, we are experimenting with new product categories, new fixtures, new sales floor layouts, and visual merchandising and are developing new customer segments.

In addition, in September 2005, we initiated a program of opening specialized small-format stores such as women's undergarment stores and children's and infants' clothing stores. We plan to locate these small stores, which have sales floor areas ranging from 30 to 160 square meters, primarily in central city locations. Beginning in fiscal 2006, we plan to expand total store sales floor space for UNIQLO stores in Japan by stepping up the pace of opening of these new-format stores such as large-format stores and specialized small-format stores.

In the UNIQLO business overseas, our U.K. operations posted an operating loss in fiscal 2005. We aim to turn a profit in the U.K. in fiscal 2006 with the addition of two new stores, which opened in October 2005. In Shanghai, China, where we opened our first stores in September 2002, we posted our first-ever

Number of Stores by Company

	2005			2004	2003
	End Aug.	Open	Close	End Aug.	End Aug.
UNIQLO	**693**	80	33	646	621
UNIQLO Japan	**679**	74	32	637	595
Direct-run	**664**	69	31	626	581
Franchise	**15**	5	1	11	14
UNIQLO overseas	**14**	6	1	9	26
U.K.	**6**	3	0	3	21
China	**8**	3	1	6	5
ONEZONE	**329**	—	—	—	—
NELSON FINANCES	**200**	—	—	—	—
National Standard	**10**	1	0	9	—
TOTAL	**1,232**	81	33	655	621

Number of Direct-run Stores Opened and Closed—UNIQLO Japan

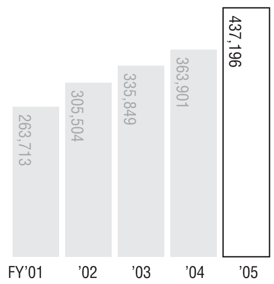
	2005	2004	2003	2002	2001
Stores opened	**69**	81	76	77	111
Stores closed	**31**	36	53	26	25
Net increase	**38**	45	23	51	86
Stores at fiscal year-end	**664**	626	581	558	507

profit in fiscal 2005. In September 2005, we opened two stores in Beijing. In other overseas activities, in the autumn of 2005, we set up operations in three markets, opening three stores in the United States, four stores in South Korea in a joint venture with Lotte Shopping Co., Ltd. and one store in Hong Kong. We plan to proceed aggressively with new store openings while carefully assessing profitability and growth potential on a region-by-region basis.

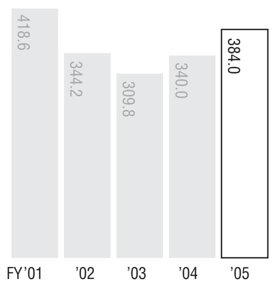
In operations other than UNIQLO, at the fiscal year-end ONEZONE, which became a consolidated subsidiary in fiscal 2005, operated a network of 329 stores (including 101 direct-run stores). NELSON FINANCES operated a network of 200 stores (including 143 direct-run stores), the majority of which are located in France. NELSON FINANCES has begun opening stores in European countries other than France and plans to continue steadily opening new stores—including 38 stores in fiscal 2006.

As a result of these developments, total sales floor space for the FAST RETAILING Group (direct-run stores only) increased by 20.1% year on year to 437,196 square meters.

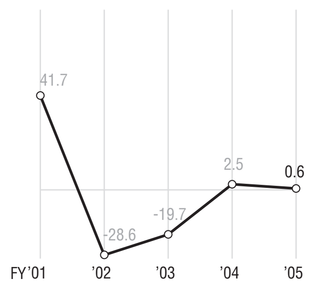
Total Sales Floor Space (m²)



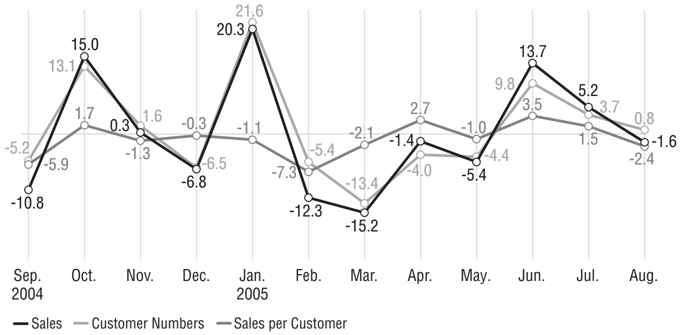
Net Sales (Billions of Yen)



Year-on-year Sales Trend at Existing Stores (UNIQLO Stores in Japan) (%)



Year-on-year Monthly Trends at Existing Stores in FY2005 (UNIQLO Stores in Japan) (%)



RESULTS OF OPERATIONS

Net sales

In the fiscal year ended August 31, 2005, FAST RETAILING posted consolidated net sales of ¥384.0 billion, an increase of ¥44.0 billion or 12.9% from the previous fiscal year. UNIQLO sales in Japan (95% of consolidated sales) were ¥365.3 billion, an increase of ¥29.4 billion or 8.8% year on year. New store openings proceeded nearly according to plan, resulting in a net increase of 38 stores at the fiscal year-end and bringing the total of direct-run stores to 664. However, sales at existing stores increased by only 0.6% year on year, lower than projected 3.6%. Unseasonable weather limited actual growth in the number of customers to 1.2%, and sluggish sales of spring merchandise led to a decrease of 0.6% in the average sale per customer.

Total overseas sales for the UNIQLO business were ¥3.1 billion. Operations in the United Kingdom recorded sales of ¥1.9 billion in their fourth year in business, and operations in China posted sales of ¥1.1 billion in their third year. ONEZONE, an operator of shoe store chains in Japan that became a wholly owned subsidiary in March 2005, posted net sales of ¥12.2 billion (consolidated sales for the period from March to August 2005). NELSON FINANCES, whose management control the Company acquired in May 2005, contributed ¥2.6 billion to consolidated net sales (from June to August 2005). By product category, the Company achieved continuing high growth in sales of women's clothing (an increase of 14.4% year on year), and combined sales of women's clothing, including underwear, accounted for 39% of total sales.

Sales by Product Category

	Millions of Yen		
	2005	2004	2003
Children's clothing	**¥ 22,347**	¥ 21,647	¥ 20,193
Women's clothing	**113,652**	99,388	77,587
Outerwear	**16,241**	14,556	18,312
Sweaters	**14,900**	14,948	12,929
Cut & sewn	**69,624**	70,746	69,150
Shirts	**20,887**	20,504	18,770
Slacks (pants)	**30,822**	30,488	29,531
Accessories and underwear	**73,838**	61,205	56,849
Subtotal	**362,314**	333,485	303,325
Franchise store-related revenue and fees from in-store alterations	**6,069**	5,132	5,809
UNIQLO operations total	**368,384**	338,618	309,135
Apparel-related business	**3,373**	334	—
Footwear business	**12,216**	—	—
Food business	**—**	1,046	654
Net sales	**¥383,973**	¥339,999	¥309,789

Note: 1. Franchise store-related revenue comprises sales of merchandise to franchises and royalty income received from franchises. Fees from in-store alterations comprise income from fitting and mending, such as hemming.
2. The above figures do not include consumption tax.

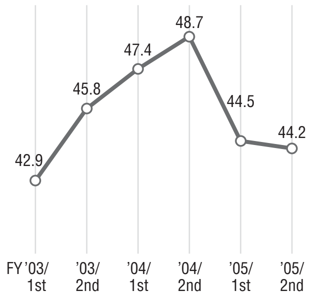
Gross profit margin

The gross profit margin declined by 3.7 percentage points to 44.3%, from the previous year's 48.0%. This result was 2.6 points below the level forecast at the beginning of the year. The most important factor contributing to the lower gross profit margin was expanded sales discounting in UNIQLO operations; gross profit margin declined as a result of expanded sales discounting in January and February 2005, owing to a decline in sales in December 2004 and early discounting of slow-moving spring merchandise.

SG&A expenses

SG&A expenses increased by ¥14.4 billion (14.5% year on year) to ¥113.6 billion, and the ratio of SG&A expenses to sales increased by 0.4 percentage points from the previous term to 29.6%. This was driven primarily by an increase in other expenses; the ratio of other expenses to sales increased by 0.5 percentage points. Hiring of head-office personnel along with the adoption of Group-level management deteriorated the personnel to sales ratio by 0.3 percentage points, while M&A activities and globalization incurred additional outsourcing fees. The ratio of advertising and promotion costs to sales improved by 0.1 percentage points. Although, beginning in the autumn of 2004, domestic UNIQLO operations conducted an aggressive advertising campaign on the theme "Declaration on global quality" to enhance the product image, a tight focus on cost performance in advertising and promotion activities led to the improvement. Although rents increased attendant on the opening of new stores, efficient operation resulted in a ratio of rents to sales of 7.2% (an improvement of 0.3 percentage points).

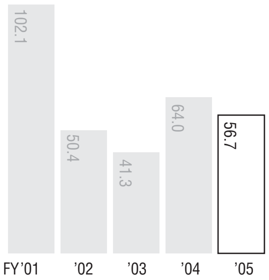
Gross Profit Margin for Fiscal Half Years (%)



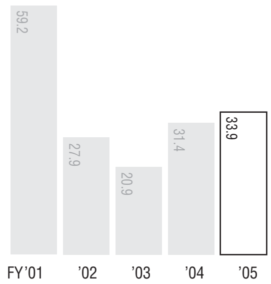
Breakdown of SG&A Expenses

	2005			2004			2003		
	Millions of yen	% of sales	% change	Millions of yen	% of sales	% change	Millions of yen	% of sales	% change
Personnel	**¥ 41,620**	**10.9**	**+15.2**	¥36,137	10.6	+6.0	¥34,103	11.0	–6.4
Advertising and promotion cost	**20,246**	**5.3**	**+10.7**	18,287	5.4	–5.1	19,276	6.2	–2.0
Rents	**27,773**	**7.2**	**+8.4**	25,622	7.5	+7.0	23,944	7.8	+10.1
Depreciation and amortization	**2,433**	**0.6**	**+32.2**	1,841	0.6	–19.0	2,273	0.7	+17.7
Others	**21,524**	**5.6**	**+24.0**	17,353	5.1	+7.4	16,161	5.2	–19.9
Total	**¥113,598**	**29.6**	**+14.5**	¥99,240	29.2	+3.6	¥95,757	30.9	–4.2

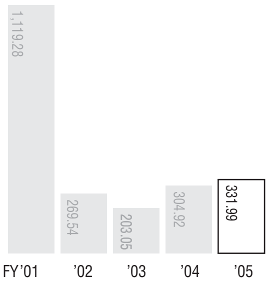
Operating Income (Billions of Yen)



Net Income (Billions of Yen)

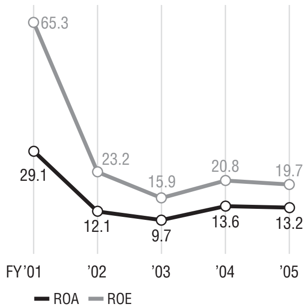


Net Income per Share (Yen)



Note: The Company implemented a 2-for-1 share split on April 19, 2002.

ROA and ROE (%)



at new stores. In results for other operations, ONEZONE, which was newly consolidated during fiscal 2005, posted an operating loss of ¥0.62 billion (for the period from March to August 2005) as a result of price discounting for inventory reduction. Nevertheless, due to the impact of other income driven by a gain on discharge of debt, the company recorded a net profit. NELSON FINANCES, which also was newly consolidated (consolidation from June to August 2005), is steadily improving its business operations by expanding its store network in Europe. As the contribution to results was three months, consolidated net profit from this subsidiary was limited. At the same time, assumption of management control over NELSON FINANCES resulted in a ¥4.2 billion amortization of goodwill in consolidated adjustment accounts.

The Company booked other income of ¥1.09 billion from equity-method accounting for LINK THEORY HOLDINGS (LTH), which listed its shares on the MOTHERS market of the Tokyo Stock Exchange in June 2005, and of ¥2.61 billion generated by gains from the public offering of LTH. Separately, FR Foods Co., Ltd., which had engaged in food operations, was excluded from consolidation in fiscal 2005 as liquidation of this subsidiary was completed in January of 2005.

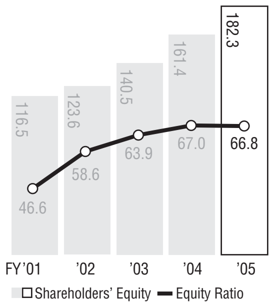
As a result of these developments, net income increased by 8.0% year on year to ¥33.9 billion. Both ROA and ROE remained at high levels: ROA was 13.2% (13.6% the previous term), and ROE was 19.7% (20.8% the previous term).

Operating income and net income

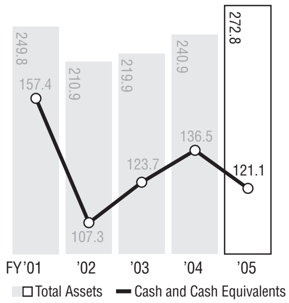
Although the Company achieved a year-on-year increase in net sales, operating income decreased by 11.4% from the previous year to ¥56.7 billion. Major contributing factors were a decrease in the gross profit margin for domestic UNIQLO operations and higher costs related to the previously discussed SG&A expenses.

In business results for overseas UNIQLO operations, the operation in China turned a profit for the first time, booking a net income of ¥0.02 billion. U.K. operations, which conducted a scrap-and-build program involving three stores in the summer and autumn of 2004, posted a net loss of ¥0.48 billion owing to other losses in connection with store closures and operating losses

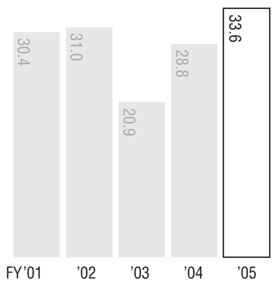
Shareholders' Equity and Equity Ratio (Billions of Yen/%)



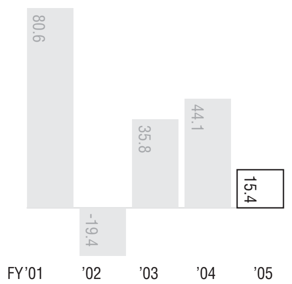
Total Assets and Cash and Cash Equivalents (Billions of Yen)



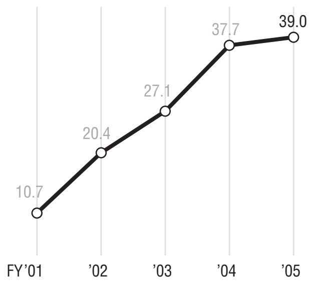
Inventories (Billions of Yen)



Operating Cash Flows (Billions of Yen)



Dividend Payout Ratio (%)



LIQUIDITY AND FINANCIAL CONDITIONS

Assets, liabilities and shareholders' equity

Total assets at the fiscal 2005 year-end increased by ¥31.9 billion from the previous term to ¥272.8 billion. Current assets decreased by ¥0.1 billion to ¥180.1 billion, and property and equipment increased by ¥32.1 billion to ¥92.8 billion. Cash and marketable securities amounted to ¥121.1 billion, a decrease of ¥15.4 billion. Cash inflow from operating activities of ¥15.4 billion was accompanied by cash outflow due to investment and a decrease in accounts payable. Inventories increased by ¥4.8 billion from the previous fiscal year-end to ¥33.6 billion. Domestic UNIQLO inventories, reflected on a non-consolidated basis, increased by a mere ¥0.4 billion, even though the number of stores increased by 38 from the previous fiscal year-end. This result is attributable to curbs placed on autumn/winter inventory following a forecast of flat year-on-year sales at existing stores and the prompt disposal of inventory during the term. Fiscal year-end inventory was maintained at an appropriate level. Property and equipment increased by ¥32.1 billion from the previous term as the assets of newly consolidated companies, ONEZONE and NELSON FINANCES (goodwill, trademark rights, deposits and guarantees) were reflected in the balance sheets.

Liabilities increased by ¥5.9 billion to ¥85.4 billion. The current ratio rose to 242.6% as a result of a ¥4.0 billion decrease in current liabilities from the previous term, from ¥78.3 billion to ¥74.2 billion. Long-term liabilities increased by ¥9.9 billion to ¥11.1 billion due to factors including consolidation of existing long-term debt of acquired companies. Shareholders' equity increased by ¥20.9 billion from the previous term to ¥182.3 billion. As a result, the shareholders' equity ratio was 66.8%.

Cash flows

Net cash decreased by ¥15.4 billion during the fiscal year ended August 31, 2005, bringing the year-end balance of cash and cash equivalents to ¥121.1 billion. Net cash provided by operating activities was ¥15.4 billion, a reduction of ¥28.7 billion from the previous term. This result was attributable to ¥58.0 billion in income before income taxes and minority interests, which more than offset a decrease of ¥15.7 billion in trade payables, caused by shortened payment periods to trading companies, and ¥26.8 billion in income taxes paid. Net cash used in investing activities was ¥16.8 billion, a reduction of ¥3.9 billion from the previous term, driven by investment in new subsidiaries' deposits and guarantees. Net cash used in financing activities was ¥14.9 billion, primarily for dividends paid, an increase of ¥6.2 billion in cash used from the previous term.

DIVIDEND POLICY

The Company paid a year-end cash dividend of ¥65 per share for the fiscal year ended August 31, 2005. With the interim dividend of ¥65, this brought the full-year dividend to ¥130 and resulted in a consolidated dividend payout ratio of 39.0%. For the fiscal year ending August 31, 2006, the Company plans to pay an annual dividend of ¥130 per share (a dividend payout ratio of 34.9%). The Company has instituted a policy of balanced allocation of net income for three uses: retained earnings for stable growth, aggressive new investment in related businesses, including mergers and acquisitions, and dividends to return profits to the shareholders. The Company will continue to implement this policy.

OUTLOOK

FAST RETAILING anticipates growth in revenues and earnings in the fiscal year ending August 31, 2006. The Company forecasts consolidated net sales of ¥435.0 billion (an increase of 13.3% year on year), operating income of ¥68.0 billion (an increase of 19.9%), and net income of ¥37.9 billion (an increase of 11.9%). The full-year results for ONEZONE and NELSON FINANCES, which became consolidated subsidiaries in fiscal 2005, will be reflected in consolidated business performance for fiscal 2006. In addition, UNIQLO USA, FRL Korea, UNIQLO HONG KONG, COMPTOIR DES COTONNIERS JAPAN and ASPESI Japan will be included in the scope of consolidation. As a result of the transfer of domestic UNIQLO operations to UNIQLO CO., LTD. attendant on the change to a holding company structure, as of August 31, 2006, the FAST RETAILING Group included 15 consolidated subsidiaries and 1 equity-method affiliate.

Management expects the domestic UNIQLO operation, which contributes 90% of total sales, to generate net sales of ¥388.0 billion (an increase of 6.2% year on year). We forecast flat existing-store sales and plan a net increase of 35 direct-run stores (excluding specialized small-format stores) following the opening of 74 new stores and the closure of 39 stores. We expect the gross profit margin to increase by 1.5 percentage points to 46.0%. We plan to further improve the gross profit margin in fiscal 2006 by implementing flexible production planning and inventory disposal. We also plan to curtail increases in SG&A expenses by continuing low-cost business operation.

In overseas UNIQLO operations, management expects the operations in China and the United Kingdom to contribute profits. Although the three companies engaged in the UNIQLO business in the United States, South Korea and Hong Kong will be included in the scope of consolidation, we anticipate losses from operations in these new areas, owing to new store opening costs. Contributions to net sales from consolidated subsidiaries engaged in businesses other than UNIQLO are expected to be ¥25.0 billion from ONEZONE (net income ¥0.34 billion), ¥12.0 billion from NELSON FINANCES (net

1. Consolidated Outlook for Fiscal Year Ending August 31, 2006

Billions of Yen	Annual	Year-on-year % change	First half	Year-on-year % change	Second half	Year-on-year % change
Net sales	¥435.0	+13.3	¥232.7	+15.3	¥202.3	+11.1
Gross profit	202.0	+18.6	107.8	+19.9	94.2	+17.2
SG&A expenses	134.0	+18.0	66.4	+21.8	67.6	+14.4
Operating income	68.0	+19.9	41.4	+17.1	26.6	+24.7
Net income	37.9	+11.9	23.2	+8.7	14.7	+17.2

2. Outlook of Number of Stores Opened and Closed by Business, for Fiscal Year Ending August 31, 2006

	2005	2006			
	End Aug.	Stores opened	Stores closed	Net increase (decrease)	End Aug.
UNIQLO	**693**	92	42	50	743
UNIQLO Japan *1:	**679**	78	39	39	718
Direct-run	**664**	74	39	35	699
Franchise	**15**	4	0	4	19
UNIQLO overseas:	**14**	14	3	11	25
U.K.	**6**	2	2	0	6
China	**8**	4	1	3	11
U.S.	—	3	0	3	3
South Korea	—	4	0	4	4
Hong Kong	—	1	0	1	1
ONEZONE	**329**	0	2	(2)	327
NELSON FINANCES	**200**	38	0	38	238
National Standard	**10**	1	0	1	11
COMPTOIR DES COTONNIERS JAPAN	—	10	0	10	10
ASPESI Japan *2	—	0	6	(6)	7
TOTAL	**1,232**	141	50	91	1,336

Note: 1. The above figures for UNIQLO Japan do not include specialized small-format stores.
2. ASPESI Japan became a consolidated subsidiary in fiscal 2006, at which time it had 13 stores.

3. Outlook of UNIQLO Business by Country, for Fiscal Year Ending August 31, 2006

Billions of Yen	Japan	U.K.	China	U.S.	South Korea	Hong Kong
Net sales	¥388.0	¥2.3	¥1.5	¥1.0	¥1.7	¥0.6
Net income (loss)	37.3	0.0	0.1	(0.3)	(0.1)	(0.0)
Store openings (net increase)	78 (+39)	2 (0)	4 (+3)	3 (+3)	4 (+4)	1 (+1)
Stores at fiscal year-end	718	6	11	3	4	1

Note: 1. The above figures for net income (loss) do not take into consideration payments such as royalty income paid to FAST RETAILING as the holding company.
2. The above figures for number of stores do not include specialized small-format stores.

income ¥2.06 billion) and ¥0.96 billion from National Standard (net loss ¥0.01 billion). The Company plans to include COMPTOIR DES COTONNIERS JAPAN, which plans to offer the COMPTOIR DES COTONNIERS brand in Japan, and ASPESI Japan in the scope of consolidation and anticipates contributions to net sales of ¥1.0 billion (net loss ¥0.15 billion) and ¥0.8 billion (net loss ¥0.17 billion), respectively, from these companies. We also expect to record other income of ¥0.9 billion, the result of equity-method accounting for our investment in LINK THEORY HOLDINGS.

This outlook is based on information available to management at the fiscal 2005 year-end and is deemed reasonable by the Company. Actual business results may differ from forecasts owing to economic circumstances or other factors.

Outlook for Consolidated Subsidiaries (at Fiscal Year-end, August 31, 2006)

Consolidated Subsidiaries		Share Ownership
UNIQLO Business		
UNIQLO CO., LTD.	Japan	100.0%
UNIQLO(U.K.)LTD.	U.K.	100.0%
FAST RETAILING (JIANGSU) APPAREL CO., LTD.	China	71.4% (Voting rights: 83.3%)
UNIQLO USA, Inc.	U.S.	100.0%
FRL Korea Co., Ltd.	South Korea	51.0%
UNIQLO HONG KONG, LIMITED	Hong Kong	100.0%
Non-UNIQLO Business		
National Standard Inc.	Japan	84.6%
ONEZONE CORPORATION	Japan	100.0%
NELSON FINANCES S.A.S.	France	31.5% (Voting rights: 51.0%)
COMPTOIR DES COTONNIERS JAPAN CO., LTD.	Japan	100.0%
ASPESI Japan Co., Ltd.	Japan	60.0%
GLOBAL RETAILING CO., LTD.	Japan	100.0%
GLOBAL INVESTMENT CO., LTD.	Japan	100.0%
FR FRANCE S.A.S.	France	100.0%
GLOBAL RETAILING FRANCE S.A.S.	France	100.0%
Affiliated Company under the Equity Method		
LINK THEORY HOLDINGS CO.,LTD.	Japan	35.2%

OPERATIONAL RISKS

Management regards the following to be the principal risk factors associated with the business of the Company and the Group that could have a significant impact on the decisions of investors. Management will engage in rigorous risk avoidance and risk management in recognition of the possible eventuation of these risks and will strive to respond appropriately should any of the risks eventuate.

1. Acquisition Risk

One of the Group's management strategies is to expand the business by means of investment, including mergers and acquisitions. Although the Company aims to maximize the Group's enterprise value by pursuing synergies with companies and businesses targeted for mergers and acquisitions and seeking to optimize the business portfolio, failure to realize anticipated profits or synergies could have an adverse impact on business results.

2. Management Personnel Risk

Chairman, President and CEO Tadashi Yanai and the Group's other executive managers play an important role in the business areas for which they are responsible. Inability to execute Group business on the part of these corporate officers could have an adverse impact on the Company's business results.

3. Competition Risk

As for all of the Group's businesses the customers are consumers who are always highly discriminating about merchandise, services and price, and the competitive situation vis-à-vis domestic and foreign competitors is highly demanding, comparative deterioration in competitive strength could have an adverse impact on business results.

Consolidated Balance Sheets

FAST RETAILING CO., LTD. and consolidated subsidiaries
August 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
ASSETS	**2005**	2004	**2005**
Current assets:			
Cash (note 3)	**¥ 74,759**	¥ 83,862	**$ 671,086**
Marketable securities (notes 3 and 4)	**46,302**	52,599	**415,637**
Trade notes and accounts receivables	**4,472**	3,224	**40,144**
Less—Allowance for doubtful accounts	**(9)**	(3)	**(81)**
Net trade receivables	**4,463**	3,221	**40,063**
Inventories (note 5)	**33,594**	28,803	**301,562**
Deferred tax assets (note 6)	**2,894**	3,755	**25,978**
Exchange rate forward contracts	**11,791**	—	**105,844**
Net deferred unrealized loss on exchange rate forward contracts	**—**	3,158	**—**
Other	**6,248**	4,756	**56,086**
Total current assets	**180,051**	180,154	**1,616,256**
Property and equipment:			
Land	**2,594**	2,501	**23,285**
Buildings and structures	**25,977**	20,911	**233,187**
Furniture and equipment	**2,771**	363	**24,874**
Construction in progress	**364**	282	**3,268**
	31,706	24,057	**284,614**
Less—Accumulated depreciation	**(13,030)**	(8,238)	**(116,966)**
Net property and equipment	**18,676**	15,819	**167,648**
Intangible assets:			
Goodwill	**10,787**	—	**96,831**
Other	**6,366**	4,852	**57,145**
Total intangible assets	**17,153**	4,852	**153,976**
Investments and other assets:			
Investments in securities (note 4)	**7,431**	6,093	**66,706**
Investments in subsidiaries and affiliates (note 4)	**7,421**	2,273	**66,616**
Lease deposits	**22,587**	12,468	**202,756**
Construction assistance fund receivables (note 13)	**19,775**	18,600	**177,513**
Deferred tax assets (note 6)	**454**	537	**4,075**
Other	**574**	136	**5,153**
Less—Allowance for doubtful accounts	**(1,276)**	(35)	**(11,454)**
Total investments and other assets	**56,966**	40,072	**511,365**
Total assets	**¥272,846**	¥240,897	**$2,449,245**

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2005	Millions of Yen 2004	Thousands of U.S. Dollars (Note 2) 2005
Current liabilities:			
Accounts payable	**¥ 33,718**	¥ 44,707	**$ 302,675**
Accrued income taxes (note 6)	**12,213**	14,840	**109,632**
Exchange rate forward contracts	**—**	3,158	**—**
Net deferred unrealized gain on exchange rate forward contracts	**11,791**	—	**105,844**
Other	**16,491**	15,558	**148,034**
Total current liabilities	**74,213**	78,263	**666,185**
Long-term liabilities:			
Long-term debt (note 7)	**4,945**	52	**44,390**
Accrued retirement and severance obligations (note 8)	**200**	—	**1,795**
Other	**5,992**	1,148	**53,788**
Total long-term liabilities	**11,137**	1,200	**99,973**
Total liabilities	**85,350**	79,463	**766,158**
Minority interests:	**5,147**	—	**46,202**
Shareholders' equity:			
Capital (note 9)	**10,274**	10,274	**92,226**
Additional paid-in capital (note 9)	**4,579**	4,579	**41,104**
Retained earnings (note 10)	**184,293**	163,982	**1,654,336**
Net unrealized holding loss on securities	**(676)**	(1,352)	**(6,068)**
Foreign currency translation adjustments	**(80)**	(14)	**(718)**
Treasury stock, at cost (note 11)	**(16,041)**	(16,035)	**(143,995)**
Total shareholders' equity	**¥182,349**	¥161,434	**$1,636,885**
Commitments and contingencies (note 13)			
Total liabilities, minority interests and shareholders' equity	**¥272,846**	¥240,897	**$2,449,245**

Consolidated Statements of Income

FAST RETAILING CO., LTD. and consolidated subsidiaries
For the Years Ended August 31, 2005, 2004 and 2003

	Millions of Yen			Thousands of U.S. Dollars (Note 2)
	2005	2004	2003	**2005**
Net sales	**¥383,973**	¥339,999	¥309,789	**$3,446,795**
Cost of sales	**213,683**	176,805	172,724	**1,918,160**
Gross profit	**170,290**	163,194	137,065	**1,528,635**
Selling, general and administrative expenses (note 14)	**113,598**	99,240	95,757	**1,019,731**
Operating income	**56,692**	63,954	41,308	**508,904**
Other income (expenses):				
Interest and dividend income	**790**	506	374	**7,092**
Equity in income (losses) of affiliates accounted for under equity method, net	**1,086**	(4,584)	—	**9,749**
Foreign currency exchange gain (loss)	**374**	(233)	142	**3,357**
Interest expenses	**(344)**	(169)	(332)	**(3,088)**
Gain on change in shares of an affiliated company	**2,612**	—	—	**23,447**
Gain on forgiveness of subsidiary debt	**3,212**	—	—	**28,833**
Loss on revaluation of inventories	**(1,599)**	—	—	**(14,354)**
Loss on disposal of fixed assets	**(244)**	(414)	(627)	**(2,190)**
Loss on closure of stores	**(351)**	(280)	(178)	**(3,151)**
Loss on termination of leases	**—**	(1,002)	(1,288)	**—**
Loss on liquidation of subsidiary	**—**	(1,042)	(4,665)	**—**
Amortization of consolidation adjustment account	**(4,236)**	(137)	—	**(38,025)**
Other, net	**23**	(151)	17	**206**
	1,323	(7,506)	(6,557)	**11,876**
Income before income taxes and minority interests	**58,015**	56,448	34,751	**520,780**
Income taxes (note 6):				
Current	**23,411**	23,837	17,873	**210,152**
Deferred	**647**	1,246	(4,055)	**5,808**
	24,058	25,083	13,818	**215,960**
Minority interests	**(73)**	—	—	**(655)**
Net income	**¥ 33,884**	¥ 31,365	¥ 20,933	**$ 304,165**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

FAST RETAILING CO., LTD. and consolidated subsidiaries
For the Years Ended August 31, 2005, 2004 and 2003

	Millions of Yen						
	Capital	Additional paid-in capital	Retained earnings	Net unrealized holding gain (loss) on securities	Foreign currency translation adjustments	Treasury stock, at cost	Total
Balance at August 31, 2002	¥ 3,274	¥11,579	¥124,686	¥ 181	¥ (67)	¥(16,021)	¥123,632
Net income	—	—	20,933	—	—	—	20,933
Cash dividends (note 10)	—	—	(4,068)	—	—	—	(4,068)
Directors' bonuses (note 10)	—	—	(145)	—	—	—	(145)
Net change during the year	—	—	—	—	159	—	159
Increase in treasury stock (note 11)	—	—	—	—	—	(6)	(6)
Balance at August 31, 2003	3,274	11,579	141,406	181	92	(16,027)	140,505
Effect of newly consolidated subsidiary	—	—	136	—	—	—	136
Transfer of additional paid-in capital to capital	7,000	(7,000)	—	—	—	—	—
Net income	—	—	31,365	—	—	—	31,365
Cash dividends (note 10)	—	—	(8,645)	—	—	—	(8,645)
Directors' bonuses (note 10)	—	—	(280)	—	—	—	(280)
Net change during the year	—	—	—	(1,533)	(106)	—	(1,639)
Increase in treasury stock (note 11)	—	—	—	—	—	(8)	(8)
Balance at August 31, 2004	10,274	4,579	163,982	(1,352)	(14)	(16,035)	161,434
Net income	**—**	**—**	**33,884**	**—**	**—**	**—**	**33,884**
Cash dividends (note 10)	**—**	**—**	**(13,223)**	**—**	**—**	**—**	**(13,223)**
Directors' bonuses (note 10)	**—**	**—**	**(350)**	**—**	**—**	**—**	**(350)**
Net change during the year	**—**	**—**	**—**	**676**	**(66)**	**—**	**610**
Increase in treasury stock (note 11)	**—**	**—**	**—**	**—**	**—**	**(6)**	**(6)**
Balance at August 31, 2005	**¥10,274**	**¥ 4,579**	**¥184,293**	**¥ (676)**	**¥ (80)**	**¥(16,041)**	**¥182,349**

	Thousands of U.S. Dollars (Note 2)						
	Capital	Additional paid-in capital	Retained earnings	Net unrealized holding gain (loss) on securities	Foreign currency translation adjustments	Treasury stock, at cost	Total
Balance at August 31, 2004	$92,226	$41,104	$1,472,011	$(12,136)	$(126)	$(143,941)	$1,449,138
Net income	**—**	**—**	**304,165**	**—**	**—**	**—**	**304,165**
Cash dividends (note 10)	**—**	**—**	**(118,698)**	**—**	**—**	**—**	**(118,698)**
Directors' bonuses (note 10)	**—**	**—**	**(3,142)**	**—**	**—**	**—**	**(3,142)**
Net change during the year	**—**	**—**	**—**	**6,068**	**(592)**	**—**	**5,476**
Increase in treasury stock (note 11)	**—**	**—**	**—**	**—**	**—**	**(54)**	**(54)**
Balance at August 31, 2005	**$92,226**	**$41,104**	**$1,654,336**	**$ (6,068)**	**$(718)**	**$(143,995)**	**$1,636,885**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

FAST RETAILING CO., LTD. and consolidated subsidiaries
For the Years Ended August 31, 2005, 2004 and 2003

	Millions of Yen			Thousands of U.S. Dollars (Note 2)
	2005	2004	2003	**2005**
Cash flows from operating activities:				
Income before income taxes and minority interests	**¥ 58,015**	¥ 56,448	¥ 34,751	**$ 520,780**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	**3,681**	2,737	2,364	**33,043**
Amortization of consolidation adjustment account	**4,254**	137	—	**38,187**
Equity in (income) losses of affiliates accounted for under equity method, net	**(1,086)**	4,584	—	**(9,749)**
Gain on change in shares of an affiliated company	**(2,612)**	—	—	**(23,447)**
Increase (decrease) in allowance for doubtful accounts	**(158)**	15	(5)	**(1,418)**
Decrease in accrued retirement and severance obligations	**(11)**	—	—	**(99)**
Interest and dividend income	**(790)**	(506)	(374)	**(7,092)**
Interest expenses	**344**	169	332	**3,088**
Foreign currency exchange gain	**(40)**	(7)	(28)	**(359)**
Loss on disposal of fixed assets	**244**	414	626	**2,190**
Loss on liquidation of subsidiary	**—**	1,042	2,437	**—**
Gain on forgiveness of subsidiary debt	**(3,212)**	—	—	**(28,833)**
(Increase) decrease in trade receivables	**(626)**	1,119	(1,179)	**(5,619)**
(Increase) decrease in inventories	**1,456**	(8,488)	10,262	**13,070**
(Increase) decrease in other assets	**(163)**	(948)	469	**(1,463)**
Increase (decrease) in trade payables	**(15,669)**	2,195	(4,871)	**(140,655)**
Increase (decrease) in accrued expenses and other liabilities	**(1,487)**	3,679	(477)	**(13,348)**
Bonuses to directors	**(350)**	(280)	(145)	**(3,141)**
Other	**250**	154	10	**2,245**
	42,040	62,464	44,172	**377,380**
Interest and dividend received	**885**	415	374	**7,944**
Interest paid	**(327)**	(170)	(350)	**(2,935)**
Payments associated with restructuring of subsidiaries' business	**—**	(1,841)	—	**—**
Repayments of debt associated with reorganizing subsidiary	**(380)**	—	—	**(3,411)**
Income taxes paid	**(26,820)**	(16,748)	(10,124)	**(240,754)**
Refund of income taxes	**—**	—	1,696	**—**
Net cash provided by operating activities	**15,398**	44,120	35,768	**138,224**
Cash flows from investing activities:				
Purchase of investment securities	**(1,000)**	(5,626)	(299)	**(8,977)**
Investments in subsidiaries	**(1,604)**	(6,741)	(758)	**(14,399)**
Acquisition of newly consolidated subsidiary (note 18)	**(6,211)**	—	—	**(55,754)**
Proceeds from acquisition of newly consolidated subsidiary (note 18)	**2,387**	63	—	**21,427**
Purchase of debt	**(2,560)**	—	—	**(22,980)**
Purchase of property and equipment	**(3,577)**	(3,444)	(3,574)	**(32,110)**
Proceeds from sale of property and equipment	**76**	—	13	**682**
Payments for lease deposits	**(3,908)**	(1,514)	(1,596)	**(35,081)**
Collections of lease deposits	**1,219**	1,036	642	**10,943**
Payments for construction assistance fund receivables	**(2,919)**	(3,642)	(3,816)	**(26,203)**
Collections of construction assistance fund receivables	**1,744**	1,476	1,724	**15,655**
Purchase of intangible assets	**(918)**	(2,619)	(2,645)	**(8,241)**
Other, net	**448**	281	191	**4,022**
Net cash used in investing activities	**(16,823)**	(20,730)	(10,118)	**(151,016)**
Cash flows from financing activities:				
Net decrease in short-term debt	**—**	—	(1,955)	**—**
Proceeds from long-term debt	**13**	—	—	**117**
Repayments of long-term debt	**(19)**	—	(4,000)	**(171)**
Repayments of bond	**(1,616)**	—	—	**(14,506)**
Purchase of treasury stock	**(5)**	(6)	(6)	**(45)**
Dividends paid	**(13,219)**	(8,639)	(4,074)	**(118,662)**
Other	**(8)**	(32)	(144)	**(72)**
Net cash used in financing activities	**(14,854)**	(8,677)	(10,179)	**(133,339)**
Effect of exchange rate changes on cash and cash equivalents	**908**	(2,448)	(73)	**8,150**
Net change in cash and cash equivalents	**(15,371)**	12,265	15,398	**(137,981)**
Cash and cash equivalents at beginning of year (note 3)	**136,461**	123,733	107,263	**1,224,964**
Cash and cash equivalents of newly consolidated subsidiaries	**—**	759	1,072	**—**
Cash and cash equivalents of deconsolidated subsidiaries	**(29)**	(296)	—	**(260)**
Cash and cash equivalents at end of year (note 3)	**¥121,061**	¥136,461	¥123,733	**$1,086,723**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

FAST RETAILING CO., LTD. and consolidated subsidiaries

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying consolidated financial statements of FAST RETAILING CO., LTD. ("the Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. The accounts of overseas subsidiaries and the other affiliates are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective country of domicile. In addition, for the convenience of readers outside Japan, the accompanying consolidated financial statements, including the notes thereof, have been reclassified and contain additional information which is not required under accounting principles generally accepted in Japan.

(b) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and the following subsidiaries over which the Company has controls through substantial ownership of majority voting rights.

	Ownership Percentage	
Consolidated Subsidiaries	**2005**	2004
FAST RETAILING (JIANGSU) APPAREL CO., LTD.	**83%**	83%
UNIQLO(U.K.)LTD.	**100%**	100%
National Standard Inc.	**85%**	72%
GLOBAL RETAILING CO., LTD.	**100%**	100%
GLOBAL INVESTMENT CO., LTD.	**100%**	100%
ONEZONE CORPORATION	**100%**	—
FR FRANCE S.A.S.	**100%**	—
GLOBAL RETAILING FRANCE S.A.S.	**100%**	—
NELSON FINANCES S.A.S.	**51%**	—
FR FOODS CO., LTD.	**—**	100%

FAST RETAILING (JIANGSU) APPAREL CO., LTD. began its operations in September 2002 in The People's Republic of China. The accompanying consolidated financial statements include accounts of its sales division, as the Company is entitled to profit and loss attributable to the sales operations for which the Company has responsibility pursuant to a joint venture contract entered into between the Company and Jiangsu Chenfeng Group Co., Ltd., a joint venture partner.

UNIQLO(U.K.)LTD. began its operations in September 2003 upon assignments of assets and liabilities of Fast Retailing (U.K) Ltd, an unconsolidated subsidiary, as it has been in the process of liquidation.

National Standard Inc. became a subsidiary of the Company in February 2004 upon acquisition of the shares.

Both GLOBAL RETAILING CO., LTD. and GLOBAL INVESTMENT CO., LTD. were incorporated in October 2003, of which accounts have been consolidated by the Company since then.

The Company acquired all shares of ONEZONE CORPORATION in March 2005. Also, the Company acquired control over NELSON FINANCES S.A.S. in May 2005. The Company has consolidated the accounts of both subsidiaries since then.

The Company incorporated FR FRANCE S.A.S. and GLOBAL RETAILING FRANCE S.A.S. in April 2005 and has consolidated the accounts of both subsidiaries since then.

FR FOODS CO., LTD. had ceased its operation in April 2004 and was liquidated during the year ended August 31, 2005.

All the significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements of the Company as of and for the year ended August 31, 2005 and 2004 include accounts of FAST RETAILING (JIANGSU) APPAREL CO., LTD. and National Standard Inc. as of June 30 and May 31, respectively, which is the end of mid-year interim period. Similarly, the consolidated financial statements of the Company as of and for the year ended August 31, 2004 include accounts of FR FOODS CO., LTD. as of and for the year ended June 30, 2004, the end of mid-year interim period as well. Significant transactions, which would materially affect the Company's consolidated financial position and results of operations, with these subsidiaries during the periods from either May 31 or June 30 to August 31 have been adjusted for the Company's consolidation purposes.

All the assets and liabilities of newly consolidated subsidiaries are evaluated at fair value.

The consolidation adjustment account, which is computed as a differential of the amount in excess of investment cost over the net amount of assets and liabilities at fair value, is expensed as incurred due to absence of reasonable basis to estimate the period over which economic benefits of the investment is expected to take effect. Absence of such basis is mainly attributable to the nature of the apparel industry, where a company is exposed to risk of change in fashion and brand tends, to determine the corporate value. The same policy is followed with respect to a differential identified under the equity method.

LINK THEORY HOLDINGS CO.,LTD. (formerly, LINK HOLDINGS CO.,LTD.) became an affiliated company in January 2004, and has been accounted for using the equity method, as the Company has the ability to exercise significant influence over operational and financial policies of the investee company.

The Company does not consolidate nor apply the equity method with respect to the Company's seven other subsidiaries and one other affiliated company, as the Company determined those companies to be insignificant, individually and in the aggregate, to total assets, revenue, net income and retained earnings of the accompanying consolidated financial statements.

(c) Cash and Cash Equivalents

For the purpose of consolidated statement of cash flows, the Company considers all highly liquid investments with insignificant risk of changes in value, with maturities of generally three months or less when purchased, to be cash equivalents.

(d) Short-term Investments and Investments in Securities

In accordance with "Accounting Standards for Financial Instruments" of the Business Accounting Deliberation Council ("the BADC"), securities with available fair market value other than investments in an affiliated company are classified into one of the following three categories, and the Company accounts for the securities as follows:

- Trading securities, which are debt and equity securities that the Company holds for the purpose of earning profits on short-term movement of the fair market values, are reported at fair market value, with unrealized holding gains and losses included in earnings.
- Held-to-maturity securities, which are debt securities that the Company has the positive intent and ability to hold to maturity, are reported at amortized cost.
- Available-for-sale securities, which are debt and equity securities with fair market values that are classified as neither trading securities nor held-to-maturity securities, are reported at fair market value. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and are reported as net unrecognized holding gain or loss, net of the related tax effect, in a separate component of shareholders' equity until realized. In computing realized gain or loss, costs of available-for-sale securities are principally determined by the moving-average method.

Held-to-maturity securities and available-for-sale securities with no fair market value are carried at cost.

Investments in unconsolidated subsidiaries and the other affiliated company that are not accounted for under equity method are reported at cost determined by the average method.

(e) Allowance for Doubtful Accounts

Allowance for doubtful accounts, including trade notes and accounts receivables and certain investments and other assets, are provided against probable future losses on collection. The Company designates certain accounts as highly doubtful accounts and provides specific allowance for these accounts based on the management's detailed credit analysis. Other than these accounts, the Company provides allowance for doubtful accounts based on the Company's historical average charge-off ratio.

(f) Inventories

Inventories are stated at cost. The cost is determined by the specific identification method, except for inventories held by FR FOODS CO., LTD. and National Standard Inc., which are determined by the last cost method and the retail method, respectively.

(g) Property, Plant and Equipment

Property and equipment is stated at cost. Depreciation is computed by the declining-balance method for the Company and its domestic subsidiaries except for the buildings acquired by certain domestic subsidiaries prior to April 1, 1998 for which the straight-line method is used. Depreciation is computed principally by the straight-line method for overseas subsidiaries. The estimated useful lives are as follows:

Buildings and structures	8 to 50 years
Furniture and equipment	5 to 8 years

(h) Intangible Assets

Intangible assets are amortized on the straight-line method. Software for internal use is amortized on a straight-line method over 3 to 5 years of estimated available period.

(i) Retirement and Severance Benefits

The Company and certain subsidiaries in Japan have defined contribution plans.

Certain other domestic subsidiaries have defined benefit plans for the employees' retirement and severance. Accrued retirement and severance obligations under the defined benefit plans are provided based on estimated projected benefit obligation and plan assets at end of the fiscal year. In accordance with the permitted method under the "Accounting Standards for Retirement Benefits" of the BADC, the estimated projected benefit obligations are computed to be equal to total projected payments upon the employee's voluntary termination at the end of fiscal year. The Company recognizes effects of adoption of the above standards in the current earnings when adopted.

(j) Leases

"Accounting Standards for Leases" of the BADC permits lessees to account for as operating leases as to finance leases without transfer of ownership of leased assets from the lessor to the lessee, while it requires that finance leases resulting in transfer of the ownership by the end of the lease term shall be accounted for as capital leases by recognizing assets and the corresponding obligation on the lessee's balance sheet. All the Company's finance leases in Japan are accounted for as operating leases, and the lease payment is expensed over the lease term as it becomes payable. Leases of overseas subsidiaries are accounted for as capital leases.

(k) Income Taxes

Deferred income taxes are accounted for under the asset and liability method in accordance with "Accounting Standards for Deferred Income Taxes" of the BADC. Under the asset and liability method of the standard, deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

In March 2003, certain local tax laws were amended to introduce additional local corporate business taxes based on value-added and capital as well as lowering tax rate of the corporate business taxes based on income. These amendments apply to the Company effective the fiscal year ended August 31, 2005. In accordance with Practical Solutions Report of Accounting Standards Board of Japan, the Company classifies ¥572 million of the additional local corporate business taxes based on value-added and capital into selling, general and administrative expenses on the consolidated statement of income for the year ended August 31, 2005.

(l) Revenue Recognition

The Company recognizes sales revenue upon sale of merchandise to customers where title of the merchandise transfers to the customers.

(m) Foreign Currency Translation

Foreign currency transactions are translated into yen on the basis of the rates in effect at the transaction date or, if only the relation between foreign currency transactions and related firm forward exchange contracts meets the criteria of hedge accounting as regulated in "Accounting Standards for Financial Instruments" of the BADC, those covered by firm forward exchange contracts can be translated at such contract rates. At year-end, monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except for those, as described above, translated at related contract rates. Gains or losses resulting from the translation of foreign currencies, including gains and losses on settlement, are credited or charged to income as incurred.

The financial statements of the consolidated foreign subsidiaries are translated into the reporting currency of yen as follows: all assets and liabilities are translated at the rates of exchange in effect at the balance sheet date; shareholders' equity accounts are translated at historical rates; income and expenses are translated at the rates of exchange in effect at the balance sheet date; and a comprehensive adjustment resulting from translation of assets, liabilities and shareholders' equity is reported as foreign currency translation adjustments, a separate component of shareholders' equity.

(n) Derivative Financial Instruments and Hedge Accounting

In principal, net assets and liabilities arising from derivative financial transactions are measured at fair value, with unrealized gain or loss included in earnings. Hedging transactions that meet the criteria of hedge accounting as regulated in "Accounting Standards for Financial Instruments" of the BADC, are accounted for using deferral hedge accounting, which requires the unrealized gains or losses to be deferred as a liability or asset until gains or losses relating to the hedge are recognized.

For debts dominated in foreign currencies that are hedged using foreign currency forward contracts, the Company records such debts at the contracted forward rates and no gain or loss is recognized.

The Company manages risks associated with adverse fluctuations in foreign currency exchange rates and changes in interest rates on securities, using foreign currency forward contracts and interest rate swaps, respectively. The Company is also exposed to the risk of credit loss in the event of non-performance by the counterparties to the currency and interest-rate contracts; however, it does not anticipate nonperformance by any of these counterparties, all of them are financial institutions with high credit ratings. The Company does not hold or issue derivative financial instruments for speculative trading purposes. The Company has developed hedging policies to control various aspects of derivative financial transactions including authorization levels, transaction volumes and counterparty credit guidelines. Under the policies, in particular, the finance group of the Company executes, manages and reports the hedge transactions on a timely basis.

The Company compares periodically cumulative changes in hedging instruments with those of hedged items when assessing effectiveness of the hedge. In case crucial terms of assets or liabilities designated for hedge are identical, the Company does not perform such assessment.

(o) Reclassification

Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

2. BASIS OF FINANCIAL STATEMENT TRANSLATION

The accompanying consolidated financial statements are expressed in yen, and solely for the convenience of the reader, have been translated into the United States (U.S.) dollars at the rate of ¥111.40=$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market as of August 31, 2005. This translation should not be construed as a presentation that any amounts shown could be converted into U.S. dollars.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of August 31, 2005 and 2004 consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Cash	**¥ 74,759**	¥ 83,862	**$ 671,086**
Marketable securities	**46,302**	52,599	**415,637**
Cash and cash equivalents	**¥121,061**	¥136,461	**$1,086,723**

4. SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES

Investments in securities as of August 31, 2005 and 2004 are classified as available-for-sale securities. A summary of cost, gross unrealized gains, gross unrealized losses and book value by major type of securities is as follows:

	Millions of Yen							
	2005				2004			
	Cost	Gross unrealized gains	Gross unrealized losses	Book value	Cost	Gross unrealized gains	Gross unrealized losses	Book value
Available-for-sale securities:								
Equity securities	**¥ 363**	**¥476**	**¥ —**	**¥ 839**	¥ 362	¥239	¥ (2)	¥ 599
Mutual funds	**34,915**	**—**	**—**	**34,915**	35,748	—	—	35,748
Others	**18,012**	**27**	**(60)**	**17,979**	22,477	336	(468)	22,345
	¥53,290	**¥503**	**¥(60)**	**¥53,733**	¥58,587	¥575	¥(470)	¥58,692

	Thousands of U.S. Dollars			
	2005			
	Cost	Gross unrealized gains	Gross unrealized losses	Book value
Available-for-sale securities:				
Equity securities	**$ 3,259**	**$4,273**	**$ —**	**$ 7,532**
Mutual funds	**313,420**	**—**	**—**	**313,420**
Others	**161,688**	**242**	**(539)**	**161,391**
	$478,367	**$4,515**	**$(539)**	**$482,343**

Investments in subsidiaries and affiliates as of August 31, 2005 includes ¥450 million of paid-in amounts for shares of COMPTOIR DES COTONNIERS JAPAN CO., LTD., which was newly incorporated as a subsidiary on September 1, 2005. See note 19 for the related information of the subsequent events.

5. INVENTORIES

Inventories as of August 31, 2005 and 2004 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Merchandise	**¥32,429**	¥28,316	**¥291,104**
Supplies	**1,165**	487	**10,458**
	¥33,594	¥28,803	**¥301,562**

6. INCOME TAXES

The Company and subsidiaries are subject to a number of taxes based on income. The aggregate statutory tax rate for the Company was approximately 40.5% for the year ended August 31, 2005 and 41.8% for the years ended 2004 and 2003.

Reconciliations between the statutory income tax rate and the effective income tax rate as a percentage of income before income taxes and minority interests are as follows:

	2005	2004	2003
Statutory income tax rate	**40.5%**	41.8%	41.8%
Equity in earnings of affiliated company	**(2.6)**	3.4	—
Amortization of consolidation adjustment account	**3.0**	—	—
Change in valuation allowance	**—**	—	(1.8)
Other	**0.6**	(0.8)	(0.2)
Effective income tax rate	**41.5%**	44.4%	39.8%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of August 31, 2005 and 2004 are presented as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Total gross deferred tax assets:			
Accrued business tax	**¥ 729**	¥ 1,293	**$ 6,544**
Accrued bonus	**1,190**	1,264	**10,682**
Allowance for doubtful debts	**516**	—	**4,632**
Loss on impairment	**387**	—	**3,474**
Long-term prepaid expenses	**376**	376	**3,375**
Operating loss carryforward	**4,844**	2,750	**43,483**
Net unrealized holding gain on securities	**631**	963	**5,664**
Other	**1,068**	438	**9,587**
	9,741	7,084	**87,441**
Valuation allowance	**(6,223)**	(2,750)	**(55,862)**
	3,518	4,334	**31,579**
Total gross deferred tax liabilities:			
Net unrealized holding gain on securities	**(170)**	(42)	**(1,526)**
Net deferred tax assets	**¥ 3,348**	¥ 4,292	**$ 30,053**

Net deferred tax assets as of August 31, 2005 and 2004 are reflected in the consolidated balance sheets under the following captions:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Deferred tax assets—current	**¥2,894**	¥3,755	**$25,978**
Deferred tax assets—non-current	**454**	537	**4,075**
Net deferred tax assets	**¥3,348**	¥4,292	**$30,053**

7. LONG-TERM DEBT

Long-term debts as of August 31, 2005 and 2004 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Unsecured loans mainly from Japanese financial institutions, 2.38% interest on average, due 2007 through 2010	**¥6,185**	¥52	**$55,521**
Less current portion	**1,240**	—	**11,131**
	¥4,945	¥52	**$44,390**

The annual maturities of long-term debt subsequent to August 31, 2005 are as follows:

Year ending August 31	Millions of Yen	Thousands of U.S. Dollars
2006	¥1,240	$11,131
2007	1,254	11,257
2008	1,230	11,041
2009	1,232	11,059
2010	1,229	11,033
	¥6,185	$55,521

8. ACCRUED RETIREMENT AND SEVERANCE OBLIGATIONS

The Company has defined contribution plans. Expenses related to the defined contribution plans amounted to ¥176 million ($1,580 thousand), ¥169 million and ¥172 million for the year ended August 31, 2005, 2004 and 2003, respectively.

Certain newly consolidated subsidiaries in Japan have defined benefit plans to provide lump-sum retirement benefits to the employees. The service costs under the defined benefit pension plans were ¥9 million for the year ended August 31, 2005. Benefit obligations and plan assets are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Projected benefit obligations	**¥278**	¥ —	**$2,495**
Less: Plan assets	**(78)**	—	**(700)**
Unfunded benefit obligations	**200**	—	**1,795**
Accrued retirement and severance obligations	**¥200**	¥ —	**$1,795**

9. CAPITAL AND ADDITIONAL PAID-IN CAPITAL

The Company's common stock has no par value in accordance with the Japanese Commercial Code (JCC). Under the JCC, at least 50% of the issue price of new shares is designated as stated capital, and proceeds in excess of the amount designated as stated capital are credited to additional paid-in capital.

The Company has authorized for issuance 300 million shares of common stock with no par value as of August 31, 2005. Issued and outstanding shares were 106,073,656 shares for each of the three years in the period ended August 31, 2005.

10. LEGAL RESERVE AND DIVIDENDS

The JCC requires an amount equal to at least 10% of distributions of retained earnings be appropriated as a legal reserve until total of additional paid-in capital and legal reserve equals 25% of stated capital. In addition to reduction of a deficit and transfer to stated capital, either additional paid-in capital or legal reserve may be available for dividends by resolution of the shareholders' meeting to the extent that the amount of total additional paid-in capital and legal reserve exceeds 25% of stated capital.

Cash dividends and appropriations to the legal reserve charged to retained earnings during the years ended August 31, 2005, 2004 and 2003 represent dividends and directors' bonuses paid out during those periods and the related appropriations to the legal reserve. The accompanying consolidated financial statements do not include any provision for dividends of ¥65 ($0.58) per share, aggregating ¥6,611 million ($59,345 thousand), and ¥21,000 million ($188,510 thousand) of the appropriations. These dividends and appropriations were approved by shareholders at the annual shareholders' meeting held on November 24, 2005 in respect of the fiscal year ended August 31, 2005.

11. TREASURY STOCK

The JCC allows repurchase of treasury stock to the extent of distributable funds appropriated by resolution of the shareholders' meeting. In addition, the shareholders may request the Company to repurchase their shares of less than a trading unit (100 shares) upon request pursuant to the provision of the JCC.

The changes in shares of treasury stock for the years ended August 31, 2005, 2004 and 2003 are summarized as follows.

	Shares	Millions of Yen	Thousands of U.S. Dollars
Balance as of August 31, 2002	4,355,242	¥16,021	
Repurchase of common stock	1,700	6	
Balance as of August 31, 2003	4,356,942	16,027	
Repurchase of common stock	917	8	
Balance as of August 31, 2004	4,357,859	16,035	$143,941
Repurchase of common stock	787	6	54
Balance as of August 31, 2005	**4,358,646**	**¥16,041**	**$143,995**

12. STOCK OPTION PLAN

At the shareholders' meeting held on November 29, 2001, a stock option plan was approved. Under this plan, certain directors and certain employees were granted options to purchase common stock of 212,200 shares in total at 6,740 yen of an exercise price, as adjusted upon stock split, which had been determined at the higher of 102.5% of market price at the date of grant or the average market price of the preceding month. Those eligible can exercise the options when the market price exceeds 150% of the exercise price for at least 10 business days within the term of exercise, which is from November 30, 2003, to August 31, 2006. As of August 31, 2005, 143,200 shares of stock options are outstanding.

13. COMMITMENTS AND CONTINGENCIES

The Company has the following contingent liabilities as of August 31, 2005.

	Millions of Yen	Thousands of U.S. Dollars
Loan guarantees for:		
Employees' benefit society	¥ 20	$ 180
Franchise store	6	54
Guarantee of rental payment for:		
UNIQLO USA, Inc.	¥2,019	$18,124

Construction assistance fund receivables represent an interest-free loan granted to real estate owners to construct stores that will be leased by the Company. The Company transferred the construction assistance fund receivables to a trust bank during 1999. This transfer contains a recourse provision that the Company has an obligation to repurchase the transferred construction assistance fund receivables if the landowner fails to repay. The total outstanding transferred construction assistance fund receivables to a trust bank amounted to ¥560 million ($5,027 thousand) as of August 31, 2005.

14. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major items included in selling, general and administrative expenses for the years ended August 31, 2005, 2004 and 2003 are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	**2005**
Advertising expense	**¥20,246**	¥18,286	¥19,276	**$181,741**
Salaries	**31,510**	27,233	26,107	**282,855**
Rent	**22,158**	18,553	18,553	**198,905**
Welfare	**4,914**	4,102	3,965	**44,111**
Leases	**5,614**	7,068	5,389	**50,395**
Depreciation	**2,433**	1,840	2,272	**21,840**
Allowance for doubtful accounts	**55**	21	2	**494**

15. LEASES

All the Company's finance leases in Japan, which do not result in transfer of ownership of leased assets to the lessee, are accounted for as operating leases as permitted. Pro forma information of such finance leases is presented below as if such finance leases were capitalized. In the pro forma information, depreciation expenses are determined by the straight line method over the lease term with no salvage value. Also, total interest expense is determined as a differential of total lease payment and acquisition cost of the leased assets, and the interest method is used for allocation over the lease term.

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Furniture and equipment:			
Acquisition costs	**¥ 20,167**	¥ 21,276	**$ 181,032**
Accumulated depreciation	**(13,279)**	(11,780)	**(119,201)**
Net balance	**¥ 6,888**	¥ 9,496	**$ 61,831**

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	**2005**
Lease payments	**¥4,195**	¥4,732	¥4,941	**$37,657**
Depreciation expenses	**3,998**	4,500	4,705	**35,889**
Interest expenses	**153**	234	314	**1,373**

Future minimum lease payments relating to finance leases accounted for as operating leases as of August 31, 2005 are as follows:

Year ending August 31	Millions of Yen	Thousands of U.S. Dollars
2006	¥3,269	$29,345
2007 and thereafter	3,838	34,452
	¥7,107	$63,797

16. PER SHARE DATA

Net income per share for the years ended August 31, 2005, 2004 and 2003 are as follows:

	Yen			U.S. Dollars
	2005	2004	2003	**2005**
Basic	**¥331.99**	¥304.92	¥203.05	**$2.98**
Diluted	**¥ —**	¥ —	¥ —	**$ —**

Under "Earnings Per Share" of the Accounting Standards Board of Japan, net income per share is based on the weighted average number of shares of common stock outstanding during the respective years. On a diluted basis, both net income and shares outstanding are adjusted assuming exercise of rights relevant to potential shares. No diluted net income per share for 2005, 2004 and 2003 has been presented because there was no item with dilutive effect for those years.

Shareholders' equity per share as of August 31, 2005 and 2004 are as follows:

	Yen		U.S. Dollars
	2005	2004	**2005**
Basic	**¥1,791.61**	¥1,583.67	**$16.08**

17. RELATED PARTY TRANSACTIONS

The Company sells its products to a customer, which is wholly owned by a family member of one of the Company's directors, as a franchisee. The terms of the transactions are consistent with those of other franchisees under the Company's standard franchise agreement. The sales of products to the customer amounted to ¥285 million and ¥282 million for the years ended August 31, 2005 and 2004, respectively.

18. ACQUISITIONS OF NEWLY CONSOLIDATED SUBSIDIARIES

During the fiscal year ended August 31, 2005, the Company acquired ONEZONE CORPORATION of which assets and liabilities, cost of the shares and proceeds from the acquisition are summarized as follows:

ONEZONE CORPORATION	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥10,569	$ 94,874
Noncurrent assets	7,516	67,469
Current liabilities	(9,697)	(87,047)
Noncurrent liabilities	(6,398)	(57,433)
Cost of acquired shares	1,990	17,863
Cash and cash equivalents	(4,377)	(39,291)
Proceeds from acquisition of shares	¥ 2,387	$ 21,428

During the fiscal year ended August 31, 2005, the Company also acquired NELSON FINANCES S.A.S. of which assets and liabilities, cost of the shares and payment for the acquisition are summarized as follows:

NELSON FINANCES S.A.S.	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 2,640	$ 23,698
Noncurrent assets	13,195	118,447
Amortization of consolidation adjustment account	4,236	38,025
Current liabilities	(892)	(8,007)
Noncurrent liabilities	(7,546)	(67,738)
Minority interests	(5,073)	(45,538)
Cost of acquired shares	6,560	58,887
Cash and cash equivalents	(349)	(3,133)
Payments for acquisition of shares	¥ (6,211)	$ (55,754)

19. SUBSEQUENT EVENTS

(1) Establishment of Holding Company Structure and the Accompanying Corporate Division

On November 1, 2005, the Company restructured the corporate organization to establish a holding company structure, accompanying corporate division procedures.

On September 22, 2005, prior to the above restructuring, shareholders of the Company approved at the extraordinary shareholders' meeting to segment its UNIQLO-brand casual wear operations in Japan including the whole process from planning and design through manufacture and sale of the casual wear, then transfer the operations to SUNROAD CO., LTD. ("the Successor Company"), the Company's wholly owned subsidiary. SUNROAD CO., LTD. was renamed UNIQLO CO., LTD. The information related to the corporate division follows.

(A) Motivation behind the corporate division:

The Company, together with its group companies, initially developed retail clothing operations primarily through casual wear stores under the UNIQLO brand, and has continued to grow by involving itself in all aspects of the clothing process from manufacture through distribution and sale. However, the Japanese retail clothing business is becoming increasingly competitive with the passing of each year as new domestic competitors emerge and overseas players penetrate the market. Against such a background, it is both necessary and vital for the Company to further invigorate and bolster the UNIQLO brand. Furthermore, managements of the Company also feel that it is vital for the Company to expand its brand into overseas markets and expand the business reach into broader retail-related areas. The Company has several such challenges directly ahead of it, including the opening of the Company's first stores in the U.S., South Korea and Hong Kong in the autumn of 2005. Ensuring a clear distinction between each member company will enable management of the Company to accurately monitor the profitability and management responsibilities of any one project or firm. Managements of the Company also envisage situations where speedy decisions may be required regarding business tie-ups, management integrations or capital injections. The Company will become a holding company and will be responsible for determining overall group strategy, allocating management resources and planning investment projects. While each individual subsidiary will be responsible for the day-to-day decision making within their own individual business domains, the Company, as a holding company, will keep a more effective check on whether subsidiaries' business is being conducted to the optimum benefit of the group. The ultimate aim behind this move is essentially to maximize the Company's overall corporate value.

(B) Rights and obligations transferred to the Successor Company in the corporate division:

(i) Total assets and liabilities and their inherent rights and obligations:
The Successor Company received, in their entirety, all rights and obligations pertaining to the UNIQLO domestic operation as of November 1, 2005, the date of the corporate division, namely assets, contracts, liabilities, obligations, etc. The Successor Company also received the license contracts related to such UNIQLO operation. However, the Successor Company did not receive intellectual property rights, computers and related equipment pertaining to the UNIQLO operation and the shares issued by subsidiaries or other affiliated companies.

(ii) Rights and obligations—labor agreements:
The Successor Company received, in their entirety, all rights and obligations related to employment contracts with employees employed in the domestic UNIQLO operation up until November 1, 2005, the date of corporate division. However, employees employed in sections related to the Company's group operations as of September 1, 2005 and up until November 1, 2005, the date of corporate division, were exempt from the succession.

(C) Areas of business for the corporate division:

(i) The design, manufacture and retail of the UNIQLO casual wear brand in the Japanese domestic market.
(ii) Management of manufacture of UNIQLO casual wear clothing in Shanghai, China.
(iii) Wholesale of UNIQLO brand and casual wear for commercial distribution in overseas subsidiaries and the other affiliated companies.

(D) The Company after the Corporate Division:

(i)	Name	FAST RETAILING CO., LTD.
(ii)	Area of operation	Control and management of overall group activities as an owner and holding company
(iii)	Original location	Yamaguchi-shi, Yamaguchi Prefecture
(iv)	Representative	Tadashi Yanai
(v)	End of fiscal year	August 31
(vi)	Impact on the Company's earnings	There will be no impact on business results since the UNIQLO operation will be transferred to a wholly owned subsidiary of the Company.

(2) Establishment of COMPTOIR DES COTONNIERS JAPAN CO., LTD.

On September 1, 2005, the Company established COMPTOIR DES COTONNIERS JAPAN CO., LTD., in accordance with the resolution at the Company's board of directors held on July 14, 2005, to enhance operations of the French casual wear COMPTOIR DE COTONNIERS brand specifically for the Japanese market. Outline of the entity is as follows:

Name	COMPTOIR DES COTONNIERS JAPAN CO., LTD.
Representative	Shuichi Nakajima
Location	Shibuya-ku, Tokyo
Paid-in capital	¥450 million
Ownership interests	100%
End of fiscal year	August 31
Business objectives	The planning, manufacture, import and sale of COMPTOIR DES COTONNIERS brand clothing to the Japanese market.

(3) Acquisition of ASPESI Japan Co., Ltd., formerly SHIELD CO., LTD.

On September 1, 2005, the Company acquired 5,400 shares (60.0%) of SHIELD CO., LTD., which was renamed ASPESI Japan Co., Ltd. Prior to the acquisition, the Company had decided at its extraordinary board meeting on June 9, 2005 to enter into a joint venture agreement with the Italy's Alberto Aspesi & C.S.p.A. ("ASPESI") and Mitsubishi Corporation. Also at the board meeting, the Company had decided to buy out, together with ASPESI, shares of SHIELD CO., LTD., which had been a developer of the ASPESI brand in Japan at that time. The Company has commenced the operations jointly with ASPESI and Mitsubishi Corporation (formerly a parent of SHIELD CO., LTD.) to enhance the ASPESI brand in Japan. The Company is looking to boost the ASPESI brand value in Japan thus releasing what we believe to be a still largely untapped growth potential for the brand. At the same time, the Company expects to be able to further strengthen the its group by working together with ASPESI, acquiring some of ASPESI's planning and development prowess and efficiently utilizing their European network. Outline of ASPESI Japan Co., Ltd. is as follows:

Name	ASPESI Japan Co., Ltd., formerly SHIELD CO., LTD.
Representative	Kazuo Kawashima
Location	Minato-ku, Tokyo
Paid-in capital	¥450 million
Date of incorporation	March 10, 1998
Business objectives	Import, manufacture and sale of women's clothing
End of fiscal year	August 31
Number of employee	28 (As of August 31, 2005)
Main business locations	13 stores including Tokyo, Nagoya, Osaka (As of August 31, 2005)
Outstanding shares	9,000 shares
Revenue	¥342 million for the five months ended August 31, 2005

Report of Independent Auditors

ERNST & YOUNG SHINNIHON

■ Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

■ Tel : 03 3503 1100
Fax : 03 3503 1197

The Board of Directors
FAST RETAILING CO., LTD.

We have audited the accompanying consolidated balance sheets of FAST RETAILING CO., LTD. and consolidated subsidiaries as of August 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended August 31, 2005, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FAST RETAILING CO., LTD. and consolidated subsidiaries as of August 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended August 31, 2005, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended August 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

Ernst & Young Shin Nihon

November 24, 2005

Investor Information

(As of August 31, 2005)

Stock Information

Number of shares authorized	300,000,000
Number of issued and outstanding shares	106,073,656
Number of shareholders (including holders of treasury stock)	9,908

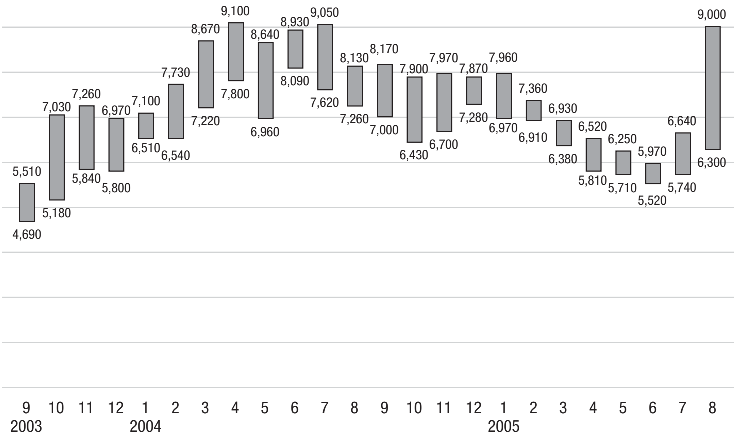
Principal Shareholders

	Number of shares	Percentage of total shares in issue
Tadashi Yanai	28,297,284	26.68%
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,092,500	6.69
Japan Trustee Services Bank, Ltd. (Trust Account)	5,757,500	5.43
Kazumi Yanai	4,781,808	4.51
Koji Yanai	4,780,600	4.51
Fight & Step Co., Ltd.	4,750,000	4.48
FAST RETAILING CO., LTD.	4,358,646	4.11
MASTERMIND Co., Ltd.	3,610,000	3.40
Trust & Custody Services Bank, Ltd. (Investment Trust Account)	2,975,100	2.80
Deutsche Securities Limited, Tokyo Branch	2,857,580	2.69

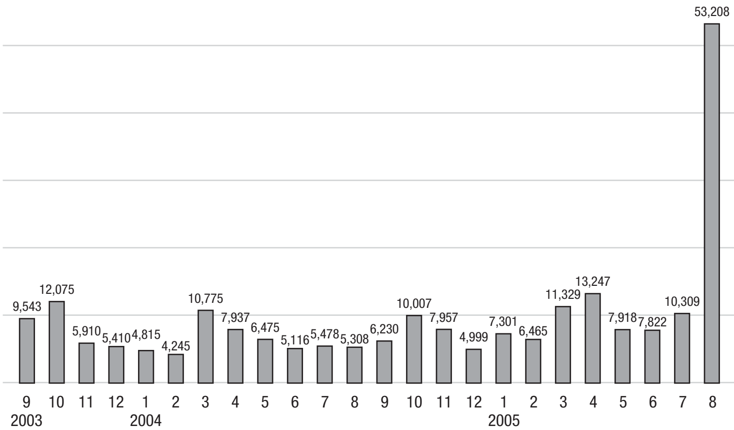
Shareholder Breakdown

	Number of shareholders	Number of shares (Thousands)	Percentage of total shares in issue
Individuals and others	9,330	48,129	45.37%
Foreign investors	335	20,499	19.32
Other financial institutions	87	22,233	20.97
Companies and corporations	116	8,903	8.39
Securities companies	40	6,310	5.95
Total	9,908	106,074	100.00

Stock Price (Yen)



Trading Volume (Thousands of Shares)



Additional copies of this annual report and other information may be obtained by contacting:

Investor Relations Department
FAST RETAILING CO., LTD.
Nissay Aroma Square 16F, 37-1, Kamata 5-chome, Ota-ku,
Tokyo 144-8721, Japan
Telephone: +81-3-3730-7730 Facsimile: +81-3-3730-7649

Forward-looking Statements

Statements in this annual report with respect to FAST RETAILING's plans, strategies, forecasts and other statements that are not historical facts are forward-looking statements that are based on management's assumptions and beliefs derived from information currently available and invoke risks and uncertainties. Factors that could cause actual results to differ materially from such statements include, without limitation, global economic conditions, demand for and competitive pricing pressure on products and services, FAST RETAILING's ability to continue to win acceptance for its products and services in highly competitive markets, and currency exchange rate fluctuations.

Corporate Information

CORPORATE DATA
(As of November 1, 2005)

FAST RETAILING CO., LTD.

Head Office
717-1, Sayama, Yamaguchi City,
Yamaguchi 754-0894, Japan

Tokyo Office
Nissay Aroma Square 16F,
37-1, Kamata 5-chome, Ota-ku,
Tokyo 144-8721, Japan

Established
May 1, 1963

Paid-in Capital
¥10,274 million

Line of Business
Control and management of overall Group activities as owner and holding company

Number of Full-time Employees (Consolidated)
2,668 (As of August 31, 2005)

Settlement Date
August 31

Annual Shareholders' Meeting
End of November

Transfer Agent
The Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-0005, Japan

Number of Shares per Trading Unit
100

Independent Public Auditors
ERNST & YOUNG SHIN NIHON

BOARD OF DIRECTORS
(As of November 30, 2005)

Tadashi Yanai
Chairman, President & CEO

Nobuo Domae
Executive Vice President

Masa Matsushita
Executive Vice President

Toru Hambayashi*1

Nobumichi Hattori*1

STATUTORY AUDITORS' BOARD
(As of November 30, 2005)

Toshiharu Ura

Kiyomi Iwamura

Takaharu Yasumoto*2

Norihiko Shimizu*2

*1 External board members
*2 External auditors

MAIN GROUP COMPANIES
(As of December 31, 2005)

<UNIQLO Consolidated Subsidiaries>

UNIQLO CO., LTD.
717-1, Sayama, Yamaguchi City,
Yamaguchi 754-0894, Japan

UNIQLO(U.K.)LTD.
25-27 Shaftesbury Avenue,
London W1D 7EG, U.K.

FAST RETAILING (JIANGSU) APPAREL CO., LTD.
RM.1602, No.1089, Zhongshan Er Road (South),
Shanghai 200030, China

UNIQLO USA, Inc.
1114 Avenue of the Americas, 41st Floor New York,
NY 10036, U.S.A.

FRL Korea Co., Ltd.
5F, Samgu Building, 70 Sogong-dong, Joong-gu,
Seoul 100-070, Korea

UNIQLO HONG KONG, LIMITED
No. 2006, 2/F Miramar Shopping Centre,
No. 132 Nathan Road, TST, Kowloon, Hong Kong

NELSON FINANCES S.A.S.
Rue Saint Pierre 31780 Castleginest Toulouse, France

Créations Nelson S.A.
58 rue St Lazare, 75009 Paris, France

COMPTOIR DES COTONNIERS JAPAN CO., LTD.
Aoyama MS Building 9F,
7-5, Jingumae 3-chome, Shibuya-ku,
Tokyo 150-0001, Japan

ONEZONE CORPORATION
Nissay Aroma Square 10F,
37-1, Kamata 5-chome, Ota-ku,
Tokyo 144-8721, Japan

National Standard Inc.
Fiore B1F, 6-6, Daikanyama-cho, Shibuya-ku,
Tokyo 150-0034, Japan

ASPESI Japan Co., Ltd.
Pansée Building 2F,
13-11, Minami-Aoyama 5-chome, Minato-ku,
Tokyo 107-0062, Japan

<Affiliated Company under the Equity-method>

LINK THEORY HOLDINGS CO.,LTD.
3-6, Minami-Aoyama 7-chome, Minato-ku,
Tokyo 107-0062, Japan

FAST RETAILING CO., LTD.
www.fastretailing.com