

SENSHUKAI CO., LTD.

Bringing Spice to Your Life

Annual Review 2007

For the Year Ended December 31, 2007

 BELLE MAISON



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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 original products through the publication of 18 different catalogs under the *Belle Maison* brand.

Share of net sales

83.6%



Fiscal 2007 Review

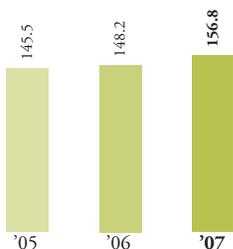
A reevaluation of the positioning of its various catalogs was conducted, and catalog-printing volumes were reduced. The number of active customers (customers who placed orders during the year) rose 100,000, to 3.8 million. Sales through the mainstay apparel catalog *Kurasu Fuku* continued to be favorable.

Sales
(Millions of yen)

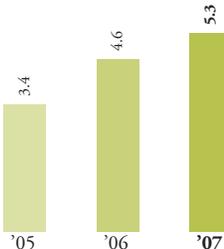


Results of Medium-Term Management Plan (2005-2007)

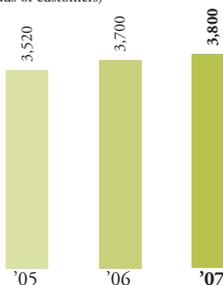
Net Sales (Billions of yen)



Operating Income (Billions of yen)



Number of Active Customers
(Thousands of customers)



Hanpukai Business

Business in Brief

The *hanpukai* business employs a unique 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 2007 Review

As a means of helping rebuild the *hanpukai* business, the office vending box (*Choko Tabo* Box) business was begun during the year. Through this initiative and other measures, the Company endeavored to increase its presence in workplaces.



Share of net sales

9.3%



Sales
(Millions of yen)



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* brand as well as the sale of merchandise and services to corporate customers. It also is working to develop its newly initiated pet-related business.

Fiscal 2007 Review

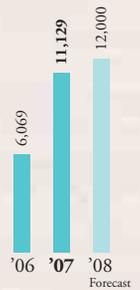
Three subsidiaries were newly consolidated—mainly PET FIRST CO., LTD., which operates a 12-store chain focused on pet merchandise, and B·B·S Co., Ltd., which operates a 5-store chain focused on ladies apparel. The seven-store chain of *Belle Maison* achieved a strong performance, and the *Kurasu Fuku* store within that chain recorded a particularly robust performance.

Share of net sales

7.1%



Sales
(Millions of yen)

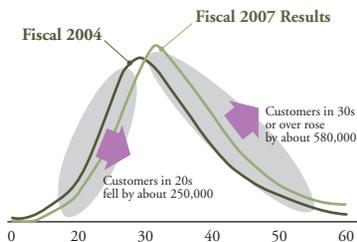


*Change to Business Categories

From the fiscal year under review, the *Belle Mariée* (*Belle Mariée Chapelle Planches*) wedding support business has been shifted from the Mail-Order Business category to the Other Businesses category.

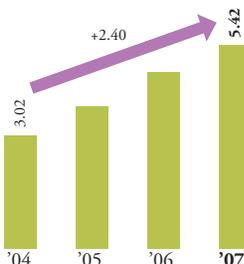
Age Distribution Trend of *Belle Maison* Members

Active customers (Dec. 31, 2007): 3.8 million customers
(Increase of about 330,000 during 2004-2007 period)



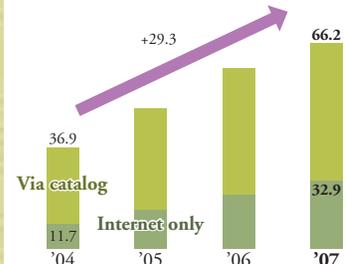
Internet-Registered Members

(Millions of members)



Internet Sales & Internet-Only Sales

(Billions of yen)



An Interview with the President



Yasuhiro Yukimachi
President and Representative Director



Q How was Senshukai's consolidated performance in fiscal 2007?

A Looking at the Japanese economy during fiscal 2007, ended December 31, 2007, economic conditions were firm in the first half of the year, supported by a continued strong corporate performance, although a recovery in personal consumption was not realized. During the latter half of the year, the difficulty of predicting consumption trends further increased, owing to such factors as concerns about the U.S. economy and about the rising prices of crude oil and other raw materials. Against this backdrop, the restructuring of the domestic retail industry moved forward by means of M&A transactions and other measures. These circumstances created an extremely severe operating environment for the retail industry's direct marketing sector and other sectors.

Amid this operating environment, the Senshukai Group placed strong emphasis on the implementation of strategies outlined in its medium-term management plan covering the three-year period through fiscal 2007. Reflecting the benefits of these strategic efforts, consolidated net sales rose 5.8% above the level in the previous fiscal year, to ¥156.8 billion.

Regarding profitability, our cost of sales ratio increased, but we were able to reduce the selling, general and administrative (SG&A) expenses to net sales ratio through the effective management of printing costs and other media-related expenditures, supporting a 15.0% increase in operating income, to ¥5.3 billion. On the other hand,

consolidated net income dropped 31.2%, to ¥2.5 billion, as such trends as rises in interest income and foreign exchange gains were offset by such factors as a rise in income tax payments associated with the elimination of losses carried forward.

Q Could you overview the results of the medium-term management plan you completed in fiscal 2007?

A During the period from 2005 through 2007, we implemented a medium-term management plan that called for emphasis on various strategic measures associated with the following three basic policies.

1) Higher Profitability for Core Businesses—We made progress regarding various objectives—such as those for increasing sales, attracting new customers, and raising the customer retention ratio—but adverse conditions during the final year of the plan made it impossible to attain our targets.

2) Aggressive Investments in Growth Areas—As women in their 20s are shifting away from catalogs and toward Internet- and mobile phone-based marketing systems, we strengthened our position regarding our targeted customers in this group by bolstering our Internet and mobile phone-based marketing systems and services. Our *Kurasu Fuku* shop targeted at women in their 30s has been highly evaluated, and we, therefore, plan to steadily extend the scope of this new business model going forward. We acquired the businesses of two companies—PET FIRST CO., LTD., and B·B·S

Co., Ltd., which became consolidated subsidiaries in January 2007—that are smoothly expanding their operations, and we anticipate that they will make significant contributions to consolidated performance over the next three years.

3) Improved Brand Value—We took various brand management measures regarding the *Belle Maison* brand. In addition, to increase the diversity of our customer and product genres, we are developing additional new brands in line with our shift to a multi-brand strategy.

Q What are the main goals of the medium-term management plan covering the three years through fiscal 2010?

A The management plan completed in 2007 enabled us to reinforce our business foundation. Over the next three years, our plans call for further leveraging Senshukai's distinctive strengths and realizing growth in our existing core businesses as well as in new businesses.

In accord with the new medium-term management plan's slogan—"A concierge for daily living"—we are striving to further leverage the distinctive nature of our operations to generate still greater strengths. At the same time, while Senshukai currently still has the image of a comprehensive catalog business company centered on the *Belle Maison* brand, we are working to shift our center of gravity toward new kinds of mail-order business that does not involve catalogs.

Review of Medium-Term Management Plan Outcomes

● Attained ● Partial Attainment ● Not Attained

Key Agenda Items	Outcomes (Results and Initiatives)
• Publishing of <i>Kurasu Fuku</i>	● Increase in active customers (Active customer increase: 3.47 million to 3.80 million)
• Get new customers in 20s	● Shift transactions to Internet or mobile phone <ul style="list-style-type: none"> • Cancellation of <i>Petite Belle Maison</i>, withdrawal from <i>shoplat</i> • Operating of <i>Editer</i>, <i>Jensis</i>, <i>MOBAKORE</i>, <i>Ran Ran Ranking</i>
• Get new customers in 40s	● Attracted new customers through <i>Kurasu Fuku</i> (Customer increase of about 90,000)
• Investment in Internet business (<i>Belle Maison Net</i>)	● Developed as a tool to expand order channels and customer acquisition channels while acquiring new sales ↓ ● Achieved ¥65.0 billion with Internet-only ratio: about 50% ● Decreased catalog-related expenses ratio (2.2 point reduction of catalog-related expenses ratio (non-consolidated))
• Investment in storefront business	● Didn't achieve target of 30 storefronts but there was a positive consumer response to the <i>Kurasu Fuku</i> store
• Increase import ratio and direct transaction rate through promotion of supply chain management	● Reduction of purchasing costs ratio (0.8 point decrease)
• Find ways to improve delivery ratio	● Inventory increased (Non-consolidated inventory ¥12.8 billion on Dec. 31, 2004 → ¥18.0 billion on Dec. 31, 2007) ↓ ● Inventory disposition increased and the cost of sales ratio remained steady (Cost-of-sales ratio: 51.7 → 51.6%)
• Implement business improvement measures to strengthen services	● Almost achieved shorter periods for orders, inquiries, and deliveries ● Improved customer satisfaction (based on customer feedback)

Q Please explain your basic approach to increasing shareholder returns and your fundamental capital policy.

A While endeavoring to strengthen its business base, Senshukai has the fundamental goals of maintaining stable dividend payments to its shareholders' appropriate levels of shareholder returns. We are doing our best to sustain a consolidated dividend payout ratio of 30% or more.

Regarding internal reserves, we are using our reserves to develop new businesses and promote greater efficiency in existing operations, to further increase the soundness of our financial position, and additionally reinforce our corporate competitiveness and resilience.

For the next fiscal year, the Company plans to pay a cash dividend of ¥17 per common share, representing a projected dividend payout ratio of 56.7%.

Q What is Senshukai's business outlook for fiscal 2008?

A We expect our operating environment to remain quite severe due to such factors as harsh conditions in the Japanese economy, concerns regarding a slowdown in the U.S. economy, and the rapid rises seen in raw materials prices. Moreover, personal consumption trends in Japan are increasingly difficult to forecast. In view of these factors, we anticipate that

competition in Japan's retail industry will continue intensifying.

Regarding our consolidated performance during the next fiscal year, we are projecting ¥160.0 billion in net sales, ¥3.3 billion in operating income, and ¥1.4 billion in net income.

In accord with its new medium-term management plan, Senshukai is doing its utmost to realize additional growth and further increase its corporate value.

Medium-Term Management Plan (Covering the Three Years)

Industry Trends

In 2006, total sales of Japan's direct marketing industry are estimated to have grown to ¥3,680 billion. This represents an increase of 9.5%, or ¥320.0 billion, from the ¥3,360 billion level of 2005.

However, while the general catalog direct sales segment of the industry previously accounted for approximately 60% of industry sales, this share has sunk to roughly 40%. The segments that are supporting the industry's growth are diverse kinds of specialized direct marketing business as well as television- and Internet-based business.

Japan's total population is projected to decrease from 2010, and this is expected to lower the total amount of purchasing power in the domestic market. While this prospect appears to undercut the likelihood of substantial growth in the domestic retailing industry over the long term, it should also be remembered that the Japanese are enjoying a growing amount of financial affluence and free time, and a potential key to sustaining growth in retailing business may be found in meeting the needs of the graying baby-boomer generation of Japanese consumers, who are generally not averse to using the Internet or other new retailing media.

New Medium-Term Management Plan

While Senshukai's medium-term management plan for the three years through 2007 focused on reinforcing the Company's foundation, the new medium-term management plan for the three years from 2008 is designed to leverage the Company's strengths to realize dynamic growth both in existing core business fields and in new business fields.

Underlying Thinking concerning Plan Formulation

Channel-mix promotion and multi-brand development

Senshukai has the image of a company in the general catalog direct sales business that is particularly noteworthy for its *Belle Maison* brand operations. Over the next three years, the Company's plans call for strengthening its core catalog direct sales business while concurrently promoting a growing volume of business via an optimal mix of other marketing channels—including the Internet, shops, and other channels—as well as seeking to combine and promote synergies among these channels. In addition, we will be shifting away from our traditional approach of emphasizing a single brand—the *Belle Maison* brand—as we seek to accelerate our growth based on a multiple-brand strategy that entails fostering the development of various other brands.

Promotion of further evolution

of Senshukai's distinctive identity

As it works to articulate and realize its vision for the future, Senshukai is seeking to highlight and build on its traditional strengths. Accordingly, the Company has adopted the goal of being like a friendly concierge who assists customers with all kinds of tasks related to their day-to-day lives. To concisely articulate this approach, we have adopted the slogan "A concierge for daily living".

Basic Policies of the Medium-Term Management Plan

1. Promoting a mix of channels

Rather than handling the catalog, Internet, and storefront businesses independently, Senshukai will create new business methods that generate synergies among the different channels. In January 2008, we adopted a new business division organizational system centered on product genres.



Medium-Term Management Plan Targets (Millions of yen)

	Fiscal 2007 Results		Fiscal 2010 Plan Targets		
	Amount	% of net sales	Amount	% of net sales	Compared with fiscal 2007
Net sales	156,793	—	180,000	—	+23,207
Operating income	5,292	3.4%	8,000	4.4%	+2,708
Ordinary income	5,626	3.6%	8,400	4.7%	+2,774
Net income	2,495	1.6%	4,000	2.2%	+1,505
Operating cash flow	1,444	—	7,000	—	+5,556

2. Developing a multiple-brand strategy

Having reevaluated its strategy of strongly emphasizing the *Belle Maison* brand, Senshukai will increase efforts to approach customers in age-groups and categories that were previously considered relatively difficult for the Company to approach. The Company will transition to a “multiple-brand strategy” involving the parallel development of brands suited to both the targeted customer group and the product genres that use that brand.

3. Expanding the customer base

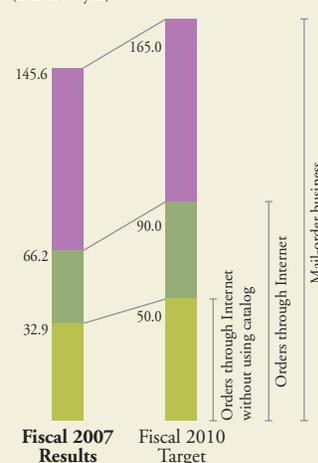
During the period of the previous medium-term management plan, the creation of the *Kurasu Fuku* catalog led to the acquisition of approximately 90,000 new customers in their 40s. The new plan calls for additional measures to develop merchandise and media suitable for the senior market so that the Company can expand its clientele among people aged 50 or older. Regarding the acquisition of customers in their 20s, we will not place excessive emphasis on quick results but will seek to realize a stable rise in acquisitions based on alliances and M&A transactions that facilitate the effective employment of such media as the Internet, mobile phones, and magazines.

4. Strengthening supply chain management (SCM)

During the period of the previous medium-term management plan, Senshukai realized improvement regarding SCM key performance indicators—such as the shipment consolidation ratio, on-time delivery ratio, import ratio, and direct import ratio—but also saw a rise in inventory levels that caused a deterioration in cash flow. Going forward, the Company will rebuild its management systems in ways that promote the optimization of inventory levels (greater asset utilization efficiency) and the further strengthening of SCM systems.

Internet sales

(As component of mail-order business)
(Billions of yen)



Number of storefronts and storefront sales

(Consolidated) (Billions of yen)



Catalog Business

Launch of the *Rashisa Deluxe* Brand

Since September 2007, Senshukai has worked to develop business focused on the “*Rashisa Deluxe*” brand. Developed in cooperation with a well-known fashion model and actress, the brand targets women in their 40s.

New Edition of adidas Catalog for Women

In cooperation with adidas Japan K.K., Senshukai launched the biannual adidas catalog for women in October 2007. Targeting women in their 30s, the catalog is among the largest Japanese catalogs of its kind in terms of the range of merchandise.



Other Businesses



In its store business, Senshukai is developing the six *Belle Maison*'s storefronts and has recently opened a *Kurasu Fuku* catalog store.

The Company has established two *Belle Mariée Chapelle Planches* comprehensive wedding facilities with full-scale chapels in 2007—a facility in Saitama-shi that opened in May and a facility in the Tennozu Isle district of Tokyo that opened in November, and plans call for proceeding with the development business encompassing a comprehensive range of bridal merchandise and services. In addition, Senshukai arranged a capital and business alliance with Dears Brain Inc.—a community-based house wedding business—that is designed to help both companies achieve greater business efficiency in the future.

Hanpukai Business

Start of *Choko Tabo* Box Business in Workplaces

From May 2007, Senshukai began a “*Choko Tabo* Box” installation service that involves the installation in office spaces of small three-drawer chests filled with various food products. These chests are designed to serve as miniature convenience stores that meet the needs of office workers who work overtime or just want to take a refreshing and appetizing break from their routines. Products in the chests include Senshukai original soups, nutritional foods, and sweet and savory snack items. The chests have a payment slot on top for users to insert coins based on the honor system. Reflecting the recent trend of increasing snacking among Japanese men, “*Choko Tabo* Boxes” have become popular among both women and men, particularly at offices where overtime work is performed and offices that are distant from convenience stores.



Choko Tabo Box



Fragrant Colored Rice (Irogohan Kaoru)

Prepackaged cooking materials that enable people to simply create and enjoy *takikomi* rice cooked together with abundant flavorful ingredients



Soup Assortment

A delicious assortment of premium soups that include luxurious portions of top-quality ingredients



Design Necklaces

Cheerfully lively necklaces featuring popular motifs and natural stones of diverse colors



Kutsuppo Slippers

Warm and fluffy slippers with an excellent fit that give wearers the feeling of being barefoot in a verdant meadow

In October 2007, Senshukai subsidiary PET FIRST CO., LTD., renovated its previous mail-order catalog to create two new simultaneously launched catalogs entitled DOGPLUS and CATPLUS. While the numbers of pages and merchandise items listed in these catalogs have been increased, these catalogs are arranged in new layouts that make viewing and purchasing easier.



Corporate Governance

Recognizing that emphasizing the concept of “corporate governance” is a crucial means of helping ensure that its operations fulfill its corporate social responsibility (CSR) to shareholders, customers, employees, business partners, local communities, and diverse other stakeholders, the Senshukai Group believes that creating and effectively operating highly transparent management systems are highly important.

Accordingly, the Group is striving to strengthen its corporate governance regarding such issues as clarifying the supervisory responsibilities of directors, reinforcing compliance systems, and upgrading capabilities for quickly and appropriately disclosing information. Having decided that the corporate auditor governance system functions more effectively in practice than the committees governance system, Senshukai has adopted a corporate auditor governance system that employs an eight-member Board of Directors, including two outside directors, and a four-member Board of Corporate Auditors, including two outside auditors.

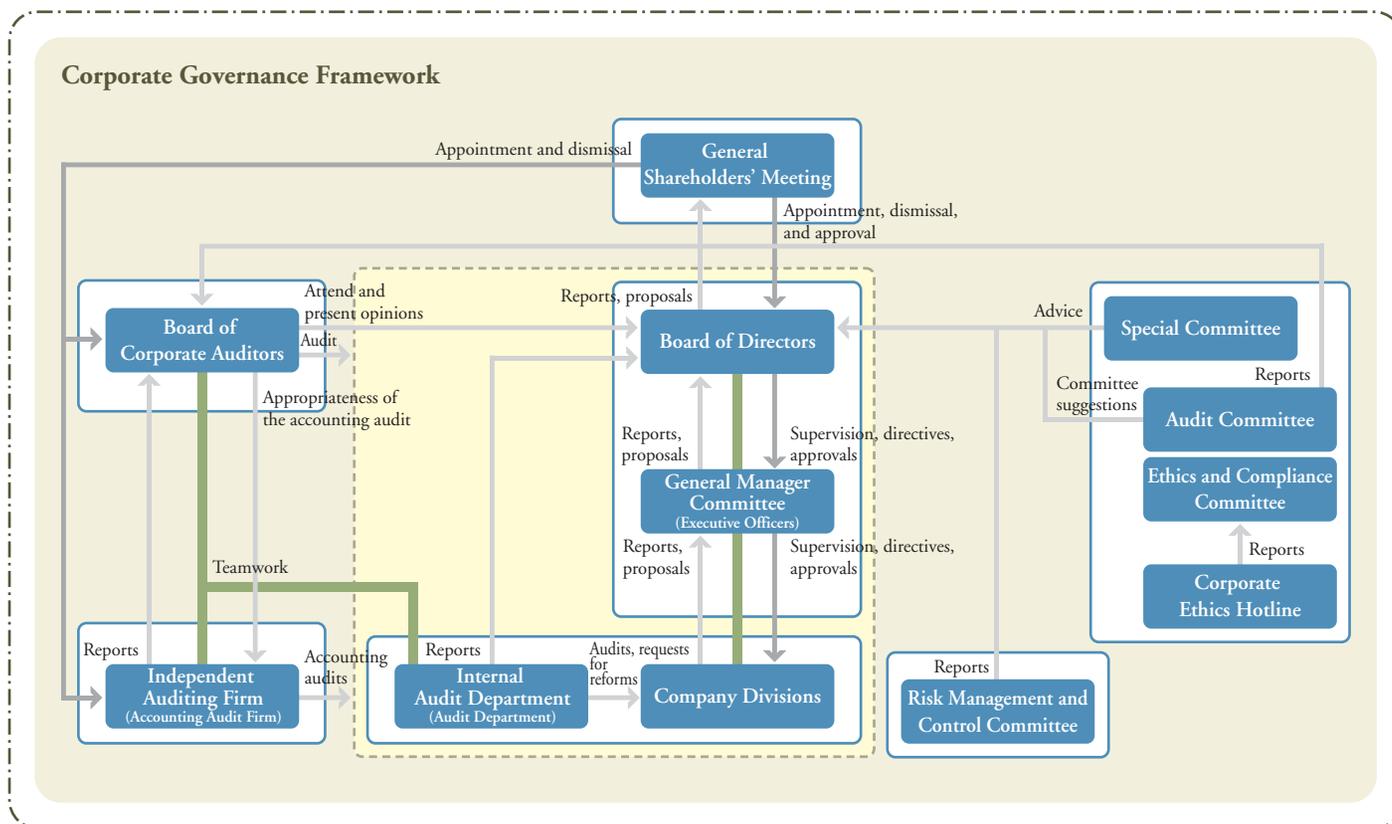
Basic Approach to Internal Control Systems

To promote the effective functioning and strengthening of its corporate governance, the Senshukai Group has created the internal control system described below and is working to strengthen its compliance systems, increase the efficiency of business processes, and establish systems for the management of risks.

(1) Systems for ensuring compliance by directors and employees with legal regulations and the Company’s Articles of Incorporation in the execution of operations

(1) Regarding compliance, the Group has prepared its Senshukai Group Compliance Policy and established its Corporate Ethics Hotline as an internal reporting system designed to deal with potential risks regarding noncompliance with public laws and regulations as well as internal rules and other potential noncompliance risks.

(2) In the event of compliance problems related to corporate officers (directors, auditors, and executive officers) or employees, based on internal rules, problems reported via internal or external versions of the Corporate Ethics Hotline are reported to and deliberated by the Board of Auditors, in the case of problems related to officers, or by the Board of Directors, in the case of problems related to employees.





(3) Copies of *Senshukai Personal Conduct Principles* and *Senshukai Conduct Casebook* are distributed to corporate officers and employees to serve as conduct guidelines, and appropriate measures are being taken to offer corporate officers and employees compliance education programs, including e-learning and Internet-based programs.

(4) Regarding the Company's internal controls, based on internal rules, we have established an audit department reporting directly to the president. In this way, a system has been created for conducting internal audits aimed at grasping and enhancing business operations and reporting on such matters to the president.

(5) Regarding intellectual property, Senshukai's legal affairs and audit departments conduct prior checks of related issues. Regarding responsibility with respect to manufactured goods, the Company's Quality Management Committee undertakes deliberations and makes decisions on merchandise items subject to marketing regulations.

(2) Systems for safekeeping and management of information related to the execution of the duties of the directors

(1) Information relating to the execution of the duties of the directors is preserved and managed in strict accordance with internal rules on the handling of documents and internal rules on data administration.

(2) Regarding the Company's important confidential items, separate internal rules on the handling of confidential documents have been established, and the important confidential items are managed in strict accordance with those rules.

(3) The revision of important internal rules is undertaken only after the receipt of approval from the Board of Directors.

(4) Information relating to the execution of the duties of the directors may be viewed by the directors and auditors through the intranet (internal network) at any time.

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

(1) Risks related to fundamental elements of the Company's operations have been classified into nine categories, and administration departments or committees have been established for each risk category. Having created this clearly defined risk management system, the Company has prepared a system for rapid responses to emerging risk-related problems, and monthly reports on the management situation with respect to each category of risk are provided to the secretariat of the Risk Management and Control Committee, which is comprised of members of the Board of Directors. In addition, a system has been created in

which the secretariat compiles the monthly reports and presents quarterly reports to the Risk Management and Control Committee, while at times of emergencies, the administration department or committee responsible for the relevant risk category rapidly reports to the Risk Management and Control Committee.

(2) Regarding specific crisis management response measures, when required, crisis management manuals are prepared for each risk category to establish a system that provides for concrete response measures.

(3) To create a system for dealing with contingencies that have not been foreseen by the directors, the Company has instituted rules and created systems that provide for the smooth shift to alternative operational units.

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

(1) Senshukai has established "Corporate Rules" and "Decision/Approval Item Request-Related Rules" that clearly determine such issues as the roles of the Board of Directors, the Division Managers' Meeting, the Board of Corporate Auditors, and other corporate governance units as well as the job positions, work allocation, operational authority, roles, and decision-making authority of employees. These rules are designed to promote a rise in operational efficiency.

(2) To increase the transparency of the Board of Directors and strengthen supervisory functions, the Company has adopted an outside director system.

(3) To promote and increase in the rapidity and efficiency of management decision making, the Company has adopted an executive officer system that clearly separates supervisory functions from operational execution functions and also has a business division system as a new corporate organization system. In principle, the general manager of each division serves as an executive officer, while senior ranking directors serve as managing directors who undertake the supervision and guidance of each division.

(4) In addition to the Board of Directors, the Company has established a Divisional Managers' Meeting that includes the general manager of each division. The system of delegating authority for ordinary operational execution decisions to the general manager of each division or the Divisional Managers' Meeting provides for rapid decision making.

(5) To serve as an effective support framework for the creation of organizational unit performance monitoring indicators and evaluation indicators, the Company has adopted the Balanced Score

Card (BSC) system and is building a system in which the Board of Directors reviews and provides feedback regarding the results of the indicators.

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

(1) To promote a rise in the Senshukai Group's overall corporate value and ensure that the Group lives up to its corporate social responsibilities, Senshukai has prepared and is implementing Affiliated Company Management Rules. These rules stipulate that the parent company has parallel authority to handle important decisions regarding all subsidiaries in which it has a shareholding of more than 50%.

(2) By giving the parent company's directors supervisory authority over subsidiaries, the Company has provided for the promotion of close cooperation regarding the parent company's directives and orders as well as regarding smooth two-way communications. While providing Group companies with guidance, advice, and evaluations, the parent company works to optimize overall Group operations.

(3) The parent company's directors hold regular meetings with representatives of the Company's independent auditing firm at which the participants exchange opinions regarding the Group's overall situation.

(4) The Company has established unified rules for all Group companies regarding insider trading and confidential information, and a unified compliance education program is implemented for employees of all 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, and related to the independence from directors of such personnel

(1) In response to the request of corporate auditors, one dedicated staff member has been appointed to assist them.

(2) In matters related to the appointment as well as transfer, personnel evaluation, and discipline of corporate auditor secretariat 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 effective conduct of auditing activities by the corporate auditors

(1) Standing corporate auditors attend important internal meetings as they deem necessary, and receive reports on important information relating to corporate management.

(2) Corporate auditors attend Risk Management and Control Committee meetings. Moreover, when major issues are reported via the Corporate Ethics Hotline and when other situations that could have a substantial impact on the Company are discovered, risk management units and committees immediately provide related reports to the corporate auditors.

(3) Corporate auditors are provided with the documents and other information they wish to examine whenever they request such materials.

(4) The corporate auditors are provided with reports on the results of internal audits conducted by the Audit Department.

(5) The corporate auditors exchange opinions with the representative directors and the independent auditing firm on a regular basis.

(6) By conducting audits on a regular basis, the corporate auditors obtain opportunities to conduct hearings with executive officers and important employees.

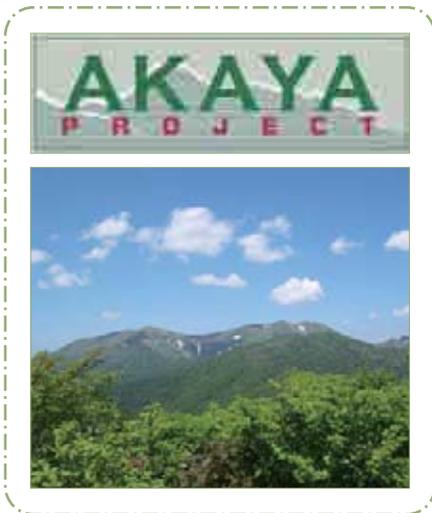
(7) Arrangements are also made for the corporate auditors to obtain the advice of specialists when the corporate auditors deem such advice necessary and make related requests.

Corporate Social Responsibility (CSR)



Our CSR Policy

Senshukai has announced a CSR policy under which it pledges to fulfill its corporate social responsibilities through initiatives emphasizing the objectives of (1) promoting environmental preservation, (2) ensuring compliance, and (3) supporting women. The details of these activities are as follows.



(1) Promoting Environmental Preservation

Each year, Senshukai distributes approximately 100 million catalogs printed on paper requiring approximately 40,000 tons of pulp to produce. Recognizing that paper consumption is its largest environmental impact issue, the Company has since 1993 undertaken business operating a 24,000-hectare tree plantation in Australia. In this way, we have promoted environmental preservation based on the slogan—“Let’s plant enough trees to meet our own consumption requirements.”

The Akaya national forest in Gunma Prefecture is one of the leading spots in Japan for people to commune with nature amid forests and streams, and Senshukai is providing financial support for the AKAYA Project, which is being implemented by an association of local residents, Japan’s Forestry Agency, and the Nature Conservation Society of Japan (NACS-J), with the goal of helping protect that forest and its biodiversity. In this way, we are seeking to help ensure that the various life-forms in that forest can sustain their life cycles for many generations to come.

In cooperation with a great many people, Senshukai is implementing the Belle Maison Forest Campaign. In this campaign, customers purchase and raise tree saplings, while the Company contributes two-thirds of the price of the saplings to the Greenbelt Movement established by Wangari Maathai, a Kenyan Nobel Peace Prize winner.



(2) Ensuring 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) Observing 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.



(3) Supporting Women

Senshukai aims to be a leading company regarding measures to provide women with various kinds of support. Since 2007, Senshukai has supported the “Pink Ribbon” campaign, which aims to improve awareness of breast cancer and promote its early detection as well, and the Company has also provided financial support for activities of the Japan Cancer Society.

In addition, Senshukai endeavors to help all its workers maintain a good balance between work and other aspects of life. In 2007, Japan’s Ministry of Health, Labour and Welfare authorized Senshukai to use the “Jiseidai Mark” (Next-Generation Mark) in recognition of the Company’s proactive efforts to enable both men and women to harmonize career and child-raising activities.

Board of Directors, Executive Officers, and Corporate Auditors



Seated, left to right: Michio Tanabe, Yasuhiro Yukimachi, Kiichi Tagawa, and Shohachi Sawamoto
Standing, left to right: Mamoru Asada, Kazuhide Fujiyoshi, Toshikatsu Sano, and Tomoko Oishi

BOARD OF DIRECTORS

President and Representative Director

Yasuhiro Yukimachi

Executive Managing Directors

Kiichi Tagawa
Michio Tanabe

Managing Director

Shohachi Sawamoto

Directors

Kazuhide Fujiyoshi
Mamoru Asada
Tomoko Oishi
Toshikatsu Sano

EXECUTIVE OFFICERS

Senior Executive Officer

Shigemitsu Mineoka

Executive Officers

Yoshihiro Nakabayashi
Hiroyuki Hoshino
Masanori Maeda
Hisanori Maenaka
Masatoshi Sugawara
Shinjiro Inoue
Takeshi Naito

CORPORATE AUDITORS

Shoji Tottori
Yoshihiro Inoda
Hideyuki Koizumi
Hiroshi Morimoto

(As of March 28, 2008)

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)
	2003	2004	2005	2006	2007	2007
For the year:						
Net sales	¥147,607	¥147,159	¥145,454	¥148,151	¥156,793	\$1,373,450
Mail-order business	143,764	139,626	139,391	142,082	145,664	1,275,964
Other	3,843	7,533	6,063	6,069	11,129	97,486
Operating income	5,057	2,921	3,433	4,603	5,292	46,356
Net income	1,819	1,232	1,268	3,628	2,495	21,855
Capital expenditures	468	499	2,140	2,179	3,506	30,713
Depreciation and amortization	2,503	2,289	1,806	1,621	1,724	15,102
At year-end:						
Total assets	87,270	87,561	92,788	95,509	98,422	862,141
Net assets	47,184	47,136	52,519	55,709	55,956	490,154
Equity ratio (%)	54.1	53.9	56.6	58.3	56.8	
Return on equity (%)	3.9	2.6	2.5	6.6	4.5	
Return on assets (%)	2.1	1.4	1.4	3.9	2.6	
Number of employees.....	1,034	915	965	1,082	1,305	
			Yen			U.S. dollars (Note)
Per share:						
Basic net income	¥ 40.81	¥ 28.81	¥ 27.44	¥ 78.81	¥ 53.60	\$ 0.47
Diluted net income	40.69	28.67	27.36	78.55	53.46	0.47
Cash dividends applicable to the year.....	16.00	16.00	18.00	20.00	27.00	0.24

Note: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥114.16=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, 2007 and 2006

ASSETS	Millions of yen		Thousands of U.S. dollars (Note)
	2007	2006	2007
Current assets:			
Cash and cash equivalents	¥ 3,530	¥ 5,550	\$ 30,922
Notes and accounts receivable	11,510	11,508	100,823
Allowance for doubtful accounts	(254)	(193)	(2,225)
Inventories	19,319	16,433	169,227
Deferred income taxes	87	101	762
Other current assets	14,033	13,929	122,924
Total current assets	48,225	47,328	422,433
Property and equipment:			
Land	11,305	11,411	99,028
Buildings and structures	28,388	27,851	248,669
Machinery and equipment	13,695	14,499	119,963
Furniture and fixtures	2,925	2,879	25,622
Construction in progress	963	36	8,436
Total	57,276	56,676	501,718
Accumulated depreciation	(32,248)	(32,083)	(282,481)
Net property and equipment	25,028	24,593	219,237
Investments and other assets:			
Investment securities	15,574	16,510	136,423
Long-term loans receivable	366	1,102	3,206
Guarantee deposits	1,442	1,304	12,631
Intangible assets, net	3,346	2,601	29,310
Deferred income taxes	300	56	2,628
Other	4,444	2,660	38,927
Allowance for doubtful accounts	(303)	(645)	(2,654)
Total investments and other assets	25,169	23,588	220,471
Total	¥98,422	¥95,509	\$862,141

Note: U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥114.16=US\$1.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note)
	2007	2006	2007
Current liabilities:			
Short-term debt	¥ 3,000	¥ —	\$ 26,279
Current portion of long-term debt	—	54	—
Notes and accounts payable:			
Trade	11,023	11,711	96,557
Other	21,451	22,037	187,903
Accrued expenses	2,383	2,366	20,874
Accrued income taxes	1,887	285	16,529
Deferred tax liabilities	64	265	561
Liabilities for directors and corporate auditors' bonuses	52	50	456
Other current liabilities	1,315	786	11,519
Total current liabilities	41,175	37,554	360,678
Long-term liabilities:			
Long-term debt	—	342	—
Liability for retirement benefits	478	515	4,187
Deferred tax liabilities	768	1,338	6,727
Other	45	51	395
Total long-term liabilities	1,291	2,246	11,309
Net assets:			
Common stock:			
Authorized—180,000,000 shares			
Issued—47,630,393 shares	20,359	20,359	178,337
Capital surplus	21,039	20,717	184,294
Retained earnings	22,253	20,890	194,928
Net unrealized gains on available-for-sale securities	487	1,337	4,266
Deferred hedge gains (losses)	(185)	735	(1,621)
Land revaluation difference	(7,360)	(7,302)	(64,471)
Foreign currency translation adjustments	(16)	(32)	(140)
Treasury stock, at cost:			
916,195 shares in 2007 and 1,548,297 shares in 2006	(631)	(1,042)	(5,527)
Total	55,946	55,662	490,066
Minority interests	10	47	88
Total net assets	55,956	55,709	490,154
Total	¥98,422	¥95,509	\$862,141

Consolidated Statements of Income

Senshukai Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note)
	2007	2006	2007
Net sales	¥156,793	¥148,151	\$1,373,450
Cost of sales	80,864	75,727	708,340
Gross profit	75,929	72,424	665,110
Selling, general and administrative expenses	70,637	67,821	618,754
Operating income	5,292	4,603	46,356
Other income (expenses):			
Interest and dividend income	457	244	4,003
Interest expenses	(64)	(48)	(561)
Loss on disposal of property and equipment	(300)	(107)	(2,628)
Loss on impairment of long-lived assets	—	(129)	—
Foreign exchange gains	136	121	1,191
Investment (loss) profit on equity method	(165)	193	(1,445)
Losses on write-down of compound financial instruments	(213)	—	(1,866)
Other, net	(394)	(1,002)	(3,450)
Other income (expenses)—net	(543)	(728)	(4,756)
Income before income taxes and minority interests	4,749	3,875	41,600
Income taxes:			
Current	2,069	376	18,124
Deferred	206	(137)	1,805
Minority interests	(21)	8	(184)
Net income	¥ 2,495	¥ 3,628	\$ 21,855
		Yen	U.S. dollars (Note)
Per share of common stock:			
Basic net income	¥ 53.60	¥ 78.81	\$ 0.47
Diluted net income	53.46	78.55	0.47
Cash dividends applicable to the year	27.00	20.00	0.24

Note: U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥114.16=US\$1.

Consolidated Statements of Changes in Net Assets

Senshukai Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2007 and 2006

	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, 2006	¥20,359	¥20,717	¥20,890	¥(1,042)	¥60,924	¥1,337	¥ 735	¥(7,302)	¥(32)	¥(5,262)	¥47	¥55,709
Changes in the fiscal year...												
Dividend of surplus	—	—	(1,067)	—	(1,067)	—	—	—	—	—	—	(1,067)
Net income	—	—	2,495	—	2,495	—	—	—	—	—	—	2,495
Purchases of treasury stocks	—	—	—	(32)	(32)	—	—	—	—	—	—	(32)
Disposal of treasury stocks	—	322	—	443	765	—	—	—	—	—	—	765
Transfer of land revaluation difference	—	—	58	—	58	—	—	—	—	—	—	58
Decrease in retained earnings due to change in the number of consolidated subsidiaries and equity method affiliates	—	—	(123)	—	(123)	—	—	—	—	—	—	(123)
Changes (net) in items other than shareholders' equity	—	—	—	—	—	(850)	(920)	(58)	16	(1,812)	(37)	(1,849)
Total changes in the fiscal year	—	322	1,363	411	2,096	(850)	(920)	(58)	16	(1,812)	(37)	247
Balance as of												
Dec. 31, 2007	¥20,359	¥21,039	¥22,253	¥ (631)	¥63,020	¥ 487	¥(185)	¥(7,360)	¥(16)	¥(7,074)	¥10	¥55,956

	Thousands of U.S. dollars (Note 1)											
	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, 2006	\$178,337	\$181,473	\$182,989	\$(9,128)	\$533,671	\$11,712	\$ 6,438	\$(63,963)	\$(280)	\$(46,093)	\$412	\$487,990
Changes in the fiscal year...												
Dividend of surplus	—	—	(9,347)	—	(9,347)	—	—	—	—	—	—	(9,347)
Net income	—	—	21,855	—	21,855	—	—	—	—	—	—	21,855
Purchases of treasury stocks	—	—	—	(280)	(280)	—	—	—	—	—	—	(280)
Disposal of treasury stocks	—	2,821	—	3,881	6,702	—	—	—	—	—	—	6,702
Transfer of land revaluation difference	—	—	508	—	508	—	—	—	—	—	—	508
Decrease in retained earnings due to change in the number of consolidated subsidiaries and equity method affiliates	—	—	(1,077)	—	(1,077)	—	—	—	—	—	—	(1,077)
Changes (net) in items other than shareholders' equity	—	—	—	—	—	(7,446)	(8,059)	(508)	140	(15,873)	(324)	(16,197)
Total changes in the fiscal year	—	2,821	11,939	3,601	18,361	(7,446)	(8,059)	(508)	140	(15,873)	(324)	2,164
Balance as of												
Dec. 31, 2007	\$178,337	\$184,294	\$194,928	\$(5,527)	\$552,032	\$ 4,266	\$(1,621)	\$(64,471)	\$(140)	\$(61,966)	\$ 88	\$490,154

Note: U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥114.16=US\$1.

Consolidated Statements of Cash Flows

Senshukai Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note)
	2007	2006	2007
Operating activities:			
Income before income taxes and minority interests	¥4,749	¥ 3,875	\$41,600
Adjustments for:			
Income taxes paid	(426)	(230)	(3,732)
Depreciation and amortization	1,724	1,621	15,102
Provision for doubtful receivables	(267)	6	(2,339)
Loss on disposal of property and equipment.....	300	107	2,628
Loss on impairment of long-lived assets	—	129	—
Bonuses to directors and corporate auditors.....	—	(48)	—
Investment loss (profit) on equity method.....	165	(193)	1,445
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable	292	(1,220)	2,558
Increase in inventories	(2,742)	(1,525)	(24,019)
(Decrease) increase in notes and accounts payable	(1,551)	1,666	(13,586)
Decrease in liability for retirement benefits	(65)	(100)	(569)
Other, net	(735)	(2,618)	(6,439)
Total adjustments.....	(3,305)	(2,405)	(28,951)
Net cash provided by operating activities	1,444	1,470	12,649
Investing activities:			
Proceeds from sales of property and equipment	148	372	1,296
Purchases of property and equipment	(1,905)	(559)	(16,687)
Proceeds from sales of intangible assets	—	61	—
Purchases of intangible assets	(1,828)	(1,084)	(16,013)
Proceeds from sales of investment securities	2,623	649	22,977
Purchases of investment securities	(3,354)	(5,323)	(29,380)
Increase in time deposits	(1,217)	(500)	(10,660)
Purchases of business	(237)	—	(2,076)
Other, net	(278)	(42)	(2,435)
Net cash used in investing activities	(6,048)	(6,426)	(52,978)
Financing activities:			
Increase in short-term bank loans, net	3,000	—	26,279
Proceeds from long-term debt	66	—	578
Repayments of long-term debt	(456)	(124)	(3,994)
Repurchase of treasury stock	(32)	(18)	(280)
Disposal of treasury stock	766	188	6,710
Proceeds from minority interests	30	—	263
Dividends paid	(1,068)	(922)	(9,357)
Net cash provided by (used in) financing activities	2,306	(876)	20,199
Net decrease in cash and cash equivalents	(2,298)	(5,832)	(20,130)
Cash and cash equivalents, beginning of year	5,550	11,321	48,616
Increase in cash and cash equivalents due to consolidation of subsidiary	275	61	2,409
Cash and cash equivalents, end of year	¥3,527	¥ 5,550	\$30,895

Note: U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥114.16=US\$1.



Senshukai Co., Ltd.

CORPORATE INFORMATION

Head Office

8-9, Doshin 1-chome,
Kita-ku, Osaka 530-0035, Japan
Telephone: 06-6881-3100
Website: www.senshukai.co.jp

Tokyo Head Office

9-11, Kitashinagawa 5-chome,
Shinagawa-ku, Tokyo 141-0001, Japan

Established

November 1955

Paid-in Capital

¥20,359,134,244

Number of Employees

1,305

Distribution Centers

Chubu, Koshien, Kyoto, and Kanuma

Subsidiaries and Affiliates

Japan—13 subsidiaries and 4 affiliates
Overseas—5 subsidiaries and 4 affiliates

INVESTOR INFORMATION

Total Number of Shares Authorized

180,000,000 shares

Total Number of Shares Issued

47,630,393 shares

Number of Shareholders

7,109

Major Shareholders (Top 10)

Brastsheave Co., Ltd.
Nikko Principal Investments Japan Ltd.
Toppan Printing Co., Ltd.
Sawzan, Limited
Sumitomo Mitsui Banking Corporation
Dai Nippon Printing Co., Ltd.
Japan Trustee Services Bank, Ltd.
The Master Trust Bank of Japan, Ltd.
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, 2007)

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

Share price (Yen)
2,000

Trading volume (Thousands of shares)
10,000





Senshukai Co., Ltd.

8-9, Doshin 1-chome,

Kita-ku, Osaka 530-0035, Japan

www.senshukai.co.jp



Seeking to Plant Sufficient Trees to Cover All Catalog-Related Paper Requirements—“Let’s Plant as Many Trees as We Use”

Each year, Senshukai distributes approximately 100 million catalogs printed on paper requiring approximately 40,000 tons of pulp to produce. Recognizing that paper consumption is its largest environmental impact issue, the Company has since 1993 undertaken business operating a 24,000-hectare tree plantation in Australia*. Since 2006, the Company has also participated in a tree plantation in Laos. As a result, Senshukai projects that it will be able to harvest enough trees to meet approximately 45% of its paper needs. In line with its slogan, “Let’s Plant as Many Trees as We Use,” the Company is working to help preserve the natural environment by proactively participating in tree planting activities.

* The tree plantation on the cover enables Senshukai to contribute to society by helping preserve the natural environment, and its economic sustainability has been certified by the Forest Stewardship Council (FSC), an international non-profit organization that promotes responsible management of the world’s forests.