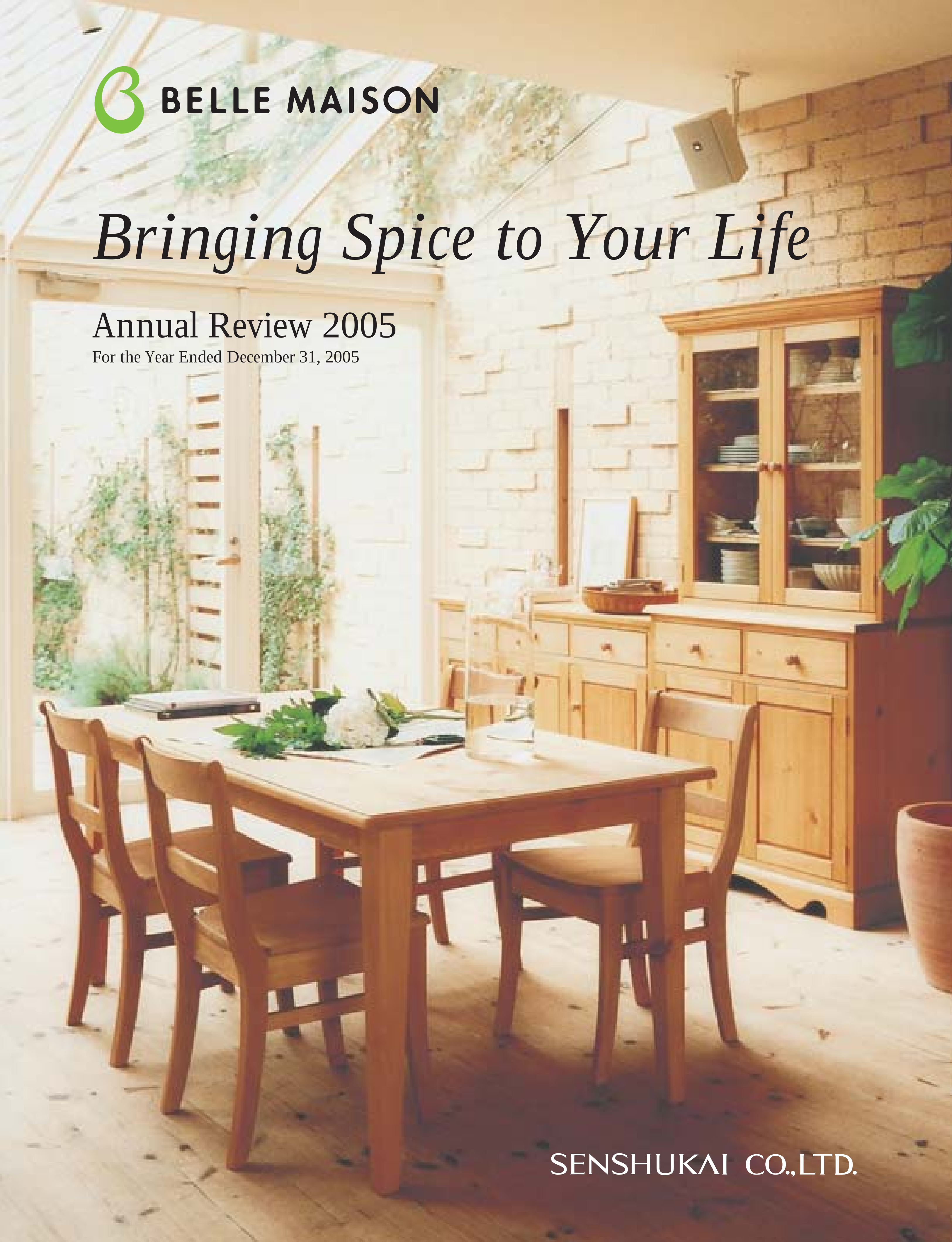


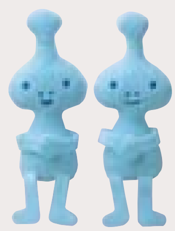
BELLE MAISON

Bringing Spice to Your Life

Annual Review 2005

For the Year Ended December 31, 2005

SENSHUKAI CO.,LTD.



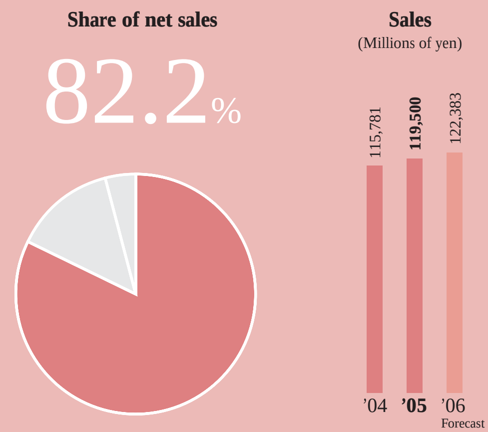
Contents

Forward-Looking Statements

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 to a range of factors.

Mail-Order Business

Catalog Business



Business in Brief

The catalog business offers 7.5 million customers, mainly women in their mid-20s and 30s, new lifestyle ideas and products via 18 different catalogs based on the *Belle Maison* brand.

Fiscal 2005 Initiatives

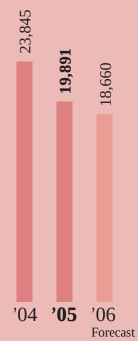
- Launch of mainstay apparel catalog *Kurasu Fuku*
- Reassessment of catalog positioning
- Introduction of *Rashisa*, an apparel catalog for women in their 40s
- Launch of *Luxe Living*, a catalog featuring premium household items and furniture

Hanpukai Business

Share of net sales

13.7%

Sales
(Millions of yen)

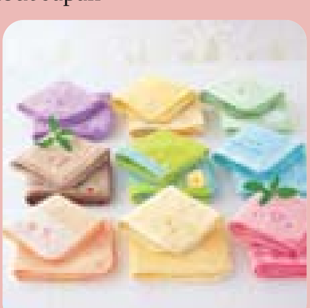


Business in Brief

Senshukai Co., Ltd.'s origins date back to 1955, when the Company began its *hanpukai* operations. The *hanpukai* business employs a purchasing club model wherein original products developed by Senshukai are delivered to members on a monthly basis.

Fiscal 2005 Initiatives

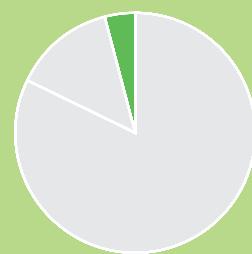
- Development of the craft kit catalog *Daisuki Tezukuri Gou* and other catalogs that feature highly original products
- Development of such solution-oriented catalogs as *Ii Koto No Moto*, which offers ecological products designed to make housework easier
- Contribution of Belle Maison Service Center Co., Ltd., which commenced operations in 2004, to membership retention and growth via its focus on large, workplace-based purchasing groups throughout Japan



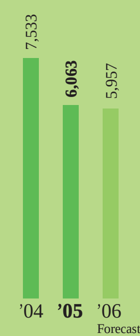
Other Businesses

Share of net sales

4.1%



Sales
(Millions of yen)



Business in Brief

In addition to travel, credit card, and other core service operations, this segment includes our distribution business, storefront business rooted in the *Belle Maison* brand, and B-to-B operations.

Fiscal 2005 Initiatives

- Expansion of the network of *Belle Maison Market* stores to six with the opening of a store in Ogaki, Gifu Prefecture, and a store in Utsunomiya, Tochigi Prefecture

To Our Stakeholders

Yasuhiro Yukimachi
President and Representative Director

Overview of Performance

In fiscal 2005, ended December 31, 2005, certain businesses and companies in the retail industry thrived while others struggled despite an upswing in personal consumption. Looking at the mail-order sales industry, although companies offering products through the Internet and mobile phones as well as those specializing in a single area, such as health food or cosmetics, saw their sales grow, companies offering a full range of products via catalogs experienced sluggish sales.

Against this backdrop, consolidated net sales for the fiscal year under review edged down 1.2% from fiscal 2004, to ¥145.5 billion. Consolidated operating income, however, jumped 17.5%, to ¥3.4 billion, mainly owing to a reduction in selling, general and administrative (SG&A) expenses achieved through the effective management of media-related expenditures, including catalog mailing and printing costs, and product procurement. In addition, net income rose 2.9%, to ¥1.3 billion, due in part to foreign exchange gains, despite a loss due to the early adoption of the new accounting standard for impairment of fixed assets.

Management Policy

The Senshukai Group's corporate philosophy is to "contribute to society by providing customers with outstanding products and services." In addition, we strive to promote activities that increase our corporate value and are beneficial to the Group as well as shareholders, customers, business associates, employees, and other stakeholders.

Furthermore, we are currently pushing forward with priority strategies under our medium-term management plan, which covers the three-year period from fiscal 2005 through fiscal 2007. One of the plan's goals is to shift our focus from sales to corporate value. Specifically, we aim to achieve operating cash flows of ¥10 billion and an operating income ratio of 5.0% in fiscal 2007.

Corporate Governance, Compliance, and Corporate Social Responsibility (CSR)

The Senshukai Group recognizes that corporate governance is essential to the fulfillment of its social responsibility to stakeholders and regards the establishment and effective functioning of a highly transparent management system as imperative. We are also committed to ensuring that our activities are ethical and in compliance with laws, regulations, and rules and have in place various measures to keep board members and employees abreast of compliance issues as well as promote solid corporate ethics.

At the same time, we are aware that economic performance alone is not enough to ensure the Group's sustainable growth and development in the future. To achieve this objective, we must conduct our operations in an environmentally and socially responsible manner and enhance our corporate value by promoting business activities that emphasize dialogue with a wide range of stakeholders.

Prospects for Fiscal 2006

In the current fiscal year, we expect operating conditions throughout the retail industry to remain challenging. In this environment, the Senshukai Group will focus on enhancing the profitability of its core business—the catalog mail-order business—as it works to achieve its targets for the second year of the medium-term management plan. The Group will also actively invest in expanding its customer base, focusing on people in their 20s and 40s, and enhancing its Internet and storefront channels.

Going forward, we will continue to work to take the *Belle Maison* brand to greater heights and boost corporate value.

Medium-Term Management Plan Progress Report

Basic Policies

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.

Fiscal 2005 Achievements

❶ Promotion of Supply-Chain Management

We made headway in increasing the percentage of orders for which inventory is available at the time of purchase and reducing the frequency with which single orders require multiple shipments. In addition, we further expanded imports. Going forward, we will take steps to improve indices for which targets have yet to be achieved.

❷ Reassessment of Catalog Positioning

We reduced the number of catalogs published by reassessing each catalog’s positioning. In the future, we will continue to review the positioning of our catalogs.

❸ Expansion of Customer Base, Focusing on People in Their 20s and 40s

To attract more customers in their 20s, we enhanced our Internet and mobile phone-based sales and services. As for customers in their 40s, efforts to retain and expand membership in this age group included the launch of *Rashisa*, an apparel catalog for women in their 40s, and *Luxe Living*, a catalog featuring premium household items and furniture.

❹ Promotion of Internet Sales

We remodeled our online store *Belle Maison Net* (http://www.bellemaison.jp) to shore up its content. As a result, Internet sales grew 23.1% from the previous fiscal year, to ¥45.4 billion, and the percentage of these sales that were accounted for by Internet direct sales soared 43.0%, to ¥16.7 billion. In addition, we established a team to develop products exclusively for *Belle Maison Net* with an eye to further expanding Internet direct sales.

❺ Development of Storefront Business

We brought the number of *Belle Maison Market* stores to six with the addition of a store in Ogaki, Gifu Prefecture, and a store in Utsunomiya, Tochigi Prefecture. In the future, we plan to continue to add stores one at a time to our *Belle Maison Market* network. In addition, we opened a new store in Tokyo’s Aoyama district showcasing the REBONDIR brand of fashion.

❻ Stronger Development Capabilities

We pushed forward with the reworking of merchandising processes and the reconstruction of the framework for product development management.

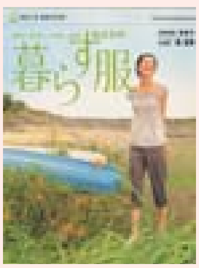
❼ Better Customer Service

In addition to opening the *Belle Maison* Call Center, which serves as our customer service hub, we increased delivery speed, enhanced gift options, and began accepting COD payments as part of efforts to bolster customer service.

Factors Contributing to Sales Growth

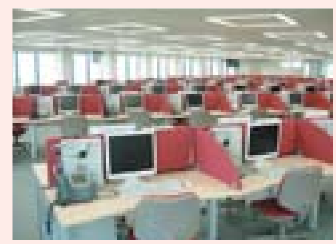
In the catalog business, the number of active customers rose due to a higher percentage of continued membership, and total sales began to pick up as an increase in purchase frequency offset a decline in average sales per order. Furthermore, the new flagship apparel catalog *Kurasu Fuku* generated sales of approximately ¥20 billion and helped to win new and returning members, supporting a roughly ¥5 billion year-on-year increase in overall apparel sales.

Kurasu Fuku



Establishment of a New Call Center

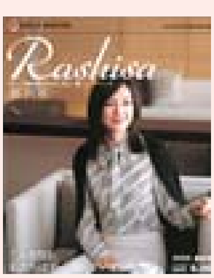
In August 2005, Senshukai opened the *Belle Maison* Call Center, extended customer service hours, introduced a new system that allows information to be shared among call centers, and took other steps to make operations more efficient, with an eye to raising customer satisfaction levels. The new call center boasts reinforced security provisions and has in place a training program for customer service representatives, who are referred to as “communicators,” to enhance their skills and promote the active incorporation of customer feedback.



Catalog Business

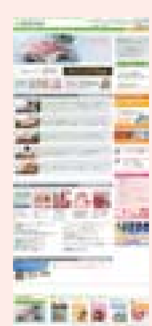
Development of Segment-Specific Marketing

Senshukai entered into an agreement with DeNA Co., Ltd., to establish a new company focused on the rapidly growing mobile e-commerce market. The joint venture operates a mobile phone-based shopping site. In addition, Senshukai introduced an apparel catalog for women in their 40s called *Rashisa* and offered ideas for creating complete outfits from the label on its online shopping site. To attract more customers in their 40s, the Company launched *Luxe Living*—a catalog featuring premium home furnishings.



Revamping of *Belle Maison Net* to Enhance Content

Internet sales enjoyed an annual average growth rate of more than 20.0% and the number of *Belle Maison Net* members skyrocketed from 3.0 million at the end of fiscal 2004 to 3.8 millon at the end of fiscal 2005. In light of the growing number of users, Senshukai established a team to develop attractive products exclusively for the online shopping site in a bid to boost Internet direct sales and made the site more user-friendly with the aim of increasing overall Internet sales.



http://www.bellemaison.jp

Factors Contributing to Lower Sales

In the *hanpukai* business, overall membership fell 0.1 million from the previous fiscal year. In particular, group membership abated and the Company projects that this trend will continue in the future. Although 24 new products were introduced, only a few were hits, and sales retreated. In light of such factors as lower sales, the Company worked to cut costs by closing its sales bases and shifting responsibility for the support of large, workplace-based purchasing groups to Belle Maison Service Center.

Changes in the Market Environment

It is becoming difficult to maintain workplace-based purchasing groups due to changes in the working styles of women employed in offices. In this operating environment, Senshukai is redoubling efforts to develop products targeting individual members with the goal of expanding sales.

Launch of the *Ii Koto No Moto* Series for 30-Something Women

The *Ii Koto No Moto* series of catalogs is designed to give homemakers a helping hand with products that not only make their jobs easier but are also ecologically friendly. This new solution-oriented *hanpukai* offering meets a wide range of customer needs, which are becoming increasingly diverse.

Hanpukai Business

Products Introduced in Fiscal 2005

New *Choko Choko* Character Goods

This series, which offers towels, handkerchiefs, socks, and other items featuring Senshukai's cute *choko choko* characters, has enjoyed popularity for more than a decade.

Kisetsu no Osozaiwan

This series of additive-free, hearty, instant and ready-to-cook soup mixes features seasonal varieties of miso soup and clear soup.

Kowaza Hip Bijin

These body-shaping girdles feature exceptionally soft material.

Onaka ni Inner

This innerwear wraps snugly around the stomach, keeping the abdominal area warm. In addition, the line showcases material that is perfect for the season, whether it be winter or summer, along with cute designs.

Corporate Governance

Our Policy

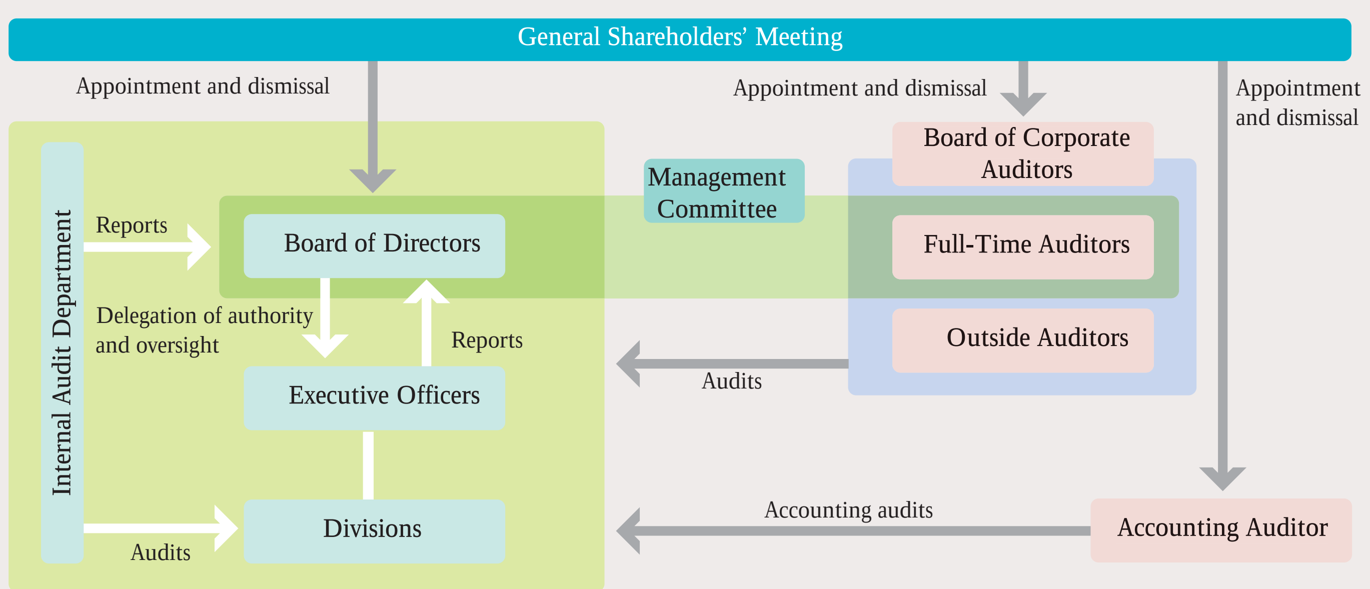
The Senshukai Group recognizes that corporate governance is essential to the fulfillment of its social responsibility to shareholders, customers, employees, business associates, local communities, and other stakeholders and regards the establishment and effective functioning of a highly transparent management system as imperative. Thus, we are working to strengthen corporate governance by clarifying the supervisory responsibilities of directors, bolstering our compliance framework, and taking steps to ensure the accurate and timely disclosure of information.

Corporate Governance Framework

In regard to administrative organizations for managerial decision making, execution, and supervision and other corporate governance frameworks, Senshukai has introduced an executive officer system to improve management efficiency by promoting a more active Board of Directors and clearly separating the Board of Directors' responsibilities for oversight from the execution of operations. The Board of Directors comprises nine directors, including one outside director, and holds regular biweekly meetings and schedules special meetings when required, providing prompt and efficient oversight of management. In addition, the Management Committee holds regular weekly meetings at which Board members and full-time auditors promptly discuss and make decisions pertaining to matters not related to corporate resolutions in addition to holding preliminary discussions pertaining to corporate resolutions and monitoring the execution of resolutions at the departmental level as required.

Furthermore, Senshukai has established a Board of Corporate Auditors pursuant to the Commercial Code of Japan and relevant laws and ordinances. The Board of Corporate Auditors comprises five corporate auditors, including three outside auditors, and is responsible for auditing the legality and appropriateness of management decision making and execution. Corporate auditors' responsibilities include attending Board of Directors' meetings, shareholders' meetings, and other important meetings; examining certain documents; conducting business and accounting audits; and monitoring directors' execution of duties.

Corporate Governance Framework



Internal Control Framework

Compliance

The Senshukai Group is committed to ensuring that its activities are ethical and comply with laws, regulations, and rules. In line with our philosophy, we are taking steps to keep Board members and employees abreast of compliance issues as well as promote solid corporate ethics.

In November 2005, we established the Ethics and Compliance Committee to firmly establish sound business practices within the Company, set up the Senshukai Corporate Ethics Hotline to enhance the effectiveness of the committee's efforts, created and distributed the *Senshukai Corporate Behavior Casebook*, and worked to enhance employee awareness of ethical and compliance issues through compliance-related e-learning and other educational programs. Through these initiatives, we have established a robust framework for corporate ethics and compliance.

Internal Audits

Senshukai's Internal Audit Department audits the business activities of the entire Group to ensure compliance with laws, regulations, and company rules and reports the results of audits to representative directors as well as the Board of Directors. The Internal Audit Department conducts internal audits based on audit policies and plans, calls attention to problem areas, makes recommendations for improvement, and verifies that improvements have been made.

Financial Reporting

Regarding internal control over financial reporting, Senshukai has established a project team, headed by the President and Representative Director, which is preparing to create a project steering committee comprising directors to lead the construction of a top-down framework to ensure the credibility of financial reports.

Policies Pertaining to Large Share Purchases

In December 2005, the Board of Directors established policies pertaining to large purchases of the Company's shares to maximize shareholder value. We believe that shareholders should make the final decision as to whether to accept a large share purchase offer and that we need to provide shareholders with sufficient information to make this decision. Therefore, we have established the following rules to be applied to any potential purchase of the Company's shares that will result in the acquisition of a 20% or greater share or voting rights in the Company by any given group of shareholders, excluding cases where the Board of Directors has agreed to the purchase: (1) the party proposing a large share purchase shall provide necessary and sufficient information to the Company's Board of Directors prior to the transaction; (2) the Board of Directors shall be allowed a sufficient period of time to evaluate the aforementioned proposal and seek alternatives for the sake of shareholders. In the event that these rules are not followed, the Company may take countermeasures to protect the interests of shareholders.

On January 19, 2006, we established a special committee comprising outside members to examine the pros and cons of countermeasures devised by the Board of Directors and report its findings to the Board.

Corporate Social Responsibility (CSR)

Our Policy

The Senshukai Group must not only exhibit solid economic performance as measured by such factors as profits and dividends but also strong environmental and social performance if it is to achieve sustainable growth and development in the future. At the same time, we believe that we need to increase our corporate value by promoting business activities that emphasize dialogue with various stakeholders, including shareholders, customers, employees, business associates, and local communities.

Senshukai celebrated its 50th anniversary in 2005. In honor of the occasion, we formulated the Senshukai CSR Policy, under which we pledge to fulfil our corporate social responsibilities through initiatives based on the following three themes: supporting women, ensuring compliance, and promoting environmental preservation. To ensure that this policy is put into practice, we established a CSR promotion team in November 2005 to lead the creation of a CSR framework.

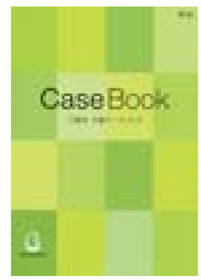
Supporting Female Employees via *Hana*maison*

In April 2005, Senshukai launched *Hana*maison*. A community exclusively for female employees, *Hana*maison* offers members an opportunity to exchange views with the Company president and participate in forums. In addition, the community is working to change mind-sets about women in the workforce as well as create a corporate environment that is conducive to maintaining a balance between work and home. *Hana*maison* is run by female staff at various levels in their careers—from young employees to veteran managers—and from a wide range of departments, who are working to make Senshukai a company that supports its female employees.

Hana*maison
Happy, Active, Not Alone

Distribution of the *Senshukai Corporate Behavior Casebook*

Senshukai believes that it is important to encourage employees to act in an ethical and responsible manner and, as such, has created the *Senshukai Corporate Behavior Casebook*—a compilation of 35 important business cases to guide employees' actions—and distributed it to all employees. In addition, the Company has set up the Senshukai Corporate Ethics Hotline, created a system that makes it easy to report concerns, and is moving forward with other compliance activities.



Environmental Initiatives

Our forestland in Australia has grown from its beginnings in 1993 to 24,000 hectares, from which we harvest between 100,000 and 200,000 tons of wood chips per year for paper production. This forestland has received certification from the Forest Stewardship Council, an international agency, as a socially beneficial, economically viable plantation that is contributing to environmental protection. In 2006, we expanded our forestry operations to Laos through participation in a project wherein 10 Japanese companies will plant seven hectares of eucalyptus trees per year over a seven-year period. Going forward, we will continue to work to achieve self-sufficiency in our catalog materials through our forestry operations as part of ongoing environmental initiatives.

Board of Directors, Executive Officers, and Corporate Auditors

BOARD OF DIRECTORS

President and Representative Director

Yasuhiro Yukimachi

Executive Managing Director

Koichi Horii

Managing Directors

Kiichi Tagawa

Michio Tanabe

Shohachi Sawamoto

Directors

Kiyoshi Kubota

Kazuhide Fujiyoshi

Mamoru Asada

Tomoko Oishi

EXECUTIVE OFFICERS

Managing Executive Officer

Shoji Tottori

Executive Officers

Akira Yoshida

Kojiro Oyama

Yasuhiro Otsuka

Manabu Dojo

Kenji Hirota

Shigemitsu Mineoka

Yoshihiro Nakabayashi

Hiroyuki Hoshino

CORPORATE AUDITORS

Makoto Sano

Hirotsugu Yamagishi

Heian Hazama

Hideyuki Koizumi

Hiroshi Morimoto

(As of March 30, 2006)

Consolidated Five-Year Summary

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

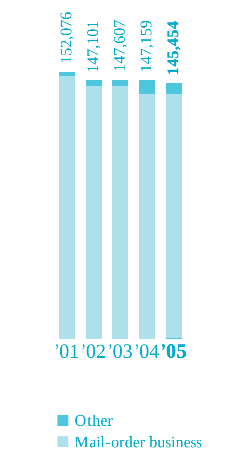
	Millions of yen					Thousands of U.S. dollars (Note)
	2001	2002	2003	2004	**2005**	**2005**
For the year:						
Net sales	¥152,076	¥147,101	¥147,607	¥147,159	**¥145,454**	**$1,232,661**
Mail-order business	149,735	144,105	143,764	139,626	**139,391**	**1,181,280**
Other	2,341	2,996	3,843	7,533	**6,063**	**51,381**
Operating income (loss)	(3,049)	3,326	5,057	2,921	**3,433**	**29,093**
Net income (loss)	(5,228)	1,367	1,819	1,232	**1,268**	**10,746**
Capital expenditures	215	1,038	468	499	**2,140**	**18,136**
Depreciation and amortization	3,019	2,704	2,503	2,289	**1,806**	**15,305**
At year-end:						
Total assets	95,585	88,119	87,270	87,561	**92,788**	**786,339**
Total shareholders' equity	47,720	46,586	47,184	47,136	**52,519**	**445,077**
Shareholders' equity ratio (%)	49.9	52.9	54.1	53.9	**56.6**	
Return on equity (%)	(10.3)	2.9	3.9	2.6	**2.5**	
Return on assets (%)	(5.3)	1.5	2.1	1.4	**1.4**	
Number of employees	1,234	1,112	1,034	915	**965**	
	Yen					U.S. dollars (Note)
Per share:						
Basic net income (loss)	¥ (109.78)	¥ 29.90	¥ 40.81	¥ 28.81	**¥ 27.44**	**$ 0.23**
Diluted net income	—	—	40.69	28.67	**27.36**	**0.23**
Cash dividends applicable to the year	8.00	8.00	16.00	16.00	**18.00**	**0.15**

Note: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥118=US$1.

Financial Review

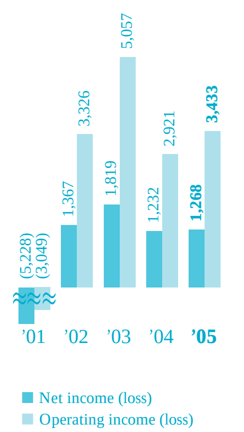
Sales by Category

(Millions of yen)



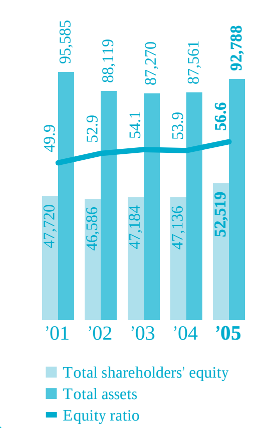
Net Income (Loss) and Operating Income (Loss)

(Millions of yen)



Total Shareholders' Equity, Total Assets, and Equity Ratio

(Millions of yen, %)



OVERVIEW

In fiscal 2005, ended December 31, 2005, the Senshukai Group generated consolidated net sales of ¥145.5 billion, edging down 1.2%, or ¥1.7 billion, from the previous fiscal year, as a rise in sales in the catalog business curbed the impact of lower sales in the *hanpukai* business.

In terms of revenue, consolidated operating income surged 17.5%, or ¥0.5 billion, from the previous fiscal year, to ¥3.4 billion. Although the cost of sales ratio remained unchanged at 51.7% and the gross profit on sales edged down 1.1%, or ¥0.8 billion, the ratio of selling, general and administrative (SG&A) expenses to net sales improved 0.4 percentage point, to 45.9%, stemming from a ¥1.3 billion decline in SG&A expenses due to such factors as a decrease in depreciation and amortization as well as lower catalog shipping costs, printing expenses, and other media-related costs.

In addition, the Company posted foreign exchange gains, compared with foreign exchange losses in the previous fiscal year, and equity in earnings of unconsolidated subsidiaries, compared with equity in losses of unconsolidated subsidiaries. Nevertheless, income before income taxes and minority interests fell 30.5%, or ¥0.8 billion, to ¥1.8 billion, owing mainly to the recording of a ¥1.9 billion loss on impairment of long-lived assets due to the early adoption of the new accounting standard for impairment of fixed assets in relation to an extraordinary loss associated with Komagane Country Club, a golf course. Net income, however, edged up 2.9%, to ¥1.3 billion, reflecting a marked decline in the actual effective tax rate from 51.2% to 27.9% due to a ¥0.7 billion decrease in income taxes—deferred, to ¥0.2 billion, and a ¥0.1 billion decline in income taxes—current, to ¥0.3 billion.

Although basic net income dipped from ¥28.81 per share to ¥27.44, owing to an increase in the number of outstanding shares at the end of the fiscal year, cash dividends applicable to the year rose from ¥16.00 per share in fiscal 2004 to ¥18.00, due to the addition of a 50th anniversary dividend of ¥2.00 per share to the ordinary dividend of ¥16.00 per share. As a result, the dividend ratio for the fiscal year under review was 51.4%.

SALES BY BUSINESS SEGMENT

Mail-Order Business

Consolidated sales in the mail-order business—comprising the catalog and the *hanpukai* businesses—amounted to ¥139.4 billion, declining a slight 0.2% from fiscal 2004, and operating income jumped 17.1%, or ¥0.5 billion, to ¥3.5 billion, as lower SG&A expenses stemming from a decline in depreciation and other factors more than offset an unchanged cost of sales ratio. On the other hand, consolidated sales in other businesses, comprising our travel services, credit card and loan services, distribution business, storefront business, and B-to-B operations, were down 19.5%, to ¥6.1 billion, largely as a result of a change in the method used to account for wholesale sales of coke, which are part of our B-to-B operations, from the posting of sales to the posting of fees. However, an improvement in the cost of sales ratio led to a substantial decline in the operating loss.

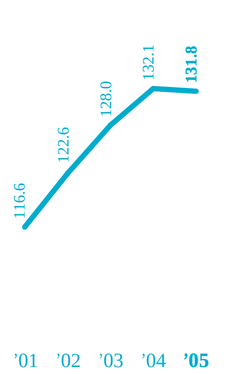
In addition, we transferred our gourmet operations from the catalog mail-order business to the *hanpukai* business as of the fiscal year under review. Figures presented for comparison reflect figures subsequent to this change.

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

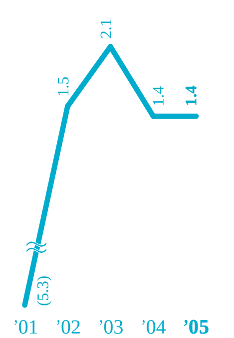
• Catalog Business

Sales for the year grew 3.2%, or ¥3.7 billion, to ¥119.5 billion, supported by a 50,000 rise in the number of active customers, to 352,000, thanks to a higher percentage of continued membership. In addition, average purchase frequency edged up 0.14 order per year, to 2.73 orders per year, offsetting an ¥827 decline in average sales per order, to ¥13,871. Looking at sales by category, sales of clothing grew approximately ¥5.0 billion due to such factors as the launch of the flagship apparel catalog *Kurasu Fuku*, and sales generated by *Sumai to Zakka*, a catalog featuring furniture and other household items, climbed ¥2.2 billion, spurred by stronger overall sales in this category.

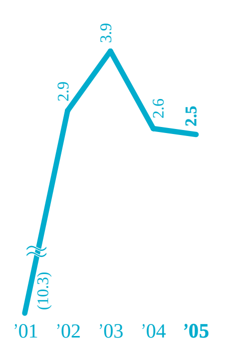
Current Ratio
(%)



Return on Average Total Assets
(%)



Return on Average Total Shareholders' Equity
(%)



• *Hanpukai* Business

Although we introduced solution-oriented catalogs that leverage the *hanpukai* business's strengths to meet a wide range of increasingly diverse customer needs and provided attentive customer service to large, workplace-based purchasing groups throughout Japan via Belle Maison Service Center Co., Ltd., which was established in 2004 specifically for this task, sales in the *hanpukai* business slid 16.6%, or ¥4.0 billion, to ¥19.9 billion. Contributing factors include a decline in group membership from 483,000 in fiscal 2004 to 418,000, despite efforts to curb the downward trend, and a decrease in individual membership from 246,000 to 207,000, compared with an increase in the previous fiscal year. In addition, sales of gourmet offerings abated amid a weak product lineup.

• Other Businesses

This segment comprises our travel services, credit card and loan services, distribution business, storefront business, and B-to-B operations. The consolidated sales of these businesses declined 19.5%, or ¥1.5 billion, from the previous fiscal year, to ¥6.1 billion, mainly owing to a change in the method used to account for wholesale sales of coke from the posting of sales to the posting of fees. The operating loss, however, edged down ¥85 million, from ¥123 million in fiscal 2004, to ¥38 million, thanks to a marked improvement in the cost of sales ratio from 62.9%, to 51.0%.

FINANCIAL POSITION

Total assets at the end of fiscal 2005 climbed ¥5.2 billion from the end of fiscal 2004, to ¥92.8 billion. Total current assets rose ¥0.9 billion, to ¥49.5 billion, mainly owing to a ¥1.2 billion increase in inventories. Total property and equipment was down ¥4.0 billion, to ¥57.3 billion, primarily as a result of a ¥0.8 billion decline in land, a ¥1.1 billion decline in buildings and structures, and a ¥1.8 billion decline in machinery and equipment associated with the transfer of golf operations and the adoption of the new accounting standard for impairment of fixed assets. Net property and equipment retreated ¥2.6 billion, to ¥25.6 billion, due to a ¥1.4 billion decrease in accumulated depreciation. Investments and other assets jumped ¥7.0 billion, to ¥17.7 billion, largely owing to a ¥7.4 billion rise in investment securities.

Total current liabilities edged up ¥0.8 billion, to ¥37.6 billion, partly due to a ¥0.7 billion rise in notes and accounts payable—trade that outweighed a ¥0.6 billion decline in other. Long-term liabilities, however, declined ¥0.9 billion, to ¥2.7 billion, mainly owing to a ¥1.4 billion decline in deposits received associated with the golf business and a ¥0.3 billion decrease in liability for retirement benefits, which countered a ¥0.8 billion increase in deferred tax liabilities.

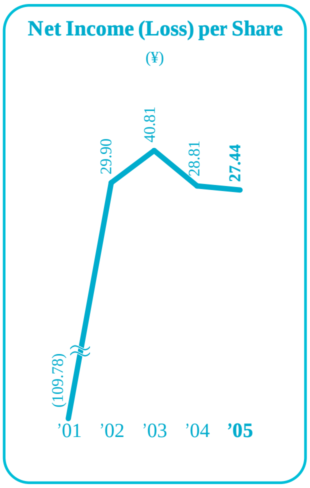
Total shareholders' equity grew ¥5.4 billion, to ¥52.5 billion, partially due to the disposal of treasury stock. The shareholders' equity ratio gained 2.7 percentage points, rising from 53.9% to 56.6%. Overall, Senshukai continued to further bolster its solid financial position in fiscal 2005.

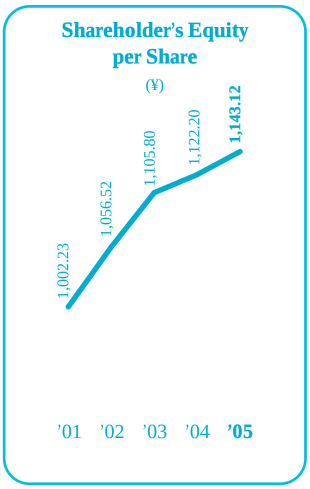
CASH FLOWS

Cash and cash equivalents at the end of the fiscal year under review remained relatively unchanged from the end of the previous fiscal year, rising an incremental ¥79 million, to ¥11.3 billion.

Net cash provided by operating activities amounted to ¥2.5 billion, compared with ¥3.0 billion at the end of fiscal 2004, with inflows mainly consisting of income before income taxes and minority interests of ¥1.8 billion, adjustments for depreciation and amortization amounting to ¥1.8 billion, and adjustments for loss on impairment of long-lived assets of ¥1.9 billion. Outflows primarily comprised changes in assets and liabilities—specifically, an increase in inventories of ¥1.2 billion and a decrease in deposits received of ¥1.4 billion.

Net cash used in investing activities was ¥5.1 billion, compared with ¥1.7 billion at the end of fiscal 2004. This increase is mainly attributable to purchases of property and equipment amounting to ¥1.3 billion, purchases of intangible assets of ¥0.7 billion, and purchases of investment securities totaling ¥5.1 billion, which outweighed proceeds from





sales of property and equipment of ¥0.6 billion, proceeds from sales of investment securities amounting to ¥0.8 billion, and an inflow of ¥0.4 billion due to a decrease in time deposits.

Net cash provided by financing activities totaled ¥2.6 billion, compared with a ¥1.5 billion outflow at the end of fiscal 2004, principally due to an inflow of ¥3.4 billion from the disposal of treasury stock that outweighed dividends paid amounting to ¥0.7 billion.

FISCAL 2006 OUTLOOK

In the current fiscal year, we project that the Japanese economy will continue to recover gradually as expanded capital investment and personal spending support sustained growth. Nevertheless, the economy has yet to completely shrug off deflation. Therefore, we expect operating conditions to remain challenging for all sectors of the retail industry going forward. In this business climate, the Senshukai Group will concentrate on bolstering the profitability of its core business—the catalog mail-order business—as it works to achieve the goals set out for the second year of its medium-term management plan, which will come to a close in fiscal 2007. In addition, we will aggressively pursue investment aimed at expanding our base of customers in their 20s and 40s as well as our Internet and storefront business sales channels. Furthermore, we will focus our energies on enhancing the value of the *Belle Maison* brand. In fiscal 2006, we expect net sales to rise 1.1%, or ¥1.5 billion, to ¥147.0 billion, and net income to soar 152.6%, or ¥1.9 billion, to ¥3.2 billion.

BUSINESS RISKS

(1) Economic conditions in countries that produce goods purchased by the Group

The majority of products sold by the Senshukai Group are imported from China and other countries in Asia. Therefore, political and economic conditions, natural disasters, and other events in these countries may have an impact on the Group.

(2) Foreign exchange risks

A portion of the products handled by the Senshukai Group's mainstay mail-order business is imported and purchased using foreign currency. Although the Company uses forward exchange contracts and other hedging instruments to reduce its risk with regard to fluctuations in foreign exchange rates, major fluctuations in foreign exchange rates may affect the performance and/or financial standing of the Group.

(3) Risks related to personal information security breaches

The Company and a portion of its subsidiaries fall under the category "companies handling personal information" as set out in Japan's Personal Information Protection Act. The Senshukai Group observes the law and has newly established a customer information management team to prevent information security breaches as part of efforts to reinforce its internal control framework.

However, in the event that the security of personal information handled by the Group is breached, a subsequent loss of confidence in the Group and damage to its corporate image may have a substantial impact on the performance and/or financial standing of the Group.

(4) Risks related to natural disasters

Natural disasters have the potential of markedly affecting order processing, shipping, and other business processes in the Senshukai Group's mainstay mail-order business. To minimize the impact should such a natural disaster occur, the Company duplicates systems and reinforces structures against earthquakes. In addition, we have established a crisis management committee, which formulates guidelines for responding to natural disasters. However, in the event that a natural disaster causes damage to the Group's facilities and has a major impact on order processing or product shipment, this may have a substantial impact on the performance and/or financial standing of the Group.

Consolidated Balance Sheets

Senshukai Co., Ltd. and Consolidated Subsidiaries
December 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2005**	2004	**2005**
Current assets:			
Cash and cash equivalents	**¥11,321**	¥11,242	**$ 95,941**
Notes and accounts receivable	**10,262**	10,235	**86,966**
Allowance for doubtful accounts	**(166)**	(262)	**(1,407)**
Inventories	**15,166**	13,973	**128,526**
Deferred income taxes (Note 8)	**380**	391	**3,220**
Other current assets	**12,569**	13,066	**106,517**
Total current assets	**49,532**	48,645	**419,763**
Property and equipment (Notes 4, 5 and 6):			
Land (Note 4)	**11,482**	12,320	**97,305**
Buildings and structures	**28,190**	29,334	**238,898**
Machinery and equipment	**14,706**	16,546	**124,627**
Furniture and fixtures	**2,876**	3,057	**24,373**
Construction in progress	**4**	—	**34**
Total	**57,258**	61,257	**485,237**
Accumulated depreciation	**(31,653)**	(33,021)	**(268,246)**
Net property and equipment	**25,605**	28,236	**216,991**
Investments and other assets:			
Investment securities (Notes 3 and 6)	**12,254**	4,834	**103,848**
Long-term loans receivable	**751**	525	**6,364**
Guarantee deposits	**1,258**	1,164	**10,661**
Intangible assets, net (Note 4)	**1,475**	1,163	**12,500**
Deferred income taxes (Note 8)	**—**	293	**—**
Other (Note 4)	**2,579**	3,335	**21,856**
Allowance for doubtful accounts	**(666)**	(634)	**(5,644)**
Total investments and other assets	**17,651**	10,680	**149,585**
Total	**¥92,788**	¥87,561	**$786,339**

See the accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2005	2004	Thousands of U.S. dollars (Note 1) 2005
Current liabilities:			
Current portion of long-term debt (Note 6)	**¥ 124**	¥ 125	**$ 1,051**
Notes and accounts payable:			
Trade	**10,987**	10,270	**93,110**
Other	**21,075**	21,651	**178,602**
Accrued expenses	**2,943**	1,940	**24,940**
Accrued income taxes	**308**	293	**2,610**
Other current liabilities	**2,130**	2,536	**18,051**
Total current liabilities	**37,567**	36,815	**318,364**
Long-term liabilities:			
Long-term debt (Note 6)	**394**	389	**3,339**
Liability for retirement benefits (Note 7)	**614**	904	**5,203**
Deposits received	**—**	1,374	**—**
Deferred tax liabilities (Note 8)	**1,651**	896	**13,992**
Total long-term liabilities	**2,659**	3,563	**22,534**
Minority interests	**43**	47	**364**
Shareholders' equity (Note 12):			
Common stock:			
Authorized—180,000,000 shares			
Issued—47,630,393 shares	**20,359**	20,359	**172,534**
Capital surplus	**20,658**	19,867	**175,068**
Retained earnings	**18,439**	19,372	**156,263**
Land revaluation difference (Note 4)	**(7,463)**	(8,911)	**(63,246)**
Net unrealized gain on available-for-sale securities	**1,720**	220	**14,576**
Foreign currency translation adjustments	**(41)**	(36)	**(347)**
Treasury stock, at cost:			
1,728,686 shares in 2005 and 5,635,960 shares in 2004	**(1,153)**	(3,735)	**(9,771)**
Total shareholders' equity	**52,519**	47,136	**445,077**
Total	**¥92,788**	¥87,561	**$786,339**

Consolidated Statements of Income

Senshukai Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Net sales	**¥145,454**	¥147,159	**$1,232,661**
Cost of sales	**75,174**	76,116	**637,068**
Gross profit	**70,280**	71,043	**595,593**
Selling, general and administrative expenses	**66,847**	68,122	**566,500**
Operating income	**3,433**	2,921	**29,093**
Other income (expenses):			
Interest and dividend income	**164**	98	**1,390**
Interest expenses	**(45)**	(38)	**(381)**
Loss on disposal of property and equipment	**(223)**	(28)	**(1,890)**
Loss on impairment of long-lived assets (Note 5)	**(1,860)**	—	**(15,763)**
Foreign exchange gains (losses)	**135**	(51)	**1,144**
Equity in earnings (losses) of unconsolidated subsidiaries	**167**	(17)	**1,415**
Early retirement expenses	**—**	(483)	**—**
Other, net	**(11)**	129	**(93)**
Other income (expenses)—net	**(1,673)**	(390)	**(14,178)**
Income before income taxes and minority interests	**1,760**	2,531	**14,915**
Income taxes (Note 8):			
Current	**309**	453	**2,619**
Deferred	**182**	844	**1,542**
Minority interests	**1**	2	**8**
Net income	**¥ 1,268**	¥ 1,232	**$ 10,746**

	Yen		U.S. dollars (Note 1)
Per share of common stock (Note 2 (p)):			
Basic net income	**¥ 27.44**	¥ 28.81	**$ 0.23**
Diluted net income	**27.36**	28.67	**0.23**
Cash dividends applicable to the year	**18.00**	16.00	**0.15**

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, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Common stock:			
Balance at beginning of year	**¥20,359**	¥20,359	**$172,534**
Balance at end of year	**¥20,359**	¥20,359	**$172,534**
Capital surplus:			
Balance at beginning of year	**¥19,867**	¥19,864	**$168,365**
Net gain on disposal of treasury stock	**791**	3	**6,703**
Balance at end of year	**¥20,658**	¥19,867	**$175,068**
Retained earnings:			
Balance at beginning of year	**¥19,372**	¥18,871	**$164,170**
Net income	**1,268**	1,232	**10,746**
Cash dividends:			
¥18.0 per share in 2005 and ¥16.0 per share in 2004	**(701)**	(682)	**(5,941)**
Bonuses to directors and corporate auditors	**(10)**	(49)	**(85)**
Transfer from land revaluation difference	**(1,490)**	—	**(12,627)**
Balance at end of year	**¥18,439**	¥19,372	**$156,263**
Land revaluation difference:			
Balance at beginning of year	**¥ (8,911)**	¥ (8,911)	**$ (75,517)**
Transfer to retained earnings	**1,490**	—	**12,627**
Other	**(42)**	—	**(356)**
Balance at end of year	**¥ (7,463)**	¥ (8,911)	**$ (63,246)**
Net unrealized gain on available-for-sale securities:			
Balance at end of year	**¥ 1,720**	¥ 220	**$ 14,576**
Foreign currency translation adjustments:			
Balance at end of year	**¥ (41)**	¥ (36)	**$ (347)**
Treasury stock, at cost:			
Balance at end of year	**¥ (1,153)**	¥ (3,735)	**$ (9,771)**

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, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Operating activities:			
Income before income taxes and minority interests	**¥ 1,760**	¥ 2,531	**$14,915**
Adjustments for:			
Income taxes paid	**(453)**	(424)	**(3,839)**
Depreciation and amortization	**1,806**	2,289	**15,305**
Provision for doubtful receivables	**(64)**	32	**(542)**
Loss on disposal of property and equipment	**223**	28	**1,890**
Loss on impairment of long-lived assets	**1,860**	—	**15,763**
Bonuses to directors and corporate auditors	**(10)**	(49)	**(85)**
Equity in earnings (losses) of unconsolidated subsidiaries	**(167)**	17	**(1,415)**
Changes in assets and liabilities:			
Increase in notes and accounts receivable	**(327)**	(579)	**(2,771)**
Increase in inventories	**(1,193)**	(1,155)	**(10,110)**
Increase in notes and accounts payable	**141**	2,007	**1,195**
Decrease in liability for retirement benefits	**(290)**	(839)	**(2,458)**
Decrease in deposits received	**(1,374)**	—	**(11,644)**
Other, net	**628**	(869)	**5,321**
Total adjustments	**780**	458	**6,610**
Net cash provided by operating activities	**2,540**	2,989	**21,525**
Investing activities:			
Proceeds from sales of property and equipment	**589**	3	**4,992**
Purchases of property and equipment	**(1,344)**	(167)	**(11,390)**
Purchases of intangible assets	**(713)**	(507)	**(6,042)**
Proceeds from sales of investment securities	**849**	198	**7,195**
Purchases of investment securities	**(5,140)**	(1,036)	**(43,559)**
Decrease (increase) in time deposits	**403**	(600)	**3,415**
Other, net	**270**	374	**2,288**
Net cash used in investing activities	**(5,086)**	(1,735)	**(43,101)**
Financing activities:			
Increase (decrease) in short-term bank loans, net	**1**	(10)	**9**
Proceeds from long-term debt	**85**	58	**720**
Repayments of long-term debt	**(129)**	(229)	**(1,093)**
Purchases of treasury stock	**(21)**	(654)	**(178)**
Disposal of treasury stock	**3,395**	6	**28,771**
Dividends paid	**(706)**	(685)	**(5,983)**
Net cash provided by (used in) financing activities	**2,625**	(1,514)	**22,246**
Net increase (decrease) in cash and cash equivalents	**79**	(260)	**670**
Cash and cash equivalents, beginning of year	**11,242**	11,502	**95,271**
Cash and cash equivalents, end of year	**¥11,321**	¥11,242	**$95,941**

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

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2004 financial statements to conform to the classifications used in 2005.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Senshukai Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥118 to $1, the approximate rate of exchange at December 31, 2005. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements as of December 31, 2005 include the accounts of the Company and its eight significant (15 in 2004) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in three (three in 2004) unconsolidated subsidiaries are accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is charged to income as incurred.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

(b) Cash Equivalents

Cash equivalents are 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.

(c) Inventories

Inventories are stated at the lower of cost, determined by the average method, or market.

(d) Investment Securities

Investment securities are classified and accounted for depending on management's intent.

Available-for-sale securities, which represent securities not classified as either trading securities or held-to-maturity debt securities, are reported at fair value, with unrealized gains and 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.

The Group has classified all debt and equity securities as available-for-sale securities.

(e) Property and Equipment

Property and equipment are stated at cost. Depreciation is computed principally by the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 38 to 50 years for buildings and structures and 12 years for machinery and equipment.

(f) Long-Lived Assets

In August 2002, the Business Accounting Council issued a Statement of Opinion, *Accounting for Impairment of Fixed Assets*, and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No. 6, *Guidance for Accounting Standard for Impairment of Fixed Assets*. These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets as of January 1, 2005. The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended December 31, 2005 by ¥1,860 million.

(g) Retirement and Pension Plans

The Company and a certain consolidated subsidiary have a defined contribution pension plan and offer the choice of either a defined contribution pension plan or up-front retirement bonus. Other consolidated subsidiaries have various non-contributory and contributory plans and other retirement benefit plans.

The Group accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at the balance sheet date.

(h) Research and Development Costs

Research and development costs are charged to income as incurred.

(i) Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

(j) Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

(k) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(l) Appropriations of Retained Earnings

Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

(m) Foreign Currency Transactions

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.

(n) Foreign Currency Financial Statements

The balance sheet accounts and revenue and expense accounts of the three (three in 2004) unconsolidated foreign subsidiaries, accounted for by the equity method, are translated into Japanese yen at the exchange rate at the balance sheet date except for shareholders' equity, which is translated at the historical rate.

Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

(o) Derivatives and Hedging Activities

The Company uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates. Foreign exchange forward contracts, currency swaps and currency options are utilized by the Company to reduce foreign currency exchange risks. The Company does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until the maturity of the hedged transactions.

(p) Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full exercise of outstanding stock options.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

3 INVESTMENT SECURITIES

The carrying amounts and aggregate fair values of investment securities at December 31, 2005 were as follows:

	Millions of yen		
	Cost	Fair value	Net unrealized gains (losses)
Securities classified as available-for-sale:			
Equity securities	¥3,683	¥6,667	¥2,984
Debt securities	2,949	2,873	(76)
Other	396	447	51
Total	¥7,028	¥9,987	¥2,959

	Thousands of U.S. dollars		
	Cost	Fair value	Net unrealized gains (losses)
Securities classified as available-for-sale:			
Equity securities	$31,212	$56,500	$25,288
Debt securities	24,991	24,347	(644)
Other	3,356	3,788	432
Total	$59,559	$84,635	$25,076

Available-for-sale securities whose fair value is not readily determinable as of December 31, 2005 were as follows:

	Carrying amount	
	Millions of yen	Thousands of U.S. dollars
Securities classified as available-for-sale:		
Equity securities	¥1,877	$15,907
Other	374	3,169
Total	¥2,251	$19,076

4 LAND REVALUATION

At 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 the section of shareholders' equity as land revaluation difference after offsetting the related deferred tax assets as stipulated by the law. The land revaluation difference will be credited as a 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, 2005 amounts to ¥3,071 million ($26,025 thousand), creating an unrealized loss position.

5 LONG–LIVED ASSETS

The Group recognized impairment losses for the following groups of assets in the year ended December 31, 2005.

Primary use	Type of asset	Location
Golf course	Land Buildings Other long-lived assets	Awara, Fukui Prefecture
Idle assets	Land	Tokorozawa, Saitama Prefecture, etc.

For the purpose of identifying long-lived assets that are impaired, the Group grouped its long-lived assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets or groups of assets.

In the light of the decrease in land prices and significant deterioration of profitability, the Group wrote down the carrying amount of the relevant assets to the recoverable amount, and it recognized impairment losses totaling ¥1,860 million ($15,763 thousand). The impairment losses comprise ¥1,730 million ($14,661 thousand) for golf courses and ¥130 million ($1,102 thousand) for idle assets.

The recoverable amount was measured at its net selling price determined by appraisal report from an independent real-estate appraiser.

6 SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term loans were made under general security agreements with banks.

Long-term debt at December 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Loans from banks, 1.7% to 4.7% in 2005 (1.1% to 2.6% in 2004), due serially to March 2015:			
Collateralized	**¥361**	¥357	**$3,059**
Unsecured	**157**	157	**1,331**
Total	**518**	514	**4,390**
Less current portion	**(124)**	(125)	**(1,051)**
Long-term debt, less current portion	**¥394**	¥389	**$3,339**

The annual maturities of long-term debt at December 31, 2005 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending December 31,		
2005 (current portion)	¥124	$1,051
2006	53	449
2007	59	500
2008 and thereafter	282	2,390
Total	¥518	$4,390

The carrying amounts of assets pledged as collateral for the above collateralized long-term debt at December 31, 2005 were as follows:

	Millions of yen	Thousands of U.S. dollars
Property and equipment, net of accumulated depreciation	¥ 84	$ 712
Investment securities	2,330	19,746
Total	¥2,414	$20,458

7 RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees, directors and corporate auditors.

The Company and a certain consolidated subsidiary have a defined contribution pension plan and offer the choice of either a defined contribution pension plan or up-front retirement bonus. Other consolidated subsidiaries have various non-contributory and contributory plans and other retirement benefit plans.

The liability for retirement benefits at December 31, 2005 for directors and corporate auditors was ¥599 million ($5,076 thousand). The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at December 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Projected benefit obligation	**¥ 85**	¥123	**$ 720**
Fair value of plan assets	**(70)**	(64)	**(593)**
Net liability	**¥ 15**	¥ 59	**$ 127**

The components of net periodic benefit costs for the years ended December 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Service cost	**¥ 11**	¥ 59	**$ 93**
Other	**102**	71	**865**
Net periodic benefit costs	**¥113**	¥130	**$958**

8 INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 40.4% and 41.7% for the years ended December 31, 2005 and 2004, respectively.

The tax effects of significant temporary differences and tax loss carryforward which resulted in deferred tax assets and liabilities at December 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Current deferred tax assets:			
Tax loss caryforward	**¥ 1,163**	¥ 291	**$ 9,856**
Accrued expenses	**842**	606	**7,135**
Other	**196**	184	**1,661**
Total	**2,201**	1,081	**18,652**
Less valuation allowance	**(1,054)**	(35)	**(8,932)**
Net	**¥ 1,147**	¥ 1,046	**$ 9,720**
Current deferred tax liabilities:			
Prepaid expenses	**¥ 755**	¥ 650	**$ 6,398**
Other	**12**	5	**102**
Total	**767**	655	**6,500**
Net deferred tax assets	**¥ 380**	¥ 391	**$ 3,220**
Noncurrent deferred tax assets:			
Land revaluation difference	**¥ 3,494**	¥ 4,133	**$29,610**
Tax loss caryforward	**634**	1,710	**5,373**
Liabilities for retirement benefits	**242**	341	**2,051**
Allowance for doubtful accounts	**246**	268	**2,085**
Other	**714**	694	**6,051**
Total	**5,330**	7,146	**45,170**
Less valuation allowance	**(4,860)**	(6,432)	**(41,187)**
Net	**¥ 470**	¥ 714	**$ 3,983**
Noncurrent deferred tax liabilities:			
Land revaluation difference	**¥ 804**	¥ 896	**$ 6,814**
Net unrealized gain on available-for-sale securities	**1,239**	332	**10,500**
Retained earnings appropriated for tax allowable reserves	**78**	89	**661**
Total	**2,121**	1,317	**17,975**
Net deferred tax assets	**—**	293	**—**
Net deferred tax liabilities	**¥ 1,651**	¥ 896	**$13,992**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended December 31, 2005 and 2004 is as follows:

	2005	2004
Normal effective statutory tax rate	**40.4%**	41.7%
Expenses not deductible for income tax purposes	**4.1**	2.1
Per capita inhabitants' taxes	**1.5**	1.4
Tax loss carryforward	**7.3**	4.9
Change in valuation allowance	**(24.5)**	0.6
Other, net	**(0.9)**	0.5
Actual effective tax rates	**27.9%**	51.2%

9 LEASES

The Group leases certain computer equipment, office space and other assets.

Total rental expenses including lease payments under finance leases for the years ended December 31, 2005 and 2004 were ¥2,377 million ($20,144 thousand) and ¥2,419 million, respectively, including ¥972 million ($8,237 thousand) and ¥834 million, respectively, of lease payments under finance leases.

For the year ended December 31, 2005, the Group recorded an impairment loss of ¥31 million ($263 thousand) on certain leased property held under finance leases that do not transfer ownership and an allowance for impairment loss on leased property, which is included in long-term liabilities—other.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance lease, depreciation expense, interest expense and other information pertaining to finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended December 31, 2005 and 2004 was as follows:

	Millions of yen		
	2005		
	Furniture and fixtures	Other	Total
Acquisition cost	**¥4,185**	**¥644**	**¥4,829**
Accumulated depreciation	**1,640**	**466**	**2,106**
Accumulated impairment loss	**8**	**—**	**8**
Net leased property	**¥2,537**	**¥178**	**¥2,715**

	Millions of yen		
	2004		
	Furniture and fixtures	Other	Total
Acquisition cost	¥3,333	¥664	¥3,997
Accumulated depreciation	1,329	420	1,749
Net leased property	¥2,004	¥244	¥2,248

	Thousands of U.S. dollars		
	2005		
	Furniture and fixtures	Other	Total
Acquisition cost	**$35,466**	**$5,458**	**$40,924**
Accumulated depreciation	**13,898**	**3,949**	**17,847**
Accumulated impairment loss	**68**	**—**	**68**
Net leased property	**$21,500**	**$1,509**	**$23,009**

Obligations under finance leases for the years ended December 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Due within one year	**¥ 924**	¥ 795	**$ 7,831**
Due after one year	**1,867**	1,584	**15,822**
Total	**¥2,791**	¥2,379	**$23,653**

Depreciation expense, interest expense and other information under finance leases for the years ended December 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Depreciation expense	**¥ 952**	¥851	**$8,068**
Interest expense	**56**	45	**475**
Total	**¥1,008**	¥896	**$8,543**
Lease payments	**¥ 972**	¥834	**$8,237**
Reversal of allowance for impairment loss on leased property	**24**	—	**203**
Impairment loss	**31**	—	**263**

Depreciation expense and interest expense, which are not reflected in the accompanying statements of income, are computed by the straight-line method and the interest method, respectively.

The minimum rental commitments under noncancelable operating leases as of December 31, 2005 were as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	**¥49**	**$415**
Due after one year	**22**	**187**
Total	**¥71**	**$602**

10 DERIVATIVES

The Company enters into derivative financial instruments ("derivatives"), including foreign currency forward contracts, currency swaps and currency options, to hedge foreign exchange risk associated with trade accounts payable denominated in foreign currencies.

It is the Company's policy to use derivatives only for the purpose of reducing market risks associated with trade accounts payable. The Company does not hold or issue derivatives for trading purposes.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations in market conditions, including foreign exchange rates. Credit risk is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract.

Because the counterparties to these derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

All derivatives are entered into to hedge foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Derivatives entered into by the Company have been made in accordance with internal policies which regulate the authorization and credit limit amount. The use of derivatives is approved by the head of the Financial Planning Department and the execution and control of derivatives are controlled by the Financial Planning Department.

The Company had the following derivative contracts outstanding at December 31, 2005:

	Millions of yen		
	Contract amount	Fair value	Unrealized gain
Foreign currency forward contracts:			
Buying U.S. dollars	¥5,626	¥5,458	¥ 75
Foreign currency swaps:			
Receiving U.S. dollars, paying Japanese yen	4,331	198	198

	Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gain
Foreign exchange forward contracts:			
Buying U.S. dollars	$47,678	$46,254	$ 636
Foreign currency swaps:			
Receiving U.S. dollars, paying Japanese yen	36,703	1,678	1,678

Foreign currency forward contracts and currency swaps which qualify for hedge accounting are excluded from the disclosure of market value information.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

11 CONTINGENT LIABILITIES

Contingent liabilities at December 31, 2005 for guarantees of bank loans amounted to ¥131 million ($1,110 thousand), including ¥51 million ($432 thousand) for loans guaranteed on behalf of employees.

12 SUBSEQUENT EVENT

The following appropriations of retained earnings at December 31, 2005 were approved at the Company's shareholders' meeting held on March 30, 2005:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥10 ($0.08) per share	¥459	$3,890
Bonuses to directors and corporate auditors	35	297

13 SEGMENT INFORMATION

(a) Business Segments

The Company and its consolidated subsidiaries operate in the mail-order business and other businesses. The mail-order business consists of the catalog business and the *hanpukai* business. Other businesses consist of travel services, credit card and loan services, distribution business, storefront business, B-to-B operations, etc.

Information about industry segments of the Company and its consolidated subsidiaries for the years ended December 31, 2005 and 2004 is as follows:

	Millions of yen				
	2005				
	Mail-order business	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income					
Sales to customers	**¥139,391**	**¥6,063**	**¥145,454**	**¥ —**	**¥145,454**
Intersegment sales	**677**	**675**	**1,352**	**(1,352)**	**—**
Total sales	**140,068**	**6,738**	**146,806**	**(1,352)**	**145,454**
Operating expenses	**136,533**	**6,776**	**143,309**	**(1,288)**	**142,021**
Operating income (loss)	**¥ 3,535**	**¥ (38)**	**¥ 3,497**	**¥ (64)**	**¥ 3,433**
II. Total assets, depreciation, impairment loss and capital expenditures					
Total assets	**¥ 90,698**	**¥3,327**	**¥ 94,025**	**¥(1,237)**	**¥ 92,788**
Depreciation	**1,760**	**46**	**1,806**	**—**	**1,806**
Impairment loss	**130**	**1,730**	**1,860**	**—**	**1,860**
Capital expenditures	**2,101**	**39**	**2,140**	**—**	**2,140**

	Millions of yen				
	2004				
	Mail-order business	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income					
Sales to 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. Total assets, depreciation, and capital expenditures					
Total assets	¥ 82,381	¥5,867	¥ 88,248	¥(687)	¥ 87,561
Depreciation	2,224	65	2,289	—	2,289
Capital expenditures	467	32	499	—	499

	Thousands of U.S. dollars				
	2005				
	Mail-order business	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income					
Sales to customers	**$1,181,280**	**$51,381**	**$1,232,661**	**$ —**	**$1,232,661**
Intersegment sales	**5,737**	**5,721**	**11,458**	**(11,458)**	**—**
Total sales	**1,187,017**	**57,102**	**1,244,119**	**(11,458)**	**1,232,661**
Operating expenses	**1,157,059**	**57,424**	**1,214,483**	**(10,915)**	**1,203,568**
Operating income (loss)	**$ 29,958**	**$ (322)**	**$ 29,636**	**$ (543)**	**$ 29,093**
II. Total assets, depreciation, impairment loss and capital expenditures					
Total assets	**$ 768,627**	**$28,195**	**$ 796,822**	**$(10,483)**	**$ 786,339**
Depreciation	**14,915**	**390**	**15,305**	**—**	**15,305**
Impairment loss	**1,102**	**14,661**	**15,763**	**—**	**15,763**
Capital expenditures	**17,805**	**331**	**18,136**	**—**	**18,136**

(b) Geographical Segments and Sales to Foreign Customers

Geographical segment information was not presented since aggregate sales and assets of the Company and its domestic subsidiaries were more than 90% of the consolidated net sales and assets for the years ended December 31, 2005 and 2004.

Sales to foreign customers were not presented since sales to foreign customers were less than 10% of the consolidated sales for the years ended March 31, 2005 and 2004.

Corporate Data

Senshukai Co., Ltd.

CORPORATE INFORMATION

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Web site: www.senshukai.co.jp

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Landic Gotanda Bldg.,
21-13, Higashigotanda 1-chome,
Shinagawa-ku, Tokyo 141-0022, Japan

Established
November 1955

Paid-in Capital
¥20,359,134,244

Number of Employees
965

Distribution Centers
Chubu, Koshien, Kyoto, and Kanuma

Subsidiaries and Affiliates
Japan—10 subsidiaries
Overseas—6 subsidiaries and 3 affiliates

INVESTOR INFORMATION

Total Number of Shares Authorized
180,000,000 shares

Total Number of Shares Issued
47,630,393 shares

Number of Shareholders
4,707

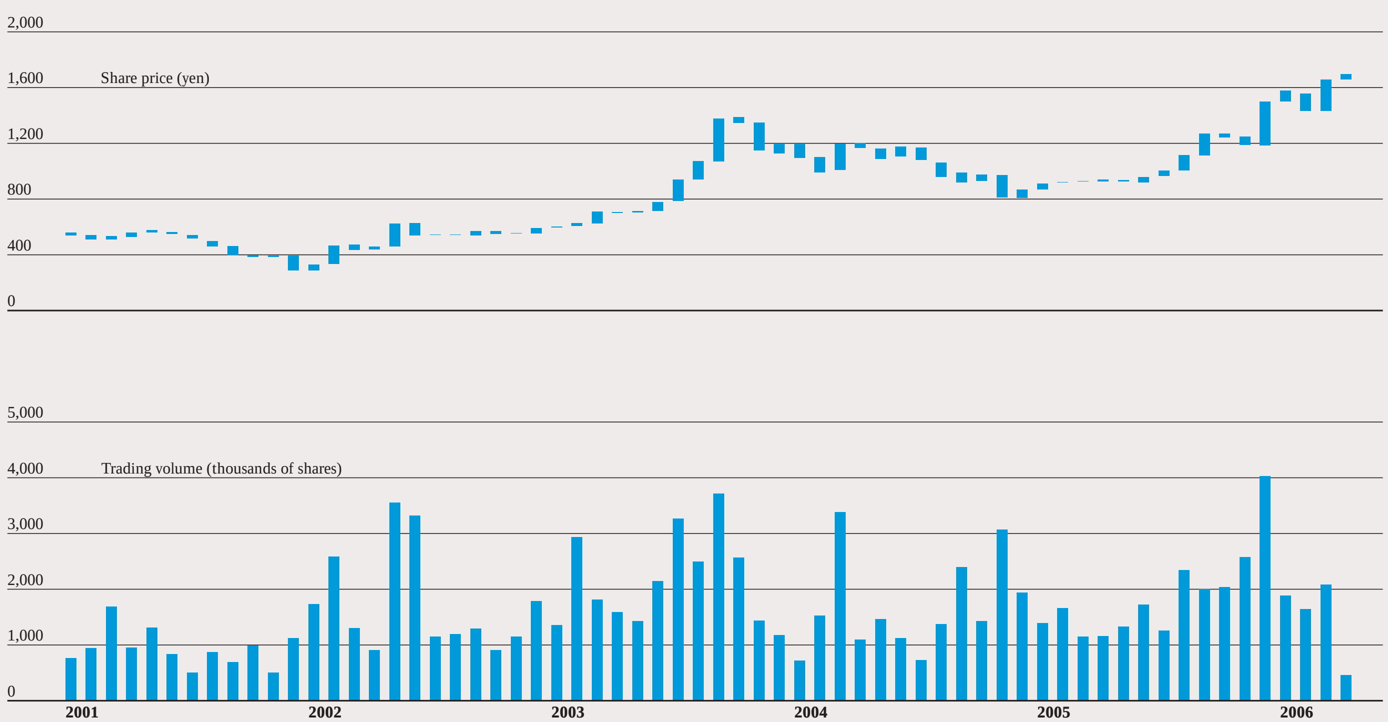
Major Shareholders (Top 10)
Nikko Principal Investments Japan Ltd.
Brastsheave Co., Ltd.
Sawzan, Limited
Japan Trustee Services Bank, Ltd.
Toppan Printing Co., Ltd.
The Master Trust Bank of Japan, Ltd.
Dai Nippon Printing Co., Ltd.
Sumitomo Mitsui Banking Corporation
CBNY National Financial Services LLC
Mizuho Bank, Ltd.

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, 2005)

SENSHUKAI'S SHARE PRICE AND TRADING VOLUME ON THE TOKYO STOCK EXCHANGE



Senshukai Co., Ltd.
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Printed in Japan on recycled paper