Dreams, Awakenings, and Touching Moments

BELLE MAISON

Annual Report 2003

For the Year Ended December 31, 2003

SENSHUKAI CO., LTD.

Profile

Established in 1955, Senshukai Co., Ltd., is one of Japan's leading direct marketing companies, and its history spans nearly five decades of overall corporate growth. Utilizing its *hanpukai* business—sales and distribution activities centered on purchasing clubs that are formed at members' places of employment—the Company has been a pioneer in developing markets that are not based on retail stores. Senshukai's business is concentrated in two areas: the catalog and *hanpukai* businesses. The Company offers a broad selection of products ranging from fashion wear to home furnishings, household products, general goods, sportswear, publications, and items for infants and children. The *hanpukai* business provides Senshukai with a great deal of customer feedback and allows the Company to keep abreast of the latest trends. As a result, Senshukai has developed distinctively strong marketing capabilities that enable the Company to accurately meet its customers' needs. Reflecting the effectiveness of Senshukai's approach to maximizing customer satisfaction and confidence, the number of people served by its various marketing systems has surpassed 7.3 million.

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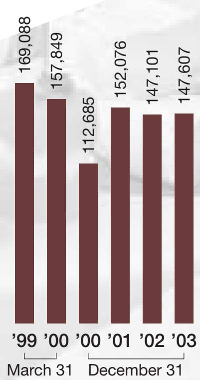
Senshukai Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2003 and 2002

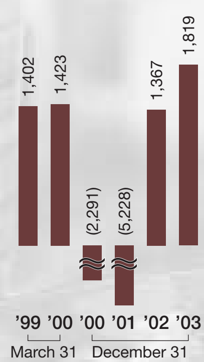
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
For the year:			
Net sales	**¥147,607**	¥147,101	**$1,377,702**
Net income	**1,819**	1,367	**16,978**
Capital expenditures	**468**	1,038	**4,368**
Depreciation and amortization	**2,503**	2,704	**23,362**
At year-end:			
Total assets	**87,270**	88,119	**814,542**
Total shareholders' equity	**47,184**	46,586	**440,396**
	Yen		U.S. dollars (Note 1)
Per share of common stock:			
Net income (Note 2)	**¥ 40.81**	¥ 29.90	**$ 0.38**
Diluted net income (Note 2)	**40.69**	—	**0.38**
Cash dividends	**16.00**	8.00	**0.15**

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥107.14=US$1.
2. Net income per share is computed based on the weighted average number of shares outstanding during the year.

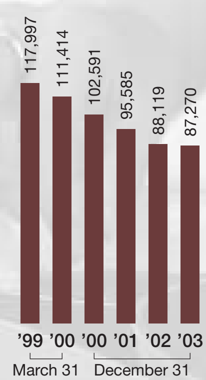
Net Sales
(Millions of yen)



Net Income (Loss)
(Millions of yen)



Total Assets
(Millions of yen)



Note: Change in fiscal year: Following a resolution at the 55th Ordinary Shareholders' General Meeting held on June 29, 2000, Senshukai implemented a change in its fiscal year, which previously ran from April 1 each year to March 31 of the following year and now runs from January 1 to December 31 each year. As a consequence of this change, the 56th fiscal year consists of the nine months from April 1, 2000 to December 31, 2000.

To Our Shareholders and Friends

Yasuhiro Yukimachi
President and Representative Director

Toward a Foundation of Profitability—
Increasing Unit Prices and Reducing Overhead

In fiscal 2003, ended December 31, 2003, the domestic economy showed mild signs of recovery in the second half, triggered by the effects of restructuring, the expansion of the digital economy, and external demand from the United States and China.

However, the distribution industry was adversely affected by unseasonable weather. In the mail-order business, the operating environment became increasingly competitive as a growing number of new entrants began offering mail-order services via the Internet, television, and other media. Consumer selection in terms of price, products, and services grew even more discriminating, exacerbating already severe business conditions.

Against this backdrop, Senshukai Co., Ltd., and its Group companies continued to strengthen the development of original merchandise and make other innovative improvements under the banner of offering "a complete lineup, high quality, and friendly service" in a way that is proving irresistible to customers.

As a result, consolidated net sales for the year under review were ¥147.6 billion (US$1,377.7 million), edging up 0.3% from fiscal 2002. In terms of income, the average order per customer in the mail-order business rose ¥569 from the previous year, and the gross profit ratio improved 0.9 percentage point as the entire Company worked to cut spending in all areas. Consequently, consolidated operating income was ¥5.1 billion (US$47.2 million), up 52.0% from the previous fiscal year. Consolidated net income was ¥1.8 billion (US$17.0 million), up 33.1% from fiscal 2002, despite other expenses of ¥2.1 billion (US$20 million) that were due mainly to currency exchange losses, the abolishment of an approved retirement pension plan, and other factors. Net income per share was ¥40.81 (US$0.38) and cash dividends were set at ¥16.00 (US$0.15) per share.

Progress of the Medium-Term Management Plan—
Management Strategy and Issues to Be Tackled

The Company's medium-term management plan, which will wind up in December 2004, was formulated to foster a "A New Senshukai for the 21st Century" that will serve as a "lifestyle navigator," awakening dreams and touching the hearts of customers.

The Basic Strategy of the Medium-Term Management Plan

(1) A shift to multichannel distribution
(2) Reinforcement of our core catalog and *hanpukai* businesses
(3) Selectivity and concentration of new businesses

Progress on the Implementation of the Medium-Term Management Plan:

(1) With the shift to multichannel distribution, we are encouraging catalog subscribers to become Internet subscribers, thereby enabling us to reduce ordering costs and expedite marketing, and have introduced digital catalogs to allow customers to view our up-to-date catalog pages on the Internet and make on-the-spot purchases. We are anticipating positive effects from the increase in Internet subscribers and subsequent decrease in the number of published catalogs. As of December 31, 2003, there were 2.13 million subscribers to our Internet shopping site *Belle Maison Net (Bellene),* up 60% from the previous year-end, and the site's sales for the term amounted to ¥24.6 billion (US$229.6 million), up 54% from the previous fiscal year.

With regard to storefront operations, following the opening of our original *Belle Maison Market* catalog store in September 2002, we have further opened two urban and two suburban area test stores. Both the urban and suburban retail outlets will be used to create a standard model for store development.

While conducting research into the television and radio mail-order shopping markets, Senshukai is advancing in the direction of multichannel distribution, centered on catalog shopping but also including retail outlets and mass media.

(2) With regard to the restructuring of core enterprises, we have cut the cost ratio through the integration of merchandise suppliers and the development of value-added merchandise, particularly in our mail-order business. Furthermore, in addition to rationalizing media-related expenses through the integration of catalogs, which we began in fiscal 2002, we have been paring variable expenses related to product delivery and order processing operations to steadily strengthen profitability.

Efforts to Improve Corporate Governance

To ensure quick responses to changes occurring in the management environment as well as to foster perpetual growth and a stable management base, we are continuing to grapple with management reform. Our efforts to enhance corporate governance place particular emphasis on ensuring that decision making is conducted in a quick, transparent, and impartial manner in addition to improving shareholder value.

With this in mind, we have further energized the executive board and clarified the division of responsibility among executive board members for decision making, the supervisory functions of business operations, and business administration. In addition, we have introduced an operating director system to improve management efficiency. Furthermore, our 21-member board of directors, composed of 12 directors, 4 corporate auditors, and 5 executive officers, meets once every two weeks and employs a quick and efficient system for supervising management.

In the future, companies will be required to comply even more closely with laws and regulations, and Senshukai regards compliance as an important management issue. Furthermore, to enhance management transparency, we are actively pursuing investor relation activities for all investors and shareholders and working to ensure quick and accurate disclosure practices.

Expanding the Operations Base and Strengthening Profitability

The outlook for the Japanese economy is characterized by improvements in the diffusion index and visible signs of recovery, but there are still many causes for concern, including pension and tax reform, and consumer spending remains stagnant. Accordingly, the mail-order business environment is expected to continue to be difficult.

Under these conditions, the Senshukai Group will expand its operations base and reinforce profitability through ongoing promotion of the restructuring of its flagship enterprises—the catalog and *hanpukai* businesses—to achieve the goals of the medium-term management plan in its final fiscal year.

In fiscal 2004, we plan to actively expand sales through an aggressive media marketing campaign, which will include the broadcasting of TV commercials for the first time in eight years. Through these measures, we intend to achieve consolidated net sales of ¥153.7 billion, up 4.1% from fiscal 2003, consolidated operating income of ¥4.5 billion, consolidated net income of ¥2.7 billion, and consolidated ROE of 5% for the fiscal year ending December 31, 2004. I ask for the continued cooperation and understanding of all of our shareholders and friends.

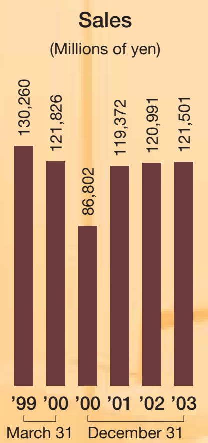
March 30, 2004

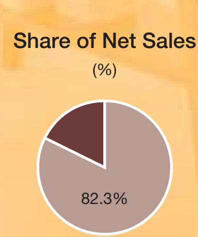
Yasuhiro Yukimachi
President and Representative Director

Review of Operations

Catalog Business

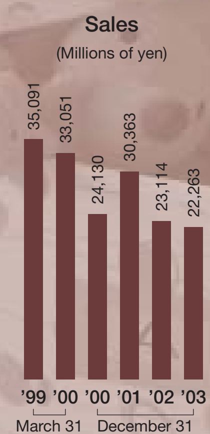
Our 15 catalogs provide numerous lifestyle suggestions and offer products brimming with the Senshukai style. From stylish garment notions, interior goods, and convenience items to maternity needs and clothing for infants, we have a rich array of products that adhere to our motto of “sharp fashion sense, sensible function, high quality, and affordable prices,” earning us strong support from our members.

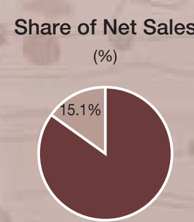




Hanpukai Business

The sales structure of the *hanpukai* business is one in which both individuals and groups of people, primarily working women and homemakers, receive products regularly every month. A unique system that other mail-order sales companies do not possess, the *hanpukai* business mainly features food products and highly collectible merchandise that boast a degree of originality not found in conventionally marketed products.





Note: As a part of an organizational change in fiscal 2003, some media were transferred from the *hanpukai* business to the catalog business. Year-on-year data comparisons are based on standards after the transfer.

Catalog Business

Review

In fiscal 2003, under our slogan, "Our General Merchandise: The Best; Our Clothing: Stands Out from the Rest," we worked to distribute more copies of our merchandise catalogs. In our clothing division, we sought to enhance profitability by strengthening and enriching our lineup of original products. These efforts contributed to sales of ¥121.5 billion (US$1,134.0 million), up 0.4% from fiscal 2002.*

Activities

At December 31, 2003, Senshukai's *Bellene* Internet shopping site boasted 2.13 million members, a 60% increase from fiscal 2002 year-end. The site's sales in fiscal 2003 amounted to ¥24.6 billion (US$229.6 million), up 54% from the prior fiscal year, placing Senshukai at the top of the domestic mail-order industry. Furthermore, we launched several "digital catalogs" in August 2003. On-line customers can view and place orders for selections from our principal catalogs, which are published in their entirety, creating a new kind of catalog shopping previously unavailable.

Furthermore, in January 2004, we launched our spring media mix campaign. Through this large-scale campaign, employing the Internet, newspaper inserts, magazine advertisements, and the airing of our first TV commercials in roughly eight years, we are working to enhance the *Bellene* brand image and increase membership.

Outlook

In fiscal 2004, under the media mix public affairs strategy, we will aim to secure new *Bellene* members from among our latent catalog members and boost the number of Internet orders as we popularize our digital catalogs.

* As a part of an organizational change in fiscal 2003, some media were transferred from the *hanpukai* business to the catalog business. Year-on-year data comparisons are based on standards after the transfer.

Hanpukai Business

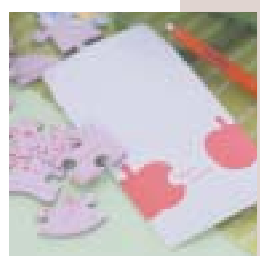
Review

In fiscal 2003, we completed the integration of our Heart Joy collection, which is mainly geared toward groups of working women, with the *Wakuwaku no Mori* collection, which targets individual consumers. With the resulting *Belle Maison* Monthly Club, we have made it possible to offer all our collections to every customer, enabling us to thereby broadly meet our customers' diverse needs. However, sales for the year were ¥22.3 billion (US$207.8 million), down 3.7% from fiscal 2002,* and the average monthly membership dropped to 860,500.

Activities & Outlook

In July 2003, the Company obtained the trade rights for e87.com, inc. (URL: www.e87.com), which markets ornamental plants over the Internet. Under this initiative, we are seeking to strengthen our flower *hanpukai* business through securing growers. In fiscal 2004, we will continue to offer lifestyle ideas making the most out of seasonal flowers and will seek to strengthen our gift flower and ornamental plant business.

* As a part of an organizational change in fiscal 2003, some media were transferred from the *hanpukai* business to the catalog business. Year-on-year data comparisons are based on standards after the transfer.



Major Topics during the Term

Entry into Internet flower marketing

In July 2003, the Company obtained the trade rights for e87.com to launch an ornamental plant Internet business geared to *hanpukai* members. Through the resulting business, Senshukai Iihana Co., Ltd., we are strengthening our flower *hanpukai* business, offering monthly supplies of seasonal flowers fresh from the grower, as well as augmenting our *Bellene* ornamental plant marketing and gift product business. By fiscal 2006, the Senshukai Group plans to post ¥2.0 billion in sales of flowers and ornamental plants.

Creating a closer relationship with our customers through retail outlets

We intend to expand our *Belle Maison Market* catalog stores, which are closely tied to the regional areas in which they operate. In July 2003, we opened a store in Otaru, Hokkaido, and then another the following month in Fuso, Aichi Prefecture. Aside from offering a complete line of products that meet the needs of area residents, we are working to develop stores that take customer feedback into account.

Moreover, in October 2003, we opened *Belle Maison Style,* a retail outlet featuring various brand-name products, at Namba Parks, an extremely popular shopping center in Osaka. *Belle Maison Style* strengthens the seasonal product lineup, providing stylish living ideas for urban working women. By making use of marketing information from our retail outlets and reflecting our customers' input in catalog production, our stores will serve as barometers for the *Belle Maison* brand and to create a relationship of mutual support with the catalog business.

Expanding our customer base with new catalogs

Through such initiatives as the creation of new preteen fashion catalog *Picomo,* we are realizing our goal of attracting a new generation of fashion-conscious customers. The catalog, which is distributed as a special supplement in alliance with popular teen magazine *Nicola,* debuted with a fall-winter edition.

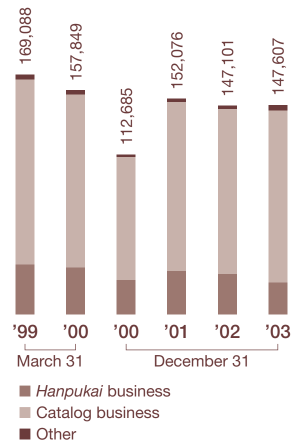
In addition, in September 2003, we launched *Hibi Kojitsu,* a catalog aimed at customers in their 50s, featuring slower-paced and more comfortable lifestyles. Aside from marketing products, Senshukai distributes advertising and product samples for other companies. In addition, we have opened the Comfortable Living Research Institute and are conducting joint research with

allied companies in such areas as health, travel, safety, and lifestyles to develop products and services that deliver an unprecedented level of customer satisfaction.

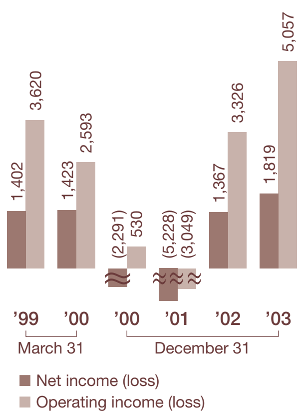
Establishment of a new company to expand business in China

In August 2003, Senshukai entered into an agreement with Sumitomo Corp. and Sankyu Inc. to establish Luckwin Summit China Co., Ltd., in Hong Kong, thereby setting up a network in major Chinese cities to conduct product inspections, implement distributive processing, and provide storage for apparel, toys, furniture, general merchandise, and other products. By using our inspection center in the city of Shenzhen and introducing a retail-guided supply chain management system, we will be able to meet local inspection needs, which have been rapidly expanding. We project sales of ¥0.5 billion by fiscal 2008 for this new business, which mainly targets retail firms headquartered in Japan.

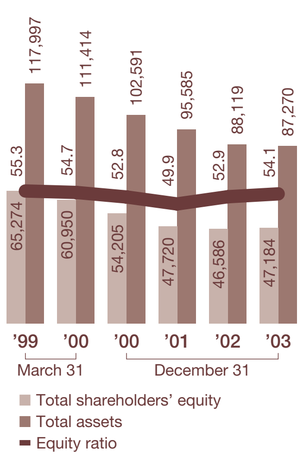
Sales by Category
(Millions of yen)



Net Income (Loss) and Operating Income (Loss)
(Millions of yen)



Total Shareholders' Equity, Total Assets, and Equity Ratio
(Millions of yen, %)



Overview

In fiscal 2003, ended December 31, 2003, the Senshukai Group managed to achieve increases in both sales and income, with consolidated net sales of ¥147.6 billion (US$1,377.7 million), up 0.3% from fiscal 2002, consolidated operating income of ¥5.1 billion (US$47.2 million), up 52.0%, and consolidated net income of ¥1.8 billion (US$17.0 million), up 33.1% from the previous fiscal year.

Sales by Business Segment

Mail-Order Business

Consolidated sales in the mail-order business—comprising the catalog and the *hanpukai* businesses—totaled ¥143.8 billion (US$1,341.8 million), down 0.2% from fiscal 2002.* However, thanks to a reduction in the cost of sales ratio, improvements to the variable ratio, and the effects of an overall rationalization of expenses, operating income increased 58.6% from the previous fiscal year,* to ¥5.6 billion (US$52.3 million), surpassing Company goals.

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

• Catalog Business

This business is the Company's flagship enterprise. Our 15 catalogs feature only Senshukai brand products and include various lifestyle tips and suggestions. In fiscal 2003, under our slogan, "Our General Merchandise: The Best; Our Clothing: Stands Out from the Rest," we worked to increase the distribution of our general merchandise catalog. In our clothing division, we tried to strengthen our sales base by augmenting and enhancing product originality. As a result, sales for the year edged up 0.4%, to ¥121.5 billion (US$1,134.0 million).*

• *Hanpukai* Business

In fiscal 2003, we finalized the integration of our Heart Joy collection, primarily targeting groups of working women, with the *Wakuwaku no Mori* collection, targeting individual customers. The resulting *Belle Maison* Monthly Club enabled us to broadly meet our customers' diverse needs. However, sales for the year edged down 3.7%, to ¥22.3 billion (US$207.8 million),* and the monthly average number of members slipped to 860,500.

Other Businesses

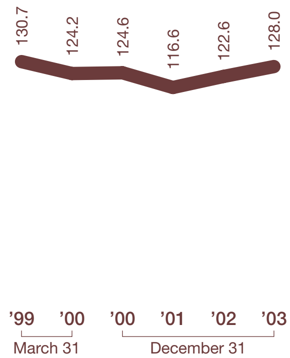
This segment is principally made up of such businesses as our travel services, credit card and loan services, and sample business, which includes the selling of customer data to other companies as well as the distribution of free product samples and follow-up questionnaires to these companies' target markets. This segment also includes our distribution business and other operations. Consolidated sales for these businesses increased 28.3% from fiscal 2002, to ¥3.8 billion (US$35.9 million).* However, consolidated operating loss increased ¥0.3 billion, to ¥0.6 billion (US$5.5 million).

* Segments were revised in fiscal 2002. Year-on-year data comparisons are based on the standards of the new segments.

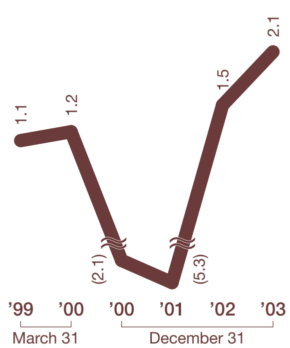
Cost of Sales, Expenses, and Income

In fiscal 2003, the cost of sales fell 1.4% from fiscal 2002, to ¥75.8 billion

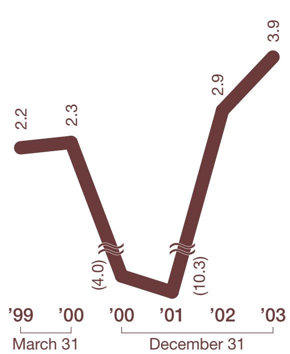
Current Ratio
(%)



Return on Average Total Assets
(%)



Return on Average Total Shareholders' Equity
(%)



(US$707.3 million), and the cost of sales ratio inched down 0.9 percentage point, to 51.3%. As a result, the gross profit on sales increased ¥1.5 billion, or 2.2%, to ¥71.8 billion (US$670.4 million).

Selling, general and administrative expenses totaled ¥66.8 billion (US$623.2 million), representing an improvement of 0.3 percentage point, to 45.2%, in proportion to net sales. This was due to a drop in accrued employees' retirement benefits, packing and freight, and other expenses. As a result, operating income increased 52.0% from fiscal 2002, to ¥5.1 billion (US$47.2 million).

Net income for fiscal 2003 shot up 33.1% from the prior fiscal year, to ¥1.8 billion (US$17.0 million), and net income per share climbed to ¥40.81 (US$0.38), from ¥29.90 in fiscal 2002. Shareholder dividends were set at ¥16.00 (US$0.15) per share for the year.

Financial Position

Total assets at the end of fiscal 2003 declined ¥0.8 billion, or 1.0%, from the end of fiscal 2002, to ¥87.3 billion (US$814.5 million). Total current assets rose ¥2.3 billion from the end of the previous fiscal year, to ¥46.7 billion (US$435.4 million), boosted by an increase in cash and cash equivalents, but total investments and other assets dropped 9.6%, to ¥10.9 billion (US$101.8 million) and total property and equipment fell 6.2%, to ¥29.7 billion (US$277.3 million). In terms of liabilities, total long-term liabilities fell ¥1.7 billion, to ¥3.6 billion (US$33.5 million), largely due to a decline in employees' retirement benefits, and total shareholders' equity increased ¥0.6 billion, to ¥47.2 billion (US$440.4 million), principally as a result of an increase in retained earnings. In addition, interest-bearing debt dropped ¥0.2 billion at the end of fiscal 2002, to ¥0.7 billion (US$6.6 million). As a result, the shareholders' equity ratio improved 1.2 percentage points, to 54.1%, and the debt-to-equity ratio improved 0.4 percentage point, to 1.5%. In this way, Senshukai's already solid financial position grew even firmer in fiscal 2003.

Cash Flows

On a consolidated basis, net cash provided by operating activities was ¥6.3 billion (US$58.9 million), largely due to a 62.9% increase in income before income taxes and minority interests, to ¥3.0 billion (US$27.6 million), and a decrease in adjustments for depreciation and amortization, to ¥2.5 billion (US$23.4 million). Net cash used in investing activities amounted to ¥1.2 billion (US$11.3 million), primarily due to ¥0.8 billion (US$7.5 million) in expenditures for investment securities and ¥0.6 billion (US$5.5 million) for the acquisition of property and equipment. Net cash used in financing activities totaled ¥1.8 billion (US$17.1 million), mainly owing to ¥1.2 billion (US$11.4 million) for the purchase of treasury stock and ¥0.5 billion (US$4.9 million) for the payment of dividends to shareholders.

As a result, cash and cash equivalents at the end of the fiscal year under review totaled ¥11.5 billion (US$107.4 million), up ¥3.3 billion from the end of fiscal 2002.

Consolidated Six-Year Summary

Senshukai Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2003, 2002 and 2001, the nine months ended December 31, 2000 and the years ended March 31, 2000 and 1999

	Millions of yen						Thousands of U.S. dollars (Note 1)
	December 31, 2003	December 31, 2002	December 31, 2001	December 31, 2000 (Note 3)	March 31, 2000	March 31, 1999	**December 31, 2003**
For the year:							
Net sales	**¥147,607**	¥147,101	¥152,076	¥112,685	¥157,849	¥169,088	**$1,377,702**
Catalog business	**121,501**	120,991	119,372	86,802	121,826	130,260	**1,134,040**
Hanpukai business	**22,263**	23,114	30,363	24,130	33,051	35,091	**207,793**
Other	**3,843**	2,996	2,341	1,753	2,972	3,737	**35,869**
Operating income (loss)	**5,057**	3,326	(3,049)	530	2,593	3,620	**47,200**
Net income (loss)	**1,819**	1,367	(5,228)	(2,291)	1,423	1,402	**16,978**
Capital expenditures	**468**	1,038	215	767	701	117	**4,368**
Depreciation and amortization	**2,503**	2,704	3,019	2,454	3,239	3,631	**23,362**
At year-end:							
Total assets	**87,270**	88,119	95,585	102,591	111,414	117,997	**814,542**
Total property and equipment	**29,706**	31,661	33,399	35,686	37,020	47,597	**277,264**
Total shareholders' equity	**47,184**	46,586	47,720	54,205	60,950	65,274	**440,396**
Interest-bearing debt	**710**	872	1,130	1,732	3,296	5,347	**6,626**
	Yen						U.S. dollars (Note 1)
Per share of common stock:							
Net income (loss) (Note 2)	**¥ 40.81**	¥ 29.90	¥ (109.78)	¥ (48.11)	¥ 29.89	¥ 29.43	**$ 0.38**
Diluted net income (Note 2)	**40.69**	—	—	—	—	—	**0.38**
Cash dividends	**16.00**	8.00	8.00	12.00	16.00	16.00	**0.15**
Shareholders' equity	**1,105.80**	1,056.52	1,002.23	1,138.11	1,279.85	1,370.62	**10.32**
Common stock:							
No. of shares issued	**47,630,393**	47,630,393	47,630,393	47,630,393	47,630,393	47,630,393	
No. of shareholders (1,000 share units)	**3,850**	5,068	5,929	4,415	2,946	3,612	
No. of shareholders	**4,950**	6,158	7,081	5,570	4,107	4,792	

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥107.14=US$1.
2. Net income (loss) per share is computed based on the weighted average number of shares outstanding during the period.
3. Change in fiscal year: Following a resolution at the 55th Ordinary Shareholders' General Meeting held on June 29, 2000, Senshukai implemented a change in its fiscal year, which previously ran from April 1 each year to March 31 of the following year and now runs from January 1 to December 31 each year. As a consequence of this change, the 56th fiscal year consists of the nine months from April 1, 2000 to December 31, 2000.

Consolidated Balance Sheets

Senshukai Co., Ltd. and Consolidated Subsidiaries
December 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2003**	2002	**2003**
Current assets:			
Cash and cash equivalents	**¥11,502**	¥ 8,236	**$107,355**
Notes and accounts receivable	**9,656**	9,820	**90,125**
Allowance for doubtful accounts	**(473)**	(248)	**(4,415)**
Inventories	**12,818**	14,937	**119,638**
Deferred income taxes (Note 6)	**492**	12	**4,592**
Other current assets	**12,659**	11,635	**118,154**
Total current assets	**46,654**	44,392	**435,449**
Investments and other assets:			
Investment securities (Notes 4 and 8)	**4,321**	3,279	**40,330**
Long-term loans receivable	**565**	1,011	**5,273**
Guarantee deposits	**1,177**	1,175	**10,986**
Intangible assets, net of amortization	**1,502**	2,105	**14,019**
Deferred income taxes (Note 6)	**1,164**	2,609	**10,864**
Other	**2,572**	2,492	**24,006**
Allowance for doubtful accounts	**(391)**	(605)	**(3,649)**
Total investments and other assets	**10,910**	12,066	**101,829**
Property and equipment:			
Land (Notes 8 and 10)	**12,320**	12,464	**114,990**
Buildings and structures (Note 8)	**29,288**	29,529	**273,362**
Machinery and equipment	**19,592**	19,621	**182,864**
	61,200	61,614	**571,216**
Less: accumulated depreciation	**(31,494)**	(29,953)	**(293,952)**
Total property and equipment	**29,706**	31,661	**277,264**
	¥87,270	¥88,119	**$814,542**

See the accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2003	2002	Thousands of U.S. dollars (Note 1) 2003
Current liabilities:			
Short-term loans (Note 7)	**¥ 10**	¥ —	**$ 93**
Current portion of long-term debt (Notes 7 and 8)	**232**	94	**2,165**
Notes and accounts payable:			
Trade	**13,984**	15,290	**130,521**
Other	**15,932**	16,306	**148,702**
	29,916	31,596	**279,223**
Accrued liabilities	**3,010**	3,228	**28,094**
Accrued income taxes	**229**	342	**2,137**
Employees' retirement benefits (Notes 2 and 9)	**789**	—	**7,364**
Other current liabilities	**2,268**	945	**21,170**
Total current liabilities	**36,454**	36,205	**340,246**
Long-term liabilities:			
Long-term debt (Notes 7 and 8)	**468**	778	**4,368**
Employees' retirement benefits (Notes 2 and 9)	**53**	1,322	**495**
Retirement benefits for directors and corporate auditors	**790**	865	**7,374**
Deposits received	**1,377**	1,389	**12,852**
Deferred tax liabilities relating to revaluation of land (Note 10)	**896**	927	**8,363**
Total long-term liabilities	**3,584**	5,281	**33,452**
Minority interests	**48**	47	**448**
Shareholders' equity:			
Common stock, par value ¥50 per share:			
Authorized—90,000,000 shares			
Issued: 2003—47,630,393 shares	**20,359**	—	**190,022**
2002—47,630,393 shares	**—**	20,359	**—**
Additional paid-in capital	**19,864**	19,864	**185,402**
Retained earnings	**18,871**	17,802	**176,134**
Unrealized losses on revaluation of land (Note 10)	**(8,911)**	(9,160)	**(83,171)**
Net unrealized gains (losses) on securities	**125**	(382)	**1,167**
Translation adjustments	**(39)**	(29)	**(364)**
Less: treasury stock, at cost:			
4,960,697 shares in 2003 and 3,536,627 shares in 2002	**(3,085)**	(1,868)	**(28,794)**
Total shareholders' equity	**47,184**	46,586	**440,396**
Contingent liabilities (Note 11)			
	¥87,270	¥88,119	**$814,542**

Consolidated Statements of Income

Senshukai Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Net sales	**¥147,607**	¥147,101	**$1,377,702**
Cost of sales	**75,780**	76,822	**707,299**
Gross profit	**71,827**	70,279	**670,403**
Selling, general and administrative expenses	**66,770**	66,953	**623,203**
Operating income	**5,057**	3,326	**47,200**
Other income (expenses):			
Interest and dividend income	**59**	63	**551**
Interest expenses	**(40)**	(51)	**(373)**
Loss on sales of investment securities	**(57)**	(443)	**(532)**
Exchange loss, net	**(948)**	(1,299)	**(8,848)**
Gain on sale of insurance business	**—**	1,000	**—**
Loss on business restructuring	**—**	(379)	**—**
Early retirement expenses	**(406)**	—	**(3,790)**
Loss on abolishment of an approved retirement pension plan	**(505)**	—	**(4,714)**
Other, net	**(198)**	(399)	**(1,848)**
	(2,095)	(1,508)	**(19,554)**
Income before income taxes and minority interests	**2,962**	1,818	**27,646**
Income taxes (Note 6):			
Current	**344**	371	**3,211**
Deferred	**796**	96	**7,429**
Minority interests	**3**	(16)	**28**
Net income	**¥ 1,819**	¥ 1,367	**$ 16,978**
	Yen		U.S. dollars (Note 1)
Per share of common stock:			
Net income	**¥ 40.81**	¥ 29.90	**$ 0.38**
Diluted net income	**40.69**	—	**0.38**
Cash dividends	**16.00**	8.00	**0.15**

See the accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Senshukai Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Common stock:			
Balance at beginning of year	**¥20,359**	¥20,359	**$190,022**
Balance at end of year	**¥20,359**	¥20,359	**$190,022**
Additional paid-in capital:			
Balance at beginning of year	**¥19,864**	¥19,864	**$185,402**
Balance at end of year	**¥19,864**	¥19,864	**$185,402**
Retained earnings:			
Balance at beginning of year	**¥17,802**	¥16,809	**$166,156**
Net income	**1,819**	1,367	**16,978**
Cash dividends paid	**(524)**	(374)	**(4,891)**
Bonuses to directors and corporate auditors	**(6)**	—	**(56)**
Transfer from unrealized losses on revaluation of land	**(220)**	—	**(2,053)**
Balance at end of year	**¥18,871**	¥17,802	**$176,134**
Unrealized losses on revaluation of land:			
Balance at beginning of year	**¥ (9,160)**	¥ (9,160)	**$ (85,495)**
Transfer to retained earnings	**220**	—	**2,053**
Tax rate change	**29**	—	**271**
Balance at end of year	**¥ (8,911)**	¥ (9,160)	**$ (83,171)**
Net unrealized gains (losses) on securities:			
Balance at end of year	**¥ 125**	¥ (382)	**$ 1,167**
Transfer adjustments:			
Balance at end of year	**¥ (39)**	¥ (29)	**$ (364)**
Treasury stock, at cost:			
Balance at end of year	**¥ (3,085)**	¥ (1,868)	**$ (28,794)**

See the accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Senshukai Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 2,962**	¥ 1,818	**$ 27,646**
Adjustments for:			
Depreciation and amortization	**2,503**	2,704	**23,362**
Loss on sales of investment securities	**57**	443	**532**
Loss on business restructuring	**—**	379	**—**
Provision for allowance for doubtful accounts	**17**	22	**159**
Decrease in employees' retirement benefits	**(480)**	(300)	**(4,480)**
Interest and dividend income	**(59)**	(63)	**(551)**
Interest expenses	**40**	51	**373**
Decrease in notes and accounts receivable	**163**	164	**1,521**
Decrease in inventories	**2,119**	465	**19,778**
(Increase) decrease in other current assets	**(615)**	1,078	**(5,740)**
Decrease in notes and accounts payable	**(1,680)**	(4,798)	**(15,680)**
(Decrease) increase in accrued liabilities	**(218)**	553	**(2,035)**
Increase (decrease) in other current liabilities	**1,324**	(61)	**12,358**
Other, net	**586**	292	**5,469**
Subtotal	**6,719**	2,747	**62,712**
Interest dividend income received	**57**	62	**532**
Interest expenses paid	**(39)**	(47)	**(364)**
Severance pay for retirement	**—**	(1,877)	**—**
Income taxes paid	**(431)**	(129)	**(4,022)**
Net cash provided by operating activities	**6,306**	756	**58,858**
Cash flows from investing activities:			
Purchases of property and equipment	**(593)**	(397)	**(5,535)**
Proceeds from sales of property and equipment	**288**	—	**2,688**
Purchase of intangible assets	**(228)**	(648)	**(2,128)**
Proceeds from sales of intangible assets	**5**	—	**47**
Increase in investment securities	**(806)**	(521)	**(7,523)**
Proceeds from sales of investment securities	**372**	0	**3,472**
Increase in long-term loans receivable, net	**(447)**	(133)	**(4,172)**
Other, net	**196**	246	**1,829**
Net cash used in investing activities	**(1,213)**	(1,453)	**(11,322)**
Cash flows from financing activities:			
Proceeds from long-term debt	**—**	145	**—**
Repayments of long-term debt	**(94)**	(332)	**(877)**
Purchase of treasury stock	**(1,217)**	(1,862)	**(11,359)**
Cash dividends paid	**(523)**	(374)	**(4,881)**
Other, net	**7**	(4)	**65**
Net cash used in financing activities	**(1,827)**	(2,427)	**(17,052)**
Net increase (decrease) in cash and cash equivalents	**3,266**	(3,124)	**30,484**
Cash and cash equivalents at beginning of year	**8,236**	11,360	**76,871**
Cash and cash equivalents at end of year	**¥11,502**	¥ 8,236	**$107,355**

See the accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Senshukai Co., Ltd. and Consolidated Subsidiaries

1 BASIS OF PRESENTING FINANCIAL STATEMENTS

Senshukai Co., Ltd. (the "Company") and its consolidated subsidiaries, all Japanese corporations, maintain their records and prepare their financial statements in Japanese yen.

The accompanying financial statements are based upon the financial statements that are prepared for Japanese domestic purposes in accordance with the provisions of the Securities and Exchange Law of Japan and accounting principles generally accepted in Japan and filed with the Minister of Finance of Japan and stock exchanges in Japan. Certain modifications have been made in the accompanying financial statements to facilitate understanding by readers outside Japan.

For convenience only, U.S. dollar amounts presented in the accompanying financial statements have been translated from Japanese yen at the rate of ¥107.14=US$1, the approximate exchange rate prevailing on December 31, 2003.

2 ACCOUNTING CHANGE

Effective July 1, 2003, the Company has changed its method of accounting for employees' retirement benefits for pension beneficiaries from the principle method to the simple method and eliminated its approved retirement annuity system for employees.

The effect of this change was to increase employees' retirement benefits ¥148 million (US$1,381 thousand) and decrease income before income taxes and minority interests ¥148 million (US$1,381 thousand).

In addition, the Company has decided to eliminate its approved retirement annuity system for pension beneficiaries within the current fiscal year.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidated Subsidiaries

The consolidated financial statements include the accounts of the Company and its significant subsidiaries.

Investments in significant unconsolidated subsidiaries and affiliated companies (20% to 50% owned) are accounted for by the equity method.

(b) Cash and Cash Equivalents

The Company and its consolidated subsidiaries consider all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(c) Allowance for Doubtful Accounts

The allowance for doubtful receivables is provided for in an amount sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to identified doubtful receivables and an amount calculated using the Company's formula with respect to remaining receivables.

(d) Securities

Securities available for sale with fair value:

Stated at fair value based on market prices, etc., at the end of this fiscal year (both unrealized gains and losses are included in "Net unrealized gains (losses) on securities," a component of shareholders' equity, cost being determined by the moving-average method).

Securities with no market prices:

Stated at cost determined using the moving-average method.

(e) Derivatives and Hedge Accounting

Derivatives:

Stated at fair value based on market prices at the end of the fiscal year.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company defers the recognition of gains or losses resulting from changes in the fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

(f) Inventories

Merchandise is stated at the lower of cost or market, cost being determined by the average method.

(g) Property and Equipment and Depreciation

Property and equipment is stated at cost. Depreciation is mainly computed using the declining-balance method for property and equipment, except for buildings acquired after April 1, 1998, which are depreciated using the straight-line method, at rates based on the estimated useful lives of the assets in accordance with the provisions of corporation income tax regulations.

The principal estimated useful lives are as follows:

Buildings and structures	38 to 50 years
Machinery and equipment	12 years

(h) Employees' Retirement Benefits

Employees' retirement benefits are provided by the deemed retirement obligations at the end of the period, based on the net amount of estimated retirement obligations less estimated plan assets at the end of the fiscal year.

(i) Retirement Benefits for Directors and Corporate Auditors

The Company provides lump-sum retirement benefits for directors, corporate auditors and executive officers. Such benefits, which are not funded, are accrued based on the Company's internal guidelines.

(j) Income Taxes

Deferred income taxes are recognized by using the assets-and-liabilities method. The assets-and-liabilities method is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(k) Net Income and Dividends per Share

Net income per share is computed based on the weighted average number of common shares outstanding during each year.

Cash dividends per share shown for each year in the consolidated statements of income represent dividends approved by the shareholders and paid in the respective periods.

(l) Leases

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

(m) Research and Development

Research and development expenditures are charged to income when incurred.

(n) Reclassifications

Certain reclassifications of prior year financial statements have been made to conform with the current year presentation.

4 MARKET VALUE INFORMATION

Investment securities at December 31, 2003 are summarized as follows:

1. Securities available for sale with fair value

	Millions of yen		
	Cost	Fair value (Carrying amount)	Net unrealized gains (losses)
Stocks	¥2,315	¥2,692	¥377
Bonds:			
Corporate bonds	530	537	7
Other bonds	500	445	(55)
Other	324	324	0
Total	¥3,669	¥3,998	¥329

	Thousands of U.S. dollars		
	Cost	Fair value (Carrying amount)	Net unrealized gains (losses)
Stocks	$21,607	$25,126	$3,519
Bonds:			
Corporate bonds	4,947	5,012	65
Other bonds	4,667	4,154	(513)
Other	3,024	3,024	0
Total	$34,245	$37,316	$3,071

2. Major contents and carrying amount of securities not practicable to fair value

	Carrying amount	
	Millions of yen	Thousands of U.S. dollars
Other securities:		
Unlisted stocks	¥361	$3,369

5 DERIVATIVES

To avoid the adverse effects of fluctuations in foreign currency exchange rates, the Company enters into foreign exchange forward contracts, foreign currency options and swaps. The Company utilizes these derivative transactions to hedge effectively and reduce the risk inherent in its assets and liabilities, and these transactions are not likely to have a major impact on the performance of the Company. In addition, derivative transactions are not entered into for speculative trading purposes under the policy of the Company.

In accordance with the Company's internal regulations on derivative transactions, the Accounting and Finance Department of the Company is responsible for managing the market and credit risks of these transactions, and this division manages position limits, credit limits and status of derivative transactions.

The Company had the following derivative transactions outstanding at December 31, 2003:

	Millions of yen		
	Contract amount	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts:			
Buying U.S. dollars	¥ 645	¥647	¥ 2
Foreign currency options:			
Put options, sold:			
U.S. dollars	8,970		
(Premium)	(694)	303	391
Call options, bought:			
U.S. dollars	4,485		
(Premium)	(376)	133	(243)
Foreign currency swaps:			
Receiving U.S. dollars, paying Japanese yen	1,065	(6)	(6)

	Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts:			
Buying U.S. dollars	$ 6,020	$6,039	$ 19
Foreign currency options:			
Put options, sold:			
U.S. dollars	83,722		
(Premium)	(6,478)	2,828	3,650
Call options, bought:			
U.S. dollars	41,861		
(Premium)	(3,509)	1,241	(2,268)
Foreign currency swaps:			
Receiving U.S. dollars, paying Japanese yen	9,940	(56)	(56)

Derivative transactions with hedge accounting applied are excluded in the above table.

6 INCOME TAXES

Deferred income taxes result from timing differences in the recognition of income and expenses for tax and financial statement purposes.

Deferred income taxes at December 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Current:			
Deferred tax assets:			
Accrued expenses	¥ 850	¥ 812	$ 7,934
Employees' retirement benefits	319	—	2,977
Other	89	108	831
Total deferred tax assets	1,258	920	11,742
Valuation allowance	17	242	159
Total deferred tax assets, net of valuation allowance	¥1,241	¥ 678	$11,583
Deferred tax liabilities:			
Prepaid expenses	¥ 749	¥ 666	$ 6,991
Net deferred tax assets	¥ 492	¥ 12	$ 4,592
Noncurrent:			
Deferred tax assets:			
Provision for retirement and severance benefits	¥ 337	¥ 905	$ 3,146
Operating loss carryforward	2,375	3,044	22,167
Allowance for doubtful accounts	234	246	2,184
Other	578	878	5,395
Total deferred tax assets	3,524	5,073	32,892
Valuation allowance	2,056	2,311	19,190
Total deferred tax assets, net of valuation allowance	¥1,468	¥2,762	$13,702
Deferred tax liabilities:			
Investment securities	¥ 203	¥ 37	$ 1,895
Tax purpose reserves regulated by Japanese tax laws	101	116	943
Total deferred tax liabilities	¥ 304	¥ 153	$ 2,838
Net deferred tax assets	¥1,164	¥2,609	$10,864

Operating loss carryforward is available to reduce future income taxes, if any.

Income taxes applicable to the Company and its consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The statutory tax rate for the years ended December 31, 2003 and 2002 was, in the aggregate, approximately 42.0%. The effective tax rates reflected in the consolidated statements of income for the years ended December 31, 2003 and 2002 differ from the above statutory tax rate for the following reasons:

	2003	2002
Statutory tax rate	41.7%	41.7%
Effect of:		
Nondeductible expenses	1.8	2.4
Nontaxable dividend income	(0.2)	(0.4)
Per capita portion of inhabitants' taxes	1.4	2.2
Equity in earnings of affiliates	2.0	1.5
Change of statutory tax rate	1.8	—
Loss on business restructuring	—	(35.0)
Tax loss carryforward	(7.5)	16.1
Other, net	(2.5)	(2.8)
Effective tax rate	38.5%	25.7%

On March 31, 2003, a local tax reform law was enacted in Japan which changed the effective statutory tax rate from approximately 41.7 % to 40.4%, effective for the years beginning January 1, 2005. The effect of this change resulted in a decrease in net deferred tax assets of ¥51 million (US$476 thousand) and increases in revaluation surplus and net unrealized gains on securities of ¥27 million (US$252 thousand) and ¥6 million (US$56 thousand), respectively, in the consolidated balance sheet for the year ended December 31, 2003. This also resulted in an increase in deferred income taxes of ¥51 million (US$476 thousand) in the consolidated statement of income for the year ended December 31, 2003.

7 SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans at December 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Loans from banks at interest rates of 0.6% to 1.1%:			
Secured	¥—	¥—	$—
Unsecured	10	—	93
	¥10	¥—	$93

Long-term debt at December 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Loans from banks and financial institutions at interest rates of 0.6% to 1.6%:			
Secured	¥472	¥550	$4,405
Unsecured	228	322	2,128
	700	872	6,533
Less: current portion	(232)	(94)	(2,165)
	¥468	¥778	$4,368

The annual maturities of long-term debt at December 31, 2003 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending December 31,		
2004 (current portion)	¥232	$2,165
2005	128	1,194
2006	113	1,055
2007 and thereafter	227	2,119
	¥700	$6,533

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that, under certain circumstances, security for future and present indebtedness must be given upon the request of the bank and that the bank shall have the right, as obligations become due or in the event of default in respect thereof, to offset cash deposits against such obligations due to the bank.

Each of the loan agreements grants the lender the right, under certain circumstances, to request the provision of security or additional security.

8 PLEDGED ASSETS

Assets pledged as collateral for the current portion of long-term debt and long-term debt at December 31, 2003 were as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 33	$ 308
Buildings and structures	53	495
Investment securities	1,378	12,861
	¥1,464	$13,664

9 EMPLOYEES' RETIREMENT BENEFITS

(a) Pension and Severance Plans

The Company and its consolidated subsidiaries employ both a defined contribution pension plan and a closed approved retirement annuity system that is available only to pension beneficiaries.

However, the Company has decided to eliminate its qualified pension plan for employees and offer the choice of either a defined contribution pension plan or an up-front retirement bonus.

(b) Benefit Obligation and Plan Assets

	Millions of yen	Thousands of U.S. dollars
Benefit obligation at end of year	¥(991)	$(9,250)
Fair value of plan assets at end of year	149	1,391
Net amount recognized in the consolidated balance sheets	¥(842)	$(7,859)

(c) Net Pension and Severance Costs

	Millions of yen	Thousands of U.S. dollars
Service cost	¥220	$2,053
Interest cost	125	1,167
Expected return on plan assets	(84)	(784)
Recognized actuarial loss	77	719
Other	13	121
Net periodic benefit cost	¥351	$3,276

(d) Assumptions Used for Accounting Purposes

Discount rate	3.0%
Expected return on plan assets	3.0%

10 REVALUATION OF LAND

On March 31, 2000, land owned by the Company was revalued under the Land Revaluation Law, and unrealized losses resulting from the revaluation were debited directly to the section of shareholders' equity as a negative revaluation surplus after offsetting the related deferred tax assets as stipulated by the law. The negative revaluation surplus will be credited to gain or loss to be incurred as part of the related land sold.

The difference between the revalued book value of land at March 31, 2000 and the estimated market value of land at December 31, 2003 amounts to ¥2,528 million (US$23,595 thousand), creating an unrealized loss position.

11 CONTINGENT LIABILITIES

Contingent liabilities at December 31, 2003 for guarantees of bank loans amounted to ¥165 million (US$1,540 thousand), including ¥84 million (US$784 thousand) for loans guaranteed on behalf of employees.

12 LEASES

The Company and its consolidated subsidiaries lease information equipment and other assets. Generally, leases of information equipment are for primary terms of five years.

All leases are finance leases that do not entail the transferal of ownership.

Information on finance leases other than those that are deemed to transfer the ownership of the leased assets to the lessees for the years ended December 31, 2003 and 2002 is as follows:

Lessees

1) Acquisition cost, accumulated depreciation and net book value at December 31, 2003 and 2002 were as follows:

	Millions of yen		
	2003		
	Equipment	Other assets	Total
Acquisition cost	**¥2,834**	**¥878**	**¥3,712**
Accumulated depreciation	**1,018**	**556**	**1,574**
Net book value	**¥1,816**	**¥322**	**¥2,138**

	Millions of yen		
	2002		
	Equipment	Other assets	Total
Acquisition cost	¥3,810	¥893	¥4,703
Accumulated depreciation	2,378	445	2,823
Net book value	¥1,432	¥448	¥1,880

	Thousands of U.S. dollars		
	2003		
	Equipment	Other assets	Total
Acquisition cost	**$26,451**	**$8,195**	**$34,646**
Accumulated depreciation	**9,502**	**5,189**	**14,691**
Net book value	**$16,949**	**$3,006**	**$19,955**

2) Future minimum lease payments under finance leases as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Due within one year	**¥ 626**	¥ 955	**$ 5,843**
Due after one year	**1,622**	1,400	**15,139**
Total	**¥2,248**	¥2,355	**$20,982**

3) Lease payments during the years ended December 31, 2003 and 2002 amounted to ¥816 million (US$7,616 thousand) and ¥1,128 million, respectively. Depreciation expenses for the years ended December 31, 2003 and 2002 were ¥840 million (US$7,840 thousand) and ¥1,021 million, respectively.

4) Computation of depreciation expenses

Depreciation expenses are computed using the straight-line method over a period up to the length of the relevant lease contracts with no residual value.

13 SUBSEQUENT EVENT

On March 30, 2004, the general meeting of shareholders approved the following appropriations of retained earnings:

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥341	$3,183
Bonuses paid to directors and auditors	36	336

14 SEGMENT INFORMATION

(a) Business Segments

The Company and its consolidated subsidiaries operate in two business segments: a mail-order business and other businesses. The mail-order business includes the catalog business and the *hanpukai* business. Other businesses include the travel, credit card, loan services and sample businesses.

The information on business segments of the Company and its consolidated subsidiaries for the years ended December 31, 2003 and 2002 is as follows:

	Millions of yen				
	2003				
	Mail-order business	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income					
Sales to outside customers	**¥143,764**	**¥3,843**	**¥147,607**	**¥ —**	**¥147,607**
Intersegment sales	**87**	**664**	**751**	**(751)**	**—**
Total sales	**143,851**	**4,507**	**148,358**	**(751)**	**147,607**
Operating expenses	**138,243**	**5,101**	**143,344**	**(794)**	**142,550**
Operating income (loss)	**¥ 5,608**	**¥ (594)**	**¥ 5,014**	**¥ 43**	**¥ 5,057**
II. Assets, depreciation and capital expenditures					
Total assets	**¥ 82,696**	**¥4,853**	**¥ 87,549**	**¥(279)**	**¥ 87,270**
Depreciation and amortization	**2,416**	**87**	**2,503**	**—**	**2,503**
Capital expenditures	**385**	**83**	**468**	**—**	**468**

	Millions of yen				
	2002				
	Mail-order business	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income					
Sales to outside customers	¥144,105	¥2,996	¥147,101	¥ —	¥147,101
Intersegment sales	90	42	132	(132)	—
Total sales	144,195	3,038	147,233	(132)	147,101
Operating expenses	140,660	3,284	143,944	(169)	143,775
Operating income (loss)	¥ 3,535	¥ (246)	¥ 3,289	¥ 37	¥ 3,326
II. Assets, depreciation and capital expenditures					
Total assets	¥ 85,361	¥3,616	¥ 88,978	¥(859)	¥ 88,119
Depreciation and amortization	2,622	82	2,704	—	2,704
Capital expenditures	908	130	1,038	—	1,038

	Thousands of U.S. dollars				
	2003				
	Mail-order business	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income					
Sales to outside customers	**$1,341,833**	**$35,869**	**$1,377,702**	**$ —**	**$1,377,702**
Intersegment sales	**812**	**6,197**	**7,009**	**(7,009)**	**—**
Total sales	**1,342,645**	**42,066**	**1,384,711**	**(7,009)**	**1,377,702**
Operating expenses	**1,290,311**	**47,601**	**1,337,912**	**(7,410)**	**1,330,502**
Operating income (loss)	**$ 52,334**	**$ (5,535)**	**$ 46,799**	**$ 401**	**$ 47,200**
II. Assets, depreciation and capital expenditures					
Total assets	**$ 771,850**	**$45,296**	**$ 817,146**	**$(2,604)**	**$ 814,542**
Depreciation and amortization	**22,550**	**812**	**23,362**	**—**	**23,362**
Capital expenditures	**3,593**	**775**	**4,368**	**—**	**4,368**

(b) Geographical Segments

The Company has no consolidated subsidiaries located in countries or areas other than Japan.

(c) Overseas Sales

Overseas sales of the Company and its consolidates subsidiaries for the years ended December 31, 2003 and 2002 were less than 10% of consolidated net sales.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Senshukai Co., Ltd. and consolidated subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion independently on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Senshukai Co., Ltd. and consolidated subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

As described in Note 2 to the consolidated financial statements, effective July 1, 2003, the Company changed its method of accounting for employees' retirement benefits.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2003 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Shin Nihon & Co.

Osaka, Japan
March 30, 2004

Shin Nihon & Co.

See Note 1 to the consolidated financial statements which explains the basis of presenting financial statements of Senshukai Co., Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.

Board of Directors, Executive Officers, and Corporate Auditors

BOARD OF DIRECTORS

President and Representative Director
Yasuhiro Yukimachi

Representative Director
Tsunemasa Takai

Executive Managing Director and Executive Officer
Kimitoshi Noguchi

Managing Directors and Executive Officers
Koichi Horii
Yoshihiro Inoda
Kiyoshige Asahi

Senior Director
Ken Hirosaki

Directors and Executive Officers
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Shohachi Sawamoto
Shoji Tottori

EXECUTIVE OFFICERS
Akira Yoshida
Akira Hyuga
Kiyoshi Kubota
Kazuhide Fujiyoshi
Chikatoshi Ota

CORPORATE AUDITORS
Makoto Sano
Hirotsugu Yamagishi
Heian Hazama
Hideyuki Koizumi

(As of March 30, 2004)

Corporate Data

Senshukai Co., Ltd.

CORPORATE INFORMATION

Head Office
4-31, Doshin 1-chome,
Kita-ku, Osaka 530-0035, Japan
Telephone: 06-6881-3100

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

Established
November 1955

Paid-in Capital
¥20,359,134,244

Number of Employees
689

Distribution Centers
Kanuma, Chubu, Kyoto, and Koshien

Subsidiaries and Affiliates
Japan—17 subsidiaries
Overseas—5 subsidiaries and 2 affiliates

SHAREHOLDER INFORMATION

Total Number of Shares Authorized
90,000,000 shares

Total Number of Shares Issued
47,630,393 shares

Number of Shareholders
4,950

Stock and Securities Exchange Listings
Tokyo and Osaka

Transfer Agent
The Sumitomo Trust & Banking Co., Ltd.,
5-33, Kitahama 4-chome,
Chuo-ku, Osaka 541-0041, Japan

(As of December 31, 2003)

Senshukai Co., Ltd.
4-31, Doshin 1-chome,
Kita-ku, Osaka 530-0035, Japan

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