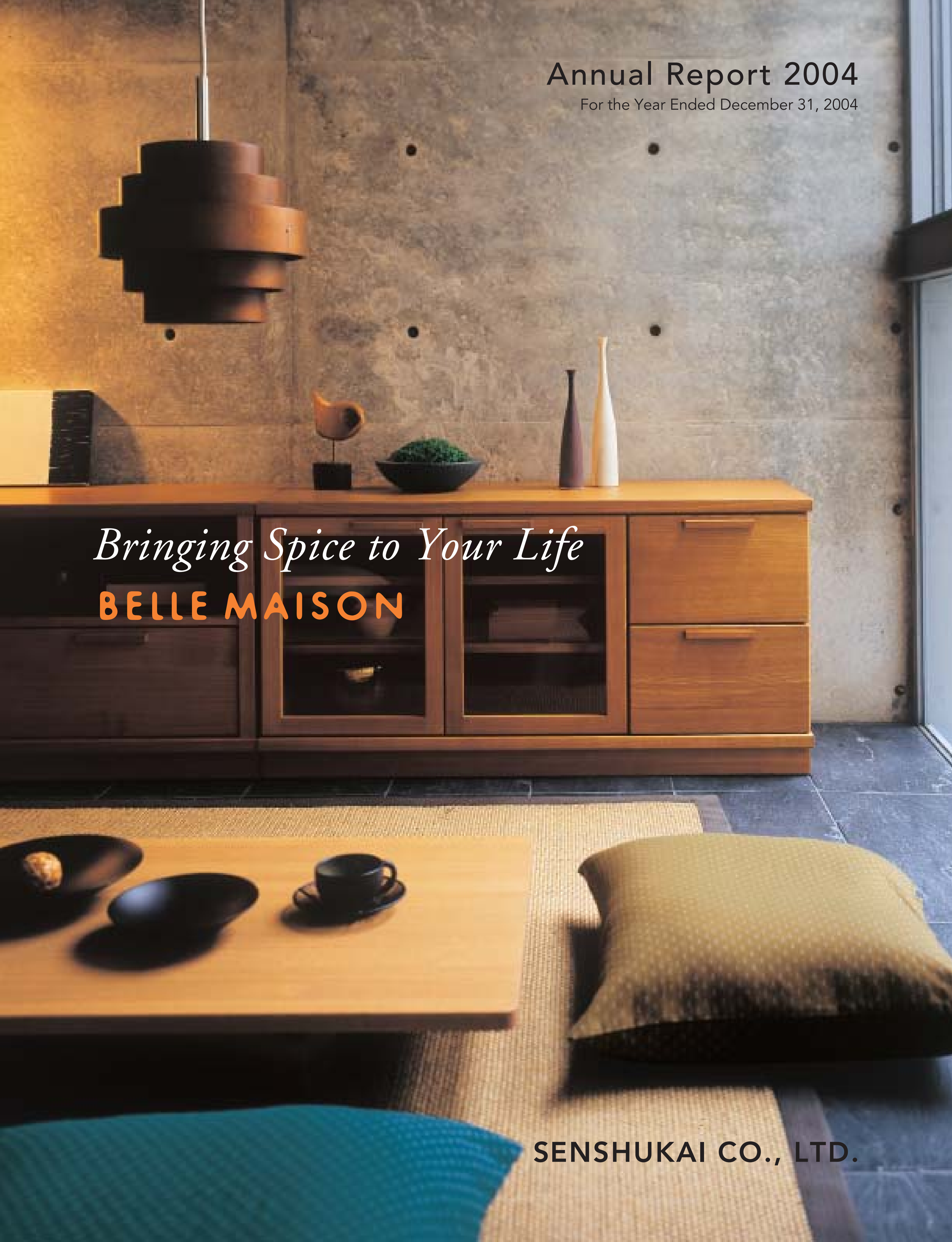
Annual Report 2004

For the Year Ended December 31, 2004



Bringing Spice to Your Life

BELLE MAISON

SENSHUKAI CO., LTD.

Profile

Established in 1955, Senshukai Co., Ltd., is one of Japan's leading direct marketing companies, and its history spans five decades of overall corporate growth. Utilizing its *hanpukai* business—sales and distribution activities centered on purchasing clubs that are formed at members' places of employment—the Company has been a pioneer in developing markets that are not based on retail stores. Senshukai's business is concentrated in two areas: the catalog and *hanpukai* businesses. The Company offers a broad selection of products ranging from fashion wear to home furnishings, household products, general goods, sportswear, publications, and items for infants and children. The *hanpukai* business provides Senshukai with a great deal of customer feedback and allows the Company to keep abreast of the latest trends. As a result, Senshukai has developed distinctively strong marketing capabilities that enable the Company to accurately meet its customers' needs. Reflecting the effectiveness of Senshukai's approach to maximizing customer satisfaction and confidence, the number of people served by its various marketing systems has surpassed 7.5 million.

Forecasts regarding the Company's plans and strategies contained in this publication were prepared based on information available at the time the forecasts were prepared. The Company's actual performance may differ from the forecasted figures due a range of factors.

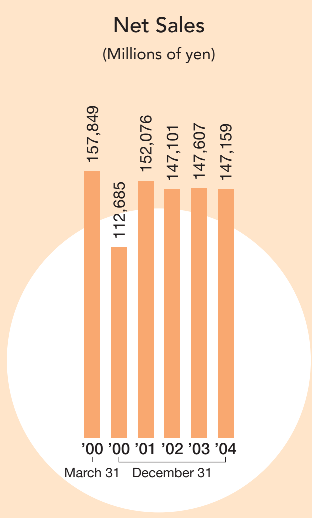
Contents

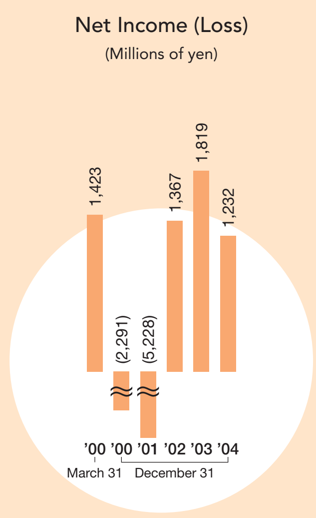
Consolidated Financial Highlights

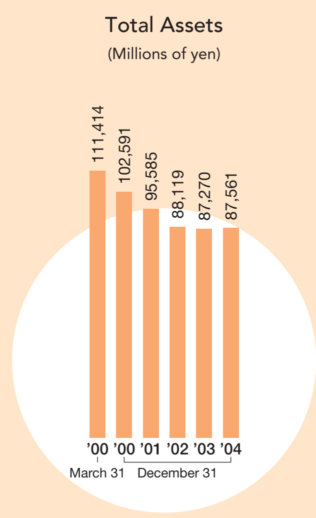
Senshukai Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
For the year:			
Net sales	**¥147,159**	¥147,607	**$1,428,728**
Net income	**1,232**	1,819	**11,961**
Capital expenditures	**499**	468	**4,845**
Depreciation and amortization	**2,289**	2,503	**22,223**
At year-end:			
Total assets	**87,561**	87,270	**850,107**
Total shareholders' equity	**47,136**	47,184	**457,630**
	Yen		U.S. dollars (Note 1)
Per share of common stock:			
Net income (Note 2)	**¥ 28.81**	¥ 40.81	**$ 0.28**
Diluted net income (Note 2)	**28.67**	40.69	**0.28**
Cash dividends	**16.00**	16.00	**0.16**

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥103=US$1.
2. Net income per share is computed based on the weighted average number of shares outstanding during the year.

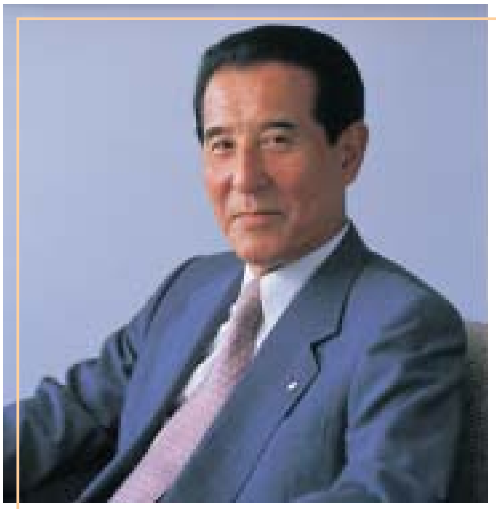






Note: Change in fiscal year: Following a resolution at the 55th Ordinary Shareholders' General Meeting held on June 29, 2000, Senshukai has implemented a change in its fiscal year. The Company's fiscal year previously ran from April 1 of each year to March 31 of the following year. We have now altered it to run from January 1 to December 31 each year. As a consequence of this change, the 56th fiscal year consists of the nine months from April 1, 2000 to December 31, 2000.

To Our Shareholders and Friends



Yasuhiro Yukimachi
President and
Representative Director

Performance

In fiscal 2004, ended December 31, 2004, although improved personal consumption indicated a trend toward recovery in the Japanese economy, there was a widespread sense of a slight slowdown. New sales in the mail-order sales industry exceeded those of the previous fiscal year; however, the increase was primarily attributable to growing Internet sales and B-to-B mail-order sales as well as advances made by health food and cosmetics companies. The market experienced increased intensity in price competition as well as consumer discrimination in products and services.

Against this backdrop, Senshukai Co., Ltd., and its Group companies worked to achieve the targets of its medium-term management plan during the plan's third and final year by advancing various measures. Despite these efforts, while net sales fell slightly short of the plan's target for fiscal 2004, net income and return on equity (ROE), which showed steady progress in fiscal 2002 and 2003, fell well below.

In the year under review, net sales slid 0.3% compared with the previous fiscal year, to ¥147.2 billion (US$1,428.7 million). Operating income plunged 42.2%, to ¥2.9 billion (US$28.4 million), largely because a considerable increase in media and advertising expenditures in the mail-order business did not expand membership enough to increase sales and recover the cost of the investment. Although exchange loss, net, fell from the previous fiscal year, income before income taxes and minority interests slid 14.6% from fiscal 2003, to ¥2.5 billion (US$24.6 million). As a result of the above-mentioned factors, net income fell 32.3%, to ¥1.2 billion (US$12.0 million), net income per share amounted to ¥28.81 (US$0.28), and ROE edged down 1.3 percentage points compared with the previous fiscal year, to 2.6%. Cash dividends were set at ¥16.00 (US$0.16) per share.

The Start of a New Medium-Term Management Plan

The Company has established a new medium-term management plan covering the three-year period ending December 31, 2007, to further its unique and visionary corporate structure. Please see the feature on pages 4 through 6 of this report for further details.

We are instituting the organizational changes outlined below to facilitate the success of this new plan.

- We will pursue total optimization, restructuring our business segment system into a function-based organization. This will establish a system that promotes supply-chain management.
- To further strengthen corporate governance, we will decrease the number of directors to accelerate management decision making. In addition, we will abolish the practice of allowing people to simultaneously hold posts as directors and executive officers so as to separate supervisory and operational functions. Moreover, we will establish a managing director for each segment and clarify the scope of supervisory roles and operations guidance.

Toward a Multichannel Catalog Theme Park

Japanese consumer sentiment remains sluggish, and the mail-order sales industry's operating environment is expected to continue to be difficult. In the current fiscal year, the Senshukai Group launched *Kurasu Fuku* as its mainstay apparel catalog in an effort to capture a wide range of customer groups and increase sales. Furthermore, we are promoting multichannel sales by expanding our Internet sales and developing storefront businesses.

In the current fiscal year, consolidated net sales are forecast to climb 1.9%, exceeding the previous year by approximately ¥2.8 billion, to ¥150.0 billion. Looking at profits, we expect to post operating income of ¥3.2 billion, and, due to the early application of asset impairment accounting, net income of ¥0.2 billion.

Senshukai's policy on returning profits to shareholders is to take into account the enhancement of IR activities and work toward quick and accurate disclosure. Under our dividend policy, we aim for an annual dividend ratio of 30%. We sincerely thank you for your continued support.

March 30, 2005

Yasuhiro Yukimachi

President and Representative Director

Medium-Term Management Plan for Fiscal 2005–Fiscal 2007

The Senshukai Group has established a new medium-term management plan that covers the three-year period ending December 31, 2007, to further its unique and visionary corporate structure. As a "lifestyle navigator," we are constructing a "catalog theme park" with a completely new multichannel structure that will inspire women of all ages to visit us again and again.

Basic Policies of the Medium-Term Management Plan

1 Higher Profitability for Core Businesses	In the catalog mail-order business (in particular, existing business areas in which our target customers are women in their mid-20s and 30s), we shall forgo sales expansion that is not feasible, focusing instead on higher profitability.
2 Aggressive Investment in Growth Areas	We shall aggressively pursue investment aimed at the expansion of certain customer age groups, focusing on customers in their 20s and 40s, and the expansion of our sales channels, primarily the Internet and storefront businesses.
3 Improved Brand Value	Under the slogan "Super thrilling, super exciting," we are aiming to create a *Belle Maison* that resonates in customers' hearts. In addition to revamping the *Belle Maison* logo, we shall create a work environment in which all employees can strive to improve Senshukai's brand value on a daily basis.

Medium-Term Management Plan Targets

(Billions of yen)	Fiscal 2004 Performance		Fiscal 2007 Targets
Net sales	147.2	Up 9%	160.0
Operating income	2.9	Up 176%	8.0
Net income	1.2	Up 282%	4.7
Operating cash flows	2.9	Up 235%	10.0
Operating income ratio	2.0%	Up 3.0 percentage points	5.0%
ROE	2.6%	Up 6.3 percentage points	8.9%

Seven Priority Strategies

Senshukai will promote the following seven priority strategies with an eye to achieving the targets laid out in its medium-term management plan.

Strategy 1: Promotion of Supply-Chain Management

By promoting supply-chain management (SCM), we aim to reduce costs.

- We will reduce purchase lead times, distribution costs, and inventories.
- We will expand imports (including direct importing) and reduce the cost of sales ratio.

Strategy 2: Reassessment of Catalog Positioning

We will reassess each catalog's positioning and create a guide to our catalogs that is easy for customers to understand.

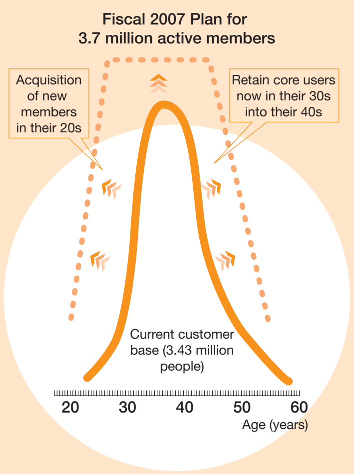
- By delivering the appropriate catalogs to customers, we will reduce the number of catalogs published, thereby reducing media expenses.

Strategy 3: Expansion of Customer Age Groups

We plan to expand our customer base, focusing on people in their 20s and 40s, and aim to have 3.7 million active members by fiscal 2007.

- We will enhance the *Petite Belle Maison* catalog, which targets customers in their 20s, and strengthen mobile content to increase membership among this age group by 70,000 customers.
- While maintaining our principal base of customers in their 30s, we will create a catalog aimed at customers in their 40s, with an aim to expand membership in that age group by 130,000 customers.

Expansion of Customer Base



Strategy 4: Promotion of Internet Sales

We aim to post Internet sales of ¥65.0 billion in fiscal 2007.

- We will reduce promotional expenses, media expenses, and other marketing costs by using the Internet to a greater extent.
- We will increase the proportion of Internet orders as a percentage of net sales, thereby reducing order costs.

Strategy 5: Development of Storefront Business

We will expand storefront sales and promote a shift to multichannel distribution.

- We will increase our number of shops to 30 by fiscal 2007.
- We will achieve profitability at every store, making the business profitable by fiscal 2007.
- We will nurture customer loyalty by offering products that are exclusive to our stores and catalogs.

Strategy 6: Stronger Development Capabilities

By strengthening our development capabilities, we aim to increase sales of each item by 20%, thus returning to peak levels.

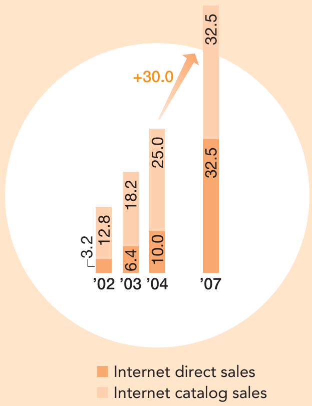
- Development personnel shall specialize in value-added operations. We shall reconstruct product planning and verification processes. Customer feedback will be integrated into the development process and our product lineup will be streamlined.

Strategy 7: Better Customer Service

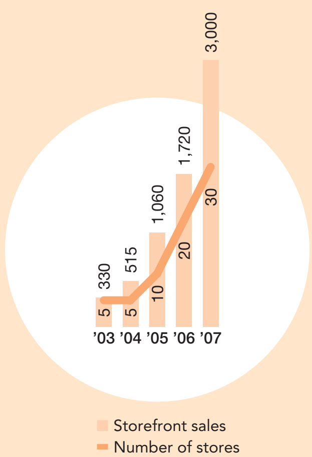
We will achieve strengthened targets, established by reassessing all contact points with customers, by fiscal 2007.

- We will reduce our response time for queries, increase delivery speed, diversify payment methods, and enhance gift options.

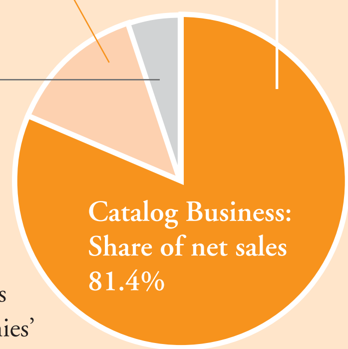
Internet Sales
(Billions of yen)



Storefront Sales and Number of Stores
(Millions of yen, number of stores)



Hanpukai Business:
Share of net sales
13.5%



Mail-Order Business
94.9%

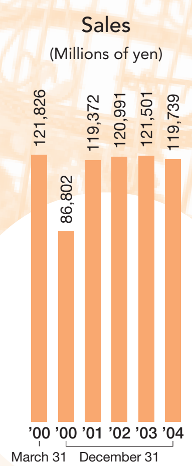
Consolidated sales in the mail-order business dipped 2.9%, to ¥139.6 billion (US$1,355.6 million). Due to an increase in the cost of sales ratio and a worsened variable ratio as well as an increase in selling, general and administrative expenses, operating income decreased considerably, to ¥3.0 billion (US$29.3 million), down 46.2% from the previous fiscal year.

Other Business
5.1%

In addition to our travel services, credit card and loan services, and sample business (the selling of customer data to other companies as well as the distribution of free product samples and follow-up questionnaires to those companies' target markets), this segment handles corporate business that provides transport services, storefront services, and other products and services to businesses. In the year under review, wholesale sales and contracting services conducted by the corporate business helped boost consolidated segment sales 96.0%, to ¥7.5 billion (US$73.1 million). This resulted in a ¥0.5 billion improvement in operating loss from the previous fiscal year, to ¥0.1 billion (US$1.2 million).

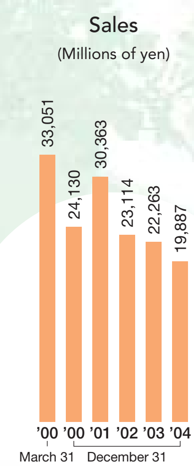
Catalog Business

The catalog business, which develops the *Belle Maison* brand, provides customers with new lifestyle ideas and offers original products via 15 different catalogs. With the motto "Good design sense, good functions, good quality, good price," this business offers a full lineup of products in a wide range of categories—from clothing, interior, and everyday novelty items to children's clothing—with fashion apparel at its core.



Hanpukai Business

The *hanpukai* business employs a unique purchasing club model whereby goods are delivered to either individual members or group members—mainly consisting of groups of working women—on a monthly basis. This business offers a lineup of various items (novelty goods and food products, in particular) that are highly collectible in addition to exceptionally original products that are not available in retail stores.



Note: As a part of an organizational change in fiscal 2003, some operations were transferred from the *hanpukai* business to the catalog business. Year-on-year data comparisons are based on standards after the transfer.

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Catalog Business

Activities and Review

Sales in the catalog business dipped 1.5% compared with the previous fiscal year, to ¥119.7 billion (US$1,162.5 million).

In the year under review, we developed mixed media advertising in the spring in an effort to acquire new members. Although this resulted in a considerable increase in requests for catalogs and improved Senshukai's name recognition, due to the fact that the commercials were image-driven and targeted a too-young audience, it did not translate into a rise in actual sales. The number of active customers rose by 80,000 people compared with the previous fiscal year; however, due to an increase in the number of returns stemming from the establishment of free shipping for returned items in order to improve customer service for trusted customers, average sales per customer decreased. Furthermore, sales from catalogs featuring household items and furniture, which traditionally have relatively high sales per order, fell—a significant contributor to the decrease in average sales per customer. Aggressive efforts to acquire new customers for our Internet sales site resulted in the number of *Belle Maison* Net members skyrocketing to 3,020,000 members, an increase of 890,000 from the previous fiscal year.

Outlook

Looking ahead, we will endeavor to boost profitability in this core business. We plan to promote the expansion of groups of customers in their 20s and 40s, expand sales channels by developing both our Internet and storefront businesses, and improve the brand value of *Belle Maison.* In fiscal 2005, we will revamp the mainstay clothing catalog *Kurasu Fuku* in an effort to capture a wider range of customers and increase sales.

Hanpukai Business

Activities and Review

In the year under review, *hanpukai* business sales fell 10.7% from the previous fiscal year, to ¥19.9 billion (US$193.1 million), and the average monthly membership slid 85,300, to 775,200, from the previous fiscal year.

During the year, we merged the catalogs aimed at offices and individuals and, with the new *Belle Maison* Monthly Club, responded to diversifying customer needs, thereby steadily increasing individual membership. However, this increase was not enough to compensate for the decrease in group membership, resulting in both lower sales and membership numbers compared with the previous fiscal year.

In September 2004, in an effort to reduce operating costs, we closed our sales bases and established the *Belle Maison* Service Center to handle customer service and area marketing functions. This change represents a fundamental switch to a mail-order business structure that will strengthen services.

Outlook

In response to a projected drop in group membership, we will work to strengthen our mail-order framework and retain customers.

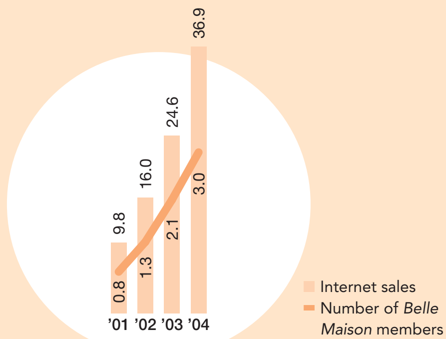
Major Topics during the Term

Belle Maison Membership Tops Three Million

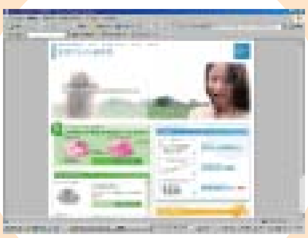
The number of *Belle Maison* members soared 41.8%, to 3,020,000 people, by the end of December 2004, and sales skyrocketed to ¥36.9 billion, a 50.0% increase compared with the previous year and four times the 2001 level. We maintained our top position in the Mail-Order Newspaper Survey and were awarded the Gold Lion Prize in the Japan Broadband Business Awards. We will aggressively develop promotions aimed toward achieving our fiscal 2005 targets of 4,000,000 members and net sales of ¥45.0 billion.

Web site address: http://www.bellne.com

Internet Sales and Number of *Belle Maison* Members
(Billions of yen, millions)



Belle Maison Lifestyle Research Institute Launches Web Site



Commemorating the 50th anniversary of Senshukai's founding, the Belle Maison Lifestyle Research Institute, established in May 2004, launched www.belle-style.com. For such publications as its *2004 White Paper on Working Women* and *50 Years of Women and Senshukai,* the Institute surveyed 7,000 of their "style monitors," women in their 20s through 40s. These surveys, measuring the affluence, happiness, and satisfaction of working women, are contributing to the development of women and society alike.

Launch of Internship and Chinese Language Training Program

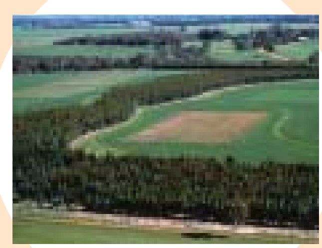
In cooperation with JTB Global Club Western Japan Inc. and the Japan Asia Culture Center Co., Ltd., in November 2004, we launched a Chinese language training program as part of the Shanghai Internship Program. Through this program, which was created to further employee development, employees learn Chinese while working at the Innovation order correction processing center in Shanghai. The Company will cover the training costs for the six employees who have been accepted as members of the first group to participate in the program.

Launch of *Petite Belle Maison* Catalog for Women in Their Early 20s

We launched *Petite Belle Maison* catalog in September 2004 to expand our base of customers in their early 20s. Taking "Mail-Order You Can Love" as its core concept, this "younger sister" of *Belle Maison* features an extensive lineup of fashion, cosmetics, lingerie, and novelty items. Both an online shop and a mobile phone site were launched to coincide with the catalog's debut. By enabling catalog orders from mobile phones, we are conducting promotions that reflect the lifestyles of younger women.

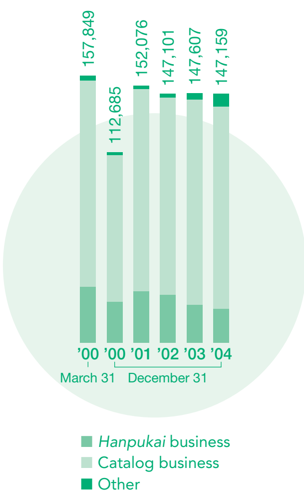
Australian Plantation Acquires International Forest Management Certification from the FSC

Aiming for self-sufficiency in our catalog materials, we entered the forestry business in 1993 in Albany, Australia. Eucalyptus chips from our forestland, which received certification from international agency Forest Stewardship Council (FSC) in December 2004, are processed in Australia and then sent to Japan for paper production. As paper is a necessity in the mail-order industry, Senshukai plans to continue its work to find solutions to environmental problems related to such crucial resources.

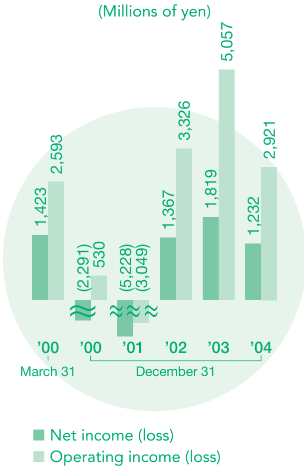


Financial Review

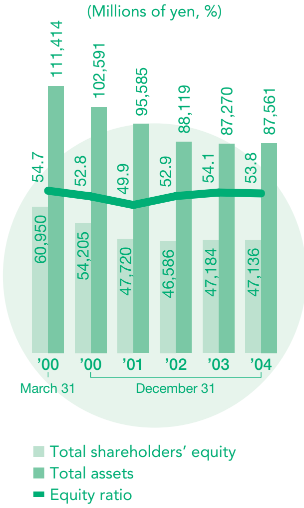
Sales by Category
(Millions of yen)



Net Income (Loss) and Operating Income (Loss)
(Millions of yen)



Total Shareholders' Equity, Total Assets, and Equity Ratio
(Millions of yen, %)



Overview

In fiscal 2004, ended December 31, 2004, the Senshukai Group saw a decline in sales in its mail-order business; however, this was countered by a sharp increase in sales in its B-to-B operations, which are included in the other businesses segment. As a result, consolidated net sales edged down 0.3% from the previous fiscal year, to ¥147.2 billion (US$1,428.7 million).

In terms of revenue, consolidated operating income amounted to ¥2.9 billion (US$28.4 million), down 42.2% from the previous fiscal year, reflecting a 0.4 percentage point increase in the cost of sales ratio, from 51.3% to 51.7%, as well as a ¥1.4 billion rise in selling, general and administrative (SG&A) expenses stemming from a ¥1.9 billion increase in sales promotion costs, to ¥25.8 billion (US$250.5 million). On the other hand, the Company recorded a decrease in exchange loss, net, from ¥0.9 billion to ¥51 million.

Despite the absence of the ¥0.5 billion extraordinary loss on abolishment of an approved retirement pension plan posted in the previous fiscal year and a marked decrease in the extraordinary losses associated with business restructuring, income before income taxes and minority interests was down 14.6%, to ¥2.5 billion (US$24.6 million), and the effective tax rate rose from 38.5% to 51.2%. As a result, net income amounted to ¥1.2 billion (US$12.0 million), down 32.3%. Although net income declined from ¥40.81 per share to ¥28.81 (US$0.28), shareholder dividends remained unchanged from the previous fiscal year at ¥16.00 (US$0.16) per share.

Sales by Business Segment

Mail-Order Business

Consolidated sales in the mail-order business—comprising the catalog and the *hanpukai* businesses—amounted to ¥139.6 billion (US$1,355.6 million), down 2.9% from fiscal 2003. Operating income fell 46.2%, to ¥3.0 billion (US$29.3 million), primarily as a result of a deterioration in the cost of sales ratio and a rise in SG&A expenses.

The breakdown of sales by category in this segment is as follows:

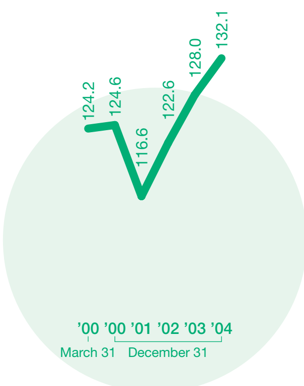
• Catalog Business

This business is the Company's flagship enterprise. Our 15 catalogs feature only Senshukai brand products and include various lifestyle tips and suggestions. Proactive advertising initiatives launched in the previous fiscal year paid off as the number of active customers rose 80,000 from fiscal 2003, to 347,000. Nevertheless, a decline in sales of furniture and other household items, which traditionally have relatively high sales per order, and the introduction of a free return shipping policy led to a decline in average sales per customer and a higher product return rate. As a result, sales for the year slipped 1.5%, to ¥119.7 billion (US$1,162.5 million).

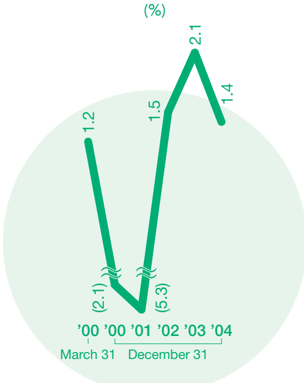
• *Hanpukai* Business

Sales for the year declined 10.7%, to ¥19.9 billion (US$193.1 million). Despite a steady climb in individual membership from 232,000 in fiscal 2003 to 246,000, overall membership continued to fall amid a substantial decline in group membership from 619,000 to 483,000. In September 2004, we closed our sales bases and established the *Belle Maison* Service Center, changing over to a mail-order business structure to lower costs and boost sales.

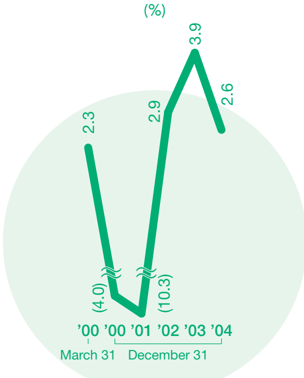
Current Ratio
(%)



Return on Average
Total Assets
(%)



Return on Average Total
Shareholders' Equity
(%)



• Other Businesses

This segment includes our travel services, credit card and loan services, distribution business, storefront business, and B-to-B operations. The consolidated sales of these businesses nearly doubled, soaring 96.0% from the previous fiscal year, to ¥7.5 billion (US$73.1 million). In addition, the consolidated operating loss for this segment fell from ¥0.6 billion in fiscal 2003 to ¥0.1 billion—a major improvement. These achievements are primarily attributable to a greater than threefold rise in sales in B-to-B operations spurred by rapid growth in wholesale sales and contracting services.

Financial Position

Total assets at the end of fiscal 2004 edged up ¥0.3 billion from the end of fiscal 2003, to ¥87.6 billion (US$850.1 million). Total current assets rose ¥2.0 billion due to increases in notes and accounts receivable, inventories, and marketable securities included under other assets that outweighed a decrease in cash and cash equivalents. Investments and other assets decreased slightly, to ¥10.7 billion (US$103.7 million), despite growth in investment securities, mainly due to a fall in deferred income taxes. Total property and equipment, however, was down ¥1.5 billion, to ¥28.2 billion (US$274.1 million), due to an increase in accumulated depreciation.

Total liabilities edged up ¥0.3 billion, to ¥40.4 billion (US$392.0 million), primarily reflecting increases in notes and accounts payable and other current liabilities. Total shareholders' equity came to ¥47.1 billion (US$457.6 million), down a minor ¥48 million, reflecting a ¥0.5 billion climb in retained earnings that partially countered a ¥0.7 billion rise in funds used for the acquisition of Company shares on the part of subsidiaries and affiliates. The shareholders' equity ratio remained high at 53.8%. In addition, interest-bearing debt fell, from ¥0.7 billion at the end of fiscal 2003 to ¥0.5 billion (US$5.0 million), and the debt-to-equity ratio fell 0.4 percentage point, from 1.5% at the end of fiscal 2003 to 1.1%. Overall, Senshukai continued to further bolster its solid financial position in fiscal 2004.

Cash Flows

On a consolidated basis, net cash provided by operating activities came to ¥3.0 billion (US$29.0 million), compared with ¥6.3 billion at the end of fiscal 2003, with inflows consisting mainly of income before income taxes and minority interests of ¥2.5 billion (US$24.6 million) and adjustments for depreciation and amortization amounting to ¥2.3 billion (US$22.2 million). Net cash used in investing activities amounted to ¥1.7 billion (US$16.8 million), compared with ¥1.2 billion at the end of fiscal 2003, principally due to ¥1.0 billion (US$10.1 million) in purchases of investment securities and ¥0.5 billion (US$4.9 million) in purchases of intangible assets. Net cash used in financing activities was ¥1.5 billion (US$14.7 million), compared with ¥1.8 billion at the end of fiscal 2003, and largely comprised ¥0.6 billion (US$6.3 million) for purchases of treasury stock, net, and ¥0.7 billion (US$6.6 million) for the payment of cash dividends to shareholders.

As a result, the net decrease in cash and cash equivalents was ¥0.3 billion (US$2.5 million), and cash and cash equivalents at the end of the fiscal year under review totaled ¥11.2 billion (US$109.1 million).

Consolidated Six-Year Summary

Senshukai Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2004, 2003, 2002 and 2001, the nine months ended December 31, 2000 and the year ended March 31, 2000

	Millions of yen						Thousands of U.S. dollars (Note 1)
	December 31, 2004	December 31, 2003	December 31, 2002	December 31, 2001	December 31, 2000 (Note 3)	March 31, 2000	**December 31, 2004**
For the year:							
Net sales	**¥147,159**	¥147,607	¥147,101	¥152,076	¥112,685	¥157,849	**$1,428,728**
Catalog business	**119,739**	121,501	120,991	119,372	86,802	121,826	**1,162,514**
Hanpukai business	**19,887**	22,263	23,114	30,363	24,130	33,051	**193,078**
Other	**7,533**	3,843	2,996	2,341	1,753	2,972	**73,136**
Operating income (loss)	**2,921**	5,057	3,326	(3,049)	530	2,593	**28,359**
Net income (loss)	**1,232**	1,819	1,367	(5,228)	(2,291)	1,423	**11,961**
Capital expenditures	**499**	468	1,038	215	767	701	**4,845**
Depreciation and amortization	**2,289**	2,503	2,704	3,019	2,454	3,239	**22,223**
At year-end:							
Total assets	**87,561**	87,270	88,119	95,585	102,591	111,414	**850,107**
Total property and equipment	**28,236**	29,706	31,661	33,399	35,686	37,020	**274,136**
Total shareholders' equity	**47,136**	47,184	46,586	47,720	54,205	60,950	**457,630**
Interest-bearing debt	**514**	710	872	1,130	1,732	3,296	**4,991**
	Yen						U.S. dollars (Note 1)
Per share of common stock:							
Net income (loss) (Note 2)	**¥ 28.81**	¥ 40.81	¥ 29.90	¥ (109.78)	¥ (48.11)	¥ 29.89	**$ 0.28**
Diluted net income (Note 2)	**28.67**	40.69	—	—	—	—	**0.28**
Cash dividends	**16.00**	16.00	8.00	8.00	12.00	16.00	**0.16**
Shareholders' equity	**1,122.20**	1,105.80	1,056.52	1,002.23	1,138.11	1,279.85	**10.90**
Common stock:							
No. of shares issued	**47,630,393**	47,630,393	47,630,393	47,630,393	47,630,393	47,630,393	
No. of shareholders (1,000 share units)	**4,184**	3,850	5,068	5,929	4,415	2,946	
No. of shareholders	**5,369**	4,950	6,158	7,081	5,570	4,107	

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥103=US$1.
2. Net income (loss) per share is computed based on the weighted average number of shares outstanding during the period.
3. Change in fiscal year: Following a resolution at the 55th Ordinary Shareholders' General Meeting held on June 29, 2000, Senshukai has implemented a change in its fiscal year. The Company's fiscal year previously ran from April 1 of each year to March 31 of the following year. We have now altered it to run from January 1 to December 31 each year. As a consequence of this change, the 56th fiscal year consists of the nine months from April 1, 2000 to December 31, 2000.

Consolidated Balance Sheets

Senshukai Co., Ltd. and Consolidated Subsidiaries
December 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2004**	2003	**2004**
Current assets:			
Cash and cash equivalents	**¥11,242**	¥11,502	**$109,146**
Notes and accounts receivable	**10,235**	9,656	**99,369**
Allowance for doubtful accounts	**(262)**	(473)	**(2,544)**
Inventories	**13,973**	12,818	**135,660**
Deferred income taxes (Note 5)	**391**	492	**3,796**
Other current assets	**13,066**	12,659	**126,854**
Total current assets	**48,645**	46,654	**472,281**
Investments and other assets:			
Investment securities (Notes 3 and 7)	**4,834**	4,321	**46,932**
Long-term loans receivable	**525**	565	**5,097**
Guarantee deposits	**1,164**	1,177	**11,301**
Intangible assets, net of amortization	**1,163**	1,502	**11,291**
Deferred income taxes (Note 5)	**293**	1,164	**2,845**
Other	**3,335**	2,572	**32,379**
Allowance for doubtful accounts	**(634)**	(391)	**(6,155)**
Total investments and other assets	**10,680**	10,910	**103,690**
Property and equipment:			
Land (Notes 7 and 9)	**12,320**	12,320	**119,612**
Buildings and structures (Note 7)	**29,334**	29,288	**284,796**
Machinery and equipment	**19,603**	19,592	**190,320**
	61,257	61,200	**594,728**
Less: accumulated depreciation	**(33,021)**	(31,494)	**(320,592)**
Total property and equipment	**28,236**	29,706	**274,136**
	¥87,561	¥87,270	**$850,107**

See the accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Current liabilities:			
Short-term loans (Note 6)	**¥ —**	¥ 10	**$ —**
Current portion of long-term debt (Notes 6 and 7)	**125**	232	**1,214**
Notes and accounts payable:			
Trade	**10,270**	13,984	**99,709**
Other	**21,651**	15,932	**210,204**
	31,921	29,916	**309,913**
Accrued liabilities	**1,940**	3,010	**18,835**
Accrued income taxes	**293**	229	**2,845**
Employees' retirement benefits (Note 8)	**—**	789	**—**
Other current liabilities	**2,536**	2,268	**24,621**
Total current liabilities	**36,815**	36,454	**357,428**
Long-term liabilities:			
Long-term debt (Notes 6 and 7)	**389**	468	**3,777**
Employees' retirement benefits (Note 8)	**59**	53	**573**
Retirement benefits for directors and corporate auditors	**845**	790	**8,204**
Deposits received	**1,374**	1,377	**13,340**
Deferred tax liabilities relating to revaluation of land (Note 9)	**896**	896	**8,699**
Total long-term liabilities	**3,563**	3,584	**34,593**
Minority interests	**47**	48	**456**
Shareholders' equity:			
Common stock, par value ¥50 per share:			
Authorized—90,000,000 shares			
Issued: 2004—47,630,393 shares	**20,359**	—	**197,660**
2003—47,630,393 shares	**—**	20,359	**—**
Capital surplus	**19,867**	19,864	**192,883**
Retained earnings	**19,372**	18,871	**188,078**
Unrealized losses on revaluation of land (Note 9)	**(8,911)**	(8,911)	**(86,515)**
Net unrealized gains on securities	**220**	125	**2,136**
Translation adjustments	**(36)**	(39)	**(350)**
Less: treasury stock, at cost:			
5,635,960 shares in 2004 and 4,960,697 shares in 2003	**(3,735)**	(3,085)	**(36,262)**
Total shareholders' equity	**47,136**	47,184	**457,630**
Contingent liabilities (Note 10)			
	¥87,561	¥87,270	**$850,107**

Consolidated Statements of Income

Senshukai Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Net sales	**¥147,159**	¥147,607	**$1,428,728**
Cost of sales	**76,116**	75,780	**738,990**
Gross profit	**71,043**	71,827	**689,738**
Selling, general and administrative expenses	**68,122**	66,770	**661,379**
Operating income	**2,921**	5,057	**28,359**
Other income (expenses):			
Interest and dividend income	**98**	59	**951**
Interest expenses	**(38)**	(40)	**(369)**
Loss on write-down of investment securities	**(44)**	(57)	**(427)**
Exchange loss, net	**(51)**	(948)	**(495)**
Early retirement expenses	**(483)**	(406)	**(4,689)**
Loss on abolishment of an approved retirement pension plan	**—**	(505)	**—**
Other, net	**128**	(198)	**1,243**
	(390)	(2,095)	**(3,786)**
Income before income taxes and minority interests	**2,531**	2,962	**24,573**
Income taxes (Note 5):			
Current	**453**	344	**4,398**
Deferred	**844**	796	**8,194**
Minority interests	**2**	3	**20**
Net income	**¥ 1,232**	¥ 1,819	**$ 11,961**

	Yen		U.S. dollars (Note 1)
Per share of common stock:			
Net income	**¥ 28.81**	¥ 40.81	**$ 0.28**
Diluted net income	**28.67**	40.69	**0.28**
Cash dividends	**16.00**	16.00	**0.16**

See the accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Senshukai Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Common stock:			
Balance at beginning of year	**¥20,359**	¥20,359	**$197,660**
Balance at end of year	**¥20,359**	¥20,359	**$197,660**
Capital surplus:			
Balance at beginning of year	**¥19,864**	¥19,864	**$192,854**
Profits on disposition of treasury stocks	**3**	—	**29**
Balance at end of year	**¥19,867**	¥19,864	**$192,883**
Retained earnings:			
Balance at beginning of year	**¥18,871**	¥17,802	**$183,214**
Net income	**1,232**	1,819	**11,961**
Cash dividends paid	**(682)**	(524)	**(6,621)**
Bonuses to directors and corporate auditors	**(49)**	(6)	**(476)**
Transfer from unrealized losses on revaluation of land	**—**	(220)	**—**
Balance at end of year	**¥19,372**	¥18,871	**$188,078**
Unrealized losses on revaluation of land:			
Balance at beginning of year	**¥ (8,911)**	¥ (9,160)	**$ (86,515)**
Transfer to retained earnings	**—**	220	**—**
Tax rate change	**—**	29	**—**
Balance at end of year	**¥ (8,911)**	¥ (8,911)	**$ (86,515)**
Net unrealized gains on securities:			
Balance at end of year	**¥ 220**	¥ 125	**$ 2,136**
Translation adjustments:			
Balance at end of year	**¥ (36)**	¥ (39)	**$ (350)**
Treasury stock, at cost:			
Balance at end of year	**¥ (3,735)**	¥ (3,085)	**$ (36,262)**

See the accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Senshukai Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 2,531**	¥ 2,962	**$ 24,573**
Adjustments for:			
Depreciation and amortization	**2,289**	2,503	**22,223**
Loss on write-down of investment securities	**44**	57	**427**
Provision for allowance for doubtful accounts	**32**	17	**311**
Decrease in employees' retirement benefits	**(783)**	(480)	**(7,602)**
Interest and dividend income	**(98)**	(59)	**(951)**
Interest expenses	**38**	40	**369**
(Increase) decrease in notes and accounts receivable	**(579)**	163	**(5,621)**
(Increase) decrease in inventories	**(1,155)**	2,119	**(11,214)**
Increase in other current assets	**(151)**	(615)	**(1,466)**
Increase (decrease) in notes and accounts payable	**2,005**	(1,680)	**19,466**
Decrease in accrued liabilities	**(1,070)**	(218)	**(10,388)**
Increase in other current liabilities	**1,063**	1,324	**10,320**
Other, net	**(793)**	586	**(7,699)**
Subtotal	**3,373**	6,719	**32,748**
Interest dividend income received	**77**	57	**748**
Interest expenses paid	**(37)**	(39)	**(359)**
Income taxes paid	**(424)**	(431)	**(4,117)**
Net cash provided by operating activities	**2,989**	6,306	**29,020**
Cash flows from investing activities:			
Purchases of property and equipment	**(167)**	(593)	**(1,621)**
Proceeds from sales of property and equipment	**3**	288	**29**
Purchases of intangible assets	**(507)**	(228)	**(4,922)**
Proceeds from sales of intangible assets	**—**	5	**—**
Purchases of investment securities	**(1,036)**	(806)	**(10,058)**
Proceeds from sales of investment securities	**198**	372	**1,922**
Decrease (increase) in long-term loans receivable, net	**40**	(447)	**388**
Other, net	**(266)**	196	**(2,583)**
Net cash used in investing activities	**(1,735)**	(1,213)	**(16,845)**
Cash flows from financing activities:			
Proceeds from long-term debt	**58**	—	**563**
Repayments of long-term debt	**(229)**	(94)	**(2,224)**
Purchases of treasury stock, net	**(648)**	(1,217)	**(6,291)**
Cash dividends paid	**(682)**	(523)	**(6,621)**
Other, net	**(13)**	7	**(126)**
Net cash used in financing activities	**(1,514)**	(1,827)	**(14,699)**
Net (decrease) increase in cash and cash equivalents	**(260)**	3,266	**(2,524)**
Cash and cash equivalents at beginning of year	**11,502**	8,236	**111,670**
Cash and cash equivalents at end of year	**¥11,242**	¥11,502	**$109,146**

See the accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Senshukai Co., Ltd. and Consolidated Subsidiaries

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Senshukai Co., Ltd. (the "Company") and its consolidated subsidiaries, all Japanese corporations, maintain their records and prepare their consolidated financial statements in Japanese yen.

The accompanying consolidated financial statements are based upon the consolidated financial statements that are prepared for Japanese domestic purposes in accordance with the provisions of the Securities and Exchange Law of Japan and accounting principles generally accepted in Japan and filed with the Minister of Finance of Japan and stock exchanges in Japan. Certain modifications have been made in the accompanying consolidated financial statements to facilitate understanding by readers outside Japan. Consolidated statements of shareholders' equity have been prepared as additional information.

No change has been made in the application of accounting policies.

For convenience only, U.S. dollar amounts presented in the accompanying consolidated financial statements have been translated from Japanese yen at the rate of ¥103=US$1, the approximate exchange rate prevailing on December 31, 2004.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidated Subsidiaries

The consolidated financial statements include the accounts of the Company and its significant subsidiaries.

Investments in significant unconsolidated subsidiaries and affiliated companies (20% to 50% owned) are accounted for by the equity method.

(b) Cash and Cash Equivalents

The Company and its consolidated subsidiaries consider all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(c) Allowance for Doubtful Receivables

The allowance for doubtful receivables is provided for in an amount sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to identified doubtful receivables, and an amount calculated on the Company's formula with respect to remaining receivables.

(d) Securities

Securities available for sale with fair value:

Stated at fair value based on market prices, etc., at the end of this fiscal year (both unrealized gains and losses are included in "Net unrealized gains on securities," a component of shareholders' equity; cost being determined by the moving-average method).

Securities with no market prices:

Stated at cost determined using the moving-average method.

(e) Derivatives and Hedge Accounting

Stated at fair value based on market prices at the end of the fiscal year.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company defers the recognition of gains or losses resulting from changes in the fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

(f) Inventories

Merchandise is stated at the lower of cost or market, cost being determined by the average method.

(g) Property and Equipment and Depreciation

Property and equipment is stated at cost. Depreciation is mainly computed using the declining-balance method for property and equipment, except for buildings acquired after April 1, 1998 which are depreciated using a straight-line method, at rates based on the estimated useful lives of the assets in accordance with the provisions of corporation income tax regulation.

The principal estimated useful lives are as follows:

Buildings and structures	38 to 50 years
Machinery and equipment	12 years

(h) Employees' Retirement Benefits

Employees' retirement benefits are provided by the deemed retirement obligations at the end of this period, based on the net amount of estimated retirement obligations less estimated plan assets at the end of the fiscal year.

(i) Retirement Benefits for Directors and Corporate Auditors

The Company provides lump-sum retirement benefits for directors, statutory auditors and executive officers. Such benefits, which are not funded, are accrued based on the Company's internal guidelines.

(j) Income Taxes

Deferred income taxes are recognized by using the assets and liabilities method. The assets and liabilities method is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(k) Net Income and Dividends per Share

Net income per share is computed based on the average number of common shares outstanding during each year.

Cash dividends per share shown for each year in the consolidated statements of income represent dividends approved by the shareholders and paid in the respective periods.

(l) Leases
In Japan, finance leases other than those that are deemed to transfer the ownership of the leased assets to the lessee are accounted for by a method similar to that applicable to ordinary operating leases.

(m) Research and Development
Research and development expenditures are charged to income when incurred.

(n) Reclassifications
Certain reclassifications of prior year financial statements have been made to conform with the current year's presentation.

3 MARKET VALUE INFORMATION

Investment securities at December 31, 2004 are summarized as follows:

1. Securities available for sale with fair value

	Millions of yen		
	Cost	Fair value (Carrying amount)	Net unrealized gains (losses)
Stocks	¥2,469	¥3,225	¥756
Bonds:			
Corporate bonds	530	532	2
Other bonds	1,200	986	(214)
Other	313	321	8
Total	¥4,512	¥5,064	¥552

	Thousands of U.S. dollars		
	Cost	Fair value (Carrying amount)	Net unrealized gains (losses)
Stocks	$23,971	$31,311	$7,340
Bonds:			
Corporate bonds	5,146	5,165	19
Other bonds	11,650	9,572	(2,078)
Other	3,039	3,117	78
Total	$43,806	$49,165	$5,359

2. Major contents and carrying amount of securities not practicable to fair value

	Carrying amount	
	Millions of yen	Thousands of U.S. dollars
Other securities:		
Unlisted stocks	¥317	$3,078

4 DERIVATIVES

To avoid the adverse effects of fluctuations in foreign currency exchange rates, the Company enters into foreign exchange forward contracts, foreign currency options and swaps. The Company utilizes these derivative transactions to ensure the risk inherent in its assets and liabilities is hedged effectively, and these transactions are not likely to have a major impact on the performance of the Company. In addition, derivative transactions are not entered into for speculative trading purposes under the policy of the Company.

In accordance with the Company's internal regulations on derivative transactions, the Accounting and Finance Department of the Company is responsible for managing the market and credit risks of these transactions, and this department manages position limits, credit limits and status of derivative transactions.

The Company had the following derivative transactions outstanding at December 31, 2004:

	Millions of yen		
	Contract amount	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts:			
Buying U.S. dollars	¥ 529	¥517	¥ (12)
Foreign currency options:			
Put options, sold:			
U.S. dollars	4,054		
(Premium)	(392)	158	234
Call options, bought:			
U.S. dollars	2,027		
(Premium)	(154)	22	(132)
Foreign currency swaps:			
Receiving U.S. dollars, paying Japanese yen	426	(4)	(4)

	Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts:			
Buying U.S. dollars	$ 5,136	$5,019	$ (117)
Foreign currency options:			
Put options, sold:			
U.S. dollars	39,359		
(Premium)	(3,806)	1,534	2,272
Call options, bought:			
U.S. dollars	19,680		
(Premium)	(1,495)	214	(1,282)
Foreign currency swaps:			
Receiving U.S. dollars, paying Japanese yen	4,136	(39)	(39)

Derivative transactions with hedge accounting applied are excluded in the above table.

5 INCOME TAXES

Deferred income taxes result from timing differences in the recognition of income and expenses for tax and financial statement purposes.

Deferred income taxes at December 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Current:			
Deferred tax assets:			
Accrued expenses	**¥ 606**	¥ 850	**$ 5,884**
Operating loss carryforward	**291**	—	**2,825**
Employees' retirement benefits	**—**	319	**—**
Other	**184**	89	**1,786**
Total deferred tax assets	**1,081**	1,258	**10,495**
Valuation allowance	**35**	17	**340**
Total deferred tax assets, net of valuation allowance	**¥1,046**	¥1,241	**$10,155**
Deferred tax liabilities:			
Prepaid expenses	**¥ 650**	¥ 749	**$ 6,311**
Other	**5**	0	**48**
Total deferred tax liabilities	**655**	749	**6,359**
Net deferred tax assets (liabilities)	**¥ 391**	¥ 492	**$ 3,796**
Noncurrent:			
Deferred tax assets:			
Retirement benefits for directors and corporate auditors	**¥ 341**	¥ 318	**$ 3,310**
Operating loss carryforward	**1,710**	2,375	**16,602**
Allowance for doubtful accounts	**268**	234	**2,602**
Other	**694**	597	**6,738**
Total deferred tax assets	**3,013**	3,524	**29,252**
Valuation allowance	**2,299**	2,056	**22,320**
Total deferred tax assets, net of valuation allowance	**¥ 714**	¥1,468	**$ 6,932**
Deferred tax liabilities:			
Investment securities	**¥ 332**	¥ 203	**$ 3,223**
Tax purpose reserves regulated by Japanese tax laws	**89**	101	**864**
Total deferred tax liabilities	**421**	304	**4,087**
Net deferred tax assets	**¥ 293**	¥1,164	**$ 2,845**

Operating loss carryforward is available to reduce future income taxes, if any.

Income taxes applicable to the Company and its consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The statutory tax rate for the years ended December 31, 2004 and 2003 was, in the aggregate, approximately 41.7%. The effective tax rates reflected in the consolidated statements of income for the years ended December 31, 2004 and 2003 differ from the above statutory tax rate for the following reasons:

	2004	2003
Statutory tax rate	**41.7%**	41.7%
Effect of:		
Non-deductible expenses	**2.1**	1.8
Non-taxable dividend income	**(0.2)**	(0.2)
Per capita portion of inhabitants' taxes	**1.4**	1.4
Equity in earnings of affiliates	**0.3**	2.0
Change of statutory tax rate	**(1.1)**	1.8
Tax loss carryforward	**4.9**	(7.5)
Other, net	**2.1**	(2.5)
Effective tax rate	**51.2%**	38.5%

On March 31, 2003, a local tax reform law was enacted in Japan which changed the effective statutory tax rate from approximately 41.7% to 40.4%, effective for the years beginning January 1, 2005.

6 SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans at December 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Loans from banks at interest rates of 0.6% to 1.1%:			
Unsecured	**¥—**	¥10	**$—**
	¥—	¥10	**$—**

Long-term debt at December 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Loans from banks and financial institutions at interest rates of 1.1% to 2.6%:			
Secured	**¥357**	¥472	**$3,466**
Unsecured	**157**	228	**1,524**
	514	700	**4,990**
Less: current portion	**(125)**	(232)	**(1,214)**
	¥389	¥468	**$3,777**

The annual maturities of long-term debt at December 31, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending December 31,		
2005 (current portion)	¥125	$1,214
2006	110	1,068
2007	47	456
2008 and thereafter	232	2,252
	¥514	$4,990

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that, under certain circumstances, security for future and present indebtedness must be given upon the request of the bank and that the bank shall have the right, as obligations become due or in the event of default in respect thereof, to offset cash deposits against such obligations due to the bank.

Each of the loan agreements grants the lender the right, under certain circumstances, to request the provision of security or additional security.

7 PLEDGED ASSETS

Assets pledged as collateral for the current portion of long-term debt and long-term debt at December 31, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 33	$ 320
Buildings and structures	52	505
Investment securities	1,548	15,029
	¥1,633	$15,854

8 EMPLOYEES' RETIREMENT BENEFITS

(a) Pension and Severance Plans

The Company and its consolidated subsidiaries both employ a defined contribution pension plan.

However, the Company has decided to eliminate its qualified pension plan for employees and offer the choice of either a defined contribution pension plan or an up-front retirement bonus.

(b) Benefit Obligation and Plan Assets

	Millions of yen	Thousands of U.S. dollars
Benefit obligation at end of year	¥123	$1,194
Fair value of plan assets at end of year	(64)	(621)
Net amount recognized in the consolidated balance sheets	¥ 59	$ 573

(c) Net Pension and Severance Costs

	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 59	$ 573
Other	71	689
Net periodic benefit cost	¥130	$1,262

9 REVALUATION OF LAND

On March 31, 2000, land owned by the Company was revalued under the Land Revaluation Law and unrealized losses resulting from the revaluation were debited directly to shareholders' equity as a negative revaluation surplus after offsetting the related deferred tax assets as stipulated by the law. The negative revaluation surplus will be credited to gain or loss to be incurred as part of the related land sold.

The difference between the revalued book value of land at March 31, 2000 and the estimated market value of land on December 31, 2004 amounts to ¥3,328 million (US$32,311 thousand), creating an unrealized loss position.

10 CONTINGENT LIABILITIES

Contingent liabilities at December 31, 2004 for guarantees of bank loans amounted to ¥148 million (US$1,437 thousand), including ¥67 million (US$650 thousand) for loans guaranteed on behalf of employees.

11 LEASES

Information on finance leases other than those that are deemed to transfer the ownership of the leased assets to the lessees for the years ended December 31, 2004 and 2003 were as follows:

Lessees

1) Acquisition cost, accumulated depreciation, and net book value at December 31, 2004 and 2003 were as follows:

	Millions of yen		
	2004		
	Equipment	Other	Total
Acquisition cost	**¥3,333**	**¥664**	**¥3,997**
Accumulated depreciation	**1,329**	**420**	**1,749**
Net book value	**¥2,004**	**¥244**	**¥2,248**

	Millions of yen		
	2003		
	Equipment	Other	Total
Acquisition cost	¥2,834	¥878	¥3,712
Accumulated depreciation	1,018	556	1,574
Net book value	¥1,816	¥322	¥2,138

	Thousands of U.S. dollars		
	2004		
	Equipment	Other	Total
Acquisition cost	**$32,359**	**$6,447**	**$38,806**
Accumulated depreciation	**12,903**	**4,078**	**16,981**
Net book value	**$19,456**	**$2,369**	**$21,825**

2) Future minimum lease payments under finance leases as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥ 795**	¥ 626	**$ 7,718**
Due after one year	**1,584**	1,622	**15,379**
Total	**¥2,379**	¥2,248	**$23,097**

3) Lease payments during the years ended December 31, 2004 and 2003 amounted to ¥834 million (US$8,097 thousand) and ¥816 million, respectively. Depreciation expenses for the years ended December 31, 2004 and 2003 were ¥851 million (US$8,262 thousand) and ¥840 million.

4) Computation of depreciation expenses

Depreciation expenses are computed using the straight-line method over a period up to the length of the relevant lease contracts with no residual value.

12 SEGMENT INFORMATION

(a) Business Segments

The Company and its consolidated subsidiaries operate in two business segments: a mail-order business and other businesses. The mail-order business includes the catalog business and the *hanpukai* business. Other businesses include the travel, credit card, loan services and sample businesses.

The information on business segments of the Company and its consolidated subsidiaries for the years ended December 31, 2004 and 2003 was as follows:

	Millions of yen				
	2004				
	Mail-order business	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income					
Sales to outside customers	**¥139,626**	**¥7,533**	**¥147,159**	**¥ —**	**¥147,159**
Intersegment sales	**105**	**760**	**865**	**(865)**	**—**
Total sales	**139,731**	**8,293**	**148,024**	**(865)**	**147,159**
Operating expenses	**136,713**	**8,416**	**145,129**	**(891)**	**144,238**
Operating income (loss)	**¥ 3,018**	**¥ (123)**	**¥ 2,895**	**¥ 26**	**¥ 2,921**
II. Assets, depreciation and capital expenditures					
Total assets	**¥ 82,381**	**¥5,867**	**¥ 88,248**	**¥(687)**	**¥ 87,561**
Depreciation and amortization	**2,224**	**65**	**2,289**	**—**	**2,289**
Capital expenditures	**467**	**32**	**499**	**—**	**499**

	Millions of yen				
	2003				
	Mail-order business	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income					
Sales to outside customers	¥143,764	¥3,843	¥147,607	¥ —	¥147,607
Intersegment sales	87	664	751	(751)	—
Total sales	143,851	4,507	148,358	(751)	147,607
Operating expenses	138,243	5,101	143,344	(794)	142,550
Operating income (loss)	¥ 5,608	¥ (594)	¥ 5,014	¥ 43	¥ 5,057
II. Assets, depreciation and capital expenditures					
Total assets	¥ 82,696	¥4,853	¥ 87,549	¥(279)	¥ 87,270
Depreciation and amortization	2,416	87	2,503	—	2,503
Capital expenditures	385	83	468	—	468

	Thousands of U.S. dollars				
	2004				
	Mail-order business	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income					
Sales to outside customers	**$1,355,592**	**$73,136**	**$1,428,728**	**$ —**	**$1,428,728**
Intersegment sales	**1,019**	**7,379**	**8,398**	**(8,398)**	**—**
Total sales	**1,356,611**	**80,515**	**1,437,126**	**(8,398)**	**1,428,728**
Operating expenses	**1,327,311**	**81,709**	**1,409,020**	**(8,651)**	**1,400,369**
Operating income (loss)	**$ 29,300**	**$ (1,194)**	**$ 28,106**	**$ 253**	**$ 28,359**
II. Assets, depreciation and capital expenditures					
Total assets	**$ 799,816**	**$56,961**	**$ 856,777**	**$(6,670)**	**$ 850,107**
Depreciation and amortization	**21,592**	**631**	**22,223**	**—**	**22,223**
Capital expenditures	**4,534**	**311**	**4,845**	**—**	**4,845**

(b) Geographical Segments

There are no consolidated subsidiaries located in countries or areas other than Japan.

(c) Overseas Sales

Overseas sales of the Company and its consolidated subsidiaries for the years ended December 31, 2004 and 2003 were less than 10% of consolidated net sales.

13 SUBSEQUENT EVENT

On March 30, 2005, the general meeting of shareholders approved the following appropriations of retained earnings:

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥336	$3,262
Bonuses paid to directors	9	87

Independent Auditors' Report

To the Board of Directors and Shareholders
Senshukai Co., Ltd.

We have audited the accompanying consolidated balance sheets of Senshukai Co., Ltd. and consolidated subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Senshukai Co., Ltd. and consolidated subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Shin Nihon & Co.

Osaka, Japan
March 30, 2005

Shin Nihon & Co.

See Note 1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of Senshukai Co., Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.

Board of Directors, Executive Officers, and Corporate Auditors

BOARD OF DIRECTORS

President and Representative Director
Yasuhiro Yukimachi

Executive Managing Directors
Kimitoshi Noguchi
Koichi Horii

Managing Directors
Kiichi Tagawa
Michio Tanabe
Shohachi Sawamoto

Directors
Kiyoshi Kubota
Kazuhide Fujiyoshi

EXECUTIVE OFFICERS

Managing Executive Officer
Shoji Tottori

Executive Officers
Akira Yoshida
Kojiro Oyama
Yasuhiro Otsuka
Manabu Dojo
Kenji Hirota
Shigemitsu Mineoka
Mamoru Asada
Yoshihiro Nakabayashi

CORPORATE AUDITORS

Makoto Sano
Hirotsugu Yamagishi
Heian Hazama
Hideyuki Koizumi

(As of March 30, 2005)

Corporate Data

Senshukai Co., Ltd.

CORPORATE INFORMATION

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Established
November 1955

Paid-in Capital
¥20,359,134,244

Number of Employees
915

Distribution Centers
Kanuma, Chubu, Kyoto, and Koshien

Subsidiaries and Affiliates
Japan—16 subsidiaries
Overseas—6 subsidiaries and 2 affiliates

SHAREHOLDER INFORMATION

Total Number of Shares Authorized
90,000,000 shares

Total Number of Shares Issued
47,630,393 shares

Number of Shareholders
5,369

Stock and Securities Exchange Listings
Tokyo and Osaka

Transfer Agent
The Sumitomo Trust & Banking Co., Ltd.,
5-33, Kitahama 4-chome,
Chuo-ku, Osaka 541-0041, Japan

(As of December 31, 2004)

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