

(Translation)

Stock code: 8165

March 6, 2008

## NOTICE OF THE 63<sup>rd</sup> ORDINARY GENERAL MEETING OF SHAREHOLDERS

Dear Shareholder

You are cordially invited to attend the 63<sup>rd</sup> Ordinary General Meeting of Shareholders of Senshukai Co., Ltd. (“the Company”), which will be held as described hereunder.

If you are unable to attend the meeting, you may exercise your voting right in writing or via the Internet. Please review the attached reference materials for General meeting of shareholders and exercise your voting right with the instructions on page 3.

Sincerely yours,

Yasuhiro Yukimachi  
President and Representative Director  
**Senshukai Co., Ltd.**  
1-4-31 Doshin, Kita-ku, Osaka

### MEETING AGENDA

- 1. Date and Time:** 10:00 a.m., Friday, March 28, 2008
- 2. Venue:** Lecture hall on the seventh floor of Senshukai Business Center,  
1-6-23 Doshin, Kita-ku, Osaka
- 3. Agenda:**
- Items to be reported:*
1. Business Report, Consolidated Financial Statements for the 63<sup>rd</sup> fiscal year (January 1 to December 31, 2007); and Audit Reports of the Accounting Auditors and the Board of Corporate Auditors regarding Consolidated Financial Statements for the 63<sup>rd</sup> fiscal year.
  2. Financial Statements for the 63<sup>rd</sup> fiscal year (January 1 to December 31, 2007).
- Items to be proposed:*
- |            |   |
|------------|---|
| Proposal 1 | Appropriation of retained earnings  |
| Proposal 2 | Partial amendments to the Articles of Incorporation (1)   |
| Proposal 3 | Partial amendments to the Articles of Incorporation (2)   |
| Proposal 4 | Proposal to continue with countermeasures against large-scale purchases of shares of the Company (countermeasures against takeovers) and its partial amendments |
| Proposal 5 | Election of eight (8) Directors   |
| Proposal 6 | Election of one (1) substitute Corporate Auditor  |
| Proposal 7 | Grant of retirement benefits to retiring Directors  |

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If attending the meeting in person, please present your voting form at the reception desk.  
We will post any corrections to the reference documents for the General Shareholders Meeting, business reports, financial statements, or consolidated financial statements on our website (<http://www.senshukai.co.jp/soukai>).

[This is an English translation prepared for the convenience of non-resident shareholders.  
Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.]

## Procedure for Exercising Voting Rights

### 1. Voting by Mail

Please indicate your approval or disapproval of the proposal on the enclosed voting form and return it to us. All forms must be received by no later than 17:30, Thursday, March 27, 2008, the day before the Ordinary General Meeting of Shareholders.

### 2. Voting by electromagnetic methods such as the Internet

- (1) Please access the dedicated voting website at <http://www.webdk.net>, input the voting right exercise code and provisional password written in the enclosed voting form, and register your approval or disapproval of the proposals by following the on-screen instructions.
- (2) Online votes will be accepted until 17:30, Thursday, March 27, 2008, the day before the Ordinary General Meeting of Shareholders. However, shareholders are kindly requested to register their online votes as early as possible to facilitate the counting of online votes.
- (3) If shareholders duplicate the vote, such as by exercising the voting rights both by mail and via the Internet, we will consider only the Internet vote to be valid.
- (4) If you vote more than once over the Internet, or vote both over the internet and using cellular phone, we will consider the latest vote to be valid.
- (5) Any fees, such as connection fees to Internet providers or any telecommunication fees to the telecommunication companies incurred by shareholders in using the dedicated voting website, are to be borne by the shareholders.
- (6) The following system requirements are necessary to access the dedicated voting website:
  - (i) Internet access; and
  - (ii) Shareholders choosing to exercise their voting rights using a PC should note that the website only supports the following browser software: Microsoft® Internet Explorer 5.5 or above, Netscape 6.2 or above. The website supports any hardware platform running the browser software specified above.

(Microsoft® is a registered trademark in the United States and other countries of Microsoft Corporation. Netscape® is a registered trademark in the United States and other countries of Netscape Communications Corporation.)

<p>For more information about the foregoing items 1 and 2, please contact the Stock Transfer Agency Department of The Sumitomo Trust &amp; Banking Co., Ltd Tel: 0120-186-417 (toll-free and available 24 hours. Japanese language only.)</p>
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### **3. To institutional investors**

You can exercise your voting rights through electronic voting platforms (TSE platforms) as a means of exercising voting rights by electromagnetic means at the General Meeting of Shareholders.

## Reference Material for Ordinary General Meeting of Shareholders

### Proposals and References:

#### Proposal 1: Appropriation of retained earnings

Issues related to the year-end dividend for the 63rd fiscal year

In determining the Company's year-end dividend for the fiscal year, we intend to continue to implement profit distribution in consideration of various circumstances including earnings for this fiscal year and business environment in the future, based on the policy of an annual dividend payout ratio of 30%.

(1) Type of dividend

Cash

(2) Items concerning allocation of dividend and its amount of total thereof

14 yen per share of common stock of the Company; the total amount of 653,998,772 yen

(3) Effective date of dividend payment from retained earnings:

March 31, 2008

#### Proposal 2: Partial amendments to the Articles of Incorporation (1)

1. Reasons for change

- 1) The addition of purposes of business to respond to diversification of operations of the Company (Proposed Revised Article 2).
- 2) Changes to make it possible to stipulate procedures for exercising shareholder rights, in addition to handling of shares, by the Share Handling Regulations (Proposed Revised Article 12).

2. Details of the proposed amendments

(Underlined portions indicate the parts that are to be changed.)

Current Articles	Revised Articles proposed
Article 2 (Purpose) The purpose of the Company shall be to engage in the following businesses:	Article 2 (Purpose) (Unchanged)
1. to (Descriptions of the clauses are omitted.)	1. to (Unchanged)
23. (Newly established article)	23. <u>24. Issuance, sales, agency and management of prepaid-type vouchers</u>
(Newly established article)	<u>25. All operations related to the management of</u>

Current Articles	Revised Articles proposed
<u>24.</u> (Description of the clause is omitted.)	<u>wedding halls</u> <u>26.</u> (Unchanged)
Article 12 (Share Handling Regulations) Procedures for handling shares of the Company <u>and</u> charges therefor shall be governed by the Share Handling Regulations established at a meeting of the Board of Directors in addition to applicable laws and regulations or these Articles of Incorporation.	Article 12 (Share Handling Regulations) Procedures for handling shares of the Company, charges therefor and <u>exercising shareholders' proposal right and other shareholders' rights</u> shall be governed by the Share Handling Regulations established at a meeting of the Board of Directors in addition to applicable laws and regulations or these Articles of Incorporation.

**Proposal 3:** Partial amendments to the Articles of Incorporation (2)

1. Reasons for change

1) At the 62nd Ordinary General Meeting of Shareholders held on March 29, 2007, the Company added a regulation that will allow us to introduce “countermeasures against large-scale purchases of shares of the Company” to the Articles of Incorporation, to be resolved at the General Meeting of Shareholders. In order to make it possible to decide allotment of stock acquisition rights granted free of charge -- a concrete countermeasure -- based on the intention of shareholders, the Company considers that it is desirable to decide matters related to allotment of stock acquisition rights granted free of charge by a resolution of the General Meeting of Shareholders, or to leave the Board of Directors to decide matters related to allotment of stock acquisition rights granted free of charge in accordance with certain conditions specified by the General Meeting of Shareholders, in addition to decision based on a resolution of the Board of Directors

Accordingly, we propose to add a regulation to reflect the decision-making body of allocation of stock acquisition rights granted free of charge, which is carried out as part of countermeasures against takeovers, in defined form from a legal point of view. (Proposed Change to Article 21).

2) Pursuant to the addition of Article 21 to the Articles of Incorporation, we propose to move down the article number as required.

2. Details of the proposed amendments

(Underlined portions indicate the parts that are to be changed.)

Current Articles	Revised Articles proposed
(Newly established article)	Article <u>21</u> ( <u>Decision-making body of allotment of stock acquisition rights granted free of charge</u> ) <u>1.</u> <u>The Company may carry out allotment of stock acquisition rights granted free of charge in</u>

Current Articles	Revised Articles proposed
<p>Article <u>21</u> to (Description of the articles is omitted.) Article <u>40</u></p>	<p><u>accordance with the countermeasures against takeovers, provided for in the preceding article, based on a resolution of a General Meeting of Shareholders or a resolution of the Board of Directors, commissioned by a resolution of a General Meeting of Shareholders, in addition to a resolution of the Board of Directors.</u></p> <p><u>2. Resolutions of a General Meeting of Shareholders pursuant to the provisions of the preceding paragraph shall be adopted by a majority of the voting rights of the shareholders present, who shall have at least one-third (1/3) of the aggregate voting rights of all the shareholders who are entitled to exercise voting rights.</u></p> <p>Article <u>22</u> to (Unchanged) Article <u>41</u></p>

**Proposal 4:**

Proposal to continue with countermeasures against large-scale purchases of shares of the Company (countermeasures against takeovers) and its partial amendments

The Company introduced a “Policy toward Large-scale Purchases of Shares of the Company” (hereinafter referred to as the “prevailing plan”) at the 62nd Ordinary General Meeting of Shareholders, held on March 29, 2007, as a countermeasure against takeovers in ordinary times with an effective period up to the end of the General Meeting of Shareholders for the fiscal year ending December 2007. In consideration of various developments surrounding countermeasures against corporate acquisition, the Company thereafter continued to examine the appropriate countermeasures against takeovers in ordinary times. As a result, the Company resolved at the Board of Directors’ Meeting held on February 15, 2008 to continue with the prevailing plan, after making partial revision as follows, as part of our efforts for ensuring and increasing the corporate value of the Company and common interests of shareholders, to prevent any attempts at abusive acquisitions targeting the Company, on condition that it is approved by shareholders at the 63rd Ordinary General Meeting of Shareholders, to be held on March 28, 2008 (hereinafter referred to as “the general meeting”) (Hereinafter, the revised plan shall be referred to as “the plan”). Summary of the revision is as follows: 1) approval for implementation of the plan by a resolution of a General Meeting of Shareholders based on the recommendation of the Special Committee is added; and 2) acquisition of stock acquisition rights held by purchasers is made possible; and 3) part of sentences are reorganized in

conformity to the provisions of Article 127 of the Enforcement Regulations for the Corporation Law. We propose to continue with the plan on condition that Proposal 3, Partial Amendments to the Articles of Incorporation (2), is approved.

## **I. Basic policy on the person who controls decisions on financial and operational policies of the Company**

We do not reject large-scale purchase of shares if it contributes to the increase of our corporate value and common interests of shareholders. In addition, we believe that the decision whether to agree to the proposal of large-scale share purchases that accompanies transfer of control of the Company should ultimately be made based on the consensus of shareholders.

However, many large-scale purchases of shares do not contribute to the increase of corporate value and common interests of shareholders. For example, sometimes such purchases target only specific assets and technology, which is clearly detrimental to the corporate value and common interests of shareholders. At other times, such purchase may effectively force shareholders to sell their shares, where it may provide insufficient time and information being given for a Board of Directors' Meeting and shareholders of the target company to examine the large-scale purchase of shares, or for the Board of Directors' Meeting of the target company to present alternative proposals, and where the target company needs to negotiate with the purchaser to obtain more favorable terms than the purchaser has offered.

The Company considers a person or a company that intends to make such improper large-scale purchases of shares to be inappropriate as a person who controls decisions on financial and operational policies of the Company, and believes that the increase of the corporate value of the Company and by extension, common interests of shareholders need to be ensured by taking necessary and considerable measures against large-scale purchases by such purchasers.

## **II. Special efforts for realizing the basic policy**

### **1. Overview of efforts for maximizing the corporate value**

In order to increase corporate value, the Company has developed and is implementing new Medium-Term Management Plan, covering three fiscal years from January 2008 to December 2010, following previous Medium-Term Management Plan. We are confident that we will be able to increase our corporate value and eventually meet the expectations of shareholders by steadily implementing the Medium-Term Management Plan. At the start of fiscal 2005, we developed a new policy on the profit distribution to shareholders,



and we intend to return profits proactively in accordance with earnings in the future. We believe that CSR (Corporate Social Responsibility) and compliance (compliance with laws and regulations) will be increasingly necessary for the Company. Given the circumstances, we place implementation of these as a crucial issue of management, and by boosting earnings accordingly, we will strive to increase our corporate value (shareholders value) further.

## **2. Basic policy of the Medium-Term Management Plan**

The Company established the following four policies as a basic policy for the Medium-Term Management Plan:

### 1) Promoting channel mix

We will aim to obtain synergistic effect, aimed at essential merger of channels, not mere expansion of the number of channels, and speedup, by further pushing forward with “promotion of multi channels,” which was put up under the previous Medium-Term Management Plan.

### 2) Developing multi-brand strategy

We will shift to a “multi-brand strategy,” under which plural brands that match customer base and merchandise category to be handled are operated, so that the value of the “Bell Maison” brand itself will not be damaged as a result of excessive utilization of the brand when we strive to acquire customers in some age groups, who have been difficult to be obtained with the Bell Maison brand alone, and to diversify operations (expansion of groups of merchandise and those of service).

### 3) Expanding customer base

We will endeavor to increase the number of customers in their 50s or older by developing merchandise and media for the senior market. We will also aim to expand customers in their 20s. To that end, we will maintain customers in their 20s as a whole by strengthening to get customers aged 25 to 29, while aiming to get customers aged 20 to 24 in the long term by utilizing such media as the Internet, mobile communications and magazines based on business alliances with other companies and M&A.

### 4) Enhancing SCM (supply-chain management)

Recognizing the improvement of cash flows that have aggravated considerably due to increased inventories as the most important challenge, we will facilitate inventories (improvement of asset efficiency) through restructuring of the management system and further reinforce SCM.

### **3. Profit distribution policy**

The Company's basic policy is to reinforce the management base and at the same time maintain stable dividend payout ratio and distribute appropriate profit. We have set an annual dividend payout ratio of 30% and more as the basic policy and strive consecutive profit distribution.

## **III. Efforts for preventing decisions on financial and operational policies of the Company from being controlled by inappropriate persons in light of the basic policy**

### **1. Purpose of introducing the plan**

The plan shall be introduced, with the purpose of ensuring and increasing the corporate value of the Company and by extension, the common interests of shareholders, in line with the basic policy stated in I.

The Board of Directors of the Company judged that a framework is indispensable in order to prevent large-scale purchases that are against the corporate value of the Company and common interests of shareholders. When a large-scale purchase of shares of the Company is to be made, the framework allows us to request that the purchaser and proponent of purchase (hereafter, referred to collectively as the purchaser or similar party) provides information prior to such purchase, thereby shareholders decide whether to accede to the purchase or not, or ensure necessary information and time for the Board of Directors of the Company to make alternative proposals or negotiate with the purchaser or similar party on behalf of the shareholders.

Accordingly, the Company's Board of Directors decided to continue with the plan as part of our efforts for preventing decisions on financial and operational policies of the Company from being controlled by inappropriate persons in light of the basic policy, on condition that it is approved by shareholders at the general meeting.

In the meantime, the Board of Directors of the Company has not received any proposal on the large-scale purchase of shares from any particular third party at the time of deciding to introduce the plan. Information on the major shareholders of the Company is listed in Appendix 1.

### **2. Details of the plan**

#### **(1) The purchase that is deemed to be the subject of the plan**

The plan shall be implemented in compliance with the procedures defined therein if the purchase that applies to either 1) or 2) below is carried out:

- 1) The purchase of the stocks (Note 1), which are issued by the Company, in which the

total ratio of shareholding (Note 3) of the shareholders (Note 2) is 20% or more.

- 2) Tender offer for the stocks (Note 4), which are issued by the Company, in which the total of the ratio of shareholding of stocks (Note 6) related to tender offer (Note 5) and the ratio of shareholding of the special interested parties (Note 7) is 20% or more.

Note 1: Stocks as stipulated in Paragraph 1, Article 27-23 of the Financial Instruments and Exchange Law. The same shall apply unless otherwise provided for hereinafter.

Note 2: Shareholders as stipulated in Paragraph 3, Article 27-23 of the Financial Instruments and Exchange Law. The same shall apply unless otherwise provided for hereinafter.

Note 3: The ratio of shareholding as stipulated in Paragraph 4, Article 27-23 of the Financial Instruments and Exchange Law. The same shall apply unless otherwise provided for hereinafter.

Note 4: Stocks as specified in Paragraph 1, Article 27-2 of the Financial Instruments and Exchange Law. The same shall apply hereinafter in 2) above.

Note 5: Tender offer as stipulated in Paragraph 6, Article 27-2 of the Financial Instruments and Exchange Law. The same shall apply unless otherwise provided for hereinafter.

Note 6: The ratio of shareholding as stipulated in Paragraph 8, Article 27-2 of the Financial Instruments and Exchange Law. The same shall apply unless otherwise provided for hereinafter.

Note 7: Special interested parties as stipulated in Paragraph 7, Article 27-2 of the Financial Instruments and Exchange Law. Note, however, that those listed in Paragraph 7 (1), Article 27-2 of the Financial Instruments and Exchange Law excludes those stipulated in Paragraph 1, Article 3 of the Government Office Ordinance with regard to disclosure of tender offer for stocks by entities other than issuers. The same shall apply unless otherwise provided for hereinafter.

## **(2) Request for information from the purchaser or similar party**

Prior to carrying out the purchase or making proposal thereof (hereinafter, collectively referred to as “the purchase”), the purchaser or similar party must submit a letter of intention to the Board of Directors of the Company expressing its willingness to comply with the procedures specified in the plan in purchasing shares unless otherwise provided by the Board of Directors of the Company. This letter of intention must be in the format specified by the Board of Directors of the Company, describing the name, address, governing law for establishment, name of representative, contact information in Japan, and outline of the purchase.

Subsequently, the Board of Directors of the Company shall deliver the list of information to be provided to form an opinion as the decision of shareholders and the Board of Directors (hereinafter, referred to as “the necessary information”) to the purchaser or similar party within five business days after the receipt of the letter of intent. Specific details of information to be provided differ depending on the attributes of the purchaser or similar party and nature of the purchase. Some examples of items are listed below.

### **(a) Specific details of the purchase**

- 1) Purpose, method, and details of the purchase (including timing of purchase, scheme of related transactions, legality of the purchase method, certainty of performing the purchase).

- 2) Whether there was a communication of intention with the third party in performing the purchase and any details thereof.
- 3) The details of acquisition consideration (amount and type, etc.), the basis of calculation of consideration (including facts and assumptions as a condition of calculation, calculation method, numerical information used in calculation and the amount of synergy as well as the basis of calculations thereof, etc. that are expected to arise as a result of a series of transactions with regard to the purchase).
- 4) Support for the purchase fund and the name of the provider of funds to the purchaser or similar party (including virtual providers) and the method of raising funds (including the details of related transactions).
- 5) Details of management policy, business plan, financial plan, capital policy, dividend policy, and asset utilization measures of the Senshukai Group after the purchase.
- 6) Policy of treatment of employees of the Company and its Group and interested parties including business partners and customers after the purchase.
- 7) Other information judged reasonably necessary by the Board of Directors of the Company.

(b) Matters related to the purchaser or similar party

Details (including name, capital structure, background, and history) of the purchaser or similar party and its group (including joint owner, special interested parties, and in the case of fund, associate partners and other constituent members), description of business, financial conditions, management status as well as operating performance, background of past corporate acquisitions and the results thereof, existence or nonexistence of violations of law in the past and any details thereof, background of directors, etc.

If the information provided initially is not deemed to be sufficient for forming an opinion that contributes to the judgment of shareholders and if the Special Committee indicates its approval of the necessity of additional information in writing, the Board of Directors of the Company shall request that the purchaser or similar party provides additional information until we have sufficient information.

The fact that the letter of intention was submitted and the information provided to the Company shall be entirely or partially disclosed, if it is deemed to be necessary for the judgment of shareholders.

**(3) Examination of the details of the purchase, negotiation with the purchaser or similar party, and presentation of alternative proposals**

Based on (2) above, and after the Special Committee approves the sufficient information the Board of Directors of the Company requested is ready, the Board of Directors of the Company shall set a period (hereinafter, referred to as “the evaluation period”) and disclose information immediately in accordance with 1) or 2) below, depending on the details of such purchase, as a grace period for the Board of Directors’ Meeting of the company to evaluate and examine such information and form an opinion for negotiation with the purchaser or similar party, or on the purchase of the Company’s shares and develop alternative proposals or schemes. The purchase shall be carried out only after such evaluation period.

- 1) 60 days for the purchase of all shares of the Company through tender offer with all consideration paid out in cash (in yen)
- 2) 90 days for the purchase in other cases

The Board of Directors of the Company shall evaluate and examine the details of the purchase proposed by the purchaser or similar party during the evaluation period based on the information and materials provided by the purchaser or similar party from the viewpoint of ensuring and increasing the corporate value and common interests of shareholders. In addition, the Board of Directors of the Company shall discuss or negotiate with the relevant purchaser or similar party, as well as presenting the alternative proposal to the shareholders as the need arises, in order to improve the terms of relevant purchase from the viewpoint of ensuring and increasing the corporate value and common interests of the shareholders.

If the Board of Directors of the Company does not decide whether to implement the plan during the evaluation period, it shall be allowed to extend the evaluation period within the reasonable range deemed necessary to examine the details of the purchase by the purchaser or similar party negotiate with the purchaser or similar party, and develop an alternative proposal. (The same process shall apply thereafter to further extend the period after such extension of period.) In this case, the Board of Directors of the Company shall disclose information on the reason for extending the evaluation period and matters including the extension period and other matters deemed appropriate after the resolution of such extension of the evaluation period.

#### **(4) Recommendation by Special Committee**

##### **(a) Special Committee**

The Company has separately established a Special Committee for the prevailing plan to discuss and negotiate with the purchaser or similar party, extend the evaluation period as specified in (3) above, and secure objectivity and rationality of the decision of the

Board of Directors of the Company with regard to appropriateness of the reason for implementation as specified in (b) below.

In compliance with the procedures specified in the Special Committee Rules in Appendix 2, the Special Committee shall evaluate and examine terms of the purchase by the purchaser or similar party and make recommendations to the Board of Directors of the Company. When the Special Committee makes the evaluation and examination, it shall be allowed to obtain the advice of experts (such as financial advisors, lawyers, and certified accountants) who are independent third parties at the expense of the Company, to ensure that its decision shall contribute to the corporate value and the common interests of shareholders.

Decisions of the Special Committee shall be made with all constituent members attending the meeting in principle and by approval of the majority of members, and the Board of Directors of the Company shall place prime importance on its recommendation in making its final decision.

The Special Committee shall be comprised of three or more committee members, who are selected by the Board of Directors of the Company among those satisfying the following conditions in general and who have signed an agreement with the Company that includes provision of duty of care in principle. The name and brief personal profile of members of the Special Committee are listed in Appendix 3.

- 1) Those who have not served as directors (excluding external directors; the same shall apply hereinafter) or corporate auditors (excluding external corporate auditors; the same shall apply hereinafter) of the Company, its subsidiaries or affiliates (hereinafter, referred to together as the Company or related entities) either currently or in the past.
- 2) Those who are not relatives of directors or auditors of the Company or related entities, either currently or in the past.
- 3) Those who do not have a special vested interest in the Company or related entities.
- 4) Those who are top executives of corporations with track records, lawyers, certified accountants, or experts or pursuant to them.

(b) Recommendation for implementation of the plan by the Special Committee

If the reason for the purchase by the purchaser or similar party applies to either of the following (hereinafter, referred to as “the reasons of implementation”) and the implementation of the plan is deemed appropriate, the Special Committee shall make a recommendation for the implementation of the plan to the Board of Directors of the Company (specific details of countermeasures are as described in 6. below).

- 1) If the purchase does not follow the procedures specified in the plan
- 2) If the purchase may cause clear impairment of corporate value of the Company and common interests of shareholders because of the actions listed from (i) to (iv) below.
  - (i) If the purchaser or similar party boosts the share price with no real intention of participating in the management of the Company and demands that the Company buys back the purchased shares at inflated price (so-called a “greenmailer”).
  - (ii) If the purchaser engages in management to achieve the interest of the purchaser or similar party at the sacrifice of the Company, such as controlling the management of the Company temporarily to obtain important intellectual property rights, operating know-how, corporate confidential information, and assets of the main business partners and customers at low cost.
  - (iii) If the purchaser or similar party diverts the assets of the Company or its group companies as collateral of debt or payment resource.
  - (iv) If the purchaser or similar party controls the management of the Company temporarily and disposes of high-value assets that are not related to the business for the time being such as real estate and marketable securities of the Company or its group companies to force the Company to pay high dividends temporarily using the profit from disposal, or sells the shares at the highest price by waiting for the share price to surge against the backdrop of temporarily high dividends.
- 3) If the purchaser applies for a coercive, two-step large-scale purchase of shares, etc. (in which the purchaser or similar party does not solicit purchase of all shares at the initial purchase attempt but presents unfavorable terms of purchase or does not define the terms thereof clearly at the second purchase attempt), etc. that may virtually force the shareholders of the Company to sell shares.
- 4) If the purchase goes ahead without setting a reasonable period for the Company to present an alternative proposal for the relevant purchase.
- 5) If the purchase goes ahead without sufficiently providing information that is deemed reasonably necessary for the shareholders of the Company to assess the necessary information and other details of the purchase.
- 6) If the terms of the purchase (including price and type of consideration, timing of purchase, legality of the purchase method, certainty of performing the purchase, treatment policy for employees of the Company, business partners, customers and

other interested parties after the purchase) are significantly insufficient or inadequate in light of the underlying value of the Company.

- 7) If the purchase could destroy the relationships with employees, business partners including customers and interested parties, such as creditors who are essential to sustainably increase the corporate value of the Company and significantly impair the corporate value of the Company and common interests of shareholders.

Note, however, that regardless of whether it is prior to or subsequent to the record date for determining the right, the Special Committee shall make independent decision including cancellation or withdrawal of implementation of the plan and recommend it to the Board of Directors of the Company in the following cases: If the purchaser or similar party withdraws the purchase after the aforementioned recommendation and if the purchase ceases to exist, or if there are changes in facts that were assumed in the decision of the above recommendation so that the purchase by the purchaser or similar party shall not be deemed to qualify for reasons of implementation.

However, even when implementation of the plan is deemed to be reasonable, if the Special Committee judges it is proper to obtain a resolution of a General Meeting of Shareholders on the implementation of the plan, it shall recommend the Board of Directors of the Company to call a General Meeting of Shareholders and refer a proposal related to implementation of the plan to the meeting.

(c) Recommendation for non-implementation of the plan by the Special Committee

The Special Committee determines whether the purchaser or similar party provides information and ensures the evaluation period as specified in (2) and (3) above and complies with the procedures specified in the plan. In addition, if the purchase by the purchaser or similar party shall not be deemed to apply to any of the reasons of implementation as a result of evaluation and examination of information and materials provided by the purchaser or similar party as well as discussion and negotiation with the purchaser or similar party by the Board of Directors of the Company, the Special Committee shall recommend no-implementation of the plan at the Board of Directors' Meeting of the Company.

Note, however, that if there are changes in facts that were the assumptions of such decision so that the purchase by the purchaser or similar party shall be deemed to apply either of the reasons of implementation, the Special Committee shall be allowed to make independent decision anew including implementation of the plan and recommend it at the Board of Directors' Meeting of the Company.



## **(5) Resolution of the Board of Directors**

The Board of Directors of the Company shall place prime importance on the recommendation by the Special Committee in compliance with (4) in the above and make final decision on implementation or non-implementation of the plan or cancellation or withdrawal thereof. If the Board of Directors of the Company makes such decision, it shall disclose information on the outline of such decision, overview of recommendation by the Special Committee and other matters deemed appropriate by the Board of Directors of the Company promptly thereafter.

If the Board of Directors of the Company is recommended by the Special Committee to convene a General Meeting of Shareholders related to implementation of the plan, it shall quickly call a General Meeting of Shareholders so that a meeting will be held in the shortest time practically possible, and refer a proposal related to implementation of the plan to the General Meeting of Shareholders. If a resolution on implementation of the plan is adopted at a General Meeting of Shareholders, the Board of Directors shall go through procedures necessary for implementation of the plan. After such procedures start, the purchaser or similar party may not carry out the purchase until the Board of Directors of the Company makes a decision on implementation or non-implementation of the plan, or until a resolution related to implementation of the plan is adopted at the aforementioned General Meeting of Shareholders if the relevant General Meeting of Shareholders is to be held.

## **(6) Specific countermeasures**

As specific countermeasures of the Board of Directors of the Company against inappropriate purchases, it shall allocate stock acquisition rights granted free of charge (hereinafter, referred to as “the stock acquisition rights”), described in Appendix 4: Summary of allotments of stock acquisition rights granted free of charge.

The main details of the stock acquisition rights are as follows:

### **(a) Target shareholders of allocation of the stock acquisition rights**

The Company shall assign one unit of the stock acquisition rights per share of stocks held (excluding the shares of the Company held by the Company) to the shareholders who are listed or recorded in the final register of shareholders or the list of beneficial shareholders as of the record date (hereinafter, referred to as “the allocation date”) specified by the Board of Directors of the Company in making resolution with regard to the issuance of the stock acquisition rights (hereinafter, referred to as “the resolution on the issuance of the stock acquisition rights”).

### **(b) Type and number of shares to be issued upon exercising the stock acquisition rights**

Type of share is common stock of the Company, and one share of common stock of the Company shall be issued per unit of the stock acquisition rights unless adjusted otherwise.

(c) Total number of the stock acquisition rights

Total number of final shares outstanding on the allocation date shall be the maximum number of the total number of stock acquisition rights to be issued. (Note, however, that the number of the shares held by the Company at that moment shall be excluded.)

(d) The amount to be paid upon exercising the stock acquisition rights

The amount to be paid upon exercising the stock acquisition rights shall be ¥1 per share.

(e) Exercise period of the stock acquisition rights

The exercise period of the stock acquisition rights shall be the period between three weeks elapsed after the effective date of the allotment of the stock acquisition rights granted free of charge and six months elapsed thereafter. Note, however, that if the final date of exercise period falls on a non-business day for the payment handling agent, the following business day shall be the final date of exercise period.

(f) Terms and conditions applicable for the exercise of the stock acquisition rights

Only those holders of the stock acquisition rights who shall not fall into any of the following shall be allowed to exercise the stock acquisition rights: a) specific large-volume holders; b) their joint holders; c) specific large-scale purchasers; d) their special interested parties; or e) persons who are transferred or have inherited the stock acquisition rights from those listed in a) through d) above without approval at the Board of Directors of the Company; or f) persons involved with those listed in a) through e) above (hereinafter, those who fall into any of a) through f) shall be referred to collectively as “ineligible parties”). In addition, because of applicable rules or regulations both in Japan and abroad, nonresidents who are required to follow predetermined procedures after exercising the stock acquisition rights shall not exercise them in principle. For definitions of the terms and details used above, please refer to Appendix 4: Summary of allotments of stock acquisition rights granted free of charge.

(g) Acquisition of stock acquisition rights

- 1) If the Board of Directors of the Company acknowledges that acquisition of the stock acquisition rights by the Company is appropriate, the Company may acquire all the stock acquisition rights granted free of charge on the day specified by the Board of Directors of the Company between the day allotment of the stock acquisition rights granted free of charge takes effect and the day the period of exercise of the stock acquisition rights expires.
- 2) The Company may acquire, on the day separately specified by the Board of

Directors of the Company, all the stock acquisition rights that are held by persons other than “ineligible parties” and at the same time not exercised by the previous business day of the relevant day, and grant, in exchange, one of the Company’s applicable common shares for one unit of stock acquisition rights. The Company may carry out acquisition of such stock acquisition rights, if a third party other than “ineligible parties” get the stock acquisition rights by transfer from “ineligible parties” after the Company’s enforcement of acquisition.

- 3) In addition to the aforementioned cases, if so stipulated in a separate resolution on allotment of stock acquisition rights granted free of charge, the Company may acquire all stock acquisition rights held by “ineligible parties” on the day separately specified by the Company’s Board of Directors, and, grant, in exchange, what is separately specified in the decision on allotment of stock acquisition rights granted free of charge from among the Company’s shares, stock acquisition rights, debentures, money and other compensations.

(h) Transfer of stock acquisition rights

The approval of the Board of Directors of the company is required to transfer the stock acquisition rights.

**(7) Expiration date of the plan, and continuation, abolition, and change thereof**

The expiration date of the plan shall be at the end of ordinary General Meeting of Shareholders for the fiscal year ending December 2010. Note, however, that if the agenda for abolishing the plan is approved at the General Meeting of Shareholders, even prior to the end of the expiration date, or if the Board of Directors of the Company comprised of directors, who are selected at the General Meeting of Shareholders of the Company, resolve to abolish the plan, the plan shall be abolished at that point. Therefore, the plan may be abolished if that is the intention of the shareholders.

Based on the examination of the Board of Directors of the Company in consideration of amendment and improvement of applicable laws and regulations such as the Financial Instruments and Exchange Law, the Company may review or modify the plan as the need arises from the viewpoint of ensuring and increasing the corporate value and the common interests of shareholders.

If the plan is abolished or changed, the Company shall promptly disclose the fact thereof and, in the case of modification, shall also disclose details of the modification and other matters deemed to be appropriate by the Board of Directors of the Company.

**IV. Judgment of the Company’s Board of Directors on the aforementioned efforts and**

## **reasons for the judgment**

### **1. About special efforts for realizing the basic policy (efforts specified in II.)**

Each effort stated in II. has been worked out as a measure to continuously and persistently increase the corporate value of the Company and common interests of shareholders, and contributes to the realization of the basic policy.

Therefore, these efforts are in line with the basic policy and in accord with common interests of shareholders of the Company, and not aimed at maintaining the status of corporate directors of the Company.

### **2. About efforts for preventing decisions on financial and operational policies of the Company from being controlled by inappropriate persons in light of the basic policy (efforts specified in III.)**

#### **(1) The plan is in line with the basic policy**

The plan is a framework for ensuring the corporate value of the Company and by extension, the common interests of shareholders. When a large-scale purchase of shares of the Company is to be made, the plan allows us to request that the purchaser or similar party provides information prior to such purchase, thereby shareholders decide whether to accede to the purchase or not, or ensure necessary information and time for the Board of Directors of the Company to make alternative proposals or negotiate with the purchaser or similar party on behalf of the shareholders. It is in line with the basic policy.

#### **(2) The relevant efforts neither damage common interests of shareholders nor are aimed at maintaining the status of corporate directors of the Company**

We believe for the following reasons that efforts for preventing control by inappropriate persons in light of the basic policy neither damage common interests of shareholders nor are aimed at maintaining the status of corporate directors of the Company.

##### **(a) Ensure that the requirements of guidelines with regard to the countermeasures against corporate acquisition shall be satisfied completely.**

The plan completely satisfies the three basic principles (the principle of ensuring and/or increasing corporate value and stakeholder profits; the principle of prior disclosure and shareholders' intention; and the principle of securing the necessity and the reasonableness) stipulated in the "Guidelines on takeover defense for ensuring and/or increasing corporate value and stakeholder profits," released by the Ministry of Economy, Trade and Industry and the Ministry of Justice on May 27, 2005.

##### **(b) Ensure that the plan places emphasis on the shareholders' intention (Resolution of a**

General Meeting of Shareholders and the sunset clause)

The plan shall be continued on condition that predetermined amendments to the Articles of Incorporation are made and approval is obtained from shareholders at the general meeting based on provisions of the Articles of Incorporation.

As is described in III. 2. (7) Expiration date of the plan, and continuation, abolition, and change thereof, the plan has the so-called sunset clause, under which the effective period of the plan is set at about three years. Even before the expiration of that period, if the agenda for canceling the aforementioned commissioned resolution is approved at the General Meeting of Shareholders of the Company and if the agenda for abolishing the plan is approved at the Board of Directors of the Company, which is comprised of directors selected at the General Meeting of Shareholders of the Company, the plan shall be abolished at that point. In this sense, introduction and abolition of this plan shall reflect the intention of the shareholders.

(c) Setting reasonable and objective reasons of implementation of the plan

As is described in III-2. (4) (b) above, the plan was set not to be implemented unless predetermined, reasonable, and detailed objective requirements are satisfied. Therefore, the plan has ensured the mechanism of preventing arbitrary implementation by the Board of Directors of the Company. In addition, such reasons of implementation were set after exhaustive analysis of appropriate and reasonable countermeasures against corporate acquisition in reference to the analysis of judicial precedents in Japan as well as the aforementioned “guidelines.”

(d) Establishing Special Committee

The Company has established the Special Committee separately for the purpose of discussion and negotiation with the purchaser or similar party, and for securing the objectivity and reasonableness of the decision of the Board of Directors with regard to the extension of the evaluation period and the appropriateness of reasons of implementation.

In consideration of the purpose of its establishment, the Special Committee shall be comprised of individuals who satisfy the conditions listed in III-2. (4) (a) above and are independent from the Board of Directors’ Meeting of the Company. In addition, it shall be allowed to obtain the advice of experts, such as financial advisors, lawyers, and certified accountants, who are independent third parties.

In compliance with the procedures specified in the Special Committee Rules, the Special Committee shall evaluate and examine the appropriateness of reasons of implementation and make recommendations at the Board of Directors’ Meeting of the

Company. The Board of Directors of the Company shall place prime importance on the recommendations made by the Special Committee and make final decision on the implementation or non-implementation of the plan or cancellation or withdrawal thereof.

(e) Ensuring that the plan is neither a dead-hand nor a slow-hand type of countermeasure against takeovers

The Board of Directors, which is comprised of directors selected at the General Meeting of Shareholders of the Company, is allowed to abolish the plan. Given the nature of the plan, it is possible that those who purchase the stocks of the Company in large volume shall nominate directors at the Board of Directors of the Company and have the Board of Directors comprised of such directors abolish the plan.

Therefore, the plan is not a dead-hand type of countermeasure against takeovers (countermeasures against takeovers in which implementation of the plan shall not be stopped, even if the majority of the Board of Directors are replaced). The plan is not a slow-hand type of countermeasure against takeovers (countermeasures against takeovers which takes a time to block implementation of the plan because the Board of Directors cannot be replaced at once), either, because the term of office of Directors is one year.

## **V. Influence on shareholders and investors**

### **1. Influence on shareholders and investors exerted at the time of introducing the plan**

The stock acquisition rights shall not be issued at the time of introducing the plan.

Therefore, there shall be no direct influence on the rights and economic interests of shareholders and investors.

### **2. Influence on shareholders and investors exerted at the time of issuing the stock acquisition rights**

If the Board of Directors of the Company decides to implement the plan and resolves to issue the stock acquisition rights through allotment of stock acquisition rights granted free of charge, one unit of the stock acquisition rights per share of stock shall be allocated to shareholders who are listed or recorded in the final register of shareholders, or list of beneficial shareholders, on the date of allocation specified by the relevant resolution. If shareholders do not pay and do not perform other procedures written in below (3. Procedures required of shareholders following the issuance of the stock acquisition rights (2) Procedures for exercising the stock acquisition rights) by the end of the exercise period, shares of those shareholders shall be diluted by exercise of the stock acquisition rights by other shareholders. And the Company may get the stock acquisition rights

from shareholders other than “ineligible parties” and grant them shares of the Company instead by process of written in below (3. Procedures required of shareholders following the issuance of the stock acquisition rights (3) Procedures for acquiring the stock acquisition rights). In the case the Company takes the procedure, the shareholders other than “ineligible parties” get shares of the Company without exercising the stock acquisition rights or paying equivalent to exercising the stock acquisition rights, as a result, dilution of value per share is occurred but dilution of economic value of whole shares held by shareholders is not basically occurred.

In addition, if the plan is decided to abort or recall after the decision of implementation of the plan, dilution of value per share would not be occurred. Therefore shareholders who believe dilution of value per share and sell/buy shares may be considerably damaged by fluctuation of share price.

### **3. Procedures required of shareholders following the issuance of the stock acquisition rights**

(1) If the Board of Directors of the Company decides to implement the plan and resolves to issue the stock acquisition rights through the allotment of the stock acquisition rights granted free of charge, it shall determine the allocation date and announce it publicly. As the stock acquisition rights shall be allocated to the shareholders listed or recorded in the final register of shareholders or the list of beneficial shareholders at the allocation date according to the number of shares held by each shareholder, shareholders shall be required to go through the procedures for transfer of shares by the notified allocation date. (In the meantime, procedures for transfer of shares shall not be necessary for share certificates entrusted with Japan Securities Depository System, Inc.)

(2) Procedures for exercising the stock acquisition rights

The Company shall send the stock acquisition rights exercise request form (in the format predetermined by the Company that includes a written pledge to declare that the shareholders themselves are not “ineligible parties”) and other documents required to exercise the stock acquisition rights to shareholders who are listed or recorded in the final register of shareholders or the list of beneficial shareholder on the allocation date. Shareholders shall be required to submit these necessary documents by the end of the exercise period, specified separately by the Board of Directors’ Meeting, and pay 1 yen per unit of the stock acquisition rights to the payment handling agency to have one share of common stock of the Company issued per unit of the stock acquisition rights.

(3) Procedures for acquiring the stock acquisition rights

If the Company decides that the stock acquisition rights shall be obtained in exchange for the shares of the Company, and if the Company goes through the acquisition procedures, the Company shall acquire the stock acquisition rights on the day separately specified by the Board of Directors of the Company.

If the Company acquires the stock acquisition rights from shareholders other than “ineligible parties” and grants the Company’s common shares in exchange for the stock acquisition rights, the shareholders shall receive one common share of the Company in consideration of acquisition of such stock acquisition rights without paying money equivalent to the exercise price. In this case, therefore, the Company shall not send the stock acquisition rights exercise request form, but it may request such shareholders to submit a written pledge in the predetermined format to declare that they are not “ineligible parties.”

If provisions are stipulated by a decision on allotment of the stock acquisition rights granted free of charge concerning the acquisition of the stock acquisition rights from “ineligible parties” and other matters related to acquisition, the Company may take measures in accordance with such provisions.



[Appendix 1]

## Shareholder status

### 1. Breakdown of shares by type of shareholder (as of December 31, 2007)

Financial institutions	(111,209 shares / 23.37%)
Foreign corporations	(46,186 shares / 9.71%)
Securities companies	(3,176 shares / 0.67%)
Treasury stocks	(9,161 shares / 1.93%)
Other corporations	(178,020 shares / 37.40%)
Individuals and others	(128,073 shares / 26.92%)

### 2. Major shareholders (Top 10)

(As of December 31, 2007)

Name	Shareholders' investment in the Company	
	Number of shares held	The ratio of voting rights (%)
Brastsheave Co., Ltd.	3,650,000	7.82
Nikko Principal Investments Japan Ltd.	3,400,000	7.29
Toppan Printing Co., Ltd.	1,838,147	3.94
Sawzan, Ltd.	1,792,857	3.84
Sumitomo Mitsui Banking Corp.	1,665,370	3.57
Dai Nippon Printing Co., Ltd.	1,509,663	3.24
Japan Trustee Services Bank, Ltd. (Trust account)	1,431,300	3.07
The Master Trust Bank of Japan, Ltd. (Trust account)	1,071,800	2.30
Mizuho Bank, Ltd.	1,019,961	2.19
Nippon Life Insurance Company	988,307	2.12

Note: The Company holds 916,195 shares of the Company as treasury stock.

### 3. Shareholding status for the directors and corporate auditors of the Company and their family members (as of December 31, 2007)

Total number of shares held: 1,793,499 shares; ratio of voting rights: 3.84%

### 4. Recent report on large-volume shareholding (after December 31, 2007)

There has been no applicable report.

[Appendix 2]

## **Special Committee Rules**

### Article 1 (Purpose)

The Special Committee with regard to countermeasures against the large-scale purchase of shares of the Company (hereinafter, referred to as “the plan”) shall comply with the Special Committee Rules.

### Article 2 (Authority and obligation)

1. If the purchase of the shares of the Company is proposed, the Special Committee shall evaluate and examine the details of the purchase, based on the information provided immediately by the Board of Directors of the Company. In addition, if necessary, the Special Committee shall strive to improve the condition of the purchase for the sake of the corporate value of the Company and the common interests of shareholders by means such as making recommendation to extend the evaluation period and negotiate with the prospective purchaser through the representative director or similar party of the Company, and ultimately decide whether there are reasons for implementation, as stipulated in Article 9, in compliance with the Special Committee Rules. The Special Committee shall thereby make a recommendation to the Board of Directors of the Company as to whether to implement the plan.
2. The Special Committee shall be allowed to request that the Board of Directors of the Company submits the information necessary to make resolution and recommendation at the Special Committee, such as all materials provided by the purchaser or similar party to the Board of Directors and evaluation of such information by the Board of Directors.
3. The Special Committee shall conduct the matters specified in the preceding clause with the duty of care.

### Article 3 (Constituents and role thereof)

1. The Special Committee shall be established by the resolution of the Board of Directors of the Company.
2. The Special Committee shall be comprised of all constituting members.
3. The Special Committee shall be comprised of three or more committee members.
4. The Special Committee members shall be selected by the Board of Directors of the Company among those who satisfy the following conditions and shall be required in principle to conclude a mandate with the Company that includes provision of duty of care.
  - (1) Those who have not served as directors (excluding external directors; the same shall apply hereinafter) or corporate auditors (excluding external corporate auditors; the same shall apply hereinafter) of the Company, its subsidiaries or affiliates (hereinafter,

collectively referred to as the Company or related entities) either currently or in the past.

- (2) Those who are not relatives of directors or corporate auditors of the Company or related entities, either currently or in the past.
  - (3) Those who do not have a special vested interest in the Company or related entities.
  - (4) Those who are top executives of corporations with track records, lawyers, certified accountants or experts or those pursuant to them.
5. If the purchase of shares of the Company is proposed, the Special Committee shall be required to collect and examine information on details of the purchase, express an opinion from the viewpoint of whether it is beneficial for the corporate value of the Company or common interests of shareholders, and participate in resolutions. Therefore, the Special Committee shall not aim solely to promote the interest of individuals or of the directors of the Company.

#### Article 4 (Holding of Special Committee)

The Special Committee shall be held when each special committee member convenes it in compliance with the specification in Article 5.

#### Article 5 (Person entitled to convene Special Committee)

1. The Special Committee shall be convened by each Special Committee Member
2. The Representative Director of the Company (if the representative director cannot convene the committee because of an accident, other directors shall convene it in the order predetermined by the Board of Directors; the same shall apply hereinafter) shall be allowed to request each Special Committee member to convene the Special Committee.
3. If notice of convocation of the Special Committee is not made within three days after the request was made in compliance with the preceding clause, the Representative Director of the Company shall be able to convene the Special Committee.

#### Article 6 (Notice of convocation)

Notice of convocation for the Special Committee shall be delivered to each Special Committee by three days prior to the date of the meeting. In the event of emergency, this period may be shortened.

#### Article 7 (Omission of convocation procedures)

The Special Committee may be held without going through the convocation procedures with the approval of the Special Committee members.

#### Article 8 (Resolution method)

1. The Special Committee shall be approved with all members attending and resolutions shall be made with the approval of a majority of members. However, if any of the members is absent for inevitable reasons, the Special Committee shall be approved with a majority of

the members attending and resolutions shall be made with the approval of the majority of the attendants.

2. If members of the Special Committee are absent from the Special Committee, the relevant members shall notify the administrative office of their absence and the reasons thereof in writing by the day before the date of the meeting in principle.
3. Special Committee members who have a special vested interest in the agenda shall not be allowed to participate in the resolution.

#### Article 9 (Recommendation)

1. If the reasons of purchase by the purchaser or similar party (hereinafter, referred to as “the reasons of implementation”) apply to any of the following and implementation of the plan is deemed to be reasonable, the Special Committee shall recommend the implementation of the plan to the Board of Directors of the Company. However, even when implementation of the plan is deemed to be reasonable, if the Special Committee judges it is proper to obtain a resolution of a General Meeting of Shareholders on the implementation of the plan, it shall recommend the Board of Directors of the Company to call a General Meeting of Shareholders and refer a proposal on implementation of the plan to the meeting.
  - 1) If the purchase does not follow the procedures specified in the plan.
  - 2) If the purchase may cause clear impairment of corporate value of the Company and common interests of shareholders because of actions listed in (i) to (iv) below.
    - (i) If the purchaser or similar party boosts the share price with no real intention of participating in the management of the Company and demands that the Company buys back the purchased shares at an inflated price (a greenmailer).
    - (ii) If the purchaser engages in management to achieve the interest of the purchaser or similar party at the sacrifice of the Company, such as controlling the management of the Company temporarily to obtain important intellectual property rights, operating know-how, corporate confidential information, and assets of the main business partners and customers at low cost.
    - (iii) If the purchaser or similar party diverts the assets of the Company or its group companies as collateral of debt or payment resource.
    - (iv) If the purchaser or similar party controls the management of the Company temporarily and disposes of high-value assets that are not related to the business for the time being, such as real estate and marketable securities, of the Company or its group companies to force the Company to pay high dividends temporarily using the profit from the disposal, or sells the shares at the highest price by waiting for the share price to surge against the backdrop of a temporarily high dividend.
  - 3) If the purchase applies to coercive, two-step large-scale purchase of shares (in which the

purchaser or similar party does not solicit purchase of all shares at the initial purchase attempt but presents unfavorable terms of purchase or does not define the terms thereof clearly at the second purchase attempt), that may virtually force the shareholders of the Company to sell shares.

- 4) If the purchase is carried out without setting a reasonable period for the Company to present an alternative proposal for the relevant purchase.
- 5) If the purchase is carried out without sufficiently providing information that is deemed reasonably necessary for the shareholders of the Company to assess the necessary information and other details of the purchase.
- 6) If the terms of the purchase (including price and type of consideration, timing of purchase, legality of the purchase method, certainty of performing the purchase, treatment policy for employees of the Company, business partners, customers and other interested parties after the purchase) are significantly insufficient or inadequate in light of the underlying value of the Company.
- 7) If the purchase may destroy the relationships with employees, business partners including customers, and interested parties such as creditors who are essential for sustainably increasing the corporate value of the Company and may significantly impair the corporate value of the Company and common interests of shareholders.

Note, however, that regardless of whether it is prior to or subsequent to the record date for determining the right, the Special Committee shall make independent decision including cancellation or withdrawal of implementation of the plan and recommend it at the Board of Directors' Meeting of the Company in the following cases: If the purchaser or similar party withdraws the purchase after the aforementioned recommendation and if the purchase ceases to exist, or if there are changes in facts that were the assumptions of decision of the above recommendation so that the purchase by the purchaser or similar party shall not be deemed to qualify the reason of implementation.

2. The Special Committee shall promptly recommend the result of resolution and the reason thereof to the Board of Directors of the Company.
3. The Board of Directors of the Company shall place prime importance on the recommendation by the Special Committee as in the preceding clause in making the final decision. However, if implementation of the plan is referred to a General Meeting of Shareholders of the Company, the Board of the Directors of the Company shall follow the resolution of the relevant General Meeting of Shareholders.
4. Details of the recommendation by the Special Committee shall be made public at the time of announcing the details of resolution of the Board of Directors of the Company on the relevant matter.

Article 10 (Advisory)

1. If necessary, the Special Committee shall be allowed to have the Company's directors, corporate auditors, executive advisers, corporate advisers, operating officers, accounting auditors, or employees attend its meeting to ask for reports or opinions on necessary matters.
2. The Special Committee shall be allowed to obtain advice of independent third party experts (such as financial advisers, certified accountants, lawyers and other specialists) at the expense of the Company.

Article 11 (The Minutes of meeting)

1. The Special Committee shall create the minutes of the meeting with the record of progress and the result of the proceedings, which shall be signed and sealed by the Special Committee members who attended the meeting.
2. Minutes of meeting shall promptly be circulated to Special Committee members who were absent.

Article 12 (Administrative office)

The Legal and Credit Department of the Company shall be the administrative office of the Special Committee.

Article 13 (Amendment or abolishment of the regulation)

The regulation shall be amended or abolished by the resolution of the Board of Directors of the Company.

Article 14 (Enforcement)

The regulation shall be enforced effective on January 19, 2006.

The regulation shall be amended and enforced effective on March 29, 2007.

The regulation shall be amended and enforced effective on March 28, 2008.

[Appendix 3]

**Brief Personal Profile of Special Committee Members**

Jotaro Yabe: Born in 1939

1963: Joined Secretariat of Japan Fair Trade Commission

1997: Assumed General Secretariat of Japan Fair Trade Commission

1998: Retired from Japan Fair Trade Commission

1999: Assumed Professor of Graduate School of Law and Politics at Osaka University

2002: Retired from Professor of Osaka University

Assumed Vice Chairman of Fair Trade Institute

2004: Assumed Professor of Humanities and Social Sciences at Jissen Women's University (present position)

2005: Assumed external corporate auditor of Onward Kashiwajima Co., Ltd. (present position)

Assumed external director of Daiichi Sankyo Company, Limited (present position)

2006: Special Committee Member of the Company (present position)

: Retired from Vice Chairman of Fair Trade Institute

2007 Assumed external corporate auditor of Onward Holdings Co., Ltd. (present position)

Toshio Kobayashi: Born in 1960

1988: Assumed teaching fellow at School of Economics at Osaka University

1991: Earned a doctoral degree in Economics at Osaka University

2003: Assumed Professor at Graduate School of Economics at Osaka University (present position)

2006: Special Committee Member of the Company (present position)

Hiroshi Morimoto: Born in 1960

1987: Registered as lawyer (Osaka Bar Association)

Joined Kitahama Partners

1992: Promoted to Partner of Kitahama Partners (present position)

1995: Assumed external corporate auditor of Japan Cash Machine Co., Ltd. (present position)

2006: Special Committee Member of the Company (present position)

: Assumed external corporate auditor of Senshukai Co., Ltd. (present position)

2008: Assumed representative employee of Kitahama Partners (present position)



[Appendix 4]

## Summary of allotments of stock acquisition rights granted free of charge

### (a) Details of the stock acquisition rights

#### (1) Type and number of shares subject to the stock acquisition rights

- 1) The type of shares subject to the stock acquisition rights shall be the Company's common shares.
- 2) The number of the Company's common shares to be granted in exchange of acquiring the stock acquisition rights (the Company's common shares to be issued and the Company's common shares held by the Company to be transferred instead) (The same applies hereinafter.) and the number of the Company's common shares to be newly issued by exercising stock acquisition rights is specified in (b) below. Note that if the number of applicable shares (defined in 3) below) is adjusted according to 3) below, it shall be adjusted by multiplying the number of applicable shares after the relevant adjustment by the total number of the stock acquisition rights.
- 3) The number of the Company's common shares to be issued by acquiring or exercising each of these stock acquisition rights (hereafter referred to as "applicable number of shares") shall be one share. Note that if the Company splits or consolidates shares, the number of the applicable shares shall be adjusted according to the following formula:

$$\text{Number of the applicable shares after adjustment} = \text{Number of the applicable shares before adjustment} \times \text{Ratio of split or consolidation}$$

Such an adjustment shall be made only for shares with respect to the stock acquisition rights that have not been acquired or exercised at the relevant time, and any fractions less than one share, that occurs as a result of such adjustment shall be rounded down, and no adjustment by cash shall be made. Also, when processing these fractions, and adjusting the number of the applicable shares based on the reasons for adjustment of the number of applicable shares occurred afterward, the number of the applicable shares after adjustment shall be calculated upon appropriately reflecting such fractions in the number of applicable shares before adjustment.

#### (2) The value of property financed on the exercise of the stock acquisition rights

- 1) The amount to be paid for the shares on the exercise of the stock acquisition rights shall be obtained by multiplying the exercising price (defined in 2) below) by the number of the applicable shares.
- 2) The amount to be paid per common share of the Company on the exercise of the stock acquisition rights (hereafter referred to as "exercising price") shall be 1 yen.

#### (3) The bank handling payment for the shares on the exercise of the stock acquisition rights and the place handling payment

To be determined by the Board of Directors with a resolution to issue the stock acquisition rights.

(4) Period of exercise of the stock acquisition rights

The period of exercise of the stock acquisition rights shall be 6 months from 3 weeks elapsed after the effective date of the allotment of the stock acquisition rights granted free of charge stated in (d) below. Note that if the last day of the period of exercise falls on a holiday for the place handling payment, the last day shall be the following business day.

(5) Items regarding the capital to be increased when issuing shares by exercising the stock acquisition rights and the capital reserve

In case of issuing common shares of the Company by exercising the stock acquisition rights, the entire amount of the issuing of the shares at in issue price shall be incorporated into the capital, and the amount not incorporated into the capital shall be 0 yen.

(6) Limitation of transfer of stock acquisition rights

Transfer of the stock acquisition rights must be approved by the Board of Directors of the Company.

(7) Acquisition of the stock acquisition rights

1) If the Company's Board of Directors acknowledges that acquisition of the stock acquisition rights by the Company is appropriate, the Company may acquire all the stock acquisition rights granted free of charge on the day specified by the Company's Board of Directors between the day allotment of the stock acquisition rights granted free of charge takes effect and the day the period of exercise of the stock acquisition rights expires.

2) The Company may acquire, on the day separately specified by the Company's Board of Directors, all the stock acquisition rights that are held by a party other than an "ineligible party" defined in (e) (1) and at the same time not exercised by the previous business day of the relevant day, and grant, in exchange, one unit of the Company's applicable common shares per stock acquisition right. The Company may carry out such acquisition of the stock acquisition rights plural times.

3) In addition to the aforementioned cases, if so stipulated in a separate resolution on allotment of stock acquisition rights granted free of charge, the Company may acquire all stock acquisition rights held by "ineligible parties" on the day separately specified by the Company's Board of Directors, and, grant, in exchange, what is separately specified in the decision on allotment of stock acquisition rights granted free of charge from among the Company's shares, stock acquisition rights, debentures, money and other compensations.

(8) Takeover of obligations for stock acquisition rights in case of a merger, company split, stock exchange or stock transfer

To carry out a merger in which the Company ceases to exist, a merger split or new

establishment split in which the Company becomes a demerged corporation, or a stock exchange or stock transfer in which the Company becomes a wholly-owned subsidiary, obligation for stock acquisition rights that have not been acquired or exercised or redeemed as of the relevant point of time may be handed over to the following entities: 1) the company that continues to exist after the relevant merger (hereafter referred to as the “company continuing to exist after an absorption merger”); 2) the company that will be established as a result of the relevant merger (hereafter referred to as the “newly established company as a result of a new establishment merger”) in the event of a merger; 3) the company that takes over whole or part of the rights and obligations owned by the company split as a result of the relevant merger split (hereafter referred to as “company taking over after a merger split”) in the event of a merger split; 4) the company that is established as a result of the relevant new establishment split (hereafter referred to as the “company newly established as a result of new establishment split”) in the event of a new establishment split; or 5) the company that will be the wholly owning parent company as a result of the relevant stock exchange or stock transfer (hereafter referred to as the “wholly owning parent company as a result of a stock exchange” or “wholly owning parent company established as a result of stock the stock transfer.” The above 6 entities are hereafter collectively referred to as “company that continues to exist”) in the event of a stock exchange or stock transfer based on the following decision policies. Note that this applies only if the General Meeting of Shareholders of the Company approves the agenda on the merger agreement, merger split agreement, new establishment split plan, stock exchange agreement or stock transfer plan, which provides statements complying with the following decision policies with respect to takeover of obligations for the stock acquisition rights in each case.

- 1) Type of shares for the purpose of the stock acquisition rights taken over  
Common shares of the company that continues to exist.
- 2) Number of shares that are the purpose of the stock acquisition rights taken over  
To be rationally adjusted according to the ratio of the merger, company split, stock exchange or stock transfer, and fractions less than one share after adjustment shall be rounded down.
- 3) Amount to be paid to exercise the stock acquisition rights taken over  
To be rationally adjusted according to the ratio of the merger, company split, stock exchange or stock transfer, and fractions less than 1 yen after adjustment shall be rounded down.
- 4) Period of exercise of the stock acquisition rights taken over, other conditions for acquisition or exercise of the rights, termination of the resolution for issuance, etc.  
To be determined by the Company’s Board of Directors at the time of the merger,

company split, stock exchange, or stock transfer following this outline.

5) Approval for transfer by the Board of Directors

Transfer of the stock acquisition rights must be approved by the Company's Board of Directors that continues to exist.

(9) Limitation of issuance of stock acquisition rights securities

No stock acquisition rights securities shall be issued.

(b) Total number of stock acquisition rights

The upper limit shall be obtained by multiplying the final outstanding number of shares issued as of the base date for allotment of the stock acquisition rights to be granted free of charge (defined in (d) below) (excluding the number of the Company's common shares held by the Company as of the same time) by 1.

(c) Shareholders subject to the allotment of the stock acquisition rights to be granted free of charge

Shareholders who are listed or recorded on the final shareholders' list or the beneficial shareholders' list as of the base date for allotment of the stock acquisition rights are granted free of charge (defined in (d) below; including those who are not able to exercise the stock acquisition rights according to (e) specified below and excluding the Company as a holder of treasury shares).

(d) Base date and effective date for allotment of the stock acquisition rights to be granted free of charge

(1) Base date

The base date shall be the date separately specified by the Company's Board of Directors on or after the exercise date of this plan has been resolved by the Company's Board of Directors.

(2) Effective date

The effective date shall be the date separately specified by the Company's Board of Directors on or after the base date.

(e) Conditions to exercise the stock acquisition rights

(1) Persons may exercise the stock acquisition rights providing they do not fall under the following: 1) a specific mass shareholder; 2) his/her co-shareholder; 3) a specific mass buyer; 4) his/her special stakeholder; 5) a person to whom the stock acquisition rights have been transferred or who has taken over the stock acquisition rights from the person stated in 1) or 4) above without obtaining approval from the Company's Board of Directors; or 6) a person related to any person stated in 1) to 5) above (hereinafter, those who fall into any of 1) through 6) shall be referred to collectively as "ineligible parties").

The terms used above are defined as follows:

1) A "specified mass shareholder" refers to a person who holds at least 20% (defined in Paragraph 4 of Article 27-23 of the same law) of the stock certificates, etc., issued by the

Company (defined in Paragraph 1 of Article 27-23 of the Financial Instruments and Exchange Law; hereafter the same unless otherwise separately specified) or who are approved by the Company's Board of the Directors to hold not less than 20% of such stock certificates, etc.

- 2) The "co-shareholder" refers to a person defined in Paragraph 5 of Article 27-23 of the Financial Instruments and Exchange Law (including a person who has been recognized by the Company's Board of Directors as falling under this category). This also includes persons who have been regarded as co-shareholders based on Paragraph 6 of the same article.
  - 3) "Specific mass buyer" refers to a person who has given public notice of purchase, of the share certificates issued by the Company (defined in Paragraph 1 of Article 27-2 of the same law) by a take-over bid (defined in Paragraph 6 of Article 27-2 of the same law) and whose share certificates, etc., held (defined in Paragraph 1 of Article 27-2 of the same law) and whose special stakeholders' share certificates held (including the cases defined in Paragraph 1 of Article 7 of Enforcement Ordinance of the same law as equipment cases) altogether account for (defined in Paragraph 8 of Article 27-2 of the same law; hereafter the same) at least 20%.
  - 4) The "special stakeholder" refers to a person defined in Paragraph 7 of Article 27-2 of the Financial Instruments and Exchange Law (including a person who has been recognized as falling under this by the Company's Board of Directors). Note that as for persons put up in No. 1 of the same paragraph, persons who are specified in Paragraph 2 of Article 3 of the Cabinet Office Ordinance regarding disclosure of a take-over bid of the share certificates by those who are not the issuer are excluded.
  - 5) A "person related to" somebody refers to a person who has been recognized by the Company's Board of Directors to be a person who is actually controlled by that person, or is under joint control of that person, or a person who acts in cooperation with that person.
- (2) Regardless of (1) above, the persons specified in any of a) through d) below are not classed as specific mass shareholders or specific mass buyers.
- a) The Company, the Company's subsidiaries, or the Company's affiliates
  - b) A person who has been recognized by the Company's Board of Directors to be a person who has become a specific mass shareholder with no intention of controlling the Company and who is no longer a specific mass shareholder by disposing of the Company's share certificates, etc., held within 10 days after the day he/she became a specific mass shareholder (note that such a period may be extended by the Company's Board of Directors.)
  - c) A person who has been recognized by the Company's Board of Directors to be a specific

mass shareholder of the Company without his/her own intention because of acquisition of treasury shares by the Company or for other reasons (excluding a person who has newly acquired the Company's share certificates, etc. with his/her own intention afterward.)

- d) A person who has been recognized by the Company's Board of Directors as someone who causes no harm to the corporate values and joint interests of the shareholders of the Company by acquiring or holding the Company's share certificates, etc. (This may be recognized by the Company's Board of Directors at any time. Also, if the Company's Board of Directors recognizes that no harm is caused to the corporate values and the joint interests of the shareholders of the Company under certain conditions, then it only applies to cases in which the relevant conditions are met.)
- (3) If, with respect to applicable foreign laws, 1) execution of the specified procedures or 2) fulfillment of the specified conditions (including prohibition against exercise for a certain period of time, submission of the specified documents, etc.) or 3) both of the above (hereafter generically referred to as "compliance laws exercise procedures and conditions") are required for a person located in the jurisdiction of the relevant law to exercise the stock acquisition rights, the person located in the relevant jurisdiction may exercise the stock acquisition rights only if all of the relevant compliance law exercise procedures and conditions have been executed or fulfilled. Note that the Company is not obligated to execute or fulfill any of the compliance law exercise procedures and conditions requiring the Company to execute or fulfill them in order for the person located in the relevant jurisdiction to exercise the stock acquisition rights. Also if a person located in the relevant jurisdiction is not permitted to exercise the stock acquisition rights by the relevant law (hereafter referred to as a "compliance law exercise prohibition reason"), the person located in the relevant jurisdiction may not exercise the stock acquisition rights.
- (4) Regardless of (3) above, persons located in the United States of America may exercise the relevant stock acquisition rights only if they express and guarantee that 1) they are accredited investors as defined in the Rule 501(a) of the Securities Act of 1933 of the United States, and 2) they promise to resell the common shares of the Company, which are to be acquired as a result of exercise of the stock acquisition rights held by them, by regular transaction in the Tokyo Stock Exchange if they decide to do so (this must not be based on any prior arrangement and there must be no prior inducement). The Company will execute or fulfill the compliance law exercise procedures and conditions relating to Regulation D of the Securities Act of 1933 of the U.S. and the U.S. state laws, which require the Company to execute or fulfill in order for the person located in the U.S. to exercise the relevant stock acquisition rights. If the Company's Board of Directors recognizes that exercise of the stock acquisition rights may not be approved legally in terms of the U.S. Securities Law even if 1) and 2) above are fulfilled by

a person located in the U.S. because of a change in the law in the U.S., etc., persons located in the U.S. may not exercise the stock acquisition rights.

- (5) Even if persons who hold the stock acquisition rights according to the provision of (1) or (4) above are unable to exercise the stock acquisition rights, the Company is not liable for any damage to the persons who hold the relevant stock acquisition rights.

(f) Method to exercise the stock acquisition rights, etc.

- (1) The method to exercise the stock acquisition rights and the place to claim exercise

The stock acquisition rights shall be exercised by filling in the required items including the number of the stock acquisition rights to be exercised, the number of applicable shares, and the address in the Stock Acquisition Rights Exercise Claim Form, which is specified by the Company, (including clauses that express/guarantee that the relevant person with the stock acquisition rights neither falls under ineligible person nor intends to exercise the rights for an ineligible person, and a compensation clause), signing and sealing it and submitting it with a separately specified document required to exercise the stock acquisition rights as well as other documents required on each occasion by the Corporation Law, Financial Instruments and Exchange Law, and other laws and related laws and regulations (including the rules, etc., set by Japan Securities Dealers Association and the stock exchanges in Japan) attached to the place handling payment if necessary, and paying amount of money equivalent to the total amount of the exercise price of the shares that are the purpose of the stock acquisition rights for the relevant exercise. A person with the stock acquisition rights may individually exercise each of the stock acquisition rights held, and if there are any remaining stock acquisition rights at the time of such individual exercise, the Company shall enter or record the date of the individual exercise of the relevant person with the stock acquisition rights and the number of the remaining stock acquisition rights into the Stock Acquisition Rights Original Register.

- (2) Time when claim of exercise of the stock acquisition rights takes effect

Claim of exercise of the stock acquisition shall take effect when the stock acquisition rights exercise claim form and the attached document for the exercise arrive at the place handling payment according to the provision of (1) above. Exercise of the stock acquisition rights shall take effect if claim of exercise of such stock acquisition rights has taken effect and amount of money equivalent to the total amount of the exercise price of the shares that are the purpose of the stock acquisition rights for the relevant exercise is paid at the place handling payment.

(g) Notice to stock acquisition rights holders

- (1) Notice to stock acquisition rights holders shall be given in writing to the stock acquisition rights holders' addresses recorded in the Stock Acquisition Rights Original Register, and such notice is regarded to have arrived when it is normally supposed to arrive.
- (2) As for approval, if no particular will is expressed to the Company by a stock acquisition holder

in writing within 14 days after the day the notice asking for approval is regarded to have arrived, the Company may regard that the stock acquisition holder has approved it.

(h) Notification by the Financial Instruments and Exchange Law

As for each of the above items, if notification is required by the Financial Instruments and Exchange Law, the condition shall be occurrence of effect of that notification.

(i) Modification due to revision of the laws, etc.

If any necessity to modify any clause specified in each of the above sections or meanings of the terms arises due to new establishment or modification and abolishment of the laws, upon considering the aim of the relevant new establishment or modification and abolishment, the clauses specified in each of the above articles or the meaning of the terms shall be changed within the rational range as needed.



**Proposal 5: Election of eight (8) Directors**

The term of office of nine (9) Directors will expire at the end of this meeting. We would like you to elect a total of eight (8) Directors.

The candidates for the Directors are as follows.

No.	Name (Date of birth)	Brief personal profile and representation in other companies	(1) No. of the Company's shares held (2) Any conflict of interests between the candidate and the Company
1	Yasuhiro Yukimachi (January 30, 1932)	Oct. 1953 Joined Mirakukai Nov. 1955 Founded the Company, Director of the Company Oct. 1976 Managing Director of the Company Jan. 1985 Executive Managing Director of the Company Oct. 1991 Vice President and Director of the Company Apr. 1999 Vice President and Representative Director of the Company Apr. 2000 President and Representative Director of the Company (present position)	(1) 495,036 (2) None
2	Kiichi Tagawa (September 25, 1947)	Mar. 1966 Joined the Company Jun. 1997 Director of the Company Mar. 2001 Executive Officer of the Company Mar. 2005 Managing Director of the Company (present position) Jan. 2008 In charge of Fashion Business Division, Lifestyle Business Division, Childcare Business Division, Monthly Business Division, Gift & Gourmet Business Division, Belle Maison Lifestyle Research Department, Atopurame Development Section (present position)	(1) 20,700 (2) None
3	Michio Tanabe (July 23, 1946)	Apr. 1967 Joined the Company Jun. 1997 Director of the Company Mar. 2001 Executive Officer of the Company Mar. 2005 Managing Director of the Company (present position) Jan. 2008 In charge of General Affairs Division, Corporate Development Division, Operation Division, Marketing Division, Production Division, Sales Department, Creative Research & Development Section (present position)	(1) 5,200 (2) None
4	Shohachi Sawamoto (February 9, 1948)	Mar. 1972 Joined the Company Jun. 1997 Director of the Company Mar. 2001 Executive Officer of the Company Mar. 2005 Managing Director of the Company (present position) Jan. 2008 In charge of Tokyo Headquarters and Tokyo Business Division (present position)	(1) 15,840 (2) None
5	Kazuhide Fujiyoshi (September 5, 1948)	Mar. 1974 Joined the Company Jun. 1999 Head of Corporate Planning Department of the Company Mar. 2001 Executive Officer of the Company Jan. 2005 Head of General Affairs, IR & Public Relations Department, and Financial Affairs Planning Department of the Company Mar. 2005 Director of the Company (present position) Jan. 2008 Division Director of General Affairs Division and Corporate Development Division (present position)	(1) 12,900 (2) None

6	Mamoru Asada (April 1, 1954)	Mar. 1982 Aug. 2001 Mar. 2005 Mar. 2006 Jan. 2008	Joined the Company Head of Living Development Department (present position) Executive Officer of the Company (present position) Director of the Company (present position) Division Director of Lifestyle Business Division (present position)	(1) 1,700 (2) None
7	Tomoko Oishi (November 8, 1954)	Apr. 1977 Feb. 1988 Jun. 1997 Apr. 2001 Mar. 2006	Joined Yamaha Music Foundation Joined Yokohama Women's Association for Communication and Networking Joined Japan Association for The Advancement of Working Women Professor of Kyoto Gakuen University, Faculty of Business Administration (present position) Director of the Company (present position)	(1) 0 (2) None
8	Toshikatsu Sano (July 12, 1945)	Jun. 1969 Jun. 1997 Apr. 2000 Apr. 2001 Jul. 2001 Jun. 2005	Joined Mitsui Bank Director and General Manager of Fund and Securities Planning Department of Sakura Bank Managing Executive Officer and General Manager of Nagoya Branch of Sakura Bank Managing Executive Officer of Mitsui Mutual Life Insurance Company Director and Managing Executive Officer of Mitsui Mutual Life Insurance Company President of SMBC Consulting Co., Ltd. (present position)	(1) 0 (2) None

Notes:

1. Among the candidates for the Directors, Tomoko Oishi and Toshikatsu Sano are the candidates for the external Directors.
2. We believe that Tomoko Oishi will properly perform her duties as external Director concerning working women who are principle customers of the Company, by making the most of her thorough knowledge about labor issues of women, acquired through her long experience as a university professor, as well as her insight and experience although she has not directly taken part in corporate management. We nominated Toshikatsu Sano, who has successively served as director mainly at financial-related companies, since we want him to reflect his wealth of knowledge, experience, etc. in management.
3. On June 10, 2005, while Toshikatsu Sano served as a director to Mitsui Life Insurance Co., Ltd., Mitsui Life Insurance received a business improvement administrative order, pursuant to Item 1 of Article 132 of insurance business law from the Financial Services Agency (FSA), according to contracts with insureds or insureds out of range defined in legal documents in group term insurance, group annuity insurance or group insurance. On December 7, 2007, the Company closed investigation, pursuant to the FSA's order calling for a report regarding actual situation of payment of insurances and others, and reported the matters to the FSA. On investigation, it was identified that insurances and others were totally 124,047 cases and 5,245 million yen to be adjustment from 2001 fiscal period to 2005 fiscal period. Toshikatsu Sano served as a director of Mitsui Life Insurance from July, 2001 to June, 2005. Insurances and others includes insurances, benefits, lapsed refund and delay interest. On April, 2004, Mitsui Life Insurance changed organization from a mutual company to a company.
4. Tomoko Oishi is currently external Director of the Company, but her term of office as external Director will reach two years at the end of this meeting.
5. The Company has concluded the agreement with Tomoko Oishi to limit her liability for compensation as stipulated in Article 427, Paragraph 1 of the Corporation Law, based on the provisions of the Articles of Incorporation. If she is elected as proposed, we plan to continue the agreement. If Toshikatsu Sano is elected as proposed, we plan to conclude with him an agreement to limit his liability for compensation as stipulated in Article 427, Paragraph 1 of the Corporation Law. The limit amount of liability for compensation for damages under the relevant

agreement is the minimum liability amount set forth by laws and regulations.

**Proposal 6:** Election of one (1) substitute Corporate Auditor

To provide for a case in which the number of Corporate Auditors falls short of the number stipulated by the law, we would like you to elect one (1) substitute Corporate Auditor in advance pursuant to Article 329, Paragraph 2 of the Corporation Law.

Prior to our proposal of this item, we have already obtained the consent of the Board of Corporate Auditors.

The candidate for substitute Corporate Auditor is as follows:

Name (Date of birth)	Brief personal profile and representation in other companies	(1) No. of the Company's shares held (2) Any conflict of interests between the candidate and the Company
Koichi Masui (November 17, 1950)	Mar. 1986 Registered as a certified public accountant	
	Jul. 1986 Registered as a certified tax accountant	
	Jul. 1987 Established Masui Kouichi Office (present position)	(1) 0
	Jan. 1989 Established Mass Management Co., Ltd. and became president (present position)	(2) None
	May. 2007 Established Mas Mas JP and became representative (present position)	

Notes:

1. Koichi Masui, candidate for substitute Corporate Auditor, is a candidate for substitute external Corporate Auditor.
2. We expect that Koichi Masui will make the best use of his financial and accounting knowledge he has cultivated through his long experience as a certified public accountant and a certified tax accountant for the audit system of the Company if he becomes Corporate Auditor, and we judge that he will properly execute his duties as external Corporate Auditor.
3. We may cancel this election by a resolution of the Board of Directors after obtaining the consent of the Board of Corporate Auditors, if the cancellation is before he takes office.
4. If Koichi Masui is elected as proposed, we plan to conclude an agreement with him to limit his liability for compensation as stipulated in Article 427, Paragraph 1 of the Corporation Law. The limit amount of liability for compensation for damages under the relevant agreement is the minimum liability amount set forth by laws and regulations.

**Proposal 7: Grant of retirement benefits to retiring Corporate Director**

We propose to grant retirement benefits to retiring Director Mr. Koichi Horii and Mr. Kiyoshi Kubota, whose terms of office will expire at the end of this meeting, in appreciation of their service, within the due amount based upon certain standards stipulated by the Company. We propose that the determination of the actual amount, time, method, and other matters relating to the granting of the said retirement benefits be decided by the Board of Directors.

Brief personal profiles of the retiring Directors are as follows:

Name	Brief personal profile	
Koichi Horii	Jun. 1994	Director of the Company
	Apr. 1999	Managing Director of the Company
	Mar. 2005	Executive Managing Director of the Company(present position)
Kiyoshi Kubota	Mar. 2005	Director of the Company (present position)

[Appendix to notice of the 63<sup>rd</sup> ordinary general meeting of shareholders of Senshukai Co., Ltd.]

## **Business Report**

**(January 1 to December 31, 2007)**

### **1. Summary of Operations**

#### **(1) Senshukai Group operating progress and results**

##### **Overview**

During the fiscal year ended December 31, 2007, the Japanese economy remained robust in the first half thanks to favorable corporate performances but consumer spending did not pick up, while uncertainty remained over consumption in the latter half due to concern about the U.S. economy, hikes in commodity prices resulting from skyrocketing crude oil prices and rises in raw materials prices. In the distribution industry, against this backdrop, restructuring through mergers and acquisitions (M&A) is advancing. In the mail-order industry, the business environment is getting extremely harsh because of unseasonable weather and other factors, just like in other sectors of the distribution industry.

Under these circumstances, the Senshukai Group prompted the priority strategies defined in the Medium-Term Management Plan covering the three fiscal years from 2005 to 2007.

As a result of these activities, the Senshukai Group's consolidated net sales amounted to 156,792 million yen, an increase of 5.8% year-on-year.

On the profit front, operating income increased by 15.0% year-on-year to 5,291 million yen because of the decline in the ratio of the selling, general and administrative expenses related to media, including printing cost, although the cost-to-sales ratio rose. Ordinary income increased by 7.4% year-on-year to 5,626 million yen mainly due to the increase in interest received and foreign exchange gains. Net income was 2,494 million yen, down 31.2% year-on-year, primarily because of corporate tax payment resulting from the elimination of losses brought forward.

##### **Business results by segment**

###### **[Mail-order Business]**

The mail-order business, which consists of catalogue and buyer's club businesses, posted net sales of 145,664 million yen (up 2.6% year-on-year), and operating income of 5,603 million yen (up 18.9% year-on-year).

### [Other Businesses]

Other businesses that consist of the service business (with travel services, credit-card and loan services as the core fields), transport business, storefront business, B-to-B operations and the newly added pet business posted consolidated net sales of 11,128 million yen (up 82.0% year-on-year). However, an operating loss of 293 million yen was posted (an increase of 194 million yen in loss from the previous fiscal year).

Note: Since we changed business segments from the fiscal year under review, comparisons of results in the current fiscal year with those of the previous fiscal year are made by recalculating the amounts of the previous year in accordance with the new segmentation.

### Senshukai Group net sales by business segment

(Millions of yen)

Name of the segment and product	62 <sup>nd</sup> fiscal year (Jan. 1 to Dec. 31, 2006)		63 <sup>rd</sup> fiscal year (Jan. 1 to Dec. 31, 2007)		Change from the previous fiscal year	Year-on-Year (%)
	Amount	% of total	Amount	% of total		
Mail-order Business:						
Publications	870	0.6	494	0.3	-376	-43.2
Apparel	53,937	36.4	59,355	37.9	5,418	10.0
Household articles	54,874	37.0	53,496	34.1	-1,377	-2.5
Hobby goods	25,020	16.9	25,427	16.2	406	1.6
Others	7,331	5.0	6,889	4.4	-441	-6.0
Subtotal	142,035	95.9	145,664	92.9	3,629	2.6
Other Businesses:	6,115	4.1	11,128	7.1	5,013	82.0
Total	148,150	100.0	156,792	100.0	8,642	5.8

Note : Comparisons of net sales by business segment in the current fiscal year with those of the previous fiscal year in this Business Report are made by recalculating the net sales by business segment in the previous year in accordance with the new segmentation adopted in the current fiscal year.

### (2) Capital expenditures

In the consolidated fiscal year under review, the Senshukai Group invested a total of 2,123 million yen in capital expenditures, and 1,379 million yen to develop computer systems, etc.

Details of major capital investment are as follows:

New Head Office Building (tentative name) 959 million yen

### (3) Fund procurement

In the consolidated fiscal year under review, the Senshukai Group procured funds through borrowings as well as funds on hand.

### (4) Issues to be handled

The Senshukai Group has newly established the Medium-Term Management Plan covering the three fiscal years to the year ending December 31, 2010 (the 66th term).

### “Basic Policies of the Medium-Term Management Plan”

#### 1) Promoting channel mix

We will aim to obtain synergistic effect, aimed at essential merger of channels, not mere expansion of the number of channels, and speedup, by further pushing forward with “promotion of multi channels,” which was put up under the previous Medium-Term Management Plan.

#### 2) Developing multi-brand strategy

We will shift to a “multi-brand strategy,” under which plural brands that match customer base and merchandise category to be handled are operated, so that the value of the “Bell Maison” brand itself will not be damaged as a result of excessive utilization of the brand when we strive to acquire customers in some age groups, who have been difficult to be obtained with the Bell Maison brand alone, and to diversify operations (expansion of groups of merchandise and those of service).

#### 3) Expanding customer base

We will endeavor to increase the number of customers in their 50s or older by developing merchandise and media for the senior market. We will also aim to expand customers in their 20s. To that end, we will maintain customers in their 20s as a whole by strengthening to get concentrating resources on customers aged 25 to 29, while aiming to get customers aged 20 to 24 in the long term by utilizing such new media as the Internet, mobile communications and magazines based on business alliances with other companies and M&A.

#### 4) Enhancing SCM (supply-chain management)

Recognizing the improvement of cash flows that have aggravated considerably due to increased inventories as the most important challenge, we will facilitate inventories (improvement of asset efficiency) through restructuring of the management system and further reinforce SCM.

The Senshukai Group also places importance on the creation of highly transparent management system and its effective operation as well as the establishment of an internal control system, being fully aware of the significance of “corporate governance” in business activities as an essential factor to improve its corporate value by establishing balanced relationships with our stakeholders, including shareholders, customers, employees, business partners and local communities.

Accordingly, we will enhance our corporate governance by clarifying the scope of supervisory roles of Directors, strengthening our compliance system, and promoting quick and

accurate information disclosure.

Looking ahead, The Senshukai Group will endeavor to realize further improvement in the corporate value.

We look forward to your continuous support and encouragement.

## (5) Trends in financial position and gain and loss

(Millions of yen)

Fiscal year	The 60 <sup>th</sup> (ended Dec. 2004)	The 61 <sup>st</sup> (ended Dec. 2005)	The 62 <sup>nd</sup> (ended Dec. 2006)	The 63 <sup>rd</sup> (ended Dec. 2007)
Net sales	147,159	145,453	148,150	156,792
Ordinary income	3,033	3,962	5,240	5,626
Net income	1,231	1,267	3,627	2,494
Net income per share (yen)	28.81	27.44	78.81	53.60
Total assets	87,560	92,788	95,508	98,422
Net assets	47,135	52,519	55,708	55,955
Net assets per share (yen)	1,122.20	1,143.12	1,207.89	1,197.62

Note : “Accounting Standards for Indication of Net Assets of Balance Sheet” (Corporate Accounting Standard No. 5, December 9, 2005) and “Guidelines for application of corporate accounting standards, etc.” (Corporate Accounting Standards Application Guideline No. 8, December 9, 2005) have been applied since the 62nd fiscal year.

As “Net Asset” in the above table, the total amount of Shareholders’ Equity is presented for the 60th and 61st terms, while the total amount of Net Assets is stated for the 62nd term and thereafter.

## (6) Status of the important parent company and subsidiaries

### i) Relationship with the parent company

No applicable items

### ii) Major subsidiaries

Company name	Capital (Millions of yen)	Percentage of voting rights of the Company (%)	Major business
Senshukai General Service Co., Ltd.	496	100	Travel services, information services
Senshu Unyu Co., Ltd.	99	100	Truck transportation business
Senshu Logisco Co., Ltd.	95	100	Packing and wrapping business
Senshukai Call Center Co., Ltd.	60	100	Planning and executing telephone marketing
Senshukai Service Hanbai Co., Ltd.	50	100	Customer service and area marketing business

Senshukai Co., Ltd. owns a total of thirteen consolidated subsidiaries, including the five major subsidiaries described above.

For fiscal under review, the Company posted consolidated net sales of 156,792 million yen and net income of 2,494 million yen.

## (7) Major business



The Senshukai Group operates a mail-order business as its core business, and is also engaged in other related businesses such as the retail business (including retail stores), the service business (including the travel service) and the transportation businesses.

#### (8) Principal offices

Senshukai Co., Ltd.	Headquarters:	Kita-ku, Osaka
	Tokyo branch office:	Shinagawa-ku, Tokyo
Senshukai General Service Co., Ltd.	Headquarters:	Kita-ku, Osaka
	Tokyo branch:	Shinagawa-ku, Tokyo
Senshu Unyu Co., Ltd.	Headquarters:	Yasu-shi, Shiga
Senshu Logisco Co., Ltd.	Headquarters:	Kita-ku, Osaka
	Kanuma Branch Company:	Kanuma-shi, Tochigi
	Chubu Branch Company:	Kani-shi, Gifu
	Kyoto Branch Company:	Kyotanabe-shi, Kyoto
	Koshien Branch Company:	Nishinomiya-shi, Hyogo
Senshukai Call Center Co., Ltd.	Headquarters:	Kita-ku, Osaka
Senshukai Service Hanbai Co., Ltd.	Headquarters:	Kita-ku, Osaka

#### (9) Employees of Senshukai Group

Segment	Number of employees	Change from the previous fiscal year
Mail-order Business	989	107
Other businesses	215	153
Other staff (consolidated basis)	101	-37
Total	1,305	223

Notes:

1. The number of employees includes regular and contract staff.
2. The number of employees in other businesses increased by 153 in one year up to the consolidated fiscal year under review, mainly due to the expansion of the retail business including stores.
3. Comparisons of the numbers of employees in the current fiscal year with those of the previous fiscal year in this Business Report are made by recalculating the numbers of employees in the previous year in accordance with the new segmentation adopted in the current fiscal year.

#### (10) Major creditors

Creditors	Borrowings outstanding (Millions of yen)
Sumitomo Mitsui Banking Corp.	1,260
Mizuho Bank, Ltd.	720
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	720
The Sumitomo Trust & Banking Co., Ltd.	300

## 2. Items regarding shares of the Company

- |   |             |
|---|-------------|
| (1) Total number of shares authorized to be issued: | 180,000,000 |
| (2) Total number of shares outstanding:             | 47,630,393  |
| (3) Number of shareholders:                         | 7,109       |
| (4) Major shareholders                              |             |

There are no shareholders that hold at least one tenth of the total number of shares outstanding (except for treasury stock). The status of the major shareholders is as follows:

Name	Shareholders' investment in the Company	
	No. of shares held (thousands)	Investment ratio (%)
Brastsheave Co., Ltd.	3,650	7.81
Nikko Principal Investments Japan Ltd.	3,400	7.28
Toppan Printing Co., Ltd.	1,838	3.93
Sawzan, Ltd.	1,792	3.84
Sumitomo Mitsui Banking Corp.	1,665	3.57
Dai Nippon Printing Co., Ltd.	1,509	3.23
Japan Trustee Services Bank, Ltd. (Trust account)	1,431	3.06
The Master Trust Bank of Japan, Ltd. (Trust account)	1,071	2.29
Mizuho Bank, Ltd.	1,019	2.18
Nippon Life Insurance Company	988	2.12

Notes:

1. Amounts less than one thousand shares have been omitted.
2. The investment ratio is calculated by subtracting treasury stock (916,195 shares).

### (5) Other principal items regarding shares

The Company changed the number of shares per unit of stock trades from 1,000 to 100 as of May 1, 2007 in a bid to improve liquidity and expand the investor base by lowering the investment unit to make it easier for investors to invest.

### 3. Items regarding stock acquisition rights of the Company

#### (1) Status of stock acquisition rights as of the end of the fiscal year under review

Number of stock acquisition rights: 499 units  
Number and type of intended stock: 499,000 shares of common stock  
(1,000 shares per stock acquisition right)  
Total stock acquisition rights held by the directors and the corporate auditors by category

	Number (exercise price)	Term of exercise	Number of rights	Number of holders
Directors	No.2 (1,198 yen)	From Apr. 1, 2006 to March 31, 2008	36 units	5
Corporate Auditors			14 units	2

Notes:

1. The above rights were granted based on the resolution of the 59th Ordinary General Meeting of Shareholders prior to enforcement of the Corporation Law, and were not granted as consideration of execution of duty.
2. Not granted to external Directors or external Corporate Auditors.

#### (2) Status of stock acquisition rights granted in the fiscal year under review

No applicable items

#### (3) Other important items regarding stock acquisition rights

No applicable items

## 4 Directors and Corporate Auditors

### (1) Name of Directors and Corporate Auditors (As of December 31, 2007)

Title	Name	Position and principal duty in the Company, or major occupation
President and Representative Director	Yasuhiro Yukimachi	
Senior Managing Director	Koichi Horii	Corporate Marketing Division, Belle Mariee Business Section, Rebondir Business Section, and Web Community Development Department; Tokyo Branch Manager (present position)
Managing Director	Kiichi Tagawa	In charge of Corporate Strategy Department, Marketing Department, Catalog Planning Department, Digital Media Department, Printing Materials Department, Quality Control Department, and SCM Promotion Department
Managing Director	Michio Tanabe	In charge of Fashion Development Department, Childcare Development Department, SCM Department First Division, Health and Beauty Development Department, Disney Development Department, Monthly Development Department, Gift Development Department, Sales Department, and Creative Research & Development Section
Managing Director	Shohachi Sawamoto	In charge of Store Operation Department, Operations Planning Department and BIO Research Department
Director	Kiyoshi Kubota	In charge of Human Resource Department, Information System Department, Legal and Credit Department, and Internal Auditing Department
Director	Kazuhide Fujiyoshi	In charge of General Affairs & IR Public Relations Department, and Financial Planning Department
Director	Mamoru Asada	In charge of Living Development Department, SCM Department Second Division, and Belle Maison Lifestyle Laboratory. Executive Officer of the Company and General manager of Living Development Department Head of Belle Maison Lifestyle Research Institute
Director	Tomoko Oishi	Professor of Kyoto Gakuen University, Faculty of Business Administration
Standing Corporate Auditor	Shoji Tottori	
Standing Corporate Auditor	Yoshihiro Inoda	
Corporate Auditor	Hideyuki Koizumi	Certified Public Accountant
Corporate Auditor	Hiroshi Morimoto	Lawyer

Notes:

1. Director Tomoko Oishi is an external Director.
2. Corporate Auditors Hideyuki Koizumi and Hiroshi Morimoto are external Corporate Auditors.
3. External Corporate Auditor Hideyuki Koizumi is qualified as certified public accountant and has considerable knowledge regarding finance and accounting.

### (2) Total of compensation paid to Directors and Corporate Auditors

	Number of Directors and Corporate Auditors	Amount (Millions of yen)
Directors	9	284
Corporate Auditors	4	37
Total [of which external Directors and external Corporate Auditors]	13 [3]	321 [19]

Notes:

1. The amount of compensation paid to Directors does not include salaries for employees paid to Directors who concurrently serve as employees.
2. It was resolved at the 62nd Ordinary General Meeting of Shareholders, held on March 29, 2007, that the maximum amount of remuneration to be paid to Directors in total per year shall not exceed 400 million yen (however, not including salaries for employees).
3. It was resolved at the 62nd Ordinary General Meeting of Shareholders, held on March 29, 2007, that the maximum amount of remuneration to be paid to Corporate Auditors in total per year shall not exceed 70 million yen.
4. Other than the aforementioned, retirement benefits were paid as follows, based on a resolution made at the 62nd Ordinary General Meeting of Shareholders, held on March 29, 2007:  
Two Corporate Auditors who retire: 34 million yen
5. All amounts presented above are rounded down to the nearest million yen.

**(3) Items regarding external Directors and external Corporate Auditors**

**A. Positions concurrently held in other companies, including position as executive director**

- Corporate Auditor Hideyuki Koizumi concurrently serves as external corporate auditor of Japan Cash Machine Co., Ltd.
- Corporate Auditor Hiroshi Morimoto concurrently serves as external corporate auditor of Japan Cash Machine Co., Ltd.

**B. Major activities in the business year under review**

	Major activities
Director Tomoko Oishi	She attended 18 of the 21 meetings of the Board of Directors held in the business year under review. She gives advice and proposals for ensuring validity and appropriateness of decision-making of the Board of Directors, offering opinions mainly based on her insight and experience on working women, our main customers, as a professor acquired familiarity with labor issues for women over many years.
Corporate Auditor Hideyuki Koizumi	He attended all of the 21 meetings of the Board of Directors and all of the eight meetings of the Board of Corporate Auditors held in the business year under review. He gives opinions for ensuring validity and appropriateness of decision-making of the Board of Directors at the meetings of the Board of Directors from the professional standpoint as a certified public accountant. Also, he properly offers necessary views about the accounting procedure and internal audit of the Company at the meetings of the Board of Corporate Auditors.
Corporate Auditor Hiroshi Morimoto	He attended 20 of the 21 meetings of the Board of Directors and seven of the eight meetings of the Board of Corporate Auditors held in the business year under review. He gives opinions for ensuring validity and appropriateness of decision-making of the Board of Directors at the meetings of the Board of Directors from the professional standpoint as a lawyer. Also, he properly offers necessary views about compliance and internal audit of the Company at the meetings of the Board of Corporate Auditors.

**C. Outline of the details of the agreement to limit liability**

Pursuant to Article 427, Paragraph 1 of the Corporation Law, the Company and its external Directors and external Corporate Auditors conclude an agreement to limit their liability for compensation as stipulated in Article 423, Paragraph 1 of the said law. The limit of liability for compensation under the relevant agreement is the minimum

amount provided for in Article 423, Paragraph 1 of the Corporation Law.

## **5. Item regarding independent accounting auditors**

**(1) Name of the independent accounting auditor:** Ernst & Young ShinNihon

**(2) Compensation for the independent accounting auditor:**

(i): Compensation, etc. for the independent accounting auditors for the current fiscal year.

27 million yen

(ii): The total fiscal benefit that should be paid by the company and its subsidiaries

41million yen

Note: Compensation, etc. in (i) is written in total amount, because in agreement with independent accounting auditors clear classification of compensation amounts based on the Corporation Law and those based on the Financial Instruments and Exchange Law is difficult.

**(3) Details of non-auditing services**

Advice on the establishment of an internal control system regarding financial reporting, etc.

**(4) Policy on decision to discharge or not to reappoint accounting auditor**

The Board of Directors shall make discharging or not reappointing the accounting auditor the purpose of a General Meeting of Shareholders after obtaining the consent of the Board of Corporate Auditors, or based on the demand of the Board of Corporate Auditors, mentioned below, when it recognizes necessity for doing so, including a case in which performance of duties by the accounting auditor is hindered.

When the accounting auditor falls under any of the items in Article 340, Paragraph 1 of the Corporation Law, the Board of Corporate Auditors shall discharge the accounting auditor based on the consent of all Corporate Auditors. In this case, a Corporate Auditor selected by the Board of Corporate Auditors shall report the discharge of the accounting auditor and the reason for discharge at the first General Meeting of Shareholders to be held after the discharge.

## **6. The system to assure appropriateness of the business activities**

The Company made a resolution on the basic strategy for the internal control system, and provision of it, as follows, at the meeting of the Board of Directors based on the provisions of Article 362, Paragraph 4, No. 6 and Paragraph 5 of the Corporation Law and has been executing it.

## **(1) Basic ideas on the internal control system**

The Company Group acknowledges that “corporate governance” is essential in its corporate activities as stated in 1. Summary of Operations (4) Issues to be addressed and aims to prepare the internal control system for it, strengthen compliance, improve efficiency in business execution and establish a risk control system. The Company Group reviewed part of the details of (2) 3) and 4), and will review the internal control system according to demand of society or change in the environment, as required, to improve and enrich it.

## **(2) Specifics of the internal control system**

- 1) A system to assure that execution of duties of the directors and employees complies with the laws and the Articles of Incorporation

We have provided guidelines for routine actions and internal compliance training for the directors and employees as required. Also, responsibilities for intellectual property and products, which are important themes in the Company, are checked by the specialized department. Moreover, the “Senshukai Group Compliance Policies” have been established, and the corporate ethics helpline has been opened, and if any compliance issues arise in any directors and employees, each one will be discussed and examined in the Audit Committee and the Corporate Ethics Compliance Committee.

The Audit Department directly under the president has been established. Internal audits are conducted in order to assess the status of business operations and to improve them and they are reported to the president.

- 2) The system for storage and management of information related to execution of duties of the directors

Documents are stored and managed fully based on the document handling rules, etc. and important confidential items are strictly managed according to the confidential document handling rules. Also this information is accessible by the directors and corporate auditors at all times on the Intranet (internal network). Also, any revision of important rules is to be made with the approval of the Board of Directors.

- 3) The rules for management of risk of loss and other systems

We have classified risks concerning the basis of management into nine categories, and clarified the control system by establishing a division or a committee for each risk category, so that responses can be made quickly when trouble occurs. Any risk is to be reported to the “Risk Management Control Committee,” comprising the members of the Board of Directors. Also, we have prepared a manual for each risk category

and established a system to take concrete measures. For the system against unexpected situations of any directors, we have established rules and a system to execute operations smoothly on their behalf.

4) A system to assure efficient execution of duties of the directors

In order to improve transparency of the Board of Directors and to strengthen the supervisory function, an external director (part-time service) system has been implemented. In addition, an executive officer system has been introduced in order to speed up and streamline the decision-making process of the management and clearly separate the supervisory function from the execution function. Also, a “council of division general managers” made up of general managers of divisions has been established separate from the Board of Directors to enable quick decision-making. Under a “business division system,” to be established newly, executive officers take office as general managers of business divisions, in principle, and Directors with managerial positions supervise and give guidance to each general manager of division, as supervisory Directors.

Company rules and rules for liquidation items have been set up to improve efficiency of business activities by clarifying the roles of the Board of Directors, Management Meeting, Board of Corporate Auditors or other parties duty positions of the employees, duty allotment, official authority, roles, decision authority. Also, we have implemented a technique that utilizes BSC (Balance Score Cards) effectively supporting determination of organization performance monitoring and evaluation indexes, and constructed a system to conduct reviews and to gather feedback of results by the Board of Directors.

5) A system to assure appropriateness of business activities in the corporate group consisting of the Company and the subsidiaries

The Company and the group companies have established affiliated company management regulations. Important items of the subsidiaries are also checked by the Company, and we aim to rationalize the business activities as the group at large giving guidance, advice and evaluation in close cooperation in directions, instructions and communication between the parent company and the subsidiaries. We also hold regular meetings between the incorporated auditing firm and the directors of the Company to exchange opinions about the entire group’s situation. On the other hand, we have established rules common to the group companies for compliance and conduct the same training for all the employees of the group companies.



- 6) Item regarding employees in case that corporate auditors request employees who are to assist their duties and item regarding independency of the relevant employees from the directors

Dedicated a full-time staff for the corporate auditor is in place according to the request of the Board of Corporate Auditors. Also, personnel change, personnel evaluation and disciplinary punishment, opinions of the Board of Corporate Auditors are to be fully respected.

- 7) The system for the directors and the employees to report to the corporate auditors, the system regarding report to corporate auditors and the system to assure that audits are effectively conducted by the corporate auditors

The full-time corporate auditors are to attend major meetings if necessary, and receive important information including the management status, and any important items in each risk management committee and the corporate ethics helpline. Any facts that could cause substantial damage to the Company, if detected, are to be immediately reported to the Board of Corporate Auditors. Also, in regular audits conducted by the corporate auditors, the Directors, the business execution officers and important employees are interviewed. On the other hand, materials required by corporate auditors for inspection are available for inspection upon request at any time. In addition, results of audits conducted by the Internal Audit Department are to be reported to the corporate auditors. Also, the corporate auditors regularly hold opinion exchange meetings with the Chief Executive Officer and the independent accounting auditor, respectively.

The corporate auditors are able to take professional advice if they so request.

## **7. Basic policy on control of the company**

### **I. Basic policy on the person who controls decisions on financial and operational policies of the Company**

We do not reject large-scale purchase of shares if it contributes to the increase of our corporate value and common interests of shareholders. In addition, we believe that the decision whether to agree to the proposal of large-scale share purchases that accompanies transfer of control of the Company should ultimately be made based on the consensus of shareholders.

However, many large-scale purchases of shares do not contribute to the increase of corporate value and common interests of shareholders. For example, sometimes such purchases target only specific assets and technology, which is clearly detrimental to the corporate value and common interests of shareholders. At other times, such purchase

may effectively force shareholders to sell their shares, where it may provide insufficient time and information being given for a Board of Directors' Meeting and shareholders of the target company to examine the large-scale purchase of shares, or for the Board of Directors' Meeting of the target company to present alternative proposals, and where the target company needs to negotiate with the purchaser to obtain more favorable terms than the purchaser has offered.

The Company considers a person or a company that intends to make such improper large-scale purchases of shares to be not suitable as a person who controls decisions on financial and operational policies of the Company, and believes that the increase of the corporate value of the Company and by extension, common interests of shareholders need to be ensured by taking necessary and considerable measures against large-scale purchases by such purchasers.

## **II. Special efforts for realizing the basic policy**

In order to increase corporate value, the Company has developed and is implementing new Medium-Term Management Plan, covering three fiscal years from January 2008 to December 2010, following the previous Medium-Term Management Plan. We are confident that we will be able to increase our corporate value and eventually meet the expectations of shareholders by steadily implementing the Medium-Term Management Plan.

## **III. Efforts for preventing decisions on financial and operational policies of the Company from being controlled by inappropriate persons in light of the basic policy**

The Board of Directors of the Company considers that a framework is indispensable in order to prevent large-scale purchases that are against the corporate value of the Company and common interests of shareholders. When a large-scale purchase of shares of the Company is to be made, the framework allows us to request that the purchaser and proponent of purchase (hereafter, referred to collectively as the purchaser or similar party) provides information prior to such purchase, thereby shareholders decide whether to accede to the purchase or not, or ensure necessary information and time for the Board of Directors of the Company to make alternative proposals or negotiate with the purchaser or similar party on behalf of the shareholders.

The Company introduced a Policy toward Large-scale Purchases of Shares of the Company (hereinafter referred to as the "prevailing plan plan") at the 62nd Ordinary General Meeting of Shareholders, held on March 29, 2007, as a countermeasure against takeovers in ordinary times with an effective period up to the end of the General Meeting

of Shareholders for the fiscal year ending December 2007. In consideration of various developments surrounding countermeasures against corporate acquisition, the Company thereafter continued to examine the appropriate countermeasures against takeovers in ordinary times. Accordingly, the Company decided at the Board of Directors' Meeting held on February 15, 2008 to continue with the prevailing plan plan, after making partial revision, (hereinafter, the revised plan shall be referred to as "the plan") as part of our efforts for ensuring and increasing the corporate value of the Company and common interests of shareholders, to prevent any attempts at abusive acquisitions targeting the Company, on condition that it is approved by shareholders at the 63rd Ordinary General Meeting of Shareholders, to be held on March 28, 2008 (hereinafter referred to as "the general meeting"). Summary of the revision is as follows: 1) approval for the implementation of the plan by a resolution of a General Meeting of Shareholders based on the recommendation of the Special Committee is added; and 2) acquisition of stock acquisition rights held by purchasers is made possible.

#### **IV. Judgment of the Company's Board of Directors on the aforementioned efforts and reasons for the judgment**

##### **1. About special efforts for realizing the basic policy (efforts specified in II.)**

Each effort stated in II. has been worked out as a measure to continuously and persistently increase the corporate value of the Company and common interests of shareholders, and contributes to the realization of the basic policy.

Therefore, these efforts are in line with the basic policy and in accord with common interests of shareholders of the Company, and not aimed at maintaining the status of corporate directors of the Company.

##### **2. About efforts for preventing decisions on financial and operational policies of the Company from being controlled by inappropriate persons in light of the basic policy (efforts specified in III.)**

###### **(1) The plan is in line with the basic policy**

The plan is a framework for ensuring the corporate value of the Company and by extension, the common interests of shareholders. When a large-scale purchase of shares of the Company is to be made, the plan allows us to request that the purchaser or similar party provides information prior to such purchase, thereby shareholders decide whether to accede to the purchase or not, or ensure necessary information and time for the Board of Directors of the Company to make alternative proposals or negotiate with the purchaser or similar party on behalf of the shareholders. It is in line with the basic policy.

**(2) The relevant efforts neither damage common interests of shareholders nor are aimed at maintaining the status of corporate directors and corporate auditors of the Company**

We believe that efforts for preventing control by inappropriate persons in light of the basic policy neither damage common interests of shareholders nor are aimed at maintaining the status of corporate directors of the Company, since 1) they completely satisfy the “Guidelines on takeover defense for ensuring and/or increasing corporate value and stakeholder profits,” released by the Ministry of Economy, Trade and Industry and the Ministry of Justice on May 27, 2005; 2) they attach importance to the intention of shareholders in various ways: they will be continued on condition that amendments to the Articles of Incorporation made based on the prescribed procedure are approved by shareholders in the general meeting in accordance with provisions of the Articles of Incorporation and the so-called sunset clause is established; 3) a Special Committee has been established; and 4) they are not a dead-hand type of countermeasure against takeovers.

**Consolidated Balance Sheet**  
**As of December 31, 2007**

	Millions of yen
	As of December 31, 2007
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and deposits	3,444
Notes and accounts receivable	11,211
Marketable securities	85
Inventories	19,318
Deferred tax assets	86
Accounts receivable	9,347
Foreign exchange contract	15
Other current assets	4,967
Allowance for doubtful accounts	-254
<b>Total Current Assets</b>	<b>48,224</b>
<b>Fixed Assets</b>	
<b>Property, Plant and Equipment:</b>	
Buildings and structures	10,286
Machinery and delivery equipment	1,575
Instruments and fixtures	897
Land	11,305
Construction in progress	962
<b>Total Property, Plant and Equipment</b>	<b>25,028</b>
<b>Intangible Fixed Assets:</b>	<b>3,346</b>
<b>Investments and Other Assets:</b>	
Investment securities	15,573
Long-term loans	366
Guarantees and deposits	1,442
Deferred tax assets	299
Other investments	4,444
Allowance for doubtful accounts	-302
<b>Total Investments and Other Assets</b>	<b>21,823</b>
<b>Total Fixed Assets</b>	<b>50,197</b>
<b>Total Assets</b>	<b>98,422</b>

Millions of yen  
As of December 31, 2007

LIABILITIES

Current Liabilities:

Notes and accounts payable	11,023
Short-term borrowing	3,000
Accrued liabilities	6,423
Factoring accrued liabilities	15,027
Accrued expenses	2,016
Accrued corporate tax and others	1,887
Accrued consumption tax and others	232
Deferred tax liabilities	64
Bonuses to directors and corporate auditors	51
Reserve for sales promotion	133
Other current liabilities	1,315

Total Current Liabilities	41,175
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Long-term Liabilities:

Deferred tax liabilities	3
Deferred tax liabilities relating to revaluation	764
Employees' retirement benefits	53
Retirement benefits for directors and corporate auditors	424
Other long-term liabilities	45

Total Long-term Liabilities	1,291
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Total Liabilities	42,466
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NET ASSETS

Shareholders' Equity

Capital	20,359
Capital surplus	21,038
Retained earnings	22,253
Treasury stock	-630

Total Shareholders' Equity	63,020
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Valuation and Translation Adjustments

Net unrealized gain on other securities	486
Profit or loss on deferred hedge	-185
Revaluation reserve for land, net of tax	-7,359
Foreign currency translation adjustments	-16

Total Valuation and Translation Adjustments	-7,074
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Minority Interests	10
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Total Net Assets	55,955
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Total Liabilities and Net Assets	98,422
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**Consolidated Statement of Income**  
**For fiscal year ended December 31, 2007**

	Millions of yen
	For the year ended December 31, 2007
<b>Net sales</b>	<b>156,792</b>
<b>Cost of sales</b>	<b>80,864</b>
<b>Gross profit</b>	<b>75,928</b>
<b>Selling, general and administrative expenses</b>	<b>70,637</b>
<b>Operating income</b>	<b>5,291</b>
<b>Non-operating income</b>	<b>904</b>
Interest and dividends received	456
Foreign exchange gains	135
Other income	311
<b>Non-operating expenses</b>	<b>568</b>
Interest payable	64
Loss on revaluation of compound instruments	212
Equity in losses of affiliates	164
Other expenses	126
<b>Ordinary income</b>	<b>5,626</b>
<b>Extraordinary income</b>	<b>335</b>
Gains on sale of fixed assets	38
Gains on sale of investment securities	174
Reversal of allowance for doubtful accounts	121
<b>Extraordinary losses</b>	<b>1,212</b>
Loss on sale or retirement of fixed assets	338
Loss on revaluation of investment securities	94
Loss on annulment of contracts	265
Loss on liquidations of subsidiaries	331
Compensation expenses	170
Loss on cancellation of lease contracts	13
<b>Income before income taxes and minority interests</b>	<b>4,749</b>
Corporate, inhabitant and business taxes	2,069
Adjustment of corporate and other taxes	205
Minority interests	-20
<b>Net income</b>	<b>2,494</b>

**Consolidated Statement of Changes in Shareholders' Equity**  
**For fiscal year ended December 31, 2007**

(Millions of yen)

	Shareholders' Equity				
	Capital	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance as of December 31, 2006	20,359	20,716	20,889	-1,041	60,923
Changes during the fiscal year under review					
Dividends from surplus			-1,066		-1,066
Net income			2,494		2,494
Acquisition of treasury stock				-32	-32
Amortization of treasury stock		322		443	765
Reversal of revaluation reserve for land, net of tax			58		58
Variation of the scope of consolidation and the scope of equity method			-122		-122
Net change of items other than shareholders' equity during the fiscal year under review					
Total change during the fiscal year under review	—	322	1,363	411	2,096
Balance as of December 31, 2007	20,359	21,038	22,253	-630	63,020



(Millions of yen)

	Valuation and Translation Adjustments					Minority Interests	Total Net Assets
	Net Unrealized Gain on Other Securities	Deferred Hedge Profit/Loss	Revaluation Reserve for Land, Net of Tax	Foreign Currency Translation Adjustment	Total Valuation and Translation Adjustments		
Balance as of December 31, 2006	1,336	734	-7,301	-31	-5,261	46	55,708
Changes during the fiscal year under review							
Dividends from surplus							-1,066
Net income							2,494
Acquisition of treasury stock							-32
Amortization of treasury stock							765
Reversal of revaluation reserve for land, net of tax							58
Variation of the scope of consolidation and the scope of equity method							-122
Net change of items other than shareholders' equity during the fiscal year under review	-850	-919	-58	15	-1,813	-36	-1,849
Total change during the fiscal year under review	-850	-919	-58	15	-1,813	-36	247
Balance as of December 31, 2007	486	-185	-7,359	-16	-7,074	10	55,955

## **Notes for Consolidated Financial Statements**

### **Basis for the Presentation of Consolidated Financial Statements**

#### **1. Scope of consolidation**

- (1) Number of consolidated subsidiaries: 13

Names of major consolidated subsidiaries:

Senshukai General Service Co., Ltd., Senshu Unyu Co., Ltd., Senshu Logisco Co., Ltd.,  
Senshukai Call Center Co., Ltd., Senshukai Service and Sales Co., Ltd.

Melody Square Co., Ltd., B'-Bop Studio Co., Ltd., Pet First Co., Ltd. and Future Compass Co., Ltd., which were non-consolidated subsidiaries in the previous consolidated fiscal year, have been included in the scope of consolidation since the consolidated fiscal year under review because of their increased importance. Melody Square Co., Ltd. purchased B'-Bop Studio Co., Ltd. as of July 1, 2007, and changed its company name to B.B.S. Co., Ltd. HBS Co., Ltd. is excluded from the scope of consolidation, since its liquidation was completed in December 2006.

RG Marketing Co., Ltd. was newly established and has been included in the scope of consolidation.

- (2) Number of unconsolidated subsidiaries: 6

Names of major unconsolidated subsidiaries: Senshukai Hong Kong Limited

[Reason for exclusion from the scope of consolidation]

None of the factors of the unconsolidated subsidiaries mentioned above, including total assets, net sales, net income/loss (amount appropriate for relevant shareholdings), and retained earnings (amount appropriate for relevant shareholdings), have any significant effects on the consolidated results.

#### **2. Scope of equity-method subsidiaries**

- (1) Number of unconsolidated subsidiaries under the equity-method: 4

Name of major unconsolidated subsidiaries under the equity-method:

Senshukai Hong Kong Limited.

Shanghai Senshu Merchant and Commerce Co., Ltd. has been included in the scope of equity-method since the consolidated fiscal year under review because of its increased importance.

- (2) Number of affiliates under the equity-method: 1

Name of affiliate under the equity-method:

SENTENs Co., Ltd.

SENTENs Co., Ltd. has been included in the scope of equity-method since the consolidated fiscal year under review because of its establishment.

- (3) With regard to companies under the equity-method whose balance sheet dates are more than six months apart from the consolidated balance sheet date, we use the financial statements of the relevant companies as of their latest interim balance sheet dates before the consolidated balance sheet date.

We make necessary consolidation adjustments regarding material transactions conducted between the consolidated balance sheet date and the balance sheet dates of the relevant companies.

- (4) Name of major unconsolidated subsidiaries excluded from the scope of equity-method: mbkr Co., Ltd.

[Reason for exclusion from the scope of equity-method]

None of the factors of the unconsolidated subsidiaries excluded from the equity method, such as net income/loss (amount appropriate for relevant shareholdings), and retained earnings (amount appropriate for relevant shareholdings), have any significant effects on the consolidated results.

### **3. Significant accounting policies**

- (1) Valuation method for assets

- (i) Marketable securities

Stated at fair value based on the market prices at the end of fiscal. (Both unrealized gains and losses are included in net assets; cost of securities sold is determined by the moving-average method.)

- (ii) Derivatives

Stated at market price.

- (iii) Inventories

Mainly stated at monthly average method and lower of cost or market method.

- (2) Depreciation method of primary depreciable assets

- (i) Property, plant and equipment: Depreciation of property and equipment is mainly computed using the declining-balance method, except for buildings (excluding fixtures) acquired after April 1, 1998, which are depreciated using the straight-line method.

The depreciation periods are basically as follows:

Buildings and structures: 38-50 years

Machinery and delivery equipment: 12 years

(Change in accounting policy)

With the revision of the Corporation Tax Law, the Company and its domestic consolidated subsidiaries adopted the depreciation method based on the revised Corporation Tax Law to tangible fixed assets acquired on and after April 1, 2007, effective from the

consolidated fiscal year under review.

The effect of this change on profit and loss of the consolidated fiscal year under review is insignificant.

(ii) Intangible fixed assets: Amortization of intangible fixed assets is computed using the straight-line method. Software for internal use is amortized by the straight-line method based on a usable life of five years.

(3) Basis for provision of reserves

(i) Allowance for doubtful accounts

The allowance for doubtful accounts is provided to cover possible losses from bad debts. The amount for normal debtors is determined by the loan-loss ratio, and that for special debtors, such as debtors at risk of bankruptcy, is determined based on the expected probability of those accounts being collectable, considered on an individual basis.

(ii) Bonuses to Directors and Corporate Auditors

Expected amount to be paid is recorded in order to prepare for expenditure of bonuses to be paid to the officers of the Company and the consolidated subsidiaries.

(iii) Reserve for sales promotion

To cover the projected sales-promotion expenses due to our mileage point system, the Company posts a reserve for sales promotion, which is calculated by multiplying the amount payable, which is based on the number of issued and unclaimed points, and the past claim ratio.

(iv) Employees' retirement benefits

To cover projected employees' retirement benefits in part of our consolidated subsidiaries, the Company posts the deemed obligations at the end of fiscal, based on the estimated amount of retirement benefit liabilities and pension assets.

The amount of retirement benefit liabilities is calculated using the simplified method.

(v) Retirement benefits for Directors and Corporate Auditors

The Company reports 100% of the projected amount of the retirement benefits based on its internal rules, to cover the retirement benefits for Directors of the Company and part of our consolidated subsidiaries and Executive Officers of the Company.

(4) Standard used in converting assets or liabilities denominated in major foreign currencies into Japanese currency

Assets or liabilities denominated in foreign currencies are converted into Japanese yen using the spot exchange rate on the consolidated account date, and any differences

generated by this conversion are included as gains or losses.

(5) Sales promotion costs

As for the Company's sales promotion costs in the mail-order business, catalogue-related costs corresponding to the expected sales in the next consolidated fiscal year are registered as prepaid expenses and included in "Other current assets."

(6) Accounting method of primary leasing business

Finance leases other than those that are deemed to transfer the ownership of the leased assets to the lessee are accounted for by a method similar to that applicable to ordinary operating leases.

(7) Hedge accounting method

The Company adopts deferral hedge accounting.

(8) Consumption taxes

Consumption taxes and local consumption taxes are excluded from revenues and expenses.

**4. Valuation of assets and liabilities of consolidated subsidiaries**

These are estimated at market value.

**5. Amortization of goodwill and negative goodwill**

Each goodwill or negative goodwill is equally amortized within a period decided based on estimate of the period during which its effect will be revealed.

## Notes for Consolidated Balance Sheet

1. Amounts less than one million yen have been omitted.
2. Accumulated depreciation on tangible fixed assets 32,247 million yen
3. Guarantee obligation:
  - Guarantee for bank borrowings
  - Utilizers of employee housing loan 35 million yen
4. The land owned by the Company was revaluated under the “Law Concerning Revaluation of Land” (March 31, 1998, Law No. 34), and the “Law Regarding Partial Revision of Law Concerning Revaluation of Land” (amended on March 31, 1999), and unrealized losses resulting from the revaluation were included in “Unrealized loss on revaluation of land” in the net assets, after offsetting the related deferred tax liabilities.

The method of revaluation stipulated in Article 3, Paragraph 3 of the Law Concerning Revaluation of Land:

The Director-General of the National Tax Administration Agency announced a calculation method to determine the land price that will be the basis of tax value calculations for the land holding tax, under Article 2, Item 4 of “Enforcement Rule of the Law Concerning Revaluation of Land” (March 31, 1998, Law No. 119), and Article 16 of the “Landholding Tax Law” (1991, Law No. 69).

The Company executed calculation and adjustments using the abovementioned method.

Date of revaluation: March 31, 2000

The difference between the revaluated book value of the land and the estimated market value at the end of fiscal under review: -2,999 million yen

## Notes for Consolidated Statement of Changes in Shareholders' Equity

1. Amounts less than one million yen have been omitted.
2. Total number of shares outstanding as of the end of the consolidated fiscal year under review.  
47,630,393 shares
3. Item on dividends of retained earnings  
(1) Dividend to be paid, etc.

Resolution	Type of stock	Total amount of dividends (millions of yen)	Dividends per share (yen)	Base date	Effective date
Ordinary General Meeting of Shareholders held on March 29, 2007	Common stock	460	10	December 31, 2006	March 30, 2007
General Meeting of the Board of Directors held on July 26, 2007	Common stock	606	13	June 30, 2007	August 31, 2007

- (2) Of dividends whose base date belongs to the consolidated fiscal year under review, dividends that take effect in the next consolidated fiscal year

Resolution	Type of stock	Total amount of dividends (millions of yen)	Financial funds of dividends	Dividends per share (yen)	Base date	Effective date
Ordinary General Meeting of Shareholders held on March 28, 2008	Common stock	653	Retained earnings	14	December 31, 2007	March 31, 2008

4. Number of shares that are the purpose of the stock acquisition rights as of the end of the consolidated fiscal year under review (whose period to exercise the rights has come)  
Stock options by the resolution of the Ordinary General Meeting of Shareholders held on March 30, 2004: 499,000 shares

### Note to information per share

1. Net assets per share: 1,197.62 yen
2. Net income per share: 53.60 yen

### Note on important events occurred afterwards

No particular items

**Non-consolidated Balance Sheet**  
**As of December 31, 2007**

	Millions of yen
	As of December 31, 2007
<b>ASSETS</b>	
Current Assets	
Cash and deposits	1,150
Notes receivable	7
Account receivable	10,836
Products	18,979
Inventories	114
Prepaid expense	2,530
Short-term loan	297
Loan receivable	9,304
Foreign exchange contract	15
Other current assets	2,129
Allowance for doubtful accounts	-256
Total Current Assets	45,110
Fixed Assets	
Property, Plant and Equipment:	
Buildings	9,631
Other structures	403
Machinery	1,508
Delivery equipment	9
Instruments and fixtures	717
Land	11,153
Construction in progress	962
Total Property, Plant and Equipment	24,386
Intangible Fixed Assets:	
Goodwill	185
Land lease rights	139
Software	2,062
Other intangible fixed assets	689
Total Intangible Fixed Assets	3,076
Investments and Other Assets:	
Investment securities	12,534
Stock of affiliates	4,696
Long-term loans	1,245
Deferred tax assets	164
Guarantees and deposits	1,136
Long term prepaid expense	145
Other investments	3,968
Allowance for doubtful accounts	-524
Total Investments and Other Assets	23,366
Total Fixed Assets	50,829
Total Assets	95,939



	Millions of yen
	As of December 31, 2007
<b>LIABILITIES</b>	
Current Liabilities:	
Notes	4,302
Accounts payable	6,407
Short-term borrowing	3,000
Accrued liabilities	6,210
Factoring accrued liabilities	15,027
Accrued expenses	1,254
Accrued corporate tax and others	1,587
Accrued consumption tax and others	125
Deposit received	615
Bonuses to directors and corporate auditors	35
Reserve for sales promotion	133
Deferred tax liabilities	94
Other current liabilities	572
Total Current Liabilities	39,369
Long-term Liabilities:	
Deferred tax liabilities relating to revaluation	764
Retirement benefits for directors and corporate auditors	377
Other long-term Liabilities	10
Total Long-term Liabilities	1,152
Total Liabilities	40,521
<b>NET ASSETS</b>	
Shareholders' equity	
Capital	20,359
Capital surplus	21,038
Capital reserve	19,864
Other capital reserve	1,174
Retained earnings	21,697
Earned surplus	1,118
Other retained earnings	20,578
Reserves for advanced depreciation of fixed assets	73
Reserve for loss in overseas investment	34
General reserves	13,600
Unappropriated retained earnings	6,871
Treasury stock	-630
Total Shareholders' Equity	62,464
Valuation and translation adjustments	
Net unrealized gain on other securities	498
Profit or loss on deferred hedge	-185
Revaluation reserve for land, net of tax	-7,359
Total valuation and translation adjustments	-7,046
Total Net Assets	55,418
Total Liabilities Net Assets	95,939

**Non-consolidated Statement of Income**  
**For fiscal year ended December 31, 2007**

	Millions of yen
	For the year ended December 31, 2007
<b>Net sales</b>	<b>152,367</b>
<b>Cost of sales</b>	<b>79,903</b>
<b>Gross profit</b>	<b>72,463</b>
<b>Selling, general and administrative expenses</b>	<b>67,851</b>
<b>Operating income</b>	<b>4,611</b>
<b>Non-operating income</b>	<b>1,127</b>
Interest and dividends received	741
Foreign exchange gains	135
Other income	251
<b>Non-operating expenses</b>	<b>375</b>
Interest payable	64
Loss on revaluation of compound instruments	194
Other expenses	116
<b>Ordinary income</b>	<b>5,364</b>
<b>Extraordinary income</b>	<b>379</b>
Gains on sale of fixed assets	37
Gains on sale of investment securities	174
Reversal of allowance for doubtful receivables	167
<b>Extraordinary losses</b>	<b>943</b>
Loss on sale or retirement of fixed assets	334
Loss on revaluation of investment securities	94
Loss on liquidations of subsidiaries	331
Compensation expenses	170
Loss on cancellation of lease contracts	13
<b>Income before income taxes</b>	<b>4,800</b>
Corporate, inhabitant and business taxes	1,619
Adjustment of corporate and other taxes	282
<b>Net income</b>	<b>2,898</b>

**Statement of Changes in Shareholders' Equity**  
**For fiscal year ended December 31, 2007**

(Millions of yen)

	Shareholders' Equity											
	Capital	Capital Surplus			Retained Earnings						Treasury Stock	Total Shareholders' Equity
		Capital Reserve	Other Capital Reserve	Total Capital Surplus	Earned Surplus	Other Retained Earnings				Total Retained Earnings		
						Reserves for Advanced Depreciation of Fixed Assets	Reserve for Loss in Overseas Investment	General Reserve	Unappropriated Retained Earnings			
Balance as of December 31, 2006	20,359	19,864	852	20,716	1,118	76	38	13,600	4,973	19,807	-1,041	59,841
Changes during the fiscal year under review												
Reversal of reserves for advanced depreciation of fixed assets						-3			3	—		—
Transfer of reserve for loss in overseas investment, etc.							4		-4	—		—
Reversal of reserve for loss in overseas investment, etc.							-9		9	—		—
Dividends from surplus									-1,066	-1,066		-1,066
Net income									2,898	2,898		2,898
Acquisition of treasury stock											-32	-32
Amortization of treasury stock			322	322							443	765
Reversal of revaluation reserve for land, net of tax									58	58		58
Net change of items other than shareholders' equity during the fiscal year under review												
Total change during the fiscal year under review	—	—	322	322	—	-3	-4	—	1,897	1,889	411	2,622
Balance as of December 31, 2007	20,359	19,864	1,174	21,038	1,118	73	34	13,600	6,871	21,697	-630	62,464

(Millions of yen)

	Valuation and Translation Adjustments				Total Net Assets
	Net Unrealized Gain on Other Securities	Deferred Hedge Profit/Loss	Revaluation Reserve for Land, Net of Tax	Total Valuation and Translation	
Balance as of December 31, 2006	1,364	734	-7,301	-5,202	54,638
Changes during the current fiscal year					
Reversal of reserves for advanced depreciation of fixed assets					—
Reversal of reserve for loss in overseas investment, etc					—
Transfer of reserve for loss in overseas investment, etc.					—
Dividends from surplus					-1,066
Net income					2,898
Acquisition of treasury stock					-32
Amortization of treasury stock					765
Reversal of revaluation reserve for land, net of tax					58
Net change of items other than shareholders' equity during the fiscal year under review	-865	-919	-58	-1,843	-1,843
Total change during the fiscal year under review	-865	-919	-58	-1,843	779
Balance as of December 31, 2007	498	-185	-7,359	-7,046	55,418

## **Notes for Non-consolidated Financial Statements**

### **Principal accounting policies**

#### **1. Valuation method for assets**

(1) Marketable securities

Stocks of subsidiaries and affiliates are determined by the moving-average method.

Other marketable securities are stated at fair value based on the market prices at the end of the fiscal year. (Both unrealized gains and losses are included in net assets; cost of securities sold is determined by the moving-average method.) Non-marketable securities are stated at cost based on the moving average method.

(2) Derivatives

Derivatives are stated at market price.

(3) Inventories

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

#### **2. Amortization method of fixed assets**

(1) Property, Plant and equipment

Depreciation of property, plant and equipment is mainly computed using the declining-balance method, except for buildings (excluding fixtures) acquired after April 1, 1998, which are depreciated using the straight-line method.

The depreciation periods are basically as follows:

Buildings: 38-50 years

Machinery: 12 years

(Change in accounting policy)

With the revision of the Corporation Tax Law, the Company and its domestic consolidated subsidiaries adopted the depreciation method based on the revised Corporation Tax Law to tangible fixed assets acquired on and after April 1, 2007, effective from the fiscal year under review.

The effect of this change on profit and loss of the fiscal year under review is insignificant.

(2) Intangible fixed assets

Amortization of intangible fixed assets is computed using the straight-line method.

Software for internal use is amortized by the straight-line method based on a usable life of five years.

#### **3. Basis for provision of reserves**

(1) Allowance for doubtful accounts

The allowance for doubtful accounts is provided to cover possible losses from bad debts.

The amount for normal debtors is determined by the loan-loss ratio, and that for special debtors, such as debtors at risk of bankruptcy, is determined based on the expected

probability of those accounts being collectable on an individual basis.

(2) **Bonuses to Directors and Corporate Auditors**

Expected amount to be paid is recorded in order to prepare for expenditure of bonuses to be paid to the officers.

(3) **Reserve for sales promotion**

To cover the projected sales-promotion expenses due to our mileage point system, the Company posts a reserve for sales promotion, which is calculated by multiplying the amount payable, which is based on the number of issued and unclaimed points, and the past claim ratio.

(4) **Retirement benefits for Directors and Corporate Auditors**

The Company reports 100% of the projected amount of the retirement benefits based on its internal rules, to cover the retirement benefits for Directors and Executive Officers.

**4. Standard used in converting assets or liabilities denominated in foreign currencies into Japanese currency**

Assets or liabilities denominated in foreign currencies are converted into Japanese yen using the spot exchange rate on the account date, and any differences generated by this conversion are included as gains or losses.

**5. Sales promotion costs**

As for the Company's sales promotion costs in the mail-order business, catalogue-related costs corresponding to the expected sales in the next fiscal year are registered as prepaid expenses.

**6. Accounting method of leasing business**

Finance leases other than those that are deemed to transfer the ownership of the leased assets to the lessee are accounted for by a method similar to that applicable to ordinary operating leases.

**7. Hedge accounting method**

The Company adopts deferral hedge accounting.

**8. Consumption taxes**

Consumption taxes and local consumption taxes are excluded from revenues and expenses.

## Notes for Non-consolidated Balance Sheets

1. Amounts less than one million yen have been omitted.
2. Accumulated depreciation on tangible fixed assets 31,693 million yen
3. Guarantee obligation:
  - Guarantee for bank borrowings
  - Utilizers of employee housing loan 35 million yen
4. Short-term cash credit for affiliates 553 million yen
  - Long-term cash credit for affiliates 880 million yen
  - Short-term cash debt for affiliates 167 million yen
5. The land owned by the Company was revaluated under the “Law Concerning Revaluation of Land” (March 31, 1998, Law No. 34), and the “Law Regarding Partial Revision of Law Concerning Revaluation of Land” (amended on March 31, 1999), and unrealized losses resulting from the revaluation were included in “Unrealized loss on revaluation of land,” one of the components of net assets, after offsetting the related deferred tax liabilities.  
The method of revaluation stipulated in Article 3, Paragraph 3 of the Law Concerning Revaluation of Land:

The Director-General of the National Tax Administration Agency announced a calculation method to determine the land price that will be the basis of tax value calculations for the land holding tax, under Article 2, Item 4 of “Enforcement Rule of the Law Concerning Revaluation of Land” (March 31, 1998, Law No. 119), and Article 16 of the “Landholding Tax Law” (1991, Law No. 69).

The Company executed calculation and adjustments using the abovementioned method.

Date of revaluation: March 31, 2000

The difference between the revaluated book value of the land and the estimated market value at the end of fiscal under review: -2,999 million yen

## Notes for Non-consolidated Statements of Income

1. Amounts less than one million yen have been omitted.
2. Transaction with affiliates
  - Sales: 89 million yen
  - Operating expense: 13,255 million yen
  - Non-operating transaction: 494 million yen

## Notes for Statement of Changes in Shareholders' Equity

1. Amounts less than one million yen have been omitted.

2. Number of treasury shares at the end of the fiscal year under review:

916,195 common shares

## Notes for Tax Effective Accounts

1. Details of deferred tax assets and deferred tax liabilities by major causes

		(Millions of yen)	
(1) Current		(2) Fixed	
<u>Deferred tax assets</u>		<u>Deferred tax assets</u>	
Sales promotion expenses	260	Deferred hedge profit/loss	421
Bonus payable	212	Investment securities	161
Accrued business tax	140	Investment securities evaluation loss	158
Others	265	Retirement benefit for directors and corporate auditors	152
<hr/>		Others	976
Total deferred tax assets	879	Sub-total deferred tax assets	1,870
<u>Deferred tax liabilities</u>		Valuation allowance	883
Sales promotion loss recognized	762	Total deferred tax assets	986
Deferred hedge profit/loss	210	<u>Deferred tax liabilities</u>	
Others	1	Investment securities	609
<hr/>		Deferred hedge profit/loss	139
Total deferred tax liabilities	973	Others	73
Net deferred tax liabilities	94	<hr/>	
		Total deferred tax liabilities	821
		Net deferred tax liabilities	164



## 2. Details of deferred tax liabilities relating to re-evaluation

(Millions of yen)

<u>Deferred tax assets</u>	
Deferred tax assets relating to re-evaluation	3,429
Valuation allowance	3,429
Total deferred tax assets relating to re-evaluation	—
<u>Deferred tax liabilities</u>	
Deferred tax liabilities relating to re-evaluation	764
Net deferred tax liabilities relating to re-evaluation	764

### **Note for fixed assets leased for use**

In addition to fixed assets posted on the Balance Sheet, some of instruments and fixtures, etc. are used under finance lease contracts without transfer of ownership of the leased assets to the lessee.

### **Notes for related party transactions**

Not applicable

### **Notes for information per share**

1. Net assets per share	1,186.32 yen
2. Net income per share	62.26 yen

### **Notes for important events occurred afterwards**

No applicable items

Audit Report of Accounting Auditor on Consolidated Balance Sheet and Consolidated Statement of Income (Certified Copy)

**Audit Report of Independent Auditor**

February 12, 2008

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

Ernst & Young ShinNihon  
Kiyoshi Takekawa  
Certified Public Accountant, Designated and Operating Partner  
Yoshitaka Fujiwara  
Certified Public Accountant, Designated and Operating Partner  
Hirotooshi Hiroda  
Certified Public Accountant, Designated and Operating Partner

We have examined the consolidated financial statements of Senshukai Co., Ltd. from January 1, 2007 to December 31, 2007, including the consolidated balance sheet, the consolidated statement of income, the consolidated statements of changes in shareholders' equity and notes for consolidated financial statements for the purpose of reporting under the provisions of Article 444, Paragraph 4 of the Corporation Law. Responsibility as to the preparation of such consolidated financial statements lies with the management of the Company, and the responsibility of the audit corporation is to express our opinion on the consolidated financial statements from an independent position.

We conducted our audit in accordance with the auditing standards generally accepted in Japan. The auditing standards require that our audit corporation obtain reasonable assurance that there are no material false representations in the consolidated financial statements. The audit is conducted on a test basis and includes the examination of representations in the consolidated financial statements as a whole, including the examination of the accounting principles adopted by the management and the method of application thereof and the evaluation of the estimate by the management. Our audit corporation has determined that, as a result of the audit, we have obtained a reasonable basis for giving an opinion.

Our opinion is that the above-mentioned consolidated financial statements present fairly the status of assets and earnings during the period relating to the relevant consolidated financial statements of the corporate group consisting of Senshukai Co., Ltd. and its consolidated subsidiaries in every important point in accordance with the corporate accounting standards generally accepted in Japan.

Our audit corporation or operating partner has no financial or other interest in the Company required to be stated by the provision of the Certified Public Accountant Law.

Audit Report of Accounting Auditor on Non-consolidated Balance Sheet and Non-consolidated Statement of Income (Certified Copy)

**Audit Report of Independent Auditor**

February 12, 2008

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

Ernst & Young ShinNihon  
Kiyoshi Takekawa  
Certified Public Accountant, Designated and Operating Partner  
Yoshitaka Fujiwara  
Certified Public Accountant, Designated and Operating Partner  
Hirotooshi Hiroda  
Certified Public Accountant, Designated and Operating Partner

We have examined the non-consolidated financial statements of Senshukai Co., Ltd. for the 63<sup>rd</sup> business term from January 1, 2007 to December 31, 2007, including the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statements of changes in shareholders' equity and notes for non-consolidated financial statements and the accompanying financial schedule for the purpose of reporting under the provisions of Article 436, Paragraph 2, Item 1 of the Corporation Law. Responsibility as to the preparation of such non-consolidated financial statements and the accompanying financial schedule lies with the management of the Company, and the responsibility of the audit corporation is to express our opinion on the non-consolidated financial statements from an independent position.

We conducted our audit in accordance with the auditing standards generally accepted in Japan. The auditing standards require that our audit corporation obtain reasonable assurance that there are no material false representations in the non-consolidated financial statements and the accompanying financial schedule. The audit is conducted on a test basis and includes the examination of representations in the non-consolidated financial statements and the accompanying financial schedule as a whole, including the examination of the accounting principles adopted by the management and the method of application thereof and the evaluation of the estimate by the management. Our audit corporation has determined that, as a result of the audit, we have obtained a reasonable basis for giving an opinion.

Our opinion is that the above-mentioned non-consolidated financial statements and the accompanying financial schedule present fairly the status of assets and earnings during the period relating to the relevant non-consolidated financial statements and the supplementary financial in every important point in accordance with the corporate accounting standards generally accepted in Japan.

Our audit corporation or operating partner has no financial or other interest in the Company required to be stated by the provision of the Certified Public Accountant Law.

Audit Report of Board of Corporate Auditors  
(Certified Copy)

**Audit Report**

The Board of Corporate Auditors has prepared this Audit Report upon deliberation based on the Audit Report created by each Corporate Auditor regarding the performance by the Directors of their duties during the 63<sup>rd</sup> fiscal year from January 1, 2007 to December 31, 2007, and hereby reports as follows:

**1. Corporate Auditors, Corporate Auditors' Auditing Methods and Contents**

The Board of Corporate Auditors stipulated the auditing policies, share of assignment, etc., received reports from each Corporate Auditor on the auditing status and the auditing results; received reports of execution of duty from Directors, etc. and the accounting auditor and demanded explanations, as the occasion demanded.

In accordance with the corporate auditors' auditing standards, auditing policies, share of assignment, etc. stipulated by the Board of Corporate Auditors, each Corporate Auditor communicated with the Directors, the Audit Department and other employees, etc. strived to maintain the environment for information gathering and auditing, attended meetings of the Board of Directors and other important meetings; received reports of execution of duty from Directors and employees, etc.; demanded explanations, as the occasion demanded, inspected important documents, etc.; investigated the activities and assets of the headquarters and of other principal places of business. We also monitored and verified the activities of the system to assure that execution of duty by the Directors complies with the laws and the Articles of Incorporation and the system maintained based on the contents and the resolutions of the Board of Directors and the relevant resolutions regarding maintenance of the system stipulated in Paragraphs 1 and 3 of Article 100 of the enforcement rules of the Corporation Law as the one required to assure the appropriateness of other business activities of the corporation (Internal control systems). We examined the contents of the basic policy, specified in Item 1 of Article 127 of the enforcement rules of the Corporation Law, and each effort in accordance with Item 2 of the same article, which are stated in the Business Report, in consideration of the status of deliberations at the meetings of the Board of Directors and other meetings. As for the subsidiaries, we communicated and exchanged information with the Directors and Corporate Auditors, etc. of the subsidiaries and received reports on their business operations as the occasion demanded. Based on the above-mentioned methods, we examined the business reports and accompanying financial schedule for the relevant fiscal year.

In addition, we monitored and verified whether or not the accounting auditor had maintained their independent positions and had conducted appropriate audits and received reports on activities of execution of duty from the accounting auditor and received explanation as the occasion demanded. Also, we received notice that the "system to assure that duty is executed appropriately" (the item posted in each number of Article 159 of the Accounting Rules) has been maintained in accordance with the "Quality Control Standards for Audits" (October 28, 2005, the Business Accounting Council) from the Accounting Auditors and demanded explanation as the occasion demanded. Based on the above methods, we examined the financial statements (Balance Sheet, Statements of Income, Variable Statements including Shareholders' Equity and the individual note table) and accompanying financial schedule as well as the consolidated financial statements (Consolidated Balance Sheet, Consolidated Statements of Income, Consolidated Variable Statements including Shareholders' Equity and the consolidated note table).

**2. Results of Audit**

(1) Results of Audit on the reports on business operations

- 1) The business reports and accompanying financial schedule are found to accurately present the status of the Company in conformity with the laws, regulations and Articles of Incorporation.
- 2) In connection with the performance by the Directors of their duties, no dishonest act or significant fact of a violation of laws, regulations, or the Articles of Incorporation is found to exist.
- 3) The contents of the resolutions of the Board of Directors regarding the internal control systems are found to be proper. Also, execution of duty by the Directors regarding the relevant internal control systems is found to accurately present the matters to be stated therein and have nothing to be pointed out.

- 4) Basic policy on the person who controls decisions on financial and operational policies of the Company, which is stated in the Business Report, has nothing to be pointed out. The efforts in accordance with Item 2 of Article 127 of the enforcement rules of the Corporation Law, which are stated in the Business Report, are found to be in line with the relevant basic policy and at the same time to neither damage common interests of shareholders of the Company nor be aimed at maintaining the status of corporate directors of the Company.
- (2) Results of Audit on the financial statements and accompanying financial schedule  
The methods and results of the audit made by the Accounting Auditor, Ernst & Young ShinNihon, an incorporated auditing firm, are found to be proper.
- (3) Results of Audit on the consolidated financial statements  
We have found the methods and results of the audit made by the Accounting Auditor, Ernst & Young ShinNihon, an incorporated auditing firm to be proper.

February 15, 2008

Board of Corporate Auditors, Senshukai Co., Ltd.	
Shoji Tottori	Standing Corporate Auditor
Yoshihiro Inoda	Standing Corporate Auditor
Hideyuki Koizumi	External Corporate Auditor
Hiroshi Morimoto	External Corporate Auditor