



## Consolidated Financial Report for Fiscal 2006 (Ended December 31, 2006)

January 25, 2007

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

Stock Exchanges: Tokyo and Osaka

Stock Code: 8165

Head Office: Osaka

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

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Meeting of the Board of Directors for Approval of Financial Results: January 25, 2007

US GAAP: Not adopted.

### 1. Consolidated Financial Results for Fiscal 2006 (January 1, 2006 – December 31, 2006)

(1) Consolidated operating results (All amounts are rounded down to the nearest million yen)

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal 2006	148,150	1.9	4,602	34.1	5,240	32.3
Fiscal 2005	145,453	(1.2)	3,432	17.5	3,962	30.6

	Net income		Net income per share	Diluted net income per share	Return on equity	Ordinary income to total assets	Ordinary income to net sales
	Millions of yen	%	Yen	Yen	%	%	%
Fiscal 2006	3,627	186.2	78.81	78.55	6.6	5.6	3.5
Fiscal 2005	1,267	2.9	27.44	27.36	2.5	4.4	2.7

Notes: 1. Equity in earnings of non-consolidated subsidiaries:

Fiscal 2006: 193 million yen Fiscal 2005: 167 million yen

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

Fiscal 2006: 46,031,738 shares Fiscal 2005: 44,456,231 shares

3. No changes were made to accounting principles applicable to the above figures.

4. Percentages for net sales, operating income, ordinary income, and net income represent percentage change from the corresponding period of the previous fiscal year.

### (2) Consolidated financial position

	Total assets		Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	Millions of yen	%	Yen
Fiscal 2006	95,508	55,708	55,708	58.3	1,207.89
Fiscal 2005	92,788	52,519	52,519	56.6	1,143.12

Note: Number of shares issued and outstanding at the end of period (consolidated):

As of Dec. 31, 2006: 46,082,096 shares As of Dec. 31, 2005: 45,901,707 shares

### (3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal 2006	1,470	(6,426)	(875)	5,549
Fiscal 2005	2,539	(5,086)	2,625	11,320

### (4) Scope of consolidation and application of equity method

Consolidated subsidiaries: 9 Equity-method non-consolidated subsidiaries: 3 Equity-method affiliates: -

### (5) Changes in scope of consolidation and application of equity method

Consolidation: (new) 1 (excluded) - Equity method: (new) - (excluded) -

### 2. Consolidated Outlook for the Fiscal Year Ending December 31, 2007 (January 1, 2007 – December 31, 2007)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
First half	77,000	3,800	2,000
Full year	155,000	7,800	4,100

Reference: Projected net income per share for the full year: 88.97 yen

\* 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 6.

## Group Organization

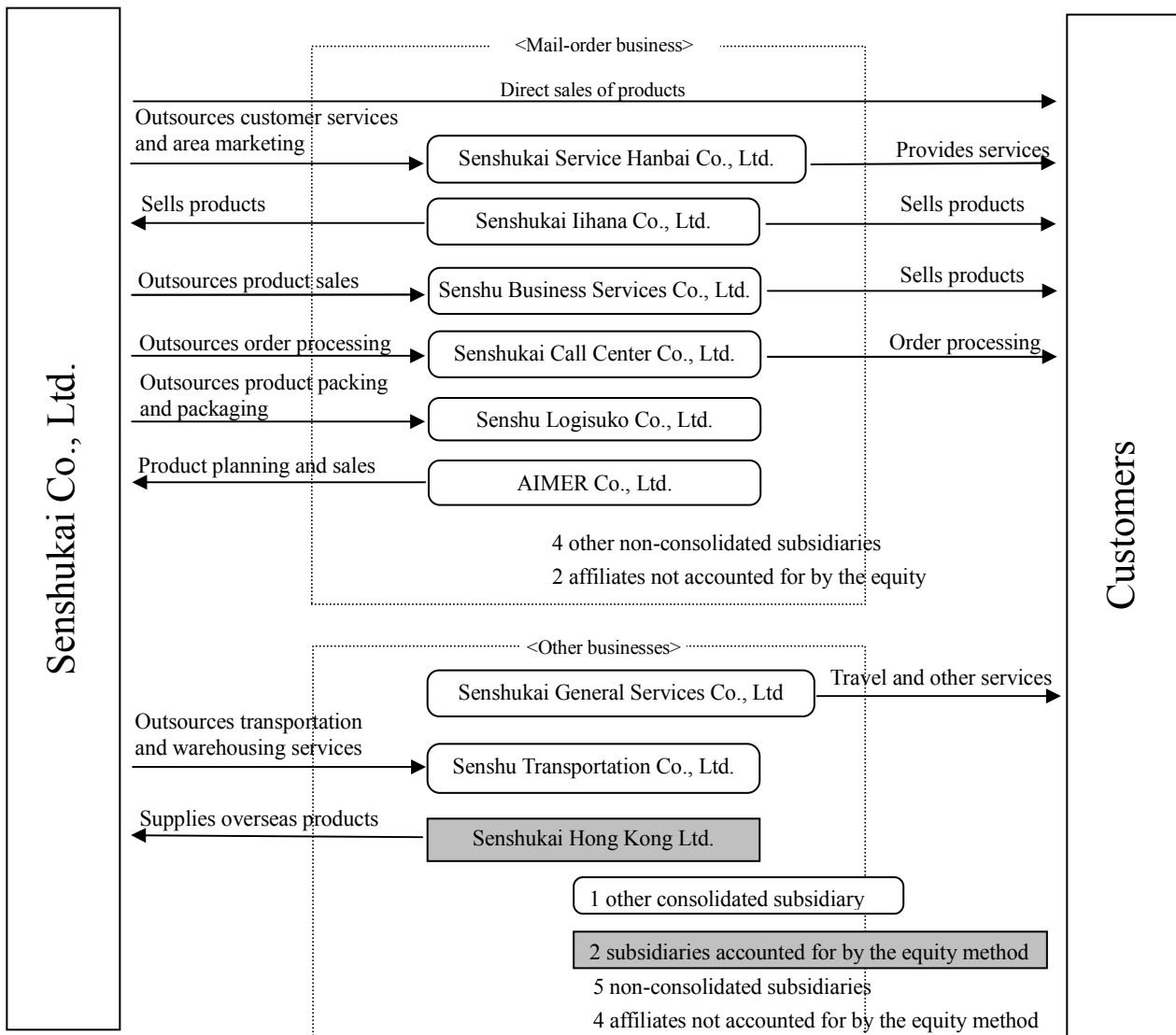
The Senshukai Group comprises the parent company, 21 subsidiaries, and six affiliates. Its mainstay business is the mail-order business, but it is also involved in related businesses including transportation, warehousing, travel, and services.

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

Segment	Mainstay business activity	Company
Mail-order business	Mail order	Senshukai Co., Ltd., Senshukai Service Hanbai Co., Ltd. (see note) and 7 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 businesses	Product sales	Senshukai Co., Ltd. and 4 other companies
	Services	Senshukai General Services Co., Ltd. and 6 other companies
	Transportation	Senshu Transportation Co., Ltd.
	Export sales	Senshukai Hong Kong Ltd. and 2 other companies

Note: Belle Maison Service Center Co., Ltd. changed its name to Senshukai Service Hanbai Co., Ltd. effective September 1, 2006.

### Schematic of businesses



## **Management Policies**

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

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

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

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

Strengthening the business foundation while ensuring stable dividends and an appropriate return of earnings to shareholders is our basic policy regarding the distribution of earnings.

Specifically, we intend to maintain a payout ratio of 30% going forward.

We will use retained earnings to invest in the development of new businesses, raise the efficiency of existing businesses, improve the soundness of our financial condition, and strengthen our competitiveness and corporate structure.

### **3. Policy on Reducing the Minimum Trading Unit**

Our basic policy is to regularly consider reducing the size of the minimum trading unit of our shares on the stock exchange to improve liquidity and broaden the shareholder base. However, we must take a cautious approach to any reduction in the trading unit, taking into consideration the demands of the market and other factors, as reducing the minimum trading unit will require a substantial budget outlay.

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

We aim to shift from a sales-oriented strategy to a corporate value-focused strategy in line with our medium-term management plan. Specifically, we aim to generate operating cash flows of 10 billion yen in Fiscal 2007 (ending December 31, 2007), and have set an operating income ratio target of 5% to ensure a sharper focus on profitability.

Proactive investment in growth areas is the core policy of our medium-term management plan. Going forward, we will aggressively invest to expand earnings and enhance corporate value.

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

We have formulated and are currently implementing a medium-term management plan that ends in Fiscal 2007.

#### (1) Basic Policies of Medium-term Management Plan

##### 1) Higher profitability for core businesses

We shall avoid an unprofitable expansion of sales in the catalog mail-order business and focus instead on strengthening profitability, particularly in existing markets where women in their late 20s and 30s comprise our main customer target.

##### 2) Aggressive investment in growth areas

We shall aggressively invest in broadening customer age groups, focusing on customers in their 20s to 40s, and in expanding sales channels to include the Internet and storefront businesses.

##### 3) Improved brand value

All employees shall focus thoroughly on creating a Belle Maison that is "Super thrilling, Super exciting" and resonates with customer hearts.

## (2) Fiscal 2006 Strategies in the Medium-term Management Plan

### 1) Promotion of Supply-chain Management

We missed our “rapid delivery ratio” (the ratio of product that is in stock and available for immediate delivery) and “delivery-to-order ratio” (number of shipments per order) targets in Fiscal 2006 due to a change in the catalog inventory reserve rule (the rule for determining shipment time based on the total inventory of ordered products) and an increase in *Watashitachi no Kurasu Fuku* catalog sales. However, the import ratio and direct import ratio trended in line with plans. We will work to achieve the targets of our medium-term management plan in Fiscal 2007, the last year of our plan.

### 2) Reassessment of catalog positioning

We further reduced the overall number of printed catalog copies following a reassessment of each catalog’s positioning in Fiscal 2006. We will continue to reassess the positioning of our catalogs going forward.

### 3) Expansion of customer base, focusing on people in their 20s and 40s

20s: We launched several Internet and mobile-based shops to strengthen product sales and services to customers in their 20s: 1) Editer, an Internet-exclusive shopping website; 2) Mobakore, a mobile-exclusive fashion apparel shopping website (joint venture with DeNA Co., Ltd.); 3) shoplatt, a mobile shopping website established by a subsidiary; and 4) RanRan Ranking, a mobile information shopping website (in collaboration with Bandai Networks Co., Ltd.).

40s: We published the fashion catalog *Rashisa* and the interiors catalog *Luxe Living* targeting customers in their 40s, and are worked to capture new members and improve the repeater ratio among customers in their 40s with the catalog *Watashitachi no Kurasu Fuku*.

### 4) Promotion of Internet sales

We posted Internet sales of 55,700 million yen, an increase of 22.6% year-over-year, by strengthening Belle Maison Net affiliates and developing products for sale over the Internet only. This figure includes direct Internet sales of 25,400 million yen, up 52.2%, and mobile-based sales of 12,500 million yen, up 14.3%.

### 5) Development of storefront business

We opened a new Belle Maison Market store in Yao, bringing the total number of brick-and-mortar stores to seven. We will continue to develop new stores, paying close attention to buying trends at each store, and examining which catalog products are appropriate for sale at brick-and-mortar shops.

### 6) Stronger development capabilities

We are currently reassessing the merchandising process (product planning and development), and restructuring our management system for product development.

### 7) Better customer service

We strengthened our capacity to receive orders from customers at our Belle Maison Call Center, worked to reduce the number of days to product delivery, and strengthened other customer services.

## **6. Matters Related to the Parent Company**

Not applicable.

## **7. Other Important Business Matters**

Not applicable.

## Operating Results and Financial Condition

### 1. Operating Results

#### (1) Overview

The Japanese economy grew at a steady pace in the fiscal year under review due to strong corporate earnings and an accompanying expansion in capital spending. Consumer spending lacked robustness as improvements in the employment environment failed to drive an expansion of household sector spending. This created winners and losers among retail subsectors and individual retailers. In the mail-order industry, Internet retailers, mobile-based retailers, and TV mail-order firms saw sales increase year-over-year, and comprehensive catalog mail-order firms saw signs of a recovery in their sales. The competitive environment remained difficult for the overall retail sector, and this was compounded by retail sector realignment and difficulties in grasping consumer needs given the diversification of lifestyles.

Against this backdrop, the Senshukai Group focused on priority strategies in the second year of its medium-term management plan which ends in Fiscal 2007.

Consolidated net sales increased 1.9% year-over-year to 148,150 million yen in the fiscal year under review. Operating income increased 34.1% to 4,602 million yen due to a decline in the cost of sales and SG&A expenses including media-related expenses (printing expenses, etc.). Ordinary income increased 32.3% to 5,240 million yen due to foreign exchange gains, and net income 186.2% to 3,627 million yen despite losses on liquidation of subsidiaries.

#### (2) Segment Information

##### [Mail-order Business]

Consolidated sales in the mail-order business, which comprises the catalog and the *hanpukai* businesses, increased 1.9% year-over-year to 142,081 million yen, and operating income increased 30.3% to 4,607 million yen.

##### 1) Catalog business

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

The business has won the support of members by meeting their needs as a “lifestyle navigator” in a variety of product categories, particularly fashion wear, but also fashion sundries, interior goods, everyday sundries, maternity goods, and children’s clothing, since its start in 1976.

We continued to reassess the position of each media under the slogan of “Super thrilling, Super exciting.” *Watashitachi no Kurasu Fuku*, a core fashion catalog we launched last year, saw strong sales. As a result, consolidated net sales rose 5.1% year-over-year to 125,652 million yen.

##### 2) *Hanpukai* business

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

Focusing on everyday sundries and foods, the business offers a wide lineup of products that are highly collectible, original, and not available in retail stores.

This fiscal year we developed sixteen new original products to meet the increasingly diverse needs of our customers. We changed the name of Belle Maison Service Center Co., Ltd. to Senshukai Service Hanbai Co., Ltd. in September, and reorganized the company to provide more detailed customer services, promote greater sales, improve retention rates, and expand the membership base. Despite these efforts, sales and membership declined year-over-year.

Consolidated sales in the *hanpukai* business declined 17.4% year-over-year to 16,428 million yen, and average monthly membership was 601,700.

##### [Other Businesses]

This segment comprises mainstay travel and credit card services, transportation and storefront services, as well as BtoB operations. Consolidated sales in these businesses rose 0.1% year-over-year to 6,068 million yen.

Operating income totaled 7 million yen, compared with an operating loss of 38 million yen in the previous fiscal year.

### (3) Outlook for Fiscal 2007

We expect the Japanese economy to steadily expand going forward as strong corporate profits drive capital spending and improvements in the labor market, although we remain concerned about a slowdown in the US economy and consumer spending. We believe the business environment will remain difficult across the retail industry going forward.

In these circumstances, we will give priority to boosting earnings in the core catalog mail-order business in order to achieve the final-year targets of our medium-term management plan which ends in Fiscal 2007. Moreover, we will aggressively invest in broadening our customer base, focusing on customers in their 20s to 40s, and in expanding sales channels to include the Internet, mobile, and storefront businesses. Finally, we will work rigorously to bolster the brand value of Belle Maison.

The following are our forecasts for Fiscal 2007.

Consolidated

(Million yen)

	Net sales	Ordinary income	Net income
Fiscal 2007 (forecast)	155,000	7,800	4,100
Fiscal 2006 (results)	148,150	5,240	3,627
Change (%)	4.6	48.8	13.0

Non-consolidated

(Million yen)

	Net sales	Ordinary income	Net income
Fiscal 2007 (forecast)	152,000	7,400	4,100
Fiscal 2006 (results)	146,917	4,419	3,142
Change (%)	3.5	67.5	30.5

## **2. Financial Position**

Assets totaled 95,508 million yen at the end of the current fiscal year under review, up 2,720 million yen from the end of the previous fiscal year. As for current assets, cash and deposits decreased 5,668 million yen, but trade notes and accounts receivable increased 1,247 million yen, inventories increased 1,267 million yen, and other accounts receivable increased 905 million yen. As for fixed assets, property and equipment declined 1,012 million yen, intangible assets increased 1,125 million yen, and investments and other assets increased 4,811 million yen.

Liabilities totaled 39,800 million yen, down 426 million yen from the end of the previous fiscal year. As for current liabilities, other accounts payable and factoring accounts payable increased 962 million yen, while deferred hedge gains, booked with net assets starting this fiscal year, declined 1,112 million yen. As for long-term liabilities, deferred tax liabilities declined 313 million yen.

Net assets totaled 55,708 million yen, up 3,189 million yen from the end of the previous fiscal year, due mainly to the booking of 3,627 million yen in net income. Consequently, the shareholders' equity ratio was 58.3%.

### Cash Flow Position

The balance of cash and cash equivalents at the end of the current fiscal year under review was 5,549 million yen, a decline of 5,771 million yen from the end of the previous fiscal year.

Operating activities provided net cash of 1,470 million yen. The main contributing factors were income before income taxes and minority interests of 3,874 million yen, depreciation expenses of 1,620 million yen, and an increase in notes and accounts payable of 703 million yen. These factors were partly offset by an increase in inventories of 1,524 million yen, an increase in notes and accounts receivable of 1,221 million yen, and an increase in other current assets of 2,013 million yen.

Investing activities used net cash of 6,426 million yen. The main outflows were 5,323 million yen for purchases of investment securities, and 1,083 million yen for purchases of intangible assets.

Financing activities used net cash of 875 million yen. The main cash outflow was 919 million yen in cash dividends paid.

## Cash Flow Indices

	Fiscal 2004 (As of Dec. 31, 2004)	Fiscal 2005 (As of Dec. 31, 2005)	Fiscal 2006 (As of Dec. 31, 2006)
Equity ratio (%)	53.9	56.6	58.3
Equity ratio based on fair value (%)	41.6	74.3	58.5
Average debt repayment period (years)	0.2	0.2	0.3
Interest coverage ratio	80.1	59.1	30.3

Notes: 1. Cash flow indices are calculated as follows using consolidated financial figures:

The equity ratio based on fair value is market capitalization divided by total assets.

The average debt repayment period is interest-bearing debt divided by the quantity of operating cash flows.

The interest coverage ratio at the end of the fiscal year is operating cash flows divided by interest payments.

2. Market capitalization is calculated by multiplying the closing share price at the end of the fiscal year by the number of shares issued and outstanding at the end of the fiscal year, excluding treasury stock.

3. Interest-bearing debt represents all liabilities shown on the consolidated balance sheets that incur interest.

4. Operating cash flows and interest payments represent net cash provided by operating activities and interests paid, respectively, on the consolidated statements of cash flows.

### **3. Business Risks**

#### (1) Economic situation in manufacturing countries

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

#### (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 foreign exchange forward contracts and other hedging devices to reduce the risk associated with exchange rate fluctuations, large fluctuations could affect the Group's operating results and financial position.

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

Senshukai and some subsidiaries handle personal information subject to Japan's Personal Information Protection Law. The Senshukai Group intends to strictly adhere to these laws, and has strengthened internal procedures for handling personal information.

However, in the unlikely event that personal information handled by the Senshukai Group leaks, this could damage public trust and the corporate image, leading to a significant and adverse impact on the Group's operating results and financial position.

#### (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 could 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 damage to Senshukai facilities and disruptions to order processing or shipments resulting from a major disaster could significantly and adversely affect the Group's operating results and financial position.

#### (5) Forward-looking statements

All forward-looking statements in the "Business Risks" section are based on the judgment of the Senshukai Group as of the presentation date (January 25, 2007) of this financial report for Fiscal 2006.

**Consolidated Financial Statements and Notes**

**Consolidated Financial Statements**

**(1) Consolidated Balance Sheets**

(Million yen)

Account	Period	Fiscal 2005 (As of Dec. 31, 2005)		Fiscal 2006 (As of Dec. 31, 2006)		Change
		Amount	%	Amount	%	
<b>Assets</b>						
<b>I Current assets</b>						
1. Cash and deposits		11,133		5,464		(5,668)
2. Notes and accounts receivable-trade		10,046		11,293		1,247
3. Marketable securities		187		85		(102)
4. Inventories		15,165		16,432		1,267
5. Deferred tax assets		380		100		(279)
6. Accounts receivable-other		6,929		7,835		905
7. Forward exchange contracts		1,385		1,444		58
8. Other		4,470		4,864		394
Allowance for doubtful accounts		(165)		(192)		(27)
Total current assets		49,532	53.4	47,328	49.6	(2,204)
<b>II Fixed assets</b>						
<b>1. Property and equipment</b>						
	*1					
(1) Buildings and structures	*3	11,173		10,492		(680)
(2) Machinery and vehicles		2,175		1,859		(315)
(3) Furniture and fixtures		770		793		22
(4) Land	*3,7	11,481		11,411		(70)
(5) Construction in progress		4		36		31
Total property and equipment		25,605	27.6	24,592	25.7	(1,012)
<b>2. Intangible assets</b>						
		1,475	1.6	2,600	2.7	1,125
<b>3. Investments and other assets</b>						
(1) Investment securities	*2,3	12,254		16,509		4,255
(2) Long-term loans receivable		750		1,102		351
(3) Guarantee deposits		1,258		1,304		46
(4) Deferred tax assets		-		55		55
(5) Other		2,579		2,660		81
Allowance for doubtful accounts		(666)		(645)		20
Total investments and other assets		16,175	17.4	20,987	22.0	4,811
Total fixed assets		43,256	46.6	48,180	50.4	4,924
<b>Total assets</b>		92,788	100.0	95,508	100.0	2,720

(Million yen)

Account	Period	Fiscal 2005 (As of Dec. 31, 2005)		Fiscal 2006 (As of Dec. 31, 2006)		Change
		Amount	%	Amount	%	
<b>Liabilities</b>						
<b>I Current liabilities</b>						
1. Notes and accounts payable-trade		10,986		11,710		723
2. Current portion of long-term debt	*3	124		53		(70)
3. Accounts payable-other		6,151		7,046		894
4. Accounts payable-factoring		14,923		14,990		67
5. Accrued expenses		1,950		1,908		(42)
6. Accrued income taxes		308		285		(22)
7. Accrued consumption taxes		305		181		(123)
8. Deferred tax liabilities		-		265		265
9. Liabilities for directors and corporate auditors' bonuses		-		49		49
10. Allowance for sales promotion expenses		686		276		(410)
11. Deferred hedge gains		1,112		-		(1,112)
12. Other		1,018		786		(232)
Total current liabilities		37,567	40.5	37,554	39.3	(12)
<b>II Long-term liabilities</b>						
1. Long-term debt	*3	393		342		(51)
2. Deferred tax liabilities		847		533		(313)
3. Deferred tax liabilities relating to land revaluation	*7	804		804		-
4. Liabilities for employees' retirement benefits		14		17		2
5. Liabilities for retirement benefits for directors and corporate auditors		599		497		(101)
6. Other		-		50		50
Total long-term liabilities		2,659	2.9	2,245	2.4	(413)
<b>Total liabilities</b>		40,226	43.4	39,800	41.7	(426)
<b>Minority interests</b>						
Minority interests		43	0.0	-	-	-
<b>Shareholders' equity</b>						
I Common stock	*4	20,359	21.9	-	-	-
II Capital surplus		20,657	22.3	-	-	-
III Retained earnings		18,438	19.9	-	-	-
IV Land revaluation difference	*7	(7,462)	(8.1)	-	-	-
V Net unrealized gains on available for sale securities		1,719	1.8	-	-	-
VI Foreign currency translation adjustments		(40)	(0.0)	-	-	-
VII Treasury stock	*5	(1,153)	(1.2)	-	-	-
<b>Total shareholders' equity</b>		52,519	56.6	-	-	-
<b>Total liabilities, minority interests and shareholders' equity</b>		92,788	100.0	-	-	-
<b>Net assets</b>						
<b>I Shareholders' equity</b>						
1. Common stock		-	-	20,359	21.3	-
2. Capital surplus		-	-	20,716	21.7	-
3. Retained earnings		-	-	20,889	21.9	-
4. Treasury stock		-	-	(1,041)	(1.1)	-
Total shareholders' equity		-	-	60,923	63.8	-
<b>II Valuation and translation adjustments</b>						
1. Net unrealized gains on available for sale securities		-	-	1,336	1.4	-
2. Deferred hedge gains (losses)		-	-	734	0.8	-
3. Land revaluation difference	*7	-	-	(7,301)	(7.7)	-
4. Foreign currency translation adjustments		-	-	(31)	(0.0)	-
Total valuation and translation adjustments		-	-	(5,261)	(5.5)	-
<b>III Minority interests</b>						
Minority interests		-	-	46	0.0	-
<b>Total net assets</b>		-	-	55,708	58.3	-
<b>Total liabilities and net assets</b>		-	-	95,508	100.0	-

**(2) Consolidated Statements of Income**

(Million yen)

Account	Period	Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)		Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)		Change
		Amount	%	Amount	%	
		<b>I Net sales</b>		145,453	100.0	
<b>II Cost of sales</b>	*1	75,173	51.7	75,727	51.1	553
<b>Gross profit</b>		70,279	48.3	72,423	48.9	2,143
<b>III Selling, general and administrative expenses</b>	*2	66,847	45.9	67,821	45.8	974
1. Packing and freight		10,292		10,586		
2. Sales promotion expenses		25,200		24,483		
3. Provision for allowance for sales promotion expenses		686		276		
4. Provision for allowance for doubtful accounts		9		194		
5. Bad debt loss		-		134		
6. Directors' and corporate auditors' remuneration		569		536		
7. Salaries		9,375		9,578		
8. Bonuses		1,673		1,471		
9. Provision for liabilities for directors and corporate auditors' bonuses		-		49		
10. Provision for liabilities for employees' retirement benefits		11		10		
11. Provision for liabilities for retirement benefits for directors and corporate auditors		301		2		
12. Depreciation expenses		1,799		1,612		
13. Others		16,926		18,881		
<b>Operating income</b>		3,432	2.4	4,602	3.1	1,169
<b>IV Other income</b>		686	0.4	773	0.5	87
1. Interest income		117		175		
2. Dividend income		45		69		
3. Foreign exchange gains	*5	135		120		
4. Equity in earnings of non-consolidated subsidiaries		167		193		
5. Gains on cancellation of insurance contracts		13		4		
6. Other		207		209		
<b>V Other expenses</b>		156	0.1	134	0.1	(21)
1. Interest expenses		44		48		
2. Losses on investment partnership management		-		16		
3. Other		111		70		
<b>Ordinary income</b>		3,962	2.7	5,240	3.5	1,278
<b>VI Extraordinary gains</b>		48	0.0	57	0.0	8
1. Gains on sales of fixed assets	*3	47		3		
2. Gains on sales of investment securities		1		54		
<b>VII Extraordinary losses</b>		2,251	1.5	1,422	0.9	(828)
1. Losses on sales and disposal of fixed assets	*4	243		110		
2. Provision for allowance for doubtful accounts		3		-		
3. Losses on write-down of investment securities		2		17		
4. Losses on sales of investments securities		-		0		
5. Establishment commemoration costs		114		-		
6. Losses on transfer of golf business	*6	26		-		
7. Losses on impairment loss	*7	1,860		128		
8. Losses on cancellation of contracts		-		415		
9. Losses on liquidation of subsidiaries	*8	-		328		
10. Losses on disposal of merchandise		-		270		
11. Losses on cancellation of insurance contracts		-		130		
12. Losses on cancellation of guarantee deposits		-		20		
<b>Income before income taxes and minority interests</b>		1,759	1.2	3,874	2.6	2,115
Income taxes		308	0.2	375	0.3	67
Deferred income taxes		181	0.1	(136)	(0.1)	(318)
Minority interests		1	0.0	7	0.0	6
<b>Net income</b>		1,267	0.9	3,627	2.4	2,360

**(3) Consolidated Statements of Capital Surplus and Retained Earnings, and Changes in Shareholders' Equity****Consolidated statements of capital surplus and retained earnings**

(Million yen)

Account	Period	Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)
<b>Capital surplus</b>		
I	Balance at beginning of year	19,866
II	Increase in capital surplus	791
	Gains on disposal of treasury stocks	791
III	Balance at end of year	20,657
<b>Retained earnings</b>		
I	Balance at beginning of year	19,372
II	Increase in retained earnings	1,267
	Net income	1,267
III	Decrease in retained earnings	2,201
	Cash dividends paid	700
	Bonuses to directors and corporate auditors	9
	Transfer of land revaluation difference	1,490
IV	Balance at end of year	18,438

## Consolidated statements of changes in shareholders' equity

Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of Dec. 31, 2005	20,359	20,657	18,438	(1,153)	58,302
Changes in the fiscal year					
Dividend of surplus (note)			(459)		(459)
Dividend of surplus			(460)		(460)
Bonuses to directors and corporate auditors (note)			(47)		(47)
Net income			3,627		3,627
Purchases of treasury stocks				(18)	(18)
Disposal of treasury stocks		58		129	188
Transfer of land revaluation difference			(161)		(161)
Decrease in retained earnings due to increase in the number of consolidated subsidiaries			(48)		(48)
Changes (net) in items other than shareholders' equity					
Total changes in the fiscal year	-	58	2,450	111	2,620
Balance as of Dec. 31, 2006	20,359	20,716	20,889	(1,041)	60,923

(Million yen)

	Valuation and translation adjustments					Minority interests	Total net assets
	Net unrealized gains on available for sale securities	Deferred hedge gains (losses)	Land revaluation difference	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of Dec. 31, 2005	1,719	-	(7,462)	(40)	(5,783)	43	52,562
Changes in the fiscal year							
Dividend of surplus (note)							(459)
Dividend of surplus							(460)
Bonuses to directors and corporate auditors (note)							(47)
Net income							3,627
Purchases of treasury stocks							(18)
Disposal of treasury stocks							188
Transfer of land revaluation difference							(161)
Decrease in retained earnings due to increase in the number of consolidated subsidiaries							(48)
Changes (net) in items other than shareholders' equity	(382)	734	161	9	522	3	525
Total changes in the fiscal year	(382)	734	161	9	522	3	3,146
Balance as of Dec. 31, 2006	1,336	734	(7,301)	(31)	(5,261)	46	55,708

Note: Appropriation of earnings resolved at the Annual General Meeting of Shareholders in March 2006.

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

(Million yen)

Account	Period	Fiscal 2005	Fiscal 2006	Change
		(Jan. 1, 2005 – Dec. 31, 2005)	(Jan. 1, 2006 – Dec. 31, 2006)	Amount
		Amount	Amount	Amount
<b>I Cash flows from operating activities</b>				
1. Income before income taxes and minority interests		1,759	3,874	2,115
2. Depreciation expenses		1,806	1,620	(185)
3. Losses on impairment loss		1,860	128	(1,731)
4. Losses on write-down of investment securities		2	17	15
5. Increase (decrease) in allowance for doubtful accounts		(64)	6	70
6. Increase (decrease) in liabilities for employees' retirement benefits		(44)	1	45
7. Decrease (increase) in allowance for sales promotion expenses		561	(410)	(972)
8. Interest and dividend income		(163)	(244)	(80)
9. Interest expenses		44	48	3
10. Equity in earnings of non-consolidated subsidiaries		(167)	(193)	(26)
11. Gains on sales of fixed assets		(47)	(3)	44
12. Losses on sales and disposal of fixed assets		243	110	(133)
13. Losses on transfer of golf business		26	-	(26)
14. Losses on cancellation of contracts		-	415	415
15. Losses on liquidation of subsidiaries		-	328	328
16. Losses on disposal of merchandise		-	270	270
17. Losses on cancellation of insurance contracts		-	130	130
18. Losses on cancellation of guarantee deposits		-	20	20
19. Increase in notes and accounts receivable		(347)	(1,221)	(874)
20. Increase in inventories		(1,192)	(1,524)	(332)
21. Increase (decrease) in other current assets		205	(2,013)	(2,218)
22. Increase in notes and accounts payable		716	703	(12)
23. Decrease (increase) in accrued consumption taxes		135	(127)	(262)
24. Decrease in deposits received		(1,374)	-	1,374
25. Decrease in other current liabilities		(630)	(146)	484
26. Directors' and corporate auditors' bonuses paid		(9)	(47)	(38)
27. Other		(449)	(243)	205
Subtotal		2,873	1,501	(1,371)
28. Interests and dividends received		162	246	84
29. Interests paid		(42)	(48)	(5)
30. Income taxes paid		(452)	(229)	223
Net cash provided by operating activities		2,539	1,470	(1,069)
<b>II Cash flows from investing activities</b>				
1. Purchases of property and equipment		(1,344)	(558)	785
2. Proceeds from sales of property and equipment		589	371	(217)
3. Purchases of intangible assets		(713)	(1,083)	(370)
4. Proceeds from sales of intangible assets		-	60	60
5. Purchases of investment securities		(5,140)	(5,323)	(182)
6. Proceeds from sales of investment securities		849	649	(200)
7. Increase (decrease) in time deposits		403	(500)	(903)
8. Other		270	(42)	(312)
Net cash used in investing activities		(5,086)	(6,426)	(1,340)
<b>III Cash flows from financing activities</b>				
1. Net increase in current portion of long-term debt		0	-	(0)
2. Proceeds from long-term debt		85	-	(85)
3. Repayments of long-term debt		(128)	(123)	5
4. Purchases of treasury stock		(21)	(18)	2
5. Proceeds from sales of treasury stock		3,394	188	(3,206)
6. Cash dividends paid		(700)	(919)	(218)
7. Cash dividends paid to minority interests		(5)	(2)	2
Net cash used in (provided by) financing activities		2,625	(875)	(3,500)
<b>IV Net decrease (increase) in cash and cash equivalents</b>		78	(5,831)	(5,910)
<b>V Cash and cash equivalents at beginning of year</b>		11,242	11,320	78
<b>VI Increase in cash and cash equivalents due to consolidation of subsidiary</b>		-	60	60
<b>VII Cash and cash equivalents at end of year</b>		11,320	5,549	(5,771)

## Significant Accounting Policies for the Preparation of Consolidated Financial Statements

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)
<p>1. Scope of consolidation</p> <p>(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>On September 1, 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 Ltd.</p> <p>Reason for exclusion from scope of consolidation The consolidated financial statements do not include the accounts of above mentioned non-consolidated subsidiaries since their total assets, net sales, net income/loss (equity earnings/loss) or retained earnings (equity in earnings) have no significant effect on the overall results of consolidated financial statements.</p> <p>2. Application of equity method</p> <p>(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 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 for not accounted for by the equity method The above-mentioned entities are not accounted for under the equity method since their net income/loss (equity earnings/loss) or retained earnings (equity in earnings) have no significant effect on the overall results of consolidated financial statements.</p> <p>3. Fiscal years for consolidated subsidiaries The fiscal years of all consolidated subsidiaries coincide with Senshukai's fiscal year.</p>	<p>1. Scope of consolidation</p> <p>(1) Number of consolidated subsidiaries: 9 Main consolidated subsidiaries: Senshukai General Services Co., Ltd. Senshu Logisuko Co., Ltd. Senshukai Call Center Co., Ltd.</p> <p>Senshukai Iihana Co., Ltd., a non-consolidated subsidiary in the previous fiscal year, was included in the scope of consolidation from the current fiscal year due to its increased importance. HBS Co., Ltd. was liquidated in December 2006. Belle Maison Service Center Co., Ltd. changed its name to Senshukai Service Hanbai Co., Ltd. effective September 1, 2006.</p> <p>(2) Number of non-consolidated subsidiaries: 12 Main non-consolidated subsidiaries: Senshukai Hong Kong Ltd.</p> <p>Reason for exclusion from scope of consolidation Same as on the left.</p> <p>2. Application of equity method</p> <p>(1) Number of non-consolidated subsidiaries accounted for by the equity method: 3 Main non-consolidated subsidiaries accounted for by the equity method: Same as on the left.</p> <p>(2) Main non-consolidated subsidiaries and affiliates not accounted for by the equity method Shanghai Senshu Merchant and Commerce Co., Ltd.,</p> <p>Reason for not accounted for by the equity method Same as on the left.</p> <p>3. Fiscal years for consolidated subsidiaries Same as on the left.</p>

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)
<p>4. Accounting standards</p> <p>(1) Valuation standards and accounting treatment for important asset</p> <p>1) Investment securities</p> <p>Available-for-sale 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</p> <p>Derivatives are stated at market value.</p> <p>3) Inventories</p> <p>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 (excluding attached structures) acquired after April 1, 1998.</p> <p>The range of useful lives is as follows:</p> <p>Buildings and structures: 38-50 years</p> <p>Machinery and vehicles: 12 years</p> <p>2) Intangible assets</p> <p>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</p> <p>1) Allowance for doubtful accounts</p> <p>The allowance for doubtful accounts provides for possible losses arising from default on accounts receivable. The allowance is made up of two components: the estimated credit loss for doubtful receivables based on an individual assessment of each account, and a general reserve calculated based on historical default rates.</p>	<p>4. Accounting standards</p> <p>(1) Valuation standards and accounting treatment for important asset</p> <p>1) Investment securities</p> <p>Available-for-sale 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 net assets. The cost of available-for sale securities sold is determined based on the moving-average method.</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> <p>2) Intangible assets</p> <p>Same as on the left.</p> <p>(3) Accounting for allowances</p> <p>1) Allowance for doubtful accounts</p> <p>Same as on the left.</p>

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)
<p>2) _____</p> <p>3) Liabilities for employees' retirement benefits Allowance for retirement benefits of certain consolidated subsidiaries are provided based on the retirement benefit obligations and plan assets at the balance sheet date. The retirement benefit obligations are calculated based on the compendium method.</p> <p>4) Liabilities for retirement benefits for directors and corporate auditors Retirement benefits to directors and corporate auditors of Senshukai and of certain consolidated subsidiaries, and Senshukai's executive officers are provided at the amount which would be required if all of them retired at the balance sheet date pursuant to the internal rules.</p> <p>5) Allowance for sales promotion expenses 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) 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 overseas equity-method affiliates 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>(5) Accounting for sales promotion expenses The Company 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 under current assets to better match expenses to earnings in each year.</p>	<p>2) Liabilities for directors and corporate auditors' bonuses Bonuses to directors and corporate auditors of Senshukai and consolidated subsidiaries are provided at the amount which would be required for future estimated bonus obligations.</p> <p>(Changes in accounting policy) Effective from the current fiscal year, the Company has adopted "Accounting Standard for Directors' Bonuses" (ASBJ Statement No. 4, November 29, 2005). The effect of this change was to decrease operating income, ordinary income and income before income taxes and minority interests by 49 million yen respectively. The impact on segment businesses can be found in applicable portions of this report.</p> <p>3) Liabilities for employees' retirement benefits Same as on the left.</p> <p>4) Liabilities for retirement benefits for directors and corporate auditors Same as on the left.</p> <p>5) Allowance for sales promotion expenses 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 overseas equity-method affiliates was translated into Japanese yen at the current exchange rate as of the balance sheet date except for net assets, which are translated at the historical rate.</p> <p>(5) Accounting for sales promotion expenses Same as on the left.</p>

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)
<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 1) Hedge accounting methods The deferred hedge accounting method is adopted.</p>	<p>(7) Accounting for hedging 1) Hedge accounting methods Same as on the left.</p>
<p>2) Hedging instruments/ hedged items Hedging instrument: foreign exchange forward contracts, currency swaps and currency options Hedged items: trade accounts payable denominated in foreign currencies</p>	<p>2) Hedging instruments/ hedged items Same as on the left.</p>
<p>3) Hedging policy Risks from fluctuation in foreign currency exchange and cash flows are hedged in accordance with internal policies.</p>	<p>3) Hedging policy Same as on the left.</p>
<p>4) Evaluation of hedging effectiveness 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>4) Evaluation of hedging effectiveness Same as on the left.</p>
<p>(8) Accounting for consumption taxes Financial statements are prepared exclusive of national and regional consumption taxes.</p>	<p>(8) Accounting for consumption taxes Same as on the left.</p>
<p>5. Valuation of consolidated subsidiaries' assets and liabilities The assets and liabilities of consolidated subsidiaries are evaluated using the fair value method.</p>	<p>5. Valuation of consolidated subsidiaries' assets and liabilities Same as on the left.</p>
<p>6. Amortization of goodwill Goodwill is amortized lump sum in the year in which it is recognized.</p>	<p>6. _____</p>
<p>7. Appropriations of retained earnings Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.</p>	<p>7. _____</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>8. Scope of cash and cash equivalents Same as on the left.</p>

**Changes in the Significant Accounting Policies for the Preparation of Consolidated Financial Statements**

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)
<p>Accounting for impairment of fixed assets: Effective from the current fiscal year, the Company has adopted “Statement of Opinion, Accounting Standard for Impairment of Fixed Assets” (Business Accounting Council, August 9, 2002) and “Guidance on Accounting Standards for Impairment of Fixed Assets” (ASBJ Guidance No. 6, Accounting Standards Board of Japan, October 31, 2003), which shall apply to financial statements for fiscal years ending on and after December 31, 2004.</p> <p>The effect of these changes was to decrease income before income taxes and minority interests by 1,860 million yen.</p> <p>The amounts of losses on impairment loss are directly deducted from the corresponding carrying amounts of assets, in accordance with the Revised Standards for the Preparation of Consolidated Financial Statements.</p> <p style="text-align: center;">—————</p>	<p style="text-align: center;">—————</p> <p>Accounting for presentation of net assets on balance sheet: Effective from the current fiscal year, the Company has adopted “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (ASBJ Statement No. 5, December 9, 2005) and “Guidance on Accounting Standards for Presentation of Net Assets in Balance Sheet” (ASBJ Guidance No. 8, December 9, 2005).</p> <p>Under the previous standard, the amount equivalent to total shareholders’ equity would be 54,927 million yen.</p> <p>Net assets in the consolidated balance sheets for the current fiscal year are presented based on the Revised Standards for the Preparation of Consolidated Financial Statements.</p>

## Reclassifications

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)
<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 Practical Guideline for Financial Products Accounting (Accounting Standards Committee Report No.14) 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 Exchange Law) are accounted for as investment securities from the current fiscal year.</p> <p>Investment in limited partnership associations included in investment securities in the current fiscal year was 187 million yen.</p> <p>“Accounts payable-factoring,” which was included in “Accounts payable-other” in the previous fiscal year, is shown as a separate line item in the current fiscal year, to clarify its contents. The amount of “Accounts payable-factoring” included in “Accounts payable-other” in the previous fiscal year was 16,030 million yen.</p> <p>“Forward exchange contract” 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 current fiscal year, to clarify its contents. The amount of “Forward exchange contracts” included in “Other” under “Current assets” in the previous fiscal year was 85 million yen.</p> <p>Consolidated cash flow statements:</p> <p>“Equity in earnings (losses) of non-consolidated 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 current fiscal year, to clarify its contents. The amount of “Equity in earnings (losses) of non-consolidated subsidiaries” included in “Other” under “Cash flows from operating activities” in the previous fiscal year was 17 million yen.</p>	<p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p>
<p>_____</p>	<p>Consolidated statements of income:</p> <p>“Losses on investment partnership management,” included in “Other” under “Other expenses” in previous fiscal year, is shown as a separate line item since the amount exceeded 10/100 of total other expenses.</p> <p>The amount of “Losses on investment partnership management” included in “Other” under “Other expenses” in the previous fiscal year was 7 million yen.</p>

**Supplemental Information**

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)
<p>External standard taxation in the corporate income taxation: Effective from the current fiscal year, the Company has adopted “Practical Guidance on Presentation of the Pro Forma Standard Tax Portion of the Enterprise Tax in the Income Statement” (ASBJ Practical Guidance No.12, February 13, 2004). Accordingly, the value-added tax portion and the pro forma standard tax portion of the enterprise tax are included in selling, general and administrative expenses. As an effect of this change, selling, general and administrative expenses increased by 123 million yen, and operating income, ordinary income and net income before income taxes and minority interests decreased by 123 million yen respectively.</p>	<p>—————</p>

## Notes to Consolidated Financial Statements

### Notes to Consolidated Balance Sheets

(Million yen)

Fiscal 2005 (As of Dec. 31, 2005)	Fiscal 2006 (As of Dec. 31, 2006)
*1. Accumulated depreciation on property and equipment 31,652	*1. Accumulated depreciation on property and equipment 32,083
*2. Shares of non-consolidated subsidiaries and affiliates Investment securities 202	*2. Shares of non-consolidated subsidiaries and affiliates Investment securities 1,332
*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	*3. Assets pledged as collateral (1) Collateral-backed assets Investment securities (book value) 1,357
(2) Collateral-backed liabilities Current portion of long-term debt 86 Long-term debt 274 <hr/> Total 361	(2) Collateral-backed liabilities Current portion of long-term debt 37 Long-term debt 238 <hr/> Total 276
*4. Number of shares outstanding Common stock 47,630,393 shares	*4. _____
*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	*5. _____
6. Contingent liabilities Guarantees of bank loans Employees' housing loans 50 Senshukai Hong Kong Ltd. 80 <hr/> Total 131	6. Contingent liabilities Guarantees of bank loans Employees' housing loans 43
*7. Land revaluation The Company 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" (revised on March 31, 1999). The result was included in shareholders' equity as gain or losses from revaluation of land, after deducting the deferred tax liabilities relating to land revaluation.  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. 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)	*7. Land revaluation The Company 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" (revised on March 31, 1999). The result was included in net assets as gain or losses from revaluation of land, after deducting the r deferred tax liabilities relating to land revaluation.  Method of revaluation by Clause 3, Article 3 of the law Same as on the left.  Date of revaluation March 31, 2000 Difference between market value on December 31, 2006 after revaluation of land and book value after revaluation (3,202)

**Notes to Consolidated Statements of Income**

(Million yen)

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)
*1. Among cost of sales, valuation losses using the lower of cost or market method were 45 million yen.	*1. Among cost of sales, valuation losses using the lower of cost or market method were 38 million yen.
*2. R&D expenses included in general and administrative expenses 669	*2. R&D expenses included in general and administrative expenses 673
*3. Gains on sales of fixed assets	*3. Gains on sales of fixed assets
Land Buildings and structures Machinery and vehicles Furniture and fixtures	Machinery and vehicles Furniture and fixtures
20 18 7 0	3 0
<u>        </u> Total 47	<u>        </u> Total 3
*4. Losses on sales and disposal of fixed assets	*4. Losses on sales and disposal of fixed assets
Losses on sales of land Losses on disposal of buildings and structures Losses on sales of buildings and structures Losses on sales of machinery and vehicles Losses on disposal of machinery and vehicles Losses on disposal of furniture and fixtures	Losses on sales of land and buildings Losses on disposal of buildings and structures Losses on disposal of machinery and vehicles Losses on disposal of furniture and fixtures Losses on disposal of intangible assets
87 41 2 2 97 12	41 5 46 14 1
<u>        </u> Total 243	<u>        </u> Total 110
*5. Foreign exchange gains 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 foreign exchange gains.	*5. _____
*6. Losses 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.	*6. _____

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)																				
<p>*7. Losses on impairment loss</p> <p>For the current fiscal year, the Senshukai Group posted losses on impairment loss on the following asset groups. The transfer of the golf course in Awara City, Fukui Prefecture was completed in December 2005.</p> <p style="text-align: right;">Million yen</p> <table border="1" data-bbox="151 421 783 658"> <thead> <tr> <th>Location</th> <th>Primary use</th> <th>Type</th> <th>Losses on 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 losses on impairment loss on the golf course was 1,730 million yen (including, land: 1,234 million yen; buildings: 180 million yen; other: 315 million yen). The impairment loss on idle land was 129 million yen (including, land: 121 million yen; other: 8 million yen).</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	Losses on impairment loss	Awara, Fukui Prefecture	Golf course	Land, buildings, other	1,730	Tokorozawa, Saitama Prefecture, other	Idle land	Land	129	<p>*7. Losses on impairment loss</p> <p>For the current fiscal year, the Senshukai Group posted losses on impairment loss on the following asset groups.</p> <p style="text-align: right;">Million yen</p> <table border="1" data-bbox="810 353 1445 535"> <thead> <tr> <th>Location</th> <th>Primary use</th> <th>Type</th> <th>Losses on impairment loss</th> </tr> </thead> <tbody> <tr> <td>Otaru, Hokkaido, other</td> <td>Business assets on stores</td> <td>Buildings and structures, other</td> <td>128</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 weak prospects for improved short-term performance due to worsening operating profitability. This markdown was posted as an impairment loss.</p> <p>The losses on impairment loss on buildings and structures was 15 million yen, furniture and fixtures was 4 million yen, and lease assets was 108 million yen.</p> <p>The recoverable amount was measured at its net selling price.</p>	Location	Primary use	Type	Losses on impairment loss	Otaru, Hokkaido, other	Business assets on stores	Buildings and structures, other	128
Location	Primary use	Type	Losses on impairment loss																		
Awara, Fukui Prefecture	Golf course	Land, buildings, other	1,730																		
Tokorozawa, Saitama Prefecture, other	Idle land	Land	129																		
Location	Primary use	Type	Losses on impairment loss																		
Otaru, Hokkaido, other	Business assets on stores	Buildings and structures, other	128																		
<p>*8. _____</p>	<p>*8. Losses on liquidation of subsidiaries</p> <p>There was a loss on closing Bellne USA, Inc.</p>																				

## Notes to Consolidated Statements of Changes in Shareholders' Equity

Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)

### 1. Type and number of outstanding shares and treasury stock

	Number of shares as of Dec. 31, 2005 (thousand shares)	Increase during the current fiscal year (thousand shares)	Decrease during the current fiscal year (thousand shares)	Number of shares as of Dec. 31, 2006 (thousand shares)
Outstanding shares				
Common stock	47,630	-	-	47,630
Total	47,630	-	-	47,630
Treasury stock				
Common stock (note)	1,728	13	193	1,548
Total	1,728	13	193	1,548

Note: Common shares of treasury stock increased by 13,000 shares due to the purchase of odd-lot shares.

Common shares of treasury stock decreased by 193,000 shares due to the transfer of odd-lot shares in response to purchase requests, and transfer of 193,000 shares upon exercise of stock options.

### 2. Dividends

#### (1) Dividend payment

Resolution	Type of share	Total amount of dividend (Million yen)	Dividend per share (Yen)	Record date	Effective date
Annual general meeting of shareholders on March 30, 2006	Common stock	459	10	December 31, 2005	March 31, 2006
Board of Directors meeting on July 27, 2006	Common stock	460	10	June 30, 2006	September 1, 2006

#### (2) Dividends with a record date in the current fiscal year but an effective date in the following fiscal year

Resolution	Type of share	Total amount of dividend (Million yen)	Resource for distribution	Dividend per share (Yen)	Record date	Effective date
Annual general meeting of shareholders on March 29, 2007	Common stock	460	Retained earnings	10	December 31, 2006	March 30, 2007

## Notes to Consolidated Statements of Cash Flows

(Million yen)

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)		Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)	
Reconciliation between balance sheet accounts and term-end balance of cash and cash equivalents (As of December 31, 2005)		Reconciliation between balance sheet accounts and term-end balance of cash and cash equivalents (As of December 31, 2006)	
Cash and deposits	11,133	Cash and deposits	5,464
Marketable securities	187	Marketable securities	85
Cash and cash equivalents	<u>11,320</u>	Cash and cash equivalents	<u>5,549</u>

## Segment Information

### 1. Business segments

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)

(Million yen)

	Mail-order business	Other businesses	Total	Elimination or corporate	Consolidated
I Net sales and operating income					
Net 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 expenses, losses on impairment loss and capital expenditures					
Total assets	90,698	3,327	94,025	(1,236)	92,788
Depreciation expenses	1,759	46	1,806	-	1,806
Losses on 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”.

Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)

(Million yen)

	Mail-order business	Other businesses	Total	Elimination or corporate	Consolidated
I Net sales and operating income					
Net sales					
(1) Sales to customers	142,081	6,068	148,150	-	148,150
(2) Inter-segment sales	793	709	1,503	(1,503)	-
Total	142,875	6,778	149,653	(1,503)	148,150
Operating expenses	138,267	6,771	145,038	(1,490)	143,548
Operating income	4,607	7	4,614	(12)	4,602
II Total assets, depreciation expenses, losses on impairment loss and capital expenditures					
Total assets	93,676	2,843	96,520	(1,011)	95,508
Depreciation expenses	1,557	62	1,620	-	1,620
Losses on impairment loss	-	128	128	-	128
Capital expenditures	2,039	140	2,179	-	2,179

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”.

4. Changes in accounting policy

Effective from the current fiscal year, the Company has adopted “Accounting Standard for Directors’ Bonuses” (ASBJ Statement No. 4, November 29, 2005).

The effect of this change was to decrease 46 million yen of mail-order business operating income and 3 million yen of other businesses operating income.

### 2. Geographical segment information

As there were no overseas consolidated subsidiaries or significant overseas branch offices for the fiscal years ended December 31, 2005 and 2006, 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, 2005 and 2006.

### Leasing Transactions

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

### Transactions with Related Parties

Not applicable.

### Deferred Tax Accounting

(Million yen)

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)
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
Tax loss carry forwards 1,162	Accrued bonuses 275
Sales promotion expenses 547	Sales promotion expenses 268
Accrued bonuses 294	Losses on liquidation of subsidiaries 128
Other 196	Other 244
Subtotal deferred tax assets 2,200	Subtotal deferred tax assets 915
Less valuation allowance 1,053	Less valuation allowance 19
Total deferred tax assets 1,147	Total deferred tax assets 896
	Less deferred tax liabilities (795)
	Net deferred tax assets 100
Deferred tax liabilities	Deferred tax liabilities
Sales promotion prepaid expenses 755	Sales promotion prepaid expenses 561
Other 11	Deferred hedge gains (losses) 497
Total deferred tax liabilities 766	Other 1
Net deferred tax assets 380	Total deferred tax liabilities 1,060
	Less deferred tax assets (795)
	Net deferred tax liabilities 265
(2) Non-current	(2) Non-current
Deferred tax assets	Deferred tax assets
Tax loss carry forwards 633	Allowance for doubtful accounts 256
Allowance for doubtful accounts 246	Tax loss carry forwards 240
Liabilities for retirement benefits for directors and corporate auditors 241	Liabilities for retirement benefits for directors and corporate auditors 200
Losses on write-down of investment securities 119	Losses on write-down of investment securities 120
Other 594	Depreciation and amortization in excess of tax limit 116
Subtotal deferred tax assets 1,835	Other 718
Less valuation allowance 1,365	Subtotal deferred tax assets 1,653
Total deferred tax assets 470	Less valuation allowance 998
	Total deferred tax assets 654
	Less deferred tax liabilities (599)
	Net deferred tax assets 55
Deferred tax liabilities	Deferred tax liabilities
Investment securities 1,239	Investment securities 1,054
Reserve for reduction of fixed assets 54	Reserve for reduction of fixed assets 51
Reserve for losses on overseas investments 23	Reserve for losses on overseas investments 26
Total deferred tax liabilities 1,317	Total deferred tax liabilities 1,132
Net deferred tax liabilities 847	Less deferred tax assets (599)
	Net deferred tax liabilities 533

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)		Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)	
2. Deferred tax liabilities relating to land revaluation		2. Deferred tax liabilities relating to land revaluation	
Deferred tax assets		Deferred tax assets	
Deferred tax assets relating to land revaluation	3,494	Deferred tax assets relating to land revaluation	3,429
Less valuation allowance	3,494	Less valuation allowance	3,429
Total deferred tax assets relating to land revaluation	-	Total deferred tax assets relating to land revaluation	-
Deferred tax liabilities		Deferred tax liabilities	
Deferred tax liabilities relating to land revaluation	804	Deferred tax liabilities relating to land revaluation	804
Net deferred tax liabilities relating to land revaluation	804	Net deferred tax liabilities relating to land revaluation	804
3. Significant components of difference between statutory and effective tax rates		3. Significant components of difference between statutory and effective tax rates	
Normal effective statutory tax rate	40.4%	Normal effective statutory tax rate	40.4%
Adjustments for:		Adjustments for:	
Non-deductible entertainment expenses	4.1%	Non-deductible entertainment expenses	1.9%
Non-taxable dividend income	(0.5)%	Non-taxable dividend income	(0.3)%
Per capita inhabitants' taxes	1.5%	Per capita inhabitants' taxes	0.8%
Equity in earnings (losses) of non-consolidated subsidiaries	(3.8)%	Equity in earnings (losses) of non-consolidated subsidiaries	(2.0)%
Change due to sales of revaluated land	(22.8)%	Change due to sales of revaluated land	(1.7)%
Tax on operating loss carry forwards	7.3%	Tax on operating loss carry forwards	(33.0)%
Losses on impairment loss	3.1%	Allowance for doubtful accounts	(0.3)%
Allowance for doubtful accounts	(0.1)%	Change in valuation allowance	0.4%
Change in valuation allowance	(1.7)%	Other	0.0%
Other	0.4%	Effective tax rate	6.2%
Effective tax rate	27.9%		

## **Investment Securities**

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)

1. Available-for-sale securities with fair value (As of Dec. 31, 2005) (Million yen)

	Acquisition cost	Carrying value	Difference
Securities with carrying value exceeding acquisition 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 carrying value not exceeding acquisition 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 acquisition costs are amounts that have been treated for impairment loss.  
The impairment loss totaled 2 million yen.

2. Available-for-sale securities sold during the fiscal year (Jan. 1, 2005 – Dec. 31, 2005) (Million yen)

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

3. Carrying value of available-for-sale securities whose fair value is not readily determinable (As of Dec. 31, 2005)

Available-for-sale securities

Unlisted stocks	1,876 million yen
MMF	187 million yen
Other	187 million yen

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

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

Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)

1. Available-for-sale securities with fair value (As of Dec. 31, 2006)

(Million yen)

	Acquisition cost	Carrying value	Difference
Securities with carrying value exceeding acquisition cost			
(1) Stocks	4,249	6,810	2,560
(2) Bonds			
Corporate bonds	-	-	-
Other	1,100	1,141	41
(3) Others	149	149	0
Subtotal	5,499	8,101	2,602
Securities with carrying value not exceeding acquisition cost			
(1) Stocks	625	583	(42)
(2) Bonds			
Corporate bonds	-	-	-
Other	3,250	3,099	(150)
(3) Others	401	373	(27)
Subtotal	4,277	4,057	(219)
Total	9,776	12,159	2,382

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

The impairment loss totaled 17 million yen.

2. Available-for-sale securities sold during the fiscal year (Jan. 1, 2006 – Dec. 31, 2006)

(Million yen)

Proceeds	Total gains on sales	Total losses on sales
649	54	0

3. Carrying value of available-for-sale securities whose fair value is not readily determinable (As of Dec. 31, 2006)

Available-for-sale securities

Unlisted stocks	2,849 million yen
MMF	85 million yen
Other	168 million yen

4. Projected future redemption of securities with maturities and debt securities held to maturity classified as available-for-sale securities (As of Dec. 31, 2006)

(Million yen)

	1 year or less	More than 1 year to 5 years	More than 5 to 10 years	More than 10 years
Bonds				
Corporate bonds	-	-	-	-
Other	-	-	-	4,350
Total	-	-	-	4,350

## **Derivative Transactions**

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

## **Retirement Benefits**

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 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 plan, while some other consolidated subsidiaries have become members of the Smaller Enterprise Retirement Allowance Mutual Aid System.

2. Retirement benefit obligations (As of Dec. 31, 2005)	(Million yen)
(1) Retirement benefit obligations	(85)
(2) Fair value of plan assets	70
(3) Unfunded benefit obligations	(14)
(4) Liabilities for employees' retirement benefits	(14)

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

3. Net periodic benefit costs (Jan. 1, 2005 – Dec. 31, 2005)	(Million yen)
(1) Service cost	11
(2) Other	101
(3) Net periodic benefit costs	113

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 retirement benefit obligations

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

Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)

### 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. and 3 other companies have adopted the pre-paid retirement benefit plan, and other consolidated subsidiary has adopted tax-qualified pension plans (some other consolidated subsidiaries have become members of the Smaller Enterprise Retirement Allowance Mutual Aid System).

2. Retirement benefit obligations (As of Dec. 31, 2006)	(Million yen)
(1) Retirement benefit obligations	(93)
(2) Fair value of plan assets	76
(3) Unfunded benefit obligations	(17)
(4) Liabilities for employees' retirement benefits	(17)

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

3. Net periodic benefit costs (Jan. 1, 2006 – Dec. 31, 2006)	(Million yen)
(1) Service cost	10
(2) Other	116
(3) Net periodic benefit costs	126

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 retirement benefit obligations

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

## Stock Options

Stock options have not been presented because they are disclosed via EDINET.

## Premise of a Going Concern

Not applicable.

## Per Share Information

(Yen)

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)		Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)	
Net assets per share	1,143.12	Net assets per share	1,207.89
Net income per share	27.44	Net income per share	78.81
Diluted net income per share	27.36	Diluted net income per share	78.55
(Supplemental information)			
Effective from the current fiscal year, the amount of deferred hedged gain/loss (after adjustment for taxes) is included in net assets associated with common stock on the balance sheet date due to the revision on January 31, 2006 of the “Implementation Guidance for Accounting Standard for Earnings Per Share” (ASBJ Guidance No.4).			
Net assets per share for the current fiscal year, if calculated by the method used for the financial statements for the previous fiscal year, would be 1,191.95 yen.			

Note: Basis for calculation of net income per share and diluted net income per share is as follows.

(Million yen)

	Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)
Net income per share		
Net income	1,267	3,627
Net income unavailable to common shareholders	47	-
[Including: appropriations for bonuses to directors and corporate auditors]	[47]	[-]
Net income related to common stock	1,219	3,627
Average number of shares of common stock outstanding during the fiscal year (thousand shares)	44,456	46,031
Diluted net income per share		
Adjustment to net income	-	-
Increase in number of common shares (thousand shares)	122	157
[Including: subscription rights (thousand shares)]	[122]	[157]
Number of latent shares with no dilution excluded from calculation of diluted net income per share	Stock options (subscription rights of 1,227 units) approved by resolution of Annual 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 yen)

Period	Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)		Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)		Change
	Amount	Share (%)	Amount	Share (%)	
Operating segment					
Mail-order business	139,391	95.8	142,081	95.9	2,690
Other businesses	6,062	4.2	6,068	4.1	6
Total	145,453	100.0	148,150	100.0	2,697

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

#### 2. Sales by type

(Million yen)

Period	Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)		Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)		Change
	Amount	Share (%)	Amount	Share (%)	
Operating segment					
Publications	536	0.4	875	0.6	338
Clothing	50,474	34.7	54,242	36.6	3,767
Household goods	54,710	37.6	56,023	37.8	1,312
Hobby and leisure interests goods	27,505	18.9	25,160	17.0	(2,344)
Other	12,225	8.4	11,848	8.0	(377)
Total	145,453	100.0	148,150	100.0	2,697

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



## Non-consolidated Financial Report for Fiscal 2006 (Ended December 31, 2006)

January 25, 2007

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

Stock Exchanges: Tokyo and Osaka

Stock code: 8165

Head Office: Osaka

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

Representative: Mr. Yasuhiro Yukimachi, President and Representative Director

Inquiries: Mr. Kazuhide Fujiyoshi, Director, General Affairs & IR Publications Dept., Financial Planning Div.

Tel: +81-6-6881-3100

Meeting of the Board of Directors for Approval of Financial Results: January 25, 2007

Commencement date of dividend payment: March 30, 2007

Annual General Meeting of Shareholders: March 29, 2007

Adoption of the Unit Share System: Yes (One tangen Unit: 1,000 shares)

### 1. Non-consolidated Financial Results for Fiscal 2006 (January 1, 2006 – December 31, 2006)

(1) Operating results (All amounts are rounded down to the nearest million yen)

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal 2006	146,917	2.0	3,714	38.0	4,419	25.1
Fiscal 2005	144,058	(0.6)	2,691	32.8	3,532	35.2

	Net income		Net income per share	Diluted net income per share	Return on equity	Ordinary income to total assets	Ordinary income to net sales
	Millions of yen	%	Yen	Yen	%	%	%
Fiscal 2006	3,142	97.3	68.27	68.04	5.8	4.8	3.0
Fiscal 2005	1,593	72.6	35.05	34.96	3.2	4.0	2.5

Notes: 1. Average number of shares of common stock outstanding during the fiscal year:

Fiscal 2006: 46,031,738 shares

Fiscal 2005: 44,456,231 shares

2. No changes were made to accounting principles applicable to the above figures.

3. Percentages for net sales, operating income, ordinary income and net income represent percentage changes from the corresponding period of the previous year.

### (2) Financial position

	Total assets		Net assets		Equity ratio	Net assets per share
	Millions of yen		Millions of yen		%	Yen
Fiscal 2006	93,073		54,638		58.7	1,185.68
Fiscal 2005	90,856		51,926		57.2	1,130.50

Notes: 1. Number of shares issued and outstanding at the end of period:

As of Dec. 31, 2006: 46,082,096 shares

As of Dec. 31, 2005: 45,901,707 shares

2. Treasury stock held:

As of Dec. 31, 2006: 1,548,297 shares

As of Dec. 31, 2005: 1,728,686 shares

### 2. Non-consolidated Outlook for the Fiscal Year Ending December 31, 2007 (Jan. 1, 2007 – Dec. 31, 2007)

	Net sales		Ordinary income		Net income	
	Millions of yen		Millions of yen		Millions of yen	
First half	76,000		3,500		2,000	
Full year	152,000		7,400		4,100	

Reference: Projected net income per share for the full year: 88.97 yen

### 3. Dividend Payments

Dividends by cash	Annual dividend per share (Yen)			Total dividend (Millions of yen)	Payout ratio (%)	Dividends/net assets (%)
	Interim	Year-end	Annual			
Fiscal 2005	8.00	10.00	18.00	823	51.4	1.6
Fiscal 2006	10.00	10.00	20.00	921	29.3	1.7
Fiscal 2007 (forecast)	13.00	14.00	27.00			

\* 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 6.

**Non-consolidated Financial Statements and Notes**

**Non-consolidated Financial Statements**

**(1) Non-consolidated Balance Sheets**

(Million yen)

Account	Period	Fiscal 2005 (As of Dec. 31, 2005)		Fiscal 2006 (As of Dec. 31, 2006)		Change
		Amount	%	Amount	%	
<b>Assets</b>						
<b>I Current assets</b>						
1. Cash and deposits		9,240		3,568		(5,671)
2. Notes receivable		3		4		0
3. Accounts receivable-trade	*3	9,910		11,153		1,243
4. Merchandise		14,999		16,293		1,293
5. Supplies		128		122		(6)
6. Advances		1,365		1,921		556
7. Prepaid expenses		2,444		2,415		(29)
8. Deferred tax assets		261		-		(261)
9. Short-term loans receivable-affiliate		304		151		(152)
10. Accounts receivable-other		6,990		7,767		776
11. Forward exchange contracts		1,385		1,444		58
12. Other		251		315		63
Allowance for doubtful accounts		(169)		(194)		(25)
Total current assets		47,115	51.9	44,962	48.3	(2,153)
<b>II Fixed assets</b>						
<b>1. Property and equipment</b>						
(1) Buildings	*1	10,521		9,891		(629)
(2) Structures		502		446		(56)
(3) Machinery and equipment		2,136		1,794		(342)
(4) Vehicles		11		8		(3)
(5) Furniture and fixtures		751		677		(74)
(6) Land	*7	11,330		11,259		(70)
(7) Construction in progress		3		36		32
Total property and equipment		25,257	27.8	24,113	25.9	(1,144)
<b>2. Intangible assets</b>						
(1) Leasehold rights		139		139		-
(2) Software		755		779		24
(3) Other		564		1,665		1,100
Total intangible assets		1,459	1.6	2,584	2.8	1,124
<b>3. Investments and other assets</b>						
(1) Investment securities	*2	11,270		14,392		3,122
(2) Affiliate stocks		2,013		2,990		977
(3) Long-term loans receivable		394		342		(52)
(4) Long-term loans receivable-employee		33		27		(5)
(5) Long-term loans receivable-affiliate		1,499		1,108		(391)
(6) Guarantee deposits		1,123		1,073		(50)
(7) Long-term prepaid expenses		197		183		(13)
(8) Reserve for directors insurance		1,136		832		(303)
(9) Other		935		1,381		445
Allowance for doubtful accounts		(1,581)		(919)		662
Total investments and other assets		17,023	18.7	21,413	23.0	4,390
Total fixed assets		43,740	48.1	48,111	51.7	4,370
<b>Total assets</b>		<b>90,856</b>	<b>100.0</b>	<b>93,073</b>	<b>100.0</b>	<b>2,217</b>

(Million yen)

Account	Period	Fiscal 2005 (As of Dec. 31, 2005)		Fiscal 2006 (As of Dec. 31, 2006)		Change
		Amount	%	Amount	%	
<b>Liabilities</b>						
<b>I Current liabilities</b>						
1. Notes payable		3,880		4,117		237
2. Accounts payable-trade	*3	7,092		7,565		473
3. Current portion of long-term debt	*2	124		53		(70)
4. Accounts payable-other		5,935		6,899		964
5. Accounts payable-factoring		14,923		14,990		67
6. Accrued expenses		1,277		1,164		(112)
7. Accrued income taxes		141		102		(39)
8. Accrued consumption taxes		198		97		(101)
9. Deposit received		251		234		(17)
10. Liabilities for directors and corporate auditors' bonuses		-		39		39
11. Allowance for sales promotion expenses		686		276		(410)
12. Deferred hedge gains		1,112		-		(1,112)
13. Deferred tax liabilities		-		284		284
14. Other		704		443		(261)
Total current liabilities		36,327	40.0	36,269	39.0	(58)
<b>II Long-term liabilities</b>						
1. Long-term debt	*2	393		342		(51)
2. Deferred tax liabilities		910		528		(382)
3. Deferred tax liabilities relating to land revaluation	*7	804		804		-
4. Liabilities for retirement benefits for directors and corporate auditors		494		441		(53)
5. Other		-		50		50
Total long-term liabilities		2,602	2.8	2,165	2.3	(436)
<b>Total liabilities</b>		38,929	42.8	38,435	41.3	(494)
<b>Shareholders' equity</b>						
<b>I Common stock</b>						
	*4	20,359	22.4	-	-	-
<b>II Capital surplus</b>						
1. Capital reserve		19,864		-		-
2. Other capital surplus						
Gains on disposal of treasury stocks		793		-		-
Total capital surplus		20,657	22.8	-	-	-
<b>III Retained earnings</b>						
1. Profit reserve		1,118		-		-
2. Voluntary reserve						
(1) Reserve for reduction of fixed assets		84		-		-
(2) Reserve for losses of overseas investment		46		-		-
(3) General reserve		13,600		-		-
3. Unappropriated retained earnings		2,931		-		-
Total retained earnings		17,780	19.6	-	-	-
<b>IV Land revaluation difference</b>	*7	(7,462)	(8.2)	-	-	-
<b>V Net unrealized gains on available for sale securities</b>	*8	1,744	1.9	-	-	-
<b>VI Treasury stock</b>	*5	(1,153)	(1.3)	-	-	-
<b>Total shareholders' equity</b>		51,926	57.2	-	-	-
<b>Total liabilities and shareholders' equity</b>		90,856	100.0	-	-	-

(Million yen)

Account	Period	Fiscal 2005 (As of Dec. 31, 2005)		Fiscal 2006 (As of Dec. 31, 2006)		Change
		Amount	%	Amount	%	
<b>Net assets</b>						
<b>I Shareholders' equity</b>						
1. Common stock		-	-	20,359	21.9	-
2. Capital surplus						
(1) Capital reserve		-		19,864		-
(2) Other capital surplus		-		852		-
Total capital surplus		-	-	20,716	22.2	-
3. Retained earnings						
(1) Profit reserve		-		1,118		-
(2) Other profit reserve						
Reserve for reduction of fixed assets		-		76		-
Reserve for losses of overseas investment		-		38		-
General reserve		-		13,600		-
Retained earnings carried forward		-		4,973		-
Total retained earnings		-	-	19,807	21.3	-
4. Treasury stock		-	-	(1,041)	(1.1)	-
Total shareholders' equity		-	-	59,841	64.3	-
<b>II Valuation and translation adjustments</b>						
1. Net unrealized gains on available for sale securities		-	-	1,364	1.5	-
2. Deferred hedge gains		-	-	734	0.8	-
3. Land revaluation difference	*7	-	-	(7,301)	(7.9)	-
Total valuation and translation adjustments		-	-	(5,202)	(5.6)	-
<b>Total net assets</b>		-	-	54,638	58.7	-
<b>Total liabilities and net assets</b>		-	-	93,073	100.0	-

**(2) Non-consolidated Statements of Income**

(Million yen)

Account	Period	Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)		Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)		Change
		Amount	%	Amount	%	
		<b>I Net sales</b>	144,058	100.0	146,917	
<b>II Cost of sales</b>	*1	75,571	52.5	76,243	51.9	671
<b>Gross profit</b>		68,486	47.5	70,673	48.1	2,186
<b>III Selling, general and administrative expenses</b>		65,794	45.6	66,959	45.6	1,164
1. Packing and freight		9,429		9,701		
2. Sales promotion expenses		25,631		24,927		
3. Sales commissions		1,609		1,773		
4. Provision for allowance for sales promotion expenses		686		276		
5. Provision for allowance for doubtful accounts		9		192		
6. Bad debt loss		-		132		
7. Directors' and corporate auditors' remuneration		263		253		
8. Salaries		5,465		5,378		
9. Bonuses		1,145		965		
10. Provision for liabilities for directors and corporate auditors' bonuses		-		39		
11. Provision for liabilities for retirement benefits for directors and corporate auditors		258		-		
12. Welfare expenses		1,029		1,118		
13. Rents		1,932		1,982		
14. R&D expenses	*2	694		723		
15. Commissions paid		10,965		13,021		
16. Depreciation expenses		1,752		1,552		
17. Other		4,920		4,919		
<b>Operating income</b>		2,691	1.9	3,714	2.5	1,022
<b>IV Other income</b>		976	0.7	818	0.6	(158)
1. Interest income		34		48		
2. Marketable securities interests		72		113		
3. Dividend income	*3	528		337		
4. Foreign exchange gains	*4	135		120		
5. Other		206		198		
<b>V Other expenses</b>		135	0.1	113	0.1	(22)
1. Interest expenses		44		48		
2. Losses on investment partnership management		-		16		
3. Other		91		48		
<b>Ordinary income</b>		3,532	2.5	4,419	3.0	886
<b>VI Extraordinary gains</b>		63	0.0	54	0.0	(9)
1. Gains on sales of fixed assets	*5	62		0		
2. Gains on sales of investment securities		1		54		
<b>VII Extraordinary losses</b>		1,762	1.2	1,404	0.9	(358)
1. Losses on sales and disposal of fixed assets	*6	209		107		
2. Provision for allowance for doubtful accounts		2		-		
3. Losses on write-down of investment securities		2		17		
4. Losses on sales of investments securities		-		0		
5. Establishment commemoration costs		114		-		
6. Losses on transfer of golf business	*7	39		-		
7. Losses on impairment loss	*8	1,394		128		
8. Losses on cancellation of contracts		-		415		
9. Losses on liquidation of subsidiaries	*9	-		328		
10. Losses on disposal of merchandise		-		255		
11. Losses on cancellation of insurance contracts		-		130		
12. Losses on cancellation of guarantee deposits		-		20		
<b>Income before income taxes</b>		1,833	1.3	3,069	2.1	1,235
Income taxes		18	0.0	74	0.1	55
Deferred income taxes		221	0.2	(147)	(0.1)	(369)
<b>Net income</b>		1,593	1.1	3,142	2.1	1,549
Retained earnings brought forward		3,194		-		-
Interim dividend		364		-		-
Transfer from unrealized losses on revaluation of land		1,490		-		-
Unappropriated retained earnings		2,931		-		-

**(3) Appropriation of Retained Earnings and Non-consolidated Statements of Changes in Shareholders' Equity****Appropriation of Retained Earnings**

(Million yen)

Account	Period	Fiscal 2005
I Unappropriated retained earnings		2,931
II Reversal of voluntary reserve		
1. Reversal of reserve for reduction of fixed assets		3
2. Reversal of reserve for losses of overseas investment		11
Total		2,947
III Appropriation of retained earnings		
1. Cash dividends		459
2. Bonuses to directors and corporate auditors [of which auditors' bonuses]		34 [4]
Total		493
IV Retained earnings carried forward		2,453

## Composition of dividend per share

(Yen)

Account	Period	Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)		
		Annual	Interim	Year-end
Common stock		18.00	8.00	10.00
Ordinary dividends		16.00	8.00	8.00
Commemorative dividends to celebrate 50th Founding Anniversary		2.00	-	2.00

**Non-consolidated statements of change in shareholders' equity**

Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)

(Million yen)

	Shareholders' equity			
	Common stock	Capital surplus		
		Capital reserve	Other capital surplus	Total capital surplus
Balance as of Dec. 31, 2005	20,359	19,864	793	20,657
Changes in the fiscal year				
Reversal of reserve for reduction of fixed assets (note)				
Reversal of reserve for losses of overseas investment (note)				
Reversal of reserve for reduction of fixed assets				
Provision for reserve for losses of overseas investment				
Reversal of reserve for losses of overseas investment				
Dividend of surplus (note)				
Dividend of surplus				
Bonuses to directors and corporate auditors (note)				
Net income				
Purchases of treasury stocks				
Disposal of treasury stocks			58	58
Transfer from unrealized losses on revaluation of land				
Changes (net) in items other than shareholders' equity				
Total changes in the fiscal year	-	-	58	58
Balance as of Dec. 31, 2006	20,359	19,864	852	20,716

	Shareholders' equity							
	Retained earnings						Treasury stock	Total shareholders' equity
	Profit reserve	Other profit reserve				Total retained earnings		
		Reserve for reduction of fixed assets	Reserve for losses of overseas investment	General reserve	Retained earnings carried forward			
Balance as of Dec. 31, 2005	1,118	84	46	13,600	2,931	17,780	(1,153)	57,644
Changes in the fiscal year								
Reversal of reserve for reduction of fixed assets (note)		(3)			3	-		-
Reversal of reserve for losses of overseas investment (note)			(11)		11	-		-
Reversal of reserve for reduction of fixed assets		(3)			3	-		-
Provision for reserve for losses of overseas investment			14		(14)	-		-
Reversal of reserve for losses of overseas investment			(10)		10	-		-
Dividend of surplus (note)					(459)	(459)		(459)
Dividend of surplus					(460)	(460)		(460)
Bonuses to directors and corporate auditors (note)					(34)	(34)		(34)
Net income					3,142	3,142		3,142
Purchases of treasury stocks							(18)	(18)
Disposal of treasury stocks							129	188
Transfer from unrealized losses on revaluation of land					(161)	(161)		(161)
Changes (net) in items other than shareholders' equity								
Total changes in the fiscal year	-	(7)	(7)	-	2,041	2,026	111	2,196
Balance as of Dec. 31, 2006	1,118	76	38	13,600	4,973	19,807	(1,041)	59,841

(Million yen)

	Valuation and translation adjustments				Total net assets
	Net unrealized gains on available for sale securities	Deferred hedge gains (losses)	Land revaluation difference	Total valuation and translation adjustments	
Balance as of Dec. 31, 2005	1,744	-	(7,462)	(5,718)	51,926
Changes in the fiscal year					
Reversal of reserve for reduction of fixed assets (note)					-
Reversal of reserve for losses of overseas investment (note)					-
Reversal of reserve for reduction of fixed assets					-
Provision for reserve for losses of overseas investment					-
Reversal of reserve for losses of overseas investment					-
Dividend of surplus (note)					(459)
Dividend of surplus					(460)
Bonuses to directors and corporate auditors (note)					(34)
Net income					3,142
Purchases of treasury stocks					(18)
Disposal of treasury stocks					188
Transfer from unrealized losses on revaluation of land					(161)
Changes (net) in items other than shareholders' equity	(380)	734	161	515	515
Total changes in the fiscal year	(380)	734	161	515	2,712
Balance as of Dec. 31, 2006	1,364	734	(7,301)	(5,202)	54,638

Note: Appropriation of earnings resolved at the Annual General Meeting of Shareholders in March 2006.

## **Significant Accounting Policies for the Preparation of Non-consolidated Financial Statements**

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)
<p>1. Valuation standards and accounting treatment for asset</p> <p>(1) Investment securities</p> <p>1) Subsidiaries and affiliates Subsidiaries and affiliates are stated at cost determined by the moving-average method.</p> <p>2) Available-for-sale securities 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 Derivatives are stated at market value.</p> <p>(3) Inventories Merchandise Merchandise are stated at the lower of cost, determined by the average method, or market.</p> <p>2. Method for depreciating and amortizing fixed assets</p> <p>(1) Property and equipment Depreciation is computed by the declining-balance method, but the straight-line method is applied to buildings (excluding attached structures) acquired after April 1, 1998.</p> <p>The range of useful lives is as follows: Buildings: 38-50 years Machinery and equipment: 12 years</p> <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</p> <p>(1) Allowance for doubtful accounts The allowance for doubtful accounts provides for possible losses arising from default on accounts receivable. The allowance is made up of two components: the estimated credit loss for doubtful receivables based on an individual assessment of each account, and a general reserve calculated based on historical default rates.</p>	<p>1. Valuation standards and accounting treatment for asset</p> <p>(1) Investment securities</p> <p>1) Subsidiaries and affiliates Same as on the left.</p> <p>2) Available-for-sale securities 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 net assets. The cost of available-for sale securities sold is determined based on the moving-average method.</p> <p>Same as on the left.</p> <p>(2) Derivatives Same as on the left.</p> <p>(3) Inventories Same as on the left.</p> <p>2. Method for depreciating and amortizing fixed assets</p> <p>(1) Property and equipment Same as on the left.</p> <p>(2) Intangible assets Same as on the left.</p> <p>3. Accounting for allowances</p> <p>(1) Allowance for doubtful accounts Same as on the left.</p>

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)
<p>2) _____</p> <p>(3) Liabilities for retirement benefits for directors and corporate auditors Retirement benefits to directors, corporate auditors and executive officers are provided at the amount which would be required if all of them retired at the balance sheet date pursuant to the internal rules.</p> <p>(4) Allowance for sales promotion expenses 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. 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.</p> <p>5. Accounting for sales promotion expenses The Company conducts a mail-order business, and among sales promotion expenses, catalog-related expenses corresponding to net sales in the next fiscal year is included in prepaid expenses.</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>7. Accounting for hedging (1) Hedge accounting methods The deferred hedge accounting method is adopted.</p> <p>(2) Hedging instruments/hedged items Hedging instrument: foreign exchange forward contracts, currency swaps and currency options Hedged items: trade accounts payable denominated in foreign currencies</p>	<p>2) Liabilities for directors and corporate auditors' bonuses Bonuses to directors and corporate auditors are provided at the amount which would be required for future estimated bonus obligations.</p> <p>(Changes in accounting policy) Effective from the current fiscal year, the Company has adopted "Accounting Standard for Directors' Bonuses" (ASBJ Statement No. 4, November 29, 2005). The effect of this change was to decrease operating income, ordinary income and income before income taxes by 39 million yen respectively.</p> <p>(3) Liabilities for retirement benefits for directors and corporate auditors Retirement benefits to directors, corporate auditors and executive officers are provided at the amount which would be required if all of them retired at the balance sheet date pursuant to the internal rules.</p> <p>(4) Allowance for sales promotion expenses Same as on the left.</p> <p>4. Conversion of credit and liabilities in foreign currencies to Japanese currency Same as on the left.</p> <p>5. Accounting for sales promotion expenses Same as on the left.</p> <p>6. Accounting for leases Same as on the left.</p> <p>7. Accounting for hedging (1) Hedge accounting methods Same as on the left.</p> <p>(2) Hedging instruments/hedged items Same as on the left.</p>

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)
<p>(3) Hedging policy Risks from fluctuation in foreign currency exchange and cash flows are hedged in accordance with internal policies.</p> <p>(4) Evaluation of hedging effectiveness 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 taxes Financial statements are prepared exclusive of national and regional consumption taxes.</p>	<p>(3) Hedging policy Same as on the left.</p> <p>(4) Evaluation of hedging effectiveness Same as on the left.</p> <p>8. Accounting for consumption taxes Same as on the left.</p>

### **Changes in Accounting Policy**

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)
<p>Accounting for impairment of fixed assets: Effective from the current fiscal year, the Company has adopted “Statement of Opinion, Accounting Standard for Impairment of Fixed Assets” (Business Accounting Council, August 9, 2002) and “Guidance on Accounting Standards for Impairment of Fixed Assets” (ASBJ Guidance No. 6, Accounting Standards Board of Japan, October 31, 2003), which shall apply to financial statements for fiscal years ending on and after December 31, 2004. The effect of these changes was to decrease income before income taxes by 1,394 million yen. The amounts of losses on impairment loss are directly deducted from the corresponding carrying amounts of assets, in accordance with the Revised Standards for the Preparation of Financial Statements.</p> <p style="text-align: center;">—————</p>	<p style="text-align: center;">—————</p> <p>Accounting for presentation of net assets on balance sheet: Effective from the current fiscal year, the Company has adopted “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (ASBJ Statement No. 5, December 9, 2005) and “Guidance on Accounting Standards for Presentation of Net Assets in Balance Sheet” (ASBJ Guidance No. 8, December 9, 2005). Under the previous standard, the amount equivalent to total shareholders’ equity would be 53,904 million yen. Net assets in the balance sheets for the current fiscal year are presented based on the Revised Standards for the Preparation of Financial Statements.</p>

## Reclassifications

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)
<p>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 Practical Guideline for Financial Products Accounting (Accounting Standards Committee Report No.14) 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 Exchange Law) are accounted for as investment securities from the current fiscal year. Investment in limited partnership associations included in investment securities in the current fiscal year was 187 million yen.</p> <p>“Accounts payable-factoring,” which was included in “Accounts payable-other” in the previous fiscal year, is shown as a separate line item in the current fiscal year, to clarify its contents. The amount of “Accounts payable-factoring” included in “Accounts payable-other” in the previous fiscal year was 16,030 million yen.</p>	<p>_____</p> <p>_____</p> <p>Statements of income:</p> <p>“Losses on investment partnership management,” included in “Other” under “Other expenses” in previous fiscal year, is shown as a separate line item since the amount exceeded 10/100 of total other expenses.</p> <p>The amount of “Losses on investment partnership management” included in “Other” under “Other expenses” in the previous fiscal year was 7 million yen.</p>

## Supplemental Information

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)
<p>External standard taxation in the corporate income taxation:</p> <p>Effective from the current fiscal year, the Company has adopted “Practical Guidance on Presentation of the Pro Forma Standard Tax Portion of the Enterprise Tax in the Income Statement” (ASBJ Practical Guidance No.12, February 13, 2004). Accordingly, the value-added tax portion and the pro forma standard tax portion of the enterprise tax are included in selling, general and administrative expenses.</p> <p>As an effect of this change, selling, general and administrative expenses increased by 121 million yen, and operating income, ordinary income and net income before income taxes decreased by 121 million yen respectively.</p>	<p>_____</p>

## Notes to Non-consolidated Financial Statements

### Notes to Non-consolidated Balance Sheets

(Million yen)

Fiscal 2005 (As of Dec. 31, 2005)	Fiscal 2006 (As of Dec. 31, 2006)
*1. Accumulated depreciation on property and equipment 31,241	*1. Accumulated depreciation on property and equipment 31,660
*2. Assets pledged as collateral	*2. Assets pledged as collateral
(1) Collateral-backed assets	(1) Collateral-backed assets
Investment securities (book value) 2,330	Investment securities (book value) 1,357
(2) Collateral-backed liabilities	(2) Collateral-backed liabilities
Current portion of long-term debt 86	Current portion of long-term debt 37
Long-term debt 274	Long-term debt 238
Total 361	Total 276
*3. Assets and liabilities applicable to affiliates	*3. Assets and liabilities applicable to affiliates
Assets and liabilities to affiliates as follows:	Assets and liabilities to affiliates as follows:
Accounts receivable 26	Accounts receivable 13
Accounts payable 4	Accounts payable 5
*4. Number of authorized and outstanding shares	*4. _____
Authorized shares: Common stock 180,000,000 shares	
Outstanding shares: Common stock 47,630,393 shares	
*5. Number of treasury stock	*5. _____
Common stock 1,728,686 shares	
6. Contingent liabilities	6. Contingent liabilities
Guarantees of bank loans	Guarantees of bank loans
Employees' housing loans 50	Employees' housing loans 43
Senshukai Hong Kong Co., Ltd. 80	
Total 131	
*7. Land revaluation	*7. Land revaluation
The Company 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" (revised on March 31, 1999). The result was included in shareholders' equity as gain or loss from revaluation of land, after deducting the deferred tax liabilities relating to land revaluation.	The Company 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" (revised on March 31, 1999). The result was included in net assets as gain or loss from revaluation of land, after deducting the deferred tax liabilities relating to land revaluation.
Method of revaluation by Clause 3, Article 3 of the law	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.	Same as on the left.
Date of revaluation March 31, 2000	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)	Difference between market value on December 31, 2006 after revaluation of land and book value after revaluation (3,202)

Fiscal 2005 (As of Dec. 31, 2005)	Fiscal 2006 (As of Dec. 31, 2006)
<p>*8. Dividend covenant Net assets increased 1,744 million yen after the mark to market revaluation. However, under Article 124-3 of the Commercial Code of Japan Enforcement Regulation, the unrealized gain on securities is not available for dividends payment.</p>	*8. _____

### Notes to Non-consolidated Statements of Income

(Million yen)

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)																										
<p>*1. Product inventory was booked following devaluation based on the lower-of-cost-or-market method, and the 45 million yen devaluation was included in cost of sales.</p>	<p>*1. Product inventory was booked following devaluation based on the lower-of-cost-or-market method, and the 38 million yen devaluation was included in cost of sales.</p>																										
<p>*2. R&amp;D expenses included in general and administrative expenses 694</p>	<p>*2. R&amp;D expenses included in general and administrative expenses 723</p>																										
<p>*3. The following accounts include transactions related to affiliates Dividend income 482</p>	<p>*3. The following accounts include transactions related to affiliates Dividend income 267</p>																										
<p>*4. Foreign exchange gains 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 foreign exchange gains.</p>	*4. _____																										
<p>*5. Gains on sales of fixed assets</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">Land</td> <td style="text-align: right;">43</td> </tr> <tr> <td style="padding-left: 20px;">Buildings</td> <td style="text-align: right;">18</td> </tr> <tr> <td style="padding-left: 20px;">Furniture and fixtures</td> <td style="text-align: right;">0</td> </tr> <tr> <td style="padding-left: 40px;">Total</td> <td style="text-align: right; border-top: 1px solid black;">62</td> </tr> </table>	Land	43	Buildings	18	Furniture and fixtures	0	Total	62	<p>*5. Gains on sales of fixed assets Furniture and fixtures 0</p>																		
Land	43																										
Buildings	18																										
Furniture and fixtures	0																										
Total	62																										
<p>*6. Losses on sales and disposal of fixed assets</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">Losses on sales of land</td> <td style="text-align: right;">81</td> </tr> <tr> <td style="padding-left: 20px;">Losses on disposal of buildings</td> <td style="text-align: right;">2</td> </tr> <tr> <td style="padding-left: 20px;">Losses on disposal of structures attached to the buildings</td> <td style="text-align: right;">9</td> </tr> <tr> <td style="padding-left: 20px;">Losses on disposal of structures</td> <td style="text-align: right;">6</td> </tr> <tr> <td style="padding-left: 20px;">Losses on disposal of machinery and equipment</td> <td style="text-align: right;">97</td> </tr> <tr> <td style="padding-left: 20px;">Losses on disposal of furniture and fixtures</td> <td style="text-align: right;">12</td> </tr> <tr> <td style="padding-left: 40px;">Total</td> <td style="text-align: right; border-top: 1px solid black;">209</td> </tr> </table>	Losses on sales of land	81	Losses on disposal of buildings	2	Losses on disposal of structures attached to the buildings	9	Losses on disposal of structures	6	Losses on disposal of machinery and equipment	97	Losses on disposal of furniture and fixtures	12	Total	209	<p>*6. Losses on sales and disposal of fixed assets</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">Losses on sales of land and buildings</td> <td style="text-align: right;">41</td> </tr> <tr> <td style="padding-left: 20px;">Losses on disposal of buildings</td> <td style="text-align: right;">2</td> </tr> <tr> <td style="padding-left: 20px;">Losses on disposal of structures attached to the buildings</td> <td style="text-align: right;">2</td> </tr> <tr> <td style="padding-left: 20px;">Losses on disposal of machinery and equipment</td> <td style="text-align: right;">46</td> </tr> <tr> <td style="padding-left: 20px;">Losses on disposal of furniture and fixtures</td> <td style="text-align: right;">14</td> </tr> <tr> <td style="padding-left: 40px;">Total</td> <td style="text-align: right; border-top: 1px solid black;">107</td> </tr> </table>	Losses on sales of land and buildings	41	Losses on disposal of buildings	2	Losses on disposal of structures attached to the buildings	2	Losses on disposal of machinery and equipment	46	Losses on disposal of furniture and fixtures	14	Total	107
Losses on sales of land	81																										
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Losses on disposal of furniture and fixtures	14																										
Total	107																										
<p>*7. Losses 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.</p>	*7. _____																										

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)				Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)																							
<p>*8. Losses on impairment loss For the current fiscal year, the Senshukai Group posted losses on impairment loss on the following asset groups. The sale of the leased facility for golf course in Awara City, Fukui Prefecture was completed in October 2005.</p> <p style="text-align: right;">Million yen</p> <table border="1"> <thead> <tr> <th>Location</th> <th>Primary use</th> <th>Type</th> <th>Losses on impairment loss</th> </tr> </thead> <tbody> <tr> <td>Awara, Fukui Prefecture</td> <td>Leased facility for golf course</td> <td>Investment land, investment structures, other</td> <td style="text-align: right;">1,264</td> </tr> <tr> <td>Tokorozawa, Saitama Prefecture, other</td> <td>Idle land</td> <td>Land</td> <td style="text-align: right;">129</td> </tr> </tbody> </table> <p>In principle, the grouping of assets is based on categories of management accounting. 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. The losses on impairment loss on the leased facility for golf course was 1,264 million yen (including, investment land: 1,234 million yen; other: 30 million yen). The impairment loss on idle land was 129 million yen (including, land: 121 million yen; other: 8 million yen). 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	Losses on impairment loss	Awara, Fukui Prefecture	Leased facility for golf course	Investment land, investment structures, other	1,264	Tokorozawa, Saitama Prefecture, other	Idle land	Land	129	<p>*8. Losses on impairment loss For the current fiscal year, the Senshukai Group posted losses on impairment loss on the following asset groups.</p> <p style="text-align: right;">Million yen</p> <table border="1"> <thead> <tr> <th>Location</th> <th>Primary use</th> <th>Type</th> <th>Losses on impairment loss</th> </tr> </thead> <tbody> <tr> <td>Otaru, Hokkaido, other</td> <td>Business assets on stores</td> <td>Buildings and structures, other</td> <td style="text-align: right;">128</td> </tr> </tbody> </table> <p>In principle, the grouping of assets is based on categories of management accounting. The book value of the above asset groups was marked down to the recoverable amount, reflecting a weak prospects for improved short-term performance due to worsening operating profitability. This markdown was posted as an impairment loss. The losses on impairment loss on buildings and structures was 15 million yen, furniture and fixtures was 4 million yen, and lease assets was 108 million yen. The recoverable amount was measured at its net selling price.</p>				Location	Primary use	Type	Losses on impairment loss	Otaru, Hokkaido, other	Business assets on stores	Buildings and structures, other	128
Location	Primary use	Type	Losses on impairment loss																								
Awara, Fukui Prefecture	Leased facility for golf course	Investment land, investment structures, other	1,264																								
Tokorozawa, Saitama Prefecture, other	Idle land	Land	129																								
Location	Primary use	Type	Losses on impairment loss																								
Otaru, Hokkaido, other	Business assets on stores	Buildings and structures, other	128																								
<p>*9. _____</p>				<p>*9. Losses on liquidation of subsidiaries There was a loss on closing Bellne USA, Inc.</p>																							

### Notes to Non-consolidated Statements of Changes in Shareholders' Equity

Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)

#### 1. Type and number of treasury stocks

	Number of shares as of Dec. 31, 2005 (thousand shares)	Increase during the current fiscal year (thousand shares)	Decrease during the current fiscal year (thousand shares)	Number of shares as of Dec. 31, 2006 (thousand shares)
Common stock (note)	1,728	13	193	1,548
Total	1,728	13	193	1,548

Note: Common shares of treasury stock increased by 13,000 shares due to the purchase of odd-lot shares.

Common shares of treasury stock decreased by 193,000 shares due to the transfer of odd-lot shares in response to purchase requests, and transfer of 193,000 shares upon exercise of stock options.

#### Leasing Transactions

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

#### Investment Securities

There were no market-value shares in subsidiaries or affiliates as of December 31, 2005 and December 31, 2006.

## Deferred Tax Accounting

(Million yen)

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)
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
Tax loss carry forwards 951	Sales promotion expenses 268
Sales promotion expenses 547	Accrued bonuses 191
Accrued bonuses 220	Losses on liquidation of subsidiaries 128
Other 127	Other 186
Subtotal deferred tax assets 1,847	Total deferred tax assets 774
Less valuation allowance 827	
Total deferred tax assets 1,019	
Deferred tax liabilities	Deferred tax liabilities
Sales promotion prepaid expenses 755	Sales promotion prepaid expenses 561
Other 3	Deferred hedge gains (losses) 497
Total deferred tax liabilities 758	Other 0
Net deferred tax assets 261	Total deferred tax liabilities 1,059
	Net deferred tax liabilities 284
(2) Non-current	(2) Non-current
Deferred tax assets	Deferred tax assets
Allowance for doubtful accounts 628	Allowance for doubtful accounts 365
Liabilities for retirement benefits for directors and corporate auditors 199	Liabilities for retirement benefits for directors and corporate auditors 178
Losses on write-down of investment securities 119	Losses on write-down of investment securities 120
Tax loss carry forwards 101	Depreciation and amortization in excess of tax limit 114
Other 530	Other 651
Subtotal deferred tax assets 1,579	Subtotal deferred tax assets 1,430
Less valuation allowance 1,178	Less valuation allowance 831
Total deferred tax assets 401	Total deferred tax assets 598
Deferred tax liabilities	Deferred tax liabilities
Investment securities 1,234	Investment securities 1,048
Reserve for reduction of fixed assets 54	Reserve for reduction of fixed assets 51
Reserve for losses on overseas investments 23	Reserve for losses on overseas investments 26
Total deferred tax liabilities 1,312	Total deferred tax liabilities 1,126
Net deferred tax liabilities 910	Net deferred tax liabilities 528
2. Deferred tax liabilities relating to land revaluation	2. Deferred tax liabilities relating to land revaluation
Deferred tax assets	Deferred tax assets
Deferred tax assets relating to land revaluation 3,494	Deferred tax assets relating to land revaluation 3,429
Less valuation allowance 3,494	Less valuation allowance 3,429
Total deferred tax assets relating to land revaluation -	Total deferred tax assets relating to land revaluation -
Deferred tax liabilities	Deferred tax liabilities
Deferred tax liabilities relating to land revaluation 804	Deferred tax liabilities relating to land revaluation 804
Net deferred tax liabilities relating to land revaluation 804	Net deferred tax liabilities relating to land revaluation 804

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)
3. Significant components of difference between statutory and effective tax rates	3. Significant components of difference between statutory and effective tax rates
Normal effective statutory tax rate	Normal effective statutory tax rate
40.4%	40.4%
Adjustments for:	Adjustments for:
Non-deductible entertainment expenses	Non-deductible entertainment expenses
3.6%	2.7%
Non-taxable dividend income	Non-taxable dividend income
(11.1)%	(4.0)%
Per capita inhabitants' taxes	Per capita inhabitants' taxes
1.0%	0.8%
Change due to sales of revaluated land	Change due to sales of revaluated land
(21.9)%	(2.1)%
Losses on impairment loss	Tax on operating loss carry forwards
2.7%	(30.3)%
Unrecognized tax effect of loss on write-down of investment securities	Allowance for doubtful accounts
(0.9)%	(8.7)%
Allowance for doubtful accounts	Change in valuation allowance
(0.1)%	(0.6)%
Change in valuation allowance	Other
(0.5)%	(0.6)%
Other	Effective tax rate
(0.1)%	(2.4)%
Effective tax rate	
13.1%	

**Premise of a Going Concern**

Not applicable.

**Per Share Information**

(Yen)

Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)		Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)	
Net assets per share	1,130.50	Net assets per share	1,185.68
Net income per share	35.05	Net income per share	68.27
Diluted net income per share	34.96	Diluted net income per share	68.04
		(Supplemental information)	
		Effective from the current fiscal year, the amount of deferred hedged gain/loss (after adjustment for taxes) is included in net assets associated with common stock on the balance sheet date due to the revision on January 31, 2006 of the “Implementation Guidance for Accounting Standard for Earnings Per Share” (ASBJ Guidance No.4).	
		Net assets per share for the current fiscal year, if calculated by the method used for the financial statements for the previous fiscal year, would be 1,169.74 yen.	

Note: Basis for calculation of net income per share and diluted net income per share is as follows.

(Million yen)

	Fiscal 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal 2006 (Jan. 1, 2006 – Dec. 31, 2006)
Net income per share		
Net income	1,593	3,142
Net income unavailable to common shareholders	34	-
[Including: appropriations for bonuses to directors and corporate auditors]	[34]	[-]
Net income related to common stock	1,558	3,142
Average number of shares of common stock outstanding during the fiscal year (thousand shares)	44,456	46,031
Diluted net income per share		
Adjustment to net income	-	-
Increase in number of common shares (thousand shares)	122	157
[Including: subscription rights (thousand shares)]	[122]	[157]
Number of latent shares with no dilution excluded from calculation of diluted net income per share	Stock options (subscription rights of 1,227 units) approved by resolution of Annual General Meeting of Shareholders on March 30, 2004	-

**Subsequent Events**

Not applicable.

**Changes in Members of Board of Directors (to be effective March 29, 2007)**

1. Corporate auditors

(1) Candidate for auditors

Yoshihiro Inoda, Full-time auditor (current president of Senshu Logisuko Co., Ltd.)

Shoji Tottori, Full-time auditor (current managing executive officer)

2) Retiring auditor

Makoto Sano, Full-time auditor

Hirotsugu Yamagishi, Full-time auditor

Heian Hazama, Auditor (part-time)

2. Executive officers

Retiring executive officer

Shoji Tottori, Managing executive officer

Akira Yoshida, Executive officer (current general manager of Gift Development Dept., President of Senshukai Iihana Co., Ltd.)

(Akira Yoshida will be appointed Adviser (part-time) of Senshukai Iihana Co., Ltd. effective March 29, 2007)

*\* This financial report is solely a translation of summary of "kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*