

# Senshukai Co., Ltd.

## Interim Fiscal 2006 Earnings Presentation

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July 27, 2006

株式会社 千趣会



**BELLE MAISON**

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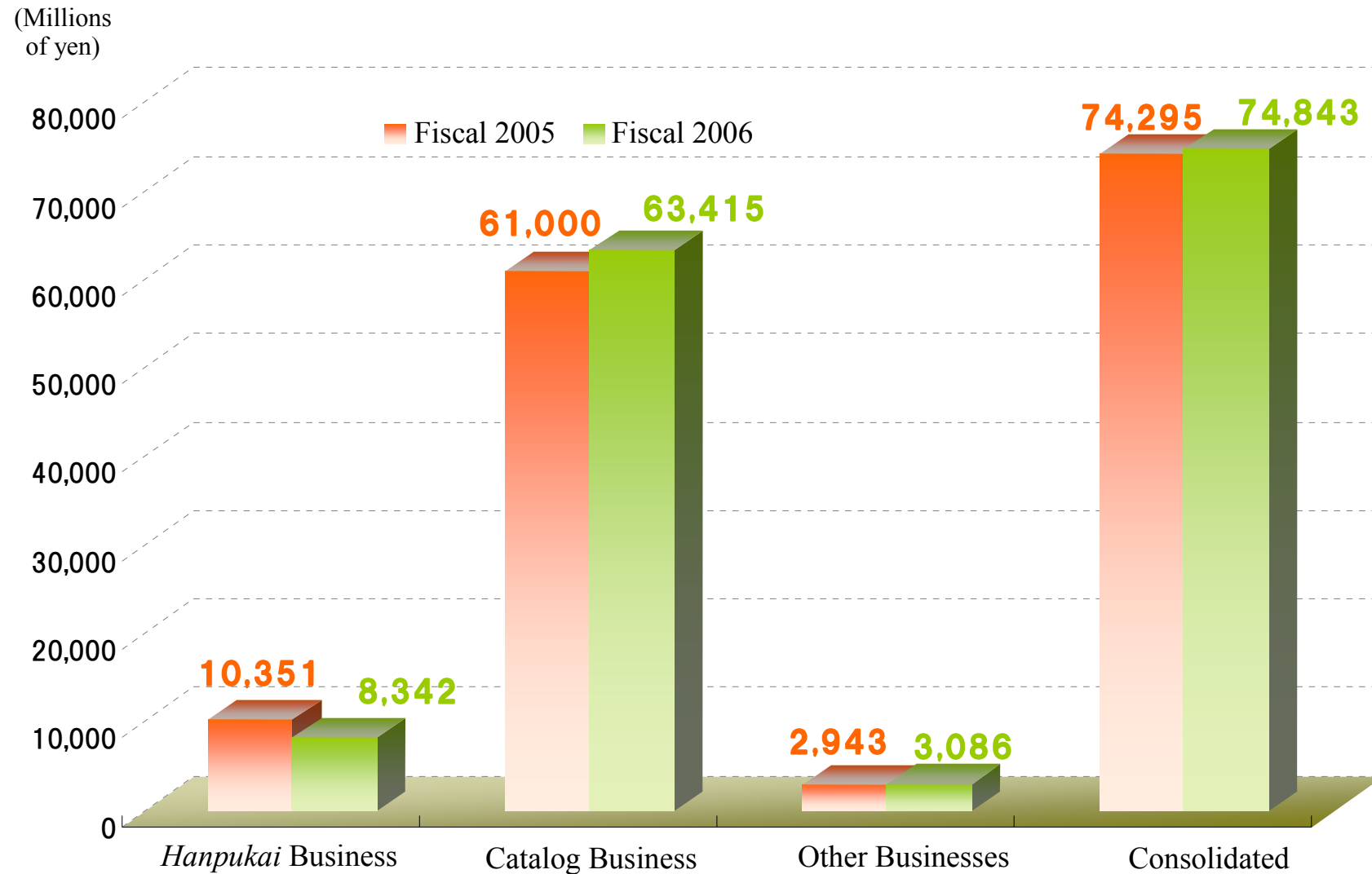
# Results of Operations for Interim Fiscal 2006

## Consolidated Results of Operations for Interim Fiscal 2006 (YoY Comparison)

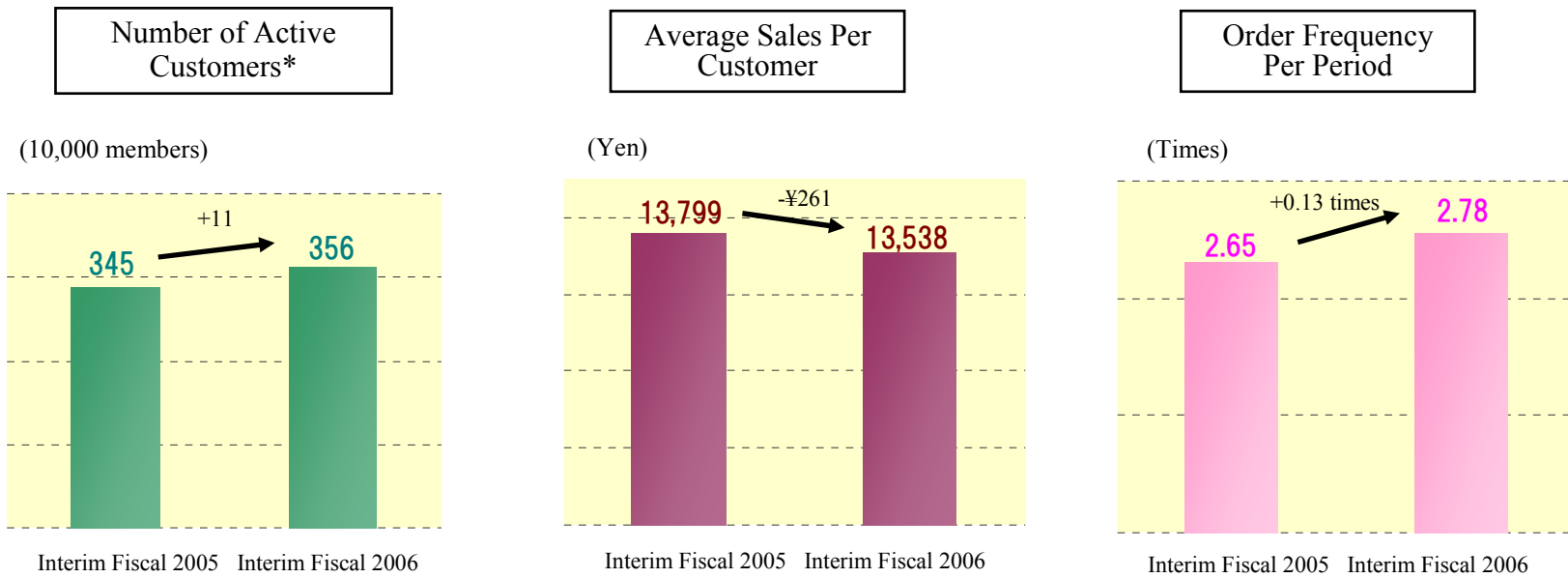
(Millions of yen)

	Interim Fiscal 2005	Comparison to Net Sales	Interim Fiscal 2006	Comparison to Net Sales	Difference	YoY Change %
Net Sales	74,295	-	74,843	-	548	0.7%
Cost of Sales	38,659	52.0%	38,075	50.9%	-583	-1.5%
Gross Profit	35,635	48.0%	36,767	49.1%	1,132	3.2%
SG&A Expenses	33,854	45.6%	34,238	45.7%	383	1.1%
Operating Income	1,780	2.4%	2,529	3.4%	748	42.0%
Ordinary Income	1,979	2.7%	2,579	3.4%	600	30.3%
Net Income	-605	-0.8%	2,035	2.7%	2,640	-

# Net Sales by Business Segment (YoY Comparison)



# Factors Behind Increased Sales in Catalog Business



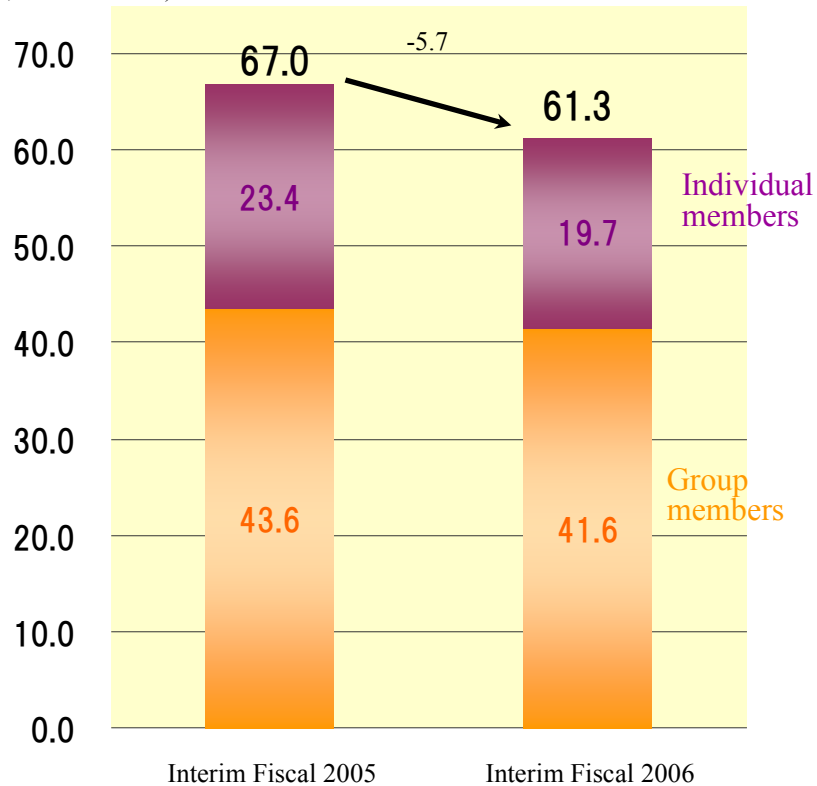
- ✓ Higher number of active customers due to increased retention of customers
- ✓ While average sales per customer declined, a higher order frequency helped to put annual order value on a recovery track
- ✓ Spring/summer and summer catalogs performed strongly
  - Fashion spring/summer and summer catalogs
    - Watashi-tachi no Kurasu Fuku* up approx. ¥1,700 million year on year; *Fashion Plus* up approx. ¥900 million year on year
    - Style Note* up approx. ¥600 million year on year
  - Interior goods spring/summer and summer catalogs
    - Watashi-tachi no Sumai to Zakka* catalog sales unchanged; *Shin Seikatsukan* up approx. ¥1,500 million year on year

\* Number of Active Customers: Number of customers placing orders over the year.

# Factors Behind Lower Sales in *Hanpukai* Business

Number of Members

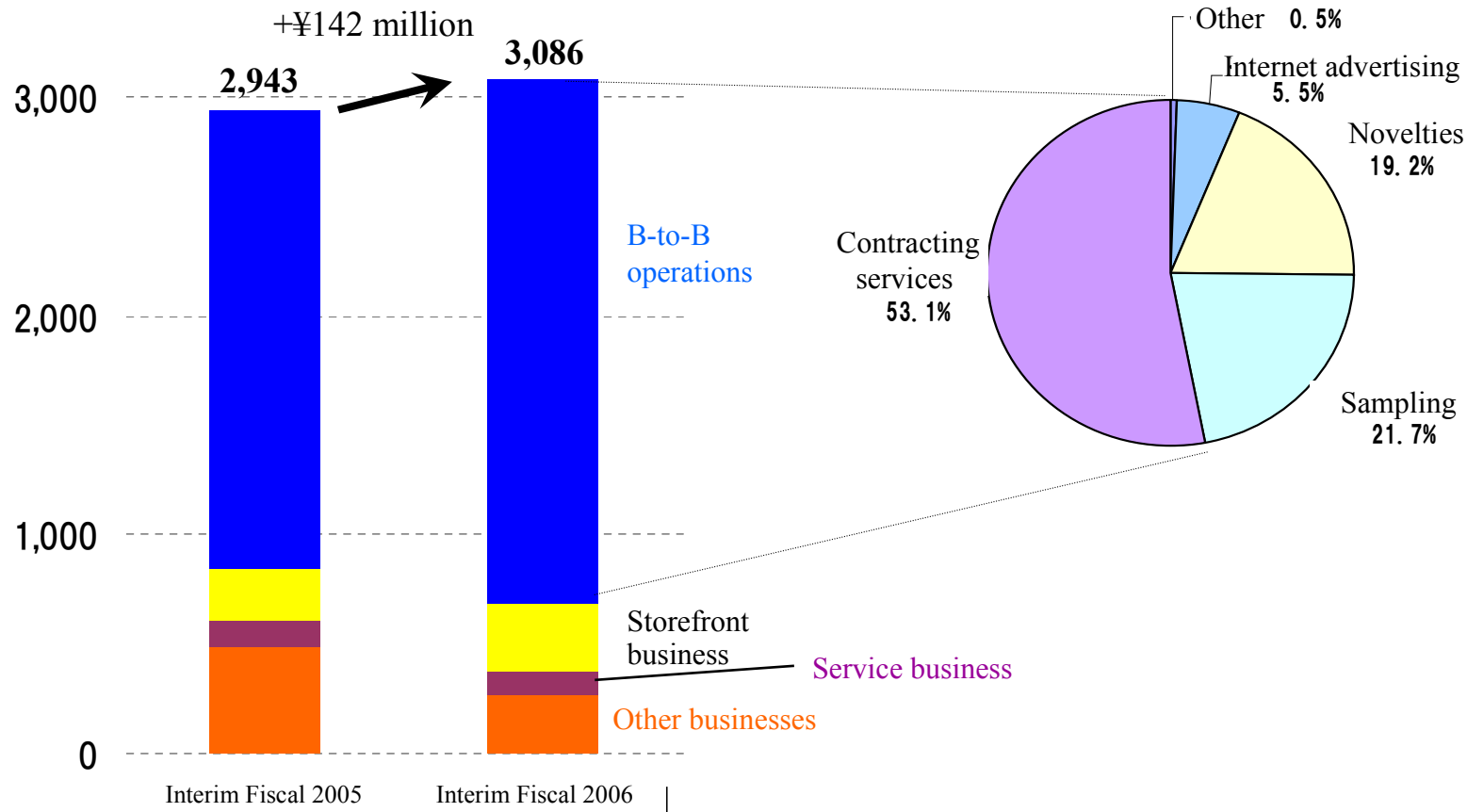
(10,000 members)



- Decline in monthly members  
Failed to acquire new members through campaigns, etc.  
Particularly large drop in individual members
- Decrease in average order value per customer  
New product sales were lower than target, etc.

# Factors Behind Higher Sales in Other Businesses

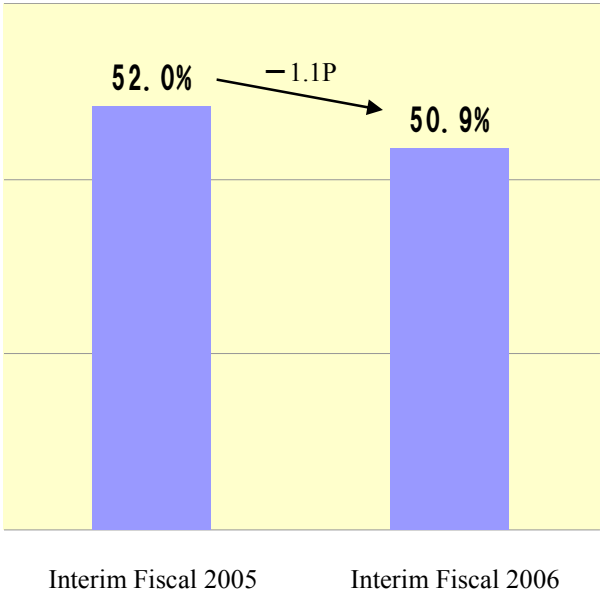
(Millions of yen)



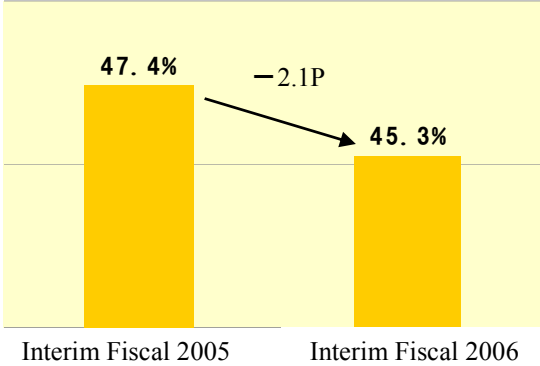
● In B-to-B operations, higher sales in contracting services and sampling

# Cost-of-Sales Ratio Overview

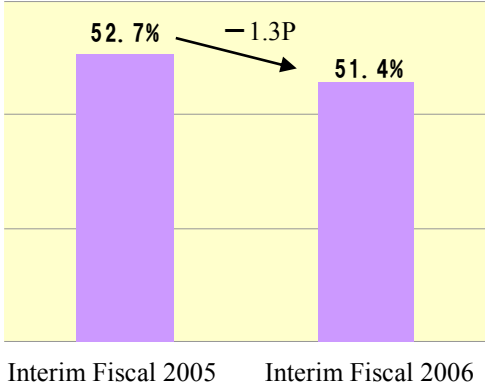
Consolidated



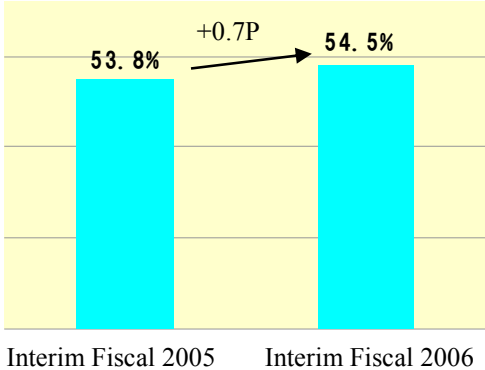
Hanpukai Business



Catalog Business

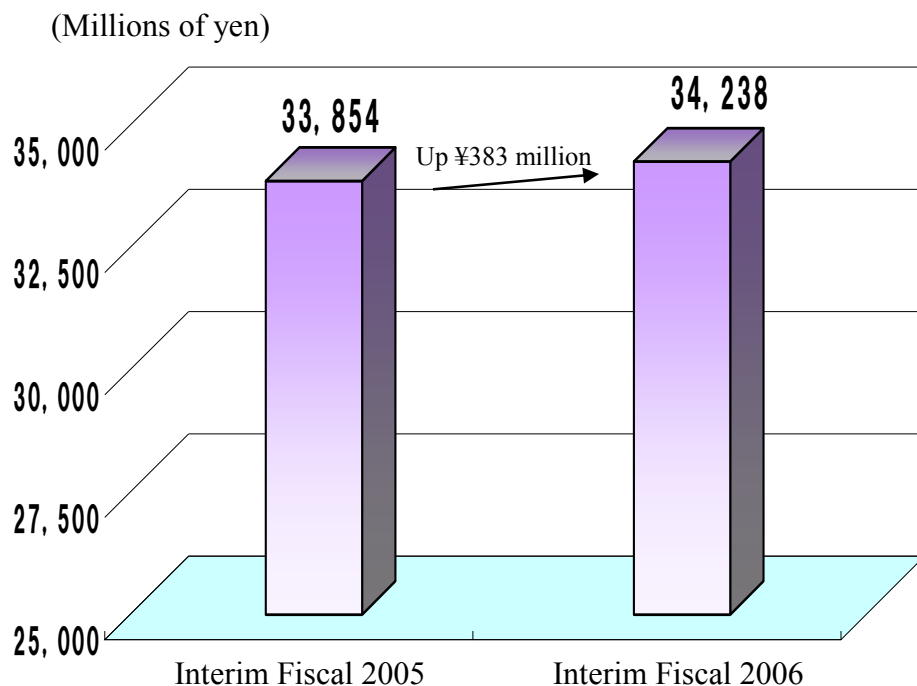


Other Businesses



- *Hanpukai* Business: decrease in purchasing costs due to cookbook success
- Catalog Business: reduced purchasing costs due to enhanced price variation and lower cost-of-sales ratio due to decreased valuation losses
- Other Businesses: higher cost-of-sales ratio accompanying increased sales in contracting services with a high cost-of-sales ratio

# Breakdown of Changes in SG&A Expenses



(Millions of yen)

Catalog-related expenses	-413
Sales promotion expenses	-360
Leasing expenses	235
Commissions paid	469
Other increased expenses	452
	<b>383</b>

- Lower printing costs due to lower circulations of catalogs
- Lower *Belle Maison* incentive point expenses
- Increase in new leased properties
- Higher commissions paid due to higher external-contract commissions

## Results Compared to Initial Targets for Interim Fiscal 2006

(Millions of yen)

	Interim Fiscal 2006 Initial Targets	Comparison to Net Sales	Interim Fiscal 2006 Results	Comparison to Net Sales	Difference	YoY Change %
Net Sales	74,500	-	74,843	-	343	0.5%
Cost of Sales	37,578	50.4%	38,075	50.9%	497	1.3%
Gross Profit	36,921	49.6%	36,767	49.1%	-154	-0.4%
SG&A Expenses	35,021	47.0%	34,238	45.7%	-783	-2.2%
Operating Income	1,900	2.6%	2,529	3.4%	629	33.1%
Ordinary Income	1,900	2.6%	2,579	3.4%	679	35.7%
Net Income	1,600	2.1%	2,035	2.7%	435	27.2%

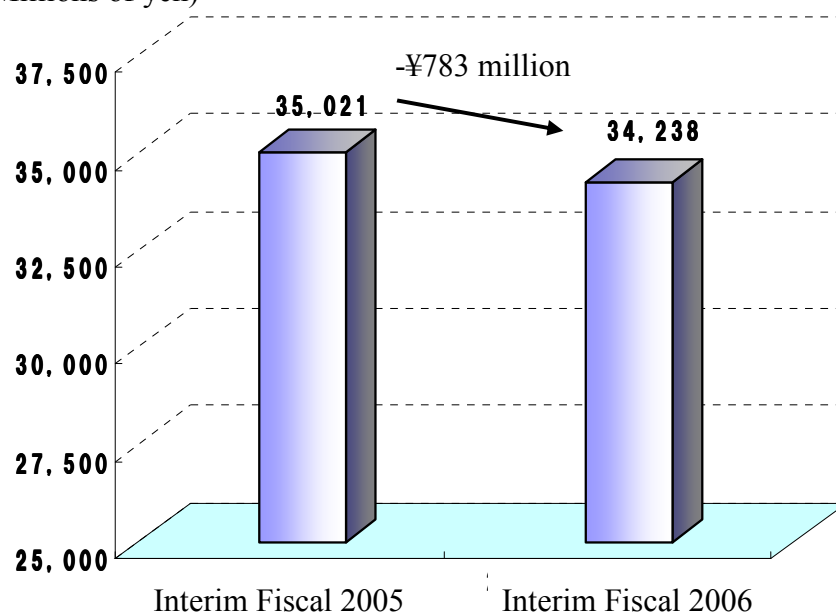
# Breakdown of Changes in Cost-of-sales Ratio and SG&A Expenses (Comparison to initial budget)

## Cost-of-sales Ratio

- Higher cost-of-sales ratio in line with increased bargain sales and fax- and web-based bargain sales (In particular, fashion related -> brand sales, etc.)

## SG&A Expenses

(Millions of yen)



(Millions of yen)

Catalog-related expenses	-387
Other decreased expenses	-396
<b>Total</b>	<b>-783</b>

- Lower catalog mailing costs due to lower mailing costs per item, and lower catalog expenses due to lower printing and production costs per item
- Lower administration costs



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# Progress on the Medium-Term Management Plan (2005 – 2007)

# SCM Promotion (Status of Each Indicator)

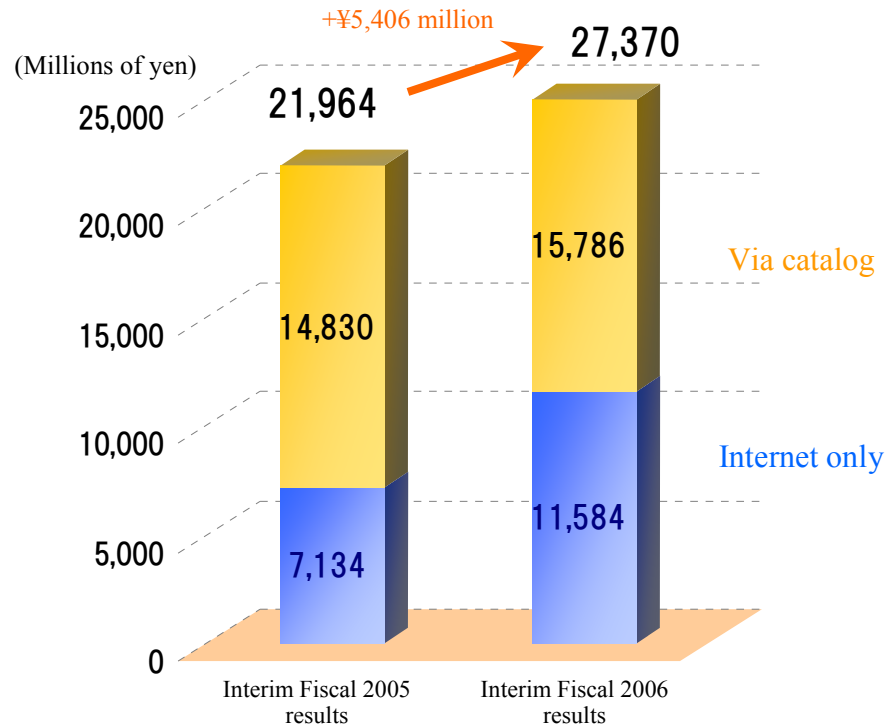
	Fiscal 2005 Results	Interim Fiscal 2006 Results	Degree of Improvement	Fiscal 2007 Medium-term Management Plan Targets	
Reduction in distribution-related cost ratio	Direct transaction lead time	70.5days	72.4days	→	45days
	Domestic indirect lead time	26days	29days	→	25days
	Rapid Delivery Ratio*	78.4%	78.3%	→	85.0%
	Delivery-to-order ratio	137.5%	141.6%	→	130.0%
Reduction in cost-of-sales ratio	Inventory turnover	4.8times	4.5times	→	7.0times
	Import ratio	66.1%	69.5%	↗	70.0%
	Direct transaction rate	11.7%	14.3%	↗	15.0%

\*The ratio of product in stock and available for immediate delivery.

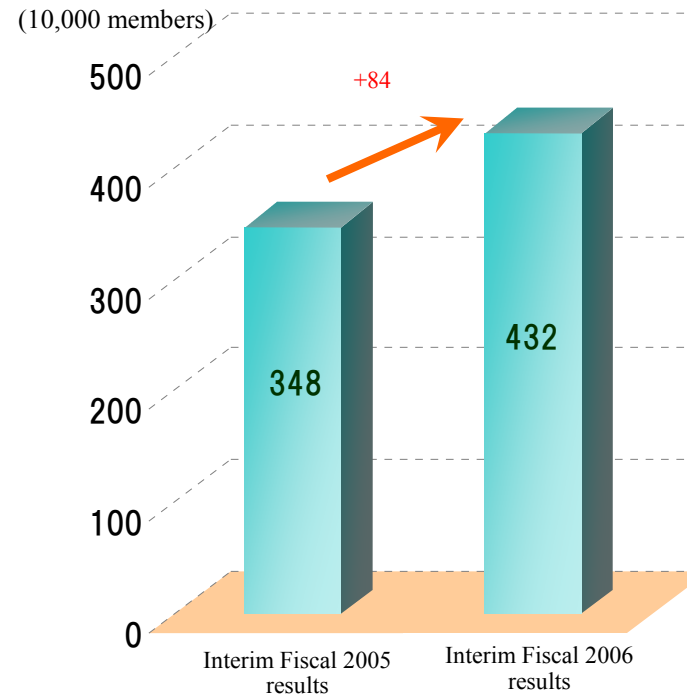
- From the current fiscal period, the method of determining the lead times of directly sourced overseas merchandise has been changed: lead times are now calculated as a weighted average.
- The reason for the worsening of the delivery-to-order ratio is that we are now rapidly shipping products that are in stock to increase customer satisfaction.
- The reason for the worsening of the inventory turnover is that we receive the fall and winter stocks of overseas-produced merchandise early to improve the rapid delivery ratio.

# Internet Sales and Customer Base Enlargement

Internet Sales



Number of Members



## Customer Base Enlargement

- Customers in their 20s: Despite efforts to capture new customers through the *Petite Belle Maison* catalog, sales declined, so we are refocusing our strategy for the time being on attracting customers via the Internet and mobile phones.
- Customers in their 40s: Strong sales were achieved by *Rashisa* and *Luxe Living*, catalogs targeting customers in their forties. Also, *Watashi-tachi no Kurasu Fuku* captured new customers and contributed to a higher member retention rate.

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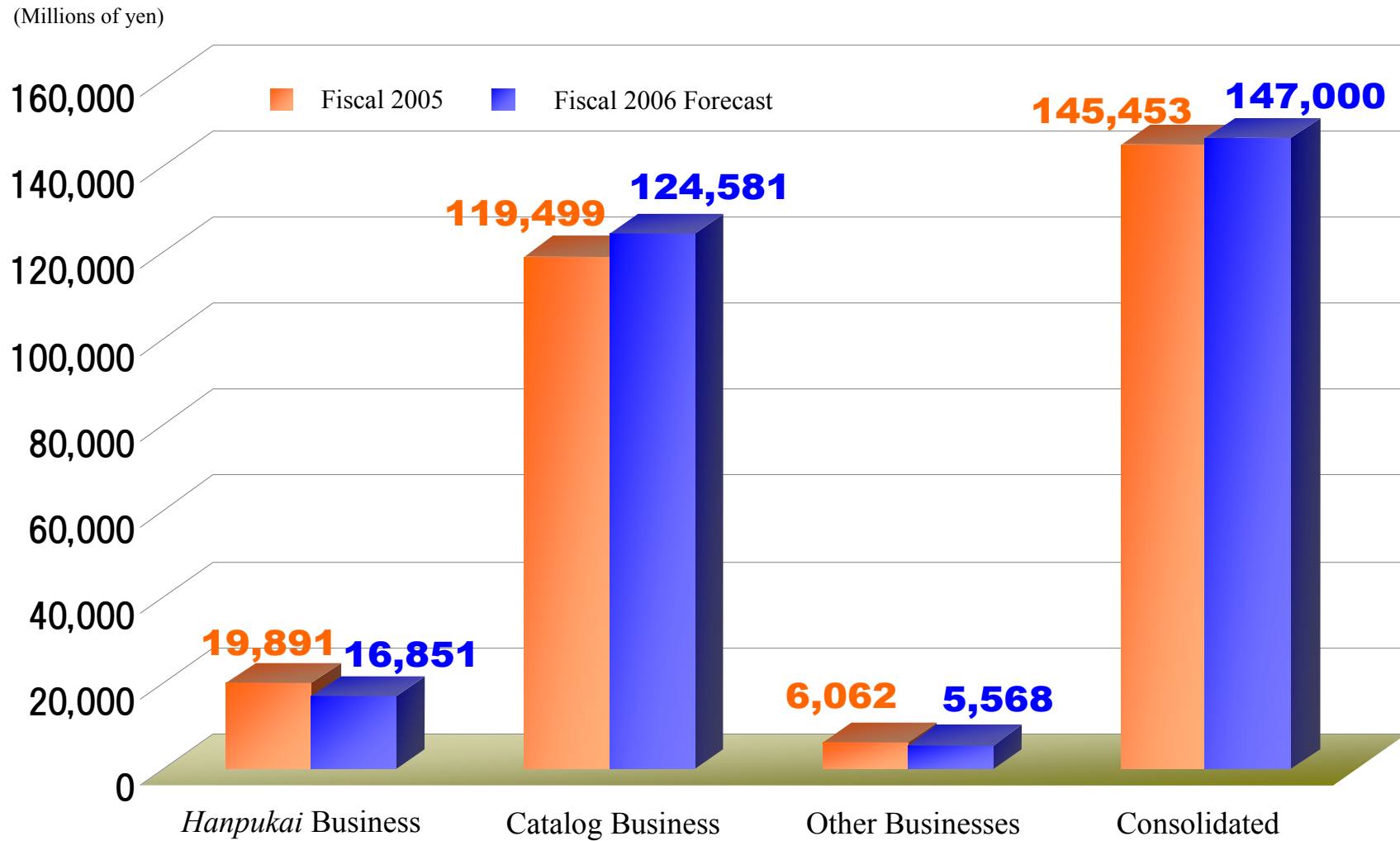
## Consolidated Operating Forecasts for Fiscal 2006

## Consolidated Earnings Forecasts for Fiscal 2006 (YoY Comparison)

(Millions of yen)

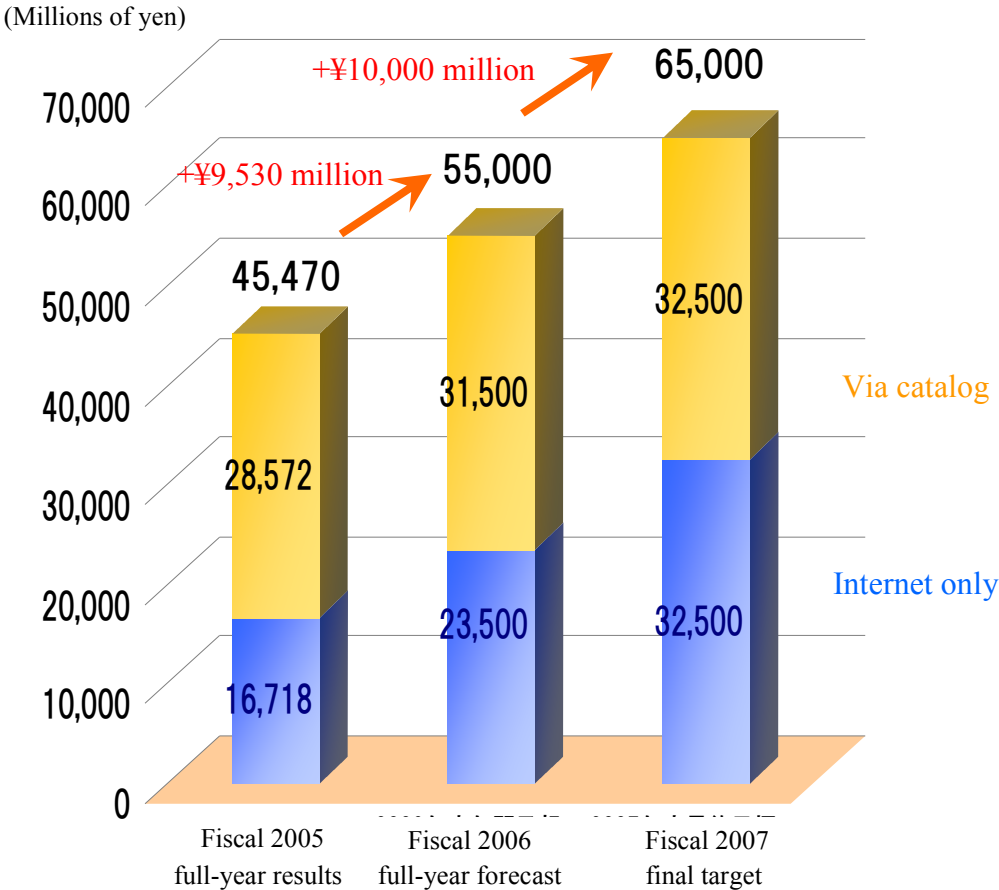
	Fiscal 2005	Comparison to Net Sales	Fiscal 2006 Consolidated Forecast	Comparison to Net Sales	Difference	YoY Change %
Net Sales	145,453	-	147,000	-	1,547	1.1%
Cost of Sales	75,173	51.7%	74,738	50.8%	-435	-0.6%
Gross Profit	70,279	48.3%	72,261	49.2%	1,982	2.8%
SG&A Expenses	66,847	45.9%	67,760	46.1%	913	1.4%
Operating Income	3,432	2.4%	4,500	3.1%	1,068	31.1%
Ordinary Income	3,962	2.7%	4,700	3.2%	738	18.6%
Net Income	1,267	0.9%	3,500	2.4%	2,233	176.2%

# Projected Net Sales by Business Segment for Fiscal 2006 (YoY Comparison)

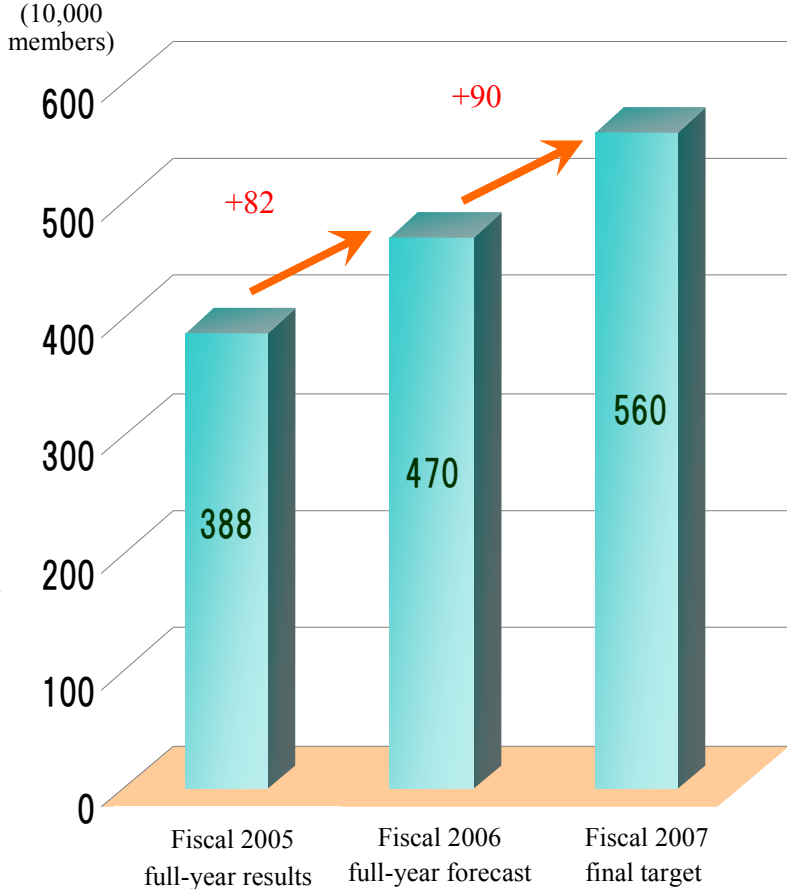


# Outlook for Internet Sales and Memberships

Internet Sales



Number of Members



# Major Initiatives for Fiscal 2006 Second Half

1. Basic agreement with Yomiuri Telecasting to form joint venture  
 In July 2006, we signed a basic agreement with Yomiuri Telecasting Corporation to establish a joint venture company to operate Yomiuri Telecasting's television shopping business and Internet shopping business.

2. Start of Chinese mail-order business  
 In March 2006, in collaboration with Mitsui & Co., Ltd., we established Shanghai Senshu Merchant and Commerce Co., Ltd., to conduct wholesale and retail businesses in China.  
 In October 2006, the new company will start a mail-order marketing business in Shanghai using catalogs and the Internet.

3. Future Compass  
 Established in April 2006 to develop content sales businesses focusing on the Internet and mobile phones, this subsidiary will launch Pika Pika Garden, a website to sell fortune-telling content, in October this year.

4. PET STREET  
 PET STREET, a web community site for pet owners set up in January 2006, will be redesigned for an October 2006 launch.



# Senshukai's CSR Activities (1)

Senshukai views initiatives to address global environmental problems as one of its important corporate social responsibilities, and remains committed to contributing to society as a good corporate citizen.



One of our environmental initiatives is the 2006 *Belle Maison* Forest Campaign, a customer participation-oriented environmental event which started in March 2006. Over roughly 3 months, we sold all of the 3,000 growing-sets of saplings we had prepared. For ¥1,500 each, customers purchased a juneberry, laurel or cherry tree to grow at home, together with stickers with their own number to enable them to participate in various environmental activities. Furthermore, we will contribute part of the proceeds from the sales to the Green Belt Movement founded by Wangari Maathai, a Nobel Peace Prize winner.



## Senshukai's CSR Activities (2)

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Development and adoption of environmentally friendly products:

Senshukai began sales of environmentally friendly products in its 2006 fall and winter catalogs. These products had one or the other, or both, of the symbols shown here affixed to them. These symbols were displayed on about 5% of the products in the fall and winter catalogs: from now on we will steadily increase this percentage.

### (1) Eco-friendly product symbol

This symbol is displayed on products that are designed to prevent or limit environmental pollution, global warming and the destruction of the environment.

### (2) Human-friendly product symbol

This symbol is displayed on products that either have no or minimal adverse effect on people as a result of the chemical substances or technologies used in the product.



Eco-friendly



Human-friendly

# Dividend and Date of Earnings Announcement

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- Senshukai will pay an interim dividend of ¥10 per share to ensure a projected 30% dividend payout ratio for fiscal 2006. The projected full-year dividend is ¥20 per share.
  
- Earnings for the third quarter of fiscal 2006 are scheduled to be announced on October 20, 2006 (Friday).