

(Translation)

Stock code: 8165

March 7, 2007

## NOTICE OF THE 62<sup>nd</sup> ORDINARY GENERAL MEETING OF SHAREHOLDERS

Dear Shareholder

You are cordially invited to attend the 62<sup>nd</sup> Ordinary General Meeting of Shareholders of Senshukai Co., Ltd. (“the Company”), which will be held as described hereunder.

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

Sincerely yours,

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

### MEETING AGENDA

- 1. Date and Time:** 10:00 a.m., Thursday, March 29, 2007
- 2. Venue:** Lecture hall on the seventh floor of Senshukai Business Center,  
1-6-23 Doshin, Kita-ku, Osaka
- 3. Agenda:**
- Items to be reported:*
1. Business Report, Consolidated Financial Statements for the 62<sup>nd</sup> fiscal year (January 1 to December 31, 2006); and Audit Reports of the Accounting Auditors and the Board of Corporate Auditors regarding Consolidated Financial Statements for the 62<sup>nd</sup> fiscal year.
  2. Financial Statements for the 62<sup>nd</sup> fiscal year (January 1 to December 31, 2006).
- Items to be proposed:*
- |            |  |
|------------|--|
| Proposal 1 | Appropriation of retained earnings   |
| Proposal 2 | Partial amendments to the Articles of Incorporation (1)                                      |
| Proposal 3 | Partial amendments to the Articles of Incorporation (2)                                      |
| Proposal 4 | Proposal to introduce countermeasures against large-scale purchases of shares of the Company |
| Proposal 5 | Election of nine (9) Directors   |
| Proposal 6 | Election of three (3) Corporate Auditors   |
| Proposal 7 | Grant of retirement benefits to retiring Corporate Auditors                                  |
| Proposal 8 | Payment of bonuses to Directors and Corporate Auditors                                       |
| Proposal 9 | Revision of compensation of Directors and Corporate Auditors                                 |

#### **4. Other matters determined for convening the Ordinary General Meeting of Shareholders**

##### **Exercise of voting rights by proxy**

If you are unable to attend the General Meeting of Shareholders, you can have another shareholder who has voting rights attend it in your place as a proxy. Note, however, that the proxy shareholder must submit a written certificate to prove his or her entitlement to act as proxy.

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

We will post any corrections to the reference documents for the General Shareholders Meeting, business reports, financial statements, or consolidated financial statements on our website (<http://www.senshukai.co.jp/soukai>).

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

## Procedure for Exercising Voting Rights

### 1. Voting by Mail

Please indicate your approval or disapproval of the proposal on the enclosed voting form and return it to us. All forms must be received by no later than 17:30, Wednesday, March 28, 2007, the day before the Ordinary General Meeting of Shareholders.

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

- (1) Please access the dedicated voting website at <http://www.webdk.net>, input the voting right exercise code and provisional password written in the enclosed voting form, and register your approval or disapproval of the proposals by following the on-screen instructions.
- (2) Online votes will be accepted until 17:30, Wednesday, March 28, 2007, the day before the Ordinary General Meeting of Shareholders. However, shareholders are kindly requested to register their online votes as early as possible to facilitate the counting of online votes.
- (3) If shareholders duplicate the vote, such as by exercising the voting rights both by mail and via the Internet, we will consider only the Internet vote to be valid.
- (4) If you vote more than once over the Internet, or vote both over the internet and using cellular phone, we will consider the latest vote to be valid.
- (5) Any fees, such as connection fees to Internet providers or any telecommunication fees to the telecommunication companies incurred by shareholders in using the dedicated voting website, are to be borne by the shareholders.
- (6) The following system requirements are necessary to access the dedicated voting website:
  - (i) Internet access; and
  - (ii) Shareholders choosing to exercise their voting rights using a PC should note that the website only supports the following browser software: Microsoft® Internet Explorer 5.5 or above, Netscape 6.2 or above. The website supports any hardware platform running the browser software specified above.

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

For more information about the foregoing items 1 and 2, please contact the Stock Transfer Agency Department of  
The Sumitomo Trust & Banking Co., Ltd  
Tel: 0120-186-417 (toll-free and available 24 hours. Japanese language only.)

### **3. To institutional investors**

Effective from this fiscal year, you can exercise your voting rights through electronic voting platforms (TSE platforms) as a means of exercising voting rights by electromagnetic means at the General Meeting of Shareholders.

## Reference Material for Ordinary General Meeting of Shareholders

### Proposals and References:

#### **Proposal 1:** Appropriation of retained earnings

Issues related to the year-end dividend for the 62nd fiscal year

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

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

10 yen per share of common stock of the Company; the total amount of 460,820,960 yen

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

March 30, 2007

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

1. Reasons for change

Pursuant to the enforcement of the Corporation Law (Law No.86 of 2005), the Law Concerning Adjustment and Coordination of Relevant Laws in Association with the Enforcement of the Corporation Law (Law No. 87 of 2005), Enforcement Regulations for the Corporation Law (Ordinance of the Ministry of Justice No. 12 of 2006) and the Corporate Calculation Regulations (Ordinance of the Ministry of Justice No. 13 of 2006), came into effect on May 1, 2006. Accordingly, the Company proposed the following amendments to the Articles of Incorporation:

- 1) The addition or modifications of articles that reflect the details of provisions in the Articles of Incorporation at the time of enforcement of the Corporation Law. (Proposed Revised Articles 4 and 7.)
- 2) The addition of article to set out the rights in of fractional shares. (Proposed Revised Article 11.)
- 3) The addition of article to facilitate diversification of information provision method for shareholders by disclosing information for reference materials to the General Meeting of Shareholders and business reports, as well as financial statements and consolidated financial statements on the Internet pursuant to stipulations in Enforcement Regulations for the Corporation Law and Corporate Calculation Regulations. (Proposed Revised Article 17.)

- 4) The modification in articles to specify the number of proxy who is another shareholder of the Company to exercise voting rights on behalf of shareholder at the General Meeting of Shareholders. (Proposed Revised Article 19.)
- 5) The addition of article to allow prompt decision making and to adopt resolutions made by the Board of Directors when all directors agreement to the items in writing at the Board of Directors' Meeting, and no objections being raised by auditors. (Proposed Revised Article 25.)
- 6) The addition of articles to allow the Company to conclude an agreement with Outside Auditors to limit the liability for damage for failing to carry out their duties in order to facilitate invitation of competent human resources. (Proposed Article 35.)
- Also, the addition of regulations to allow conclusion of an agreement to limit the responsibility of external directors for similar purport. (Proposed Change to Article 28.)
- The Company has already obtained agreement from all auditors to submit regulations that allow conclusion of liability limitation agreements with external directors to the General Meeting of Shareholders.
- 7) In addition, changes such as additions and amendments as well as relocation and arrangement of wording, necessary as a publicly traded company that is operated pursuant to the Corporation Law, shall be made across the board.

## 2. Details of the proposed amendments

The details of the proposed amendment are stated below.

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

Current Articles	Revised Articles proposed
ARTICLES OF INCORPORATION OF SENSHUKAI CO., LTD.	ARTICLES OF INCORPORATION OF SENSHUKAI CO., LTD.
CHAPTER I. GENERAL PROVISIONS	CHAPTER I. GENERAL PROVISIONS
Article 1 (Trade Name) The Company shall be called KABUSHIKIGAISHA SENSHUKAI and shall be rendered in English as SENSHUKAI CO., LTD.	Article 1 (Trade Name) The Company shall be called KABUSHIKIGAISHA SENSHUKAI and shall be rendered in English as SENSHUKAI CO., LTD.
Article 2 (Purpose) The purpose of the Company shall be to engage in the following businesses:	Article 2 (Purpose) The purpose of the Company shall be to engage in the following businesses:

Current Articles	Revised Articles proposed
<p>1. (Description of the clauses is omitted.)</p> <p>24.</p> <p>Article 3 (Location of Head Office) The head office of the Company shall be located in Osaka City.</p> <p><u>(Newly established article)</u></p> <p>Article 4 (Method of Public Notice) Public notices of the Company shall be given by means of electronic notification. However, in case electronic notification is not available due to an accident or unavoidable circumstances, notices shall be given by means of publishing in the Nihon Keizai Shimbun.</p> <p style="text-align: center;">CHAPTER II. SHARES</p> <p>Article 5 (Total Number of Shares to Be Issued) The total number of shares to be issued by the Company shall be one hundred eighty million (180,000,000) shares. <u>However, if any shares are cancelled, the number of shares equivalent to that of the cancelled shares shall be deducted from the above-mentioned total number of shares.</u></p> <p><u>(Newly established article)</u></p> <p>Article 6 (Acquisition of Own Shares) The Company may acquire its own shares by resolution</p>	<p>1. (Unchanged)</p> <p>24.</p> <p>Article 3 (Location of Head Office) The head office of the Company shall be located in Osaka City.</p> <p><u>Article 4 (Organizations)</u> <u>The Company shall establish the following organizations as well as general meetings of shareholders and Directors.</u></p> <p><u>(1) Board of Directors</u> <u>(2) Corporate Auditors</u> <u>(3) Board of Corporate Auditors</u> <u>(4) Accounting Auditors</u></p> <p>Article 5. (Method of Public Notice) Public notices of the Company shall be given by means of electronic notification. However, in case electronic notification is not available due to an accident or unavoidable circumstances, notices shall be given by means of publishing in the Nihon Keizai Shimbun.</p> <p style="text-align: center;">CHAPTER II. SHARES</p> <p>Article 6 (Total Number of Shares <u>Authorized</u> to Be Issued) The total number of shares <u>authorized</u> to be issued by the Company shall be one hundred eighty million (180,000,000) shares.</p> <p><u>Article 7 (Issuance of Stock Certificate)</u> <u>The Company shall issue stock certificates relating to shares.</u></p> <p>Article 8 (Acquisition of Own Shares) The Company may acquire its own shares <u>through</u></p>

Current Articles	Revised Articles proposed
<p>of the Board of Directors pursuant to Article 211-3, Paragraph 1, <u>Item 2</u> of the <u>Commercial Code</u> of Japan.</p>	<p><u>market dealings or other means</u> by resolution of the Board of Directors pursuant to Article 165, Paragraph 2 of the <u>Corporation Law</u> of Japan.</p>
<p>Article 7 (Additional Purchase of Shares of Less Than One Unit) Shareholders <u>who hold shares less than one unit (hereinafter referred to as “fractional shares”)</u> of the Company <u>(including beneficial shareholders entered or registered in the register of beneficial shareholders; the same applies hereinafter)</u> may demand that the Company sell and deliver such number of shares that, together with <u>the fractional shares</u> held by them, constitute one unit of shares.</p>	<p>Article 9 (Additional Purchase of Shares of Less Than One Unit) Shareholders of the Company may demand that the Company sell and deliver such number of shares that, together with <u>the shares less than one unit (hereinafter referred to as “fractional shares”)</u> held by them, constitute one unit of shares.</p>
<p>Article 8 (Number of Shares of One Unit and Non-issuance of Stock Certificates for Fractional Shares) 1. One unit of shares of the Company shall be comprised of one thousand (1,000) shares. 2. The Company shall not issue <u>any</u> share certificate <u>that indicates a number of shares less than one unit.</u></p>	<p>Article 10 (Number of Shares of One Unit and Non-issuance of Stock Certificates for Fractional Shares) 1. One unit of shares of the Company shall be comprised of one thousand (1,000) shares. 2. <u>Notwithstanding the provision of Article 7,</u> the Company shall not issue share certificates <u>for fractional shares.</u></p>
<p><u>(Newly established article)</u></p>	<p><u>Article 11 (Rights on Fractional Shares)</u> <u>Shareholders (including beneficial shareholders; the same applies hereinafter) of the Company may not exercise, with regard to fractional shares held by them, any right other than those set out in the following:</u> <u>(1) Rights set out in the items of Article 189, Paragraph 2 of the Corporation Law of Japan;</u> <u>(2) Right to make a claim pursuant to Article 166, Paragraph 1 of the Corporation Law of Japan;</u> <u>(3) Right to be allotted with offered shares and stock acquisition rights in proportion to the number of shares already held; and</u> <u>(4) Right to make a claim provided for in Article 9 of these Articles of Incorporation.</u></p>
<p>Article 9 (Share Handling Regulations) <u>Denominations of share certificates, registration of transfer of shares, acceptance of notices of beneficial shareholders, purchase and adding to holdings of</u></p>	<p>Article 12 (Share Handling Regulations) Procedures for handling shares of the Company and charges <u>therefore</u> shall be governed by the Share Handling Regulations established at a meeting of the</p>



Current Articles	Revised Articles proposed
<p><u>fractional shares and other</u> procedures for handling shares of the Company and charges <u>for the foregoing procedures</u> shall be governed by the Share Handling Regulations established at a meeting of the Board of Directors.</p>	<p>Board of Directors <u>in addition to applicable laws and regulations or these Articles of Incorporation.</u></p>
<p>Article <u>10</u> (Transfer Agent)</p> <ol style="list-style-type: none"> <li>1. The Company shall have a <u>transfer agent for its shares.</u></li> <li>2. The <u>transfer agent</u> and its place of business shall be designated by resolution of the Board of Directors and shall be publicly announced.</li> <li>3. The register of shareholders, <u>the register of beneficial shareholders</u> and the register of lost share certificates <u>shall be held at the place of business of the transfer agent and registration of transfer of shares, acceptance of notices of beneficial shareholders, purchase and additional purchase of fractional shares and other operations for handling shares</u> shall be entrusted to the <u>transfer agent</u> and shall not be handled by the Company.</li> </ol>	<p>Article <u>13</u> (Manager of Register of Shareholders)</p> <ol style="list-style-type: none"> <li>1. The Company shall have a <u>manager of the register of shareholders.</u></li> <li>2. The <u>manager of the register of shareholders</u> and its place of business shall be designated by resolution of the Board of Directors and shall be publicly announced.</li> <li>3. <u>Preparation and keeping of</u> the register of shareholders <u>(including the register of beneficial shareholders; the same applies hereinafter), the original register of stock acquisition rights</u> and the register of lost share certificates <u>and other operations relating to the foregoing registers</u> shall be entrusted to the <u>manager of the register of shareholders</u> and shall not be handled by the Company.</li> </ol>
<p>Article <u>11</u> (Record Date)</p> <ol style="list-style-type: none"> <li>1. The Company shall determine shareholders whose <u>names are entered or registered in the register of shareholders as of the account closing day of each accounting period as the shareholders who shall be entitled to exercise their voting rights at the ordinary general meeting of shareholders for such accounting period.</u></li> <li>2. <u>In addition to the preceding paragraph, if necessary, the Company may extraordinarily determine a record date by giving a public notice in advance.</u></li> </ol>	<p><u>(Deleted)</u></p>
<p style="text-align: center;">CHAPTER III. GENERAL MEETING OF SHAREHOLDERS</p>	<p style="text-align: center;">CHAPTER III. GENERAL MEETING OF SHAREHOLDERS</p>
<p>Article <u>12</u> (Convocation of General Meeting of Shareholders)</p> <p>Ordinary general meetings of shareholders of the Company shall be convened within three (3) months</p>	<p>Article <u>14</u> (Convocation of General Meeting of Shareholders)</p> <p>Ordinary general meetings of shareholders of the Company shall be convened within three (3) months</p>

Current Articles	Revised Articles proposed
<p>from the <u>day following the account closing day</u> of each <u>accounting period</u> and extraordinary general meetings of shareholders shall be convened whenever necessary.</p> <p><u>(Newly established article)</u></p> <p>Article <u>13</u> (Convocator and Chairperson)</p> <ol style="list-style-type: none"> <li>1. General meetings of shareholders shall be convened by the President, who shall act as chairperson.</li> <li>2. If the President is prevented from so acting, one of the other Directors shall <u>take the President's place in accordance with the order previously determined by the Board of Directors.</u></li> </ol> <p><u>(Newly established article)</u></p> <p>Article <u>14</u> (Method of Resolution)</p> <ol style="list-style-type: none"> <li>1. In addition to applicable laws and regulations or these Articles of Incorporation, resolutions of general meetings of shareholders <u>shall be adopted by a majority of the voting rights of the shareholders present thereat.</u></li> <li>2. <u>Special resolutions</u> prescribed in Article <u>343 of the Commercial Code</u> of Japan <u>shall be adopted by two-thirds (2/3) or more of the voting rights of the</u></li> </ol>	<p>from the <u>end</u> of each <u>business year</u> and extraordinary general meetings of shareholders shall be convened whenever necessary.</p> <p><u>Article 15 (Record Date for Ordinary General Meetings of Shareholders)</u></p> <p><u>The record date for the voting rights of ordinary general meetings of shareholders shall be December 31 of each year.</u></p> <p>Article <u>16</u> (Convocator and Chairperson)</p> <ol style="list-style-type: none"> <li>1. General meetings of shareholders shall be convened by the President, who shall act as chairperson.</li> <li>2. If the President is prevented from so acting, one of the other Directors <u>appointed in accordance with the order previously determined by the Board of Directors shall convene a general meeting of shareholders and act as chairperson thereat.</u></li> </ol> <p><u>Article 17 (Internet Disclosure and Deemed Supply of Reference Documents and Other Materials for General Meetings of Shareholders)</u></p> <p><u>At the convocation of a general meeting of shareholders, the Company may be deemed to have supplied the shareholders with information relating to matters to be entered or indicated in the reference documents for the general meeting of shareholders, business reports, financial statements and consolidated financial statements, by disclosing such information over the Internet pursuant to the provisions of the Ministry of Justice Ordinance.</u></p> <p>Article <u>18</u> (Method of Resolution)</p> <ol style="list-style-type: none"> <li>1. Unless otherwise provided for in laws and regulations or these Articles of Incorporation, resolutions of general meetings of shareholders shall be adopted by a majority of the voting rights of the shareholders present thereat <u>who are entitled to exercise voting rights.</u></li> <li>2. Resolutions prescribed in Article <u>309, Paragraph 2 of the Corporation Law</u> of Japan shall be adopted by two-thirds (2/3) or more of the voting rights of the</li> </ol>

Current Articles	Revised Articles proposed
<p><u>shareholders present, who shall have at least one-third (1/3) of the aggregate voting rights of all the shareholders.</u></p> <p>Article <u>15</u> (Exercise of Voting Rights by Proxy)</p> <ol style="list-style-type: none"> <li>Shareholders may exercise their voting rights by authorizing other shareholders who have voting rights in the Company to act as proxies.</li> <li><u>When authorizing a proxy, as described in the preceding paragraph,</u> the shareholder or the proxy must submit to the Company a document certifying such proxy at each general meeting of shareholders.</li> </ol> <p>Article <u>16</u> (Minutes)  <u>A summary of proceedings of a general meeting of shareholders and the results thereof shall be entered or recorded in minutes, which shall be kept at the Company after having been signed and sealed or electronically signed by the chairperson and the Directors who were present.</u></p> <p>CHAPTER IV. DIRECTORS AND THE BOARD OF DIRECTORS</p> <p>Article <u>17</u> (Number of Directors)  The Company shall not have more than ten (10) Directors.</p> <p>Article <u>18</u> (Election)</p> <ol style="list-style-type: none"> <li>Directors shall be elected by a resolution adopted by a majority of the voting rights of the shareholders present at a general meeting of shareholders, who shall have at least one-third (1/3) of the aggregate voting rights of all the shareholders.</li> <li>Directors shall not be elected by cumulative voting.</li> </ol> <p>Article <u>19</u> (Term of Office)  The term of office of a Director shall expire at the conclusion of the ordinary general meeting of</p>	<p>shareholders present, who shall have at least one-third (1/3) of the aggregate voting rights of all the shareholders <u>who are entitled to exercise voting rights.</u></p> <p>Article <u>19</u> (Exercise of Voting Rights by Proxy)</p> <ol style="list-style-type: none"> <li>Shareholders may exercise their voting rights by authorizing other shareholders who have voting rights in the Company to act as proxies.</li> <li>The shareholder or the proxy must submit to the Company a document certifying such proxy at each general meeting of shareholders.</li> </ol> <p>(Deleted)</p> <p>CHAPTER IV. DIRECTORS AND THE BOARD OF DIRECTORS</p> <p>Article <u>20</u> (Number of Directors)  The Company shall not have more than ten (10) Directors.</p> <p>Article <u>21</u> (<del>Method of</del> Election)</p> <ol style="list-style-type: none"> <li>Directors shall be elected by a resolution adopted by a majority of the voting rights of the shareholders present at a general meeting of shareholders, who shall have at least one-third (1/3) of the aggregate voting rights of all the shareholders <u>who are entitled to exercise voting rights.</u></li> <li>Directors shall not be elected by <u>a resolution based on</u> cumulative voting.</li> </ol> <p>Article <u>22</u> (Term of Office)  The term of office of a Director shall expire at the conclusion of the ordinary general meeting of</p>

Current Articles	Revised Articles proposed
<p>shareholders for the latest <u>accounting period</u> ending within one (1) year from <u>his/her assumption of office</u>.</p> <p>Article <u>20</u> (Representative Directors and Executive Directors)</p> <ol style="list-style-type: none"> <li>1. Representative Directors <u>shall be elected</u> by resolution <u>of the Board of Directors</u>.</li> <li>2. One (1) President and, if necessary, one (1) Chairperson, several Vice Presidents, Senior Managing Directors and Managing Directors <u>may be elected</u> by resolution <u>of the Board of Directors</u>. However, the President shall be elected from among the Representative Directors.</li> </ol> <p>Article <u>21</u> (Meetings of the Board of Directors)</p> <ol style="list-style-type: none"> <li>1. A meeting of the Board of Directors shall be convened by the President, who shall act as chairperson.</li> <li>2. If the President is prevented from so acting, one of the other Directors shall <u>take the President's place in accordance with the order previously determined by the Board of Directors</u>.</li> <li>3. Notice of convocation of a meeting of the Board of Directors shall be dispatched to each Director and each Corporate Auditor five (5) days prior to the date of the meeting. However, such period may be shortened in emergencies.</li> </ol> <p><u>(Newly established article)</u></p>	<p>shareholders for the last <u>business year</u> ending within one (1) year from <u>the election</u>.</p> <p>Article <u>23</u> (Representative Directors and Executive Directors)</p> <ol style="list-style-type: none"> <li>1. <u>The Board of Directors shall elect</u> Representative Directors by <u>its</u> resolution.</li> <li>2. <u>The Board of Directors may elect</u> one (1) President and, if necessary, one (1) Chairperson, several Vice Presidents, Senior Managing Directors and Managing Directors by <u>its</u> resolution. However, the President shall be elected among the Representative Directors.</li> </ol> <p>Article <u>24</u> (Meetings of the Board of Directors)</p> <ol style="list-style-type: none"> <li>1. A meeting of the Board of Directors shall be convened by the President, who shall act as chairperson, <u>unless otherwise provided for in laws and regulations</u>.</li> <li>2. If the President is prevented from so acting, one of the other Directors <u>appointed in accordance with the order previously determined by the Board of Directors shall convene a meeting of the Board of Directors and act as chairperson thereat</u>.</li> <li>3. Notice of convocation of a meeting of the Board of Directors shall be dispatched to each Director and each Corporate Auditor <u>at least</u> five (5) days prior to the date of the meeting. However, such period may be shortened in emergencies.</li> <li>4. <u>With the consent of all Directors and Corporate Auditors, a meeting of the Board of Directors may be held without taking procedures for convocation</u>.</li> </ol> <p><u>Article 25 (Omission of Resolution of the Board of Directors)</u> <u>If the requirements of Article 370 of the Corporation Law of Japan are satisfied, the Company shall deem that a resolution of the Board of Directors has been adopted.</u></p>

Current Articles	Revised Articles proposed
<p><u>Article 22 (Minutes of Meetings of the Board of Directors)</u>  <u>A summary of proceedings of a meeting of the Board of Directors and the results thereof shall be entered or recorded in minutes, which shall be kept at the Company after being signed and sealed or electronically signed by the Directors and the Corporate Auditors who were present.</u></p> <p>Article <u>23</u> (Regulations of the Board of Directors)  In addition to applicable laws and regulations <u>and</u> these Articles of Incorporation, matters relating to the Board of Directors shall be governed by the Regulations of the Board of Directors established at a meeting of the Board of Directors.</p> <p>Article <u>24</u> (Remuneration and <u>Retirement Benefits</u>)  <u>The amounts of remuneration and retirement benefits of</u> Directors shall be determined <u>at</u> a general meeting of shareholders.</p> <p><u>(Newly established article)</u></p> <p>CHAPTER V. CORPORATE AUDITORS AND THE BOARD OF STATUTORY AUDITORS</p> <p>Article <u>25</u> (Number of Corporate Auditors)  The Company shall not have more than five (5) Corporate Auditors.</p> <p>Article <u>26</u> (Election)  1. Corporate Auditors shall be elected by a resolution</p>	<p><u>(Deleted)</u></p> <p>Article <u>26</u> (Regulations of the Board of Directors)  In addition to applicable laws and regulations <u>or</u> these Articles of Incorporation, matters relating to the Board of Directors shall be governed by the Regulations of the Board of Directors established at a meeting of the Board of Directors.</p> <p>Article <u>27</u> (Remuneration and <u>Other Allowance</u>)  The amounts of remuneration, <u>bonus and other financial benefits to be received for the performance of duties (hereinafter referred to as “remuneration and other allowance”)</u> for Directors shall be determined <u>by resolution of</u> a general meeting of shareholders.</p> <p><u>Article 28 (Limitation of Liabilities of External Directors)</u>  <u>The Company may, pursuant to the provisions of Article 427, Paragraph 1 of the Corporation Law of Japan, conclude with external Directors, agreements to limit the liabilities for damages caused by the neglect of their duties. However, the maximum amount of the liabilities based on such agreements shall be the amount provided for in laws and regulations.</u></p> <p>CHAPTER V. CORPORATE AUDITORS AND THE BOARD OF STATUTORY AUDITORS</p> <p>Article <u>29</u> (Number of Corporate Auditors)  The Company shall not have more than five (5) Corporate Auditors.</p> <p>Article <u>30</u> (<u>Method of Election</u>)  Corporate Auditors shall be elected by a resolution</p>

Current Articles	Revised Articles proposed
<p>adopted by a majority of the voting rights of the shareholders present at a general meeting of shareholders, who shall have at least one-third (1/3) of the aggregate voting rights of all the shareholders.</p> <p><u>2. Statutory Auditors may express their opinions on their election or removal at a general meeting of shareholders.</u></p> <p>Article <u>27</u> (Term of Office) The term of office of a Corporate Auditor shall expire at the conclusion of the ordinary general meeting of shareholders for the last <u>accounting period</u> ending within four (4) years from <u>such Corporate Auditor's assumption of office</u>.</p> <p>However, the term of office of a Corporate Auditor who was elected to fill a vacancy of another Corporate Auditor shall be the remaining term of office of the <u>predecessor</u>.</p> <p>Article <u>28</u> (Meetings of the Board of Corporate Auditors) Notice of convocation of a meeting of the Board of Corporate Auditors shall be dispatched to each Corporate Auditor five (5) days prior to the date of the meeting.</p> <p>However, such period may be shortened in emergencies.</p> <p><u>Article 29 (Minutes of Meetings of the Board of Directors)</u> <u>A summary of proceedings of a meeting of the Board of Statutory Auditors and the results thereof shall be entered or recorded in minutes, which shall be kept at the Company after being signed and sealed or electronically signed by the Corporate Auditors who were present.</u></p> <p>Article <u>30</u> (Regulations of the Board of Corporate Auditors)</p>	<p>adopted by a majority of the voting rights of the shareholders present at a general meeting of shareholders, who shall have at least one-third (1/3) of the aggregate voting rights of all the shareholders <u>who are entitled to exercise voting rights.</u></p> <p><u>(Deleted)</u></p> <p>Article <u>31</u> (Term of Office) The term of office of a Corporate Auditor shall expire at the conclusion of the ordinary general meeting of shareholders for the last <u>business year</u> ending within four (4) years from <u>the election</u>.</p> <p>However, the term of office of a Corporate Auditor who was elected to fill a vacancy of another Corporate Auditor <u>who had retired before the expiration of the term of office</u> shall be the remaining term of office of the <u>retired Corporate Auditor</u>.</p> <p>Article <u>32</u> (Meetings of the Board of Corporate Auditors) 1. Notice of convocation of a meeting of the Board of Statutory Auditors shall be dispatched to each Statutory Auditor <u>at least</u> five (5) days prior to the date of the meeting.</p> <p>However, such period may be shortened in emergencies.</p> <p><u>2. With the consent of all Corporate Auditors, a meeting of the Board of Corporate Auditors may be held without taking procedures for convocation.</u></p> <p><u>(Deleted)</u></p> <p>Article <u>33</u> (Regulations of the Board of Corporate Auditors)</p>

Current Articles	Revised Articles proposed
<p>In addition to applicable laws and regulations <u>and</u> these Articles of Incorporation, matters relating to the Board of Statutory Auditors shall be governed by the Regulations of the Board of Corporate Auditors established at a meeting of the Board of Corporate Auditors.</p>	<p>In addition to applicable laws and regulations <u>or</u> these Articles of Incorporation, matters relating to the Board of Corporate Auditors shall be governed by the Regulations of the Board of Corporate Auditors established at a meeting of the Board of Corporate Auditors.</p>
<p>Article <u>31</u> (Remuneration and <u>Retirement Benefits</u>) The amounts of remuneration and <u>retirement benefits</u> of Corporate Auditors shall be determined <u>at</u> a general meeting of shareholders.</p>	<p>Article <u>34</u> (Remuneration and <u>Other Allowance</u>) The amounts of remuneration and <u>other allowance</u> of Corporate Auditors shall be determined <u>by resolution of</u> a general meeting of shareholders.</p>
<p><u>(Newly established article)</u></p>	<p><u>Article 35 (Limitation of Liabilities of External Corporate Auditors)</u> <u>The Company may, pursuant to the provisions of Article 427, Paragraph 1 of the Corporation Law of Japan, conclude with external Statutory Auditors, agreements to limit the liabilities for damages caused by the neglect of their duties. However, the maximum amount of the liabilities based on such agreements shall be the amount provided by laws and regulations.</u></p>
<p>CHAPTER VI. ACCOUNTING</p>	<p>CHAPTER VI. ACCOUNTING</p>
<p>Article <u>32</u> (<u>Accounting Period</u>) The <u>accounting period</u> of the Company shall be from January 1 of each year through December 31 of the same year <u>and the last day of the accounting period shall be the account closing date.</u></p>	<p>Article <u>36</u> (<u>Business Year</u>) The <u>business year</u> of the Company shall be <u>the one-year period</u> from January 1 of each year through December 31 of the same year.</p>
<p>Article <u>33</u> (<u>Dividends</u>) <u>Dividends shall be paid to the shareholders or registered pledges whose names are entered or registered in the register of shareholders as of each account closing date.</u></p>	<p>Article <u>37</u> (<u>Record Date for Distribution of Surplus Money</u>) 1. <u>The record date for the year-end distribution of the Company shall be December 31 of each year.</u> 2. Surplus money may be distributed by designating a record date in addition to the above.</p>
<p>Article <u>34</u> (Interim Dividends) The Company may, by resolution of the Board of Directors, pay interim dividends <u>to the shareholders or registered pledges whose names are entered or registered in the register of shareholders as of June 30 of each year.</u></p>	<p>Article <u>38</u> (Interim Dividends) The Company may, by resolution of the Board of Directors, pay interim dividends <u>designating June 30 of each year as the record date.</u></p>
<p>Article <u>35</u> (Period of Limitation of Dividends)</p>	<p>Article <u>39</u> (Period of Limitation of Dividends)</p>

Current Articles	Revised Articles proposed
<p>1. If any <u>dividends or interim dividends are</u> not received for three (3) full years from the date of <u>determination</u> of payment, the Company shall be relieved of the obligation to pay such dividends.</p> <p>2. Unpaid dividends shall not accrue any interest.</p>	<p>1. If any <u>distributable assets are</u> in monetary form <u>and</u> are not received for three (3) full years from the date of <u>commencement</u> of payment, the Company shall be relieved of the obligation to pay such dividends.</p> <p>2. Unpaid dividends shall not accrue any interest.</p>

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

1. Reasons for change

- 1) Pursuant to the resolution of the Board of Directors' Meeting held on December 13, 2005, the Company introduced a "Policy toward Large-scale Purchases of Shares of the Company" as a countermeasure against takeovers in ordinary times with an effective period up to the end of the General Meeting of Shareholders for the fiscal year ending December 2007. In consideration of various developments surrounding countermeasures against corporate acquisition such as the enforcement of the Corporation Law (Law No. 86 of 2005), the Company thereafter continued to examine the appropriate countermeasures against takeovers in ordinary times. Accordingly, we propose to add a regulation that will allow us to introduce "countermeasures against large-scale purchases of shares of the Company" to the Articles of Incorporation, to be resolved at the General Meeting of Shareholders 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 and reflecting the intention of shareholders in defined form from a legal point of view. (Proposed Change to Article 20)
- 2) Pursuant to the addition of Article 20 to the Articles of Incorporation, we propose to move down the article number as required.

2. Details of the proposed amendments

The details of the proposed amendment are stated below.

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

Current Articles	Revised Articles proposed
<p>(Newly established article)</p>	<p><u>Article 20 (Matters to Be Resolved at General Meeting of Shareholders)</u></p> <p>1. <u>At general meetings of shareholders, the Company may determine, by way of resolution, not only matters separately prescribed to be resolved thereat in laws and regulations and these Articles of Incorporation but also countermeasures for the acquisition of a large amount of shares of the</u></p>



Current Articles	Revised Articles proposed
<p>Article <u>20</u> (Description of the articles is omitted.) Article <u>39</u></p>	<p><u>Company.</u> <u>2. The countermeasures for acquisition of a large amount of shares of the Company mentioned in the preceding paragraph shall mean measures that propose to make it difficult to acquire the Company by issuing new shares or stock acquisition rights that are not mainly for business purposes such as funding and tie-ups, and which are introduced before the commencement of acquisition by any party that may prejudice the corporate value of the Company or the common interest of the shareholders. The introduction in the above sentence shall mean the determination of concrete details of the countermeasures for acquisition of large amounts of the Company's shares.</u></p> <p>Article <u>21</u> (Unchanged) Article <u>40</u></p>

Note: The details of the proposed revision 2. are those assuming the original proposal is approved.

**Proposal 4:**

Proposal to introduce countermeasures against large-scale purchases of shares of the Company  
As specified in Proposal 3, reasons of change (2) of Partial amendments to the Articles of Incorporation, and pursuant to the resolution of the Board of Directors' Meeting held on December 13, 2005, the Company introduced "Policy toward Large-scale Purchases of Shares of the Company" as a countermeasure against takeovers in ordinary times with an effective period up to the end of General Meeting of Shareholders for fiscal year ending December 2007. (Hereafter, referred to as "the prevailing plan.") In consideration of various developments surrounding countermeasures against corporate acquisition such as the enforcement of the Corporation Law (Law No.86 of 2005), the Company thereafter continued to examine the appropriate countermeasures against takeovers in ordinary times. As a result, the Board of Directors' Meeting held on February 2, 2007 resolved to introduce the following countermeasures against large-scale purchases of shares of the Company (hereafter, referred to as "the plan") as part of efforts to ensure and increase the corporate value of the Company and common interests of shareholders, to prevent any attempts at abusive acquisitions targeting the Company, on the condition that we obtain the approval of the shareholders at the General Meeting of Shareholders. As the plan is a crucial issue associated with the basis of the Company's capital policy and we deemed it appropriate to reflect the intention of the

shareholders concerning the subject, we propose to introduce the plan on condition that Proposal 3, Partial Amendments to the Articles of Incorporation (2), is approved.

## **I. Our efforts for increasing the corporate value and common interests of shareholders**

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

In order to increase corporate value, the Company has developed and implemented the “medium-term business plan” for the three years planning period from January 2005 to December 2007. We are confident that we will be able to increase our corporate value and eventually meet the expectations of shareholders by steadily implementing the medium-term business plan. At the start of fiscal 2005, we developed a new policy on the profit distribution to shareholders, and we intend to return profits proactively in accordance with earnings in the future. We believe that CSR (Corporate Social Responsibility) and compliance (compliance with laws and regulations) will be increasingly necessary for the 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-term business plan**

The Company established the following three policies as a basic policy for the medium-term business plan:

#### 1) Enhancing profitability in the core business

We will not strain ourselves to boost sales in the catalog mail-order business, especially in existing areas primarily targeting women in their late 20s to 30s. Rather, we will focus on enhancing profitability.

#### 2) Making proactive investment in growth areas

We will make proactive investment in order to achieve sales growth through “expansion of customer age groups from 20s to 40s” and “expansion of sales channels” to Internet shopping and retail outlets.

#### 3) Increasing brand value

All employees of the Company will act in unison to create “Belle Maison” that will touch the customers’ heartstrings with the slogan “Super thrilling and super exciting .”

### **3. Progress of prime strategies**

#### 1) Promotion of SCM (supply-chain management)

Our rapid delivery ratio (the ratio of product in-stock and available for immediate

delivery) and delivery-to-order ratio (ratio of number of shipments per order) for fiscal 2006 underachieved our projection because of a change in the in-stock indicator rule (rule that decides the timing of shipment by the in-stock condition of all products, for which orders are received) and increased sales of products from “Watashitachi no Kurasu Fuku” catalogue. In the meantime, our ratio of imports is increasing steadily in comparison with our projection. We will strive to achieve our projection for fiscal 2007, the last fiscal year of the medium-term business plan.

## 2) Reassessment of Catalog Positioning

We continued to reassess each catalog’s positioning in fiscal 2006 and have successfully reduced the total number of catalogs published in comparison with the previous year. Looking ahead, we will continue to reassess catalogs.

## 3) Expansion of Female Customer Age Groups from 20s to 40s

20s: In order to strengthen product sales and services provided via the Internet and mobile content targeting customers in their 20s, we opened the following shopping websites: *Edite*, an Internet exclusive shop; “*mobakore*” (mobile collections) a fashion-related shopping site on the mobile website operated by a joint venture with DeNA Co., Ltd. *Shoplat*, a mobile website operated by a subsidiary; and *RanRan Ranking*, a mobile-phone information shopping website (for NTT DoCoMo i-mode users) operated jointly with Bandai Networks Co., Ltd.

40s: Targeting these customers, we have launched the fashion catalog *Rashisa* and the interiors catalog *Luxe Living*. In addition, we are striving to retain more customers in this age group and acquire new customers by publishing *Watashitachi no Kurasu Fuku*.

## 4) Promotion of Internet Sales

During fiscal 2006, we posted Internet sales of 55.7 billion yen, an increase of 22.6% from the previous year, of which sales via the mobile website increased by 14.3% from the previous year to 12.5 billion yen, through our efforts for strengthening the affiliate program and development of products that are sold exclusively on the Internet. In the meantime net sales on the Internet (sales from customers who utilize only the Internet through all the shopping processes and do not refer to a copy of the catalog) were 25.4 billion yen, an increase of 52.2% from the previous year.

## 5) Development of Storefront Businesses

We opened one new Belle Maison Market store, specifically Yao store (Yao city, Osaka), bringing the total number of these stores to seven. Looking ahead, we will

steadily develop store front business while examining the buying pattern of customers for each store and the catalog products that match each store.

6) Stronger Product Planning and Development Capabilities

We are in the process of reassessing our merchandising processes and reconstructing our management framework for product development.

7) Better Customer Service

We are working to enhance various customer services, including strengthening the order system at the Belle Maison Call Center and reducing the number of days for deliveries.

#### **4. Profit distribution policy**

We have set an annual dividend payout ratio of 30% as the basic policy from fiscal 2005. Concerning fiscal 2005, we paid out ordinary dividend of 16 yen per share annually, which was the same as the previous year, in consideration of the profit decline as a result of early adoption of accounting for impaired assets, and a commemorative dividend of 2 yen celebrating the Company's 50th anniversary. We will strive to maintain profit distribution based on an annual dividend payout ratio of 30% for fiscal 2006 and beyond.

## **II. Purposes of introducing the plan**

As we described above, the Senshukai Group will focus its efforts on implementing various measures to achieve further growth and enhance our corporate value as well as increasing common interests of shareholders while maintaining our management policy to date. However, we have recently seen an obvious trend in the capital market to abruptly purchase shares on a large-scale without going through the process of sufficient discussion and agreement with the management of targeted companies.

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

However, many large-scale purchases of shares do not contribute to the increase of corporate value and common interests of shareholders. For example, sometimes such purchases target only specific assets and technology, which is clearly detrimental to the corporate value and common interests of shareholders. At other times, such purchase may effectively force shareholders to sell their shares, where it may provide insufficient time and information being given for a Board of Directors' Meeting, and shareholders of the target

company to examine the large-scale purchase of shares, or for the Board of Directors' Meeting of the target company to present alternative proposals, and where the target company needs to negotiate with the purchaser to obtain more favorable terms than the purchaser has offered.

In order for the Company to ensure and increase the corporate value and common interests of shareholders under the Medium-term Business Plan, it is critical, as described above, that we should execute business while focusing on the following points: 1) reinforcing profitability of the core business; 2) making proactive investment in growth areas; and 3) improving brand value. If the entity purchasing the Company's shares will not ensure and improve these in the medium-to-long term, such action will be detrimental to our corporate value and common interests of shareholders.

The Senshukai Group operates in a broad range of businesses such as the mail-order business that includes catalog mail order and buyer's club business; the corporate business that provides products and services for corporations; and the service business that primarily deals in travel and credit businesses. Provided that shareholders accept the proposal for large-scale purchase of our shares, therefore, it is not always easy to judge appropriately whether to accede to such proposal after fully assessing various elements that construct the corporate value of the Company, which operates in a broad range of businesses.

Considering the above, and with the purpose of ensuring and increasing the corporate value and the common interests of shareholders, the Company decided to introduce the plan as a framework to deal with the large-scale purchase of shares and allow 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.

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

### **III. Details of the plan**

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

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

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

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

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

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

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

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

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

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

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

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

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

Prior to carrying out the purchase or making proposal thereof (hereinafter, collectively referred to as “the purchase”), the purchaser or similar party must submit a letter of intention to the 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 Company, describing the name, address, governing law for establishment, name of representative, contact information in Japan, and outline of the purchase.

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

### **(1) 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 Company.

(2) Matters related to the purchaser or similar party

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

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

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

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

Based on 2. above, and after the sufficient information the Company requested is ready, the Company shall set a period (hereinafter, referred to as “the evaluation period”) in accordance with 1) or 2) below, depending on the details of such purchase, as a grace

period for the Board of Directors' Meeting of the company to evaluate and examine such information and form an opinion for negotiation with the purchaser or similar party, or on the purchase of the Company's shares and develop alternative proposals or schemes.

The purchase shall be carried out only after such evaluation period.

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

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

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

#### **4. Recommendation by Special Committee**

##### **(1) Special Committee**

The Company has separately established a Special Committee for the prevailing plan to discuss and negotiate with the purchaser or similar party, extend the evaluation period as specified in 3. above, and secure objectivity and rationality of the decision of the Board of Directors of the Company with regard to appropriateness of the reason for implementation as specified in (2) below. As the Company introduces the plan, the Special Committee for the prevailing plan takes charge of such matters related to the plan continuously.

In compliance with the procedures specified in the Special Committee Rules in



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

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

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

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

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

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

- 1) If the purchase does not follow the procedures specified in the plan
- 2) If the purchase may cause clear impairment of corporate value of the Company and common interests of shareholders because of the actions listed from (i) to (iv) below.

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

sustainably increase the corporate value of the Company and significantly impair the corporate value of the Company and common interests of shareholders.

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

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

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

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

**5. Resolution of the Board of Directors**

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

If the Board of Directors of the Company decides to cancel or withdraw

implementation of the plan after the decision on the implementation thereof, there shall be no dilution of per-share value of stock. Therefore, if the shares are traded assuming the dilution of per-share value of the stock, the person trading the stock may sustain due losses from fluctuations in the share price.

## **6. Specific countermeasures**

As specific countermeasures of the Board of Directors of the Company against inappropriate purchases, it shall allocate stock acquisition rights at no cost (hereinafter, referred to as “the stock acquisition rights”), described in Appendix 4: Important points on allotment of stock acquisition rights granted free of charge.

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

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

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

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

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

### **(3) Total number of the stock acquisition rights**

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

### **(4) The amount to be paid upon exercising the stock acquisition rights**

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

### **(5) Exercise period of the stock acquisition rights**

The exercise period of the stock acquisition rights shall be the period between three weeks elapsed after the effective date of the allocation of the stock acquisition rights at no cost 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.

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

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

(7) Acquisition of stock acquisition rights

The Company shall be allowed to acquire stock acquisition rights held by those who do not fall into any of a) through f) in (6) in the above, by issuing one unit of common stock of the Company in the number of shares to be issued per unit of the stock acquisition rights by the decision of the Board of Directors of the Company on the date specified by the Board of Directors of the Company within the period between the effective date of the stock acquisition rights allocation at no cost and the expiration of the exercise period thereof. If the Board of Directors of the Company recognizes on the date of such acquisition or thereafter that there are holders of the stock acquisition rights who do not fall into any of a) through f) of (6) above, the Company shall allow to acquire the stock acquisition rights held by those who do not fall into any of a) through f) in (6) above by issuing the unit of common stock in the number of shares to be issued per unit of the stock acquisition rights on the date specified by the Board of Directors of the Company held after the date of above acquisition, and the same shall apply thereafter.

(8) Transfer of stock acquisition rights

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

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

The expiration date of the plan shall be at the end of ordinary general meeting of shareholders for the fiscal year ending December 2007. Note, however, that if the agenda for abolishing the plan is approved at the general meeting of shareholders, even

prior to the end of the expiration date, or if the Board of Directors of the Company comprised of directors, who are selected at the general meeting of shareholders of the Company, resolve to abolish the plan, the plan shall be abolished at that point. Therefore, the plan may be abolished if that is the intention of the shareholders.

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

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

#### **IV. Mechanism of enhancing the rationality of the plan**

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

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

##### **2. Ensure that the plan was introduced for the purpose of ensuring and increasing the common interests of shareholders**

As is described in II. Purposes of introducing the plan in the above, the plan was introduced to ensure and increase the corporate value of the Company, and by extension, the common interests of shareholders, by ensuring that, when the purchase of the Company's shares should be carried out, shareholders shall be able to decide whether to accept such purchase or not, or the Board of Directors of the Company shall be allowed to secure the necessary information and time to present an alternative proposal or negotiate with the purchaser on behalf of the shareholders.

##### **3. Ensure that the plan places emphasis on the shareholders' intention**

The plan shall be introduced after we obtain approval of the shareholders at the general meeting of shareholders and its expiration date shall be the end of the ordinary general

meeting of shareholders for the fiscal year ending December 2007.

Even before the expiration of that period, if the agenda for abolishing the plan is approved at the general meeting of shareholders or the Board of Directors of the Company, which is comprised of directors selected at the general meeting of shareholders of the Company, the plan shall be abolished at that point. In this sense, the plan shall reflect the intention of the shareholders.

#### **4. Setting reasonable and objective reasons of implementation of the plan**

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

The Special Committee shall evaluate the appropriateness of reasons of implementation of the purchase by the purchaser or similar party, in compliance with procedures specified in the Special Committee Rules and make recommendations at the Board of Directors’ Meeting. The Board of Directors’ Meeting 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.

#### **5. Establishing Special Committee**

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

In consideration of the purpose of its establishment, the Special Committee shall be comprised of individuals who satisfy the conditions listed in III-4 (1) above and are independent from the Board of Directors’ Meeting of the Company. In addition, it shall be allowed to obtain the advice of experts, such as financial advisors, lawyers, and certified accountants, who are independent third parties.

In compliance with the procedures specified in the Special Committee Rules, the Special Committee shall evaluate and examine the appropriateness of reasons of

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

#### **6. Ensuring that the plan is not a dead-hand type of countermeasure against takeovers**

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

Therefore, the plan is not a dead-hand type of countermeasure against takeovers (countermeasures against takeovers in which implementation of the plan shall not be stopped, even if the majority of the Board of Directors are replaced).

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

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

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

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

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

If the Board of Directors of the Company decides to implement the plan and resolves to issue the stock acquisition rights through allocation of stock acquisition rights at no cost, one unit of the stock acquisition rights per share of stock shall be allocated to shareholders who are listed or recorded in the final register of shareholders, or list of beneficial shareholders, on the date of allocation specified by the relevant resolution.

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

(1) If the Board of Directors of the Company decides to implement the plan and resolves to issue the stock acquisition rights through the allocation of the stock acquisition rights at no cost, it shall determine the allocation date and announce it publicly. As the stock acquisition rights shall be allocated to the shareholders listed or recorded in the final register of shareholders or the list of beneficial shareholders at the allocation date according to the number of shares held by each shareholder, shareholders shall be required to go through the procedures for transfer of shares by the notified allocation



date. (In the meantime, procedures for transfer of shares shall not be necessary for share certificates entrusted with Japan Securities Depository System, Inc.)

(2) Procedures for exercising the stock acquisition rights

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

Note, however, that if the Company decides that the stock acquisition rights shall be obtained in exchange for the shares of the Company, and if the Company goes through the acquisition procedures, shareholders who hold the stock acquisition rights, which the Board of Directors' Meeting determined as the subject of acquisition, shall receive the shares of the Company in consideration of acquisition of such stock acquisition rights without paying money equivalent to the exercise price. In this case, therefore, the Company shall not send the stock acquisition rights exercise request form, but it may request such shareholders to submit a written pledge in the predetermined format to declare that they are not specific large-volume shareholders.

[Appendix 1]

### Shareholder status

#### 1. Breakdown of shares by type of shareholder (as of December 31, 2006)

Financial institutions	(9,947 shares / 21.08%)
Foreign corporations	(4,844 shares / 10.27%)
Securities companies	(532 shares / 1.13%)
Treasury stocks	(1,548 shares / 3.28%)
Other corporations	(17,347 shares / 36.78%)
Individuals and others	(12,951 shares / 27.46%)

#### 2. Major shareholders (Top 10) (As of December 31, 2006)

Name	Shareholders' investment in the Company	
	Number of shares held	The ratio of voting rights (%)
Brestoshieb Co., Ltd.	3,436,000	7.53
Nikko Principal Investments Japan Ltd.	3,400,000	7.45
Toppan Printing Co., Ltd.	1,838,147	4.03
Sawzan, Ltd.	1,792,857	3.93
Dai Nippon Printing Co., Ltd.	1,509,663	3.31
State Street Bank and Trust Company 505019	1,288,440	2.82
Japan Trustee Services Bank, Ltd. (Trust account)	1,229,000	2.69
Sumitomo Mitsui Banking Corp.	1,165,370	2.55
Mizuho Bank, Ltd.	1,019,961	2.23
Nippon Life Insurance Company	988,307	2.17

Note: The Company holds 1,548,297 shares of the Company as treasury stock.

#### 3. Shareholding status for the directors and corporate auditors of the Company and their family members (as of December 31, 2006)

Total number of shares held: 1,713,726 shares; ratio of voting rights: 3.75%

#### 4. Recent report on large-volume shareholding (after December 31, 2006)

There has been no applicable report.

[Appendix 2]

## **Special Committee Rules**

### Article 1 (Purpose)

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

### Article 2 (Authority and obligation)

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

### Article 3 (Constituents and role thereof)

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

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

Article 4 (Holding of Special Committee)

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

Article 5 (Person entitled to convene Special Committee)

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

Article 6 (Notice of convocation)

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

Article 7 (Omission of convocation procedures)

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

Article 8 (Resolution method)

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

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

Article 9 (Recommendation)

1. If the reasons of purchase by the purchaser or similar party (hereinafter, referred to as “the reasons of implementation”) apply to any of the following and implementation of the plan is deemed to be reasonable, the Special Committee shall recommend the implementation of the plan to the Board of Directors of the Company:
  - 1) If the purchase does not follow the procedures specified in the plan.
  - 2) If the purchase may cause clear impairment of corporate value of the Company and common interests of shareholders because of actions listed in (i) to (iv) below.
    - (i) If the purchaser or similar party boosts the share price with no real intention of participating in the management of the Company and demands that the Company buys back the purchased shares at an inflated price (a greenmailer).
    - (ii) If the purchaser engages in management to achieve the interest of the purchaser or similar party at the sacrifice of the Company, such as controlling the management of the Company temporarily to obtain important intellectual property rights, operating know-how, corporate confidential information, and assets of the main business partners and customers at low cost.
    - (iii) If the purchaser or similar party diverts the assets of the Company or its group companies as collateral of debt or payment resource.
    - (iv) If the purchaser or similar party controls the management of the Company temporarily and disposes of high-value assets that are not related to the business for the time being, such as real estate and marketable securities, of the Company or its group companies to force the Company to pay high dividends temporarily using the profit from the disposal, or sells the shares at the highest price by waiting for the share price to surge against the backdrop of a temporarily high dividend.
  - 3) If the purchase applies to coercive, two-step large-scale purchase of shares (in which the purchaser or similar party does not solicit purchase of all shares at the initial purchase attempt but presents unfavorable terms of purchase or does not define the terms thereof clearly at the second purchase attempt), that may virtually force the shareholders of the Company to sell shares.
  - 4) If the purchase is carried out without setting a reasonable period for the Company to present an alternative proposal for the relevant purchase.

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

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

2. The Special Committee shall promptly recommend the result of resolution and the reason thereof to the Board of Directors of the Company.
3. The Board of Directors of the Company shall place prime importance on the recommendation by the Special Committee as in the preceding clause in making the final decision.
4. Details of the recommendation by the Special Committee shall be made public at the time of announcing the details of resolution of the Board of Directors of the Company on the relevant matter.

#### Article 10 (Advisory)

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

Article 11 (The Minutes of meeting)

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

Article 12 (Administrative office)

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

Article 13 (Amendment or abolishment of the regulation)

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

Article 14 (Enforcement)

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

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

[Appendix 3]

### **Brief Personal Profile of Special Committee Members**

Jotaro Yabe: Born in 1939

1963: Joined Secretariat of Japan Fair Trade Commission

1997: Assumed General Secretariat of Japan Fair Trade Commission

1998: Retired from Japan Fair Trade Commission

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

2002: Retired from Professor of Osaka University

Assumed Vice Chairman of Fair Trade Institute

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

2005: Assumed external auditor of Onward Kashiyama Co., Ltd. (present position)  
Assumed external director of Daiichi Pharmaceutical Co., Ltd. (Present position)

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

2006: Retired from Vice Chairman of Fair Trade Institute

Toshio Kobayashi: Born in 1960

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

1991: Earned a doctoral degree in Economics at Osaka University

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

2005: Assumed examiner of second-stage CPA examination under the jurisdiction of Financial Services Agency (Present position)

Hiroshi Morimoto: Born in 1960

1987: Registered as lawyer (Osaka Bar Association)  
Joined Kitahama Partners

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

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

2006: Assumed external auditor of Senshukai Co., Ltd. (Present position)



[Appendix 4]

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

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

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

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

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

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

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

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

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

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

(4) Period of exercise of the stock acquisition rights

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

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

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

(6) Limitation of transfer of stock acquisition rights

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

(7) Acquisition of the stock acquisition rights by the Company

The Company may acquire stock acquisition rights held by a person who does not fall under (e)(1) 1) to 6) stated below, by granting one unit of the Company's applicable common shares per stock acquisition right on the day specified by the Company's Board of Directors between the day allotment of the stock acquisition rights granted free of charge takes effect (defined in (d) below) and the day the exercise of the stock acquisition rights expires. Also, if the Company's Board of Directors acknowledges that there is someone who does not fall under (e)(1) 1) to 6) stated below, of those who own the stock acquisition rights after the day such an acquisition is made, the Company may acquire stock acquisition rights held by a person who does not fall under (e)(1) 1) to 6) by granting one unit of the Company's applicable common shares per stock acquisition right on the day specified by the Company's Board of Directors after the day the above acquisition is made, and the same afterwards.

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

To carry out a merger in which the Company ceases to exist, a merger split or new establishment split in which the Company becomes a demerged corporation, or a stock exchange or stock transfer in which the Company becomes a wholly-owned subsidiary, obligation for stock acquisition rights that have not been acquired or exercised or redeemed as of the relevant point of time may be handed over to the following entities: 1) the company that continues to exist after the relevant merger (hereafter referred to as the "company continuing to exist after an absorption merger"); 2) the company that will be established as a result of the

relevant merger (hereafter referred to as the “newly established company as a result of a new establishment merger”) in the event of a merger; 3) the company that takes over whole or part of the rights and obligations owned by the company split as a result of the relevant merger split (hereafter referred to as “company taking over after a merger split”) in the event of a merger split; 4) the company that is established as a result of the relevant new establishment split (hereafter referred to as the “company newly established as a result of new establishment split”) in the event of a new establishment split; or 5) the company that will be the wholly owning parent company as a result of the relevant stock exchange or stock transfer (hereafter referred to as the “wholly owning parent company as a result of a stock exchange” or “wholly owning parent company established as a result of stock the stock transfer.” The above 6 entities are hereafter collectively referred to as “company that continues to exist”) in the event of a stock exchange or stock transfer based on the following decision policies. Note that this applies only if the general meeting of shareholders of the Company approves the agenda on the merger agreement, merger split agreement, new establishment split plan, stock exchange agreement or stock transfer plan, which provides statements complying with the following decision policies with respect to takeover of obligations for the stock acquisition rights in each case.

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

(9) Limitation of issuance of stock acquisition rights securities

No stock acquisition rights securities shall be issued.

(b) Total number of stock acquisition rights

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

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

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

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

(1) Base date

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

(2) Effective date

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

(e) Conditions to exercise the stock acquisition rights

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

The terms used above are defined as follows:

- 1) A "specified mass shareholder" refers to a person who holds at least 20% (defined in Paragraph 4 of Article 27-23 of the same law) of the stock certificates, etc., issued by the Company (defined in Paragraph 1 of Article 27-23 of the Securities Exchange Law; hereafter the same unless otherwise separately specified) or who are approved by the Company's Board of the Directors to hold not less than 20% of such stock certificates, etc.
- 2) The "co-shareholder" refers to a person defined in Paragraph 5 of Article 27-23 of the Securities and Exchange Law (including a person who has been recognized by the Company's Board of Directors as falling under this category). This also includes persons who have been regarded as co-shareholders based on Paragraph 6 of the same article.
- 3) "Specific mass buyer" refers to a person who has given public notice of purchase, of the

share certificates issued by the Company (defined in Paragraph 1 of Article 27-2 of the same law) by a take-over bid (defined in Paragraph 6 of Article 27-2 of the same law) and whose share certificates, etc., held (defined in Paragraph 1 of Article 27-2 of the same law) and whose special stakeholders' share certificates held (including the cases defined in Paragraph 1 of Article 7 of Enforcement Ordinance of the same law as equipment cases) altogether account for (defined in Paragraph 8 of Article 27-2 of the same law; hereafter the same) at least 20%.

- 4) The "special stakeholder" refers to a person defined in Paragraph 7 of Article 27-2 of the Securities Exchange Law (including a person who has been recognized as falling under this by the Company's Board of Directors). Note that as for persons put up in No. 1 of the same paragraph, persons who are specified in Paragraph 2 of Article 3 of the Cabinet Office Ordinance regarding disclosure of a take-over bid of the share certificates by those who are not the issuer are excluded.
  - 5) A "person related to" somebody refers to a person who has been recognized by the Company's Board of Directors to be a person who is actually controlled by that person, or is under joint control of that person, or a person who acts in cooperation with that person.
- (2) Regardless of (1) above, the persons specified in any of a) through d) below are not classed as specific mass shareholders or specific mass buyers.
- a) The Company, the Company's subsidiaries, or the Company's affiliates
  - b) A person who has been recognized by the Company's Board of Directors to be a person who has become a specific mass shareholder with no intention of controlling the Company and who is no longer a specific mass shareholder by disposing of the Company's share certificates, etc., held within 10 days after the day he/she became a specific mass shareholder (note that such a period may be extended by the Company's Board of Directors.)
  - c) A person who has been recognized by the Company's Board of Directors to be a specific mass shareholder of the Company without his/her own intention because of acquisition of treasury shares by the Company or for other reasons (excluding a person who has newly acquired the Company's share certificates, etc. with his/her own intention afterward.)
  - d) A person who has been recognized by the Company's Board of Directors as someone who causes no harm to the corporate values and joint interests of the shareholders of the Company by acquiring or holding the Company's share certificates, etc. (This may be recognized by the Company's Board of Directors at any time. Also, if the Company's Board of Directors recognizes that no harm is caused to the corporate values and the joint interests of the shareholders of the Company under certain conditions, then it only applies to cases in which the relevant conditions are met.)

- (3) If, with respect to applicable foreign laws, 1) execution of the specified procedures or 2) fulfillment of the specified conditions (including prohibition against exercise for a certain period of time, submission of the specified documents, etc.) or 3) both of the above (hereafter generically referred to as “compliance laws exercise procedures and conditions”) are required for a person located in the jurisdiction of the relevant law to exercise the stock acquisition rights, the person located in the relevant jurisdiction may exercise the stock acquisition rights only if all of the relevant compliance law exercise procedures and conditions have been executed or fulfilled. Note that the Company is not obligated to execute or fulfill any of the compliance law exercise procedures and conditions requiring the Company to execute or fulfill them in order for the person located in the relevant jurisdiction to exercise the stock acquisition rights. Also if a person located in the relevant jurisdiction is not permitted to exercise the stock acquisition rights by the relevant law (hereafter referred to as a “compliance law exercise prohibition reason”), the person located in the relevant jurisdiction may not exercise the stock acquisition rights.
- (4) Regardless of (3) above, persons located in the United States of America may exercise the relevant stock acquisition rights only if they express and guarantee that 1) they are accredited investors as defined in the Rule 501(a) of the Securities Act of 1933 of the United States, and 2) they promise to resell the common shares of the Company, which are to be acquired as a result of exercise of the stock acquisition rights held by them, by regular transaction in the Tokyo Stock Exchange if they decide to do so (this must not be based on any prior arrangement and there must be no prior inducement). The Company will execute or fulfill the compliance law exercise procedures and conditions relating to Regulation D of the Securities Act of 1933 of the U.S. and the U.S. state laws, which require the Company to execute or fulfill in order for the person located in the U.S. to exercise the relevant stock acquisition rights. If the Company’s Board of Directors recognizes that exercise of the stock acquisition rights may not be approved legally in terms of the U.S. Securities Law even if 1) and 2) above are fulfilled by a person located in the U.S. because of a change in the law in the U.S., etc., persons located in the U.S. may not exercise the stock acquisition rights.
- (5) Even if persons who hold the stock acquisition rights according to the provision of (1) or (4) above are unable to exercise the stock acquisition rights, the Company is not liable for any damage to the persons who hold the relevant stock acquisition rights.

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

- (1) The method to exercise the stock acquisition rights and the place to claim exercise
- The stock acquisition rights shall be exercised by filling in the required items including the number of the stock acquisition rights to be exercised, the number of applicable shares, and the address in the Stock Acquisition Rights Exercise Claim Form, which is specified by the

Company, (including the expression and guarantee clause and the compensation clause that state the relevant person with the stock acquisition rights does not fall under any of 1) to 6) stated in (e)(1) above and has no intention of exercising the rights for any of such persons), signing and sealing it and submitting it with a separately specified document required to exercise the stock acquisition rights as well as other documents required on each occasion by the Corporation Law, Securities and Exchange Law, and other laws and related laws and regulations (including the rules, etc., set by Japan Securities Dealers Association and the stock exchanges in Japan) attached to the place handling payment if necessary, and paying amount of money equivalent to the total amount of the exercise price of the shares that are the purpose of the stock acquisition rights for the relevant exercise. A person with the stock acquisition rights may individually exercise each of the stock acquisition rights held, and if there are any remaining stock acquisition rights at the time of such individual exercise, the Company shall enter or record the date of the individual exercise of the relevant person with the stock acquisition rights and the number of the remaining stock acquisition rights into the Stock Acquisition Rights Original Register.

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

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

(g) Notice to stock acquisition rights holders

(1) Notice to stock acquisition rights holders shall be given in writing to the stock acquisition rights holders' addresses recorded in the Stock Acquisition Rights Original Register, and such notice is regarded to have arrived when it is normally supposed to arrive.

(2) As for approval, if no particular will is expressed to the Company by a stock acquisition holder in writing within 14 days after the day the notice asking for approval is regarded to have arrived, the Company may regard that the stock acquisition holder has approved it.

(h) Notification by the Securities Exchange Law

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

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

If any necessity to modify any clause specified in each of the above sections or meanings of the terms arises due to new establishment or modification and abolishment of the laws, upon considering the aim of the relevant new establishment or modification and abolishment, the

clauses specified in each of the above articles or the meaning of the terms shall be changed within the rational range as needed.



**Proposal 5: Election of nine (9) Directors**

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

The candidates for the Directors are as follows.

No.	Name (Date of birth)	Brief personal profile and representation in other companies	(1) No. of the Company's shares held (2) Any conflict of interests between the candidate and the Company
1	Yasuhiro Yukimachi (January 30, 1932)	Oct. 1953 Joined Mirakukai Nov. 1955 Founded the Company, Director of the Company Oct. 1976 Managing Director of the Company Jan. 1985 Executive Managing Director of the Company Oct. 1991 Vice President and Director of the Company Apr. 1999 Vice President and Representative Director of the Company Apr. 2000 President and Representative Director of the Company (present position)	(1) 480,036 (2) None
2	Koichi Horii (November 17, 1942)	Jul. 1964 Joined the Company Jun. 1994 Director of the Company Apr. 1999 Managing Director of the Company Mar. 2001 Executive Officer of the Company Mar. 2005 Executive Managing Director of the Company (present position) In charge of B-to-B Operations Department, Belle Marie Business Department, Rebondir Business Department; Tokyo Branch Manager (present position) In charge of Pet Operation Development Department (present position) Jul. 2006	(1) 16,000 (2) None
3	Kiichi Tagawa (September 25, 1947)	Mar. 1966 Joined the Company Jun. 1997 Director of the Company Mar. 2001 Executive Officer of the Company Mar. 2005 Managing Director of the Company (present position) Mar. 2006 In charge of Management Strategy Department, Marketing Department, Producing and Planning Department, Digital Media Department, Print Material Department, Quality Control Department, SCM Promotion Department (present position)	(1) 16,000 (2) None
4	Michio Tanabe (July 23, 1946)	Apr. 1967 Joined the Company Jun. 1997 Director of the Company Mar. 2001 Executive Officer of the Company Mar. 2005 Managing Director of the Company (present position) Mar. 2006 In charge of Fashion Development Department, Childcare Development Department, SCM Department First Division, Beauty and Health Development Department, Disney Development Department, Monthly Development Department, Gift Development Department, Twenties Development Department (present position) Jan. 2007 In charge of Management Department (present position)	(1) 4,100 (2) None

5	Shohachi Sawamoto (February 9, 1948)	Mar. 1972 Jun. 1997 Mar. 2001 Mar. 2005 Mar. 2006	Joined the Company Director of the Company Executive Officer of the Company Managing Director of the Company (present position) In charge of Store Front Business Division, and Business Planning Department (present position)	(1) 15,640 (2) None
6	Kiyoshi Kubota (April 28, 1948)	Mar. 1967 Apr. 1998 Mar. 2001 Jan. 2005 Mar. 2005	Joined the Company Head of the Human Resources Department of the Company Executive Officer of the Company Head of the Information System Department of the Company Director of the Company (present position) In charge of Human Resources Department and Information System Department (present position)	(1) 11,000 (2) None
7	Kazuhide Fujiyoshi (September 5, 1948)	Mar. 1974 Jun. 1999 Mar. 2001 Jan. 2005 Mar. 2005	Joined the Company Head of Corporate Planning Department of the Company Executive Officer of the Company Head of General Affairs, IR & Public Relations Department, and Financial Affairs Planning Department of the Company Director of the Company (present position) In charge of General Affairs, IR & Public Relations Department and Financial Affairs Planning Department (present position)	(1) 2,000 (2) None
8	Mamoru Asada (April 1, 1954)	Mar. 1982 Aug. 2001 Mar. 2005 Mar. 2006	Joined the Company Head of Living Development Department (present position) Executive Officer of the Company (present position) Head of Belle Maison Lifestyle Research Institute (present position) Director of the Company (present position) In charge of Living Development Department, SCM Department Second Division, and Belle Maison Lifestyle Research Institute (present position)	(1) 1,000 (2) None
9	Tomoko Oishi (November 8, 1954)	Apr. 1977 Feb. 1988 Jun. 1997 Apr. 2001 Mar. 2006	Joined Yamaha Music Foundation Joined Yokohama Women's Association for Communication and Networking Joined Japan Association for The Advancement of Working Women Professor of Kyoto Gakuen University, Faculty of Business Administration (present position) Director of the Company (present position)	(1) None (2) None

Note: Among the candidates for the Directors, Ms. Tomoko Oishi is the candidate for the Outside Director who meets the requirements regarding the outside directors prescribed in Article 2, Paragraph 3, Item 7 of the Enforcement Regulations of the Corporation Law.

**Proposal 6: Election of three (3) Corporate Auditors**

The terms of office of Corporate Auditors Mr. Makoto Sano, Mr. Hirotsugu Yamagishi, Mr. Heian Hazama, and Mr. Hideyuki Koizumi will expire at the end of this meeting. We would like you to elect a total of three (3) Corporate Auditors. Prior to our proposal of this item, we have already obtained the consent from the Board of Corporate Auditors.

The candidate for the Corporate Auditor is as follows:

Name (Date of birth)	Brief personal profile and representation in other companies	(1) No. of the Company's shares held (2) Any conflict of interests between the candidate and the Company
Shoji Tottori (Jan. 8, 1943)	Jul. 1993 Joined the Company Apr. 1995 Head of Legal Affair / Deliberation Department of the Company Jun. 1998 Director of the Company Jun. 1999 Head of Legal Affair / Deliberation and Head of Audit Department of the Company Mar. 2001 Executive Officer of the Company Mar. 2005 Resigned from Director of the Company Managing Director of the Company (present position)	(1) 8,000 (2) None
Yoshihiro Inoda (Sep. 20 1941)	Aug. 1960 Joined the Company Jun. 1992 Director of the Company Mar. 2001 Managing Director and Managing Executive Officer of the Company Aug. 2004 President and Chief Executive Officer of Senshu Logisco Co., Ltd. (present position) Mar. 2005 Resigned from Managing Director of the Company	(1) 49,923 (2) None
Hideyuki Koizumi (Jan. 9 1953)	Oct. 1977 Joined Tohmatsu Aoki & Co. (Presently Deloitte Touche Tohmatsu) Mar. 1981 Registered as a certified public accountant Jul. 1984 Registered as a licensed tax accountant Jan. 1987 Opened Koizumi Certified Public Accountant Office (present position) Apr. 1987 Joined Century Auditor (Presently Ernst & Young ShinNihon) Mar. 1995 Corporate Auditor of Japan Cash Machine Co., Ltd. (present position) Mar. 2003 Corporate Auditor of the Company (present position)	(1) None (2) None

Note: Mr. Hideyuki Koizumi is the candidate for the Outside Corporate Auditor who meets the requirements regarding the outside auditors prescribed in Article 2, Paragraph 3, Item 8 of the Enforcement Regulations of the Corporation Law.

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

We propose to grant retirement benefits to retiring Corporate Auditor Mr. Makoto Sano and Mr. Hirotsugu Yamagishi, whose terms of office will expire at the end of this meeting, in appreciation of their service, within the due amount based upon certain standards stipulated by the Company. We propose that the determination of the actual amount, time, method, and other matters relating to the granting of the said retirement benefits be decided by discussion among the Corporate Auditors.

Brief personal profiles of the retiring Corporate Auditors are as follows:

Name	Brief personal profile
Makoto Sano	Mar. 2003 Corporate Auditor at the Company (present position)
Hirotsugu Yamagishi	Jun. 2000 Corporate Auditor at the Company (present position)

**Proposal 8: Payment of Bonuses to Directors and Corporate Auditors**

It is proposed that 9 Directors and 5 Corporate Auditors at the end of the period under review be paid a total amount of 39 million yen in officers' bonuses (33,750,000 yen for directors, and 5,250,000 for corporate auditors) considering the performance of the period under review, etc.

**Proposal 9: Revision of compensation of Directors and Corporate Auditors**

The remuneration to be paid to directors and corporate auditors of the Company has been not more than 50 million yen a month for a director and 6 million yen a month for a corporate auditor based on the resolution approved in the 49<sup>th</sup> Ordinary General Meeting of Shareholders held on June 29, 1994; however, considering the decrease in the number of directors and desire to pay bonuses for directors and corporate auditors within the limit of the remuneration, we propose that remuneration be revised to not more than 400 million yen a year for directors and 70 million yen a year for corporate auditors.

It is also proposed that remuneration for directors does not include that for employees of employees cum directors as before.

Currently, there are 9 directors and 5 corporate auditors; however, if Proposal 5 and 6 are approved as they are, there will be 9 directors and 4 corporate auditors.

[Appendix to notice of the 62<sup>nd</sup> ordinary general meeting of shareholders of Senshukai Co., Ltd.]

## **Business Report**

**(January 1 to December 31, 2006)**

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

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

##### **Overview**

During the fiscal year ended December 31, 2006, the Japanese economy was steady because of the favorable corporate performances and the associated expansion of capital investment. On the other hand, although there was improvement in the employment environment, it fell short of benefiting households, and consumer spending still lacks vigor and continues to advance and retreat. In the distribution industry, some types of business and companies are more dominant than others, and we see a widening gap between them. In the mail-order industry, companies that provide products via the Internet or mobile phones are enjoying strong sales growth as in the previous year, and firms that engage in comprehensive catalogue business are showing a sign of recovery in sales. In this rapidly changing competitive environment, the business environment is getting increasingly severe with difficulty in assessing consumers' needs because of diversification of lifestyle and with reorganizations and alliances in the distribution industry.

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

As a result of these activities, Senshukai Group's consolidated net sales amounted to 148,150 million yen, an increase of 1.9% year-on-year.

On the profit front, however, operating income increased by 34.1% year-on-year to 4,602 million yen because of the increase in the sales gross profit resulting from the decrease in the sales cost rate as well as the reduction in the selling, general and administrative including expenses related to media. Ordinary income increased by 32.3% year-on-year to 5,240 million yen because of foreign exchange gains, etc. Net income was 3,627 million yen, up 186.2% year-on-year, because of the increase of the ordinary income in addition to the reduction of effect of impairment loss recorded in the previous consolidated fiscal year although loss from the cancellation of the business alliance agreements and other was recorded.

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

### [Mail-order Business]

The mail-order business, which consists of catalogue and buyer's club businesses, posted net sales of 142,081 million yen (up 1.9% year-on-year), and operating income of 4,607 million yen (up 30.3% year-on-year).

### [Other Businesses]

Other businesses that consist of the service business (with travel services, credit-card and loan services as the core fields), transport business, storefront business, and B-to-B operations, that engage in the sale and provision of business merchandise and services, posted consolidated net sales of 6,068 million yen (up 0.1% year-on-year), and an operating income of 7 million yen (an operation loss of 38 million yen was posted in the same period of the previous fiscal year).

### Senshukai Group net sales by business segment

(Millions of yen)

Name of the segment and product	61 <sup>st</sup> fiscal year (Jan. 1 to Dec. 31, 2005)		62 <sup>nd</sup> fiscal year (Jan. 1 to Dec. 31, 2006)		Change from the previous fiscal year	Year-on-Year (%)
	Amount	% of total	Amount	% of total		
Mail-order Business:						
Publications	535	0.4	870	0.6	335	62.6
Apparel	50,221	34.5	53,937	36.4	3,716	7.4
Household articles	53,696	36.9	54,874	37.0	1,178	2.2
Hobby goods	27,296	18.8	25,020	16.9	-2,275	-8.3
Others	7,642	5.2	7,378	5.0	-263	-3.5
Subtotal	139,391	95.8	142,081	95.9	2,690	1.9
Other Businesses:	6,062	4.2	6,068	4.1	6	0.1
Total	145,453	100.0	148,150	100.0	2,697	1.9

### (2) Capital expenditures

In the consolidated fiscal year under review, the Senshukai Group invested a total of 615 million yen in capital expenditures, and 1,564 million yen to develop computer systems, etc.

### (3) Fund procurement

There were no noteworthy events.

### (4) Issues to be handled

The Senshukai Group has established and implemented the Medium-Term Management Plan covering three fiscal years from 2005 to 2007. In fiscal 2006, the second year of this management plan, our business evolved favorably as we executed the three basic policies steadily defined as (1) higher profitability for core businesses, (2) aggressive investment in growth areas, and (3) improved brand value, as well as our seven priority strategies (stated below) laid out in the management plan.

In the final stage of fiscal 2007, we expect to steadily continue implementing the seven

priority strategies of the Medium-Term Management Plan. These strategies are: 1) promotion of supply-chain management, 2) reassessment of catalog positioning, 3) expansion of customer age groups to include customers in their 20s to 40s, 4) promotion of Internet sales, 5) development of storefront business, 6) stronger development and product planning capabilities, and 7) better customer service.

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

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

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

We look forward to your continuous support and encouragement.

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

(Millions of yen)

Fiscal year	The 59 <sup>th</sup> (ended Dec. 2003)	The 60 <sup>th</sup> (ended Dec. 2004)	The 61 <sup>st</sup> (ended Dec. 2005)	The 62 <sup>nd</sup> (ended Dec. 2006)
Net sales	147,607	147,159	145,453	148,150
Ordinary income	4,041	3,033	3,962	5,240
Net income	1,819	1,231	1,267	3,627
Net income per share (yen)	40.81	28.81	27.44	78.81
Total assets	87,269	87,560	92,788	95,508
Net assets	47,183	47,135	52,519	55,708
Net assets per share (yen)	1,105.80	1,122.20	1,143.12	1,207.89

Notes:

1. From the 60<sup>th</sup> fiscal year, the Company prepared consolidated financial reports. Accordingly, Corporate Auditors and Accounting Auditors did not audit the reported figures for the 59<sup>th</sup> fiscal year.
2. “Accounting Standards for Indication of Net Assets of Balance Sheet” (Corporate Accounting Standard No. 5, December 9, 2005) and “Guidelines for application of corporate accounting standards, etc.” (Corporate Accounting Standards Application Guideline No. 8, December 9, 2005) have been applied since the 62<sup>nd</sup> fiscal year.

The amount equivalent to the total amount of shareholders’ equity in the past standards is 54,927 million yen.

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

- i) Relationship with the parent company  
No applicable items
- ii) Major subsidiaries

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

Note: The name of Belle Maison Service Center Co., Ltd. was changed to Senshukai Service and Sales Co., Ltd. as of September 1, 2006.

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

For fiscal under review, the Company posted consolidated net sales of 148,150 million yen and net income of 3,627 million yen.

#### **(7) Major business**

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

#### **(8) Principal offices**

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



**(9) Employees of Senshukai Group**

Segment	Number of employees	Change from the previous fiscal year
Mail-order Business	886	142
Other businesses	58	-6
Other staff (consolidated basis)	138	-19
Total	1,082	117

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

**(10) Major creditors**

Creditors	Borrowings outstanding (Millions of yen)
Japan Bank for International Cooperation	276
Sumitomo Mitsui Banking Corporation	119

## 2. Items regarding shares of the Company

- (1) Total number of shares authorized to be issued: **180,000,000**
- (2) Total number of shares outstanding: **47,630,393**
- (3) Number of shareholders: **5,264**
- (4) Major shareholders

There are no shareholders that hold at least one tenth of the total number of shares outstanding (except for treasury stock) who fall under No. 1 of Article 122 of the enforcement rules of the Corporation Law. The status of the major shareholders is as follows:

Name	Shareholders' investment in the Company	
	No. of shares held (thousands)	Investment ratio (%)
Brestoshieb Co., Ltd.	3,436	7.46
Nikko Principal Investments Japan Ltd.	3,400	7.38
Toppan Printing Co., Ltd	1,838	3.99
Sawzan, Ltd.	1,792	3.89
Dai Nippon Printing Co., Ltd.	1,509	3.28
State Street Bank and Trust Company 505019	1,288	2.80
Japan Trustee Services Bank, Ltd. (Trust account)	1,229	2.67
Sumitomo Mitsui Banking Corp.	1,165	2.53
Mizuho Bank, Ltd.	1,019	2.21
Nippon Life Insurance Company	988	2.14

Notes:

1. Amounts less than one thousand shares have been omitted.
2. The investment ratio is calculated by subtracting treasury stock (1,548,297 shares).

### (5) Other principal items regarding shares

No applicable items

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

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

Number of stock acquisition rights: 1,153 units  
Number and type of intended stock: 1,153,000 shares of common stock  
(1,000 shares per stock acquisition right)

Total stock acquisition rights held by the directors by category

	Number (exercise price)	Term of exercise	Number of rights	Number of holders
Directors	No. 1 (693 yen)	From Apr. 1, 2005 to Mar. 30, 2007	2	1
	No.2 (1,198 yen)	From Apr. 1, 2006 to March 31, 2008	102	8

Notes:

1. The above rights were granted based on the resolution of the 58<sup>th</sup> and 59<sup>th</sup> Ordinary General Meeting of Shareholders prior to enforcement of the Corporation Law, and were not granted as consideration of execution of duty.
2. Not granted to external Directors

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

No applicable items

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

No applicable items

## 4 Directors and Corporate Auditors

### (1) Name of Directors and Corporate Auditors

Title	Name	Position and principal duty in the Company, or major occupation
President and Representative Director	Yasuhiro Yukimachi	
Executive Managing Director	Koichi Horii	In charge of B-to-B Operations Department, Belle Marie Business Department, Rebondir Business Department, and Pet Operation Development Department; Tokyo Branch Manager (present position)
Managing Director	Kiichi Tagawa	In charge of Management Strategy Department, Marketing Department, Producing and Planning Department, Digital Media Department, Print Material Department, Quality Control Department, and SCM Promotion Department
Managing Director	Michio Tanabe	In charge of Fashion Development Department, Childcare Development Department, SCM Department First Division, Beauty and Health Development Department, Disney Development Department, Monthly Development Department, Gift Development Department, and Twenties Development Department
Managing Director	Shohachi Sawamoto	In charge of Store Front Business Department, and Business Planning Department
Director	Kiyoshi Kubota	In charge of Human Resources Department and Information System Department
Director	Kazuhide Fujiyoshi	In charge of General Affairs, IR & Public Relations Department, and Financial Affairs Planning Department
Director	Mamoru Asada	In charge of Living Development Department, SCM Department Second Division, Belle Maison Lifestyle Research Institute. Executive Officer of the Company and General manager of Living Development Department Head of Belle Maison Lifestyle Research Institute
Director	Tomoko Oishi	Professor of Kyoto Gakuen University, Faculty of Business Administration
Standing Corporate Auditor	Makoto Sano	
Standing Corporate Auditor	Hirotsugu Yamagishi	
Corporate Auditor	Heian Hazama	
Corporate Auditor	Hideyuki Koizumi	Certified Public Accountant
Corporate Auditor	Hiroshi Morimoto	Lawyer

Notes:

1. Mr. Mamoru Asada and Ms. Tomoko Oishi as Directors of the Company, and Mr. Hiroshi Morimoto as Corporate Auditor were newly elected at the 61<sup>st</sup> Ordinary General Meeting of Shareholders held on March 30, 2006.
2. Ms. Tomoko Oishi is an Outside Director as defined in No.15 of Article 2 of the Corporation Law.
3. Mr. Heian Hazama, Mr. Hideyuki Koizumi, and Mr. Hiroshi Morimoto are Outside Corporate Auditors as defined in No.16 of Article 2 of the Corporation Law.

### (2) Compensation for Directors and Corporate Auditors

9 Directors                      246 million yen

5 Corporate Auditors      45 million yen

The amount of compensation includes 39 million yen of officers' bonus scheduled to be resolved in the 62<sup>nd</sup> Ordinary General Meeting of Shareholders.

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

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

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

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

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

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

The Company made a resolution on the basic strategy for the internal control system, and provision of it, as follows, at the meeting of the Board of Directors held on May 12, 2006 based on the provisions of Article 362, Paragraph 4 No. 6 and Paragraph 5 of the Corporation Law and has been executing it.

(1) Basic ideas on the internal control system

The Company Group acknowledges that “corporate governance” is essential in its corporate activities as mentioned earlier in “Issues to be addressed” and aims to prepare the internal control system for it, strengthen compliance, improve efficiency in business execution and establish a risk control system. The Company will review the internal control system according to demand of society or change in the environment as required to improve and enrich it.

(2) Specifics of the internal control system

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

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

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

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

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

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

We have established a Risk Management Control Committee and various committees and divisions, providing a system to report to the Risk Management Control Committee. Also, for concrete measures in risk management, we have prepared manuals and established a system to assure operation, and if any emergency situation arises, we can take required action such as establishment of a “task force” based on the rules. For the system against unexpected situations of any directors, we have established rules and a system to execute operations smoothly on their behalf.

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

In order to check speedy decision-making as well as the execution status of each department, a separate management meeting from the Board of Directors has been established. In addition, an external director (part-time service) system has been implemented in order to improve transparency of the Board of Directors and to strengthen the supervisory function. Also, an execution officer system has been implemented in order to speed up and streamline the decision-making process of the management, in which no one concurrently serves as a director and an execution officer in principle and the directors provide supervision and guidance as directors managing each department to improve efficiency of execution of duties. Company rules and rules for liquidation items have been set up to improve efficiency of business activities by clarifying the roles of the Board of Directors, Management Meeting, Board of Corporate Auditors or other parties duty positions of the employees, duty allotment, official authority, roles, decision authority. Also, we have implemented a technique that utilizes BSC (Balance Score Cards) effectively supporting determination of organization performance monitoring and evaluation indexes, and constructed a system to conduct reviews and to gather feedback of results by the Management Meeting.

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

The Company and the group companies have established affiliated company

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

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

Dedicated staff members for the corporate auditors are in place according to the request of the Board of Corporate Auditors. Also, personnel change, personnel evaluation and disciplinary punishment, opinions of the Board of Corporate Auditors are to be fully respected.

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

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

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

## **7. Countermeasures against large-scale purchases of shares of the Company**

In an effort to improve the corporate value based on the Medium-Term Management Plan covering three fiscal years from January 2005 to December 2007, we established the Policy toward Large-Scale Purchases of shares of the Company, which is a so called "warning type"

measure at the Board of Directors of the Company on December 13, 2005 to protect shareholders' interests.

If there is a large-scale purchase of shares of the Company, we consider a sufficient disclosure of information to shareholders to be essential since it should be ultimately deferred to a shareholder's decision on whether to accept such large-scale purchase, and we have established the following rules: When a person or a company ("acquirer") that intends to make a large-scale purchases of shares of the Company to obtain not less than 20% of the total voting rights (except when the Company's Board of Directors has given consent for the purchase), 1) the acquirer must provide necessary and sufficient information to the Company's Board of Directors about the acquirer's overview and management policy, as well as the objective of the purchase and basis of the purchase price in advance; and 2) the execution of the large-scale purchase shall be commenced after a certain evaluation period for the assessment of such large-scale purchase by the Company's Board of Directors. In cases where the acquirer does not follow these rules, the Company may take counter-measures including, but not limited to, issuing the stock acquisition rights to protect shareholders' interest. To ensure fairness, a special committee consisting of external members has been established to examine the appropriateness of the Company's counter-measures and make recommendations to the Board of Directors.

We would like to continue with the "Countermeasures against large-scale purchases of shares of the Company" on condition that they are approved by the shareholders in the 62<sup>nd</sup> Ordinary General Meeting of Shareholders.



**Consolidated Balance Sheet**  
**As of December 31, 2006**

	Millions of yen
	As of December 31,
	2006
<b>ASSETS</b>	
Current Assets	
Cash and deposits	5,464
Notes and accounts receivable	11,293
Marketable securities	85
Inventories	16,432
Deferred tax assets	100
Accounts receivable	7,835
Foreign exchange contract	1,444
Other current assets	4,864
Allowance for doubtful accounts	-192
Total Current Assets	47,328
Fixed Assets	
Property, Plant and Equipment:	
Buildings and structures	10,492
Machinery and delivery equipment	1,859
Instruments and fixtures	793
Land	11,411
Construction in progress	36
Property, Plant and Equipment, net	24,592
Intangible Fixed Assets:	2,600
Investments and Other Assets:	
Investment securities	16,509
Long-term loans	1,102
Guarantees and deposits	1,304
Deferred tax assets	55
Other investments	2,660
Allowance for doubtful accounts	-645
Total Investments and Other Assets	20,987
Total Fixed Assets	48,180
Total Assets	95,508

	Millions of yen
	As of December 31,
	2006
<b>LIABILITIES</b>	
Current Liabilities:	
Notes and accounts payable	11,710
Short-term borrowing	53
Accrued liabilities	7,046
Factoring accrued liabilities	14,990
Accrued expenses	1,908
Accrued corporate tax and others	285
Accrued consumption tax and others	181
Deferred tax liabilities	265
Bonuses to directors and corporate auditors	49
Reserve for sales promotion	276
Other current liabilities	786
Total Current Liabilities	37,554
Long-term Liabilities:	
Long-term borrowing	342
Deferred tax liabilities	533
Deferred tax liabilities relating to revaluation	804
Employees' retirement benefits	17
Retirement benefits for directors and corporate auditors	497
Other long-term liabilities	50
Total Long-term Liabilities	2,245
Total Liabilities	39,800
<b>NET ASSETS</b>	
Shareholders' Equity	
Capital	20,359
Capital surplus	20,716
Retained earnings	20,889
Treasury stock	-1,041
Total Shareholders' Equity	60,923
Valuation and Translation Adjustments	
Net unrealized gain on other securities	1,336
Profit or loss on deferred hedge	734
Revaluation reserve for land, net of tax	-7,301
Foreign currency translation adjustments	-31
Total Valuation and Translation Adjustments	-5,261
Minority Interests	46
Total Net Assets	55,708
Total Liabilities and Net Assets	95,508

**Consolidated Statement of Income**  
**For fiscal year ended December 31, 2006**

	Millions of yen
	For the year ended December 31,
	2006
<b>Net sales</b>	148,150
<b>Cost of sales</b>	75,727
<b>Gross profit</b>	72,423
<b>Selling, general and administrative expenses</b>	67,821
<b>Operating income</b>	4,602
<b>Non-operating income</b>	773
Interest and dividends received	244
Foreign exchange gains	120
Other income	408
<b>Non-operating expenses</b>	134
Interest payable	48
Other expenses	86
<b>Ordinary income</b>	5,240
<b>Extraordinary income</b>	57
Gains on sale of fixed assets	3
Gains on sale of investment securities	54
<b>Extraordinary losses</b>	1,422
Loss on sale or retirement of fixed assets	110
Loss on revaluation of investment securities	17
Loss on sale of investment securities	0
Impairment loss	128
Loss on annulment of contracts	415
Loss on liquidations of subsidiaries	328
Loss on disposal of products	270
Loss on policy cancellation	130
Loss on cancellation of deposits	20
<b>Income before income taxes and minority interests</b>	3,874
Corporate, inhabitant and business taxes	375
Adjustment of corporate and other taxes	-136
Minority interests	7
<b>Net income</b>	3,627

**Consolidated Statement of Changes in Shareholders' Equity**  
**For fiscal year ended December 31, 2006**

(Millions of yen)

	Shareholders' Equity				
	Capital	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance as of December 31, 2005	20,359	20,657	18,438	-1,153	58,302
Changes during the fiscal year under review					
Dividends from surplus (Note)			-459		-459
Dividends from surplus			-460		-460
Bonuses to directors and corporate auditors (Note)			-47		-47
Net income			3,627		3,627
Acquisition of treasury stock				-18	-18
Amortization of treasury stock		58		129	188
Reversal of revaluation reserve for land, net of tax			-161		-161
Variation of the scope of consolidation			-48		-48
Net change of items other than shareholders' equity during the fiscal year under review					
Total change during the fiscal year under review	—	58	2,450	111	2,620
Balance as of December 31, 2006	20,359	20,716	20,889	-1,041	60,923

(Millions of yen)

	Valuation and Translation Adjustments					Minority Interests	Total Net Assets
	Net Unrealized Gain on Other Securities	Deferred Hedge Profit/Loss	Revaluation Reserve for Land, Net of Tax	Foreign Currency Translation Adjustment	Total Valuation and Translation		
Balance as of December 31, 2005	1,719	—	-7,462	-40	-5,783	43	52,562
Changes during the fiscal year under review							
Dividends from surplus (Note)							-459
Dividends from surplus							-460
Bonuses to directors and corporate auditors (Note)							-47
Net income							3,627
Acquisition of treasury stock							-18
Amortization of treasury stock							118
Reversal of revaluation reserve for land, net of tax							-161
Variation of the scope of consolidation							-48
Net change of items other than shareholders' equity during the fiscal year under review	-382	734	161	9	522	3	525
Total change during the fiscal year under review	-382	734	161	9	522	3	3,146
Balance as of December 31, 2006	1,336	734	-7,301	-31	-5,261	46	55,708

Note: These are profit appropriation items approved at the general meeting of shareholders held in March 2006.

## **Notes for Consolidated Financial Statements**

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

#### 1. Scope of consolidation

- (1) Number of consolidated subsidiaries: 9

Names of major consolidated subsidiaries:

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

Senshukai Iihana Co., Ltd, which was a non-consolidated subsidiary in the previous consolidated fiscal year, has been included in the scope of consolidation since the consolidated fiscal year under review because of its increased importance.

- (2) Number of unconsolidated subsidiaries: 12

Names of major unconsolidated subsidiaries: Senshukai Hong Kong Limited

[Reason for exclusion from the scope of consolidation]

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

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

- (1) Number of unconsolidated subsidiaries under the equity-method: 3

Name of major unconsolidated subsidiaries under the equity-method:

Senshukai Hong Kong Limited.

- (2) Name of major unconsolidated subsidiaries excluded from the scope of equity-method:

Shanghai Senshu Merchant and Commerce Co., Ltd

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

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

#### 3. Significant accounting policies

- (1) Valuation method for assets

- (i) Marketable securities

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

(ii) Derivatives

Stated at market price.

(iii) Inventories

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

(2) Depreciation method of primary depreciable assets

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

The depreciation periods are basically as follows:

Buildings and structures: 38-50 years

Machinery and delivery equipment: 12 years

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

(3) Basis for provision of reserves

(i) Allowance for doubtful accounts

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

(ii) Bonuses to Directors and Corporate Auditors

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

(iii) Employees' retirement benefits

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

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

(iv) Retirement benefits for Directors and Corporate Auditors

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

- (v) Reserve for sales promotion  
To cover the projected sales-promotion expenses due to our mileage point system, the Company posts a reserve for sales promotion, which is calculated by multiplying the amount payable, which is based on the number of issued and unclaimed points, and the past claim ratio.
- (4) Standard used in converting assets or liabilities denominated in major foreign currencies into Japanese currency  
Assets or liabilities denominated in foreign currencies are converted into Japanese yen using the spot exchange rate on the consolidated account date, and any differences generated by this conversion are included as gains or losses.
- (5) Sales promotion costs  
As for the Company's sales promotion costs in the mail-order business, catalogue-related costs corresponding to the expected sales in the next consolidated fiscal year are registered as prepaid expenses and included in "Other current assets."
- (6) Accounting method of primary leasing business  
Finance leases other than those that are deemed to transfer the ownership of the leased assets to the lessee are accounted for by a method similar to that applicable to ordinary operating leases.
- (7) Hedge accounting method  
The Company adopts deferral hedge accounting.
- (8) Consumption taxes  
Consumption taxes and local consumption taxes are excluded from revenues and expenses.

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

These are estimated at market value.

#### **5. Change of important items that are bases of preparing the consolidated financial statements**

- (1) Accounting standards for bonuses to Directors and Corporate Auditors  
"Accounting standards for officers"(Corporate Accounting Standard No. 4, November 29, 2005) has been applied since the fiscal year under review.  
Operating income, ordinary income and net income before adjustment including tax all decreased by 49 million yen because of it.
- (2) Accounting standards for indication of Net Assets of Balance Sheet (Corporate Accounting Standard No. 5, December 9, 2005) and "Guidelines for application of accounting standards



for indication of Net Assets of Balance Sheet” (Corporate Accounting Standard Application Guideline No. 8, December 9, 2005) have been applied since the fiscal year under review.

The amount equivalent to the total amount of shareholders’ equity in the past standards is 54,927 million yen.

## Notes for Consolidated Balance Sheet

1. Amounts less than one million yen have been omitted.
2. Assets pledged as collateral:

Investment securities:	1,357 million yen
Debt corresponding to the above	
Long-term loan:	37 million yen
Short-term loan:	238 million yen
3. Accumulated depreciation on tangible fixed assets 32,083 million yen
4. Guarantee obligation: 43 million yen
5. The land owned by the Company was revaluated under the “Law Concerning Revaluation of Land” (March 31, 1998, Law No. 34), and the “Law Regarding Partial Revision of Law Concerning Revaluation of Land” (amended on March 31, 1999), and unrealized losses resulting from the revaluation were included in “Unrealized loss on revaluation of land” in the net assets, after offsetting the related deferred tax liabilities.

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

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

The Company executed calculation and adjustments using the abovementioned method.

Date of revaluation: March 31, 2000

The difference between the revaluated book value of the land and the estimated market value at the end of fiscal under review: -3,202 million yen

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

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

Resolution	Type of stock	Total amount of dividends (millions of yen)	Dividends per share (yen)	Base date	Effective date
Ordinary General Meeting of Shareholders held on March 30, 2006	Common stock	459	10	December 31, 2005	March 31, 2006
General Meeting of Shareholders held on July 27, 2006	Common stock	460	10	June 30, 2006	September 1, 2006

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

Resolution	Type of stock	Total amount of dividends (millions of yen)	Financial funds of dividends	Dividends per share (yen)	Base date	Effective date
Ordinary General Meeting of Shareholders held on March 29, 2007	Common stock	460	Retained earnings	10	December 31, 2006	March 30, 2007

4. Number of shares that are the purpose of the stock acquisition rights as of the end of the consolidated fiscal year under review (whose period to exercise the rights has come)
  - Stock options by the resolution of the Ordinary General Meeting of Shareholders held on March 28, 2003: 33,000 shares
  - Stock options by the resolution of the Ordinary General Meeting of Shareholders held on March 30, 2004: 1,120,000 shares

### Note to information per share

1. Net assets per share: 1,207.89 yen
2. Net income per share: 78.81 yen

### Note on important events occurred afterwards

No particular items

**Non-consolidated Balance Sheet**  
**As of December 31, 2006**

	Millions of yen
	As of December 31,
	2006
<b>ASSETS</b>	
Current Assets	
Cash and deposits	3,568
Notes receivable	4
Account receivable	11,153
Products	16,293
Inventories	122
Prepaid expense	2,415
Short-term loan	210
Loan receivable	7,767
Foreign exchange contract	1,444
Other current assets	2,178
Allowance for doubtful accounts	-194
Total Current Assets	44,962
Fixed Assets	
Property, Plant and Equipment:	
Buildings	9,891
Other structures	446
Machinery	1,794
Delivery equipment	8
Instruments and fixtures	677
Land	11,259
Construction in progress	36
Property, Plant and Equipment, net	24,113
Intangible Fixed Assets:	
Land lease rights	139
Software	779
Other intangible fixed assets	1,665
Total Intangible Fixed Assets	2,584
Investments and Other Assets:	
Investment securities	14,392
Stock of affiliates	2,990
Long-term loans	1,478
Guarantees and deposits	1,073
Long term prepaid expense	183
Other investments	2,214
Allowance for doubtful accounts	-919
Total Investments and Other Assets	21,413
Total Fixed Assets	48,111
Total Assets	93,073

	Millions of yen
	As of December 31,
	2006
<b>LIABILITIES</b>	
Current Liabilities:	
Notes	4,117
Accounts payable	7,565
Long-term loan scheduled to be repaid within 1 year	53
Accrued liabilities	6,899
Factoring accrued liabilities	14,990
Accrued expenses	1,164
Accrued corporate tax and others	102
Accrued consumption tax and others	97
Deposit received	234
Bonuses to directors and corporate auditors	39
Reserve for sales promotion	276
Deferred tax liabilities	284
Other current liabilities	443
Total Current Liabilities	36,269
Long-term Liabilities:	
Long-term borrowing	342
Deferred tax liabilities	528
Deferred tax liabilities relating to revaluation	804
Retirement benefits for directors and corporate auditors	441
Other long-term Liabilities	50
Total Long-term Liabilities	2,165
Total Liabilities	38,435
<b>NET ASSETS</b>	
Shareholders' equity	
Capital	20,359
Capital surplus	20,716
Capital reserve	19,864
Other capital reserve	852
Retained earnings	19,807
Earned surplus	1,118
Other retained earnings	18,689
Reserves for advanced depreciation of fixed assets	76
Reserve for loss in overseas investment	38
General reserves	13,600
Unappropriated retained earnings	4,973
Treasury stock	-1,041
Total Shareholders' Equity	59,841
Valuation and translation adjustments	
Net unrealized gain on other securities	1,364
Profit or loss on deferred hedge	734
Revaluation reserve for land, net of tax	-7,301
Total valuation and translation adjustments	-5,202
Total Net Assets	54,638
Total Liabilities Net Assets	93,073

**Non-consolidated Statement of Income**  
**For fiscal year ended December 31, 2006**

	Millions of yen
	For the year ended December 31,
	2006
<b>Net sales</b>	146,917
<b>Cost of sales</b>	76,243
<b>Gross profit</b>	70,673
<b>Selling, general and administrative expenses</b>	66,959
<b>Operating income</b>	3,714
<b>Non-operating income</b>	818
Interest and dividends received	499
Foreign exchange gains	120
Other income	198
<b>Non-operating expenses</b>	113
Interest payable	48
Other expenses	65
<b>Ordinary income</b>	4,419
<b>Extraordinary income</b>	54
Gains on sale of fixed assets	0
Gains on sale of investment securities	54
<b>Extraordinary losses</b>	1,404
Loss on sale or retirement of fixed assets	107
Loss on revaluation of investment securities	17
Loss on sale of investment securities	0
Impairment loss	128
Loss on annulment of contracts	415
Loss on liquidations of subsidiaries	328
Loss on disposal of products	255
Loss on policy cancellation	130
Loss on cancellation of deposits	20
<b>Income before income taxes</b>	3,069
Corporate, inhabitant and business taxes	74
Adjustment of corporate and other taxes	-147
<b>Net income</b>	3,142

**Statement of Changes in Shareholders' Equity**  
**For fiscal year ended December 31, 2006**

(Millions of yen)

	Shareholders' Equity											
	Capital	Capital Surplus			Retained Earnings						Treasury Stock	Total Shareholders' Equity
		Capital Reserve	Other Capital Reserve	Total Capital Surplus	Earned Surplus	Other Retained Earnings				Total Retained Earnings		
						Reserves for Advanced Depreciation of Fixed Assets	Reserve for Loss in Overseas Investment	General Reserve	Unappropriated Retained Earnings			
Balance as of December 31, 2005 (Millions of yen)	20,359	19,864	793	20,657	1,118	84	46	13,600	2,931	17,780	-1,153	57,644
Changes during the fiscal year under review												
Reversal of reserves for advanced depreciation of fixed assets (Note)						-3			3	—		—
Reversal of reserve for loss in overseas investment, etc. (Note)							-11		11	—		—
Reversal of reserves for advanced depreciation of fixed assets						-3			3	—		—
Transfer of reserve for loss in overseas investment, etc.							14		-14	—		—
Reversal of reserve for loss in overseas investment, etc.							-10		10	—		—
Dividends from surplus (Note)									-459	-459		-459
Dividends from surplus									-460	-460		-460
Bonuses to directors and corporate auditors (Note)									-34	-34		-34
Net income									3,142	3,142		3,142
Acquisition of treasury stock											-18	-18
Amortization of treasury stock			58	58							129	188
Reversal of revaluation reserve for land, net of tax									-161	-161		-161
Net change of items other than shareholders' equity during the fiscal year under review												
Total change during the fiscal year under review	—	—	58	58	—	-7	-7	—	2,041	2,026	111	2196
Balance as of December 31, 2006	20,359	19,864	852	20,716	1,118	76	38	13,600	4,973	19,807	-1,041	59,841

	Valuation and Translation Adjustments				Total Net Assets
	Net Unrealized Gain on Other Securities	Deferred Hedge Profit/Loss	Revaluation Reserve for Land, Net of Tax	Total Valuation and Translation	
Balance as of December 31, 2005	1,744	—	-7,462	-5,718	51,926
Changes during the current fiscal year					
Reversal of reserves for advanced depreciation of fixed assets (Note)					—
Reversal of reserve for loss in overseas investment, etc. (Note)					—
Reversal of reserves for advanced depreciation of fixed assets					—
Reversal of reserve for loss in overseas investment, etc					—
Transfer of reserve for loss in overseas investment, etc.					—
Dividends from surplus (Note)					-459
Dividends from surplus					-460
Bonuses to directors and corporate auditors (Note)					-34
Net income					3,142
Acquisition of treasury stock					-18
Amortization of treasury stock					188
Reversal of revaluation reserve for land, net of tax					-161
Net change of items other than shareholders' equity during the fiscal year under review	-380	734	161	515	515
Total change during the fiscal year under review	-380	734	161	515	2,712
Balance as of December 31, 2006	1,364	734	-7,301	-5,202	54,638

Note: These are profit appropriation items approved at the annual meeting of shareholders held in March 2006.



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

### **Principal accounting policies**

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

(1) Marketable securities

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

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

(2) Derivatives

Derivatives are stated at market price.

(3) Inventories

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

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

(1) Property, Plant and equipment

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

The depreciation periods are basically as follows:

Buildings: 38-50 years

Machinery: 12 years

(2) Intangible fixed assets

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

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

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

(1) Allowance for doubtful accounts

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

(2) Bonuses to Directors and Corporate Auditors

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

(3) Retirement benefits for Directors and Corporate Auditors

The Company reports 100% of the projected amount of the retirement benefits based on

its internal rules, to cover the retirement benefits for Directors and Executive Officers.

(4) Reserve for sales promotion

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

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

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

**5. Sales promotion costs**

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

**6. Accounting method of leasing business**

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

**7. Hedge accounting method**

The Company adopts deferral hedge accounting.

**8. Consumption taxes**

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

**9. Important changes in accounting policies**

(1) Accounting standards for bonuses to Directors and Corporate Auditors

“Accounting standards for officers’ bonuses (Corporate Accounting Standard No. 4, November 29, 2005) has been applied since the fiscal year under review.

Operating income, ordinary income and net income before adjustment including tax all decreased by 39 million yen because of it.

(2) Accounting standards for indication of Net Assets of Balance Sheet (Corporate Accounting Standard No. 5, December 9, 2005) and “Guidelines for application of accounting standards for indication of Net Assets of Balance Sheet” (Corporate Accounting Standard Application Guideline No. 8, December 9, 2005) have been applied since the fiscal year under review.

The amount equivalent to the total amount of shareholders’ equity in the past standards is 53,904 million yen.

## Notes for Non-consolidated Balance Sheets

1. Amounts less than one million yen have been omitted.
2. Assets pledged as collateral:

Investment securities:	1,357 million yen
Debt corresponding to the above	
Long-term loan scheduled to be repaid within one year:	37 million yen
Long-term loan:	238 million yen
3. Accumulated depreciation on tangible fixed assets 31,660 million yen
4. Guarantee obligation: 43 million yen
5. Short-term cash credit for affiliates 270 million yen

Long-term cash credit for affiliates	1,108 million yen
Short-term cash debt for affiliates	175 million yen
6. The land owned by the Company was revaluated under the “Law Concerning Revaluation of Land” (March 31, 1998, Law No. 34), and the “Law Regarding Partial Revision of Law Concerning Revaluation of Land” (amended on March 31, 1999), and unrealized losses resulting from the revaluation were included in “Unrealized loss on revaluation of land,” one of the components of net assets, after offsetting the related deferred tax liabilities.  
The method of revaluation stipulated in Article 3, Paragraph 3 of the Law Concerning Revaluation of Land:

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

The Company executed calculation and adjustments using the abovementioned method.

Date of revaluation:	March 31, 2000
The difference between the revaluated book value of the land and the estimated market value at the end of fiscal under review:	-3,202 million yen

## Notes for Non-consolidated Statements of Income

1. Amounts less than one million yen have been omitted.
2. Transaction with affiliates

Sales:	35 million yen
Operating expense:	6,207 million yen
Non-operating transaction:	426 million yen

## Notes for Statement of Changes in Shareholders' Equity

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

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

1,548,297 common shares

## Notes for Tax Effective Accounts

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

(1) Current		(2) Fixed	
<u>Deferred tax assets</u>		<u>Deferred tax assets</u>	
Sales promotion expenses	268	Allowance for doubtful accounts	365
Bonus payable	191	Retirement benefits for directors and corporate auditors	178
Adjustment of loss of subsidiaries	128	Investment securities evaluation loss	120
Others	186	Depreciation excess amount	114
<u>Total deferred tax assets</u>	<u>774</u>	Others	651
		<u>Sub-total deferred tax assets</u>	<u>1,430</u>
<u>Deferred tax liabilities</u>		<u>Valuation allowance</u>	<u>831</u>
Sales promotion loss recognized	561	<u>Total deferred tax assets</u>	<u>598</u>
Deferred hedge profit/loss	497		
Others	0	<u>Deferred tax liabilities</u>	
<u>Total deferred tax liabilities</u>	<u>1,059</u>	Investment securities	1,048
<u>Net deferred tax liabilities</u>	<u>284</u>	Reserve for advanced depreciation of fixed assets	51
		Reserve for loss in overseas investment, etc.	26
		<u>Total deferred tax liabilities</u>	<u>1,126</u>
		<u>Net deferred tax liabilities</u>	<u>528</u>

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

<u>Deferred tax assets</u>	
Deferred tax assets relating to re-evaluation	3,429
Valuation allowance	3,429
Total deferred tax assets relating to re-evaluation	—
<u>Deferred tax liabilities</u>	
Deferred tax liabilities relating to re-evaluation	804
Net deferred tax liabilities relating to re-evaluation	804

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

In addition to the fixed assets recorded in the Balance Sheet, there are various leased computers that are important fixed assets.

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

1. Net assets per share	1,185.68 yen
2. Net income per share	68.27 yen

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

No applicable items

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

**Audit Report of Independent Auditor**

January 31, 2007

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

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

We have examined the consolidated financial statements of Senshukai Co., Ltd. from January 1, 2006 to December 31, 2006, including the consolidated balance sheet, the consolidated statement of income, the consolidated statements of changes in shareholders' equity and notes for consolidated financial statements for the purpose of reporting under the provisions of Article 444, Paragraph 4 of the Corporation Law. Responsibility as to the preparation of such consolidated financial statements lies with the management of the Company, and the responsibility of the audit corporation is to express our opinion on the consolidated financial statements from an independent position.

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

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

Additional information

As stated in "Change of important items that are bases of creating consolidated financial statements," the Company has created consolidated financial statements applying the accounting standards for indication of Net Assets of Balance Sheet since the consolidated fiscal year under review.

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

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

**Audit Report of Independent Auditor**

January 31, 2007

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

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

We have examined the non-consolidated financial statements of Senshukai Co., Ltd. for the 62<sup>nd</sup> business term from January 1, 2006 to December 31, 2006, including the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statements of changes in shareholders' equity and notes for non-consolidated financial statements and the accompanying financial schedule for the purpose of reporting under the provisions of Article 436, Paragraph 2, Item 1 of the Corporation Law. Responsibility as to the preparation of such non-consolidated financial statements and the accompanying financial schedule lies with the management of the Company, and the responsibility of the audit corporation is to express our opinion on the non-consolidated financial statements from an independent position.

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

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

**Additional information**

As stated in "Change of important items which are bases of creating non-consolidated financial statements," the Company has created non-consolidated financial statements applying the accounting standards for indication of Net Assets of Balance Sheet since the non-consolidated fiscal year under review.

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

Audit Report of Board of Corporate Auditors  
(Certified Copy)

**Audit Report**

The Board of Corporate Auditors has prepared this Audit Report upon deliberation based on the Audit Report created by each Corporate Auditor regarding the performance by the Directors of their duties during the 62<sup>nd</sup> fiscal year from January 1, 2006 to December 31, 2006, and hereby reports as follows:

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

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

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

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

**2. Results of Audit**

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

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

(2) Results of Audit on the financial statements and accompanying financial schedule

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



(3) Results of Audit on the consolidated financial statements

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

February 1, 2007

Board of Corporate Auditors, Senshukai Co., Ltd.

Makoto Sano                      Standing Corporate Auditor

Hirotsugu Yamagishi          Standing Corporate Auditor

Heian Hazama                    Outside Corporate Auditor

Hideyuki Koizumi                Outside Corporate Auditor

Hiroshi Morimoto                Outside Corporate Auditor