

(Translation)

Stock code: 8165

March 6, 2014

NOTICE OF THE 69th ORDINARY GENERAL MEETING OF SHAREHOLDERS

Dear Shareholder

You are cordially invited to attend the 69th 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 rights in writing or via the Internet, etc. Please review the attached Reference Material for Ordinary General Meeting of Shareholders and exercise your voting rights by no later than 5:30 p.m., Thursday, March 27, 2014, following the “Procedure for Exercising Voting Rights” on next page.

Sincerely yours,

Michio Tanabe
President and Representative Director
Senshukai Co., Ltd.
1-8-9 Doshin, Kita-ku, Osaka

MEETING AGENDA

- 1. Date and Time:** 10:00 a.m., Friday, March 28, 2014
2. Venue: Empire Room, 3F, Imperial Hotel, Osaka
1-8-50 Temmabashi, Kita-ku, Osaka

3. Agenda:

- Items to be reported:*
1. Business Report, Consolidated Financial Statements for the 69th fiscal year (January 1 to December 31, 2013); and Audit Reports of the Accounting Auditors and the Audit & Supervisory Board regarding Consolidated Financial Statements for the 69th fiscal year
 2. Non-consolidated Financial Statements for the 69th fiscal year (January 1 to December 31, 2013)

Items to be proposed:

- | | |
|------------|---|
| Proposal 1 | Appropriation of surplus |
| Proposal 2 | Partial amendments to the Articles of Incorporation |
| Proposal 3 | Election of nine (9) Directors |
| Proposal 4 | Election of one (1) Audit & Supervisory Board Member |
| Proposal 5 | Election of one (1) substitute Audit & Supervisory Board Member |
| Proposal 6 | Proposal to continue with countermeasures against large-scale purchases of shares of the Company (countermeasures against takeovers) and its partial amendments |

If attending the meeting in person, please present the enclosed voting form at the reception desk.

We will post any corrections to the Reference Material for Ordinary General Meeting of Shareholders, business report, consolidated financial statements, or non-consolidated financial statements on the Company's website (<http://www.senshukai.co.jp/soukai>).

The Company participates in "electronic voting platforms" for institutional investors operated by ICJ Inc.

Procedure for Exercising Voting Rights

1. Voting by mail

Please indicate your approval or disapproval of the proposals on the enclosed voting form and return it to us. All forms must be received by no later than 5:30 p.m., Thursday, March 27, 2014, the day before the Ordinary General Meeting of Shareholders.

2. Voting website

You can only exercise your voting rights via the Internet by accessing the following dedicated voting website designated by the Company.

Dedicated voting website address: <http://www.web54.net>

3. Handling of votes

- (1) When exercising your voting rights via the Internet, input the "voting right exercise code" and "password" written in the enclosed voting form, and indicate your approval or disapproval by following the on-screen instructions.
- (2) The deadline for voting is 5:30 p.m., Thursday, March 27, 2014. An early exercise of your vote would be very much appreciated.
- (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. If you vote more than once over the Internet, we will consider the latest vote to be valid.
- (4) Any fees to Internet providers and telecommunication companies (connection fees, etc.) incurred by shareholders in using the dedicated voting website, are to be borne by the shareholders.

4. PC-related technical inquiries, etc.

If you have any technical inquiries regarding the operation of a PC, etc. for voting on this website, contact the following:

Stock Transfer Agency Web Support, Sumitomo Mitsui Trust Bank, Limited Tel: 0120-652-031 (toll-free and available from 9:00 a.m. to 9:00 p.m., only in Japan)
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[Appendix]

Business Report **(January 1 to December 31, 2013)**

1. Summary of operations

(1) The Senshukai Group operating progress and results

Overview

In the Japanese economy during the fiscal year ended December 31, 2013, stock prices rose and the yen weakened due to the effects of economic and monetary-easing policies taken by the government and the Bank of Japan, and there were signs of recovery in corporate earnings and consumer spending. However, such movement was confined to only a small portion of the segments, and the future of the Japanese economy in general remained uncertain. In the retail industry, the business environment continued to be difficult on the whole, although department stores saw some expensive goods sell well. In the mail-order industry, sales are on the rise year after year due to an expansion in the Internet mail-order market backed by the spread of mobile terminals, such as smartphones and tablets, as well as a further expansion of the business as a result of combining the Internet and non-Internet mail-order transactions. However, competition in this industry has become increasingly fierce partly because of entry by different industries and M&As.

Under such a business environment, the Senshukai Group followed the Medium-Term Management Plan, which ended in the fiscal year under review, and made Group-wide efforts to achieve the targets defined in the plan through the promotion of growth strategies.

In the fiscal year under review, consolidated net sales were 141,552 million yen (a year-on-year decrease of 2.9%), due to a decline in sales of the mail-order business.

With regard to profit, operating income was 4,019 million yen (a year-on-year increase of 90.5%), due to an improvement in the gross profit margin and a reduction in selling, general and administrative expenses. Ordinary income was 4,631 million yen (a year-on-year increase of 67.5%), and net income was 4,046 million yen (a year-on-year increase of 99.4%) partly because of loss on sales and retirement of non-current assets.

Business results by segment

[Mail-order Business]

The mail-order business, which consists of catalogue and buyer's club businesses, posted net sales of 126,498 million yen (a year-on-year decrease of 3.0%). On the profit front, despite decreased sales, gross profit margin improved due to a rise in the sales of strategic merchandise and the effects of a review of merchandise price ranges. In addition, logistics-related expenses declined thanks to the enhanced efficiency of logistics, and catalogue-related expenses dropped as a result of reviewing printing-related expenses. Consequently, operating income rose substantially to 2,840 million yen (a year-on-year increase of 185.6%).

(1) Catalogue Business

In the catalogue business, we provide lifestyle proposals in a variety of genres through a diverse range of catalogues as well as the online shop "Belle Maison Net," and develop many original products that reflect the characteristics of Senshukai.

During the fiscal year under review, online sales, particularly net online sales*, increased from the previous fiscal year as the sales systems of this business were strengthened to respond to the spread of smartphones and tablets. However, sales of apparel and clothing sundries decreased due mainly to bad weather. Consequently, the catalogue business posted consolidated net sales of 118,135 million yen (a year-on-year decrease of 2.6%). (*Net online sales refer to sales of merchandise recognized when consumers place items in the shopping cart to order them on the Internet.)

(2) Buyer's Club Business

In the buyer's club business, each month, we periodically deliver original merchandise to group and individual members, mainly women working in offices, under an original sales system which is different from those of other mail-order sales companies.

During the fiscal year under review, the buyer's club business posted consolidated net sales of 8,362 million yen (a year-on-year decrease of 8.8%) due to a decline in membership and business partners.

[Bridal Business]

In the fiscal year under review, consolidated net sales in the bridal business, centered on the house wedding business, were 10,731 million yen (a year-on-year increase of 5.2%) due to the launch of new wedding places and a rise in the unit price of wedding ceremonies. Operating income was 701 million yen (a year-on-year decrease of 6.7%).

[Corporate Business]

In the fiscal year under review, consolidated net sales in the corporate business that provides products and services to corporations were 3,838 million yen (a year-on-year increase of 0.1%). Operating income was 393 million yen (a year-on-year decrease of 0.8%).

[Other Businesses]

In the fiscal year under review, consolidated net sales in the other businesses that consist of the service business (with travel services and credit-card services as the core fields) and the pet business, which deals in pet supplies through pet shops, were 484 million yen (a year-on-year decrease of 61.6%) due to the withdrawal from the pet business. Operating income was 83 million yen (against an operating loss of 33 million yen in the previous fiscal year).

Net sales by business segment

(Millions of yen)

Name of the segment and product	68 th fiscal year (Jan. 1 to Dec. 31, 2012)		69 th fiscal year (Jan. 1 to Dec. 31, 2013)		Change from the previous fiscal year	Year-on-Year (%)
	Amount	% of total	Amount	% of total		
Mail-order Business:						
Apparel	58,882	40.4	57,426	40.6	-1,455	-2.5
Interior goods	32,285	22.2	32,141	22.7	-143	-0.4
Household sundries	18,283	12.5	18,144	12.8	-138	-0.8
Clothing sundries	15,240	10.5	13,929	9.8	-1,310	-8.6
Foodstuffs	3,958	2.7	3,473	2.5	-484	-12.2
Others	1,807	1.2	1,382	1.0	-424	-23.5
Subtotal	130,456	89.5	126,498	89.4	-3,957	-3.0
Bridal Business	10,197	7.0	10,731	7.6	533	5.2
Corporate Business	3,833	2.6	3,838	2.7	4	0.1
Other Businesses	1,262	0.9	484	0.3	-778	-61.6
Total	145,750	100.0	141,552	100.0	-4,198	-2.9

(2) Capital expenditures

In the fiscal year under review, the Senshukai Group invested a total of 3,428 million yen in capital expenditures, and 799 million yen to develop computer systems, etc.

(3) Fund procurement

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

The Company has concluded commitment line contracts totaling 15,300 million yen with its correspondent financial institutions, and the balance of borrowings outstanding under the contracts at the end of the fiscal year under review was 4,000 million yen.

(4) Issues to be handled

In order to increase corporate value, the Senshukai Group has developed new Medium- to Long-term Management Plan “Innovate for Smiles 2018,” covering five fiscal years from January 2014 to December 2018.

Basic Policies of the “Medium- to Long-term Management Plan”

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

1) Mail-order Business

i) Customer strategy

We will expand our customer base by approaching the “career generation,” which is made up of working women who are actively involved in business activities, and “active women in their 50s,” who are expected to become important customers, in addition to the “pregnancy-delivery-child-raising generation” in their 30s to 40s, our present major customers.

ii) Merchandise strategy

To differentiate from mall-type large EC operators, we will strengthen the development of our own “original merchandise brands.” Furthermore, we will enhance profitability by strengthening and expanding “SPA (Specialty store retailer of Private label Apparel)-type merchandise,” for which a company independently controls the process from planning to manufacture and retail.

iii) Sales channel strategy

We will shift from the conventional channel mix strategy, in which customers buy products based on catalogues, to the omni-channel strategy, in which customers examine our own original merchandise brands and buy products. Under the new strategy, we will build a structure designed to enable customers to buy our products through all channels, including mobiles, PCs and outlets, and make them fans of our products.

iv) Fulfillment strategy

We will enhance convenience for our customers and improve the efficiency of operational costs by aggressively making investments related to IT systems and logistics. Furthermore, we will strengthen “services for individual customers,” by taking into account their needs and the characteristics of the merchandise.

2) Bridal Business

We will expand sales of the bridal business by continuously investing in wedding halls

through Dears Brain Inc., a subsidiary that operates the bridal business centering on house wedding, and launching new urban and suburban wedding halls and renovating existing halls. At the same time, we will review our promotion activities and improve merchandise costs, aiming to enhance profitability.

3) Corporate Business

We will expand the corporate business, centering on mail order-related “contract operations,” which have increased with the expansion of the EC market. Furthermore, we will improve profitability of this business by raising the specialization of sales and advertising operations.

4) New Businesses

We will proactively conduct new businesses, mainly those which are expected to generate synergy from the combination with the mail-order business, the Company’s core business. In particular, we will focus on the “childcare-related business” that is closely related to the child-raising generation, our major customers.

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 strengthen our corporate governance through improvement and enhancement of our internal control system 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	66 th fiscal year (ended Dec. 2010)	67 th fiscal year (ended Dec. 2011)	68 th fiscal year (ended Dec. 2012)	69 th fiscal year (ended Dec. 2013)
Net sales	136,859	137,261	145,750	141,552
Ordinary income	3,167	3,233	2,765	4,631
Net income	2,037	1,583	2,029	4,046
Net income per share (Yen)	47.04	36.56	46.86	93.43
Total assets	90,086	90,441	92,887	98,800
Net assets	39,411	41,444	44,932	50,359
Net assets per share (Yen)	909.99	956.94	1,037.48	1,162.81

(6) Status of important parent company and subsidiaries

1) Relationship with the parent company

No applicable items

2) Major subsidiaries

Company name	Capital (Millions of yen)	Percentage of voting rights of the Company (%)	Major business
Dears Brain Inc.	350	100.0	Bridal business
Mobakore Co., Ltd.	200	100.0	Mail-order business
Belle Maison Logisco Co., Ltd.	100	100.0	Packing and wrapping business
Senshu Logisco Co., Ltd.	100	100.0	Packing and wrapping business
Senshukai Call Center Co., Ltd.	60	100.0	Telephone marketing business
Senshukai General Services Co., Ltd.	50	100.0	Services business (insurance and credit card)
Senshukai Service Hanbai Co., Ltd.	50	100.0	Customer service and area marketing business

The Company owns a total of 11 consolidated subsidiaries, including the seven major subsidiaries described above.

(7) Major business

The Senshukai Group operates a mail-order business as its core business, and is also engaged in the bridal business, corporate business for providing products and services for corporations, and other businesses that include the service business with travel services and credit-card services as the core fields.

(8) Principal offices

Senshukai Co., Ltd.	Head Office:	Kita-ku, Osaka
	Tokyo Headquarters:	Shinagawa-ku, Tokyo
Dears Brain Inc.	Head Office:	Minato-ku, Tokyo
Mobakore Co., Ltd.	Head Office:	Shinagawa-ku, Tokyo
Belle Maison Logisco Co., Ltd.	Head Office:	Kani-shi, Gifu
Senshu Logisco Co., Ltd.	Head Office:	Nishinomiya-shi, Hyogo
	Kanuma Branch Office:	Kanuma-shi, Tochigi
Senshukai Call Center Co., Ltd.	Head Office:	Kita-ku, Osaka
Senshukai General Services Co., Ltd.	Head Office:	Kita-ku, Osaka
Senshukai Service Hanbai Co., Ltd.	Head Office:	Kita-ku, Osaka

(9) Employees of the Senshukai Group

1) Consolidated basis

Segment	Number of employees	Change from the previous fiscal year
Mail-order Business	1,150	30
Bridal Business	289	12
Corporate Business	41	3
Other Businesses	28	-41
Other staff (consolidated basis)	127	12
Total	1,635	16

Note: The number of employees includes regular and contract staff.

2) The Company

Number of employees	Change from the previous fiscal year	Average age	Average service years
864	46	40.7	13.4

Notes:

1. The number of employees includes regular and contract staff, but does not include (55) employees seconded to subsidiaries, etc.
2. The retirement age of employees is 60.

(10) Major creditors

Creditors	Borrowings outstanding (Millions of yen)
Sumitomo Mitsui Banking Corporation	4,608
Mizuho Bank, Ltd.	3,075
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,143
Sumitomo Mitsui Trust Bank, Limited	1,024

2. Items regarding shares of the Company

(1) Total number of shares authorized to be issued:	180,000,000
(2) Total number of shares issued:	47,630,393
(3) Number of shareholders:	19,209
(4) Major shareholders (Top 10 shareholders)	

Name	No. of shares held (Thousands)	Shareholding ratio (%)
Brestsheave Co., Ltd.	3,650	8.43
Toppan Printing Co., Ltd.	1,838	4.24
Sawzan, Ltd.	1,792	4.14
Sumitomo Mitsui Banking Corporation	1,665	3.85
Dai Nippon Printing Co., Ltd.	1,509	3.49
Mizuho Bank, Ltd.	1,319	3.05
Senshukai Group Employee Stock Ownership Plan	1,157	2.67
Nippon Life Insurance Company	945	2.18
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	752	1.74
Sumitomo Mitsui Trust Bank, Limited	705	1.63

Notes:

1. Amounts less than one thousand shares have been omitted.
2. The shareholding ratio is calculated by subtracting treasury shares 4,321,851 shares).

3. Items regarding subscription rights to shares of the Company

No applicable items

4. Directors and Audit & Supervisory Board Members

(1) Name of Directors and Audit & Supervisory Board Members

(As of December 31, 2013)

Title	Name	Responsibilities at the Company and important concurrent occupations or positions at other organizations
Chairman and Representative Director	Yasuhiro Yukimachi	
President and Representative Director	Michio Tanabe	
Senior Managing Director and Executive Officer	Kiichi Tagawa	In charge of Administration Division and Tokyo Headquarters (General Affairs Department, Accounting Department, Legal & Credit Department, Business Development Division, Public Relations Department)
Senior Managing Director and Executive Officer	Shohachi Sawamoto	In charge of Belle Maison Business Division (Sales Planning Division, Product Development Division, Belle Maison Business Planning Department)
Managing Director and Executive Officer	Mamoru Asada	Division Director of Project Division, in charge of Monthly Business and Project Division (Monthly Business Division, Project Division)
Director and Executive Officer	Shigemitsu Mineoka	Deputy in charge of Belle Maison Business Division (Belle Maison Business Planning Department, Sales Planning Division, Production Department), in charge of CS Promotion Section, President and Representative Director of Senshukai Call Center Co., Ltd.
Director and Executive Officer	Hiroyuki Hoshino	General Manager of Corporate Development Division
Director	Tomoko Oishi	Professor of Kyoto Gakuen University, Faculty of Business Administration
Director	Toshikatsu Sano	
Standing Audit & Supervisory Board Member	Yoshihiro Nakabayashi	
Standing Audit & Supervisory Board Member	Makoto Yamamoto	
Audit & Supervisory Board Member	Hideyuki Koizumi	Certified Public Accountant (Representative of Koizumi C.P.A. Office), External Audit & Supervisory Board Member of Japan Cash Machine Co., Ltd.
Audit & Supervisory Board Member	Hiroshi Morimoto	Attorney (Representative member of Kitahama Partners L.P.C.), CEO of Kitahama Partners L.P.C. Group, External Audit & Supervisory Board Member of Japan Cash Machine Co., Ltd.

Notes:

1. Directors Tomoko Oishi and Toshikatsu Sano are External Directors.
2. Audit & Supervisory Board Members Hideyuki Koizumi and Hiroshi Morimoto are External Audit & Supervisory Board Members.
3. External Director Tomoko Oishi and External Audit & Supervisory Board Members Hideyuki Koizumi and Hiroshi Morimoto are Independent Director / Auditors who are notified as prescribed by the Financial Instruments Exchange.
4. External Audit & Supervisory Board Member Hideyuki Koizumi is qualified as certified public accountant and has considerable knowledge regarding finance and accounting.

(2) Total amount of remuneration to Directors and Audit & Supervisory Board Members

	Number of Directors and Audit & Supervisory Board Members	Amount (Millions of yen)
Directors [of which External Directors]	9 [2]	320 [18]
Audit & Supervisory Board Members [of which External Audit & Supervisory Board Members]	4 [2]	43 [11]
Total [of which External Directors and External Audit & Supervisory Board Members]	13 [4]	364 [29]

Notes:

1. The amount of remuneration 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 Audit & Supervisory Board Members in total per year shall not exceed 70 million yen.
4. The above amounts include provision for directors' bonuses of 30 million yen for the fiscal year under review.

(3) Items regarding External Directors and External Audit & Supervisory Board Members

A. Important concurrent occupations or positions at other organizations and relationships between the Company and the relevant organizations

- Director Tomoko Oishi is Professor of Kyoto Gakuen University, Faculty of Business Administration, and there is no special relationship between the Company and that organization.
- Audit & Supervisory Board Member Hideyuki Koizumi is Representative of Koizumi C.P.A. Office, and there is no special relationship between the Company and that organization. Hideyuki Koizumi concurrently serves as External Audit & Supervisory Board Member of Japan Cash Machine Co., Ltd., and there is no special relationship between the Company and that organization.
- Audit & Supervisory Board Member Hiroshi Morimoto is representative member of Kitahama Partners L.P.C. and CEO of Kitahama Partners L.P.C. Group, and the Company has concluded legal advisory contracts individually with other attorneys who belong to that organization. Hiroshi Morimoto concurrently serves as External Audit & Supervisory Board Member of Japan Cash Machine Co., Ltd., and there is no special relationship between the Company and that organization.

B. Major activities in the fiscal year under review

	Major activities
Director Tomoko Oishi	She attended 16 of the 17 meetings of the Board of Directors held in the fiscal 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.
Director Toshikatsu Sano	He attended all of the 17 meetings of the Board of Directors held in the fiscal year under review. He has successively served as Director mainly at financial-related companies, and gives advice and proposals for ensuring validity and appropriateness of decision-making of the Board of Directors, offering opinions from the perspective of corporate manager based on his wealth of knowledge, experience, etc.
Audit & Supervisory Board Member Hideyuki Koizumi	He attended all of the 17 meetings of the Board of Directors and all of the 14 meetings of the Audit & Supervisory Board held in the fiscal 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 of the Company at the meetings of the Audit & Supervisory Board.
Audit & Supervisory Board Member Hiroshi Morimoto	He attended all of the 17 meetings of the Board of Directors and all of the 14 meetings of the Audit & Supervisory Board held in the fiscal 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 an attorney. Also, he properly offers necessary views about compliance of the Company at the meetings of the Audit & Supervisory Board.

C. Outline of the agreement to limit liability

Pursuant to Article 427, Paragraph 1 of the Corporation Act, the Company concludes an agreement with each External Director and External Audit & Supervisory Board Member to limit their liability for compensation as stipulated in Article 423, Paragraph 1 of the said act. The limit of liabilities for compensation under the relevant agreement is the minimum amount stipulated in laws and regulations.

5. Item regarding accounting auditors

(1) Name of the accounting auditor:

Ernst & Young ShinNihon LLC

(2) Compensation for the accounting auditor:

- 1) Compensation, etc. for the accounting auditors for the fiscal year under review

50 million yen

- 2) The total fiscal benefit that should be paid by the Company and its subsidiaries

52 million yen

Note: Compensation, etc. in 1) is written in total amount, because in agreement with accounting auditors, clear classification of compensation amounts based on the Corporation Act and those based on the Financial Instruments and Exchange Act is difficult.

(3) Details of non-auditing services

The Company entrusts the accounting auditor to provide investigative services related to the “Royalty Report,” which is a non-auditing service not included in the services of Article 2, Paragraph 1 of the Certified Public Accountant Act of Japan.

(4) Policy on decision for dismissal or non-reappointment of accounting auditor

The Board of Directors shall make dismissal or non-reappointment of the accounting auditor the purpose of a General Meeting of Shareholders after obtaining the consent of the Audit & Supervisory Board, or based on the demand of the Audit & Supervisory Board, 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 stipulated in Article 340, Paragraph 1 of the Corporation Act, the Audit & Supervisory Board shall dismiss the accounting auditor based on the consent of all Audit & Supervisory Board Members. In this case, an Audit & Supervisory Board Member selected by the Audit & Supervisory Board shall report the dismissal of the accounting auditor and the reason for dismissal at the first General Meeting of Shareholders to be held after the dismissal.

6. The system to assure appropriateness of the business activities

The Company made a resolution on the basic policy 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, Item 6 and Paragraph 5 of the Corporation Act and has been executing it.

(1) Basic ideas on the internal control system

The Senshukai Group acknowledges that initiatives for the “corporate governance” is essential in its corporate activities as stated in 1. Summary of operations (4) Issues to be handled and aims to prepare the internal control system for it to strengthen compliance system, improve efficiency in business execution and establish a risk control system. The Senshukai Group 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 regulations and the Articles of Incorporation
 - 1) To ensure compliance, the Senshukai Group has established the “Senshukai Group Compliance Policies.” In addition, the Senshukai Group shall provide the “Corporate Ethics Helpline” as an internal reporting system for promptly responding to potential risks such as violations of laws and regulations and internal regulations.
 - 2) If any compliance issues arise with any directors (Directors, Audit & Supervisory Board Members and Executive Officers) and employees, each one shall be discussed and examined in the Audit Committee in the case of directors and the Corporate Ethics Compliance Committee in the case of employees through the internal liaison or the Corporate Ethics Helpline as an external liaison based on regulations.
 - 3) For directors and employees, we shall distribute the “Senshukai Personal Conduct Principles” and “Senshukai Corporate Behavior CaseBook” for use as guidelines in daily life at work. In addition, we shall provide compliance education on an as-needed basis through e-learning and Intranet programs.
 - 4) To ensure internal control in the Company, the Internal Auditing Department, which is under the direct control of the President, shall conduct internal audits based on regulations to grasp and improve the status of business operations and report the results to the President.
 - 5) Responsibilities for intellectual property shall be checked preliminarily by the Legal & Credit Department. To fulfill product liability requirements, the Quality Management Committee shall review and determine sales of restricted products.
2. The system for storage and management of information related to execution of duties of the Directors
 - 1) Documents shall be stored and managed fully based on the “Document Handling Rules” and “Data Management Regulations.”
 - 2) Important confidential items of the Company shall be strictly managed according to

the “Confidential Document Handling Rules” separately.

- 3) Also, any revision of important rules shall be made with the approval of the Board of Directors.
 - 4) The information related to execution of duties by the Directors shall be made accessible by the Directors and Audit & Supervisory Board Members at all times on the Intranet.
3. The rules for management of risk of loss and other systems
- 1) We shall classify risks concerning the basis of management into ten categories, and clarify the control system by establishing a division or a committee for each risk category, so that responses can be made quickly when problems occur. The status of management of each risk shall be reported to the “Administrative Office of Risk Management Control Committee” on a monthly basis.

The Administrative Office shall summarize monthly reports and report monthly, or in emergency situations, a division or a committee for each risk category shall report promptly to the Risk Management Control Committee, which is comprised of members of the Management Council.
 - 2) To ensure implementation of concrete measures for risk management, we shall prepare a manual for each risk category on an as-needed basis and establish a system to take actions promptly.
 - 3) For the system against unexpected situations of any Directors, we shall establish a system to execute operations smoothly on their behalf.
4. A system to assure efficient execution of duties of the Directors
- 1) We shall establish “Company Rules” and “Rules for Application for Liquidation Items” to realize the efficiency of business activities by clarifying the roles of the Board of Directors, Management Council, Audit & Supervisory Board or other parties, duty positions of the employees, duty allotment, official authority, roles and decision authority, etc.
 - 2) In order to improve the transparency of the Board of Directors and strengthen the supervisory function, an External Director (part-time service) system shall be implemented.
 - 3) We shall introduce the “Executive Officer System” and “Business Division System” and clarify the decision-making process of the management and authorities and responsibilities of business execution to speed up the management process.
 - 4) A “Management Council” mainly made up of full-time Directors and Audit & Supervisory Board Members shall be established separate from the Board of Directors to enable resolutions to be passed on important business activities

commissioned by the Board of Directors to ensure quick decision-making.

5. System to assure appropriateness of business activities in the corporate group consisting of the Company, the parent company and the subsidiaries
 - 1) The Company and the group companies shall formulate and implement “Regulations for Management of Subsidiaries and Associates” to enhance the corporate value of the entire group and fulfill social responsibilities. In addition, we shall establish a system of having the parent company approve important items of the subsidiaries for which it holds a stake of over 50%.
 - 2) By establishing a system of having each lead office supervise the subsidiaries, we shall facilitate close cooperation in directions, instructions and communication between the parent company and the subsidiaries, while each lead office gives guidance, advice and evaluation, in an effort to rationalize the business activities as a group.
 - 3) We shall hold regular meetings between the incorporated auditing firm and the Directors of the parent company to exchange opinions about the entire group’s situation.
 - 4) We shall formulate insider trading regulations and regulations related to internal reporting, which will be implemented in common throughout the Group, and common compliance education will be provided to directors and employees of the group companies.
6. Item regarding employees in case that Audit & Supervisory Board Members request employees who are to assist their duties and item regarding independency of the relevant employees from the Directors
 - 1) A dedicated member of staff to assist the Audit & Supervisory Board Members is put in place in response to a request from the Audit & Supervisory Board.
 - 2) Opinions of the Audit & Supervisory Board regarding appointment, personnel change, personnel evaluation and disciplinary punishment of the dedicated member of staff are to be fully respected.

7. The system for the Directors and the employees to report to the Audit & Supervisory Board Members, the system regarding report to Audit & Supervisory Board Members and the system to assure that audits are effectively conducted by the Audit & Supervisory Board Members
 - 1) The Standing Audit & Supervisory Board Members shall attend major meetings if necessary, and receive important information including the management status.
 - 2) The Standing Audit & Supervisory Board Members shall attend meetings of the “Risk Management Control Committee,” and in cases where any important item in the “Corporate Ethics Helpline” or any fact that could cause substantial damage to the Company is detected from one of the risk management committees or divisions, Standing Audit & Supervisory Board Members are required to immediately report such items or facts to the Audit & Supervisory Board.
 - 3) Materials required by Audit & Supervisory Board Members for inspection shall be available for inspection upon request at any time.
 - 4) Results of audits conducted by the Internal Auditing Department shall be reported.
 - 5) The Audit & Supervisory Board Members shall regularly hold opinion exchange meetings with President and the auditing firm, respectively.
 - 6) The Audit & Supervisory Board Members shall conduct an audit & supervisory board member’s audit regularly and interview the Executive Officers and important employees.
 - 7) The Audit & Supervisory Board shall be also able to take professional advice if they so request.
8. System to assure reliability of financial reporting
 - 1) The Senshukai Group shall evaluate and conduct external reporting on reliability of internal control over financial reporting pursuant to the provisions of relevant laws and regulations including the Financial Instruments and Exchange Act.
 - 2) In evaluating the effectiveness of internal control over financial reporting, we shall establish procedures in accordance with standards of evaluation that are deemed fair and appropriate in general, and comply with such procedures.
 - 3) In order to assure the effectiveness of internal control over financial reporting, we shall perform internal audits targeting all the group companies on a regular basis, detect and correct deficiencies, if there are any, and strive to make improvements continuously.
 - 4) In order to assist in the development and operation of effective internal control, as well as evaluation and external reporting of internal control over financial reporting, which are required of the President, the Internal Auditing Department shall perform

internal audits based on the “Regulations for the Development and Operation of Internal Control over Financial Reporting” and report the results of audit to the President.

9. System for exclusion of antisocial forces

The Company shall establish the “Compliance Policies” and the “Guidelines for Preventing Damage by Antisocial Forces,” and it will take a resolute stance against antisocial forces that pose a threat to social order and safety. In addition, it declares to all the directors and employees that it will have nothing to do with such antisocial forces and will thoroughly ensure that.

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 purchases of shares 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 purchases may effectively force shareholders to sell their shares; may provide insufficient time and information to be given for the Board of Directors and shareholders of the target company to examine the large-scale purchase of shares, or for the Board of Directors of the target company to present alternative proposals; and may require the target company 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

In order to increase corporate value, the Company has developed and implemented new Medium-Term Management Plan, covering three fiscal years from January 2011 to December 2013, following the previous 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 by extension, 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 “previous plan”) at the 63rd Ordinary General Meeting of Shareholders, held on March 28, 2008, as a countermeasure against takeovers in ordinary times with an effective period up to the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ended December 31, 2010. In consideration of various developments surrounding countermeasures against takeovers, the Company thereafter continued to examine the appropriate countermeasures against takeovers in ordinary times. Accordingly, the Company decided to continue with the previous 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, with the approval of shareholders at the 66th Ordinary General Meeting of Shareholders held on March 30, 2011 to continue with the prevailing plan until the conclusion of the Ordinary General Meeting of Shareholders covering the fiscal year ended December 31, 2013.

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. above)

Each effort stated in II. above 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 Directors and Audit & Supervisory Board Members 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. above)

(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, 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 Directors and Audit & Supervisory Board Members 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 Directors and Audit & Supervisory Board Members of the Company, since 1) they comply thoroughly with 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 and also satisfy the "Takeover Defense Measures in Light of Recent Environmental Changes," released by the Corporate Value Study Group of the Ministry of Economy, Trade and Industry on June 30, 2008; 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 of

Shareholders 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, 2013

	Millions of yen
	As of December 31, 2013
ASSETS	
Current Assets	
Cash and deposits	6,495
Notes and accounts receivable - trade	6,395
Merchandise and finished goods	21,296
Raw materials and supplies	114
Deferred tax assets	542
Accounts receivable - other	9,609
Forward exchange contracts	2,062
Other	3,968
Allowance for doubtful accounts	-306
Total Current Assets	50,177
Non-current Assets	
Property, Plant and Equipment:	
Buildings and structures	13,754
Machinery, equipment and vehicles	568
Tools, furniture and fixtures	786
Land	12,108
Leased assets	1,164
Construction in progress	392
Total Property, Plant and Equipment	28,775
Intangible Assets:	
Goodwill	2,127
Other	3,604
Total Intangible Assets	5,731
Investments and Other Assets	
Investment securities	7,514
Long-term loans receivable	1,010
Lease and guarantee deposits	1,430
Deferred tax assets	298
Other	4,174
Allowance for doubtful accounts	-314
Total Investments and Other Assets	14,114
Total Non-current Assets	48,622
Total Assets	98,800

Millions of yen
As of December 31, 2013

LIABILITIES

Current Liabilities

Notes and accounts payable - trade	6,496
Electronically recorded obligations - operating	6,204
Short-term loans payable	6,386
Current portion of bonds	700
Accounts payable - other	6,602
Accounts payable - factoring	8,494
Accrued expenses	2,144
Income taxes payable	416
Accrued consumption taxes	159
Provision for directors' bonuses	30
Provision for sales promotion expenses	588
Other	1,412

Total Current Liabilities	39,635
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Non-current Liabilities

Bonds payable	1,150
Long-term loans payable	4,814
Lease obligations	1,328
Deferred tax liabilities for land revaluation	631
Provision for retirement benefits	34
Asset retirement obligations	387
Other	459

Total Non-current Liabilities	8,805
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Total Liabilities	48,440
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NET ASSETS

Shareholders' Equity

Capital stock	20,359
Capital surplus	21,038
Retained earnings	16,353
Treasury shares	-2,776

Total Shareholders' Equity	54,975
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Accumulated other comprehensive income

Valuation difference on available-for-sale securities	774
Deferred gains or losses on hedges	1,278
Revaluation reserve for land	-6,720
Foreign currency translation adjustment	52

Total accumulated other comprehensive income	-4,615
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Total Net Assets	50,359
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Total Liabilities and Net Assets	98,800
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Consolidated Statement of Income
For fiscal year ended December 31, 2013

	Millions of yen
	For fiscal year ended December 31, 2013
Net sales	141,552
Cost of sales	72,475
Gross profit	69,077
Selling, general and administrative expenses	65,057
Operating income	4,019
Non-operating income	964
Interest and dividend income	172
Foreign exchange gains	107
Share of profit of entities accounted for using equity method	142
Gain on adjustment of account payable	259
Other	282
Non-operating expenses	352
Interest expenses	215
Other	136
Ordinary income	4,631
Extraordinary income	55
Gain on sales of non-current assets	4
Gain on sales of investment securities	51
Extraordinary losses	927
Loss on sales and retirement of non-current assets	660
Impairment loss	216
Other	49
Income before income taxes and minority interests	3,760
Income taxes - current	471
Income taxes - deferred	-757
Income before minority interests	4,046
Net income	4,046

Consolidated Statement of Changes in Shareholders' Equity
For fiscal year ended December 31, 2013

(Millions of yen)

	Shareholders' Equity				
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Shares	Total Shareholders' Equity
Balance as of January 1, 2013	20,359	21,038	13,581	-2,775	52,203
Changes of items during the fiscal year under review					
Dividends of surplus			-952		-952
Net income			4,046		4,046
Purchase of treasury shares				-0	-0
Disposal of treasury shares		0		0	0
Reversal of revaluation reserve for land			-321		-321
Net changes of items other than shareholders' equity					
Total changes of items during the fiscal year under review	—	0	2,772	-0	2,771
Balance as of December 31, 2013	20,359	21,038	16,353	-2,776	54,975

(Millions of yen)

	Accumulated Other Comprehensive Income					Total Net Assets
	Valuation Difference on Available-for-sale Securities	Deferred Gains or Losses on Hedges	Revaluation Reserve for Land	Foreign Currency Translation Adjustment	Total Accumulated Other Comprehensive Income	
Balance as of January 1, 2013	-578	438	-7,041	-89	-7,271	44,932
Changes of items during the fiscal year under review						
Dividends of surplus						-952
Net income						4,046
Purchase of treasury shares						-0
Disposal of treasury shares						0
Reversal of revaluation reserve for land						-321
Net changes of items other than shareholders' equity	1,353	839	321	141	2,655	2,655
Total changes of items during the fiscal year under review	1,353	839	321	141	2,655	5,427
Balance as of December 31, 2013	774	1,278	-6,720	52	-4,615	50,359

Notes to Consolidated Financial Statements

Basis for Preparing Consolidated Financial Statements

1. Scope of consolidation

- (1) Number of consolidated subsidiaries: 11

Names of major consolidated subsidiaries:

Dears Brain Inc., Mobakore Co., Ltd., Belle Maison Logisco Co., Ltd., Senshu Logisco Co., Ltd., Senshukai Call Center Co., Ltd., Senshukai General Services Co., Ltd., Senshukai Service Hanbai Co., Ltd.

Pet First Co., Ltd. has been excluded from the scope of consolidation following the completion of its liquidation in September 2013.

- (2) Number of unconsolidated subsidiaries: 4

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 financial statements.

2. Scope of equity method

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

Names of unconsolidated subsidiaries under the equity method:

Senshukai Hong Kong Limited

- (2) Number of associates under the equity method: 2

Names of associates under the equity method:

SENTENs Co., Ltd., K.SENSE, Inc.

- (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 the end of their second quarter immediately before the consolidated balance sheet date.

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

- (4) Names of major unconsolidated subsidiaries and associates excluded from the scope of equity method:

Shufunotomo-Direct Co., Ltd.

[Reason for exclusion from the scope of equity method]

None of the factors of the unconsolidated company excluded from the scope of equity method mentioned above, including net income/loss (amount appropriate for relevant shareholdings) and retained earnings (amount appropriate for relevant shareholdings), have any significant effects on the consolidated financial statements.

3. Fiscal year-ends of consolidated subsidiaries

The balance sheet dates of all the consolidated subsidiaries are the same as the consolidated balance sheet date.

4. Accounting policies

(1) Valuation criteria and methods of significant assets

1) Securities

Securities classified as other securities with available fair market prices are stated at market price based on the market prices at the end of the fiscal year (Net unrealized gains and losses are included in net assets; cost of securities sold is determined by the moving-average method). Securities classified as such without available fair market prices are stated at moving-average cost.

2) Derivatives

Stated at fair value.

3) Inventories

Mainly stated at cost based on the monthly gross average method (with carrying value in the consolidated balance sheet written down in accordance with the declining of profitability of assets).

(2) Depreciation method of significant depreciable assets

1) Property, plant and equipment (excluding leased assets):

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

The main useful lives are as follows:

Buildings and structures: 38–50 years

Machinery, equipment and vehicles: 12 years

2) Intangible assets (excluding leased assets):

Amortization of intangible assets is computed using the straight-line method. Software for internal use is amortized based on a useful life of five years decided by internal regulations.

3) Leased assets:

Depreciation of leased assets is computed using the straight-line method with zero residual value assuming the lease periods as useful lives. Finance leases that do not transfer ownership to the lessee and that commenced on or before December 31, 2008 are accounted for using a method that is applicable to ordinary rental leases.

(3) Basis for provision of significant 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 credit loss ratio based on past experience, 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) Provision for directors' bonuses

Expected amount to be paid is recorded to cover expenditure of bonuses to directors and audit & supervisory board members.

3) Provision for sales promotion expenses

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

4) Provision for 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 year, based on the estimated amount of retirement benefit liabilities and pension assets.

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

(4) Basis for recognizing important revenues and expenses

Basis for recognition of revenues relating to finance leases

Revenues relating to finance leases are accounted for by allocating the total of the amount equivalent to interest over the lease period without recognizing sales.

(5) Criteria for converting significant 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 consolidated balance sheet date, and any differences generated by this conversion are included in gains or losses.

(6) Promotion expenses

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

(7) Hedge accounting method

The Company adopts deferral hedge accounting.

(8) Amortization and amortization period of goodwill

Goodwill is equally amortized within a period decided based on individual estimate of the period during which respective effects will be expected.

(9) Consumption taxes

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

(10) Application of the consolidated tax payment system

The consolidated tax payment system is applied.

Notes to Changes in Accounting Policies

(Change in accounting policy that is difficult to distinguish from change in accounting estimate)

Following the revision of the Corporation Tax Act, the method for depreciating property, plant and equipment acquired by the Company and its domestic subsidiaries on or after January 1, 2013, has been changed to the method pursuant to the provisions of the revised Act, effective from the fiscal year under review.

The impact of this change on profit or loss in the fiscal year under review is immaterial.

Notes to Changes in Method of Presentation

(Matters related to consolidated balance sheet)

1. "Leased assets," which was included in "Other" under "Property, plant and equipment" in the previous fiscal year, is presented as a separate item under "Property, plant and equipment" from the fiscal year under review due to an increase in its materiality.

The amount of "Leased assets" included in "Other" under "Property, plant and equipment" in the previous fiscal year is 715 million yen.

2. "Lease obligations," which was included in "Other" under "Non-current liabilities" in the previous fiscal year, is presented as a separate item under "Non-current liabilities" from the fiscal year under review due to an increase in its materiality.

The amount of "Lease obligations" included in "Other" under "Non-current liabilities" in the previous fiscal year is 828 million yen.

(Matters related to consolidated statement of income)

“Gain on valuation of compound financial instruments” (45 million yen in the fiscal year under review), which was presented as a separate item under “Non-operating income” in the previous fiscal year, is included in “Other” under “Non-operating income” in the fiscal year under review because it became insignificant in terms of amount.

The amount of “Gain on valuation of compound financial instruments” included in “Non-operating income” in the previous fiscal year is 208 million yen.

Notes to Consolidated Balance Sheet

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

2. Accumulated depreciation on property, plant and equipment

32,332 million yen

3. Breakdown of assets pledged as collateral

(1) Pledged assets

Buildings and structures 289 million yen

(2) Liabilities corresponding to the aforementioned assets

Short-term loans payable 60 million yen

Long-term loans payable 10 million yen

Total 70 million yen

4. Guarantee obligation:

Guarantee for bank borrowings

Utilizers of employee housing loan 5 million yen

5. The land for business use owned by the Company was revaluated under the “Act on Revaluation of Land” (Act No. 34 of March 31, 1998), and the “Act for Partial Revision of the Act on Revaluation of Land” (amended on March 31, 1999), and unrealized losses resulting from the revaluation were posted as “Revaluation reserve for land” in net assets, after deducting the related deferred tax liabilities.

The method of revaluation stipulated in Article 3, Paragraph 3 of the Act on Revaluation of Land:

The Director-General of the National Tax Administration Agency decided and announced a calculation method to determine the land value that will be the basis of tax value calculations for the land value tax, under Article 2, Item 4 of the “Order for Enforcement of the Act on Revaluation of Land” (Cabinet Order No. 119 of March 31, 1998), and Article 16 of the “Land Value Tax Act” (Act No. 69 of 1991). The Company executed calculation and reasonable adjustments using the above-mentioned method.

Date of revaluation:	March 31, 2000
The difference between the fair value of land at the end of fiscal year under review and its book value after revaluation:	-2,645 million yen

6. The Company has concluded commitment line contracts with its correspondent financial institutions to finance working capital efficiently.

The balance of unexecuted borrowings based on the commitment line contracts at the end of the fiscal year under review is as follows:

Total amount of commitment line contracts:	15,300 million yen
<u>Balance of borrowings outstanding:</u>	<u>4,000 million yen</u>
Balance:	11,300 million yen

7. Financial covenants

Financial covenants are attached to the above-mentioned commitment line contracts, and the Company may forfeit the benefit of term for all the borrowings provided based on these contracts if the Company should infringe any of the following clauses.

- (1) The Company shall maintain the amount calculated by deducting the total of subscription rights to shares, minority interests and deferred gains or losses on hedges from the total of net assets in the balance sheet (both on a consolidated and non-consolidated basis) at the end of each fiscal year at 75% or above of the larger of the amount calculated by deducting the total of subscription rights to shares, minority interests and deferred gains or losses on hedges from the total of net assets in the balance sheet at the end of fiscal year ended December 31, 2011 or the said amount at the end of the immediately preceding fiscal year.
- (2) The Company shall maintain the ratio of total amount of liabilities in the balance sheet (both on a consolidated and non-consolidated basis) at the end of each fiscal year to the amount calculated by deducting the total of subscription rights to shares, minority interests and deferred gains or losses on hedges from the total of net assets in the relevant balance sheet, at 150% or below.
- (3) The Company shall not post operating loss in the statement of income (both on a consolidated and non-consolidated basis) for each fiscal year for two consecutive periods.
- (4) The Company shall hold the amount calculated by deducting cash and deposits from the total of interest-bearing debt in the balance sheet (both on a consolidated and non-consolidated basis) at the end of each fiscal year so that the amount will not exceed the amount equivalent to five times as much as the total amount of net income

or loss and depreciation expenses in the statement of income (both on a consolidated and non-consolidated basis) for two consecutive periods.

Notes to Consolidated Statement of Changes in Shareholders' Equity

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

2. Total number of shares issued as of the end of the fiscal year under review

47,630,393 shares

3. Matters on dividends of surplus

(1) Dividends paid

Resolution	Class of stock	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on March 28, 2013	Common stock	433	10	December 31, 2012	March 29, 2013
Meeting of the Board of Directors held on July 25, 2013	Common stock	519	12	June 30, 2013	September 2, 2013

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

Proposal for Resolution	Class of stock	Financial funds of dividends	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders to be held on March 28, 2014	Common stock	Retained earnings	519	12	December 31, 2013	March 31, 2014

Notes on Financial Instruments

1. Policy on financial instruments

(1) Notes on the status of financial instruments

The Senshukai Group invests in safer financial assets centering on short-term deposits in management of its funds, and the Group finances short-term working capital mainly through borrowing from banks.

The Group also procures the necessary funds based on facility planning through borrowing from banks or issuing bonds. We conduct derivative transactions to avoid the risks described below and will not engage in speculative transactions.

(2) The details and risks of financial instruments and the risk control system

Notes and accounts receivable - trade and accounts receivable - other, which are operating receivables, are exposed to credit risk associated with nonperformance by customers. To manage this risk, the Company conducts due date control and balance management for each customer in accordance with the internal criteria for examination, and has established and now operates a system for credit management. The Company also carries out similar credit management for consolidated subsidiaries.

Investment securities are mainly securities of companies that have business relationships with the Company and are exposed to the risk of market price fluctuations and credit risk of issuers. However, the Company regularly keeps track of the share prices and financial conditions of the issuers, and intermittently reviews the shareholdings in consideration of its relationships with the business partners.

Notes and accounts payable - trade, electronically recorded obligations - operating, accounts payable - other, and accounts payable - factoring are operating debt with payment due within one year. Part of these are associated with import of merchandise and the like, and are denominated in foreign currency, which exposes them to the risk of foreign exchange fluctuations. Therefore, we use derivative transactions (forward exchange contracts) as hedging instruments.

Bonds payable and long-term loans payable are for financing funds necessary for working capital and capital expenditures, and their redemption dates are a maximum of two years and two months after the balance sheet date for bonds payable and five years and two months after the balance sheet date for long-term loans payable.

We conduct forward exchange contracts as derivative transactions with the aim of hedging against exchange rate fluctuations of foreign-currency-denominated operating debt in principle.

Operating debt and loans payable are exposed to liquidity risk, but the Senshukai Group is controlling liquidity risk by taking actions such as creating cash management

plans.

2. Matters on fair values, etc. of financial instruments

Consolidated balance sheet amounts, fair values as of December 31, 2013, and their differences are as follows. The amounts shown in the following table do not include financial instruments whose fair values are extremely difficult to determine (see Note 2).

	Consolidated balance sheet amount (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
(1) Cash and deposits	6,495	6,495	–
(2) Notes and accounts receivable - trade	6,395	6,395	–
(3) Accounts receivable - other	9,609	9,609	–
(4) Investment securities	6,093	6,093	–
Total assets	28,593	28,593	–
(5) Notes and accounts payable - trade	6,496	6,496	–
(6) Electronically recorded obligations - operating	6,204	6,204	–
(7) Short-term loans payable	4,000	4,000	–
(8) Accounts payable - other	6,602	6,602	–
(9) Accounts payable - factoring	8,494	8,494	–
(10) Bonds payable (*1)	1,850	1,873	23
(11) Long-term loans payable (*2)	7,200	7,232	31
Total liabilities	40,848	40,902	54
(12) Derivative transactions			
Hedge accounting adopted	2,062	2,062	–
Derivative transactions (*3)	2,062	2,062	–

*1. Bonds payable includes current portion of bonds (whose consolidated balance sheet amount is 700 million yen).

*2. Current portion of long-term loans payable, which is included in short-term loans payable in the consolidated balance sheet (whose consolidated balance sheet amount is 2,386 million yen), is included in long-term loans payable.

*3. The derivatives positions shown are net amounts. If the total net position of an item results in obligations, the amounts are shown in parentheses.

(Note 1) The measurement methods of fair values of financial instruments and notes on securities and derivative transactions

(1) Cash and deposits, (2) Notes and accounts receivable - trade, and (3) Accounts receivable - other

The book values are used as the fair values since these are settled in a short period of time

and their fair values are almost equal to their book values.

(4) Investment securities

To measure fair values of investment securities, prices at the exchange are used for stocks or the like and prices at the exchange as well as prices presented by the counterparty financial institutions or the like are used for debt securities.

(5) Notes and accounts payable - trade, (6) Electronically recorded obligations - operating, (7) Short-term loans payable, (8) Accounts payable - other, and (9) Accounts payable - factoring

The book values are used as the fair values since these are settled in a short period of time and their fair values are almost equal to their book values.

(10) Bonds payable

The fair values of fixed-rate bonds are measured using the present values of the total of principal and interest, discounted by the rate based on the remaining years and the credit risk of the bonds payable. The fair values of floating-rate bonds are measured using their book values as they reflect the market interest rate in a short period of time and their fair values are deemed to be almost equivalent to their book values.

(11) Long-term loans payable

The fair values of long-term fixed-rate loans are measured using the present values of the total of principal and interest, discounted by the rate assumed to be applied if new borrowings were taken out under the same conditions. The fair values of long-term floating-rate loans are measured using their book values as they reflect the market interest rate in a short period of time and their fair values are deemed to be almost equivalent to their book values.

(12) Derivative transactions

The fair values of derivatives are measured using the prices presented by the counterparty financial institutions.

(Note 2) Stocks of unconsolidated subsidiaries and associates (whose consolidated balance sheet amount is 858 million yen) and unlisted stocks (whose consolidated balance sheet amount is 562 million yen) are excluded from “(4) Investment securities” described above because they do not have market prices and it is deemed extremely difficult to determine the fair values.

Per Share Information

1. Net assets per share:	1,162.81 yen
2. Net income per share:	93.43 yen

Significant Subsequent Events

No applicable items

Non-consolidated Balance Sheet
As of December 31, 2013

	Millions of yen
	As of December 31, 2013
ASSETS	
Current Assets	
Cash and deposits	2,889
Notes receivable - trade	213
Accounts receivable - trade	5,609
Merchandise and finished goods	21,033
Raw materials and supplies	89
Prepaid expenses	2,472
Deferred tax assets	381
Short-term loans receivable	665
Accounts receivable - other	9,990
Forward exchange contracts	2,062
Other	1,334
Allowance for doubtful accounts	-308
Total Current Assets	46,432
Non-current Assets	
Property, Plant and Equipment:	
Buildings	8,728
Structures	226
Machinery and equipment	545
Vehicles	1
Tools, furniture and fixtures	673
Land	11,026
Total Property, Plant and Equipment	21,201
Intangible Assets:	
Software	2,797
Other	664
Total Intangible Assets	3,461
Investments and Other Assets	
Investment securities	6,655
Shares of subsidiaries and associates	6,863
Long-term loans receivable	2,699
Long-term prepaid expenses	9
Other	4,733
Allowance for doubtful accounts	-358
Allowance for investment loss	-282
Total Investments and Other Assets	20,320
Total Non-current Assets	44,984
Total Assets	91,417

	Millions of yen
	As of December 31, 2013
LIABILITIES	
Current Liabilities	
Notes payable - trade	51
Electronically recorded obligations - operating	6,204
Accounts payable - trade	5,489
Short-term loans payable	4,000
Current portion of bonds	700
Current portion of long-term loans payable	2,008
Accounts payable - other	5,942
Accounts payable - factoring	8,494
Accrued expenses	1,332
Income taxes payable	294
Deposits received	670
Provision for directors' bonuses	30
Provision for sales promotion expenses	579
Other	304
Total Current Liabilities	36,103
Non-current Liabilities	
Bonds payable	1,150
Long-term loans payable	4,097
Lease obligations	100
Deferred tax liabilities	316
Deferred tax liabilities for land revaluation	631
Asset retirement obligations	60
Total Non-current Liabilities	6,355
Total Liabilities	42,458
NET ASSETS	
Shareholders' Equity	
Capital stock	20,359
Capital surplus	
Legal capital surplus	12,864
Other capital surplus	8,174
Total capital surplus	21,038
Retained earnings	
Legal retained earnings	1,118
Other retained earnings	
Reserve for advanced depreciation of non-current assets	59
Reserve for overseas investment loss	33
Retained earnings brought forward	13,793
Total other retained earnings	13,886
Total retained earnings	15,005
Treasury shares	-2,776
Total Shareholders' Equity	53,626
Valuation and Translation Adjustments	
Valuation difference on available-for-sale securities	774
Deferred gains or losses on hedges	1,278
Revaluation reserve for land	-6,720
Total Valuation and Translation Adjustments	-4,667
Total Net Assets	48,959
Total Liabilities and Net Assets	91,417

Non-consolidated Statement of Income
For fiscal year ended December 31, 2013

	Millions of yen
	For fiscal year ended December 31, 2013
Net sales	126,483
Cost of sales	66,277
Gross profit	60,206
Selling, general and administrative expenses	57,233
Operating income	2,973
Non-operating income	890
Interest and dividend income	246
Foreign exchange gains	99
Gain on adjustment of account payable	258
Other	285
Non-operating expenses	229
Interest expenses	137
Other	91
Ordinary income	3,634
Extraordinary income	54
Gain on sales of non-current assets	3
Gain on sales of investment securities	51
Extraordinary loss	941
Loss on sales and retirement of non-current assets	637
Impairment loss	214
Other	89
Income before income taxes	2,747
Income taxes - current	-30
Income taxes - deferred	-435
Net income	3,214

Non-consolidated Statement of Changes in Shareholders' Equity
For fiscal year ended December 31, 2013

(Millions of yen)

	Shareholders' Equity										
	Capital Stock	Capital Surplus			Retained Earnings					Treasury Shares	Total Shareholders' Equity
		Legal Capital Surplus	Other Capital Surplus	Total Capital Surplus	Legal Retained Earnings	Other Retained Earnings			Total Retained Earnings		
						Reserve for Advanced Depreciation of Non-current Assets	Reserve for Overseas Investment Loss	Retained Earnings Brought Forward			
Balance as of January 1, 2013	20,359	12,864	8,174	21,038	1,118	62	37	11,846	13,064	-2,775	51,687
Changes of items during the fiscal year under review											
Reversal of reserve for advanced depreciation of non-current assets						-2		2	—		—
Reversal of reserve for overseas investment loss							-4	4	—		—
Dividends of surplus								-952	-952		-952
Net income								3,214	3,214		3,214
Purchase of treasury shares										-0	-0
Disposal of treasury shares			0	0						0	0
Reversal of revaluation reserve for land								-321	-321		-321
Net changes of items other than shareholders' equity											
Total changes of items during the fiscal year under review	—	—	0	0	—	-2	-4	1,946	1,940	-0	1,939
Balance as of December 31, 2013	20,359	12,864	8,174	21,038	1,118	59	33	13,793	15,005	-2,776	53,626

(Millions of yen)

	Valuation and Translation Adjustments				Total Net Assets
	Valuation Difference on Available-for-sale Securities	Deferred Gains or Losses on Hedges	Revaluation Reserve for Land	Total Valuation and Translation Adjustments	
Balance as of January 1, 2013	-578	438	-7,041	-7,181	44,505
Changes of items during the fiscal year under review					
Reversal of reserve for advanced depreciation of non-current assets					—
Reversal of reserve for overseas investment loss					—
Dividends of surplus					-952
Net income					3,214
Purchase of treasury shares					-0
Disposal of treasury shares					0
Reversal of revaluation reserve for land					-321
Net changes of items other than shareholders' equity	1,353	839	321	2,513	2,513
Total changes of items during the fiscal year under review	1,353	839	321	2,513	4,453
Balance as of December 31, 2013	774	1,278	-6,720	-4,667	48,959

Notes to Non-consolidated Financial Statements

Principal accounting policies

1. Valuation criteria and methods of assets

(1) Securities

Stocks of subsidiaries and associates are stated at moving-average cost. Securities classified as other securities with available fair market prices are stated at market price based on the market prices at the end of the fiscal year (Net unrealized gains and losses are included in net assets; cost of securities sold is determined by the moving-average method). Securities classified as such without available fair market prices are stated at moving-average cost.

(2) Derivatives

Stated at fair value.

(3) Inventories

Mainly stated at cost based on the monthly gross average method (with carrying value in the non-consolidated balance sheet written down in accordance with the declining of profitability of assets).

2. Depreciation method of non-current assets

(1) Property, plant and equipment (excluding leased assets):

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

The main useful lives are as follows:

Buildings: 38–50 years

Machinery and equipment: 12 years

(2) Intangible assets (excluding leased assets):

Amortization of intangible assets is computed using the straight-line method. Software for internal use is amortized based on a useful life of five years decided by internal regulations.

(3) Leased assets:

Depreciation of leased assets is computed using the straight-line method with zero residual value assuming the lease periods as useful lives.

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 credit loss ratio based on past experience, 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) Allowance for investment loss

The allowance for investment loss is provided to cover losses on investments in subsidiaries and associates. The amount required is determined in consideration of financial conditions and collectability of the relevant subsidiaries and associates.

(3) Provision for directors' bonuses

Expected amount to be paid is recorded to cover expenditure of bonuses to directors and audit & supervisory board members.

(4) Provision for sales promotion expenses

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

4. Basis for recognizing revenues and expenses

Basis for recognition of revenues relating to finance leases

Revenues relating to finance leases are accounted for by allocating the total of the amount equivalent to interest over the lease period without recognizing sales.

5. Criteria for 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 non-consolidated balance sheet date, and any differences generated by this conversion are included in gains or losses.

6. Promotion expenses

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

7. Hedge accounting method

The Company adopts deferral hedge accounting.

8. Consumption taxes

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

9. Application of the consolidated tax payment system

The consolidated tax payment system is applied.

Notes to Changes in Accounting Policies

(Change in accounting policy that is difficult to distinguish from change in accounting estimate)

Following the revision of the Corporation Tax Act, the method for depreciating property, plant and equipment acquired by the Company on or after January 1, 2013, has been changed to the method pursuant to the provisions of the revised Act, effective from the fiscal year under review. The impact of this change on profit or loss in the fiscal year under review is immaterial.

Notes to Changes in Method of Presentation

(Matters related to non-consolidated balance sheet)

“Lease and guarantee deposits” (674 million yen in the fiscal year under review), which was presented as a separate item under “Investments and Other Assets” in the previous fiscal year, is included in “Other” under “Investments and Other Assets” in the fiscal year under review because it became insignificant in terms of amount.

The amount of “Lease and guarantee deposits” included in “Investments and Other Assets” in the previous fiscal year is 751 million yen.

(Matters related to non-consolidated statement of income)

1. “Gain on valuation of compound financial instruments” (45 million yen in the fiscal year under review), which was presented as a separate item under “Non-operating income” in the previous fiscal year, is included in “Other” under “Non-operating income” in the fiscal year under review because it became insignificant in terms of amount.

The amount of “Gain on valuation of compound financial instruments” included in “Non-operating income” in the previous fiscal year is 208 million yen.

2. “Bad debts expenses” (40 million yen in the fiscal year under review), which was presented as a separate item under “Extraordinary loss” in the previous fiscal year, is included in “Other” under “Extraordinary loss” in the fiscal year under review because it became insignificant in terms of amount.

The amount of “Bad debts expenses” included in “Extraordinary loss” in the previous fiscal year is 149 million yen.

Notes to Non-consolidated Balance Sheet

1. Amounts less than one million yen have been omitted.
2. Accumulated depreciation on property, plant and equipment

29,018 million yen

3. Guarantee obligation:

Guarantee for bank borrowings

Utilizers of employee housing loan 5 million yen

4. Short-term cash credit for subsidiaries and associates 1,320 million yen

Long-term cash credit for subsidiaries and associates 2,444 million yen

Short-term cash debt for subsidiaries and associates 72 million yen

5. The land for business use owned by the Company was revaluated under the “Act on Revaluation of Land” (Act No. 34 of March 31, 1998), and the “Act for Partial Revision of the Act on Revaluation of Land” (amended on March 31, 1999), and unrealized losses resulting from the revaluation were posted as “Revaluation reserve for land” in net assets, after deducting the related deferred tax liabilities.

The method of revaluation stipulated in Article 3, Paragraph 3 of the Act on Revaluation of Land:

The Director-General of the National Tax Administration Agency decided and announced a calculation method to determine the land value that will be the basis of tax value calculations for the land value tax, under Article 2, Item 4 of the “Order for Enforcement of the Act on Revaluation of Land” (Cabinet Order No. 119 of March 31, 1998), and Article 16 of the “Land Value Tax Act” (Act No. 69 of 1991). The Company executed calculation and reasonable adjustments using the above-mentioned method.

Date of revaluation: March 31, 2000

The difference between the fair value of land at the end of fiscal year under review and its book value after revaluation: -2,645 million yen

6. The Company has concluded commitment line contracts with its correspondent financial institutions to finance working capital efficiently.

The balance of unexecuted borrowings based on the commitment line contracts at the end of the fiscal year under review is as follows:

Total amount of commitment line contracts: 15,300 million yen

Balance of borrowings outstanding: 4,000 million yen

Balance: 11,300 million yen

7. Financial covenants

Financial covenants are attached to the above-mentioned commitment line contracts, and the Company may forfeit the benefit of term for all the borrowings provided based on these contracts if the Company should infringe any of the following clauses.

(1) The Company shall maintain the amount calculated by deducting the total of

subscription rights to shares, minority interests and deferred gains or losses on hedges from the total of net assets in the balance sheet (both on a consolidated and non-consolidated basis) at the end of each fiscal year at 75% or above of the larger of the amount calculated by deducting the total of subscription rights to shares, minority interests and deferred gains or losses on hedges from the total of net assets in the balance sheet at the end of fiscal year ended December 31, 2011 or the said amount at the end of the immediately preceding fiscal year.

- (2) The Company shall maintain the ratio of total amount of liabilities in the balance sheet (both on a consolidated and non-consolidated basis) at the end of each fiscal year to the amount calculated by deducting the total of subscription rights to shares, minority interests and deferred gains or losses on hedges from the total of net assets in the relevant balance sheet, at 150% or below.
- (3) The Company shall not post operating loss in the statement of income (both on a consolidated and non-consolidated basis) for each fiscal year for two consecutive periods.
- (4) The Company shall hold the amount calculated by deducting cash and deposits from the total of interest-bearing debt in the balance sheet (both on a consolidated and non-consolidated basis) at the end of each fiscal year so that the amount will not exceed the amount equivalent to five times as much as the total amount of net income or loss and depreciation expenses in the statement of income (both on a consolidated and non-consolidated basis) for two consecutive periods.

Notes to Non-consolidated Statement of Income

1. Amounts less than one million yen have been omitted.
2. Transaction with subsidiaries and associates

Sales:	396 million yen
Operating expense:	8,489 million yen
Non-operating transaction:	95 million yen

Notes to Non-consolidated Statement of Changes in Shareholders' Equity

1. Amounts less than one million yen have been omitted.
2. Number of treasury shares as of the end of the fiscal year under review:
4,321,851 common shares

Tax Effect Accounting

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

(Millions of yen)

(1) Current		(2) Non-current	
<u>Deferred tax assets</u>		<u>Deferred tax assets</u>	
Provision for sales promotion expenses	220	Loss on valuation of shares of subsidiaries and associates	491
Accrued bonuses	215	Amount exceeding the limit of tax depreciation	386
Loss on valuation of inventories	177	Loss on valuation of investment securities	147
Loss brought forward	166	Allowance for doubtful accounts	111
Other	335	Allowance for investment loss	100
Sub-total deferred tax assets	1,115	Other	273
Valuation allowance	(176)	Sub-total deferred tax assets	1,512
Total deferred tax assets	939	Valuation allowance	(1,119)
		Total deferred tax assets	392
 <u>Deferred tax liabilities</u>		 <u>Deferred tax liabilities</u>	
Deferred gains or losses on hedges	552	Valuation difference on available-for-sale securities	417
Other	5	Deferred gains or losses on hedges	230
Total deferred tax liabilities	557	Other	60
Net deferred tax assets	381	Total deferred tax liabilities	708
		Net deferred tax liabilities	316

2. Details of deferred tax liabilities for land revaluation

(Millions of yen)

<u>Deferred tax assets</u>	
Deferred tax assets for land revaluation	2,799
Valuation allowance	(2,799)
<u>Total deferred tax assets for land revaluation</u>	<u>—</u>
 <u>Deferred tax liabilities</u>	
Deferred tax liabilities for land revaluation	631
<u>Net deferred tax liabilities for land revaluation</u>	<u>631</u>

Related Party Transactions

Type	Company name	Ownership percentage of voting rights, etc.	Relationship	Nature of transactions	Transaction amount (Millions of yen)	Account items	Balance at end of fiscal year (Millions of yen)
Subsidiary	Dears Brain Inc.	Directly 100.0%	Interlocking of Directors, etc.	Loan of funds (Note)	600	Short-term loans receivable	661
				Collection of loans	671	Long-term loans receivable	2,140
				Receipt of interests	27	—	—

Transaction condition or policy for deciding transaction condition

Note: The interest rates of loans are rationally decided by taking into account market interest rates.

Per Share Information

1. Net assets per share: 1,130.48 yen
2. Net income per share: 74.21 yen

Significant Subsequent Events

No applicable items

Audit Report of Accounting Auditor on Consolidated Financial Statements (Certified Copy)

[English Translation of the Audit Report Originally Issued in the Japanese Language]

Audit Report of Independent Auditor

February 12, 2014

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

Ernst & Young ShinNihon LLC

Yutaka Matsumura (Seal)

Certified Public Accountant, Designated, Limited Liability and
Operating Partner

Kazuki Wadabayashi (Seal)

Certified Public Accountant, Designated, Limited Liability and
Operating Partner

We have audited the consolidated financial statements of Senshukai Co., Ltd. for the fiscal year from January 1, 2013 to December 31, 2013, comprising the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in shareholders' equity and notes to consolidated financial statements for the purpose of reporting under the provisions of Article 444, Paragraph 4 of the Corporation Act.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with corporate accounting standards generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit from an independent position. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected and applied depend on the auditor's judgment, based on the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers

internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used, the method of their application, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.

Conflicts of Interest

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

Audit Report of Accounting Auditor on Non-consolidated Financial Statements and
Accompanying Financial Schedule (Certified Copy)

[English Translation of the Audit Report Originally Issued in the Japanese Language]

Audit Report of Independent Auditor

February 12, 2014

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

Ernst & Young ShinNihon LLC

Yutaka Matsumura (Seal)

Certified Public Accountant, Designated, Limited Liability and
Operating Partner

Kazuki Wadabayashi (Seal)

Certified Public Accountant, Designated, Limited Liability and
Operating Partner

We have audited the non-consolidated financial statements of Senshukai Co., Ltd. for the 69th fiscal year from January 1, 2013 to December 31, 2013, comprising the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in shareholders' equity and notes to 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 Act.

Management's Responsibility for the Non-consolidated Financial Statements and the Accompanying Financial Schedule

Management is responsible for the preparation and fair presentation of the non-consolidated financial statements and the accompanying financial schedule in accordance with corporate accounting standards generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the non-consolidated financial statements and the accompanying financial schedule that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the non-consolidated financial statements and the accompanying financial schedule based on our audit from an independent position. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements and the accompanying financial schedule are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and the accompanying financial schedule. The procedures selected and applied depend on the auditor's judgment, based on the assessment of the risks of material misstatement of the non-consolidated financial statements and the accompanying financial schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements and the accompanying financial schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used, the method of their application, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements and the accompanying financial schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 accompanying financial schedule in every important point in accordance with the corporate accounting standards generally accepted in Japan.

Conflicts of Interest

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

Audit Report of Audit & Supervisory Board (Certified Copy)
[English Translation of the Audit Report Originally Issued in the Japanese Language]

Audit Report

The Audit & Supervisory Board has prepared this Audit Report upon deliberation based on the Audit Report created by each Audit & Supervisory Board Member regarding the performance by the Directors of their duties during the 69th fiscal year from January 1, 2013 to December 31, 2013, and hereby reports as follows:

1. Audit & Supervisory Board Members' and Audit & Supervisory Board's Auditing Methods and Contents

The Audit & Supervisory Board stipulated the auditing policies, share of assignment, etc., received reports from each Audit & Supervisory Board Member 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 Audit & Supervisory Board Members' auditing standards, auditing policies, share of assignment, and other matters stipulated by the Audit & Supervisory Board, each Audit & Supervisory Board Member communicated with the Directors, the Internal Auditing Department and other employees, and strived to maintain an 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; demanded explanations, as the occasion demanded; inspected important documents; and investigated the activities and assets of the head office and of other principal places of business. We verified the resolutions adopted by the Board of Directors regarding the maintenance of a system to assure that execution of duty by the Directors, as stated in the business report, complies with the laws and regulations and the Articles of Incorporation, and the maintenance of a system necessary to assure the appropriateness of other business activities of the corporation stipulated in Article 100, Paragraphs 1 and 3 of the Ordinance for Enforcement of the Corporation Act. We also regularly received reports from Directors and employees on the status of the establishment and operation of the system (internal control system) established in accordance with such resolutions adopted by the Board of Directors, demanded explanations, as the occasion demanded, and expressed our opinions.

Regarding internal control over financial reporting based on the Financial Instrument and Exchange Act, we received reports from the Directors of the Senshukai Group and Ernst & Young ShinNihon LLC about an evaluation of the relevant internal control and the status of audit, and requested an explanation thereby whenever necessary.

We examined the contents of the basic policy, specified in Item 3(a) of Article 118 of the Ordinance for Enforcement of the Corporation Act, and each effort in accordance with Item 3(b) 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 Audit & Supervisory Board Members, 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 matters listed in the items of Article 131 of the Corporate 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 non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in shareholders' equity and notes to non-consolidated financial statements) and accompanying financial schedule as well as the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in shareholders' equity and the notes to consolidated financial statements).

2. Results of Audit

(1) Results of audit on the business report

- 1) The business report and accompanying financial schedule are found to accurately present the status of the Company in conformity with the laws and 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, the descriptions in the business report and execution of duty by the Directors regarding the relevant internal control system are found to accurately present the matters to be stated therein and have nothing to be pointed out including the internal control system regarding financial reporting.
- 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 3(b) of Article 118 of the Ordinance for Enforcement of the Corporation Act, 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 Directors and Audit & Supervisory Board Members of the Company.

(2) Results of audit on the non-consolidated financial statements and accompanying financial schedule

The methods and results of the audit made by the Accounting Auditor, Ernst & Young ShinNihon LLC, an incorporated auditing firm, are found to be proper.

(3) Results of audit on the consolidated financial statements

The methods and results of the audit made by the Accounting Auditor, Ernst & Young ShinNihon LLC, an incorporated auditing firm, are found to be proper.

February 13, 2014

Audit & Supervisory Board, Senshukai Co., Ltd.

Standing Audit & Supervisory Board Member	Yoshihiro Nakabayashi (Seal)
Standing Audit & Supervisory Board Member	Makoto Yamamoto (Seal)
External Audit & Supervisory Board Member	Hideyuki Koizumi (Seal)
External Audit & Supervisory Board Member	Hiroshi Morimoto (Seal)

Reference Material for Ordinary General Meeting of Shareholders

Proposal 1: Appropriation of surplus

The Company's basic policy concerning the appropriation of surplus is to provide distribution of profit to shareholders, setting a dividend payout ratio of 30% as a target; provided, however, this is consistent with reinforcing the management base and at the same time maintaining stable dividend and distributing appropriate profit in accordance with earnings.

Under this policy, the year-end dividend for the fiscal year under review was set as follows.

(1) Type of dividend property

Cash

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

12 yen per share of common stock of the Company; the total amount of 519,702,504 yen

(3) Effective date of dividends of surplus:

March 31, 2014

The annual dividend will amount to 24 yen per share, including an interim dividend of 12 yen per share.

Proposal 2: Partial amendments to the Articles of Incorporation

1. Reasons for amendments

In order to respond to the diversification of its businesses, the Company proposes to add new items to the current Article 2 (Purpose) and renumber a current item upwards.

2. Details of the proposed amendments

Details of the proposed amendments are following:

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

Current Articles	Revised Articles proposed
<p>Article 2 (Purpose)</p> <p>The purpose of the Company shall be to engage in the following businesses:</p> <p>1. to (Description is omitted.)</p> <p>25. (Newly established)</p> <p>(Newly established)</p> <p>(Newly established)</p> <p><u>26.</u> Any other businesses incidental to each of the preceding items.</p>	<p>Article 2 (Purpose)</p> <p>The purpose of the Company shall be to engage in the following businesses:</p> <p>1. to (Unchanged)</p> <p>25.</p> <p><u>26. Any businesses related to the management of childcare centers and tutoring schools;</u></p> <p><u>27. Any businesses related to after-school childcare centers and meal provision operations;</u></p> <p><u>28. Sales of baby goods and toys;</u></p> <p><u>29.</u> Any other businesses incidental to each of the preceding items.</p>

Proposal 3: Election of nine (9) Directors

The terms of office of nine (9) Directors will expire at the conclusion of this meeting. We would like you to elect a total of nine (9) Directors.

The candidates for Directors are as follows.

No.	Name (Date of birth)	Brief personal profile, positions and responsibilities at the Company and important concurrent occupations or positions at other organizations	(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 Senior Managing Director of the Company Oct. 1991 Executive Vice-president and Director of the Company Apr. 1999 Executive Vice-president and Representative Director of the Company Apr. 2000 President and Representative Director of the Company Jan. 2011 Chairman and Representative Director of the Company (present position)	(1) 495,036 (2) None
2	Michio Tanabe (July 23, 1946)	Apr. 1967 Joined the Company Jun. 1997 Director of the Company Mar. 2001 Director and Executive Officer of the Company Mar. 2005 Managing Director of the Company Mar. 2008 Senior Managing Director of the Company Jan. 2011 President and Representative Director of the Company (present position)	(1) 13,500 (2) None
3	Shohachi Sawamoto (February 9, 1948)	Mar. 1972 Joined the Company Jun. 1997 Director of the Company Mar. 2001 Director and Executive Officer of the Company Mar. 2005 Managing Director of the Company Jan. 2011 Senior Managing Director and Executive Officer of the Company In charge of Belle Maison Business Division (EC Business Division, Catalogue Business Division, Product Development Division, Belle Maison Business Planning Department) of the Company Jan. 2013 In charge of Belle Maison Business Division (Sales Planning Division, Product Development Division, Belle Maison Business Planning Department) of the Company Jan. 2014 Senior Managing Director of the Company (present position)	(1) 19,430 (2) None

No.	Name (Date of birth)	Brief personal profile, positions and responsibilities at the Company and important concurrent occupations or positions at other organizations	(1) No. of the Company's shares held (2) Any conflict of interests between the candidate and the Company
4	Mamoru Asada (April 1, 1954)	<p>Mar. 1982 Joined the Company</p> <p>Mar. 2005 Executive Officer of the Company</p> <p>Mar. 2006 Director and Executive Officer of the Company</p> <p>Mar. 2008 Director and Managing Executive Officer of the Company</p> <p>Jan. 2009 Division Director of Project Division of the Company (present position)</p> <p>Jan. 2011 Managing Director and Executive Officer of the Company (present position) In charge of Monthly Business and Project Division (Monthly Business Division, Project Division) of the Company</p> <p>Jan. 2014 Representative of Tokyo Headquarters of the Company (present position)</p>	<p>(1) 13,700</p> <p>(2) None</p>
5	Hiroyuki Hoshino (December 10, 1959)	<p>Sep. 1982 Joined the Company</p> <p>Mar. 2006 Executive Officer of the Company</p> <p>Jan. 2008 Division Director of Tokyo Business Division of the Company</p> <p>Mar. 2009 Director and Executive Officer of the Company (present position)</p> <p>Jul. 2009 President and Representative Director of Pet First Co., Ltd.</p> <p>Dec. 2010 President and Representative Director of Mobakore Co., Ltd.</p> <p>Jan. 2011 Division Director of Business Development Division of the Company</p> <p>Jan. 2013 General Manager of Corporate Development Division of the Company (present position)</p>	<p>(1) 5,100</p> <p>(2) None</p>
*6	Koichi Sugiura (November 5, 1958)	<p>Mar. 1981 Joined the Company</p> <p>Jul. 2005 General Manager in charge of Living Product Development and General Manager in charge of Product Control of Living Development Department of the Company</p> <p>Jan. 2008 General Manager of SCM Department of Lifestyle Business Division of the Company</p> <p>Jan. 2009 Executive Officer of the Company (present position) Division Director of Lifestyle Business Division, General Manager of Fabric Development Department and General Manager of Furniture Development Department of Lifestyle Business Division of the Company</p> <p>Jan. 2011 Division Director of Product Development Division of the Company</p> <p>Jan. 2014 Division Director of Sales Planning Division of the Company (present position)</p>	<p>(1) 3,000</p> <p>(2) None</p>

No.	Name (Date of birth)	Brief personal profile, positions and responsibilities at the Company and important concurrent occupations or positions at other organizations	(1) No. of the Company's shares held (2) Any conflict of interests between the candidate and the Company
*7	Kazuhisa Masutani (August 1, 1957)	<p>Dec. 1983 Joined the Company</p> <p>Jul. 2006 General Manager in charge of Living Style Development of Living Development Department of the Company</p> <p>Jan. 2008 General Manager of Planning Department and General Manager of Fabric Development Department of Lifestyle Business Division of the Company</p> <p>Jan. 2009 Executive Officer of the Company (present position) Deputy Division Director of Lifestyle Business Division and General Manager of Business Planning Department of Lifestyle Business Division of the Company</p> <p>Jan. 2011 Division Director of Catalogue Business Division of the Company</p> <p>Jan. 2012 Division Director of Catalogue Business Division and Division Director of EC Business Division of the Company</p> <p>Jan. 2013 Division Director of Sales Planning Division of the Company</p> <p>Jan. 2014 Division Director of Lifestyle Business Division of the Company (present position)</p>	<p>(1) 4,900</p> <p>(2) None</p>
8	Tomoko Oishi (November 8, 1954)	<p>Apr. 1977 Joined Yamaha Music Foundation</p> <p>Feb. 1988 Joined Yokohama Women's Association for Communication and Networking</p> <p>Jun. 1997 Joined Japan Association for The Advancement of Working Women</p> <p>Apr. 2001 Professor of Kyoto Gakuen University, Faculty of Business Administration (present position)</p> <p>Mar. 2006 Director of the Company (present position)</p> <p>Apr. 2011 Dean of Kyoto Gakuen University, Faculty of Business Administration</p>	<p>(1) 0</p> <p>(2) None</p>
9	Toshikatsu Sano (July 12, 1945)	<p>Jun. 1969 Joined Mitsui Bank (presently, Sumitomo Mitsui Banking Corporation)</p> <p>Jun. 1997 Director and General Manager of Fund and Securities Planning Department of Sakura Bank (presently, Sumitomo Mitsui Banking Corporation)</p> <p>Apr. 2000 Managing Executive Officer and General Manager of Nagoya Branch of Sakura Bank (presently, Sumitomo Mitsui Banking Corporation)</p> <p>Apr. 2001 Managing Executive Officer of Mitsui Mutual Life Insurance Company (presently, MITSUI LIFE INSURANCE COMPANY LIMITED)</p> <p>Jul. 2001 Director and Managing Executive Officer of Mitsui Mutual Life Insurance Company (presently, MITSUI LIFE INSURANCE COMPANY LIMITED)</p> <p>Jun. 2005 President of SMBC Consulting Co., Ltd.</p> <p>Mar. 2008 Director of the Company (present position)</p>	<p>(1) 0</p> <p>(2) None</p>

Notes:

1. Candidates with an asterisk (*) prefixing their number are new candidates for Directors.
2. Tomoko Oishi and Toshikatsu Sano are the candidates for External Directors.
3. We request the election of Tomoko Oishi as we believe she 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.

4. Tomoko Oishi and Toshikatsu Sano are currently External Directors of the Company, and their terms of office as External Directors will reach eight (8) years and six (6) years, respectively at the conclusion of this meeting.
5. The Company has concluded agreements with Tomoko Oishi and Toshikatsu Sano to limit their liabilities for compensation as stipulated in Article 427, Paragraph 1 of the Corporation Act, based on the provisions of the Articles of Incorporation. If their reelection is approved, we plan to continue the agreements. The limit of liabilities for compensation under the relevant agreement is the minimum amount stipulated in laws and regulations.
6. The Company has notified Tomoko Oishi as an Independent Director as prescribed by the Financial Instruments Exchange. If she is reelected, we plan to maintain her position as Independent Director.

Proposal 4: Election of one (1) Audit & Supervisory Board Member

The term of office of Audit & Supervisory Board Member Hiroshi Morimoto will expire at the conclusion of this meeting. We would like you to elect one (1) Audit & Supervisory Board Member.

Prior to our proposal of this item, we have already obtained the consent of the Audit & Supervisory Board.

The candidate for Audit & Supervisory Board Member is as follows.

Name (Date of birth)	Brief personal profile, positions at the Company and important concurrent occupations or positions at other organizations	(1) No. of the Company's shares held (2) Any conflict of interests between the candidate and the Company
Hiroshi Morimoto (July 13, 1960)	Apr. 1987 Registered as attorney (Osaka Bar Association), joined Kitahama Partners Jan. 1992 Partner of Kitahama Partners Jun. 1995 External Audit & Supervisory Board Member of Japan Cash Machine Co., Ltd. (present position) Mar. 2006 Audit & Supervisory Board Member of the Company (present position) Jan. 2008 Representative member of Kitahama Partners L.P.C. (present position) Apr. 2010 Vice President of Osaka Bar Association Jul. 2013 CEO of Kitahama Partners L.P.C. Group (present position)	(1) 0 (2) None

Notes:

1. Hiroshi Morimoto is a candidate for External Audit & Supervisory Board Member.
2. Although Hiroshi Morimoto has not directly taken part in corporate management, we expect that he will make the best use of his knowledge and insight as an attorney for compliance management of the Company, which is growing in importance, from the professional point of view of an attorney.
3. Hiroshi Morimoto is currently External Audit & Supervisory Board Member of the Company, and his term of office as Audit & Supervisory Board Member will reach eight (8) years at the conclusion of this meeting.
4. The Company has concluded the agreement with Hiroshi Morimoto to limit his liability for compensation as stipulated in Article 427, Paragraph 1 of the Corporation Act, based on the provisions of the Articles of Incorporation. If his reelection is approved, we plan to continue the agreement. The limit of liability for compensation under the relevant agreement is the minimum amount stipulated in laws and regulations.
5. The Company has notified Hiroshi Morimoto as an Independent Auditor as prescribed by the Financial Instruments Exchange. If he is reelected, we plan to maintain his position as Independent Auditor.

Proposal 5: Election of one (1) substitute Audit & Supervisory Board Member

To provide for a case in which the number of Audit & Supervisory Board Members falls short of the number stipulated by laws and regulations, we would like you to elect one (1) substitute Audit & Supervisory Board Member in advance pursuant to Article 329, Paragraph 2 of the Corporation Act.

Prior to our proposal of this item, we have already obtained the consent of the Audit & Supervisory Board.

The candidate for substitute Audit & Supervisory Board Member is as follows.

Name (Date of birth)	Brief personal profile and important concurrent occupations or positions at other organizations	(1) No. of the Company's shares held (2) Any conflict of interests between the candidate and the Company
Kouichi 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, Representative of the Office (present position) Jan. 1989 Established Mass Management Co., Ltd., President of Mass Management Co., Ltd. (present position)	(1) 0 (2) None

Notes:

1. Kouichi Masui is a candidate for substitute External Audit & Supervisory Board Member.
2. We nominated Kouichi Masui as substitute External Audit & Supervisory Board Member as we expect that he 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 takes office as an Audit & Supervisory Board Member.
3. We may cancel this election by a resolution of the Board of Directors after obtaining the consent of the Audit & Supervisory Board, if the cancellation is before he takes office.
4. If Kouichi Masui is elected, and takes his office as Audit & Supervisory Board Member, we plan to conclude an agreement with him to limit his liability for compensation as stipulated in Article 427, Paragraph 1 of the Corporation Act, based on the provisions of the Articles of Incorporation. The limit of liability for compensation under the relevant agreement is the minimum amount stipulated in laws and regulations.

Proposal 6: 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 (a countermeasure against takeovers)” with the approval of shareholders at the 62nd Ordinary General Meeting of Shareholders held on March 29, 2007, as a countermeasure against takeovers in ordinary times. Then, the Company continued with the “Policy toward Large-scale Purchases of Shares of the Company (a countermeasure against takeovers)” (hereinafter referred to as the “prevailing plan”) after obtaining the approval of shareholders at the 63rd Ordinary General Meeting of Shareholders and the 66th Ordinary General Meeting of Shareholders, for its partial revision and continuation. The effective period of the prevailing plan lasts to the end of the 69th Ordinary General Meeting of Shareholders to be held on March 28, 2014 (hereinafter referred to as “the general meeting”). In consideration of various developments surrounding countermeasures against takeovers, the Company thereafter continued to examine the appropriate countermeasures against takeovers in ordinary times. As a result, the Company decided 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 the common interests of shareholders, to prevent any attempts at abusive acquisitions targeting the Company, on condition that it is approved by shareholders at the general meeting (hereinafter, the revised plan shall be referred to as “the plan”). At the Board of Directors’ Meeting, which decided to continue the plan, all of the four Audit & Supervisory Board Members (including two External Audit & Supervisory Board Members) stated their opinions regarding approval of the plan on the condition that it will be operated appropriately. As an effort to maximize the corporate value, the Company changed the term of the management plan from a three-year Medium-term Management Plan to a five-year Medium- to Long-term Management Plan, beginning in fiscal 2014. However, we made no change to the plan’s basic scheme.

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 purchases of shares 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 purchases may effectively force shareholders to sell their shares; may provide insufficient time and information to be given for the Board of Directors and shareholders of the target company to examine the large-scale purchase of shares, or for the Board of Directors of the target company to present alternative proposals; and may require the target company 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 Senshukai Group has developed new Medium- to Long-term Management Plan “Innovate for Smiles 2018,” covering five fiscal years from January 2014 to December 2018.

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- to Long-term Management Plan. We believe that CSR (Corporate Social Responsibility) and compliance (compliance with laws and regulations) will be increasingly necessary for companies. 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- to Long-term Management Plan

The Senshukai Group will establish a unique and firm position in the mail-order market, which is expected to continue to grow, and actively operate new businesses that are in line with the corporate vision, “Woman Smile Company.”

We established the following four policies as a basic policy for the Medium- to Long-term Management Plan:

1) Mail-order Business

i) Customer strategy

We will expand our customer base by approaching the “career generation,” which is made up of working women who are actively involved in business activities, and “active women in their 50s,” who are expected to become important customers, in addition to the “pregnancy-delivery-child-raising generation” in their 30s to 40s, our present major customers.

ii) Merchandise strategy

To differentiate from mall-type large EC operators, we will strengthen the development of our own “original merchandise brands.” Furthermore, we will enhance profitability by strengthening and expanding “SPA (Specialty store retailer of Private label Apparel)-type merchandise,” for which a company independently controls the process from planning to manufacture and retail.

iii) Sales channel strategy

We will shift from the conventional channel mix strategy, in which customers buy products based on catalogues, to the omni-channel strategy, in which customers examine our own original merchandise brands and buy products. Under the new strategy, we will build a structure designed to enable customers to buy our products through all channels, including mobiles, PCs and outlets, and make them fans of our products.

iv) Fulfillment strategy

We will enhance convenience for our customers and improve the efficiency of operational costs by aggressively making investments related to IT systems and logistics. Furthermore, we will strengthen “services for individual customers,” by taking into account their needs and the characteristics of the merchandise.

2) Bridal Business

We will expand sales of the bridal business by continuously investing in wedding halls through Dears Brain Inc., a subsidiary that operates the bridal business centering on house wedding, and launching new urban and suburban wedding halls and renovating existing halls. At the same time, we will review our promotion activities and improve merchandise costs, aiming to enhance profitability.

3) Corporate Business

We will expand the corporate business, centering on mail order-related “contract operations,” which have increased with the expansion of the EC market. Furthermore, we will improve profitability of this business by raising the specialization of sales and advertising operations.

4) New Businesses

We will proactively conduct new businesses, mainly those which are expected to generate synergy from the combination with the mail-order business, the Company’s core business. In particular, we will focus on the “childcare-related business” that is closely related to the child-raising generation, our major customers.

3. Profit distribution policy

The Company’s basic policy is to reinforce the management base and at the same time

maintain stable dividend and distribute appropriate profit to shareholders in accordance with earnings, in consideration of the dividend payout ratio.

As our policy for distributing profit to shareholders, we have set a dividend payout ratio of 30% as a target and strive to provide profit distribution on a continuing basis.

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, common interests of shareholders, in line with the basic policy stated in I. above.

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 by extension, 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, collectively referred to 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 continue the plan.

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 Article 27-23, Paragraph 1 of the Financial Instruments and Exchange Act. The same shall apply unless otherwise provided for hereinafter.
- Note 2: Shareholders as stipulated in Article 27-23, Paragraph 3 of the Financial Instruments and Exchange Act. The same shall apply unless otherwise provided for hereinafter.
- Note 3: The ratio of shareholding as stipulated in Article 27-23, Paragraph 4 of the Financial Instruments and Exchange Act. The same shall apply unless otherwise provided for hereinafter.
- Note 4: Stocks as stipulated in Article 27-2, Paragraph 1 of the Financial Instruments and Exchange Act. The same shall apply hereinafter in 2) above.
- Note 5: Tender offer as stipulated in Article 27-2, Paragraph 6 of the Financial Instruments and Exchange Act. The same shall apply unless otherwise provided for hereinafter.
- Note 6: The ratio of shareholding as stipulated in Article 27-2, Paragraph 8 of the Financial Instruments and Exchange Act. The same shall apply unless otherwise provided for hereinafter.
- Note 7: Special interested parties as stipulated in Article 27-2, Paragraph 7 of the Financial Instruments and Exchange Act. Note, however, that those listed in Article 27-2, Paragraph 7, Item 1 of the Financial Instruments and Exchange Act excludes those stipulated in Article 3, Paragraph 1 of the Cabinet 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 to 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 intention. 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 laws and regulations 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. However, the period for the purchaser or similar party to reply to the request for information (hereinafter, referred to as “the period of providing information”) is set to a maximum of 60 days commencing from the sending date of the list of the necessary information. If such necessary information is insufficient and if the period of providing information is expired, we shall terminate correspondence related to providing information with the purchaser and similar party and comply with the procedure as specified in (3) below.

The fact that the letter of intention was submitted and the information provided to the Company shall be entirely or partially disclosed, at the right point in time, 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 by the Board of Directors of the Company

Based on (2) above, and if the Special Committee approves the information the Board of Directors of the Company requested is sufficient or if the period of providing information expires, the Board of Directors of the Company shall set a period (hereinafter, referred to as “the evaluation period”) and disclose information promptly in accordance with 1) or 2) below, depending on the details of such purchase, as a grace period for the Board of Directors 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.

- 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 of the Company 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 of the Company and common interests of the shareholders.

If the Board of Directors of the Company does not decide upon whether or not to implement the plan during the evaluation period, then in accordance with its resolution, 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. (Note, however, that the evaluation period shall be, including extension, the maximum of 120 days, with no additional extension.) 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 to secure objectivity and rationality of decisions by the Board of Directors of the Company with regard to of discussion and negotiation with the purchaser or similar party, and extension of the evaluation period as specified in (3) above, and the appropriateness of the reasons of implementation as specified in (b) below.

In compliance with the procedures specified in the Special Committee Rules , 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, attorneys, and certified public accountants) who are independent third parties at the expense of the Company, to ensure that its decision shall contribute to the corporate value and 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 1.

- 1) Those who have not served as Directors (excluding External Directors; the same shall apply hereinafter) or Audit & Supervisory Board Members (excluding External Audit & Supervisory Board Members; the same shall apply hereinafter) of the Company, its subsidiaries or associates (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 Audit & Supervisory Board Members 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, attorneys, certified public 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 comply with 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 or similar party 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 or similar party applies for a 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), 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 be allowed to make independent decision anew 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.

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 to the Board of Directors 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 to the Board of Directors 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) above and make final decision on the 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 subscription rights to shares granted free of charge (hereinafter, referred to as “the subscription rights to shares”), described in Appendix 2: Summary of allotments of subscription rights to shares granted free of charge.

The main details of the subscription rights to shares are as follows:

(a) Target shareholders of allocation of the subscription rights to shares

The Company shall allocate one unit of the subscription rights to shares per share of stocks held (excluding the shares of the Company held by the Company) to the shareholders who are recorded in the final register of 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 subscription rights to shares (hereinafter, referred to as “the resolution on the issuance of the subscription rights to shares”).

- (b) Class and number of shares to be issued upon exercising the subscription rights to shares

Class of share is common stock of the Company, and one share of common stock of the Company shall be issued per unit of the subscription rights to shares unless adjusted otherwise.

- (c) Total number of the subscription rights to shares

Total number of final shares outstanding on the allocation date shall be the maximum number of the total number of subscription rights to shares 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 subscription rights to shares

The amount to be paid upon exercising the subscription rights to shares shall be 1 yen per share.

- (e) Exercise period of the subscription rights to shares

The exercise period of the subscription rights to shares shall be the period between three weeks elapsed after the effective date of the allotment of the subscription rights to shares 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 subscription rights to shares

Only those holders of the subscription rights to shares who shall not fall into any of the following shall be allowed to exercise the subscription rights to shares: 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 subscription rights to shares from those listed in a) through d) above without approval by 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 collectively referred to 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 subscription rights to shares shall not exercise them in principle. For definitions of the terms and details used above, please refer to Appendix 2: Summary of allotments of subscription rights to shares granted free of charge.

(g) Acquisition of the subscription rights to shares

- 1) If the Board of Directors of the Company acknowledges that acquisition of the subscription rights to shares by the Company is appropriate, the Company may acquire all the subscription rights to shares granted free of charge on the day specified by the Board of Directors of the Company between the day allotment of the subscription rights to shares granted free of charge takes effect and the day the period of exercise of the subscription rights to shares expires.
- 2) The Company may acquire, on the day separately specified by the Board of Directors of the Company, all the subscription rights to shares that are held by persons other than ineligible parties and that are 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 subscription right to shares. The Company may carry out acquisition of such subscription rights to shares, if a third party other than ineligible parties get the subscription rights to shares by transfer from ineligible parties after the Company's enforcement of acquisition.

(h) Transfer of the subscription rights to shares

The approval of the Board of Directors of the Company is required to transfer the subscription rights to shares.

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

The expiration date of the plan shall be at the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ending December 31, 2016. Note, however, that if the agenda for abolishing the plan is approved at the General Meeting of Shareholders of the Company, even prior to the end of the expiration date, or if the Board of Directors comprised of Directors, who are elected 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 Act, the Company may review or modify the plan as the need arises from the viewpoint of ensuring and increasing the corporate value and common interests of shareholders.

If the plan is abolished or modified, 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. above)

Each effort stated in II. above 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. above)

(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, 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 of the Company nor are aimed at maintaining the status of corporate directors of the Company.

(a) Ensure that the requirements of guidelines and implementation with regard to the countermeasures against takeovers 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 and it also satisfies the details of "Takeover

Defense Measures in Light of Recent Environmental Changes,” released by the Corporate Value Study Group of the Ministry of Economy, Trade and Industry on June 30, 2008.

- (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 elected at the General Meeting of Shareholders of the Company, the plan shall be abolished at that point. In this sense, introduction and abolition of the 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 takeovers in reference to the analysis of judicial precedents in Japan as well as the aforementioned “guidelines.”

- (d) Establishing Special Committee

The Company has separately established a Special Committee to secure objectivity and rationality of decisions by the Board of Directors of the Company with regard to of discussion and negotiation with the purchaser or similar party, and extension of the evaluation period, and the appropriateness of the 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 of the Company. In addition, it shall be allowed to obtain the advice of experts (such as financial advisors, attorneys and

certified public accountants) who are independent third parties at the expense of the Company.

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 of the Company. The Board of Directors of the Company shall place prime importance on the recommendation 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 elected 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 General Meeting of Shareholders 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 subscription rights to shares 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 subscription rights to shares

If the Board of Directors of the Company decides to implement the plan and resolves to issue the subscription rights to shares through allotment of subscription rights to shares granted free of charge, one unit of the subscription rights to shares per share of stocks

held shall be allocated free of charge to shareholders who are recorded in the final register of shareholders as of the allocation date specified by the relevant resolution. If shareholders do not pay and do not perform other procedures written below (3. Procedures required of shareholders following the issuance of the subscription rights to shares (2) Procedures for exercising the subscription rights to shares) by the end of the exercise period, shares of those shareholders shall be diluted by exercise of the subscription rights to shares by other shareholders. And the Company may get the subscription rights to shares from shareholders other than ineligible parties and grant them shares of the Company instead by procedures written below (3. Procedures required of shareholders following the issuance of the subscription rights to shares (3) Procedures for acquiring the subscription rights to shares). In the case the Company takes the procedure, the shareholders other than ineligible parties get shares of the Company without exercising the subscription rights to shares or paying equivalent to exercising the subscription rights to shares, 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 cancel or withdraw 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 subscription rights to shares

(1) If the Board of Directors of the Company decides to implement the plan and resolves to issue the subscription rights to shares through the allotment of the subscription rights to shares granted free of charge, it shall determine the allocation date and announce it publicly.

(2) Procedures for exercising the subscription rights to shares

The Company shall send the subscription rights to shares 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 subscription rights to shares to shareholders who are recorded in the final register of shareholders on the allocation date. Shareholders shall be required to submit these necessary documents by the end of the exercise period, separately specified by the Board of Directors of the Company, and pay 1 yen per unit of the subscription rights to shares to the payment handling agent to have one share of common stock of the Company issued per unit of the subscription rights to shares.

(3) Procedures for acquiring the subscription rights to shares

If the Company decides that the subscription rights to shares 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 subscription rights to shares on the day separately specified by the Board of Directors of the Company.

If the Company acquires the subscription rights to shares from shareholders other than ineligible parties and grants the Company's common shares in exchange for the subscription rights to shares, the shareholders shall receive one common share of the Company in consideration of acquisition of such subscription rights to shares without paying money equivalent to the exercise price. In this case, therefore, the Company shall not send the subscription rights to shares 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.

[Appendix 1]

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

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

2002: Assumed Vice Chairman of Fair Trade Institute (Standing Director)

2004: Assumed Professor of Humanities and Social Sciences at Jissen Women's University

2005: Assumed External Corporate Auditor of Onward Kashiwama Co., Ltd. (present position)

Assumed External Director of Daiichi Sankyo Company, Limited

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

2007: Assumed External Corporate Auditor of Onward Holdings Co., Ltd. (present position)

2008: Trustee of Yokohama City University (present position)

Toshio Kobayashi: Born in 1960

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

1991: Earned a doctoral degree in Economics at Osaka University

2003: Assumed Professor of 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 attorney (Osaka Bar Association)

Joined Kitahama Partners

1992: Promoted to Partner of Kitahama Partners

1995: Assumed External Audit & Supervisory Board Member of Japan Cash Machine Co., Ltd. (present position)

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

Assumed External Audit & Supervisory Board Member of the Company (present position)

2008: Assumed representative member of Kitahama Partners L.P.C. (present position)

2010: Vice President of Osaka Bar Association

2013: CEO of Kitahama Partners L.P.C. Group (present position)

[Appendix 2]

Summary of allotments of subscription rights to shares granted free of charge

(a) Details of the subscription rights to shares

(1) Class and number of shares subject to the subscription rights to shares

- 1) The class of shares subject to the subscription rights to shares shall be the Company's common shares.
- 2) The number of the Company's common shares to be granted in exchange of acquiring the subscription rights to shares (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 the subscription rights to shares is as 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 subscription rights to shares.
- 3) The number of the Company's common shares to be issued by acquiring or exercising each of these subscription rights to shares (hereafter referred to as "number of applicable shares") shall be one share. Note that if the Company splits or consolidates shares, the number of applicable shares shall be adjusted according to the following formula:

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

Such an adjustment shall be made only for shares with respect to the subscription rights to shares 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 applicable shares based on the reasons for adjustment of the number of applicable shares occurred afterward, the number of 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 to be contributed upon exercising the subscription rights to shares

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

- (3) The bank handling payment upon exercising the subscription rights to shares and the payment handling agent

To be determined by the Board of Directors of the Company with a resolution to issue the subscription rights to shares.

- (4) Exercise period of the subscription rights to shares

The exercise period of the subscription rights to shares shall be the period between three weeks elapsed after the effective date of the allotment of the subscription rights to shares granted free of charge stated in (d) below 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.

- (5) Items regarding the capital and the capital reserve to be increased when issuing shares upon exercising the subscription rights to shares

In case of issuing common shares of the Company upon exercising the subscription rights to shares, the entire amount of the 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 the subscription rights to shares

The approval of the Board of Directors of the Company is required to transfer the subscription rights to shares.

- (7) Acquisition of the subscription rights to shares

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

2) The Company may acquire, on the day separately specified by the Board of Directors of the Company, all the subscription rights to shares that are held by persons other than ineligible parties defined in (e) (1) below and that are 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 subscription right to share. The Company may carry out such acquisition of the subscription rights to shares plural times.

- (8) Takeover of obligations for subscription rights to shares 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 the subscription rights to shares that have not been acquired or exercised or redeemed as of the relevant point of time may be handed over to the following entities based on the decision policies stated below: 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 is 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 splitting company as a result of the relevant merger split (hereafter referred to as the “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 the stock transfer” in the event of a stock exchange or a stock transfer. The above six entities are hereafter collectively referred to as “company that continues to exist”). 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 subscription rights to shares in each case.

- 1) Class of shares for the purpose of the subscription rights to shares taken over
Common shares of the company that continues to exist.
- 2) Number of shares that are the purpose of the subscription rights to shares 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 upon exercising the subscription rights to shares 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) Exercise period of the subscription rights to shares 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

The approval of the Board of Directors of the company that continues to exist is required to transfer the subscription rights to shares.

(9) Limitation of issuance of subscription rights to shares securities

No subscription rights to shares securities shall be issued.

(b) Total number of the subscription rights to shares

The upper limit shall be obtained by multiplying the final outstanding number of shares issued as of the record date for allotment of the subscription rights to shares 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 subscription rights to shares to be granted free of charge

Shareholders who are recorded in the final register of shareholders as of the record date for allotment of the subscription rights to shares to be granted free of charge (defined in (d) below) (including those who are not able to exercise the subscription rights to shares according to (e) specified below and excluding the Company as a holder of treasury shares).

(d) Record date and effective date for allotment of the subscription rights to shares to be granted free of charge

(1) Record date

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

(e) Conditions to exercise the subscription rights to shares

- (1) Persons may exercise the subscription rights to shares providing they do not fall under any of 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 subscription rights to shares have been transferred or who has taken over the subscription rights to shares from the person stated in 1) through 4) above without obtaining approval from the Company's Board of Directors; or 6) a person related to any person stated in 1) through 5) above (hereinafter, those who fall under any of 1) through 6) shall be collectively referred to as "ineligible parties").

The terms used above are defined as follows:

- 1) A "specific mass shareholder" refers to a person who holds at least 20% (defined in Article 27-23, Paragraph 4 of the Financial Instruments and Exchange Act) of the share certificates, etc. issued by the Company (defined in Article 27-23, Paragraph 1 of the same

act; the same shall apply unless otherwise provided for hereinafter) or who are approved by the Company's Board of Directors to hold not less than 20% of such share certificates, etc.

- 2) The "co-shareholder" refers to a person defined in Article 27-23, Paragraph 5 of the Financial Instruments and Exchange Act (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 under Paragraph 6 of the same article.
 - 3) "Specific mass buyer" refers to a person who has given public notice of purchase, etc. (defined in Article 27-2, Paragraph 1 of the Financial Instruments and Exchange Act; hereafter the same) of the share certificates, etc. (defined in Article 27-2, Paragraph 1 of the same act) issued by the Company through tender offer, etc. (defined in Article 27-2, Paragraph 6 of the same act) and whose ratio of shareholding (defined in Article 27-2, Paragraph 8 of the same act; hereafter the same) in possession (including the cases defined in Article 7, Paragraph 1 of Enforcement Ordinance of the same act as equivalent cases) after the purchase, etc. and whose special stakeholders' ratio of shareholding altogether account for at least 20%.
 - 4) The "special stakeholder" refers to a person defined in Article 27-2, Paragraph 7 of the Financial Instruments and Exchange Act (including a person who has been recognized by the Company's Board of Directors as falling under this category). Note that as for persons specified in Item 1 of the same paragraph, persons who are specified in Article 3, Paragraph 2 of the Cabinet Office Ordinance regarding disclosure of tender offer of the share certificates, etc. 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 essentially 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 associates
 - 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 value of the Company and common interests of the shareholders 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 value of the Company and common interests of the shareholders under certain conditions, then it only applies to cases in which the relevant conditions are met.)
- (3) If, with respect to applicable foreign laws and regulations, 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 law exercise procedures and conditions") are required for a person located in the jurisdiction of the relevant laws and regulations to exercise the subscription rights to shares, the person located in the relevant jurisdiction may exercise the subscription rights to shares 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 subscription rights to shares. Also if a person located in the relevant jurisdiction is not permitted to exercise the subscription rights to shares by the relevant laws and regulations (hereafter referred to as a "compliance law exercise prohibition reason"), the person located in the relevant jurisdiction may not exercise the subscription rights to shares.
- (4) Regardless of (3) above, persons located in the United States of America may exercise the relevant subscription rights to shares only if 1) they express and guarantee that 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 subscription rights to shares 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 subscription rights to shares. If the Company's Board of Directors recognizes that exercise of the

subscription rights to shares 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 laws and regulations in the U.S., etc., persons located in the U.S. may not exercise the subscription rights to shares.

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

(f) Method to exercise the subscription rights to shares, etc.

- (1) The method to exercise the subscription rights to shares and the place to claim exercise
- The subscription rights to shares shall be exercised by filling in the required items including the number of the subscription rights to shares to be exercised, the number of applicable shares, and the address in the subscription rights to shares exercise request form, which is specified by the Company, (including clauses that express/guarantee that the relevant person with the subscription rights to shares neither falls under ineligible party nor intends to exercise the rights for an ineligible party, and a compensation clause), signing and sealing it and submitting it with a separately specified document required to exercise the subscription rights to shares as well as other documents required on each occasion by the Corporation Act, Financial Instruments and Exchange Act, and other laws and related laws and regulations (including the rules, etc., set by Japan Securities Dealers Association and the stock exchanges in Japan; hereinafter referred to as the “attached document”) attached to the payment handling agent 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 subscription rights to shares for the relevant exercise. A person with the subscription rights to shares may individually exercise each of the subscription rights to shares held, and if there are any remaining subscription rights to shares 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 subscription rights to shares and the number of the remaining subscription rights to shares into the subscription rights to shares original register.
- (2) Time when claim of exercise of the subscription rights to shares takes effect
- Claim of exercise of the subscription rights to shares shall take effect when the subscription rights to shares exercise request form and the attached document for the exercise arrive at the payment handling agent according to the provision of (1) above. Exercise of the subscription rights to shares shall take effect if claim of exercise of such subscription rights to shares 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 subscription rights to shares for the relevant exercise is paid at the payment handling agent.

(g) Notice to subscription rights to shares holders

- (1) Notice to subscription rights to shares holders shall be given in writing to the subscription rights to shares holders' addresses recorded in the subscription rights to shares 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 subscription rights to shares 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 subscription rights to shares holder has approved it.

(h) Notification by the Financial Instruments and Exchange Act

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

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

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