



Consolidated Financial Report for Fiscal 2005,  
Ended December 31, 2005

January 26, 2006

Company Name: **Senshukai Co., Ltd.**

Stock Exchanges: Tokyo and Osaka

Stock Code: 8165

(URL: <http://www.senshukai.co.jp>)

Head Office: Osaka

Representative: Mr. Yasuhiro Yukimachi, President and Representative Director

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Meeting of the Board of Directors for Approval of Financial Results: January 26, 2006

U.S.GAAP: None

## 1. Consolidated Results for Fiscal 2005 (January 1, 2005 – December 31, 2005)

### (1) Operating Results

(¥ million, rounded down)

	Netsales		Operating income		Ordinary income	
		%		%		%
Fiscal 2005	145,453	(1.2)	3,432	17.5	3,962	30.6
Fiscal 2004	147,159	(0.3)	2,921	(42.2)	3,033	(24.9)

	Net income		Net income per share (¥)	Diluted net income per share (¥)	Return on equity (ROE) (%)	Ratio of recurring income to total assets (%)	Ratio of recurring income to net sales (%)
		%					
Fiscal 2005	1,267	2.9	27 44	27 36	2.5	4.4	2.7
Fiscal 2004	1,231	(32.3)	28 81	28 67	2.6	3.5	2.1

Notes:

1) Equity in earnings (losses) of unconsolidated subsidiaries

Fiscal 2005 : ¥167 million

Fiscal 2004 : -¥17 million

2) Average number of shares of common stock outstanding during the fiscal year (consolidated):

Fiscal 2005 : 44,456,231

Fiscal 2004 : 42,440,002

3) There were changes in accounting principles that were applicable to the above figures.

4) Percentages for net sales, operating income, recurring income and net income represent percentage changes from the corresponding period of the previous year.

### (2) Consolidated Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Ratio of shareholders' equity to total assets (%)	Shareholders' equity per share (¥)
	Fiscal 2005	92,788	52,519	56.6
Fiscal 2004	87,560	47,135	53.9	1,122 20

Note: Number of shares issued and outstanding:

Fiscal 2005 : 45,901,707

Fiscal 2004 : 41,994,433



### (3) Consolidated Cash Flows

(¥ million)

	Operating activities	Investing activities	Financing activities	Period-end cash and cash equivalents
Fiscal 2005	2,539	(5,086)	2,625	11,320
Fiscal 2004	2,989	(1,734)	(1,514)	11,242

### (4) Scope of Consolidation and Application of Equity Method

Consolidated subsidiaries: 8

Equity-method non-consolidated subsidiaries: 3

Equity-method affiliates: 0

### (5) Changes in Scope of Consolidation and Application of Equity Method

Consolidated subsidiaries

New: 0

Excluded: 7

Equity-method affiliates:

New: 0

Excluded: 0

## 2. Consolidated Outlook for the Fiscal Year Ending December 2006 (January 1, 2006 – December 31, 2006)

(¥ million)

	Net sales	Recurring income	Net income
Interim 2006	74,500	1,900	1,600
Full year	147,000	4,200	3,200

(Reference: Projected net income per share for the year: ¥69.71)

The above projections are based on information available at the time of release of this report. Actual results could differ significantly from projections due to a variety of factors.

For further details regarding projections, please refer to page 11.

## Group Organization

The Senshukai Group comprises the parent company, sixteen subsidiaries and three affiliates. The Group is principally engaged in the mail order business segment, and the other business segment, which includes transportation, warehousing, travel, services and other related businesses.

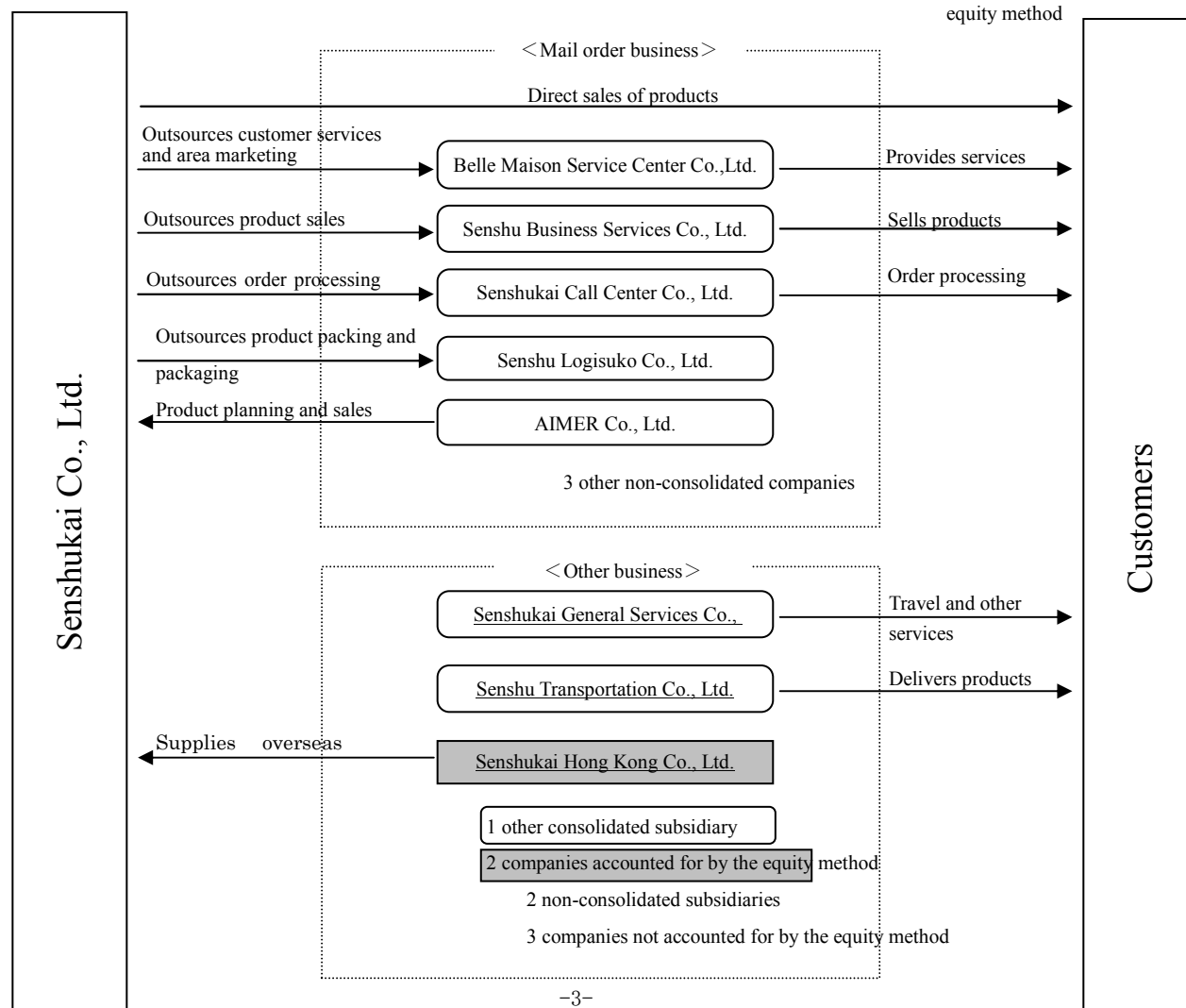
The following describes the position of each main business activity in the Group's operations and each business activity's relationship with the segments.

Segment	Main business	Company
Mail order business	Mail order	Senshukai Co., Ltd., Belle Maison Service Center Co.,Ltd., 3 other companies
	Product sales	Senshu Business Services Co., Ltd.
	Order processing	Senshukai Call Center Co., Ltd.
	Transportation and warehousing	Senshu Logisuko Co., Ltd.
	Product planning and development	AIMER Co., Ltd.
Other business	Product sales	Senshukai Co., Ltd., 2 other companies
	Services	Senshukai General Services Co., Ltd., 4 other companies
	Transportation	Senshu Transportation Co., Ltd.
	Import sales	Senshukai Hong Kong Co., Ltd., 2 other companies

Belle Maison Service Center Co., Ltd

### Schematic of businesses

Consolidated subsidiary    
  Company accounted for by the equity method



## **Management Policies**

### **1. Basic Management Policy**

The Senshukai Group's corporate philosophy is to "contribute to society by providing our customers with outstanding products and services".

Senshukai works together with its shareholders, customers, business partners, employees and all other stakeholders to achieve mutual prosperity and increase corporate value.

### **2. Basic Policy Regarding Distribution of Earnings**

The basic policy regarding the distribution of earnings of the Senshukai Group is to strengthen our business foundation, and maintain payment of stable dividends and return appropriate earnings to shareholders.

We will use retained earnings to make investments to advance the development of new businesses and raise the efficiency of existing businesses, improve the soundness of our financial position and work to further strengthen our competitiveness and corporate structure.

### **3. Policy on Reducing Senshukai's Trading Unit**

The basic policy of the Senshukai Group regarding Senshukai's trading unit is to regularly consider reducing the size of the unit for trading shares on the stock exchange to improve the liquidity of the shares and broaden the shareholder base. If the trading unit is reduced, however, substantial expenses will be incurred. We must therefore take a cautious approach to any reduction in the trading unit, taking into consideration the demands of the market and other factors.

### **4. Key Performance Indicators**

In line with the medium-term management plan, the Senshukai Group aims to move from sales-oriented management to management focused on corporate value. Specifically, we aim to generate operating cash flows of ¥10 billion in the fiscal year ending December 31, 2007. Furthermore, focusing more sharply on profitability, we have set a target of 5% for the operating income ratio.

One basic policy of the medium-term management plan is for the Senshukai Group to proactively invest in growth areas. Looking ahead, we will make aggressive investments aimed at increasing earnings and corporate value.

### **5. Medium- to Long-term Corporate Management Strategy and Issues**

Senshukai has established a medium-term management plan whose final year is the year ending December 31, 2007.

#### **(1) Basic Policies of Medium-Term Management Plan**

##### **1) Higher Profitability for Core Businesses**

In the catalog mail-order business (in particular, existing business areas in which our target customers are women in their late 20s and 30s), we shall forgo sales expansion that is not feasible, focusing instead on higher profitability.

##### **2) Aggressive Investment in Growth Areas**

We shall aggressively pursue investment aimed at the expansion of certain customer age groups, focusing on customers ranging from their 20s to 40s, and at the expansion of our sales channels, primarily the Internet and storefront businesses.

##### **3) Improved Brand Value**

Under the slogan "Super thrilling, super exciting," all employees work rigorously to create a Belle Maison that resonates with our customers' hearts.

## **(2) Strategies of Current Medium-Term Management Plan**

### **1) Promotion of Supply Chain Management**

We are steadily improving our rapid delivery ratio (the ratio of product in-stock and available for immediate delivery) and delivery-to-order ratio (ratio of number of shipments per order). We are increasing our ratio of imports. Looking ahead, we will implement measures to achieve unmet targets.

### **2) Reassessment of Catalog Positioning**

From this fiscal year, we will reassess each catalog's positioning to reduce the total number of catalogs published. Looking ahead, we will continue to reassess catalogs.

### **3) Expansion of Customer Age Groups From 20s to 40s**

20s: We will enhance the *Petite Belle Maison* catalog and use Internet and mobile content targeting these customers to strengthen product sales and services.

40s: Targeting these customers, we have launched the fashion catalog *Rashisa* and the interiors catalog *Luxe Living*. As a result, we will continue to retain existing 40s customers and acquire new members.

### **4) Promotion of Internet Sales**

We posted Internet sales of ¥45.4 billion, an increase of 23.1%, by renewing Belle Maison Net and strengthening content. This figure includes Internet-only sales of ¥16.7 billion, up 43.0%. We also set up an Internet specialized product development team, aiming to further expand Internet-only sales.

### **5) Development of Storefront Business**

We have opened two new *Belle Maison Market* stores, specifically the Ogaki store and the Utsunomiya Interpark Shopping Village store, bringing the total number of these stores to six. Looking ahead, we will steadily increase our number of shops. In Minami Aoyama, we have opened a new store dedicated to the fashion brand *REBONDIR*, which is currently marketed via catalog.

### **6) Stronger Product Planning and Development Capabilities**

We have reassessed our merchandising processes and have started to reconstruct our management framework for product development

### **7) Better Customer Service**

We have opened the Belle Maison Call Center Co.,Ltd. as our customer services hub. We are working to strengthen many customer services, including reducing the number of days for deliveries, enhancing gift options and starting cash-on-delivery services.

## **6. Basic Corporate Governance Policy and Implementation Measures**

### **(1) Basic Corporate Governance Policy**

The Senshukai Group recognizes that the concept of “corporate governance” is indispensable to ensuring that our corporate activities fulfill our social responsibilities to our shareholders, customers, employees, business partners, local communities and all other stakeholders. Good corporate governance is important to build highly transparent management systems and effectively implement functions.

In working to enhance corporate governance, Senshukai is clarifying the supervisory responsibilities of directors, strengthening our compliance framework and ensuring timely and accurate information disclosure.

### **(2) Implementation of Corporate Governance**

#### **1) Management organizations for decision-making, execution and supervision, and other corporate governance systems**

Senshukai has introduced an executive officer system to further energize the board of directors, to clarify the division between the supervisory functions of the board of directors and the execution of business operations, and to improve management efficiency. Our board of directors, which meets once every two weeks, and any other time when necessary, is a quick and efficient system for supervising management.

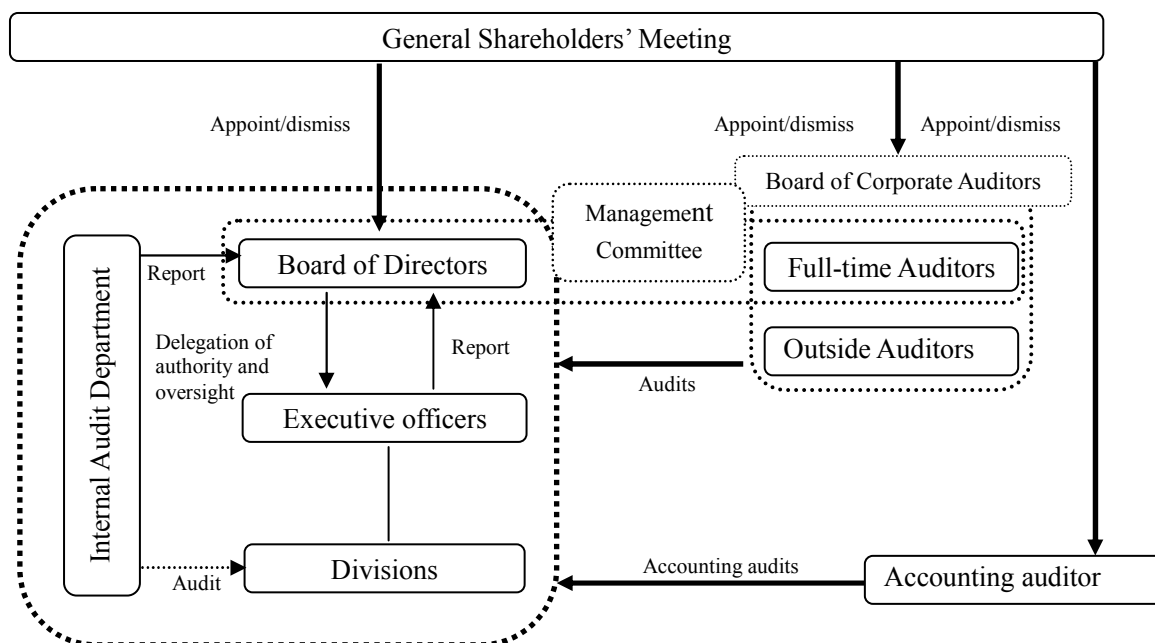
Furthermore, to enhance management transparency, we are actively pursuing investor relations activities for all investors and shareholders, and working to ensure timely and accurate disclosure.

Senshukai believes that the corporate auditor system functions more effectively than the committee system from the viewpoint of effectively implementing corporate governance. We have thus adopted the

corporate auditor system, comprising a board of directors composed of eight directors and a board of corporate auditors composed of four corporate auditors, including two outside auditors.

At the general meeting of shareholders to be held in March 2006 we intend to put forward proposals to elect outside directors and increase their number.

The following schematic shows our corporate governance system, internal control system and risk management system.



[Board of Directors]

In principle, the Board of Directors meets twice a month, with corporate auditors in attendance, to discuss and decide on matters required by laws and regulations, the Articles of Corporation and internal guidelines for board of directors' resolutions.

[Management Committee]

In principle, the Management Committee convenes weekly, with directors and full-time auditors in attendance, to promptly discuss and decide on matters other than those requiring board of directors' resolutions. If necessary, the meeting conducts prior deliberations on issues to be submitted to the board of directors for approval and checks the operating status of divisions.

[Board of Corporate Auditors]

The Board of Corporate Auditors comprises all corporate auditors. The members attend the Board of Directors' and other important meetings, and examine all resolution documents to audit the legality and appropriateness of management's decision-making and business execution.

[Internal Audit Department]

The Internal Audit Department conducts audits throughout the year to monitor in detail the legality, conformity with internal standards, efficiency and other aspects of business execution and procedures of various divisions.

2) Internal control and risk management framework

1. Risk management

We have established a Crisis Management Committee and other organizations to respond in a

company-wide manner to information about the various risks faced by the Senshukai Group. In addition to preparing a risk management framework, we have built systems to respond to risk through the provision of inhouse regulations and education.

## 2. Corporate ethics and compliance

The Senshukai Group places importance on observing all laws and regulations, and on upholding the standards of corporate ethics. We have implemented various measures to ensure that directors and employees are aware of and rigorously uphold corporate ethics.

In November 2005, we established the Ethics Compliance Committee, and opened the Corporate Ethics Hotline to firmly establish the committee's activities inside the company and increase its effectiveness. We also produced and distributed a Corporate Behavior Casebook and instituted e-learning and other educational programs concerning compliance. Through these means, we have made all employees aware of corporate ethics and put in place a framework that rigorously ensures corporate ethics and compliance.

## 3. Internal controls over financial reporting

Senshukai has established a project team, which includes the president who holds the highest responsibility, and a Project Steering Committee made up of directors and other executives. Building on this foundation, we are preparing in a top-down manner the internal controls needed to ensure the credibility of financial reporting.

## 4. Internal audits

Senshukai audits the business activities of Group companies to ensure that they conform to all laws and inhouse regulations. We have established the Internal Audit Department to report the results of these audits to representative directors and the Board of Directors. Based on audit policies and plans, the Internal Audit Department conducts the internal audit, points out any problems uncovered, proposes improvements and then verifies the implementation status of these improvements.

## 5. Promotion of Corporate Social Responsibility (CSR)

In order for the Senshukai Group develop sustainable businesses in the future, management must give adequate consideration not only to the company's economic factors such as earnings and dividends, but also to the natural environment and society as a whole. At the same time, we must increase our corporate value by conducting business activities in a manner that gives importance to maintaining dialogs with our shareholders, customers, employees, business partners, local communities and all other stakeholders. To achieve this in practice, we established the CSR Promotion Team in November 2005, and worked to create the systems needed to advance our promotion of CSR.

## 3) Internal audit, auditor's audit and accounting audits

The Internal Audit Department has six members responsible for performing its duties. It conducts operational audits, accounting audits, system audits and other audits, reports the results of these audits to Representative Directors and the Board of Directors, proposes improvements and then verifies the implementation status of these improvements.

The auditors, usually the full-time corporate auditors, attend meetings of the Board of Directors and Management Committee, and all other important meetings, conduct operational, accounting and other audits, and audit the duties of directors.

Senshukai has concluded an audit agreement with Ernst & Young ShinNihon for the latter to conduct accounting audits. Senshukai provides Ernst & Young ShinNihon with various information and data about the Senshukai Group, and ensures a business environment in which the audit can be conducted quickly and accurately. The corporate auditors, Internal Audit Department and independent auditors

regularly discuss audit policies and other matters, cooperating with each other to conduct the audit effectively and efficiently. The following table shows the names of the certified public accountants who executed the audit, the name of the independent auditor, the number of consecutive years of audit experience and details about audit assistants.

Names of certified public accountants who executed the audit, the name of the audit corporation and consecutive years of audit experience

Name of certified public accountant		Name of audit corporation
Designated partner	Kiyoshi Takegawa	Ernst & Young ShinNihon
Engagement partner	Hisatoshi Hirota	

- \* The number of consecutive years of audit experience has been omitted because it is less than seven years for both CPAs.
- \* The audit corporation has already taken voluntary steps to ensure that engagement partners are not involved in accounting audits of Senshukai for more than a certain number of consecutive years.

Details of audit assistants

Certified public accountants: 6 persons

Assistant certified public accountants: 2 persons

Other: 1 person

#### 4) Compensation paid to directors and auditors

The following shows the compensation paid to directors and auditors for the current fiscal year, and the compensation paid to accounting auditors for audits.

Compensation paid to directors, corporate auditors and accounting auditors

Directors 13 persons ¥226 million

Auditors 4 persons ¥37 million

Compensation paid to Ernst & Young ShinNihon, the independent auditor

Audit compensation paid in accordance with Audit Agreement ¥30 million

### (3) Personal, capital, trading or other beneficial relationships between Senshukai and outside auditors

There are no personal, capital, trading or other beneficial relationships between Senshukai and its outside auditors.

### (4) Corporate governance initiatives in the past year

Senshukai recognizes that in the course of the Senshukai Group's business activities it is important to protect and handle personal information appropriately, especially in its current business environment. The Personal Information Protection Law was enacted in April 2005. In response, Senshukai has been redoubling efforts to rigorously protecting personal information by working to acquire the Privacy Mark and establishing a team to administer customer information.

### (5) Policy toward large-scale purchases of Senshukai shares

The Senshukai Group formulated and implemented its three-year medium-term management plan to increase corporate value. In December 2005, we formulated our policy toward large-scale purchases of Senshukai shares from the viewpoint of protecting shareholders' interests. We believe that because shareholders should make the final decisions regarding large-scale purchases of Senshukai shares, sufficient information should be provided to shareholders if a large-scale purchase is to be conducted. Under this policy, Senshukai has decided to adopt a new rule applicable to large-scale purchasers whose acquisitions would give a specific shareholding group a voting interest of 20% or more, with the exception of cases when the Board of Directors agrees to the purchase. The new rule requires that 1) large-scale purchasers provide sufficient information to the Board of Directors before a large-scale purchase is to be conducted and 2) after all required information is provided, the Board of Directors should be allowed a sufficient period of time during which it will evaluate the large-scale purchase. In

the event of non-compliance with such rules by a prospective large-scale purchaser, Senshukai may take countermeasures to protect the interest of all shareholders. Countermeasures may include the implementation of stock splits or the issuance of warrants. On January 19, 2006, Senshukai established a special committee to examine the suitability of the countermeasures concerning large-scale purchases prepared by the Board of Directors and to make recommendations to the Board of Directors. For more details about this policy, please refer to our December 13, 2005 press release, “Policy toward large-scale purchases of Senshukai shares” and our January 19, 2006 press release, “Establishment of special committee and selection of committee members.”

**7. Matters related to the parent company**

None.

# Operating Results and Financial Condition

## 1. Operating Results

### (1) Overview

#### 1) Performance

In fiscal 2005, ended December 31, 2005, steadily improving personal consumption accompanying upturns in employment and incomes indicated a trend toward recovery in the Japanese economy. Nevertheless, uncertainties about the future remained, especially regarding pension issues and tax reforms, and increasing household budget burdens. Despite the growth in personal consumption, the distribution industry is witnessing merit differences and other disparities between business operations companies. In the mail order industry, Internet sales companies, mobile sales companies and one-line mail order companies handling health foods and cosmetics saw increased sales, but sales of general catalog mail order companies languished. Companies actively pursued and implemented M&As and business alliances. Severe business conditions continued as the market experienced increasingly intense price competition as well as even greater consumer discrimination in products and services.

Against this backdrop, Senshukai Co., Ltd., and its Group companies worked to achieve the priority strategies of its medium-term management plan, whose third and final year is fiscal 2007, during the plan's first year.

In the year under review, net sales slid 1.2% compared with the previous fiscal year to ¥145,453 million.

In terms of revenue, selling, general and administrative expenses declined due to efficient media-related expenditure such as catalog mailing and printing costs, and efficient product procurement. As a result, operating income rose 17.5% to ¥3,432 million. Recurring income increased 30.6% to ¥3,962 million due to exchange rate gains and other factors. Net income edged up 2.9% to ¥1,267 million due to the early application of impairment loss accounting.

### (2) Segment Information

#### [Mail-Order Business]

Consolidated sales for the year under review in the mail-order business, which comprises the catalog business and *hanpukai* business, dipped a slight 0.2% year on year to ¥139,391 million. Operating income increased 17.1% to ¥3,535 million.

#### 1) Catalog Business

The catalog business provides customers with a variety of lifestyle ideas and offers unique Senshukai products through 18 different catalogs.

Since its start in 1976, this business has won acclaim by satisfying member needs as a “lifestyle navigator” offering a product lineup in a wide range of categories—from clothing, interior goods and everyday items to maternity products and children’s clothing—with fashion apparel at its core.

Under the slogan “Super thrilling, super exciting,” in fiscal 2005 we published our main fashion catalog *Watashi-tachi No Kurasu Fuku* and repositioned various media. As a result, net sales rose 3.2% to ¥119,499 million.

#### 2) *Hanpukai* Business

Senshukai’s *hanpukai* business employs an original unique sales model differing from other mail order companies whereby goods are delivered monthly to group and individual members, mainly working women.

Focusing on everyday items and foods, this business offers a lineup of various products that are highly collectible, original and not available in retail stores.

The *hanpukai* business flexibly responds to diversifying customer needs with new idea-oriented catalogs. These include the *Dai Suki Tezukuri Go* catalog specializing in hand-made kits, and the *Ii Koto No Moto* catalog, which offers inspiring (*ii koto*), environment-friendly household products that help people with the housework. Established in 2004, the *Belle Maison* Service Center also targets customers in major occupational fields. The Center offers meticulous customer services and conducts sales promotions to retain customers in each occupational category and expand membership.

Despite the excellent framework in place, both sales and membership decreased. *Hanpukai* sales in the year under review declined 16.6% compared with the previous fiscal year, to ¥19,891 million, and the average monthly membership was 672,300.

[Other Business]

In addition to the mainstay travel and credit card services, this segment comprises transportation and storefront services, as well as products and services for corporate customers. In the year under review, segment sales fell 19.5% from fiscal 2004, to ¥6,062 million.

As a result, operating loss improved ¥84 million from the previous fiscal year, to ¥38 million.

Note: The gourmet business has been changed from the catalog business to the *hanpukai* business. Year-on-year data comparisons are based on figures after this change.

### (3) Outlook for Fiscal 2006

Japan's economy is expected to continue to make a gradual recovery, underpinned by expanded capital investment and continued growth in spending. However, at the time of this report, the economy has not yet escaped from deflation. Looking ahead, we expect the distribution industry to continue facing severe business conditions regardless of business type.

In these circumstances, the Senshukai Group will give priority to boosting earnings in our core catalog mail order business, aiming to achieve the second-year targets of the medium-term management plan which ends in fiscal 2007. Moreover, we will aggressively invest in the expansion of certain customer age groups, focusing on customers ranging from their early 20s to their 40s, and at the expansion of our sales channels, primarily the Internet and storefront businesses. Finally, we will work rigorously to bolster the brand value of *Belle Maison*.

The following are our forecasts for fiscal 2006.

(Consolidated)		(¥ million)	
	Net sales	Ordinary income	Net income
Fiscal 2006 (forecast)	147,000	4,200	3,200
Fiscal 2005 (results)	145,453	3,962	1,267
Change (%)	1.1	6.0	152.4

(Non-consolidated)		(¥ million)	
	Net sales	Ordinary income	Net income
Fiscal 2006 (forecast)	146,000	3,800	3,000
Fiscal 2005 (results)	144,058	3,532	1,593
Change (%)	1.3	7.6	88.3

## 2. Financial Condition

As of December 31, 2005, total assets were ¥92,788 million, up ¥5,227 million from the previous fiscal year-end. In current assets, cash and deposits increased ¥525 million and inventories rose ¥1,192 million, although marketable securities fell ¥982 million. In fixed assets, total property and equipment declined ¥2,631 million, mainly as the result of applying impairment accounting, and the transfer of the golf business. This was offset by total investments and other assets, which increased ¥6,659 million due chiefly to the purchase of investment securities.

In current liabilities, the sum of other accounts payable and factoring other accounts payable fell ¥576 million. However, notes and accounts payable rose ¥716 million and the allowance for sales promotion increased ¥561 million. In long-term liabilities, deposits received related to the golf business fell ¥1,374 million, while deferred tax liabilities rose ¥847 million.

Total shareholders' equity was ¥52,519 million, an increase of ¥5,383 million from the previous fiscal year-end, due mainly to the sale of treasury stock. Consequently, the shareholders' equity ratio was 56.6%.

### Cash Flows

On December 31, 2005, cash and cash equivalents amounted to ¥11,320 million, ¥78 million more than in the previous fiscal year.

Operating activities provided net cash of ¥2,539 million. The main reasons for the increase were income before income taxes and minority interests of ¥1,759 million, depreciation and amortization of ¥1,806 million and an impairment loss of ¥1,860 million. This was partly offset by an increase in inventories of ¥1,192 million and a decrease in members' deposits of ¥1,374 million.

Investing activities used net cash of ¥5,086 million. The main outflows were ¥1,344 million for the purchase of property and equipment, and ¥5,140 million in purchases of investment securities.

Financing activities provided net cash of ¥2,625 million. The main cash inflow was ¥3,394 million in proceeds from sale of treasury stock.

### Cash Flow Indices

	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2005
Shareholders' equity ratio (%)	54.1	53.9	56.6
Shareholders' equity ratio based on fair value (%)	58.4	41.6	74.3
Average debt repayment period (years)	0.1	0.2	0.2
Interest coverage ratio	162.0	80.1	59.1

Notes:

- Cash flow indices are calculated as follows using consolidated financial figures:
  - The shareholders' equity ratio is shareholders' equity divided by total assets.
  - The shareholders' equity ratio based on fair value is market capitalization divided by total assets.
  - The average debt repayment period in years is interest-bearing debt divided by operating cash flows.
  - The interest coverage ratio is operating cash flows divided by interest payments.
- Market capitalization is calculated by multiplying the closing share price at the fiscal year-end by the number of shares issued and outstanding at the fiscal year-end, excluding treasury.
- Interest-bearing debt represents all liabilities shown on the balance sheets for which interest is paid by Senshukai Group.
- Operating cash flows and interest payments represent net cash provided by operating activities and interest expenses paid, respectively, on the consolidated statements of cash flows.

### **3. Business Risks**

#### **(1) Economic situation of manufacturing countries**

The majority of the products sold by the Senshukai Group are imported from China and other Asian countries. Consequently, the Group's operating results and financial position may be impacted by the political or economic conditions, or the occurrence of natural disasters, in these countries.

#### **(2) Exchange rate fluctuation**

Some products handled in the mail order business, the Senshukai Group's mainstay business, are imported and denominated in foreign currencies. Although Senshukai employs forward-exchange contracts and applies hedging measures to reduce risks associated with exchange rate fluctuations, large fluctuations could affect the Senshukai Group's operating results and financial position.

#### **(3) Risks associated with leaks of personal information**

Senshukai and some subsidiaries handle personal information subject to Japan's Personal Information Protection Law. The Senshukai Group adheres to all relevant laws, has established a Customer Information Management Team to prevent information leaks and strengthened internal control systems.

However, the unlikely event of a leakage of personal information handled by the Senshukai Group could significantly adversely affect the Group's operating results and financial position due to loss of public trust and the deterioration of its corporate image.

#### **(4) Risks associated with natural disasters**

Natural disasters or other unexpected events that disrupt the order processing or shipment operations of the Senshukai Group's mainstay mail order business may significantly affect the Group's operating results and financial position. To minimize these risks, Senshukai has established backup processing and shipment systems, and a preparatory framework for earthquake disasters. We have also established a Crisis Management Committee and formulated rules applicable to emergencies. Nevertheless, severe damages to Senshukai facilities and disruptions to order processing or shipments resulting from a major disaster would significantly adversely affect the Group's operating results and financial position.

## Consolidated Financial Statements

### Consolidated Financial Statements

#### (1) Consolidated Balance Sheets

(¥ million)

Term Item	As of December 31, 2004		As of December 31, 2005		Change
	Amount	Share (%)	Amount	Share (%)	
<b>Assets</b>					
<b>I Current assets:</b>					
1. Cash and deposits	10,607		11,133		525
2. Trade notes and accounts receivable	9,999		10,046		47
3. Marketable securities	1,169		187		(982)
4. Inventories	13,972		15,165		1,192
5. Deferred income taxes	390		380		(10)
6. Accounts receivable	7,076		6,929		(147)
7. Forward exchange contracts	—		1,385		1,385
8. Deferred losses on hedging	1,330		—		(1,330)
9. Other	4,358		4,470		111
Allowance for doubtful accounts	(261)		(165)		96
Total current assets	48,644	55.6	49,532	53.4	887
<b>II Fixed assets:</b>					
<b>1. Property and equipment: (Note 1)</b>					
(1) Buildings and structures (Note 3)	12,392		11,173		(1,219)
(2) Machinery and vehicles	2,786		2,175		(610)
(3) Tools, furnitures and fixtures	737		770		(32)
(4) Land (Notes 3, 7)	12,319		11,481		(838)
(5) Construction in progress	—		4		4
Total property and equipment	28,236	32.2	25,605	27.6	(2,631)
<b>2. Intangible assets</b>	1,163	1.3	1,475	1.6	312
<b>3. Investments and other assets:</b>					
(1) Investment securities (Notes 2, 3)	4,833		12,254		7,420
(2) Long-term loans receivable	524		750		225
(3) Guarantee deposits	1,163		1,258		94
(4) Deferred income taxes	293		—		(293)
(5) Other	3,335		2,579		(755)
Allowance for doubtful accounts	(634)		(666)		(31)
Total investments and other assets	9,516	10.9	16,175	17.4	6,659
Total fixed assets	38,916	44.4	43,256	46.6	4,340
Total Assets	87,560	100.0	92,788	100.0	5,227

(¥ million)

Item	Term	As of December 31, 2004		As of December 31, 2005		Change
		Amount	Share (%)	Amount	Share (%)	
<b>Liabilities</b>						
<b>I Current liabilities:</b>						
1.	Trade notes and accounts payable	10,270		10,986		716
2.	Current portion of long-term debt (Note 3)	125		124		(0)
3.	Accounts payable	21,651		6,151		(15,499)
4.	Accounts payable	—		14,923		14,923
5.	Accrued expenses	1,644		1,950		306
6.	Accrued income taxes	292		308		15
7.	Accrued consumption tax	170		305		135
8.	Allowance for sales promotion	125		686		561
9.	Forward exchange contract instruments	1,330		—		(1,330)
10.	Deferred gains on hedging	—		1,112		1,112
11.	Other	1,205		1,018		(186)
	<b>Total current liabilities</b>	<b>36,814</b>	<b>42.0</b>	<b>37,567</b>	<b>40.5</b>	<b>752</b>
<b>II Long-term liabilities:</b>						
1.	Long-term debt (Note 3)	388		393		4
2.	Deferred tax liabilities	—		847		847
3.	Deferred tax liabilities relating to land revaluation (Note 7)	895		804		(91)
4.	Liability for employees' retirement benefits	58		14		(44)
5.	Liability for retirement benefits for directors and corporate auditors	845		599		(246)
6.	Deposits received	1,374		—		(1,374)
	<b>Total long-term liabilities</b>	<b>3,563</b>	<b>4.1</b>	<b>2,659</b>	<b>2.9</b>	<b>(903)</b>
	<b>Total liabilities</b>	<b>40,378</b>	<b>46.1</b>	<b>40,226</b>	<b>43.4</b>	<b>(151)</b>
<b>Minority interests:</b>						
	Minority interests	47	0.0	43	0.0	(4)
<b>Shareholders' equity:</b>						
I	Common stock (Note 4)	20,359	23.3	20,359	21.9	—
II	Capital surplus	19,866	22.7	20,657	22.3	791
III	Retained earnings	19,372	22.1	18,438	19.9	(933)
IV	Land revaluation difference (Note 7)	(8,911)	(10.2)	(7,462)	(8.1)	1,448
V	Net unrealized gains on securities	219	0.3	1,719	1.8	1,500
VI	Foreign currency translation adjustments	(35)	(0.0)	(40)	(0.0)	(5)
VII	Treasury stock (Note 5)	(3,735)	(4.3)	(1,153)	(1.2)	2,582
	<b>Total shareholders' equity</b>	<b>47,135</b>	<b>53.9</b>	<b>52,519</b>	<b>56.6</b>	<b>5,383</b>
	<b>Total liabilities, minority interests and shareholders' equity</b>	<b>87,560</b>	<b>100.0</b>	<b>92,788</b>	<b>100.0</b>	<b>5,227</b>

**(2) Consolidated Statements of Income**

(¥ million)

Item	Term	Year Ended December 31, 2004		Year Ended December 31, 2005		Change
		Amount	Share (%)	Amount	Share (%)	
<b>I Net sales</b>		147,159	100.0	145,453	100.0	(1,705)
<b>II Cost of sales (Note 1)</b>		76,115	51.7	75,173	51.7	(941)
<b>Gross profit</b>		71,043	48.3	70,279	48.3	(764)
<b>III Selling, general and administrative expenses (Note 2)</b>		68,122	46.3	66,847	45.9	(1,275)
1. Packing and freight		10,383		10,292		
2. Sales promotion expenses		25,804		25,200		
3. Provision for sales promotion expenses		125		686		
4. Provision for allowance for doubtful accounts		111		9		
5. Directors' and corporate auditors' remuneration		497		569		
6. Salaries		9,615		9,375		
7. Bonuses		1,531		1,673		
8. Provision for allowance for retirement benefits		129		11		
9. Provision for allowance for retirement benefits for directors and corporate auditors		55		301		
10. Depreciation		2,284		1,799		
11. Other		17,582		16,926		
<b>Operating income</b>		2,921	2.0	3,432	2.4	511
<b>IV Other income</b>		351	0.2	686	0.4	334
1. Interest income		66		117		
2. Dividend income		30		45		
3. Foreign exchange gain (Note 5)		—		135		
4. Equity in earnings of unconsolidated subsidiaries		—		167		
5. Gains on cancellation of insurance contracts		35		13		
6. Other income		219		207		
<b>V Other expenses</b>		239	0.1	156	0.1	(83)
1. Interest expenses		38		44		
2. Foreign exchange loss		51		—		
3. Equity in losses of unconsolidated subsidiaries		17		—		
4. Other expenses		133		111		
<b>Recurring income</b>		3,033	2.1	3,962	2.7	928

(¥ million)

Item	Term	Year Ended December 31, 2004		Year Ended December 31, 2005		Change
		Amount	Share (%)	Amount	Share (%)	
<b>VI Extraordinary gains</b>		287	0.2	48	0.0	(238)
1. Gains on sales of property and equipment (Note 3)		2		47		
2. Gains on sales of investment securities		41		1		
3. Reversal of unrealized gains on installment sales		143		—		
4. Gain on reversal of allowance for retirement benefits		100		—		
<b>VII Extraordinary losses</b>		790	0.6	2,251	1.5	1,460
1. Losses on sales and disposal of property and equipment (Note 4)		29		243		
2. Provision for allowance for doubtful accounts		122		3		
3. Loss on write-down of investment securities		43		2		
4. Losses on sales of investment securities		11		—		
5. Special retirement and severance expense		483		—		
6. Provision for allowance for retirement benefits for directors and corporate auditors		100		—		
7. Establishment commemoration costs		—		114		
8. Loss on transfer of golf business (Note 6)		—		26		
9. Loss on impairment of long-lived assets (Note 7)		—		1,860		
<b>Income before income taxes and minority interests</b>		2,530	1.7	1,759	1.2	(770)
Income taxes		452	0.3	308	0.2	(143)
Income taxes		843	0.6	181	0.1	(661)
Minority interests		2	0.0	1	0.0	(1)
<b>Net income</b>		1,231	0.8	1,267	0.9	35

**(3) Consolidated Statements of Capital Surplus and Retained Earnings**

(¥ million)

Item	Term	Year Ended December 31, 2004	Year Ended December 31, 2005	Change
Capital surplus:				
I Balance at beginning of year		19,864	19,866	2
II Increase in capital surplus		2	791	788
Gains on disposition of treasury stocks		2	791	788
III Balance at end of year		19,866	20,657	791
Retained earnings:				
I Balance at beginning of year		18,871	19,372	501
II Increase in retained earnings		1,231	1,267	35
Net income		1,231	1,267	35
III Appropriations		730	2,201	1,470
Cash dividends paid		681	700	19
Bonuses to directors and corporate auditors		49	9	(39)
Transfer from land revaluation difference unrealized losses on revaluation of land		—	1,490	1,490
IV Balance at end of year		19,372	18,438	(933)

**(4) Consolidated Statements of Cash Flows**

(¥ million)

Item	Term	Year Ended December 31, 2004	Year Ended December 31, 2005	Change
		Amount	Amount	
<b>I Cash flows from operating activities:</b>				
1.	Income before income taxes and minority interests	2,530	1,759	(770)
2.	Depreciation and amortization	2,289	1,806	(482)
3.	Loss on impairment of long-lived assets	—	1,860	1,860
4.	Loss on write-down of investment securities	43	2	(41)
5.	Decrease (increase) in provision for allowance for doubtful accounts	32	(64)	(96)
6.	Decrease in employees' retirement benefits	(782)	(44)	738
7.	Increase (decrease) in reserve for sales promotion	(739)	561	1,301
8.	Interest and dividend income	(97)	(163)	(65)
9.	Interest expenses	38	44	6
10.	Equity in earnings (losses) of unconsolidated subsidiaries	—	(167)	(167)
11.	Gains from sale of property and equipment	(2)	(47)	(45)
12.	Loss on sale and disposal of property and equipment	29	243	213
13.	Special severance payments	483	—	(483)
14.	Loss on transfer of golf business	—	26	26
15.	Increase in notes and accounts receivable	(603)	(347)	256
16.	Increase in inventories	(1,154)	(1,192)	(37)
17.	Decrease (increase) in other current assets	(126)	205	331
18.	Increase (decrease) in notes and accounts payable	(3,713)	716	4,430
19.	Increase (decrease) in accrued consumption taxes	(165)	135	300
20.	Decrease in deposits received	—	(1,374)	(1,374)
21.	Decrease (increase) in other current liabilities	5,810	(630)	(6,441)
22.	Directors' and corporate auditors' bonuses	(49)	(9)	39
23.	Other	33	(449)	(483)
	Subtotal	3,856	2,873	(983)
24.	Interest and dividend income received	76	162	85
25.	Interest paid	(37)	(42)	(5)
26.	Special severance payments paid	(483)	—	483
27.	Income taxes paid	(423)	(452)	(29)
	Net cash provided by operating activities	2,989	2,539	(449)
<b>II Cash flows from investing activities:</b>				
1.	Purchases of property and equipment	(166)	(1,344)	(1,177)
2.	Proceeds from sales of property and equipment	3	589	586
3.	Purchases of intangible assets	(507)	(713)	(205)
4.	Proceeds from sales of intangible assets	0	—	(0)
5.	Purchases of investment securities	(1,035)	(5,140)	(4,104)
6.	Proceeds from sales of investment securities	197	849	651
7.	Decrease (increase) in time deposits	(600)	403	1,003
8.	Other	373	270	(103)
	Net cash used in investing activities	(1,734)	(5,086)	(3,351)
<b>III Cash flows from financing activities:</b>				

1. Net increase (decrease) in short-term bank loans, net	(10)	0	10
2. Proceeds from long-term debt	57	85	27
3. Repayments of long-term debt	(229)	(128)	100
4. Purchases of treasury stock	(653)	(21)	632
5. Proceeds from disposal of treasury stock	6	3,394	3,388
6. Cash dividends paid	(682)	(700)	(18)
7. Cash dividends paid to minority interests	(2)	(5)	(2)
Net cash provided by (used in) financing activities	(1,514)	2,625	4,139
<b>IV Net increase (decrease) in cash and cash equivalents</b>	(259)	78	338
<b>V Cash and cash equivalents at beginning of year</b>	11,502	11,242	(259)
<b>VI Cash and cash equivalents at end of year</b>	11,242	11,320	78

**Summary of Significant Accounting Policies Used in Preparation of Consolidated Financial Statements**

Year Ended December 31, 2004	Year Ended December 31, 2005
<p>1. Scope of Consolidation            (1) Number of consolidated subsidiaries: 15            Main consolidated subsidiaries:            Senshukai General Services Co., Ltd.            Senshu Logisuko Co., Ltd.            Senshukai Call Center Co., Ltd.</p> <p>MosMos Co., Ltd. and Belle Maison TV Co., Ltd. were liquidated in August and November 2003, respectively, and thus excluded from the scope of consolidation.            In September 2004, Senshukai Logistics Co., Ltd. changed its trade name to Senshu Logisuko Co., Ltd., and integrated eight area sales subsidiaries to form Belle Maison Service Center Co., Ltd.</p> <p>(2) Number of non-consolidated subsidiaries: 7            Main non-consolidated subsidiaries            Senshukai Hong Kong Co., Ltd.</p> <p>Reason excluded from scope of consolidation:            The total of Senshukai Hong Kong's results, including total assets, net sales, net earnings (proportional to equity) and retained earnings (proportional to equity), had a negligible effect on the consolidated financial statements.</p> <p>2. Application of the Equity Method            (1) Number of non-consolidated subsidiaries accounted for by the equity method: 3            Main non-consolidated subsidiaries accounted for by the equity method:            Senshukai Hong Kong Co., Ltd.</p> <p>(2) Main non-consolidated subsidiaries and affiliates not accounted for by the equity method:            Bellne USA, INC.            SENSHUKAI AMERICA, INC. (inactive)</p> <p>Reason not accounted for by the equity method:            Key results, including net earnings (proportional to equity) and retained earnings (proportional to equity), of the above companies not accounted for by the equity method had a negligible effect on the consolidated financial statements.</p> <p>3. Fiscal Years for Consolidated Subsidiaries</p>	<p>1. Scope of Consolidation            (1) Number of consolidated subsidiaries: 8            Main consolidated subsidiaries:            Senshukai General Services Co., Ltd.            Senshu Logisuko Co., Ltd.            Senshukai Call Center Co., Ltd.</p> <p>In September 2004, eight area sales subsidiaries were integrated to form Belle Maison Service Center Co., Ltd, and thus seven companies were excluded from the scope of consolidation.</p> <p>(2) Number of non-consolidated subsidiaries: 8            Main non-consolidated subsidiaries            Senshukai Hong Kong Co., Ltd.</p> <p>Reason excluded from scope of consolidation:            Same as on the left.</p> <p>2. Application of the Equity Method            (1) Number of non-consolidated subsidiaries accounted for by the equity method: 3            Same as on the left.</p> <p>(2) Main non-consolidated subsidiaries and affiliates not accounted for by the equity method:            Same as on the left.</p> <p>Reason not accounted for by the equity method:            Same as on the left.</p> <p>3. Fiscal Years for Consolidated Subsidiaries</p>

<p>The fiscal years of all consolidated subsidiaries coincide with Senshukai's fiscal year.</p> <p>4. Accounting Standards</p> <p>(1) Valuation standards and accounting treatment for important assets</p> <p>1) Investment securities</p> <p>Other investment securities</p> <p>Available-for-sale securities are reported at fair value, determined by the market price as of the fiscal year-end and other factors, with unrealized gains or losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of available-for sale securities sold is determined based on the moving-average method.</p> <p>Available-for-sale securities whose fair value is not readily determinable are stated at cost based on the moving-average method.</p> <p>2) Derivatives are stated at market value.</p> <p>All derivatives are recognized as either assets or liabilities and measured at fair value.</p> <p>3) Inventories are stated at the lower of cost, determined by the average method, or market.</p> <p>(2) Method for depreciating and amortizing important assets</p> <p>1) Property and equipment</p> <p>Depreciation is computed by the declining-balance method, but the straight-line method is applied to buildings acquired after April 1, 1998.</p> <p>The range of useful lives is as follows:</p> <table data-bbox="159 1433 654 1512"> <tr> <td>Buildings and structures</td> <td>38 to 50 years</td> </tr> <tr> <td>Machinery and equipment</td> <td>12 years</td> </tr> </table>	Buildings and structures	38 to 50 years	Machinery and equipment	12 years	<p>Same as on the left.</p> <p>4. Accounting Standards</p> <p>(1) Valuation standards and accounting treatment for important assets</p> <p>1) Investment securities</p> <p>Other investment securities</p> <p>Same as on the left.</p> <p>2) Derivatives</p> <p>Same as on the left.</p> <p>3) Inventories</p> <p>Same as on the left.</p> <p>(2) Method for depreciating and amortizing important assets</p> <p>1) Property and equipment</p> <p>Same as on the left.</p>
Buildings and structures	38 to 50 years				
Machinery and equipment	12 years				

Year Ended December 31, 2004	Year Ended December 31, 2005
<p>2) Intangible assets Intangible assets are amortized using the straight-line method. However, in-house software is amortized by the straight-line method based on an estimated useful life of five years.</p> <p>(3) Accounting for allowances 1) Allowance for doubtful accounts The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.</p> <p>2) Liabilities for employees' retirement benefits The Group accounts for the liabilities for retirement benefits of certain consolidated subsidiaries based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are calculated based on the compendium method.</p> <p>Supplemental information: In May 2004, Senshukai abolished the qualified retirement annuity system for annuity holders. As a result, there was a reversal of ¥100 million of the liabilities for employees' retirement benefits, which was recorded as a gain on reversal of employees' retirement benefits under extraordinary gains.</p>	<p>2) Intangible assets Same as on the left.</p> <p>(3) Accounting for allowances 1) Allowance for doubtful accounts Same as on the left. .</p> <p>2) Liabilities for employees' retirement benefits The Group accounts for the liability for retirement benefits of certain consolidated subsidiaries based on the projected benefit obligations and plan assets at the balance sheet date. The retirement benefit obligations are calculated based on the compendium method.</p>

Year Ended December 31, 2004	Year Ended December 31, 2005
<p>3) Liabilities for retirement benefits for directors and corporate auditors Retirement benefits to directors and corporate auditors of Senshukai and of certain consolidated subsidiaries are provided at the amount which would be required if all directors and corporate auditors retired at the balance sheet date.</p>	<p>3) Liabilities for directors' retirement benefits Retirement benefits to directors and corporate auditors of Senshukai and certain consolidated subsidiaries are provided at the amount which would be required if all directors and corporate auditors retired at the balance sheet date.</p>
<p>4) Sales promotion allowance This allowance is provided to cover future cost outlays related to the mileage point system, which is aimed at sales promotion. The allowance provides for the projected monetary redemption value of mileage points calculated based on the unredeemed value of issued points and historical redemption ratios.</p>	<p>4) Sales promotion allowance Same as on the left.</p>
<p>(4) Conversion of credit and liabilities in foreign currencies to Japanese currency All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts, currency swaps and currency options. The balance sheet accounts and revenue and expense accounts of the unconsolidated foreign subsidiaries for which the equity method of accounting was translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate.</p>	<p>(4) Conversion of credit or liabilities in foreign currencies to Japanese currency Same as on the left.</p>
<p>(5) Accounting for sales promotion expenses Senshukai conducts a mail-order business, and among sales promotion expenses, catalog-related expenses corresponding to net sales in the next consolidated fiscal year are classified as prepaid expenses and included in other current assets under current assets to better match expenses to earnings in each year.</p>	<p>(5) Accounting for sales promotion expenses Same as on the left.</p>
<p>(6) Accounting for leases Finance leases, other than those that transfer ownership of the leased assets to the lessees, are treated in the same way as ordinary operating leases for accounting purposes.</p>	<p>(6) Accounting for leases Same as on the left.</p>

<p>(7) Accounting for hedging</p> <p>1) Hedge Accounting Methods</p> <p>For derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.</p>	<p>(7) Accounting for hedging</p> <p>1) Hedge Accounting Methods</p> <p>Same as on the left.</p>
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Year Ended December 31, 2004	Year Ended December 31, 2005
<p>2) Hedging instruments/hedged items</p> <p>Hedging instruments: foreign exchange forward contracts, currency swaps and currency options;</p> <p>Hedged items; trade accounts payable denominated in foreign currencies</p> <p>3) Hedging policy</p> <p>Derivatives entered into by Senshukai have been made in accordance with internal policies which regulate the authorization and credit limit amount. Senshukai's policy is to use derivatives only for the purpose of reducing market risks associated with trade accounts payable. Senshukai does not hold or issue derivatives for trading purposes.</p> <p>4) Evaluation of hedging effectiveness</p> <p>High correlation and effectiveness between the hedging instruments and the hedged items are regularly verified. However, the evaluation is omitted in the case that market risk in derivatives is fully offset by opposite movements in the value of hedged assets or liabilities.</p> <p>(8) Accounting for consumption tax</p> <p>Financial statements are prepared exclusive of national and regional consumption taxes.</p> <p>5. Valuation of consolidated subsidiaries' assets and liabilities</p> <p>The assets and liabilities of consolidated subsidiaries are evaluated using the fair value method.</p> <p>6. Amortization of goodwill. The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is charged to income as incurred.</p> <p>7. Appropriations of retained earnings</p>	<p>2) Hedging instruments/hedged items</p> <p>Same as on the left.</p> <p>3) Hedging policy</p> <p>Same as on the left.</p> <p>4) Evaluation of hedging effectiveness</p> <p>Same as on the left.</p> <p>(8) Accounting for consumption tax</p> <p>Same as on the left.</p> <p>5. Valuation of consolidated subsidiaries' assets and liabilities</p> <p>Same as on the left.</p> <p>6. Amortization of goodwill</p> <p>Same as on the left.</p> <p>7. Appropriations of retained earnings</p>

<p>Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.</p> <p>8. Scope of cash and cash equivalents Cash and cash equivalents are cash on hand and short-term investments that are readily convertible into cash, and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and bond funds, all of which mature or become due within three months of the date of acquisition.</p>	<p>Same as on the left.</p> <p>8. Scope of cash and cash equivalents Same as on the left.</p>
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**Summary of Significant Accounting Policies Used in Preparation of Consolidated Financial Statements**

<b>Year Ended December 31, 2004</b>	<b>Year Ended December 31, 2005</b>
	<p>Accounting for impairment of fixed assets:</p> <p>In August 2002, the Business Accounting Council issued a Statement of Opinion, Accounting for Impairment of Fixed Assets, and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No. 6, Guidance for Accounting Standard for Impairment of Fixed Assets. These new pronouncements are effective for fiscal years beginning on or after April 1, 2005, with early adoption permitted for fiscal years ending on or after March 31, 2004</p> <p>The Group adopted the new accounting standard for impairment of fixed assets as of January 1, 2005.</p> <p>The effect of the adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests by ¥1,860 million.</p> <p>The accumulated impairment loss is directly deducted from the amount of each asset based on the revised regulations for the preparation of consolidated financial statements.</p>

## Reclassifications

Year Ended December 31, 2004	Year Ended December 31, 2005
_____	<p>Consolidated balance sheets:</p> <p>The “Law Partially Amending the Securities Exchange Law” (Law No. 97, 2004) was enacted on June 9, 2004 and came into force on December 1, 2004, and the Accounting Standards Committee Report No. 14 called Implementation Guidelines to Accounting for Financial Instruments was revised on February 15, 2005. As a result, investments in limited liability investment partnerships and similar partnerships (those deemed as marketable securities in accordance with Article 2-2 of the Securities and Exchange Law) are accounted for as investment securities from the fiscal year under review.</p> <p>The amount of applicable investments included in investment securities at December 31, 2005 was ¥187 million.</p>
_____	<p>“Accounts payable,” which was included in “other current assets” in the previous fiscal year, is shown as a separate line item in the fiscal year under review, to clarify its contents.</p> <p>The amount of “accounts payable” included in “other current assets” at December 31, 2004 was ¥16,030 million.</p>
_____	<p>“Forward exchange contract instruments” of current assets, which was included in “other” under “current assets” in the previous fiscal year, is shown as a separate line item in the fiscal year under review, to clarify its contents.</p> <p>The amount of “forward exchange contracts” included in “other” under “current assets” at December 31, 2004 was ¥85 million.</p>
_____	<p>Consolidated cash flow statements:</p> <p>‘Equity in earnings (losses) of unconsolidated subsidiaries,’ which was included in “other” under “cash flows from operating activities” in the previous fiscal year, is shown as a separate line item in the fiscal year under review, to clarify its contents.</p> <p>The amount of ‘equity in earnings (losses) of unconsolidated subsidiaries’ included in “other” under “cash flows from operating activities” at December 31, 2004 was ¥17 million.</p>

**Supplemental Information**

<b>Year Ended December 31, 2004</b>	<b>Year Ended December 31, 2005</b>
	<p>External standard taxation in the corporate income taxation</p> <p>Effective the current fiscal year, following the implementation of Amendments to the “Local Tax Law” (Legislation No. 9, 2003) on March 31, 2003 and the subsequent introduction from fiscal years starting on or after April 1, 2004 of a size-based enterprise tax, the Group has adopted the new accounting standard issued by ASBJ on February 13, 2004 (Accounting Standard Implementation Guidance No. 12): “Implementation Guidance on Presentation of Size-based Portion of Enterprise Taxes in Statements of Income.”</p> <p>Accordingly, the amount of enterprise taxes that have a tax basis on the “value added” and the “amount of capital” are incorporated in selling, general and administrative expenses.</p> <p>As an effect of this change, selling, general and administrative expenses increased by ¥123 million, and operating income, ordinary income and net income before income taxes decreased by equivalent amounts, compared to the amounts that would have been reported.</p>

**Notes to Consolidated Balance Sheet**

(¥ million)

Year Ended December 31, 2004	Year Ended December 31, 2005
1. Accumulated depreciation on property and equipment 33,020	1. Accumulated depreciation on property and equipment 31,652
2. Shares of non-consolidated subsidiaries and affiliates are as follows. Investment securities 110	2. Shares of non-consolidated subsidiaries and affiliates are as follows. Investment securities 202
3. Assets pledged as collateral (1) Collateral-backed assets Buildings and structures(book value) 52 Land (book value) 33 Investment securities (book value) 1,548 <hr/> Total 1,634	3. Assets pledged as collateral (1) Collateral-backed assets Buildings and structures(book value) 50 Land (book value) 33 Investment securities (book value) 2,330 <hr/> Total 2,414
(2) Collateral-backed liabilities Short-term bank loans 86 Long-term debt 271 <hr/> Total 357	(2) Collateral-backed liabilities Short-term bank loans 86 Long-term debt 274 <hr/> Total 361
4. Number of shares outstanding Common stock: 47,630,393 shares	4. Number of shares outstanding Common stock: 47,630,393 shares
5. Amount of treasury stock held by consolidated companies, non-consolidated subsidiaries accounted for by the equity method and affiliates Common stock: 5,635,960 shares	5. Amount of treasury stock held by consolidated companies, non-consolidated subsidiaries accounted for by the equity method and affiliates Common stock: 1,728,686 shares
6. Contingent liabilities Guarantees of bank loans Employees' housing loans 67 Senshukai Hong Kong Co., 80 Ltd. <hr/> Total 148	6. Contingent liabilities Guarantees of bank loans Employees' housing loans 50 Senshukai Hong Kong Co., 80 Ltd. <hr/> Total 131
7. Land revaluation: Senshukai revalued its business-use land in accordance with the "Law Concerning Revaluation of Land" (Law No. 34 enacted on March 31, 1998) and the "Law to Partially Modify the Law Concerning Revaluation of Land" (enacted on March 31, 1999). The result was included in shareholders' equity as gain or loss from revaluation of land, after deducting the revaluation-related deferred tax liabilities.	7. Land revaluation: Same as on the left.

<p>Method of revaluation by Clause 3, Article 3 of the law The method is based on Article 16 of the “Land-Value Tax Law” (Ordinance No. 69 enacted in 1991) as specified by Clause 4, Article 2 of the “Enforcement Regulations of the Law Concerning Revaluations of Land” (Ordinance No. 119 enacted on March 31, 1998), and computation by reasonable adjustment of the value calculated by the Director of the National Tax Agency to calculate land value as the basis of calculating land taxes as specified by the latter Ordinance.</p> <p>Date of revaluation: March 31, 2000 Difference between market value on December 31, 2004 after revaluation of land and book value after revaluation: (3,328)</p>	<p>Method of revaluation by Clause 3, Article 3 of the law Same as on the left.</p> <p>Date of revaluation: March 31, 2000 Difference between market value on December 31, 2005 after revaluation of land and book value after revaluation: (3,071)</p>
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**Notes to Consolidated Statements of Income**

(¥ million)

Year Ended December 31, 2004	Year Ended December 31, 2005
1. Among cost of sales, valuation losses using the lower of cost or market method were ¥30 million	1. Among cost of sales, valuation losses using the lower of cost or market method were ¥45 million
2. R&D expenses included in general and administrative expenses <span style="float: right;">740</span>	2. R&D expenses included in general and administrative expenses <span style="float: right;">669</span>
3. Gains on sales of property and equipment	3. Gains on sales of property and equipment
Furniture and fixtures <span style="float: right;">0</span>	Land <span style="float: right;">20</span>
Vehicles and transport equipment <span style="float: right;">2</span>	Buildings and structures <span style="float: right;">18</span>
<u>Total</u> <span style="float: right;">2</span>	Machinery and vehicles <span style="float: right;">7</span>
	Tools, furniture and fixtures <span style="float: right;">0</span>
	<u>Total</u> <span style="float: right;">47</span>
4. Losses on sales and disposal of property and equipment	4. Losses on sales and disposal of property and equipment
Losses on disposal of buildings <span style="float: right;">21</span>	Losses on sales of land <span style="float: right;">87</span>
Losses on disposal of structures <span style="float: right;">2</span>	Losses on disposal of buildings and structures <span style="float: right;">41</span>
Losses on disposal of furniture and fixtures <span style="float: right;">5</span>	Loss on sales of buildings and structures <span style="float: right;">2</span>
Losses on disposal of machinery and equipment <span style="float: right;">0</span>	Loss on sales of machinery and vehicles <span style="float: right;">2</span>
<u>計</u> <span style="float: right;">29</span>	Losses on disposal of machinery and vehicles <span style="float: right;">97</span>
	Losses on disposal of tools, furniture and fixtures <span style="float: right;">12</span>
	<u>Total</u> <span style="float: right;">243</span>
—————	5. Foreign exchange gain
	Hitherto, hedge accounting in the form of deferred hedging had been applied to comprehensive long-term forward exchange contracts for purchase forecasted transactions of imported products. However, after carefully reviewing forecasted transactions targeted for hedging, the transactions were evaluated at fair value at December 31, 2005 and the evaluation gains were included in the exchange gain.
—————	6. Loss on transfer of golf business
	In December 2005, the Senshukai Group's golf business was transferred to Accordia Golf Co., Ltd., a company belonging to the Goldman Sachs Group.

Year Ended December 31, 2004	Year Ended December 31, 2005												
<p style="text-align: center;">—————</p>	<p>7. Impairment loss</p> <p>For the current fiscal year, the Senshukai Group posted an impairment loss on the following asset groups. The transfer of the golf course in Awara City, Fukui Prefecture was completed in December 2005.</p> <table border="1" data-bbox="850 517 1423 871"> <thead> <tr> <th>Location</th> <th>Primary use</th> <th>Type</th> <th>Impairment loss</th> </tr> </thead> <tbody> <tr> <td>Awara, Fukui Prefecture</td> <td>Golf course</td> <td>Land, buildings, other</td> <td>1,730</td> </tr> <tr> <td>Tokorozawa , Saitama Prefecture, other</td> <td>Idle land</td> <td>Land</td> <td>129</td> </tr> </tbody> </table> <p>In principle, the grouping of assets is based on categories of management accounting.</p> <p>The book value of the above asset groups was marked down to the recoverable amount, reflecting a decrease in land prices and weak prospects for improved short-term performance due to worsening operating profitability. This markdown was posted as an impairment loss.</p> <p>The impairment loss on the golf course was ¥1,730 million (including, land: ¥1,234 million; buildings: ¥180 million; other: ¥315 million). The impairment loss on idle land was ¥129 million (including, land: ¥121 million; other: ¥8 million).</p> <p>The recoverable amount was measured at its net selling price determined by an appraisal report from an independent real-estate appraiser.</p>	Location	Primary use	Type	Impairment loss	Awara, Fukui Prefecture	Golf course	Land, buildings, other	1,730	Tokorozawa , Saitama Prefecture, other	Idle land	Land	129
Location	Primary use	Type	Impairment loss										
Awara, Fukui Prefecture	Golf course	Land, buildings, other	1,730										
Tokorozawa , Saitama Prefecture, other	Idle land	Land	129										

## Notes to Consolidated Statements of Cash Flows

(¥ million)

Year Ended December 31, 2004	Year Ended December 31, 2005
Reconciliation between balance sheet accounts and term-end balance of cash and cash equivalents (As of December 31, 2004)	Reconciliation between balance sheet accounts and term-end balance of cash and cash equivalents (As of December 31, 2005)
Cash and deposits 10,607	Cash and deposits 11,133
Marketable securities 1,169	Marketable securities 187
Total 11,777	Cash and cash equivalents 11,320
Time deposits whose deposit term exceeds 3 months (3)	
Bonds with maturities greater than 3 months (532)	
Cash and cash equivalents 11,242	

### Segment Information

#### 1. Business segments

Fiscal 2004 (January 1, 2004—December 31, 2004)

(¥ million)

	Mail-order business	Other	Total	Elimination or corporate	Consolidated
I Sales and operating income					
Sales					
(1) Sales to customers	139,626	7,533	147,159	—	147,159
(2) Inter-segment sales	104	760	864	(864)	—
Total	139,731	8,293	148,024	(864)	147,159
Operating expenses	136,712	8,415	145,128	(890)	144,237
Operating income (loss)	3,018	(122)	2,895	25	2,921
II Total assets, depreciation and capital expenditures					
Total assets	82,380	5,866	88,247	(686)	87,560
Depreciation	2,224	64	2,289	—	2,289
Capital expenditures	467	32	499	—	499

Notes:

- The classification of business segments is based on categories adopted for internal management purposes.
- Principal activities of each business segment.
  - Mail-order business: Catalog and *hanpukai* businesses
  - Other businesses: Services, transportation and other businesses

Fiscal 2005 (January 1, 2005—December 31, 2005)

(¥ million)

	Mail-order business	Other	Total	Elimination or corporate	Consolidated
I Sales and operating income					
Sales					
(1) Sales to customers	139,391	6,062	145,453	—	145,453
(2) Inter-segment sales	677	675	1,352	(1,352)	—
Total	140,068	6,737	146,805	(1,352)	145,453
Operating expenses	136,532	6,776	143,309	(1,288)	142,020

Operating income (loss)	3,535	- 38	3,496	(64)	3,432
II Total assets, depreciation, impairment loss and capital expenditures					
Total assets	90,698	3,327	94,025	(1,236)	92,788
Depreciation	1,759	46	1,806	—	1,806
Impairment loss	129	1,730	1,860	—	1,860
Capital expenditures	2,100	39	2,140	—	2,140

Notes:

1. The classification of business segments is based on categories adopted for internal management purposes.
2. Principal activities of each business segment.
  - (1) Mail-order business: Catalog and *hanpukai* businesses
  - (2) Other businesses: Services, transportation and other businesses
3. There are no unallocated operating expenses included in the “elimination or corporate” column.

## 2. Geographical segment information

As there were no overseas consolidated subsidiaries or significant overseas branch offices for the fiscal years ended December 31, 2004 and December 31, 2005, geographical segment information has not been presented.

## 3. Overseas sales

Overseas sales have not been presented because they represented less than 10% of total consolidated sales in the fiscal years ended December 31, 2004 and December 31, 2005.

## **Leasing transactions**

Leasing transactions have not been presented because they are disclosed via EDINET.

## **Transactions with related parties**

None.

**Deferred Tax Accounting**

(¥ million)

Year Ended December 31, 2004	Year Ended December 31, 2005
1. Significant components of deferred tax assets and liabilities:	1. Significant components of deferred tax assets and liabilities:
(1) Current	(1) Current
Deferred tax assets:	Deferred tax assets:
Sales promotion expenses	Tax loss carryforwards
397	1,162
Tax loss carryforwards	Sales promotion expenses
291	547
Accrued bonuses	Accrued bonuses
208	294
Other	Other
183	196
Subtotal deferred tax assets	Subtotal deferred tax assets
1,081	2,200
Less valuation allowance	Less valuation allowance
35	1,053
Deferred tax assets	Deferred tax assets
1,045	1,147
Deferred tax liabilities:	Deferred tax liabilities:
Sales promotion prepaid expenses	Sales promotion prepaid expenses
650	755
Other	Other
4	11
Deferred tax liabilities	Deferred tax liabilities
654	766
Net deferred tax assets	Net deferred tax assets
390	380
(2) Non-current deferred tax assets:	(2) Non-current deferred tax assets:
Tax loss carryforwards	Tax loss carryforwards
1,709	633
Liability for retirement benefits for directors and corporate auditors	Allowance for doubtful accounts
341	246
Allowance for doubtful accounts	Liability for retirement benefits for directors and corporate auditors
268	241
Loss on write-down of investment securities	Loss on write-down of investment securities
136	119
Other	Other
557	594
Subtotal deferred tax assets	Subtotal deferred tax assets
3,012	1,835
Less valuation allowance	Less valuation allowance
2,298	1,365
Deferred tax assets	Deferred tax assets
713	470
Deferred tax liabilities:	Deferred tax liabilities:
Investment securities	Investment securities
331	1,239
Reserve for deferred gains on sales of fixed assets	Reserve for deferred gains on sales of fixed assets
57	54
Reserve for losses on overseas investments	Reserve for losses on overseas investments
31	23
Total deferred tax liabilities	Total deferred tax liabilities
420	1,317

Net deferred tax assets	293	Net deferred tax liabilities	847
2. Deferred tax liabilities related to revaluation		2. Deferred tax liabilities related to revaluation	
Deferred tax assets		Deferred tax assets	
Deferred tax assets related to revaluation	4,133	Deferred tax assets related to revaluation	3,494
Less valuation allowance	4,133	Less valuation allowance	3,494
Total deferred tax assets related to revaluation	—	Total deferred tax assets related to revaluation	—
Deferred tax liabilities		Deferred tax liabilities	
Deferred tax liabilities relating to land revaluation	895	Deferred tax liabilities relating to land revaluation	804
Net deferred tax liabilities relating to land devaluation	895	Net deferred tax liabilities relating to land devaluation	804

Year Ended December 31, 2004	Year Ended December 31, 2005
3. Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income.	3. Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income.
Normal effective statutory tax rate	Normal effective statutory tax rate
41.7	40.4
%	%
Adjustments for:	Adjustments for:
2.1	4.1
Non-deductible entertainment expenses	Non-deductible entertainment expenses
Non-taxable dividend income	Non-taxable dividend income
(0.2)	(0.5)
Per capita inhabitants' taxes	Per capita inhabitants' taxes
1.4	1.5
Equity in earnings (losses) of unconsolidated subsidiaries	Equity in earnings (losses) of unconsolidated subsidiaries
0.3	(3.8)
Change due to change in tax rate	Change due to sales of revaluated land
(1.1)	(22.8)
Tax on operating loss carryforwards	Tax on operating loss carryforwards
4.9	7.3
Allowance for doubtful accounts	Impairment loss
1.4	3.1
Change in valuation allowance	Allowance for doubtful accounts
0.6	(0.1)
Other	Change in valuation allowance
0.1	(1.7)
Effective tax rate	Other
51.2	0.4
	Effective tax rate
	27.9

## Investment Securities

Fiscal 2004

### 1. Available-for-sale securities with fair value (as of December 31, 2004)

(¥ million)

	Cost	Carrying amount	Difference
(Securities with fair value exceeding cost			
1) Stocks	1,416	2,227	810
2) Bonds			
Corporate bonds	529	532	2
Other	—	—	—
3) Others	178	187	9
Subtotal	2,124	2,947	822
(Securities with fair value equal to or below their cost			
1) Stocks	1,052	997	(55)
2) Bonds			
Corporate bonds	—	—	—
Other	1,200	985	(214)
3) Others	134	132	(1)
Subtotal	2,386	2,116	(270)
Total	4,511	5,063	551

Note: The costs are amounts that have been treated for impairment loss.  
The impairment loss totaled ¥43 million.

### 2. Available-for-sale securities sold during fiscal 2004 (January 1, 2004 to December 31, 2004)

(¥ million)

Proceeds	Total gains on sales	Total losses on sales
197	41	11

### 3. Available-for-sale securities whose fair value is not readily determinable (as of December 31, 2004)

Available-for-sale securities

Unlisted stocks 317 million

MMF 637 million

### 4. Projected future redemption of securities with maturities and debt securities held to maturity classified as available-for-sale securities (as of December 31, 2004)

(¥ million)

	1 year or less	More than 1 year to 5 years	More than 5 to 10 years	More than 10 years
Bonds				
Corporate bonds	530	—	—	—
Others	—	—	—	1,200
Total	530	—	—	1,200

Fiscal 2005

1. Available-for-sale securities with fair value (as of December 31, 2005)

(¥ million)

	Cost	Carrying amount	Difference
(Securities with fair value exceeding cost			
1) Stocks	3,683	6,667	2,983
2) Bonds			
Corporate bonds	—	—	—
Other	999	1,032	33
3) Others	385	436	51
Subtotal	5,067	8,136	3,068
(Securities with fair value equal to or below their cost			
1) Stocks	—	—	—
2) Bonds			
Corporate bonds	—	—	—
Other	1,950	1,840	(109)
3) Others	10	10	—
Subtotal	1,960	1,850	(109)
Total	7,028	9,987	2,958

Note: The costs are amounts that have been treated for impairment loss.

The impairment loss totaled ¥2 million.

2. Available-for-sale securities sold during fiscal 2005 (January 1, 2005 to December 31, 2005)

(¥ million)

Proceeds	Total gains on sales	Total losses on sales
506	14	—

3. Available-for-sale securities whose fair value is not readily determinable(as of December 31, 2005)

Available-for-sale securities

Unlisted stocks	1,876 million
MMF	187 million
Others	187 million

4. Projected future redemption of securities with maturities and debt securities held to maturity classified as available-for-sale securities (as of December 31, 2005)

(¥ million)

	1 year or less	More than 1 year to 5 years	More than 5 to 10 years	More than 10 years
Bonds				
Corporate bonds	—	—	—	—
Others	—	—	—	2,950
Total	—	—	—	2,950

**Derivative Transactions**

Derivative transactions have not been presented because they are disclosed via EDINET.

## Retirement Benefits

Fiscal year 2004

### 1. Overview of retirement and pension plans

Senshukai has adopted and offers employees the choice of a defined contribution pension plan or a pre-paid retirement benefit plan.

Among consolidated subsidiaries, Senshu Transportation Co., Ltd. and Senshu Logisuko Co., Ltd. have adopted the pre-paid retirement benefit system plan and Senshukai General Services Co., Ltd. has adopted a severance indemnity system, while some other consolidated subsidiaries have become members of the Smaller Enterprise Retirement Allowance Mutual Aid System.

### 2. Retirement benefit obligations (as of December 31, 2004)

1) Projected benefit obligation	¥123 Million
2) Fair value of plan assets	64
<hr/>	
3) Unfunded benefit obligations	(58)
<hr/>	
4) Liability for retirement benefits	(58)

Note: Projected benefit obligation for consolidated subsidiaries are calculated based on the compendium method.

### 3. Net periodic benefit costs (January 1, 2004 – December 31, 2004)

1) Service cost	¥58 Million
2) Other	70
<hr/>	
3) Net periodic benefit costs	129

Notes:

1. In addition to the above net periodic benefit costs, early retirement expenses of ¥483 million were recorded in extraordinary losses.
2. The “other” component of net periodic benefit costs represents contributions to the defined contribution pension plan.
3. Net periodic benefit costs (except for contributions to the defined contribution pension plan) are recorded in “service cost.”

### 4. Basis of calculation of projected benefit obligation

Not applicable because the projected benefit obligation is calculated based on the compendium method.

Fiscal year 2005

1. Overview of retirement and pension plans

Senshukai and Senshu Logisuko Co., Ltd. have adopted and offer employees the choice of a defined contribution pension plan or a pre-paid retirement benefit plan.

Among consolidated subsidiaries, Senshu Transportation Co., Ltd. has adopted the pre-paid retirement benefit system, while some other consolidated subsidiaries have become members of the Smaller Enterprise Retirement Allowance Mutual Aid System.

2. Retirement benefit obligations (as of December 31, 2005)

1) Projected benefit obligation	(85) Million
2) Fair value of plan assets	70
<u>3) Unfunded benefit obligations</u>	<u>(14)</u>
<u>4) Liability for retirement benefits</u>	<u>(14)</u>

Note: Retirement benefit obligations for consolidated subsidiaries are calculated based on the compendium method.

3. Net periodic benefit costs (January 1, 2005 – December 31, 2005)

1) Service cost	11 Million
2) Other	101
<u>3) Net periodic benefit costs</u>	<u>113</u>

Notes:

1. The “other” component of net periodic benefit costs represents contributions to the defined contribution pension plan.
2. Net periodic benefit costs (except for contributions to the defined contribution pension plan) are recorded in “service cost.”

4. Basis of calculation of projected benefit obligations

Not applicable because the projected benefit obligations are calculated based on the compendium method.

**Premise of a Going Concern**

Not applicable.

**Per Share Information**

Year Ended December 31, 2004		Year Ended December 31, 2005	
Shareholders' equity per share	1,122.20	Shareholders' equity per share	1,143.12
Net income per share	28.81	Net income per share	27.44
Diluted net income per share	28.67	Diluted net income per share	27.36

Note: The following is the basis for calculating net income per share and diluted net income per share.

	Year Ended December 31, 2004	Year Ended December 31, 2005
Net income per share		
Net income (¥ million)	1,231	1,267
Net income unavailable to common shareholders (¥ million)	9	47
(Including: appropriations for directors' and corporate auditors' bonuses (¥ million))	(9)	(47)
Net income related to common stock (¥ million)	1,222	1,219
Average number of shares of common stock outstanding during the fiscal year (thousand of shares)	42,440	44,456
Diluted net income per share		
Adjustment to net income (¥ million)	—	—
Increase in number of common shares (thousands of shares) (Including: subscription rights)	203	122
Subscription rights (thousands of shares)	(203)	(122)
Number of latent shares with no dilution excluded from calculation of diluted net income per share	Stock options (subscription rights of 1,234 units) granted by resolution of Ordinary General Meeting of Shareholders on March 30, 2004	Stock options (subscription rights of 1,227 units) granted by resolution of Ordinary General Meeting of Shareholders on March 30, 2004

## Production, Orders and Sales

### (1) Production

There were no production activities.

### (2) Orders

There were no production activities in response to orders received.

### (3) Sales

#### 1) Sales by each business segment

(¥ million)

Business segment	Year Ended December 31, 2004		Year Ended December 31, 2005		Change
	Amount	Share (%)	Amount	Share (%)	
Mail-order business	139,626	94.9	139,391	95.8	(235)
Other businesses	7,533	5.1	6,062	4.2	(1,470)
Total	147,159	100.0	145,453	100.0	(1,705)

Note: The figures above are stated exclusive of consumption tax.

#### 2) Sales by type

(¥ million)

Term Type	Year Ended December 31, 2004		Year Ended December 31, 2005		Change
	Amount	Share (%)	Amount	Share (%)	
Publications	788	0.6	536	0.4	(251)
Clothing	46,397	31.5	50,474	34.7	4,077
Household goods	58,854	40.0	54,710	37.6	(4,143)
Hobby and leisure interests goods	28,852	19.6	27,505	18.9	(1,347)
Other	12,265	8.3	12,225	8.4	(39)
Total	147,159	100.0	145,453	100.0	(1,705)

Note: The figures above are stated exclusive of consumption tax.