

Aoyama sets new sales record for 5th consecutive year

I would like to thank you, our shareholders, for your steadfast support to Aoyama Trading Group. In the year under review, the first full year since I became president, the Group achieved its target of consolidated net sales of ¥200 billion with a comfortable margin. This achievement reflects the strength we draw from our shareholders and I am grateful to all of you. The employees of Aoyama Trading are determined to combine their energy and talent in an uncompromising drive to ensure the Company fulfills your expectations.



Osamu Aoyama
President and CEO

■ Consolidated sales break ¥200 billion, operating income increases too.

In the year under review, Aoyama Trading Co., Ltd. (the “Company”) achieved higher revenue for the fifth consecutive year, reporting consolidated net sales of ¥202,720 million, an increase of 3.4% year on year. Operating income rose 8.2% to ¥21,795 million.

Business conditions in menswear retailing left little room for optimism as competition intensified among various business formats despite a recovery

in sales of winter clothing due to the arrival of a record cold wave. In this business environment, Aoyama Trading Group implemented various measures aimed at reinforcing profitability and competitiveness, such as expansion of the store network in the mainstay menswear retail business and enhancement of the women’s merchandise line. At the same time, we worked to put in place infrastructure for Group management and to increase profitability.

Financial Highlights

Aoyama Trading Co., Ltd. and its subsidiaries

(as of March 31)

	2002	2003	2004	2005	2006
Net sales (millions of yen)	161,353	176,075	186,400	195,968	202,720
Operating income (millions of yen)	7,615	12,784	16,570	20,142	21,795
Net income (millions of yen)	3,721	6,392	8,317	4,650	13,328
Net income per share (yen)	56.34	94.81	123.76	67.87	199.81
Dividend per share (yen)	35	35	40	40	45
ROE (%)	1.8	3.1	4.1	2.3	6.3

(Note) Figures amounting to less than one million yen are rounded down.

■ Pursuing greater market share

Since the beginning of this year, we have engaged in several strategic initiatives that are expected to have an important bearing on the Company’s future growth and prosperity. One is the loyalty points program tie-up with Culture Convenience Club Co., Ltd. (CCC). CCC’s T-Point program has some 18 million members, primarily young people. We intend to expand our base of youthful customers by exploiting the attractiveness of CCC’s T-Point program to the full. Also, Yofuku-no-Aoyama has begun offering a full line of women’s business suits for job seekers and formal wear, which as a marketing initiative has got off to a favorable start. In the coming years, we will reinforce these strategies and work to boost profitability.

■ Human resource system designed to reward achievement

In retailing, a store manager-led industry in which the power of people working on the front lines of the business has a big impact on business performance, it is essential to motivate employees as much as possible. For this reason, last year we revamped the human resource system, adding two new posts in the organizational structure between the posts of store manager and block manager to motivate all store managers. The new posts are senior store manager and executive store manager, and employees who advance to the new posts receive higher compensation.

Reflecting our policy of encouraging female employees to realize their full potential, three women were appointed to store managers (one at Yofuku-no-Aoyama, one at Aoyama Suit Kobo,

and one at The Suit Company) in the year under review. Through these initiatives, I aim to ensure recognition throughout Aoyama Trading Group that people who achieve results will be rewarded.

■ Targeting non-consolidated sales of ¥200 billion

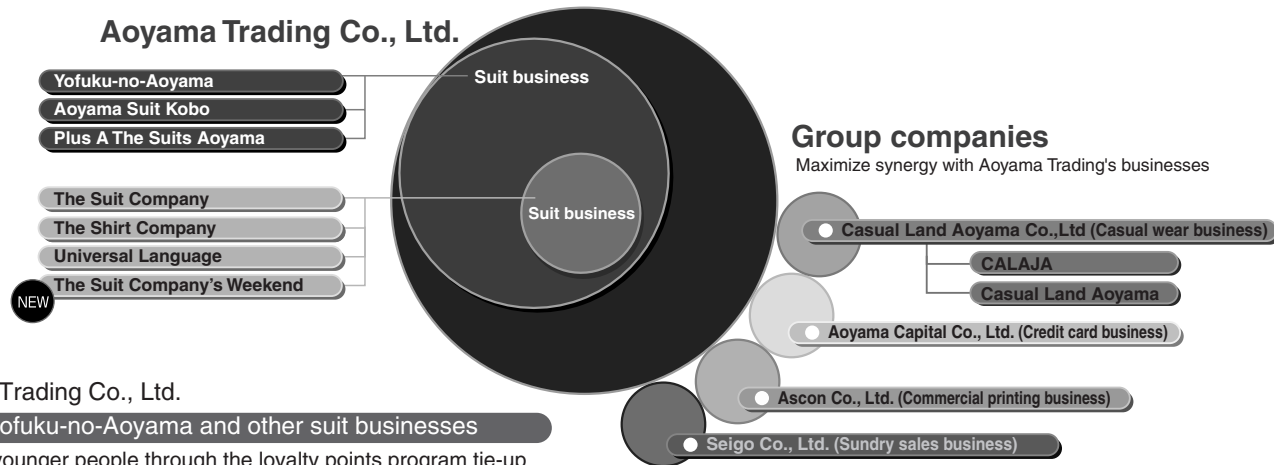
In menswear retailing, competition among the four leading companies is intensifying. Demographic change, notably the combination of an aging society and a declining birthrate as well as the retirement in 2007 of the first of the baby boomer generation, is a pressing problem. In response, we aim to reinforce our sales capabilities and establish a more robust corporate structure. Aoyama Trading Group’s policy is to move ahead with its new store opening and store relocation program in the mainstay Yofuku-no-Aoyama operation while developing a second mainstay business by expanding other operations, including The Suit Company store format for young people, the Universal Language and The Suit Company’s Weekend store formats.

We are determined to achieve our target of non-consolidated net sales of ¥200 billion, a milestone we passed on a consolidated basis in the year under review. In all these endeavors, I will greatly appreciate your support and encouragement.



Yofuku-no-Aoyama Iwata Store opened in April 2006

Maximizing customer satisfaction with an expanded product line-up



Aoyama Trading Co., Ltd.

Yofuku-no-Aoyama and other suit businesses

- Attract younger people through the loyalty points program tie-up with TSUTAYA.
- Cultivate a new market through full-scale launch of women's suits.
- Starting with World Wide Size, aim to establish a new business integrating the Internet and existing stores.
- Increase unit prices by expanding the line-up of upscale suit brands, including the Savile Row private label.
- In order to maintain market share after the retirement of the baby boomer generation, develop new markets by offering lifestyle product choices.
- Expand market share through the ongoing store rollout and refurbishment of existing outlets.
- Increase the effectiveness of CRM activities by attracting more subscribers to the Q-Click Mobile (QCM) mobile phone information service and building up the customer database; use these CRM activities to strengthen sales strategies in all segments.
- Promote IT at production and distribution operations to cut costs and accelerate business processes.

The Suit Company suit business

- Boost overall earnings by increasing same-store sales, opening new stores in optimum locations, strengthening the line-up of womenswear and reducing costs. Also, fortify strategies for stores located in the regions.

Universal Language suit business

- Ramp up operations for the stores that offer a select line-up of apparel and accessories targeting consumers with discerning taste in fashion.

The Suit Company's Weekend suit business

- Attract families of the sons and daughters of baby boomers by focusing on opening stores at suburban shopping centers.

Group companies

Casual wear business (Casual Land Aoyama Co., Ltd)

- Strengthen profitability and competitiveness through a faster and more flexible decision-making process by spinning off the operation into a separate company.
- Establish a solid earnings structure by beefing up procurement capabilities to boost price competitiveness, at the same time, focusing on procuring hit products in order to prop up the gross margin.
- Intensify the line-up of women's apparel and accessories.

Credit card business (Aoyama Capital Co., Ltd)

- Support the CRM activities of Aoyama Trading Co., Ltd.
- Increase the number of cardholders.
- Develop the "Language Channel" online language learning service into a second major source of revenues.

Commercial printing business (Ascon Co., Ltd.)

- Actively attract new customers, such as operators of drug store chains and home center chains, and increase orders from companies outside Aoyama Trading Group.

Sundry sales business (Seigo Co., Ltd.)

- While securing steady earnings, develop the business to complement Aoyama Trading's store network strategy.

Loyalty Points Program Tie-up with TSUTAYA

The Company and Culture Convenience Club Co., Ltd. (CCC) have entered into a loyalty points program tie-up. In February 2006 the Company began offering loyalty points, enabling customers to collect points in CCC's T-Point loyalty points program at Yofuku-no-Aoyama stores and other stores we operate. CCC's TSUTAYA chain of audio-visual rental stores has some 18 million program members, primarily young people. We intend to expand our base of young customers through this tie-up.

Customers who present their TSUTAYA member cards when purchasing at Aoyama Trading Group stores collect "T points" that can be used at TSUTAYA and other participating stores such as a major chain of convenience store. Aoyama Trading is the first company in the menswear industry to participate in the T-Point program and our agreement with CCC specifies the industry exclusivity. Also, we will continue our previous loyalty points program.

Revision of the Human Resource System and Creation of New Posts

We have revised our human resource system and created two new posts, namely, senior store manager and executive store manager, in the organizational structure between the existing posts of store manager and block manager. The new posts, which entail higher compensation, were established to increase employee's motivation. Under the previous system, recognition for effort and performance wasn't readily apparent as the post immediately above store manager, to which employees as young as their mid-twenties are appointed, was block manager who controls 15 to 20 stores.

Within the Marketing and Sales Division, we have established the Human Resources Development Department responsible for employee education.

Launch of World Wide Size Website for King, Tall, and Small Sizes

In April 2006 the Company launched World Wide Size (<http://wws.aoyama-syouji.co.jp/>), a web-based reservation service for suits in king, tall, and small sizes, such merchandise not extensively stocked at stores. This is a new service format that differs from conventional Internet shopping. The customer visits the website to make an appointment for a trial fitting at a store and purchases the merchandise after trying it on.

The World Wide Size website features a wide choice of merchandise for customers ranging from 150 cm to 195 cm in height and with waist sizes from 66 cm to 130 cm. A total of 200 items in 8 categories are offered, including suits, dress shirts, slacks, and shoes. The trial fitting service, which entails no charge for internet service, reservation or cancellation is available at a total of 692 Yofuku-no-Aoyama, Aoyama Suit Kobo and Plus A The Suit Aoyama stores nationwide (as of May 30, 2006). An English-language website is available for non-Japanese customers.

