

Bringing Spice to Your Life

Annual Review 2006

For the Year Ended December 31, 2006



Contents

| | |
|--|----|
| Operating Highlights | 1 |
| To Our Stakeholders | 2 |
| Industry Trends..... | 4 |
| Review of Operations | 6 |
| Corporate Governance | 8 |
| Corporate Social Responsibility (CSR) | 11 |
| Board of Directors, Executive Officers, and Corporate Auditors..... | 12 |
| Consolidated Five-Year Summary..... | 13 |
| Consolidated Financial Statements | 14 |
| Corporate Data | 19 |

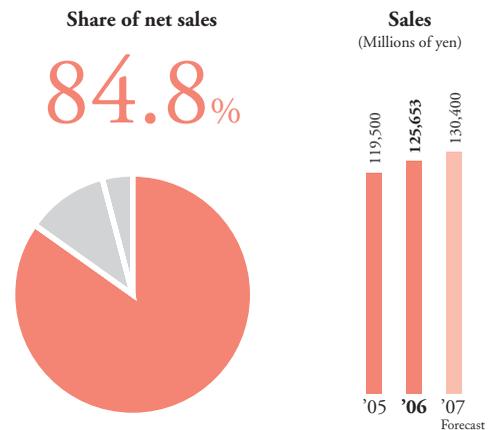
Forward-Looking Statements

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.

Operating Highlights

Mail-Order Business

Catalog Business



Business in Brief

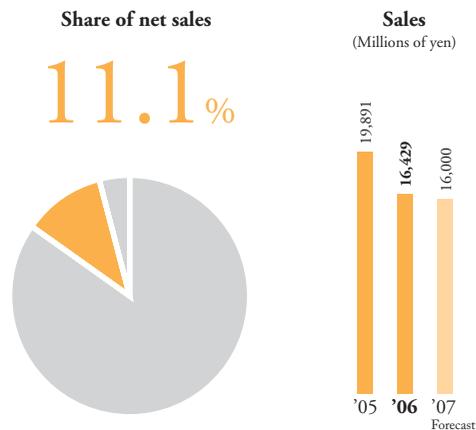
The catalog business offers approximately 7.3 million customers, mainly women in their mid-20s and 30s, new lifestyle ideas and products through the publication of 18 different catalogs under the *Belle Maison* brand.

Fiscal 2006 Initiatives

Senshukai Co., Ltd., is constantly reviewing the positioning of its various media, under the slogan "Bringing Spice to Your Life." Sales through the mainstay apparel catalog *Kurasu Fuku*, which was launched in fiscal 2005, continued to be favorable.



Hanpukai Business



Business in Brief

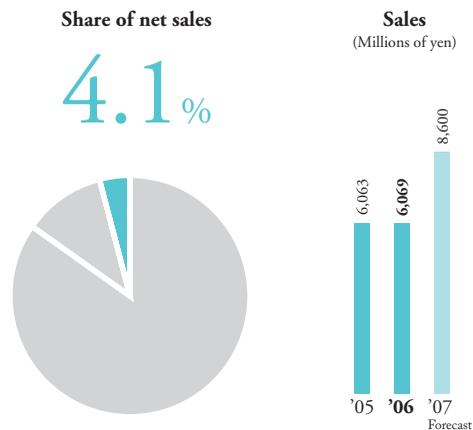
The *hanpukai* business employs a purchasing club model wherein original products developed by Senshukai are delivered to group and individual members, who are principally female office workers, on a monthly basis.

Fiscal 2006 Initiatives

This business developed 16 original new products in response to the increasingly diverse needs of its customers. Also, after changing the name of the Belle Maison Service Center Co., Ltd., to Senshukai Service Hanbai Co., Ltd., this segment implemented an organizational reform to promote services and undertake sales promotion activities closely tailored to customer needs.



Other Businesses



Business in Brief

In addition to core service operations, including travel agency and credit cards, this segment includes the Company's distribution business and storefront business based on the *Belle Maison Market* brand as well as the sale of merchandise and services to corporate customers.

Fiscal 2006 Initiatives

Principal initiatives included opening a new *Belle Maison Market* store in Yao, Osaka Prefecture, thus bringing the total number of these stores to seven.





Yasuhiro Yukimachi
President and Representative Director



Overview of Performance

In fiscal 2006, ended December 31, 2006, differences in performance emerged in the retail industry among various types of retailers and among companies within the same business categories. In the direct marketing business, sales via the Internet and mobile phones as well as sales of TV shopping companies expanded, as during the previous fiscal year. In addition, sales of companies offering a full range of products via catalogs began to show signs of recovery. As competition in this sector has become more intense, the operating environment has become significantly more challenging because of the difficulty of grasping increasingly diverse customer needs. This, in turn, is leading to realignments, alliances, and other reform activities in the retail industry.

During the fiscal year under review, which was the second under our medium-term management plan, we continued to implement our priority strategies. Consolidated net sales edged upward 1.9% over the previous fiscal year, to ¥148.2 billion, while consolidated operating income climbed 34.1%, to ¥4.6 billion, because of reductions in the cost of sales ratio in selling, general and administrative (SG&A) expenses achieved through the effective management of media-related expenditures, including printing costs. In addition, we benefited from foreign exchange gains but reported losses due to the liquidation of a subsidiary. However, consolidated net income leapt 186.2%, to ¥3.6 billion.

Management Policy

The Senshukai Group's corporate philosophy is to "contribute to society by providing customers with outstanding products and services." In addition, we endeavor to promote activities that increase our corporate value and are mutually beneficial to the

Group as well as shareholders, customers, business associates, employees, and other stakeholders.

To provide a return to shareholders, the Company is striving to attain a target dividend payout ratio of 30% for the time being. For the year under review, the Company paid a cash dividend of ¥20 per common share, representing a dividend payout ratio of 29.3%.

Also, under our medium-term management plan, we are shifting our focus from sales to enhancement of corporate value and, for fiscal 2007, ending December 31, 2007, we have set goals of ¥10.0 billion in operating cash flows and, reflecting our emphasis on profitability, an operating income ratio of 5.0%. At the same time, we will aim to increase our corporate value by actively investing in growth areas and expanding earnings.

Prospects for Fiscal 2007

We believe operating conditions in the retail industry, as in other sectors, will remain challenging. In this environment, during the current fiscal year, which is the last year under our medium-term management plan, we will continue working to attain our targets under the plan, focusing especially on enhancing the profitability of our core catalog mail-order business. We will also make aggressive investments to broaden our target group to cover women in their 20s and 40s, while also expanding our Internet, mobile phone, and store sales channels. We will also exert our utmost efforts to increase the value of the *Belle Maison* brand.

Medium-Term Management Plan Progress Report

Basic Policies

1 Higher Profitability for Core Businesses

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

2 Aggressive Investments in Growth Areas

We will aggressively invest in the expansion of our customer age groups, focusing on women in their 20s and 40s, and work to attain sales growth through the expansion of our sales channels, with greater emphasis on Internet and store-based selling.

3 Improved Brand Value

Under the slogan "Bringing Spice to Your Life," all of Senshukai's management and staff are sharply focused on creating a *Belle Maison* brand that resonates in customers' hearts.

Fiscal 2006 Achievements

1 Promotion of Supply-Chain Management

To attain the goals set for the percentage of orders for which inventory is available at the time of purchase (the ratio of times when merchandise is available when orders are placed) and reducing the frequency with which single orders require multiple shipments (the ratio of times when a customer's full order can be filled from available inventories), we changed the catalog inventory reserve rule (a rule that enables judgments regarding the level of inventories for all products ordered). However, we did not meet the target levels for these ratios because of the increase in *Kurasu Fuku* catalog sales. On the other hand, we did meet targets for the percentage of imported goods and goods directly imported by Senshukai.

2 Reassessment of Catalog Positioning

During fiscal 2006, we continued to review and reassess the positioning of our various catalogs and were able to reduce the total number of catalogs printed from the previous year. We intend to continue these reviews going forward.

3 Expansion of the Customer Base, Focusing on Women in Their 20s and 40s

For customers in their 20s, to increase our merchandise sales and service capabilities for Internet and mobile phone sales channels, we opened our *Editer* site, which is dedicated to Internet sales, as well as two other sites exclusively for mobile phone sales—one, *Mobakore*, is a fashion shopping site developed through a joint venture with DeNA Co., Ltd., and the other, *Ran Ran Ranking*, is a mobile phone site developed jointly with Bandai Networks Co., Ltd.

For customers in the 40s age group, we began to publish two new catalogs targeted at them, *Rashisa* and *Luxe Living*, and implemented initiatives to encourage repeat purchases by this age group through the *Kurasu Fuku* catalog and stepped up efforts to add new members.

4 Promotion of Internet Sales

As a result of advertising revenues from affiliates of online store *Belle Maison Net* and stronger development activities for products sold via the Internet, these sales rose 22.6%, to ¥55.7 billion, and the portion of these sales that were accounted for by Internet direct sales soared 52.2%, to ¥25.4 billion. In addition, sales via mobile phones, included in the total, rose 14.3%, to ¥12.5 billion.

5 Development of Storefront Business

During the fiscal year under review, we opened an additional *Belle Maison Market* store in Yao, Osaka Prefecture, bringing the total of these stores to seven. Going forward, our plans call for steady expansion of these stores, while considering trends in customer purchasing patterns and choice of merchandise from our catalogs appropriate to individual stores.

6 Stronger Product Development Capabilities

Currently, we are moving forward with efforts to reassess merchandise processes (the steps in product planning and development) and realignment of systems for product development management.

7 Better Customer Service

In the *Belle Maison* Call Center, we are working to further improve all types of customer services, including making improvements in the systems for placing orders and reducing the number of days required for delivery.

Although consumer spending in Japan remains lackluster, in recent years, direct marketing sales have shown rapid expansion. According to research conducted by the Japan Direct Marketing Association, direct marketing sales have expanded at an annual rate of 5% over the last five years. In 2003, the total market was ¥2,790 billion and expanded to ¥3,040 billion in 2004, then to ¥3,360 billion in 2005. A high percentage of this growth was due to expansion in TV shopping sales (at 30% annually) and Internet sales (at 60% annually).

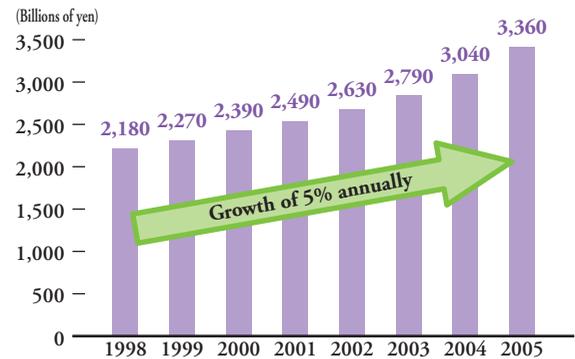
One of the factors that can be cited as providing support for continued growth in direct marketing sales is that consumers have a strong preference for this mode of purchasing goods. According to research conducted by the Japan Direct Marketing Association, reasons for consumers' preference for direct marketing include: purchases can be made anytime and anywhere, goods that would be difficult to purchase otherwise can be ordered, and consumers can take their time in making decisions.



As a result of this preference, in 2005, 77% of all households in Japan and 62% of all individuals made use of direct marketing channels. The number of users of Internet and TV shopping is forecasted to increase going forward.



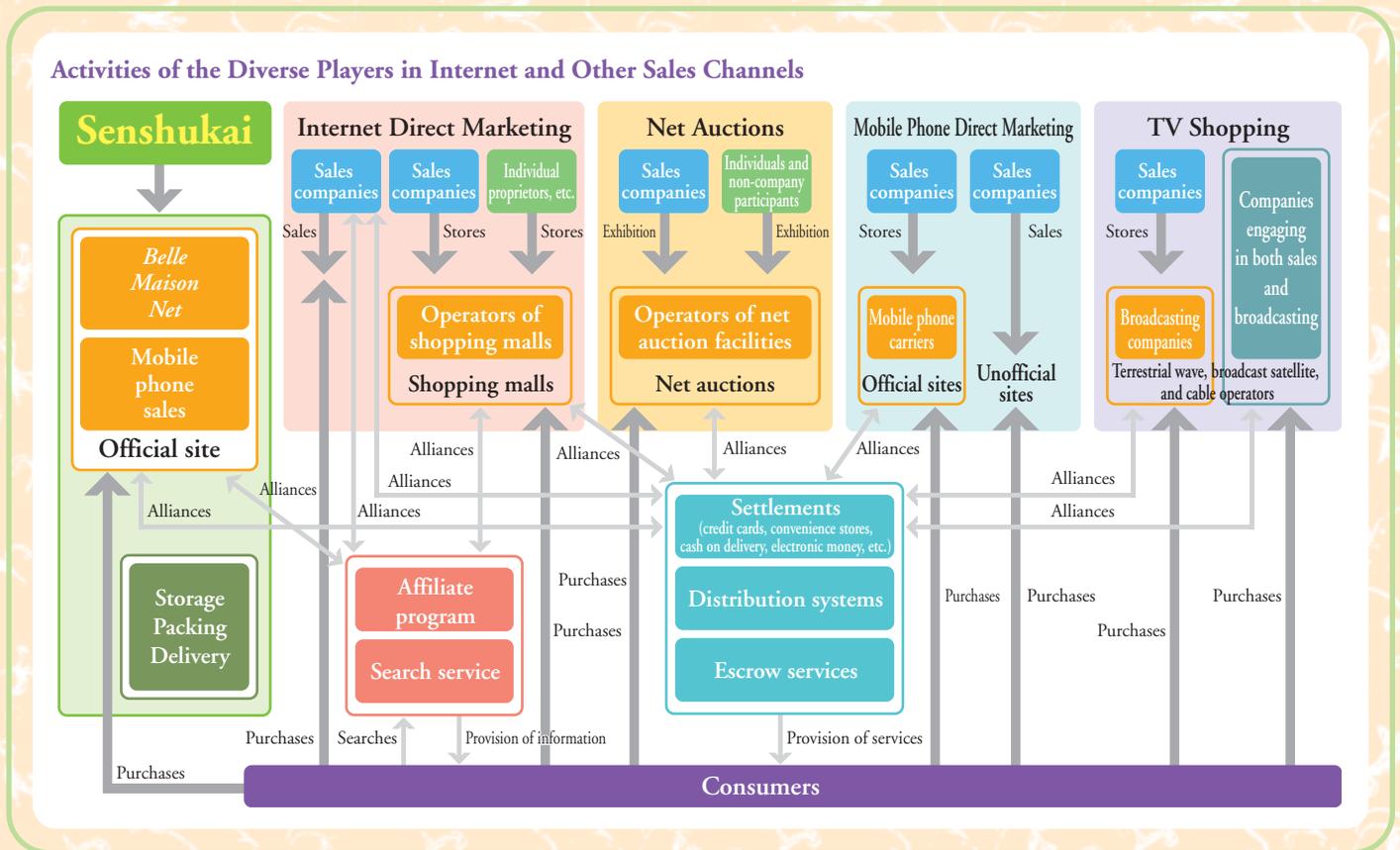
Trends in Japan's Direct Marketing Sales



Japan Direct Marketing Association, *Report on Surveys of Companies Engaging in Direct Marketing*

Diverse Players Engage in Direct Marketing

Among new forms of direct marketing, many players have entered the market to link sellers and buyers, taking advantage of the special features of the Internet. The role of intermediaries in matching a large number of sellers and buyers has become extremely important. Along with this, the information transmission capabilities of consumers have also grown and have come to play intermediary roles as affiliates. These intermediaries are making a major contribution to expanding new forms of direct marketing.



Catalog Business

Publication of New Catalogs

During the fiscal year, the Company introduced two new catalogs, *J fill*, a catalog published twice yearly for women who are interested in finding jewelry that perfectly fits and enhances their self-image and self-esteem, and *Shoes Park*, a shoe catalog updated four times a year that presents a comprehensive collection of shoes to fit all needs and occasions.



J fill



Shoes Park



Editer

New Online Shopping Sites Opened

Editer is the name of an online shopping site offered by the Company to present selected fashion goods that appeal to mature women. Merchandise presented is available only from the site.

The concept of *Editer* is “helping customers to arrange their own daily lives and find their own lifestyles.” The site presents carefully selected, highly fashion-conscious, fresh, distinctive fashion goods, including well-known brands and original Senshukai merchandise. Goods are added on a weekly basis and are ready for order and shipment immediately.

Another site offering fashionable goods and available only on mobile phones, *Mobakore*, was opened during the fiscal year by a joint venture between Senshukai and DeNA Co., Ltd.

A third new site opened during the fiscal year is *Ran Ran Ranking*, which is also accessible only through mobile phones and offers shopping information for working women in their 20s.



Ran Ran Ranking



Mobakore

A fourth site, *Jensis*, which is accessible via PCs, mobile PCs, and mobile phones, was opened during the year to introduce young women in their early 20s who want to maintain their aura of effervescence to the latest fashion trends.

To catch the eye of trend-conscious women in their 20s, Senshukai also publishes *Okaimono with*, a mail-order catalog to complement *with*, a fashion magazine published by Kodansha Ltd.



Jensis



Okaimono with

Hanpukai Business

Development of Original Products

Five new product series were introduced during the fiscal year: *reflexsole* shoe inner soles featuring high performance and different designs each month; *Petit Air*, an air freshener gel in a glass container that doubles as a room ornament; *Omoide Pocket*, a pocket scrapbook with a new and original look; *CutieBu Cafe*, an instant drink set; and *Choko Choko Book* character goods series. In addition to these product series, Senshukai also developed and introduced the *Anfi* line of ear accessories.



Choko Choko Book character goods series: Japanese-style drawstring purse



CutieBu Cafe:
A freeze-dried instant drink set



reflexsole:
Insoles for women's shoes that deodorize and disinfect



Anfi: A line of ear accessories



Petit Air:
Air freshener in an egg-shaped container with a glass fairy figurine inside



Omoide Pocket:
Pocket-sized scrapbook with sleeves for postcards and pages for notes

Expanded Services for Customers

The Company changed the name of the Belle Maison Service Center Co., Ltd., to Senshukai Service Hanbai Co., Ltd., and reorganized its activities, conducted more detailed and responsive services and promotional activities, and worked to continue to expand the number of workplace-based purchasing groups.

Other Businesses

As one of its other businesses, in September 2006, Senshukai acquired two companies in the field of design, production, and sales of women's casual wear—B'-BOP STUDIO Co., Ltd., and Melody Square Co., Ltd.



1. Systems for Ensuring the Proper Conduct of Operations

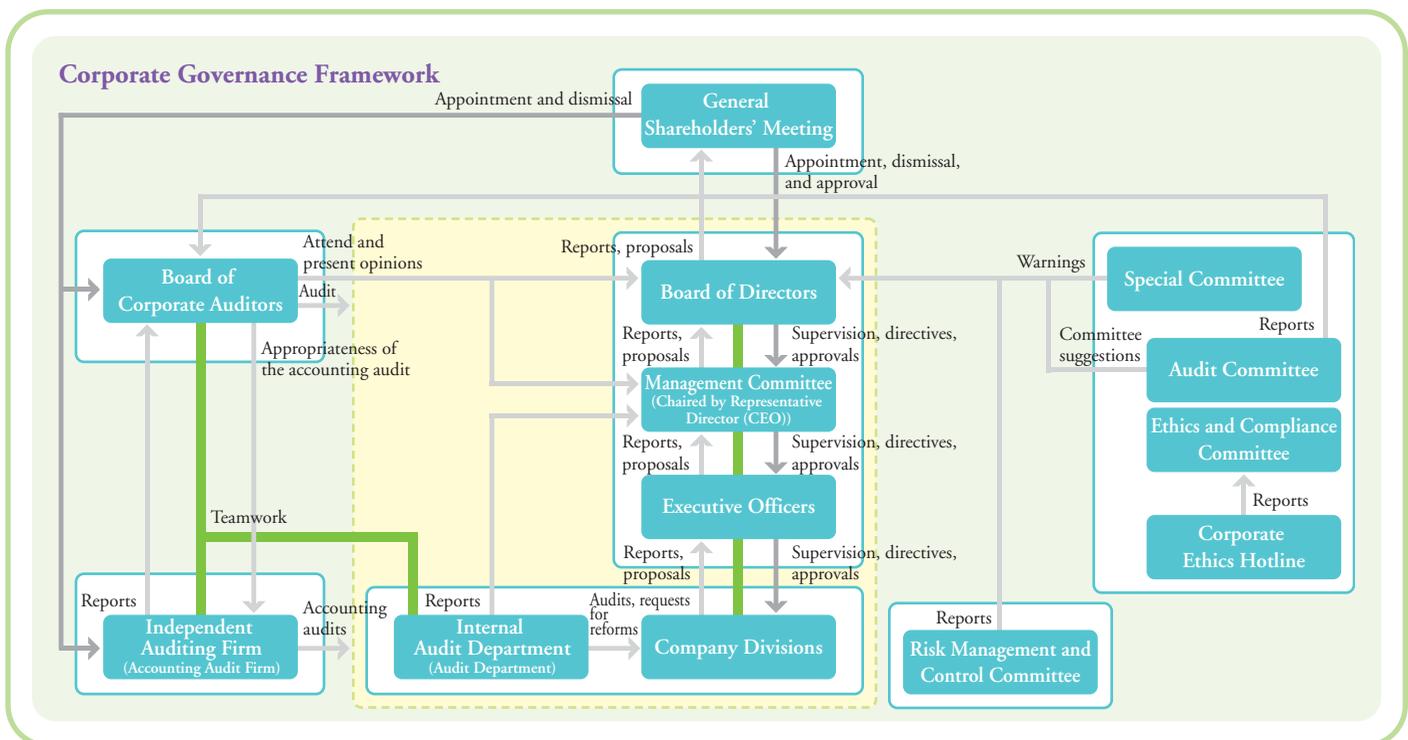
Based on the provisions of Japan's Company Law, the Company's Board of Directors, at its meeting held on May 12, 2006, discussed and approved the following basic policies regarding the design of internal control systems.

Basic Approach to Internal Control Systems

Under its basic policies for corporate governance, in order to create management systems with a high degree of transparency, the Senshukai Group will work to design and structure internal control systems, strengthen its compliance systems, increase the efficiency of business processes, establish systems for management of risk, and work to ensure as well as strengthen the independence of the corporate auditors. In addition, with the aim of continually upgrading these systems, the Group will conduct reassessments when necessary that are appropriate to changes in the requirements of society and changes in the natural environment.

Specific Content of the Internal Control Frameworks

- (1) Systems for ensuring compliance by directors and employees with legal regulations and the Company's Articles of Incorporation in the execution of operations
The Group has prepared its Senshukai Group Compliance Policy, conducts timely compliance education programs, and has formed a dedicated organizational unit to conduct checks on intellectual property and product liability. In addition, when compliance issues arise, these are presented to a special committee, via the Senshukai Corporate Ethics Hotline, and given appropriate consideration. Please note that, regarding internal controls, Group companies conduct internal audits, and reports on the results are presented to the president.
- (2) Systems for safekeeping and management of information related to the execution of the duties of the directors
Information relating to the execution of the duties of the directors as well as important confidential information is preserved and managed in strict accordance with internal rules and other regulations. In addition, the directors and auditors



can access this information through the intranet (internal network) at any time. In addition, revisions in important regulations are implemented after approval by the Board of Directors.

(3) Regulations and other systems related to the management of losses and hazards

Under rules and regulations for risk management, a permanent Risk Management and Control Committee has been established, and it is responsible for reporting on the management of various risks on a monthly basis. In addition, a system has been adopted for preparing risk management manuals and conducting activities in accordance with them. In addition, to deal with emergency situations and contingencies that have not been foreseen by the directors, rules and regulations have been prepared as well as systems for taking appropriate action in such contingencies.

(4) Systems for ensuring that the duties of the directors are performed efficiently

Systems that have been adopted to secure the efficient performance of duties include the clarification of roles, responsibilities, authority, and other matters relating to the directors, Management Committee, employees, and others; the appointment of independent, external directors; the introduction of an executive officer system that clearly separates the Board of Directors' responsibilities for oversight from the execution of operations; and the creation of the Management Committee separately from the Board of Directors to promote fast decision making.

(5) Systems for ensuring the appropriate execution of business by the Company's corporate group, comprising the parent company and subsidiaries

The Company and the other members of the Senshukai Group have prepared rules and regulations for the Company to conduct checks on important matters related to subsidiaries by permitting the directors of the Company to participate in the management of subsidiaries by giving direction, orders,

guidance, and evaluations, with the objective of ensuring the appropriate execution of business activities of the Group as a whole. In addition, the Group implements uniform compliance education programs for the employees of Group companies.

(6) Matters related to the assignment of personnel to assist the corporate auditors in the performance of their duties, when the auditors make such requests

When corporate auditors make such requests, dedicated staff members are appointed to assist them. Also, in matters related to the appointment as well as transfer, personnel evaluation, and dismissal of such staff members, maximum consideration is given to the opinions of the Board of Corporate Auditors as regards these staff members.

(7) Systems for directors and employees to make reports to the corporate auditors, systems for other reports to be made to the corporate auditors, and systems to ensure the efficient conduct of auditing activities by the corporate auditors

The corporate auditors attend important internal meetings as they deem necessary, receive reports on important information relating to corporate management, and are provided with the documents and other information they wish to examine. On the other hand, when important matters are discovered by various risk management committees and others, such matters are reported immediately to the corporate auditors. Moreover, the corporate auditors exchange opinions with the representative directors and the independent auditing firm on a regular basis and conduct hearings and discussions with key employees. Arrangements are also made for the corporate auditors to obtain the advice of specialists when they make such requests.

2. Policies Pertaining to Large Share Purchases

When large purchases of the Company's shares are about to occur, we believe that shareholders should make the final decision as to whether to accept the purchase offer and that we need to provide shareholders with sufficient information to make this

decision. Therefore, the Company has 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 of 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, including an outline of the party proposing to make such a purchase, the objective of the purchase, the basis for setting the purchase prices, the management policies of the party, and other relevant information, and (2) the Board of Directors shall be given sufficient time to evaluate the aforementioned proposal before the large share purchase begins.

In the event that these rules are not followed, there is a possibility that the Company may take the step of issuing rights to purchase new shares with the objective of protecting the rights of shareholders. Moreover, to ensure fairness, the Company has formed a special committee comprising outside members to examine the pros and cons of countermeasures developed by the Board of Directors and reports its findings to the Board.

Please note that a proposal to approve "Company Policies Pertaining to Large Share Purchases" with the previously mentioned content was made and duly approved at the 62nd General Shareholders' Meeting (for the year ended December 31, 2006).

3. System Risk Management Framework for the Company's Corporate Governance and Internal Control Systems

Management Committee

The Management Committee meets in principle once a week and is attended by the directors and corporate auditors. This committee considers and makes timely decisions regarding matters other than those that are matters for decision by the Board of Directors and, when deemed necessary, deliberates matters that are to be decided by the Board of Directors and conducts checks on individual departments.

Audit Department

(Internal audits, corporate auditors, and accounting audits performed by the independent auditing firm)

- (1) The Internal Audit Department conducts audits of business processes and accounting processes and makes reports on these audits to the representative directors, while also making proposals for improving specific items and confirming the results of corrective measures.
- (2) The auditors, principally the internal corporate auditors, attend the meetings of the Board of Directors, Management Committee, and other important meetings, while also conducting audits of business processes and accounting processes as well as audits of the conduct of operations by the directors.
- (3) The accounting audits of the independent auditing firm are conducted in a timely fashion, and the Company provides all necessary information and data on the Senshukai Group and seeks to create an environment that enables the firm to conduct its auditing activities quickly and accurately. The corporate auditors and the independent auditing firm meet periodically to discuss audit policy and other matters as well as cooperating with one another to conduct the auditing activities effectively and efficiently.



<http://www.babytown.jp/>
<http://www.premama.jp/>



http://www.senshukai.co.jp/main/top/csr_policy.htm



Candle Night of a Million People

Our CSR Policy

Senshukai has formulated a CSR policy under which it pledges to fulfill its corporate social responsibilities through initiatives based on the following three themes: supporting women, ensuring compliance, and promoting environmental preservation. The details of these activities are as follows.

Supporting Women

The key aspects of these support activities for women are to create an environment where women can work while also taking care of their families and to encourage a heightened career awareness among female employees. In addition, based on Japan's Law for Promoting Support for Grooming the Next Generation, the Company is taking initiatives to create frameworks that will enable women to continue to improve their capabilities even after childbirth and provide support for career security.

The Company provides support for "Baby Town" and "Pre Mama Town" websites, which are targeted at persons interested in child-rearing and are sponsored by a number of companies that have a strong interest in supplying goods and services to enhance the quality of life for babies and their mothers and fathers. The audience for these websites ranges from expectant mothers to fathers and mothers who already have children, and they offer a venue for communicating information about raising kids.

Compliance

The Company's Mission Statement contains the statement "The reason for the existence of the Company is to contribute to society." The Company has therefore positioned compliance as a key management issue and is working to continue to be a company where each employee obeys the rules and this behavior is "readily accepted by all as the appropriate thing to do."

There are four aspects to the Company's compliance policy.

(1) Observance of Laws and Regulations

In all business activities, the Company conducts proper and conscientious corporate activities, not only observing laws and regulations but also in compliance with social mores, corporate ethics, and internal rules.

(2) Working to Ensure Management Soundness and Transparency

The Company creates internal control systems and discloses timely and accurate corporate information to secure management soundness and transparency.

(3) Dealing Resolutely with Antisocial Behavior

The Company deals resolutely in all aspects of its activities with antisocial behavior.

(4) Creating a Working Environment Favorable to Employees

The Company works to create a corporate environment where employees become motivated to use their abilities to the fullest extent and can raise their creativity and professionalism to the highest levels possible.

Environmental Preservation

Senshukai is actively engaged in initiatives on a Companywide basis to preserve the Earth's environment under the slogan "Think the Earth, think the future."

Support for the "Candle Night of a Million People" Movement

Senshukai is a joint sponsor of the "Candle Night of a Million People," one of the movements that aims to contribute to environmental enlightenment. The goal of this movement is to "improve the awareness of the natural environment among residents of urban areas" by encouraging them to turn off their electric lights for two hours on several consecutive nights and experience living by candlelight. Senshukai plans to continue to make contributions to society through this and other initiatives.



Seated, left to right: Michio Tanabe, Koichi Horii, Yasuhiro Yukimachi, Kiichi Tagawa, and Shohachi Sawamoto
Standing, left to right: Kiyoshi Kubota, Tomoko Oishi, Kazuhide Fujiyoshi, and Mamoru Asada

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

Executive Officers

Kojiro Oyama

Yasuhiro Otsuka

Manabu Dojo

Kenji Hirota

Shigemitsu Mineoka

Yoshihiro Nakabayashi

Hiroyuki Hoshino

CORPORATE AUDITORS

Shoji Tottori

Yoshihiro Inoda

Hideyuki Koizumi

Hiroshi Morimoto

(As of March 29, 2007)



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) |
|--|-----------------|----------|----------|----------|-----------------|--|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2006 |
| For the year: | | | | | | |
| Net sales | ¥147,101 | ¥147,607 | ¥147,159 | ¥145,454 | ¥148,151 | \$1,243,712 |
| Mail-order business | 144,105 | 143,764 | 139,626 | 139,391 | 142,082 | 1,192,763 |
| Other | 2,996 | 3,843 | 7,533 | 6,063 | 6,069 | 50,949 |
| Operating income | 3,326 | 5,057 | 2,921 | 3,433 | 4,603 | 38,642 |
| Net income | 1,367 | 1,819 | 1,232 | 1,268 | 3,628 | 30,457 |
| Capital expenditures | 1,038 | 468 | 499 | 2,140 | 2,179 | 18,292 |
| Depreciation and amortization | 2,704 | 2,503 | 2,289 | 1,806 | 1,621 | 13,608 |
| At year-end: | | | | | | |
| Total assets | 88,119 | 87,270 | 87,561 | 92,788 | 95,509 | 801,788 |
| Net assets | 46,586 | 47,184 | 47,136 | 52,519 | 55,709 | 467,671 |
| Equity ratio (%) | 52.9 | 54.1 | 53.9 | 56.6 | 58.3 | |
| Return on equity (%) | 2.9 | 3.9 | 2.6 | 2.5 | 6.6 | |
| Return on assets (%) | 1.5 | 2.1 | 1.4 | 1.4 | 3.9 | |
| Number of employees..... | 1,112 | 1,034 | 915 | 965 | 1,082 | |
| | | | Yen | | | U.S. dollars (Note) |
| Per share: | | | | | | |
| Basic net income | ¥ 29.90 | ¥ 40.81 | ¥ 28.81 | ¥ 27.44 | ¥ 78.81 | \$ 0.66 |
| Diluted net income | — | 40.69 | 28.67 | 27.36 | 78.55 | 0.66 |
| Cash dividends applicable to the year..... | 8.00 | 16.00 | 16.00 | 18.00 | 20.00 | 0.17 |

Note: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥119.12=US\$1.

Changes in Accounting Policies

The Company has made the following changes in its accounting policies in response to the passage of Japan's Company Law in May 2006:

Balance Sheets

The Shareholders' equity section on the balance sheets has been eliminated, and a new section, Net assets, has been added. With this change, all accounting items that can be classified as assets have been included under Assets, and all accounting items classifiable as liabilities have been included under Liabilities. Accounting items that are not classifiable as assets or liabilities have been entered under Net assets, which is the numerical difference between total assets and total liabilities. For comparison purposes, the items formerly included in Shareholders' equity have been included under Net assets.

Consolidated Balance Sheets

Senshukai Co., Ltd. and Consolidated Subsidiaries
December 31, 2006 and 2005

| ASSETS | Millions of yen | | Thousands of U.S. dollars (Note) |
|--|-----------------|----------|--|
| | 2006 | 2005 | 2006 |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 5,550 | ¥11,321 | \$ 46,592 |
| Notes and accounts receivable | 11,508 | 10,262 | 96,608 |
| Allowance for doubtful accounts | (193) | (166) | (1,620) |
| Inventories | 16,433 | 15,166 | 137,953 |
| Deferred income taxes | 101 | 380 | 848 |
| Other current assets | 13,929 | 12,569 | 116,933 |
| Total current assets | 47,328 | 49,532 | 397,314 |
| Property and equipment: | | | |
| Land | 11,411 | 11,482 | 95,794 |
| Buildings and structures | 27,851 | 28,190 | 233,806 |
| Machinery and equipment | 14,499 | 14,706 | 121,718 |
| Furniture and fixtures | 2,879 | 2,876 | 24,169 |
| Construction in progress | 36 | 4 | 302 |
| Total | 56,676 | 57,258 | 475,789 |
| Accumulated depreciation | (32,083) | (31,653) | (269,333) |
| Net property and equipment | 24,593 | 25,605 | 206,456 |
| Investments and other assets: | | | |
| Investment securities | 16,510 | 12,254 | 138,600 |
| Long-term loans receivable | 1,102 | 751 | 9,251 |
| Guarantee deposits | 1,304 | 1,258 | 10,947 |
| Intangible assets, net | 2,601 | 1,475 | 21,835 |
| Deferred income taxes | 56 | — | 470 |
| Other | 2,660 | 2,579 | 22,330 |
| Allowance for doubtful accounts | (645) | (666) | (5,415) |
| Total investments and other assets | 23,588 | 17,651 | 198,018 |
| Total | ¥95,509 | ¥92,788 | \$801,788 |

Note: U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥119.12=US\$1.

| LIABILITIES AND NET ASSETS | Millions of yen | | Thousands of U.S. dollars (Note) |
|---|-----------------|---------|--|
| | 2006 | 2005 | 2006 |
| Current liabilities: | | | |
| Current portion of long-term debt | ¥ 54 | ¥ 124 | \$ 453 |
| Notes and accounts payable: | | | |
| Trade | 11,711 | 10,987 | 98,313 |
| Other | 22,037 | 21,075 | 184,998 |
| Accrued expenses | 2,366 | 2,943 | 19,862 |
| Accrued income taxes | 285 | 308 | 2,393 |
| Deferred tax liabilities | 265 | — | 2,225 |
| Liabilities for directors and corporate auditors' bonuses | 50 | — | 420 |
| Other current liabilities | 786 | 2,130 | 6,598 |
| Total current liabilities | 37,554 | 37,567 | 315,262 |
| Long-term liabilities: | | | |
| Long-term debt | 342 | 394 | 2,871 |
| Liability for retirement benefits | 515 | 614 | 4,323 |
| Deferred tax liabilities | 1,338 | 1,651 | 11,232 |
| Other | 51 | — | 429 |
| Total long-term liabilities | 2,246 | 2,659 | 18,855 |
| Minority interests | — | 43 | — |
| Net assets: | | | |
| Common stock: | | | |
| Authorized—180,000,000 shares | | | |
| Issued—47,630,393 shares | 20,359 | 20,359 | 170,912 |
| Capital surplus | 20,717 | 20,658 | 173,917 |
| Retained earnings | 20,890 | 18,439 | 175,369 |
| Net unrealized gains on available-for-sale securities | 1,337 | 1,720 | 11,224 |
| Deferred hedge gains (losses) | 735 | — | 6,170 |
| Land revaluation difference | (7,302) | (7,463) | (61,300) |
| Foreign currency translation adjustments | (32) | (41) | (269) |
| Treasury stock, at cost: | | | |
| 1,548,297 shares in 2006 and 1,728,686 shares in 2005 | (1,042) | (1,153) | (8,747) |
| Total | 55,662 | 52,519 | 467,276 |
| Minority interests | 47 | — | 395 |
| Total net assets | 55,709 | 52,519 | 467,671 |
| Total | ¥95,509 | ¥92,788 | \$801,788 |

Changes in Accounting Policies

The Company has made the following changes in its accounting policies in response to the passage of Japan's Company Law in May 2006:

Balance Sheets

The Shareholders' equity section on the balance sheets has been eliminated, and a new section, Net assets, has been added. With this change, all accounting items that can be classified as assets have been included under Assets, and all accounting items classifiable as liabilities have been included under Liabilities. Accounting items that are not classifiable as assets or liabilities have been entered under Net assets, which is the numerical difference between total assets and total liabilities. For comparison purposes, the items formerly included in Shareholders' equity have been included under Net assets.

Consolidated Statements of Income

Senshukai Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2006 and 2005

| | Millions of yen | | Thousands of U.S. dollars (Note) |
|--|-----------------|----------|--|
| | 2006 | 2005 | 2006 |
| Net sales | ¥148,151 | ¥145,454 | \$1,243,712 |
| Cost of sales | 75,727 | 75,174 | 635,720 |
| Gross profit | 72,424 | 70,280 | 607,992 |
| Selling, general and administrative expenses | 67,821 | 66,847 | 569,350 |
| Operating income | 4,603 | 3,433 | 38,642 |
| Other income (expenses): | | | |
| Interest and dividend income | 244 | 164 | 2,048 |
| Interest expenses | (48) | (45) | (403) |
| Loss on disposal of property and equipment | (107) | (223) | (898) |
| Loss on impairment of long-lived assets | (129) | (1,860) | (1,083) |
| Foreign exchange gains | 121 | 135 | 1,016 |
| Equity in earnings of unconsolidated subsidiaries | 193 | 167 | 1,620 |
| Other, net | (1,002) | (11) | (8,412) |
| Other income (expenses)—net | (728) | (1,673) | (6,112) |
| Income before income taxes and minority interests | 3,875 | 1,760 | 32,530 |
| Income taxes: | | | |
| Current | 376 | 309 | 3,156 |
| Deferred | (137) | 182 | (1,150) |
| Minority interests | 8 | 1 | 67 |
| Net income | ¥ 3,628 | ¥ 1,268 | \$ 30,457 |
| | | Yen | U.S. dollars (Note) |
| Per share of common stock: | | | |
| Basic net income | ¥ 78.81 | ¥ 27.44 | \$ 0.66 |
| Diluted net income | 78.55 | 27.36 | 0.66 |
| Cash dividends applicable to the year | 20.00 | 18.00 | 0.17 |

Note: U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥119.12=US\$1.

Consolidated Statements of Changes in Net Assets

Senshukai Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2006 and 2005

| | Millions of yen | | | | | | | | | | | |
|---|----------------------|-----------------|-------------------|-----------------|----------------------------|---|-------------------------------|-----------------------------|--|---|--------------------|------------------|
| | Shareholders' equity | | | | | Valuation and translation adjustments | | | | | | |
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity | Net unrealized gains on available for sale securities | Deferred hedge gains (losses) | Land revaluation difference | Foreign currency translation adjustments | Total valuation and translation adjustments | Minority interests | Total net assets |
| Balance as of Dec. 31, 2005 | ¥20,359 | ¥20,658 | ¥18,439 | ¥(1,153) | ¥58,303 | ¥1,720 | ¥ — | ¥(7,463) | ¥(41) | ¥(5,784) | ¥43 | ¥52,562 |
| Changes in the fiscal year.... | | | | | | | | | | | | |
| Dividend of surplus (Note 1) | — | — | (459) | — | (459) | — | — | — | — | — | — | (459) |
| Dividend of surplus | — | — | (460) | — | (460) | — | — | — | — | — | — | (460) |
| Bonuses to directors and corporate auditors (Note 1) | — | — | (48) | — | (48) | — | — | — | — | — | — | (48) |
| Net income | — | — | 3,628 | — | 3,628 | — | — | — | — | — | — | 3,628 |
| Purchases of treasury stocks | — | — | — | (18) | (18) | — | — | — | — | — | — | (18) |
| Disposal of treasury stocks | — | 59 | — | 129 | 188 | — | — | — | — | — | — | 188 |
| Transfer of land revaluation difference | — | — | (161) | — | (161) | — | — | — | — | — | — | (161) |
| Decrease in retained earnings due to increase in the number of consolidated subsidiaries..... | — | — | (49) | — | (49) | — | — | — | — | — | — | (49) |
| Changes (net) in items other than shareholders' equity | — | — | — | — | — | (383) | 735 | 161 | 9 | 522 | 4 | 526 |
| Total changes in the fiscal year..... | — | 59 | 2,451 | 111 | 2,621 | (383) | 735 | 161 | 9 | 522 | 4 | 3,147 |
| Balance as of Dec. 31, 2006 | ¥20,359 | ¥20,717 | ¥20,890 | ¥(1,042) | ¥60,924 | ¥1,337 | ¥735 | ¥(7,302) | ¥(32) | ¥(5,262) | ¥47 | ¥55,709 |

| | Thousands of U.S. dollars (Note 2) | | | | | | | | | | | |
|---|------------------------------------|------------------|-------------------|------------------|----------------------------|---|-------------------------------|-----------------------------|--|---|--------------------|------------------|
| | Shareholders' equity | | | | | Valuation and translation adjustments | | | | | | |
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity | Net unrealized gains on available for sale securities | Deferred hedge gains (losses) | Land revaluation difference | Foreign currency translation adjustments | Total valuation and translation adjustments | Minority interests | Total net assets |
| Balance as of Dec. 31, 2005 | \$170,912 | \$173,422 | \$154,793 | \$(9,679) | \$489,448 | \$14,439 | \$ — | \$(62,651) | \$(344) | \$(48,556) | \$361 | \$441,253 |
| Changes in the fiscal year.... | | | | | | | | | | | | |
| Dividend of surplus (Note 1) | — | — | (3,853) | — | (3,853) | — | — | — | — | — | — | (3,853) |
| Dividend of surplus | — | — | (3,862) | — | (3,862) | — | — | — | — | — | — | (3,862) |
| Bonuses to directors and corporate auditors (Note 1) | — | — | (404) | — | (404) | — | — | — | — | — | — | (404) |
| Net income | — | — | 30,457 | — | 30,457 | — | — | — | — | — | — | 30,457 |
| Purchases of treasury stocks | — | — | — | (151) | (151) | — | — | — | — | — | — | (151) |
| Disposal of treasury stocks | — | 495 | — | 1,083 | 1,578 | — | — | — | — | — | — | 1,578 |
| Transfer of land revaluation difference | — | — | (1,351) | — | (1,351) | — | — | — | — | — | — | (1,351) |
| Decrease in retained earnings due to increase in the number of consolidated subsidiaries..... | — | — | (411) | — | (411) | — | — | — | — | — | — | (411) |
| Changes (net) in items other than shareholders' equity | — | — | — | — | — | (3,215) | 6,170 | 1,351 | 75 | 4,381 | 34 | 4,415 |
| Total changes in the fiscal year..... | — | 495 | 20,576 | 932 | 22,003 | (3,215) | 6,170 | 1,351 | 75 | 4,381 | 34 | 26,418 |
| Balance as of Dec. 31, 2006 | \$170,912 | \$173,917 | \$175,369 | \$(8,747) | \$511,451 | \$11,224 | \$6,170 | \$(61,300) | \$(269) | \$(44,175) | \$395 | \$467,671 |

Notes: 1. Appropriation of earnings resolved at the Annual General Meeting of Shareholders in March 2006.

2. U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥119.12=US\$1.

Consolidated Statements of Cash Flows

Senshukai Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2006 and 2005

| | Millions of yen | | Thousands of U.S. dollars (Note) |
|--|-----------------|---------|--|
| | 2006 | 2005 | 2006 |
| Operating activities: | | | |
| Income before income taxes and minority interests | ¥ 3,875 | ¥ 1,760 | \$32,530 |
| Adjustments for: | | | |
| Income taxes paid | (230) | (453) | (1,931) |
| Depreciation and amortization | 1,621 | 1,806 | 13,608 |
| Provision for doubtful receivables | 6 | (64) | 50 |
| Loss on disposal of property and equipment | 107 | 223 | 898 |
| Loss on impairment of long-lived assets | 129 | 1,860 | 1,083 |
| Bonuses to directors and corporate auditors | (48) | (10) | (403) |
| Equity in earnings of unconsolidated subsidiaries | (193) | (167) | (1,620) |
| Changes in assets and liabilities: | | | |
| Increase in notes and accounts receivable | (1,220) | (327) | (10,242) |
| Increase in inventories | (1,525) | (1,193) | (12,802) |
| Increase in notes and accounts payable | 1,666 | 141 | 13,986 |
| Decrease in liability for retirement benefits | (100) | (290) | (839) |
| Decrease in deposits received | — | (1,374) | — |
| Other, net | (2,618) | 628 | (21,978) |
| Total adjustments | (2,405) | 780 | (20,190) |
| Net cash provided by operating activities | 1,470 | 2,540 | 12,340 |
| Investing activities: | | | |
| Proceeds from sales of property and equipment | 372 | 589 | 3,123 |
| Purchases of property and equipment | (559) | (1,344) | (4,693) |
| Proceeds from sales of intangible assets | 61 | — | 512 |
| Purchases of intangible assets | (1,084) | (713) | (9,100) |
| Proceeds from sales of investment securities | 649 | 849 | 5,448 |
| Purchases of investment securities | (5,323) | (5,140) | (44,686) |
| (Increase) decrease in time deposits | (500) | 403 | (4,197) |
| Other, net | (42) | 270 | (352) |
| Net cash used in investing activities | (6,426) | (5,086) | (53,945) |
| Financing activities: | | | |
| Increase in short-term bank loans, net | — | 1 | — |
| Proceeds from long-term debt | — | 85 | — |
| Repayments of long-term debt | (124) | (129) | (1,041) |
| Purchases of treasury stock | (18) | (21) | (151) |
| Disposal of treasury stock | 188 | 3,395 | 1,578 |
| Dividends paid | (922) | (706) | (7,740) |
| Net cash (used in) provided by financing activities | (876) | 2,625 | (7,354) |
| Net (decrease) increase in cash and cash equivalents | (5,832) | 79 | (48,959) |
| Cash and cash equivalents, beginning of year | 11,321 | 11,242 | 95,039 |
| Increase in cash and cash equivalents due to consolidation of subsidiary | 61 | — | 512 |
| Cash and cash equivalents, end of year | ¥ 5,550 | ¥11,321 | \$46,592 |

Note: U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥119.12=US\$1.

Senshukai Co., Ltd.

CORPORATE INFORMATION

Head Office

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Telephone: 06-6881-3100
Website: www.senshukai.co.jp

Tokyo Branch

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

1,082

Distribution Centers

Chubu, Koshien, Kyoto, and Kanuma

Subsidiaries and Affiliates

Japan—14 subsidiaries and 3 affiliates
Overseas—7 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

5,264

Major Shareholders (Top 10)

Brastsheave Co., Ltd.
Nikko Principal Investments Japan Ltd.
Toppan Printing Co., Ltd.
Sawzan, Limited
Dai Nippon Printing Co., Ltd.
State Street Bank and Trust Company, Ltd.
Japan Trustee Services Bank, Ltd.
Sumitomo Mitsui Banking Corporation
Mizuho Bank, Ltd.
Nippon Life and Insurance Company

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, 2006)

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





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